

# Seven ways to tackle tax avoidance in the UK

Published: January 13, 2026, 2:12 am

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I mentioned I had written a programme for tax reform in the UK yesterday, [and set out then the principles that guided it](#). These are ways I would tackle tax avoidance at present:

### **Tackling tax avoidance**

A whole raft of reforms could be undertaken quite quickly to tackle tax avoidance activity. These include:

#### **\* *Compulsory country-by-country reporting***

The use of tax havens by multinational companies has been a major source of abuse. International banks have used these places to promote tax evasion. Other companies have undoubtedly use tax havens to avoid tax by artificially relocating profits to these places.

Every company is desperate to avoid having its use of tax havens splashed all over newspapers, and there is one way to stop this. That is to require that every company must report in its accounts its trading that takes place in every single jurisdiction in which it operates, without exception, including tax havens. That way we would know which multinational companies make most use of tax havens. We would also know what level of sales really takes place in each location in which such a comfy trades, how many people are employed there, what profits are recorded in that place and how much tax is, or is not paid in each and every country where it operates.

Only if we have this information will we be able to hold global companies to account for their local behaviour. This holding of these companies to account for what they do is at the heart of creating tax responsibility within the large business community.

There will be almost no cost to this reform: the UK has already committed to require the creation of this information for tax purposes under new regulations being promoted by the OECD. Publishing that information will, therefore, impose no significant additional burden on business.

### \* ***Extend scope of the General Anti-Abuse Rule***

The UK introduced a General Anti-Abuse Rule (GAAR) in 2013, but like many of the reforms introduced by the Coalition Government this one is a charade. It may sound like something useful, but in practice it is almost toothless.

To make the GAAR work three changes are required:

- \* It must be possible to apply it to commercial arrangements that are, nonetheless, tax abusive e.g. those of Google, Apple and other IT companies that have structured their affairs to make sure they pay little or no tax in the UK;
- \* Penalties must be payable if it is shown that an abuse has taken place, which cannot be done under the existing GAAR;
- \* The absurd requirement that permission from a panel of tax experts drawn from the private sector must be obtained before HMRC can make use of the GAAR must be removed. Our tax authority must not be subject to the control of the tax profession in the exercise of its duties.

### \* ***Review allowances and reliefs***

Tax reliefs and allowance are always introduced for a reason but we are very bad at subsequently appraising whether the objective for the relief or allowance has been fulfilled, and whether or not it has been subverted in use. Allowances and reliefs are an essential part of any tax system, but are costly in terms of the tax foregone that they represent and many do provide an opportunity for abuse.

The Office for Tax Simplification has suggested the elimination of some minor allowances and reliefs but a more fundamental review is needed, especially in the context of tax abuse. The outcome cannot be predicted, but there are many such allowances that may be largely or wholly ineffective or that are simply inappropriate in a time of austerity and for which, as a result, abolition is overdue. Subsidies for the savings of those who are already wealthy would be an obvious place to start, but other opportunities for reform are likely to exist.

### \* ***Align income tax and capital gains tax rates***

Tax avoidance happens when someone sees an opportunity to reduce their tax bill in ways not anticipated by the law. That requires two things. The first is a loophole, and the second is a reduced tax rate. Closing loopholes is obviously a way to tackle tax avoidance, but so too is closing tax rate differentials.

One obvious area where significant tax differentials are being created is between income tax and capital gains tax, where much lower rates are applied to capital gains than are to income, giving a massive incentive for people to try to misrepresent their

income as capital gains.

There is an obvious way to tackle this abuse, which was adopted by Nigel Lawson when he was Conservative Chancellor of the Exchequer, and that is to require that any taxpayer pays their capital gains tax bill at the same rate that would have been used if the gain have been subject to income tax.

These rates should now be aligned.

\* ***Abolish the domicile rule***

As recent publicity has highlighted, the UK's domicile rule is open to considerable abuse. When even the Financial Times says that the time has come to abolish this ancient, and wholly outmoded, rule then it is appropriate for any government to take action.

There are good reasons why the UK may want to provide special arrangements the people who take up short-term residency in this country so that they do not suffer undue taxation, and even double taxation, as a result. We would therefore encourage any government to offer someone coming to the UK the chance to only be taxed on their UK source income for a period of up to 5 years, but after that anyone still living in the UK should be taxed as if they are fully UK resident in exactly the same way as all other people living in this country. The adoption of such an arrangement would allow the domicile rule, and all the abuses that go with it, to be abolished, for good. It should never be the case in the future that the UK can be seen as a tax haven, which the domicile rule has permitted for some of the world's wealthiest people.

\* ***Restrict all tax reliefs to basic rate***

Tax reliefs and allowances are of use in any tax system, and could not be done away with. They have a particular role to play in encouraging some behaviour considered socially beneficial. However, some allowances and reliefs are open to abuse, and for this reason a review of all such allowances and reliefs is appropriate, as already not.

As importantly, at present almost all tax reliefs and allowances are provided to a person as if they reduce their income, and therefore have different worth depending upon who gets them. So, for example, a person paying basic rate tax gets 20% tax relief on a pension contribution they make, whereas a person paying 40% tax gets double the amount of relief for every pound that they contribute to their pension fund. This makes no sense. We should not be subsidising the tax reliefs and allowances of the better off in the UK more than we are those of the 90% of people in the UK who only pay tax at basic rate. As such, in the interests of equality, and to simplify the tax system, and in the interests of removing the incentives to abuse allowances and reliefs, all such reliefs and allowances should be provided at the basic tax rate (currently 20%), without exception, with enormous resulting saving in cost, administration, and abuse.

\* ***Introduce an Investment Income Surcharge.***

There is a massive problem with people converting earned income into unearned income for tax purposes in the UK through the sale of their labour through limited companies and the subsequent payment of dividends. We also have a tax system that is profoundly unjust by taxing unearned income at a much lower rate than earned income because national insurance is not paid on unearned income. Both issues can be tackled by re-introducing an investment income surcharge to the UK so that unearned income above a relatively modest limit is subject to a 15% extra rate of income tax as an equivalent to a national insurance charge. There would have to be an exemption for most pensioners, but not for those on very high incomes. The incentive to avoid tax by the artificial use of limited companies would be significantly reduced as a result.