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UK TRADE & INVESTMENT

Investing in the UK
A guide for businesses from Russia and the Commonwealth of Independent States

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Foreword

I am delighted to introduce the guide, *Investing in the UK*. Its launch comes at an important point in the development of CIS-UK commercial relations.

There are now over 100 companies from Russia and the Commonwealth of Independent States (CIS) listed on the London Stock Exchange and around 200,000 Russians living in the UK. Many come here to access London's capital markets and financial services. Others open a representative office or branch of their company in the UK. Some simply want to move their family home and private office to the UK.

This guide is written in response to demand from CIS businesses and individuals coming to the UK for practical advice on setting up their UK operations. It provides an introduction to the legal and financial aspects of opening and operating a business under UK law.

Investing in the UK has been written by experts from across the firm specialising in Tax, Audit & Advisory, Transactions, Consulting, and Corporate Finance. It features contributions from our Private Client Services and Global Employment Solutions experts on the practical considerations of moving yourself, your employees and your family to the UK.

I am very grateful to UK Trade & Investment for their contribution to the Guide.

Investing in the UK has a straightforward purpose; to help you navigate the unfamiliar waters of the UK marketplace and, ultimately, get the most out of investing in the UK.

Paul Franek
Partner, Head of CIS Services Group
Deloitte LLP

The Russia & CIS Services Group in the UK

The Russia & CIS Services Group is part of the UK firm's International Markets Group. It draws together multi-disciplinary teams to help Russian and CIS companies with all aspects of doing business in the UK, Switzerland and Europe. We offer a convenient one-stop advisory service to Russian firms setting up for the first time in the UK or expanding their existing operations there. Some of our most popular services include:

- Don't Go To London Without Deloitte (IPO services).
- business incorporation services.
- tax planning and compliance services.
- Audit and accounting advisory.
- advisory on M&A, Private Equity and other transactions.
- immigration services for your visa requirements.
- personal tax planning and private client services.

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Foreign direct investment in the UK

An introduction from UK Trade & Investment

One of the world's favourite locations to do business, the UK comes second only to the US in attracting foreign direct investment.

A popular destination for international business

In the year 2007/8 alone, the UK attracted a total of 1,573 investment projects from overseas (including new projects, expansions, and mergers and acquisitions), an increase of 10 per cent on the previous year. UNCTAD (United Nations Conference on Trade and Development) rated the UK as the top European recipient of inward investment and second only to the US.[1] It was expected to maintain this position for the next five years.[2]

In 2007, the cumulative stock of foreign investment in the UK was more than US$1,350 billion, the second highest level of FDI stock globally, behind only the US.[3] The UK received US$224 billion of FDI inflows, representing 28 per cent of all FDI inflows into the European Union.[4]

UK inward investment success by country 2007/2008

Country	Projects	New Jobs
USA	478	15,608
France	104	3,370
Canada	102	3,147
Japan	92	1,746
Germany	88	3,339
Australia	79	2,662
India	75	3,846
China	68	1,079
Ireland	59	898
Netherlands	56	1,517
Sweden	45	952
Switzerland	33	894
Rest of EU	98	1,562

1 UNCTAD 2008
2 Economist Intelligence Unit 2007
3 UNCTAD 2008
4 UNCTAD 2008

The UK also has a strong track record for outward investment, and is predicted to be the second largest outward investor globally between 2007 and 2010 (Economist Intelligence Unit 2007).

Thousands of international businesses have been won over by the UK's business friendly environment, economic and political stability and highly skilled and flexible workforce.

Why choose the UK?

The UK has a reputation as a cutting-edge pioneer in technology, design and creativity, a reputation that is complemented by the Government's commitment to excellence in research & development (research & development). As a result, the UK has become the top European location for innovative companies from across the world, particularly in high value-added businesses in sectors such as information and communications technology, advanced engineering, life sciences and research & development. International businesses see a UK location as an ideal gateway to building success throughout an expanding Europe, as well as obtaining ready access to our domestic market. Many companies choose to begin this process by floating equity on a UK market. There are now more than 460 companies from over 60 countries listed on the London Stock Exchange.[5]

London is Europe's largest international banking centre, boasting almost half of all the EU's financial services and the world's highest number of foreign banks. It is consistently voted Europe's best city to set up a business by leading companies. Establishing a presence there, and in the UK's other dynamic commercial centres, is uncomplicated and straightforward.

The UK is a unique, multicultural, innovative and entrepreneurial economy. It has embraced the opportunities of the global market place and represents a key international business hub, with unrivalled trade links to the Commonwealth, the US, and Asia. The UK is a springboard to global growth.

This chapter was produced with the assistance of UK Trade & Investment. UK Trade & Investment is the government organisation that helps UK-based companies succeed in the global economy and assists overseas companies to bring their high quality investment to the UK.

For further information please visit www.uktradeinvest.gov.uk

5 London Stock Exchange, 2008

1. Introduction to the United Kingdom

1.1 Location

The United Kingdom of Great Britain and Northern Ireland consists of England, Wales and Scotland ("Great Britain"), Northern Ireland (which occupies part of the island of Ireland) and numerous small offshore islands.

With an area of approximately 244,800 square kilometres (94,500 square miles), the United Kingdom is about two-thirds the size of Germany or Japan and about the same size as the US state of Oregon.

1.2 Population and language

The UK population is estimated to be about 60 million, some 50 million of whom live in England, 5m in Scotland, 3m in Wales and less than 2m in Northern Ireland.

There is a significant ethnic mix in Britain, including large groups of people originating from Africa, the Caribbean, India, Pakistan, Bangladesh and other parts of Asia.[6]

The biggest cities are London (the national capital), Birmingham, Glasgow, Leeds, Liverpool, Manchester, Newcastle upon Tyne and Sheffield.

The official language, spoken almost everywhere in the country, is English. An alternative official language in Wales is Welsh. Although foreign languages are taught in many schools, not many British people speak or write them fluently. The importance of proficiency in foreign languages, however, is being increasingly recognised. Perhaps more importantly, as a benefit of the country's significant ethnic population, it is relatively easy in Britain to find a native speaker of almost any language.

1.3 Government

The United Kingdom is a long-standing parliamentary democracy with a constitutional monarch (currently Queen Elizabeth II) as head of state. The UK legislature, Parliament, has two chambers. The most important is the House of Commons. The second chamber, the House of Lords, is mainly a revising body.

The executive is headed by a Prime Minister, (currently Gordon Brown), who is usually the leader of the political party holding the most seats in the House of Commons. Other leading members of that party, with the Prime Minister, make up the Cabinet, the main executive committee.

6 '400,000 reasons why we welcome Russians', Guardian, 28 October 2005

Although the United Kingdom is not strictly a federation, the current Government has recently established devolved institutions for Scotland ,Wales and Northern Ireland – the Scottish Parliament in Edinburgh, the Welsh Assembly in Cardiff and the Northern Ireland assembly in Belfast.

The legal and judicial systems of England and Wales differ from those of Scotland and Northern Ireland. Scottish law is quite unlike English law. Northern Ireland, although it has many parliamentary acts of its own, largely follows English practice. Unifying features are that the supreme court (the House of Lords) is common to the whole country and that much modern legislation applies throughout the United Kingdom. The Judiciary is independent of the executive.

In general, local governmental bodies have fewer powers than their counterparts in some other countries, although they sometimes offer investment incentives, as described in Chapter 3, Section 2 (3.2).

1.4 Financial centre

London, the capital, is internationally recognised as one of the world's most successful cities, offering a wealth of business facilities and internationally valued skills as well as top-class entertainment. It is currently enjoying a boom phase.

Practically every major modern manufacturing industry is represented in Britain, and services such as banking and insurance are other important contributors to the UK economy.

Even before the country joined the European Community (EC), now the European Union (EU), in 1973, many enterprises in Japan, the United States, and elsewhere chose Britain as a base for manufacture or trade in Western Europe, and this practice continues today. Since the European Economic Area (comprising EU member countries and member states of the European Free trade Association) was widened in May 2004 to Eastern Europe, the UK has had instant access to 28 countries and approximately 450 million customers.

1.5 Benefits to businesses

Among the wider advantages of the United Kingdom 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 experienced labour force, adequate energy resources, and a history of successful research & development. In addition, expert financial, marketing, and other professional services are readily available. Significant trends are shown in Figure 1.

Figure 1. UK economic trends

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Gross Domestic Product										
Current Prices (UK £bn)	928.7	976.5	1021.8	1075.5	1139.7	1200.6	1252.5	1321.9	1402.2	1445.1
Constant Prices (2000)	1019.7	1059.6	1085.7	1108.5	1139.7	1171.1	1195.2	1229.1	1266.3	1275.2
Constant Prices (%y/y)	3.0	3.9	2.5	2.1	2.8	2.8	2.1	2.8	3.0	0.7
Consumer Price Index										
Index 1996 = 100	92.3	93.0	94.2	95.4	96.7	98.0	100.0	102.3	104.7	108.5
(%y/y)	1.3	0.8	1.3	1.3	1.4	1.3	2.0	2.3	2.3	3.6
Industrial Production										
Index 2000 = 100	101.6	103.9	102.5	100.3	100.0	102.2	102.0	103.9	104.0	101.3
(%y/y)	1.4	2.3	-1.3	-2.1	-0.3	2.2	-0.2	1.9	0.1	-2.6
Average Earnings										
Index 2000 = 100	95.7	100	104.5	108.2	111.9	116.8	121.5	126.5	131.4	136.1
(%y/y)	4.8	4.5	4.5	3.5	3.4	4.4	4.0	4.1	3.9	3.6
Exports Goods & Services										
UK £bn	251.3	274.3	282.6	285.4	290.6	304.7	329.5	365.8	350.7	351.0
Imports Goods & Services										
UK £bn	258.8	282.0	295.4	309.9	316.6	338.3	362.2	397.1	391.1	388.9
Unemployment										
% of Working Population	4.1	3.6	3.1	3.1	3.0	2.7	2.7	2.9	2.7	2.8
Interest Rate (%, end period)	5.50	6.00	4.00	4.00	3.75	4.75	4.50	5.00	5.5	2.0

Source: Thompson Datastream, 2009

1.6 Currency

The United Kingdom's currency is the pound sterling (UK£, the international acronym is GBP), which divides into 100 pence (p).

The pound is not a part of the Euro, and the exchange rate between the pound and the continental currencies is liable to fluctuations. There is a controversy in Britain over whether or not Britain should join the Euro. The present Government favours entry, but only when the conditions are right, and it has pledged that entry will only take place if the electorate has voted in favour of it in a referendum.

1.7 Government intervention in the economy

The present Government believes that investment decisions are best left to the marketplace without excessive government interference. All the major UK political parties recognise the importance of the enterprise economy, and government ownership is at now generally limited only to national postal services. Health, education, and local government services are dominated by the public sector, although many services from each of those areas are subcontracted to the private sector.

Direct government involvement in the rest of the economy is largely through the provision of investment incentives, although legislation on such matters as employment conditions, safety, consumer rights, and environmental protection is widespread. Independent regulatory bodies oversee the UK's financial services and other industries.

One result of the UK's membership in the EU has been the considerable growth of UK trade with other European countries. The United Kingdom is a member of the Organisation for Economic Co-operation and Development (OECD), The United Nations, The Commonwealth and many other international organisations.

1.8 Government attitude toward foreign investment

The United Kingdom has proved a magnet for foreign investment as companies from around the world have been drawn in by its mix of a skilled workforce, helpful labour laws, low labour costs, the English language and membership of the EU. In 2007, foreign direct investment into the UK amounted to over £150bn[7], most of which came from Europe and the USA. Direct investment from Russia has been small by comparison.

The Government welcomes foreign investment in the manufacturing, research & development, and service sectors. New technology is particularly encouraged. Foreign-owned companies are offered the same range of incentives as are British-owned companies.

There are no specific requirements for participation in individual enterprises by the government (except in the few remaining state-owned industries) or by British nationals. Investment is especially encouraged in assisted areas.

At the government level, trade with and investment in the United Kingdom is the responsibility principally of the Department of Trade and Industry (DTI). The DTI has established an agency, Invest.UK, to encourage and assist foreign businesses in setting up in the United Kingdom. Invest.UK and its associated offices also readily advise on applications for investment incentives. No government fees are charged for such advice.

7 World Bank, 2007

2. Foreign direct investment in the UK

2.1 Foreign investment rules

There is no specific law governing or restricting foreign investment. Foreigners or foreign-controlled companies are treated in law exactly as UK-owned businesses, and they may engage in most forms of economic activity in the UK. However, a few industries are government-owned or controlled by government agencies. These include some areas of transport and energy.

Foreign and British investors alike must comply with monopoly and merger rules, and specific government approval may be required for the takeover by a foreign investor of any large or economically significant UK enterprise.

Banking and insurance concerns must obtain Financial Services Authority (FSA) and government authorisation before commencing operations in the UK.

Required national participation

No sectors of the economy are restricted to UK nationals or require majority equity holdings or other specified holdings by UK nationals. In sectors such as defence, however, there are restrictions on both UK and foreign companies.

In theory, managers should be UK nationals, but in practice, foreign companies can obtain work permits for foreign managers by demonstrating that their skill level or experience cannot be found among UK nationals.

Real estate acquisition

With very few exceptions, there are no limitations on foreign ownership of real estate. Real estate may be acquired or occupied in a number of ways, including the acquisition of a freehold interest in the land, a long lease, a short lease, or a license. Individuals, trustees, and companies can all acquire interests in real estate.

A number of restrictions are placed on how the owner of an interest in real estate uses or develops the land or building, including the following:

- The legal title under which the real estate is held may impose restrictions. An example would be a legally binding covenant in a lease limiting the use to which the land may be put.

- UK legislation, notably the various acts on town and country planning, requires planning permission in a number of cases. Planning permission is needed for development, which not only includes the construction of buildings but also for making material changes to the use of buildings or land. There are some exceptions to this general rule. For example, alterations that do not materially affect the external appearance of a building do not require planning permission. Application for planning permission must be made to the local planning authority by the owner of the land or by a person who genuinely intends to acquire an interest in the land. If permission is refused, or the applicant finds the conditions of approval to be unsatisfactory, the applicant may appeal to the Department of the Environment.

- Building regulations under public health legislation impose requirements on the way alterations to existing buildings are made and new buildings are constructed.

Restricted locations

A business may be located anywhere in the country, provided that any necessary building permits and planning consents are obtained.

Exchange controls

No exchange control restrictions affect inward or outward investment (direct or portfolio), the repatriation of income or capital, the holding of currency accounts, or the settlement of current trading transactions.

2.2 FDI target sectors in the UK

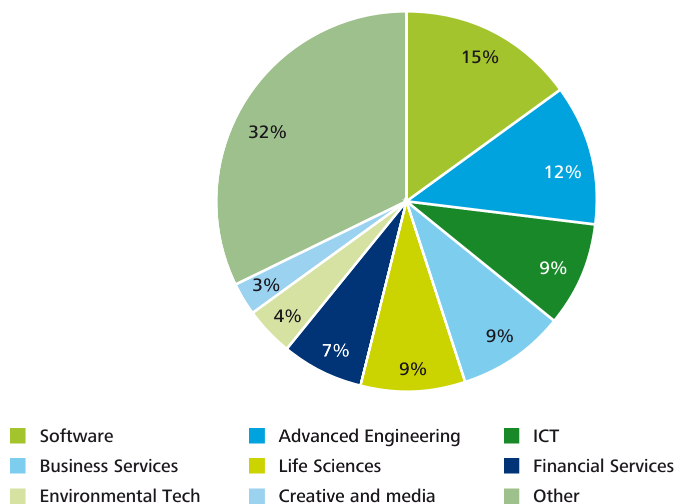
While there are almost no restrictions on foreign investors in the UK, and there are an enormous amount of investment options open to you, here we have identified particular sectors which both government and private sector have come to regard as investment priorities. These are important sectors for the UK, where British firms are often are forefront of global business. Those sectors are: information communications technology (ICT), automotive, life sciences (Bio Medical), renewable energy, and the creative industries.

Figure 2. Origin of FDI into the UK

Country	FDI projects	New jobs created
USA	478	15,608
France	88	3,339
Canada	68	1,079
Japan	102	3,147
Germany	104	3,370
Australia	92	1,746
India	75	3,846
China	59	898
Ireland	79	2,662
Netherlands	45	852
Sweden	56	1,517
Rest of EU	98	1,562
Rest of World	196	4,431
Total	**1,573**	**45,051**

Source: UK Trade and Investment, 2008

Figure 3. FDI into the UK: Projects by sector 2007/08



Source: UK Trade & Investment, 2008

Information Communications Technology

Information communications technology (ICT) supports a range of key sectors, including pharmaceuticals, aerospace and broadcasting. The UK is a global hub for innovation, with acknowledged strengths in research & development. In emerging sectors, such as organic and plastic electronics, displays and photonics, the UK's research strengths are building tomorrow's global businesses.

Telecommunications

Following the Government's pioneering liberalisation during the 1980s, the UK telecommunications today is a $65 billion industry. Over 250,000 employees in 7,800 companies offer skills and capabilities that span the supply chain. UK telecommunications businesses are acknowledged innovators and are often the partners of choice for global firms.

Electronics

The UK is home to Europe's largest base of legendary design houses, while at component level, UK firms benefit from a continuing trend of convergence. Leading electronics companies, such as ARM Holdings (whose chips are found in most portable devices including Apple's iPhone and 90 per cent of the world's mobile phones) and CSR (whose chip designs are used for more than 50 per cent of Bluetooth devices), are global standard bearers in this growing sector.

Software and IT services

The UK is a software development powerhouse. It is Europe's leading investment market for software and IT services. The sector accounted for 24 per cent of all inward investment in 2007/08.[8] It is home to leading global players and to over 100,000 specialist software houses, employing one million highly staff and generating around 10 per cent of UK GDP.[9] There are more software start-ups in the UK than anywhere else in Europe. The software market is bolstered by public sector engagement and the UK Government is investing heavily in pursuit of its transformational agenda. Several multi-billion pound IT integration projects are either underway or in the pipeline.

Life Sciences

The UK has one of the world's strongest and fastest-growing life sciences markets. Together, its biotechnology, healthcare and pharmaceutical industries generate more than £23 billion a year in revenue, and employ more than 400,000 people. For life sciences companies keen to gain a foothold on the global stage, the UK offers an outstanding track record in drug discovery, a strong academic base and increasing government support for research & development through investment and tax credits. Five of the world's top 20 medicines were developed in the UK, a record that is second only to the US and is better than the rest of Europe combined.

The UK pharmaceutical industry employs around 70,000 people, a third of whom are directly involved in research & development. All the world's top ten pharmaceutical companies have operations in the UK; and many of these have significant research & development and manufacturing capabilities.

8 UK Trade & Investment 2008
9 UK Trade & Investment 2008

Moreover, the investment is increasing. In 2006, GlaxoSmithKline injected a further £25 million into its manufacturing plant in Montrose, Scotland, while AstraZeneca is spending £60 million on expanding its oncology research centre in Cheshire.

Energy

The UK's expertise in traditional energy sectors is vital to helping other countries find and exploit their oil and gas reserves. Production of North Sea oil and gas in the UK itself has far outperformed previous expectations, thanks to investment into the world class research & development performed on existing wells and new explorations, financing from the City of London and the support of stable and pragmatic government regulation.

In the coming few decades, UK expertise will be instrumental in bringing more hydrocarbons to the surface in energy hotspots such as India, China, Kazakhstan, Russia, the Americas, the Middle East, Africa and offshore in places such as the Barents Sea.

Renewable Energy

Under the UK Government's Renewables Obligation Commitment (ROC), licensed electricity suppliers are required to buy a proportion of their electricity from accredited renewable sources.

This has encouraged major developments in the most economic forms of renewable energy; particularly offshore wind farms, landfill gas and co-firing of biomass in power stations.

Wind power is leading the way. In 2006, more than £500 million-worth of wind turbines were commissioned in the UK. Scottish Power is building a £300 million wind farm near Glasgow, which will be the largest in Europe. Efforts to capture waves and tides as a source of energy are not far behind. The European Marine Energy Centre on Orkney, North East Scotland, is testing prototypes and their potential impact on the marine environment. Pelamis, developed by Ocean Power Delivery of Edinburgh, was the first of these to generate electricity from wave power. It is being installed in the world's first commercial wave farm, off Portugal's north coast.

Creative industries

The UK is a hotbed of talent, with a flexible, highly skilled workforce and a strong academic base. The creative industries account for 7.3 per cent of gross value-added (GVA) in the UK economy and 4.5 per cent of all UK exports. There are over 120,000 creative businesses in the country, employing 1.9 million people – a figure which is rising three times faster than the rate of the economy overall.[10]

10 UKTI Inward Investment Report 2007/8

Games
In the online games sector, the UK is Europe's biggest, most established market, as well as its leading developer. It is the third-largest market in the world for video games. There are at least 150 games development studios around the UK, including centres of excellence in Scotland, London, the South East and Yorkshire. These produce content for PCs, consoles, handheld devices, mobile platforms and the internet. They operate in a technically demanding environment. The games they produce demand ever-larger budgets.

The industry is highly professionalised and geared to the increasing logistical demands. Leading international publishers like EA, Microsoft Games Studio and NCsoft have European headquarters and development centres here. There are four accredited university courses helping to ensure that the demand for skills in this industry are met.

Screen-based industries
The UK television industry contributed around £12 billion to the economy in 2004. As well as the BBC, the UK is home to around 1,500 independent production companies. It has a thriving independent production sector, which generated over £1.8 billion during 2006, 9.8 per cent up on the previous year.

The market performs strongly internationally, with 19.8 per cent of all TV revenue coming from exports in 2006. UK TV brands have become international brands and are generating opportunities in other media.

Music
The UK is renowned for its leading-edge musicians. It is the fourth largest music publishing market in the world, with approximately 9.8 per cent share of international revenue. The UK is also second only to the US as a source of repertoire. The industry is worth around £5 billion a year and has an export value of approximately £1.3 billion.

Design
Great design helps businesses compete on value rather than price – and it helps them set the pace in crowded markets. Leading manufacturing companies in China and India are tapping into UK design skills. Major multinational companies are attracted by the UK's talent base and its reputation for innovation.

The UK's design industry is recognised as world-class. UK designers are responsible for the iPhone and the interior of the launch Airbus A380. Over 185,000 people work in UK design. There are around 4,000 consultancies, about a third of them in London. Glasgow also has a strong design presence.

3. Structuring your company in the UK

3.1 Making sure the law is on your side – The legal framework governing company registration in the UK

The primary legislation governing the incorporation and registration of companies in the UK is the Companies Act 1985 (CA85). It should be noted, however, that CA85 is being replaced progressively by the Companies Act 2006 (CA06) between the date of publication of this book and 1st October 2009. Care should be taken to ensure that reference is made to the provisions in force at the time of reading and professional advice should be sought on the applicable provisions, in the event of any doubt.

The UK consists of three distinct jurisdictions for company law purposes:

(i) England and Wales.

(ii) Scotland.

(iii) Northern Ireland.

This chapter concentrates on the rules that apply in England and Wales, although the rules for Scotland are also very similar. The rules for Northern Ireland are also similar, but they are currently contained in a separate piece of legislation (the Companies (Northern Ireland) Order 1986 and there are a number of differences and the reader is recommended to take specialist advice, if considering establishing a company there. It should be noted that, like CA85, the Companies (Northern Ireland) Order 1986 is being replaced progressively by CA06 and once the CA06 has been fully implemented, with effect from 1 October 2009, it will, except in some limited circumstances, apply to the whole of the UK.

There are several options available to overseas companies seeking to create a presence in the UK. The option that is ultimately chosen will depend upon a number of factors including, for example:

- the expected nature and scale of the business activities and the levels of risk anticipated in the start up stages;
- the intended duration of the business activities;
- accounting and taxation considerations;
- UK statutory compliance and reporting obligations; and
- commercial considerations.

Prior permission is not needed to register, although there are some restrictions on the use of certain words and expressions in corporate and business names (see 4.6 *Corporate and Business Names* below). Organisations operating in regulated fields (for example banking, defence, oil exploration) may require licenses or prior authorisation to carry on business.

There are several types of business entity recognised in English law. This chapter concentrates on the two most commonly encountered forms:

- the branch or representative office of a company incorporated outside the UK; and

- the incorporated company.

Both of these types will now be looked at in turn.

3.2 Branch or place of business of a company incorporated overseas

Overseas companies wishing to expand their business activities into new territories will often consider the establishment of a branch or representative office instead of incorporating a new company.

The main differences between "branch" and "place of business" registrations by overseas companies

Overseas limited liability companies (incorporated outside Great Britain) having established a place of business in Great Britain are required to register their presence with Companies House within thirty days. There are no provisions that allow registration of a branch or place of business in advance.

Current legislation distinguishes between foreign companies with a "place of business" (often referred to as a representative office) and those with a "branch" presence.

Place of business: Companies registering under the "place of business" regime will be those whose business activities in the UK are ancillary or incidental to the overseas company's business as a whole. Such incidental activities may include warehouse facilities or administrative offices established for the benefit of the company, internal data processing facilities and share transfer and registration facilities.

Branch: A "branch", by contrast, will be a part of a company, organised so as to conduct business on behalf of that company. This means that a client doing business with the company will generally be able to deal direct with the branch in this country instead of dealing with the company in its home state. A branch is not a separate corporate entity, but is typically run along lines that are similar in concept to those of a subsidiary company.

"Branch" or "place of business"?

Care should be taken to assess whether the activities being carried on are merely ancillary or incidental to those of the overseas company itself (which would permit registration under the "place of business" regime) or whether the activities are broader and will comprise those of a "branch".

It is more common for overseas companies to register under the "branch" regime rather than the "place of business" regime, because their activities generally extend beyond those of a purely ancillary or administrative nature.

Companies with unlimited liability will always register under the "place of business" regime, even if the underlying activities are those that would evidently be those of a "branch".

A branch is often the favoured option for overseas businesses in the early stages of international expansion. Once a solid business presence has been established, branch activities are often transferred to limited companies. The branch may also be an appropriate form for use in connection with specific business ventures or projects with a known duration, such as a building project or equipment installation project.

Registering a branch or place of business

The branch and place of business registration requirements are broadly similar. In both instances the overseas company must supply corporate information, in statutory forms, detailing the company's activities and corporate structures. (See also Note 1 at paragraph 7 Current and Future Developments, below).

The following is an illustrative, but not exhaustive, list of the sort of information that must be supplied with the branch and place of business registration forms (forms BR1 and 691 respectively):

- the names, residential addresses and other personal details of directors and secretaries (however, see Note 3 at paragraph 7 Current and Future Developments, below);

- details about the company (including corporate name, business trading name (if different from its corporate name), official or registered number, jurisdiction, governing law, legal form, capital structure, accounting details and obligations);

- branch office address, brief explanation of branch activities and details of the UK resident representative authorised to accept service of legal notices and official correspondence on behalf of the company; and

- copies of constitutional documents (evidence of registration, articles of incorporation and charter or other equivalent management rules).

It must be stressed that copy documents must be officially certified in the country of incorporation and, if such documents are in a language other than English, accompanied by authenticated translations. The specific requirements in this regard must be closely adhered to.

There is a registration fee payable, which is currently UK£20 (or UK£50, if a same-day registration is being sought).

Once the legal requirements have been fulfilled, the Registrar then registers the branch or place of business and issues a certificate of registration evidencing the registration.

Ongoing filing requirements for a branch or place of business

1. Filing accounts with the registrar

There are annual accounts filing obligations in respect of overseas companies with a registered branch or place of business in the UK.

Place of business: the form and content of accounts that must be delivered in respect of overseas companies with a place of business registration is set out in the Overseas Companies (Accounts) (Modification and Exemptions) Order 1990. These accounts (based on UK formats) do not need to be audited, nor are they as detailed as required for companies incorporated in Great Britain. (See also note 1 under paragraph 7 Current and Future Developments, below).

Branch: for branches the precise form of the accounts and filing deadlines that apply depend upon the accounts preparation and disclosure obligations in the country of incorporation. If the company is subject to a requirement in its home country to prepare, have audited and publish accounts, then it is a copy of those accounts that must be submitted to Companies House If there are no such requirements for the preparation, audit and public disclosure of accounts in the country of incorporation, then accounts prepared along the lines of those required under the place of business regime (described above) are required. It must be stressed that, either case, the accounts that are required to be delivered for filing are those of the overseas company itself in its entirety and not those relating only to the activities of the branch or place of business. Special rules apply if the company is a parent company and is proposing not to prepare submit concolidated accounts.

Accounts in a language other than English must be accompanied by a certified translation.

2. Notification of changes

Any changes to the information disclosed in the initial registration papers must be notified to the Registrar of Companies on the prescribed forms. Such changes generally include change of officers, address changes, corporate name changes and constitutional and statutory changes. (See also Note 1 of Paragraph 7 Current and Future Developments, below).

Care should be taken to ensure that UK filing obligations are considered and dealt with in a timely manner whenever there is a statutory change affecting an overseas company with a branch or place of business in the UK.

It is recommended that professional advice be sought in connection with the registration of a branch or place of business and with the accounts preparation and ongoing filing requirements.

3.3 The incorporated company

The incorporation of companies in England, Wales and Scotland is governed by CA85. The incorporation of companies in Northern Ireland is governed by the Companies (Northern Ireland) Order 1986. Once CA06 is fully implemented, however, with effect from 1 October 2009, it will apply to the whole of the UK. The following are the main categories of companies that can be registered under CA85:

- companies limited by shares;
- unlimited companies having a share capital; and
- companies limited by guarantee (without share capital).

This chapter concentrates on the most common form of registered company, namely the company limited by shares.

A company limited by shares will take one of two general forms:

- a private company; or
- a public company.

Overseas companies establishing a limited company in the UK may do so by setting up a wholly-owned subsidiary (a company whose shares are 100% owned by the foreign "parent" company, or may join with others in establishing a company that is jointly owned by various participants (this is often known as a "joint jenture" company). It is recommended that specialist advice and assistance be sought in determining:

1. The most appropriate structure and corporate form for the setting up of a joint venture company.

2. The relationship between the parties to any joint venture.

The main differences between private and public companies limited by shares

The principal differences between public and private companies are:

- Only public companies are permitted to offer their shares to the public and to be traded on recognised exchanges, whereas private companies are prohibited from offering their shares for sale to the public.
- The ongoing statutory compliance requirements imposed on public companies are more burdensome than those for private companies. Recent legislation has tended to place additional compliance burdens and corporate governance obligations on public companies, while endeavouring to reduce the regulatory burden on private companies.

There are many other technical differences between public and private companies. These differences relate mainly to:

1. The scope and nature of disclosures that must be made to shareholders and the public.

2. The protection afforded to creditors and those having dealings with the company.

Public companies must have at least £50,000 (or the prescribed equivalent in Euro) nominal value of share capital issued and at least £12,500 (or the prescribed Euro equivalent) paid up before they can commence to trade and, if they are newly incorporated, must obtain from the Registrar of Companies a certificate of entitlement to trade and do business before commencing activity.

Private companies may have a single shareholder with only one share of a small nominal value in issue. A public company must have a minimum of two shareholders (however, see note 2 of paragraph 7 Current and Future Developments, below.). The number of shares that are actually issued will depend upon the capital requirements of the newly formed company and tax implications, in respect of which specialist advice should be obtained.

Private companies may have a simple structure with a single director. A public company must have a minimum of two directors. A public company must have a company secretary and the secretary must be seen to be suitably qualified to fill the position. A private company may have a secretary, but is not required to have one. Under CA06, with effect from 1 October 2008, every new company incorporated in the UK must have at least one director who is a natural person.

Overseas companies wishing to establish a wholly owned subsidiary company in the UK rarely need to register a public company unless there are commercial or regulatory requirements for doing so.

Registration of limited companies

The registration of public and private companies follows the same format (however, see note 2 of paragraph 7 Current and Future Developments, below). To register a company with limited liability it is necessary to submit registration documentation to Companies House for review and approval, prior to incorporation being effected. Registration documents may be submitted to Companies House in either printed (hard copy) form or in electronic form.

(i) Printed documents

The documents that must be filed (together with a statutory fee) are:

- the proposed memorandum and the articles of association (the charter of the company outlining the intended business activities and powers the company has and the manner in which it is to be administered);

- statutory Form 10 detailing the first named officers (secretary and director(s)) and the location of the registered office; and

- Form 12 (a statutory declaration) confirming compliance with the requirements of CA85 in connection with the proposed registration.

(ii) Electronic registration

A number of specialist organisations (including Deloitte) have the resources to facilitate the registration of companies electronically. The electronic incorporation of companies removes the need to obtain signatures on forms and the need to submit printed documents to Companies House. Electronic registration is a simple method of company incorporation, although some additional details relating to directors, company secretaries and shareholders are required for security purposes.

There is also a filing fee for registration, which is currently UK£20 (or UK£50, if a "same-day" registration is being sought).

Once the legal requirements have been fulfilled, the Registrar then registers the company and issues a certificate of incorporation, which is the evidence of the formation of the company.

Continuing obligations

(i) Registered office

The company must maintain a registered office located in England or Wales (or Scotland or Northern Ireland if the company is registered there).

(ii) Resident directors

There is no requirement under CA85 requiring either the directors or the secretary to be resident in the UK. However, commercial and administrative considerations will be important and there may be tax implications associated with the place from where the company is managed and controlled. It is recommended that advice be taken on this.

(iii) Audit and submission of accounts to the Registrar

All companies must submit annual accounts to Companies House and only the smallest of (private) trading companies (that are not part of a larger group) are exempt from the requirement to have their annual accounts audited (however, see note 2 of paragraph 7 Current and Future Developments, below). It is recommended that professional advice be taken on the form and content of company accounts as new Regulations under CA06 relating to entitlement to exemption from audit and to the accounts disclosure obligations of small, medium-sized and large companies are in force and apply to accounting periods beginning on or after 6 April 2008.

There are specific rules associated with the accounts filing obligations for a company's first accounting period and in cases where changes have been made to the accounting year end date. The general principle under CA06, however, is that the accounts of private companies incorporated after 6 April 2008 must be filed with the Registrar of Companies no later than nine months after the accounting period end and the accounts of public companies incorporated after 6 April 2008 must be filed no later than six months after the accounting year end (note however, that for companies incorporated before 6 April 2008, the deadlines for submission of accounts to the Registrar of Companies are ten months (for private companies) and seven months (for public companies).

(iv) Update of statutory records and notification of changes
The directors of the company are required to maintain the company's official records in good order and to keep them fully up to date.

The records include, among others, statutory registers associated with the corporate structure (including registers of the directors, the secretary (if any) the shareholders/members and details of charges over the company assets) and copies of minutes of meetings of the directors and the shareholders. The directors are also required to maintain accounting records that enable them at all times to disclose, with reasonable accuracy, the financial position of the company.

The directors are responsible for ensuring that any changes to the statutory structure of the company are implemented in accordance with the requirements of CA85 or CA06 (whichever applies) and that the required returns and disclosures are submitted to the Registrar of Companies within specified deadlines (see also note 2 of paragraph 7 Current and Future Developments, below.). These include, but are not restricted to changes associated with:

- director and secretary appointments and resignations;
- allotment of additional shares;
- changes to the company's memorandum or articles of association;
- share transfers and share capital restructuring exercises;
- corporate name changes;
- the registration of charges and updates relating to them;
- changes to the location of the registered office; and
- changes to the accounting year end.

The directors and company secretary (if any) are also responsible for the preparation and delivery of an annual return, which provides some corporate information, details of the names and addresses of the company's directors and secretary; its capital structure and the identity of its registered shareholders.

(v) Penalties for non compliance
Automatic late filing penalties are levied on companies that file their accounts late. These late filing penalties range from £150 up to £7,500. In addition to the statutory late filing penalties (and separate from any sanction applicable in respect of corporate mismanagement or dishonesty, the Registrar of Companies has the power to take legal action against companies and their company officers for default in respect of the obligation to file accounts which may result in criminal conviction and fines against the directors as individuals of up to £5000 per offence and the possibility of imprisonment and disqualification from the right to hold office as a director.

3.4 Other business structures

Other, less common forms of registered business structure, which are not considered in detail in this chapter, include:

- Companies Limited by Guarantee.
- Unlimited companies.
- Limited Partnerships.
- Limited Liability Partnerships.

It is recommended that specialist advice be taken on the applicable rules and registration requirements relating to these corporate forms.

3.5 Corporate and business names

There are a number of restrictions on the use of corporate and business names. The Registrar will not allow a company to be incorporated with a name identical to or "too like" one already on the register.

In some cases, specific permission is required from a relevant authority and, in others, justification must be provided to the Registrar for the use of a restricted word. The following are just a few examples of such restrictions:

- words that imply connection with royalty or governmental authority (e.g. "Royal", "Government");
- words that imply national or international scope or pre-eminence (e.g. "National", "British", "International");
- words that imply connection with certain regulated fields (e.g. "Pharmaceutical"); and
- words that imply a particular corporate structure (e.g. "Group" or "Holdings").

These restrictions apply equally to Branches and Places of Business as to limited companies, and also apply to trading names, where the trading name is different to the corporate name.

It is recommended that advice be taken on whether a particular proposed corporate name is likely to be accepted for registration by the Registrar, before any any formal application is submitted to Companies House.

How can Deloitte help?
Deloitte is ideally placed to advise on and assist with the registration of overseas companies establishing a business presence in the UK, either with a branch, place of business or separate corporate entity. Deloitte's Company Secretarial department can provide detailed specialist advice on the progressive implementation of CA06.

The department is staffed by professionally qualified personnel dedicated to assisting with all registration and ongoing statutory compliance requirements of companies and corporate entities registered under the CA85 and CA06. It can advise on statutory aspects of establishing a business presence in this country and on compliance with ongoing statutory requirements.

In addition to these routine matters, we help our clients with complex technical project work and with corporate restructuring and conversion. Working closely with colleagues from other disciplines across the firm, we deliver an integrated and timely response.

3.6 Current and future developments

The Companies Act 2006 represents the culmination of a 10-year review of company law in the UK. The new Act received Royal Assent on 8th November 2006 and is being implemented in phases. The date for the final implementation is expected to be 1 October 2009.

Changes to UK company law that are expected to impact on the registration of branches, places of business or subsidiary companies by foreign businesses, include the following:

(i) Draft Regulations under the CA06 have been published which, if implemented in their current form, will change the rules regarding the registration of overseas companies in the UK. These regulations relate to:

(a) A merging of the registration of branches and places of business into a single framework for the registration of overseas "establishments" and improvements to the overall registration process;

(b) The detailed rules, procedures and forms that will apply to registrations under the new framework; and

(c) The rules and forms relating to the registration of corporate changes that may be required to be notified to Companies House.

It is not anticipated, however, that the new Regulations will make significant changes to the existing rules and procedures.

(ii) New provisions under the CA06 to be implemented from 1 October 2009 are expected to make significant changes to the rules and procedures relating to the incorporation and continuing obligations of companies. Current drafts of proposed Regulations under CA06 include:

(a) New rules regarding the form and content of the Memorandum and Articles of Association;

(b) Changes to the forms required for the incorporation of a UK company;

(c) Changes to the rules regarding the denomination of share capital;

(d) Public companies may be incorporated with only one shareholder;

(e) Changes to the form and content of returns that must be filed at Companies House to register corporate changes (various implementation dates between 1 April 2008 and 1 October 2009, depending on the relevant form).

(iii) Although directors will still have to provide their residential addresses to Companies House, they may opt to have a service address registered on the public file and keep their residential address private. This will apply to branches, places of business and subsidiary companies (expected implementation 1 October 2009).

4. Financial assistance for investors: Grants and incentives

An introduction from the UK Department for Business, Enterprise and Regulatory Reform
There is growing interest from international companies looking for both outward investment opportunities and partnerships in the form of joint ventures, technology transfers and licensing and distribution agreements.

Whereas there are numerous different reasons why companies decide to invest in the UK, grants and financial incentives still play a major role and act as a "welcome" at a European, central government and local government level.

Investment incentives are available in the UK at national, regional and local levels. A project may be eligible for assistance under more than one incentive scheme, in which case the assistance available under a particular scheme may be affected by other assistance available.

Eligibility for any grants or allowances described below should be checked with professional advisers or the relevant public body, before plans based on such eligibility are implemented. Most programmes do not allow a project to start until it has been approved; assistance may be lost if the project starts before approval. Foreign investors generally qualify for incentives, but some schemes are only available to UK concerns.

The body responsible for administering a given incentive varies with the type of incentive and location of the project, but initial queries may usually be addressed to the nearest local office of the Department for Business, Enterprise and Regulatory Reform (BERR) in England, the Scottish Executive, the Welsh Assembly Government and Invest Northern Ireland. (Websites: www.berr.gov.uk www.rsascotland.gov.uk www.wales.gov.uk www.investni.com)

4.1 Financing for national and regional investments

The UK government and the European Union are the two main sources of help for companies seeking financial support to set up or expand in the UK. The UK government is the more important, as it operates the main support programme in England, Scotland, Wales and Northern Ireland. European Union help is less direct as it is primarily aimed at sectors rather than individual companies.

Programmes in this category primarily provide grants or loans to finance capital investments, although in some areas subsidies toward research or non-capital expenses are given as well. Current government policy for the regions encourages investment in areas which have previously been over-dependent on a particular industry or significant employer. Programmes are designed to balance these economic inequalities.

4.2 Regional assistance

This is the main type of support offered by the UK government in the Assisted Areas of England, Scotland, Wales and Northern Ireland. It is offered to companies planning expansion, modernisation or rationalisation, as well as to those making an investment in the UK for the first time. Companies in the services sectors, as well as those in manufacturing, are equally able to apply for the support.

You may also be eligible for additional local authority assistance such as support towards training of staff, transitional loan funding, and business plan development support. Not all local authorities offer grant or loan assistance, but they are still important sources of advice and support.

Capital Grants Scheme

The capital investment incentive scheme in the UK is known as:

- In England: *Grant for Business Investment;*

- In Northern Ireland: *Selective Financial Assistance;*

- In Scotland: *Regional Selective Assistance; and*

- In Wales: *Single Investment Fund.*

The scheme is designed for businesses that are looking to invest in an Assisted Area, but need financial help to do so. The support, which is discretionary, normally takes the form of a grant, or occasionally a loan. This support helps fund new investment projects that lead to long-term improvements in productivity, skills and employment.

To qualify, investment projects must meet certain criteria (see below). There is a minimum threshold for applications of £10,000 per grant in England and £5,001 in Wales. In Scotland there is no minimum level of grant available and for Northern Ireland there are particular arrangements for financial assistance which should be discussed directly with Invest Northern Ireland. For all the regions there is no upper limit provided the application supports the level of grant requested.

Financial support is available to businesses of all sizes located, or planning to locate, in an Assisted Area. The majority of cases in England are appraised by the Regional Development Agencies but a few, because of their size, are appraised by the Department for Business, Enterprise and Regulatory Reform (BERR) in London. The organisations Invest Scotland, the Welsh Assembly and Invest Northern Ireland have similar roles in their respective countries.

Assisted areas

These are areas of the UK with lower levels of economic activity than the rest of the UK for historical economic reasons. This situation is often as a result of the decline in traditional manufacturing industries. Assisted Areas can be found in all regions of the UK. These areas have the potential to benefit from new investment and employment opportunities. Grant levels vary between these areas.

Small and medium size companies can receive additional levels of funding in Assisted Areas and may be eligible for funding in Non Assisted Areas across the UK (except for London). To qualify as a small or medium sized company, a company must satisfy the employment criteria and a minimum of one out of the two other criteria:

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

The current part of the country designated as Assisted Areas will remain in force until 31 December 2013. A map showing the assisted areas in the UK can be viewed on the BERR website www.berr.gov.uk/whatwedo/regional/assisted-areas/assisted-areas-review/page24618.html

Types of investment project supported

Regional assistance can support investment projects in Assisted Areas that would not otherwise happen. The financial support provided can be used for:

- launching a new business;
- modernising, expanding or reorganising an existing business;
- upgrading a business: introducing technological, or other innovatory improvements into manufacturing or other business processes;
- taking a new product, service or process from the development stage to production.

The Government is looking for high-quality new investment, in services or manufacturing, to improve regional economic disparities.

Qualifying criteria

Support is available for businesses investing in manufacturing, as well as businesses in service industries that supply a national rather than a local market. Applicants can be companies, partnerships or sole traders. Grant is discretionary and your investment project will be assessed against the following criteria:

- The location of your project. Your project must be located in an Assisted Area. If you are not sure whether this is the case, please contact your nearest Regional Development Agency or Business Link.

- Your need for financial support. Your project must require financial support in order to go ahead as planned. This may be to reduce the risks associated with the project, or to influence the location of a project in an Assisted Area. Financial support may also be needed to secure parent company or shareholder approval, allowing the project to meet established investment criteria. Each case is considered on its own merits.

- Whether you have made any prior commitment. You should not have made any irrevocable commitment to the project prior to your application; otherwise there will be difficulty in establishing a need for support. Project appraisal must have been completed and a formal offer of support made before you enter into a commitment to go ahead with the project.

- The nature and eligibility of your investment. Your project must involve capital expenditure on fixed assets, such as property, plant and machinery. These assets can be purchased outright or by using lease finance or hire purchase. Some property leases may also be eligible. Certain non-recurring costs may also qualify, for example patent rights and professional fees. The working capital spent on a project does not directly qualify, but may be taken into account when determining the need for support. Your project will be monitored for a minimum of five years through to completion of the investment and beyond to ensure the conditions of the offer have been met.

  If support is to be assessed on the basis of net new jobs created, eligible expenditure can include two years gross salaries of the new jobs to be created set against the percentage of grant available in the area.

- The type of jobs created or safeguarded. Your project must create new jobs or safeguard existing employment. The more your project increases skills and involves investment in the skills base, the more value will be placed on this criterion when considering support.

- Viability, competitiveness and profitability. Your project should be viable and help your business become more competitive. Projects are usually expected to become profitable within three years. The wider impact of your project will also be assessed, particularly its likely effect on existing businesses in that area and the economy as a whole.

- The quality of your project. It is intended that the majority of support should be focused on high quality, innovative, knowledge-based projects that provide skilled jobs. Apart from a small proportion of cases that have significant employment benefits, the emphasis is on raising productivity and improvement in the skills base. Productivity growth will be measured on the basis of Gross Value Added per full time employee and benchmarked against the sector and national averages. Projects will be expected to provide the majority of jobs at NVQ level 2 and above in order to help improve skills levels.

- The regional and national benefits. Your project should contribute positive benefits to both the regional and national economy. Applications will be assessed for their impact on existing investment within and outside the region.

4.3 Local assistance

Local assistance usually involves making land and buildings available or providing loans in inner-city areas for building and site work that improves the locality. Grants or loans are available for projects that create or preserve employment or stimulate the local economy.

The UK has a number of new towns and urban regeneration companies. These enjoy wider powers than other local authorities.

4.4 Research and development assistance

Grants for R&D

The UK Government is committed to supporting businesses that undertake leading-edge and innovative R&D activities in the UK. An important aspect of this support is the provision of financial assistance in the form of discretionary grants for specific activities in areas considered strategically important to the UK.

Grants are available from both the UK Government and the European Union to support R&D nationally regardless of location. UK and foreign companies wishing to undertake R&D in the UK can apply for financial assistance under a number of schemes which include:

- The Carbon Trust's Applied Research Programme for research projects aimed at developing carbon saving technologies;

- The Technology Strategy Board for collaborative research projects involving UK partners;

- EU Seventh Framework Programme (FP7) for collaborative research projects involving UK and EU partners; and

- Grant for Research and Development to support development and applied research projects predominantly for small and medium sized companies.

The qualifying criteria and eligibility vary between the different programmes and a number of them require companies to respond to calls for proposals in specific areas of R&D. Support is available for projects across a number of different industries.

R&D tax credits

R&D tax relief can be claimed in arrears (within limits) and small and medium sized companies can also trade in tax losses resulting from qualifying R&D for a cash sum.

R&D tax relief is available to both large corporations and small and medium-sized companies (SMEs) that invest in R&D:

Large company scheme: all companies are entitled to a 100 per cent deduction from their taxable income for eligible R&D expenditure. In addition to this, large companies may be entitled to a further 30 per cent deduction for their current spending on qualifying R&D. For example, if a company spends £100,000 on qualifying R&D, it will be able to deduct £100,000 from its taxable income under ordinary tax rules and an additional £30,000 under the R&D tax relief scheme.

SME scheme: in addition to the normal 100 per cent deduction, SMEs are entitled to a further deduction from their taxable income of 75 per cent of their current spending (of a minimum of £10,000) on qualifying R&D. Companies which are SMEs can, in certain circumstances, surrender this tax relief to claim payable tax credits in cash from HM Revenue & Customs, up to a value of 24 per cent of qualifying expenditure. To be eligible, a company must have fewer than 500 employees and either turnover not exceeding €100 million per annum or a balance sheet total not exceeding €86 million. Additional eligibility criteria apply in respect of companies which are not independent.

The main differences between the two schemes are outlined below:

SME scheme	Large company scheme
175% rate of enhanced deduction.	130% rate of enhanced deduction.
Payable credit at up to £24 for every £100 of qualifying expenditure on R&D.	No payable credit.
Company can claim for expenditure on R&D it sub-contracts to others.	Company can only claim for expenditure on R&D it sub-contracts in certain limited circumstances.
Company cannot claim for contributions to independent research.	Company can claim for contributions to independent research.
Claim can be reduced if the R&D project is subsidised or a grant is received in respect of it.	No reduction for grant or subsidy.
Company must own the intellectual property arising out of the R&D.	Company need not own the intellectual property arising out of the R&D.

Further information on R&D tax credits can be found at: www.hmrc.gov.uk/randd

Science parks

Over 100 science parks have been developed by universities and regional development agencies, usually in co-operation with industry and commerce, to encourage research and the development of high technology activities. The UK Science Park Association website lists their locations and has a Chinese link: (www.ukspa.org.uk).

Research Councils UK

Research Councils UK (RCUK) is a strategic partnership bringing together the nation's strengths in science, research, universities and colleges to build a dynamic knowledge-based economy.

Each year, the Research Councils invest around £2.8 billion in research covering the full spectrum of academic disciplines from the medical and biological sciences to astronomy, physics, chemistry and engineering, social sciences, economics, the arts and humanities. Through RCUK, the Research Councils are working together to create a common framework for research, training and knowledge transfer. In doing this, RCUK works alongside the Department for Innovation, Universities and Skills (DIUS) www.dius.gov.uk

4.5 Assisted areas for industrial and commercial premises

Industrial and commercial premises, whether new or previously occupied, are available for sale or rental in assisted areas. UK Government support is directed to disadvantaged areas or to locations that may require "pump priming". It provides grants either towards mains utilities services for new developments or towards the refurbishment of an existing building. The grant covers the difference between project cost and the open market value of the completed development.

How can Deloitte help?

Grants

Deloitte's Grants Unit is well placed to maximise benefits available to international companies and is happy to talk through any details on potential projects. The Grants Unit can help to position your company in a way that enables you to secure the highest grants package available from a variety of sources.

R&D tax credits

Deloitte has the largest, most experienced R&D Tax Services Team in the UK. Our investment in senior, industry experienced technical staff means we also cover the broadest areas of technical expertise of any adviser in this area in the UK. Out of our team of 30 dedicated R&D specialists, whose sole responsibilities are to assist clients in optimising their R&D claims, approximately one third are experienced technologists and engineers.

5. Financial markets in the UK

The UK is the world's most dynamic, innovative and sophisticated centre of finance. With an unrivalled concentration of capital and capability, more overseas financial institutions and investors choose to operate in the UK than anywhere else.

5.1 Financial markets activities

Fund management

The UK is one of the largest global centres for fund management. A strong international focus, together with firm foundations – established and enhanced over centuries – have supported impressive growth in recent years.

Over 50,000 people are employed in the sector and its supporting services.[11]

- The UK fund management sector contributed around 0.8% of UK GDP in 2007.
- The industry was responsible for £4.1 trillion of funds at the end of 2007.
- Institutional funds account for around 2/3 of fund management clients, with retail clients second at 17%.
- The UK managed pension fund assets of £ £979bn at the end of 2007.[12]

Private wealth management

The UK is one of the major centres for onshore investment of private wealth. It is also a leader in the management of overseas clients' non-domestic portfolios. The factors underpinning the UK's reputation in the sector include its favourable legal and regulatory environment, its a wide range of financial services and professional advice and the specialist expertise it can offer tailored to overseas markets.

- The value of funds managed on behalf of High Net Worth Individuals (with over $1m in investable assets) worldwide in 2007 rose 9% the previous year to USD 40.3 trillion.
- £412bn worth of UK private client securities was managed by UK banks, fund managers and stockbrokers in 2007.
- More than 300 families with assets over £100m each have set up their own private offices in London. A further 100 'multi-family offices' cater for those families who have chosen to have their investments jointly managed.

11 IFSL Research, Fund Management, 2008
12 IFSL Research, Fund Management, 2008

How can Deloitte help?
Advising clients with business interests, personal wealth and family connections worldwide forms a significant part of day-to-day business for Deloitte's International Private Client Services team. We streamline matters for each client by providing a single partner to co-ordinate our advice to you, irrespective of the number of jurisdictions involved. The result? Highly informed advice that cuts through the complexities every time, keeping your tax affairs simple. The range of issues Private Client Services covers includes:

- Ensuring our clients' affairs are tax-efficient in all relevant jurisdictions.
- Cross-border tax advice and co-ordination of international aspects.
- The interaction of double tax treaties.
- International estate planning.
- Remitting income and capital gains to the UK.
- Purchasing and holding overseas and UK property.
- Moving to or leaving the UK.

Banking

The UK has the second largest banking deposits in the world after the US. It is the largest centre for cross-border banking with around 20% of the global total and its UK banks have traditionally offered a higher return on capital than most other advanced economies. The UK is also one of the most important centres for private and investment banking.[13]

- The UK banking industry contributed around £50bn to the UK economy in 2005, equivalent to 4.6% of GDP.
- Assets of the UK banking sector reached £6,964bn at the end of 2007, up 11 per cent on 2006.
- Global investment banking fee revenue increased 21% in 2007 to a record $84.4bn.
- Net exports of UK banking totalled £14bn billion in 2007, up on £12.1bn in the previous year.[14]

13 IFSL Research, Banking 2008
14 IFSL Research, Banking 2008

(i) International Banking

The UK is home to more foreign banks than any other city worldwide. At the end of 2007, London was home to the branches or subsidiaries of 254 foreign banks – almost double the number in New York. More than half of London's banking assets are foreign owned, making it a uniquely international centre for banking.

- Foreign banks manage 58 per cent of UK banking sector assets.

- Around 50 per cent of European investment banking activity is conducted through London.[15]

(ii) Retail banking

The UK retail banking sector has grown at an unprecedented rate in recent years. Driven by internet and telephone banking as well as credit card use, it is expected to continue this trend in the coming years.

(iii) Private banking

It is not surprising that London is one of the world's major centres for private banking. Clients benefit from many of the skills and much of the infrastructure that serve investment banking so well. They also have access to unparalleled expertise in the construction of wealth structures such as trusts. Importantly, advisers can offer a multi-jurisdictional service. This is naturally greatly beneficial where business interests or family members are located in a number of countries. Clients can also take advantage of the UK's offshore banking locations – which are among the most important in the industry.

The net result of this international perspective and experience is that many overseas banks and intermediaries look to London for trust advice and dispute resolution. The fact that the Privy Council is the highest court of appeal for many offshore jurisdictions seals the capital's status in this sector.

(iv) Islamic finance

London is a preferred location for the Arab community thanks to its historic links, the English language, and ongoing cultural connections. Islamic banking in its modern form is estimated to be applied to the management of funds totalling around $500bn. There are about 25 banks in London that supply financial and investment products on Islamic principles, including five that are fully Sharia compliant. These are not all specialist Islamic institutions – some are investment banking arms of international commercial banks.[16]

15 IFSL Research, Banking 2008
16 IFSL *Islamic Finance*, February 2008

How can Deloitte help?
Our Islamic Finance team is able to offer the full range of Corporate Finance advice, from assistance with raising funds in a Sharia'a compliant manner, structuring sukuks, to the full range of services to assist you in the acquisition or disposal of companies.

We offer independent advice as to the most appropriate Sharia'a compliant funding solution to meet your requirements.

We offer a comprehensive Transaction Support service to assist acquirers with their due diligence requirements and where required, assist with identifying any Sharia'a compliance issues in terms of a target company's business activities.

Having a Sharia'a Scholar as part of our team enables a smooth transaction process.

5.2 Investment products

The scale and scope of UK capital markets are testament to their importance in the global financial system. The UK has the largest foreign exchange, foreign equities and over-the-counter (OTC) derivatives markets to be found anywhere in the world. It is also spearheading some of the most innovative new markets.

The UK's equity markets have significantly declined in 2007-08, in line with the global economic downturn, but the city remains a centre for both domestic and international equity.

- There were 701 foreign companies listed on the London Stock Exchange (LSE) in the first 9 months of 2008, ahead of NYSE with 416 and Nasdaq with 337.
- More than 460 companies on the LSE are from overseas (representing over 60 countries).
- London is host to sixty per cent of the primary market in international bonds and 70 per cent of the secondary market.

Securities

The UK has a substantial domestic market in equities and bonds, and a powerful role in international bonds and foreign equities. The UK's equity markets have significantly declined in 2007-08, in line with the global economic downturn, but the city remains a centre for both domestic and international equity.

- Net exports of securities dealing reached £2.3 billion in 2005.
- The market value of UK Government securities (Gilts) reached £425 billion in September 2006, up 19 per cent from the end of the previous year.
- London's share of European Initial Public Offerings (IPOs) in the first nine months of 2006 was 47 per cent of the value and 46 per cent of the number of all European IPOs.

Derivatives

London has capitalised with enormous success on the growth in derivatives and the presence of four major derivatives exchanges. It is now the biggest market in the world for over-the-counter derivatives and the second largest for exchange-traded futures and options. It has also capitalised on the industry's creativity, becoming the global centre for innovation in derivatives and developing a range of innovative new products for clients and governments around the world.

- 777 million futures and options contracts are traded each year in London.

- The UK's share of cross-border derivatives turnover is 45 per cent.

Hedge funds

Hedge fund assets managed out of London have grown six-fold between 2002 and 2006, from £31 billion to over £180 billion. The capital's markets and clients, strong asset management industry, and favourable regulatory environment have all played their part in this recent success, supported by the burgeoning hedge fund servicing businesses.

- In 2003 there were 301 European-based hedge funds located in London – now there are 900.

- In 2002 just three of the top 50 hedge funds in the world were located in London; by 2006 this had risen to 12.

London accounts for around 79 per cent of hedge funds managed in Europe and 21 per cent of the world's hedge fund assets.

Insurance

The UK insurance industry is the largest in Europe and the second largest in the world after the US. It dominates the worldwide market for internationally traded insurance and reinsurance, providing an unrivalled concentration of underwriting expertise and earning nearly 25 per cent of its revenue from overseas markets.

The UK has a rich trading and insurance heritage, with the Lloyd's of London market dating back to 1688 and London remains a key centre for international insurance and reinsurance, particularly for marine and aviation business and reinsurance.

(i) General Insurance

Made up of 1,117 companies employing 310,000 people, the industry is concentrated in London and Scotland, and overseas markets account for a fifth of UK insurance premiums.

- Insurance net exports increased to £5.5bn in 2007 from £4.1bn in the previous year.

- Insurance companies accounted for nearly £1,600bn of funds under management, almost double those of any other European country.

(ii) The London Market

The distinct London Market, which focuses on high-exposure risks, is dominated by Lloyd's of London. Providing services to thousands of businesses in over 200 countries, Lloyd's has 66 syndicates underwriting insurance. The London Market is also the only place where all the world's 20 largest international insurance and reinsurance companies are active.

- Premium income for internationally traded insurance and reinsurance totalled a record £26.7 billion in 2005, up 19 per cent on 2004.

- The London Market is a leading source of aviation insurance – 27 per cent of the global market in 2004.

London is unmatched when it comes to maritime services. The sector achieves overseas earnings of more than £1.3 trillion a year.

Private equity and venture capital

The UK is the largest and most developed centre for private equity in Europe, and in global terms, second only to the USA. Private equity firms in the UK raised $46.9bn in 2007, up 10%, contributing to 1.7% of GDP. The UK accounts for over 25 per cent of the world's private equity investment and 52% of the European market in venture capital.

5.3 Regulation

The Financial Services Authority (FSA) is the single regulator for all financial activity in the UK, bringing together the work of nine separate regulatory agencies. Since the financial services industry is constantly consolidating, the British government responded by bringing all the regulators under one roof. The FSA's Complex Groups Division deals with the major financial conglomerates located in the City of London on the basis that, if the financial businesses manage their risk centrally, so should the regulator.[17]

5.4 Accessing London's Capital Markets: Floating on a UK Stock Exchange

London Stock Exchange

The most international of all stock exchanges and the largest in Europe, the London Stock Exchange has a 300-year history of robust performance. Pivotal to the UK's strong, well-regulated stock market, the London Stock Exchange has over 1,532 companies trading on the main market and 1,609 on its secondary market, the Alternative Investment Market (AIM).

There are more than 400 foreign firms listed on the London Stock Exchange. In the first half of 2007, before IPO rates worldwide dropped off, the LSE hosted 12 foreign IPOs raising nearly $18 billion between them, whereas US exchanges hosted 22 foreign IPOS (mainly from Chinese and Israeli companies) raising nearly $4.4 billion.[18]

17 Sources: *International Financial Services London* (www.ifsl.org.uk)
18 Thomson Research, 2007

Trading in LSE listed companies totalled £6,050bn in the first nine months of 2008, up 4% on the same period in 2007, although this figure started to decline shortly afterward due to the onset of the financial markets crisis.[19]

The Baltic Exchange

The Baltic Exchange is the only self-regulated shipping market in the world. Over half the world's new and second-hand bulk vessels are traded by Baltic members.

The European Derivatives Exchange (EDX)

The European Derivatives Exchange (EDX), London's new, technology-driven exchange, has broadened the scope of equity derivatives trading while reducing risk and cost. Over 43 million contracts were traded in the exchange's 150 indices and single stock products in 2007, up from 29 million in 2006.[20]

London International Financial Futures and Options Exchange (Euronext.Liffe)

Euronext.Liffe is the world centre for Euro money market derivatives trading. In 2007 it was the second largest derivatives exchange in the world after the Chicago Mercantile Exchange (CME).[21]

The London Carbon Trading Exchange

The London Carbon Trading Exchange, part of the European Climate Exchange (ECX), deals in more than twice the volume of its nearest competitor, serving 98% of all exchange trading under the EU Emissions Trading Scheme in 2007.[22] As the early leader in emissions trading, London is well positioned to service the market's expected exponential growth.

The London Metal Exchange (LME)

LME is the biggest non-ferrous metals exchange in the world. The LME is a global market with an international membership and with more than 95% of its business coming from overseas. The LME is a highly liquid market and in 2007 achieved volumes of 93 million lots, equivalent to $9,500 billion annually and between $35-45 billion on an average business day.[23]

Intercontinental Exchange (ICE)

ICE Futures operates Europe's leading electronic regulated futures and options exchange for global energy markets. Contracts include the Brent global crude benchmark contract, gas oil, natural gas, electricity and ECX carbon financial instruments.

PLUS Markets Group

PLUS Markets Group is an independent UK provider of primary and secondary equity market services and currently trades over 7,500 small and mid-cap company shares.

19 IFSL, International Financial Markets in the UK 2008
20 IFSL, International Financial Markets in the UK 2008
21 IFSL, International Financial Markets in the UK 2008
22 Exchanges, 2008
23 London Metal Exchange

Bullion market

London is the global clearing centre for worldwide trading of gold and silver and by far the largest market for over-the-counter trading. The average daily volume of gold and silver cleared at the London Bullion Market Association is around £5.5 billion.

LCH. Clearnet

LCH. Clearnet offers a unique range of clearing services, from futures to fixed income and from cash equities to inter-bank interest rate swaps, acting as sole intermediary on some of the world's leading trading exchanges and over-the-counter marketplaces.

5.5 Public offerings on the London Stock Exchange

For most companies listing in the UK, there are two principal markets to choose from:

- the main market London Stock Exchange (LSE); and
- the LSE's secondary market, the Alternative Investment Market (AIM).

The processes for going public on these exchanges are broadly the same but the hurdles for admission to AIM are slightly lower than that for the LSE, as are the ongoing reporting requirements following admission.

Figure 4. Key differences between the LSE and AIM

Differences between admission criteria for the LSE and AIM	
LSE	**AIM**
• Minimum 25% shares in public hands. • normally a 3-year trading is record required. • Prior shareholder approval required for substantial acquisitions and disposals. • Pre-vetting of admission documents by the UKLA. • Minimum market capitalisation of £700,000 for shares and £200,000 for debt.	• No minimum shares to be in public hands. • No trading record requirement. • No prior shareholder approval for transactions*. • Admission documents not pre-vetted by Exchange nor by the UKLA in most circumstances. The UKLA will only vet an AIM admission document where it is also a Prospectus under the Prospectus Directive. • Nominated adviser required at all times. • No minimum market capitalisation.

*Not applicable to reverse takeovers or disposal resulting in a fundamental change in business

In recent years there has been significant growth in the number of companies seeking to raise funds on AIM; an increasing number of these are overseas companies, including emerging markets such as China, India and the CIS. This success is partly attributed to the Market's unique regulatory approach which relies on a higher involvement from the company's advisors and a streamlined approach to admission, making it easier for companies to complete the admission process quickly.

Regulation governing new listings

For both LSE and AIM flotations, the company seeking admission must appoint an advisor authorised by the Financial Services Authority (FSA). The Sponsor, for LSE listings, or Nominated Adviser (Nomad) for AIM listings, is responsible for ensuring the suitability of the company seeking admission to trading and to guide it through the steps to admission. They are also responsible for the oversight of the company's ongoing compliance with the rules and regulations of the exchange.

The FSA also reviews all the listing particulars of potential new entrants to the main market prior to their admission and, once it is listed, monitors the company's ongoing compliance with the rules and regulations of the stock exchange.

Since July 2005 all companies listing on the LSE have also had to comply with the European Prospectus Rules Directive (2003/71/EC) (the Prospectus Rules) which sets out uniform rules and regulations for all companies seeking to list on regulated exchanges within the EU.

For AIM listings, the Nomad, rather than the FSA, takes responsibility for ensuring that the company seeking admission is in full compliance with the rules and regulations of the exchange, both at the admission stage and throughout the company's admission to AIM. A list of authorised NOMADs can be found on the LSE website http://www.londonstockexchange.com

As AIM is not a regulated market companies seeking admission to AIM are usually (though not always) exempt from the Prospectus Rules. An AIM listing is exempt from the Prospectus Rules if it meets any one of the following criteria:

- the offer is made to qualified investors only;

- the offer is made to less than 100 persons other than qualified investors;

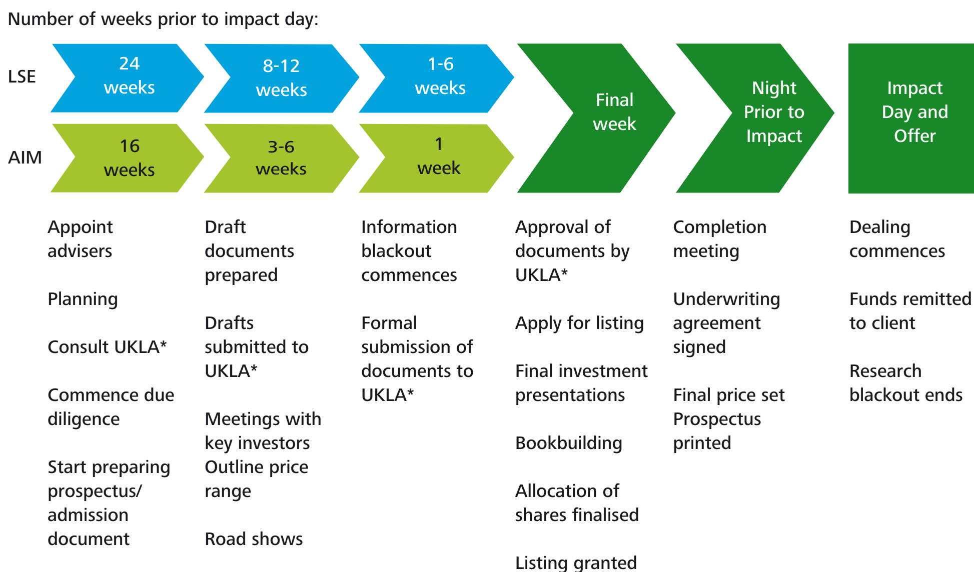
- total amounts raised are less than €2.5 million (rolling annualised basis).

In practice, most AIM admissions will not fall under the remit of the Prospectus Rules.

The process of going public

The admission process to the LSE and AIM are broadly the same, though the expected timescale for completion differs. Both are illustrated below.

Figure 5. Anticipated timescale for preparing for IPO



* Only for listing on the LSE

The key document in the admission process for the LSE and AIM is the investment circular referred to as a “Prospectus” for all LSE flotations, and an “Admission Document” in the case of AIM companies that do not fall under the umbrella of the Prospective Rules (see Regulation governing new listings, above). A Prospectus typically has more stringent disclosure requirements than an Admission Document. Each market has certain requirements for the company and its disclosures.

Figure 6. Prospectus vs non-prospectus rules

	Prospectus Rules	Non-prospectus Rules AIM admission
General information	The company must be a public limited company.	The company must be a public limited company or overseas equivalent.
	Minimum amount of shares to be issued is £700,000.	No minimum requirement.
	25% of shares must be in public hands.	No minimum requirement.
	Requirement to appoint a registrar.	Requirement to retain a NOMAD and Broker at all times during the company's admission to AIM.
	The prospectus must be approved by the FSA.	The admission document must be made publicly available, free of charge, for at least one month from the date of admission of the company's securities.
	Quoted shares must be freely transferable.	Quoted shares must be freely transferable.
Financial information	Financial information to be presented on the same basis as that in the Company's next set of financial statements.	Financial information to be presented on the same basis as that in the Company's next set of financial statements.
	Financial information can be presented under IFRS, US GAAP, Canadian GAAP or Australian GAAP.	Financial information can be presented under IFRS, US GAAP, Canadian GAAP or Australian GAAP.
	Minimum of 3 years track record of trading.	No minimum trading period, although if the company has been trading for 3 years then it must present a 3 year trading history.
	Latest financial information presented must be a maximum of 6 months old and must be audited.	Latest audited financial information presented can be up to 15 months old as long as unaudited interim information is included.
	75 per cent of the applicant's business is supported by a historical revenue earning record which covers the period of the track record, it controls the majority of its assets during this period and it will be carrying on an independent business as its main activity.	No such requirements.

Source: London Stock Exchange

An investment circular is provided to potential investors to canvass their interest in providing finance to the company and the cost of such finance. There are a number of ways in which a company can raise finance through investors, as explained below.[24]

Public offer. In a public offer, the broker will offer your company's shares to private and/or institutional investors. The broker will also usually arrange for the offer to be 'underwritten', meaning that any shares not bought will be purchased by institutions who have agreed to do so for a fee. A public offer is generally the most expensive route to market, and is often used by larger companies. It brings in private investors who are important in increasing the liquidity of a company's shares. It is also the method of choice for a business looking to raise substantial amounts of capital.

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Placing. A placing usually involves offering the shares to a selected base of institutional investors. This allows the company to raise capital but with lower costs and greater flexibility. It can give a company more discretion to choose its investors. The downside is that a placing can result in a narrower shareholder base than a public offer, which can cause lower liquidity in the shares.

Introduction. An introduction is where a company joins the market without raising capital and is therefore often the least expensive and most straightforward way of joining the market. Generally, a company can use this method if over 25 per cent of its shares are in public hands, and there is already a fair spread of shareholders. It involves no underwriting fees and little requirement for advertising the flotation, which keeps costs to a minimum. However, the downside of an introduction is that the opportunities for boosting the company's profile and visibility are more limited than with other methods of flotation.

Responsibilities of public company Directors

When a company goes public, the Board of Directors takes on a number of new responsibilities that are announced in an explicit public declaration in the investment circular. Directors should take appropriate legal council and advice from their Nomad regarding all their responsibilities. The responsibilities that are explicitly mentioned in the investment circular are primarily as follows:

- acknowledging the responsibility of the Directors for the information contained in the investment circular;

- a statement that the Directors have included all relevant information within the investment circular;

- a statement that the company/group has sufficient working capital available to for its present requirements; that is for at least 12 months following the date of Admission (the Working Capital Statement); and

- a statement that there has been no significant/material change in the financial or trading position of the company since the end of the period covered by the historical financial information (the Significant/Material Change Statement).

Advisors to the transaction

In addition to the appointment of a Sponsor/Nomad, the company will need to consider the appointment of a number of advisors; each advisor will assist the company in the various stages of the admission process.

(i) Reporting accountant

The company will need to appoint an accountancy firm to assist with various financial aspects of the flotation. This will typically include financial due diligence on the company, as requested by the Sponsor/Nomad, a public report on the financial information included in the Prospectus/Admission document (an Accountant's Report) and a Working Capital Report assessing the company's forecast cash reserves.

(ii) Lawyer

The company will need to appoint a lawyer to assist with the legal aspects of the flotation. Typically there will be two lawyers, one acting for the Sponsor/Nomad and another acting for the company. The lawyer acting for the company will be responsible for ensuring compliance with all legal aspects of the listing and the preparation of the back half of the Prospectus/Admission document that details the company's compliance with the exchange's rules and regulations.

(iii) Broker

The company will need to appoint a broker. This may be (and is usually) from the same house as the Sponsor/Nomad. The Broker is responsible for liaising with investors, setting the admission share price and ensuring that the company has a market for the sale of the company's shares upon admission.

(iv) Public and investor relations

Typically the company will need to appoint a specialist financial public relations company to manage public relations in the build up to the flotation.

(v) Printer

The company will need to appoint a printer to enable copies of the Prospectus/Admission Document to be distributed to investors prior to admission.

Ongoing requirements of the exchanges

There are a number of ongoing commitments associated with admission to the LSE or AIM. A summary of the key items for consideration is detailed below:

Figure 7. Ongoing commitments for LSE and AIM-listed companies

	LSE	AIM
General information	A company should make the following public notifications without delay: • changes in significant shareholders; • changes in Directors; • changes in accounting reference date; • changes in the registered office; and • changes in the legal name.	A company should make the following public notifications without delay: • changes in significant shareholders; • changes in Directors; • changes in accounting reference date; • changes in the registered office; • changes in the legal name; and • the resignation, dismissal or appointment of its Nomad or Broker.
Financial information	Annual audited financial statements must be presented to shareholders within four months of the financial year-end	Annual audited financial statements must be presented to shareholders within six months of the financial year-end
	A half yearly report (which may or may not be reviewed) must be presented within two months of the half year-end.	A half yearly report (which may or may not be reviewed) must be presented within 3 months of the half year-end.
	Requirement to produce a preliminary announcement regarding the company's annual results as soon as possible after it has been approved by the Board.	No requirement to produce a preliminary announcement.
Corporate governance	Requirement to state compliance or non-compliance with the Combined Code.	No requirement to comply with the Combined Code, although best practice is to comply as far as is reasonably practicable.
Disclosure of corporate transactions	The listing rules sets out a number of class tests which indicate the level of disclosure and authorisation from shareholders required in a corporate transaction.	The AIM rules have similar class tests, however the thresholds for disclosure and shareholder approval are significantly higher.

Source: London Stock Exchange

Corporate governance and the Combined Code

The Combined Code is an established guide to best practice in corporate governance in the UK. All companies listed on the LSE are required to either adopt the Code or, where it cannot, to disclose in its annual financial statements where it has failed to meet its requirements during the year. The primary requirements of the Code are as follows:[25]

- every company shall be headed by an effective Board, which is collectively responsible for the success of the company;
- the Board should include a balance of executive and non-executive Directors (and in particular independent non-executive Directors) such that no individual or small group of individuals can dominate the Board's decision taking;

25 The Combined Code

- there should be a clear division of responsibilities at the head of the company between the running of the Board and the executive responsibility for the running of the company's business. No one individual should have unfettered powers of decision;

- there should be a formal, rigorous and transparent procedure for the appointment of new Directors to the Board;

- all Directors should be submitted for re-election at regular intervals, subject to continued satisfactory performance. The Board should ensure planned and progressive refreshing of the Board (this typically manifests itself in the creation of a Nominations Committee);

- there should be a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual Directors. No Director should be involved in deciding his or her own remuneration (this typically manifests itself in the establishment of a Remuneration Committee);

- the Board should maintain a sound system of internal control to safeguard shareholders' investment and the company's assets; and

- the Board should establish formal and transparent arrangements for considering how they should apply the financial reporting and internal control principals and for maintaining an appropriate relationship with the company's auditors (this manifests itself in the creation of an Audit Committee).

There is no requirement to adopt the Code for AIM listed companies although most companies follow some parts of the Code as well as the guidance from the Quoted Companies Alliance.

How can Deloitte help?
We offer services to companies listing on either the LSE or AIM in a variety of areas that include:

- Reporting Accountant and **due diligence** (financial, tax, commercial).
- Corporate tax matters including tax structuring, VCT and EIS qualification.
- Corporate strategy, corporate structuring and management information.
- **UK GAAP/IFRS** conversion projects.
- Management incentivisation and **executive compensation** strategies.
- **Advisory**, nominated adviser services.
- **Working capital management.**
- **Corporate Governance**: risk and internal controls, and regulatory best practice.

6. A guide to Mergers and Acquisitions in the UK

Mergers & Acquisitions (M&A) are becoming increasingly popular for the aspiring foreign company wanting to invest in the UK.

Business growth can be achieved in a variety of ways. Organic expansion through marketing and business development – is perhaps the most conventional option, but it may not be the fastest. In addition, growing organically in overseas markets is challenging where local customs, rules and regulations are not fully understood. One, often quicker option, that can avoid the challenges of setting up in a new market, is to either invest in, or buy outright, a business operating in the market of interest.

Today, acquisitions of Western businesses by overseas (buyers are at an all time high, and levels are growing. Foreign companies may undertake M&A for a variety of reasons, including obtaining brands and intellectual property, market access, and market knowledge.

Foreign companies are becoming increasingly confident in their ability to finance and execute deals. And foreign private equity acquirers, those who buy in to a company primarily as an investment rather than as an addition to their existing business, are becoming more established.

Despite the growing volume and value of deals, M&A transactions are not without risks, and proper advice should be sought when contemplating this option. This chapter sets out some of the key considerations. In each of these areas, Deloitte has a specialist team available to assist.

6.1 M&A strategy

In considering whether M&A is the appropriate method to improve shareholder value, performance and market competitiveness, a company should first review its corporate strategy. Corporate strategy makes the company greater than the sum of its business units, and sets out the organisation's direction and goals, business portfolio, resource allocation and growth plans.

A corporate strategy review is critical for success, yet is often neglected by executives under pressure to achieve short term results. One of the primary causes for acquisition failures is a lack of insight into the target company, its core competencies and limitations, and changing market conditions.

The rigorous analysis conducted in a strategy review enables a company to understand its internal strengths and external market conditions, both in its home country and overseas, over the coming few years. This analysis helps to develop a set of prioritised options, such as an acquisition or divestment, to achieve its objectives.

As challenges and opportunities for growth are defined, options to defend, grow, fix or exit can be assessed and prioritised based on the company's goals, capabilities and financial position. Generally, companies can choose from a myriad of strategic objectives such as:

- profitable growth – to increase business breadth or depth through revenue growth, market share capture, margin enhancement or improved asset utilisation;
- skill strengthening – to acquire the necessary talent to remain competitive (e.g. personnel, technology, capability, geographies, etc.);
- portfolio management – to manage a portfolio of businesses in order to maximise existing and evolving capabilities, reduce risk, or reposition a business;
- defensive action – to ward off potential take-over attempts or fix existing business/operational problems;
- opportunistic posture – to capitalise on a unique market/competitive opportunity or a developing business formula; and
- globalisation – to expand market share and sales in international venues.

Depending on a company's strategy, acquisitions may serve as a way to quickly achieve strategic and financial objectives.

6.2 Target sourcing and selection

Once the company has determined that an acquisition fits with its wider corporate strategy, the next phase is to identify potential targets, synergy opportunities and to arrive at a valuation.

Developing a pool of targets

In assessing investment opportunities, a company should evaluate the attractiveness of the sector in which it plans to conduct an acquisition by:

- understanding the industry structure and leverage points, where value can be captured;
- appreciating the market scale, and growth potentials;
- understanding the key players, both domestic and foreign-owned, along with competitive dynamics;
- envisaging any technological trend; and
- identifying entry barriers.

Once the decision is made to pursue opportunities in a sector, the company can begin its preliminary research on potential acquisition candidates.

Developing the acquisition candidate pool

The first step in a target selection process is to develop a long list of potential acquisition candidates. This involves a high-level search based on criteria such as:

- Sector/industry.
- Competitive position within the industry/product mix.
- Revenue/size.
- Market capitalisation.
- Location of operations.

Often a search will come up with more than 100 potential candidates in the long list. These potential candidates will be further screened and profiled.

Sourcing potential acquisition candidates

Finding the right candidate, a buyer or a seller, requires time and patience. A search for a target requires an extensive review of potential candidates before finding one that fits a company's strategic needs, whilst being fairly priced.

A company could identify potential acquisition targets by conducting internal analysis or using its own network. Some business owners would search openly for a buyer whilst others would identify potential candidates through:

- *examining the financial position of potential companies*. Financial problems such as cash shortages or excessive debt may indicate that a sale may be necessary; and
- *investigating the potential company's shareholding and management*. Indications of possible future sales include an owner nearing retirement with no heirs in key management positions, absentee owners, or financial investors potentially interested in an exit strategy.

Defining screening criteria

The criteria used for the screening process should be developed based on corporate objectives and may include:

(i) Strategic and financial criteria

- *affordability* – potential acquisition targets are reviewed in terms of market capitalisation, revenues, net assets value;
- *profitability* – i.e. targets' EBITDA/EBIT, net margin and free cashflow;

- *shareholding preferences* – i.e. determining the desired level of control over the target and defining a criteria for either a majority or a minority shareholding;

- *transaction structure preferences* – i.e. acquisition of shares against assets; and

- *management requirements* – i.e. taking into consideration leadership style, expertise, receptivity to change, compatibility of culture, and modality of management after the completion of the transaction.

(ii) Operational

- marketing criteria: product lines, customer base, brand reputation, geographic area, distribution channels;

- research & development requirements: e.g. licences, patents, research & development centres, product pipeline, research & development expenses; and

- production criteria, such as facilities, labour supply, production techniques and capacity.

Short-listed targets should be further screened to determine:

- their fit into the buyer's current business portfolio;

- their competitive position and future prospects; and

- the value they create for the buyer.

(iii) Collecting target data

Availability of target data in the UK is generally good. UK companies have to file publicly available financial statements on an annual basis. These must be audited wherever a company exceeds certain size limits. For listed or quoted companies, more regular reporting is required and information may be available from investment analyst coverage.

(iv) Prioritising targets

Buyers should prioritise potential targets according to the number of screening criteria the target companies fulfil. This is also an opportunity to establish under what circumstances the company would walk away from one target and move on to the next.

Prior to approaching the target company, additional research and information gathering should be conducted by a financial advisor to provide a more complete picture of the candidate. This would include information on ownership and management teams in the target companies, and include subjective elements such as family situations and succession plans (e.g. the willingness of children to take over the business). Very often, negotiation levers are identified during this process.

An experienced lead advisor will:

- assist in prioritising the targets;
- develop appropriate strategies and tactics to approach the targets;
- prepare appropriate Confidentiality and Exclusivity Agreements; and
- develop the right time frame for negotiations and due diligence.

(v) Synergy expectations

The synergies available can be significant and are often the reason for the acquisition. Synergies can be difficult to quantify and their capture is uncertain. It is therefore essential that they are considered carefully throughout the M&A process.

An initial part of due diligence is identifying potential synergy opportunities between targets and the buyer. Only targets that bring additional value to a company should be considered in an M&A exercise.

A synergy may be defined as the increase in performance of the combined company over what the two companies are already expected or required to accomplish as independent companies. Put simply, synergy is either the revenue enhancing or cost savings achieved by integrating.

Revenue enhancing synergies. A revenue enhancing synergy results in additional revenue above and beyond what the two companies are expected to accomplish independently. Revenue enhancements promote higher returns and facilitate long-term growth more than cost savings, but they tend to be difficult to quantify. Most initiatives that can enhance revenue can be grouped into:

- market expansion: Entering new markets and expanding market share;
- margin improvement , by implementing a better pricing strategy;
- asset utilisation: Enhanced performance through better and more efficient use of existing assets;
- investments: Better return on investment (ROI) on existing investments. For example, the acquiring company has an extensive IT infrastructure which the target company can also access; and
- products and services: Increasing product portfolios and service portfolios by creating better product mixes, or removing a potential substitution option.

Cost saving synergies. Cost saving synergies can generally be categorised into:

- duplication avoidance: Avoidance by consolidating functions on a centralised basis, i.e. shared services, or by combining similar expenditures, e.g. licenses;
- economies of scale: Increased purchasing power, e.g. improved pricing on contract services;
- expenditure avoidance: For instance, avoiding the expense of new distributor relationships or the duplication of existing capacities such as IT systems;
- operational efficiency: Increasing your control of processes, e.g. maintenance scheduling;
- practices adoption: Using technology from the target company, i.e. technology transfer;
- organisational streamlining: Reducing organisational layers and breadth, e.g. spans of control, substitution of external/internal sources; and
- performance realignment: Considering more efficient structures, e.g. centralising certain departments or outsourcing.

Figure 8. Synergy opportunities in various organisation functions and areas

Functions	Opportunities
Supply Chain Management	Reduce Cost of Goods Sold (COGS) through scale and consolidation efficiencies.
Information Technology	Reduce IT costs by consolidating systems.
Customer Relationship Management	Strengthen customer relationships with broader offerings and improved channel positioning.
Finance and Administration	Reduce Finance and Administrative costs by leveraging resources over larger business base.
Product Development	Create end-to-end product and service solutions.
Tax	Tax savings from transaction and resulting enterprise structure.
Human Capital	Reduce HR costs by integrating and streamlining HR processes.
Valuation	Constantly monitor and adjust valuation.
Corporate Real Estate	Realise both quick cost reductions and longer-term optimisation strategies when integrating the corporate real estates of both companies.

Identifying and reviewing synergy opportunities is critical to determining whether a candidate company should be further considered as an acquisition target. Selecting the appropriate target will enhance the performance of the buyer after integrating the entity.

6.3 Valuation

Determining the value of the target to the acquiring company is clearly a key part of the M&A process. The valuation should enable the buyer to avoid paying more than the target is worth.

(i) Financial modelling

Building a financial model is an essential step towards accurate valuation of the target. By going deep into the target's financials, buyers will be able to make well-informed decisions by assessing its real growth potential and associated risks.

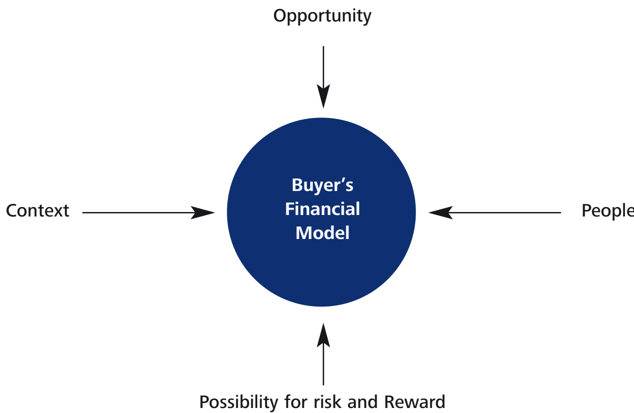
Buyers should compile three elements from the target financials: an income statement, a balance sheet and a cashflow statement with historical, current, and forecasted figures. Forecasted figures should cover at least five years and include three scenarios with different sets of assumptions:

- most likely;
- most pessimistic; and
- most optimistic.

All too often, people take a binary view, either they underestimate uncertainty or they overestimate it and go with their gut instinct. Building three different models (base, good and bad cases) will help to come up with reasonably satisfying forecasts by spreading the risks and adopting a disciplined method.

It is not easy to compose a great financial model. This is largely because the focus is often on inputting figures rather than appreciating the underlying factors. As seen in the diagram below, buyers have to challenge their financial model with at least four major factors that are critical to the success of every new venture: the people, the opportunity, the context, and the possibilities for both risks and rewards.

Figure 9. Four factors to challenge the buyer's financial model



Deriving forecasts when they are not available remains a hard exercise, particularly if the potential target is out of a company's core sector(s). To build a suitable financial model requires buyers to raise the necessary questions, make critical assumptions, and develop an in-depth understanding of the context in which the target operates, for example, is the market rapidly growing? Is the industry structurally active?

(ii) Valuation approaches

Three approaches are commonly used in the valuation of a company. The first approach uses the future cashflow of the company, the second examines market comparables, and the third analyses the balance sheet to arrive at a fair value of net assets. Combinations of these approaches may be used to obtain an appropriate range of fair market value.

Figure 10. Major valuation methodologies

Discounted cashflow Income approach	Market comparison	Net assets approach Balance sheet methods
• Discount rate • Growth rate • Terminal value • Margin improvement	• Price/earnings • Price/revenues • Price/net worth • Enterprise value/EBITDA • Enterprise value/EBIT	• Net book value • Adjusted book value • Liquidation value

The above valuation methodologies aim to determine the fair market value, although that sum may not represent the final transaction price. Valuation is an art. While the use of formulas in a valuation implies exactness, it is very difficult to set the worth of a company at a single figure.

To establish a market value, "hard" figures such as historical earnings, cashflow, assets and liabilities are used. But "soft" or subjective figures such as projected earnings, future cashflow, and the value of intangibles (e.g. patents, brands, expertise and leases at below-market rate) are also considered.

The "deal environment" may influence the final transaction price; factors such as the current market conditions, industry popularity, acquisition structure, tax attributes, and the objectives of the seller or buyer often have an impact on pricing.

Indeed, the final transaction price is largely influenced by the eagerness of the buyer to buy and the seller to sell, the demand and supply for targets, the form of consideration paid (e.g. shares, cash) and the negotiation skills of the parties.

6.4 Executing the deal: The diligence process

Having determined that M&A is consistent with the corporate strategy, identified and valued the target, the deal must then be executed. At this stage, identification of key issues within the target business can make the difference between a successful deal at the right price and an expensive failure.

Evaluating the target

It is critical for the company Directors to consider both the risks and rewards associated with a prospective acquisition. In broad terms the due diligence would seek to understand the underlying profitability of the business, the identification of potential liabilities and exposures, and any matters to be addressed in the integration of the target's operations into those of the acquirer.

The scope and depth of the review will depend on many factors, including the complexity, size and geographical spread of the target's operations. It is important that the due diligence is performed by professionals with a balance of financial and sector knowledge.

Due diligence would normally include a commercial review of the market and competitors, a detailed review of the historical financial performance of the business, a review of the target's tax affairs to identify potential exposures and tax compliance, and a robust review of the target's business plans. The due diligence would also cover an assessment of the target's financial reporting procedures and management capabilities. The negotiation of the sale and purchase agreement (SPA, see 6.4 'Finalising the transaction') is a critical part of the process – contractual provisions are built into the SPA to protect the acquirer from the impact of potential exposures identified as part of the due diligence process.

Investigating management

In recent years it has become commonplace for acquirers of UK companies to conduct background checks on the target and senior management (the Subjects) – frequently referred to as Integrity Due Diligence (IDD). These checks seek to identify information that can assist the acquirer both with better understanding the Subjects and identifying 'red flag' information that may be found on public records.

IDD checks on UK targets involve searches through a wealth of UK public record information. Companies House not only holds a company's filings (such as Financial Statements and Annual Returns), but also a list of those individuals who have been disqualified from holding UK directorships. A wealth of information is also held in media databases, which cover both specialist and national press, with some articles even dating back to the late 1980s. Litigation databases are also accessible and, whilst they don't cover criminal records (which are not a matter of public record in the UK), they do cover certain criminal cases heard by the Court of Appeal. Also available to the public are records covering insolvency or bankruptcy and civil debt judgements awarded against a company or individual by a County court.

Assessing the target's operations

In most cases the deal execution starts with an initial understanding of the target via an Information Memorandum (IM). However, the operational due diligence will provide a broader insight into the target's operations as it will allow the acquirer to compare the target's operational performance relative to its industry competitors.

Operational due diligence is increasingly being used by corporations and private equity firms to help identify operational risks and/or opportunities in a target. Typical operational risks might include separating a division from its parent company or the successful delivery of a planned operational restructuring/performance improvement initiative, which often support forecast EBIT growth (Earnings Before Interest and Tax). Operational opportunities identified during a due diligence typically include cost synergies from the post merger integration, or the identification of potential opportunities to deliver performance improvement/cost reduction within the target.

The target's operations are assessed for their ability to support the forecast assumptions that underpin the target's valuation: outputs, costs, quality, delivery, cost savings, management structure and capabilities. The diligence can then be refined and enhanced as access to the target and further information become available.

Considering pension costs

Many UK companies operate large staff pension plans which have built up substantial liabilities over the years. Assets are held by these pension plans in order to meet these liabilities. However, the amount of assets held is often insufficient, giving rise to a deficit in the pension plan. This is the legal responsibility of the sponsoring company.

Pension deficits and the contributions required to meet them are a big issue in UK transactions. A strong Pensions Regulator and the powers of the Trustees who run the pension plan mean negotiations with these additional parties are often required during a transaction to agree upon cash contributions or alternative security for the Trustees. Early consideration of pension issues in a UK transaction is important to avoid shocks later in the process.

Company accounting disclosures for pension plans in the UK appear full and informative. However, the mortality tables used are often out of date and other assumptions can be optimistic relative to the Trustees' viewpoint. High proportions of equity assets also mean the financial positions of plans are volatile. This means comprehensive pensions due diligence is an essential item in a UK transaction process.

6.5 Executing the deal

Deal structuring

A buyer should generally structure the transaction by taking into account the needs expressed by the seller as well as their own requirements. There are many ways to structure and specify terms for a transaction. Essential to formulating the optimal transaction structure, the buyer (with the assistance of a financial advisor) should:

- conduct a scenario analysis on different possible transactional structures;
- evaluate the financial impact on the company for each scenario; and
- identify and determine the appropriate deal structure.

A buyer can either buy the shares from existing shareholders or directly acquire the assets from the target company. Acquiring shares tends to be more popular than acquiring assets because:

- all shareholders of the acquired entity will share the risks of the merger;
- an asset acquisition may require consent from third parties not directly involved in the transaction; and
- tax considerations (see section 'Tax Structuring' below).

In addition to the financial structure of the deal, buyers may also consider management, assets, tax and financing issues, in order to structure the transaction in a way that suits all parties involved.

(i) Continuity in management

The continued employment of management is often subject to considerable negotiation. A buyer often considers the management team as a key asset in an acquisition, particularly if the buyer is a financial investor. Under such circumstances, employment agreements are often negotiated with key people, specifying terms, responsibilities, remuneration, and equity participation. Buyers should recognise that retaining existing management would provide continuity in business operations while slowing down cultural integration.

(ii) Consideration

The consideration a prospective buyer can offer may be in the form of cash, notes, stocks, shareholders loans, or a combination of the above. Since each form of consideration has different implications and liquidity, the transaction price may be subject to further negotiation depending on the form of consideration offered. The two most common forms of consideration are cash and stock. Figure 11 summarises the characteristics of each.

Figure 11. Key characteristics of cash and stock considerations

	Key characteristics
Cash	• A liquid financial instrument. • Simple exit for target shareholders. • Increases bid credibility and attractiveness. • Can be paid in instalments – but will create a collection risk and discount for time value of money.
Stock	• A less liquid financial instrument, particularly if the company's shares are not publicly traded, or is not liquid enough for a small cap stock. • A less liquid financial instrument, particularly if the company's shares are not publicly traded, or is not liquid enough for a small cap stock. • Increased complexity as there is a need to determine both the buyer's share value and the target's fair market value. • The seller will share benefits and risks of the transaction by: – assuming the risk that the buyer's shares are over-valued; – taking benefit of future synergies.

(iii) Contingent payouts
During price negotiations, points of view may diverge on business forecasts. The buyer may believe the growth rate will be lower than what the seller presents. Considering that the price might be based on forecasts provided by management, it is critical to make sure that the figures are as accurate and achievable as possible. One way to break the impasse may be a contingent payment agreement, where additional payments will be made only if the company meets certain pre-defined goals after the transaction is completed.

Before signing any Sales & Purchase Agreement, both parties should understand that there is a chance the deal may not happen for the following types of reasons:

- a potential candidate may receive a better offer after the exclusivity period ends;

- the shareholders of the target company may ask for a higher price; or

- findings from due diligence may reveal new issues or may not meet expectations.

There are many factors that may halt the M&A process. Whether a company will want to search and pursue another target will depend on a number of factors – strategic need, business conditions, morale of the M&A team, and time already spent.

Tax structuring
In any given M&A project, structuring the transaction in a tax efficient manner can add significant value. It is particularly important to ensure that tax advice is fully integrated into the wider deal process, for example to ensure that the planning is appropriately reflected in the deal documentation (e.g. sale and purchase agreement and financing documents).

The detailed structuring advice usually includes some or all of the following features:

- An analysis of which countries the target (and the buyer if the target is to be integrated into the buyer's wider group) is likely to be taxpaying over the next 3-5 years. This often involves building tax models (driven by forecast earnings – see 6.2 'Financial Modelling') to determine in which countries material amounts of tax would be paid (absent any planning), taking into account any tax attributes (and other issues) that may have been identified during the due diligence process. Depending on any given client's concerns, this should assist in forecasting the integrated group's effective tax rate, estimated cash taxes, future earnings per share.

- Advice on the tax implications of acquiring assets or shares (or a combination). This is an area where other considerations (egg legal, regulatory).

- Advice on holding company jurisdictions and minimising tax leakage, for example withholding tax mitigation on interest and dividends on repatriation of profits to the buyer (and onwards to its shareholders) and the impact on the buyer's own tax position in its home country (egg availability of double tax relief).

- Advice on integrating the target into any existing group (which often results in ideas for a post-acquisition 100 day plan), for example a review of the new group's transfer pricing policies, tax efficient supply chain management, cash pooling and group treasury functions, planning around intangible assets (egg intellectual property), effective tax consolidation, opportunities for tax credits (egg research & development credits available in many countries) and key compliance/tax risk management features of the new structure.

- Advice regarding financing the acquisition tax efficiently, including issuing stock as consideration to sellers and/or taking on third party acquisition debt. Where there are third party lenders, they sometimes require reports (common where the buyers are financial buyers) to satisfy themselves that the structure is tax efficient (egg effective tax relief for interest on acquisition debt) and that there are no restrictions to their debt being serviced.

- Mitigating acquisition costs, including VAT on transaction costs, tax deductibility of transaction costs, transfer taxes (shares & real estate) and capital duty.

- Anticipated exit strategies and sales of non-core businesses. Often, a client's strategy includes selling off non-core businesses in the target group in the months following an acquisition. Setting up an acquisition structure that is flexible to achieve a range of possible exit scenarios is a crucial part of the advice. Many European jurisdictions have tax exemptions for sales of subsidiaries in certain circumstances, so planning upfront can often result in non-core businesses being sold tax efficiently (often tax-free).

- On multi-jurisdictional transactions (egg for European groups), taking responsibility for integrating advice from tax advisers across multiple jurisdictions to ensure that the end product is complete and covers all of the areas necessary.

Overall, tax considerations must be integrated into other areas of the deal. For example, all of the above structuring has to be achievable within the legal framework of the jurisdictions involved, so ensuring that tax and legal advisers work closely together enables a complete and workable solution, as opposed to one that works for tax but which is not capable of being implemented for legal reasons.

Financing

(i) Optimising the target's finances

The level of investment that needs to be made in working capital for UK businesses varies tremendously between different sectors. This is driven by a combination of the nature of the product and its supply chain, the commercial norms in the sector, and the power balance between a business and its customers and suppliers.

Payment terms are part of the commercial arrangements between companies; although negotiations are often based on sector standards and practice as opposed to legislation. There is however legislation in place to claim interest on late payments with small businesses having the additional benefit of being able to challenge grossly unfair contract terms.

There are a number of payment methods employed, ranging from cash to electronic fund transfer. Direct debit payments have become widely used which give a higher level of assurance that payments will be made on time for the correct amount.

Larger businesses are increasingly using shared services or outsourcing to manage the administration of payables and receivables in their business. These operations tend to be situated offshore, although some are being moved back to the UK.

It is relatively common practice for companies to have a year end push on working capital to ensure that the reported numbers are looking as favourable as possible. This will typically involve chasing customer payments through phone calls and delaying supplier payments until the following month.

(ii) Raising debt to finance the deal

The banking market in the UK is large and well developed. The most dominant participants in lending to businesses are generally banks which have a large high-street presence and a strong retail deposit base.

Corporate banking departments provide companies with the full range of banking services and are relationship led. Many banks have dedicated acquisition finance functions which support the active private equity industry, providing debt finance for leveraged buy-outs. In larger transactions, debt finance will be led by an arranging bank or banks that will subsequently syndicate the debt to a group of participating banks. The UK financial markets are amongst the most sophisticated in the world. As such, they support the issuance and secondary trading of a wide variety of debt instruments, in addition to traditional bank debt such as bonds, convertible bonds, private placements and interest rate and foreign currency hedging instruments.

Negotiations and the role of the lead advisor

The lead advisor plays a key role in the negotiation process. In addition to managing the many professional advisors involved, including legal advisors, accountants, tax advisors and valuers, the advisor provides negotiation support throughout the deal execution. In supporting the buyer, an experienced lead advisor will generally help to understand and evaluate risks, advise on deal structuring techniques as a competitive advantage, consider the maximum purchase price that can be paid for the target, and compare the premium with the expected value creation to maximise shareholder value.

During negotiations, the lead advisor generally should support a buyer by:

- developing the initial strategy to be applied to kick off the negotiation process;
- mapping the sequence of steps to be used in the negotiations;
- advising on the transaction details proposed and counter-proposed;
- developing responses to counter-offers made by counter-parties.

Finalising the transaction

Often a business that is for sale will be auctioned; a process whereby the investment banks will solicit interest from prospective buyers. Bidders will be asked to give an indicative (non binding) price based on limited information. And, if their price and ability to deliver the transaction are acceptable, they will be allowed through to a later round in the auction with a smaller number of participants. It is important to specify your assumptions in these offer letters, for example, "this price assumes that the business is trading in line with budget", as any subsequent downward changes in the price you offer may need to be explained and justified if you are to win the auction.

If you are the successful bidder, the sale and purchase agreement will set out the mechanism for finalising the price payable for the business. Often this is only determined after completion, by reference to a balance sheet at that date. The definitions of the items that are to be included in the calculation (such as cash, debt and working capital) and the accounting policies to be applied in their valuation can have a significant impact on the final price. Hence this area needs to be approached with particular care.

6.6 Post deal integration

Having concluded the transaction, integrating the target ensures that the value envisaged throughout the process is actually realised. Failure to integrate acquired businesses is one of the most common reasons for failed acquisitions.

Integration planning and strategy

The integration and reorganisation aspect of the M&A process is often the longest and the most challenging. Studies show that about 85 per cent of mergers do not realise value as expected due to integration problems. M&A surveys conducted by Deloitte found the following:

- synergies are not achieved in 60 per cent of cases;
- only 23 per cent earn their cost of capital;
- 47 per cent of executives leave in the first year of integration; 75 per cent leave by the third year;
- productivity in the first four to eight months is generally reduced by 50 per cent; and
- when value is not created, poor integration is to blame in 70 per cent of cases.

Realising the value of an M&A deal will depend on how the buyer addresses and mitigates integration risk factors, and how the buyer manages an extremely complex integration project.

The importance of integration

Merger integration and reorganisation is a complex exercise. It entails change in all functions, simultaneously, with inter-dependencies that have to be managed day-to-day in an environment where people are anxious about their futures. Integration generally involves though is not limited to:

- strategy and organisational consolidation;
- business process standardisation;
- human resources integration; and
- information technology infrastructure integration.

When integrating two business organisations, the merged entity needs to ask a number of organisational and operational questions:

- What is the best structure for the new entity?
- What can be done to facilitate a fast and successful integration?
- How can a company ensure a successful Day One operation?
- How can a company identify and capture merger benefits?
- How should the changes within the organisation be managed?
- What can be done to minimise potential conflicts among locations during the integration?
- How should processes be redesigned to capture integration benefits and support IT implementation?
- How will products and infrastructure be integrated?
- Do people have the skills and capabilities required to perform in the new organisation?

An important determinant of merger success is the ability to develop and execute an integration plan that addresses these issues.

Figure 12. Types of integration approaches

Integration approach	Status quo	Take-over/Reverse take-over	Best of both
	Merger or acquisition with minimal integration, perhaps only for financial reporting purposes.	Outright acquisition and integration of target into buyer.	Merger or acquisition focused on integrating the best people, processes, products/services, and technology of both companies.
Level of integration	Low.	Medium.	High.
Level of synergy potential	Low.	Medium.	High.
Level of risk to be managed	Medium.	High.	High.
Pros	Fast and limits debate. Strengths of both organisations are retained. Minimal interruption to each business. Limited resources required for integration.	May be able to incorporate a significant portion of the strengths of the acquired. Effective at capturing near-term synergies. Effective at gaining upside.	Combined company benefits and supports consensus building. Allows identity of acquired company to remain visible in the new company. Generates feeling of worth among acquired employees. Maximises synergy retention.
Cons	Limits cost synergy capture. Limits interchange of culture and skills. Requires coordination processes for overlapping, market-facing areas. Worst practices of both companies are retained. Limits potential for revenue synergy.	Potential risk in losing acquired capabilities and customers. Potentially alienates acquired employees and reduces productivity.	Time-intensive. Must make key integration decisions quickly. Risk of choosing lowest common denominator rather than best practices. Best from both can be hard to define: ‘Best’ accounting system may not work with the ‘best’ billing system which may not work with the ‘best’ customer management system.

Capturing synergies

Synergy capture should preferably be analysed early in the integration process to build momentum and credibility amongst employees, investors and analysts. A ‘prioritisation exercise’ should be performed with the initial focus on the high-end, quick-hit projects because these generate the greatest momentum. For each individual, synergy-capturing project, the integration team should develop a plan with detailed tasks, milestones, dates and accountability so that expected results can be monitored and achieved.

Talent retention

(i) Understanding the people issues

Buying a business brings many challenges from a people perspective. These vary from understanding the pay, benefits and grading structure of the target business, to integrating the new people.

During the transaction process, it is essential that employees of both target and acquirer feel they are being kept informed. Regular communication from management is important, which can be done by written or web-based materials, and/or employee presentations.

It is important to consider the structure of the new business from a people perspective, both in terms of organisation and structure, and also where people will fit and what their rewards will be. This will help to retain and 'lock in' key people, ensuring they are motivated and aligned to the goals of the new organisation. If this is not done successfully, then the business risks losing its key staff and thereby potentially risks losing its ability to deliver the anticipated benefits of the acquisition.

The execution of successful HR policies does not end at the date of the transaction; they should be regularly reviewed to ensure that the new arrangements are supporting the organisation to help to deliver business performance.

(ii) Retaining key talent

Key talent from the target must be identified in the early stages of the M&A process, preferably during due diligence or as soon as possible after the signing of the Term Sheet. It is customary to request the target to have agreements in place to retain key talent for a defined period, typically for at least six months to one year. A broader use of retention incentives can also be applied, and may take the form of individual incentives based on individual talent and attrition risk, or a group incentive linked to performance to support the integration effort.

(iii) Redundancy and severance

With any integration, inevitably there will be redundancies in the organisation. These redundancies need to be handled with care, as it is an extremely sensitive topic. Assessments should be conducted to ensure the right people are retained, and a programme should be in place to provide new opportunities for redundant staff. For staff who are made redundant, appropriate severance packages must be provided in accordance with local regulations. It is often invaluable to compile a headcount baseline on closure of the deal to understand who is in the business and which function is responsible for them, and against which to track changes throughout the integration.

Financial planning and design

(i) Finance and administration integration

In a merger, the finance function creates value by partnering with business units and provides leadership throughout the process so that the new organisation can realise value. The challenge is in capturing the benefits from integration without negatively impacting financial performance. Integrating finance functions could involve redesigning and/or integrating processes, implementing shared services, and building a strategic platform of new processes.

(ii) Engaging external service providers

It is beneficial when implementing shared services or engaging in business process re-engineering to engage external service providers for assistance. Establishing shared services centres and re-engineering processes is complex and time consuming, and requires a significant amount of resources and skills. As the process involves changing the way employees currently perform their duties, external service provides can bring objectivity to the project. They serve as a temporary resource and their experience in local requirements and culture, their proprietary tools and knowledge base are valuable.

Communicating the deal

Different messages are required for different stakeholders of the acquirer and target organisation. By developing separate messages and delivery formats (e.g. open forum meeting, official letter, memo, e-mail, newsletter and media), effective communications can be achieved. Key stakeholders of the acquirer and the target company may include:

- customers;
- internal staff;
- sales prospects;
- alliance partners and service providers
- business forums and media; and
- regulatory bodies.

Critical success factors in your communications strategy are:

Communicate early and often. It is nearly impossible to over-communicate during a merger or acquisition. Constant communication – even it if is a repetition of the same message – prevents uncertainty.

Communicate openly and honestly. Tell employees as much as possible, even if it means saying, "I don't know" or "We are still looking into that".

Communicate consistently, both internally and externally. Employees will compare notes. Make sure that everyone is receiving the same message to create trust. Employees will also listen to the media. Public messages should not be different from internal messages. This means delivering the tough messages to the staff at the same time as the "good" messages to shareholders.

Communicate proactively. Telling people that things are not changing is still valuable communication. It is important to deliver the right message to employees.

Communicate face-to-face. Employees are more open and receptive to face-to-face communication. Face- to-face communication provides the opportunity for immediate feedback from employees which can be used to tailor future messages. This also sets the tone for how important the integration is to senior management.

Performance culture

Communications and culture are two intrinsically linked issues and as such, they need to be managed together. Addressing the communications needs of employees through each phase of the integration from the onset of the official merger announcement can help address potential culture issues and humanise the merger. Poor attention to communications and insufficient focus on addressing culture can be very damaging to the integration.

Figure 13. Examples of merger issues

Issue	Merger integration results
Management disagree over control and differences between culture deemed too difficult to effectively overcome.	Deal cancelled.
Cash over culture and management control.	Divestiture of the acquired company.
Stiff imposition of management control over the acquired company and integrating new multinational workforce with distinct cultures.	Departure of key managers.

Communications is one of the most difficult aspects of merger integration and especially so where the integration is cross border. The organisations' management styles, culture, priorities and mindsets may differ significantly and management decisions may not be communicated across an organisation.

Designing a change management and communications strategy that takes into consideration the culture of the target company is important in an M&A exercise. A well-developed strategy will help minimise the integration risk while creating an adaptive operating style for the long term.

There are four steps to gaining an understanding of the culture of the acquired organisation and developing a plan to address it:

(i) Understand the target's current operating style. This can be achieved by administering a culture diagnosis with leadership involvement, conducting interviews and analysing results.

(ii) Determine the future operating style of the merged organisation. It is beneficial for senior management in the merged organisation to conduct an end-state workshop to identify long-term strategic cultural and business objectives, and conduct an operating gap assessment.

(iii) Develop a plan to narrow the gap. A change management plan that involves communications and initiatives should be developed to ensure that key objectives and the intended culture can be obtained. The new organisation should select leaders, who may or may not be managers, who are influential within the organisation and obtain their 'buy-in' to kick start the culture and strategy alignment process.

(iv) Implement solutions and monitor progress. Before commencing operations integration, it is helpful to communicate the vision and strategy of the new organisation, according to the change management plan, to all employees. Broadly communicating the changes taking place will help to alleviate concerns and set appropriate expectations. It also ensures that all levels of the organisation get the same unfiltered message.

How Can Deloitte Help?

M&A offers significant opportunities, but clearly there are risks associated with every deal. The key is to plan thoroughly and execute effectively. Few organisations possess all the skills necessary to ensure best practice in every transaction, but even those that do, usually take independent advice to get a second opinion.

Deloitte offers the broadest range of services in M&A, from origination to integration. Our specialist teams offer deep functional expertise combined with broad sector experience, and our global network offers the coverage even the most ambitious buyer might seek. No matter whether you are thinking or buying or selling, borrowing or lending, expanding or contracting, we are well placed to advise.

7. Accounting and auditing: Openness for business

This chapter gives a general summary of UK accounting and auditing requirements, and also deals with some frequently asked questions (FAQs).

7.1 Overview

It is considered best practice for a new business to keep detailed records of all the transactions it enters into. For a company, this is a legal requirement, and, with the exception of certain unlimited companies, some form of public filing of this information is required.

For any company other than the very smallest, this information is required in a standard form, as set out in the Companies Act 1985 ('the Act'), and these accounts must be audited.

An audit is carried out by firms of Chartered Accountants, who are authorised to carry out such work. Their aim is to provide an opinion on the “truth and fairness” of the accounts, and also an opinion on whether they comply with the Act.

7.2 Reporting requirements

The format and content of a company’s annual financial statements (often called annual accounts in the UK) are governed both by the Companies Act 1985 and by either International Financial Reporting Standards (‘IFRS’) or UK Financial Reporting Standards (FRS) (formerly called Statements of Standard Accounting Practice – SSAPs). A company can choose whether to adopt IFRS or UK FRS (unless it is listed, in which case IFRS are mandatory).

UK accounting standards are broadly consistent with international accounting standards, although there are some differences. The Stock Exchange has had only an indirect influence on accounting practices, its main interest being the extent of the information to be disclosed. Tax law has not affected accounting principles or financial statement presentation in the way that it has in some other countries.

Financial statements must be submitted to the shareholders in a general meeting and filed with the Companies Registry within, typically, ten months following the end of the company’s financial year; companies with interests abroad are allowed a further three months on application.

The Act permits two alternative balance sheet formats, vertical and horizontal, both of which must provide the same information. Four profit and loss account (income statement) formats are allowed; formats 1 and 3 show expenses by function, and formats 2 and 4 by type of expenditure. Formats 1 and 2 are vertical, and formats 3 and 4 horizontal. Most balance sheets and profit and loss accounts are prepared in vertical format.

Much of the detail that is required can be relegated to notes accompanying the financial statements, but certain specified items must be shown on the face of the balance sheet or profit and loss account, as appropriate.

Major classifications of a company's business, such as activities in different industry sectors or geographic areas, must normally be distinguished to show their contributions to turnover and profitability. Specified transactions with related parties must be disclosed. A cash flow statement is required showing the company's inflows and outflows of cash.

Financial statements must be accompanied by a directors' report commenting on the company's activities, its results, and likely future developments, as well as giving additional details required by the Act, such as a discussion of the risks the company faces in carrying on its activities.

The accounting policies adopted must be described in the notes to the financial statements; these policies should comply with IFRS/UK FRS. In the unlikely event of significant departures being made from applicable standards, these must be disclosed and explained and their effects quantified. The effects of any change in the basis of accounting must also be disclosed in the financial statements and notes.

Specialised enterprises such as insurance companies, banks, and other financial institutions are subject to particular requirements. Small or medium-sized companies are allowed to omit some detail in the financial statements they are required to file with the Companies Registry. Financial statements can be prepared in currencies other than pounds sterling if this is appropriate.

If a company has subsidiaries, group financial statements, in the form of consolidated accounts, must be prepared, unless:

(i) the company is itself a parent company of a group that is defined by the Act as a small or medium-sized group. This exemption, however, is subject to a number of conditions; or

(ii) the company is itself a subsidiary of an immediate parent established under the law of an EU member state; and

  (a) the company is a wholly owned subsidiary of that parent; or

  (b) that parent holds more than 50% of the company's shares and the minority shareholders have not requested the preparation of group financial statements.

The main difference between the accounting practices of a public listed company and a private company is the extent of the disclosure required to be given by a listed company, particularly of the disclosure of its Corporate Governance and Directors' Remuneration. Such disclosure is governed by Stock Exchange rules, as well as the Companies Act.

7.3 Accounting principles and standards

The fundamental Companies Act requirement in the UK is that every company's financial statements must give a true and fair view of its financial position and must comply with the provisions of the Act. There are no detailed guidelines as to what constitutes a true and fair view, and commercial and professional judgement has to be applied within the bounds of the Companies Act and IFRS/UK FRS and SSAPs. Financial statements must be prepared on a consistent basis and with prudence, on the assumption that the company's business can continue as a going concern (unless it is inappropriate to make this assumption). Assets and liabilities must not be offset against each other, and the accruals basis must be used.

The financial statements sent to the tax authorities are the same as those prepared for the shareholders or other proprietors, but they have attached to them a reconciliation of the published profit with the profit assessable for tax purposes.

7.4 Audit requirements and standards

Typically, at the first meeting of the Board of Directors, a firm of auditors will be appointed. The auditors actually report to the shareholders of the company, and, therefore, this appointment will require re-confirmation for each subsequent year by the shareholders at the Annual General Meeting (unless they have waived the right to do so).

The auditor's role is prescribed, by statute, as being to give an opinion on:

- the truth and fairness of the financial statements;
- whether the financial statements comply with the Companies Act;
- whether the Directors' Report is consistent with the accounts;

In addition, the auditors are also obliged to report to the shareholders if, in their opinion:

- proper accounting records have not been kept by the company (including branches);
- the financial statements do not agree to the accounting records;
- they have failed to obtain all the information they believe is necessary to do their work.

Audit procedures are established by firms individually, following guidance from the Accounting Bodies and Company Law, supported by Auditing Standards. Auditors commonly devise tests to assess the integrity of a company's system of internal control before making further tests upon the financial statements under review. Statistical sampling, circularisation, the use of computer test packs and physical inspection are just some of the procedures commonly used.

How can Deloitte help?
Deloitte is a pre-eminent firm of chartered accountants, who can assist in this area in a number of ways, including:

- acting as auditors;
- advising on accounting procedures;
- assisting with selection of accounting software;
- ensuring the financial statements comply with relevant legal and accounting regulation.

7.5 Frequently asked questions

What type of organisations must be audited?

Any organisations can be audited if the shareholders or owners so desire, but there is a legal requirement at present for the financial statements of limited liability companies and unlimited companies to be audited. This legislation is prescribed within the Companies Act. However, for most companies with a turnover below £5,600,000 there is no requirement for an audit.

A UK branch of a company incorporated outside Great Britain, has no UK audit requirement but is required to deliver to the Registrar of Companies, a copy of all the published accounting documents of its parent company, which are disclosed in accordance with the law where its parent company is located.

For tax purposes, HM Revenue and Customs usually relies on the professional integrity of the company's auditors, who often also act in the capacity of tax advisers. Wide powers are, however, given to HM Revenue and Customs to seek information on which to base its taxation assessments.

How is the audit fee calculated?

Audit fees are based on time spent at rates which reflect the expertise of the professionals involved. The charge rate per hour is set by each professional firm which then seeks to recover this from its client.

The time taken to conduct an audit is both a reflection of the standard of the company's systems of internal control and accounting efficiency as well as its size. The auditors should not, in general, be expected to generate the information on which they are to express their opinion. It is this dual role which frequently leads to misunderstanding, therefore the terms of the engagement should always be agreed in advance.

What sort of audit procedures are used? What is the timing and how should the company prepare for the audit?
The company should always decide on its own timetable for the production of audited financial statements, although there are time limits prescribed by the Companies Act. The practicality of the timetable can be determined by discussion between the company and the auditor in order to produce a cost-effective and efficient product. Information that the auditor needs in order to express his opinion has to be produced by the company and the timetable should allow for this. The accounting policies and procedures necessary to implement them need to be agreed at an early stage and all problems should be addressed by an executive with the appropriate level of authority within each organisation.

What is the time schedule of the first year for appointment of auditors, audit, directors' meeting, Annual General Meeting and filing of financial statements?
The first meeting of the Board of Directors of the company should be held as soon as possible after incorporation and should seek to determine the following:

- changes of director and secretary;
- transfer of subscriber shares;
- allotment of further shares;
- appointment of auditors;
- appointment of bankers and the authority to run bank accounts;
- appointment of a managing director and chairman (optional);
- change of registered office, if needed;
- issue of share certificates.

Within nine months from incorporation, the company must select an accounting reference date and file written notification (Form 224). The first financial statements must be for a period of not less than six months and not more than 18 months from the date of incorporation to the accounting reference date.

The first Annual General Meeting (AGM), at which the directors must produce copies of the annual accounts together with the auditors' report and directors' report, should be held within 18 months of incorporation. Members of a private company may, however, elect not to produce the accounts and reports at that meeting. Where this election is made, every member must be sent a copy of the accounts and reports not less than 28 days before the end of the 10 months after the last day of the relevant accounting reference period, together with a notice informing the member of his right to require the production of accounts and reports before a general meeting.

An Annual Return has to be filed within 12 months of the date of incorporation and thereafter annually on the anniversary of incorporation. This filing date can be moved to the end of the relevant month.

Financial statements must be filed for private companies within 10 months of the accounting reference date.

If the company reports to one of the regulatory bodies, it may be required to submit audited financial statements together with other information, usually within three months of the accounting reference date.

Must all the company's financial statements be filed?

The set of financial statements to be filed must normally include:

- directors' report;
- statement of directors' responsibilities;
- balance sheet;
- profit and loss account;
- notes to the financial statements;
- cash flow statement;
- notes to the cash flow statement.

The balance sheet must be signed by a director to confirm the approval of the financial statements by the board.

The Companies Act does allow companies which are defined as 'small' or 'medium-sized' to file modified financial statements which are different from those produced for shareholders. The qualifying conditions for this are that a company in a year does not exceed two or more of the following criteria:

	Small	Medium-sized
Turnover	£5,600,000	£22,800,000
Total assets	£2,800,000	£11,400,000
Average number of employees	50	250

Small companies need not file profit and loss accounts or directors' reports and are permitted to condense their balance sheets and supporting notes. Medium-sized companies need not file details of turnover, cost of sales or other operating income, or analyse turnover, cost of sales or other operating income, or analyse turnover and profits by activity and geographical area.

Every company must send copies of its annual financial statements to all its shareholders.

What are the bases upon which the company's financial statements are drawn up?
The Companies Act establishes the format for reporting financial information. The Act enshrines the concept of accruals, consistency, prudence, going concern and the separate evaluation of individual items but with the overriding requirement that they show a true and fair view.

Every company is required to maintain proper books and records to safeguard the assets and reflect accurately the liabilities, as well as to record income and expenditure. Such records should disclose with reasonable accuracy, at any time, the financial position of the company at that time.

The directors of the company are responsible for the financial statements and remain so, even if they have employed a third party to prepare or assist in the preparation of the financial statements.

Companies are also expected to comply with IFRS or UK SSAPs and FRS as appropriate, which are issued by the professional accounting bodies from time to time. This can be a complex area and professional advice should be sought in conditions of uncertainty.

Are there major differences between generally accepted accounting principles in the UK and other countries?
The answer in brief must be yes. There is a requirement for group consolidations. Accounting for exchange translation and deferred taxation are certainly areas of difference. It is acceptable in the UK to revalue certain assets wholly or in part.

Accounting Standards around the world are not the same and early discussion with financial advisers is urged so that the specific differences of any particular company can be highlighted and discussed.

Can the audit firm I choose help me set up an accounting system, give me tax and management consulting advice, and generally guide me on my business matters?
Yes, it can assist in these ways, provided that professional independence is maintained. At first, a foreign company may need technical assistance or more general advice. Deloitte can offer specific assistance on the establishment of the accounting and reporting systems, advice on computer systems, training assistance and temporary loan of staff. A company should, of course, seek to increase in size sufficiently to run these systems on its own, as quickly as possible.

8. Taxation

8.1 Overview of UK taxation

The UK corporation tax rate at a maximum of 28%, recently decreased from 30%, is one of the lowest of the major economies in Europe. Value Added Tax (VAT) at 17.5% (temporarily reduced to 15% in 2009) is also at the lower end of the European scale and a wider range of transactions are not chargeable to VAT than is the case in most other European countries.

There are no local income taxes in the UK. The only local taxation on businesses is a property-based levy known as the "business rate".

8.2 Personal tax

Introduction

The residence status and domicile of an individual will affect the extent to which his/her income is taxable in the UK. Certain tax breaks are available to temporary residents and to individuals who retain their long-term permanent home or "domicile" outside the UK.

Unlike most other countries in the world, the UK tax year runs from 6 April until the following 5 April. Each individual, regardless of his/her marital status, is chargeable to tax on his/her own income, except that the income of a child under 18 may be treated as the parents'.

1. Will I be regarded as resident, ordinarily resident and domiciled? What are the differences?

Residence

There is no statutory definition of residence for tax purposes, and the expression takes its ordinary meaning. If you come to the UK for an extended period, you may become UK resident for tax purposes. It is important to realise that under UK law, you may be resident in the UK even if you are also resident in another country, and if you are just visiting the UK regularly rather than establishing your home here.

Your taxation position also depends on whether or not you are "ordinarily resident" in the UK. Again, there is no statutory definition. It is taken as meaning residence as part of an individual's regular, habitual mode of life at a particular place, despite absences. HMRC guidance tends to conclude that an individual is ordinarily resident if he intends to reside for three years or more at a particular place, or acquires living accommodation on that basis. More recently, more emphasis has been placed on the individual's "lifestyle" in the UK. For example, have you purchased property in the UK, have your family accompanied you on your trip to the UK, how do your ties and connections compare to those outside of the UK?

Coming to live in the UK

(a) For less than two years

If you come to live in the UK for a period expected to be less than two years, do not acquire a property (see below) and your "lifestyle" in the UK sufficiently demonstrates you do not plan to be in the UK for a longer period, you are likely to be taxed as resident but not ordinarily resident for the entire year if you spend 183 days or more in the UK in that year. If you spend less than 183 days, you will be taxed as non-resident. Under recent tax changes, in counting the days spent in the UK, days of arrival are only counted if you remain in the UK at midnight (unless you are in airline transit). Days of departure can be ignored.

(b) For between two and three years

If you come to live in the UK for between two and three years, you do not buy a house or lease one for three years or more and your "lifestyle" in the UK sufficiently demonstrates you do not plan to be in the UK for a longer period, you will be taxed as resident but not ordinarily resident from the day you arrive until the day you leave. Living in the UK presupposes that your base or home is here and that you spend on average at least 91 days per annum in the UK over four tax years.

(c) For three years or more (or you come to live here and buy a house or rent for three years or more)

You are resident and ordinarily resident from the date of arrival to the date of departure. If you originally came for less than three years, but you subsequently decide to stay for longer than that, HMRC practice treats you as resident and ordinarily resident from the beginning of the tax year in which your intention changes. If you have no fixed intention you are likely to be taxed as resident and ordinarily resident from the beginning of the tax year in which the third anniversary of your arrival falls. If you originally intended to stay for three years but subsequently left within three years you may be treated as retrospectively resident but not ordinarily resident in the UK.

Visiting the UK (but not coming to live here)

(a) For less than 183 days in the tax year (visits are not part of regular visits extending into other years)

You will not be resident if you spend less than 183 days in the UK in the tax year. In counting the days spent in the UK, days of arrival are only counted if you remain in the UK at midnight (unless you are in airline transit). Days of departure can be ignored. Similarly, you can ignore days where you arrive and leave the UK on the same day. If you are someone who comes to the UK on a regular basis and have a settled lifestyle pattern connecting you to the UK, you are likely to be resident here.

(b) Regular visits for less than 91 days average or more over four or more tax years

Generally, you will be taxed as resident and ordinarily resident throughout the tax year if you have spent 91 days or more on average in the UK over the previous four tax years and visits continue in the fifth year. If you come to the UK with the intention of making average visits in excess of 91 days over four years, or that becomes your intention, you are resident from the beginning of the tax year of arrival or in which that becomes your intention. In counting the days spent in the UK, days of arrival are only counted if you remain in the UK at midnight (unless you are in transit). Days of departure can be ignored.

Lifestyle in the UK
It is important to note that going forward, your intentions on arrival into the UK will have less bearing on your residency position in the UK. A recent tribunal case casts doubt on recently updated HM Revenue & Customs guidance, creating both opportunities and risks for assignees. For assignees to be accepted as not ordinarily resident without risk of challenge it is no longer enough to have an unsupported intention of remaining for no more than 2-3 years on arrival. A more careful assessment is required of whether you are habitually and normally resident in the UK and this will be considered on a case by case basis.

Domicile
Your domicile is the country where you have your permanent home to which you ultimately intend to return. It is the country with which you have the closest personal, family, social and economic ties, the country where would choose to live if work, business or other circumstances did not require you to live elsewhere for the time being, and the country in which you have realistic plans to settle permanently in the future, e.g. on retirement. You can only have one domicile at any given time.

Domicile is distinct from nationality, citizenship and residence. If you are domiciled outside the UK and come to the UK for some defined purpose – for example on assignment – you will normally remain domiciled outside the UK if you will leave the UK. You will only become UK domiciled if you intend to live here indefinitely and do not intend to return to your previous country of domicile.

Deemed domicile for IHT
Deemed domicile is a concept which only applies for inheritance tax (IHT) purposes. If you have been resident in the UK in 17 out of 20 tax years you will be deemed to be domiciled in the UK for IHT purposes, even though you might be accepted as being non-UK domiciled for other taxes.

In calculating the number of tax years for this purpose, a part year of residence counts as a year.

Significance of residence, ordinary residence and domicile
(a) Resident, ordinarily resident but not domiciled in the UK
If you are resident, ordinarily resident but not domiciled in the UK, your worldwide earnings are taxable on receipt, unless the earnings are "chargeable overseas earnings" and you claim the remittance basis. These are earnings for duties performed wholly outside the UK from an employer who is not resident in the UK. Such earnings are only taxable to the extent that they are paid or received in the UK (provided you claim the remittance basis). Otherwise they are taxed in the same way as your UK earnings.

(b) Resident but not ordinarily resident in the UK
If you are not ordinarily resident in the UK and you received UK-based earnings, that is, earnings in respect of duties carried out in the UK, the full amount of those earnings will be taxed in the UK. Should you decide to claim the remittance basis, earnings received for duties performed outside the UK are taxed only to the extent that they are paid or received in the UK, even where you do not have a separate employment contract for non-UK duties. (See below). Therefore if your employment income involves both UK and non-UK duties, the total earnings must be split into UK-based and foreign earnings. The split is generally based on the number of days worked in the UK and abroad over the tax year.

It is recommended that employment income is paid into a non-UK bank account that is registered in your sole name and denominated in sterling. To avoid difficulties in identifying which income has been remitted, no other income or gains should be paid into this account.

2. If I travel outside the UK for a number of days each year, do I still need to pay UK income taxes on all my earnings in that year?

If you are not domiciled in the UK claiming the remittance basis in the UK, and are employed by a non-resident employer, payment for duties carried out outside the UK will not be taxable here, unless remitted to the UK, if either:

- you are not ordinarily resident in the UK, or:

- you have a separate employment exclusively for non-UK duties.

3. What should I do before I leave for the UK?

The following points should be considered before you come to the UK as it is easier to set up appropriate structures whilst you are still non UK resident. The extent to which it is necessary to create offshore structures will depend upon the nature of your assets, how long you intend to remain in the UK and your need to remit funds to the UK whilst you are here:

- It is important to set up bank accounts to hold income that arises after you become UK resident and the proceeds of disposals of capital assets made after you become UK resident. As a minimum, you should open a separate bank account outside the UK to receive income on any non-UK investments you own, as this income will not be taxable in the UK unless it is remitted here. This assumes you will claim the remittance basis of taxation. Similarly, a separate bank account should be opened outside the UK to receive the proceeds of any non-UK investments you sell, as gains on these investments will also not be taxed here if not remitted (where the remittance basis is claimed).

- Owing to the complexity of the remittance rules, it is helpful to have a separate non-UK employment income account, if you are resident but not ordinarily resident and perform employment duties abroad.

- In general, income and gains arising before you become UK resident are not taxable in the UK even if you remit them to the UK.

- There is no rebasing of the value of your assets for capital gains tax purposes when you become UK resident. You should consider triggering gains on any assets standing at a gain in the tax year before you come to the UK.

- Non-UK resident trusts can provide valuable capital gains tax and inheritance tax protection for non-UK domiciled settlors and beneficiaries. They are most effective if they can be created before the start of the tax year in which you arrive in the UK.

To comply with immigration rules, you should obtain a UK work permit and immigration permission

(e.g. entry clearance) prior to your arrival, as you are not allowed to be employed here without a permit. Please refer to the Immigration Section for further details.

You should also consider the following questions regarding your UK income tax position:

- Will I be resident in the UK? If so, will I be ordinarily resident?

- What is my intention and how "settled" am I in the UK? If you are planning to buy a house or rent for three or more years, have you considered the residence implications?

This all needs to be considered in the light of any tax liabilities that might be triggered in your current country of residence.

These are complex areas and careful implementation is required to ensure that any planning undertaken will be effective. You are recommended to seek appropriate professional advice before you come to the UK so as to structure your affairs to minimise your UK tax burden.

4. What procedures do I need to follow after I arrive in the UK?

You or your employer will be asked to notify HM Revenue & Customs (HMRC) of your arrival, and you should complete the arrival document, Form P86 (except for the questions on domicile). You will also be required to complete Form P46 Expat to ensure you are correctly set up for self-assessment purposes in the UK. Your employer will receive a penalty if this document is not completed. This should be submitted to HMRC as soon as possible.

Your spouse's tax affairs are separate from your own and so they may be asked to complete a similar form in his/her own right (although usually the UK tax authorities do not require spouses who have no income of their own to file a return). Where your spouse has independent income or gains liable to UK tax, they are under an obligation to file tax returns to HMRC.

You should register with HMRC and obtain a National Insurance Number. If you are employed by a non-resident company and are not regarded as ordinarily resident in the UK, you may be exempt from paying the UK National Insurance contributions for the first 52 weeks of your stay in the UK. In this case, your employer will also be exempt from paying employer's contributions.

5. How do I pay UK income tax?

Employees and directors normally pay most of their income tax and social security liabilities by deduction at source from their salaries. This way of paying tax is called Pay As You Earn, usually shortened to PAYE. Your employer must calculate tax and national insurance contributions according to instructions received from the UK tax authorities and deduct them from your salaries. (If you have no UK employer, you may find this role falls on the person you work for in the UK.) The PAYE employer must then account for these amounts to HMRC each month. There are penalties for employers who fail to operate PAYE correctly.

It may be administratively worthwhile for your employer to adopt a Modified PAYE/NIC system. This offers a relaxation from some of the normal PAYE/NIC rules for expatriate employees paid on a net of tax basis (i.e. the employer bears the tax by gross-up). Recognising the complexity of expatriate remuneration packages and the difficulty of collecting information about remuneration delivered outside the UK, codes are dispensed with and PAYE/NIC is operated on an estimated basis. Any under or overpayments are dealt with through the employee's tax return. The application and arrangement for the Modified PAYE/NIC system can be complicated and require appropriate professional support.

6. What is the time schedule for the filing of tax returns following my arrival in the UK?
If you decide to fill in a paper tax return this needs to be filed with HMRC by 31 October following the end of the tax year. If you decide to register and file electronically/online the filing deadline is 31 January following the end of the tax year, this is also the deadline for paying any balance of tax due.

There are penalties if the tax return is not filed on time and interest is charged on tax paid late. There is a further tax-geared penalty if the tax due is not paid within 28 days following the payment deadline.

7. I will receive a bonus and family allowance for members of my family living in my home country. Do I need to pay income tax in the UK on such earnings?
If you are resident and ordinarily resident in the UK you are taxed on your worldwide income (unless you have a separate overseas employment) and this includes payments made in a home country. Regardless of your tax residence, payments made in relation to the duties carried out in the UK are generally taxable in the UK. They include bonus payments, allowances and any other payments whether remitted to the UK or not. Bonuses are normally taxable on receipt if they are paid wholly or partly for the performance of duties in the UK. However, tax planning is possible depending on its nature and the timing of its payment.

8. I may be required to make certain mandatory payments in my home country during my stay in the UK (e.g. contributions to government sponsored mandatory pension plan, contributions to National Health Service). Can I claim relief for such mandatory payments on my UK income tax returns?
Providing certain conditions are met, income tax deductions may be given to a migrant employee for personal contributions to an overseas pension plan which meets UK tax qualification rules. This is known as Migrant Member Relief (MMR).

To be qualified for MMR, the following requirements should be met:

- the pension scheme must be a qualifying overseas pension scheme (one registered with HMRC as meeting certain regulatory and tax conditions, and which is also open to local residents in the home country);

- the employee must meet personal eligibility conditions (The employee must be non-UK resident when they first contribute to the scheme and be UK resident during the contribution period. They must also have received tax relief on contributions to the scheme at some point in the 10 years prior to becoming UK resident.); and

- employer & employee must agree they are claiming relief (there must be agreement, evidenced in writing that both the employer and the employee intend to claim migrant member relief).

Alternatively, a deduction may be claimed on the same basis under the UK's double tax treaty with Russia. The difference is that a treaty deduction is available for contributions paid to any Russian pension scheme, provided such contributions are or would be tax deductible in Russia. There is no need for the Russian scheme to register in the UK as a qualifying scheme.

No relief is allowed for Social Security contributions.

Where deductions are due, the amount qualifying for full relief at the marginal rate is restricted. Higher rate tax relief will be tapered away for those with taxable incomes between £150,000 and £180,000 from 6 April 2011 so that for those with incomes above £180,000 contributions will only benefit basic rate tax relief. This is relevant for contributions made by or on behalf of individuals to UK registered pension schemes and to qualifying overseas pension schemes. To prevent individuals accelerating their contributions prior to 6 April 2011, relief at the marginal rate is limited for contributions paid by high earners after 22 April 2009. Someone earning £150,000 or more may not receive relief on contributions of more than £20,000 unless they have regularly paid at a higher level in the past.

9. Are fringe benefits (benefits in kind) taxable?

Benefits in kind such as accommodation, company cars and fuel, home leave, medical expenses and interest-free or low interest loans are liable to UK taxation. However, the taxable benefits on accommodation, company motor cars and home leave are calculated in accordance with rules and scales laid down in the tax legislation.

Accommodation

Accommodation provided by an employer will normally give rise to a taxable benefit. If the employer rents the accommodation, the taxable benefit is based on the rent paid. If the employer owns the property, the taxable benefit arising on the accommodation consists of two elements:

- a nominal rental value for the property; and

- if the cost of the property is more than £75,000, the excess over £75,000 is multiplied by the HMRC official rate of interest. The cost includes the cost of improvements.

If the employer also provides furniture there is a further taxable benefit. This is 20% of the value of the furniture when new.

Cars and fuel

If you are provided with a company car and fuel that are available for your private use, you are taxed on the separate benefits arising from the car and fuel. The car benefit is a percentage of the list price (up to a maximum of £80,000) of the car when new and depends on the carbon dioxide emission rating of the car. The percentage range is from 15% to 35%. The benefit of the fuel is calculated as the same percentage of £16,900 (2009/10).

Home Leave
Employers can pay or reimburse travel costs between the employees' home country and the UK tax-free for up to five years if the employees are not domiciled in the UK. For the employees, there is no limit on the number of trips that can be paid or reimbursed tax free during this five-year period. For spouses and minor children, there is a limit of two tax-free trips a year for each person. There is a further condition for tax-free trips by spouses and children: they must be preceded or followed by a continuous period of at least 60 days where the employees spend at least two thirds of working time in the UK.

Relocation expenses
Up to £8,000 of reimbursed qualifying relocation expenses are exempt from UK tax when you take up your assignment. A further £8,000 of expenses and benefits may be received tax-free when you return home. However, any relocation cash allowance paid by your employer is taxable, and subject to PAYE deduction as an ordinary cash payment. Most types of relocation expenditure qualify for the £8,000 exemption. Exceptions include long-term storage costs in your home country, the cost of temporary accommodation for your family on arrival and, unless you give up your property in your home country, the cost of any duplicate items (such as kitchenware or electrical appliances) which you have to purchase in the UK.

Ordinary business travel
Deductions are allowed for business travel expenses, including hotel and subsistence expenses, which represent the extra costs of working away from your normal place of work. They will normally be deductible or non-taxable.

10. How is my investment income being taxed while I am on assignment in the UK?

UK investment income
UK source investment income, which includes dividends and interest, is taxable in the UK regardless of your residence position.

UK banks and building societies will normally deduct tax at 20% from the interest credited to accounts with them. If you have no other UK taxable income, a repayment may be due, since liability on income up to £2,440 is only at 10%.

UK dividends attract a non-refundable tax credit of 10%. If you are liable at the higher rate of tax, which is 32.5% on dividends (until 2010/11), the 10% tax credit reduces the tax payable. This means that if you are a higher rate payer, you pay tax equal to 25% of the net dividend paid to you.

Foreign investment income
If you do not claim the remittance basis and therefore pay tax on your worldwide income, your foreign savings and investment income are taxed on a similar basis to UK savings and investment income.

If you are non-UK domiciled and you claim the remittance basis of taxation (see below), you are taxed on foreign investment income only to the extent that the income is remitted to the UK. The applicable higher rate for dividend income is 40% (not 32.5%), but the 10% tax credit is still available.

Please note individuals who claim the remittance basis of taxation are not entitled to claim a personal allowance or the annual capital gains exemption. However, this general rule does not apply to individuals with less than £2,000 of foreign income or gains, who can continue to use the remittance basis without losing their personal allowance, provided they have been UK resident for less than seven of the previous nine tax years.

11. How do I claim the remittance basis?

Individuals who are not domiciled in the UK can claim the remittance basis of taxation, which means they only pay income tax and capital gains tax on foreign income and gains if they are remitted to the UK. Individuals must decide whether or not to elect the remittance basis when they file their personal tax return. If the remittance basis is not claimed, the individual will be taxed on all their worldwide income and gains on an arising basis.

If the unremitted foreign income and gains for the tax year totals less than £2,000 (gross income and chargeable gains, as calculated for UK tax purposes) the individual will automatically be entitled to the remittance basis (although they don't have to claim it if they don't want to). This means they keep their personal allowance and annual capital gains exemption whilst claiming the remittance basis.

If foreign income and gains for the tax year are £2,000 or more, by electing the remittance basis individuals will lose their personal allowance and capital gains tax exemption.

The £30,000 charge

From 6 April 2008, individuals who elect the remittance basis of taxation will be required to pay £30,000 per annum once they have been resident in the UK for more than seven years. The count will be seven years in the past nine, so going abroad for a year and then returning does not interrupt a seven year residence period.

12. What constitutes a remittance to the UK? If I do not bring cash into the UK does that mean I have not made a remittance?

The rules for identifying a remittance of foreign income or gains have been significantly tightened. For example, since 6 April 2008 it will no longer possible to remit investment income tax-free where the source ceased in the previous tax year. Nor will it be possible to make a tax-free remittance by remitting in a later year when the remittance basis is not claimed.

The general rule is that a remittance includes anything that would be recognised as a constructive receipt of funds or a credit in the UK. It therefore includes the physical carrying of or transfer of cash to the UK, cash machine withdrawals, use of foreign credit cards, payments made abroad for services received in the UK etc. It is necessary to keep a close track on funds being brought into the UK to ensure that remittances are made as tax efficiently as possible. The rules also now include remittances made by other parties ('relevant persons'), of foreign income or gains that derive from you, e.g. of foreign income you gift to them. "Relevant persons" include your spouse/live in partner/civil partner/child or grandchild under 18. Investments made in the UK by a private company in which you are a significant shareholder, or by a foreign trust of which you are a beneficiary, may also be caught. You can therefore no longer gift items to a relevant person to then be remitted to the UK.

Remittances are not limited to remittances of money. You make a remittance if you use your foreign income to purchase goods abroad and bring them to the UK (unless they are watches, clothes, jewellery or shoes for your personal use, or any other item costing not more than £1,000). You also make a remittance if you use your income abroad to purchase a service received in the UK, including a travel service. If you bring foreign currency to the UK and make an exchange gain when you sell it for sterling, the gain is charged to capital gains tax at 18%.

Before you come to the UK you will need to decide how much money you need to have available here to meet your UK living costs. It is therefore important to consider at this stage what funds you will need in the UK, what transfers will trigger UK tax liability on remittance and how to arrange your financial affairs to maximise funds available in the UK. It is important that each source is kept separate so that a choice can be made as to which funds are being remitted. If types of income and gains have been mixed, there is a prescribed order of remittance from those funds. We also recommend keeping sole accounts rather than mixed accounts for the purposes of identifying remittances.

Since the rules in this area became more complicated, we recommend you take professional advice before you make arrangement of your overseas earnings.

13. I have a large share portfolio in the UK and abroad. Will I pay tax in the UK if I sell my shares?

If you are a resident in the UK, you will be liable to Capital Gains Tax (CGT) on gains arising when you dispose of assets situated in the UK. CGT is charged at 18%.

If you remain non-domiciled in the UK, gains on disposal of assets situated outside the UK will be taxable on the remittance basis if an election is made under the self-assessment system. Please also note that if you do claim this basis of taxation, you will forfeit your annual Capital Gains exemption (£10,100 in 2009/10) for any year in which you claim the remittance basis where unremitted foreign income and gains are in excess of £2,000.

Disposing of an asset means selling, exchanging or transferring it, or giving it away, or realising a capital sum from it. Some transactions are exempt from CGT, e.g. transfer of an asset to your spouse; disposing of private motor vehicles; disposing of household goods and personal effects up to a value of £6,000 per item; disposing of a private home which has been treated as your only or main residence throughout the time you have owned it.

14. What is inheritance tax and when do I have to pay it?

Inheritance tax (IHT) is charged on an individual's estate on death, or on certain gifts made during lifetime. It is charged on assets situated in the UK, regardless of the individual's residence and domicile position.

The current position is that you will only be liable to IHT on any UK assets which you hold personally on death, if the total value of these exceeds the nil rate band (£325,000 per person for 2009/10). The nil rate band is reduced by any gifts or transfers into trust made in the seven years preceding death.

As a general rule, assets are located in the UK if they are physically present in the UK.

Whilst you remain non-domiciled in the UK for IHT purposes, you will not be liable to UK IHT on offshore assets. These include any assets (including UK assets) held by offshore companies which you own or assets situated outside the UK owned by trusts.

If you become deemed domiciled in the UK, you will be liable to IHT on your worldwide assets. Should you decide to remain in the UK for a relatively long period, you should consider structuring your assets to minimise your exposure to UK inheritance tax prior to you becoming deemed domicile in the UK.

15. What are the tax implications of purchasing a property in the UK?

In practice, the necessity to fund the accommodation and living expenses drives the requirement of many individuals to remit income from non-UK investments.

If you need to remit significant funds to the UK, e.g. to purchase a property, you should aim to remit income or gains realised before you became resident. These will not be taxable on remittance.

Please note that if you purchase a UK property after your arrival in the UK, HMRC will treat you as ordinarily resident for UK tax purposes for the beginning of that tax year, even if your intention is to stay less than three years in the UK. This is because the purchase of living accommodation is characteristic of being habitually and normally resident in the UK.

IHT implications of purchasing the property

You will be liable to UK inheritance tax and all assets situated in the UK. This would obviously include a family home in the UK.

There are a number of strategies you can consider to reduce this charge.

CGT implications of purchasing the property

There will also be a potential charge to capital gains tax for you on its subsequent sale as the UK property is a UK situs asset.

However, providing you have lived in the property during your period of ownership, you will be entitled to claim principal private residence relief to reduce/exempt this gain.

16. If the parent company in the CIS seconds a trainee to the UK for one year, do they need to pay income tax in the UK?

This will depend upon the level of income received, whether he/she is regarded as an established employee of the business, and the timing of his/her assignment to the UK. The higher the payments and the longer the trainee has been with the business, the more likely the payments will be taxable and subject to PAYE.

In addition, there may be complicated PAYE issues regarding Short Term Business Visitors (STBV) to the UK. If a STBV agreement can be reached with the HMRC, they may not require PAYE to be withheld on those eligible individuals. However, as the issues surrounding STBV can be complicated, appropriate professional support should be sought.

17. Please provide details of the calculation of income tax in the UK and tax free personal allowance

Personal allowance

Each individual who is UK resident or EU national is entitled to a personal allowance, which forms a tax-free element in the calculation of their tax liabilities. For the 2009/2010 tax year, the personal allowance is set at £6,475.

During the recent Budget report it was announced that from April 2010 certain people will face a reduction or loss of their personal allowance. The personal allowance will be phased out for those earning over £100,000. The allowance will be reduced by £1 for every £2 above the threshold, with complete phase out occurring when income reaches £112,950.

A personal allowance is not given to individuals who claim the remittance basis and have unremitted foreign income exceeding £2,000.

Rates of tax

The rates of tax on income (other than the starting rate for savings income, and for dividends) are for the year to 5 April 2010.

Rate %	Band
20	£0 – £37,400
40	£37,401+

For the year 2009/2010 tax year there is a 10% starting rate for saving income only, with a limit of £2,440. If an individual’s taxable non-saving income is above this limit then the 10% starting rate for savings will not apply. Dividends are taxable in the UK at 32.5% tax rate or at 10% if the individual’s total taxable income is less than £37,400.

During the Budget report it was announced that from April 2010 a new 50% tax rate will be introduced for those earning more than £150,000. The corresponding rate for their dividend income will be 42.5%. Trust income will be taxed at 50%.

18. What is an 'offshore trust' and what are the tax implications for me or my family of having one?

Offshore trusts can be beneficial for both family wealth planning and tax efficiency. A trust is a legal concept within UK law which allows the legal ownership of assets to be transferred, whilst still allowing an individual to retain beneficial ownership of the asset. This allows trustees to act on behalf of the beneficial owners and manage the trust assets for the beneficial owners i.e. the 'beneficiaries'.

It is possible for a non-UK domiciled individual to create a trust outside the UK which offers certain tax benefits under current UK legislation whilst still allowing access to the trust assets at the discretion of the trustees. This is a privileged position specific to non-UK domiciled individuals who are beneficiaries of trusts created by non-UK domicilliaries. These income and capital gains tax advantages are only enjoyed by those who claim the remittance basis.

The remittance basis of taxation can be claimed by beneficiaries to avoid UK tax on offshore income and gains, provided these are not received in or remitted to the UK. Under the greatly extended definition of remittance care needs to be taken by settlors, trustees and beneficiaries that the trust does not invest its funds or make distributions in such a way as to trigger UK tax charges.

8.3 Investing in the UK

I may want to make some large investments in the UK, what should I be considering?

In general, investors in the UK who do not become resident in the UK need to consider income tax and inheritance tax consequences as capital gains tax only applies to UK residents.

1. Income tax

Non-residents should apply to have interest paid gross. At the end of the tax year they would choose to be taxed as follows:

(a) Election for the 'Excluded Income Basis' – there will be no UK tax payable on interest and dividend income however the personal allowance will be lost. If tax is paid at source on interest it cannot be reclaimed or may not be available to offset against the year end liability hence the recommendation that a claim for gross payment is made by Form R185; or

(b) No election – income tax will be payable on all income arising in the UK and the personal allowance is available.

Whether the election is suitable needs to be assessed on a case-by-case and year-on-year basis.

2. Inheritance tax

If you are not UK domiciled, inheritance tax applies to UK situs assets but not non UK assets. The value of the UK estate above the nil-rate band (£312,000 for the 2008/09 tax year) is subject to UK IHT of 40%. The value taxable is reduced by loans secured against the UK property. Certain investments of non-UK residents will be exempted from UK tax, such as: shares held in companies qualifying for Business Property Relief (BPR), other assets qualifying for BPR or Agricultural Property Relief, bank accounts with non sterling funds, and government bonds.

In addition, opportunities exist to mitigate UK inheritance tax by making investments in UK situs assets through a non UK company. Trust and company structures are common but care needs to be taken in their structure and set-up. This is best discussed at the earliest opportunity and we recommend you seek appropriate professional advice before you invest in the UK so as to structure your affairs to minimise your UK tax burdens.

8.4 National Insurance

1. What is National Insurance?

The UK social security levy is called national insurance and it is additional to income tax. The major part of employee contributions is determined as a percentage of earnings, up to a fixed limit. The rates at which contributions are payable normally depend on the level of the earnings and whether the employer has contracted out of the state second pension (S2P). But a small percentage is calculated on unlimited earnings.

Employers also contribute, but without an earnings limit. The PAYE system normally collects the contributions, together with income tax.

National insurance contributions are payable on gross earnings and certain payments in kind. Employer contributions are payable on most benefits in kind.

2. What benefits do the company and the employee receive from National Insurance (maternity grants, statutory sick pay etc.)?

The employer receives no direct benefit from the National Insurance scheme.

Medical treatment under the National Health Service is free (although a standard prescription charge is made in certain circumstances). The entitlement to access to the National Health Service is not dependent on NIC contributions but is available to all individuals settled in the UK who register with a doctor.

Health authorities generally charge overseas visitors (persons not ordinarily resident) for health care services except for:

- basic emergency services, treatment of prescribed diseases and casualty treatment which is provided without charge unless and until the person is admitted as an in-patient; and

- overseas visitors who obtain coverage under EU regulations, a reciprocal health agreement, by reason of previous UK residence, or presence for employment or self-employment.

Paying national insurance contributions counts towards entitlement to a UK state retirement pension. Currently, to qualify for the minimum pension, men must have made contributions for at least 11 years and women for 10 years. However, some basic state pension may become payable under social security treaty provisions.

There is a separate and additional state second pension. Benefits can be obtained if the employee contributed to National Insurance Contributions for a minimum period of as little as one year. It is possible to “contract-out” of the state second pension by substituting a private pension facility.

3. How much are the contributions by the company and by the employee?

National Insurance Contributions are payable on gross earnings and certain payments in kind. Employer contributions are payable on most benefits in kind.

For 2009/10 tax year, earnings up to £110 per week are exempt from contribution. Employees' contributions on earnings in excess of £110 and above per week are 11% on earnings up to a limit of £844 per week. Employees pay 1% on earnings in excess of £844 per week. The employers' contributions are on earnings in excess of £110 a week without upper limit and are charged at 12.8% (lower rates apply up to £844 per week for employees who “contract out” of the state pension scheme). Employers also pay 12.8% on the provision of most non-cash benefits in kind (but there is no employee contribution).

During the recent Budget report it was announced that from April 2011 both employees' and employers' national insurance will increase by 0.5%.

4. When I arrive in the UK, what should I do about National Insurance? Can my accountants act as agents for such procedures?

After arrival in the UK, you will need to register with the Department for Work and Pensions for a National Insurance number if you are not paying contributions in another state under a social security treaty and are staying for more than 52 weeks. You should visit the Department's office, taking your passport and other documents, such as work permit application, with you. The visit can be time-consuming and Deloitte may be able to help by arranging a meeting with an official from the Department at our offices.

5. When should I start contributing and how should I pay?

If you have been sent to the UK temporarily by your host employer, contributions are not normally payable during the first 52 weeks of the assignment, either by you or by your PAYE employer. Contributions start on the first Sunday after the 52 weeks following the date of your arrival in the UK and not the date you actually start working here, which may be later provided you are not coming permanently to the UK. The contributions are normally paid through the PAYE system each month to the HM Revenue & Customs.

6. During the first 52 weeks, am I entitled to free treatment under the National Health Service although I do not contribute?

Although you may be exempt from National Insurance Contributions for the first 52 weeks after arrival in the UK, you will be entitled to free treatment under the National Health Service from the date of your arrival. This also applies to your spouse and children who accompany you on UK assignment.

7. If I and my wife have a child who accompanies us to the UK, can we obtain child benefits?
You are unlikely to be able to claim child benefit.

Child benefit is payable to an adult (usually the mother) who is responsible for a child living in the UK. Children must be under 16 years old, or under the age of 19 if they are in full-time education.

If you are permanently settled and ordinarily resident in the UK, you do not have to pay any UK social security contributions to qualify for the benefit. However, the position is different for foreigners temporarily resident in the UK. If immigration controls apply to you, for example as a work permit holder, you cannot claim child benefit.

8.5 Tax consequences in the CIS

There may be tax consequences in your home country as a result of working/investing in the UK, therefore it is essential to take advice on the tax implications before you leave and/or invest in the UK.

8.6 Corporate tax

Companies setting up or acquiring subsidiary companies in the UK or establishing a UK branch will be taxed in essentially the same way. The main corporate tax rate is 28% which applies when annual profits exceed £1,500,000. Companies with low profits may, however, enjoy more favourable rates. Companies with annual profits below £300,000 are taxed at 21%, and marginal relief applies in respect of profits up to £1,500,000. If the company is associated with other companies (wherever resident), the thresholds are reduced proportionately by the number of associates.

Recently the terminology used in UK domestic tax legislation has been altered. “Branches” are now referred to as “permanent establishments”, this term being used widely in double tax treaties. The lower rates of corporate tax are strictly not available to a permanent establishment of a foreign company. However, where a non-UK company establishes a UK permanent establishment, HMRC may allow it to enjoy these lower rates depending on the basis of the non discrimination article that may exist in the double tax treaty between the UK and the relevant country.

For ‘large’ companies (broadly those with taxable profits of at least £1,500,000, although not in the first period of reaching that figure unless profits are greater than £10,000,000) corporation tax will be payable in four instalments, with the first due 6 months and 13 days after the beginning of the accounting year and the other three instalments payable at three monthly intervals thereafter. Where the quarterly instalment regime does not apply, corporation tax is payable in one sum, which is not due until nine months and one day after the end of the accounting period.

A new company setting up in the UK does not have to register for corporation tax, but must provide certain information to HM Revenue and Customs within three months of the company starting its first accounting period or for an overseas company within three months of the commencement of trading in the UK. The information required is general information about the company, the company’s operations and period of account. Each year companies are obliged to file their corporate tax return within one year following the end of the accounting period.

1. How does corporation tax differ in respect of the following entities?

- Representative office.
- Permanent establishment.
- Subsidiary.

Representative office
Provided the office is a pure representative office and does not take part in the negotiation or concluding of revenue generating contracts, then generally no liability to corporation tax will arise. However, there may be a liability to income tax on certain income derived from the UK (e.g. rents from UK property and some types of interest).

Care must be taken to ensure the activities of a representative office constitute a permanent establishment.

Permanent establishment
If the permanent establishment trades in the UK, it is liable to corporation tax in the same way as a resident company, but only on profits from the permanent establishment. If the permanent establishment only provides services to its head office and other group companies, it may be taxed on a profit equivalent to a percentage of its expenses. Only profit directly attributable to the UK is chargeable to tax.

Subsidiary
A UK subsidiary is liable to UK corporation tax on its worldwide profits.

2. What distinguishes a UK resident company from a non-resident company for corporation tax purposes?
A company is resident in the UK if it is either incorporated in the UK or its central management and control is located in the UK. Central management and control is usually deemed to lie with the board of directors. Consequently, a company will be resident in the UK if the board of directors controls the business of the company from the UK. There are certain exceptions for companies, which are also resident in another country with which the UK has a double taxation treaty.

3. Can a part of the head office's administration expenses be allocated to a UK permanent establishment and be deductible for tax purposes?
A part of the head office expenses may be allocated to the UK permanent establishment for tax purposes provided they are related to the business of the permanent establishment conducted in the UK.

4 Will the fact that a newly-established permanent establishment may not make a profit in the first five years cause any corporation tax problems?

In principle, the fact that a newly established permanent establishment may not make any profit for the first five years will not cause any corporation tax problems. However, should the reason for its incurring losses be that, for example, in dealing with an associated company the prices it is being charged for goods are too high or the recompense it is receiving from work performed is too low, then problems will result. In such cases, HMRC will insist on using arm's length prices to calculate the branch's profit or loss (see below).

5. When a permanent establishment is reorganised into a subsidiary a few years after establishment are there any tax implications (e.g. in respect of loss carry forward, VAT, capital gains etc.)?

Usually losses carried forward can be transferred to the subsidiary and no VAT arises on the transfer. Tax on capital gains can normally be deferred. However, certain aspects such as closing stock and inventory values need to be considered.

6. What procedures do a permanent establishment or a subsidiary have to comply with in their first year of trading?

The procedures for permanent establishments and subsidiaries are similar. The most important are as follows:

- Registration for VAT purposes. If registration is necessary, it should be done as soon as possible and preferably before trading commences in order to maximise the recoverability of VAT suffered on costs incurred prior to commencing business.

- A Pay As You Earn (PAYE) scheme should be opened with HMRC for income tax and National Insurance contributions to be deducted from salary payments made to staff where applicable.

- A form CT41G for corporation tax purposes is normally issued by HMRC and requires general details of the company to be provided.

- VAT returns usually have to be made quarterly, though if requested, a company that is in a net repayment position for VAT may be allowed to make monthly returns as an aid to cash flow.

- If expenditure will be incurred for construction, alterations or repairs and the expenditure is substantial, advice will be required on the need to deduct income tax from payments to the contractor and how to account for that tax to HMRC under the Construction Industry Tax Deduction Scheme.

7. What is the rate of corporation tax and what does it apply to?

Corporation tax is charged on the profits of a permanent establishment or subsidiary as adjusted for tax purposes. Generally, to arrive at the tax adjusted profit you start with the accounting profit and add back disallowable expenditure and depreciation. Then deductions are made for capital allowances (tax depreciation) and certain other items. This yields a tax adjusted trading profit which, with the addition of other income, gives the total tax adjusted profit.

The current rate of corporation tax is 28%.

If however the annual taxable profits of the company, which has no associated companies, are less than £1,500,000, lower rates will apply to its income. Companies with annual profits below £300,000 are taxed at 21%, and marginal relief applies in respect of annual profits up to £1,500,000. Where the company has associated companies, in the UK or elsewhere, the above limits will be divided by the total number of active companies in the group.

Generally, the lower rates of corporation tax do not apply to permanent establishments, but the non-discrimination clause contained in some double tax treaties will allow a claim for the lower rate to be made. However, in determining the rate to be applied, the total worldwide profits of the company must be taken into account, not just those of the permanent establishment (non-UK profits are not actually taxed).

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

8. How are capital gains on UK assets treated for tax?

Representative office

No tax is payable because the asset is owned by a non-resident body (the head office) which is not carrying on a trade in the UK.

Permanent establishment

The gain is subject to corporation tax, after allowing a deduction for the effect of inflation.

Subsidiary

The gain is subject to corporation tax, after allowing a deduction for the effect of inflation.

9. Give examples of non-deductible expenditure for tax purposes

Examples of non-deductible expenditure are:

- Accounting depreciation of assets (instead tax depreciation is available on certain assets under the UK's capital allowance system).

- General bad debt provisions.

- Legal expenses in respect of capital items.

- Entertaining expenditure, unless exclusively relating to the company's own staff.

- Expenditure not incurred 'wholly and exclusively' for the purposes of the trade.

10. Are there any restrictions on the carry forward of tax losses?
Generally, tax losses arising from trading activity can be carried forward indefinitely to be set against future profits of the same trade. Tax losses may also be offset against other taxable profits of the company for the same year and carried back against any profits of the previous year.

Restrictions on the carry forward of losses may apply if the ownership of a company changes. Broadly, this would occur if there is also a major change in the nature or conduct of the company's trade or business within three years before or after the date of change of ownership. Factors which may indicate a major change in value or conduct of a trade include changes in the product sold, major suppliers, major customers or manufacturing process.

11. Are there any inter-company pricing rules in the UK such that more profit could be imputed to a permanent establishment or a subsidiary than is reported in its accounts?
The UK has transfer pricing legislation that requires trading and financial transactions between affiliated entities to be conducted according to the arm's length standard. This means that the terms and pricing of such transactions undertaken in the course of conducting business (such as the sale and purchase of goods and services) and in the provision of finance (both borrowing and lending) should be the same as if the transactions had been between completely independent parties. It is also a requirement that appropriate documentation supporting these prices is in place. These rules also apply between a UK permanent establishment and its overseas head office despite the fact they are one single legal entity.

The UK transfer pricing provisions mean that companies are required to apply the arm's length standard when making their corporate tax self-assessment tax returns. In practice this means that companies must consider whether the terms of their transactions are in accordance with the arm's length principle. If they are not, an adjustment to taxable profit may be required.

12. As a permanent establishment is only taxable on its UK source income, what actually constitutes UK source income?
A distinction is drawn between trading with the UK and trading in the UK. A branch is only taxable on profits arising from trading within the UK. Generally, it will be obvious whether or not a permanent establishment is trading in the UK, but in borderline cases, the place where revenue producing contracts are concluded may be the determining factor. If they are concluded in the UK, then this will probably indicate a UK source.

13. Are there tax credits to encourage research and development in the UK?
All UK companies are entitled to research and development tax credits on qualifying expenditure.

Spending by small and medium sized companies attracts a tax deduction of 175% of the qualifying R&D expenditure incurred (on costs incurred after 1 August 2008, 150% on costs incurred prior to 1 August 2008). There is a special relief for small and medium sized companies who are not paying corporation tax which makes it possible to surrender the tax credit to obtain an immediate cash refund of up to 24.5% of the qualifying expenditure subject to a limit of their PAYE and national insurance liabilities for the period.

For large companies, R&D tax credit takes the form of a non-repayable super-deduction equal to 130% of the qualifying expenditure incurred (on costs incurred after 1 August 2008, 125% on costs incurred prior to 1 August 2008).

14. What sort of issues need to be considered when acquiring an existing UK company?

Tax considerations associated with mergers and acquisitions activity are set out in detail in section 6.3.3.

15. UK Double Tax treaty

The UK has a wide network of Double Tax Treaties which act to reduce certain UK domestic rates of withholding tax (WHT), notably for interest and royalty payments out of the UK. The withholding tax rates vary depending on the country which is party to the Double Tax Treaty. The UK domestic withholding tax rates where no treaty exists are shown below.

	UK Non Treaty WHT Rate (%)
Dividends	0
Interest	0/20
Royalties	20

16. Foreign dividends received by UK companies

The 2009 Budget introduced reforms to the legislation in respect of the taxation of foreign dividends received by UK companies. Any foreign dividends received on ordinary shares will be exempt from UK corporation tax. The exemption will be available to UK companies of all sizes. At the time of going to print this is very new legislation and as such the final guidance is still to be issued surrounding the exact details of the foreign dividends exemption.

8.7 Value Added Tax

1. What is Value Added Tax?

Value Added Tax (VAT) is a tax charged on the value of supplies of goods and services made in the UK in the course or furtherance of business.

Supplies of goods and services are either:

- taxable (subject to VAT at either the standard rate of 15% with effect from 1 December 2008 until 31 December 2009 then reverting back to 17.5% on 1 January 2010 , the reduced rate of 5% or the zero-rate – 0%);

- exempt of VAT; or

- outside the scope of VAT (e.g. salaries).

VAT is also levied on the importation of goods and certain services received in the UK.

Examples of the types of supplies which fall into each category are as follows:

- The standard rate (15%) – applies to most goods and services. Any supply which is not specifically included in one of the other categories is standard rated.

- The reduced rate (5%) – applies to fuel and power used in the home and by charities and also to some conversions of buildings for residential use,

- The zero rate (0%) – applies to some food (not restaurant meals), books, construction of new domestic residential property, transport, drugs and medicines, clothing and footwear for young children and certain protective clothing.

- Exempt supplies include certain property transactions, insurance, postal services, matters relating to finance (for example, the transfer of securities), education, health services and certain trade union and professional activities.

Each supplier must account for VAT on the value of his taxable supplies (output tax) but generally may claim back VAT paid on purchase made wholly for business use (input tax). In this way, the ultimate non-business consumer usually bears the full amount of the tax.

2. How does VAT work?

VAT registered businesses submit "VAT returns", usually quarterly, to HM Revenue & Customs (HMRC), which is the government department responsible for the collection and administration of VAT. These returns show details of VAT charged on supplies made to customers and the recoverable VAT suffered on business purchases and expenses. The VAT return and the net amount due to HMRC must be submitted and paid within one month of the end of the quarter. If VAT suffered exceeds that collected on sales, the balance will be repaid by HMRC.

3. Who must register for VAT?

Any person or business whose taxable supplies exceed the registration threshold (currently £67,000) in any 12 month period must register for VAT. If at any time a business expects the value of its taxable supplies to exceed £67,000 in the next 30 days alone, it must also register for VAT. No distinction arises because the person making the supplies is resident or incorporated abroad.

If a business is making taxable supplies but has not exceeded the registration threshold it can register voluntarily. Also, where it is known that taxable supplies will be made at some future time, it is possible to apply to be registered as an 'intending trader' although no supplies are yet being made. This enables the business to recover VAT on purchases made wholly for business use.

4. Can representative offices register and claim back VAT paid?
A representative office may register if its head office makes supplies outside the UK, which would be taxable if they had been made in the UK. In certain circumstances, not all of the VAT suffered by the representative office may be recovered. This depends on the nature of the supplies by the head office.

5. What kind of accounts and records must be kept for VAT purposes?
Each business is expected to maintain adequate records of its taxable and exempt sales and purchases, to substantiate its VAT liability. HMRC periodically check VAT returns for accuracy.

VAT records, accounts, and supporting documents must be preserved for at least six years. Records may be maintained on computers provided HMRC give their approval and the records are secure and can be easily accessed by HMRC when required.

Each business must maintain a "VAT account" to record the company's entries for VAT on sales and purchases, along with any adjustments. This account will form the basis of the VAT returns.

6. Are there any expenses on which a company cannot recover the VAT?
VAT on purchases can only be recovered if the purchase was made wholly for business purposes.

VAT on certain purchases is specifically blocked from being recovered, even where used wholly for business purposes, The most common examples are purchases of motor cars, and entertaining costs (except for entertaining staff). Where motor cars are leased, 50% of the VAT on the leasing charge is normally recoverable. Entertaining expenses include (amongst others) accommodation and meals, drinks, visits to the theatre and nightclubs, hunting, shooting, fishing, yachting and golf.

VAT also cannot be recovered on purchases which are used by the business to make exempt supplies.

7. What are the differences between zero-rated and exempt supplies?
No VAT is charged on either zero-rated or exempt supplies. However the distinction between zero-rated supplies and exempt supplies is of crucial importance.

Zero-rated supplies are taxable supplies and even if the entire outputs of a business are zero-rated; it may register for VAT and recover all its input tax (unless specifically blocked). On the other hand, if a business makes only exempt supplies it cannot register and no recovery of input tax is possible. If a business makes some exempt supplies and some taxable supplies it is "partially exempt". See below.

8. When may a business make a full recovery of input tax incurred?
If all of the supplies a business makes are taxable, unless the VAT is specifically blocked from recovery (see 6 above), the company can usually recover all of the VAT on its costs.

9. What if a business makes some exempt supplies and some taxable supplies?
If a business makes some taxable and some exempt supplies it cannot recover input tax on the proportion of its costs relating to exempt supplies (subject to de minimis limits) and this input tax becomes an expense. It is often recovered by a higher price being charged to customers.

Different methods of calculating the VAT attributable to taxable supplies may be used provided the method is fair and reasonable and has been agreed with HMRC.

Where a business's input tax relating to exempt supplies falls within a set de minimis limit, the business can recover all of its VAT as if it only made taxable supplies.

10. Can a business recover VAT paid in other European countries?

The EU member states have agreed to refund VAT paid by traders of one EU country in another EU country provided that certain requirements are satisfied. In addition, some member states have extended this system of refunds to businesses established outside the EU. Each member state has introduced its own detailed regulations, which have to be complied with.

In general a UK business, including a branch of an overseas business, may recover VAT suffered in another EU country provided the business is not established in that country or does not supply goods or services there and uses these goods or services for business purposes. Tax will not be recoverable if the type of expense is blocked under the local VAT system, as, for example, entertaining is in the UK.

11. Can businesses recover VAT paid before registration?

VAT incurred on supplies received prior to the date of VAT registration can be recovered once the business is registered for VAT subject to the following conditions. Goods purchased, imported or acquired in the three years prior to registration must still be in the ownership of the business at the registration date. In the case of services, relief is only available when the services were supplied in the six months before registration and all of the benefit of those services has not been used up.

8.8 Customs duties

The UK, along with all other European Union (EU) member states, is a signatory to the General Agreement on Tariffs and Trade (GATT) (now the World Trade Organisation). Imports and exports of all EU member states are classified under the Harmonised Commodity Description and Coding System, now in use virtually worldwide, and the valuation of goods for customs duty purposes is based on the GATT Valuation Code.

Import and export regulations for all EU member states are determined by the EU Commission. The EU's trading policies in general encourage less-developed nations to participate in international trade through such agreements as the Generalised System of Preferences (GSP) and Economic Partnership Agreements (EPAs) with African, Caribbean, and Pacific States. The EU also has free trade agreements regarding industrial and some agricultural goods with members of the European Free Trade Association (EFTA) and other countries in the Mediterranean and Central and Eastern European regions. While encouraging trade in these ways, the EU Commission, in accordance with the Antidumping Code, can impose countervailing or antidumping duties on foreign manufactured goods considered to cause injury to indigenous EU industry.

Imports

The government department responsible for administering import duties and indirect taxes is Her Majesty's Revenue and Customs (HMRC). Only the trade with countries outside the EU is referred to as an import or as an export. All imports into the UK must be declared to HMRC electronically, using the format of the single administrative document SAD, which is used throughout the EU. Electronic declarations from the importer's own premises are possible subject to obtaining HMRC authorisation.

There are no customs formalities on the movement of duty unpaid goods within the European Union. However companies with annual acquisitions or disposals from other EU member states of over £260,000 have to submit returns to HMRC for statistical purposes.

Licensing

Import licences may be required for the import of specified goods manufactured outside the EU. Additional controls may be applied to livestock and agricultural products under the EU's Common Agricultural Policy, as well as to military equipment and drugs. In some cases, the EU limits the total volume of imports of the goods in question with a centrally administered quota regime. Licenses for surveillance purposes may be required for imports of goods considered sensitive. In addition, there are some restrictions on imports for health and safety reasons.

Duty rates

Customs duties have been abolished for all intra-EU trade in goods in free circulation (meaning that either the goods originated in the EU or duty was paid on importation into the EU). Despite this, imports from all sources remain subject to national taxes, including excise duty where applicable and value added tax (VAT).

For imports from outside the EU, duties are levied at the EU's common customs tariff rates. Duty rates range in these cases from nil to 25%. Sample rates are shown in Table 6.6.

Table 6.6. Sample of approximate EU import duty rates

Product	Rate (%)
Electrical products	nil-14
Textiles and garments	nil-13
Machinery	nil-5
Computers and related products	nil
Raw materials	various
Agricultural products	nil to 24

Reduced (or in many cases zero) duty is charged on imports originating in the countries with which the EU has entered into trade agreements (see above). For example, the GSP scheme provides for duty ranging between 0% and heavily reduced rates, depending on the product sector. The EFTA, ACP, Central & Eastern European, and Mediterranean agreements provide for duty at 0% on most industrial goods imported into the EU and, generally, reduced rates of duty within a quota system on agricultural goods.

Duty reliefs

Procedures exist which can provide relief from duty, or delay payment of duty or allow reduced rates to be applied. Examples would be where goods are imported for process or repair within the EC and re-exported, or where goods have been re-imported following processing or repair outside the EC. There are also a number of other duty reliefs available.

Methods of payment

With the agreement of HMRC, an importer may defer payment of import duty and VAT until the fifteenth day of the month following the physical importation. In such a case, the importer must normally provide a bank or similar guarantee sufficient to cover all deferred charges in any calendar month. Under normal VAT rules most importers are able to recover import VAT payments on the subsequent VAT return.

Excise duties

Excise duties are charged on a limited range of goods, irrespective of their origin, including hydrocarbon oils, alcohol and tobacco products. Excise duties are charged according to volume, weight or quantity.

Exports

All exports to non-EU countries from the UK must be reported to HMRC by means of export declarations. An export declaration may be submitted electronically at the time of shipment or, at a later date, by adopting, with the approval of HMRC, one of several simplified clearance procedures

Licensing

All exporters must comply with export licensing requirements, which are strictly applied by HMRC. In practice, most goods are covered by open general export licenses, although sensitive goods, such as highly technical equipment and goods for military purposes, are rigidly controlled. Moreover, trade with particular countries is banned from time to time, and the evasion of export licensing requirements is a serious offence.

Where required by the country of import, certificates of origin in the UK showing UK origin are prepared by the exporters concerned and are attested by approved local Chambers of Commerce.

Trade Agents

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

Authorised Economic Operator (AEO)

In response to international terrorist threats and the desire to increase the security of EU borders, the EU has introduced a number of security measures, the cornerstone of which is AEO, an accreditation awarded to EU legal entities importing into and/or exporting out of the EU. These companies must demonstrate, amongst other things, strong customs compliance and robust safety and security procedures. Many trading blocs throughout the world are either already operating similar schemes or are looking at doing so and thus it is envisaged that EU traders with AEO accreditation will be able to enjoy the benefits of these other schemes and vice-versa, through mutual recognition agreements between the EU and other trading blocs.

How can Deloitte help?

Taxation

Deloitte can assist CIS companies with all areas of taxation. Careful advance planning in conjunction with Deloitte tax specialists can minimise UK tax burdens and, accordingly, maximise the return from their UK investment.

International Trade Group

Deloitte has a dedicated team of specialists, in the International Trade Group who can help you maximise opportunities, minimise costs and resolve problems with VAT and customs and excise related taxes.

Appendix 1 – Useful contacts

British Embassy, Moscow, Russian Federation

British Embassy Moscow
Smolenskaya Naberezhnaya 10
Moscow 121099

Tel: (7) (495) 956 7200

http://ukinrussia.fco.gov.uk/ru/ (Russian)
http://ukinrussia.fco.gov.uk/en/ (English)

Cultural Department/The British Council

Library for Foreign Literature Nikoloyamskaya 1
Moscow 109189
Moscow

Tel: (7) (495) 287 1800
Fax: (7) (495) 956 7201 General

http://ukinrussia.fco.gov.uk/

Think London

Think London is the foreign direct investment agency for London. Think London connects international businesses to London, helping them set up, succeed and grow. It is a not-for-profit, private-public partnership delivering expertise and advice to international businesses. Its service is comprehensive, confidential and funded – and therefore free to its clients. Its experts work with government and the business community to help companies access the best people, places and opportunities in the city.

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Fax: +44 (0)20 7718 5454

www.thinklondon.com

UK Trade and Investment (UKTI)

UK Trade & Investment is the government organisation that helps the UK-based companies succeed in the global economy and assists overseas companies to bring their high quality investment to the UK.

For further information please visit www.uktradeinvest.gov.uk

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Tel: 007 495 9567200
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Fax: 007 812 3203211

Ekaterinburg 620075
15a Gogol Street

Tel: 007 343 3794931
Fax: 007 343 3592901

http://ukinrussia.fco.gov.uk/ru/ (Russian) http://ukinrussia.fco.gov.uk/en/ (English)

UK Visa Application Centre

There are Visa Application Centres (VACs) in five cities around the Russian Federation. Details of other offices are on their website.

Moscow, 119435
Bolshoy Savvinskiy Pereulok 12,
Building 18

Tel. +7 495 784 7144 (Premium Call Rates Apply)

http://www.ukvac-ru.com/index.aspx

International Finance Corporation (IFC)

IFC fosters sustainable economic growth in developing countries by financing private sector investment, mobilizing capital in the international financial markets, and providing advisory services to businesses and governments.

IFC helps companies and financial institutions in emerging markets create jobs, generate tax revenues, improve corporate governance and environmental performance, and contribute to their local communities. The goal is to improve lives, especially for the people who most need the benefits of growth.

36, Bldg. 1 Bolshaya Molchanovka Street,
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Russian Federation

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www.ifc.org

Russo-British Chamber of Commerce

The Russo-British Chamber of Commerce is a not-for-profit company limited by guarantee that has worked to promote trade and cooperation between the UK and Russia since 1916, helping companies in both countries to find trading partners and representing the interests of its member companies of all sizes.

With offices in London, Moscow and St Petersburg, the modern-day Chamber provides up-to-date advice, research and market-entry support (to Russia and to UK) along with regular information through our website, weekly e-mail newsletter, the RBCC Observer, and monthly members' magazine, the RBCC Bulletin.

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