

## Pre-Budget report

# Bankers warn of exodus over windfall tax

## Darling's agenda

### Chancellor readying assault on awards

### Fears for financial services in London

By Megan Murphy and Vanessa Houlder in London

The banking industry rounded angrily yesterday on reports that the government plans to introduce a windfall tax on bonuses, describing the proposals as a punitive measure that would trigger an exodus of financial services companies from the City.

Alistair Darling is expected to include some form of "supertax" on bankers' bonuses in his pre-Budget report tomorrow, as Labour attempts to mark clear dividing lines with the Tories ahead of a general election next year.

While details of any such scheme remained unclear last night, the chancellor is said to be keen to send a shot across the bows of banks that are intending to

distribute hefty awards to staff in the aftermath of the global financial crisis, when they were propped up by billions in taxpayers' funds.

Sources familiar with the Treasury's plan said that Mr Darling intends to propose a one-off levy that is likely to raise hundreds of millions of pounds, rather than the £6bn figure mooted over the weekend.

Government officials were still deliberating over whether to target investment banks' bonus pools or individual bankers, although the levy will capture all banks operating in the UK, sources said.

Angela Knight, chief executive of the British Bankers' Association, accused the government of playing politics with the City's future, saying it would send a message that London was no longer a competitive place for financial services.

"It's good politics, yes, but it doesn't make any sense," she said. "We need to think not just about the individuals but about the business that will be done elsewhere."

The windfall proposals



Banks have already signed up to reforms aimed at bringing risk and rewards into line Getty

have intensified growing acrimony between the government and the banking industry, which has already been forced to sign up to a series of far-reaching reforms designed to better link risk with reward.

Tax experts said that introducing a further tax specifically on bonuses would pose serious practical problems, including how to ensure the tax does not breach anti-discrimination rules and how to define a bonus, so it could not be sidestepped by, for example, a temporary move to a higher-paid job.

Accountants also expressed reservations about how much tax would actually be collected as banks and their employees work out ever-more sophisticated ways to avoid it.

John Whiting, policy director at the Chartered Institute of Taxation, said bonuses were already taxed at a high rate, with about 70 per cent ending up in Treasury coffers once income tax, national insurance and VAT on the goods and services bought with the awards were taken into account.

"I think people have lost sight of this in some of the discussion," he said.

Another hitch, experts said, was implementing the tax when a much bigger proportion of bonuses would this year be paid in deferred shares instead of cash, as a result of the new regulatory framework.

Mike Warburton, a partner at Grant Thornton, said that the idea of singling out a specific group of individuals was "completely alien" to UK tax laws. "If they go ahead with this, it will become a perfect example of the law of unintended consequences," he said. "It's an absolute nonsense."

However, some experts were less dismissive, saying there were legal avenues for a bonus-specific tax.

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## Legal doubts

Legal experts last night joined tax experts in expressing reservations about a "supertax" on bankers' bonuses, calling it a "minefield" that could trigger large amounts of litigation, writes **Jane Croft**.

Daniel Naftalin, an employment partner at Mishcon de Reya, said that bankers might turn to a judicial review under the Human Rights Act if the legislation was imposed.

"We would almost certainly see an avalanche of people moving offshore," he said. "We are seeing an increase in people in financial services who are taking advice about moving abroad. Add this to the tax changes on non doms and you will find a lot of people looking to be based abroad."

Ronnie Fox, principal of Fox, employment solicitors, said: "The government has the right to tax but if they try to tax bonuses retrospectively then there could be a legal challenge. Also if they tried to prohibit bonuses altogether or to control the method of payment their efforts would probably fail."