



Non Domicile Taxation – London First Response

London First is a business membership organisation whose mission is to make London the best city in the world in which to do business. London First delivers its activities with the support of 300 of the capital's major businesses, representing approximately a quarter of London's GDP, from key sectors such as financial, professional services, property, ICT, creative industries, hospitality and retail. Membership also includes all of London's higher education institutions as well as many of its further education colleges.

London First welcomes the opportunity to respond to the Government's consultation "*Paying a fairer share: a consultation on residence and domicile*".

The main concern of our members is that, in an effort to raise a relatively small amount of extra revenue, the proposals for taxation of non-domiciled residents (non-doms) will damage London's position as an international financial and business centre and cause a loss of business that would far outweigh any benefit from the proposals, leading to a net deterioration in public finances.

Non-doms do pay tax on their UK earned income and should not be subject to double taxation on their overseas income. The proposed measures will make it unattractive for people from overseas to work in London; that is such a significant change to public policy that it needs full debate.

The taxation of internationally mobile talent is highly complex. Competitor countries and cities have a sophisticated approach to taxation designed to attract business. The UK cannot afford new tax initiatives that have not been fully thought out and are likely to have unintended consequences.

Legislation on the detailed reforms and the treatment of remittances should be deferred to allow Government to explore with business whether it can increase UK tax revenues without damaging consequences. Such a pause is essential if the damage done to London's standing as an international business centre is to be mitigated. The business community must have confidence that any proposals that emerge from this consultation will be fairly considered and workable.

The proposals may have particularly serious consequences for the financial services sector which is heavily concentrated in London.

The strength of London's economy - and that of the UK - depends on the capital's success as a world city. With 12% of the UK population, London has generated 20% of GDP growth over the last 10 years and nearly 40% of export growth over the last five years. London is a major international centre for investment banking, the world's top city for institutional equity holding, and the most important 'over the counter' derivatives trading market with a third of global turnover. It has half of European banking activity, and more foreign banks than anywhere else.

The growth of London – and therefore of the UK economy – is predicated on London's continuing success as a global financial and business centre. London's economy is not constrained by domestic growth parameters but is linked to the growth of the global economy and access to a world-wide pool of talent. One of London's great strengths is its ability to attract the best talent from all over the world. Senior executives in multi-national companies rate availability of qualified staff as the most important factor affecting decisions on business location (Cushman & Wakefield European Cities Monitor).

Conversely, this growth is not dependent on the rest of the UK economy and could take place in other economic centres which are keen to attract business away from London. For example London is the centre for international shipping business, even though there is no longer a substantial UK registered fleet and Greece is trying hard to attract this business. In response to a recent survey of foreign companies operating in London, one in five respondents said they could consider limiting investment in London or even re-locate altogether if the proposals were implemented. Respondents believe that it will be more difficult to attract new employees from abroad (55%) and that it will be harder to attract people with the right skills to London (59%). 51% believe that the proposed changes will affect the willingness of foreign employees to stay in London and that ex-pat employees will spend longer outside the UK (52%)

Investment banks are major employers of non-doms. It is only by recruiting the best talent from around the world that their London offices stay ahead: most of their business could be done elsewhere. Nor are hedge funds and private equity location specific. If they move, it will lead to other firms and those who provide services to them shifting the balance of their operations to other jurisdictions, such as Switzerland. The Swiss offices of one of the four major accountancy firms cannot cope with demand from expatriates planning their disposals, shifting their investment focus and considering leaving. Seminars on non-doms for staff of a major international bank attracted requests from 1000 people, compared with the 10-12 they normally get on other tax topics. At another major international bank, 75 per cent of their leadership and virtually 100 per cent of their traders are affected and worried.

The proposals are also likely to have serious impacts on other sectors that are heavily dependent on overseas talent

Higher education and creative industries – the arts, design, advertising, publishing etc are major employers of non-doms in London. Non-doms are also major contributors to London's flourishing arts scene. Museums are particularly reliant on donations from non-doms. We understand the top three donors to the British Museum are non-doms; that they provide 35% of the Victoria and Albert Museum's private funding, 55% of the Courtauld Institute's and around 40% of the Tate's - and 80% of the funding for the Tate Modern extension, which may not be built if non-doms withdraw.

It is the clustering of world class financial, business, creative, cultural and intellectual sectors that makes London so attractive. In this, it is competing with other world cities such as New York. London has recently gained a competitive edge but this is easily eroded. According to press reports (Daily Mail, Evening Standard) London's lead over New York in the Global Cities Financial Index is reduced from 19 points to 9 compared with September 2007. The causes are said to be the Government's non-doms tax proposals, Northern Rock and increasing concern about the overall taxation regime.

Any additional tax revenue is likely to be outweighed by the loss of revenue as a result of reduced business

Attempts to increase tax revenue must be balanced against the wider consequences of making the UK less attractive to international business – including net loss of existing tax revenue. Financial services companies contribute annually over £100 billion to UK economic growth and a trade surplus of £25 billion to the balance of payments. They pay £12 billion directly in tax and their employees a further £15 billion in income tax. A reduction of only 1% in their UK business would more than outweigh the revenue from the proposed levy on non-doms.

The potential revenue appears small compared with the value of non-doms to the economy. The estimated yield of the £30k levy is only £200 million in 2010/11, which may be counter-productive. Total UK income tax paid by non-doms amounts to £4 billion, so the revenue gain would be wiped out if only 5 per cent were to leave - fewer if they are at the higher end of the income range. Even if there is no exodus from London, it will be highly damaging if international companies decide to set up new operations or expand elsewhere because the UK has become less attractive as a business location.

Business accepts that the Government may wish to consider changing the tax system, but disclosure of overseas income is in effect voluntary. It is thus grossly unfair in effect offering to taxpayers the choice between disclosing their income or not in the knowledge that HMRC cannot police it.

London would lose key skills

It would be very damaging if people with 5 or 6 years experience in the UK decided to leave in order to avoid becoming liable to the new levy. In the same recent survey of foreign companies mentioned above, 61% of respondents believed it would be difficult to recruit staff with the right skills locally to replace employees that choose to leave as a result of the proposed changes. Their departure would reduce the productivity of those that remain. Rather than an increase in the number of UK citizens employed, an exodus of non-doms will lead to a reduction in UK jobs and tax revenues. The levy sends a signal that the Government does not welcome talented and qualified people who want to make a career in the UK.

The proposed change in the definition of UK residence is also likely to have unforeseen consequences. The Government should consult on a statutory test of residence to be introduced from 6 April 2009.

Damage has been done

However it is the wider impact of the proposed changes on business in London, and indeed the UK, and the implications for current and future levels of both inward investment and clusters of talent that is London First's principal concern. In particular it is that the Government's approach to the issue - the rush to legislation without proper consultation or evidence-based analysis and the lack of consideration for the views of business - has dramatically shifted international perceptions of the attractiveness of London as a business centre.

Damage has already been done. The publication of draft legislation without prior discussion showed both lack of consideration for business and failure to understand the magnitude or complexity of the issues at stake. Hasty clarifications are not reassuring. The whole episode has damaged London's reputation as a business-friendly and stable location. This damage will not be mitigated by further hasty changes in the Budget and run-up to the Finance Bill: the only way to limit it is to put the proposals on hold pending proper discussion of the design and effects of new measures.