Britain: Millionaires pay tax at a lower rate than working people

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The Treasury was recently forced to concede what has long been common knowledge—that income tax for Britain's super rich is largely voluntary. Millionaires pay a lower tax rate than working people. And it's all quite legal.

According to figures released by the Treasury, of the 10,000 people earning between £1 million and £5 million a year, nearly 1,000 people paid tax at less than the standard rate of 30 percent, while a further 10 percent paid less than 40 percent.

Of the 400 people believed to be earning between £5 million and £10 million a year, 20 paid less than 20 percent of their income in tax, while 6 percent of those earning more than £10 million paid less than 10 percent.

Of those earning between £250,000 and £500,000 a year, 27 percent were paying less than 40 percent.

These figures cover the financial year 2010-11 when the top rate of tax was 50 percent for those earning over £150,000 per annum—just 1 percent of the working population. This was a temporary measure introduced by the Labour government to deflect attention from its multibillion-pound bailout of Britain's banks and super-rich.

Even this token gesture was too much for the financial elite and last month the Conservative-Liberal Democrat coalition cut the top rate of tax to 45 percent from April 2013. The government cynically claimed it would pull in more money "because fewer people will avoid it".

But this is just the tip of the iceberg. Tax Research UK estimates that tax lost to the UK government from tax avoidance is about £25 billion a year.

In the case of the rich, such dodges include shifting income from the person who should pay the tax to someone else; moving transactions out of the UK; setting up trusts; changing the nature of the transactions so that it is subject to Capital Gains Tax; and abusing the law on limited companies.

In the case of companies that operate internationally, they can shift income to overseas tax havens. The largest companies pay about 5 percent less tax than they declare in their accounts. The amount paid has declined over a number of years so that their effective tax rate is much less than the official Corporation Tax rate of 26 percent in 2012, which is set to fall by one percentage point a year to 23 percent in 2015.

The mega-rich can also get tax relief—as well as kudos and influence—for charitable donations. The Chancellor had sought to cap this relief in his March budget at 25 percent, but it triggered an outcry from charities, the arts and universities, which are ever more dependent on handouts from the rich.

World Bank data suggests that tax evasion, which is illegal, may total £70 billion a year.

This means that together with the £25 billion which HM Revenue and Customs (HMRC) admits is tax paid late there is a tax shortfall of about £120 billion.

To put this into context, it is only slightly less than the £127 billion deficit projected for this year, the pretext for slashing vitally needed social programmes. It gives the lie to the government's oft repeated claim that there is no money for public services.

This should come as no surprise, since under both the Labour and the coalition government tax policy is drawn up by the financial elite. There is a constant revolving door between the Treasury and personnel from the tax avoidance industry, particularly the international accountancy firms such as PricewaterhouseCoopers (PwC) and KPMG.

Mark Hoban from PwC is the current financial secretary to the Treasury. John Whiting, a former PwC tax partner, directs the newly established Office of Tax Simplification, advising the government on simplification of tax laws. Chris Tailby, another former tax partner at PwC, headed anti-avoidance at HMRC until 2009.

In July 2010, partners from KPMG, Ernst & Young, Grant Thornton and BDO became members of the government appointed Tax Professionals Forum and help shape the UK tax laws.

Former ministers act as advisors to these firms, including Labour's Lord Peter Mandelson, Lord Digby Jones, Lord Norman Warner of Brockley, and the former Labour home secretary Jacqui Smith. The former Conservative minister Sir Malcolm Rifkind has been an adviser to PwC. Sir Nicholas Montagu, who once headed the Inland Revenue, joined PwC in 2004.

A recent inquiry by the parliamentary watchdog, the Public Accounts Committee, revealed the close working relationship between Whitehall and the financial elite. It reported that HMRC had entered into secret sweetheart deals with corporations.

In one deal, Goldman Sachs paid up to £20 million less than was due on its bonus payments. In another, Vodafone, which was rumoured to owe around £6 billion, paid about £1.25 billion, even though the company set aside around £2.2 billion to meet its liability. HMRC had struck a further two undisclosed firms similar deals, leading the Committee to question how many other such deals had been struck.

The same teams that were negotiating the deals were also signing them off, in breach of HMRC's rules.

The Committee found that David Hartnett, the permanent secretary for tax, had a "cosy relationship" with many of the corporations with which he negotiated. Hartnett has been described as Britain's most "wined and dined" civil servant, having enjoyed more than 107 breakfasts, lunches and dinners over three years with big firms.

Both he and Anthony Inglese, the department's chief lawyer, had given evidence that MPs found "imprecise, inconsistent and potentially misleading".

HMRC is involved in disputes with 2,700 companies that owe £25.5 billion, an amount larger than the budget for secondary schools or transport. Its latest report on tax avoidance rules was drawn up, not by HMRC, but Graham Aronson QC, who represents big business and the rich in tax disputes.

HMRC has not got the specialised staff to combat the legions of financial consultants advising the rich. In 2005, HMRC, formed by merging the Inland Revenue and Customs & Excise, had nearly 100,000 staff. Now down to 65,000, it is set to fall further to 56,000 in 2014. The unit that deals with the largest corporations is set to shrink by 20 percent by 2015.

Despite the Committee's criticisms, no heads rolled. No "turnaround team" was sent in, although Hartnett himself announced that he would be "retiring"—with no loss of pension. The whistleblower, on the other hand, faces the sack or even prosecution.

For decades, the super-rich have demanded, and got, a reduction in their own personal income tax at the expense of ordinary people as the top rate of income tax has been cut. The billions in revenues lost have been clawed back via regressive taxes on the consumption of basic goods and services that have hit the poorest families the hardest.

This venal layer is determined not only to pay no tax itself, but to place the full burden of social provision onto individual workers, while at the same time turning all forms of social insurance, health care, education and transport into commodities produced for profit and purchased by workers.