

Chantrey Vellacott DFK



Jackpot?

Budget Update 2005

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This booklet covers proposals contained in the March Budget Statement and the related Government Press Releases. These proposals may well be changed significantly by the time they are enacted, and we can accept no responsibility for any actions taken as a result of reading this booklet.

Chantrey Vellacott DFK
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1 INTRODUCTION

If there was any doubt about an early general election, Chancellor Gordon Brown's Budget speech should have settled matters. This was a great election speech, particularly on the spending front with education in the forefront and pensioners very much in mind. As Mr Brown expressed it in closing his very short piece, this is "A Budget for Britain's hard-working families and pensioners".

There was a series of headline giveaways, many of them at relatively low cost. The most predictable was the removal of Stamp Duty Land Tax on residential properties costing up to £120,000.

On the spending front, the main features included stimulating technology to make the UK a world leader, enhancing support for small businesses and, with a real eye to popularity, creating a £27m sports foundation that might help to bring the Olympics (and a lot of gold medals) to Britain in 2012.

On the tax front, there were few significant cuts but much freezing of rates. Following recent practice, anti-avoidance measures continue to burgeon. There was also a very good moment for Chantrey Vellacott DFK when VAT on memorials was removed, substantially thanks to our campaigning efforts

This year, there is a great concentration on enhancing tax credits rather than increasing allowances, as a way of benefiting low and middle income

Britain. Andrew Marr on the BBC succinctly summed up this redistribution saying "Tax credits are Brown's socialism".

More widely, the Chancellor was keen to emphasise that there will be no fiscal loosening as he pursued what he describes as "the prudent course for Britain".

The conclusion that one can draw is that we must expect an imminent general election. Thereafter, it will be for the new Government to decide whether to hold a second 2005 Budget. While the incumbents may not feel any great obligation to move away from Mr Brown's goal of "stability and sustained industrial growth", the opposition may have other views. They too would subscribe to the soundbite but may have rather different views of how to get there.

2 INCOME TAX

2.1 Income Tax Allowances and Rates

For 2005/06, the 10% starting rate band has been extended to £2,090 of taxable income. The basic rate band covers income from £2,091 to £32,400.

The personal allowance for those aged under 65 has been increased to £4,895. The personal allowances for individuals aged between 65 and 74, and aged 75 and over have been increased to £7,090 and £7,220 respectively.

The married couples' allowance, which is only available in the tax year 2005/06 where at least one spouse was born before 6 April 1935, has increased to £5,905. Where one of the spouses is aged 75 or over the allowance has been increased to £5,975. The relief is only available at 10%.

Full details of allowance rates and thresholds applicable in 2004/05 and 2005/06 are set out in Tables A and B.

2.2 Retention of ISA Limits

The current annual ISA limits of £7,000 maximum and £3,000 in cash were due to be reduced from 6 April 2006 to £5,000 and £1,000 in cash. This change has been postponed to 6 April 2010.

2.3 ISA and Child Trust Funds

It is proposed that the Government will extend the Individual Saving Account

(ISA) and Child Trust Fund (CTF) qualifying investment rules.

From 6 April 2006, these rules will include all retail collective investment schemes and both Undertakings for Collective Investment in Transferable Securities (UCITS) and non-UCITS authorised by the Financial Services Authority (FSA), on the proviso that they do not restrict savers' ability to access their savings.

This new regulation will enable overseas non-UCITS retail schemes to compete within the ISA and CTF markets, if they are regulated by the FSA.

The collective investment schemes will be subject to a 'cash-like' test to limit cash returns on investments, which could impact on the cash component of an ISA.

2.4 Simplification of the Taxation of Pensions

With effect from 6 April 2006, the new simplified tax regime for pensions comes into force. This will involve replacing the various different tax regimes with a single universal regime for pension savings. The various different controls will be replaced by two key controls, the lifetime and annual allowances.

The new regime will fall into four sections:

- benefits and contributions;
- lifetime allowance;
- unauthorised payments; and
- transitional issues.

The new measures were announced on 16 February 2005. Schemes will have until 6 April 2011 to make relevant changes to their rules. Further amendments and technical provisions will be made in due course.

2.5 Pension Protection Fund

The Pension Protection Fund (PPF) was introduced in 2004. This will assume responsibility for defined benefit occupational pension schemes and other schemes with defined benefit elements whose sponsoring employers have become insolvent. Although the PPF is not a pension scheme it is responsible for paying compensation to members of these schemes in lieu of benefits that would have been payable.

The PPF will be a body corporate and will be liable to pay Corporation Tax on its income and gains. The PPF will be funded by statutory levies on eligible schemes for which tax relief will not necessarily be given. As the PPF is not a pension scheme it is unable to pay tax-free lump sums.

To overcome these issues, from 6 April 2005 the PPF will be placed on the same tax footing as tax privileged pension schemes, i.e it will benefit from the tax treatment of approved occupational pension schemes to 5 April 2006 and thereafter will benefit from the tax treatment of registered pension schemes. (Existing approved pension schemes will become registered schemes under the new simplified tax regime for pension schemes that comes into force on 6 April 2006.)

2.6 Modernising the Tax System for Trusts

The Chancellor announced that the tax rate applicable to trusts would be raised to 40%. In addition, there will be new measures to prevent this change from increasing burdens on certain trusts that have vulnerable beneficiaries. Legislation giving full details of these measures will be published in the Finance Bill.

A number of other proposals were put forward in the 2004 Budget to simplify the taxation of trusts. Following consultation, a summary of the findings has been published today. The Inland Revenue will be carrying out further work on these measures and draft legislation will be published for consultation later this year with the changes included in next year's Finance Bill.

2.7 Gift Aid & Admissions

As announced in the 2004 Pre-Budget Report, measures will be introduced from 6 April 2006 to stop heritage and conservation charities simply reclassifying admission fees as donations on which Gift Aid can be claimed.

However from April 2006, Gift Aid will be extended to any charity that grants the public the right to view property preserved, maintained, kept or created by a charity in relation to their charitable work. Under the new scheme, instead of paying an admission fee, the visitor is regarded as making a valid Gift Aid donation. To qualify for Gift Aid:

- The right of admission is for a period of at least a year and the number of eligible visits should not be restricted; or
- Where the right of admission period is for less than a year, the gift must be at least 10% more than the amount that any member of the public would have to pay to gain the same right of admission.

Where the new rules are met, the whole of the gift will be eligible for Gift Aid.

2.8 Extension of Tax Exemption on Outplacement Counselling & Training Expenses to Part-Time Employees

Currently, full-time employees who lose their jobs can receive tax free outplacement counselling and retraining course expenses. From 6 April 2005 this provision is extended to part-time employees.

In addition, the duration of the retraining course is extended up to a maximum of 2 years and need no longer be full-time or substantially full-time.

2.9 Computer & Bicycle Exemptions

With effect from 6 April 2005, there will no longer be a tax charge where employees purchase a computer or bicycle that has previously been loaned to them or to another employee, by their employer.

In part, this change has been made to ensure that the government-sponsored Home Computer Initiative can operate as originally envisaged.

Currently, if an employee buys a computer or bicycle at market value at the end of a loan period, a tax charge could still arise broadly based on the original value less amounts already charged to tax.

2.10 Payments made by Employers to Employees when in Full-Time Attendance at Universities & Technical Colleges

On occasions, employers will sponsor employees to take up full-time attendance at universities or technical colleges. Currently, the rules with regard to Income Tax do not accord with those for National Insurance Contributions.

With effect from academic year 2005/06 commencing on 1 September 2005, there will be a change to the tax legislation so that payments of up to £15,000 (previously £7,000) for an academic year can be made free of tax to employees for periods of attendance on a full-time educational course at a recognised educational establishment.

There will be a similar change for National Insurance Contributions also from academic year 2005/06 commencing on 1 September 2005 so that these types of payments, again up to £15,000, can be paid free of Class 1 National Insurance Contributions.

These rules will apply where an employee attends a full-time course at a recognised educational establishment for at least 20 weeks a year.

The payments can cover lodging allowances, subsistence and travelling allowances, but exclude any university fees or other fees payable by the employee.

The limits will be reviewed annually and are based on academic years.

Any payments made after 16 March 2005 that relate to the 2004/05 academic year should be paid under the pre-existing rules.

2.11 Tax Treatment of Armed Forces Pension, Compensation & Early Departure Payment Schemes Benefits

From 6 April 2005, the new Armed Forces Pension, Compensation and Early Departure Payments Schemes will begin to pay benefits. Amendments will be required to the legislation to align the tax treatment of benefits paid out to beneficiaries under the new schemes with those under existing schemes and also to provide an income tax exemption from lump sum in service compensation payments paid through the Armed Forces Compensation Scheme.

3 CAPITAL GAINS TAX

3.1 Capital Gains Tax Rates

The annual exemption for 2005/06 will be increased to £8,500 for individuals and £4,250 for the majority of trusts.

For individuals, the amount chargeable to Capital Gains Tax is added to the income liable to Income Tax and treated as the top part of that total.

For 2005/06, capital gains will be taxed at 10% if below the starting rate limit for Income Tax, at 20% if within the basic rate limit and at 40% if above the basic rate limit.

3.2 Chargeable Gains: Trustees' Change of Residence

Trustees resident and ordinarily resident in the UK for any part of a tax year are generally chargeable to CGT on all chargeable gains arising to them in the tax year.

This applies even if the gain arises at a time in the tax year when they are resident outside the UK. However, some Double Tax Agreements (DTA) prevent the UK from taxing gains arising at a time when the trustees are resident outside the UK. Changes are to be made in relation to disposals on or after 16 March 2005 to ensure that trustees cannot exploit the terms of certain DTAs to avoid a charge to CGT on gains arising in a tax year, at a time when they are not resident in the UK.

3.3 Chargeable Gains: Temporary Non-Residents

Generally speaking, individuals need to be resident outside the UK for five complete tax years to avoid Capital Gains Tax on gains made while they are non-resident.

Certain Double Tax Agreements (DTA) prevent the UK from taxing such gains. The Inland Revenue does not now accept that the DTAs prevent a UK tax charge and the legislation will be changed to put the matter beyond doubt. This will secure that the terms of a DTA cannot prevent a UK tax charge on gains that are treated as arising to an individual in the tax year that he/she returns to the UK. The charge will generally apply where the tax year of departure is 2005/06 or later and also in certain circumstances where the tax year of departure is 2004/05.

3.4 Chargeable Gains: Location of Assets etc

There are special rules that are used to determine whether the location of assets is relevant on gains arising on the disposal of assets by individuals.

These apply to individuals who are resident or ordinarily resident, but not domiciled in the UK or who are neither resident nor ordinarily resident in the UK but carry on a trade, profession or vocation in the UK through a branch, agency or permanent establishment. For example, an individual resident or ordinarily resident, but not domiciled, in the UK is only liable to tax on gains

arising on the disposal of assets located abroad, if the gain is remitted to the UK.

On or after 16 March 2005, the legislation is to be amended to prevent certain common tax avoidance schemes by taxing certain assets that are not currently treated as located in the UK.

For example, registered shares are generally located where the register is situated but bearer shares are located where the bearer instrument is held at the time of disposal.

Bearer shares in UK companies will now be treated for tax purposes as located in the UK, irrespective of where the bearer instrument is held. The new rules will also apply to intangible assets, such as a contract or a right to sue, and assets that are rights under the law of a territory outside the UK that correspond to patents, trade marks, registered designs, copyright, franchises, options and futures.

3.5 Reform of Taxation of Collective Investment Schemes

Where a Personal Equity Plan / Individual Savings Account or a Child Trust Fund becomes void, the administrative arrangements are to become simplified. From 6 April 2005, it will be the responsibility of the investor or the executors of the investor to account for income tax.

Chargeable gains rules are to be changed to:

- give exemption from Capital Gains Tax where the manager holds unauthorised unit trusts (UUT) in the fund temporarily. This will apply from 2005/06;
- enable a life assurance company / friendly society to hold units in a UUT without the UUT losing chargeable gains exemption. This will only apply where the units are held by a part of the business where the chargeable gains are exempt from corporation tax. This will apply from 2005/06;
- allow a deduction for amounts reinvested in accumulation units/shares on the disposal of those units or shares. This will apply to disposals on or after 16 March 2005.

New rules will be introduced for Authorised Unit Trusts that issue more than one class of unit. The rules will be non discriminatory and similar to those in the OEIC rules.

Powers will be included in the Finance Bill 2005 to change regulations to:

- define and consolidate the existing tax rules in regulations;
- allow changes in response to future FSA changes or to counter avoidance;
- change the existing distribution rules; and
- allow different tax treatment to be applied to different unit/share

holders in funds that are Qualified Investor Schemes.

Draft regulations will be published after further discussions with interested parties. New regulations will cover distributions, substantial ownership rules and property.

4 CORPORATION AND BUSINESS TAX

4.1 Corporation Tax Rates

For the year to 31 March 2006, the main rate for Corporation Tax remains at 30% and the Small Companies Rate at 19%. The marginal rate remains at 32.75%.

The starting rate of Corporation Tax is nil for those companies whose profits fall below £10,000. A marginal rate of 23.75% applies to companies whose taxable profits fall between £10,000 and £50,000. These rates are subject to the anti-avoidance provisions that provide a minimum rate of 19% on distributed profits for small, incorporated businesses.

The thresholds for Small Companies Rate and Full Rate remain at £300,000 and £1,500,000 respectively.

Full details of rates and thresholds applicable in 2004/05 and 2005/06 are set out in Table H.

4.2 International Accounting Standards: The Tax Implications

Under tax legislation, a company's statutory accounts are used to form the basis for the calculation of that company's corporation tax liability. As announced on 14 December 2004, at the time of the Pre-Budget Report, a bundle of provisions is being introduced.

These include steps to:

- deny companies the ability to take advantage of the move from UK Generally Accepted Accounting Principles to International Accounting Standards by, for example, artificially accelerating a loss under currently applied GAAP that would otherwise have been deferred under the transitional rules;
- resolve uncertainties arising from a change in accounting terminology, for example, the valuation and impairment of bad debts;
- perpetuate some tax reliefs where accepted accounting treatment has changed, for example, where it will be permissible to take amounts to the balance sheet rather than writing them off to the profit and loss account; and
- postpone the tax effect of the transition in certain circumstances, thus changes to the comparative figures might be recognised for tax purposes only in the subsequent period, at the earliest.

These changes generally will have effect for periods beginning on or after 1 January 2005, although the anti-avoidance provisions will have effect from 14 December 2004.

4.3 Corporate Intangible Assets

A number of changes are to be made to the intangible fixed asset regime for companies acquiring or disposing of such assets.

An avoidance scheme disclosed to the Inland Revenue exploited the related party rules. They are therefore to be amended to ensure that a participator (or his associates) in a company that controls or has a major interest in another close company will be a related party of that other company. This will apply to the transfer of assets on or after 16 March 2005.

The market value rules are to be amended for the transfer of assets between related parties. Generally, market value is substituted for actual values in transactions between related parties. This is intended to prevent advantages being gained from using artificially high or low prices.

From 16 March 2005, the transfer of an intangible asset between related parties at an over or under-value will not escape tax arising on a distribution or on employment income through use of the market value rule.

Changes will also be made to capital gains tax gifts relief claimed on intangible assets gifted to related party companies.

The regime is, in future, to include a further class of asset. This is the payment entitlement under the single payment scheme for farmers.

4.4 Capital Allowances: Renovation of Businesses in Disadvantaged Areas

A new Business Premises Renovation Allowance (BPRA) scheme will provide 100% First Year Allowances for capital expenditure on renovating or converting vacant business premises in designated disadvantaged areas.

BPRA will therefore provide an enhanced rate of allowance for expenditure that currently qualifies for plant and machinery, industrial buildings or agricultural buildings allowances and a new relief for expenditure on commercial buildings (such as offices and shops) which do not currently qualify for any capital allowances.

The scheme will apply once state aid approval has been granted.

4.5 Extension of Low Budget Film Tax Relief

The tax relief available for investing in low budget films was due to expire on 1 July 2005. It will now be extended until 31 March 2006 with a power to extend until a later date.

A low budget film is a film certified as a British Film and having total production expenditure of less than £15 million. The effect of the relief is that expenditure is regarded as revenue expenditure on

which tax relief is available immediately, rather than as capital expenditure subject to capital allowances.

4.6 Countering Film Tax Avoidance

As announced in the 2004 Pre-Budget Report, measures are to be introduced with effect from 2 December 2004 to counter tax avoidance through investment in films.

Film tax relief treats expenditure on films as revenue expenditure available to be written off, rather than capital expenditure subject to capital allowances.

The measures being introduced will counter:

- multiple claims to relief in respect of any one film;
- deferral of tax for more than 15 years; in cases where there is a guaranteed income stream, the relief will be restricted in the proportion that 15 years bears to the length of the income stream;
- groups of companies turning the tax deferral into a tax gain. This will be achieved by requiring them to value the film rights as a trading receipt at the time of exit; and
- partners obtaining loss relief in excess of the capital contribution for which they are fully at risk.

4.7 Avoidance Through Arbitrage

New legislation will apply to deductions and receipts arising on or after 16 March 2005, to counter corporation tax avoidance using arbitrage schemes that involve hybrid entities or instruments.

It is proposed to allow a limited period for companies to unwind arrangements with unconnected third parties. These new rules will not apply to any scheme involving deductions, if the scheme was in place on or before 16 March 2005 and is terminated by 1 July 2005.

Whilst the Inland Revenue will consider each case on its individual merits, they have said that they will not normally apply these new rules where the tax advantage is less than £50,000.

4.8 Double Tax Relief For Trade Receipts

As expected, legislation is to be introduced to ensure that for the purposes of allocating UK tax to foreign income, expenses are allocated to this income on a reasonable basis. In some circumstances it has been possible to claim increased DTR by disregarding such expenses. This has reduced the UK tax liability to less than it would have been under the normal view taken by the Inland Revenue. One example given by the Inland Revenue is where tax is withheld from gross rents received in a Schedule A business.

In particular, the practice of separating the foreign income and the foreign expenses in order to avoid a restriction

to DTR will not be possible under the new legislation.

The new rules will apply from 16 March 2005 for companies and from 6 April 2005 for partnerships and individuals, so there may be scope for partnerships and individuals to take advantage of the old rules in the very short term.

Some basic transitional relief up to 31 December 2005 will be available for foreign tax on dividend income. The new rules will not restrict DTR relief by more than 50% of the foreign tax paid.

4.9 Double Tax Relief Anti-Avoidance

From 16 March 2005, some generic anti-avoidance measures will apply to cancel the increase in DTR that results from exploitation of any scheme or arrangement.

From 10 February 2005, another measure will apply in particular to situations where the foreign tax credit reduces the amount of tax payable to an amount less than that which would have been payable if the transactions making up the scheme had never taken place.

The example given by the Inland Revenue is of a dividend-buying transaction where a shareholding is acquired just before the dividend date and sold shortly afterwards.

This anti-avoidance measure will not apply to mitigation that is permitted under existing legislation, such as the onshore pooling rules.

The new rules will also not apply to "small claims", which means any case where the total claim to foreign tax credit by a person together with any connected party is less than £100,000 in a tax year or accounting period.

Specific new rules are also being introduced, with effect from 16 March 2005, that target two known avoidance schemes. One involves the use of a DTR provision that treats all group companies in a foreign jurisdiction as a single entity to circumvent the Controlled Foreign Company legislation. The other involves claiming DTR in respect of dividends that are deductible in another jurisdiction because they are treated as interest in that country.

4.10 Financial Avoidance

Following the introduction of disclosure of avoidance schemes to the Inland Revenue, measures are to be introduced to block schemes disclosed, as follows:

From 2 December 2004:

- the avoidance of income tax by individuals using stripped corporate bonds;
- the avoidance of tax by companies acquiring debt securities in particular circumstances;

From 10 February 2005

- the exploitation of a loophole by companies in the loss-buying rules relating to non-trading loan relationship losses;

- the creation of artificial capital losses by companies using capital redemption bonds;

From 16 March 2005

- the conversion by companies of interest-like income into capital gains or non-taxable income, through derivatives;
- where a company ceases to be a member of a group, the exploitation of the group continuity rule for loan relationships and derivative contracts to convert into capital;
- where arrangements are entered into to take advantage of the 15 year rule for rent factoring; and
- schemes which exploit relief available to companies for annual payments.

4.11 Ring Fence Corporation Tax & Supplementary Charge Instalment Payments for Oil Companies

Corporation tax and supplementary charges payable by oil companies on their ring fence profits are to be paid by way of three equal instalments rather than quarterly instalments as at present. There will be transitional arrangements for the first accounting period ending after 30 June 2005, which will leave the amount due in respect of the first two quarterly instalments unchanged but require the remainder of the estimated liability for that accounting period to be paid on the third instalment date.

4.12 Company Car & Fuel Benefit Tax

The company car fuel benefit charge will be frozen at £14,400 for 2005/06.

The company car tax CO2 emissions tables from which benefits are calculated are to be frozen for 2006/07 and 2007/08.

There will be a simplification to the current alternative fuel discounts offered to drivers who use cars that run on fuels such as LPG and CNG or have battery-propelled cars.

Currently, they enjoy a discount from the equivalent company car percentage that is charged to tax. There are different calculations of the discounts for bi-fuel gas and petrol cars depending on whether they are manufactured or converted to run on gas as well as petrol before or after the type approval.

From 2006/07 the discounts for cars that run on alternative fuels are to be simplified so that:

- The cost of conversion is disregarded for bi-fuel gas and petrol cars converted after type approval;
- There will be a 2% discount for bi-fuel gas and petrol cars manufactured or converted before type approval;
- There will be a 3% discount for hybrid electric and petrol cars; and

- The 6% discount for electric-only cars will be maintained.

4.13 Landlord's Energy Saving Allowance

The scope of the landlord's energy saving allowance will be extended to include solid wall insulation with effect from 7 April 2005.

This allowance applies where individual landlords (and other landlords who pay income tax) let residential property and install loft insulation or cavity wall insulation in dwelling houses that they let. The maximum amount that can be claimed is limited to £1,500 per building.

4.14 European Legislation

The Government is publishing new guidelines for the translation of EU legislation into UK legislation. Although only mentioned very briefly in the Chancellor's speech, one interpretation is that a greater level of EU legislation than before may automatically become UK law.

Whilst there are to be checks to prevent over-implementation, only time will tell as to whether these measures lead to a dramatic increase in the red tape already suffered by business.

4.15 Research Institution Spinout Companies

Legislation will be introduced to disregard the value of Intellectual Property (IP) on a transfer from a Research Institution to a spinout

company. This will apply for the purposes of rules relating to the taxation of employment-related securities held by researchers.

This change will benefit employees of Research Institutions who acquire or have acquired such securities in spinout companies. Universities, Public Sector research establishments and other entities such as NHS Trusts own IP created by their employees. Such entities often place the IP in a spinout company to enable researchers who have helped create the IP to benefit when it is subsequently exploited.

Whatever form this reward takes it is subject to PAYE and NIC at the time it flows to the employee. Where shares are concerned, this can be very early in the life of the IP and this was leading to difficulties in payment of tax and NIC. Income tax and NIC will now not be payable unless and until the company is successful.

Spinouts that were set up before the operative date, of 2 December 2004, will have the opportunity to elect by 15 October 2005 that income tax and NICs will not be payable unless and until the company becomes successful.

4.16 Controlled Foreign Companies

With his 2004 Pre-Budget Report the Chancellor issued draft legislation affecting CFCs. This anti-avoidance legislation will be included in the Finance Bill but took effect from 2 December 2004.

The draft legislation was targeted at ensuring that:

- profits taxed at low rates were identified in a way consistent with UK tax principles;
- UK tax was not artificially reduced through the interaction of double tax relief and the CFC rules; and
- the Excluded Country exemption was not manipulated to artificially shelter taxable profits.

5 INDIRECT TAXES

5.1 VAT: Turnover Limits

The registration threshold will rise by £2,000 to £60,000 from 1 April 2005. The de-registration limit rises similarly to £58,000.

The registration and de-registration limits for acquisitions from other European Union Member States will also be increased from £58,000 to £60,000.

5.2 VAT: Relief for Certain Charities

A reduced VAT rate of 5% is to be applied to the supply of advice or information connected with or intended to promote the welfare of the elderly, the disabled, or of children.

The reduced rate will only apply to supplies that are not otherwise exempt from VAT.

5.3 VAT: Memorials

A VAT refund scheme has been introduced for the construction, repair and maintenance of public memorials. This welcome change comes after a three-year battle led by Chantrey Vellacott DFK.

5.4 VAT: Avoidance Scheme Disclosure Rules

The rules for reporting tax avoidance schemes have been tightened so that now businesses undertaking exempt or non-business activity are also covered.

Two new schemes have become reportable, one concerning the VAT option to tax and another that uses face-value vouchers.

5.5 VAT: Partial Exemption - Package of Measures

Customs have been given wider powers to override partial exemption special methods when they believe that the method results in a loss of revenue.

New rules have been introduced which cover special partial exemption methods, their approval and operation. Customs have also reduced the application of 'rounding up' in the partial exemption standard method.

5.6 VAT: Unjust Enrichment

Customs' powers to refuse to refund VAT wrongly charged because such a payment would 'unjustly enrich' taxpayers have been extended. They

can now apply to businesses that are in an overall VAT repayment position.

5.7 VAT: Place of Supply

This measure follows changes at the beginning of the year to the VAT place of supply rules for natural gas and electricity.

From 17 March 2005, the value on which VAT is to be accounted for by VAT-registered customers receiving natural gas and electricity from suppliers established outside the UK will be the consideration payable to the supplier.

5.8 VAT: Amendment of Law Governing Supplies of Goods in Customs Warehouses

Customs are to be provided with powers to deny VAT-free trading in warehouses in certain situations. This is essentially where the VAT due once the goods leave the warehouse does not correspond to the amount of VAT that would have been due had the transactions not been VAT-free.

The legislation permitting Customs to make the necessary regulations will come into effect on Royal Assent to the Finance Bill. The regulations will come into effect shortly after.

5.9 VAT: Local Authorities

From 1 April 2005, the provision by local authorities of certain services will be reclassified as non-business rather than as an exempt activity for VAT.

The types of services affected include childcare and welfare.

The effect of this will be to allow the recovery of VAT incurred in connection with providing these services.

5.10 VAT: Fuel Scale Charges

Whenever a business funds private motoring by subsidising fuel, it must account for VAT fuel scale charges, that is, output tax.

The scale charges have been revised and are shown at Table D.

Businesses must use the new scales from the start of their first accounting period beginning on or after 1 May 2005.

5.11 VAT: Reduced Rate for Energy Saving Materials

The reduced VAT rate of 5% currently applies to the installation of a specific list of energy saving materials.

As of 7 April 2005, this list will be extended to include air source heat pumps and micro combined heat and power units.

5.12 Landfill Tax

From 1 April 2005, the standard rate of landfill tax will be increased from £15 per tonne to £18 per tonne.

From the same date, the maximum credit that landfill site operators may claim against their annual landfill tax

liability is to be decreased from 6.8% to 6%.

5.13 Tobacco Duty

From 6pm on 16 March 2005, the rates of duty on tobacco products imported into, or manufactured in, the United Kingdom will be increased.

The price of a pack of 20 cigarettes will be increased by 7p and of 5 cigars by 2.9p.

Tax on hand-rolling tobacco will increase by 6.9p for every 25 grams, and pipe tobacco by 4.2p for every 25 grams.

5.14 Alcohol Duty

From midnight on 20 March 2005, Alcohol Duty is increased by 1p on a pint of beer and 1p on a standard 175ml glass of wine.

The excise duty on spirits, cider and sparkling wine is frozen.

5.15 Gaming Duty: Changes to Duty Bands

The Gross Gaming Yield threshold for each duty band will be increased. The new duty bands are:

- First 534,500 2.5%
- Next 1,186,500 12.5%
- Next 1,186,500 20.0%
- Next 2,078,000 30.0%
- The remainder 40.0%

The changes come into effect for accounting periods starting on or after 1 April 2005.

5.16 Hydrocarbon Oils: Duty Rates

From 1 September 2005, excise duty rates on main road fuels will be increased by 1.22 pence per litre

Effective rates of duty for non-road fuels, biodiesel, bioethanol and natural gas will also be increased by 1.22 pence per litre.

6 STAMP DUTIES INCLUDING SDLT

6.1 Stamp Duty Land Tax: Raising the Threshold

The threshold for Stamp Duty Land Tax (SDLT) on residential transactions is raised from £60,000 to £120,000.

With effect from 17 March 2005, SDLT will not be payable on such transactions if the consideration does not exceed £120,000. There is no change where the consideration exceeds £120,000. Therefore, if it exceeds £120,000 but does not exceed £250,000 there remains a 1% charge to SDLT.

There is no change to the higher threshold of £150,000 for residential transactions in designated disadvantaged areas.

The effective date of a transaction for these purposes is normally the date of completion. However it may be earlier

than completion if a contract is "substantially" performed. This is unlikely to be the case for most residential contracts.

6.2 Stamp Duty Land Tax: Commercial Disadvantaged Areas Relief

For transactions in "disadvantaged areas", the SDLT exemption is now to be limited to residential land transactions only. Commercial land will no longer benefit from this exemption with effect for contracts entered into on or after 16 March 2005. Contracts entered into before that date will only be affected in certain limited circumstances.

6.3 Stamp Duty & Stamp Duty Reserve Tax: Extension of Reliefs

Stamp Duty and Stamp Duty Reserve Tax relief is to be extended to members of a specified Multilateral Trading Facility, as defined by the EU Markets in Financial Instruments Directive 2004/39/EC who,

- are either acting as intermediaries; or
- are involved in repurchase/stock lending.

6.4 Disclosure Rules: Stamp Duty Land Tax & Commercial Property

Accountants, lawyers, property companies and others who devise, market or use in-house Stamp Duty

Land Tax avoidance schemes and arrangements will be required to disclose them to the Inland Revenue.

These disclosure rules will apply to schemes and arrangements made available or implemented on or after 1 July 2005.

The rules only affect commercial property schemes, where the property has a market value of at least £5 million.

6.5 Stamp Duty Land Tax: Anti-Avoidance & Other Provisions

The honeymoon period is over for this "new" tax, with the Inland Revenue outlawing a number of tax mitigation arrangements.

The measures take effect from 17 March 2005 and will not affect existing contractual arrangements except in certain limited circumstances.

The main focus for change relates to groups of companies and in particular, abuse of the intra-group transfer exemptions.

Other legislation introduced extends to:

- transfers of undertakings (acquisition relief);
- transactions undertaken by bare trustees;
- lease variations for chargeable consideration other than rent;

- "refundable" contingent purchase consideration;
- some technical refinements relating to the valuation of the head-lease (or freehold interest) on a sale and lease-back transaction; and
- sub-sale relief.

7 MISCELLANEOUS

7.1 Inheritance Tax Rates

The Inheritance Tax threshold (the nil rate band) is being increased by statutory indexation to £275,000 from 6 April 2005. The value of estates in excess of this figure will continue to be taxed at 40% on death and 20% on lifetime transfers.

It was also announced that the threshold would rise to £285,000 for 2006/07 and £300,000 for 2007/08.

7.2 Alternative Finance Arrangements

Certain tax consequences arise for both companies and individuals on paying or receiving interest. Legislation is to be introduced to treat other financing arrangements which replicate borrowings or loans, but without the payment of interest, for example arrangements developed to be Shari'a compliant, as if interest was involved.

These changes will apply to arrangements entered into on or after 6 April 2005.

Changes are also to be introduced to Stamp Duty Land Tax, extending reliefs to a wider range of alternative types of finance for the purchase of property. These changes will apply from the date of Royal Assent.

7.3 Tax & Civil Partners

New legislation, which takes effect from 5 December 2005, has been drafted to allow civil partners in a partnership formed as a result of the Civil Partnership Act 2004 (CPA) to be treated in the same way as married couples, for tax purposes.

The CPA will create an entirely new legal status of civil partner, giving same-sex couples in the UK the opportunity to acquire a legal status for their relationship. Such couples will gain a package of rights and responsibilities reflecting those already available to a married couple.

For tax purposes, the Government has announced that civil partners will be treated in the same way as married couples. Therefore from the start of the civil partnership scheme, tax charges and reliefs and anti-avoidance rules will apply equally to married couples and civil partners, and those treated as such. This will give both advantages and disadvantages to such couples.

Major areas that will be affected include:

- Capital Gains Tax – where principal private residence relief will only apply to one property owned by a couple, transfers of assets between civil partners will be on a no-gain no-loss basis and, for connected persons rules, civil partners will be treated in the same way as husbands and wives;
 - Non-State Pension Schemes - these rules will be extended so that civil partners will have exactly the same rights as husbands and wives and similar equivalents will apply to former civil partners;
 - Settlements – Anti-avoidance legislation will now be extended;
 - Company Control Tests - civil partners will be regarded as associates when deciding on the control of a company;
 - Stamp Duty and Stamp Duty Land Tax – The exemptions will be extended;
 - Transfer of Assets Abroad - The anti-avoidance regulations will be extended;
 - Married Couple's Allowance - This only applies to married couples where one of the spouses was born before 6 April 1935 but it will now be extended to civil partners.
- Inheritance Tax - where transfers between married couples are generally exempt;

A INCOME TAX RATES

Individuals	2004/05	2005/06
Lower Rate on first (£2,020) £2,090 of taxable income	10%	10%
Basic Rate on next (£29,380) £30,310	22%	22%
Cumulative tax thereon	£6,666	£6,877
Higher Rate over (£31,400) £32,400	40%	40%
On Savings Income, excluding dividends		
taxable income up to lower rate limit	10%	10%
taxable income between lower and basic rate limit	20%	20%
taxable income above basic rate limit	40%	40%
On Dividend Income		
taxable income up to basic rate limit	10%	10%
taxable income above basic rate limit	32.5%	32.5%
Trusts		
Interest in Possession	10/20/22%	10/20/22%
Discretionary Rate: Applicable to Trusts	40%	40%
Trust Dividend Rate	32.5%	32.5%

B INCOME TAX ALLOWANCES

Effective at all rates of income tax	£	£
Personal Allowance	4,745	4,895
Age Allowance (65 - 74)	6,830	7,090
Age Allowance (75 & over)	6,950	7,220
Blind Person's Allowance	1,560	1,610
Effective at only 10%		
Age Allowance (Married, elder born before 6/4/35)	5,725	5,905
Age Allowance (Married, elder 75 & over)	5,795	5,975
Minimum Allowance (Married, elder born before 6/4/35)	2,210	2,280
All Age Allowances are reduced by £1 for every £2 of income over (£18,900)		£19,500

C INDIVIDUAL SAVINGS ACCOUNTS (ISAS)

Annual Investment Limits	Mini ISAs (£)	Maxi ISA (£)
Overall Maximum Investment	7,000	7,000
Cash	3,000	3,000
Life Insurance	1,000	1,000
Stocks & Shares	3,000	7,000

Individuals cannot have both a maxi ISA and one or more mini ISAs in the same year.

D SCALE BENEFITS FOR VEHICLES

Company Cars: Employees provided with a company car available for private use are taxable according to a scale based on CO₂ emissions. The basic car benefits charge will be the car's list price multiplied by the percentage charge for the CO₂ emissions band in which the car falls, subject to the addition of any diesel supplement or a discount for cars using alternative fuels and technologies.

CO ₂ emissions in grams per kilometre			Percentage of car's list price taxed	CO ₂ emissions in grams per kilometre			Percentage of car's price taxed
2004/5	2005/6	2006/7	%	2004/5	2005/6	2006/7	%
145	140	140	15 ¹	200	195	195	26 ¹
150	145	145	16 ¹	205	200	200	27 ¹
155	150	150	17 ¹	210	205	205	28 ¹
160	155	155	18 ¹	215	210	210	29 ¹
165	160	160	19 ¹	220	215	215	30 ¹
170	165	165	20 ¹	225	220	220	31 ¹
175	170	170	21 ¹	230	225	225	32 ¹
180	175	175	22 ¹	235	230	230	33 ²
185	180	180	23 ¹	240	235	235	34 ³
190	185	185	24 ¹	245	240	240	35 ⁴
195	190	190	25 ¹				

Supplement if car runs solely on diesel (not applicable to 6.4.06 if car meets Euro IV emission limit). ¹Add 3%. ²Add 2%. ³Add 1%. ⁴Maximum charge and so no diesel supplement.

The benefit will be reduced for employee contributions up to £5,000 and/or where the car is unavailable for part of the year.

Fuel Benefit: From 2003-04 the annual charge is linked to the car's CO₂ emissions using the same percentage figures as the company car benefit charge and multiplying them by £14,400.

Fuel Benefit: VAT Scales (Accounting Periods beginning on or after 1 May 2005)

Engine Size	3 Month Period VAT Scale		Annual VAT Scale	
	Petrol £	Diesel £	Petrol £	Diesel £
Up to 1400 cc	246	236	985	945
1401 to 2000 cc	311	236	1,245	945
Over 2000 cc	457	300	1,830	1,200

National Insurance Contributions: Employers' NICs (Class 1A) are chargeable on both company cars and fuel by reference to the above Income Tax scales. They are assessed annually together with other taxable benefits in kind and collected in arrears (12.8% for 2004/05).

Company Vans: With effect from the 6 April 2005 there will be no charge where an employee merely takes a company van home with no other private use. If there is unrestricted private use then vans up to 3.5 tonnes are taxed at a scale rate of £500 (£350 if 4 years old or over at next 5 April).

E FIXED PROFIT CAR SCHEME

Business Mileage	per mile
Motor Cars and Vans	
Up to 10,000 miles	40p
Excess over 10,000 miles	25p
Motorcycles	24p
Cycles	20p

These rates are tax free allowances, which may be used to reimburse employees who use their own vehicle for business purposes.

Employers can use the following fuel only rates to reimburse employees for business travel in their company cars or require staff to repay the cost of fuel used for private travel.

Engine size	Petrol Fuel cost (per mile)	Diesel Fuel cost (per mile)
1400cc or less	10p	9p
1401cc – 2000	12p	9p
Over 2000cc	14p	12p

F PERSONAL PENSIONS & RETIREMENT ANNUITIES

Age on 6 April	% OF NET RELEVANT EARNINGS	
	PPP	RAP
35 or less	17.5	17.5
36 – 45	20.0	17.5
46 – 50	25.0	17.5
51 – 55	30.0	20.0
56 – 60	35.0	22.5
61 & over	40.0	27.5
Earnings Cap (£102,000 for 2004/05)	£105,600	N/A

Stakeholder Pensions

As from 6 April 2001, premiums of up to £3,600 can be paid irrespective of earnings. The PPP rates and earnings cap above apply for premiums over £3,600.

From April 2006 there will be major changes to the pension scheme rules.

G CAPITAL GAINS TAX

Rates	2004/05	2005/06
Individuals, as top slice of income		
on taxable gains up to lower rate limit	10%	10%
on taxable gains between lower and basic rate limit	20%	20%
on taxable gains above basic rate limit	40%	40%
Trusts generally/personal representatives	40%	40%
Annual Exemptions	£	£
Individuals & certain trusts	8,200	8,500
Trusts generally	4,100	4,250
Personal representatives for year of death & next two years	8,200	8,500

Indexation relief frozen at April 1998. Chargeable gains then reduced by reference to period of ownership post-April 1998. Abatement of 75% for business assets held for 2 years and 50% for 1 year. Abatement of 40% for non-business assets held 10 years tapering to 5% for 3 years ownership.

H CORPORATION TAX

YEAR TO 31 MARCH	2005	2006
Taxable Profits		
Starting Rate £0 - £10,000	0%	0%
Marginal Rate £10,001 - £50,000	23.75%	23.75%
Small Companies Rate		
£50,001 - £300,000	19%	19%
Marginal Rate		
£300,001 - £1,500,000	32.75%	32.75%
Full Rate over £1,500,001	30%	30%
A minimum rate of 19% will apply to profits distributed to non-company shareholders after 31 March 2004		

Closely controlled investment-holding companies are always taxed at the Full Rate.

YEAR TO 5 APRIL	2005	2006
Rate of tax credit on dividends	$\frac{1}{9}$	$\frac{1}{9}$

I ENCOURAGING BUSINESS INVESTMENT

Investments qualifying under the Enterprise Investment Scheme (EIS) and Venture Capital Trust (VCT) rules will attract the benefits detailed below, if certain criteria are satisfied.

From 6 April 2004	EIS	VCT
Income Tax Credit	20%	40%
Limit for Income Tax Credit	£200,000	£200,000
Capital Gains Tax Deferral	Yes	No
Capital Gains Tax Exemption on Disposal	Yes	Yes

J INHERITANCE TAX

Rates

From the 6 April 2005 the first £275,000 of cumulative chargeable transfers are taxed at NIL rate. Those in excess are taxed at 40% on death, 20% for lifetime transfers. Potentially exempt transfers within seven years before death are taxed at death rate with tapering relief as follows:

Years between gift & death	Percentage of death rate
Up to 3	100%
3 – 4	80%
4 – 5	60%
5 – 6	40%
6 – 7	20%
Over 7	NIL

Exemptions

		£
Annual exemption	per donor	3,000
Small gifts	per donee	250
Gifts in consideration of marriage by:		
Parent		5,000
Grandparent/Remoter ancestor		2,500
Party to the marriage		2,500
Other person		1,000

K VALUE ADDED TAX

Standard rate		17.5%
VAT fraction		7/47
Effective from	1 April 2004	1 April 2005
Registration Limits - Annual		
Future/past turnover	£58,000	£60,000
Deregistration Limit - Annual		
Future turnover	£56,000	£58,000

L STAMP DUTY LAND TAX

Transfer of land and buildings (consideration paid)

Residential Properties

0 - £120,000 (from 17 March 2005)	0%
£120,001 - £250,000	1%
£250,001 - £500,000	3%
£500,001+	4%

Non Residential Properties & Residential Properties in Disadvantaged Areas

0 - £150,000	0%
£150,001 - £250,000	1%
£250,001 - £500,000	3%
£500,001+	4%

M NATIONAL INSURANCE CONTRIBUTIONS

FROM 6 APRIL 2005

Class 1 - Individuals in Employment

Lower Earnings Limit - £82 wkly, £356 mthly, £4,264 yrly.

There is no liability for either employees' or employers' contributions if earnings are below these limits.

Upper Earnings Limit - £630 wkly, £2,730 mthly, £32,760 yrly. Applies to employees only.

Not Contracted-out rates on the following bands of weekly earnings

	Employee	Employer
£0.00 to £82.00	NIL	NIL
£82.01 to £94.00	0%	0%
£94.01 to £630.00	11%	12.8%
Over £630.00	1%	12.8%

Contracted-out rates on the following bands of weekly earnings

	Employee	Employer	
		COSR	COMP
£0.00 to £82.00	NIL	NIL	NIL
£82.01 to £94.00	0%	0%	0%
£94.01 to £630.00	9.4%	9.3%	11.8%
Over £630.00	1%	12.8%	12.8%

Employer Contributions – COSR above relates to contracted-out salary-related schemes and COMP to contracted-out money purchase schemes.

Class 2 -Self Employed Individuals - £2.10 a week. Earnings under £4,345 per annum are exempt.

Class 3 -Voluntary Contributions - £7.35 a week, for protection of benefits by those not liable under

Class 1 or 2.

Class 4 - Self Employed Individuals - 8% on assessable profits between £4,895 and £32,760 a year. 1% above £32,760.



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