

Tax avoidance — don't get caught out

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Personal stories from people who have been caught up in tax avoidance schemes.

Some contractors who have been caught up in tax avoidance schemes have asked us to share their stories as a warning to others. They were promised higher take-home pay, lower tax bills and less paperwork. Instead, it cost them time, money and stress.

These stories are based on real people's experiences, but personal details have been withheld to protect their identity.

- The nurse — Chantelle's story
- The nurse — Tanya's story
- The IT contractor — Duncan's story

The nurse — Chantelle's story

Chantelle, a 32-year-old nurse from Watford, was caught out by a tax avoidance scheme when she signed up for some agency work.

Chantelle became concerned that some of her pay was being paid into her bank account with no tax taken. It wasn't shown on her payslip either.

What steps did Chantelle take?

After coming across the 'don't get caught out' campaign, she emailed HMRC's dedicated campaign mailbox and sent through her payslips to ask if she was involved in a tax avoidance scheme.

What happened next?

HMRC told her that she was involved in tax avoidance and had been for the last 3 months since starting her current job. They would take her through what she needed to do next to get her out of the scheme and quickly back on track.

Chantelle explains...

I was testing the waters for agency work, which I hoped would give me more control over my own time.

I checked and saw an advert for an agency and their advert said they were HMRC compliant, which made me feel safe.

I feel genuinely betrayed by the actions of the umbrella company and the situation it landed me in. There are, I am sure, healthcare workers who are probably in the same

situation as me. We work hard and earn our money honestly only to get involved in tax avoidance schemes and become victims of this type of situation.

Caught up in tax avoidance schemes: Chantelle's story

HMRC's help

Thankfully, because Chantelle had been made aware of the warning signs of tax avoidance, she was able to act quickly. Her prompt action, along with our help, has meant HMRC were able to work with her to settle the tax due.

The nurse — Tanya's story

Tanya is a single parent. She works as a critical care nurse at her local hospital. She found her job through an agency, and they recommended an umbrella company that provided payroll services. Tanya chose an umbrella company that gave her the highest take-home pay. They offered her a tax avoidance scheme which she joined. This left her with an unexpected tax bill, on top of the high fees she had paid to the umbrella company for using the scheme.

I was sold on the benefits of higher pay

Tanya explains...

As a nurse I trust my patients and they trust me, that is the relationship of care. I trusted my agency and umbrella company and I feel like they lied to me and scammed me, I thought my umbrella company would care but they didn't. My agency and umbrella company sold me the benefits of higher pay through what they described as their Tax Plan model. This has now left me owing HMRC money and my umbrella company has washed their hands of me, they just disappeared and left me with the tax bills.

My agency and umbrella company told me not to worry and that they take care of all my legal taxes and that I just have to work and not worry about such matters. I felt cheated about this. I decided to contact an accountant and showed him my contracts and he advised me to contact HMRC immediately.

When I realised that my umbrella had got me into a tax-avoidance scheme, I changed to another agency, who was compliant, and all my earnings are now correctly taxed.

Caught up in tax avoidance schemes: Tanya's story

The warning signs

Tanya wished she had taken more time to consider what she was signing up to and had asked more questions. If she had, she would have spotted the warning signs of tax avoidance. These were:

- the offer that she could take home 82% of her full pay when signing up to the umbrella company
- signing more than one contract or agreement
- paying a hefty fee on her gross pay for the umbrella company to set up her new employment scheme and deal with her employer
- a £500 incentive to get others to join as part of a 'refer a friend scheme'
- a complex pay arrangement that split her monthly salary into 2 payments: one at the basic National Minimum Wage rate with the correct Income Tax and National Insurance contributions paid; the other as a loan with no Income Tax or National Insurance contributions paid

HMRC help

Tanya says:

HMRC wrote to me so soon after using my umbrella company, which I am happy about, otherwise, I would have built-up a larger tax bill. This has helped me look at things differently as I am more aware of tax-avoidance because HMRC helped steer me away from my continued use of my tax-avoidance umbrella company.

What happened next?

It is unlikely that Tanya will be able to recover the high fees charged by her umbrella company, as they are now seeking voluntary liquidation. She must also pay tax of nearly £7,500 and some interest.

Tanya contacted HMRC and wanted to sort everything out. If she can't pay the tax she owes in one go, she will be offered time to pay her tax bill by instalments.

Even if a contractor appoints someone else to handle their tax affairs, they are legally responsible for making sure the correct amount of Income Tax and National Insurance contributions are paid.

Remember, if it sounds too good to be true it almost certainly is. Don't get caught out by tax avoidance, so:

- Stop — don't sign anything that you are uncomfortable with or don't understand
- Challenge — check for warning signs, challenge what you see, ask questions
- Protect yourself, protect others — report tax avoidance schemes to HMRC

These personal stories are published to support HMRC's Tax avoidance — don't get caught out campaign.

The IT contractor — Duncan's story

Duncan is a 55-year-old IT project manager. He's married with 2 children and lives in London. When he started working as a contractor, he chose to use an umbrella company to help him manage his payroll admin. He found one through a comparison website. Duncan didn't ask enough questions about the arrangements he was being sold so ended up in a tax avoidance scheme. This has left him with an unexpected tax bill on top of the fees he paid to use the scheme.

Duncan was lucky as HMRC spotted discrepancies in his PAYE data. That meant we were able to

step in quickly. But that's not always possible, so no-one should ever assume their arrangements are fine because they haven't heard from us.

I found it on a comparison website

Duncan explains:

I did an online search for umbrella companies and came across a comparison website. I spoke to one of the guys there, filled in a form and he suggested three companies. He said, 'these people have got this process in place, and it pays this much'. I just chose one of them, they got me set up and that was it.

When I got the letter through from HMRC my first thought was 'that was quick'. I had only started using the umbrella company a few months earlier, which was still the same tax year. I had a couple of sleepless nights at the start — that was really the worst part.

Caught up in Tax Avoidance schemes: Duncan's Story

The warning signs

Duncan wished he had taken more time to consider what he was signing up to and had asked more questions. If he had, he would have spotted the warning signs of tax avoidance. These were:

- the offer of increased take-home pay when signing his new contract of employment
- signing a loan agreement in addition to his contract of employment
- paying a high fee on his gross pay for the umbrella company to set up his new employment contract and calculate his monthly earnings
- a choice of three complex pay arrangements that all split his monthly earnings into 2 payments
- accepting the consultant's and customer relationship manager's advice that the payment scheme was vetted and legal without seeking a second professional opinion

HMRC help

I spoke to someone at HMRC and that settled things down. Financially there wasn't too much impact as fortunately, I hadn't spent all my money and had saved some of it. Obviously, there was a tax bill which was painful. But by that point I knew it was coming, so I had been able to prepare for it.

What happened next?

Duncan was unable to recover the high fees he paid to the umbrella company totalling £7,600. The umbrella company said he had willingly signed up to the arrangements, agreeing to their payment model and the associated fees. Duncan also had to pay the outstanding Tax of just over £12,000, plus interest because the tax was late.

Everyone is legally responsible for their tax affairs and for paying the correct amount of tax even if

they get someone else to do it for them.

Remember, if it sounds too good to be true it almost certainly is. Don't get caught out by tax avoidance, so:

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<https://www.gov.uk/government/case-studies/tax-avoidance-dont-get-caught-out>