

## Tax dodgers face five years of extra scrutiny

Tax dodgers face far greater scrutiny of their affairs under a new HM Revenue & Customs (HMRC) plan. The Revenue says anyone who evades tax will have their financial affairs watched closely for up to five years to make sure they do not re-offend.

The plan is called the Managing Deliberate Defaulters (MDD) scheme. It comes on top of increased fines and the imminent naming and shaming of people who have tried to avoid at least £25,000 of tax. The new plan will start with letters being sent to 900 known tax dodgers warning them they will stay in the Revenue's sights for up to the next five years.

But HMRC made it clear the plan was aimed as much at deterring would-be tax evaders as those who have already been found out. "Tax cheat check-ups will involve continued and close scrutiny - it is a real deterrent," said Steve Hickman of the HMRC. "If you are thinking about breaking the rules just remember, you could end up with HMRC on your back for five years."

The Revenue said the extra scrutiny would probably last for at least two years for any individual. Its measures might include:

- making announced or surprise inspections of books and records
- asking additional information or documents to be sent in with the person's tax returns
- carrying out in-depth compliance checks into all or any part of the person's tax affairs
- observing and recording the person's business activities and cross-checking details in their accounts
- requiring more frequent VAT returns or cancelling certain favourable VAT schemes for miscreants.

"Evaders who fail to keep their tax affairs in order will face increasingly intrusive interventions from HMRC and if deliberate evasion continues, HMRC may also start criminal proceedings," HMRC said.

The new attack on tax dodgers was welcomed by the Chartered Institute of Taxation (CIOT), which pointed out that it applied to businesses as much as individuals.

"The MDD programme will apply to businesses and individual taxpayers who have been found to have made a deliberate understatement resulting in a tax loss, unless the penalties charged have been reduced to the minimum allowed through both unprompted disclosure and co-operation with HMRC," said Gary Ashford of the CIOT.

"Where the tax loss is over £5,000, HMRC will send a letter to businesses in the MDD programme requiring additional information to be submitted along with their tax returns for the following five years," he explained.

Ordinarily, tax offenders can be fined up to 100% of the tax they have avoided, plus the payment of the back taxes plus interest. Offenders who have been trying to evade tax in some offshore jurisdictions now face fines of up to 200% of their unpaid tax. The worst offenders, those who have tried to dodge tax of more than £25,000, will start to be named in the coming tax year. And the Revenue has the option of prosecuting offenders, which can lead to them being sent to jail if convicted.

### Questions about the article:

1. What measures do tax evaders face under the new plan?
2. Why is the number £25,000 important?
3. How will the new plan start?
4. What are the goals of the plan?
5. What words in the article describe someone who tries to avoid paying taxes?
6. What is tax return?
7. What might the extra scrutiny involve?
8. What categories of tax offenders are listed and what do the offenders face?

# Purpose of taxes

Taxation has four main purposes or effects: Revenue, Redistribution, Repricing, and Representation.

1. The main purpose is **revenue**: taxes raise money to spend on armies, roads, schools and hospitals, and on more indirect government functions like market regulation or legal systems.
2. A second is **redistribution**. Normally, this means transferring wealth from the richer sections of society to poorer sections.
3. A third purpose of taxation is **repricing**. Taxes are levied to address externalities; for example, tobacco is taxed to discourage smoking, and a carbon tax discourages use of carbon-based fuels.
4. A fourth, consequential effect of taxation in its historical setting has been **representation**. The American revolutionary slogan "no taxation without representation" implied this: rulers tax citizens, and citizens demand accountability from their rulers as the other part of this bargain. Studies have shown that direct taxation (such as income taxes) generates the greatest degree of accountability and better governance, while indirect taxation tends to have smaller effects.

**Tax avoidance** is the legal utilization of the tax regime to one's own advantage, to reduce the amount of tax that is payable by means that are within the law. The United States Supreme Court has stated that "The legal right of an individual to decrease the amount of what would otherwise be his taxes or altogether avoid them, by means which the law permits, cannot be doubted."

By contrast **tax evasion** is the general term for efforts by individuals, firms, trusts and other entities to evade taxes by illegal means. Tax evasion usually entails taxpayers deliberately misrepresenting or concealing the true state of their affairs to the tax authorities to reduce their tax liability, and includes, in particular, dishonest tax reporting (such as declaring less income, profits or gains than actually earned; or overstating deductions). Tax evasion is an activity commonly associated with the **underground economy** and one measure of the extent of tax evasion the amount of **unreported income** namely the difference between the amount of income that should legally be reported to the tax authorities and the actual amount reported.

## Questions about the podcast:

1. What will HM revenue and Customs soon demand and from whom?
2. What mistake did HMRC make?
3. What did the government state in January and what was HMRC's reaction to that?
4. Is this the first mistake of this kind?
5. Why should the tax not be written off?

Bungle – břídilství, fušerství