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THE DEMOCRATIC LEFT



Tax avoidance We're closing in

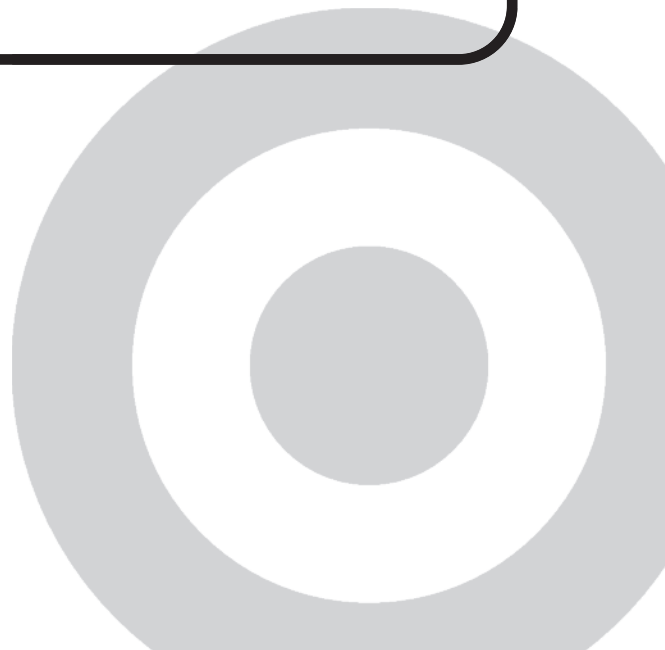
The case for greater fairness in the 2009 Budget

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**A FULL RANGE DOSSIER:
WE'RE TARGETING TAX AVOIDANCE WITH A DOCUMENT FULL OF FACTS!**

Compass takes personal tax avoidance very seriously indeed! Although the vast majority of people who pay their taxes are honest, those who avoid their taxes, often very wealthy individuals, are picking the pockets of law-abiding taxpayers. In 2008-09 the TUC estimates that tax avoiders stole an estimated £13 billion from public funds, that's why we are determined that the government should close in on them!



Despite what the government, the tabloid media and the Tax Payers Alliance may want you to believe, **THE OVERWHELMING MAJORITY OF THE REVENUE LOST IN THIS COUNTRY IS NOT DOWNT BENEFIT FRAUD COMMITTED BY THE POOREST AND MOST VULNERABLE IN SOCIETY, BUT FROM POWERFUL ELITES WHO CAN AFFORD EXPENSIVE TAX ADVISERS.** These are British nationals who have benefitted from others' tax contributions every day of their lives yet refuse to fully honour that debt and live up to their responsibilities in any meaningful way.

Over 15 times as much is lost to tax avoidance at the top than is lost to benefit fraud at the bottom.

But despite the fact that nearly **15 times more is lost through tax avoidance by wealthy individuals than through benefit fraud**, the government's focus lies squarely on the intimidation, suppression and capture of the so called "benefit thieves", often who are people so poor and vulnerable that benefit fraud is the only way they can pay for a child's birthday present or a school trip.

Whilst our government focuses its energy by spending millions of tax payers money on "combating" benefit fraud through its high-profile "We're Closing In" campaign, it is those in the country with the most wealth and privilege, those who partake in tax planning and avoidance, who are costing society the most and exacerbating inequality. The public outrage over the economic downturn coupled with the outcry over the excesses, unchecked wealth and risky behaviour of those at the top that helped to cause the financial crisis, has demonstrated that as a society we can no longer tolerate this situation.

Furthermore, with the recent release of Richard Wilkinson and Kate Pickett's book "The spirit level" it has never been clearer that the gross inequality which tax avoidance exacerbates is not just damaging for those at the very bottom but hurts all of society. Inequality creates shorter, unhappier and unhealthier lives; it increases the rate of obesity, teenage pregnancy, violence, and addiction; and it drives up consumption, which in turn drains the planet's resources. This is why it is only fair that we launch our own campaign to **close in on tax avoidance**.

The government talks of seeking international agreement on tax evasion and has promised a new top rate of tax that would be brought in after the next election. But this talk, these promises, are not nearly enough when it is those at the top who got us into the current financial crisis, who are still experiencing the privilege of not paying their fair share - while it is those at the bottom who continue to struggle, even more so in a recession. This is even more troubling given that it is our government's own loop-holes and lack of any meaningful action that are allowing wealthy individuals to avoid their responsibilities through personal tax avoidance.

What is tax avoidance?

Tax avoiders effectively rob society of much needed public funds!

Tax avoidance involves getting around tax laws without actually breaking them (as opposed to tax evasion which is the illegal evasion of tax). The term tax avoidance covers a myriad of questionable practices which include complicated tax planning, using pension contribution exemptions, income shifting, and adopting 'non-domicile' status.

IT IS CONSERVATIVELY ESTIMATED BY THE TUC THAT AT LEAST £13 BILLION¹ IS LOST EVERY YEAR TO PERSONAL TAX AVOIDANCE AND TAX PLANNING BY THE RICHEST IN SOCIETY. This is without even considering revenue lost to company tax avoidance. **£13 billion** is lost every single year as a direct result of the country's richest individuals avoiding their taxation responsibilities. Compare this to the relatively small sum of **£800 million** lost annually to benefit fraud and the extent of the hypocrisy becomes glaringly apparent.

Below are some facts and figures which illuminate the nature and scale of the issues involved. Firstly, let us again point out that benefit fraud costs this country **£800 million** per year. Now contrast this sum to the loss of capital at the top of the tree as estimated by the TUC:

- At least **£3.8 billion** is lost as a result of the non domicile tax laws which allow those who are registered abroad to avoid paying tax on money earned in the UK, no matter how much they earn or how British they may be
- Over **£3.2 billion** disappears annually through the process of 'income shifting' which involves moving money and assets around either into the name of a spouse or child, or into a limited company, inevitably registered in one of the many global UK tax havens
- The remaining **£6 billion** vanishes through the many practices known as 'tax planning'. Common practices around tax planning include changing the nature of a transaction so it is subject to capital gains, rather than income tax, shifting funds to enter new, lower, tax codes and expense altering.

This gives a total of £13 billion.

Based simply on the amount of money lost it would seem only natural that the government's focus should be squarely on the money being lost to individuals at the top.

The majority of people who do commit benefit fraud don't do so out of greed but for fear of poverty and lack of choice, as a report by the Joseph Rowntree Foundation stated "Government measures to combat benefit fraud, have limited success where poverty drives the decision to work informally"² Conversely, both tax planning and avoidance are predominately the activities of the wealthiest in our society – who **do** have a choice. We are calling for a fundamental re-think on the government's stance on tax avoiders and benefit fraud. The criminalization of poverty and the acceptance of tax avoidance must now end.

FAIRER TAX AND BENEFIT SYSTEMS MUST BE PUT IN PLACE NOW – NOT NEXT YEAR. We need a tax and benefit system that recognises the immense pressure that is squeezing the bottom. We must make sure that in this economic crisis it is not the poorest and most vulnerable that bear the brunt – but those with the broadest shoulders who carry the most.

Tax has a bad reputation but it's undeserved – tax is an essential part of citizenship. Taxation is a communal contract which binds us together as a nation. We all benefit from the public services and so should all contribute according to our ability. As each generation benefits from free education, healthcare and security they inherit the obligation to repay this debt. As our lives change, we rely on the continued support of those around us.

Despite the fact that tax is the lifeblood that keeps our homes and streets safe, pays our teachers and nurses, funds our community development projects, keeps our armed forces equipped and is a genuine investment in a future that Britain can be proud of, there exists a minority of individuals determined to avoid their responsibility to contribute fairly to our nation and society.

The practice of tax planning and tax avoidance has become so commonplace that a simple internet search comes up with hundreds of accountancy firms offering a whole range of 'tax planning' and 'tax mitigation' services along with numerous books offering tax avoidance tips. An entire industry exists which surrounds the practice of tax avoidance. This exploitation of our many tax loopholes is representative of the government's love affair with the rich and disdain for the poor.

It is clear that in the midst of the financial crisis the public mood has changed from indifference to hostility towards the wealth, greed and bonus ridden culture of many at the top the very individuals that got us into this mess. This mood will not accept half hearted measures.

With the deteriorating state of Britain's public finances we quite literally can no longer afford to turn back to the pre-crash tax system, now is the right moment to ensure that the very wealthiest in our society pay their fair share for a crisis that they themselves by and large created.

Some things you might not know about tax

- People on £1m a year pay a smaller percentage of their income in tax than people on the average industrial wage.
- You can inherit millions tax free if you're rich enough to own your wealth in the right ways.
- You can live in the UK for years and still not pay tax on your worldwide income. In the U.S, citizens have to pay tax on all their worldwide earnings regardless of their place of residence
- Money made from selling shares, property and businesses gets taxed less than the earnings of ordinary workers.
- Most pension tax relief goes to the richest 10% of people

WITH THIS ADDITIONAL REVENUE WE COULD DO SO MUCH MORE EACH YEAR.

- With an additional £3 billion we could meet the governments 2010 child poverty targets³
- and with an extra £1.6 billion we could double the amount invested in cancer research annually⁴
- and with £500 million we could recruit an extra 10,000 social workers desperately needed to meet increasing case load demands⁵
- and £2 billion a year would allow local authorities to provide daily home care visits to 370,000 people now denied help because of funding constraints, and in the process this would create the equivalent of 80,000 full time jobs⁶
- Finally £5 billion would fund a local authority-led programme to improve energy efficiency by upgrading 10 million homes currently without cavity wall and loft insulation, creating 20,000 new jobs.⁷

Total Cost: £12.1 billion

Or the money could even be spent on a tax cut for the bottom 90% of the population.

In the US, Obama is in many ways leading the way and calling for a crackdown on tax havens, including those in the UK. The House of Representatives is also dominating the debate as they recently voted through a 90% rate of tax on executive bonuses. Further when George Bush's tax cuts for the rich expire this year Obama has promised that the top individual rate of tax will return to the level it was during the Clinton era.

WHAT CAN THE CHANCELLOR OF THE EXCHEQUER AND THE GOVERNMENT DO?

Tax fairness is an issue for us all – if those at the top choose not to pay their fair share it affects all of us. So what can we ask the Chancellor of the Exchequer to do?

There is no lack good ideas, like:

- Abolish the domicile rule,
- Abolish tax havens,
- Tax investment income equally to income earned through labour,
- Abolish tax relief for the wealthy (those earning over £100,000),
- Immediately introduce a higher rate of income tax for all those earning over £100,000,
- Introduce a new rate of tax, or a new wealth tax for all those earning over £250,000 (including a minimum rate),
- Introduce a new tax on annual bonuses above £1000,
- Adopt a general anti-avoidance rule,
- Remove all secrecy from all British controlled tax havens,
- Significantly increase in the number of tax inspectors, to allow more thorough investigation into individual cases of avoidance.

But most important we need to see paying tax as a necessary part of citizenship – avoiding tax should never be something you are proud of.

As it stands the practice of avoiding tax in our society has no stigma, no negative connotations. Those who can get away with it are not derided, they are revered. Indeed, tax avoidance is seen as a game to be played by all who can, and year on year, billions and billions of pounds disappears from the public purse. Funds which could end child poverty, help the search for a cure for cancer create thousands of new jobs or ensure a better standard of social care and help alleviate the conditions which drive the most vulnerable in society to commit benefit fraud in the first place.

A fairer more just society is possible so let's now work towards fairer taxes, and ensure that we all enjoy the rights and live up to our responsibilities – if we achieved this, it would represent a real leap forward towards Building the Good Society of the future.

Tax Avoidance: We're Closing In!

Tax Avoidance: We want the Chancellor to hear about it!

**You've read the dossier now write to the
Chancellor of the Exchequer and demand
greater fairness in the 2009 Budget....**

1. These figures are based on TUC estimates which appear in their recent publication *Missing Billions*
<http://www.tuc.org.uk/touchstone/Missingbillions/1missingbillions.pdf>
2. <http://www.jrf.org.uk/knowledge/findings/socialpolicy/0346.asp>
3. Barbados' estimate <http://www.barnardos.org.uk/childpoverty/pov-whatispoverty.htm>
4. The NCRI – a collaboration of government and charity partners – reveals that between 2002 and 2006, its 20 member organisations spent a total of £1.6 billion on cancer research in the UK.
<http://info.cancerresearchuk.org/news/archive/pressreleases/2008/october/479599>
5. UNISON estimate based on PSSRU Unit Costs of Health and Social Care. The number of social services staff employed by councils has fallen by 20,000 since 1997, despite increasing demands on the service
6. UNISON estimate based on PSSRU Unit Costs of Health and Social Care; LGA estimates that in 2009/10 councils will be forced to restrict home care services to most urgent cases, denying care to 370,000 people with lower levels of need
<http://www.lga.gov.uk/lga/core/page.do?pageld=45085>
7. LGA <http://www.lga.gov.uk/lga/aio/1509491>

Model Letter

Rt Hon Alistair Darling MP
Chancellor of the Exchequer
HM Treasury
1 Horse Guards' Road
London SW1A 2HQ

Dear Chancellor of the Exchequer,

We write to highlight our concerns regarding personal tax avoidance by some of the wealthiest in our country which is exacerbating inequalities and to urge the government to take decisive action to close in on personal tax avoidance in the 2009 Budget.

The fact is that over 15 times as much money is lost through tax avoidance at the top than is lost to benefit fraud at the bottom and whilst our government focus its energy on 'combating' benefit fraud through its 'We're Closing In' campaign, it is the wealthiest and most privileged, those who are able to use their wealth to partake in tax planning and avoidance who are costing society the most and exacerbating inequality.

Tax avoidance is an issue for us all – if those at the top choose not to pay their fair share it has grave effects for everyone: it effectively robs our society of the necessary funds that could end child poverty and help provide decent social care; funds that could regenerate schools, build hospitals, improve roads, create green jobs, build new homes, help combat climate change and help alleviate the conditions which drive the most vulnerable in society to commit things such as benefit fraud in the first place.

The public outrage over the economic downturn coupled with the outcry over the excesses, unchecked wealth and risky behaviour of those at the top that caused the financial crisis, has demonstrated that as a country we can no longer tolerate this situation.

We therefore call on you to use every means at your disposal to close in on tax avoidance, close in on tax loop holes and deliver greater tax justice in the forthcoming budget. Measures could include: abolishing the domicile rule; abolishing tax havens; taxing investment income equally to income earned through labour; abolishing tax relief for the wealthy (those earning over £100,000); immediately introducing a new wealth tax for all those earning over £250,000; introducing a tax on bonuses; adopting a general anti-avoidance rule; removing secrecy from all British controlled tax havens and significantly increasing the number of tax inspectors to allow more thorough investigation into individual cases of avoidance.

A recent YouGov poll commissioned by centre-left pressure group Compass demonstrated overwhelming public support for measures like these: 77% agree that the government should do everything it can to close in on the multi billion pound gap lost through personal tax avoidance. In further support of the Compass call for greater tax fairness in the 2009 Budget 71% of GB adults agree with a new wealth tax on earnings above £250,000; 61% agree that the Government should break its 2005 manifesto commitment not to increase any rates of income tax and immediately introduce a new top rate of income tax for all those earning above £100,000 per year; 52% agree with a new tax on all bonuses above £1000.

Now is not the time to turn back to the pre-crash tax system, now is the time to deliver greater tax justice for the many not the few: it is time to close in on tax avoiders, recoup public money and ensure everyone in society pays their fair share, we urge you to decisively act.

Best wishes