

■ ANNEXE ONE

Summary Description of U.K. Tax System

Income Tax

Income tax is charged on the income of individuals, partners and trusts resident in the U.K. Nonresidents deriving any income from a U.K. source must also pay income tax. The main kinds of income that are subject to this tax are earnings from employment and self-employment, unemployment benefit, pension payments during retirement, profits from business, income from property, bank and building society interest and dividends on shares.

National Insurance

Payment of national insurance contributions entitles individuals to receive certain social security benefits.

Value Added Tax (VAT)

The standard rate of value added tax in the U.K. is 17.5 percent, although since 1994–1995 there has also been a reduced rate imposed on domestic fuel, originally 8 percent but now 5 percent. Various categories of goods are either zero-rated or exempt.

Capital Taxes

Capital gains tax, introduced in 1965, is levied on gains arising from the disposal of assets by individuals, personal representatives and trustees.

Inheritance tax, introduced in 1986, replaced capital transfer tax. The tax is applied to transfers of wealth on or shortly before death that exceed a minimum threshold (£242,000 in 2001–2002 and £250,000 in 2002–2003).

Stamp duty was payable on many legal and commercial documents that transfer ownership of stock and share securities or convey landed property. Its payment is indicated by stamps on the documents, and, as of March 2000, this ranges via increasing percentages from 1 percent on transactions from £60,000/£250,000 to 4 percent for transactions over £500,000. Stamp duty is now replaced by stamp duty land tax (SDLT), since 1 December 2003, within the same percentage ranges.

Other Indirect Taxes

Excise duties are flat-rate taxes (per pint, per litre, per packet, etc.) levied upon five major goods: beer, wine, spirits, tobacco and petrol/diesel.

Vehicle excise duty is a tax on the ownership and use of vehicles; this revenue is raised through a system of annual licenses.

Insurance premium tax, which came into effect in October 1994, applies to most general insurance where the risk insured is located in the U.K.

Air passenger duty is an excise duty on air travel from U.K. airports. It came into effect on 1 November 1994.

Landfill tax, introduced in 1996, is a dual-rate tax levied on the disposal of inert and active waste at licensed landfill sites. Inert waste is subject to the lower rate of tax and active waste to the higher.

Climate change levy, which came into effect in April 2001, is charged on industrial and commercial use of electricity, coal, natural gas and liquefied petroleum, and it is aimed at reducing CO₂ emissions. The tax rate varies according to the type of fuel used.

Betting and gaming duties: General betting duty is a duty levied on the total money staked on off-course bets. Gaming duty, which replaced gaming license (premises) duty on 1 October 1997, is based on the “gross gaming yield” for each property where dutiable gaming takes place.

Corporation Tax

Corporation tax is levied on the chargeable profits of companies resident in the U.K., including public corporations and unincorporated associations. The income and chargeable gains of a company, collectively termed “chargeable profits,” are chargeable to corporation tax.

Taxation of Oil Production

Petroleum revenue tax: Companies involved in the extraction of oil and gas from the U.K. and its continental shelf (mainly the North Sea) must pay petroleum revenue tax (PRT) as well as corporation tax.

Royalties: In addition to petroleum revenue tax and corporation tax, royalties are also charged on North Sea oil.

Council Tax

Properties are banded according to an assessment of their market value (as at 1 April 1991), with local authorities individually determining the rate levels levied on these bands. (See Chapter 4 for further details.)

National Nondomestic Rates

Companies pay a tax bill based on the national uniform rate poundage, being a percentage levy, on the assessed rateable value of the properties they occupy. (See Chapter 4 for further details.)