



Accountants &  
business advisers

# Doing business in the UK





We are one of the UK's leading firms of accountants and business advisers and specialise in advising the management of developing private and public businesses. We pride ourselves on creating and sustaining supportive relationships in which objective and timely advice enables our clients to thrive and develop.

Our clients benefit from an integrated approach based on understanding the key issues facing small and medium-sized businesses. This enables us to meet their needs at each stage of their development and allows them to focus on building the value of their businesses.

The main services we provide include: assurance and advisory; consultancy; corporate finance; corporate recovery and insolvency; forensic; and tax (see page 3 for further details). We also offer financial services through PKF Financial Planning Limited, which is authorised and regulated by the Financial Services Authority.

We have particular expertise in the following sectors:

- Charities
- Growing businesses
- Hotels
- Medical
- Professional partnerships
- Property and construction
- Public sector
- Technology.

We have more than 1,600 partners and staff operating from 25 offices around the UK. Wherever you do business, we can offer you local expertise backed up by the resources of a national firm.

The UK firm is a member of PKF International, a network of independent firms of accountants and business advisers with more than 440 offices in over 100 countries.

This booklet has been prepared as a general guide. It is not a substitute for professional advice, which would necessarily have to take account of particular circumstances. The information and opinions given are liable to change without notice. Neither PKF nor its partners or employees make any representation regarding the completeness or accuracy thereof, and they accept no responsibility for any loss or damage incurred as a result of any user acting or refraining from acting upon anything contained in this booklet or upon its omission therefrom.

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# Foreword



If you are considering doing business in the UK, whether it's setting up a factory and distribution network or just selling goods over the internet, then this is the guide for you.

This handy booklet leads you through everything from the complexities of personal and corporate taxation to the government assistance available to new businesses. It does not aim to be comprehensive in tackling such a varied and complex subject. Rather, it is intended as a starting point to help you on your way.

Your next step should be talking to PKF. We have long experience of giving businesses a helping hand. As one of the leading firms of accountants and business advisers in the UK, with offices in all the major business centres, we provide a comprehensive range of services to inward investors based on a broad range of business-sector expertise. We are also members of PKF International, an international association of legally independent firms, which operates in over 100 countries worldwide. We are therefore ideally placed to service your needs, whatever they may be and wherever you are located.

The UK can be a strange place for those not familiar with the way business is conducted and regulated. However, with PKF's assistance, it provides an excellent opportunity both as a market in its own right and as a staging post for those wishing to expand into Europe and beyond.

We look forward to working with you.

John Wosner  
Chairman, PKF



# Our services for inward investors



Establishing a presence in the UK, from a straightforward place of business or branch to the more complex joint-venture company or partnership, is a significant step for any business. You will want to focus on building a profitable business and maximising the return on your investment but will also have to deal with the many regulatory and administrative issues triggered by entering the UK market.

## **Why PKF?**

The wide range of help that we can give you and the depth of our knowledge of the local business environment means that, with PKF as your guide, investing in the UK is easier, safer and will give you better returns.

## **How should you structure your investment?**

The way that your UK business or investment vehicle is structured and interacts with your non-UK interests will have a considerable impact on the costs and tax charges that it must face. PKF has extensive experience of advising companies on the different entities and arrangements that can be used to set up a business in the UK and can help you identify the most tax-efficient structure for your business. And when you want to take the profits from your investment we can advise on repatriation strategies or on a disposal.

## **What financial help is available?**

There are many tax incentives and other forms of government-funded assistance available to inward investors. We can help with your business planning to ensure that you make the best use of the tax incentives and help you in obtaining grants by guiding your negotiations with the numerous grant-awarding bodies. You may also wish to raise other commercial or private business finance to enhance your investment and PKF can explain the options and help you find the right source of funds at the right price.

## **Where and when should I invest in the UK?**

Increasingly, many tax incentives and grants are only available to those investing at specific locations within the UK. With a network of offices throughout the UK, PKF has many local and regional links with government agencies and substantial experience of the regional marketplace. By helping you to tailor your business plan to the local market we can ensure that you maximise the impact of your investment.

## **Who can help me with the paperwork?**

Complying with the many regulations on UK business can be a significant drain on management time and errors can cause costs to escalate. Allowing us to support your business by providing cost-effective accounting, payroll, secretarial and business advisory services – ranging from helping you choose the right software to completing your VAT returns – gives you more time to focus on maximising the return on your investment.

## **Our services**

### **Assurance and advisory**

All audits should provide assurance to users of accounts. Our partners and staff have amassed a wide range of knowledge, skill and experience working with large and small clients across a very broad range of industries and sectors. They can bring these to bear on your business to ensure that you get maximum value out of an audit, an advisory assignment or even a simple accounts preparation task.

### **Business support services**

Any new business trading in the UK will have a large number of tax and administrative requirements to meet in addition to internal accounting routines. We help inward investors to design, select and implement management information systems and accounting software to simplify and reduce administrative burdens. We also offer a fully outsourced accounting function that leaves your organisation free to focus on core business activities. We can also take on specific tasks, including production of statutory financial statements, management accounts, international reporting packs, budgets and forecasts, and VAT and payroll tax administration.

### **Company secretarial**

Companies trading in the UK must comply with a number of legal requirements and complex procedures: breaching the rules can lead to a company being struck off, or its directors prosecuted. Our team of company secretaries can ensure that your business is

set up correctly to meet regulatory obligations in the UK, through incorporation of limited companies, PLCs, branches of overseas entities and LLPs. We can then undertake the ongoing administration by acting as the companies' registered office and as company secretary, to ensure that annual returns, meetings and record keeping are completed correctly and on time.

## **Consultancy**

We provide a wide range of consultancy services to clients, ranging from small private companies to central government. Whether helping organisations to establish corporate objectives or manage change, review IT systems or raise project finance, we give objective advice that delivers real benefits.

## **Corporate finance**

We help with corporate transactions involving both public and private companies by advising borrowers and investors on fund raising and financial structures. This can include identifying sources of private-equity finance, arranging sales and purchases of businesses and helping business managers acquire their company from external investors.

## **Corporate recovery and insolvency**

If your investment is not going to plan, we can help you protect it or maximise the value you can recover. With a highly successful track record, we bring creativity, enthusiasm and determination to every business rescue and turnaround project to ensure the best possible result whatever the circumstances. We cover all formal corporate and personal insolvency procedures.

## **Forensic**

There are times when only an objective and clear assessment of a loss, or an analysis of financial transactions, can resolve a dispute or legal claim. Our team's expertise ranges from commercial claims, professional negligence and matrimonial cases through to investigations and fraud enquiries across a wide range of industrial and commercial sectors. We get the job done on time, without fuss and in confidence.

## **Grant advisory**

Grants and other subsidised funding are available for both UK companies and inward investors from a wide range of UK and European sources, for projects that involve capital expenditure, product development and training. Through business planning, financial

forecasts, application preparation and negotiation support, we advise companies both large and small and help them obtain the grant funding that their project needs.

## **Taxation**

Changes in tax law and practice constantly create new tax-planning opportunities but also increase the burden of bureaucracy on individuals and businesses. We help businesses and individuals to unravel the complexities of the tax system, select a sensible strategy to maximise their after tax returns and take care of the tax returns and paperwork.



# Introduction



## Top 10 tips for doing business in the UK

- *Choose the most appropriate vehicle for the present needs of the business allowing for expected growth taking into account all commercial and financial implications including taxation. Ensure that exit in the case of either failure or success can be achieved cost-effectively.*
- *If you are coming from overseas, don't bring assets and people into the UK unless they are essential and consider all the consequences of doing so.*
- *Don't add companies to the corporate group unless they actually make a positive contribution to the group.*
- *Take good professional advice, it's cheaper in the long run.*
- *All significant commercial decisions should be tested by reference to the net of tax effect in the country of residence of the parent company or ultimate owner.*
- *When considering the tax benefits of the location of assets and operations, do not forget grants and other state aid that may be available but remember that these tend to have shorter lives than taxes on profits.*
- *Individuals should understand the difference between residence and domicile – it can make a significant difference to their tax liabilities.*
- *Understand the differences between the UK and its offshore islands: Guernsey, Jersey and the Isle of Man.*
- *With the rapid growth of e-functions and automated goods handling, the need*

*for local representation may be more limited than in the past. This offers considerable cost and tax savings.*

- *Everything takes longer than you hope: be realistic when setting timetables.*

## People, politics and economy

The United Kingdom of Great Britain and Northern Ireland (more usually referred to as the United Kingdom or UK) is a state consisting of the nations of England, Scotland, Wales and Northern Ireland. Also under UK sovereignty, though not part of the UK itself, are the Crown dependencies of the Channel Islands and the Isle of Man. These dependencies pursue their own policies over taxation, employment, health and education, but are subject to UK control on matters such as defence.

The UK is an island of 242,500km<sup>2</sup>. Its population in 2002 was 59.2 million, virtually the same as France yet in an area less than half the size. The language spoken is English and London is the largest city and capital.

The UK is a constitutional monarchy. The constitution is uncodified and partly unwritten, comprising constitutional conventions, statutory law and common law. The head of state is the monarch, since 1952 Queen Elizabeth II (for more information see [www.royal.gov.uk](http://www.royal.gov.uk)), although this is an essentially ceremonial role.

Parliament is at the very heart of the UK's political system (see [www.parliament.uk](http://www.parliament.uk)). It is the supreme legislative body and government is drawn from and answerable to it. Parliament is made up of the House of Commons and the House of Lords. The former consists of 659 Members of Parliament (MPs), elected in general elections held at least once every five years and using the first-past-the-post system. The latter is a mixture of hereditary and appointed members.

The political head of the country is the prime minister, who must have the support of the House of Commons. The monarch appoints the prime minister, guided by strict convention. The post usually goes to the leader of the majority party in the House of Commons. The prime minister then selects the other ministers which make up the government.

Although government in the UK has traditionally been very centralised, there has been a recent move towards devolution. As a result Scotland now has its own parliament, Wales has the National Assembly for Wales and Northern Ireland has the Northern Ireland Assembly. Members of these bodies are elected by a form of proportional representation. While the Scottish Parliament has the power to legislate, the Welsh Assembly only has the power to spend the budget formally allocated to it.

The UK is one of the four largest economies in Europe, alongside France, Germany and Italy. There has been a trend over the last 20 years to reduce public ownership through privatisation programmes. There has also been a switch from once-dominant manufacturing industries to services, particularly banking, insurance and business services.

The UK joined the European Union (EU) – then known as the European Economic Community – in 1973. The EU is now established as a single trading area with no internal tariffs and with common standards applying to virtually the full range of commercial life (for more detail see [www.europa.eu.int](http://www.europa.eu.int)). These close economic links were cemented by the launch of the euro as a single currency in 1999, although the UK has opted to retain the pound sterling.

## Regulatory environment

Businesses and investors coming to the UK must comply with regulatory law governing how they operate. This law changes often and the compliance burdens on businesses are increasing. Only a few of these can be dealt with here.

## Legal systems

There are minor differences in the legal systems of England, Wales and Northern Ireland. However, many aspects of the Scottish legal system, in particular property law, are quite different and appropriate advice should be obtained when setting up a business there.

## Financial services

Businesses offering financial services are subject to a regulatory system established by the Financial Services and Markets Act 2000 (FSMA). The FSMA set up a “single regulator” for the financial services industry, the Financial Services Authority (FSA).

The types of business that are within the scope of the FSA are quite diverse and are being increased. They include:

- *investment businesses*
- *credit unions*
- *banks*
- *building societies*
- *friendly societies*
- *general insurance*
- *long-term insurance*
- *mortgage lending (with effect from 31 October 2004)*
- *insurance intermediaries such as brokers (with effect from 14 January 2005).*

Certain activities are “regulated”. Under the FSMA, firms that carry out such activities must be regulated by the FSA or be eligible for an exemption. Operating unregulated is a criminal offence. Other firms will not be allowed to accept their business and, unless they are authorised or exempt, any contract they enter into may be unenforceable.

The FSA ensures that firms satisfy the necessary criteria (in relation to status, location, close links, adequacy of resources and suitability) before it gives them permission to carry on a regulated activity. The FSA must also be satisfied that persons applying to carry on controlled functions are fit and proper (that is, they meet honesty, competence and financial-soundness criteria).

## **Regulation of investment firms**

The FSA regulates 7,500 investment firms, ranging from global fund-management operations, investment banks, large UK stockbrokers and major networks of independent financial advisers to the smallest corporate finance operations and one-person financial advisers. It also regulates many professional firms (e.g. lawyers and accountants) which carry on mainstream investment business such as advice on investment products.

## Supervision of deposit takers

The FSA supervises the prudential (essentially the “financial”) soundness of banks and building societies. Supervision is primarily to protect depositors (mainly individuals and companies) but indirectly affects the interests of shareholders in banks since they benefit from increased confidence in the banking system.

For those banks or building societies that also conduct investment business (e.g. advising the public on pensions, life insurance, etc.) the FSA also regulates this investment-type activity.

## Supervision of insurance firms

When supervising insurance firms the FSA:

- *undertakes prudential supervision of all insurers*
- *undertakes conduct of business regulation for those life insurers and friendly societies undertaking investment business*
- *supervises certain aspects of the Lloyds insurance market.*

## Supervision of markets and exchanges

As part of its function the FSA is responsible for overseeing the UK investment markets. This includes:

- *supervision of exchanges, clearing and settlement houses and other market infrastructure providers*
- *conducting market surveillance and transaction monitoring.*

A division within the FSA (called the UK Listing Authority or UKLA) reviews and approves all listing particulars, prospectuses and other related documentation which companies put together to have their shares admitted to the London Stock Exchange. The UKLA also approves certain other documents prepared by listed companies, such as acquisition and disposal circulars.

## **New rules and requirements**

On 15 January 2004 the FSA issued new “conduct of business” rules (for mortgage lending, general insurance and general-insurance intermediaries) and “prudential” requirements for mortgage lenders and insurance mediation activities in relation to general insurance contracts.

From 31 October 2004 the FSA has regulated mortgage lending, sales and administration, and also long-term care insurance. The focus was initially on mortgage lending and administration and the improvement of information for customers to help them make better-informed decisions. The remit of the FSA was widened to include mortgage advising and arranging, in line with the regulation of general-insurance intermediaries (see below).

From 14 January 2005 the FSA has regulated general insurance sales and administration including protection. A major factor influencing the decision to regulate general insurance selling and administration was the need for the UK to comply with EU legislation, particularly the Insurance Mediation Directive (IMD). The IMD was introduced to tackle the “inability of insurance intermediaries to operate freely throughout the (European) Community”. It aims to create a single market in insurance across Europe.

## **Money laundering**

The Proceeds of Crime Act 2002 (POCA) came into force in February 2003. Its purpose was to update and expand existing money-laundering legislation. Whereas previously money laundering related to the proceeds of drug trafficking and terrorism, it now extends to the proceeds of any crime. Money laundering is now so widely defined that it includes, for example, benefits (in the form of saved costs) arising from a failure to comply with a regulatory requirement where that failure is a criminal offence.

The regulated sector required to disclose knowledge or suspicion of money laundering to the law-enforcement agencies has also been widened. In addition to banking, financial services, life insurance, bureaux de change and other money-service businesses, it now includes estate agents, casino operators, insolvency practitioners, tax advisers, accountants, auditors, lawyers advising on financial or real estate matters, businesses dealing in goods for cash consideration of £15,000 or more and businesses providing services in relation to the formation, operation or management of a company or trust.

Although the reporting requirements under POCA are restricted to the regulated sector, the main provisions apply generally. The main offences under POCA are those relating to:

- *concealing, disguising, converting, transferring or removing (from the UK) criminal property*
- *entering into or becoming concerned in an arrangement which facilitates the acquisition, retention, use or control of criminal property by or on behalf of another person*
- *the acquisition, use and possession of criminal property.*

It is now necessary for anyone carrying out business in the enlarged regulated sector to do a number of things:

- *Require anyone with whom they conduct business to provide proof of identity.*
- *Keep records of the proof of identity for at least five years after the end of each business relationship.*
- *Introduce effective money-laundering training programmes for staff, and internal controls and procedures to prevent money laundering.*
- *Introduce internal procedures requiring anyone who knows or suspects that a person is money laundering to report it to a nominated officer – known as the Money Laundering Reporting Officer (MLRO).*

It is a criminal offence for those employed in the regulated sector to fail to report knowledge or even reasonable suspicion of any criminal activity giving rise to the proceeds of crime.

## **Data protection**

The storage of personal data on computer or in an organised manual filing system is subject to the Data Protection Act 1998. A business involved in processing such personal data must register with the Information Commissioner. When processing data it is necessary individuals give their consent and that the processing be for a necessary purpose, e.g. for example in connection with performance of a contract or to protect the

vital interests of the individual. The business must have safeguards to prevent unlawful or unauthorised processing of data and its loss or destruction.

## Competition

Competition law is effected through both UK and European law. It is designed to maintain a competitive economy by controlling the ability of companies to operate through a monopoly in their respective areas. The government's determination to crack down on anti-competitive practices has been confirmed in recent years and further legislation in this area can be expected.

## Exchange controls

There are currently no exchange controls in force in the UK.

## Currency and common financial instruments

The UK has a highly sophisticated banking and financial-services system and there are numerous financial instruments available for those wishing to raise funds or manage financial risks.

A current account is used by a business to manage its finances and this facility can be opened with any bank, subject to the requirements of POCA (see money laundering section above). Banks and other financial institutions offer opportunities for investment in the form of bank deposits or investment accounts. These range in the length of commitment required from deposit accounts accessible "on demand", to fixed-term accounts of several years. The majority of individual retail transactions take place either in cash or by credit card or debit card, with cheque payments on the decline.

The main source of business finance is the financial institutions and most frequently takes the form either of an overdraft or of a term loan, fixed for an agreed period and on specified terms. Security is often required by the lending institution with a charge being taken over one or more of the company's assets. Depending upon the company's risk profile and credit rating, personal guarantees may be also required. An overdraft facility can be negotiated on current accounts, although security may be required as with loans. Overdrafts are usually repayable on demand.

Bonds can be a vehicle for both investment and a source of long-term finance, with either fixed or floating interest rates. Government bonds are UK securities traded on the London Stock Exchange and are solely investment opportunities. Companies issue bonds, pay

interest at regular intervals and repay capital on redemption. Such bonds may also carry a right for conversion into the ordinary shares of the company.

Businesses starting out often do not wish to incur large initial capital expenditure and therefore hire-purchase (HP) and leasing are widely used methods of acquiring assets. With HP transactions, the finance company purchases the goods but the lessee is able to use them in return for a regular payments. Legal title to the goods remains with the HP company until all payments have been made, when it transfers to the lessee. Leasing is very similar, except that the lessee does not necessarily become the legal owner.

The management of cashflow in a trading business can be assisted by debt factoring. The provision of finance is the most widely used service although factor companies also provide credit insurance and administration of the sales ledger. The general principle is that the supplier company sells the right to receive the invoice amount to the factor in return for a percentage of the face value of the debt, receivable immediately. The full debt is later collected by either the factor or the supplier. Costs and the percentage paid will vary depending upon the nature of the trade debtors.

Other financial instruments, traded on stock exchanges and often highly complex in their operation, are widely available in the UK. Futures contracts, for instance, are agreements between two parties to undertake a transaction at an agreed price on a specified date in the future and are most commonly used to buy or sell commodities and foreign currency against sterling. Swaps are exchanges of cash-payment obligations. Currency swaps are agreements to use a certain currency for payment under a contract in exchange for another currency and enable the companies involved to buy one of the currencies at a more favourable rate. As the UK has not introduced the euro, swaps remain a commonly used financial instrument. Similarly there are interest-rate swaps, which enable one company to exchange a fixed-rate obligation for the variable-rate obligation of another.



# Business structure



It is possible to do business in the UK through a variety of different entities and business arrangements. The main types are set out below.

## Companies

The most common entity for doing business in the UK is that of a limited liability company. A company may be limited by shares or, in certain circumstances, by guarantee, and carries the suffix “limited” (generally abbreviated to Ltd) or “public limited company” (abbreviated to plc). A company may also be unlimited but this is rarely used in practice.

Before a plc may commence business it must apply for a certificate to commence business and to borrow. In order to obtain this it must have a minimum authorised share capital of £50,000 with not less than 25% of the nominal value “paid up”, that is, the company needs to have received value of that amount.

Shares in a plc are freely transferable and may be listed and traded on the London Stock Exchange or other markets, thus allowing it to raise finance from the general public. Such companies are referred to as “quoted” or “listed”. Conversely, shares in a private company are transferable only in accordance with the company’s own internal regulations as set out in the articles of association. This latter form of company is therefore the one most frequently favoured by family businesses and overseas investors.

A limited company can be formed with minimum difficulty. There are several specialist agencies that have pre-formed companies, called “off the shelf” companies, ready for use and the Registrar of Companies provides a “same day” incorporation service. Also, many incorporation agents can now incorporate companies electronically.

Companies incorporated in the UK have to comply with certain filing and legal requirements, including the following:

- *Accounts must be prepared in accordance with a standardised series of accounting principles and rules and must, in the majority of cases, be audited by a registered auditor. Certain smaller companies (see chapter 4) are exempt from this audit requirement. “Dormant” companies – a company where no significant accounting transactions have arisen during the financial period – can also claim exemption but are required to file an abbreviated balance sheet and notes to the Registrar.*
- *Accounts must be filed with the Registrar of Companies, together with the directors’ report, within 10 months from the financial year-end for a private company and seven months for a plc. The Registrar imposes a late-filing penalty for any accounts received after the due date ranging from £100 to £1,000 for private companies and £500 to £5,000 for plcs.*
- *A general meeting of shareholders must be held each year. Private companies can opt out of this obligation, and other such statutory requirements such as the laying of accounts before its members and the annual appointment of auditors, by passing elective resolutions, provided these are approved by all members entitled to attend and vote at general meetings.*
- *An annual return must be filed which gives details of a company’s officers and shareholders as at a certain date and details of any transfers of shares since the last annual return date.*

The fundamental concept underlying UK company law is that a company and its shareholders are separate legal persons. The UK company therefore has rights and duties, independent of its shareholders and directors, and can take and be the subject of legal action in its own name.

## Place of business or branch

An overseas company can establish a presence in this country by setting up a business presence or branch.

Companies incorporated outside the UK that establish a business presence in the UK, without carrying on their principal trade here, are referred to as having set up a place of business. This could be, for example, by way of a warehousing function. A business presence is regulated by the Companies Act 1985 and requires the delivery of prescribed information, including accounts of the whole company, to the Registrar of Companies, as well as notification of any change in the information previously provided.

A branch presence involves in addition the operation of a management function and ability to deal with third parties from the UK location. A branch is also subject to regulation imposed by the Companies Act 1985 and has to provide certain information regarding the overseas company and the branch to the Registrar. There is no statutory requirement for a branch to have an audit but the overseas company is required to file financial information as for a UK company. Moreover, it is required to present detailed results when filing tax returns with the Inland Revenue.

## Partnerships

Many businesses in the UK are not conducted through the medium of a company and consequently do not normally have the benefit of limited liability. The business might be carried out by one person on his own or by several in a partnership. English and Scottish law treat partnerships differently. The former does not recognise it as a separate legal entity and looks through the partnership to individual partners. The latter recognises the legal persona of a partnership. For tax purposes all are regarded as transparent.

It is also possible to create limited partnerships whereby there is a “general” partner who carries unlimited liability of the partnership, while the limited partners are limited in their exposure to their capital contributions. Limited partners are not permitted to participate in the general management of the partnership.

The Limited Liability Partnerships Act 2000 introduced a new kind of entity, a limited liability partnership (LLP) which became available in 2001. LLPs have to meet similar financial disclosure and statutory filing requirements to UK companies including filing of an annual return and accounts and notifying the Registrar of any changes of members or members’ details, plus the need for an audit in appropriate cases. An LLP is a separate legal entity from its owners (the members). From a tax perspective, the members are taxed in a similar way to an unlimited partnership, i.e. an LLP is regarded as transparent. Although not required by the Act, most LLPs adopt an agreement regulating the relationship between their members. In the absence of an agreement default provisions are set out in the Act.

## Joint ventures

A joint venture involves co-operation on a project between two or more parties, where they may agree to share expenses and/or income from the project. This is not a partnership and its legal implications need to be understood by the parties concerned.

## Trusts

A trust is a concept recognised in UK law. A trust separates the legal ownership of an asset from the beneficial ownership (i.e. the enjoyment) of the asset. Trustees legally own the assets, but the beneficiaries may benefit from them. This has taxation implications and establishing trusts will often result in a substantial tax saving. Although a trust cannot trade in its own right, it can own all the shares of a trading company or the assets with which the trade is carried on (for example, it might own the trading premises).

A person who creates the trust and transfers assets into it is known as the settlor. The settlor appoints persons as trustees to hold the assets. The trustees owe a duty to the beneficiaries to manage the assets in the beneficiaries' interests. It is not uncommon for the settlor to be also a trustee and a beneficiary of a trust.

Trusts are commonly used to address family problems, reduce tax liabilities and to protect business assets. They can be particularly tax efficient for those with a foreign domicile. The UK tax treatment depends on a number of factors, including the nature of the trust, the residence status of the trustees for tax purposes, and the settlor's residence, domicile and any remaining interest in the trust. The four most common types of trust are:

**Interest in possession trusts** – give an individual the right to receive the income from the assets during his or her lifetime.

**Discretionary trusts** – give the trustees discretionary power over the distribution of income and capital, i.e. no one is entitled to it by right.

**Accumulation and maintenance (A&M) trusts** – trusts for children where income can either be accumulated or used for their benefit while they are under a specified age.

**Bare trusts** – give an individual an absolute right to the asset and income from it, but the trustees are the legal owners of the asset.

# Business finance



Comprehensive planning is an essential ingredient for the success of any business. A factor that, without professional guidance, often causes considerable difficulty is raising adequate external finance. This issue is often most keenly felt by smaller businesses which may find securing appropriate (and affordable) funding both confusing and time consuming. Although sources of finance may appear to be scarce and inaccessible, with professional guidance, the problem of obtaining adequate funding for an initial investment, as well as for future growth and expansion, should not prove difficult.

The sources of funding will depend on the size of the business concerned and the level of funding required.

## Equity finance

### Business angels

For relatively low levels of equity, wealthy individuals, otherwise known as “business angels”, may provide the best source. Business angels will typically provide sums below £250,000, although investment of £1 million or more is not unknown. The level of involvement in the day-to-day running of the business expected by such an individual will vary. Some seek no involvement whatsoever, while others are keen to secure full-time employment within the business. Access to business angels can be obtained through informal channels or via more-established introduction services that try to match potential investors with businesses seeking finance. Tax reliefs, such as the ones available under the Enterprise Investment Scheme, will be essential to the investor and the investment will need to be structured accordingly.

### Private equity

For higher levels of investment, venture capitalists (VCs) provide a common source of equity funding. Currently, the amounts of money potentially available via this source are significant, but success in securing such funding may not be so easy. VCs

typically demand a rapid return on their investments and require evidence of a sound management track record, competitive products and services and a clear exit plan. In return, they may provide not only financial support but also, if they specialise in the business sector concerned, valuable relevant experience designed to assist rapid business growth.

As equity finance in the UK has developed, the minimum level of investment by VCs has increased to the extent that few now invest less than £1 million, with many having a starting point significantly in excess of this. This has led to the opening of the so called “equity gap” – the gap between the funds that can be raised through friends and family, business angels, etc. and the starting point for most venture capitalists.

In addition, there is an increasing concentration of VC funding on expansion and development capital and/or management buy outs where the business is already established and profitable.

The combination of both the above trends has left many businesses outside the scope of VC investment criteria. This is being addressed in number of ways, the most significant being:

- *new, regionally based, government-sponsored venture capital funds which can invest up to £250,000 at a time*
- *the development of loose affiliations of business angels which allow a number of angels to syndicate their investment in a business, thus increasing the overall amount of money available for investment.*

The above are relatively new developments and it remains to be seen how much of an impact they will have on the availability of equity for growing businesses.

## **Flotation**

Becoming a public company and offering shares for sale on one of the open markets may provide the solution to businesses seeking to expand further. Such a listing will not only provide access to capital, and a market for trading in the shares, but will also increase public profile and credibility.

The London Stock Exchange offers two different markets: the Official List and the

Alternative Investment Market (AIM). The former offers a higher profile and access to greater funds, but has more demanding criteria including a three-year track record of trading and earnings. The latter is frequently more attractive for smaller, growth-orientated businesses where the amount of funding required is in the range of £3 million to £20 million. The costs of listing on AIM are also less and other advantages include tax reliefs for investors and lower on-going compliance and corporate governance costs.

## Loan funding

### Overdraft

Borrowing from a bank by way of overdraft remains the simplest form of external funding. However, as an overdraft can be called in at short notice, its use should generally be restricted to short-term cash flow funding, with longer-term needs met by more-secure loans.

### Term loans

Fixed-term loans may provide a better solution to fund start-up costs, since repayment schedules and interest rates can be agreed and budgeted for from the outset. Such loans are usually secured by personal guarantee or by a fixed charge over land and buildings, debtors or plant and machinery. For smaller companies, the lender may also require personal guarantees from the directors or controlling shareholders. Fixed or variable interest rates may be available, with more complex arrangements available for larger loans, including “caps”, “collars” and “floors”. These restrict fluctuations in the interest rate chargeable.

### Other loans

Loans may also be available from sources including local authorities. The Small Firms Loan Guarantee Scheme assists businesses to obtain loans by providing a government guarantee of up to 85% against default on loans of between £5,000 and £250,000. Loans to assist in the purchase of specific assets may come in different forms, varying from straightforward hire purchase through to finance or operating leases. As each method will have differing cost and taxation implications, advice should be sought on the most appropriate method for each situation.

### Asset-based lending

For many businesses, these methods can provide a means of securing funding on the strength of the company’s assets, typically fixed assets (particularly those with a ready

resale value), and trade debtors, although lesser amounts may also be available in certain circumstances to borrow against stock.

As any debt is secured over specific assets, this typically provides the lender with better security than is available against traditional overdraft lending. It also offers the advantage that, as the facility is typically set as a percentage of the value of qualifying assets, it can increase and decrease in line with the working capital requirements of the company and is therefore better able to address seasonal working capital requirements.

In the vast majority of cases of finance secured against trade debts the company retains the credit risk against the receipt of debtors with the lender merely lending money secured against those assets.

The level of involvement of the lender in collecting the debts can vary from case to case and typically depends on the size of the business. For example, with smaller businesses the lender may, in effect, carry out the sales-ledger function on behalf of the customer whereas for larger businesses it may just periodically monitor the position.

The disadvantage of asset-based lending is that, taking into account administration and monitoring fees, it may be more expensive than traditional overdraft or term lending.

## Grants

Companies thinking of setting up factories, offices or distribution units in the UK should be aware that, through the UK government and the EU, there are many grant schemes available that can help reduce the cost of a specific investment. These grant options should be considered at the earliest possible opportunity.

The principal forms of assistance fall into several categories, set out below.

### **Capital expenditure grants for manufacturing and service industries**

The majority of grants in the UK are provided through the government's Selective Finance for Investment (SFI) and Regional Selective Assistance (RSA) schemes. The former operates in England, the latter in the rest of the UK.

The schemes operate in the so-called Assisted Areas of the UK, which are categorised into Tiers 1, 2 and 3. The highest level of assistance is available in Tier 1 areas, where grant assistance of up to 35% of eligible capital costs is available.

The Tier 1 areas of the UK are generally:

- *Merseyside*
- *south Yorkshire*
- *west Wales*
- *Northern Ireland*
- *Cornwall and the Isles of Scilly.*

Tier 2 areas, where assistance is limited to 20%, include many other parts of the UK such as Scotland, the northeast of England, the Midlands and, surprisingly to some people, parts of London and the southeast of England.

Tier 3 areas are more widespread, covering large parts of England and attract a lower level of assistance up to a maximum grant of £100,000.

If a foreign-owned company is considering establishing an operation in the UK and the location is not yet determined, it is important to consider which location may attract the most favourable assistance.

In general, the schemes' criteria are the same and are available to all sizes and types of businesses, from large multinationals to small indigenous concerns. They are available to all manufacturing industries and certain services and specialised businesses. Projects must show a need for assistance and must create or save jobs. As well as being dependent upon the level of capital expenditure, the level of potential grant funding is also dependent upon the number and quality of jobs being created. There must be no binding commitment to purchase assets prior to an award of grant. Eligible costs include expenditure on new or second-hand plant and machinery, buildings and land, and fixtures and fittings. There is no maximum grant (subject to the theoretical ceilings imposed by the EU-tiered limits). It is up to each applicant to make a case for the maximum amount of grant possible.

## **Innovation assistance**

There are also a number of schemes in the UK for companies undertaking product or

process developments. The most user-friendly schemes are only available to companies with fewer than 250 employees. The main grants available in the areas of research and development are:

- *Grant for Research and Development*
- *SPUR and SPURplus – available in Scotland*

It is important to realise that, under these schemes, applicants can claim for both capital and revenue costs such as wages, salaries and factory expenditure. There are various funding levels available depending on the nature of the project being considered. However, the maximum grant for exceptional development projects, representing an industry breakthrough, is 35% of eligible capital and revenue costs up to a maximum grant of £500,000.

For large businesses, there is a raft of EU schemes that can provide grant aid to support innovative projects. However, these projects need to be cross-border and collaborative.

### **Property development assistance**

Funding is available to developers for property construction and enhancement projects throughout the UK from the English Regional Development Agencies, the Scottish Enterprise Network, the Welsh Development Agency and the Industrial Development Agency Northern Ireland. Funding can encompass commercial, housing, leisure and tourism developments in certain specialised circumstances. In addition, environmental assistance can be given for work such as site clearance and ground decontamination. These grants can occasionally be supplemented by European funding on a public and private partnership basis.

### **Leisure and tourism**

Assistance can be given for leisure, tourism and hotel projects based in certain parts of the UK. This is a very specialist area and early professional advice should be sought.

### **Training grants and subsidised consultancy**

Many of the Regional Development Agencies, Local Enterprise Companies in Scotland, and local authorities have schemes that can assist companies with training and management development projects. In addition, subsidised consultancy for business and marketing plans is available in many parts of the UK.



# Financial reporting and accounting



## Statutory accounting requirements and principles

### Requirement to keep accounting records

UK law requires companies to keep proper accounting records and to prepare accounts for each financial year, which have to be filed at Companies House. The requirements for limited liability partnerships (LLPs) are similar to those for companies.

There is no specific legal requirement for sole proprietors to keep accounting records. However, tax legislation requires the retention of records used in the completion of tax returns. Partnerships must keep records of all receipts and payments and all sales and purchases of goods.

Tax legislation requires that accounting records be kept for at least six years. If accounting records are kept outside the UK, accounts and returns sufficient to disclose the financial position of the business and to enable directors to prepare a balance sheet and a profit and loss account, must be sent to and kept in the UK.

### Preparation of accounts

The directors of a company must prepare a balance sheet, a profit and loss account, and, for most, a cashflow statement for each financial year. The annual report must also include a directors' report. If a company has one or more subsidiaries, it must also prepare group accounts, unless the group is small or medium-sized.

The Companies Act prescribes the form and content of the balance sheet, profit and loss account and additional information to be provided by way of notes, for example details of directors' remuneration. Accounts must be prepared in either English or Welsh.

There is an overriding requirement for the accounts to show a “true and fair view”.

The requirements for LLPs are similar to those applying to companies.

## **Reporting and accounting requirements**

Reporting and accounting requirements are contained in:

- *Companies Act and regulations made under it*
- *Accounting standards – Statement of Standard Accounting Practice (SSAP) and Financial Reporting Standard (FRS) – and Urgent Issues Task Force (UITF) abstracts*
- *International Financial Reporting Standards (IFRSs)*
- *The Listing Rules issued by the UK Listing Authority (listed companies only).*

## **UK Generally Accepted Accounting Practice**

UK Generally Accepted Accounting Practice (UK GAAP) is not defined by law but is considered to encompass all the official material above as well as accounting practices which are regarded as appropriate by the accounting profession. The Companies Act requires directors to produce accounts that give a true and fair view. UK GAAP must normally be adopted in order to give a true and fair view.

## **International Financial Reporting Standards**

For accounting periods beginning on or after 1 January 2005, companies listed on the London Stock Exchange’s Official List or AIM market must adopt International Financial Reporting Standards (IFRSs) in their consolidated accounts. Other companies may choose to adopt IFRSs as an alternative to UK GAAP.

## Abbreviated accounts

In most cases, small and medium-sized companies may send abbreviated accounts to Companies House. For small companies, this means they have to provide considerably less information on public record. Medium-sized companies are exempt from disclosing their turnover. Full statutory accounts, however, must be produced for shareholders and the Inland Revenue. Potential customers, suppliers, investors and lenders may also ask for the full accounts.

To be deemed “small”, a company must meet at least two of the three following conditions:

- *Annual turnover of £5.6 million, or less*
- *Balance sheet total of £2.8 million, or less*
- *Average number of employees of no greater than 50.*

To be deemed “medium-sized”, a company must meet at least two of the three following conditions:

- *Annual turnover of £22.8 million, or less*
- *Balance sheet total of £11.4 million, or less*
- *Average number of employees of no greater than 250.*

Where a company expands beyond these definitions it will still be regarded as small or medium-sized for the following financial year. If it then reverts to being small or medium-sized the following year, the exemption will continue uninterrupted. The rules for qualifying as small or medium-sized are complicated and PKF should be consulted before considering preparing abbreviated accounts.

There are special rules for groups of small and medium-sized companies whose total group size falls within the small and medium categories (see [www.companieshouse.gov.uk](http://www.companieshouse.gov.uk)).

# Audit requirements

## Who needs an audit?

Companies and LLPs must have their accounts audited, unless they qualify for exemption. The rules on eligibility for audit exemption are complex and PKF's advice should be sought to determine whether or not the company or LLP is exempt.

Generally, however, accounts do not have to be audited if the company or LLP:

- *qualifies as small for the purposes of filing abbreviated accounts – see above, and*
- *has a turnover of not more than £5.6 million, and*
- *has a balance sheet total of not more than £2.8 million.*

However, the decision to dispense with audit is not always based on legal exemption. Many entities consider that an audit is beneficial:

- *because lenders or creditors demand or expect it*
- *to reassure directors that they have met their accounting responsibilities*
- *for the benefit of shareholders who are not directors*
- *to minimise questions from tax authorities*
- *to provide feedback to the directors on their systems and controls*
- *to improve the company's credit rating*
- *to provide an independent check on the company's accounting function*

- *to alert the directors to possible problems regarding the company's ongoing financial viability*
- *because the company expects to grow and to need an audit again in the future.*

### **What is the role of an auditor?**

The auditor will examine the accounts and accounting records of the company and prepare a report for the company's members. The report, included in the published report and accounts, will contain an opinion on whether or not the company's annual accounts have been properly prepared in accordance with the Companies Act and whether or not they give a true and fair view of the company's financial affairs. The auditor will also consider whether or not the information given in the directors' report is consistent with the annual accounts. If, in the auditor's opinion, the accounts or directors' report do not comply with the Companies Act, the auditor will say so in the report.

### **Who can act as auditor?**

The eligibility and qualification for acting as auditor are set out in company law. Eligibility is also governed by ethical considerations. An auditor must be independent of the company. Therefore, a person cannot be appointed as an auditor if he/she is:

- *an officer or employee of the company or an associated company*
- *a partner or employee of such a person*
- *a partnership of which such a person is a partner.*

### **Can an auditor provide other services?**

Yes, subject to observing ethical standards to ensure that the auditor's independence is in no way impaired. There are stricter ethical rules for auditors of listed companies.



# Taxation



## a) Overview of taxes within the UK

The principal UK direct taxes are income tax, corporation tax, inheritance tax and capital gains tax. While not strictly a tax, national insurance contributions (NIC) are also charged on salaries and an individual's self-employed earnings. In addition, certain indirect taxes are charged on transactions entered into by both individuals and businesses, e.g. value added tax (VAT), stamp duty, stamp duty land tax (SDLT) and customs duty. The rates of tax are currently applied uniformly throughout England, Scotland, Wales and Northern Ireland. However, the Scottish Assembly has the power to vary income tax rates in the future and there are a number of regional tax incentive schemes and exemptions to encourage investment in certain economically depressed parts of the UK.

The only local taxes in the UK are property taxes levied by the local authorities in whose area the property is situated (council tax for private residences, business rates for commercial property).

## Administration

The assessment and collection of direct taxes are administered by the Inland Revenue. There are a number of geographically based tax districts dealing with local taxpayers. In addition there are specialist divisions and units, including an international division, which review the more technical areas of UK tax and deal with the more substantive or serious cases. All taxpayers subject to UK direct taxes are required to assess their own tax liabilities and many are required to make returns to the Inland Revenue.

Customs and excise duties and VAT are administered by HM Customs and Excise, although it is planned that the department will merge with the Inland Revenue in the next few years. This continues the trend to integrate the administration of taxes, e.g. the Contributions Agency (which administers the collection of NIC) is now a part of the Inland Revenue.

## Income tax

Income tax is charged on the total income of individuals and unincorporated businesses in each tax year (running from 6 April to 5 April). In general, UK-resident individuals are assessed on their worldwide income, whereas non-resident individuals are assessed on income arising from a UK source (subject to the terms of double-taxation treaties).

The top rate of income tax is 40% for the tax year ending 5 April 2005 and has been at this rate for several years. The basic rate of tax for that year is 22%, although there are a number of other rates that may apply depending on level and type of income. An individual's tax liability is calculated by aggregating all income, deducting relevant allowances and reliefs, and then applying the appropriate rates. For the year to 5 April 2005, the higher rate of 40% is charged on the excess of total income, net of allowances, over £31,400.

While rates of income tax have not exceeded 40% for a number of years, the threshold above which each rate applies and tax allowances have risen in line with inflation in recent years. However, the UK government reviews all tax rates and allowances annually. Further information on income tax rates and allowances is summarised in Appendix I to this guide. A typical income tax calculation is set out in Appendix II.

## Corporation tax

Corporation tax is levied on the taxable worldwide profits of UK-resident companies and on the profits of non-resident companies attributable to permanent establishments located in the country. A company will be tax resident if it is incorporated in this country or if its business is centrally managed and controlled in this country. Where a company is resident in both the UK and another country, if there is a double-tax agreement between the UK and that country, it will need to be reviewed to decide in which country different elements of the company's income is taxed.

A company's taxable profits are based on its annual accounts where these are prepared in accordance with UK Generally Accepted Accounting Practice subject to certain tax adjustments. From 2005, annual accounts prepared in accordance with International Accounting Standards can also be used as the basis for computing a company's taxable profits. Corporation tax is normally payable nine months after the end of the period for which a company prepares its accounts, although provisions exist requiring larger companies to pay their tax liability by instalments during the course of the year.

A UK company must normally submit a tax return within 12 months of its accounting year end. This can be extended, e.g. the Registrar of Companies can approve a one-month filing extension due to the multinational nature of a company's operations.

The UK corporation tax year runs from 1 April to 31 March and the top rate of corporation tax for year to 31 March 2005 is 30%. A starting rate of tax (on profits of up to £10,000) is set at nil for that year and "small companies" making annual profits up to £300,000 suffer tax at 19%. The top rate of tax is currently charged on the whole of a company's taxable profit if it reaches £1,500,000. These profit limits are divided between "associated companies" where the UK-resident company controls, or is under the same control as, other companies (in the UK or elsewhere). The definition of control is complex and professional advice should be sought if it is considered that this may be an issue.

Current rates of corporation tax are set out in Appendix I to this guide, with an example of a standard corporation tax computation in Appendix II.

## Capital gains tax

Both companies and individuals are subject to tax on capital gains. Corporate gains are subject to corporation tax, gains made by individuals are liable to capital gains tax. Capital gains tax only applies to disposals of "chargeable" assets. The most frequently encountered are interests in land and buildings, shares, goodwill, intellectual property, and plant and machinery. The principal non-chargeable assets are UK sterling cash balances, motor cars, debtor receivables and an individual's main home.

The tax payable by individuals is calculated by adding the taxable gain (after reliefs and an annual allowance) to the taxpayer's total taxable income, so the gain is liable at the individual's highest rate of income tax. In the case of companies, similar computational provisions apply but aggregated gains, together with other profits of the company, are then subject to corporation tax. However, there are special rules to deal with goodwill and intellectual property owned by companies

The taxable gain is the difference between the sale proceeds and the acquisition cost, less an adjustment for the length of time the asset is held. For companies, indexation allowance increases the deductible base cost to account for inflation. Individuals who acquired the relevant asset prior to April 1998 can also claim this relief up to that date as well as a further taper relief for the period that they owned the asset subsequently. Various reliefs are available to both individuals and companies wishing to use some or all of the proceeds to invest in new qualifying assets and companies.

## National Insurance Contributions (NIC)

NIC is a social-security charge on earnings payable by both employers and employees. Businesses (or individuals) employing individuals to work permanently in the UK will have to deduct NIC from the salary paid and pay it over to the Inland Revenue. There are exemptions for short-term periods of employment where the employing business is based outside the UK, but even if a business does not have a permanent establishment in the UK it may be necessary for payroll-deduction arrangements to be set up. The UK has a number of reciprocal arrangements with other countries that operate social-security systems.

Where an individual's gross earnings exceed £395 per month, NIC must be deducted from the individual's salary at a rate of 11% until monthly earnings reach £2,644, from which point a rate of 1% applies. In addition, employers must pay NIC at 12.8% on the total salary in excess of £395 per month paid to the individual. Employers must also pay NIC at 12.8% on the value of most non-salary remuneration given to employees, e.g. the value of any private medical insurance.

Different contribution rates may apply if the employee opts out of the UK's State Earnings Related Pension Scheme (SERPS) or where an individual is self-employed (see Appendix I for more information). There are a limited number of exemptions, e.g. where certain pension contributions are made to non-government schemes on behalf of employees, so it is often possible to structure remuneration packages to reduce such costs.

## Value added tax and customs duties

Value added tax (VAT) is a sales tax charged on the supply of goods and services provided in the course of doing business in the UK. Consequently, the real burden the tax normally falls on the final consumer, with the intervening businesses acting as collecting agents for the government. In general, when the turnover of a business exceeds the registration threshold (£58,000 for the year beginning 1 April 2004), it will have to register, charge VAT on the supplies it makes and pay it to HM Customs and Excise. However, it is possible for companies in a UK group to elect that transactions between them are free from VAT.

VAT is also charged on the importation of goods into the UK from non-EU countries, receipt of some international services in the UK and the acquisition in the UK of goods from other EU member states.

There are three rates of VAT in the UK. A rate of 0% applies to various foodstuffs, public transport and exports; 5% applies to some qualifying use of fuel and power, and certain residential property conversions; and 17.5% is the standard rate. Education, finance, health and some insurance services are exempt from VAT.

Businesses that are required to charge VAT on the goods or services they sell can recover the whole or part of the VAT incurred on the purchases made in generating the sales. However, VAT cannot be recovered on purchases used to generate sales that are exempt from VAT. Input VAT recovery is limited to VAT on costs relating to supplies of standard-rate or zero-rated goods or services. Overhead costs that cannot be directly attributed to a particular good or service are apportioned so part of the VAT can be recovered.

The net amount of VAT, after deducting recoverable VAT, must be paid over to Customs on a regular basis (usually quarterly) supported by a tax return. Large concerns may be required to make monthly payments on account.

The EU is a customs union and accordingly customs duties are payable on many goods at the point the goods are first imported from outside the EU and cleared. Imports from certain countries or for certain uses may be subject to reliefs. The responsibility for the validity of the relief remains with the importing trader.

## Stamp duty and stamp duty land tax (SDLT)

SDLT replaced stamp duty for transactions relating to land in the UK from 1 December 2003. Stamp duty remains at 0.5%, chargeable on the value for transactions in shares and securities. Both SDLT and stamp duty are normally paid by the purchaser.

The rates of SDLT vary according to the consideration given for the asset. Consideration of less than £60,000 (for residential property) and £150,000 (for commercial property) is exempt from SDLT. For higher-value transactions rates start at 1%, rising to a maximum 4% on transfers with a value in excess of £500,000. Each rate applies to the total consideration making them absolute rather than progressive. Different thresholds apply for domestic property. Further details are given in Appendix I.

Special rules apply to transactions in connection with leases to establish the current equivalent to the lifetime value of the rent receivable under a lease. Where this current value exceeds £150,000, the excess is liable to a 1% charge.

## b) Taxation of property/land

The tax treatment of rental income and profits made from the sale of property/land needs to be considered separately.

### Sale of property/land

The tax treatment of profit made from the sale of property or land will depend on both the owner's situation, e.g. their tax residence, and the circumstances in which the property has been held. Broadly these circumstances can be put into three categories:

- *Property developer/trader – all property will be treated as stock-in-trade and any profits made on sale will be assessed as trading income.*
- *Investor – all property will be treated as an investment.*
- *Other trader – the property held as a capital asset for the purpose of a separate non-property trade.*

In the last two categories any profits or losses on sale should be assessed under the capital gains tax regime.

It is sometimes difficult to ascertain whether a property has been held as stock or investment.

In determining whether a property is held as a trade or investment, the following questions are relevant:

- *What was the original intention for the property? Can this be demonstrated by minutes of meetings or other documents?*
- *If the vendor is a company, what do the memorandum and articles of association state on the point?*
- *How was the property initially marketed – as a rental property or as a sale? If the property was initially intended to be let and was sold when an unforeseen offer was received, this indicates an investment activity.*

- *How long was the property held for? The longer a property is held, the more likely it is to be an investment.*
- *What do previous transactions indicate about the vendor's status?*

There is also a specific anti-avoidance rule which applies where a capital gain has arisen in certain circumstances. This rule applies to tax gains as income and applies to all persons, regardless of residence, if the land or building is in the UK. Circumstances where this applies include when land is developed or acquired with the main objective of realising a gain on disposal and the gain is realised in capital form on the sale of shares in a company owning the land or building, rather than of the property itself.

## Rental income

Profits from the rental of land and buildings in the UK are taxable in the UK, wherever the recipient is resident. Profits are determined in the same way as trading profits. Relief is available for most rental costs including interest where a loan has been taken out to purchase the property. There are rules which restrict tax relief for interest on highly geared investments where the lender and borrower are connected.

Where the owner is resident in the UK, rental profits are included in aggregate taxable income for the year.

Where the owner is not resident in the UK, rental income will be liable to income tax at the standard rate (currently 22%). This will be withheld by the tenant from the gross rental payments under the 'non-resident landlord scheme'. On application by the landlord the inland revenue will authorise rents to be paid without such deductions.

The main tax relief, apart from interest payable, is capital allowances. The two main forms of capital allowances that are available in typical property transactions are plant and machinery allowances and industrial buildings allowances.

## Plant and machinery

### Purchase/construction of new property

In the first year, tax relief on plant and machinery for small and medium-sized businesses is usually 40%. The general rule is that relief is given at 25% on the reducing-balance method.

Typical examples of fixed plant in a building are air conditioning, plumbing and most electrical units. Experience shows that on average between 12% and 24% of the cost of a new office building will qualify as plant and machinery depending on the level of fitting out.

### **Purchase of second-hand property**

This is a complex area and many purchasers miss the opportunity to maximise their tax relief.

The difficulty is in deciding which elements of the purchase price relate to fixed plant and machinery. Broadly, there are two ways in which this can be decided:

- *By agreement between the vendor and purchaser. The amount agreed can be given effect for tax purposes by means of an “election” submitted to the Inland Revenue. This enables any figure to be agreed between £1 and the original cost of the plant and machinery; or*
- *By “just apportionment” of the consideration. This involves a valuation of the plant and machinery element.*

### **Industrial buildings allowance (IBA)**

IBAs are generally available on factories, hotels and certain other properties. They provide relief for the construction cost of the building that does not qualify as plant and machinery. Relief is given at the rate of 4% straight-line per year over the tax life of the property, which is 25 years. If the property is sold within the tax life of the building there is a claw back of the relief obtained, up to the disposal proceeds.

For example, a company spends £5 million on a new factory. It will claim £200,000 as an allowance in each of the next 25 years. After 10 years, the company sells the factory for £6 million. In its computation of taxable profit the company will need to add the capital allowances it has claimed to date, i.e. £2 million (10 x £200,000). The purchaser will be able to claim the original cost of £5 million over the remaining 15 years, that is £333,333 per year.

It is possible, in certain circumstances, for the vendor to avoid such a clawback of capital allowances with careful planning. Ask PKF for advice.

## Inland Revenue construction industry scheme

This scheme applies to any business in the construction industry that can be defined as a “contractor” (the person making the payment) or “subcontractor” (the person receiving payment) that is carrying out “construction operations”. This is defined quite widely and includes internal cleaning of a property during its construction, alterations or repair work, and internal and external painting. It also applies to non-construction businesses which are commissioning construction work on their investment or trading properties if they spend more than £1 million per year on construction operations.

Anyone covered by the scheme must ensure that all payments for construction services are only made to persons holding the relevant registration cards or exemption certificates. No payments should be paid to persons without a suitable card or certificate. Broadly speaking, subcontractors holding registration cards are entitled to payment after deduction of 18% of the gross amount. Subcontractors holding exemption certifications can receive gross payments. There are various vouchers and returns that the person making the payment must deal with on a monthly or annual basis and the Inland Revenue may charge penalties of up to £3,000 for each failure.

## Value added tax

The VAT treatment of dealings in property and land is complex and subject to constant change. Different rules apply depending on whether the property is residential or commercial and whether or not exploitation is by way of sale or lease.

### **VAT liability – commercial property**

The sale of the freehold of a “new” commercial property, defined as one less than three years old, is subject to VAT at the standard rate. The sale of the freehold of old commercial property or land and the grant of a leasehold interest in either new or old property or land is exempt from VAT. However, a vendor or landlord has the right to elect to waive the exemption and charge VAT at the standard rate on the sale proceeds or on rental payments. This procedure is commonly known as the “option to tax”. The major advantage of making an election is that the landlord can recover VAT on costs relating to elected property. The purchaser or tenant can recover VAT charged on rent provided he is using the property for taxable purposes.

The election can be exercised by the person making what would otherwise be an exempt supply in relation to a building or land. The election has no effect unless written notification of the election is given to the VAT authorities within 30 days of it having been made. The election will take effect from the day on which it is made, or a later date specified.

## **VAT liability – residential property**

The first grant of major interest, i.e. sale of freehold or grant of a lease in excess of 21 years, by the person constructing the property is zero-rated. Zero-rating is a nil rate of VAT, but VAT on related costs can be recovered. Zero-rating also applies to the grant of a major interest in residential property which has been converted from commercial property. Other supplies of residential property are exempt from VAT. The election to waive exemption (see above) is not available for supplies of interests in residential property.

## **Place of supply**

The place of supply of transactions relating to UK land is the UK. Overseas businesses are therefore entitled to, and depending on the VAT liability may be obliged to, register for UK VAT.

## **Business rates**

Businesses are required to pay a tax based on the value of the property (known as the uniform business rate) in respect of land and buildings at a level that is set by central government.

## **c) Tax implications of a place of business, branch or UK company**

Many businesses intending to trade in the UK do so either through a branch of their overseas company or through a separate UK subsidiary company. From an overall legal perspective, a UK company may be more desirable than a branch because it has separate legal personality and may protect an overseas investor from exposure to claims arising in the UK. The next sections will cover the main tax issues to be borne in mind when contemplating either of these routes. However, it may be possible that the nature of activities of a non-UK business will not be sufficient to amount to a branch, perhaps because it operates in the UK merely as a representative office. This concept of operating in the UK at a scale below branch level is considered first.

### **“Place of business” in the UK**

A “place of business” exists when a foreign company establishes a presence in the UK but does not carry on any of the principal activities of its trade here. This should be contrasted with a branch where there is a management capability that includes the freedom to negotiate contracts with third parties (see also chapter 2).

Provided there is no element of trade being carried on in the UK through a permanent establishment, there should be no tax liability here (unless there are some other sources of UK income). In many cases, the UK tax position is further clarified under the terms of the relevant double tax treaty. The UK has concluded over 100 tax treaties which, in most cases, define the kind of presence that amounts to a permanent establishment and identify the activities which fall outside this classification. In overview, trading in the UK through a permanent establishment will lead to taxation in the UK of the profits attributable to the UK presence. Carrying on core trading activities in the UK by way of a fixed place of business (such as an office), or via a dependent agent who exercises authority to do business, will be considered a permanent establishment, whereas the mere carrying on of certain defined “preparatory and auxiliary” activities will not constitute a permanent establishment and fall outside the scope of taxation. Certain sites or construction and installation projects may also give rise to a permanent establishment.

The operation of a warehousing function is an example of an activity which, of itself, is unlikely to entail an exposure to UK income and corporation tax, unless it is a core element of the trade of the overseas company. The overseas company should seek PKF’s advice to check whether its UK activities will constitute a permanent establishment. This is particularly important as the terms of tax treaties vary and because much of UK tax law is established through case law.

## Operating a branch in the UK

A branch is a company-law term and is something more substantial than that of a place of business. It involves the operation of a management function at the UK location and the ability of that function to deal with third parties.

The UK does not have a branch-profits tax. For UK tax purposes a branch, which is a permanent establishment, falls within the normal UK corporation tax regulations and in many respects is taxed in the same way as a UK company. Accordingly, the overseas company will be subject to UK taxation on all trading income relating to its UK branch operation, whether that income arises in the UK or elsewhere. In this respect there is no difference between the taxation of a UK branch or a UK company.

Under UK domestic law, the UK profits of a branch are taxed at the full rate of corporation tax. This rule does not apply if a tax treaty between the UK and the relevant overseas country contains a non-discrimination clause. Reliance on this treaty article, where it exists, will be sufficient to ensure that the branch is not taxed less favourably than other

UK-based businesses. The same principle applies under EU law where an overseas company is resident in a member state of the EU. In such cases, the branch will benefit from the lower rates of tax that apply to UK-resident companies.

Also, UK tax law allows various reliefs to be obtained by UK branches of overseas companies. These permit a UK branch to surrender or receive trading losses to or from other UK-based group companies (subject to restrictions where losses are used overseas) and to transfer assets between a UK branch and a UK-resident group company with no immediate capital gains tax cost. In addition, it is possible for a UK branch to claim double-tax relief for foreign tax suffered on all relevant income and gains. If at a later date it is desired to change the status of the UK branch to a UK company, there are provisions in UK tax legislation that facilitate this change.

## Operating through a UK company

A company will be UK tax resident if it is incorporated here or if the central management and control of its business are in the UK. Many other countries also rely on a definition of tax residence based on the place of incorporation and effective management and therefore it is not impossible for a company to be a resident of more than one country. Most of the UK's tax treaties cover this situation by having a "tie-breaker" clause which generally resolves the position for the purposes of claiming relief under the treaty by determining residence at the place of effective management.

A company is required to self-assess its own tax liability and tax payments. Coupled with this requirement is a responsibility to keep detailed documentation.

UK tax legislation treats UK public limited companies (plcs) and private limited companies (Ltds) in exactly the same way. Both are subject to UK tax on their worldwide income. The starting point for assessing a company's annual tax liability is the company's profit or loss, drawn up under UK GAAP as shown in its published financial statements. For periods beginning after 1 January 2005, accounts drawn up under IFRS will also be acceptable. Adjustments are made to the accounting profit or loss to arrive at the company's taxable profits.

The most significant adjustment is the replacement of the depreciation charged in the company's accounts with the capital allowances prescribed for qualifying capital expenditure. The rates of capital allowance vary depending on the type of expenditure, the use to which it is assigned, the results of the company and those of the worldwide group.

Other routine tax adjustments to a company's reported profits are to disallow any expenditure on entertaining or hospitality and any general reserves against stock, work-in-progress, debts and future expenditure such as repairs.

## **Transfer pricing**

The UK introduced new transfer pricing rules with effect from 1 April 2004. The scope of the rules has been extended to include both intra-UK as well as cross-border transactions.

Broadly, the legislation applies where the terms of a transaction, or series of transactions, between two connected parties differs (in price, value or terms) from what would have been made between independent parties dealing at arm's length. Where this results in a UK tax advantage for one of the connected parties (e.g. a reduced profit or increased loss), the profit or loss must be computed using the arm's length price. The UK follows the OECD Guidelines in relation to the methods used for determining arm's length prices.

A company is required to self-assess transfer pricing adjustments and must maintain contemporaneous documentation to support the calculations and to demonstrate that such transactions are at arm's length. The burden of proof lies with the taxpayer. If a business negligently or fraudulently fails to meet these obligations, it may be liable to penalties of £3,000 for each incorrect return and up to 100% of the unpaid tax, in addition to any unpaid tax and interest that is due.

To minimise the administrative burden on them, smaller groups (those with combined annual turnover and/or total assets of no more than €10m and fewer than 50 employees) are exempt from these rules. Medium-sized groups (those with fewer than 250 employees and either an annual turnover of less than €50m or net assets of less than €43m) should maintain records of relevant transactions. However, their taxable profit will only be adjusted by the Inland Revenue where there has been blatant manipulation of transaction prices leading to a significant loss of UK tax.

## d) Selling into the UK

### Direct selling from abroad

#### Taxation issues

Direct selling into the UK can take place either directly from an overseas head office or via sales personnel based in the UK. However, if it is the intention to avoid exposure to UK corporation tax, then contractual arrangements should be made outside the UK, without the use of sales staff in the UK. Such staff may constitute a permanent establishment and therefore create a taxable presence.

Reference should always be made to any relevant tax treaty with the UK for the reasons noted in the previous section.

The VAT implications depend on whether the items being sold into the UK are goods or services and whether or not the goods are being sourced from another EU member state or elsewhere.

In the case of goods, if the company selling into the UK is responsible for the importation of the goods and delivering them to its customer, then that company will be required to be VAT registered in the UK (subject to the registration threshold), irrespective of whether or not it has a presence in the UK. This also applies where the company has “call-off” stocks based at its UK suppliers that are then sent direct to its customers. For VAT-registration purposes the physical presence of the seller, e.g. staff and offices, in the UK is not relevant. The goods themselves constitute a place of belonging for VAT purposes.

If the company is based within another EU member state and is selling to VAT registered businesses in the UK, it is not required to VAT register in the UK, provided it can obtain the customer’s VAT registration number and show it on the VAT invoice. For the supplier, the supply is not subject to VAT, but the customer will have to account for the VAT on acquisition to HM Customs and Excise. It is often possible to register for VAT for intra-EU trade in just one EU state.

Supplies between EU member states are not classed as imports or exports and, accordingly, no import duties are levied except in certain circumstances. Additionally, it is not necessary to make an import declaration on an acquisition of goods in the UK from another EU member state.

If the customer is responsible for clearing the goods through Customs and paying any duties and VAT on importation, then the selling company is not regarded as making any supplies for VAT purposes and is not liable to be VAT registered in the UK.

Normally, if a company supplying services does not have a physical presence in the UK then it is not liable to be registered. Business customers in most cases will have to account for the VAT under the “reverse-charge procedure”. For example, this applies when a business buys certain services such as advertising or the advice of a solicitor or accountant.

## Legal and contractual issues

The sale of goods and services into the UK necessarily involves two parties from different legal jurisdictions. Consequently, as a first step, it is always useful to state whether a contract is subject to English law or that of the seller’s country of residence. The points below need to be borne in mind when negotiating contracts of sale with UK customers.

- *The exact terms of the contract should be set out in writing and should include a statement that the contract only be considered valid when confirmed by the supplier in writing. It is important to make sure that the terms on which sales are to be made are properly explained to the purchaser and accepted by him/her (or they may not be upheld in law, should there be a dispute).*
- *Where a contract is silent on VAT, the price quoted is deemed in the UK to be inclusive of VAT.*
- *The contract document will also set out the price to be charged or the mechanism for its calculation and should also detail the exact nature and characteristics of the goods or services being supplied.*
- *The seller’s conditions of sale should be incorporated into every contract. Where the contract is for the supply of goods, it is usual to include a clause that ownership of the goods shall not pass to the purchaser until all amounts due under the contract have been paid. This type of clause is often combined with a contractual agreement that the purchaser is liable to compensate the seller if, before full payment is received, the goods are damaged while in the purchaser’s possession.*

The preceding comments are merely an outline of some of the more significant factors to be considered. Specific legal advice appropriate to individual circumstances should always be obtained.

## Selling into the UK through a UK-based agent

### Taxation issues

A UK-based agent will typically fulfil the role of accepting sales orders and referring them back to the overseas principal. An agent is therefore different in nature from a distributor who purchases and resells goods on his own account. The agent could be an individual or a company and may be dependent on or independent of the overseas business.

If the agent is a dependent agent of a foreign company, for example a UK company connected with it, then the possibility of exposure to UK taxation arises for the foreign company. A UK-incorporated company or UK branch of a nonresident company will be liable to UK tax on the profits earned in the country. In addition, an employee of the foreign company could constitute a taxable presence in the UK where he/she is operating from a fixed place of business or his/her responsibilities entail concluding contracts here.

Where an independent UK agent is being used in the normal course of his trade, the UK's double-tax treaties typically provide that such an arrangement will not constitute a taxable presence in the UK for the overseas principal, provided the agent is acting in the ordinary course of his/her business. For VAT purposes, this is not always the case.

If a subsidiary company or a branch is the agent, then the transactions between the UK operation and the non-resident parent will be taxed based on arm's length terms.

The VAT implications again depend upon who is responsible for the importation of the goods. If it is the overseas company then it will be required to VAT register. However, if ownership of the goods passes first to the agent, who then imports and sells them to the ultimate customer, the overseas company will not be registerable for VAT.

If the customer is responsible for importation then the vendor does not become liable to register for VAT. Voluntary VAT registration is possible to recover VAT incurred in the UK.

### Legal and contractual issues

The precise terms of the contract with an agent can vary widely, but they will generally

be subject to the Commercial Agents (Council Directive) Regulations 1993, which include provision for compensation on termination. While the agency agreement may be informal, certain clauses are fairly common. Legal advice is always recommended, but typical clauses are those that refer to the exact extent of the respective duties of both agent and principal, the territory for which the agent will be responsible and whether the agent is the sole agent in that territory. It is advisable to include a clause in the contract indicating whether the agent can accept orders on behalf of the principal or whether such orders must be referred to the principal for acceptance. The fee paid to an agent is normally calculated on the basis of a percentage of sales made.

## Selling into the UK through a UK-based distributor

### Taxation issues

A distributor differs from an agent in that a distributor actually acquires goods from the non-resident company and resells them in its own name. A distributor is therefore effectively a customer of the overseas business.

Where the distributor is set up as a separate company, this should not create a UK tax presence for the investing business.

However, many of the preceding remarks concerning agents apply equally to distributors. For instance, where a UK branch of the overseas enterprise acts as a distributor, the branch will be taxed on its UK profits. The mark-up made by a UK distributor needs careful reviewing as profit on sales to overseas affiliates will be computed based on arm's length prices.

As stated above, if selling into the UK through a UK-based distributor, the call-off stocks create a place of establishment for VAT purposes and render the company liable to be VAT registered by virtue of the location of the call-off stocks.

### Legal and contractual issues

Areas to consider include agency agreement clauses defining territorial trading boundaries and a statement of respective responsibilities. Competition law may also need to be considered. Moreover, as the distributor route involves the sale of goods to the distributor, it may well be prudent from the overseas supplier's point of view to consider clauses that govern the distributor's selling price and a reservation of title clause. This prevents title to the goods passing to the distributor until the distributor has paid its

supplier. If the distributor sells the goods in advance of this event, then the distributor is deemed to sell the goods as agent for the supplier.

It should be noted that, although the goods are acquired by the distributor and sold on by him, the manufacturer, importer and supplier are still legally liable under UK law for any damage or injury incurred as a result of the supply of the goods. It is therefore advisable to consider appropriate insurance cover.

## Selling into the UK through e-commerce

The significant increase in e-commerce has seen the UK make a considerable investment at business and government levels to put the necessary technological infrastructure in place.

### Direct tax issues

In the field of direct taxation there are three main issues:

- *Whether a web site on a server situated in the UK represents a taxable presence here. The UK government has stated that a server may not in itself give rise to a taxable permanent establishment. In practice, the nature of activities in the UK under the principles considered above will determine whether there is a UK tax presence or not.*
- *To what extent profits are attributable to e-business activities where there are related overseas parties, i.e. transfer pricing issues.*
- *Whether a payment represents a royalty in relation to the use of digitised products, e.g. on-line software or music. Generally if the customer utilises the product for his/her own purposes and is not exploiting it, then the payment would not normally represent a royalty and there would not be a requirement to withhold tax.*

### VAT issues

VAT often represents a large proportion of a product's selling price and plays a major part in the pricing considerations of retail suppliers. The principal issues arising in relation to VAT are related to the place of supply of goods and services and, in part, to whether the supply is of goods or services. For the purposes of VAT, e-commerce can be divided into direct and indirect e-commerce.

**Indirect e-commerce** is concerned with the supply of tangible goods and is comparable to shopping by catalogue. In this case, the Internet only provides a facility through which a prospective customer can access the vendor's web site. When a transaction takes place, the supply is delivered in a conventional way, e.g. by mail. Because this transaction is very similar to mail-order shopping, it does not entail any new or additional VAT complications. There are special rules concerning distance selling to non-business customers in other member states and the supplier of goods from one member state is obliged to register for VAT in the member state where it has customers once certain thresholds are reached. Additionally, the legislation governing imports and exports to and from the EU also applies to goods ordered through the internet.

**Direct e-commerce** encompasses transactions where the Internet provides the means of delivery of intangible property or digitised products. Examples include software and music. These are treated as services when delivered over the Internet and the VAT rules applicable to services govern the status of these transactions. This can lead to inconsistencies, e.g. a supply can be zero rated when in the form of goods (e.g. books) but standard rated when delivered as a service.

New legislation was introduced on 1 July 2003. The rules provide that, where digitised products are supplied to a customer in the EU, the place of supply of the transaction is where the customer belongs. For business-to-business transactions, the EU business accounts for VAT in the member state concerned and there is no requirement for the non-EU business to register in the EU.

However, where the supply is to a non-business or private individual the non-EU supplier has an obligation to register for VAT in the EU and charge EU VAT. There is a special scheme whereby a non-EU business supplying digitised products to customers in more than one EU country only has to register in one member state of the EU.

## **e) Ceasing to have a presence in the UK**

An investor may cease to have a business presence in the UK in a variety of ways including sale, winding-up or migration.

### **Disposal of a business or subsidiary**

The disposal of a UK business will involve various tax, legal and commercial issues.

## **Tax considerations**

Any capital profit on the disposal of a UK business will only be taxable in the UK in the hands of the seller if the seller is a UK resident or has a UK permanent establishment. If this is not the case, then the seller will only need to consider his own domestic tax laws in relation to the sale.

A UK-resident seller may suffer UK tax on the capital profit arising on the sale of shares in a company. Where the business is unincorporated, capital profits can arise on such assets as land and buildings, goodwill, intellectual property or equipment if sold for more than cost.

Under the provisions of the substantial shareholder exemption, a UK-resident company seller may be exempt from tax on a gain arising on the sale of shares in a trading company where at least 10% of the share capital has been held for a minimum of 12 months.

## **Legal and commercial considerations**

Legal agreements drafted to cover the sale of a business can be very complicated and typically include provisions for indemnifying the purchaser, should any unforeseen liabilities arise. It is therefore vitally important when selling a business in the UK that specialist legal, accounting and taxation advice is obtained.

## **Winding-up a company or striking a company off the register at Companies House**

A business could cease to have a presence in the UK because the owners decide to close it down by a process of winding-up, or because the company has become inactive and the owners wish to cancel its registration at Companies House.

## **Tax considerations**

The fact that a company goes into liquidation does not alter its requirement to pay tax or continue to file a tax return (although the administrative responsibility for this will fall on the company's liquidator rather than the company). One of the main tax-planning considerations will be that of maximising the use of any trading losses. These losses cannot be carried forward beyond a cessation of trading and therefore it is important to ensure the most tax-efficient timing of events.

There are no special tax rules for corporate insolvency, winding-up or striking-off. A business will normally prepare a tax return to the same date as its annual accounts, but this will be brought forward to the date of cessation of trade, if earlier. Any trading losses incurred in the last 12 months of trading can be carried back and offset against the profits of the previous three years. This is an extension to the normal rule that only permits a 12-month carry back of trading losses.

## Legal considerations

Sometimes the words “insolvency” and “winding-up” are used inter-changeably, although a company can be wound up by its shareholders at any time without its actually being insolvent. If the company is insolvent, a professional insolvency practitioner must be appointed to realise the company’s assets for the benefit of its creditors. Only when the creditors have been paid in full will the company’s owners be entitled to any remaining assets.

Where the company has not yet gone into liquidation, but the directors ought to know that the company has no reasonable prospect of avoiding the situation, then the directors will be responsible for additional liabilities of the company. This is the case unless they can show that they took every reasonable precaution to minimise the potential loss to the company’s creditors.

The liquidation and winding-up process can be expensive and therefore, where possible, many businesses prefer to close down their operations by striking the company off the register at Companies House. However, the striking-off process is less conclusive than winding-up since, on the application of any interested party, the courts can restore the company to life on the register within a period of 20 years.

## Company migration

It is possible for a company to become non-resident for UK tax purposes. This could happen to a UK incorporated company as a result of having its place of management in another treaty jurisdiction outside the UK. Most of the UK’s tax treaties deem the tax residence to be in the country of effective management. Likewise, a non-UK incorporated company could move its place of central management and control outside the UK. In such a case, it would not be dependent upon the provisions of a tax treaty to establish its non-resident status. In each case for tax purposes, there is a deemed disposal at market value of certain types of chargeable assets held by the company (principally land, buildings and goodwill) at the time of migration.

There are relieving provisions to mitigate the effect of this charge. This occurs where the assets remain within the UK tax net (for instance by leaving them in a UK branch) or where the assets in question are located abroad and the migrating company is the 75% subsidiary of another UK company. Before a company migrates, it must inform the Inland Revenue of this intention and provide a statement of its tax liabilities and how it proposes to settle them. A company will be liable to penalties for non-compliance with this requirement.

# Foreign personnel in the UK



## Business immigration to the UK

Citizens of the European Economic Area (EEA) – the 25 EU countries plus Iceland, Liechtenstein and Norway – and Switzerland have the right to live and work in the UK, including setting up a business. Citizens of British Commonwealth countries have a similar entitlement if one of their grandparents was born in the UK.

Since 1 May 2004 individuals from the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia or Slovenia have to register under a special registration scheme when taking up paid employment (this is not required for self-employment).

Other individuals moving to the UK for business purposes will need to obtain a visa to allow them to live and work here. At the time of writing the UK authorities are keen to encourage certain types of migrant and there are a number of classes of visa that may be appropriate.

## Sole representative for an overseas company

Well-established companies based outside the UK can apply to send a senior employee (who is not a controlling shareholder) to help establish a trading presence in the UK.

## Business immigration by investing £200,000

Entrepreneurs can qualify for this visa by starting a business in the UK, making the cash investment, working solely in the business and proving that it will create at least two further jobs within the EEA. Bulgarian and Romanian nationals can benefit from a similar scheme without the need to meet the financial-investment requirements.

## Innovators

This type of visa is designed for entrepreneurs with a new business idea that will bring exceptional benefit to the UK. While the individual need not have his/her own capital to invest, he/she must have a minimum 5% share in the business and sufficient funding

must be in place to exploit the idea. Again there is a requirement for at least two further jobs to be created.

## **Investors**

Wealthy investors – those with at least £1 million free assets – who are prepared to invest at least £750,000 in UK-based private companies (certain business sectors are excluded) may also qualify for a visa.

## **Highly skilled migrant workers**

This scheme is aimed at encouraging highly educated individuals (e.g. doctors) to migrate to the UK. Eligibility is based on a points-scoring system.

If a work visa is issued it will last for 12 months, but may be renewed for a further three years. After four years individuals may apply for permanent residence.

Further information is available from:

[www.ukvisas.gov.uk](http://www.ukvisas.gov.uk)

[www.ind.homeoffice.gov.uk](http://www.ind.homeoffice.gov.uk)

## **Employee rights**

The rights that an employee enjoys under UK law are fairly extensive. Although employer burdens are lower than in some other European countries, these rights should be given due attention to avoid involvement in expensive and time-consuming disputes and litigation.

Although not exhaustive, the following list indicates some of the most important areas to be considered:

- *written particulars of employment*
- *unfair dismissal*
- *redundancy*
- *discrimination*
- *working time*

- *works councils*
- *information and consultation*
- *working conditions.*

## Stakeholder pensions

There are a wide range of pension schemes currently available in the UK. However, since October 2001 it has been obligatory for employers to provide employees with access to a stakeholder pension, unless:

- *they employ fewer than five people; or*
- *offer all employees aged 18 or over a personal pension scheme through which they contribute an amount equal to at least 3% of the employees' basic pay; or*
- *offer an occupational pension scheme that all staff can join within a year of starting to work for them.*

Stakeholder pension schemes are low-cost pensions, require tax approval from the Inland Revenue and have to be registered with the Occupational Pensions Regulatory Authority (Opra).

For more information see [www.thepensionsservice.gov.uk/employer/stakeholder-introduction.asp](http://www.thepensionsservice.gov.uk/employer/stakeholder-introduction.asp).

## Healthcare in the UK

Free healthcare is available to all UK residents and, under the National Health Service (NHS), every civilian living in the UK is entitled to register with a local medical general practitioner (GP) on the NHS panel responsible for his geographical area. In addition to providing general medical advice or treatment, the local GP is an important link between the patient and the rest of the NHS. If the patient requires surgery, in-patient treatment or other specialist consultation and treatment, he will be referred to the appropriate specialist by his GP.

Although the service provided by the NHS is generally adequate for minor ailments or treatment requiring emergency attention, many people take out private medical insurance

in order to receive more prompt treatment. This also gives them more control over the timing of any hospital visit required and the standard of accommodation provided. However, the cover provided by insurance will often not cover major surgery or the treatment received for serious chronic conditions.

## Personal taxation

Please also refer to chapter 5.

## Determination of tax residence

An individual's liability to tax in the UK is dependent on his residence, ordinary residence and domicile status. The terms "resident", "ordinarily resident" and "domicile" are not defined in UK legislation and so it is necessary to rely on case law and Inland Revenue practice.

The Inland Revenue's booklet, IR20, sets out its practice in this area. Although the introduction makes clear it only represents the Revenue's interpretation of the law, it is wise to follow the guide as closely as possible. Here is a brief summary of the three terms.

### Residence

An individual is treated as being resident in the UK for any fiscal year if:

- *he/she is present in the UK for 183 or more days; or*
- *he/she visits the UK regularly and after four years his visits average 91 days or more; or*
- *he/she comes to the UK with the intention of making regular visits; or*
- *his/her home has been abroad and he/she intends to come to live in the UK permanently or to remain here for three years or more.*

### Ordinary residence

This is roughly equivalent to habitual residence and an individual is treated as being ordinarily resident in the UK:

- *from the date of arrival, if it is clear that he/she intends to remain in the UK for three years or more; or*

- *from the beginning of the tax year in which a decision is made to remain in the UK for three years or more; or*
- *from the beginning of the fifth year, if he/she visits the UK regularly, and after four years his/her visits average 91 days or more.*

## Domicile

Unlike residence, it is not possible to have more than one domicile at any one time and it is not the same as nationality. Essentially, it is the place where an individual has his “roots” and has the strongest cultural, economic and family links.

Domicile can have a very significant effect on UK tax liabilities as it enables resident, but foreign-domiciled individuals to legally avoid UK tax on income and capital gains arising overseas if they are not remitted to the UK. In addition, subject to the special-residence rules, foreign-domiciled individuals are not chargeable to inheritance tax on non-UK situated assets.

There are three types of domicile: domicile of origin, domicile of dependence and domicile of choice.

- ***Domicile of origin*** – *this is normally the domicile at birth of an individual's father, regardless of the country in which the individual is born. It is the most adhesive of the three types of domicile and there is presumption in favour of domicile of origin, unless there is evidence that a change has taken place.*
- ***Domicile of dependence*** – *the domicile of a child will follow that of the person on whom they are legally dependent and thus, if the domicile of an individual's father were to change during his minority, the child's domicile would also follow the change.*
- ***Domicile of choice*** – *to acquire a domicile of choice it is necessary for an individual to give up his/her domicile of origin and settle permanently elsewhere. Strong evidence must be provided to show that there is an intention to remain in the new country permanently and that the individual's actions support this. Although an important factor, living in a country for a long time will not in itself be sufficient to show that a domicile of origin*

*has been abandoned and replaced with a domicile of choice. If a new domicile of choice is established, but is later abandoned, the domicile of origin will be automatically revived.*

## **Years of arrival and departure**

Although it is not technically possible to be treated as both resident and non-resident within the same UK tax year, the Inland Revenue usually allows a concessionary treatment for the tax years of arrival and departure.

An individual arriving in the UK for a period of at least two years will normally be treated as UK resident from the day of arrival, but not resident for the period from the previous 6 April until the day prior to the day of arrival. Non-UK-source income arising prior to the commencement of UK residence is not chargeable to UK tax, regardless of whether the individual is treated as domiciled in the UK and whether the income is remitted to the UK.

In order to maximise the advantage of this concession, it is advisable to ensure that any interest-bearing bank accounts or deposits are liquidated prior to arrival so that they can be brought to the UK free of any UK tax.

Non-UK domiciled individuals should consider whether they should set up separate overseas bank accounts and/or arrange dual contracts of employment to maximise the advantages that can be gained as a result of their status. It is vital to take professional advice in this respect prior to arrival in the UK, so that the many pitfalls can be avoided. Please talk to PKF's tax department for help.

This split-year concession with regards to income tax is also normally applied to individuals leaving the UK. They are treated as non-UK resident from the day following the day of their departure. As far as possible, overseas bank accounts and deposits should be arranged so that any interest or income is credited after UK residence has ceased. If this can be achieved, such income will not be chargeable to UK tax. A similar concession applies for capital-gains-tax purposes.

## **Income tax**

Subject to the provisions of a specific double-taxation agreement, all UK-source income, other than that from certain tax-exempt investments, is chargeable to UK income tax, regardless of residence, ordinary residence or domicile status. For this purpose, employment income is treated as sourced where the duties are carried out and not from

where payment is made. Non-resident individuals are not chargeable to income tax on any foreign-source income, even if remitted to the UK.

Income from foreign sources (including the Channel Islands) is charged on an arising basis for individuals who are resident, ordinarily resident and domiciled in the UK. However, resident or ordinarily resident individuals who are foreign domiciled are not chargeable on non-UK-source income unless it is remitted here.

Income tax is charged at progressive rates, as set out in Appendix I.

### **Employee benefits**

Any benefits provided by an employer in connection with employment are usually taxed in the same way as any other remuneration, although the taxable value varies, according to the type of benefit provided. Common benefits in the UK include employer-provided motor cars and private fuel, accommodation and medical benefits.

There are scale-benefit charges for motor cars, based on the list price and carbon-dioxide emissions of the vehicle. There is no reduction for business mileage. Similarly there are scale charges for private fuel provided.

### **National Insurance Contributions (NIC)**

For 2004/05, employees pay non-refundable NIC at the rate of 11% for salaries between £395 and £2,644 per month and an additional 1% for any excess. Employers' contributions are currently charged at the rate of 12.8% on all monthly earnings over £395.

### **Council tax**

Each self-contained residence attracts an annual charge to council tax. The charge is set by the local authority in which the dwelling is situated and is based on the market value of the property in the basis year.

### **Capital gains tax**

Capital gains tax is chargeable on gains of individuals who are resident or ordinarily resident in the UK. Taxpayers who are foreign domiciled are only taxed on non-UK-source gains if the proceeds are remitted to the UK.

Capital gains are aggregated with other taxable sources of income and assessed at the individual's top rate of tax. An annual exemption is available, which is deducted from total chargeable gains. In addition, "indexation relief" and "taper relief" may be available. Both help to mitigate the impact of capital gains tax.

For assets acquired prior to 6 April 1998, indexation relief can be claimed for the period from the date of acquisition up to 5 April 1998. Thereafter taper relief may be due. The amount that can be claimed depends on the length of ownership and the type of assets disposed of.

A business asset owned for two years or more will attract taper relief at the rate of 75%, which means that a 40% taxpayer will have an effective maximum capital gains tax rate of 10%. Non-business assets have to be held for at least three years before taper relief is available and will attract relief at 5% per year thereafter, up to a maximum of 40%. Non-business assets which were held on 17 March 1998 attract a bonus year for taper-relief purposes.

## **Inheritance tax**

Inheritance tax is chargeable on transfers on death and on certain lifetime transfers. For UK-domiciled transferors, worldwide assets are brought into account, whereas for foreign-domiciled transferors only UK-situated assets are chargeable. Unlike income tax and capital gains tax, UK domicile for inheritance tax purposes is automatically acquired if, at the date of the transfer, the individual has been resident in the UK in at least 17 out of the previous 20 tax years.

There are two rates of inheritance tax on transfers on death: a nil rate that for 2004/05 covers the first £263,000 of value and 40% on the balance. There are a number of exemptions and reliefs, in particular transfers to spouses with the same domicile status and transfers involving certain business assets and shareholdings. There are also a small number of double-estate taxation treaties which can affect the charge in the UK. PKF's tax department should be consulted to ensure that assets located abroad remain outside the scope of UK inheritance tax in appropriate cases.

## Individuals leaving the UK

UK tax-residence status will be lost immediately if an individual goes to work full time outside the UK for a period covering a full tax year, subject to certain temporary visits to the UK. Where a UK tax-resident individual leaves the UK for non-work reasons, he will continue to be treated as UK-resident as long as his presence in the UK averages 91 days or more over four consecutive fiscal years.

An anti-avoidance measure exists to catch certain individuals who seek to move abroad temporarily to avoid capital gains tax. The affected individuals are those who have been resident in the UK for four out of the last seven years. The liability extends to assets held by the individual at the time of becoming non-resident and will come into effect if the individual returns to the UK within a period of five years.



# Appendix I: Tax rates and allowances in the UK



## Income tax

Main personal reliefs	2004/05	2003/04
<b>Personal allowance</b>		
Basic	£4,745	£4,615
Age 65–74	£6,830	£6,610
Age 75+	£6,950	£6,720
Age allowance income limit	£18,900	£18,300
Blind person	£1,560	£1,510
<b>Married couple's allowance<sup>1</sup></b>		
Basic	Nil	Nil
Age 65–74	£5,725*†	£5,565*†
Age 75+	£5,795*†	£5,635*†
Age allowance income limit	£18,900	£18,300

Note: <sup>1</sup> Married couple's allowance in addition to personal allowance.

\* Relief restricted to 10%.

† Available where either spouse is born before 6 April 1935.

## Tax rates

Rate %	2004/05		2003/04	
	Taxable income	Tax on band	Taxable income	Tax on band
10	£0–2,020	£202	£0–1,960	£196
22	£2,021–31,400	£6,463	£1,961–30,500	£6,278
40	Excess	–	Excess	–

Note: The tax charge on savings income is 10% for starting rate taxpayers, 20% for basic rate taxpayers and 40% for higher rate taxpayers. The rates applicable to dividends are 10% for starting rate and basic rate taxpayers and 32.5% for higher rate taxpayers.

## Income tax reliefs and incentives

Annual limits	2004/05	2003/04
Enterprise investment scheme <sup>†</sup>	<b>£200,000</b>	£150,000
Venture Capital Trust <sup>#</sup>	<b>£200,000</b>	£100,000
Individual Saving Accounts		
Total investment	<b>£7,000</b>	£7,000
Stocks & shares element	<b>£3,000</b>	£3,000
Cash element	<b>£3,000</b>	£3,000
Life assurance element	<b>£1,000</b>	£1,000
Gift Aid and Payroll Giving scheme <sup>†</sup>	<b>no limit</b>	no limit

Notes: <sup>\*</sup>Tax relief restricted to 20% for investor

<sup>†</sup>Tax relief at marginal tax rate

<sup>#</sup>Tax relief given at 40% for 2004/05 and 2005/06 but restricted to 20% for earlier years.

## Vehicle benefits

Company cars 2003/04 to 2006/07			Car benefit	Fuel benefit
CO <sub>2</sub> emissions in grams per kilometre			% of car's price taxed	
2005/06* & 2006/07*	2004/05*	2003/4*		
140	145	155	15 <sup>1</sup>	15 <sup>1</sup>
175	180	190	22 <sup>1</sup>	22 <sup>1</sup>
225	230	240	32 <sup>1</sup>	32 <sup>1</sup>
230	235	245	33 <sup>2</sup>	33 <sup>2</sup>
235	240	250	34 <sup>3</sup>	34 <sup>3</sup>
240	245	255	35 <sup>4</sup>	35 <sup>4</sup>

Notes: <sup>\*</sup> Each 5 grams per kilometre, increase % by 1%

Supplement only if car runs solely on diesel (unless Euro IV emissions compliant):

<sup>1</sup> Add 3%. <sup>2</sup> Add 2%. <sup>3</sup> Add 1%. <sup>4</sup> Maximum charge, so no diesel supplement.

Company vans	1993/94 to 2005/06
Vans under 4 years	£500
Vans 4 years and over at end of tax year	£350

Note: Alternative benefit of £5.00 per day available.

Also see Inland Revenue approved payments below.

From 6 April 2005 a nil charge will apply to employees who have to take their van home but are not allowed other private use.

From 2007/08 the discount for older vans will be removed and the scale charge for unrestricted use will increase to £3,000. An additional fuel charge of £500 will also apply.

Inland Revenue approved mileage allowance payments		
	2002/03 onwards	
	Up to 10,000 miles	Over 10,000 miles
Cars and vans	40p	25p
Motorcycles	24p	24p
Bicycles	20p	20p
Each passenger same trip	5p	5p

## Pensions

Age at start of year	% of "net relevant earnings"	
	Personal pension schemes	Retirement annuity contracts
Up to 35	17.5	17.5
36–45	20.0	17.5
46–50	25.0	17.5
51–55	30.0	20.0
56–60	35.0	22.5
61 or over	40.0	27.5

Pensions scheme earnings cap		
	From 6/4/04	From 6/4/03
Limit on "net relevant earnings"	£102,000	£99,000

Note: Applies to:

- All personal pension schemes from 6 April 1989.
- Members of occupational schemes set up on or after 14 March 1989.
- Persons joining any occupational scheme on or after 1 June 1989.

## Capital gains

	2004/05	2003/04
Annual exemption	£8,200	£7,900
For trusts the exemption is:*	£4,100	£3,950

Note: Gains exceeding the annual exemption are charged to tax as if they were the top slice of income.  
\* Trusts for the disabled have the full individual's exemption.

Taper relief			
Complete years of ownership post 5/4/98*	% of gain chargeable		
	Business assets		Other assets*
	2002/03 onwards	2000/01–2001/02	1998/99 onwards
1	50	87.5	100
2	25	75	100
3	25	50	95
4	25	25	90
5	25	25	85
6	25	25	80
7	25	25	75
8	25	25	70
9	25	25	65
10 or more	25	25	60

Note: \* Other assets: add bonus year if held on 17 March 1998.

## National insurance contributions 2004/05

Class 1 – Not contracted-out		
Monthly rate of pay	Employee	Employer
Up to £395	Nil	Nil
£395.01–£2,644	11%	12.8%
Over £2,644	1%	12.8%

Class 1 – Contracted-out			
Monthly rate of pay	Employee*	Employer COSR**	Employer COMP#
Up to £343	Nil	Nil	Nil
£343.01–£395	–1.6%	–3.5%	–1.0%
£395.01–£2,644	9.4%	9.3%	11.8%
Over £2,644	1%	12.8%	12.8%

Note: \*\*COSR – contracted-out salary related.

#COMP – contracted-out money purchase.

\* Any net rebate due in respect of the "employee's contribution" is for the benefit of the employer.

### Class 2

Self-employed £2.05 per week, where earnings are £4,215 per annum and over.

### Class 3

Voluntary £7.15 per week.

### Class 4

Self-employed – 8% of profits between £4,745 and £31,720 per annum.  
– 1% of profits in excess of £31,720 per annum.

## Inheritance tax

### Tables of rates on death

Rate of tax	2004/05	2003/04
Nil	£263,000	£255,000
40%	Excess	Excess

### Lifetime transfers

Gifts to individuals and certain trusts are potentially exempt transfers. If the donor survives seven years the transfers are completely exempt. All other lifetime transfers are chargeable to tax at half the rate chargeable on death. Where tax is charged on death on any gift made within seven years of death, taper relief may apply as follows:

Years before death	0–3	3–4	4–5	5–6	6–7
Death rate tax percentage	100	80	60	40	20

### Main lifetime exemptions

Annual exemption	£3,000
Small gifts (per donee)	£250

### Main reliefs

Reduction in value transferred	From 6/4/96
Whole or part of a business	100%
Quoted shares giving control	50%
Unquoted shares*	100%
Agricultural relief – working farmer and property let on tenancies starting after 31 August 1995	100%
Agricultural relief – other let property	50%

Note: \* Shares quoted on AIM and USM are treated as unquoted.

## Corporation tax

Years commencing	1/4/04
<b>Small companies' starting rate (SCSR)</b>	<b>Nil</b>
SCSR limit*	£10,000
SCSR marginal rate limit*	£50,000
Fraction in SCSR marginal band	19/400
SCSR marginal rate	23.75%
<b>Small companies' rate (SCR)</b>	<b>19%</b>
SCR limit	£300,000
SCR marginal rate limit	£1,500,000
Fraction in SCR marginal band	11/400
SCR marginal rate	32.75%
<b>Full rate</b>	<b>30%</b>

Note: \* Non-corporate dividend rate is 19% for year to 31 March 2005.

## Capital allowances

	Allowance	Rate
Machinery and plant (excluding cars, ships and assets for leasing)	first year	50%*† <sup>a</sup>
	writing down	25% †
Cars, ships and assets for leasing	writing down	25%
Industrial buildings	writing down	4%
Agricultural buildings	writing down	4%
Commercial buildings enterprise zones	first year	100%
Information and communications technology	first year	100%**
Energy saving plant and machinery	first year	100%
Water efficient plant and machinery	first year	100%#

Note: † For long-life assets lower rates apply.

\* Applicable to expenditure incurred by small and medium sized businesses as defined by the Companies Act.

\*\* Applicable to expenditure incurred by small businesses from 1 April 2000 to 31 March 2004.

# Applicable to expenditure incurred from 1 April 2003

<sup>a</sup> For year to 31 March 2005 (previously 40%).

## Value-added tax

Standard rate from 1/4/91		17.5%	
		From 1/4/04	From 10/4/03
<b>Registration level</b>	– Annual turnover	<b>£58,000</b>	£56,000
<b>Deregistration level</b>	– Annual turnover	<b>£56,000</b>	£55,000

## VAT on fuel benefits

Amounts treated as additional output tax per quarter				
Engine size	From 1/5/04		From 1/5/03	
	Petrol & LPG	Diesel	Petrol & LPG	Diesel
Up to 1400cc	£34.55	£32.17	£35.29	£33.51
1401cc–2000cc	£43.63	£32.17	£44.68	£33.51
Over 2000cc	£64.34	£40.65	£65.82	£42.14

## Stamp duty and stamp duty land tax (SDLT)

Rates of stamp duty from 22/3/00 and SDLT on acquisition of freehold land and property from 1/12/03.		
Domestic	Commercial	Rate
£60,000 or less	£150,000	Nil
£60,001–£250,000	£150,001–£250,000	1%
£250,001–£500,000	£250,001–£500,000	3%
Over £500,000	Over £500,000	4%

Note: The rate on shares is 0.5%.

## SDLT on leases

The SDLT charge on leases is calculated as 1% of the “net present value” (NPV) of the rent due in respect of the lease, less an exemption. The NPV of a lease is calculated by taking the total rent payable over the life of the lease and discounting it by 3.5% per year.

Net present value table					
Number of years	Annual rent payable	Net present value	Number of years	Annual rent payable	Net present value
	£	£		£	£
1	1,000	966	6	1,000	5,329
2	1,000	1,900	7	1,000	6,115
3	1,000	2,802	8	1,000	6,874
4	1,000	3,673	9	1,000	7,608
5	1,000	4,515	10	1,000	8,317

## SDLT rates on leases

Residential leases (based on NPV)		Commercial leases (based on NPV)	
	Rate		Rate
0–£60,000	0	0–£150,000	0
Over £60,000	1%*	Over £150,000	1%*

\* Charged on the excess NPV only.

## Disadvantaged areas exemption

For transfers of properties or leases of properties within areas classified as disadvantaged see <http://www.inlandrevenue.gov.uk/so/disadvantaged.htm#1> for a list of areas. Exemption from SDLT is as below.

	Residential property	Commercial property
Freehold	consideration of £150,000 or less	all transfers
Leasehold	NPV of total rent is £150,000 or less or annual rental does not exceed £600 and any premium is £150,000 or less	all lease transfers

Note: For transactions in land situated in disadvantaged areas that were completed and substantially performed before 1/12/03 similar reliefs from Stamp Duty apply.

## Insurance premium tax

	%
Standard rate	5
Higher rate	17.5



# Appendix II: Example of income tax and corporation tax calculation

## Income tax calculation

An individual has the following income in the tax year to 5 April 2005 :

		£
Earned income		40,000
Bank interest		100
Dividends from UK companies (Dividends carry a tax credit equivalent to 1/9 of the net dividend, i.e. 10% of the gross)		810

The resulting taxable income is as follows:

		£
Earned income		40,000
Bank interest		100
Gross UK dividend income		900
<b>Total income</b>		<b>41,000</b>
<b>Less personal allowance</b>		<b>(4,750)</b>
<b>Taxable income</b>		<b>36,255</b>

Income tax payable:			
Tax year to 5 April 2005			
	£		£
First	2,020 x	10% =	202
(31,400–2,020)	29,380 x	22% =	6,464
Balance	3,955 x	40% =	1,582
Dividend	900 x	32.5% =	293
Less: dividend tax credit			(90)
<b>Total income payable</b>			<b>8,450</b>

Company results for the year ended 31 December 2004 as follows:	
	£
Trading profits	50,000
Rental income	50,000
Dividends from UK companies	5,000
Capital gains	70,000
Depreciation included in trading profits	25,000
Capital allowances relating to trade	10,000
Trading tax losses brought forward from previous year	35,000

Computation of taxable profit for the year ended 31 December 2004:	
	£
Trading profits	50,000
Disallow depreciation included in above	25,000
Less: Capital allowances on fixed assets	(10,000)
Taxable trading income	65,000
Less: Losses brought forward from previous years	(35,000)
Net trading income for tax purposes	30,000
Rental income	50,000
Capital gains	70,000
<b>Total taxable profits</b>	<b>150,000</b>
<b>Corporation tax payable (x 19%)</b>	<b>28,500</b>

Notes:

- (1) *Corporation tax rates are set by reference to fiscal years ended on 31 March. If there are changes in tax rates or thresholds between tax years, profits are split between tax years and tax chargeable calculated for each fiscal year accordingly.*
- (2) *Dividend income from UK companies is not charged to corporation tax.*



## Appendix III: List of treaty and non-treaty withholding-tax rates



The rates in the table below reflect the lower of the treaty rate and the rate under domestic tax law. There is no withholding tax on dividends. The table is for general guidance only and in specific cases reference should be made to the relevant double-taxation agreement.

	Payments by UK companies of	
	interest (%)	royalties (%)
Non-treaty countries	20	22
Treaty countries		
Antigua	20 (b)	0
Argentina	12	3/5/10/15 (c)
Australia	0/10 (f)	5
Austria	0	0/10 (d)
Azerbaijan	10	5/10 (e)
Bangladesh	7.5/10 (f)	10
Barbados	15	0
Belarus (g)	0	0
Begium	15	0
Belize	20 (b)	0
Bolivia	15	15
Bosnia (h)	10	10
Botswana	15	15
Brunei	20 (b)	0
Bulgaria	0	0
Burma (Myanmar)	20 (b)	0
Canada	10	0/10 (e)
China, People's Republic of	10	7/10 (i)
Croatia (h)	10	10

Payments by UK companies of

	interest (%)	royalties (%)
Non-treaty countries	20	22
Treaty countries		
Cyprus	10	0
Czech Republic	0	0
Denmark	0	0
Egypt	15	15
Estonia	10	5/10 (i)
Falkland Islands	0	0
Fiji	10	0/15 (e)
Finland	0	0
France	0	0
Gambia, The	15	12.5
Germany	0	0
Ghana	12.5	12.5
Greece	0	0
Grenada	20 (b)	0
Guernsey	20 (b)	22 (b)
Guyana	15	10
Hungary	0	0
Iceland	0	0
India	0/15 (f)	10/15 (i)
Indonesia	0/15 (f)	10
Ireland	0	0
Isle of Man	20 (b)	22 (b)
Israel	15	0
Italy	10	8
Ivory Coast	15	10
Jamaica	12.5	10
Japan	10	10
Jersey	20 (b)	22 (b)
Jordan	10	10
Kazakhstan	10	10

Payments by UK companies of		
	interest (%)	royalties (%)
Non-treaty countries	20	22
Treaty countries		
<b>Kenya</b>	<b>15</b>	<b>15</b>
<b>Kiribati</b>	<b>20 (b)</b>	<b>0</b>
<b>Korea, Republic of (South Korea)</b>	<b>10</b>	<b>2/10 (i)</b>
<b>Kuwait</b>	<b>0</b>	<b>10</b>
<b>Latvia</b>	<b>10</b>	<b>5/10 (i)</b>
<b>Lesotho</b>	<b>10</b>	<b>10</b>
<b>Lithuania</b>	<b>0/10 (m)</b>	<b>5/10 (i)</b>
<b>Luxembourg</b>	<b>0</b>	<b>5</b>
<b>Macedonia (h)</b>	<b>10</b>	<b>10</b>
<b>Malawi</b>	<b>0/25 (j)</b>	<b>0/25 (j)</b>
<b>Malaysia</b>	<b>10</b>	<b>8</b>
<b>Malta</b>	<b>10</b>	<b>10</b>
<b>Mauritius</b>	<b>0/20 (n)</b>	<b>15</b>
<b>Mexico</b>	<b>0/5/10/15 (a)</b>	<b>10</b>
<b>Mongolia</b>	<b>7/10 (f)</b>	<b>5</b>
<b>Montserrat</b>	<b>20 (b)</b>	<b>0</b>
<b>Morocco</b>	<b>10</b>	<b>10</b>
<b>Namibia</b>	<b>0</b>	<b>0/5 (e)</b>
<b>Netherlands</b>	<b>0</b>	<b>0</b>
<b>New Zealand</b>	<b>10</b>	<b>10</b>
<b>Nigeria</b>	<b>12.5</b>	<b>12.5</b>
<b>Norway</b>	<b>0</b>	<b>0</b>
<b>Oman</b>	<b>0</b>	<b>0</b>
<b>Pakistan</b>	<b>15</b>	<b>12.5</b>
<b>Papua New Guinea</b>	<b>10</b>	<b>10</b>
<b>Philippines</b>	<b>10/15 (k)</b>	<b>25</b>
<b>Poland</b>	<b>0</b>	<b>10</b>
<b>Portugal</b>	<b>10</b>	<b>5</b>
<b>Romania</b>	<b>10</b>	<b>10/15 (e)</b>
<b>Russia</b>	<b>0</b>	<b>0</b>

Payments by UK companies of

	interest (%)	royalties (%)
Non-treaty countries	20	22
<b>Treaty countries</b>		
St Kitts and Nevis	20 (b)	0
Serbia and Montenegro	10	10
Sierra Leone	20 (b)	0
Singapore	10	10
Slovak Republic (Slovakia)	0	0
Slovenia (h)	10	10
Solomon Islands	20 (b)	0
South Africa	0	0
Spain	12	10
Sri Lanka	0/10 (f)	0/10 (e)
Sudan	15	10
Swaziland	20 (b)	0
Sweden	0	0
Switzerland	0	0
Taiwan	10	10
Tajikistan (g)	0	0
Thailand	0/25 (f)	5/15 (e)
Trinidad and Tobago	10	0/10 (e)
Tunisia	10/12 (f)	15
Turkey	15	10
Turkmenistan (g)	0	0
Tuvalu	20 (b)	0
Uganda	20 (b)	0
Ukraine	0	0
United States	0	0
Uzbekistan	5	5
Venezuela	0/5 (f)	5/7 (l)
Vietnam	10	10
Zambia	10	10
Zimbabwe	10	10

## Notes

- (a) *The zero rate applies to interest paid by a public body; 5% rate applies to interest paid to banks and insurance companies and to interest on bonds and securities regularly and substantially traded on a recognised securities market; the 10% rate applies to interest paid by a bank by a purchaser of machinery and equipment in connection with a sale on credit.*
- (b) *The domestic rate applies – there is no reduction under the treaty.*
- (c) *The 3% applies to royalties paid for news; the 5% rate applies to copyright royalties (other than films, etc.); the 10% rate applies to industrial royalties; the 15% rate applies to any other royalties.*
- (d) *The higher rate applies if the Austrian company controls more than 50% of the voting stock in the UK company.*
- (e) *The lower rate applies to copyright royalties.*
- (f) *The lower rate applies to banks and other financial institutions.*
- (g) *The treaty concluded between the UK and the former USSR.*
- (h) *The treaty concluded between the UK and the former Yugoslavia.*
- (i) *The lower rate applies to equipment leasing.*
- (j) *The higher rate applies if the Malawi company controls more than 50% of the voting power in the UK company.*
- (k) *The lower rate applies to interest on listed bonds.*
- (l) *The lower rate applies to royalties for patents and know-how.*
- (m) *The lower rate applies to interest paid by a public body.*
- (n) *The zero rate applies to interest paid to banks; the domestic rate applies in other cases (no reduction under treaty).*



# Appendix IV: Useful contacts



## Accountancy bodies

### **Association of Accounting Technicians (AAT)**

154 Clerkenwell Road  
London EC1R 5AD

Tel: +44 (0)20 7837 8600

Email: [aat@aat.org.uk](mailto:aat@aat.org.uk)

Web: [www.aat.co.uk](http://www.aat.co.uk)

### **Association of Chartered Certified Accountants (ACCA)**

64 Finnieston Square  
Glasgow G3 8DT

Tel: +44 (0)141 582 2000

Email: [info@accaglobal.com](mailto:info@accaglobal.com)

Web: [www.acca.co.uk](http://www.acca.co.uk)

### **Chartered Institute of Management Accountants (CIMA)**

26 Chapter Street  
London SW1P 4NP

Tel: +44 (0)20 8849 2251

Email: [cima.services@cimaglobal.com](mailto:cima.services@cimaglobal.com)

Web: [www.cimaglobal.com](http://www.cimaglobal.com)

## **Institute of Chartered Accountants in England & Wales (ICAEW)**

Chartered Accountants' Hall  
PO Box 433  
London EC2P 2BJ

Tel: +44 (0)20 7920 8100  
Email: see website  
Web: [www.icaew.co.uk](http://www.icaew.co.uk)

## **Development agencies**

Some of the agencies have offices or representatives abroad. See the individual website for further details.

### **Advantage West Midlands**

3 Priestley Wharf  
Holt Street  
Aston Science Park  
Birmingham B7 4BN

Tel: +44 (0)121 380 3500  
Email: [info@advantagewm.co.uk](mailto:info@advantagewm.co.uk)  
Web: [www.advantagewm.co.uk](http://www.advantagewm.co.uk)

### **East of England Development Agency**

The Business Centre  
Station Road  
Histon  
Cambridge CB4 9LQ

Tel: +44 (0)1223 713 900  
Email: [knowledge@eeda.org.uk](mailto:knowledge@eeda.org.uk)  
Web: [www.eeda.org.uk](http://www.eeda.org.uk)

## **East Midlands Development Agency**

Apex Court  
City Link  
Nottingham NG2 4LA

Tel: +44 (0)115 988 8300  
Email: [info@emd.org.uk](mailto:info@emd.org.uk)  
Web: [www.emda.org.uk](http://www.emda.org.uk)

## **Industrial Development Board for Northern Ireland**

44–58 May Street  
Belfast BT1 4NN  
Northern Ireland

Tel: +44 (0)2890 239 090  
Email: [info@investni.com](mailto:info@investni.com)  
Web: [www.investni.com](http://www.investni.com)

## **London Development Agency**

Information Department  
Devon House  
58–60 St Katharines Way  
London E1W 1JX

Tel: +44 (0)20 7954 4500  
Email: see website  
Web: [www.lda.gov.uk](http://www.lda.gov.uk)

## **North of England Inward Investment Agency**

assists US companies set up in the north of England

Contacts: see website  
Web: [www.thenoe.com](http://www.thenoe.com)

## **Northwest Development Agency**

PO Box 37  
Renaissance House  
Centre Park  
Warrington  
Cheshire WA1 1XB

Tel: +44 (0)1925 400 100

Email: see website

Web: [www.nwda.co.uk](http://www.nwda.co.uk)

## **One Northeast**

Stella House  
Goldcrest Way  
Newcastle upon Tyne NE15 8NY

Tel: +44 (0)191 229 6200

Email: see website

Web: [www.onenortheast.co.uk](http://www.onenortheast.co.uk)

## **Scottish Development International**

Enquiry desk  
Scottish Development International  
Atlantic Quay  
150 Broomielaw  
Glasgow G2 8LU

Tel: +44 (0)141 228 2828

Email: [investment@scotent.co.uk](mailto:investment@scotent.co.uk)

[www.scottishdevelopmentinternational.com](http://www.scottishdevelopmentinternational.com)

## **South East England Development Agency (SEEDA)**

Cross Lanes  
Guildford  
Surrey GU1 1YA

Tel: +44 (0)1483 484 200  
Email: [seeda@seeda.co.uk](mailto:seeda@seeda.co.uk)  
Web: [www.seeda.co.uk](http://www.seeda.co.uk)

## **South West of England Regional Development Agency**

Sterling House  
Dix's Field  
Exeter EX1 1QA

Tel: +44 (0)1392 214 747  
Email: [enquiries@southwestrda.org.uk](mailto:enquiries@southwestrda.org.uk)  
Web: [www.southwestrda.org.uk](http://www.southwestrda.org.uk)

## **Welsh Development Agency**

Plas Glyndwr  
Kingsway  
Cardiff CF10 3AT

Tel: +44 (0)1443 845 500  
Email: [enquiries@wda.co.uk](mailto:enquiries@wda.co.uk)  
Web: [www.wda.co.uk](http://www.wda.co.uk)

## **Yorkshire Forward**

Victoria House  
Victoria Place  
Leeds LS11 5AE

Tel: +44 (0)113 394 9600  
Email: see website  
Web: [www.yorkshire-forward.com](http://www.yorkshire-forward.com)

## Government bodies

### **Department for Work and Pensions**

Correspondence Unit  
Room 540  
The Adelphi  
1–11 John Adam Street  
London WC2N 6HT

Tel: +44 (0)207 7712 2386

Email: see website

Web: [www.dwp.gov.uk](http://www.dwp.gov.uk)

### **Home Office**

Public Enquiry Team  
7<sup>th</sup> Floor  
50 Queen Anne's Gate  
London SW1H 9AT

Tel: +44 (0)870 000 1585

Email: [public.enquiries@homeoffice.gsi.gov.uk](mailto:public.enquiries@homeoffice.gsi.gov.uk)

Web: [www.homeoffice.gov.uk](http://www.homeoffice.gov.uk)

### **National Health Service (NHS)**

Department of Health  
Richmond House  
79 Whitehall  
London SW1A 2NL

Tel: +44 (0)20 7210 4850

Email: [dhmail@doh.gsi.gov.uk](mailto:dhmail@doh.gsi.gov.uk)

Web: [www.nhs.uk](http://www.nhs.uk)

For a full A–Z list of central government departments, executive agencies and non-governmental public bodies see [www.direct.government.uk](http://www.direct.government.uk)

## Regulatory & supervisory bodies

### **British Standards Institution (BSI)**

Group headquarters  
389 Chiswick High Road  
London W4 4AL

Tel: +44 (0)20 8996 9000  
Email: [cservice@bsi-global.com](mailto:cservice@bsi-global.com)  
Web: [www.bsi-global.com](http://www.bsi-global.com)

### **Department of Trade and Industry (DTI)**

DTI Enquiry Unit  
1 Victoria Street  
London SW1H 0ET

Tel: +44 (0)20 7215 5000  
Email: [dti.enquiries@dti.gsi.gov.uk](mailto:dti.enquiries@dti.gsi.gov.uk)  
Web: [www.dti.gov.uk](http://www.dti.gov.uk) and [www.businesslink.gov.uk](http://www.businesslink.gov.uk)

### **Financial Services Authority (FSA)**

The Financial Services Authority  
25 The North Colonnade  
Canary Wharf  
London E14 5HS

Tel: +44 (0)20 7676 1000  
Email: [enquiries@fsa.gov.uk](mailto:enquiries@fsa.gov.uk)  
Web: [www.fsa.gov.uk](http://www.fsa.gov.uk)

## **Health and Safety Executive (HSE)**

HSE Infoline

Caerphilly Business Park

Caerphilly CF83 3GG

Tel: +44 (0)8701 545 500

Email: [hseinformationservice@natbnt.com](mailto:hseinformationservice@natbnt.com)

Web: [www.hse.gov.uk](http://www.hse.gov.uk)

## **Institute of Directors (IoD)**

116 Pall Mall

London SW1Y 5ED

Tel: +44 (0)20 7766 8866

Email: [enquires@iod.com](mailto:enquires@iod.com)

Web: [www.iod.co.uk](http://www.iod.co.uk)

## **Office of Fair Trading**

Fleetbank House

2–6 Salisbury Square

London EC4Y 8JX

Tel: +44 (0)845 722 4499

Email: [enquiries@oft.gsi.gov.uk](mailto:enquiries@oft.gsi.gov.uk)

Web: [www.oft.gov.uk](http://www.oft.gov.uk)

## **The Patent Office**

Concept House

Cardiff Road

Newport NP10 8QQ

Tel: +44 (0)1633 813 930

Email: [enquiries@patent.gov.uk](mailto:enquiries@patent.gov.uk)

Web: [www.patent.gov.uk](http://www.patent.gov.uk)

## **Registrar of Companies (Companies House)**

Companies House  
International Advisory Services  
Maindy  
Crown Way  
Cardiff CF14 3UZ

Tel: +44 (0)870 333 3636

Email: [enquiries@companies-house.gov.uk](mailto:enquiries@companies-house.gov.uk)

Web: [www.companieshouse.gov.uk](http://www.companieshouse.gov.uk)

## **Stock market**

### **Alternative Investment Market (AIM)**

10 Paternoster Square  
London EC4M 7LS

Tel: +44 (0)20 7797 4404

Email: [aim@londonstockexchange.com](mailto:aim@londonstockexchange.com)

Web: [www.londonstockexchange.com/aim/](http://www.londonstockexchange.com/aim/)

### **London Stock Exchange**

10 Paternoster Square  
London EC4M 7LS

Tel: +44 (0)20 7797 1000

Email: see website

Web: [www.londonstockexchange.com](http://www.londonstockexchange.com)

# Taxation

## **Chartered Institute of Taxation (CIOT)**

12 Upper Belgrave Street  
London SW1X 8BB

Tel: +44 (0)20 7235 9381  
Email: [post@tax.org.uk](mailto:post@tax.org.uk)  
Web: [www.tax.org.uk](http://www.tax.org.uk)

## **HM Customs and Excise**

National Advice Service  
Thomas Paine House  
Angel Square  
Torrens Street  
London EC1V 1TA

Tel: +44 (0)20 8929 0152  
Email: [enquiries.lon@hmce.gsi.gov.uk](mailto:enquiries.lon@hmce.gsi.gov.uk)  
Web: [www.hmce.gov.uk](http://www.hmce.gov.uk)

## **Inland Revenue (IR)**

Enquiry Service  
5<sup>th</sup> Floor  
City Gate House  
39–49 Finsbury Square  
London EC2A 1QT

Tel: +44 (0)845 302 1455  
Email: see website  
Web: [www.inlandrevenue.gov.uk](http://www.inlandrevenue.gov.uk)

## Trade associations & advisory services

### **British Exporters Association (BEA)**

Broadway House  
Tothill Street  
London SW1H 9NQ

Tel: +44 (0)20 7222 5419

Email: [bexamail@aol.com](mailto:bexamail@aol.com)

Web: [www.bexa.co.uk](http://www.bexa.co.uk)

### **British Retail Consortium**

21 Dartmouth Street  
London SW1H 9BP

Tel: +44 (0)20 7854 8900

Email: [info@brc.org.uk](mailto:info@brc.org.uk)

Web: [www.brc.org.uk](http://www.brc.org.uk)

### **Confederation of British Industry (CBI)**

Centre Point  
103 New Oxford Street  
London WC1A 1DU

Tel: +44 (0)20 7379 7400

Email: [information@cbi.org.uk](mailto:information@cbi.org.uk)

Web: [www.cbi.org.uk](http://www.cbi.org.uk)

### **Export Credits Guarantee Department (ECGD)**

PO Box 2200  
2 Exchange Tower  
Harbour Exchange Square  
London E14 9GS

Tel: +44 (0)20 7512 7000

Email: [public.enquiries@ecgd.gsi.gov.uk](mailto:public.enquiries@ecgd.gsi.gov.uk)

Web: [www.ecgd.gov.uk](http://www.ecgd.gov.uk)

## **Federation of Small Businesses (FSB)**

Sir Frank Whittle Way  
Blackpool Business Park  
Blackpool FY4 2FE

Tel: +44 (0)1253 336 000  
Email: [membership@fsb.org.uk](mailto:membership@fsb.org.uk)  
Web: [www.fsb.org.uk](http://www.fsb.org.uk)

## **Institute of Export (IOE)**

Minerva Business Park  
Lynch Wood  
Peterborough PE2 6FT

Tel: +44 (0)1733 404 400  
Email: [institute@export.org.uk](mailto:institute@export.org.uk)  
Web: [www.export.org.uk](http://www.export.org.uk)

## **Organisation for Economic Co-operation and Development (OECD)**

2 rue André Pascal  
F-75775 Paris Cedex 16  
France

Tel: +33 1 45 24 82 00  
Email: [webmaster@oecd.org](mailto:webmaster@oecd.org)  
Web: [www.oecd.org](http://www.oecd.org)



# PKF office list

## Birmingham

New Guild House  
45 Great Charles St  
Queensway  
Birmingham  
B3 2LX  
Tel 0121 212 2222  
Fax 0121 212 2300

## Bristol

Pannell House  
6-7 Litfield Place  
Clifton  
Bristol  
BS8 3LX  
Tel 0117 906 4000  
Fax 0117 974 1239

## Cardiff

18 Park Place  
Cardiff CF10 3PD  
Tel 029 2064 6200  
Fax 029 2064 6201

## Derby

Century House  
St James's Court  
Friar Gate  
Derby  
DE1 1BT  
Tel 01332 372936  
Fax 01332 371449

## Edinburgh

17 Rothesay Place  
Edinburgh  
EH3 7SQ  
Tel 0131 225 3688  
Fax 0131 225 6017

## Glasgow

78 Carlton Place  
Glasgow  
G5 9TH  
Tel 0141 429 5900  
Fax 0141 429 5901

## Great Yarmouth

141 King Street  
Great Yarmouth  
Norfolk NR30 2PQ  
Tel 01493 842281  
Fax 01493 330075

## Guildford

Pannell House  
Park Street  
Guildford  
Surrey  
GU1 4HN  
Tel 01483 564646  
Fax 01483 578880

## Ipswich

16 The Havens  
Ransomes Europark  
Ipswich  
Suffolk  
IP3 9SJ  
Tel 01473 320700  
Fax 01473 320800

## Leeds

Pannell House  
6 Queen Street  
Leeds LS1 2TW  
Tel 0113 228 0000  
Fax 0113 228 4242

## Leicester

Pannell House  
159 Charles Street  
Leicester LE1 1LD  
Tel 0116 250 4400  
Fax 0116 285 4651

## Lincoln

St Hugh's  
23 Newport  
Lincoln  
LN1 3DN  
Tel 01522 531441  
Fax 01522 510185

## Liverpool

52 Mount Pleasant  
Liverpool  
L3 5UN  
Tel 0151 708 8232  
Fax 0151 708 8169

## London

Farringdon Place  
20 Farringdon Road  
London  
EC1M 3AP  
Tel 020 7065 0000  
Fax 020 7065 0650

## Lowestoft

19-21 Surrey Street  
Lowestoft  
Suffolk  
NR32 1LP  
Tel 01502 574663  
Fax 01502 514620

## Manchester

Sovereign House  
Queen Street  
Manchester M2 5HR  
Tel 0161 832 5481  
Fax 0161 832 3849

## Norwich

Cedar House  
105 Carrow Road  
Norwich  
Norfolk  
NR1 1HP  
Tel 01603 615914  
Fax 01603 661626

## Nottingham

Regent House  
Clinton Avenue  
Nottingham  
NG5 1AZ  
Tel 0115 960 8171  
Fax 0115 960 3665

## Sheffield

Knowle House  
4 Norfolk Park Road  
Sheffield S2 3QE  
Tel 0114 276 7991  
Fax 0114 275 3538

## Offshore associated firms

### Dublin

Trinity House  
Charleston Road  
Ranelagh  
Dublin 6  
Tel 00 353 1 496 5388  
Fax 00 353 1 496 9226

### Guernsey

P.O. Box 296  
Suites 13&15  
Sarnia House  
Le Truchot  
St Peter Port  
Guernsey GY1 4NA  
Channel Islands  
Tel 01481 727927  
Fax 01481 710511

### Isle of Man

P.O. Box 16  
Analyst House  
20-26 Peel Road  
Douglas  
Isle of Man IM99 1AP  
Tel 01624 652000  
Fax 01624 652001