



Cyngor Bwrdeistref Sirol
MERTHYR TUDFUL
MERTHYR TYDFIL
County Borough Council

**Anti-Tax Evasion
Policy**

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Control

Policy Lead Officer: Head of Regional Internal Audit Service
Responsible Officer: Head of Finance and Section 151 Officer
Consultation: Council Governance & Audit Committee
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Review Arrangements: Every 2 years

1. Introduction

The Government believes that relevant bodies should be criminally liable where they fail to prevent those who act for, or on their behalf, from criminally facilitating Tax Evasion.

At Merthyr Tydfil County Borough Council, we want to make sure that we are providing excellent services to the residents of Merthyr Tydfil. All our staff, permanent and temporary, Councillors, partners, agency workers and contractors have an important role to play in achieving this goal and we expect everyone to be committed to our high standards of service which are based on the principles of honesty, openness, and accountability.

The Criminal Finances Act 2017 (the '2017 Act') became law in the summer of 2017 and Part 3 of the 2017 Act introduced new offences which sets out how those organisations categorised as 'relevant bodies' under the Act will be considered criminally liable where they fail to prevent those who act for, or on their behalf from criminally facilitating Tax Evasion. The act applies to tax evaded which is owed in the UK or in a foreign country.

This policy is supplementary to the Council's wider Anti-Fraud, Bribery and Corruption Strategy and Policy which sets out the key responsibilities with regard to fraud prevention and what to do if fraud or financial irregularity is suspected and the action that will be taken by management.

MERTHYR TYDFIL COUNTY BOROUGH COUNCIL ANTI-TAX EVASION POLICY

2. Policy Statement

Merthyr Tydfil County Borough Council (the Council) wishes to promote a culture of openness and honesty, consistent with the principles for conduct identified by the Committee for Standards in Public Life and expects all those who work for and with the Council to adopt the highest standards of propriety and accountability.

Following the publication of the Criminal Offences Act 2017, the Council recognises the need for a policy to prevent wrongdoing.

The Council is required to take preventative measures to prevent tax evasion. The Council aims to conduct its financial affairs in a law-abiding way and does not tolerate either the commitment or facilitation of Tax Evasion. The Council has a zero-tolerance approach to all forms of Tax Evasion, whether under UK law or under the law of any foreign country.

The Council already has a range of policies, procedures and guidance that underpins its financial activities including the Anti-Money Laundering Policy and the Anti-Fraud, Bribery and Corruption Policy.

3. Who this Policy Applies To

This policy applies to all persons working for the Council or any subsidiary, including employees at all levels, directors, officers, and associates (as defined below), including, but not limited to, agency workers, seconded workers, volunteers, apprentices, contractors, external consultants, third party representatives and business partners, sponsors or any other person associated with us, wherever located.

This policy is adopted by the Council. Officers in leadership positions are responsible for ensuring those reporting to them understand and comply with the policy.

We request all our officers and all who have, or seek to have, a business relationship with the Council, to familiarise themselves with our Anti-Tax Evasion Policy and to always act in a way which is consistent with the procedures and reporting arrangements therein.

4. Legislative Context

The Government believes that the Council should be criminally liable where they fail to prevent those who act for, or on their behalf from criminally facilitating tax evasion.

The offence does not fundamentally alter what is criminal; it simply focuses on who is to be held accountable for acts contrary to the current law.

The offence focuses on the failure to prevent the crimes and those who act for or on behalf of the Council, rather than trying to attribute acts to the Council.

The new legislation in relation to Corporate Tax Evasion is laid out in the Criminal Finance Act 2017 (“CFA 2017”). This new act came into force on the 30th September 2017:

Part 3 CFA 2017 creates two separate corporate offences:

- Failure to prevent facilitation of UK tax evasion and;
- Failure to prevent facilitation of overseas tax evasion.

The Council would be guilty of an offence if a person commits a UK tax evasion facilitation offence when acting in the capacity of a person associated with the Council.

Under S45 (4) CFA 2017 a UK tax evasion offence is either of the following:

- a) An offence of cheating the public revenue.
- b) An offence under the law of any part of the United Kingdom consisting of being knowingly concerned in or taking steps with a view to, the fraudulent evasion of a tax.

Under S45 (5) CFA 2017 ‘UK tax evasion facilitation offence’ means an offence under the law of any part of the United Kingdom consisting of:

- a) Being knowingly concerned in, or taking steps with a view to, the fraudulent evasion of a tax of another person,
- b) Aiding, abetting, counselling, or procuring the commission of a UK tax evasion offence, or
- c) Being involved in the commission of an offence consisting of being knowingly concerned in, or taking steps with a view to, the fraudulent evasion of tax.

5. Who Can be Held Accountable for Tax Evasion?

The Government guidance refers to both the ‘Relevant body’, namely (Merthyr Tydfil County Borough Council) and ‘persons acting as associates,’ (any employee, agent or other person who performs services for, or, on behalf of the Council). The associate person can be individual or an incorporated body.

For Corporate offences to be committed a criminal offence must have been committed at the taxpayer level (stage one)

Stage one: The criminal tax evasion by a taxpayer (either an individual or a legal entity) under existing law.

It is criminal offence to deliberately and dishonestly facilitate the commission of revenue fraud or to assist a person to fraudulently evade tax. It is also a crime to aid and abet another person in committing a revenue fraud.

Stage two: The criminal facilitation of the tax evasion by an associate person of a relevant body.

Only a relevant body can commit the new offences. If an associate deliberately and dishonestly criminally facilitates a tax evasion offence whilst performing services for or on behalf of the Council, the Council is accountable, unless they could evidence that reasonable prevention procedures have been put in place to prevent its associated persons from committing tax evasion.

6. Prevention Procedures

Government guidance suggests the proportionate prevention measures should be taken based on an assessment that identifies the specific risks of the organisation.

The Government has set the same threshold for Tax Evasion prevention measures as those set for Bribery (under S7 of the Bribery Act 2010). i.e., When an offence has been committed, an organisation must be able to evidence that they have adequate procedures in place designed to prevent persons associated with the Council from undertaking such conduct.

The Council must ensure that their policies and procedures are up-to-date, and that staff are made aware of their responsibility around the recognition and prevention of tax evasion. This will not only provide a safeguard against tax evasion but also enable the Council to evidence that prevention procedures are in place.

HMRC has produced guidance on the appropriate set of prevention measures (six core principles) which could be put in place by a relevant body to prevent associated persons from criminally facilitating Tax Evasion. These are:



7. Definitions

Tax Evasion is the non-payment or under-payment of taxes, usually resulting from making a false declaration or no declaration at all of taxes due to the relevant tax authorities, resulting in legal penalties (which may be civil or criminal) if the perpetrator of tax evasion is caught.

Tax Avoidance is seeking to minimise a tax bill without deliberate deception (which would be tax evasion) but contrary to the spirit of the law. It therefore involves the exploitation of loopholes and gaps in the tax and other legislation in ways not anticipated by the law.

Relevant Body – The government guidance for the corporate offences of failure to prevent criminal facilitation of tax evasion, (1st September 2017) states that only a 'relevant body' can commit the new offences. This means that only incorporated bodies (typically companies but also includes the Council) and partnerships can commit the new offences, not individuals.

However, a relevant body can commit the new offences if a person acting in the capacity of a person associated with it criminally facilitates a tax evasion offence.

A person is associated with a relevant body if that person is an employee, agent or other person who performs services for or on behalf of the relevant body (such as sub-contractors).

8. Risk Assessment

It is unlikely that any one individual Council Officer would benefit individually from Tax Evasion.

There would have to be collusion either with a supplier or another council employee for an individual to benefit. However, the Council's Internal Audit Team will conduct regular compliance checks paying attention to areas of high risk and report back to the Governance and Audit Committee as part of its reporting requirements on counter fraud activities.

9. Areas of Risk

The following examples are intended to illustrate situations in which a person (member of staff) or the Council could facilitate tax evasion. These examples noted are not an exhaustive list.

Value Added Tax

Paid to non-registered Suppliers – Suppliers adding VAT to their invoices when they are not registered for VAT with the intention of not paying the tax over to HMRC. If the invoice is approved/paid by a Council employee without questioning the incorrect addition of VAT to the invoice, they could be facilitating tax evasion by the supplier. If the council paid the invoice and recovered the VAT from HMRC this would not be identified as a cost in anyone's budget so would be difficult to spot.

Paying Fraudulent VAT Only Invoices

Accepting and paying a VAT only invoice without checking that it is valid and relates to goods and services received by the Council could facilitate tax evasion by a supplier. VAT only invoices would not be identified as a cost against any budget as the money would be recovered from HMRC and could therefore go undetected.

Raising Invoices to a Customer

Having supplied goods or services to Customer A, they then ask the service to raise the invoice to Customer B. The reason for this change could be because Customer A is not VAT registered and cannot recover VAT whereas Customer B is registered and can recover the VAT. This type of request could be an indicator of tax evasion and the reason for the request should be obtained and the change only made if it is clear that the reason is not in order to evade tax.

Supplies of Goods or Services to Customers

At a customer's request, changing the description of the goods or services supplied from those that would be subject to VAT to something that does not attract VAT. The only reason for doing this would be so that the customer does not have to pay the correct VAT due. The employee would be facilitating tax evasion by complying with this request.

Construction Industry Scheme

Invoices received from suppliers could show a false breakdown of labour costs with the intention that a lower amount of tax will be deducted on the labour element, or no tax being deducted at all.

A lack of understanding as to what comes within the scope of the scheme or the implications of not applying the scheme, could mean that the Council is committing a criminal offence as they have assisted a third party in criminal tax evasion.

PAYE – Income Tax/National Insurance

Failure to deduct the Tax and NI at the correct rate - A manager agrees to allow a staff member to claim home to work travel through an expense claim, by describing it in such a way to avoid its correct identification. Knowing that this is against the Council's policy and with the intention to help the member of staff member to avoid paying the tax that is properly due.

The manager is allowing the staff member to make a false statement to evade paying tax and is therefore committing an offence of assisting criminal tax evasion.

Inappropriate use of Gift Vouchers

A member of staff is rewarded by way of a gift voucher over the HMRC trivial gift limit (currently £50). This could be seen to be a deliberate form of reward to avoid tax liabilities.

Off Payroll Working (IR35)

Failure to identify workers/contractors that should be paid via the payroll - A supplier wishes to be treated as a self-employed contractor so that payments to them are paid gross and they can evade paying the appropriate income tax and national insurance liabilities.

A Council officer helps the supplier falsifying information on the Employment Status Questionnaire to obtain a self-employed status result.

By supplying false information in this way, the Council employee is committing a criminal offence as they have assisted a third party in criminal tax evasion.

Direct Payments (for Care & Support Services)

The Council makes payments to people who have been assessed as needing help from Social Services and who would like to arrange and pay for their own care and support, instead of receiving the support direct from the Council. The recipient of the direct payment then becomes responsible for deductions for Income Tax and National Insurance from payments made to personal assistants and declaring this to HMRC.

As part of the Council's duty to monitor the use of the direct payments awarded to individuals, staff carrying out monitoring should ensure that deductions for Income Tax and National Insurance are being properly deducted and declared to HMRC. In the event that the payments are not being made the member of staff must raise this with their manager.

Failure to ensure deductions for Income Tax and National Insurance are paid means that the Council or member of staff is committing a criminal offence as they have assisted a third party in criminal tax evasion.

Grants

Failure to ensure that Grant funding is used for intended purpose.

The Council gives a grant to an organisation for a specific project or service which may include the employment of staff. Staff are paid without the appropriate deduction of Income Tax and National Insurance. No checks are made when the grant is applied for to ensure that the organisation has sufficient funds to meet the tax liabilities and no checks are made to ensure the grant funding is used properly and for the intended purposes.

If the organisation has deliberately evaded tax, the Council is committing a criminal offence as they have assisted a third party in criminal tax evasion.

These examples are intended to be illustrative and cannot cover every form of risk. Other risks would include:

- Encouraging elderly/disabled clients or charities to self-certificate to obtain VAT zero-rating for goods they received when they do not qualify for the zero-rating.
- Negotiating with suppliers to make cash payments for goods or services.

10. Proportionality of Risk-based Prevention Procedures

The Council has a zero tolerance for anyone committing tax evasion and recognises its responsibility to prevent the facilitation of tax evasion. This is reflected in the governance process and procedures to address specific risks.

The Council has the following practices in place that all contribute to staff awareness and governance:

- Council Constitution, Contract & Financial Procedure Rules
- Accounting procedures and records
- Code of Corporate Governance
- Procurement Code of Practice
- Code of Conduct
- Anti-Fraud, Bribery & Corruption Policy
- Anti-Money Laundering Policy
- Whistleblowing Policy

Head of Finance (also known as Section 151 Officer) is responsible for:

- Ensuring that this Policy is current.
- The maintenance and operation of this Policy.
- Ensuring proper arrangements are made for the Council's financial affairs.
- Ensuring the Council implements appropriate measures to prevent and detect tax evasion and protect the public purse and Council's assets from fraud and loss.
- Ensuring that the Council has put in place effective arrangements for internal audit and that it is adequately resourced and maintained.
- Supporting the Council's internal audit arrangements and ensuring that the Governance & Audit Committee receives the necessary advice and information, so that both functions can operate effectively.

11. Due Diligence

Processes and procedures are in place in relation to payment of invoices. Regular audits take place and additional caution is exercised when making payments to new suppliers.

12. Communication and Training

All relevant staff should be aware of the Criminal Finances Act 2017 requirements via appropriate means of training.

The reporting process for anyone who may have concerns that either tax evasion or the facilitation of tax evasion offences may have been committed is outlined below.

Concerns are better submitted in writing – we need the background and history of your concern, giving names, copies of any documents, dates, and places (where possible). We would like you to explain why you are concerned about the situation – we do not expect you to prove the truth of an allegation.

Staff, Members, Suppliers and Contractors can raise their concerns either via:

- The Councils Anti-Fraud Line – 01685 725111 or
- email address : fraudline@merthyr.gov.uk
- Directly contacting the Council's Internal Audit Service (01685 725156) / (01446 709572) or
- internalaudit@merthyr.gov.uk or via post at the Council's Civic Offices.

Alternatively, you can contact any of the recipients below with your concerns:

- Chief Executive: 01685 725125
- Head of Finance and Section 151 Officer: 01685 725220
- Head of Legal and Monitoring Officer: 01685 725454
- Head of Strategic Human Resources: 01685 727407

All are located at the following address:

Civic Centre,
Castle Street,
Merthyr Tydfil,
CF47 8AN

Contact your Chair of Governors (if you work for a school)

13. Monitoring and Review

Monitoring and review will form part of the annual audit programme of activities and annual reports will be presented back to the Governance and Audit Committee.

14. Top Level Commitment

The policy is supported by Senior Officers and endorsed by the Governance and Audit Committee.

All Directors are responsible for ensuring compliance with the Anti-Fraud, Bribery and corruption Policy, Anti-Money Laundering Policy, and the Anti-Tax Evasion Policy and with systems of internal control.