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## BUSINESS ENVIRONMENT

### THE CONSUMER

#### Consumer Profile

Like many Western countries, the United Kingdom has an aging population. The median age is 40.4 (ONS, 2020), compared to 39.5 in 2010. According to the latest World Bank data, people under 14 represent 18% of the population while people over 65 represent 19% of the total. The population growth rate is 0.4% (ONS, 2020). On average, there are 2.4 people per household. According to the Office for National Statistics, the number of households remained stable compared to the previous year, reaching 27.8 million in 2020, an increase of 5.9% over the last 10 years. The number of people living alone has increased by 4% over the last 10 years, driven mainly by increases in men aged 45 to 64 years living alone. Regarding the ratio of men to women, women represent 50.6% of the total population (World Bank, 2020). Around 84% of the population lives in urban areas for 2020 (World Bank). London and its surroundings are high density areas, and there are other densely populated areas in the centre such as around Manchester and Liverpool, but also around Edinburgh and Glasgow as well as in southern Wales, around Cardiff, and east of Northern Ireland. The main cities are London, Birmingham, Liverpool, Nottingham and Sheffield. In the United Kingdom, 82% of adults aged 25-64 have completed upper secondary education, higher than the OECD average of 79%. This is slightly truer of women than men, as 83% of women have successfully completed high-school compared with 81% of men. In terms of employment, 75% of people aged 15 to 64 in the United Kingdom have a paid job, above the OECD employment average of 66%. Some 86.6% of the active population is employed while 13% are entrepreneurs and self-employed (ONS, 2022). The sectors employing the most manpower are wholesale and retail sales (13.64%), health and social services (12.96%), scientific and technical occupations (9.17%), support and service (8.91%), education (8.46%), manufacturing (7.21%), hotels and restaurants (6.87%) and construction (6.31%) (ONS, 2021).

#### Purchasing Power

The GDP per capita PPP is approximately USD 46,483 (World Bank, 2020). People in the United Kingdom earn USD 47,147 per year on average, slightly less than the OECD average of USD 49,165. In the United Kingdom, the average household net adjusted disposable income per capita is USD 33,049 a year, higher than the OECD average of USD 30,490. UK households reduced their spending during the pandemic by an average of £109.10 (or 19%) a week, and around a third of workers saw their income fall in the financial year 2020/2021 (ONS). Many consumers have delayed purchases as a result of the crisis, adopting new habits to save money and becoming more mindful of how they spend. Income inequality, as measured using the Gini coefficient, has been broadly stable over the past ten years, the indicator reaching 34.4% in 2021 (Statista). The income of the richest 20% of people was over six times higher than the poorest 20% in 2020, and the gap further increased in 2021. According to the Office for National Statistics, the gender pay gap among all employees was 15.4% in 2021, up from 14.9% in 2020 (but down from 17.4% in 2019, before the pandemic). There was nonetheless a fall in the gender pay gap within the managers, directors and senior officials occupation group in 2021.

#### Consumer Behaviour

The United Kingdom is a mass consumer society, even though ecological and responsible consumption is growing. The main factors influencing purchase are price, quality, design, brand or environmental benefits. After-sales service should also be considered and claims are common. The British are increasingly buying online, thus online commerce is an important market. Regarding the choice of product origins, 6 British out of 10 say that UK origin is as important as price. Brand loyalty will often depend on price.

Virtually all adults aged 16 to 44 years in the UK were recent internet users (99%) in 2021. Social networks are also important in the purchase decision. The number of social media users is equivalent to 84.3% of the total population and Facebook is the main network (Data Reportal). Facebook and Instagram influence the choice of travel destinations. Influence is stronger for those under 24 and over 55. According to Deloitte research, the proportion of UK consumers very worried about the amount of personal data shared online, the usage and their rights halved in two years, from 47% in 2018 to 24% in 2020.

COVID-19 pandemic has affected consumer behavior: more than 60% of UK consumers have changed stores, brands or the way they shop; up to 50% consumers have decrease spending on most discretionary categories. More of the United Kingdom consumers are shifting to online purchases and services, and many intend to continue after COVID-19 subsides.

Ethical and environmental business practices are becoming increasingly important. Sales of organic products have increased in the last years. According to figures from Soil Association, organic product sales grew by 5.2% in 2021. Purchases of organic products are generally made in independent stores or delivered at home. Respect for the environment also encourages the circular economy and the second-hand market. According to Ibis World, the market size of the second-hand goods stores industry in the UK has declined 3.3% per year on average between 2017 and 2022, but is expected to increase 24% in 2022.

### **Consumer Recourse to Credit**

In the United Kingdom, payment cards are widely used. Of the 164 million transactions in 2016, 100 million were made with debit cards, 59 with credit cards and 5 with private cards. Household debt stands at 86.35% of GDP, a relatively high level in Europe and rising. The outstanding debt to households is 428 billion pounds in 2018. The average debt per capita is 37,000 pounds, and 61% of the inhabitants have a debt. Consumer credit is rising in the UK, but is slowing. They mainly finance vehicles, education costs and durable goods. Consumer credit is expected to continue to grow at a slow pace.

### **Growing Sectors**

Home and garden equipment, appliances, hobbies, culture, personal care, vehicles, drugs, audio-visual equipment, alcoholic and non-alcoholic beverages, food services, shoes, clothing, food, dishes and household utensils and telephony.

### **Consumers Associations**

[Citizens advice](#) , Several causes including consumer protection

[Which?](#) , Consumer Association

[Ambudsman Association](#) , Consumer resolution

## **IMPORTING & DISTRIBUTING**

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*The information in this section is subject to change and regular updating during the UK's post-Brexit transition period. We will publish the updated information as soon as it becomes available.*

## Import Procedures

The [Brexit guidance](#) ended on 31 December 2020 and new rules applying for businesses and citizens in the EU and the UK came into force on 1 January 2021. Since 1 January 2021, businesses in England, Wales and Scotland must make [customs declarations](#) when importing goods from the EU, as well as checking that they have the appropriate import [licences and certificates](#) and finally obtain an [EORI number](#) to move goods between the EU and UK.

Since 1 January 2021, the UK applies the [Guidance on tariffs on goods imported into the UK](#), which replaces the EU's Common External Tariff. For more information about the tariffs applied to imports coming into the UK since 1 January 2021, please visit the [UK government's website](#).

For an overview of the impact that the UK's withdrawal from the Single Market and EU Customs Union will have in the areas of taxation and customs, consult the UK government's dedicated guidance [Import, export and customs for businesses: detailed information](#). For further details on actions required from businesses to continue importing from EU countries, please visit the [UK government platform](#) as well as the European Commission's guidance [EU-UK: A new relationship](#) including [sectorial guidance notices](#) for different sectors and the guide 'BREXIT Readiness Checklist' for companies doing business with the UK. For guidance on moving goods into, out of, or through Northern Ireland, click [here](#).

## Specific Import Procedures

[Customs Freight Simplified Procedures \(CFSP\)](#) are electronic declaration methods designed to enhance and simplify customs procedures for clearing imported goods either at the border or upon removal from a free zone or customs warehouse. A limited range of goods requires import licenses. These include firearms and explosives, nuclear materials, controlled drugs and certain items of military equipment. Products imported temporarily (for re-export, examination and testing, repair, sample display, etc.) may be admitted without payment of duties and taxes.

## Distribution channels

According to the Office for National Statistics, retail sales volumes fell by 1.4% in March 2022, following a fall of 0.5% in February, but were 2.2% above their pre-coronavirus February 2020 levels. Retail sales values fell by 0.2% in March 2022, following a rise of 0.4% in February, but were 10.1% above their pre-coronavirus February 2020 levels. The largest contribution to the fall came from non-store retailing in which sales volumes fell by 7.9%. The proportion of retail sales online fell to 26.0% in March 2022, its lowest proportion since February 2020 (22.7%). Food store sales volumes fell by 1.1% over the month to March 2022 and have fallen each month since November 2021.

According to the figures provided by USDA Foreign Agricultural Service, the UK grocery market was valued at \$297 billion (£205 billion) in August 2020. This is an increase of 6.7% on 2019. Groceries account for 11% of total household spending in the UK, making it the third largest area of expenditure, following housing and transport. Food and grocery sales account for more than 40% of total UK retail sales (Retail Economics, 2020). There are more than 87,000 grocery stores in the UK. These are split into four sectors:

- Supermarkets: Four supermarket chains dominate UK food retailing, accounting for 66% of the market.
- Discounters: In the 12 weeks ending April 17, 2022, the discounters combined market share reached 13.4 percent of the British grocery market.
- Internet or Online Shopping - The value of the UK online grocery market has seen tremendous growth in recent years and in 2019 was valued at \$15.2 billion (£12.7 billion).
- Click and Collect - With the increasing popularity of online retailing, supermarkets and other retailers introduced Click and Collect which has become hugely popular and is rapidly growing. Click-and-Collect is a concept, that brings together the benefits of online retailing with the advantages of maintaining a store-based retailing presence.
- Convenience stores: the UK's convenience store market is highly fragmented, with a large number of retail

operators. It can be divided into : Co-operative stores, Gas stations, Convenience outlets at supermarkets, Non-affiliated independent, Traditional convenience store.

### Distribution market players

Grocery sales in the UK are dominated by Tesco, Sainsbury's, Asda/ Wal-Mart and Morrison's. These four trademarks had a combined market share of 66% of the UK grocery market, divided as followed (Kantar World Panel, April 2022):

- Tesco - 27.3% market share
- Sainsbury's - 15% market share
- Asda/ Wal-mart - 14.1% market share
- Morrison's - 9.5% market share
- Aldi - 8.8% market share
- Lidl - 6.6% market share

### Retail Sector Organisations

British Retail Consortium

Institute of Grocery Distribution

## OPERATING A BUSINESS

### Type of companies

Choose a **legal structure** for your business

#### Private limited company by shares or Ltd

**Number of partners:** One or more directors

**Capital (max/min):** No minimum share capital requirements, typically the minimum subscribed is GBP 1. The entire capital must be unlocked.

**Shareholders and liability:** Liability is limited to the amount contributed.

#### Public limited company (Plc)

**Number of partners:** One or more directors

**Capital (max/min):** Minimum share capital requirement is GBP 50,000 of which 25% must be paid-up

**Shareholders and liability:** Liability is limited to the amount contributed.

#### General partnership

**Number of partners:** At least two partners

**Capital (max/min):** No minimum capital requirements

**Shareholders and liability:** Partners' liability is joint and indefinite.

## Limited liability partnership (LLP) or Limited partnership (LP)

**Number of partners:** At least two partners

**Capital (max/min):** No minimum capital requirements

**Shareholders and liability:** Liability is limited.

## Community interest company

**Number of partners:** No minimum

**Capital (max/min):** No minimum capital requirements

**Shareholders and liability:** Partners' liability is joint and several

## Unlimited company ou Unltd

**Number of partners:** No minimum

**Capital (max/min):** No minimum capital requirements

**Shareholders and liability:** Partners' liability is joint and several

Setting Up a Company	United Kingdom	OECD
Procedures (number)	4.0	5.2
Time (days)	4.5	9.5

Source: *Doing Business* - Latest available data.

## Cost of Labour

### Minimum Wage

The minimum hourly rate is GBP 9.50 (source: GOV.UK).

### Average Wage

According to the Office for National Statistics, median annual pay for full-time employees was £31,285 for the tax year ending 5 April 2021, down 0.6% on the previous year.

## Social Contributions

**Social Security Contributions Paid By Employers:** In general, national insurance contributions are taxed at 15.05% on all earnings in excess of £175 per week and are deductible for corporate income tax. For more details on thresholds, refer to the gov.uk website [here](#). Information regarding social security arrangements between the UK and the UE is also available on the gov.uk website [here](#).

**Social Security Contributions Paid By Employees:** National insurance (NI) contribution is a withholding tax on payroll. Employees are classified as Class 1. In general, national insurance contributions are taxed at 13.25% if weekly pay is £190 to £967 and 3.25% if weekly pay is over £967. Class 1 contributors pay less if they are in a contracted out workplace pension, a married woman or a widow, or are deferring NI as they have more than one job. Information regarding social security arrangements between the UK and the UE is also available on the gov.uk website [here](#).

## Intellectual Property

## National Organisations

The UK Intellectual Property Office, [Department for Business, Innovation and Skills](#). The Government web page [Intellectual property and your work](#) offers useful tips on protecting intellectual property.

## Regional Organisations

Since 1 February 2020, the United Kingdom has withdrawn from the European Union and has become a “third country”. The Withdrawal Agreement provided for a transition period ending on 31 December 2020. Since the end of the transition period, the EU rules in the field of European Union trade marks and Community designs, in particular Regulation (EU) 2017/10017 and Regulation (EC) No 6/20028, no longer apply to the United Kingdom. For more information, visit the website of EUIPO (European Union Intellectual Property Office).

Brexit will have no consequence on UK membership of the European Patent Organisation, nor on the effect of European patents in the UK. For more information, visit the website of [EPO](#).

## International Membership

[Member of the WIPO](#) (World Intellectual Property Organization)

[Signatory to the Paris Convention](#) For the Protection of Intellectual Property

[Membership to the TRIPS agreement](#) - Trade-Related Aspects of Intellectual Property Rights (TRIPS)

## TAX RATES

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### Consumption Taxes

#### Nature of the Tax

[Value-Added Tax \(VAT\)](#)

#### Tax Rate

20%

#### Reduced Tax Rate

A reduced VAT rate of 5% applies to: fuel and power supplied to domestic users and charities; building materials for certain residential conversions; installations of energy-saving materials in residential buildings where the cost of the materials does not exceed 60% of the total cost of installation; installations of energy-saving materials in residential accommodation for recipients who are aged 60 or over or receiving certain benefits, for housing associations and where the residential accommodation is a building or part of a building used solely for a “relevant residential purpose” (does not apply to the installation of wind turbines and water turbines); sanitary protection products; children’s car seats; smoking cessation products; grant-funded installation of heating appliances and qualifying security goods; certain larger holiday caravans; small, cable-based passenger transport systems; etc.

Some goods and services are zero-rated: books, newspapers and periodicals (also in a digital format); certain foodstuffs; children’s clothing and footwear; drugs and medicines supplied by prescription; new housing; transport services; exports of goods and related services; certain international services; intra-Community supplies of goods; services supplied to customers outside the EU (an exempt-with-credit supply); etc.

## Other Consumption Taxes

**Excise duties** are chargeable on wine and made-wine; beer; cider and perry; spirits; imported composite goods containing alcohol; tobacco products; hydrocarbon oil; Climate Change Levy; and biofuels.

The Soft Drinks Industry Levy (Sugar Tax) is applied at two rates: GBP 0.18 per litre of drink if it contains between 5–8 grams of sugar per 100 millilitres, GBP 0.24 per litre of drink if it contains 8 grams of sugar per 100 millilitres or more.

There are several environmental taxes, including a **Landfill tax**, a **Climate change levy** and an **Aggregates levy**.

Individuals leaving the United Kingdom by air are required to pay a duty, which is generally included in the cost of the air ticket.

## Corporate Taxes

### Company Tax

- 25% standard rate
- 19% for companies whose profits do not exceed GBP 50,000

### Tax Rate For Foreign Companies

A company is considered resident for tax purposes if it is incorporated in the UK or if its place of central management and control is in the UK.

A foreign company will be deemed to have a permanent establishment in the United Kingdom if:

- it has a fixed place of business in the UK through which the business of the company is wholly or partly carried on, or
- an agent acting on behalf of the company and habitually exercises authority to do business on behalf of the company in the UK.

### Capital Gains Taxation

Capital gains of a company are considered taxable profits but are exempt if they arise from the disposal of substantial shareholdings in both UK and foreign companies. Substantial shareholding is often defined as an interest in a minimum of 10% of an investee company for a period of 12 months in the six years preceding the purchase. Non-resident companies are generally not subject to capital gains tax unless gains are obtained by their permanent establishment in the UK.

From April 2019, gains from the disposal of UK property and certain UK property-related investment assets by non-residents are subject to UK tax. For disposals prior to April 2019, the scope of the charge is restricted to disposals of UK residential property only, and to narrower categories of non-resident persons.

Capital losses are allowed only as an offset to capital gains.

Gains realised on certain types of assets - such as land and buildings used for a trade - can be deferred where all or most of the proceeds are reinvested in other assets of those types within a certain period (generally three years - so-called "rolled-over").

### Main Allowable Deductions and Tax Credits

For company taxation purposes, total profits are the total of (i) the company's net income from each source (trade, property business, interests, dividends, etc.) and (ii) the company's net chargeable gains arising from the sale of capital assets. The rules governing expense deductibility vary according to the type of income the expenses relate to.



In general, all expenses that are not capital in nature and that are used for trading purposes are deductible. Local municipal taxes are generally deductible. Interest is deductible within the debt cap rules that apply to companies that are members of large groups. Most donations to charities are tax-deductible. Provisions for future costs can be deducted for tax purposes under certain conditions.

An R&D tax credit is available at 13% of R&D expenditure for large companies (such credit is taxable so that the net benefit to the company is 10.5% - the rate increased to 20% from 1 April 2023, for a benefit of 15%), while SMEs can claim a tax deduction of up to 230% of their R&D expenditure (reduced to 186% from 1 April 2023). A patent box regime is gradually being introduced over 5 years to allow companies to apply an effective 10% rate to all profits derived from qualifying patents. Special tax reliefs are available for expenditures on the production of movies, animation, video games, high-end TV shows and orchestral concerts.

Operating losses can be offset by the profits of the current fiscal year while the exceeding loss can be carried forward to the previous year. Operating losses incurred prior to 1 April 2017 can be carried forward indefinitely and offset by operating profits from future tax years. Operating losses incurred after 1 April 2017 can be offset by any type of profit. In both cases, the maximum carried forward loss offset is broadly limited to GBP 5 million plus 50% of the current year's profits in excess of that amount.

Capital losses can only be offset by capital gains and their carryback is prohibited. For accounting periods ending on or after 1 April 2020, the use of carried-forward capital losses is limited to 50% of gains above a groupwide GBP 5 million allowance per year (shared between capital and non-capital losses).

## **Other Corporate Taxes**

A general anti-abuse rule (GAAR) applies across a range of taxes on transactions made after 17 July 2013.

The United Kingdom imposes a 30% tax on profits generated from oil or gas extraction and the enjoyment of oil or gas rights. These profits, known as 'ring-fence profits,' are subject to an additional 10% supplementary charge. Furthermore, a new Energy Profits Levy has been introduced, applying a 35% tax rate on oil and gas companies' profits from a specified period until March 31, 2028. The EPL does not allow for the offsetting of previous losses or decommissioning costs incurred as of May 26, 2022. However, a new investment allowance has been introduced to incentivize investment in the UK North Sea. This allowance provides 80% relief on qualifying expenditures related to EPL profits. The investment allowance is derived from ring fence capital expenditure and certain ring fence operating expenditure. It results in a total relief of 180% of the amount spent, including 100% First Year Allowances.

An annual tax on enveloped dwellings (**ATED**) is charged on the acquisition and holding of high-value residential properties (property over GBP 500,000) through a company or other "non-natural" person. The minimum charge is GBP 4,150 for a property valued at GBP 500,000 (minimum value for 2023/24).

A bank levy is applied at 0.1% for short-term chargeable liabilities and 0.05% for long-term chargeable equity and liabilities (does not apply to overseas branches and subsidiaries held by the UK business). The first GBP 20 million or chargeable liabilities is exempt. Bank profits are also subject to a 3% supplementary tax charge on profits above GBP 100 million (reduced from 8% as of April 2023).

Most insurance premiums are taxed at 12% (life assurance and other long-term insurance are exempt).

There are several environmental taxes, including: a Landfill tax, a Climate change levy and an Aggregates levy.

Social security contributions made by the employer amount to 13.8% on all earnings above GBP 175 per week (the first GBP 3,000 being exempt).

Employers are required to pay 0.5% of their total payroll in excess of GBP 3 million to create a fund to support apprenticeships (with an annual allowance of GBP 15,000 to offset against payment of the levy).

The stamp duty land tax (SDLT) is charged in England and Northern Ireland on transfers of real property, with rates varying between 0% and 12% for residential properties (15% if the property is valued at more than GBP 500,000) and 0% to 5% for non-residential properties.

Similar taxes - the land and buildings transaction tax (LBTT) and land transaction tax (LTT) - are charged on



Scottish and Welsh property, respectively.

A stamp duty payable by the transferee is charged at 0.5% on instruments effecting sales of shares.

A Digital services tax (DST) is levied at a rate of 2% on the revenues of large businesses that provide a social media platform, search engine, or online marketplace to UK users. The tax applies to companies with an annual turnover above GBP 500 million, of which more than GBP 25 million is linked to the participation of UK users.

A diverted profits tax, at a rate of 31% (25% until 31 March 2023), applies where multinational companies use artificial arrangements to divert profits overseas to avoid UK tax.

Shipping companies can choose to pay tonnage tax in lieu of the normal corporation tax.

For further details, consult the dedicated page on the [official governmental portal](#).

## **Other Domestic Resources**

[HM Revenue & Customs](#)

## **Double Taxation Treaties**

### **Countries With Whom a Double Taxation Treaty Have Been Signed**

[UK Tax Treaties](#)

## **Withholding Taxes**

Dividends: 0% (20% for dividends paid by a real estate investment fund on its tax-exempt rental income),

Interest: 0% (residents)/20% for non-residents, Royalties: 0% (resident company)/20% (resident individual and non-residents).

Rates can be lower as part of a tax treaty.

