

**IT'S A DIFFERENT WORLD: TAX AVOIDANCE AND
EVASION AFTER THE UK G20 PRESIDENCY**

HM Treasury, 21 September 2009

Today I am highlighting recent action, domestically and internationally, that changes the game for those who bend the rules on tax, and for those who break them. We're in a different world now, and I want it to become increasingly clear to taxpayers and tax agents that, for tax cheats, the game is up.

And ahead of the G20 summit in Pittsburgh, I call on my overseas counterparts to build further in this area on the achievements of the UK presidency this year.

VALUES IN ECONOMIC LIFE.

The crisis has powerfully reaffirmed what we have always known – that values like responsibility, integrity and trustworthiness are essential to economic life.

The vast majority of business people live out these values every day, through fair dealing with each other. When they are

weakened or abandoned, trust disappears. The economy is damaged – and can come to a shuddering halt. So values matter.

THE ROLE OF GOVERNMENT

The crisis and its aftermath have underlined three lessons about the role of Government.

First, Governments cannot determine economic events but they do have great power to shape them.

- **A catastrophic failure of the banking system averted.**
- **Up to half a million UK jobs protected through the measures of the Government and the Bank of England.**

Government action has shaped the outlook for the UK economy.

Second, a large part of Government's power is moral suasion. That's what we are seeing from Governments, central banks and regulators after the crisis:

- **Restraining bankers' rush to business as usual on bonuses.**
- **Changing the definition of acceptable risk taking.**

We see governments' influence when they reflect the public's clear sense of what is right.

The third is that effective government has to factor in the international scene.

- **Regulatory reform won't succeed if businesses can play countries off against each other.**
- **Effective action on tax havens requires a shared resolve.**

Good government requires an international perspective, not an isolationist one.

These three lessons – increasingly reflected in HMRC's relationships with taxpayers at home, and shared by my counterparts abroad – have changed the world for tax cheats.

AVOIDANCE

On avoidance, let me start by saying that I recognize there will

always be areas where there may be legitimate uncertainty among businesses and their representatives about how the law applies to specific commercial transactions.

But there is a minority of tax agents who think of Government's role as setting a corridor of permission: permission to bend the rules to breaking point.

They seem to think we play a game with them and their clients. Every Budget and PBR we set out measures to improve efficiency and equity in the tax system. They then look for ways to convert them into avoidance schemes. In turn, we point out these are ineffective, or we close them down again at the next legislative opportunity. We can already start to see all this happening with the 50p rate of income tax.

This behaviour – the behaviour of a minority – is not in the wider interests of businesses. It leads us down a road to mutually assured complexity in the tax system. And it is corrosive to the business environment.

I receive quite a lot of letters from people being pursued over tax avoidance. Some are simply angry at the resolve with

which they are being pursued. But many express bitter regret that they ever got involved with the scam in the first place. Some say they now face ruin. Some express remorse.

The vast majority of individuals and families in the UK work hard and pay their taxes in full. It is right for those who pay their fair share to resent – to see, in fact, as morally wrong – the actions of a small minority, who use their resources to create a new set of rules for themselves. Who think they can pay tax on a “do it yourself” basis. To rob public services of vital resources.

Its recognised that those who cheat the benefits system are taking vital resources away from those in greatest need. If benefit cheats aren’t dealt with, they undermine people’s confidence in the benefits system itself. So too with tax cheats. They not only cheat the public purse of much needed resources, but they undermine the confidence that ordinary tax payers have in the system itself. Its corrosive and it needs to be tackled head on, and recognised for the damage it does.

That kind of behaviour certainly won’t wash in the aftermath of the crisis, in a period when spending is going to be tighter.

Yet examples of tax avoidance products are readily available. They can severely damage how business is seen. Customers and shareholders, the public and – yes, the Government – should be united in expecting better.

We are using every tool at our disposal to deliver on this expectation, especially information gathering powers.

In 2004 we introduced the requirement to disclose tax avoidance products. It has been an effective measure. We are using our powers to ensure that taxpayers as a whole are not disadvantaged by the action of a few.

In 2009 we are strengthening the regime – for example to tackle promoters who choose not to play by the rules, and do not disclose schemes. The Pre-Budget Report will therefore set out a programme of work to strengthen the disclosure regime, making disclosure requirements broader, increasing the penalties for the non-compliant, and giving HMRC more information on who are using the schemes. New powers to tilt the game back towards honest, hard working taxpayers.

But if we really want the game to end – and I do – then we need

not just new powers but clearer norms for behavior too. Not simply rules imposed by Government, but commitments embraced – put forward even – by responsible taxpayers.

Some will be confirmed by statute. We have chosen to introduce principles-based legislation, so that we are clear from the outset that the rules are not meant to be bent, twisted or otherwise abused to benefit a few. International experience, and our work in Finance Act 2009, tell us it is not an easy option. It takes time to get it right.

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So legislation will have a role to play. But the quicker, better way is to agree codes of behaviour that reflect a shared sense of fair dealing – as, for example, in our Banking Code of Conduct; and in HMRC’s consultation on Working with Tax Agents.

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These articulate implicit responsibilities. They entail commitment to fulfill the responsibilities with integrity – and repudiation for those that won’t.

They reflect that tax authorities aren’t there to frustrate the creation of wealth – but to enable it. They’re there to provide

services which underpin economic and individual security – and do so in a professional, effective and fair way.

EVASION – DOMESTIC

We need this same sense too, to help us make new breakthroughs on evasion in this country.

The public associate tax evasion – as they do avoidance – with wealthy individuals or large, highly mobile corporates. And some of it is. But it matters when some of the other 28 million individual taxpayers and 4.7 million small businesses break the rules too. We need to see all members of the small business community living up to the standards of the great majority.

We are committed to helping those who want to do the right thing. Over the past 3 years, HMRC has been improving its support to taxpayers through clearer guidance and tools; and accessible and timely help. Early results are encouraging, 40% of small businesses reporting that tax is getting easier to do.

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And we are equally committed to relentless pursuit of those who don't pay their fair share or who seek to abuse the tax

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system. Last year, HMRC made over 870,000 compliance interventions, identifying almost £12 billion in extra tax due. £57m of assets seized, £9m in cash forfeitures and 171 successful prosecutions last year.

We modernized HMRC's powers over the past two years to ensure sanctions are proportionate and effective:

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- **Those who evade tax of more than £5,000 can expect more onerous reporting obligations for up to 5 years;**
- **Those who evade tax of more than £25,000 will have their names and addresses published, with details of the tax evaded and the penalty they have been charged.**

So we have raised our game on domestic evasion.

EVASION - INTERNATIONAL

People also deeply resent the small minority, who use their resources to move money offshore without paying the tax due. Those who enjoy all the rights of living here, but don't want the responsibilities. Here too we are on the case.

The 2007 Offshore Disclosure Facility gave customers of five major banks with undisclosed offshore accounts the chance to put their tax affairs right. Over £400 million has been collected in so far.

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This summer, HMRC served notices on 308 financial institutions to hand over details of those who are cheating on tax by hiding income and gains in offshore accounts. This New Disclosure Opportunity offers a further, final opportunity to come forward on advantageous terms. In the Pre-Budget Report we will spell out the consequences for those who don't.

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And we have made huge progress internationally in tackling off shore evasion and tax havens since the last G20.

Luxembourg, Singapore, Switzerland and others are adopting the OECD standard on transparency and signing Tax information Exchange Agreements. More have been signed in the past one year than in the whole of the previous ten.

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The Global Forum on tax has been developed into an oversight body for exchange of information. And we have seen an expanding role and membership for the Joint International

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Tax Shelter Information Centre, which has already recovered and protected billions for member countries.

And the UK is at the cutting edge in showing we can do more.

The groundbreaking agreement with the Government of Liechtenstein goes beyond the current OECD standard. UK taxpayers with money in Liechtenstein banks – including those who have not used a UK intermediary – will have to demonstrate to those banks that their tax affairs are in order, or have their accounts closed down. They must now settle with us.

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G20 countries agreed earlier this month that non-cooperative tax havens will face penalties from next March. We remain committed to work against harmful tax practices, and to the EU code of conduct on business tax. And I am interested in exploring whether our new disclosure regime could inform how we track payments to entities in countries that refuse to cooperate with international standards.

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These are very important steps forward. And we are determined that developing countries benefit from the new tax

transparency, alongside developed countries. We are making progress on multilateral instruments, so that countries don't have to negotiate a separate agreement with every country. We are developing a robust review mechanism to evaluate the benefits of information sharing to developing countries – with the possibility of a shift to automatic tax information exchanges. And we are exploring country by country reporting through an OECD feasibility study.

CONCLUSION

We are today in a different world for tax. The crisis has underlined the importance to economic life of values like responsibility and honesty. It has shown the scope for governments to shape events, especially when they adopt moral suasion and international coordination.

We and our counterparts overseas are applying these lessons to tax avoidance and evasion. We will continue to help the vast majority who want to live up to their responsibilities. But those who try and cheat will find themselves increasingly isolated: by their peers; by Governments; by the international community – as the G20, and, in Britain, our pre-budget

report, will show.

**The changed strategic context should be clear. Tax cheats
need to think again.**

Thank you.