October 2007

Newhaven Trust Company (Channel Islands) Limited

UK RESIDENCE AND DOMICILE REFORMS

In London, and specifically at the House of Commons, debate still rages as to which political party first thought of changing the UK regime as it applies to non-domiciled UK residents. Only time will tell whether that party has scored a victory or an own goal. Meanwhile many professional advisors will be working frantically ahead of next April's implementation date.

As you likely know the announcements include the following proposals:-

- Non domiciled individuals who have been UK residents for 7 years will pay an annual charge of £30,000 in order to continue using the remittance basis. Otherwise tax is payable on worldwide income and gains.
- Consultation on whether the tax charge should be higher for non domiciliaries who have been resident in the UK for 10 years or more.
- Extended definition of the term "remittance"
- Measures to be introduced to reduce the scope for tax planning through offshore structures designed to take advantage of the remittance basis.
- Extended anti avoidance measures in relation to both income and capital gains tax
- Removal of "ceasing source" rule

These announcements come hand in hand with significant reforms to the UK Capital Gains ("CGT") and Inheritance Tax ("IHT") regimes.

As from the 6th April 2008 there will be a new single rate of CGT for individuals and trustees of 18%. From that date indexation allowances, taper relief and share matching rules are abolished. On first glance personal investors and trusts with stockpiled gains are amongst the beneficiaries of these changes. The losers (amongst them many private equity firms) include those that currently qualify for maximum taper relief and are accustomed to an effective CGT rate of 10%.

Changes to the IHT regime were predictable and fuelled by house prices which essentially brought the average family into a tax originally designed only to impact the wealthy. The Government has chosen to deal with this largely by allowing spouses and civil partners to pool IHT exemption allowances

Finally there is a material change in the rules for UK tax residency. Previously days of travel to and from the UK were not counted. Now the days of arrival and departure will be regarded as days in the UK. Potentially many who visit the UK regularly will be impacted.

For the truly high net worth client a fee of £30,000 is unlikely to be a deterrent. More concerning to some who have not had to file returns in previous years is likely to be the thought of having active files in their names at the offices of Her Majesty's Revenue and Customs. An ancillary thought will be that prices of club membership often escalate once the introductory offer expires.

Only time will tell whether longer term residents of the UK with a lower net worth will vote with their feet. Early signs are that those most aggrieved are the active entrepreneurs and wealth builders caught in a pincer movement of increased effective rates of CGT and Income Tax. Presumably these are amongst the people that the UK most wishes to keep.

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