



# HM TREASURY

1 Horse Guards Road  
London  
SW1A 2HQ

For enquiries about distribution of this and other DAO letters, please contact Kate Adedipe, Tel: 020-7270-5314 Fax: 020-7451-7622 kate.adedipe@hmtreasury.gsi.gov.uk

## DAO(GEN)01/12

02 February 2012

All live DAOs are at  
<http://www.hm-treasury.gov.uk/dao>

Dear Accounting Officer

## TAX AVOIDANCE

**This letter reminds readers that public sector organisations should not use artificial tax avoidance devices. If such arrangements are discovered after being taken out, they should normally be unwound. Accounting Officers in central government departments should arrange for the Treasury to be informed of any instances of tax avoidance relating to appointments found in their departmental groups by the end of March 2012.**

2. *Managing Public Money*<sup>1</sup> warns public sector organisations against engaging in artificial tax avoidance. Accounting Officers always need to assess value for money by considering the impact of their organisations' activities on the whole public sector, including any effect on revenue. Avoidance devices designed artificially to reduce the apparent cost of goods or services by paying less tax (or NICs) are thus not acceptable.

3. Artificial tax avoidance should always be regarded as a novel and contentious use of public resources. So if a public sector organisation is considering a proposal using tax avoidance, it should consult its usual Treasury contacts and HMRC<sup>2</sup> before going ahead. Readers should be aware that external audit may find use of artificial tax avoidance irregular and/or improper if there is no explicit Treasury agreement – which is unlikely to be provided unless value for money can clearly be demonstrated.

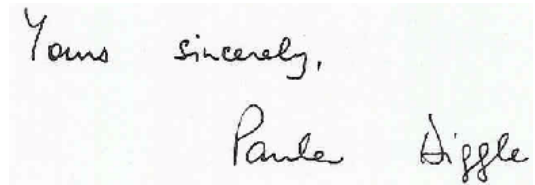
4. Central government departments should arrange to assess the terms of their appointments, including those in the arm's length bodies in their departmental groups, by the end of March 2012. If any of these appointments, including those of consultants, entail payments to special purpose companies substituting for salary payments, they should be unwound as soon as can be accomplished without loss of value to the Exchequer. Departments should notify the Treasury of the results of their investigations.

<sup>1</sup> See section 4.2, especially 4.2.6

<sup>2</sup> <http://www.hmrc.gov.uk/avoidance/aag-risk-assessing.htm>

5. Please put your questions about this letter to:

- Brett Lonsdale, WPP: 020 7270 5330
- Jim Duncan in TOA: 020 7270 4833
- Bethan Chant in HMRC: 020 7667 4465

A handwritten signature in black ink on a light-colored background. The text reads "Yours sincerely," followed by the name "Paula Diggle" written in a cursive script.

Paula Diggle  
Treasury Officer of Accounts