

Funding the Future

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I have posted this thread on Twitter this morning:

There is justifiable outrage right now about the fact that the Post Office has been able to prosecute sub-postmasters itself based on data it generated. I get that anger, but we should remember that HM Revenue and Customs do this every day to thousands of people....

HM Revenue and Customs (HMRC) is, when it comes to imposing fines, quite literally a rule unto itself. It imposes millions of fines a year. Many of them are for not submitting tax returns, and many of those are on people who had no taxable income, or none to declare.

Tens of thousands (or more) of others are imposed on people who have failed to meet a deadline because (totally reasonably) their lives do not revolve wholly around the requirements to submit tax returns.

What is more, HMRC is very inclined to ignore anyone's reasonable excuse for making a mistake resulting in a fine. The term 'reasonable' as it is used in common language is very rarely, if ever, known to HMRC.

The result is that innocent errors can also give rise to significant tax related penalties that often amount to 30% or more of tax owing. And the chance, for most people, of winning an appeal against these penalties is minimal.

To add insult to injury, if you have made an innocent mistake, you usually can't claim tax relief on the cost of putting it right, which also adds to the overall bill resulting from it.

And, once HMRC has found one mistake, you can be sure that they will go looking for more, and they are experts in extrapolating errors over very long periods of time so that they can to up the bills they seek to charge.

Now, let me be clear. I want HMRC to find tax cheats. And I really do want them to collect all tax that is owed. I also want them to encourage tax compliance amongst the UK population. After all, who wouldn't? If everyone paid their tax, the rest of us might pay less.

But let's be clear, this is not how HMRC work. For example, the area where tax compliance is just about worst of all in the UK is amongst small limited companies, where almost 30% of all tax at these companies owe is likely to go unpaid, in HMRC's own opinion.

You would think, as a result, that HMRC would focus all its efforts on this group of particularly non-compliant taxpayers. However, evidence I have collected over the years suggests that they fail to even ask for corporation tax returns from about half of all UK limited companies.

They do that because the companies have told them at some point – usually when they are formed - that they will not trade in the next five years, and without undertaking any further work, HMRC accepts that assurance and asks for no more tax information from them during that time.

So, you form a company, which, by definition, means that you create an entity capable of trading in its own right, and which can realistically do little else, and then HMRC accepts your assurance that you have no intention of doing any such thing.

Why the heck, you might reasonably ask, do they do that without asking more questions? Why don't they ask for more evidence? Why don't they appraise that evidence? And why are they willing to think that things won't change? I wish I could answer those questions, but I can't.

Nor do I know why a proposal I made ten years ago to require that HMRC demand that all UK banks advise them annually of all the companies to whom they supply services and of the amount that those companies deposit in their bank accounts each year has never been put into law.

If HMRC did this there would be no hiding place for the hundreds of thousands of UK limited companies that I am certain operate in this country but which never pay tax. HMRC would have data on them all.

If a law was then passed saying that if a company failed to supply information on its tax affairs then the directors would be personally responsible for any tax due the likelihood that more than £10 billion of tax a year could be recovered would increase substantially.

Saying this, let me be clear that I do understand limited liability, but it should never provide an opportunity to break the law with impunity, which is what it is doing in this

country right now.

But, this law has never reached the statute book.

Instead, a law that requires that people who sell odds and ends of second-hand items on eBay, Vinty and other sites has been passed, causing great concern.

And, as I've already noted, after 31st January, the Revenue will impose hundreds of thousands of fines on people who did not submit tax returns, but had no income, or had no income that needed declaring on such returns.

And day in and day out, other penalties will accumulate on innocent errors made by companies and people struggling to comply with VAT and PAYE laws whilst the Revenue continues to ignore their business competitors who completely evade tax.

It is certain that the Post Office was out of control. But I think that HM Revenue and Customs is at least as out of control, and maybe more so.

Most of its board have little tax experience.

Most of its Tax Commissions have not worked in tax for most of their careers.

The people at the top of HMRC will, no doubt, be able to afford the tax advice that they need to prepare and submit their tax returns, and answer any other questions that they have on this issue. Many people have no such luxury. And HMRC has turned off its telephone helplines.

Worse, between them the entire senior management of HMRC appear to have little understanding of small business or what it is like to struggle with tax whilst also meeting the needs of customers, staff and your bank. They all come from big business or civil service backgrounds.

There are no representatives on the board of HMRC from small business, smaller firms of accountants, trade unions, pensioners, the self-employed and others with experience to offer on how the tax system should be managed.

And the whole focus of that board is increasing total tax pounds collected per pound spent to collect it, which is the most useless corporate goal when the aim should be tax compliance in our population.

Because of their focus on cost control, HMRC has closed almost all local tax offices in the UK, and in recent months HMRC has closed down its telephone helplines just as people need them most in the run-up to tax return submission deadline.

Instead, HMRC claims that all the questions to all the answers that anyone might need are available on their website and supposed chat services, but that is not true.

What is more, quite ludicrously, HMRC has cut the number of tax investigations that they do each year to save cost, which lets the cheats get away with what they're doing.

If you wanted to set up a tax authority to help tax cheats whilst punishing honest people who make innocent mistakes in their tax affairs, you would do what HMRC is now doing. We need something very different.

If you want to have a tax system that serves the community of this country, creating the public good that they tax system should be, then you would have local tax offices giving people the opportunity to ask for help face-to-face.

You'd also answer the mail and pick up the phone. And you would staff your telephone helplines with people who knew what they were talking about because you would properly train your staff in all aspects of tax.

And of course, you would take proper, strong action against big tax cheats, who you would actively seek out. But you would use those powers with considerable discretion and only when there was obvious evidence of the intention to abuse.

You would, in other words, make it clear that the tax authority is on the side of honesty and will do everything you can to help people be honest whilst accepting that honest mistakes happen.

Simultaneously, you would focus all your tax collection efforts on the areas of maximum risk, where the activities are small limited companies that do, in the current UK legal environment, provide licensed opportunities for what is effectively identity theft, would be your focus.

I am not saying let's ignore the Post Office. Far from it. But let's not pretend that they are the only UK government agency that has a terrible track record when it comes to prosecuting innocent people.

HMRC does it very much more often to people who have done literally nothing of any consequence wrong or who have made innocent mistakes whilst turning a blind eye to the problems that they should be addressing. And that is also a national scandal.