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by **Johnathan Rickman**

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In *The English Constitution*, noted 19th-century British author and journalist Walter Bagehot described the British Crown as an institution intended to serve as a “visible symbol of unity” among conflicting parties and as a representation of the nation’s morality.

The Crown is observed as separate from business, to remove it from “enmities and from desecration” and to preserve its “mystery . . . its life,” Bagehot wrote in 1867.

It “would lose its principal use if it came forward into the public arena,” Bagehot insisted. “If you begin to poke about it you cannot reverence it.”

Does that view of the United Kingdom’s constitutional monarchy still ring true today? If it does, then a conservative member of Parliament’s recent letter to the U.K. Treasury alleging that Prince Charles and Queen Elizabeth II aren’t living up to their full tax obligations suggests otherwise.

Leaks and Liabilities

U.K. lawmakers last year asked the government for increased insight into Charles’s and Elizabeth’s tax statuses, which some have come to view as unfairly preferential.

The government denied the request, claiming the Royals’ main source of income — their private estates — grants them “favorable” tax arrangements and “a degree of financial independence” from the government.

Unsatisfied with the response, Edward Leigh, chair of the Public Accounts Committee (PAC) of the U.K. House of Commons, in a letter to the Treasury, called for the National Audit Office to inspect the Royals’ accounts related to their private estates and to clarify why those assets are exempt from corporate and capital gains tax.

The letter was leaked to the U.K. press on October 24, and the response was immediate, with a government source close to Chancellor Gordon Brown and a spokesperson for Charles both rebuffing Leigh outright.

The leak was an underhanded tactic, given that Charles has provided the PAC his full cooperation, the government source said, according to U.K. media reports. Charles’s position on his tax liabilities is right both in law and in principle, the source said.

A spokesperson for Charles concurred, saying the accounts are “already under rigorous scrutiny” by both independent auditors and the Treasury. A statement posted on Charles’s official Web site said in response to the media reports that Charles “pays income tax at the full rate like everyone else” and that his estate is not a business and thus is not subject to corporate tax.

A spokesperson for Charles at Buckingham Palace who spoke to Tax Analysts repeated that assertion, adding that Charles does not receive an income from the civil list — the annual grant of money by Parliament to the monarch and chosen members of the royal family.

Estates and Earnings

The royal estates — the Duchy of Lancaster and the Duchy of Cornwall — were founded in the 13th century to provide the queen, the prince, and their heirs with income from its assets.

The Duchy of Lancaster, which is mainly a portfolio of land and property held in trust, is Elizabeth’s main source of income; and the Duchy of Cornwall — also a collection of land and property with a financial investment portfolio — is Charles’s main source of income. The latter generated approximately £14 million in income in 2005.

According to a fact sheet published on the British monarchy's official Web site, the queen's estate is subject to inheritance tax, but bequests from sovereign to sovereign are exempt.

"This is because the Sovereign is unable to generate significant new wealth through earnings or business activities, and to recognise the requirement for the Monarchy to have a degree of financial independence," the sheet states.

The fact sheet adds that the queen:

- has always been subject to value added tax and other indirect taxes and rates on a voluntary basis;
- in 1992 offered to pay capital gains tax on a voluntary basis; and
- since 1993 has had her personal income taxed "as for any taxpayer," and the privy purse deemed fully taxable.

1992: Annus Horribilis

Queen Victoria voluntarily agreed to pay income tax along with her subjects after it was reintroduced in 1842 by Prime Minister Sir Robert Peel on earnings in excess of £150.

But it wasn't until 1992 that Charles and Elizabeth agreed to do the same. That year, which Elizabeth described as her *annus horribilis*, a then uninsured Windsor Castle caught fire, and British taxpayers were soon facing a £40 million bill to have it repaired.

Her subjects, in revolt, questioned the historically tax-exempt status of the Crown, and the swell of indignation made its way into parliamentary debate. The queen quickly capitulated and further agreed to finance most of the restoration costs.

However, official clarification regarding why the Crown is entitled to a "degree of financial independence" from government remains to be seen. And such clarification may require more "poking about" than most British lawmakers are comfortable with. ♦

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