

The Ultimate Guide for US Business Owners

For American entrepreneurs in the UK, selecting the right business structure is as important as understanding the intricacies of driving on the left side of the road. While both countries share a common language, their business structures and tax regulations can differ significantly. This guide outlines key business structures, tax implications, and practical considerations for US expats setting up a business in the UK.

5 Key Considerations Before Choosing a Business Structure

Before selecting a business entity, consider these critical factors:

- Risk Tolerance: How much personal liability protection do you need?
- Business Growth Potential: Will your business scale significantly?
- Tax Efficiency: How will the structure affect your tax obligations in both countries?
- Compliance Requirements: What level of administrative work can you manage?
- Long-Term Goals: Are you planning to seek investment or eventually sell the business?

UK Business Structures

1. UK Sole Trader: The Simple Start-Up Option

UK Tax Treatment	US Tax Treatment
Pay UK income tax on profits	Subject to self-employment tax
National Insurance Contributions (NICs) required	May be impacted by the US-UK Totalisation Agreement

The UK Sole Trader structure is the simplest and most cost-effective option for starting a business. It requires minimal administrative work and gives you direct control over your business earnings. However, the trade-off is unlimited personal liability, meaning your personal assets are at risk if the business faces financial trouble. Additionally, UK tax rates can be relatively high (up to 45%), and you may be subject to US self-employment tax (15.3%) depending on your circumstances. The National Insurance Contributions (NICs) in the UK are also a consideration.

2. UK Limited Company: A Professional and Scalable Structure

UK Tax Treatment	US Tax Treatment
Corporation tax on profits (19–25%)	Controlled Foreign Corporation (CFC) rules apply
Salaries taxed at income tax rates (20%, 40%, 45%)	Subject to GILTI tax, potentially leading to double taxation
Dividends taxed at lower rates (8.75%, 33.75%, 39.35%)	Requires IRS filings (Form 5471)

A UK Limited Company offers more protection for personal assets since liability is limited to the amount invested in the company. It's also considered more tax-efficient than operating as a sole trader and is perceived as more credible by investors. However, the structure is more complex and comes with additional administrative responsibilities. The company will face corporation tax on profits (19–25%) in the UK, with salaries taxed at progressive rates (20%, 40%, 45%) and dividends taxed at a lower rate (8.75%, 33.75%, 39.35%). From the US perspective, you may be subject to the Controlled Foreign Corporation (CFC) rules and Global Intangible Low-Taxed Income, potentially leading to double taxation. You'll also need to file additional forms, such as Form 5471, with the IRS.

US Business Structures and Their UK Impact

3. US LLC: Flexible in the US, Complex in the UK

UK Tax Treatment	US Tax Treatment
May be taxed in both countries if UK corporate residency rules apply	Pass-through entity unless C-Corp election is made

A US LLC is known for offering limited liability for its owners and flexible taxation options (it can elect to be treated as a pass-through entity or a C-Corp). However, the structure can become complex in the UK, as the HMRC does not recognise LLCs as pass-through entities. If your LLC is subject to UK corporate residency rules, it may be taxed as a UK company. This means the LLC could face dual taxation in both the US and the UK, adding complexity to your tax obligations.

4. US S-Corp: Efficient in the US, Problematic in the UK

UK Tax Treatment	US Tax Treatment
HMRC does not recognise pass-through status, risking double taxation	Pass-through to owners

The US S-Corp is an efficient tax structure in the US, thanks to its pass-through taxation that avoids corporate double taxation. However, it can be problematic when doing business in the UK. The UK tax authorities (HMRC) do not recognise pass-through taxation, which could result in double taxation, once at the corporate level and again on dividends. Additionally, S-Corps are limited to 100 shareholders, all of whom must be US citizens or residents, which can restrict your options if you plan to expand internationally.

5. US C-Corp: A Strong Global Business Model

UK Tax Treatment	US Tax Treatment
May trigger UK corporate residency tax obligations	Pays US corporate tax; dividends taxed again

A US C-Corp is well-suited for businesses looking to expand internationally, as it is recognised as a separate legal entity, protecting personal assets. However, the major downside is double taxation: once at the corporate level and again on dividends. Additionally, if the C-Corp is considered a UK tax resident, it could face UK corporate tax obligations, further complicating your tax situation. In the US, the C-Corp is subject to corporate tax, and dividends paid to shareholders are also taxed, which can lead to a higher overall tax burden.

Final Thoughts: Choosing the Right Business Structure

- For small businesses, a UK sole trader is the easiest and most cost-effective option, but it carries personal liability risks.
- For growing businesses, a UK Limited Company offers better protection and tax efficiency.
- US-based entrepreneurs expanding to the UK should consider whether their US entity needs to register for UK tax and whether UK corporate residency rules apply, as these can affect tax obligations in both countries.
- Navigating the tax and legal implications of setting up a business in the UK as a US expat can be complex, so it's important to work with dual-qualified US/UK tax and legal professionals to optimise your financial strategy across both jurisdictions.

Date of Review: March 2025

The Legal Stuff

This document may not be forwarded, copied or distributed without our prior written consent. This document has been prepared by MASECO LLP for information purposes only and does not constitute investment, tax or any other type of advice and should not be construed as such. The information contained herein is subject to copyright with all rights reserved.

The views expressed herein do not necessarily reflect the views of MASECO as a whole or any part thereof. Information about potential tax benefits is based on our understanding of current tax law and practice and may be subject to change. The levels and bases of, and reliefs from, taxation is subject to change. The tax treatment depends on the individual circumstances of each individual and may be subject to change in the future. MASECO Private Wealth is not a tax specialist and does not provide tax and/or legal advice.

MASECO LLP (trading as MASECO Private Wealth and MASECO Institutional) is established as a limited liability partnership under the laws of England and Wales (Companies House No. OC337650) and has its registered office at The Kodak Building, 11 Keeley Street, London, WC2B 4BA.

MASECO LLP is authorised and regulated by the Financial Conduct Authority for the conduct of investment business in the UK and is registered with the US Securities and Exchange Commission as a Registered Investment Advisor.



enquiries@masecopw.com

+44 (0) 207 043 0455 | +1-888-MASECO1

MASECOPRIVATEWEALTH.COM