

2008 Pre-Budget Report

ENSURING FAIRNESS FOR ALL TAXPAYERS

The Chancellor announced today a package of measures designed to protect the tax system from abuse and ensure that all individuals and businesses pay the right amount of tax.

It is particularly important in the current economic circumstances that the Government ensures the tax system is applied consistently, robustly tackling those who seek to reduce their tax payments in an unfair way and fraudsters making criminal attacks on the tax system. The PBR package includes a new anti-tobacco smuggling strategy; improvements to the avoidance scheme disclosure regime; and the use of a number of targeted measures to ensure fairness, protect the UK's competitive business environment and sustain public finances.

PROTECTING TAX REVENUES

DETAILS

Tackling Tobacco and Alcohol Fraud and Smuggling

The Government publishes today a joint tobacco smuggling strategy, prepared by HM Revenue and Customs and the UK Border Agency. This explains how, building on successes to date, they will work together to tackle the evolving smuggling threat. The Government also announces today that HM Revenue and Customs and the UK Border Agency will publish a refreshed alcohol strategy by the time of Budget 2009. This will strengthen the current spirits fraud strategy and extend it to cover all forms of alcohol fraud ensuring that the approach to tackling alcohol fraud and smuggling keeps pace with developments in this area.

Further improvements to avoidance scheme disclosure regime

The Government today announces further amendments to the disclosure regime, introduced at Budget 2004. HMRC is simplifying and improving the procedure by which users of disclosed schemes report the Scheme Reference Number (SRN) back to HMRC. This will clarify how and when users are to report SRNs and will improve identification of users of these avoidance schemes, enhancing the Government's ability to respond to avoidance swiftly and in a targeted fashion.

Details of the measure are set out in PBR Note 22.

Leasing: anti-avoidance

The Government announced on 13 November that it would take action, effective from that date, to prevent a loss of tax:

- on transactions involving the leasing of plant or machinery under long funding leases;
- on the sale of a company that is an intermediate lessor of plant or machinery; and
- on rents payable on long funding leases of films.

Details of the measures are set out in PBR Notes 11/12/13. Draft legislation and draft explanatory notes are contained in Technical Notes published on 13 November 2008 and today on HMRC's website.

Further consultation on principles-based approach to tackling avoidance in the area of financial products

The Government is today publishing consultation documents, including draft legislation, on principles-based legislation to counter avoidance involving disguised interest and transfers of income streams, with the intention, if appropriate, of introducing legislation in Finance Bill 2009. This follows consultation and subsequent work with stakeholders on proposals introduced in the 2007 Pre-Budget Report. The principles-based approach is intended to tackle this kind of avoidance in a simpler and clearer way than through frequent legislative fixes.

Real Estate Investment Trusts (UK-REITs) - Companies that are not property investment companies and UK-REITs

The Government considers UK-REITs, launched in January 2007 and designed to provide a new tax regime for property investment companies, to have been a marked success. However, contrary to the Government's objectives, some businesses that are not property investment companies (they do not have high enough income coming from the rental of property to third party tenants) have developed corporate structures that would allow them to participate in the UK-REITs regime. The Government will legislate in Finance Bill 2009 to prevent this.

The Government will issue draft legislation for consultation in the New Year to ensure that it does not create any unintended consequences for existing UK-

REITs. The Government is also willing to have discussions to consider whether other parts of the tax code create any unnecessary barriers to becoming a UK-REIT.

Income shifting

The Government firmly believes it is unfair to allow a minority of individuals to benefit financially from shifting part of their income to someone else who is subject to a lower rate of tax - known as income shifting. The Government has consulted on this issue, but given the current economic challenges is deferring action on income shifting and will not bring forward legislation at Finance Bill 2009. The Government will instead keep this issue under review.

VAT anti-forestalling

To prevent the creation of artificial arrangements to avoid the return of the VAT rate to 17.5 per cent, anti-forestalling legislation will be presented to Parliament as part of Finance Bill 2009. The Financial Secretary to the Treasury will make a written statement to Parliament on 25 November, announcing the intention to bring anti-forestalling legislation before Parliament in Finance Bill 2009. The anti-forestalling legislation will apply from 25 November for the specific circumstances set out in the statement.