IFF Research

Researching the drivers of tax compliance behaviour among the wealthy and ways to improve it

HM Revenue & Customs Research Report 537

January 2019

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Published by HM Revenue and Customs, April 2019
www.hmrc.gov.uk

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Researching the drivers of tax compliance behaviour among the wealthy and ways to improve it

Report of research findings prepared by IFF Research for HM Revenue & Customs

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We'd like to thank all of the wealthy individuals and their agents who took the time to speak to us; and to Louise Prentice, Dina Dimou and Rosamund Bailey at HMRC, for their valuable input into the study design.

1 Introduction

Research background

1.1 Wealthy customers are an important group because of the significant tax revenues collected from them, and because of the symbolic value that ensuring compliance among this group has, in terms of signalling to the wider public that the tax system has integrity and that no-one will be exempt from proper scrutiny. HMRC wishes to better understand these individuals, to inform the way in which it works with them, and their professional advisors, in future; and thus commissioned research (the subject of this report).

Research objectives

1.2 The objectives of this research were to better understand:

- How wealthy individuals see themselves;
- The factors (both external influences and internal rationales) that shape their behaviour;
- How they go about planning and structuring their tax affairs;
- How they view tax avoidance and tax evasion;
- How HMRC might encourage voluntary compliance.

For the purposes of this study:

- Wealthy individuals are treated as those with an income of over £200,000 or assets/wealth of over £2m;
- For research purposes, the ‘wealthy individual’ audience is subdivided into **Affluent individuals** (in this research, categorised as those with net wealth under £10m) and **High Net Worth (HNW) individuals** (net wealth £10m+), in order to explore whether there are any differences between them (e.g. in behaviours or attitudes).[1]

Method

1.3 We chose a qualitative approach, because wealthy individuals are a relatively small, hard-to-engage population and thus it was unlikely that we would secure the participation of enough individuals to make a survey viable. Furthermore, a qualitative approach would be more effective at capturing and unpicking the nuances and complexities of discussions of wealthy individuals’ tax affairs. We used one-to-one in-depth interviews, to allow us to explore the sensitive and complex topic of tax arrangements in sufficient detail and with sufficient privacy.

[1] HMRC no longer uses the ‘Affluent’ label; instead, the term ‘wealthy individual’ is used to cover those previously labelled as ‘Affluent’ and ‘HNW’.

1.4 These face-to-face interviews were conducted with **HNW** and **Affluent** individuals, as well as a sample of **tax agents**, including those working for both large and smaller, boutique firms. While the main focus of the study was to speak to wealthy individuals themselves in order to understand their personal attitudes and behaviour, it was important to also speak to agents due to the fact that some wealthy individuals might adopt a 'hands-off' approach to their affairs, taking advice and being aware only of key outcomes and rationales communicated by their advisor.

1.5 An initial pilot of 13 interviews was conducted to test the viability of our approaches to recruiting and interviewing these audiences. A further 29 interviews were then conducted to consolidate the findings and enable us to identify patterns in responses, making a total sample of 42 in-depth interviews – this included 32 wealthy individuals (20 HNW and 12 Affluent) and 10 agents.

Reporting note

1.6 Please note that this is qualitative analysis, intended to understand individuals' circumstances, attitudes and behaviour in depth and detail, rather than to be 'representative' or measure the incidence of these attitudes/behaviours.

1.7 When describing the results, we use terms such as 'many', 'some' or 'a few' to give a relative indication of the extent to which views were expressed or behaviours reported. The term 'many' is used to mean that a view or behaviour is fairly widespread within a particular group of customers; while, at the other extreme, 'few' indicates that a finding applied only to a small handful. 'Some' is used to indicate a middle-ground between 'many' and 'few'.

1.8 Throughout this report we refer to 'non-doms': these are non-domiciled residents, i.e. UK residents who have their permanent home ('domicile') outside the UK. A non-dom can retain their non-UK domicile after having left that jurisdiction, if they retain sufficient links and have not left permanently. Individuals with non-dom status may be eligible for 'remittance basis' tax treatment, where non-UK income is taxed in the UK only if it is brought into ('remitted to') the UK.

1.9 We also refer to tax avoidance and evasion, and more or less 'risky' tax arrangements. For clarity, tax evasion is illegal, whereas tax avoidance involves bending the rules of the tax system to gain a tax advantage that Parliament never intended. It involves operating within the letter, but not the spirit, of the law. When we talk about 'risky' tax arrangements in this report, this is not referencing an HMRC definition of these, but rather how the wealthy individuals and agents talked about tax arrangements that *they* felt were on the boundaries of what HMRC would consider acceptable.

2 How do wealthy individuals see themselves?

Perceptions of wealth

2.1 Wealthy individuals – both affluent and HNW – tended to be circumspect about declaring themselves 'wealthy' and viewed their wealth in relative terms (noting that there is always someone with more money; a sentiment echoed by some agents).

2.2 HNW individuals were sometimes a little more conscious of being well-off, with some noting that it allowed them to make choices about the lifestyle they wanted to have.

2.3 Affluent individuals tended to be more guarded or modest. They accepted that they were wealthier than the average tax-payer, but did not consider themselves to be ‘rich’ as they did not typically lead luxurious lifestyles and did not necessarily have disposable income: sometimes they noted that their wealth was largely tied up in property or businesses.

2.4 In taxation terms this meant that they sometimes argued that it was the ‘very rich’ who had the resources to hire expertise to avoid paying tax.

2.5 Some wealthy individuals were also concerned about the level of scrutiny that being ‘part of this club’ attracts – a sentiment expressed by some Individuals and agents.

Sources of income and impact on their tax affairs

2.6 Wealthy individuals were asked about their types of income sources, and which of these types of income were more complex or challenging when arranging their tax affairs. Agents were asked similar questions about their wealthy clients.

2.7 Affluent and HNW individuals typically had multiple sources of income, including:

- Salary from working;
- Dividends from business ownership;
- Investment income;
- Savings income;
- Income from the sale of assets (i.e. businesses and property);
- For some, income from multiple countries.

2.8 Many wealthy individuals considered their types of income to be ordinary and therefore considered their tax situation to be straightforward. Some wealthy individuals emphasised that the complicated aspects of their tax affairs are looked after by their agent and this made their tax affairs straightforward from *their* perspective. Some agents argued that wealthy individuals’ tax affairs were no different from anyone else’s, except for their being on a larger scale.

2.9 Individuals who perceived their tax affairs to be complicated were more likely to have particular sources of income. Income from overseas was the most widely-cited source of complexity – for example, income from investments in foreign jurisdictions was mentioned as a cause of complexity because of multiple tax jurisdictions resulting in taxation across multiple territories, and the consequent need to involve overseas tax advisors in this.

2.10 Individuals and their agents also cited income from the sale of investments (i.e. property and stocks) as a source of complexity because the income is subject to Capital Gains Tax, and it requires individuals and their agents to calculate the income earned during the investment. A few agents cited real estate and property investments as complex as there are many taxes linked to these; and offshore investments as particularly hard to analyse since it is hard to understand if it’s a fund, capital investment, private equity or some type of insurance product.

2.11 Agents commonly cited remittance as a further complex area for non-doms; and suggested that their circumstances are particularly challenging as the length of time they have spent in the country affects how much tax they pay.

2.12 A few individuals and agents also noted that volatility in wealth can affect tax liabilities making annual tax hard to compute.

3 How do the wealthy individuals, and their agents, feel about their interactions with HMRC?

How do they interact with HMRC?

3.1 Wealthy individuals and their agents reported that there is very little direct interaction between wealthy individuals and HMRC because individuals tend to use agents for nearly all of their dealings. Individuals used agents to interact with HMRC on their behalf because:

- Many HNW and affluent individuals did not think that they possessed enough technical knowledge to be able to manage their tax affairs in a compliant fashion, given the relative complexity of their income streams and the perceived complexity of the UK tax system.

- They did not *want* to manage their own tax affairs, because they felt that doing so would be time-consuming or because they thought it would be onerous or stressful.

3.2 Although HNW and affluent individuals mostly used an agent, there were a few individuals that managed their tax affairs independently or with minimal input from agents. This was more common amongst individuals that had fewer income streams (e.g. only PAYE income) and amongst those with experience of working in finance.

How do wealthy individuals and their agents feel about these interactions with HMRC?

3.3 Agents, and those individuals with experience of dealing with HMRC, were generally positive about their interactions with HMRC. It was widely commented that the personnel within the HNW and Affluent Units of HMRC had a good understanding of the UK tax system and the circumstances of their customers, were sufficiently accessible for resolving queries and were helpful and responsive when issues or queries arose. Non-doms and some wealthy British nationals with experience of other tax systems tended to view HMRC relatively favourably compared to other countries. HMRC was perceived to be more accessible, more straightforward to deal with and answered queries relatively quickly.

3.4 Despite overall impressions being generally positive there was a feeling amongst a few that HMRC's approach to them was overly-adversarial and coloured by suspicion. For example, some of those who had been assigned their own Customer Compliance Manager perceived this as a signal of increased scrutiny. Similarly, a few agents and wealthy individuals described a perceived shift in HMRC's attitude in recent years: they felt that the tone of HMRC's dealings with them has become informed by a morally-loaded narrative in the media and public life, regarding the tax arrangements of the wealthy. These individuals and agents would like HMRC advisors to be more 'human' and open in their communication, so that their relationship can be more constructive.

How do they want HMRC to change its interactions with them?

3.5 Agents and wealthy individuals raised some specific areas for improvement in the way HMRC interacts with them and their clients.

3.6 Many agents, and some individuals, felt that advice from HMRC and the tone of communication needs to become more consistent. Inconsistency was perceived to be caused by a high turnover of staff and a seeming lack of organisational memory of previous interactions. They felt that this slowed down the resolution of issues and sometimes led to previously resolved issues being reopened. Agents mentioned that the quality of advice and technical expertise varied depending on which member of staff they spoke to, although they perceived the HNW and Affluent Units to be more technically competent than HMRC in general.

3.7 Agents also reported having experienced protracted interactions with HMRC which proved time-consuming and costly for both them and their client. These drawn-out interactions were attributed to a number of factors, such as: HMRC launching formal inquiries when informal channels of communication would have resolved the matter quicker; HMRC being slow to respond to queries; and HMRC requesting historic information from beyond the most recent tax year. Some agents who perceived their relationship with HMRC as more adversarial viewed this as a deliberate attempt by HMRC to wear agents and their clients down.

3.8 Some agents also expressed frustration at HMRC 'bypassing' them and speaking directly to their client. They were concerned that their clients were prone to error in the context of a complex tax regime and felt that direct interactions with HMRC increased the risk of mistakes being made. One agent also felt it would be useful to have access to their clients' personal account so they could get a more complete picture of their affairs and another perceived HMRC's attempts to make direct contact as a deliberate effort to try to exclude them or 'freeze them out'.

3.9 A few agents also felt that HMRC could be more considerate of them and the particular pressures of their job, for example recognising that they lack capacity to resolve queries between November and January when they are particularly busy.

How do individuals and their agents feel about how the wealthy are treated by the UK tax system?

3.10 Many wealthy individuals thought that on the whole the UK tax system was fair. They often cited the headline rate of Income Tax, saying that they consider this to be broadly appropriate: several mentioned that Income Tax of around 40 per cent feels acceptable, but if it goes beyond 50 per cent then it would feel punitive. Agents tended to echo this point of view.

3.11 Some wealthy individuals said that the UK system was relatively favourable compared to the tax regimes in other countries; and several non-doms said that they were paying lower tax rates in the UK than they would in their countries of origin, such as Germany, Switzerland, Scandinavia and Japan.

3.12 There were, however, three particular aspects of the system that were problematic for many wealthy individuals and agents.

Problematic aspects of the UK tax system

3.13 Firstly, both individuals and agents commonly complained about the **complexity of rules**, in terms of both the various different types of taxes and how often the rules around these are changed. Some wealthy individuals complained that this complexity forced them to hire agents to manage their tax affairs because they were concerned about not having the technical knowledge to file their own tax return accurately. Other wealthy individuals, who were more financially savvy, felt it gave them the chance to minimize the tax they paid, which they felt was perhaps unfair to those that were less knowledgeable.

3.14 Agents argued that the complex rules created room for interpretation or 'grey areas' which led to increased opportunities for tax avoidance. They also felt that it must lead to genuine errors being made, which in their view made the UK tax system less efficient. Specific examples of perceived 'grey areas' included: the way that venture capital is taxed, due to its complexity; routing benefits from offshore trusts; film schemes; loss relief; changing rules around trusts; HMRC 'moving the goalposts' around deductibility of interest; and the line between expenses and capital cost.

3.15 Agents asked for clearer guidance from HMRC on these 'grey areas'.

3.16 Secondly, agents also felt that **the UK tax system was increasingly unfriendly to non-doms**. They felt that the rules were more opaque, complex and punitive for them, and were becoming increasingly so. Agents felt that this risked either deterring further wealthy individuals from coming to the UK in future, or encouraging those that are already here to leave. Mostly this was a concern about non-doms leaving in future. Conversely, some wealthy British nationals perceived non-doms as being unfairly favoured as they could pay less tax than the British-born nationals, by making choices about where their income is taxed.

3.17 Thirdly, **Inheritance Tax** was raised spontaneously by some wealthy individuals as an unfair and punitive tax because it taxed them on money that they had already paid tax on at the point at which they earnt it – described as 'being taxed twice'. Some individuals were therefore planning ahead to avoid paying inheritance tax and felt justified in doing so.

4 What factors shape the tax behaviour of the wealthy?

The factors that shape wealthy individuals' tax behaviour

4.1 Wanting to contribute to society emerged as an influential driver of behaviour – many wealthy individuals argued that society functions better if the wealthy contribute in proportion to their level of wealth; since someone has to fund schools, healthcare, defence, etc. This applied to non-doms as well as to wealthy individuals of UK origin; and was cited by agents as a factor shaping their wealthy clients' behaviour. Some wealthy individuals expressed this sentiment more strongly – for instance, talking about the need to tackle social inequality – whereas others expressed it more weakly.

4.2 However, many wealthy individuals and their agents noted that there is a delicate balance between this desire to contribute, and their becoming intolerant of the tax regime becoming too punitive or onerously complex. They argued that if the level of tax, or the complexity of the tax regime, becomes too punitive or onerous, then that may actually drive wealthy individuals towards avoidance; and prompt some non-doms to relocate – and this thus would reduce the exchequer's tax revenues.

4.3 Currently wealthy individuals and their agents mostly felt that the headline level of Income Tax is more or less appropriate – although a few agents felt it is currently at the high end of what is tolerable; and a few agents and individuals cited tax of around 40 per cent as acceptable, with 50 per cent being the tipping point at which they felt they/their clients would be incentivised to explore more risky tax reduction approaches. A few agents also felt that the complexity and opaqueness of the tax regime is also nearing its tolerance limit (e.g. increasingly complex non-domicile rules and changes to penalty charges).

4.4 Beyond this, the attitudes and influences informing tax behaviour varied depending on the different ways in which individuals acquired their wealth. Patterns of attitudes and influences emerged in relation to the following groups[2]:

- **'Established wealthy',** i.e. those who have inherited their wealth. A key concern for these individuals was preservation of wealth and succession. A few expressed the sentiment that they don't want to be the ones to 'drop the ball' in passing on their inherited wealth. This tended to mean they wanted to find ways of minimizing the extent to which they paid Inheritance Tax.

- **Self-made wealth:** These were the majority of the wealthy individuals in our sample. They had a desire to contribute to society as they perceive society to function better if the wealthy 'pay their share'. This sentiment was often influenced by own experiences of not having as much money, at previous stages of their lives. That said, a perception that they worked hard to build their wealth sometimes also meant that they were resentful of Inheritance Tax.

- **'New money',** i.e. individuals who have seen their wealth rise rapidly. A few agents talked about this subset of wealthy individuals, and noted that the combination of inexperience and entrepreneurial spirit amongst this group often leads to a greater appetite for risk-taking in their tax affairs, in the period following their rapid increase in wealth. They reported that these clients had sometimes been approached about tax avoidance schemes including film schemes and the Patent Box scheme.

- **Non-doms,** i.e. wealthy individuals who have chosen to move to the UK. Non-doms may have come here in part for favourable tax conditions and are mobile – so they can choose to leave if the tax regime changes (and they thus feel they are not 'getting the promised deal' in taxation terms). It was mainly agents who said this. The non-doms tended to still have a sense of social responsibility (i.e. a desire to contribute to society in their adopted country and a desire to demonstrate they are 'a good taxpayer').

Attitudes and influences over time

4.5 We asked wealthy individuals whether their attitudes and influences have changed at all over the years. For many wealthy individuals, motivations hadn't changed and they talked about their attitudes to tax as having been shaped by their formative years and 'basic values' such as sense of social responsibility.

[2] This is not intended to imply that all individuals in these groups expressed these views, or that these views are exclusively found within these groups – simply that these views appear to be more often found among these groups of individuals.

4.6 For a few, however, their views had evolved:

- **With increasing wealth, came a stronger altruistic instinct**, as they could now afford to be altruistic;
- **Having had their fingers burnt by more complex tax arrangements, they have become more risk averse** (this often had involved investigations or challenges by HMRC, although the tax issues involved varied – including speciality debts, gilt warrants, and categorising renovations to a rental property as an expense);
- **Through building self-made wealth over time, came an increased sense of being entitled to it**, and objecting to the idea of being 'taxed twice' via Inheritance Tax;
- **With increased wealth came the resource for additional financial advisors**, which meant there were 'new' tax minimisation opportunities being presented to them for the first time.

4.7 In addition, agents and some individuals noted that the wider context has changed over time: i.e. the headline tax rate, what arrangements appear to be HMRC-endorsed, and the level and tone of media and public discourse around the tax affairs of the wealthy. Agents and some individuals argued that there has been a trend away from engaging with tax minimisation – it is no longer socially acceptable.

5 How do the wealthy plan and structure their tax affairs?

Objectives and underlying motivations

5.1 Most agents and wealthy individuals felt that the goal in arranging their tax affairs was to pay the legally-correct amount of tax. There was discomfort at a perceived moral tone to current media coverage and public/political debate around wealthy individuals' tax affairs. Although wealthy individuals and their agents sometimes discussed tax avoidance, some wealthy individuals said they weighed up potential tax minimisation arrangements based on whether they have been tested and validated by legal precedent.

5.2 Other objectives/motivations are more varied, and appear to map to whether wealthy individuals have more or less appetite for risk[3] in arranging their tax affairs:

5.3 The objectives/motivations aligned with a **higher risk appetite** were as follows:

- **Avoiding 'unfair' Inheritance Tax and looking after the next generation**: Some wealthy individuals (especially HNW individuals) talked about ensuring succession and providing for their children, particularly when it's harder for them to establish themselves/get on the property ladder, and there is a good chance they will be less well-off than their parents were. For those with inherited wealth, this was sometimes talked about in terms of 'not being the one who drops the ball'; for those with 'self-made' wealth, this was expressed in terms of not being 'taxed twice' on wealth that you have worked for. A few individuals also talked about not wanting their children to

[3] Again, we assessed individuals' risk appetite based on the types of tax arrangements they would consider and on how they talked about these arrangements, i.e. whether the way they spoke of them suggested that they felt they were on the boundaries of what HMRC would consider acceptable. This is not referencing an HMRC definition of risky behaviour.

lose out through Inheritance Tax when they believed that other wealthy individuals would be using professional advice to maximise their children's inheritance.

- **Only getting involved in arrangements tested by legal precedent:** Some wealthy individuals said they weighed up potential tax minimisation arrangements based on whether they have been tested and validated by legal precedent. They – and some agents – said that, until this happens, a tax minimisation scheme 'doesn't really exist'. One individual talked about this in terms of not wanting to be the 'guinea pig' who tests a scheme and proves that it does not work.

5.4 The objectives/motivations aligned with a **lower risk appetite** were as follows:

- **Avoiding undermining your quality of life:** One of the advantages of wealth that was talked about by many wealthy individuals – particularly Affluent individuals – was being able to attain the lifestyle you want to have. In this context, getting involved in risky tax arrangements could undermine the very thing you are striving for – if, for example, you have to live in another part of the world, away from friends and family, for a certain number of months each year; or if doubts about the legality of your tax affairs hang over you. Preserving this quality of life and peace of mind motivated these individuals to limit themselves to less 'risky' tax arrangements.

- **Avoiding impacts on your family:** A few wealthy individuals felt that, if they were to become involved in 'risky' arrangements that resulted in their being investigated by HMRC, the stress and disruption would rebound on their family if their family was involved in their financial affairs (which often they were). Again, this deterred them from considering perceived 'risky' tax arrangements.

- **Fear of damaging your professional reputation:** This factor applied to some wealthy individuals. It was an acute concern for those whose reputation mattered professionally, for instance due to their being a major figure in their business, or being in a regulated line of work. Those with a high profile, in terms of fame or political involvement, or who were closely connected with someone with a profile – were also concerned about reputational damage. Again, this deterred them from considering perceived 'risky' tax arrangements.

- **Looking after the next generation:** While ensuring succession and providing for your children could motivate 'riskier' tax arrangements (see 'Avoiding 'unfair' Inheritance Tax', above), it could equally lead to more risk-averse decision-making around tax affairs. This could simply mean looking at 'safer' arrangements, to pass on wealth; or – an outlying view – seeking to avoid children inheriting too much, in case inherited wealth 'spoils' or demotivates children.

- **Not having the resources to deal with the possible consequences of risky arrangements:** This view was found among Affluent individuals, whose money is tied up in property, and who thus see themselves as lacking the disposable funds to pay for (for example) professional advice or fines, if caught getting involved with a risky tax arrangement.

- **Knowing that the financial advisor won't take responsibility if things go wrong:** A few wealthy individuals were conscious – either from reading the 'small print' or from past experience of their tax affairs being challenged – that the advisor who proposed a tax arrangement will not take any responsibility if that arrangement is later challenged by the tax authorities. Again, this deterred them from considering perceived 'risky' tax arrangements.

Who else is involved in shaping wealthy individuals' tax arrangements

5.5 As noted earlier, wealthy individuals mostly reported using agents to manage their tax affairs, in part because they felt the UK tax regime, and the tax return specifically, are too complex, meaning they could not complete their own tax return and be confident of getting it right.

5.6 The agents tended to get involved at certain points in the financial year, e.g. to check the tax return; or when a life-event necessitated their involvement (this was often to do with family, ownership of property or moving to the UK). Sometimes tax was a secondary issue: the primary goal was providing for the individual's family, ensuring succession; or funding personal causes; and doing so in the most tax-efficient way possible.

5.7 There were different types of agents involved – some giving financial advice; others more focused on purely technical management of the tax return.

5.8 Some wealthy individuals, especially HNW ones, had broader teams encompassing a tax lawyer or financial advisor as well as their tax agent. Mostly these teams seemed to have remained fairly consistent over time – there were few stories of having dropped professional advisors in favour of new ones (even when tax arrangements had been challenged by HMRC in court, the individual blamed HMRC for changing their stance, rather than the financial advisor who proposed the arrangement).

5.9 However, the sample also included a few individuals who were self-managing their tax affairs. Some of the self-managing were working in banking or tax themselves. Others had inherited their wealth. Although managing their own tax affairs, some had advisors on other financial matters (e.g. investments).

How objectives are achieved

5.10 The widespread use of agents was in itself a key strategy used by wealthy individuals to facilitate their goal of paying the legally-correct amount of tax. The use of agents provided them with the confidence that they had got their tax return right, in the context of a complex system.

5.11 Where a wealthy individual had multiple parties involved, they tended to play distinct roles, for example:

- A tax agent, to ensure their tax affairs were technically correct;
- A tax lawyer, to check the legality of the arrangements; and
- A financial advisor, to present possible tax minimisation opportunities for consideration.

5.12 In terms of the specific tax arrangements that were being used, wealthy individuals mostly reported only ever having been engaged in perceived 'safer' tax minimisation opportunities, to avoid 'over-paying'.

5.13 A few wealthy individuals, however, talked about investigating or being involved in perceived 'higher risk' tax arrangements (this was usually something they spoke about having been involved in previously, rather than at present). They defined these 'higher risk' opportunities as being anything that feels overly-complex or contrived, anything where it's unclear how it works, anything that involves misrepresenting your affairs or where an arrangement is primarily being used to avoid paying tax (rather than for the stated purpose of the scheme). Film schemes, and loans and holding income in trusts, were cited as examples.

5.14 Tax havens occupied a middle ground – some wealthy individuals were wary of them (partly because of the personal stress and upheaval that can be involved in using them, as a wealthy individual); others saw them as perfectly valid. A few also expressed slight resentment at how perceptions of these have become morally-loaded (in the media and in public/political debate).

6 Views on tax avoidance and evasion

Attitudes towards risky arrangements – agents

6.1 The broad consensus among agents was that both individuals and agents are usually 'on the same page' in being averse to perceived 'risky' tax arrangements. Agents felt they had the ultimate sanction of rejecting wealthy clients whose tax affairs feel too 'risky'. However, they felt that clients were rarely demanding tax arrangements that they were uncomfortable with – typically clients want arrangements that cannot be open to challenge in future.

6.2 The 'acid test' for agents was 'will it all fall down eventually?'. If there is a risk that it will, they advise clients to avoid it, as it will cause stress for the client and the agent, and ultimately undermine the client-agent relationship. The warning signs are perceived to be: is it overcomplex? Does it feel artificial or involve misrepresenting your/your client's affairs? Is the arrangement solely for the purpose of minimising tax?

6.3 Regarding current use of marketed avoidance schemes, agents always claimed that it was typically niche boutique wealth managers engaging in this, not themselves. One agent said that people behind these schemes come into their office to explain them, and are always 'thrown out' when it becomes apparent what they are proposing.

6.4 That said, agents did talk about having engaged with riskier arrangements in the past – but they noted that the context has changed around these arrangements; what was once acceptable is no longer so. Agents perceive there to have been a move away from these 'risky' tax arrangements for a range of reasons: legal challenges, increased scrutiny from HMRC, new rules from agents' regulatory bodies, and clients being averse to negative publicity and reputational damage, in the context of increasingly intolerant media coverage and public discourse.

Attitudes towards risky arrangements – wealthy individuals

6.5 Wealthy individuals tended to hear about tax avoidance schemes in the press or from friends – however, mostly they tended to claim *not* to have engaged in finding out more.

6.6 As noted earlier, only a few wealthy individuals talked about being involved in, or investigating, perceived 'higher risk' tax arrangements (and these were mainly arrangements that they reported having been involved in previously, rather than at present). In common with agents, the line was generally felt to be whether in using these you are misrepresenting your affairs or using something solely for tax purposes that was intended for something else, i.e. against the spirit of the scheme.

6.7 A few wealthy individuals who had been involved in higher risk tax minimisation schemes in the past noted that they had learned from experience that, if the scheme falls down, you 'carry the can' – the financial advisor who proposed the scheme takes no responsibility. This caused them to be wary of such arrangements now.

6.8 In addition, some Affluent individuals did not feel they had the disposable wealth to pay for advice on 'riskier' schemes - their wealth was tied up (e.g. in property); these schemes were for 'people wealthier than them', and would require professional advice that was beyond their resources to pay for.

7 Views on potential actions and sanctions to tackle non-compliance

Views on potential sanctions

7.1 We showed wealthy individuals a list of potential actions and sanctions that HMRC or other authorities might take in response to tax arrangements or schemes that they suspect or deem to contravene tax law. We asked for their views on, and level of concern about, each action/sanction.

7.2 The most concerning sanctions were:

- **Imprisonment** - although many did not think the possible maximum terms[4] were realistic;
- **Stress/uncertainty** in your financial affairs – spoiling peace of mind / quality of life, for instance if HMRC were to re-examine your tax and interest due, as far back as 20 years;
- **Reputational damage** – particularly for those with a profile, or those with business interests (either due to their being in a prominent role in their business, or being in a regulated line of work)[5].

7.3 Relating to reputational damage when publicity occurs in the event the matter went to tribunal or court, a few wealthy individuals felt it was incorrect that press coverage was listed as a sanction. They argued that such matters should be dealt with in private; that press coverage should be an accidental consequence rather than a deliberate sanction; and that they should be 'innocent until proven guilty' (noting that reputational damage stemming from press coverage often precedes the verdict).

7.4 Some wealthy individuals felt that HMRC going back over tax and interest due, as far back as 20 years, was unfair: you would have poorer records and thus a lack of evidence in your defence, even after a relatively short period of time had elapsed (e.g. 6 or 7 years); and the context of what tax arrangements were deemed more/less acceptable would have changed considerably over time as well.

7.5 The least concerning sanctions were **financial penalties**, especially for the very wealthy, as they felt they could absorb the costs[6].

[4] Described as up to a maximum term of life imprisonment for cheating the public revenue; or up to 10 years' imprisonment under the Fraud Act.
[5] During the interviews, the possibility of reputational damage was introduced as a possible impact caused by press interest in high-profile avoidance cases.
[6] The financial penalties cited were that taxpayers could be charged a penalty of between 30% and 100% of the tax underpaid, although up to 200% could be charged in certain circumstances (with reductions to the maximum penalty given for positive behaviour).

7.6 Wealthy individuals also made a number of spontaneous requests regarding HMRC's approach to actions and sanctions:

- To factor in collateral damage on employees and/or family members when HMRC determines its course of action;
- To consider how fair it is to pursue *individuals* – suggesting it should sometimes be the advisors or marketers of risky tax arrangements that are pursued instead;
- To consider whether the individual was making a genuine mistake (in the context of a complex system) or whether it was intentional tax evasion;
- To factor in the extent to which the individual has cooperated with the authorities in trying to resolve the issue, when deciding HMRC's course of action.

How might compliance be encouraged?

Effectiveness of current HMRC methods

7.7 The feedback from wealthy individuals and their agents suggested that there are a number of effective levers and conditions already in place, which were encouraging compliance:

- The headline Income Tax rate is currently low enough that the motivation to engage in risky tax arrangements is lessened;
- The 'moral' tone of media coverage and the prevailing public and political narrative around wealthy individuals' tax affairs makes it less acceptable to engage in risky avoidance schemes;
- There is a fear of reputational damage (for both agents and individuals);
- The outcomes of tribunal decisions and court cases are a deterrent, and have identified certain schemes as unworkable through legal precedent;
- Regulators and professional bodies now prohibit agents from recommending high-risk arrangements;
- Dedicated Customer Compliance Managers, and the tone of HMRC's dealings with wealthy individuals and their agents, has signaled HMRC is prepared to scrutinize wealthy individuals' tax affairs; and there is concern about the attrition effect of being investigated by HMRC, which can erode the individual's resources and cause prolonged stress.

7.8 The moral tone of the media coverage and of public and political discourse has both succeeded in shifting 'norms'; and has highlighted the (expensive and time-consuming) consequences of being investigated.

7.9 However, there were some concerns expressed by agents and wealthy individuals about the HMRC's current approach. For instance, some agents felt that it is *businesses* that have the resources and risk appetite to engage in tax avoidance – and thus the focus on wealthy individuals is misplaced.

7.10 Some agents and individuals also feel the tax code has become overly complex, which makes it very difficult to clarify where you stand and to know that what you've done is correct; it can also deter some wealthy individuals from moving to the UK as they are unsure of their legal position regarding taxation. While agents argued that this complexity can create opportunities for evasion (i.e. via loopholes); paradoxically, this makes advice from agents more necessary and also seems to help deter individuals/agents from engaging in anything questionable, as they are unsure of where the 'line' is.

Approaches HMRC could use to tackle non-compliance in future

7.11 The feedback from wealthy individuals and their agents regarding wealthy individuals' motivations and objectives in tax planning suggest that there are a number of tailored messaging ideas that might be used to help encourage compliance:

- For the more altruistic/more risk-averse wealthy individuals, there may be scope to 'sell' better the benefits to society of the wealthy paying the appropriate level of tax;
- For those who are less altruistic/with a higher risk appetite, their concern about being caught implied that a potential message might involve the idea of 'not being the guinea pig that proves that the scheme doesn't work';
- For both of these groups, a motivating message might be to highlight how the hassle, stress, fear and uncertainty of getting involved in risky arrangements can undermine your peace of mind and quality of life.

7.12 Wealthy individuals and their agents also explicitly raised some suggested courses of action that HMRC could take to encourage compliance among the wealthy:

- More clarity, sooner, regarding what is legal and what is 'risky'. Many agents had an issue with lack of clarity from HMRC regarding what they consider to be 'risky', and with the fact that HMRC's position on this changes. This means that an agent (and their clients) could have been involved in something that HMRC seemed to be tacitly saying was acceptable, only for HMRC to challenge it retrospectively, further down the line[7];
- Some agents felt that HMRC/government should be tackling tax avoidance schemes at source, by prosecuting those offering them – saying they should have been 'braver, sooner' in doing so. They feel that pursuing wealthy individuals who have entered these schemes – potentially due to an imperfect understanding of them – is unfair;
- A plea for HMRC not to try to 'cut the agent out' – i.e. a perception that HMRC's encouraging more direct individual-HMRC interaction will lead to individuals making more mistakes, in the context of a tax regime that is too complex for them to navigate alone.

7.13 Other, more outlying suggestions and views were mentioned by a few:

- That, if HMRC can demonstrate its smart use of data, it will eventually deter those using more risky arrangements, as they will perceive the risk of being found out to be too great;

[7] From HMRC's perspective, this may be an inevitable part of determining the legality of schemes through precedent.

- Potentially using 'amnesty periods', in which those who know they have been involved in something incorrect and are concerned about it, can notify HMRC and resolve it relatively amicably;

- Encouraging whistle blowing – a few individuals noted that some tax arrangements were so outrageous that they would want to 'whistle blow' on their peers. This was relatively rare, however – mostly, wealthy individuals said they would privately disapprove of such tax arrangements, but would consider it the individual's own business, rather than something to take action to address.

8 Conclusions

8.1 Wealthy individuals are mostly using agents to 'get their tax affairs right' in a complex system, and so direct dealings with HMRC are relatively rare. Agents and – where they have had direct dealings – individuals tended to have broadly positive views of HMRC in terms of levels of knowledge and timeliness of response. However, HMRC was also seen as inconsistent in the tone of their dealings and in their position on an individual's tax affairs; and they were felt to be sometimes adversarial. There was an appetite for a more consistently constructive approach from HMRC but, paradoxically, concern about the stressful, time-consuming and costly consequences of being challenged by HMRC appeared to be deterring more risky tax arrangements.

8.2 Tax behaviour seems to be primarily shaped by a delicate balance between wanting to contribute to society, while being intolerant of too onerous or punitive a tax regime. The near consensus is that the core goal is paying the 'legally correct' amount of tax – and there is irritation at this becoming a morally loaded issue in media coverage and political/public discourse. Other motivations are more varied and seem to map to risk appetite – and these imply some possible messaging approaches to encourage compliance: more effectively 'selling' the benefits to society to those with a stronger social conscience; warning those with a higher risk appetite to avoid being the 'guinea pig' who proves a scheme doesn't work; and – cutting across wealthy individuals more generally – the idea that, by using only safer tax arrangements, you protect the peace of mind and quality of life that are among the key advantages of being wealthy.

8.3 The 'acid test' for agents and some individuals when weighing up a specific scheme, is whether it feels overly-complex or contrived, and whether they believe it will 'fall down' eventually – if this is the case, agents will not recommend it. Agents said they have the ultimate sanction of rejecting clients who they feel have tax affairs that are too opaque or who display too high a risk appetite. That said, agents and individuals mostly seem to be 'on the same page' in avoiding arrangements that feel overly-complex or contrived. Few in our sample of wealthy individuals seemed to be countenancing more risky arrangements; and agents reported that there is now little client appetite for these. Legal challenges, changes to regulation and the aforementioned 'moral' tone of media/public discourse are felt to have made risky arrangements less acceptable. While resented, the moral tone of media/public discourse therefore seems to have been an effective deterrent.

8.4 There is an appetite for increased clarity from HMRC around what is deemed risky so that individuals can stay on the right side of the law; and more decisive action against scheme promoters in order to tackle risky tax minimisation at source. However – and again paradoxically – this lack of clarity may have contributed to deterring individuals/agents from engaging in questionable arrangements.

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