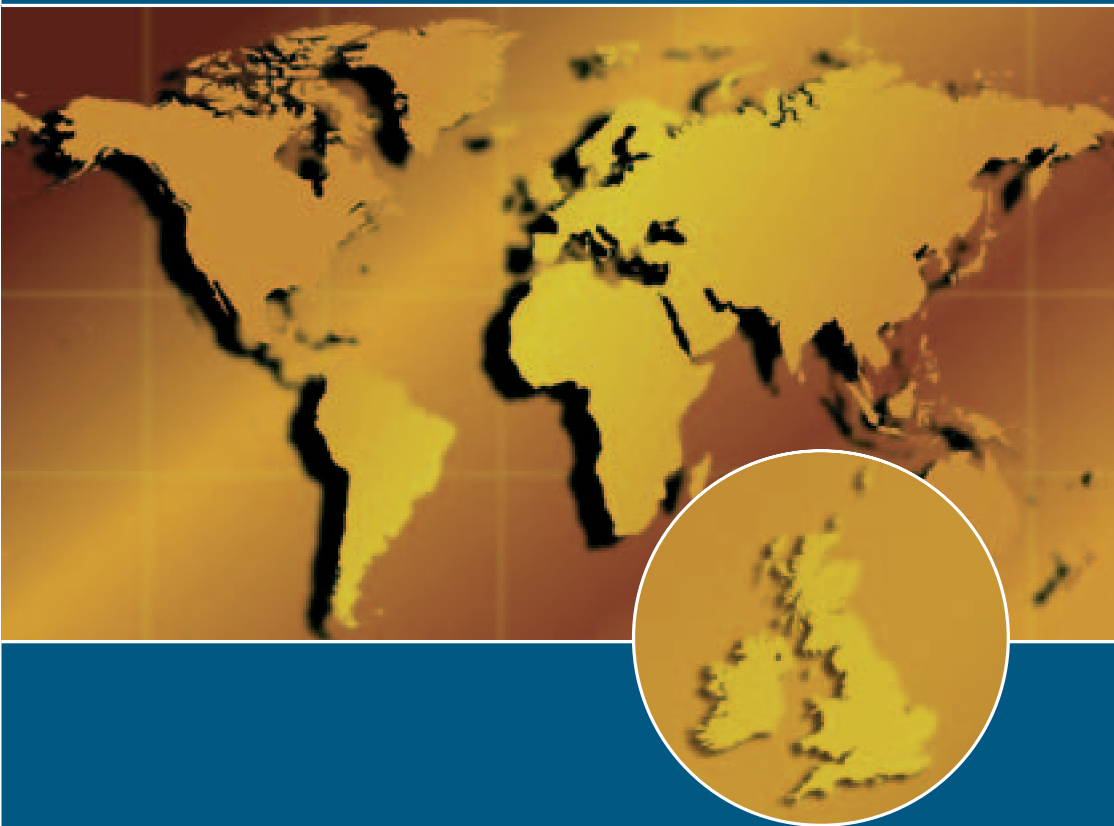
DOING BUSINESS IN THE UNITED KINGDOM



Vantis

HLB Vantis Audit

foreword

This booklet has been prepared for the use of clients, partners and staff of HLB International member firms.

It is designed to give some general information to those contemplating doing business in the United Kingdom and is not intended to be a comprehensive document.

You should consult us therefore, before taking further action. Vantis plc, HLB Vantis Audit and HLB International cannot be held liable for any action or business decision taken on the basis of information in this booklet.

The information contained in this booklet is believed to be correct at the time of going to print in November 2005.

Vantis plc
HLB Vantis Audit
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1 About HLB International

HLB International is a worldwide organisation of professional accounting firms and business advisers, each providing clients with a comprehensive and personal service relating to auditing, taxation, accounting and general and financial management advice.

Formed in 1969, HLB can assist clients to do business in over 100 countries, with more than 1,660 partners and over 10,440 staff in 430 offices.

Up-to-date information and general assistance on international matters can be obtained from any of the Directors of Vantis listed in this booklet or from the Executive Office in London:

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2 General Information

Situated in Northern Europe, the United Kingdom of Great Britain and Northern Ireland (United Kingdom) comprises the island of Great Britain (England, Wales and Scotland) together with the adjacent smaller islands and the six counties of Northern Ireland. The population totals approximately 60 million.

The United Kingdom does not include the Isle of Man or the Channel Islands which, although subject to the British Crown, have their own systems of government, law and taxation.

Her Majesty, The Queen, is Head of State. The main political function of the Queen is to appoint a prime minister who can secure a majority of votes in the House of Commons. The Queen may advise but in practice does not over-rule her Ministers.

Parliament has two legislative chambers, the House of Commons and the House of Lords. General Elections to the House of Commons take place at least once every five years. The House of Lords membership comprises two Archbishops, the senior Bishops of the Church of England, independent members and life peers. A non-statutory Appointments Commission is responsible for nominating all independent members to the House of Lords and for vetting the suitability of all nominations to life peerages.

Proposed legislation is presented to Parliament in the form of Bills. Before becoming law, a Bill must be approved by both Houses of Parliament. A Bill becomes an Act of Parliament when it formally receives the Royal Assent.

Under a system of devolved Government introduced in the late 1990s, Scotland has its own Parliament whilst Wales and Northern Ireland have their own Assemblies.

The United Kingdom has three separate legal systems. These are England and Wales, Northern Ireland and Scotland. Care should be taken when studying legal or official documents to note under which legal system the document is prepared.

The United Kingdom has no written constitution. The constitutional law of the United Kingdom is regarded as consisting of statute law on the one hand and case law on the other, whereby judicial precedent is applied in the courts by judges interpreting statute law. A third element consists of constitutional conventions which do not have statutory authority but nevertheless have binding force.

As a member of the European Union (EU), the United Kingdom is required to incorporate European legislation into United Kingdom law, and to recognise the jurisdiction of the European Court of Justice in matters of EU law.

3 Economic Arrangements

The Commonwealth, British Colonies & Protectorates

There are still many links between the United Kingdom and other members of the British Commonwealth, British Colonies and Protectorates although there are no longer special trading arrangements with Commonwealth countries other than those agreed as part of United Kingdom membership of the EU.

The European Union (EU)

The United Kingdom is a member of the EU, the other current member states being Austria, Belgium, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, the Republic of Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, The Netherlands, Poland, Portugal, Slovakia, Slovenia, Spain and Sweden. All EU states are also members of the World Trade Organisation (WTO), which oversees a large number of agreements defining the 'rules of trade' between its 148 member states. The WTO is the successor to the General Agreement on Tariffs and Trade, and operates with the broad goal of reducing or abolishing international trade barriers.

United Kingdom – at a glance

Area 50,362 sq m (130,438 sq km)
Capital London
Population 59.8 million
Currency Pound (£)
Language English
Time late October – March GMT, late March – October GMT+1
Climate Temperate
Business hours Banks (some branches are open longer)
9.30am – 3.30pm Mon – Fri
9.00am – 12.30pm Saturday
Government offices variable Mon – Fri
Commercial offices 9.00am – 6.00pm
Dialing-in code (country) +44

4 Investment Factors

INTRODUCTION

The procedure for establishing a company is identical for United Kingdom and foreign investors.

There are no particular rules applying to overseas persons wishing to invest in the United Kingdom.

Investors from overseas can establish or acquire United Kingdom enterprises, buy securities, or land without special license or permission subject only to normal compliance with relevant United Kingdom legislation.

Investment factors have been considered under the following headings:

- Government and local incentives
- European Union (EU)
- Sources of finance
- Other investment factors

GOVERNMENT AND LOCAL INCENTIVES

Financial incentives have been offered to industry in the United Kingdom since 1960. Today, incentives are available from a range of Government Agencies including:

- **The Department of Trade and Industry (DTI)**

The DTI directs business support in the key areas of regional investment, innovation, finance and best practice:

i. DTI: Regional investment

A discretionary grant known as Selective Finance for Investment in England (SFI) is available to eligible businesses in certain parts of England known as 'Assisted Areas'.

The objective is to raise productivity by supporting new investment projects offering above average growth in gross value added and sustainable skilled jobs.

A similar scheme, Regional Selective Assistance, operates in Scotland and Wales.

ii. DTI: Innovation

Four types of discretionary Research and Development (R&D) grants are available to individuals and small and medium sized businesses to encourage technological innovation at different stages of project development.

Collaborative R&D encourages the larger business to team up with other businesses and liaise with the research community.

iii. DTI: Raising finance

The DTI Small Firms Loan Guarantee Scheme (SFLGS) provides an approved lender with a 75% guarantee covering the repayment of eligible medium term loans up to £250,000.

Enterprise Capital Funds are a measure intended to increase the flow of private equity capital.

iv. DTI: Achieving best practice

The DTI awareness campaign is delivered by partners through events, conferences, exhibitions and awards.

- **The Learning and Skills Council (LSC)**

The LSC, created in 2001 to reform the management of post-16 education and training provision in England, provides grants for training and skills development including the Young Apprenticeships Programme.

Small organisations are encouraged to take up the Investors in People Standard by contacting their local LSC in England; the National Council for Education and Training for Wales; the Local Enterprise Company (LEC) in Scotland or the Training & Employment Agency (Northern Ireland).

- **United Kingdom Trade and Investment (UKTI)**

UKTI is the Government Organisation that supports:

i. **United Kingdom companies trading internationally; and**

ii. **Overseas enterprises seeking to locate in the United Kingdom.**

- **Local Incentives**

Local grants are also potentially available from agencies including:

i. **Regional Development Agencies** in England; Scottish Enterprise; the Welsh Development Agency and Invest Northern Ireland

ii. **Local Authorities**

iii. **Business Links**

iv. **Chambers of Commerce**

The Government has also set up a number of Enterprise Zones in the United Kingdom which benefit from 100% tax allowances for industrial and commercial buildings, simplified planning permission requirements and rate-free periods.

Availability and Applications

It is recommended that applications for grants should be made after consultation with a professional adviser.

Generally speaking, for example, applicants should not commence a project until a formal grant offer letter has been received.

Business Link, managed by the DTI, is available to provide business support, advice and information in England. Affiliated organisations elsewhere in the United Kingdom include Business Eye in Wales; Highlands and Islands Enterprise – Scotland; Business Gateway and Invest Northern Ireland.

Vantis Client Partners can help you with your grant application by accessing the Vantis Grantfinder Database and liaising with the local Business Link Counsellors and Grant Case Officers on your behalf.

REGIONAL AID FROM THE EUROPEAN UNION (EU)

The Single European market was created by the Treaty of Rome over thirty years ago. Physical, technical and certain financial barriers have impeded the development of Europe as one free market to trade and these barriers have or are now being removed.

Grants and Loans are available from EU Agencies including:

- **The Structural Funds 2000-2006**

i. European Regional Development Fund (ERDF)

ERDF contributes towards the financing of productive investment creating and safeguarding sustainable jobs.

ii. European Social Fund (ESF)

ESF supports activities which combat unemployment and promote equal opportunities.

iii. European Agricultural Guidance and Guarantee Fund (EAGGF)

EAGGF provides grant aid for rural development measures and supports the operation of the Common Agricultural Policy.

iv. Financial Instrument for Fisheries Guidance (FIFG)

FIFG contributes to achieving a sustainable balance between fishery resources and their exploitation.

- **European Investment Bank (EIB)**

The EIB is the EU's financing institution. EIB loans from £15 million upwards can finance up to 50% of the total cost of a project.

Note that all publicly funded assistance provided to United Kingdom enterprises has to conform to EU State Aid rules.

SOURCES OF FINANCE

Companies may raise external finance from the following sources:

BANKS

Clearing banks, or retail banks as they are sometimes known, can provide finance by way of overdraft, loan or a combination of both.

i. Overdraft

These are intended to finance working capital and are therefore used as a working account with cheques being drawn on the account. The overdraft is repayable on demand although it is normal practice to agree a limit for a period of up to one year. Interest is at a variable rate.

ii. Term Loans

These can be for a period of up to ten years or more with repayment of capital and interest over the period of the loan. It is normal for the interest rate to be variable but in certain cases it may be fixed.

Security is normally required in the form of a charge over the assets of the business or guarantees by the owners or directors.

In certain circumstances a government loan guarantee scheme can cover 75% of a loan not exceeding £250,000 if other security is not available.

VENTURE CAPITAL ORGANISATIONS

Business start-ups, company acquisitions, management buy-outs, management buy-ins and share issues can be financed by a scheme tailored to what is needed in each case by venture capital organisations.

In many cases the financial package will involve a combination of equity participation, redeemable preference shares and loans and is likely to be medium or long-term.

BUSINESS ANGEL INVESTORS

There are a number of business angel networks of private investors who invest their funds in owner-managed businesses.

STOCK EXCHANGES

Raising capital through the London Stock Exchange is normally suitable only for established companies and requires the support of a sponsor and in certain circumstances, a merchant bank together with the publication of a prospectus, which has detailed information supporting the proposed issue.

The various options are:

i. Offer for Sale or Subscription
A general offer for the company's shares or loan stock.

ii. Placing of Shares
An offer to institutions such as banks, insurance companies etc.

iii. Rights Issue
An advantageous offer to the company's existing shareholders.

Other stock markets include the Alternative Investment Market (AIM) which is regulated by the London Stock Exchange, as well as OFEX which is regulated by the Financial Services Authority. Both stock markets provide a sharetrading facility for both established and young owner-managed businesses.

HIRE PURCHASE AND LEASING OF EQUIPMENT

Fixed assets such as plant, equipment and motor vehicles can be financed by either hire purchase or leasing.

Hire purchase is a form of extended credit involving the purchase of an asset over a period of years. Repayments of both capital and interest are made and the assets are owned when fully paid.

A leased asset is never owned, payments are made for the use of the asset.

Financing the Purchase of Property

A mortgage of normally up to 75% of the cost of a property can be obtained from banks, building societies and insurance companies.

DEBT FACTORING AND INVOICE DISCOUNTING

Factoring of debts and discounting of invoices can be useful methods of obtaining finance for working capital requirements. They are methods of obtaining payment of debtor balances when invoiced rather than waiting for payment.

OTHER INVESTMENT FACTORS

Foreign Exchange Controls

There are no exchange control regulations and there are no restrictions placed on overseas investors. However, legislation for the control of monopolies and mergers will apply to overseas investors as well as United Kingdom investors.

Acquisitions and Takeover Bids

When contemplating a major acquisition or takeover it is necessary to comply with the requirements of the City Code on Takeovers and Mergers which is designed to protect the shareholding public. The City Code is only applicable to listed companies and unlisted plc's (not privately-owned companies).

Employment Regulations

Nationals of other EU member states are not required to obtain work permits and are allowed access to employment on equal terms with United Kingdom nationals.

Foreign companies setting up operations in the United Kingdom and United Kingdom companies requiring non-EU personnel usually have no difficulty in obtaining work permits for senior executives. Employers should obtain work permits from the Department of Employment for prospective employees before they enter the United Kingdom. Social Security contributions are also payable and these are dealt with in the Taxation section.

The Financial Services and Markets Act 2000

The scope of the Financial Services and Markets Act 2000 is very broad. Companies contemplating conducting investment business in the United Kingdom whether as their main business or not, might be required to register under the Act and should be professionally advised.

5 Types of Business Organisations

PRINCIPAL FORMS OF BUSINESS

Businesses may be set up in the following forms:

- United Kingdom branch of an overseas company
- Limited and unlimited companies
- Partnership including limited liability partnership
- Sole trader.

UNITED KINGDOM BRANCH OF AN OVERSEAS COMPANY

In some cases an overseas company may organise its United Kingdom business as a separate limited company rather than a branch. If it is organised as a branch the following applies:

i. Certain sections of the Companies Act 1985 must be complied with.

ii. A place of business with some degree of permanence or office must be established.

iii. Certain information concerning the constitution and details of the offices must be delivered to the Registrar of Companies.

iv. Changes to such information must be notified within 21 days.

v. Copies of annual accounts including group accounts where applicable must be submitted to the Registrar of Companies within 13 months of the end of its accounting period.

It is not sufficient to submit the accounts of the United Kingdom branch only.

The accounts must comply with general requirements of the Companies Act 1985 although certain exemptions have been granted.

vi. An overseas company is required to display in each place of business in the United Kingdom its name, the country under the laws of which it is organised, and state if it is incorporated with limited liability. Invoices, letterheads and all notices published by the company must contain the same information.

LIMITED AND UNLIMITED COMPANIES

Unlimited companies are exempt from certain disclosure requirements but the members of the company are personally liable for the debts of the business. This means that they are not a popular way to trade, therefore most companies are limited. Limited companies may be either private companies which do not invite the public to subscribe for shares or public companies which may invite the public to subscribe and may apply to be listed on the Stock Exchange. Public companies are subject to stricter legal and reporting requirements.

The main requirements of a limited company in the United Kingdom are summarised below:

i. Capital

The minimum issued share capital for private companies is 1 share, and for public companies £50,000 of which at least 25% must be paid up. Capital may be subscribed in a non-cash form, e.g machinery, know-how or patents.

ii. Shareholders

All public companies must have at least two shareholders but there are no nationality or residence requirements.

Private companies need only have one member.

iii. Company Name

A public company name must end with the words 'Public Limited Company' or 'plc' and must use this name on all official documents, stationery and nameplates. A private company name must end with the word 'Limited' or 'Ltd' unless specifically exempt. For both types of company the choice of name is subject to certain restrictions imposed by the Registrar of Companies.

iv. Board of Directors

Only one director is required for a private company and two for a public company. There are no nationality or residence requirements and any director may be chairman.

v. Management

Managers need not be shareholders or directors but every company must have a company secretary who performs certain legal duties. A company secretary for a public company must have relevant experience and hold a suitable qualification.

The secretary may be a director if there is more than one director.

vi. Labour

There is no requirement that labour be represented on the board or in management.

vii. Disclosure

An independent auditor must generally be appointed. Annual accounts together with an annual return of company information must be filed with the Registrar of Companies. This information is available to the general public. For a public company the accounts must be filed within seven months of the company's financial year end and for a private company within ten months.

Certain smaller private limited companies have the option to file abbreviated accounts, although they must still prepare full statutory accounts for the members. These must show a true and fair view and comply with the requirements of the Companies Act 1985. Those with a turnover of less than £5.6 million and gross assets of less than £2.8 million can dispense with an audit if certain requirements are met.

viii. Types of Shares

Ordinary, preference and cumulative preference shares are commonly issued. Ordinary shares may or may not have voting rights.

ix. Passing Resolutions

Over 50% of the votes are required to pass an ordinary resolution but some decisions such as changes in the articles of association require 75% of the shareholders voting in favour.

x. Formation and Cost

A company with standard memorandum and articles of association can be purchased 'off the shelf' without delay.

A company with memorandum and articles of association specifically drawn may take a little longer.

An untailored basic company can cost as little as £100 and a company formed with a more complicated structure will cost substantially more.

The annual fee charged by the Registrar of Companies for filing an annual return is £30, or £15 if they are filed electronically. There is no charge for filing accounts or most other documents.

xi. Distributions

The excess of accumulated realised profits over accumulated realised losses is available for distribution.

In a public limited company, net assets before and after a distribution must exceed the aggregate of share capital and undistributable reserves.

PARTNERSHIPS

A partnership is a business relationship between two or more persons or corporations carrying on a business in common with a view to profit. It is normal for the partners to be governed by a partnership agreement.

There are broadly two types of partnership, a traditional partnership or a limited liability partnership.

For a traditional partnership the following factors are relevant:

i. Individual partners normally assume unlimited liability for debts and obligations incurred in the name of the partnership.

ii. Accounts do not have to be filed with the Registrar of Companies.

iii. There is no external audit requirement as partners are personally liable, both jointly and severally for the liabilities of the firm.

iv. A limited liability company may be a partner with other companies or individuals.

v. ‘Limited’ partnerships are permitted.

At least one partner must retain unlimited liability but others may limit their liability to the capital contributed to the partnership.

'Limited' partners cannot participate in the management of the partnership.

LIMITED LIABILITY PARTNERSHIP

A limited liability partnership is a separate legal entity and is designed to be as flexible as an ordinary partnership but with limited liability for the members.

Members will only be liable for an agreed sum which is contained within the partnership agreement when the LLP is established. Therefore the LLP overcomes one of the principal problems of traditional partnerships whereby partners are liable for the actions of others.

Annual accounts and audit requirements are governed by the Companies Act 1985 which means greater disclosure of information, and accounts must be filed on public record with the Registrar of Companies.

The name must end with the words 'Limited liability partnership' or 'LLP' and it is subject to certain restrictions imposed by the Registrar of Companies.

The formation of a LLP involves the completion of documentation that must be filed with the Registrar. The subscriber names will be included and these persons will be the first members.

Other members' particulars must be filed, but unlike a company's Articles there is no requirement for the partnership agreement to be filed on public record.

SOLE TRADER

A sole trader is an individual engaged in a business or profession on his own account and is subject to registration requirements common to all forms of business. The accounts of a sole trader need not be audited nor publicly disclosed.

6 Audit

An external statutory audit of the financial statements of a company is required where:

- The company is not classified as small (see note below);
  The turnover is more than £5.6 million (or £250,000 or more for a charitable company); or
- The balance sheet total (gross assets) is more than £2.8 million (or more than £1.4 million for a charitable company); or
- It is part of a group and the turnover of the group is more than £5.6 million net (excluding inter company sales) or £6.72 million gross; or it is part of a group and the balance sheet total (gross assets) of the group is more than £2.8 million net (excluding inter company balances) or £3.36 million gross (for charitable companies which are part of a group the respective limits are aggregate turnover of more than £350,000 net or £420,000 gross and aggregate balance sheet totals of more than £1.4 million net or £1.68 million gross); or
- It is a public limited company or is part of a group which has within it a public company; or
- Certain activities are undertaken by the company which are regulated (for example under the Financial Services and Markets Act 2000) or it is part of a group which has within it a regulated company; or
- Shareholders of at least 10% of the nominal value of the issued share capital require the accounts to be audited.

A small company is defined as one where at least two of the following conditions apply:

a. An annual turnover of £5.6 million or less
b. A balance sheet total of £2.8 million or less
c. Average number of employees of 50 or fewer.

7 Taxation

TAX SYSTEM

United Kingdom taxes are levied by central government except for local taxes on property.

HM Revenue and Customs (HMRC), the merged department of the Inland Revenue and HM Customs and Excise, is responsible for the principal direct taxes which are:

i. Corporation Tax
ii. Income Tax
iii. Capital Gains Tax

The main indirect taxes are Value Added Tax and Customs and Excise Duty (formerly the preserve of HM Customs and Excise). The fiscal year for individuals runs from 6 April to 5 April. The financial year, on which corporation tax is based, runs from 1 April to 31 March.

LEGISLATION

In March/April each year, the Government presents its Budget reviewing the economic state of the country and setting the rates of taxes for the next fiscal year. A Finance Bill is discussed by the House of Commons. It then receives Royal Assent and becomes a Finance Act by the end of July. The material in this booklet is based on legislation current at September 2005.

CORPORATION TAX – COMPANIES

Residence

A company is United Kingdom resident if:

i. it is incorporated in the United Kingdom; or
ii. its central management and control is exercised in the United Kingdom.

Profits

Corporation tax is chargeable on the worldwide profits of United Kingdom resident companies. Profits include income and capital gains, but not dividends (or other distributions) received from other United Kingdom resident companies.

Rates

Corporation tax is assessed for the financial year to 31 March. The profits of a company with a year-end other than 31 March are apportioned between the two financial years for the purpose of determining the applicable rates of tax.

There are various rates of corporation tax. The rates for the financial year (FY) 2004 (1 April 2004 to 31 March 2005) and FY 2003 (1 April 2003 to 31 March 2004) are the same and are as follows:

	£	
First	10,000	**0%**
Next	40,000	**23.75%**
Next	250,000	**19%**
Next	1,200,000	**32.75%**
Remainder, i.e. over	1,500,000	**30%**

Certain investment-holding companies are not eligible for the lower rates.

Businesses are prevented from taking undue advantage of the above rates by fragmenting into a number of small companies that are grouped or under common control. Under these conditions, the above limits are divided by the number of non-dormant, worldwide, associated companies and allocated equally to each company for United Kingdom corporation tax purposes.

DIVIDENDS

The United Kingdom operates a partial imputation system.

Companies pay tax on profits before dividends but pay dividends without deducting withholding tax. However, certain shareholders are entitled to modest deemed credit.

GROUPS

Under United Kingdom legislation, trading losses can normally be set against profits within a United Kingdom group. In general, a United Kingdom group, for this purpose, is a United Kingdom resident parent company together with those United Kingdom resident subsidiaries which are at least 75% owned.

FOREIGN TAX

Credit is generally available for foreign taxes suffered against United Kingdom corporation tax charged on that particular source, but there are potential restrictions.

CORPORATION TAX – BRANCHES OF NON-RESIDENT COMPANIES

Profits

Corporation tax is charged on profits attributable to trading carried on in the United Kingdom. As a general rule, a company that makes contracts in the United Kingdom generating profits in the United Kingdom is regarded as trading in the United Kingdom. By contrast, a company with a United Kingdom sales office that merely takes orders, with contracts ultimately completed outside the United Kingdom, may not be considered to be trading in the United Kingdom. Such a representative office will generally not be liable to United Kingdom tax. Each situation depends on the facts and tax treaties may supply guidance.

Overseas companies that establish a management or service centre in the United Kingdom are likely to be considered to be trading through a United Kingdom branch or agency. If services are provided without charge to other branches of the company or to other group companies, the HMRC is likely to seek to charge corporation tax. This may be on a percentage mark-up on costs basis (but in any event will need to be a supportable arms length charge).

A non-resident company trading in the United Kingdom through a branch or agency is taxed on trading profits in the same manner as a United Kingdom resident company. Transactions between the branch and head office of the company are deemed to have been concluded at arms length as do transactions between United Kingdom resident group members and non-United Kingdom resident group members. The HMRC can challenge any such prices under a so called 'transfer pricing enquiry'.

Accordingly, income or expenses deriving from branch activities are allowed to be attributed to the branch, even if they are not dealt with in the branch's records.

Interest paid by a branch to its head office, however, will generally not be deductible, because it is considered to have been remitted to the same entity.

A payment by a United Kingdom branch of a non-resident company constitutes a deductible expense per se only if it is paid to a United Kingdom resident and is incurred wholly and exclusively for the purposes of the United Kingdom trade of that branch. A payment by one non-resident to another is not deductible unless it is at arms length and for the purpose of a trade chargeable to United Kingdom tax or is specifically provided for in a double tax treaty.

Rates

The full rate of corporation tax applies on the trading profits arising from the United Kingdom branch. The lower rates may apply if the relevant double tax treaty has a non-discrimination article.

Foreign Tax

No double tax relief is available.

Corporation Tax – Extension of transfer pricing rules to transactions between associated United Kingdom resident companies

The above extension has taken effect from 1 April 2004 (primarily as a result of certain European Court of Justice decisions), although there will be exceptions for smaller companies.

INCOME TAX – INDIVIDUALS

Residence

The liability of individuals to United Kingdom income tax is dependent on the twin concepts of residence and domicile.

Residence is determined by a complex set of rules which relate mainly to the length of time spent in the United Kingdom.

A domicile of origin is acquired at birth and while it is possible to alter this to a domicile of choice, this is extremely difficult to achieve in practice.

Taxable Income

Two main categories of income are liable to United Kingdom tax: income from employment (including self-employment) and income from investment.

For individuals resident and domiciled in the United Kingdom liability arises generally on worldwide employment and investment income. Residents who are not ordinarily resident or not domiciled in the United Kingdom may qualify for more favourable tax rates on certain sources of income arising outside the United Kingdom.

Income tax is charged on earnings from employment. Employment income includes the value of certain benefits including the provision of a company car, accommodation and other expenses received as part of an overall remuneration package. Any expenses incurred wholly, exclusively and necessarily in the course of performing the duties of an employment are normally allowed as deduction from employment income.

Allowances

There are certain statutory allowances available. The main allowance is:

	2004/05	2005/06
Personal allowance	**£4,745**	**£4,895**

Higher allowances are generally available to taxpayers aged 65 or over.
A husband and wife are treated as separate taxpayers.

Rates of Income Tax

As indicated earlier, for individuals, the tax year in the United Kingdom runs from 6 April to the following 5 April. For the tax year 2005/06 (6 April 2005 – 5 April 2006) the rates of income tax on an individual's personal income after personal allowances will generally be as follows:

Taxable Income	Rate of tax	Cumulative total of tax
£0 – £2,090	**10%**	**£209**
£2,091 – £32,400	**22%**	**£6,877**
Over £32,400	**40%**	

Foreign Tax
Credit for overseas tax paid by United Kingdom resident individuals in respect of overseas income is normally given under the terms of an appropriate double taxation treaty or under specific tax legislation.

Any relief is limited to direct overseas taxes payable by the individual or to the United Kingdom tax payable if this amounts to less than the overseas tax.

CAPITAL GAINS
Companies
Capital Gains (CG) made by a company are taxed in the same way as income and profits. In arriving at the relevant CG, an allowance is made for inflation in the following way:

i. In the case of an asset owned on 31 March 1982, an allowance is made for inflation between 31 March 1982 and the date of sale, based on the 31 March 1982 market value of the asset; or

ii. In the case of an asset acquired since 31 March 1982, an allowance is made for inflation on the cost of the asset.

Individuals
In the case of a CG made by an individual, an allowance is made for inflation similar to that for companies, except that in the case of an asset sold after April 1998, the inflation allowance only runs up until April 1998: there is no further allowance for inflation in respect of subsequent periods.

Separately, a new system of taper relief was introduced in 1998 which applies only to individuals and trusts.

Depending upon the nature of the asset and the length of period of time the asset has been owned at the time of the date of sale, this can reduce the CG by up to 75%.

In general, for both companies and individuals, the cost of the asset for CG purposes, prior to any allowance for inflation, is the 31 March 1982 market value of the asset in circumstances where the asset was owned by the vendor on 31 March 1982.

Exemption
Individuals are entitled to an annual exemption of £8,500 for 2005/06 (2004/05 £8,200). Husbands and wives are assessed independently and each is entitled to the annual exemption.

WITHHOLDING TAXES

Interest

Interest payments by United Kingdom resident companies are made after withholding tax at the lower rate of 20%. There are certain exemptions:

i. within groups of companies

ii. to non-residents if allowed by the terms of a double tax treaty

iii. payments to United Kingdom banks

iv. payments of short interest (broadly, interest on loans for a fixed term of less than one year).

Rents

Rental payments by United Kingdom residents to non-resident landlords are subject to withholding tax at the basic rate of 22%.

Royalties

Patent royalties and some other royalties are also paid after withholding tax at the basic rate of 22%. Payments to non-residents are excepted from withholding tax if allowed by the terms of a double tax treaty.

Tax Treaty

Payments excepted from withholding tax under the terms of a double tax treaty must be cleared by the HMRC's Inspector of Foreign Dividends.

The United Kingdom has over one hundred double taxation treaties.

OTHER PRINCIPAL TAXES

Value Added Tax (VAT)

VAT applies to the supply of certain goods and services in the United Kingdom in the course of business. It also applies to imports of certain goods and services.

Goods and services can be exempt, zero rated or standard rated for VAT purposes.

The standard rate is currently 17.5%.

There is a reduced rate of 5% for domestic fuel and power. VAT is reclaimable by non-exempt traders and is therefore generally only borne by the ultimate domestic consumer.

National Insurance Contributions (NIC)

NIC must be paid on salaries/wages by employees, employers and the self employed at set rates.

Reduced contributions are due when employers set up approved pension schemes and contract out of the state run scheme.

Inheritance Tax

Inheritance tax is levied on the value of property generally passing on death and is normally charged at a rate of 40% on assets in excess of a specified threshold (currently £275,000). Gifts within seven years before death are chargeable although reduced rates may apply to gifts made at least 3 years before death.

Stamp Duty, Land Tax and Stamp Duty Reserve Tax

Certain documents need to be stamped to be legally effective. The rate is 0.5% to 4% depending upon the nature of the document and the underlying transaction.

Oil & Gas

Petroleum Revenue Tax (PRT) is charged on proceeds of oil or gas extracted from the older fields in the United Kingdom continental shelf. Substantial allowances are available. PRT is a deductible expense for corporation tax purposes.

All fields pay a 10% oil surcharge on their profits from North Sea extraction over and above any other tax liability.

Local Taxes

Business Rates at a standard national rate are payable on values attributable to any business property occupied.

Individuals pay a Council Tax to the local council.

PAYE System

It should be noted that employers have to operate a PAYE (Pay as You Earn) system in respect of salaries/wages paid to employees under which income tax and NIC must be deducted at source from salaries/wages and then accounted for by the employer to the HMRC.

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