

# £119.4bn

## The tax gap

**Tax evasion in 2014 – and what can be done about it**

A report by Richard Murphy FCA of Tax Research UK  
for the Public and Commercial Services Union



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Published by and copyright PCS – the Public and Commercial Services Union  
160 Falcon Road, London, SW11 2LN.

Published September 2014

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# 1. Introduction

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This report investigates the scale of the UK tax gap, and tax evasion in particular, in the UK and what can be done about it.

The report suggests that the UK's tax gap may now be £122 billion a year. This is an increase from 2010 when PCS last commissioned Richard Murphy to estimate the tax gap. It was estimated at that time, that the loss each year was £95 billion with £25 billion of tax being owed at any time. It is now estimated that the annual loss has increased to a total of £122 billion a year.

The tax gap matters because at £122 billion a year the tax gap is only a little less than the annual budget for the NHS. It is also big enough to cover the entire UK education budget with more than £20 billion left over. That should make this issue one of the highest priorities on any politician's agenda. The troubling fact is that this does not appear to be the case at present.

The tax gap is the difference between the amount of tax that should be paid in the UK and the amount of tax that is actually paid. It is made up of tax avoided and evaded and of uncollected tax that is known to be owed but is either never paid or is paid late.

This report estimates that tax evasion might cost the UK £85 billion a year whilst tax avoidance might impose a cost of £19 billion a year and tax not paid could result in a loss of income of £18 billion a year.

In a time when all major UK political parties seem committed to austerity measures the size of the tax gap is a key variable in the equation that determines economic and social policy.

Put very simply, if the tax gap is small the government has more to spend. If it is big then governments think they must make choices about how to deal with budget deficits and we have seen in recent years that it is public services and ordinary people that suffer as a result of such decisions. The consequence is that for the very many people in the UK who are either dependent on the government for all or part of their income, or who are dependent upon government services, such as the NHS, for their well-being, the size of the tax gap can have a direct impact on the quality of their lives.

PCS first made this important point in 2010 when we were the first organisation to publish an estimate for tax evaded in the UK apart from HMRC. That report was ground breaking when it was published. In 2010 HMRC admitted the whole tax gap was £42 billion<sup>i</sup> (a figure they have steadily revised down since then to £35 billion in 2013<sup>ii</sup>). In contrast what the report commissioned from Richard Murphy showed was that the amount of tax HMRC were not recovering - because their political masters were not giving them the resources required to do so - was vastly bigger than HMRC admitted. What this new report shows is that things have, if anything, got worse in the

meantime whilst HMRC has been starved of ever more resources over the intervening years, costing thousands of PCS members their jobs whilst decimating the valuable service they supplied to the UK public.

Since 2008 PCS and its members have been at the forefront of the tax justice campaign in the UK. We have done that in an attempt to preserve our members' jobs and to protect the services they supply. We have also done so to show that if only the tax gap was properly tackled we would have a very different economic outlook in the UK. The budget deficit, trumpeted as the need for austerity measures, cuts to services, pay freezes and attacks on those in receipt of social security payments, would not be closed as a result of merely collecting the tax evaded in the UK economy but a large amount of money that could be invested in good quality public services would be "recovered" by the Treasury.

PCS has argued consistently since 2010 that there is no need for the austerity measures now crippling the UK economy and which are depriving so many of jobs, opportunity and hope as well as causing cuts in health and education. Our argument is as ideological as - but on the opposite side to - the government's and is that the tax gap is a crucial factor that should be at the centre of economic debate in the UK and which could transform our economic prospects if only it was properly addressed.

Richard Murphy, who wrote the attached report, also looks at the impact of staffing cuts in HMRC on the tax gap. In 2005 HMRC had 92,000 staff. By 2016 it is expected to have around 52,000. Across the UK HMRC has abandoned its local office structure and its face-to-face contact with the local communities it serves. Local knowledge has been lost and trust has been foregone as a result. In its place we now have call centres whose staff, through no fault of their own, have not had sufficient training for the jobs they are being asked to do whilst tax investigators now have one hand tied behind their back at all times by the constraints placed upon them by a lack of resources. It is no wonder that the tax gap remains a persistent problem.

There is as a consequence a desperate need to invest in HMRC if the tax gap is to be tackled. Tackling that tax gap is vital if public services are to be preserved and if the UK is to get back to work. It is also important if the government is to support honest businesses and honest taxpayers and uphold the rule of law. This is an issue which in the run up to the 2015 General Election really needs to be in the voting public's mind. Think about it when people ask for your vote and remember when doing so that we are all enriched by good public services.

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September 2014



## 2. Summary

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The government claims there is no alternative to the austerity agenda. Jobs and pay are being cut, benefits slashed and public services closed; small businesses are struggling to survive on our high streets. A simple part of the solution is to close the tax gap, which involves two things: making those most able pay their fair share of taxes and beating tax cheats.

In 2010 PCS published the most comprehensive calculation of the UK tax gap undertaken at the time. The report by Tax Research UK estimated the tax gap at £120 billion. This was made up of £70 billion in evaded tax, £25 billion in avoided tax and £25 billion in tax paid late.

At the time the government criticised this figure as being far too high and instead estimated a tax gap of £35 billion in 2011/12.

Campaigning by PCS, UK Uncut and others about the high profile tax avoidance activities of companies such as Google, Starbucks and Amazon along with celebrities like Jimmy Carr, Chris Moyles and Gary Barlow, have pushed the issue into the media spotlight.

This pamphlet is a summary of a new report 'Tax Justice UK' written for PCS. It makes a new estimate of the tax gap, which continues to be significantly higher than the HMRC estimate. This estimate, which is £119.4bn for financial year 2013/14, includes reductions in the estimates of tax avoidance and tax debt, but a significant increase in the estimated tax loss from evasion.

It includes significant new data and a much more comprehensive analysis of tax evasion. It shows that tax evasion is higher than previously estimated. It concludes that the government should tighten up legislation and reverse the counterproductive cuts in HM Revenue and Customs staffing.

### **Defining the tax gap**

The tax gap is made up of three parts.

- Tax debt – non-collection; tax that is not paid by someone who knows that they owe it, but who doesn't pay, or delays payment.
- Tax avoidance – tax that is lost when a person claims to arrange their affairs to minimise tax within the law in the UK, or in other countries.

- Tax evasion – tax lost when a person or company deliberately and unlawfully fails to declare income that they know is taxable or claims expenses that are not allowed.

### **Tax debt**

The amount of debt outstanding has fallen in recent years, but the amount of debt written off as irrecoverable or discharged by HMRC during each year is growing. In 2013/14 estimate of tax debt is £18.2bn.

This figure is down on the £25bn of tax debt that was estimated in 2008. This largely reflects a difference in the method of calculation we have now used that makes the figure directly comparable with the data for tax avoidance and tax evasion, which was not previously the case.

### **Tax avoidance**

Total tax avoidance is estimated to be at least £19.1bn for 2013/14. The figure is lower than the £25bn estimated in 2008, which reflects declining corporation tax rates (which means the amount avoided also declines, automatically), declining capital gains tax rates, and a likely decline in non-domicile activity as a result of legislative changes as well as caution being made in other estimates.

### **Tax evasion**

The main area considered by the report is tax evasion. This work draws on data to examine areas which the HMRC estimate of the tax gap does not address. The report indicates that tax evasion is by far the largest of the three tax gaps.

This report estimates that tax evasion costs the UK £73.4bn in 2011/12 (see table 1) rising to £82.1bn in 2013/14 (see table 2).

There is more than one type of tax evasion. The following types of evasion are considered in this report but are themselves not exclusive or complete. They are, however, likely to cover the more common causes of the UK's tax gap resulting from tax evasion:

- Tax evasion in the shadow economy. The shadow economy represents economic activities that are not recorded or declared to avoid government regulation or taxation.



- Tax lost as a result of other criminal or fraudulent activity in the UK economy.
- Capital Gains Tax and Inheritance Tax and offshore tax evasion.
- Tax evasion on investment and rental income.

Each of these issues is considered in turn in this report. Table 1 below identifies the Tax Research UK 2011/12 estimate. HMRC's estimate £22.3bn<sup>1</sup> is also included and the difference.

<b>Tax evasion</b>	<b>Item</b>	<b>Tax Research</b>	<b>HMRC</b>	<b>Difference</b>
Tax Research Estimates	Trading in the shadow economy	40.3	9.9	30.4
	Untaxed proceeds of fraud and other crime	6.5		6.5
	Capital gains tax	3.8	0.1	3.7
	Inheritance tax	6.6	0.4	6.2
	Offshore tax abuse	4.3		4.3
	<b>Total</b>	<b>61.5</b>	<b>10.4</b>	<b>51.1</b>
HMRC estimates	Criminal attacks on the tax system	4.7	4.7	0
	Error	2.9	2.9	0
	Failure to take care	4.3	4.3	0
	<b>Total</b>	<b>11.9</b>	<b>11.9</b>	<b>0</b>
<b>Total tax gap</b>		<b>73.4</b>	<b>22.3</b>	<b>51.1</b>

Table 1: Comparison between Tax Research UK and HMRC tax evasion figures for financial year 2011/12.

### **Tax evasion in the shadow economy**

The report by Tax Research UK refers to detailed earlier work that estimates that up to 10% of all net sales income in the UK economy may not be recorded for tax purposes. In 2011/12 this was likely to have represented £100bn of unrecorded sales income. Based on this estimate, £40.3bn of unrecorded tax of has gone unpaid in 2011/12.

The estimate of unrecorded income in the UK economy made by Tax Research UK was based on VAT gap data published by both HMRC in

<sup>1</sup> HMRC, Measuring Tax Gaps 2013, tax gap estimates 2011/12, Official Statistics Release, October 2013. Note: small rounding differences arise.

successive tax gap reports<sup>2</sup> and by the European Union<sup>3</sup>. The estimate specifically excluded data on criminal attacks on the tax system and bad debt. The resulting estimates of VAT lost and turnover of almost exactly 10% of the likely sums owing, correlate with some authoritative estimates of the size of the UK shadow economy<sup>4</sup>.

### **Tax lost as a result of other criminal or fraudulent activity in the UK economy**

The report goes on to use data from The National Fraud Authority's 'Annual Fraud Indicator Report for 2013'<sup>5</sup> to estimate the tax loss. The estimate is careful to consider only those areas where it is likely that a tax liability should arise and to also exclude the possibility of double counting activity that might have already been considered as part of the shadow economy.

The National Fraud Authority (NFA) estimated that fraud against the public sector amounted to about £20.6bn in 2012. The total procurement and grant frauds have been excluded as they may be covered by estimates of tax lost to the shadow economy.

The estimate the NFA has made of fraud against the UK private sector is approximately £15.9bn per annum.

In the financial services sector the NFA used Department for Business, Innovation and Skills (BIS) data, which showed fraud at £5.4bn in 2012. The NFA also identified £9.1bn of fraud against individuals.

The report removes a number of elements to avoid double counting and identifies taxable income amounting to approximately £21.8bn in 2012. That estimation would indicate that the tax loss arising in 2011/12 on this unrecorded income is £6.5bn.

### **Capital gains, inheritance and offshore tax evasion**

The report considers these areas in detail. It recognises that estimating the tax gap in relation to capital gains, inheritance and off-shoring is difficult. However,

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<sup>2</sup> <https://www.gov.uk/government/publications/measuring-tax-gaps>

<sup>3</sup>

[http://ec.europa.eu/taxation\\_customs/resources/documents/common/publications/studies/vat-gap.pdf](http://ec.europa.eu/taxation_customs/resources/documents/common/publications/studies/vat-gap.pdf)

<sup>4</sup> F Schneider and C Williams (2013) The Shadow Economy, Institute of Economic Affairs, London.

<sup>5</sup> National Fraud Authority, annual fraud Indicator report 2013

an analysis of available data indicates that tax evasion is likely and significant. The report uses available data to make tentative estimates of the tax gap resulting from capital gains, inheritance and off-shoring.

The conclusion of a review of both share and property transactions is that the estimated tax loss from capital gains tax was £3.8bn in 2011/12. A review of inheritance tax indicates that £6.6 billion of additional inheritance tax might be due annually as a result. It is estimated that offshore tax evasion could cost the UK £4.3bn a year in lost tax revenue.

### **HMRC estimates**

The HMRC official estimate<sup>6</sup>, records three categories of tax loss which the report has included as tax evasion:

- Tax lost due to criminal attacks on the tax system, stated to amount to £4.7bn in 2011/12<sup>7</sup>;
- £2.9bn lost to errors in that year;
- £4.3bn lost to failure to take reasonable care.

### **Rental and investment income**

Two further areas of income which the report indicates have the potential for significant levels of tax evasion are rental and investment income. While the report highlights the scale of potential for evasion, further work is necessary before an estimate of tax loss can be made, especially if the risk of double counting is to be avoided.

### **The tax gap over time**

Table 2 below is an extrapolation base data for each on the basis of growth in GDP based on the 2014 budget and forecasts to the rise in VAT in the autumn statement 2013. The extrapolation shows that in 2013/14 the tax lost to evasion was £82.1bn.

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<sup>6</sup> HMRC, Measuring Tax Gaps 2013, tax gap estimates 2011/12, Official Statistics Release, October 2013.

<sup>7</sup> <http://www.hmrc.gov.uk/statistics/tax-gaps/mtg-2013.pdf>

<b>The tax evasion gap</b>	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
	£'bn	£'bn	£'bn	£'bn	£'bn	£'bn	£'bn	£'bn
GDP	1526	1571	1644	1721	1788	1871	1956	2042
Tax likely to be lost on unrecorded sales in the shadow economy	40.3	45.6	46.4	47.7	49.5	51.8	54.2	56.6
<i>The HMRC tax gaps:</i>								
<i>Criminal attacks</i>	4.7	4.8	5.1	5.3	5.5	5.8	6.0	6.3
<i>Error</i>	2.9	3.0	3.1	3.3	3.4	3.6	3.7	3.9
<i>Failure to take care</i>	4.3	4.4	4.6	4.8	5.0	5.3	5.5	5.8
Additional tax gaps calculated in this report:								
Tax due on fraud and other crime	6.5	6.7	7.0	7.3	7.6	8.0	8.3	8.7
Capital gains tax underdeclaration	3.8	3.9	4.1	4.3	4.4	4.6	4.9	5.1
Inheritance tax underdeclaration	6.6	6.8	7.1	7.4	7.7	8.1	8.5	8.8
Offshore tax evasion - income only	4.3	4.4	4.6	4.8	5.0	5.3	5.5	5.8
Total estimated tax evasion gap	73.4	79.7	82.1	85.0	88.3	92.4	96.6	100.8

Table 2: Estimating the tax gap 2012/13 to 2018/19

## So what can be done about the tax gap?

There is a great deal that can be done to tackle both tax avoidance and tax evasion. The report suggests a number of measures that need to be taken:

- The introduction of a proper anti-avoidance rule into UK tax law.
- The introduction of country-by-country reporting for multinational corporations.
- Reform small business taxation to discourage avoidance and tackle tax evasion.
- Enforce proper regulation of companies in the UK to ensure that they file their accounts and tax returns and pay the taxes that they owe.
- Lastly, and most importantly, a reversal of the cuts to staff in HMRC and at Companies House, taking on more staff at both to ensure that HMRC can collect the taxes the country so badly needs.

## Staffing cuts in HMRC

The 2014 Tax Research UK report looks in detail at the impact of staffing cuts in HMRC on the tax gap. In 2005, HMRC had 92,000 staff. It has now less than 62,000 and by 2016 it is expected to have around 52,000 staff, a cut of almost 43% in just over a decade.

HMRC has closed its local office structure and plans to close all 281 of its enquiry centres and its face-to-face contact with the local communities it serves. During 2012, 2.5 million tax payers visited HMRC enquiry centres and over 340,000 made a face to face appointment with a member of staff in order to comply with their tax duties and receive advice on their benefit entitlement.

HMRC's own customer service surveys show it is not meeting taxpayers' expectations. One important way they do so is by not collecting tax from everyone who owes it to create a level playing field in the UK economy.

## **Conclusion**

While the government has argued that it is reducing the tax gap, the report shows that the tax gap is as large as it was in 2008. While the effect of the recession and a different method of calculating tax debt have reduced the estimates of tax avoidance and debt in the report, the estimate of tax evasion has significantly increased.

In any event the estimate of the tax gap in the Tax Research UK report remains over three times higher than the official HMRC estimate.

Further resource cuts are planned by this government. The cuts planned and implemented by this government will take public spending, as a proportion of GDP, back to levels seen in the immediate post war period. This will mean further cuts in welfare and vital public services. Reducing tax avoidance, evasion and debt could significantly boost government income and so undermine the Government's argument that there is no alternative to austerity.

As we approach the general election it is clear that there is a real appetite for the issue of tax justice to be addressed. PCS has played a leading role in drawing the tax gap to the public's attention and has helped create an environment in which organisations like UK Uncut, and others have been able to highlight the injustice that the tax gap causes.

Tackling the tax gap is an important element in an alternative to a programme of austerity and cuts. We will never entirely close the tax gap but with the political will to take serious steps to address the issue, the economic outlook for the country could look very different indeed from that which we are told we face at present.

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September 2014

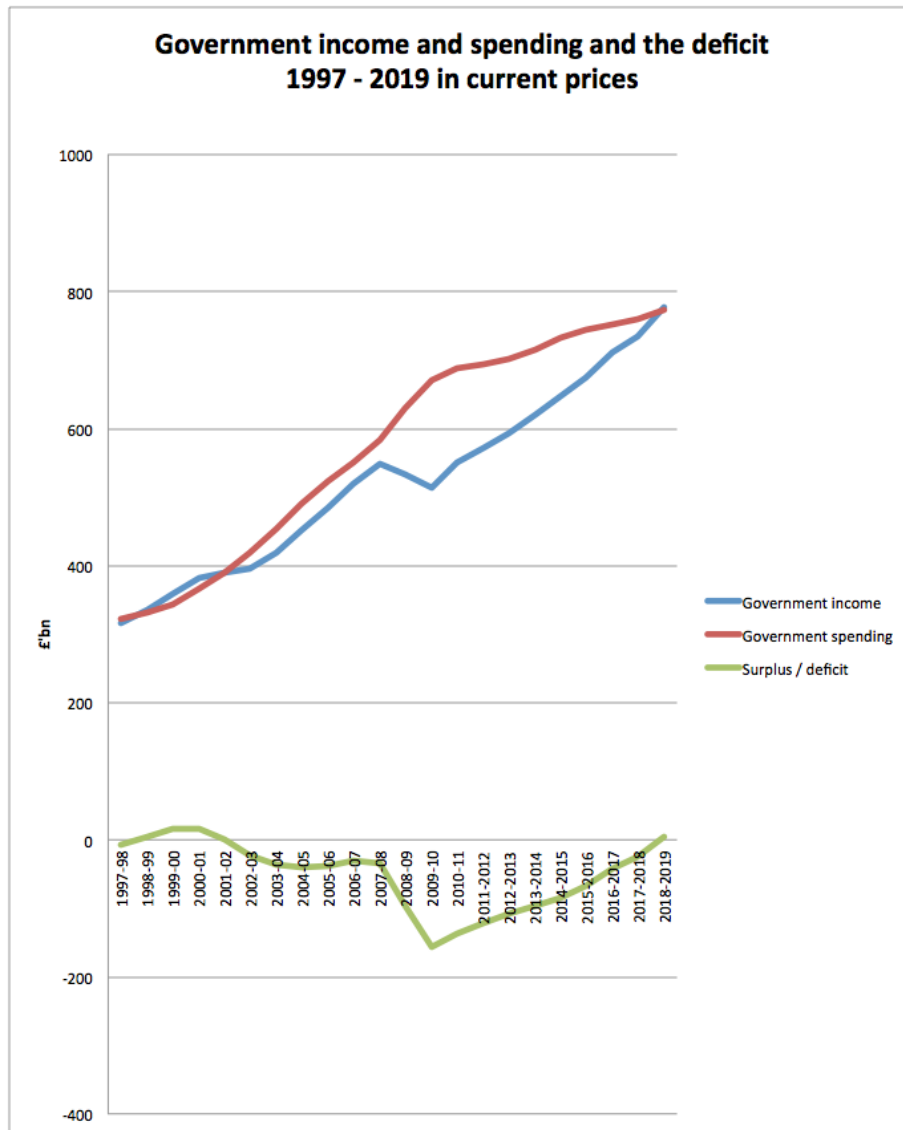
### 3. Putting the tax gap in context

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It seems that to many people – and most especially to HM Revenue & Customs - that the tax gap is a technical issue, or maybe a management tool. It is, of course, both of those things, but it is also much more significant than either implies. In this chapter the link between the UK's tax gap and the state of the UK economy is explored. To truly appreciate the tax gap's significance it has to be understood that properly measuring and then effectively tackling the tax gap could transform the way we look at both the economy and the broader economic and political outlook for the UK.

Despite all the claims that have been made by a great many politicians, it was not government overspending that caused the financial crisis that engulfed the UK and much of the developed world in 2008. We know it was the failure of the banks that caused the economy to topple over in that year. What we also know is that a major reason for the debt crisis that led to bank failure was that banks had lent excessively to many who had limited ability to repay their debts. This was because real wages had not been growing in many economies for a long time and lending was making good the short fall. Wealth inequality grew significantly as a result.

That inequality meant by 2008 there was far too much money in the hands of a very wealthy minority in society who then lent it through the banks to ordinary people who could not make ends meet without recourse to loans. Many of those who were borrowers in 2008 have since then faced the blunt hard end of austerity in their lives. The banks, and as a result the wealthy who had money in them, were in the meantime bailed out by governments, including the UK's. Those, on the other hand, to whom banks lent money were left with falling wages, less to spend, the prospects of unemployment or zero hours contracts and, for some, very marginal self-employments from which they have earned less than the minimum wage. For all those reasons tax yields fell, significantly. In the UK that banking failure combined with a steep decline in tax revenues created a major economic crisis. The implications can be summarised in just one graph:



**Figure one**  
**Source: HM Treasury budget data up to Budget 2014**

From 1997 to 2007 the UK economy had appeared to run well. That was one reason why Labour won three elections in a row. For several years the government actually spent less than it generated in tax revenue and debt was repaid. Then, in the aftermath of the dot.com crash the government invested in the economy, and ran a deficit for a number of years that was almost exactly equivalent to the amount it invested in new schools, hospitals roads and similar capital items, as indicated by the blue line in Figure 1 running almost parallel, but slightly below, the red line. Despite everything that has been said about Labour's economic management and reckless borrowing this was an era when government finances looked to be under control.

Since 2008 the world has changed. As is obvious from Figure 1, it was not spending that went out of control in 2008. Spending did, inevitably, increase but that was because so many people were put out of work as a result of the crash in 2008 but it was not that spending that caused the deficit. It was a lack of tax as a result of the collapse in banking activity that caused the deficit, together with HMRC not collecting

revenues due for a variety of reasons including the programme of job cuts that Labour had already put in place by the time that the economic crisis erupted, and which they did not cancel even when it was clear that collecting every penny of tax due was a national priority.

An enormous gap between income and spending opened up that the government has yet to fill, although it now predicts it will do so by 2019. This forecast should, however, be taken with a pinch of salt: since 2010 government projections have always seemed to suggest that it will balance its books about five years after the date on which the forecast has been made and so far they are a very long way from doing so.

Table 2 below gives clear indication of the scale of the borrowing that the financial crisis has given rise to:

Year	Government income £'billion	Government spending £'billion	Net borrowing £'billion	Cumulative borrowing £'billion
1997-98	316	322	-7	-7
1998-99	336	331	5	-2
1999-00	359	344	15	13
2000-01	383	367	16	29
2001-02	390	390	0	30
2002-03	396	419	-23	7
2003-04	419	454	-35	-29
2004-05	451	491	-40	-68
2005-06	486	523	-38	-106
2006-07	520	550	-30	-136
2007-08	548	583	-35	-171
2008-09	534	630	-96	-267
2009-10	513	670	-157	-423
2010-11	551	688	-137	-560
2011-2012	573	694	-121	-681
2012-2013	593	702	-108	-789
2013-2014	620	716	-96	-885
2014-2015	648	732	-84	-969
2015-2016	675	743	-68	-1,037
2016-2017	711	753	-42	-1,079
2017-2018	734	759	-25	-1,104
2018-2019	778	773	5	-1,099
Total	11,533	12,632	-1,099	

**Figure 2**

**Source: HM Treasury budget data up to Budget 2014**

Data highlighted in red represents forecasts

From April 1997 until April 2014 the government was expected to have borrowed £885 billion. Of that just £171 billion was borrowed before April 2008. That means that the global banking crisis has already resulted in borrowing of £714 billion, which is well



over four times the sum borrowed during the eleven-year period before the crisis erupted. In addition, the current government is suggesting that over the next five year period for which forecasts are now available that they will bring the state's books back into balance but they will still borrow another £214 billion before that is achieved, which is more than Labour did between 1997 and 2008 (although in fairness the data has not been adjusted for inflation).

Why does this all this data on deficits matter? It matters because when HMRC first published a tax gap estimate the tax gap they did so for 2007-08. HMRC said that in that year the tax gap was £42 billion<sup>iii</sup>. The budget deficit in that same year was £35 billion and it had not been more than £40 billion over the preceding years, as noted above. In other words, at that time, HMRC's own estimate of the tax gap suggested that if only the tax gap could have been effectively addressed over the previous eleven years, and had been of broadly similar amount each year, then it would have required less than half the tax gap to have been recovered to have ensured that the Labour government of that period would have entered the recession with no net borrowing having been incurred over the previous decade or so.

Alternatively, if the tax gap was actually £95 billion of combined tax avoidance and tax evasion at that time, as PCS suggested it to be in 2010, then the proportion of the tax gap that would have needed to be recovered to ensure that no net borrowing would have been incurred over that period to 2008 would have been much less. In all likelihood a recovery rate of less than one third of the total tax gap would have been needed (having allowed for inflation) to ensure that no net government borrowing would have been required from 1997 to 2008 inclusive if the PCS estimate of the tax gap was correct.

What is immediately clear as a result is that tackling the tax gap has the power to transform the economy and economic outlook of the UK. What is also obvious is that this thinking was not anywhere in the mainstream before 2009, which was the first year HMRC began publishing anything close to a comprehensive tax gap estimate, largely as a result of pressure from the trade union and tax justice movements.

There is a final point to be made on this issue at this point. This is that whilst the government says that austerity will close the government deficit, the evidence of its own data does not support this claim. For the last five budgets the Treasury has claimed that a balanced budget will happen in approximately five years time. The evidence is that this claim has been consistently wrong: the goal seems to move one year further away each time a forecast is made – remaining as a result at a seemingly fixed time in the future whilst in the meantime the deficit and the borrowing continue, as figures one and two show.

What this suggests is that austerity is not working as an economic policy, even if it is assumed that it is rational for that policy to aim for a balanced budget (which neither PCS nor the author of this report believe to be the case). So far no significant progress towards that aim of a balanced budget has been achieved; the budget deficit in 2013-14 is the same as that in 2008-09.

In that case what this report is arguing is that closing the tax gap would be a better way of reducing the deficit than a programme of austerity. More importantly, it also suggests that closing the tax gap, by changing economic thinking on government spending, offers the possibility of a very different economic agenda, in which austerity is replaced with investment for growth. That, this report suggests, is what the UK really needs.

## 4. Tax evasion – what it is

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Tax evasion is the crime of not declaring income to a tax authority that has a right to know about it and the crime of claiming expenses for offset against a taxable income when knowing that those expenses should not be claimed for that purpose.

The word crime in both parts of that definition is important. The tax evader either knowingly breaks the law or does so with reckless disregard for the consequences. This means that tax evasion is different from tax avoidance, which is more often referred to in the mainstream press.

Tax avoidance is commonly undertaken by large businesses and high net worth individuals who can employ an army of accountants and lawyers to find loopholes in the laws and regulations of either one country, or a number of countries, to make sure that they do not pay tax whilst claiming that they were not breaking any law, anywhere, whilst achieving that objective.

That same army of lawyers and accountants also provide these companies and people with their defence against a charge of tax evasion. If someone has an opinion from a lawyer that what they are doing is legal then it is virtually impossible to charge them with tax evasion; they are only tax avoiding in that case, however abusive the arrangement that they are using might be.

Tax evasion is, as a result, undertaken by people who do not use lawyers and accountants to cover their tracks but who do instead knowingly have income that they do not properly declare to their tax authority, which in the UK means HMRC

The fact that all tax evasion has this characteristic in common does not mean there is only one type of tax evasion. The following types of evasion are considered in this report but are themselves not exclusive or complete. They are, however, likely to cover the more common causes of the UK's tax gap resulting from tax evasion:

1. Tax evasion in the shadow economy. The shadow economy represents economic activities that are not recorded or declared to avoid government regulation or taxation. Part is unrecorded wages and the rest is represented by undeclared business income<sup>iv</sup>;
2. Tax lost as a result of other criminal or fraudulent activity in the UK economy;
3. Misrepresentation and negligence on tax returns;
4. Tax lost on other forms of UK income and gains e.g. rental income, investment income, undeclared capital gains tax and inheritance tax evasion;

## 5. Offshore tax evasion.

Each of these issues is considered in turn in this report before the economic consequences of the losses are estimated and ways of addressing the identified tax evasion are suggested.

## 5. The shadow economy– the biggest part of tax evasion

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This report would have addressed the issue of the tax evasion in the UK's shadow economy but for the fact that in May 2014 Tax Research UK published an estimate of the tax lost to the UK economy as a result of that activity<sup>v</sup>. That research was funded by but was not undertaken for Oxfam GB and the Joseph Rowntree Charitable Trust: the findings were the sole responsibility of Tax Research UK.

What the research suggested was that up to 10% of all sales income in the UK economy as a whole may not be recorded for tax purposes. In 2011/12 this was likely to have represented £100 billion of unrecorded sales income. The figure will, obviously, have increased by now and could, based on GDP growth, be as much as £112 billion a year.

Based on this estimate, unrecorded total tax of maybe £40 billion may have gone unpaid in 2011/12 and that tax loss could now be as high as £47 billion a year, having allowed for expected changes in the VAT gap since 2011/12. In this context it is important to note that the VAT gap is defined, like the tax gap, as the difference between the amount of VAT that should be paid in the UK if the law worked as parliament and HMRC think it should and the amount of VAT that is actually paid.

The estimate of unrecorded sales income in the UK economy made by Tax Research UK was based on VAT gap data published by both HMRC in successive tax gap reports<sup>vi</sup> and by the European Union<sup>vii</sup>. The estimate made, specifically excluded data on criminal attacks on the tax system and bad debt. The resulting estimates of VAT lost and turnover of almost exactly 10% of the likely sums owing, do, by coincidence, happen to almost exactly agree with some of the most widely quoted academic estimates of the size of the UK shadow economy. For example, Prof Friedrich Schneider of Johannes Kepler University of Linz, Austria and Prof Colin Williams of Sheffield University suggested in 2013 that the long-term data for the size of the shadow economy in the UK was as follows<sup>viii</sup>:

Year	Size of UK shadow economy (%)
1997	13.0
1999	12.8
2001	12.6
2003	12.5
2005	12.4
2007	12.2
2009	10.9
2011	11.0
2012	10.3

Average	12.0
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**Figure 3**

**Source, Schneider and Williams as referenced in text**

For comparison, the estimated UK VAT gap according to HMRC (using originally published data in each case as far as possible, based on tax gap reports, and stating numbers in later years before and after bad debt and criminal fraud) and the equivalent data from the EU have been:

Year	HMRC estimate including bad debt and criminal attacks %	HMRC estimate excluding bad debt and criminal attacks %	EU estimate for the UK %
2002-03	15.7		12.7
2003-04	12.1		9.9
2004-05	11.8		11.0
2005-06	15.4		11.3
2006-07	13.3		12.7
2007-08	11.7	9.4	12.7
2008-09	14.2	10.3	14.6
2009-10	11.6	7.9	13.5
2010-11	10.4	8.7	13.0
2011-12	10.4	8.1	13.0
Average	12.7	9.5	12.5

**Figure 4**

**Sources: HMRC tax gap data, author's calculations and European Union as noted in text**

These estimates and those by Schneider and Williams are made using very different methodologies: their convergence provides strong evidence that suggests the shadow economy is in the ranges indicated.

It will be noted that the EU estimate of the UK's VAT gap does not agree with HMRC's suggestion that this is falling in recent years. The Tax Research estimate used to estimate the tax lost to the UK averaged the HMRC and EU estimates of the UK VAT gap having allowed in both cases for likely bad debt and criminal attack costs. The resulting estimated loss remains below the Schneider and Williams estimate of the size of the UK shadow economy.

The estimated rate of loss on the unrecorded sales income that Tax Research suggests arise in the UK economy has been estimated as being 40% of the total unrecorded income. This estimate takes into account income tax, national insurance,

VAT and corporation tax lost even though the estimate is based on VAT gap data. That is because if sales income is not recorded it is, of course, not just the VAT that is lost as a result but all the other taxes that may also be due as a result of that income being earned.

The estimated rate of loss is higher than the average rate of tax due on UK GDP as a whole, which is just over 36% at present. This figure of 36% is estimated by comparing UK government tax income from the sources that this tax gap is likely to have impact upon (VAT, income tax, national insurance and corporation tax in particular) with total GDP.

A higher rate than this for the purposes of tax loss estimation has been used for two reasons. The first is that in the case of unrecorded sales income the total tax lost is likely to be above the average tax rate. When the interaction of VAT, income tax and national insurance, in particular, is considered (and these are the most likely taxes not paid as a result of unrecorded sales income because such income is put in the pocket of the individual pockets of the self employed and company directors and so will rarely be subject to corporation tax but will instead be subject to personal taxation rates) then in practice combined charges will usually exceed 40%. In fact, up to 20% VAT and then income tax charged at a rate of at least 20% on the remaining net income plus national insurance at a potential combined rate of up to 25.8% can very easily exceed such a rate in combination and may in fact exceed 50% of unrecorded sales income, making this 40% estimate of loss on the low side, if anything.

Secondly, this estimate of a loss of 40% is used because the unrecorded income in question is likely to be the top part of the income of those who are evading and because evidence shows that tax evasion is by no means the preserve of those on very low income in this country. Indeed, there is evidence that the shadow economy increases inequality in the UK<sup>ix</sup> and that must mean those on higher income must benefit most. The estimate of tax lost is, therefore, based on that suggestion.

The result is that this report accepts the estimate that £47 billion of tax may be lost in 2014/15 as a result of the current size of the shadow economy in the UK.

## 6. Misrepresentation and carelessness in tax return reporting – data from HMRC’s tax gap reports

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This report builds in part on research by Tax Research UK referred to in the preceding chapter. When undertaking that research Tax Research UK specifically assumed that three categories of tax loss, identified by HMRC as part of the tax gap, did not relate directly to the tax loss from the shadow economy. These three categories of loss identified by HMRC and not accounted for by Tax Research UK were:

1. Tax lost due to criminal attacks on the tax system, stated to amount to £4.7 billion in 2011/12<sup>x</sup>;
2. £2.9 billion lost to errors in that year;
3. £4.3 billion lost to failure to take reasonable care.

Tax lost to criminal attacks was specifically excluded from the extrapolations used to estimate sales lost on unrecorded turnover in Tax Research UK’s work and as such can be specifically considered to be part of the tax gap to be included in this report. HMRC’s work on this issue is being accepted at face value on this issue and no further adjustment is being made. Much, but not all, of the loss will arise from VAT missing trader fraud.

Neither is any adjustment needed to the figures supplied by HMRC for tax lost as a result of errors and failure to take reasonable care in the preparation of tax returns. These errors do not relate to the activities underlying the returns themselves, and so cannot be included in the tax lost due to unrecorded sales income. They do instead relate to errors with the tax return itself. As such this sum is also considered to be part of the additional tax gap suggested to arise by this report for three reasons.

Firstly, we must presume that these errors are not tax avoidance activity or HMRC should have said so, and it has not. We must therefore presume them to be considered to be evasion by HMRC.

Second, errors are defined by HMRC in their tax gap report to be the result of mistakes made in preparing tax calculations, completing returns or in supplying other relevant information, despite the HMRC customer (sic) taking reasonable care. This is therefore a loss clearly not covered by the other estimates of tax evasion included in this report.

Thirdly, HMRC define failure to take reasonable care in the 2013 tax gap report as ‘being the result of customers’ (sic) carelessness and/or negligence in adequately recording their transactions and/or in preparing their tax returns’. Again, this is clearly very different from deliberately suppressing data on sales and is most likely to relate to another key part of tax evasion, and which is the focus of a great many tax enquiries, which is the inadvertent (or otherwise) claiming of expenses for offset against trading income by those in self employment and business. This issue is specifically not addressed by the Tax Research UK estimate of tax lost to the shadow



economy and so can, once again, be included as part of the tax evasion gap under consideration in this report.

The total tax gap arising from these three causes in 2011-12 as noted by HMRC is £11.9 billion.

## 7. Criminality, fraud and tax evasion

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The National Fraud Authority Annual Fraud Indicator report for 2013<sup>xi</sup> provides very clear data on a wide range of non-trading illicit activity in the UK. The report benefits from considerable research, a clear indication of confidence factors relating to each type of fraud identified and unambiguous estimates. It does, therefore, provide a reference point for a major source of illicit income in the UK. That income, whether illicit or not, should be taxed in many cases. The estimate that follows is careful to consider only those areas where it is likely that a tax liability should arise and to also exclude the possibility of double counting activity that might have already been considered as part of the shadow economy.

The National Fraud Authority (NFA) estimated that fraud against the public sector amounted to about £20.6 billion in 2012. Of this it was estimated that central government might be losing £2.6 billion and local government £2.1 billion to fraud, with a further £14.1 billion lost to tax fraud and vehicle excise fraud, and £1.9 billion to benefit and tax credit fraud.

Clearly tax fraud cannot be counted twice and so the estimate of fraud in the public sector amounts to £6.5 billion for the purpose of this report, all of which could, and almost certainly should, be considered the taxable income of those undertaking the activity. Care has, however, to be taken to avoid double counting what might be considered business income already in the estimate of the shadow economy.

In this regard, benefit fraud is clearly not undertaken in the course of a business. It is plausible, however, that some of the fraud against central and local government could be undertaken in the shadow economy. The total procurement and grant frauds identified by the National Fraud Authority have been excluded from consideration here for this reason as they may already be covered by estimates of tax lost to the shadow economy. They amount to £2.8 billion. The remaining fraud of £3.7 billion is considered likely to be income not already considered to be in the shadow economy on which tax might be evaded.

The estimate the NFA has made of fraud against the UK private sector, excluding the financial services sector, suggests that fraud losses as a proportion of turnover for UK businesses could be in the region of 0.54 per cent, with 0.18 per cent lost to detected fraud and 0.36 per cent lost to hidden or undetected fraud. This is approximately equivalent to £15.9 billion per annum. This fraud represents illicit non-trading income for the recipients and does therefore contribute to the tax gap. The estimates appear to relate very largely to payment and banking fraud and accounting fraud. These are very unlikely to be part of the shadow economy. That said, the 21% of fraud relating to procurement may have already been considered as part of the shadow economy since companies are frequently used for false invoicing purposes and as such this part of the loss – or £3.3 billion - has been removed from the estimate to prevent the risk of

double counting. The remaining part of private sector fraud considered to contribute to the tax gap is, therefore, £12.6 billion.

For the financial services sector the NFA has used Department for Business, Innovation and Skills (BIS) data for fraud relating to financial and insurance activities. The resulting combined estimate of fraud in this sector came to £5.4 billion in 2012. None of this appears to relate to matters likely to have already been included in estimates for the shadow economy.

The NFA also identified £147 million of fraud against charities in 2012 and, more importantly, £9.1 billion of fraud against individuals. They suggested these frauds embrace 'mass-marketing fraud, identity fraud, online ticket fraud, private rental property fraud and electricity prepayment meter scams'. Whilst the figure for fraud against charities is highly unlikely to have been undertaken within the UK shadow economy the same cannot be said for the frauds perpetrated against individuals in the UK. Many of these may be undertaken by companies operating within the shadow economy. As such to avoid double counting this estimated loss has not been considered to contribute to the tax gap under the current heading to prevent the risk of double counting.

In combination these frauds that are relevant for the purpose of consideration here and which would, if recorded, represent taxable income in the hands of those perpetrating them, would amount to approximately £21.8 billion in 2012.

The tax due on this sum would not be as high as that due on trading income for two reasons. The first is that VAT is very unlikely to be due on it. The second is that if it is not treated as trading income nor is it likely that national insurance will be due. This therefore suggests that a somewhat lower rate of loss should be assumed for this category of tax evasion than is used for other activity in the shadow economy and as such a rate of loss of about 30% is presumed appropriate in this case, which is lower than the overall tax rate due in the UK noted previously. This loss does then primarily reflect missing income tax due. That would suggest that the tax loss arising in 2012 on this unrecorded income might be £6.5 billion.

It should be noted that this does however assume that a significant part of this tax evasion will be by those who pay higher rates of income tax. There is evidence to support this view. Prof Colin Williams of Sheffield University, who has done much work in this area, has found that whilst the number of those on low incomes engaged in the shadow economy may be higher as a proportion of all earning similar sums than for those on higher levels of income, the activity remains commonplace amongst those on higher levels of income and that the sums they are involved in hiding are higher<sup>xii</sup>. He believes that tax fraud actually increases inequality in the UK as a result. Given the nature of much of the fraud referred to in this section it is likely to be undertaken by those already in employment with access to information on the organisations they defraud. In that case the sums defrauded will firstly constitute the top part of these people's income, increasing the chance that higher rates of income tax will be involved, aided by the fact that those involved are already likely to enjoy above average incomes.

The assumption made as to the tax rate likely, on average, to apply to the sum defrauded if it were to be subject to tax as income is, therefore, considered to be appropriate.

## 8. Tax evasion and UK rental income

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Undeclared rental income is part of the UK shadow economy referred to in chapter 4 of this report. That has to be the case because VAT could be charged on rents but by government choice that does not happen. This does mean that undeclared rents are included in the £100 billion of unrecorded sales income likely to have arisen in the UK economy in 2011/12 to which that previous Tax Research UK research refers. That does not however, mean that this is not an area of interest when considering the causes of the UK tax gap and what might be done to address that issue.

Estimating the tax lost as a result of undeclared rental income in the UK is not a straightforward task for a number of reasons. First of all, parliamentary questions on this issue have revealed how limited the data on those with rental income held by HMRC really is. For example, when asked about overseas landlords and their tax compliance by Jeremy Corbyn MP in April 2014 the response from The Exchequer secretary, David Gauke MP, was to the vast majority of questions that 'The data requested ... could be obtained only at a disproportionate cost'<sup>xiii</sup>. As further evidence of this lack of data, a request under the Freedom of Information Act by a person unrelated to Tax Research UK or PCS in April 2014 asked the following question

*Could you please provide the number of people who have declared rental income from residential property over the past 5 years, broken down by year. And if possible, could you include a total figure for the number of properties as well?*

The response was that the total number of properties let out was not known because some tax returns did not require provision of this information; some individuals did not submit tax returns for rental income as that income was collected through the PAYE system (although how data was secured to achieve that goal is hard to imagine) and HMRC also had no idea which properties were let commercially and which were for habitation. They also had no idea how many people might be using the 'rent a room' relief scheme. The obvious conclusion from this Freedom of Information response is that HMRC do not have sufficient data to form a reliable view of whether they are, or are not, collecting the tax due on properties let in the UK because they have no idea from the data they collect whether or not they are likely to have a complete population of properties covered by the tax returns submitted to them.

This then makes this sector worthy of some attention to assess how much tax might be under-collected by HMRC as an example of a sector where better data would clearly help recovery of tax owing.

HMRC estimated that the tax lost as a result of unrecorded letting income was £550 million in 2010/11<sup>xiv</sup>.

According to a report of the House of Commons Communities and Local Government Committee there were 3,843,000 private rented domestic properties in the UK in

2011-12<sup>xv</sup>. Evidence that there may as a result be undeclared rental income arising comes from the FoI response previously referred to in this section. HMRC suggested in that response that they knew of the addresses of 3,426,000 commercial and residential properties let during that year and that 134,000 other tax returns referred to rental income but they had no idea how many addresses might be involved. As they were simplified returns it may be assumed that the income in question was of limited amount and that the number of properties may be broadly equivalent to the number of returns made.

How many of these declarations relating to letting were of commercial property appears not to be known by HMRC. It is curious though that Rightmove suggest in May 2014 that they have 40,000 commercial properties to let on their books<sup>xvi</sup> and at the same time over 300,000 domestic properties to let<sup>xvii</sup>. Whilst it is undoubtedly true that buy-to-let housing is more attractive to many people than letting commercial property, it is quite untrue that individuals do not let commercial property. Using this, admittedly, basic (but probably quite comprehensive, given the significance of the Rightmove website in the UK property market) data the total number of commercial properties to let is about 12% of the total market. If one quarter of those were let by individuals (although by value the proportion is likely to be much lower) then perhaps 115,000 commercial properties are let by individuals in the UK. Overall this would then suggest that, based on the data noted in the previous paragraph, rental income on maybe 400,000 properties a year is not being declared to HM Revenue & Customs. That number is likely to be rising given the significant growth in this sector.

In 2011-12 the average rent on a UK domestic property was £674 a month<sup>xviii</sup>. This would imply that the total value of rents in that year, using the figure of 3,843,000 let properties reported to parliament, was just over £31 billion. The amount of undeclared rental income might also amount, on that basis, to £3.2 billion. The figure is, by chance, a little over 10% of the total apparent income for the sector and so remarkably similar to the overall rate of loss noted for the shadow economy as a whole.

The actual tax lost on this sum is almost impossible to estimate because the amount of expense capable of being offset is not known. In addition, the tax loss will already be included in the estimate for the tax gap resulting from the shadow economy already noted earlier in this report and so no additional figure can be included in the tax gap estimate made here. The message from this review is, however, an important one. Firstly, it is that a significant tax loss is likely in this sector and secondly HMRC are not collecting the data needed to verify the scale of the resulting tax gap on rental income.

## 9. UK investment income

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A source of income to UK taxpayers that is unlikely, at least at first glance, to be included in the estimate made of tax lost to the UK shadow economy is that arising on UK investment income.

It may surprise many people that income from property, after the offset of expenses, is much smaller, for example, than income arising from dividends in the UK. In 2011–12, which is the latest tax year for which data is available at the time of preparation of this report, the three main classes of investment income were summarised by HMRC as follows<sup>xix</sup>:

Type of income	Number declaring the source of income	Total amount declared	Mean declaration
Income from property	1,510,000	£12.1 bn	£7,970
Interest income	22,700,000	£7.4 bn	£325
Dividend income	4,530,000	£42.5 bn	£9,380
Other investment income	1,110,000	£3.9	£3,600
Total (per HMRC)	24,500,000	£65.9 bn	£2,690

**Figure 5**

**Source: HMRC, as noted**

Investment income is dominated by dividends but the number declaring such income is surprisingly low. According to HMRC's wealth statistics<sup>xx</sup> (which are now, admittedly, becoming dated with the latest available only covering 2008 to 2010) 5,123,000 people were likely to own shares in 2010 with those shares having a combined value of £469 billion. Despite this only 4.5 million declared income from dividends in 2011-12 according to HMRC. In contrast, HMRC wealth statistics suggested only 13.4 million people had significant holdings of cash and yet 22.7 million declared interest income, suggesting they had at least some cash savings. Property data is not available for comparison.

The differences within these contrasting data sources with regard to cash are fairly easily explained partly by the fact that wealth data is based on the declared property of those dying in a period, with that data then being extrapolated to the population as a whole, and small estates are excluded from wealth data because they do not need to be declared for inheritance tax purposes.

The data with regard to shares is more interesting. The simple disparity in data between the two sources does in the first instance suggest that maybe 600,000 people may not be declaring dividend income for tax purposes.

Secondly, the rate of income declared by those including dividend income on their tax returns compared to asset value is very high. It reflects an apparent rate of 9% per annum. The overall rate of return expected on the London Stock Exchange has, however, in recent years averaged around 3 per cent per annum. What this then suggests is that a significant part, that may be as high as approximately £28 billion, of the dividends declared on tax returns are not the result of returns on quoted investments but are likely to represent dividends paid in lieu of salaries by the director/shareholders of small privately owned companies. Those companies do, however, have little or no value attributed to them for estate valuation purposes, firstly because they usually have no such worth by the time of the death of their owner because they have retired by then; secondly because the worth is actually all tied up with the goodwill that actually attaches to the owner and this disappears on death and thirdly because these shares are usually subject to inheritance tax exemptions meaning that this tax is not paid on them.

There are a number of other issues to draw out though. 600,000 missing shareholders happens to match in number the highest estimate made by Tax Research UK of the number of shadow companies likely to be operating in the UK economy, although a more cautious 400,000 total was adopted for final estimation purposes in their May 2014 report on the shadow economy. It is possible that these numbers may overlap. In that case if 600,000 people are under-declaring income this would suggest at least £5.6 billion of undeclared dividends on tax returns. Any resulting tax is, however, likely to already be included in Tax Research UK's estimate of tax lost to the shadow economy and it not therefore additionally included in any estimate of the tax gap made here, but the evidence is, yet again, of significant under-declaration.



## 10. UK capital gains

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Separate tax gap data was not published for capital gains tax in 2013: the loss is aggregated with that for income tax and national insurance. This may reflect the fact that UK capital gains tax payments are small at just £3.9 billion in 2012-13, which is the last year for which confirmed data is available. The yield is, however, forecast to increase dramatically, with the budget for 2014 suggesting a yield of £9 billion might be received by 2018-19<sup>xxi</sup>. In 2012 the tax gap loss was stated to be £130 million<sup>xxii</sup>.

It is hard to see on what basis such an optimistic forecast of future yield (or of past loss, come to that) is based. HMRC's capital gains statistics are, like much HMRC data, only available up to 2012-13 at the time of writing, in which year just 146,000 people declared gains<sup>xxiii</sup>. The total number of people declaring gains has never exceeded 250,000 in a year, which was in tax year 2007-08. Trusts declaring gains added modest numbers to the totals in each year.

When compared with the 4.5 million people declaring dividend income and 5.1 million people believed to own shares in the UK according to HMRC wealth statistics, both noted in the previous section, the numbers declaring capital gains seem incredibly small, especially given the estimated £469 billion worth of share holdings within UK estates according to HMRC<sup>xxiv</sup> and the 3.8 million rental properties in the UK, all of which are owned, at least in part, to secure capital gains.

In April 2014 the UK stock market was worth £2,227 billion<sup>xxv</sup>. HMRC's wealth data, whilst out of date, suggests that UK individuals own shares representing more than 20% of this exchange by value (although some shares they held may not have been quoted, of course and some quoted investments may be held elsewhere, but without that fact having significant likely impact on the estimates that follow). Trading data from the same exchange<sup>xxvi</sup> suggests that in April 2014 there were about 8.5 million trades in FTSE 100 shares that month. That means there are likely to be about 100 million trades a year. It is not for a moment suggested that 20% of these trades were by UK individuals; the vast majority were, of course, by professional traders. However, given that volume of trading and the fact that, as already noted, a significant proportion of the FTSE 100 is owned by UK resident individuals, it is very hard to believe that fewer than 200,000 UK individuals really made capital gains requiring declaration to HMRC in a single tax year.

This doubt leads to the suspicion that there is significant under-declaration of capital gains tax liabilities in the UK, a feeling that is compounded by data on house sales. 932,000 UK residential property transactions were completed in the UK in 2012 according to HMRC<sup>xxvii</sup>. Data published by the House of Commons Communities and Local Government Committee already noted in this report<sup>xxviii</sup> suggests that in 2011-12 3,843,000 households were located in private rented accommodation in the UK and 14,388,000 were owner-occupiers. That means that it is likely that of all UK properties

21% may be owned for buy-to-let purposes and in that case maybe 196,000 of the property transactions in 2012 might have related to properties owned for buy to let purposes and yet in 2009-10, the last year for which data is available, just 52,000 residential property sales were reported for capital gains tax purposes.

This was, admittedly, a period of fluctuating fortunes in the property market but property gains need to be reported whether or not a profit arises: indeed, there is an incentive to declare losses as they can be used for offset against other gains.

The inevitable conclusion of this review of both share and property transactions is that capital gains tax is a tax where under-declaration of transactions and resulting tax liabilities is likely to be rife. It is entirely reasonable to believe, based on this evidence, that at most 50 per cent of the transactions resulting in a capital gain requiring declaration to UK tax authorities may actually be disclosed on UK tax returns by those liable to pay this tax. Whilst any estimate of tax lost as a consequence is inevitably just that, i.e. an estimate, there is good reason for the reasons noted to think the loss might well be as high as the amount of tax currently actually declared as payable. An estimated loss of £3.9 billion in 2012-13 has therefore been added to the total tax gap estimate made by this report for this reason.

## 11. Tax evasion and Inheritance tax

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Inheritance tax is the only tax that we have in the UK that approximates to a wealth tax. With the exception of some special charges on trusts it can only be charged on death or gifts in the period before death. According to HMRC's latest statistics on the issue, to which most of the data in this section refers<sup>xxix</sup>, inheritance tax declarations are required from only just over half of all the estates of those who die in the UK each year; the other estates being either too small for a declaration to be required (this happening when they are worth less than £5,000) or because the entire property moves to a surviving spouse, in which case no declaration is needed. Of those 260,000 or so estates where declaration was required in 2010-11 tax was only due in a very small number of cases. Just 3% of all estates – or about 16,000 estates, paid inheritance tax in that year.

There are good reasons for this very low rate of payment. Firstly, the inheritance tax allowance permits £325,000 worth of assets to be given away on death or in the seven years preceding it without any tax charge arising.

Secondly, all gifts that a person can make out of their income which do not impact upon their lifestyle are, by definition, tax-free for inheritance tax purposes because they are not made out of their accumulated wealth, which is what this tax is supposedly charged on. This, very obviously, has enormous value to the very wealthy who enjoy large incomes as they can give very large sums away using this loophole.

In addition there are a large number of exemptions and reliefs for inheritance tax which means that the vast majority of small businesses, farms, timber, and even investment in some shares on the London Stock Exchange are all likely to fall outside the scope of the tax.

And then there is the domicile rule, which means that the estates of those not domiciled or deemed to be domiciled in the UK for the purposes of this tax do, to the extent that they are located outside the UK, fall outside the scope of inheritance tax. This is another enormous loophole in this tax, aided and abetted by the fact that it is easy for non-domiciled people to set up offshore tax arrangements to hide the ownership of their assets and that they do not have to declare their offshore income to HMRC on their tax returns, giving no clue, therefore, as to whether or not such assets exist.

There is, however, another dimension to inheritance tax to which the government makes no mention in its statistics, which is the fact that this tax is paid in no small part by those who, through good conscience, choose to declare the liability owing. This is a particular problem with regard to this tax for three reasons:

- a. It is relatively easy to hide the ownership of many assets, including companies and even homes. Fraud with regard to ownership is incredibly easy to arrange and relatively hard to detect, especially given the lack of resources in HMRC to undertake this activity. The UK government has acknowledged this by deciding that disclosure of the beneficial ownership of companies is now a priority issue if fraud is to be prevented.
- b. Gifts made in the seven years before death are all potentially chargeable to inheritance tax but are, again, very hard to detect unless those in receipt of them are honest at the time of death, and it is likely that many will not be inclined to be so. Once more, a lack of resources at HMRC aids those committing this fraud to get away with their crime (for that is what it is).
- c. Valuation of assets is often subjective and open to misreporting, by no means all of which will be detected, especially when HMRC is under-resourced.

For all these reasons it has been widely assumed that inheritance tax is open to abuse, but estimating the scale of evasion has been difficult. HMRC put it at just £0.4 billion in their 2013 tax gap report<sup>xxx</sup>, which is still significant when inheritance tax paid in the year to which that relates (2011/12) was only £2.9 bn<sup>xxxi</sup>.

The publication of new wealth data by the Office for National Statistics (ONS) in May 2014 has helped overcome this estimation problem to some degree. It provides information in four categories, being financial assets, property assets, personal property (in other words, individual's possessions) and pension assets<sup>xxxii</sup>. The last can be ignored for inheritance tax purposes; by definition they usually cease to have value on death and cannot normally be subject to an inheritance tax charge as a result.

Data for all these categories is available from the ONS for 2008 to 2010, which happens to be the period for which HM Revenue & Customs has most recently published data on what it estimates total personal wealth to be. These HMRC estimates are based on declarations made in estates subject to inheritance tax (but for which purpose they also give consideration to those estates that do not need to be declared for the purposes of that tax)<sup>xxxiii</sup>. The comparisons are surprising:

Type of asset	ONS estimate £'bn	HMRC estimate £'bn	Difference £'bn
Land, building and houses	3,379	1,837	1,542
All financial assets	1,091	1,683	-592
Sub-total	4,470	3,520	950
Personal property	1,016	n/a	1,016
Total	5,486	3,520	1,966

**Figure 6**  
Source, ONS and HMRC as noted

Considering just land, buildings, houses and financial assets the ONS thought that UK personal wealth was £950 billion greater than that estimated by HMRC. It is stressed that all assets are stated net of associated liabilities, so the value of land and buildings is net of mortgages and financial assets are stated net of non-property related loans.

Perversely, HMRC does not provide an estimate for the value of personal assets included in estates. It is not clear why: very clearly the value is significant.

HMRC do, on the other hand, admit that the value of some property moving through estates may be omitted by them, either because it is exempt for the purposes of the tax (for reasons noted above) or because it passes straight to spouses. However, the latter should not distort issues significantly: spouses also die in due course and then the whole estate should be valued. Overall this should balance out in HMRC's estimates.

What is clear is that, however viewed, the difference between these estimates is significant. To be cautious, it is unwise to assume that all the difference between these sums represents value on which inheritance tax might be evaded. That said, if the ONS estimates are right then there are three significant issues to initially consider. The first is to consider what part of the total gap may be taxable. Second, how much of that difference may become liable to inheritance tax each year has to be considered, because very clearly not all will and thirdly, the rate of tax that might be due is a matter of concern.

There is no way of knowing for sure what proportion of the total gap between these two valuations may be liable to inheritance tax. It is only appropriate to be candid about that. What is certain is that some is not, but not always for the reasons that many might suggest. For example, this valuation difference is not because of the domicile rule: it is unlikely that the non-UK based assets of non-domiciled people will be included in either of these estimates, and so they can be ignored for this purpose.

It is also very clear that some domestic property will not be in HMRC's estimate because this is one of the easiest assets that can be passed on a first death in a relationship between spouses, but it would seem very unlikely that this is the whole explanation in the estimation differences: these properties are likely to eventually pass on death and so should for that reason be included in the HMRC estimate.

Part of this difference must therefore be because assets are being transferred in ways intended to evade and not just avoid inheritance tax whilst valuation under-declarations may also be an issue with regard to these properties. There may also be differing methods of allocating loan liabilities between the two estimates: this is one of the most likely reasons for some of the stark differences noted. For that reason considering differences in aggregate seems the most useful way of accounting for this information.

In that case estimates have to be made based on a valuation difference relating to assets that might potentially be subject to inheritance tax of almost £2 trillion (£2,000,000,000,000, which is a sum bigger than the total annual income of the UK). Such estimates have, inevitably, to be more akin to the application of rules of thumb than to be precise, formulaic allocations. So, for example, HMRC say that half of all estates are not subject to inheritance tax. In that case, whilst it seems likely that the new and additional top part of wealth that the ONS would appear to have revealed would be subject to inheritance tax for reasons of caution alone it may be appropriate to presume that half of that additional sum might not be subject to that tax even if this is contrary to apparent logic.

Even when this logic is applied, for the reasons also noted above, there will be assets that will fall out of the scope of inheritance tax because of its generous exemptions. Again, it is not possible to provide a precise answer to how much might be involved and so another rule of thumb has to be applied. In the absence of detailed data another 50% reduction (of the already reduced sum, or 25% of the whole) is assumed appropriate for this purpose in this report. This is likely to be fair: HMRC say all exemptions of this sort reduced tax bills by £1.3 billion in 2013/14<sup>xxxiv</sup>, when £3.5 billion in tax was paid.

Even after these two ‘discounts’ on the gap between the ONS and HMRC wealth estimates there remain almost £500 billion of assets that may not be included in inheritance tax declarations on which that tax may be due. That value would not, of course, all fall to be taxed in one year. Estates largely pass on death. Two obvious points need to be noted on this. The first is that most people die in older age and secondly that most wealth is owned by older people, As the ONS has noted, the highest average wealth is held by couple households without children, where one person is over and the other under the state pension age and the next highest was for couple households where both adults were over the state pension age with no children<sup>xxxv</sup>.

In that case it has been assumed that at least one thirtieth of the annual stock of the remaining difference in value (or about £500 billion) might become subject to inheritance tax a year at a rate of 40%. That means £6.6 billion of additional inheritance tax might be due annually as a result. This sum has been added to the estimates for the tax gap in this report.

It should be highlighted that this estimate does suggest that more inheritance tax is evaded than is paid in the UK. This is considered entirely plausible given, firstly, the very low rate of payment and secondly the ease with which this tax can be evaded and thirdly the evidence from available data on wealth in the UK.

## 12. Offshore tax evasion

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The problem of offshore tax evasion has been a recurring theme for those campaigning for tax justice. It is a cause of much dispute as a consequence of those who use and abuse tax havens and offshore accounts having fought back against allegations made against them, saying all they do in these places is legal. Unfortunately they have not been willing to open their tax haven books to prove that point.

The vast majority of the estimates of the tax lost to tax haven abuse now available have arisen as a result of the work of NGOs and civil society organisations, many of them based in the UK. The Tax Justice Network is one of these organisations and its 2012 report 'The Price of Offshore Revisited'<sup>xxxvi</sup> is a comprehensive report with a broad evidence base. It has been used as the basis for estimates of tax lost to offshore tax evasion in this report. This Tax Justice Network report has been widely reported worldwide and has been cited many times, although not everyone (and most especially those offshore) agrees with it<sup>xxxvii</sup> despite the fact that it uses four different bases for estimating the data it reports, including data supplied by the major banks who dominate the offshore wealth management market.

It should be noted that using this third party data on tax lost to offshore activity is appropriate because, as the IMF said when it appraised HMRC's tax gap methodology in 2013<sup>xxxviii</sup>, the HMRC estimate of the tax gap was most likely to omit foreign sources of income that individuals enjoy, such as that from tax havens. Evidence of this oversight on HMRC's part is readily available: the words 'offshore and 'tax haven' cannot be found in HMRC's 2013 tax gap report<sup>xxxix</sup>.

The Tax Justice Network report suggests that there was a minimum of US\$21 trillion illicitly held offshore in 2010. The number may have been as high as \$32 trillion, but the lower figure is used here for the sake of caution. It is stressed that this is not the total sum held offshore; it is the part likely to be held offshore for the purposes of evading tax liabilities.

For the sake of the estimate of tax lost to the UK resulting from this estimate of hidden offshore wealth a number of assumptions have to be made. The first is that this stock of wealth resulted in income that should have been subject to tax earned at the rate of 3 per cent per annum. This is very cautious. The current dividend yield on the FTSE 100 is, for example, 3.26 per cent<sup>xl</sup>. This rate of return also ignores all capital accumulation despite this capital accumulation being significant: in 2012 the BBC noted that the wealth of the UK's richest 1,000 people had apparently grown by 4.7 per cent in the previous year<sup>xli</sup>. Any tax loss on that growth is ignored in this report. Despite that the total income earned on US\$21 trillion would, on the basis of a 3 per cent per annum rate of return, be US\$630 billion in a year. If translated to sterling at

the rate of £1 being equivalent to US\$1.58 (which is fair over the entire period under review<sup>xlii</sup>) this would amount to £399 billion a year.

It is then assumed for UK estimation purposes that tax would only be due at 20% on this sum. This is because it is possible that these assets may, if they had been held in this country, have been sheltered in UK companies instead of being held in the names of individuals. The potential worldwide tax lost is, on that basis, when rounded to the nearest billion, £80 billion a year.

To then work out what part of this might actually be lost to the UK an estimate of the proportion of likely world wealth owned by UK resident people is required. This is complicated by the fact that some of the wealthy living in the UK are not domiciled in this country and so do not pay tax on their worldwide income in the UK (which is an undoubted part of the attraction to them for living here). As such reports that the UK has more billionaires living here than anywhere else have to be dismissed for this purpose<sup>xliii</sup>. Instead data from an organisation called WealthInsight<sup>xliv</sup>, quoted in the Guardian newspaper in 2013<sup>xlv</sup>, has been used instead because it considers the distribution of US dollar millionaires, which is a wealth level where the domicile rule is likely to have a much lower impact on tax liabilities. This source suggested the following distribution of US dollar millionaires in 2012:

Rank	Country	Number of Millionaires
1	US	5,231,000
2	Japan	2,105,000
3	Germany	1,326,000
4	China	1,280,000
5	UK	675,000
6	France	555,000
7	Canada	422,000
8	Switzerland	298,000
9	Australia	275,000
10	Italy	259,000
Total		12,426,000

**Figure 7**  
**Source: WealthInsight, as noted**

On the basis of this data the UK has 5.4% of the top ten countries' millionaires, or 675,000 dollar millionaires in all. This estimate does, admittedly, ignore the fact that the data used is not a sample of all millionaires but given the incredibly cautious estimates made on income yield, tax rate and wealth returns, this is considered a fair compensatory estimate of the total potential share of hidden income attributable to UK taxable people.



In that case it is estimated that offshore tax evasion might cost the UK £4.3 billion a year in lost tax revenue.

## 13. Summarising the tax evasion gap in the UK

Having explored all these issues relating to tax evasion in the UK some conclusions on the total loss arising from tax evasion in the UK on a year-by-year basis can be drawn.

A summary of the data referred to in this report is as follows. It excludes the data discussed for tax evasion on investment and rental income to minimise the risk of double counting:

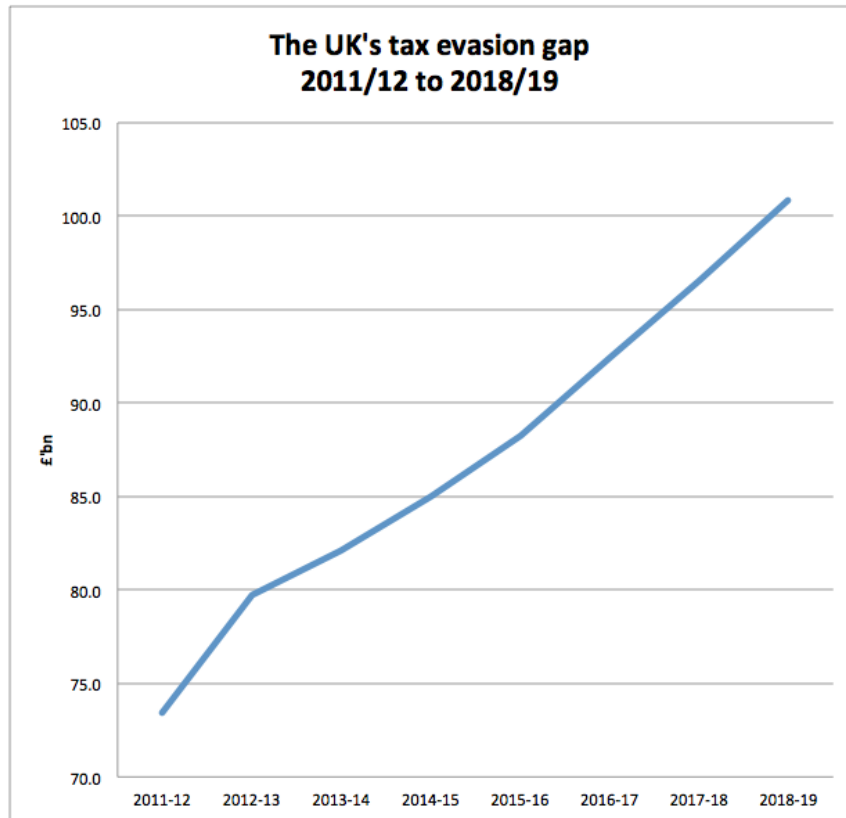
<b>The tax evasion gap</b>	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
	£'bn	£'bn	£'bn	£'bn	£'bn	£'bn	£'bn	£'bn
GDP	1526	1571	1644	1721	1788	1871	1956	2042
Tax likely to be lost on unrecorded sales in the shadow economy	40.3	45.6	46.4	47.7	49.5	51.8	54.2	56.6
<i>The HMRC tax gaps:</i>								
<i>Criminal attacks</i>	4.7	4.8	5.1	5.3	5.5	5.8	6.0	6.3
<i>Error</i>	2.9	3.0	3.1	3.3	3.4	3.6	3.7	3.9
<i>Failure to take care</i>	4.3	4.4	4.6	4.8	5.0	5.3	5.5	5.8
Additional tax gaps calculated in this report:								
Tax due on fraud and other crime	6.5	6.7	7.0	7.3	7.6	8.0	8.3	8.7
Capital gains tax underdeclaration	3.8	3.9	4.1	4.3	4.4	4.6	4.9	5.1
Inheritance tax underdeclaration	6.6	6.8	7.1	7.4	7.7	8.1	8.5	8.8
Offshore tax evasion - income only	4.3	4.4	4.6	4.8	5.0	5.3	5.5	5.8
Total estimated tax evasion gap	73.4	79.7	82.1	85.0	88.3	92.4	96.6	100.8

### Figure 8

Source: This report, as noted

Data is extrapolated from 2011/12, for which most was calculated (excluding capital gains tax, taken from a 2012/13 base), on the basis of the growth in GDP since then, excluding data for the shadow economy where the forecast size of the VAT gap reported in the autumn statement of 2013 is also taken into account. GDP forecasts are based on the March 2014 budget<sup>xlvi</sup>.

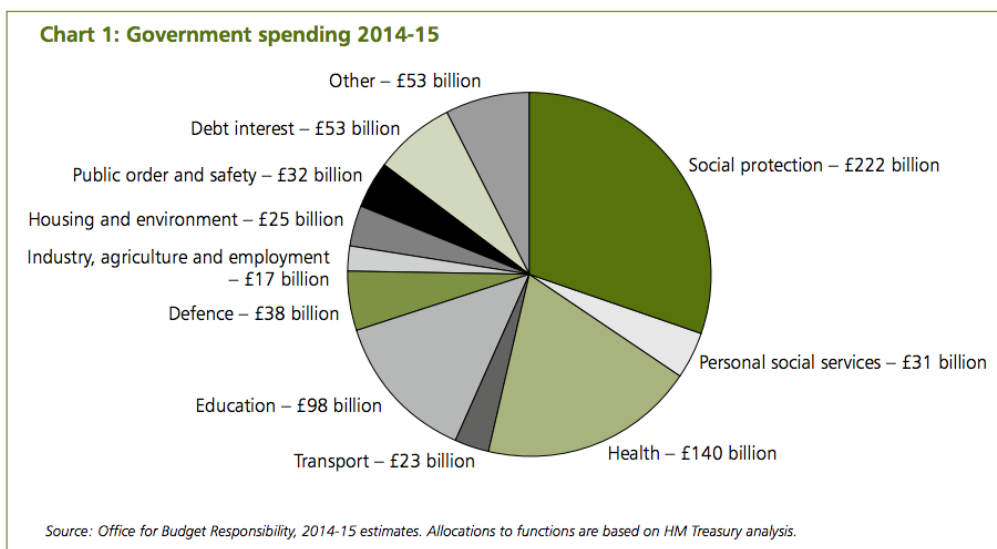
The total tax evasion gap looks like this:



**Figure 9**  
**Source: Figure 8**

From a figure of just over £70 billion in 2011/12 tax evasion is likely to have a total cost of £85 billion in 2014/15 and could cost over £100 billion to the Exchequer by 2018/19.

To set this figure in context a summary of forecast UK government spending in 2014/15 is as follows:



## Figure 10

Source: 2014 Budget, HM Treasury and as noted

What would £85 billion pay for? Total government spending on personal social services, housing and the environment, the department for industry, agriculture, employment and half of government spending on transport could be paid for in 2014 with that sum. That's how important the tax evasion gap is.

Alternatively it would pay for most of the UK education budget or 60% of all spending on the NHS.

If used in a different way, eliminating tax evasion would also eliminate the whole of the 2014/15 budget deficit and leave £1 billion over to spend. There would be no remaining arguments left for austerity.

In practice it has, of course, to be accepted that it is very unlikely that the entire tax evasion gap can ever be closed but the goal has to be there, and a proper appraisal of the problem, as provided in this report, makes clear how big the rewards for effective action might be.

## 14. The rest of the tax gap: tax avoidance

As noted in chapter 2 of this report, the UK's tax gap is made up of three parts. The first, which is the main focus of this report, is tax evasion.

The second part of the tax gap is unpaid tax debt, which is the subject of the next chapter.

The third part is tax avoidance, which is the activity undertaken by those people and companies who seek to get round the law without actually breaking it to artificially reduce their tax bill in a way that Parliament never intended.

Tax avoidance has attracted a great deal of attention in the media since about 2011 when the stories of tax avoidance by Google, Vodafone, Amazon, Starbucks, Apple and other companies began to make headline news. The use of highly contrived tax avoidance schemes by high-profile media personalities, including Gary Barlow, Chris Moyles, Jimmy Carr and others, has also attracted much attention. The reality is, however, that tax avoidance has always been a much smaller part of the UK's tax gap than tax evasion.

In the PCS report on the tax gap in 2010 reliance was placed on the TUC's 2008 estimate of total UK tax avoidance<sup>xlvii</sup>, also prepared by Richard Murphy of Tax Research UK. That report estimated that total tax avoidance at that time amounted to £13 billion per annum by individuals and £12 billion per annum by large companies based in the UK, or £25 billion in all.

There has, unfortunately, been no further report on the scale of tax avoidance in the UK prepared by anyone outside HMRC since 2008. Estimating the current scale of tax avoidance is, therefore, more problematic than estimating the current scale of tax evasion, given the resources available for the preparation of this report. There are however some clear indicators that are available.

Firstly, HMRC admit that there are real problems with tax avoidance. Their most recent tax gap report, referring to the 2011-12 tax year, suggests that tax avoidance represented a loss of £4 billion within the total tax gap. They also suggested that disputes on legal interpretation gave rise to another £4.3 billion of loss during that year. It is very hard to see how a dispute concerning legal interpretation can be differentiated from tax avoidance activity when both are clearly about not paying tax in ways that HMRC think Parliament did not intend and as such the combined total of these figures, or £8.3 billion, is the starting point for estimating tax avoidance in this report.

It is very obvious that these estimates of tax avoidance are understated. The most obvious evidence of that fact comes from evidence given by HMRC to the Public Accounts Committee in which they make clear that HMRC tax gap estimates do not include sums that the media have suggested are avoided by companies like Google

and Amazon, for which claims the PAC found much supporting evidence<sup>xlviii</sup>. This is significant: in 2012 the Mail on Sunday, using methodology pioneered by Richard Murphy of Tax Research UK, estimated that just five US based internet companies underpaid UK corporation tax by at least £660 million in 2011. Clearly they are not alone in undertaking sales activity from outside the UK which gives rise to these losses. It is likely that as a result well over £1 billion is lost to tax avoidance for this reason on top of that already admitted to by HMRC. This is likely to bring the overall estimate of tax lost by HMRC as a result of tax avoidance to more than £10 billion, even making cautious estimates as to likely sales growth by these companies since 2011 and that companies like Facebook and Twitter have grown considerably since then and operate in broadly similar style to Google.

There is also good reason for thinking that the abuse of tax havens by large companies remains significant, and this would not be picked up by HMRC's estimates either since they consider much of such use legitimate. For example, in June 2014 Barclays plc published its first country-by-country report on the location of its profits and tax paid<sup>xlix</sup>. What this showed was that Barclays made profits of £2,868 million pounds in that year (£2.9 billion). However, of this sum £2,181 million (£2.2 billion) was declared in Luxembourg and Jersey and a loss of £1,339 million (£1.3 billion) was declared in the UK.

Despite this a total of £830 million of corporation tax was paid by Barclays in 2013, including £55 million in the UK, but there are major issues in appraising the validity of this tax paid data, which does not directly relate to the profit figures Barclays' declared because tax is generally paid some time after profits are earned. Even taking this factor into account, work undertaken by Tax Research UK has shown that if Barclays' total group profits were split in proportion to where its staff are located and where its sales are made then it would have been reasonable to expect Barclays to have declared profits in the UK of about £1.1 billion in 2013 with tax due as a result of, maybe, £250 million instead of the £55 million actually paid<sup>l</sup>.

These figures are, of course, estimates, but they do suggest that tax avoidance activity that shifts where profits are recorded is seriously undermining the UK tax base in a way that is not reflected in HMRC's tax gap estimate. If an underestimate of maybe £200 million might arise with regard to just one company as a consequence then it is entirely plausible that at least £2 billion of such loss might arise overall amongst large companies. This estimate, when combined with the previous estimates, suggest that losses to tax avoidance might be at least £12 billion a year.

The TUC estimate made in 2008 included estimated losses from a number of other sources. These included losses of national insurance resulting from small companies substituting dividend payments to their owners in place of salaries, so avoiding both employees and employers national insurance charges, and losses as a result of the use of the domicile rule by people resident in the UK who did not pay tax on their worldwide income because of their having a domicile outside this country. It was also estimated that a significant loss of tax arose as a consequence of shifting income between spouses, partners, and other family members, mainly through self-

employment but also to exploit capital gains tax loopholes and to save tax on investment income.

There are a number of difficulties in repeating these estimates at this time. Firstly, incentives to shift capital gains tax liabilities to save tax have been reduced because of reductions in capital gains tax rates from 2009/10 onwards. Secondly, whilst the payment of dividends from small companies to their owners, and income shifting by this route, was considered a matter of major concern to HM RC until 2008, it has since subsequently largely fallen off the tax avoidance agenda that HMRC wish to pursue, with an apparent tolerance of this activity now existing within the UK tax system. Thirdly, arrangements with regard to application of the domicile rule have changed since 2008, with the availability of access to this rule being more restricted now and the apparent number of people making use of it appearing to have fallen as a consequence. Lastly, and quite importantly, data in some of these areas is now harder to obtain.

The consequence is that estimates of this type of tax avoidance are more difficult to secure than they were in 2008, and further work is needed to update estimates before any reliable figures can be given.

It is also unwise to presume that figures published for the costs of various tax avoidance schemes that have been tackled by HMRC relate to any one particular tax year, and therefore extrapolation of them is hard.

In addition there can be no doubt that HMRC have been quite successful in the last two or three years in tackling some aspects of personal tax avoidance, not least by publicising the names of high-profile users of prepackaged tax avoidance schemes meaning that the likelihood of such schemes now being sold to the extent that existed when previous estimates were made is reduced.

As a consequence of all these measures it is possible that personal tax avoidance is lower now than it has been in the past. Such activity has not, however, ceased. The domicile rule continues to be widely used by some parts of the UK community and whilst HMRC and the government continue to deny this represents tax avoidance, any arrangement that allows some people resident in the UK to pay less tax by pure accident of their birth (which is, in effect, what the domicile rule does) cannot be considered part of normal tax arrangements, and it is not so in almost any other country bar the UK. As such even if the scale of this activity has been reduced by the charges introduced in 2008 (and that is possible) the use of these rules does undoubtedly continue, especially on the part of those living temporarily in the UK. The estimate made by the TUC in 2008 of the loss from the domicile rule was £3.8 billion a year. It would be safe to assume that it remains at least £2 billion a year now.

National insurance planning through the use of small companies remains commonplace, and the number of small companies has grown since 2008. There were 2,686,000 in March 2008, a number that has now increased to 3,290,000<sup>ii</sup>. Anecdotally there has been no change in the prevalence of this activity since 2008 and so whilst HMRC do not consider this issue the priority that it was previously

considered to be there is no reason to remove it from estimates of tax avoidance. Updating the 2008 estimate simply for the increase in the number of companies in the meantime suggests that a current estimate of this sum avoided might now amount to £2.2 billion a year. This may be conservative: national insurance rates have increased over this period and no allowance has been made for this.

There then remain other areas where tax avoidance exists but is not likely to be recognised within the HMRC estimates, this being necessary to avoid any risk of double counting. An area where this is likely is with regard to stamp duty on commercial property. Whilst extensive measures have been taken by the government to tackle stamp duty abuse in the UK domestic housing market as a result of the registration of the ownership of these properties in offshore tax havens there has been no equivalent attack on the use of either onshore or offshore structures when used for the ownership of commercial properties.

Anecdotally there is considerable evidence of the use of corporate (but not necessarily offshore) structures for this purpose with a large number of commercial properties being owned through companies so that on second sale of the property the shares in the company that owns the property are sold rather than selling the property itself. This means that stamp duty land tax (SDLT) of up to 4% can be avoided.

There are, of course, more influences on the SDLT receipts that HMRC enjoys than tax avoidance. There has obviously been a major property crisis linked to the financial crisis over the period since 2005 for which HMRC publish data on commercial property transactions for SDLT purposes. However, some trends in the data are very obvious. Whilst the overall number of chargeable transactions worth more than £40,000 has both grown and declined in line with likely expected market trends based on the state of the economy in the last decade, there are different trends at the top end of the scale relating to transactions involving commercial property worth more than £2 million. Here it seems from the evidence of building work in some parts of the country that there is considerable activity in the commercial property market but despite this the number of transactions has not recovered to its 2007 quantity of 8,000 deals in a year (there were 6,000 in 2013) but the average value at this higher end of the market has remained remarkably static at about £11.3 million a deal.<sup>iii</sup> If the missing deals are now taking place through the sale of shares in companies, chargeable to stamp duty at 0.5% at most – and given the recovery in apparent property activity this appears plausible – at least £790 million of SDLT would be lost in this transaction bracket alone.

There are also other likely losses to tax avoidance in the property sector. In August 2014 the Financial Times reported<sup>iiii</sup> that at least £122bn of property in England and Wales was held through companies in offshore tax havens where ownership is difficult to trace. It noted that nearly two out of three of the 91,248 foreign-company owned properties in England and Wales are held via the British Virgin Islands and Channel Island structures. A breakdown between residential and commercial property was not available according to the Financial Times but it added that in practice the total value of offshore ownership is likely to be considerably higher than £122bn because more



than a third of the data provided by the Land Registry did not contain a purchase price.

The Financial Times did not estimate the cost of the tax avoidance resulting from these structures but at least three taxes are potentially being avoided. They are stamp duty, inheritance tax and capital gains tax. A fourth could be income tax if the properties in question are being let and are artificially loaded with debt to avoid payment, but that issue is ignored here.

To estimate the tax lost a number of assumptions have to be made. First, it is highly likely that there is 'churn' in the ownership of the portfolio of at least 91,000 properties to which this data refers. It would be very surprising if average ownership periods exceeded 10 years given the nature of the ownership, the fact that they have almost certainly been put in offshore ownership to avoid stamp duty on sale and the nature of this market.

This activity has now gone on for some time. Because most of the properties are in Greater London they are likely (but not certain) to be residential. The average property is worth at least £1.3 million, and probably rather more by now since this will be historic data. Assuming that prices have not inflated but that property is domestic, a 5% stamp duty rate would be appropriate. If 9,100 properties changed hands a year that is at least £610 million of stamp duty avoided, and probably somewhat more due to price increases over time not allowed for in this calculation. If average prices have inflated since purchase as noted below when looking at capital gains tax it is likely the loss might be £900 million a year. The lower estimate is used here.

The next potential loss is to avoided inheritance tax. One of the attractions of holding property offshore as opposed to through a UK company (which is, of course, possible to avoid stamp duty on transfer) is that for the non-domiciled person this avoids inheritance tax on an asset located in the UK. The question that has to be asked in that case is how many of the owners of these properties die a year?

It has already been assumed in this report that 1/30 of all wealth might be subject to an inheritance tax charge in any year but in this group wealth may be more widely dispersed than normal. In that case a rate of 1/40 of all property being subject to inheritance tax could be a more appropriate estimate. In that case about £3 billion of property may miss a charge at a rate of 40% a year. That is £1.2 billion avoided per annum.

And then there is capital gains tax. If a ten-year ownership period of residential property in London is assumed and this is prime central London housing, then estate agents John D Wood suggest that London prices have almost exactly doubled from March 2004 to March 2014<sup>liv</sup>. That means that if property that cost £12.2 billion is sold each year a gain is bound to arise. On the basis of the assumptions used, if property is sold after ten years of ownership and the portfolio reflects cost price incurred over that ten year time interval then the average price of the portfolio is that of property bought five years before sale. Using the John D Wood data this might cautiously suggest that the average gain realised was about 50% of cost price. This would

suggest that the average gain on the portfolio that is likely to be sold in any year is about 50% of about £12.2 billion, or about £6.1 billion in this case.

Not all this sum would, however, be subject to CGT: some (but not all) of these properties will be subject to principal private residence relief, and some will be let. Assuming just one third are subject to CGT, and that seems fair given these two factors, that would leave gains avoided on a little over £2 billion that might have been payable at 28% if recorded in the personal names of their UK resident owners. That is £510 million of CGT avoided.

This leaves £2.3 billion of tax avoided in all a year as a result of this offshore ownership of UK property. In that case it is not surprising that there has been a surprising willingness amongst owners of these properties to pay the new 'envelope' tax charge introduced by George Osborne that has yielded much more than expected, with over £200 million expected to be paid this year<sup>iv</sup>. The avoidance activity still pays handsomely with a likely net return of about £2.1 billion a year.

Taking just these noted factors into account total tax avoidance is likely to be at least £19.1 billion a year based on these cautious estimates. The figure is lower than noted in 2008, a fact that reflects declining corporation tax rates (which reduces the yield from avoidance), declining capital gains tax rates (which have the same impact), a likely decline in non-domicile activity as a result of legislative changes and caution being made in other estimates but the sum remains of considerable concern, and much higher than HMRC suggest in their own tax gap estimates despite the fact that some of these issues, such as national insurance avoidance, have been major issues of concern to them in the past.

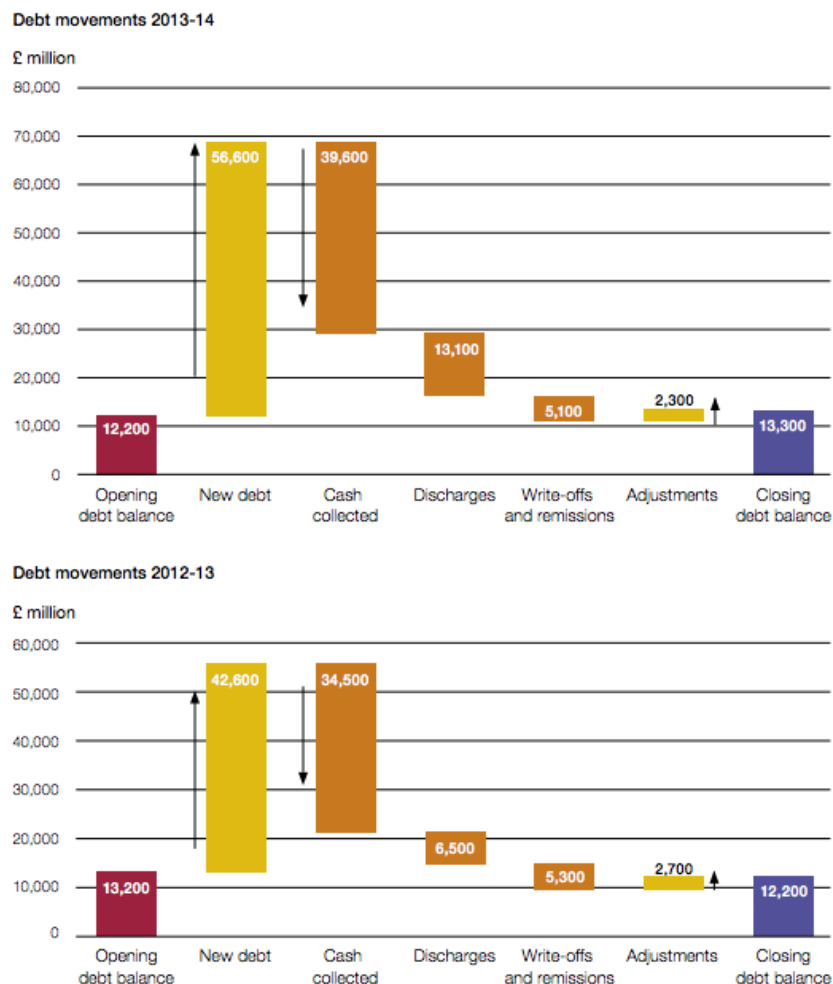
## 15. The rest of the tax gap: tax debt

The third component of the tax gap is tax debt.

There are two ways of measuring tax debt. One is the total amount of overdue debt at any point of time and the other is the amount of tax debt written off in a year. In the 2010 PCS tax gap estimate the amount of tax debt at a point in time was used as the relevant estimate. At that time HMRC estimated this sum to be about £25 billion.

In this report the focus has been shifted to tax not collected during a year as this makes the figure directly comparable with the data for tax avoidance and tax evasion, which was not previously the case.

HMRC's data on tax debt collection for the years 2012/13 and 2013/14 is as follows, based on the National Audit Office's report<sup>lvi</sup> on HMRC's accounts for 2013/14:



**Figure 11**  
Source: National Audit Office

The amount of debt outstanding at HMRC has fallen in recent years. However, as will be noted from the above table, the amount of debt written off as irrecoverable or discharged during a year is growing. In 2013/14 this combined sum came to £18.2 billion, which is the figure for debt considered appropriate for conclusion in this report on the tax gap even though HMRC would prefer to only refer to the lower sum of debt written off of £5.1 billion.

The National Audit Office describe HMRC's explanations of debt written off, remitted and discharged as follows in their report from which figure 11 has been taken:

*Debt is written off in situations where there is no practical way to pursue the liability. Some write-offs occur automatically and are outside the department's control, such as where the debtor is insolvent.*

*Debt 'remission' (a concept unique to government) is where a department decides not to pursue a debt primarily on the grounds of value for money, i.e. the cost of pursuing it would be greater than the benefit, or it is not the most efficient use of limited resources, compared with other priorities.*

*Discharged debt is where HMRC amends or cancels a debt as further information is received that determines the taxpayer's final liability as being lower than the originally estimated figure.*

HMRC would appear to argue that debt discharged is the result of errors made by them in estimating sums owing. If that is true the error rate increased considerably in a year and was a major factor in that case in the growth in recognised debt arising between 2012/13 and 2013/14.

Alternatively, these estimates of debt made were fair but the resources to pursue the debt that HMRC staff members had, in good faith, estimated to be due were not available and so the debt was discharged instead. Whichever explanation is true it shows that there is considerable reason to doubt that HMRC is correctly estimating tax owing and good reason to doubt that it has sufficient resources to recover the tax that is owed to it. In that case, and because of that doubt, it seems appropriate to include debt discharged within the UK tax gap on the same basis that tax written off and remitted is.

## 16. The tax gap: a summary

In chapters 13, 14 and 15 estimates have been provided for the three main components of the UK tax gap. These are as follows:

	£'bn
Tax evasion	85.0
Tax avoidance	19.1
Tax debt not recovered	18.2
	<hr/>
	122.3

With the caveat noted in chapter 14 that the tax avoidance estimate included here may be cautious and underestimated, the likely UK tax gap in 2014/15 may be at least £122 billion in total in a year.

To put this sum in context, £122 billion would pay for 6 sevenths of the NHS in a year – or its operation from Monday to Saturday, leaving just Sunday to be funded from elsewhere.

## 17. The HMRC resource crisis

There are three fundamental reasons why there is a crisis with regard to tax evasion, tax avoidance and tax debt in the UK. The first is that HMRC do not have the resources needed to tackle this issue. The second is that the political will to tackle tax evasion no longer exists. The third, which follows inevitably from the second, is that the legislation HMRC needs to tackle the crisis of tax evasion in the UK is not available to it. This report will deal with each of these issues in turn before drawing the, by then obvious, conclusions and recommendations that flow from them as noted at the beginning of this report.

The crisis of resources at HMRC should by now be well known and yet is still largely ignored within both political and social commentary on this issue. It would seem that it takes regular comment from PCS members sitting in the audience of Question Time to keep it in the public domain.

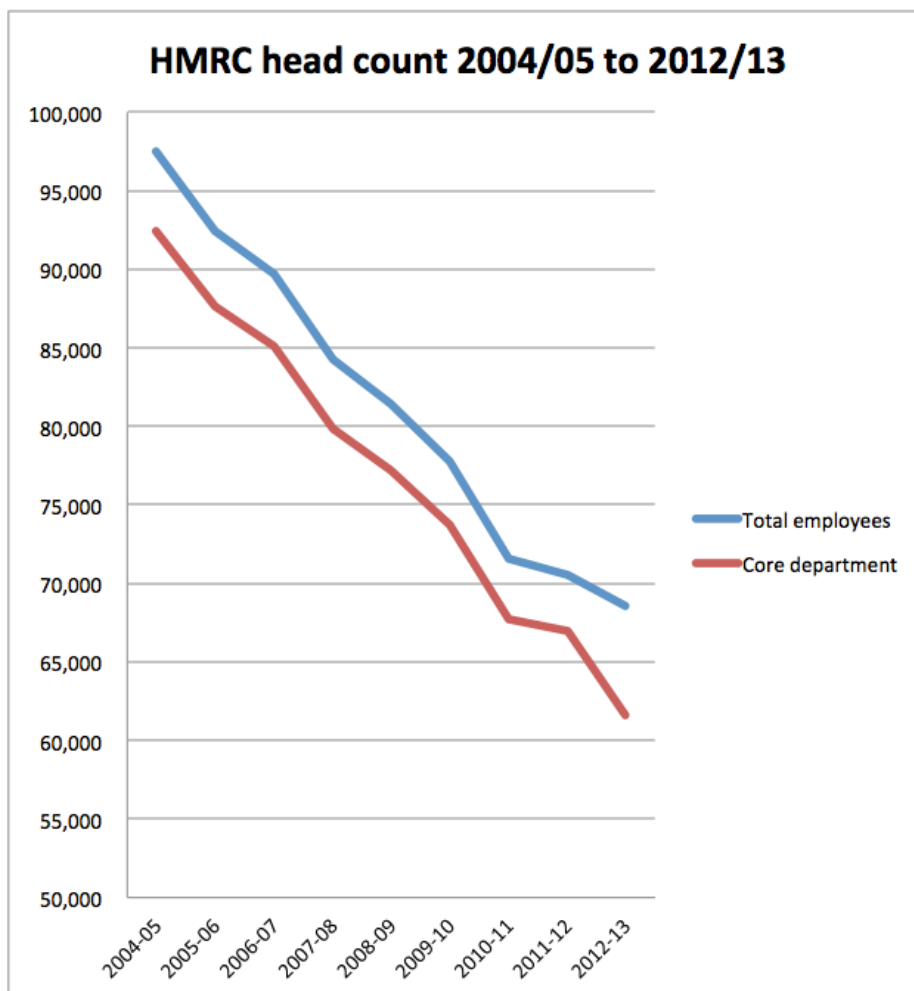
This crisis of resources began when HMRC was created. In 2005 the then Inland Revenue and HM Customs & Excise were merged to form what became HMRC. The new organisation also had responsibility for collecting national insurance, which had at one time been the function of the then Department for Social Security, and for paying tax credits, where overlap of responsibility clearly existed with the Department for Work and Pensions. It does also undertake some tasks on behalf of the Department for Business, Innovation and Skills in connection with the minimum wage.

One aim of the merger of the Inland Revenue and HM Customs & Excise would appear to have been to bring tax policy creation into the Treasury. This required the physical relocation of tax policy from the previous Inland Revenue offices in Somerset House into the new PFI funded Treasury building in Westminster.

Another aim of the merger was to save costs. From the outset, as in almost all mergers, job cuts were on the agenda.

It also seems that there was a desire when creating the new HMRC structure to significantly increase the influence of business on tax policy. This neoliberal approach, which presumes that business knows best on all issues because of the supposed influence of competition on its policies, is reflected in the composition of HMRC's non-executive board of directors, all of whom are drawn from big business and who include former partners at two of the largest firms of global accountants<sup>lvii</sup>.

Dealing solely with the policy of cutting staff to save costs in this section, it is very clear that this goal has been achieved. The HMRC head count according to its annual published accounts has from 2004-05 (the year before the merger) to 2012/13 (the most recent data available at the time of writing) been as follows:



**Figure 12**

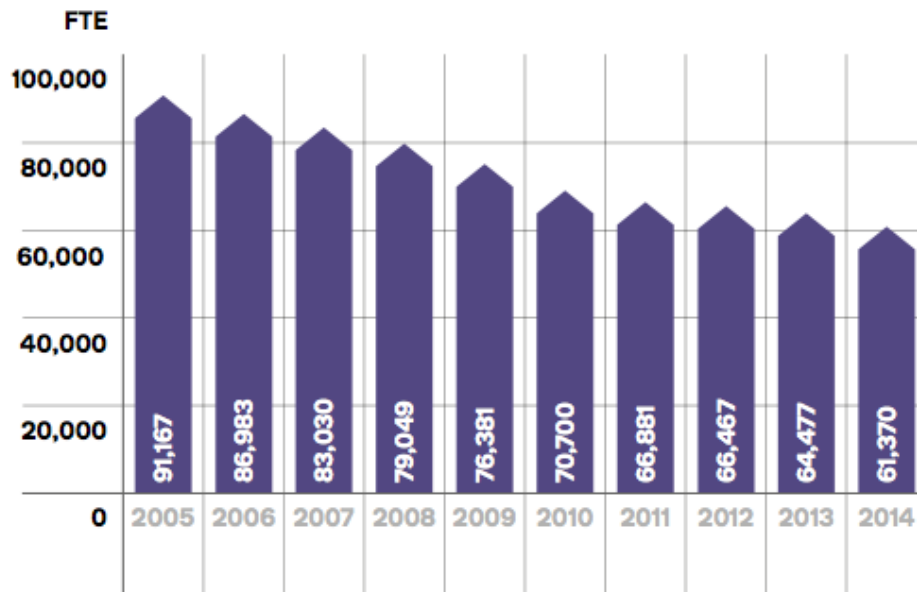
**Source: HMRC accounts bar core department data pre 2008/09 which is author estimate**

The non-core department employees of HMRC largely work for the Valuations Office Agency, whose work largely relates to council taxation.

Numbers have fallen dramatically, from over 92,000 in the core department in 2004/05 to under 62,000 in 2012/13 according to HMRC's accounts.

The 2014-16 Business plan for HMRC displays the data slightly differently, but the message is broadly similar<sup>lviii</sup>:

### HMRC staffing levels\*



\* As at 31 March. Historic years adjusted for UK Border Agency and Serious and Organised Crime Agency departure. Includes reinvestment into compliance.

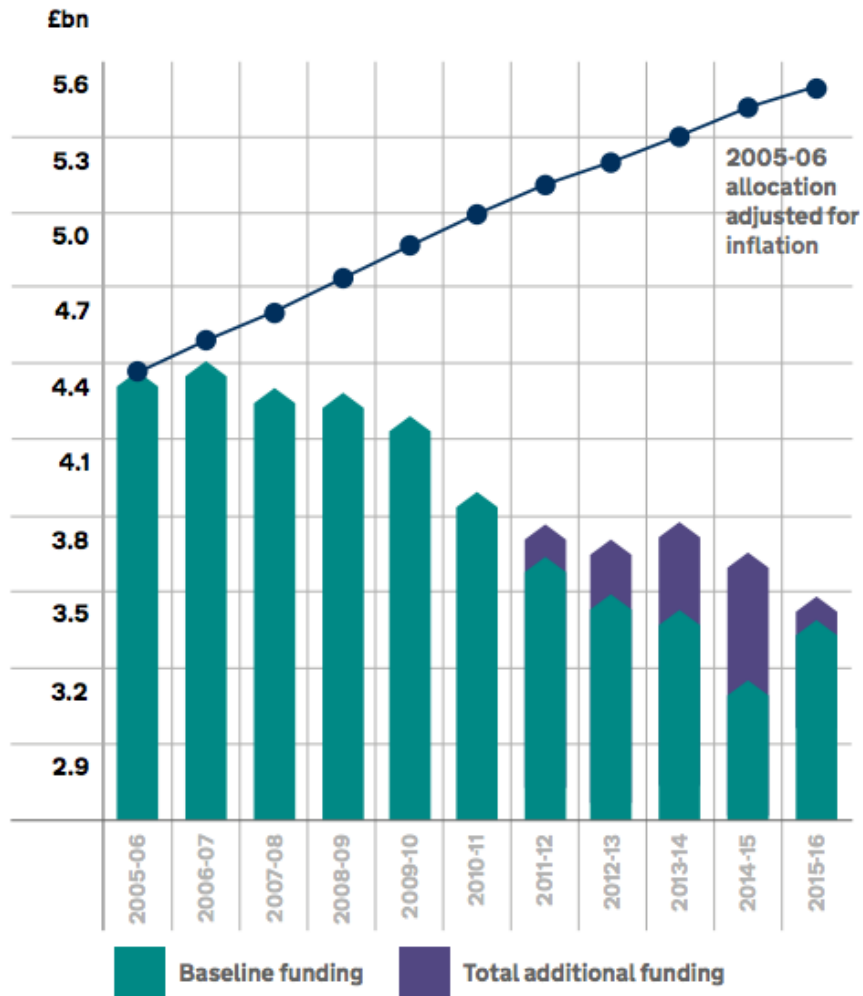
### Figure 13

Source: HMRC Business Plan 2014-16

These cuts have all been aimed at reducing cost. This chart summarising changes in the HMRC budget in absolute and price adjusted terms comes from the same HMRC business plan:



HMRC resource budget\*



\* Historic years adjusted for UK Border Agency and Serious and Organised Crime Agency departure and HM Treasury clear line of sight project.

**Figure 14**

**Source: HMRC Business Plan 2014-16**

HMRC say in their 2014-16 business plan that by the end of the 2015/16 tax year they will have no more than 52,000 staff, a cut of almost 43% in just over a decade.

Based on data in the business plans of the individual departments within HMRC the cuts in staffing from 2014 to 2016 will be as follows:

<b>HMRC Department</b>	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>	<b>% change</b>
Business & Credits	5015	4978	6060	20.8%
Business Tax	3203	3073	2941	-8.2%
Chief Digital Officer	1566	1616	1667	6.4%
Central Tax and Strategy	600	850	850	41.7%
Chief Financial Officer	1590	1580	1530	-3.8%
Solicitor's Office	387	386	384	-0.8%
Human Resources	1051	906	849	-19.2%
Enforcement and Compliance	26923	26096	24450	-9.2%
Personal Tax	20297	15231	13269	-34.6%
<b>Total</b>	<b>60632</b>	<b>54716</b>	<b>52000</b>	<b>-14.2%</b>

**Figure 15**

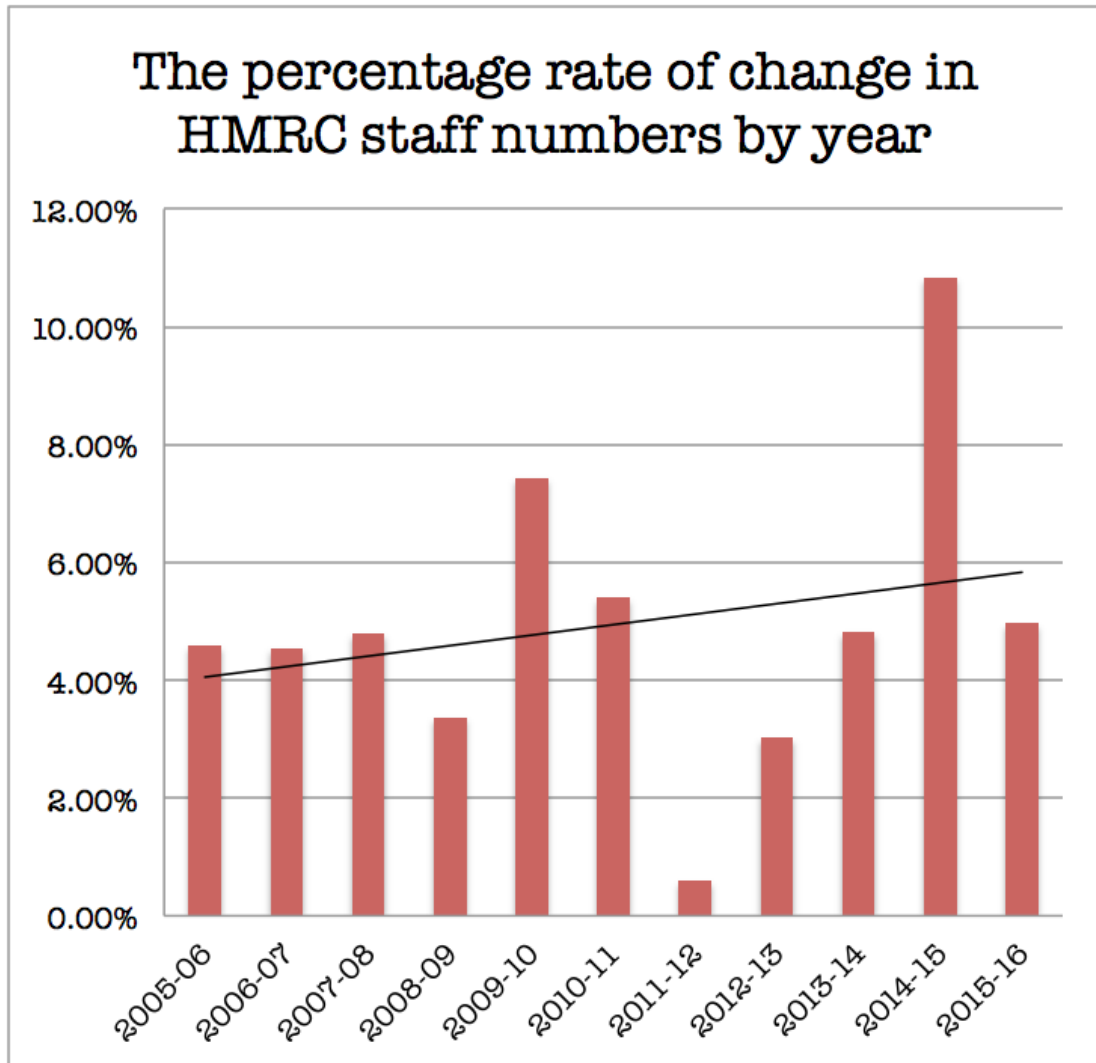
**Sources: HMRC departmental business plans 2014-16 as per footnote, below<sup>8</sup>**

Astonishingly, this means that the rate of cuts being imposed upon HMRC is now growing, as this figure shows:

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<sup>8</sup> The individual department data comes from their own business plans except for:

- Business tax, where the total number of staff in 2013/14 was not stated so a January 2014 total was used for opening data and adjusted for noted planned cuts;
- Central Tax and Strategy and Chief Financial Officer, where data was estimated from graphs;
- The 2016 total, which comes from the main business plan;
- Personal Tax, where no 2016 number was given, so a balancing number to equate the total to the HMRC aggregate was used.



**Figure 16**

**Source: Change on yearly totals in figures 14 and 15 expressed as a percentage of the previous year**

A trend line has been added to the graph highlighting this astonishing rate of cuts and emphasising that instead of the rate of change in staff levels at HMRC declining, as would be expected in most organisations as a process of integration evolves, it is instead increasing.

The impact of this is obvious. When reading HMRC's business plans there is a recurring theme of low staff engagement that is a certain sign of poor morale. Indeed, it has been widely reported that HMRC has had the lowest staff morale in the whole civil service since the time of its creation in 2005<sup>ix</sup>. That has in turn led to high rates of resignations<sup>k</sup>. That problem appears to have been particularly acute amongst experienced staff, a fact that is widely reported by HMRC staff to impact on the tax gap.

This obvious difficulty with motivation amongst staff, which is considered serious enough to be listed as a threat to the achievement of the goals of the Personal Tax

division of HMRC<sup>lxii</sup>, does need to be contextualised. Whilst it is obvious that as a result of some changes in work practices,, such as the online submission of tax returns, there has been a reduction in the need for staff engaged on a particular task this has not in any way reduced the overall need for resources to tackle the tax gap, to which task the people in question could have been redeployed instead of eliminating their jobs. The result is that the apparent increase in yield as a result of supposed increases in productivity at HMRC has been at the cost of an enormous impact on the quality of service supplied, and, of course, an increased tax gap.

Other factors have also had an impact on supposed productivity, including simply demanding that staff work much harder than before by not replacing their colleagues who have left HMRC and yet demanding that the same work still be achieved despite that fact. Then there has been a process of withdrawing from the supply of public services. So first of all local tax offices have been closed, and then enquiry centres have shut whilst attempts are now being made to also cut employment in HMRC call centres by forcing taxpayers to communicate with HMRC on line, which many of them will find far too difficult. In addition a wide range of activities that have been in place to protect tax revenue are simply not now undertaken due to a shortage of resources, including many compliance investigations. All these facts have to be noted before considering data on trends in tax yield.

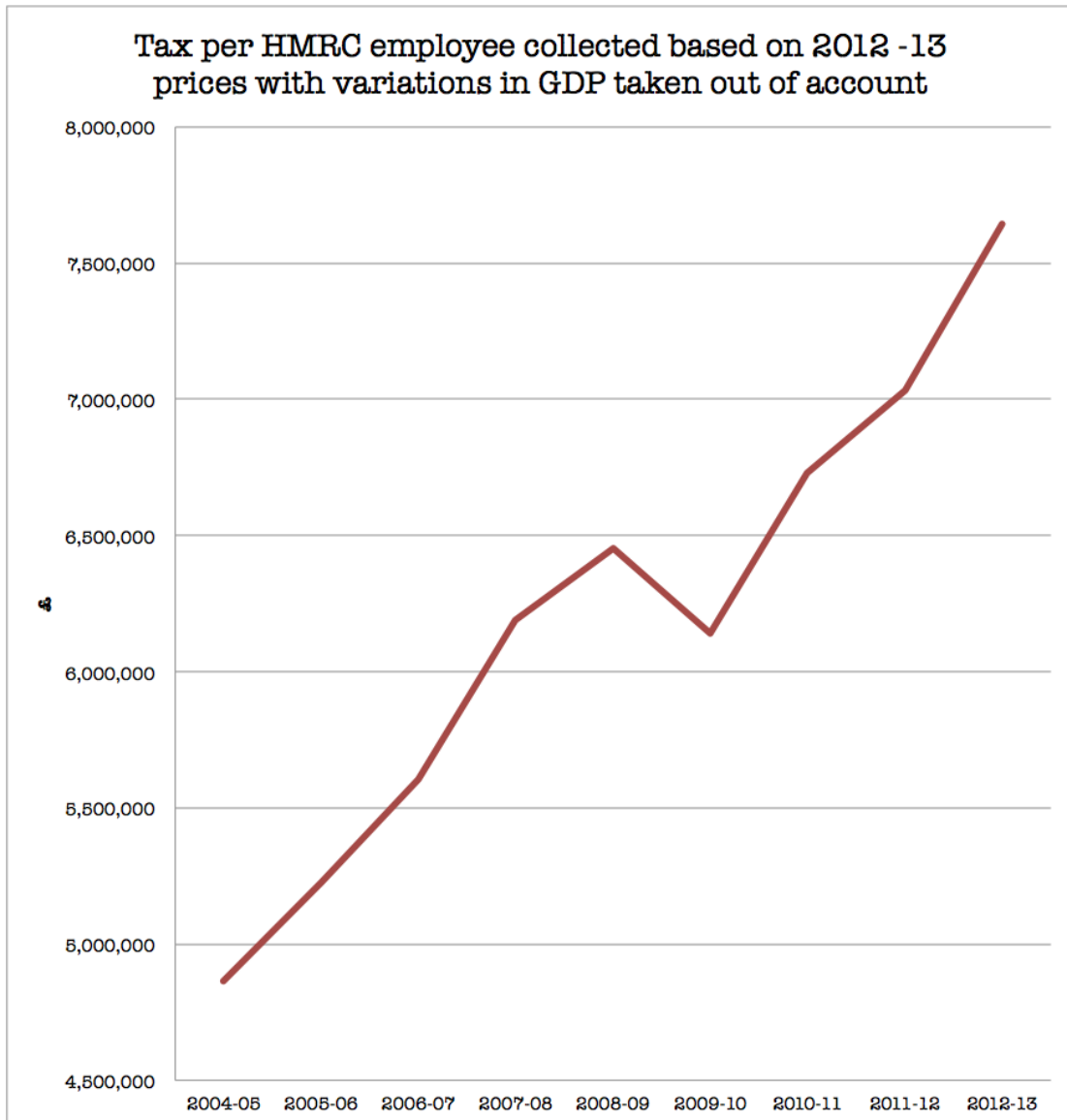
That tax yield data is, of course, impacted by changes in both GDP and the value of money over time. The following data does, therefore, seek to unpick these trends and does so by starting from data published by HMRC on total taxes collected by year<sup>lxii</sup> and headcount as noted above and then adjusting this first of all for inflation and then GDP using HM Treasury deflator data<sup>lxiii</sup>.

Year	2004-05 £'bn unless noted	2005-06 £'bn unless noted	2006-07 £'bn unless noted	2007-08 £'bn unless noted	2008-09 £'bn unless noted	2009-10 £'bn unless noted	2010-11 £'bn unless noted	2011-12 £'bn unless noted	2012-13 £'bn unless noted	Average £'bn unless noted
Tax collected by HMRC £'bn	371	398	424	451	439	409	447	467	470	431
Tax collected restated for inflation £'bn	450	474	490	509	482	436	466	475	470	472
Tax per head £	4,012,763	4,541,149	4,976,972	5,652,103	5,690,625	5,543,117	6,599,457	6,963,763	7,630,587	5,734,504
Tax per head restated for inflation £	4,864,309	5,406,258	5,759,584	6,380,357	6,247,461	5,923,019	6,872,287	7,086,718	7,630,587	6,241,176
Money GDP £'bn	1,229,516	1,295,438	1,369,907	1,447,844	1,442,253	1,432,213	1,502,176	1,549,085	1,573,541	1,426,886
GDP at 2012 prices £'bn	1,490,431	1,542,225	1,585,320	1,634,394	1,583,380	1,530,371	1,564,278	1,576,436	1,573,541	1,564,486
GDP change in relation to following year	96.642	97.282	96.997	103.222	103.464	97.832	99.229	100.184	100.000	
Part of tax collected changing due to GDP change £'bn	0.00	15.63	13.24	15.17	-15.89	-16.14	9.67	3.62	-0.87	2.71
Tax change due to other factors £'bn	0.00	8.34	3.27	3.84	-11.26	-29.43	19.42	5.64	-4.17	-0.48
Proportion of change in tax collected related to change in GDP %		65.2%	80.2%	79.8%	58.5%	35.4%	33.2%	39.1%	17.3%	51.1%
Tax collected current prices after GDP change taken out of account £'bn	450	458	477	494	498	453	456	471	471	470
Tax per head based on current priced collection after GDP taken out of account £	4,864,309	5,227,893	5,604,059	6,190,228	6,453,447	6,142,013	6,729,537	7,032,710	7,644,751	6,209,883
Difference	0	178,366	155,524	190,129	-205,986	-218,993	142,750	54,008	-14,164	31,293
HMRC yield as a proportion of GDP	30.17%	30.72%	30.92%	31.16%	30.45%	28.52%	29.76%	30.12%	29.86%	30.19%

**Figure 17**

**Sources: As noted in text and endnotes.**

The apparent increase in yield is as shown in this graph:



**Figure 18**  
**Source: Calculations in Figure 17**

Superficially this graph suggests that HMRC has achieved its objectives. It has collected what is, when the impacts of GDP and inflation are taken out of account, consistent tax yields both in cash terms and as a proportion of GDP with a falling headcount.

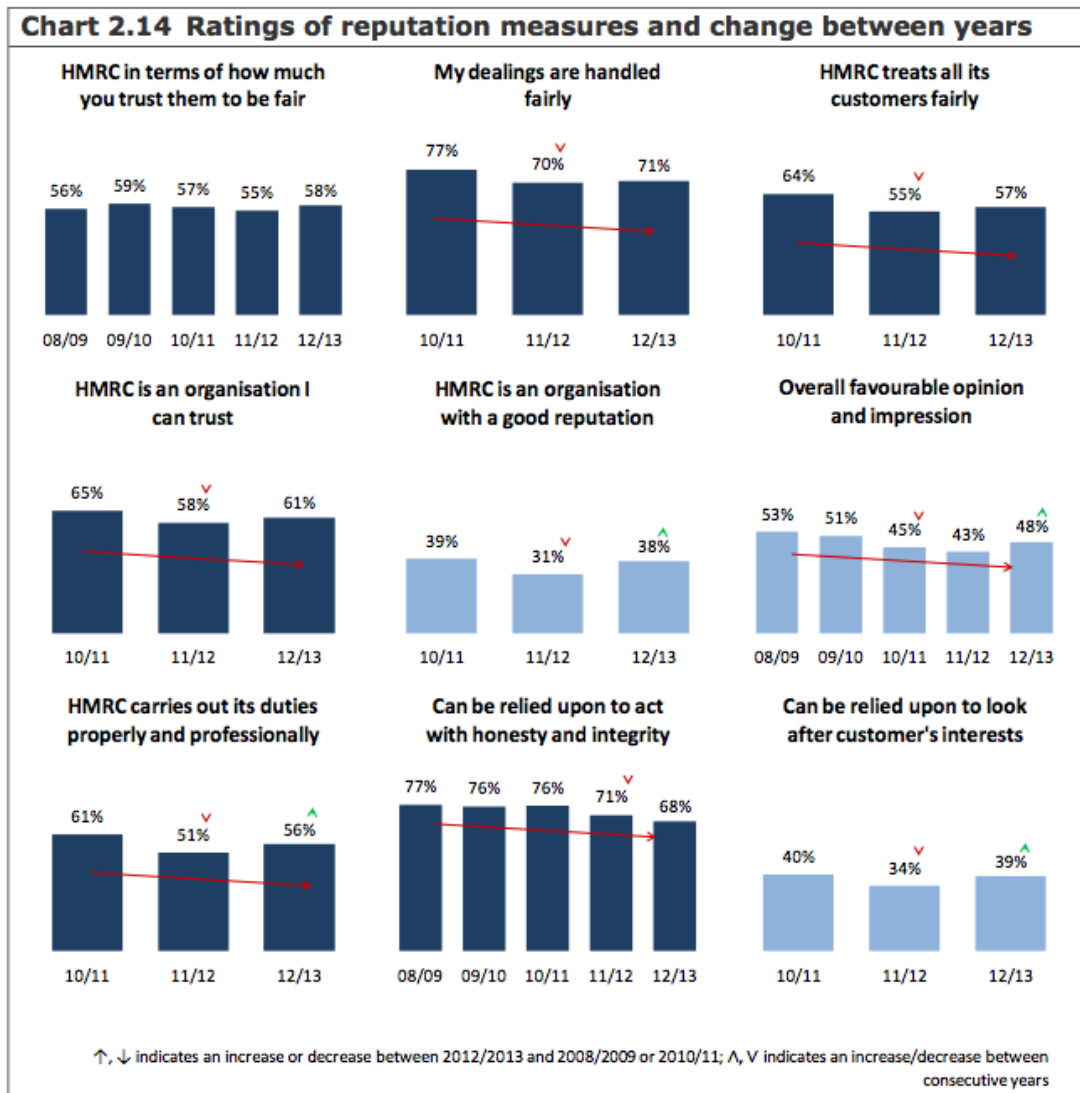
This does, however, ignore the impact of cuts on the tax gap which this report suggests are substantially more significant than HMRC believe them to be simply because it massively underestimates that tax gap. It obviously also ignores the human costs on HMRC's employees and the potential yield that could be achieved were there adequate resources to address the different components of the tax gap properly.

As importantly, HMRC also assumes that the trend is sustainable. This is almost certainly a mistaken assumption, firstly for the reasons of poor morale already noted; secondly because the pressure to achieve these results has been so great that for the

first time the members of the ARC, the union that represents senior staff at HMRC, went on strike in 2014, and thirdly because the quality of service supplied by HMRC has fallen dramatically over recent years.

All these issues are important. When morale at HMRC is low enough for its entire staff to appear to be alienated from management there is something seriously wrong with the organisation and the aim of reducing the tax gap is unlikely to be achieved, but the issue of the quality of services provided does, perhaps, provide clearer indication of the impact of this crisis. The HMRC Customer Survey 2008 – 2013<sup>lxiv</sup> provides very clear evidence that over that period HMRC's so called 'customers' (most of whom intensely dislike their description as such, and would rather be called 'taxpayers' or 'tax credit claimants') have had a reducing rate of satisfaction with the service they have received. It is not possible to produce all the evidence that supports that claim here but the following figures covering the three groups of users surveyed i.e. tax agents, small and medium sized companies and individual taxpayers, provide some clear support for this claim.

Tax agents revealed the following trends with regard to reputation issues, which may be considered of particular significance for this group:

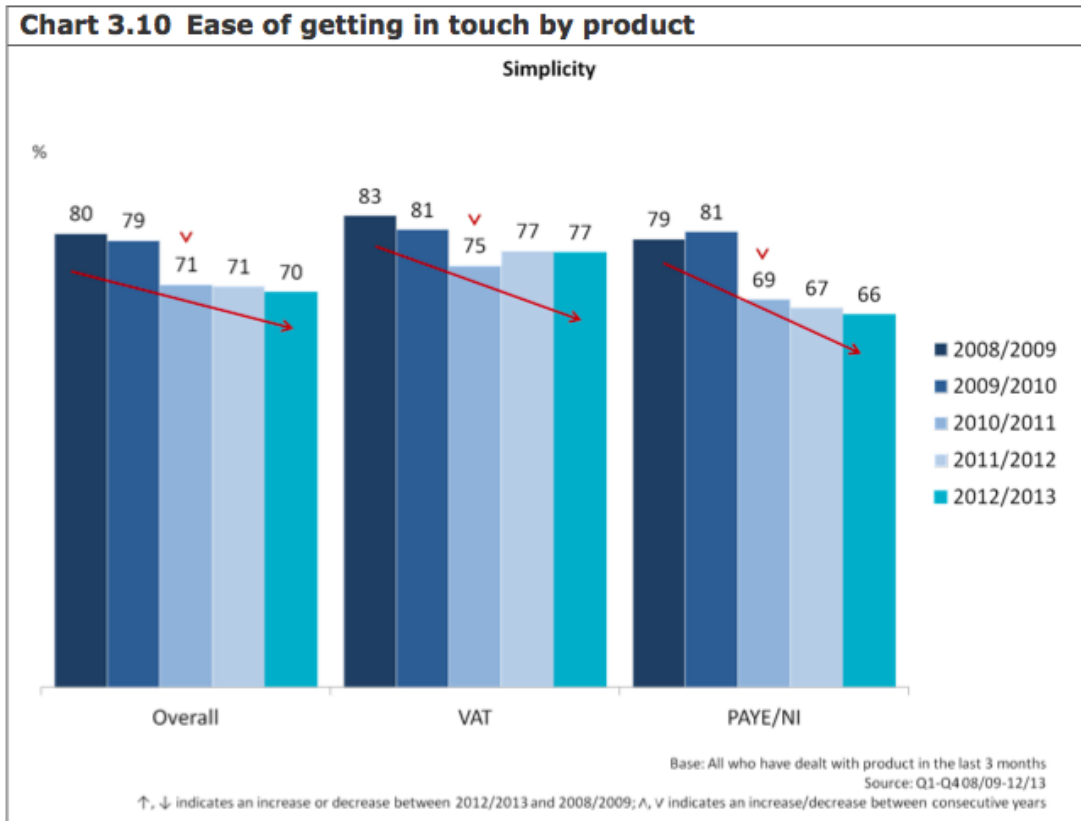


**Figure 19**  
**Source: HMRC Customer Survey 2008 – 13**

Wherever a trend is shown it is downward and in some cases it will be noted that already poor perceptions have deteriorated further.

The same is true of the following group of indicators on ease of access when appraised by small and medium sized enterprises:

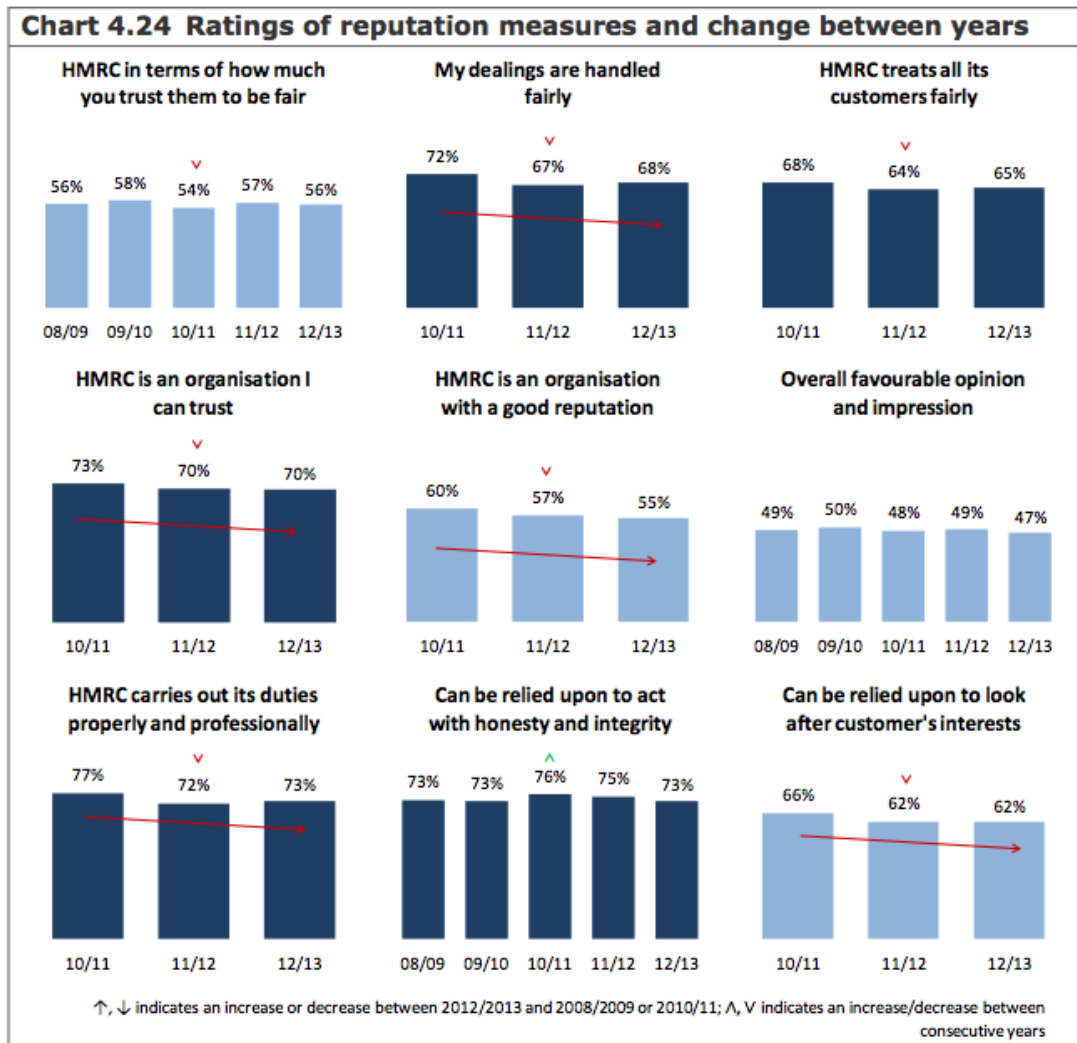




**Figure 20**  
**Source: HMRC Customer Survey 2008 – 13**

The trends in these cases are markedly downwards. This, almost certainly, is due to two factors. The first is the move to call centre-based operations across wide sectors of HMRC. The other may be the beginning of the HMRC local office closure programme noted further below.

Finally, a sample from the survey on the perception of personal taxpayers also gives clear indication that this group is also increasingly dissatisfied with HMRC's service across the same range of indicators noted for tax agents:



**Figure 21**  
**Source: HMRC Customer Survey 2008 – 13**

The signs here are also very clear: dissatisfaction with HMRC is growing steadily. Staff cuts are impacting upon perception of its services across the range of those to whom they are supplied.

It is very likely that this situation will get worse over coming years as HMRC pursues its plans to cut staff numbers further. The first reason for this is to be found in its business plan for personal tax for the period 2014-16, where the majority of the staff cuts over this period will take place. In that plan HMRC say:

*[W]e will build and test an increasingly digital service, so that most of our customers can keep up with their tax affairs and payments online. HMRC is aiming for 70 per cent of all customer contact to be handled online by 2019 — and this is not just about technology: it means large-scale changes to the way we work, streamlining our back-office processes to meet the needs of customers wanting to self-serve.*

It would be all too easy to miss the implications of this seemingly innocuous paragraph. What it actually means is that more than 5.5 million people should cease to make personal contact with HMRC over the next five years. They will, instead, be expected to handle all their relationships with the department, including all the queries they might have, through on line services. So, for example, it will generally be assumed that any of these people who have a query on their tax affairs will be able to solve it by working their way through pre-set HMRC enquiry menus without the guidance of any human being. There are three points to make as a result.

- a. First, there is no evidence that there is any desire on the part of these people to 'self serve'. If there was the market in supplying tax services in this country would not be as buoyant as it is.
- b. Second, this change in approach assumes that tax in the UK is simple enough to be reduced to some quite straightforward queries that can drive the algorithms in these enquiry systems, and there is no evidence that this is true. The reality is that the UK tax system is complex, as is widely recognised.
- c. Finally, there is an assumption that human contact can neither add value by putting people's minds at rest on tax issues nor can personal tax staff at HMRC as a result of their work help collect the right amount of tax owing by UK taxpayers by using their own ability to appraise situations and ask the right questions which the taxpayer may not, quite reasonably, be able to formulate.

The result is that the UK tax system will become increasingly remote from the UK taxpayer. This is a trend already seen in the closure by HMRC of all the UK enquiry centres that they run. That enquiry centre network, consisting of 281 offices, was closed in June 2014, putting the livelihoods of 1,300 HMRC staff at risk.

That closure process also means that the principle users of that service, many of whom are unemployed or are those on low incomes such as migrant workers, pensioners and child benefit / child tax credit claimants, many of whom will have limited internet access, are being denied the service they need.

During 2012, 2.5 million taxpayers visited HMRC enquiry centres and 340,885 made a face-to-face appointment with a member of staff in order to comply with their tax duties and receive advice on their benefit entitlement. They will now, instead, have to make telephone enquiries and in future on line enquiries.

It is, in this context, important to note that the Public Accounts Committee has been critical of telephone call handling by HMRC and set them a performance target of answering 90% of calls for 2013-14. Performance for December 2013 was 76.2%. 89.84% of calls went unanswered on the tax credit renewal date on 31 July 2013. The staff cuts in personal tax directorate, now announced, are likely to significantly increase this call failure rate.

What is apparent then is that these reforms are not about service reform: they are about service withdrawal. The risk of increased errors arising as a result is very high indeed. As the same House of Commons Committee noted in 2013<sup>lxv</sup>:

*In 2011-12, 20 million phone calls were not answered. It cost the callers £136 million while they waited to speak to an adviser. And, against its target of responding to 80% of letters within 15 days, the department managed to reply to just 66%. This is an abysmal record.*

*HMRC's new target of answering 80% of calls within five minutes is woefully inadequate and unambitious. The department should set a more demanding target in the short term and a long-term target that is much closer to the industry standard of answering 80% of calls within 20 seconds.*

Concerns about the consequences of understaffing are also expressed by staff across HMRC's operating divisions. Whilst it is true that business tax and the enforcement and compliance divisions are to suffer smaller proportionate cuts in staff over the next two years than the personal tax division, the reductions are, in both cases, significant, at more than 8% of business tax staff and over 9% of enforcement and compliance staff. These cuts run completely counter to the claim by HMRC that it is investing more in tackling tax avoidance and evasion: it is impossible to tackle either without having sufficient staff available to undertake this activity.

Anecdotal evidence on the impact of these cuts is significant, including reports from many VAT officers of the near absence of staff to undertake routine audit inspections of VAT registered traders, and the potential closure of VAT offices in large parts of the country. The effective management of such tax systems does depend upon the existence of a significant deterrence effect: the absence of audit visits by HMRC VAT staff removes any chance that this effect will have any meaning in the future. There will be an inevitable, and significant, loss of yield as a result. The fall in the VAT gap forecast in the 2014 budget<sup>lxvi</sup> looks to be decidedly wishful thinking as a consequence.

At the same time, evidence secured by Tax Research UK has shown that as resources available to HMRC reduce significantly the department has changed its attitude towards some aspects of corporation tax assessment and collection<sup>lxvii</sup>. As a consequence, whereas in the past HMRC assumed that if a company did not contact it shortly after its incorporation then it would be required to submit corporation tax returns it now assumes that a failure on the part of the company to supply information on its potential trading soon after incorporation is indication that no taxable activity is taking place and by default, as a consequence, that company is not asked to supply corporation tax returns for a period of up to five years. The result is that HMRC assume that no tax gap can arise from the unrecorded activities of such companies, but the reality is that for the very many companies that are aware of this possibility this is simply the grant of a licence to defraud the UK's tax authority. A lack of resources combined with the decision to turn a blind eye has created a situation where data is not collected to prove that there is a problem, but that is not evidence of its absence.

What all this evidence suggests is that HMRC has been run since its creation as if it is a government cost centre. The assumption has always been that it is a burden on the taxpayer whose costs must be reduced. That appears to be wholly inappropriate. HMRC is the government's main revenue generation department, and it should be seen as such. Despite that, HMRC has continually failed to work out what the potential tax take that it should collect might be, and that is a major failure on its part. As a consequence it has failed to invest in appropriate reforms and the necessary level of staffing required to collect the revenue that it is missing.

The 2010 PCS report on tax evasion highlighted these concerns, and suggested that there was a compelling case for investing more resource into HMRC rather than cutting staff. What was, at that time, a matter that appeared urgent to those involved in the front line of tax collection now appears to be critical.

Staff cuts have now been pursued to the point that frontline staff addressing critical issues with direct impact upon tax collection have been made redundant or not replaced when they leave HMRC's service. In addition, the pace of staff cuts, which slowed from 2011 to 2013, has now increased dramatically and the impact for very many people who have to, by law, engage with HMRC will be significant. Indeed, for many taxpayers, the chance of personal service has simply disappeared, either because of the closure of Enquiry Centres or because their questions will in future be dealt with online without any real prospect of human intervention. At the same time, the number of staff available to undertake tax investigations and enquiries is falling steadily.

The apparent tax yield per member of staff has, of course, risen as a result of staff cuts since the time that HMRC was created. That was almost inevitable given the scale of the cuts in staffing that have occurred. What is, however, noticeable is that HMRC's performance in terms of overall tax collection, when adjusted for changes in GDP and inflation, is not significant. The inevitable conclusion is that there has been little, if any, real impact on the tax gap despite the claims made by HMRC in recent years.

It is timely to repeat the call for more resources. The case for investing in more staff in HMRC is compelling. The likely yield from further cuts in staffing is very small: even HMRC's business plan makes that clear. The total potential savings from job and cost cutting to 2016 are not expected to be more than £300 million a year. In contrast, even HMRC admit in their business plan that the yield on investment in staff is at least 7 to 1: ARC as noted below, think it much higher. The total tax evasion gap that this report suggests exists is over £80 billion a year. When personal and corporate tax avoidance is taken into account the total tax gap, without considering that, is in excess of £100 billion.

No one is suggesting that this tax gap can be completely closed as a result of this increased investment. Tax crime will always exist and it would appear that whatever tax rate is offered to business and its advisers they will persist in trying to find ways of avoiding their obligations. That said that the absence of sufficient staff an HMRC,

which is going to become readily apparent to a great many taxpayers with the closure of local offices, can only exacerbate this trend.

It is also important to note that there is compelling evidence from the USA, noted by Tax Research UK in its report on the UK shadow economy published in 2014, that the presence of deterrence affects has an impact on the rate of tax declaration made by people who would otherwise be inclined to hide their liabilities from their tax authority.

HMRC already admit that on average over five years more than 40% of all self-employed people's tax returns under declare their tax liabilities<sup>lxviii</sup>. In the absence of contact, checking, and the presence of audit staff working in local communities it is inevitable that this rate of default will increase.

ARC who represent 2,600 senior staff at HMRC – has estimated that an investment of just £312million in HMRC will deliver additional revenues to the UK Exchequer of more than £8.26 billion – a return on investment of more than 26 to 1<sup>lxix</sup>. If such a yield is possible on so limited an investment then it has to be worth spending a considerably greater sum when the losses that HMRC is facing are so enormous.

How big does that sum need to be? This is, of course, a matter of judgement and depends, as the next chapter of this report suggests, upon the political will of those allocating resources to HMRC. It is, however, suggested here that the sum required is a great deal more than the £312 million that ARC suggest appropriate – which represents about 8.5% of the current HMRC budget and would deliver about 1,300 additional jobs.

That investment must be made in a number of ways. Firstly, for all the reasons already noted, the closure of the Enquiry Centres should be reversed: these are an essential front line HMRC service to the community. .

Secondly, the job cuts planned for the next two or more years should be cancelled. When HMRC is already failing to meet its delivery targets to taxpayers it is absurd to cut resources still further on the assumption that taxpayers can 'self serve' themselves when it comes to tax when there is no evidence that this is the case.

Over 8,000 jobs would be secured as a result, most in personal tax. Instead of cuts additional staff are in fact needed to ensure existing targets are met. It is likely that several thousand more personnel are required if HMRC is to provide an acceptable standard of service to meet the standard demanded by, for example, the Public Accounts Committee.

Thirdly, saving jobs is not enough; the potential yield from investment in tackling the tax gap is high. As a consequence areas where it is clear that additional staff will make a significant difference to the effectiveness of HMRC in collecting tax revenues are suggested next.

The first such area is in debt collection, where it is clear that the public have considerable concern about HMRC's plans to share data with private sector debt

collection agencies. This programme of outsourcing debt collection should be cancelled and all debt collection should be brought in house. There has been a long running problem in collecting debt owing to HMRC because of significant under resourcing in this area. This has been the subject of significant criticism by the House of Commons Public Accounts Committee.

Significant recruitment is required in this area and extra investment in resources is necessary. At any time between approximately £15 billion - £20 billion is owing to HMRC, the timely recovery of this sum would reduce the size of the national debt, so effective action on this issue is essential.

Secondly, as many PCS members know, HMRC is too readily inclined to make tax repayments to taxpayers without properly investigating the validity of their claim to receive them. This makes no sense at all when the subsequent prospect of recovering that tax repayment, if it is shown not to be due, is limited. As such it is essential the additional staff be allocated to checking all repayment claims by HMRC.

Thirdly, it is vital that HMRC staff should remain at work in the local communities that they serve across the UK. Tax represents a key component in the relationship between people and their government (that ownership of HMRC by the people of this country being far too easily forgotten). In that case a visible HMRC presence in towns and cities across the country is essential. This will be completely lost if HMRC's activities are centralised into just a few regional offices within the UK, as is currently planned.

In that case it is essential that these local offices be appropriately staffed. Many PCS staff are, for example, deeply concerned about cuts in the number of VAT offices available to undertake local audits of traders books and records when this is an essential control in ensuring that tax is properly paid and that the shadow economy is kept under control. This presence has to be maintained and reinforced if the tax gap is to be reduced.

That same process of adequately staffing local offices would also ensure that key risk areas are properly tackled by HMRC. Over the last few years HMRC has made much of the task forces that it has created to tackle tax evasion but it has always been hard to explain why it has been, for example, worth targeting taxi drivers in Yorkshire whilst ignoring taxi drivers in the rest of the country. Task forces have undoubtedly raised revenue, but they represent gestures instead of concerted and specific continuing actions to tackle the tax gap. If such issues need addressing they need to be addressed on a concerted basis, not in the token gesture way that task force activity appears to represent, and that will also require investment, albeit with an almost guaranteed return.

In combination these investments will require more spending than the £300 million ARC think is necessary at present, which they think will deliver extra revenue in excess of £8 billion a year with a yield of £26 for every £1 invested. It is, of course, unlikely that the noted rate of return could be maintained on all additional investment; that would be unrealistic. But, even taking this into account it is likely that if instead of

imposing cuts on HMRC an additional £1 billion over and above that indicated to be appropriate by ARC was to be spent, bringing total annual spending to about £5 billion, then the potential total yield to HMRC from tackling both tax evasion and tax avoidance would increase significantly and might easily exceed £20 billion per annum, including the sum already estimated by ARC. In that case the rate of return on the additional £1 billion proposed would still be about £12 for every £1 invested. It is hard to believe that almost any organisation, anywhere, would refuse to consider such a yield. It is also worth noting that costs on this basis would be still be somewhat lower for HMRC as a whole than they were, after inflation is taken into account, when it was first created.

The key to achieving this goal is, however, the existence of political will to tackle this issue, and it is to this matter that this report turns next.



## 18. The crisis of political will

It is a fact now universally acknowledged that there is a tax gap in the UK. Whilst the term would hardly have been recognised a decade ago it is now officially the number one priority of our tax authority to close this gap<sup>lxx</sup>. Official rhetoric and political will are, however, not the same thing and whatever HMRC's stated objectives might be the current structure of the organisation means that it is acutely aware of the political preferences of those who provide its funding.

There has, unfortunately, been a strong anti-tax rhetoric prevalent in UK politics for some time. Take, for example, this quote from a speech by Chancellor of the Exchequer George Osborne to the annual dinner of the Federation of Small Businesses in 2012<sup>lxxi</sup>:

*[W]e are steadily restoring Britain's competitiveness, as tax rates come down and the regulatory burden is pushed back. This year, we re-entered the top ten list of the best places in the world to do business.*

The implication is very clear and is repeated time after time by government ministers, backbenchers and, in fairness, some members of the Opposition. What is being said is that tax, and its associated regulation, is an obstacle to the effectiveness of the operation of British business. What is again, very clearly implied, is that the fewer such obstacles that are placed in the way of business the better off the country will be.

This is an inappropriate assumption. The importance of business to the UK economy is, of course, recognised but the proper and consistent application of regulations in accordance with the law is something quite different from imposing "unnecessary burdens" upon business. It is, instead, the creation of a level playing field on which all businesses can operate where no preference is given to those who cheat over those who do not.

It is an unfortunate fact that the current system of regulation of tax and companies in the UK does not create this level playing field that is an essential foundation for the creation of prosperity within the UK economy. So, for example, Tax Research UK has already revealed during the course of 2014 that<sup>lxxii</sup>:

- a. More than 300,000 companies are, on average, struck off the Register of Companies each year and few of these have submitted the accounts that are due to be filed by them before being struck off. The number of investigations by either Companies House or HMRC into these companies that are struck off appears to be very low;
- b. More than 400,000 companies a year do, on average, fail to file annual return forms with the Registrar of Companies, including those struck off;

- c. 340,000 sets of accounts due to the Registrar of Companies were probably not filed in 2012-13, including those due by companies struck off;
- d. HMRC currently fail to request corporation tax returns from at least 650,000 companies each year that might be trading. Their checking on those companies that say they are not trading appears to be minimal;
- e. Of the companies asked to submit corporation tax returns in 2011/12 more than 270,000 did not do so. Whilst these companies were penalised for not doing so almost none of those fines were paid.

This is a record of failure as a result of HMRC and Companies House having too few resources as a result of a lack of political will to provide them.

This evidence suggests that time and again an assumption is made that a company is not trading, and therefore need not comply with its obligations, when no enquiry has even been made to support that suggestion. This failure appears to be driven by the apparent overwhelming desire to reduce the 'burdens of regulation' on business. The consequence of this approach is that is now acknowledged by HMRC that more than 10% of the VAT that should be paid in this country each year is not collected by it (with the EU suggesting that this figure is somewhat higher) and yet the necessary investment to discover which companies are responsible for this omission is not being made.

This omission is the consequence of a decision that is itself, inevitably, politically motivated. It would seem that there is a collective fear of the UK small business community amongst politicians who seem to believe that any suggestion that they might make that implies some small businesses are not making payment of the tax that they owe will be taken as a slight upon the whole sector.

The clear implication of the work undertaken on the tax gap by both HMRC and Tax Research UK is that the majority of small businesses in the UK honestly pay all the taxes that are owed by them in an appropriate and timely fashion but that there are some who are inclined to dishonesty. They make only partial disclosure of their tax liabilities and whilst it is only a minority (but in tax lost terms, a significant one) some evade their obligations to pay altogether.

It is an obvious statement of fact that those businesses that do not make payment of all or part of the tax that they owe do as a consequence obtain an unfair economic advantage over those honest businesses that make payment of all their tax liabilities.

That is because those dishonest businesses can firstly charge less to their customers (a fact that is widely known in some business sectors where VAT evasion appears commonplace) and secondly because, by not paying tax, they can actually invest more in their businesses than those companies that do make the payments demanded of them and therefore have, as a consequence, less capital available for investment purposes.

It is a perverse situation where an apparent fear of upsetting the small business community on the part of politicians has led to a situation where the viability of many small businesses in the UK is now compromised by the existence of a substantial shadow economy which HMRC do not have the resources to challenge. It is for this reason that a change in the rhetoric on both tax avoidance and tax evasion in the UK is essential.

There have only ever been, all too brief, hints of this possibility. So, for example, David Cameron said in January 2013 that<sup>lxxiii</sup>:

*We do need a debate in this country, not only what is against the law - that's tax evasion, that is against the law, that's illegal and if you do that the Inland Revenue will come down on you like a tonne of bricks - but what is unacceptable in terms of really aggressive tax avoidance.*

*Because some people say to me, 'Well, it's all within the law; you're obeying the law, it's okay'. Well, actually there are lots of things that are within the law [that] we don't do because actually we have some moral scruples about them and I think we need this debate about tax too.*

*I'm not asking people to pay massive rates of tax. We've got a low top rate of income tax now; we've got a low rate of corporation tax now; we are a fair tax country. But I think it's fair then to say to business, you know, we're playing fair by you; you've got to play fair by us.*

These comments, made at the very outset of the UK's G8 chairmanship, have not resulted in any effective delivery by the Government on the expectations that were raised at that time. Instead what has happened instead is that, as The Public Accounts Committee, chaired by Margaret Hodge has said<sup>lxxiv</sup>:

*[HMRC] is too complacent about the service it provides to customers*

It has also noted that:

*There is currently a complete lack of transparency about why multinationals pay so little corporation tax. Global companies structure their companies in ways that are impenetrable to the public and HMRC disclose very little about their approach to collecting tax from them. This undermines public confidence in the tax system and in HMRC which could have a negative impact for wider tax compliance.*

David Cameron's talk is very hollow indeed, and that has to change. What has to happen is that politicians in the UK now need to talk about tax justice, and like Margaret Hodge, have to mean it. When that happens the resources to deliver on the promises that politicians make will be delivered to HMRC. Until then it is unsurprising that Margaret Hodge has become a champion for many and even Tax Personality of the Year for 2014<sup>lxxv</sup>. It is time for other politicians to follow her lead.



## 19. The need for new legislation

The additional resources that are needed and the political will required to beat tax evasion noted in the previous two chapters are important, but they may not be enough to beat tax evasion by themselves. In some cases additional legislative resources are needed to assist HMRC beat tax evasion.

The art of a good tax system is to encourage as many people as possible to voluntarily declare their income for tax purposes without any intervention on the part of a tax authority being needed. Research in the USA<sup>lxxxvi</sup> has shown that there is the greatest chance of this happening if a taxpayer knows that the tax authorities are likely to have knowledge of the income stream that they should be declaring. So, for example, income taxed under PAYE is almost invariably declared on tax returns but that from self-employment is subject to a much more significant failure rate.

The aim of legislative reform in this case is, therefore, to encourage all taxpayers to think that the chance of their income being known to HMRC is as high as possible. This means that the recommendations made here are for measures to improve the information available to tax authorities.

As such the first recommendation made here repeats that made by Tax Research UK in its earlier report on the UK shadow economy in which it said<sup>lxxxvii</sup>:

*Banks and other financial services providers (including accountants and lawyers) who have a duty in money laundering law to identify the ownership of the companies for whom they act, should be required to report to HMRC and Companies House annually the identity of all the companies for whom they act that have bank accounts or other indications of trade, with bank account numbers being supplied.*

The advantage of this should be obvious. This disclosure would make it immediately apparent to HM Revenue & Customs which companies are likely to be trading in the UK and, as a result, which companies must be required to submit corporation tax returns.

There will, of course, be false negative reports in the case of those companies banking offshore, but the fact that the system may not be perfect does not mean it should not be introduced. It is vital that information on the companies likely to be trading in the UK is available to HMRC.

It is also very important to note that this exchange of information is something for which there is now in existence a very clear precedent, and that it will have almost no cost to implement. In both cases this is because of the change in approach made in the last few years towards what is called automatic information exchange between the UK and other major countries and tax havens.

Under these new arrangements, which have, in no small part, become the international norm, banks in tax havens (and in the UK) are required to hold information on who really owns the companies to which they provide services and to notify their central tax authority if that owner lives in another country. That central tax authority is then in turn required to advise the other country in question of the existence of that account arrangement so that they can use that information as an opportunity to charge tax, if they think it appropriate.

Since all these arrangements are reciprocal and now exist not only between the UK and tax havens but between the UK and most EU member states as well as with the USA and other G7 member countries, all the data that is required to make this information available at a domestic level to HMRC must already exist in UK banks. It therefore follows that the cost of implementing the domestic disclosure regime recommended will be minimal. Why it has not been proposed for domestic use before now is hard to understand.

As a result of this information being available further legislative changes would then be required:

*HMRC should be legally required to demand a corporation tax return from all companies if they have been advised that it has a bank account.*

In other words, the discretion that HMRC currently has to **not** demand corporation tax returns should be removed in these cases.

That then leads to the need for a further power:

*HMRC should be given powers to approach banks and other financial service providers known to have had contact with a company if that company does not submit a corporation tax return within three months of the time allowed by law, to require the provision of information, such as bank statements. This would let HMRC prepare estimated tax demands to be paid by the company in the absence of accounts and corporation tax returns.*

It is unacceptable that banking secrecy should be used to prevent proper tax assessments being raised on UK companies. A long campaign has been fought, and is now being won, to ensure that data is available on the companies owned and run by UK resident people in tax havens. It would be absurd if more data were available in those cases in future than might be readily available to HMRC in the case of UK registered companies. This proposal addresses that risk.

That though does not overcome the obstacle that the money to pay tax could have been stripped from a company by its directors leaving it unable to pay its bill. Power must be taken to ensure that the tax is paid nonetheless:

*The tax liabilities of companies who have failed to submit tax returns to HMRC should be the personal liabilities of the directors of the company and all its owners*

*who have more than 25 per cent of the share capital as well as the company itself. In this way the limited liability of companies would not permit deliberate tax abuse as it does at present because those responsible for that abuse would become personally liable to make payment of any sums they have defrauded.*

Since banks must hold data on whose these directors and owners really are, under money laundering regulations, power should be made available to ensure that information on their identity can be passed by them to HMRC in these cases to ensure that tax is paid.

The problem of Companies House striking off companies before they can be pursued to pay their tax bills has also to be tackled. It should be required that the data supplied by banks and other financial services providers on which companies have bank accounts also be supplied to Companies House and that by law:

*The proposed public register of the beneficial ownership of companies should be checked by Companies House with the data supplied to it by banks and other financial services providers to ensure that accurate information is published on that register. The annual return fee for companies (currently £13 a year) should be increased to cover the costs of checking and enforcing this disclosure. Increasing this fee to £30 a year would increase the resources available to Companies House by almost 60% but also make sure it could do its job effectively, and help it to beat fraudulent use of companies in the UK.*

As a result of the supply of this data the following should also be enacted:

*Companies House should not be allowed to strike off a company until that company has supplied accounts covering all its periods of trading;*

*HMRC should be required to object to the striking off of any company whilst tax liabilities owing by it remain outstanding;*

*HMRC and Companies House should be provided with the resources they need, including increased staffing, to enforce these laws since the cost of enforcement will be vastly less than the potential sums raised.*

Taken together, these powers to demand data from banks to verify the identity of companies trading in the UK economy, and to require that data be demanded from those banks and other service providers when the companies themselves fail to supply it coupled with directors and shareholders being made personally liable in the event of their failure to do so, should substantially increase the deterrent effects available within the UK for those considering using companies to evade tax.

This, though, does not solve the problem of tax evasion in some other areas. For example, recent and welcome measures for improved information exchange with the UK's tax havens and the endorsement of an enhanced European Union Savings Tax Directive within Europe have created the prospect of enhanced measures to identify offshore tax evasion being available in the near future.

What is, however, vital is that HMRC be given the resources needed to process and use the data to be supplied under the new arrangements. This is more important than securing additional legislation to tackle offshore at present. Data without the resources being available to use it is useless. This, then, only adds to the case for enhanced investment in HMRC.

In addition, with regard to trading by the self employed, including the millions of UK landlords, there is very clearly a need for a registration scheme to replicate the data provision arrangements suggested above for companies where banks must be required to automatically supply information on those that they maintain bank accounts for. All self employed people and landlords are at present required to notify HMRC of their having commenced trading within three months of their having done so, but of course many do not. However, with only a little legislation a method for ensuring information on potential traders who have not registered could be made available to HMRC by the UK's banks.

That would also mean that in every case where a person advises that they have self-employed or rental income HMRC should be required to issue the taxpayer in question with a unique tax reference number (UTR). This is usually done now but in some cases may not be: some taxpayers manage such income solely through their PAYE reference. If this were done then any taxpayer with self employed or rental income should be legally required to advise any bank managing funds in their behalf of that fact. This, it should be stressed, would not only cover banks, but also those processing credit card data and organisations such as PayPal. This would then create the possibility of those banks and other organisations being required to declare in turn to HMRC, at least once a year, the names and addresses of all those people for whom they manage funds, with the UTR of which they have been advised also being disclosed by them as part of that process. In this way the scheme for companies is replicated, but that is insufficient for the self-employed. Banks and other payment service providers should also be required to provide an annual declaration to HMRC of those persons who they think they may be handing payments from the proceeds of trade for whether or not those persons have advised a UTR and the fact they are self-employed to their bank, or not. This is not an especially hard thing for a bank to identify. Employees tend to receive payments at regular intervals of fairly regular amounts. So do those in receipt of benefits. But the self-employed have erratic bank lodgments.

Of course such a procedure is not guaranteed to deliver perfect data to HMRC on those who are self employed, or not. It is instead intended to create data, relatively easily prepared and supplied, to enable a deterrence programme to be put in place by HMRC to reduce the temptation to people to not declare their income. This would, of course, require additional HMRC resources, but the tax gap will never be closed without them. It is deterrence and investigation that minimises tax gaps: the two must run hand in hand.

When it comes to other areas of the tax gap, some, such as the proceeds of crime, may well be best covered by the above disclosure regimes. Others, such as capital gains losses may also be caught by bank disclosure requirements but with regard to



most of these areas, more resources for HMRC are the answer to closing the tax gap, as is the redesign of inheritance tax to make arrangements with regard to that tax considerably harder to hide. That redesign is beyond the scope of this report. Until it happens enhanced resourcing is the way to locate more inheritance tax that is due.

In all cases though the message is the same: data plus resources increase tax yield. More resources within the existing system of taxation will undoubtedly increase yield, for example by increasing the number of audits undertaken. But additional data can considerably enhance the effectiveness of such arrangements. In that case combining the two makes perfect sense if the tax gap is to be beaten.

## 20. About the author

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Richard Murphy (56) is a chartered accountant and economist. A graduate in economics and accountancy from Southampton University he was articled to Peat Marwick Mitchell & Co in London. He subsequently founded a firm of chartered accountants in London. In parallel with his practice career Richard was chairman, chief executive or finance director of more than ten SMEs.

Since 2003 Richard has been increasingly involved in economic and taxation policy issues. He was a founder of the Tax Justice Network and is currently director of Tax Research LLP. He also runs an accountancy practice.

Richard Murphy has been responsible for introducing many new issues into debate on tax policy. In particular he created the entirely new accounting concept of country-by-country reporting that has now been partially adopted by the European Union and will be for international taxation by Organisation for Economic Co-operation and Development, the latter at the behest of the G8 and G20.

Richard is also widely considered to have helped create the UK debate on the tax gap which began with the publication in 2008 of his report entitled 'The Missing Billions' by the TUC. Richard researched the current EU estimate of the European tax gap.

As principal researcher of the Tax Justice Network from its inception until 2009 Richard helped put the tax haven issue on the international agenda. He created the Financial Secrecy Index for that organisation and in the process defined the term 'secrecy jurisdiction', which is the main technical term now used to describe what are colloquially known as tax havens.

Richard has been a visiting fellow at Portsmouth University Business School, the Centre for Global Political Economy at the University of Sussex and at the Tax Research Institute, University of Nottingham.

He is a co-author of 'Tax Havens: How Globalization Really Works', Cornell University Press, 2009 and author of 'The Courageous State', Searching Finance, 2011 and 'Over Here and Under Taxed', Vintage Books, 2013.

In October 2012 the Association of International Accountants gave Richard their award for an Outstanding Contribution to the Accountancy Profession.

In December 2013 Richard was ranked as the seventh most influential person in international taxation in International Tax Review's Global Tax 50 of the most significant participants in worldwide tax.

## 21. Endnotes

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<sup>ii</sup>

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<sup>iii</sup> See notes and references to amendments above

<sup>iv</sup> [http://ec.europa.eu/europe2020/pdf/themes/07\\_shadow\\_economy.pdf](http://ec.europa.eu/europe2020/pdf/themes/07_shadow_economy.pdf)

<sup>v</sup> <http://www.taxresearch.org.uk/Documents/Intheshade.pdf>

<sup>vi</sup> <https://www.gov.uk/government/publications/measuring-tax-gaps>

<sup>vii</sup> [http://ec.europa.eu/taxation\\_customs/resources/documents/common/publications/studies/vat-gap.pdf](http://ec.europa.eu/taxation_customs/resources/documents/common/publications/studies/vat-gap.pdf)

<sup>viii</sup> <http://www.iea.org.uk/publications/research/the-shadow-economy> page 54

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<sup>x</sup> <http://www.hmrc.gov.uk/statistics/tax-gaps/mtg-2013.pdf>

<sup>xi</sup> See [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2404259](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2404259) published 2014.

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<sup>xii</sup> See [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2404259](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2404259) published 2014.

<sup>xiii</sup> <http://www.publications.parliament.uk/pa/cm201314/cmhansrd/cm140407/text/140407w0001.htm>

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<sup>xv</sup> <http://www.publications.parliament.uk/pa/cm201314/cmselect/cmcomloc/50/5004.htm>

<sup>xvi</sup> <http://www.rightmove.co.uk/commercial-property-to-let.html> accessed 15-5-14

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<sup>xviii</sup> <http://www.thisismoney.co.uk/money/mortgageshome/article-2579900/Buy-let-landlords-static-yields-second-half-2013.html>

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<sup>xx</sup> <http://www.hmrc.gov.uk/statistics/wealth/table13-1.pdf>

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<sup>xxiii</sup> <http://www.hmrc.gov.uk/statistics/capital-gains-tax/table14-1.pdf>

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<sup>xxv</sup> <http://www.londonstockexchange.com/statistics/historic/main-market/apr-14.pdf>

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<sup>xxviii</sup> <http://www.publications.parliament.uk/pa/cm201314/cmselect/cmcomloc/50/5004.htm>

<sup>xxix</sup> <https://www.gov.uk/government/publications/inheritance-tax-statistics-2010-to-2011> and

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<sup>xxxii</sup> [http://www.ons.gov.uk/ons/dcp171776\\_362809.pdf](http://www.ons.gov.uk/ons/dcp171776_362809.pdf)

<sup>xxxiii</sup> <http://www.hmrc.gov.uk/statistics/wealth/table13-1.pdf>

<sup>xxxiv</sup> <http://www.hmrc.gov.uk/statistics/expenditures/table1-5.pdf>

<sup>xxxv</sup> [http://www.ons.gov.uk/ons/dcp171776\\_362809.pdf](http://www.ons.gov.uk/ons/dcp171776_362809.pdf) page 14

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- <sup>ii</sup> Companies house website 29 July 2014  
<http://www.companieshouse.gov.uk/about/statisticsAndSurveys.shtml>
- <sup>iii</sup> [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/323126/2014\\_AUKPTS\\_cir\\_c.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/323126/2014_AUKPTS_cir_c.pdf) Table 3 in particular
- <sup>iiii</sup> <http://www.ft.com/cms/s/0/6cb11114-18aa-11e4-a51a-00144feabdc0.html?siteedition=uk#ixzz397vuOUvV>
- <sup>liv</sup> <http://www.johndwood.co.uk/r/surveyors/pdfs/sales/The-Prime-Central-London-Graph-and-Index-for-Large-Properties.pdf>
- <sup>lv</sup> <http://www.johndwood.co.uk/r/surveyors/pdfs/sales/The-Prime-Central-London-Graph-and-Index-for-Large-Properties.pdf>
- <sup>lvi</sup> <http://www.nao.org.uk/wp-content/uploads/2014/07/Her-majestys-revenue-and-customs-accounts-2014.pdf> Table 17
- <sup>lvii</sup> <https://www.gov.uk/government/organisations/hm-revenue-customs/groups/hmrc-board>
- <sup>lviii</sup> Source: HMRC Business Plan 2014 - 16
- <sup>lix</sup> <http://www.accountingweb.co.uk/article/hmrc-loses-highest-number-staff-four-years/549454> and <http://www.accountancyage.com/aa/analysis/2323994/staff-morale-results-show-hmrc-ship-is-steadying> and <http://www.heraldsotland.com/politics/political-news/staff-morale-at-hmrc-so-poor-it-needs-its-own-truth-and-reconciliation-body.18086507>
- <sup>lx</sup> <http://www.ft.com/cms/s/0/62d8d6b2-42ff-11e3-8350-00144feabdc0.html#axzz32khJfLmP>
- <sup>lxi</sup> HMRC Personal Tax Business Plan 2014-16, page 10
- <sup>lxii</sup> Source  
[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/304367/20140410\\_HMRC\\_ReceiptsBulletin\\_Mar\\_v0.1.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/304367/20140410_HMRC_ReceiptsBulletin_Mar_v0.1.pdf)
- <sup>lxiii</sup> <https://www.gov.uk/government/publications/gdp-deflators-at-market-prices-and-money-gdp-march-2013>
- <sup>lxiv</sup> <http://www.hmrc.gov.uk/research/report272.pdf>
- <sup>lxv</sup> <http://www.parliament.uk/business/committees/committees-a-z/commons-select/public-accounts-committee/news/hmrc-customer-service/>
- <sup>lxvi</sup> [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/293759/37630\\_Budget\\_2014\\_Web\\_Accessible.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/293759/37630_Budget_2014_Web_Accessible.pdf) page 107
- <sup>lxvii</sup> <http://www.taxresearch.org.uk/Blog/2014/05/23/hmrc-really-do-not-want-to-collect-corporation-tax/>
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lxxvi Data reported here <http://www.bus.umich.edu/otpr/DITN%20091308.pdf>

lxxvii <http://www.taxresearch.org.uk/Documents/Intheshade.pdf>