National Audit Office

Report
by the Comptroller
and Auditor General

HM Revenue & Customs

HMRC's approach to collecting tax from high net worth individuals

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National Audit Office

HM Revenue & Customs

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Report by the Comptroller and Auditor General

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Sir Amyas Morse KCB
Comptroller and Auditor General
National Audit Office

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This report looks at HM Revenue & Customs' approach to collecting tax from high net worth individuals.

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Contents

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Key information

Figure 1

What this report is about

This report looks at HM Revenue & Customs' (HMRC's) approach to collecting tax from the wealthiest people in the UK

£20 million

Our report covers HMRC's approach to collecting tax from those with wealth of at least £20 million.

6,500

The number of taxpayers HMRC considered to be high net worth individuals at the start of 2015-16.

£4.3 billion

Collected from high net worth individuals in 2014-15.

There are good reasons why tax authorities should focus resources on high net worth individuals

Significant amounts of tax are collected from them.

They often have complex tax affairs.

They have more opportunity to engage in tax planning.

Demonstrating that all taxpayers will face challenge from HMRC if their tax affairs are not in order is **important to maintaining the integrity of the tax system.**

HMRC has identified significant areas of risk for high net worth individuals

HMRC told us that the risks relate primarily to tax avoidance and legal interpretation of complex tax issues

Marketed avoidance
Schemes sold to one or more individual.

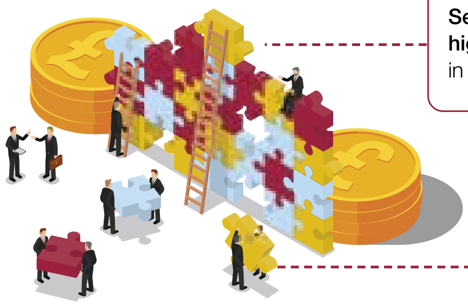
Capital gains tax
Risks include incorrect calculation of the tax due when selling something and incorrect claims for reliefs.

Foreign income
Failure to declare, or declare fully, income that is taxable in the UK but arises overseas.

Residency and domicile
The rules are complicated and there are risks that taxpayers may claim exemptions that they are not entitled to.

Source: National Audit Office

In response to these risks HMRC has



Set up a high net worth unit to focus on high net worth individuals. It was set up in 2009 and has around 380 staff.

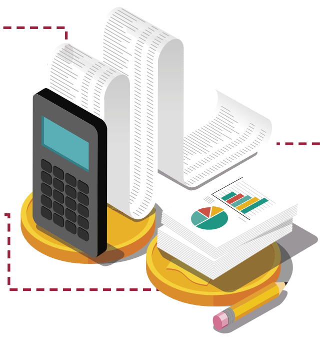
Assigned a customer relationship manager to each high net worth individual.

Where HMRC identifies an issue with a tax return it will open an enquiry

HMRC is currently running a formal enquiry on around a third of high net worth individuals.

HMRC is investigating cases with a potential total value of:

£1.9 billion



£416 million

HMRC's estimate of the financial impact of the high net worth unit's work in 2015-16.

High net worth individuals and high-profile areas of tax

Marketed avoidance

£1.4 billion tax at risk from around **1,000** high net worth individuals (1% of all users of schemes, but 10% of the tax at risk). HMRC is making good progress in tackling the use of marketed schemes.

Offshore evasion

137 high net worth individuals have voluntarily told HMRC about **£141 million** of tax liabilities through the Liechtenstein Disclosure Facility (2% of all disclosures and 11% of total value).

Inheritance tax

HMRC has identified 161 inheritance tax records relating to high net worth individuals' estates between May 2014 and April 2016. Inheritance tax of £183 million has been paid on these 161 estates to date. The final amount due is not yet known.

Summary

Introduction

1 HM Revenue & Customs (HMRC) is responsible for administering the tax system, including managing and reducing risks to the collection of tax revenue. One of its three objectives is to “maximise revenues due and bear down on avoidance and evasion”.

2 HMRC focuses on the people and businesses it considers pose the greatest risk of not paying the correct amount of tax. One such group is high net worth individuals. These are the very wealthiest people in the UK.

3 HMRC considered there to be around 6,500 high net worth individuals at the start of 2015-16. These are people who have a net worth of more than £20 million. Net worth refers to all of the assets a persons owns – such as property, stocks, savings and interests in other entities – less any debts. The threshold at which HMRC considers someone a high net worth individual changed during 2016-17 to a net worth of more than £10 million. For the purposes of this report, where we refer to high net worth individuals we mean those who have a net worth of £20 million or more.

Scope of this report

4 This report examines the issues facing HMRC in dealing with the tax affairs of high net worth individuals. In this report we consider:

- the tax risks posed by high net worth individuals (Part One);
- how HMRC organises its work with high net worth individuals (Part Two);
- how HMRC identifies high net worth individuals and enquires into their tax affairs (Part Three); and
- how HMRC measures the impact of its work (Part Four).

5 We also examine HMRC’s approach to high net worth individuals and:

- marketed tax avoidance schemes (Appendix One);
- offshore tax evasion (Appendix Two); and
- inheritance tax (Appendix Three).

These are areas of HMRC’s work that have been of interest to the Committee of Public Accounts.

6 In future work, we intend to examine HMRC's response to dealing with the tax affairs of affluent individuals. These are people who have an annual income of at least £150,000, or wealth of £1 million or more.

Key points

The tax risks posed by high net worth individuals

7 The amounts of tax revenue that are at stake are significant. HMRC has identified that there are around 6,500 high net worth individuals. These are the very wealthiest people in the UK, and account for roughly 0.02% of all taxpayers. In 2014-15, high net worth individuals paid more than £4.3 billion in tax. This included £3.5 billion in income tax and national insurance, which was 1.3% of the total revenue for those taxes. They also paid £880 million in capital gains tax, which accounted for 15% of all capital gains tax in that year. HMRC does not record other types of tax that are collected, such as inheritance tax, in a way that easily allows it to identify the amounts paid on high net worth individuals' wealth (paragraphs 1.1 to 1.7).

8 High net worth individuals have complex tax affairs. Their wealth can take many forms. It typically includes assets such as property and investment income, and they may have complex business arrangements. Their assets may be located in many different countries, and they generally have more choice over how they manage their income and assets than the average taxpayer. Almost all high net worth individuals use tax agents to manage and advise on their tax affairs. It can be challenging for HMRC to understand their tax affairs and assess if there are any risks to address (paragraphs 1.7 to 1.9 and Figure 6).

9 HMRC is investigating risks from high net worth individuals with a potential value of £1.9 billion. This figure is an initial estimate of the tax that could be due at the start of 2015-16 and covers more than one tax year. Of this, £1.1 billion relates to the use of marketed avoidance schemes; around 15% of high net worth individuals have used at least one scheme. HMRC has identified that the risks from high net worth individuals relate primarily to tax avoidance and the legal interpretation of complex tax issues, rather than tax evasion. HMRC is developing its analysis of the scale and nature of the risks (paragraphs 1.10 to 1.12).

How HMRC has organised its work with high net worth individuals

10 In 2009, HMRC established a specialist unit to manage the tax affairs of high net worth individuals. Before this unit was set up, HMRC’s approach to high net worth individuals was dispersed, with no single part of its business responsible for their tax affairs. HMRC set up the high net worth unit to give it a better understanding of the overall tax position of high net worth individuals and their behaviour. In 2009, the Organisation for Economic Co-operation and Development (OECD) recommended, following consultation with tax authorities including HMRC, that tax authorities set up appropriate structures to administer the tax affairs of high net worth individuals. In 2015, the OECD reported that one-third of countries had done so and around half of G20 countries (paragraphs 2.1 to 2.3 and 2.10).

11 HMRC assigns a customer relationship manager to each high net worth individual. The customer relationship managers are responsible for understanding the risks and behaviours of the people assigned to them. In practice, this means working with that person’s tax agent. Customer relationship managers have a team of staff working with them. Each of the 40 customer relationship managers and their teams are responsible for around 160 taxpayers. The use of customer relationship managers for high net worth individuals is not common in other countries (paragraphs 2.4, 2.10 and Figure 10).

12 HMRC has made organisational changes that are designed to strengthen its understanding of risk. In October 2016, HMRC brought all of its compliance work under one area of its business, called customer compliance. These organisational changes bring together its work with businesses, individual taxpayers and bodies such as trusts. HMRC told us that it hopes they will help strengthen its understanding of high net worth individuals and the links between their personal wealth and the entities with which they are connected. High net worth individuals may have interests across different areas of tax, including businesses and trusts (paragraphs 2.15 and 2.16).

How HMRC identifies high net worth individuals and enquires into their tax affairs

13 It is not straightforward for HMRC to identify high net worth individuals and their tax risks, as most of the information about their wealth does not need to be reported. The UK raises tax on income rather than wealth, except for some disposals or transfers of assets. Taxpayers in the UK are required to complete self-assessment tax returns and disclose taxable income and gains, but not the sources of income or the assets they own. In 2015-16, in preparing to expand the high net worth unit, HMRC undertook an exercise to identify people with a net worth of more than £10 million. This brought an extra 1,000 people with net worth of more than £20 million into the high net worth unit, in addition to the 6,500 that HMRC already knew about (paragraphs 3.2 and 3.4).

14 HMRC is currently running a formal enquiry on around a third of high net worth taxpayers, with an average of four issues being examined per taxpayer. Where HMRC does not understand or agree with the position taken by a taxpayer it will open a formal enquiry. Customer relationship managers use the understanding of individual taxpayers they have developed over time to identify taxpayers at risk of misstating their tax affairs. They aim to resolve issues before the taxpayer submits their tax return. New information may trigger a reassessment of risks. Where customer relationship managers identify a tax risk that cannot be easily resolved, they will open a formal enquiry. These enquiries can take a long time to resolve; 6,000 issues under enquiry have been open for more than 18 months, 4,000 of which have been open for more than three years (paragraph 3.6 and Figure 17).

15 HMRC prioritises the recovery of tax where it identifies fraud and uses civil investigations in the majority of cases. Where high net worth individuals are suspected of tax fraud, their case is passed to a specialist team within HMRC which examines whether the evidence is sufficient to merit a criminal, rather than civil, investigation. In the last five years, HMRC has investigated and closed 72 cases relating to high net worth individuals. Of these, 70 were investigated with civil powers. Two cases were criminally investigated. These cases were passed to the Crown Prosecution Service, and one was taken forward and successfully convicted. At October 2016 HMRC was criminally investigating a further 10 high net worth individuals. HMRC has a target to increase to 100 the number of prosecutions of wealthy individuals and corporates made each year by 2020. There is no expectation for how many additional high net worth individuals will be prosecuted (paragraphs 3.10 to 3.12 and Figure 14).

How HMRC measures the impact of its work

16 HMRC recorded yield of £416 million in 2015-16 from the work of the high net worth unit. This is an increase from £200 million in 2011-12, and exceeds HMRC's internal target of £260 million in 2015-16. High net worth individuals are a relatively small population and the trend in yields can fluctuate due to a small number of one-off but high-value cases. In addition to the work of the high net worth unit, since 2009 HMRC has recorded yield from high net worth individuals of around £450 million. Around half of this – £230 million – has come from its work in tackling marketed avoidance schemes and around £140 million from the use of offshore disclosure facilities. A further £80 million relates to civil fraud investigations since 2011 (paragraphs 4.2 to 4.4 and 4.7).

17 HMRC has developed its approach over time. HMRC initially focused on getting a better understanding of the circumstances of high net worth individuals. This meant each taxpayer was subject to the same level of review. It has since refined its approach to become increasingly focused on the riskiest taxpayers. HMRC is also developing its understanding of the characteristics of the high net worth population. It has identified events that might happen during a person's life that present a particular risk. It has started to bring together its internal data on high net worth individuals to improve its understanding of the population as a whole. We think it could usefully build on this analysis by considering what external data could help it to predict how the very wealthy might respond to changing economic and market conditions (paragraphs 2.12 to 2.14 and 4.11).

18 HMRC has not evaluated its approach to high net worth individuals. HMRC has taken as indicators of success the yields from its work, feedback from tax agents and indicators of changes in behaviour, such as fewer late self-assessment returns. It has not, however, looked at what works and why in its current approach. It could use such analysis to increase the impact of its work. While the OECD has recommended that tax authorities focus resources on high net worth individuals, there are choices to be made about how to do this. We outline some of these in **Figure 2** (paragraphs 4.2, 4.8 and 4.10).

Concluding comments

19 Assessing the correct amount of tax owed by high net worth individuals is a challenge for all tax authorities. The tax affairs of the wealthiest in society are complex, making it harder for tax authorities to ensure that they are paying the right amount of tax. HMRC has a dedicated team to handle the tax affairs of high net worth individuals, which is a sensible approach given the tax at stake, and follows the best-practice advice of the OECD. It has allowed HMRC to get a better understanding of the tax affairs and behaviours of these taxpayers, and the yields from HMRC's work in this area have increased. HMRC has now aligned the work of the high net worth unit more closely with other parts of its business that focus on compliance risk. This change should help HMRC increase the expertise it brings to bear in identifying and challenging the behaviour of the wealthiest taxpayers where they do not comply with HMRC's interpretation of tax law.

20 We see potential for HMRC to increase its effectiveness in this area by analysing its experience to date and by triangulating its knowledge of individual taxpayers with wider economic data which might indicate how this group of taxpayers could be expected to behave. HMRC is expanding the high net worth unit based on the yield it has delivered, but has not yet evaluated which approaches that are used within the unit are most effective. Such analysis could help the unit to maximise the benefit it achieves from its resources. HMRC should therefore do more to identify what works within its approach to high net worth individuals and to understand the outcomes it achieves. It should also consider whether it could usefully supplement its focus on individuals with a broader economic analysis, which would help it to predict how changes in asset values and profitability, for example, might influence the behaviour of this taxpayer group.

Figure 2

Issues for a tax authority to consider in developing an approach to high net worth individuals

Issue	Possible approaches	Approach taken by HMRC
How should the high net worth population be defined for administration purposes?	The population could be defined by a minimum level of income and/or wealth. Other criteria may be used so that there is a focus only on those with the most complex affairs, or on taxpayers with particular characteristics.	HMRC has used a minimum threshold of wealth.
What role and responsibility should a unit focusing on high net worth individuals assume?	The unit could focus on: research and intelligence-building on the high net worth population; assessing tax returns for risks; compliance checks; or all of these.	HMRC's high net worth unit focuses mainly on assessing tax returns and compliance checks.
Should taxpayers and their advisers be given a named contact?	A named contact can help build trust and allow the tax authority and the individual taxpayer to develop a relationship, which may improve voluntary compliance. With a named contact, the tax authority would need to manage the risk of taxpayers not being open about their affairs, and any public perception that the wealthy received special treatment.	HMRC provides each high net worth taxpayer with a customer relationship manager.
What taxes relating to high net worth individuals should be included?	The focus could be on income tax, or include other taxes such as inheritance tax. Including a wider range of taxes will give a more complete picture of an individual's tax affairs, but may require greater specialism within the unit.	HMRC's high net worth unit focuses on personal taxes. HMRC manages inheritance tax in a different part of its business.
Should the unit also be responsible for entities controlled by a high net worth individual?	High net worth individuals will often have a significant interest or control in businesses and other entities such as trusts and charities. The tax authority could: deal with the administration of these separately; share risk assessments across the different parts of its business; or have one part of its business responsible for all connected entities.	HMRC deals with these outside of the high net worth unit. These parts of the business will work together on issues they have identified as relevant to the tax affairs of the individual and the related entity.
Should the unit include family members of high net worth individuals?	Including a high net worth individual's family members could give a more rounded picture of how they manage their wealth within their family.	HMRC includes family members on a case-by-case basis.

Source: National Audit Office

Part One

The tax risks posed by high net worth individuals

1.1 Collecting tax from the wealthiest in society presents a challenge to tax authorities around the world. A significant proportion of tax revenues are collected from these people, but their tax affairs tend to be complex, which can make it more difficult for tax authorities to assess the tax that they owe.

1.2 HM Revenue & Customs (HMRC) refers to the wealthiest people in the UK as high net worth individuals. Net worth refers to all the assets a person owns – such as property, stocks, savings and interests in other entities – less any debts. Until recently, HMRC defined a high net worth individual as someone with wealth of more than £20 million. At the start of 2015-16, HMRC considered there to be around 6,500 people who met this definition, which is roughly one in every 5,000 taxpayers (0.02%). HMRC now defines a high net worth individual as someone with wealth of more than £10 million. We discuss the change in the definition of high net worth in Part Four. When we refer to high net worth individuals in this report, we mean those with wealth of more than £20 million, unless stated otherwise.

1.3 This part examines:

- why tax authorities focus attention on high net worth individuals; and
- HMRC's assessment of the risks and losses from high net worth individuals.

Why tax authorities focus attention on high net worth individuals

1.4 In 2009, the Organisation for Economic Co-operation and Development (OECD) identified four reasons why a tax authority might choose to focus on high net worth individuals. These are:

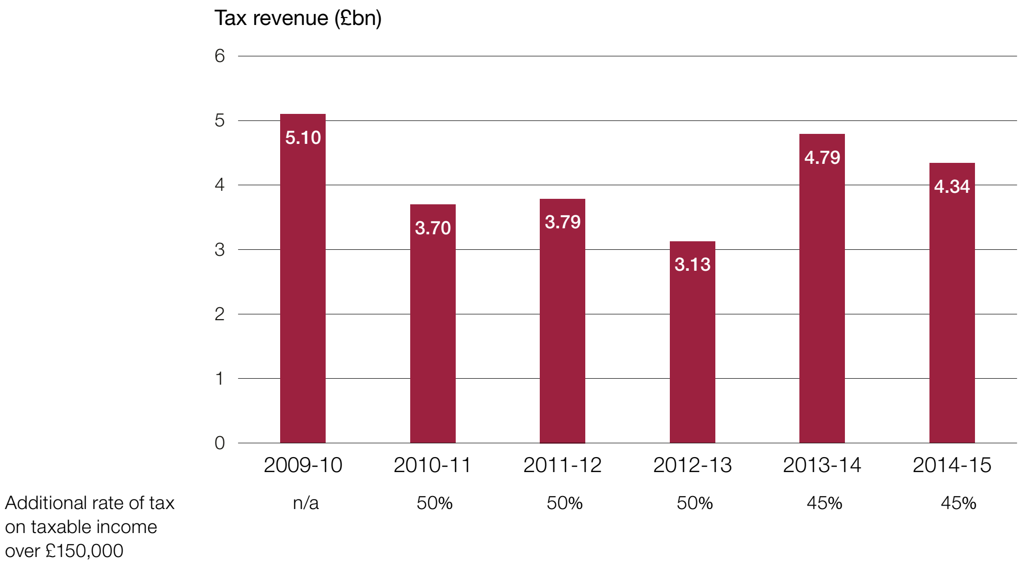
- the tax revenue raised;
- the complexity of their tax affairs;
- the opportunity for non-compliance; and
- maintaining the integrity of the tax system.

1.5 HMRC raises a significant amount of tax revenue from high net worth individuals. **Figure 3** shows the income tax, national insurance and capital gains tax revenue declared by high net worth individuals in their self-assessment returns from 2009-10 to 2014-15. In 2014-15 – the latest tax year for which data are available – high net worth individuals paid £4.3 billion in tax.[1] This included £3.5 billion in income tax and national insurance, accounting for 1.3% of the total for those taxes. They also paid around £880 million in capital gains tax, which accounted for 15% of all capital gains tax in that year. **Figure 4** overleaf and **Figure 5** on page 15 show the percentage of these taxes paid by high net worth individuals over time.

Figure 3

Personal tax revenues from high net worth individuals, 2009-10 to 2014-15

The amount of income tax, national insurance and capital gains tax paid by high net worth individuals each year has varied between £3.1 billion and £5.1 billion



Notes

1 The types of tax included are income tax, national insurance contributions and capital gains tax.

2 HMRC told us that the revenue collected in this period was influenced by economic factors and changes in tax rates. HMRC's analysis of income tax liabilities over this time has found that the tax paid on income over £150,000 is: higher than it would otherwise have been in 2009-10 as people brought forward income to that year; lower than it would otherwise have been following the introduction of the 50% rate between 2010-11 and 2012-13; and higher again in 2013-14 – when the rate was reduced to 45% – as people delayed income from previous years.

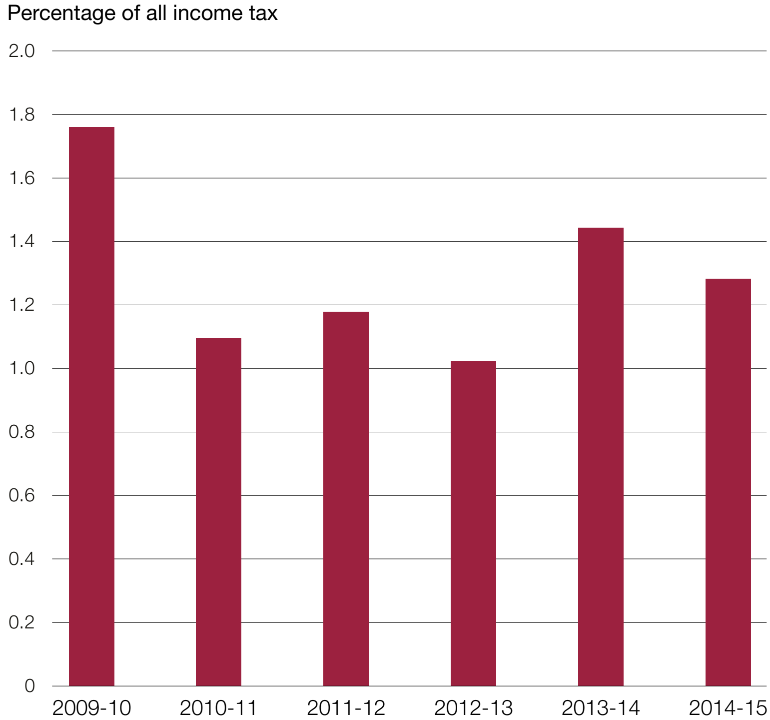
Source: National Audit Office analysis of HM Revenue & Customs data

1 The deadline for filing self-assessment returns for the 2015-16 tax year is 31 January 2017. HMRC therefore does not yet know the full liability for that tax year.

Figure 4

Percentage of total income tax that was paid by high net worth individuals, 2009-10 to 2014-15

The percentage of total income tax paid by high net worth individuals has varied from 1% to 1.8%[1]



	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
Income tax paid by high net worth individuals (£bn)	4.4	2.8	3.0	2.6	3.9	3.5
Total income tax (£bn)	250.1	255.7	254.7	254.2	270.3	272.9
Percentage paid by high net worth individuals (%)	1.8	1.1	1.2	1.0	1.4	1.3

Note

1 Income tax, national insurance and student loans.

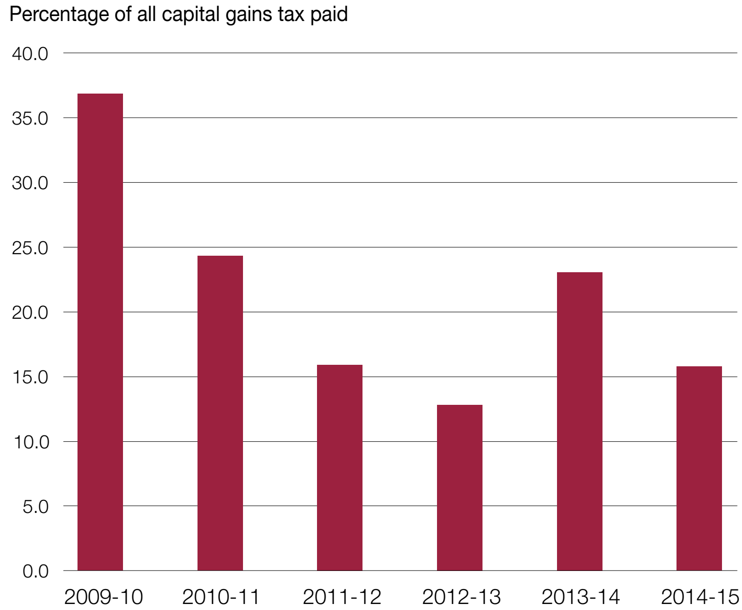
Source: National Audit Office analysis of HM Revenue & Customs data

1.6 The amount of tax collected varies from year to year, in response to changes in tax rates and wider economic factors. It does not include other taxes paid by high net worth individuals, such as inheritance tax. HMRC does not hold inheritance tax data in a way that makes it easy to identify high net worth individuals. It also does not include the additional tax revenue collected following HMRC's compliance interventions. HMRC has no single estimate for the additional revenue it collected from high net worth individuals because this is recorded in different systems by various teams across HMRC.

Figure 5

Percentage of total capital gains tax that was paid by high net worth individuals, 2009-10 to 2014-15

The percentage of total capital gains tax paid by high net worth individuals has varied from 13% to 37%



	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
Capital gains tax paid by high net worth individuals (£bn)	0.7	0.9	0.7	0.5	0.9	0.9
Total capital gains tax (£bn)	1.9	3.7	4.4	3.9	3.9	5.7
Percentage paid by high net worth individuals (%)	36.8	24.3	15.9	12.8	23.1	15.8

Source: National Audit Office analysis of HM Revenue & Customs data

1.7 As well as the tax revenue paid by high net worth individuals, the OECD identified a further three reasons that justify a tax authority focusing on high net worth individuals. These are outlined in **Figure 6** overleaf.

1.8 Most high net worth individuals hold a diverse range of assets, in different locations, to manage the risks attached to different forms of investment. This tends to make their tax affairs more complex.

1.9 HMRC uses the information reported by high net worth individuals on their self-assessment returns to calculate what tax they owe. If HMRC believes the information reported is incorrect or incomplete, it will open an enquiry into the tax return. High net worth individuals account for a significant amount of all tax collected through self-assessment – 9% in 2014-15.

Figure 6

Reasons tax authorities might choose to focus on high net worth individuals

In addition to the amount of tax paid by this group, the OECD identified three further reasons

Complexity of their tax affairs	The tax affairs of high net worth individuals are typically more complex than those of the general population. Wealth takes many forms and is not limited to earnings from employment. It includes: assets such as property; income from savings; and capital such as the value of shares. High net worth individuals may also have complex business arrangements or an interest in trusts. These may be located across multiple countries. Tax authorities need to understand the relationship between the individual, their assets, the entities they control and the sources of income.
Opportunity for non-compliance	High net worth individuals generally have more choice about how they manage their income and assets than other taxpayers. They have more opportunity to engage in tax planning and to make use of tax incentives and reliefs. Tax authorities need to assess whether an individual's tax planning has resulted in a position that they will want to challenge because of tax avoidance, evasion or differences of legal interpretation.
Maintaining integrity of the tax system	The OECD points to the perception in many countries that those with the greatest wealth pay the least tax. This may not be the case, but "does demonstrate the enhanced scrutiny which the public expect for the high net worth individual segment. …[A tax authority] must therefore demonstrate that its tax system is fair and that its compliance strategy equally applies to the high net worth individual segment".

Source: National Audit Office analysis of Organisation for Economic Co-operation and Development, *Engaging with High Net Worth Individuals on Tax Compliance*, May 2009

HMRC's assessment of the risks and losses from high net worth individuals

1.10 At the start of 2015-16, HMRC's staff had identified risks from high net worth individuals with a value of £1.9 billion. This figure is an estimate of the tax that could be due from open enquiries into high net worth individuals after a risk has been identified. It covers more than one tax year and includes enquires that have been open for many years. Of this estimate, £1.1 billion relates to the use of marketed avoidance schemes. After HMRC has examined the risks more closely not all of the £1.9 billion will result in tax being owed. HMRC reviewed the value of settled risks over the last six months and identified that around two-thirds of the original estimate of the tax was in fact due.

1.11 HMRC is developing its analysis of the scale and nature of the most significant risks to tax collection which its compliance activities do not currently address. Since 2013-14, HMRC has assessed what its biggest non-compliance risks are in its strategic picture of risk. This brings together HMRC's data, intelligence and economic analysis to give a detailed view of risks across different taxpayer groups. HMRC assesses the risks from high net worth individuals within a wider taxpayer group of wealthy individuals. This consists of around 550,000 taxpayers who have wealth of more than £1 million or income of more than £150,000 a year. The risks identified for wealthy individuals have the potential to lead to around £2 billion in lost tax revenue. As HMRC includes high net worth individuals within this wider group for its analysis, it does not have an estimate of potential losses from high net worth individuals.

1.12 HMRC told us the risks from high net worth individuals are primarily due to tax avoidance and the way tax law is interpreted. Tax avoidance involves bending the rules of the tax system to gain a tax advantage that Parliament never intended. It involves operating within the letter – but not the spirit – of the law. Differences of legal interpretation occur where HMRC has a different view to the taxpayer on how the law applies to a specific, and often complex, transaction. High net worth individuals will typically have taken professional advice before entering into these transactions.

1.13 We asked HMRC to identify for us the most significant risks relating to high net worth individuals. These are shown in **Figure 7**.

Figure 7

Significant areas of risk relating to high net worth individuals

Area of risk	Description
Marketed avoidance	Marketed tax avoidance schemes are those that are sold to one or more individuals. They typically involve contrived, artificial transactions that serve little or no purpose other than to produce a tax advantage. Taxpayers who invest in these schemes will usually claim an associated tax relief for the investments.
Capital gains tax	High net worth individuals have the highest number of taxable capital transactions in the self-assessment population. Capital gains tax risks relate to a wide range of assets including land and property, shares, and attribution of capital gains from non-resident trust transactions. The types of risks include calculation of the tax liability, making incorrect deductions or claims for expenses and reliefs, and incorrect use of capital losses to reduce the liability.
Non-disclosure of foreign income	This risk arises from failure to declare, or declare fully, income that is taxable in the UK but arises overseas, for example income from non-resident trusts.
Incorrect claims to residency and domicile status	The residence and domicile status of a taxpayer affects how much of their income and gains are liable for tax in the UK. Risks include incorrect declarations of non-residence in the UK and incorrect claims to non-UK domicile.

Source: National Audit Office analysis of HM Revenue & Customs information

Non-domiciled high net worth individuals

1.14 People who live in the UK but whose permanent home is outside of the UK are commonly referred to as 'non-doms'. They are typically foreign nationals who are living in the UK but do not intend to spend the rest of their life there. However, there are circumstances in which a UK-born resident can be a non-dom. HMRC has identified around 700 high net worth individuals who are non-doms.

1.15 There are rules specific to non-doms that can affect the amount of tax they pay. People resident in the UK will typically pay UK tax on their income and gains whether these occur in the UK or elsewhere in the world. Non-doms can choose to only pay tax on their worldwide earnings if they are brought into the UK, but will pay tax on their UK income and gains. The charge for doing this is between £30,000 and £90,000 a year depending on how long the person has lived in the UK.

1.16 HMRC has identified risks associated with non-doms. These include claims to non-dom status that HMRC disagrees with, and attempts to bring money into the UK without paying the tax that is due. The government has announced that the tax rules for non-doms will change, ending non-dom status for individuals who have lived in the UK for long periods of time.

Part Two

How HMRC organises its work with high net worth individuals

2.1 In 2008 and 2009, the Organisation for Economic Co-operation and Development (OECD) carried out focus groups with tax authorities, including HM Revenue & Customs (HMRC), on engaging with high net worth individuals on tax compliance. It recommended that tax authorities set up an appropriate structure for collecting tax from high net worth individuals. It also encouraged tax authorities to consider setting up pilot programmes to explore strategies that rely on the cooperation of the taxpayer to volunteer relevant information and that aim to influence their behaviour. This part describes:

- HMRC's high net worth unit;
- the use of customer relationship managers;
- international comparators and stakeholder views; and
- how HMRC's approach has evolved.

HMRC's high net worth unit

2.2 Before 2009, HMRC's approach to high net worth taxpayers was dispersed, with no single part of its business having an overview of their tax affairs. HMRC thought this group of taxpayers contributed a significant proportion of tax revenue, but did not know who the taxpayers were, the value of their tax liabilities or how much tax they paid each year. It concluded that its lack of understanding of this group affected its ability to communicate effectively with them, influence their behaviour to improve compliance and provide evidence for policy decisions.

2.3 Following the OECD's report, HMRC set up the high net worth unit to develop a better understanding of the tax and financial position of individuals with a net worth of more than £20 million, and improve its ability to identify and tackle tax risks. The high net worth unit is the focal point for HMRC's work with high net worth individuals and the assessment of their tax affairs. **Figure 8** overleaf shows the number of high net worth individuals identified by HMRC, as well as the staff numbers in the unit, for the last five years. The budget for the high net worth unit has remained relatively constant: around £15 million a year in staff salary costs.

Figure 8

Number of high net worth taxpayers identified by HMRC and number of staff in the high net worth unit, 2011-12 to 2015-16

Year	Number of taxpayers with wealth of more than £20 million[1]	Number of staff in the high net worth unit[2]
2011-12	5,900	350
2012-13	6,300	380
2013-14	6,400	420
2014-15	6,500	380
2015-16	6,500	380

Notes

1 Rounded to nearest hundred.

2 Rounded to nearest ten.

Source: National Audit Office analysis of HM Revenue & Customs data

HMRC assigns a customer relationship manager to each high net worth taxpayer

2.4 HMRC assigns a named contact to each high net worth taxpayer. This contact deals with their tax affairs. HMRC calls these customer relationship managers. In practice, they work with tax agents, rather than the individuals themselves, as almost all high net worth individuals use a tax agent to handle their tax affairs. The customer relationship managers and their teams are responsible for building an understanding of each taxpayer's affairs and behaviours. They develop their understanding using HMRC's information on the taxpayer's activities and compliance record, as well as through discussion with tax agents and reviewing third-party data.

2.5 The customer relationship managers aim to work with taxpayers to resolve issues before they submit their tax return. They do this through discussions with the individual or their tax agent about their activities. The customer relationship managers draw on expertise from across HMRC to help with complex technical issues. The relationship that customer relationship managers are able to develop allows greater opportunity to influence taxpayers and encourage them to comply with the tax rules without the need to open an enquiry.

2.6 This approach means that high net worth individuals are subject to a high level of scrutiny from HMRC, but in return receive an increased level of customer service. **Figure 9** sets out some of the things that a customer relationship manager can and cannot do.

Figure 9
What a customer relationship manager can and cannot do

A customer relationship manager can:

- be contacted directly by phone, post or email by the taxpayer;
- discuss HMRC's likely position on a specific issue or approach before a taxpayer enters into a particular activity, in order to avoid the cost of a potential future enquiry once a tax return is submitted;[1]
- visit a taxpayer or their agent in person to help build a relationship and understand more about their tax affairs;
- work cooperatively with a taxpayer and their agent to understand issues in real-time and encourage tax planning that corresponds with HMRC's interpretation of tax law;
- issue early certainty letters to a taxpayer following a review of their tax return to let them know they will not be subject to an enquiry; and
- undertake enquiries into customers' tax returns and challenge where appropriate.

A customer relationship manager cannot:

- give a taxpayer advice on their approach to tax or structures they could use;
- accept hospitality or gifts from a taxpayer; and
- provide a guarantee to a taxpayer, before reviewing their tax return, that they will not be subject to an enquiry if they are cooperative in their dealings with HMRC.

Note

1 In addition, HMRC can give formal advance clearance to taxpayers, for example individuals claiming business investment relief. This tax relief is available to non-UK domiciled and UK resident taxpayers who are taxed on the remittance basis in the UK. It allows taxpayers to remit their offshore income and gains to the UK tax-free in order to invest in qualifying UK investments. HMRC will provide advanced clearance if qualifying conditions are met. In other circumstances, HMRC can set out its position but not provide clearances to a taxpayer.

Source: National Audit Office analysis of HM Revenue & Customs information

2.7 HMRC recognises the risk that over time a relationship with a taxpayer may become too close. If this were allowed to happen, it could result in a high net worth taxpayer not being challenged or inappropriate resolutions to disputes being agreed. HMRC has taken steps to manage and reduce this risk. It rotates taxpayers between different teams so they do not have the same customer relationship manager permanently. **Figure 10** overleaf outlines further ways in which HMRC has sought to reduce this risk.

2.8 It is important that tax authorities also address the perception that some taxpayers might get special treatment. The OECD identified this as one of the reasons for tax authorities to focus on high net worth individuals. The OECD says that a tax authority should demonstrate that its tax system is fair and that its compliance strategy equally applies to high net worth individuals.

Figure 10

Steps HMRC has taken to minimise the risk of a relationship with a taxpayer becoming too close

Customer relationship managers work in teams

The team members each have a role in examining the tax returns.

There are three customer relationship managers in each team and another 17 staff of different grades. On average, each of the 40 customer relationship managers, and their wider teams, deal with the tax affairs of around 160 high net worth individuals.

Customer relationship managers do not manage the other team members.

The customer relationship manager is not solely responsible for key decisions

The customer relationship manager is not solely responsible for signing off key decisions. The team's decision about whether to open an enquiry into a tax return, or whether further action is required, is signed off by a member of staff outside that team.

Random review of cases where no enquiry has been opened

A random sample of cases is undertaken each year of decisions not to open an enquiry into an individual's tax return.

Staff with significant involvement in agreeing a settlement cannot also approve it

Disputes with a taxpayer must be handled in line with HMRC's rules in settling cases. Customer relationship managers who have had a significant role in the enquiry cannot also approve the settlement.

Source: National Audit Office

2.9 HMRC first used customer relationship managers with large businesses. It based its approach to high net worth individuals on this model because of the similarities between these groups of taxpayers. We have set out some of the similarities and differences between high net worth individuals and large businesses in **Figure 11**.

International comparators and stakeholders' views

2.10 Most tax authorities have taken a different approach from HMRC. The OECD's 2015 tax administration report surveyed 56 tax authorities about aspects of their tax systems, including the approach adopted for administering high net worth taxpayers.[2] **Figure 12** on page 24 shows that around a third of the bodies surveyed have a dedicated unit for high net worth individuals. Around half of the G20 countries have a dedicated unit. Fewer countries assign customer relationship managers to high net worth individuals as HMRC has done. We surveyed five countries where the tax authority has a high net worth unit: Australia, Canada, Ireland, Netherlands and the United States. Of these, only the Netherlands adopted a similar approach to HMRC.

2 Organisation for Economic Co-operation and Development, *Tax Administration 2015, comparative information on the Organisation for Economic Co-operation and Development and other advanced and emerging economies*, August 2015.

Figure 11
Similarities and differences between the tax affairs of high net worth individuals and large businesses

Similarities between high net worth individuals and large businesses

Revenue contribution: They pay significant amounts of tax.

Complexity: They are likely to have complex tax affairs.

Taxes paid: They may need to pay several different types of tax.

International operations: They are more likely to have an international dimension to their activities.

Differences between high net worth individuals and large businesses

Public reporting: Large businesses have to produce published information, such as annual accounts. High net worth taxpayers will often place a high premium on privacy.

Internal governance and oversight: Large businesses have formal governance structures, such as an audit committee and non-executive directors. There are no equivalent structures for high net worth individuals.

External scrutiny: Most large businesses are subject to statutory external audit requirements and checks to ensure they have adhered to statutory frameworks such as Companies Act accounting standards. Such checks do not apply to high net worth individuals.

Accountability: Large businesses are accountable to their shareholders for their decisions and performance. High net worth individuals act on their own behalf.

Source: National Audit Office analysis of Organisation for Economic Co-operation and Development and HM Revenue & Customs information

2.11 We held focus groups with tax agents to understand their perspective of working with HMRC on matters relating to high net worth individuals. Their views are shown in **Figure 13** on page 25.

The high net worth unit's approach to risk has changed over time

2.12 When the high net worth unit was set up it focused most on improving its relationship with the taxpayers and influencing their behaviours. HMRC needed to build a picture of what risks individuals posed. It initially adopted a one size fits all approach, whereby each taxpayer was subject to the same detailed risk assessment each year. This case-by-case approach was resource-intensive and did not distinguish between the differing levels of complexity and attitudes towards compliance of taxpayers.

Figure 12

Tax administrations with a dedicated unit to manage the tax affairs of high net worth individuals

One-third of countries surveyed by the OECD have a dedicated unit

Tax authority has a dedicated unit	Number of countries	Percentage of respondents	Countries
Yes	19	34	Argentina, Australia, Brazil, Canada, Chile, Costa Rica, France, Greece, Indonesia, Ireland, Japan, Malaysia, New Zealand, Portugal, Romania, South Africa, Spain, United Kingdom, United States of America
No	37	66	Austria, Belgium, Bulgaria, China, Colombia, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, Germany, Hong Kong, Hungary, Iceland, India, Israel, Italy, Latvia, Lithuania, Luxembourg, Malta, Mexico, Morocco, Netherlands, Norway, Poland, Russia, Saudi Arabia, Slovakia, Slovenia, Singapore, South Korea, Sweden, Switzerland, Thailand, Turkey
Total	**56**	**100**	

Note

1 The Netherlands has recently set up a dedicated unit focusing on high net worth individuals, but had not done so at the time of the OECD's survey.

Source: The Organisation for Economic Co-operation and Development, *Tax Administration 2015, comparative information on the Organisation for Economic Co-operation and Development and other advanced and emerging economies*, August 2015

2.13 During 2013-14, HMRC sought to develop a more risk-based approach and started to consider risks across the whole population of high net worth individuals. This allowed customer relationship managers to move from approaching all high net worth individuals in a similar way, to focusing their efforts and resources on those assessed as having the riskiest tax affairs. HMRC developed ways of bringing together the taxpayer information held by customer relationship managers with other internal and external data sources.

2.14 HMRC has also developed its understanding of the high net worth population. It has segmented these taxpayers by the nature of their wealth. It has also identified particular lifetime events that present a particular risk, for example wealthy business owners planning for business succession and their retirement. This approach enables HMRC to improve its risk assessment of high net worth taxpayers, communicate in a more effective and timely way and target its resources most appropriately.

Figure 13

The views of tax agents who work with high net worth individuals

“It is good to have the ability to pick up the phone and discuss issues with a customer relationship manager.

Some, but not all, customer relationship managers have an in-depth understanding of how rich people manage their commercial affairs and their tax structures.

There is a big contrast between the high net worth unit and the rest of HMRC.”

Tax agents on dealing with the high net worth unit

“Conversations with customer relationship managers help us to know where the boundaries lie [in how HMRC will interpret tax rules]. The quality of challenge is high and they are more likely to focus on what is relevant.

Good customer relationship managers contact us before starting an enquiry. This is an opportunity to fill in gaps, clear up misunderstandings and it can save a lot of time and money on both sides.

HMRC's approach is too focused on avoidance.

Some of their enquiries are disproportionate. They will pursue an enquiry endlessly when there is nothing there.

HMRC need to decide whether they need all high net worth taxpayers to be managed by the high net worth unit as not all of them have complex affairs.”

Tax agents on the approach taken by HMRC

“High net worth individuals pay a great deal of tax. The vast majority of our clients comply fully with tax law.

Our clients want to avoid anything that could harm their public image and they just want to know what their tax liabilities are/will be.

Non-doms like to keep their personal affairs confidential, often for reasons other than tax. This can make it hard for their agents and HMRC to get a full picture.

HMRC often underestimates how difficult it is to get information out of clients. A lot of them are busy running businesses.

Some of our clients feel that HMRC is always suspicious and isn't interested in helping them to grow their business.”

Tax agents on their high net worth clients

Source: National Audit Office

HMRC’s organisational changes

2.15 HMRC began to reorganise its business in October 2016. The new structure brings together compliance work for all customer groups into one business area. This customer compliance group is organised by different types of customers. The high net worth unit sits within the wealthy and mid-sized business team.

2.16 The reorganisation should allow HMRC to build closer working relationships between teams that deal with issues related to high net worth individuals. The customer compliance group has brought the high net worth unit into the same part of HMRC which administers the tax affairs of large businesses, trusts and inheritance tax. High net worth individuals may have an involvement across these different areas of tax. HMRC told us that it hopes the organisational changes will help to strengthen its understanding of the taxpayers it regards as wealthy and the links between their personal wealth and the entities with which they are connected.

Part Three

How HMRC identifies high net worth individuals and enquires into their tax affairs

3.1 This part looks at:

- how HM Revenue & Customs (HMRC) identifies high net worth individuals; and
- how HMRC enquires into a high net worth individual's tax affairs.

How HMRC identifies high net worth individuals

3.2 People do not need to report their wealth to HMRC. The UK raises tax on income, rather than wealth, except for some disposals or transfers of assets. Taxpayers in the UK who complete self-assessment tax returns must disclose taxable income and gains, but not the source of income or assets that they own.

3.3 This means that HMRC must work to identify potential high net worth individuals. To do this, it uses internal and external sources, such as tax returns and details of land and property sales. Typically, new high net worth individuals are identified from referrals by other parts of HMRC to the high net worth unit. Others may come to light through local or national media reports.

3.4 In 2016, HMRC carried out an exercise to identify people with wealth of between £10 million and £20 million. This was in advance of extending the high net worth unit to include taxpayers with a net worth of more than £10 million. This exercise initially identified 40,000 people with wealth of more than £10 million. HMRC reviewed this list and applied criteria to remove people it did not think should be included, such as people whose net worth had fallen below the £10 million threshold during the last three years. This reduced the number of people it considered it should manage within the unit from 40,000 to 2,000. In addition to this HMRC identified 1,000 taxpayers – on top of the 6,500 it already knew about – with wealth of more than £20 million whose tax affairs should already have been dealt with by the high net worth unit. HMRC has now assigned a customer relationship manager to these taxpayers.

3.5 The government announced in the 2015 Summer Budget that it would consult on increasing the amount of information that wealthy individuals and trustees are required to report to HMRC. Some tax authorities in other countries already require high net worth individuals to report more information. For example, in Australia high net worth individuals can be asked to report additional information in an extended tax return; and in Japan wealthy individuals must submit a statement of their assets and liabilities.

How HMRC enquires into a high net worth individual's tax affairs

3.6 Where HMRC disagrees with the position taken by a taxpayer and there is tax at stake, it can open an enquiry into their tax affairs. Around a third of the high net worth unit's customers are currently subject to an enquiry. These enquiries may involve a single identified issue or several; on average four issues are considered per taxpayer under enquiry.

3.7 Customer relationship managers work with other parts of HMRC on particular enquiries. They may draw on the support of technical experts across HMRC for advice. There are some issues where other parts of HMRC have an important role in providing advice and guidance, such as tackling marketed avoidance schemes, offshore evasion and inheritance tax. We cover each of these areas in detail in Appendices One to Three.

3.8 The high net worth unit deals with the tax affairs of many entrepreneurs and business leaders; the large business directorate uses a customer relationship manager approach with the UK's 2,000 largest businesses. The high net worth unit works with HMRC's large business directorate where the taxpayer groups overlap. The high net worth unit and large business directorate exchange relevant information on specific risks and discuss particular taxpayer behaviours that are relevant to both personal tax and business tax risks.

3.9 If, as a result of an enquiry, HMRC identifies a careless inaccuracy, it can issue a penalty to the taxpayer. From 2012-13 to 2015-16, the high net worth unit issued nearly 850 penalties to high net worth individuals. These totalled £9 million, with an average value of around £10,000 per penalty. Of these, around 380 penalties with a total value of £4.5 million were suspended, in line with rules that allow HMRC to suspend penalties where suspension would help encourage taxpayers to avoid similar penalties in the future. This involves HMRC setting conditions for the taxpayer to follow, such as recording investment income regularly throughout the year to help ensure the tax return is completed accurately at the year-end. If these conditions are not met then HMRC will impose the penalty.

3.10 Where an enquiry identifies suspected fraud by a high net worth taxpayer the case must be referred to HMRC's Fraud Investigation Service. Each case will be considered for criminal investigation. Where HMRC believes there is insufficient evidence to prove a criminal offence has been committed, it can carry out a civil investigation to recover the unpaid tax and interest, and charge penalties. **Figure 14** shows the results of cases referred to the Fraud Investigation Service by the high net worth unit since 2011-12 that have resulted in a civil enquiry and settlement.

Figure 14

High net worth unit cases subject to civil investigation by the Fraud Investigation Service, 2011-12 to 2015-16

Since 2011-12, the Fraud Investigation Service has closed 70 civil cases involving high net worth individuals

Year of settlement	Cases closed	Compliance yield (£m)	Cases where a penalty was charged	Value of penalties charged (£m)
2011-12	8	3.9	5	0.3
2012-13	7	21.6	7	4.9
2013-14	26	25.2	18	4.8
2014-15	13	17.4	7	1.3
2015-16	16	12.8	7	1.2
Total	**70**	**80.9**	**44**	**12.5**

Note

1 Compliance yield includes the value of penalties charged.

Source: HM Revenue & Customs

3.11 HMRC gathers evidence against people but does not prosecute them itself.[3] It is the prosecuting authorities who decide whether to prosecute a case, based on the strength of evidence and whether a prosecution is in the public interest. Since 2009, two cases involving high net worth individuals have been passed to the Crown Prosecution Service. One case was taken up by the Crown Prosecution Service and successfully prosecuted. This was for inheritance tax evasion and was connected to the data about account holders that was leaked from HSBC's Swiss bank. These data showed that the taxpayer had made false statements about the extent of their overseas assets. The second case was not taken up due to insufficient evidence. At October 2016 HMRC was criminally investigating a further 10 high net worth individuals.

3.12 HMRC received funding as part of the 2015 Summer Budget to triple the number of criminal investigations that it can undertake into serious and complex tax crime, focusing particularly on wealthy individuals and corporates. Its aim is to increase the number of its cases accepted by prosecuting authorities in this area to 100 a year by the end of the Parliament. There is no specific target for an increase in the number of criminal investigations into high net worth individuals as part of this commitment.

3 In England and Wales prosecution is carried out by the Crown Prosecution Service; in Scotland by the Crown Office and Procurator Fiscal Service; and in Northern Ireland by the Public Prosecution Service for Northern Ireland.

Part Four

How HMRC measures the impact of its work

4.1 This part looks at:

- HM Revenue & Customs' (HMRC's) main measures of performance; and
- HMRC's evaluation and extension of the high net worth unit.

HMRC's main performance measures

Compliance yield

4.2 One of HMRC's main performances measures is the financial impact of its work to tackle non-compliance. HMRC calls this compliance yield. It is a measure of the additional revenue HMRC calculates it has generated from its activities. HMRC has a strategic aim to maximise tax revenue. It uses compliance yield as a proxy measure of the effectiveness of its compliance work. In 2015-16, HMRC as a whole achieved a total of £26.6 billion of compliance yield against a target of £26.3 billion.[4]

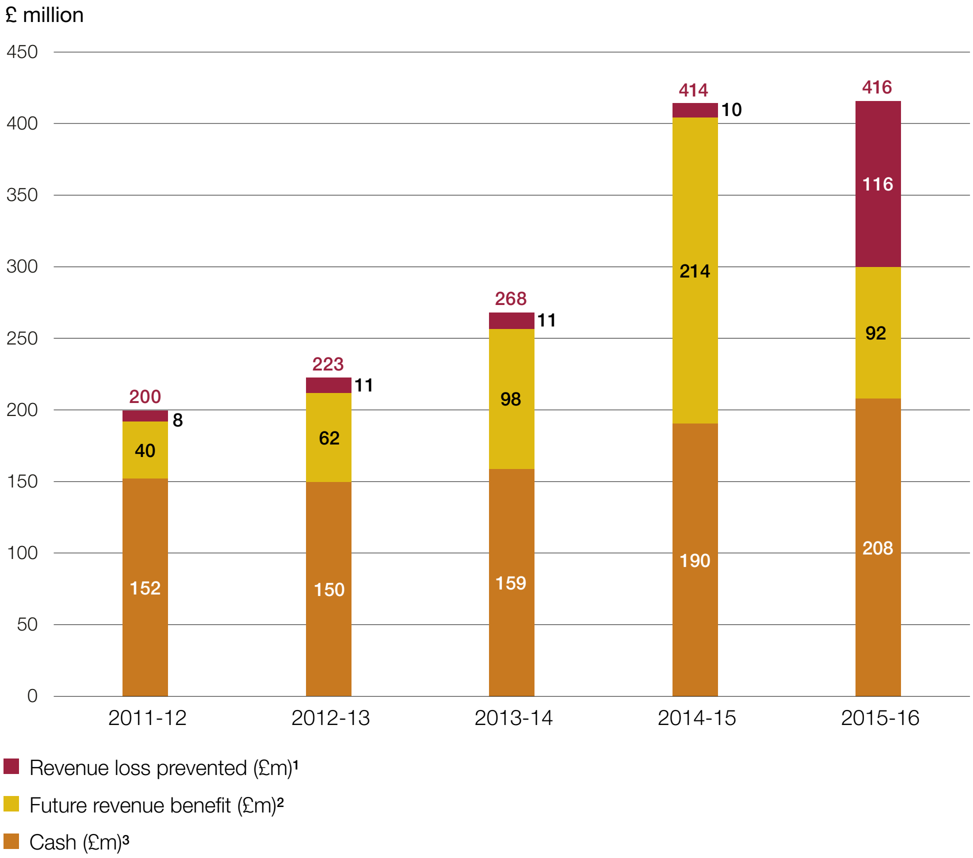
4.3 In 2015-16, the high net worth unit recorded £416 million in compliance yield. The high net worth unit has increased the yield from its work each year and exceeded the annual yield targets that it agreed internally. The target has increased from £195 million in 2011-12 to £260 million in 2015-16. **Figure 15** shows yield recorded by the high net worth unit for the last five years, broken down by types of compliance yield.

4 We report further on this in: Comptroller and Auditor General, *HM Revenue & Customs 2015-16 Accounts, Report by the Comptroller and Auditor General*, Session 2015-16, HC 338, National Audit Office, July 2016.

Figure 15

Compliance yield from the work of the high net worth unit

The high net worth unit reported a yield of £416 million in 2015-16



Notes

1 Revenue loss prevented is tax revenue that HMRC has protected each year by refusing or reducing repayment claims because they are in error or fraudulent.

2 Future revenue benefit is HMRC's estimate of the revenue benefits where it considers it has changed the behaviour of the taxpayers and can be claimed for up to five years.

3 Cash collected is an estimate of the extra tax HMRC expects to collect by identifying and challenging non-compliance.

Source: National Audit Office analysis of HM Revenue & Customs data

4.4 HMRC recorded large increases in its non-cash yields in 2014-15 and 2015-16. HMRC told us these are the result of large-value but one-off cases. High-value settlements are more likely among this group of taxpayers because of the amount of tax they pay and the complexity of their affairs, but it is unlikely that HMRC will reach such large settlements each year. We would expect fluctuation in yields year-on-year given the relatively small population and the impact that a large case can have. HMRC told us that the reasons for the recent increases are:

- **2014-15 increase in future revenue benefit**

  This was due to a change in the rules affecting the tax liability of a small number of taxpayers and a single large settlement where HMRC disagreed with the approach taken by the taxpayer. HMRC expects that both of these will result in additional tax revenues in future years.

- **2015-16 increase in revenue loss prevented**

  This arose from a taxpayer who was intending to enter into a tax planning structure, which HMRC challenged before the taxpayer submitted their tax return. This prevented a significant repayment of tax.

4.5 We have compared in **Figure 16** the work of the high net worth unit with HMRC's work with large business and the whole of HMRC. The large business directorate is responsible for the tax affairs of the 2,000 largest and most complex businesses in the UK. HMRC's data do not allow for precise comparators to be drawn, but the high net worth unit brings in less yield for every pound spent on staff costs compared to large business. However, they work with different types of taxpayers; the total amount of tax paid by large business is around 50 times larger than high net worth individuals. Looking at how the revenue is raised, roughly 9% of the revenue received from high net worth individuals is from the unit's compliance work. This compares with 3% for large business and 5% for HMRC as a whole.

4.6 As well as the work undertaken by the high net worth unit, there are compliance activities that are worked jointly with other parts of HMRC. These include the high net worth cases worked in HMRC's fraud investigation service (see Figure 14) and work tackling the use of marketed avoidance schemes and the use of offshore disclosure facilities. We cover these latter areas in more detail in Appendices One and Two. The impacts from this work are not included in the yield figures for the high net worth unit.

4.7 In addition to the compliance yield recorded by the high net worth unit, since 2009 HMRC has collected compliance yield of nearly £450 million relating to high net worth individuals. Of this, £230 million has come from high net worth individuals using marketed avoidance schemes and around £140 million from disclosures by these taxpayers through offshore disclosure facilities. A further £80 million has come from serious civil fraud investigations into high net worth individuals since 2011.

Figure 16

Performance of the high net worth unit compared with the large business directorate and the whole of HMRC

Comparator	High net worth unit	Large business directorate	HMRC
Tax revenue where no HMRC intervention is required	£4.3bn	£211.0bn	£510.2bn
Compliance yield	£0.4bn	£7.3bn	£26.6bn
Compliance yield as a percentage of total revenue	9%	3%	5%
Staff costs	£14m	£109m	£2,261m
Yield:cost ratio	29:1	67:1	12:1

Note

1 Data relates to 2015-16 and 2014-15.

Source: National Audit Office analysis of HM Revenue & Customs data

HMRC's other performance measures

4.8 HMRC uses other measures to understand its performance in administering the tax affairs of high net worth individuals. **Figure 17** overleaf sets out some of these measures and what they show. These measures fall into three main categories: those that indicate increased compliance among high net worth taxpayers; those that measure the quality of customer service provided by the high net worth unit; and those that measure the high net worth unit's efficiency in administering this group of taxpayers.

4.9 HMRC is developing a new way to assess the impact of its work, particularly its success in encouraging people to comply with their tax obligations without the need for retrospective challenge. The use of customer relationship managers is intended to encourage people to get their taxes right without HMRC needing to undertake lengthy enquiries. The high net worth unit is looking to establish measures that better measure the impact of its work on taxpayers' behaviour. HMRC does not currently measure the impact of this.

HMRC's evaluation and extension of the high net worth unit

4.10 Devoting resources to administering the affairs of high net worth individuals is in line with international best practice, but there is no international consensus about the best way to do this. Tax authorities take a variety of approaches. HMRC has not formally evaluated the high net worth unit or the use of customer relationship managers to deal with this group of taxpayers. It has not looked at what works and why in its current approach. HMRC told us that it thinks it has the right approach because of the compliance yield it has collected since it set up the high net worth unit. However, it does not know whether this is the result of using customer relationship managers, or whether it would have collected as much, or more, using a different approach.

Figure 17

Other performance measures used by the high net worth unit

Measure	What performance measure shows	How frequently it is measured
Indicators of compliance		
Percentage of late returns	The percentage of high net worth individuals submitting their tax return late is declining. In 2014-15, 5% of returns from high net worth individuals came after the self-assessment filing deadline. This compared with 8% of all taxpayers who made self-assessment returns that year. In 2009-10, in the first year of the high net worth unit, 12% of returns were filed late.	Measured annually
Customer service		
Tax agent satisfaction with the high net worth unit	Tax agents are more positive about their experience of the high net worth unit than about HMRC in general. HMRC's survey of tax agents in 2014 found that 85% reported a good overall experience of dealing with the high net worth unit in the previous 12 months. This compares with 38% of tax agents who reported a good experience of HMRC as a whole during the same period.	Measured in 2011 and 2014
Speed of dealing with post from taxpayers	The high net worth unit handles post from taxpayers quicker than HMRC as a whole. HMRC has a central target to handle 80% of post within 15 days of receipt and 95% within 40 days. In 2015-16, the high net worth unit achieved both of these targets, handling 86.4% of post in 15 days and 98.6% in 40 days. HMRC as a whole handled 52% of post within 15 days and 87% within 40 days.	Measured annually
Administration		
Age of open issues under enquiry	HMRC has worked to resolve issues more quickly to reduce the number of open enquiries. At March 2016 (March 2015) the number of open risks/issues by age was: 0 to 12 months: 2,863 (3,233) 12 to 18 months: 1,416 (1,548) 18 to 36 months: 1,924 (2,117) Over 36 months: 4,009 (4,183) **Total: 10,212 (11,081)**	Measured annually

Source: National Audit Office analysis of HM Revenue & Customs data

4.11 HMRC also told us that it thinks it has the right approach because of the improved knowledge it now holds on individual high net worth taxpayers. It has not assessed how valuable it would be to analyse wider economic trends and patterns of behaviour among high net worth individuals, rather than focusing on the risks presented by, and the additional tax collected from, individual taxpayers. It has started to bring together its internal data on high net worth individuals to improve its understanding of the population as a whole. We think it could usefully build on this analysis by considering what external data could help it to predict how the very wealthy might respond to changing economic and market conditions.

4.12 HMRC has recently decided to extend the high net worth unit to include taxpayers with a net worth of more than £10 million. It will provide a customer relationship manager to an additional 2,000 taxpayers with net wealth of between £10 million and £20 million. HMRC will employ another 129 members of staff in the high net worth unit to do this work.

4.13 HMRC has stated that the main reason for extending the high net worth unit is to collect more in compliance yield. It also believes that the extension will help it encourage more compliant behaviour among this group of taxpayers. It has estimated that it will collect an additional £295 million in compliance yield over the spending review period from this group of taxpayers by assigning them customer relationship managers.

Appendix One

Marketed tax avoidance schemes

1 This appendix examines how HM Revenue & Customs (HMRC) tackles high net worth individuals who use marketed avoidance schemes. We outline the wider context of HMRC's work in this area, where there is a business-wide approach to dealing with marketed avoidance schemes. We look at high net worth individuals and:

- the risks posed by marketed avoidance schemes;
- HMRC's response to these risks; and
- how HMRC measures the impacts of its work.

2 Marketed tax avoidance schemes are those that are sold to one or more individuals. Marketed schemes typically involve contrived, artificial transactions that serve little or no purpose other than to produce a tax advantage.

The risks posed by marketed avoidance schemes

3 HMRC changed its approach to tackling marketed avoidance schemes during 2013 and 2014 in response to our recommendations and those of the Committee of Public Accounts. We had found that HMRC was making little progress in addressing the use of marketed avoidance schemes. This section covers the scale of the challenge facing HMRC in 2014.

4 HMRC has identified avoidance as the single biggest risk in the high net worth population. HMRC estimates that in 2014 there was around £1.4 billion tax at stake from the use of avoidance schemes by high net worth individuals. Around 1,000 high net worth individuals – around 15% of the high net worth population – were responsible for 4,000 uses of avoidance schemes. HMRC estimates that in total there was around £14 billion of tax at risk from all marketed avoidance schemes, which had been used by around 105,000 separate people (**Figure 18**).

Figure 18

The use of marketed avoidance schemes at 2014

High net worth individuals accounted for less than 1% of the people using marketed avoidance schemes, but 10% of the tax at risk

	Total population	High net worth population
Number of unique users of avoidance schemes	105,000	1,000 (1% of total population)
Number of unique schemes in use	3,000	600
Tax at risk from schemes	£14 billion	£1.4 billion (10% of total value)

Notes

1 Numbers of users and schemes are rounded to the nearest hundred.

2 Tax at risk figures are rounded to the nearest £0.1 billion.

Source: HM Revenue & Customs data

5 A particular risk associated with high net worth tax avoiders is the use of partnership loss schemes. These account for more than half of the uses of marketed avoidance schemes by high net worth individuals, and more than a quarter of the tax at risk. The average amount of tax at stake per scheme use is around £170,000. These schemes involve establishing a partnership, which makes a loss. The participants in the partnership use the loss to shelter their other income from tax. The losses are artificially increased, for example by using loans which are circular, or deferred expenditure, which is never incurred.

HMRC's response to these risks

6 In this section, we describe HMRC's overall approach and then focus on the work of the high net worth unit. HMRC has developed a response to marketed tax avoidance, which it applies to all users of marketed schemes. The high net worth unit is guided by this business-wide approach and has tailored its response to the taxpayers it deals with.

HMRC's approach to tackling marketed tax avoidance

7 When we reported on marketed tax avoidance schemes in 2012 we found that HMRC relied on retrospective investigations and litigation of individual cases.[5] These were time-consuming and not always effective. While cases were being investigated and challenged, taxpayers could hold on to the disputed tax, giving participants in schemes a cash flow advantage. Even where a tribunal found in favour of HMRC, other scheme users would often not settle, arguing that their arrangements were different. This required the case to be settled by another tribunal. We and the Committee of Public Accounts proposed that HMRC needed to change the economics of marketed tax avoidance.

5 Comptroller and Auditor General, *Tax avoidance: tackling marketed avoidance schemes*, Session 2012-13, HC 730, National Audit Office, November 2012.

8 We reported in 2015 that HMRC's response to our and the Committee's recommendations in this area had been exemplary.[6] HMRC had:

- **Sought new powers to tackle promoters and scheme users**
  These include the power to issue accelerated payment notices, which allows HMRC, rather than the user of a scheme, to hold disputed tax until the case is resolved. HMRC also obtained powers to issue 'follower notices' to scheme users where, in its view, the issues have already been decided by a court or tribunal. Scheme users can continue their dispute, but do so at risk of a penalty if they are unsuccessful at tribunal.

- **Improved the coordination of its work to counter marketed avoidance schemes**
  HMRC set up a counter-avoidance directorate in November 2013 to better coordinate its activities. The counter-avoidance directorate is responsible for HMRC's overall response to avoidance schemes. It brings together HMRC's main operational and policy experts into one team.

The high net worth unit and marketed avoidance

9 The high net worth unit works with the counter-avoidance directorate to tackle the users of marketed avoidance schemes. A governance group, of which the high net worth unit is a member, oversees the schedule for issuing accelerated payment notices to the users of each scheme. The high net worth unit is responsible for calculating the amount owed by high net worth individuals, for issuing notices to them and for discussions with them to end their use of avoidance schemes.

10 The high net worth unit has tailored HMRC's overall approach to addressing marketed avoidance to its own operating model. Customer relationship managers' ongoing relationships with these taxpayers allow further discussion about the use of schemes and opportunities to exert additional influence. Customer relationship managers can use their understanding of an individual's financial circumstances and approach to tax to help bring about settlement. They are also able to point to the powers HMRC now has to tackle avoidance and encourage taxpayers to settle their cases, even where an accelerated payment notice has not yet been issued.

11 The high net worth unit has targeted frequent users of avoidance schemes. These are people who use several different tax avoidance schemes or the same scheme repeatedly. The head of the high net worth unit writes to them individually, encouraging them to settle across all the schemes they are involved in as soon as possible and pay the tax that they owe. There are advantages for the taxpayer in doing this. An individual in multiple schemes will not know when accelerated payment notices for each scheme they are using will be issued by HMRC. Settling with HMRC before notices are issued allows the individual to agree a payment schedule that covers all avoidance schemes. This can give those individuals greater certainty about their cash flows than if they were to respond to multiple accelerated payment notices separately.

6 See further: Comptroller and Auditor General, *Increasing the effectiveness of tax collection: a stocktake of progress*, Session 2014-15, HC 1029-I, National Audit Office, February 2015.

12 A high net worth individual may also be the promoter of a tax avoidance scheme. HMRC takes a broad definition of promoters to include the intermediaries and facilitators of avoidance schemes who tell people about the schemes rather than just those who design them. These people present a particular risk. They have complex tax affairs themselves and are frequently the users as well as promoters of schemes. They also present the risk of developing or marketing new tax avoidance arrangements that attempt to get around current legislation. Having identified a high net worth individual as a promoter of a scheme, the customer relationship managers will use this in their risk assessments of that individual's tax affairs and to help interpret their behaviour.

How HMRC measures the impact of its work

13 HMRC's main measure of its work in this area is how the backlog of marketed schemes are resolved. There are no separate targets for high net worth individuals, but their cases are tracked and monitored by the high net worth unit.

14 By March 2016, HMRC had issued 1,400 accelerated payment notices to high net worth individuals. The average value of an accelerated payment notice to a high net worth individual is around £450,000, compared with £75,000 for the wider population. Paying the notice does not settle the enquiry that HMRC has opened. The final liability needs to be assessed and interest and penalties applied if relevant. This can take some time. As at 31 March 2016, high net worth individuals had made settlements after receiving an accelerated payment notice which totalled £72 million.

15 As shown in **Figure 19**, the amounts that had been paid by high net worth individuals at March 2016 are less than the value of the notices by £330 million. This is for a number of reasons. Around one-third of the difference relates to cases where the taxpayer did not have to pay by March 2016, a payment schedule had been agreed with HMRC, or the type of scheme had a separate settlement option which had been used. A further third were not yet due as the taxpayers had made objections to the notice, which HMRC was considering. The remainder – around 30% – were being handled as overdue debt.

Figure 19

Accelerated payment notices issued at 31 March 2016

	Total issued	Issued to high net worth individuals
Number of notices issued at 31 March 2016[1]	46,000	1,400
Value of notices	£3.5bn	£0.6bn
Amount paid	£1.4bn	£0.3bn

Notes

1 Cumulative data from August 2014 to March 2016. Figures are rounded to the nearest hundred.

2 The total number and value of accelerated payments issued does not include those issued to large businesses. Figures are rounded to the nearest £0.1 billion.

Source: HM Revenue & Customs

Appendix Two

Offshore tax evasion

1 This appendix examines how HM Revenue & Customs (HMRC) tackles high net worth individuals who evade tax by hiding money or assets overseas. We describe the risks posed by offshore evasion and HMRC's response to these risks, exploring how this works in practice in relation to large data sets leaked from Switzerland and Panama. We also set out how HMRC is changing its approach to tackling offshore evasion.

The risks posed by offshore evasion

2 Offshore evasion occurs when people deliberately conceal taxable income, gains or assets outside of the UK to evade tax. This includes, for example:

- where people do not tell HMRC about income or gains from overseas;
- where gains, income or assets are moved outside of the UK to conceal them from HMRC; and
- using complex offshore structures to disguise who benefits from assets, incomes or gains.

3 HMRC told us that high net worth individuals are more likely to try to reduce the tax they pay by exploiting differences of legal interpretation and by using avoidance schemes, rather than by evading tax. Nevertheless, when a high net worth individual does seek to evade tax the amount of money involved will normally be significant.

4 HMRC told us that where a high net worth individual has evaded tax offshore, it is not uncommon for the tax agent representing the taxpayer to HMRC to know nothing about the offshore assets held by their client. High net worth individuals may seek specialist advice for different aspects of their tax affairs, including advice on how to manage a particular asset, or group of assets.

5 As the assets involved are hidden, HMRC has been unable to make a robust estimate of the tax evaded offshore. HMRC thinks the amounts will be significant.

HMRC's response to these risks

Encouraging compliance

6 HMRC's approach has been to encourage people who have undeclared assets held offshore to come forward and clear up their tax affairs. This allows HMRC to collect the tax and any interest and penalties due without the need for long and complex investigations.

7 HMRC has run a series of initiatives called voluntary disclosure facilities to encourage people to bring their overseas tax affairs in line. This was in response to the difficulty HMRC had in finding out about UK taxpayers' activities in certain other countries given the challenges of the secrecy associated with some overseas jurisdictions. The terms most recently offered for the largest of these, known as the Liechtenstein Disclosure Facility, were for the tax due to be paid with interest and penalties; in exchange HMRC provided an assurance that the taxpayer would not be prosecuted, provided they had disclosed their offshore activities in full. The penalties were 10% of tax due for any years before the disclosure facility was launched in 2008-09. For later tax years, penalties could go up to 60%, the same as for those coming forward outside the facility.

8 Individuals make disclosures to a specialist team within HMRC. The fraud investigation service contains HMRC's specialist tax and criminal justice experts who deal with tax fraud investigations, and has a team that focuses on offshore evasion. This team notifies the high net worth unit when a high net worth individual has made a disclosure. It also tells the high net worth unit when a taxpayer's disclosure provides evidence that they might be a high net worth individual. The customer relationship manager works with the fraud investigation service to review disclosures. The fraud investigation service will finalise any civil settlement and calculate penalties. After finalising a settlement, HMRC will consider criminal investigation if the disclosures are found to be incomplete or if the person is found not to have told the truth about their affairs.

HMRC's response where the taxpayer has not come forward voluntarily

9 Where a customer relationship manager identifies potential offshore evasion by a high net worth individual, they must refer the case to the fraud investigation service. HMRC handles offshore evasion separately from its other work due to the complexity and operational challenges of investigating cases. The work requires a high degree of specialist and technical knowledge, including an understanding of how different tax jurisdictions work. Cases where undeclared assets have been hidden offshore can be challenging to investigate. Individuals may not be cooperative, differences in legal systems can complicate investigations, and it can be difficult to get the required evidence from overseas.

10 HMRC receives information on potential offshore evasion through various sources, including: the tax evasion hotline; suspicious activity reports shared by the National Crime Agency; and large sets of data, such as leaked data or those received through agreements with other countries. HMRC uses this information to identify which people, including high net worth individuals, it should investigate for evasion.

11 HMRC has found it difficult to collect the required evidence to allow it to demonstrate that a criminal offence has been committed where assets have been concealed offshore. HMRC told us that proving that the taxpayer had not acted in error is a challenge, particularly where the individuals have been professionally advised. In most cases of tax evasion, HMRC will encourage the individual to make a full disclosure and pay the tax owed, plus any interest and penalties. This allows HMRC to collect the evaded tax without needing to prove that a criminal offence has been committed. Where there is sufficient evidence of an offence, HMRC will undertake a criminal investigation with a view to a prosecution.

12 HMRC's approach can be seen in its response to the data leaked from HSBC's Swiss subsidiary and the Panamanian law firm Mossack Fonseca (see **Figures 20** and **21**).

Figure 20

HSBC's Swiss subsidiary data leak

What the data showed

In 2010, HMRC received data which contained information on bank accounts held by UK taxpayers in HSBC's Swiss subsidiary. Of the 3,600 people, businesses and trusts identified in these data, more than 120 were high net worth individuals. Of these, more than half were non-UK domiciled, and the assets they held overseas did not result in a UK tax liability. Overall, 40% of the high net worth individuals were already under enquiry for issues to do with offshore assets included in the data.

What action HMRC took

HMRC reviewed the data and did not need to open any new enquiries with high net worth individuals, but did revisit a previous enquiry. This involved a high net worth individual who had previously told HMRC that he had declared all offshore assets, but had not told it about assets that came to light through the leaked data. The Crown Prosecution Service considered that this was the only case investigated from this data where HMRC held evidence strong enough to take forward for prosecution. The individual was successfully prosecuted and fined £400,000.

Source: HM Revenue & Customs

Figure 21
Mossack Fonseca data leak

About the leak

In April 2016, data was leaked from the Panamanian law firm Mossack Fonseca. This data is commonly referred to as the Panama Papers. The data contains information on offshore entities, some of which dates back to the 1970s.

The government's response

The government set up a multi-agency taskforce to investigate and identify any financial wrongdoing by UK taxpayers. HMRC is jointly leading this taskforce with the National Crime Agency. The taskforce is using expertise from across government to understand the available data and identify economic crimes including tax evasion. HMRC told us that staff working with this taskforce have expert knowledge of high net worth individuals, data analytics and criminal and offshore investigations.

Action taken to date

HMRC's work includes checking the available data against information from tax returns and any past disclosures taxpayers have made to HMRC. So far, HMRC has identified 40 high net worth individuals from the data. These are being investigated by staff in the high net worth unit and the fraud investigation service. They are assessing if the data reveals new risks that mean these 40 people should be considered for civil or criminal investigation. HMRC may find that it has already been told about the offshore assets in the leaked data, but has yet to complete the work necessary to verify this in every case.

Source: HM Revenue & Customs

The impact of HMRC's work

Voluntary disclosure facilities

13 The main offshore disclosure facility offered by HMRC has been the Liechtenstein Disclosure Facility. This ran between 2009 and 2015, but some settlements are still being finalised. **Figure 22** shows that 137 high net worth individuals have settled through this facility to date. The average settlement by a high net worth individual was £1 million, compared with an average of £203,000 for all disclosures.

Figure 22
Use of the Liechtenstein Disclosure Facility by high net worth individuals

Amounts received through the Liechtenstein Disclosure Facility by March 2016

	All users	High net worth individuals
Actual value of settlements	£1,257m	£141m (11% of total)
Number of settlements	6,190	137 (2% of total)
Average settlement value	£203,000	£1m

Source: National Audit Office analysis of HM Revenue & Customs data

HMRC's future approach to offshore evasion

14 HMRC expects that criminal investigations and sanctions will play a more prominent role in its response to offshore evasion in the future. HMRC offered disclosure facilities with incentives for people to tell it about the tax they had evaded because it found it very difficult to identify assets held overseas. HMRC is now seeking to take a tougher approach to tackling offshore evasion by taking advantage of new sources of data and new powers that will be available to it.

15 A common reporting standard is being introduced from 2017. This is an agreement by more than 100 countries to automatically exchange information on taxpayers. This should enable HMRC to better identify and investigate people with undisclosed assets and income offshore. In advance of this, the government has opened a new Worldwide Disclosure Facility, which will be a final opportunity for people to bring their tax affairs into line.

16 The Finance Act 2016 introduced new legislation to allow HMRC to impose tougher sanctions on people who continue to hide assets offshore. These were:

- higher penalties for those evading tax offshore, including a penalty based on the value of the asset on which tax was evaded, as well as wider public naming of offshore evaders;
- a new criminal offence to make the prosecution of offshore evaders easier by removing the need to prove intent where a large amount of tax has not been paid on offshore income and gains; and
- a new penalty for those who enable tax evasion based on the amount of tax evaded, as well as wider public naming of enablers.

The government has also announced that it intends to legislate for a new criminal offence for corporations that fail to take adequate steps to prevent the facilitation of tax evasion by their representatives later this year.

17 HMRC is currently consulting on proposals to introduce new legislation that will require people to tell it about outstanding tax liabilities from offshore interests by September 2018. Those failing to do so by this date will be subject to new tougher sanctions.

18 HMRC will also place greater focus on investigations into wealthy and corporate taxpayers. The fraud investigation service has recently restructured to focus on the risks posed by different taxpayers. It has formed three groups, one of which focuses on evasion risks related to offshore, corporate entities and wealthy individuals.
This group will be responsible for meeting HMRC's commitment by 2020 to increase to 100 the number of criminal investigations of corporate entities and the wealthy that are taken forward for prosecution. This means that the relevant prosecuting authority will have to judge that the evidence presented by HMRC is strong enough to proceed to prosecution. HMRC told us that the group is putting in place processes to help it meet this target, including bringing together its knowledge of what works to inform its activities and build the volume of investigations.

19 HMRC told us that it is currently criminally investigating around 120 individuals for offences connected with offshore evasion. This includes 10 high net worth individuals. Since 2010, 17 people have been prosecuted for offshore evasion, including one high net worth individual.

Appendix Three

Inheritance tax

1 This appendix examines:

- how the inheritance tax rules work;
- how HM Revenue & Customs (HMRC) assesses the inheritance tax due on high net worth individuals' wealth; and
- inheritance tax paid on high net worth individuals' wealth.

How the inheritance tax rules work

2 Inheritance tax is a tax on the value of the estate of someone who has died. An estate is a deceased person's property, money and other assets and possessions. For many people, their family home is most of their estate. High net worth individuals typically hold a wider range of assets, with a greater amount of movable assets, such as cash and shares.

3 Personal representatives are responsible for completing inheritance tax returns on deceased estates and paying any tax due. Inheritance tax is due at 40% on the value of estates worth more than £325,000 after any exemptions or reliefs. The tax is charged on the assets, rather than an individual.

4 Unlike self-assessment tax returns, which need to be made on an annual basis, inheritance tax returns are required in response to an event. This is most commonly a death, but inheritance tax also applies to some transfers of assets during a person's lifetime.

5 There are many ways the law allows people to reduce the inheritance tax due on their estate. Some are relatively straightforward, such as making one-off gifts in mid-life as these will be exempt if the donor survives for seven years after making the gift. Others are more complicated. People can structure their affairs to reduce the inheritance tax due when they die, and typically do so many years in advance of their death. HMRC identified for us some common ways in which a high net worth individual might do this, which we set out in **Figure 23**. Other taxpayers also use these.

Figure 23

Examples of inheritance tax planning that a high net worth individual might use

Investments in agricultural or other business assets

Certain types of business assets and agricultural property which have been held for at least two years qualify for relief from inheritance tax. The value of the relief can be either 100% or 50%, depending on the asset.

For example: shares in some unquoted companies and farmland owned and let to a tenant for agricultural purposes can qualify for relief from inheritance tax.

Permanent home outside the UK (non-domiciled)

People who have 'non-dom' status (their permanent home is outside of the UK) only need to pay inheritance tax on assets that are inside the UK, so they may plan to minimise their UK assets.

HMRC told us it is standard practice for such individuals to hold UK residential properties through an overseas company or similar vehicle. Where this is the case, the property of the individual consists of overseas shares which are therefore excluded from inheritance tax. The government is planning to change the law to bring such UK residential properties within inheritance tax.

Trusts

A trust is a way of managing assets for people. People set up trusts for many reasons, such as controlling and protecting family assets or when someone is too young to handle their own affairs.

Once someone puts assets into a trust then they no longer belong to them but to the trustees who are responsible for looking after them for the beneficiaries of the trust. Individuals who transfer assets into most types of trust must pay inheritance tax immediately, at 20%, with a further charge of up to 20% due if they die within seven years. This is because once assets are in a trust they no longer form part of that individual's estate when they die.

The terms of the trust may mean that beneficiaries do not have rights to the assets, if so they will not form part of the beneficiaries' estates on their death.

Trustees also pay inheritance tax every 10 years. This is charged at 6% of the value of the assets in trust after taking account of the £325,000 threshold and any exemptions and reliefs.

Gifts from income

Gifts that a person paid out of their surplus income will be free from inheritance tax, as long as the deceased had enough income left to meet their day-to-day expenses. High net worth individuals are often able to make large gifts out of their income, without reducing their standard of living. This exemption differs from the tax treatment of one-off gifts, which may be subject to inheritance tax if the person making the gift dies within seven years.

Note

1 Non-doms who are long-term UK resident (17 out of the last 20 years) do not have non-dom status for inheritance tax. Of the 6,500 high net worth individuals, 700 have non-dom status.

Source: HM Revenue & Customs

How HMRC assesses the inheritance tax due on high net worth individuals' wealth

6 Inheritance tax on high net worth individuals' wealth is not dealt with by the high net worth unit. HMRC deals with all inheritance tax within its inheritance tax, trusts and pensions team. Until December 2016, this team will be in a separate part of HMRC's business to the high net worth unit. The team assesses inheritance tax returns for potential non-compliance. For example, it identifies where assets have not been declared or where they have been under-valued, or are ineligible for reliefs that have been claimed.

7 HMRC told us that it does not consider high net worth individuals to be less compliant than others in their inheritance tax planning. However, the value and complexity of their tax affairs increases the risks. High net worth individuals often take specialist advice on inheritance tax planning. HMRC told us that any such planning is nearly always done within the scope of legislation. However, an error in an inheritance tax return, or a disagreement on interpretation of tax law, can be significant due to the amounts of money involved.

8 The inheritance tax, trusts and pensions team and the high net worth unit carry out separate enquiries for the taxes they are responsible for. The high net worth unit assesses income tax and capital gains tax due up to the individual's death. The inheritance tax, trusts and pensions team assesses inheritance tax. The two teams share information when a taxpayer dies.

9 In 2012-13, the high net worth unit set up a team to coordinate finalisation of income tax and capital gains tax due from deceased high net worth individuals. As part of this work, HMRC trained members of the team to recognise potential inheritance tax issues and raise them with the inheritance tax team examining that case.

10 HMRC may identify new high net worth individuals when reviewing inheritance tax returns. The inheritance tax team told us that they identify around 10 estates a year worth more than £20 million that the high net worth unit did not know about. When a high net worth individual dies, the high net worth unit will identify who has inherited their wealth and whether they have become a high net worth individual as a result.

11 Inheritance tax is also due during a person's lifetime, when they transfer assets into most types of trust. The inheritance tax, trusts and pensions team does not routinely share information on lifetime trusts with the high net worth unit, although it could help with their understanding of high net worth taxpayers' affairs. Customer relationship managers become aware of some trusts through their own work on income tax and capital gains tax. HMRC is currently working on a trusts register, which should be operational from April 2017. Customer relationship managers will have access to the register, which will record the trust settlor, trustees, beneficiaries and any person exercising effective control over the trust.

12 In December 2016, HMRC will bring the inheritance tax, trusts and pensions team into a new customer compliance group, together with the high net worth unit and other parts of HMRC. This should make it easier for them to work together more closely in relation to all types of tax, including inheritance tax.

Inheritance tax paid on high net worth individuals' wealth

13 HMRC receives around 50,000 inheritance tax returns in total each year. HMRC holds data on total amounts of inheritance tax paid and the total value of reliefs and exemptions. It does not record these data by type of taxpayer. Therefore, HMRC could not provide us with data for inheritance tax paid on the estates of high net worth individuals over the last five years.

14 We asked HMRC to provide what data it could access on the estates of deceased high net worth individuals, so that we could give at least a partial estimate of the tax paid and how many enquiries it undertakes. The earliest data HMRC could identify were from May 2014. HMRC has identified inheritance tax records for 161 estates relating to high net worth individuals from May 2014 to April 2016. In total, around £183 million of inheritance tax due from these estates has been paid. This is not a final figure: executors of an estate may make payments before a final return is due to reduce interest charges, because HMRC begins to charge interest before the date by which executors need to submit an inheritance tax return. HMRC told us that most of the estates it could identify had a value for inheritance tax purposes of much less than £20 million.

15 HMRC reviews all high net worth inheritance tax accounts and opens enquiries into the majority. These can be complex and take time to complete. HMRC told us that it has enquiries in progress on 34 of the 161 estates, and has closed a further 14 enquiries from which it recorded £1 million in compliance yield. Accounts are not yet due for some of the 161 estates because the owner died recently. HMRC may open more enquiries once it has received these accounts.

Appendix Four

Our evidence base

1 This report looks at HM Revenue and Customs' (HMRC's) approach to collecting tax from high net worth individuals. We did not evaluate whether its approach is value for money.

2 We reached our findings following our analysis of evidence collected between May and September 2016. The main methods are set out below.

Review of unpublished and published documents

3 We reviewed HMRC and high net worth unit documents to understand HMRC's approach to taxing high net worth individuals. These included:

- high net worth unit business plans;
- HMRC and high net worth unit strategy documents;
- guidance and learning materials HMRC provides to staff;
- internal audit reports; and
- HMRC research reports.

4 We also reviewed a range of publications from other Supreme Audit Institutions, academia and wealth and tax professionals. This included: Organisation for Economic Co-operation and Development (OECD), *Engaging with high net worth individuals on tax compliance*, May 2009 and Organisation for Economic Co-operation and Development, *Tax Administration 2015, comparative information on OECD and other advanced and emerging economies*, August 2015.

Analysis of data

5 We analysed HMRC data on resourcing, performance and risk analysis. This included:

- internal data on tax revenues, budgeting, compliance yield, the use of marketed avoidance schemes and the Liechtenstein Disclosure Facility, and data relating to inheritance tax; and
- published data on tax revenues, HMRC's published statistics, and third-party data published by the OECD.

Interviews with HMRC staff

6 We held semi-structured interviews with:

- senior staff responsible for enforcement and compliance within HMRC;
- staff working in the high net worth unit including the head of the unit, customer relationship managers and members of their teams; and
- staff working on issues relating to offshore evasion, marketed avoidance schemes, trusts and pensions, inheritance tax and civil and criminal investigations.

Site visit and walk-through of processes

7 The high net worth unit has teams in eight locations across the UK. In July 2016 we visited the Bradford team. We followed cases from start to finish with the assistance of the head of the team, the customer relationship managers and other staff. We were shown key elements of HMRC's case relationship manager module software and had access to the high net worth unit's internal systems to access relevant guidance.

8 We held focus groups to understand the views of some external stakeholders who work with high net worth individuals:

- Participants included senior private client practitioners from specialist legal and accountancy firms, the 'big four' professional services networks, and the Bar; and staff members from the Chartered Institute of Taxation and the Institute of Chartered Accountants in England and Wales.
- The practitioners were sourced with the assistance of the Chartered Institute of Taxation and the Institute of Chartered Accountants in England and Wales from their committee members who are available to assist with consultations and who are specialists in their field.

Survey

9 We surveyed by email five countries where the tax authority has a high net worth unit: Australia, Canada, Ireland, Netherlands and the United States. We asked them whether the tax authority in their country:

- has a dedicated unit for handling the tax affairs of high net worth individuals; and
- uses the customer relationship manager model.

The results of the survey can be found in paragraph 2.10.

We drew on audit findings from our previous work

10 This included the following reports:

- Comptroller and Auditor General, *HM Revenue & Customs: Managing civil tax investigations*, Session 2010-11, HC 677, National Audit Office, December 2010;
- Comptroller and Auditor General, *HM Revenue & Customs: The Compliance and Enforcement Programme*, Session 2010–2012, HC 1588, National Audit Office, March 2012;
- Comptroller and Auditor General, *HM Revenue & Customs: Tax avoidance: tackling marketed avoidance schemes*, Session 2012-13, HC 730, National Audit Office, November 2012;
- Comptroller and Auditor General, *HM Revenue & Customs: Increasing the effectiveness of tax collection: a stocktake of progress since 2010*, Session 2014-15, HC 1029-I, National Audit Office, February 2015;
- Comptroller and Auditor General, *HM Revenue & Customs: Tackling tax fraud: how HMRC responds to tax evasion, the hidden economy and criminal attacks*, Session 2015-16, HC 610, National Audit Office, December 2015;
- Comptroller and Auditor General, *Report on HM Revenue & Customs 2013-14 accounts*, Session 2013-14, HC 19, National Audit Office, June 2014;
- Comptroller and Auditor General, *Report on HM Revenue & Customs 2014-15 accounts*, Session 2014-15, HC 18, National Audit Office, July 2015; and
- Comptroller and Auditor General, *Report on HM Revenue & Customs 2015-16 accounts*, Session 2015-16, HC 338, National Audit Office, July 2016.

Statement on the use of personal data

11 The Comptroller and Auditor General (C&AG) and the National Audit Office have privileged and wide-ranging access to data and information to support the discharge of the audit function and ensure that the C&AG's reports to Parliament are factual, accurate and complete. Our approach to managing personal data is published on our website.[7]

12 In accordance with this approach we looked only at personal information necessary to complete our work and retained the information only for as long as it was needed. Our review of HMRC's systems included being taken through individual cases by HMRC staff at HMRC premises. We did not record the details of any individual taxpayers. We also asked that HMRC anonymise the data and information we requested, which it did.

7 Available at: www.nao.org.uk/freedom-of-information/wp-content/uploads/sites/13/2015/07/Statement-Management-Personal-Data-NAO.pdf

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