Deloitte.

Taxation and Investment in United Kingdom 2011

Reach, relevance and reliability

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1.0 Investment climate

1.1 Business environment

The U.K. comprises Great Britain (England, Wales and Scotland) and Northern Ireland. It is a constitutional monarchy and parliamentary democracy. Executive power lies with the prime minister and cabinet. The monarch is head of state. Parliament has an elected House of Commons and a non-elected House of Lords.

The U.K. is one of the largest economies in the world. As in most other developed countries, the manufacturing sector has been declining while the services and communications sectors have grown in importance.

Companies operating in the U.K. have access to a tariff-free market of consumers through the country's membership in the EU and free trade with Iceland, Liechtenstein, Norway and Switzerland through other agreements.

The U.K. has abolished all national barriers against imports set up in the past to protect troubled industries.

The U.K. is an EU member state, as well as a member of the OECD.

Price controls

The government, either directly or through regulatory agencies, has permanent price control powers over most public utilities, London taxi fares and milk.

Intellectual property

Patents, trademarks, copyrights and design rights are legally recognized in the U.K.

Intellectual property rights may be enforced through a civil suit (brought by the patent or trademark holder or by a licenser or licensee against an alleged infringer). Damages for patent and trademark infringement may be awarded based on the loss suffered by the owner of the intellectual property or in the form of a royalty payment. Copyright damages are assessed on essentially the same basis. Deliberate infringement of copyright on a commercial scale may also be a criminal offense.

The Trade Marks Act 1994 ensures that trademarks are afforded the same rights as in the EU. Under the Madrid Protocol, trademarks registered in a participating country offer the same protection in all participating countries. This avoids multiple applications and fees. The World Intellectual Property Organization (WIPO) administers the application system, although applications may be made in the U.K.

The Community Trademark offers uniform trademark protection in all EU countries through a single application. The Community application is an alternative to, and complementary with, national procedures and the Madrid Protocol. Community Trademarks are valid for 10 years and renewable indefinitely. An applicant may file for a Community Trademark at the British Patent Office or the EU trademark office, officially known as the Office for Harmonization in the Internal Market (Trade Marks and Designs), in Alicante, Spain. The Office for Harmonization in the Internal Market also offers an e-filing service.

Regulations have been passed to implement the EU Directive on Copyright and Related Rights in the Information Society. The directive adjusts and complements the existing legal framework on copyright to take into account the electronic environment, covering such areas as electronic copies and online transmission.

1.2 Currency

The U.K. is not part of the Eurozone. The currency in the U.K. is the pound sterling (GBP).

1.3 Banking and financing

Banks in the U.K. fall into four main categories: commercial banks of British origin (including banks often known as "high street banks"), commercial banks of foreign origin, investment banks and

retail banks (represented by former mutual building societies that have turned into commercial enterprises).

European Economic Area (EEA) banks can operate in the U.K. on the basis of the EU's "single passport" system; registration in their home country automatically entitles them to operate in the U.K., although they must notify the U.K.'s Financial Services Authority (FSA), an independent, non-governmental body that regulates the financial services industry, of their presence. Such banks remain subject to home country control. Financial institutions located in the offshore centers of the Channel Islands and the Isle of Man are not considered part of the U.K. banking sector.

The Bank of England is the U.K.'s central bank.

London is the main financial center, although Edinburgh, the capital of Scotland, remains an important financial center for investment management firms and mutual life assurance companies.

1.4 Foreign investment

The U.K. is the largest single base for non-EU companies setting up operations in Europe, and it is the largest repository in Europe for investment from the U.S.

Although the government has some power to block foreign acquisitions and compel divestments, it generally does not exercise any discriminatory controls over foreign takeovers. The main regulatory hazards for direct investors, especially those planning acquisitions, stem from the EU. For the most part, these reflect the European Commission's responsibility for cross-border mergers that could lead to monopolies. The Commission also has other concerns, such as practices that interfere with intra-EU trade.

The procedure for establishing a company in the U.K. is identical for U.K. and foreign investors. No approval mechanisms exist for foreign investment; foreigners may freely establish or purchase enterprises in the U.K., with few exceptions, and acquire land or buildings. There are no restrictions on the free flow of capital. Foreign companies are treated the same as U.K. companies.

Foreign ownership is limited in only a few strategic privatized companies.

Certain service activities (such as radio and land-based television broadcasting) are subject to licensing. The Communications Act has liberalized media ownership rules and made possible non-EEA ownership of British television and radio businesses, subject to the usual competition considerations.

1.5 Tax incentives

- Expenditure on certain energy efficient assets qualifies for a 100% tax deduction in the year of acquisition. The Annual Investment Allowance also provides for a full tax deduction for the first GBP 100,000 (GBP 25,000 from April 2012) of expenditure per business or group of companies each year. See section 3.3 for further details.
- Tax incentives for research and development (R&D) expenditure are available to both large companies and small and medium-sized entities (SMEs). For large companies, this takes the form of an enhanced deduction, at a rate of 130% of qualifying R&D expenditure, from taxable income. If the company is an SME the tax deduction is 200% of the qualifying expenditure (rising to 225% from April 2012), subject to State Aid approval. Non-taxpaying SMEs can claim a cash refund of up to 25% of the eligible expenditure. See section 3.3 for further details.
- In March 2011, the government announced its intention to create 21 new enterprise zones to encourage new business activity in economically declining areas of the U.K. Specific measures will include a five=year holiday from business rates up to GBP 275,000 for businesses moving to one of the new zones, a simplification of planning approaches and potential public funding for super-fast broadband. In addition, the government also will consider the scope for introducing enhanced capital allowances to support zones in assisted areas where there is a strong focus on high-value manufacturing.

1.6 Exchange controls

There are no exchange controls in the U.K. No currency considerations affect the remittance of profits, dividends, interest and royalties, or of licensing, management, design and technical and patent fees. Nevertheless, the U.K.'s tax authorities, Her Majesty's Revenue & Customs (HMRC), may challenge the level of transfers if they suspect corporate tax avoidance or evasion. In addition, banks monitor transactions for suspected money laundering, and the law requires them to have a Money Laundering Reporting Officer. Banks must adequately identify customers when they open accounts and when they conduct a transaction exceeding GBP 10,000.

2.0 Setting up a business

2.1 Principal forms of business entity

Business organizations in the U.K. usually take one of four forms: public limited company, private limited company, partnership (including limited liability partnership) or registered U.K. Establishment (U.K. equivalent of a branch or representative office). Public limited companies may invite the public to subscribe for shares or bonds; private limited companies may not. Public companies may choose to be quoted on the stock exchange or to be unlisted. A listing on an exchange in the EU entitles a company to be listed on any other EU exchange. Other organizational forms exist (such as limited partnerships), but are not widely used.

The main advantage of a limited company is that it affords its members limited liability, however, other options may suit individual circumstances and a summary of each is detailed below.

The most popular choice for foreign investors is usually to set up a private limited liability company either as a separate company or as a subsidiary of a foreign-owned holding company. Alternatively, they may choose to register U.K. Establishments. Particular tax considerations can influence the choice. For example, operating as a subsidiary in the U.K. may mean that the profits of the subsidiary are subject only to U.K. corporation tax; operating as a U.K. Establishment of a non-U.K. company may mean that these profits (or losses) may also be taxable (or deductible) where the company resides. The tax treatment for a non-U.K. company varies from country to country.

It is also possible to set up a European Company (*Societas Europea*—SE) in the U.K. An SE is subject to the laws of the country where it is registered.

Formalities for setting up a company

Every company must be registered with the Registrar of Companies. The registration application must be submitted with a memorandum of association. The company also must submit articles of association, which detail, among other things, the rights of the shareholders, borrowing powers and the duties of directors. Under the Companies Act 2006, a company is deemed to have unlimited capacity, but if specific objects are stated in the articles of association, then these will be treated as a limitation on the company's capacity. If the company's activities diverge from these specific objects then a transaction might be determined to be outside the company's powers. The registration procedure normally takes about a week from delivery of the documents to Companies House. Certain types of company can be incorporated electronically on a same day basis.

Public companies must include the words "public limited company" (or the abbreviation "plc") as an integral part of the company name, to be used on all official documents, general stationery and nameplates. Private limited companies use the word "Limited" (or the abbreviation "Ltd").

Forms of entity

Requirements of public and private limited companies

Capital. *Public*: Companies must have nominal share capital of at least GBP 50,000 (or the prescribed equivalent in Euros), 25% of which must be paid up on each share, together with the whole of any share premium. Capital may be supplied in non-cash forms (e.g. machinery, patents or know-how), but non-cash contributions must be independently valued. *Private*: There is no minimum share capital requirement,for private limited companies (nor any requirement for capital to be paid up) and non-cash contributions do not need to be independently valued. The power of directors to issue shares of a private company with only one class of shares is deemed to be unlimited, unless there is a restriction on such power in the articles of association. Both private and public companies may re-denominate their shares into other currencies.

Reduction of capital and distributions. *Public:* public companies may only reduce share capital with the sanction of the courts. The formalities relating to distributions of profit are more onerous for public companies than private. *Private*: private companies can utilize a statutory solvency statement driven procedure to reduce share capital.

Founders, shareholders. *Both*: private and public companies may be incorporated or continue in existence with a single shareholder. No nationality or residency requirements apply.

Board of directors. *Public*: There must be a board with at least two directors. There are no nationality or residence requirements. A director may also be chairman. Any changes to the board must be reported to Companies House within 14 days. *Private*: Same requirements, except that the minimum number of directors is one.

Management. *Public:* Managers need not be shareholders or directors. Every public company must have a company secretary, who may also be a director. There are some qualification requirements. *Private*: No requirement to have a company secretary (unless required by the articles of association).

Taxes and fees. *Both*: Fees for registering a company are low.

Types of shares. *Public*: Ordinary, preference and cumulative preference shares, and straight and convertible bonds are the common forms in which corporate securities are issued. Multiple classes of ordinary shares with differing voting rights or no voting rights are prevalent in many large companies, particularly those in which families with minority equity holdings control public firms. A company must maintain a register of its shareholders. *Private*: It is a criminal offence for private companies to offer their shares or debentures to the public. *Both*: Both public and private companies can issue warrants entitling the bearer to the shares specified in the warrant.

Control. *Both*: A majority (more than 50%) is required for ordinary resolutions (unless the articles of association stipulate a higher majority); for changing articles and liquidation, 75% of shareholders' votes are required. If a bid is made for the entire equity of a company (and the bidder obtains 90% of equity), the bidder can compel the remaining shareholders to sell. If the bidder owned shares before the bid, compulsory acquisition can take place only if the bidder acquires 90% of the shares that were not previously held.

Meetings. *Public:* Public companies must hold an Annual General Meeting in every calendar year. Public companies may not pass written resolutions in lieu of a meeting. *Private:* Private companies are not required to hold Annual General Meetings and may pass resolutions in writing in lieu of a meeting.

Closure. *Both:* Public and private companies may be closed either by formal liquidation (whether on a solvent or insolvent basis) or by application by the directors to the Registrar of Companies to strike the name of the company off the register.

U.K. Establishment

A foreign company doing business in the U.K. must register with the Registrar of Companies. Within a month of establishing its presence, a foreign limited liability company must file various particulars and documents that can be viewed by the public, such as the names and addresses in the U.K. of persons authorized to accept legal notices served by the authorities; the name of the company, its legal form, its country of registration, company number, details of its directors and secretary; and the address of the U.K. Establishment, when it was opened and its business. Additional disclosures are required for non-EU companies. Slightly less disclosure is required from unlimited liability companies. In all cases, the U.K. Establishment must also file copies of its constitution (translated into English). At every place of business, and on every letter and invoice, the U.K. Establishment must provide details of the company of which it is a U.K. Establishment, such as its registered name, the country of incorporation and whether its members have limited liability.

If a foreign limited liability company registers a U.K. Establishment and the company is required under the law of the country in which it is incorporated to prepare, have audited and disclose financial statements, the company must file for public inspection in Great Britain all accounting documents that are disclosed under that foreign law. If the foreign company is not a limited liability company or is not required to prepare such accounts, accounts must be prepared as though it were a U.K. company (with various modifications) and these must be filed for public inspection. Similar rules apply in Northern Ireland.

2.2 Regulation of business

Registration and filing requirements

Businesses must register with HMRC for corporate income tax, income tax that is deducted from employees' wages under the Pay As You Earn (PAYE) regime, National Insurance Contributions (NIC) and value added tax (VAT) purposes (the latter if turnover exceeds a certain threshold).

It may be necessary to obtain a license for certain industries.

Mergers and acquisitions

Legislation governing mergers is contained in the Enterprise Act 2002. Decisions on most mergers are taken by independent bodies (the Office of Fair Trading (OFT) and the Competition Commission (CC)), which use tests based on competition, rather than the public interest. The OFT may investigate mergers that meet a turnover test or a share-of-supply test. The turnover test is met if the target company has a turnover exceeding GBP 70 million. The share-of-supply test is met if the merging companies together would supply at least a 25% share of particular goods or services in the U.K. (or a substantial part of the U.K.).

If the OFT decides that a merger may restrict competition substantially, it may refer the matter to the CC or seek undertakings in lieu of a reference. If a merger is referred to the CC, the agency will conduct a full investigation into whether the merger has caused or may cause a restriction in competition. It may prohibit a merger or impose remedies in the form of undertakings or orders.

Generally, larger mergers are subject to the jurisdiction of the European Competition Directorate, the EU's antitrust authority. This applies to companies with an aggregate global turnover exceeding EUR 5 billion and EU turnover of at least EUR 250 million for at least two of the undertakings (even where there are no assets in the EU), with less than two-thirds of this derived from any single member state.

Mergers meeting all of the following conditions must be reported to several national competition authorities within the EU:

- Combined worldwide turnover of the companies concerned exceeds EUR 2.5 billion;
- Combined aggregate turnover of all of the undertakings concerned exceeds EUR 100 million in at least three EU member states;
- Aggregate turnover of each of at least two of the undertakings exceeds EUR 25 million in each of these three member states; and
- Aggregate turnover of at least two of the undertakings exceeds EUR 100 million throughout the EU

Unless

- Each of the undertakings concerned achieves more than two-thirds of its aggregate Community-wide turnover within one and the same member state.

The European Commission has 25 working days following notification either to open proceedings or to approve a merger that comes within its remit. It has 35 working days if undertakings are offered or a referral request is received. If the Commission opts to open a procedure, it has another 90 working days to conduct an in-depth inquiry. This may be extended by 20 working days if requested by the notifying parties or by the Commission with the agreement of the notifying parties.

Monopolies and restraint of trade

Most prominent U.K. monopolies and near-monopolies are public utilities. Competition is restricted in gas and electricity, although they are now privately owned. Most of the telecommunications market is open to competition.

The Competition Act 1998 introduced the concept of abuse of monopoly position, which is central to EU law. Under the Enterprise Act, the OFT may refer market investigations to the CC if the structure of a market or the activities of suppliers or customers appears to harm competition. Following a referral, the CC conducts a detailed investigation. A finding of an adverse effect on competition may be remedied via an undertaking or an order. A right of appeal has been

introduced for market investigation references. Those affected by the decision may request a review from the Competition Appeal Tribunal, an independent body.

2.3 Accounting, filing and auditing requirements

Public limited companies must file annual accounts, together with many additional details, with Companies House, where they are publicly available. Unless the company is a SME, the accounts will include a profit and loss account, a balance sheet signed by a director, an auditors' report signed by an outside auditor, a directors' report signed by a director or the company secretary and notes to the accounts. No public company, regardless of its size, can qualify as a SME for these purposes.

Private limited companies are subject to the same requirements, except for special provisions applicable to SMEs. Small companies (those meeting two of the three following requirements: annual turnover of no more than GBP 6.5 million, balance sheet total of less than GBP 3.26 million and a workforce not exceeding 50 employees (for accounting periods beginning on or after 6 April 2008)) may submit a shortened balance sheet and notes, and a special auditors' report (unless claiming an audit exemption—see below). Medium-sized companies (those meeting two of the three following requirements: turnover of no more than GBP 25.9 million, balance sheet total of no more than GBP 12.9 million and 250 employees or less (for accounting periods beginning on or after 6 April 2008)) may submit as a minimum an abbreviated profit and loss account, a full balance sheet, special auditors' report, directors' report and notes to the accounts. Shareholders, however, must continue to receive a full set of accounts. Subject to meeting certain additional criteria, small companies may be exempt from the requirement to have their accounts audited.

U.K. businesses may adopt either International Financial Reporting Standards (IFRS) or the equivalent U.K. standards known as U.K. Generally Accepted Accounting Practice (U.K. GAAP). Quoted groups are however required to apply IFRS when reporting to their shareholders. The U.K. Accounting Standards Board (ASB) is currently reviewing the future of U.K. GAAP, and has proposed convergance with IFRS among other options. Small companies (i.e. those with turnover less than GBP 6.5 million, gross assets less than GBP 3.26 million and/or less than 50 employees (for accounting periods beginning on or after 6 April 2008)) may elect to apply simplified accounting standards know as Financial Reporting Standards for Smaller Entities (FRSSE). Application of the FRSSE is not permitted for listed companies or their subsidiaries, companies regulated by the Financial Services Authority (FSA) or those that were not classified as not small in their previous financial year.

3.0 Business taxation

3.1 Overview

The most important taxes to which companies doing business in the U.K. are subject are corporation tax, VAT, stamp duty, stamp duty land tax and NIC. A bank levy is imposed in respect of certain equity and liabilities on the balance sheets of banks. There is no tax on corporate capital tax, no branch tax and no excess profits or alternative minimum tax.

3.2 Residence

A company is U.K. tax resident if it is incorporated in the U.K. or, if not incorporated in the U.K., if its place of central management and control is in the U.K. In practice, this often means determining whether the directors exercise central management and control and, if so, where they exercise that control. Where a company would be resident in the U.K. because its management and control is in the U.K., but also would be resident under another country's tax law because the company is incorporated there, its residence status may be resolved by a tax treaty (if any) between the two countries.

3.3 Taxable income and rates

From 1 April 2011, the main tax rate on corporate profits is 26% for profits over GBP 1.5 million. A further reduction of 1% per annum has been proposed for each year until 2014 so that from 1 April 2014 the rate will be 23%. U.K.-tax-resident companies with profits up to GBP 300,000 are taxed at a 20% rate (the small profits rate). Marginal relief applies to company profits between GBP 300,000 and GBP 1.5 million, which are taxed at an effective marginal rate of 27.5%. The small profits rate is not available to certain closely held investment companies or to non- U.K. resident companies (in respect of a U.K. permanent establishment (PE)) unless the company is resident in a territory that has concluded an appropriate double tax treaty with the U.K.

A U.K.-resident company is subject to corporation tax on its worldwide profits, income and chargeable gains with credit given for most overseas taxes paid. Foreign profits (and losses) (including those from certain capital assets) arising from all (but not some) of the permanent establishments (PE) of a U.K. resident company may be excluded, by irrevocable election, from the company's taxable profits. This is a new regime, introduced by Finance Act 2011, and if conditions are met, can apply to exclude foreign profits (and losses) from PEs for all accounting periods following that in which the election is made. Where such profits are excluded from U.K. taxation, no credit is available for overseas tax paid. If no election is made, the profits of a foreign branch of a U.K.-resident company are subject to corporation tax whether or not they are repatriated to the U.K. If the foreign profits cannot be remitted to the U.K. because of foreign tax law or government action, a deferral of corporation tax may be claimed.

A non-U.K. resident company is subject to corporation tax only in respect of the profits of its PE in the U.K. and chargeable gains on assets used or held by the PE. If a non-U.K. resident company carries on an investment activity in respect of U.K. sources of income, it will be subject to income tax (generally 20%).

Real Estate Investment Trusts (REITs), i.e. U.K.-resident companies listed on a recognized stock exchange that elect to be treated as such are not subject to tax on income or gains arising from their property rental business but are required to distribute substantially all of their profits. Certain other requirements, for example, in relation to interest cover, also must be met. The initial charge on conversion to a REIT is 2% of the gross market value of the property entering the REIT regime.

Shipping companies may elect to be subject to a tonnage tax. Under this regime, profits from shipping activities subject to corporation tax are based on the tonnage of the ships operated by the company concerned rather than on the actual profits.

Special tax laws relate to oil companies operating in British territorial waters.

Taxable income defined

For a U.K. resident company, corporation tax is imposed on the following broad categories of income:

- Trading income;
- Property income;
- Profits arising from loan relationships;
- Profits arising from derivative contracts;
- Gains in respect of intangible fixed assets;
- Profits arising from disposals of know-how and sales of patent rights; and
- Miscellaneous income

Capital gains (referred to as “chargeable gains” for corporation tax purposes) are computed separately from income, but are included within the total profits chargeable to corporation tax (see section 3.4 below). An exemption applies in the case of a disposal of certain shares (the “substantial shareholding” exemption).

Generally, dividends received on non-redeemable ordinary shares by a U.K. company from another company (U.K. or foreign) and most dividends on non-ordinary shares will be exempt from U.K. corporation tax, with no minimum ownership period or minimum ownership level requirements. The exemption is subject, however, to Targeted Anti-Avoidance Rules (TAARs) that apply to tax-motivated schemes with certain characteristics. Dividends received by small companies are exempt from tax if received from a U.K. resident company or a company resident in a foreign jurisdiction that has concluded a tax treaty with the U.K. and the treaty contains a nondiscrimination clause.

Deductions

Companies may deduct from gross trading profits all expenditure that is not capital in nature and which is wholly and exclusively laid out for the purposes of the trade.

A research and development (R&D) tax credit for large companies takes the form of a deduction, at a rate of 130% of R&D expenditure from a company’s taxable income. If the company is a SME (based on the EU definition), the tax deduction is 200% of the expenditure, rising to 225% from 1 April 2012, subject to State Aid approval. If the company does not have sufficient profits to absorb the deduction, it can be surrendered for a cash refund up to 25% of the eligible expenditure depending on the level of current year losses and the PAYE/NIC paid in the period. It is proposed that this PAYE/NIC cap will be abolished for expenditure incurred after 1 April 2012.

Depreciation

Other than for certain intangible fixed assets, tax relief is not given for accounting depreciation. Instead, capital allowances are given at a statutory rate for expenditure on certain assets. For example, capital allowances are given on the acquisition of plant and machinery. Generally, all such expenditure in a tax year is placed in a single pool (main pool), and at the end of the year a writing-down allowance of an amount equal to 20% (18% from April 2012) of the pool is taken out of the pool and allowed as a tax-deductible expense. The net amount in the pool is then carried forward to the following year and the process repeated each year. Disposals of assets that had previously gone into the pool are taken out when the asset is sold (limited to original cost). If there is a deficit in the pool at the end of a tax year, a balancing charge arises that is included in taxable income.

A 100% Annual Investment Allowance applies for investments of up to GBP 100,000 in plant and machinery (GBP 25,000 from April 2012). There is only one allowance allowed per U.K. group. Some environmentally friendly plant and machinery, and certain capitalized R&D expenditure, can qualify for a 100% first-year allowance.

Assets for which a short-life election has been made do not go into the main pool but into separate asset pools for each asset. When such an asset is sold, the balance in the pool will give rise to either a balancing allowance (tax deduction) or a balancing charge (taxable income).

Plant and machinery expected to have a useful economic life of at least 25 years, and certain assets classified by statute as "integral features" (including electrical systems, cold water systems, space or water heating systems, ventilation, air cooling systems, lifts and escalators and external solar shading) are included in a single special rate pool. This pool qualifies for a reduced writing down allowance of 10% per year (8% from April 2012).

The capital allowances treatment of cars depends upon their CO_2 emission levels. Allowances of 100% are available for cars with emissions not exceeding 110g/km. Cars with emissions between 111g/km and 160g/km are included within the main capital allowances pool and receive the 20% writing down allowance (18% from April 2012). Cars with emissions exceeding 160g/km are allocated to the special rate pool and receive the reduced writing down allowance of 10% (8% from April 2012).

Intangible fixed assets acquired or created after 31 March 2002 are taxed or relieved broadly in line with the debits and credits in the entity (not group) accounts.

Where a lease is considered a "long funding lease," capital allowances will be given to the economic owner of the asset rather than the legal owner. A long funding lease is a lease that is treated as a finance lease under generally accepted accounting principles; a lease where the present value of the minimum lease rentals is 80% or more of the fair value of the asset; or a lease having a minimum term of more than 65% of the expected remaining useful economic life of the asset. Leases of less than five years should not be considered long funding leases.

Losses

Losses arising in a trade in a tax year may, if the company elects, be set off in their entirety against a company's total profits (including chargeable gains) for the same tax year. If losses remain, the company may elect for the remainder to be carried back (broadly) one year and set off against total profits. Any losses not used in these ways may be carried forward and set against trading profits of future tax years without limit. (Under a temporary measure, companies that incurred trading losses in chargeable periods ending between 24 November 2008 and 23 November 2010 that did not use up all their losses in the one-year carryback may carry back up to GBP 50,000 of losses, in each chargeable period, for up to two more two years.)

All or part of the losses attributable to non-trading loan relationships (including foreign exchange differences) and derivative contracts arising in a tax year may be set off against any other profits of the same tax year and/or carried back (broadly) one year against similar income. Any losses not used may be carried forward and set off against non-trading profits of future tax years indefinitely.

All or any part of losses attributable to non-trading intangible fixed assets can be set against any other profits of the same tax year. Any losses not used may be carried forward to the next period and treated as though it were a non-trading debit for that period.

Rules prevent the carryforward of losses where there has been a change of ownership of a company in certain circumstances.

Group relief

Relief for losses between companies in a group is given by a system of group relief; one company surrenders its loss and another company claims the loss. Two companies are members of a group if (very broadly) one company (parent) owns at least 75% of the share capital of the other (subsidiary) or another company (parent) owns at least 75% of the share capital of both companies (subsidiaries); indirect holdings are permissible. The parent also must be entitled to at least 75% of the assets for distribution and at least 75% of the assets available on a winding up of the subsidiary or subsidiaries.

If the claimant company and the surrendering company are both members of the same group, the claimant can claim all or part of the surrendering company's current year trading losses, non-trading loan relationship losses and losses attributable to non-trading intangible fixed assets (among others) against its total profits for the corresponding tax year. Losses brought forward cannot be surrendered.

A limited form of group relief is available between members of a consortium and a consortium company.

3.4 Capital gains taxation

Capital gains generally form part of a company's taxable income. However, there is an exemption from tax for companies on the disposal of substantial shareholdings (SSE) in both U.K. and foreign companies, the main conditions being that the selling company must have owned 10% of the shares of the company being sold for at least 12 months before disposal, and that before and after the disposal, both the selling company/group and the company being sold are trading and don't have siginificant non-trading activities. U.K. domestic law does not tax the capital gains of a non-U.K. resident company unless the asset being disposed of is held through a U.K. PE.

Capital gains are taxed at the same rate as other profits.

The code for taxing capital gains does not generally extend to the self-contained codes that apply to intangible fixed assets, including goodwill (broadly, unless the asset was owned at 31 March 2002), loan relationships (including foreign exchange gains and losses) or to derivative contracts. Accordingly, capital gains taxation is normally most relevant to disposals of shares (subject to the possible application of the SSE) and land.

Capital losses may only be set against capital gains, either of the same tax year or carried forward.

3.5 Double taxation relief

Unilateral relief

Unilateral relief for double taxation is given by the credit method, whereby foreign tax paid is deducted from the U.K. tax payable on the same income. Credit relief is given on a strict source by source and item by item basis, and relief is only given for foreign taxes which correspond to U.K. corporation tax (or income tax). It is possible for a U.K. company to elect for no foreign tax credit to be granted, and instead deduct the overseas tax suffered when calculating profits chargeable to corporation tax.

Tax treaties

The U.K. has an extensive tax treaty network in effect; with most treaties following the OECD model treaty (although some of the older treaties predate the latest OECD version and hence contain different provisions). The U.K.'s treaties generally provide for relief from double taxation on all types of income, limit the taxation by one country of companies resident in the other, and protect companies resident in one country from discriminatory taxation in the other. The treaties also generally contain OECD-compliant exchange of information provisions.

Advance clearance is required from HMRC before a reduced rate of withholding can be applied under a tax treaty.

U.K. Tax Treaty Network			
Antigua & Barbuda	France	Lithuania	Sierra Leone
Argentina	Gambia	Luxembourg	Singapore
Australia	Georgia	Macedonia	Slovakia
Austria	Germany	Malawi	Slovenia
Azerbaijan	Ghana	Malaysia	Solomon Islands
Bangladesh	Greece	Malta	South Africa
Barbados	Grenada	Mauritius	Spain
Belarus	Guyana	Mexico	Sri Lanka
Belgium	Hong Kong	Moldova	St. Kitts & Nevis
Belize	Hungary	Mongolia	Sudan
Bolivia	Iceland	Montserrat	Swaziland

Bosnia-Herzegovina	India	Montenegro	Sweden
Botswana	Indonesia	Morocco	Switzerland
British Virgin Islands	Ireland	Myanmar	Taiwan
Brunei	Isle of Man	Namibia	Tajikistan
Bulgaria	Israel	Netherlands	Thailand
Canada	Italy	New Zealand	Trinidad & Tobago
Cayman Islands	Ivory Coast	Nigeria	Tunisia
Chile	Jamaica	Norway	Turkey
China	Japan	Oman	Turkmenistan
Croatia	Jordan	Pakistan	Tuvalu
Cyprus	Kazakhstan	Papua New Guinea	Uganda
Czech Republic	Kenya	Philippines	Ukraine
Denmark	Kiribati	Poland	United States
Egypt	Korea	Portugal	Uzbekistan
Estonia	Kuwait	Qatar	Venezuela
Falkland Islands	Kyrgyzstan	Romania	Vietnam
Faroe Islands	Latvia	Russia	Zambia
Fiji	Lesotho	Saudi Arabia	Zimbabwe
Finland	Libya	Serbia	

3.6 Anti-avoidance rules

Transfer pricing

It is a company's responsibility under the self-assessment system to ensure that, for tax purposes, transactions with related parties reflect arm's length prices. The U.K. embraces internationally accepted standards (i.e. OECD standards) for establishing prices. Companies are expected to have and retain adequate documentation to enable them to deliver a complete and correct tax return.

The transfer pricing rules apply to thin capitalization situations.

SMEs are exempt from the transfer pricing rules (if their transactions are with U.K.-related businesses, or related businesses in countries with which the U.K. has a tax treaty with a nondiscrimination article). For these purposes, a company is small if, broadly, it and other group companies have less than 50 employees and annual turnover and/or balance sheet totals are not more than EUR 10 million. The corresponding limits for a company to be medium-sized are 250 employees with annual turnover of EUR 50 million and/or balance sheet total of EUR 43 million.

Compensating adjustments are available to the U.K. counterparty to a transfer pricing adjustment made by another U.K. group company, and balancing payments can be made between the companies to restore their cash position.

Thin capitalization and worldwide debt cap

Anti-avoidance measures to address excessive debt are included as part of the transfer pricing rules. When considering whether the interest on a loan from a foreign parent, for example, is deductible, the arm's length principle must be followed. The ability of a borrower to support the loan generally is looked at on a stand-alone basis (ignoring the status of the group of which it is a part and any guarantees made to support the borrower's loan), except that assets that it owns (including subsidiaries) can be taken into account. However, where an arm's length adjustment is made in respect of interest, a U.K. guarantor may be able to claim a compensating adjustment. There are no safe harbor provisions

Rules restricting the tax deductions available for finance expenses of worldwide groups (the "worldwide debt cap" or "debt cap" rules) were introduced by Finance Act 2009. The principle of the debt cap is to restrict tax relief for U.K. interest deductions where debt owed by U.K. members of a worldwide group exceeds debt owed by the group as a whole. Its main targets are upstream loans in U.K. headed groups and non-U.K. headed groups with highly leveraged U.K. sub-groups. The rules apply to all large groups with U.K. members and take effect from the first period of account beginning on or after 1 January 2010. Very broadly, a comparison is made between the gross accounting finance expense of the worldwide IAS accounting group ("available amount") and the aggregate of the net tax deductions in respect of certain financing transactions (e.g. interest) for U.K. resident companies/PEs of non U.K. resident companies that form part of the accounting group ("tested expense amount"). Where the tested expense amount exceeds the available amount, the excess is disallowed. The debt cap rules also allow for a corresponding adjustment to exempt the financing income of U.K. group companies where there has been a disallowance.

Controlled foreign companies

Generally speaking, a CFC is a company that is not resident in the U.K. but is controlled by U.K. residents and is subject to a lower level of taxation (broadly less than 75% of what it would have paid had it been U.K. resident). If these conditions are satified and no exemption applies, the U.K. company will pay corporation tax on its share of the CFC's income (ignoring capital gains).

The U.K.'s CFC legislation is currently being reviewed and substantial changes are expected to be legislated for in 2012. One of the proposed measures is a finance company partial exemption that would result in an effective U.K. tax rate of 25% of the main rate on profits derived from certain overseas group financing arrangements, e.g. a rate of 5.75% by 2014.

Limited interim improvements to the CFC regime have been introduced in Finance Act 2011 ahead of full reform the following year. These interim improvements provide additional exemptions from the CFC charge for certain intragroup activities where there is a limited connection to the U.K. and for CFCs whose main business is the exploitation of intellectual property with limited connection to the U.K., as well as introducing a statutory "period of grace" that provides a three-year exemption for companies brought into the CFC regime as a consequence of an acquistion or reorganization.

General anti-avoidance rule

There is no general anti-avoidance rule (GAAR) in U.K. law. However, a GAAR study group was established in January 2011 to consider the case for future introduction of a GAAR. It is expected that this group will complete its work by October 2011.

In the absence of a GAAR, the U.K. courts have developed through case law the general principle known as the "Ramsay principle." This requires that a statutory provision is given a purposive construction to determine the nature of the transaction to which it was intended to apply and then to decide whether the actual transaction answers to the statutory provision.

A large body of specific anti-avoidance rules exists to target potential or perceived manipulation of the tax legislation.

3.7 Administration

Tax year

The corporate tax year begins on 1 April. For company accounting periods that straddle the start of the tax year, the taxable income is time-apportioned and taxed in accordance with the rates prevailing in the two tax years that the accounting year overlaps.

Filing and payment

Companies are required to self-assess their corporation tax liability. Large companies (i.e. those with annual taxable profits exceeding GBP 1.5 million per annum, reduced pro rata by the number of associated companies) must make corporate tax payments in four equal quarterly installments (in the 7th, 10th, 13th and 16th months following the beginning of the accounting period), based on the expected tax liability for the year. Other companies pay tax in a single sum, nine months after the end of the company's financial year.

Withholding taxes are payable quarterly if the accounting year ends on a quarter-end date; otherwise, payment is made five times a year.

Interest, and potentially penalties, is payable to HMRC for underpayment of corporation tax. Interest and penalties also are likely to be imposed on companies for late payment of employees' income tax withholding, which is payable monthly, along with NIC (small companies may opt to pay on a quarterly basis).

Consolidated returns

The U.K. does not tax groups of companies on the basis of a consolidated tax return. However, relief for losses between companies in a group is given by a system of group relief; one company surrenders its loss and another company claims the loss (see section 3.3 above).

Statute of limitations

The basic rule is that, if a return is filed on time, the tax authorities have 24 months from the end of the accounting period to launch an enquiry into the return. After both 24 months and the closure of an enquiry (if any), the tax authorities can assess more tax only if disclosure was inadequate or there was careless or deliberate error. A six-year time limit applies if a company has acted "carelessly." A 20-year time limit applies, for example, for a deliberate loss of tax or for failure to notify chargeability to tax.

Tax authorities

HMRC are responsible for the administration and collection of both direct and indirect taxes in the U.K. HMRC was formed in 2005 by a merger of the Inland Revenue (previously responsible for direct taxes) with Customs and Excise (previously responsible for indirect taxes). The majority of taxes are now subject to a self assessment regime, under which it is the taxpayer's responsibility to calculate the amount of tax due and ensure payment is made. HMRC are able to challenge and amend such self assessments as well as impose penalties on taxpayers for non-compliance and charge interest on late payment of tax.

Rulings

A number of anti-avoidance provisions contain specific statutory clearance procedures allowing taxpayers to gain certainty regarding whether that legislation will apply before entering into a transaction. HMRC also provide a non-statutory clearance service that provides confirmation of their view on the application of tax law to a specific transaction or event. In most circumstances such clearances can also be relied upon as HMRC's view of the tax consequences of a transaction. Both pre- and post-transaction clearances can be given, and HMRC aim to provide clearance within 28 days of receipt.

3.8 Other taxes on business

Petroleum revenue tax

Petroleum revenue tax on North Sea oil and gas is the most important industry-specific tax. It is charged on the profits from individual oil fields developed before 1993. The rate is now 50%. Oil companies also are subject to a supplementary charge to corporation tax in respect of North Sea oil and gas profits. This supplementary charge increased from 20% to 32% on 24 March 2011. In future years, if the oil price falls below a set trigger price on a sustained basis, the U.K. government has stated that it intends reduce the supplementary charge back towards 20%.

Bank levy

The bank levy, introduced in January 2011, is a permanent tax in respect of certain equity and liabilities on banks' balance sheets. Although lower rates were initially announced to apply for 2011, an increase in the effective rate of the levy for 2011 was announced by the government in February 2011. The rates of the levy for calendar year 2011 will therefore be:

- 1 January 2011 - 28 February 2011: 0.05% for short-term chargeable liabilities and 0.025% for long-term chargeable equity and liabilities;
- 1 March 2011 - 30 April 2011: 0.1% for short-term chargeable liabilities and 0.05% for long-term chargeable equity and liabilities; and
- 1 May 2011 - 31 December 2011: 0.075% for short-term chargeable liabilities and 0.0375% for long-term chargeable equity and liabilities.

The bank levy rate will be increased further from 1 January 2012 to 0.078% for short-term chargeable liabilities and 0.039% for long-term chargeable equity and liabilities in order to offset the benefit of the decrease in the main rate of corporation tax. The levy is not charged on the first GBP 20 billion of chargeable liabilities.

4.0 Withholding taxes

4.1 Dividends

The U.K. does not normally impose withholding tax on dividends. However, a REIT is required to deduct tax at 20% from dividends paid to non-U.K. residents.

4.2 Interest

A 20% withholding tax is generally imposed on interest payments to non-U.K. residents, unless the rate is reduced under an applicable tax treaty. Interest payments to qualifying EU companies may be exempt if they meet the conditions for the EC Interest and Royalty Directive as implemented in U.K. law. This is not an automatic reduction and clearance must be granted by the U.K. tax authorities. The EC Interest and Royalty Directive exempts from withholding taxes payments of royalties and interest between companies in different EU member states, in limited circumstances. One of the key conditions is that, where a U.K. company is paying interest or a royalty to a company in another EU member state, one of the companies must have a direct interest in at least 25% of the capital or voting rights of the other, or a third company must have a direct interest in at least 25% of the capital or voting rights of both companies. Therefore, payments between companies in the same group, where there is not a direct interest, are not included. With regard to its application to U.K. companies making payments of interest and royalties, the directive often will not have any practical effect since many tax treaties with EU member states already provide for an exemption from withholding tax where certain conditions are satisfied. Withholding tax can arise in certain domestic situations as well.

4.3 Royalties

A 20% withholding tax is generally imposed on royalty payments to nonresidents, unless the rate is lowered under a tax treaty. Royalty payments to qualifying EU companies may be exempt if they satisfy the conditions for the EC Interest and Royalty Directive as implemented in U.K. law (see above). Reduced royalty withholding rates can be applied by self-assessment (i.e. no advance clearance is required).

4.4 Branch remittance tax

The U.K. does not levy a branch remittance tax.

4.5 Wage tax/social security contributions

The U.K. does not impose a payroll tax. However, employers in the U.K. are required to make social security contributions on behalf of their employees under the NIC scheme. These contributions are tax deductible for corporation tax purposes. Employees also contribute to NIC. Generally, for employers, NIC is payable at a rate of 13.8% on all income in excess of GBP 7,225.

5.0 Indirect taxes

5.1 Value added tax

VAT is the largest single source of indirect tax revenue in the U.K. VAT applies to most sales of goods and services; in effect, it is levied on the value added at each stage of the production and distribution chain, as well as on imports. Businesses act as VAT collectors, paying to HMRC the tax paid by their customers and receiving a credit for the tax they pay to suppliers. Thus VAT is offset at each stage until the goods or services reach the final consumer or an exempt business.

The standard rate of VAT is 20%, with a reduced rate of 5%. Some supplies are zero-rated and others are exempt.

Zero-rated supplies are treated as a taxable supply, so related input VAT (the VAT on costs) can be recovered by the business. Zero-rating applies to many foods (but excluding catering), most water and sewerage services, books and newspapers, certain transactions in relation to land and property (e.g. new homes, and to certain buildings used for charitable and some residential purposes), public transport (but not taxis), certain health and welfare services, charities and certain clothing and footware such as children's clothes and protective clothing.

For exempt activities, however, no tax is chargeable on sales, and no VAT is recoverable on related purchases (subject to *de minimis* limits). Exempt activities include most financial services, rent (but landlords can sometimes "opt to tax"), education and healthcare services.

Both incorporated and unincorporated businesses must register for VAT if taxable turnover exceeds GBP 73,000 in any 12-month period, or if the business expects to turn over GBP 73,000 in the next 30 days.

Businesses with supplies of GBP 600,000 or more are required to disclose their use of specified VAT avoidance schemes. In addition to disclosing the use of any of the specfied schemes, businesses with supplies exceeding GBP 10 million must disclose the use of schemes that have the hallmarks of avoidance.

For goods imported from outside the EU, VAT is payable at the time and place of entry to the U.K. Payment can be made on the 15th day of the following month if there is a deferment account, but a financial guarantee is required to operate a deferment account. The Simplified Import VAT Accounting Scheme allows authorized traders to apply to reduce the level of financial guarantee required for VAT purposes only. There is no VAT on the temporary import of certain goods if the same goods are subsequently re-exported within a specified time.

There is a different mechanism for levying VAT on goods from EU countries. Cross-border shoppers and travellers are free to import goods having borne VAT in the country of purchase. Businesses continue to pay VAT in the country of final consumption (the destination principle), but because all fiscal controls have been transferred from the border to the central fiscal authority in each EU member state, suppliers must submit to their national fiscal administration a list of the total sales to each of their buyers in other EU member states on a quarterly or monthly basis.

The U.K. allows group registration for VAT purposes for companies under "common control." The main benefit of VAT grouping is that the majority of transactions between group members are disregarded for VAT purposes. This is particularly helpful where U.K. group companies would otherwise suffer input VAT restrictions because they make exempt supplies. All supplies made by the group to non-group members are treated as made by one member of the group nominated as the "representative member." All members of a group remain jointly and severally liable for the VAT liabilities of the group.

5.2 Capital tax

The U.K. does not levy capital duty.

5.3 Real estate tax

Companies must pay a municipal property tax, called rates, collected from the owners (or sometimes the tenants, depending on arrangements in a lease) of all business property. Rates are

based on the annual rental value of the property as assessed by the Valuation Office Agency, an executive agency of HMRC. A multiplier set by central government is applied to this annual rental value. Rate relief schemes are available from local authorities, and relief is also available for small businesses.The rates are a deductible business expense for corporate tax purposes. The local authority collects the rates.

5.4 Transfer tax

See under “Stamp duty.”

5.5 Stamp duty

Stamp duty is levied on documents of transfers of U.K. shares at the rate of 0.5%.

Stamp Duty Reserve Tax (SDRT) is charged at 0.5% on an unconditional agreement (whether oral or in writing) to transfer U.K. shares for consideration in money or money’s worth. This charge can be cancelled by payment of stamp duty on completion of the agreement by means of a written transfer instrument (usually a stock transfer form). A special higher rate charge of 1.5% may apply where U.K. shares are transferred or issued into a depositary receipt system in return for American Depositary Receipts or into a clearance service. SDRT at 0.5% also is charged on surrenders of units in a unit trust scheme to the managers of that scheme. A separate SDRT regime applies in these cases.

Stamp Duty Land Tax (SDLT) is charged on transfers of U.K. real property at rates of up to 5%. Freehold transfers and assignments of leases are charged to SDLT on the consideration payable for the transfer or assignment at the applicable rate depending on the applicable rate band (varies based on consideration paid). The rate bands for SDLT differ for residential and commercial property.

SDLT also is levied on grants of leases. Rent is charged to SDLT at 1% of the net present value of the rent payable over the term of the lease, discounted at the rate of 3.5%. Premiums are treated in the same way as freehold transfers at the applicable rates.

5.6 Customs and excise duties

Customs is regulated by EU legislation and customs duty is an EU-wide tax levied on the importation of goods into the EU. The EU operates a common customs tariff that, in effect, means the same amount of customs duty will be levied on imports irrespective of where in the EU the importation is made.

There are three pillars to the regulations: compliance, duties and supply chain security.

Traders are required by law to ensure that they are fully compliant with the customs legislation or otherwise risk penalties and the loss of any duty-relief authorizations that they may be operating.

The Customs Classification of imported products determines the rate of customs duty that will be applied, which can currently range from a zero rate up to 74%. Incorrect classification can mean paying too much (or too little) duty and can result in penalties and additional costs.

The Customs Origin of imported products also can affect the customs duty payable, as the EU offers certain countries reduced customs duty rates where the goods originate under the terms of specific agreements. Declaring the incorrect origin of goods could again result in paying too little (or too much) duty and could also result in penalties and additional duties.

Determining the correct Customs Value of goods is one of the most complex responsibilities that traders face. Customs duty is normally a percentage rate applied to the CIF value (i.e. the cost of the goods, the insurance premium (amount, if any, paid to insure goods during the international movement) and the freight costs (the transport charges of the international movement) of the imported consignment). Customs legislation also allows for certain cost elements to be removed from, or added to, the cost of the goods.

Unlike import VAT, customs duty is not normally recoverable and represents a bottom-line cost to the importer that needs to be considered prior to importation.

There are numerous duty-relief measures available for importers to suspend or delay the point at which duties become payable.

Excise duty is a tax levied on certain products at specific national rates. Products that are liable for excise duties include alcohol, tobacco and mineral oils (such as petrol). VAT is normally charged on the excise duty-inclusive price.

In principle, excise duty is due when the appropriate goods are released for consumption in the U.K. An EU regulation on the holding and movement of excise products allows for companies that trade in excise goods to be approved for the receipt, storage and dispatch of products under excise duty and VAT suspension. A similar concession is provided to those involved in the production of such products, such as oil refineries, breweries and distilleries.

Excise duty also is levied on the importation of goods from both EU and non-EU countries unless deposited in an approved excise warehouse facility.

Supply Chain Security has been brought sharply into focus following the attacks in New York, London and Madrid. There is growing emphasis on traders to ensure that their supply chain is secure through the initiation of the Authorised Economic Operator scheme where in exchange for secure processes and supply chains, importers and exporters can receive numerous trade incentives such as centralized clearance and priority customs clearance at port.

5.7 Environmental taxes

An annual duty is levied on licenses for motor vehicles and is linked to carbon dioxide emissions (for private cars) or based on weight (for commercial vehicles).

A climate change levy is charged on taxable commodities (electricity, natural gas, coke, coal, etc.) on downstream use of those commodities by the industrial, commercial, agricultural, local administration and other non-domestic sectors. The rate of the levy varies by the type of commodity and is charged per kilowatt hour or kilogram as appropriate. Significant changes to climate change levy are due to take place from 1 April 2013.

An aggregates levy of GBP 2 (rising to GBP 2.10 from 1 April 2012) per tonne of taxable material is charged on the commercial extraction or importation of taxable aggregate into the U.K. or its territorial waters.

Landfill tax is levied on landfill site operators based on the quantity of waste disposed of at the site. The rate of landfill tax is GBP 2.50 per tonne of lower rated “inert” waste such as rocks and soil, and GBP 56 per tonne of standard rated waste. In practice the tax is likely to be borne by the waste generator.

5.8 Other taxes

The standard rate of tax on general insurance premiums is 6% (previously 5%). There is a selective higher rate of 20% (previously 17.5%) on some policies, such as mechanical breakdown and travel insurance.

An airport departure tax (Air Passenger Duty) also is levied in the U.K. This is set at a fixed amount per passenger and varies by destination.

6.0 Taxes on individuals

The U.K. imposes three direct taxes on individuals: income tax, capital gains tax and inheritance tax. There is no wealth tax. Aspects of the tax system are complex.

6.1 Residence

The U.K. tax treatment of individuals depends on whether a person is resident, ordinarily resident and/or domiciled in the U.K. An individual is resident in the U.K. if he/she is physically present in the country for 183 days or more in the tax year. If the individual is in the U.K. for less than 183 days, he/she still may be treated as resident for the year if the individual visits the U.K. regularly and the visits average 91 days or more a tax year over a period not exceeding four years.

An individual is ordinarily resident if he/she normally lives in the U.K. as part of the regular order of his/her life for the time being. This is taken to be the case if he/she has moved to the U.K. with the intention of staying for the next three years, or purchases or leases accommodation for three or more years. An individual's domicile status is normally determined by his/her parents' domicile and does not readily change, but a foreigner coming to the U.K. permanently may become domiciled in the U.K.

6.2 Taxable income and rates

Where an individual is resident, ordinarily resident and domiciled in the U.K., he/she is subject to U.K. income tax and capital gains tax on worldwide income and gains, whether or not received in the U.K., subject to the provisions of any applicable tax treaty. Resident individuals that are domiciled abroad can be taxed on their foreign income on a remittance basis. The remittance basis is available to individuals who have been U.K. tax resident for seven out of the previous nine years provided that they elect for this basis and pay a GBP 30,000 annual charge. From 6 April 2012, this is expected to increase to GBP 50,000 for non-domiciled individuals who have been U.K. resident for 12 of the previous 14 years. The remittance basis may also apply, but without a claim, if (broadly) the unremitted overseas income (and overseas capital gains) is less than GBP 2,000. Nonresident individuals are taxed only on U.K.-source income, subject to the provisions of any applicable tax treaty.

Certain U.K. residents are not subject to worldwide taxation. For example, an individual who comes to the U.K. to work and becomes resident in the U.K. but does not become ordinarily resident might be subject to U.K. tax in respect of non-U.K. duties only if the remuneration relating to those duties is remitted to the U.K. Complex statutory rules apply to determine what is a remittance.

Similar rules also limit the taxation of non-U.K. investment income or capital gains on non-U.K. assets of individuals who are not domiciled in the U.K. to a remittance basis. However, individuals who claim the remittance basis lose their entitlement to a personal allowance for income tax purposes and their annual capital gains tax exemption.

Taxable income

Taxable income includes income from employment (including fringe benefits unless the individual earns less than GBP 8,500 per year), income from trading, savings and investment income, income from U.K. or foreign property businesses and miscellaneous income. Earned and unearned (investment) income, whether from domestic or foreign sources, are combined to arrive at taxable income.

Income from employment is assessable in the year in which it is received. Dividends and other unearned income are assessed on the year’s receipts. The timing of the taxation of income from self-employment will depend on the year-end of the business. Husbands and wives are normally taxed independently on all income.

Expatriate allowances must be included in taxable income, although an exemption is available for certain subsistence expenses where the employee intends to be in the U.K. for two years or less.

Employer-paid healthcare also is a taxable benefit.

Share-incentive, pension and certain savings schemes may confer tax advantages. The tax deductibility of private pension contributions is limited to the greater of 100% of annual salary, or GBP 3,600. However, tax relief is recovered via an annual allowance charge to the extent that contributions exceed a fixed limit. For annual pensions savings periods ending in 2011/12 the limit is reduced from GBP 255,000 to GBP 50,000. In 2009/10 and 2010/11, a special tax charge applied to remove higher rate tax relief where irregular pensions savings by individuals with income of GBP 130,000 or more exceeded the higher of GBP 20,000 or their regular savings.

Deductions and reliefs

Employees may deduct expenses incurred wholly, exclusively and necessarily in the performance of their duties, such as for travel (but not travel to their normal place of work) and protective clothing. Allowable deductions have been tightened in recent years. Neither NIC nor medical insurance premiums are tax deductible.

U.K. residents are entitled to personal allowances. The personal allowance deductible in calculating taxable income in 2011/12 is GBP 7,475. Special allowances exist for persons older than age 65 and for the blind.

From 2010/11, the basic personal allowance for income tax is gradually reduced to nil for individuals with “adjusted net income” above GBP 100,000.

Rates

Employment, trading and investment income (other than dividends) are taxable at marginal rates of up to 50%. The marginal rates of personal tax for the 2011/12 fiscal year are 20% (the “basic rate”) on the first GBP 35,000 of taxable income, 40% (the “higher rate”) on taxable income between GBP 35,001 and GBP 150,000 and 50% (the temporary “additional rate”) on income exceeding GBP 150,000. A 10% starting rate applies to the first GBP 2,560 (2010/11 GBP 2,440) of savings income. For many taxpayers this is not, however, relevant as the starting rate does not apply if non-savings income exceeds the personal allowance plus GBP 2,560 (2010/11 GBP 2,440).

Dividend income is taxable at 10% if it is within the first GBP 35,000 of taxable income, 32.5% if it is in the taxable income band of GBP 35,001 to GBP 150,000 and 42.5% thereafter. Dividends from U.K. companies (and some foreign companies from 6 April 2008) carry a nonrefundable tax credit of 10%. This eliminates the tax liability for basic rate taxpayers and reduces the effective rate to 25% for higher rate taxpayers and 36.1% for additional rate taxpayers.

Capital gains tax is payable at a rate of 28% on all disposals on or after 23 June 2010 (unless total taxable gains and income are less than the income tax basic rate limit, in which case the previous rate of 18% will apply). Entrepreneurs’ relief reduces the effective rate of tax to 10% for certain business assets subject to a lifetime limit of GBP 10 million of gains per individual. No tax is payable on gains up to the annual exempt amount (GBP 10,600 for 2011/12). Various assets are not subject to capital gains tax: gains on the sale of a principal residence, most life-insurance policies, national savings certificates and sterling denominated bonds (in most circumstances). When the gains are reinvested, capital gains tax may be deferred for business assets, “heritage property” and farmland, subject to restrictions on the classes of assets into which funds are reinvested. Deferral for personal investments is much more restricted.

6.3 Inheritance and gift tax

Inheritance tax (IHT) generally only applies upon death and is charged on the value of the estate and gifts made within the previous seven years, subject to a reduction for gifts made between four and seven years before death. IHT is payable on assets in excess of GBP 325,000 at a rate of 40%. In most cases, IHT is not due at the time of a gift provided it is a “potentially exempt transfer,” which generally means an outright gift to another individual.

For individuals domiciled in the U.K., IHT applies to worldwide assets. Although there are reliefs, for example, for certain business property, there is no exemption for a private residence. Lifetime transfers or transfers on death to the individual’s spouse are exempt from IHT provided the donee spouse has a U.K. domicile. If the donee spouse has a non-U.K. domicile, the exemption only applies to the first GBP 55,000.

Where an individual subject to IHT does not have a U.K. domicile, IHT broadly only applies to U.K. situs assets.

For IHT purposes (but not for income tax or capital gains tax), an individual will be deemed to be U.K.-domiciled if resident in the U.K. for 17 out of the past 20 years.

6.4 Net wealth tax

The U.K. does not levy a net wealth tax.

6.5 Real property tax

Companies must pay a municipal property tax, called rates, collected from the owners (or sometimes the tenants, depending on arrangements in a lease) of all business property. Rates are based on the annual rental value of the property as assessed by the Valuation Office Agency, an executive agency of HMRC. A multiplier set by central government is applied to this annual rental value. Rate relief schemes are available from local authorities, and relief is also available for small businesses.The rates are a deductible business expense for corporate tax purposes. The local authority collects the rates.

6.6 Social security contributions

NIC is payable by employers, employees and self-employed individuals. For 2011/12, employees pay NIC at a rate of 12% on income between GBP 7,225 and GBP 42,475 and 2% on income exceeding this amount. For employers, NIC is payable at a rate of 13.8% on all income in excess of GBP 7,225. Self-employed individuals pay NIC at a rate of 9% on income between GBP 7,225 and GBP 42,475 and 2% on the excess, together with a fixed charge of GBP 2.50 per week.

6.7 Other taxes

No local or other income taxes are charged in the U.K.

6.8 Compliance

The tax year in the U.K. runs from 6 April in one year to 5 April the next (e.g. the 2011-12 tax year is 6 April 2011 to 5 April 2012).

Tax on employment income is withheld by the employer under the Pay As You Earn (PAYE) system and remitted to the tax authorities. Income not subject to PAYE and capital gains tax are self-assessed. If an individual is required to file a tax return, it must be filed by 31 October after the tax year (or 31 January if filing online). Payment of tax is due by 31 January after the tax year. Payments on account may be required on 31 January in that tax year and 31 July of the following tax year.

7.0 Labor environment

7.1 Employee rights and remuneration

Various laws govern labor/management relations in the U.K.

The 1999 Employment Relations Act introduced a statutory procedure for trade unions to obtain recognition to negotiate on behalf of the workforce or a bargaining unit within the workforce (in companies with more than 20 employees). The legislation also gives employees the right to be accompanied by a trade union representative during grievance or disciplinary procedures, regardless of whether their company recognizes unions. These provisions were further strengthened by the enactment of the 2004 Employment Relations Act.

The 2002 Employment Act further broadened family leave and addressed other issues such as dispute resolution in the workplace and rights of fixed-term employees.

Under the European Information and Consultation Directive, which came into full force on 6 April 2008, firms with 50 or more employees are required to inform and consult with employees on a regular basis about company-related issues. For the rules to apply, a request must be made by at least 10% of employees in the organization (or employers may take the initiative and choose to introduce the process).

The 1975 Sex Discrimination Act outlaws discrimination on the grounds of sex and marital status in employment, education, transport and the provision of goods and services. Amended rules on sex discrimination took effect from 1 October 2005, implementing the Amended Equal Treatment Directive. The 1984 amendment to the Equal Pay Act of 1970 requires equal pay for women performing work of equal value (measured in terms of demand on effort, skill and decision).

Pregnant employees are entitled to a minimum of 52 weeks' maternity leave (26 weeks ordinary maternity leave and 26 weeks additional maternity leave) and other strengthened employee rights.

Working hours

Employees in the U.K. have gradually come to work a shorter basic week, although hours worked generally exceed those in other European countries. Employees over the age of 18 are liable to work no longer than a 48 hour week unless they choose to opt out and decide to work longer than 48 hours or if they work in a business sector with its own special rules. In practice, the average actual weekly work hours for full-time workers over the age of 18 is about 39 hours.

The overtime pay rate is usually higher than the basic rate, with Saturday work commanding a higher premium than weekday overtime (when a five-day week prevails). Work on Sundays and during bank holidays often involves payment of a 100% premium.

7.2 Wages and benefits

The National Minimum Wage (NMW) is a statutory minimum wage per hour that most employees in the U.K. are entitled to be paid. There are different levels of NMW depending on an individual's age. The current rates are GBP 5.93 per hour for adults (employees aged 21 or over), GBP 4.92 per hour for those workers aged 18-20 and GBP 3.64 per hour for those aged 16-17.

Pensions

The state provides a flat rate pension and the State Second Pension (S2P). NIC payable by employers and employees who "contract out" of S2P are lower than the contracted-in rates, which entitle employees to the S2P. The employer, not the employee, decides to contract out for an occupational pension scheme. However, employees are no longer forced to join company pension plans but may instead subscribe to personal pension plans and gain the contracting-out rebate.

Under the government's ongoing pension review, employer's will be duty bound to enroll employees automatically in a qualifying workplace pension arrangement starting in 2012.

Companies with five or more staff and that do not already have a company pension scheme must offer "stakeholder pensions" to their employees. Employers must shoulder the administrative costs of setting up and operating the scheme, which include deducting employees' contributions from pay. Employee participation in the scheme is voluntary, as are employer contributions to their employees' pensions.

All employees in private pension schemes have the right to carry their occupational pensions from job to job, although there are limits to the indexation of benefit levels on leaving earlier jobs.

Assuming an employee is not contracted out of the State Earnings Related Pension Scheme (SERPS), for tax year 2011/2012, an employee pays no NIC on the first GBP 139 of weekly earnings (the Earnings Threshold) and 12% NIC on the portion of weekly earnings between GBP 139.01 and GBP 817, the Upper Earnings Limit. The employee pays NIC at 2% on all weekly earnings exceeding GBP 817. If the employee is contracted out, they will pay NIC at 10.4% on all earnings above the Earnings Threshold up to the Upper Accruals Point. For 2011/2012 the weekly Upper Accruals Point is GBP 770. The employee pays NIC at the higher rate of 12% on earnings between the Upper Accruals Point and the Upper Earnings Limit and NIC at 2% above this.

Social insurance

Social security charges are called NICs. This state scheme finances industrial injury compensation, sickness benefit, unemployment benefits and old-age pensions.

A job-seeker's allowance may be available to a person who is of working age (16 years old and above and below state pension age) and is out of work or working less than 16 hours per week.

Employers may administer sick pay and maternity pay schemes. Sick pay may be partially refunded to firms that have an unusually large proportion of their workforce ill in any given month.

Other benefits

Full-time employees are entitled by law to 28 days of annual paid leave. There are eight recognized public holidays, although employers do not have to give employees these days as additional paid leave but will still have to provide 28 days annual leave.

Other voluntary fringe benefits may be offered, including the provision of free or subsidized meals in company canteens or of partially tax-free luncheon vouchers. Private medical insurance, the use of company cars and the provision of childcare vouchers and environmentally "green" benefits also are popular perks. Employers sometimes arrange for banks and building societies to offer subsidized mortgages.

Most non-cash benefits received by employees earning GBP 8,500 or more per year are regarded as taxable income. The government requires employers to pay NIC on most of the major non-cash employee benefits, such as company cars. Employers' NIC has been extended to cover all taxable employee benefits in kind, such as fixed period transport tickets, club membership fees, education fees for employees' children and employer-provided interest-free or discounted loans (above GBP 5,000) for various purposes. Qualifying company paid pension contributions and subsidized or free in-house lunches that are provided to all employees or alternatively in the company canteen are tax exempt. The provision of non-cash benefits remains popular, despite some being taxable.

7.3 Termination of employment

Companies must usually pay compensation to dismissed employees and give employees at least one week's notice before termination (in many cases more notice will be required). Under the 1980 Employment Act, employers must inform both the Department for Business, Enterprise and Regulatory Reform and the relevant unions at least 30 days in advance if 20-99 employees face dismissal, or 90 days in advance if 100 or more employees are to be laid off.

Employers must provide severance pay at dismissal for all redundant employees with at least two years of service. For each year of service performed, up to a maximum of 20 years, from ages 18-21, the redundant employee receives a half-week of pay; from ages 22-40, one week of pay; and from ages 41-65, one and a half weeks of pay. Payments are based on the last wage earned, up to a maximum of GBP 350 a week, and the maximum payment is 30 weeks of pay as a basic award.

7.4 Labor-management relations

Except in certain industries, the law requires that a contract of employment cover full-time employees. A few industry agreements apply to all employees, but most collective agreements cover only particular skills or crafts. In most industries, union organization is based on the branch, a geographical concept determined by the residence of the member, not the location of the plant.

The government's Advisory, Conciliation and Arbitration Service arbitrates disputes and generally promotes improvement of industrial relations.

7.5 Employment of foreigners

Nationals of EEA countries need not obtain working visas or residence certificates to live and/or work in the U.K., although they may apply for the latter as evidence of their right to work. However, the non-European dependants of EEA nationals should obtain an EEA family permit before travelling and should apply for a residence card as soon as they arrive in the U.K. Nationals from Bulgaria and Romania still require work permits and an accession workers card before they can work for an employer in the U.K.

Non-EEA nationals usually require some type of working visa before they can carry out any work here. Since the U.K.'s Points Based System was introduced in 2008, any employer wishing to issue a working visa needs to be a registered as a sponsor. This corporate sponsorship application must be filed, processed and approved before a certificate of sponsorship (CoS) can be issued to a non-EEA overseas worker. Whether or not the overseas worker qualifies for a CoS depends on whether they can claim a certain number of qualification "points," which are set out in U.K. Border Agency (UKBA) Guidance. Points are awarded depending on the category of application.

Those who have been working for the same group company overseas as the U.K. sponsor for at least 12 months before the CoS is issued may be eligible to come to the U.K. as intracompany transferees (ICTs) under Tier 2 (ICT) of the Points Based System. However, they can only come for a maximum 12-month period if their salary and certain guaranteed allowances are at least GBP 24,000 but under GBP 40,000 per annum. Those ICTs earning GBP 40,000 or more per annum may currently come for up to five years. Following either their 12-month or five-year period of leave, UKBA policy currently dictates that ICTs must leave the U.K. and must not return as an ICT for a further 12 months. This is effectively an exclusion period, although workers may still enter as business visitors or can re-apply under the Tier 2 (General) categeory from outside the U.K. if all qualifying criteria are met. Business visitors for example (among other restrictions) are not allowed to be employed or paid in the U.K., nor carry out any productive work in the U.K.

Those who do not qualify as ICTs can consider the Tier 2 (General) category of application. However, the numbers of Tier 2 (General) workers allowed in the U.K. is currently subject to a cap or limit of 20,700 until April 2012. Corporate sponsors must therefore make a "pre application" to the UKBA before issuing a Tier 2 (General) CoS to see if they can be allocated a CoS initially under the current limits. Advertising the role in a specific way to the EEA workforce for a 28-day period also is usually a prerequisite of making such an application. However, if the applicant is earning GBP 150,000 or more per annum in salary and guaranteed allowances, then the requirement to make a prior application under the cap and to advertise the position can be waived.

Those coming to the U.K. under the Tier 2 (General) category may currently apply for permanent residence after five years.

After the CoS has been issued, the applicant must also make a visa application overseas at an appropriate British Embassy in their home country or country of legal residence. Spouses, common law spouses and partners and children under the age of 18 also can accompany the main applicant as long as they qualify for and make a dependant's application in advance of travel. If they obtain a dependant's visa, they are free to work and study during their period of stay in the U.K.

Other categories of visa are available and a full assessment of the candidate's position should be undertaken before making a final choice. Special programs also exist for investors and entrepreneurs who can obtain a visa in their own right if they meet certain qualifying criteria. Investors who invest GBP 5 million or GBP 10 million in certain prescribed U.K. investments can also enjoy accelerated rights of permanent residence (also known as settlement or indefinite leave to remain) after three and two years, respectively.

8.0 Deloitte International Tax Source

Professionals of the member firms of Deloitte Touche Tohmatsu Limited have created the Deloitte International Tax Source (DITS), an online resource that assists multinational companies in operating globally, placing up-to-date worldwide tax rates and other crucial tax material within easy reach 24/7.

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