



think success

## **DOING BUSINESS IN THE UNITED KINGDOM**

### ***foreword***

This booklet is designed to give some general information to those contemplating doing business in the United Kingdom (UK) and is not intended to be a comprehensive document.

You should therefore consult us before taking further action. Vantis plc 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 June 2008.

Vantis

### ***Contents***

<b>FOREWORD</b>	<b>Page</b>
<b>1. General Information</b>	<b>2</b>
<b>2. Economic Arrangements</b>	<b>3</b>
<b>3. Investment Factors</b>	<b>4</b>
<b>4. Types of Business Organisations</b>	<b>10</b>
<b>5. Accounts and Audits</b>	<b>15</b>
<b>6. Taxation</b>	<b>17</b>
<b>7. Vantis Contacts</b>	<b>26</b>

## ***1. General Information***

Situated in Northern Europe, the United Kingdom of Great Britain and Northern Ireland (UK) 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 UK 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 UK 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.

## ***2. Economic Arrangements***

### **The Commonwealth, British Colonies & Protectorates**

There are still many links between the UK 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 UK membership of the European Union

### **The European Union (EU)**

The UK is a member of the EU, the other current member states being Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, the Republic of Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, The Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain and Sweden

### **The UK – at a glance**

<b>Area:</b>	94,526 sq m (244,820 sq km)
<b>Capital:</b>	London
<b>Population:</b>	60,587,300 (estimate)
<b>Currency:</b>	Pound (£)
<b>Language:</b>	English
<b>Time:</b>	Late October – March: GMT Late March – October: GMT+1
<b>Climate:</b>	Temperate
<b>Business hours:</b>	Banks (some branches are open longer) 9.30 – 3.30 pm Monday – Friday Government offices variable Monday – Friday Commercial offices 9am – 6pm
<b>Dialling-in code:</b>	(Country) +44

### ***3. Investment Factors***

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

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

Investors from overseas can establish or acquire UK enterprises, buy securities, or land without special license or permission subject only to normal compliance with relevant UK 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 UK 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 larger businesses to team up with others 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 organizations 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).

▪ **UK Trade and Investment (UKTI)**

UKTI is the Government Organisation that supports:

- i. UK companies trading internationally; and
- ii. Overseas enterprises seeking to locate in the UK

▪ **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 UK 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, 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 UK include Business Eye in Wales; Highlands and Islands Enterprise–Scotland; Business Gateway and Invest Northern Ireland.

#### **REGIONAL AID FROM THE EUROPEAN UNION (EU)**

The European Union (EU) is a political and economic union of twenty-seven member states. With almost 500 million citizens, the EU combined generates an estimated 30% share of the world's nominal gross domestic product.

Grants and loans are available from EU agencies including:

- **The Structural Funds 2007-2013**

A range of programmes are available dependent upon the scope of the project, the scale of ambition and the market drivers it addresses. For example, the European Commission's Framework Programme 7 has typical budgets of €1

million – €5 million for research and development projects and uses two main funding models:

- i. Providing funds for external research and development providers to carryout work for companies with little or no in-house capability; and
- ii. Providing funds for companies to offset the costs of their own research and development team.

▪ **European Investment Bank (“EIB”)**

The EIB is the EU’s financing institution. EIB loans can finance up to 50% of the total cost of a project. As a non-profit-motivated institution, the bank passes on benefits in the form of loans at fine rates.

Vantis can work with you to assist you through the funding process, often working with a specialist partner.

**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**

A package for funding can be tailored by Private Equity organizations to provide development capital, funding for organizations, management buy-outs and buy-ins and sometimes equity release transactions. Most venture capitalists are keen to support established businesses but in exceptional circumstances, some will back start-up and early stage companies.

**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 a flotation on the Official List (The main London Market) is normally suitable only for established companies. This requires the support of a sponsor, often a merchant/investment bank, and the publication of detailed information supporting the proposed issue.

Other stock markets include the AIM Market (AIM) which is regulated by the London Stock Exchange, and PLUS Markets (PMG) which is an independent UK provider of primary and secondary equity market services. AIM provides a share-trading facility for both established and young owner-managed businesses and PMG specialises in smaller companies, domestic and international, representing a wide range of sectors and all stages of development.

Once listed, the options for raising further funds are:

**i. Placing of Shares**

An offer to institutions such as banks, insurance companies, etc

**ii. Rights Issue**

An offer to the company's existing shareholders

**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.

i. **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 UK Investors.

**Acquisitions and Takeover Bids**

When contemplating a major acquisition or takeover of listed companies and unlisted plcs 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 not normally applicable to 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 UK nationals.

Foreign companies setting up operations in the UK and UK 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 UK. Social Security contributions are also payable and these are dealt with in the **Taxation** section (page 17).

**The Financial Services and Markets Act 2000**

The scope of the Financial Services and Markets Act 2000 is very broad and companies contemplating conducting investment business in the UK whether as their main business or not might be required to register under the Act and should be professionally advised. The Act outlines the regulatory objectives of the FSA and requires firms to be authorised to conduct regulated activities.

#### ***4. Types of Business Organisations***

##### **PRINCIPAL FORMS OF BUSINESS**

Businesses may be set up in the following forms:

- Limited and Unlimited companies
- UK branch of an overseas company
- Partnership including limited liability partnership
- Sole trader

##### **LIMITED AND UNLIMITED COMPANIES**

There are two types of limited companies, Private and Public. Private companies do not invite the public to subscribe for shares. On the other hand, Public limited companies may invite the public to subscribe for shares and can apply to be listed on the Stock Exchange.

The main requirements of a limited company in the UK 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**

Private companies need only have one shareholder. All public companies must have at least two shareholders. There are no nationality or residence requirements

iii. **Company Name**

A private company name must end with the word 'Limited' or 'Ltd' unless specifically exempt. 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. 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 public 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.

\*Private companies need not have a company secretary from 6 April 2008.

vi. **Labour**

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

vii. **Disclosure**

For all limited companies an annual return of company information and annual accounts must be filed with the Registrar of Companies. This information is available to the general public.

For a private company the accounts must be filed within nine months of the company's financial year end and for a public company within six months.

The annual accounts must show a true and fair view of the company's state of affairs and result for the year and comply with the requirements of the Companies Act 2006. Certain smaller private limited companies have the option to file abbreviated accounts, although they must still prepare full statutory accounts for the shareholders.

All companies have the option to prepare their annual accounts in accordance with either UK accounting standards (UKGAAP) or international accounting standards as adopted by the European Union (IAS). Listed groups must prepare their consolidated accounts in accordance with IAS however they still have the option to prepare the parent company's own accounts in accordance with UK GAAP or IAS.

An independent auditor must generally be appointed. Certain smaller private limited companies have the option to take exemption from the audit requirement.

These issues are detailed in the next section

viii. **Types of Shares**

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

Some private limited companies do not have invested share capital however the members guarantee a nominal amount in the event the company is wound up. Such companies are typically used in charitable and "not for profit" situations.

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**

A company with standard memorandum and articles of association (its governing document) can be purchased 'off the shelf' without delay.

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

xi. **Distributions**

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

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

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.

### **UK BRANCH OF AN OVERSEAS COMPANY**

In some cases an overseas company may organise its UK 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 2006 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. Where the parent law requires publication of accounts a copy of those accounts must be submitted within three months of public disclosure. Where parent law does not require publication of accounts, the branch must submit accounts drawn up as if the company were a UK limited company within thirteen months of the end of the accounting period. The accounts must relate to the company as a whole, it is not sufficient to submit the accounts of the UK branch only.
- vi. An overseas company is required to display in each place of business in the UK 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.

### **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 (jointly and severally) for debts and obligations incurred in the name of the partnership.
- ii. Accounts do not have to be filed with the Registrar of Companies or any other public record
- iii. There is no external audit requirement.
- 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 (LLP) 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 2006 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 memorandum and articles of association 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.

### ***5. Accounts and Audits***

Every company is required to prepare and submit to the Registrar of Companies annual accounts in accordance with the provisions of the Companies Act 2006 and generally the accounts must be subject to external statutory audit unless the company is exempt from the audit requirement. These rules also apply to LLPs and branches of overseas companies.

Certain small companies may prepare accounts which have simplified disclosure and may file abbreviated accounts with the Registrar of Companies which consist solely of a balance sheet and only a few other disclosures.

To qualify as small, a company must not be ineligible (see below) and must satisfy at least two of the following three conditions in the current and preceding financial period (unless it is the first period of trading):

- annual turnover of not more than £6.5 million;
- balance sheet total (gross assets) of not more than £3.26 million; and
- average number of employees not more than 50.

A company is ineligible if, at any time during the financial period:

- it was a public company;
- it was an authorised insurance company, a banking company, an e-money issuer, an ISD investment firm or a UCITS management company;
- it carried on an insurance market activity; or
- it was a member of an ineligible group.

A group is ineligible if any of its members is:

- a UK public company;
- a company or body corporate whose shares are admitted to trading on a regulated market in an EEA State
- a person (other than a small company) who has permission under Part 4 of the Financial Services and Markets Act 2000 to carry on a regulated activity;

- a small company that is an authorised insurance company, a banking company, an e-money issuer, an ISD investment firm or a UCITS management company; or
- a person who carries on insurance market activity.

Audits in the UK are carried out in accordance with International Standards on Auditing (UK & Ireland) which are issued by the UK Auditing Practices Board and are based on the International Standards on Auditing issued by the International Federation of Accountants (IFAC).

A company may take exemption from the statutory audit in the current financial year if all of the following criteria are satisfied:

- the company qualifies as small (see above);
- annual turnover is not more than £6.5 million (or £500,000 for a charitable company); and
- balance sheet total (gross assets) is not more than £3.26 million (or £2.8million for a charitable company).

However the exemption is not available if the company was at any time during the period:

- an ineligible company (see above); or
- a parent or subsidiary company (unless the entire worldwide group was a small group, had a consolidated annual turnover of not more than £6.5 million, had consolidated gross assets of not more than £3.26 million and no member of the group was an ineligible company).

If all of the above requirements are satisfied, shareholders of at least 10% of the nominal value of any class of the issued share capital may still formally request an audit.

A charitable company which is audit exempt will however require a report from an accountant confirming that the accounts are in agreement with the accounting records and are drawn up in a manner consistent with the provisions of the relevant legislation. Such a report is not an audit report and no opinion is expressed on whether the accounts show a true and fair view.

## **6. Taxation**

### **TAX SYSTEM**

HM Revenue & Customs (HMRC) is responsible for the principal direct taxes which are:

- i. Corporation tax
- ii. Income tax
- iii. Capital Gains tax

They are also responsible for the main indirect taxes, Value Added Tax (VAT) and Customs and Excise Duty.

The fiscal year for individuals runs 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, usually by the end of July. The material in this booklet is based on legislation current at June 2008.

### **CORPORATION TAX – COMPANIES**

#### **Residence**

A company is UK resident if:

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

#### **Profits**

Corporation tax is chargeable on the worldwide profits of UK resident companies (subject to a credit for foreign tax paid – see below). Profits include income and capital gains, but not dividends (or other distributions) received from other UK 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 2008 (1 April 2008 to 31 March 2009) are as follows:

	£	Effective rate of tax
<b>First</b>	300,000	21%
<b>Marginal Rate</b>	300,000 to 1,500,000	29.75%
<b>Remainder, i.e. over</b>	1,500,000	28%

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

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. In such circumstances, the above limits are divided by the number of non-dormant, worldwide, associated companies and allocated equally to each company for UK corporation tax purposes.

**Corporation tax payment dates**

- Small companies – payable annually, nine months after the end of the accounting period
- Larger companies – quarterly payments on account, based on estimated profits, first payment (normally) due six months and 14 days into the accounting period

Large companies are typically those with taxable profits over £1.5m (divided by the number of worldwide associated companies).

**Corporation tax return filing dates**

- Within one year from the end of the accounting period end
- Accounts filing at Companies House is due earlier at 10 months from the end of the accounting period for private companies
- Penalties will be charged for late filing

**DIVIDENDS**

The UK operates a partial imputation system.

Companies pay tax on profits before dividends but pay dividends without deducting withholding tax.

**GROUPS**

Under UK legislation, trading losses can normally be set against profits within a UK group, which is defined as all UK resident subsidiaries that are at least 75%

owned by a single company (the parent company does not have to be UK resident).

### **FOREIGN TAX**

Credit is generally available for foreign taxes suffered against UK corporation tax charged on that particular foreign income, but there are certain restrictions.

### **CORPORATION TAX – BRANCHES OF NON-RESIDENT COMPANIES**

#### **Profits**

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

Overseas companies that establish a management or service centre in the UK are likely to be considered to be trading through a UK branch or agency. If services are provided without charge to other branches of the company or to other group companies, HMRC may seek to charge corporation tax on a notional arm's length charge.

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

#### **Rates**

The full rate of corporation tax applies on the trading profits arising from the UK 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.

### **TRANSFER PRICING**

Due to the UK transfer pricing rules it is not generally possible to reduce profits liable to UK tax significantly by applying transfer pricing arrangements that artificially reduce prices charged to foreign affiliates or artificially increase the charges by foreign affiliates.

The main points to note are:

- A UK entity in a worldwide group of companies under common control may be required to substitute arm's length charges for tax purposes for services provided/goods supplied where to do so would increase profits or reduce losses subject to UK tax
- Documentary proof of arm's length pricing is required
- Contemporaneous documentary is required for groups with worldwide employees of less than 250 and those with more than 250 employees where either the turnover less than €50m or the balance sheet more than €43m.

### **UK HOLDING COMPANIES**

The UK can be an attractive location for a holding company including the fact that it:

- May dispose of a trading subsidiary(>10% ownership) without charge to corporation tax under the substantial shareholding relief

### **RESEARCH AND DEVELOPMENT (R&D) TAX CREDIT**

Where a small or medium sized enterprise (SME) company satisfies certain qualifying conditions, it can make a claim to uplift its qualifying expenditure on R&D by 75% for tax purposes. In addition, loss making SME's can claim a payment of tax equivalent to 24% of their qualifying expenditure (although this is restricted to their total Pay as You Earn (PAYE) and National Insurance Contributions (NIC) costs payable in the year). This can therefore result in a significant cash flow benefit, particularly in the start-up phase or early years of the business.

Large companies qualify for an uplift of 130% on qualifying R&D expenditure.

## **INCOME TAX - INDIVIDUALS**

### **Residence**

The liability of individuals to UK 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 UK.

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.

Non-UK domiciled individuals have to claim the remittance basis; the alternative is to be taxed on worldwide income and gains. For any individual who has been tax resident in the UK for seven out of the past nine years who wishes, in any tax year, to claim the remittance basis, a £30,000 "annual charge" will be levied. This effectively means that a non-domiciled individual resident in the UK since 2001/02 will have to pay the £30,000 charge if he wishes to claim the remittance basis from 6 April 2008. Only those having less than £2,000 of overseas income and gains can enjoy the remittance basis and not pay the charge. If the claim is not made, the individual will be taxed on worldwide income and gains at the time they arise, and so will need to be sure that adequate records of income and gains made overseas are maintained. If the claim is made, the individual will not be entitled to personal allowances (see below).

Individuals have a choice each year as to whether to pay the charge and claim the remittance basis, or be taxed on a worldwide arising basis. However, if an individual remits funds to the UK which have arisen in a previous year for which the remittance basis applied, in a year in which he has not claimed the remittance basis, he will still be taxed on the remitted funds.

### **Taxable Income**

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

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

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 a deduction from employment income.

**Allowances**

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

	2008/9
Personal allowance	<b>£5,435</b>

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 UK runs from 6 April to the following 5 April. For the tax year 2008/09 (6 April 2008 - 5 April 2009) the rates of income tax on an individual's personal income after personal allowances will generally be as follows:

Taxable Income	Rate of tax
£0 – £36,000	<b>20%</b>
Over £36,000	<b>40%</b>

**Foreign Tax**

Credit for overseas tax paid by UK 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 UK tax payable if this amounts to less than the overseas tax.

**CAPITAL GAINS**

**Companies**

Capital Gains made by a company are taxed in the same way as income and profits. In calculating the relevant gain, an allowance is made for inflation in the following way:

- i. In the case of an asset owned on 31 March 1982, the cost price is assumed to be the market value on that date and an allowance is made

for inflation between 31 March 1982 and the date of sale, by reference to that value.

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

### **Individuals**

In the case of a gain made by an individual, tax will be charged at the standard rate of 18% on the gain. If the asset was held at 31 March 1982, the value at that date is used to calculate the gain. If the asset was acquired post 31 March 1982, cost is used to calculate the gain. In the case of a gain on a business asset, "entrepreneurs' relief" can result in an effective tax charge of 10%. In this context a business asset is an interest in a trading activity (sole trader or partner) or a holding of shares in an unquoted trading company where the individual is an officer or employee and has at least 5% of the equity and the voting rights.

### **Exemption**

Individuals are entitled to an annual exemption of £9,600 for 2008/09, i.e. the first £9,600 of gains are exempt from tax. Husbands and wives are assessed independently and each is entitled to the annual exemption.

### **WITHHOLDING TAX**

Withholding tax is a tax imposed on certain payments which is withheld at source to ensure the tax is paid. The UK imposes the following withholding tax charges:

- 20% on interest to a non-resident
- 20% on royalty to a non-resident
- 20% on rental to a non-resident landlord
- Double Tax Treaty may provide for exemption from withholding tax or a reduced tax below the UK basic rate (refer to specific country agreement).

### **OTHER PRINCIPAL TAXES**

#### **Value Added Tax (VAT)**

VAT is a turnover tax that applies to most supplies of goods and services made in the UK by a taxable person (i.e. a person who is registered), to most imports of goods into the UK from outside the EU and to the acquisition of goods from other EU countries.

Anyone carrying on a business with a taxable turnover of £67,000 (2008/09) or more is required to be registered as a taxable person. Penalties are levied for failing to register.

Whenever a taxable person supplies goods or services to which VAT applies, its price will reflect the VAT due. A credit may be taken for the VAT on goods and services supplied to such person. At the end of every VAT accounting period (usually quarterly) the net of the VAT payable (output tax) and reclaimable (input tax) is calculated and paid/repaid accordingly one month later.

#### **VAT rates**

- 17.5% on most goods and services made in the UK
- Most exports – 0%

#### **VAT accounting periods**

- VAT returns due every three months, larger companies may be monthly, smaller companies may be annual.

#### **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 £312,000 2008/09). Gifts within seven years before death are chargeable although reduced rates may apply to gifts made at least 3 years before death. Certain lifetime gifts attract a 20% charge (increased to 40% if the donor dies within seven years.)

#### **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, the type of transaction and the amount of the consideration.



**think success**

**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.

**Pay as You Earn System (PAYE)**

It should be noted that employers have to operate a PAYE 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 HMRC, usually on a quarterly basis.



think success

## 7. Vantis Contacts

**Vantis** Head Office – London City:  
+44 (0)20 7417 0417  
[inboundbusiness@vantisplc.com](mailto:inboundbusiness@vantisplc.com)  
[www.vantisplc.com](http://www.vantisplc.com)

London West End Office:  
+44(0)20 7467 4000

### Vantis' Inbound Business Team

Head of Vantis' Inbound Business Group      Stephen Braham  
[stephen.braham@vantisplc.com](mailto:stephen.braham@vantisplc.com)

### Services

Corporate Finance	Derrick Woolf <a href="mailto:derrick.woolf@vantisplc.com">derrick.woolf@vantisplc.com</a>
Corporate Tax	Fiona Cross <a href="mailto:fiona.cross@vantisplc.com">fiona.cross@vantisplc.com</a>
International Tax	Freddie Huxtable <a href="mailto:freddie.huxtable@vantisplc.com">freddie.huxtable@vantisplc.com</a>
Company Secretarial	Jeremy Rogers <a href="mailto:jeremy.rogers@vantisplc.com">jeremy.rogers@vantisplc.com</a>
China UK	Jingru Liu <a href="mailto:jingru.liu@vantisplc.com">jingru.liu@vantisplc.com</a>
Payroll	Margaret Lee-Barber <a href="mailto:margaret.lee-barber@vantisplc.com">margaret.lee-barber@vantisplc.com</a>
Public Companies	Mark Dowding <a href="mailto:mark.dowding@vantisplc.com">mark.dowding@vantisplc.com</a>
Asset Finance	Mark O'Neil <a href="mailto:mark.oneil@vantisplc.com">mark.oneil@vantisplc.com</a>
Financial Management	Mike Nevill <a href="mailto:mike.nevill@vantisplc.com">mike.nevill@vantisplc.com</a>
Outsource	Richard Messik <a href="mailto:richard.messik@vantisplc.com">richard.messik@vantisplc.com</a>
VAT	Vaughn Chown <a href="mailto:vaughn.chown@vantisplc.com">vaughn.chown@vantisplc.com</a>

Vantis Group Ltd, a Vantis plc group company, is regulated by the Institute of Chartered Accountants in England and Wales for a range of investment business activities. Vantis Corporate Finance Ltd and Vantis Financial Management Ltd, Vantis plc group companies, are authorised and regulated by the Financial Services Authority.