Britain: Tax loophole for super rich remains after budget

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The Chancellor of the Exchequer Gordon Brown has failed to honour a pledge to close a tax loophole that allows foreign businessmen resident in Britain to avoid paying billions in tax.

In April's budget speech, Brown instead said that he was "reviewing" the rules governing the treatment of residents who are not liable for tax, amid growing calls for the tightening of a regime that benefited the Labour Party donor Lakshmi Mittal amongst others. Prime Minister Tony Blair was criticised when it emerged that he had intervened on Mittal's behalf in the purchase of a Romanian steel mill, after the Indian billionaire gave £100,000 to Labour.

Treasury officials are studying ways of limiting the number of years residents can claim non-domiciled status for tax purposes. Although about 60,000 people qualify, the numbers who actually make the UK their home but avoid tax is smaller. Senior Labour MPs led by John McFall, the chairman of the Treasury select committee, have urged Brown to act against what he called "the most lax non-domicile rules of any country". As shadow chancellor, Brown attacked the Tories for failing to close the loophole.

The loophole allows non-British born residents who make money abroad to avoid tax, as long as their income is not brought into the UK. In many cases it is kept in offshore tax havens. In most countries, overseas residents are subject to the host nation's tax regime. Foreign millionaires have launched a furious lobbying campaign to protect the non-domicile loophole, which saves them millions of pounds in tax each year, while their accountants have started a rearguard action to shift their wealth so that Brown cannot tax it, even if he does change the law. The richest man in Britain, Hans Rausing, has used the loophole to pay UK tax on only a fraction of his wealth.

After Gordon Brown's first hint, in early March, that he might close the loophole, millionaire ship owners and leading accountants started what one Whitehall source described as "the most fantastic lobbying campaign" to protect their privilege. There has been a torrent of letters to treasury ministers and Inland Revenue officials, claiming that the economy would lose millions of pounds and thousands of jobs if they were forced to pay their tax.

The Baltic Exchange, which speaks for the London maritime industry, has written to ministers claiming that many members of the foreign shipping community would leave the country if they were taxed. They claim this would lead to the loss of 30 percent of the worldwide tanker chartering business as well as the loss of 4,500 jobs in the City of London and £100 million in taxation.

Individual millionaires and chambers of commerce have also written, along with accounting firms, including Ernst & Young, who earn considerable fees from non-domicile clients. Leading accountants say that an attempt to stamp on non-domicile status was unlikely to lead to extra revenue for the Treasury, and could even result in a net loss of revenue as those affected moved to other countries.

Accompanying this threat of exodus, specialist tax advisers have drawn up emergency plans that would allow their non-domicile clients to remain in Britain without being caught by tax even if the loophole were closed. Rawlinson and Hunter, who advise Rausing and other fabulously wealthy non-domicile tax avoiders, circulated a memo to clients on March 19 suggesting a choice of manoeuvres to help them to frustrate Brown's plans.

Titled *Non-UK domiciliaries—change in the wind?*, the memo outlined four moves which had to be made within days, before the tax year ended on April 5. These were that those who were holding overseas assets in their own names could transfer them to trusts to avoid capital gains tax; those who had accumulated capital in trusts should try to transfer it to beneficiaries to avoid capital gains tax; those who had income in trusts should distribute it to a suitable recipient outside Britain to avoid income tax; those who had registered UK property in the name of off-shore companies should rapidly dismantle the whole structure for fear that, without the loophole, they might be liable to pay more capital gains tax on a sale than if they had simply registered the property in their own name.

Previous attempts by the Inland Revenue to reform the tax treatment of non-domiciles—in 1956, 1974 and 1988—all foundered. Labour promised a clampdown in 1994 when in opposition, in a paper called *Tackling Tax Abuses*. But clearly the government's much vaunted opposition to a "something for nothing mentality"—that was supposed to epitomise everything bad about the old welfare state policies—once again does not extend to the super-rich. Their already privileged lives will continue to be subsidised by the taxes paid by millions of ordinary working people.