

## Tackling corporate tax evasion

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*Over the past couple of days I have been exploring ways to tackle tax abuse in the UK, setting [out the objectives first](#), and then [addressing tax avoidance](#). This is the first batch of recommendations on tax evasion:*

Recent work by the Internal Revenue Service in the USA has suggested that if people know that an income stream is to be automatically reported by the person paying it to their tax authority then the chance that that the income in question will be properly declared on their tax return exceeds 90%. If, however, they know that there is no such reporting then the chance that the income will be under-declared or not declared at all exceeds 50%. This under and non-declaration is what makes up the massive loss to tax evasion in the UK which I suggest could amount to as much as £80 billion a year.

There is, I accept, no chance at all that HMRC would ever have sufficient resources to chase every tax abuser in the UK. There is, however, a real prospect of creating systems that will dramatically increase the rates of accurate declaration of income and gains upon tax returns, and that has to be the goal of any reform that seeks to tackle tax evasion. All the recommendations that follow have this goal in mind.

### **\* *Better regulate UK companies***

There are 3.4 million companies in the UK [\[i\]](#) and yet recent research has shown [\[ii\]](#) that only just over 1.5 million companies submitted tax returns in the last year for which data was available.

***Of those not doing so about 650,000 were exempted from the requirement to do so by HMRC because they said they were not trading, without evidence being provided.***

***Another near 300,000 failed to supply a corporation tax return despite being requested to do so.***

***Of the balance more than half a million were too new to be required to submit a return.***

**Of those that did submit tax returns around 400,000 said they were not trading.**

**That left just 1.1 million companies admitting that they had traded during the course of the year of which fewer than 1 million paid tax.**

**It is undeniable that there are a significant number of what are called 'dormant' companies in the UK i.e. companies that exist but do not trade, but to believe that 60% of all companies fall into this category pushes credibility to its limits. When limited companies can be created for less than £50 without a single physical signature being required, and when the instant reaction of the Registrar of Companies, who is tasked with regulating UK limited companies, to the failure of a company to submit either accounts or other regulatory documents is to simply dissolve the company without seeking to remedy the default or secure the missing information, then the point has been reached where UK limited companies can be used to undertake tax evasion with almost no risk of discovery arising.**

**This fact has been confirmed by evidence secured from Parliamentary questions that suggests that up to 99.9% of all tax penalties issued by HMRC for the late submission of corporation tax returns are not paid, implying that there is also no effective regulation of companies who do not supply information required by law to our tax authority.**

**These facts demand that there be an immediate review of the operation of company law throughout the UK, including in Scotland where there have been no prosecutions for any breach of company law since at least 2009.**

**The operations of Companies House, which is tasked with regulating companies must be subject to a major review and we believe that the following three things must happen:**

- \* All penalties for the failure to file accounts and other documentation required by law by Companies House must become the automatic personal liability of the directors of the company that has failed to comply;**
- \* Those penalties must be increased so that it becomes as worthwhile trying to collect them as it is collecting outstanding TV licence fees;**
- \* Companies House must be given the resources it needs to pursue all recalcitrant companies so that the UK has a fully effective Register of Companies that guarantees, as far as is possible, that fraudulent and tax abusive trading cannot take place through these entities. If this requires an increase in the current annual £13 fee payable by all companies, so be it: the benefit will accrue to all honest businesses in the UK.**

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## **Reform HMRC's approach to corporate taxation**

HMRC has long assumed that any company that does not submit a corporation tax return is not trading and has made no profit, which is a wholly unfounded and unjustified assumption on their part that has undoubtedly allowed very large numbers of companies to trade and never fulfill their obligations to pay corporation tax, PAYE, VAT and other sums that they might owe.

HMRC must now be mandated by law to require a corporation tax return from every company, every year, without exception, including in the period prior to it being dissolved, and should have the power to make penalties for non-submission of those Corporation tax returns the personal liabilities of the directors and major shareholders of those companies so that each and every such person can be liable for them until such time as the return is submitted and outstanding taxes paid.

### **\* *Providing the information to enforce company and corporate tax law in the UK***

As from 2016, and in no small part due to the campaigning efforts of tax justice organisations based in the UK, many of the world's tax havens will be required to automatically supply HMRC with information on those companies that they have registered in their domains that are owned by people resident in the UK, including information on the balances that those companies hold in bank accounts in tax havens.

The purpose of this disclosure is to make sure that HMRC knows which people from the UK operate companies in tax havens and how much money is involved.

The obligation to supply this information falls upon banks in those places where the companies are registered, but the UK has also accepted a reciprocal obligation to supply information in return to be supplied by UK banks on the foreign owned companies to which they supply services in this country, and has, as a result, to now supply this information to more than 90 countries in the world, including the USA. As a result UK banks must now be very sure that they know who owns and manages each and every company to which they provide banking facilities, and where those people are resident.

Despite this new requirement, which is primarily intended to beat tax haven abuse, there is no obligation on a UK bank to advise HMRC of this data for the companies to whom the supply banking facilities in the UK, which is absurd. We will in future be supplying information on who owns UK companies to other countries to help them beat tax abuse and yet will not be using the data that UK banks will have to acquire on who owns and managed UK based companies to tackle the biggest tax abuse problem that we have in the UK, which is tax evasion by small businesses registered in this country.

The solution to this obviously absurd situation is obvious and is that in future every UK bank must be required to collect personal identification information on any person who

is a director of or who owns more than 10% of any company in the UK where they supply that company with banking services, and that they must then send this information, at least annually, together with details of the company's year-end bank balance and the total sum deposited in its accounts during the course of a year, to both HMRC and Companies House.

HMRC should then be required by law use this information to ensure that a tax return is demanded from each and every company that has a bank account in the UK, without exception, and to ensure that tax is paid by them, if due.

HMRC should also be granted powers to request bank statements from any bank that supplies services to any company that is more than three months late in supplying HMRC with its tax return, and if that request has to be made then the directors of the company in question should become liable for all the tax that the company in question owes, if any.

The same information should be used by Companies House to ensure that no company can be struck off its Register of Companies until such time as all accounts that are due for a period when a bank account was in operation have been submitted to it, with personal liability falling on the directors in the event that any such obligation is not met.

In combination these proposals would guarantee that the abuse of UK limited companies should end because every director of every such company would know that they must comply with their obligations set down in law or will be personally responsible for all tax owing by the company in question, with the information to pursue them being made available to the relevant authorities to ensure that people cannot escape their obligations.

***[ii]***

***[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/407131/Statistical\\_Release\\_Incorporated\\_Companies\\_UK\\_January\\_2015\\_V0\\_4\\_P1.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/407131/Statistical_Release_Incorporated_Companies_UK_January_2015_V0_4_P1.pdf)***

***[\[iii\] http://www.taxresearch.org.uk/Documents/Intheshade.pdf](http://www.taxresearch.org.uk/Documents/Intheshade.pdf)***