

# 2007 Pre-Budget Report and Comprehensive Spending Review

## PROTECTING TAX REVENUES

The Chancellor announced today a package of measures designed to protect the tax system from abuse and ensure that individuals and businesses pay their fair share of tax. Where appropriate draft legislation will be published for consultation, in order to ensure it is well-targeted and provides clarity and certainty for taxpayers. These measures support the provision of public services whilst protecting the UK's competitive business environment.

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### DETAILS

#### **Income shifting**

The Government recognises the contribution that small businesses make to the economy and that business owners should profit from the success of their business. However, the Government believes it is unfair for one person to arrange their affairs so that their income is diverted to a second person, subject to a lower tax rate, to obtain a tax advantage (income shifting). The vast majority of individuals cannot shift their income and income shifting runs counter to the principle of independent taxation.

The Government will be consulting, shortly after the Pre-Budget Report, on draft legislation to take effect from 2008-09 to address income shifting. The legislation will work alongside the existing rules on businesses deductions and settlements, and will seek to remove the tax advantage obtained from income shifting. It would only apply when the income is in the form of distributions from a company (dividends) or partnership profits. Income from employment, interest on savings and any other source will not be affected.

HMRC will draw on the wide range of commercial experience available across the advisory community in framing practical guidance that minimises burdens, and makes it as easy as possible for individuals to understand their position. Relevant factors to consider when establishing whether or not income shifting has taken place could include the work done by the individuals in the

business, the investments made and the risks to which they are subject through the business.

### **National Insurance Contributions exemption for holiday pay**

The exemption from National Insurance Contributions (NICs) of holiday pay paid via a third party is to be removed for all sectors outside the construction industry. The exemption was aimed at addressing problems of high mobility and turnover of the labour force in the construction industry, but working time regulations now ensure holiday entitlement is preserved in all sectors and therefore an on-going exemption for construction is no longer appropriate. However, given the longstanding nature and wide range of benefits typically provided by schemes, the exemption will be maintained for the construction industry for 5 years to give it sufficient time to adjust.

Employers outside this sector are increasingly using the exemption solely to reduce their and their employees' NICs liability, and therefore secondary legislation has today been laid before Parliament and which will remove the exemption for all outside from 30 October 2007.

Details of the measure are set out in PBR note 2

### **Inheriting tax-relieved pensions savings**

Legislation will be introduced in Finance Bill 2008 to ensure that tax-relieved pension savings diverted into inheritance using scheme pensions and lifetime annuities are subject to unauthorised payment tax charges. This measure will have effect for increases in a scheme member's pension rights attributable to the death of another member when that member dies on or after 6 April 2008.

Where appropriate, tax-relieved pension savings diverted into inheritance using scheme pensions and lifetime annuities will also be subject to inheritance tax (IHT). Draft legislation has been published today on the HMRC website.

Details of the measure are set out in PBR note 15

### **Spreading of tax relief for pension contributions**

Legislation will be introduced in Finance Bill 2008 to ensure that the rules that spread tax relief for large employer pension contributions relative to their contribution in the previous year cannot be circumvented. This measure will have effect for payments made on or after 10 October 2007 under binding obligations entered into on or after 9 October 2007

The measure will ensure that the spreading of contributions cannot be avoided by routing them through a new company. Draft legislation to achieve this has been published today on the HMRC website.

Details of the measure are set out in PBR note 13

### **Disclosure Regime**

Budget 2004 introduced a disclosure regime that has enabled the Government to respond to avoidance more swiftly and in a more targeted fashion.

In order to better identify and tackle those who make use of marketed avoidance schemes, the Government will consult on options to improve the operation of Scheme Reference Numbers.

Following on from action in 2006-07 on stamp duty land tax avoidance, the Government will consult with interested parties later this year on how to extend the disclosure regime to high value residential property transactions.

Government will also consult with interested parties later this year on the practicalities of addressing the use of special purpose vehicles to reduce stamp duty land tax liability on high value residential property.

### **Financial Products - disguised interest**

Action is being taken, effective from today, to counter attempts by some companies to get around the shares as debt rules, which apply to interest income disguised as a capital gain or tax nothing.

Draft Legislation has been published today on the HMRC website and will be discussed with business, prior to inclusion in Finance Bill 2008.

Details of the measure are set out in PBR note 21

### **Interest relief exploitation**

Action being taken, effective from today, will tackle avoidance schemes abusing the availability of interest relief through the payment of interest in advance.

Draft Legislation has been published today on the HMRC website and will be discussed with business, prior to inclusion in the Finance Bill 2008.

Details of the measure are set out in PBR note 3

## **Leasing avoidance**

Action is being taken, applying to transactions entered into on or after today, to prevent two types of arrangement that seek to avoid tax through the leasing of plant and machinery. The measures will counter avoidance involving the sale and finance leaseback of plant or machinery and attempts to exploit long funding leases to create a tax loss where there is little or no commercial loss.

Draft Legislation is published today and will be discussed with business, prior to inclusion in the Finance Bill 2008.

Draft legislation and draft explanatory notes are contained in a Technical Note published today on HMRC's website.

Details of these measures are set out in PBR note 6.

## **Life Insurance Companies**

Legislation will be introduced to prevent life insurance companies benefiting from tax relief for expenses in respect of reinsured business which have been met by the reinsurer of that business.

This will apply to transactions entered into on or after today (and from 2008 to amounts spread forward in respect of earlier transactions).

Draft legislation and draft explanatory notes have been published on the HMRC website today for consultation, prior to inclusion in Finance Bill 2008.

Details of these measures are set out in PBR note 12.

## **Tackling Vehicle Excise Duty Evasion**

To assist in the fight against VED evasion, the Government has today strengthened VED enforcement powers to include motorists driving unlicensed vehicles and parking in areas where enforcement is not currently permitted.

Therefore in addition to public roads, from 1 September 2008, VED enforcement will also cover vehicles parked in public places that are not intrinsically part of a private dwelling, where a Statutory Off Road Notification has not been made.

## **Missing Trader Intra-Community (MTIC) VAT fraud estimates**

New fraud estimates released today show that attempted fraud fell by up to £1.5 billion in 2006-07. This follows the introduction of operational measures to strengthen the Government's strategy for tackling MTIC fraud.

The Government is determined to build on this success. HMRC will take further steps to apply both criminal and civil sanctions to those who are found to be knowingly involved in fraudulent trading.

