

BRITAIN



Political donations in the UK are not tax deductible. But Reuters has found a loophole that's popular with lawmakers themselves.

A tax break for party donors

BY TOM BERGIN

BRITAIN TAX BREAK FOR POLITICS

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Some of Britain's biggest political donors, including a dozen senior law-makers, have benefited from a little-noticed loophole that lets them avoid tax on millions of pounds in donations to political parties, a Reuters analysis has found.

Reuters is the first to measure the loophole, which offers political parties – and in some cases, individual politicians or their families – an unintended gift from the taxpayer.

Political donations made by individuals are not tax-deductible in Britain. If a donor makes money as salary or dividend and then donates it, they have to pay income tax. But giving from a company that they control lets the donor avoid paying income tax, accountants say. The mechanism enables donors to give more than they otherwise might.

The analysis of Electoral Commission records shows that between June 2005 and December 2014, 100 of the wealthiest political donors in Britain used the loophole to donate at least 39 million pounds (\$59 million) to four of the biggest political parties. That amounts to about one-tenth of all donations to these parties, although the actual figure could be much higher since corporate donors don't have to name their controlling or significant shareholders.

The analysis comes as politicians campaigning in a May election have pledged to fight tax avoidance. The Conservative Party says it will clamp down on "aggressive tax avoidance." Labour's plans include a review of the British tax authority, the Liberal Democrats say they will raise billions more in tax, and the United Kingdom Independence Party (UKIP) says it will target tax dodging by big companies.

Among those to benefit from the donations loophole have been politicians, including Health Minister Jeremy Hunt, a Conservative, and Lord Alan Sugar, a Labour donor and host of "The Apprentice," a television series on entrepreneurship. Both men gave through companies: Hunt,



TRANSPARENT: Health Minister Jeremy Hunt, who co-owns a company that donated to his political activities. Members of both the upper and lower houses of Parliament, pictured on the cover, have gained from the tax break available when giving through private firms. REUTERS/SUZANNE PLUNKETT (X2)

through a company which names him as a principal shareholder, Sugar, through a firm he owns outright.

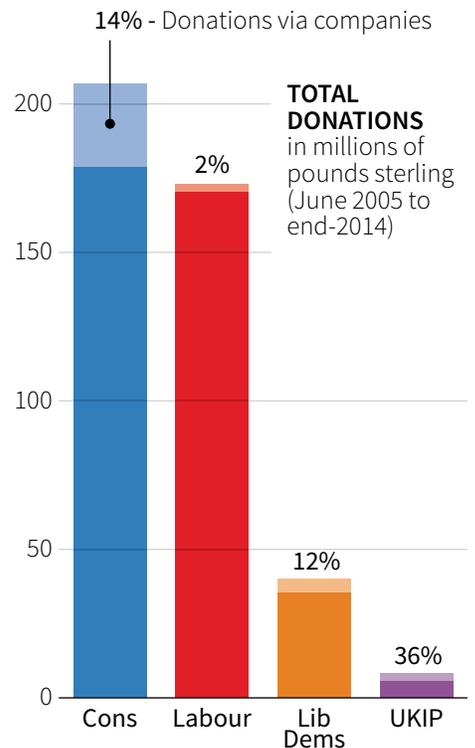
A spokesman for Hunt said: "It's not unusual for companies to make donations to MPs and all of these donations were properly and transparently declared to the Electoral Commission." Sugar declined to comment.

Stephen Winyard, who owns a luxury castle spa in Scotland, said he used his company to donate 100,000 pounds to the Liberal Democrats last year. "To fork out 100,000 pounds out of my net income, having paid the higher rate of tax, would be difficult," he told Reuters. "It's probably more affordable if it's done through the company."

Donations made through companies are perfectly legal, and some of those contacted said they were not aware of the savings they had made. The British tax authority simply does not tax donations made in this way, six tax accountants said. The tax authority, Her Majesty's Revenue and Customs (HMRC), said it had the legal right to tax such gifts but would not say why it did not use this right.

Christopher Grove, partner with law firm Withers LLP, said the benefit was the result

POLITICAL DONATIONS



Note: Total donations exclude public funds. Sources: Electoral Commission, company statements and Reuters analysis



PARTY FAVOURS: Electoral tokens for UKIP, Labour and the Liberal Democrats. Neither the tax authority nor the finance ministry would say why no income tax is charged on political donations made by private companies. **REUTERS/NEIL HALL, LUKE MACGREGOR, PHIL NOBLE**

of a “grey area” in tax law. “It’s a quirk of the way the system works at the edges, rather than something more deliberate,” he said.

At current tax rates, a wealthy donor who gives to a party through a firm they own rather than out of their own pocket effectively reduces the cost of that donation by around a third, said Tim Davies, head of tax at accountants Mazars.

Alistair Graham, former Chairman of the Committee on Standards in Public Life, a parliamentary watchdog, said it was never the intention of parliament to give such tax relief.

“The system should not place wealthy donors with private companies at an advantage compared with ordinary taxpayers who pay out of post-tax income,” he said. The public “would be deeply shocked” to learn of the loophole.

“All political parties should agree to close this loophole as soon as possible,” he added.

CONSERVATIVES GAIN MOST

The main beneficiary of company donations was the Conservative Party, records show. These gifts accounted for 28 million pounds of those Reuters tracked, or 14 percent of the total donations declared by the Conservative Party for the period. Small

donations do not need to be disclosed.

UKIP collected a much smaller sum through companies than the Conservatives – 3 million pounds – though at 36 percent of UKIP’s total declared donations in the period, this accounted for a larger share of all its funding.

A smaller share of Liberal Democrat and Labour donations came through private companies.

Labour received 55 percent of the 173 million pounds it declared in donations from unions. The company-donation loophole effectively puts Labour at a disadvantage, because unions raise the money they donate from their members, who have paid income tax on it first.

The Conservative, Liberal Democrat and Labour parties said they did not

encourage donors to give in tax-efficient ways, and the donations complied with electoral laws. A spokesman for the Liberal Democrats said its policy of capping donations at 10,000 pounds would minimise the gain to business owners. “(This) is just one of the quirks of a system that we don’t think works,” he said. UKIP did not respond to requests for comment.

One donor, businessman and former peace campaigner Dale Vince, said minimising tax on political contributions was perfectly sensible.

“If someone consciously decides to do it one way rather than the other to save tax, then they’re being tax efficient... But I don’t think it makes it wrong necessarily,” he said. “The tax code offers many ways to be tax efficient.”

GIVING TO ONESELF

Under rules known as “benefit-in-kind,” the tax authority could demand tax on political donations made by companies.

The rules hold that when a company spends money, the expenditure should “wholly and exclusively” benefit the business, according to the tax authority website.

If a purchase does not benefit the business, or if the business gives a cash gift to someone, HMRC can charge the owner

£39 million

Minimum value of donations that benefited from the tax loophole in 2005-2014

Source: Reuters analysis

income tax on the value.

“If the director simply directs the company to spend money on something which he or she would have otherwise (bought) personally there is likely to be a taxable benefit,” said a spokesman for HMRC.

However, HMRC chooses not to exercise its prerogative on donations that private companies make to political parties. Accountants say there is no clear-cut ruling on this point. The HMRC spokesman would not say if it had ever sought to tax political giving.

A spokeswoman for the finance ministry, which oversees HMRC, said the application of “benefit-in-kind” rules to political donations was a policy issue on which it could not comment so close to an election.

The Reuters analysis focused on companies where one person holds enough shares to exercise influence. In some cases, firms significantly or wholly owned by politicians have given tax-free to political campaigns.

Take Health Minister Hunt. He founded Hotcourses Ltd, a publisher of websites that offer educational information, in 1990. Filings show he is a “principal shareholder” of Hotcourses with Chief Executive Mike Elms.

Between 2003 and 2009, Hotcourses contributed over 160,000 pounds worth of staff services which it said were for Hunt’s political activities. It also provided 54,000 pounds worth of advertising for Hunt’s local Conservative Party association when he was campaigning for election in 2005.

If Hunt had paid that money from his own pocket he would have paid tax on it. Donating it via the company saved that.

Chief Executive Elms told Reuters that the company paid for a political assistant for Hunt and that Hunt drove the arrangement. “It wasn’t something that I was

Political insiders

When British businessman Robert Durward decided to spend 1.9 million pounds (\$2.9 million) funding a new free-market political party in the mid-2000s, friends said he was wasting his money. Years after his “New Party” collapsed, he agrees, telling Reuters it was “a complete and utter waste of time.”

But in one way at least, Durward was more astute than his friends gave him credit for. That’s because, rather than donating the money personally, he gave via his company, Cloburn Quarry Company Ltd.

“You’re paying less tax if you’re putting it through the company,” he said. Funding the party through his company was perfectly legal. It saved him – and cost the taxpayer – hundreds of thousands of pounds.

40%

Share of donations from firms run by political insiders

Source: Reuters analysis

Between June 2005 and December 2014, at least 41 million pounds of political donations analysed by Reuters were given in this way – 39 million pounds of it to the four main parties – in a tax loophole that Reuters is the first to measure. Forty percent of the total was given by companies in which politicians, party officials or their families have a significant stake.

Seven candidates in elections due in May have benefited from donations by companies they or their families own.

Two of the seven, Michael Foster and Glasgow candidate Anas Sarwar, are Labour Party members. The others – Health Minister Jeremy Hunt, North West Leicestershire candidate Andrew Bridgen, Devon candidate Anne Marie Morris, Cheshire candidate Edward Timpson and Lancashire candidate

Seema Ghiassi Kennedy – are Conservatives.

Hunt said he complied with electoral law. The others declined to comment or did not respond.

Between 2005 and 2014, some of the most generous companies in Reuters’ analysis were controlled or heavily influenced by individuals who were, or would become, members of the upper house of parliament, the House of Lords.

Lords Waheed Ali, Michael Ashcroft, Anthony Bamford, Robert Edmiston, Andrew Feldman, Philip Harris, the late Edward Haughey, James Palumbo, Alan Sugar, Ranbir Suri, Greville Howard and Rumi Verjee have, combined, contributed 13.7 million pounds to political parties through companies they either significantly or wholly owned.

Over the same period they gave just 1.2 million pounds personally.

A spokesman for Verjee said tax was not a consideration in his donations.

A spokeswoman for Ashcroft said: “He cannot even hypothetically see where, as you described, there are tax advantages and if you can he would be curious to discover what he missed.” Reuters provided details of the calculations on April 17. She responded, “We have no time to go through it and obviously no reason to do so.”

A spokesman for JCB, which is owned by the Bamford family, said there was no tax benefit to Bamford in another of his firms, JCB Research, giving 3.8 million pounds to the Conservative Party. This was because Bamford, the sole shareholder of JCB Research, was separate from the company, the spokesman said. “Political donations made by JCB are corporate donations made by the company, not through the company on behalf of Lord Bamford or any other individual,” he said.

The other Lords either declined to comment or did not respond.

Edited by Sara Ledwith



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involved in particularly,” Elms said. “The company had an employee at the time who was effectively a political assistant... it was from the company,” he said.

Hunt declined to comment on how the staff costs and advertising were accounted for, or why he did not meet them out of his own funds.

A slightly different case is that of businessman John Timpson, who is the controlling shareholder in an eponymous chain of shoe repair and key-cutting stores that dot shopping malls across England. Over the past six years Timpson has donated 478,000 pounds to his son, Edward, a Conservative member of parliament, via his company, Timpson Ltd, records show.

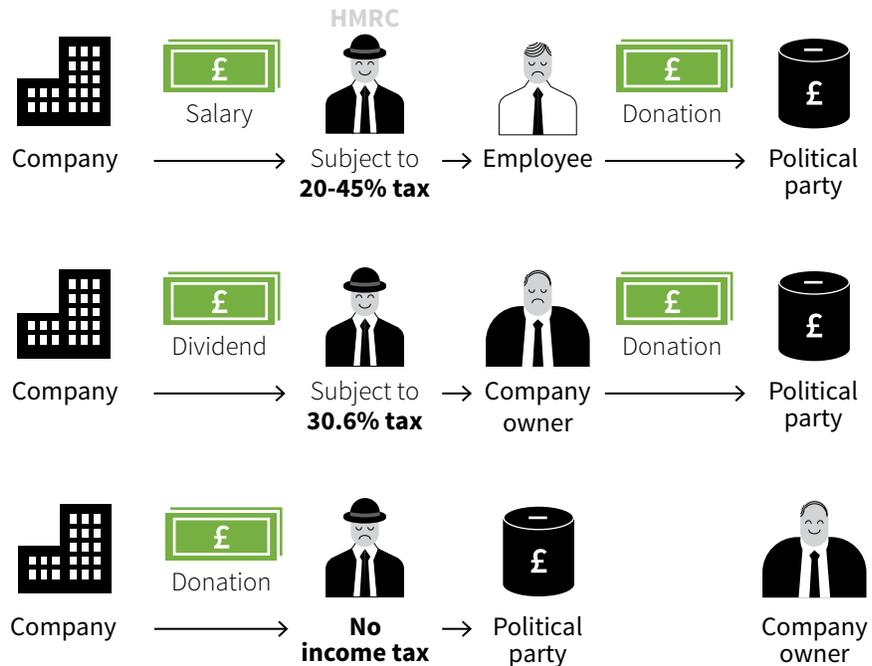
John Timpson said he was not trying to reduce his tax bill and said his company had been “assisting the taxpayer.”

“We have paid for administrative (not campaigning) costs that enable Edward to fulfil his public function as an MP more effectively,” he said in a statement.

A spokesman for the Conservative Party said it was not reasonable to see a political donation made by a company as a proxy for or alternative to personal giving by its owner or owners.

How political donors use firms to skip tax

If a political donor gives directly, they are likely to have paid income tax on the donation. Funds from a private company are not subject to income tax.



THE GIFT OF LORDS

More than a third of the donations identified by Reuters were made by companies owned or significantly controlled by 11 members of the House of Lords, parliament’s upper house.

Politician-donors include Liberal Democrat nightclub owner James Palumbo (Lord Palumbo of Southwark), senior Conservative Party official Andrew Feldman (Lord Feldman of Elstree), and jeweller Ranbir Suri (Lord Suri, a Conservative, whom newspapers have nicknamed “the King of Bling.”)

Combined, their companies have contributed at least 13.7 million pounds in the period. That total dwarfs their personal contributions, which amounted to just 1.2

million pounds.

Palumbo owns a majority stake in The Ministry of Sound through a trust. The company has given more than 1 million pounds to the Liberal Democrats. He declined to comment.

Feldman, who owns 95 percent of the shares of Jayroma Ltd, which gave over 100,000 pounds to the Conservatives, also had no comment. He told a 2011 parliamentary inquiry into party funding that he believed donations should be tax-deductible since parties “perform an incredibly important social function.”

Suri is founder and chairman of Oceanic Jewellers Ltd, which has given 180,000

pounds to the Conservative Party. He and his three sons own the shares in Oceanic Jewellers, according to corporate filings. He said tax was not a motive in the donations, but added that he did not make the decision to donate.

“It’s not me, it’s the company’s choice ... I am not deciding anything in that company,” said Suri, who was made a Lord last year.

Labour also benefits from donations made through companies.

Lord Sugar’s Amshold Group made a donation of 400,000 pounds to the party in 2010. Michael Foster, a former celebrity agent and current Labour Party candidate in Cornwall, owns a company which donated



SWEETENER: The Lord Sugar, whose company Amshold has donated to the Labour Party, at the State Opening of Parliament in 2009. REUTERS/PAUL EDWARDS/POOL

385,000 pounds to Labour over the last 18 months. Foster, who has declared no personal political donations, declined to comment. The Labour Party said donations from companies to political parties are entirely legal and a matter for company directors.

Several donors said they were unaware that giving cash through their companies brought any tax benefit. David Burnside, a former member of parliament for the Ulster Unionist Party and majority owner of public relations firm New Century Media Ltd, said he gave to the Conservative Party from New Century because he thought a Conservative

government would be better for the company, because it was more pro-business.

Some donors said giving through their companies was simply a habit. Vince, the former peace campaigner, said he gave 140,000 pounds to the Green and Labour parties through his wind power producer, Ecotricity, simply because it was “the vehicle in the world through which I do the things I feel that need doing.

“It’s like my corporate alter-ego,” he said.

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