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Rival cities target banks over tax hit

Darling warned that one-off supertax will hurt London's status as global financial centre

The City of London skyline

Iain Dey, Kate Walsh, Jenny Davey and Dominic Rushe

LONDON's historic role as an international financial hub has been jeopardised by the government's windfall tax on bank bonuses, according to leading City figures.

Officials from New York, Hong Kong and Switzerland have launched a charm offensive to lure lucrative investment banking business away from London. Several large banks have started to draft plans to divert business away from the capital to rival international centres.

Alistair Darling, the chancellor, shocked the City last week when he announced all banker bonuses over £25,000 would face a one-off tax of 50%. The move will generate at least an extra £550m in revenue.

The tax grab has led to accusations that Darling has undermined the City's international credibility and broken a basic tenet required by business — a predictable tax regime.

One banker said: "We would expect this in Stalinist Russia but not here. That is why, until now, we kept London as the hub of our operations." The anger is greatest among foreign-owned institutions, which say they are being unfairly asked to pay for the failings of British banks.

Fears are mounting that further vote-grabbing attacks on the City will emerge in the run-up to the general election next year.

Peter Sands, chief executive of Standard Chartered, said: "Whether or not a few bankers leave in the short term is not the point. For more than a century, the City of London has attracted internationally mobile businesses thanks to a fair, equitable, stable tax and regulatory regime. That takes a long time to create but it can be eroded very quickly."

Bob Wigley, the former chairman of Merrill Lynch Europe, Middle East and Africa, who wrote a report on the future of the City for Boris Johnson, London's mayor, said: "London is on a knife edge and the situation is more precarious than at any point in my career. More companies and more people are considering leaving than at any time I have known. In the past few years some people have said they would leave but they stayed. The difference between then and now is that now they are serious."

Johnson said yesterday that he understood the reasons for the windfall tax in the current climate but added that “random, one-off politically-motivated taxes are clearly not good for the global capital of finance. London needs a stable, consistent and competitive tax regime if it is to see off increasingly fierce competition from abroad.”

Michael Hintze, chief executive of CQS, one of London’s biggest hedge funds, added: “Rightly or wrongly, it sends out a poor message to the financial community, clearly makes life more difficult for financial businesses and it makes the UK less likely to be a destination of choice.”

HM Revenue & Customs is coming under increasing pressure to clarify details of the tax — dozens of influential City firms still have no idea whether or not they will be affected by it.

Meanwhile, eight stockbrokers, advised by Price Waterhouse Coopers, have drafted a letter to the Treasury asking to be exempted from the move. They claim they have not benefited from government bailouts, so should not be expected to pay for them.

The bonus tax has already been condemned by Bob Diamond, the president of Barclays, who claimed that it breached the principles agreed at a series of G20 summits since the credit crisis.

One senior banker said: “In places like Hong Kong and Singapore they really cannot believe the government has shot itself in the foot so spectacularly.”

A number of investment banks are already preparing to bear the entire cost of the tax themselves rather than transfer it to staff. Goldman Sachs alone is expected to pay at least £1 billion in tax to the government this year.

And in a sign that the “brain drain” is already in full swing, Renaissance Capital, the Russia-based investment bank, is planning to hire between 200 and 300 people this year — mostly from London banks.

Roland Nash, the firm’s head of research, said: “Russia is not an easy environment to do business but the supertax has made the argument much easier, so we will be approaching the best that London has to offer.”

Geneva has also been emailing London brokers and hedge funds, extolling the virtues of relocation. A number of investment banks are looking at the possibility of moving commodity trading operations to Switzerland, where large customers such as Glencore are based.

Robert Miller, professor of economics at Carnegie Mellon’s Tepper School of Business, said New York was the obvious winner following the bonus tax. “If you look at what happened after the introduction of Sarbanes-Oxley in the US, London moved ahead and New York declined,” he said.

Miller said that while the top tier of bankers might head for Wall Street, an exodus was unlikely. He added that the tax was “destabilising” at a time when financial services firms have more choice of locations than New York or London.

He said new economic centres were already on the rise and would only benefit from disruptions in the old twin capitals of finance.

Mark Calabria, director of the Cato Institute, a Washington think tank, said taxing bonuses and other pay caps was a distraction from the real problems in the system, many of which had been created by governments.

Sarah Wu, director of the Hong Kong economic and trade office in London, declined to comment on the UK tax. She added: “Hong Kong offers a low, predictable and fair tax system for banks and other private sector entities to do business,” she said.