Doing Business in the United Kingdom

2008

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1. Introduction

UHY is an international organisation providing audit, accountancy, business management and consultancy services through financial business centres in over 70 countries worldwide. Business partners work together throughout the network to conduct trans-national operations for clients as well as offering specialist knowledge and experience within their own national borders. Global specialists in various industry and market sectors are also available for consultation.

This detailed report providing key issues and information for investors considering a business operation in the UK has been provided by the office of UHY's representative there:

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UHY Hacker Young has been established since 1925 and specialises in all aspects of setting up and running a business. Clients include Bezant Resources plc, China Wonder plc, Regal Petroleum plc, Uranium Resources plc and Jetion Holdings Limited.

Information in the following pages has been updated so that it is effective at the date shown, but inevitably it is both general and subject to change and should be used for guidance only. For specific matters, investors are strongly advised to obtain further information and take professional advice before making any decisions. This publication is current at December 2008.

We look forward to helping you do business in the UK.

2. Business environment

The UK business environment is considered by many to be one of the world's most sophisticated and, as such, it is an attractive proposition for businesses of all sizes.

The United Kingdom comprises Great Britain (England, Wales and Scotland) and Northern Ireland. It is a unitary state and a constitutional monarchy.

The Parliament and Government

The UK Parliament, with its origins in the 13th century, is one of the oldest representative assemblies in the world. At the end of the 20th century, legislation was passed by the UK Parliament to create devolved Parliaments/Assemblies in Scotland, Wales and Northern Ireland.

Parliament consists of three constituent parts:

- House of Commons
- House of Lords
- The Crown (Monarchy)

The Houses sit separately and are constituted on entirely different principles. The relationship between the two Houses is governed largely by convention but is in part defined by Parliament Acts.

Members of the House of Commons are directly elected by the people of the United Kingdom in General Elections. Parliament has a maximum duration of five years and at any time up to the end of this period a General Election can be held for a new House of Commons.

The main functions of Parliament (known as the Legislature) are to:

- Make UK law - the three constituent parts of Parliament all have to agree before a new law can be passed
- Control finance – the House of Commons gives permission for the Government to control taxes and can also decide what taxes are collected and how the money shall be spent
- Protect public and individuals rights – anyone who feels they have been unfairly treated can complain to their MP who may investigate the problem

- Examine the workings of Government - by scrutinising government policy and administration, including proposals for expenditure
- Examine European proposals before they become law
- Debate the major issues of the day.

When the results of a General Election are known the Queen invites the leader of the party winning the most seats in the House of Commons to become Prime Minister and to form a Government. The Prime Minister is the leader of the Government and must be a member of either House. The current Prime Minister is the Rt. Hon. Gordon Brown MP.

The Government (known as the Executive) is primarily responsible for arranging the business of both Houses. As the initiator of policy, it indicates which action it wishes Parliament to take, and explains and defends its position in statements and public debate. Parliament is responsible for making the Government accountable for its actions.

The most senior members of the Government are known as the Cabinet and are chosen by the Prime Minister. The work of the Government is divided among Departments which specialise in a particular subject such as Health, Defence and Transport. The number and responsibilities of Government Departments can be changed by the Prime Minister.

Legal system

The United Kingdom of Great Britain and Northern Ireland consists of four countries forming three distinct jurisdictions: England & Wales, Scotland, and Northern Ireland, each having its own court system and legal profession. There is no written constitution. The Queen is the Head of State, although in practice the supreme authority of the Crown is carried by the Government of the day.

The constitutional law of the UK consists of:

- Statute law - Acts of Parliament
- Case law - where judicial precedent is applied in the courts by judges interpreting statute law
- Constitutional conventions - these do not have statutory authority but do have binding force.

The lowest criminal courts are the Magistrates Courts, which deal with minor offences, while more serious cases are heard in the Crown Court. Civil cases at first instance are heard in the County Courts or the High Court (divided into three divisions: Queen's Bench, Family and Chancery). Cases may be appealed to the Court of Appeal (Civil Division) and from the County Court to the High Court.

The House of Lords is the supreme court of appeal. Its judicial functions are quite separate from its legislative work, and cases are heard by up to 13 senior judges known as Law Lords. In addition to the courts there are specialised Tribunals, which hear appeals on decisions made by various public bodies and Government departments in areas such as employment, immigration, social security, tax and land.

Market conditions

The UK is one of the largest of the world's markets and a high standard of living attracts a number of businesses to the country. The retail and service sectors make up a substantial part of business in the UK. Manufacturing also plays a significant part, as does tourism.

The UK population was in excess of 61 million in 2008. A substantial proportion of the population lives in cities, the largest of which are London, Birmingham, Liverpool and Manchester.

Area

245,000 sq km.

Language and ethnicity

The official language is English yet over 300 languages are spoken. The most recent census in 2001 showed that 29% of the capital's population belong to a minority ethnic group with one in five small businesses owned or managed by members of ethnic communities.

Currency

Pounds sterling.

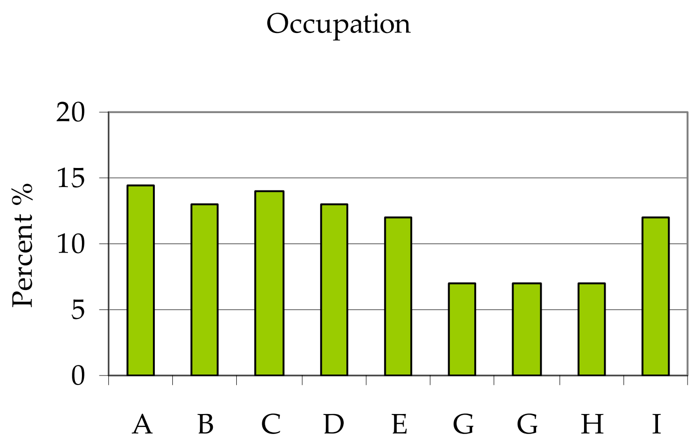
The interest rate is set by the Monetary Policy Committee of the Bank of England, the UK's central bank. The UK Government policy is to join the Euro if Government, Parliament and the people, in a referendum, all agree that it is the right thing to do. Since 1997 the Government has been making plans for joining the Euro.

The economy

The level of GDP in the second quarter of 2008 was 1.4 % higher than the second quarter of 2007.

The employment rate for those of working age stood at 74.8% for the three months to June 2008. There were 634,900 job vacancies for the three months to July 2008. The unemployment rate was 5.4% for the three months to June 2008. The annual rate of growth in average earnings (not including bonuses) continues to be 3.7%.

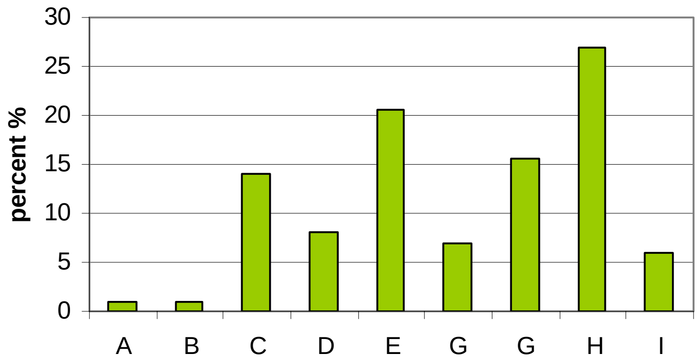
Proportions of people in employment by occupation and industry, UK, winter 2003



Occupations listed in the above table

A – Managers and senior officials
B – Professional occupations
C – Associate professional and technical
D – Administrative and secretarial
E – Skilled trades occupations
F – Personal service occupations
G – Sales and customer service occupations
H – Process, plant and machine operatives
I – Elementary occupations

Industry



Industries listed in the above table

A – Agriculture and fishing
B – Energy and water
C – Manufacturing
D – Construction
E – Distribution, hotels and restaurants
F – Transport and communication
G – Banking, finance, insurance, etc
H – Publication administration, education and health
I – Other services

Source: Labour Force Survey – latest available figures June 2004

Sources of finance

Banks and building societies

Deposit-taking institutions may be broadly divided into two sectors: banks and building societies. Both sectors are regulated by the Financial Services Authority (FSA), an independent, non-governmental body that regulates the financial services industry.

The main institutions within the British banking system are the Bank of England, retail banks, investment banks and overseas banks. Retail banks make up the largest proportion of banks and they offer a wide variety of financial services to both companies and individuals. Investment banks manage investment portfolios and corporate finance on behalf of their clients, most of whom are corporates.

The Bank of England is the UK's central bank. It is the Government's banker and in recent years, chief banker to the banking industry generally.

In 1997 the bank gained operational independence and is responsible for setting the UK's official interest rate and for maintaining a stable and efficient monetary policy and framework.

Venture capital

The UK has a strong venture capital (VC) market - the equity financing of unquoted companies from company start-up to expansion, along with management buy-outs and buy-ins of established companies. The industry invests in every sector of the economy and across all regions of the country. The UK covers 46% of the European VC market.

Other sources of finance

These include:

- Government-sponsored financial institutions (such as the Small Business Service) which provide credit facilities to businesses
- Government-sponsored enterprise agencies providing incentives for investments in particular UK regions
- factoring/invoice discounting and other asset and equipment based finance
- private equity groups and 'business angels'
- commercial mortgages and
- equities and bond markets.

Stock Exchanges

The London Stock Exchange provides the means of raising capital from the public for UK and international companies through equity, debt and depository receipt issues. The UK is home to Europe's largest share market and the attraction of London as a venue for the listing and trading of shares in companies of all types has established it as the third largest equities market in the world by value of trading. Overseas companies are actively encouraged to utilise the exchange to raise capital in increasingly global equities markets.

The London Stock Exchange has two markets:

- The Official List is the main market for substantial, established companies with a track record of growth of at least three years. It is the most heavily regulated.
- The Alternative Investment Market (AIM) is a global market for young and growing companies, and is more flexible than the main market.

Created in 1995, AIM is designed especially to suit growing companies from the UK and overseas, while also providing a central focus for investors who understand growing companies and are keen to invest in their potential.

There is also a recognised, privately run 'Stock Market' known as the Plus Market Group (formally known as OFEX). Founded in 1995 it is a Recognised Investment Exchange in the UK and a Market Operator under the Markets in Financial Instruments Directive ('MiFID'), authorised to operate both secondary (trading) and primary (listing/quotation) markets.

Nearly all listings of new shares on any of the three markets above are accompanied by 'listing particulars' or a prospectus, setting out detailed, audited financial information on the company, and any other companies, associated with the transaction.

It is not necessary to sell the whole of the share capital of a listed company; principals may retain control of their companies and float only a minority holding.

Insolvency and corporate turnaround

Should the need arise there is an established legal framework which enables the closure of a business if a company is insolvent and/or shareholders or creditors want to release their debt.

Under the provisions of the Insolvency Act 1986 company directors are potentially liable if they allow the company to continue trading when it is insolvent and they do not have the prospect of refinancing its trading operations. It is therefore important that the directors of a failing company seek professional advice at an early stage if they believe their company's future health is in doubt.

There is a strong rescue culture in the UK and a number of alternative procedures for dealing with a failing business depending on its circumstances and the needs of its creditors. Wherever possible, the business is allowed time to overcome past setbacks before a final decision is made. The various processes are:

- Administration: either the company or its creditors may place the company into Administration allowing the company to continue in business run by Administrators, who aim to maximise returns to the creditors.
- Company Voluntary Arrangement: creditors of a company can agree terms of a compromise in order to allow the company to continue in business with the existing management remaining in charge.
- Compulsory Liquidation: when a company is wound up by a creditor, with the assistance of the Court.
- Creditors' Voluntary Liquidation: when company directors pass a resolution to wind up the company and creditors agree the appointment of a Liquidator.

- Receivership: a debenture holder (usually a bank) appoints a Receiver to maximise the return to creditors (and principally itself) and assess company worth with a possible view to selling off company assets to recoup investment.

Where a company is able to pay its debts in full, it can apply for a Members’ Voluntary Liquidation.

The Insolvency Service is an executive agency of the Department for Business, Enterprise & Regulatory Reform (BERR), formerly the DTi, and provides essential mechanisms and efficient means for dealing with individual and corporate financial failure and the investigation of fraud and misconduct in insolvencies.

3. Foreign investment

The UK is the world's largest recipient of foreign direct investment (FDI). The net FDI flows from foreign companies into the UK in 2006 were £170 billion, an increase on the £30.7 billion recorded in 2004.

Geographical analysis

Compared with 2003, for the FDI flows in to the UK in 2006, the following regions showed increases:

Europe, where they rose to £39 billion (up from £26.8 billion in 2003)

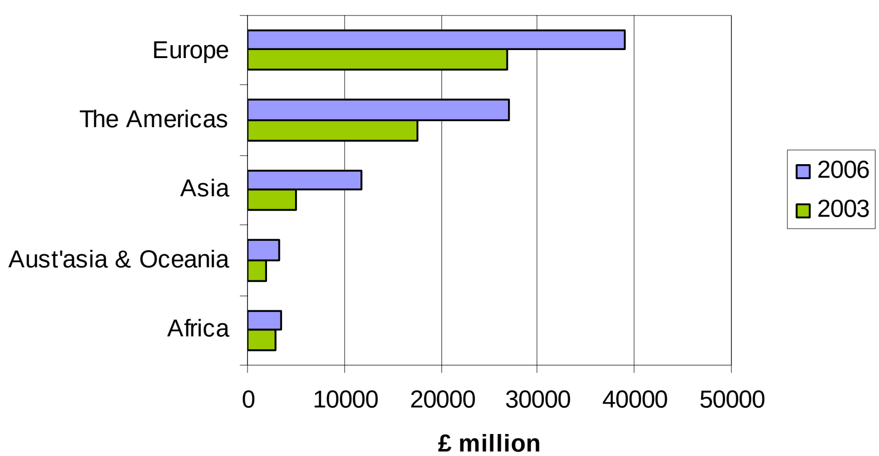
Asia, where they rose to £11.8 billion (up from £5.1 billion in 2003)

Australasia & Oceania where they rose to £3.1 billion (up from £2 billion in 2003)

The Americas, where they rose to £27 billion (up from £17.5 billion in 2003); and

Africa, where they rose to £3.4 billion (up from £2.9 billion in 2003)

Net foreign direct investment flows into the UK, 2003 to 2006



www.statistics.gov.uk; foreign direct investment 2004 (2006)

Foreign investment has become a major source of production, employment and income in the manufacturing and the service sectors. Approximately 35% of UK manufacturing exports are produced by foreign firms and 20%

of manufacturing jobs are in foreign-owned companies. Further, foreign companies make up approximately 30% of manufacturing investment.

The UK had $672 billion (£377 billion) of accumulated inward investment stock at the end of 2003.

Foreign-owned companies

Once established in the UK, foreign-owned companies are regarded in the same way as their domestic counterparts. With a few exceptions, foreign companies establishing UK-based subsidiaries generally encounter no special nationality requirements on directors and shareholders.

The UK imposes very few restrictions on foreign ownership and there are no limitations on the free flow of capital.

Another popular option is for foreign companies to buy English ones. Such acquisitions can provide the foreign investor with an established name, recognised brands, customer base and local management.

Reasons for investing in the UK

According to the National Statistics website, www.statistics.gov.uk , global investors generally consider the UK the most competitive European market for business. The UK attracts around 40% of Japanese, US and Asian investment into the EU.

The advantages of investment in the UK are:

- fast, easy access to the EU Single Market
- a workforce which is highly skilled and adaptable
- world-class research, design and development
- long term political, economic and regulatory stability, designed to encourage profit and growth
- good domestic logistics and communications infrastructure
- well positioned for European and international travel and trade.

Investment is primarily being made in the following industry sectors:

- ICT and Electronics
- Financial Services
- Transport Equipment
- Industrial
- Construction
- Physical Sciences
- Food, Beverages & Tobacco
- Life Sciences
- Professional Services

Financial assistance

If you require financial assistance to establish your company in the UK, there are several options available:

- grants to aid businesses in their development are available from several sources, such as the UK Government, the EU and certain charities. These are linked to sectors, a specific business activity or a geographical area
- banks can provide loans and overdraft facilities
- venture capital companies invest directly into a company with a view to them receiving a long-term return on investment
- European Investment Bank – the EIB is the European Union's long-term lending institution and provides funding for companies investing in the European Union
- invoice discounting/factoring companies assist with company cash flow
- equities and bond markets.

Government incentives

The Government provides business grants, information and advice but competition is tough. Criteria for grants are stringent and are likely to include location, size and sector of the business. They are usually made for a specific purpose and for proposed projects only. They involve strict terms and conditions. Government support programmes include:

- Research and development
- Access to knowledge
- Training
- Help SME
- Enterprise Management Incentive
- Best business practice.

To discover what other grants are available go to the Business Support Directory, a free service allowing you to search a database of national, regional and local government programmes. Private agencies can also help and can be found by searching the internet and comparing services.

More detailed information on the above can be found on the Business Link website (www.businesslink.gov.uk).

Regulatory framework

When setting up a business in the UK it is important that you are familiar with:

- the tax, National Insurance and VAT systems
- the legal system, and what laws and regulations may affect your business
- health and safety regulations
- environmental considerations
- employment procedures
- licensing
- immigration status (e.g. of your staff)
- intellectual property, including patents, copyright and trademarks.

For further information see Appendix I for a list of websites which provide more details on the issues raised in this section.

4. Setting up a Business

Several legal structures are available for carrying out business in the UK. The most popular choice for foreign investors is to set up a private limited liability company either as a standalone company or as a subsidiary of a foreign-owned holding company. The main advantage of a limited company is that it offers the shareholders limited liability, however, other options may suit individual circumstances and a summary of each is detailed below. The taxation treatment is explained in section 6, and accounting requirements in section 7.

Private limited company

Most companies in the UK are registered as limited companies and regulated by the Companies Acts 1985 and 2006. A company is a legal entity in its own right and has separate and independent legal personality, distinct from its directors and shareholders.

Companies Limited by Guarantee

A company can be limited by guarantee whereby every Member of the company undertakes to contribute an amount to the company's assets if it should be wound up, for payment of the company's debts and liabilities. These are mainly used for charities, trade associations and clubs, and the company's Memorandum and Articles of Association (its constitution) would usually have a clause ensuring that any profits are retained to further the objects of the company.

Companies Limited by Shares

A company may also be limited by shares whereby the shareholders' liability is limited to the amount outstanding (if any) on his shares in the company. This is the most common form of limited company.

A new limited company can be incorporated within a few hours, to meet the exact name and authorised share capital requirements from the outset, or a pre-registered 'ready-made' or 'off the shelf' company may be purchased from accountants or agents and adapted to suit.

Directors' responsibilities

The Companies Act 2006 includes, for the first time, a statutory statement of the general duties of directors, replacing the previous regime of case law and statute. This is intended to make it easier for directors to understand what is expected of them. Directors must manage the company with reasonable care, skill and diligence and have a duty to act within their powers, to promote the success of the company and to exercise independent judgement. Additional duties include the duty to avoid conflicts of interest, not to accept benefits from third parties and to declare any interest in a proposed transaction or arrangement. This is particularly significant if the company has financial problems and may be insolvent. If a director fails in his duties, breaches the Companies Act or acts fraudulently, he may be fined, disqualified from acting as a director or even imprisoned. He may also be held personally liable for the company's debts.

Registration requirements for private companies

In order to register a company the following information must be provided on the 'Statement of First Directors and Secretary' to Companies House:

- An acceptable company name which is not identical to another registered company, as this will not be accepted. The full name of a limited company must also end with the word 'Limited' or 'Ltd'.
- Details of at least one director (and a company secretary if desired), including personal details such as residential address, date of birth and nationality. Every company must have at least one director who is a natural person which means that a private company will not be able to have a sole corporate director.
- Details of the registered office address of the company to where official correspondence will be sent. This is usually the address of the company's accountant, solicitor, or the trading address of the company.

The above must be accompanied by the Memorandum and Articles of Association:

- Memorandum – this sets out the name, authorised share capital, the number and nominal value of shares issued, names and addresses of initial members (shareholders), the powers and the objects of the company.
- Articles – these are the internal rules of conduct of the company.

The above is filed together with a 'Statement of Compliance' with Companies House and the Registrar of Companies will issue a Certificate of Incorporation confirming the company name and registered number. A company does not legally exist until the certificate has been issued.

Reporting requirements

- A company must maintain Statutory Registers containing the above, and other, company information. These include the Register of Members, Register of Directors and Secretaries, Minutes of General Meetings, Minutes of Directors Meetings and the Register of Written Resolutions.

- These registers must be available for inspection at the registered office or in some cases, at another nominated office.
- Any changes to the directors or secretary (or their personal details), to the registered office or any allotment of further shares must be reported to the Registrar of Companies on the prescribed form.
- There are many other instances where prescribed forms must be filed with the Registrar of Companies these include: increase in authorised share capital; allotment of shares and registration of mortgages and charges.
- An annual audit by external auditors of the accounting records of the business should be carried out if it is over the minimum size (see Appendix III).
- An Annual Return must be completed annually and be delivered to Companies House; it must contain current information about the Company, its officers and members.

Trading disclosure requirements

From 1 October 2008 a company is required to display its registered name at its registered office, at any place where it keeps any company record that is available for inspection under the act and at any location at which it carries on business. There are also rules on disclosing the name, number, registered office address and place of registration on all business correspondence and on the company's website.

Public limited company

In order to offer its shares to the public, a company must be a public limited company ('plc'). A plc can also (but does not have to) list its shares on a stock market (see section 2 for description of stock markets). If it is a listed company, it must, in addition, adhere to the rules of the stock market in which its shares are traded.

Public limited companies are regulated by the Companies Acts 1985 and 2006. (see private limited company above) and the same registration and reporting requirements apply. Additionally, a plc must have a minimum of two directors, an appropriately qualified secretary and at least £50,000 issued share capital (or the equivalent in another currency), a quarter of which must be paid up. The full name of a plc must end with 'public limited company' or 'plc'. A plc is also obliged to hold an Annual General Meeting of its shareholders each year.

Each UK stock market has its own listing and reporting requirements, procedures and rules of conduct, which can be onerous and time-consuming. For shares to become listed on any of the stock markets, the company will need a team of advisers, including stockbrokers, solicitors and accountants to carry out the necessary procedures.

Sole trader

An individual can be in business on his own account. This option is often used by craftsmen, professionals and people setting up a small business, because it involves minimal paperwork and formalities. There are no audit requirements, but certain minimum records are required for personal tax, VAT and PAYE purposes, and the individual is liable for all the debts of the business.

Partnership

Defined by the Partnership Act 1890, a partnership does not exist as a separate legal entity. The partners in the business have joint and several liability for the liabilities of the business, so their personal property is at risk if the business faces large claims against it. Profits from the business are taxed as the income of each partner. Certain minimum records must be kept for VAT and PAYE purposes. Usually a partnership agreement is drawn up by lawyers, which determines how the partnership is governed and how the profits are shared. This option is common for professional firms and is also widely used by small business start-ups.

Limited Liability Partnership (LLP)

This option has been possible only since April 2001, under the Limited Liability Partnerships Act 2000 and has a mix of corporate and partnership characteristics. An LLP exists in law as a body corporate, subject to aspects of Company Law, with the personal assets of LLP members being protected, but profits are taxed as if it were a partnership, provided it is carrying on a trade or profession. The business name must end with the letters LLP. Many professional partnerships have moved to this new status.

Other options for trading in the UK

Branch of overseas company

A foreign company wishing to set up a branch or place of business in the UK must register under the Companies Act 1985 with the Registrar of Companies. To do so it must send a certified copy of the memorandum and articles of association, bye-laws or constitution, details of directors and company secretary, a copy of the latest filed accounts, and the name and address of a person resident in the UK authorised to accept notices on the company's behalf. It must also notify the Registrar of Companies of any changes to the above information.

Joint venture

It is possible to set up a joint venture with an existing UK business by forming a business which is part-owned by them and part-owned by an overseas business. The exact arrangements can vary depending on circumstances, the balance of finance and/or practical involvement. Every case is different, so it is important to obtain professional advice to ensure that the two parties are clear about respective responsibilities and obligations, and that arrangements can be made if one party wishes to withdraw from the arrangement.

Agents

It may be preferable, certainly at an early stage of trading, to appoint an agent to act on behalf of the supplier business. This avoids having any UK corporate presence, but enables the supplying business, as a result of the agent's efforts, to sell its products or services in the UK. The agent may wish to negotiate an exclusive contract, which may or may not suit the supplier business.

Professional advice should be taken to ensure that the contract with the agent is lawful and unbiased and that payments are made in the most tax-efficient form.

Franchises

Buying a franchise allows you to set up your business without starting from the very beginning. You buy a licence from an existing business in order to use their trade name, business name or product idea. This will involve paying ongoing fees or royalties on sales. In return you get support and advice from the franchisor.

Registration with authorities – for all businesses

Taxation

Businesses must register with the HMRC for PAYE (Pay As You Earn – income tax deducted from employees' wages) and National Insurance payments for employees, and for corporation tax for registered companies.

VAT (sales tax)

A business must register with HMRC for VAT if the turnover of the business is more than £67,000 in any 12-month period. Thereafter quarterly returns of VAT invoiced and paid must be submitted (unless the business is classified as 'small' and other arrangements are agreed).

Licences

Depending on the nature of the business, it may require licences from local or central authorities or from providers of software etc. Trading licences are required for consumer credit, sale of alcohol and tobacco, gambling and other restricted activities.

Data protection

Under the Data Protection Act 1998, businesses need to register with the Office of the Information Commissioner to hold and process information on living individuals, including employees and customers.

Insurance

Compulsory cover is needed for employer's liability (personal injury and damage to personal property of employees). Any business vehicles must have motor insurance, and it is advisable to have insurance against public liability, property (fire and theft) and business interruption. In rented property, occupier's liability insurance may also be required.

Copyright, patents and royalties

The Patent Office, a Government agency, oversees all matters relating to intellectual property, including the registration of copyrights and patents.

5. Labour

Employment rules in the UK are designed to ensure that there is no discrimination or unfair treatment of employees, and that they can work in relative safety and comfort. Employment law is a complex and fast changing area and as a result of which, employers are advised to seek advice from a specialist lawyer to ensure that they have adequate procedures and controls in place which comply with this constantly changing area of law.

Employees who claim unfair dismissal or discrimination can take their case to an Employment Tribunal, which may order the employer to pay compensation where the case is proved. Where an employer is found to have discriminated against a member of staff, on the grounds of sex, race, disability, sexual orientation, religion or religious belief, or age, they may face a potentially unlimited award of damages against them for both loss of earnings and injury to feelings. Damages for unfair dismissal however are based mainly on an employee's loss of earnings, which is currently subject to a maximum of £63,000.

Work permits and visas

Employers are only able to employ individuals who have permission to live and work in the UK. Individuals fall into various different categories for immigration purposes depending upon their citizenship or nationality. Some individuals are automatically entitled to live and work in the UK whereas others are required to seek permission to work. The rules relating to the categories of individuals who do require a work permit or permission to work are complicated and advice should be sought before making an offer of employment to any individual where there is any doubt surrounding their rights to work in the UK. Generally, however, the following workers do have the right to work in the UK without seeking permission to work or a work permit:

- British citizens (conferred by birth, descent, naturalisation or registration).
- European Economic Area (EEA) nationals (although some will need to register with The Home Office).
- Swiss citizens.
- Commonwealth citizens with leave to remain in the UK on the basis of a grandparent born in the UK.
- People with a right of abode or settlement in the UK.

- People with exceptional or indefinite leave to remain in the UK for humanitarian reasons, or who have limited leave to remain on the same basis, provided this has not expired.
- Spouses, dependants and unmarried partners (including same sex partners) of people in a category allowing work.

Employers can be fined if their employees do not have a valid work permit. Since 1st May 2004, employers have been required to make basic document checks on every worker they take on, before employment commences, in order to establish that they are not taking on an illegal worker. Employers should seek advice about which combinations of documents are acceptable given that failure to demonstrate adequate steps have been taken which result in the employment of illegal workers can result in a fine of up to £10,000 per worker.

Contracts of employment

Employers in the UK are not required to provide employees with a contract of employment, but an employee must be provided with a written statement of particulars of employment within two months of starting the job. Failure to do so can result in an award of two weeks wages being made by an Employment Tribunal.

The statement of particulars needs to cover information including amongst other things remuneration, hours and place of work, holidays, and notice.

There are statutory requirements covering many aspects of employment such as maximum working time, minimum hourly wage, maternity pay and leave, parental leave, sick pay, redundancy pay, and others which employers need to be familiar with.

Permanent, temporary and part-time employment

A permanent contract of employment will usually have a probationary period of 3 months (although this is not necessary) depending on the seniority of the post, with a minimum notice period. After the probationary period, the notice period for both employer and employee is usually lengthened. An employer is required to give one week's notice to employees with up to two years' continuous service, and thereafter, one week for each completed year of service up to a maximum of twelve weeks unless the provision in the contract is longer.

Part-time workers must be given the same rights as full-time workers, but proportionate to their hours of work and length of service.

It is also possible to employ staff on a temporary, fixed term contract. The Fixed Term Employees (Prevention of Less Favourable Treatment) Regulations 2002 and Part Time Workers (Prevention of Less Favourable Treatment) Regulations 2000 (as amended) make it unlawful to treat temporary or part time workers less favourably than full time permanent staff.

Grievance and disciplinary policy

Since 1st October 2004 there have been very specific minimum procedures in place for dealing with both disciplinary/dismissal issues and employee grievances. Employers should seek advice in order to ensure that their procedures are compliant, as a breach of the statutory procedure may result in damages (should a successful claim be brought) being uplifted by up to 50%. Whilst presently these rules remain in force at the date of publication of this booklet, the Government has announced its intention to repeal the law governing this area and it is anticipated that new rules will come into force during 2009.

Wages – payroll responsibilities

Employers must deduct income tax and National Insurance Contributions (NIC) from the wages/salary of their employees according to the tax coding given to the individuals by the Inland Revenue. This is known as PAYE (Pay As You Earn). There are also schemes for supplementing the income of poorer families which are administered through their employers' payroll. In addition, employers are also required to pay Employers' NI contributions. All the tax and NI deductions and payments must be sent to the Inland Revenue promptly, and returns must be filed annually stating total payments and the taxable value of any benefits in kind (see below).

There is a statutory minimum wage of £5.73 per hour from October 2008, but with lower rates for younger workers. These rates are reviewed annually and changes implemented on 1st October each year.

Where the employer runs a contributory pension scheme, pension payments are also deducted at source and sent to the pension provider. All employers with more than five employees must have a qualifying 'stakeholder' pension scheme or equivalent in place for employees to use if they wish. However, there is no obligation placed upon the employer to contribute.

The number of different taxes, benefits and other calculations can make payroll tasks time-consuming and complex for employers, but there are payroll service providers available which will contract to do these tasks for a fee. This is classed as sensitive data under the Data Protection Act and employers are required to take adequate steps to ensure that the data is secure.

Benefits in kind

Depending on the nature of the work and the availability of people with the necessary skills, employers may offer additional benefits in kind to their employees. These range from a subsidised canteen to company car, pension contributions, health club membership, private medical insurance, share options and so on. For taxation purposes the Government calculates the cash equivalent value of these benefits and employees are taxed accordingly. Employers must ensure that annual returns are submitted detailing any benefits in kind.

Redundancy, unemployment, social services

When there is a closure of the employer's business, an employee's place of work or a diminished need for employees, usually caused by a downturn in business, or a restructure, employees can be made redundant. If an employee has been working for more than the minimum period (currently two years full time) he or she is legally entitled to a statutory redundancy payment, which is calculated according to their age, length of service and salary subject to a maximum of £330 per week for each continuous year of service (up to the last 20 years of service).

There is also a strict obligation placed upon employers to consult with their workforce before implementing redundancies. Depending upon the number of redundancies, employers may be required to consult for up to 90 days and notify the BERR of the impending redundancies.

Unemployed workers who are actively looking for work are entitled to receive a Jobseekers Allowance from the Government. This is sometimes supplemented with skills training, particularly for young people.

Industrial relations/trade unions

Membership of trade unions has declined in recent years and their scope for industrial action has also become more limited. However, membership of a trade union is the right of every employee. Where an industry remains heavily unionised, trade unions are likely to be involved in pay negotiations, training needs, grievance and disciplinary proceedings, working closely with the personnel/human resources staff.

Health and safety

The Health & Safety Executive (HSE) requires all employers to ensure the health and safety of their employees. The HSE issues Directives on all aspects of safety, and can prosecute those businesses that do not comply. HSE inspectors visit employers' premises to ensure compliance. They have the power to close a business if it is deemed dangerous.

Under the Corporate Manslaughter and Corporate Homicide Act 2007 companies and organisations can be found guilty of corporate manslaughter on the basis of gross health and safety management failings. The legislation focuses on the corporate liability of an organisation as a whole. There is no limit on the level of fine which a court could impose under the legislation, nor is it possible for employers to obtain insurance against a fine. Employers must therefore be satisfied that their health and safety management procedures are appropriate, effectively managed throughout the workplace and regularly reviewed.

Alternatives to employment

Subcontractors and outsourcing
It is common in some industries (e.g. construction, IT) for businesses to use a subcontractor (either a business or a self-employed person) instead of employing someone with particular skills for a specific task. Many businesses and public bodies are also outsourcing non-core activities of their business (such as catering, facilities management, security and accounts) to external suppliers in return for a fixed price. In both cases, the business has a contract with another business (or self-employed person) for the supply of a service or component product, rather than having to employ people directly. This can reduce costs and administrative time, and provide higher quality skills for specific tasks whilst at the same time relieves the business outsourcing a function of the liabilities and responsibilities of being an employer.

Self employment

It is possible to set up a business as a self-employed person. The Inland Revenue uses different methods for assessing and collecting income tax and National Insurance, both of which are generally lower than for someone who is employed.

New regulations are in force, called IR35. They seek to ensure that where an individual uses a company structure to sell his/her services, his/her salary and related income tax and National Insurance contributions are paid at the employee/employer rates, and not taken as large dividends (which have lower tax rates).

Disputes between businesses and individuals over employee status can be relatively common given the rights afforded to employees as opposed to workers (i.e. non-employees). Employment Tribunals are required to apply a series of tests in order to establish whether a person has employee status. When seeking to engage individuals on a self-employed basis it is advisable to obtain advice from a solicitor specialising in employment law who can assist you in establishing whether an individual would be treated as an employee by an Employment Tribunal.

Government incentives

At any one time, there are a number of Government incentives designed to encourage employers to:

- recruit young people needing training
- recruit the long-term unemployed (New Deal)
- open new premises in areas of high unemployment.

For sources of further information please see Appendix I.

With thanks to Russell Brown, Partner and Head of Employment at Glaisyers Solicitors LLP, Manchester, for advising on the contents of this section. Russell can be contacted on email: rwb@glaisyers.com and telephone 0161 833 5667 (Direct dial).

6. Taxation

Tax authorities and responsibility

The administration and collection of taxes is undertaken by HM Customs & Revenue within the UK. The Revenue section is responsible for administering and collecting income, capital gains and inheritance taxes from individuals and estates or trusts, as well as corporation tax from companies, stamp duty arising on property and share transactions and employer and employee National Insurance Contributions. Annual self-assessment returns must be filed and investigations initiated within strict time limits. Fixed and tax geared penalties can be levied for late or incorrect returns.

The Customs section is responsible in the main for value added tax (VAT) due on the sale of goods or services, together with duty principally arising on alcohol, cars, cigarettes, petrol and imported goods. Again penalties and interest may be levied.

In addition to the above, which are collected on a national basis, local town, city or country authorities are able to collect council tax, which is levied by reference to the value of business or residential property rather than profits or income.

Bases of taxation

Liability to taxation arises from the residency of the company, individual or trust and by the location of assets and source of income. Companies and individuals resident and domiciled in the UK pay tax on their world wide income and gains, whereas non-residents and non-domiciled individuals are generally subject to tax only on UK-source income. A non-domiciled individual resident in the UK can choose either to pay tax on world wide income gains or pay a levy of £30,000 leaving them free to remit or not as they choose.

Foreign income of UK residents is fully taxable, but a credit for foreign tax paid may be given in accordance with double tax arrangements.

Business taxes

Resident companies

A company will normally be resident in the UK simply by being incorporated here, although certain companies managed and controlled outside the country and having no presence or activity here may be treated as resident elsewhere as a result of a relevant double tax treaty. Companies incorporated outside the UK may nevertheless be resident here by virtue of being managed and controlled in the UK. This would require a greater presence than simply having a branch or permanent establishment here, which are taxable only on UK-source income or gains.

Corporation tax

Companies pay corporation tax on their worldwide trading profits, income and capital gains, most pay within nine months and one day from their accounting year-end, large companies pay tax at the full rate, with lower rates applicable if the company profits qualify as being small or very small (see Appendix II). Large companies are obliged to pay tax in four instalments starting approximately 28 weeks after the beginning of the tax period, with the final instalment due 15 weeks after the end of the accounting period. Interest is chargeable or repayable in the event of tax payments or instalments being late or excessive respectively.

Loans to shareholders or other participators are best avoided as they can incur a special (25%) tax, only repayable nine months after the period in which the loan is repaid, or forgiven.

Losses

In general, trading losses may be carried back for 12 months or carried forward indefinitely, subject to changes in ownership and the nature or conduct of the trade. Current year losses may also be surrendered between group members to offset against their profits for the same period. Similar relief is available for excess interest costs, but excess management expenses of investment companies may not be carried back. See below for Capital Losses.

Capital allowances

Book depreciation or amortisation of tangible assets are not allowable for tax purposes and instead relief by way of Capital Allowances is available. Purchases of plant and machinery are eligible for writing down allowances (WDA) typically 20% on the reducing balance. Integral assets (IA) within a commercial building (e.g. lighting, heating, ventilation etc) only qualify for 10% WDA pa, however, a 100% relief is available for the first £50,000 of expenditure on any plant and machinery or IA. Cars are only eligible for WDA's up to a maximum of £3,000 pa. Allowances for industrial buildings (including hotels and agricultural structures), currently 3% pa, straight line, are being progressively phased out by 2011. Similarly, long life assets only qualify for an annual allowance (currently 10%). Special higher rates of allowance are available for certain businesses or expenditure, particularly in the period the expenditure is incurred (first year or initial allowances) (see Appendix II). By contrast, assets leased abroad are only eligible for 10% WDA.

Intangible fixed assets

Relief is available for new expenditure incurred on the creation, acquisition or enhancement of intangible assets (typically goodwill, patents, trademarks, copyrights and the like) based on the profit and loss account charge under FRS 10. Conversely, credits to the profit and loss account and profits on disposal will be taxable as income. Sales of assets acquired before 1st April 2002 will remain chargeable as capital gains, and so are not eligible for the above relief.

Capital gains and losses

Normally companies are chargeable to corporation tax (see Appendix II) on the excess of the sale proceeds for assets over their cost, after taking into account indexation relief which is based on published rates linked to inflation over the period of ownership. Losses arising on the disposal of assets in the same period or losses brought forward may be offset.

Individuals are chargeable at 18% on capital gains (see Appendix II) on the excess of their proceeds over cost. Up to £1 million of gains on qualifying business assets are abated resulting in an effective rate of tax at only 10%.

Groups of companies – Capital Gains

Special arrangements exist for a group of UK companies to elect for the disposal of a capital asset to be made by another group member, thereby deeming them to realise the chargeable gain or loss. This is in effect a form of group relief for capital losses, but pre-acquisition losses or gains of companies joining the group are ring-fenced to prevent abuse. Disposals of substantial shareholdings in trading subsidiaries may be exempt if the shareholder continues to be a parent of a trading company, or a trader in its own right.

Taxation of branches of foreign companies

UK profits of a branch or other permanent establishment of a non-UK resident company are normally subject to corporation tax in the same way as a UK company. Allocated head office expenses need to be arm's length and justified in the same way as other expenditure with connected parties. Interest on debt due to the head office may not be allowed. Gains realised on assets used in the UK trade are also chargeable.

Special relief is available for the conversion of the branch into a UK resident company, although relief for losses carried forward may be restricted where the head office has also obtained relief for the loss.

Partnerships

A partnership will be resident in the UK if most of the individuals or company comprising the firm are resident here. However, such entities are not taxed as such, but merely have to report the profits and income derived by its members. Each member is taxed on their share, together with their non-partnership income or gains. Thus a non-resident member of a resident partnership is taxable on their share of the profits arising in the UK.

Limited Liability Partnership (LLP)

Strictly speaking, this is an incorporated body registered at Companies House. However, where it conducts its business with a view to a profit it will be treated as a look-through for tax purposes. Thus the same concepts as for a partnership (as above) will apply in taxing the profits or gains on the members. Where the LLP is not conducting business with a view to profit (eg. it is in the process of being wound up or it is acting like a holding company), it will be chargeable to corporation tax.

National Insurance Contributions (NIC)

Sole traders and partners (self employed individuals) are required to register their business activity and pay a combination of a weekly contribution and a further sum based on their profits (see appendix II).

In addition to collecting employees' income tax and NIC by withholding the relevant amount from their wages or salary payments, an employer has to bear the cost of further employers' NIC (see appendix II) on both remuneration and benefits in kind provided to employees. The collection and remittance of these taxes by the employer is done under a system known as 'Pay As You Earn' (PAYE).

UK real estate

For resident individuals or companies UK property income is not subject to withholding tax, but the surplus is chargeable at their marginal rate of tax. Rent payable to non-residents will be subject to withholding tax at the basic rate (currently 20%) unless the owner enters into special arrangements with HMRC regarding the submission of tax returns.

Repatriation of profits

Pre-tax profits may be repatriated by companies in the form of tax-deductible interest, rent, royalties or management charges, provided the cost can be justified as being arm's length. However, the first three items may be subject to withholding taxes, except where clearances are obtained in accordance with a relevant double tax treaty. The application of withholding taxes to interest (20%) or royalties may now be self-assessed by the UK payer, but it remains liable if the overseas entity was not eligible for relief. Excessive payments may be treated as both disallowable for corporation tax purposes and also as a distribution for double tax treaty or income purposes.

Post-tax profits may be distributed in the form of dividends to the overseas shareholder without a further tax charge or withholding in the UK and the recipient may be entitled to a repayable tax credit under certain treaties.

Double tax treaties

The UK has entered into a comprehensive range of double tax agreements, covering residence status, permanent establishments, business profits, income from land and property, dividends, royalties and interest, personal direct and indirect income and capital gains. These agreements can enhance the already favourable UK tax regime.

British international companies

Special UK companies may be established to hold shares in overseas companies and/or act for offshore companies in providing management, control or co-ordination services. Their role in marshalling dividends from abroad can be very tax efficient as there may be little or no UK tax consequence, provided there are adequate overseas tax credits. Services provided to fellow group members may often be agreed on a cost plus basis, typically in the range of 10% to 25%.

European Public Liability Companies

A European company or 'Societas Europea' may be registered in any EU state including the United Kingdom with a minimum share capital of €120,000, to facilitate cross border activities within the EU including cross-border mergers. Special exemptions apply when converting from a UK public listed company (plc).

Transfer pricing

The UK now operates a universal system of transfer pricing so that all business transactions between connected parties need to be at arm's length prices, not just those with persons abroad. Records justifying and evidencing the prices used need to be maintained.

Personal taxes

Resident/ non-resident status

Individuals present in the UK for more than 183 days in the fiscal year (ended 5 April) will be treated as resident for tax purposes, and thus taxable on their worldwide income and gains, except in the case of persons not domiciled in the UK who elect to pay a levy instead.

Non-residents will normally be taxable only on UK-source income, subject to relief under an appropriate double tax treaty.

Domicile

An individual normally takes the same domicile at birth as their father and it is usually where they have their permanent home, or they intend to remain. In order to change domicile an individual must show that they have severed ties with their country of origin and intend to live and remain (e.g. be buried) in the country of their choice.

Income tax

Income tax and National Insurance rates, or reliefs applicable to individuals, are set out in Appendix II. Salary, including benefits in kind, trading profits, dividends, investment and property income are subject to income tax at various rates, based on the income arising in the fiscal year ended 5th April. Full employment taxes are collected at the time of payment whilst investment income may suffer a flat rate withholding tax, but dividend income has a notional tax credit, which is not refundable. Property income paid to non-residents may be subject to basic rate withholding tax.

Higher rate tax on investment income and tax on profits are normally payable by instalments due 50% on 31st January in the fiscal year and the following 31st July. These instalments are based on the liability of the previous year, with the balance of income tax for the current year being payable on the following 31st January together with any capital gains tax for that year. Reduced instalments or repayments may be made as soon as the claim can be justified.

Benefits in kind

The provision by an employer to an employee (or their relative) of an asset (e.g. accommodation, furniture or a car) or other benefits (e.g. entertainment, domestic or other services, medical insurance, interest free or low interest loans) are both taxable on the employee and give rise to employers' National Insurance Contributions. Nevertheless, these facilities play a significant role in attracting and retaining key employees.

Capital gains tax

Capital gains realised by individuals are now subject to a flat rate tax of 18%. For business assets held more than two years up to £1 million of the gain is chargeable at 10%. Gains are taxed after all reliefs and annual exempt amount.

Inheritance tax

Subject to certain exemptions, inheritance tax (IHT) is chargeable on the aggregate value of an individual's estate at the date of his death, and the value of any gifts and similar transfers of wealth made by him during the seven years prior to his death. Except in respect of gifts made in the seven years before death, no IHT is payable on gifts made during the individual's lifetime if the gift is made to an individual. Gifts into trust incur tax at the lifetime rate of 20%, unless subject to certain exemptions. A UK resident and domiciled individual is taxable on his worldwide estate. For non UK domiciled individuals only UK assets are chargeable.

Non-UK domiciled individuals can lose that status for IHT purposes if they have been resident in the UK for 16 years.

IHT is charged on all property, wherever situated, owned by an individual domiciled in the UK, or on property situated in the UK of individuals domiciled elsewhere, or on certain gratuitous transfers made by close companies (generally companies under the control of five or fewer directors).

Sales taxes/ VAT

Basis of taxation

Many businesses must account for value added tax (VAT) on their sales of goods and services. Depending on the nature of the goods or services, they may be taxed on the basis of the supplier being established in the UK, the customer being established or resident in the UK, the services being physically performed in the UK, being related to land in the UK, the goods or services being 'enjoyed' in the UK or the goods being physically located here. In addition, for cross border transactions, complex tax shifting rules apply in many instances to determine whether the supplier or the customer is actually liable to pay the tax. In accounting to HM Revenue & Customs for the VAT collected, a business is normally allowed to deduct the VAT it has suffered on expenditure.

Exempt / 0% rated supply

A VAT-exempt business (e.g. in real estate or finance) should be contrasted with one liable at 0% (e.g. selling food, books, children's clothing). No VAT is charged to the customer in either case, but the business can claim a repayable VAT credit only if it is 0% rated, not if it is exempt.

VAT returns

Returns declaring income, expenditure, VAT and movement of goods within the EU need to be completed frequently. The VAT is payable at the same time, although certain businesses may be allowed or required to pay by monthly instalments or place a sum on deposit. Significant penalties or interest can be incurred for late or incorrect payments.

Property transactions

The VAT treatment of transactions in property can vary considerably. Sometimes they will be subject to VAT compulsorily or by election, whilst in other cases exempt, with or without a VAT credit. This topic is extremely complicated with often significant sums at stake and the possible outcomes can be significantly different. It is therefore beyond the scope of this report and specialist advice should be sought.

Other taxes

Customs duties

Customs duties on the value of the goods are charged on basic and processed agricultural products, raw materials and manufactured goods imported into the UK from outside the EU. The rate of duty can vary enormously and could be a significant percentage of the import value. In addition, anti-dumping provisions can considerably raise the duty payable.

Goods on which duty has been paid on entry into any member state of the EU are free to circulate within the EU without further payment of customs duty.

Goods produced in the UK can be moved to all other countries in the EU without payment of customs duties.

Preferential treatment, and often complete exemption from duty, is also given to a large number of goods manufactured in the UK when they are imported into countries such as members of the European Fair Trade Association.

Inward processing relief

Inward processing relief from customs duties and other charges is available for goods imported from outside the EU for processing within the EU and exporting to a non-member state. Processes which qualify for relief range from simple forms of handling to complex manufacturing operations.

Bonded warehouses

The bonded warehouses system may be used by importers of goods liable to customs and excise duties, to postpone payment of duties until goods are taken for UK use. Duty is not charged if the goods are re-exported from a bonded warehouse.

Stamp duty

Contracts for the sale or transfer of shares or securities, including the purchase by a company of its own shares, are subject to a rate of duty (0.5%) for every £1,000 of consideration or part thereof.

Stamp duty land tax (SDLT)

Conveyances or transfers of other property (e.g. land and buildings or goodwill) are subject to various rates up to 4% based on the value of the transaction (see Appendix II).

Instruments granting leases over non-residential land or buildings are chargeable at 1% times the net present value of the rent over the whole term of the lease, including upward reviews, minus £150,000. A license, or tenancy at will, is exempt from SDLT.

Council tax and rates

Local councils levy a charge on businesses occupying premises within their area, based on a notional value of the property, to fund local services including law and order, education, refuse collection etc. A single business rate is normally set for each fiscal year ending 31st March and the amount payable varies with the rate and the value of the premises. Reduced rates are available for charities or unoccupied premises.

A similar system is in place for residential property.

Please see Appendix II for a current list of tax rates.

7. Accounting & reporting

The accounting regulations and disclosure requirements applicable to UK companies are extensive, detailed and complex. The following is only a brief summary, and reflects the law applying to accounting periods beginning after 5th April 2008.

Applicable regulation

Limited companies

Limited (or incorporated) companies, including subsidiaries of parent companies incorporated outside the UK, are governed in the first instance by the Companies Act 2006 which includes provisions relating to:

- the maintenance and retention of accounting records
- the maintenance of registers and minutes relating to directors and shareholders and their meetings
- the form and content of annual accounts
- the publication to shareholders and the public filing of annual accounts
- the requirements for annual accounts to be audited, and
- the enforced correction of unsatisfactory annual accounts.

The Act makes provision for various classes of company. The most important of these are:

- Public limited companies (plcs),
  Plcs are those companies authorised to issue shares to the public
- Large, medium-sized and small, private limited companies, medium-sized and in particular small companies are subject to some exemptions from, and some simplifications to, the accounting requirements applicable to larger companies.

Limited Liability Partnerships (LLPs)

Limited liability partnerships are governed in the first instance by the Limited Liability Partnerships Act 2000. Detailed regulations for accounting and reporting are similar to those for ordinary limited companies, but there are some differences.

Overseas companies

Overseas companies are businesses incorporated outside the UK but operating within the UK through a branch or representative office, and not through a UK subsidiary company. They are also required by the Companies Act to register their place of business and to file annual accounts of the company (not the branch) with the Registrar of Companies.

Other business structures

There is no regulation directly governing the accounting practices of unincorporated businesses, such as sole traders or partnerships. However:

- various aspects of tax legislation require that vouchers are kept for a number of years to support any required tax computations;
- subject to any particular adjustments required by legislation, unincorporated businesses are taxed on profits determined on a 'true and fair' basis; and
- unincorporated businesses operating in some particular fields, such as the provision of investment advice, are subject to specific accounting and auditing regulations equivalent to those applying to companies.

Accounting standards

Public companies with shares traded on the London Stock Exchange or on AIM are required to prepare their consolidated accounts in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU. Other companies are permitted to adopt international accounting standards.

For companies and LLPs that have not adopted international accounting rules, generally accepted accounting practice in the UK (UK GAAP) is determined by the Accounting Standards Board (ASB). The ASB plans to secure the convergence of UK GAAP with international standards over the medium term, but differences will remain until the present reviews of international standards have been completed.

Period end accounts

Every UK company registered under the Act is required to prepare a set of accounts that gives a true and fair view of its profit or loss for the year and of its state of affairs at the year end. Annual accounts generally include:

- a directors' report
- an audit report
- a profit and loss account
- a balance sheet
- a statement of total recognised gains and losses
- a cash flow statement
- comprehensive notes to the accounts.

Most of these notes present in more detail the figures in the balance sheet, profit and loss account and cash flow statement. In addition, and where applicable, the notes to the financial statements may include:

- a statement concerning any significant doubts surrounding a business' ability to continue as a going concern
- details of significant post balance sheet events
- details of material transactions with related parties including the directors
- the identity of the ultimate controlling party of the company
- (for quoted companies) details of policies on, and exposures to, exchange rate, interest rate, liquidity and market value risks.

If a UK company is a parent company, consolidated accounts must also be prepared, although there is an exemption from this requirement for qualifying small private companies. In addition, in certain circumstances, if an overseas parent prepares and publishes group accounts that include the UK holding company, the UK parent can be exempted from preparing consolidated accounts for the UK sub-group.

Comparative figures should also be given for almost all items and analysis given in the year end financial statements.

All of the above requirements apply equally to LLPs except that no directors' report (nor any equivalent report) is required.

The accounts must be provided to each shareholder or member of a limited company or LLP, although there are regulations permitting a company to send only a summary financial statement to its members.

Audit requirements

The Act requires that the annual accounts include a report from suitably qualified, registered auditors to the shareholders (or members of an LLP) stating in particular whether or not, in the auditors' opinion:

- the balance sheet gives a true and fair view of the company's (and group's, if applicable) state of affairs;
- the profit and loss account gives a true and fair view of the company's (or group's, as applicable) profit or loss for the year; and
- the directors' report (of a company) is consistent with the of the financial statements.

In appropriate circumstances dormant and some small private companies and LLPs may be exempt from the requirement to have their accounts audited (see Appendix III for further information).

Audits are nevertheless often required by:

- providers of finance
- business owners preferring to obtain the assurance of an audit
- regulatory or trade bodies.

Filing of the accounts

All limited companies and LLPs must place a copy of their annual accounts on the public record by filing them with the Registrar of Companies.

For public and large companies and LLPs, the filed accounts must be identical to those sent to the shareholders. For medium-sized and small (qualifying, private) companies and LLPs the accounts filed with the Registrar at Companies House may be in abbreviated format.

The accounts on the public file must bear the manuscript signatures of each of the secretary, director or auditor who has approved the accounts or any part of them.

There are time limits starting from the end of a company's accounting reference period for the filing of the accounts with the Registrar of Companies. These are:

- a public company – six months
- a private company or an LLP – nine months.

Penalties are incurred when there is a breach of these time limits.

8. UHY firms in the UK

UHY Hacker Young, a founder member of UHY, is a top 20* group of UK chartered accountants. Established over 80 years ago, UHY Hacker Young has grown into a national group of firms either trading as UHY Hacker Young, or in association with the UHY Hacker Young Group.

We have 16 offices in major business centres around the UK, listed below, providing a full range of tax, accounting and business advisory services to personal and corporate clients, including:

- audit and accounting
- company secretarial services
- corporate finance
- general business advice
- AIM support & admission
- corporate tax advice
- personal tax and financial planning
- VAT consultancy
- payroll administration
- bookkeeping, budgeting and forecasting
- independent financial advice
- Sarbanes Oxley advise
- corporate recovery and insolvency
- litigation support and forensic accounting

* 2008 Accountancy Age and Accountancy Magazine league tables

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For more information on UHY Hacker Young, our people and services, please see our website: **www.uhy-uk.com**

The UHY Hacker Young Group is a group of independent partnerships.

Each office is registered to carry on audit work by either the Institute of Chartered Accountants in England & Wales or the Association of Chartered Certified Accountants. Where applicable, offices and their associated businesses are regulated for a range of investment business activities by the Institute of Chartered Accountants in England & Wales or directly by the Financial Services Authority.

Full details for each office are available on our website: www.uhy-uk.com

International liaison partner

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9. UHY offices worldwide

For contact details of UHY offices worldwide, or for details on how to contact the UHY executive office, please visit www.uhy.com

Appendix I

Sources of information

Business environment

Bank of England	www.bankofengland.co.uk
Companies House	www.companieshouse.gov.uk
Department of Business Enterprise & Regulatory Reform	www.dti.gov.uk
Financial Services Authority	www.fsa.gov.uk
Insolvency Helpline	www.insolvencyhelpline.co.uk
UK Trade and Investment	www.ukinvest.gov.com
Local Government Association	www.lga.gov.uk
London Stock Exchange	www.londonstockexchange.com
PLUS Market	www.plusmarketsgroup.com
Ministry of Justice	www.justice.gov.uk
Main website for Government departments and public services	www.direct.gov.uk
The Insolvency Service	www.insolvency.gov.uk

Foreign investment

Department of Business Enterprise & Regulatory Reform	www.dti.gov.uk
General business advice	www.businesslink.gov.uk
British Chambers of Commerce	www.chamberonline.co.uk
Invest UK	www.ukinvest.gov.uk
Department for the Environment, Food and Rural Affairs	www.defra.gov.uk
Companies House	www.companieshouse.gov.uk

Setting up a business

Companies House	www.companieshouse.gov.uk
London Stock Exchange	www.londonstockexchange.com
PLUS	www.plusmarketsgroup.com
HM Revenue & Customs	www.hmrc.gov.uk
Office of the Information Commissioner	www.dataprotection.gov.uk
UK Intellectual Property Office	www.ipo.gov.uk
Insurance:	
The Association of British Insurers	www.abi.org.uk
Listing of insurers and brokers	www.uk-insurance-web.co.uk
Lawyers:	
The Law Society (for England and Wales)	www.lawsociety.org.uk
The Law Society of Scotland	www.lawscot.org.uk

Employment

Chartered Institute for Personnel and Development	www.cipd.co.uk
Department of Business Enterprise & Regulatory Reform	www.dti.gov.uk
Health & Safety Executive	www.hse.gov.uk
Directory website for health and safety issues	www.uksafety.net
Other useful employment websites	www.oneclickhr.com www.emplaw.co.uk www.staffrelations.co.uk

Taxation

HM Revenue & Customs	www.hmrc.gov.uk
Chartered Institute of Taxation	www.tax.org.uk

Accounting and reporting

The Institute of Chartered Accountants in England and Wales	www.icaew.co.uk
Registrar of Companies / Companies House	www.companieshouse.gov.uk
A website portal for finance professionals	www.croner.co.uk
A web based community site for accountants and tax professionals, including directories and news services	www.accountingweb.co.uk

Appendix II

UK tax rates

For a full list of current tax rates please see the UHY Hacker Young website http://www.uhy-uk.com/pages/resources/tax-rates-200809.php.

Main income tax reliefs

Allowed at top rate of tax:

	2008/09	2007/08
Personal Allowance	£6,035	£5,225

Income tax rates and bands

	2008/09	2007/08
Lower rate on first	*see below	£2,230
Basic rate on next	£34,800	£32,370
Higher rate on taxable income over	£34,800	£34,600

Rate differs for dividends/interest/other

	D	I	O
Basic rate	10%	20%	20%
Higher rate	32.5%	40%	40%

***10% starting rate for savings income up to £2,320. Not applicable if taxable non-savings income exceeds £2,320.**

Dividends taxed as highest part of income, then interest

Discretionary trust rate	2008/09	2007/08
For dividend income	32.5%	32.5%
All other income	40%	40%

National Insurance Contributions

Class 1 (employees)

	Within SERPS	*Contracted Out*	
		Salary Related	*Money Purchase*
Employee contributions			
- on earnings between £105.01 & £770pw	11.0%	9.4%	9.4%
- on earnings above £770pw	1%	1%	1%
Employer contributions			
- on earnings between £105.01 and £770pw	12.8%	9.3%	11.8%
- on earnings above £770pw	12.8%	12.8%	12.8%

Employer contributions (at 12.8%) are due on most benefits in kind and on tax paid on an employee's behalf under a PAYE settlement agreement.

Class 2 (Self-employed)

Flat rate per week	£2.30
Small earnings exception: profits per annum	£4,825
Class 3 (Voluntary)	
Flat rate per week	£8.10
Class 4 (Self-employed)	
On profits £5,435-£40,040	8.0%
On profits over £40,040	1.0%

Inheritance tax

Charges on or after 6.4.08	**Rates %**
0-£312,000	Nil
Above £312,000	40%

Lifetime chargeable transfers at half the death rate, ie. 20%.

Business property relief of 100% for all shareholdings in qualifying unquoted trading companies and for most unincorporated trading businesses; agricultural property relief at 100% for qualifying holdings of agricultural land.

Annual exemption for lifetime gifts £3,000.

Small gifts - annual amount per donee £250.

Reduced tax charge on transfers within 7 years of death

Years before death	*% of death rates*
0 - 3	100%
3 - 4	80%
4 - 5	60%
5 - 6	40%
6 - 7	20%
Over 7	NIL

Capital gains tax

Annual exempt amount 2008/09: individuals £9,600, trustees £4,800.

Relief given to individuals for effect of inflation for periods of ownership up to April 1998.

Net gains after all reliefs and annual exempt amounts are taxed at 18%.

Corporation tax

	Year to 31.3.2009	**31.3.2008**
Main rate	28%	30%
- applies to profits above	£1.5 million	£1.5 million
Small companies rate	21%	20%
- applies to profits up to	£300k	£50k - £300k

Main capital allowances

	Allowance %
Plant and machinery	
- writing down allowance (10% on integral assets and some long life assets)	20
- certain energy efficient plant, including low emission cars	100
- cars in general (max £3,000pa)	20
- Annual investment allowance (max £50,000pa)	100
Industrial buildings writing down allowance	3 (Reducing by 1% annually)

Value Added Tax

Standard rate (7/47 of VAT-inclusive price)	17.5%
Registration level from 01.4.08	£67,000 per annum
Deregistration level from 01.4.08	£65,000 per annum

Stamp duty

	% of Total Consideration
Transfers by sale	
Shares and marketable securities	0.5%
Land and other property:	
0 – Threshold	NIL
Threshold - £250,000	1%
£250,001 - £500,000	3%
£500,001 and over	4%

The threshold is £125,000 for residential property and £150,000 for all commercial property or residential property in disadvantaged areas. Special rules apply for new zero-carbon homes.

Rental value of leases

0 – £125,000	Nil
Over £125,000	1% on excess over £125,000

The rental value of a lease is based on the Net Present Value of the aggregate rentals payable throughout the term of the lease, less a temporal discount of 3.5% p.a.

Rental value of leases

0 - threshold	Nil
Over threshold	1% on excess

The rental value of a lease is based on the Net Present Value of the aggregate rentals payable throughout the term of the lease, less a temporal discount of 3.5% p.a.

Appendix III

Accounting Thresholds

Qualifying for reduced obligations as a small or medium-sized company

Certain disclosures and statutory exemptions are available to small and medium-sized companies. There are however a number of qualifying conditions that have to be met before a company can be classified as small or medium-sized, not just relating to size.

The size criteria are shown in the table below. At least two out of three of these conditions must be met in the year in question for a company to qualify as small or medium-sized, as the case may be. After a company's size has been established (by reference to these criteria) the company does not qualify for any smaller category unless it meets the more stringent criteria for two consecutive years. Similarly a company does not move up to a new category until it has exceeded two or more of the thresholds for two consecutive years.

Size criteria for small and medium-sized companies			
Condition		*Small company amounts are below*	*Medium-sized company amounts are below*
1	Turnover	£6,500,000	£25,900,000
2	Balance sheet total	£3,260,000	£12,900,000
3	Average number of employees	50	250

In addition, there are no exemptions available to a company which:

- is a public company, or
- is an authorised insurance or banking company, or
- carries out an insurance market activity or one of several other regulated financial businesses, or
- is, or was in the year concerned, a member of an ineligible group.

A group is ineligible if any of its members is a public company or a body corporate not registered under the Companies Act whose shares are traded in the EU, or which carries out one of the regulated financial activities specified in the legislation.