

# Budget 2010

## Press Notice 3

### Protecting Tax Revenues

Today the Chancellor announces a series of measures to protect the tax system from abuse and ensure that all individuals and businesses pay their fair share of tax.

The global economic crisis and the response to it have changed the political environment. There is a new momentum for change. This has been a catalyst for concerted international action in areas like tax transparency and tackling avoidance and evasion. The Government is taking further action to change the game for those seeking to bend or break the rules on tax.

This Budget includes measures to tackle avoidance and evasion, including enhancements to strengthen the disclosure regime and new penalties to combat offshore evasion. The package of measures raises £1.5 billion in additional yield and protects a further £4 billion of tax receipts by 2012-13.

#### Details

##### Offshore evasion

The Government today announces tough new penalties for individuals who fail to pay taxes due on offshore income or gains, with penalties of up to 200 per cent of tax for deliberate and concealed evasion. It is more difficult for HM Revenue & Customs to check an offshore tax position when there is limited or no scope to exchange information. Higher penalties for non-compliance will therefore be linked to the tax transparency of the jurisdiction in which the non-compliance arises. Where a jurisdiction agrees to share tax information automatically with the UK, these tougher penalties will not apply.

The Liechtenstein Disclosure Facility (LDF) was set up following an agreement between the UK and Liechtenstein in August 2009. The LDF, which runs until 31 March 2015, allows people with unpaid taxes linked to investments or assets in Liechtenstein to settle their tax liability, including interest and penalties. It is estimated that, over the lifetime of the LDF, this will bring in £940 million.



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## Reverse charge for services used in VAT Missing Trader Intra-Community (MTIC) fraud

The Government today announces a measure to amend the legal provision for a reverse charge to combat MTIC fraud in goods to enable it to apply equally to services. This provision will then be used to introduce a reverse charge for emissions allowances that will take effect from 1 November 2010 when it will replace the interim zero-rate introduced in July 2009. The legislation also allows HMRC to introduce additional reporting requirements for services covered by the reverse charge, but there are no plans to apply this to emissions allowances.

## Hidden Economy Advisory Group

The Government today announces the initial findings of the Hidden Economy Advisory Group, set up at the Pre-Budget Report.

The group has identified that there is currently no clear route for those with undeclared tax to establish their position and disclose their liabilities. HM Revenue & Customs (HMRC) will improve this process. The group has also highlighted several key areas for further work and detailed analysis: to build on the success of HMRC's current and past disclosure opportunities in offering mechanisms for leaving the hidden economy; to consider how HMRC can better link access to work opportunities to operating in the formal economy; and to educate people as to the unacceptability of evading tax and the dangers to working informally.

The group will continue to meet over the coming months to work up more detailed proposals. The Government intends to launch a consultation later in the year.

## Changes to the Disclosure Regime

The Government today announces a package of measures, following consultation, to strengthen and enhance the Disclosure of Tax Avoidance Schemes regime. The measures include enhanced penalties for failure to disclose a scheme, a requirement for promoters to provide lists of clients to whom they have issued scheme reference numbers, and amendments and additions to the "hallmarks" (descriptions of schemes required to be disclosed), including some particularly targeted at taxpayers attempting to avoid paying the 50 per cent rate of income tax. Regulations implementing the measures will be introduced in the summer and are intended to be effective from the autumn.



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## Group mismatch rules

The Government today announces a consultation on the introduction of a generic or principles-based rule to counter “group mismatch schemes”. These schemes involve loan or derivative arrangements between two companies within a group, and result in one company recognising a tax loss while the other does not recognise any corresponding taxable profit.

## Double tax relief

The Government today announces a package of measures, effective from 1 April 2010, to prevent companies from claiming excessive UK tax relief for foreign taxes, through abuse of the double tax relief rules. This package of measures includes principles based approaches to protect Exchequer revenues.

## Share Incentive Plans

The Government today announces a measure, with immediate effect, to combat avoidance schemes targeting the rules relating to Share Incentive Plans (SIPs). The measure denies a deduction for corporation tax where the main purpose or one of the main purposes of the company making a payment is to obtain a tax deduction. This measure also strengthens the rules for withdrawing SIP approval where companies enter into transactions that manipulate the value of SIP shares.

## Avoidance using Company Share Option Plans

The Government today announces legislation, with immediate effect, preventing the use of options over shares in subsidiaries of listed companies in the Company Share Option Plan (CSOP). The change will stop the use of growth shares in subsidiary companies within CSOP, and ensure that the £30,000 limit remains effective and prevent an excessive amount of tax relief being given.

## Release of loans to participators

The Government today announces a measure countering avoidance involving the release of loans to participators by close companies. From today close companies will be denied a corporation tax deduction for releases or write-offs of loans to participators.



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## Transactions in securities legislation

The Government today announces, following consultation, legislation to simplify the rules relating to 'transactions in securities' that also better targets avoidance schemes in this area. This measure is effective for any income tax advantages obtained from today.

## Partnerships and SDLT

The Government today announces a measure, with immediate effect, to prevent Stamp Duty Land Tax (SDLT) avoidance by exploitation of the SDLT rules by partnerships.

## Preventing insurance premium tax avoidance.

The Government today publishes revised legislation, with immediate effect, to close down a loophole to avoid insurance premium tax (IPT) through artificially carving out fees from taxable insurance premiums. This replaces legislation published at the 2009 Pre-Budget Report following further consultation with industry.

## Overhedging and underhedging

The Government today announces that a new power will be introduced from Finance Bill Royal Assent to enable the overhedging and underhedging provisions, announced in the 2009 Pre-Budget Report, to be extended in the case of banks and other financial traders to instruments other than loans and derivatives. The provisions prevent UK groups from passing on all the volatility risk from certain overhedging and underhedging transactions to the Exchequer.

## Sale of lessors – option to elect

The Government today announces that it is acting, with immediate effect, to counter potential avoidance using the option to elect for a different treatment under the Sale of Lessors legislation announced at the 2009 Pre-Budget Report.

## Employment-related securities and geared growth

The Government today announces that during 2010 it will consult on the taxation of returns from geared growth arrangements connected with employment-related securities, to ensure that income from employment is taxed correctly.



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## Future action on the use of trusts and other vehicles to reward employees

The Government today announces that it intends to take action to tackle avoidance through the use of trusts and other vehicles to reward employees.

## Charities

The Government today announces the extension of charitable tax reliefs to certain bodies in the EU, Norway and Iceland following a decision in the European Court of Justice ("Persche") on 27 January 2009. HMRC will consider claims from EU charities and their donors for relief from the date of that judgement.

Alongside this, to protect against the increased risk of fraud and abuse, HMRC is making changes to its compliance processes, and to the Gift Aid repayment claims process to support the new rules and maintain customer services. HMRC will consult the charity sector informally on the detailed changes.

HMRC is today publishing draft guidance on some of the new rules for charities and donors on its website, along with a Q&A briefing on how these changes will affect charities and their donors.

