TAXE Committee

Ad hoc Delegation to London, UK
18 June 2015

Secretariat: Benoit Wets - benoit.wets@europarl.europa.eu, GSM +32-498/981 391
Marcus Scheuren - marcus.scheuren@europarl.europa.eu

TAXE Committee

Secretariat: Benoit Wets - benoit.wets@europarl.europa.eu, GSM +32-498/981 391
Marcus Scheuren - marcus.scheuren@europarl.europa.eu

TAXE COMMITTEE
ad hoc Delegation
to London (UK) 18 June 2015

Table of content:

1) Programme

2) Participants

3) Logistical information

4) CVs of speakers

5) Country Briefing by Policy Department

6) Overview on Advance Transfer Pricing by Bloomberg's Tax and Accounting Center

7) Letter of 8 June from Treasury to TAXE

8) HM Treasury report on "Tackling tax evasion and avoidance" March 2015

9) Information from the EP London Office (5 April 2015)

10) Taxation Trends UK by the European Commission

11) Press article "Brits Say Big Firms Not Paying Fair Tax Bill"- SKYNEWS - 13:25, UK, Tuesday 09June 2015

Secretariat: Benoit Wets - benoit.wets@europarl.europa.eu, GSM +32-498/981 391
Marcus Scheuren - marcus.scheuren@europarl.europa.eu

Secretariat: Benoit Wets - benoit.wets@europarl.europa.eu, GSM +32-498/981 391
Marcus Scheuren - marcus.scheuren@europarl.europa.eu

European Parliament

TAXE COMMITTEE
ad hoc Delegation to United Kingdom
18 June 2015

Draft Programme as of 10/6/2015

Wednesday 17 June 2015

Arrival in London on 17 June in the evening

Thursday 18 June 2015

08.30 **Meeting point at HMT/ HM Revenue & Customs (HMRC),** *Parliament street entrance*

09.00 - 10.00 **Meeting with experts from HM Treasury (HMT) and HM Revenue & Customs (HMRC)**
Jim Harra, Director General, Business Tax, HMRC
Fergus Harradence, Dep. Director, Corporate Tax Team, Business and International Tax Group, HMT
Andrew Dawson, Head of the Tax Treaty Team, Lead negotiator for the UK tax Treaties, and member of the UN Committee of Experts on International Cooperation in Tax Matters, HMRC
Venue: Unit 1, Horse Guards Road, Churchill Room

10.00 - 11.00 **Meeting with Financial Secretary to the Treasury, David Gauke MP**
Venue: Unit 1, Horse Guards Road, Churchill Room

11.30 - 12.30 **Meeting with members of House of Commons and House of Lords**
Mixed delegation of members, incl. Margaret Hodge, former Chair of the Public Accounts Committee (tentatively confirmed)
Venue: Palace of Westminster, main visitor entrance, Committee room 7

13.00 - 13.45 **Working lunch**
Venue: European Parliament Information Office, Europe House, 32 Smith Square
Prof. Prem Sikka, Professor of Accounting, Essex Business School, University of Essex
Frank Haskew, Head of the ICAEW (Institute of Chartered Accountants in England and Wales) Tax Faculty; and Ian Young, International Tax Manager

14.00 - 16.00 **Meeting with business representatives, tax advisors and NGOs**

Will Morris (GE), Chair of the CBI Tax Committee and the BIAC Tax Committee plus additional corporate members of the Confederation of British industry (CBI)
Richard Collier, Senior tax partner at PwC
Joseph Stead, Christian Aid
Meesha Nehru, Programme Director, Fair Tax Mark

16.00 ***Programme ends***

Secretariat: Benoit Wets - benoit.wets@europarl.europa.eu, GSM +32-498/981 391
Marcus Scheuren - marcus.scheuren@europarl.europa.eu

16.00 - 16.30 Chair only : Press conference (tbc)

Venue: EP Offices

Secretariat: Benoit Wets - benoit.wets@europarl.europa.eu, GSM +32-498/981 391
Marcus Scheuren - marcus.scheuren@europarl.europa.eu

European Parliament

TAXE COMMITTEE
ad hoc Delegation to United Kingdom
18 June 2015

List of Participants

Members

Alain LAMASSOURE, Chair	
Danuta HÜBNER	PPE
Elisa FERREIRA	S-D
Bernd LUCKE	ECR
Michael THEURER	ALDE
Molly SCOTT CATO	Verts/ALE
Marco ZANNI	EFDD

Accompanying Members

Frank ENGEL	PPE
Peter SIMON	S-D
Anneliese DODDS (UK)	S-D
Sven GIEGOLD	Verts/ALE
Matt CARTHY	GUE

Political advisers

Daniel KÖSTER	PPE
Stine LARSEN	S&D
Anna DAVREUX	ECR
Petra SOLLI	ALDE
Michael SCHMITT	Verts/ALE
Andrea CURRI	EFDD
Sinead NI TREABHAIR	GUE

Secretariat

Massimo PALUMBO	Head of Unit
Benoit WETS	Administrator
Dominic BRETT	EP London Office

Interpreters

Lorraine REGAN
Agnes BUTIN
Géraldine WOJCIK
Barbara GRUT
Nicol POPOFF (techn)

Press Officer

Ronnie KORVER

Secretariat: Benoit Wets - benoit.wets@europarl.europa.eu, GSM +32-498/981 391
Marcus Scheuren - marcus.scheuren@europarl.europa.eu

CVs

List of participants for the visit of the TAXE committee to the United Kingdom on 18 June 2015

1. <u>Meeting with officials from HM Treasury (HMT) and HM Revenue & Customs (HMRC).</u>

James Harra

Jim is one of the Commissioners and a member of the Executive Committee of Her Majesty's Revenue and Customs (HMRC – the UK's tax authority). They have responsibility for collecting the right tax, providing leadership and managing HMRC's resources efficiently. Jim is responsible for HMRC's Business Tax and duty regimes and the Department's overall performance in relation to business customers including cross-cutting strategies and programmes for SMEs, agents and employers. He also provides technical and policy advice to the 2000 large businesses. Business Tax has over 3,000 staff across the UK, delivering services for HMRC's business customers.

Jim began his career in the Inland Revenue as an Inspector of Taxes in 1984. He has held various senior compliance, policy and operational posts – including as Principal Inspector in a City Large Business Office, Assistant Director in Inland Revenue Capital & Savings Division, Director Inland Revenue Wales & Midlands Region and Director of Child Benefit & Tax Credit operations.

From April 2005, he led the delivery of all of HMRC's IT software projects and the maintenance of its IT systems, through the Department's IT suppliers. In January 2009, he was appointed Director of CT&VAT responsible for optimising the design and delivery of these business taxes. Jim moved to Personal Tax to be Director Customer Operations on 28 March 2011, and Director PT Operations in October 2011. He was appointed Director General Business Tax on 16th April 2012.

Fergus Harradence

Fergus Harradence is the Deputy Director, Corporate Tax in HM Treasury, with responsibility for corporation tax, taxes on the financial services sector, a range of EU and international issues including co-ordinating UK engagement with the G20/OECD Base Erosion and Profit Shifting project and tax and devolution issues.

Prior to this post, we was Deputy Director for Innovation Policy in the Department for Business, Innovation & Skills, responsible for oversight of the UK's programme for supporting R&D and the technology development. Prior to that role, he was Head of the Multilateral Trade Negotiations Unit, responsible for UK interests in the World Trade Organisation and the Doha Round of multilateral trade negotiations, worked on trade promotion as both International Trade Director for London and Head of the Gulf & Iraq Unit in UK Trade & Investment and in the private sector on secondment to Ericsson.

Andrew Dawson

Andrew has spent most of his career in tax. An economist by background, he is the Head of the Tax Treaty Team in the UK's Revenue & Customs Department (HMRC), responsible for the negotiation of the UK's double taxation treaties. Before that he worked at the British Embassy in Washington DC. Andrew has held several tax policy jobs in the Inland Revenue and HM Treasury. Before joining the civil service, he taught economics, and worked for the Confederation of British Industry.

Andrew is currently the Chairman of the OECD Committee on Fiscal Affairs' Working Party 1 on Tax Treaties, and is a member of the UN's Committee of Experts on International Cooperation in Tax Matters.

Maura Parsons

Maura is the Deputy Director, Head of Transfer Pricing in HMRC Business International and Chair of HMRC's Transfer Pricing Board. The Transfer Pricing team in Business International is product owner for the transfer pricing and diverted profits tax legislation and works with operational teams in Large Business to ensure the consistent application of the legislation. The team also has responsibility for Advanced Pricing Agreements (APAs) and

Mutual Agreement Procedure claims arising from transfer pricing adjustments. The team works closely with international partners (OECD, EUJTPF) in the development of international tax policy and in enhancing the effective administration of transfer pricing.

Prior to taking on this role in January 2015, Maura was an Assistant Director in HMRC's Large Business (Financial Services) where she was a Customer Relationship Manager working with global banks. This followed a period as Head of HMRC's APA programme, heading up the team responsible for negotiating APAs with other tax administrations. Earlier roles in Business International involved acting as policy advisor on the interpretation of UK's transfer pricing legislation and acting as UK delegate to the OECD WP6 Business Restructuring project.

Aiden Reilly

Aidan Reilly is Head of International Relations in HMRC's Corporation Tax, International and Stamps Directorate. In this role he has overall responsibility for the teams responsible for tax treaties, aspects of international tax policy, the Department's exchange of information policy and international collaboration to counter tax avoidance. Aidan has worked for HMRC for 24 years and has held a number of senior policy and operational compliance posts. Prior to his appointment as Head of International Relations he headed up the teams responsible for direct tax policy and technical advisory activity covering the financial sector.

2. **Meeting with the David Gauke MP, Financial Secretary to the Treasury, assisted by Mike Williams, Director of the Business and International Tax Group at HM Treasury.**

David Gauke MP

David Gauke MP was appointed Financial Secretary to the Treasury on 15 July 2014. He was elected the Conservative MP for Hertfordshire South West in May 2005.

David was a member of the Treasury Select Committee from February 2006 until he was appointed as a Shadow Minister for the Treasury in June 2007. As a Shadow Treasury Minister, he focused on tax policy, including matters such as tax simplification and corporation tax reform. He was appointed Exchequer Secretary to the Treasury on 14 May 2010, and promoted to Financial Secretary to the Treasury in July 2014.

The Financial Secretary (FST) may attend Cabinet and deputise for the Chancellor at Ecofin. In addition the FST is responsible for:

- Deputising for the Chancellor at Ecofin
- EU Budget and wider EU issues
- Strategic oversight of the UK tax system including direct, indirect, business, property and personal taxation
- Corporate and small business taxation
- European and international tax issues
- Departmental Minister for HM Revenue and Customs and the Valuation Office Agency
- Overall responsibility for the Finance Bill
- Personal savings and pensions policy. The Government Actuary's Department

David read law at St Edmund Hall, Oxford University. After a year working as a parliamentary researcher, he attended Chester College of Law before becoming a trainee solicitor. After qualifying as a solicitor in 1997, David worked for a leading City firm before entering Parliament in 2005.

Mike Williams

Mike Williams is Director Business and International Tax at HM Treasury. As such he is responsible for corporation tax, capital gains tax, value added tax, other consumption taxes, international tax and environmental taxes. His main tax expertise is in international tax and banking.

Mike is the UK delegate to and Deputy Chair of the OECD's Committee on Fiscal Affairs, Chair of the ad hoc group for the development of a multilateral instrument on tax treaty measures, and is also a member of the Steering Group of the Global Forum on Transparency and Exchange of Information for Tax Purposes.

Among previous posts, Mike was:

- Director Personal Tax and Welfare Reform at HM Treasury from January 2008 to March 2010. This involved responsibility for income tax, social security contributions, inheritance tax, tax credits, savings and pensions and social security benefits;
- Director International Tax at HM Treasury from July 2004 to January 2008. As such he was responsible for cross-border aspects of direct and indirect tax, including VAT, and for the conduct of and responses to tax litigation before the European Court of Justice;
- Deputy Director, International at the Inland Revenue from 2001 to 2004, with responsibility for business tax, in which role he was Competent Authority under the UK's tax treaties.

Mike has a degree in physics from Balliol College, Oxford.

Rt Hon Margaret Hodge MP

Constituency: Barking

Party: Labour

Electoral history

Post	Date
Member for Barking	2015-
Member for Barking	1994-15

Parliamentary career

Post	Date
Shadow Minister (Culture and Tourism)	2010-10
Minister of State (Department for Culture, Media and Sport) (Culture and Tourism)	2009-10
Minister of State (Department for Culture, Media and Sport) (Culture, Creative Industries and Tourism)	2007-08
Minister of State (Industry and the Regions)	2006-07
Minister of State (Department for Work and Pensions) (Work)	2005-06
Minister of State (Education and Skills) (Children)	2003-05
Minister of State (Education and Skills) (Lifelong Learning, Further and Higher Education)	2001-03
Parliamentary Under-Secretary (Department for Education and Employment) (Employment and Equal Opportunities)	1998-01

Select committees

Post	House	Date
Liaison Committee (Commons)	Commons	2010-15
Public Accounts Commission	Commons	2010-15

Post	House	Date
Public Accounts Committee (Chair)	Commons	2010-15
Public Accounts Committee	Commons	2010-15
Employment Sub-committee	Commons	1997-98
Liaison Committee (Commons)	Commons	1997-98
Deregulation	Commons	1996-97
Education Sub-committee (Chair)	Commons	1997-98
Education Sub-committee	Commons	1995-98
Education & Employment	Commons	1995-98

Political interests

Education, local and regional government, housing, inner cities, democratic reform, London government

Guto Bebb MP

Constituency: Aberconwy

Party: Conservative

Electoral history

Post	Date
Member for Aberconwy	2015-
Member for Aberconwy	2010-15
Contested Conwy General Election	2005
Contested Ogmore By-election	2002

Select committees

Post	House	Date
Public Accounts Committee	Commons	2012-15
Members' Expenses Committee	Commons	2011-15
Welsh Affairs Committee	Commons	2010-15

Political interests

Europe, taxation, reform of the welfare state, devolution, economy, rural development, regeneration policy

Meg Hillier MP

Constituency: Hackney South and Shoreditch

Party: Labour (Co-op)

Electoral history

Post	Date
Member for Hackney South and Shoreditch	2015-
Member for Hackney South and Shoreditch	2010-15
Member for Hackney South & Shoreditch	2005-10

Parliamentary career

Post	Date
Shadow Secretary of State for Energy and Climate Change	2010-11
Shadow Minister (Home Office)	2010-10
Parliamentary Under-Secretary (Home Office) (Identity)	2009-10
Parliamentary Under-Secretary (Home Office) (Identity)	2007-09

Select committees

Post	House	Date
Public Accounts Committee	Commons	2011-15
Northern Ireland Affairs Committee	Commons	2005-06

Countries of interest

Ghana, Nigeria, Turkey

CURRICULUM VITAE

NAME: Prem N Sikka

Contact: prems@essex.ac.uk

EDUCATION

1) Attended Upton House Secondary School from 1966 to 1968. Left School with 5 CSE passes. This is the end of my full-time education. All of the qualifications listed below were studied for through part-time classes.

2) Various evening classes: 1969 to 1971. Passed 5 GCE ’O’ Levels.

3) Evening classes 1972 to 1973. Passed two GCE ’A’ Levels in Accounting and Economics.

4) Evening classes: 1972 to 1977; for the last 3 years attending as many as four nights per week: passed all professional examinations of The Association of Chartered Certified Accountants (ACCA) at the first attempt. Fellowship awarded in 1982.

5) Evening classes at the London School of Economics, 1980 to 1982: passed MSc in Accounting and Finance. This was a two-year course for part-time students and was successfully completed in the minimum prescribed period.

6) PhD from the University of Sheffield in 1991. Thesis titled "Towards an Understanding of Accounting and Society: Some Episodes in the Formulation and Development of the Going Concern Concept".

7) BA (Hons.) 1st class, in Social Sciences from the Open University in 1995.

Summary

ACCA	1977
FCCA	1982
MSc	1982
PhD	1991
BA (Hons.)	1995

CAREER INFORMATION

October 1968 to January 1970:	An accounts clerk with Lionel Sage & Co. Ltd (Insurance Brokers).
January 1970 to February 1974:	Trainee accountant, later assistant accountant with Grigsmore Ltd (Advertising Agency).
February 1974 to September 1976:	Financial Accountant for The City of London Real Property Co. Ltd (A major subsidiary of Land Securities Plc - Europe's largest Property Company).
September 1976 to September 1979:	Accountant for Conoco Ltd, multinational Petroleum Company.
September 1979 to February 1996	Joined the University of East London (then a polytechnic) as a lecturer on LII scale. 1980-1986: Senior lecturer in accounting and finance. 1986-1993: Principal lecturer in accounting and finance. 1993-1995: Reader in accounting and finance. May 1995-February 1996: Professor of accounting and finance. Specialising in researching and teaching of accounting, financial management and auditing on full-time and part-time courses leading to Fundamentals of Accountancy (FOA), BA, ACCA, MBA and doctoral qualifications.
March 1996 to Present	Joined the University of Essex as a Professor of Accounting. Specialising in researching and teaching of accounting and related subjects on BA/BSc, MA/MSc degrees; also supervising research by MA/MSc and PhD students.

Hobbies: Travel, movies, table-tennis, badminton, music, Bollywood (1960s and 1970s), supporting West Ham, afflicting the comfortable and tormenting dinosaurs.

Frank Haskew BSc(Eng) ACGI ACA CTA

Frank Haskew is Head of the ICAEW Tax Faculty. Frank qualified as a chartered accountant with KPMG in 1987 and then specialised in taxation, becoming a member of the Chartered Institute of Taxation in 1988. He joined the ICAEW's technical team in 1998 and in 2002 became the Head of the Faculty.

Frank has a wide range of tax experience and has a detailed technical knowledge across the complete spectrum of taxes. He has overall responsibility at the ICAEW for tax and related matters, including the Tax Faculty's representational work and engagement with HMRC, HM Treasury, Government and Parliament. He has lead responsibility on ICAEW's responses to tax consultations, in particular overseeing the Faculty's Budget and Finance Bill submissions and the associated debates in Parliament. As part of this role he meets with Government Ministers responsible for tax and has also regularly appeared on panels before Parliamentary Committees to give oral evidence on tax related matters.

More recently Frank has been actively involved in the development of the UK's tax devolution agenda, both formulating the ICAEW's position and responding to policy development across the UK's devolved Governments but also advising on policy as a member of the Welsh Government's Tax Advisory Group.

Frank also has overall responsibility for the provision of the Faculty's member services. He is a past editor of the Faculty's publications including the monthly journal TAXline and related publications and a former co-editor of the Tax Faculty's newswire. He remains a regular contributor to all these publications. Frank is also involved very closely with ICAEW media work, and is regularly quoted in press articles.

Ian Young, International Tax Manager
Tax Faculty of the Institute of Chartered Accountants in England & Wales (ICAEW)

Ian is in charge of international tax and tax policy issues for the ICAEW Tax Faculty and works with colleagues on the ICAEW thought leadership programme "Towards a better tax system".

International
Ian is Chair of the Direct Tax committee of CFE (Conféderation Fiscale Europenne). He is a member of the tax policy group of FEE (Féderation des Experts Comptables Européens).

Ian is the Chair of the Tax Director Group of the Global Accounting Alliance (GAA).

Ian attends the annual UN Committee of Experts on International Co-operation in Tax Matters as the CFE representative.

Ian worked with Michael Izza, the ICAEW Chief Executive, in 2009-10 in the preparation of a report for the Leading Group of Nations Taskforce on International Financial Transactions for Development *Globalising Solidarity: the case for financial levies* http://leadinggroup.org/IMG/pdf_Financement_innovants_web_def.pdf

UK
Ian runs the ICAEW Large Business and International Tax Committee and is responsible for ICAEW issues in this area. He is secretary of the ICAEW Technical and Tax Policy Committees.

Ian is the Chair of the Charter Advisory Committee set up by HMRC to monitor the introduction of *Your Charter*, the HMRC Taxpayers' Charter, and whose annual report is published as part of the annual report of HMRC. Ian is a joint Chair of the HMRC review of *Your Charter* which will report in the middle of 2015.

Ian is on the Council of the Institute for Fiscal Studies.

Ian is a Fellow of the Royal Society for the Arts (FRSA)

Publications
Ian writes a chapter on international tax developments for the ICAEW Tax Faculty annual publication TAXline Tax Planning.

Ian wrote a chapter on the taxation of banks published in 2014 in "Balancing Bank Regulation and Taxation" (Edward Elgar Publishing).

Ian wrote the UK chapter for the International Fiscal Association (IFA) book on "Practical protection of taxpayers' rights" which will be published in June 2015 and presented to the 2015 IFA Congress in Bale in September 2015.

Ian has written a chapter for the FEE publication "Tax policy: a matter for society as a whole" which was published online to coincide with the FEE Tax Day in April 2015.

May 2015

Mr. William Morris

Will Morris is currently Director, Global Tax Policy, in General Electric's corporate tax department based in London. Will has degrees in history, law, and theology from Trinity College Cambridge, the University of Virginia, and St Mellitus College, respectively. He is qualified as a US attorney and an English solicitor.

After private practice in London and Washington, DC, he joined the IRS in 1995, moving to the Office of Tax Policy at the US Treasury in January 1997 to work on international tax policy. Will was Associate International Tax Counsel until March 2000, when he joined GE, first in Fairfield CT., then London. At GE, Will works on a wide range of international tax matters relating to GE's foreign operations, with principal responsibility for coordinating GE's Global Tax Policy Program. Will is also a frequent speaker and writer on European tax issues, and has been a speaker at the Brussels Tax Forum.

Will was appointed Chair of the AmCham EU Tax Committee in 2006 and has served since that date. He also became Chair of the BIAC Tax Committee to the OECD in November 2012. He is also Chair of the CBI Tax Committee, as well as the European Tax Policy Forum (ETPF), a registered UK charity that since 2005 has commissioned over 40 papers from leading academic economists into business tax issues. Additionally, Will co-chairs with the Director General of Business Taxation at HMRC, the UK Business Tax Forum.

In 2012, Will received a prestigious External Engagement Award from Her Majesty's Revenue and Customs (HMRC) in the UK. This award recognised Will's work championing ever-better customer understanding within HMRC, informing the public debate on large business and tax and condemning tax evasion and abusive tax arrangements with no commercial purpose. The winners of these awards are decided by peers in the tax community, using these criteria; commitment, customer focus and clarity.

Will is also a priest at the Anglican church of St Martin-in-the-Fields in London. As part of this role, Will regularly brings together NGOs, government, business tax directors, academics and tax professionals to talk about tax and development issues in a neutral setting.

The committees that Will chairs have been involved in a significant number of projects in recent months and years focusing on transparency, exchange of information, fair tax competition, aggressive tax planning and double taxation. The BIAC tax committee has recently been contributing constructively to the US led FATCA programme and the G20 BEPS initiative but has also been providing assistance with the OECD's capacity building initiative to support developing nations.

Richard Collier - Curriculum Vitae

Role

PwC UK Tax Partner, policy

Contact Details

Email: richard.collier@uk.pwc.com
Tel: 020 721 23395

Professional Background

Richard Collier is a Tax Partner in the London tax team and has specialised in tax policy and financial sector corporate tax issues for over twenty years.

Richard has been deeply involved in tax policy issues for some time and leads the firm's relationship on tax policy issues with the OECD. He has been closely involved in a number of OECD reforms, including the OECD's work on international financial centres (initially with the Harmful Tax Practices work stream, latterly with the work on transparency and exchange of information). He has also participated actively in the OECD's work on the more important tax treaty issues (such as the work streams relating to permanent establishments and beneficial ownership) and the work of the FTA and the OECD on the Intermediaries initiative, leading to the work on "co-operative compliance". He is centrally involved in the BEPS project (on which he leads the PwC global response) and has been asked to participate in or contribute to ongoing OECD work on various occasions.

Richard is responsible for overseeing the firm's tax policy bulletins and for monitoring generally new tax policy developments from the leading supranationals, with particular focus on the OECD. He has in particular led a number of technical and research projects on the topic of Permanent Establishments and acted as Co-General Reporter for the work of the International Fiscal Association on the OECD's overhaul of the PE attribution rules.

Richard has deep experience on issues that are central to the allocation of profits between legal entities (and thereby states), namely transfer pricing and permanent establishment issues. He completed the first US:UK APA on investment banking and has very extensive experience of the permanent establishment rules.

Though now based in London, Richard worked for a year in New York and he has also spent significant time in Asia working on projects in that region.

Richard is a Chartered Accountant and barrister at law. He lectures on tax and tax policy at the universities of London and Oxford. He writes and lectures extensively on tax policy matters.

Joseph Stead *MSc BA(Hons)*

Telephone: +44(0)207 523 2314 Email: jstead@christian-aid.org

Career Summary

May 2011 – date **CHRISTIAN AID**
Senior Adviser – Economic Justice

Developing policy and research on a range of development economics issues, with a specific emphasis on tax/financial flows, trade and debt.

- Lead on UK and EU tax policy
  - Policy adviser for Enough Food For Everyone IF… campaign of over 150 UK civil society organisations focussed on UK hosted G8.
  - Christian Aid policy lead for Accounting and Transparency Directive and 4th Anti-Money Laundering Directive.
  - Expert witness to UK Parliament International Development Committee enquiry on Tax and Development.
  - Regular contributor to mainstream and specialist tax media on tax issues.
  - Regular speaker on tax issues to business, civil society and general public audiences.

- Lead on trade and debt policy
  - Co-chair of the board of Jubilee Debt Campaign

2008-2011 **UK CIVIL SERVICE**
FOREIGN AND COMMONWEALTH OFFICE & HOME OFFICE
(various roles)

- Foreign Office policy lead on Trade and Development issues (e.g. Economic Partnership Agreements)
- Foreign Office policy lead on Cotonou Agreement
- Government representative in Asylum and Immigration tribunals

Education

MSc (Merit) African Politics (2005) School of Oriental and African Studies (University of London)

BA (Hons) 2:1 Politics (2002) University of Nottingham

European Parliament

DIRECTORATE GENERAL FOR INTERNAL POLICIES

POLICY DEPARTMENT A: ECONOMIC AND SCIENTIFIC POLICY

Documentation for the visit to the United Kingdom of the TAXE Committee

June 2015

EN

AUTHOR

Prof. dr Elly Van de Velde

RESPONSIBLE ADMINISTRATOR

Dirk VERBEKEN

Policy Department Economic and Scientific Policy

E-mail: Poldep-Economy-Science@ep.europa.eu

LINGUISTIC VERSIONS

Original: EN

ABOUT THE EDITOR

Policy departments provide in-house and external expertise to support EP committees and other parliamentary bodies in shaping legislation and exercising democratic scrutiny over EU internal policies.

To contact the Policy Department or to subscribe to its newsletter please write to:

Poldep-Economy-Science@ep.europa.eu

Manuscript completed in June 2015

© European Union, 2015

DISCLAIMER

The opinions expressed in this document are the sole responsibility of the author and do not necessarily represent the official position of the European Parliament.

Reproduction and translation for non-commercial purposes are authorised, provided the source is acknowledged and the publisher is given prior notice and sent a copy.

1. CIT

➢ Subject

❖ "United Kingdom. Corporate Taxation", *Country Surveys* 2015 (IBFD, 31 March 2015):

Companies resident in the UK (**wherever incorporated**) are charged corporation tax at a single rate (the main rate). (There is also relief for small companies – the so-called small profits rate).

Resident companies may also be assessed on the undistributed profits of **certain UK controlled but non-resident companies** in which the resident company **has an interest (CFC-rules)**.

FA 2011 provides that UK-resident companies may elect that the profits and losses of their **foreign permanent establishments** be left out of account.

A corporate **member of a partnership** is subject to corporation tax on its share of the partnership profits as part of its total taxable profits for the related accounting period.

➢ General CIT

- The tax charge applies to a company's total **worldwide profits** – income and capital gains – for each accounting period, whether or not the profits are distributed, and whether or not they are remitted to the United Kingdom.

- **Taxable income is categorized**: trading income, property income, profits arising from loan relationships, profits arising from derivative contracts, gains in respect of intangible fixed assets, profits arising from disposals of know-how and sales of patent rights and miscellaneous income.

- A **distribution exemption** applies to qualifying distributions received by large and medium-sized resident companies. Small companies also qualify, if certain conditions are met.

- The **corporation tax rate** for company non-ring fence profits **from 1 April 2015 is 20%**.

HMRC's Guidance 1 April 2015 (https://www.gov.uk/corporation-tax-rates/rates):

Rate	**2015**	**2014**	**2013**	**2012**
Small profits rate (companies with profits under £300,000)	-	20%	20%	20%
Main rate (companies with profits over £300,000)	-	21%	23%	24%
Main rate (all profits except ring fence profits)	20%			
Marginal Relief lower limit	-	£300,000	£300,000	£300,000
Marginal Relief upper limit	-	£1,500,000	£1,500,000	£1,500,000
Standard fraction	-	1/400	3/400	1/100
Special rate for unit trusts and open-ended investment companies	20%	20%	20%	20%

- There are different Corporation Tax rates for companies that make profits from oil extraction or oil rights in the UK or UK continental shelf. These are known as 'ring fence' companies.

Ring fence companies can claim Marginal Relief on profits between £300,000 and £1.5 million.

Rate	2015	2014	2013	2012
Small profits rate (companies with profits under £300,000)	19%	19%	19%	19%
Main rate (companies with profits over £300,000)	30%	30%	30%	30%
Ring fence fraction	11/400	11/400	11/400	11/400

- **Capital gains tax** instead of corporation tax if a self-employed sole trader or if business partner or your company is non-resident, controlled by five people or fewer and has made a gain on UK residential property.

- Deduction of the costs of running business from profits before tax.

Some expenses aren't allowed for corporation tax.

Capital allowences: equipment, machinery, business vehicles, eg cars, vans, lorries, R&D, the patent box if the company makes a profit from patented inventions, reliefs for creative indrustries (CITR) if the company makes a profit from theatre, film, television, animation or video games, disincorporation relief if closing the company and becoming a sole trader, ordinary business partnership or limited partnership.

Marginal relief can only been claimed if the company had profits between £300,000 and £1.5 million that were either from before 1 April 2015 or from oil rights or extraction in the UK or UK continental shelf.

2. GAAR, TAAR, diverted profits tax and CFC

- "United Kingdom. Corporate Taxation", *Country Surveys* **2015** (IBFD, 31 March 2015):

- **GAAR**

FA 2013 introduced a general anti-abuse rule (GAAR). This took effect **from 17 July 2013**.

The GAAR is applicable to **abusive arrangements** undertaken on or after that date. The GAAR empowers HMRC to counteract "**tax advantages**" where these arise from abusive schemes.

"Tax advantage" is defined broadly, and includes the following results:
- relief (or increased relief) from tax;
- repayment (or increased repayment) of tax;
- avoidance or a reduction of a charge or an assessment to tax;
- avoidance of a possible assessment to tax;
- a deferral of a payment of tax;
- an advancement of a repayment of tax; and
- avoidance of an obligation to withhold or account for tax

In order to counteract a tax advantage, HMRC must meet the requirements of the so-called "double reasonableness test". This means that HMRC must demonstrate that the entering into, or carrying out, of the particular transactions cannot reasonably be regarded as a reasonable course of action. An independent GAAR Advisory Panel has been set up, and HMRC must seek the opinion of this Panel in respect of what HMRC considers to be abusive arrangements. Although the opinion of the Panel is not binding on HMRC, it will form part of the evidence in any subsequent hearing.

The scope of the GAAR encompasses income tax, corporation tax (and amounts chargeable as corporation tax, such as the CFC charge, capital gains tax, inheritance tax, stamp duty land tax (SDLT), the annual tax on enveloped dwellings (ATED), and petroleum revenue tax. Separate legislation is being introduced to bring national insurance contributions (NICs) within the scope of the GAAR. HMRC may also use the GAAR to counteract any tax advantages obtained through abuse of tax treaties.

In counteracting a tax advantage, HMRC is empowered to make such adjustments as are "just and reasonable". FA 2013 contains provisions dealing with "relieving adjustments". These ensure that the taxpayer does not suffer double taxation as a result of a counteraction by HMRC.

There is no advance clearance procedure whereby HMRC may certify that a proposed transaction will not breach the GAAR. Given that the GAAR is targeted at tax abuse, and not tax avoidance, HMRC may continue to challenge tax avoidance under any existing anti-avoidance rules, including any principles developed through case law.

- **TAAR**

There are over 300 specific anti-avoidance rules in the UK tax legislation.

These are referred to by as "targeted anti-avoidance rules" (TAAR)s.

Advantages inherent in the following types of transaction are in many cases liable to be ineffective under specific counter-legislation:
- the purchase of a company with accumulated trading losses or tax depreciation allowances (sections 673-676 of CTA 2010);
- the creation of artificial group structures designed to transfer loss reliefs from one group to another (sections 154 and 155 of CTA 2010);
- the direct or indirect extraction of profits from a closely controlled company in the form of capital;
- the sale of interest-bearing securities in advance of an interest payment date (sections 451, 506, and 615-618 of ITA);

- profits from the disposal or development of land where income profits have been artificially converted into capital (sections 752-772 of ITA);
- non-distribution of profits of companies resident abroad but controlled by UK companies (see section 10.4.);
- the diversion of profits from the United Kingdom to non-resident companies under the intra-group transfer pricing provisions, as well as under the thin capitalization provisions (see section 10.3.);
- section 443 of CTA 2009 contains a general disallowance for interest payments made pursuant to a tax avoidance scheme; and
- provisions denying group relief for certain dual-resident companies (section 109 of CTA 2010).

There are also several anti-avoidance measures designed to counter specific tax advantages relating to capital gains.

There is a rollover relief on the transfer of chargeable assets within a 75% company group (section 171 of TCGA; see section 8.4.). There is anti-avoidance legislation to prevent advantage being taken of this relief.

The Disclosure of Tax Avoidance Schemes (DOTAS) regime came into force on 1 August 2004.

- **Diverted profits tax**

On 3 December 2014, the government announced the introduction of a "**diverted profits tax**". The stated aim of this tax is **to counter aggressive tax planning used by multinational enterprises to divert profits from the United Kingdom. The tax came into effect on 1 April 2015, and will be levied at a rate of 25%**.

The HMRC's guidance has been broadened and clarified, reflecting the various changes that were made to the diverted profits tax legislation, including changes to provide:
- clearer calculation rules;
- rules on how the diverted profits tax applies to partnerships;
- an amended excepted loan relationship rule;
- new examples on the application of diverted profits tax to property development companies, oil and gas companies, insurance companies and banking groups;
- a new chapter on customer engagement with HMRC, describing interaction between the HMRC and taxpayers, when the HMRC diverted profits tax team is to be consulted, and the interaction on the diverted profits tax and advance pricing agreements;
- a new chapter on procedures for raising a diverted profits tax charge;
- a notification template.

HMRC's guidance states there will be no formal statutory or non-statutory procedure available for the diverted profits tax, but that taxpayers may seek a written opinion from HMRC on the likelihood of a notice for the tax being issued.

- **CFC**

FA 2012 brought about wholesale reform of the UK CFC rules. The legislation takes effect for accounting periods of CFCs beginning on or after 1 January 2013.

The CFC charge applies to **UK-resident companies with certain prescribed interests in controlled foreign companies**. The charge is computed by reference to the chargeable profits of the CFC.

3. ATR

- United Kingdom, Corporate Taxation, Country Surveys **2015** (IBFD):

There is **no general statutory system** of advance rulings.

However, a number of **anti-avoidance provisions contain rules on clearance procedures**, allowing taxpayers to ascertain whether the legislation will be applicable before entering into a transaction.

- B. Alarie, K. Datt, A. Sawyer, G. Weeks, "Advance Tax Rulings in Perspective: A Theoretical and Comparative Analysis", *New Zealand Journal of Taxation Law and Policy* **December 2014**, vol. 20, 374-376:

Although there is **no formal system of advance rulings (or clearances from HMRC)** in the UK, **HMRC provides an extensive clearance service for business taxpayers**. Such **non-statutory clearances** provide taxpayers with HMRC's view of what is the correct tax treatment.

They do not strictly bind HMRC but HMRC would nonetheless often be obliged to honour them under the doctrine of **legitimate expectations**. Nonetheless, substantive protection of legitimate expectations by the UK courts **has limits**.

- Maclay Murray & Spens, "Tax rulings", in *Lex Mundi*, **2011**:

1. Do taxpayers have the right to request a ruling from the tax authorities? If yes, please clarify if it is a constitutional right or if it is granted by tax law.

Taxpayers do not have a general right in law or otherwise to request a tax ruling.

2. Is the issuance of tax rulings limited to certain topics, or can they be obtained on every tax issue?

The UK tax legislation provides that **statutory advance clearance** or approval may be given by HM Revenue & Customs ("HMRC") to certain transactions.

For businesses, HMRC will provide a **non-statutory clearance** if there is material **uncertainty** as to how tax law will apply to a specific transaction and if the issue is **commercially significant**.

HMRC will advise individual taxpayers as to their interpretation of the law (including its application to a proposed transaction) if query is in the following categories:
• the interpretation of legislation passed in the last four Finance Acts;
• the application of double taxation agreements;
• whether someone is employed or self-employed;
• Statements of Practice and extra-statutory concessions; and
• other areas concerning matters of major public interest in an industry or in the financial sector.

3. Are tax rulings definitive or can they be revoked by the tax authorities? Is a tax court authorization required to do so?

Tax rulings can be revoked in certain circumstances. **If a ruling given is correct in law it will be binding on HMRC.**

If HMRC provide a ruling that is **incorrect in law, they will be bound** by such advice **provided that** it is clear, unequivocal and explicit and the taxpayer can demonstrate that:
• they reasonably relied upon the advice;
• where appropriate they made full disclosure of all the relevant facts; and
• the application of the statute would result in their financial detriment.

It is for the courts to decide whether the ruling is correct in law. In certain circumstances, HMRC will **not be bound by a ruling** they have given. For example this may occur where:
• for a pre-transaction ruling, the nature of the transaction changes in a way that has a material impact on the transaction as a whole;
• the taxpayer provided incorrect or incomplete information when they made the ruling application;
• a Court or Tribunal judgment changes the prevailing interpretation of the law on which the ruling was based and the taxpayer's liability to tax for that year has not been finalised.

No tax court authorisation would be required in these circumstances; the ruling would just be void.

4. Do tax authorities have a deadline to start a tax ruling revocation process? If so, please describe the process and how long it takes.

HMRC can make a discovery assessment into a tax return generally within 4 years of the end of a tax year. This rises to 6 years where there has been careless behaviour by the taxpayer and up to 20 years where there has been deliberate behaviour or a failure to notify by the taxpayer.

5. Does the taxpayer have any legal defense against a tax authority attempting to revoke a tax ruling? If so, please explain the defense.

The only defence would be that the taxpayer provided full details of the transaction and carried out the transaction exactly as described to HMRC. If HMRC refuses to be bound by a ruling that it has given in respect of a particular transaction, as there is no appeals procedure, the only remedy would be for the taxpayer to seek a judicial review.

6. What is the effect of a revocation of a tax ruling? (i.e. Is the revocation retroactive with resulting liability for the taxpayer- principle amount owing, interest, penalties, etc.- or does it take effect only from the date of the revocation?)

Where HMRC provides an erroneous ruling that is binding on them and subsequently notifies the taxpayer that it is incorrect, the taxpayer will only be required to start accounting for tax on the correct basis from the date of notification.

Where a ruling is void as a result of a transaction changing or if the taxpayer provided incorrect information, the ruling will be deemed never to have had effect and any additional tax that should have been paid, together with interest and penalties, will be due.

Where a Court or Tribunal judgment changes the prevailing interpretation of the law on which the ruling was based and the taxpayer's liability to tax for that year has not been finalised, any additional tax for that year will be due. If the liability to tax has been finalised, no further tax will be due.

Where the statutory law relevant to the transaction for which the ruling was given changes. If this change is retrospective HMRC will not be bound by any pre- or post-transaction ruling they have previously given and so additional tax, together with interest and penalties would be due. This situation occurs very infrequently. If the new statute is enacted pre-transaction and is prospective, any previously given ruling relating to the transaction will not be considered to be binding.

HMRC has a duty to collect the correct amount of tax as required by statute at the time the transaction takes place. It remains the taxpayer's responsibility to take account of changes in the law.

- "United Kingdom", *International Survey on Advance Tax Rulings*, **2003** (IBFD).

Apart from specific legislative provisions, there is **no statutory basis** upon which a tax payer may require the Inland Revenue to provide a ruling on the interpretation or application of tax legislation to his circumstances. The Inland Revenue does, however, exercise its administrative power of care and management to respond to ruling requests.

4. APA

- United Kingdom, Corporate Taxation, Country Surveys **2015** (IBFD, 31 March 2015):

- **Transfer pricing rules**

The UK transfer pricing rules are aligned with OECD principles.

With effect from 1 April 2004, the transfer pricing regime was extended to apply to thinly capitalized enterprises and to transactions between UK companies.

Exemption is available for small and medium-sized enterprises, as defined for EU purposes (Commission Recommendation 2003/361). A temporary relaxation of the penalty regime for 2004/05 and 2005/06 was granted to allow companies time to adapt their documentation policies.

With effect from 4 March 2005, the regime extends to loans and other financing arrangements where any persons act together in relation to such arrangements (e.g. certain private equity transactions).

On 3 December 2014, the government announced that it would introduce legislation to implement the OECD model for country-by-country reporting.

- **APA (see attached D. Beeton, M. Clayson, "APA's: the UK perspective", *Transfer Pricing International Journal* 2014)**

There is **legislation** (Taxation Act 2010) in force providing for **advance pricing agreements**.
Where a transaction affects another jurisdiction with which the United Kingdom has a tax treaty that includes a mutual agreement procedure, that jurisdiction is invited to participate.

- **ATCA (see attached D. Beeton, M. Clayson, "APA's: the UK perspective", *Transfer Pricing International Journal* 2014)**

Advance thin capitalization agreements (ATCAs) are also available under the legislation providing for APAs.

Bloomberg BNA Tax and Accounting Center™

Transfer Pricing International Journal: News Archive
2014
09/30/2014
Articles

15 TPTP 27

The approaches taken by individual jurisdictions to the concept and practice of Advance Pricing Agreements have been many and varied, a subject which is explored in detail in the forthcoming issue of Bloomberg BNA's Transfer Pricing Forum. We reproduce the United Kingdom response here.

Advance Pricing Agreements: the UK perspective

Danny Beeton and Murray Clayson
Freshfields Bruckhaus Deringer, London

Danny Beeton is Head of Transfer Pricing Economics and Murray Clayson is a Partner in the Tax Practice Group, Freshfields Bruckhaus Deringer.

I. Are APAs available in your jurisdiction? Both unilateral and bilateral/multilateral?

APAs have been available in the UK since 1999 and both unilateral and bilateral/multilateral APAs are possible. An APA may be requested by any UK business, including a partnership, with transactions to which the transfer pricing legislation would apply, any non-resident trading in the UK through a permanent establishment, and any UK resident trading through a permanent establishment outside the UK. In the year ended March 31, 2013 HMRC admitted 45 APAs into the programme and agreed 27.

HMRC generally recommends that APA applications are bilateral rather than unilateral except where:

- applicants are able to persuade HMRC that the extension to a bilateral APA would unnecessarily complicate and delay the process; or
- the other party to the transaction is resident in a jurisdiction with which the UK has no treaty or where HMRC are aware that the partner has no APA process; or
- there is considered to be little extra to be gained by seeking a bilateral agreement, for example where the UK is at the hub of arrangements with associated enterprises in many different countries and where the trade flows involved with any one particular country are relatively modest in scale.

HMRC consider that multilateral agreements may be more appropriate where there is essentially only one activity, but several enterprises or parts of enterprises contribute to it. An example could be where a UK enterprise is engaged in global financial trading through branches in more than one other country. [1]

[1] HMRC's International Manual ("INTM") at page INTM422030.

II. Is there a special kind of APA for thin capitalisation?

Thin capitalisation issues will generally be dealt with via a separate Advance Thin Capitalisation Agreement ("ATCA") which have been available since March 2007. In the year ended March 31, 2013 144 ATCAs were agreed and 414 were in force.

III. Is there a complexity/size threshold?

Every APA request will be considered on the basis of its particular facts and features but generally HMRC will be looking for one or more of the following characteristics:

- the transfer pricing issues are complex rather than straightforward, meaning that there is doubt as to how the arm's length principle should be applied, or where reliable comparables cannot be readily identified; or

- without an APA, it is likely that the taxpayer's transfer pricing policies or issues would not be reported as "low risk" and/or there is a high likelihood of double taxation; or

- the taxpayer seeks to implement a method which is highly tailored to its own particular circumstances.

APAs will not be declined solely by reference to the size of the transactions or of the taxpayer (although many small and medium sized enterprises are exempt from the UK transfer pricing legislation).

Since April 2014 UK-to-UK transactions have been subject to transfer pricing legislation and there is a requirement outside of the transfer pricing legislation to price some UK-to-UK transactions, for example oil-related ring fenced trades, in accordance with the arm's length principle but HMRC do not generally consider such transactions as likely to warrant an APA. [2]

---

[2] INTM422040.

HMRC Statement of Practice ("SP") 01/12 states that ATCAs are suitable, inter alia, for intra-group loans, quoted Eurobonds and cases of indirect participation ("acting together"). ATCAs will not regulate other legislation, such as anti-arbitrage, unallowable purpose, the worldwide debt cap and compensating adjustment, although HMRC may be prepared to negotiate an ATCA while any such issues are being addressed. [3]

---

[3] INTM512030.

There are no fixed criteria such as turnover or level of debt restricting acceptance of ATCA applications, but the process is designed to help resolve financial transfer pricing issues which have a significant commercial impact on the enterprise's results, where the issuer would be unlikely to be regarded as "low risk" by HMRC, or where the arm's length provision is a matter of doubt. [4]

---

[4] SP 01/12.

No fee will be charged at any stage of the APA or ATCA process.

IV. What is the legal basis for APAs?

The legislation that relates to APAs appears at sections 218-230 of the Taxation (International and Other Provisions) Act 2010 ("TIOPA 2010"). It is also the basis for ATCAs.

V. Which part of the administration has authority to negotiate APAs?

APAs are generally negotiated by the APA Team in CTIAA Business International, although unilateral APAs including oil taxation are handled by the Competent Authority, HMRC Large Business Service, Oil and Gas Sector. ATCAs are co-ordinated by financial specialists in the Transfer Pricing Team at Business International.

VI. What is the process for obtaining an APA? How long does this take? Is there a pre-filing phase?

The process for obtaining an APA is explained in SP 2/10, supplemented by guidance in INTM422000. HMRC strongly recommends that an enterprise interested in applying for an APA first makes an informal expression of interest which should generally cover the following:

- the nature of the transfer pricing issues intended to be covered by an APA;

- details of the tax residence of the parties involved and the importance to the wider business of the transactions to be covered;
- if decided upon, a description of the proposed transfer pricing method; and
- an indication of the nature of any current transfer pricing enquiries, competent authority claims and any other relevant issues of which the business is aware.

A business can preserve its anonymity until a decision is made in principle to proceed with the application, although HMRC will not make any commitment over acceptance into the APA Programme until the identity of the business is known. [5]

[5] INTM422050.

Following HMRC's indication that it is willing to consider the APA proposal, the business should submit a formal application, copying in the business's Customer Relationship Manager or Customer Coordinator. A “typical timeline” for a bilateral APA is included at Annex 2 of SP 2/10 and reproduced at INTM422140, indicating that the process will take 21 months from receipt of the formal application. HMRC aim to complete the APA process within 12-18 months and believe that it may well be possible to complete unilateral APAs much more quickly than that. [6] HMRC's published statistics show that in the year to March 31, 2013, the average time for agreement to be reached on all APAs was 26 months, and 50% were agreed within 15 months. The average time to reach agreement on an ATCA was 11.7 months and 50% of ATCAs were agreed within 9.7 months.

[6] INTM422090.

The process for obtaining an ATCA is explained in SP 01/12, supplemented by guidance in INTM510000. There is no pre-filing expression of interest phase for ATCAs.

VII. What information must be provided?

SP 2/10 Annex 1, reproduced at INTM422130, sets out the information to be included in a formal APA application, which is generally as follows:

- the identification of the parties and recent accounts (generally for the previous three years);
- a description of the transfer pricing issues proposed to be covered by the APA and analysis of the functions and risks of the parties and actual and projected financial data of the parties in relation to the issues;
- a description of the worldwide organisational structure, ownership and business operations of the group to which the company in question belongs, the place or places where such operations are conducted, and all the major categories of transaction flows of the parties to whom the APA is intended to apply;
- a description of the records which will be maintained to support the transfer pricing method proposed for adoption in the APA and the information which it is proposed will be supplied each year to demonstrate that the tax return conforms to the terms of the APA;
- a description of any current tax enquiries or competent authority claims that are relevant to the issues covered by the proposed APA;
- the chargeable periods to be covered by the APA;
- the identification of assumptions made in developing the proposed transfer pricing method which are critical to the reliability of its application under the arm's length standard; and
- where appropriate, a request for competent authority assistance in reaching a bilateral or multilateral APA. [7]

[7] INTM422130.

It is recommended that ATCA requests include the following information:

- a description of the financing structure being put in place, setting the context within which it has come into being;
- a description of the trading strategy of the business/company/group;
- copies of loan agreements and other relevant documents;
- a clear identification of the source of funds, outlining the purpose for which they were borrowed and any repayment terms;
- a description of the business, and the plans of the principal trading operations, showing how capital is allocated and the relationship between capital and cash flows from operations;
- an analysis of the financial strategy of the business, identifying the principal cash flows and the sources of repayment of debt;
- a group structure covering all companies playing any part in the trading activities, funding and control of the borrower(s), and clearly setting out any changes to the structure taking place over the course of the transactions;
- a summary of contemporaneous financial forecasts, identifying their source and purpose, protected for the proposed life of the ATCA, and ideally presenting a realistic range of potential outcomes; and
- a draft ATCA, or a clear set of proposals for one.

The information should be sufficient to provide HMRC with an understanding of the following:

- the commercial motivations/advantages/pressures of the chosen course of action, both from the UK and the wider group perspective;
- how the expected benefits for the UK business justify the costs;
- the actual and predicted benefits of the object of the funding;
- the degree of risk attached to the loan; and
- the borrower's strategy for managing the debt, both interest and principal, over the period of the ATCA (and beyond, if relevant), how and when amounts will be repaid, how much is expected to be refinanced at the terminal date, and so on. [8]

[8] INTM512050.

VIII. What format and contents are specified for the APA itself?

Annex 3 of SP 2/10, reproduced at INTM422150, comprises a sample APA containing the following sections:

- identification of the taxpayer, its related parties involved and the relationship between them;
- the covered transactions;
- the legal effect of the agreement;
- the term;
- financial statements and APA records to be provided by the taxpayer;

- critical assumptions;
- contents of annual reports on compliance with the APA to be provided by the taxpayer;
- limitations on disclosure of APA information;
- revocation;
- treatment of allocations under the transfer pricing method (to align the results of the covered transactions with the APA terms);
- the deductibility of professional fees charged in relation to the APA;
- a statement to the effect that notwithstanding any statement in the APA, the taxpayer remains subject to all applicable taxation laws not directly affected by the APA;
- governing law (usually of England) and effective date;
- signatures; and
- notes, describing in more detail the transfer pricing method, the critical assumptions and the annual reports.

A model ATCA was issued alongside SP 01/12 and is reproduced at INTM520090. In summary it contains the following sections:

- preamble;
- the parties involved;
- the financial provisions covered by the agreement;
- the term of the agreement;
- definitions of terms used in the financial conditions;
- the financial conditions (including ratios and debt cap);
- monitoring of the financial conditions;
- consequence of meeting the financial conditions;
- consequence of not meeting the financial conditions;
- circumstances in which the agreement may be revised;
- circumstances where the application of the consequence of not meeting the financial conditions may be revised (e.g. an unusual event); and
- signatures.

IX. For how long can APAs apply?

Typically the term of an APA is from three to five years, although an APA can be effective also for earlier years where negotiation of the APA has continued into a subsequent period or – by "rollback" of the APA (subject to the agreement of any other tax administrations which may be involved) – as a means of resolving a transfer pricing issue where the facts and circumstances were substantially the same in the earlier periods and the agreed transfer pricing methodology could apply to those earlier periods. Even where the taxpayer has not asked for an APA to be rolled back, HMRC will co-ordinate the APA request with any transfer pricing enquiry in respect of earlier years. [9]

[9] INTM422060

The term of an ATCA is usually also three to five years [10] , although ATCAs may be extended for 18 months to two years where the funding is to be substantially renegotiated within that timeframe. [11] ATCAs can operate retrospectively and an application can be submitted after an enquiry has opened; earlier periods will then be settled either as a rollback of the ATCA term to earlier years, or in a separate agreement detailing any revised figures. [12]

[10] INTM512075

[11] INTM512110

[12] INTM512020

X. Will other affected tax authorities be informed?

Where there is an appropriate Double Taxation Agreement in place, and HMRC consider that a bilateral APA would be more appropriate, HMRC may communicate with the other administration if a unilateral APA is sought, to ascertain whether that administration would consider entering into a bilateral APA process. However, there would be no obligation on the taxpayer to pursue a bilateral rather than a unilateral APA [13] . HMRC will also inform their relevant treaty partners of the terms of any unilateral UK APA.

[13] INTM422030

XI. What APA statistics are published?

HMRC publish annual APA statistics showing:

- applications made during the year;
- applications turned down;
- applications withdrawn;
- APAs agreed during the year;
- average time to reach agreement; and
- time in which 50% of agreements are reached.

HMRC also publish annual ATCA statistics showing:

- ATCAs agreed during the year;
- agreements in force during the year;
- average time to reach agreement; and
- time in which 50% of agreements are reached. [14]

[14] Transfer Pricing Statistics, at http://www.hmrc.gov.uk/international/transfer-pricing-stats.pdf

For More Information

Danny Beeton is head of transfer pricing economics and Murray Clayson is a partner in the tax practice of Freshfields Bruckhaus Deringer's London office. They may be contacted at:

danny.beeton@freshfields.com

murray.clayson@freshfields.com

Contact us at http://www.bna.com/contact/index.html or call 1-800-372-1033

ISSN 1947-3923

Copyright © 2014, The Bureau of National Affairs, Inc. Reproduction or redistribution, in whole or in part, and in any form, without express written permission, is prohibited except as permitted by the BNA Copyright Policy.

HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

Alain Lamassoure MEP
Chair
Special Committee TAXE
European Parliament
B-1047
Brussels
Belgium

8 **June 2015**

Dear Mr Lamassoure

EUROPEAN PARLIAMENT TAXE COMMITTEE - REQUEST FOR A MEETING ON THURDAY 18 JUNE 2015

Thank you for your letter to the Chancellor of the Exchequer about the European Parliament TAXE committee. I would like to offer my congratulations on your appointment as Chair of the TAXE Special Committee. The Chancellor has asked me to meet with you and other members of your Committee on his behalf, as Minister responsible for tax policy.

The fight against base erosion and profit shifting, and aggressive tax planning is a UK priority. As you know, we are committed to taking action internationally, through the G20/OECD BEPS project and at EU level, and have also sought to counter tax evasion and avoidance through domestic legislation and our administration of the tax system.

I am therefore be happy to meet with the TAXE Special Committee delegation and to have the opportunity to discuss these issues and the other tax policies that you mention in your letter.

In preparation for our meeting and to assist you with your work, I have attached some information on the UK's approach to issues that may be of interest to the TAXE Special Committee. I hope you find this information helpful.

I look forward to receiving more information about your forthcoming visit to the UK, which I am confident will be productive for both parties.

Yours sincerely

David Gauke MP

ANNEX

UK Action to Increase Transparency in the Area of Corporate Taxation

The UK strongly supports tax transparency as a means of helping to identify potentially harmful tax practices and assisting Member States to counter erosion of their tax bases. The following are examples of the UK's endeavours to increase transparency in the area of corporate taxation in a manner consistent with the law and our treaty obligations:

Country-by-Country Reporting

The UK has committed to implement the G20-OECD model for country-by-country reporting, which is designed to help tax authorities gather information on multinational companies' global activities, profits and taxes. In order to fulfil this commitment, we introduced legislation in the 2015 Finance Act that enables us to implement the G20-OECD agreed template for country-by-country reporting in line with the OECD's final guidance on implementation, which is expected to be released shortly.

The UK has also implemented the country-by-country reporting provisions in line with the EU Capital Requirements Directive IV (CRDIV) legislative framework for banks, building societies and investment firms, and is implementing the Extractive Industries Transparency Initiative (EITI) in relation to companies in the oil & gas and mining sectors.

Code of Practice for Banks

The UK introduced the Code of Practice on Taxation for Banks in 2009. The Code is voluntary and is intended to encourage banks to change their behaviour so as not to engage in or promote tax avoidance. The Code also seeks to ensure banks maintain adequate internal governance processes to control the types of transactions they enter into and to maintain a transparent and open relationship with HMRC where significant uncertainties in relation to tax matters are disclosed early. In 2014, the Code was strengthened and a requirement introduced for HMRC to publish an annual report on the operation of the Code, including naming banks who have and have not unconditionally adopted the Code or that have undertaken transactions that breach the Code. The first annual report will be published later this year.

In the year to 31 March 2015, 302 banks have unconditionally adopted and complied with the Code. HMRC believes the Code has been a success and has improved tax compliance amongst banks without impinging on their commercial activities. There has been a material shift in the behaviour of banks since its introduction and HMRC know that banks have not undertaken transactions because of the Code. HMRC are

no longer seeing the nature and scale of avoidance transactions that was typical some five to ten years ago.

More information on the Code of Practice, and the consultation on strengthening the Code of Practice can be found at:

https://www.gov.uk/government/publications/code-of-practice-on-taxation-for-banks

https://www.gov.uk/government/consultations/strengthening-the-code-of-practice-on-taxation-for-banks

The Code of Conduct Group for Business Taxation Model Instruction

In early 2014, Member States agreed to enter into a voluntary and legally non-binding commitment through the Code of Conduct Group's Model Instruction, to spontaneously exchange (i.e. automatically, with no discretion on the part of the issuing tax authority) information on tax rulings with a cross-border impact to Member States that might be affected, in accordance with Article 9 of Directive 2011/16/EU.

HMRC has since been actively working to implement it. This has required the introduction of new procedures, guidance and additional staff, as well as the training of existing personnel. We have very recently devised a test and learn exercise with a view to identifying a sample of rulings to exchange.

Disclosure of Tax Avoidance Schemes (DOTAS) Legislation (2004)

DOTAS was introduced in 2004 to provide early information about new and innovative tax avoidance involving Income Tax, Corporation Tax and Capital Gains Tax. DOTAS has continually evolved, being strengthened and broadened since its introduction in 2004. It now incorporates Stamp Duty Land Tax, National Insurance contributions, Inheritance Tax and the Annual Tax on Enveloped Dwellings.

Most recently, in Finance Act 2015 the Government strengthened aspects of DOTAS, including the 'hallmarks' (descriptions of avoidance that must be disclosed) to ensure avoidance that is being marketed and used now must be disclosed to HMRC. It also strengthened the powers that enable HMRC to identify and pursue those who are required to disclose but do not, and to obtain information about employees who are party to avoidance schemes. The 2015 changes also allow HMRC to publish information about promoters and schemes that are notified under the strengthened regime.

The Government has also recently announced that HMRC will create a Taskforce to further strengthen enforcement of the strengthened regime using intelligence about the avoidance market to detect and pursue potential failure to disclose schemes. The Taskforce is being resourced (with up to 20 FTEs) to be operational for 2015/16.

UK Action to Limit Corporate Tax Base Erosion and Profit Shifting

The UK takes tax avoidance and aggressive tax planning extremely seriously. Our ambition is to create a competitive tax regime with simple and fair rules that align taxation with economic activity in order to ensure all taxpayers pay their fair share. Since 2010, we have introduced over 40 legislative changes to tackle evasion and avoidance. Examples of such measures include:

Hybrid Mismatches

To address corporate tax base erosion and profit shifting, the UK has committed to introduce from 2017 the G20-OECD agreed rules to neutralise hybrid mismatch arrangements. The new rules will tackle a tax avoidance technique used by multinationals to exploit differences between countries' tax rules to avoid paying tax in either country, or to obtain more tax relief against profits than they are entitled to.

Diverted Profits Tax

In order to clamp down on companies going to extraordinary lengths to avoid paying their fair share of tax, the UK introduced the Diverted Profits Tax (DPT), which was legislated through the 2015 Finance Act and came into force on 1 April. The tax is complementary to the G20-OECD BEPS project's objective of aligning taxing rights with economic activity, and targets contrived arrangements used to divert profits away from the UK by applying a rate of 25 per cent on those profits.

Bareboat Chartering

The UK has also taken action in the oil and gas industry, where previously companies that provide drilling rigs and accommodation vessels were not paying a fair amount of tax. Formerly, through the use of specialised lease payments known as bareboat charters, up to 90% of the operating profit these contractors made in the UK was not being taxed here. The UK has now taken action and amended the rules so that more of the profits made by these contractors in the UK are subject to UK tax. This will ensure these companies pay a fair amount of tax for the activities they carry out in connection with the UK's valuable natural resources.

Effective Tax Administration

In addition, since April 2010, the UK has invested more than £1 billion in HMRC, to strengthen their capability to tackle avoidance and evasion, for example through strengthening HMRC's transfer pricing capability to tackle avoidance through intra-group transactions.

Overview of Tax Rulings Issued By the UK

Under UK law, it is possible for the tax administration to issue tax rulings, including Advanced Pricing Agreements (APAs) and Advanced Thin Capitalisation Agreements (ATCAs), as well as statutory and non-statutory clearances - these are described in more detail below. Rulings issued by the UK have advantages for both the tax authority and taxpayer as they provide clarification as to how existing UK law or OECD rules will be applied in the specific circumstances of the taxpayer. All arrangements can be audited, and include cancellation provisions that can be invoked if a business breaches the terms of the agreement or provides false or misleading information to HMRC as the tax authority.

The UK does not issue rulings that provide for preferential treatment. HMRC will not give a ruling in cases where the business is asking for tax planning advice, to approve tax planning products or arrangements, or which cover transactions that, in HMRC's view, have the purpose of avoiding tax. At all times, advice and guidance is given solely on the basis of, and in accordance with, published national tax law and publicly available guidance.

Advanced Pricing Agreements (APAs)

An APA is a written agreement between HMRC and a business determining a method for resolving transfer pricing issues in advance of a return being made. Where it is adhered to, it provides the business with certainty on the treatment of those transfer pricing issues for the length of the agreement. An APA can also be bilateral or multilateral to allow other tax administrations at the other end of the transaction/s to provide similar assurance.

APAs can be requested by: UK businesses (including partnerships); any non-resident trading through a UK permanent establishment; and any UK resident trading through a non-UK permanent establishment. They apply to transfer pricing between separate business enterprises where issues in relation to the operation of the arm's length provisions, attribution of income/profit between parts of a business that operate in more than one country, and attribution of profit across a UK oil-related ring fence.

Every APA request will be considered on the basis of its particular facts and features, but generally HMRC will be looking for one or more of the following characteristics:

- the transfer pricing issues are complex rather than straightforward - to HMRC 'complex' means there is doubt as to how the arm's length standard should be applied, conversely, where reliable market comparables can be readily identified for the transaction(s) in point, that should enable transfer pricing methods to be employed in accordance with the Organisation for Economic

Co-operation and Development (OECD) Transfer Pricing Guidelines, and HMRC is likely to regard such a situation as 'straightforward';

- without an APA, it is likely that the taxpayer's transfer pricing policies or issues would not be regarded as 'low risk' and/or there is a high likelihood of double taxation;
- the taxpayer seeks to implement a method which is highly tailored to its own particular circumstances. HMRC will be willing to consider an innovative proposal providing it is compliant with OECD Guidelines, and not one that HMRC considers Treaty Partners would regard as being overtly tax aggressive.

HMRC can cancel an APA at any time if it believes that circumstances have materially changed.

More information on APAs can be found at:
http://www.hmrc.gov.uk/manuals/intmanual/INTM422000.htm

Advanced Thin Capitalisation Agreements (ATCAs)

An ATCA is a specific type of APA that applies to lending. It covers, but is not limited to intra-group funding, and funding through indirect participation.

More information on ATCAs can be found at:

http://www.hmrc.gov.uk/manuals/intmanual/INTM512000.htm

Statutory Clearances

Where the UK's tax legislation specifically sets out that a clearance can be requested from HMRC, these are referred to as statutory clearances. These relate to certain, but not all, anti-avoidance provisions. For instance, HMRC will respond to a request for clearance by saying whether it considers that the anti-avoidance/abuse legislation in question will apply to the taxpayer's circumstances, but HMRC will not give an opinion on whether or not the UK's General Anti-Abuse Rule will apply.

Non-Statutory Clearances

HMRC's non-statutory clearance procedures apply where the legislation on which the taxpayer seeks clarification does not include specific provision for HMRC to provide a clearance. Where there is no specific clearance provision, but where it would aid the efficient management of the UK tax system, HMRC is nevertheless willing to give a view on how it sees the tax law applying to the specific circumstances set out by the taxpayer in the clearance application.

HMRC will only provide non-statutory clearances where there is either genuine uncertainty about the interpretation of the tax legislation and the transactions are not being undertaken for tax avoidance purposes.

More information on clearances can be found at:

http://www.hmrc.gov.uk/cap/index.htm

The UK Offshore Penalties Regime

While the UK does not have a list of non-cooperative tax jurisdictions, we do have a graduated penalty regime for offshore non-compliance. This system is a way to look at other jurisdictions for tax evasion purposes and allows us to focus on those who are engaged in tax evasion.

The offshore penalties regime has applied to liabilities arising from 6 April 2011. The level of penalty is based on the type of behaviour that leads to the understatement of tax, and is linked to the tax transparency – the quality of tax information exchange – of the territory in which the income or gain arises.

Currently, there are 3 levels of offshore penalty:

- Category 1: up to 100% of the tax (the same as for domestic non-compliance)
- Category 2: up to 150% of the tax
- Category 3: up to 200% of the tax

The underlying premise is that the harder it is for HMRC to get information from another territory, the more difficult it is to detect and remedy non-compliance and, therefore, the penalties for failing to declare income and gains arising in that territory will be higher.

Currently, the criteria for the 3 categories are broadly:

	Penalties of up to 'X' of the potential lost revenue
Category 1: Automatic exchange of information (AEOI) and other tax cooperation agreements, which have similar effect	100%
Category 2: Exchange of Information (EOI) on request to the international standard, and certain less developed territories	150%
Category 3: No EOI or EOI agreements that do not meet international standards	200%

HM Treasury

HM Revenue & Customs

Tackling tax evasion and avoidance

Cm 9047

March 2015

Tackling tax evasion and avoidance

Presented to Parliament by
the Chief Secretary to the Treasury
by Command of Her Majesty

March 2015

Cm 9047

© Crown copyright 2015

This publication is licensed under the terms of the Open Government Licence v3.0 except where otherwise stated. To view this licence, visit nationalarchives.gov.uk/doc/open-government-licence/version/3 or write to the Information Policy Team, The National Archives, Kew, London TW9 4DU, or email: psi@nationalarchives.gsi.gov.uk.

Where we have identified any third party copyright information you will need to obtain permission from the copyright holders concerned.

This publication is available at www.gov.uk/government/publications

Any enquiries regarding this publication should be sent to us at public.enquiries@hmtreasury.gsi.gov.uk

Print ISBN 9781474116770
Web ISBN 9781474116787
PU1767

Printed in the UK by the Williams Lea Group on behalf of the Controller of Her Majesty's Stationery Office

ID 16031511 03/15

Printed on paper containing 75% recycled fibre content minimum

Contents

		Page
Foreword		3
Chapter 1	Introduction	5
Chapter 2	Tackling tax evasion and avoidance in this Parliament	7
Chapter 3	Next steps on tax evasion and avoidance	15

Foreword

Most individuals and businesses in the UK pay the tax that is due and do not try to bend or break the rules to avoid it. But for too long, for a minority, artificial tax avoidance schemes were seen as normal and tax evasion was not considered the crime it is. Paying the tax you owe is not an optional extra – it's a legal requirement.

That is why this government has been relentless in its crackdown on tax evasion and avoidance. We remain determined to reduce incentives and increase penalties for those who do not pay the tax they should. In every year of this Parliament, we have made legislative changes making it harder for people to avoid and evade their taxes than ever before.

Since 2010, we have invested more than £1 billion in HMRC to strengthen their powers in tackling avoidance and evasion – including championing ground-breaking new international standards on transparency which will soon give HMRC much more information to find offshore tax evaders and bring them to book. We have changed the economics of tax avoidance by reducing incentives and increasing the downsides for entering into avoidance schemes. We have introduced a General Anti-Abuse Rule, a major development in UK tax law. We have been at the forefront of driving forward reform of the international tax rules. And alongside this, we have strengthened our domestic defences, countering aggressive tax planning by multinational companies that divert profits from the UK with a new tax at 25% from April 2015.

During this Parliament, as a result of actions taken to tackle evasion, avoidance and non-compliance, HMRC will have secured £100 billion in additional compliance revenue. This includes more than £31 billion from big businesses, and £1.2 billion extra from the UK's 6,000 richest people, who each have a net worth of £20 million or more.

But we want to go further. So at Budget 2015, we announced a range of new measures targeting those who persistently enter into tax avoidance schemes. And we are now also asking the regulatory bodies who police professional standards to maximise their role in setting and enforcing clear professional standards around the facilitation and promotion of avoidance.

On evasion, this government has played a leading role in the transformation of international tax transparency. We have established agreements to exchange information on financial accounts automatically with over 90 countries. Under these agreements HMRC will receive information annually on the accounts, interest, and balances of UK tax residents' offshore accounts. And for those who continue to evade, we are now introducing a tough new package of measures, including new criminal offences and greater financial penalties:

- for offshore evaders, we will consult on introducing a new strict liability criminal offence. It will no longer be possible to evade large sums of tax and plead ignorance in an attempt to avoid criminal prosecution. We will also be increasing financial penalties, including a new penalty linked to the underlying asset
- for those who enable evasion, we will create a new offence of corporate failure to prevent tax evasion or the facilitation of tax evasion. This will complement the existing criminal offences for individuals. We will also introduce new civil penalties, exposing those who enable evasion to the same level of financial penalty as the tax evaded by the evaders themselves

- and for both evaders and enablers of evasion, we will extend the scope for HMRC to publish their names, exposing them to public scrutiny

We are hitting tax avoidance and tax evasion harder than ever before. Our message is simple – come forward and settle your affairs, play by the rules, or be caught and face the consequences. This document sets out what we are doing to keep up the pressure.

George Osborne
Chancellor of the Exchequer

March 2015

Danny Alexander
Chief Secretary to the Treasury

March 2015

1 Introduction

1.1 Since 2010, this government has been relentless in its crackdown on tax avoidance and evasion and it is determined to reduce the incentives and increase the penalties for engaging in this kind of behaviour. It has made changes in every year of this Parliament and it is as a result of this government's actions that it is now harder for people to avoid and evade their taxes.

1.2 The vast majority of individuals and businesses in the UK pay the tax that is due. The government recognises the need to make tax easier for the honest majority to understand and to pay. However, there are a minority who do not pay their fair share.

1.3 HMRC's published estimate of the tax gap is the difference between the amounts of tax that should, in theory be collected by HMRC, against what is actually collected. The current tax gap estimate for 2012-13 is £34 billion or 6.8% of theoretical liabilities. While the UK tax gap compares well to that found in other countries the Government is determined to reduce it further.

1.4 This government has cracked down on those determined to break or bend the rules with radical initiatives. It has changed the economics of tax avoidance by introducing ground-breaking measures that reduce the incentives for entering into avoidance schemes and worked to ensure that HMRC have the tools and powers they need to address evasion and avoidance. Many more evaders have been found by HMRC or have come forward to put their tax affairs in order. And many avoiders have sought to pay up or decided not to engage in further schemes.

1.5 But there is more to be done. The Budget set out new measures to take action against tax avoidance. **Today, the government announces further action to tackle tax evasion.** This document sets out the government's plans to find and punish more evaders, deter more avoiders and reassure the vast majority of taxpayers who already pay what they owe.

Box 1.A: Clarifying tax terminology

Tax evasion is always illegal. It is when people or businesses deliberately do not declare and account for the taxes that they owe. It includes the hidden economy, where people conceal their presence or taxable sources of income.

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 engage in it can find they pay more than the tax they attempted to save once HMRC has successfully challenged them.

Tax planning involves using tax reliefs for the purpose for which they were intended, for example, claiming tax relief on capital investment, or saving via ISAs or for retirement by making contributions to a pension scheme. However, tax reliefs can be used excessively or aggressively, by others than those intended to benefit from them or in ways that clearly go beyond the intention of Parliament. Where this is the case it is right to take action, because it is important that the tax system is fair and perceived to be so.

2 Tackling tax evasion and avoidance in this Parliament

What the government has done

2.1 This government has taken effective action against those who break the rules. It is determined to chase down the tax that is owed and make sure that those who avoid or evade change their behaviour.

2.2 The government has invested in HMRC - more than £1 billion in HMRC's compliance activities since 2010 to tackle non-compliance including evasion and avoidance.

2.3 The amount brought in is increasing every year – from £17 billion in 2010 to an expected £26 billion in 2014-15. During this Parliament, HMRC will have secured £100 billion in additional compliance revenue as a result of actions taken to tackle evasion, avoidance and non-compliance.

2.4 This includes more than £31 billion as a result of interventions with big businesses since 2010. And the High Net Worth Unit has collected £1.2 billion in extra compliance yield from the UK's 6,000 richest people, who each have a net worth of £20 million or more. And for other wealthy individuals, the Affluent Unit formed in 2011 and later expanded has collected around £250 million in additional compliance revenues to 2013-14.

2.5 Criminal investigations have protected £4.1 billion since 2011 with a fivefold increase in criminal prosecutions for mass market or "volume crime" (investigations across trade sectors intended to produce deterrent prosecutions). Since 2010 HMRC has secured more than 2,650 criminal prosecutions and 2,718 years of prison sentences for tax offences.

2.6 To make it easier to find offshore evasion in the future, the government has led the agreement of an unprecedented step change in international tax transparency. Over 90 countries are committed to share information on bank and other financial accounts, starting in 2017. Over £2 billion has been collected from offshore evasion, mainly through the UK Swiss Agreement - where UK residents either paid a withholding tax on funds held in Switzerland or disclosed to HMRC - and from the Liechtenstein Disclosure Facility (LDF), through which people can make disclosures to HMRC about offshore accounts and clear up their past wrongdoings.

2.7 The government has taken ground-breaking action against avoidance – ensuring HMRC has the powers they need and changing the economics of avoidance with measures such as Accelerated Payments, which gives HMRC the power to collect disputed tax bills up front, and introduced the UK's first General Anti-Abuse rule, which tackles the worst tax avoidance arrangements. The measures this government has taken to tackle avoidance are forecast to raise more than £12 billion over the lifetime of this Parliament. Internationally the UK has led efforts within the G20 group of countries to reform the international corporate tax rules through the Organisation for Economic Co-operation and Development's (OECD) Base Erosion and Profit Shifting (BEPS) project, to make it harder for companies to avoid tax by hiding profits abroad.

Tackling tax evasion

2.8 This government has made significant investments in HMRC to tackle evasion. HMRC is cracking down on evasion both domestically and offshore. HMRC works hard to persuade and support people to comply. For those that don't heed this message, its longstanding approach when tackling evasion is to collect the tax and interest due as efficiently as possible with appropriate civil and criminal penalties. It does so to change taxpayer behaviour, and to discourage people from evading again in the future.

2.9 HMRC takes a graduated and proportionate approach to promote good compliance in the most cost-effective way it can. It does so through the use of:

- education and support for those who wish to comply
- campaigns to persuade people with specific trades and professions to settle their affairs voluntarily via publicity letters, advertising and social media nudges
- harder edged interventions such as Taskforces — activity targeted at specific sectors and locations where there is a high risk of tax evasion, such as illegal alcohol and tobacco sales, migrant workers and hidden wealth
- disclosure agreements, such as the Liechtenstein Disclosure Facility, to encourage people with undeclared offshore income to come forward and pay tax, interest and penalties

2.10 HMRC's approach gives people ample opportunities to come forward and tell them about their past omissions, but backs that up with tough action where people do not take that opportunity and continue to evade tax. HMRC has a range of enforcement tools at its disposal, including a mix of criminal prosecution and civil sanctions. Civil sanctions include a range of financial penalties of up to 200% of the evaded tax and also seizure of assets.

2.11 Most tax evasion detected during the one million interventions HMRC does in a year will be dealt with via civil penalties, as this provides the quickest and surest way to recover funds for the Exchequer at the lowest cost.

2.12 But when appropriate HMRC will pursue criminal charges. Criminal investigation is reserved for those cases where civil approaches just would not work, or where it is in the interests of the Exchequer to be seen to punish wrongdoing, to create a deterrent effect to foster wider compliance or to reinforce that sanctions are being visibly enforced. Since 2010 HMRC has changed its approach to tackling criminal tax evasion with a fivefold increase in criminal prosecutions for mass market or "volume crime" (investigations across trade sectors intended to produce deterrent prosecutions). It also tackles organised crime and the most egregious tax evasion through criminal investigations.

2.13 Exploiting publicity is an important compliance tool, so over the past five years HMRC has:

- launched a three-year evasion publicity campaign
- launched an offshore media publicity campaign
- recently published two interactive maps to show the results of its criminal investigations and its taskforces
- in a small number of serious cases published the names of people who have deliberately defaulted with at least £25,000 of tax and not told HMRC about it

2.14 Over the past five years HMRC has achieved a significant shift in tackling evasion domestically. Underpinning this is the use of data in order to identify and control tax risk. HMRC's Connect data analysis system has secured around £2 billion of additional tax revenue over the past five years. And it makes use of third party data, such as from merchant acquirers — payments passing through card processors — both to identify cases for investigation and as part of its campaigns approach. HMRC has expanded its intelligence network – including those based overseas — to work with other agencies to disrupt criminal gangs.

Offshore tax evasion – transforming transparency internationally

2.15 The above approach applies domestically and offshore. However offshore evasion presents additional challenges, particularly the ability to gather evidence and information about offshore assets. In the past, it has been too easy to hide money offshore in jurisdictions with strong tax secrecy and never be found. In the absence of detailed information, investigations are difficult and complex and evidence hard to gather. Successful prosecutions are hard to obtain.

2.16 Without access to information on offshore financial assets, HMRC's approach has long been to encourage people to come forward and disclose information voluntarily. It has done this by offering time-limited 'disclosure facilities', including through bilateral agreements, which encourage tax evaders to come forward and to disclose their offshore affairs, pay the tax due together with penalties and interest.

Box 2.A: Case study

John, a quantity surveyor from Kenilworth, was sent to prison for two and a half years for failing to pay income tax. His fraud was uncovered when HMRC identified his ownership of a holiday home in Antibes by analysing data on French properties. The house had been bought with the proceeds of the tax evasion. Following a criminal investigation he pleaded guilty in January this year.

HMRC is getting more data on offshore assets – including holiday homes – all the time. Whether the proceeds of tax evasion are held in a bank account or used to buy property, they will not remain hidden forever. When you are caught, you could face jail.

2.17 While that approach has been successful in bringing in unpaid tax that HMRC would not otherwise have been able to recover, this government wanted to go further and to tackle the secrecy which has allowed people to hide assets offshore. Over the last two years this government has led the way to transform international tax transparency. It has been determined that the minority of people who evade tax are identified, caught and punished.

Box 2.B: Case study

Mr B used a windfall to set up various businesses which he didn't declare to HMRC. He arranged his affairs so that he virtually disappeared from view – no tax record, no financial records – and set up an offshore account to invest his profits. His determination to pay no tax meant he wasn't even on the electricity grid.

His offshore investments were very successful and he ended up with hundreds of thousands of pounds sitting offshore. Yet Mr B lived a very basic lifestyle in the UK – his house fell into disrepair and he didn't spend money on possessions. He was scared that if he used his offshore accounts his tax evasion would be found out.

In the end, it was when he realised he couldn't fill in a simple government form without revealing his evasion, he decided to come clean.

2.18 In Budget 2013 the government announced ground breaking agreements with the Crown Dependencies for the automatic exchange of information. This was followed swiftly by similar agreements with all of the UK's Overseas Territories.

2.19 Building on this, the government announced in April 2013 an initiative with France, Germany, Italy and Spain for multilateral exchange between these five countries. The UK then led the drive to persuade others to join this initiative. Simultaneously the government worked closely with the OECD on developing a standard that could be applied worldwide, driving this through its G8 presidency.

2.20 More than 90 countries have now committed to automatically exchange taxpayer information by 2018. This includes all major financial centres including Switzerland, Hong Kong, Singapore, Austria, Luxembourg, all of the G20, all EU member states, all UK Crown Dependencies and Overseas Territories and all of the Caribbean countries. Last October, in Berlin, the UK was amongst the first to sign the agreements to bring this into effect.

2.21 These agreements will give HMRC access to more information on offshore investments than ever before. Initial estimates are that it will receive information on up to 2 million UK taxpayers with offshore investments. This will include names, addresses, account numbers, interest and balances. It will also give HMRC the ability to look through structures, such as trusts and shell companies, which can be used to hide the beneficial owners of accounts. This will significantly enhance HMRC's ability to tackle offshore tax evasion. The UK will be among the first countries to introduce legislation to implement this standard.

2.22 For the first time, HMRC will know who has hidden their money abroad and have the evidence to be able to go after them. Building on this the government will toughen the penalties for those who continue to evade tax offshore as set out in Part 3 of this document.

Domestic tax avoidance

2.23 Individuals and businesses must pay what they owe. That is why the government has taken ground-breaking action to tackle tax avoidance.

2.24 Since April 2010 the government has made more than 40 changes to tax law, closing down loopholes and introducing major reforms to the UK tax system. The measures this government has taken to tackle avoidance are forecast to raise more than £12 billion over the

lifetime of this Parliament. Without the government taking firm action, that money would have been lost to the Exchequer and the UK's public services. Table 2.A highlights some of the loopholes that the government has closed:

Table 2.A: Examples of actions taken by the government to close loopholes

Action taken:	Effective year	Additional revenue for the exchequer
Stopped businesses paying employees using trusts in order to pay less taxes and NICs	2011	£3.8 billion
Stopped investment companies changing their historic accounts so they were in a different currency, saving them paying as much tax	2011	£300 million
Tackled large businesses which were combining the sale of printed matter with other things just to reduce their VAT bills	2011	£250 million
Stopped banking groups from avoiding tax on profits by buying back their own debt cheaply	2012	£660 million
Tackled tax avoidance schemes which allowed thousands of wealthy homebuyers to get out of paying stamp duty	2013	£160 million
Stopped wealthy individuals extracting profits from their companies without paying tax	2013	£530 million
Blocked a practice by which companies could wipe out their tax bills by accessing losses made in a different group	2013	£1.2 billion
Closed an IHT loophole – deduction of tax liabilities – which allowed people to have a double relief against inheritance tax	2013	£70 million
Stopped companies from avoiding tax on profits by claiming that those profits had been taxed abroad when they had not been	2013	£35 million
Stopped hedge fund managers in partnerships obtaining unfair tax advantages by allocating profits to companies they controlled	2014	£1.9 billion
Stopped groups of companies avoiding corporation by transferring their profits to tax havens	2014	£380 million
Stopped the use of offshore employment intermediaries to avoid employer NICs and the use of onshore employment intermediaries to facilitate false self-employment	2014	£2.5 billion

Stopped companies from obtaining a tax advantage by entering into contrived arrangements to turn old tax losses of restricted use into more versatile in-year deductions	2015	£715 million
Changed the Capital Gains Tax rules so that non-residents became liable when they sold their UK houses	2015	£270 million

Source: HMRC

2.25 The government has taken effective and innovative action to tackle avoidance with tougher tools for HMRC and structural reforms. HMRC is now stopping more avoiders who try to exploit the tax system and is addressing the supply side of the equation by taking action against promoters of avoidance schemes. The government has changed the economics of tax avoidance by reducing the incentives for entering into avoidance schemes and increasing the downsides of engaging in avoidance. These measures have included:

- introducing the UK's first General Anti-Abuse Rule (GAAR) to tackle the worst tax avoidance arrangements, and to deter those who might be tempted to use them (2013)
- requiring companies bidding for large government contracts to disclose their tax history, so that their conduct regarding tax evasion and avoidance can be considered as part of the bidding process (2013)
- introducing the Accelerated Payment regime, under which certain taxpayers involved in marketed avoidance schemes are required to pay up front the tax they are disputing (2014). As at 13 March 2015, HMRC has already issued 7,712 notices with a value of £1.6 billion. Beyond Accelerated Payments, millions more is being paid by avoiders who have conceded their positions and stopped contesting avoided tax with HMRC altogether
- legislating for Follower Notices and penalties to encourage users of tax avoidance schemes to settle with HMRC after a relevant judicial ruling or risk facing a penalty if they lose (2014). HMRC has issued the first batch of Follower Notices (nearly 400) to users of a scheme they defeated in court. Those users are settling their outstanding avoidance bills
- set up a tough regime of penalties and monitoring requirements for High Risk Promoters of tax avoidance schemes, thus tackling the supply as well as the use of marketed tax avoidance (2014). HMRC has identified the first risky promoters under the regime, issued them with Conduct Notices, requiring them to change their ways. If they don't comply, they can be labelled as high-risk promoters, named and fined up to £1 million
- expanding and strengthening the Disclosure of Tax Avoidance Scheme (DOTAS) regime to ensure that it remains robust as the avoidance market evolves and to ensure that more promoters and users of avoidance schemes have to tell HMRC about their avoidance activities (2010-2015). The number of marketed avoidance schemes disclosed under DOTAS is falling. 40 schemes were disclosed in 2013/14 – down from 84 in 2012/13 (and from more than 600 in 2005/06). The government's legislative action and HMRC's strategy is shrinking the market for avoidance. But HMRC remains alert to the risk of increasing non-disclosure, and

efforts to design non-notifiable schemes. At Autumn Statement 2014, the government strengthened the DOTAS rules again. They also supported HMRC in setting up a DOTAS taskforce. This will deploy more expert resources to police the regime and identify those who fail to disclose when they should

2.26 The government has also strengthened the Code of Practice on Taxation for Banks, under which banks agree not to engage in or promote tax avoidance. HMRC now has the power to name banks that refuse to sign up to the code, as well as any bank that fails to adhere to its code commitments.

2.27 With support and re-investment from the government, HMRC has created a dedicated Counter-Avoidance Directorate, which brings together policy, operational and technical expertise into a single coordinated effort to tackle marketed avoidance. This approach is already paying dividends providing front-line evidence for the design of effective policy changes, and accelerating activity to challenge and settle cases.

2.28 As well as implementing and deploying the new powers granted to it, HMRC has been steadily defeating tax avoidance schemes in court. HMRC wins around 80% of cases that users choose to take to court, and the government has made full use of publicity around these wins to point out the increasingly fruitless use of avoidance schemes. HMRC sends strong messages to the public about avoidance to increase awareness of the risks involved and the types of schemes that do not work. Greater public awareness has contributed to changing attitudes towards avoidance over this Parliament.

2.29 HMRC's progress and coordinated approach has been recognised by the National Audit Office (NAO). In their 2015 report 'Increasing the effectiveness of tax collection: a stocktake of progress since 2010', the NAO said that HMRC's response to their recommendations to tackling marketed tax avoidance had been "exemplary" – particularly in terms of coordinating action and seeking new powers to tackle promoters and scheme users.

2.30 This process of structural reform and tough action is an ongoing one. At this year's Budget, the government signalled its intention to take action in a number of new areas as set out in chapter 3.

Tax avoidance by multinational companies

2.31 In 2012 the government invested £29 million in HMRC to better ensure that multinational enterprises (MNEs) pay the tax due and don't shift profits out of the UK. HMRC used part of this funding to increase its specialist Transfer Pricing team by almost 25%, which it expects to generate £500 million over 4 years by March 2018. The funding was also used to create the Large Business Risk Task Force - an additional resource to maximise HMRC's ability to identify tax compliance risk. By March 2016 HMRC expects risk identified by the Task Force to have generated more than £1 billion from large businesses. Subsequent funding in 2013 further enhanced its risk assessment capability through improved exploitation of electronically-filed data and additional data handling specialists.

2.32 But measures taken in the UK alone will not fully deal with aggressive tax planning strategies that erode the UK's tax base and shift profits made in the UK to low-tax countries. Tax avoidance and aggressive tax planning by MNEs is an international issue which needs an effective international response. MNEs that adopt aggressive tax strategies seek to exploit vulnerable areas in international taxation, as well as in the UK's domestic rules. Countries need to work closely together to develop new solutions that will work within the international tax

framework. That is why the UK has driven forward the fight against tax avoidance in the global economy through the G8 and the G20 group of countries, the European Union and the OECD.

2.33 In June 2012, G20 leaders decided to take a stand against aggressive tax planning by multinational businesses. In November 2012, the UK and Germany made a joint statement calling on the G20 to back the OECD's Base Erosion and Profit Shifting (BEPS) initiative for concerted international cooperation to strengthen international standards for corporate tax regimes. To demonstrate the government's commitment to the BEPS project, the UK contributed €550,000 to the OECD in order to ensure that work progressed rapidly. The UK used its presidency of the G8 to continue to successfully build international support for the BEPS project, with G8 leaders confirming their support in June 2013.

2.34 The OECD's 15-point BEPS Action Plan was published in July 2013 with a clear timetable for delivery of each action item through to December 2015. HM Treasury and HMRC officials are heavily engaged in the OECD working parties that are delivering the action items. The first phase of the BEPS project was completed on time in September 2014, with participant countries reaching agreement on the first set of outputs addressing high-priority areas, including improving transparency between large multinationals and tax authorities with the development of a country-by-country reporting template and rules to counter complex cross-border tax avoidance strategies, known as hybrid mismatch arrangements.

2.35 As well as championing the drive for the reform of the international tax framework, HMRC has a long-standing record of actively encouraging tax administrations to share information and expertise in order to tackle international tax avoidance. It has developed one of the largest tax treaty networks in the world which enables us to exchange information about multinational enterprises with tax administrations in around 150 other countries.

2.36 HMRC joins forces with other tax administrations to delve deeper into the cross-border strategies of MNEs, so that it has a full global picture of the tax risks they pose. It has recently participated in a major project with international partners to share information and intelligence under the terms of its treaties about multinational business operating in the digital economy. This project is looking at whether HMRC can challenge these MNE's tax arrangements and has provided vital information which informed the development and design of the Diverted Profits Tax.

2.37 In October 2014, the heads of 38 tax administrations working together through the OECD's Forum on Tax Administration (FTA) set out a new strategy for systematic and enhanced cooperation to combat cross-border tax avoidance through a new Joint International Tax Shelter Information and Collaboration (JITSIC) network. HMRC was one of the founder members of the original, smaller JITSIC grouping. The decision to significantly expand the network and open membership up to all members of the FTA endorses the success of the earlier model and recognises the important role that extensive collaboration between countries has to play in combating tax avoidance by multinationals. The FTA is currently chaired by Edward Troup, Second Permanent Secretary at HMRC.

3 Next steps on tax evasion and avoidance

Government commitment

3.1 As set out in this document, the government has a strong track record on evasion and avoidance. HMRC is determined to chase down the tax that is owed and make sure that those who bend or break the rules change their behaviour.

3.2 The Budget announced a further package of measures to continue to step up the fight against offshore tax evasion. Building on this, and the progress it has made this Parliament, **the government today announces further measures to toughen the consequences for tax evaders and those who help them. This includes publically naming evaders and enablers of evasion.**

3.3 On avoidance, the Budget announced further measures to tackle the persistent minority who enter into tax avoidance schemes that HMRC defeat. HMRC will continue to ensure risks are identified and loopholes are closed. Building on this, and looking to the next Parliament, the government will also ensure that HMRC has additional powers where needed to tackle avoidance. For example, at Budget, the Government announced it would explore options on publicly naming serial avoiders and ensuring that HMRC are able to charge appropriate penalties to deter the minority of taxpayers that continue to avoid their taxes. **Today the government also announces it is asking the regulatory bodies who police professional standards to take on a greater lead and responsibility in setting and enforcing clear professional standards around the facilitation and promotion of avoidance.**

Evasion

3.4 Most people pay the tax they owe on time and do not attempt to evade their responsibilities. Over the past five years HMRC has found new ways to tackle the minority who do evade, and will continue to build on its success.

3.5 It has already succeeded in changing the economics of tax avoidance, and influenced the attitude of those tempted to avoid. It aims to do the same for evasion, by making it harder to hide, and by making both the cost and consequences of being caught greater than they are now.

3.6 HMRC's work on both onshore and offshore evasion will continue to be informed by sophisticated data analytics, from which it will develop its understanding of the risks presented by different groups of people. This will include building the data analysis capability to fully exploit third party information, including that received from other tax administrations under the new Common Reporting Standard.

3.7 HMRC will develop the new techniques, skills and capabilities it needs to address onshore and offshore evasion through an aligned approach to compliance, by bringing together intelligence, publicity, campaigns and taskforces. HMRC will invest in training and staff capability to make full use of the data it will receive.

3.8 It will take every opportunity to design legislation and processes to reduce the opportunity for evasion, so that those who want to break the rules cannot do so.

3.9 HMRC will continue to work collaboratively with other prosecution and investigative bodies to support criminal prosecutions, meeting the evidential standard required to support successful prosecutions.

3.10 And it will have a strong focus on the hidden economy. Over the SR10 period, HMRC has stepped up the fight against the hidden economy, increasing yield to more than £160 million. It will build on this record of success by redesigning processes to prevent non-compliance from the outset and promote registration; finding new ways to tackle the hidden economy through better and smarter use of data, including Merchant Acquirer data on credit/debit card sales; encouraging hidden economy businesses to come forward, for example through the Credit Card Sales Campaign; while continuing to come down hard on those who deliberately cheat the system, including through criminal investigation where appropriate. HMRC will make it harder to do business in the hidden economy; encourage those who are willing to come forward and get their tax affairs back on track; and continually strengthen its ability to find and tackle those who are determined to operate beneath HMRC's radar.

A step change in tackling offshore tax evasion

3.11 The government has reached ground-breaking agreements to exchange information on financial accounts automatically every year with over 90 other countries. Building on this, it is introducing stronger sanctions for those who continue to evade tax and for those who assist them.

3.12 **The Government today announces the introduction of a new strict liability offence for those who have not paid the tax due on offshore income.** This will act as a significant deterrent to the minority of people who evade their tax and will help to stamp out offshore tax evasion. There was previous consultation on a strict liability offence in 2014 at a time when fewer countries had agreed to begin exchanging information automatically in 2017 or 2018. In light of the significant increase in the number of participating countries, there will be a further consultation before legislation is introduced which takes account of this and considers appropriate defences and thresholds.

3.13 The Government is also taking tough action against those who enable offshore tax evasion. **The Government today announces new civil penalties for enablers of tax evasion and will consult on the detail of this.** This will include a new collateral penalty under which enablers will pay a fine equivalent to that paid by the individual that they helped to evade tax; and public naming of those that enable tax evasion. Criminal sanctions are already available against individuals who facilitate or encourage tax evasion. **The Government today announces it will create a new offence of corporate failure to prevent tax evasion or the facilitation of tax evasion, following consultation.**

3.14 HMRC is already able to apply penalties of up to 200% of the tax due. Changes introduced in Finance Bill 2015 will extend the scope of these. , **The government today announces that there will be a further toughening of the range of penalties available to HMRC, following consultation**. This will include a new penalty that would take a portion of the asset that has been hidden and increasing the scope of the power to name those who have evaded tax. HMRC can and does pay rewards for significant information on offshore tax evasion, and **the government today announces it will be investing more resources in this.**

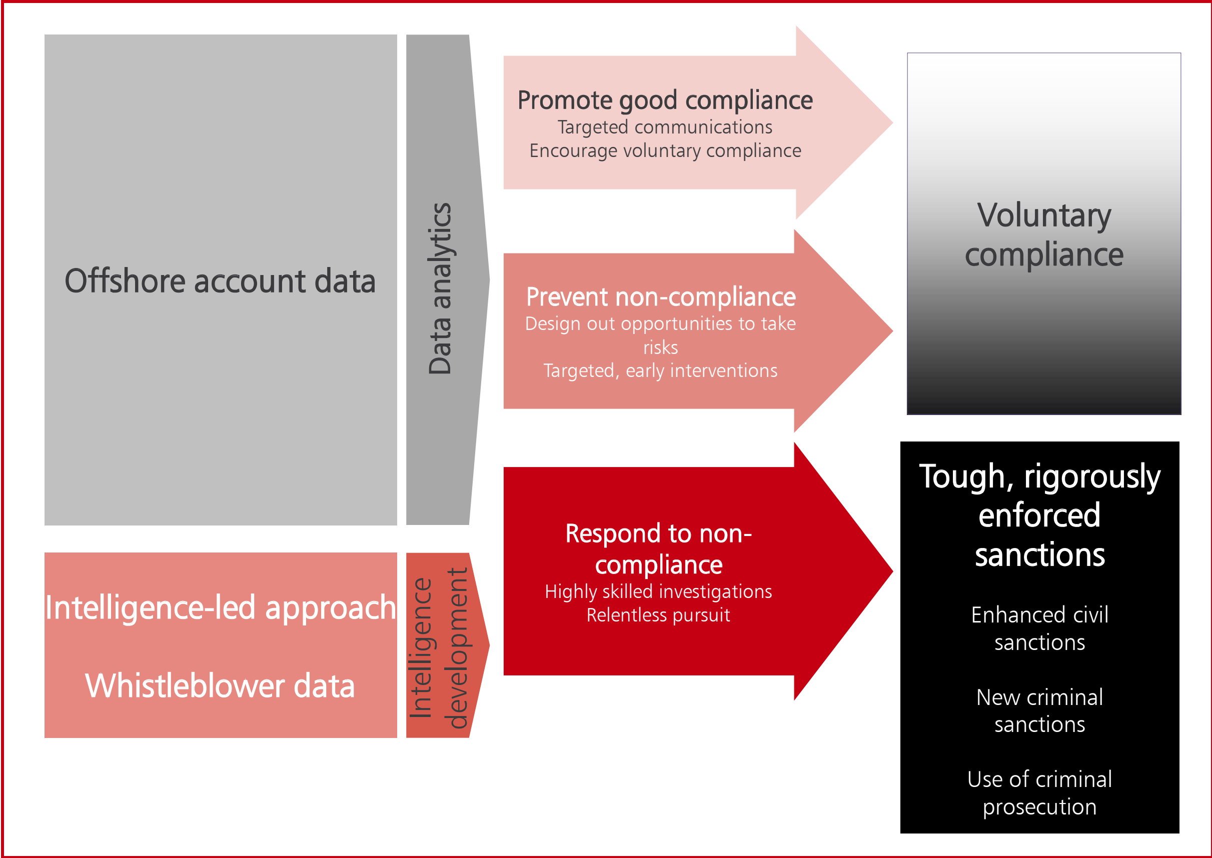
3.15 As regards disclosure opportunities, Budget 2015 announced that existing disclosure facilities, created for a period before automatic exchange, will close early at the end of 2015. A new time-limited facility, with tougher penalties and with no guarantee that criminal

investigations will not be pursued in appropriate cases, will be introduced in 2016. This will give people who have not paid their tax a last chance to disclose before the information is automatically received about offshore accounts in 2017. HMRC has strongly marketed the message that the net is closing on offshore evasion, and over 57,000 people have acted on that message and disclosed their offshore income and paid the tax due and penalties. For those who do not take the opportunity to disclose voluntarily, the full weight of sanctions available to HMRC will apply.

3.16 It is right the financial services industry should continue to play its part in tackling tax evasion. Budget 2015 announced that the government will legislate to take a power to require all financial institutions and tax advisors, to notify their customers: that HMRC is being sent data on offshore accounts; of the changes in the penalties for evasion; and of the final opportunity to disclose any unpaid tax before HMRC receives the data and opens investigations.

3.17 This Government's message is clear to those that are hiding undeclared income offshore or are enabling offshore tax evasion - HMRC is closing in and anyone found engaging in this behaviour will face serious consequences when found. HMRC is giving a final opportunity to disclose unpaid tax before you are caught.

Figure 3.A: The future of tackling offshore tax evasion



Domestic avoidance

3.18 In this Parliament, the government has transformed the way avoidance is tackled. Rather than just acting to block individual abuses, the government's radical approach has altered the underlying economics of avoidance by accelerating the payment of disputed tax and stemmed the supply side by acting against the highest-risk tactics of avoidance promoters. These actions have been a significant leap forward but more can be done.

3.19 At Budget 2015, the government announced it would introduce a range of new measures for those who persistently enter into tax avoidance schemes which HMRC defeats. Avoidance is the preserve of a small, persistent minority. The measures the government has taken this Parliament are working to reduce that minority. Amongst those that remain, there are some who avoid again and again, often using more than one scheme each year, knowing that some will fail but hoping that one will not. **Today, the government also announced it is asking the regulatory bodies who police professional standards to take on a greater lead and responsibility in setting and enforcing clear professional standards around the facilitation and promotion of avoidance to protect the reputation of the tax and accountancy profession and to act for the greater public good.**

Serial avoiders

3.20 . At present, serial avoiders find themselves in no worse a position than someone who has used only one failed avoidance scheme and has decided not to do it again. They face no additional deterrent to stop them persistently seeking to circumvent the will of Parliament. The government therefore announced this Budget that it will introduce a new surcharge on serial avoiders whose latest tax return is incorrect as a result of a further failed avoidance scheme. The government is determined to address these behaviours by the very small minority who are not deterred by the current range of sanctions.

3.21 To further reform the behaviours of this small minority, the government has also signalled its intention to develop other measures for serial avoiders. Those who continue to use failed avoidance schemes could be named and those that abuse tax reliefs could also have access to reliefs restricted.

General Anti-Abuse Rule

3.22 At Budget 2015, the government also announced that it would strengthen the deterrent effect of the General Anti Abuse Rule (the GAAR) by introducing a penalty. The GAAR applies to the worst cases of tax avoidance and has a strong deterrent effect. We expect there will only be a fairly small number of cases brought under the GAAR. It is right that they attract penalties that go beyond the application of the penalty regime in all other avoidance cases to distinguish GAAR cases as the worst form of avoidance. The new penalty will be based on the amount of tax people sought to avoid in a GAAR case.

Accelerated Payments

3.23 At Budget 2014, the government introduced the Accelerated Payments regime, a ground breaking measure which changes the underlying economics of avoidance by removing the attraction of deferring tax whilst amounts remain in dispute. This new regime is having a very positive effect and is encouraging people to get out of avoidance altogether. It is ensuring a more level playing field, with tax being paid up front in avoidance cases so that avoiders are in the same position as all other tax payers, paying now and disputing later.

3.24 At Budget 2015, the government announced that HMRC will issue 21,000 more Accelerated Payment Notices than the estimate announced, bringing in an additional £555 million yield. These are cases that were already under investigation which HMRC has now identified meet the criteria for the issue of Accelerated Payment notices. This will mean that, by the end of 2016, 64,000 users of avoidance schemes will have been required to pay tax upfront, and by the end of 2019/20 the measure will have brought forward over £5.5 billion in payments to the Exchequer.

Promoters of Tax Avoidance Schemes

3.25 Alongside the Accelerated Payments regime this government has also introduced tough measures to deal with promoters of tax avoidance schemes. Accelerated Payments addresses the demand side of avoidance by making the economics of avoidance far less attractive to users; the Promoters of Tax Avoidance Schemes (POTAS) regime addresses the supply side by reforming the behaviours of avoidance scheme promoters who use uncooperative tactics to attempt to make their schemes succeed.

3.26 The government announced in this Budget that it will widen the scope of this powerful new regime by bringing in promoters whose schemes are regularly defeated by HMRC. Legislation will also be introduced in Finance Bill 2015 to allow HMRC to issue Conduct Notices to a broader range of connected persons under the promoter of tax avoidance schemes legislation. These new rules will prevent high risk promoters avoiding the consequences of their actions via elaborate or rapidly changing business structures.

Disclosure of Tax Avoidance Schemes

3.27 The government has also strengthened the Disclosure of Tax Avoidance Schemes regime (DOTAS). DOTAS is a tool which provides valuable information about the use and promotion of tax avoidance schemes, and is a trigger for the issue of an Accelerated Payment notice to an avoidance scheme user. It is therefore important to ensure avoidance promoters and users comply with their DOTAS obligations.

3.28 At this Budget, the government announced that it would strengthen DOTAS to give HMRC more powers to identify users of undisclosed avoidance schemes; increase penalties for users who do not comply with reporting requirements under DOTAS; and provide protection for those wishing to give information about failures to comply with DOTAS.

Going further

3.29 Beyond this Budget, and as it already does, government will keep avoidance behaviour under close review and act rapidly to close down loopholes that emerge.

3.30 HMRC will consider how it can defeat schemes faster and with increased downside risk for users, promoters and intermediaries to deter future avoidance. A range of potential options will be considered, including legislative changes.

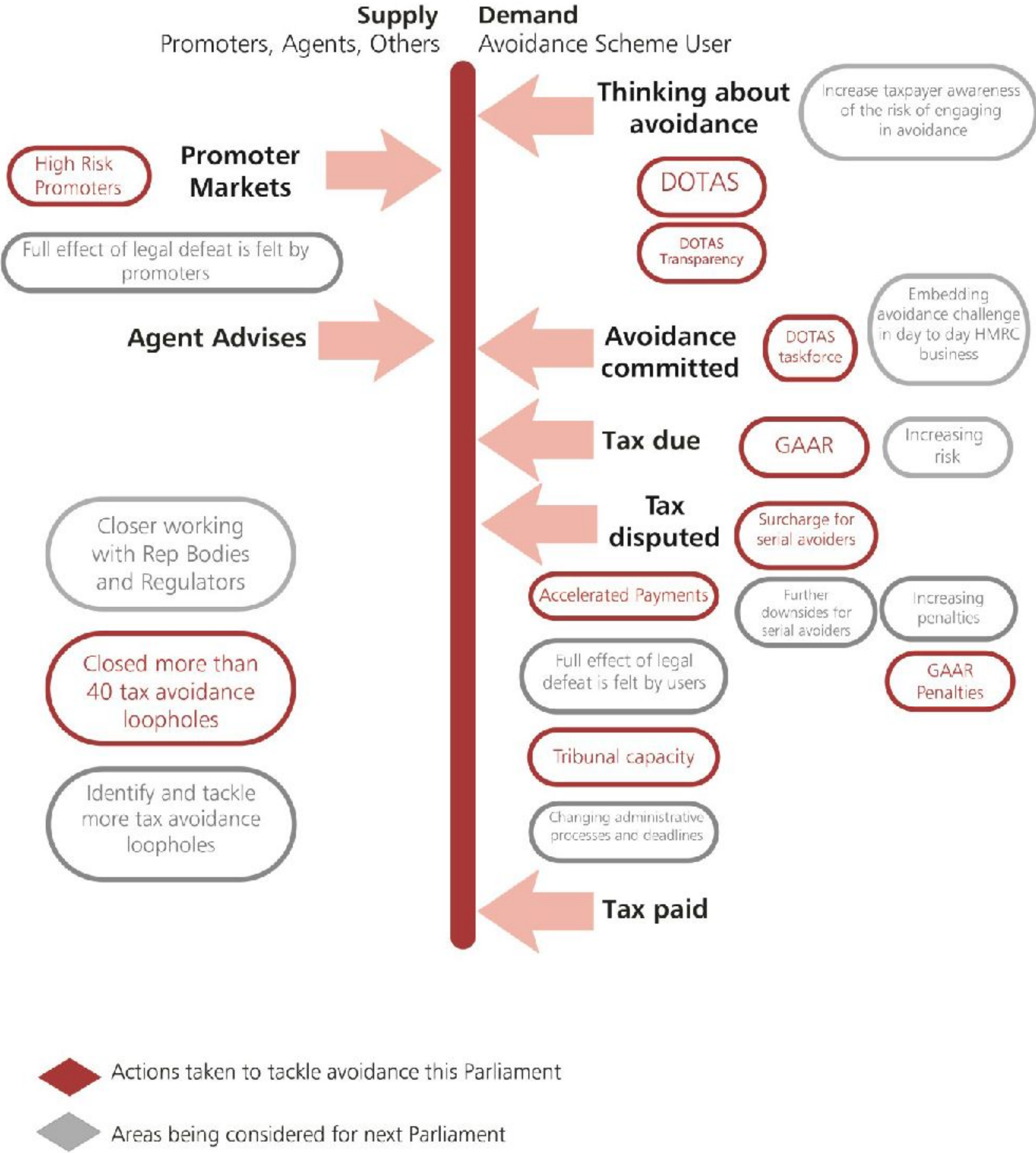
3.31 Building on the serial avoiders' surcharge, the government will consider whether it should introduce new surcharges or penalties for all avoiders. It should not be worthwhile to seek out and pay for an avoidance scheme and the advice on its use in an attempt to pay less tax than is due. The government will explore how to ensure promoters and users feel the full impact of their scheme being defeated in the courts. The government will also consider whether it should target other sub-groups of avoiders and those with bespoke regimes.

3.32 As HMRC moves more processes online, it will look to use digital tools to bring avoidance notification online for earlier warning and greater transparency. HMRC will also look for opportunities to exploit information more, for example, pre-populating tax returns and using intelligent automated prompts to challenge suspect or unusual behaviour that might indicate avoidance.

3.33 The government will also consider whether further legislation is needed to stop avoiders from using tax administration processes and deadlines in an effort to frustrate or delay HMRC investigations. As part of this the government will look to identify processes or deadlines that are being used to the advantage of avoiders and consider whether to change them.

3.34 At Budget 2014, the government introduced Accelerated Payments. It will consider the impact of Accelerated Payments and the effect it is having on the avoidance landscape. The government will consider whether the principle might be appropriate for different types of cases and whether the government should extend the acceleration of tax payments to more avoidance cases.

Figure 3.B: Action taken to tackle avoidance in this Parliament, and future areas for consideration



Tax avoidance by multinational companies

3.35 The UK government is committed to working with its international partners to conclude the G20-OECD BEPS project in 2015. This international project is working to reform the international tax rules to ensure that profits are taxed where the economic activities that give rise to them are undertaken.

3.36 The UK is taking action to implement the internationally-agreed outcomes of the BEPS project:

- the government is introducing legislation to implement the G20-OECD agreed model for country-by-country reporting in the UK, initiated by the UK under its G8 Presidency), which will require multinational companies to provide tax authorities with high-level information on profit, corporation tax paid and certain indicators of economic activity for risk assessment
- it has committed to introduce the G20-OECD agreed rules to tackle complex cross-border tax avoidance arrangements known as hybrid mismatches and consulted on their implementation in the UK

3.37 The government will continue to work with international partners to maintain the momentum of the BEPS project. The aim is to reach practical and sustainable solutions that ensure profits are taxed where the economic activities which generate them are performed, counter aggressive tax planning and promote UK growth and competitiveness. Delivering this objective will require progress across all the actions within the BEPS project. These include:

- Transfer Pricing rules that reflect economic reality and attribute profits to where value is created. The current transfer pricing rules, which are based on the principle of the "arm's length price", allow some MNEs to argue that excessive risk, capital and intangible assets are located in group companies in low-tax countries and therefore that all residual profit should be attributed there. New rules should allow tax administrations to re-characterise transactions, address transactions involving hard to value intangibles, and introduce new rules in relation to the pricing of capital and risk
- new Permanent Establishment rules that determine whether a MNE has a taxable presence in a jurisdiction in which it is not tax resident, based on the level and nature of the activities it undertakes there. These will prevent companies artificially fragmenting functions or contracts to minimise or avoid a taxable presence in a particular jurisdiction, and stop companies benefiting unfairly from the specific activity exemptions within the current rules
- agreeing minimum standards for inclusion into tax treaties that will ensure that one of the purposes of the treaty is to prevent abuse, and to prevent companies gaining unfair access to the benefits of a tax treaty through applying new rules or a purpose test to determine their eligibility for treaty benefits. Tax treaties may also in future include anti-conduit provisions
- developing best practice recommendations in relation to rules in relation to interest deductibility, that will allow access to appropriate relief for commercial purposes, and prevent groups from gaining a tax benefit through excessive levels of debt in group companies

- continuing to work as part of the OECD Task Force on the Digital Economy to report on the challenges related to data and income characterisation and options to address these, and ensuring that work on other Action Points take digital aspects into account
- continuing to work in the OECD Forum on Harmful Tax Practices, which seeks to address profit shifting opportunities and improve transparency within preferential tax regimes
- developing recommendations in relation to rules on Controlled Foreign Companies, which provide an essential backstop against the artificial diversion of profits that should be taxed in another jurisdiction
- improving dispute resolution mechanisms to prevent double taxation and to provide greater transparency and certainty. This is a major step which should lead to lower compliance burdens for businesses and tax authorities alike
- developing recommendations regarding the design of mandatory disclosure rules for aggressive or abusive transactions, arrangements, or structures, taking into consideration the administrative costs for tax administrations and businesses. This includes how to capture international tax avoidance schemes in such rules
- developing indicators of the economic impact of BEPS and look to establish monitoring tools which can evaluate the effectiveness and economic impact of the BEPS Action Plan's outputs
- within the BEPS project, the government will be looking at the practical measures which will be needed to put into practice the solutions developed by the project. This includes ground-breaking initiatives such as the development of a multilateral instrument to implement BEPS measures consistently and to the same timetable across participating countries without having to amend bilateral tax treaties on a treaty-by-treaty basis

3.38 In addition to the UK's involvement in the BEPS project, the government has also taken action to strengthen the UK's domestic defences to address the problem of tax avoidance by multinational groups. The new Diverted Profits Tax is being introduced from 1 April 2015 and will use a 25% rate to counter the use of complex arrangements by multinational businesses to divert profits out of the UK.

3.39 The measure is targeted at countering the erosion of the UK tax base as a result of arrangements that use contrived structures to circumvent the international tax rules on permanent establishment and transfer pricing, for example by using group companies in other countries as conduits to route expenditure to tax havens so that profits from UK activity go untaxed.

3.40 The arrangements targeted by this new tax are typical of the contrived structures associated with some multinational businesses in the technology sector but the tax will apply to any large business which puts such arrangements in place. HMRC is setting up a special task force within its Large Business directorate to identify those businesses and ensure that they are subjected to the Diverted Profits Tax.

3.41 Building on the success of the multilateral project on the digital economy, HMRC is exploring with other tax administrations the scope for extending that approach to close collaborative working to projects covering businesses in other sectors of the economy where there is high risk of tax avoidance.

Next steps

3.42 The above ideas will build on achievements this Parliament to do more to clamp down on evasion and avoidance, and to take out the profits for those who facilitate or enable it. The government will continue to consider what further action is needed in the future, working with other countries globally where needed on both powers and specific proposals.

HM Treasury contacts

This document can be downloaded from www.gov.uk

If you require this information in an alternative format or have general enquiries about HM Treasury and its work, contact:

Correspondence Team
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

Tel: 020 7270 5000

Email: public.enquiries@hmtreasury.gsi.gov.uk

ISBN 978-1-4741-1677-0

European Parliament

Information from the EP London Office (5 April 2015)

By Bjorn KJELLSTROM, Dominic BRETT, Katherine MARTIN

Below is a summary of the UK political parties' positions, the principal actors and the media reporting on tax avoidance issues.

British political parties' positions on tax avoidance

Labour

• Finance Bill will close tax loopholes with the introduction of tougher penalties for those abusing the tax system, end unfair tax breaks used by hedge funds and others, and bear down on disguised employment.

• Will seek international agreement to make country-by-country reporting information publicly available, and will act at home if agreement is not reached.

• British Overseas Territories and Crown Dependencies will be required to produce publicly available registries of the real owners of companies based there.

• Will carry out an immediate review into the culture and practices of HMRC so that everyone follows the same rules.

• Abolition non-dom status.

Conservative

• Tackling tax evasion and aggressive tax avoidance and tax planning is an important part of the long-term economic plan.

• Will increase the annual tax charges paid by those with non-domiciled status and continue to tackle abuses of this status.

• Lead international efforts to ensure global companies pay their fair share in tax. Push for all countries to sign up to the Extractive Industries Transparency Initiative; review the implementation of the new international country-by-country tax reporting rules and consider the case for making this information publicly available on a multilateral basis.

• Make it a crime if companies fail to put in place measures to stop economic crime, such as tax evasion, in their organisations and making sure that the penalties are large enough to punish and deter.

UKIP

• UKIP will not allow large companies to continue getting away with paying zero or negligible corporation tax in Britain.

• By restoring British tax sovereignty, the practice of businesses paying tax in whichever EU or associated country they choose will end. Membership of the EU enables companies to avoid paying some UK taxes with impunity.

• Set up a Treasury Commission to monitor the effectiveness of the new Diverted Profits Tax and bring in any further measures necessary to prevent large multinational corporations using aggressive tax avoidance schemes.

Lib Dems
• Set target for HMRC to "reduce tax gap"

• Implement the planned new offence of "corporate failure to reduce economic crime", which would result in penalties for directors, up to and including custodial sentences

• "Outlaw contrived structures designed purely or largely to avoid tax"

• Penalties for firms proven to facilitate tax evasion

• Restrict access to non-dom status: abolish the right to inherit the status and increase charges for adopting it

Greens
• Increase HMRC staff by 15000 a year and re-open local offices

• Abolish non-dom status

• Introduce an urgent programme of legislation to lessen the 'tax gap'

• "Consider" making the tax avoidance "industry" illegal

• Oblige banks to provide information about companies automatically to HMRC

SNP
• Increase staff resources at HMRC

• Strengthen anti-tax avoidance law across the UK

• Review of controlled foreign companies exemptions

• Review of tax reliefs as part of simplification of the tax system

• Support a global fair tax summit

Media coverage of tax avoidance and the British debate

The issue of legal tax avoidance has been covered extensively in the British media, particularly the revelations about HSBC, Amazon, Starbucks and Google. Public outcry gave way to direct action in some cases, including protests and sit-ins. The tax activities of British celebrities, including Gary Barlow and Jimmy Carr also came under media and public scrutiny.

The issue has fed disenchantment with the political 'establishment' - an issue regularly touched upon by anti-austerity political parties like the Green Party, Plaid Cymru and the SNP. In Scotland, the issue was, and is, regularly cited by elements of the independence movement, namely Radical Independence and CommonWeal - with both groups taking the view that corporate tax avoidance is a symptom of the unequal 'Westminster consensus'.

Some prominent British columnists have highlighted the disparity between the media and government's tough stance on welfare claimants and their relatively lax approach to tax avoidance.

European Parliament

United Kingdom	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2012	
A. Structure of revenues	% of GDP													Ranking ([1])	€ bn
Indirect taxes	13.7	13.4	13.3	13.1	13.1	12.7	12.7	12.6	12.2	11.9	13.0	13.5	13.7	15	263.6
VAT	6.5	6.5	6.6	6.7	6.7	6.5	6.5	6.4	6.3	5.6	6.5	7.3	7.3	16	140.5
Excise duties and consumption taxes	3.9	3.8	3.7	3.6	3.5	3.3	3.2	3.2	3.2	3.5	3.5	3.5	3.5	11	67.2
Other taxes on products (incl. import duties)	1.6	1.4	1.3	1.2	1.3	1.3	1.5	1.5	1.1	1.0	1.2	1.2	1.1	12	22.0
Other taxes on production	1.8	1.7	1.7	1.6	1.6	1.5	1.5	1.5	1.6	1.7	1.9	1.7	1.8	9	33.9
Direct taxes	16.5	16.7	15.6	15.0	15.2	16.0	16.8	16.5	18.2	15.8	15.5	15.6	15.1	6	291.9
Personal income	10.7	10.8	10.4	9.8	9.9	10.2	10.3	10.6	10.6	10.3	9.9	9.9	9.6	8	185.6
Corporate income	3.5	3.4	2.8	2.7	2.8	3.3	3.9	3.4	3.6	2.8	3.0	3.1	2.9	8	55.2
Other	2.3	2.4	2.4	2.5	2.5	2.6	2.6	2.6	4.0	2.8	2.6	2.6	2.6	2	51.1
Social contributions	6.1	6.1	5.9	6.2	6.5	6.6	6.6	6.5	6.7	6.7	6.6	6.6	6.7	25	128.7
Employers	3.4	3.5	3.3	3.5	3.6	3.6	3.7	3.8	3.9	3.8	3.8	3.8	3.9	25	74.9
Employees	2.4	2.4	2.3	2.5	2.7	2.8	2.7	2.6	2.6	2.6	2.6	2.6	2.6	19	50.7
Self- and non-employed	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	25	3.0
Less: amounts assessed but unlikely to be collected	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Total	36.3	36.1	34.8	34.4	34.9	35.4	36.1	35.7	37.1	34.3	35.0	35.8	35.4	14	683.8
B.Structure by level of government	% of total taxation														
Central government	94.3	94.4	94.3	94.1	94.3	94.4	94.5	94.4	94.5	93.9	94.0	94.3	94.3	2	644.7
State government ([2])	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Local government	4.0	4.1	4.4	4.7	4.7	4.7	4.6	4.6	4.5	5.2	5.0	4.8	4.8	20	32.7
Social security funds	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
EU institutions	1.8	1.5	1.3	1.2	0.9	0.9	0.9	0.9	0.9	0.9	1.0	0.9	0.9	6	6.4
C. Structure by economic function	% of GDP														
Consumption	11.7	11.5	11.5	11.5	11.4	11.0	10.8	10.7	10.6	10.3	11.1	11.9	12.0	14	230.8
Labour	14.0	14.0	13.4	13.4	13.6	13.9	14.0	14.0	14.1	13.7	14.1	14.0	13.8	18	266.2
Employed	13.8	13.8	13.2	13.2	13.4	13.8	13.8	13.9	13.9	13.6	13.9	13.8	13.6	17	262.2
Paid by employers	3.4	3.5	3.3	3.5	3.6	3.6	3.7	3.8	3.9	3.8	4.0	3.8	3.9	25	74.9
Paid by employees	10.4	10.4	9.9	9.7	9.8	10.1	10.2	10.1	10.0	9.8	9.9	10.0	9.7	11	187.3
Non-employed	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.2	0.2	0.2	21	4.0
Capital	10.7	10.6	9.9	9.6	9.9	10.5	11.4	11.0	12.5	10.4	9.9	9.9	9.7	5	187.1
Capital and business income	6.3	6.4	5.7	5.4	5.6	6.2	6.9	6.4	6.8	6.0	5.7	5.6	5.4	10	103.2
Income of corporations	3.5	3.4	2.8	2.7	2.8	3.3	3.9	3.4	3.6	2.8	3.0	3.1	2.9	8	55.2
Income of households	1.3	1.4	1.3	1.2	1.3	1.4	1.5	1.6	1.7	1.9	1.3	1.4	1.4	3	26.7
Income of self-employed (incl. SSC)	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.3	1.3	1.2	1.1	16	21.4
Stocks of capital wealth	4.3	4.2	4.2	4.2	4.3	4.3	4.5	4.5	5.7	4.4	4.2	4.3	4.3	2	83.8
D. Environmental taxes	% of GDP														
Environmental taxes	3.0	2.7	2.7	2.6	2.6	2.5	2.4	2.4	2.4	2.6	2.6	2.6	2.6	12	50.7
Energy	2.3	2.2	2.1	2.1	2.0	1.9	1.8	1.8	1.8	2.0	2.0	1.9	1.9	15	36.8
of which transport fuel taxes	2.1	1.9	1.9	1.8	1.8	1.7	1.6	1.6	1.6	1.7	1.7	1.6	1.6	14	
Transport (excl. fuel)	0.6	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.6	0.6	0.6	0.6	12	12.2
Pollution/resources	0.05	0.05	0.07	0.08	0.08	0.08	0.08	0.09	0.09	0.08	0.09	0.09	0.09	12	1.7
E. Property taxes	% of GDP														
Property taxes	4.2	4.1	4.1	4.1	4.2	4.2	4.4	4.4	5.6	4.3	4.1	4.1	4.1	1	80.0
Recurrent taxes on immovable property	3.1	3.2	3.2	3.2	3.2	3.2	3.2	3.2	3.2	3.5	3.4	3.3	3.4	1	65.1
Other property taxes	1.1	0.9	0.9	0.8	1.0	1.0	1.2	1.3	2.4	0.8	0.8	0.8	0.8	8	14.9
F. Implicit tax rates	%														
Consumption	18.7	18.4	18.4	18.6	18.6	17.9	17.8	17.7	17.6	16.8	18.0	19.3	19.0	19	
Labour employed	25.5	25.1	24.4	24.6	25.1	25.9	25.9	26.1	26.2	24.7	25.6	25.8	25.2	26	
Capital	43.0	44.2	40.2	35.2	36.6	37.2	40.9	40.1	44.2	37.4	34.3	33.7	35.7		
Capital and business income	25.4	26.6	23.0	19.9	20.8	21.9	24.7	23.5	24.0	21.6	19.6	19.1	19.7		
Corporations	30.4	30.6	23.8	18.9	19.0	20.9	24.6	20.9	22.0	17.4	19.0	18.8	20.8		
Households	15.8	16.7	17.1	16.5	17.5	17.7	18.8	20.6	21.1	21.2	16.0	15.3	15.0		
Real GDP growth (annual rate)	4.4	2.2	2.3	3.9	3.2	3.2	2.8	3.4	-0.8	-5.2	1.7	1.1	0.1		

([1]) The ranking is calculated in descending order. A '1' indicates this is the highest value in the EU-28. No ranking is given if more than 10% of data points are missing.

([2]) This level refers to the *Länder* in AT and DE, the *gewesten en gemeenschappen / régions et communautés in BE* and *comunidades autónomas in ES*.

Source: DG Taxation and Customs Union and Eurostat (online data codes: gov_a_tax_ag, gov_a_tax_str and gov_a_tax_itr)

United Kingdom

Overall trends in taxation

Structure and development of tax revenues

In 2012, the United Kingdom tax-to-GDP ratio stood at 35.4 %, a decrease of 0.6 % compared to 2011 and below its peak of 37.1 % in 2008. In 2012, there was a 1.6 % decrease in real terms of tax revenue raised (GBP 539.5 billion) compared to 2011. The biggest decrease for the main income tax categories was corporation income tax which decreased in real terms by 7.4 % in 2012 compared to 2011. The biggest rise in tax raised in 2012 was for other taxes on production (a rise of 6.3 % in real terms).

The tax structure shows a comparatively high weight of direct taxes (at 15.1 % of GDP, the sixth highest ratio amongst Member States). Direct taxes represent the primary source of revenues (42.7 % of the total taxes), larger than indirect taxes (38.5 %), and far outweighing social contributions (18.8 %), which is the fourth lowest in the EU-28 as a % of GDP. Revenue from personal income taxes at 9.6 % of GDP its decline from the peak of 10.6 % in 2008. Corporate income tax, which increased from 2.8 % of GDP to 3.6 % of GDP between 2002 and 2008, has gradually fallen back to 2.9 % of GDP in 2012 which is above the EU-27 average (2.5 %). Direct taxes other than corporate and personal income taxes were 2.6 % of GDP in 2012, down from their peak of 4 % in 2008, but in line with their historical levels (compared to an EU-28 average of 1.2 %). This category includes council taxes on land and buildings and motor vehicle duties. Property taxation in the United Kingdom is the highest in the EU as a proportion of GDP (4.1 % in 2012, of which 3.4 % is recurrent) ([13]). The United Kingdom is a highly centralised country in terms of tax collection with 94.3 % of revenues accruing to the central government (second highest amongst Member States after Malta).

Taxation of consumption, labour and capital; environmental taxation; property taxes

The ITR on consumption decreased to 19 % in 2012 from 19.3 % in 2011 (the year in which the standard VAT rate was increased from 17.5 % to 20 %). This rate is now below the EU-28 average of 19.9 %. As a result of relatively low social contributions (6.7 % GDP compared to EU-28 of 12.7 %), labour taxes revenue (13.8 % of GDP) is significantly lower than in most other European countries (EU-28 20.1 %). The ITR on labour employed is, at 25.2 %, the third lowest in the EU-28 and lies well below the EU-28 average (36.1 %). The tax wedge for the UK at 32.3 % of the average wage is the fourth lowest in EU-27 (average rate being 40 %). For lower wage employees, defined as earning 67 % of the average wage, the tax wedge was 28.2 %; only Malta and Ireland had lower tax wedges at this wage level ([14]). The low tax wedge for the UK compared to the relatively high ratio of personal income tax-to-GDP ratio (ranking of 8th highest in the EU) can be explained by the relatively high income levels and employment rate in the UK.

Tax on capital at 9.7 % of GDP in 2012 dropped back to the 2003 level, and is the fifth highest in the EU (EU-28 at 8.2 %). The high contribution of taxes on capital to total tax revenue (27.4 % compared to the EU-28 of 20.8 %) is reflected in the relatively high implicit tax rate on capital ([15]) (35.7 % in 2012). Taxes on the capital stock (mainly recurrent property taxes in the form of national domestic rates on business properties and council tax paid by owner-occupiers and tenants on the value of their dwellings) contribute substantially to the United Kingdom's relatively high tax burden on capital as their bases are not captured in the capital base of the ITR.

Revenues from environmental taxes are relatively stable at around 2.6 % of GDP despite the evolution of the collection of customs duty on mineral oils in recent years whose level has risen slower than GDP since 2001. Property tax revenues in relation to GDP (4.1 %) are well above the EU-28 average of 2.3 % and the highest in the EU. The share of revenues from recurrent taxes on immovable property amounted to 3.4 % of GDP (EU-28 average of 1.5 %).

Main recent reforms implemented, on-going or announced

Since 2008 the standard CIT rate has been gradually reduced by 7 percentage points to a rate of 23 %, as from April 2013. This rate will be further reduced to 21 % as from April 2014, with a further reduction to 20 % as from April 2015. The small profits tax rate remains at 20 %. In line with taking more people out of the tax system, the tax free allowance will increase by GBP 560 (EUR 691) to GBP 10 000 (EUR 12 332) in 2014–15. The additional income tax rate for high earners is 45 % as from April 2013. The standard VAT rate was increased by 2.5 percentage points to 20 % in 2011 and several environmentally-related taxes were increased in recent years such as air passenger duty or landfill taxes. The system of capital gains tax has also been reformed. A bank levy was introduced in January 2011 based on bank balance sheets. Since January 2013 this rate has increased both for: (i) chargeable equity and long-term chargeable liabilities (0.078 %); and (ii) short-term chargeable liabilities (0.156 %).

([13]) It is also the highest for the OECD countries (source: OECD Revenue Statistics, http://stats.oecd.org/Index.aspx?DataSetCode=REV)

([14]) Figure for CY not available

([15]) It should also be kept in mind that both the ITR on capital and capital income are biased upwards (compared to other EU countries) because the ITR base does not capture the full extent of taxable profits of financial companies, particularly capital gains. A further reason is that the UK figures allocate all tax on occupational (second pillar) and private pension benefits (third pillar) to capital income whilst for most other Member States the second pillar is allocated to transfer income and income of the non-employed.

In order to deliver a fairer regime, a capital gains tax on future gains made by non-residents disposing of UK residential property was introduced from April 2015 in addition to measures designed to tackle tax evasion and avoidance. A new tax relief for equity and certain debt instruments for social enterprises will be introduced with effect from April 2014. Three new tax reliefs will be introduced to encourage and promote indirect employee ownership in 2014.

Main features of the tax structure

Personal income tax

Direct tax revenue on personal income has decreased by 4.3 % in real terms in 2012 compared to 2011. The basic and higher rates of income tax are 20 % and 40 % respectively for 2014–15. The basic rate limit will be reduced to GBP 31 865 (EUR 39 297) in 2014–15. The tax free personal allowance will be increased by GBP 560 (EUR 691) to GBP 10 000 (EUR 12 332) for 2014–15. Since the 2010–11 tax year, this personal allowance is reduced when the income is above GBP 100 000 (EUR 123 324) - by GBP 1 for every GBP 2 of income above the GBP 100 000 limit. This reduction applies irrespective of age. A higher tax rate of 45 % applies to annual incomes above GBP 150 000 (EUR 185 000). Higher personal allowances are available for those born before 6th April 1948 (GBP 10 500 or EUR 12 949), but are tapered away for those earning more than GDP 26 100. Two tax credits are available: the child tax credit and the working tax credit aimed at low income working adults.

The capital gains tax rates for gains realised after June 2010 are 18 % and 28 % depending on the individual's total taxable income. The annual exempt amount is GBP 10 900 or EUR 13 072. From June 2010, a 10 % rate applies to gains qualifying for entrepreneur's relief. New legislation will be introduced exempting gains as from April 2013 on up to GBP 50 000 (EUR 61 662) of shares acquired by employees taking up the new employee shareholder status for capital gains. Since April 2011 the annual allowance for tax-privileged pension saving is GBP 50 000, which will be reduced to GBP 40 000 (EUR 49 330) as from 2014–15. The life time allowance for tax-privileged pension saving is GBP 1.5 million (EUR 1.85 million), which will be reduced to GBP 1.25 million (EUR 1.54 million) as from 2014-15. The inheritance tax threshold is frozen at its April 2009 level of GBP 325 000 (EUR 400 804) for individuals until 2017–18. Tax is payable at 40 % above this threshold. The threshold will rise in line with the UK's Consumer Price Index (CPI) from 2018–19.

Corporate taxation

Direct taxes on corporate income have decreased by 7.4 % in real terms in 2012 compared to 2011. This is largely due to the decrease in corporation tax rate and increased allowances/ credits available to companies. Corporate income tax is charged at two rates: the main rate and the small profits rate (for profits up to GBP 300 000 or EUR 369 972). Marginal relief is available on profits between GBP 300 000 and GBP 1.5 million (EUR 1.85 million). The main rate of corporate income tax will decrease to 21 % as from April 2014, with a further decrease to 20 % as from April 2015. The small profits rate is 20 %. The annual writing down-allowance for the main pool of plant and machinery is 18 %, and the rate for the special pool is 8 %. After being decreased to GBP 25 000 (EUR 30 831) a year from April 2012, the Annual Investment Allowance for business investment in qualifying plant and machinery has been increased to GBP 250 000 (EUR 308 311) for two years as of 1 January 2013. There are currently two R&D tax credit schemes in the UK, which differentiate between the size of the claimant company — both allow companies an enhanced tax deduction for their qualifying R&D expenditure. The rate of the relief in the large company scheme is 130 % and the rate of relief in the SME scheme is 225 %. SMEs have the option to convert taxable losses attributable to R&D relief into a payable cash credit at a rate of 11 %. From April 2013, large companies will be able to claim a 10 % 'above the line' credit for their R&D expenditure — this will be fully refundable to companies with no corporation tax liability. A patent box regime, which allows a reduced 10 % rate of corporation tax on profits from patents, was introduced in April 2013.

VAT and excise duties

While there was a marginal increase in revenue from indirect taxes of 0.7 %, revenue from VAT has decreased by 0.5 % in 2012 compared to 2011. The standard VAT rate of 20 %, which had been increased from 17.5 % in 2011, has been maintained. As of 1 September 2012, 21 of the 27 EU Member States have a standard VAT rate of 20 % or higher, and the (simple) average standard rate in the EU is 21.1 %. The UK applies several reduced rates and exemptions. In particular, a reduced rate of 5 % applies, for example to fuel and power and also on the installation of energy-saving materials. A zero-rate is used extensively as it applies to some food items, books, new constructions used for residential and charitable purposes, passenger transport for 10 or more people, some supplies to charities and to children's clothing and footwear.

In terms of excises and duties, fuel duty was increased by 3.02 p (3.7 cents) per litre in August 2012. This increase had been deferred from April 2012. As part of the fair fuel stabiliser, above inflation rises occur only when the price of oil falls below USD 70 a barrel. Vehicle excise duty rose in line with inflation, but was frozen for road hauliers. Duty on tobacco products rose by 5 % above inflation: an increase in real terms of 37 p (46 cents) on a packet of cigarettes. Duty on alcohol products rose by 2 % above the rate of inflation. Following a freeze in 2011, Air Passenger Duty (APD) was increased by approximately 8 %. APD rates range from GBP 13 (EUR 16) for short-distance economy class to GBP 188 (EUR 231) for long-distance non-economy class

flights. APD will be extended to flights by private business jets in 2013. It was announced in 2012 that remote gambling (including online gambling) would be taxed on a place of consumption basis rather than on a place of supply basis. This change will take effect from December 2014.

Property taxation

The Stamp Duty Land Tax (SDLT) is charged on land and property transactions at increasing rates by bands based on the transfer price and whose rates vary between 0 % and 7 %. The 7 % rate was introduced in March 2012 (increased to 15 % if purchased by certain non-natural persons), and applies to the purchase of residential property over GBP 2 million (EUR 2.5 million). The Council Tax is a recurrent local tax paid by the resident or landlord of residential property and has increasing tax rates by bands (with discounts). National Non-Domestic Rates (NNDR)/Business Rates is a tax levied annually on the occupiers of non-domestic property.

Social contributions

There are six National Insurance Contributions (NICs) classes for 2014–15: Class 1 for employees (12 % between the Primary Threshold (GBP 153 (EUR 187) per week), and the Upper Earnings Limit (GBP 805 (EUR 993) per week) and 2 % above this), and Class 1 for employers (13.8 % on all earnings over the Secondary Threshold (GBP 153 or EUR 189); Class 1A, paid by employers and certain third parties on benefits in kind; Class 1B paid by employers on Pay As You Earn (PAYE) settlements; Class 2 for self-employed (at GBP 2.75 per week); Class 3 for voluntary contributions (fixed amount of GBP 13.90 per week); and Class 4 for the self-employed at a rate of 9 % on profits between the Lower Profits Limit (GBP 7 956) and the Upper Profits Limit (GBP 41 865 per year), and 2 % rate on profits above this threshold. Class 1 NICs are lower (by 1.4 %) for those who have contracted out of the State Second Pension and moved to a private pension scheme. From April 2014, businesses and charities will be able to claim the Employment Allowance, a deduction of up to GBP 2 000 every year from their employer NICs bill. Employer NICs for under-21 year olds earning less than GBP 813 a week, which is equivalent to the point at which higher rate tax is charged, is abolished as from April 2015.

Brits Say Big Firms Not Paying Fair Tax Bill

Companies moving their headquarters overseas to avoid UK corporation tax come under fire in new survey.

SKYNEWS - 13:25, UK, Tuesday 09June 2015

Amazon, Google and Starbucks have been criticised over low UK tax payments

Two thirds of Britons believe big companies are not paying their fair share of corporation tax based on the level of sales they generate in the UK.

Research from YouGov, commissioned jointly by energy firm SSE and the Institute of Chartered Accountants in Scotland, (ICAS) showed most consumers (80%) felt small businesses paid appropriate corporation tax but their larger counterparts did not.

Of those surveyed, only 6% said they would trust a company to provide accurate information on whether they are paying the right amount of tax.

And only 10% thought it was acceptable for companies to move their base of operations abroad to avoid paying corporation tax in the UK.

The survey also showed that most UK adults (69%) thought the government should consider facts such as a company's ethics and how it pays its taxes, in addition to value for money and quality of service, when awarding contracts.

Under current tax rules, companies are legally entitled to use various schemes to shift profits across borders to take advantage of tax rates that are lower than in the country where they make the majority of their profits.

Companies including Amazon and Starbucks and Google have all been criticised in the past for only paying minimal tax in countries where they register high levels of sales.

According to the Organisation for Economic Co-operation and Development (OECD), some multinationals end up paying as little as 5% in corporate taxes, while many smaller businesses are paying up to 30%.

Giant companies are able to exploit the fact that tax systems are still essentially nation-based and were designed at a time when companies' operations were less global, and before the huge changes brought about by the world wide web.

SSE chief executive, Alistair Phillips-Davies, said of the survey: “These findings from YouGov offer an alarming insight into the relationship between company behaviour on tax and consumer trust.

"Big business has a major job on its hands to convince the public that it is paying taxes fairly. The consequences of not doing so go to the heart of our legitimacy within the societies we serve.

"Tax is not a penalty for profit; it is the proper way to contribute to the society that enables your business to be successful."

Jim Pettigrew, president of ICAS, said: "The survey demonstrates that big business has got a long way to go to convince the public that companies have earned their trust on taxation.

“Ensuring companies behave in the right way and improve transparency and communication is key to changing this perception. There is a difficult mountain to climb for business and the profession to explain the tax landscape to the public.

"There is also a pressing need for better tax legislation to be enacted which minimises complexity and reduces the grey areas where so much of the ambiguity lies."

European Parliament