



TAX ALERT

Mr & Mrs Jones win at last in the House of Lords

The long-running legal battle between HM Revenue & Customs and the shareholders of Arctic Systems Limited came to an end on Thursday 25 July with a victory for the taxpayers.

A small amount of tax was at stake in the case but the Revenue wanted to prove a point. The cost to the total of similar small businesses would have been very high if the Revenue had succeeded.

Mr Jones was the sole earner in a not untypical one man service Company but draw a comparatively small salary. The balance of the Company's profit was distributed equally to Mr & Mrs Jones by way of dividend. Her lower level of income meant that she would not have been liable to the dividend rate of income tax – a tax saving of £7,000 each year for the couple.

The Revenue sought to tax her dividend income on Mr Jones to negate the tax saving in spite of the fact that such income splitting arrangements have been used widely for very many years and were well-known to the Revenue.

The Revenue have always been bad losers and the Government announced immediately that it will bring forward legislation to counter such arrangements.

Meanwhile, the House of Lords has removed the uncertainty which has hung-over taxpayers for the last six years. The Revenue will have to abide by their Lordships' decision until new law legislation is passed.

The uncertainty now is over what form the new legislation will take. Recent experience suggests that, unless the Government takes a prior consultation process seriously, a hammer will be taken to crack this particular nut and commercial arrangements will be caught-up in the detail.

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