ALLEN & OVERY

Launching a fintech in the United Kingdom

2018

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Introduction

In this booklet, we give some general guidance on points to consider when launching a fintech business in the United Kingdom. We look at important considerations such as managing employees, protecting intellectual property, regulatory concerns, antitrust, dealing with pensions, navigating tax issues and dealing with privacy and data protection.

The UK is a global leader in fintech. It is estimated to be worth approximately GBP20 billion (USD26 billion) in annual revenue and continues to grow at an impressive rate. The combination of active government support for the sector, a technologically sophisticated workforce and the presence of London, one of the world's leading financial centres, makes it an ideal environment for established and emerging fintech businesses.

Establishing a business in the United Kingdom can be done quickly and at relatively little cost. With a competitive tax regime, robust intellectual property laws and a forward-thinking regulatory environment, it is easy to see why it has become a world centre for fintech.

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The UK tech environment

The UK's multi-billion-pound tech sector is a world leader on the international stage. It is a major employer and plays a leading role in the development of new and innovative technologies.

The UK's digital economy is growing more than twice as fast as the wider economy, with an estimated value of GBP184bn (USD240bn) in 2017. Over the past five years, London has attracted more digital tech investment than Paris, Berlin and Amsterdam combined, and tech has become an integral part of the city's economy, infrastructure and society. The sector's relentless pursuit of innovation has driven a remarkable growth trajectory. 2017 saw venture capital investment into the UK tech sector reach an all-time high, totalling GBP2.99bn, almost double that of 2016. The UK now has 25 of Europe's 57 tech unicorns (businesses valued at USD1bn or more), the vast majority of which are based in the capital. In addition to these, some 102 UK emerging companies are fast-approaching a billion dollar valuation. The trend of growth therefore looks set to continue.

The Tech sector in the United Kingdom is also the most international of any Tech ecosystem outside Silicon Valley. 33% of UK Tech company customers are based outside the United Kingdom and 25% of entrepreneurs across the world report having a significant relationship with two or more entrepreneurs in London. While Brexit poses challenges, the government has a stated aim to maintain the sector's position as a leading digital economy on the global stage and has set out a number of initiatives designed to achieve this (including special regulatory regimes and visa programmes targeting the Tech industry).

The various elements of the UK ecosystem are also highly interconnected, fostering collaboration, growth and the sharing of ideas. Data provided by meetup.com reveals the presence of 3,527 established UK tech groups over 283 locations with some 1.6 million members. Of these groups the overwhelming majority (91%) are open to all.

The UK, and London in particular, is seen as a leading global fintech hub supported by a large financial services market, forward-looking government and a regulatory environment that facilitates and supports innovation. Fintech has been one of London's standout success stories, with the sector attracting a record GBP1.34bn of 2017's bumper investment. These are exciting times for UK fintech and it is easy to see why the sector is attracting such international attention.

Getting started

No restrictions on U.S. investments

In principle, there are no restrictions on U.S. ownership or investment in the UK. Authorisation may be required for investment in certain regulated areas, including financial services. The specifics of the authorisation (if any) will depend on, among other things, the proposed investor, the nature of the business of the underlying company and the level of control which the investor may exercise.

Regulatory considerations

A number of businesses may also need specific consents or authorisations before they will be eligible to do business, particularly companies operating in the financial sector. Whether a fintech will need specific authorisation in order to do business in the United Kingdom will depend on the nature of the product and/or services it offers.

A fintech will fall within the scope of UK regulation if it carries out certain regulated activities for which an exemption does not exist. Details of these activities (and exemptions) are specified in legislation and cover more traditional financial services as well new products such as crowdfunding.

Most fintech companies will therefore undertake a thorough analysis of their business model against UK regulations to fully understand what can be achieved without becoming a regulated entity or, conversely, to help them seek appropriate licences or approvals.

Choice of entity

A U.S. company which wants to do business in the UK through a subsidiary company will usually establish a limited company with share capital. This means, if the business is unable to pay its debts, the shareholders are generally only liable for the amount outstanding on their subscribed shareholdings.

Other forms of entity may be established (eg a branch, a company limited by guarantee, a public limited company, a limited liability partnership or a partnership). Minimum share capital requirements, restrictions on rights attaching to shares and other relevant considerations (eg tax) will influence a U.S. company opting for one entity or another.

Liability of directors

As in the U.S., directors of companies may be liable to the company and third parties for damages which result from the infringement of the law or the company's constitution and, in certain circumstances, may be criminally liable. D&O insurance in respect of such risks is widely available.

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SETTING UP A LIMITED COMPANY IN THE UK

The process of incorporating a limited company in the UK is generally straightforward and can be achieved on a same day basis, if necessary.

Share Capital	There are no requirements as to the size of a company's issued share capital, and a company can be incorporated with a share capital of as little as a penny. There is no tax or duty payable on an issuance of shares.
Constitution	The constitution of an English company (its articles of association) is binding upon each shareholder of the company. It must be filed with the registrar of companies and is a matter of public record.
Directors	A private limited company must have at least one director. It is common to have at least two (and a public limited company is required to have two directors). There is no upper limit (unless one is included in the articles of association) and no need for the directors to be British nationals or resident in the United Kingdom (subject to any relevant tax considerations).
Registered Address	The company must have a "registered office" in the United Kingdom to which any official notices or communications may be sent. The registered office need not be the address from which the company operates – for example, it could be an address provided by a service provider (there are numerous companies who provide this service in the UK).
Shareholders	A company is required to have at least one shareholder. There is no requirement for a shareholder to be a UK national or resident in the United Kingdom.
Ongoing Compliance	Companies must generally file a set of annual accounts together with a return confirming, among other things, the directors and shareholders of the company. Both filings are a matter of public record. The public register must also be updated to reflect certain significant events in the life of the company (eg new issuances of shares and changes to the board of directors). In practice, these obligations are not onerous.

THE PSC REGISTER

Most UK companies are required to keep an up-to-date register of people with significant influence or control over the company (a PSC register) and the existence of a person with significant influence or control must be declared at the time of incorporation. The register is a matter of public record.

This ultimately requires the identification of shareholders who:

– hold (directly or indirectly) > 25% of the shares; or

– hold (directly or indirectly) > 25% of the voting rights; or

– hold (directly or indirectly) the right to appoint or remove a majority of the board; or

– have the right to exercise or actually exercise "significant influence or control"; or

– have the right to exercise or actually exercise significant influence or control over the activities of a trust/firm, the trustees/members of which meet one of the other conditions.

Fintech regulation in the UK

The UK has a stated aim of becoming the "global capital of Fintech" and was one of the first jurisdictions to develop regulatory standards and policies specifically for fintechs. It is a recognised leader in open and progressive regulation of the industry.

The Prudential Regulatory Authority and Financial Conduct Authority (FCA) have worked to create an open and dynamic framework where both new and established players can realise the disruptive potential of the fintech space, with internationally-leading initiatives such as the FCA's Innovation Hub and Regulatory Sandbox. Sandboxes are of particular importance to emerging fintechs as they allow companies to test products and services in a controlled environment, reducing time to market and lowering costs.

Many of the UK's approaches have been adopted by other jurisdictions but it continues to lead the way in the field and is a key influence in setting standards of regulation globally. Christopher Giancarlo, chairman of the US Commodity Futures Trading Commission, described UK initiatives as *"the gold standard in thoughtful regulatory engagement with emerging technological innovation"*.

More recently, the UK Government launched its first Fintech Sector Strategy in March 2018, setting out its plans for continuing to proactively support fintech growth through close cooperation with the tech industry. This is set to include a new cryptoassets task force; the next steps in "robo-regulation" to make it easier for fintech firms to follow complex regulations; creating new industry standards to enable fintechs to more easily partner with established market players; and new programmes to provide a larger and more diverse workforce for fintech firms.

The UK's regulators are also focussed on the international regulatory environment and in August 2018 the FCA announced the creation of a Global Financial Innovation Network (GFIN). Bringing together 11 regulators from Singapore to London to Dubai, the GFIN will not only act as a network for regulators to collaborate but will also provide firms with an environment in which to trial cross-border solutions. For fintechs which plan to expand beyond their home territory, this development could be of considerable interest.

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Employees

EU law sets minimum standards in the UK in relation to many aspects of employment law (this is unlikely to change post-Brexit as EU employment laws have been adopted by the UK, so will continue to apply after the UK leaves the EU – and often the UK has gone further than EU minimum to gold-plate certain rights). Examples include rules on the transfer of undertakings (rules which protect employees' terms and conditions of employment when a business is transferred from one owner to another), equal treatment of workers, family friendly rights, working time and remuneration.

In England, the employment relationship is governed principally by the employment contract, which has various terms implied into it by law. Employment law is contained in various statutes and regulations, and in cases decided by the courts.

The big issues in the UK at the moment from an employment perspective relate to the status of workers and whether they are, in fact employees (arising from high profile cases such as Uber), harassment and diversity (following the increasing focus on campaigns like MeToo and TimesUp) and gender pay reporting (which is mandatory for companies with over 250 employees). The first two of these are of course high profile matters in the U.S. too.

EMPLOYER OBLIGATIONS

Companies in the UK operate in a highly regulated environment and there are extensive laws and regulations – including health and safety laws, data privacy rights, anti-discrimination laws and other employee rights (such as the right to holidays, sick pay, maternity and paternity pay) – affecting workplaces and treatment of employees. As well as detailed and sometimes complex employer obligations, employees enjoy strong protection against unfair treatment. In the UK, it can be difficult for companies to dismiss employees (particularly those with more than two years' service or those with protected characteristics) without cause and companies proposing mass redundancies or reorganisations may be required to follow time consuming procedures to implement their plans. This contrasts with the U.S. where companies can often implement redundancies relatively quickly and easily.

Upon a transfer of a business, most rights and obligations arising under employment agreements or relationships with employees assigned to the business immediately before the sale are transferred from the seller to the buyer (the "automatic transfer principle"). Employees have minimum information and consultation rights as well as additional protection against dismissal.

EMPLOYEE REPRESENTATION

In most EU countries, an employer is required to establish a works council, or employees can request that one be established, in companies exceeding a minimum workforce threshold. However, works councils in the UK are relatively rare and, instead, employee representation tends to arise in the form of trade union recognition (albeit this is also rare in the fintech sector). When employers are required to collectively consult with employees, it is more common for them to ask affected employees to elect representatives from among the workforce where there is no recognised union and no works council.

In contrast to the U.S., companies will probably encounter representatives on a regular basis in the normal course of business via union recognition and other collective bodies. It is also rare in the UK to have class actions, which again is contrary to the position in the U.S.

Data protection

The EU General Data Protection Regulation (the **GDPR**) is a unified data protection law which came into effect across all Member States of the EU from 25 May 2018. This includes the UK, notwithstanding Brexit.

The GDPR sets a high standard for the protection of personal data throughout the EU, building on the previous Data Protection Directive and imposing several new obligations on companies which process personal data. To enforce this higher standard, the GDPR also contains a more punitive enforcement regime than the Data Protection Directive.

The GDPR has come at a time when companies are increasingly data driven. The volume of personal data companies are collecting and keeping is increasing and in many cases, this data is becoming a key business asset. Companies that understand their data protection obligations and seek to meet them in an intelligent way will be best placed to utilise the benefits of the personal data they hold. Therefore, while the GDPR will result (and has already resulted) in a step change for companies in their management and delivery of personal data and privacy, it is in every company's best interests to ensure compliance.

The U.S. data protection regime follows a different approach; it is not governed by a centralised, overarching piece of legislation at the federal level. Instead, the U.S. follows a 'sectoral' approach. Data protection and privacy standards rely on a combination of ad-hoc legislation and regulation (such as the U.S. Privacy Act) and self-regulation; this allows the private sector to dictate the data protection and privacy laws, to a certain extent.

Data protection and privacy legislation in the U.S. tends to arise when self-regulation is not sufficient to control or protect personal data, for example in relation to children's personal data. Legislation is also enacted in the context of specific sectors, such as the Gramm Leach-Bliley Act (also known as the Financial Modernisation Act), which is aimed at controlling the ways that financial institutions deal with the personal data of individuals.

Many countries outside the EU have looked to the EU and the GDPR for an approach on which to model their own legislation; EU data protection law is, in some senses, a benchmark for regulation of the processing of personal data. Brexit will not cause any immediate change in the UK or EU data protection laws. The UK enacting legislation will govern the UK's data protection laws going forward after the UK has exited the EU.

As a result of Brexit, the UK may seek to become an 'adequate' jurisdiction through a European Commission adequacy decision (or similar), which would allow free cross-border transfers of personal data to and from the EU. This would avoid the need for the UK to put in place alternative transfer mechanisms such as standard contractual clauses or a Privacy Shield-type model with the EU.

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IP

The UK prides itself on its practical and business friendly approach to the protection and enforcement of intellectual property rights (**IP**), which fully incentivises innovative and creative activities while also protecting the need for fair competition.

This approach provides effective enforcement of both traditional IP rights (such as trade marks, copyright, patents and designs) and also less traditional rights such as database rights and trade secrets (for example, while the EU has only recently implemented a Directive relating to trade secrets, the UK has for many years provided protection for confidential information).

UK law in the intellectual property field is also significantly harmonised with other European Member States, making the UK a convenient starting point for any innovative or creative company wishing to expand into Europe.

Patents currently require national application via the UK IPO or, alternatively, via a system of central application at the European Patent Office. The latter route also grants rights capable of being registered across Europe, albeit that the UK patent is still registered with the UK IPO.

Registration of trade marks and designs can be obtained both at a UK-specific and an EU-wide level. The UK is also a member of the Madrid and Hague systems, which streamline the application process for global filings.

Contrary to the U.S., there is no system for registration of copyright, with the right existing in the work itself. The procedures and fees for each type of IP right vary, but there is ample scope for businesses to tailor their protection to their planned scope of activities.

The UK also has specialised Courts to deal with IP cases, with the UK's well-reasoned decisions being highly respected throughout Europe and making the UK a key forum for IP litigation in Europe.

The above, combined with the advanced IP legal market in the UK generally, means that the UK is often used as a hub through which companies coordinate their IP strategy across Europe.

Finally, the recent appointment of an IP specialist judge, Lord Justice Kitchin, to the UK Supreme Court, also highlights the UK's commitment to IP and ensures this will continue for the foreseeable future.

THE EU'S NEW UNITARY PATENT SYSTEM

The most notable change in relation to IP in the UK and Europe involves the introduction of the new unitary patent and Unified Patent Court, which would replace the current system of national-only litigation.

This would be the most radical change in European patent practice in over 40 years, and, in spite of the Brexit vote, the UK has ratified the relevant treaty (the UPC Agreement) and is on course to join the UPC system when it comes into force.

However, it is currently unknown when, or even whether, this will happen. The most recent uncertainty in this regard stems from a constitutional challenge in Germany, which currently prevents the German government from ratifying the UPC Agreement (as it needs to for the system to come into effect).

While it is unknown whether Brexit will impact the UK's ability to be part of the UPC system, there is a general desire from business and legal professionals across Europe for the UK to remain part of the UPC even after leaving the European Union.

The new system would also be far-reaching: Subject to opt-outs during a transitional period, even existing European patents will automatically be subject to the jurisdiction of the new Court (UPC). Companies are therefore already planning how to manage their existing patent portfolios under the new system.

Antitrust

Antitrust considerations are unlikely to be an immediate concern for most emerging fintech companies. However, given the rapid growth of such businesses and the regulatory oversight in the sector, it is important to be aware of the rules.

The UK merger regime is voluntary – there is no obligation to notify a transaction meeting the UK merger control jurisdictional thresholds to the Competition and Markets Authority (CMA). Generally speaking, the CMA may review mergers not subject to an EU filing where the target's UK turnover exceeds GBP70m or the merger will result in the creation or strengthening of a share of supply of goods or services of 25% or more in the UK. There are special rules for transactions involving, among other things, financial stability, newspapers, broadcasting, defence and water companies. However, the CMA has a dedicated team responsible for monitoring merger activity and therefore the decision whether or not to notify will be very case-specific. If a filing is made, straightforward cases will be wrapped up in 40 business days, but complex cases could stretch to an additional 32 weeks.

In comparison, merger notification to the European Commission (Commission) is compulsory if certain turnover thresholds are met, and the parties will not be able to complete a transaction until the Commission has issued an approval decision. In straightforward cases this will take 25 business days, but for complex cases the investigation period could be much longer (potentially up to 160 business days). A transaction requiring notification to the Commission will in principle fall within the exclusive competence of the Commission. Exceptionally, the UK authorities may intervene on non-competition grounds to protect legitimate interests, including public security and financial stability. It is also possible that a transaction is referred between the Commission and the CMA (or other EU Member States), including at the request of the parties.

The UK Government is also currently consulting on proposals to introduce wide-ranging powers to intervene in transactions (including acquisitions of minority stakes and acquisitions of assets) that may raise national security concerns (similar to the U.S.'s CFIUS review process).

Beyond merger control, companies doing business in the UK are subject to the general EU and UK antitrust rules. These rules capture anti-competitive agreements entered into between competing companies, for example to fix prices, share markets or customers, rig bids or exchange commercially sensitive information. They may also catch arrangements between companies at different levels of the supply chain, such as a manufacturer setting the resale price at which its distributors must sell to end customers. Aside from anti-competitive agreements, companies in a dominant position must take care, as any abuse of that position is prohibited.

The risks of not complying with the antitrust rules are real – the Commission in particular has a strong track record of enforcing the antitrust rules against U.S. (and other non-EU) companies (with fines running into hundreds of millions of dollars) and the CMA is clearly set to step up its enforcement activities as Brexit approaches. Under the UK antitrust regime, individuals may face criminal sanctions (including imprisonment) for breaching the rules, as well as disqualification as a director for up to 15 years. And the threat of damages actions by aggrieved customers or competitors should not be underestimated. While not as well established as the class action system in the U.S., private antitrust litigation in the UK is on the rise and a new mechanism for collective redress for competition claims, introduced in 2015, is beginning to take shape. A rigorous antitrust compliance policy and training can help to minimise the risk of breaching antitrust rules, and companies doing business in the UK should consider putting such a programme in place or extending any existing policy to UK operations.

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Pensions

Companies that employ workers in the UK are required to automatically enrol those employees into a pension scheme.

This recent policy initiative builds on the basic principles of behavioural economics: once employees are in a pension scheme, they are unlikely to leave and will build up useful pension saving.

For this reason, enrolment of eligible employees (there are age and earnings thresholds to determine who is eligible) is mandatory, but employees have the right to opt out of membership. Even then, if an employee opts out, they must be re-enrolled at regular (broadly three yearly) intervals.

New employers will generally satisfy the auto-enrolment requirements by using a "defined contribution" arrangement where there is no risk of a funding deficit arising. Under a defined contribution scheme, both employer and employee contribute an agreed percentage of salary and the resulting contributions are invested. The pension pot that is built up can be used at retirement to buy an annuity policy, taken as taxed cash or gradually cashed in over time.

From April 2019, employers must ensure that 8% of each enrolled member's earnings is put into the pension scheme, of which at least 3% must be paid by the employer. Employers can choose to be more generous.

Employers looking for a simple (and quick) start can provide a defined contribution pension through an outsourced third party arrangement such as a master trust or group personal pension plan, which reduces the governance and administration burden further. These arrangements are commercially operated by insurers and consultancies to provide a pension vehicle to many employers. In this case, the employer will simply designate its chosen provider and set up payroll deduction facilities in order to pay contributions to the plan; it is also possible to arrange for much of the communications logistics around auto-enrolment to be handled by the provider.

As an alternative, companies can operate "defined benefit" pension schemes (ie employees are promised a defined level of benefits on retirement) but this means that there is potential for a large funding deficit that is likely to be the company's responsibility. Importantly, the obligation to fund does not necessarily bring control – workplace pensions are often run by trustees who are independent from the company and have control over pension assets and their investment. In the UK, it is increasingly rare to provide defined benefit arrangements to new employees or when starting a company, but there are still plenty of legacy issues which can affect businesses, and so investors into established businesses should do careful due diligence to determine if there is any indication of a defined benefit pension arrangement.

Whatever type of pension vehicle is chosen, the plan will be subject to strict regulation about contributions and benefits, but can be used to provide tax-efficient deferred remuneration as long as benefits are generally not payable before a minimum pension age (generally age 55).

Real estate

Ownership of property in the UK is relatively flexible. There are generally no residence restrictions and therefore it is not essential, although in some circumstances it may be desirable, that property be acquired/let through a local entity.

As considered further below, many emerging companies will opt for taking space in shared offices, waiting until better established before committing to a commercial lease.

U.S. commercial leases are heavily negotiated and there is a limited statutory framework affecting the operation of the lease. In the UK, commercial leases tend to follow certain prevailing market norms, but there are certain provisions which can be heavily negotiated. In particular, the key commercial provisions such as the lease term, rent, rent review, service charge caps, break rights, repair obligations and alienation will be potentially, negotiable but the outcome of these negotiations will vary considerably depending on the nature of the property concerned and the current local and relevant sector market conditions.

Occupiers can also occupy property under a contractual licence, which typically is a personal arrangement between licensor and licensee, and tend to be for shorter term occupational arrangements. Shared office and serviced office space which has seen significant growth in the UK market in recent years (with the likes of Office Group, WeWork and others entering this market share) is typically occupied on a licence basis. For early stage participants in the fintech sector, this is often the preferred solution.

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Tax

A U.S. company which wants to do business in the UK will usually establish a subsidiary in the form of a UK-incorporated limited company with share capital. (Other forms of entity may be used but are less common, so are not discussed below.)

CORPORATION TAX – GENERAL

A UK tax resident subsidiary will be subject to UK corporation tax on its worldwide profits and capital gains. The current rate is 19% (subject to certain exceptions) and is to reduce to 17% from 1 April 2020.

A UK-incorporated company will generally be treated as UK tax resident, except in some cases if its management is carried out to a significant extent outside the UK (this would depend on the terms of any relevant double tax treaty). A company would therefore need to consider its planned governance arrangements with this in mind.

The UK has a "patent box" regime under which certain profits (broadly, profits derived from UK generated patents) qualify for an effective 10% rate of corporation tax.

When a company commences business in the UK, it is required to register with the UK tax authorities for UK corporation tax purposes.

CORPORATION TAX – HOLDING OTHER COMPANIES THROUGH A UK SUBSIDIARY

Dividends received by a UK subsidiary from its own subsidiaries will generally be exempt from UK corporation tax.

Under the EU Parent-Subsidiary Directive, dividends paid to a UK company from EU subsidiaries are generally exempted from withholding tax in the subsidiary jurisdiction. The UK also has an extensive network of double taxation treaties which in some cases may require such withholding tax to be disapplied, or applied at a reduced rate.

The UK has "controlled foreign companies" rules under which profits of non-UK subsidiaries of a UK tax resident company can in certain circumstances be taxed in the UK. The rules are directed at profits which have been artificially diverted from the UK, and have various significant exemptions. The rules are unlikely to affect profits earned by a non-UK subsidiary from genuine trading activity in its own country.

Gains realised by a UK resident company on the disposal of a subsidiary which is a "trading company" or the "holding company of a trading group" are generally exempt from corporation tax under the UK's participation exemption, known as the "substantial shareholdings exemption".

The UK does not have a system of full tax consolidation of subsidiaries. However, there are various rules allowing UK-corporation tax paying companies which satisfy prescribed group relationship tests to be "grouped" for UK tax purposes, which allow among other things some loss-sharing, some simplified compliance, and the tax-neutral transfer of assets within the group.

REPATRIATION OF FUNDS

The UK does not impose withholding tax on dividends.

Withholding taxes are imposed in the UK on cross border payments of interest and royalties, although if the recipient is resident in a country with which the UK has a double tax treaty, and qualifies for the benefit of that treaty, then the withholding may be reduced or eliminated. In the case of interest, this will require a claim to the UK tax authority.

In principle, interest and royalties payable by a UK resident company are deductible for UK corporation tax purposes, although in both cases the UK's transfer pricing rules will effectively limit the deductible amount to what would be payable in an arrangement made on arm's length terms. There are also various rules that may further restrict the amount of deductible interest, particularly on shareholder debt. These include "corporate interest restriction" rules in force since April 2017 which in very broad terms may limit a group's deductible interest expense in the UK to 30% of its UK EBITDA.

VAT

The UK (along with the other EU countries) imposes value added tax (VAT). VAT is, generally, charged at 20% in the UK on supplies of goods and services within the UK, other than certain "exempt" and "zero rated" supplies. A company making such supplies is required to account to the UK tax authorities for VAT on those supplies, but will in practice usually charge that VAT on to its customers. VAT charged to a company by its own suppliers (input VAT) can generally be recovered from the UK tax authority (either by credit against the company's own VAT liability or by refund) but a company making "exempt" supplies will be subject to restrictions on its ability to recover input VAT.

A company will become required to register for VAT if at any given time the value of its taxable supplies for UK VAT purposes for the preceding 12 months exceeds a specified threshold (currently GBP85,000) or there are reasonable grounds for believing that the value of its taxable supplies for the next 30 days will exceed that threshold.

PAYROLL TAXES

UK employers are required to operate payroll taxes. First, employees' income tax liabilities are deducted at source by the employer, and accounted for to the UK tax authority, under the "pay as you earn" or "PAYE" system. Income tax rates range from 20% to 45%, depending on the level of income. Second, there are social security contributions known as National Insurance contributions. National Insurance contributions comprise both an employee-borne element which is deducted from an employee's remuneration at source, and an employer-borne element, which must be paid by the employer in addition to the employee's remuneration and cannot generally be recovered from the employee. Employee's National Insurance contributions are in most cases imposed at 12% on earnings between GBP6,032 and GBP46,350 per year and then at 2% on earnings above GBP46,350 per year. Employer's National Insurance contributions are currently imposed at the rate of 13.8% on earnings above GBP8,424 per year.

Employers are required to register with the UK tax authority for PAYE and National Insurance accounting purposes.

BUSINESS RATES

Occupiers of non-domestic property in the UK are generally required to pay business rates, a form of property tax which funds local government services. Business rates are charged by reference to the value of the occupied property. The applicable rates vary between different parts of the UK.

Key things to think about in tax:

- The availability of any tax exemptions or reliefs
- The incidence of any withholding taxes on repatriation of profits back to the parent company
- Suitability as a holding company for subsidiaries in other countries
- The availability of double tax treaties to provide relief from certain overseas taxes
- Corporate tax rate and tax base
- Rates of payroll and personal taxes for executives

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Allen & Overy and fintech

At a time of significant change in the legal industry and against the backdrop of the UK's withdrawal from the European Union, we are determined to continue leading the market as we have done throughout our 88-year history. We will do this by ensuring we always challenge ourselves to bring new and original ways of thinking to the complex legal challenges our clients face.

Founded in London in 1930 and as one of the UK's largest law firms in terms of revenue, to support our clients' international strategies we have built a truly global network now spanning 44 offices in 31 countries. We have also developed strong ties with relationship law firms in over 100 countries where we do not have a presence. This network makes us one of the largest and most connected law firms in the world, with a global reach and local depth that is simply unrivalled.

EXPERTISE IN FINTECH

Allen & Overy is an engaged and active player in the fintech ecosystem. Our depth of experience in acting for fintech companies and their investors enables us to get to the heart of what is important for each business and its backers throughout the life cycle of the business. Our lawyers are experts in working with our clients to produce consistent and risk-conscious results while preserving and encouraging the innovation, creativity and agility that many fintechs promise.

With a track record of providing high-quality and innovative legal advice, Allen & Overy is ideally placed to guide market participants through all business and legal issues in this thriving sector. As a recognised banking powerhouse, we have a huge knowledge base and extensive experience of advising on financial services regulation. In addition, our strong connections with the leading financial services authorities mean we can support our clients in all their dealings with local regulators. We marry this regulatory expertise with deep and broad experience in the technology sector. We have advised on some of the cornerstone projects in the banking technology market and we also work with some of the most successful technology companies of the 21st century. From growth companies to established market players, we know what it takes to succeed in fintech.

"Allen & Overy has a sophisticated fintech group capable of working flexibly both with startups and major institutions looking to incorporate innovative technologies in their businesses."

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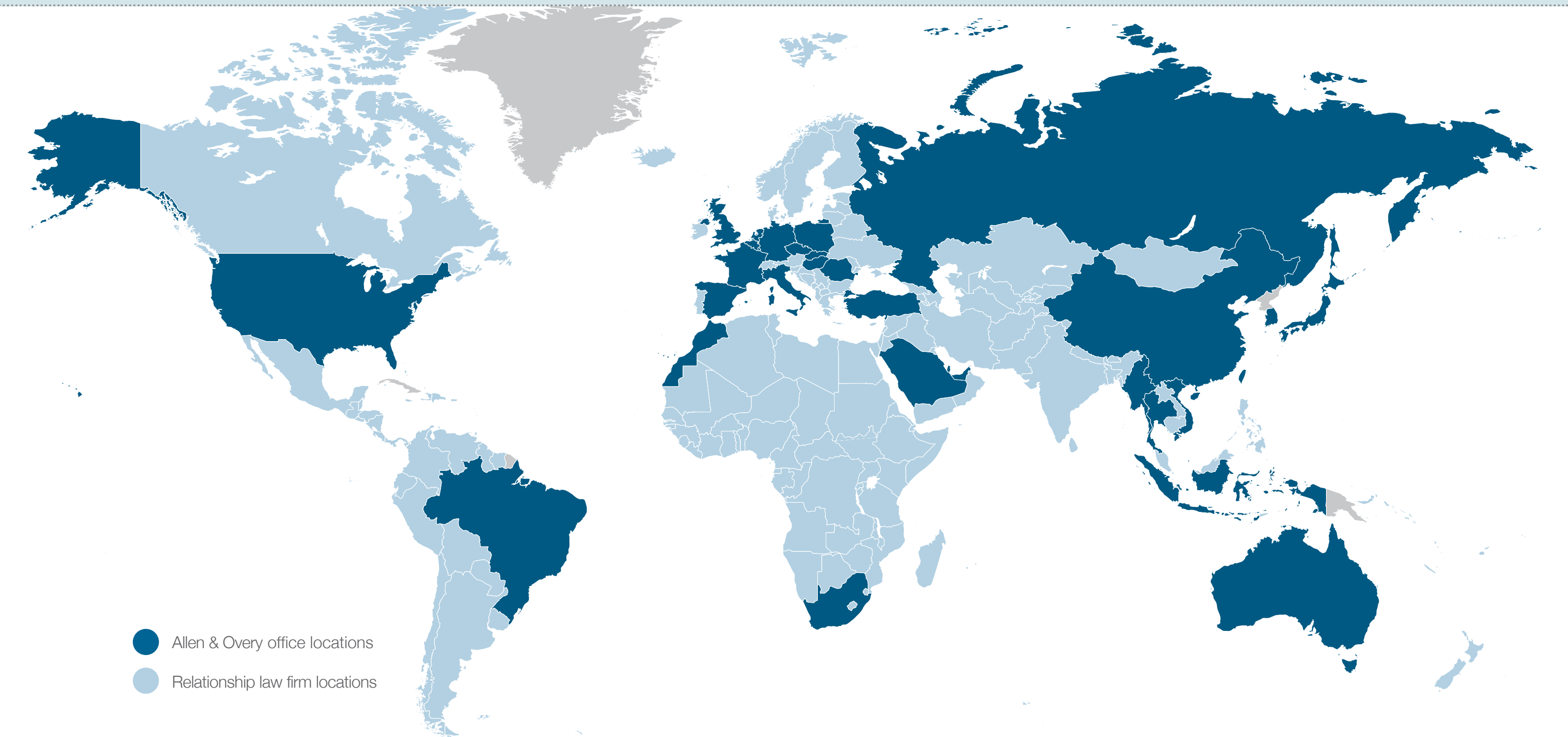

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Notes

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GLOBAL PRESENCE

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