FIELD COURT TAX CHAMBERS

The remittance basis and non-doms [1]

The idea of the remittance basis is catching on. But is it the right policy?

I read with interest that Italy is planning to introduce their own version of the remittance basis and the non-dom charge. The details are unclear, but the general idea seems to be that non-Italians who go to live in Italy can have tax freedom on their foreign income as long as it is not remitted to Italy, providing they pay a charge of €100,000. This sounds familiar.

I mention this for two reasons. The first is that the remittance basis in the UK has come in for some criticism in Europe, on the grounds that it provides an unfair encouragement for people from other countries to come to live and work in the UK. This seems to expose the tension at the heart of international taxation, where each country says: 'what *we* do is to provide legitimate tax incentives to stimulate our economy, but what *you* do is provide unfair tax competition.

This is just one example of the problem facing the international tax community and I guess it may take a while for it to be reconciled.

The second reason is that it seems to me that the whole idea of the remittance basis is back to front. It must surely be good for the UK economy if foreign people come to the UK and bring their money with them, where of course they will spend it. We should be encouraging people to come here and spend their money. Entire national economies are built on this principle, particularly those which rely on tourism. The longer foreign people stay (for example, if they are here long enough to become UK resident), the more money they spend. The same must be true in Italy.

What is the best way to stop foreign nationals who become UK resident from bringing money into the UK to buy our goods and services? You charge them a swingeing tax. Making them pay 40% or 45% tax on any income they bring to the UK will certainly do the trick. So the message we are sending is: 'Please do not benefit our economy by bringing your money here; please keep it abroad. And to encourage you, we will give you a special tax relief.' I am struggling to see the sense of this policy.

Would it not be better for everybody for the incentive to be the other way round? Such as: 'If you bring your money to the UK we will not tax it.' This would seem to be a relief without any cost, because non-doms are not going to bring their money here anyway and lose half of it in tax – so we might as well get the benefit of them spending it in the UK, where they will be stimulating the economy and paying VAT. The individuals would like it and the country would benefit. Maybe I am missing something?

Peter Vaines
Field Court Tax Chambers

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