MC2019/04355 PCU

HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

Julia Lopez MP
House of Commons
SW1A 0AA

01 APR 2019

Dear Julia,

Thank you for your letter of 12 March about the charge on disguised remuneration (DR) loans.

The Government chose to accept the new clause tabled by Sir Edward Davey at Report Stage of the Finance Act, and will lay a report no later than 30 March 2019. The report will review the effect of changes made to the time limits for recovery or assessment where tax loss arises in relation to offshore tax, and compare these with other legislation including the charge on DR loans. The Government will consider all the relevant evidence available as part of the review, and the Chancellor met with Sir Edward and a group of MPs to discuss this matter. The charge is unchanged as a result of the new clause, and will apply to DR loan balances on 5 April 2019.

HM Revenue and Customs (HMRC) officials have already attended sessions held by the Treasury Select Committee, on 31 January 2019, and the House of Lords Economic Affairs Finance Bill Sub-Committee, on 22 October 2018. These formal Parliamentary committee hearings provided the opportunity for HMRC officials to be questioned about the charge on DR loans, by members of both Houses. The Government and HMRC have also provided written responses to both Committees.

Furthermore, the Chancellor and I met several members of the APPG on 31 January 2019. On 28 February, senior officials from HMRC and HM Treasury answered questions from Sir Edward Davey MP, as Chair of the APPG, Ruth Cadbury MP (Deputy Chair) as well as representatives of the Loan Charge Action Group (LCAG), which is acting as the APPG secretariat.
HMRC provided written evidence to the APPG which can be found at: www.gov.uk/government/publications/letter-from-ruth-stanier-to-the-loan-charge-all-party-parliamentary-group.

DR schemes are contrived arrangements that pay loans in place of ordinary remuneration, with the sole purpose of avoiding Income Tax and National Insurance contributions. The loans are provided on terms that mean they are not repaid in practice, so they are no different to normal income and are, and always have been, taxable.

The Government has decided the charge on DR loans is the right way to tackle the use of DR schemes. The charge will apply to outstanding DR loan balances on 5 April 2019, to ensure scheme users pay their fair share of tax. Scheme users can prevent the charge by repaying the loan or by agreeing a settlement with HMRC.

The charge on DR loans is not retrospective. It does not change the tax position of any previous year, or the outcome of any open compliance checks. It is a new charge, arising at a future date, on DR loan balances outstanding at that date.

I have listened very carefully to concerns about the impact of this policy on those who took advantage of these schemes. HMRC has put special arrangements in place so it can agree a payment plan of up to five years automatically for those with income below £50,000, and seven years for those with income below £30,000, where those scheme users are no longer engaging in tax avoidance. HMRC may be able to offer a longer payment plan for those that need more time, or with income over £50,000, where further information is provided.

HMRC will work with all individuals to reach a manageable and sustainable payment plan wherever possible. I strongly encourage anyone who is worried about being able to pay what they owe to contact it as soon as possible on 03000 534 226.

Thank you for taking the trouble to make us aware of these concerns.

Yours sincerely
Mel

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