(SIEX). Thus, a new bureaucratic hurdle is erected in the foreign investment area, vitiating at least in part the government's recent efforts to attract foreign investment by liberalizing the applicable regulations with the enactment of Decree 1,200.

With regard to the private sector foreign debt, the new legislation fills the "vacuum" left after the abortive FOCOCAM program was cancelled in September 1986. The government has reintroduced the prior structure providing for repayment over an extended period (eight years commencing in 1987), with the Venezuelan debtor entering into a contract with the Central Bank for the purchase of foreign currency at a preferential exchange rate. Under the new scheme, however, the Venezuelan debtor wishing to be guaranteed the right to purchase foreign exchange at the existing preferred rate of 7.50 throughout the pay-out period must pay for that privilege. The debtor has two options. Under the first option, the debtor may secure a guaranteed right to purchase dollars at the 7.50 rate for the repayment of principal by paying the Central Bank a "premium" of three bolivars for each dollar of principal to be covered by the guarantee. Under the second option, the debtor may secure the right to obtain dollars at the 7.50 rate for payments of interest also (up to a maximum of the lesser of 9 percent or LIBOR plus 1¼ percent), by paying, in addition to the Bs. 3 per dollar of principal, an additional premium for each point of interest guaranteed, up to an extra Bs. 1.5 per dollar to guarantee interest at 9 percent per annum.

United Kingdom*

I. Taxation

The Finance Bill 1987 contains a number of tax changes, the most significant of which for anyone who does business in, or with, the United Kingdom are as follows:

A. Corporation Tax

1. *Rates of Tax*

(a) The rate of corporation tax for the financial year 1987 has been set at 35 percent.

*Prepared by Clifford Chance, London.

(b) The rate for small companies has been reduced from 29 percent to 27 percent, which with the marginal profits band continuing at £100,000 to £500,000 will produce an effective rate of 37 percent on profits between these bands.

2. *Companies' Chargeable Gains*

Corporation tax on chargeable gains realized by companies will in future be charged to the corporation at the company's appropriate rate of corporation tax. The reducing fraction, which hitherto applied before charging capital gains, is being abolished in respect of gains realized on or after March 17, 1987. Capital losses arising before March 17 must be utilized against pre-March 17 gains before carrying forward any excess loss.

3. *Advance Corporation Tax (ACT)*

ACT will be calculated at 27/73ds of the distribution. ACT and surplus ACT carried forward will be available for set-off against corporation tax on chargeable gains realized on or after March 17, 1987.

4. *Date of Payment*

All companies and building societies are to have a due date for payment of corporation tax set at nine months after the end of the relevant accounting period. Those who have a later payment date at present will be phased in to the nine-month interval over a three-year period.

5. *Self-Assessment*

A system of self-assessment named "Pay and File" is to be introduced in the early 1990s when Inland Revenue computerization is sufficiently advanced. This system will entail making a payment of corporation tax on the due date followed by the filing of accounts and returns within twelve months of the accounting period. Penalty and interest provisions will be applicable in respect of underpayments and late returns.

6. *Charges on Income*

Charges on income for group companies or companies under common control are to be treated as paid and received on the same date, to counteract manipulation of the two dates to straddle separate accounting periods.

B. Dual Resident Companies

Provisions will be published in the Finance Bill to counter relief for interest in both countries. This mirrors the recent U.S. legislation to counter the same matter.

C. Controlled Foreign Companies (CFC)

Avoidance of tax under the CFC legislation is to be countered by ensuring that the transfer of residence of an overseas company prior to the payment of dividend will no longer enable it to satisfy the acceptable distribution test. Relevant dividends paid on or after March 17, 1987, are to be those paid while the company is nonresident. Thus where distributions are in respect of past accounting periods they will be within the new provisions.

D. Banks—Foreign Lending

Restrictions are being imposed on the recovery of foreign tax credits against corporation tax liability arising on interest from lending to nonresidents. In future each loan will be dealt with separately.

E. Income Tax

The basic rate of tax is reduced from 29 percent to 27 percent. Personal allowances are increased in line with the statutory indexation allowance. Higher rates of tax remain the same as for 1986/87 except that the 40 percent rate will commence at £17,900 and the 45 percent rate of £20,400.

F. Capital Gains

(a) The annual exemption for individuals and trustees for disabled people is increased to £6,600, with £3,300 being applicable to other trustees.
(b) Retirement relief for disposals of businesses or family company shares is increased for £100,000 to £150,000.

G. Value Added Tax

Registration and de-registration limits are increased, but the principal VAT change relates to the restriction of input tax recoverable by businesses whose supplies include exempt supplies. These changes follow from the consultative document issued on August 7, 1986, and from the Chancellor's announcement of proposals on December 19, 1986. Businesses that import services from abroad will also be required to take these into account in determining whether or not registration is required.

H. Inheritance Tax

This tax will now apply in respect of cumulative chargeable transfers above £90,000. There will be only four rates of tax. Transfers into and out of interest in possession settlements will in future be treated as potentially exempt transfers.

I. Other Tax Matters

Car benefit and fuel scale charges for 1988/89 are increased by 10 percent.

Share Incentive Scheme legislation is to be reviewed following the issue of a discussion document on the provisions of Finance Act 1972, section 79—the taxing section for shares acquired by employees and directors through an opportunity arising from their employment.

J. Pensions

Significant changes are being introduced to encourage more investment in occupational pensions by allowing employees to make tax allowable Additional Voluntary Contributions either into the employer's scheme or one of their own choice. Benefits will be transferable on change of employment but the maximum benefit from tax-free lump sum commutation is to be restricted in future schemes or new arrangements.

II. Litigation

A. The Civil Jurisdiction and Judgments Act 1982

The Civil Jurisdiction and Judgments Act 1982, together with the 1968 Brussels Convention on Jurisdiction and The Enforcement of Judgments in Civil and Commercial Matters (which is scheduled to the Act) were brought fully into force on January 1, 1987. If litigation is contemplated against a defendant connected with a contracting State (i.e., a State that has ratified the Convention) his domicile must be ascertained. Advice of local lawyers will generally be necessary. As a result of the Convention, potential plaintiffs will have greater scope for "forum shopping," and the enforcement of judgments within the EEC has been facilitated. The complex and uncertain provisions of the Convention, however, give defendants the opportunity to take preliminary points on jurisdiction and use the delay and expense in taking references to the European Court of Justice to their advantage. For defendants domiciled in the U.S., the Brussels Convention will require English courts to recognize and enforce judgments against their assets in England that they previously would not have recognized.

B. Rules of the Supreme Court

A new draft Order 24, Rule 14a has been published relating to discovery of documents and disclosure. It provides that a disclosed document shall not be used for any purpose other than that of the action except where evidence of that document has been given in court—this exception gives effect to the dissenting speeches of Lords Scarman and Simon in *Home*

Office v. Harman, [1983] A.C. 280. It has been introduced to give effect to the settlement of the application by Ms. Harman against the U.K. before the European Commission of Human Rights.

C. Civil Justice Review

Consultation Paper No. 6, the final part of a wide-ranging examination of civil procedure in England and Wales has just been published by the Lord Chancellor's Department. Radical changes to the structure of the civil courts are proposed: the abolition of the present High Court and County Courts and their replacement with an integrated court system staffed by a two-tier judiciary, and a new code of civil procedure. Legislation may be proposed after the next election.

III. Financial Services

Large parts of the Financial Services Act 1986 have been brought into force. These include those provisions relating to:

- Insider dealing investigations and connected provisions (December 18, 1986)
- Transfer of functions to designated agency (February 12, 1987)
- Official Listing of Securities (February 16, 1987)
- Takeover offers (April 30, 1987)

Part V of the Act, relating to Offers of Unlisted Securities will not be brought into force before July 1987.

The Securities and Investments Board (SIB) have submitted the final draft version of their rules to the Secretary of State. Some bodies seeking authorization under the Act as recognized Self-Regulating Organizations (SROs) have also produced rules in final draft. (For details of the status of SIB and SROs see the Winter 1986 issue of *The International Lawyer.*)

IV. Insolvency

The Insolvency Act 1986, the Insolvency Rules 1986, and a large quantity of other secondary legislation came into force on December 19, 1986. On that date the Insolvency Act 1985 was repealed. The major changes are as follows: (1) the creation of a monopoly in the public interest for licensed insolvency practitioners; (2) the introduction of a new administration procedure that permits the freezing of all creditors' actions. It is a rehabilitation procedure similar to the U.S. chapter 11 reorganization; (3) the scope of preferential claims has been sharply reduced; and (4) the scope of provisions for adjustment of prior transactions at an undervalue has been widened.

Changes are also made to personal bankruptcy, the most important of which is that every debtor will be discharged from bankruptcy after three years (assuming it is the debtor's first bankruptcy). All debtors adjudicated bankrupt before the coming into force of the Act will be automatically discharged at the end of three years after the Act comes into force.

V. Banking

The Banking Bill, at present before Parliament, seeks to impose a more tightly drawn regulatory structure on the deposit-taking institutions. The distinction between "recognized banks" and "licensed depositors" is to be abolished, although certain restrictions will remain on the use of the word "bank." The powers of The Bank of England in particular to obtain information are to be increased.

VI. Stock Exchange

The Stock Exchange launched the new third Market in January 1987. Its objectives are to provide an accessible marketplace for young, growing companies that need to raise capital at a relatively inexpensive cost within the framework of a disciplined marketplace giving a standard of investor protection. There are no minimum size requirements. New companies and companies in their early stages of development can seek public funding through the third tier market. The aim is for companies to start at the third tier level and through growth proceed through to the Unlisted Securities Market and ultimately a full listing.

VII. Property

A. The Building Societies Act 1986

The Building Societies Act came into force January 1, 1987 (for details of its provisions see the Winter 1986 issue of *The International Lawyer*).

B. Property Income Certificates

Long-term finance of property still remains one of the most critical elements in successful commercial property development. New options are now available, in particular an investment vehicle called "Property Income Certificates" (PINCS). This new tradeable security has two elements: (1) an income certificate, giving the right to receive a share of the property's rental income and in the proceeds of sale in the event of a disposal; and (2) an ordinary share in a specially created management company responsible for the management of the company and collection of the rents.

The Stock Exchange has announced that it will consider PINCS and other single asset property vehicles for listing on the London Stock Exchange, and there are plans for major properties to be floated onto the market by way of PINCS during 1987.