

The tax avoidance Cameron won't tackle

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I [wrote a paper on tax havens for PCS last year](#). In it I explained the basis of most tax avoidance, which I said is based on a person or company seeking to do the following:

- * Reallocate their income to a person or entity that has a lower tax rate than the individual whose activity really generates the income. The people or entities to whom the income is diverted might be:
 - * Other members of a person's family e.g. a spouse or children;
 - * A trust for the benefit of a person's family;
 - * A company owned by the individual but taxed at lower rates than those they might enjoy;
 - * In the case of those who can do so (which is mainly those not domiciled in the UK), an offshore company or trust.
- * Change the location of a transaction. This is much easier for those not domiciled in the UK than for those who are so domiciled, but in both cases the opportunity exists if care is taken to relocate a transaction out of the UK if commercial justification for doing so can be created, with lower tax being paid in many cases as a result.
- * Change the nature of a transaction so that it appears to be something different from what it actually is. This is commonplace, the most popular tactics being to:
 - * Convert income into capital gains, which are almost always taxed at lower rates;
 - * Convert earned income into unearned income such as dividends to avoid national insurance charges that only apply to earned income;
 - * Provide benefits in kind to an employee that are taxed at less than their full value.
 - * Delay recognition of income e.g. delaying a bonus so that it is taxed later, so saving on cash flow in the meantime.
 - * Obscure the information available on a transaction, at which point tax avoidance begins to blur into tax evasion, but for which tax havens are very useful indeed.

These five ideas will be, if I'm informed correctly, reflected on Newsnight tonight. And as I explained on Radio 5 this afternoon, none of them will be touched in any significant way by Graham Aaronson's General Anti-Avoidance Principle which Cameron claims will beat tax avoidance. Which makes the claims he and Clegg have made today very hollow indeed.