



LONDON INVESTMENT BANKING ASSOCIATION
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26 October 2007

Sarah Gravenstede
Capital Gains and Residency
HMRC
100 Parliament Street
London SW1A 2BQ

By email to: sarah.gravenstede@hmrc.gsi.gov.uk

Dear Sarah

Residence and Domicile Review

Further to our telephone conversation this morning and to my 18 October email, I am writing to confirm LIBA's concerns over the possible adverse effects on our members of the proposed changes to the residence and domicile rules which were announced in the Chancellor's Pre-Budget Report. LIBA is, as you probably know, the principal UK trade association for investment banks and securities houses; a list of our members is attached.

You will be aware that the UK investment banking industry employs a large number of non-domiciled individuals, reflecting both the global nature of the industry and the particular importance of London to the global operations of many LIBA members. We are accordingly extremely concerned to ensure that any changes to the taxation of such individuals do not adversely affect the ability of our members to recruit and retain the top class personnel from across the world whose presence in the UK is essential if the City of London is to maintain its pre-eminent position in the global financial markets over the longer term.

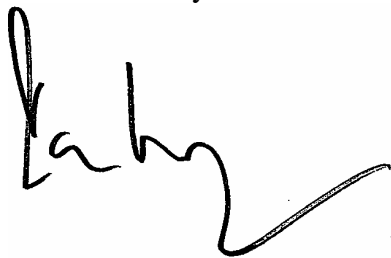
We are currently consulting with our members on the effects of the proposed changes, but we expect to find it difficult to make a full assessment of their likely impact without rather more detail than is available at this stage, and we look forward to participating actively in the consultation around the draft legislation in due course. We would however like to register a number of significant concerns at this stage:

- * As noted in my 18 October email, it is critical for our members that the proposed £30,000 "additional tax charge" be allowable as a tax credit under the US/UK (and other similar) double tax treaties; we understand HMRC is already focusing on this issue, but we would be grateful to receive a clearer assurance as to the anticipated status of such payments, including feedback on any discussions with relevant overseas jurisdictions, as soon as is practical.

- * Paragraph 10 of PBRN 18 appears to imply that all non-domiciled residents will lose their ability to claim personal allowances with immediate effect, even if they have been in the UK for significantly less than the seven year period referred to in Paragraph 7. We would very strongly resist such a change, which we believe would, in particular, have a significant adverse impact on our members' ability to recruit the top students from universities outside the UK (particularly in continental Europe and the US): continued access to this pipeline of young talent, some of whom can be expected to become the top management of the future, is a key component of our members' long-term human resource planning.
- * A closely related point is whether non-domiciled individuals whose only income arises from employment in the UK will lose their right to claim personal allowances against that income unless they agree to forfeit their non-domicile status.
- * A number of senior non-domiciled individuals employed within our sector work partly outside the UK, and this is reflected in the use of dual employment contracts. We are very concerned to ensure that the proposed changes do not have any unintended effects on our ability to recruit and retain such key individuals.
- * Our members also employ a significant number of less senior non-domiciled individuals. Such people form a key part of the emerging talent in global financial services, but many members of this group will have insufficient off-shore income for it to be worth their while to pay the proposed £30,000 charge, and they may therefore suffer a proportionately greater adverse effect than their more senior colleagues. We find this potentially regressive element to be an unfortunate feature of the proposed new tax charge.
- * We are concerned that the new regime will impose a significant compliance burden on our members, who will in many cases not hold the information likely to be required to ensure the correct tax treatment of non-domiciled employees; the position will be further complicated by the fact that the UK tax year is not coterminous with the tax years in the majority of other jurisdictions.

In conclusion, we would again express our concern at the potential effect the proposed changes could have on LIBA members' ability to recruit and retain the best global talent in our sector, and on the inevitable consequences for UK competitiveness. We look forward to discussing the above – and no doubt other – points with you as a part of the promised consultation later in the year.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Ian Harrison', with a long, sweeping underline.

Ian Harrison
Director

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LIST OF MEMBERS

ABN AMRO Bank	HBOS Treasury Services plc
Altium Capital Limited	HSBC Bank plc
Ambrian Partners Limited	ING Bank NV London Branch
Arbuthnot Latham & Co., Limited	Instinet Europe Ltd
Arbuthnot Securities Limited	Investec plc
Arden Partners plc	Jefferies International Limited
Banc of America Securities Limited	JP Morgan Cazenove Ltd
Barclays Capital	J.P. Morgan Securities Ltd
Bayerische Hypo- und Vereinsbank AG	KBC Peel Hunt Ltd
Bear, Stearns International Limited	Kaupthing Singer & Friedlander
BNP Paribas	Lazard & Co., Limited
Brewin Dolphin Securities	Lehman Brothers
Bridgewell Group plc	Libertas Capital Group plc
Calyon	Merrill Lynch Europe PLC
Cantor Fitzgerald Europe	Mizuho International plc
Cenkos Securities Limited	Morgan Stanley International Ltd
CIBC World Markets	NCB Stockbrokers Limited
Citigroup Inc.	Noble & Company Limited
Close Brothers Corporate Finance Ltd	Nomura Code Securities Limited
Collins Stewart Europe Limited	Nomura International plc
Credit Suisse Securities (Europe) Ltd	N M Rothschild & Sons Limited
Daiwa Securities SMBC Europe Limited	Numis Securities Limited
Dawnay, Day & Co., Limited	Oriel Securities Limited
Deutsche Bank AG London	Panmure Gordon & Co
Dresdner Kleinwort	PiperJaffray Ltd
Evolution Securities Limited	Sanford C. Bernstein Limited
Fox-Pitt Kelton Limited	Société Générale
Goldman Sachs International	3i Group plc
Greenhill & Co. International LLP	UBS AG London
Hawkpoint Partners Limited	Winterflood Securities Limited

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