

Doing Business in the UK

Wingrave Yeats
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Introduction

1.1 GEOGRAPHY

The United Kingdom (UK) covers an area of 94,248 square miles (244,101 square km) and consists of England, Wales, Scotland and Northern Ireland. England is a very small country. Did you know that you can never be more than 184 miles from the sea?

As you probably know, The Channel Islands and the Isle of Man are not included in this review as they have their own laws, governments and tax systems.

1.2 POPULATION

The total population of the UK was estimated at 59.834 million in 2004. The main concentrations are in London (7.4 million), Birmingham, Manchester, Leeds, Bristol, Glasgow and Belfast in Northern Ireland.

1.3 POLITICAL AND LEGAL SYSTEM

The first thing to remember about the UK is that everything about it is odd! We drive on the left, we do not use the Euro, we refer to the Royal Navy not the British Navy and our postage stamps are the only ones in the world that are not required to state the name of the country.

The Queen is head of state but the country is governed by parliament based at Westminster in London. Parliament comprises two houses, the House of Commons and the House of Lords. The Government is formed from the House of Commons by the political party winning the most seats in a general election. Elections must be held at least every five years.

Public services such as education, town planning and housing, are provided by local authorities and run by elected Councillors. The UK is one of 25 member states in the EU and is therefore subject to EU law.

One of the most important differences is that we are subject to Common Law and the Law of Precedent. Our Laws have never been codified as they were in Napoleonic Europe.

1.4 Economy

International trade and investment form a vital part of Britain's open economy. And it's booming.

Introduction Continued...

1.4 ECONOMY

International trade and investment form a vital part of Britain's open economy. And it's booming.

- Britain is a benign place to do business
- We have not had a recession for over 10 years
- We are still the world's 6th largest economy
- The UK lies between the time zones of the US and the Far East
- We are one of the most favoured countries from which to transact business
- London is not just the capital of England but it is also fast becoming the capital of the world, you just need to look at how fast house prices are rising to see that
- Exports account for only one quarter of the gross domestic product

Entrepreneurship and the private sector are booming. It now accounts for three quarters of gross domestic product and over two thirds of total employment. The only significant nationalised industry left now is the Postal Services. Between 1995 and 2004 the economy grew at an annual rate of between 2% and 4%, although this rate has slowed in recent years.

Much of the growth is due to the lightness of regulation in the markets and they are kept open and fair by bodies such as the Office of Fair Trading and the Competition Commission. In financial services, the Financial Services Authority is the regulator to protect the private investor. The total workforce was approximately 29m as at December 2005, including 4m self employed. 46% of employees are women and unemployment stood at 5.1%. The rate of inflation has been in the range of 1.1% to 2.5% for the last two years.

2.1 COMPANIES

Commercial entities usually take the form of limited liability companies with share capital. Companies may be limited by guarantee of their members rather than by shares, but generally it is only charities or not for profit organisations which operate in this way.

A company may be incorporated either as a public or a private company. It is only a public company ('plc') that may offer shares or debentures to the general public; it must have an allotted share capital of at least £50,000, of which £12,500 must be paid up and there must be at least two shareholders. There is no minimum share capital requirement for a private company (ltd) and a private company may have only one shareholder. There are no restrictions on the maximum number of shareholders for either type of company.

A private company need have only one director, but a public company must have at least two. There is no requirement that directors must be UK or EU nationals, however both types of company must have a company secretary in addition to its directors. It is also necessary to have a registered office – this has to be in England, Wales or Scotland depending on which country the company was incorporated in.

Where a foreign based enterprise chooses to operate in the UK through a UK incorporated subsidiary company it will usually do so by means of a private company.

2.2 PARTNERSHIPS

Partnerships can be either general partnerships, where the partners each have unlimited liability for the debts and obligations of the firm as a whole, or limited partnerships, where one or more of the general partners have unlimited liability and the limited partners have liability only up to the amount of their general contributions. A partnership is defined in law as the 'relationship which exists between persons carrying on a business in common with a view to profit'. Except in Scotland, a partnership is not regarded as a separate legal entity distinct from its members.

The Limited Liability Partnerships Act 2000 came into effect on 6 April 2001 enabling all presently unincorporated businesses and new businesses to operate through a new form of business structure: the Limited Liability Partnership (LLP). The LLP must have two or more members, and must conduct business with a view to profit. By providing its members collectively with a form of limited liability, the LLP offers the prospect of asset protection to owners of unincorporated businesses for whom no such protection was previously available. The LLP is taxed in much the same way as partnership, the great advantage being that the remuneration of the members (or partners) is not liable to Employer's National Insurance taxes of 12.6%

2.3 SOLE PROPRIETERSHIPS

Many smaller businesses in the UK come into this category.

A sole proprietorship involves the least number of formalities before a business can commence but it does carry with it the following disadvantages;

- There is no limitation of personal liability for trading debts
- There may be higher liability to United Kingdom taxation on trading profits that would be the case within a company
- United Kingdom capital gains tax may arise upon the sale of the business
- There may be liability to Inheritance Tax if any United Kingdom assets are given away or bequeathed on death.

2.4 BRANCHES AND PLACES OF BUSINESS

An overseas company can set up a place of business in the UK without forming a UK subsidiary company and in that case it is said to have a branch in the UK. A branch is not a separate legal entity, but an extension of the foreign company, and the foreign company is therefore responsible for its liabilities.

2.5 AUDIT AND ACCOUNTING REQUIREMENTS

All businesses need to maintain proper books of account for taxation purposes and to retain the accounting records and associated documents for not less than 6 years. All public companies must have their accounts audited by a firm of Registered Auditors. LLP's and private company with an annual turnover exceeding £5.6m must also be audited; below that level LLP's and private companies may be exempt from audit if they meet various other criteria. These limits are in line with EU policy and may well rise again shortly.

2.6 FILING REQUIREMENTS

All limited companies and LLP's must file accounts at a central registry called Companies House, but small companies may file in an abbreviated form if they meet the necessary criteria. An annual return giving details of directors and shareholders must also be filed. It is increasingly common to file such documents electronically and the deadlines for filing are gradually being shortened.

Branches of foreign companies must file details of the branch and its head office at Companies House within one month of setting up a branch. Abbreviated accounts of the foreign parent must also be filed annually although, depending on their nature, there is no requirement for them to be audited.

Finance and Investment

3.1 EXCHANGE CONTROL

There are no exchange controls in the UK on inward or outward investment. Foreign currencies can be bought and sold freely and there are no restrictions on the maintenance of foreign currency bank accounts in the UK.

There are no limitations on the repatriation of profits from the UK. The UK, in common with the rest of the EU, has enacted laws to prevent the laundering of proceeds of serious crime. Financial and some other institutions must obtain and retain satisfactory evidence of the identity of a potential customer before they do any business with that customer, even for relatively small sums. Failure to report suspicion of money laundering to the authorities can result in serious penalties.

3.2 SOURCES OF FINANCE

3.2.1 Banking

The UK's central bank, the Bank of England, acts as a banker to the government. It is responsible, inter alia, for setting base interest rates through its Monetary Policy Committee. The MPC sits independently of Government policy and many have attributed much of the recent economic success of the UK to this change alone which was made 10 years ago by Gordon Brown.

Overdrafts with fluctuating interest rates are the most commonly used facility for financing working capital or to fund seasonally affected business. Technically, overdrafts are repayable on demand. Banks also offer short, medium or long term loans. The repayment terms are negotiable and rate of interest may be fixed or variable. To obtain bank finance the business will normally be required to provide adequate security. Security will typically be in the form of fixed or floating charge over the business assets, as well as, in certain circumstances, personal guarantees from owners. In addition to these traditional services the banks offer various other financing arrangements through subsidiaries or affiliates. These include instalment credit, leasing, factoring and invoice discounting and 'mezzanine' finance. Branches of foreign banks in the UK will frequently arrange suitable finance for businesses from their own countries wishing to trade in the UK.

3.2.2 Stock Exchanges and Trade Facilities

The London Stock Exchange provides a market for shares and other securities issued by public companies. Admission to trading on the London Stock Exchange would normally be expected to make a company more attractive to private and institutional investors, and thus make it easier to raise new capital. A listed company has to satisfy the extensive rules established by the London Stock Exchange and UK Listing Authority which is independent from the London Stock Exchange.

Finance and Investment

Within the main market, the London Stock Exchange has established techMARK for innovative technology companies. For growing and fledgling companies the London Stock Exchange has established The Alternative Investment Market (AIM) which offers the benefit of potentially improved marketability of shares but with a more flexible regulatory environment. AIM has been a fantastic success story and has attracted over 2,500 companies to it since it was set up 10 years ago. There are currently just over 1600 companies active on AIM at present and an increasing number of new listings are by foreign companies from Europe, India and China.

In addition, the PLUS market (previously known as OFEX) provides a share-trading platform for companies and is often used by smaller and start-up companies to raise finance.

3.3 INVESTMENT INCENTIVES

3.3.1 Enterprise Investment Scheme

The Enterprise Investment Scheme (EIS) is a government scheme designed to encourage UK resident individuals, through tax incentives, to invest in entrepreneurial unquoted companies. To be eligible for the EIS the company must be incorporated and reside for tax purposes in the UK and it must carry on a qualifying trade, largely within the UK.

Individual investors subscribing for not more than 30% of a qualifying company get tax relief at 20% on up to £150,000 per annum invested. EIS also provides a means of deferring capital gains. EIS is not available for companies with a Stock Exchange Listing but may be available for AIM or OFEX.

3.3.2 Venture Capital Trusts (VCTs)

A Venture Capital Trust (VCT) is a fully listed company, similar to a quoted investment trusts, which is approved by the Inland Revenue and whose investments must, after three years be at least 70% in qualifying unquoted trading companies. In this way, investors in VCTs can gain access indirectly to a professionally managed portfolio of unquoted investments – which for this purpose can achieve shares in qualifying AIM companies.

3.3.3 Debt Finance

Oddly enough, it is not a Criminal Act to bounce a cheque in the UK, as it is in say France and therefore historically the Debt Finance market has been very sophisticated in the UK and follows closely the trends that exist in the US. Most of the criticism of Financial Institutions in this country is based on the fact that they encourage us to borrow; they make it too easy. Indeed banks in this country can lend under a Government backed scheme called The Small Firms Loan Guarantee Scheme providing up to £250,000 of borrowing, which in default is 75% guaranteed by the Government.

Finance and Investment

The UK offers an attractive package of grants and incentives to encourage industrial development and foreign owned companies are entitled to the same benefits as UK companies. We have a list of the most popular grants available to Companies on the Wingrave Yeats website. These grants are sometimes based on Location and also based on the type of business you run.

3.4 RESEARCH AND DEVELOPMENT SUPPORT

Known as Smart the scheme provides grants to small and medium sized enterprises for feasibility studies into innovative technology and development up to pre-production prototype stage of new products and processes. Financial support is also available for research programmes through initiatives such as a Link, Eureka and the EC Fourth Framework Programme.

3.5 THE LAW AND MONEY LAUNDERING

It is an offence to;

- Provide assistance to a money launderer to obtain, conceal, retain, remove from the UK or invest fund.
- To inform the person that they are under suspicion of money laundering and that a report has been made.
- For a person who knows or suspects that another is engaged in money laundering not to report such knowledge or suspicion as soon as practical.

Financial institutions and professionals, who may assist you in setting up in the UK, will be required to verify your identity and background and to monitor your business in the light of this legislation.

3.6 INWARD INVESTMENT

The EU's customs rules apply uniformly to all goods imported into its territory. However, the rules regarding importation are very complex and change frequently. Intending investors considering setting up in the EU must therefore ensure that the real cost of importing is well researched prior to finalising their plans.

4.1 INTRODUCTION

There has been significant change in the UK's insolvency laws on the formal winding up of corporate and personal affairs as contained in the Insolvency Act 2000 and the Enterprise Act 2002. Nowadays in the UK it seems very easy to declare "bankruptcy" as an individual or a company and then to set up the next day and carry on trading again. There is no longer a stigma attached to doing so.

Where companies or individuals are placed into a formal insolvency procedure, in most cases, their affairs are dealt with either by an Insolvency Practitioner ("IP"), who is an individual licensed by a regulatory body, or, in certain instances, the Official Receiver, who is a representative of the Department of Trade and Industry.

4.1.1 Corporate Procedures

The main features of the corporate insolvency procedures most commonly used in the UK are:

4.1.2 Administration

Administration is often used as a means of restructuring an insolvent business, assisted by the court's protection from creditors where the primary objection of an administration is to rescue the company as a going concern. What this means is the creditors can no longer take action against the company without permission from the court. The administrator takes over control of the company from the directors and has the power to carry on trading and, if necessary, to remove the directors from office. Usually the company ends up being returned to the control of the directors or if things have not gone well it will end up as CVA, Liquidation or dissolution.

4.1.3 Company Voluntary Arrangement ("CVA")

CVA's are being used more and more frequently and we as a firm have managed two in the last year. It is a procedure whereby the directors can propose that its debts be reorganised, resulting in deferred or reduced debt repayments to its creditors. The procedure is flexible and will depend on what is agreed between the shareholders and the creditors.

4.1.4 Bankruptcy

Bankruptcy petitions are really quite common now in the UK and people don't seem to mind going through it to get rid of all their personal debts. I believe it is quite different over here in continental Europe. A petition may be made by a creditor or by the individual and the bankruptcy proceedings will start after a bankruptcy order has been made against the individual by the court. There are certain restrictions placed on the bankrupt including a limit on obtaining credit or acting as company director without the courts consent.

However the bankrupt will usually be discharged automatically within one year or earlier, if the official receiver believes there is no reason to keep the case open.

Employment Regulations and Social Security Contributions



5.1 WORK PERMITS

This is a topical subject in the UK at the moment, given the number of migrant workers who are now entering the UK. Recent figures indicate that about 600,000 people have come to work in the UK from eight nations which joined the European Union in 2004. This has caused a great deal of resentment but on the other hand this new pool of efficient and cheap labour has been a great benefit to the UK economy.

The following do not need work permits:

- Nationals of EEA (European Economic Area) countries (the EEA comprises all current EU member states)
- People born in Gibraltar
- Commonwealth citizens who were allowed to enter or to remain in the UK on the basis that a grandparent was born here
- Husbands, wives and dependent children under 18 of people who hold work permits.

5.2 ENGAGEMENT AND DISMISSAL OF EMPLOYEES

As I am sure you will know, the labour laws are very flexible in this country and tend to favour the employer, when compared to other EU countries such as France.

No employee may be taken on without a contract of employment but this may take the form of a simple letter.

Subject to some exceptions an employee's contract of employment may be terminated for any reason within the first year. However, after one year, termination without good reason and without following at least the statutory minimum disciplinary procedures may result in a claim by the employee for unfair dismissal and loss of earnings for a reasonable period of time, but which is normally capped at a maximum of £58,600.

5.3 TRADE UNIONS

Post Margaret Thatcher, the powers of the Trade Unions in the UK has been very much reduced. There is no legal requirement for employers to recognise any trade union unless a majority of the work force voting in a ballot vote in favour.

- Agreements between employers and trade unions over pay and conditions are not binding by law between them
- Unions cannot take industrial without first securing a majority vote in a secret ballot of their members
- There is no legal requirement for employees to be represented on the board of directors of companies

6.1 COMPANIES

6.1.1 Scope

Companies that are incorporated under UK law, and other companies which are managed and controlled from the UK, are liable to corporation tax on their worldwide profits.

Companies not incorporated under UK law, and not managed and controlled from the UK, are liable to corporation tax on any trading profits that they derive from a UK branch or agency. Where there is a double tax treaty between the UK and the country in which such a company is based then its terms may modify the extent to which the company is liable to corporation tax. Foreign companies are also liable to UK tax on other sources of income derived from the UK, subject again to the terms of any relevant double tax treaty.

6.1.2 Taxable Profits

Corporation tax is charged on a company's income and capital gains for each of its accounting periods. Special rules apply where such accounts cover a period of more than 12 months. Dividends received from other UK companies are generally exempt from corporation tax. Dividends received from non UK companies are liable to UK corporation tax.

The principle part of a trading company's corporation tax computation is the adjustment of its profits for tax purposes. The starting point is the company's profit before tax as shown by the statutory accounts. Disallowable expenses (such as depreciation and entertaining) are then added back and capital allowances (tax depreciation of fixed assets) are deducted instead. Capital receipts and expenses are generally excluded.

The general rule for deductible expenses is that they must be 'wholly and exclusively' incurred for the purpose of trade. There are also specific rules disallowing entertaining expenses (except those relating to staff), improvements to premises (as opposed to repair) and general bad debt provisions (as opposed to provisions for specific debts).

Special reliefs, or tax repayments for certain loss making companies, are available in respect of revenue expenditure on research and development. Companies are also liable to corporation tax on their capital gains. Generally these are computed as the excess of the proceeds of sale of an asset over its original cost, but for assets acquired prior to 31 March 1982 the market value of the asset at that date may be substituted if it produces a smaller gain. There is an 'indexation relief' to ensure that tax is levied only on real gains and not on any proportion that is attributed to inflation. Gains or losses on the disposal of substantial shareholdings in trading companies (10% or more) are exempt where certain conditions are satisfied.

6.1.3 Capital Allowances

Capital allowances are deductible from trading profits as a replacement for the depreciation charged in statutory accounts. The assets on which these allowances can be claimed are industrial and farm buildings, hotels and plant and machinery as well as intangibles such as know how. The rates of allowance vary from 4% to 100%. The Capital Allowance Rules will change from April 2008 and will generally restrict the amount of the allowances that may be claimed.

6.1.4 Calculation of Liability

Corporation tax rates are specified for 'financial years', commencing on 1 April. The Financial year 2007, for example, will run from 1 April 2007 to 31 March 2008. If an accounting period ends on some other date, chargeable profits are time-apportioned to financial years. There are different rates of corporation tax depending on the level of profit. A reduced rate of 19% (applied until 31st March 2007) applies if profits for a year do not exceed £300,000. This increased to 20% from April 2007 and will increase to 21% from April 2008 and to 22% from April 2009. The full rate of 30%, soon to be reduced to 28% (from April 2008) applies if profits exceed £1,500,000. If profits fall between the lower and higher and lower limits a sliding scale formula is used which results in a marginal rate of 32.5% in the financial year 2007.

The higher and lower limits are reduced if the company has 'associates' i.e. if there are any other companies anywhere in the world under the same control. If, for example, a company has a parent company and two fellow subsidiaries, the limit must be divided by four, being the total number of companies in the group.

6.1.5 Due dates for payment

Except for large companies, corporation tax is payable nine months after the end of the accounting period. For companies which make profits in excess of £1.5m per annum (divided by the number of associates), corporation tax is payable by quarterly instalments, commencing in the middle of the seventh month of the company's accounting year. The tax payable is based on the estimated taxable profit for one year.

6.1.6 Relief for losses

Trading losses may be offset against other sources of income in that period or in the preceding accounting period or carried forward indefinitely against future trading income.

6.1.7 Administration of taxes

A system of self-assessment operates. Taxpayers are responsible for calculating their own tax liability. Interest is payable or receivable on any under/overpayments of tax subsequently agreed. A corporation tax return is required from companies in respect of each accounting period. A penalty is levied for late filing of returns.

6.2 INDIVIDUALS

6.2.1 Overview

Individuals who are resident and domiciled in the UK are subject to UK tax on the aggregate of their worldwide income and capital gains. Individuals are taxed at source at basic and higher rates on their employment income and benefits after allowances. The highest marginal rate of tax is 40%. Individuals are taxed at various rates. The thresholds, tax rates and allowances are set out in our Tax Guides which we can supply you with.

On death, inheritance tax is payable on the value of the deceased's assets at 40% of the value in excess of £300,000. Gifts in the seven years prior to death are taxed at rates from 8% to 40%. The UK does not have a wealth tax.

6.2.2 Sole Traders

The self-employed are liable to income tax on their profits as adjusted for tax purposes. Interest on loans to provide capital for the business is an allowable deduction.

The UK fiscal year runs from 6 April to 5 April but an individual may draw up his accounts for a year ended on any date. The accounts of the business for the year ended on or prior to 5 April form the basis of assessment for the fiscal year. There are special rules for commencement and cessation and changes in accounting date, giving rise to some scope for tax planning.

6.2.3 Partnerships

Partnerships and Limited Liability Partnerships are taxed in the same way as the self-employed, so that the individual partners are taxed on their share of the profits as adjusted for tax purposes, regardless of course of whether those profits are taken out of the business or not. A partner is not liable for the unpaid tax of another partner.

A partnership controlled and managed in the UK is liable to income tax on both its UK and overseas profits. This includes any profits due to partners not resident in the UK. In practice however, H M Revenue & Customs will not assess a non-resident's share of overseas profits. A partnership managed and controlled abroad which carries on part of its business in the UK through a branch or agency will be subject to income tax on the profits of the branch. The branch will be taxed as a non-resident carrying on a trade in the UK even though some of the partners may be resident in the UK.

6.2.4 Taxation of Employees

Employees resident in the UK are subject to income tax and social security contributions on all earnings and most benefits provided by an employer. Benefits include cars, accommodation, cheap loans and health care insurance.

6.2.5 PAYE

Income tax and social security contributions are deducted at source by the employer under the PAYE (pay as you earn) system. It is the employer's responsibility to ensure that the PAYE system is operated correctly and, particularly, to distinguish between those who are employed and those who claim to be self-employed. Employers are subject to regular inspections by HM Revenue & Customs, and failure to operate properly the rules governing PAYE can lead to penalties and having interest on unpaid tax.

6.2.6 Taxation of Savings Income

Savings income from sources such as shares and cash deposits are added to the individual's other income and are normally taxed at the rates set out in Appendix 5. There are some exceptions to this general rule.

Interest on bank and building society accounts, etc is taxed at 20% if it would otherwise fall into the basic rate band. Generally tax at 20% is deducted at source. Dividends are taxed at 10% if they would otherwise fall into the lower or basic rate bands. Generally tax at 10% is treated as having been deducted at source from UK dividends. Tax at 32.5% is due on gross dividends where the dividend falls into the higher rate band, with relief available for the 10% tax treated as deducted at source (the tax credit). This gives a tax liability equivalent to 25% of the net dividend for a higher rate tax payer. The deemed 10% tax credit generally cannot be repaid if the actual tax liability is lower.

6.2.7 Income from Land and Property

The net income from these sources is added to the individual's other income and taxed according to the rates and thresholds set out at Appendix 5. Interest on loans relating to land or property that is let may be deducted for tax purposes. Rent which is paid to an overseas resident is subject to a withholding tax of 22%. The withholding tax can be avoided if the overseas resident registers with the UK tax authorities.

6.2.8 Capital Gains

With some minor exceptions, tax is payable on all assets on which a gain is made. The gain is normally calculated by taking the cost plus indexation (using the retail price index) up to 5 April 1998 and comparing that with the sales proceeds. If the asset was held before 31 March 1982, the 31 March 1982 market value may be substituted for the cost. The resultant gain is then reduced by 'taper relief' which is calculated by reference to the number of complete years the asset has been owned after 6 April 1998. The relief is different for business and non-business assets. A maximum reduction for non-business assets is available at 40% if the asset is owned for 10 years. Non-business assets acquired prior to 17 March 1998 are treated for this purpose as having already been owned for one year. For business assets a maximum reduction of 75% is available if the asset is owned for 2 years. Assets qualifying as business assets include:

- All shareholdings in unquoted trading companies (including those traded on AIM)
- All shareholdings held by employees in quoted trading companies
- Shareholdings in quoted trading companies where the holder is not an employee but can exercise at least 5% of the voting rights

Capital gains are taxed to the extent that they exceed an annual exempt amount. Gains are usually taxed using income tax rates, treating the gain as the top slice of income.

6.2.9 Inheritance Tax

Inheritance tax is payable on death by the deceased's personal representatives on the net value of the deceased's assets and liabilities at the date of death. Gifts within seven years of death are included in whole or in part in the deceased's estate for inheritance tax purposes. Transfers between spouses are exempt although a restriction applies where the donor spouse is UK domiciled but the donee spouse is not. Some business assets qualify for exemption in whole or in part. The rate of tax and level of exemption for small estates are set out in Appendix 5.

6.2.10 Administration

The UK operates a system of self-assessment for tax on income and capital gains. A tax return for the year ended 5 April must be filed annually normally by 31 January in the following year, together with a payment of the balance of any tax due for the relevant year. For income not taxed under the PAYE system, payments on account of the liability for the relevant year are due as to 50% on 31 January in the relevant year and 50% six months later. Payments on account are calculated by reference to the liability for the previous year.

6.3 EXPATRIATES

6.3.1 Scope of UK Taxation

Domicile

Most people who come to the UK for employment will be in a position to claim that they are 'domiciled' outside the UK. Domicile is a concept in Anglo-Saxon law meaning, broadly, one's natural home country, the country to which, if absent, one intends eventually to return. It is also the country in which you wish to be buried.

Living as a foreign domiciliary in the UK can bring significant tax advantages. In particular, investment income and capital gains arising outside the UK are not taxed in the UK if the funds concerned are not 'remitted' to the UK, meaning that they are not brought into or otherwise enjoyed in the UK. Foreign domicile status should not however be taken for granted. A claim must be made to HM Revenue & Customs and they have the right to challenge it. In practice, they will usually accept that a person who comes to the UK solely for employment purposes has retained a foreign domicile, provided an actual intention to return to the country of origin is retained.

Residence

Unless their visit to the UK is very short, people who come to the UK for employment purposes will generally be treated as resident in the UK in a tax context. Residence is an entirely different concept from domicile.

If they intend to stay for less than three years they can generally claim that they are resident but not ordinarily resident in the UK. The chief significance of this is that if their work is partly in the UK and partly overseas then they will not be taxed in the UK on the part of their salary which relates to overseas work, if that part is paid to them abroad and is not brought into the UK.

Longer term employment in the UK will result in ordinarily resident status from arrival. On this basis the whole of the salary is taxed even though part of it may be earned outside the UK. For those who can claim a foreign domicile there may be scope for having two separate contracts of employment, for respectively their UK and foreign duties.

A person who is not domiciled in the UK and who is employed by a company which is not resident in the UK or the Republic of Ireland for duties which are performed entirely outside the UK is not taxed on the salary there from provided it is not brought into the UK. The current rates of income tax and personal allowances are listed in Appendix 5.

6.3.2 Social Security Contributions

The UK has reciprocal social security agreements with many countries under which employees may continue to pay the home country contributions for a specific period of time. The agreements also provide for protection of benefits.

Under European Union regulations a resident of member state 'A' who is posted by their employer to member state 'B' is liable to pay contributions to the member state 'B' in the period that they are working provided the assignment is for a period of at least 12 months. Employees who have assignments of less than 12 months continue to pay home country contributions. In some circumstances it is possible to extend the 12 months and continue to pay contributions in the home country (member state 'A').

6.4 Indirect Taxes

There are a significant number of indirect taxes in the UK, many of them imposed for political as much as for economic purposes (for example Excise Duty, Landfill Tax, Aggregates Levy and Climate Change Levy- the list is endless). The most important of these is VAT.

6.4.1 Value Added Tax

In common with other states of the EU, the UK imposes value added tax (VAT) on the consumption of goods and services. In general terms businesses do not themselves suffer VAT, as it is a tax payable by the ultimate consumer, the man in the street, but businesses are responsible for the administration and collection of tax. Businesses with an annual sales turnover in excess of the registration limit, currently £64,000, are required to register with HM Revenue & Customs. In general terms they must then add VAT to the price they charge for their goods and services, and periodically pay over to HM Revenue & Customs the VAT they have charged. In doing so they may deduct the VAT with which they have themselves been charged on their purchases of goods and services.

Businesses making only zero-rated supplies will therefore be in a position to obtain periodic refunds from HM Revenue & Customs. The VAT compliance regulations are strict and penalties are imposed for the late submission of periodic returns and for errors in returns.

6.5 OTHER TAXES

6.5.1 Stamp Duty

Stamp duty has now become a very significant tax due to the massive increases in UK house prices. It is payable by UK or foreign purchasers of real estate and shares in UK incorporated companies. The rate of duty on shares is 0.5% of the consideration. On real estate a scale of 1% to 4% applies, with the top rate levied on sales for a consideration of more than £500,000.

6.5.2 Local Taxes

There are no local taxes levied on company profits. However, local authorities levy a tax, known as the uniform business rate, on the occupiers of commercial property. The amount paid depends upon the annual rental value of the property which takes into account its location and size.

Individuals pay local taxes by reference to the market value of houses which they occupy as owners or lessees. The tax is typically between £500 and £2,000 per year.

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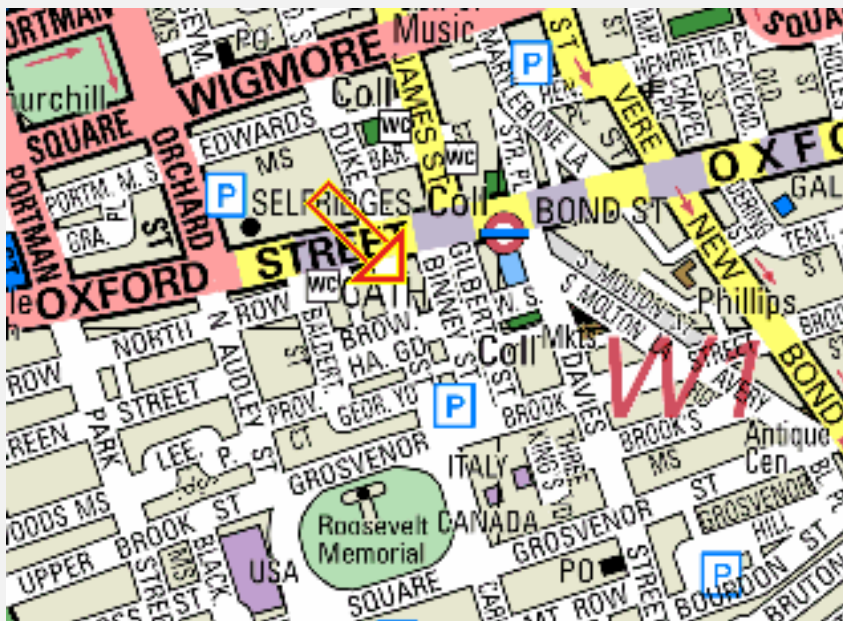
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