

Closing in on tax evasion

HMRC's approach



£3 billion

Estimated revenue from the Liechtenstein Disclosure Facility. International agreements, such as the Liechtenstein Disclosure Facility and the historic agreement with Switzerland, will recover billions of pounds of unpaid UK tax on hidden wealth.

£22 billion

HMRC's activities to tackle non-compliance including avoidance, evasion and fraud will deliver almost £22 billion a year by 2014-15.

**400
criminal
convictions**

Over 400 criminal convictions for tax evasion in 2011-12.

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Foreword

The overwhelming majority of people pay the right tax. 'Closing in on tax evasion' is not about these people, but it should reassure them about our determination to tackle the small minority of people who break the law by not paying the tax they owe, who try to mislead and attempt to evade their taxes.

Finding people who deliberately hide their income and wealth to evade their taxes is challenging. But doing it effectively has never been more important. As we rebalance our economy and take action to drive down the deficit, detecting tax evasion and penalising those who hide their income and wealth to evade tax is essential to ensure that we all pay our fair share.

At the same time the world is witnessing a technology-driven transformation in the way we do business and live our lives. Many of the advances have been driven by the private sector, but government is no exception. HMRC must become a market leader in the use of technology and data to drive its business. This means using information to improve and better target HMRC's services: making it easier to get in touch and get the right information; making interacting with HMRC a smoother process; and giving help to those who need it. It also means using technology to detect and close in on those who try to break the law by evading their obligations.

As the range of data available in both the private and public sectors increases, HMRC is taking opportunities constantly to improve its ability to detect hidden income and wealth using sophisticated technology. 'Closing in on tax evasion' sets out some of the ways this is happening: using and analysing property purchases, tax returns, loans, bank accounts and employment data to identify property assets, spot and track suspicious financial transactions and highlight the connections that

identify those trying to hide their income and wealth in order to evade tax. New technology also means that HMRC is able to free up resource and, along with expertise brought in from the private sector, increase the focus on tax evaders.

Furthermore, last September I signed a ground breaking agreement with the United States of America, the first of its kind, which will significantly increase the amount of tax information automatically exchanged between the UK and the USA. It sets a new standard in international tax transparency aimed at tackling tax evasion. The Government will now look to conclude similar agreements with other jurisdictions. We will be publishing our comprehensive strategy to tackle offshore tax evasion in Spring 2013.

'Closing in on tax evasion' sets out some of what HMRC has already achieved, the activity in the coming months, and some of the next steps HMRC has in hand. It is an important step forward in HMRC's use of data, clever technology, expertise and its commitment to confront tax evasion in all forms. We are closing in on tax evaders.



David Gauke
Exchequer Secretary to the Treasury

Executive summary

HMRC is committed to making it easier for people to comply with their tax obligations. But a small minority break the law by deliberately evading their taxes and HMRC is resolute in tackling these people.

At the 2010 Spending Review this Government invested £917 million to tackle avoidance, evasion and fraud, increasing the number of people focusing on these areas, enhancing their skills, expanding our use of third party data and continuing to develop clever analytical tools to identify even the most hidden forms of tax evasion. In December 2012, the Government reaffirmed this commitment, investing a further £77 million in HMRC avoidance and evasion work. This document sets out further detail on HMRC's approach to evasion.

HMRC wants to reassure the vast majority of businesses and people who are meeting their tax obligations of what we are doing to tackle those who deliberately set out to hide their income and wealth, and shirk their legal obligations. Tax evasion is a crime which undermines our public services and can undermine confidence in the fairness of the system; it means honest taxpayers end up paying more.

So it's very important to the public's confidence in HMRC that we explain, through publishing documents such as 'Closing in on tax evasion', what we are doing to tackle those who break the law by evading their

taxes. It's also a message to those who evade that we are determined to detect and deal with them – the net is closing in.

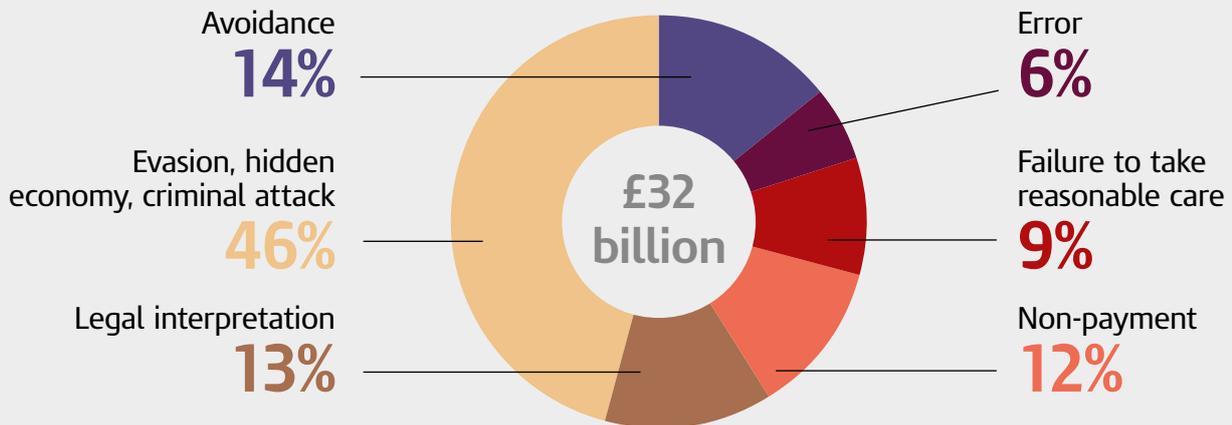
Chapter 1 sets out the new opportunities and action to identify and tackle tax evaders: taking advantage of technology and data, launching new advertising campaigns, increasing the size of our teams dedicated to this group, and bringing in private sector expertise. Along with new data from other countries, from the private sector and from across government, we are now more able than ever to spot the connections that make the reality of tax evaders' income, wealth and assets transparent.

Chapter 2 sets out some of the success this approach has already brought us, what we are doing in the next six months and some of our longer-term plans to go further.

These actions are enhancing our ability to tackle tax evasion. But we are committed to going further to make the most of technology and data to improve every aspect of what we do, making it easier for those who pay the tax they owe, and catching those who don't.

1. Introduction

Tax gap by behaviour, 2010-11



- 1.1 The vast majority of taxpayers pay their fair share of tax, and pay it on time. The latest statistics suggest that 93 per cent of tax due is paid, helping to reduce the deficit and fund the UK's public services.
- 1.2 But a small minority continue to deliberately evade paying their taxes, hiding their income and wealth to circumvent taxes, while continuing to reap the benefits of our public services. Ultimately these people are undermining our schools, hospitals, and armed forces, as well as the Government's ability to deal with historically high levels of borrowing. The latest estimates show that tax evaders, including those operating in the hidden economy and those who undertake organised criminal attacks on the tax system, deprive the public purse of around £14 billion – 46 per cent of all unpaid taxes.¹
- 1.3 At a time when the Government is tackling the deficit, against a backdrop of global financial uncertainty, it is vital that we focus relentlessly on cracking down on those that break the law and making sure that everyone pays the tax they owe. This means we will do more to confront the small number of people who try to evade paying their taxes by hiding their income and wealth, moving it overseas, using complex arrangements designed to mislead, or by lying about their income.

¹ 'Measuring tax gaps'. HMRC, 2012 <http://www.hmrc.gov.uk/statistics/tax-gaps/mtg-2012.pdf>

Clever technology driving change

1.4 Technology is driving huge change around the world, transforming the way we do business and live our lives. Here in the UK we have been quick to adopt technology to do more, faster, and at a lower cost. Estimates suggest that the internet already accounts for 8.3 per cent of UK GDP, the largest among G20 countries². Globally, this change has meant an exponential increase in data, which is increasingly easy to access, and enables us to innovate and become more efficient. Here and around the world, this means connections are increasing, bringing us closer together and breaking down barriers. This transparency allows the bigger picture to be seen, revealing previously hidden patterns that have the potential to transform the way we do business. Research by the McKinsey Global Institute suggests that making use of this data could be worth €250 billion to public sector administration in Europe alone³.

1.8 trillion gigabytes

The amount of digital information created or copied in the world in 2011 - nearly as many bits of information as there are stars in the universe. 75 per cent of this is created by individuals rather than organisations *Source: IDC, 2011.*

1.5 Of course HMRC has long used data to improve our services to make paying tax easier as well as to help identify tax evaders and ensure they pay their fair share. We already hold a unique range of information on income and payment of taxes, as well as information from banks, insurers and other third parties. But we are now going further, capitalising on the opportunities offered by the variety, volume and speed of information generated. By using clever technology and analysis we are transforming the way we use data to identify and pursue tax evaders (always operating under strict legal and security measures to ensure that information and privacy are protected).

1.6 HMRC already has innovative technology in the form of the award winning Connect system. We aim to go further and be the market leader in our use of data analytics to drive our business, for example, investing £30 million more in Connect and other risking systems. This means we are making more use of the data we have. But it also means going further and faster, joining up across government, with the private sector and with other countries, to expand data sources and through clever analytics – to accelerate our ability to spot those trying to evade paying their share. For example, new agreements with countries like Switzerland or Liechtenstein, and recent cases of ‘whistleblowers’ coming forward to identify overseas tax evasion, are making it harder for people to hide income and wealth by moving it overseas.

The true level of earnings

A recent case involved a successful author whose accountant failed to include a number of large payments in his accounts, significantly underestimating the true level of earnings. HMRC's access to data from third parties spotted the gap. Including penalties this resulted in more than £900,000 being repaid.

² www.bcgperspectives.com/content/articles/media_entertainment_strategic_planning_4_2_trillion_opportunity_internet_economy_g20

³ Source: McKinsey

1.7 We have made significant investments in improving our capability. At Autumn Statement 2012, the Government committed to investing a further £77 million in this activity. Taken together with the investment made at the 2010 spending review, this means that overall HMRC is investing almost £1 billion over the period of the Spending Review in improving compliance, tackling avoidance, evasion and preventing criminal attacks. This approach is already paying dividends; in 2011-12 alone this investment helped HMRC increase compliance revenue by almost £2 billion and HMRC's compliance activities are expected to raise £22 billion a year by 2014-15.

HMRC's Connect system

- Contains more than a billion records. This includes taxpayer records as well as information from third parties and from the internet.
- Has a huge range of data including income, interest on wealth in bank accounts, taxes paid and unpaid, business ownership, and data from tax authorities in other countries.
- Uses analytics to spot connections that show the true levels of income and spending that reveal those evading their taxes.
- Is widely recognised as an example of excellence in the UK, having recently won major awards: 'IT outsourcing project of the year'; the British Computer Society 'Big Data project of the year'; and the 'Civil Service Science and Technology Award'.

1.8 HMRC's wider use of technology is not just focused on bringing in more money to fund the UK's public services. It also means that we can provide tailored online guidance, education and support to individuals and businesses to help them to get their tax right. Where we identify cases where people may have made a mistake or haven't kept appropriate records, we support them to get their taxes right in the future by telephoning them to resolve errors or other simple issues. HMRC will not charge a penalty when someone makes a mistake despite taking reasonable care.

1.9 Tax evaders take a range of approaches to trying to hide their true income and wealth. For example: harbouring untaxed income in offshore accounts; holding assets like property overseas; understating of sales; failure to register for VAT; and, diverting income using complex arrangements. Tax evasion is a crime and the minority of people who try to break the law in this way can expect more intensive investigation and, where appropriate, firmer action (including more than 400 criminal convictions in the last year alone).

1.10 In chapter 2 we set out the things we are doing to take advantage of our growing expertise and new technologies to tackle tax evaders.

Undisclosed properties

Using third party data HMRC identified an individual who was found to have 11 undisclosed properties in several Mediterranean countries. The total cost of the properties exceeded €1.3 million despite the individual declaring UK income of just £6,000.

2. Action against tax evaders

2.1 HMRC is committed to taking the opportunities offered by new data and clever technology to uncover hidden income and wealth and sharpen our capability to counter tax evasion. This section sets out some of the steps we have already taken, the action we will take in the coming months, and the plans we have to go further.

Offshore bank fraud

HMRC's access to data meant that a chain of offshore bank accounts were identified and linked to an individual. Unable to explain the deposits, the individual is now facing payments of tax, interest and penalties of around £400,000.

The story so far

2.2 A range of actions have already been taken. We have:

- signed an innovative agreement with Switzerland to recover billions of pounds in previously uncollected tax
- developed and expanded our technical capability to join data together and uncover the hidden links in data using advanced analytical capabilities
- handled around 130,000 reports in the last year to our Tax Evasion and Customs Hotlines, which allow the public confidentially to notify HMRC if people are not paying the tax they owe
- created the Offshore Coordination Unit, dedicating an additional 100 investigators to tackling offshore evasion
- established a dedicated team dealing with the tax affairs of about 5,000 of the wealthiest individuals that has already brought in an additional £500 million in tax since 2009
- brought in expertise from the private sector to help HMRC to deploy the latest thinking and techniques and accelerate its use of data
- invested in a team of experts who, in collaboration with the Dutch Tax Administration, have developed tools and techniques to mine the internet for data to support our compliance objectives

- launched an innovative nationwide advertising campaign on undeclared income aimed at reassuring the majority who are doing the right thing and influencing those who aren't – saying 'it's time to stop before we find you'
- signed an enhanced tax information exchange agreement with the USA, the first of its kind, which sets a new standard of international tax transparency.

Our successes

Examples of HMRC success driven by Connect include:

- analysing thousands of lines of data as part of two major national campaigns on offshore bank accounts. Overall, just under £600 million in additional revenue was brought in to the Exchequer
- an accountant who tried to play the different parts of the tax system against each other. But Connect revealed the bigger picture and the accountant had to pay £200,000
- as part of a campaign aimed at medical professionals, Connect helped make the links between tax records and data from hospitals, pharmaceutical companies and insurers. This has resulted in £33 million in unpaid tax being recovered so far including one case of £1.2 million. One doctor was also prosecuted for trying to evade £92,000 of tax.

Private sector expertise

HMRC has brought a range of expertise in from the private sector to accelerate its use of data.

This includes:

- extensive data-mining and predictive analytics expertise
- professional accountancy skills, expertise from the financial services industry, academia, and the credit reference agencies
- deep expertise in developing and applying models in business (including the detection of fraud, customer segmentation, operational analysis, near 'real-time' information systems, marketing, consumer behaviour, credit scoring, and response modelling).

International fraud

A recent prosecution involved an international arms dealer who was convicted of illegally supplying 80,000 weapons and 32 million rounds of ammunition from China to Nigeria. Breaching UK trade controls, the arms dealer tried to hide in excess of \$1 million of commission payments in an offshore bank account. But HMRC investigators spotted the fraud and the individual has now been convicted and is awaiting sentencing.

Stronger sanctions

We have:

- placed more than 2,000 tax evaders in the 'Managing Deliberate Defaulters' programme, which means we will closely monitor and manage their tax affairs for up to five years
- seen more than 400 criminal convictions in 2011-12 achieving £1 billion of revenue benefit, either in losses prevented, or in payment of tax
- begun to apply a penalty since 6 April 2011 of up to 200 per cent of the tax due if an individual does not tell us about income or gains from an offshore bank account.

Tax evasion campaign



Launched to heighten evaders' unease about not declaring all their income and motivate them to disclose or register with the Department. The message to evaders is that HMRC is closing in on undeclared income.

Targeting high risk groups

We have:

- made increasing use of campaigns targeting high-risk groups. We have launched nine campaigns including targeting offshore assets and high-risk affluent tax payers. By the end of October 2012 £650 million had been brought in. This strategy is beginning to impact behaviour across whole sectors
- used the Connect system to support HMRC's taskforces by identifying high-risk evaders in specific locations or particular sectors. We then tell these people that they need to own up if they have evaded tax – if they don't then we take robust action. This work is on track to bring in more than £50 million from the first 12 taskforces
- increased the number of agreements with other tax jurisdictions, which means we can share data that will allow us to identify individuals who have tried to hide their UK tax liabilities by moving their income and wealth overseas. For example the Swiss/UK tax cooperation agreement should mean that billions of pounds in unpaid tax will be recovered.

Tax liability

A group of individuals tried to declare a tax liability on a transaction they claimed to be worth £70,000. Linking up HMRC data with third party data and sharing data with other tax authorities showed the true figure was much larger. The case is ongoing and may lead to £10 million in additional revenue.

VAT fraud

A recent prosecution involved a financial adviser who assisted a client in committing £900,000 in VAT fraud. He then gambled some of his share of the proceeds away in a London casino. When charged with cheating the Exchequer he claimed to be ill and unable to attend court, but CCTV footage obtained by HMRC showed him attending a casino at the time that he claimed to be ill and he has now been jailed for five years.

Plumbers' tax safe campaign



Following the recent plumbers' tax safe campaign, investigations were targeted against five individuals who did not take the opportunity to put their tax affairs in order. Using Connect to link up tax and third party data, such as Gas SAFE registrations, they were made to repay more than £400,000 and received sentences of up to 12 months in prison.

Action now

And we will do more in the coming months.

December 2012

- Launch a radio advertising campaign warning people of the risks if they evade tax.
- Send out hundreds of letters challenging those with secret overseas bank accounts to explain their position.
- Establish a new centre of excellence on offshore evasion, aimed at building HMRC's offshore capability, making better use of HMRC data to identify tax evaders, reviewing HMRC's legal powers in this area and developing a more proactive approach to international engagement to tackle evasion.
- Publish the draft Finance Bill, including a measure to obtain data from merchant acquirers about businesses that receive credit and debit card payments. This will help to identify businesses that do not declare their full sales, or that operate in the hidden economy.

January 2013

- Begin recovering previously unpaid UK tax on hidden wealth located in Switzerland by implementing the Swiss/UK Tax Cooperation Agreement.
- Launch a new campaign on missing VAT returns.
- Use the latest extract of Land Registry data to help HMRC identify people whose companies may try to evade paying the property tax they owe.
- Use 2011-12 tax Self Assessment returns to identify potential evasion among affluent taxpayers.

February 2013

- Identify even more people whose income and wealth does not match with what they've told HMRC by investigating the first 500 cases identified under a new approach which has cross-checked credit reference agency data with suspect cases identified from HMRC's records. HMRC already uses credit reference agency data with several million individual checks made in compliance cases over the last year. The new approach aims to use the data in a systematic way to improve our ability to spot tax cheats faster and more efficiently. If successful the approach will be expanded.
- Begin five further taskforces' using Connect to target high risk groups. This will include projects in EU cross-border tax evasion and tax repayment fraud.
- Add data from banks and financial institutions on financial transactions, where a risk has been identified, to HMRC's powerful Connect system providing another new way to spot those trying to hide their income and wealth in order to evade paying tax.

March 2013

- Start a campaign using new data to target those who have profited through owning and selling second homes or multiple properties in the UK or abroad and have not paid their tax liability.
- Hold discussions with intermediaries such as tax agents on public concern on tax evasion, the behaviours and arrangements that may indicate evasion and how agents can help their clients to comply with the law.
- Publish a comprehensive strategy to tackle offshore tax evasion in Spring 2013.

April 2013

- Complete the increase in the number of our investigators dedicated to pursuing affluent tax evaders and avoiders with more than 300 staff focused on this group. This will include:
 - staff with specialised training, such as in trusts, dealing with offshore assets and wealth management
 - a dedicated Affluent Intelligence Unit with an extensive research capability, making use of all available intelligence sources to identify tax evaders with hidden or unexplained income and wealth.
- Add almost half a million tax evasion hotline reports made by the public into the Connect system, providing another way to identify tax evaders, as well as investing further in it and other risking tools.

May 2013

- Begin new work to identify offshore trusts that are being used to hide income and wealth overseas.
 - Roll out new data-driven tools to help identify affluent individuals who are evading tax.
 - Seek out new data sources to improve our ability to spot wealthy tax evaders.
 - Begin testing new data from the Metropolitan Police to identify fake identities being used in fraud.
 - Use new data to identify and investigate offshore property ownership.
- 2.3 Throughout we will continue to seek out new data from the private sector, government and other nations to strengthen our capabilities further.

Action planned

2.4 In the longer term we will:

- continue to improve our analytics and risking capabilities by training additional risk analysts and expanding our use of Connect, the technology that allows us to link data up and spot tax evaders
- build on our enhanced automatic exchange agreement with the USA – the first of its kind – and look to conclude similar agreements with other jurisdictions
- expand our links with other third parties, acquiring new data that strengthens our capabilities further
- continue to launch targeted campaigns every year using Connect to identify the highest-risk groups
- increase the number of criminal investigations into offshore tax evaders, publishing the names and details where appropriate and applying penalties for those who hide assets in jurisdictions that don't provide us with full exchange of information
- ramp up action against affluent tax evaders; using data to focus on serial offenders, offshore properties, and high risk professions or groups
- ensure that those deliberate defaulters who evade tax are subject to additional scrutiny for up to five years
- increase the annual number of prosecutions for evasion five-fold by 2014-15 (compared to 2010-11)
- launch 20 new taskforces every year between now and 2015, using data to help target high risk groups or sectors.

Using analytics

New analytical techniques and greater cooperation with other nations have allowed HMRC to identify previously hidden overseas properties. This means that tax evaders who thought they were beyond the reach of the law are now being forced to accept their liabilities.

VAT fraud

A VAT fraudster tried to use bogus land purchase invoices to claim VAT repayments totalling £673,000. He used the proceeds to live in a luxury apartment in Monte Carlo and drive a vintage Mercedes worth more than £100,000. After HMRC began investigations he tried to flee the country and was arrested at the airport. At trial he tried to claim mobsters had forced him in to the fraud but changed his plea to guilty when challenged to provide evidence. He has been jailed for four years and HMRC is confiscating assets to recover the tax due.

- 2.5. Beyond this programme of activity, HMRC will continue actively to test how it can use data and technology to support those customers who most need help and educate customers who make mistakes. And HMRC will also continue to pursue new ways of clamping down on tax evasion, and shifting attitudes and behaviours among those who choose not to comply. Tax evasion is illegal. It will not be tolerated and we will take every opportunity to enhance our capability to tackle it.

