Levelling the tax playing field

Compliance progress report – March 2013

Compliance revenues

HMRC collected £16.7 billion of additional compliance revenues in 2011-12 – £2.8 billion more than in 2010-11.

Avoidance

HMRC has won more than 50 tax avoidance cases since 2010, with billions of pounds at stake.

HMRC has initiated more than 30 changes to tax law since 2010, closing down numerous avoidance loopholes.

Evasion

HMRC has secured more than 1,560 prosecutions of individuals for tax crimes, with a 91 per cent success rate in court since 2010.

Debt

HMRC is providing breathing space for around 600,000 UK individuals and businesses who owe us money through Time to Pay arrangements.

HMRC has reduced the debt balance by 32% since March 2010.

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Foreword

There is a strength of public feeling against tax avoidance and evasion. The compliant majority, who are responsible and pay their taxes to fund our public services and reduce the deficit, do not tolerate people and businesses that are not willing to pay what they owe. The Government understands this feeling and is committed to cracking down on the minority who seek to cheat and dodge their taxes.

It is important to remember that, in general, individuals and businesses in the UK are honest and comply with their tax obligations; this is reflected in our tax gap figures, which rank among the lowest in the world. However, more can be done to deal with those who deliberately evade tax or who use contrived tax avoidance schemes to gain an unfair advantage.

The Government is committed to cracking down on avoidance and evasion: from the companies and individuals who bend the rules, through to the lawbreakers who evade their taxes by operating in the hidden economy, do not declare their income, commit tax fraud or hide their income in offshore accounts. We are also working with international partners to find solutions to the complex issues around how and where the profits of multinational enterprises are taxed.

This Government is investing almost £1 billion in HM Revenue and Customs over this Parliament, in an unprecedented clampdown on avoidance and evasion. This investment is enabling HMRC to secure £22 billion a year in compliance revenues by the end of 2014-15 – almost 70 per cent more than 2010-11. We are also giving HMRC new legal powers to tackle tax evaders and the promoters and users of avoidance schemes.

It is simply unacceptable that a small minority should not play by the rules and we are determined that they must face up to their obligations. They have taken advantage for too long and we are levelling the playing field.

David Gauke MP
Exchequer Secretary to the Treasury

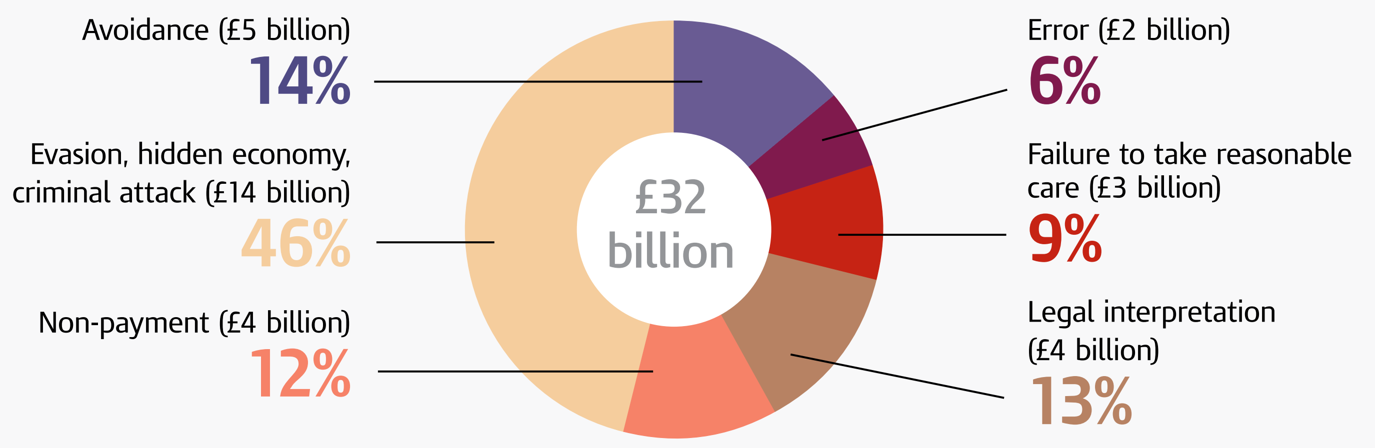
Executive summary

The vast majority of the UK's businesses and individuals are honest and pay their share towards funding public services. But a small minority seek deliberately to evade or to avoid paying what is due, while continuing to benefit from our public services.

In 2011-12 the UK's taxpayers collectively paid £474.2 billion in tax revenues. But our latest estimates suggest that around £32 billion of taxes are not collected. The difference between what is due and what is collected is called the 'tax gap', and in 2010-11 around £14 billion of this was lost to tax evasion, the hidden economy and criminal attacks. A further £5 billion was lost to tax avoidance and £4 billion to unpaid tax.

At the 2010 Spending Review, this Government reinvested £917 million in HM Revenue and Customs (HMRC) to tackle tax avoidance, evasion, criminal attack and debt and invested a further £77 million in the Autumn Statement 2012. We are spending this money on increasing the number of specialists working on compliance, improving their skills and investing in the data and technology that they use to identify and tackle tax avoidance and evasion. By the end of 2014-15, this investment will have contributed to delivering £22 billion a year in extra tax revenues. The next section highlights 16 of the most notable successes that HMRC has had over the past two years in securing these additional revenues.

Tax gap (%)



Part 1 of this report sets out how the Government and HMRC are **preventing, detecting and countering tax avoidance**, in line with the anti-avoidance strategy published at Budget 2011. Tax avoidance involves bending the rules of the tax system to gain a tax advantage that Parliament never intended. Over the past two years, there have been several significant developments – such as the decision to introduce the UK's first General Anti-Abuse Rule and a number of important court successes in avoidance cases. We bring the picture up to date by setting out the new anti-avoidance measures announced at Budget 2013 which will take the anti-avoidance strategy to a new level.

Part 2 sets out how HMRC is **cracking down on tax evasion** and summarises notable achievements since 2010. Evasion comes in many forms including individuals and businesses deliberately and illegally attempting to evade their tax obligations, by operating in the hidden economy, by not declaring their income, by committing tax fraud or by hiding their wealth.

Since 2010, HMRC has made more and better use of technology, data and analytics to identify those who evade their responsibilities. We have increased the number and skills of compliance officers and are using a much wider range of interventions to change the behaviour of evaders. We are also investing in new technology whilst working closely with more international partners to tackle organised crime networks both in the UK and overseas.

Part 3 highlights what HMRC is doing to deal with **debt**. We recognise that there are times when customers might experience temporary problems in paying their tax and allow them time to pay. But we have also deployed new techniques and technology to secure more of what is owed, especially where debtors refuse to engage. Part 3 also sets out the new measures for tackling debt that were announced at Budget 2013.

With its investments in HMRC and the new initiatives announced, this Government has restated its determination to level the tax playing field, supporting the vast majority of businesses and individuals who meet their tax obligations and ensuring that there is nowhere to hide for those who don't.

In numbers:
HMRC's achievements since 2010

£16.7 billion	How much additional revenues we collected from compliance work in 2011-12 - £2.8bn more than in 2010-11. We are on track to beat this in 2012-13.
£14.8 billion	How much additional revenue our compliance teams have brought in from large businesses between 2010-11 and 2011-12.
33	The number of changes to tax law introduced by this Government to close down tax avoidance loopholes, protecting billions of pounds of tax revenues.
59	The number of tax avoidance cases in tribunals and courts that we have won since April 2010, with billions of pounds at stake.
262	The number of banks that have signed up to the Code of Practice on Taxation of Banks since it was introduced. On 30 November 2010, we published a list of the top 15 banks operating in the UK to announce that they had adopted the Code.
91%	Our success rate in court cases having prosecuted more than 1,560 individuals for tax crimes.
40	The number of specialist taskforces we have launched since May 2011, investigating more than 5,500 businesses and individuals, bringing in almost £60 million in additional revenue from cases that have been settled. 40 taskforce cases have been referred for criminal investigation.
8,000	How many disclosures we received from nine disclosure campaigns, securing around £100 million from voluntary disclosures and follow-up enquiries.
3,000	The number of tax evaders we have put in our Managing Deliberate Defaulters programme, subjecting their tax affairs to close scrutiny for up to five years.
1,000	The number of extra people we have assigned so far to tackle avoidance, evasion, criminal attack and debt.
£535 million	The amount of revenue secured by our Road Fuel Testing Unit, tackling organised criminals committing fraud in the oils market.
3.25 billion	The number of cigarettes seized through our Fiscal Crime Liaison Officers since 2010, preventing the loss of around £830 million in revenue by working with overseas partners.
£5 billion	The amount of tax revenue that we expect to raise as a result of our groundbreaking agreement with Switzerland.
£1 billion	The amount of additional revenue expected from the UK's agreements with the Isle of Man, Guernsey and Jersey.
£500 million	How much revenue our High Net Worth Unit has brought in from the 5,600 wealthiest individuals. Our affluent teams, who deal with the next tier down of wealthy individuals have brought in £98 million since 2010.
32%	The reduction in our debt balance - from £22.5 billion in March 2010 to £15.4 billion in January 2013.

Part 1: Tackling tax avoidance

This chapter sets out the developing picture of HMRC's anti-avoidance strategy, detailing our progress and achievements so far and new measures to enhance our approach. There are also particular success stories to tell in terms of our broader compliance activity in relation to large businesses and wealthy individuals, which includes but is not exclusively about avoidance.

The past two years have seen increased pressure being put on tax avoiders to close the £5 billion avoidance tax gap. The Government has strengthened tax law and HMRC has had a series of important litigation successes. At the same time, we have stepped up our communications to taxpayers, warning them of the risks of tax avoidance and the likelihood that marketed avoidance schemes will not succeed. Those who sell avoidance schemes or engage in tax avoidance or are tempted to do so should be in no doubt that the tide is turning against them.

In the next steps in the campaign against avoidance, the Government will this year:

- consult on measures to target the hard core of high-risk promoters who persist in selling avoidance schemes that have little or no prospect of success
- introduce further measures to close loopholes, and consult on proposals to strengthen parts of the tax system that have been targeted for avoidance
- introduce the General Anti-Abuse Rule (GAAR) – a major development in UK tax law.

These initiatives are in addition to the significant reinvestment in our compliance capabilities and ability to address avoidance risks, including those associated with complex international arrangements.

HMRC's anti-avoidance strategy, published in 2011, has three core elements:

- **preventing** avoidance at the outset where possible
- **detecting** it early where it persists
- **countering** it effectively through legislative change or challenge by HMRC.

Preventing avoidance

The best way to protect tax revenues against avoidance, provide certainty for taxpayers and simplify the tax system is to minimise avoidance opportunities from the outset and deter the promotion and use of avoidance schemes. We seek to achieve this through:

- developing effective legislation, thereby minimising opportunities for avoidance
- influencing the behaviour of taxpayers, promoters, agents, intermediaries and those who facilitate avoidance
- disrupting the business model of promoters and others who develop and sell avoidance schemes
- operating an effective disclosure regime, which also makes those considering avoidance realise the likelihood of being detected
- publicising our success in tackling avoidance and warning of the financial and other risks involved
- working with other jurisdictions to strengthen international tax standards
- enhancing anti-avoidance communications through online articles such as *Spotlights*.

Legislation

Over the past two years we have reviewed high-risk areas of the tax system where legislation has been repeatedly targeted for avoidance. Finance Bill 2013 includes measures in three areas arising from those reviews, and the Government is now setting further reviews in train:

- a **consultation to ensure that businesses cannot gain an unfair tax advantage by using offshore intermediaries** to avoid employment taxes. While the Disguised Remuneration rules, introduced in 2011, have had a big impact in addressing attempts to avoid tax and National Insurance Contributions on employment income, schemes involving intermediaries have continued to evolve
- a **consultation covering two distinct areas where tax is being lost as a result of arrangements involving partnerships:**
  - the use of limited liability partnerships to disguise employment relationships; and
  - the manipulation of profit/loss allocations to gain a tax advantage.

Finance Bill 2013 will also bring in the UK's first GAAR. This is one of the most significant changes in modern UK tax law and will have a considerable deterrent effect on those considering abusive tax avoidance schemes.

The GAAR does not do away with other anti-avoidance rules that address specific types of avoidance or specific parts of the tax system. Budget 2013 also announced the introduction of new rules to address issues around the use of corporation tax losses following business reorganisations.

The Government has shown that it is prepared to announce immediate changes to the law to prevent tax loss from avoidance and at Budget 2013 we have announced further measures to close nine loopholes with effect from Budget Day. The Government has also taken action in wholly exceptional circumstances with effect from before the date of the announcement. In February 2012 the Government acted to address a financial avoidance scheme with substantial amounts of tax at stake, and where the bank involved had signed up to the Banking Code of Practice. At Budget 2013 the Government announced retrospective changes to address Stamp Duty Land Tax avoidance, following up on the Chancellor's clear warning at Budget 2012 that he was prepared to act in this way and to ensure a fair outcome for those who heeded this warning.

Understanding the supply chain

The supply chain of avoidance schemes involves:

- **promoters:** the creators and initial suppliers of avoidance schemes
- **intermediaries:** those involved in the supply chain between scheme creator and customer, such as tax agents, accountants and Independent Financial Advisors
- **facilitators:** who provide funding or services within the scheme, such as banks and other financiers, and solicitors.

Our approach is to develop intelligence about how the avoidance market is working, to find out who the participants are and to put pressure on them to reduce the supply of schemes to the market place. The Government is consulting this year on a package of information and penalty powers to tackle the behaviour of high-risk promoters, and we are building a programme of engagement with promoters to influence their behaviour and give them an opportunity to resolve outstanding issues quickly.

Influencing behaviours

HMRC influences customer behaviour by sending out clear messages about avoidance. In particular that:

- avoidance is not the norm, and those who undertake it are a small minority
- tackling tax avoidance is a high priority
- we successfully counteract avoidance, so those who engage in it cannot expect to succeed
- engaging in tax avoidance carries serious risks and consequences.

We are doing this by:

- **exposing the risks** of engaging in avoidance including the publication of *Spotlights* articles on the HMRC website to expose some of the riskiest schemes
- **making better use of anti-avoidance communications** to influence the behaviour of avoidance scheme users, directly engaging with users of certain schemes to ensure that they fully understand that, in our view, those schemes do not work and that we are prepared to litigate if they do not withdraw
- **publicising litigation successes** to increase public awareness of the fact that the expected tax benefits promised by tax avoidance schemes often do not materialise, and to reassure the responsible majority that we are challenging avoidance schemes and winning
- **working with representative bodies** to build a better understanding of the markets in which their members operate, of how we can share information, of their disciplinary codes (to deal with members whose involvement with schemes contravenes their standards) and of how we can improve our communications with their members about tax avoidance.

The Government is also introducing a new measure that will allow government departments to exclude companies and individuals, who take part in unsuccessful attempts to reduce their tax bills through avoidance schemes, from bidding for government contracts.

Early customer engagement

'Real-time working', where differences of view are settled even before the accounts are finalised, is now the norm for our engagement with large businesses and wealthy individuals. This approach has delivered considerable success, both in terms of tax yield and in cutting the time it takes to resolve disputes, while also providing earlier certainty and reduced costs for compliant taxpayers.

Detecting avoidance

Early detection provides us with information to respond quickly to avoidance, which can include changing legislation quickly to close off avoidance opportunities. We have several ways to detect tax avoidance:

- **Disclosure of Tax Avoidance Schemes (DOTAS)** regime for direct tax avoidance schemes and its equivalent for indirect taxes
- **Intelligence** on avoidance schemes provided by third parties, informers and other sources. The number of informers on avoidance schemes, in particular, has been steadily increasing
- **Risk assessment** of taxpayer returns and other information.

Early detection supports prevention by informing improvements to legislation, and by ensuring that customers know that we have a range of means to find out about tax avoidance schemes and those using them. It also enables prompt counteraction.

The *Lifting the Lid on Tax Avoidance* consultation in summer 2012 highlighted a number of ways to improve the detection of avoidance schemes. In 2013, the DOTAS regime, which has already informed measures that have protected billions of pounds, will be improved further to obtain high-quality information on particular types of tax avoidance and the users of avoidance schemes.

Countering avoidance

Using legislation

Where an avoidance loophole is identified in legislation, the Government can act quickly to change the law and close down any schemes that attempt to exploit it. Since April 2010, the Government has introduced more than 30 changes to tax law, closing avoidance loopholes and protecting billions in tax revenues. In December 2012, a scheme exploiting property and trading deductions was shut down within a week of disclosure to HMRC via the DOTAS regime.

In addition to its expected deterrent effect, the GAAR is a new addition to our counteraction tools. It will allow us to tackle those abusive avoidance schemes that cannot be defeated under existing legislation. Where the GAAR does not apply, we will continue to challenge and counteract tax avoidance using existing tools, such as TAARs.

Challenge and litigation

We have a robust approach to litigation, as set out in our published *Litigation and Settlement Strategy* and we have had considerable success in recent years in defeating tax avoidance schemes in the courts and tribunals. As the National Audit Office noted in its recent report *Tax avoidance: Tackling marketed avoidance schemes*, we won 85 per cent of avoidance cases between April 2010 and October 2012.

We litigate a small number of individual avoidance cases, and when we defeat a lead case in the courts, we pursue users of the same or similar schemes to accept that the scheme they have used does not work. We will consult on a possible penalty charge for those users who do not accept a court decision in a leading case and lose after continuing to litigate.

In 2012 we published **settlement opportunities** covering certain employment-related schemes and loss-creation schemes, inviting users to resolve the outstanding tax disputes on a basis that is cost-effective and consistent with the law. We cited relevant precedents from case law that had been decided in our favour and explained the risks to taxpayers of taking their case to court. We have made it clear that we have the resources to accelerate litigation if taxpayers do not settle under the settlement opportunity.

In addition, we are intensifying and improving our **project management of all avoidance schemes**, by setting clear goals, timetables and handling strategies, and improving the co-ordination of case teams. Promoters and avoiders should be clear that we are relentless in pursuing those who bend or break the rules and have the resources to do so. The potential complexity or the large number of users of particular schemes is no obstacle to achieving the right result.

Tower MCashback

(Supreme Court, June 2011)

This complicated tax avoidance scheme involved people investing in computer software through a Limited Liability Partnership (LLP). For every £250 a partner paid into the scheme, the partner expected to be able to claim a tax repayment of £400.

Part of the money which was supposed to have been spent on the software never reached the vendor, but simply went around in a loop as part of the tax avoidance scheme.

The Supreme Court found unanimously in HMRC's favour. The tax at stake in this scheme alone was £30 million, but the decision helped HMRC defeat similar tax schemes, protecting £1.5 billion in tax.

Andrew Chappell

(First Tier Tribunal, December 2012)

This case involved a tax avoidance scheme set up to allow wealthy individuals to pay little or no tax on their income. HMRC's success in the case has protected £156 million from a scheme which had 305 users.

The tribunal found that the arrangements involved little more than signing pieces of paper and making entries in accounts, with money moving around in a circle, achieving nothing for the purposes of the relevant tax law. The tribunal said that if the scheme had been successful its effect would have been to make the payment of income tax voluntary.

Howard Peter Schofield

(Court of Appeal, July 2012)

This scheme concerned capital gains tax on a £10 million gain realised in 2003-04. Mr Schofield sold his business, making a profit of about £10 million. He used a tax avoidance scheme to create an artificial loss so that he wouldn't have to pay tax on the profit of the sale.

He spent a lot of money on a scheme which the Court of Appeal agreed did not work. He had paid out more than £200,000 for this failed scheme, not including the costs relating to the litigation, and still had to pay all the tax due. The wider tax protected in this case was £90 million.

Large business and multinational enterprises

Large businesses pay around 60 per cent of UK tax receipts, including the PAYE and NICs that they pay as employers. This demonstrates their critical contribution to UK tax revenues.

Large businesses, particularly multinationals, have complex business affairs and are sophisticated at planning and managing their tax compliance. This means that their transactions are more likely to need in-depth engagement from HMRC and that they pose a higher risk of tax avoidance compared to small and medium-sized businesses. Avoidance among large businesses tends to be bespoke rather than marketed, depending on the opportunities that exist in particular companies, and is concentrated in a comparatively small number of cases.

Our approach to large business

Given the scale of tax at risk and the complexity of large businesses, our approach is resource intensive, involving a collaborative, open working relationship with large businesses, encouraging them to adopt a low-risk approach to tax planning, identifying and settling their tax issues in real time and vigorously challenging those with aggressive tax strategies.

For the 2,000 largest businesses, we invest in intensive relationship management. Our Large Business Customer Relationship Managers (CRMs) are experienced tax professionals who lead teams of highly-skilled specialists to manage the risks these complex and high-risk customers pose to revenues.

Our CRMs and specialists are always working to enrich their tax and commercial understanding so they maintain and improve detailed oversight of any risks, to support strong responses to avoidance threats, developing an in-depth knowledge of their business strategy and business model, their business and tax issues, their appetite for tax planning and their internal governance. We encourage these large businesses to adopt a low-risk approach to tax planning. Senior managers in HMRC also have regular board-level discussions with the large businesses identified as high risk to review their tax strategies and make progress in resolving their tax issues.

In the highest-risk avoidance cases, which frequently involve multiple avoidance schemes and/or legal disputes, we deploy dedicated project teams and seek engagement with the customer at Board level through the High Risk Corporates Programme (HRCP) and the recently introduced Managing Complex Risks (MCR) programme. The National Audit Office found that the HRCP contributed to a reduction in tax avoidance by large business.

Our approach to large business is championed by the Organisation for Economic Cooperation and Development (OECD) and has been increasingly adopted elsewhere, including in the US.

We aim to prevent tax disputes, including potential avoidance disputes, with large businesses before they occur through direct engagement. We resolve disputes with large businesses in accordance with the published *Litigation and Settlement Strategy*, as with other taxpayers, and we have recently introduced new governance arrangements for the largest and most sensitive tax disputes, to provide greater transparency, scrutiny and accountability.

Delivering results

HMRC's large business strategy is working:

- Since March 2010, we have collected more than £14.8 billion in additional compliance revenues from large businesses
- Our HRCP has brought in more than £4 billion of additional revenues since March 2010. Since it began, HRCP has resolved more than 1,800 issues and generated more than £11.6 billion of additional tax yield
- We have raised more than £1.5 billion since March 2010, through increased efforts in tackling transfer pricing. The transfer pricing rules aim to ensure that multinationals pay the tax due in the UK by determining the taxable profits of each company as if it were an independent entity trading on arm's-length terms with other members of the same group
- In 2011-12, the 10,400 largest businesses accounted for more than 40 per cent of HMRC's additional compliance revenues

- The Code of Practice on Taxation of Banks has been highly effective in reducing banks' appetites for tax avoidance, both on their own account and as promoters, and providers of finance for avoidance schemes. The Government announced at Budget 2013 that it would enhance the Code further to ensure that it remains a very effective tool in changing bank behaviours and cutting off sources of funding and promotion of avoidance.

Boosting our expertise

We are investing in specialists to improve our risk-assessing capabilities. This investment is split between two complementary strands. Firstly, we are reinvesting around £25 million in the skills of our own people, alongside temporary external recruitment, to improve how we identify risks and understand avoidance trends in large businesses. Secondly, we are using the additional funding announced in the Autumn Statement 2012 to further enhance risk assessment capacity and increase our specialist resources on transfer pricing, to ensure multinationals pay the right amount of tax.

The additional investment in the skills of HMRC's specialists will increase our ability to identify avoidance early, and across a broader spectrum of large business customers. This, combined with the planned increase in transfer pricing specialists, will go a long way towards tackling the behaviour of the multinationals and will demonstrate our commitment to tackling multinational tax avoidance.

Working with international partners

The Government has reaffirmed its support for the work of the OECD to address the issue of profit shifting by multinationals and erosion of the corporate tax base at the global level.

The OECD will examine issues with the international tax rules that enable multinationals to make a corporate tax contribution inconsistent with their level of economic activity in that jurisdiction. The UK plays a leading role in the OECD's work in addressing these issues and, alongside France and Germany, the UK Government has provided additional resources to the OECD to make rapid progress on this work.

The OECD published its initial report *Addressing Base Erosion and Profit Shifting* in February 2013, which underlined the importance of international cooperation in tackling these issues, and the OECD will present a comprehensive action plan to the G20 in July 2013.

Very wealthy individuals

HMRC's High Net Worth Unit (HNW Unit) was established in 2009 to deal with the personal tax affairs of 5,600 of our wealthiest customers – typically those with at least £20 million in wealth. These individuals usually have very complex affairs, where large amounts of tax are at stake. They need a high degree of oversight and scrutiny to ensure that they get their tax affairs right, so we take an even-handed approach that helps them to comply voluntarily as well as deterring and tackling avoidance.

Since 2010, our HNW Unit has delivered more than £500 million in additional tax revenues from its compliance work, significantly more than we had previously brought in from this group. The HNW Unit is regarded as an exemplar of good practice by the OECD in dealing with tax compliance among very wealthy individuals.

Other new teams have been set up to focus on a population of 500,000 affluent individuals – the next tier down from those dealt with by the HNW Unit – and we are strengthening these teams by an extra 100 people, financed through reinvestment in HMRC.

Part 2: Cracking down on tax evasion, fraud and criminal attacks

Evasion comes in many forms; from not declaring cash payments and working in the hidden economy to attempting to hide money that should have been taxed in offshore accounts. At the same time criminals are using cyber techniques and international networks to steal from the public purse.

Over the past two years HMRC has stepped up investment in new skills for our people so that they can identify evasion as quickly as possible and pass it on for further investigation. We have also increased the pace in using new data sources and technology to spot connections and detect hidden errors and evasion much earlier.

Our approach to evasion is to identify and target risks, against which we then deploy an escalating range of interventions, depending on the severity of the evasion and willingness of taxpayers to stop and come clean.

They include:

- using publicity to deter evasion, highlighting the consequences of being caught, publicising the results of campaigns and criminal convictions and encouraging evaders to come forward to get their affairs in order
- deploying taskforces aimed at particular trades and professions in various regions to investigate where we have detected evasion risks
- specialist teams tackling affluent individuals who have hidden assets in the UK or offshore
- subjecting persistent evaders to ongoing monitoring and naming deliberate defaulters where more than £25,000 of additional tax would have been lost without HMRC's intervention
- deploying specialist criminal investigators to fight criminal attacks, including alcohol, tobacco and Missing Trader Intra-Community (MTIC) frauds and protecting the UK from cyber attacks.

Together, these initiatives demonstrate HMRC's commitment to the majority of taxpayers who pay what they owe that we are closing in on tax evaders and criminals.

Identifying fraud

Early detection is the key to stopping fraud in its tracks, and we are investing in the skilled staff and technology that make this possible.

Investing in new skills

Our staff play a vital role in protecting the public revenue from fraud. HMRC invests in several types of training to tackle different evasion threats: VAT evasion skills; mentoring programmes, in areas such as alcohol fraud and Electronic Point of Sale; and sector specific training for our taskforces. Since 2010, we have rolled out fraud awareness training to around 3,500 compliance officers to build on existing knowledge and skills. Further training will be given to more people over the next two years and we will continue to build the skills of those already trained as new risks emerge.

Technology and data analytics

HMRC interacts with almost everyone in the UK and holds more pieces of data than the British Library. This is a very important asset and we have increased our use of data, technology and expert analysts to unearth hidden relationships that would otherwise have remained undetected.

We are transforming the way we use data, whilst always operating under strict legal and data security measures to ensure that information and privacy are protected. More data sources are being added, so new connections can be made. As announced at Autumn Statement 2012, legislation is being introduced to amend HMRC's current data-gathering powers, to allow us to issue notices to card payment processors. This will provide us with bulk data about businesses accepting credit and debit cards, improving our ability to identify businesses that are not declaring the full amount that should be paid.

Turning this amount of data into valuable information is challenging, but through our use of cutting-edge technology – known as Connect – we can now cross-match over a billion pieces of data to detect risky taxpayers to follow up. Connect has already generated around £2 billion in additional tax yield – a return of more than 40 times the initial investment – and is used in almost three-quarters of all risk profiles in HMRC.

Connect - recognised as a world class system

Connect holds more than a billion items of data, using clever analytics to spot connections that show true levels of income and spending to identify those evading their taxes.

Our system has won multiple awards, including two prestigious national industry awards: the 2012 project of the year at the National Outsourcing Association Awards and the big data project of the year at the 2012 British Computer Society & Computing UK Industry Awards.

Connect - helps detect false estate returns

HMRC receives around 300,000 paper returns on bequeathed estates every year, of which around 200,000 are from estates claiming to be below the taxpaying threshold.

To identify high-risk cases among a vast number of returns, our experts have developed a single risk code that sifts more than 50 million lines of data, to spot where estates might have been falsely submitted as exempt, utilising information on property ownership and transactions, company ownerships, loans, bank accounts, employment history and self assessment records that had previously been unmanageable.

This single code detects returns that are likely to be false, and why, which has enabled us to step up our compliance scrutiny on non-taxpaying estates - raising an additional £26 million in the first year of operation.

Deterring evasion through publicity and campaigns

In November 2012, HMRC launched a major advertising campaign to reinforce the message that we are closing in on tax evasion. This publicity sends a clear message to evaders that time is running out and aims to reassure the compliant majority that we are pursuing those who don't pay their dues. While publicity alone will not change the behaviour of evaders, it is designed to complement and strengthen the deterrence effect generated by targeted compliance activity, including campaigns and taskforces.

Our campaigns provide an opportunity for evaders voluntarily to put their tax affairs in order and become compliant. As well as unpaid tax received as a direct result of campaigns, HMRC is starting to see the wider impacts that campaigns are having in changing behaviours and encouraging a sustained improvement in tax compliance within targeted sectors. The characteristics of campaigns are:

- transparency – clearly setting out which trades or professions we are targeting and telling them that we have information about them
- use of behavioural change techniques – encouraging customers to make the right choices for themselves
- robust action – using information and intelligence to follow up with action that can include criminal investigations, aimed at those who choose not to pay.

Getting customers back on track

Following our e-market place campaign aimed at online traders, HMRC informed traders that we would vigorously pursue those who had not already come forward voluntarily.

HMRC informed one particular trader, who had a number of different e-marketplace accounts and bank accounts, that their business had been incorrectly applying the zero-rate of VAT on sales, as well as under-declaring their income for a number of years.

Following this, the online trader paid a substantial amount to settle the tax owed.

Wider impacts of campaigns

The impact of HMRC campaigns doesn't stop with individual disclosures. Following the medical professionals campaign, HMRC has seen more doctors spontaneously sending in returns, seeking to adjust their PAYE codes, and filing on time.

HMRC is also working with medical representative bodies and UK medical schools to develop education packages, ensuring doctors of the future are aware of what they need to do to stay compliant.

This education is up and running in two medical schools with many more in the pipeline. Other countries have taken note, and following HMRC's success, Denmark, New Zealand and Canada have adopted our approach.

Targeted taskforces

Since 2010, HMRC has carried out 40 specialist taskforces – intensive bursts of compliance activity in specific, high-risk sectors or locations where there is evidence of tax evasion. These have included taskforces dedicated to fast food outlets in Scotland, landlords in the North West and property transactions in Greater London. Taskforces often involve working closely with other government departments, pooling knowledge and expertise.

We launched 12 taskforces in 2011-12 which have recovered more than £55 million to date and are expected to bring in over £70 million in total. We launched a further 28 taskforces in 2012-13 and we will launch up to 30 more in 2013-14 and 2014-15. Our taskforces have generated more than 1,000 press articles across TV, local and national radio, regional/national and e-media, which enables HMRC to reinforce our message that we are cracking down on tax evasion.

Fast food taskforce activity in London

In July 2011, HMRC launched a fast food taskforce in London, focused on establishments declaring unexpectedly high amounts of zero-rated VAT sales, successfully bringing in over £25 million of compliance revenue.

Further analysis is also showing an increase in VAT standard-rated sales for fast food outlets in London, compared to the national average, for the 17 months following the launch of the taskforce.

This is a positive early indicator of the wider impact our taskforces have in encouraging more compliant behaviours, potentially bringing in millions of pounds of future tax revenues that would otherwise have been lost.

Property taskforce activity in Yorkshire

In May 2012, HMRC launched a property taskforce in Yorkshire, working closely with the Valuation Office Agency to identify individuals who owned and disposed of investment property without declaring the capital gain/trading income and rents.

The tax collected has already exceeded the target and will increase further, with 12 cases taken up for criminal investigation.

Offshore evasion

There are no safe havens for those who try to hide their money offshore. We have signed a number of groundbreaking agreements with other jurisdictions to share information and gain access to data which will recover billions of pounds of tax that, in many instances, would have been out of reach. The Liechtenstein Disclosure Facility is projected to bring in £3 billion, the recent agreements with the Isle of Man – and as announced at Budget 2013, with Guernsey and Jersey – are expected to raise £1 billion and the Government's historic agreement with Switzerland is expected to secure £5 billion in unpaid tax as well as securing future tax compliance.

This Government has also invested £6 million in setting up a new offshore centre of excellence in HMRC, which published a new strategy on tackling offshore evasion at Budget 2013. This strategy, *No Safe Havens*, outlines how we are ramping up our work programme to reduce the opportunities to evade, to catch those who do evade and to strengthen the severity of punishments for those we catch. The message to offshore evaders and those who support them is clear: it is time to come clean.

No safe havens for offshore tax evaders - working with other authorities

Two businessmen who lied about cash they had hidden in offshore bank accounts were jailed for tax evasion and fraud. Having been alerted by the German authorities, HMRC investigators discovered that, over a six-year period, the men evaded around £500,000 in UK income tax, instead putting their profits in bank accounts in the Isle of Man.

Following the opportunity to come clean in an offshore disclosure campaign, both men failed to take the chance to disclose their hidden accounts - with Roderick Smith claiming that he had one offshore account when in fact he had 12.

His business partner, Stephen Howarth, also failed to take the chance to disclose any of his accounts in the campaign.

Monitoring persistent evaders

Once caught, evaders should not believe they will be fined and that's it. The Managing Deliberate Defaulters Scheme subjects those who deliberately fail to comply with their tax obligations to increased scrutiny. In the past two years, HMRC has sent nearly 3,000 letters telling tax cheats that they will be subject to closer monitoring for up to five years. We also have the power to name those penalised for deliberately defaulting where more than £25,000 of additional tax would have been lost. We used this power for the first time in February 2013, publishing the names of deliberate defaulters on our website and we will update the list quarterly.

Targeted criminal investigation and prosecution

HMRC uses criminal investigation and prosecution as a key tool in demonstrating that tax evasion carries serious consequences and as a deterrent to those who might consider evading their taxes. Over the past two years, HMRC has significantly increased the number of individuals prosecuted for tax fraud, prosecuting three times as many individuals in 2012-13 as in 2010-11 whilst being successful in 91 per cent of cases in court. We will prosecute even more in 2013-14.

Tackling promoters of fraudulent schemes

Roy Faichney, a professional tax advisor and Managing Director of Vantis Tax Ltd, had a 'gentleman's agreement' with his deputy, David Perrin to share the £4.5 million profit from a fraudulent tax avoidance scheme sold to wealthy customers, which left charities and the Exchequer out of pocket.

The complex scheme involved purchasing shares worth a few pence each, before donating them to unsuspecting charities in an attempt to claim back £70 million in tax relief.

Following an HMRC investigation, Fainchey was jailed for four years and his deputy, Perrin, for 18 months. Sentencing Faichney at Blackfriars Crown Court, the judge said: "If you ever had a moral compass, you lost it or buried it under the property purchases, furnishings, holidays and cruises."

Tackling organised crime

Organised crime is a multinational business. HMRC receives attacks from organised cyber criminals from all around the world, using ever more sophisticated techniques in their efforts to steal public funds. HMRC's response is to be equally innovative, using all our civil and criminal powers to detect and tackle the vulnerabilities of organised criminals. We have invested in nearly 500 additional staff and have prevented more than £1.75 billion of losses since 2010. Our activities to disrupt and deter criminal activity include:

- investing in technology to better detect the signs of organised crime, particularly in the sphere of cyber crime
- deploying our staff in disrupting and deterring the activities of organised criminal gangs
- working closer with other law enforcement agencies, both in the UK and abroad.

Investing in technology

As more of our services are placed online, we need to be vigilant against the threat posed by cyber criminals. HMRC's customers can be innocently caught up in cyber crime attacks, such as phishing, and they might provide their details to online criminals masquerading as HMRC. We have significantly improved our capacity to detect bogus tax registrations and fraudulent repayment claims across a range of taxes. Our goal is to design and then continually adapt our systems to prevent loss ever happening, and to learn quickly from attacks to adjust and increase protections around our systems.

Ensuring cyber security

More than 30,000 new phishing websites are established every month, with millions of phishing messages sent via the internet or by texts. We have developed a comprehensive anti-phishing approach, dovetailing internal expertise with an industry leading anti-phishing service, taking down thousands of counterfeit HMRC sites and dealing with over 15,000 emails from the public each month relating to phishing activity.

In the first nine months of 2012-13, we blocked 12 million malicious emails, 6.3 million SPAM emails and 2.2 million web-based malware hits. We have set up a new cyber crime team and are constantly monitoring and updating our protective controls to stay a step ahead of cyber threats.

Deploying our staff

HMRC deploys criminal investigation and intelligence teams that bring together professional criminal justice and tax professional skills. These teams give HMRC a significant capability at the leading edge of delivery across the full range of overt and covert investigation techniques and criminal justice powers. We have built on this core resource by:

- deploying additional cyber skilled staff (funded through 2010 Spending Review reinvestment) to develop and use our technology based approach to identifying and tackle cyber enabled frauds
- developing a project approach to tackle organised criminal attacks, deploying the full range of civil and criminal capabilities to achieve significant impacts in minimising the threat from the crime groups attacking HMRC systems.

Working closely with other law enforcement agencies

Organised criminals often begin their operations overseas and then attempt to circumvent the security of the UK. Often, the cases we deal with require close cooperation with other law enforcement agencies and overseas partners, with whom we have forged close links.

HMRC is using new approaches to tackle this form of crime. We are one of the key law enforcement agencies in the UK committed to delivering the UK Organised Crime Strategy, which will build ever-closer ties between agencies to tackle organised crime in the UK, including the new National Crime Agency. We have expanded our overseas presence to intercept and seize illicit tobacco destined for the UK network, with 28 Fiscal Crime Liaison Officers based in 21 countries, tackling fiscal smuggling and fraud. We work closely with the Border Force to tackle excise fraud, tackling alcohol and tobacco duty evasion by organised crime group, by balancing the use of criminal prosecutions in cases against cost-effective civil investigation techniques.

Tackling alcohol fraud

Four members of a criminal gang were jailed for one of the biggest alcohol smuggling frauds ever uncovered in the UK. The fraud was worth £50 million a year in unpaid duty and VAT and allowed the gang members to spend extravagantly on high-performance cars and luxury properties throughout Europe.

Gang ringleader Kevin Burrage owned Promptstock Ltd, a bonded warehouse in Essex. His brother-in-law, Gary Clark, managed the warehouse which the pair used to import and export alcohol without paying any tax. The gang bought household-branded beer, wine and spirits from bonded warehouses in France and imported it duty free into the UK, destined for Promptstock. Once safely through customs, the alcohol was illegally diverted to locations around the UK where it was sold on without duty being added.

The gang also reversed the fraud by appearing to send trucks to France loaded with non-duty-paid alcohol. The alcohol actually remained in the UK and was sold on, again with no tax added. To avoid detection, the gang sent empty trucks to the continent, several of which were intercepted by UK Border Agency officers. They were snared in an undercover operation with Burrage jailed for ten years with the three other defendants jailed for a total of 12 years.

Tackling VAT fraud

A 15-strong criminal gang were convicted and sentenced for attempting to defraud more than £176 million in VAT, through complex mobile phone trading scams. The ring leader, Dilawar Ravjani, was jailed for 17 years - the longest sentence ever given to an individual in the UK for Missing Trader Intra-Community (MTIC) fraud.

The gang claimed to have sold four million mobile phones worth £1.7 billion. But in many cases the phones did not exist, including 250,000 which had not yet been launched in the UK. In an attempt to make the trade appear legitimate, more than 5,700 fake business transactions were created, in order to claim large amounts of VAT.

The first arrests were made within three weeks of the enquiry starting and prevented the attempted £176 million fraud. HMRC also prevented the payment of fraudulent VAT repayment claims totalling £109 million submitted by companies linked to the fraud.

Part 3: Debt matters

The tax gap from non-payment is around £4 billion a year – bringing this money in is as essential to closing the tax gap as clamping down on tax avoidance and evasion.

Between March 2010 and January 2013 HMRC reduced the stock of tax debt (the cumulative total of all tax debt) by almost a third, from £22.5 billion to £15.4 billion.

We are now recognised internationally as one of the front-runners in the field of collections and, as part of the Cabinet Office's Fraud, Error and Debt (FED) taskforce, we have worked across central government to share experience and try new ways of working in analytics, behavioural economics and how debt is collected. We have exploited the substantial scale of our operations to secure better value for other departments and agencies when engaging with the private sector. And we have also worked with other government departments to design policies aimed at protecting and assisting debtors who are in genuine hardship.

HMRC's Debt Strategy is to build on these successes and make increasingly efficient use of our debt management resources by:

- recognising that some taxpayers have genuine difficulty in paying us and supporting them through temporary difficulties
- taking innovative collection approaches based on data analytics and behavioural insights
- using private sector expertise to complement in-house capability
- creating a fair system by making it easier to pay and less attractive not to comply.

Helping customers in genuine difficulty

Where businesses demonstrate that the underlying business is viable, we provide some breathing space through a Time to Pay arrangement, which is currently helping around 600,000 UK businesses and individuals experiencing temporary difficulty.

Assisting taxpayers in genuine difficulty

A company approached HMRC for assistance in settling a large outstanding tax liability. This company had overcome previous financing issues and was almost at completion stage for a major restructuring that would secure a more stable future for the business.

However, the company temporarily found itself in a difficult financial position and without a Time To Pay arrangement from HMRC, the company faced the real risk of going into administration. This would have meant a considerable loss of revenue to the public purse alongside the likely loss of several hundred jobs.

The company contacted HMRC and, after constructive negotiations, we reached an arrangement that saw HMRC recover the debt in full whilst the business completed the restructuring, safeguarding both jobs and exports.

Innovative techniques

For the debts that remain, HMRC has introduced a rapidly-changing programme of campaigns, based on segmenting taxpayers into groups that share common characteristics, and tailoring our collection strategies to these groups. We continually test and refine these strategies and messages based on behavioural insights about customers and their payment history, working closely with the Cabinet Office behavioural insights team. This has allowed us to adopt different approaches to collecting the money owed, as well as taking pre-emptive steps to encourage customers to make timely payments in the future.

The campaign approach is complemented by the sophisticated use of technology. For example, we have recently introduced ADEPT, a near real-time debt analytics system that uses information on every late-paying business and individual in the UK. ADEPT combines analytical modelling with performance analysis, enabling HMRC continually to monitor and improve out debt collection approach.

Making the most of behavioural insights

A simple message which said that not responding to a tax credits overpayment reminder would be treated as an active choice, not an oversight, doubled payment rates over a month. This improvement was worth around £3 million for the cases involved, but was cost-free to implement.

Pointing out the public services that are funded by taxation has also been shown to be an effective way of increasing payments, particularly for those with large debts. Mentioning public services in an income tax reminder letter raised payment rates by 20 percentage points for people with debts over £30,000. Again, this was a cost-free initiative.

Where taxpayers disengage and ignore our efforts over non-payment of their debts we take fast, effective and firm action to ensure that these debts are paid. These actions include using Debt Collection Agencies (DCAs) and recovering smaller tax debts through the PAYE system.

Working with the private sector

We have successfully used DCAs to boost our capacity and provide an alternative to enforcement action for smaller debts. The use of DCAs alongside skilled in-house resource is recognised as industry best practice and it is common among large organisations in the private sector.

New initiatives, tools and techniques

HMRC is introducing new measures for those trying to pay their debts, including the announcement at Budget 2013 that we are consulting on increasing the amount of debt that can be collected by changing an individual's PAYE code – a simple and convenient route for recovering debts. We are also allowing people to pay their debts via an automated telephone service, so payment opportunities are not dependent on call centre opening hours and we already offer the option of paying debts online.

Annex - List of Budget 2013 measures

Anti-avoidance measures

- General Anti-Abuse Rule
- Corporation Tax: corporate loss-buying rules
- Corporation Tax loss relief: 3 loophole closures
- Taxation of loans from close companies to their participators: 3 loophole closures
- Retrospective action to address Stamp Duty Land Tax avoidance
- Misuse of tax-advantaged tax schemes: Corporation Tax deductions for employee share acquisitions
- Taxation of investors in offshore funds
- Inheritance Tax: Limiting the deduction for liabilities
- Review of offshore employment intermediaries used to avoid tax and NICs
- Review of use of partnerships to avoid tax
- New proposals to target the 'high-risk' promoters of tax avoidance schemes
- Enhancing the impact of court decisions in avoidance cases: stronger approach to penalties
- Strengthening the code of practice for taxation of banks
- Using public procurement to deter avoidance and evasion

Evasion measures

- Agreements and Disclosure Facilities for Jersey
- Agreements and Disclosure Facilities for Isle of Man
- Agreements and Disclosure Facilities for Guernsey
- Extending HMRC's data-gathering powers to card payment processors

Debt measures

- Improving Coding Out
- Technological improvements – automated telephony
- Technological improvements – better data for collections
- Increased use of charging orders