

Amnesty move on offshore accounts

By Vanessa Houlder

A partial amnesty for thousands of tax evaders who hide money abroad is being drawn up by tax inspectors.

Proposals to encourage investors with undisclosed offshore accounts to come forward are under serious consideration by Revenue & Customs, although they have not yet been agreed by ministers.

The offer, which is likely to cap penalties at a 10th of their current maximum, would be designed to encourage individuals to disclose their offshore holdings, in centres such as Switzerland and the Channel Islands.

Holders of undeclared overseas accounts are thought to include people with overseas holiday homes and people who earned money overseas.

Jeanette Harwood of Walker Morris, professional services group, said she understood that the Revenue's own research had estimated that more than €267bn (£180bn) was held by UK residents in 13 offshore financial centres. Jersey was the most popular centre for UK residents.

The concessions would be timed to coincide with a legal ruling expected to force a group of high street banks in Britain with international branches to divulge information on clients with overseas accounts.

The banks would be asked to write to their customers, informing them about the Revenue's voluntary disclosure offer at the same time as telling them that their details had been handed to the revenue.

This legal move, expected early next year, is likely to have a similar impact on the banks as a landmark judgment concerning Barclays bank in April. By forcing Barclays to hand over records of its customers with offshore accounts, the Revenue said it expected to collect an extra £1.5bn in unpaid tax.

The government is likely to avoid using the term "amnesty", as it will reserve the right to prosecute in the most serious cases. Moreover, investors will face significant financial costs even if they take advantage of the reduced penalties. The Revenue, which can go back up to 20 years to recover unpaid tax, is not expected to offer any concessions on the interest costs.

The offer is likely to be extended for a limited period, after which investors would face heavy penalties if their accounts are uncovered by an investigation. Advisers said that people who might be at risk of prosecution are high-profile individuals, particularly those in positions of responsibility or trust.

Revenue presses banks on clients' tax data

By Vanessa Houlder

Revenue & Customs' recent successes in prising open secret offshore accounts, has emboldened it to make a fresh push for high-street banks to divulge information.

Its achievements in this area have shocked investors and astounded tax advisers. Jeanette Harwood, of Walker Morris, the professional services firm, said: "The way that HMRC [Revenue] has upped its game on tracking down offshore account holdings over the last year has been amazing."

Until recently, the Revenue had few tools that would allow it to extract information from banks in offshore centres, which jealously guarded their clients' privacy. The recently launched

European Savings Directive has proved largely ineffective because countries with strict banking secrecy laws, such as Switzerland, opted to impose a withholding tax rather than disclose information about their clients.

But a powerful new weapon emerged after a landmark court ruling in April forced Barclays to hand over details of thousands of its customers' offshore accounts, in a move the Revenue estimated would yield £1.5bn of unpaid tax. Soon afterwards, the special commissioners also ruled in favour of the Revenue, which wanted an investment bank to give details of its customers registered in a tax haven.

These cases are expected soon to be followed by another batch of disclosure

orders against a group of high-street banks. Eventually all banks with overseas branches could be caught in the net.

Sifting through the huge volume of information gleaned from these orders

will present the Revenue with a daunting challenge. Nonetheless, most tax investigators urge people to come forward, regardless of whether there is an amnesty.

Noshir Avari, of Avari and Associates, tax investigation

consultants, said voluntary disclosure was an attractive option. "If the Revenue comes forward with a so-called amnesty, they should consider themselves lucky."

But the calculation may be more difficult in some cases,

such as those where a person has not paid tax on the capital stashed overseas. The Revenue is unlikely to make any promises about not prosecuting people in these circumstances.

Andy Sharp, of Rathbone

Trust, the professional services company said: "I suspect that the Revenue will seek to dovetail a disclosure regime with the prosecution of one or two high-profile people."

The other dilemma for tax evaders is the question of how likely they are to be found out. Many advisers have assumed that only if you transferred money between the offshore bank and the UK would it be disclosable. But it is possible that the reach of the Revenue could be extended much further, presenting banks with difficult decisions. Ms Harwood said: "It's a minefield for banks and institutions. If they deliver more than they have to, they may face civil actions from customers for breach of confidentiality."

Even if no money has ever

been transferred to and from the UK, it is possible overseas banks may be forced to disclose information.

In July, an account holder with Coutts Bank von Ernst in Switzerland received a letter from his bank warning that "there is a possibility that the UK Revenue & Customs might seek access to information pertaining to your account with us". Since Coutts had provided him with a UK-based private banker to manage his banking relationship he had signed an authorisation allowing the UK bank to access to information on the Swiss account.

As the Revenue's action forcing banks to breach their clients' confidentiality gathers momentum, investors are likely to be in for some unpleasant surprises.

IRELAND OFFERS ANONYMITY BUT FINDS FEAR THE SHARPEST WEAPON

The promise of anonymity is one of the incentives offered by the Irish Revenue to encourage tax defaulters to come forward, reports Vanessa Houlder. Any taxpayer who fails to do so voluntarily and is later caught evading a significant amount of tax is named in a list published in *Iris Oifigiuil*, an official newspaper, three times a year. Since 2002 the list has also been published on its website.

Along with anonymity, the terms of the amnesties extended by the Revenue over the years have included financial incentives and the promise of an escape from prosecution.

But the exact terms of the deals on offer have differed, as the Irish Revenue tried to get the right balance between encouraging defaulters to come forward without annoying law-abiding taxpayers and rewarding evasion.

An amnesty granted in 1993 allowed taxpayers to come clean by paying tax of just 15 per cent on previously undisclosed funds. Such a generous offer would not be considered appropriate today, the Revenue says. More recently, in 2001, it launched a scheme to encourage people to own up to "bogus" non-resident accounts, held by people who escaped paying tax on the

interest on deposit accounts by claiming to be living abroad. It offered immunity from prosecution and disclosure and, furthermore, capped interest and penalties at 100 per cent of the tax due.

It believes that its success in investigating wrongdoers who had not come forward voluntarily meant that people were more willing to present themselves for its next amnesty, concerning offshore assets in 2004, which raised €840.3m (£565.5m). However generous the terms of the amnesty, the Irish experience suggests that fear of being found out is the most potent weapon of all.