

Paymaster General's statement on Finance Bill Measures

This Government is determined to ensure that all employers and employees pay the proper amount of tax and NICs on the rewards of employment, however those rewards are delivered. Despite the efforts of successive Governments, we continue to be presented with ever more complex and contrived attempts to avoid paying tax and NICs on rewards from employment, particularly in relation to bonuses in the City.

In the most recent year for which we have figures, well-rewarded individuals receiving bonuses of at least £1.5 billion in total sought to avoid paying their fair share of tax and NICs.

The disclosure rules in Finance Act 2004 have revealed that this kind of avoidance is still rife. Without prompt and decisive action we think there could be up to £2 billion paid this year in bonuses on which the amount of tax and NICs properly due is at risk, as a result of increasing ingenuity and inventiveness of the tax avoidance industry.

We cannot allow avoidance on this scale to continue. It is only right that everyone who should pay tax and NICs, does pay and that they pay their fair share when it is due. The overwhelming majority of employers and employees do pay their fair share. But for too long some employers and employees with the benefit of sophisticated tax advice have sought to avoid their responsibilities and to pass more of a burden onto the rest of us.

Early attempts at avoidance in this area took the form of paying bonuses and salaries in gold bullion, diamonds and fine wines. When these routes were closed, employers started to pay bonuses

through shares and share options to reduce the amount of NICs they had to pay, avoid their obligation to operate PAYE, and reduce employees' tax bills. When, in 1998, assets readily convertible into cash were brought within PAYE, and NICs, avoidance schemes moved on to more complex arrangements.

Despite extensive reforms to the tax legislation in 2003, employers and their advisers are continuing to devise and operate ever more contrived avoidance schemes. One such example of which Inland Revenue has learnt involves payment of a bonus to an employee in the form of dividends on shares in a specially constructed company. This avoids tax at 40% and employer and employee NICs.

The Inland Revenue will be challenging such arrangements in the courts where it is appropriate to do so. We cannot however await the outcome in the courts before taking action. We intend that from today both tax and NICs legislation should achieve our objective of subjecting the rewards of employment to the proper amount of tax and NICs, however the rewards are delivered. Taxpayers who contribute their fair share have a right to expect that others will also do so. We also want to make it plain that to the extent that legislation may still not achieve our objective in the face of continuing avoidance, we will ensure it does.

To that end we will be including legislation in FB 05, effective from today, to close down the avoidance schemes we know about. A technical note explaining what we intend to do in FB 05 will be published today. We will also ensure that NICs is charged on these schemes with effect from today.

However, experience has taught us that we are not always able to anticipate the ingenuity and inventiveness of the avoidance industry. Nor should we have to. Our objective is clear and the time has come to close this activity down permanently.

I am therefore giving notice of our intention to deal with any arrangements that emerge in future designed to frustrate our intention that employers and employees should pay the proper amount of tax and NICs on the rewards of employment. Where we become aware of arrangements which attempt to frustrate this intention we will introduce legislation to close them down, where necessary from today.

This action will not affect employers and employees who organise their affairs in a straightforward and ordinary way - the vast majority. In particular, genuine employee share schemes and share option plans will not be affected. We continue to believe these make an important contribution to the Government's productivity agenda.