



## **How tackling tax evasion could help overcome poverty in the UK**

**As millions face a brutal combination of rising prices, stagnant wages and the erosion of social security, some of the UK's individuals are evading taxes to the tune of £5.2 billion a year – the equivalent of an extra £200 per year to every household in the UK<sup>1</sup>.**

### **Introduction**

Today is the deadline for millions of people to return their Self Assessment tax returns to HMRC. Most people, whether low earners with income just above the tax threshold or high earners paying the highest tax rate, take pride in playing fair with the rest of society – they will stay up late declaring every penny earned and refrain from playing fast and loose with the tax rules.

But some people don't play by the rules. They try to get out of paying their fair dues to society and shirk their responsibility. And they leave the rest of us to pick up the tab. This isn't just wrong in principle, it's deeply damaging. Poverty is on the march in Britain and every pound dodged could be used to meet this challenge.

Oxfam is calling for fair play in taxation in order to help millions escape poverty for good.

### **Some people aren't paying their fair share**

#### ***Tax evasion by individuals***

At a time when the poorest are being pushed deeper into poverty, some individuals aren't paying their fair share.

One tactic to illegally evade UK taxes is to move money offshore without disclosing this information to HMRC. Oxfam has estimated that UK residents could hold as much as £355 billion in financial<sup>2</sup> assets offshore<sup>3</sup>, of which an estimated £298 billion are undeclared to HMRC<sup>4</sup>. Considering an average annual return on investment of 6.2%<sup>5</sup>, and applying a Capital Gains Tax rate of 28%<sup>6</sup>, this would yield £5.2 billion in unpaid tax.

## ***Politicians have not done enough***

David Cameron's statement to the World Economic Forum calling for tough action on tax evasion, and commitment to use this year's G8 to strengthen action on tax, is welcome.<sup>7</sup> The Government is known to be seeking better deals with some offshore tax havens, and recently agreed one bilaterally with Switzerland. However, this agreement has been heavily criticised.

In terms of the nature of the actual agreement, it provides an out of court settlement for people who evaded billions of pounds – people who broke the law<sup>8</sup> – and has many more loopholes. It has also been criticised in terms of the precedent it sets, undermining much more effective multilateral action. European Commissioner for Taxation Algirdas Šemeta notably asked member states to refrain from signing such treaties because they undermine efforts to increase foreign account transparency<sup>9</sup>. The German Upper House of Parliament rejected a similar treaty because it would undermine efforts to halt the rise of secretive accounts in the first place.<sup>10</sup>

In addition, regarding tax evasion by individuals, the official targets – to the extent that any are published – suggest a low level of ambition. HMRC's newly strengthened Affluent Unit, whilst a step in the right direction, has a target of pulling in a mere £600m by 2015<sup>11</sup>.

Everyone must abide by the same rules. The biggest abusers often dodge their taxes in sophisticated ways and bringing them to book can be tough, but responsibility lies with the Government to ensure that every penny due is paid. If politicians fail to tighten and enforce the rules, they will bear responsibility along with the tax cheats. The Government is starting to acknowledge this, but bold rhetoric must be translated into tougher action.

## **The perfect storm that's sweeping through Britain**

Meanwhile, a perfect storm of stagnant wages, decreasing job security and hours, spiralling prices and deep spending cuts are hitting the poorest hardest. For example, the bottom tenth of the income distribution have been hit seven times harder by tax, social security and public spending measures than the richest tenth<sup>12</sup>. In addition, people on low incomes tend to experience higher effective rates of inflation.<sup>13</sup>

Oxfam's work across the UK suggests that these cuts are pushing more people into poverty. Oxfam and its partners have witnessed how people are rationing themselves, choosing between heating and eating. With cost of childcare increasing significantly above the rate of inflation<sup>14</sup>, it's an all-too-common story that mothers are forced not to work, so they can look after their children.

**Jack: "I don't know what people think a poor person looks like, but they don't think they look like me."**

Jack is a self-employed single mum on Housing Benefit and child support, living on a food budget of £10 a week. Jack used to use the community benefit advice service, which has now shut due to lack of funding. She said a lot of people would be behind on rent in her community had it not been for the advice on entitlements and getting back into work.

As a single mum, Jack is worried that she is not doing enough for her son. On the changes and sacrifices Jack has made in order to make her money stretch further, she said: "I haven't had my heating on for about a year. I layer up, always have lots of jumpers on. Any excess light bulbs have been taken out hall ways, my bedroom, my son's room. It is easier, if they are not there then you can't just flip a light on, you save money. No tumble drier or freezer, you cut back more and more and more and then you cut something else".

Up and down the country people are struggling to meet the cost of living. Unable to keep up with the rising cost of food, energy, rent and transport. Food prices, for instance, have risen by 30.5 per cent in the past five years, whilst the National Minimum Wage has risen by just 12.1 per cent over the same period.<sup>15</sup> These are especially tough times for people on low incomes.

Women, in particular, are facing a triple jeopardy: being hit hardest by cuts to public sector jobs, wages and pensions; bearing the lion's share of cuts to services and social security; and left 'filling the gaps' as state services are withdrawn.<sup>16</sup>

**Leigh is currently unable to work. He was in the Navy and was retired after a brain tumour and illness.**

"I paid tax while in the Royal Navy but since leaving in 2004 the only work I have done is voluntary i.e. selling poppies as a member of the Royal British Legion and volunteering at the British Heart Foundation. I have been called a sponger before and as I said to them: I had a paper round while at school, when I left I did a little training and then went straight to work as a window fabricator, then I joined the Royal Navy until I was medically discharged due to a brain tumour and epilepsy, while always paying my taxes and NI and the system deemed me unfit to work. So I volunteered for the Royal British Legion to put a little back into the system.

It makes me furious that I defended my Queen and country so that multi millionaires and even billionaires can simply set up a company based in a tax haven through loop holes our politicians seem hopeless to close, while at the same time cutting the 50 pence tax rate for those that do pay tax. While at the same time cutting funding to the armed forces. I don't think the FTSE 100 can stop an invading force or fight global terrorism."

Instead of a social security system that provides a solid base upon which to rebuild one's life, support has been eroded with cuts to Child Benefit, Housing Benefit and Working Tax Credits. Most recently the Government has chosen to limit the rate at which many social security payments are increased, a measure that will further limit people's ability to make ends meet.

### **Why tackling tax evasion matters**

Evading tax is wrong and illegal. It means people aren't playing fair and the tax revenue could be used to prevent some of the most harmful spending cuts and help mitigate the impact of rising prices. Below we outline some of the ways the £5.2 billion due to the public coffers could be used to secure public services and social security, which benefit millions of people in the UK.

- Prevent 9.4 million households from being £180 a year worse off by reversing the cap on social security proposed in the Welfare Benefits Up-rating Bill.<sup>17</sup>
- Provide an extra £21 a week to every household in the UK that is experiencing fuel poverty.<sup>18</sup>
- Double universal childcare entitlement to 25 hours per week, giving families more flexibility to work.<sup>19</sup>
- Lower the effective tax rate for four million low-income workers, so people get to keep 45p for every £1 they earn, instead of 35p.<sup>20</sup>

- Double the number of affordable homes created by building a further 170,000 homes<sup>21</sup>.

Tax is the contribution people and companies make for living and doing business in the UK and for sharing in the benefits that this brings. It should not be voluntary.

When some people do not pay their fair dues, the rest of us have to pick up their share of the bill to pay for the roads, schools, hospitals, social security and other services that we all rely on. And it means that spending cuts have a bigger effect on people who can least afford to pay.

So Oxfam is calling on politicians to crack down on tax cheats and make sure they play to the same rules as the rest of us. The money raised will help tackle the massive and growing gap between the rich and the less well-off, and could be used to help protect the poorest people from the effects of the economic downturn.

#### **Tackling tax evasion by individuals**

1. Utilise the G8 presidency to put pressure on all offshore tax havens to increase transparency, and strengthen existing multilateral processes in the EU and the G20
2. Ensure all offshore tax havens agree to the automatic exchange of *all* information with the UK through bilateral agreements
3. Significantly increase resources at HMRC to meet the challenge of tackling global tax evasion

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<sup>1</sup> ONS, ['Families and Households'](#), November 2012.

<sup>2</sup> This estimate is for financial assets held offshore. The actual figure is likely to be significantly higher, however, as a share of non-financial wealth such as real estate, paintings and other art, gold and jewellery as well as yachts and luxury cars can also be held offshore, where it is impossible to identify the owners. Very few estimates exist for non-financial wealth held offshore, and this is not included in the figure. (See J. Henry, ['Price of Offshore Revisited'](#) Tax Justice Network, July 2012)

<sup>3</sup> The most recent estimate of UK net financial wealth is £2.73 trillion (\$4.367 trillion) in 2012 (['Global Wealth Report 2012'](#), Credit Suisse, October 2012, p. 84). Net financial wealth calculated as financial wealth minus debts.

The Bank of International Settlements has estimated ([BIS Quarterly Review](#), December 2012- tables 6a and 6b) that the share of assets in all banking institutions held offshore is 12.4% and for all non-banking institutions (for example trusts set up by legal firms) as slightly higher at 13.4%. We have taken the average of this global figure- 13% and applied it to the UK- in the absence of UK specific data. 13% of £2.73 trillion is £355 billion held offshore. This is very likely to be an underestimate as the list of tax havens used by the BIS is disputed. The Tax Justice Network identifies a larger group of tax havens or what they call secrecy jurisdictions (List taken from the Opacity Score, of the Financial Secrecy Index ('Financial Secrecy Index 2009', Tax Justice Network, 2009, and 'Financial Secrecy Index 2011', Tax Justice Network, 2011). For example, Switzerland is not included in the BIS list, but is included in the Tax Justice Network list and in most people's understanding of what constitutes a tax haven. Using this list as the basis for estimating how much wealth is held offshore in these tax havens gives a figure nearer 22.8%. When applied to UK wealth this gives an estimated figure of £622 billion of UK wealth held offshore.

<sup>4</sup> In this paper we have estimated the undeclared assets of individuals held overseas, based on estimates by the Swiss offshore industry, which states that only 16% of all assets held offshore are declared (Bloomberg, ['U.K., Swiss to Discuss Tax on Offshore Bank Accounts'](#), 25 October 2010). This is the only public estimate available; there are no other public estimates for declared assets in other tax havens. The UK Government taxes all capital gains, so undeclared gains will constitute tax evasion. The failure to place the correct amount of capital gains or other taxable income in your tax return is a matter of tax evasion.

<sup>5</sup> Considering an average annual return on investment percentage performance of balanced portfolios invested on behalf of UK private clients to end 2011. For three year average yields for 3 and 5 year investments were 6.2% on an annual basis. Financial Times, ['Risk assets vital to preserve wealth'](#), 16 June 2012

<sup>6</sup> The most recent HMRC data suggests the average income tax rate payable on investment income is 31% (HMRC, ['Income tax liabilities, by income source and tax band, 2009-10 to 2012-13'](#), April 2012). We have used the Capital Gains Tax rate of 28%, for simplicity.

<sup>7</sup> Daily Telegraph, ['Davos 2013: David Cameron calls measures to tackle tax avoidance'](#), 24 January 2013

<sup>8</sup> These treaties are commonly known as 'Rubik agreements'. They allow people to continue to deposit assets anonymously and legally in a Swiss bank subject to payment of a percentage of the assets as back taxes, to legalise their past situation, and payment in the future of taxes equivalent to what they would pay if the assets were declared. This amounts to the UK making a settlement on past tax evasion on these assets.

<sup>9</sup> EU Observer.com, ['EU commissioner blasts bilateral tax deals with Switzerland'](#), 5 March 2012; Bloomberg, ['Swiss Must Kill Bank Secrecy, Revise Deals, EU Tax Chief Says'](#), 6 February 2012

<sup>10</sup> International Service of the Swiss Broadcasting Corporation, ['Rubik Setback: German Senate blocks divisive Swiss tax deal'](#), 23 November 2012

<sup>11</sup> HM Revenue and Customs, ['HMRC's affluent unit recruits 100 new inspectors'](#), 16 January 2013

<sup>12</sup> T. Horton and H. Reed, ['The distributional impact of the 2010 Spending Review'](#), Radical Statistics, Issue 103 (2012)

<sup>13</sup> Between 2008 and 2010, the poorest fifth of households experienced an inflation rate of 4.3 per cent, against 2.7 per cent for the richest fifth. (P. Levell and Z. Oldfield, Institute for Fiscal Studies, ['The spending patterns and inflation experience of low-income households over the past decade'](#), June 2011)

<sup>14</sup> The hourly rate of childcare for a child aged under-two went up 5.8% in the year to February 2012. At the time, inflation was 3.7% RPI. See Daycare Trust, ['Childcare costs survey 2012'](#), February 2012

<sup>15</sup> M.Haddad, ['The Perfect Storm'](#), Oxfam GB: June 2012

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- <sup>16</sup> Fawcett Society, '[The Impact of Austerity on Women](#)', March 2012
- <sup>17</sup> A. Hood, P. Johnson and R. Joyce, Institute for Fiscal Studies, '[The Effects of the Welfare Benefits Up-rating Bill](#)', January 2013
- <sup>18</sup> In 2010, there were an estimated 4.75 million people living in fuel poverty (see ONS and Department of Energy and Climate Change, '[Annual Report On Fuel Poverty Statistics 2012](#)', May 2012)
- <sup>19</sup> Expanding the universal entitlement for three and four year olds from 15 hours of childcare for 38 weeks a year to 25 hours for 47 weeks – an extra 605 hours – would cost approximately £2.1 billion. See V. Alakeson and A. Hurrell, '[The costs of childcare after housing costs](#)', Resolution Foundation: December 2012.
- <sup>20</sup> Universal Credit will introduce a withdrawal rate of 65 per cent on earned income after a disregard. Reducing the withdrawal rate from 65 per cent to 55 per cent would cost approximately £2 billion, based upon an estimate that a change of three percentage points would cost £600 million (D. Hirsch, '[Struggling to make ends meet: Single parents and income adequacy under universal credit](#)', Gingerbread: November 2012). Approximately 4 million claimants of Universal Credit will be in work. (Department for Work and Pensions, '[Universal Credit: Impact Assessment](#)', 2011).
- <sup>21</sup> Based on the Government's target to build 170,000 affordable homes by 2015 at a cost of £4.5 billion. See '[Laying the Foundations: A Housing Strategy for England](#)', HM Government: November 2011