

December 2007

INCOME SHIFTING CONSULTATION

You may well remember that the Arctic Systems case involved a husband and wife who owned a company 50/50 and, broadly, took the profits out by way of dividends, again 50/50. HMRC attempted to tax the dividends solely on the husband, as he was performing most of the work which generated the profits of the company.

Following HMRC's defeat in this case, the government has published draft legislation to prevent a tax advantage being gained through what has become known as 'income shifting'. This legislation will apply from 6 April 2008 to:

- company distributions, usually dividends; and
- profits from a partnership.

The proposed rules are very widely drafted and will catch many owner-managed businesses involving husbands, wives and other family members, as well as businesses run by non-family members, leaving many with a substantially higher tax bill.

We will, of course, keep you informed of developments. However, if you have any questions or concerns in the meantime, please do not hesitate to contact us.

Internet Link: [Income shifting consultation](#)