

The OECD's project on High Net Worth Individuals

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Question 1: What are the important features of tax administration that may facilitate the co-operative compliance approach? Please build on positive and negative experiences in dealing with your tax administration.

Your response

Appropriate and effective organisation, sound and comprehensive intelligence, thorough and systematic analysis and corroboration, and then effective and determined action. Who are they? What are they? Where are they? Why are they adopting the methods they do? When can they be called to account?

Question 2: Do you think that having a dedicated unit (or units) as part of your tax administration (either at national or at regional level) with particular responsibilities for HNWIs is a good idea? If you are generally supportive of such an idea, what roles and responsibilities do you think such a unit should assume? In particular do you have any views on the following points?

- a. How should a tax administration best gain insights into the behavioral drivers and the general context within which HNWI and their advisors operate? For instance, by employing staff with relevant private sector experience perhaps on secondment, on short term contracts, at the end of successful careers, or on permanent contracts. Should there be some form of "advisory board" involving advisors and other relevant market participants (e.g. private banks) or some other structured form of providing relevant background and context to the tax administration.*
- b. What role and responsibility should the unit assume with respect to the affairs of the taxpayer (e.g. research and risk assessment or full responsibility for the file including potential audit)?*
- c. What taxes relating to the HNWI and their affairs should such a unit deal with and why? For instance, should it be limited to income taxes or also cover inheritance and estate taxes, VAT/GST etc.?*
- d. Should the unit be responsible also for the affairs of all/certain entities controlled by a HNWI (e.g. only the personal affairs of the taxpayer, all operating entities and non-trading entities or only non-trading entities)?*
- e. Should HNWIs and their advisors be assigned a designated contact point within the unit?*
- f. Should the unit be tasked with preparing an annual or periodic report about the overall environment and key developments, including the most pressing issues identified by HNWI and their advisors for use by the heads of tax administrations and finance ministries?*
- g. Should additional safeguards and security procedures apply to the information held by the unit?*

Your response

A dedicated unit (or units) as a key element of any tax administration at national level with particular

responsibilities for HNWI's is a necessary condition of effective action.

- a. Know your enemy, and that will mean suborning some of those formerly active in the field and capable of the analysis and intelligence. It will need a positive approach to recruitment, and then a careful oversight of the individuals involved. But in dealing with those at the interface with HNWI's there is always the danger of being too close and at risk of compromise or reduction of effective purpose. The targets are not easy people to deal with, nor lacking in hunter gatherer skills, indeed it is these that have enabled them to become HNWI's.
- b. Any unit should have clear and unmistakable ability for the control and management of the files, and the chain of command should be equally clear to achieve anything.
- c. There should not be a limit to those taxes investigated, other than those self imposed for reasons of practicality and effectiveness. Moreover there will need to be arrangements for fast, efficient, and certain sourcing of information across foreign jurisdictions. In many cases there is not a single individual being dealt with but a complex of family or associated trusts and other means of tax avoidance and evasion. There will have to be means of accessing information held in havens of secrecy.
- d. It follows from c. above that the holding of information and communication of it should be arranged so that as full a picture as possible is available to those deputed to act.
- e. In both tactical and strategic terms the effect of such an arrangement has significant negative risks. It is not needed if the internal documentation, control, and analysis, is arranged in such a way to allow the relevant team to work as a coherent whole in each case. There are obvious dangers in arranging too personal a form of negotiation and contact in the shape of continuity, personal factors, public relations, and contingent risks to the integrity of the team and unit as a whole. Additionally, it is giving a "right" to HNWI's that is open to abuse, error, and critically, serious misinterpretation in the event of (inevitable) difficulties arising.
- f. This is really about the management and use of deadlines. To impose a typical administrative dating on a calendar or some such basis imposes a set of conditions unrelated to the actuality of the process of pursuing the HNWI's. The reporting schedule should be related to function and stage, as in engineering projects, and should be robust in form.
- g. Whilst there are particular difficulties with many HNWI's relating to the simple fact of their wealth and the potential for criminal risk, these must be addressed with relevant safeguards. A basic principle is that security and privacy in communication in data and handling should be the rule for all taxpayers equally. But the conceptual and legal basis for the conduct of tax investigations should not create a privileged elite with unusual safeguards are not available to other individuals less able to employ teams of lawyers to pursue privacy claims in courts in HNWI compliant regimes such as the UK.

Question 3: If you are from a country that currently has a dedicated unit dealing with HNWI's what advantages or disadvantages have you seen in having such a unit and do you have any comments on the way it was set-up and is operated? What are the features that you find the most useful?

Your response:

If there is such a unit in the UK it is either a mystery or a chimera. The government of the UK is not given to pursuing the wealthy for taxes with any evident enthusiasm. It is only the poor that suffer.

Question 4: If the tax administration offered this or a similar approach, what would encourage HNWI's and their advisors to opt into it? In your answer please consider the points discussed below and indicate which points may be more important and which may be less important. Please also describe any other elements or concerns that you think would be relevant for HNWI's and their advisors (e.g. privacy concerns), and how these may be addressed.

Your response

The critical difficulty is that the typical HNWI has gone beyond any normal jurisdictions. They are global operatives floating free with the ability to buy into political systems. There is no shortage of examples in the UK of persons whose contributions one way or another have a major effect on the ruling political and media elites. The UK has needed them to stoke the London property boom, to support needy football clubs with large followings and to maintain a highly expensive celebrity culture. Weaning a weak and confused political system from the habit of servility to global oligarchs is a major task.

Question 5: The Focus Group seeks input from HNWI's and their advisors about the framework for voluntary disclosures and what particular elements would encourage taxpayers to come forward, e.g. solutions to issues such as lack of back-year records, inability to calculate final tax liability, concerns regarding privacy.

Your response

This question betrays an optimistic vision of the possibilities. I can understand and sympathise with its diplomatic and balanced intent, and hope for something of a better world. I regret that the reality is that the OECD and those who work with it will just have to go after them good and hard. Anything that they might do or can do to hold on to their loot, and their ability to decide to whom and where it might go to help their further enrichment, then they will do, and they will be able to hire some intelligent and able people to work with them. Please study the history of Medieval and Renaissance Italy for some choice examples. The career of Sir John Hawkwood is very instructive, and the history of the Medici. As for some of the Popes.....

Question 6: Please express your views on the merits of a product ruling regime in connection with HNWI's. In addressing this question please take a broad view of the term "product ruling" to include any form of advance certainty (whether formal ruling or not) and also consider which segment of HNWI's you think would be the users of the types of products for which product rulings could be made available (i.e., certain HNWI's might be more likely to enter into tailor made arrangements that do not lend themselves to product rulings).

Your response

This is an issue of structure for analysis and action in a highly complex field. I can only suggest that wherever possible the simplest format is used. Complexity built on complexity can lead to too close a connection between the investigators and the investigated, and moreover the essence of HNWI activity is to have a series of complicated arrangements designed to need.

I can see why, intellectually, the OECD seeks to deal with the HNWI's on what could amount to be their own terms if very great care is not taken, and why this might be thought to be the main route to successful encounters. But the key risk is that HNWI's are likely to be faster on their feet than any pursuer, and able to take decisions on a more rapid and informed basis. This is a real problem for the OECD. It is maintaining the direction, thrust, and momentum of any pursuit of either an individual or particular group of HNWI's.

Question 7: Do you have any other comments which you wish to make?

Your response

As a resident, taxpayer, and pensioner of the UK, who was called to the colours to serve The Queen, and who had no national insurance entitlement as part of the economies in the payment of conscripts, it is my considered view that the UK Government is engaged in a vast system of payola for the benefit of the international HNWI elite. It may be more by accident than design but for the several elites of the London Mediocracy it is a happy accident whose arrangements they are reluctant to dispute or to reform in any way. The consequence is that the UK Social Security Budget has come to be a gigantic Ponzi scheme for which the ordinary people, and notably the poor, are paying a heavy price. There are associated dire effects across the world for the poor in regimes which are corrupt or vulnerable.

When I am obliged to go to my local hospital to have my inner workings divined, at the end of the line is an HNMI being recompensed for their contribution to a Private Finance Initiative. Unluckily the added costs this imposes is causing my local health trust to reduce key services in several sectors, notably the Accident and Emergency unit I and my neighbours too often need. The Government PFI has sown the wind; we are reaping the whirlwind. The block of flats I live in had a Property Management Services company that at one time was UK based and financed. After a series of takeovers the PMS then became a small part of a financial group owned by an HNWI, highly regarded in the worlds of the media and finance for a vigorous approach to realising income streams, yachts in Monaco Harbour, vintage Rolls Royce cars, and a celebrity lifestyle in St. Tropez. To achieve this, our service charges were increasing at well above the rate of inflation, and the accounts padded with junk fees and various other devices for maximising returns. The flats are inhabited by elderly and largely disabled pensioners many of whom are now desperately close to the margins of financial survival. When asked about this the PMS in question simply referred us to the local Benefits Agency that is to apply for government money to pay off the extra service charges. Then there is the rental housing market sector. The UK Housing Benefit Scheme to allow "affordable" rentals is notorious for fraud and manipulation, and has been a source of huge profit for property investors etc. very many of whom one way or another are exporting their income and profits as HNWI's.

The UK has has sharply rising Council taxes, also attributable to a clutch of expensive PFI schemes from financial firms owned and run by HNWI's, the outsourcing of services to HNWI owned companies, and misguided investments in Icelandic Banks, fees payable to other HNWI's. The electricity company we have was once a UK operation, now it is foreign owned with HNWI money and all of us have had endless trouble with the billing and direct debit charges. Those who have opted out to read our own meters and pay by cash face a significant penalty in the structure of charges. Both the Councils and the Power Utilities benefit from Government grants one way or another.

The trains I use sometimes, heavily subsidised by the Government, also are eventually owned by HNWI's somewhere, and the fares have been going up sharply and as for travelling, well, sometimes you get on a train to find yourself somewhere totally unexpected having been rerouted to meet management targets during the course of the journey. My income is enough to pay tax, but my local Inland Revenue office is now only leased, having been sold to an HNWI who is based in Bermuda. My occupational pension, once state run, is now managed by a firm belonging to another HNWI who might be on Mars. One could go on through so many functions of Government, notably Defence, but enough is enough.

Beyond Government but still with the advantages of lax regulatory or tax facilities denied to the ordinary citizen or the poor, my insurance company, once a specialist UK firm has gone to a Private Equity HNWI based I believe on a remote Pacific Island vulnerable to rising sea levels and the odd tsunami. Since it was taken over, it seems to be the same; but detailed inspection of the micro footnotes in the documents suggests subtle changes that reduce the insurer's risks. My bank, once centred on Birmingham, seems to have gone East somewhere in order to be able to pay huge bonuses to HNWI's. When I go into the local branch it reminds me of the amusement arcade in the City where I grew up, which I was discouraged from visiting on the grounds of moral dangers, and the questionable nature of its staff. The other savings establishments still available are eventually HNWI based in places I can hardly spell, let alone find. They all churn their products and rates to my disadvantage.

At one time, in all these basic connections common in developed countries, I knew who I was dealing with, where they were based, and with a little effort, find how they operated, financed, and dealt with their businesses. This is no longer the case, and moreover if I feel inclined to comment adversely in public I am all too liable to find an expensive firm of City of London solicitors coming after me with writs and demands for millions as compensation for hurt feelings and unwonted comment.

I confess, I may just be a little, only a little I assure you, prejudiced by personal experience.

This is in what is often laughingly called a "developed" nation. What the scale of the harm done to the poor and the ordinary people in countries that are far more vulnerable is can only be imagined. In my own view the UK is not simply a victim but has a governing and media system, The London Mediocracy, that is at the centre of the problem through its complicity in the worst of the abuses in the City of London financial system and the network of tax havens in UK related jurisdictions. I can hope that the OECD is sincere and determined to confront, act, contain and control the tax evasion and avoidance implicit in the global world of the HNWI's.

The key is a reliable information stream that enables action. Neither the OECD nor an individual tax jurisdiction will find this easy, and the concept of "Co-operative Compliance" is simply a fond hope in an ugly world, there is little or no hope of extracting full disclosure from the HNWI's or their helpers. The present arrangements in Tax Information Exchange Agreements do not give automatic or certain exchange because of the constraints imposed. A person becomes an HNWI by working the system and playing the angles, this will not change by voluntary action. They are part of interlinked elite who serve firstly their own interests, and secondly the interests of their peers if only as self interest.

The financial centres of the world are full of firms of very able, highly educated and trained people who are dedicated practitioners in the trade of tax avoidance, and structuring funding, income, payments, fees, and accounts to that effect. In those countries, such as the UK, where the political capital is also the financial centre of the jurisdiction, there are major vested interests all highly involved with existing processes of government and legal systems with impact at all the highest levels. At its extreme, as in the UK those who question the operations of HNWI's cannot publicly discuss or criticise them because the UK Government in alliance with the EU has put in place stringent privacy conditions.

There are systems already in place in banks across the world, allegedly making them all in effect one large mega-bank that allow communication and data recording across the world. This is done through the support office systems. Consequently, it has to be possible to find some means of accessing this source through the establishment of some sort clearing system designed for the collation and audit of tax and related data. Failure to co-operate should mean some sort of exclusion from a licensing or other means of control of status and function for the banks and other financial entities concerned. At the same time knowledge of information of the need for action and the role of the OECD should be conveyed to the peoples of the world at large.

It is the UK Government that presents the prime problem, not only because of its complicity with the excesses in the City of London, but its attachments to very many of the more active tax havens. It is claimed that they need to be financial centres because there is no other economic role for them. In fact, many of the local population consist of very low paid service labour living in either shanty towns or quasi-barracks dominated by gang cultures, with often a large disenfranchised even lower paid migrant population to support them. In the wider world the Department for International Development may seem very active, but if the money trails are followed they lead inevitably to financial organisations in the grip of the HNWI element. The DFID has a web site that presently features radio and TV soap operas as a major achievement, doubtless to the benefit of the London media. One wonders if they feature the shopping malls being provided, and the other consumer delights of urban life, that all lead back inevitably to an HNWI in a tax haven, that seem to be the characteristic features of UK funded development. In all this the activities of a Madoff and his like in New York are simply provincial small fry. It is the big boys and girls in government who the Godfathers (and mothers). The damage that has been done is all too visible and it is the greater damage that they are capable of in the future that has to be stopped, by whoever can take on the role and the work. The OECD should lead the charge.