



Should I stay or should I go?

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Should I stay or should I go? - The question that wealthy UK residents have been asking themselves in recent years. In 2007, non-domiciled residents bore the brunt of new tax rules which can result in many having to pay a fixed £30,000 per year. Since then the wealthy, more generally, will see their tax bills increase significantly.

Let's rewind...what is domicile? Very simply, if you are a born and bred Brit, you are likely to be domiciled in the UK. An individual normally takes their "domicile of origin" from their father. Attaining a new "domicile of choice" is possible but this is notoriously difficult. Residency, essentially applies to the days spent in the UK.

Inevitably the rules are complicated as illustrated in the recent *Gaines Cooper* case. He (a Brit), argued that he left the UK and became domiciled in the Seychelles over 30 years ago and spent less than 91 days a year in the UK.

However as he still maintained businesses, owned property and visited family in the UK, the Court of Appeal stated that, England remained "the centre of gravity of his life and interest". HMRC won the case. He was ruled both UK domiciled and resident.

What does this all mean? If you are UK domiciled and resident, you are fully taxable. If you are non-domiciled and UK resident, tax is paid on UK income/gains with the option to be taxed on other income/gains but only if brought to the UK. If non-resident, you are taxed on UK income only. And, finally, in terms of inheritance tax, if UK domiciled, tax is payable on your worldwide assets. If non-domiciled, on your UK assets only. All at a rate of 40%.

As the Government was forced to bail out some of the High Street banks and pump money into the system, the UK has an enormous deficit. According to the OECD, it takes the bronze medal, just behind Iceland and Greece ranked one and two.

Predictably, ahead of May's Election, any real action to reduce the deficit has been deferred. And debt needs to be serviced. As we all know, just paying the minimum payment on a credit card will simply lead to us owing more and more. Tax measures have centred on the wealthy being told to pay their "fair share" with the introduction of a 50% income tax rate and the tax on bank bonuses. And, let's not forget the 10p rise on cider. Surely champagne would have been more appropriate!

By comparison, Ireland, fourth in the deficit table, cut public sector pay by between 5% and 15%. Whoever wins the Election, aggressive measures will need to be taken. The Conservatives are already talking up an emergency budget whilst the Lib Dems warn against "Greek-style" unrest.

Alongside cuts in public spending, pundits point to an imminent rise in VAT to 20%, and potentially an increase in the capital gains tax rate (18%) and a higher inheritance tax rate for high value estates. Particularly worrying for the wealthy, the introduction of an annual wealth tax has also been muted. In France, rates up to 1.8% apply on the value of assets owned.

Turning the screw on the rich has populous appeal and with deeper pockets they can arguably afford to pay more. But there is a tipping point. The UK rich lists suggests that about 50% of the top 100 are either not domiciled in the UK or are Brits that now appear to live elsewhere. These people are wealth generators. They build businesses, employ people and those businesses pay taxes on profits. Working people do not receive social security, they pay taxes and spend money; the ripple effect. The wealthy and their businesses can afford to vote with their feet and move to lower tax jurisdictions such as Channel Islands and Switzerland. We have seen

Guy Hands and his firm, Terra Firma move to Guernsey. BlueCrest, another hedge fund manager has left the City and set up its head office in Guernsey and located its trading arm in Geneva.

Rhetoric often refers to tax haven abuse but tax competition is actively pursued by EU countries such as Belgium and the Netherlands that offer tax breaks to encourage relocation. The UK Government's Foot Report states that "the Crown Dependencies make a significant contribution to the liquidity of the UK market". In addition, both Guernsey and Jersey are recognised, alongside the UK, as "jurisdictions that have substantially implemented the internationally agreed tax standard" regarding transparency and exchange of information for tax purposes.

Our Islands are a very favourable Anglo-Saxon option. They offer individuals an excellent standard of living. For businesses, they offer a highly skilled workforce with a strong legal infrastructure. What's not to like?

So back to the words of The Clash, "Should I stay or should I go now?"... "If I go there will be trouble, if I stay it will be double".

