

Swiss Tax Deal...

Icing on the Toblerone

The Treasury is going to receive a £384 million financial sweetener from the Swiss Government following the 'painstaking' tax agreement reached between the two countries.

The deal struck is the latest attempt by the Treasury and HM Revenue & Customs (HMRC) to clampdown on offshore tax evasion.

The key points

- Accounts held by individual UK taxpayers in Switzerland will be subject to a one off deduction in 2013 of between 19% and 34%, as long as the account was open on 31 December 2010 and is open on 31 May 2013. This deduction will settle income tax, capital gains tax, inheritance tax and VAT liabilities in relation to funds in the account.

The deduction will not be applied if the account holder instructs the Swiss bank to disclose details of the account to HMRC. If a disclosure is made, HMRC will seek unpaid tax, interest and penalties.

- From 2013, income and gains arising on investments held by individual UK taxpayers in Swiss banks will be subject to a new annual withholding tax of 48% on investment income, 40% on dividends and 27% on capital gains.
- Account holders will not be required to disclose who they are to HMRC if they pay the withholding tax. However, as with the one off deduction, the withholding tax will not apply if the account holder makes a full disclosure to HMRC.

Announcing the deal, George Osborne, the Chancellor of the Exchequer, said:

'Tax evasion is wrong at the best of times, but in economic circumstances like this it means hard-pressed law-abiding taxpayers are forced to pay more. That is why this Coalition Government made it a priority to go after those who don't pay their fair share. We will be as tough on the richest who evade tax as on those who cheat on benefits. The days when it was easy to stash the profits of tax evasion in Switzerland are over.'

Some commentators immediately sought to quantify the deal and suggested up to £5 billion could be collected once the deal has been formally signed and passed through Parliament.

However, the agreement was not universally well received and was criticised by Richard Murphy, director of Tax Research UK, who commented:

'It's an appalling deal for the UK, an appalling deal for Europe. The one off tax of 34% is much lower than they would have paid in the UK and in fines avoiding it.'

'The Swiss will not pass over the details from the British accounts. The UK will never know who these people are unless they decide to disclose their details and challenge their payments. We have now outsourced British tax justice to the Swiss, who to date have done their utmost to avoid this. We've also given them a competitive advantage over British banks with lower tax rates.'

What next for the UK individual with a Swiss account?

In essence there are three options.

Account holders can leave their money where it is and suffer the one off deduction and annual withholding tax charge.

Alternatively, account holders have the option of using the Liechtenstein Disclosure Facility (LDF), which is available until 31 March 2015. Under the beneficial terms of the LDF, the individuals concerned can transfer their funds to Liechtenstein and pay tax on income and gains made only after 6 April 1999. The rate payable is 40% on income between April 1999 and April 2009 and then 50% after that. A declaration will wipe out any inheritance tax and VAT liabilities.

The financial penalty for using the LDF is restricted to 10% of the tax owed on the undeclared income. If the LDF route is not used and HMRC finds the account holder instead, the penalty could be up to 200%. The LDF may well be particularly attractive to those people who have held accounts in Switzerland for a long time i.e. before April 1999, as they will gain not just from a reduced penalty, but also from the restriction of the number of years being looked at.

The third option is the view the most hardened tax evader may take. There are still some tax havens around the world such as Bermuda, the Cayman Islands, Monaco, Mauritius and Singapore and nearly two years available to move the money held in the Swiss accounts. However, this group of people really are playing with fire. If HMRC catches these evaders, as it clearly has the appetite and determination to do so, those involved will surely ultimately face a criminal prosecution rather than a financial settlement.

Whilst the Swiss authorities do not have to disclose details of those that close their accounts and move their money, they have agreed to notify HMRC of the destination of the moved assets.

The Abbey Tax ReSource Consultancy Team will continue to monitor developments and provide updates. Please contact our marketing team on 0870 166 6270 or email marketing@abbeytax.co.uk for more information

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