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TUC Tax Briefing

Tax Residence

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Summary

The UK needs new tax residency laws.

The existing laws of tax residence are now so complex and reliant on conflicting legal decisions that few, if anyone, can claim to fully understand them – including HM Revenue & Customs. As a result tax avoidance is rife – especially amongst an elite who can afford to commute in and out of the UK from places like Monaco but pay little or no tax in the UK.

In addition, the rules on residency include the domicile rule, which has made the UK a tax haven for foreign oligarchs, allowed untold tax abuse and increased division in our society.

Uncertainty and abuse aren't the basis for tax justice. Tax justice would deliver two things. The first is certainty for honest working people coming to and leaving the UK to earn their living. The second is a tax system that ensures all who enjoy what the UK has to offer contribute to its well-being according to their means.

It is for these reasons that the TUC is proposing radical revision to the UK's tax residence rules which would, amongst many benefits, sweep away the domicile rule for good.

Our proposals are simple, effective and fair. They will raise money and stop abuse.

First we propose that everyone who has a UK passport should be tax resident in the UK, automatically, wherever they live in the world. That means they would always have liability to pay tax in the UK on their worldwide income, gains and wealth, just as all US citizens do in the USA.

However, because we also recognise that tax needs to be simple and pragmatic we also suggest an important exception, which is that those UK passport holders living in a 'white list' of approved countries would pay no more tax in the UK as a result. The tax they paid in that other country in which they lived and worked would, in these cases, be deemed to settle their UK tax bill. As a result it is those who flee the UK to live in tax havens that this measure would target. We think more than £1 billion of extra tax would be raised as a result, and untold abuse and time wasted by HM Revenue & Customs brought to an end.

We also propose new rules for those coming to the UK from abroad. We welcome the contribution these people bring to the UK. We also recognise many only come for short periods, so for up to four years we suggest anyone taking up residency in the UK should only pay tax on their UK income and that other income they bring to the UK from overseas. But once this period of grace is over we argue that all who come to the UK to live should be subject to

exactly the same tax rules as those who have always lived here. So, after four years of temporary residence in the UK we argue that anyone choosing to stay for longer should pay full UK tax on their worldwide income, gains and wealth.

Our rules ensure that is the case, and also ensure that those who stay in the UK for relatively short periods but have extensive connections with it none the less – such as keeping a home and their family here – should also be tax resident in this country.

These changes, matched with the ending of the domicile rule, would, we suggest raise up to £3 billion of tax a year and, as importantly, deliver the fairness and certainty the UK needs if it is to play a full part in a world economy where people are mobile.

Section one

What is the importance of tax residence?

Many argue that tax should be simple. It's wishful thinking on their part. The world is complex. The world's tax systems reflect that fact. And the mechanisms used by any state to decide which part of the world's income should be taxed by it are always going to be complex.

Some taxes are charged on transactions. These are called indirect taxes. VAT is one such tax. If VAT is charged on a non-business transaction in the UK then the VAT is paid by the person to whom the VAT is charged, and no question need arise as to whether that person is resident in the UK or not. The mere undertaking of the transaction in this country is enough to make the transaction subject to UK tax.

Direct taxes, such as income tax, capital gains tax and inheritance tax are much more complex. So too is corporation tax, although since this briefing only relates to personal taxation that is an issue that will not be considered here. For each of these taxes, a basis for working out whether a person can actually be charged to these taxes is essential and comes before any consideration of calculating the tax actually due.

There are two basic ways to determine whether income (or gains or inheritances) can be taxed in a state, or not. The first way considers whether the income in question has a relationship to the state which might tax it. For example, rent paid on land in the UK can clearly be linked to this country meaning that we do say that we have a right to tax that rental income, irrespective of where the person entitled to that income lives in the UK or not. This is called the source basis of taxation.

The second common basis for taxation is what is called the residence basis. Suppose the recipient of the UK rental income referred to in the previous paragraph lived permanently in another country and only left that state for occasional holidays. They are very obviously resident in that other state. That other country may well decide it has the right to tax that person on their income wherever it might have arisen in the world either because that person is resident in their state or has its nationality. In either case this is called the residence basis of taxation.

The problem these different bases of tax can give rise to becomes immediately apparent. The UK uses a source basis of taxation for rent and can claim tax on the rental income. If the state in which the recipient of the rental income resides charges tax on that person's worldwide income they are then charged to tax on that rent again. Unless suitable arrangements are put in place then double taxation can result.

Equally, however, if there was no source taxation on that rent in the UK and there was no residence based taxation in the place where the recipient actually lives then non-taxation might arise.

Working out a method to ensure that tax is charged at the right time and in right amount on a source of income in the place where it is due is the challenge for those creating the rules of tax residence.

This briefing argues that the UK has got this equation wrong and needs to revise its tax residence rules if it is to collect the tax that is reasonably due to it.

Section two

What are the UK's rules on tax residence – and domicile?

There is a problem in explaining what the UK's current laws on tax residence are – and that is that no one can be quite sure what they are. This apparently absurd statement is the consequence of there being no statutory definition of tax residence in the UK, the definition having instead developed over time as a result of the cumulative consequence of numerous court cases.

The problem that has recently arisen is that a number of new court decisions have conflicted one with another and with previous understanding of what the law was and as a result no one can now be sure how UK tax residence is defined. This is the most obvious reason for saying that change in our current system is needed. It cannot be right that a person cannot determine with reasonable probability whether or not they are tax resident in the UK.

That said, the following might be considered a brief summary of the current rules of tax residence in the UK – always bearing in mind that these might fall apart in complex cases and that this summary is based on current HM Revenue & Customs guidance – which may itself be wrong¹:

- If a person is in the UK for more than 183 days in a tax year then they are tax resident in the UK. This is the one golden rule of UK tax residence. A day for these purposes is midnight at the end of the day.
- A person can become ordinarily resident in the UK from the day they arrive if they come here with the intention of staying for a reasonable period. That is usually considered a period of three years or more, but if the person has no idea when they are leaving then the date of their arrival usually counts as the start of a period of ordinary residence from the outset too.
- Ordinary residence is also usually considered to have been created if a person has been in the UK for 91 days or more on average for more than three consecutive years – but a lower number of days can now count as well in some cases – although no one can be quite sure which.

¹ <http://www.hmrc.gov.uk/cnr/hmrc6.pdf>

The difference between ordinarily tax resident and simple tax residence is not of concern here – except to note that it just adds to the difficulties encountered when deciding if someone is tax resident in the UK.

And just to add to all the confusion, if using the above inadequate guidance a person is considered tax resident they are normally taxed on the 'arising basis of taxation' and will pay UK tax on:

- any of their income which arises in the UK, and
- any of their income which arises outside the UK, and
- any gains which accrue on the disposal of assets anywhere in the world.

However, if by chance they are resident in the UK and are not domiciled in the UK there are special rules which might apply to their foreign income and gains which allow them to pay UK tax only on the amount of their foreign income and gains that they bring into the UK. This means domicile is always a factor when considering how a person is taxed in the UK and this issue is just as complicated as residence itself. It also provides enormous opportunity for tax avoidance and abuse of the UK tax system.

Like residence, domicile is not defined in English law, but broadly speaking a person is domiciled in the country in which they have their permanent home. A person acquires their domicile or origin at birth, from their father if their parents were married or their mother if they were not. This domicile can change if a child's parents adopt a new domicile before the child's sixteenth birthday. After that time a person can only change domicile by abandoning their domicile of origin and by adopting a domicile of choice. Long term residence in the UK or even the adoption of UK nationality does not necessarily reflect the adoption of a UK domicile. Both might be pragmatic choices that do not prevent a planned return to the domicile of origin at some stage in the future, meaning that a person's country of origin can be their place of domicile for a considerable period even if, on occasion, they have never lived there. Such ambiguity only assists the opportunities that domicile provides for those who do not want to pay tax in the UK.

As a result those living in the UK with at last the potential to claim a domicile outside the UK (and it has been estimated that there might be between 5 and 7 million such people²) can have even more complicated tax affairs than those of people born and long term resident in the UK who choose to leave or return to it.

The consequence is that that UK has almost no chance of satisfactorily determining who may or may not be resident in the UK when a situation is

² <http://www.taxresearch.org.uk/Documents/UKDomicileLaw03-07.pdf>

anything out of the ordinary. This is unjust for the millions of ordinary people who cannot afford tax advice and who, as a result, may be taxed incorrectly whilst it provides enormous opportunity for those with wealth to exploit this uncertainty for their own tax advantage. Neither situation is desirable and neither should continue.

The UK's laws on tax residency are clearly problematic. We have not one but three sets of rules that determine how a person is taxed – those on residency, ordinary residency and domicile. No one – including HM Revenue & Customs can be sure what they mean. The laws need to be reformed for two reasons.

The first is to simplify and clarify the law. Everyone has a right to know whether they are subject to UK tax or not. With millions of people in the UK being here temporarily this is an issue for significant numbers of people – not just the very wealthy.

Secondly, and also importantly, the exploitation of these rules has to be brought to an end. As such any reform has to quite blatantly seek to tackle tax avoidance by a minority whilst giving certainty to the majority.

These objectives can be achieved by passing new laws that will establish with as much certainty as is possible just who is, and who is not, tax resident in the UK and what part of their income, gains and wealth will be taxed by the UK when that is the case.

The TUC is now proposing that such laws be included in a future finance bill to provide the certainty all who come to and leave the UK need on this issue.

Section three

Principles for establishing tax residence in the UK

The future residence laws of the UK must have three qualities. First of all they must make it very easy for the vast majority of people to work out if they are resident, or not, in the UK. Most people just want to pay what taxes they owe where they owe them, and then get on with their lives. Any system must help those who want to do that with, as far as is possible, the minimum of fuss and effort being required.

Second, any such new rules must ensure that those who want to make their affairs as complicated or opaque as possible to avoid paying tax where and when it is due can be prevented from abusing the UK tax system. This is especially true of those who have long term ties to the UK and who have the right to reside here permanently but who seek to avoid their obligation to pay tax in exchange for that right.

Thirdly, it is important that any system should not deter people from coming to the UK on a temporary basis. We need people to come to live and work in the UK on that basis and it is reasonable that these people should not have to reorganise the whole of their worldwide affairs to meet the requirements of our tax system if they really will be in the UK for only a limited period of time. However, that limited period must really be limited. Those who come from abroad to live permanently in the UK or who establish long term ties with the UK must not have any tax advantage over those who have always lived in this country.

We might add that any revised system for determining tax residence should, by seeking to prevent existing abuse of the existing residence laws, also seek to raise revenue at a time when it is very obvious that the government needs it, and we make no apology for suggesting that our proposals will do just that.

The suggestions that follow for a new tax residence system for the UK are all based on this logic. They are, we believe, workable, fair and will ensure that the UK will remain a place where people will want to come to live and work.

In designing the system we suggest that there are two basic groups to consider when addressing this issue and two scenarios in which any new rules will apply. The two groups are those with long term ties with the UK and,

unsurprisingly, those with no such ties. The scenarios to be considered are those of arriving in the UK and that of leaving the UK. The rules have to allow for and when appropriate recognise the difference between the two groups and work in both scenarios.

In that case it is important to state the basic principles that we think should apply when creating the new rules that are needed and that should apply to these two groups and to the scenarios mentioned:

Those with long term ties with the UK

We believe it should be much harder for those who have long term ties with the UK to cease to be taxed in this country when leaving to reside elsewhere than it is for those with no such ties.

Likewise we think that if those with long term ties with the UK return from a period abroad having not paid full tax in the UK that full tax residence should resume immediately upon their return.

It might therefore be said that we think that the obligation to pay tax in the UK should be 'sticky' for those with long term ties with the UK so that it is relatively hard for them to shake that duty off.

Those without long term ties with the UK

For those without long term connections with the UK it should be clear when residence in the UK has commenced, and when it ceases. That residence should not, however, be very sticky, and the test to determine it should be as objective as possible.

In addition we suggest that those coming to the UK who have no permanent ties with the country should enjoy a period of grace after that time of arrival during which they are only taxed in the UK on their income arising in this country and not on their world wide income, unless it is remitted here. This would mean that those who have no long term intention to stay in the country should not be obliged to reorganise their world wide affairs to match the requirements and incentives of the UK tax system. This benefit should however exist for a strictly defined period after which the tax liability of such people should be identical to that of a person with entirely equivalent worldwide income who has long term ties with the UK and who is resident in the UK at the same time.

We believe that these principles set out a fair basis for determining tax residence in the UK.

They do at the same time let us suggest that the existing difference between UK residence and ordinary residence can be abolished and that the entire

relationship between a person's domicile and the calculation of their UK taxation liabilities can be removed from the tax system for good.

Section four

Putting principles into practice – new residence rules for those with long term ties with the UK

For those with long term ties with the UK we propose an entirely new basis for determining tax residence in this country. We suggest that if a person is a UK subject, that is, they have a UK passport giving a permanent right to reside in this country, then they should be assumed by default to be tax resident in the UK unless certain exceptions apply. In other words, having a UK passport should carry with it a prima facie duty to pay UK tax.

This is significantly different from the current basis of UK tax residence for those with long term ties with the UK but it is not as radical as it seems. The USA operates such a system of taxation, with fewer exceptions than we would suggest appropriate. The US rules work if only because most citizens do want the right to return to the country from which they come and know as a result that they have to pay their taxes, and the system does not appear to have any significant impact on the willingness of US citizens to work abroad or the competitiveness of the US economy. We think the same would be true of the UK if it adopted such a 'passport basis' for tax residence.

That said, we do think there are sensible and pragmatic exceptions to this rule that would greatly simplify the operation of this rule for the majority of those who leave the UK. The exceptions we suggest would also reduce the administrative burden of tax on both the majority of those leaving the UK and for the UK government itself. This would then allow resources to be targeted on those cases which would, in any event, raise most of the tax revenues that this rule change would give rise to and where most abuse might occur.

The first exception from liability to any additional tax being paid in the UK by UK subjects living abroad would be for those such people who become fully tax resident after leaving the UK in states with tax systems that the UK considers broadly compatible to its own and with whom it has full double tax agreements intended to prevent double taxation. The risk of tax loss in these cases will be low. It is suggested that if a UK subject was tax resident in such a country and could prove this to HM Revenue & Customs annually, then the tax paid in that other country in which they had residence would be deemed to

settle their whole tax liability in the UK and no further tax would be payable in this country as a result.

This “white list” of places where a UK subject could live and pay their taxes without further liability arising in the UK would be quite long. All EU states would fall into this category. So too would the USA, Japan and almost certainly all OECD states, as would many major Commonwealth countries. Many developing countries would also qualify – India and South Africa, plus major Latin American countries would all, almost certainly, be on the list.

It might also be wise to include on the list states where it was very unlikely a tax exile would reside. Many of the poorest countries in the world could be added to the list on this basis, so avoiding taxation problems for those working there for development agencies and to promote local economic and social development.

It then becomes clear that there would then be a much smaller group of countries – tax havens for sake of a better term – where the passport basis of taxation would be of considerable benefit to the UK Exchequer. There are UK subjects who undoubtedly use such places to avoid UK tax under the existing rules of tax residence.

Most notorious, perhaps, are the so called “Monaco boys” who have had the habit until recently of flying to the UK from that tax haven on a Monday morning, staying until Thursday afternoon and believing, as a result of guidance issued by HM Revenue & Customs until recently that even if they did this for up to 44 weeks a year they would not be resident in the UK. This was because it was believed that days of arrival and departure from the UK were not included in the day count total for residence purposes and that as long as the average number of days in the UK was less than 90 a year residence was not established.

It is important to note that these assumptions are now challenged by HM Revenue & Customs as a result of recent court cases, but the abuse goes on none the less.

Some details would need to be considered, of course. For example, determining that a person is resident in another country on the white list would be relatively easy when that person works in that other place. Little development of existing rules is required to ensure equity in this area. It would be harder to determine whether they were really resident elsewhere when they live in that other place but do not work there. In that case dual residence is possible. The new law might well have to allow for this, but in that case other ties with the UK would have to be taken into account. For example, if the person retains a number of the ties noted below in this paper when considering the connections those without passports have with the UK then this might be enough to ensure dual nationality with the UK is retained even if the person does live abroad for

significant periods of time. Pragmatically, however, whatever the ties a person might have with the UK, we suggest that if a person is in the UK less than thirty days a year and lives and were to live and pay tax in full in a 'white list' state then dual residence should not be considered by the UK. In other words, the possibility of a UK passport holder not paying tax in the UK would exist so long as they could show they paid tax elsewhere.

That pragmatic situation might also be desirable if a person's total worldwide income was below an agreed limit and they were resident in a 'white list' state, even if retaining some connection with the UK. The rate at which higher rate tax might be charged appears a pragmatic level. Most pensioners living abroad would, on this basis, fall out of risk of dual tax residence at little cost to HM Revenue & Customs.

Return to the UK is under this scenario easily triggered, as we think desirable. As soon as someone with a UK passport ceased to be resident in a 'white list' state then under these rules they would automatically resume full tax residency in the UK, whether here or not. Tax residency in the UK is the default opposition for all such people. Certainty is, therefore, readily available at all times.

This last point is important: presence in the UK is not under these proposed rules an issue in establishing liability to UK tax. The fact that a person has the right to reside in the UK and make use of all the facilities it has to offer – whether they do so or not – is what establishes the obligation to pay tax. Tax is not after all a payment for services supplied: tax is the price we pay for having the right to live, work and participate in a state, whether we avail ourselves of that right, or not. These rules recognise that fact.

Section five

Putting principles into practice – new residence rules for those without long term ties with the UK

If the rules for tax residence for those with long term ties with the UK - in the form of a passport – are revised as indicated in this paper then the rules for those without a UK passport will also need significant revision.

Firstly, and perhaps most importantly, this briefing suggests that the domicile rule should be abolished with regard to taxation. This historic legal anachronism, which is discriminatory in origin and practical outcome, should have no place in a modern tax system. It is quite unacceptable that an accident of birth should alter a person's UK tax liability when all other matters are identical.

That said, tax systems have to be pragmatic to work. Whilst it would be possible to have a tax system that charged a person to UK taxation on their worldwide income on the first day they become resident in this country that would, undoubtedly, act as a deterrent to those coming to this country for relatively limited durations. Many work secondments are for periods of four years or less and likewise many students are in the UK to study of periods of four years or less. For this reason this briefing suggests that any person becoming a tax resident in the UK for the first time should be considered a temporary tax resident for the first four years of such residence and during that period they should only be charged to tax in the UK on that income they have that arises in the UK and that part of their worldwide income that they remit to the UK. Rules to recognise these different sources are already well established in UK tax law.

After such a person has been resident in the UK for four whole tax years they would then become fully tax resident in the UK and become taxable in full on their worldwide income, gains and wealth without differentiation from those people who have UK passports.

A person without long term ties with the UK will cease, under the proposed rules, to be UK tax resident when their connections to the UK are severed, the details for determining this being discussed below. They will then cease to have any UK tax liability. This would, however, create the possibility of a person creating a series of temporary residences in the UK. To avoid this possibility a

person who had been temporarily resident in the UK would not be able to claim temporary residence again within a period of a further four years.

For most people without a UK passport coming to the UK, a simple set of rules will determine when and if they assume UK temporary residence (and subsequently full tax residence). The almost universal worldwide assumption that a person resident for more than 183 days in a country in any tax year is tax resident in that place should be retained for this group. Therefore anyone coming to the UK who meets any of the following criteria would be considered UK tax resident from the moment of arrival:

- They are planning to work for at least 20 hours a week either in self employment or employment in the UK in an arrangement expected to last more than 183 days.
- They are a member of the House of Lords or have been elected as a representative to a UK law making body or local councils.
- They hold a permit or licence from the UK government, a UK local government or another UK regulatory authority issued on the basis that they are resident in the UK.
- They will be in receipt of non-contributory benefits or tax credits from the UK by virtue of being UK resident.
- They have arrived to receive any free non-emergency NHS care in the UK.
- They are to partake in full time education or undertake full time post graduate study or research in the UK.
- They have applied for permanent residence in the UK.

It is highly likely that these rules alone would immediately determine the tax status of more than 95% of all people arriving in the UK at the time of their arrival.

There will, despite the comprehensiveness of these tests be people who are not covered by them. They may not come to the UK for any of these purposes. For them a second test will be required. This must be based on day counting i.e. the test will be based at least in part on the number of days these people have in the UK and on the weighted importance of the other connections that they might have with the UK.

In some cases such tests can be absolute. So, even if they do not come into any of the above categories, a person without permanent ties to the UK who moves to this country will if they stay here for more than 183 days in any tax year

will, automatically, be assumed resident in the UK during that year under the rules we propose.

There must, to contrast with this absolute rule, also be a point at which such a person cannot be considered resident in the UK as a matter of fact. We suggest that if a person without permanent ties to the UK is in the UK for less than 30 days in any tax year then they cannot be considered to be tax resident in the UK in that year. Their ties with the UK will in that case be too weak for any liability to be due.

In between these two day counting limits there clearly has to be a gradation. That has to take the number of days in the UK into account but it has also to take into account the fact that a person can have a number of ties with the UK (other than those noted above) and these might be significant, and perhaps even sufficient to suggest the UK is their main home or a home of such significance they should be liable to tax in the UK despite the number of days they have in the country each year being relatively low.

This suggests that a number of 'connection tests' should be considered in addition to the number of days spent in the UK and a combination of the number of connections a person has and the number of days they spend in the UK should determine, if they do not have a UK passport and are not undertaking an activity listed above, whether they are resident in the UK, or not.

Possible connections to be considered might be:

1. Having a house in the UK available for use. This issue has been contentious in the past – but the assumption should be that a property is available unless it can be proven otherwise if owned or leased.
2. Having family permanently in the UK even if the individual whose residence status is being considered makes only occasional visits. Family would comprise spouse / civil partner / common law partner and dependent children of whom they have custody. Being at boarding school would count as presence in the UK.
3. Undertaking any work in the UK, e.g. having non-executive directorships requiring regular attendance in the UK.
4. Having strong social connections in the UK, e.g. membership of organisations, committee membership of clubs, trusteeships of charities and so on.
5. Not being resident anywhere else for tax.
6. Having no home anywhere else.

7. Having been resident in the UK in the previous tax year – this creates a necessary element of stickiness that means planning moving in and out of the UK to protect particular sources of income from tax becomes harder.

Other connections could, obviously, be considered.

Once the number of connections had been created a banding could be established so that a person present in the UK for between 30 and 60 days might need five connections to be resident, between 60 and 90 days might need three connections to be resident, between 90 and 120 days two connections and between 120 and 183 days just one connection to be resident – which could, of course, simply be residence in the previous year.

Details might need consideration but such a scheme has the merit of:

1. Being known;
2. Being transparent;
3. Being self-assessable;
4. Being auditable;
5. Not deterring those who simply want to come to the UK for a few months on secondment, even on a recurring basis, but who create no other connections with the UK;
6. Being obviously fair in that those who have more connection with the UK are more likely to pay tax here, always subject to temporary residence rules applying in the first four years of UK residence, and to credit being given for tax paid elsewhere in the world thereafter and to departure always being possible if connections are broken.

This, as a result is, we suggest, a way forward for determining UK tax residence for those without permanent connection with the UK.

Section six

How much tax will this raise?

It is difficult to estimate with absolute accuracy how much tax such changes in the UK's residence rules would raise for the UK Exchequer.

Several years ago we estimated that abolition of the domicile rule might raise up to £4 billion in additional taxes in the UK. That estimate might now be reduced to approximately £3 billion as a result of changes in the laws relating to non-domiciled people in the meantime, but we see little reason to revise that estimate otherwise. As a result we continue to estimate additional tax revenue of £3 billion as a result of these changes.

If the rules for tax residence were also changed as suggested here there may be very little additional revenue from those coming to the UK over and above any resulting from the change in the domicile rule and nor would we intend there to be so. We are not making suggestions that make the UK a less attractive place to come to live or work for a period of a few years.

There will, however, be undoubted additional revenues raised as a result of the adoption of the passport basis of taxation for those not living in 'white list' countries. We are cautious in our estimates, but suggest that if an additional 30,000 people fell into the UK tax net as a result of this change (and this is very many fewer in number than the registered non-domiciled people recognised to be living in the UK before the changes to the domicile rule in 2007) and each had income of about £100,000 brought into the tax net, on average, then it is likely that at least £1 billion of additional tax revenue would be raised by this change to the rules of tax residence when the impact on capital gains tax and Inheritance Tax is also taken into account.

Section seven

Why do this now?

There are compelling reasons for changing the UK's tax residency and domicile laws at this time.

The fact that no one can now say with any confidence what the UK's tax residence rules are is, by itself, good reason for putting these on a new statutory basis.

There are other reasons for advocating change of the type we propose at this time.

Firstly, the UK's use of the domicile principle in determining tax liabilities is discriminatory. It is wholly inappropriate that an accident of birth can change a person's tax liability. It is long overdue that this rule be abolished.

Second, the UK's residence rules appear to have been widely abused by wealthy people seeking to minimise, or often avoid altogether tax liabilities in the UK despite their maintaining substantial connections with the UK. This is clearly wholly unjust and indicates that tax laws may be very different for the rich and the rest of the society. No society can suffer such a situation and maintain an effective and just tax system in the long term. The passport basis of taxation that we propose corrects this situation by making clear that there is a relationship between all UK citizens and the country that gives them a right to a permanent place of abode, to which they must contribute as a result. This rule change does, therefore, make an important point, which is that paying tax is not optional: it is a basic duty of all citizens and is fundamental to their relationship with the state which grants them citizenship.

At the same time, and thirdly, these rule changes would raise significant tax revenue at a time when it is important to do so to protect the basic services the UK supplies to all who live and work here and which are enjoyed by all who have a connection with this country, whether permanent or temporary. Because the changes are, however, targeted largely at tax avoiders they will, inevitably be progressive because they will be paid almost entirely by the best off. We believe this is also important. It is vital that those best able to pay make a higher proportional contribution to the tax revenues of our government and the existing residence and domicile rules have allowed them to avoid this obligation.

Fourthly, and importantly, whilst we propose major reform we do so whilst recognising that tax systems have to be pragmatic and as simple to operate as possible whilst also being fair. As such the 'white list' arrangement that we

propose is important as it will mean that these rule changes will not penalise the vast majority of UK subjects who go to live and work abroad and who pay all the reasonable taxes expected of them in the countries in which they then live, whether temporarily or permanently. As such the new rules we propose also support the principle that there should be international cooperation on tax between nation states.

Finally, we propose new temporary residence rules for those coming to the UK to work, to study or simply to live for limited periods. We believe it is fair to have such rules for those coming to the UK for limited periods and that this is necessary to encourage the interaction between the UK and other countries which is key to our commercial and social life. In doing so we do, however, suggest necessary anti-avoidance measures that means those who have strong connections with the UK will pay tax here, especially if they have limited connections to any other country, and even if they do not have a UK passport. Once more we think this is necessary, if only to stop the obvious stresses and inequalities in society that have resulted from some using the UK as a tax haven in recent years.



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