

**Panorama's undercover businessman, Tony Donnelly, went to Jersey to discuss one of the off-shore funds offered by Lloyds Banking Group. The High Income Fund avoids the EU savings tax by paying the dividends via a subsidiary in Hong Kong. Mr Donnelly's meeting with the Lloyds' banker lasted an hour and the following transcript contains two excerpts from their conversation.**

**Part One:**

Banker: The High Income Fund is different in the sense we pay the actual dividend from Hong Kong.

Tony Donnelly: Hong Kong's Chinese isn't it? I was in Hong Kong a long time ago when it was British, but ...

Banker: But the distribution agency, we at Lloyds have set up is actually based in Hong Kong. Now because we're paying the income from outside of the EU, it falls outside the scope of the whole Tax Directive completely.

Tony Donnelly: But how safe is it in Hong Kong?

Banker: Oh God, we - I'd say very safe, yeah.

Tony Donnelly: Is this just a paper transaction or is that ...?

Banker: Oh it's only a paper transaction yeah, oh - oh very much so. Oh Lloyds has a huge presence in Hong Kong, it's a very established bank there.

Tony Donnelly: Well I haven't heard of this wheeze before.

Banker: But because we pay the dividend from outside of the EU - um - it falls outside the scope.

Tony Donnelly: So does the money go to Hong Kong or the money sits here and the dividend comes from Hong Kong?

Banker: Yeah, the dividend is paid from Hong Kong, so basically we - we would manage the fund here. The - the income made from the fund would go to Hong Kong and then Hong Kong would send it out to all the clients, and that's how we get round it.

Tony Donnelly: So it goes to Hong Kong and comes back again?

Banker: Yeah, yeah it - the income is generated in the fund which is a - Jersey registered fund but the income then is stripped out and sent to the distribution area in Hong Kong who then send it to the clients. But because it's coming from outside of Hong - um - outside of the EU we don't have to pay the Tax Directive.

Tony Donnelly: Right, well this is becoming attractive isn't it. So using this scheme with Hong Kong we don't pay - um - the 20%?

Banker: The EU tax is not an issue with The High Income Fund in the slightest.

Tony Donnelly: So what about reporting to the revenue?

Banker: None whatsoever. Basically any income paid from the High Income Fund is paid to you gross. How you declare that or don't declare it is not our business.

Tony Donnelly: Right.

Banker: So whether you pay that to a Jersey bank account, a UK account, an account wherever once we've paid you that income it's of no interest to us whether you tell the tax man or not, it's not our business.

Tony Donnelly: Right.

Banker: Simple as, so that's where you need ...

Tony Donnelly: So you're happy with that though.

Banker: Yeah, yeah we basically are an investment company we don't get involved in taxation issues slightly - um - how - what clients do ...

Tony Donnelly: It does encourage people not to tell though doesn't it really?

Banker: Um - I think - I think a lot of it is that offshore banking has always been synonymous with potentially not paying tax. Um - we can never as a business ever promote that in any shape or form. Um - all we say to clients and it's as simple as that your tax affairs are your own affairs and not ours. You know so what you declare in terms of your investments, be it capital gains, income or whatever the type of vehicles you have are nothing to do with us.

But that's where you would need the advice of a tax specialist who can then at least tell you what potential liabilities you're open to.

Tony Donnelly: Yeah, but what you're saying to me is - here's - here's your safe bet ...

Banker: Here's your safe ...

Tony Donnelly: But you've just made this a bit more attractive haven't you?

Banker: Yeah, 'cos what you've got to think is if you opt for the retention tax which clearly would be your option, is obviously you're - produce - producing an income of like 3.6, 3.7 obviously then you'd have to take 20% off that.

Tony Donnelly: Right.

Banker: So you're lowering obviously the income it's providing, but you've got the safety net that you're not getting ...

Tony Donnelly: Yeah you're not in risky business.

Banker: No, with the High Income Fund basically pays gross because it pays outside of - um - the EU - um - any income derived from this fund paid to you to wherever and how - how that is taxed is not our issue, as simple as.

Tony Donnelly: This wheeze with the Hong Kong it sounds like fun.

Banker: Yeah it - it ...

Tony Donnelly: Who thought of that?

Banker: Well God - it hit us like a bomb when the EU tax came in, it was like oh my God, what the hell is all this? The infrastructure had to be put in and explained to clients. Now it's five years down the line.

Tony Donnelly: But bankers are good at coming up with schemes, that's why we're all in trouble isn't it you know ...

Banker: Well yeah very much so, probably yeah. Um - so - but - but then you've got - you've got two different elements there. Okay, corporate bonds are having a terrific run now and you know had you invested there you would be sitting very happy somewhere now. You know where gilts will always give you that slightly more peace of mind, where you're still getting an income, you pretty much know when you revisit that money in five years time and think oh I want to do something else now ...

Tony Donnelly: Can I have that, or a copy of one of those?

Banker: Yeah, take it - yeah down the line then you know you probably have the peace of mind that my £4 million is still sitting there. Where that, your £4 million could be £5 million or it could be £3 million down the line. So yeah there's pros and cons basically of ...

Tony Donnelly: All right, let's assume that we're going for this thing where you've got the Hong Kong connection. Um - what about access to the money?

Banker: Okay.

Tony Donnelly: Have I got to come back to Jersey to get ... £20 out of the cash machine?

Banker: No. Basically when we set funds up underneath that you can set what we call nominated bank accounts, you can have one, you can have ten. So basically if you - they're open ended investments so you're not tied in. so you know if - eight months down the line you see a new Jag you want at 50K you know you could just sell enough shares within your fund to generate 50,000 quid on a phone call to our office.

Tony Donnelly: Oh right.

Banker: We'll sell the shares and we'll just remit that money direct into one of your nominated bank accounts.

Tony Donnelly: Okay, would the Revenue find out about that?

Banker: No, not necessarily, only if you tell them at the end of the day. Yeah, you know potentially then you see obviously selling shares the Revenue could then look at that more as a capital gain. Um - but - um - but no we wouldn't say anything, we'll pay the money anywhere and again it's your ...

Tony Donnelly: Are you going to tell the Revenue about the capital gain?

Banker: No, not at all we don't get involved in tax in the slightest.

Tony Donnelly: Do they ever ask?

Banker: Um - no.

Tony Donnelly: Well so they're not going to get an answer.



Banker:

We all start brainstorming and think how can we  
get round this one ...