

Funding the Future

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The [Guardian includes the following story](#) this morning:

The tax authorities are investigating [Lloyds Banking Group](#) after evidence emerged that the bank, kept alive by £17bn of taxpayers' money, encourages wealthy customers to avoid tax by channelling money through China.

In an undercover film obtained by Panorama, a banker at the Jersey branch of Lloyds TSB Offshore is shown telling a "customer" working for BBC Panorama how income is paid to clients via Hong Kong to "get around" the European Savings Tax Directive. He also admitted that he and his colleagues spent time "brainstorming" [tax avoidance](#) schemes.

The "customer" made it clear that he did not want to pay tax but when he asked about reporting to Revenue & Customs (HMRC), the banker said: "It's of no interest to us whether you tell the taxman or not. It is not our business."

Dave Hartnett, permanent secretary at HMRC, said: "That's an incredibly irresponsible thing for him to have said. We might interpret that as meaning he was so reckless that he was giving his client a signal that he didn't have to make a return of income. Were we to find that happening, we would take a very dim view of it."

The affair is not just embarrassing for Lloyds and its chief executive, Eric Daniels, who is under pressure after the bank's disastrous takeover of HBOS. At the last G20 meeting, Gordon Brown announced: "There will be an end to tax havens." But not, it seems, for banks funded by UK taxpayers offering tax avoidance schemes.

Other publicly funded banks are also thriving in the Channel Island tax havens. Northern Rock — bailed out by the taxpayer with £27bn of taxpayers' money — has an offshore subsidiary in Guernsey that has seen deposits almost double to £2bn since the bank was nationalised.

These savings should be covered by the European Savings Tax Directive, which was introduced to prevent tax avoidance and evasion. But a banker from Northern Rock Guernsey told Panorama's undercover customer that he could avoid the EU tax by

opening an account in the name of a non-trading company. The Northern Rock banker said they would not tell the taxman but said that the customer should.

The Lloyds banker on Jersey, by contrast, said it was up to the customer whether he wanted to inform the taxman and that it was not the bank's business. The man from Lloyds told the Panorama customer about the High Income Fund: "The income made from the fund would go to Hong Kong and then Hong Kong would send it out to all the clients, and that's how we get round it

"It's only a paper transaction, oh very much so — But because we pay the dividend from outside the EU, it falls outside the scope [of the European Savings Tax Directive]."

The Panorama customer said: "It is the weirdest arrangement, isn't it?" To which the banker replied: "I know, just to get round the EU tax basically."

The Lloyds banker went on to explain that when faced with taxes: "We'll start brainstorming, thinking how we can get round this one?"

HMRC's Hartnett said: "Brainstorming in the context you've just used suggests to me some complex arrangement for tax avoidance. Or, worse still, potentially facilitating tax evasion — We simply cannot tolerate that sort of behaviour."

Lloyds has another 10 funds that use the same paying agent in Hong Kong as the High Income Fund. Lloyds said the banker in question — who told the Panorama customer that he had just bought a Porsche having sold his Lotus — was a junior member of staff.

Lloyds has 130 companies in tax havens, despite the prime minister's proclamation at the last G20 in London that these would be curtailed. Some of the transactions carried out by these offshore subsidiaries appear to have little or no economic substance. For example, in December 2007 Lloyds in the UK lent £670m to a subsidiary in the British Virgin Islands (BVI), which invested in a second subsidiary in the Caymans, which loaned the money back to the outfit in the BVI, which loaned it back to Lloyds in the UK.

An offshore tax expert, Richard Murphy, said: "This is a completely useless thing for a bank to do. The only people to benefit are the bank, which defers a payment to the Treasury — the taxpayer, which is funding this bank at the moment."

A Lloyds spokesman said it was common practice for organisations with an international presence to have offshore subsidiaries, adding: "Lloyds Banking Group takes its obligations seriously and meets the requirements of each jurisdiction in which it operates."

When Panorama raised these transactions with Hartnett, he said: "We don't want people deferring tax. We want to investigate and we want to stop it." Hartnett did not know the identity of the bank or the banker before commenting.

Panorama's Banks Behaving Badly, tonight, BBC One, at 8.30pm

Disclosure: I appear in and advised on this programme and was paid by the BBC to do so.