

## Are the tax spies watching you? How HMRC snoops on Facebook and offers £20,000 bribes for tales from friends and colleagues

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For three decades at New Look salon in the seaside town of Bognor Regis, Kristine Swindells cut customers' hair while her husband Colin did the books.

They worked hard and the enterprise ran like clockwork. Until one day the taxman called. Suddenly, they found themselves treated like criminals.

Two humourless tax officials subjected them to a series of exhausting interrogations, lasting up to four hours. The couple, both in their 70s, were forced to account for every minute of their lives over the previous four years and explain how much they charged every name in their bulging appointments book.



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**On the case: The taxman's most vital tool is a powerful new £45million computer system called Connect, which holds more data than the British Library and has helped wring an extra £1.4billion out of Britons in two years**

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Finally, they were accused of dodging VAT payments by failing to fully report how much money their shop had made.

The tax investigators said their receipts didn't match up with the number of customers listed in their

books. By the end of this terrifying ordeal in 2008, they were told they owed £18,000 and feared they could face jail.

The Swindells have no idea why the taxman picked on them. They had simply become one of the thousands of ordinary people who every year are on the receiving end of an in-depth investigation from the taxman. During these tough and intimidating procedures, no aspect of their finances is left unprobed.

The contrast between HMRC's hardline approach to small businesses, like theirs, and its timidity when faced with the might of the multinational corporations could not be more stark.

Last week, the Mail told how Revenue chiefs had begun naming and shaming small firms who it accused of dodging tax. Among them were a hairdresser and a coach operator.

Meanwhile, multinationals who make billions from sales in the UK are able to get away with paying tiny amounts of tax. They do this by shifting their profits between countries that have lower rates for tax.

Though the practice is legal, a cross-party parliamentary committee described these tactics as 'immoral' and 'an insult to British businesses and individuals who pay their fair share'. Yet, it is those firms and individuals who have borne the brunt of the taxman's attention.



**Stress: Hairdresser Kristine Swindells and husband Colin**

Tax inspectors raided 499 homes and business premises in 2011 — a 155 per cent increase on 2010. The amount of extra cash raised through investigations into ordinary businesses has soared to £434million a year, according to experts.

Using a combination of new technology and old-fashioned snooping, HMRC has stepped up its targeting of the small firms and the self-employed. Its whistleblower hotline received 74,000 calls last year.

Turning in a friend or colleague can be lucrative, with HMRC paying out up to £400,000 to anonymous informers last year — some pocketing up to £20,000, tax experts say.

Former tax inspector Kevin Kinsella, who runs an advisory firm, says it is often bitter former wives who inform on their partners.

'Ex-girlfriends or recently divorced wives are especially keen if the suspected tax dodger has married

again or is in a relationship with someone else,' he says. 'They feel slighted, and contacting the taxman is their way at getting back.

'I remember receiving a tip-off from a woman whose partner had run off with someone else, claiming her ex-husband had not been paying the right amount of tax. She gave details of where exactly they could find the company's true accounts in his home. When the inspectors raided the property, they found the books stuffed in the dining room cabinet, just as the wife had said.'

While no one would dispute that all those illegally avoiding tax should be brought to account, it is the disproportionate approach of the tax authorities to those it regards as a soft touch that seems unfair. Though former tax inspectors swear the vast majority of tip-offs never lead anywhere and are made on hearsay or out of malice, the name of everyone mentioned by an informant — even if innocent — is stored on a giant database for years.

The taxman's most vital tool is a powerful new £45 million computer system called Connect, which was designed by the defence contractor BAE Systems. Connect holds more data than the British Library and has helped wring an extra £1.4 billion out of Britons in just two years.

What makes this computer so powerful is the way it can link with dozens of other massive databases such as the Land Registry, which contains details of every property bought in the UK, the Driver and Vehicle Licensing Agency or the electoral roll.

## Spying on you through Facebook

HMRC recruits well-paid investigators and inspectors — often from universities or accountancy firms. It has also launched a so-called tax academy to train inspectors.

Investigators not only sift through data generated by the computer system, but also through local newspapers and the internet looking for clues that could lead them to a potential jackpot of unpaid tax. Social networking sites such as Facebook and Twitter can also be mined for vital clues, the experts say.

### TAXMAN GETS YOUR CODE WRONG - THAT'S YOUR PROBLEM



HMRC's heavy-handedness when it comes to dealing with those who make mistakes, is made even more galling thanks to how it treats its own errors, *writes Simon Lambert*.

More than 20 million taxcodes are sent to 16 million people at this time of year, but in recent years many have been wrong.

Mistakes with taxcodes typically occur when someone has several sources of income or where they have received a large one-off boost, such as a dividend payment, in the previous year.

This can leave someone paying too much or too little tax in future years. Yet a rule that allows taxpayers to fight unfair bills due to wrong codes is being quietly thrown out.

Tax bosses want to overhaul a special concession used by hundreds of thousands of people each year to contest debts they believe have been caused by mistakes at HMRC.

The new rules make taxpayers themselves directly responsible for checking their code is correct and spotting mistakes. If they fail to do this, their appeal will not be upheld.

If your finances are under doubt and you boast about a new car or expensive holiday on Facebook, or put an advert in the local paper for a big family wedding, this can trigger inquiries. The evidence that inspectors use against firms can be as crude as counting the number of empty containers a take-away has ordered.

If the owner's order exceeds what should be required for sales declared, that may indicate he is making larger profits than officially stated. On the other hand, it could just be an administrative oversight.

The penalties of cheating on tax can be tough. Not only will you have to pay every penny you owe with interest, you will also face a penalty of up to 100 pc and, in the worst cases, time in jail. A HMRC spokesman says: 'We treat all taxpayers even-handedly irrespective of their size.

'Evasion is evasion and we enforce the rules irrespective of the nature of the taxpayer. We can name deliberate defaulters under specific conditions where tax over £25,000 has been deliberately evaded.'

Experts say the problem is that ordinary self-employed or small business people do not have the time or resources to defend themselves from HMRC's investigations. They are not tax experts and do not have the modern technology to keep detailed records. So, when the taxman calls, they can find it hard to fight their corner. This will make it impossible to claim, since the vast majority rely on their employer or pension provider to take care of their tax matters.

The Swindells were forced to spend thousands of pounds and four years fighting off HMRC. The Revenue argued the appointments book for the hairdressers' business was so busy that it must have made a large enough profit and would be eligible for VAT. But the couple, who had never been in trouble with the law, argued many of their longest serving customers were elderly and were given discounts. They also pointed out that many of the appointments in their diary had been cancelled.

Finally, after two appeals, HMRC backed down. Documents seen by the Mail show the case was stopped because tax officials may have made a mistake and it would lead to 'reputational damage'. A HMRC spokesman says: 'Based on the evidence we saw during the inspection we wrongly advised Mr Swindells to register for VAT. On appeal to tribunal we reconsidered, finding no VAT was, in fact, due. We have apologised to Mr Swindells for any inconvenience caused.'

But while the taxman was able to move on, the Swindells have not. The strain of the case has meant the couple have had to close their business.

'It has been a huge emotional impact, the stress takes over you. It never leaves,' says Mr Swindells. 'We were treated with utter contempt — we felt they rode roughshod over us.'

Martyn Arthur, a forensic accountant who fought the couple's case for them, believes they are not the only victims of HMRC's shadowy army of investigators.

'Every day, up and down the country, there will be cases like this,' he says. 'In a court of law you are innocent until being proven guilty, but in the topsy-turvy world of the taxman it's the other way round.'