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A radical approach to
raising revenue and
defeating the deficit



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INTRODUCTION

The Government aims to reduce the massive budget deficit by cutting public expenditure and raising taxes. We believe there is a bolder and more radical option to defeat the deficit: raising revenue by using skilled tax professionals to close the tax gap and ensure that everyone pays their fair share. This report explains why we believe this innovative approach is one the Government should adopt.

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EXECUTIVE SUMMARY

Association of Revenue and Customs (ARC)

ARC is part of the FDA, representing senior tax professionals and managers who work in HMRC. These are the senior tax inspectors, accountants, lawyers, policy makers and managers who implement the Government's policies, draft tax laws and administer the tax system fairly. ARC members are highly skilled and trained, bringing in the money to fund public services for the benefit of everyone living in the UK.

The Deficit: the Government's approach, and ARC's bolder option

Faced with a massive budget deficit the approach of the Government has been to ask: 'how and where can we find ways to cut expenditure?' As part of the Spending Review HMRC, like all other Civil Service departments, has had to submit plans based on a 25% and 40% budget reduction.

While HMRC can be made more efficient, identifying and implementing efficiencies alone will not provide the solution to reducing the deficit.

The question should not be simply one of 'how do we save money?', but also one of 'how can we generate more income?'

And that's where HMRC and ARC members in particular, can play a crucial role – in raising revenue and defeating the deficit.

THE CHALLENGE THE DEFICIT

The UK faces a massive budget deficit of £175 billion. The Government aims to reduce this deficit by cutting public expenditure and raising taxes in the ratio of four to one – every £1 of additional taxes will be matched by £4 of public expenditure cuts. These cuts are set to hit all government departments including HM Revenue and Customs. It is through HMRC that the government raised £435 billion last year to fund schools, hospitals and other vital public services. But cutting staff numbers in HMRC threatens to reduce the amount of taxes and duties collected – putting further pressure on public finances. Any private organisation facing the need to repay debts would protect and enhance its main profit centre. We believe the government should be increasing the resources of its main revenue raising department.

The work undertaken by ARC members is **highly cost effective**.

The amounts recovered range from **30 times salary cost** to over **180 times salary cost**.

An ARC member earning **£50,000 a year** would expect to bring in over **£1.5m to the exchequer**.

Each ARC member can generate enough money to pay the **salaries of 50 nurses** working in the NHS, or pay **all the teachers** in a medium-sized school.

THE SOLUTION

RAISING REVENUE TO GENERATE INCOME

£50bn+ tax gap

Every developed country has a tax gap. This is the difference between the amount of taxes and duties due under the laws made by Parliament and the amount that is paid voluntarily by taxpayers. HMRC estimates the size of the UK tax gap at over £50bn. At a time when everyone in the UK is being asked to take drastic action to reduce the deficit it cannot be right that almost one third of that deficit is caused by individuals and companies who cheat the system. This cheating can take a number of forms; including avoidance, evasion and attacks by criminal gangs. But, whatever form the cheating takes, the result is the same; there is less money to pay for vital services such as schools and hospitals and honest taxpayers end up paying more. The gap is equivalent to an extra £1,000 of tax for every adult in the country. David Gauke, Exchequer Secretary, said in Parliament recently:

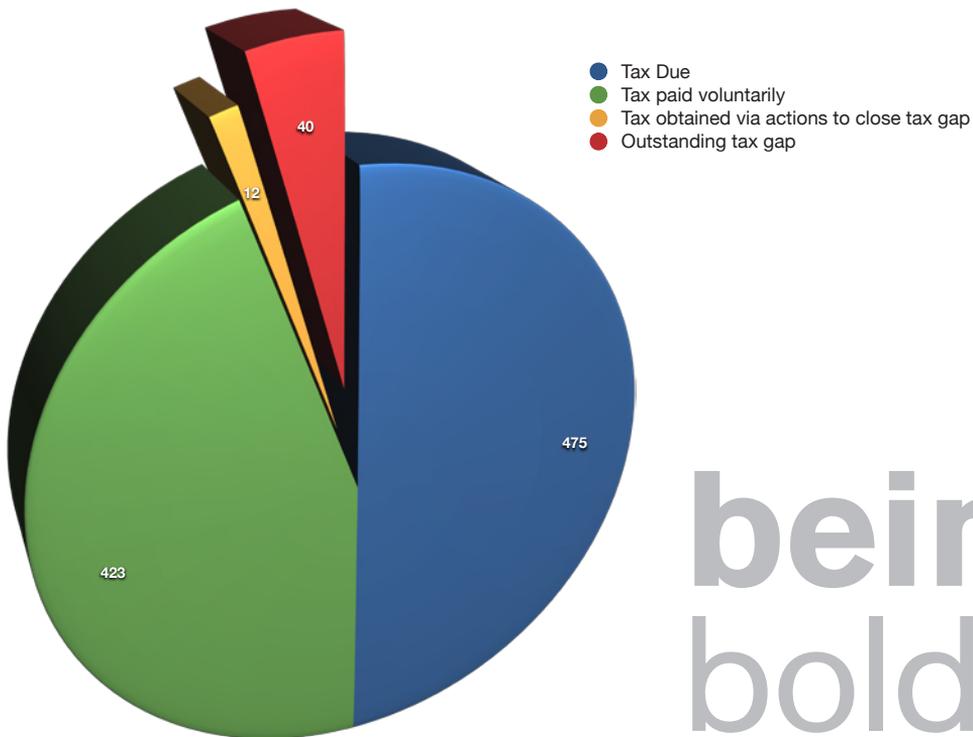
“The issue of the tax gap... is important for the Government.

...[the gap] has been brought into even sharper relief by the dreadful state of the public finances... there is a public mood for people to do the right thing and to play by the rules, and that includes paying the taxes that are due under the law.”

Yet the government’s proposals to impose further cuts on HMRC threaten to increase the size of the tax gap, not reduce it. We believe that government action is needed now to address this unfair drag on public finances.

Closing the tax gap

ARC members are at the forefront of HMRC’s work to tackle the cheats who deprive the public purse of over £50bn every year. And they are incredibly successful in this work, bringing in an additional £12bn last year and helping to close the tax gap.



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Tax collected 2008/9

The £12bn recovered through HMRC's actions to tackle the tax cheats last year is over three times the total cost of running the department, including the cost of administering the tax processes and systems that collected £423bn from honest taxpayers.

HMRC is amongst the **most efficient tax agencies** in the world.

Tackling the tax cheats

HMRC has developed a model which recognises that different groups have different behaviours, including;

- Those who want to pay the right tax at the right time.
- Those who break the rules when they think they can get away with it.

- Those who deliberately and consistently cheat on their taxes.
- Criminal gangs who mount organised attacks on the tax system.

HMRC has developed a range of responses to tackle the different groups of tax cheats. Examples of these responses include:

- Requiring disclosure of avoidance schemes.
- Providing education and guidance for those who find it difficult to pay the right amount of tax.
- Making time to pay arrangements with those facing temporary cash-flow problems.
- An offshore disclosure scheme that encourages people to voluntarily pay tax on income hidden in overseas bank accounts.
- Prosecution of criminals who deliberately cheat the system.

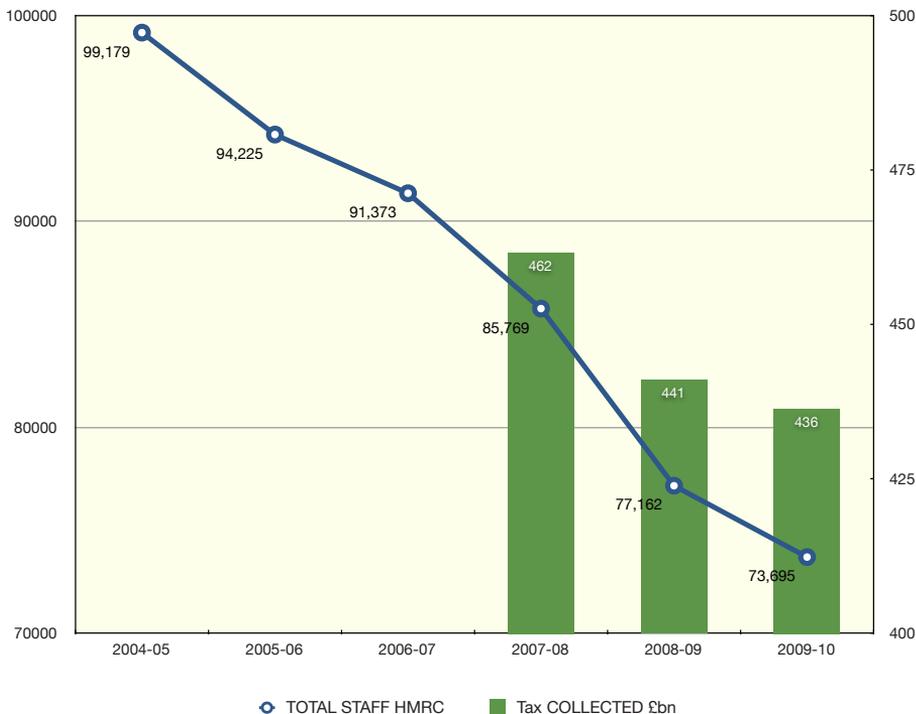
HOW

ARC MEMBERS CAN GENERATE INCOME AND CONTRIBUTE TO DEFEATING THE DEFICIT

Skilled & cost-effective

ARC members are highly skilled and trained and they deal with the largest and most complex cases. ARC members made a significant contribution towards closing the tax gap, bringing in the lion's share of the £12bn recovered last year. And the work is highly cost effective. The amount of additional tax recovered ranges from 30 to over 180 times the salary paid. Even at the lower end of this scale, an ARC member earning £50,000 could bring in an additional £1.5m each year. Put another way, each ARC member can generate enough money to pay the salaries of 50 nurses working in the NHS or pay for all the teachers at a medium sized school.

There is a lasting impact from the work done by ARC members. The individual or company that is the subject of an intervention will pay the right amount of tax in future. And this work deters others who might be tempted to cheat, encouraging them



to pay the right tax at the right time. ARC members working to counter marketed avoidance schemes generate a further £8 of tax revenue for every £1 they collect from those who have taken part in the schemes. We know the ongoing impact of our checks is at least 50% of the amount collected. Taken together, the additional amount collected through deterring others is at least equal to the amount collected from the particular investigation; effectively doubling the benefit to the Exchequer. Some recent examples of the work done by ARC members include:

- a multinational corporation paid £1.25bn to settle a complex enquiry that had lasted over ten years.
- the offshore disclosure scheme has brought in over £500m in additional tax.
- the successful prosecution of a cheat who hid £140,000 in his aunt's grave in a bid to fool HMRC.
- a prison sentence for a fraudster who stole £559,000.
- successfully prosecuting the ringleader of a gang that laundered £30m of crime proceeds leading to a jail sentence of 10 years.

A threat to what we do

HMRC has already made substantial efficiency savings. In the last two years alone it has reduced costs by over £500m a year and reduced its staff by 15,000, or 18%.

These cuts have continued, and today there are fewer than 69,000 in the Department. These cuts have been felt disproportionately in compliance work where the total spent has almost halved since 2006/7 (£1.9bn compared with £3.6bn). It can be no coincidence that the money collected by HMRC has fallen by £25bn and the tax gap grew by £2.3bn in 2008/9.

The reduction in expenditure means HMRC does not have the resources to do the job effectively. Because of staff cutbacks, tax investigators must focus on the highest yielding cases but are giving up a large number of smaller cases that could yield, in total, hundreds of millions of pounds. We are not able to follow up information on possible tax dodgers – like those identified when HMRC obtained information about private fees paid to medical professionals. We are not able to pursue appropriate cases through the courts because of the lack of resources. Last year ARC members

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INVEST IN SUCCESS

Far from reducing the amount spent on tackling tax cheats we believe the Government should be increasing resources to ensure everyone pays their fair share. The Canadian Government is often held up as a model of how to cut a fiscal deficit. But it recognised the importance of the principle of fairness in its administration of tax. When it was reducing public expenditure to cut the deficit between 1995 and 1998 it actually increased the amount spent on its tax audit programme.

For **every £1 spent** on increasing front-line work to tackle tax cheats we know we can generate **£30 of additional revenue** and stop others taking £30 from revenue coffers.

The Government should invest in key personnel in HMRC, its main revenue raising department: **ARC members generate Income and can help Defeat the Deficit.**

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