



# Appendix 4 – Business taxation

## 1. Overview

The UK has a low-tax system. The main tax rate on corporate profits is 28% for profits over £1.5 million. UK-tax-resident companies with profits up to £300,000 are taxed at a 21% rate, and those with profits between £300,000 and £1.5 million are taxed at a rate between 21% and 28%. Similar rates apply to UK permanent establishments (PEs) of non-UK-resident companies, provided the company is resident in a jurisdiction that has a tax treaty with the UK.

## 2. Taxable income and rates

Only the central government levies corporate income tax. The highest rate of company tax is 28%, and companies with taxable profits of £1.5 million or above pay this rate.

There is no tax on corporate capital, and no excess profits or alternative minimum tax.

### Residence and taxable income

A UK-resident company is subject to corporation tax on its worldwide profits with credit currently given for most overseas taxes. As noted below, the reform of the taxation of foreign profits means that the tax credit system is being replaced by an exemption system. Profits include chargeable gains. A non-UK resident company is subject to corporation tax only in respect of the profits of its PE in the UK and chargeable gains on assets used or held for the purpose of the trade or PE. If a non-UK resident company carries on an investment activity in respect of UK sources of income, it will be subject to income tax.

A company is UK tax resident if it is incorporated in the UK or, if not incorporated in the UK, if its place of central management and control is in the UK. 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 UK because its management and control is in the UK but also would be resident under another country's tax law because the company is incorporated there, its residence status may be resolved by an applicable tax treaty (if any) between the two countries. In determining residence, HMRC considers whether the directors exercise central management and control and, if so, where such central management and control is actually exercised.

As mentioned above, non-UK resident companies operating in the UK are charged UK corporation tax if they trade in the UK through a PE. Taxable profits include trading income arising through or from the PE, income from property or rights used or held by the PE and chargeable gains arising on the disposal of assets used or held by the PE. The profits attributable to a PE are determined according to these rules unless there is a business profits article in an applicable tax treaty. The lower 21% rate of corporation tax applicable to small companies (those with profits of up to £300,000; pro-rated for the number of associated companies worldwide) does not apply to UK branches of foreign companies, unless the branch benefits from a non-discrimination clause in an applicable treaty.

The profits of a foreign branch of a UK-resident company are subject to corporation tax whether or not they are repatriated to the UK. If the foreign profits cannot be remitted to the UK because of foreign tax law or government action, a deferral of corporation tax may be claimed.

In general, dividends received by a UK company from another UK company are not subject to tax unless, for example, the shareholder is a share dealer. Under anti-avoidance legislation introduced by Finance (No. 2) Act 2005, certain shares may be treated as loans (e.g. shares whose value increases at a rate that represents a return on investment as interest) and the dividends would then be treated as interest. These provisions should not affect routine arrangements relating to preferential shares. As noted below, from 1 July 2009 the treatment of dividend income for UK companies is changing. As such, distributions from UK resident companies will no longer qualify for an automatic exemption and consideration will need to be given as to whether they fall into one of the exempt categories.

Foreign tax incurred through withholding on the payment of foreign dividends, interest, royalties and/or fees to the UK is added to the net amount of income received to arrive at taxable income. Credit for such tax is given against UK tax payable. The amount of credit is limited to the UK tax on that income or profit and it is necessary to take account of expenses that are incurred in earning those profits.

When a foreign dividend is paid to a UK company, until 1 July 2009 credit will generally be available against the UK liability for tax paid by the foreign company in earning those profits where the shareholding is at least 10%. However, the UK taxation treatment of foreign profits is being reformed and the Budget 2009 announcements included further statements regarding the proposed changes, as detailed below.

### **Deductions**

Companies may deduct from gross trading profits all expenditure that is wholly and exclusively laid out for the purposes of the trade. Payments of indirect taxes are often deductible, as are most charitable contributions. Complicated provisions apply to deductions for certain employee share and share option schemes that, in general, do not follow the accounting treatment.

### **Depreciation**

Other than for certain intangible fixed assets, tax relief is not given for depreciation accounts. 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 taken to a single pool (main pool), and at the end of the year a writing-down allowance of an amount equal to 20% 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.

Various first-year allowances (FYAs) are available to small and medium sized enterprises (SMEs), as an incentive to incur capital expenditure. From 1 April 2008 an Annual Investment Allowance of £50,000 per annum, per group of companies, is available offering immediate tax relief on qualifying expenditure. Announcements in the 2009 Budget indicated that businesses investing more than this £50,000 on plant & machinery between April 2009 and April 2010 will be entitled to a new temporary 40% FYA for the excess over £50,000, rather than the standard 20% writing down allowance.

Some environmentally friendly plant and machinery, and certain capitalised R&D expenditure, can qualify for a 100% FYA. The majority of capital expenditure incurred for the purposes of UK oil and gas exploration and extraction also qualifies for 100% FYA.

Some plant and machinery does not go into the main pool but into separate asset pools for each asset. This includes ships, cars costing more than £12,000 (this moves to an emissions basis with effect from 1 April 2009) and assets for which a short-life election has been made. 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 that is expected to have a useful economic life of at least 25 years is included in a single class pool and qualifies only for a write-down allowance of 10% per year. This does not apply to ships and cars.

From 1 April 2008, significant elements of plant and machinery formerly treated as 'Fixtures' will now be called 'integral features' and obtain capital allowances at 10% rather than 20%. Examples of integral features include electrical systems, water heating systems, air conditioning, lifts, etc. This includes assets previously treated as plant & machinery, e.g. lifts, and also includes assets which previously did not attract capital allowances at all, e.g. cold water systems. This will mean more expenditure is likely to be eligible but at a lower rate.

Allowances were previously given for the cost of certain industrial buildings, excluding the cost of land, at a rate of 4% per year on the original cost. For second-hand buildings that previously qualified for allowances, the purchaser was generally entitled to relief only for the lower of the consideration paid for the purchase of the building and the building's original cost spread over the period starting with the acquisition and ending 25 years from when the building was first used. Rules were introduced in 2007 and 2008 removing allowance on industrial buildings (for historic expenditure, the 4% allowance will be phased out). The cost of industrial buildings will still qualify as base cost when the building is disposed of.

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. For example, relief is available for the amortisation of goodwill arising on the acquisition of a business. A number of anti-avoidance provisions exist to prevent companies from “refreshing” old intangible assets that did not attract tax relief before 1 April 2002 by, for example, transferring assets intra-group.

### Leasing

From 1 April 2006, 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 whose minimum term is more than 65% of the expected remaining useful economic life of the asset. Leases of less than five years should not be 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.

All or part of the losses attributable to non-trading loan relationships and derivative contracts, and foreign exchange differences 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. 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 they were a loss for that period.

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

The Budget 2009 announced that losses arising in accounting periods ending between 24 November 2008 and 23 November 2010 can be carried back for three years, being an unlimited carry back to the preceding year under the existing rules, and £50,000 to the two earlier years.

## 3. 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 in both UK 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 in nature. UK domestic law does not subject a non-UK resident to UK capital gains tax unless the asset being disposed of is held through a UK PE.

Following the introduction of a self-contained code for the taxation of intangible fixed assets (see above) that broadly assimilates to income all profits and gains on intangibles based on their accounting treatment, disposals of post-commencement intangible fixed assets are no longer taxed as capital. This applies only to assets within the regime, which are broadly those acquired or created after 31 March 2002; special rules apply to acquisitions from related persons. Disposals of assets not in the regime – such as goodwill, which existed at 31 March 2002 – continue to be taxed as capital gains.

Similarly, the self-contained code for the taxation of loan relationships, derivative contracts, and foreign exchange gains and losses means that these are also not taxed as capital.

#### 4. Withholding tax

*Dividends.* The UK does not normally impose withholding tax on dividends. However, a REIT is required to deduct tax at 20% from dividends paid to non-UK residents (22% prior to 1 April 2008).

*Interest.* A 20% withholding tax is generally imposed on interest payments to non-UK 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. The EC Interest and Royalty Directive, effective from 1 January 2004, 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 UK company is paying interest or a royalty to a company in another EU 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 UK 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. Advance clearance is required from HMRC before a reduced rate of withholding can be applied.

*Royalties.* A 20% withholding tax is generally imposed on royalty payments to non-UK residents, unless the rate is lowered under an applicable tax treaty. Royalty payments to qualifying EU companies may be exempt if they meet the conditions for the EC Interest and Royalty Directive (see above). Reduced royalty withholding rates can be applied by self-assessment (i.e. no advance clearance is required).

#### 5. Foreign income and tax treaties

The unremitted profits of non-UK-resident subsidiaries of UK-resident companies are not normally subject to UK tax unless the controlled foreign companies (CFC) provisions apply (see below).

From 1 July 2009, dividends and other distributions received by UK companies will be exempt from UK corporation tax if they fall within one or more of five exempt classes. The exempt classes are fairly widely defined and are expected to cover most dividends. Any dividend not falling within an exempt category will be fully taxable. There will be no onshore dividend pooling but credit for tax suffered is expected to be available.

It is envisaged that the exemption should make future profit repatriation more straightforward and avoid the administrative burden and uncertainty involved in credit relief calculations.

The UK is a party to more than 100 double tax treaties. Some cover only a few items, but those with the UK's major trading partners encompass a wide range of taxes. The treaties often exempt interest, royalties and licensing payments from UK and foreign withholding taxes. Where foreign withholding taxes might apply to dividends paid to UK companies, the rates are normally reduced, often to zero, either under the treaty or as a result of the EC Parent-Subsidiary Directive. Each treaty must be carefully reviewed in every instance.

The table overleaf illustrates the rate of tax withheld on certain payments by a UK company; lower rates may apply under UK domestic law (e.g. the UK does not impose withholding tax on dividends). The precise conditions of the treaty or directive should always be consulted, in particular any anti-avoidance provisions or special qualifying conditions.

## Withholding tax rates under the UK's tax treaties

Treaty Partner	Dividends	Interest	Royalties <sup>1</sup>
Antigua & Barbuda	0	D	0
Argentina	10/15	0/12	3/5/10/15
Australia	5/15	0/10	5
Austria	5/15	0	0/10
Azerbaijan	10/15	10	5/10
Bangladesh	10/15	7.5/10	10
Barbados	0/15	15	0/4.5
Belarus	0	0	0
Belgium	5/10	0/15	0
Belize	0/15	D	0
Bolivia	15	15	15
Bosnia & Herzegovina	5/15	10	10
Botswana	5/12	10	10
Brunei	0/15	D	0
Bulgaria	10	0	0
Burma	0	D	0
Canada	5/15	0/10	0/10
Chile	5/15	5/15	5/10
China	10	10	7/10
Croatia	5/15	10	10
Cyprus	0/15	0/10	0/5
Czech Republic	5/15	0	0/10
Denmark	0/15	0	0
Egypt	20	15	15
Estonia	5/15	0/10	0/5/10
Falkland Islands	5/10	0	0
Fiji	15	10	0/15
Finland	0	0	0
France	0/15	0	0
Gambia	0/15	15	12.5
Georgia	0/5/10	0	0
Germany	15/20/25	0	0
Ghana	7.5/15	12.5	12.5
Greece	D	0	0
Grenada	0/D	D	0
Guernsey	D	D	D
Guyana	10/15	15	10/D
Hungary	5/15	0	0
Iceland	0/15	0	0
India	0/15	10/15	10/15
Indonesia	0/15	10	10/15
Ireland	5/15	0	0
Isle of Man	D	D	D
Israel	D/15	15	0/15
Italy	5/15	0/10	0/8
Ivory Coast	15	15	10

Treaty Partner	Dividends	Interest	Royalties <sup>1</sup>
Jamaica	15	12.5	10
Japan	5/10	0/10	10
Jersey	D	D	D
Jordan	10	10	10
Kazakhstan	5/15	10	10
Kenya	0/15	15	15
Kiribati	0/15	D	0
Korea (R.O.K.)	5/15	10	2/10
Kuwait	5/15	0	10
Latvia	5/15	0/10	0/5/10
Lesotho	10	10	10
Lithuania	5/15	0/10	0/5/10
Luxembourg	5/15	0	0/5
Macedonia	5/15	0/10	0
Malawi	0/15	0/D	0/D
Malaysia	5/10	10	8
Malta	15	0/10	0/10
Mauritius	0/15	0/D	15
Mexico	0	5/10/15	10
Mongolia	5/15	7/10	5
Montenegro	5/15	10	10
Montserrat	0/D	D	0
Morocco	0	10	10
Myanmar	0	D	0/D
Netherlands	5/15	0	0
New Zealand	15	10	10
Nigeria	12.5/15	12.5	12.5
Norway	5/15	0	0
Oman	5/10	0	0
Pakistan	15/20	15	12.5
Papua New Guinea	17	10	10
Philippines	15/25	10/15	15/22
Poland	0/10	0/5	0/10
Portugal	10/15	0/10	0/5
Romania	10/15	0/10	0/10/15
Russia	10	0	0
Serbia	5/15	10	10
Sierra Leone	0/D	D	0
Singapore	5/15	10	10
Slovakia	5/15	0	0/10
Slovenia	5/15	0/10	0/10
Solomon Islands	0/15	D	0
South Africa	0/15	0	0
Spain	10/15	0/12	0/10
Sri Lanka	15	10	0/10
St. Kitts & Nevis	0	D	0
Sudan	15	15	10

Treaty Partner	Dividends	Interest	Royalties <sup>1</sup>
Swaziland	15	D	0
Sweden	0/5	0	0
Switzerland	5/15	0	0
Taiwan	10	10	10
Tajikistan	0	0	0
Thailand	0/15	10/20	5/15
Trinidad & Tobago	0/10	10	0/10
Tunisia	12/20	10/12	15
Turkey	15/20	15	10
Turkmenistan	0	0	0
Tuvalu	0/15	D	0
Uganda	15	15	15
Ukraine	5/10	0	0
United States	5/15	0	0
Uzbekistan	5/10	5	5
Venezuela	0/10	5	5/7
Vietnam	7/10/15	10	10
Zambia	5/15	10	10
Zimbabwe	0/20	10	10

1: Only certain types of royalty are subject to UK withholding tax (e.g. patent royalties, mineral royalties and copyright royalties, but not royalties on films or video recordings). Furthermore, whether relief is given under a treaty will depend on the scope of the particular royalty article and also, where the royalty article does not apply, upon whether any other article, such as an "other income" article, applies.

## 6. Transactions between related parties

### Transfer pricing

Under the self-assessment system, it is a company's responsibility to ensure that, for tax purposes, transactions with related parties reflect arm's length prices. The UK embraces internationally accepted standards (i.e. OECD) for establishing prices. UK companies are expected to have and retain adequate documentation to show that prices paid or charged meet the criteria.

The transfer pricing rules also apply to intra-UK transactions and thin capitalisation rules have been brought into the transfer pricing regime.

SMEs are exempt from the transfer pricing rules (if their transactions are with UK-related businesses, or related businesses in countries with which the UK has a tax treaty with a non-discrimination article), as are subsidiaries that were dormant on 1 April 2004 (provided they remain dormant). HMRC has power of direction for medium-sized companies in exceptional circumstances, where there has been deliberate manipulation and a significant loss of UK tax. For these purposes the following criteria apply:

	Annual turnover	Balance sheet total	Employees
Small	Less than or equal to €10 million	Less than €10 million	Less than 50
Medium	Less than €50 million	Less than €43 million	Less than 250

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

### **Controlled foreign company**

Generally speaking, a CFC is a company that is not resident in the UK but is controlled by UK residents and is subject to a lower level of taxation (generally less than 75% of what it would have paid had it been UK resident). If these conditions are satisfied and no exemption applies, the UK company will pay corporation tax on its share of the CFC's income (ignoring capital gains). A major overhaul of the UK CFC rules is proposed from 1 April 2009.

In the 2008 Pre-Budget Report, the UK Government announced a major overhaul of the UK CFC rules, but it is not expected that legislation for reform in this area will be introduced before 2011, leaving two years of potential uncertainty over the direction this reform will take. However, the Budget 2009 has confirmed the removal of some of the exemptions from the current CFC legislation with effect from 1 July 2009. The Acceptable Distribution Policy and Holding Company exemptions are being abolished subject to certain provisions for existing holding companies.

The early abolition of the holding company exemption prior to the wider CFC reform is likely to impact groups with exempt holding company structures that receive non dividend income. Some commercial arrangements may be affected.

### **Thin capitalisation**

Anti-avoidance measures to address excessive debt of UK-resident companies (and UK PEs of foreign companies) are included as part of the transfer pricing rules. When considering whether the interest on a loan from, for example, a foreign parent is deductible, the arm's length principle must be followed. Generally the ability of a borrower to support the loan 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. There are no safe harbour provisions.

A new worldwide debt cap will apply to large groups for accounting periods beginning on or after 1 January 2010. The rules in this area are complex but broadly speaking the proposed legislation will restrict UK tax deductions for interest payable by UK members of a group by reference to the gross consolidated finance expense of the group.

### **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. The UK does not tax groups of companies on the basis of a consolidated tax return.

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 must also 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 or losses attributable to non-trading intangible fixed assets against its total profits for the corresponding tax year. Losses that are brought forward cannot be surrendered.

Until recently, another condition for relief was that if the surrendering company was a non-UK resident, only the losses attributable to its UK PE were available for relief. As a result of the ECJ decision in *Marks & Spencer*, where losses of a foreign subsidiary cannot be used in the country in which the subsidiary is located (e.g. because the subsidiary has ceased to trade), these losses can be surrendered to a member of the UK group if all other requirements for the surrender of losses are met.

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

## 7. Turnover and other indirect taxes and duties

### VAT

VAT is the largest single source of indirect tax revenue in the UK. 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. Companies act as VAT collectors, paying to HMRC the tax recoverable from 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 which is unable to claim credit.

There is a standard VAT rate of 15% and a reduced rate of 5%. The standard rate of VAT will increase to 17.5% from 1 January 2010. Some supplies are zero-rated and others are exempt. Zero-rated supplies are treated as a taxable supply, so input tax (VAT incurred on expenditure) can be credited against any output tax. Zero-rating applies for private house building, some animal feeds, seeds and live animals, most food (excluding catering), public transport, children's clothes, protective clothing, and newspapers and books. For exempt activities, however, no tax is chargeable on sales, but no VAT is recoverable on related purchases (subject to *de minimis* limits). Exempt activities include bank lending (but some services supplied by banks are taxable), rent (but landlords can sometimes "opt to tax" commercial property), education and healthcare payments.

Both incorporated and unincorporated businesses must register for VAT if taxable turnover exceeds £68,000 in the previous 12 months.

Businesses with supplies of £600,000 or more are required to disclose specific VAT avoidance schemes. Businesses with supplies exceeding £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 UK. 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 (SIVA) allows authorised 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 states on a quarterly or monthly basis.

### Customs duties and import/export

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. The "Customs Union" is the foundation of the EU as no customs duty is applied on the movement of EU origin or 'duty paid' goods between EU Member States. In addition to the tariff, a common set of rules covering trade policy, external trade relations, health and environment controls and agricultural policy operates to enable the EU's Single Market to work effectively.

Customs duty is normally a percentage rate applied to the CIF value (i.e. the cost of the goods, plus the insurance and freight of the EU port of arrival) of the imported consignment. Customs legislation also provides 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 when pricing the goods.

The customs tariff classification of imported products determines the percentage rate of customs duty that will be applied. The higher rates normally applying to agricultural goods which can also attract specific rates of duty applicable to the weight or volume of goods imported.

The origin of the imported products can also affect the customs duty payable, as the EU offers reduced preferential customs duty rates where the goods originate under the terms of any of the trade agreements to which it is party. The origin of specific goods can also be of relevance where additional anti-dumping duties have been put in place as a response to the dumping of cheap products into the EU market.

## Customs duty rates

An indication of the range of EU percentage based customs duty rates is provided in the table below.

### Sample EU Import duty rates

Product	Rate (%)
Electrical products	0-14
Textiles	5-13
Machinery	Nil-5
Computers and related products	Nil
Raw materials	Usually nil
Agricultural products	Up to 24

As mentioned above, reduced (or in many cases zero) duty is charged on imports originating in those countries with which the EU has entered into trade agreements or provides favourable tariff access under the Generalised System of Preferences (GSP). The GSP is a United Nations inspired scheme intended to promote access into the markets of developed countries for goods originating in developing countries. The EU GSP scheme provides for duty at 0% or at 85%/70%/35% of the full duty rate, depending on the country of origin and product sector. The EU also provides preferential duty rates to developing countries in Africa, the Caribbean and Pacific regions under the Lome Convention. The EU has bilateral trade agreements with the most European countries and many countries in the Near East and North Africa. These provide for nil EU customs duty rates for industrial goods and some reduced rates for agricultural goods which are often limited by Quota. The EU also has bilateral agreements with other countries such as Chile, Mexico and South Africa. These preferential duty rates are only provided where valid certificates of origin or equivalent invoice declarations are submitted to the relevant customs authorities.

Although customs duties are not charged on Intra-EU movements of EU origin or 'duty paid' goods, imports from all sources remain subject to national Member State taxes, including excise duty and value added tax (VAT).

*Customs warehousing and customs duty reliefs.* Subject to prior authorisation from the relevant customs authorities, goods may be stored duty free in a customs warehouse, so delaying the duty/import VAT point until the goods are removed from the warehouse. This can provide significant cash flow advantages and reduce the cost of financing the customs duty/import VAT.

Duty reliefs are also available for goods which are imported into the EU and then re-exported after processing under the EU's Inward Processing Relief scheme.

In addition, importers of components or materials for processing into products which attract a lower rate of duty can account for duty on the components or materials at the lower rate applicable to the products under the EU's Processing under Customs Control scheme. This is of particular benefit to companies where the products attract a zero rate of duty, such as those in the pharmaceutical, consumer health and medical device sectors.

Reduced and zero duty rates are also provided for in other sectors where goods are put to a prescribed end use. This End Use relief covers imports for the civil aviation, military, ship work and automotive sectors.

Outward Processing Relief from duty can also be obtained on EU materials or components which are exported outside the EU for processing or manufacture into different goods and then subsequently re-imported.

There are also a number of specific reliefs available for goods to be imported for mainly non commercial purposes and relief is also available for returned goods and temporary imports.

*Deferment of customs duty/import VAT payment.* With the agreement of HMRC, an importer may defer payment of customs duty and import VAT until the fifteenth day of the month following the month in which the goods were imported. This can defer payment for a period of up to 45 days. In such a case, the importer must provide a bank or similar guarantee for the expected average amount of duty and import VAT incurred in a calendar month to be deferred. A waiver of the guarantee for import VAT is also available for eligible companies. Under normal VAT rules most importers are able to recover import VAT payments by making a deduction on their next VAT monthly or quarterly VAT return.

*Exports.* All exports to non-EU countries from the UK must be reported to HMRC by means of export declarations. Export declarations usually have to be submitted electronically. As with import declarations, there are a number of simplified reporting schemes which can be used by companies and their agents when declaring goods to the customs authorities. These can facilitate the clearance of the goods and provide a focus for control and cost savings.

*Export controls and Licensing.* All exporters must comply with relevant export control and licensing requirements, which are strictly applied by relevant Member State authorities. These requirements do not only relate to exports of military goods but also to dual use technologies which may have a military application. Export controls also apply to goods destined for certain countries or organisations regardless of whether they are dual use or military goods. Failure to observe export controls can be a serious offence and lead to the imposition of severe penalties.

*Certificates of Origin.* Certificates of origin in the UK are often prepared by the exporters concerned and authenticated by the relevant authorities or approved local Chambers of Commerce.

*Trade agents.* There is no specific law governing trade agency contracts in the UK. Agency agreements signed in the country are normally subject to UK law and practice. They usually provide individually for such matters as commission rates and termination procedures, including the signatories' rights and duties.

### **Excise duties**

Excise duty is a local tax levied on certain products at specific national Member State 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. Excise duties are charged according to volume, weight, or quantity.

In principle, excise duty is due when the appropriate goods are released for consumption in the relevant Member State. An EU Directive on the holding and movement of excise products provides the framework for intra-EU trade. It 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 is also levied on the importation of goods from both EU Member States and non-EU countries unless moved under excise duty suspension arrangements or deposited in an approved excise warehouse facility.

### **Stamp duty**

Stamp duty applies to a document of transfer effecting the transfer of UK shares at 0.5% of any consideration given in the form of cash shares or debt. Stamp Duty Reserve Tax (SDRT) is charged at 0.5% on an unconditional agreement to transfer UK shares for consideration in money or money's worth, whether oral or written. This charge to SDRT can be cancelled by payment of stamp duty on completion of that agreement by means of a written transfer instrument (usually a stock transfer form). A special higher rate charge of 1.5% may apply where UK 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% is also charged on certain surrenders of units in a unit trust scheme to the managers of that scheme or certain cancellation of shares in an Open Ended Investment Company to the directors of that company. A separate SDRT regime applies in these cases.

### **Stamp Duty Land Tax**

Stamp Duty Land Tax (SDLT) is charged on transfers of UK real property. Freehold transfers and assignments of leases are usually 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 or, in certain cases, the market value of the property). The rate bands for SDLT differ for residential and commercial property.

SDLT is also charged 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 and leasehold transfers at the applicable rates.

## 8. Other taxes

The UK government imposes other taxes, the most important being national insurance contributions (see above). There is also an annual duty on licences for motor vehicles, linked to carbon dioxide emissions (for private cars) or based on weight (for commercial vehicles).

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 HMRC. The rates are a deductible business expense for corporate tax purposes. At one time, they varied by municipality, but a uniform business rate (UBR) is now levied per pound of rental value. Relief is available for small businesses. The central government collects the UBR and distributes the proceeds to local authorities on a per-capita basis.

Climate Change Levy ("CCL") is a tax on energy at the final, downstream stage of supply. Levied at a unit rate, it equates to up to 10% of the cost of energy products including electricity, gas, and solid fuel (but not transport fuels which are taxed elsewhere). Domestic and certain charitable consumption is outside the scope of CCL. Energy intensive industrial consumers may be eligible for an 80% reduction in the rate of CCL they incur provided they enter into a Climate Change Agreement with HM Government setting targets for emission reductions. This relief can be clawed back by HMRC if these targets are not met. Certified renewable sourced energy is wholly relieved from CCL, although market demand for "green" energy can make it as expensive as unrelieved energy.

Landfill Tax is levied on landfill site operators in respect of each tonne of waste material they put to landfill. The standard rate (for 'active' waste) is £40 per tonne, rising to £48 per tonne on 1 April 2010. A reduced rate of £2.50 per tonne applies to inert waste material. Producers of waste material will incur disposal costs which include Landfill Tax at the relevant rate.

Petroleum revenue tax (PRT) on North Sea oil and gas is the most important industry-specific tax. It is charged on the profits from individual oilfields developed before 1993. The rate is now 50%. Oil companies are also subject to a 10% supplementary charge to corporation tax in respect of North Sea oil and gas profits.

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

The standard rate of tax on general insurance premiums is 5%. There is a selective higher rate of 17.5% on some policies, such as travel insurance.

## 9. Tax compliance and administration

The 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.

Companies are obliged to self-assess their corporation tax liability. Large companies (annual taxable profits exceeding £1.5 million, reduced pro rata by the number of associated companies) must make corporate tax payments in four equal quarterly instalments, based on the expected tax liability for the year. Payments normally begin in the seventh month of the financial 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 is payable to HMRC for underpayment of corporation tax. Penalties are imposed on companies for late payment of employees' income tax withholding, which are payable monthly, along with NIC (small companies may opt to pay on a quarterly basis).

## **10. Personal accountability of senior accounting officers of large companies**

Legislation will be introduced in Finance Bill 2009 to ensure that accounting systems in operation within large groups liable to UK tax are adequate for the purposes of accurate tax reporting (ie tax returns and supporting computations).

This will be partly achieved by making senior accounting officers of such companies personally responsible for certifying to HMRC that this is the case, or specifying where there are inadequacies and confirming that they have notified the company's auditors. The new obligations will be supported by penalties chargeable on the senior accounting officer personally and on the company for a careless or deliberate failure to meet these obligations.

It is expected that the assessment of whether accounting systems are adequate for the purposes of accurate tax reporting will be based on a system of controls similar to those introduced by the US 2002 Sarbanes-Oxley Act. The critical test will therefore not be whether the tax return contains any inaccuracies but whether sufficient controls were in place to enable accurate tax reporting.

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