

TRANSCRIPT OF "FILE ON 4" – "TAX AVOIDANCE"

CURRENT AFFAIRS GROUP

<i>TRANSMISSION:</i>	<i>Tuesday 13th March 2012</i>	<i>2000 - 2040</i>
<i>REPEAT:</i>	<i>Sunday 18th March 2012</i>	<i>1700 – 1740</i>

<i>REPORTER:</i>	<i>Fran Abrams</i>
<i>PRODUCER:</i>	<i>Ian Muir-Cochrane</i>
<i>EDITOR:</i>	<i>David Ross</i>

<i>PROGRAMME NUMBER:</i>	<i>PMR211/12VQ5026</i>
--------------------------	------------------------

THE ATTACHED TRANSCRIPT WAS TYPED FROM A RECORDING AND NOT COPIED FROM AN ORIGINAL SCRIPT. BECAUSE OF THE RISK OF MISHEARING AND THE DIFFICULTY IN SOME CASES OF IDENTIFYING INDIVIDUAL SPEAKERS, THE BBC CANNOT VOUCH FOR ITS COMPLETE ACCURACY.

“FILE ON 4”

Transmission: Tuesday 13th March 2012

Repeat: Sunday 18th March 2012

Producer: Ian Muir-Cochrane

Reporter: Fran Abrams

Editor: David Ross

ABRAMS: In the run-up to next week’s Budget, ministers have been talking tough about tax. Barclays Bank’s been hit with a huge bill, and there’s talk of new rules to clamp down on avoidance. And it isn’t just the wealthy who are using clever schemes to reduce tax. These days we can all buy them online.

PAULA: If you type anything into the internet concerning sort of avoiding tax, tax mitigation schemes, there’s loads out there. I’ve spoken to people who’ve done say nine or ten schemes over the last two or three years, and the way they look on it is, well, you know, if two or three of those pass under the Revenue’s radar, well I’m still quids in, still made money and paid less tax.

ABRAMS: A lot of it’s perfectly legal. Footballers are doing it. Companies are doing it. We’ve discovered even workers on the minimum wage are unwittingly doing it. So, what chance is there of the Government putting a stop to it? The chair of an influential House of Commons committee tells us she doesn’t believe the taxman is up to the job.

HODGE: I just don't think they've done a lot, and I think they have to be more ambitious, I think they've got to work harder, and I think they've got to do better at getting the money in.

ABRAMS: And as the Government prepares to announce the results of a review into why some civil servants are paid through their own companies, we've discovered almost a hundred posts in local councils are filled by people who aren't on their payrolls.

SIGNATURE TUNE

ACTUALITY AT FOOTBALL MATCH

ABRAMS: Ibrox stadium, Glasgow. Rangers are losing to Hearts. But that's the least of the fans' troubles. Earlier this month they had to face the news that their club had been forced into administration because of debts to the taxman, which threatens to bring 140 years of history to an end.

DINGWALL: I can remember been brought with my Dad and what they called lifted over the turnstiles – ie if you were small enough you got in for free because your dad could just lift you over and give the gateman a shilling or whatever.

ABRAMS: So what age did you have to be to start paying then?

DINGWALL: As soon as your dad couldnae lift you!

ABRAMS: Looking back now, Mark Dingwall of the Rangers Supporters Trust says the seeds of Rangers' financial problems were sown at least a decade ago. He can still remember the first time officials let slip they were using something called an Employee Benefit Trust.

DINGWALL: I remember actually, I think it was 2001, 2002, that year the AGM, somebody asked, there was a note in the accounts about Employee Benefit Trusts, and I think we got the impression that they were being used to pay moneys to the

DINGWALL cont: spouses of our overseas players. That was the impression we gained.

ABRAMS: When you first heard at the AGMs of the club about these Employee Benefit Trusts being used, did you have any inkling of just how dangerous that could be for the club financially?

DINGWALL: I think the average fan didn't, because most people aren't involved in the kind of personal finance that's involved in paying players who are maybe on £20,000 or £30,000 a week - they're in a different stratosphere.

ABRAMS: At the time, lots of football clubs were using these Employee Benefit Trusts, or EBTs. Chris Brady is a football finance expert and a visiting professor at the Greenwich School of Management, and he says the major thing fans needed to know about them was that they were all about keeping the footballers' tax bill down.

BRADY: With an Employee Benefit Trust, what the player could do was to have a proportion of his salary put into the Trust. Now he wouldn't be paying PAYE on that, because it was deposited in a Trust. He would be able to pay a lot less tax on it. Equally, Rangers wouldn't have to pay that PAYE to the taxman, so both parties benefited. Now at a later stage, when the player went to Spain or Cayman Islands or wherever, he could then draw the money out either as a loan with very low interest rate - and by the way, these loans were very rarely repaid - or he could draw it out as some sort of other remuneration and be taxed on it, but taxed in the domicile where he was at that time, so instead of paying 50% tax, he's paying 10% tax or 15% tax or wherever he draws it out. Now when you're on really big money, obviously you don't need all of that big money every week to run your life, you only need a proportion of that, so it made sense to be able to deposit a percentage of that money in one of these Employee Benefit Trusts.

ABRAMS: But Her Majesty's Revenue and Customs, HMRC, took a dim view of the arrangements. They said all this was really just part of the players' wages and so they should have been paying PAYE and National Insurance. A tax tribunal's due to decide in the next couple of weeks whether Rangers should face a bill for unpaid tax.

ABRAMS cont: It could run into tens of millions. And that's one of the reasons the club went into administration.

BRADY: It works out over the last ten years, which is when the HMRC are looking at it, they've put around about £47 million into that Trust. Now if Rangers are then taxed on that by HMRC, then they will be in a very difficult position. We can only imagine that if HMRC are pursuing this with the vigour that they are pursuing it, there is some sort of paper trail somewhere. We may call agents a lot of things, but they're not stupid where money's concerned so there could have been pressure from the agents to make this very clear in the contract.

ABRAMS: Rangers aren't the only club being investigated over the schemes.

BRADY: What I understand from my investigations is that most clubs have been talking to the taxman, most clubs have got everything sorted out, but there are a few, shall we say recalcitrant clubs that may be not quite as squeaky clean as that and so maybe there's half a dozen clubs that are still having conversations with HMRC. But HMRC have said that if clubs continue to fail to honour their PAYE obligations and their National Insurance obligations, they will go to litigation, so they're willing to go.

ABRAMS: So we could see a number of other clubs facing big tax bills and court action?

BRADY: We could do, but to be honest we shouldn't if the clubs are sensible about this. I would suspect that that what's happened to Rangers will have been a bit of a wakeup call for clubs and I would imagine they're talking to HMRC pretty smartish.

ABRAMS: And, it isn't just football clubs. HMRC told us that last year alone it wrote to almost 2,700 companies, demanding unpaid tax connected with EBTs. And the Government's just changed the rules to stop the trusts from hiding what it calls 'disguised remuneration.' But there is still a perfectly legal way you can use them to save on tax. Paula Tallon runs a company called Gabelle Tax, which advises businesses. And she says

ABRAMS cont: EBTs can deliver tax advantages for companies running share option schemes. If the shares go up in value, the money can be taxed as a capital gain, rather than through income tax.

TALLON: In putting the shares into the Employee Benefit Trust, the real benefit comes is if there's some growth in value once the employee gets their hands on those shares. So, for example, if you have shares in the Trust worth £100 and those shares go to the employee, the employee pays income tax on £100. But if the value of those shares increases substantially, then any growth in value is liable to be taxed at 28% and without any National Insurance, and that's sort of where the real tax efficiency is, with the use of EBTs and shares. It could have been taxed at income tax rates, which for most executives now will be 50%.

ABRAMS: And instead, what happens?

TALLON: Instead they pay tax of 28%, so there's substantial savings - you've got 22% saving on the growth.

ABRAMS: So they're still very useful for tax purposes?

TALLON: Yeah, they're still extremely useful and, if used in the correct way, they are still acceptable.

ABRAMS: It all sounds like a good thing. Employees who own shares in their companies have got a stake in making them prosperous – it's a way of sharing the benefits right across the workforce. But that's not quite what's happening. Lots of companies are also using the Trusts as a way to reward high-flying executives. They pay a small amount upfront on their bonuses and then later, when they take them out of the Trust, they can pay a lesser rate of capital gains tax – or in some cases they can even draw the benefit while living in a low tax jurisdiction. John Whiting's the policy director of the Chartered Institute of Taxation. He says we shouldn't dismiss the concept just because it's been abused in the past.

WHITING: Employee Benefit Trusts at the basic are not tax avoidance, they are a perfectly sensible device for a company to put money into a fund to - as the name suggests - give out benefits, to create a prize fund, a bonus fund for doing well. And, of course, when the money goes out to the employees, then that will be taxable. So there's nothing wrong with them at that level. But of course, what has happened is that they have been exploited, they have been abused to try and operate in a way that that means that the sort of value goes to the employees without creating a tax charge on them. That is when HMRC says there is abuse and, in many ways, I have to say, I have a lot of sympathy with their viewpoint.

ABRAMS: The Revenue's been taking an increasingly aggressive stance. It wouldn't be interviewed by File on 4, but in a statement it told us it thought EBTs were unacceptable. It said - and I'm quoting here - 'EBTs are tax avoidance, pure and simple.' It added last year's Finance Bill was meant to put an end to the arrangements. But we've been looking at the accounts of companies which run major Government contracts. And some of them are still using EBTs.

ACTUALITY WITH ACCOUNTS

ABRAMS: I'm looking at the latest accounts of G4S, which has got lots of major Government contracts. It runs things like private prisons and security. And last year, the three most senior executives of the company were paid a bit less than £2 million between them and their bonuses added up to a further £1.3 million. Now a major part of that's in shares, which go into the company's Employee Benefit Trust. In January this year the Trust held about £19 million worth in shares. G4S has told us this was all made public in its statements to the markets.

READER IN STUDIO: Any shares released are subject to the usual rules that apply to income tax and social security of the relevant countries in which the participants are resident.

ABRAMS: And these are the accounts of Serco. It runs a wide range of public service contracts - everything from the Government's work programme to hospital pathology services. Its two most senior executives were paid more than a £1 million between them last year. And they had share options worth nearly £6 million, many of which

SONG: Thank you very much, thank you very much, thank you very very very much

MAN: Thank you very much for keeping your streets clean

SONG: Thank you very much, thank you very very very much

ABRAMS: Hammersmith and Fulham Council's been thanking its residents for helping it cut costs – it's even been able to reduce council tax bills.

SONG: Thank you very much for saving us millions, thank you very very very much.

ABRAMS: But there's concern it might also have been cutting back on another kind of bill – the tax bill. The issue arose over the employment of a man named Nick Johnson, who's recently been working at Hammersmith in a senior role. Teresa Pearce, who's now a Labour MP, knew him when he was Chief Executive of Bexley Council in South London.

PEARCE: I was a councillor in Bexley some years ago, so I knew Nick Johnson then, and I was aware towards the end of his career with Bexley that he'd been unwell and then he was pensioned off. The year after he was pensioned off, someone sent me a copy of a magazine from Hammersmith and Fulham Homes. There was a picture of him in that magazine wearing a hard hat, with a shovel and a fluorescent jacket, out at some sort of building site where they were building some new homes. And I remember thinking at the time he looked remarkably well and I was pleased about that because he had been very unwell. And then it came to my attention that he was employed there. As I worked in tax and I used to work for HMRC, this sort of got the investigator in me going a little bit and I started to sort of dig around, and I found that although he was the Chief Executive of Hammersmith and Fulham Homes, he wasn't actually paid as an office holder or an employee but was paid directly through a personal services company, which struck me as a little odd.

ABRAMS: Mr Johnson ran Hammersmith and Fulham Homes for three years. He recently moved to a different council role, in regeneration. His fees – more than £900,000 in all - were paid into a company called Davies Johnson Ltd. Teresa Pearce says the law's clear – the council should have put him on the payroll.

PEARCE: There are certain tests that you need to look at. For instance, one of those tests is substitution. If you engage a plumber, he could send another plumber. That's substitution, it doesn't matter. If you engage an interim Head of Housing, he can't send somebody else in to do that job. It's clearly that person is engaged to do that job. If he is part and parcel of that organisation, which he clearly is, he's employed. It's as simple as that. The legislation makes it absolutely clear that if you are an office holder, if you hold an office that continues no matter who sits in that office – so for instance, a board member or a chair of a board or a Chief Executive – then you are liable to PAYE and there is no leeway in that, it is not a matter of opinion, it's a matter of law. So I'm surprised that Hammersmith and Fulham didn't know this. Or, if they did know it, why they didn't get some sort of clearance from HMRC.

ABRAMS: Wouldn't this therefore be fairly standard practice for, you know, a human resources department or a payroll department to check with HMRC on something like that?

PEARCE: If you are paying somebody, whether you're a big organisation or a corner shop, you have responsibilities when you make those payments, to make sure that they are routed through the correct tax regime, and the same for any size organisation. And you can understand a small business might not have an HR department, but clearly Hammersmith and Fulham does, and has people who are trained payroll specialists and they should know that.

ABRAMS: There's no suggestion Mr Johnson avoided paying PAYE, because he may have done so via his own company. But we wanted to know why Hammersmith and Fulham chose to pay him in this way, even though he spent three years in the role. They wouldn't be interviewed, but in a statement they said he wasn't an office holder, so he didn't need to be on the payroll.

READER IN STUDIO: There is no reason why an organisation should not appoint someone as its interim Chief Executive over an extended period. A decision was made by the Hammersmith and Fulham Homes Board that an interim appointment was more appropriate than seeking a permanent appointment, given the urgency of the challenges faced.

ABRAMS: But Nick Johnson wasn't the only senior person at Hammersmith and Fulham who was paid through a company. We've discovered the council were worried enough to appoint an accountancy firm, Deloitte, to report on the extent to which these contracts had been used throughout the council. And we've seen the confidential report. It gives details of a long list of people who were paid through personal service companies. The report's also come to the attention of Stephen Cowan, the leader of the opposition.

COWAN: We discovered that there were seventeen companies who were being employed as consultants, but actually were supplying one individual who was working within the Hammersmith and Fulham management structure.

ABRAMS: So seventeen people were working for Hammersmith and Fulham Council but were being paid through companies?

COWAN: That's right, yes, and some of those people had actually worked for us previously, had retired and then come back. So it seemed to be fairly large scale and we thought it needed to be investigated further.

ABRAMS: Were you surprised by the scale of it?

COWAN: Shocked I think was really the issue, because there is quite a lot of squeeze at the moment in employing people, and indeed the administration argues it's not employing so many people. But to find out that we were employing seventeen people on fairly large salaries in almost every case, via the limited company mechanism was more than a little surprising to all of us investigating this.

ABRAMS: Hammersmith said the number employed through companies, previously seventeen, had now dropped to eleven.

READER IN STUDIO: Following an extensive external expert review, we are confident that Hammersmith and Fulham Council's procurement and deployment of individuals via personal service companies is effectively controlled and monitored and that the risk of any PAYE or National Insurance noncompliance has been minimised.

ABRAMS: And Hammersmith and Fulham aren't alone – lots of other authorities are doing it too. Using Freedom of Information legislation, we asked all the councils in the UK how many people they had in permanent posts, but paid through companies.

ACTUALITY WITH COMPUTER

ABRAMS: I'm looking at some of the emails we've had back from councils. Quite a few of them say they don't even know how many people are employed in this way. But some of them have quite a lot. Hackney in London's got thirty-nine. Lewisham's got six. And some quite small councils are using the arrangements too. Craven District Council, in North Yorkshire says it has eight, Ashfield in Nottinghamshire five, St Edmundsbury in Suffolk five as well. Across the country, our information shows there are certainly almost a hundred people working for councils but paid through private companies.

HODGE: I really strongly feel that this is a tax avoidance scheme which is totally wrong, where you are a public servant. It is not right that you should find yourself paid in a way that avoids tax.

ABRAMS: Margaret Hodge, who's the chair of the Public Accounts Committee, says its time these arrangements were put to an end.

HODGE: Anybody directly employed by Government should not be on such a scheme. I think very strong directives need to go up from Government to local authorities, that they should not be using tax avoidance schemes, and the terms under which you can run a personal services company are defined by HMRC and if those terms are being contravened, then HMRC will have a duty to ensure that they bring to an end the tax

HODGE cont: avoidance scheme. The local authority, I have to say, also has a duty as a public sector body. This may not be a legal duty, but I think it's a moral duty.

ABRAMS: John Brazier is the managing director of PCG, a body which represents freelance contractors. He says we don't need to be too concerned. There are perfectly good reasons why such people shouldn't be on the payroll.

BRAZIER: Tax paid by a limited company contractor is not just corporation tax on the revenues they bring into their company. They then have to pay themselves, upon which they then pay income tax, and if they're engaging somebody within their own business, it may only be one extra person on an employed basis to do some contracted work or something, then of course they have to pay National Insurance contributions on those people as well. So it's not as straightforward as the press have been pointing out. Government and local government in particular could not function for the sake of many hundreds of thousands of contractors up and down the country who are engaged for short periods of work or indeed on fixed term periods of work. These individual businesses, if you like, sometimes referred to as personal service companies, should be allowed to operate in the same way as any limited company does currently.

ABRAMS: But surely what we're getting here is the suspicion that companies are being used as vehicles for tax avoidance.

BRAZIER: I think you're absolutely right. There can be suspicion because people don't understand. But, I mean, I would just ask the general public to think very carefully that we mustn't build up a story here that suggests that these people are tax avoiders. I mean, this is absolutely the case. There is a tremendous amount of work being done by these people, assisting companies and assisting Government up and down the country.

ABRAMS: We are seeing examples though where, you know, local authorities are taking somebody on as an interim Chief Executive. Three years later they're still there and they're still being paid through their own company.

BRAZIER: Yes, I think there are some borderline cases. There are some contracts in some industries where, by their very nature, they will be more long term. Now you can take a view that somebody on a three year contract could equally be paid on a PAYE basis

ABRAMS: But you say some of these cases are borderline. I mean, if you're a Chief Executive, you're a Chief Executive. That's an office, isn't it?

BRAZIER: Yes it is, and I think there's a, there are some areas, I think, if you're a Chief Executive or a managing director of a company, unless you've gone in on an interim basis to cover some sort of crisis, for example, that to my mind would normally be, under normal circumstances would be generally speaking an employed opportunity, yes, absolutely.

ABRAMS: But there have been questions about the use of personal service companies in a wide variety of organisations. There've been similar arrangements in hospital trusts and quangos, too. And the Government has been expressing concern. Later this month the Chief Secretary to the Treasury, Danny Alexander's going to report to MPs on why some civil servants are paid through private companies – a review which followed the revelations about the Student Loan Company. And the Government's also planning to announce in the Budget that there'll be a new law to tackle the most egregious tax avoidance schemes. But there's widespread scepticism about how effective it'll be. Paula Tallon from Gabelle Tax says if you're looking to avoid tax, there are still lots of ways to do it.

TALLON: If you type anything into the internet concerning sort of avoiding tax, tax mitigation schemes, there's loads out there. So, for example, what this is saying on it is zero per cent income tax, and if we scroll down here, now it's not clear what this strategy is, but it seems that it's one that centres around income tax and generating an income tax loss. So, for example, if you've someone who's got substantial profits or income, employment income, they may want to wipe out a tax charge on this, they may consider something like this.

ABRAMS: So what they're basically doing here is offering people who have made a profit some way of making it look as if they've made a loss, so that they don't pay tax?

TALLON: Exactly that. This is just one of many on the market, and I think if you have a look around what's available, some of them will tell you they're bullet proof, some will even tell you that they've got Revenue approval on them.

ABRAMS: What's this one here?

TALLON: Now, this one here, this is another tax avoidance outfit, and what they're looking at here is strategies to extract money from a company. So, for example, if you've got business profits in a company you would traditionally pay corporation tax on, what they're looking at doing is taking those profits out in a way that you get a tax deduction so you've no corporation tax in the company. You know, these kind of strategies, let the buyer beware, they come back to bite with penalties and with interest. So in many cases they can be a really costly strategy.

ABRAMS: If, as you say, most of the schemes have got flaws in them, how do they make their money then?

TALLON: I certainly know of cases where I've spoken to people who've done say nine or ten schemes over the last two or three years, and the way they look on it as well, you know, if two or three of those pass under the Revenue's radar, well I'm still quid's in – still made money and paid less tax.

ABRAMS: And do the Revenue have the resources to police them properly?

TALLON: They probably don't at the moment, and part of it is probably they don't know what schemes are on the market and it's trying to keep on top of everything that's on the market.

ABRAMS: And it isn't just specialists, high-fliers and the wealthy who're involved in tax avoidance. Even low paid workers are being unwittingly sucked into it.

ACTUALITY AT INTERVIEW

SUTCLIFFE: So tell me about any experience you've got with working as a tool hand or a bench hand, anything mechanically.

MAN: Been fiddling with bikes since I was, like, four. I'm normally a BMXer, you know

SUTCLIFFE: Oh, BMX bikes?

MAN: Yes.

SUTCLIFFE: So you're used to taking them to pieces, putting the cranks back together ...

MAN: Yes.

ABRAMS: It's Thursday afternoon, and Gary Sutcliffe's interviewing potential candidates for next week's jobs at his employment agency in Goole on Humberside.

SUTCLIFFE: Okay, if you can tick any of these boxes on here with the kind of work that you've done in other places, you ought to be able to tick some of these boxes. You've worked with food, non food ...

ABRAMS: At peak times, Mr Sutcliffe has about two hundred people out working in agriculture and horticulture. But times are hard and he's struggling to compete with other agencies, which often seem to be able to undercut him massively. Recently he had a visit which opened his eyes about what was going on. It was from a payroll company – and what they were suggesting looked a bit too good to be true.

SUTCLIFFE: We were approached by a company offering us an accountancy service. They came with all the paperwork and it's fully explained line by line why it's legal.

ABRAMS: What were they telling you that this scheme would do? How would it work?

SUTCLIFFE: Well, if the worker travels to work by car, HMRC make an allowance per mile for using your car to get to work if you're a genuine mobile worker, working at multiple sites, different sites, different clients. This isn't usually the case. And also you can have a subsistence allowance for food, so many meals per day depending on how many hours a day you work, and it can rack up to quite a substantial amount. A large part of the workers' wage could be offset against expenses.

ABRAMS: The scheme on offer was exploiting some pretty straightforward tax rules. If you're a temp or a 'mobile worker,' as the jargon goes, you don't have to pay tax on any expenses you incur as you're travelling around. The truth is, most agency workers don't really travel much so they don't have many expenses. But these companies have found a clever way to make money out of them. According to the firm Mr Sutcliffe saw, the expenses could be made to add up to a very major part of a worker's wages. The company can then deduct them from the worker's taxable wages, meaning they could pay almost no tax. The company left Mr Sutcliffe some figures, spelling out how it could work.

ACTUALITY OF GARY SUTCLIFFE WITH PAPERWORK

SUTCLIFFE: This is an offer, a written offer by a professional service company to offer me a wages service for the staff that includes the travel and subsistence allowance, so the company would effectively become the employer of all my agency workers. I would carry on supplying them to the clients, but the wages would be paid for by this service provider and they would operate the expenses scheme, the holiday pay accrual scheme – all of it.

ABRAMS: What's the saving on the tax and National Insurance in this case?

SUTCLIFFE: The saving is £20 for tax, a little over £12 National Insurance, so £32, almost £33.

ABRAMS: The company saves £33 essentially, and how much of that money does the worker see?

SUTCLIFFE: Just over £4 out of the total.

ABRAMS: So £27 of that saving goes to the employment agency and the people who are running the scheme for them?

SUTCLIFFE: Yes, it goes to the company running the scheme, but a system is already, an agreement is already in place as to how much goes to the employment agency and how much the accountancy service keep. Technically it then belongs to the worker. However the worker signs away their rights to it by you operating the accountancy service for them and you split the money and just give them a small amount in return, and I've seen offers of as little as 10% going back to the worker and 90% coming to the employment agency.

ABRAMS: But essentially the worker gets a little bit more than 10% of the saving on their tax?

SUTCLIFFE: Yes, the worker gets a tiny proportion and, more often than not, they don't even realise that they're on the scheme.

ABRAMS: There are lots of these payroll companies out there. The Government's estimated there are about 100,000 workers on these schemes, though some people say even that's an underestimate. I've got some pay slips here from three different companies which are doing it. This employee's clocked up a suspiciously round £100 a week in travel and subsistence expenses on two consecutive weeks. This one doesn't even bother to mention travel costs, just a 'tax relief expense' of £140 on a weekly wage of

ABRAMS cont: £340. And on that £340, this worker's paid just £10.40 in tax. One problem for the workers is if they don't pay full National Insurance contributions, that can affect their entitlement to benefits in the future. And Paula Tallon of Gabelle Tax says there are other potential risks too.

TALLON: Most of the people who are using these schemes, they are at the sort of very bottom end of the wage scale; they are on the minimum wage or slightly above. So if there are any issues with these schemes in the future, it's these employees who may have an adjustment through their coding notice and may find one year, two years down the line they have a tax liability that they weren't expecting if these schemes have failed. Now with some of these employees, if they get a tax bill for £1,000 that could be a substantial amount of money, so the people who are affected by these schemes are the people who are sort of closest to the minimum wage level, and depending on how these schemes are run, they may or may not have implications coming back to them.

ABRAMS: Last year, ministers decided to put an end to these schemes through an amendment to the minimum wage regulations. But Mr Sutcliffe was asked to join one several months after that, so the arrangements are still being used. And it isn't just this kind of complicated, artificial scheme that's causing problems. 8% of the total tax owed never gets paid, through evasion, avoidance or simple mistakes. And according to Richard Murphy of Tax Research UK, the sums involved are huge.

MURPHY: There's no doubt that the Revenue have increased the amount of tax they collect per person employed, but let's look at some of the core numbers in this. I've done more research outside the Revenue on how much money is lost a year than probably anybody else. I still believe that the Revenue are losing £70 billion of evaded tax a year. They dispute that, they say it's only about £25 billion. Their number would make us by far the cleanest economy in the world, and I hate to say it but we're not. I still think we're losing around £25 billion through avoidance, it's a harder number to define because avoidance by definition is legal so what you include in your numbers is always disputed, but if we could only collect a part of that gap, we would definitely be in a better position with regard to cuts, keeping the markets happy and everything else that the Government says is its objective.

ABRAMS: Earlier this month, the National Audit Office reported on HMRC's compliance and enforcement programme. There was some good news – an extra £4 billion in revenue since 2006. But according to the report, the programme missed two of its four targets and failed to collect any evidence about a third. The only target it did meet was to reduce staffing by four thousand. Graham Black, a tax inspector and President of the Association of Revenue and Customs, says cutbacks are affecting the service's ability to do its job.

BLACK: It affects it significantly. Clearly people will still go after the biggest risks that we see, but it does mean that we don't have as much resource to identify where there might be a tax avoidance scheme or indeed to combat it. We need tax inspectors, we need accountants, we need lawyers, we need people with a lot of professional expertise. Now these are not things that we can train people up in a matter of weeks to combat, and as we lose them it's very difficult to replace them anyway and the numbers have been going down on year on year.

ABRAMS: So are you saying then that HMRC should be a special case when the public sector's being cut across the board?

BLACK: I suppose I am. When you look at the fact that HMRC is the only part of central Government which brings money in, it makes no sense to cut back on that because you'll bring even less money in and the deficit will get worse. Here we have a bit of the operation which could bring more money into the Exchequer without raising overall tax rates by simply making sure that everyone pays their fair amount of tax that Parliament have said should be paid.

ABRAMS: Again, we would have liked to have asked HMRC about this, but they declined to be interviewed. The Treasury refused too. But the Treasury Minister, David Gauke, said in a statement that the Government was devoting extra resources to collecting tax.

READER IN STUDIO: The Government has invested an extra £900 million in HM Revenue & Customs to take action against those who don't comply with the rules – a move that we expect to bring in an extra £7 billion a year in revenue by the end of the

READER IN STUDIO cont: Parliament. With two hundred new criminal investigators already recruited, we anticipate that they will help deliver one thousand additional prosecutions by 2015.

ABRAMS: But MPs on the Public Accounts Committee say they have serious questions for senior tax officials. The committee's chair, Margaret Hodge, wants to know if they're really up to the job of closing Britain's tax gap.

HODGE: There are not enough people working in that organisation who have the deep knowledge of tax that we really need to be on top of this. I do think that requires us to always be a step ahead in Government and not a step behind the inventiveness of the specialists who try and devise new ways of avoiding legitimate calls on their income to pay their contribution through taxation to pay for public services we all enjoy. You're talking about many, many billions of pounds here. I think we want to actually stretch the ambition of HMRC, and I think they've got to work harder and I think they've got to do better at getting that money in. Remember, every pound they don't get in will be a pound of additional cuts in frontline services.

SIGNATURE TUNE