

The Offshore Tax Planning Review

APPENDIX B

INLAND REVENUE BUDGET PRESS STATEMENT OF 29TH NOVEMBER 1994 SELF-ASSESSMENT

The Chancellor proposes in his Budget to make changes to the tax system as part of the move to self-assessment. He intends to introduce measures, mainly in the 1995 Finance Bill, to -

- reform and simplify, for income tax, the basis of taxation of income from property;
- simplify the procedures for taxing non-residents and align them with self-assessment;
- provide for employers to give their employees information they will need to complete tax returns;
- introduce anti-avoidance legislation to deter artificial manipulation of profits and income to take advantage of the transitional provisions introducing the current year basis of assessment for tax on the self-employed;
- make various other changes to simplify the taxation system.

These proposals represent the second phase of the changes necessary to bring about the most fundamental reform of personal tax administration for 50 years.

DETAILS*Income from property*

1. Various changes are proposed to simplify the income tax rules which apply to the taxation of income from property situated in the UK (see separate Revenue Press Release "Taxation of income from property and self-assessment". [see below]
2. The present patchwork of rules and concessions under which tax is charged on non-residents will be replaced by clear simple rules. The new rules will make self-assessment easier for non-residents and their UK representatives. The tax charge will be broadly unchanged. The main rules for taxing non-resident taxpayers will be -
 - income from property in the UK will be taxed through deduction at source by the agent for the property or, where there is no agent, the tenant with a final settling up with the non-resident;
 - but where the non-resident chooses, by agreement with the Revenue, to include tax on income from property in payments on account made by the non-resident under self-assessment, no deduction will be required at source;
 - the tax charge on the profits of a trade carried on by the non-resident in the UK, whether as a sole trader or in partnership with others, will be limited to the profits from the part of the trade carried on in the UK, measured on the arm's length principle;
 - the tax charge on investment income of the non-resident, other than income from property in the UK, and on income from trading in the UK through a broker or investment manager will be limited to the tax, if any, deducted at source.
3. The administrative rules for the deduction of tax at source on income from property will appear in regulations. Consultations will continue with representative bodies on the detail.
4. Where an individual carrying on a trade wholly or partly outside the UK becomes or ceases to be resident, the individual will be taxed as if the trade had ceased and recommenced. This will ensure that the correct amount of profits are taxed.
5. The rules under which a branch or agent of the non-resident may be taxed on behalf of the non-resident, which appear in TMA 1970 Part VIII, will be rewritten. The new rules will only apply where the non-resident is

carrying on a trade in the UK through a branch or agent. The branch or agent will then be jointly responsible with the non-resident for everything which needs to be done in connection with the self-assessment of the profits from or connected with the branch or agency. These rules will apply similarly to the charge on non-resident companies under pay and file.

6. But as at present, the rules will not apply to agents who are not carrying on a regular agency for the non-resident. Members' agents and managing agents at Lloyd's will also be excluded in line with changes made in recent years which did away with taxing Lloyd's underwriters through their agents. The present exclusion for investment managers and brokers will also continue with certain modification (see separate Revenue Press Release "Investment Managers" [see above]).
7. The present rules for branches and agents include various provisions on the tax chargeable on the branch or agent (s.79 - profits from branch or agency, s.80 - charge on percentage of turnover, s.81 - taxation on basis of merchanting profit, s.82(2) - saving for transactions with other non-residents). These will not reappear in the new rules as they are unnecessary. They are superseded by the general rules which limit the charge on the branch or agent to the profits from or connected with the branch or agent and require those profits to be measured on the arm's length principle.
8. Concession B13, which limits the tax chargeable on untaxed interest paid to non-residents, will also be superseded by the new rules on the limitation of charge, and will therefore not apply for tax years 1996-97 onwards.

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