

## Pre-Budget Report 2008

### Income Shifting

Hidden away in the Press Releases published by HMRC yesterday is a document entitled "Protecting Tax Revenues". The first section deals with Income Shifting. The press commentary says:

*"The Government will be consulting, shortly after the Pre-Budget Report, on draft legislation to take effect from 2008-09 to address income shifting. The legislation will work alongside the existing rules on businesses deductions and settlements, and will seek to remove the tax advantage obtained from income shifting. It would only apply when the income is in the form of distributions from a company (dividends) or partnership profits. Income from employment, interest on savings and any other source will not be affected."*

It would appear that the Government have decided to legislate in this area following their defeat in the Arctic Systems case.

In the same document HMRC have acknowledged that they will take into account work done by individuals in the business, investments they have made and the risks to which they are exposed through their involvement in the business.

Readers should note the words "The Government will be consulting..". We will need to await the outcome of these consultations and the legislation that follows. However you should note that this seems to indicate a commitment to legislate for the tax year 2008-2009 and subsequent years.

Again we will advise clients of the likely impact on their current business structures as soon as the detail is made available.