

# Brown's wild non-dom gamble

I have no idea whether the government's proposal to tax people like me — the more than 100,000 foreigners resident in Britain but not "domiciled" here because we plan to return to our own countries — will cause a stampede for the exits. Many in the City think so.

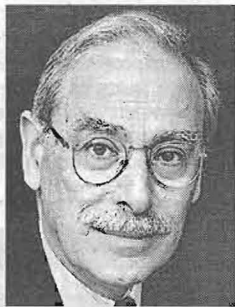
Grant Thornton, the accountants, says 42% of South Asian "high net worth" non-doms "are preparing to leave the UK due to the changes to the non-domicile tax regime". Many Greek ship-owners are reported to be ready to sail off to Athens, taking with them much of the £30 billion they pay law firms, brokers and insurers.

Such threats to leave, aimed at derailing the proposed tax changes, have to be taken with more than a pinch of the proverbial salt. No one knows how many non-doms will leave — not Gordon Brown; not Alistair Darling, who nevertheless is predicting that only 3,000 will flee to more congenial tax environments. And not the critics of the tax change.

All we know is that before he moved over to No 10, Brown resisted efforts to raise taxes on the mobile foreigners who contribute to making London one of the premier financial centres in the world. Either he was right then to resist taxes that might drive away this group, or he is right now to support increasing their taxes. Or the political pressures on the prime minister overwhelm the economic reasoning of the one-time chancellor.

After all, Brown is famous for emphasising Britain's need to compete for talent in a globalised world. He must know that Athens is setting tax policies and erecting communications infrastructure attractive to Greek ship-owners, that Switzerland is planning to make its tax system more attractive to hedge-fund managers, and that Dubai has tax breaks and shiny new infrastructure ready and waiting for financial-sector firms seeking a new base.

There are a few things that we do know. Darling has admirably accepted advice received during consultations and abandoned plans to have HM Revenue & Customs agents poke into the worldwide affairs of non-doms. We know also that non-doms



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already pay some £4 billion in taxes on their UK incomes. Finally, we know that George Osborne deserves the chutzpah-of-the-year award. The shadow chancellor took to the pages of *The Sun* to attack the government for driving out non-doms "at the very moment we are facing economic problems". Yet it was Osborne himself who set this hare running when he scrambled for some way to plug the budget hole he dug for himself by calling for a virtual elimination of inheritance taxes.

All of that said, and no matter what the unpredictable consequences of the new non-dom tax regime might turn out to be, Brown and Darling will stand their ground. They have consulted widely, have made what they consider adequate changes and will ignore the contrary advice from their own advisers.

Not, they would say, in order to demonstrate a sort of stubborn political machismo. Nor, they would say, to appease the union financiers of the Labour party who would like to see some of the financiers of the Tory party leave the country. And surely not for the crass reason that non-doms can't vote; taxation without representation might have cost Britain its American colony in 1783, but that was a long time ago.

Rather, there are two powerful reasons Brown — let's drop the fiction that the idea of emulating the Tories sprang full-blown from Darling's head after a weekend of thought — will impose a £30,000 annual tax on every non-dom who has been in the UK for seven years, and levy additional taxes on overseas capital gains.

First, the tax plan has broad bipartisan support, tripartisan if the Liberal Democrats are counted. Which only proves that such agreement stifles needed debate. Osborne, of course, is trying to position himself as a critic of the government, but his own plan would fall more heavily on non-doms than would the latest version of the Labour plan. A man who can support a tax with possible negative long-term consequences in order to gain short-term political advantage, and then turn around last week and tell an audience at Policy Exchange, the think tank, that he opposes tax policies "driven by the shortest of short-term political considerations with little apparent

regard for the longer-term economic consequences", is clearly capable of being of two minds on one subject.

Second, Brown knows that the non-doms present no direct political threat to Labour. They can vote only with their feet, and the consequences of that vote will not be noticed immediately, with the possible exception of the sour mood created in the City.

Besides, a climbdown would be foolish: the damage done is likely irreparable. The welcome mat has been taken in; the toothpaste can't be squeezed back into the tube; the bloom is off the rose — pick your favourite metaphor.

The government has signalled that the tax regime and general atmosphere that have been part (and only part, I remind the government's more hysterical critics) of the attraction for so many talented financial workers and entrepreneurs will be less welcoming. And with talk of raising the fee to £50,000 being bandied about in the Treasury, progressively less welcoming. Petty cash to a Russian oligarch, surely, but no small sum to many non-doms here from more than 100 countries. Even Vince Cable, the Lib Dem MP who wants non-doms to "pay up or pack up", agrees that the fee is prohibitive for large numbers of non-doms with modest incomes.

Most important, the new taxes reflect hostility to wealth that has to be unnerving to the vigorous, aspirational sorts who come to London to seek their fortunes. After all, the motive for imposing these new taxes cannot be the revenues they will raise. The Treasury guesses that in the next two fiscal years the non-dom taxes will raise £800m and then £500m. That is less than one-tenth of 1% of total tax revenues and still less if you deduct the lost income taxes and Vat that departing non-doms now pay.

The key policy question is not that posed by the government: "Should non-doms pay more taxes?" Instead, it is: "Is it worth risking the effect on London's reputation as a financial centre and the loss of thousands of highly productive, high-spending foreigners in order to add less than one-tenth of 1% to the Treasury's coffers?"

**Don't cave in to bankers**  
**Irwin Stelzer, Business, page 4**