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## TAX AVOIDANCE AND EVASION

*HC Deb 11 July 1984 vol 63 cc1177-203*

*'Within twelve months of the passing of this Act there shall be laid before this House a report by the Board of Inland Revenue on the scale and nature of tax avoidance and evasion.'*—[Mr. Hattersley.]

*Brought up, and read the First time.*

Mr. Hattersley I beg to move, That the clause be read a Second time.

In new clause 12 we are trying to encourage the Government to set out, after investigation, the scale, extent and nature of what is popularly and, these days, loosely called the black economy. I hope that, when he replies, the Minister of State will make clear his, and therefore the Government's, views on the black economy. He will recall that, during Treasury Question Time in December, he urged us to regard the black economy as not all bad. He said that there were many merits to that part of our national life. I hope that he makes it clear today that that was the occasional slip that we all make and that he did not intend to suggest that the behaviour of people who avoid or evade proper tax payments is in any way condoned by the Government, as seemed to be the case during that Question Time.

When we talk of the black economy, we talk of two groups of people. The first are those who avoid their legal obligation to pay taxes. That can be done in a variety of ways. They might have employment that is not declared for tax or they might be employed but, by a series of additions to their payments, do not pay tax on the full range of their emoluments. The second do not act strictly illegally, but they do not act within the spirit and intention of Finance Bills. I refer to tax avoidance which is practised by men and women who do not get sent to prison but nevertheless intentionally avoid the purpose of a tax when it was introduced by the House. They are the people who discover the loopholes and exceptions and make fortunes for themselves and others by evading and avoiding the intentions of the House.

We are by no means certain of the extent of the revenue that is lost to the Government and the nation through the operations of both sides of the black economy. A former chairman of the Board of Inland Revenue has calculated that 7.5 per cent. of gross domestic product is lost. The Central Statistical Office has rather more recently suggested 3.5 per cent. of gross domestic product. Either way, an enormous amount of potential Government spending power is lost.

Conservative Members sometimes make speeches about poor families and individuals who are overpaid a few pounds in national insurance receipts or unemployment benefit or in the discretionary payments that they receive as old-age pensioners, and refer to them as people who dodge and improperly receive the benefits of the welfare state. What is lost by the improper receipt of welfare payments pales into insignificance when compared to what is lost through tax avoidance and evasion.

I regret that the Chief Secretary is not to reply to the debate as, when we last discussed these matters, he talked of Government handouts. He referred to what other people call national insurance and social security payments. I should have enjoyed his confirmation that the handouts of which he spoke so dismissively do not, through their improper payment at the margins, lose to the revenue the type of sums that are lost through the black economy. These sums may, by some calculations that I have heard, amount to £11 billion a year or, even if the lower estimate is right, may amount to £3 billion a year. That is most of our total education bill. It is an increase in every taxpayer's personal allowance of 30 per cent., and a cut in basic tax rates of 6p in the pound. All those things would be possible were we collecting the funds that ought to be collected according to the will of Parliament. All we ask is that Government make an assessment of the extent of the problem, and report to the House how extensive a problem it is. We believe that, were the extent of the loss to be clearly understood, the Government would set about correcting the loss with a great deal more determination than they do at present.

I want to make a few brief comments about how the loss could be corrected and the sums that the Revenue should receive be collected. I concede at once that in parts of the black economy the problems of discovering the illegalities and the problems of collecting those sums which should come to the Revenue are difficult. They are difficult when they apply to small men who, when they return home from their normal pay-as-you-earn employment, may do some freelance job of building, gardening, or motor car maintenance and repair. It is enormously difficult to catch them and require them to pay the money that they should be paying to the Exchequer. However, there is also the area, not of illegal evasion, but of legal avoidance where huge companies spend their public time publicly preventing the Exchequer from receiving enormous sums of money. Were their activities registered by the Government, I believe that the pressure to take action against them would be irresistible.

I give only one example that comes from a document prepared by the staff side of the Inland Revenue departmental Whitley council, men and women whose job is to collect taxes, and who often feel that their job is made more difficult by the Government's actions in allowing so much leakage and so much escape. I quote from one paragraph, which says: "In a Financial Times article on 9 October 1979 Mr. Roy Tucker and Mr. Ronald Plummer estimated that between 1972 and 1978 their vehicle, the Rossminster group of companies, made £5 million clear profit out of avoidance activity alone." The idea that there may be a quoted company in this country that exists in order to advise people how to avoid the tax obligations which are placed on them by this Parliament seems to me to be not only a disgrace but nonsense in terms of the way in which the economy ought to be run. The then Chief Secretary, now Lord Barnett, commenting on this problem, said in the House at the time that the Tucker and Plummer revelations were made that he suspected that the general activity in the avoidance field was costing the Revenue something like £200 million a year in lost tax revenue. He went on to say that legal avoidance involved widespread and sophisticated activities employing some of the best brains in the country. We shall all have our own views about that, but we shall no doubt want to acknowledge that there is a widespread practice, accepted in some parts of society, that vast fees can be obtained for advising other individuals how they may find the loopholes in our taxation system:

I have no doubt that some weak-minded Conservative Members will announce that there is no legal obligation on companies or individuals so to arrange their tax systems that they pay the maximum amount possible. We all accept that, of course. But I think that many hon. Members will argue that there is a moral obligation on individuals not to go out of their way to discover the technical loopholes in legislation in order that they may receive substantial sums which finance Bills and Parliament never intended. If there are hon. Members who doubt that—I see that there are, sitting below the Gangway, smiling in their cynically superior way at the thought that people might have moral obligations to pay their taxes—that is the point that I am making. As they will avoid paying tax if they possibly can, it becomes the duty of the House to make sure that they pay tax. I hope that as a first step towards that, the Minister will agree that at least the House can be told the extent of the problem, and that an annual review can be carried out by the Board of the Inland Revenue.

Mr. Peter Bottomley (Eltham) I had intended to speak before the right hon. Member for Birmingham, Sparkbrook (Mr. Hattersley) threw his insult across the Floor of the House. I think that he was probably trying to make sure that Conservative Members were still awake.

1.30 am

It is most important to try to keep a fairly up-to-date idea of how wide the tax base is. The major cause of substantial efforts at tax avoidance is the high rate of tax. If we want to see the black economy diminish without economic activity diminishing, and efforts at avoidance reduced, one of the things we have to do is make sure that the marginal rates of tax are reduced, because then the marginal returns of sophisticated tax avoidance systems would be reduced. The only way to reduce marginal rates on a wide scale is by having a broader tax base for personal incomes—about which I know more than I do about corporation profits and reduction of tax—and by making further efforts to reduce expenditures over time. This new clause, if it is passed would not necessarily have that effect.

I should prefer to see one of the Select Committees putting a good deal of effort, not just in one year, but in successive years, into looking at the tax base. About half of personal income is subject to tax, and when one has allowed for personal tax allowance, mortgage interest relief and all the other things, we are left with the narrow personal tax base. I suspect that the same thing applies to corporate tax.

On corporation tax, knowing in advance that the mainstream rate of corporation tax will come down in a predictable way, will get many of these bright brains looking for bright ways to increase profits rather than reducing them. We need to do that.

On personal taxation, I have said on a number of occasions that we have got a time bomb with mortgage interest relief. In the next two or three generations, people will inherit the value of homes from parents and grandparents, and there will be distortion as more and more people put more and more disposable wealth into their home. Owner-occupation is a marvellous thing to encourage, but in the next 40 years there will be a predictable narrowing of the personal tax base, which makes the reason for such interest relief less and less obvious. The House should examine this matter.

I noted that my right hon. Friend the Prime Minister recently said that the mortgage interest relief system will continue as it is. I am all for keeping some form of mortgage interest relief, but it should be concentrated on the town and country planning formation, and not kept in the present system for too long, because it encourages people to increase their mortgage to get the higher tax relief year after year.

The new clause is worth discussing, but it is better for a Select Committee to go looking at the tax table, and investigate tax avoidance and evasion, rather than relying on one short paragraph issued by the Government once a year.

*Mr. George Foulkes (Carrick, Cumnock and Doon Valley)* This year, I have been suffering from withdrawal symptoms through not having my regular fix as a member of the Committee on the Finance Bill. Over those long evenings, well into the morning, my hon. Friends and I had the pleasure of debating with Tory Members who were regulars on the Committee. I well remember the Chief Secretary to the Treasury, the right hon. and learned Member for Dover (Mr. Rees), sitting there night after night in his shirt sleeves and braces. I remember his constant refrain, which became a sort of parrot cry—my hon. Friend the Member for Workington (Mr. Campbell-Savours) recalls it, as he sat with us. The Chief Secretary repeated the phrase, "We need the money". My hon. Friend the Member for Glasgow, Cathcart (Mr. Maxton) is putting it elegantly to music.

The Chief Secretary constantly said, "We need the money". We were discussing all sort of amazing ways to raise tax. I remember a long and interesting discussion on raising more tax through an increased levy on chewing tobacco.

My hon. Friends are putting forward a way to ensure that the Government get some of the money that is due to them. My right hon. Friend the Member for Birmingham, Sparkbrook (Mr. Hattersley) has spoken about the problem of the black economy. It was noticeable that Conservative Members almost excused and explained away tax evasion, which after all is breaking the law. That, coming from the supposed party of law and order is disgraceful. It is a lot for us to take.

We see in operation a very different attitude towards a poor widow who may have just a few pence too much from the DHSS, through an error that may not even be hers. She is hounded for the extra money that is paid to her. I suggest that much more money is available from tax dodgers, evaders and avoiders than we shall ever get back from the poor widow who had a little too much by mistake from the DHSS.

I fully support the main thrust of what my right hon. Friend said, but I should like to raise an item that I used to raise in the Finance Bill discussions, and which I shall continue to raise so long as I am in the House. Perhaps the Government or, after the next election, our Government, will do something about tax evasion, and the deliberate avoidance of responsibilities and duties by those people and companies who set themselves up in or flit away to, the offshore islands, such as Jersey, Guernsey and the Isle of Man.

I visited Guernsey recently at the island's invitation, and was given quite a warm reception. No eggs were thrown at me on that occasion. One of the questions that the friendly people of Guernsey asked me—the people of Jersey were not quite so friendly—was why I was so interested in the matter, and continued to hound them. They asked, "Why do you have this bee in your bonnet? What does it have to do with you?" The important answer to the question, which is of interest to my constituents in Carrick, Cumnock and Doon Valley is that they are paying more taxes or getting poorer services because those people, who are far more able to pay tax are going away and dodging their

responsibilities. They, including some Conservative Members and their friends are deliberately setting up companies on those islands to avoid paying tax. That is why the question is important to my constituents.

I should like to deal with two categories, individuals and companies. The individuals are particularly brass-necked. I was not able to hear a recent Radio 4 broadcast, but I got a transcript of it, courtesy of the BBC.

It was about Mr. Alan Whicker, the TV performer. He gets a lot of money from the BBC, but all of us, including my constituents, pay the licence fees which go towards paying for Alan Whicker.

Alan Whicker has moved to Jersey to avoid paying his due share of tax, yet he had the cheek to appear on a Radio 4 programme and attack me for attacking him. What is more, he got paid a fee for doing so. But he will not pay a full rate of tax on that fee, whereas if I were to appear on the BBC to reply to that accusation, I would have to pay my full share of tax.

Alan Whicker's gall was bad enough, but this also applies to people such as Jack Higgins, the thriller writer, whose books people such as my hon. Friend the Member for Cathcart buy. They contribute money to Jack Higgins, yet he slips off to Jersey to avoid paying tax.

Even a member of the Government had a home on the Isle of Man. At the time he was a member of the Cabinet, and there was much controversy because the editor of the Isle of Man newspaper dared to criticise Lord Cockfield and was sacked for doing so. It transpired that a member of the Cabinet had his hideaway house in this tax haven on the Isle of Man. These are the ones we know of. How many more people enjoy these tax-dodging opportunities?

Although companies do not attract such spectacular publicity, they are far more serious and worrying. Thousands of companies are established on these offshore islands every year — more than 1,000 registered in Jersey—deliberately to avoid paying their full share of tax. These companies operate and make their profits in the United Kingdom, but register subsidiary or parent companies on these islands deliberately to siphon off profits. As a result, profits in the United Kingdom are minimised and profits in the tax havens are maximised.

Laker was one such company. When that company crashed and the workers tried to use United Kingdom laws to protect their interests, they discovered that as they were employed a company registered in one of these offshore islands they did not enjoy the protection of United Kingdom employment legislation. These are often sham companies. They are established with island nominee directors. Indeed, some company lawyers are directors of dozens, if not hundreds, of companies. When I was there, there was a newspaper article by one of their own advisers warning them that they had to take seriously their responsibility as directors. They were warned no longer to attend just one meeting, usually in a hotel lounge where they all sat around having a drink. That was the official meeting, and the company record showed that to be the appropriate annual meeting. Therefore, in many cases these are not real, operating companies.

I am sure that my right hon. Friend the Member for Sparkbrook wants this included in the report to be produced within 12 months under new clause 12. It is particularly galling—I said this when I was there—to have these islands so close to the United Kingdom and enjoying many of the benefits as if they were part of the United Kingdom. I am sure that some hon. Members, and certainly many of the public, think that those islands are part of the United Kingdom. They certainly get many of the benefits. The people get British passports. If they need sophisticated medical treatment, they come over and get it on the National Health Service. It is usually our prison service that looks after their serious criminals.

1.45 am

The Channel Islands and the Isle of Man still have the death sentence. Although in practice the Home Secretary always commutes the death sentence, it is ironic that if someone was to be executed, it would have to be carried out here, in the United Kingdom. Those on the islands also have all the advantages of access to United Kingdom television and radio, to all the institutions, and to insurance cover. They have the same banking facilities. The same banks operate there, although they operate differently. The inhabitants can join the Automobile Association, or, if they

are posh, the Royal Automobile Club. All the institutions are the same. I could go on, but I can see that hon. Members do not want me to.

Mr. Home Robertson Is my hon. Friend aware that the Government are now talking about giving the vote in British general elections to those who have gone abroad to avoid taxes? That was announced a couple of weeks ago.

Mr. Foulkes That is an interesting point. When I was over there, I suggested that integration into the United Kingdom should be considered, which might mean having the vote and one or two constituencies. No doubt they would be Conservative constituencies, so that shows how generous I am in suggesting such integration. However, that would be a logical move.

Those islands have many of the advantages that go with being part of the United Kingdom. They are within easy reach of it. Businessmen who live in the Channel Islands may well have businesses in London as well. As the islands are so close, they can fly to and fro, fulfil the residential qualifications and carry on their business here as well. That is why the islands are so popular.

When I was in the Channel Islands, one of the criticisms that I heard was that if we got rid of all the companies and money, they would go to other tax havens such as the Cayman Islands. But we should also be doing something about those islands, because they are a United Kingdom dependency. If those companies moved, they would face an entirely different sort of operation. Most of the individuals or companies that register in the Channel Islands or the Isle of Man do so because of the convenience of being so close to the United Kingdom. To all intents and purposes, those people are living in the United Kingdom.

When I was in the Channel Islands I constantly said that those who lived in such places had all the advantages that residents in the United Kingdom have, but none of the burdens. I am glad to say — and it is one little step forward that the Government have taken — that the Home Secretary has at last invited Guernsey and Jersey to consider contributing towards the cost of defence and foreign representation. I suggested that, although I do not say that the invitation has anything to do with me. I am the last person to whom the Government would pay attention—[HON. MEMBERS: "Hear, hear."] That point seems to find favour with Conservative Members. But irrespective of who suggested that, the logic and sense of it have come through. Perhaps even the Treasury has realised that there is an opportunity to get some more money. Perhaps even the Chief Secretary has realised that if Britain obtains a substantial contribution from Guernsey and Jersey towards defence and foreign representation, that will reduce the burden on our taxpayers. That is a step forward, but it has caused consternation, flurry and disquiet in the Channel Islands. The Government have done the right thing. The Home Secretary has taken the initiative. I hope that the Chancellor will take a similar initiative.

We do not ask for much in the new clause. We do not even ask the Government to take immediate action. We do not ask for action in this fiscal year. We ask only for a report on the scale and nature of tax avoidance so that we know how much money we are losing and how much we might put in the coffers if we did something about the problem.

I shall continue to pursue the issue. I hope that my Front Bench will do the same. I have used the phrase "parasite islands" on several occasions. That is what they are. They live off the fat of the United Kingdom. It is about time that they stopped living off that fat. They can keep their tax base so low because we cover most of their costs. The people who are most able to pay tax flit there, and the burden on those least able to pay increases. It is about time that some action was taken. I hope that the Government will take one little step forward.

Mr. Campbell-Savours My hon. Friend the Member for Carrick, Cumnock and Doon Valley (Mr. Foulkes) has been consistent on this subject over the years. Since I was elected I have heard him object repeatedly to the arrangements on the Isle of Man. He asked the people involved what would happen if we removed the concession and prevented them from taking advantage of offshore tax havens. They said that they would move elsewhere. In the coming years they might instead, patriate their tax arrangements to the United Kingdom because the Government's objective is to create within the United Kingdom a tax regime that would attract such companies and people back so that they can take advantage of concessions here at home.

One can go to the Library and pick out a copy of Exchange and Mart, turn to the section of commercial affairs and see a series of advertisements placed by tax consultant and tax management companies based in the Isle of Man and other similar tax havens in western Europe.

I arranged for a constituent to write to two such companies to find out what they had on offer. In the advertisement they referred to being in a "low tax area" where no corporation, capital gains or capital transfer taxes were paid. one advertisement said: "no need to worry. Send £1.00 for confidential advice and comprehensive guide." We wrote to CLW Management Services Limited of Hope street, Douglas, Isle of Man, which is, incidentally, only 30 miles away from my constituency. That tax haven is just off the west Cumberland coast. In the reply thanking me for our valued inquiry regarding company formation in the Isle of Man, the director enclosed a comprehensive brochure that gave details of the many advantages of being the beneficial owner of a Manx-registered company and an application form, on which we could list the preferred names of companies we wished to form.

The letter stated: "As you already know, tax avoidance is legal but also somewhat complex. If you would care to telephone the undersigned"—that is, Mr. Jones—"I will be pleased to enlighten you in any particular field. Ideally, if you could make a visit to the Island I would be pleased to meet you at the Airport and can then discuss your personal requirements." "Our service is a professional one backed by the facilities and advice of Accountants and Bankers. Our other services include Telex, Photocopying and Secretariat." The company sought to lay out a prospectus to attract us to the Isle of Man to register a company with a view to avoiding tax in the United Kingdom.

Mr. Maxton How many companies?

Mr. Campbell-Savours The exercise was thoroughly academic because I thought that the House would be interested to hear about such companies.

We also wrote to SGS Consultants Ltd. of St. George's street, Douglas, Isle of Man. The company thanked us for our inquiry and offered to supply us with nominee directors and shareholders. In his letter, a consultant said: "Whilst company formation is a fairly straight forward exercise, we would appreciate your reasons for such a company, so that we can arrange the correct situation for you. Please be assured, that all information is treated with the utmost confidentiality." "The tax saving in using an offshore company is quite considerable if used intelligently, especially in the following categories:" "Non-residents of the United Kingdom." "Fee earning individuals such as entertainers—sportsmen—consultants." "Individuals or companies engaged in business not necessarily confined to one particular country." "Import and/or export companies." "Individuals or companies who are in receipt of royalties, commissions, copyright payments." People are being sought out and sold the idea of avoiding paying taxes which should be paid to a British Government. That does not serve the greater British interest. Every effort should be made to terminate such activities, because they act against our social responsibilities.

Those matters must be taken in conjunction with other forms of tax evasion, of which we are all aware. It is not possible in London—I have repeatedly raised this point—or anywhere else in the United Kingdom to hire a tradesman without his asking in the course of a conversation whether one intends to pay in cash or by cheque and whether one needs an invoice. All hon. Members know that that goes on.

Mr. Patrick Cormack (Staffordshire, South) That is not true.

Mr. Campbell-Savours The hon. Gentleman must live in a rarefied world. Whenever I hire a tradesman, I am asked that question. It happens to hon. Members even within their constituencies, and we all know it. Such is the cheek of people that they even ask us, knowing that we are legislators, have wider responsibilities and are in the public eye, whether we wish to take advantage of lower prices arising from their offers not to pay tax.

Mr. Cormack The hon. Gentleman should not make such a general smear. He knows that many people work in a perfectly honourable and proper way.

Mr. Campbell-Savours I agree that many people work in a perfectly honourable and reasonable way, but many more are now cheating the system. As VAT in the building industry increases, it will have a spin-off effect and will create an

incentive not only to avoid paying VAT but to arrange their personal taxation affairs so that they need not pay the Inland Revenue.

Mr. Cormack indicated dissent.

2 am

Mr. Campbell-Savours The hon. Gentleman may shake his head, but we all know what is happening. Even if one telephones a tradesman in London he will ask "Are you paying cash or do you want an account?" That is the measure of the problem, and until it is resolved and it is no longer possible for people to do that, the black economy is likely to become even larger.

Those matters have been drawn to the attention of the House repeatedly, and about two years ago a committee was set up under Lord Keith of Kinkel to consider the Inland Revenue's ability to enforce compliance with tax laws. In 1981 the Inland Revenue suggested, on a broad view of the black economy that the annual tax loss could be about £4 billion. Understatement of business profits and failure to notify casual and agency earnings were but two elements of this. Other major elements were receivers of income not yet on the Inland Revenue records, which were referred to as ghosts, and taxpayers who understated their incomes or did not declare their secondary incomes, generally known as moonlighters. The Inland Revenue believes that all those categories cost the Exchequer £4 billion a year, but other commentators believe that the tax loss is substantially greater, and one organisation estimated it to be as much as £11 billion a year.

Dr. Marek Does my hon. Friend know whether the report has been debated in the House? If not, would it be a good idea if the Government found time within the next 12 months to debate measures that could recover a substantial amount of money—possibly even £4 billion—for the Inland Revenue?

Mr. Campbell-Savours My hon. Friend is asking me to comment on what should be a decision by the Leader of the House. However, we have an indicator of what his view would be: not once in the past five years have I heard a Conservative Member challenge Government policy on the collection of taxes in terms of the black economy. I have heard no questions on the matter, and I have sat through many debates on the tax loss caused by the black economy without hearing one speech from a Conservative Member on this matter. If that is the measure of their interest, it is unlikely that we could put meaningful pressure on the Government to allow time for such a debate.

Mr. Tony Banks Is my hon. Friend aware that, while we hear a lot from Conservative Members about so-called social security scroungers and the need for DHSS inspectors to hunt them down, the Government have reduced the number of Inland Revenue inspectors—when, by increasing the number, they might have obtained for the nation some of the £4 billion which is being lost by tax avoidance?

Mr. Campbell-Savours My hon. Friend is right. Indeed, various PAC reports show that the loss to the Inland Revenue from tax avoidance is far more substantial than assessments of the loss to the DHSS, yet the latter is always raised by Conservative Members.

The Keith committee was appointed in July 1980 against a background of widespread concern about the black economy and, among the business community, about the enforcement powers conferred on the Revenue departments by the 1972 and 1976 Finance Acts. The first two volumes of its report covered taxes on personal incomes, capital gains, corporation profits and VAT. They dealt with the powers necessary to enforce tax law under the four headings of the identification of the taxpayer, controlling the known taxpayer, criminal and other investigations and tax offences generally.

Those reports included 158 recommendations, of which 130 would involve fresh legislation. Those recommendations are now before the Government. Will the Minister say whether the Government intend to implement the Keith recommendations? If he ducks dealing with Keith, it will be clear that the Government are not interested in dealing with the matter.

A number of my hon. Friends, including my hon. Friend the Member for Glasgow, Cathcart (Mr. Maxton), and I are members of the Committee of Public Accounts. On several occasions we have had before the Committee the accounting officers of the Inland Revenue, giving evidence on manpower, value for money and the various areas which we must examine as members of that committee. The PAC's concern has been about the work forced on the Department because business taxpayers render their returns late. We were informed that inspectors must make estimated assessments to enable the Department to charge interest from the date when the tax was due to be paid. The Department has power operable through commissioners of the High Court, to impose penalties for late rendering, but the time limit is rarely enforced because the workload must be spread and there are not the resources to do otherwise.

We have with us tonight, to answer the debate, the Minister responsible for the Civil Service. He should take this opportunity to comment on the concern that the PAC has expressed about deficiencies in this area of taxation.

The Revenue has resisted the PAC's proposals to set statutory payment dates with interest accruing on any tax that is unpaid by those dates. The Keith committee considers the present arrangements to have "virtually broken down". It recommends statutory dates for rendering returns and accounts, with possible tax-geared penalties for late rendering. The PAC has asked the Department to have new powers to make random in-depth examinations of business taxpayers' accounts. A substantial power is being sought and it should be remembered that the PAC is an all-party committee. However, in the knowledge of the level of abuse that is taking place, it has asked that such powers be made available to the Revenue. This would mean that taxpayers would no longer be entirely protected by accounts that are constructed carefully to avoid challengeable inconsistencies. It would enable the Revenue to monitor systematically the general trend in compliance.

The Keith committee recommended that trading taxpayers be statutorily required to keep records and that the Department should be empowered to enter premises to check the records of schedule D taxpayers. Given the evidence of the size of the black economy, is there not now clear and adequate justification for these powers to be given to the Inland Revenue to deal with these special problems?

The PAC confirmed in 1981 that casual and agency workers' tax evasion was costing the Revenue about £140 million a year. That led it to suggest that casual workers should be required to identify themselves with national insurance numbers or suffer tax deduction at the standard rate on their earnings. It recommended that early legislation be introduced to counter agency workers' tax avoidance.

In their characteristic approach, and without explaining why they thought that the proposals were impracticable, the Government decided to rely on tighter administration. When accounting officers were brought before the PAC they suggested to it in coded language, knowing that Ministers would be reviewing the comments in their evidence, that they were concerned about the manpower cuts that were being imposed on the Civil Service. The Keith committee recommended that one half of the basic tax rate should be deducted from payments to agency-work companies and casual workers who are not VAT-registered traders or on PAYE.

The PAC's recommendations for tackling the £4 billion in the black economy to which I alluded earlier included strengthening departmental powers for investigation, heavier penalties for non-compliance and a comprehensive review of the problem to identify suitable areas for a concerted attack by the Government, especially the Inland Revenue.

I regret, as do many of my hon. Friends who are members of the PAC—I am sure that all those who are present will express their regret in this debate—that the Inland Revenue has no power to make random sample checks. It needs that power to deal with an ever-escalating problem.

The Keith committee recommendations included an obligation, backed by tax-geared penalties, to notify each separate source of income in a return to be submitted at least every third year and improved powers to require a taxpayer or third party to produce documents and answer questions in writing. All those recommendations came from a committee that assessed in depth the nature and scale of the problem.

2.15 am



When I consider the recommendations of those committees, I am more able to understand what happens during the deliberations of Select Committees. One of the interesting aspects of Select Committee work is that often the party political division breaks down. The Employment Select Committee is well known for its objective reports which clearly show that political divisions have broken down and that people have looked rationally and objectively at legislative arrangements or deficiencies in the law and made recommendations irrespective of the partisan nature of their political positions. That is a sign of the need for in-depth investigations. Only in those conditions will people drop their political labels.

The Keith committee was not a Select Committee. It was a committee of inquiry. We must presume that it carried people of all political persuasions, who wanted to examine the problem and to come up with sensible and reasonable recommendations — as the Keith committee did. Those recommendations suggested that substantial powers need to be given to the Inland Revenue to deal with the problems confronting it.

The Keith committee recommended publication of the names of fraudulent taxpayers and exemplary prosecutions to reflect the prevailing climate of offences. That is an important recommendation, because we all know what would happen if Inland Revenue—

Mr. Bob Clay (Sunderland, North) There would be a few by-elections.

Mr. Campbell-Savours My hon. Friend said that there would be a few by-elections, and that may be so. Until the recommendations are implemented, there is little possibility of those by-elections taking place. We all know what would happen if the names of people acting fraudulently by not paying their taxes were published—there would be a great rush to the Inland Revenue and much squaring up. People would not want their images dented by the fact that they were in trouble with Inland Revenue.

The recommendation on publication will have a dramatic effect on the tax take of Inland Revenue. Furthermore, it will have a dramatic effect on the tax take of Customs and Excise, because many companies trading in this country by custom or practice have managed in one way and another to avoid paying customs and excise duties and the necessary VAT payments. If they were placed in the position whereby, if prosecuted that information would be made public in a very open way and if there were more frequent prosecutions and less behind-the-door arrangements of "If you pay, we will let you off," many more companies would be eager to pay those VAT payments.

This debate is most important, and I congratulate my hon. Friends on the Opposition Front Bench for once again tabling a new clause which deals with an area of national concern, which the Government have repeatedly failed to address during the past five years. The Government must come to terms with the problem. As my hon. Friend the Member for Carrick, Cumnock and Doon Valley said, two years ago the then Financial Secretary repeatedly referred in Committee to the fact that he needed the money. If we needed the money then, we need it more desperately today.

Yesterday, a statement was made on the youth service. During it the Government sent out the usual signals that they could not afford to pay over the necessary funds to secure adequate funding arrangements for the youth service. We could have a national youth service that was unprecedented in this country and better than anything else on earth if we were only willing to go out and gather that 1 per cent. of the tax loss that currently accrues to the Inland Revenue.

Urgent action is needed. I look to the Minister to address himself to the comments made by my hon. Friends.

Mr. Barron I should like to speak in favour of new clause 12. I hope to convince hon. Members on both sides of the House that they, too, should vote for it.

The case for a report on tax avoidance and evasion within 12 months was well put by my hon. Friend the Member for Workington (Mr. Campbell-Savours). I share many of his ideas about the need to stop altogether the avoidance and evasion of tax, although I have not read the Select Committee report that he quoted eloquently.

However, I should like to quote from a book by Kay and King, called "British Tax System", which I understand is renowned and respected. I have the third edition, printed in 1983. It describes tax avoidance in Britain. On page 38, it states: "Poor people who engage in the black economy are illegally evading tax." That is true. My hon. Friend the

Member for Workington mentioned casual labour. There is casual labour in my constituency, particularly in agriculture. People who work seasonally have to pay the full scale of income tax, on pay-as-you-earn, if they do not have a national insurance number. I am not against that. Anyone who has paid tax for any length of time, especially in seasonal, casual work, is likely, at the end of the year, to be able to claim back all the income tax that he has paid in that employment. I am sure that many hon. Members will agree about that. However, it does not always work like that.

Some people in my constituency who live in the Sheffield postal area come under a regional office based in Sheffield, which was set up by the Government to examine the black economy. Those people are treated differently from the others whom I mentioned, although they have similar or the same employment. When we look at the black economy and try to make sure that people are not avoiding income tax, and when we set up offices such as the ones that the Government have set up over the past few years, we should make sure that everyone is treated in the same way. I am told that due to cuts in the Civil Service the Sheffield service will not be extended. That means that there is unfair discrimination and the Government should stop it. I believe that anyone who is working and should be paying tax ought to pay it.

Kay and King continue: "Richer people diminish their tax liabilities by legal tax avoidance. Like the black economy, tax avoidance has come under increasing scrutiny. The mechanisms by which Lord Vestey, the 'master butcher' and one of Britain's richest men, has avoided paying any significant amounts of tax over an extended period have been given much publicity. So too have the activities of Roy Tucker and his Rossminster Group, who were leaders in the construction of elaborate avoidance schemes in which a convoluted series of artificial transactions were devised with no ultimate consequence other than the creation of a tax deduction for the customer, a profit to the inventor of the schemes, and a loss to other taxpayers." I am pleased to say that the Rossminster group has now been stopped, partly as a result of a decision by the other place, preventing people from claiming for non-existent transactions, and the premises have been taken over by representatives of the Inland Revenue who are still investigating some aspects of the matter.

The scale of that kind of tax avoidance seems rather larger. The Daily Mirror of 4 December 1980 carried a very interesting article. I shall not comment on the headline or on the last 75 per cent. of the article as the first 25 per cent. gives a clear enough idea of the scale of avoidance in which groups such as Rossminster have been involved. It states: "For nearly 18 months the Inland Revenue has been investigating the biggest tax-dodging scheme in history, run by the Rossminster group of companies." "At least £100 million in lost taxes is involved. According to Granada's World in Action programme, it could be as much as £1,000 million—equal to more than a penny on the rate of income tax for the rest of us." "The Treasury Minister in charge of the Inland Revenue is Mr. Peter Rees, QC." [HON. MEMBERS: "Who is he?"] He is now Chief Secretary to the Treasury, but he is not here at the moment. The article continues: "Before Mr. Rees joined Mrs. Thatcher's Government he was a tax adviser to the Rossminster group." It is incredible that the Inland Revenue and the other place should have had to take action to curb that group's activities while one of its tax advisers holds ministerial office at the Treasury, but perhaps one converted Christian is worth more than a bunch of conscripts, as it were.

Mr. Brian Sedgemore (Hackney, South and Shoreditch) The Sunday Mirror of 7 December 1980 referred to the Chief Secretary as follows: "Nurse Margaret can, if she has the will, get rid of these ugly warts." "But it will need more than a swipe with a wet flannel to make the face of Toryism more acceptable." What does my hon. Friend make of that?

Mr. Barron Not being a member of the medical profession, I am not sure, but my hon. Friend's quotation may well merit further consideration.

I should like to quote what was said by the present Chief Secretary to the Treasury at a conference held at the Café Royal in London in December 1979. It could best be described as a tax avoidance conference.

Mr. Campbell-Savours Casino Royale.

Mr. Barron Paragraph 4 of the right hon. and learned Gentleman's speech is headed "A Fair Basis". The right hon. and learned Gentleman said: "The government accepts that it is fairer to tax people on the

2.30 am

same basis whether they are paid exclusively in cash or in a combination of cash and benefits.” I put it to the House, in view of new clause 7 and my hon. Friend's comments about new clause 12, that the time is now right for us to treat all people equally. I am certain that they are not all treated equally at present. If new clause 12 was accepted we might, within 12 months, be able to put income tax on a fairer basis for the vast majority of our people and put an end to the great disparities in the ways in which people are treated at present.

*Mr. Maxton* I should like to add a few words to what has been said by some of my hon. Friends, particularly my hon. Friend the Member for Carrick, Cumnock and Doon Valley (Mr. Foulkes). More than any other hon. Member here, my hon. Friend has made a comprehensive study of the way in which the Channel Islands and the Isle of Man are used for tax avoidance. I use the phrase "tax avoidance" deliberately. It is not evasion; it is avoidance. It takes place in areas which most of us consider to be part of the United Kingdom. I accept that, legally, they are not part of the United Kingdom, although some of our laws cover the Channel Islands and the Isle of Man as well as the rest of the country, and some of our Acts expressly make that point.

*Mr. Foulkes* Is my hon. Friend aware that the Prime Minister has told me that ultimately, if it wished to do so, this Parliament could legislate for the Channel Islands and the Isle of Man in all matters? It is only by convention that, over the years, we have decided not to do so on matters of internal government. If the actions of the Channel Islands and the Isle of Man become so outrageous as to offend us, we should consider exercising our paramount power.

*Mr. Maxton* I believe that that would indeed be the case. At present, the Channel Islands and the Isle of Man are treated in many respects as part of the United Kingdom, but in matters of taxation and company law they are not. That halfway house is unacceptable. Either those places should be part of the United Kingdom or—like the Cayman Islands and other tax havens—they should be almost totally independent. They should issue their own passports, and people should be required to show those passports when they enter or leave this country. That would ensure that there was proper control over the islands as tax havens. There is no such control at present.

My hon. Friend the Member for Carrick, Cumnock and Doone Valley mentioned the fact that people living in the Channel Islands and the Isle of Man have to have residential qualifications. If they spend more than a certain length of time in this country they are supposed to pay United Kingdom tax. However, there is no real check on the length of time for which they stay here. Unlike people coming here from the other tax havens, they are not subject to passport control. A British citizen using another tax haven has a passport, which is stamped when he enters or leaves this country. With the Channel Islands and the Isle of Man, that is not the case.

It is therefore possible for these people to spend much time in Britain and to act almost as full United Kingdom citizens while getting the tax benefits of the Channel Islands. That is simply not acceptable. Nor is the fact that they gain considerable benefits. Perhaps the Minister will tell us whether, when Channel Islands citizens come to Britain for major operations that they cannot get at home, they pay the same rate as overseas visitors. I suspect that, like us, they get treatment free. The same is true for students. Most people in the Channel Islands who want a university education come to the United Kingdom. They do not pay overseas student rates for fees. That should not be allowed.

It is time that the Government examined what happens in the Channel Islands and the Isle of Man. Either people there should be taxable as are other United Kingdom citizens or they should be made independent so that we can deal with them differently.

Nothing divides the parties more than taxation—how money is raised and how it is spent. There is no better example of that than the way in which recipients of unemployment, sickness and other social security benefits are treated and regarded and the way in which people who are suspected of tax evasion are regarded. I recently came across the case of an unemployed youth whose father runs a small furniture delivery business. He was seen by a neighbour unloading his father's van. He assures me that he did so voluntarily, and he has now been able to prove that to the DHSS. On the word of one neighbour and on the evidence of only one occasion, he found that when he went to get his benefit he was told not that the DHSS had evidence of his being paid and that he should prove the contrary but that his benefit had ceased. It took four weeks before he even got a letter telling him about it. When I wrote to the DHSS I was told that it is under no obligation to give any written explanation why benefit is stopped. I eventually managed to get the case cleared up. The lad's benefit payments were restored and back benefit was paid.

The DHSS has arbitrary powers to deal with people who are merely suspected of fraud. If someone is suspected of income tax evasion, however he is invited to the income tax office and invited to explain to the inspector why a given entry was made on a tax return. Such meetings can go on for months, during which time the person still pays no tax. In nine cases out of 10, the Inland Revenue will say, "Let us work this one out amicably. We believe that you have evaded tax of X amount. If you pay us Y, we shall forget all about it."

The man will go away and sell a couple of Rolls-Royces, and the matter will be forgotten and finished. He may have broken the law and they may even be able to prove that he has broken the law, the people in the Inland Revenue may know that he has broken the law, but usually they will not prosecute, providing that he is prepared to pay up at least a certain amount of the sum in question.

The difference of treatment of tax avoidance and tax evasion is incredible. This matter divides the Opposition and the Government. In our view, tax should be paid by the people who are better off to ensure that the poorest in society are properly protected and looked after. Taxation ensures that services are provided for the community at large and for the poorest and weakest in society. We believe that there is an obligation on people to pay tax. Conservative Members on the other hand take the view that, if they can get out of the burden of taxation and ensure that their friends do not pay tax, so much the better. Conservative Members ask how they can get out of paying tax and not how to ensure that they pay the correct amount as their obligation to society.

At one time, we were told by Conservative Members that people went off to the Channel Islands and to the Isle of Man and employed tax accountants because the rate of taxation was too high. We were told that people went off to these havens because of the nasty Labour Government that imposed high rates of taxation. However, after five years of a Tory Government, there is no great number of people coming back from the Channel Islands, the Isle of Man or other tax havens because they believe that Baritain's rates of taxation are worth coming back for. This is despite the fact that the Government have slashed the levels of higher rate taxes. The number of tax accountants offering services to ensure that people pay less tax as a result of the Government's action has not lessened.

The better-off in society feel no patriotic obligation to pay taxes even for the defence of the of the country. The Conservative Members who refer to trade unions as unpatriotic because they go on strike should turn their attention to those people who do not pay taxes and thus do not fund services through taxation. It is they who are the truly unpatriotic people and not those in society who do the work and pay taxes to ensure that the services and defence of our country are properly provided.

*Dr. Marek* I am grateful to my hon. Friend the Member for Glasgow, Cathcart (Mr. Maxton) for his last comment. I am sure that there is a great deal of truth in what he said.

The Tory party, which has been in power for the last five years, has done two things. It has increased the level of taxes that people pay if they have worked for the money that they receive, but it had decreased taxes the level of taxes of those who have money for which they have not worked. That is the difference between Conservative policy and Socialist policy.

In an earlier debate, I referred to today's Financial Times. Another article caught my eye this morning which is particularly appropriate because it talks about the concessions of tax havens in the Finance Bill. The first two paragraphs of the article demonstrate that we have no hope of having the new clause accepted in the Bill. I would not be so uncharitable as to suggest that no Conservative Member believes that there should be a tight and anti-avoidance system, because I am sure that some Conservative Members do not like tax avoidance and tax evasion. Indeed, I am certain that some Ministers on the Government Front Bench do not like tax avoidance and tax evasion. Equally, other Ministers and, indeed, some senior Ministers, would do anything rather than accept tight anti-avoidance legislation.

The article says: "Major concessions in the Finance Bill provisions aimed at preventing abuse of tax havens by UK companies and residents were announced last night." It was one of the plus points of the Bill that it had, certainly through the control of foreign companies, some anti-tax avoidance legislation. We welcomed this, and although we thought that many things in the Finance Bill were bad, such as that it shifts the burden of taxation from the rich to the

poor yet again—as the Tory party has been doing for the past five years we felt that there were at least two or three parts containing useful anti-tax avoidance legislation.

2.45 am

The article continues: “The concessions followed intensive lobbying in the past two months by the Confederation of British Industry, and other employer organisations, bankers accountants and lawyers.” “The Bill's provision would tax companies controlled by UK residents in low-tax overseas countries unless they qualified for at least one of several exemptions.” It adds that concessions were tabled as amendments yesterday.

It would be improper for me to discuss those amendments now, as we shall be discussing them later.

However, we should pay close attention to the principles involved in those concessions because of the new clause. We want the Treasury to make an estimate and analysis—I know that it will not be perfect—of how much tax avoidance and evasion go on. We would have had some confidence that the Government would do this if they had had a mind to accept the new clause. However, we have seen them succumb to pressure such as that exerted in the past few days, which has led to major concessions in the Bill, and concessions in what we have been discussing—tax havens.

This shows the sheer humbug of the position taken by those Conservative Members who believe that we should have no tax evasion, and that there should be as little tax avoidance as possible. They should vote with us on this new clause, and against the Government when we vote on the later amendments. That is the only correct and moral thing to do, but I doubt whether Tory Members will join us in the Lobby. That is immoral. Despite all that we have said, and our genuine concern that money that should properly belong to the Inland Revenue is being frittered away, or stays in the Cayman Islands, the Channel Islands or the Isle of Man, more concessions are being granted.

I do not have to remind hon. Members that at least one Minister always talks about the money that the Government have belonging to the British taxpayer, and about how the money that they have the duty to collect because of legislation should all be collected. It should not be collected only from a certain section of the population—that which does not have too much money—while a section of the population that has so much money that it does not know what to do with it can leave it in the Cayman Islands.

I hope that sometimes Conservative Members will examine their consciences to see what they are doing. They are wrecking the country. They have no interest in the country. Their own friends and acolytes come first, and they will bend to any immoral principle to serve them, and their masters' greed.

Mr. Ian Wrigglesworth (Stockton, South) From time to time, the sort of information that is called for in the new clause is published. It has always made very interesting and useful reading. It should be published regularly on the basis laid down in the new clause.

I entirely accept the Opposition's arguments for the moral basis of taxation and against tax avoidance and evasion, and the obligation that has been clearly laid down for citizens to pay their taxes openly, honestly and willingly, and to accept their responsibilities within the community.

I should like to add two further arguments to the debate. The hon. Member for Glasgow, Cathcart (Mr. Maxton) raised the issue of incentives, and the disincentive effect of taxation that we heard so much about before the 1979 election. Like the hon. Member for Cathcart, I am surprised that we have not had a flood of entrepreneurs returning to the country. I am thinking of the return of the really high earners and of the great entrepreneurial upsurge that would result from the lower taxes introduced by the Government. We have seen neither that return, nor the great growth in British industry as a result of the more zealous activities of highly paid management through lower taxes. That was the case before 1979, but there is no evidence that that argument about the disincentive impact of high taxation holds water. Several studies have been carried out, but they have all failed to show that result.

There is no evidence, either, that low levels of taxation cause people to avoid paying taxes. If one goes to Hong Kong where the tax level is 15 per cent.—I know that the hon. Member for Falkirk, West (Mr. Canavan) has done so several times—there is just as much organisation of tax avoidance there as there is when people seek to avoid paying tax at

the much higher levels in this country. No matter what the level of taxation, some people will try to avoid or evade it. It is the Government's responsibility to prevent that.

That brings me to my second point. The Government have substantially cut the number of civil servants, and made that much more difficult the Inland Revenue's job of rooting out tax exasion and avoidance. At the same time, there has been no lack of enthusiasm about employing more investigators in the DHSS to look for those who are, so they say, claiming benefits to which they are not entitled. When there is the political will to act against people who misuse the social security system, more civil servants can be employed to do that. When the opposite is the case, the number of civil servants is cut. The work by tax inspectors and their staff to stop avoidance and evasion has been interrupted and undermined because there are insufficient staff to do that job. The Inland Revenue Staff Federation has pointed that out many times.

The new clause is modest, and tries to help those in favour of stopping avoidance and evasion to find more information to enable them to put pressure on the Government to stop those practices. I hope that the House will support the new clause, and take a modest step in the right direction on this issue.

Mr. Canavan I rise in support of the new clause. It is a modest measure and I hope that the Government will support it. I am not very sure in my own mind about the difference in definition between tax avoidance and tax evasion. I understand that one of them is illegal and that both of them are immoral. In any case, we should be trying to make both of them illegal because we want to take more into the public purse to be able to redistribute wealth in favour of those who are most in need.

If a report based on the new clause were presented to the House showing the amount of tax evasion and avoidance, and the methods used, the House of Commons would be better educated to take steps to eliminate both practices.

I especially wish to refer to a particular form of tax avoidance or evasion which is despicable. That is the abuse of charitable tax legislation, whereby bogus charities under the guise of certain Tory Members are using existing legislation to obtain tax rebates.

One example is the Adam Smith Institute — Adam Smith would probably turn in his grave if he knew that that institute was named after him—which is now headed by people such as the hon. Member for Stirling (Mr. Forsyth). Where is he tonight? He is probably in his bed. Unfortunately, the hon. Gentleman is my Member of Parliament. When I first came to the House I was my own Member of Parliament. I had the privilege or otherwise of representing myself in this House for the best part of 10 years, but because of the local government and parliamentary boundary commissions' review, for the first time in my life I am now misrepresented by a Tory Member who is up to his neck in this tax avoidance, evasion or whatever it is called. He is heading the Adam Smith institute, which is undoubtedly one of the organisations putting across capitalist propaganda on behalf of the Tory party. But at the same time, those who claim to believe in the free market economy, free market forces and non-intervention are clamouring to the Treasury behind the scenes for tax relief and back-handers. That shows how dishonest they are, and underlines the need for the new clause.

The Adam Smith Institute is just typical of many such organisations. Last week my hon. Friend the Member for Bolsover (Mr. Skinner) read out a list of Tory Members who are up to the necks in the interest shown in the privatisation of the NHS. Many of them also have connections with organisations that are hell-bent on propagandising the philosophical and political themes of privatisation, yet at the same time claim that they should get tax rebates. Through the Adam Smith Institute and the other organisations to which they belong they seek the advantage of tax relief, avoidance or evasion—it is all a matter of terminology. They are robbing the ordinary people who are good and honest taxpayers.

The rich are able to use legal advisers. I understand that an hon. Member who is now a Minister—he was at the Dispatch Box not long ago — has all his life been dedicated to advising people on how to rob the Treasury in order to line their own pockets. Now he is a Minister. That is a disgrace. Therefore, I say to fair-minded Conservative Members—if there are any left—that if they do not want to be accused of lining their pockets they should support the

proposition that there should be a report to the House on tax avoidance and/or tax evasion and that we should take appropriate steps to eliminate it.

3 am

Mr. Tony Banks The new clause clearly gives the Government a chance to prove their sincerity about tax evasion. The Minister has not been markedly supported by speeches from Conservative Members on the Benches behind him, but I hope that he will at least say something to make Opposition Members feel that the Government are genuine in wanting to limit and, indeed, eradicate tax evasion.

As my hon. Friend the Member for Workington (Mr. Campbell-Savours) said, there is obviously a considerable amount of money in the black economy. According to the Inland Revenue, we are talking about approximately £12,000 million. Thus the sum of money involved is considerable and the prize is great. But the Government seem to have made no real attempt to control the black economy, so their sincerity when speaking against it must be very much in doubt.

There are considerable and obvious benefits to controlling it. An estimated £4,000 million could be garnered in by the Revenue if it was given the resources to approach the black economy in the way that we should like to see. Thus, there are obvious and enormous benefits. We have had many debates on local government overspending. We were told by Ministers—I assume in all seriousness—that the overspend last year of about £771 million somehow undermined the Government's economic strategy. Obviously, many Opposition Members would say that the Government do not have one, but I shall let that pass for the moment. If that £771 million undermined their economic strategy, hon. Members can just imagine what the Government could do if they seriously set out to try to claw back that £4,000 million that they are clearly not gaining in tax receipts. Therefore, the Government clearly have much to gain.

Opposition Members have spoken about the difference in the Government's attitude towards those who are allegedly fiddling their social security and about all the effort that is being made to try to do something about so-called social security fiddling. However, the number of those not claiming social security benefits to which they are fully entitled is much higher than the number of those fiddling them. They Government could, again, show their sincerity by spending far more on advertising, so that those who are entitled to social security benefits go and get them. But we do not see or hear anything about that.

Therefore, one is forced to the conclusion that far from being critical of the black economy, the Government want to encourage it. From a capitalist point of view, there are many reasons for that.

Mr. Gareth Wardell (Gower) Does my hon. Friend agree that the advice of social security advisers at DHSS offices might also assist people to claim what is rightfully theirs?

Mr. Banks Yes, I accept that. There is much that could be done to point out people's rights. Large sums of money go unclaimed because people do not know what they are fully entitled to.

Earlier we heard about all the concessions available from the Inland Revenue. Most would go to professional people, not to working class people on PAYE. Much more could be done to explain entitlements instead of complaining in newspapers about social security scroungers.

Anyone who knocks on doors when canvassing, particularly in Labour constituencies, hears little about tax evasion but much about social security scroungers.

The weight of the Tory party propaganda machine is geared to whipping up that type of hysteria. We should publicise more the money which the Government are losing through the black economy. That would result in a change in public attitudes.

I do not believe that the Government want to do anything about the black economy. From a capitalist view, I can see why they wish to encourage it. They look at France and Italy and believe that their economic advances spring from support for the black economy being the national sport.

Mr. Bell Does my hon. Friend agree that the Government do not want to disturb the black economy because money comes back into the system and is recovered in VAT?

Mr. Banks If there is a strategy behind the Government's tax arrangements it is to have a black economy of major proportions and to impose taxes on food and direct spending. That is what the Government are trying to achieve. They want direct taxation on the consumption of goods. They want people to avoid tax as far as they can.

I say that every capitalist wants to achieve a black economy because it gives a number of clear advantages to employers who operate within the black economy. It is about exploiting workers to the maximum because there is no question of the trade unions operating within the black economy. There is no national insurance or health and safety standards.

Unless the Minister announces that he will accept the new clause or explains what positive steps the Government will take to eliminate the black economy and to do something positive about tax evasion we must conclude that they are not sincere.

Mr. Hayhoe The new clause calls for the publication, within 12 months of the passing of the Act, of a report by the Inland Revenue on the scale and nature of lax avoidance and evasion. Little has been said about that proposal. Most of the debate has been about the wider issues of avoidance and evasion. Little attention has been paid to the effectiveness of the new clause.

The right hon. Member for Birmingham, Sparkbrook (Mr. Hattersley) was unconvincing when he commended the new clause to the House. He began by referring to some of my remarks about the black economy, with the snide implication that I either approved or condoned tax evasion, which he knows to be false. I presume he read what I said. I said: "there are some aspects of the black economy that are not bad. I would have thought there was no difference between us in the House about the fact that fraud is fraud wherever it occurs, whether in the taxation system or in the DHSS."—[Official Report, 9 February 1984; Vol. 53, c. 1012.] I made it abundantly clear that I was totally opposed to fraudulent behaviour in the black economy. My comments were exemplified by the hon. Member for Middlesbrough (Mr. Bell) in his intervention. He may unwittingly have supported my view.

Hon. Members have asked about the size of the black economy. Most people who have looked into the matter, and clearly the members of the Committee of Public Accounts, know that a reliable measurement is not possible. So far no inquiry has produced results that are generally accepted or demonstrably correct. The Revenue Department have definite knowledge of the size only of those parts of the black economy which they have uncovered, which inevitably leaves much uncertainty about the total.

In April 1982, as the hon. Member for Workington (Mr. Campbell-Savours) said, Sir Lawrence Airey, the chairman of the Board of Inland Revenue, told the CPA that such evidence as there was pointed to the size of the black economy as being towards the lower end of a range of between 6 and 8 per cent. of GDP, which, where the direct taxes administered by the Inland Revenue would represent about £15 billion, the tax loss would be about £4 billion. The Inland Revenue is doing further work on this general area, but has no reason as yet to revise those estimates. When its work is completed, it will be reported at Question Time, to the CPA, or in some other way to the House.

The Revenue keeps a constant watch for abuse of tax law whether by contrived avoidance or by deliberate evasion. The evidence for that lies in the measures brought forward by Ministers, on the Department's advice, to counter specific loopholes in tax law, and improvements over time in the figures for recoveries of tax, interest and penalties from would-be evaders. The Government have announced substantial redeployment of staff for anti-evasion work within the overall reduced staff ceilings for the whole of the Inland Revenue.

Tax avoidance—this is the accepted terminology—is legal. It is not unlawful. No one is obliged to order his affairs so as to pay the maximum amount of tax, but highly artificial arrangements, which may result in substantial losses of revenue, must be stopped when discovered. The Government's record shows that they have taken and are taking action to counter unacceptable avoidance in the interests of the great majority of taxpayers, who do not have recourse to devices contrary to the spirit of the law.



Mr. Canavan If the Inland Revenue is so efficient, why is it that people such as the Vesteys and Baroness Carnegy — who was a political appointee of the Government — can get away with tax avoidance and evasion and run away with public money? What is going on? Will the Minister take control of this, or will he turn a blind eye to the problem and allow all those people from the House of Lords to run away with public money?

Mr. Hayhoe I realise that at this early hour of the morning the hon. Gentleman is tired. As I was about to come to tax evasion, perhaps he would do me the courtesy of listening to what I have to say, as I listened to him.

3.15.am

The Government have taken the view that, by its nature, it is impossible to make any firm estimate of the scale of tax evasion or the amount of tax lost through it. But Ministers are not complacent about this; they recognise that tax evasion takes place in many areas and on a substantial scale. We are determined to ensure that evasion is tackled, not only because of the amount of tax potentially at stake but because it is only right that all should pay their fair share of tax.

I shall outline some of the efforts that are being made. The Government have increased, or have plans to increase substantially, the staff involved in investigation work—

Mr. Foulkes On a point of order, Mr. Deputy Speaker. Is it in order for a Minister to begin his speech by implying that you and your predecessors in the Chair were wrong to allow other hon. Members to speak in this debate because we were out of order, and then for the Minister to deal with none of the points raised in the debate but to read a prepared speech that was obviously written long before he heard any of the points raised in the debate?

Mr. Deputy Speaker (Mr. Harold Walker) I have not heard anything in the Minister's speech that is out of order.

Mr. Hayhoe I am sorry that the hon. Gentleman is so unwilling to hear about the positive action that the Government are taking to deal with the problems of tax evasion. They have increased, or have plans to increase substantially, the staff involved in investigation work, and during 1984 the Customs and Excise will employ a further 150 staff on control duties to counter VAT evasion. Last November the Government—

Mr. Maxton Will the Minister give way?

Mr. Hayhoe On three occasions during the debate Opposition Members implied that the number of Inland Revenue staff devoted to dealing with such problems has been reduced. I am giving the House the facts, which are that these Inland Revenue staff has increased, and I shall not give way until I have finished this passage in my speech.

Last November the Government authorised an additional 850 Inland Revenue staff to tackle tax evasion by "moonlighters", people with secondary incomes, and by "ghosts", who are people unknown to the Revenue. Those were the problems mentioned by the hon. Member for Workington. That decision followed the successful experiment begun in 1982 when 70 tax officers, higher grade, were deployed on this work. The staff of the PAYE audit department, which has almost doubled since 1979, will be further increased by more than 250 up to 1988. There is clear evidence that the number of tax inspectors specifically deployed to counter tax evasion in the black economy has increased and is increasing.

Mr. Maxton Is that an increase in the total number of staff in the Inland Revenue or just a redeployment of existing staff? Has the staff increased since 1979, or is it true that the numbers were reduced dramatically by the Government but are now being increased because they have realised the problem? How many of the 150 new Customs and Excise staff have been employed to deal with the changes in the VAT rules that were introduced in this Finance Bill?

Mr. Hayhoe Had the hon. Gentleman listened to what I was saying, he would have heard me say that within the reduced overall numbers of the Inland Revenue, extra resources had nevertheless been, and were being, deployed against tax evasion.

Mr. Barron rose—

Mr. Hayhoe It is absurd, when I am answering one of his hon. Friends, for the hon. Gentleman to intervene. The hon. Member for Glasgow, Cathcart (Mr. Maxton) asked about VAT. For the extension of the VAT base in the Budget, at least 100 extra staff are being deployed, separate from the extra 150 staff to whom I referred earlier. It is clear, therefore, that under this Government there has been a steady increase in the numbers employed in the Revenue departments dealing with the black economy and evasion. [Interruption.] These facts may be unwelcome to Opposition Members, but it is clear that the success of the Government's approach can also be measured by the growth in the amount recovered. The yield from investigation work grew from £111 million in 1979 to £352 million by October 1983.

The hon. Member for Workington referred, rightly—because he has clearly studied these matters with care—to the Keith report. I was surprised that he was not aware of the statement made by the Chancellor of the Exchequer earlier this year to the effect that conclusions on the VAT sections of Keith would be brought forward in time for legislative proposals to be published in the 1985 Finance Bill.

On the direct tax net, the Keith committee saw a need for more radical modernisation, and some of the proposals would require substantial adjustments in working procedures. The Board of Inland Revenue is having further consultation on these matters with interested parties and I hope that in the light of those discussions it will be possible to bring forward next year draft clauses representing the Government's conclusions with a view to legislation in 1986.

The hon. Member for Workington was right to say that the Keith proposals were a much more effective way to deal with these matters than anything that could arise from the new clause that is now before the House. Because, in my view, the adoption of the new clause would not help in any way, I ask the House to reject it.

*Several Hon. Members rose—*

Mr. Deputy Speaker The Question is that the clause be read a Second time. As many as are of that opinion—

Mr. Canavan On a point of order, Mr. Deputy Speaker. Is it not permissible for hon. Members to take part in the debate?

Mr. Deputy Speaker Hon. Members are, of course, permitted to take part in the debate, but only once on Report, and the hon. Members who rose when I put the Question had already spoken.

*Question put, That the clause be read a Second time:—*

*The House divided: Ayes 72, Noes 238.*

Division No. 404]	[3.25 am
AYES	
Ashdown, Paddy	Deakins, Eric
Ashton, Joe	Dixon, Donald
Atkinson, N. (Tottenham)	Dormand, Jack
Banks, Tony (Newham NW)	Fields, T. (L'pool Broad Gn)
Barron, Kevin	Fisher, Mark
Beckett, Mrs Margaret	Foulkes, George
Beith, A. J.	Golding, John
Bell, Stuart	Hardy, Peter
Bennett, A. (Dent'n & Red'sh)	Harrison, Rt Hon Walter
Bray, Dr Jeremy	Hattersley, Rt Hon Roy
Bruce, Malcolm	Haynes, Frank
Campbell-Savours, Dale	Hogg, N. (C'nauld & Kilsyth)
Canavan, Dennis	Holland, Stuart (Vauxhall)
Carlile, Alexander (Montg'y)	Johnston, Russell
Clay, Robert	Kennedy, Charles
Cocks, Rt Hon M. (Bristol S.)	Kirkwood, Archy
Cohen, Harry	Lewis, Terence (Worsley)
Cook, Robin F. (Livingston)	Litherland, Robert

Corbyn, Jeremy	Lloyd, Tony (Stretford)
Cowans, Harry.	Loyden, Edward
Cox, Thomas (Tooting)	McDonald, Dr Oonagh
Dalyell, Tam	McWilliam, John
Davis, Terry (B'ham, H'ge H'l)	Madden, Max
Marek, Dr John	Sedgemore, Brian
Maxton, John	Skinner, Dennis
Meadowcroft, Michael	Smith, C.(Isl'ton S & F'bury)
Mikardo, Ian	Snape, Peter
Mitchell, Austin (G't Grimsby)	Spearing, Nigel
Nellist, David	Strang, Gavin
O'Brien, William	Thompson, J. (Wansbeck)
Park, George	Wallace, James
Penhaligon, David	Wardell, Gareth (Gower)
Pike, Peter	Welsh, Michael
Powell, Raymond (Ogmore)	Wrigglesworth, Ian
Randall, Stuart	
Richardson, Ms Jo	Tellers for the Ayes:
Rooker, J. W.	Mr. Allen McKay and Mr. John Home Robertson.
Ross, Stephen (Isle of Wight)	

## NOES

Alexander, Richard	Forsyth, Michael (Stirling)
Alison, Rt Hon Michael	Forth, Eric
Amess, David	Freeman, Roger
Ancram, Michael	Gale, Roger
Arnold, Tom	Galley, Roy
Ashby, David	Gardiner, George (Reigate)
Atkinson, David (B'm'th E)	Garel-Jones, Tristan
Baker, Nicholas (N Dorset)	Goodhart, Sir Philip
Baldry, Anthony	Goodlad, Alastair
Banks, Robert (Harrogate)	Gorst, John
Batiste, Spencer	Gower, Sir Raymond
Beaumont-Dark, Anthony	Grant, Sir Anthony
Bellingham, Henry	Greenway, Harry
Best, Keith	Gregory, Conal
Bevan, David Gilroy	Griffiths, Peter (Portsm'th N)
Biffen, Rt Hon John	Grist, Ian
Biggs-Davison, Sir John	Ground, Patrick
Blaker, Rt Hon Sir Peter	Hamilton, Hon A. (Epsom)
Bonsor, Sir Nicholas	Hamilton, Neil (Tatton)
Boscawen, Hon Robert	Hanley, Jeremy
Bottomley, Peter	Hannam, John
Bottomley, Mrs Virginia	Hargreaves, Kenneth
Bowden, A. (Brighton K'to'n)	Harris, David
Bowden, Gerald (Dulwich)	Harvey, Robert
Brandon-Bravo, Martin	Hawksley, Warren
Bright, Graham	Hayes, J.
Brinton, Tim	Hayhoe, Barney
Brittan, Rt Hon Leon	Hayward, Robert
Brooke, Hon Peter	Heathcoat-Amory, David
Brown, M. (Brigg & Cl'thpes)	Hedde, John
Browne, John	Henderson, Barry
Bruinvels, Peter	Hickmet, Richard
Buck, Sir Antony	Hind, Kenneth
Budgen, Nick	Hirst, Michael
Burt, Alistair	Holt, Richard
Butterfill, John	Hooson, Tom
Carlisle, John (N Luton)	Howard, Michael
Carlisle, Kenneth (Lincoln)	Howarth, Alan (Stratf'd-on-A)
Cartiss, Michael	Howarth, Gerald (Cannock)

Cash, William	Hubbard-Miles, Peter
Chalker, Mrs Lynda	Hunt, David (Wirral)
Chope, Christopher	Hunter, Andrew
Clark, Dr Michael (Rochford)	Jessel, Toby
Clark, Sir W. (Croydon S)	Johnson-Smith, Sir Geoffrey
Cockeram, Eric	Jones, Robert (W Herts)
Colvin, Michael	Kellett-Bowman, Mrs Elaine
Conway, Derek	Key, Robert
Cope, John	King, Roger (B'ham N'field)
Cormack, Patrick	Knight, Gregory (Derby N)
Couchman, James	Knight, Mrs Jill (Edgbaston)
Cranborne, Viscount	Knowles, Michael
Currie, Mrs Edwina	Lang, Ian
Dickens, Geoffrey	Latham, Michael
Dicks, Terry	Lawler, Geoffrey
Dorrell, Stephen	Leigh, Edward (Gainsbor'gh)
Douglas-Hamilton, Lord J.	Lennox-Boyd, Hon Mark
Dover, Den	Lester, Jim
Dunn, Robert	Lightbown, David
Evennett, David	Lilley, Peter
Fallon, Michael	Lloyd, Peter, (Fareham)
Favell, Anthony	Lord, Michael
Fenner, Mrs Peggy	McCurley, Mrs Anna
Forman, Nigel	Macfarlane, Neil
MacGregor, John	Smith, Tim (Beaconsfield)
MacKay, Andrew (Berkshire)	Soames, Hon Nicholas
Maclean, David John	Speller, Tony
Malins, Humfrey	Spencer, Derek
Malone, Gerald	Spicer, Jim (W Dorset)
Maples, John	Spicer, Michael (S Worcs)
Marland, Paul	Squire, Robin
Mather, Carol	Stanbrook, Ivor
Maude, Hon Francis	Stanley, John
Mawhinney, Dr Brian	Steen, Anthony
Maxwell-Hyslop, Robin	Stern, Michael
Mayhew, Sir Patrick	Stevens, Lewis (Nuneaton)
Merchant, Piers	Stevens, Martin (Fulham)
Meyer, Sir Anthony	Stewart, Allan (Eastwood)
Miller, Hal (B'grove)	Stewart, Andrew (Sherwood)
Mills, Iain (Meriden)	Stewart, Ian (N Hertfdshire)
Mills, Sir Peter (West Devon)	Stokes, John
Mitchell, David (NW Hants)	Stradling Thomas, J.
Moate, Roger	Taylor, John (Solihull)
Montgomery, Fergus	Taylor, Teddy (S'end E)
Moore, John	Temple-Morris, Peter
Morrison, Hon P. (Chester)	Terlezki, Stefan
Moynihan, Hon C.	Thompson, Donald (Calder V)
Mudd, David	Thompson, Patrick (N'ich N)
Needham, Richard	Thurnham, Peter
Nelson, Anthony	Townend, John (Bridlington)
Neubert, Michael	Townsend, Cyril D. (B'heath)
Nicholls, Patrick	Tracey, Richard
Norris, Steven	Trippier, David
Oppenheim, Philip	Twinn, Dr Ian
Ottaway, Richard	Viggers, Peter
Page, Richard (Herts SW)	Waddington, David
Parris, Matthew	Wakeham, Rt Hon John
Pawsey, James	Waldegrave, Hon William
Porter, Barry	Walden, George
Powell, William (Corby)	Walker, Bill (T'side N)

Powley, John	Waller, Gary
Proctor, K. Harvey	Ward, John
Rathbone, Tim	Wardle, C. (Bexhill)
Rees, Rt Hon Peter (Dover)	Warren, Kenneth
Renton, Tim	Watson, John
Rhys Williams, Sir Brandon	Watts, John
Ridsdale, Sir Julian	Wells, Bowen (Hertford)
Robinson, Mark (N'port W)	Wheeler, John
Roe, Mrs Marion	Whitfield, John
Rowe, Andrew	Wiggin, Jerry
Rumbold, Mrs Angela	Winterton, Mrs Ann
Ryder, Richard	Winterton, Nicholas
Sackville, Hon Thomas	Wolfson, Mark
Sainsbury, Hon Timothy	Wood, Timothy
Sayeed, Jonathan	Woodcock, Michael
Shaw, Giles (Pudsey)	Yeo, Tim
Shelton, William (Streatham)	Young, Sir George (Acton)
Shepherd, Colin (Hereford)	
Shepherd, Richard (Aldridge)	Tellers for the Noes:
Silvester, Fred	Mr. Douglas Hogg and Mr. John Major
Sims, Roger	
Skeet, T. H. H.	

*Question accordingly negatived.*