This report provides helpful information on the current business environment in the United Kingdom. It is designed to assist companies in doing business and establishing effective banking arrangements. This is one of a series of reports on countries around the world.

Global Banking Service

Report on the United Kingdom

Contents

RBC Royal Bank®

Important to Know

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- English
- Welsh

Currency

- Pound Sterling (GBP)

Bank holidays

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Source: www.goodbusinessday.com.

Types of Business Structure

Under British law, there are several business structures available. Some require a minimum amount of share capital to be paid up before the business can be established. A financial institution must hold the paid share capital in a restricted account until the business is legally established.

Public limited company

Plc. This is a company whose shares are not registered to their owners and are tradable on a public stock market. Public companies can also be unlisted. This requires a minimum share capital of GBP 50,000, 25% of which must be paid up at the time the business is established.

Private limited company (by shares)

Limited or Ltd. This is a company whose shares are registered to their owners and therefore are not publicly tradable. This does not require a minimum share capital and is the most common type of entity incorporated in the UK.

Private limited company (by guarantee)

Limited or Ltd. This is a company that has members, rather than shareholders, who act as guarantors in case the company is wound up. This form is mainly used for non-profit clubs and organizations.

General partnership

In a general partnership, all partners have full and joint liability. This requires no minimum share capital.

Limited partnership

LP. In a limited partnership, some partners enjoy limited liability (silent partners) although they are not permitted to exercise managerial control. Other partners are considered general partners and have unlimited liability. This requires no minimum share capital.

Limited liability partnership

LLP. A limited liability partnership allows all partners to limit their liability to the amount invested in the partnership (similar to a shareholder in a limited company). However, for tax purposes an LLP does not pay tax, but its members do on income or gains received through the LLP.

Cooperatives

There are various types of cooperatives in the UK, such as for housing, building, workers, credit unions, consumer, retail and agriculture. They are characterized by members who share the ownership of the cooperative and make decisions democratically, but they can take the form of one of several different types of business entity.

Other organizational types

An unlimited company is a company incorporated with or without share capital, but whose shareholders do not have limited liability. Unlimited companies do not have to file accounts with the Registrar of Companies for public disclosure.

British companies are entitled to form European Economic Interest Groupings (EEIGs) with companies based in other European Union (EU)* member states. An EEIG performs particular activities on behalf of its member owners. An EEIG is also permitted to perform these activities with entities outside the EU. An EEIG has unlimited liability.

*The EU is an economic and political union of 27 countries (including all members of its forerunner, the European Community, as well as other countries in Central and Eastern Europe), 16 of which use the euro as a common currency.

A *Societas Europaea* (SE) is a European public limited company, which can be established in any European Economic Area (EEA)* member state. It must maintain its registered office and head office in the same country, and it is subject to the company law in that country.

*EEA countries include those of the EU and three of the four European Free Trade Association (EFTA) member countries (Iceland, Liechtenstein and Norway).

Branches and representative offices

Non-British companies are entitled to establish a branch or a representative office in the UK. A branch's activities are subject to British company law, although it is considered part of the company's head office and therefore not a separate legal entity. Branches require no minimum share capital. To open a branch a company must file a number of documents, including head office accounts, within a month of establishing a branch.

Opening and Operating Bank Accounts

Residency

To be considered resident, a company must be incorporated, or have its centre of management, in the UK. Some companies that have resident status can be considered resident in another country for the purposes of a double taxation treaty.

Domestic and foreign currency account restrictions

Residents are permitted to hold local currency (GBP) accounts outside the UK and foreign currency accounts both within and outside the UK.

Non-residents are permitted to hold local currency and foreign currency accounts in the UK.

All local currency accounts are fully convertible into foreign currency.

Anti-money laundering and counter-terrorist financing rules

- Account opening procedures require formal identification of the account holder.
- Beneficial owners must also be identified and have their identity verified by taking adequate measures on a risk-sensitive basis.
- All financial institutions have to identify clients in respect of any individual or aggregated transactions, where the amount involved is equal to or greater than EUR 15,000.

Supplied by BCL Burton Copeland (www.bcl.com). Data as at September 2009.

Special purpose accounts required by local regulation

None.

Value-added tax (VAT) on banking services

Under British law, most banking services, such as bank lending, are exempt from VAT.

Payment and Collection Instruments

Electronic funds transfers are the most common payment instrument for both domestic and cross-border payments in the EEA. They can be initiated using Internet banking and other electronic banking facilities. Non-urgent direct credit transfers are the primary payment method used to make payroll payments, with the use of third-party payroll agencies widespread. They are also an increasingly common method of payment for business-to-business transactions, although cheques remain an important payment form. Card payments are commonly used for consumer transactions, with debit cards used more frequently than credit cards although both are popular. The use of pre-authorized direct debits has risen substantially for business-to-business payments and is the most common method used for the collection of domestic payments, such as utility and insurance payments. Direct debits are used by over 75% of the UK adult population to pay regular bills. Cheque usage has been declining in recent years, with cheques mainly used for low-value transactions but still playing an important role in business-to-business payments.

Payment Instrument Use (domestic)

Payment instrument	Transactions (million)		% change 2008/2007	Traffic (value) (GBP billion)		% change 2008/2007
	2007	2008		2007	2008	
Cheques	1,600.0	1,403.0	– 12.3	1,648.73	1,501.65	– 8.9
Electronic credit transfers	2,846.72	2,934.38	3.1	104,306.42	81,725.51	– 21.6
Paper-based credit transfers	273.8	250.7	– 8.4	164.07	150.49	– 8.3
Direct debits	2,963.47	3,076.86	3.8	883.59	935.36	5.9
Debit cards	5,085.0	5,446.0	7.1	231.92	253.54	9.3
Credit cards	2,115.0	2,149.0	1.6	147.11	154.15	4.8
Total	**14,883.99**	**15,259.94**	**2.5**	**107,381.83**	**84,720.70**	**– 21.1**

Source: ECB Payment Statistics, September 2009.

Single Euro Payment Area (SEPA)

SEPA payment instruments allow enterprises to make and receive EUR-denominated credit transfers, direct debits and debit card payments from a single bank account to and from other parties located anywhere within the EEA and Switzerland. The use of International Bank Account Numbers (IBANs) and Bank Identifier Codes (BICs) is compulsory for transfers denominated in EUR between bank accounts in the EU.

International Payments

International payments, including foreign currency payments and payments to and from parties located outside the EEA, are processed through same-bank networks, through multibank alliances or by using traditional correspondent banking techniques.

Payment Processing Times

Transactions processed	Value dating rules	Cut-off time(s) in local Greenwich Mean Time (GMT)
High-value and urgent domestic transfers (GBP-denominated)	Settlement in real time with immediate finality	16:00 GMT
High-value and urgent intra-EEA transfers (EUR-denominated)	Settlement in real time with immediate finality	16:00 GMT
Low-value domestic consumer payments	Most payments are settled within three days	Credit transfers and direct debits = 21:00 GMT (or 22:30 GMT if submitted online) Cheques and banker's drafts = 17:00 GMT One-off urgent online/telephone banking-initiated payments and standing orders submitted by 14:30 GMT are settled in near real time (or same-day basis for standing orders)
Non-urgent intra-EEA credit transfers with a maximum value of EUR 50,000*	Settlement either same-day or next-day	12:00 GMT for same-day settlement or 00:00 GMT for overnight settlement
USD-denominated paper-based instruments (cheques, drafts, mandated currency debits) drawn at, or payable to, the City of London branches of five large UK clearing banks	Settled on a same-day basis	14:00 GMT

* SEPA credit transfers are not subject to a maximum value threshold.

Central Bank Reporting

The Bank of England does not require companies to submit reports for balance of payments purposes.

Exchange Arrangements and Controls

The UK does not apply currency exchange controls.

There are some restrictions on foreign investment in TV and radio broadcasting, air transport and UK-flagged shipping vessels.

Cash and Liquidity Management

Central treasury centres are commonly located in the UK because of the extensive availability of cash management services from the numerous banks located in the City of London, the generally open regulatory environment (particularly with regard to residency issues), and because interest can be earned without withholding taxes being charged at source.

Physical Cash Concentration

Physical cash concentration is available from all large domestic and international banks. Resident and non-resident companies can participate in the same domestic cash concentration structure. Accounts held by separate legal entities can also participate in the same structure, but cross-guarantees are required for each entity.

A number of banks offer cross-border, cross-currency physical cash concentration.

Notional Cash Pooling

Notional cash pooling is available from most large domestic and international banks. Resident and non-resident companies can participate in the same domestic notional cash pooling structure. Accounts held by separate legal entities can also participate in the same structure, but cross-guarantees are required for each entity.

A number of leading banks offer cross-border notional cash pooling.

Short-term Investment

Bank instruments

Interest-bearing current accounts are generally available. Banks offer time deposits, in a range of currencies for terms ranging from overnight to up to one year, which are often subject to minimum investment requirements. Banks also issue certificates of deposit (CDs), most of which have maturities ranging from three to six months, although terms can range from one week to five years. For CDs, the minimum investment required and minimum denomination is GBP 50,000.

Non-bank instruments

UK companies issue commercial paper (CP), although investors have access to the wider euro commercial paper (ECP) market as well. In both cases, the maximum maturity of the paper is one year, although ECP is usually issued for shorter periods. For domestic commercial paper, the minimum investment required is GBP 500,000: GBP 100,000 is the minimum denomination.

The UK Government Debt Management Office issues Treasury bills for periods of one to 12 months. The minimum investment required is GBP 500,000.

Domestic and European-based money market funds are increasingly popular with UK companies.

Short-term Borrowing

Bank

Overdrafts, bank lines of credit and bank loans are usually all available in the UK to both resident and non-resident companies. Banks will usually charge a margin over Libor (the London Interbank Offered Rate) for GBP-denominated facilities, or other relevant benchmark rates for foreign currency loans. Other commitment and arrangement fees can also be charged.

Non-bank

Larger companies issue commercial paper into the domestic (GBP), ECP and US commercial paper (USCP) markets. GBP issues into the domestic market usually have one or more credit ratings. A company must be quoted on the London Stock Exchange (or an EEA exchange), or be a guaranteed subsidiary of a quoted company, to issue GBP commercial paper. ECP can be issued for periods of one week to one year, depending on borrowing requirements and investor appetite.

Trade bills are can be discounted, and factoring (usually recourse) is widely used.

Taxation

Corporate Taxation

- The main rate of corporation tax is 28% for a company whose profits exceed GBP 1.5 million. A lower rate of 21% applies to companies whose profits do not exceed GBP 300,000. Companies whose profits fall between these limits will be charged at the main rate of corporation tax, but will be eligible for small companies' marginal relief, so that the average tax rate increases to 28% at GBP 1.5 million. The profit limits are reduced pro rata, depending on the number of associated companies worldwide and for accounting periods of less than 12 months.
- Where an accounting period straddles March 31 it will fall into two financial years; therefore the profits of the company must be time-apportioned between the two years, and tax for each portion calculated at the rate relevant to that financial year.
- The Finance Bill 2009 included a reform package which introduces a dividend exemption for qualifying dividends received on or after July 1, 2009. The dividend exemption is subject to certain anti-avoidance rules. In addition, a worldwide debt cap will apply to large groups for accounting

periods beginning on or after January 1, 2010 and will restrict UK tax deductions for interest payable by UK members of a group by reference to the gross consolidated finance expense of that group.

- Other UK-sourced income may be chargeable to income tax at 20%.

Advance Tax Ruling Availability

- UK taxpayers may apply for advance pricing agreements from the tax authorities as well as clearances from Her Majesty's Revenue and Customs (HMRC). Except where a clearance mechanism is available by statute, clearances (known as non-statutory clearances) may be applied for where it can be demonstrated that there is material uncertainty and the issue is commercially significant.

Withholding Tax (subject to tax treaties and other exemptions)

- There is no withholding tax on dividends paid to resident or non-resident companies. When a dividend is paid, a 10% (based on the gross figure) non-refundable tax credit attaches to the dividends. This is generally only of use to UK individuals. In some cases a very small portion of a tax credit may be paid to non-resident investors under a double tax treaty.
- There are no requirements to withhold tax on interest or certain royalties, annuities and annual payments where the person beneficially entitled to the income is a UK company or a UK branch of a non-resident company. In addition, payments qualifying within the UK's implementation of the EU Interest and Royalties Directive (mainly interest payments to an EU parent or EU subsidiary of an EU parent with a direct 25% shareholding) would qualify for 0% withholding tax on interest and royalties.
- A withholding tax of 20% is levied on interest paid to non-resident companies (without a UK branch). There are, however, a number of exemptions, including interest on quoted Eurobonds and UK Government bonds (Gilts). The payment of "short" interest (broadly, loans with a term of less than 365 days) is also exempt from withholding tax.
- Non-resident companies may also qualify for a reduction of, or exemption from, withholding tax on interest or royalties if the non-resident beneficial owner is able to benefit from a reduced rate under a double tax treaty.

Capital Gains Tax

- Chargeable capital gains are calculated by deducting cost together with an indexation allowance (an inflation adjustment) from sale proceeds. Incidental costs of sale and purchase are also tax-deductible. The resultant gain is taxed as part of the company's taxable profits at the appropriate corporation tax rate. An indexation allowance cannot be claimed to create or increase a loss.
- Certain gains on business assets may be deferred if the proceeds are reinvested in specified types of assets 12 months before or three years after the disposal. This is known as "rollover relief".
- There is an exemption from tax for companies on the disposal of substantial shareholdings in both UK and foreign companies, the main conditions being broadly that the selling company must have owned 10% of the shares of the company being sold for at least 12 months in the previous 24 months before disposal, and that both the selling company/group and the company being sold are trading in nature. The trading requirement needs to be met both before and after the disposal.
- Allowable capital losses can be set off against chargeable capital gains of the same or subsequent accounting periods, using the first available gains first. They cannot be set off against income or carried back against chargeable gains of earlier periods.
- Gains on assets owned at March 31, 1982 may be calculated by reference to their market value at that date, rather than cost.

Stamp Duty

- Loan capital is exempt from stamp duty except where it is in some way equity-related, for example convertible into equity or carrying a return relating to profits.

Thin Capitalization

- The UK's transfer pricing rules apply to loans and consequently the thin capitalization rules have been removed. Under the transfer pricing provisions, in order to obtain a tax deduction, the loans (and their terms) need to be such that a third party would have entered into them.
- No "safe harbour" ratios are prescribed by statute.

- Foreign companies operating in the UK through a branch are required to attribute capital to the UK branch for tax purposes based on the capital the branch would need if it were an independent, freestanding company operating in the UK. This measure is designed to prevent a greater deduction of interest payments for branches than would be the case for a company in the same situation.

Transfer Pricing

- Under self-assessment, companies are required to prepare their corporate tax returns on arm's length principles. Where arm's length pricing was not initially applied to transactions with related parties, appropriate adjustments to profits must be made when completing the tax return. In determining an arm's length price, Organisation for Economic Co-Operation and Development (OECD) transfer pricing guidelines are applied. Companies must maintain sufficient documentation to support the prices used and any adjustments made. Failure to do so can lead to penalties being charged.
- The aforementioned transfer pricing rules also apply to domestic transactions with related parties (with exceptions for companies regarded as small or medium).

Sales Taxes / VAT

- VAT is levied on all taxable goods and services and on all taxable goods imported into the UK. The standard rate is 17.5% (although it has been reduced to 15% until January 1, 2010). There is also a reduced rate of 5% (for domestic supplies of gas and electricity, and smoking cessation products from July 1, 2007) and a zero rate for various supplies, including transport, certain foodstuffs, publications, medicines and aids for the handicapped.

Insurance Premium Tax

- Insurance premium tax (IPT) is charged on all types of insurance premiums, such as motor, accident, sickness, liability, building and travel insurance, on risks located in the UK unless specifically exempt. Exempt insurance includes risks such as contracts of reinsurance, and life or other "long-term" insurance. Any company receiving premiums in the course of a taxable business must register with HMRC. The rate of IPT is 5% on the gross premium received, although there are higher rates applicable in certain circumstances (e.g., domestic goods, motor and travel policies).

Payroll and Social Security Taxes

- Employers have to make social security contributions (national insurance contributions or NIC) in respect of every employee whose earnings exceed a specified earnings threshold. For earnings in excess of GBP 100 per week, the amount payable is 12.8% of total earnings. Lower rates apply when the income is below this level or where the individual is contracted out of the State Second Pension (formerly called the State Earnings Related Pension Scheme – SERPS). Employers are also required to account for NIC on most benefits-in-kind subject to income tax.
- The employer's contribution is deductible for corporation tax purposes.

All tax information supplied by Deloitte LLP (www.deloitte.com). Data as at April 1, 2009

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