

## PART IV UNITED KINGDOM TAXATION

*The comments below are intended only as a general guide to the current tax position under United Kingdom law and Inland Revenue practice and assume that the Finance Bill 2000 will be enacted in its present form. These comments apply to Shareholders who, unless express reference is made to non-United Kingdom residents, are resident or (in the case of individuals) ordinarily resident in the United Kingdom for tax purposes and who hold their shares as investments and not on trading account. Shareholders who are in any doubt as to their tax position or who are subject to tax in a jurisdiction outside the United Kingdom should consult their professional adviser.*

### 1. Issue of the 'B' Shares

For the purpose of United Kingdom taxation of capital gains and corporation tax on chargeable gains ("CGT"):

- 1.1 the receipt of 'B' Shares arising from the Proposals will be a reorganisation of the share capital of the Company. Accordingly, a Shareholder will not be treated as making a disposal of all or part of his holding of Ordinary Shares by reason of the receipt of 'B' Shares; and
- 1.2 the existing Ordinary Shares and the 'B' Shares will together be treated as the same asset as, and as having been acquired at the same time as, the Shareholder's holding of Ordinary Shares was acquired.

### 2. Redemption or disposal of 'B' Shares

- 2.1 On redemption of the whole or any of the 'B' Shares, a Shareholder may, depending on his circumstances, be subject to CGT on the amount of any chargeable gain realised. On such redemption, the Shareholder's allowable expenditure will be apportioned between the Ordinary Shares and the 'B' Shares by reference to their respective market values on the first day on which market values or prices are quoted or published for the Ordinary Shares and the 'B' Shares (the "Relevant Date"). An example of this can be illustrated as follows:

If a Shareholder purchased 100 Ordinary Shares for 500 pence each, he would have an allowable expenditure of £500 (500 pence x 100) in relation to those shares. Assuming the proposed bonus issue of 'B' Shares takes place, the Shareholder will then be issued 100 'B' Shares.

In order to calculate how much of the allowable expenditure will be apportioned to the 'B' Shares, it is necessary to make the following calculation:

Market Value of the 100 'B' Shares at the Relevant Date x £500  
Total Market Value of the 100 Ordinary Shares plus the 100 'B' Shares at the Relevant Date

Assuming that the market value of each Ordinary Share at the Relevant Date (for example, 30 May 2000) is 800 pence and the market value of each 'B' Share is 11.7 pence, then that part of the allowable expenditure in relation to the 'B' Shares would be:

$$\frac{\pounds 11.70 \text{ (i.e. } 11.7 \text{ pence} \times 100)}{\pounds 800 \text{ (i.e. } 800 \text{ pence} \times 100) + \pounds 11.70 \text{ (i.e. } 11.7 \text{ pence} \times 100)} \times \pounds 500 = \pounds 7.21$$

That part of the allowable expenditure which would be apportioned to the Ordinary Shares would be the remaining amount of £492.79 (that is to say the difference between £500 and £7.21).

In this example the capital gain on redemption (on the Early Redemption Date or the Redemption Date) would be 4.49 pence on each 'B' Share (11.7 pence - 7.21 pence) and £4.49 on the total 100 'B' Shares.

*Please note that all amounts shown in the above example are for illustrative purposes only and no account has been taken of any indexation allowance or taper relief. The market value of the Ordinary Shares and the 'B' Shares at the Relevant Date will be available from the freephone helpline and will be shown in the GKN annual and interim reports for the next three financial years and on the GKN website ([www.gknplc.com](http://www.gknplc.com)).*

2.2 The amount of CGT, if any, payable by an individual Shareholder in relation to the capital gain described in paragraph 2.1 above will depend on his or her personal tax position. The first £7,200 of chargeable gains in the tax year 2000/2001 will be free of CGT. Broadly, any gains in excess of this amount will be taxed at a rate of 10 per cent. for a taxpayer paying tax at the starting rate, 20 per cent. for a taxpayer paying tax at the basic rate and 40 per cent. for higher rate taxpayers. Indexation allowance will be available in respect of periods of ownership up to April 1998 and taper relief may be available thereafter.

A corporate Shareholder is taxable on all of its chargeable gains. Taper relief is not available to a corporate Shareholder. However, corporate Shareholders are entitled to indexation allowance up to the date the chargeable gain is realised.

2.3 No part of the proceeds received by a Shareholder on redemption will be an income distribution in the Shareholder's hands. Those proceeds will not carry any entitlement to a tax credit. The proceeds of the redemption will not constitute franked investment income in the hands of a corporate Shareholder.

2.4 The Company will not generate any shadow advance corporation tax in respect of the redemption of the 'B' Shares.

2.5 On a subsequent disposal, otherwise than by way of redemption, of the whole or any part of a Shareholder's holding of Ordinary Shares or 'B' Shares, a Shareholder may, depending on his circumstances, be subject to CGT on the amount of any chargeable gain realised. Please refer to paragraph 2.1 above for details of the manner in which the Shareholder's allowable expenditure is allocated as between the Ordinary Shares and the 'B' Shares and to paragraph 2.2 for details of how a gain will be taxed.

### **3. Stamp Duty and Stamp Duty Reserve Tax**

Except in relation to depository receipt arrangements or clearance services where special rules apply:

3.1 no stamp duty or stamp duty reserve tax ("SDRT") will be payable on the creation of 'B' Shares pursuant to the Proposals;

3.2 where Shareholders elect to redeem 'B' Shares, the redemption of those 'B' Shares by the Company will not give rise to a liability to stamp duty or SDRT; and

3.3 an agreement to sell 'B' Shares will normally give rise to a liability on the purchaser to SDRT, at the rate of 0.5 per cent. of the actual consideration paid. If an instrument of transfer of the 'B' Shares is subsequently produced it will generally be subject to stamp duty at the rate of 0.5 per cent. (rounded up to the nearest multiple of £5) of the actual consideration paid. When such stamp duty is paid, the SDRT charge will be cancelled and any SDRT already paid will be refunded.

### **4. Dividends on 'B' Shares**

4.1 The Company will not have to account for or make a withholding of advance corporation tax on any dividends it pays on the 'B' Shares.

4.2 Individual Shareholders resident or ordinarily resident for tax purposes in the United Kingdom should generally be entitled to a tax credit in respect of any dividends paid by the Company equal to one-ninth of the amount of the dividend, which is equal to 10 per cent. of the gross dividend ("gross dividend" being the sum of the dividend and the tax credit). Individual Shareholders who are liable to income tax at the starting or basic rate will be liable to tax on dividend income at the rate of 10 per cent. of the gross dividend. Therefore, the tax credit will satisfy such individuals' liability to income tax. Individuals liable to income tax at the higher rate will be subject to income tax on dividend income at a rate of 32.5 per cent. of the gross dividend. Therefore, after taking into account the tax credit, such individuals will be liable to additional income tax equal to 22.5 per cent. of the gross dividend (which is equal to 25 per cent. of the actual dividend declared).

4.3 With certain exceptions (relating to shares held in individual savings accounts or personal equity plans prior to 6 April 2004), individual Shareholders who are resident or ordinarily resident in the UK cannot claim repayment of the tax credit from the Inland Revenue.

4.4 A corporate Shareholder resident for tax purposes in the UK will not normally be liable to corporation tax on any dividend received.

4.5 Tax exempt pension funds cannot reclaim from the Inland Revenue tax credits attaching to dividend payments on UK equities.