

Information technology is at the heart of steps being taken by the Government to close the annual tax gap, reports Paul Gosling.



# paying their dues

■ The signs are that the Government is getting smarter when it comes to spotting people not paying their dues to the State. Tax evasion, tax avoidance and benefit fraud are all in its sights, with more public money being saved, often by relying on the effective use of IT.

The figures involved are huge. The annual tax gap – the amount of tax due, but uncollected – is estimated at between £32bn and £42bn, across all the activity areas of the newly created HM Revenue & Customs.

Additional tax to be collected just as a result of the tax avoidance measures announced in this year's Budget – which have not yet been enacted because of the General Election, but which will be re-presented and adopted retrospectively in the new Parliamentary session – are calculated at £660m by Mike Warburton, partner at Grant Thornton. John Whiting, partner at PricewaterhouseCoopers, puts the figure at nearly £1bn, if the measures introduced in the run-up to the Budget are also included. This basically pays for the

£800m giveaway by the Treasury for the council tax rebates, of £200 per pensioner. This was an important element of the Labour Party's electoral campaign in diffusing anger at the level of these local taxes on the retired. But if the £1bn figure had been taken as extra taxes it comes out at about £39 per household, or if financed by civil service job losses it would be an additional cut of about 4,000 staff, using the formula adopted by Sir Peter Gershon's efficiency review.

Chas Roy-Chowdhury, Head of Tax at ACCA, says the most important tax avoidance measure is the extension of the proven and successful tax avoidance reporting regime used for income tax, corporation tax and capital gains tax, to other taxes. Roy-Chowdhury believes this could be applied to even more taxes in the future, such as inheritance tax. "Everything I hear says [the Government] is happy with it and will continue with it," agrees Whiting.

"From the Government's point of view it has been a success," adds Warburton. "A demonstration is that we and others are considerably constrained regarding complex tax arrangements. With those you have to invest a lot of time and effort and from a cost-benefit point of view there is no point in doing that if you have to disclose it five days later so the Government can ban it. They have won."

#### data sharing and matching

But the disclosure requirements are not the only major success the Government has had. Perhaps equally significant has been a widespread application of data sharing and data matching within and across departments.

The Revenue now makes much greater use of its own data in examining inheritance tax returns, to check for undeclared gifts and under-valued houses. Routine data sharing within the Revenue increased further after it took over the Contributions Agency and, again, when it took on responsibility for administering tax credits.

With the establishment of the new HM Revenue & Customs – the legislation for which was approved just before Parliament was dissolved – tax data sharing is likely to increase substantially. "There will be more information sharing," predicts Roy-Chowdhury. "They will be looking at taxpayers, at business and the individual. They will be able to feed off what Customs & Excise has done under its powers."

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Reports from the National Audit Office and guidance from the Department of Constitutional Affairs also make clear that there is now also substantial data matching taking place between the Revenue and the Department of Work and Pensions.

The Audit Commission, too, has brought together a variety of agencies – local authorities' housing benefits departments, public and private sector occupational pension schemes, public sector employers' records – through its National Fraud Initiative (NFI). By using data matching, they uncovered a variety of frauds, not only against the benefits system. One of the main successes was the discovery of the names of people who had died, but whose pensions were still being paid – often with relatives cashing in the payments.

NFI also broke up the activities of some criminal gangs who were obtaining multiple housing tenancies in order to illegally sub-let – the same individuals were renting homes in several local authority areas. NFI detected fraud and overpayments of £50m in 2000/01, but this rose to £83m in 2002/03. Even more is likely to be detected as the data matching initiative is expanded to cover increasing numbers of private sector pension schemes.

Data matching had for some years been held back by concerns that it breached the Data Protection Act. But a report by Lord Grabiner for the Treasury on the shadow economy recommended that clearer guidelines be produced for civil servants on permitted data sharing, which has since become a project for the Department of Constitutional Affairs.

#### main targets

According to Grabiner's report, the main targets for fraud are housing benefit, income support and jobseekers' allowance, to a total value of about £465m annually. Significantly, Grabiner suggested that the most common fraud was failure to report, or under-reporting,

of earnings, which typically involves collusion on the part of the employer. For this to be undertaken, the employer is likely to also under-report sales and tax due, producing a fraud against three departments.

There is now a widespread belief that the Data Protection Act does not place the constraints on data matching and data sharing that was once assumed. Scott Bryan, a market intelligence specialist with public sector consultants Kable, says that the factor holding back greater data sharing now is the incompatibility of data storage systems across public bodies, but once this is resolved – and much work is currently taking place to make systems more compatible – then this activity will take off further.

"I think they will share until they get into trouble," suggests Bryan. "But you now have computer programmes that transfer information selectively. This turns the problem on its head. They can then say they will only share on a need to know basis."

Data sharing is already more comprehensive than is publicly recognised, Bryan believes. "When asylum seekers come into the country they are finger printed. I understand the police cross check these records to see if the people have committed any crimes."

#### international focus

PwC's Whiting points out there is also increased information sharing taking place on an international basis. A joint tax avoidance task force has been established, bringing together tax collecting authorities in the UK, the US, Australia and Canada. And many European countries are swapping information on savings held in their countries which enable depositors to avoid tax in their home state.

But while there is frustration amongst tax advisers about the constant change in tax rules, there is widespread sympathy for the drive against evasion and fraud. "As a taxpayer myself, this is good," says Whiting. "A better way of policing the system is in all our interests."

Warburton adds that he will support a more co-ordinated system if it provides real improvements for people who need it, so that people in need find it easier to receive what they are due in benefits and tax credits.

And if that really happens then what is good for the Government should also be good for the citizen. ■

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