Doing Business in the United Kingdom

A Guide for Investors

2016/17

This guide to Doing Business in the United Kingdom (UK) has been prepared by Rickard Luckin and is designed to provide information on a number of subjects important to those contemplating investing or doing business in the UK.

Doing Business in the UK has been designed for the information of readers. Whilst every effort has been made to ensure accuracy, information contained in this guide may not be comprehensive and recipients should not act upon it without seeking professional advice.

Up to date advice and general assistance can be obtained from Rickard Luckin and contact details are provided at the back of this guide.

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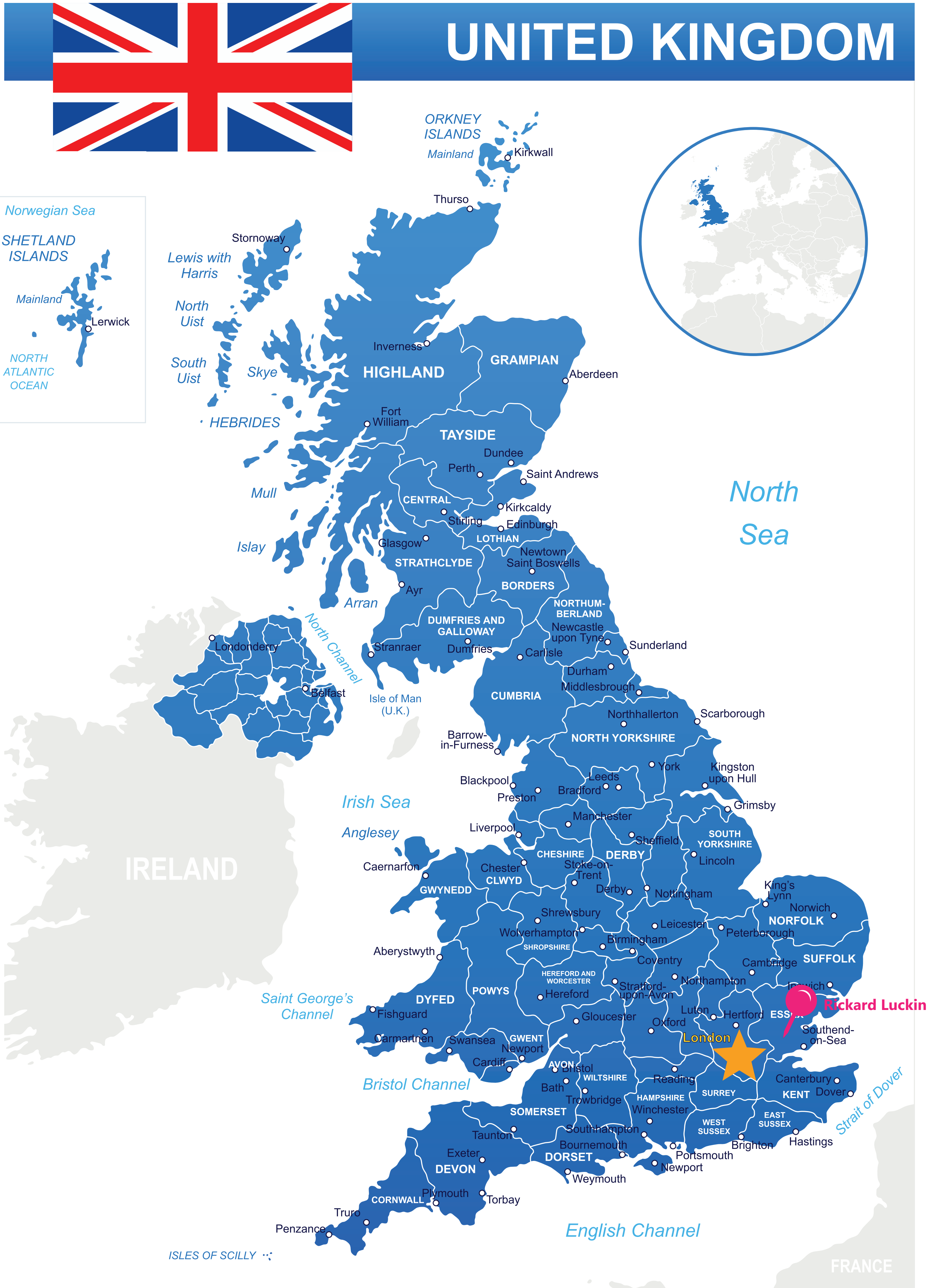
Contents

UNITED KINGDOM



Introduction

Geography

The UK covers an area of 94,248 square miles (244,101 square kilometres) and consists of England, Scotland and Northern Ireland. The Channel Islands and the Isle of Man are not included in this guide as they have their own laws, governments and tax systems.

The climate is temperate with average temperatures of 4-6°C in winter and 17-22°C in summer and an annual average rainfall of 1,100mm.

The country is mainly agricultural lowland with mountainous areas in Northern England, Wales and Scotland. Raw materials include coal and significant deposits of oil and gas under the North Sea.

A network of road and rail links radiates from London. The Channel rail tunnel provides fast rail and road access to Continental Europe. There are about 80 ports of commercial significance. London has the world's busiest international airport at Heathrow and the City is also served by Gatwick, Luton, Stansted, London City and London Southend, which is just five minutes from our Southend office! Other major international airports include those at Birmingham, Manchester and Glasgow in Scotland.

Population

The total population of the UK was estimated at 64.6 million in 2014. The main concentrations are in London (8.2million), Birmingham, Manchester, Leeds, Bristol, Glasgow and Belfast in Northern Ireland.

Political system

The Queen is head of state but the country is governed by Parliament based at Westminster in London. Parliament comprises two houses, the House of Commons and the House of Lords. The Government is formed from the House of Commons by the political party winning the most searts in a general election. Elections must be held at least every five years. Scotland, Wales and Northern Ireland each have their own devolved government or executive, led by a First Minister

Public services such as education, town planning, refuse disposal and social and recreational facilities are provided by local authorities run by elected councillors. The UK is currently one of 28 member states in the EU and is, therefore, subject to EU law. However, on 23 June 2016, as a result of a referendum of the British people, a decision was taken to leave the EU. The UK government has yet to trigger the formal mechanism to leave the EU but it is anticipated that this will happen toward the end of 2016, following which there will be a two year period until membership of the EU terminates.

Languages

English is the main language throughout the UK.

Currency

The monetary unit throughout the UK is the British Pound (Sterling) (£), divided into 100 pence. Although it is currently a member of the EU, the UK is not part of the Euro zone.

Economy

The UK has a partially regulated market economy. Based on market exchange rates the UK is currently the fifth-largest economy in the world and the second-largest in Europe.

The UK service sector makes up around 78% of GDP. Tourism is very important to the British economy and, with over 34 million tourists visiting in 2014, the United Kingdom is ranked as the eighth major tourist destination in the world and London has the most international visitors of any city in the world. Manufacturing remains a significant part of the economy but accounts for only 14% of national output.

The automotive industry is a significant part of the UK manufacturing sector and employs approximately 800,000 people, with a turnover of some £64 billion, generating £34 billion of exports. The aerospace industry of the UK is the second or third largest national aerospace industry depending upon the method of measurement and has an annual turnover of around £25 billion. The pharmaceutical industry plays an important role in the UK economy and the country has the third highest share of global pharmaceutical R&D expenditures (after the United States and Japan).

Agriculture is intensive, highly mechanised and efficient by European standards, producing about 60% of food needs with less than 1.6% of the labour force (464,000 workers). Around two-thirds of production is devoted to livestock, one-third to arable crops. Farmers are subsidised by the EU's Common Agricultural Policy. The UK retains a significant, though much reduced fishing industry. It is also rich in a number of natural resources including coal, petroleum, natural gas, tin, limestone, iron ore, salt, clay, chalk, gypsum, lead, silica and an abundance of arable land.

Unemployment at May 2016 stood at 4.9%. Total UK government debt rose from 44.4% of GDP in 2007 to 82.9% of GDP in 2015.

Business Entities and Accounting

Companies

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

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

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

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

Partnerships

A partnership is defined as the 'relationship which exists between persons carrying on a business in common with a view to profit'. Partnerships can either be general partnerships, where all partners have unlimited liability for the debts and obligations of the firm as a whole, or limited partnerships, where one or more of the general partners (those involved in the management of the business) have unlimited liability whereas the limited partners have liability only up to the amount of their capital contributions.

Except in Scotland, a partnership is not regarded as a separate legal entity distinct from its members.

The Limited Liability Partnerships Act 2000 allows businesses to operate through a form of business structure known as a Limited Liability Partnership (LLP). The LLP must have two or more members and must conduct business with a view to a profit. By providing its members collectively with a form of limited liability the LLP offers the prospect of asset protection to proprietors of unincorporated businesses. The LLP is taxed in much the same way as a general unlimited partnership.

Sole proprietorships

Many smaller businesses in the UK come into this category.

Branches and places of business

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

Audit and accounting requirements

All businesses need to maintain proper books of account for taxation purposes and to retain these and associated documents for minimum periods of up to six years. Companies and LLPs need to ensure that their accounting records comply with company law.

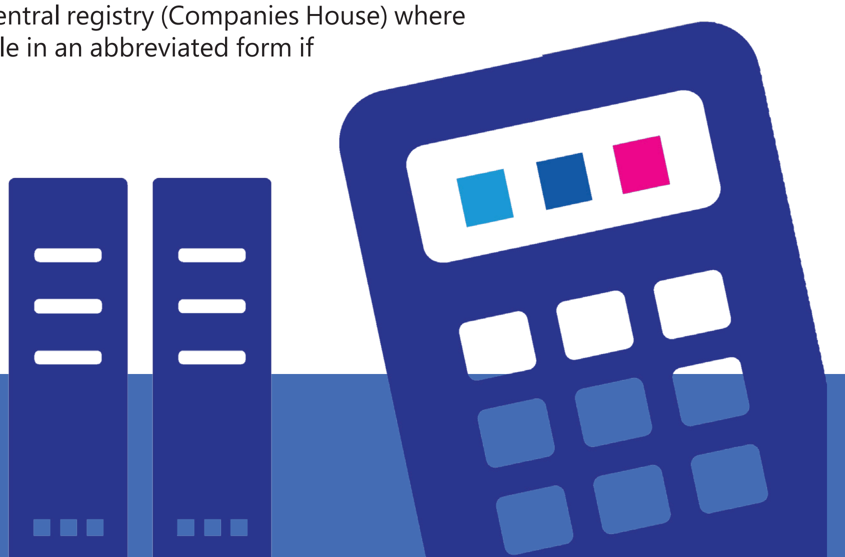
All public companies and some regulated companies must have their accounts audited by a qualified accountant. LLPs and private companies above a certain size criteria must also have their accounts audited.

Filing requirements

All limited companies and LLPs must file accounts at a central registry (Companies House) where they are available to the public. Small companies may file in an abbreviated form if they meet the necessary criteria.

An annual return giving details of directors shareholders, and ultimate control must also be filed.

Branches of foreign companies must file details of the branch and its head office at Companies House within one month of setting up a branch. Accounts of the foreign parent must also be filed annually.



Finance and Investment

Exchange Control

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

There are no limitations on the repatriation of profits from the UK.

The UK, in common with the rest of the EU, has enacted laws to prevent the laundering of the proceeds of serious crime. Financial and some other institutions must obtain and retain satisfactory evidence of the identity of a potential customer before they do any business with that customer, even for relatively small sums. Failure on the part of the institutions to report suspicion of money laundering to the appropriate authorities can result in serious penalties.

Sources of Finance

Banking

The UK's central bank, the Bank of England, acts as banker to the Government. It is responsible, among other things, for setting base interest rates through its Monetary Policy Committee.

Overdrafts with fluctuating interest rates are the most commonly used facility for financing working capital or to fund seasonably affected business. Technically, overdrafts are repayable on demand. Banks also offer short, medium or long-term loans. The repayment terms are negotiable and the rate of interest may be fixed or variable. To obtain bank finance the business will normally be required to provide adequate security located in the UK. Security will normally be in the form of a fixed or floating charge over the business assets, as well as, in certain circumstances, personal guarantees from the owners.

In addition to these traditional services the banks offer various other financing arrangements through subsidiaries or affiliates. These include instalment credit, leasing, factoring and invoice discounting and 'mezzanine' finance.

Branches of foreign banks in the UK can assist in arranging finance for businesses from their own countries wishing to trade in the UK.

Stock exchanges and trading facilities

The London Stock Exchange (LSE) provides a market for shares and other securities issued by public companies. Admission to trading on the LSE would normally make a company more attractive to private and institutional investors and thus make it easier to raise new capital. To become and remain listed a company has to satisfy and abide by the extensive rules established by the LSE. Within the main market the LSE has established techMark for innovative technology companies.

For growing, typically 'medium' sized companies, the LSE has established the Alternative Investment Market (AIM) which offers the benefit of potentially improved marketability of shares but with a more flexible regulatory environment. In addition, the OFEX market operated by ICAP provides a share trading platform for companies and can be used by smaller and start up companies to raise finance. A company with securities that are not publicly traded may wish to enter these markets to raise new capital or to enable security holders to realise all or part of their investment.

The main methods of entering these markets are:

- Admitting existing securities to trading.
- An offer for sale – this involves an offer to the public of securities at a fixed price or by way of a tender for which a minimum price is stated. The offer is made by a third party such as a merchant bank or stockbroker
- A placing – this involves the marketing of securities to a more restricted group of investors.

For a company already listed on an overseas stock exchange an introduction can be made by a broking firm to allow its securities to be traded on the LSE.

Once a company's securities are traded on the Stock Exchange further capital can be raised by rights issues, tender placings or by further offers for sale.

AIM is considered to be a very attractive market by both AIM and smaller main market companies. AIM has also become attractive to more overseas investors and larger companies. The exposure to investors, the credibility of plc status, tax advantages and a lower regulatory touch are considered to be the main benefits of joining AIM.

Enterprise Investment Scheme (EIS)

The EIS is a tax favoured scheme designed to encourage individuals to invest in entrepreneurial unquoted businesses with a presence in the UK. To be eligible for EIS the company must have a fixed place of business in the UK and carry on a trade. Certain trades are not eligible for the incentive. Individual investors subscribing for not more than 30% of the share capital of a qualifying company can get tax relief at 30% on up to £1,000,000 per annum invested. EIS can also provide a means of deferring taxable capital gains. EIS is not available for investment in companies listed on the Stock Exchange but may be available in respect of AIM or OFEX companies.

There is a version of the scheme for very small start up businesses with tax relief of 50% on up to £100,000 of investment.

Venture capital trusts

A Venture Capital Trust (VCT) is a fully listed company, similar to a quoted investment trust, which is approved by the tax authority and whose investments must, after three years, be at least 70% in qualifying unquoted trading companies. In this way, investors in VCT's can gain access indirectly to a professionally managed portfolio of unquoted investments. Individuals investing in VCTs can obtain 30% tax relief on investments up to £200,000.

Equity finance

For businesses that are not large enough to consider Stock Exchange entry but that require finance, venture capital companies can provide equity for start ups, for development or for management buyouts. Venture capital companies may also be a source of finance for a business that does not have sufficient security to borrow from a bank but they may require a higher return than a traditional bank.

Investment incentives

The UK offers an attractive package of grants and incentives to encourage industrial development. Foreign owned companies are eligible for the same incentives as UK owned companies. For further information see the British government's website, www.gov.uk/government/organisations/uk-trade-investment

Research and development support

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

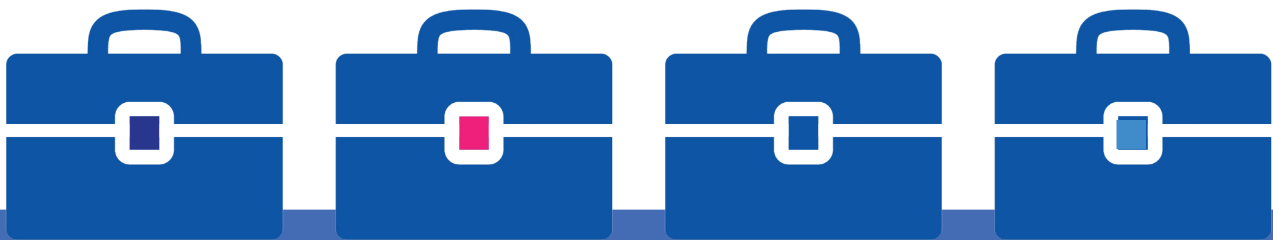
The UK also provides significant tax incentives in respect of research and development expenditure including repayable tax credits.

Employment Regulations and Social Security Contributions

Work permits

The following do not need work permits:

- Nationals of the European Economic Area comprising the 27 EU member states plus Norway, Liechtenstein and Iceland together with nationals of Switzerland. This may change when we leave the EU.
- People born in Gibraltar
- Commonwealth citizens who were allowed to enter or remain in the UK on the basis that a grandparent was born here
- Husbands, wives and dependent children under 18 of people who hold work permits or who qualify under the above categories



Representatives of overseas firms who are seeking to establish a UK branch or subsidiary and persons coming to the UK to set up a new business or takeover or join an existing business as a partner or director, will not normally need a work permit but may have to obtain prior entry clearance at a British diplomatic post abroad. A simplified process is available for employees of multinational companies transferring to a senior post in the UK or transferring for up to three years to develop their career.

Engagement and dismissal

No employee can be taken on without a contract of employment although this may take the form of a letter. The contract of employment must state the following as a minimum:

- The name of the employer
- Rate of pay and hours worked
- Paid holiday entitlement (minimum of four weeks)
- Paid sick leave entitlement
- Minimum notice of termination of employment
- Details of any pension scheme
- Clauses relating to health and safety
- Disciplinary procedures
- Grievance procedures
- Description of the job or its duties
- The place of work
- Any relevant union agreements

Subject to some exceptions, such as a termination for discriminatory, health or safety reasons, an employee's contract of employment may be terminated for any reason within the first year. Thereafter, termination without good reason and without following at least the statutory minimum disciplinary procedures may result in a claim by the employee for unfair dismissal. If successful the employee may recover compensation for loss of earnings for a reasonable period of time but which is normally capped at a maximum of £88,120.

Less favourable treatment (including harassment or dismissal) on defined grounds such as race, gender, disability, etc. will trigger liability for loss of earnings and an award for injury to feelings.

Larger employees must consult unions or employee representatives before making 20 or more people redundant. Employees made redundant are entitled to a redundancy payment in addition to any payment in lieu of notice according to a laid down scale.

Minimum wage

The UK requires employers to pay a minimum wage to employees. The current rates are:

- £7.20 an hour for workers aged 25 and over
- £6.70 an hour for workers aged between 21 and 24
- £5.30 an hour for workers aged between 18 and 20
- £3.87 an hour for workers aged between 16 and 17
- £3.30 an hour for apprentices under 19, or over 19 and in the first year of their apprenticeship

Trade unions and worker councils

There is no legal requirement for employers to recognise any trade union unless a majority of employees vote in a ballot in favour. Agreements between employers and trade unions over pay and conditions are not binding in law between them but may become binding between the employer and the employees. Unions may not take industrial action without first securing a majority vote in a secret ballot.

There is no legal requirement for employees to be represented on the board of directors of companies.

Pension provision

The government has introduced legislation making it mandatory for employers to make pension provision for employees. Where employees chose to participate in the scheme the minimum funding rate for employers will start at 1% and will rise to 3% in 2019.

Social security contributions

All employers are liable for social security contributions in relation to their employees. Rates of contributions for employers and employees are set out in Appendix 4.

Taxation

Companies

Scope

Companies that are incorporated within the UK and other companies that are managed and controlled from the UK are liable to corporation tax on their worldwide profits. Companies not incorporated under UK law and which are not managed and controlled in the UK are liable to corporation tax on any trading profits that they derive from a UK permanent establishment and income tax on other UK source income.

Where there is a double tax treaty between the UK and the country where the company is based then its terms may modify the extent to which the company is liable to tax in the UK.

Taxable profits

Corporation tax is charged on a company's income and capital gains for each of its accounting periods. An accounting period is normally the period for which accounts are produced to comply with company law but special rules apply where such accounts cover a period of more than 12 months.

Dividends received are generally exempt from tax but there are some exceptions.

The principal part of a trading company's corporation tax computation is the adjustment of its accounting profits for tax purposes. The starting point is generally the company's profit before tax as shown by its statutory accounts. Disallowable expenses are then added back. Depreciation is also added back as disallowable and capital allowances (see below) are deducted instead. Capital receipts and expenses are generally excluded. The general rule for deductible expenses is that must be incurred 'wholly and exclusively' for the purposes of the trade. There are also specific rules disallowing entertaining expenses (other than for staff), improvements to premises (as opposed to repairs) and general bad debt provisions. Enhanced reliefs are available in respect of revenue expenditure on research and development, film production, certain TV production, animation and video games.

Companies are also liable to corporation tax on their capital gains. Generally these are computed as the excess of the proceeds of sale of an asset over its original cost but for assets acquired before 31 March 1982 the market value at that date can be substituted if it produces a smaller gain. There is an 'indexation' relief to ensure that tax is only levied on real gains and not any proportion attributable to inflation. Tax on the sale of real estate and certain other assets which are used in the company's trade can be deferred if the sales proceeds are used to purchase replacement assets.

Gains or losses on the sales of shareholdings of 10% or more in trading companies are exempt if certain conditions are met.

Since 1 April 2013 the UK has introduced a 'patent box' regime which will reduce the effective rate of tax on income derived from patents registered in the UK or EEA.

Capital allowances

Capital allowances are deductible from trading profits as a replacement for the depreciation charged in the statutory accounts. The principal classes of asset eligible for allowances are:

- Machinery and plant
- Vehicles
- Mines and oil wells
- Scientific research assets

Rates of allowance vary from 8% to 100%.

Tax on the sale of real estate and certain other assets which are used in the company's trade can be deferred if the sales proceeds are used to purchase replacement assets.

Financing costs

Interest payable and other financing costs, e.g., premiums on loan redemptions, are usually deductible from profits in the same way as any other trading expense subject to transfer pricing considerations.

Companies must generally deduct tax at 20% from interest that they pay to lenders other than banks and pay the tax over to HM Revenue and Customs (HMRC) with the exception of payments to other UK companies. However, most of the UK's double taxation treaties provide for a reduced rate of withholding or in some cases no withholding.

Royalty payments

Deduction for royalties paid or accrued are available subject to transfer pricing considerations. Companies must in some cases deduct income tax at 20% from royalties paid and pay the tax over to HMRC. Where the licensor is resident abroad the appropriate double tax treaty may provide for a reduced or nil withholding.

Dividend payments

No withholding tax is deductible when a UK company pays a dividend.

Calculation of liability

Corporation tax rates (see Appendix 2) are set for 'financial years' commencing on 1 April. If an accounting period ends on some other date chargeable profits are time-apportioned to financial years.

Due dates for payment

Except for companies with taxable profits in excess of £1,500,000 corporation tax is payable nine months after the end of the accounting period. For companies which have taxable profits in excess of £1,500,000 corporation tax is payable in four quarterly instalments commencing in the 7th month of the company's accounting year. The £1,500,000 threshold is reduced where more than one company is in a group.

Relief for losses

Trading losses incurred in an accounting period may be offset against other sources of income in that period or in the preceding accounting period or carried forward indefinitely against future trading income subject to anti-avoidance provisions if there is a change of control. They may also be surrendered to other UK group companies for relief in the same accounting period.

The losses of investment companies can generally be set off against general profits in the year that loss was incurred and any excess carried forward.

Transfer pricing

The UK has transfer pricing legislation which generally requires transactions between associated companies to be carried out on arms length basis for tax purposes.

Administration

A system of self assessment operates. Interest is payable or receivable on any under/over payments of tax subsequently received and penalties can be incurred if HMRC make adjustments to returns on review.

A corporation tax return is required from companies in respect of each accounting period and a penalty is levied if the return is not filed within twelve months of the end of the accounting period.

Individuals

Overview

Individuals who are resident and domiciled (see below) in the UK are subject to tax on their world wide income and capital gains. A system of wage withholding (Pay As You Earn) operates on employment income.

Individuals and partnerships are required to file an annual income tax return by the 31st January following the fiscal year.

Details of income tax rates are set out in Appendix 3.

On death, and when transfers are made to trusts, inheritance tax is payable at 40% or 20% (transfers to trusts) over a threshold of £325,000. The UK does not have a wealth tax.

Sole traders

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

The UK fiscal year runs from 6 April to 5 April but an individual may draw up his accounts for a year ended on any date. The accounts of the business for the year ended on or prior to 5 April form the basis of assessment for the fiscal year.

Partnerships

Partnerships are taxed in the same way as the self-employed so that individual partners are taxed on their share of the profits as adjusted for tax purposes. A partner is not liable for the unpaid tax of another partner.

A partnership controlled and managed in the UK is liable to income tax on both its UK and overseas profits. This includes any profits due to partners not resident in the UK although a non-resident partner will not normally be taxed on their share of overseas profits.

Partners of a partnership managed and controlled abroad, which carries on part of its business in the UK through a permanent establishment, will be subject to income tax on the profits of the permanent establishment.

Profits attributable to a corporate partner are assessed on the company broadly under corporation tax legislation.

Taxation of employees

Employees resident in the UK are subject to income tax and social security contributions on all earnings and most benefits provided by an employer.

Pay As You Earn (PAYE)

Income tax and social security contributions are required to be deducted at source under the PAYE (wage withholding) system. Employers are also required to provide an annual statement of benefits provided to employees.

Employers are subject to regular inspections by HMRC and failure to properly operate the rules governing PAYE can lead to penalties and interest on unpaid tax.

Taxation of savings income

Savings income from sources such as shares and cash deposits are added to an individual’s other income and normally taxed at the rates set out in Appendix 3.

Income from land and property

The net income from these sources is added to an individual’s other income and taxed at the rates set out in Appendix 3. Interest on loans taken out to acquire land or property which is let can generally be deducted for tax purposes.

Capital gains

With some minor exceptions capital gains tax is payable on all assets on which a gain is made. The gain is normally calculated by deducting the cost of the asset from any sales proceeds. If the asset was held before the 31 March 1982 the market value at that date may be used. Unlike corporations there is no relief for inflationary gains.

The resultant gain, to the extent that its exceeds an annual exemption (currently £11,100) is taxed at 10% / 20%, except in the case of residential property where the rates will be 18% or 28%. This rate may be reduced to 10% for certain business assets including shares in a trading company.

Inheritance tax

Inheritance tax is payable by individuals who are domiciled in the UK in respect of their worldwide assets. Non-UK domiciled individuals are subject to inheritance tax on UK situs assets.

Inheritance tax is payable on death by the deceased’s personal representatives on the net value of the deceased’s net assets at the date of death. Gifts made within seven years of death are aggregated with the deceased’s estate for inheritance tax.

Inheritance tax may also be payable on transfers into trust.

Transfers between spouses are exempt although a restriction applies where the donor spouse is domiciled in the UK and the donee spouse is not.

Some business assets and charitable gifts qualify for exemption in whole or in part.

Details of the tax rates are set out in Appendix 3.

Administration

The UK operates a system of self-assessment for tax on income and capital gains. A tax return for the year ended 5 April must be filed annually normally by 31 January in the following year together with a payment of the balance of any tax due for the relevant year. Payments on account of the liability for the relevant year are due as to 50% on 31 January in the relevant year and 50% six months later. Payments on account are calculated by reference to the liability for the previous year.

Expatriates

Scope of UK taxation

Most people who come to the UK will be in the position to claim that they are domiciled outside the UK. Domicile is a legal concept meaning broadly one's natural home country or state to which one intends to return. Living as a foreign domiciliary in the UK can bring significant tax advantages. In particular income and capital gains arising outside the UK are not taxed unless the resultant funds are remitted to the UK. Once an individual has been resident in the UK for seven years a toll charge needs to be paid to continue to use the remittance basis.

Unless their visit to the UK is very short individuals who come to the UK for employment purposes will generally be regarded as tax resident in the UK. Residence is an entirely different concept from domicile. If individuals are in the UK for less than three years and part of their work is in the UK and part overseas then they will not be subject to tax on the part relating to overseas duties if that part is paid to them outside the UK and not brought into the UK. There may be scope for keeping earnings attributable to non-UK duties outside the scope of UK tax by using separate contracts of employment where individuals are resident for a longer period.

Accommodation provided by the employer

Accommodation provided by an employer is taxable unless it is temporary accommodation (i.e. less than 24 months) connected with an employee's relocation. The tax charge is on the utilities paid by the employer plus the 'annual value' of the property if it is owned or the annual rent if it is leased. There is an additional tax charge on employer owned accommodation costing over £75,000 which is broadly equivalent to a tax on the notional interest on the excess.

Social security contributions

The UK has reciprocal social security agreements with many countries under which employees may continue to pay the home country contributions for a specified period of time. The agreements can also provide for the protection of benefits. Currently, under EU regulations, a national of a member state who is posted by their employer to another member state is liable to pay contributions to the state to which they are posted if the assignment is for a period of at least 24 months. Employees who have assignments of less than 24 months continue to pay home state contributions.

Indirect taxes

Value added tax (VAT)

In common with other EU states the UK imposes VAT on the consumption of goods and services. In general terms business do not themselves suffer VAT, as it is a tax payable by the eventual consumer, but businesses are responsible for the administration and collection of the tax.

Businesses with an annual turnover in excess of the registration limit (currently £82,000) are required to register with HMRC. In general terms they must add VAT to the price they charge for goods and services and periodically pay it over to HMRC after deducting any VAT they have suffered.

Voluntary registration is permitted for businesses with an annual turnover below the registration threshold and who wish to recover the VAT they incur on purchases. For most categories of goods and services VAT must be added at the standard rate, currently 20%. A reduced rate of 5% applies to domestic fuel and power and a limited range of other goods and services.

Some sales, such some categories of food, have VAT charged at 0% but the businesses supplying such goods and services are entitled to recover VAT they have incurred.

Certain supplies, such as financial services and property sales, are exempt. Again no VAT needs to be charged but the business is not entitled to recover VAT on goods and services related to such supplies.

Exports to businesses are generally effectively zero rated.

Overseas businesses importing goods into the UK may become liable to register for VAT even if they have no place of business here.

The legislation is particularly complicated and the VAT compliance regulations are strict and penalties are imposed for the late submission of periodic returns and for errors in returns.

Customs duty

The EU has a harmonised system of customs duties in which the UK currently participates. Goods can move freely within the EU if they originate in the EU or once they have paid duty in any jurisdiction. Duty is a one off absolute cost. To pay the correct duty accurate classification and valuation according to customs rules is vital. Incorrect valuation or classification will either mean too much duty is paid or too little. The former will add an irrecoverable cost, the latter will leave a business open to penalties.

There are many reliefs that can reduce the burden of customs duties. These can significantly reduce the duty cost. They are not available retrospectively and authorisation must be obtained in advance from HMRC.

Other indirect taxes

Other indirect taxes include the following:

- Excise duty – high levels of duty apply to motor fuels, alcohol and tobacco products.
- Insurance premium tax – this is a tax on general insurance premiums. There is a standard rate of 9.5% (increasing to 10% from 1 October 2016) and a higher rate of 20% for travel insurance and some vehicle insurance.
- Landfill tax – a tax on the disposal of waste.
- Climate change levy - a tax on non-domestic supplies of electricity, gas, liquid petroleum gas, coal, coke and similar products.
- Aggregates levy – a tax on the commercial exploitation in the UK of rock, sand and gravel.

Other taxes

Stamp duty

Stamp duty is payable at 0.5% by UK or foreign purchasers of shares in UK incorporated companies.

Stamp duty land tax

Stamp duty land tax is payable on the transfer of UK real estate or on the grant of leases in respect of UK real estate. Rates range from 1% to 15%.

Local taxes

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

Appendices

Appendix 1 – Withholding taxes on interest and royalty payments

	Interest (%)	Royalty (%)
Australia	0/10 (1)	5
Austria	0	0/10 (2)
Belgium	0/10 (3)	0
Canada	0/10 (4)	0/10 (5)
China	10	7/10 (6)
Cyprus	10	0/5 (7)
Denmark	0	0
France	0	0
Germany	0	0
Greece	0	0
India	10/15 (8)	10/15 (9)
Ireland	0	0
Italy	0/10 (10)	8
Japan	10	0
Luxembourg	0	5
Netherlands	0	0
New Zealand	10	10
Norway	0	0
Pakistan	15	12.5
Portugal	10	5
South Africa	0	0
Spain	12	10
Sweden	0	0
Switzerland	0	0
United States	0	0

For EU countries the rate may reduce to nil under the EU interest and royalties directive

1. 10% except for interest paid to financial institutions.
2. 10% rate applies to a company that controls 50% or more of the payor company.
3. Generally 10% although interest paid to pension schemes may be exempt.
4. The 0% rate applies in respect of indebtedness in connection with sale on credit unless the transaction is with a related person. The rate is 10% in other cases.
5. The 0% rate applies to royalties paid in respect of literary, dramatic, artistic and musical works (excluding motion pictures and films) and payments for industrial, commercial or scientific experience, and computer software. The rate is 10% in all other cases.
6. The 10% rate applies unless it is for the right to use industrial, commercial or scientific equipment, in which case the rate is 10% of 70% of the royalty.
7. The 5% rate applies to royalties paid in respect of films. The rate is 0% in other cases.
8. The 10% rate applies to interest paid to banks. The 15% rate applies in all other cases.
9. The 10% rate applies to royalties for the use of industrial, commercial or scientific equipment. The rate is 15% in all other cases.
10. The 0% rate applies to the sale of industrial, commercial or scientific equipment. The rate is 10% in other cases.

Appendix 2 – Rate of corporation tax

Year to 31 March 2017 20%

Appendix 3

Rates of income tax

Year to 5 April 2017

Personal allowance £11,000*

*This is a tax free allowance the benefit of which is clawed back at a rate of 50% once taxable income exceeds £100,000

£	%
1-32,000	20 (1)
31,786 – 150,000	40 (2)
Over 150,000	50 (3)

1. Dividends taxed at 7.5%
2. Dividends taxed at 32.5%
3. Dividends taxed at 38.1%

Capital gains tax

Year to 5 April 2017

Annual exemption £11,100

Rate 10% / 20%*

*A rate of 10% applies to gains on qualifying business assets up to £10,000,000. Residential property is taxed at 18% / 28%.

Inheritance tax

Taxable transfers up to £325,000 Nil

Taxable transfers over £325,000 on death 40%

Taxable transfers over £325,000 during life 20%

Appendix 4 – Rates of social security contributions

Year to 5 April 2017

Class 1 (employed)	Employer %	Employee %
Earnings per week		
£0.01 - £155.00	Nil	Nil
£155.01 - £827.00	13.8	12
Over £827	13.8	2

Class 1A and 1B (employers only)* 13.8%

*Payable on certain employer provided benefits

Class 2 (self employed)

Rate £2.80 per week

Exemption if annual earnings are £5,965 or less.

Class 3 (Voluntary)

Rate £14.10 per week

Class 4 (self employed)	%
Profits up to £8,060	0
Profits from £8,061 to £43,000	9
Profits over £43,000	2

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