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19 August 2020

Economic Crime Unit  
City of London Police  
[media@cityoflondon.police.uk](mailto:media@cityoflondon.police.uk)

Dear Economic Crime Unit,

I am writing to you to request that the City of London Police opens a fraud investigation into the promoters of disguised remuneration tax avoidance schemes. These are schemes which are marketed as legal tax avoidance schemes, but which are in fact designed to both defraud the Treasury and scheme users.

TaxWatch is an independent UK charity which has been established to promote compliance with the law in the field of taxation.

## The schemes

Loan based tax avoidance schemes involve the deliberate concealment of income from HMRC in order to reduce tax liability.

Typically they involve an employee being taken off the books of an employer and being re-employed as a contractor by another company.

This contracting company will split the payment to the former employee into two parts. A small amount will be paid to the contractor as a salary. This payment will be below the income tax threshold and so no income tax will be paid. The remainder is then granted to the employee as a loan, often via an offshore trust. These loans, it is argued, are not taxable as income – because they are loans.

However, the reality is that these loans are not genuine loans. They are granted on terms which mean that they will never be paid back, and the understanding between the company and the employee is that the money characterised as a loan should be thought of as theirs to keep. The effect is that the employee keeps 100% of their income tax free, minus any fees paid to the operators of the tax avoidance scheme, which are substantial and can be as much as 20% of earnings or more.

Loan based disguised remuneration schemes have been controversial for a long time. In the past some tax lawyers argued that these schemes had been constructed in a way which met the requirements of tax law. Loan scheme promoters claimed that their schemes had been designed and approved by QCs and were fully compliant with the law. This argument has now comprehensively failed. There have been a number of court cases confirming that these loans should always have been considered taxable income.

## **The continuing sale and marketing of schemes**

Now that the legal position on the taxation of disguised remuneration schemes is crystal clear, anyone continuing to design, market, and promote loan schemes can not be doing so in the honest belief that these are anything other than unlawful attempts to evade tax.

However, recent media reports, and our own research has confirmed that tax professionals continue to market these schemes – and continue to market them as being fully compliant with tax law. Those marketing these schemes are dishonestly making false representations, in that they are aware that it is misleading to state these schemes are compliant with the law.

## **Fraud on both the Treasury and scheme users**

Promoters continue to perpetrate these schemes because they are able to generate very significant fee income from scheme users, and if HMRC challenge these schemes, the users, and not the promoters, will be held liable for the taxes owed. This can result in total financial ruin for scheme users.

It is my view that these schemes constitute fraud, not only in the loss to the public purse, but also on the scheme users who may be fraudulently persuaded to join such schemes, handing over a substantial proportion of their income to promoters, on the mistaken understanding that these schemes are lawful.

Some users of failed tax avoidance schemes have since started civil actions against scheme promoters. However, as far as I am aware, no criminal action has ever been started by law enforcement authorities for the fraudulent sale of these schemes.

The continuing sale and marketing of disguised remuneration tax avoidance schemes constitutes a serious economic crime costing the Treasury hundreds of millions a year. Until the promoters of fraudulent tax schemes are prosecuted, they will continue to ruin lives.

I request you urgently open an criminal investigation into the promotion of these schemes. TaxWatch of course stands ready to assist in the collection of evidence in any way we can.

Yours faithfully,

George Turner

Director

TaxWatch