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# Taxing Times

***Jonathan Ivinson***

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The UK tax code is ripe for reform, but the timing of Alistair Darling's proposals for non-doms couldn't have come at a worse time.

As a matter of principle few would argue that the basis on which a person is taxed should not depend on their place of birth or that of their father. In most countries, it is the fact of being resident in a jurisdiction that renders an individual chargeable to tax there. The peculiarity of the UK tax code is that there are two classes of resident taxpayer, those that have a UK domicile and those who do not. The former pay tax on their worldwide income and gains, the latter pay tax on foreign income or gains only to the extent that such income or gains are remitted back or received in the UK. Armed with a clever tax lawyer some of the wealthiest individuals in the world have a permanent home in the UK and pay little or no tax here at all.

Undoubtedly, the system was ripe for reform but time and again since coming to power the Labour government has backed away from change. The fact that some of the Labour party's biggest donors were non-domiciled residents suggests that there were some influential advocates for the status quo. New Labour's obsession with doing nothing to offend the financial institutions of the City of London was doubtless an additional reason for this inertia. It took George Osborne's speech to the Conservative party conference to reignite the debate, proposing a £25,000 levy on non-domiciliaries the proceeds of which would be used to fund a substantial rise in the inheritance tax exemption threshold. Alistair Darling promptly borrowed this plan. His annual levy on non-domiciliaries was £30,000, but the ideas were very much Mr Osborne's.

However compelling the case for reform, the timing of these changes could not be worse. For more than 10 years, this bizarre, discriminatory tax regime has helped fuel unsustainable inflation in the housing market, particularly in the prime residential areas of London. It has also smoothed the way for London to become the European hub for a host of foreign financial institutions. And just as both the property market and the outlook for the financial sector take a significant turn for the worse, up pops

Mr Darling with a set of measures which are almost guaranteed to turn a cyclical downturn into a major crisis of confidence.

A flight of capital is certainly taking place. My Geneva office is seeing a steady stream of clients looking to relocate from the UK to Switzerland. Defenders of the existing rules argue that as long as very mobile, high net worth individuals can choose to locate wherever it is most tax-efficient for them to do so, the UK is simply conceding ground to Switzerland and Monaco and needlessly damaging itself economically in the process. While the departure of wealthy individuals might not do wonders for house price inflation in Kensington & Chelsea, it is no great loss. However, if financial institutions decide to quit London for Geneva, that is a highly undesirable outcome. Mr Darling appears oblivious to this threat.

What would have been a truly bold move would have been to use the proceeds of scrapping these rules to make a substantial cut in the rate of corporation tax in the UK. Such a move would have made all UK companies more competitive and attracted the sort of inward investment that generates growth and employment. But that would have required an imaginative leap that is probably beyond Mr Darling. As things stand, the chancellor's appropriation of George Osborne's conference musings could prove a very expensive exercise for all taxpayers.

**JONATHAN IVINSON**
jivinson@hhlaw.com
London: +44.20.7367.0254
Geneva: +41.22.787.4000