HM Revenue & Customs

HM Treasury

No safe havens 2019

HMRC's strategy for offshore tax compliance

Contents

Ministerial Foreword

It's right and fair that everyone pays the correct tax, wherever in the world they or their assets are based. The majority do this voluntarily and the UK tax gap is at a near record low.

However, some do not. Since 2010, HMRC raised over £2.9 billion by tackling offshore tax non-compliance, enough to build 6 new hospitals.

The UK is at the forefront of the international tax agenda. Our leadership was key in driving increased collaboration between tax authorities, including through the ground-breaking Common Reporting Standard that is shedding new light on offshore financial accounts around the world.

In addition, the government has introduced new sanctions to help HMRC crack down on those who try to pay less tax than they should, as well as those who help them.

These efforts have transformed HMRC's capabilities to tackle the risk that offshore arrangements pose. However, we are not complacent and recognise that more remains to be done. Some still try to hide money offshore. Others use contrived offshore arrangements in an attempt to avoid tax. Some make mistakes.

HMRC's priority remains to promote compliance by making it easy for taxpayers to get their tax right first time, ensuring that individuals who want to do the right thing receive a service that is tailored to their circumstances.

HMRC will continue to crack down hard on those who try to avoid or evade paying the tax they owe, as well as those who help them, by investing in the latest technology and using its tough new penalties.

As this strategy sets out, the UK will continue to champion international tax transparency. HMRC will continue to help those who try to get it right and tackle those who go overseas in an attempt to pay less than they should.

Mel Stride MP
Financial Secretary to the Treasury

No Safe Havens 2019

The UK has seen huge changes and improvements to offshore tax compliance in recent years. Since 2010, the government has introduced over 100 new measures to tackle tax non-compliance.

No Safe Havens 2019 outlines how HMRC will ensure offshore tax compliance, helping achieve our overarching objectives[1]:

- to maximise revenues and bear down on avoidance and evasion
- transform tax and payments for customers
- design and deliver a professional, efficient and engaged organisation

We will do this by focusing on 3 areas:

- leading internationally
- assisting compliance
- responding appropriately

As we continue to build on this approach to help the honest majority whilst tackling those seek to pay less than the tax due, we will work in partnership with taxpayers, their agents and other tax authorities to:

- Promote compliance and help the honest majority to comply with their offshore tax obligations
- Prevent those that seek to exploit a system designed to be fair
- Respond to those that break the rules, and those that help them, with vigorously enforced sanctions and by collecting the tax due
- Obtain the information HMRC needs to verify the facts without unnecessary delay
- Champion international tax transparency

These measures have secured and protected over £200 billion, ensuring that the UK tax gap is at a near record low[2] and helped transform HMRC's approach to offshore tax. This has seen new offences and increased sanctions for those who seek to evade tax, as well as those who help them.

International developments, championed by the UK, have also seen dramatic changes in tax transparency. In the past, jurisdictions with strict banking secrecy rules would not supply information to HMRC.

£2.9bn+

raised since 2010 by HMRC cracking down on offshore tax non-compliance

1 Measuring tax gaps 2018 edition – tax gap estimates for 2016-2017, page 4. HMRC: 14 June 2018.
2 Our strategy HM Revenue and Customs: 20 July 2017

Now, over 100 jurisdictions have committed to automatically exchange financial account information under the new international standard, the Common Reporting Standard (CRS).

In 2018, HMRC received information about the offshore financial interests of around 3 million UK resident individuals, or entities they control. We have begun using this data to detect possible non-compliance.

In addition, the UK has played a leading role in international initiatives to tackle multinational tax avoidance.

To ensure the largest corporates with overseas arrangements pay the right tax, the UK was at the forefront of multilateral action through the G20 and the Organisation for Economic Co-operation and Development (OECD) to reform international standards through the Base Erosion and Profit Shifting (BEPS) project.

The UK has also introduced the Diverted Profits Tax (DPT) to ensure multinational companies pay UK tax in line with their UK activities. In addition, organisations that fail to prevent their representatives from facilitating tax evasion can now be prosecuted.

No Safe Havens 2019 builds on HMRC's achievements so far in addressing offshore tax non-compliance and expands the scope and ambition of the previous strategy.

Previously, No Safe Havens concentrated on offshore tax evasion. However, we recognise that the minority of customers who pay less offshore tax than they should, do so for a variety of reasons.

Some make mistakes, or attempt to avoid tax by exploiting the rules to gain an advantage Parliament never intended. Others seek to evade tax, and in doing so commit a crime.

5.67m

Records received on UK taxpayers' offshore financial accounts in 2018

How the world has changed

	2010	2019
Global exchange of financial account information	✗	✓
Comprehensive penalties for UK tax evaders and enablers	✗	✓
Corporates criminally liable for failing to prevent the facilitation of tax evasion	✗	✓
Internationally agreed rules to tackle multinational profit shifting	✗	✓

This strategy sets out how we will tackle the whole problem of offshore tax non-compliance across that spectrum of behaviours, and all our customer groups.

This includes working with agents and intermediaries to help their clients avoid errors and make it simple for them to identify and correct errors. The unprecedented amount of data that HMRC is receiving from a range of sources is at the heart of our approach.

To tackle the range of reasons why our customers pay less tax than they should, we will focus our efforts on 3 key aims:

- leading internationally – championing international tax transparency. This includes improving international collaboration between tax authorities to ensure the correct UK tax is paid
- assisting compliance – helping customers get offshore tax right first time. This includes increasing customers' awareness and understanding of their responsibilities. This also includes using new data and insights to design systems and processes to help meet everyone's needs as we try to make tax as easy as possible
- responding appropriately – taking a proportionate approach to risk and behaviour. This includes helping those who make mistakes; robustly challenging those who avoid or evade tax; and applying sanctions to those who help them

Scope of No Safe Havens 2019

No Safe Havens 2019 brings together in one place HMRC's approach towards offshore tax compliance. It covers a range of behaviours, from simple mistakes to avoidance and evasion.

The strategy sets out how we will ensure offshore tax compliance and tailor our approach, helping customers get it right first time where possible. Where we intervene, we will use an approach that is appropriate and proportionate to the tax at risk and the customer's behaviour.

This is a compliance strategy to ensure people abide by the rules that Parliament sets. HMRC also leads international work to ensure those rules are appropriate and do not lead to unfair outcomes.

Leading internationally

The UK has been at the forefront of international changes that are transforming tax authorities' ability to work across borders to tackle emerging international tax risks.

Our leadership was key in initiating the Organisation for Economic Co-operation and Development (OECD's) Base Erosion and Profit Shifting (BEPS) project to tackle multinational tax avoidance, and in setting standards for tax transparency and exchange of tax information, such as the Common Reporting Standard (CRS).

International leadership is the first of our three aims to help ensure the correct UK tax is paid. We will work with other jurisdictions to develop international tax standards that help ensure offshore tax compliance and prevent unfair outcomes. We will continue to champion international collaboration and the exchange of tax information to help us achieve these goals.

Championing international tax transparency

In the past it was very difficult for HMRC to find out about offshore assets, income, gains and transfers which should have been declared for UK tax but were not. Sometimes this was an inadvertent mistake, but sometimes it was a deliberate choice to declare, and try to pay, less tax than was owed.

However, now new international tax transparency standards are shedding light on our customers' overseas arrangements. Jurisdictions that previously had strict banking secrecy rules are now sharing information automatically with HMRC.

Over 100 jurisdictions have committed to exchange financial account information with each other about accounts held in their jurisdictions by individuals, or entities they control, that are reportable under the CRS.

In addition, the UK is at the forefront of international efforts to bring greater transparency to offshore arrangements which could be used to evade tax, or to avoid reporting under the CRS. We will continue to work with our partners and the OECD to achieve this.

The UK was also amongst the first countries to implement country-by-country reporting, which requires large multinationals to provide a country-by-country breakdown of their profits, tax and assets to HMRC. These reports are then exchanged between relevant tax authorities, further increasing international tax transparency and helping with high level tax risk assessments. HMRC is using the data to identify new areas of risk and continues to engage with other jurisdictions to share best practice.

Automatic exchange of information agreements cover over 90% of global GDP

These new data sources are helping HMRC unravel offshore arrangements and detect possible non-compliance.

We can then intervene, appropriately and proportionately depending on the expected behaviour and risk, to ensure the correct tax is paid. In some cases we will ask taxpayers to check and confirm their affairs are in order, in others we will open a civil enquiry to verify the correct tax has been paid, and in the most serious cases we will start a criminal investigation.

When HMRC carries out tax enquiries our customers usually provide the information we need quickly and voluntarily. However, if they choose not to provide the information, or information required is held by a third party who will not provide it voluntarily, we use HMRC's formal powers to obtain the information. These powers include safeguards to ensure they are used appropriately.

However, it is often more expensive, and time-consuming, for HMRC to obtain data from those who choose to hold information overseas.

Some businesses, including online platforms[3], can choose whether to hold data within the UK or overseas.

Following a consultation on the role of online platforms, the government is developing potential solutions to help level the playing field for obtaining information.

We will consider opportunities in other sectors or industries to ensure that HMRC can obtain essential information without unnecessary delay.

Focus: Common Reporting Standard information exchange

In 2018, HMRC received CRS records relating to 5.67 million accounts.

This builds on 2017, when HMRC received 1.63 million records – these related to accounts held by 1.3 million individuals, and around 100,000 held by others, in around 40 jurisdictions.

Many customers have come forward to disclose offshore tax non-compliance through the Worldwide Disclosure Facility before they are detected by HMRC using the CRS data. Some chose to do so after receiving a letter from HMRC.

We have written to tens of thousands of customers we believed may have an overseas account or investment to ask that they check they have paid the correct tax. We are currently opening many enquiries where customers chose not to come forward, and may impose penalties if tax should have been paid.

3 This includes online platforms that help connect buyers and sellers of goods and services or facilitate the gig and sharing economy

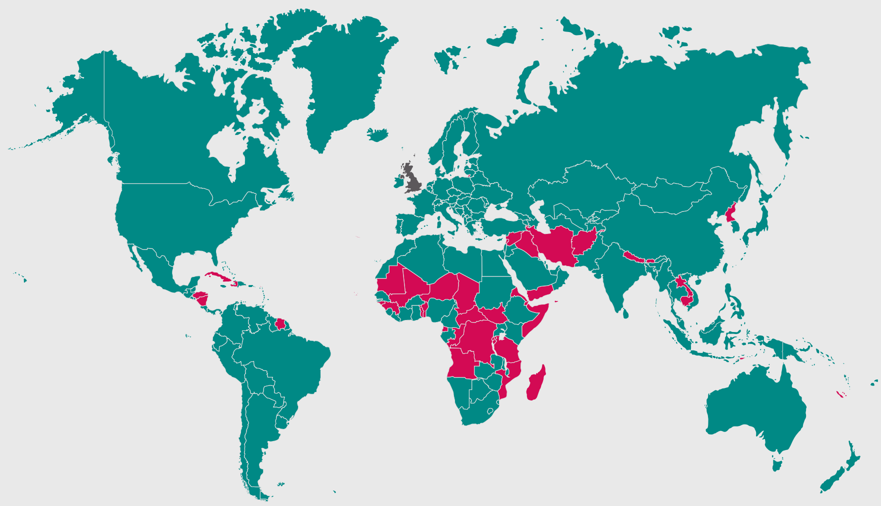
Exchanging information internationally

The UK has one of the world's largest networks of international tax treaties. This extensive network includes around 150 jurisdictions around the globe and allows for tax information to be requested and exchanged where it is useful for tax compliance purposes.

Where relevant information is held outside the UK, HMRC can request it under the relevant treaty.

The tax authority that receives the request will obtain the information and provide it to HMRC to use in our investigation. These information exchanges with the UK's treaty partners support our enquiries into our customers' overseas tax arrangements, and likewise we support enquiries undertaken by our treaty partners.

The UK's tax information exchange partners



Exchange of information participation

No Exchange of information participation

The UK champions the Global Forum's[4] standards for information exchange, which cover the timeliness and quality of exchange. These include requiring that jurisdictions are able to establish the true beneficial owners of legal entities and arrangements, so this information is available if requested by a partner tax authority.

Beneficial ownership transparency plays a central role in ensuring tax compliance. Whilst most companies and trusts are used legitimately, they can be used to hide the true owners of assets for tax avoidance and tax evasion and other illegitimate purposes including corruption, money laundering and the financing of terrorism.

Where companies and trusts are located outside the UK there are significantly higher risks[5] that they can be used for avoiding or evading tax or facilitating illicit finance.

4 The Global Forum on Transparency and Exchange of Information for Tax Purposes (Global Forum) is the international body that ensures jurisdictions are living up to their commitments in respect of tax transparency

5 HM Treasury and Home Office: National risk assessment of money laundering and terrorist financing 2017

Central registers of beneficial ownership (or their equivalent systems) help ensure that structures are not used to hide the ownership of assets. They are an important tool for tax and other law enforcement authorities to use to tackle structures set up to hide assets for illegitimate purposes.

The UK was one of the first countries to introduce a public register of company beneficial ownership[6]. We will build on this by creating a new register for non-UK entities that own or plan to purchase UK property by 2021.

This will help HMRC assess the risk these companies pose, complementing our existing collaboration with the Land Registry.

Recent reforms have increased the tax transparency of trusts when considered by tax authorities. These include international information exchange under the CRS (which includes financial accounts relevant to trusts) and a UK requirement that all trusts with a UK tax liability must register with HMRC's Trust Registration Service (TRS).

HMRC recently consulted on the taxation of trusts[7] and will publish a response in due course.

We will continue to champion international initiatives promoting tax transparency. Working within international fora, such as the OECD and the Global Forum, HMRC will help to develop standards and ensure jurisdictions comply with their existing commitments. This will strengthen HMRC's ability to challenge tax avoidance and tackle tax evasion.

Strengthening operational collaboration

Complex offshore cases can take HMRC much longer to investigate, and require more resources, when compared with equivalent domestic cases. This is especially true where the arrangements involve numerous entities in different jurisdictions. Financial innovations and new technologies are increasing the complexity faced by our investigators when considering offshore cases.

To help address these difficulties, Parliament extended the time limit for HMRC to assess offshore tax. HMRC will be able to raise assessments, going back up to 12 years. This will ensure HMRC has the extra time often needed to establish the facts for offshore matters.

In addition, HMRC is leading work with other tax authorities to identify new risks as they emerge and develop prompt and effective operational responses.

The UK is a leading member of the Joint International Taskforce on Shared Intelligence and Collaboration (JITSIC) network of 40 jurisdictions.

JITSIC members collaborate to share intelligence on cross-border tax avoidance and evasion, including co-ordinating work on specific taxpayers and developing common solutions to emerging tax risks, such as those posed by new technologies.

The UK will continue to fully participate in JITSIC, work which helps to protect the UK tax base and increase international co-operation and collaboration.

6 The taxation of trusts: a review. HMRC: 7 November 2018, last updated 18 January 2019
7 In this context a beneficial owner is any individual who controls, directly or indirectly, or benefits economically from an entity, arrangement, capital or asset.

In 2018, the UK joined forces with Canada, the Netherlands, the United States and Australia to launch the Joint Chiefs of Global Tax Enforcement (known as 'J5').

The J5 alliance brings together the latest technology and sophisticated analytical capacity across these tax administrations to tackle those who enable international tax crime, cyber criminals and money launderers.

The J5 has identified, and is actively pursuing, a number of enablers suspected of facilitating significant cross-border tax fraud and money laundering.

These international partnerships complement HMRC's collaboration with other UK government law enforcement agencies, including the police, the National Crime Agency and the Border Force, as well as regulators, such as the Financial Conduct Authority.

We will deepen our international and national partnerships, helping to ensure HMRC has access to the intelligence and information it needs to identify, understand and tackle offshore tax risks, including those posed by emerging technologies.

Case study: HMRC investigates a large multinational business

As part of HMRC's Business Risk Review process for large businesses, we identified that a large multinational company had used a cross-border financing arrangement to avoid tax.

Following a detailed enquiry, our specialists successfully challenged the arrangement. As a result, HMRC determined the company had behaved carelessly in submitting its tax return and imposed a £1 million penalty, as well as requiring the company pay the £5 million in tax that it should have.

HMRC will always intervene where we suspect tax avoidance. We will intervene proportionately to put things right with all our customers, including large business.

Building tax capacity in developing countries

Greater tax transparency and the exchange of information makes information available that is vital to fight tax evasion and avoidance.

The UK is committed to supporting developing countries that wish to implement international tax standards and increase international cooperation. This in turn enhances the generation of government revenues to fund public services, reduces reliance on foreign aid, and assists in fighting illicit financial flows.

Some countries can face considerable challenges in implementing tax transparency standards. Building on HMRC's depth of knowledge regarding the international exchange of tax information, the UK has run successful capacity building programmes to share this expertise with nine partner developing jurisdictions.

We will build on the success of these initiatives and expand HMRC's team which helps developing countries, our Capacity Building Unit.

HMRC will invest up to £18.25 million of Overseas Development Assistance funding over the next 6 years, which will be used to improve the efficiency and effectiveness of revenue administrations in low and middle-income countries, by sharing UK knowledge and expertise.

This investment builds on a strong track record of HMRC developing long term partnerships and delivering peer-to-peer advice with tax authorities in developing countries. Embedded HMRC advisers have also been deployed to work in 6 countries, and HMRC's tax experts have delivered training and advice around the world.

Ensuring offshore tax compliance requires strong leadership and collaboration with our international partners. Increasing international collaboration will help HMRC ensure there are no safe havens for evaders and avoiders as the world becomes more interconnected and our customers' arrangements grow more complex.

Assisting compliance

HMRC recognises that the vast majority of our customers want to comply with their tax obligations and pay the right amount of tax at the right time. At 5.7%, the UK tax gap is at a near record low[8].

Assisting compliance is the second of our aims, as getting tax right, for everyone, helps HMRC too. Therefore increasing customers' awareness and understanding of their responsibilities is at the heart of our approach to help ensure the right UK tax is paid.

However, UK tax obligations for non-UK income, gains and transfers can be complex. We understand that, as a result, some customers inadvertently pay less tax than they should by making mistakes or relying on out-of-date advice.

To help customers get things right as easily as possible we will seek new ways to make sure people know what they need to do. By providing appropriate help we will make it easier for customers to understand their obligations and get their tax right first time. We will work in partnership with agents to do this, including by promoting good standards of tax advice.

We will make greater use of the unprecedented amounts of offshore data HMRC is receiving to help us to design systems and processes that prevent mistakes before they are made.

By investing in our capabilities and using behavioural science we will increase our understanding of the drivers of non-compliance and barriers to compliance for offshore arrangements. We will improve voluntary compliance through education, aiding customers' understanding of offshore compliance and developing ways to prompt customers or remind them of their obligations.

Promoting compliance

HMRC aims to promote compliance and prevent non-compliance ever taking place. As a customer-centric organisation we focus our activity around five customer groups[9], and tailor our systems and services to the needs of each group based on their size, behaviour, complexity and risk.

We design our approach to offshore tax compliance for each customer group to help them get tax right first time. Using analytical techniques, such as trend analysis and systems mapping, we will continue to develop products and processes to promote compliance.

We help promote compliance

8 Measuring tax gaps 2018 edition – tax gap estimates for 2016 to 2017, page 4. HMRC: 14 June 2018.
9 These five groups are large businesses, mid-sized businesses, small businesses, individuals and the wealthy. Criminals are dealt with outside of these groups and are subject to a very different approach.

This targeted response is informed by HMRC's annual review of the UK tax gap[10]. HMRC analysts have developed a sophisticated, robust methodology to ensure non-compliance estimates are representative of the population. HMRC was the first tax authority in the world to measure and publish tax gap estimates for both direct and indirect taxes every year, enabling HMRC to target resources effectively and efficiently to collect the tax that is due.

The UK's largest businesses, and wealthiest individuals, are allocated specialist Customer Compliance Managers (CCMs), due to the complexity of their affairs. CCMs work closely with HMRC's technical tax specialists and build professional relationships with customers and their agents to settle tax issues and address any compliance issues. The tax affairs of around half of large businesses are under active investigation by HMRC at any one time.

We will help our customers understand what they need to do by improving guidance on UK tax obligations regarding overseas income, gains and transfers. We will seek customers' views about how we can help them and how we might better target our messaging and make use of technology. As part of this work, we will investigate opportunities to work more closely with third parties, including online platforms, based in the UK and overseas.

We will use data, including the information we are receiving through CRS, to help promote offshore tax compliance. This includes piloting the use of prompts in the foreign pages of the online self-assessment return to remind customers that HMRC receives a huge amount of data on offshore investments and care is needed to ensure the foreign pages are completed correctly.

We will explore providing guidance to build customers' awareness of the tax implications of their activities and help them be tax compliant. For example, if a customer starts an online business we want to see they are provided with the help and advice they need to ensure they register for tax at the correct time and meet all their obligations right from the start.

We are already designing our systems and processes to help customers get things right. HMRC is investing over £1.3 billion to become the most digitally advanced tax authority in the world through the Making Tax Digital programme[11].

Making Tax Digital includes introducing new online tax accounts to give our customers a single, simpler view of their dealings with HMRC – including those arising from offshore arrangements – to help reduce the scope for misunderstanding or error. In addition, these accounts will facilitate secure communications with all our customers, including those based overseas.

Better systems and processes will give our customers greater confidence that they are paying the right amount of tax and will save them time. Helping more customers get their tax right first time allows us to target resources on those who most need additional help, and on those determined not to pay the right tax.

As we continue to design systems and processes to promote offshore tax compliance and deter non-compliance, we will continue to provide a process for customers to correct mistakes. It will always be in the customer's interest to disclose non-compliance and cooperate with HMRC's enquiries.

10 Measuring tax gaps 2018 edition – tax gap estimates for 2016 to 2017, HMRC: 14 June 2018
11 Overview of Making Tax Digital, HMRC: 9 February 2019.

Preventing non-compliance

Across the tax system, customer mistakes cost the Exchequer over £9 billion in 2016 to 2017[12]. The best way to tackle non-compliance is to prevent it happening in the first place.

We will deepen our understanding of our customers' overseas activities. Using technology and our expertise we will then identify specific issues, such as common mistakes, which can then be addressed before they become non-compliance.

For example, more prompts may be included in the online tax return to alert customers if they may be about to make a common mistake.

We are designing systems around the customer, using simple, user-friendly messages to help them understand issues and direct them to guidance. In addition, we aim to engage promptly where we detect life events, such as retirement, that could change our customers' tax position to prevent potential mistakes. We will explore opportunities to tailor this approach to our customers with offshore activities.

Online tax accounts provide new opportunities to engage with and learn from our customers. Using the data within these accounts, and complementary information we receive from other sources, we will develop new ways to provide assistance. We are already working closely with the software industry to ensure a range of products are available for our customers to help achieve these goals.

We are also exploring how new and emerging technologies, including automation, artificial intelligence and distributed ledgers, can be used to help improve our understanding of potential tax risks. This will help HMRC to prevent mistakes from happening in the first place, whilst focusing on those who need support or those who deliberately seek to pay less than they should.

We help prevent non-compliance

Working with agents and intermediaries

HMRC recognises the important role agents and intermediaries play in helping our customers comply with their tax obligations. They help reduce burdens on customers and ensure the right tax is paid at the right time. This is particularly important where customers' tax affairs involve complex offshore arrangements.

We will continue to work with the tax profession to maximise the role that they can play in helping HMRC promote compliance and prevent non-compliance on offshore arrangements.

Where HMRC intervention is required, we will always seek to work collaboratively with our customers' agents to help correct mistakes and resolve disputes. We will review ways in which HMRC can better help the compliant majority of agents and intermediaries.

12 Measuring tax gaps 2018 edition – tax gap estimates for 2016 to 2017, page 5. HMRC: 14 June 2018

Robust professional standards help ensure agents provide high quality advice. Leading UK professional bodies set and enforce minimum standards of behaviour for their members in relation to tax through the Professional Conduct in Relation to Taxation[13] (PCRT). We will support the relevant professional bodies in upholding the standards, for example by reporting more poor work by agents to their professional body for appropriate disciplinary action.

We will also explore opportunities to work with other jurisdictions to promote comparable standards for UK tax advice in their jurisdictions. This would help prevent non-UK agents providing advice that results in our customers paying less UK tax than they should.

Practically every bank that operates in the UK has adopted the Code of Practice on Taxation for Banks[14] under which, amongst other things, they commit not to promote tax avoidance arrangements. HMRC will continue to monitor compliance with the Code and how it supports improved behaviour across the banking sector.

We will help to ensure that agents provide quality advice

In line with HMRC's agents strategy, we will consider how to work with agents and intermediaries to deliver a digital service and make use of the data HMRC is now receiving. We will continue to work with representative bodies to support consistently high standards for paid tax advice. In addition, we are working with financial institutions to share best practice on identifying and responding to fraud and tax evasion through the Counter-Fraud Forum.

Promoting voluntary compliance, and making it easier for everyone to understand their offshore tax obligations, will help maintain a stable tax system that everyone has confidence in.

13 These include the Association of Accounting Technicians, the Association of Certified Chartered Accountants, the Association of Tax Technicians, the Chartered Institute of Taxation, the Institute of Chartered Accountants in England and Wales, the Institute of Chartered Accountants of Scotland and the Society of Trust and Estate Practitioners. The PRCT is available on their websites.

14 The Code of Practice on Taxation for Banks. HMRC: 9 July 2014 and last updated 17 December 2018.

Responding appropriately

Only a minority of our customers pay less than they should and the UK tax gap is at a near record low[15]. HMRC actively responds where our customers are non-compliant, whether the problem arises within the UK or overseas.

We respond robustly where people have sought to avoid or evade tax, or helped others to do so. HMRC uses the full range of its criminal and civil powers to investigate fraudsters and to tackle organised crime.

As a result of these investigations HMRC has protected £3.3 billion in tax revenues, including both onshore and offshore, in 2017 to 2018 alone. Our current portfolio of civil and criminal investigations resulting from the Panama Papers is forecast to yield over £190 million.

The government has introduced extensive new penalties and tough new criminal offences (introduced in 2016 and 2017) for tax evaders and those who help them. This includes new Corporate Criminal Offences for companies that fail to prevent the facilitation of tax evasion, so that we can tackle the problem at all levels. Now, those who are determined to evade are taking bigger risks.

As part of our efforts to ensure that tax paid by multinational companies is commensurate with the activities they undertake in the UK, in 2015 the government introduced the Diverted Profits Tax. By the end of 2017 to 2018 this had delivered £700 million. In addition, HMRC investigations of profit diversion have delivered substantial amounts of additional Corporation Tax and VAT as businesses unwound aggressive structures.

Responding appropriately is the third of our 3 aims, as we understand that customers make mistakes with their tax for various reasons and only a minority seek to deliberately try to avoid or evade tax.

As we respond to those that pay less than they should, as well as those that deliberately enable them to do so, we will make use of all the tools at our disposal. This will allow us to identify risks and behaviours and respond in the most appropriate and proportionate way.

£190m+

expected to be raised as a result of our robust response to the Panama papers

Focus: Connect – HMRC's analytical tool

Connect cross-references more than 22 billion lines of data including customers' Self Assessment returns, property and financial data.

Connect identifies more than 500,000 cases (onshore and offshore) for HMRC to enquire into every year.

15 Measuring tax gaps 2018 edition – tax gap estimates for 2016 to 2017, page4. HMRC: 14 June 2018

Use of data to ensure the right tax is paid

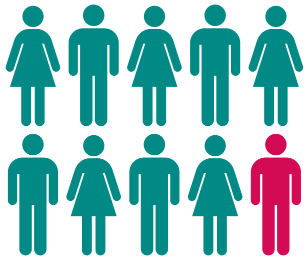
HMRC recognises that the majority of customers pay the right tax at the right time and we are committed to helping them do so as easily as possible. However, some make mistakes, or fail to get up-to-date advice and become non-compliant. Others are not aware that they should, for example, account for income from a rental property in another jurisdiction and that UK tax may be due.

Some engage in tax avoidance by seeking to exploit the tax rules to gain an advantage that Parliament never intended. A minority deliberately decide to evade UK tax, for example using offshore structures to hide income that they should have declared.

Global implementation of new international tax transparency standards is shedding unprecedented light on HMRC's customers' overseas arrangements. For example, early analysis of the information HMRC received last year suggests around one in 10 UK taxpayers have an offshore financial interest.

HMRC first received data under the Common Reporting Standard in 2017. We have already integrated this data into Connect to help us verify compliance and detect possible non-compliance and have started contacting customers where we believe there is a risk of tax having been underpaid.

We will build on this work over the coming months and years as increasing quantities of data are integrated into Connect and we develop our analytical tools, and gain further insights into risks related to offshore financial accounts.



10%

Last year, HMRC received information that indicated one in ten UK taxpayers have an offshore financial interest

Case study: HMRC recognises those who choose to voluntarily correct their affair

Mrs P and her late husband had been using a complex structure to deliberately hide money overseas for many years. However, Mrs P recognised it was only a matter of time before HMRC detected her evasion.

Mrs P came forward to declare her evasion in 2016. HMRC recognised Mrs P had come forward entirely voluntarily to put it right, and accordingly reduced the penalty from potentially around 100% to 30% of the tax owed. Mrs P also paid substantial interest, as she had been evading tax for many years.

In total, the tax, interest and penalty amounted to £1.2 million – nearly double the tax due had Mrs P paid the correct tax in the first place.

HMRC always recognises voluntary disclosure and will reduce the penalty accordingly. Those who choose not to come forward face higher penalties and, potentially, prosecution.

Correcting inaccuracies

We recognise that the majority of HMRC's customers seek to pay the correct tax, and we help them to correct mistakes. Helping people get things right helps us too.

Everyone has a responsibility to take reasonable care over their tax affairs. 'Reasonable care' means doing everything a person can reasonably do to make sure they comply with the tax rules, for example by ensuring that tax returns and other documents sent to HMRC are accurate.

What is reasonable will differ for each customer according to their abilities and circumstances. If a customer takes reasonable care but despite that gets their tax wrong, then no penalty will be due for that mistake.

Those who have failed to take reasonable care and have understated the tax due will be required to pay the appropriate penalties. These penalties can be reduced if the customer comes forward to correct their mistake and cooperates with HMRC's enquiries.

A customer who chooses not to come forward and waits for HMRC to identify that they paid less than they should will always be in a worse position than a customer who comes forward voluntarily and cooperates with HMRC's enquiries.

Finance (No 2) Act 2017 introduced a new Requirement to Correct regarding past tax non-compliance before 1 October 2018 or face greatly increased penalties. Over 18,000 customers have notified HMRC that they want to correct past offshore tax non-compliance.

We will examine how else to encourage, and help, customers to correct inaccuracies. Using the insight we are gaining from the Requirement to Correct and elsewhere we will be better able to identify risks and spot possible mistakes with customers' tax affairs as they arise.

Where we suspect a taxpayer may have made a mistake, we will encourage them to check their tax return is accurate. In 2018, HMRC wrote to tens of thousands of customers we believed may have tax due on an overseas account or investment to ask them to check they had paid the correct tax.

18,000+

notifications of intent to correct past offshore tax non-compliance received

Using data from the Common Reporting Standard and other sources, we have sent tens of thousands of letters prompting people to check that they paid the correct tax

Challenging those who try to avoid UK tax

Tax avoidance involves bending the rules of the tax system to gain a tax advantage that Parliament never intended. It often involves contrived, artificial transactions that serve little or no purpose other than to produce this advantage. It involves operating within the letter – but not the spirit – of the law.

Most tax avoidance schemes simply do not work. We challenge those who try to avoid tax and HMRC wins 9 out of 10 avoidance cases taken to court.

Those who engage in avoidance can find they pay more than the tax they attempted to save once HMRC has successfully challenged them. Many others choose to settle their dispute without resorting to litigation.

HMRC investigates every customer we suspect may be trying to avoid tax to determine whether a challenge is appropriate. Whether this is a marketed scheme sold to hundreds of people or a 'bespoke' scheme devised and implemented by a wealthy individual or a large company, HMRC will investigate it. We work with our partner tax authorities where the tax arrangements involve overseas elements or features.

Where necessary, the government will continue to take action domestically and multilaterally to update the law to reflect modern business practices and close loopholes that exploit offshore structures. This will help ensure the correct UK tax is paid.

We will use targeted communications to customers, and the full range of powers provided by Parliament, to reduce both the number of existing avoidance cases and the appetite for new avoidance schemes.

Recently introduced powers, like Accelerated Payment Notices, are taking the profits out of tax avoidance by ensuring that any tax in dispute is paid up front. Follower Notices are requiring users of similar schemes to settle once HMRC wins a lead case in litigation.

90%

Courts rule in HMRC's favour in over 90% of tax avoidance cases

Case study: collaboration across tax authorities

Mr G used an avoidance scheme in an attempt to reduce his tax liability. HMRC identified the scheme, the offshore company involved, and that a small number of UK taxpayers were using the same scheme.

HMRC asked our partner tax authority to provide information on the offshore company. This information exposed a complex web of transactions designed to avoid UK tax liabilities involving several companies across different jurisdictions. In addition, many more UK scheme users were identified.

Working with our partners to address the avoidance scheme will recoup around £100 million in tax for the UK – over 8 times the tax originally estimated.

HMRC will challenge and investigate cases where tax avoidance is identified, working in collaboration with our partner tax authorities where necessary to recover all the tax due. If an avoidance scheme sounds too good to be true, it probably is.

Tackling those who try to evade UK tax

Tax evasion is a crime. Whilst customers' circumstances will vary, those who misrepresent their affairs, or know they are not paying the right amount of tax and do nothing to correct it, are evading tax. In line with HMRC's criminal investigation policy[16] we tackle those who evade tax using the most cost-effective methods to help deliver value for money.

As a result, many that evade tax are subject to civil penalties, including substantial fines.

The government has strengthened HMRC's civil response to offshore tax evasion in recent years. This includes introducing a new asset-based penalty from April 2016 onwards which can be up to 10% of the value of any asset that underlies the evasion (in addition to the existing penalties that apply). The government has also introduced new specific criminal offences for offshore evasion.

We will continue to undertake criminal investigations where the conduct involved is such that only a criminal sanction is appropriate and where HMRC needs to send a strong deterrent message. Where HMRC's tax evasion investigations result in prosecution, more than 9 in 10 end in conviction.

90%+

investigations which result in prosecution, end in conviction

Case study: HMRC responds robustly to those that don't co-operate

Mr W owned a small business selling kitchens in the UK. He diverted some of his business's income to his personal bank account in Spain in an attempt to hide it from HMRC and evade over £277,000 in UK tax.

In line with HMRC's criminal investigation policy, we initially opened a civil enquiry after our analysis indicated potential discrepancies. However, Mr W still chose not to come forward to declare and pay the tax he owed.

Mr W was given the opportunity to disclose the irregularities and reduce potential penalties, as well as the risk of prosecution, on a number of occasions during HMRC's investigation, but refused to cooperate.

As a result, HMRC escalated the enquiry by launching a criminal investigation. Mr W was prosecuted for tax fraud.

He now faces a 21 month prison sentence – suspended for two years – and if he fails to pay the tax and penalties he owes within three months of his conviction, he will go to prison for five years.

HMRC will respond robustly where there is less than full cooperation with our enquiries.

16 HMRC's criminal investigation policy, HMRC: updated 4 September 2018.

Case study: where appropriate, HMRC will not hesitate to open a criminal investigation

Four conspirators devised and marketed a scheme they said would avoid tax by claiming relief on industrial investments. Two hundred and seventy-five clients invested over £78 million in the scheme, and claimed over £100 million in tax relief on the advice of the conspirators.

However, the scheme was a sham. The conspirators only invested £4 million of the £300 million they claimed, the rest was hidden in 24 offshore trusts and companies owned by the conspirators and managed or administered from 4 different jurisdictions.

The conspirators were arrested and HMRC's criminal investigation, delivered in partnership with other tax authorities, proved they had attempted to cheat the public of revenue through their actions. As a result, custodial sentences totalling 27 years were handed down and HMRC is recouping the lost public revenue from their clients.

HMRC will not hesitate to open criminal investigations in appropriate cases, where we need to send a strong deterrent message or where the conduct involved is such that only a criminal sanction is appropriate. This can lead to prosecution and, on conviction, to a long prison sentence.

New international tax transparency agreements are shedding unprecedented light on our customers' offshore affairs. This, combined with HMRC's robust operational approach, will ensure there are no safe havens for those who seek to evade tax.

We will continue to monitor our approach and, where appropriate, will implement reform to help HMRC tackle those who seek to cheat the system.

Collecting the tax owed

HMRC takes swift action to collect unpaid tax, interest and penalties, whether the customer resides in the UK or overseas, and wherever their assets are located.

We will support those who try to pay outstanding tax debts. However, if customers choose not to cooperate and will not pay what they legally owe, we will look to collect the debt through formal procedures. Where the customer and their assets are based overseas, we can often work with our partner tax authorities to collect the tax due.

While we have a very high success rate in collecting overdue tax in the UK, this is more difficult for customers outside our jurisdiction – this is the same for all tax authorities. Inevitably, some debt is written off, resulting in a permanent loss of tax to the UK Exchequer and less money to fund public services.

We will consider reforms to prevent the non-payment of UK tax in the first place and will strengthen our collaboration with other tax authorities to help ensure UK tax debts are paid.

We will also explore opportunities to disrupt and deter those who try to not pay the tax they owe, learning from the experience of other jurisdictions.

Case study - it doesn't pay to delay

Mr Z moved to another country without paying UK tax that he owed and bought a new home to settle there.

HMRC asked the tax authority in that country to pursue the debt on HMRC's behalf. Mr Z disputed the amount of tax and paid only half what he owed. When the UK court ruled in HMRC's favour, the overseas tax authority was able to recover the full amount of tax plus interest and late payment penalties.

HMRC will pursue UK tax debt overseas in collaboration with our international partners to ensure those who owe UK tax pay what is due.

Pursuing those who enable tax avoidance and criminality, including tax evasion

An 'enabler' is any person who knowingly helps their client to avoid or evade tax. We will strengthen our understanding of enablers as we detect and investigate more of their clients, using the data we are receiving and through our collaboration with our partners in other jurisdictions.

We will relentlessly pursue enablers using the new penalty regime for anyone who designs, sells, or otherwise enables the use of a tax avoidance arrangement which HMRC later defeats. Similarly, we will impose new civil penalties on those who deliberately enable another person's offshore evasion or non-compliance.

We have already seen behavioural responses to these penalties. Enablers of tax avoidance schemes have chosen to move out of that business altogether, publicly announcing this decision.

In addition, in 2017 the government introduced new Corporate Criminal Offences[17] for companies and partnerships that fail to prevent the facilitation of tax evasion by those providing services for them, or on their behalf.

As a result of this legislation we have seen organisations strengthening their internal processes to guard against the risk that their representatives may facilitate tax evasion. We will continue to work with organisations to help them prevent facilitation of tax evasion within their ranks.

17 Tackling tax evasion: Government guidance for the corporate offences of failure to prevent the criminal facilitation of tax evasion. HMRC: 1 September 2017, updated 18 May 2018.

HMRC is using a new system that collates data on non-compliant enablers across sectors that allows a holistic view across the department. This complements HMRC's existing tools to identify and assess risk and respond accordingly.

We will continue to build on existing initiatives and operational collaboration as we explore opportunities to deter, disrupt and penalise those who enable their clients to avoid or evade tax, whether they are based in the UK or overseas. This includes working with our international partners to tackle their activities.

We are actively pursuing a number of enablers suspected of facilitating cross-border tax fraud and money laundering through the 'J5' alliance.

These joint projects help effectively disrupt the operations of those who enable international tax crime, and often support HMRC's work to tackle other criminal activities including fraud and money laundering. We will work together with other tax authorities to gather information, share specific operational intelligence and conduct joint operational activity to detect and crack down on those who enable tax avoidance and evasion.

Taking a proportionate response, appropriate to the risk and behaviour, ensures fairness and trust in the tax system, from helping customers understand their tax obligations to robustly tackling those who try to cheat the system. No individual or company is above the law.

Our response will ensure offshore tax compliance and that there are no safe havens for offshore tax avoidance and evasion.

Annex A – Glossary

Definitions of key terms used throughout this document:

- **Offshore tax** is tax payable to the UK Exchequer from income, gains or transfers arising from activities or assets situated in, or moved to, a territory outside the UK.
- **Tax evasion** is always illegal. It is when people or businesses deliberately do not declare or account for what they owe. It includes the hidden economy, which is when someone hides taxable activity from HMRC completely.
- **Tax avoidance** involves bending the rules of the tax system to gain a tax advantage that Parliament never intended. It often involves contrived, artificial transactions that serve little or no purpose other than to produce this advantage. It involves operating within the letter, but not the spirit, of the law. Most tax avoidance schemes simply do not work, and those who use them may end up having to pay much more than the tax they tried to avoid, including penalties.
- **Tax planning** involves using tax reliefs for the purpose for which they were intended – it is not tax avoidance. For example, claiming relief on capital investment, saving in a tax-exempt ISA or saving for retirement by contributing to a pension scheme are all legitimate forms of tax planning.
- **Tax non-compliance** is not getting your tax right the first time, for any reason. It includes evasion, avoidance and other behaviours, such as making careless errors or mistakes on your tax return.

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