



No tax please, we're rich!

By Martin Small
BBC Money Programme

Some of Britain's richest people pay remarkably little tax. A Money Programme special investigates how they do it.

Billionaire retailer Philip Green manages it because his family moved to Monaco.

Arsenal football stars have done it with offshore trusts in Jersey.

Top City traders did it by being paid in gold or wine.

Others do it by taking loans instead of income. And it is all completely legal.

We have met tax advisers who claim to be able to make National Insurance, income tax - and even inheritance tax - vanish.

And we can reveal some of the extraordinary devices top tax professionals have used to slash tax bills for their clients - and themselves.

Some leading accountants even manage to get themselves up to 40% tax relief on their own home loans - while the modest 10% tax relief available for the rest of us was abolished years ago.

Gold, wine, diamonds... and animal skins

Since taxes were first imposed, people have tried to pay as little as they legally can.

But a modern wave of tax avoidance got under way during the boom of the late 1980s.

Many leading financial institutions avoided employers' National Insurance contributions by paying employees' bonuses in gold, rather than cash.

On a £1m bonus, this could save them £100,000 - which could then be shared with the lucky employee.

When the Revenue clamped down on this wheeze, City employers began to pay in a variety of other goods - diamonds, antiques, carpets, fine wines, and even hay and animal skins.

All had the same purpose: to avoid tax.

Accountant Adrian Walker, whose firm Jefferson Wells refuses to get involved in tax avoidance schemes, told the Money Programme that despite the exotic means of payment, it was all very simple for the recipients.

"You get a piece of paper saying that sitting in a bank somewhere is your little stash of gold," says Mr Walker. "You can then take your paper to a bank or a trader, and get it cashed in."

In money we trust

Later, clever accountants came up with other schemes which could save their clients income tax.

Can you be certain the Revenue is not going to come knocking on your door? One of the simplest ways of reducing the tax burden is through paying extra into a pension scheme.

Open University

One popular device was the "employee benefit trust".

Instead of paying bonuses or big salaries directly - which would incur income tax bills - the money would instead be paid through a trust, often offshore.

The trust would then forward the cash in the form of very long term, often interest-free loans. And with loans, there's no tax to pay.

These schemes were called "lend and forget".

Tax is a cancer

The lawyer who claims to have come up with this device, Paul Baxendale-Walker, is proud of the service he offers clients.

"I'm actually helping to cure people of various ills, various cancers," says MR Baxendale-Walker. "Because tax is a cancer that will kill your business if it's not treated. So I see myself as a doctor too."

For HM Revenue and Customs, the latest wave of tax avoidance schemes was the last straw.

Often fiendishly complex, they nevertheless have a simple idea behind them. Accountancy firms sell "losses", to set against clients' incomes.

So with income apparently wiped out, there's no income tax to pay.

But here's the really clever part: the losses are purely artificial - so the clients keep all their income, yet have still avoided income tax bills.

Tax crackdown

These "loss creation" schemes have cost Revenue and Customs - and the country - £2.5bn in avoided taxes.

Britain's tax authorities are trying to crack down.

Dave Hartnett, Revenue and Custom's top tax enforcer, says he aims to make tax avoidance "not worthwhile by 2008".

He has new powers to help him. A new anti-avoidance unit has been set up by Revenue and Customs, and schemes have steadily been closed down.

Most significantly, though, accountants now have to disclose their tax-cutting ploys as soon as they have been offered to clients.

Mr Hartnett has a stern warning for those who choose not to disclose new avoidance schemes: "If people are behaving dishonestly here, then an issue can easily slip across from being a matter of legal avoidance, into one of dishonesty and evasion - and could become a criminal case for us."

But Paul Baxendale-Walker says Revenue and Custom's crackdown could be self-defeating.

If the taxman gets too demanding, wealthy individuals and companies will simply relocate abroad.

"The more they squeeze the pips, then the more that the fruit is simply going to leave the tree."

Roger Munns, who runs a property consultancy, says for people keen on avoiding taxes it will not take long to move to places like Monaco: "The wealth creators, the entrepreneurs, are quick on their feet. They are quick-thinking and they know what to do."

● ***The Money Programme is on Thursday, 2 March, at 2200 GMT on BBC2***

Story from BBC NEWS:

<http://news.bbc.co.uk/go/pt/fr/-/1/hi/business/4763984.stm>

Published: 2006/03/02 00:00:46 GMT

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