Funding the Future

HMRC - getting the incentives all wrong on tax evasion

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Accountancy Age features an interview today with Dave Hartnett, boss of H M Revenue & Customs. TThere seem to be two key messages he is seeking to make and both fundamentally miss the point.

The first is that the Lichtenstein disclosure arrangement will yield up to £3 billion to HM Revenue and Customs, rather than the £1 billion first forecast. This is, in retrospect, unsurprising . The Lichtenstein deal is extraordinary. It offers a flat rate penalty of 10% for the disclosure of significant tax evasion. The normal penalty for evasion can be up to 100%, and simple errors made by honest traders can often carry penalties of 30% , even when voluntarily disclosed to HMRC. No wonder that Hartnett says that those coming forward are " getting a good deal on penalties." The real question is why HM Revenue and Customs did such a bad deal in the first place and why they are discriminating so heavily against those who have traded and made honest mistake.

The second claim is that the forthcoming deal with Switzerland on withholding tax will raise up to £6 billion for HM Revenue and Customs over the next four years. But in this case the question is why is the capital that underpins these tax evaded funds being ignored? If the withholding tax is to be at 35% over £4 billion of income must be involved each year to generate £1.5 million for HMRC. That implies that HMRC think there are more than £100 billion of illicitly held funds in Switzerland and yet they are doing nothing to recover the tax that should've been paid on those funds in the first place.

How much are we talking about when it comes to the amount potentially recoverable? Let's assume that tax should have been paid at 40%. Lets assume a 50% penalty, and that is generous. And then let us go back and charge interest over a period of up to 20 years and it is very easy to imagine that the sum collectable should have been at least £100 billion. But HM Revenue and Customs has settled for £ 6 billion over the next four years.

Why has the Revenue done such lousy deals?

Could it be that there is one arrangement for rich tax evaders and another for all the rest of us?

And if so, how can that be justified?