University of Mississippi
eGrove

Touche Ross Publications

Deloitte Collection

1978

United Kingdom

Touche Ross International

Follow this and additional works at: https://egrove.olemiss.edu/dl_tr

Part of the Accounting Commons, and the Taxation Commons

Recommended Citation
Touche Ross International, "United Kingdom" (1978). *Touche Ross Publications*. 751.
https://egrove.olemiss.edu/dl_tr/751

This Article is brought to you for free and open access by the Deloitte Collection at eGrove. It has been accepted for inclusion in Touche Ross Publications by an authorized administrator of eGrove. For more information, please contact egrove@olemiss.edu.

business study

united kingdom

Touche Ross International

business study
united kingdom

Contents

I. THE UNITED KINGDOM IN BRIEF
II. INVESTMENT FACTORS
III. TRADE AND COMMERCE
IV. LABOUR CONDITIONS
V. BUSINESS PRACTICES AND INFORMATION
VI. FORMS OF BUSINESS ENTITIES
VII. ACCOUNTING AND AUDITING
VIII. TAXATION IN THE UNITED KINGDOM
IX. THE CHANNEL ISLANDS AND THE ISLE OF MAN

Touche Ross International

Preface

This study is one of a series of Business Studies designed for the use of Touche Ross professional staff in all countries and for interested clients. Users of the study should ascertain whether the information given here has been superseded by later developments. Specific business questions or problems may have legal and tax ramifications that are beyond the scope of this Business Study and the assistance of professional advisers is recommended. Suggestions for revisions should be sent to the Touche Ross International Executive Office.

The amounts quoted in this Business Study are in pounds sterling (£). At the time of writing, the approximate exchange rates with other currencies were:

£1 =	US $	1.98
	Deutsche Marks	4.15
	French Francs	9.31
	Swiss Francs	3.89
	Japanese Yen	474.82

Readers should check in the financial press for subsequent variations in these rates.

January 1978

© 1978 Touche Ross & Co., all rights reserved
Printed in the United States of America

Introduction

Napoleon called the British 'a nation of shopkeepers,' and with fuel minerals the country's only major natural resources, the British are certainly heavily dependent on trade. The first country in the world to become industrialized, the United Kingdom—Britain's formal title—is today a leading exporter of manufactured goods and ranks as one of the world's most important workshops.

The United Kingdom has not fared too well recently in world economic league tables. As individuals, the British are innovative and adaptable, but as a nation they tend to dislike change. This is perhaps why, having within a comparatively short time divested itself of an empire covering a fifth of the world's land surface, the United Kingdom has not yet become reconciled to being a small country that cannot live on a grand scale. But, given time, the British will again emerge undefeated as always—a bit more scarred perhaps, but wiser for the experience. It is for naught that this indomitable people have acquired the reputation "for losing battles but winning wars."

Despite inflation and balance-of-payment problems, the United Kingdom remains a thriving market, both domestically and as part of the European Economic Community. On July 1, 1977, the last customs barriers concerning industrial goods between the United Kingdom and the original EEC member-states were abolished, making free trade throughout the 250-million-strong EEC an established fact. Moreover, 1977 saw the beginning of the bonus provided by North Sea oil, which is expected to make a radical improvement in the country's balance-of-payments position in the next few years.

The United Kingdom welcomes investment from abroad, and businessmen from all over the world have made substantial investments in Britain in recent years. Although the volume of investment decreased when the recession of the mid-seventies slowed world activity, international interest in the United Kingdom remains high, and there are many opportunities for well-managed companies to prosper in the Britain of the later 1970s.

This Business Study was written by the staff of the Touche Ross office in London, England.

Linda S. Avelar
Director of International Publications
January 1978

Table of Contents

CHAPTER I THE UNITED KINGDOM IN BRIEF

1 The Country
1 Location and area
1 Natural features and regions
2 Climate
2 Natural resources
3 Major cities

4 The People
4 Population
5 Labour force and principal activities
5 Language
5 Education
6 Religion
6 Britain's history
7 Life in Britain

8 Government and the Economy
8 Executive and legislative powers
9 Legal structure and judiciary
10 Local government
11 Political parties
11 Economic patterns
12 Government participation in the economy
13 Foreign investment

CHAPTER II INVESTMENT FACTORS

15 Investment Incentives
15 The investment climate
15 Assisted areas
16 Availability of premises
16 Capital projects
17 Finance from European Community funds
18 Labour assistance
19 Contracts
19 Tax incentives
19 Application procedures
22 Incentives not related to the assisted areas
22 Restrictions on investment

24 Formalities and Procedures
24 Rules applicable to new businesses
24 Registration
25 Notification
25 Status of foreign-owned businesses

25 Sources of Finance
26 The banking system
26 The central bank
26 Commercial banks
27 Merchant and other specialist banks
28 Types of bank finance
28 Banking customs and payment procedures
29 Other sources of capital
29 Medium-term
30 Long-term
31 Export-import finance
32 The stock exchange
32 Listing requirements
33 Prospectuses

34 Currency and Exchange Controls
34 Currency
34 Exchange markets and controls
35 Definition of 'resident'
35 Bank accounts
35 Sterling accounts
36 Foreign currency accounts
36 Controls over inward direct investment
36 Definition of direct investment
36 Obtaining Bank of England approval
37 Acquisition of share capital
37 Borrowing restrictions
38 Real estate
39 Controls over inward portfolio investment
39 Repatriation provisions concerning inward investment
39 Direct investments
39 Portfolio investments
39 Real estate
40 Controls over outward direct investment
40 Commercial and industrial
41 Real estate
41 Controls over outward portfolio investment
42 Repatriation provisions concerning outward investment

42 Direct investments
42 Portfolio investments
42 Real estate
42 Imports and exports
43 Other transfers
43 Emigration from the United Kingdom
44 Foreign nationals' funds

CHAPTER III TRADE AND COMMERCE

45 Foreign Trade
45 Licences and quantitative controls
46 Customs duties
48 Other duties and taxes
48 Documentation
49 Distribution facilities

49 Marketing Practices
49 Advertising and promotion
49 Selling and distribution methods
50 Agencies
50 Alternatives
50 Literature and invoices
51 Trading stamps
51 Trade credit conditions

52 Patents, Trademarks, and Copyrights
52 Patents
53 Trademarks
54 Copyrights and designs

54 General Regulation of Business
54 Monopolies and restrictive practices
54 Monopolies
54 Mergers
55 Voluntary regulation of mergers
56 Restrictive trade practices
57 Resale prices
57 EEC legislation on fair competition
57 Article 85
58 Article 86
58 Price controls

59 Summary of agreements not invalidated by Article 85 of the Treaty of Rome
60 Chambers of commerce
61 Insurance practices
61 Environmental, health and other laws
62 Information required on business documents
62 Real estate
63 International trade organisation membership

CHAPTER IV LABOUR CONDITIONS

65 The Labour Force
65 Availability
65 Recruitment and training

66 Position of Foreign Nationals
66 Documents required
66 EEC nationals
66 British Commonwealth citizens
67 Nationals of other countries
67 Labour law and social security
67 EEC nationals
68 Nationals of other countries

68 Terms and Conditions of Employment
68 Wage rates
69 Bonuses
69 Overtime
70 Annual and other paid leave
70 The Pay Code
70 Payment methods
70 Working hours and conditions
70 Working hours
71 Employment terms
71 Severance rules
71 Redundancy
72 Unfair dismissal
72 Other employment matters

73 Fringe Benefits and Social Security
73 Fringe benefits
74 Social Security
74 Costs
75 Benefits

77 Labour-Management Relations
77 Unions
78 Employers' organisations
78 Machinery for settling disputes
78 Worker participation in management

CHAPTER V BUSINESS PRACTICES AND INFORMATION

81 General Information
81 Best travel months
81 Entry requirements and currency restrictions
81 Communications and transport
82 Post and telecommunications
83 Hotels and restaurants
83 Tipping

83 Business Hours and Holidays
83 The working day
83 Time factors
84 Public holidays

84 Business Practices
84 Weights and measures
85 Dates
85 Writing conventions
85 Business customs

CHAPTER VI FORMS OF BUSINESS ENTITIES

87 Principal Business Entities
87 Summary of forms
87 Limited company
88 Partnership
88 Branch of foreign companies
88 Other forms

88 Limited Liability Companies
88 Distinguishing features of private companies
89 Formation
90 Memorandum of association
91 Articles of association
92 Cost of incorporation

92 Acquisition of an existing company
93 Ownership — shares and shareholders
94 Management
94 Directors
94 Appointment, removal and remuneration
95 Powers and duties
96 Meetings and procedures
96 Other officials
97 Shareholders' meetings and rights
97 Procedures at meetings
98 Resolutions
99 Remedies
99 Capital, reserves, and dividends
99 Share capital
100 Loan capital
100 Reserves and dividends
101 Losses
101 Registration and publication requirements
102 Mergers and takeovers
102 Receivership
103 Liquidation and dissolution
104 Change of corporate status

104 Branches
104 Formation
104 Administration

105 Partnerships and Other Entities
105 Partnerships
105 Other Entities

CHAPTER VII ACCOUNTING AND AUDITING

109 Form of Financial Statements
109 Layout
109 Legal requirements as to content
112 Accounting requirements for groups
113 Publication requirements

114 Accounting Principles and Practices
114 Evolution of accounting principles
114 Specific accounting practices
114 Fixed assets and depreciation
115 Intangibles

115 Investments
116 Inventories
116 Receivables
116 Taxation
117 Liabilities
117 Reserves and provisions
117 Profit and loss account
118 Foreign currency conversions
118 Mergers
118 Accounting for inflation

119 Audit Requirements and Practices
119 Legal requirements
120 Audit standards
120 Audit reports
121 Appointments and changes of auditors

122 The Accounting and Auditing Profession
122 Professional bodies
123 Training and qualifications
123 Professional practices
123 Independence
123 Remuneration and liability
124 Other matters

124 Books and Records
124 Legal requirements
125 Management accounts

125 Specimen Financial Statements

CHAPTER VIII TAXATION IN THE UNITED KINGDOM

135 Introduction
135 Sources of legislation
136 Definition of territory
136 Administration of tax laws

136 CORPORATE TAXATION

137 Resident Companies

137 Taxable Profits

137 The six schedules
138 General principles
138 Specific sources of income
138 Trading income
138 Dividends from United Kingdom companies
138 Dividends from foreign companies
139 Other foreign income
139 Royalties
139 Interest
139 Rents
140 Inventory valuation rules
140 Stock relief
141 Capital gains
141 Taxable gains
143 Application of corporation tax
143 Losses

143 Allowable Deductions
143 General principles
144 Charges on income
144 Depreciation
145 Industrial buildings and structures
146 Machinery and equipment
147 Mines, oilwells, and wasting mineral deposits
147 Scientific research
147 Patent rights and know-how
148 Other expenditure
148 Taxes
149 Interest
149 Distributions
149 Bad and doubtful debts
149 Repairs
150 Expenses incurred in setting up business
150 Rents and royalties
150 Tax-free reserves
151 Directors' remuneration
151 Profit-sharing plans
152 Pension contributions and redundancy payments
152 Entertainment expenses
152 Gifts and donations

152 Treatment of Losses
152 Trading losses
153 Capital losses

153 Terminal losses
153 Other losses

154 Groups of Companies
154 Definition of groups
154 Intercompany dividends
154 Trading losses
155 Capital gains
155 Intercompany revenue transactions

156 Advance Corporation Tax
156 General principles
156 Restrictions on set-off
156 Payment rules
156 Use of franked investment income
156 Surrender to subsidiaries
157 Effect on shareholders

157 Close Companies
157 Definition of 'close company'
158 Disadvantages of close company status

158 Liquidations and Reorganisations
158 Liquidations
159 Reorganisations

159 Nonresident Companies
160 Nontrading income
160 Branches of foreign companies
160 Effect of double taxation agreements

161 Rates of Corporate Tax
161 Standard rate
161 Reduced rates

162 Returns and Assessments
162 Accounting periods
162 Returns, assessments, and appeals
162 Payment dates
163 Tax audits

163 Tax Investment Incentives

163 TAXATION OF INDIVIDUALS

164 **Taxable Income**
164 Specific sources of income
164 Self-employment income
164 Investment income
165 Income from employment
165 Married women
166 Exempt income

166 **Deductions and Reliefs**
166 Allowances
167 Other reliefs
167 Life assurance premiums
167 Pension scheme, contributions
167 Retirement annuity premiums
167 Interest
168 Other deductions
168 Charges on income

168 **Income Tax Rates**
168 Graduated rates
169 Investment income surcharge

169 **Capital Gains Tax**
169 Chargeable and exempt gains
170 Tax rates and bases of assessment
170 Unit and investment trusts

170 **Foreign Individuals and Foreign Income**
170 Domicile and residence
172 Taxation of income
173 Capital gains

176 **Returns and Assessments**
176 Returns and bases of assessment
176 Payments and appeals

176 **TAXATION OF OTHER ENTITIES**

176 **Partnerships**

177 **Trusts**

177 **Pension funds**

178 **WITHHOLDING TAXES**

178 Dividends, Interest, and Similar Payments
178 Dividends
178 Interest and royalties
178 Branch profit remittances
178 Interest on government bonds and receipts from foreign sources

178 Employment Income

179 DOUBLE TAXATION AGREEMENTS

180 OTHER TAXES

180 Value Added Tax
180 General principles
180 Mechanics of VAT
181 Rates of tax
181 Exceptions to the normal rules
181 Zero-rating
182 International operations
182 Exemption
183 Partial exemption
183 Small businesses
183 Record-keeping for VAT

183 Capital Transfer Tax
183 General principles
184 Rates of tax
184 Exemptions

185 Development Land Tax

186 Miscellaneous Taxes
186 Petroleum revenue tax
186 Computation of chargeable profits
187 Rate of tax
187 Local taxes
187 Stamp duties and minor taxes
187 Stamp duty
188 Licences

189 Examples of Corporation Tax and Income Tax Computations

193 Examples of British Withholding Taxes on Dividends, Interest and Royalties

CHAPTER IX THE CHANNEL ISLANDS AND THE ISLE OF MAN

195 General Survey
195 The Islands' special status
195 General information

196 Channel Islands — Business Regulations
196 Investment factors
196 Exchange controls
196 Customs duties
196 Employment
197 Business entities
198 Accounting and auditing

198 Channel Islands — Taxation
198 Income tax
198 Corporation tax companies
199 Dividends
199 Withholding taxes
199 Foreign tax credit
199 Double taxation agreements
200 Duties on company formation

200 Isle of Man — Business Regulations
200 Investment factors
200 Exchange controls
200 Customs duties
201 Employment
201 Business entities
201 Accounting and auditing

201 Isle of Man — Taxation
202 Income tax
202 Exempt companies
202 Dividends
202 Withholding taxes
202 Foreign tax credit
202 Double taxation agreements
203 Value added tax
203 Duties on company formation

CHAPTER I

The United Kingdom in Brief

- THE COUNTRY
- THE PEOPLE
- GOVERNMENT AND THE ECONOMY

THE COUNTRY

The United Kingdom of Great Britain and Northern Ireland consists of four countries — England, Scotland, Wales, and Northern Ireland. The first three of these constitute the island of Great Britain which, with numerous small offshore islands, forms the greater part of the British Isles.

The country is often known less formally as 'Britain,' and in this Business Study the terms 'United Kingdom' and 'Britain' are used synonymously. The United Kingdom is sometimes, but incorrectly, called 'England' by foreigners, a practice viewed with complacency by the English but with irritation by the Scots, Welsh, and Northern Irish. The Channel Islands and the Isle of Man are not part of the United Kingdom, although they are sometimes linked with it for statistical and other purposes. In this Business Study, they are described briefly in Chapter 9.

Readers of British statistics and regulations should note whether they apply to England only, to England and Wales (which are at present linked for most administrative purposes), to Great Britain (that is, England, Wales, and Scotland), or to the whole United Kingdom.

Location and Area

The United Kingdom is separated from northwest Europe by the English Channel and the North Sea. At the Straits of Dover, its narrowest point, the Channel is only 35 km. (22 miles) wide. The meridian 0° passes through Greenwich, in southeast London.

Britain's total area is 244,021 sq. km. (94,217 sq. miles), of which England occupies approximately 130,000, Scotland 79,000, Wales 21,000, and Northern Ireland 14,000 km. The country is about 950 km. (600 miles) from north to south and 500 km. (300 miles) from east to west at the widest point; but because of numerous bays and inlets, every place in Britain is within 120 km. of the sea. It is about two-thirds the size of Japan and about the same as West Germany or the state of Oregon in the United States.

Natural Features and Regions

Very broadly, much of Scotland, Wales, and Northern England are mountain and moorland areas, while Southern England is mainly undulating lowland. The landscape is pleasant and varied; areas of

outstanding natural beauty lie quite close to many of the great industrial cities. Compared with many other countries, the landscape is in miniature; even the highest mountain is only 1,342 metres (4,406') high. Short and fast-flowing rivers and pronounced tidal movement are important factors in the removing of pollution from British waters.

The main industrial centres are in northeast, northwest, and midland England, lowland Scotland between Edinburgh and Glasgow, and south Wales; agriculture predominates in eastern, southern, and western England and Northern Ireland. The island nation's many ports are located all along the coast. London, the hub of the densely-populated Southeast, is the headquarters of most national government departments and is the country's principal commercial and financial centre.

Climate

Britain's climate is usually temperate, although the weather varies from day to day in accordance with pressure changes over the Atlantic. The Gulf Stream, the drift of warm water from across the Atlantic has a very important moderating influence on the climate. Average temperatures range from 4° C (39° F) in the winter to 16° C (61° F) in the summer. In winter, temperatures may drop to -7° C (20° F) or even lower, northeast winds may bring snow and ice, and the North Sea may be whipped by gales; but in summer, temperatures sometimes rise to about 27° C (81° F), with several hours of cloud-free sunshine daily. Humidity is fairly high, and average annual rainfall of about 1,000 mm. (40") is fairly well distributed throughout the year. October through January tend to be the wettest months and March through June the driest. More rain falls in the West and North than in the South and East. Fogs, which every visitor to Britain seems to expect, have become much less frequent and severe in recent years as a result of pollution controls.

Natural Resources

Britain has major deposits of coal. These have been mined for 300 years and made possible the Industrial Revolution of the early nineteenth century. Although production has declined since World War II, coal is still of great significance. The chief coal fields are in the Midlands, Lancashire and Yorkshire, northeast England, south Wales, and central Scotland.

Of immense importance to the United Kingdom and its neighbours have been the spectacular discoveries in recent years of the petroleum and natural gas deposits that lie under the shallow (although stormy) North Sea. Britain has a major share in these deposits; natural gas now meets

practically all of the country's gas consumption needs, and by 1989 'North Sea oil' is expected to reduce greatly the United Kingdom's dependence on imported petroleum supplies.

Apart from fuels and some significant quantities of salt, clay, sand, and limestone, Britain has comparatively few mineral resources and has to import most of the raw materials needed by its industry.

Nuclear energy (in which Britain was a pioneer) produces about 12% of the electricity supply and hydroelectric sources about 1%; the rest comes from coal and oil.

Water supplies, in general, are adequate.

Farmland occupies about 80% of the country's area. Much of it is very fertile, arable land, especially in southern England and lowland Scotland; the remainder is used for stock grazing. Although agriculture employs less than 3% of the labour force, it is an important industry that provides nearly half of the country's food requirements.

Major Cities

More people live in towns and cities in Britain than in any other country except the Netherlands. Cities with over 300,000 people are:

England		**Population 000**
London	— seat of government, major financial and commercial centre, port and light industrial area	7,168
Birmingham	— heavy industry, main city of the Midlands	1,068
Leeds	— principal industrial city of Yorkshire	748
Sheffield	— steel and engineering centre in south Yorkshire	561
Liverpool	— major northwestern port and commercial city	561
Manchester	— commercial and industrial centre of the Northwest	561
Bradford	— Yorkshire textile city	461
Bristol	— major West Country port and industrial city	419
Coventry	— industrial city in the Midlands largely concerned with automobile manufacture	335

Scotland		
Glasgow	—major port, shipbuilding and industrial city	816
Edinburgh	—capital city of Scotland and a commercial and light-industry city	450
Northern Ireland		
Belfast	—capital of the province, shipbuilding and industrial city	374

THE PEOPLE

Population

The English are descended from a number of peoples, the original Celtic inhabitants having been subjugated in succession by, among others, Romans, Saxons, Danes, and Normans. The Scots, Northern Irish, and Welsh, geographically more remote, were not overrun to the same extent and have substantially preserved many of their distinctive characteristics.

The United Kingdom's population is made up as follows:

	Million	**Density**	
		Per Sq. Km.	**Per Sq. Mile**
England	46.5	357	922
Scotland	5.2	66	171
Wales	2.8	133	344
Northern Ireland	1.5	107	277
	56.0	229	594

Five of the country's seven great population concentrations are in England: Greater London, the West Midlands, South Yorkshire, South Lancashire, and Tyneside. The sixth, containing Glasgow, has about 40% of Scotland's population, and the seventh is in South Wales. These seven highly populated areas form seven of the eleven regional economic planning areas into which the United Kingdom is divided, the other four being East Anglia, the East Midlands, the Southwest, and Northern Ireland.

Average population density is almost ten times that of the United States, and that of England alone is one of the highest in the world. The annual increase since 1971 has been about 0.3%, mostly as a result of net immigration. Immigrants form about 3% of the population.

Labour Force and Principal Activities

The following table showing the distribution of the labour force in a recent year indicates the importance of the United Kingdom's manufacturing and service sectors:

	%
Agriculture, forestry, and fishing	1.8
Mining and quarrying	1.5
Manufacturing	34.0
Construction	5.8
Electricity, gas, and water	1.5
Transport and communications	6.5
Distribution	11.9
Professional, financial, and other services	28.6
National and local government and armed forces	8.4
	100.0

Language

English is the predominant language throughout the United Kingdom, although usage and accent vary slightly from region to region. About half a million people speak Welsh, and a very few (in Scotland and Northern Ireland) speak Gaelic; in Wales, Welsh is as valid as English for business purposes and in the courts.

English is widely used throughout the former British Empire, and because it is also the speech of the United States, it is a major world commercial, technical, and scientific language. British English and American English differ, however, in many small and sometimes confusing ways.

Although one and sometimes two foreign languages are taught in many schools, not many Britons can speak or write fluently in other languages. However, the importance of knowing foreign languages is being increasingly recognised.

Education

The educational systems of Scotland and Northern Ireland differ slightly from those of England and Wales, but throughout the country schooling is compulsory for all children between 5 and 16 years. In addition to state schools, which are free, there are some private independent schools that charge fees; rather confusingly, in England, many of these are called 'public schools.'

Schools for children aged 12 and over are mostly of the 'comprehensive' type, providing under one roof academic, technical, and general courses,

some of which last beyond the minimum school-leaving age. Many opportunities exist for further education in universities, polytechnics, and adult education centres. There are 45 universities in Britain, the oldest and best-known at Oxford and Cambridge. In most cases, state grants are available to students, and no one is barred by lack of funds from taking advanced educational courses. Adult illiteracy is uncommon.

A series of government-sponsored industrial training boards supervises training schemes provided within industry and commerce; about 60 government 'skillcentres' provide craft, technical, commercial, and management training.

Religion

The United Kingdom is mainly Protestant but, consistent with complete freedom of worship, religious communities of all creeds exist. The influence of the Church is less apparent in Britain than in much of mainland Europe. In Northern Ireland, political and civil instability has been associated with differences of viewpoint between Roman Catholics and Protestants.

Britain's History

On the breakup of the Roman Empire, the Celtic inhabitants of what is now England were soon overrun by Anglo-Saxon tribes from Northwest Europe. These newcomers mastered all but the north and west of the main island; England and Scotland emerged as nation-states by the end of the tenth century, long before most of their European neighbours.

The last successful invasion of Britain was in 1066, when the Normans (Vikings who had adopted French language and customs) conquered England and combined Saxon and French traditions into a distinctively English culture. Individual liberty has always been valued highly in Britain; England was the first major nation to develop the parliamentary system. Although the Welsh were brought under English domination by about 1300, the Scots fiercely resisted English attempts at subjugation throughout the Middle Ages. In 1603, however, the English crown passed by inheritance to the king of Scotland, and so the two crowns, but not the countries, were united. During the century following the union of the crowns, the struggle for power between monarch and parliament was resolved and the parliament emerged as the principal element of government.

The United Kingdom was formed by the historic Act of Union between England and Scotland in 1707. Both countries benefited from the union,

especially Scotland, which made great advances in trade, wealth and influence in the century that followed. Ireland was united with Great Britain in 1801, but this union was dissolved in 1922 when the present Republic of Ireland became independent. The majority of the population in the six northeastern counties of Ireland, however, has always strongly resisted separation from the United Kingdom; these counties now form the Province of Northern Ireland.

The Industrial Revolution came early to Britain; the nineteenth century was a time of great wealth based on the country's world leadership in trade and industry. It was also a time of great political influence and the expansion of the British Empire. In the twentieth century, the Empire largely evolved into the British Commonwealth, a free association of independent nations united in accepting the British sovereign as its head.

The physical separation of the British Isles from the mainland of Europe, Britain's historic rivalry with its European neighbours and its preoccupation with its empire until after World War II all tended for centuries to make the British feel apart from Europe and more concerned with the wider world. But since the 1950s, the United Kingdom has come to realise that its future is inevitably bound up with Europe's, and in a reversal of national tradition and sentiment, the depth of which is not always appreciated in other countries, Britain joined the European Economic Community in 1973. The decision to do so was confirmed in the country's first-ever referendum in 1975 by a majority of more than two to one.

Life in Britain

The four nationalities within the United Kingdom have differing characteristics, and all share to some extent the traditional British reserve. Nevertheless, the British are friendly and hospitable when known and are noted for their tolerance and sense of humour. Much is written about social class in Britain, usually in the irrelevant terms of nineteenth century economics. Today, age differences are as significant as social groupings.

Traditionally, 'the Englishman's home is his castle,' but beyond his garden gate, an abundance of recreational and cultural facilities and organised sport are strong counter-attractions. The British countryside is pleasant, and many towns and cities are historically and architecturally interesting. Average living standards compare reasonably with those in other European countries. Over half of all families own their homes and have at least one car, and nine out of ten families have television sets. The telephone system is the largest in Europe.

Houses and flats are reasonably plentiful although it is not always easy to obtain a mortgage to finance a purchase. Financial institutions that provide mortgages are called 'building societies,' and these usually finance about 80% of the cost of a home. Rents for suitable accommodation for executives range from about £400 per month in a top London location to up to £225 per month in northern England for a furnished two-bedroom flat; unfurnished homes may cost about two-thirds of these figures but are very difficult to find. Automobiles and domestic equipment can be financed by hire-purchase or through personal bank loans.

Several international and foreign schools cater especially to children of employees coming from other countries to work in Britain, and English-language courses for children and adults are available in many of the bigger cities.

Foreigners coming to work in the United Kingdom for periods of at least one year do not have to pay customs duty on any automobiles or household goods brought with them, unless, in general, they were purchased less than twelve months before arrival in Britain.

GOVERNMENT AND THE ECONOMY

Executive and Legislative Powers

The United Kingdom constitution is not contained in any written document but is composed of statutes, common law, and convention. Since any of these can be changed by Act of Parliament at any time, the constitution is readily adaptable to changing conditions.

Theoretically, power is vested in the monarchy (often referred to as 'the Crown'), as it has been for a thousand years, but in practice is now exercised by the legislature, the executive, the judiciary, and various subordinate authorities. The legislature (Parliament) is divided into an upper house, the House of Lords, whose members hold their seats by hereditary right or by royal appointment on the advice of the Government in power, and a lower house, the House of Commons, which is elected for a maximum term of five years by almost all citizens aged 18 and over. The Prime Minister may recommend the dissolution of Parliament before the end of its five-year term. Parliament can legislate for the United Kingdom as a whole or for any of its constituent parts. Draft legislation is known as a Bill and can be introduced in either House. When a Bill is approved by the Queen and both Houses, it becomes an Act. Administrative orders made on the authority of an Act of Parliament are called 'statutory

instruments.' The House of Lords is mainly a revising body and can only delay a measure insisted upon by the House of Commons for about thirteen months; it has no power to delay or amend any Bill concerned with finance.

The executive is headed by the Prime Minister or Premier, who is usually the leader of the political party holding most seats in the House of Commons. Other leading members of that party become ministers in charge of various administrative departments; a selection of these, with the Prime Minister, makes up the main executive committee called the Cabinet.

Government departments with which an intending investor will initially be concerned are:

In England

Department of Industry and Department of Trade	1 Victoria Street London SW1Y 1BB (tel.: 01-222 7877)

In Scotland

Scottish Economic Planning Department	45 Waterloo Street Glasgow G2 6AT (tel.: 041-248 2855)

In Wales

Welsh Office	Government Buildings Gabalfa, Cardiff CF4 4YL (tel.: 0222-62131)

In Northern Ireland

Department of Commerce	64 Chichester Street Belfast BT1 4JX (tel.: 0232-34488)

The department concerned with taxation and exchange controls is called the Treasury.

Legal Structure and Judiciary

Although the United Kingdom is a centralised state and not a federation, the legal and judicial systems of England and Wales differ, like many other aspects of life, from those of Scotland and Northern Ireland. Northern Ireland largely follows English practice although it has many Parliamentary Acts of its own, but Scottish law is quite unlike English. Unifying features are that the supreme civil court is common to the whole country, and much modern legislation applies throughout the United

Kingdom. Differences that are of importance to investors are mentioned as appropriate in this Business Study.

The lower courts throughout the country deal with civil and criminal cases. More important civil cases are heard in England and Wales in the High Court, from which appeals may be made to the Court of Appeal and then to the House of Lords, the nation's supreme court. In Scotland, the equivalent of both the High Court and the Court of Appeal is the Court of Session. Judges are independent of the legislature and the executive.

In addition to these courts, a variety of administrative tribunals deal with disputes arising from such matters as landlord and tenant relationships, employment and social security laws, taxation, patents and designs, restrictive trade practices, and many others. Appeals are normally possible from these tribunals to the higher courts.

The legal profession in Britain consists of solicitors and barristers (called 'advocates' in Scotland). Solicitors advise their clients directly on a wide variety of legal and business matters, whereas barristers are mainly specialists (for example, in tax law). Barristers conduct their clients' cases in the higher courts and are appointed only through solicitors; they are sometimes called 'Counsel,' and their advice is known as 'Counsels' Opinion.'

Local Government

The local government unit is usually the county (in Scotland, the region), which is subdivided into districts. There are various exceptions to this pattern, for example, in Greater London and in the islands of Scotland. A council is elected for each unit, and the councillors elect a chairman, known in towns as the mayor ('Lord Mayor' in certain cities) or, in Scotland, the provost. Local authorities are responsible for such matters as planning and environmental protection, highways, housing, consumer protection, police and fire services, and education. They are financed mainly by the central government but partly from the proceeds of a local tax on occupiers of real estate called 'rates.'

Although central government departments are already grouped to some extent to allow for the particular requirements of Scotland and Wales, the existing level of devolution of decision-making from London is likely to be extended, possibly by the introduction of elected assemblies for Scotland and Wales with powers over housing, health, education, and related matters. Further powers may be granted to English regions also, but none of these developments will affect the ultimate responsibility of the United Kingdom Parliament to determine policies for Britain as a whole. The

provincial parliament of Northern Ireland was dissolved in 1972 as a result of political instability and sectarian strife, but Northern Ireland still has its own executive government departments, headed by ministers responsible directly to the United Kingdom Parliament.

Political Parties

For many years, the Labour (socialist) and Conservative (centre-right) parties have dominated the British political scene. Proportional representation has not been adopted in the United Kingdom; the British practice is to elect as Member of Parliament (MP) the candidate who receives the highest number of votes in each constituency. Because of this system, the Liberals, while obtaining 18% of the votes in the last general election, held only 2% of the 635 seats in the House of Commons. However, the Liberals and the smaller parties such as Scottish and Welsh Nationalists and Ulster Unionists sometimes hold the balance of power between the two bigger ones. There are no Communist Party MPs. When this study was written, the Labour Party was the largest single party in the House of Commons and formed the government, although in the last election Labour obtained only 39% of the votes cast. The present Prime Minister is James Callaghan.

Economic Patterns

The British economy is characterised by the predominance of manufacturing industry and services. Practically every major industry is represented in Britain, but in recent years, growth has been fastest in chemicals, coal and petroleum products, electrical and electronic engineering, and the manufacture of instruments, furniture, pottery, and glass. In the services sector, transport, insurance, banking and finance, and tourism are indispensable elements in the economy.

Although small in area and with only 1½% of the world's population, the United Kingdom is the world's fifth largest trading nation (after the USA, West Germany, Japan, and France). Britain's chief trading partners for both imports and exports are the other EEC countries (together about 33%), the rest of Western Europe (about 15%), North America (14%), and the Middle East and North Africa (imports 15% and exports 8%). Among individual countries, the USA, West Germany, the Netherlands, and France head both the import and export lists. Britain's visible trade deficit has been made good in many years by 'invisible earnings' from the service activities. Although these have risen substantially in recent years, increased costs of petroleum imports have overtaken them and have created serious problems. As a result, world confidence in the pound sterling as a major trading currency has declined. The discovery of oil and

gas in the North Sea should greatly improve Britain's balance of payments and thus other countries' confidence in sterling.

Inflation, which rose to an annual rate of about 24% in 1975, has since abated as a result of government controls on prices, some reduction of the money supply and agreements with the labour unions on wage restraint. Despite these controls, inflation is currently expected by the government to remain at about 15% for 1977. One consequence of Britain's high inflation rates has been a fall in the value of the pound in relation to the 1971 Smithsonian parities; this effective devaluation was about 43% in June 1977 after an all-time low of 49% in October 1976.

Significant statistics follow:

	1972	1973	1974	1975	1976 (provisional)
Gross national product					
Current prices (£ billion*)	55.5	64.8	74.9	94.1	110.3
Constant (1970) prices (£ billion)	54.2	57.9	57.7	56.7	58.2
Real increase %	2.64	6.93	(0.36)	(1.79)	2.72
Exports (fob) (£ million)	9,759	12,505	16,600	19,922	25,778
Imports (cif) (£ million)	11,143	15,852	23,234	24,128	31,213
Industrial production (1970 = 100)	102.5	110.0	107.0	101.7	102.2
Wages (1970 = 100)	134.1	152.1	178.8	226.5	261.3
Consumer price index (1970 = 100)	117.2	128.0	148.5	184.4	215.4

*In this Business Study, 'billion' means 'thousand million.'

Government Participation in the Economy

Since World War II, successive governments have extended state participation in the economy, although the great majority of British industry and commerce is still in the hands of private enterprise. Coal, iron and steel, railways, post and telecommunications, utilities, the aircraft and shipbuilding industries, and the central bank are wholly owned by the state, which also has a substantial interest in radio and television, road transport, airlines and airports, seaports, nuclear energy development, petroleum production, and automobile and aero-engine manufacture.

As elsewhere in Europe, social and political considerations as well as economic ones are taken into account when an industry is threatened with closure. For example, several bankrupt companies have been taken into government ownership in recent years to maintain employment or sustain nationally-important enterprises.

Government involvement in the rest of the economy is in the form of direction or influence through planning agreements and investment incentives, as well as consultation through such bodies as the National Economic Development Council. As in other developed countries, legislation on restrictive practices, employment conditions, and environmental protection is widespread.

Foreign Investment

Overseas investment in British industry and commerce was estimated at £11 billion at the end of 1974; because of the substantial sums involved in the development of North Sea oil, it is now probably much larger. About 65% of direct investment in recent years has been from North America and about 20% from Western Europe.

Because of the country's early industrialisation and consequent accumulation of wealth, Britain owned immense investments throughout the world in the early years of the twentieth century. Two costly world wars and the effects of worldwide nationalism have drastically reduced these interests, but even so, British investment in other countries at the end of 1974 was estimated at £19 billion. About 33% of direct investment recently has been in other EEC countries, with a similar proportion in North America and 16% in developing countries.

CHAPTER II

Investment Factors

- **INVESTMENT INCENTIVES**
- **FORMALITIES AND PROCEDURES**
- **SOURCES OF FINANCE**
- **CURRENCY AND EXCHANGE CONTROLS**

INVESTMENT INCENTIVES

The Investment Climate

Among the advantages of Britain as a manufacturing or trading base are its excellent location and extensive trade relationships throughout the world. The country has a well-developed transport system, an adequate and experienced labour force, and growing energy resources. Expert financial marketing and professional services are available, and its government officials are impartial and helpful. Finally, as one of the EEC/EFTA countries, it is part of a free trade area containing 300 million people.

Investment from abroad is welcomed, and provided that various formalities are complied with, virtually no obstacles are put in the way of capital entering the country. Industrial Expansion Teams, responsible to the government departments described in Chapter 1, have been set up specifically to help industrialists establish themselves in those areas of the country that the government particularly wishes to assist. Additional aid is available to international companies that invest in Northern Ireland. Backing recovery of investment confidence among businessmen following the recession of the mid-seventies is a wide range of government aids and incentives, mainly set out in the Industry Act of 1972.

The principal investment incentives are granted only to enterprises located in assisted areas. Other incentive schemes unrelated to the assisted areas are described at the end of this section.

The United Kingdom is a signatory to the 1965 'Convention on the Settlement of Investment Disputes,' under which an international centre for arbitration and conciliation was set up as a department of the World Bank. This centre is available to help resolve differences concerning investment projects, where one party is a government agency and the other a foreign national.

Assisted Areas

In Great Britain, areas of higher-than-average unemployment following the decline of traditional industries have been designated 'assisted areas.'

Investment Factors

There are three types:

1. Special Development Areas (SDAs — mainly around Glasgow, Liverpool, Newcastle, and Cardiff) where the need for additional employment is most pressing.
2. Development Areas (DAs — mainly the rest of Scotland and Wales, and northern and southwestern England).
3. Intermediate Areas (IAs — mainly the southern parts of Yorkshire and Lancashire and neighbouring areas).

Northern Ireland is also an assisted area where, because of its particularly complex unemployment problems, slightly different rules apply with higher rates of incentive.

Most of the incentives offered are available only to manufacturing industries (including related research and training facilities). Some, however, are also offered to those service industries that can demonstrate that they have a genuine choice of location, such as transport, distributive trades, and financial and professional services; projects merely serving local needs such as retail shops do not qualify for assistance. A few incentives are extended to the mining and construction industries.

A summary of the incentives available in the assisted areas is given in the table on pages 20-21, which should be read in conjunction with the following comments.

Availability of Premises. Factories are available for projects creating additional employment or sometimes for replacing existing unsuitable accommodation. In Northern Ireland, factories are available in other cases also.

In the assisted areas, planning permission for industrial projects is given much more readily than elsewhere in the country, and, in general, land is cheaper and rents lower. In Northern Ireland in particular, real estate costs are low, and so are the bases for municipal taxes. In Scotland, municipal taxes on industrial buildings are reduced by 50% of the full rate and in Northern Ireland, as an offset against higher transport and power costs, by up to 75%.

Administrative offices and service industries moving into the assisted areas, or expanding there, may also qualify for grants to cover approved rents (or for equivalent aid where premises have been purchased).

Capital Projects. Assistance mainly comprises grants, loans or interest subsidies.

Regional Development Grants. These grants, ranging from 20% to 50% of capital costs, are the most important of the direct incentives to industry. They are not limited to schemes that provide additional employment; in Northern Ireland, service as well as manufacturing industries may be eligible. If the assets concerned cease to be used for permitted purposes, the grants may have to be repaid. These grants, which are usually made three months after notification of approval, do not reduce capital expenditure for tax depreciation purposes (except occasionally in Northern Ireland), nor are they taxed as income.

Selective Assistance by Way of Loans and Interest Subsidies. Aid of this nature is normally available only to viable projects that provide employment; the greater part of any capital needed is expected to come from private or commercial sources. Selective assistance may be provided in addition to regional grants.

In Great Britain, 'Category A' projects (new activities and expanded activities that create additional employment) may qualify for favourable loans or interest subsidies, while 'Category B' projects (for modernisation schemes that maintain existing employment but do not create new jobs) normally qualify only for unsubsidised loans where finance cannot be obtained from commercial sources. Administrative offices and many service industry projects may also be eligible for selective assistance if they have a genuine choice of location in the country and create 25 or more new jobs in an assisted area (or 10 new jobs as a result of a move to an assisted area). Plant and machinery leased for four or more years may be included as eligible costs for selective assistance purposes. In Northern Ireland, selective assistance is available for a wide range of projects attractive to the economy.

Local government authorities may be prepared to provide further loans.

Removal and reorganisation grants are available to manufacturing and sometimes to service industries moving into one of the assisted areas from elsewhere in the United Kingdom. Higher rates apply in Northern Ireland to especially attractive projects.

Finance from European Community Funds. The European Investment Bank grants loans to finance large capital projects in under-developed regions for enterprises specially affected by the establishment of the Common Market, or projects of common interest to two or more member states.

The European Coal and Steel Community grants loans for direct assistance to the coal and steel industries and for the provision of new

jobs for redundant workers in areas where those industries are declining. These loans are for large projects; smaller ones may be financed from this source through the Industrial and Commercial Finance Corporation described later in this chapter.

Finance from these sources does not affect the eligibility of projects for British 'assisted area' incentives. Further details can be obtained from the Department of Industry.

The EEC also operates three major funds—Social, Regional Development, and Agricultural—designed to aid projects in the less favourable areas of the nine member states. Aid from these funds is not normally available to individual enterprises, but is used by the government to finance national schemes or to improve the country's infrastructure.

Labour Assistance. *Employment Grants.* In Great Britain, temporary employment subsidies to encourage employers to hold workers they do not currently need, and a job creation programme to aid school-leavers, are available, although these are not intended to be long-term measures.

In Northern Ireland, manufacturing establishments are granted a Regional Employment Premium, and employment grants are available during the initial build-up period of any project that is especially attractive because of the number of jobs it creates or techniques it introduces. These grants extend to managerial salaries and costs, and management consultancy advice. Rates of grant are negotiable, depending on the project's capital requirements. Other grants are aimed at encouraging technical development and the retention of trained scientists and technologists.

Establishment Grants. In Great Britain, 'Category A' service industry undertakings may qualify for employment subsidies on establishing or expanding in the assisted areas.

Training Schemes. Training facilities are available throughout the United Kingdom, but they are provided free to enterprises located in the assisted areas.

Removal and Travel Expenses and Housing. Assistance may be provided towards removal costs, professional fees, and travel and other expenses incurred by transferred key industrial workers who cannot be recruited locally. Further grants may be made to enable certain new employees to

be trained at the company's existing premises for periods of up to six months. Local authorities are often able to provide housing for key workers transferring from other parts of the country.

Contracts. All other things being equal, government departments, public bodies and nationalised industries give preference when placing contracts to enterprises in SDAs, DAs, or Northern Ireland.

Tax Incentives. These are available throughout the country, mainly in the form of accelerated depreciation allowances and concessions available to foreigners working for nonresident employers (see Chapter 8).

Application Procedures. Initial enquiries are best directed to the Industrial Expansion Teams mentioned at the beginning of this chapter.

Premises. Applications for government-built factories should be made to the regional offices of the Department of Industry or its corresponding departments (see page [9]) in Scotland, Wales and Northern Ireland.

Assistance for Capital Projects. Applications for regional development grants, incorporating a report by independent accountants, must be submitted to Regional Development Grant offices of the Department of Industry not later than two years after the end of the quarter during which the assets were acquired. In Northern Ireland, the administering agency is the Department of Commerce.

Applications for selective assistance should be made, during the year before the project is due to start, to the Department of Industry or the Northern Ireland Department of Commerce, as appropriate. Considerable information must be submitted, including past and estimated future results, borrowing requirements and limits and other sources of finance, market data (both home and export), details of product development, performance and future plans, and details concerning management. The government may expect employees and other interested parties to have been consulted and must be satisfied that the proposed development is a viable one.

Labour Assistance. Applications for training assistance should be submitted to the Training Services Agency of the Manpower Services Commission, and information on removal and travel costs can be obtained from any employment office of that Commission.

SUMMARY OF INVESTMENT INCENTIVES IN THE ASSISTED AREAS

Incentive	Great Britain			Northern Ireland
	Special Develop. Areas	**Development Areas**	**Intermediate Areas**	
1. Availability of premises				
(a) Government factories for rent (standard) or lease (standard or custom-built); rent-free period possible for certain new undertakings.	Up to 5-year rent-free period*	Up to 2-year rent-free period*	As DAs	5-year rent-free period and concessionary rent for another 2 years* and possibly longer. Purchase price payable by instalments and grants up to 45% of cost available. Municipal taxes on industrial buildings reduced by up to 75%.
	99-year lease of standard or custom built factories may be purchased, with payments spread over 15 years at fixed interest rates. Rental agreements can include option to purchase the 99-year lease. In Scotland, municipal taxes on industrial buildings reduced by 50%.			
(b) Planning permission available.	Industrial development certificates (IDCs) not required; planning permission readily granted.		IDCs frequently available; planning permission available.	As in SDAs and DAs
(c) Rent-free periods for service industry premises, offices, and research activities.	Up to 7 years	Up to 5 years	Up to 3 years	As for manufacturing industry above.
2. Capital projects Regional development grants:				
(a) New machinery or equipment (minimum cost £100)	22%	20%	Nil	30% or 50% * (called 'Capital Grants' and 'Industrial Development Grants' in Northern Ireland).
(b) Building works including site preparation (new and adaptions; minimum cost £1,000)	22%	20%	20%	Service industries may also be eligible.
	Assets must be used wholly for manufacturing purposes or related research, training, scrap-processing or certain repair activities.			
Selective assistance: (a) Loans, etc.	On preferential terms for general capital purposes for projects that provide additional employment* — often 3% lower than commercial rates and with interest-free periods up to 2 years; on nonpreferential terms for other projects that maintain or safeguard employment if the finance required cannot reasonably be obtained from commercial sources. Equity capital may be available in exceptional circumstances.			On preferential terms for general purposes. Loan guarantees or interest reliefs may also be negotiated*, and equity capital can sometimes be provided.
(b) Interest relief grants*	As an alternative to loans on favourable terms, grants towards the interest costs of finance provided from non-public sources for projects which provide additional employment; normally 3% p.a. for up to 4 yeas.			
(c) Removal grants*	Grants of up to 80% of certain costs incurred in moving an industrial undertaking from any part of Great Britain outside an assisted area into one of those areas (plant, machinery and inventory removal, and net redundancy payments). Also available to service industries eligible for loans or grants.			Up to 100% of costs of transfer from place of origin.
Loans from European Community funds	Loans are available on favourable terms for approved projects from the European Investment Bank (directly or indirectly) and in certain cases from the European Coal and Steel Community.			

Incentive	Great Britain			Northern Ireland
	Special Develop. Areas	Development Areas	Intermediate Areas	
3. Labour assistance				
Employment grants	Temporary schemes to encourage retention of workers and employment of school-leavers are operated from time to time. They apply throughout the country, but priority is given to the assisted areas.			Selective Employment Premium paid to manufacturing establishments — £2 weekly for adults, £1.20 for under-18's (half these rates for part-timers). A substantial contribution is paid during the initial build-up period to companies establishing attractive projects. Grants sometimes also available for management consultancy advice. Temporary subsidies also available.
Establishment grants for offices and commercial enterprises*				Grants up to £250,000 for research and development projects.
(a) Grants for employees moving with work into the areas	£1,500 for each employee, up to 50% of new jobs created in assisted areas.			
(b) Grants for each job created in areas	£1,500	£1,000	Nil	Flexible range of incentives
Training assistance	Government training centres available. Grants made for establishment of private training schemes and towards costs of instructors.			As in Great Britain, plus tax-free allowances of up to £15 weekly per employee for in-house training.
Help for transferred workers	Grants, free fares and lodging allowances and help with finding houses.			Substantial grants towards the cost of transferring key workers.
4. Contracts				
Contracts Preference Scheme	Preferential treatment when tendering for contracts placed by government departments and nationalised industries.		Nil	As in SDAs and DAs
5. Tax incentives (available throughout United Kingdom) Tax allowances:				
(a) Machinery and equipment	100% first year allowance on capital expenditure incurred on machinery and equipment, (other than private passenger cars).			
(b) Industrial buildings (See Chapter 8)	54% of the construction costs can be written off in the first year and subsequently 4% per year. Regional development grants in Great Britain and capital or industrial development grants in Northern Ireland for machinery, equipment or buildings are not treated as reducing the capital expenditure in computing tax depreciation, nor are those grants subject to tax. Most other grants are subject to tax as trading receipts or as reductions of cost for tax depreciation purposes.			
Concessions for foreign nationals	Foreign nationals working in the United Kingdom for foreign employers are relieved of tax on 50% of their income from employment in Britain (25% only in certain cases).			

Note: Incentives marked * are subject to the provision of sufficient additional employment to justify the assistance sought.

Incentives Not Related to the Assisted Areas

Grants, loans, interest subsidies, equity capital, and other assistance are available in North and West Scotland from the Highlands and Islands Development Board.

Loans are available to small industrial enterprises in rural areas throughout the country, and to small tourist projects in SDAs and DAs. The government's Small Firms Centres provide advice to many smaller businesses.

Grants towards the cost of facilities for loading freight onto railways are sometimes available, and grants or subsidies for a number of agricultural projects are also made. The British Overseas Trade Board provides information and advice to exporters.

Individual industries are assisted from time to time in accordance with national economic requirements, irrespective of their location; examples are electronic components, measuring instruments, ferrous foundries, machine tools, construction, and tourism. Assistance is usually through grants (up to 30%) or subsidised loans (up to 50%) for new buildings or equipment, or for reorganisation or modernisation expenditure. Enterprises may sometimes qualify for assistance under both an industry scheme and one of the assisted area schemes. Unlike regional development grants, grants received through an industry scheme are treated as reducing the cost of the assets concerned for tax depreciation purposes.

In addition, a Selective Investment Scheme currently provides assistance for approved projects, usually costing over £500,000, that would not have been undertaken without government assistance, especially those designed to increase efficiency, extend product range or meet export demand, particularly in the engineering industry. Usually, this assistance takes the form of interest subsidies. This scheme is mainly applicable to enterprises outside the assisted areas, as those in the assisted areas take advantage of the incentives for capital projects already described.

Where major national economic interests are at risk, the government has power to assist individual organisations by 'rescue' operations ranging from the giving of guarantees to complete equity takeovers.

Restrictions on Investment

Apart from exchange control requirements, investment by foreigners is normally unrestricted. Investment by multinational companies is general-

ly considered beneficial to the country's economy, although foreign companies, like British ones, must comply with monopoly and merger rules, and government approval may be required for the takeover of a large or economically-significant British enterprise by a foreign investor. As in other countries, some activities may require special licences for public health or similar reasons, or to ensure that adequate qualifications are held, but the controls exercised are unlikely to prove obstacles to any properly-conducted enterprises.

The extent of state monopolies, indicating the sectors in which private investment is not permitted, is described in Chapter 1. Some activities, such as the North Sea oil industry, are usually expected to be carried on through British-registered companies, although these may be wholly owned by foreigners.

British ships and aircraft may be owned only by British corporate bodies or citizens, although there is nothing in law to prevent foreigners from holding shares in British ship-owning companies, unless in their own bylaws such companies restrict the acquisition of their shares by foreigners.

A restriction of greater interest to most investors concerns the location of new projects. Industrial development certificates (IDCs) must be obtained for any industrial development; that is, the erection, extension, or conversion of a building for industrial use. In the Midlands and Southeast, IDCs are difficult to obtain and are only granted if the project cannot be undertaken in an assisted area and will not exert undue pressure on existing scarce labour resources. In the Intermediate Areas, IDCs are generally granted freely for expansion by firms already located there or where a proposed project could not reasonably be undertaken in any area of higher unemployment; in the SDAs, DAs, or Northern Ireland, IDCs are not required at all. IDCs are not required for small developments, that is, those under 15,000 sq. ft. (1,400 sq. metres) in the Intermediate Areas and the Midlands and 12,500 sq. ft. (1,150 sq. metres) in the Southeast. IDCs are sometimes granted in old industrial areas in cities such as London or Birmingham, principally to replace obsolete buildings or for limited improvement schemes.

Applications for IDCs should be submitted to the Department of Industry, giving such details as labour demand, reasons for choosing the proposed location, and the consequences for output and efficiency of both approval and refusal of the application.

Office building construction in London and the Southeast of more than 30,000 sq. ft. (about 2,800 sq. metres) is also subject to control.

Investment Factors

FORMALITIES AND PROCEDURES

Rules Applicable to New Businesses

Every new business must register with various authorities and report its existence to others. In addition, businesses owned by foreigners must comply with the exchange controls described in the last part of this chapter.

Registration. Every company incorporated under the United Kingdom Companies Acts must provide basic information about itself to the Registrar of Companies, an official of the Department of Trade; this information is available for public inspection. A company must register in the part of the United Kingdom in which it is incorporated. The registers for England and Wales are kept in Cardiff, but most of the information on file there is also available to enquirers at Companies House in London; the register for Scotland is situated in Edinburgh, and that for Northern Ireland in Belfast. Every change in the information filed must be reported to the Registrar.

Information to be filed includes:

1. A copy of the constitution documents, showing the company's name, objects, authorised capital, part of the United Kingdom in which incorporated, and internal regulations or bylaws.
2. The company's registered address, and the names, addresses and other personal particulars of its directors and secretary.
3. Details of all share issues and, normally once every year, a list of all its shareholders.
4. Details of mortgages and charges on its assets.
5. Copies of its annual audited financial statements.

Foreign companies carrying on business in the United Kingdom must file similar information.

Partnerships and sole traders do not have to register with the Registrar of Companies or make available for public inspection any of the information required from incorporated companies.

Every business entity that trades under any style other than its company name or, if a partnership or sole trader, the true names of its owners, must register with the Registrar of Business Names. The nature and place of its business, the name under which it trades, and the names and nationalities of its owner or owners must all be reported to this Registrar.

Notification. There are no formal procedures for notifying the tax, social security or other authorities of a new venture, although if a new enterprise wishes to commence business without delay and to recruit employees, it should notify the local tax office of its existence and address, thereby raising records for income taxation, wage withholding taxation (PAYE), and social security purposes. Registration for value added tax purposes with the local office of the customs and excise authorities is necessary for all but the smallest enterprises.

The solicitors who deal with real estate transfers normally report changes of ownership of land and buildings to local government authorities for local taxation purposes. Local government or other authorities must also be notified in particular circumstances; for example, where public health or safety is concerned or for exploitation of North Sea oil and gas fields.

Status of Foreign-Owned Businesses

A foreign-owned business has the same status as that of a purely British enterprise (except for exchange control restrictions), and the judicial system does not differentiate in any way between British citizens and foreigners.

There are no rules requiring British participation in capital or management, nor are there normally any restrictions on foreign companies operating in particular places or trades or owning real estate. In general, no objections are raised to the employment of skilled foreign managers, engineers or other staff, provided that the necessary permits have been obtained.

The government, however, may impose conditions on the ownership by foreigners of major shareholdings in companies important to the British economy. These conditions may relate, for example, to the continuance of research and development programmes, the maintenance of employment, or the promotion of exports. There are no legal rules on these matters, and the government relies on the good faith of the companies concerned.

One formality to be noted, however, is that borrowings by foreign-owned companies in excess of £50,000 in any one year (except short-term borrowings, generally from banks) are subject to Treasury approval.

SOURCES OF FINANCE

Throughout the world, the City of London is recognised as a major financial centre, with a heavy concentration of banking and other

institutions that offer every type of financial service, both internally and internationally.

In general, the British commercial banks have been less prominent suppliers of capital than their counterparts in other European countries, especially in the provision of medium- and long-term finance. On the other hand, Britain has more financial institutions outside the banking system than many other countries, and to some extent these have taken the place of the banks as suppliers of capital to industry. This is because individuals in Britain tend to save through the medium of life assurance policies, pension funds, building society deposits, and investment or unit trusts (mutual funds) rather than through long-term deposits in savings or deposit banks. As a result, insurance companies, pension funds and investment trusts have all become major sources of finance. Retained earnings have always been important also. In recent years, however, the traditional pattern has tended to change, and bank loans have exceeded debentures and mortgages, while borrowing from all sources has exceeded share issues. Because of the variety of sources available, a well-managed enterprise can raise capital without undue difficulty.

The Banking System

The Central Bank. The Bank of England, incorporated in 1694, is state-owned, and is the agent for carrying out the government's monetary policies. It operates the country's exchange controls; issues government securities; directs the commercial banks as to required deposits, reserve ratios, and lending restrictions; acts as ultimate banker to the commercial banks and the money market generally; and is the principal issuer of bank notes. In recent years, it has increased its supervisory role over other banks operating in the United Kingdom. The Bank of England's minimum lending rate influences, but does not control, the level of interest rates charged by the commerical banks and other financial institutions.

Commercial Banks. In Britain, the largest commercial banks are usually referred to as the 'clearing banks.' The clearing banks' business is principally the maintenance of their customers' current (checking) and deposit accounts, but they provide a wide range of banking services. Between them they operate over 14,000 branches throughout Britain and conduct over three-quarters of the country's banking business. They are limited liability companies whose shares are quoted on the Stock Exchange. Four of the main clearing bank groups are headquartered in London (Barclays Bank Ltd., Lloyds Bank Ltd., Midland Bank Ltd., and National Westminster Bank Ltd.) and two in Edinburgh (Bank of Scotland and National & Commercial Banking Group Ltd.). Some of these groups

have subsidiaries that are themselves clearing banks, while other subsidiaries conduct unit trust, instalment credit, and specialist financing business. Outside these main groups there are several other large commercial banks that are not clearing banks. Most of the commercial banks have close connections with other banks throughout the world and can provide their customers with an international service covering all aspects of foreign investment and trade.

Merchant and Other Specialist Banks. Merchant banks developed from international trading firms that found it necessary to arrange finance for suppliers and customers as part of their merchanting activities. Although the volume of business they conduct is small compared with that of the clearing banks, they play a very important part in financial affairs and contribute greatly to London's reputation as a world financial centre. They not only finance foreign trade through the acceptance of bills but, like investment banks in other countries, handle such matters as mergers and takeovers, fund management and unit trust operation, equity capital issues, and other forms of finance where this is not readily available from the clearing banks.

About 200 foreign banks are represented in London. They are very active in international trade and finance of all kinds, including dealing in the Eurocurrency markets.

The National Giro, which is operated through most post offices throughout Britain, provides a low-cost money transfer and current account service. It can provide personal finance and in some cases overdrafts for corporate customers. The clearing banks also operate a money transfer service, referred to as the 'Bank Giro.'

A number of Trustee Savings Banks offer current and deposit account facilities. The National Savings Bank, operated by the Post Office, also provides savings facilities for individual investors. These banks do not provide capital directly to industry or commerce.

Some deposit-taking institutions are not recognised by the Department of Trade to be banks of the same category as those already described and are sometimes referred to loosely as 'secondary banks.' They may be able to offer facilities not available from the commercial banks, but at higher cost.

Discount houses are intermediaries between short-term lenders and borrowers, including banks, central and local government authorities, and holders of commercial bills, and play an important part in the London money market.

Investment Factors

Types of Bank Finance

The commercial banks provide short-term loans and overdrafts. Overdrafts are intended to meet short-term needs and are in theory repayable at call although usually granted for a year at a time. Interest rates vary, but are usually around 2%-3% above the banks' published base rates. Overdrafts are usually the cheapest form of borrowing, as interest is calculated only on the fluctuating daily balance and not on the whole of a fixed-term loan; the interest rate charged on a fixed-term loan is usually slightly higher.

A bank will almost always require some security—either a floating charge (see page 100), a mortgage on a particular asset, or personal guarantees by shareholders or directors—but will not normally seek to be represented on the borrower's board of directors. Broadly, a borrower's ratio of current liabilities (including the bank finance) to current assets should be not more than 2:3. The banks like the short-term finance they provide to be self-liquidating, and they usually expect the borrower himself to finance his fixed assets and at least part of his working capital.

The commercial banks are increasingly offering medium-term loans for up to five years or even longer, although strict repayment conditions are invariably imposed. They do not provide long-term finance. The merchant banks, however, are often able to arrange medium-term and long-term loans, sometimes by organising syndicates in which any one member has only a small share.

Merchant bank members of the Accepting Houses Committee make advances by means of discounting bills, principally in connection with foreign trade. The use of bills for trade within the United Kingdom is comparatively rare. Merchant banks also sometimes provide working capital, secured, for example, on inventories by discounting series of three-month bills, or provide backing by accepting bills (acceptance credits) that are then discounted with the discount houses.

Banking Customs and Payment Procedures

Cheques are used to settle debts by all businesses and many private individuals, up to ten billion pounds passing through the interbank clearing system each working day. Funds may also be transmitted by credit transfer, standing order instruction, or authorised direct debiting. The National Giro system is gradually becoming more widely used, with many larger concerns now holding giro accounts, but the volume of transactions remains small compared with bank clearings.

Banks provide regular statements of account and will usually return paid cheques if so requested. This is important because a paid cheque, not endorsed in favour of a third party, is proof of payment to the named payee. Two lines are usually drawn across a cheque when it is signed, or it may be printed with these two lines across it; it is then called a 'crossed cheque.' Crossed cheques must be paid into a bank account and cannot be cashed. The clearing banks issue cheque cards that act as guarantees of cheques drawn, currently up to £50, not only within the United Kingdom but widely throughout Western Europe through the 'Eurocheque' system. Safe custody services are also provided.

Interest is not allowed on a current account, but no operating charges are made unless the balance maintained is very small. On time-deposit accounts, interest is allowed at rates varying with the withdrawal notice required; for example, a deposit withdrawable at seven days' notice generally earns interest at about 3½% below the bank's published base rate. Higher rates can often be obtained safely by placing funds with a large bank's finance house subsidiary.

Other Sources of Capital

Medium-Term. *Finance Houses.* Term loans, instalment credit (hire-purchase) facilities, and leasing of plant and equipment are provided by numerous finance companies, the more important of which are members of the Finance Houses Association. Hire-purchase differs from leasing; in the former, the plant or equipment concerned ultimately becomes the property of the purchaser, whereas in the latter, it remains the property of the lessor. The advantage of these forms of finance is that they are additional to conventional credit sources; the disadvantage is that they tend to be expensive.

Invoice discounting, factoring of receivables, and block discounting of hire-purchase agreements are carried out either by these finance houses or by specialist factoring companies. The cost of these forms of finance is somewhat higher than for straight loans. Factoring companies often provide debt collection and accounting services, and for an additional charge may bear the risk of debtor default.

Finance for Industry Ltd. The clearing banks, together with the Bank of England, own Finance for Industry Ltd. (FFI), whose subsidiaries and associates include Industrial and Commercial Finance Corporation Ltd. (ICFC), Finance Corporation for Industry Ltd. (FCI), Technical Development Capital Ltd. (TDC), and Estate Duties Investment Trust Ltd. (EDITH). ICFC provides finance for smaller businesses, mainly in the range £5,000 to £1 million, whereas FCI deals with larger amounts, TDC

specialises in technological innovations, and EDITH assists shareholders in private companies by providing finance to meet capital transfer taxes.

Public Institutions. Various government-owned or sponsored bodies provide medium-term loan capital. Examples are the National Enterprise Board (NEB), the National Research Development Corporation, the Council for Small Industries in Rural Areas and its Scottish equivalent, and government departments and EEC sources as described under 'Investment Incentives.' Other bodies cater to the needs of specific industries, such as agriculture, forestry, fisheries, or film-making.

The NEB is a public corporation financed by the government, supplementing sources such as FFI or the finance houses.

Private Sources. Private individuals, including investors introduced by stockbrokers, solicitors, or other professionals, provide substantial finance to British enterprises, especially to those that are not big enough to have a stock exchange listing.

Venture Capitalists. Venture or development capitalists, including some merchant banks, finance houses, and ICFC and TDC, often take up share capital as well as provide loans. They are regarded as suppliers of medium-term finance because, in general, they seek to disinvest within a comparatively short period (say five years), so that other sources must then be found. While venture capitalists may be able to help businesses unable to raise finance in other ways, they expect high rates of return because they provide risk capital. Some venture capitalists are prepared to finance new businesses, technical innovations, or 'turn-round' situations, but because these imply higher risks, the returns expected will be commensurate. Some require board representation and involve themselves in management; all tend to supervise their investments closely. ICFC is predominant in this field; it is prepared to invest smaller sums and remain an investor for longer periods than many of its competitors.

Long-Term. *Loan Capital.* Debentures (secured on the borrower's assets, usually by a floating charge) are often taken up by insurance companies, investment trusts, pension funds, and private individuals, and bodies such as ICFC. Cover for debentures is often expected by lenders to be at least 250% for principal and 400% for interest.

Another limit to borrowing is often found in a company's articles or bylaws, where it may be provided, for example, that loan capital may not exceed 150% of share capital and group reserves. Loans are often raised on the security of a mortgage on the borrower's real estate. Another way

that a profitable company may use its real estate to raise capital is by a sale-and-lease-back agreement, whereby the property is sold to the financier, who leases it back to the borrower.

A company with a wide equity capital base may be able to issue unsecured loan stock, but the interest rate will necessarily be higher than for a secured issue. Large companies may be able to raise loan capital on the Stock Exchange, even if their share capital is not listed. Debentures and unsecured loans are often issued with conversion rights into equity shares, the coupon being lower than for unconvertibles.

Large and well-established companies may be able to borrow foreign currencies from the Eurocurrency markets in which London is a leading centre. These markets developed in the 1950s, initially from the availability of dollars in accounts maintained in European banks; their interest rates depend on supply and demand and are not directly affected by credit conditions in any one country.

Building societies are a major source of finance for private homes, but rarely provide funds for commercial or industrial purposes.

Borrowing by foreign-owned enterprises is subject to the exchange control restrictions described later.

Share Capital. Share capital can be subscribed privately by means of a placing, whereby a stockbroker or merchant banker arranges for a limited number of clients such as insurance companies and investment trusts to take up shares.

In another form of placing, shares can be introduced to the Stock Exchange. Alternatively, ICFC and its associates or other venture capitalists or the NEB can hold shares. Sometimes these investors will require preferential rights for the shares for which they subscribe. An institution prepared to hold equity-type securities for longer periods is Equity Capital for Industry Ltd., which is owned principally by insurance companies, pension funds, and investment trusts. Issuing share capital not only raises capital immediately but broadens the issuer's credit base so that it can then borrow further.

Export-Import Finance. Finance for foreign trade can be arranged through banks or specialist organisations. Almost invariably, exporters require credit insurance to be carried against political and exchange risks as well as commercial ones. The only organisation in Britain that insures against all three is a government body, the Export Credits Guarantee Department (ECGD). The exporter may negotiate a specific or a general

cover, but he must retain some interest in the debt concerned and the maximum guaranteed rarely exceeds 95% of the gross invoice value. Private credit insurance companies are usually prepared to insure commercial risks. When contracts are backed by ECGD guarantees, banks often provide finance at lower interest rates than for normal advances. Exports must sometimes be financed in foreign currencies. A merchant or clearing banker or specialist institution should be asked to advise on this complex subject.

The Stock Exchange

The stock exchanges of the United Kingdom and the Republic of Ireland were amalgamated in 1973; thus, standard rules apply throughout the British Isles. Stock market practices are closely controlled by the Council of the Stock Exchange, and although demands for the creation of a statutory regulatory body are made from time to time, there is no equivalent of the Securities and Exchange Commission of the USA. The main trading centre of the United Stock Exchange is in London, but there are others in Belfast, Birmingham, Edinburgh, Glasgow, Liverpool, Manchester, and York, and in Dublin and Cork in the Irish Republic. Nearly 9,000 securities are listed, with a total market value of about £300 billion. An over-the-counter market has recently been established in London, but is insignificant compared with the official stock exchange.

Listing Requirements. Various regulations must be complied with before a company can be listed (quoted) on the Stock Exchange, including the following:

1. The company must have a minimum market value of £500,000.
2. The security to be listed must have a minimum market value of £200,000.
3. At least 25% (until recently 35%) of the class of equity capital concerned must normally be available to the general public (less for fixed-income securities).
4. Detailed information concerning the company, together with accountants' reports, must be made public.

The company must undertake to make available promptly all information necessary to enable shareholders and the Stock Exchange to evaluate its results and its financial position. Half-yearly interim reports are required, and information additional to that required by law must be disclosed in annual financial statements, such as a geographical analysis of turnover and trading results. Regulations relating to takeovers and mergers are set out in the 'City Code' (see Chapter 3). Such transactions are often contested and are not subject to prearranged deals as they may be in other countries.

Merchant banks and other institutions known as 'issuing houses' normally cooperate with stockbrokers in floating new issues on the Stock Exchange, whether by 'rights issue' (that is, a cash issue that must be offered first to existing shareholders on advantageous terms), by an initial issue to the public by the company itself, or by 'offer for sale' whereby the issuing house acquires all the new securities and undertakes to sell them to the public. Where a company making the issue has no securities already listed, a full prospectus is required, whereas in other cases slightly less information is expected because the company is already known to the investing public. The prospectus must be published, usually in at least two London daily newspapers. The timing of all capital issues of £3 million and over must be approved by the Bank of England. The cost of 'going public' by obtaining a stock exchange quotation is high — it could easily reach £100,000 for even a medium-sized company.

Prospectuses. The contents of a prospectus are set out in the Companies Act 1948, amplified by Stock Exchange requirements. The prospectus must provide detailed information about the company, its activities and products, capital, subsidiaries, directors, and promoters.

The company's balance sheets and profit and loss accounts for the last five years must be published, together with similar information concerning any business being acquired, and a statement of trading and financial prospects and profit forecasts must be given. Details must also be provided of contingent liabilities, tax indemnities given by vendors, and material contracts entered into.

The prospectus must contain a report by independent accountants (usually the auditors) on the balance sheet and profits or losses for the last five years. If a company has subsidiaries, the report must cover the whole group; and if another company or business is being acquired, this must also be reported on. The assumptions from which profit forecasts stated in any prospectus are derived must be disclosed by the directors and reported on by the issuing house concerned, and the accounting bases and calculations for the forecasts must be reported on by the independent accountants.

With certain exceptions, foreign companies seeking quotations on the Stock Exchange must comply with all these rules and must provide certain further information such as copies of constitution documents. Foreign accountants may act as reporting accountants for prospectus purposes if the Stock Exchange is satisfied that they have adequate understanding of UK accounting, auditing and reporting requirements.

Investment Factors

CURRENCY AND EXCHANGE CONTROLS

Currency

The monetary unit is the pound sterling (£), which is divided into 100 'new' pence (p).

Denominations in circulation are:

Notes—£1, 5, 10, and 20

Coins—½, 1, 2, 5, 10, and 50p

The Bank of England (called 'the Bank' in the rest of this chapter) is the principal bank note issuer for the whole country.

Exchange Markets and Controls

Rates for spot (cash) and forward transactions in foreign currencies are quoted daily in the financial press. International payments must be made through institutions authorised by the Bank, to which reference must be made on any matter not delegated under the Bank's general authority.

In June 1972, sterling was withdrawn from the arrangement whereby the exchange rates of some EEC and other countries' currencies were linked together (the 'snake') and since then has been allowed to float in the foreign exchange market. Convertibility into other currencies is subject to various restrictions, and exchange controls are more stringent than in most other countries. The relaxation of exchange controls planned when the United Kingdom joined the EEC has had to be deferred because of the recession of the mid-seventies, although in September 1977 some commentators were expecting that controls on outward investment would be eased following the improvements in the United Kingdom's balance of payments position. The law is set out in the Exchange Control Act of 1947, which is administered by the Bank on behalf of the Treasury. This Act is supplemented by a series of 'EC' notices produced by the Bank.

For exchange control purposes, the world is divided into:

The Scheduled Territories:

—At present the United Kingdom (which, for exchange control purposes, includes the Channel Islands and the Isle of Man), the Irish Republic, and Gibraltar.

The External Account Area:

—The EEC.

—The Overseas Sterling Area ('OSA'—principally the British Com-

monwealth nations (except Canada), South Africa, Pakistan, several of the smaller Arab states, and Iceland).

—All other countries ('RNST' or 'rest of the nonscheduled territories'). Specially restrictive rules apply to Rhodesia.

The Irish Republic and Gibraltar have exchange controls similar to those of the United Kingdom. In general, no restrictions are imposed on transactions between the United Kingdom and the other Scheduled Territories.

Thus, exchange controls apply mainly to transactions with residents of the External Account Area and are at present largely confined to capital items. Current account transactions are normally unrestricted, but are supervised in that they must be carried out through authorised banks.

Regulations are subject to revision at short notice, although the Bank invariably honours commitments already entered into.

Definition of 'Resident'

A company incorporated and operating in the United Kingdom is regarded for exchange control purposes as resident there, regardless of the residential status of its shareholders and managers. Exceptionally, a British company may by permission of the Bank, be designated nonresident for exchange control purposes if it is owned and managed from abroad and if it operates wholly abroad. A branch of a nonresident enterprise is normally regarded as resident in Britain, and so is a partnership operating in Britain wherever the partners may be resident. An individual normally living in Britain is regarded as resident there, while trustees of wills or settlements are usually treated (when acting in their capacity as trustees) as residents of the country in which the deceased person or settlor was resident. Foreign individuals who live (or intend to live) in Britain for more than three years are designated as residents to whom British exchange control regulations apply subject to relaxations described later, although foreigners working for nonresident employers may in certain circumstances be allowed to retain their nonresident status.

Individuals leaving the United Kingdom remain 'resident' for exchange control purposes unless they have completed emigration or repatriation procedure as described later.

Bank Accounts

Sterling Accounts. Sterling accounts may be 'resident' or 'external.'

Resident accounts are the accounts of United Kingdom residents, and external accounts are the accounts of nonresidents.

There is normally no restriction on crediting funds to a resident account, but consent is required to make any payment to a nonresident out of such an account. In the case of external accounts, the situation is reversed, and there are restrictions on credits to an external account from resident sources, while payments may be made from such an account, usually without restriction, and the balance may be freely converted into foreign currencies.

Foreign Currency Accounts. Authorised banks may freely open and operate foreign currency accounts for nonresidents. British residents require permission to open a foreign currency account, whether with a British or a foreign bank. This will be given only where there is clearly a need for such an account and its use will be closely restricted to the required purpose.

Controls over Inward Direct Investment

Consent of the Bank is required for all direct investments in the United Kingdom from outside the Scheduled Territories and also for all transfers that result in the loss of control of United Kingdom companies by United Kingdom residents, including transfers to residents of the other Scheduled Territories.

Definition of Direct Investment. Direct investment is not defined by law, but includes the provision of share or loan capital to companies where the investor is to participate in management and operation or has other commercial links, and long-term finance to branches. The investment may be in the form of cash, plant or inventory, or the introduction of know-how or other rights. The purchase of an interest in an existing entity, as well as the formation of a new one, counts as a direct investment.

Obtaining Bank of England Approval. Before investing in a British enterprise, a foreign resident must obtain Bank consent.

An application should be made to the Bank through a banker, solicitor, or accountant in the United Kingdom, who will be in a position to advise on the precise information required. Applications should contain at least the following information:

1. The investor's name, address, country of normal residence, and business.
2. The name of the British enterprise and details of its activities.

3. Details of the capital and proprietors of the British enterprise, distinguishing between residents and nonresidents.
4. Details of the proposed investment, including the securities to be acquired, the percentage equity interest to be held by the nonresident, and the amount of any loan finance to be provided from nonresident sources.
5. If shares in an existing British company are being purchased, evidence that the price is fair and, where appropriate, that the requirements of the 'City Code' (pages 55-56) have been met.
6. The extent to which working capital requirements will be met from resident and nonresident sources. If loan capital is to be introduced from abroad, approval in principle should be obtained for its eventual repayment.
7. The extent to which nonresidents will play an active part in management and operation.

The Bank may take several weeks to consider an application.

Acquisition of Share Capital. The Bank normally requires the investment to be made in foreign currency or external sterling. Alternative methods are permitted where appropriate, such as the capitalisation of a debt due to a nonresident.

However, if the investment is to be financed by the provision of plant or inventory, any necessary import licences must have been obtained; and, if by the provision of patent or similar rights, the Bank must be satisfied on the value placed on such rights. If an exchange of shares between resident and nonresident companies is authorised, the British recipients would normally be expected to sell the shares they receive or borrow foreign currency or purchase investment currency against those shares and convert the proceeds into sterling at the official rate.

Shares in one resident company may be freely issued to, or purchased by, another resident company, even if that other is controlled by nonresidents, although it is considered good practice to notify the Bank of such a transaction. Different considerations, however, apply to borrowings.

Borrowing Restrictions. All borrowings by companies or branches controlled by nonresidents require Bank consent whether the control is direct or indirect.

External Borrowing. Borrowing is permitted in foreign currency or external sterling. The loan may not normally be repaid for at least two

years (longer in some cases), although this rule may be relaxed in respect of borrowings by a resident United Kingdom company from its foreign subsidiaries.

Sterling Borrowing. The rules vary, depending mainly on the country of residence of the controlling investor and the reason for the borrowing. Since consent is required whether control of the British borrowing company is exercised by nonresidents directly or indirectly, the Bank is entitled to look at ultimate, and not merely immediate, control. If immediate control is exercised merely by a nontrading intermediate holding company, the country of residence of the ultimate controlling persons is the relevant factor. If immediate control is exercised by a company which itself carries on a trade, the Bank may consider the country of residence of that company to be the relevant factor, even though that company is itself controlled by residents of another country.

Sterling borrowing by a company controlled by residents of the EEC countries (including the United Kingdom) or the OSA, or from these two areas together, is normally freely permitted, subject to the completion of a declaration of ownership.

Sterling borrowing by a company controlled by residents of the RNST is subject to stricter control. Net fixed assets must normally be financed from nonresident sources in proportion to nonresident interests. If an investment in a manufacturing company promises substantial benefits to the United Kingdom economy, the Bank may allow sterling borrowing up to 30% of the nonresident share of fixed assets. For example, a company 60% controlled from Saudi Arabia and 40% from the United Kingdom could finance 58% (40% plus 30% of 60%) of its fixed asset costs in sterling. The proportion may be increased to 100% for expenditure on new fixed assets in the Assisted Areas. Provided such fixed asset finance is maintained, manufacturing companies may freely borrow sterling for working capital purposes, but financial and service companies depend for permission on the extent to which their operations benefit the British economy. From November 1977, manufacturing or importing companies will normally be able to borrow sterling without restrictions.

Sterling borrowing by a portfolio investment company (including real estate investment) is normally allowed only in proportion to the resident interest in its equity.

Real Estate. Nonresidents may acquire land or buildings in the United Kingdom for commercial, industrial, or residential purposes. An authorised bank may lend up to £25,000 for personal residential

purposes, without reference to the Bank, provided that repayment is to be made from sale proceeds or from external account funds.

Controls over Inward Portfolio Investment

Portfolio investments are those made to obtain dividend income or capital appreciation, where there is no intention of obtaining control or participating in management. Nonresidents may acquire quoted sterling securities for portfolio investment up to 10% of voting control without restriction, except that the transaction must be effected through an authorised depositary (for example, a bank, stockbroker or solicitor), and that purchases must be paid for from external sources. Investment by nonresidents in unquoted sterling securities requires specific Bank consent.

Repatriation Provisions Concerning Inward Investment

Direct Investments. Capital invested by nonresidents may normally be repatriated at any time, provided that consent was obtained when the investment was made. Companies or branches controlled by nonresidents must obtain specific permission from the Bank to make capital repayments to their nonresident proprietors, but this is given if full provision has been made for United Kingdom liabilities. The transfer of unquoted sterling securities from nonresidents to residents also requires Bank consent.

The Bank will normally authorise the remittance of dividends or profits to nonresident proprietors provided that they represent true earnings or investment income and proper provision has been made for United Kingdom taxes.

Loans from external sources may normally be repaid after the minimum period mentioned earlier. Payment of interest on such loans is normally approved provided that the rate is reasonable.

Portfolio Investments. Interest, dividends, and sale proceeds arising from portfolio investments acquired in the approved way may be repatriated freely.

Real Estate. The proceeds of the sale of a family home by a nonresident to a resident at fair market value may be freely credited to a foreign currency or external account up to £50,000, although larger sums must be approved by the Bank. The seller must have purchased the property from external sources and have repaid any related sterling loan.

Investment Factors

Controls over Outward Direct Investment

Commercial and Industrial. Permission is required from the Bank for any direct investment by a United Kingdom resident outside the Scheduled Territories. Details of the proposed investment, indicating its nature and extent and the advantages to the United Kingdom's balance of payments expected from it, must be submitted, normally through the applicant's bankers or professional advisers. Any restrictions imposed relate primarily to the method of financing such investments. Projects are divided into:

1. Those that directly promote exports from the United Kingdom and promise additional benefits to the country's balance of payments at least equalling the total cost of the investment within eighteen months*, and continuing thereafter ('super-criterion' projects).
2. Other projects that promise additional balance of payments benefits.

Super-criterion projects may be financed by the purchase of foreign currency at official exchange rates up to £250,000* or 50% of the total cost of the investment, whichever is the greater. Any balance, and the whole cost in the case of other projects, may be financed by:

1. Purchasing foreign currency at a premium in the investment currency market as described later.
2. Borrowing foreign currency.
3. Issuing or transferring shares to nonresidents on appropriate terms; for example, the shares must be fairly valued.
4. Exporting (free of payment or by capitalising current account indebtedness) of capital equipment or inventories of British manufacture.
5. Capitalising an overseas subsidiary's current account indebtedness not arising from British-manufactured exports. However, since this is equivalent to the use of currency at official exchange rates, the investor would normally be required to borrow foreign currency or purchase investment currency and convert the proceeds into sterling at the official rate.
6. Using funds which, after required profit repatriations, are surplus to local requirements.

Where a British investor is required to guarantee local borrowing by a nonresident entity, implementation of the guarantee is normally allowed on the same terms as for a new investment. The guarantee should be in proportion to the British interest in the nonresident entity.

*Three years and £500,000 for investments in EEC countries after January 1, 1978.

Foreign currency borrowings to finance outward direct investments may be repaid from the liquidation or sales proceeds of the investment, with investment currency or with the proceeds of fresh foreign currency borrowing. If, however, it can be shown that the United Kingdom's currency reserves have benefited as a result of the investment, the borrowing may be repaid from foreign currency purchased at official exchange rates to the extent of that benefit.

Real Estate. United Kingdom residents must obtain permission from the Bank before purchasing real estate for personal use outside the Scheduled Territories. Approval is limited to one property per family, and payment must be made in investment currency, although the Bank may allow purchases by residents temporarily employed in other EEC countries to be made with foreign currency purchased at official exchange rates.

Controls over Outward Portfolio Investment

Dealings in foreign currency securities by residents must be effected through authorised depositaries and are permitted only in securities that are quoted on a recognised stock exchange or are expected to be so quoted within two years. Payment for such securities must be made with investment currency or, if purchased in the United Kingdom, with sterling at a price that includes the investment currency premium. The Bank may authorise professional managers of securities to borrow foreign currency to finance portfolio investment in foreign currency securities; any such borrowing must be covered by securities ('the loan portfolio') or investment currency, to the extent usually of 115% of the borrowed sum. There are some relaxations for investment in certain EEC institutions.

United Kingdom residents are not usually allowed to purchase foreign currency at official exchange rates for investing in foreign securities or real estate. However, there is a pool of foreign currency known as 'investment currency' which originates mainly from the sale of foreign currency securities owned by United Kingdom residents that may be used for this purpose. This pool is limited, and currency can be purchased from it only at a large premium over the official rates of exchange. This is called the 'investment currency premium'; it fluctuates from day to day according to the demand for investment currency. At the end of September 1977, the premium was about 27¾%, although in the past it has sometimes been higher. It will probably be abolished at some time in the future. Investment currency may be bought or sold only by residents of the Scheduled Territories.

Investment Factors

Repatriation Provisions Concerning Outward Investment

Direct Investments. Requirements vary, but as a general rule, a foreign subsidiary of a United Kingdom company is normally expected to repatriate not less than two-thirds of its earnings attributable to the United Kingdom shareholding, after providing for local taxes. Where a company has several foreign subsidiaries, their net earnings may be grouped for this purpose. A branch, on the other hand, is expected to repatriate the whole of its net earnings. Amounts due to a United Kingdom resident for loan interest, royalties, licence fees, or commissions must be collected without delay and converted at official exchange rates.

United Kingdom residents may dispose of their direct investments with the Bank's permission. The proceeds must normally be repatriated and are not eligible for sale in the investment currency market, although reinvestment as part of a reorganisation scheme may be permitted subject to various conditions.

Portfolio Investments. A United Kingdom resident who sells foreign currency securities acquired with investment currency may normally reinvest 75% of the foreign currency proceeds or sell it as investment currency, but must sell the remaining 25% to an authorised bank at official exchange rates. Where such proceeds are in sterling, currency equal to 25% of the sale proceeds must be purchased in the investment currency market and immediately sold at the official exchange rate. As a result, United Kingdom residents forfeit 25% of any investment currency premiums they receive from sales of their foreign currency securities. Sales of securities acquired out of permitted foreign currency borrowings are exempt from the 25% rule, although the ultimate repatriation of any surplus after repayment of the borrowings is not. This 25% surrender rule was abolished as of January 1, 1978.

Real Estate. The foreign currency proceeds of the sale of real estate (acquired with investment currency) to a nonresident may, upon application to the Bank, be treated as investment currency.

Imports and Exports

The Department of Trade exercises control over goods imported into the United Kingdom through import licences. Most goods are covered by 'open general licences,' and exchange control authority to pay for imported goods follows automatically from the right to import. Normally, however, payment cannot precede the arrival of the goods. The documents the paying bank will require to see are usually the supplier's invoice, the import licence (where goods are not covered by open general

licence) and the exchange control copy of the customs entry documents.

Most goods may be exported freely, provided that payment is made from external sources within six months from the date of exportation (unless longer periods of credit have been approved).

Other Transfers. All payments by residents to or on behalf of nonresidents require permission, but authorised banks can approve certain payments without reference to the Bank.

In every case, documentary evidence of the amount to be paid must be provided, together with a Sterling Transfer Form or Form E (for transfers to external sterling accounts and foreign currency accounts, respectively). Some examples of the payments covered by this rule, together with the limit of the authorised banks' authority, are:

Nature of Payment	Up to (£)
Charges for professional and technical services	50,000
Royalties and licence fees	50,000
Service charges to parent companies	50,000
Advertising expenditure	50,000
Reimbursement to parent companies of incidental expenses	1,000
Subscriptions to trade organisations or professional bodies	10,000
Annual directors' fees, salaries and pensions	10,000
Travel expenses per journey — personal	500
— business	3,000

The examples indicate only the general nature of the payments allowed. Specific items may require prior Bank authority.

Residents may borrow foreign currencies or external sterling and lend sterling to nonresidents only with permission from the Bank, although authorised banks may provide currency finance for exports. Credits by a resident to a nonresident's account in his own books also require permission.

Emigration from the United Kingdom

Emigrants may take abroad up to £40,000 per family unit on emigration to an OSA country (up to £80,000 to EEC countries as of January 1, 1978) or £5,000 in other cases, in addition to household goods, automobiles, normal travel allowances, foreign currency securities, and certain other items. Any further assets are restricted for four years and must be held by an authorised depositary. Income from restricted assets may be freely transferred abroad, and such assets may be used as security for foreign

investment currency borrowing. These rules may be relaxed for emigrants taking up employment in another EEC country, and for emigrants of retirement age.

A resident United Kingdom company may be designated nonresident for exchange control purposes only by specific direction from the Bank, and this is given only in exceptional circumstances. Residential status for exchange control purposes may be different from that for other purposes such as taxation, and it is quite possible for a British company to be nonresident for taxation purposes but resident for exchange control.

Foreign Nationals' Funds

A nonresident working in the United Kingdom may freely remit abroad all his United Kingdom earnings net of taxes and social security contributions.

A foreign national who becomes resident in the United Kingdom for exchange control purposes may apply to the Bank for exemption from some of the regulations that normally apply to British residents. For example, he may be permitted to retain foreign currency and foreign currency securities held at the time he became resident, while British residents must normally convert all currency into sterling and must deposit all foreign securities with authorised depositaries. Resident foreign nationals may make remittances abroad, within certain limits, to support nonresident dependants.

When a resident foreign national leaves the United Kingdom to take up residence in any country outside the Scheduled Territories, he will normally be allowed to transfer all of his capital abroad upon completion of repatriation formalities.

CHAPTER III

Trade and Commerce

- FOREIGN TRADE
- MARKETING PRACTICES
- PATENTS, TRADEMARKS, AND COPYRIGHTS
- GENERAL REGULATION OF BUSINESS

FOREIGN TRADE

Foreign trade is vital to the United Kingdom. The government's attitude towards trade is liberal, and there are few restrictions on imports; to encourage exports, the government makes available to companies established in Britain a wide range of export promotion services through the British Overseas Trade Board. Related activities such as shipping, insurance, finance, and banking are of great importance to the economy and serve not only British trade but direct trade with other countries. London's commodity markets set world prices in many cases, the Baltic Exchange in the City is a major centre for shipping and air-chartering, and Lloyds of London is known throughout the world for its international insurance services.

Licences and Quantitative Controls

Quota restrictions rarely apply to industrial imports into the United Kingdom, although they have sometimes been introduced in particular cases, such as textiles from Taiwan, subject to a quota system under an EEC regulation in 1975. Apart from such limited restrictions and special rules applying to Rhodesia, controls relate mainly to gold coins, arms, ammunition, and radioactive materials, although powers exist to prevent unfair 'dumping' of imports. Some agricultural goods are also controlled and may be imported only under licence from the Intervention Board for Agricultural Produce; other restrictions are applied on noneconomic grounds such as health and safety.

Although imports require licences issued by the Department of Trade, the 'Open General Licence' system means in practice that the great majority of goods can be freely imported.

Exports are almost wholly free from restrictions (except to Rhodesia), and licences are required only for a few items such as military equipment, scarce materials, diamonds, antiques and works of art, and live animals. Agricultural products exported outside the EEC require special licences from the Intervention Board for Agricultural Produce.

Marking and labelling rules are complex. While many products may be imported without special marks to indicate their origin, others may not,

especially if they additionally bear some words or trademarks that might suggest they were made in Britain. Retail packages must state their weight or volume; during the transition to metric measurements, both metric and imperial units must be shown.

Customs Duties

As a member of the EEC, the United Kingdom is part of a customs union of nine countries. All protective duties have been abolished in trade between these nine countries (except that duties on a few horticultural products remain until December 31, 1977), and a common customs tariff (CCT) has been established for goods imported from outside the EEC. In addition, harmonised rules exist throughout the EEC on many customs duty matters such as preferences, documentation, valuation, and origin.

The Customs Cooperation Council Nomenclature (formerly known as the Brussels Nomenclature) is used to classify merchandise, and almost all duties are ad valorem. Most raw materials enter duty-free or at a rate seldom in excess of 3% (metals sometimes higher). Rates for semi-finished goods range from 2% to 15% and for finished products from 4% to 24%. Illustrations of specific rates are: commercial vehicles, generally 22%; organic chemicals, up to 19%; plastics, 8-18.4%; and diesel engines, up to 12%. The CCT rates for agricultural products vary among commodities. Ad valorem import duties are levied on the basis of a normal price; that is, the price which the imported goods would fetch for home use on an arm's-length sale in the open market at the time of entry for customs purposes. It is a prerequisite of such a normal price that the seller bears all costs incidental to the sale and delivery to the buyer at the place of introduction into the EEC's customs territory, but excluding any duties or taxes chargeable within the EEC such as value added taxes. When goods are imported under a sale contract, their value for ad valorem duty purposes is generally based on the contract price, provided that price corresponds to an arm's-length open market price adjusted as necessary to take account of any circumstances different from those already noted, and also provided that the contract is made not more than a specified time before the goods enter the customs territory.

Where the importer and supplier are associated in business with one another, the price paid or payable may not be acceptable for duty purposes. In such cases, duty may be based on the importer's selling price to independent customers, as that price may provide the most readily available evidence of the open market value of the goods. Depending on the circumstances, however, a deduction from the importer's selling price may be allowable for duty purposes to take account of the post importation expenses to be borne by him and the profit margin he would expect if he were completely independent of his supplier.

The Customs authorities may grant relief from import duties for goods that are to be reexported out of the EEC area after processing or repair. Processing can range from simple manipulation or repacking to complex manufacturing activities. Duties may be suspended, the importer giving a bond as security, or deposited on importation and reimbursed on submission of proof of exportation. Application must be made for this relief before the goods concerned are imported. Relief may also be granted for goods imported temporarily for other purposes. Catalogues and noncommercial samples may usually be imported without duty. Samples with commercial value or goods for exhibition may be imported on provision of returnable deposits or guarantees either to British customs authorities or to an approved body (e.g., a chamber of commerce) in the exporting country by use of an international customs clearance document known as an ATA Carnet. Simplified customs procedures at EEC national frontiers apply to goods moving under the Community Transit procedures described on the next page. Goods may be moved into and out of the EEC in vehicles accompanied by a TIR Carnet under the International Road Transport Convention.

The standard CCT applies only to comparatively few countries, as the EEC's trade arrangements with many countries provide duty-free entry or entry at reduced duties for most products imported into the Community. There are agreements with the EFTA countries (Austria, Finland, Iceland, Norway, Portugal, Sweden, and Switzerland), a number of Mediterranean countries, and 50 developing African, Caribbean, and Pacific (ACP) territories, including many Commonwealth countries. In addition, a wide range of goods may also be imported free of duty or at reduced rates from the developing countries under the EEC's Generalised Tariff Preference Scheme (GSP). Many imports enter the United Kingdom, therefore, on preferential terms.

Moreover, exports from the United Kingdom can reach, duty-free, a large market consisting not only of Britain's Common Market partners but, by virtue of EEC trade agreements, the EFTA countries also. Furthermore, preferential terms are given by Greece, Spain, Turkey, Malta, Cyprus, and Israel as well. Exports to other countries are accorded 'most favoured nation treatment.' Greece, Portugal, and Spain have applied for full EEC membership; it is possible that other countries will make similar applications. No duties are levied by the United Kingdom on exports of its industrial products.

Since customs duties and related matters may be of prime importance to foreign enterprises, and as regulations are complex, professional assistance should be secured or local customs officers contacted at an early stage, especially by enterprises outside the EEC.

Other Duties and Taxes

All imports into the United Kingdom, whether from EEC countries or not, are liable to value added tax (VAT) at the same rates as those imposed on domestic goods (see Chapter 8).

Excise duties are imposed on home-produced and imported wines and spirits, beer, tobacco, and hydrocarbon oils including fuel oils, petroleum (gasoline), and paraffin.

Exports are 'zero-rated' for VAT purposes and are free of excise duties.

Certain agricultural products and foodstuffs are subject to compensatory payments or levies, in accordance with the EEC's Common Agricultural Policy.

Documentation

The reporting of imports to the customs authorities and the payment of any duties are termed 'entering.' Goods should be entered within 14 days of arrival; if within three months they are not entered, they may be sold by public auction. A transshipment bond must be filed instead of an entry where goods are destined for reshipment abroad.

In trade between the nine EEC countries, goods must be accompanied by Community Transit (CT) documents, as well as by normal commercial invoices, to obtain the benefit of preferential entry. The CT documents required are either a T form, to be used if goods are to travel across more than one internal frontier in the EEC, or a CT Movement Certificate in other cases. CT documents must by completed by the exporter or his agent and normally have to be certified by Customs officials on departure. Broadly, goods are entitled to entry free of import duty into other EEC countries if they originate or are made in any one of them, or have import charges paid on them or on their components and are accompanied by an appropriate CT document. CT documents may also be used for the transit of goods through Austria and Switzerland, but they do not confer any entitlement to preferential treatment in those countries.

In trade with the rest of the world, certificates of origin are often required. These are usually issued by chambers of commerce in the exporting country from evidence produced by the exporter. For goods originating from the EFTA countries, the 50 ACP countries, Spain and elsewhere, various origin rules apply; special forms (usually EUR1, except for GSP goods) must be endorsed by customs in the exporting country and produced to the British customs authorities to obtain preferential duty

concessions. The supplier's invoice, which should accompany the goods, should give all the details necessary to establish value for customs purposes.

Invoices for exports from the United Kingdom may be prepared in any freely convertible currency.

Distribution Facilities

The United Kingdom has no free trade ports or zones. There are, however, some 4,000 approved bonded warehouses where goods can be stored free of customs duty until they are released into the country or reexported. Frequently, these bonded warehouses have repacking facilities.

MARKETING PRACTICES

Advertising and Promotion

Newspapers, technical journals and periodicals are the media most used for advertising purposes. In Britain, the major newspapers and periodicals are read throughout the country, and several have circulations of four million or more. Other advertising methods include films, direct mailings, and posters and illuminated signs. The British Broadcasting Corporation (BBC) does not permit advertising on either radio or television services, but the Independent Broadcasting Authority (IBA), which controls the commercial television services, does. Advertisements are run at fixed intervals, but advertisers cannot present their own programmes. Commercial television reaches 94% of the population, and local commercial radio stations, popular particularly with younger people, can be received in a majority of British homes. Cigarettes and gambling may not be advertised on television or radio.

Most advertising is handled by agencies that often provide marketing, consumer research, and public relations services. The Advertising Standards Authority, an independent body, has produced a British Code of Advertising Practice to promote ethical practices.

Trade fairs are held each year in London and several other large cities, and there is a National Exhibition Centre in Birmingham. These fairs are widely supported by British and foreign companies.

Selling and Distribution Methods

The United Kingdom can be treated as a single market for most products

as, despite regional customs and tastes, buying attitudes are reasonably uniform. Distances between ports and major population centres are mostly short, and transportation is quick and easy.

London is the largest distributing centre and the headquarters of many agents and importers, but a full range of services is available at all the main ports.

Many foreign suppliers appoint agents; this is the usual way of entering the British market although the larger distributors such as chain and department stores prefer to buy directly from manufacturers. As in other countries, the pattern of distribution is changing; there are now fewer but larger wholesale and retail outlets, and many independent retailers have joined bulk-purchasing associations. Franchising is a distribution technique that is frequently used. Other growing forms of distribution are out-of-town shopping centres, discount stores and mail-order trading.

Agencies. One agent is often appointed at first to cover the whole country, although later other agents may be appointed in particular areas. Some import and sell as principals, but many are commission agents. Agency agreements drafted by solicitors are always advisable; these agreements will invariably be governed by appropriate British law. Care must be taken not to contravene EEC law dealing with agreements likely to prevent, restrict or distort competition within the Common Market as described later in this chapter. Banks, embassies, and chambers of commerce often maintain lists of possible agents and customers.

Alternatives. As an alternative to the use of a British agent as a distributor, a foreign company may decide to use its own salesmen. The formalities to be observed if foreigners are so employed are described in Chapter 4. Other companies may set up fully staffed branches or subsidiaries to manufacture or sell in the United Kingdom. The customs duty implications of such actions are indicated earlier in this chapter and registration requirements in Chapter 2. Tax implications for British subsidiaries and branches are described in Chapter 8 and formation procedures in Chapter 6. Other methods of trading with, as opposed to in, the United Kingdom include licensing and reciprocal trading agreements.

Literature and Invoices. Correspondence and trade literature in English are advisable, even though some business houses are used to dealing with foreign languages.

Sales literature and operating instructions designed for the general public must always be in English, and the translations should be checked and corrected in Britain. Metric as well as imperial measurements, and British sizes, should always be given. Prices should be quoted in pounds sterling CIF a British port, and it is always useful to state the Customs Nomenclature class.

Trading Stamps. Trading stamps and other devices such as reduced price offers and competitions may be used as sales incentives. Trading stamps must be redeemed for cash on request, although they are usually exchanged for goods.

Trade Credit Conditions

Credit agencies, trade protection societies and banks may be requested to give references about prospective customers. Information concerning incorporated companies (such as their share capital, directors, shareholders, and mortgages) and copies of their financial statements can be obtained from the files held by the Registrar of Companies.

Credit terms usually range from 8 to 30 days, depending on the type of industry or product; but for large capital goods transactions, 60-180 days' credit is often granted. Small discounts are frequently offered for prompt settlement.

Many credit supply practices are governed by the Consumer Credit Act 1974, which provides protection for consumers against unfair practices and requires the true cost of credit to be disclosed.

A seller may include in his sale contract a provision whereby he retains title to goods sold (or even to proceeds of their sale to a third party) until paid for by the purchaser. This is a comparatively new practice in the United Kingdom although it has for some time been common in some other European countries. Despite the existence of such a provision, a third party purchasing the goods concerned in good faith and without notice of any defect in title would himself obtain good title to them. Much depends on the circumstances of the particular contract; legal advice on such provisions should be obtained.

Credit insurance for domestic and export sales is available, and suppliers may be able to obtain guarantees from their customers' bankers. Solicitors and reputable collection agencies may be used for the collection of outstanding debts.

Trade and Commerce

PATENTS, TRADEMARKS, AND COPYRIGHTS

British law on patents originated as long ago as 1623. Today, the various Acts concerning industrial property rights are administered by the Patent Office in London, which is part of the Department of Trade.

Article 36 of the Treaty of Rome that established the EEC provides that industrial and commercial property rights may not be exercised to restrict trade. For example, a patent licence must not enable the licensee to prevent imports from another EEC member-state or to use different pricing policies in different member-states.

Patents

An application for a patent must be accompanied by a specification and drawings, in duplicate, of the invention concerned. It is usual for an application to be submitted through a patent agent resident in the United Kingdom. All applications are subject to examination for novelty. If the specification is then accepted by the Patent Office, it is published and three months are allowed for any opposition to be reported. If no objections are raised, the patent is then sealed (granted). Initial fees currently total a minimum of £81.

Patents are granted for 16 years, subject to the payment of renewal fees ranging from £40 in the fifth year to £108 in the sixteenth. A patent of addition, on which no renewal fees are payable, may be granted for the unexpired period of a basic patent.

Inventions by an employee within the scope of his employment normally belong to his employer. Licensing is possible, and compulsory licensing may be required if the invention is not put into use within three years. Licensing agreements with foreign firms require Bank of England approval.

The United Kingdom is a signatory to the Paris Union Convention for the Protection of Industrial Property. Consequently, a patent application submitted in any Convention country (most of the industrialised countries of the world and many developing countries) allows the applicant to apply in any other Convention country within a year of his first application and claim a priority date for it. The application in the other Convention country is not invalidated by the publication or use of the invention on or after the priority date or by the grant of another patent for the same invention with a later priority date.

It is likely that a European Patent Convention will come into force in 1978, giving patent protection by means of a single application in any of the 16 European member countries that the applicant chooses to designate. As the European Patent will in general be subject to national laws, it may have different effects in different countries. The European Patent Office will be in Munich, with a searching branch in The Hague. A further Convention, the Community Patents Convention, will allow the applicant to obtain at his option either a European Patent covering EEC countries only or a Community Patent subject to a common system of law and thus having uniform effect throughout the EEC. This Convention is likely to come into force in about 1980. National patent facilities will still be available and will be a more economic proposition for businesses requiring protection in only one or two European countries.

A new Patents Act will come into force in June 1978, introducing several new procedures designed to harmonise British law with the provisions of the European Patent Convention. In particular, a patent issued under the new Act will have a life of 20 years, but patents of addition will no longer be granted.

Trademarks

The Trade Marks Act 1938 is valid throughout the United Kingdom. Trademarks are generally registered for seven years from the date of the original application; registration may be renewed for fourteen-year periods thereafter. Fees range from £30 on registration to £73 for renewal. Marks may be assigned or licensed, subject to certain conditions. If a mark is not used for five years, application may be made for its removal from the register. The United Kingdom is not a signatory to the Madrid International Agreement under which registered marks have protection in several other countries, mainly European. However, to obtain general recognition for a trademark, an individual or business operating in Britain may register it with the International Bureau for the Protection of Industrial Property in Geneva on the basis of a national registration in the United Kingdom, and under the Paris Union Convention a priority period of six months is available. A system whereby trademarks would be valid throughout the EEC has been proposed.

Registration of a business name (see Chapter 2) gives no right to its use, nor protects against duplication, nor guarantees that it would be acceptable as a company name. The prime purpose of registration is to provide a public record of businesses carried on under names other than those of their proprietors.

Trade and Commerce

Copyrights and Designs

The Copyright Act 1956 gives automatic protection to every original literary, dramatic, musical and artistic work. Usually, the originator of the work is the first owner of the copyright; there are no registration rules nor fees to pay. The normal term of copyright is the life of the originator and fifty years thereafter.

Although the Act does not require a work to be labelled in any way, there is nothing to prevent a copyright owner from clearly marking a work with the international '©' symbol followed by his name and the year of first publication, to give notice that copyright is claimed.

As Britain is a party to both the Bern and the Universal Copyright Conventions, a work originating in the United Kingdom is automatically protected in all the other countries that are members of those Conventions. These include all the principal countries of the world except China and some South American states.

The Registered Designs Acts 1949-61 give protection to new industrial designs, normally for five years following registration and for two further five-year periods thereafter. Initial fees vary but are usually £21. Fees for first renewal are £52 and for second £74. Registered designs may be compulsorily licenced if not exploited by their owners. The priority period for designs under the Paris Union Convention is six months.

GENERAL REGULATION OF BUSINESS

Monopolies and Restrictive Practices

Monopolies. Monopolies as such are not illegal, but under the Fair Trading Act 1973, monopolies and mergers may be referred to the Monopolies and Mergers Commission for investigation. If the investigation finds that monopoly conditions are against the public interest, measures can be taken to prevent any harm that might otherwise follow. Thus, a monopoly could be broken up or its activities prohibited.

A monopoly condition is one in which over 25% of the goods or services concerned are provided by a single body (or bodies acting together in restraint of trade), whether to the United Kindgom market or exported therefrom. Sales to a single consumer and arrangements whereby goods or services are excluded from the United Kingdom market are also monopoly conditions.

Mergers. A merger or acquisition may be referred to the Commission if it

creates or intensifies a monopoly condition, especially if the value of the assets taken over exceeds £5 million before deducting liabilities but after provisions for depreciation and the like. Newspaper mergers are subject to special rules.

If the Monopolies and Mergers Commission finds that a merger is or may be against the public interest, the Department of Prices and Consumer Protection may take appropriate action. Prior consultation with the Director General of Fair Trading is therefore advisable to avoid a situation whereby a merger might be prohibited after the expenditure of much time and money by the parties concerned.

Voluntary Regulation of Mergers. In 1968, the City's financial institutions developed a code of principles and practices to be followed by companies in acquisition or merger transactions, whether agreed to or, as often happens, contested. Although this 'City Code' has no statutory force, those who disregard it can be deprived of the City's facilities. It does not, however, apply to the acquisition of private companies nor to deals by companies nonresident for exchange control purposes.

The City Code is in two parts: general principles and rules. The general principles set out approved standards of commercial behaviour in the fair treatment of shareholders in the company to be taken over (offerees) and the conduct of the parties to the transaction. The rules are largely procedures to be followed in specific instances; they are not exhaustive and must always be applied in the spirit of the general principles. The rules are amplified by practice notes issued periodically. The Code's objects, among other things, are:

1. To give offerees full information without delay and with sufficient time to allow them to reach a considered decision.
2. To prevent a false market in the shares of either company as a result of insider dealing or market rumour. Everyone concerned with the offer before publication must treat all information relating to it as secret.
3. To ensure fair and equal treatment of all shareholders of the same class. For example, a general offer to shareholders may not be made on less advantageous terms than any offer, private or in the market, to individual shareholders. When holdings have been built up to certain levels by private purchases, the remaining shareholders must all be made an offer redeemable in cash.
4. To disclose the identity of the offeror and his existing holding in the offeree company.
5. To ensure that offerors publish their intentions about the continuance of the offeree's business and the employment of its existing employees.

6. To ensure that information provided by an offeree company to a preferred offeror is given to any other *bona fide* offeror also, even if less welcome; directors of offeree companies may not frustrate offers (for example, by selling vital assets) without shareholders' consent.
7. To provide for publication of the assumptions on which profit forecasts and asset valuations are based, together with reports thereon by financial advisers and auditors or consultant accountants.

No statutory body equivalent to the Securities and Exchange Commission in the USA exists in Britain. There is no legal requirement that companies should consult their employees or the trade unions concerned when an acquisition or merger is contemplated, except when employees are to be made redundant as a result.

Restrictive Trade Practices. Under the Restrictive Trade Practices Act 1976, a wide range of agreements must be recorded in a public register, the Register of Restrictive Trading Agreements. The agreements concerned are those between enterprises in the United Kingdom affecting the supply of goods or commercial services to the British market; agreements relating only to exports from the United Kingdom need not be registered, although they must be reported to the Director General of Fair Trading and, in many instances, to the EEC Commission as described later. Agreements to be registered include those relating to price fixing, limitation of production, limitation of customers or suppliers, and the exchange of information about prices. Any restrictive agreement not registered is automatically void and unlawful.

Any enterprise with a place of business in Britain or represented by a British agent is considered to be 'carrying on business' there, but parent, subsidiary, and fellow-subsidiary companies are not regarded as separate enterprises.

The Director General of Fair Trading may bring registered agreements before a Restrictive Practices Court, which may prohibit any of them that it finds contrary to the public interest. The parties to an agreement may be fined heavily if they do not obey a court order. Insignificant agreements, and agreements that meet specific conditions in the Acts referred to as 'gateways' (for example, those that do not discourage competition, or produce benefits to others besides only the parties thereto), are unlikely to be prohibited. Furthermore, most exclusive dealership, patent licensing, and know-how agreements are exempt from these rules.

Resale Prices. Minimum resale price fixing concerning goods to be sold in the United Kingdom is in general illegal, and suppliers may not attempt to enforce minimum prices by withholding supplies from a dealer on the grounds that he is selling them for less than a stipulated sum. There is, however, no objection to the publication of maximum or recommended selling prices. Resale price conditions are governed by the Resale Prices Act 1976; classes of goods may be exempted from the provisions of that Act only by the Restrictive Practices Court. The government's controls on prices are described in a later section.

EEC Legislation on Fair Competition

As EEC merger, monopoly, and fair trading laws are developed, British practices will be amended thereby.

One object of the EEC is to establish a single market within which all organisations can offer their goods or services to all consumers without restrictions of any kind. In principle, any acts adversely affecting this object are prohibited, unless the effect is insignificant or is advantageous from an economic or competitive point of view. Examples of prohibited practices are price-fixing, market sharing, production restrictions, or discriminatory terms of supply. The rules apply not only to agreements between enterprises inside the Community but also to agreements by enterprises in EEC countries with those elsewhere if they affect trade within the EEC. There are heavy penalties for noncompliance.

Articles 85 and 86 of the Treaty of Rome concern restrictions on competition and are of considerable importance to manufacturing and trading organisations. Other articles concern discriminatory government incentives and restrictive state monopolies or public undertakings.

Article 85. Paragraph 1 prohibits 'all agreements between undertakings, decisions, and concerted practices that may affect trade between member states and that have as their object or effect the prevention, restriction, or distortion of competition within the Common Market.' 'Agreements' are not defined in the Treaty and may be formal or informal, written, or verbal. Paragraph 2 states that 'any agreements or decisions prohibited by this article shall be automatically void.' Paragraph 3 provides that once an agreement has been reported to the Commission, it may be granted exemption if it meets the stringent conditions set out therein. It is essential that enterprises themselves should apply for either negative clearance or exemption.

Negative clearance will be granted if the Commission is satisfied that there are no grounds under Article 85 (1) for them to take action. Alternatively, if the facts suggest that Article 85 (1) is applicable, the Commission will consider the possibility of granting an exemption under 85 (3). Questions of law may be taken to the European Court of Justice in Luxembourg.

Matters taken into account when deciding whether an agreement limits competition include:

1. The position of the parties in the total market and the nature of the product.
2. Whether the agreement is isolated or one of a series.
3. The severity of the conditions and whether absolute territorial protection is given or, conversely, whether parallel trading or reexport is allowed.
4. The benefits to be obtained from cooperation among enterprises, such as improved production or distribution, or technical or economic progress.

An agreement between a parent company and its subsidiary would not be prohibited as the latter is not an independent enterprise.

There are numerous exceptions to the provisions of Article 85; these are indicated in the following table. This table is only a summary; it is important to obtain legal advice when agreements are being drawn up.

Article 86. This article prohibits abuses by any enterprise in a dominant position within the EEC that may affect trade among member states. For the article to apply, the enterprise must be able to prevent effective competition within an important part of the relevant market; for example, by the creation of a cross-frontier monopoly.

Price Controls

Most goods and services sold within the United Kingdom are subject to statutory price controls as part of the government's measures to limit inflation; among the few exceptions are imported goods, insurance premiums, and real estate rents. The controls, administered by a Price Commission with offices throughout the country, are complex. While the

Summary of agreements, decisions and concerted practices not invalidated by Article 85 of the Treaty of Rome affecting all the countries of the EEC

Agreements that need not be reported	Agreements outside the scope of Article 85	Exempt agreements
These are described in Regulation 17 of 1962 amended by Regulation 2822 of 1971. 1. Those wherein the parties are all from one member state of the EEC and the terms do not relate to trade with other member states. 2. Those wherein only two parties are involved and the agreements are limited to: a. the fixing of selling prices to third parties b. restrictions on the rights of users of patents, 'know-how' and the like to the application of industrial processes. 3. Those that have as their sole object: a. the development of standards b. joint research and development c. specialisation in manufacture, where not more than 15% of the trade in the relevant product in a substantial part of the Common Market is concerned and where the combined annual turnover of the parties does not exceed 200 million UA.*	These are agreements not restricting competition or that, if restrictive, are immaterial. 1. Official Journal of December 24, 1962. Those agreements that, even if exclusive, are between a principal and a commercial agent whereby the agent merely negotiates on behalf of a particular supplier (in his own name or otherwise) without assuming financial responsibility for the goods concerned. 2. Official Journal of June 2, 1970. Those agreements not affecting more than 5% of trade in the relevant products in the Common Market area concerned, and where the parties have combined annual turnover of not more than 15 million UA* (industrial enterprises) or 20 million UA* (other bodies). 3. Official Journal of July 29, 1968. Cooperation agreements whose sole object is, for example: a. exchange of technical or market information b. joint activities such as advertising, debt collecting, or accounting c. shared production, storage, or transport facilities d. shared execution of orders, or shared after-sales service, where the parties are not themselves in competition.	These include individual exemptions under Article 85(3) and those covered by block exemptions already granted as follows: 1. Regulation 2779 of 1972. Those agreements for specialisation of production where not more than 10% of trade in the relevant products in any member state is concerned and where the combined annual turnover of the parties does not exceed 150 million UA.* 2. Regulation 67 of 1967 amended by Regulation 2591 of 1972. Those agreements between not more than two parties in which: a. one undertakes to supply the other exclusively with certain products for resale in certain areas, or b. one undertakes to buy only from the other for the purpose of resale c. both purchase and sale arrangements as above are dealt with. (*Note:* a supplier cannot forbid a distributor to sell to a customer in another area who comes to him with an order.) 3. The Commission has been authorised to grant block exemptions for patent, licence, and related agreements, but has not yet issued regulations.

Note: 'UA' or 'Units of Account,' in the context of the competition rules only, are equivalent to £0.4167.

description that follows deals with the rules in force to July 31, 1977, the government has indicated that controls thereafter will follow the same general pattern.

Prices may be increased only because of increased costs judged to be unavoidable or acceptable for various reasons and are limited in different ways.

'Net profit margin control,' which applies to all businesses except those established recently, limits net profit as a percentage of sales to the average of net profit percentages for various periods before July 31,1976. Some relief is allowed in calculating current net profits for increased costs of inventories and depreciation of fixed assets.

'Gross percentage margin control,' which applies to distributors (both wholesale and retail), provides that gross profit as a percentage of sales may not exceed the gross profit percentage for the financial year ended immediately before April 30, 1973 (or any 12 months within the first two trading years for more recently established businesses), or 90% thereof for larger businesses.

These controls are relaxed to safeguard businesses making losses or unduly low profits and to encourage investment in fixed assets. The Price Commission can recommend the government to order a business to reduce its prices where appropriate, and criminal proceedings may be taken against the business or its officers if an order is not complied with. All except small businesses must register with the Commission. Large businesses usually must report sales and net profits quarterly and notify the Commission of price increases, in many cases 28 days in advance. The Commission has considerable powers to investigate pricing policies and to recommend limits on increases, although decisions are taken by the government's Department of Prices and Consumer Protection.

Chambers of Commerce

These associations of businessmen promote commercial activity of all kinds. They act principally for their own members, but are usually able to help foreign enquirers who wish to do business in Britain. While they are empowered, for instance, to provide guarantees for customs duty purposes, they are not quasi-government bodies as they often are in other European countries.

Insurance Practices

It is usual to arrange insurance cover in the United Kingdom rather than abroad, either by negotiating directly with an insurer or by using the services of an insurance broker. Most British insurance companies undertake all classes of business, but some specialise in life and related matters. The Department of Trade has supervisory powers over insurance companies.

All risks normally insured in other countries can be insured in Britain, and British insurers transact substantial foreign as well as domestic business. Third-party motor insurance cover is compulsory. Employers' liability insurance is, in most cases, compulsory; certificates of insurance must be displayed for employees' information.

Inflation-linked and 'new for old' cover are available for residential real estate and contents, but rarely, if at all, for commercial or industrial assets, although escalator revaluation clauses can sometimes be included in insurance contracts.

Domestic and export credit insurance has already been mentioned.

Environmental, Health, and Other Laws

The Industry Act 1975 applies to large or significant enterprises. It provides for long-term planning agreements between them and the government, gives the government power to restrict transfers of ownership and requires disclosure of information to the government and trade unions on such matters as sales, productive capacity and utilisation, fixed assets, research and development, and employees.

The Alkali Act 1906, Public Health Act 1936, Clean Air Acts 1956 and 1968, and Water Resources Act 1963 are among many environmental protection laws. Other Acts deal with noise, toxic chemicals, and other pollution sources.

The Food and Drugs Act 1955 is concerned with purity and hygiene. Other Acts deal with such matters as descriptions and technical standards. The Trade Descriptions Act 1968 provides that other goods and services must be properly described. Related laws deal with guarantees, unsolicited offers, and credit selling.

Product liability law may be strengthened in line with EEC recom-

mendations; the development of EEC consumer protection and technical standard harmonisation policies may result in further legislation.

Information Required on Business Documents

A British company's order forms and letters must show the address of its registered office and its number and place of registration. Its letters, invoices, and other documents must disclose its name, which in the case of a limited company must include the word 'Limited' (or 'Ltd.') unless, in restricted circumstances, the Department of Trade has agreed otherwise, and, with certain exceptions, the names of its directors and their nationalities unless they are citizens of one of the nine EEC member-states. If a company is 'public' (see Chapter 6), its name after 1978 will have to disclose that fact.

A foreign company with a British branch must disclose on all similar documents its full name, the country in which it is incorporated, information about its directors as stated above (unless exemption is obtained), and whether the liability of its members is limited.

Every place at which a company carries on its business must display its name and, if it is a foreign company, the country of its incorporation; where appropriate, it must state that it has limited liability.

Partnerships or other entities registered under the Business Names Act must show on their business documents the names, any former names, and the nationalities (if not British) of their proprietors.

Information to be printed on all invoices for VAT purposes is listed on page 183.

Real Estate

All commercial sites have adequate supplies of water, electricity and gas, and have access to good road and rail services. Land and buildings (real estate) costs vary considerably and are highest in London and the Southeast. Stamp duty and professional fees can add about 3%-5% to costs.

Following the granting of an industrial or office development certificate, planning permission must be obtained from the local authority (county or regional council) concerned. This is required for the erection of a new building, the considerable modification of an existing building, or for a substantial change of use.

There are two main types of interest in land and buildings in the United Kingdom. Broadly, a 'freehold interest' means outright ownership; the land concerned and any buildings erected thereon are referred to as freehold property (in Scotland, heritable property). A 'leasehold interest' arises when rights to land or buildings pass to another person either for an annual economic rental or in exchange for a capital sum and a much reduced rental. Land and buildings thus acquired are termed leasehold property. For long leases, capital sums are usually paid; the owner of, say, a 999-year lease (apart from liability for a nominal rent known as 'ground rent') is, for all practical purposes, in the same position as the owner of a freehold would be.

In England, Wales, and Northern Ireland, ownership of property and any mortgages thereon are mostly evidenced by registration with the Land Registry Office; it is the duty of the purchaser's solicitor to have the transaction entered in this register. Where for some reason there is not a land registry entry, ownership is evidenced by a series of documents known as 'title deeds.' In these cases, transactions such as partial sales are noted on the latest deed; if the property is mortgaged, the lender usually holds the deeds himself.

In Scotland, title passes by a document called a 'disposition,' but title is not complete until recorded in the Register of Sasines. Additionally, property may be the subject of a binding transfer document (a 'missive') before the record in the Register is made.

Not only real estate law but contract law generally differs in Scotland from the rest of the country, largely because contract law relies heavily on precedent rather than statute.

Warehouse and factory rents in the assisted areas vary from about £4.50 to £9.00 per sq. metre (about 10 sq. feet) per year—less in Northern Ireland—but in the Midlands and Southeast they may be twice as much. Rents for prestige offices in inner London range from £70 to £170 per sq. metre per year. Elsewhere in the Southeast, comparable rents are around £40 to £50 and in the assisted areas as low as £15.

International Trade Organisation Membership

Besides being part of the EEC and its associated communities, Britain is a member of all the main international organisations, such as the Organisation for Economic Cooperation and Development, the International Monetary Fund, the General Agreement on Tariffs and Trade, and the UN Conference on Trade and Development.

CHAPTER IV

Labour Conditions

- **THE LABOUR FORCE**
- **POSITION OF FOREIGN NATIONALS**
- **TERMS AND CONDITIONS OF EMPLOYMENT**
- **FRINGE BENEFITS AND SOCIAL SECURITY**
- **LABOUR-MANAGEMENT RELATIONS**

THE LABOUR FORCE

Availability

The United Kingdom's working population is about 26 million. In Great Britain, it comprises about 46% of the total population and in Northern Ireland rather less.

The decline in old, established industries such as shipbuilding and heavy engineering has led to a surplus of labour, mainly in Scotland and Wales, northeast and northwest England, and Northern Ireland. Unemployment in the United Kingdom as a whole was among the lowest in the world during the 20 years to 1967, although in mid-1977 it reached 1½ million. Before the recession of the mid-seventies, nonemployed married women formed the only substantial reserve of labour.

Recruitment and Training

Government employment offices called 'Jobcentres' (operated in Great Britain by the Employment Service Agency and in Northern Ireland by the Department of Manpower Services) provide a free and comprehensive service for employers needing staff and for prospective employees. Use of this service is voluntary; in addition, there are numerous private agencies. These must be licensed by the Department of Employment and charge a fee for their services, usually to the employer rather than to the employee. Newspaper advertisements are a very popular method of recruitment. Discrimination on grounds of sex, race, or nationality is prohibited by the Sex Discrimination Act 1975 and the Race Relations Act 1976.

Many other services are provided by the Employment Service Agency, including youth employment and occupational guidance schemes, professional and executive registers, and redundant and disabled workers' redeployment schemes. It also sometimes helps workers to move to new jobs. A related government body, the Training Services Agency, provides financial assistance for technical training through industrial training boards, government 'skillcentres,' and specific training schemes, and promotes retraining where skills are no longer in demand.

Employers are required to contribute to the cost of industrial training boards in the industries in which these exist, usually at not more than 1% of payroll, but enterprises with adequate training facilities of their own, and very small firms, are exempt.

POSITION OF FOREIGN NATIONALS

The regulations differ for citizens of various countries.

Documents Required

Everyone coming to the United Kingdom must present a valid passport (or EEC member-state identity card) and in some cases a visa.

EEC Nationals. A national of another EEC member-state may enter the country freely to take work on the same terms and usually subject to the same laws as a British citizen, and his immediate family may join him without restriction. Exceptions are that employment in government service usually remains restricted, and in Northern Ireland permission to work will be required at least until December 31, 1977 because of the high unemployment level there. If the EEC national wishes to remain in the United Kingdom for more than six months, he must apply to the Department of Employment for a residence permit (unless he comes from the Irish Republic). This is valid for up to five years, after which he can live and work permanently in the United Kingdom.

British Commonwealth Citizens. A Commonwealth country national hoping to take employment in Britain must first obtain a work permit for a specific job with a specific employer; the prospective employer must apply for this permit from the Department of Employment (Overseas Labour Section, Ebury Bridge House, Ebury Bridge Road, London SW1W 8PY) so that the prospective employee can present it to the immigration authorities on arrival. The Department often takes at least a month to issue such a permit. Work permits are issued for one year but may be extended for a further three years; after four years, all restrictions are normally lifted. On starting work, the applicant will be given a certificate of employment, and he may then apply to the Home Office for an entry clearance to allow his wife and children to join him. A change of employment must be approved by the Department.

Work permits are not issued for unskilled work, except under quota arrangements for certain domestic, hotel, and hospital employees. Managerial, technical and clerical staff, and skilled craftsmen can usually obtain permits without difficulty, at least in normal economic times. Self-employed persons must obtain entry clearance but do not need work

permits, nor do executives visiting the United Kingdom for meetings and discussions provided that they are not employed by a British company.

Certain types of employment are regarded as 'permit-free'; if the job is to be held for less than twelve months, the only document required is a current entry-clearance certificate, issued by a British diplomatic representative in the applicant's home country. Permit-free employees include representatives of overseas firms that have no branch or subsidiary in the United Kingdom, doctors, and representatives of foreign newspapers. Students are allowed to take work in certain circumstances.

A Commonwealth citizen who can prove that one of his grandparents was born in Britain is exempt from work permit requirements provided that he holds an entry-clearance certificate. Commonwealth trainees are granted permits for the duration of their training, and young Commonwealth citizens who come to Britain for extended holidays of up to five years are allowed to take incidental employment.

Nationals of Other Countries. The same rules as for Commonwealth citizens apply, except for the relaxations described in the last paragraph.

Registration with the police is usually necessary for all visitors, other than Commonwealth and EEC nationals, staying for more than three months; the visitor must produce his passport, work permit, and two passport-size photographs at the local police station, and pay a small fee.

Labour Law and Social Security

Foreigners permitted to work in Britain are subject to the same laws as British citizens except for exchange controls, described in Chapter 2, and taxation, described in Chapter 8. However, social security regulations vary widely.

EEC Nationals. A national of another EEC country who comes to work in Britain for a year or less for his home country employer is not liable for British social security contributions; this concession may be continued beyond one year if the British Department of Health and Social Security agrees. In all other cases, EEC nationals normally pay British social security contributions from the commencement of employment or long-term residence in the United Kingdom. The position is exactly opposite for British nationals working in other EEC countries.

Nationals of other EEC countries and their dependants who have come to Britain are eligible for treatment under the National Health Service, which

provides free family doctor, hospital, and other services, and may qualify for National Insurance pensions and other benefits by virtue of contributions paid in the United Kingdom and their home countries.

Nationals of Other Countries. In general, other foreigners must pay British social security contributions from the commencement of employment or long-term residence in Britain. If, however, a foreigner is working only temporarily in the country, he is not liable for contributions until after a year's residence, nor is his foreign employer. In some cases, social security contributions remain payable in the foreigner's home country despite British contribution requirements.

A resident foreign employee sent by his British employer to work in another country normally remains liable to pay British contributions for at least a year after he leaves the United Kingdom, but any other foreigner who has been working in Britain ceases to be liable as soon as he leaves the United Kingdom.

An employer is liable to pay contributions only if he is resident or has a place of business in the United Kingdom.

Reciprocal agreements on social security contributions and benefits may modify these general rules when, for example, comparable schemes exist in the foreigner's home country. Agreements have been negotiated with Australia, Austria, Bermuda, Canada, Channel Islands, Cyprus, Finland, Israel, Jamaica, Malta, New Zealand, Norway, Spain, Sweden, Switzerland, Turkey, the United States, and Yugoslavia, as well as with the EEC countries; their terms vary, however, and some are quite limited. Further details can be obtained from the Department of Health and Social Security, Newcastle-upon-Tyne, NE98 1YX.

Foreigners and their employers will wish to make sure not only that long-term benefits such as pensions, unemployment and disability pay are preserved but also that risks of hospitalisation and medical treatment are adequately covered, although the National Health Service is available in emergencies to everyone living in or visiting Britain.

TERMS AND CONDITIONS OF EMPLOYMENT

Wage Rates

Rates have risen rapidly in recent years, and prospective investors will need to obtain up-to-date information from employers' associations or a local office of the Employment Service Agency.

Wage rates are largely determined in negotiations between employers' organisations and trade (labour) unions. Since 1972, however, increases in pay have been restricted either statutorily or voluntarily in an endeavour to limit inflation.

For the lowest-paid groups of workers or where strong union or employers' organisations do not exist, minimum wage rates are fixed by statutory bodies called wages councils.

No matter how basic rates are fixed, in practice average earnings are usually higher because of shift work, overtime, and output bonuses. In 1976, average weekly earnings (including overtime and output bonuses) of manual workers in manufacturing industry were £67.83 (155.9 pence per hour) for a man and £40.71 (109.4 pence per hour) for a woman. The Equal Pay Act 1970 (not yet applicable in Northern Ireland) provides that a woman doing work equivalent to a man's must receive equal pay and employment rights; the difference between the averages quoted reflects the tendency for men to predominate in higher-paid industries and to work more overtime. Printing, chemicals, vehicle and metal manufacture, and brick, pottery, and glass industries tend to pay above the average, and clothing and footwear, textiles, and instrument engineering pay below. Another reason for variation is geographical: rates tend to be highest in London and in the West Midlands and the north of England in some trades, and lowest in the East Midlands and Northern Ireland.

Representative annual salaries for London office staff at the beginning of 1977 were:

Bookkeeper	£3,200
Copy-typist	£2,600
Private secretary (bilingual)	£3,500

Clerical salaries are based on individual contracts and vary widely; the rates just quoted are merely illustrative.

Bonuses. In Britain, bonuses are usually payments for output that exceeds agreed standard levels. Although extras are often given at Christmas or summer holiday times, they tend to be quite small — 5% or less of pay in many cases — and the practice is followed more frequently by small companies than by large ones.

Overtime. Overtime is worked by nearly two-thirds of all full-time adult male manual workers; in the manufacturing industry, it averages about eight hours each week in normal times. Overtime is often paid at 133⅓%

or 150% of basic rates during weekdays, 150% on Saturdays and most public holidays, and 200% on Sundays and at Christmas and Easter. Many senior employees work substantial unpaid overtime.

Where shift-work is operated, it is usually paid at 125% or 133⅓% of basic rates. Women and young employees under 18 are not normally allowed to work at night.

Annual and Other Paid Leave. Most employees are entitled to three or four weeks' paid holiday (vacation) each year. In addition, employees are paid for the public holidays listed in Chapter 5.

Employees suspended from work because of some health or safety hazard are entitled to up to 26 weeks' normal pay. Many firms allow some sick leave on full or reduced pay.

The Pay Code. By agreement between the government, employers, and trade unions, a voluntary pay restraint policy operated from 1975 to 1977. Although this policy was voluntary, the government penalised employers who did not follow it; for example, by terminating supply contracts. Improvements in fringe benefits (except certain pension arrangements) were taken into account in calculating permitted pay increases, although improvements resulting from the Equal Pay Act were not. Pay restraint policy after July 31, 1977 had largely been abandoned because of union pressure when this Business Study was being written. It appeared likely then that substantial pay increases would be sought by the unions in future, although the principle of one increase in any twelve-month period, established under the voluntary pay policy, would probably be retained.

Payment Methods. Wages of employees paid at hourly or weekly rates are usually paid in cash, but monthly salaries are paid by cheque or bank transfer. Payment in kind (by provision of goods or services) is in general forbidden, and even payment by cheque or bank transfer requires the employee's agreement in writing. Employers must deduct income tax and social security contributions from gross pay, and must give every employee a statement showing the calculation of the amount due to him.

Working Hours and Conditions

Although Britain was a pioneer in legislating for the safety and health of workers, employment protection matters were generally left to the trade unions. In recent years, however, the protection given to employees by law has increased considerably.

Working Hours. A five-day working week is almost universal. Hours are

usually agreed upon by employers and unions, and range between 35 and 40 before overtime. Working hours of women and young employees under 18 are restricted by law.

Employment Terms. A written statement setting out the terms whereby he has been engaged must be given to every permanent employee within 13 weeks of his engagement or of any change in the terms. The statement must specify, among other things, the rate or scale of remuneration, hours of work, vacations, sickness pay, pensions, procedure for settling grievances, and termination notice periods.

A clause restricting competition following a change of employment can be inserted in an employee's contract, but the courts will not enforce it unless it can be shown to be reasonable in all the circumstances.

Severance Rules. The period of notice to be given to an employee depends on his employment contract, but the legal minimum periods are one week after four weeks' employment, two weeks after two years, and then a further week for each additional year's service up to twelve or more; senior staff are often given longer notice. Cash may be paid instead of notice. An employee may be dismissed without notice or cash payment only if he is guilty of serious misconduct such as dishonesty or violence, and even then he has the right to appeal to an industrial tribunal.

The statutory minimum notice to be given by an employee to his employer is one week, not increasing with length of service, but a longer period may be required in an individual employment contract.

An employee of two years' standing or more who has been given notice that he is redundant is entitled to reasonable paid time off to find a new job. Trial periods, during which either employer or employee may terminate the contract at short notice, are possible although their use is not widespread.

Redundancy. Employees with two years' service or more who lose their jobs through redundancy (that is, whose jobs cease to exist because of technological improvements or falls in demand) are entitled to lump-sum compensation payments called 'redundancy payments.' These are based broadly on the latest normal week's pay (maximum £80) applied on the following scale:

For Each Year of Employment
(Maximum 20 years)

Between Ages	No. of Weeks' Pay
18 and 21	½
22 and 40	1
41 and 64 (59 for women)	1½

The maximum redundancy payment is thus £2,400 (20 x 1½ x £80). The employer bears 59% of this, and a central fund, 41%. No payment is due if the employee is offered suitable alternative work within the employer's company or group or on merely temporary layoff, and reduced payments only are due if the redundant employee is shortly entitled to a pension. If, following a change of ownership of a business, an employee becomes redundant, the new owner is liable for the redundancy payment based on the employee's service before as well as after the change. If 10 or more employees are to be made redundant, the Department of Employment must be notified; any trade union involved must be consulted at least 60 days before the dismissals are due to take effect, and longer if 100 or more employees are to be dismissed. The employer must explain the reason for the redundancies and the method of selecting particular employees for dismissal, and must, if practicable, comply with any requests made by the union.

Unfair Dismissal. If an industrial tribunal finds that a dismissal was unfair, the employee concerned can demand reinstatement or compensation. It is 'unfair' if an employee is dismissed because of trade union activity, or for reasons of race or sex discrimination, or if a female worker is pregnant. 'Fair' dismissals arise from such matters as the employee's capability or conduct, redundancy, or refusal to join a specified union when all employees are expected to be members. A dismissed employee must on request be given a written statement of the reasons for his dismissal.

Compensation may be payable under three headings:

1. The basic award, equivalent to and calculated in the same way as a redundancy payment. This may be reduced if the tribunal considers that the employee himself was partly responsible for his dismissal.
2. A further 'compensatory award,' to make up for the dismissed employee's expenses and loss of earnings. The maximum is £5,200.
3. An 'additional award,' granted when the tribunal considers that the employer has acted improperly.

Dismissals, unless fully justified, can thus prove very expensive. For this reason, companies often settle matters out of court, whatever the merits of the case.

The unfair dismissal rules do not apply to employees with less than 26 weeks' service.

Other Employment Matters. Employees are entitled to guaranteed minimum pay if they are not provided with work for reasons outside their control such as technical breakdown in the plant. This pay is limited to £6

per day for up to 20 days a year. Reasonable unpaid leave must be allowed to employees for civic or certain trade union duties, and paid leave must be allowed to union officials. A woman is entitled to 6 weeks' maternity leave, paid generally at 90% of her normal wages, but the cost of this leave can be recovered by her employer from social security funds. Her job must also be kept open for her for 29 weeks after the period of confinement. Employees have various priority rights to unpaid wages, unfair dismissal compensation, and related matters should their employer become insolvent. Employers must disclose information necessary for collective bargaining purposes. These and other points described earlier in this section are laid down in the Employment Protection Act 1975. Any firm with more than 20 employees must allocate 3% of its jobs to disabled people, and government grants are available to encourage their employment.

Other laws prescribe standards of health, safety and welfare not only in factories and mines but in offices, shops, hotels, agricultural establishments, transport undertakings, and North Sea oil and gas operations. Besides various Public Health Acts, the principal law on this subject is now the Health and Safety at Work, etc., Act 1974.

Labour laws applying to Northern Ireland differ slightly from those in Great Britain.

FRINGE BENEFITS AND SOCIAL SECURITY

Additional payroll costs to an employer vary widely because of the variety of benefits offered to different employees. Such costs would, however, often add about 30% - 35% to an employer's wage costs. This percentage, which is low compared with that of Continental members of the EEC, will probably increase.

Fringe Benefits

This term includes not only voluntary benefits but also the nonwage labour costs provided throughout industry and commerce by custom or in collective agreements; for example, paid leave and other benefits.

Other usual fringe benefits are subsidised canteens or luncheon vouchers (tickets that can be exchanged at independent restaurants), sports and social clubs, transport to and from work, children's nurseries, savings plans, house loans and removal assistance, life assurance schemes, wage payments during periods of retraining, and private pension plans or sickness insurance schemes that supplement state benefits. All these often apply to factory, office, and managerial

employees alike, and are important factors in recruiting and retaining staff. Large firms tend to offer more benefits than small ones.

The provision of company cars is usually limited to salesmen and managerial staff. Senior staff are sometimes offered profit-sharing and share-option schemes, although the latter are not as popular as formerly, for tax reasons.

Social Security

The British social security system is one of the world's most extensive and provides free medical care under the National Health Service, support for the unemployed, sick, and elderly through the National Insurance scheme, and noncontributory benefits, such as family allowances, directly from government funds. Contributions are mainly related to earnings, while benefits are in general at fixed rates, although supplements sometimes vary with earnings. Contribution rates are usually increased in April each year and benefits each November.

Costs. There are four classes of contributions:

Class	By Whom Payable	Contribution Rates from April 1977 Individual	Employer	How Collected
1	All employees in the United Kingdom (including directors of companies) whatever their earnings	5.75% of earnings between £15.30 and £105 per week	10.75% (including a 2% surcharge)	Through income tax deductions under 'PAYE' procedure (see Chapter 8)
2	Self-employed persons whose annual profits exceed £874	£2.66 (man) £2.55 (woman) weekly flat rate		Through purchase of national insurance stamps or other direct payments
3	Nonemployed persons and those temporarily employed outside the United Kingdom	£2.45 weekly flat rate		Same as above
4	Self-employed persons whose annual profits exceed £1,750 (additional graduated contribution)	8% of profits between £1,750 and £5,500		Through income tax payable on annual profits

There are numerous minor exceptions to these normal rates. Every resident of the United Kingdom must contribute, except children who

have not left school, married women not in employment, and retired people. The position of foreigners working in Britain has already been described.

Contributions are not payable for any period during which benefits are claimed.

From April 1978, contribution rates on earnings between the limits shown above will be increased on the introduction of a new earnings-related pension scheme, probably by ¾% for employees and 1¼% for employers. If employers contract out of the new scheme (an option described later in this chapter), rates will decrease, probably by 2½% for employees and 4½% for employers.

Benefits. The National Health Service is available to all residents, without regard to contributions paid. A foreigner who becomes ill or has an accident while visiting Britain can be given emergency treatment, but foreigners who come to Britain specifically for medical treatment are expected to pay. Medical and hospital care is free, but charges are made for some other services. Most charges are small, and even these are sometimes foregone. Because of pressure on the facilities of the National Health Service, some people prefer to pay for private treatment, usually covering the cost by private insurance to which employers sometimes contribute.

Qualifying periods and levels of contributions are necessary for most National Insurance benefits. The main benefits from April 1977, not subject to tax unless otherwise stated, are as follows:

Unemployment. A minimum entitlement (usually £12.90 per week), with additions for dependants, together with a supplement based on one-third of the preceding tax year's average earnings. This benefit is payable for up to one year; a recipient must then make 13 weekly contributions before he can claim benefit for any further period.

Sickness. The same as for unemployment.

Long-Term Disability. After 24 weeks' illness, the sickness benefit is replaced by a flat-rate invalidity pension and allowance, varying with age and number of dependants. The minimum pension is £15.30 per week.

Flat-Rate Retirement Pension (subject to income tax). This is payable to men of 65 and over and women of 60 and over, with adjustments for those who continue working. The minimum pension is £15.30 per week;

additional sums are payable for dependants. A widow may receive a pension based on her deceased husband's insurance.

Family Allowances. Child benefits (minimum £1 per week, £2.30 from April 1978) are payable for each child below the age of 19 not in employment, whose parents have lived in Great Britain for at least 26 weeks (unless from an EEC country or a few others, when there is no qualification period).

Other Benefits. These are payable in connection with maternity, death (additional sums for widows and dependants), and severe disability. People with very low incomes can claim supplementary benefits. Benefits payable as a result of industrial injury or disease (employed persons only) are usually at a higher rate, and with few exceptions employers must carry insurance against disease or injury sustained by their employees as a result of their work.

Class 1 contributors are normally eligible for all national insurance benefits; noncontributing married women benefit from their husbands' contributions. Class 2 and 4 contributors are eligible for all except unemployment benefits, and those in Class 3 for all except unemployment, sickness and maternity benefits.

Earnings-Related Pensions. Many employees already belong to company schemes that provide pensions based on earnings and length of service. From April 6, 1978, the government will operate a new earnings-related pension scheme, as well as pay the flat-rate retirement pension. After consulting his employees, an employer may 'contract out' or decline to participate in the new government scheme, but only if his own private pension scheme provides benefits at least equal to and in some respects better than those to be provided by the government scheme. This will provide a pension of one-eightieth of final or higher average salary (current maximum salary £105 per week) for every year of service after April 5, 1978, with a maximum of 20 years' service; transfer of rights by an employee joining a new employer will be allowed. An Occupational Pensions Board will supervise the affairs of all private contracted-out pension schemes to ensure that they are properly administered and continue to offer terms no less adequate than the government scheme. Whichever scheme employees belong to, their earnings-related pensions are to be revised periodically in line with inflation. In future, state long-term disability pensions are also to be related to earnings.

LABOUR-MANAGEMENT RELATIONS

In Britain, employers and employees have traditionally relied on voluntary agreements rather than legislation.

Industrial democracy, management's responsibility to employees, unions' powers and their place in society, and the legal position of collective agreements have all been much discussed in recent years, but in general the legislation of the mid-seventies has confirmed, rather than changed, the traditional voluntary approach.

Matters that cannot be settled by negotiation between employers and unions can be referred to an independent arbitration and conciliation service. In recent years, agreements at firm or factory level have tended to replace industry-wide collective agreements. A collective agreement is not legally binding unless it contains a written clause providing that it shall be.

Unions

Trade unions, which began in Britain 200 years ago, have grown to hold considerable power in society.

In nearly all industries, some, and in many cases most, workers are members of trade unions. More than eleven million workers (manual, clerical, and technical) belong to nearly 500 unions, the 24 largest of which have nearly 77% of total membership. Most unions are members of the Trades Union Congress (TUC) whose object is to improve conditions for workers.

In Britain, trade unions are organised by occupation or craft rather than by industry. This is why there are so many unions and why interunion disputes may take place, as in any factory several unions may be represented.

In general, the unions are strong in negotiations with employers and have great influence with the government, but cannot always control their own members, with the result that 'unofficial' or 'wildcat' strikes sometimes take place. In 1970/74, the number of days per thousand workers lost through strikes was the third highest in the EEC, although lower than in North America, Australia, and India. In 1975 and 1976, the position improved greatly; but when this study was written, it was too early to say how 1977 would develop.

Employees choose representatives known as 'shop stewards' to act in

their own workplace in addition to electing officers who will act for the whole union. The extent to which shop stewards are part of unions' organisational structures varies, but in many cases these individuals have considerable influence on day-to-day labour questions.

A 'closed shop' is any establishment wherein all employees must belong to a particular union or unions.

Employers' Organisations

About 250 trade associations and employers' federations are members of the Confederation of British Industry (CBI). The CBI speaks for its members on many aspects of general policy affecting industry. The CBI offers practical advice on many matters to its member organisations and the government. Many employers also belong to chambers of commerce (see Chapter 3), which are represented nationally in the Association of British Chambers of Commerce.

Machinery for Settling Disputes

Employers and union officials often negotiate directly on particular points. Disputes can be referred to the Advisory, Conciliation, and Arbitration Service (ACAS) and from there to a Central Arbitration Committee (CAC). In addition, continuing consultation is possible through voluntary bodies such as joint industrial councils for whole industries or works councils for individual establishments.

Industrial tribunals deal with questions of individual employees' rights. They are informal courts but have considerable power. Their decisions indicate that employers must be careful to follow correct procedures when dismissing employees, for example.

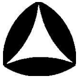
Representatives of the TUC, CBI, nationalised industries, and the government form the National Economic Development Council, the principal advisory committee at national level for consultation on matters of common interest to employers and employees.

Worker Participation in Management

There is little worker participation in management in Britain through worker-directors or the type of works councils found in Germany or the Netherlands.

Early in 1977, a government committee report (the 'Bullock Report') recommended that British-based companies or groups with 2,000 or more employees should include trade union representatives on their

boards of directors. A board would then consist of an equal number of representatives of employees and shareholders, with a small third group of independent members mutually accepted by the two main groups. All major decisions would have to be taken by this board and not by any executive committee. This recommendation, which provoked considerable criticism not only from the CBI and in Parliament but from the unions as well, has been deferred for the time being; it will probably be substantially modified before any draft legislation is prepared. The employers say that they do not oppose in principle the movement towards worker participation, in evidence throughout the EEC, but merely the Bullock Report proposals, while among the unions several prefer to retain the existing primacy of collective bargaining.



CHAPTER V

Business Practices and Information

- GENERAL INFORMATION
- BUSINESS HOURS AND HOLIDAYS
- BUSINESS PRACTICES

GENERAL INFORMATION

Best Travel Months

Britain can be visited at any time of year from the weather standpoint, although perhaps the most attractive times are the spring, early summer, and autumn months. For business purposes, the weeks immediately before and after Christmas should be avoided, and so should days near public holidays and the vacation months of July and August, when some firms close down completely.

Entry Requirements and Currency Restrictions

Entry regulations for long-term stays are described in Chapter 4, but for a fact-finding trip or holiday visit, only a valid passport with, in some cases, a visa is required.

Visitors may bring with them travellers' cheques and notes in any currency (including sterling) without limit. On departure, they may take out sterling notes up to £100 and up to £500 more than they brought into the country in foreign currency notes. Currency and travellers' cheques can be exchanged at ports and airports, banks, and travel agencies, although banks usually offer the best terms. Hotels and large stores often accept travellers' cheques, especially if denominated in sterling.

There are no income tax clearance formalities for visiting business people leaving the country. Personal articles and small purchases can normally be taken into or out of Britain free of duty, but British customs controls tend to be strict and the published concessions should not be exceeded. It is advisable to check with a reputable travel agent or British embassy or consulate as travel and currency regulations and vaccination require-mens may change at short notice.

Communications and Transport

Travel to and within Britain is easy. The main airports are at London (Heathrow and Gatwick), Manchester, Glasgow, Belfast, Birmingham, Edinburgh, and Prestwick; most of the larger cities can easily be reached

by air. Heathrow is the world's busiest international airport and the largest freight-handling airport in Europe.

A comprehensive system of railways connects the main cities and serves the leading ports. Freightliner services have expanded rapidly in recent years, and several container-ferries link Britain with mainland Europe and Ireland. For passengers, 'inter-city' expresses are comfortable, clean and fast; for instance, the 300 km. (190 miles) journey from London to Manchester or Liverpool takes 2½ hours. Reduced rate tickets can often be obtained on weekends or for return travel in one day. Visitors can obtain 'Brit-Rail' passes allowing unlimited rail travel at reduced prices, but these must be purchased before arrival in Britain.

Britain's 2,000 km. (1,250 miles) of motorway are almost entirely toll-free. Many other major roads have been improved in recent years, and the whole country is well served by a network that has to deal with one of the highest densities of road traffic in the world. As in other countries, parking is a problem in congested cities.

A car can be hired easily by any visitor who brings a valid driving licence and (unless from one of the other EEC countries) proof of third-party insurance. Taxis can be called from central offices or special ranks (stands), although in London they are frequently hailed in the street.

The British merchant fleet is the world's third largest in active employment. Much of its new tonnage consists of purpose-built container and bulk-carrier vessels. London, Southampton, Liverpool, Manchester, Milford Haven, Glasgow, and Belfast are the chief ports, although Dover leads in terms of passengers and 'roll-on-roll-off' traffic. Many ports have been modernised in recent years, especially as a result of increased trade with mainland Europe. Hovercraft, a British invention, give speedy service across the Straits of Dover.

Post and Telecommunications. Direct telephone dialling is possible to 26 countries, including Western Europe, North America, South Africa, Australia, New Zealand, and Hong Kong. Telex links serve 177 countries. Credit facilities for telephone and telegrams can be arranged.

The postal service provides two deliveries daily except at weekends and holidays. Postal code numbers should be added at the end of all mail addresses.

The Post Office acts as an agent for several government departments and provides counter services for the National Savings Bank and National Giro, besides carrying out its postal and telecommunications functions.

Hotels and Restaurants

A good selection of high-standard hotels is available to business visitors. In London, a single room with bath costs from £15 to £20 or more per night, but prices are usually lower elsewhere. Although many new hotels have been built recently, it is not always easy to find accommodation; advance reservations should be made, especially in London.

In London particularly, a great variety of restaurants cater to all conceivable tastes, and throughout the country there are good restaurants serving English and Continental food. While dinner can cost from £7 to £15 in a well-known restaurant, simple unpretentious meals can be obtained in Britain less expensively than in most other developed countries.

Tipping

Hotels and restaurants usually add a service charge of 10%-15% to their bills; as a rule, no additional tip is necessary. Cloakroom attendants are usually tipped about 10p, porters 10p per bag and taxi drivers about 10% of the fare (minimum 10p). Theatre and cinema usherettes do not expect tips.

BUSINESS HOURS AND HOLIDAYS

The Working Day

Factories usually operate from 08.00 to 17.00 and commercial offices from 09.00 to 17.30, Mondays-Fridays. Lunchtimes vary from 45 minutes to one hour, although business lunches may take longer. There is a growing tendency for businesses to adopt a flexible working week, only the total number of hours being fixed. Banks also work a five-day week and are usually open to the public from 09.30 to 15.30, but some stay open until 18.00 one evening a week. Post offices are usually open from 09.00 to 17.30 (13.00 on Saturdays)—often later in city centres.

Government and tax offices are best visited between 10.00 and 16.00.

Time Factors

United Kingdom time coincides with Greenwich Mean Time except during daylight-saving or 'summertime,' when it is one hour ahead. 'Summertime' lasts from the third Sunday in March to the fourth Saturday in October. A standard hour-changing system for the whole Common Market area has been proposed but has not yet been adopted.

Business Practices and Information

Public Holidays

Businesses are normally closed on the following days, often called 'bank holidays':

	England and Wales	Scotland	Northern Ireland
January 1	New Year's Day	New Year's and following day	New Year's Day
January 2	—		—
March 17	—	—	St. Patrick's Day
March/April (variable)	Good Friday and Easter Monday	Good Friday	Good Friday and Easter Monday
May (first Monday, from 1978)	May Day	Spring Holiday	May Day
May (last Monday)	Spring Holiday	—	Spring Holiday
July 12	—	—	Orangeman's Day
August (first Monday)	—	Summer Holiday	—
August (last Monday)	Summer Holiday	—	Summer Holiday
December 25	Christmas Day	Christmas Day	Christmas Day
December 26	Boxing Day	—	Boxing Day

There are some local variations in these holidays. If a public holiday falls at a weekend, another day is usually given instead. Many businesses also close on the Tuesday after Easter.

BUSINESS PRACTICES

Weights and Measures

A change from the imperial to the metric system is in process. Despite its unpopularity, this change is due to be completed by the early 1980s; in the meantime, both measurements are often quoted. Some conversion factors follow:

Multiply	By	To Obtain
Centimetres (cm.)	0.3937	Inches
Inches	2.54	Centimetres
Kilometres (km.)	0.6214	Miles
Miles	1.6093	Kilometres
Square kilometres (km.^{2})	0.3861	Square miles
Acres	4,047	Sq. metres (m^2)
Litres (l.)	0.22	Gallons
Pints	0.568	Litres
Kilogrammes (kg.)	2.2046	Pounds
Pounds	0.4536	Kilogrammes
Tons	1.016	Tonnes (= 1000 kg.)

Temperature is officially measured in Centigrade, but Fahrenheit figures are frequently given.

Domestic electric supply is at 240 volts; plugs usually have three square pins, and light fittings are of the bayonet type. Plug adapters may be required for small appliances such as electric razors.

Dates

The sequence in the United Kingdom, as in Europe generally, is day-month-year, so 4/10/78 means to a British reader October 4, 1978, and not April 10, 1978, as in the USA. In 1971, Britain, like most other advanced trading nations, voted in favour of a new international standard for use when dates are expressed in figures only. Under this standard, which is not yet widely adopted, the sequence is year-month-day.

Writing Conventions

In Britain, commas separate thousands and hundreds, and full stops (periods) separate units and tenths. Thus, one thousand pounds and ninety-nine pence is written £1,000.99. The figures 1, 4, and 7 are written distinctively, and the bar of the 7 is not crossed as it frequently is in Continental Europe.

Business Customs

The British tend to be more formal and reserved than some other nations, although in the past twenty years there has been a marked trend to more liberal attitudes. First names are now often used in business relationships as well as between personal friends. Handshaking is less frequent than in mainland Europe and is largely restricted to greeting new acquaintances or visitors not often seen.

Credit cards are widely used to settle personal accounts; a number of international cards are accepted in many hotels, restaurants, shops, and at airline and car hire offices.

Appointments should be made in advance (especially in London), and business cards should be available for exchange. Interpreters or translators are available in London and a few other big cities. If an interpreter has to be used for a meeting, he should be given some idea beforehand of the technical points to be discussed.

Several foreign countries have chambers of commerce in Britain that can often provide information and useful contacts to visiting business people.

CHAPTER VI

Forms of Business Entities

- PRINCIPAL BUSINESS ENTITIES
- LIMITED LIABILITY COMPANIES
- BRANCHES
- PARTNERSHIPS AND OTHER ENTITIES

PRINCIPAL BUSINESS ENTITIES

Subject only to exchange controls, a foreign investor may freely operate in the United Kingdom through a British subsidiary company or branch, and foreign individuals and corporations may be members of British partnerships or may enter into commercial agreements with British enterprises.

Although the word 'company' is frequently used in the names of all types of business entities, in this chapter 'company' refers to a corporate body with limited liability.

Corporate bodies in Great Britain are regulated mainly by the Companies Act 1948 as amended principally in 1967 and 1976, and in Northern Ireland by the Companies Act 1960, amended in 1963. Partnership law is set out in the Partnership Act of 1890 and the little-used Limited Partnership Act of 1907. Some other business entities are subject to specific Acts of Parliament. In addition to statute law, a significant influence on enterprises of all kinds is case law or 'precedent' and, in the case of listed companies, the requirements of the Stock Exchange.

The process of harmonising company laws in all EEC member-states will require amending legislation in the United Kingdom.

Summary of Forms

The main forms of commercial enterprise are:

Limited Company. The most common form of business entity is the limited company. The Companies Acts apply to small family businesses with two or three shareholders as well as to multinational giants with many thousands, and the distinctions between 'private' and 'public' companies are minor. Companies limited by share capital, which is the usual form, offer the same major advantages to investors as corporations usually do in other countries: a shareholder's liability is limited to the amount (if any) unpaid on his shares, and shares may be transferred without affecting the continuity of the business. In return, all limited companies are subject to disclosure and audit requirements.

Forms of Business Entities

Partnership. A partnership (often called a 'firm') is not a separate legal entity, except in Scotland. Partners have unlimited liability, jointly and in Scotland separately, for all the obligations and debts of their business. Limited partnerships are not common because it is easy to form private limited companies.

Branches of Foreign Companies. A foreign organisation may operate in the United Kingdom through a branch. This is not a separate legal entity but is an establishment of its parent body, in whatever form that body carries on its business.

Other Forms. These include joint ventures, consortia, and sole traders. Entities such as building and cooperative societies, assurance companies and unit trusts are subject to special Acts of Parliament.

Other forms rarely of interest to foreign investors include companies limited by members' guarantee and unlimited companies.

LIMITED LIABILITY COMPANIES

The description that follows is of companies with liability limited by share capital. A company is a legal entity distinct from its shareholders; it can own real estate and can sue and be sued in its own name. A company may be 'public' or 'private.' The former is broadly the British equivalent of a publicly held corporation in other countries, although not necessarily listed on the Stock Exchange, whereas the latter is the equivalent of a closely held corporation in the USA, a limited liability company in mainland Europe, or a proprietary company in Australia. The description here is common to both types since both are variants of one corporate form; where differences occur, they are specifically indicated.

Since most foreign investors will be concerned with private companies, a summary of the main provisions relating to that type of company is given first.

Distinguishing Features of Private Companies

1. Shares and shareholders:
   The minimum number of shareholders is 2 and the maximum 50 (excluding employees and exemployees).
   Transfers of shares must be subject to restriction.
   Bearer shares may not be issued.
   Shares may not be offered to the public.
   Proxy-holders may speak at meetings of shareholders.

2. Management:
   Only one director need be appointed (this sole director may not also be the secretary).
   There is no age limit for directors (unless the private company is a subsidiary of a public one; then the age limit is normally 70).
   Directors may be appointed at a general meeting as a group and not individually as in the case of a public company.
   Three extra months are allowed for the filing of financial statements.
3. Commencement of business:
   No prospectus or similar statement need be prepared.
   The company may commence business immediately on incorporation.
   No report or meeting on the progress of a newly-formed company need be arranged.
4. Loan capital:
   Debentures may not be offered to the public.

Probably commencing in 1979, a public company will be defined as one permitted to offer its shares to the public, and a private company will be any other company. The restriction on the number of members of a private company will then be lifted.

Formation

The formation of a company is often handled by a registration agent, but where standard forms of constitution document are inappropriate, it is usual to employ solicitors, who draft wording to meet the investor's particular requirements and subsequently prepare and lodge the necessary documents.

Every company must prepare two principal constitution documents—the memorandum of association, defining the company's objects, capital and limited liability status, and the articles of association, containing the company's internal regulations or bylaws. These documents must be printed, in English, although companies registered in Wales may produce them in Welsh, accompanied by English translations. They must be signed before a witness by the subscribers (founder-shareholders)—seven for a public company or two for a private one—who must each agree to take up at least one share. The subscribers, who can be nominees of the true shareholders, must meet to do this.

A signed copy of the memorandum and articles must then be submitted to the Registrar of Companies, together with:

1. A statement of share capital.

2. The address of the company's registered office, which must be in the part of the United Kingdom defined in the memorandum of association.
3. Particulars of directors and secretary (their names, nationalities, occupations, other British directorships, and written consents to act).
4. A statutory declaration by a director or the secretary of compliance with the requirements of the Companies Acts.

On receipt of these documents, the Registrar will issue a certificate of incorporation, whereupon the company comes legally into existence. The Registrar publishes this fact in the official gazette (the London Gazette or its equivalent in Scotland or Northern Ireland).

A public company must also submit a prospectus or equivalent statement, giving details of directors, shares, contracts, minimum subscription (discussed later in this chapter), and an auditor's report on any business to be acquired. A public company may not start operations until a certificate of entitlement to commence business has been issued by the Registrar after further formalities have been completed. For this reason, most public companies are formed as private companies and are converted into public ones later. Stock Exchange requirements must also be met if a public company is to have a Stock Exchange quotation.

Preincorporation contracts are treated, subject to any agreement to the contrary, as entered into by the persons who purported to be acting for the proposed company and who can therefore sue and be sued in their own names. Following incorporation, however, a company may, by agreement with the other party concerned, adopt such a contract and will then be bound by it.

A public company must submit a report to a meeting of its shareholders between one and three months after it is entitled to commence business, stating, among other things, progress made in issuing capital, formation expenses incurred, names and addresses of the directors and other officials appointed, and particulars of any contracts requiring modification.

The Companies Act 1967 lays down further rules concerning the formation of insurance companies.

Memorandum of Association. This states:

1. The company's name. This must be acceptable to the Registrar of Companies, which means that it must not be misleading to the public or otherwise undesirable; for example, it must not resemble an

existing name or contain the word 'British' unless the company is British-owned and controlled. Finding an acceptable name is probably the most difficult part of forming a new company, and the Registrar should be asked in advance if a proposed name may be used. Unless the company does not distribute profit to its members—for instance, one formed for charitable purposes—its name must end with the word 'Limited' (or, for Welsh companies, the equivalent in Welsh). This word is often abbreviated to 'Ltd.' As a result of the second EEC directive on company law, the names of British companies will in future have to indicate whether they are public or private, probably by the inclusion in a public company's name of the word 'public,' 'corporation,' or 'incorporated.'

2. Whether the company's registered office or legal address is to be situated in England, Wales, Scotland, or Northern Ireland.
3. The company's objects — that is, the types of business it is empowered to undertake. The objects clause is usually worded very broadly so that present and possible future business is not restricted, as a company's objects may later be changed only in limited ways. A third party dealing in good faith with a company is not bound to enquire into its powers or those of its directors and is able to enforce a contract with it even if the contract was outside its objects. The company itself, however, is bound by its objects and cannot enforce a contract it is not empowered to undertake. It is rare for a British company to be formed with a fixed life.
4. The company's limited liability status.
5. The initial authorised share capital and its division into shares of fixed amounts.

The second EEC directive requires that public companies will have to disclose any special advantages granted on incorporation to founders or others.

Articles of Association. These deal with such matters as:

1. Issues and transfers of shares, including any restrictions; for example, a member wishing to transfer his shares may be required by a 'preemption clause' to offer them first to other shareholders. Private companies must always include restrictions.
2. Variation of shareholders' rights.
3. General meeting procedures, including members' voting powers and rules as to proxies.
4. Appointment, remuneration, powers and duties of directors, and

procedures at board meetings. One of the directors' most important powers is that of raising capital by borrowing.
5. Dividends and reserves.

The Companies Act 1948 contains a set of model articles, known as 'Table A.' If a company does not exclude these model articles, they automatically apply; but normally they are modified to meet particular circumstances such as the need to appoint alternate directors, the power of a majority shareholder such as a holding company to appoint or remove directors summarily and the need for giving notices of meetings to directors outside the United Kingdom.

Cost of Incorporation. The chief expenses are:

1. Registration fee of £50.
2. Capital duty at 1% on the consideration received for the shares issued, based on actual values in the case of assets contributed other than cash. Issues of loan capital such as debentures are not subject to this duty.
3. Legal fees, ranging from around £50 to £500 or more, depending on clients' requirements.

In addition, there may be fees for taxation or other professional advice and further legal fees for such matters as purchases of real estate or creation of mortgages. Minor expenses include the cost of statutory registers described later in this chapter, and a company seal for use when signing certain documents.

A new company can usually be formed in three weeks or even less if the proposed company name has been approved beforehand by the Registrar. The time required to obtain exchange control permission to issue shares to nonresidents (see Chapter 2) must also be taken into account.

Acquisition of an Existing Company. Although it is usually preferable to incorporate a company designed to suit the exact requirements of a new business, it is usually possible to acquire a company already formed but not trading if it is important to commence trading immediately and the dormant company's name is suitable. There is little advantage otherwise as the time required to change a name takes almost as long as to form a new company, and a fee of £40 for change of name is payable to the Registrar.

Ownership—Shares and Shareholders

Shareholders may be individuals or corporate bodies, British or foreign (subject to exchange control consent). A public company must have at least seven shareholders. A private company must have at least two shareholders (although one may be a nominee of the other, so that in practice a company can be wholly owned by one investor), but not more than fifty, excluding present and former employees. Shares may be held in joint ownership.

A company may not acquire its own shares or those of its parent, nor may it lend money to others to buy such shares (except to employees and in limited other cases). All shares must have a par or nominal value. If shares are divided into classes, some at least must have equity characteristics—that is, they are entitled to the balance of profits after prior claims are met but bear all losses. Preference shares frequently have restricted voting rights. Most shares are now ordinary (common) shares; shares with preferential or deferred rights as to dividend or repayment of capital on winding-up, or both, are not often issued. Nonvoting ordinary shares are sometimes found although the Stock Exchange does not encourage them. On the other hand, shares with multiple voting rights may be issued. The rights, including voting powers, of any separate classes of shares must be defined in the articles of association.

Fully paid shares are sometimes converted into stock; for all practical purposes, 'ordinary shares' and 'ordinary stock units' are identical.

Although the Companies Act 1948 allows the creation of redeemable shares (callable stock), these are not often found because of exchange control and tax disadvantages.

Private companies may neither invite the public to subscribe for their shares nor issue bearer shares. Public companies may issue bearer shares, but nowadays do not do so, principally for exchange control reasons.

Holdings and transfers of registered shares must be recorded in a Register of Members. This register thus provides ultimate evidence of title, but share certificates, showing the name of the shareholder, are *prima facie* evidence of ownership of registered shares. Shares may quite legally be held through nominees. Directors' interests, however, and any other holdings in excess of 5% of total issued capital, must be disclosed to the company concerned within five days of acquisition whether held through nominees or not; and if the company is a listed one, this information must be passed to the Stock Exchange.

Fully-paid shares in a public company are normally freely transferable subject to exchange controls, although a few companies have powers in their articles restricting transfers to British owners. Private companies must always have powers to restrict transfers. Ownership is transferred by submitting a transfer form signed by the transferor through an authorised depositary (see Chapter 2) to the company for registration together with the relative share certificates. Partly-paid shares can be transferred, but in some circumstances the transferors remain liable for the unpaid amounts. Ownership of bearer shares is transferred by delivery.

Usually, the directors have power to issue shares to the total of the authorised capital without prior reference to the shareholders.

Management

The management of a British company is delegated to a board of directors. A typical British board is composed of senior executives, although some companies—notably the larger ones—appoint in addition a few nonexecutive or 'outside' directors, chosen for their wider experience and objectivity. These are an integral part of the board and do not comprise a 'second tier' or supervisory board, as in some other European countries. The chairman of the board is sometimes an outside director but more usually is the chief executive. The chief executive is usually referred to as the 'managing director' and the other executive directors as 'sales director,' 'production director,' and so on, although these terms have no legal significance. Occasionally, a board is composed entirely of outside directors, in which case the chief executive is referred to as the 'general manager.' Some enterprises are experimenting with such ideas as appointing worker-directors or introducing audit committees, but no generally accepted trend has yet emerged; the following summary describes conventional British practice.

Directors

Although the Companies Acts lay down the basic requirements, each company may make its own rules as to directors in its articles of association.

Appointment, Removal, and Remuneration. Every public company must have at least two directors. Even though the law permits a private company to have only one director, at least two are normally appointed. Directors may usually be of any nationality, and may be corporate bodies, but undischarged bankrupts and those guilty of fraud may not act. The articles may require a director to become a shareholder before

accepting office, although this is not now usual.

The first directors are normally appointed by the subscribers to the memorandum of association. Subsequent appointments are by a simple majority of shareholders in general meeting although the articles of association usually give the board power to appoint additional directors or to fill a casual vacancy. Shareholders of a public company must vote on the appointment of directors individually and not as a group. Many articles provide that a proportion of the company's directors must retire at each annual general meeting, although such directors are normally eligible for reelection. A director may resign, or not be reelected on retirement by rotation, or may be removed from office by a simple majoritiy at a shareholders' meeting provided that special notice of the removal resolution was given. The articles of subsidiary companies often give the majority shareholder power to appoint and remove directors by letter. A director of a public company must normally retire at 70.

Directors usually receive fees in accordance with regulations in the articles. Such fees are generally additional to the salaries of directors who are also executives. Directors may not be compensated for loss of office without shareholders' approval. In Great Britain, details of directors' emoluments — that is, remuneration of all types, including bonuses and benefits — must appear in the company's published financial statements, but in Northern Ireland only if requested by at least twenty voting shareholders or shareholders representing 5% of the total votes. Directors' service contracts may be inspected by shareholders.

Powers and Duties. The directors may delegate any of their powers to committees or individuals. Unless powers are specifically delegated, an individual director does not bind a company by his actions, except that third parties dealing in good faith with the company can enforce a contract since they are not bound to enquire into the powers of the company or its directors. If a director has exceeded his powers and the company thereby suffers loss, the company can sue him for damages.

If so provided in the company's articles, a director may appoint an alternate to act in his absence. Such appointments are common when a director lives outside Britain. An alternate director has the same powers as the director by whom he is appointed, but may use them only when the director is himself unable to act.

Every company is obliged to have a common seal, which is required to be affixed to certain legal documents. A record of its use must be kept.

The directors are responsible for preparing the company's financial statements. Requirements as to the form and content of financial statements are described in Chapter 7.

Directors must declare their interests in contracts made between the company and third parties, and may not usually vote or be counted in a quorum in respect of any such contract.

Loans to directors are prohibited (except in very limited circumstances), and directors' interests in shares and options must be disclosed to prevent the abuse of 'insider information.' The Department of Trade has power to investigate directors' share dealings.

Meetings and Procedures. Directors are usually given power by the articles to arrange board meetings as and when required; no specific notice is required by law, although in practice three days' notice as a minimum is often given. Quorums are normally fixed in the articles or by a resolution of directors, and resolutions are usually passed by simple majority. A chairman may be appointed and may be given a casting vote. Minutes of board meetings must be kept. Directors may not vote by proxy, but may appoint alternates. Resolutions in writing are normally allowed, provided that they are signed by all directors.

Although there is no company law requirement that board meetings must be held in the United Kingdom, their location is important for tax reasons (see Chapter 8).

Other Officials

Every company must have a secretary, whose principal duty is to maintain the following legally-required records:

1. A register of directors and secretaries.
2. A register of mortgages and charges.
3. Minute books of general meetings and of meetings of directors and managers.
4. An indexed register of shareholders and debenture-holders showing the number of shares or debentures held by each.
5. An indexed register of directors' interests in group shares or debentures.
6. An indexed register of shareholders' interests in 5% or more of the nominal value of any class of issued share capital that is quoted and has unrestricted voting rights.
7. Copies of directors' service contracts.

These records must normally be kept at the company's registered office.

A private company's sole director may not also be its secretary; any document that must be signed by a director and the secretary may not be signed by the same person acting as both. Although the secretary's functions are statutory rather than managerial, in practice he is often also responsible for general administration and even, in small companies, for such diverse matters as accounting and personnel management.

Every company must appoint auditors, whose qualifications and duties are described in Chapter 7.

Works councils or similar bodies representing employees do not have any executive powers under existing British law.

Shareholders' Meetings and Rights

Shareholders (referred to in the Companies Acts as 'members') have ultimate power over their company's affairs in that they can remove the directors from office or limit their powers, although they may not interfere in the day-to-day running of the business.

Procedures at Meetings. Every company must hold a meeting of its shareholders (called the 'annual general meeting') within eighteen months of incorporation and subsequently at least once in every calendar year, not more than fifteen months after the last meeting. Because of the requirement to file financial statements within a certain period (see Chapter 7), in practice a public company's annual general meeting must be held within seven months of the end of its financial year, and a private company's within ten months; companies with businesses outside the United Kingdom, Channel Islands, and Isle of Man are allowed an extra three months. Business at the annual general meeting includes consideration of financial statements, appointment of directors and auditors, and declaration of final dividend. Annual financial statements produced by the directors are a record of past transactions, and the shareholders consequently have no power to alter them, except that they may reduce the amount the directors propose to distribute as final dividend—a power rarely exercised. Each shareholder must be given at least twenty-one days' notice of meeting in writing (ten days in the case of a private company in Northern Ireland), although this requirement may be waived if all shareholders agree.

Other meetings of shareholders are called 'extraordinary general meetings.' They may be convened by the directors at their own instigation or on a requisition of shareholders representing 10% or more

of the paid-up voting shares; if the directors do not comply with this requisition, shareholders representing at least 50% of the requisitionists' voting rights may themselves convene the meeting, or the court may do so.

The articles define the quorum necessary for a general meeting — usually three shareholders personally present for a public company or two in person or by proxy for a private company — and the procedure to follow should a quorum not be present. Minutes must be kept. General meetings need not be held in the United Kingdom.

The Companies Act 1948 empowers any three shareholders entitled to vote, or shareholders representing 10% or more of the voting rights, to demand a poll (a vote in writing) at a general meeting. On a poll, shareholders vote in proportion to their shareholdings; otherwise, each shareholder has one vote.

A shareholder may appoint a proxy, who need not be a shareholder himself. A corporate shareholder may appoint someone to act on its behalf at a general meeting; such a person may speak and vote as if he himself were the shareholder, but a proxy-holder for an individual shareholder may speak only in the case of a private company and may vote usually only on a poll. Although the articles may allow shareholders' resolutions in writing, these must be signed by all shareholders concerned and so are practicable only for private companies.

Resolutions. Resolutions may be ordinary, extraordinary, or special. Subject to the articles, most general meeting business may be transacted by ordinary resolution, requiring only a simple majority of those who are entitled to vote and do so. An extraordinary resolution requires 14 days' notice and a 75% majority of those who are entitled to vote and do so; such resolutions are rare and relate only to winding-up procedures. A special resolution requires 21 days' notice and a 75% majority and is necessary for such matters as a change in the articles or a reduction of capital.

Resolutions other than routine business of an annual general meeting must be set out in full in the notice calling the meeting at which they are to be discussed. Further formalities apply to ordinary resolutions to appoint an auditor other than a retiring auditor or providing that a retiring auditor shall not be reappointed; to remove a director prior to the expiration of his period of office; and to appoint or reappoint a director of a public company who has reached the age limit.

Remedies. If fraud or misconduct by directors, or oppression of minority groups of shareholders, is suspected, the Department of Trade may on request appoint investigators (termed 'inspectors') to examine the company's affairs. These inspectors are usually independent lawyers or accountants; although they report to the Department, their reports are usually published. The appointment of inspectors does not necessarily involve the complainants in expense, and preliminary discussions between the company and the Department often result in satisfactory settlements. The Department may also make its own investigations.

Reorganisation schemes affecting shareholders' rights often require sanction by the court. The court may make an order to regulate the company's future conduct or otherwise protect the minority's position, or may dissolve the company if this would be just and equitable. On the other hand, on a merger or takeover, if holders of 90% or more of the shares have approved the terms, any dissenters lose their right to object.

Capital, Reserves, and Dividends

Share Capital. British law recognises authorised, issued, and paid-up capital as three separate concepts. Authorised capital is that stated in the memorandum of association, so any increase requires an amendment to the memorandum. A company is usually formed, therefore, with a larger authorised capital than that required to be issued initially. Furthermore, the shares issued need not be fully paid. Thus, a company could have an authorised capital of £100,000, issued capital of £80,000, and (assuming each share was 50% paid) a paid-up capital of £40,000. In practice, partly paid shares are rare.

There are at present no minimum or maximum requirements for authorised capital except in the case of a public company that has issued a prospectus and insurance companies to which further rules apply. A prospectus must state the 'minimum subscription' to be raised by the share issue, which must be sufficient to cover initial operating requirements; unless this is subscribed, the company will not be entitled to commence business. From the end of 1978, every new public company is to have a minimum capital, probably of £50,000, at least 25% paid up, and any existing public company that does not reach this requirement will have to increase its capital to the new minimum. This minimum will be subject to review every five years.

Shares may be issued at a premium (paid-in surplus), but only in very limited circumstances at a discount. Share capital may be reduced only subject to strict conditions and with court approval. The second EEC directive will require that consideration for the issue of shares must be in

assets capable of economic assessment, which appears to exclude, for instance, services rendered by founders. Independent experts will have to report on the values of noncash assets introduced as consideration for shares. Shares may be issued in a currency other than sterling provided that the Registrar is satisfied that they will not be confused with sterling shares.

Loan Capital. In law, the term 'debenture' applies to any fixed loan of some permanence, but in practice a debenture is a loan secured on a company's assets, while an unsecured loan is often described as 'loan stock' or 'notes.' Many companies have issued loan capital convertible into shares. The term 'bonds' is applied largely to loans raised by government agencies or from foreign sources (for example, 'Eurobonds'). Like share capital, loan capital is invariably in registered rather than bearer form. Any security given to secure loan capital must be reported to the Registrar of Companies within 21 days of creation; if this is not done, the security is not valid.

A debenture may be secured on the issuing company's real estate, ('mortgage debenture') or by a floating charge on the whole of its assets. Broadly, a floating charge attaches to the whole of a company's assets (subject to any prior fixed charge) including inventories, receivables, and cash, while allowing the company to continue to trade. Scottish law on floating charges differs slightly from that elsewhere in the United Kingdom. A trustee is usually appointed to represent the debenture-holders as a group and enforce the security if necessary.

No particular ratio of loan capital to share capital is prescribed by law, but a company's articles may limit its borrowing powers; for example, by providing that loan capital may not exceed authorised share capital or issued share capital plus reserves.

Reserves and Dividends. There are no statutory requirements to create reserves by retention of profits. Share premium accounts and reserves arising from nontrading sources such as a *bona fide* revaluation of the whole of the company's assets may not be distributed in cash as dividends, but may be used to make bonus share issues (stock dividends of substantial amounts).

Cash dividends may usually be paid only out of accumulated trading profits. Although it is not legally necessary for a company to recoup past losses before paying a dividend out of current profits, such an action would not conform to modern practice and will shortly be prohibited by law.

A final dividend is normally declared by the shareholders at the annual general meeting at the rate proposed by the directors, and such a proposed dividend is shown as an appropriation of profit and a current liability in the financial statements. The directors themselves usually have the power to declare one or more interim dividends during the course of the financial year out of profits known to have been earned, and this power is widely used, especially by listed companies.

If permitted by its articles, a company may give its shareholders the option of receiving dividends in the form of further shares (scrip dividends) rather than in cash. At present, dividends are subject to control as part of the government's anti-inflation policy; a dividend may not exceed that of the previous financial year by more than 10% except in the case of new companies, wholly-owned subsidiaries and a few others.

Losses. There is at present no requirement that liquidation is compulsory if losses exceed a stated proportion of share capital, but in accordance with the second EEC directive on company law, it is likely that a rule will be introduced whereby an extraordinary general meeting will have to be held to consider recapitalisation or liquidation if a proportion (probably one half) of the issued capital is lost.

Registration and Publication Requirements

The facts on formation to be made public through filing with the Registrar of Companies are described earlier in this chapter. Other information to be produced or made available to enquirers includes:

1. Administrative.
   a. Every change in the memorandum or articles of association, address of registered office, details of directors and secretary, issued capital, and mortgages or charges on the company's assets to secure any loan must be filed with the Registrar.

      In addition, a return must be filed every year following the annual general meeting listing the company's capital, secured borrowings, directors and secretary, and shareholders. The filing fee is £20.

      These documents are all available in the company's file for inspection by the public (fee 5p).

   b. The registers to be kept by every company, listed on page 96, are available for inspection by the public at the company's offices. General meeting minute books and directors' service contracts are available only to shareholders, but minutes of directors' meetings are private.

c. A copy of every extraordinary and special resolution and various documents on winding-up must be filed with the Registrar for public inspection.

d. Information to be shown on business stationery is described in Chapter 3.

2. Tax returns (see Chapter 8).

3. Annual accounts or financial statements.

   Every limited company must provide its shareholders, its debenture holders, and the Registrar with copies of its financial statements (see Chapter 7).

   Every listed company must report its profits and dividends to the Stock Exchange before such information is otherwise released. The Stock Exchange also requires every listed company to publish an interim report not later than six months from the date of the notice convening its annual general meeting.

Mergers and Takeovers

The term 'merger' is usually used to describe an amalgamation of companies involving an exchange of shares or the formation of a new holding company, where the merging companies are of comparable sizes and the substance of their businesses will continue after the merger. Other combinations are usually acquisitions rather than mergers, whether the consideration offered is in cash or in shares in the acquiring company, and are often referred to as 'takeover bids.' The powers of the Monopolies and Mergers Commission, and the conduct of mergers and takeovers of quoted companies governed by the City Code, are described in Chapter 3.

In cases of capital reconstructions or arrangements with creditors, the Companies Act 1948 provides for transfers of assets in exchange for shares with the approval of the directors and shareholders—and sometimes the creditors—of the companies concerned. Sometimes court sanction is also required.

Receivership

A secured creditor may enforce his security by the appointment of a receiver, whose duty it is to realise the security and pay off any preferential creditors and then the secured creditor who appointed him. Where the security takes the form of a floating charge, the receiver is normally empowered to carry on its trade in order to maximise the value

of the security, and he is then termed a 'receiver and manager.' He incurs personal liability for all his contracts unless the other parties concerned agree. In any case, the directors' powers to deal with the assets constituting the security are suspended, although the directors continue in office and the company continues to exist. The existence of a receivership must be stated on all business letters and other documents.

Liquidation and Dissolution

A company may be wound up (liquidated):

1. Compulsorily, that is by court order, where the court considers that this is just and equitable or the company is clearly insolvent. The court will then appoint a liquidator.
2. Voluntarily, usually by special resolution of shareholders. If the company is solvent, the shareholders appoint a liquidator and the liquidation is known as a 'members' voluntary winding-up'; but if it is insolvent, the creditors have power to appoint a liquidator and supervise him, and the liquidation is a 'creditors' voluntary winding-up.'

Once the liquidator is appointed, the directors lose their powers to act, and the company must cease to carry on business except for the benefit of the winding-up. Creditors such as the Crown (for unpaid taxes), employees (for unpaid wages and related matters), and landlords (for unpaid rent) have certain prior rights. After all the company's debts are paid, any remaining assets are available for shareholders in proportion to their rights under the articles. Procedures in Scotland and Northern Ireland differ slightly from those in England and Wales.

If during the winding-up it appears that the company's business has been carried on with intent to defraud creditors or others, the court may hold that those responsible — for instance, the directors — shall be personally liable for the company's debts.

The court may also order dissolution; for instance, as part of a reconstruction or merger scheme, or if the number of shareholders falls below the legal minimum. Moreover, the Registrar of Companies has power to remove a company from the Register if it is no longer operating and fails to file annual returns.

Following dissolution, the company's books and records must be preserved for at most five years.

Change of Corporate Status

A private company may be converted into a public company, and vice versa, or a limited company into an unlimited one, and vice versa, without difficulty.

BRANCHES

Formation

A foreign company may set up a branch in the United Kingdom without difficulty; and, once established, the branch may operate in the same way as a United Kingdom company. As a resident entity, it must comply with British exchange control and other regulations, although its tax status will differ from a company's (see Chapter 8). The name of the branch will normally be its foreign parent's corporate name, but if the Registrar of Companies deems this name undesirable for any reason, another name, approved by the Department of Trade, must be adopted by the branch. Within one month after the establishment of a branch, the foreign company must lodge the following documents with the Registrar of Companies:

1. A certified copy of its memorandum and articles of association, charter, or other constitution document.
2. A list showing names, addresses, nationalities, and certain other particulars of its directors and secretary or equivalent officials.
3. Particulars of a United Kingdom resident authorised to accept notices on behalf of the company.

These documents must be in English or accompanied by an English translation. No filing fees or capital duties are payable.

The mere presence of a visiting salesman or the use of an independent agent would not constitute the establishment of a branch for this purpose.

Administration

All changes in the information detailed above must be filed with the Registrar of Companies without delay. The branch must also file with the Registrar each year (fee £20) a copy of its parent company's audited financial statements. These must be filed within 13 months after the parent's financial year-end. Although the Registrar has the right to insist that statements comply with British accounting rules, he will usually accept documents as filed in the parent's home country, provided that accounting standards are comparable with those in the United Kingdom.

A certified translation into English must be attached to any statements in a foreign language. Certain mortgages and debentures created by the foreign parent must also be filed.

Every branch of a foreign company must exhibit its name, the country in which it is incorporated, and its limited liability status, if applicable, at every address at which it carries on business. Information to be shown on the business stationery of a branch is described in Chapter 3. If trade is not carried on in its own name, it must also register with the Registrar of Business Names.

A company carrying on business in Great Britain but incorporated in Northern Ireland must register as a foreign company, and vice versa.

PARTNERSHIPS AND OTHER ENTITIES

Partnerships

Individuals and companies, including foreigners, may carry on business *in partnership.* The number of partners usually may not exceed 20, but this limitation does not apply to certain professional partnerships. In an ordinary partnership, each partner is jointly (and in Scotland, separately) liable for all debts and obligations incurred while he is a partner, although, if judgment is obtained against only some partners, it may not be enforced against the others.

In a limited partnership, very rarely found, there must be at least one general partner liable for the firm's debts without limit in addition to limited partners liable only to the extent of the contributions made by them to the partnership. The general partner must be an individual and not a corporate body. Limited partners may not take part in management. A limited partner may transfer his interests in the partnership with the consent of the general partners, but limited partnerships with transferable share capital, as found occasionally in mainland Europe, are unknown in the United Kingdom.

Partnership financial statements do not have to be published. It is advisable to have a written partnership agreement drawn up by a solicitor. If the partnership's trade name does not consist of all its partners' names, it must register with the Registrar of Business Names.

Other Entities

Joint ventures and consortiums are sometimes formed, not only for exclusively British operations but also between British and foreign

enterprises. Joint ventures usually involve two or three participants, whereas consortiums are multiparty operations. They are not separate entities and are usually organised as partnerships or limited companies; as in other countries, care is necessary in defining the duties and responsibilities of the participants.

An individual (including a nonresident) owning and operating a business himself is referred to as a 'sole trader.' Like all other entities, he may be required to register with the Registrar of Business Names. He has sole responsibility for his business and unlimited personal liability for all its debts. Sole traders do not have to publish their financial statements.

Building societies are nonprofit-making institutions that provide funds for home ownership from savings by their members. Other institutions that grew up in nineteenth century Britain in the era of 'self-help' include friendly societies, industrial and provident societies, and, in the commercial sphere, cooperative societies. A cooperative society is not a separate type of business entity but is organised either as a limited company or under the Industrial and Provident Societies Acts. Usually, these institutions are only of personal interest to foreign investors. A few 'workers' cooperatives' have recently been formed, but these also are limited companies, financed largely by government funds.

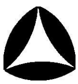
Trusts are arrangements unknown in many countries. A trust is an equitable obligation, binding the person who has control over property (the trustee) to deal with it for the benefit of persons called beneficiaries, any one of whom may enforce the obligation. The founder of a trust, usually called the settlor, divests himself of the property placed in trust. Any act on the part of a trustee that is not authorised by the terms of the trust agreement or by law is called a breach of trust. Trusts are frequently used for charitable or family purposes but rarely for commercial activities, although there is nothing to prevent a trust from effectively owning all the shares in a trading limited company.

A 'unit trust' is a special type of trust, known in other countries as an 'open-ended mutual fund,' that facilitates investment in Stock Exchange securities or occasionally real estate. An investment trust (closed-ended mutual fund) is, despite its name, a company incorporated under the Companies Acts.

Certain public corporations (for example, the Post Office) and some very old, established companies are governed by individual Acts of Parliament or by Royal Charter.

Unlimited companies formed under the Companies Acts are occasionally found; they do not have to file financial statements with the Registrar of Companies unless they are parents or subsidiaries of limited companies.

The EEC Commission has proposed the introduction of two new entities—the 'Societas Europea,' that would have the status of a national company in every member state but would be subject to Community law and not to the companies legislation of any one state, and the 'European Cooperation Grouping,' a flexible form of international partnership.



CHAPTER VII

Accounting and Auditing

- FORM OF FINANCIAL STATEMENTS
- ACCOUNTING PRINCIPLES AND PRACTICES
- AUDIT REQUIREMENTS AND PRACTICES
- THE ACCOUNTING AND AUDITING PROFESSION
- BOOKS AND RECORDS
- SPECIMEN FINANCIAL STATEMENTS

FORM OF FINANCIAL STATEMENTS

The Companies Acts set out the information that companies must give in their financial statements (often referred to in Britain as 'accounts'), but it is left largely to the accountancy profession to determine the accounting principles to be applied in drawing them up.

Layout

No standard reporting format is required by law. A company's accounts must consist of a balance sheet, profit and loss account, directors' report, and auditors' report, but this requirement does not extend to partnerships or sole traders. If the company has subsidiaries, a consolidated balance sheet must normally be prepared also, and the profit and loss account must normally contain consolidated information. Other documents required in accordance with best practice include a statement of source and application of funds and information on the effects of inflation.

Traditionally, a British balance sheet listed capital, reserves, and liabilities on the left and assets on the right, and the profit and loss account was often a two-sided document. Modern accounts, however, are frequently columnar in form. In the balance sheet, sometimes capital and reserves precede assets and sometimes the reverse.

Provisions for diminution of assets (for example, depreciation, inventory, or doubtful debt provisions) are deducted from the assets to which they relate. Share capital, reserves, and retained earnings are grouped together so that total shareholders' interests can be identified. In the profit and loss account, profit before and after tax, dividends paid and proposed, and retained profit must be shown separately.

Legal Requirements as to Content

There are detailed requirements concerning the information to be disclosed by companies, not only in the balance sheet and profit and loss account or accompanying notes but also in the directors' report. The requirements are mostly contained in Sections 16-20 and the second schedule to the Companies Act 1967; in Northern Ireland, they are slightly less demanding. Nonstatutory disclosures are based on Stock Exchange

requirements (for listed companies) and the standard accounting practice statements described later.

The following is a summary of the main requirements:

Share capital

— Authorised and issued capital, arrears of cumulative preference dividends, and any options to acquire shares must be disclosed. A subsidiary company must normally state the name and country of incorporation of its ultimate parent.

Reserves and provisions

— These must be described appropriately (except for some provisions deducted from assets); increases and decreases must be explained. Excess provisions must be treated as reserves.

Fixed assets

— Cost or valuation and aggregate depreciation of each appropriate class, as well as movements in fixed assets within the year, must be shown and details of any revaluations given. Real estate must be described in some detail.

Goodwill, patents, and trademarks must be stated and the basis for their valuation disclosed.

Investments

— Quoted and unquoted investments must be distinguished and market values of the former and directors' values (or equivalent information) of the latter stated. Details of subsidiary companies and other material investments must be given (names, holdings, and countries of incorporation). 'Material investments' means any company in which more than 10% of its issued equity capital is held or in which the holding constitutes more than 10% of the investing company's assets.

Loans and overdrafts

— These must be analysed by term. If they or any other liabilities are secured on the company's assets, this fact must be disclosed.

Other assets and liabilities

— These must be grouped and described as appropriate, and valuation bases or bases for provisions such as for tax payable must be described. Group inter company balances must be shown separately. Currency conversion bases, capital commitments and other

authorised capital expenditure, and contingent liabilities must be disclosed in notes to the accounts. If the directors believe that the realisable value of any current asset is below its book value, this must be stated. Loans to directors must be disclosed; such loans may be made only in very restricted circumstances.

Profit and loss account

— Turnover (sales), investment income, rents receivable and payable, depreciation, interest payable, directors' and senior employees' remuneration (compensation), audit fees and expenses, taxation, dividends paid and proposed, and transfers to and from reserves and provisions must, with certain exceptions, be shown. Directors' remuneration must be analysed to show that of the chairman and other directors in remuneration brackets of £2,500. Exceptional or extraordinary items, prior years' adjustments, and the effect of any changes in accounting bases must all be disclosed.

Directors' report

— The company's principal activities, proposed profit appropriations, substantial differences between book and market values of fixed assets, significant fixed asset movements in the year, changes in share or loan capital, and any other material matters must all be described. Directors' names, interests in shares or debentures, rights to acquire shares, and company contracts in which they are interested must be disclosed. Turnover and profit of significantly different activities must be analysed. Other disclosures include political contributions, value of exports, and comments on health and safety at work.

General

— Corresponding figures for the preceding accounting period must be stated. Every company's balance sheet must be signed by two directors (or the sole director of a private company).

Nonstatutory requirements (that is, requirements of professional accountancy bodies and the Stock Exchange)

— Accounting policies must be described; when fundamental concepts (such as accrual accounting, consistency, and the 'going concern' basis) are not followed, this must be stated. All but the smallest enterprises must provide statements of the source and application of their funds. Figures for earnings-per-share are usually indicated.

Two points require special emphasis. First, the overriding requirement of

the law is the presentation of a 'true and fair view.' What constitutes 'true and fair' is a matter of judgment, but it is not automatically achieved by disclosing every individual item specified in the Companies Acts. Second, each item must be disclosed separately, unless omission is authorised in special circumstances (such as occasionally when the company or its subsidiaries carry on business abroad). However, any necessary analysis or explanation may be given in notes, so that the accounts are not confused by detail.

The Companies Acts requirements apply to all companies, public and private. The standard requirements are modified for certain banks, deposit-taking bodies, insurance, and shipping companies. Foreign companies with British branches are usually required to produce accounts complying with British rules, subject to relaxations in some cases (see Chapter 6).

The draft fourth EEC directive on company law, expected to be adopted by the Council of Ministers during 1978, may necessitate changes in British requirements, but the 'true and fair' concept that is basic to British thinking is likely to be incorporated in the Directive.

Accounting Requirements for Groups

A parent company (in the Companies Acts a 'holding company') is a company that is a member of another and either controls the composition of that other's board of directors or holds more than half in nominal value of its equity share capital. It is thus possible for a company to be a subsidiary of two unrelated parent companies at the same time.

With minor exceptions, every parent company must produce group accounts. Normally, such group accounts consist of consolidated accounts, prepared as if they were the accounts of a single entity, although other methods are permitted if they are considered more informative by the directors. Group accounts are not required from a parent that is itself the wholly owned subsidiary of another British company or, for example, if their preparation would be misleading or if they would be of no value to shareholders because of the insignificant amounts involved. In these circumstances, the parent company's own accounts must disclose certain additional information concerning the subsidiaries and any qualifications in their auditors' reports.

Group companies must disclose intercompany accounts as well as intercompany investments by way of share or loan capital. A parent's accounts must normally include a list of its subsidiaries showing the

extent of its holdings in, and the country of incorporation of, each one; subsidiaries incorporated or carrying on business abroad may be omitted with Department of Trade approval. A parent company need not produce its own profit and loss account if the consolidated profit and loss account discloses its own profit and shows the remuneration of its own directors from all group sources. If the accounting dates of all group companies do not coincide, certain further requirements must be met. The draft seventh EEC directive on company law, which concerns group accounts, is likely to end the alternatives to consolidation now available to British companies.

Publication Requirements

Every company must send to its shareholders and debenture holders, not less than 21 days before its annual general meeting, a copy of its balance sheet, profit and loss account, directors' report, and report of the auditors. In Northern Ireland, accounts of private companies need be sent to shareholders only if they so request.

The Companies Act 1976 (applicable, except for some transitional provisions, by October 1, 1977) has introduced new rules for the filing of accounts with the Registrar of Companies. In future, accounts must be filed within specified periods after the end of each financial year. Accounts are normally expected to cover twelve months, but a longer or shorter period is permitted following incorporation or a change in accounting date. The maximum period allowed is eighteen months and the minimum six, and a period may be extended beyond twelve months only once in any five years, except to bring group companies' accounting dates into line. Unless a company notifies the Registrar otherwise, its financial year-end (or 'accounting reference date') is assumed to be March 31 in each year. A public company must file its accounts with the Registrar within seven months after its financial year-end and a private company within ten; a company with business abroad may claim a three-month extension.

These new arrangements do not apply to companies registered in Northern Ireland. A public company there must still file its accounts within 42 days of its annual general meeting; a private company need not file accounts at all.

Partnerships and sole traders do not have to publish their accounts. Foreign companies trading in Great Britain through branches must comply with the rules in the 1976 Act.

Besides these rules, companies may be required to disclose financial information from time to time to government departments and trade unions in accordance with the Industry Act, Employment Protection Act, and other laws.

ACCOUNTING PRINCIPLES AND PRACTICES

Evolution of Accounting Principles

Accounting principles have evolved by commercial usage rather than by statute. From time to time since the 1940s, the professional accountancy bodies issued recommendations to their members, but these were not binding; during the 1960s, the variety of practices that had grown up as a result of encouraging individual enterprises to present a 'true and fair view' began to be criticised, not only by accountants but by businessmen generally.

In 1971, the professional accounting bodies began to take a more positive line by issuing Statements of Standard Accounting Practice (SSAPs). These endeavour to establish definitive standards, narrow differences of practice and ensure disclosure of accounting bases. All members of the professional accounting bodies, whether in industry, commerce or public practice, are expected to comply with these statements. Departures from standard practice must be disclosed and justified, and auditors must report thereon. Nine SSAPs are at present in operation, and several other 'exposure drafts' (EDs) have been issued. These mostly deal with historical cost accounting, but one important ED has been concerned with current value accounting — that is, the treatment of price changes, especially in periods of inflation. United Kingdom practices generally comply with International Accounting Standards issued to the present time.

Accounts in the United Kingdom are much less influenced by taxation requirements than those in many mainland European countries, the British view being that the aims of tax law and good business practices do not always coincide.

Specific Accounting Practices

Fixed Assets and Depreciation. Fixed assets are normally valued at cost although many companies have periodically revalued them (especially land and buildings), taking the surplus that usually results to reserves that are not available for distribution as dividends. Capital grants received

from the government are either deduced from asset costs or held (not as part of 'shareholders' funds') as a deferred credit; in both cases, the grants are released to revenue over the lives of the assets concerned (SSAP 4).

Depreciation is based on expected asset lives, although some smaller companies adopt tax depreciation rates for simplicity. Buildings have sometimes not been depreciated in the past, but this practice will have to cease if ED15, which deals with depreciation, becomes an SSAP.

Intangibles. Goodwill, patents, and trademarks are either retained indefinitely until shown to be valueless or written off against profits. In practice, few enterprises have amortised goodwill in the past. 'Goodwill arising on consolidation' (cost of control), after any appropriate revaluation of other assets acquired, may be retained or written off through the profit and loss account. Research expenditure is normally written off in the year in which it is incurred, although development expenditure is sometimes amortised over reasonably-assured recovery periods.

While there is no legal bar to the creation of goodwill in the balance sheet on a *bona fide* valuation of the business, this would not conform with modern commercial practice and will probably be prohibited by the proposed EEC fourth directive, which is also likely to require goodwill and other intangibles such as formation (organisation) expenses to be amortised over five years.

Investments. Investments held as current assets are usually carried at the lower of cost or market value, but investments held long-term for trade purposes are usually recorded at cost, although permanent diminutions in value are provided for.

Associated Companies. A company (other than a subsidiary) is an associated company if the investing company's interest is that of a partner in a joint venture or consortium, where not less than 20% of the associate's voting shares are held and the investing company participates in its management. Such associated companies are accounted for in accordance with SSAP 1 by the 'equity method,' whereby, in the balance sheet, investments are shown at cost plus the investing company's share of post acquisition retentions; and, in the profit and loss account, the investing company's share of the associate's earnings, taxation, and retentions are disclosed with the investing company's own figures. The definition of an 'associated company' for this purpose differs from that in the Companies Act 1967 requiring disclosure of names, holdings, and countries of incorporation.

Subsidiaries. These are dealt with in group accounts, normally in the form of consolidated accounts.

Inventories. These are usually referred to in Britain as 'stock and work in progress.' They are normally carried (SSAP 9) at the lower of cost or net realisable value. (The term 'market value' is not used because it can mean both realisable and replacement value.)

'Cost' is normally actual, average or FIFO cost; base stock cost is used in very restricted circumstances and LIFO virtually never. Fixed and variable production and related overheads are usually included in cost. Reductions to net realisable values are made to take account of market changes, obsolescence, physical deterioration, or excessive stocks. An unjustified inventory reduction would contravene the 1948 Companies Act and constitute a departure from standard accounting practice to be disclosed and commented on by the auditors, although it may still be that, as in many countries, small businesses carry 'prudence' to such lengths that inventory undervaluations sometimes occur.

Long-Term Contract Work in Progress. Contracts are usually carried at cost plus attributable profit, less foreseeable losses. Progress payments received and receivable are deducted.

Receivables. Provisions for doubtful debts are deducted from the asset concerned (for example, 'Trade Debtors'). The contingent liability resulting from discounting bills receivable is disclosed by note.

Taxation. Provision is made for all taxation payable on profits earned to balance sheet date, and not merely on profits assessed to tax in the year. The basis for the tax charge is shown; unrelieved foreign tax is shown separately. Tax on extraordinary items is charged against those items so that the tax deducted from trading profit is the fair charge on that profit for the year.

The taxable profit need not be the same as the profit shown in the accounts (see Chapter 8). Since the 1960s, the tax on differences in the treatment of such matters as depreciation, fixed asset revaluation, and inventory valuation for financial reporting and taxation purposes has been widely dealt with through a deferred tax account. Recently, however, this practice has been questioned, particularly by accountants in industry and commerce, on the grounds that the tax deferred is often unlikely to be payable in the foreseeable future and that it is unreasonable therefore to provide for it. ED19 proposes that all deferred taxation liabilities be disclosed in a note to the accounts, but that provision be made only for that proportion that is payable in the foreseeable future.

Liabilities. Current and deferred liabilities are shown separately. Liabilities under long-term rental or similar agreements are not usually stated in the accounts, but contingent liabilities (for example, under a threatened lawsuit where the directors believe that adequate defence is available) are noted. Provision is made for such items as claims under guarantee and pensions not covered by separate pension funds.

Reserves and Provisions. These two terms are carefully distinguished in the United Kingdom. Reserves are appropriations of profit or surpluses arising from asset revaluations or the issue of shares at a premium, in all cases forming part of shareholders' interests, whereas provisions are charges against profit and are set up to meet known liabilities of uncertain amount or for diminutions in asset values.

Reserves that are appropriations of profit are generally free for distribution to shareholders in any form (subject to government dividend controls) or to meet losses; other reserves such as share premium accounts or asset revaluation surpluses are not normally distributable and are disclosed separately. Unappropriated profits or retained earnings are grouped with reserves in the balance sheet.

Provisions other than for diminution of asset values are shown with current or deferred liabilities. Excessive provisions must by law be described as reserves, and this requirement has the effect of prohibiting secret reserves (except as permitted by the Companies Acts in very limited circumstances). Even the 'secret reserve' that may exist because of an increase in value of real estate over book value must be disclosed, if substantial, in the directors' report; in practice any secret reserve arising from the application by a small company of extreme prudence in inventory valuation is not likely to be large in absolute terms.

Profit and Loss Account. Turnover (sales) net of value added tax is disclosed (except by small companies and banks), but cost-of-sales is not. Although executive directors are sometimes entitled to remuneration varying with results, their total remuneration is charged against profits; the practice of showing directors' shares of profit as appropriations, as found in mainland Europe, is not followed. As proposed dividends are deducted from distributable profits, retentions are clearly shown. Exceptional and extraordinary items are disclosed in the profit and loss account and should not be dealt with through reserves (SSAP 6); prior-year adjustments resulting from changes in accounting policies or corrections of fundamental errors, and unrealised adjustments on the revaluation of fixed assets (including associated foreign currency adjustments), are the only items that should be passed directly through reserves.

Foreign Currency Conversions. Foreign currencies are usually converted into sterling at year-end rates, although historic rates are sometimes used for fixed assets. Whichever practice is followed, the conversion basis must be described.

Mergers

Most mergers and takeovers are accounted for as acquisitions where goodwill and share premium accounts arise and the preacquisition reserves of the acquired company are not available for distribution as dividends by the acquiring company. Some mergers, however, where the consideration has been in the form of shares in the acquiring company, are accounted for by the pooling-of-interests technique whereby reserves and retained profits are amalgamated and no share premium is created. An ED on this subject issued in 1971 encountered oppostion and has not been issued as an SSAP.

Accounting for Inflation

As this study was being written, proposals for the introduction of current cost accounting in place of historical cost accounting throughout British industry and commerce were being debated. Various proposals had been made in an exposure draft (ED18), prepared following the publication of a report recommending current cost accounting by a committee of businessmen, accountants, and academics (the 'Sandilands Committee') set up by the government in 1974.

ED18 set out to provide detailed guidance on the adoption of a new system of accounting, which should in due course supersede historical cost accounting as the basis of all accounts designed to give a 'true and fair view' throughout British industry and commerce, while recognising that it might be necessary to publish historical cost figures as well. The essence of the new system was that a business does not start to generate profit until after it has set aside sufficient funds to replace the resources used up in the course of earning its income. The system would have equal relevance during inflationary, deflationary or stable periods. In summary, assets would be recorded at their value to the business concerned (essentially replacement cost), and not at original cost; and gains or losses would be analysed to show those resulting from normal operations, those arising from holding assets or liabilities in periods of changing price levels, and extraordinary items. Cost-of-sales would be adjusted to reflect the current cost of items sold as at the date of sale, and depreciation charges would be based on current values.

Inevitably, there were criticisms of ED18. Apart from those critics for whom the whole idea was too radical a change, the main objectors were

those who wished to see adjustments made for gains and losses on monetary items such as trade debtors and creditors, bank deposits, and loan capital and those who sought tighter controls over directors in defining required transfers to undistributable revaluation reserves. It is likely that ED18 will be substantially modified and a simplified system initially adopted.

Moreover, the changeover from historical to current-cost published statements is likely to be deferred; in the meantime, many enterprises will probably disclose current-cost results in supplementary statements accompanying their historical cost accounts.

AUDIT REQUIREMENTS AND PRACTICES

Legal Requirements

All companies are required by law to appoint an auditor or auditors. The Companies Acts require that the auditors of company accounts must be members of one of the following four professional bodies:

The Institute of Chartered Accountants in England and Wales
The Institute of Chartered Accountants of Scotland
The Institute of Chartered Accountants in Ireland
The Association of Certified Accountants

The Department of Trade may also authorise as auditors of British companies any persons who have acquired similar qualifications in other countries. This authorisation is not subject to any conditions of nationality or residence, but may be withheld if reciprocal practice rights are not given in the other country concerned to accountants qualified in the United Kingdom. If a firm is appointed, all its partners must be duly qualified. An auditor may not be a director, secretary, or employee of the company, or of another group company, or a partner or employee of any such director, secretary, or employee. Besides these legal restrictions, there are professional rules (see 'Professional Practices' later in this chapter).

Other entities such as partnerships, sole traders, and branches of foreign enterprises do not have to appoint auditors unless the regulations under which they were formed require them to do so. Special rules apply to building societies, friendly societies, unit trusts, stockbrokers, and solicitors.

It is a criminal offence for a company official to make any false or

misleading statements to the auditors. The appointment of audit committees, to pay particular attention within companies to reporting and auditing matters, is neither legally required nor widespread, although attempts to introduce legislation have been made.

Subsidiary companies and their auditors must give a parent company's auditors whatever information they may require for audit purposes.

Audit Standards

The conduct of the audit is left to the judgment and professional skill of the auditors. Practices tend to vary considerably between the larger and smaller firms. Audits in the United Kingdom are in the main planned to enable the auditors to report to shareholders on the accounts examined by them. The auditors' tests and procedures cannot necessarily be relied upon to disclose defalcations and irregularities should there be any, although their discovery frequently results from those tests.

The English Institute has issued a number of recommendations on auditing practice, covering such matters as internal controls, debtor (receivables) confirmations, attendance at stocktaking and other inventory matters, group accounts, and audit working papers. Techniques such as statistical sampling, use of internal control questionnaires or flowcharts, maintenance of audit programmes and documented working papers, submission of letters of recommendation following audits, and post-balance-sheet reviews are all employed by progressive audit firms. Particular attention is paid by many firms to standards of training, supervision of audit staff, and reviews of audit procedures and opinions.

Audit Reports

The Companies Acts require auditors to report whether in their opinion the balance sheet and profit and loss account have been properly prepared in accordance with the provisions of the Companies Acts and give a true and fair view of the state of affairs and profit or loss of the company. Special wording is adopted in the case of insurance and shipping companies, certain banks and other bodies that are permitted by law not to make the full disclosures that a 'true and fair view' would require. If, in the opinion of the auditors, proper accounting records have not been kept, or if the balance sheet and profit and loss account are not in agreement with the accounting records, or the auditors have not received all the information and explanations they require, they must say so in their report. If the accounts are prepared under the historical cost convention, the auditors' report draws attention to this factor. The

professional bodies recommend that audit reports should cover statements of source and application of funds, as well as the conventional accounts. The auditors' report must be attached to the accounts sent to shareholders and must be read at the annual general meeting.

If the company has subsidiaries, the auditors must report whether, in their opinion, the group accounts comply with the Acts and give a true and fair view of the group's affairs and results.

If irreconcilable differences of opinion concerning some material aspect of the accounts arise between the auditors and directors or if the auditors are unable to verify some aspect of the company's affairs, they would qualify their report, informing the shareholders of the nature and amount of the item in question. Auditors are required by their professional bodies to report on all significant departures from standard accounting practices, stating the extent to which the departures impair the true and fair view or, alternatively, that they concur with them.

The more progressive firms of auditors submit recommendations on accounting practices and internal control to their clients following each audit, but these are not made public. Auditors do not usually produce long-form reports commenting in detail on specific items in the accounts, but would do so if requested — for example, by a foreign parent company — usually for an additional fee.

In addition to the reports on annual accounts required by the Companies Acts, auditors are required to undertake investigations leading to specific reports for prospectus and other purposes. Companies (e.g., insurance companies) that are exempt from the full disclosure requirements of the Companies Acts often have to make returns to government departments or the Bank of England, and many of these must be audited.

Appointments and Changes of Auditors

The first auditors of a company are appointed by its directors, who may also fill any vacancy; for example, on the death of a sole auditor. At each annual general meeting, the auditors must be formally reappointed; special notice is required for a resolution to reappoint auditors filling a vacancy or to appoint different auditors. An auditor who is to be removed normally has the right to send his views to the shareholders and to speak at the meeting.

Auditors may resign their office, but only by writing to the company confirming that no circumstances connected with their resignation should be brought to shareholders' or creditors' notice, or stating what

such circumstances are. This resignation notice must be filed with the Registrar of Companies and circulated to shareholders together with any explanatory statement issued by the auditors.

In extreme cases, the auditors themselves may requisition an extraordinary general meeting to discuss the circumstances connected with their resignation. Professional courtesy requires that any proposed new auditors should communicate with the former auditors to ascertain if there is any professional reason why they should not accept office.

Entities not required by law to appoint auditors may, if they choose to have their accounts audited, appoint any persons as auditors whether qualified or not, but bodies of any standing would appoint a professionally qualified accountant.

THE ACCOUNTING AND AUDITING PROFESSION

Professional Bodies

The profession of accountancy began in Britain in the mid-nineteenth century, although a directory of accountants was available in Edinburgh as long ago as 1773.

The four principal British public accountancy bodies are now:

1. The Institute of Chartered Accountants in England and Wales. Founded by Royal Charter (hence the title 'chartered accountant'), this Institute has about 63,500 members who are entitled to use the designatory letters ACA or, after post qualifying experience, FCA.
2. The Institute of Chartered Accountants of Scotland. Founded in 1854, this is the oldest-established of the four bodies and has some 9,500 members, who use the designatory letters CA.
3. The Institute of Chartered Accountants in Ireland. This Institute has some 3,200 members, who use the designatory letters ACA and FCA, in both Northern Ireland and the Republic of Ireland.
4. The Association of Certified Accountants has some 17,500 members who are known as 'certified accountants' and who use the designatory letters ACCA and FCCA.

About a quarter of the members of these four bodies are in public practice, the remainder being employees of those in practice, or accountants engaged in industry or commerce. Two specialised bodies concentrate on public service accounting and management accounting, and some smaller bodies also exist.

The professional accountancy bodies themselves control admission requirements, examinations, and the activities of their members, and there is no government regulating agency. They cooperate closely through a consultative committee known as the 'CCAB.' The British accountancy bodies are among the founder-members of the International Accounting Standards Committee.

Training and Qualifications

Requirements in England and Wales differ slightly from those elsewhere in the United Kingdom, but, in general, candidates for admission to the three chartered institutes must obtain either three or four years' practical experience (depending on pretraining educational achievement) in the office of a public practising chartered accountant and must pass a series of professional examinations. These examinations cover accounting, auditing, taxation, company and commercial law, costing and management accounting, executorship and trusteeship law and accounting, statistics and management mathematics, economics, and general financial knowledge. Membership of the other bodies is by examination after practical experience, but not necessarily in public practice.

The title 'accountant' is not, however, restricted in law and any person may practise as a public accountant, although only qualified accountants may act as auditors of companies or other bodies adopting the Companies Act rules.

Professional Practices

Independence. Professional ethics require an auditor to be independent of his client. The Companies Act 1948 states that close associates of a company's management may not act as its auditors (discussed earlier in this chapter); and although it is not illegal for an auditor or his dependants to be shareholders, audit firms now prohibit their partners and staff from holding investments in client companies in accordance with professional bodies' requirements. An audit firm's independence is not considered to be impaired if its employees, other than those who conduct the audit, write up its client's books or provide company secretarial services, or if a partner or employee acts as tax or management consultant, liquidator, receiver, or registrar (a company official who is responsible for recording share transfers and paying dividends), or otherwise advises the client or its directors personally.

Remuneration and Liability. Professional fees are normally based on time spent. It is unethical for a qualified accountant to accept work on a

contingency fee or (except in special cases) percentage basis. Company audit fees are required by law to be fixed by the shareholders or as they may determine, which usually means that the directors are empowered to agree upon fees.

Audit fees and expenses must be disclosed in companies' annual accounts, but this requirement does not extend to any other professional services that the auditor may render.

The auditors' liability in civil law is not completely clear, but it appears to be that auditors who are guilty of negligence or fraud in their duties can be sued by their clients and in some circumstances by third parties, and there is no limit to the damages that may be awarded. Professional indemnity insurance is usually carried but is not obligatory.

Other Matters. The auditors of a parent company must by law report on the whole group's accounts, whether or not they also audit the accounts of all subsidiaries. For this reason, they do not normally accept without question the report of another auditor on a subsidiary's accounts, but make such enquiries as they consider proper concerning that subsidiary, a practice given statutory authority by the Companies Act 1976. In most cases, the parent's auditors obtain all the information they require from discussions with the other auditor.

Because the Companies Act 1948 states that a corporate body may not act as the auditor of a company, accountants who wish to act as auditors organise their own businesses as partnerships or sole practitioners and not as companies. Related activities such as management consultancy are sometimes carried out, subject to certain professional rules, through companies.

BOOKS AND RECORDS

Legal Requirements

Every company is required by law to keep such records as will disclose its financial position and ensure that its accounts give a 'true and fair view.'

Although the precise form of these records is not prescribed by law, they must deal with:

1. Cash receipts and expenditure day by day
2. Assets and liabilities

3. Where the business involves dealing in goods
   a. sales and purchases
   b. amounts of stock (inventory) held at each financial year-end; the supporting stocktaking records must also be kept.

Private companies must retain these records for three years and public companies for six.

If the books are kept outside the country, accounts or returns must be sent to a place within it at intervals not exceeding six months, in a form sufficient to disclose the financial position of the company and to enable its accounts to be prepared in accordance with the Companies Acts. Although not specifically subject to the Companies Acts requirements, branches of foreign companies and unincorporated bodies are also expected to keep reasonable and adequate financial records. As the books of any enterprise in Britain will be subject to inspection by Customs representatives for VAT purposes and may also be required for examination by the Inland Revenue, it is usual for them to be kept in English at the registered office or principal place of business in the country and retained there for three years, even if they are initially prepared elsewhere; for example, on a foreign parent company's computer. Legal requirements as to nonfinancial records are stated on page 96.

Management Accounts

Larger companies usually prepare monthly accounts, together with budgets, for management purposes, and senior accounting executives would be expected to produce such information conforming to a reasonable standard of accuracy so that significant adjustments would not be required when the annual accounts are audited.

Smaller companies normally would not prepare advanced management information or, if they did, they might need help from independent accountants.

SPECIMEN FINANCIAL STATEMENTS

On the following pages are set out a specimen of the balance sheets, consolidated profit and loss account, and other information produced in the United Kingdom. The directors' report and the detailed notes to the accounts are too voluminous to be illustrated but are briefly commented on.

TRAMP HOLDINGS LIMITED
Report and Accounts
31st December 19—
DIRECTORS' REPORT

(Not set out in detail; in practice, a representative directors' report would deal with:

Group activities
Acquisitions and capital issues
Results and dividends
Turnover and profits analysed as appropriate
Directors' names, shareholdings, interests in contracts, and availability for reelection
Substantial shareholdings
Significant movements in fixed assets and material differences between book and market values
Employees — numbers, aggregate remuneration, industrial relations, and welfare
Donations for charitable and political purposes
Appointment of auditors for the ensuing year.)

AUDITORS' REPORT TO THE MEMBERS OF TRAMP HOLDINGS LIMITED

In our opinion, the accounts and notes on pages 127 to 133 which have been prepared under the historical cost convention, including the revaluation of certain assets, comply with the Companies Acts 1948 and 1967 and so far as concerns members of the company give a true and fair view of the state of affairs at 31st December 19— of the company and of the group and of the profit and source and application of funds of the group for the year ended on that date.

Touche Ross & Co.

Chartered Accountants
30th March 19—

TRAMP HOLDINGS LIMITED

CONSOLIDATED PROFIT AND LOSS ACCOUNT

Year ended 31st December 19—

	Note	19— £'000	19— £'000
Turnover	2	4,318	3,920
Profit from operations	3	188	158
Share of profits less losses of associated companies	4	20	12
Profit before taxation		208	170
Taxation	5	98	80
Profit after taxation and before extraordinary items		110	90
Minority interests		2	2
Profit before extraordinary items		108	88
Extraordinary items	6	37	—
Profit after extraordinary items attributable to the shareholders of Tramp Holdings Limited	7	145	88
Dividends	8	32	24
Profit retained and transferred to reserves		113	64
Earnings per ordinary share	9		
Before extraordinary items		14p	11p
After extraordinary items		18p	11p

STATEMENT OF CONSOLIDATED RESERVES

Total reserves at 1st January		285	221
Revaluation of freehold properties		35	—
Transfer from profit and loss account		113	64
Total reserves at 31st December	18	433	285

TRAMP HOLDINGS LIMITED

CONSOLIDATED BALANCE SHEET 31st December 19—

	Note	19— £'000	19— £'000
CURRENT ASSETS			
Cash and bank balances		400	450
Trade debtors		290	260
Other debtors and prepaid expenses		74	65
Inventories		600	520
		1,364	1,295
CURRENT LIABILITIES			
Bank overdrafts	11	106	200
Trade creditors		281	184
Other creditors		90	55
Portion of long-term loans due within one year		40	40
Taxation		90	78
Dividend	8	20	16
		627	573
NET CURRENT ASSETS		737	722
INVESTMENTS	13	75	65
PROPERTY, PLANT, AND EQUIPMENT	14	631	550
OTHER LIABILITIES	15		
Long-term loans		(80)	(120)
Deferred taxation		(115)	(62)
Other		(85)	(90)
NET TANGIBLE ASSETS		1,163	1,065
INTANGIBLE ASSETS	16	70	20
		1,233	1,085
SHAREHOLDERS' INTERESTS			
Share capital	17	800	800
Reserves	18	433	285
		1,233	1,085

J. TRAMP } Directors
M. DRIVER }

TRAMP HOLDINGS LIMITED

BALANCE SHEET 31st December 19—

	Note	19— £'000	19— £'000
CURRENT ASSETS			
Cash and bank balances		245	416
Other debtors and prepaid expenses		50	30
Inventories	10	20	10
Amount due from subsidiaries		10	5
		325	461
CURRENT LIABILITIES			
Bank overdrafts	11	30	49
Other creditors		35	15
Taxation		5	5
Dividend	8	20	16
Amount due to subsidiaries		10	5
		100	90
NET CURRENT ASSETS		225	371
SUBSIDIARIES	12	501	301
INVESTMENTS	13	25	25
PROPERTY, PLANT, AND EQUIPMENT	14	379	368
OTHER LIABILITIES	15		
Long-term loans		(40)	(40)
Deferred taxation		(20)	(7)
Other		(15)	(13)
		1,055	1,005
SHAREHOLDERS' INTERESTS			
Share capital	17	800	800
Reserves	18	255	205
		1,055	1,005

J. TRAMP }
M. DRIVER } Directors

TRAMP HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS—Year ended 31st December 19—

	19—		19—	
	£'000	**£'000**	**£'000**	**£'000**
SOURCE OF FUNDS				
Profit before extraordinary items		108		88
Adjustment for items not involving the movement of funds				
Depreciation		69		63
Deferred taxation		40		8
Minority interest in profits of the year		2		2
Total generated from operations		219		161
Increase in creditors and other liabilities		139		70
Decrease in inventories		—		45
Proceeds of sale of land and other extraordinary items		137		—
		495		276
APPLICATION OF FUNDS				
Purchases of property, plant, and equipment	200		180	
*Excess arising from purchase of subsidiary	50		—	
Dividends paid and proposed	32		24	
Increase in inventories	80		—	
Increase in debtors and prepaid expenses	39		85	
Increase in investment in associated company	10		—	
Repayment of loans	40		40	
		451		329
INCREASE/(DECREASE) IN NET LIQUID FUNDS		44		(53)

(Net liquid funds comprise bank balances less overdrafts)

Net assets acquired	
Plant and equipment	100
Inventories	70
Debtors	120
Cash	40
Creditors	(180)
	150
Discharged by cash paid	200
Excess	50

*Summary of the effects of the purchase of C.P. Plastics Limited

TRAMP HOLDINGS LIMITED

NOTES TO THE ACCOUNTS
Year ended 31st December 19—

1. Accounting Policies
   (a) Basis of consolidation
   The group accounts consolidate the accounts of the company and all subsidiaries made up to 31st December 19—. On 30th June 19—, the whole of the issued share capital of C.P. Plastics Limited was acquired for £200,000; the profit before taxation of this company for the six months ended 31st December 19—, amounting to £21,500, is included in the profit and loss account.
   Investments in subsidiaries are stated at cost, representing in respect of acquisitions:
   For cash — the cash consideration
   By exchange of shares — the market value of shares on the day the offer became unconditional
   At the date of acquisition, a valuation is made of the fixed assets of the subsidiary and this valuation is incorporated in the consolidated accounts. Any excess of the cost of investments over the net assets of the subsidiary that remains after this valuation is retained in the balance sheet as part of intangible assets. Intangible assets are to be amortised over a five-year period commencing in 19—.

   (b) Associated companies
   These comprise companies other than subsidiaries in which the group has a beneficial interest of 20 percent or more of the equity capital, and the group through representation on the board participates in commercial and financial policy decisions of these companies. The consolidated accounts include the group's share of the profits and attributable taxation of the associated companies based on audited accounts for the year ended 31st October 19—. In the consolidated balance sheet, the investments in associated companies are shown at cost plus the share of retained profits arising since the acquisition of the investments.

   (c) Inventories
   Inventories are stated at the lower of cost (first-in, first-out method) and net realisable value. Cost represents materials, direct labour, and appropriate production overheads.

   (d) Property, plant, and equipment
   (i) Government grants receivable have been deducted from the cost of the relevant assets.
   (ii) Depreciation is not provided on freehold land. On other assets, it is provided on cost or revalued amounts in equal annual instalments over the estimated lives of the assets. The rates of depreciation are as follows:

Freehold buildings	2% per annum
Leasehold property	Over the term of lease
Plant	15% per annum
Motor vehicles	25% per annum
Equipment	10% per annum

   (e) Deferred taxation has been provided at the current tax rate (liability

method) on differences arising from the recognition of income and expenditure in different periods for taxation purposes than for accounting purposes.

(f) Repairs and renewals
Expenditure on repairs and renewals is written off in the year in which it is incurred.

(g) Research and development
Expenditure on research and development is written off in the year in which it is incurred.

(h) Product guarantees
Provision has been made for the estimated future cost of maintenance under guarantees in respect of products sold and is included in creditors.

(i) Foreign exchange
The assets, liabilities and trading results of the foreign subsidiary have been converted into sterling at the rate of exchange ruling at the year-end. Gains or losses resulting from realignment of currencies or from conversion of foreign exchange have been treated as normal items of the year's operations.

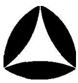
(j) Pension costs
Retirement benefits to employees of most companies in the group are funded by contributions from the group companies and employees. Payments are made either to pension trusts, which are financially separate from the group, or to insurance companies, in accordance with calculations made periodically by consulting actuaries. In the case of certain subsidiaries with unfunded plans, provision has been made in the accounts on the basis of periodic actuarial assessment. The cost of providing pensions in respect of current and prior service has been charged against the profits of the year.

Additional notes would appear in practice to disclose information required by law or to explain or amplify the balance sheets or profit and loss account in order to give a 'true and fair view.' Such notes would be as detailed as Note 1 above, but for illustrative purposes they are summarised here as follows:

2. Turnover. A definition of the sales figure would be given.
3. Profit from operations. This would disclose credits and charges such as investment income, rents, depreciation, directors' and senior employees' remuneration, audit fees and expenses, interest payable, and any exceptionally large or unusual trading items.
4. Associated companies. The group's share of profits less losses, taxation, dividends, and retentions would be shown.
5. Taxation. This note would disclose the rate of UK tax provided and the basis for the charge, deferred tax, foreign tax, and associated companies' tax.
6. Extraordinary items. Charges or credits (after tax) arising from events not connected with the group's trading activities would be detailed here.
7. Parent company's profit. The parent's own profit after tax included within the consolidated figure in the profit and loss account would be disclosed here.

8. Dividends. Dividends paid and proposed would be set out.
9. Earnings per ordinary share. The basis for the calculation, especially important if there had been a capital increase in the year, would be described.
10. Inventories. These would be analysed as to finished products, work in progress, and raw materials and supplies.
11. Bank overdrafts. Secured amounts would be disclosed.
12. Subsidiaries. Investments and intercompany balances would be summarised.
13. Investments. Quoted and unquoted investments would be distinguished, and market and directors' valuations would be shown.
14. Property, plant, and equipment. Cost or valuation, accumulated depreciation and movements during the year for each class of assets would be shown and details of any valuations given.
15. Other liabilities. These would be analysed by type, term, and whether secured or not.
16. Intangible assets. These would be briefly analysed and described.
17. Share capital. Authorised and issued capital would be stated class by class, showing the extent to which each class of issued capital was paid-up.
18. Reserves. These would be analysed by type, showing which were distributable as dividends and which not. Movements during the year would be shown.
19. Capital commitments and contingent liabilities. These would be quantified and briefly described.

In addition, details of holdings in subsidiary and associated companies would be given and comments made, often by the production of supplementary accounting statements, on the effects of inflation upon results and financial position.



CHAPTER VIII

Taxation in the United Kingdom

- INTRODUCTION
- CORPORATE TAXATION
- TAXATION OF INDIVIDUALS
- TAXATION OF OTHER ENTITIES
- WITHHOLDING TAXES
- DOUBLE TAXATION AGREEMENTS
- OTHER TAXES

INTRODUCTION

The British taxation system is complex. The principal taxes are:
Income tax
Corporation tax
Capital gains tax
Value added tax
Capital transfer tax

Other taxes include Development Land Tax, Petroleum Revenue Tax, transfer and capital duties, and a variety of minor imposts. These are all levied by the central government, but local authorities also raise some revenue by taxes called 'rates.' Customs and excise duties have been described in Chapter 3 and social security contributions in Chapter 4. There is at present no annual tax on wealth.

Sources of Legislation

All taxes are levied by the authority of Parliament. Statute law relating to income and corporation tax was consolidated in 1970 into the Income and Corporation Taxes Act (usually called 'the Taxes Act 1970') and the Taxes Management Act, which deals with administration. Power to continue the levying of taxes is given by Parliament each year in a Finance Act, in which amendments to the 1970 Acts are made; sometimes there is more than one Finance Act in a year.

Capital gains tax legislation was introduced in the Finance Act 1965 and is still based on that Act as amended. Tax on the development of land, which is part of the capital taxation of real estate gains, was introduced by the Development Land Tax Act 1976. Capital transfer tax on inheritances (replacing the former estate duty) and gifts derives from the first Finance Act of 1975. Value added tax law is set out in the Finance Act 1972, as amended, and in detailed regulations issued under the authority of that Act. The Petroleum Revenue Tax was introduced by the Oil Taxation Act 1975. Each of the other taxes or duties is based on a particular Act, any of which is liable to be amended by one of the annual Finance Acts. Judicial decisions often provide detailed commentaries and explanations of the statutes and are an important additional source of law.

Taxation in the United Kingdom

Each year, a Finance Bill is introduced into Parliament by the Treasury minister, the Chancellor of the Exchequer, usually in early April. This details proposed tax changes for the year to the following April 5. The government is permitted to levy taxes at the proposed new rates forthwith, even though the bill does not usually become an Act of Parliament until three or four months later.

Definition of Territory

For tax purposes, the United Kingdom comprises England, Scotland, Wales, and Northern Ireland. All the small islands off shore are part of the United Kingdom except the Isle of Man and the Channel Islands, which make their own tax laws. Since 1973, any activities in the British sector of the North Sea are deemed to be subject to British tax law.

Administration of Tax Laws

Most taxes are administered by the Commissioners of Inland Revenue (CIR). The Commissioners are assisted by local inspectors, who make assessments, and collectors, who receive the taxes due. These officials are referred to in this chapter collectively as 'the Revenue.' Value added tax is the responsibility of the Commissioners of Customs and Excise, assisted by local surveyors.

Officially, the Revenue will not give advance rulings; they prefer to decide after transactions are completed whether tax is due. However, they may be approached to give informal rulings on proposed transactions where there are commercial, as distinct from taxation, considerations involved, and also in certain other circumstances.

CORPORATE TAXATION

Corporate entities are subject to corporation tax on their income and capital gains and, where appropriate, to various other taxes. 'Corporate entities' are usually companies incorporated under the Companies Acts — whether public or private, limited or unlimited — but the term also includes public bodies, branches of foreign corporate bodies, and other entities incorporated under special Acts of Parliament. It does not include partnerships, joint ventures, or private trusts, although unit trusts are subject to corporation tax. All bodies liable to corporation tax are referred to in this chapter as 'companies' unless the context requires otherwise.

Resident Companies

A resident company is subject to corporation tax on its worldwide income. A company is 'resident' in the United Kingdom if its central management and operational control take place there. Thus, the place where a company's board meetings are held to make policy decisions and where day-to-day management takes place is of much greater significance than its country of incorporation or the place of residence of its shareholders. A company that has been established by the Revenue as resident in the United Kingdom may become nonresident only with the specific approval of the Treasury, and this is not easily given.

Where a company is treated by the tax laws of several countries as being resident in more than one of them, double taxation agreements often arbitrarily provide that it is resident where its vital interests are to be found.

Taxable Profits

Corporation tax is assessed on a company's total profits—that is, its income and chargeable capital gains, less certain expenses referred to as charges on income—and any allowable reliefs available. Income is classified into six categories referred to as 'schedules,' to each of which different rules apply so that the computation of income for tax purposes depends upon its nature. A chargeable capital gain is basically the excess of sale proceeds of any of a wide range of assets over its cost (pages 141 to 143).

The Six Schedules. These are as follows:

Schedule	Income Assessed
A	Rents or premiums from real estate in the United Kingdom.
B	Income from woodlands operated for profit (unless the taxpayer elects to be assessed under Schedule D, Case I).
C	Interest and annuities from national or local government debt (including that of some British Commonwealth countries).
D — Case I	Profits of any trade carried on by a United Kingdom resident and of any trade carried on within the United Kingdom by a nonresident.
Case II	Profits of any professional practice carried on in the United Kingdom and anywhere else in the world.
Case III	Interest, annuities, royalties, and other annual payments other than those assessed under Schedule C.
Case IV	Income from foreign mortgages, bonds, and the like.
Case V	Income from foreign possessions such as shares, real estate, or trades carried on wholly abroad.
Case VI	Annual profits in the nature of income not assessable under any other schedule or case.

E	Income from employment or the holding of an office (this schedule is also divided into Cases).
F	Dividends received from United Kingdom companies chargeable to corporation tax.

General Principles. Income is computed in accordance with the rules of the appropriate schedule, and the results are then aggregated to give total income. Broadly, real estate and investment income arises when it is due (whether received in cash or not), and trading profits arise in the period covered by financial statements drawn up on the normal accruals basis. These broad principles do not encompass the various exceptions which perforce exist.

Specific Sources of Income. *Trading Income.* The ordinary principles of commercial accounting are in general applied, and financial statements do not have to be prepared on tax-acceptable bases. Instead, a 'computation' is submitted to the Revenue, setting out the steps by which the profit shown in the company's profit and loss account is adjusted to become the taxable profit.

Dividends from United Kingdom Companies. Dividends received from other United Kingdom companies are not subject to corporation tax and so are excluded from total profits. Dividends from subsidiaries or fellow-subsidiaries are called 'group income' (see section entitled 'Groups of Companies' later in this chapter). Other dividends have a tax credit attached to them and are called 'franked investment income' or FII. FII comprises not only the sum actually received but this tax credit also. The tax credit is at present 34/66ths of the actual receipt (that is, 34% of the actual receipt plus the credit).

Although in theory this credit is income tax that could be repaid to the recipient company, there are, in fact, only certain ways in which benefit from it can be claimed. It may be used in satisfying the payment of advance corporation tax (see page 159) on the recipient company's own current or future dividends; or, subject to certain limitations, it may be repaid if the recipient company has a loss for tax purposes.

Dividends from Foreign Companies. Such dividends, gross of foreign withholding taxes but less collection charges and commissions, are subject to corporation tax. The paying agent concerned (that is, the British bank that normally exchanges the foreign currency received into sterling) must deduct United Kingdom income tax from the amount received in Britain as a withholding tax, although this is available as a credit against total tax liabilities. If a double taxation agreement so permits, any foreign underlying tax may be credited against United

Kingdom corporation tax, but credit for foreign withholding tax is available unilaterally. Even if there is no agreement in a double taxation treaty, underlying foreign tax may be credited against United Kingdom corporation tax if either the receiving company or its parent company holds, directly or indirectly, 10% or more of the voting power in the foreign paying company.

Other Foreign Income. Where relief for foreign taxes is not available under a double taxation agreement, unilateral relief may be claimed. The effect of the unilateral relief provisions is that foreign tax (paid directly by deduction at source or by assessment) on income chargeable to United Kingdom tax is credited against that tax. Relief is restricted, however, to the lesser of the foreign tax or the United Kingdom tax payable on the same income.

The United Kingdom has entered into agreements with many countries for the relief of double taxation. The relief granted by these agreements is usually along lines similar to the unilateral relief described in the preceding paragraph.

If neither 'treaty' relief nor unilateral relief applies, United Kingdom taxation is chargeable on the income net of the foreign tax suffered. Special arrangements are in force between Britain and the Republic of Ireland.

Royalties. Royalties received are always liable to corporation tax. Those received from United Kingdom sources will have had United Kingdom income tax withheld by the payer. Those received from foreign sources will usually have United Kingdom income tax withheld by the paying agent. In both cases, this income tax is available for set-off against all other tax liabilities, or is repayable.

Interest. The gross amounts of interest received from resident companies, government bonds, and the like, and foreign companies, through banks in Britain, are subject to corporation tax. As in the case of royalties, income tax will usually have been withheld on payment but is available for credit or repayment. Any foreign interest received gross is assessable to corporation tax when received.

Rents. Corporation tax is assessable not only on net rents receivable but in some circumstances on a proportion of any capital premium received. Any part of a premium not assessable as income may be taxed as a capital gain. Expenditure deductible in arriving at net rents includes repairs, management charges, and associated tax depreciation allowances and rents paid to superior landlords.

The Revenue usually assesses net rents computed on the accruals basis although the rules, if strictly applied, do not permit this. Special rules apply where losses arise from some properties and profits from others; in these cases, offsetting of losses against profits is limited.

Inventory Valuation Rules. Inventories and work-in-progress are usually valued at the lower of cost and realisable value, replacement value being considered acceptable only in limited circumstances. Cost may be actual, average, or FIFO; LIFO is never accepted, and base stock valuations are permitted only in exceptional circumstances. Indexation to reflect inflation is not at present permitted. Appropriate overheads are frequently included in costs; and provided that the basis adopted is applied consistently, the extent to which this is done is left to the company's discretion. The valuation bases appropriate for financial statement purposes are usually, but not necessarily, accepted by the Revenue. On any change in basis, the Revenue must be satisfied that the new basis has commercial justification and will be applied consistently in future. In the year of change, opening and closing valuations must both be stated on the new basis; and the difference between the opening valuations on the old and new bases will give rise to a tax adjustment.

Special rules apply to the valuation of long-term contracts. The company may either defer profit-taking until the conclusion of the contract or credit attributable profit to income year by year. If losses are being incurred, provision for these is allowed during the lives of the contracts concerned only if profits from profitable contracts are also taken during their lives. Even then, only a proportion of the expected ultimate losses, based on work done or expenditure to date, will be allowed; and provisions for future expenditure, although made for financial statement purposes, will be disallowed in the tax computation. The only exception to this rule is in the case of a contract substantially completed, when provisions for final expenditure and guarantee or warranty costs will be allowed.

Stock Relief. Companies are given some relief each year from tax on the apparent increases in taxable profits caused by the effect of inflation on inventory values, including work-in-progress. This important relief is calculated somewhat arbitrarily as follows:

Stock relief = Increase in closing inventory value compared with opening, *less* 15% of trading profit as adjusted for tax purposes for the period (after tax depreciation but before stock relief itself).

If 15% of adjusted trading profit exceeds the increase in closing inventory, the relief is nil. The volume of inventory at any time is irrelevant; it is the value that is considered for relief purposes. Relief is shown as a separate

item in the tax computation. If the value of inventory falls in any year for whatever reason, the tax computation is adjusted to recover relief which is calculated in the same way as the relief itself, except that the deduction of 15% of adjusted trading profit is not made. This adjustment is known as 'clawback.' Total clawback over the years cannot exceed total stock relief received.

'Inventory' for this purpose does not include investments, real estate (other than that held for resale by a building company), or equipment let out on lease or hire-purchase.

Capital Gains. *Taxable Gains.* Resident companies are subject to tax on capital gains arising from the disposal of a wide range of assets (other than those held for sale in the normal course of business), wherever situated.

Exemptions. The principal exemptions for companies at present are:

1. Government securities held for more than one year.
2. Assets given to charities or certain public amenity organisations.
3. Automobiles.
4. Tangible moveable assets of a wasting nature on which no tax depreciation or 'capital allowances' can be claimed.

Computation of Gains. Broadly, a gain on disposal of any asset is the excess of proceeds over cost. In computing 'proceeds,' selling expenses are deducted, and open market value is substituted for actual proceeds where for any reason these differ (for example, on a gift or a sale not at arm's length). 'Cost' includes acquisition expenses, capitalised interest on borrowings for the construction of buildings, and other expenses that have increased the asset's value.

Where only part of an asset is disposed of, and the cost of this cannot be separately determined, the cost of the whole original asset is divided proportionately between the proceeds of the part disposed of and the market value of the part retained. On a share exchange, no disposal is deemed to take place until the shares received are themselves disposed of; there are further rules concerning company reorganisations and changes in capital. Wasting assets which are not tangible moveables suffer a proportionate diminution of allowable cost as their life expires.

Replacement of Business Assets. When an asset that has been used for trade purposes is disposed of and the proceeds are used to acquire a similar asset in replacement, any gain arising on the disposal may, at the

company's election, be deducted from the cost of the new asset. The gain does not then become taxable until the replacement asset is disposed of and may be further deferred if that asset is in turn replaced, and so on. This is commonly called 'rollover relief.' Relief is given only if the same trade is carried on with the new asset. The new asset must be acquired not earlier than one year before, nor later than three years after, the disposal of the old asset. Partial relief is available where only part of the disposal proceeds is reinvested, but no relief is available on disposals of real estate held by a dealer in land.

Wasting Assets. These are assets whose predicted life is 50 years or less. The capital gain on disposal of any wasting asset on which tax depreciation has been allowed is normally based only on any excess of disposal value over original cost. Special rules apply in determining the allowable cost of wasting assets that have not been subject to tax depreciation, mostly intangible in nature such as leases or options with less than 50 years to run. Freehold land and buildings are never 'wasting assets.'

Assets Owned at April 6, 1965. Capital gains tax began in the United Kingdom on April 6, 1965. Only the proportion of a capital gain arising on or after that date is taxable; there are two main ways of computing that proportion.

The first, time apportionment, assumes that the total gain was accrued evenly over the whole period of ownership, and the taxable proportion is arrived at by dividing the total gain on a time basis. Time apportionment cannot be given earlier than April 6, 1945, even if the asset was purchased before then. Losses are treated similarly.

The second computes the gain (or loss) as the difference between disposal proceeds and market value at April 6, 1965 (called 'Budget Day Value' or 'BDV'). Election for this second method, which must be made within two years of the end of the accounting period in which the disposal takes place, should only be made after taking due advice as it is not always beneficial to adopt it. For example, if the BDV eventually agreed upon gives a greater gain (or smaller loss) than time apportionment, the company will still be bound by its election. If BDV is chosen, no loss can be allowed in excess of the actual loss by reference to original cost.

Where real estate acquired before April 6, 1965, has development value, BDV must be adopted in computing the gain or loss, and time apportionment does not apply. 'Development value' is the element in

market value that presupposes a change in the use of real estate before its full potential can be realised.

There are further very complex rules for computing gains or losses on the disposal of shares.

Application of Corporation Tax. Companies' capital gains, unlike those of individuals, are not subject to the separate capital gains tax described later but to corporation tax, together with any trading profits and other types of income. But because the corporation tax rate is invariably higher than the capital gains tax rate, companies' capital gains are scaled down so that the effective amount of corporation tax charged is the same as capital gains tax on individuals. For example, when the corporation tax rate is 52% and the capital gains tax rate is 30%, 22/52nds of the capital gain is exempted from tax and only 30/52nds is taxed at the corporation tax rate of 52%. The result is the same as taxing the whole gain at 30%. Investment and unit trusts (mutual funds) are taxed at half the capital gains tax rate applicable to other companies.

Tax rates normally change on April 1 each year, and thus the fractions for this purpose change then. If a company's accounting period straddles any April 1 on which there is a change, the capital gain is apportioned on a time basis irrespective of the actual date on which the gain was realised.

Losses. Losses are computed in the same way as gains. Capital losses may be set off against capital gains made in the same accounting period, any losses remaining being carried forward to set off against future capital gains without time limit. Capital losses may not be set off against other income, although other losses may be set off against capital gains.

Allowable Deductions

General Principles. Each of the schedules into which income is categorised has its own rules as to deductions allowable in computing taxable income. The following description is mainly of deductions allowable in accordance with Schedule D, Case I, which applies to the great majority of companies.

A few items are specifically deductible by law; but, in general, the treatment of expenses for tax purposes follows ordinary commercial principles. The following items, however, are not deductible in arriving at trading income:

1. Any expenditure not incurred wholly and exclusively for the purpose

of earning profits in the trade concerned.
2. Any losses unconnected with the trade.
3. Capital expenditure.
4. Any expenditure specifically prohibited by statute.
5. Dividends or other distributions.
6. Certain expenses referred to as 'charges on income.'

Charges on Income. Certain annually-recurring expenses called 'charges on income' are treated in a special way. Most expenses, such as wages or repairs, are deductible from sales revenue or other gross income in arriving at taxable profit. Charges on income, however, are not so deductible, but (with limited exceptions) are relieved against taxable profits arrived at before deducting them. Usually, this has exactly the same effect as deducting them as ordinary expenses, and the reason for the special treatment is that a company paying a charge on income must withhold income tax from the payment. Such income tax is paid over separately to the tax collector and therefore has to be accounted for separately in the company's tax computation. Moreover, while normal trade expenses are allowed an accruals basis, charges on income are allowed only when actually paid.

The main expenses treated as charges on income are patent royalties, annuities, and annual interest other than that paid to United Kingdom banks, stockbrokers, and building societies.

Depreciation. No deduction is allowed for depreciation, amortisation, or losses on disposals of fixed assets charged by a company in its financial statements. Instead, wear and tear on most fixed assets used in earning profits is deductible in the form of capital allowances, which is the British term for tax depreciation. Capital allowances to which the company is entitled under tax rules may be claimed irrespective of the amount charged for depreciation in its financial statements.

The total allowances given on any asset may never exceed its cost; indexation to allow for inflation, although suggested periodically, is not permitted. Allowances are reduced proportionately if any asset is used for nontrade purposes or if the trade is not carried on for a full year. In some cases, capital allowances are granted generously, the whole cost of the asset being allowed in the year of acquisition (for example, most machinery and equipment), while in other cases the reverse is true and no allowances are given at all (for example, hotel and office buildings and goodwill). Government regional development grants towards capital expenditure in the assisted areas do not reduce cost for capital allowance purposes, although other government grants usually do.

The main types of capital allowance follow.

Industrial Buildings and Structures. Broadly, this expression means buildings or structures in use for such purposes as manufacturing, transportation, mining, or power production. A warehouse used to store raw materials to be subjected to some manufacturing process in the course of the trade is included, and so is a warehouse that is used by the manufacturer to store his finished products pending distribution. Specifically excluded are offices, showrooms, hotels, retail shops, and similar premises. A warehouse owned by a wholesaler, who does not carry on any manufacturing process, is not an industrial building or structure. Where part of a building qualifies as 'industrial' but the rest does not, the allowance is given proportionately, except that it is given in full if the cost of the nonqualifying part is 10% or less of the total cost.

An initial (first-year) allowance, currently of 50%, is given in the period in which expenditure on the construction or improvement of an industrial building is incurred, excluding the purchase of the land on which it is built but including site preparation costs. The balance of the cost of construction is relieved by a writing-down allowance at 4% per year (straight-line) commencing in the first year, until the whole cost has been allowed. Because of the high initial allowance, total cost will have been fully deducted after about thirteen years.

Expenditure incurred on purchasing an industrial building that has been used by a previous owner does not qualify for an initial allowance. If the building is less than 25 years old (or if constructed before November 6, 1962, less than 50 years old), that part of the cost to the new owner equivalent to the original cost of construction as reduced by industrial buildings allowances is relieved by way of a writing-down allowance at an even rate over the balance of the unexpired term of 25 years (or 50 years where this is applicable).

When an industrial building that has been in use for less than 25 years (or less than 50 years, as the case may be) is sold, if the proceeds (or the original cost, if less) exceed the unallowed residue of expenditure brought forward, the excess is taxed through a balancing charge as a trading profit of the period when the disposal takes place. Thus, for example, if a building costing £100,000 twenty years ago is sold for £150,000, a balancing charge will be made on the seller to recover all the industrial buildings allowances previously given to him. The excess of sale proceeds over original cost (£50,000) will be taxed as a capital gain of the seller. If the building still qualifies for allowances, the purchaser may claim £100,000 spread over the remainder of the 25- (or 50-) year life. Conversely, a balancing allowance is given where the disposal proceeds

are less than the residue of unallowed expenditure brought forward. The tax charge or allowance made on the occasion of the sale of an industrial building or structure is subject to adjustment where the property has not been in use for industrial purposes throughout the whole of the period that it was owned.

Machinery and Equipment. This category (often referred to in Britain as 'plant and machinery') includes all moveable and immoveable assets kept for permanent employment in the trade (for example, machinery, manufacturing equipment, office, factory, and warehouse fittings and fixtures — subject to a possible change in the law — office and hotel equipment and machinery, vehicles, aircraft, and ships). Excluded are land, buildings, goodwill, patents and patent rights, and other intangible assets.

The rates of capital allowance given on different classes of machinery and equipment have changed frequently, and up-to-date information on the allowances available should be specifically obtained for any project involving substantial capital expenditure. At present, the rules are as follows:

Machinery and Equipment, Except for Private Cars and New Ships. A first-year allowance is given in the accounting period when expenditure is incurred on the provision of the asset, or on instalments of expenditure as they are incurred. An asset acquired by hire-purchase is treated as if its full capital cost is incurred on the day it is first used.

To encourage productive investment in Britain, the current rate of first-year allowance is 100%.

No first-year allowance may be obtained when second-hand (used) assets are acquired from an associated company or connected person, or in the period in which trade ceases.

The whole or part of the first-year allowance entitlement may be disclaimed, and any portion of the expenditure not relieved by a first-year allowance is available for a writing-down allowance in subsequent periods.

Writing-down allowances are given on any residue of expenditure unallowed brought forward from previous periods, and are thus calculated on a declining-balance basis. They are reduced proportionately for accounting periods of less than 12 months and are not given in the period in which trade ceases. Special rules apply to lessors of machinery. For all assets, the rate is now 25% per annum.

When an asset is disposed of, the proceeds (for example, actual sales consideration or market value if higher, or insurance claim proceeds) are deducted from the residue of expenditure unallowed, thus restricting the amount on which writing-down allowance may be claimed in the period of disposal. In cases where disposal proceeds exceed the total residue of unallowed expenditure brought forward from past periods, the excess proceeds received are taxed by way of a balancing charge in the period when the disposal occurs. Different rules may apply when the assets disposed of were first acquired before October 27, 1970.

Motor Cars. Private motor cars do not receive first-year allowances although the writing-down allowance of 25% (declining balance) is available up to £1,250 per car in the year of purchase and thereafter.

New Ships. A system of free depreciation exists for expenditure on new ships in that the taxpayer may postpone the first-year allowance, wholly or partly, to any period or periods he may choose.

Allowances are restricted when assets are used partly for nonbusiness purposes.

Mines, Oil Wells, and Wasting Mineral Deposits. Allowances are available for capital expenditure incurred on searching for, discovering, testing, winning access to, or purchasing mineral deposits.

These allowances are given whether the source is situated in the United Kingdom or abroad, and are given proportionately to output for the period compared with expected total output, except that allowances on purchases of deposits, land, and rights within the United Kingdom are based on royalty values.

The cost of searching for, discovering, and testing North Sea oil and gas deposits (but not subsequent development expenditure) is generally regarded as expenditure on scientific research and qualifies for relief as such. Abortive exploration expenditure by mining enterprises is deductible as incurred.

Scientific Research. When capital expenditure is incurred for trading purposes on scientific research, an allowance of 100% of expenditure is given in the period concerned. Scientific research for this purpose includes any activities in the fields of natural or applied science for the extension of knowledge. (Revenue expenditure on research and development for the purposes of the trade is deductible as incurred.)

Patent Rights and Know-How. Allowances are given for capital ex-

penditure incurred on the acquisition of patent rights, whether incurred for the purposes of a trade or not. Where the rights are acquired for use in a trade, the allowance is given in taxing that trade; but, in other cases, the allowance is given against the income from the patent rights. A straight-line writing-down allowance is given over a period of 17 years beginning with the acquisition of the rights, or over any shorter period for which they are acquired.

By contrast, fees and expenses incurred in registering a patent, trade-mark or design developed by the company itself, including expenditure on abandoned applications, are deductible as incurred.

Writing-down allowances for capital expenditure on acquiring know-how are given over six years, straight-line. No other intangibles are eligible for capital allowances. Sales of know-how, other than on the sale of a business, are in general taxable as trading receipts. On the sale of the whole business, consideration for know-how is treated as if it were for goodwill and is thus liable to capital gains taxation, unless both parties elect otherwise, when the purchaser will receive the six-year writing-down allowances and the seller will be liable to corporation tax on the proceeds.

Other Expenditure. The owner or tenant of agricultural or forestry land is entitled to a 10% straight-line writing-down allowance for capital expenditure on buildings, fences, or similar works used for his trade. On a sale of the land or transfer of the tenancy, the successor is usually entitled to any remaining writing-down allowances, and no balancing allowances or charges are made.

Capital expenditure on equipment used in dredging waterways ranks for an initial allowance of 15% plus writing-down allowances of 4%, straight-line.

Taxes. Direct British taxes are not deductible in arriving at income. Other taxes, such as local rates and licence fees necessarily incurred in the course of earning income, are usually deductible. Some taxes, such as stamp duty on the purchase of real estate, are regarded as capital costs and are thus relieved by capital allowances or in the computation of capital gains. Petroleum Revenue Tax is deductible by oil companies from their profits for corporation tax purposes.

Foreign direct taxes are frequently relieved by credit against United Kingdom tax in accordance with any relevant double taxation agreement. Where, exceptionally, there is no such agreement, credit is usually given unilaterally for foreign withholding taxes, and foreign underlying taxes

are treated as an expense of earning the foreign income concerned.

Interest. Interest paid, if incurred wholly and exclusively for trade purposes may be either deductible as a trade expense (for example, short-term bank interest paid to a resident bank) or set off against taxable profits as a charge on income (for example, debenture or other recurring annual interest).

A company trading abroad may also deduct as a trade expense any short-term interest paid abroad in arriving at its foreign income. Such interest may be paid gross if the borrowing contract provides for payment abroad and the borrowing was for trade purposes. If the trade concerned is carried out within the United Kingdom, interest must not be paid gross in sterling unless it is intercompany interest where the parent has at least a 75% interest in its relevant subsidiaries. In all other cases, the payer has to withhold income tax at the basic rate (see page 168) from his interest payment unless the relevant double taxation agreement provides for deduction of income tax at a reduced rate, or for payment gross, and formal approval to do so has been received from the Inspector of Foreign Dividends, a Revenue official. Interest paid in this way is treated as a charge on income. Interest, to be deductible, must be at a reasonable commercial rate (especially when paid to a foreign resident), depending on the borrower's circumstances, and must be treated as a revenue expense in the borrower's books. Interest on unpaid tax is never deductible.

Distributions. These are never deductible in computing taxable profits. Besides dividends, distributions include interest on securities, however described, that have equity share characteristics or (subject to double taxation agreement provisions) have been issued to a nonresident parent or fellow-subsidiary company. Transfers of assets between a company and its shareholders at other than open market values are also regarded as distributions, to the extent of the shareholders' benefit (that is, the difference between the transfer value and the open market value), and so are repayments of redeemable shares and other repayments of shares associated with bonus issues.

Bad and Doubtful Debts. Bad debts arising from the company's trade are deductible in the period in which their recovery is considered impossible, and any subsequent recoveries are taxed in the period of receipt. Provisions for doubtful debts are deductible only to the extent of expected losses on debts individually valued, and general provisions are not deductible.

Repairs. Expenditure on repairs and renewals is generally deductible as

incurred, but provisions made to equalise repair charges over several years are not. Provisions for repairs to be incurred at some future time (for example, on expiration of a lease) are not deductible either, even if liability for them arises under a contract enforceable at law. Expenditure on fire safety precautions at hotels is deductible.

Expenses Incurred in Setting Up Business. Capital expenditure incurred before a trade commences may be treated as incurred on the first day of trading for capital allowance purposes.

Expenses incurred in organising a company and raising its capital, including associated legal expenses, are never deductible, nor are day-to-day expenses incurred before trading starts. The date when trading starts depends on the facts of each particular case, but as a general rule is taken as the date that the business holds itself open to begin trading; for example, when a retail shop first opens its doors to the public or when a manufacturing company receives its first delivery of raw materials.

Rents and Royalties. Most commercial rents are deductible as trade expenses provided that they are incurred for trade purposes, and extravagance is in itself no bar to deduction. Even rents payable to prevent competitors using particular sites are deductible. A proportion of any capital premium paid for a lease is deductible over the life of the lease only if a corresponding amount is taxed as income in the hands of the recipient.

Rents for mines, quarries, waterways, and certain other land, and rents varying with royalties paid, are usually treated as charges on income; they are thus deductible only when paid and tax must be withheld by the payer.

Royalties are charges on income; the amounts actually paid in the period are deducted from total profits assessed to corporation tax. Income tax is normally withheld from royalties paid, subject to any double taxation agreement in the case of any payment to a nonresident.

Tax-Free Reserves. Transfers to tax-free reserves are not permitted in the United Kingdom. The nearest British approaches to the tax-free reserve concept are the accelerated tax-depreciation allowances, the rollover relief described in the paragraphs on capital gains and the stock appreciation adjustment described in the section on inventories. These are adjustments made in the tax computation and do not arise from the financial records.

If holdings of real estate (and, in limited circumstances, investments in securities) are revalued upwards to market value, the tax liability on the

resulting surplus recorded in an untaxed reserve is usually disclosed in a note to the published financial statements; or, if the liability is payable in the foreseeable future, it is provided by deduction from that reserve.

Directors' Remuneration. The remuneration of directors of trading companies is deductible in full (provided that it is wholly and exclusively paid for the purposes of the trade); fees, salaries, and bonuses varying with profits are not differentiated. However, family relationships, short working hours or nominal duties, high remuneration in relation to turnover, and similar factors may lead the Revenue to question the justification of particular payments under the 'wholly and exclusively' rule. Any remuneration not ultimately deductible by the paying company may nonetheless still be taxable in the hands of the recipient unless he promptly disclaims it and repays it to the company.

Directors of nontrading companies such as investment or real estate holding companies are in a different position. The Revenue frequently seeks to restrict the deductible remuneration to quite low levels, depending on the periods worked, the nature of the duties performed, and sometimes even the value of the company's investments.

Profit-Sharing Plans. Profit-sharing payments in the form of cash bonuses to employees, as well as directors, are deductible in the year in which they are charged in the financial statements.

The making of shares available to an employees' share incentive scheme does not give rise to any tax-deductible expense, but complex rules may impose income tax, and not merely capital gains tax, on those who benefit.

Employees' share incentive schemes, in the form of acquiring shares or options to acquire shares, may be introduced, but there are severe tax disadvantages unless the schemes are approved by the Revenue. Basically, the employee's tax liability is confined to capital gains tax on his final disposal of the shares received under an approved scheme. The major conditions that need to be satisfied for approval to be given are that the shares to be issued to employees are limited in number, are issued at fair market price and are to be held by the employees for three years after acquisition. Employees' share incentive scheme may be restricted to certain groups of employees, but arrangements are included in the 1973 Finance Act to enable sate savings schemes to be utilised by workers to take up shares in their employing company under profit-sharing schemes under more favourable conditions.

Pension Contributions and Redundancy Payments. Expenses incurred in setting up or altering a pension scheme are not deductible in law, but may sometimes be in practice. Annual contributions to an approved scheme are deductible, and so are exceptional contributions (for example, to fund past service pensions) provided that the deductions are spread over a number of years. What constitutes an 'approved' scheme is at the discretion of the Revenue within published rules, the main condition being that the scheme's only purpose is to provide pension benefits.

Payments to former employees under statutory redundancy or unfair dismissal rules are deductible.

Entertainment Expenses. Entertaining employees and foreign customers or their agents is deductible, but entertaining British customers is not. 'Foreign' here means anyone not ordinarily resident.

Gifts and Donations. Gifts to British customers of food, liquor or tobacco, other gifts costing over £2, and smaller gifts unless of an advertising nature are not deductible, but gifts of the donor's own trading merchandise as advertisements or sales inducements are. Gifts to political parties are not deductible. Gifts to charities are not deductible unless they are made to recognised charities under binding deeds for periods exceeding six years (in which case, they become charges on income). Gifts to charities made for the benefit of employees (such as gifts to local hospitals) are, however, deductible under the 'wholly and exclusively incurred for trade purposes' rule. Donations that result in publicity are normally deductible. Dubious payments such as bribes are deductible if made for trade purposes.

Subscriptions to trade associations are deductible, provided that those associations pay tax on them.

Treatment of Losses

Losses may be relieved in one or more of four ways: by carry-across against profits from other sources, carry-forward against future profits, carry-back against past profits, or transfer to another group company. The rules vary according to the type of loss.

Trading Losses. A trading loss may, subject to proper notification to the Revenue authorities, be relieved:

1. By carry-across and set off against any other income (including the taxable proportion of any capital gains) of the same accounting period, but only if the trade is being conducted commercially — that is,

with a view to profit. This relief is not available for foreign trading losses. Subject to complex rules, 'other income' can include franked investment income arising from the surplus of distributions received from other resident companies over distributions made.

2. By carry-forward for set off against the first available future profits of the same trade, without time limit. If the trade changes, or a change of ownership is coupled with a major change in the extent or nature or conduct of the trade within three years before or after, relief for past losses will cease to be available. However, on any reorganisation whereby a trade is transferred to another company at least 75% beneficially owned by the same shareholders as the original company, relief is not lost.

3. By carry-back against income and capital gains of the previous accounting period. A loss attributable to an excess of first-year capital allowances over available profits may, however, be relieved against profits for up to three immediately preceding years. Carry-back is not available for foreign trading losses.

4. By transfer to another resident company in the same group, as described later in this chapter (not available for foreign trading losses).

Capital Losses. Relief by carry-forward and carry-across is available only against capital gains and not against trading profits (despite the fact that trading losses can be set off against capital gains). Carry-back of capital losses and transfer to another group company are not available.

Terminal Losses. A trading loss incurred in the last year of operations may be carried back, against trading profits only, for the immediately preceding three years, using the latest profits first.

Other Losses. An excess of charges on income over total profits may be carried forward or transferred within a group, and the same applies to an excess of management expenses over total profits of an investment company. Capital allowances due to owners of leased fixed assets are deductible; first, against relative rental income, any surplus allowances being available in any of the four main loss-treatment ways. Losses on casual or isolated transactions may only be carried forward or carried across against profits of the same nature. Similar rules apply, subject to certain restrictions to rental losses.

There are no special rules about the treatment of losses incurred in a trading company's first accounting period.

Groups of Companies

Although corporation tax is assessed separately on each company in a group, group structure is significant in the treatment of intercompany dividends, for some forms of loss relief and in the transfer of assets. Strict antiavoidance rules apply to transactions by companies that deal in securities and other assets to prevent the manipulation of losses.

Definition of Groups. Special tax treatment applies in three different parent/subsidiary relationships where all the companies concerned are resident and none of the shares owned are held as trading stock:

1. Subsidiaries in which at least 51% of ordinary share capital is held within the group.

2. Subsidiaries in which at least 75% ordinary share capital is so held.

3. Companies (called here 'subsidiaries') owned by a consortium of companies. There are two types of consortium, the first wherein five or fewer companies together own 75% or more of the ordinary share capital of the subsidiary, each company owning at least 5% (a '75% consortium'); the second wherein five or fewer companies together own the whole of the ordinary share capital of the subsidiary, but no one company owns 75% (a '100% consortium').

Intercompany Dividends. A 51% subsidiary or a subsidiary owned by a 75% consortium may elect in writing to pay dividends to its parent, fellow-subsidiaries or consortium owning companies without having to account to the Revenue for advance corporation tax or ACT (see pages 156-157) on the payment. Such a dividend is called group income and is not franked investment income because it has no tax credit attached. It will not be chargeable to corporation tax in the hands of the recipient, nor will it entitle the recipient to any tax credit.

Even though a valid election has been submitted to the Revenue, ACT may still be paid if this is advantageous; for example, where the dividend payment is wholly covered by franked investment income from outside the group.

Trading Losses. Any member of a 75% group (not a 75% consortium), whether parent, subsidiary, or fellow-subsidiary, may transfer current trading losses to a profit-making member of the same group. This is called group relief. The amount of transfer is limited to the smaller of the transferor's loss or the transferee's profit; but, within this limit, there is no necessity to transfer the whole of the loss. Before trading losses can move

between companies the parent must have a genuine commercial interest in its subsidiary; that is, the same 75% interest in its profits, losses, and assets as it has in its issued ordinary share capital. Moreover, any arrangements whereby parent or subsidiary may move to another group, or cease to trade, automatically invalidates group relief for losses. Frequently, the transferee company will pay the transferor for the relief received, especially if minority shareholders' interests are affected by the transfer. These payments are not deductible by the transferor or taxable to the transferee.

Losses of subsidiaries may be transferred to the transferee members of a 100% consortium, in proportion to their respective shareholdings, limited to the amounts of their respective profits. Losses cannot, however, be transferred from the consortium members to the subsidiary. The requirements as to commercial interest in profits, losses, and assets apply, and arrangements under which the subsidiary may leave the consortium or cease to trade will invalidate the loss relief.

Losses of earlier accounting periods cannot be transferred to other group companies.

Capital Gains. All companies in a group are treated as a single entity when dealing with capital gains on intergroup transfers; this is quite unlike the tax treatment of asset disposals in any other case. A transfer of an asset from one company to another within a 75% group (not a 75% consortium) is disregarded, and tax is charged only when the asset is sold outside the group or the ultimate owner leaves the group. Moreover, a chargeable gain realised by one group company may, if all the relevant conditions are satisfied, be rolled over against a relevant acquisition by another group company. Capital gains realised in one group company cannot, however, be transferred to another group company to be set against the latter's realised capital losses; the normal practice is for assets on which gains are expected to be transferred within the group so that they are sold by the company with previous losses. For the purpose of taxation of capital gains only, a group may include a nonresident company.

Intercompany Revenue Transactions. Reasonable intercompany expenses such as interest or management charges are normally deductible by the payer and taxable on the recipient. If transactions with nonresidents, whether for goods or services, are carried out at artificial prices, the Revenue has power to have open market prices substituted for invoice prices in computing the resident company's profits. Intercompany pricing policies have often been investigated very thoroughly in recent years.

Taxation in the United Kingdom

Advance Corporation Tax

General Principles. The same rate of corporation tax is payable on the whole of a resident company's profits, whether they are distributed or not. However, when a company pays a dividend, it is required to remit to the Revenue a further sum, currently 34/66ths of the dividend paid, known as advance corporation tax (ACT). Besides dividends, certain other payments called 'qualifying distributions'—for example, excessive interest paid by a close company—must be accompanied by a payment of ACT.

Restrictions on Set-Off. ACT paid in an accounting period may generally be deducted from the company's liability to corporation tax on its income (but not chargeable capital gains) for that period. However, the ACT deduction is limited to the basic rate income tax (at present 34%) on the whole of its pretax income for the period. Any surplus (unrelieved) ACT may be carried forward for setting against future tax liabilities on income indefinitely, or carried back for up to two years, taking the immediately preceding period first. Surplus ACT may not be carried forward if there is a change in ownership of the company combined with a major change, within three years before or after, in the nature or conduct of its trade, or if the scale of its activities had declined to negligible proportions before the change of ownership.

Payment Rules. ACT must be paid to the Revenue within 14 days of the end of the quarter during which the distribution was made. For this purpose, 'quarters' end on the last day of March, June, September, and December each year and, if the company's accounting date is not one of those month-ends, on that date also.

Use of Franked Investment Income. Payment of ACT to the Revenue does not have to be made to the extent that the company has available any tax credit associated with FII it may have received in the same period. Group dividends (without ACT) do not constitute FII. If FII received exceeds dividends and other distributions paid in the period, the excess may be carried forward and treated as FII received in a subsequent period; it will then carry a tax credit at the rate in force when it is used, regardless of the rate in force when it actually arose.

Surrender to Subsidiaries. ACT paid by a parent company may be passed down (surrendered) to a 51% subsidiary company, provided that the shares held entitle the parent to the subsidiary's assets and goodwill as well as its profits, and no third party can control the subsidiary's affairs. This means that the subsidiary is regarded as having paid the ACT itself,

and so will be able to deduct the ACT from corporation tax on its own income within the limits mentioned.

The subsidiary may offset that ACT against corporation tax on its own current or future income as long as it remains a subsidiary.

Effect on Shareholders. ACT is not a withholding tax, but a resident recipient of a dividend or other qualifying distribution is entitled to a tax credit equal to the ACT attributable to him (currently 34/66ths of the amount paid to him), and he can treat this as if it were a deduction of income tax from the total of the actual dividend plus the ACT, at the basic rate of 34%. A dividend paid plus the tax credit for ACT is called a 'franked payment.' Nonresident recipients may also be entitled to a tax credit under the terms of appropriate double taxation agreements.

Close Companies

Definition of 'Close Company.' Special provisions exist to prevent a major shareholder from leaving a resident company's profits undistributed, instead of withdrawing them as dividends, when they might be liable to higher rates of income tax as his investment income.

These provisions apply to 'close companies,' which are, broadly, companies under the control of their directors or under the control of five or fewer persons, called participators. A company is not classed as close if the public owns ordinary shares carrying at least 35% of its voting power and if its shares have been quoted and dealt in on a stock exchange recognised by the Revenue within the previous 12 months. Furthermore, in general, a company is not close if it is a subsidiary of either a resident company that is not itself close, or a nonresident company if that company would not be close had it been resident in the United Kingdom and so subject to British close company law.

The close company provisions are complex. 'Control' is defined very widely, and 'participators' include not only shareholders but debenture-holders (excluding banks) and other persons who have any rights to the company's income or assets. Moreover, in considering whether such participators have control of the company or not, the interests of their family members or business partners are added to their own. A company that is a subsidiary because of voting power held by its nonclose parent may still be close itself if it is otherwise controlled by five or fewer participators (for example, debenture-holders) excluding its parent. A family company with 35% or more of its voting shares quoted on a stock exchange may still be close if family shareholdings, including those quoted on the stock exchange, account for 85% or more of the shares.

Disadvantages of Close Company Status. If the relevant income of a close company exceeds its actual distributions, the Revenue may require the company to distribute such excess, or the excess may be apportioned by the Revenue among the participators, normally in proportion to their respective interests. Any sum paid or apportioned to an individual is treated, together with the ACT thereon, as part of his income and so is liable to income tax at rates that can reach as high as 98%. If the individual does not pay this tax, it can be recovered from the company. A company that refuses to pay a sufficient dividend may be required to account for ACT as though the dividend had been paid.

'Relevant income' for this purpose normally means 50% of the company's net trading income for tax purposes, after charges and tax, plus 100% of its investment income, including franked investment income. If net trading income before the 50% reduction is less than £25,000, it is reduced to nil for the purpose of determining relevant income; and if between £25,000 and £75,000, it is proportionately reduced. Furthermore, the Revenue will take into account the need of a trading company to retain profits for the maintenance and development of its business in arriving at relevant income, and it is possible to obtain the Revenue's approval (known as a 'clearance') that sufficient distributions have been made. On cessation of trade or liquidation, however, a company's whole income, trading and investment, must be distributed or apportioned.

There are other disadvantages in being classed as a close company. Firstly, payments to directors or their associates of benefits, royalties, or interest (in excess of a prescribed limit) are not regarded as deductible expenses but as distributions of taxable profit on which tax equivalent to ACT is payable, unless the director concerned owns only 5% or less of the ordinary shares or rights to distributable income. The prescribed limit for interest is 12% of the lower of average loans during the accounting period or issued share capital (including share premium or paid-in surplus), at the beginning of the period. Certain interest payable by nontrading companies may be disallowed and apportioned to participators as if it were income. Secondly, loans to participators (other than by moneylending businesses) are treated as distributions on which tax equivalent to ACT is payable (subject to refund when the loans are repaid). If a loan to a participator is released and written off, the participator may be liable to additional income tax on the loan plus related ACT.

Liquidations and Reorganisations

Liquidations. Corporation tax is payable on income and chargeable capital gains arising until the company ceases to trade, although a new

accounting period commences on the date the liquidator is appointed. On complete cessation of trade, unused trading losses can no longer be carried forward, and close companies cease to benefit from the 50% relief given in computing required distributions.

Corporation tax will also be payable on chargeable capital gains realised on disposals of assets by the liquidator, including disposals (other than in cash) to shareholders. Liquidation distributions are not income of shareholders and so are not subject to advance corporation tax.

From the shareholder's point of view, each liquidation distribution is a partial disposal of his shares on which he may be liable to capital gains tax.

Reorganisations. Unless there is already a 75% group structure or common ownership (see sections on 'Losses' and Groups of Companies'), if a company's assets are transferred to another company, corporation tax liability may arise on balancing charges and capital gains. Moreover, if a company's trade is transferred to another company, any unused trading losses cannot be carried forward unless there is such a 75% structure or common ownership. For these reasons, reorganisations involving transfers of trade are nearly always effected by transfers of shares rather than assets. The reorganisation must, however, be for genuine commercial reasons and not undertaken merely to avoid tax. Other advantages on a reorganisation are that exemptions from stamp duty and capital duty are available in many cases, although transfers of shares or assets must exactly meet the conditions of the regulations concerned to obtain these exemptions.

Shareholders who receive new shares or other securities in a reorganisation in exchange for their old shares are not liable to capital gains tax until they dispose of the new holdings. This advantage does not apply if the new company acquires only 25% or less of the shares in the old or if the reorganisation involves tax avoidance.

Nonresident Companies

A company whose central management and control is not exercised in the United Kingdom, even though it is incorporated there, is regarded for taxation purposes as resident abroad and is therefore liable to United Kingdom tax only on its income from British sources. Treasury permission must be obtained in most cases before a resident company may cease to be resident or before the trade or business of a resident company may be transferred to a nonresident company or person, and there are severe penalties for breaching this rule. The rule does not apply,

however, to companies incorporated after 1951 in order to carry on a new trade, if they are controlled by individuals or companies not ordinarily resident for taxation purposes in the United Kingdom.

Nontrading Income. Nonresident companies are normally charged to income tax on their income from United Kingdom sources and not to corporation tax. This general rule applies therefore to rents, royalties, interest, and similar income arising in the United Kingdom. If the nonresident company carries on a trade in the United Kingdom through a branch or agency, corporation tax will be charged on all income and capital gains of the branch or agency except for franked investment income. As to dividends received from resident British companies, nonresidents are entitled to a 34% tax credit relief only if any relevant double taxation agreement so allows. By concession, gross interest received by a nonresident company with no trading income in the United Kingdom is not taxed in Britain.

Branches of Foreign Companies. A nonresident company trading in the United Kingdom through a branch or agency is liable to corporation tax.

What constitutes a branch is a question of fact. It could be a representative office or even a purchasing office, as well as a complete trading operation.

A subsidiary company is not of itself a branch of its parent, but it would be treated as such if it held consignment stocks out of which orders placed on its parent were regularly fulfilled.

An agency is the activity of an agent who has general authority to negotiate and conclude contracts on behalf of his principal or who holds a stock of merchandise out of which orders are met. However, the term does not include an independent broker or an agent acting in the ordinary course of his own business.

Trading income is computed in the same manner as for resident corporations; rules applicable to revenue transactions between a branch and its head office are similar to those concerning intercompany transactions. Where the Revenue believes that the true profits of a branch or agency cannot readily be ascertained, they have power to assess a percentage of its United Kingdom turnover or even of its expenses. The percentage fixed may vary according to the nature of the business, but the taxpayer has the right to appeal against it to a Board of Referees appointed by the Treasury.

Effect of Double Taxation Agreements. In practice, most double taxation

agreements provide that liability to British tax arises only if the recipient of income has a permanent establishment in the United Kingdom; the source of the income is disregarded. What constitutes a 'permanent establishment' varies from agreement to agreement, but it is usually a place where sales take place rather than purchases. It includes a factory, workshop, office, and place of management, and sometimes even a construction project if the latter exists for more than a year.

Rates of Corporate Tax

The rate of corporation tax is fixed, retrospectively, for the Revenue's 'financial year,' which runs from April 1 to March 31. A company's accounting period will very often differ from this 'financial year'; and, when the tax rate changes, the profits of the accounting period must be apportioned on a time basis to the two financial years covered by the accounting period.

Because the rate is fixed retrospectively, companies frequently do not know what rate to provide when preparing their annual financial statements. By convention, the known current rate is usually provided, and the financial statements disclose this factor.

Standard Rate. For the financial year ended March 31, 1977, the standard rate of corporation tax on income and capital gains is 52%. For this purpose, 22/52nds of any capital gains are exempted from tax.

Reduced Rates. A reduced rate of 42% is levied on companies whose profits do not exceed £40,000 ('profits' have a special meaning in this context); and if profits are between £40,000 and £65,000, the tax due computed at the standard rate is at present reduced (with an adjustment for capital gains) by 4/25ths of the shortfall between actual profits and £65,000.

These reduced rates do not apply to capital gains, which are always subject to corporation tax at the standard rate on the chargeable proportion of the gain. 'Profits,' for reduced rate purposes only, include franked investment income (not group income), as well as trading income and chargeable capital gains.

Other points applicable to the reduced corporation tax rate are:

1. If an accounting period is less than 12 months, the £40,000 and £65,000 limits are reduced proportionately.
2. If an accounting period straddles March 31 and so is concerned with two financial years, the part commencing on April 1 is regarded as a short accounting period as in 1 above.

3. When more than one company is under common control, the limits of £40,000 and £65,000 are divided by the total number of operating companies (including foreign companies) under common control. This requirement can limit very substantially the profits eligible for the lower corporation tax rate.

Returns and Assessments

Accounting Periods. Companies may draw up their financial statements for any period permitted by company law and are not required to provide separate tax accounts. Corporation tax is assessed for an 'accounting period' usually corresponding with the company's own accounting year but never exceeding 12 months. If a company's financial statements cover a period of more than 12 months, its results are apportioned by the Revenue on a time basis into one 12-monthly period and the shorter balance.

Returns, Assessments, and Appeals. After the end of an accounting period, the Revenue issues a return form requiring details of profits chargeable to corporation tax. In practice, the Revenue normally accepts the company's financial statements and detailed supporting computations instead of a formal return. The Revenue then raises an assessment to corporation tax on the basis of the information available to it. If information is submitted late, the Revenue may make an estimated assessment to collect a provisional amount of tax. If a company does not agree with the assessment, it may appeal against it not later than 30 days after its issue. If agreement cannot be reached between the company and the Revenue, further appeal lies with appeal commissioners, and on questions of law from them to the High Court, and thereafter to the Court of Appeal, and finally to the House of Lords.

The Revenue can make an assessment more than six years after the end of an accounting period only if it can show that there has been fraud or negligence on the part of the company in preparing financial statements or computations. Any attempt to bribe a Revenue official is treated as a serious offence.

Payment Dates. Corporation tax is payable nine months after the end of the accounting period for which it is assessed, or 30 days after the assessment is made, if later. For any company that was trading before April 6, 1965, the date for payment is nine months after the March 31 following the end of its accounting period — in extreme cases, therefore, almost twenty-one months later.

An appeal against an assessment does not necessarily postpone the

payment of tax, and a separate application to defer payment (maximum permitted deferment is six months) has to be made.

ACT is payable at quarterly intervals, together with tax withheld from charges on income.

Interest on any unpaid tax is charged at 9% per year, from the due or deferred date as appropriate, and this interest is not a tax-deductible expense.

Tax Audits. There is no government audit of companies' financial statements, and the Revenue will normally accept financial statements audited or prepared by independent accountants without asking many questions.

Some companies' tax computations are selected, however, for comparatively detailed scrutiny by the Revenue, and whenever fraudulent manipulation of information is suspected a full investigation may be made.

PAYE records (see 'Withholding Taxes') are sometimes subjected to Revenue audit, and value added tax records are periodically examined by Customs and Excise investigators.

Tax Investment Incentives

These relate almost entirely to expenditure on capital assets. For a description of the system of 100% first-year machinery and equipment allowances available to enterprises throughout the country and the free depreciation arrangements for new ships, see the section on depreciation in this chapter.

A different type of investment incentive is the favourable treatment of foreigners working in the United Kingdom for foreign employers. The deductions of 25% or 50% of foreigners' earnings from employment in the United Kingdom are described in the table on pages 174-175.

TAXATION OF INDIVIDUALS

An individual's liability to income tax and capital gains tax is measured by reference to the tax year (or 'year of assessment') that for historical reasons ends on April 5.

Taxation in the United Kingdom

An individual may be liable to tax in the United Kingdom as follows:

1. If he is resident in the United Kingdom, he is usually liable to income tax on his worldwide income and to capital gains tax on any disposals of assets, wherever situated. If, however, he is not domiciled in the United Kingdom, these rules are substantially modified for income and capital gains arising abroad. In certain cases, it is necessary to determine whether an individual is ordinarily resident.
2. If he is a nonresident, he is normally liable to income tax only on income arising in the United Kingdom, and even this liability may be reduced by the operation of a double taxation agreement. He may also not be liable to capital gains tax.

The terms 'resident,' 'ordinarily resident,' and 'domiciled' are defined in the section headed 'Foreign Individuals and Foreign Income' later in this chapter.

Taxable Income

An individual pays tax on his total income for a tax year. Income from each source is calculated according to the rules of the various schedules described earlier and is then allocated to the appropriate tax year. The appropriate tax year is not necessarily the year in which the income arose. Total income for a tax year is found by aggregating the income arising under each schedule, together with income received from which tax has already been deducted, such as dividends and certain interest. From this total are deducted charges on income, and personal reliefs and allowances, to arrive at taxable income.

Specific Sources of Income. *Self-Employment Income.* Income from trades and professions is computed much as for companies; no deduction is allowed for the proprietor's own services to his business. Income for any tax year is normally that of the accounting period of the business ending within the preceding tax year. On commencement or cessation, actual profits are assessed for certain tax years; on a change of accounting date, the Revenue may decide what 12-month period's profits shall form the basis for assessment.

Investment Income. Income received after deduction of United Kingdom income tax (reduced as appropriate for foreign withholding tax) through a paying agent is assessed in the year of receipt. Income not passed through a paying agent and therefore subject to direct assessment is normally taxed on the amount received during the preceding tax year. Annual interest, which constitutes a charge on the payer's income, will be received, less income tax withheld.

Dividends received from resident companies are accompanied by a tax credit, at present 34/66ths of the actual receipt, and the current year's income is assessed. While the dividend plus the credit form part of total income, the credit (34% of the 'gross' dividend) may be set against any resulting tax liability. If, as a result of personal reliefs and allowances, the tax credit due to an individual exceeds his tax liability for the year, the surplus credit will be repaid to him.

Dividends received from abroad must be included in taxable income. Double taxation relief is available for foreign withholding taxes but not for any underlying taxes, whether there is a double taxation agreement between Britain and the country from which the dividend is paid or not. The gross dividend must be included in taxable income, and the withholding tax may be credited against any United Kingdom liability, but no surplus credit can be repaid.

Maintenance income (alimony) received by a divorced wife is regarded as investment income and so, except for the first £1,500 received in any year, may be liable to the investment income surcharge (see section on rates of personal tax).

Income from Employment. Income tax on wages, salaries, and the like (referred to as 'earned income') is deducted by the employer from the remuneration due in accordance with the 'PAYE' (pay as you earn) withholding tax system. Every employer must supply the Revenue each year with a statement of fringe benefits paid to all higher-paid employees, and tax is payable in certain circumstances on such benefits — for example, the private use of a company car, rent-free living accommodation, or excessive foreign travel allowances.

An employee who receives a bonus based on his employer's profits for an accounting period ended within the preceding tax year may allocate the bonus to that tax year or may apportion it into the tax years covered by the employer's accounting period.

Married Women. The income of a married woman living with her husband is deemed to be held for income tax purposes except in the tax year of marriage. An election may be made within certain time limits for the wife to be treated as a single person in respect of her earnings, but not her investment income; this election may be withdrawn for any tax year. The effect of such an election is to give both husband and wife entitlement to lower progressive tax rates, where aggregation of the two incomes would result in the application of higher progressive rates.

Exempt Income. The principal classes of exempt income are:

1. National Insurance sickness, unemployment, maternity, child and other benefits (but not retirement or widows' pensions), and disability and war-wounds pensions.
2. Interest on National Savings and Trustee Savings Bank ordinary accounts up to £50 (available separately to both husband and wife) and certain gains on government bonds.
3. Termination payments on dismissal or retirement which may be tax-free up to £5,000, subject to complex rules. These rules make it essential that the termination payment should not have been the subject of any contract with the employee.

Deductions and Reliefs

Allowances. These are deductions from income and not reductions of tax payable. The rates for 1977/78 are:

Personal. Single persons (including husbands and wives who are separated or have elected for the optional treatment of the wife's earned income)	£945
Married men (including those voluntarily maintaining wives living apart)	£1,455

These allowances are to be increased in line with the retail price index from 1978-79.

In the year of marriage, only a proportion of the additional allowance is given. If a wife has earned income, she is entitled to an additional personal allowance of £845 (or the amount of earned income, if less) unless she has elected to be taxed separately from her husband.

	First Child	**Other Children**
Children. For each child supported under age 11 on April 6 or born in the year	£196	£170
For each child aged 11 but under 16	£231	£205
For each child aged 16 or over in full-time education or being trained full-time for two or more years for a trade or profession.	£261	£235

These allowances are reduced by £1 for every £1 by which the child's own income (excluding education grants) exceeds £115, or £350 for a child of 18 or more at the end of the tax year.

Other Allowances. These include allowances for single individuals supporting children, individuals supporting elderly or infirm relatives, widows, and others who have to employ housekeepers, and blind persons; and higher rates of personal allowances for those aged 65 and over.

Other Reliefs. *Life Assurance Premiums.* Relief equal to half the basic rate of income tax (that is, 17%) will normally be allowed on life assurance premiums paid by the taxpayer or his wife to a United Kingdom assurance company, subject to the following conditions:

1. The policy must be on the life of the taxpayer or his wife.
2. No relief is given on the excess of the total premiums over one-sixth of the total income for the year, less charges thereon.
3. A policy taken out after March 19, 1968, must be for a term of at least ten years (subject to earlier death), and the premiums payable must be evenly spread.

A 'United Kingdom assurance company' includes any insurance company incorporated in a British Commonwealth country or the Irish Republic and any foreign insurance company with a branch in Britain listed as such by the Revenue.

Life assurance premium relief is given in the form of a deduction from tax payable, instead of a deduction in computing taxable income.

Pension Scheme Contributions. Contributions to approved pension or superannuation funds are generally allowed as deductions from earned income, although employees should confirm this with their employers when asked to join a pension fund to which they are required to contribute. Such funds often provide widows' pensions, death-in-service benefits, and disability pensions, as well as retirement pensions for employees themselves. Some funds may have to be modified on the introduction of the new state pension scheme (see Chapter 4).

Retirement Annuity Premiums. A self-employed person (including a partner in a partnership), or an employee who is not a member of an employees' pension fund, may deduct for tax purposes the premiums paid on approved retirement annuity policies or to approved trusts. The maximum annual premium deductible by a person born in 1916 or later (higher rates apply to those born earlier) is the lower of £3,000 or 15% of earnings or profits.

Interest. Interest paid on money borrowed wholly and exclusively for

business purposes in the United Kingdom, including (subject to anti-avoidance rules) the cost of investing in a partnership or close company and the purchase of equipment required in employment, is usually deductible in full. Interest must be annual interest or payable to a British bank, discount house, or member of the Stock Exchange.

The only other type of interest for which relief is given is that payable on loans for the purchase or improvement (but not repair) of real estate in the United Kingdom or the Irish Republic. If the property concerned is the principal residence of the owner or a dependent relative, the maximum allowable is interest on loans of £25,000. If the property is for letting (renting) commercially, there is no limit to the amount of loan; but relief for interest is available only against rents received. Hire-purchase interest other than that incurred for business purposes does not qualify for relief.

Other Deductions. Deductions are allowed for expenses wholly, exclusively and necessarily incurred in performing duties of employment, although the rules concerning these are more restrictive than those applying to deductions in arriving at trading or professional practice income. Travelling expenses from home to place of work in the United Kingdom are not allowable deductions.

Charges on Income. In practice, these are not deductible from taxable income. This is because they are paid after deduction of basic rate income tax, and normally such tax is not paid over to the Revenue but is retained by the taxpayer. Because the taxpayer thus obtains immediate relief at the basic rate, he is not entitled to deduct charges on income in computing his own basic rate liability, although deduction from income taxable at higher rates is allowed for some payments, notably alimony.

Charges on income include annual payments such as alimony to a divorced wife and donations to charity paid under legally-binding deeds for more than six years.

Income Tax Rates

Taxable income comprises total income, less allowances and reliefs.

Graduated Rates. Personal income tax rates on taxable income for the year to April 5, 1978, are:

	%
On the first £6,000	34 (called the basic rate)
On the next £1,000	40
On the next £1,000	45
On the next £1,000	50

	%
On the next £1,000	55
On the next £2,000	60
On the next £2,000	65
On the next £2,000	70
On the next £5,000	75
On the excess over £21,000	83

Investment Income Surcharge. Unearned (investment) income is, in addition, liable to a surcharge.

	%
On the first £1,500	Nil
On the next £500	10
On the excess over £2,000	15

Thus, on income in excess of £21,000, all derived from investments, the combined rate of income tax and surcharge is a confiscatory rate of 98%.

The surcharge bands are £500 higher for taxpayers over 65 at any time in the tax year.

Capital Gains Tax

The capital gains tax charges gains by resident individuals on disposals of assets after April 6, 1965 (the position of nonresidents is described later). Usually, the gain or loss is the difference between the proceeds and cost of the asset; but in the case of assets held on April 6, 1965, only the portion of the gain or loss arising after April 6, 1965, is chargeable or allowable.

Chargeable and Exempt Gains. Gains arising on disposals after April 6, 1965, of all forms of property and rights are chargeable, subject to certain exemptions and reliefs, of which the principal are:

1. The individual's only or main residence with land up to one acre, and not more than one such residence occupied rent-free by a dependent relative.
2. Tangible moveable property valued at not more than £1,000, or, unless it is a trade asset, a predictable life of not more than 50 years, and all private automobiles.
3. Life assurance policies on maturity or surrender unless the policy was purchased from the original person assured.
4. Certain government savings bonds (national savings certificates and premium bonds).
5. Most government securities, if held for more than one year.
6. Gifts to charities and (for works of art or real estate with amenity value) to certain national institutions.

A disposal of assets includes any occasion when ownership is transferred, whether by sale, exchange, or gift, and also whenever the owner derives a capital sum from the asset, such as compensation for damage or loss. The rules are basically the same as those applying to capital gains by companies (see section of this chapter on corporate taxation under the heading 'Capital Gains'). No capital gains tax is payable on assets passing on death. Exemption is granted for any tax year in which proceeds from an individual's disposals do not exceed £1,000.

Tax Rates and Bases of Assessment. Assessments are made by reference to tax years ending on April 5. Capital losses of the same year and unrelieved losses of previous years are deducted from gains, and the balance is charged at 30%. Alternatively, for resident individuals, the tax payable is measured by calculating the income tax that would be payable on the gains if 50% of the first £5,000 of net gains, plus the whole of any excess, were to be included in unearned income of the year. This alternative basis is of no advantage where the top rate of tax is more than 60%.

Unit and Investment Trusts. A unit trust authorised by the Department of Trade and an investment trust that complies with certain conditions laid down in the Taxes Act receive favourable taxation treatment of their chargeable gains. Such gains are taxed at an effective rate of 17%; furthermore, subject to certain restrictions, an individual making a gain on the disposal of units or shares in such entities receives a tax credit against tax on his capital gains of an amount equal to 17% of the gains realised by him on disposal. This tax credit cannot be repaid or carried forward to another year.

Foreign Individuals and Foreign Income

Domicile and Residence. Before an individual's tax liability can be determined, it is necessary to determine his tax status in the United Kingdom and for this purpose to establish his 'domicile' and whether he is 'resident' or 'ordinarily resident' there. Questions of a foreigner's liability to British tax and a British subject's liability to British tax on foreign income are extremely complex; professional advice should always be obtained. Certain individuals, such as foreign diplomats or others as defined in various double taxation agreements, are exempt from British tax.

Domicile. The law is complex, but in a normal case the domicile of any person is the country that he looks upon as his natural homeland. Domicile is not a matter of where an individual happens to reside at any time, but where he intends to settle indefinitely. Most people domiciled in

the United Kingdom were born there, but others have acquired a domicile of choice in Britain by permanently immigrating there.

Residence. The general rule is that an individual is resident in the United Kingdom if he remains there for 183 days or more, not necessarily consecutively and excluding days of arrival and departure, in any one year to April 5. An individual coming to the United Kingdom for employment, intending at the outset to remain for at least two years, or for any other purpose and intending to remain for at least three years, would be treated as being resident from the date of his arrival. Moreover, an individual who, even though not present in the United Kingdom for 183 days or more in any tax year, habitually makes visits of substantial duration may be treated as a resident from the first tax year in which these visits commenced. For this purpose, visits are 'habitual' if they take place in four consecutive years and 'substantial' if they average three months or more per year.

The maintenance of a permanent place of abode (house or apartment) is an important factor in determining residence. If an individual maintains a place of abode in the United Kingdom available for his use, he may be treated as resident for any year in which he sets foot there, although this rule will not apply in the case of an individual who works full-time in a trade, profession, or employment wholly outside the United Kingdom. A person is regarded as maintaining a place of abode if he purchases a house or leases unfurnished accommodation for one year or more, or furnished accommodation for two years or more, and the house or other accommodation is available for him to live in as required.

A person who has been resident in the United Kingdom and goes abroad, and stays abroad for less than three years, will be treated as resident in the United Kingdom for any year in which he sets foot in the country. He will also be treated as ordinarily resident throughout the period of his absence. These rules do not apply if the absence arises because of employment abroad.

Ordinary Residence. It is also necessary to consider whether an individual is 'ordinarily resident' in the United Kingdom. This means resident 'from year to year' or 'in the ordinary and regular course of one's life.' Not all residents are ordinarily resident; for example, an individual may stay in the United Kingdom for, say, seven months in one tax year and so become resident, but this would not in itself make him ordinarily resident. An individual who spends more than three months in any fiscal year for four consecutive years would after the fourth year be held to be ordinarily resident. On the other hand, an individual whose centre of life is

transferred to the United Kingdom, even if temporarily, may be ordinarily resident from the date of his arrival.

When an individual stays in the United Kingdom for a prolonged period, but does not establish a permanent place of residence in this country—for instance, by buying a house to live in—he would normally be regarded as ordinarily resident from the April 6 following the third anniversary of his arrival.

Taxation of Income. Generally speaking, income arising within the United Kingdom is liable to British tax if the recipient is resident and ordinarily resident there, whether he is domiciled in the United Kingdom or not. This rule is clearly seen in the case of unearned income arising within the United Kingdom, such as dividends from British companies or deposit interest from British banks. In the case of earned income, however, liability to United Kingdom tax varies widely depending on where the duties of employment are carried out; the different rules are summarised in the table on page 174. If the recipient is not resident, unearned income is subject to concessional treatment in some cases and a further concept, that of 'British subject' is introduced; the rules are complex and are outside the scope of this Business Study.

The rules as to income arising abroad are also complicated. An individual resident in the United Kingdom but not domiciled there is generally liable to British tax only on remittances of income to the United Kingdom. In some circumstances, it may therefore be advisable for such sums as are remitted to the United Kingdom to be made out of capital sources rather than out of income. The position of earned income arising abroad is shown in the table on pages 174-175.

Most readers of this Business Study will be primarily concerned with tax on earned income; the table shows the tax position both of foreigners working in Britain or for a British employer and of British subjects working abroad. It indicates that substantial relief from United Kingdom tax is available in many cases, in particular to foreigners working in the country for nonresident employers. A foreign parent company is usually nonresident for this purpose, but a British subsidiary of a foreign parent is usually resident, and so usually is a British branch. Employment contracts must therefore be carefully drawn up to allow the employee to take maximum advantage of the concessions available.

Furthermore, for employees resident for exchange control purposes who are taxed on remittances to the United Kingdom, banking arrangements must be devised to allow surplus funds to be accumulated in other parts of the scheduled territories (an exchange control requirement—see

Chapter 2) without being passed through the United Kingdom.

Foreigners working in Britain not eligible for social security child benefits may claim higher rates of children's allowances than those described on page 166.

Individuals, British or foreign, who are resident for tax purposes are entitled to personal and other allowances in full. Nonresident British subjects and certain others are entitled to such allowances in the proportion that their income from United Kingdom sources bears to their worldwide income.

Income from a trade or profession wholly carried on abroad is broadly computed in the same way as equivalent income arising in the United Kingdom, but only 75% of taxable income is charged to British tax. Exceptionally, the remittance basis applies to individuals not domiciled in the United Kingdom and to British subjects not ordinarily resident there.

Capital Gains. Individuals neither resident nor ordinarily resident are liable to capital gains tax only if they carry on a trade in the United Kingdom through a branch or agency and the assets giving rise to the gain are situated in the United Kingdom and connected with the trade, branch, or agency. Individuals who are resident and ordinarily resident, but not domiciled, in the United Kingdom are liable on gains from the disposal of assets abroad only to the extent that those gains are remitted to Britain, but no relief is available for losses. Some double taxation agreements extend to capital gains.

Returns and Assessments

Returns and Bases of Assessment. Every person who is chargeable to income tax for any tax year is required to inform the authorities that he is so chargeable and must on request submit a return of his total income together with his claim for allowances.

The return for any tax year (that is, to April 5) is made at the beginning of that year, but lists the taxpayer's income for the preceding year. It is often necessary for the Revenue to examine two years' returns before making a decision on an individual's liability for any tax year. This is because tax on income from some sources is assessed on the preceding tax year's receipts. For example, the tax liability for 1977/78 will be based on earned income received in that year (as shown in the 1978/79 return), but on interest, from which withholding tax has not been deducted, received in 1976/77 (as shown in the 1977/1978 return).

UNITED KINGDOM TAX LIABILITY ON

Status of Employee	Place Where Duties Are Performed	
	1. Wholly in UK	2. Partly in UK
EMPLOYEE DOMICILED IN UK, AND EMPLOYER RESIDENT IN UK		
EMPLOYEE NOT DOMICILED IN UK, AND EMPLOYER RESIDENT IN UK		
Resident and ordinarily resident	All	All (subject to columns 3a or 3b)
Resident but not ordinarily resident	All	That part
Nonresident	All	That part
EMPLOYEE DOMICILED IN UK, AND EMPLOYER NOT RESIDENT IN UK		
Resident and ordinarily resident	All	All (subject to columns 3a or 3b)
Resident but not ordinarily resident	All	That part
Nonresident	All	That part
EMPLOYEE NOT DOMICILED IN UK, AND EMPLOYER NOT RESIDENT IN UK		
Resident and ordinarily resident	50% (2)	50% (2)
Resident but not ordinarily resident	50% (2)	50% of that part (2)
Nonresident	50% (2)	50% of that part (2)

Notes:

(1) 'Earnings' for these rules includes housing and cost of living allowances, educational expense allowances, deferred compensation, and the like, in addition to salary and bonuses, less deduction for expenses as agreed with the Revenue.

(2) This is increased to 75% for any year of assessment in which the employee is resident in the UK and has been so resident for nine out of the previous ten years.

EMPLOYEES' EARNINGS (1) FROM 6th APRIL 1977

Place Where Duties Are Performed				
3. Partly Abroad		**4. Wholly Abroad**		
a. Absent 30 to 364 days in the tax year	**b. Continuously (3) absent 365 or more days (not (4) incidental to UK duties)**	**a. Absent less than 30 days in the tax year**	**b. Absent 30 to 364 days in the tax year**	**c. Continuously (3) absent 365 days or more (4)**
75% of that part	None	All	75%	None
Remittances from foreign part	Remittances from foreign part	Remittances	Remittances	Remittances
None	None	None	None	None
75% of that part	None	75%	75%	None
Remittances from foreign part	Remittances from foreign part	Remittances	Remittances	Remittances
None	None	None	None	None
50% (2)	None	Remittances	Remittances	Remittances
Remittances from foreign part	Remittances from foreign part	Remittances	Remittances	Remittances
None	None	None	None	None

(3) The definition of 'continuously absent' does not prevent visits to the United Kingdom if these are not for periods longer than one-sixth of the visit plus the immediately preceding absence, but with an overriding limit of 62 days on the length of the visits in any one tax year.

(4) A 'continuous' absence of 365 or more days spanning the end of a tax year (5th April) is treated as one period of absence (columns 3b and 4c) and not as two short periods (columns 3a and 4b).

Payments and Appeals. Tax on employment income is deducted by the employer and paid over to the Revenue monthly (see 'Withholding Taxes'). Payment of income tax on trade or professional profits is due in two equal instalments on January 1 in the tax year and July 1 following. Tax on other types of income is with minor exceptions due in one instalment on January 1 in the tax year. When an assessment is made after these dates, tax is due within one month of the date of the assessment.

Interest is charged at 9% per annum (not tax-deductible) if tax is not paid on the due date. The normal due date may be postponed for up to six months upon application by the taxpayer for a valid reason. In practice, interest of £10 or less is not normally charged.

Capital gains tax is assessed separately and is due for payment three months after the end of the tax year in which the gain arose or, if later, one month after the assessment is made. The same rule applies to investment income surcharge on income taxed at the source.

Similar appeal procedures and time limits apply to individuals and to companies.

TAXATION OF OTHER ENTITIES

Partnerships

In the usual form of partnership where partners are resident individuals, partnership profits are computed in the same way as company profits, except that partners' salaries and interest are not deductible. Income tax, based on each partner's share of profits, is then assessed on the partners jointly. When partners retire or new partners are admitted, the partnership business is normally treated as having ceased and a new partnership business commenced. If there is at least one continuing partner, however, all partners (old and new) may elect to be assessed as though no change had taken place. Professional advice is recommended on this matter.

A resident individual partner in a nonresident partnership is liable to income tax on 75% of his share of the partnership profits.

A nonresident individual partner in a resident partnership will normally be liable to British income tax on his share of the profits. A nonresident individual partner in a nonresident partnership (one controlled or managed abroad) will be liable to British income tax on his share of any profits from trading within the United Kingdom, subject to the provisions of any applicable double taxation agreement.

If one of the partners is a corporate entity, its share of the partnership profits will be assessed to corporation tax in accordance with normal corporation tax rules.

Trusts

Income tax is assessed on the income of a trust in the name of the trustees. Usually, the rate of tax is the basic rate; the trustees are not entitled to any personal allowances.

The trustees pay to the beneficiary the income remaining after tax, and the beneficiary's income for tax purposes is the gross equivalent of this net amount. His gross income is treated as investment income and so attracts the investment income surcharge, but allowances and even repayment of tax are available according to his circumstances.

Whenever trustees have the discretion of paying income to a beneficiary or not, investment income surcharge at 15%, as well as basic rate tax, is levied on the trust income. In these circumstances, the beneficiary receiving income is deemed to have suffered withholding tax of 15% and 34%; that is, 49% in all, repayable in appropriate circumstances.

Pension Funds

Approved pension funds are exempt from United Kingdom direct taxes. A fund is 'approved' if it meets the Revenue's published criteria for a scheme established to provide genuine pensions from the accumulated contributions of its members and other income derived therefrom.

WITHHOLDING TAXES

Dividends, Interest, and Similar Payments

Dividends. There is no deduction of income tax from dividend payments by British companies. United Kingdom residents, however, and certain residents of a number of countries with which double taxation agreements have been concluded, are entitled to an imputed tax credit at the basic income tax rate on dividends received (see section on Advance Corporation Tax in this chapter).

Interest and Royalties. With a few exceptions, interest and royalties are paid under deduction of income tax (at 34% of the gross amount), the tax withheld being accounted for by the payer to the Revenue. In the case of payments to nonresidents, a double taxation agreement may either

exempt the interest or royalty from liability to United Kingdom tax or restrict the rate of tax to less than 34%. In this event, the Revenue will, on application, permit payments to be made gross or at the appropriate reduced rate of withholding tax. The withholding tax rate varies (see table at the end of this chapter).

Resident group companies may elect to pay and receive intercompany 'charges on income' without withholding taxes.

Branch Profit Remittances. No withholding taxes are imposed on profit remittances to the head office of a United Kingdom branch of a foreign enterprise.

Interest on Government Bonds and Receipts from Foreign Sources. Dividends, interest, and royalties received through British banks or paying agents are subject to withholding of income tax at 34%, less any foreign withholding taxes already deducted in the case of foreign sources.

If, as a result, a resident individual has suffered too much income tax, the excess will be repaid on submission of a claim supported by vouchers detailing the taxed income.

Employment Income

The pay-as-you-earn (PAYE) tax collection system applies generally to all income from employment. It is the employer's duty to deduct income tax from his employees' pay and account for it to the Revenue. Usually, the income tax deducted from an employee in a year of assessment equals his actual liability for that year, but adjustments are made where necessary. Detailed rules for applying the PAYE system have been laid down, and reference to these should be made by employers based in the United Kingdom. Briefly, each employee is given a code number by the Revenue representing the allowances and reliefs claimed by him when he files his annual tax return. This code number is reported to the employer, who by using tax tables published by the Revenue is able to deduct an appropriate amount of tax at the basic and higher rates from the employee's pay each week or month.

The Revenue tries to collect tax through the PAYE system wherever possible, even from individuals working in the United Kingdom but paid abroad if the payer has a British branch office. If this is not appropriate for some reason, the Revenue will apply the direct collection method instead, whereby a provisional assessment is made early in the tax year and the resulting provisional tax liability is collected from the taxpayer, normally

in four instalments. The provisional assessment is adjusted when actual figures are known.

DOUBLE TAXATION AGREEMENTS

The United Kingdom has negotiated general double taxation agreements with most of the principal countries of the world (see the following complete list). Most of the agreements follow the OECD model agreement and provide for reduced rates of withholding tax, as well as relief for foreign taxation either by credit or exemption.

Antigua
Australia
Austria
Barbados
Belgium
Belize
Botswana
British Solomon Is.
Brunei
Burma
Canada
Cyprus
Denmark
Dominica
Falkland Is.
Faroe Is.
Fiji
Finland
France
Gambia
German Federal Republic
Ghana
Gilbert Is.
Greece
Grenada
Guernsey
Indonesia
Irish Republic
Isle of Man
Israel
Italy
Jamaica
Japan
Jersey
Kenya
Lesotho
Luxembourg
Malawi
Malaysia
Malta
Mauritius
Montserrat
Namibia
Netherlands
Netherlands Antilles
New Zealand
Nigeria
Norway
Pakistan
Philippines
Poland
Portugal
Rhodesia
St. Kitts
St. Lucia
St. Vincent
Seychelles
Sierra Leone
Singapore
South Africa
Spain
Sudan
Swaziland
Sweden
Switzerland
Tanzania
Trinidad & Tobago
Tuvalu (Ellice Is.)
Uganda
USA
Zambia

Agreements are being negotiated with Egypt, India, Morocco, Rumania, South Korea, Sri Lanka, Thailand, Tunisia, and Yugoslavia.

Shipping and air transport profits are covered by agreements with Argentina, Ethiopia (air only), Hungary (air only), Iceland (shipping only), Iran (air only), Lebanon, USSR (air only), and Zaire.

OTHER TAXES

Value Added Tax

General Principles. Value added tax (VAT) is charged on the supply of goods and services in the United Kingdom by any enterprise in the course or furtherance of its business. It is also charged on the importation of goods into the United Kingdom and (from January 1, 1978) on certain services received from foreign countries. There are exceptions to the tax, dealt with either by zero-rating or by exemption.

Tax is normally computed on the net value shown on the invoice after deduction of any discount available whether or not this discount is taken. Imports are taxed as from January 1, 1978, on the invoice value when a cash price is payable, or on open market value for customs purposes in other cases (plus, if not already included, duties and taxes payable outside the United Kingdom and freight, insurance, and handling charges up to the place of importation, in both cases).

The supply of goods and services includes outright sale, hiring and leasing, the making of a gift, or the loan of goods. The time of supply is normally when the invoice was issued or when the goods or services were paid for. Under certain circumstances, however, the time of removal of the goods may be significant. The place of supply is normally the place from which the goods are removed or where the services are rendered.

Mechanics of VAT. Each taxable business is required to register with the Customs and Excise authorities and make a periodic return to the collecting office. This return must show details of tax on goods and services charged to its customers during the period (output tax) and tax suffered on goods and services charged by its suppliers (input tax). When the output tax exceeds the input tax, a payment of the excess must be made with the return form. When the input tax is greater than the output tax, the balance is refunded by the Customs authorities shortly after

receiving the return form. Returns are normally made quarterly, within one month of the end of each quarter. When the business is regularly entitled to a refund, returns may be made monthly.

Input tax comprises tax not only on goods purchased for processing or resale but also on the overhead of the business and on capital expenditure. Tax on certain inputs is not deductible; at present, this applies to the purchase of automobiles and to the cost of entertainment of United Kingdom customers.

Rates of Tax. There are two rates of VAT: the standard rate, which is at present 8%, and the higher rate, at present 12.5%. Goods and services chargeable at the higher rate are:

- Petrol (gasoline) — but not diesel fuel
- Radio and television sets and certain electrical domestic appliances
- Boats, aircraft, and caravans (intended for leisure purposes)
- Photographic equipment and binoculars
- Luxury goods such as furs, jewellery, and precious metals.

Car Tax. On new and imported automobiles, in addition to VAT at 8% on the retail price, a supplementary tax is levied at 10% of the wholesale value. This is not deductible as input tax, but is refunded on vehicles exported.

Exceptions to the Normal Rules. *Zero-Rating.* Legally, a zero-rated supply is taxable, but at a nil rate of tax. This means that a registered business that supplies zero-rated goods or services does not have to charge output tax to its customers, but can recover as input tax any VAT it has been charged by its own suppliers. Zero-rating applies to the following major items:

- Foodstuffs (apart from restaurant meals, confectionery, and certain alcoholic drinks)
- Water and sewerage sevices
- Books, newspapers, and periodicals
- Newspaper advertisements and news services
- Fuel and power
- Construction of buildings (apart from the supply of certain fittings not usually provided by builders)

- Public transport, including the supply and repair of commercial ships and aircraft
- Residential caravans and houseboats (not readily moveable), children's clothing and footwear, and protective boots and helmets
- Drugs and medicines supplied on doctors' orders
- Certain sales of goods by charities
- Exported goods and certain services supplied to persons abroad.

International Operations. All exported goods are zero-rated. This rule applies also to goods supplied as stores on ships and aircraft engaged in international trade. It also applies to goods, including automobiles, used by individuals going abroad and to goods temporarily imported for processing and then reexported. Certain 'exported' services are also zero-rated, in particular (as from January 1, 1978):

1. Services that form part of transactions (for example, export of goods) that are themselves zero-rated.
2. Services in connection with real estate outside the United Kingdom.
3. The hiring (leasing) of goods exported from the United Kingdom.

Services supplied to private individuals in other EEC member-states will, however, usually be taxable as from January 1, 1978.

Zero-rating does not apply to the export of services that are exempt from VAT within the United Kingdom, except that under special rules, banking, finance, and insurance services provided to customers in foreign countries outside the territory of the EEC are zero-rated. On January 1, 1978, such services provided to customers within the territory of the EEC are to be exempt, thus limiting the relief available to the bank or other financial institution concerned for tax on its inputs.

Exemption. An enterprise making exempt supplies of goods and services does not have to charge output tax to its customers and, unless it also makes taxable supplies, does not have to be registered, keep tax records, or pay any tax to the Customs authorities. On the other hand, it is not entitled to recover any input tax charged to it on purchases relating to its exempt supplies. Exemption applies to the following major items:

- Insurance, banking and loans, credit, and dealings in securities (unless in connection with exports, when some charges are zero-rated)
- Postal services, excluding telecommunications

- Betting, gaming, and lotteries
- Education
- Health, including medical, dental, ophthalmic, and hospital services
- Burial and cremation.

Partial Exemption. A business may supply both taxable (including zero-rated) and exempt items. In such a case, it is necessary to apportion the input tax charged to the business between taxable and exempt outputs, because the proportion attributable to the exempt is nondeductible. This apportionment is normally made according to the relative value of taxable and exempt outputs over a period of 12 months, but any basis appropriate to a particular business may be agreed upon with the Customs authorities.

Small Businesses. Businesses whose annual turnover of taxable goods or services does not exceed £7,500 each year (£5,000 before October 1, 1977) are usually exempt from VAT, although they may apply to be treated as taxable to recover input tax charged to them.

Record-Keeping for VAT. No independent accountant's certificate is required with the periodic VAT returns, nor is it necessary to submit tax invoices in support of claims to deduct input tax. However, records relating to a business's VAT accounting must be in a form acceptable to the Customs authorities and be available for inspection by them for three years. Every invoice issued must contain the supplier's and customer's names, supplier's VAT registration number, description of the goods or services concerned, their price, the rate and amount of VAT charged, and the date of the transaction. A simplified form of invoice may be issued for retail transactions of less than £10, including tax. Valid invoices must be available, for vertification by the Customs authorities if necessary, to support any claim for deduction of input tax suffered from output tax payable.

Capital Transfer Tax

General Principles. Capital transfer tax was introduced in 1974 to replace estate (death) duty. It is a cumulative tax on gifts (called 'transfers of value') made by an individual in his lifetime and on the value of his estate passing on his death. The rates of tax, which increase progressively with the aggregate value of transfers made during life and at death, are shown in the following tables: the first table gives the rates applicable on death and to transfers made during the three years immediately preceding death; the second table, applying reduced rates at the lower end of the

scale, applies to all other transfers. No tax is chargeable on the first £25,000 of aggregate gifts.

For an individual domiciled in the United Kingdom, capital transfer tax applies to transfers of his assets wherever they may be situated. For an individual not so domiciled, the tax only applies to assets situated in the United Kingdom. Certain categories of individuals otherwise accepted as not domiciled in the United Kingdom are, however, treated, for the purposes of capital transfer tax only, as if they were domiciled there; in particular, individuals who are resident for income tax purposes and have been so resident for at least 17 out of the past 20 tax years are treated in this way. This rule could apply, for example, to long-term resident employees of foreign companies. A few double taxation agreements deal with estate duty and are mostly extended to capital transfer tax.

Proportion of Value		First Table		Second Table	
Lower Limit	Upper Limit	Tax Rate	Cumulative Tax on Upper Limit	Tax Rate	Cumulative Tax on Upper Limit
£	£	%	£	%	£
0	25,000	Nil	—	Nil	—
25,000	30,000	10	500	5	250
30,000	35,000	15	1,250	7½	625
35,000	40,000	20	2,250	10	1,125
40,000	50,000	25	4,750	12½	2,375
50,000	60,000	30	7,750	15	3,875
60,000	70,000	35	11,250	17½	5,625
70,000	90,000	40	19,250	20	9,625
90,000	110,000	45	28,250	22½	14,125
110,000	130,000	50	38,250	27½	19,625
130,000	160,000	55	54,750	35	30,125
160,000	210,000	60	84,750	42½	51,375
210,000	260,000	60	114,750	50	76,375
260,000	310,000	60	144,750	55	103,875
310,000	510,000	60	264,750	60	223,875
510,000	1,010,000	65	589,750	65	548,875
1,010,000	2,010,000	70	1,289,750	70	1,248,875
In excess of	2,010,000	75	—	75	—

Rates of Tax

Exemptions. Certain transfers are exempt from capital transfer tax, of which the following are the most important:

1. Gifts, including legacies on death, by husband to wife and vice versa; where, however, the donor is treated as domiciled in the United Kingdom but the donee is not, this exemption is limited to £25,000.

2. Gifts out of income.
3. Gifts for family maintenance; that is, to wife or husband, to children under 18, and to children over 18 still in full-time education.
4. Gifts up to £100 a year made to any one donee.
5. Gifts up to £2,000 a year in aggregate; to the extent that gifts fall short of £2,000 in any one year, the excess may be carried forward and used in the following year.
6. Wedding gifts by a parent up to £5,000 for any one marriage; up to £2,500 by a more distant relative or by one of the marriage parties to the other; or up to £1,000 by any other person.
7. Gifts to charities or to political parties (though tax may arise on death in certain circumstances).

There is no general exemption from capital transfer tax for owner-occupied homes.

Various reliefs — in some cases up to 50% — are granted on transfers of business assets such as controlling shareholdings interests in unincorporated businesses and minority shareholdings in unquoted companies.

Development Land Tax

Development value is the excess of the value of land or real estate in a proposed future use over its value for its present use. For example, agricultural land might increase considerably in value if it is to be developed as a site for new houses. This development value is to be taxed at 80% after a transitional period ending on March 31, 1979.

To measure development value, the net proceeds of sale of the land concerned, or its open market value at the commencement of site clearance or construction work, are compared with its base value. Base value is broadly the original cost of the land together with increases in its value in its present use and increases resulting from expenditure on improvements that did not increase its present use value. This is only a summary definition; in practice, the matter is complex because there are three alternative ways of arriving at base value, and the taxpayer is permitted to adopt the highest.

The term 'development' covers practically all changes of land use, with a few exceptions such as changes of use within the same class (for example, from one kind of industrial use to another, or from use as offices to use as shops), changes or additions of not more than 10% of the cubic content of existing buildings, or reversion to original use after a temporary change.

Some developments are exempt from tax, including those connected with transfers between members of resident groups of companies with 75% common ownership, and those related to private residences. If the owner of land develops it for industrial purposes, any tax liability is deferred until the land is sold.

The first £10,000 of any realised development value in any year is exempt from tax; until March 31, 1979, the next £150,000 in any year is charged at only 66⅔%. If development land tax is charged on any realised development value, this is also not subject to capital gains tax, income tax, or corporation tax. Any development value that has been subject to capital transfer tax may be reduced by the amount of that tax in computing the liability to development land tax. When development land is sold by a nonresident, half the tax due is deducted from the sale price; the nonresident is given a certificate to that effect. Development land tax has superseded a short-lived 'development gains tax' that modified the capital gains tax rules on real estate developments before April 1, 1976.

Miscellaneous Taxes

Petroleum Revenue Tax. This tax is designed to give the British Government some share in the results of exploiting the oil and gas deposits under the North Sea. Tax is charged on all companies or others licensed to win oil or gas from any particular field in the United Kingdom, its territorial waters and its share of the Continental Shelf. Tax is computed for chargeable periods, normally each six months to June 30 and December 31, and is payable four months after the end of each period. The first chargeable period will be that in which total production from the opening of the field reaches 1,000 (British) tons.

Computation of Chargeable Profits. Sales of oil are priced at open market selling prices. Stocks of oil extracted but not sold are valued at half that price. Allowable deductions include royalties, field expenditure, expenditure on long-term assets (plus an uplift to cover disallowable interest expense), abortive exploration expenditure, and unrelievable losses from abandoned fields anywhere in the United Kingdom. In addition, a provisional allowance of 5% of sales is given, but this allowance is recovered in the next chargeable period but one.

Another allowable deduction is called the 'Oil Allowance.' In broad terms, this is the profit attributable to the first 500,000 tons of oil extracted from the field in each chargeable period of six months. It ceases to be given as soon as 10 million tons have been produced from the field concerned.

Losses in any field may be carried forward or back without time limit.

Rate of Tax. The present tax rate is 45% of chargeable profits, with an upper limit of 80% of the excess of profits for the period over 30% of accumulated field expenditure at the end of the period. For this purpose, 'profits' are calculated without any deduction for losses, field expenditure, or oil allowance.

Any petroleum revenue tax paid is deductible from profits for corporation tax purposes. There are territorial and quantitative restrictions in the allowance of oil companies' losses for corporation tax purposes; these are complex and outside the scope of this review.

Local Taxes. Local government authorities are empowered to levy taxes, known as rates, on occupiers of real estate. Rates are based on estimated annual rental values, not on the occupier's income, and vary widely from area to area. Agricultural land is exempt from rates, and charities are granted some reliefs. In Scotland and Northern Ireland, industry is charged with rates on one-half and one-quarter respectively of annual values, with minor exceptions.

Stamp Duties and Minor Taxes. *Stamp Duty.* This is payable, usually by the purchaser, where a written document is required to make a legal transfer of title to assets. It applies, for example, on the transfer of real estate in the United Kingdom and of shares on the United Kingdom Stock Exchange. Loan capital transfers, however, are not usually liable to stamp duty. Duty is normally charged on the purchase price, but where assets are disposed of by way of gift, it is charged by reference to market value. Leases of real estate are usually subject to duty based on premiums and rents payable.

The standard rate of duty is 2%, but reduced rates apply in a few cases, including:

1. Transfers of real estate where the purchase price does not exceed £30,000 — nil to 1½%.
2. Transfers of any kind to a charity — 1% (or half the reduced rates on real estate transfers not exceeding £30,000).
3. Transfers of stock and shares to any person resident outside the scheduled territories as defined for exchange control purposes — 1% (see Chapter 2).

Certain documents are exempt from ad valorem duty. Among the more important are:

1. Transfers from one nominee holder to another or from a nominee to the beneficial owner (chargeable at a fixed rate of 50p).

2. Transfers of government securities (no duty is payable).
3. Transfers of ships or interests therein (no duty is payable).
4. Transfers between group companies where one is at least 90% owned by the other or both are at least 90% owned by a third (the rules are complex, but if all conditions are met, no duty is payable).
5. Transfers in connection with reconstructions or amalgamations of companies (again, the rules are complex; in brief, at least 90% of the transferor's share capital must be exchanged for shares in the transferee; if all conditions are met, no duty is payable).

Legal title to tangible assets such as inventories, machinery and equipment, or cash can be transferred simply by delivery; as no written document is required by law to effect transfers of them, no stamp duty is normally payable.

Licences. Numerous minor imposts or fees are charged, such as vehicle licences (private cars, £50 per year), television, dog, and firearms licences, and betting shop and bar licences.

EXAMPLE OF CORPORATION TAX COMPUTATION

Profit and Loss Account on Which Computation Is Based

TRAMP ENTERPRISES LTD.

Profit and Loss Account for the Year to 31st December 19—Y

		£
Profit on trading before deducting the expenses listed below		155,512
Profit on sale of investment		13,000
Dividend received in cash		4,000
		172,512
Deduct overhead expenses		
Depreciation	10,000	
Royalties (paid £6,000)	5,000	
Debenture interest	9,000	
Entertainment (all UK customers)	1,000	
General expenses (including charitable gift, £50)	2,000	
Bank overdraft interest	6,000	
Directors' remuneration	20,000	
Rent and rates	5,000	
Office salaries	15,000	
Printing, stationery, and advertising	7,000	80,000
Profit before taxation		92,512
Corporation tax*		18,103
Profit after taxation		74,409
Dividends paid in the year		20,000
Balance carried to revenue reserve		54,409

Other Data Assumed

1. Stock Relief

Stock at 31.12.19-Y	74,037
Stock at 31.12.19-X	50,963
	23,074
Less 15% × £60,562 (see below)	9,074
Stock relief as below	14,000

2. Capital Allowances

All fixed assets bought after October 27, 1970
New machine bought in 19-Y for £40,000, allowed in full below.

3. Capital Gain

Investment sold	38,000
Investment cost	25,000
Gain as below	13,000

*(The make-up of this charge would be explained in a note to the published accounts.)

EXAMPLE OF CORPORATION TAX COMPUTATION (continued)

Computation of Taxable Profits

	Deduct	*Add*	
1. Trading Income			
Profit as in accounts		92,512	
Depreciation		10,000	
Royalties		5,000	(accrued, contrast below)
Debenture interest		9,000	(long-term)
Entertainment		1,000	(all UK customers)
General expenses		50	(charitable donation)
Profit on investments	13,000		(capital gain)
Dividend received	4,000		(franked investment income)
Capital allowances	40,000		(see above)
		117,562	
	57,000	57,000	
Trade income before stock relief		60,562	
Deduct stock relief		14,000	(see above)
		46,562	
2. Total Profits			
Taxable trading income as above		46,562	
Deduct charges paid (cash basis)			
Royalties	6,000		
Debenture interest	9,000	15,000	
Income less charges		31,562	(3/12 = £7,891 9/12 = £23,671)
Capital gain 30/52 × £13,000 (see above)		7,500	(3/12 = £1,875 9/12 = £5,625)
Taxable profits		39,062	
Franked investment income			
Dividend received	4,000		
Add tax credit	2,154	6,154	(not subject to corporation tax)
Total of profits to fix rate of corporation tax		45,216	

Calculation of Tax Payable

1. Financial year 19-X (to 31st March 19-Y): 3/12 × £45,216 = £11,304.
   'Profits' of £11,304 are between £10,000 and £16,250.
   (3/12 of relevant limits for that year); therefore, marginal rate applies.

Gain £1,875 at 52%		975.00
Income 7,891 at 52%	4,103.32	
Less 4/25 × (16,250 - 11,304) × 7,891 / 11,304 =	552.42	3,550.90
		4,525.90

2. Financial year 19-Y (to 31st March 19-Z) —
   assuming the rates are the same as for 19-X:
   9/12 × £45,216 = £33,912
   'Profits' of £33,912 are between £30,000 and £48,750
   (9/12 of assumed relevant limits for that year);
   therefore, marginal rate applies.

Gain £5,625 at 52% (assumed)		2,925.00
Income 23,671 at 52% (assumed)	12,308.92	
Less 4/25 (assumed) × (48,750 - 33,912) × 23,671 / 33,912 =	1,657.14	10,651.78
		13,576.78

3. Tax for year 19-Y on taxable profits of
   £39,062 (£4,525.90 + £13,576.78) £18,102.68

Paid as Advance Corporation Tax			
Dividend paid	20,000		
Dividend received	4,000		
	16,000 × 34/66 =	8,242.42	
Paid as Corporation Tax (balance)		9,860.26	
		£18,102.68	

(*Note:* This example does not deal with the calculation of deferred tax liabilities.)

EXAMPLE OF PERSONAL INCOME TAX COMPUTATION

A married man with two children under 11 years of age, with employment income of £10,000 and investment income received under deduction of tax (not dividends) of £2,500, would compute his income tax liability for the year ending 5th April 19— as follows:

	£	£
Salary		10,000
Investment income		2,500
		12,500
Less: Married, personal allowance	1,295	
Child allowances	366	1,661
Taxable income		10,839
Tax thereon at progressive rates		4,443
Surcharge on investment income		
£500 at 10%	50	
£500 at 15%	75	125
Tax liability		4,568
Tax deducted from investment income (34% × £2,500)		850
Tax payable by assessment (collected by PAYE deductions)		3,718

EXAMPLES OF BRITISH WITHHOLDING TAXES ON DIVIDENDS, INTEREST, AND ROYALTIES PAID BY A BRITISH COMPANY TO A CORPORATE RECIPIENT

Country of Residence	Dividends %	Interest %	Royalties %
Treaty Countries (1)			
Australia	Nil	10	10
Belgium	Nil	15	Nil
Canada	Nil	15	10
Denmark	Nil (2)	Nil	Nil
France	Nil (2)	10	Nil
Germany	Nil	Nil	Nil
Ireland	Nil (2)	Nil	Nil
Italy	Nil	34	Nil (5)
Japan	Nil	10	10
Luxembourg	Nil	Nil	5
Netherlands	Nil (3)	Nil	Nil
South Africa	Nil	10	Nil
Spain	Nil (2)	12	10
Sweden	Nil (2)	Nil	Nil
Switzerland	Nil (4)	Nil	Nil
USA	Nil (3)	Nil	Nil
Non-Treaty Countries	Nil	34	34

Notes:

(1) The benefits of the double taxation agreements will not be available if the foreign corporation has a permanent establishment in the United Kingdom and the dividends, interest, or royalties are effectively connected with the business of that permanent establishment.

(2) Where the foreign corporation controls directly or indirectly less than 10% of the voting power of the British company, it will be eligible to receive a tax credit equivalent at present to 34/66 of the dividend. A 15% withholding tax will then be payable on the dividend plus the credit.

(3) Where the foreign corporation controls directly or indirectly less than 10% of the voting power of the British company, it will be entitled to a tax credit equivalent at present to 34/66 of the dividend, but a withholding tax of 15% of the dividend plus the credit will be payable. Where it controls 10% or more, it will be entitled to only one-half of the tax credit, but the withholding tax payable is reduced to 5% of the dividend plus the one-half credit.

(4) Where the Swiss corporation controls directly or indirectly less than 20% of the voting power of the British company, it will be eligible to receive a tax credit equivalent at present to 34/66 of the dividend. A 15% withholding tax will then be payable on the dividend plus the credit.

(5) 34%, if the Italian corporation has a permanent establishment in the United Kingdom, whether or not the royalties are connected with that permanent establishment.

CHAPTER IX

The Channel Islands and the Isle of Man

- GENERAL SURVEY
- CHANNEL ISLANDS—BUSINESS REGULATIONS
- CHANNEL ISLANDS—TAXATION
- ISLE OF MAN—BUSINESS REGULATIONS
- ISLE OF MAN—TAXATION

GENERAL SURVEY

The Islands' Special Status

Although the United Kingdom is responsible for the defence and foreign relations of the Channel Islands (off the north coast of France) and the Isle of Man (between England and Northern Ireland), these territories have their own administration and laws.

Both territories have developed as offshore tax havens because they levy a relatively modest rate of income tax on resident companies and individuals, and permit the formation of nonresident companies that are exempt from income tax on foreign-source income and pay very little corporation tax.

This chapter briefly describes the main differences between United Kingdom and island laws, practices, and tax systems.

General Information

Size and population are as follows:

	Area		Population	Main Town
	Sq. Km.	Sq. Miles		
Channel Islands				
Jersey	117	45	72,000	St. Helier
Guernsey (including Alderney, Sark, and smaller islands)	75	29	53,000	St. Peter Port
Isle of Man	588	227	56,000	Douglas

The working populations are employed mainly in tourism, argriculture, horticulture, finance, and service industries. Living standards are comparable with those of most European countries, although prices tend to be higher than in mainland Britain. Telecommunications, education, and health services are well organised, and both territories enjoy social and political stability. Individuals born in the islands usually have complete freedom to live, work or trade in the United Kingdom, although

they do not qualify for preference in other EEC countries. On the other hand, the islands may not discriminate between British individuals or companies and those of other EEC countries.

CHANNEL ISLANDS—BUSINESS REGULATIONS

Investment Factors

Financial operations and supporting services are encouraged to settle in the islands provided that they meet local requirements, but no grants or investment aids are available.

Commercial, industrial, and banking operations require government licences, and planning permission is necessary for real estate developments. Because of housing shortages, newcomers to the islands are usually restricted as to the homes they may rent or buy, which tend to be very expensive.

Patents, trademarks, and designs may be registered in the Channel Islands only if they are valid in the United Kingdom.

Exchange Controls

Currency is the pound sterling, and British exchange controls apply. The islands' own notes and coins circulate freely with those of the United Kingdom.

Nonresidents of the scheduled territories may freely operate in foreign currencies and can establish companies and trusts that may deal in any currency except Swiss francs. A company both beneficially owned and trading exclusively outside the scheduled territories may be permitted by the Bank of England to deal in any external currency and is not subject to exchange controls; such a company is called a 'currency company.'

Customs Duties

The Channel Islands have adopted the EEC's Common External Tariff and system of agricultural levies.

Employment

The labour force is reliable, and employment disputes are rare. Citizens of EEC member-states may work or set up in business freely in the islands subject to licences and to controls on the use of buildings, but citizens of other countries may encounter immigration controls and

other difficulties. The social security system is similar to, but slightly more limited than, that in the United Kingdom.

Business Entities

In Jersey, limited liability companies must have three founder-shareholders, each registered as holding at least three shares, whereas Guernsey companies require seven, each registered as holding at least one share. Founder-shareholders are usually supplied by local professional firms but may be foreigners, corporations or individuals. The company's name requires prior approval, and it may not start trading until registered in the appropriate government offices. Except in the case of currency companies, share capital must be in sterling. Bearer shares may not be issued.

Every company must have at least one director who may be of any nationality. Directors' meetings may be held outside the Channel Islands in the case of resident companies; corporation tax companies, however, must hold such meetings outside Jersey and Guernsey; currency companies must hold meetings outside the scheduled territories altogether. Every company registered in the islands must maintain a registered office in its island of registration, and the annual shareholders' meeting must be held there although shareholders may vote by proxy, or in writing if all shareholders sign. Many Jersey and Guernsey corporation tax companies establish control in Sark where there is no taxation, and provided that the majority of directors are not resident in Jersey or Guernsey, this arrangment is acceptable to the local tax authorities.

It takes between two and three weeks to form a company. In the case of a currency company, or when a nonresident of the scheduled territories wishes to own shares in a resident company, Bank of England permission is required, and this can delay formation by some weeks. Incorporation costs are in the region of £250-£500, together with small duties based on authorised share capital. Annual costs such as a registration fee and the provision of nominee directors and a local office address are about £450, and (unless local income tax is payable) annual fixed corporation tax is currently £300.

The islands' Companies Acts are much less detailed than those of the United Kingdom, although banks and insurance companies may be subject to special requirements. Some suggested company law reforms in Jersey have been published but are likely to be substantially revised.

The Channel Islands have been extensively used for setting up partnerships (corporations or individuals). The use of corporate partners

can to some extent provide limited liability. Trusts as they are known in the United Kingdom are recognised, but it is advisable to prepare very comprehensive trust deeds defining the rights and responsibilities of all concerned. Foreign entities may establish branches in the islands.

Accounting and Auditing

Accounting and auditing practices and standards are similar to those in the United Kingdom, but financial statements do not have to be filed for public inspection. Auditors must be appointed by every Guernsey company and are usually required in Jersey.

CHANNEL ISLANDS—TAXATION

Because of their similarity, the information given here relates to the tax systems of both Jersey and Guernsey. Residents of Alderney pay Guernsey income tax, but in Sark there is no taxation.

The main taxes are excise duties, which are levied at comparatively low levels, customs duties, and income tax. There is no VAT, no capital gains, gift, or wealth taxes, and no death or estate duties. No stamp duty is levied on transfers of moveable assets, including stocks and shares, within the islands. Duty is payable on the formation of a company, however, calculated on the total authorised capital, and there are small real estate taxes.

Income Tax

Income tax is levied in both islands at the rate of 20% on the worldwide income of resident individuals, companies and trusts.

Corporation Tax Companies

A company registered in one of the islands but carrying on its business elsewhere, and neither owned by island residents nor having a majority of island resident directors, is liable only to an annual corporation tax of £300. The company may be exempt from this tax if it opts to have its income tax assessed for any year on its income from all sources.

In Guernsey, the entire business must be carried on outside the island to qualify for corporation tax company status, but in Jersey some activities within the island are permitted; income tax at 20% will be charged on income from these activities, and the fixed corporation tax will be charged on all others.

Dividends

Dividend payments are not deductible in computing resident companies' taxable profits. The recipients treat as income the gross equivalents of dividends paid by such companies, and are entitled to credit in respect of the related tax, although the paying companies have to account to the Revenue authorities only for tax on their profits. In effect, therefore, any profits out of which dividends are paid bear income tax only once.

Withholding Taxes

The tax credit system does not apply to dividends paid by corporation tax companies, which pay dividends gross. In Jersey, all payments of other local-source income (such as interest or royalties), whether to residents or nonresidents, are subject to withholding of income tax at the rate of 20%. A similar withholding tax is levied in Guernsey on payments to nonresidents, but not residents. However, in a company resident in Guernsey but trading elsewhere, loan interest may be paid gross to a nonresident, unless the loan is in foreign currency and both recipient and paying company are under common control (or one controls the other), in which case withholding tax must be deducted.

Foreign Tax Credit

In Guernsey, tax credit relief is allowed unilaterally where a double taxation agreement does not exist in respect of income that is chargeable for the same year to Guernsey tax and has suffered a direct foreign tax. No relief is available, however, for indirect or underlying taxes.

Relief given against Guernsey income tax payable is the lower of either the foreign tax suffered or three-quarters of the effective rate of Guernsey tax applied to the foreign income. The effective rate of Guernsey tax is the total amount of Guernsey tax payable for the year divided by the amount of income assessable for that year.

In Jersey, income tax is assessed on net foreign income without any credit for foreign taxes suffered except under a double taxation agreement.

Double Taxation Agreements

Both Guernsey and Jersey have signed similar double taxation agreements with the United Kingdom as well as with each other. Jersey also has a restricted agreement with France exempting profits from ship and aircraft operations.

The United Kingdom agreements provide that certain classes of income derived from one territory by a resident of the other territory are (subject to certain conditions) exempt from tax in the former. Furthermore, under the agreements, a Channel Island resident company can claim a credit in the Channel Islands for any British tax suffered on income arising from sources in the United Kingdom other than dividends and debenture interest (although in respect of the latter some unilateral relief may be available). Resident individuals, as distinct from companies, are able to claim relief from the British tax authorities to the extent of any Jersey or Guernsey income tax paid on dividends or debenture interest received.

Duties on Company Formation

Duties payable on incorporation of a company in Guernsey comprise capital duty at ½% of authorised share capital, with a minimum duty of £25, and small registration fees.

In Jersey, registration duty is payable at ½% of authorised share capital, with a minimum of £25. There is in addition a fixed registration fee of £50.

ISLE OF MAN—BUSINESS REGULATIONS

Investment Factors

The Isle of Man is less developed than the Channel Islands, and it is easier to establish a new enterprise there than in Jersey or Guernsey. Grants, loans, rent reductions, and tax reliefs encourage light industries which (unlike banks, investment advisers, and insurance companies) do not need licences to trade. Banking services are well developed, and Manx fiscal and general business regulations have attracted international banking and trust business besides light industry. British patents and trademarks confer rights in the Isle of Man.

Exchange Controls

Currency is the pound sterling. English, Scottish, Irish, and Manx notes and coins are all in everyday use. The Isle of Man is part of the scheduled territories, and British exchange controls apply.

Customs Duties

As in the Channel Islands, the EEC's Common External Tariff and system of agricultural levies have been adopted. The United Kingdom collects customs and excise duties on behalf of the Manx government and pays a proportion back to the island.

Employment

Restrictions on the employment of non-Manx staff are being tightened; work permits are required by all persons not born on the island. Work permits are also required by the self-employed and holders of directorships. The social security system is similar to and reciprocal with that in the United Kingdom.

Business Entities

Company legislation largely follows the United Kingdom model, and much that is stated in Chapter 6 applies also in the Isle of Man. An annual return of shareholders and other particulars must be filed with the Registrar of Companies following each annual general meeting; a public company must file with this return a copy of its financial statements. Besides registration fees and capital duties varying with authorised capital, formation fees are usually in the region of £100—£200. Companies can be formed within a week or two except where shares are to be issued to nonresidents of the scheduled territories, when Bank of England permission is required.

The minimum annual cost of maintaining a Manx company is in the region of £300, and (unless local income tax is payable) annual fixed company registration tax is £200.

Directors' meetings need not be held in the island and, in general, must not be held there in the case of exempt or corporation tax companies. A corporate body may not act as a director. A company's registered office must be in the Isle of Man, but shareholders' meetings may be held anywhere in the world.

Foreign companies may establish branches in the island, and partnerships and trusts may be formed; Manx law on these entities largely follows English law.

Accounting and Auditing

Legal requirements and accounting and auditing practices follow the United Kingdom pattern with minor exceptions. The requirements are usually less severe.

ISLE OF MAN—TAXATION

The principal Manx taxes are value added tax and income tax. Customs and excise duties and VAT provide a major part of the government's

revenue. There are no capital gains, gift or wealth taxes, and no death or estate duties; neither are there any stamp duties or payroll taxes, although there is a capital duty on the formation of companies.

Income Tax

The island levies income tax at the low rate of 21.25% on the worldwide income of resident individuals and associations. The term 'associations' includes companies and trusts; these are classed as resident in the Isle of Man for tax purposes if central control and management are exercised there.

Exempt Companies

If a Manx company is controlled abroad, income arising outside the Isle of Man is not subject to Manx income tax. Instead, there is a fixed annual company registration tax of £200.

Dividends

In computing the taxable income of a Manx company, dividends and other distributions to shareholders are deducted from total profits and can even create tax losses available for carry-forward. Amounts distributed to shareholders are, however, subject to Manx income tax in their hands, even if they are nonresidents.

Withholding Taxes

To facilitate collection from nonresidents, tax is deducted at source, and Manx resident associations may be required to deduct income tax from payments of income (including dividends) to nonresidents at such a rate as the assessor (a Revenue official) shall determine. There is no system of deduction of income tax at source from payments to Manx residents, although a simplified form of PAYE along British lines requires employers to deduct tax from employees' pay.

Foreign Tax Credit

Unilateral tax credit relief provisions are contained in Isle of Man tax law. Under these provisions, foreign tax borne by deduction or assessment on income liable to Manx tax in the hands of Manx residents is allowed as a credit against the Manx liability. The relief is restricted to the lesser of the Manx or the foreign effective rate of tax on such income.

Double Taxation Agreements

The Isle of Man has a double taxation agreement only with the United

Kingdom. This provides that certain classes of income derived from one territory by a resident of the other are (subject to certain conditions) exempt from tax in the former. The agreement does not extend to dividends or debenture interest, which are therefore fully taxable in the recipient's country of residence (except that in respect of debenture interest some unilateral relief can be available). Relief from double taxation is, however, granted to Manx resident individuals receiving dividends or debenture interest from which United Kingdom tax has been deducted; a claim for relief may be made against the British tax authorities to the extent of any Manx income tax paid on such income.

Value Added Tax

The current rates of value added tax are the same as in the United Kingdom—that is, zero, 8% and 12½%.

Duties on Company Formation

A registration fee of between £5 and £100 is payable on incorporation of a company, together with a capital duty at the rate of £20 on the first £2,000 of share capital plus £5 for every succeeding £1,000.

Notes

Notes

Notes

Notes

Touche Ross International

Services in the United Kingdom

London Office

Touche Ross & Co.
3 London Wall Buildings
London E.C.2, England
London EC2M 5PH, England (*mail*)

Telephone: (01) 588-3678
Cable: TOUCHEROSS
Telex: 884739 TCHRSS G

Other Offices

Belfast, Birmingham, Bristol, Edinburgh, Glasgow, Leeds, Leicester, Liverpool, Manchester, Shrewsbury, and St. Helier (Jersey).

European Regional Office

Touche Ross International
6, Rue de Berri
75008 Paris, France

Telephone: 359.56.97
359.57.99
Telex: 640683 TRERO

International Executive Office

Touche Ross & Co.
P.O. Box 778—Radio City Station *(mail)*
1633 Broadway
New York, N.Y. 10019, USA

Telephone: (212) 489-1600
Cable: TOUCHEROSS
Telex: 232419 TRCO UR

BUSINESS STUDIES ISSUED TO DATE

Australia (1977 edition)
Belgium/Luxembourg
Brazil (1976 edition)
Canada
Colombia
Common Market
(English, Japanese, & *Spanish editions)*
Germany
Hong Kong
Italy
Japan (1976 edition)
Malaysia
Mexico
Netherlands/Netherlands Antilles (1977 edition)
South Africa
Spain
Switzerland/Liechtenstein (1978 edition)
Tax and Trade Profiles - Western Europe
United Kingdom
United States
Section 482 (USA Internal Revenue Service Code)

Offices around the World

ARGENTINA
Buenos Aires

AUSTRALIA
Adelaide
Brisbane
Bundaberg
Canberra
Melbourne
Newcastle
Perth
Surfers Paradise
Sydney
Wollongong

AUSTRIA
Vienna

BAHAMAS
Nassau

BELGIUM
Antwerp
Brussels

BERMUDA
Hamilton

BRAZIL
Belo Horizonte
Porto Alegre
Rio de Janeiro
Salvador
São Paulo

BRUNEI
Brunei

CAMAROON
Douala
Victoria

CANADA
Calgary
Corner Brook
Cornwall
Edmonton
Fredericton
Halifax
Hamilton
Hull
Kelowna
Kingston
Kitchener
Langley
London
Mississauga
Montreal
New Westminster
Ottawa
Quebec
Regina
St. Catherines
Saint John
St. John's
Saskatoon
Sydney
Toronto
Vancouver
Victoria
Windsor
Winnipeg

CAYMAN ISLANDS
Grand Cayman

CHANNEL ISLANDS
Jersey

CHILE
Santiago

COLOMBIA
Bogotá

CYPRUS
Larnaca
Limassol
Nicosia

DENMARK
Ballerup
Copenhagen
Esbjerg
Kolding
Odense
Skanderborg

EGYPT
Cairo

FRANCE
Paris

GERMANY
Berlin
Bielefeld
Bremen
Düsseldorf
Frankfurt/Main
Hamburg
Hannover
Munich
Nuremberg
Stuttgart

GREECE
Athens

GREENLAND
Godthaab
Holsteinborg

GUAM
Agana

GUATEMALA
Guatemala City

HONG KONG
Hong Kong

INDONESIA
Bandung
Jakarta
Medan
Surabaya

IRELAND
Cork
Dublin
Limerick

ITALY
Milan

JAMAICA
Kingston
Montego Bay

JAPAN
Fukuoka
Hiroshima
Kobe
Kyoto
Nagoya
Naha (Okinawa)
Osaka
Sapporo
Sendai
Takamatsu
Tokyo

KENYA
Nairobi

KOREA
Seoul

KUWAIT
Kuwait City

LEBANON
Beirut

MALAYSIA
Johor Baru
Kota Kinabalu
Kuala Lumpur
Kuala Trengganu
Kuantan
Kuching
Penang
Sandakan
Tawau

MAURITIUS
Port Louis

MEXICO
Guadalajara
Mexico City
Monterrey

NETHERLANDS
Alkmaar
Almelo
Amersfoort
Amsterdam
Arnhem
Beverwijk
Breda
Eindhoven
Enschede
Gouda
Groningen
Haarlem
The Hague
Heerlen
Hilversum
Leeuwarden
Middelburg
Nijmegen
Rijswijk
Rotterdam
Terneuzen
Tilburg
Zwolle

NETHERLANDS ANTILLES
Curaçao

NEW ZEALAND
Auckland
Christchurch
Wanganui
Wellington

NICARAGUA
Managua

NIGERIA
Benin City
Enugu
Kano
Lagos
Owerri
Port Harcourt
Warri

NORWAY
Oslo
Sandefjord

PANAMA
Panama

PAPUA NEW GUINEA
Lae
Mount Hagen
Port Moresby
Rabaul

PERU
Lima

PHILIPPINES
Bacolod
Davao
Manila

PUERTO RICO
San Juan

RHODESIA
Bulawayo
Salisbury
Umtali

SAUDI ARABIA
Jeddah
Riyadh

SINGAPORE
Singapore

SOUTH AFRICA
Cape Town
Durban
Johannesburg
Pietermaritzburg
Port Elizabeth
Pretoria

SPAIN
Barcelona
Madrid

SURINAM
Paramaribo

SWAZILAND
Mbabane

SWEDEN
Stockholm

SWITZERLAND
Geneva
Zurich

THAILAND
Bangkok

TRINIDAD AND TOBAGO
Port of Spain

TURKEY
Istanbul
Izmir

UNITED ARAB EMIRATES*
Abu-Dhabi
Al-Ain
Dubai
Sharjah

UNITED KINGDOM
Belfast
Birmingham
Bristol
Edinburgh
Glasgow
Leeds
Leicester
Liverpool
London
Manchester
Shrewsbury

UNITED STATES OF AMERICA
Akron, Ohio
Albuquerque, New Mexico
Anchorage, Alaska
Atlanta, Georgia
Austin, Texas
Baltimore, Maryland
Birmingham, Alabama
Bloomfield Hills, Michigan
Boise, Idaho
Boston, Massachusetts
Buffalo, New York
Charlotte, North Carolina
Chicago, Illinois
Cincinnati, Ohio
Cleveland, Ohio
Colorado Springs, Colorado
Columbus, Ohio
Corpus Christi, Texas
Dallas, Texas
Dayton, Ohio
Denver, Colorado
Detroit, Michigan
Elizabethtown, Kentucky
Fresno, California
Grand Rapids, Michigan
Hackensack, New Jersey
Harrisburg, Pennsylvania
Honolulu, Hawaii
Houston, Texas
Jackson, Mississippi
Jacksonville, Florida
Kansas City, Missouri
Lansing, Michigan
Lincoln, Nebraska
London, Kentucky
Los Angeles, California
Louisville, Kentucky
Melville, New York
Memphis, Tennessee
Miami, Florida
Milwaukee, Wisconsin
Minneapolis, Minnesota
Morristown, New Jersey
Nashville, Tennessee
Newark, New Jersey
New Orleans, Louisiana
Newport Beach, California
New York, New York
Oakland, California
Oklahoma City, Oklahoma
Omaha, Nebraska
Philadelphia, Pennsylvania
Phoenix, Arizona
Pittsburgh, Pennsylvania
Pocatello, Idaho
Portland, Oregon
Richmond, Virginia
Rochester, New York
Sacramento, California
St. Louis, Missouri
Saint Paul, Minnesota
Salem, Oregon
Salt Lake City, Utah
San Antonio, Texas
San Diego, California
San Francisco, California
San Jose, California
Santa Rosa, California
Seattle, Washington
Stamford, Connecticut
Steubenville, Ohio
Tampa, Florida
Toledo, Ohio
Topeka, Kansas
Trenton, New Jersey
Tulsa, Oklahoma
Washington, D.C.
Wilmington, Delaware
Worcester, Massachusetts

VENEZUELA
Caracas
Maracaibo

*Correspondent firm with Touche Ross staff in residence.