



## The British government should stop giving tax breaks to foreign multi-millionaires

Richard Murphy's<sup>i</sup> presentation for

'Hecklers'

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### Argument 1 - Social Justice

Evan Davis, the chair of this programme said in his blog recently that Britain's role in the world is to be butler to the global super-rich.

And he's right: for ten years Gordon Brown has had two tax strategies. One has been for UK resident people. Most of us are familiar with that policy because we pay the resulting taxes. The second makes the UK a tax haven that attracts the super rich to our shores.

The UK's domicile rules are key to the UK's status as a tax haven. Put simply, your domicile is your place of national origin. That's not your nationality, or race, and it has nothing to do with where you live or your ethnicity. Your domicile is your natural home: the place to which you owe allegiance. And if you or your paternal family have long term ties with a place outside the UK it's highly likely that you can argue that you are domiciled outside this country.

And if you're rich this is incredibly useful because if you're not domiciled in the UK you can live here, almost without time limit, and only pay tax on your UK income and capital gains. The rest of your world wide income and gains are tax free so long as you don't bring them here. And because non-domiciled people can use tax havens legitimately, unlike the rest of us, it's a doddle for them to disguise all their income from the UK as arising in the rest of the world, even when they send it back to this country.

What this means is we have official economic discrimination in this country in favour of those who were not born here as well as for most first and second generation immigrants. There must be at least 10 million such people in the UK right now but only 112,000 of these people actually claim to be non domiciled. That's because this rule is only a tax break for the foreign millionaire because if you have to live off your income, as most people do, being non-domiciled for tax is of no benefit at all.

The result is that we have a special tax law in the UK for a tiny but wealthy elite of foreigners who choose to live here. What's wrong with that?

First it is much easier for non-domiciled people to accumulate wealth. That's because they don't pay as much tax. But this increases the gap between the rich and the poor in our society. It's now well known that increasing this gap is harmful. Increased crime and poorer health outcomes are two consequences.

Second this rule makes for unfair competition. Businesses owned by non-domiciled people have lower tax rates than those owned by long term UK residents. As a result it's much harder for our home-grown businesses to compete. There isn't a level playing field.

Third, non domiciled people have an unfair advantage in the property market because they can buy and sell property here without capital gains tax arising, and with little or no stamp duty to pay. This has fuelled the buy to let market, pushed up prices and has denied many ordinary people the chance to buy a home.

So this policy is anti-social. Which is why it's also been illegal since 2003 when it became illegal to discriminate in the UK on the basis of a person's national origin. But that's exactly what the UK government is doing by promoting the domicile rule. Just because it's the majority who are losing out as a result does not matter. Discrimination is bad news for all those who suffer it , and in this case most of us are.

## **Argument 2 - Tax**

In 1776 Adam Smith said that a good tax system had four qualities. It should, he said be equitable, certain, convenient and efficient. The domicile rule fails these tests.

For example it's clearly inequitable. It's not fair that two people on the same income can pay completely different taxes in the UK just because one of them is not domiciled here.

Nor is it certain. The decision as to whether a person has sufficient ties to another place to justify a claim that they're domiciled there can be arbitrary. That makes for bad law.

Worse though is the inefficiency. Having two different tax laws in one country can never be efficient. But that's what we've got. For example, if you're not domiciled keeping your foreign earnings out of the UK and not paying tax on them is legal. It's not even tax avoidance. But if you're domiciled here doing exactly the same thing is tax evasion, which can be a criminal offence. This is not just inefficient; it's blatantly confusing and unjust. It's hardly surprising that more than 60,000 have recently admitted to the Revenue that they got this law wrong and haven't declared income they've earned offshore when they should have done. But what do we expect though when we quite literally have one law for a privileged few in our society and another for the rest?

Now I happen to believe that tax and simplicity don't mix. But tax, injustice and confusion mix even worse and a simple residence law based only on the number of days a person spends in the UK would provide clarity, certainty and consistency in UK tax and bring us into line with the rest of the world, none of whom use a rule like ours.

And this might improve our international relations. The head of tax in Italy asked recently how can it be that "a more or less fictitious residence in London allows you not to pay taxes in your own country?" He's had enough of rich Italians abusing the UK's domicile rule. He's right to be fed up. Bad law creates injustice and the domicile rule is bad law: it has to go if we want a decent tax system.

### **Argument 3 - It does not pay**

My last argument is simple: giving tax subsidies to foreign millionaires does not pay the UK for several reasons.

First, although it's said that non-domiciled people bring wealth to the UK no one has ever proved the point. That's because non-domiciled people don't have to declare all their income on their tax returns, unlike the rest of us. This means that there is no data to prove this argument. As a result it's unsurprising to find that those who say that the domicile rule pays are the accountants, lawyers and tax abusers who'd like to keep all the advantages it provides to them at cost to society at large. They know they win: no one else does.

Second, logically this argument has to be wrong. If non domiciled people do bring their wealth into the country then some of it must be income and it should as a result be taxed here. But non-domiciled millionaires live in the UK precisely because they don't want to pay tax here. So either they don't bring their money in, in which case there's no benefit to the UK from having them, or they do bring the money in and pretend it's not theirs. Which is called tax evasion. Either way we lose.

But more importantly, if the UK government really believes that the UK is a great place to do business, and is full of well educated, enterprising people then we don't need tax incentives to get foreigners to invest here. They'll bring their money either because the UK is a really cool place to live, or because we've got the best financial services sector in the world, or because there's profit to be made from working in our economy.

None of those things requires a tax subsidy. In fact, the whole process of giving a tax subsidy to promote economy activity, which is exactly what the domicile policy really is, is part of 1960's thinking when we did it to support ailing industries and to preserve the jobs of UK workers. The Institute for Economic Affairs fought such policies. But now we're using tax subsidies to support the financial services industry, the already over inflated UK housing market and to support the swankiest retail stores in the country solely for the benefit of the world's mega-rich, none of whom owe any loyalty to the UK. As an economic policy that's about as bankrupt as they come. And it's a massive misuse of taxpayer's money.

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