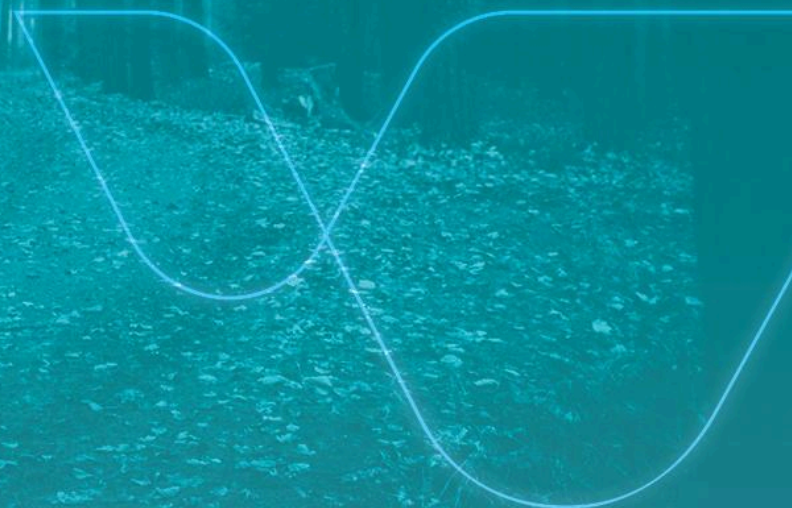


Tax evasion:

Reasonable procedures and prevention methods

A guide for organisations

*What businesses need to know about
preventing tax evasion and staying compliant
with the Criminal Finances Act*



Tax evasion:

Reasonable procedures and prevention methods

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What is tax evasion?

Tax evasion refers to the illegal act of deliberately avoiding paying taxes that are legally owed. This can involve underreporting income, inflating expenses or allowances, hiding money or not declaring assets, not submitting a tax return, or engaging in fraudulent schemes to mislead tax authorities. Unlike tax avoidance, which involves using legal means to minimise tax liability, tax evasion crosses the line into criminal territory and can result in significant penalties, including fines, reputational damage, and even imprisonment.

For organisations, tax evasion can stem from various sources, such as misreporting financial information, misclassifying transactions, or failing to report taxable activities. It is not only a violation of legal obligations but also a breach of ethical standards that can erode stakeholder trust. Understanding what constitutes tax evasion and how it differs from legitimate tax practices is critical for maintaining compliance and fostering a culture of integrity.

This guide will help organisations identify, prevent, and address risks associated with tax evasion while ensuring adherence to relevant laws and regulations.



Tax evasion key facts

120+

countries exchange
taxpayer information
on offshore assets

344

criminal investigations
into tax evasion in
2023/24

88%

of criminal
charges resulted
in a conviction

**£1
billion+**

recovered from criminal
investigations

50,000+

information requests from domestic
law enforcement partners

**£29.4
billion**

additional revenue
collected in 2023/24
(compared to 2022/23)

The state of tax evasion in 2025

Tax evasion remains a pressing global issue in 2025, costing governments hundreds of billions in lost revenue annually. According to the Tax Justice Network's annual state of Tax Justice, countries around the world are losing US\$480 billion in tax a year to global tax abuse, and are projected to lose \$4.8 trillion to offshore jurisdictions over the next decade if no global measures to avert these losses, such as a UN tax convention, are taken. Despite significant advancements in regulatory frameworks and enforcement technologies, wealthy individuals and multinational corporations continue to exploit legal loopholes such as using offshore jurisdictions, as well as engage in outright fraudulent activities, to avoid paying taxes. Recent cases and events highlight both the scale of the problem and the intensified efforts to combat it.

One of the most notable developments involves UBS, a Switzerland-based multinational investment bank and financial services company, which is set to pay a minimum of hundreds of millions of dollars to settle Credit Suisse's violations of an earlier agreement with the US Department of Justice over customers in the US who evaded tax. The case underscores ongoing challenges in addressing historical misconduct by major financial institutions and ensuring accountability in the banking sector. Similarly, the digital economy has presented new risks, with the return of crypto, now with a stamp of approval from President Trump, cryptocurrency transactions are once again becoming a focal point for tax evasion.

Governments are responding by introducing stricter rules, such as the OECD's Crypto-Asset Reporting Framework (CARF), which aims to achieve crypto-asset transparency through annual, automatic exchange of information related to crypto-asset transactions between tax authorities in participating jurisdictions whose tax residents use crypto assets.

In the corporate world, the U.S. Treasury's implementation of the Corporate Alternative Minimum Tax (CAMT) has drawn attention. Designed to address tax avoidance by large companies earning over \$1 billion annually, CAMT imposes a 15% minimum tax on the adjusted financial statement income (AFSI) of large corporations for taxable years beginning after Dec. 1, 2022. The Treasury Department has estimated that the tax is expected to generate substantial revenue—more than \$250 billion over the next decade. But the exact details of the policy are not entirely settled and questions remain about where it applies and who will be liable to pay the tax. Also, the regulation reveals the persistent use of aggressive tax planning strategies by multinationals that blur the lines between avoidance and evasion, which was one of the reasons for the creation of the new regulation.

These cases and measures highlight the evolving nature of tax evasion in 2025. While technological advancements and international cooperation have enhanced enforcement capabilities, the complexity of global financial systems and the rapid emergence of new financial instruments pose ongoing challenges.

The Criminal Finances Act 2017 and reasonable procedures



What is the Criminal Finances Act 2017?

The Criminal Finances Act 2017 is a UK law designed to strengthen the fight against money laundering, tax evasion, and corruption. It introduced new powers and offences to improve the detection, investigation, and prosecution of financial crime.

What are the key provisions of the Criminal Finances Act?

1. The Act introduced the corporate criminal offence (CCO) of failing to prevent the facilitation of tax evasion (sometimes referred to as '**failure to prevent**'). This offence makes companies and partnerships criminally liable if they fail to prevent employees or associates from facilitating tax evasion. This is a strict liability offence, meaning there does not have to be intent for there to be an offence. Even an honest mistake means a crime has been committed. The offence applies to both UK and foreign tax evasion. Under the Act, companies that have been charged with this offence can avoid or mitigate liability if they have '**reasonable procedures**' to prevent the facilitation of tax evasion in place.
2. Under the Act, unexplained wealth orders allow authorities to require individuals to explain the source of their wealth if their assets appear disproportionate to their known income. This tool targets individuals who are suspected of links to corruption, money laundering, or organised crime.

3. The Act introduces extended information-sharing powers that enable regulated businesses like banks and law firms to share intelligence on suspected financial crime.
4. The Act gives authorities the power to freeze and seize assets linked to suspected criminal activity, including bank accounts, even without a conviction.
5. The Act expands the liability of law enforcement agencies to investigate and disrupt financial crime, including extending the suspicious activity (SAR) report period for deeper investigations.

What are reasonable procedures?

Reasonable procedures refer to the preventative measures that organisations must implement to prevent the facilitation of tax evasion under the Act. If an organisation is accused of failing to prevent tax evasion, it can avoid liability and serve as a defence in court to prove that it had reasonable procedures in place to prevent tax evasion.

The HM Revenue & Customs (HMRC) guidance outlines six key principles that businesses should follow to establish reasonable procedures:

1. **Risk assessment** – Businesses must assess the risks of tax evasion facilitation within their operations and supply chains. This includes evaluating high-risk transactions, industries, jurisdictions, and employee roles.
2. **Proportionality of procedures** – Measures should be proportionate to the risk level of tax evasion associated with the business. A small firm with low-risk exposure will require less complex procedures than a multinational corporation dealing with high-risk jurisdictions.
3. **Top-Level commitment** – Senior management must be committed to preventing tax evasion, fostering a culture of compliance, and ensuring adequate resources are allocated to compliance measures.
4. **Due diligence** – Businesses should conduct thorough checks on employees, suppliers, contractors, and third parties to ensure they are not facilitating tax evasion. Enhanced due diligence is expected for high-risk relationships.
5. **Communication and training** – Employees and associated persons must be trained on tax evasion risks and the company's policies. Clear reporting channels should be in place for concerns or whistleblowing.
6. **Monitoring and review** – Policies and procedures must be regularly reviewed and updated to address emerging risks and regulatory changes. Internal audits and compliance checks should be part of this process.

Taking these steps can help a business mitigate the consequences in the case of a tax evasion offence and possibly lessen fines and avoid persecution by being able to prove that it took all reasonable steps to prevent it.

Cryptocurrency and tax evasion



nature of these technologies can facilitate money laundering, fraud, and tax evasion, as transactions may be harder to trace and regulate. Criminals can exploit DeFi platforms to conduct illicit transactions, while NFTs can be used to conceal the true ownership or value of assets, complicating enforcement and compliance efforts.

While this rise has rekindled enthusiasm and investment in cryptocurrency, it has also reintroduced significant risks of tax evasion, particularly for businesses operating in this space. Cryptocurrency's pseudonymous nature, coupled with the relative lack of regulation and oversight during its early years, created an environment ripe for tax evasion. In 2025, these challenges remain relevant as governments and tax authorities around the world continue to adapt to the increasing complexity of digital assets.

President Donald Trump, who was "[not a fan](#)" of bitcoin in 2019 and in 2021 called bitcoin "[a scam](#)" back in 2021, has now u-turned to be one of its biggest proponents, promising, in a speech to Libertarians, to "[ensure that the future of crypto and bitcoin will be made in the USA](#)", and becoming the first presidential candidate to accept digital assets as donations. Therefore it's safe to assume that there will be a pro-crypto stance that could lead to a more lenient regulatory environment for digital assets. Indeed, President Trump and his wife Melania both [launched their own cryptocurrencies](#) on the eve of his reinauguration.

One of those new instruments is cryptocurrency. Cryptocurrency is experiencing a remarkable resurgence as we enter 2025, surprising many after its decline in 2022. The collapse of major entities like FTX, coupled with the arrest and conviction of Sam Bankman-Fried, who is now serving a 25-year sentence for fraud, led to a wave of skepticism and regulatory scrutiny. However, tech-enabled "crypto-bros" – savvy, tech-driven entrepreneurs – have reignited interest in digital currencies. This resurgence has been fueled by innovations in blockchain technology, the increasing institutional adoption of crypto, and a growing number of legitimate use cases, including decentralised finance (DeFi) and non-fungible tokens (NFTs).

Decentralised finance (DeFi) and non-fungible tokens (NFTs) offer legitimate use cases, but they also create new opportunities for illicit activities. The pseudonymous and decentralised

With the growth of decentralised finance (DeFi), non-fungible tokens (NFTs), new blockchain innovations, and the US administration's newfound embrace of crypto, regulators will have to work harder to establish stricter guidelines for monitoring crypto transactions, enforcing reporting requirements, and addressing tax evasion risks, including improving transaction traceability, enhancing cross-border cooperation, and refining tax compliance frameworks specific to cryptocurrency. As businesses and individuals move beyond simple crypto trading to more sophisticated DeFi protocols and tokenised assets, tax authorities are beginning to ramp up their efforts to close loopholes, reduce evasion, and ensure proper reporting in these rapidly evolving areas. Such measures include the OECD's Crypto-Asset Reporting Framework (CARF), the UK Parliamentary Committee on NFTs and Blockchain, and the International Joint Statement on the Crypto-Asset Reporting Framework in which the UK and other jurisdictions announced their intention to implement CARF.

Why is corporate tax evasion a problem?



The problem is not companies taking advantage of legal tax relief. It's the estimated \$200 billion in corporate taxes which go unpaid because of illegal methods of evasion, and unethical methods of avoidance. Governments lose around 4-10% of global corporate income tax revenues to illegal evasion, which is money that could be spent on education, healthcare, infrastructure and pension. Citizens then have to pay higher tax to cover the shortfall, and domestic and family businesses have a hard time competing against multinational enterprises that can lower their tax bills by shifting profits offshore.

Who can commit tax evasion, and how does it occur?

Tax evasion can be perpetrated by both individuals and entities, and the methods may vary depending on the context. For individuals, tax evasion often involves underreporting personal income, claiming false deductions, or hiding assets in offshore accounts. For entities, it may include manipulating financial statements, misclassifying expenses, or engaging in fraudulent schemes to reduce taxable income.

In both cases, tax evasion constitutes a deliberate attempt to avoid fulfilling legal tax obligations, making it a serious offense.



Evasion vs avoidance vs mitigation: Understanding the differences

When it comes to tax obligations, organisations must distinguish between tax evasion, tax avoidance, and tax mitigation—three terms often misunderstood yet critical in compliance practices.

Tax evasion: Illegal and unethical

Tax evasion is the deliberate and unlawful act of not paying taxes owed. This includes underreporting income, falsifying deductions, or hiding assets to reduce or eliminate tax liability. Tax evasion is a criminal offense, carrying severe penalties such as fines, reputational damage, and imprisonment. It represents a clear breach of both legal and ethical standards.

***Example:** Jon works as a freelance graphic designer. Some of his clients pay him in cash. Instead of reporting all of his income to the tax authorities, he only reports the payments made through bank transfers and keeps the cash payments off the books to avoid paying taxes on that income.*

This is **tax evasion** because John is intentionally hiding part of his earnings to reduce his tax bill, which is illegal.

Tax avoidance: Legal but controversial

Tax avoidance involves using lawful methods to reduce tax liability within the framework of tax laws. This can include structuring transactions to take advantage of tax incentives or loopholes. While legal, tax avoidance can be viewed as ethically questionable and draw regulatory pushback, especially if it exploits loopholes in ways that undermine the spirit of the law. Regulatory scrutiny around aggressive tax avoidance has increased, making it essential for organisations to tread carefully.

***Example:** John, the freelance graphic designer, reports all his income, including cash payments, to the tax authorities. However, he reduces his taxable income by claiming all the legal deductions available to him. For example, he deducts expenses like a portion of his rent for his home office, the cost of his design software, and internet bills used for work.*

This is **tax avoidance** because John is following the law to minimise his taxes by taking advantage of legitimate deductions and allowances, unlike evasion, which involves hiding income or breaking the law.

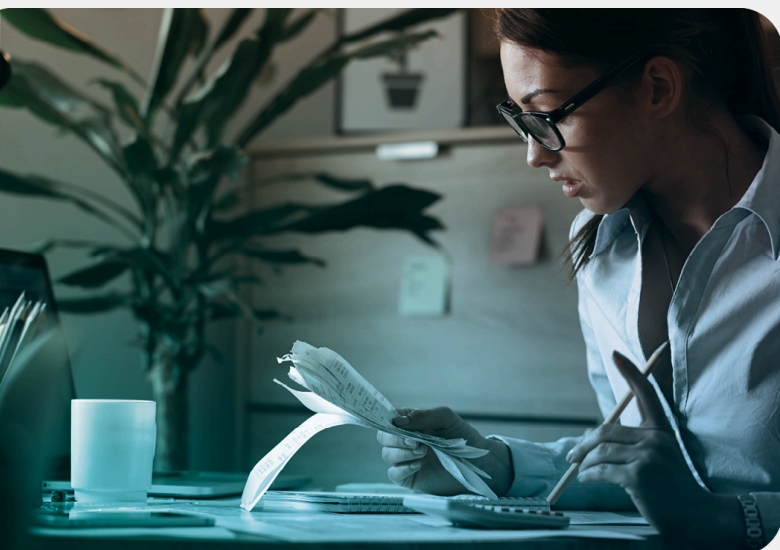
Tax mitigation: Responsible tax planning

Tax mitigation refers to prudent and ethical tax planning that minimises tax liabilities in compliance with the intent of tax laws. This involves leveraging legitimate deductions, credits, and incentives provided by the law, such as investing in sustainable practices that qualify for tax breaks. Unlike avoidance, tax mitigation aligns with both legal and ethical expectations, promoting responsible financial management.

***Example:** John, the freelance graphic designer, decides to take steps to reduce his tax liability in a lawful and proactive way. For instance, he moves some of his savings into a government-approved retirement fund or invests in a tax-advantaged savings plan that offers deductions or tax breaks. This reduces the amount of his taxable income without altering how he reports his earnings.*

This is **tax mitigation** because John is using lawful strategies, often encouraged by government policies, to minimise the taxes he owes. It's different from tax avoidance in that it often involves longer-term financial planning or investment in government-incentivised schemes.

Evasion vs avoidance vs mitigation: What are the implications for compliance?



Tax evasion, avoidance, and mitigation are distinct concepts that play a critical role in understanding and maintaining compliance with tax laws.

Understanding the differences between tax evasion, avoidance, and mitigation is critical for effective compliance management. Each represents a different approach to tax obligations, with evasion being illegal and punishable, avoidance exploiting legal loopholes often viewed as ethically questionable, and mitigation adhering to lawful and transparent planning within the spirit of the law. For compliance, recognising these distinctions helps organisations craft strategies that minimise legal risks, uphold ethical standards, and maintain stakeholder trust. This understanding allows compliance teams to focus on preventing illegal practices, mitigating the reputational risks of aggressive avoidance, and fostering responsible tax planning aligned with regulations. Clear policies, ongoing training, and proactive risk management based on these distinctions ensure compliance frameworks remain robust, adaptive, and credible.

Tax evasion and the law



In the UK

In the UK, tax evasion is a criminal offense governed by several laws designed to prevent and penalise fraudulent behavior. The primary legislation includes the **Taxes Management Act 1970**, which sets the rules for tax assessment and collection and outlines penalties for tax evasion. Under this framework, **HM Revenue & Customs (HMRC)** has significant powers to investigate and enforce compliance. Under the **Proceeds of Crime Act 2002 (POCA)**, any money or assets obtained through tax evasion, or intended for use in criminal activity, can be confiscated under the Act, and businesses or individuals involved may face significant penalties, including imprisonment. The **Criminal Finances Act 2017** introduced the **Failure to Prevent Offense**, holding companies liable if they fail to prevent tax evasion within their operations, even if they were not directly involved. This law requires organisations to implement “reasonable procedures” to prevent evasion by employees, contractors, or agents. The **Finance Act 2016** introduced measures to tighten tax compliance, including measures to tackle offshore tax evasion, higher penalties for enablers of tax evasion, and new disclosure requirements. Additionally, under the **Money Laundering Regulations 2017**, businesses subject to the regulations must conduct enhanced customer due diligence in relation to high-risk third countries and wherever there is an assessed high risk of money laundering or terrorist financing, which would include funds derived from tax evasion.



In the US

In the United States, tax evasion is a serious criminal offense governed by federal laws and enforced by the **Internal Revenue Service (IRS)** and the **Department of Justice (DOJ)**. At its core, tax evasion involves the deliberate avoidance of paying legally owed taxes through means such as underreporting income, overstating deductions, or concealing assets. The key legal framework includes the **Internal Revenue Code (IRC)**, particularly **Section 7201**, which criminalises attempts to evade or defeat tax. Penalties under this provision include fines of up to \$250,000 for individuals (or \$500,000 for corporations), imprisonment of up to five years, and the cost of prosecution. Additionally, **Section 7206** targets fraudulent tax filings and false statements, while **Section 7203** addresses willful failures to file returns or pay taxes, carrying penalties of fines and imprisonment.

Another significant law is the **Bank Secrecy Act (BSA)**, which requires US financial institutions to keep records of cash purchases of negotiable instruments and report suspicious activity that may signify money laundering, tax evasion or other criminal activity. The **Foreign Account Tax Compliance Act (FATCA)** mandates the disclosure of foreign accounts and income. These laws combat the concealment of assets overseas and require reporting foreign financial accounts exceeding \$10,000. Organisations that violate these regulations risk severe penalties, including asset forfeiture and substantial fines. Tax evasion cases may also intersect with **anti-money laundering (AML)** laws when the proceeds of evasion are laundered.



In the EU

While tax laws and enforcement vary across countries, the EU has established a unified framework to enhance cross-border cooperation and improve compliance. Key measures include the **Directive on Administrative Cooperation (DAC)**, which mandates the automatic exchange of tax and financial information between member states. Updates like **DAC6** require businesses to disclose potentially aggressive cross-border tax arrangements, with penalties for non-compliance. The **Anti-Tax Avoidance Directive (ATAD)** and the **General Anti-Abuse Rule (GAAR)** also play pivotal roles in preventing tax evasion by targeting artificial structures or arrangements designed to evade taxes.

Additionally, the **Anti-Money Laundering Directives (AMLD)** recognise tax evasion as a predicate offense for money laundering, requiring businesses, particularly in financial sectors, to report suspicious activity and conduct due diligence. Beyond EU-wide measures, individual member states enforce their own tax codes. For example, Germany's **Abgabenordnung (AO)** sets out basic tax rules and imposes strict penalties for tax fraud, while Italy's **Guardia di Finanza** plays a significant role in investigating tax crimes.

Tax evasion case studies



Case study: Shakira

The Colombian singer was charged by Spanish prosecutors for not paying €14.5 million (\$15.4 million) in taxes

between 2012 and 2014. In 2018, she was accused again, this time for allegedly failing to pay €6.7 million (\$7.1 million) in taxes on her 2018 income. Prosecutors claim she used an offshore company to evade taxes.

In the earlier case, Shakira settled allegations of tax evasion for the years 2012-2014 in November 2023. To resolve the case, she paid a total of €17.5 million, covering the owed taxes, interest, and an additional fine of €7.3 million. This settlement allowed her to avoid a potential prison sentence of over eight years.

In the later case, the court found insufficient evidence to proceed, noting that while there were "irregularities" in her 2018 tax return, they did not constitute a criminal offense. Shakira had already paid the disputed amount, and the court concluded there was no intent to defraud the tax authorities.

Photo: CC BY-SA 2.0



Case study: Apple

In 2024, Apple was involved in a high-profile case with the European Commission regarding tax evasion. The

European Commission accused Apple of benefiting from illegal state aid through favorable tax treatment provided by the Irish government. This arrangement allowed Apple to pay significantly less tax on its profits, as it was able to allocate much of its revenue to a subsidiary in Ireland that had very low tax rates. The Commission argued that this violated EU rules on state aid, as such tax benefits distorted competition within the European market. The total amount of tax unpaid was estimated to be around €13 billion (\$15.4 billion), which Apple had allegedly avoided paying over a period of years.

In September 2024, the European Court of Justice ruled in favor of the European Commission, upholding the decision that Apple owed the substantial sum in back taxes to Ireland. The court concluded that the tax deals between Apple and Ireland were indeed illegal under EU state aid rules. Apple had challenged the decision, arguing that it had complied with all tax laws, but the ruling affirmed the Commission's stance. As a result, Apple was required to repay the €13 billion in back taxes.

HMRC enforcement action



The Rangers Football Club Case (2017)

One of the most prominent cases of tax evasion in the UK involved Rangers Football Club, where the club and its former owners were accused of using Employee Benefit Trusts (EBTs) to pay players and staff off-the-record to avoid taxes between 2001 and 2010. HMRC took the Glasgow football club to the Supreme Court over an estimated £46.2m of unpaid tax. Rangers used trusts in Jersey to fund tax-free loans to employees. Many companies put money into offshore employment benefit trusts (EBT's) for top employees in order to postpone or avoid paying tax while benefiting from the loans. Then Chancellor George Osborne took action to shut down those kinds of schemes, and in June 2017 the Supreme Court ruled in favour of HMRC.



Karen Millen Case (2020)

Fashion designer Karen Millen was declared bankrupt after failing to pay £6m in taxes owed to HMRC over her involvement in a tax avoidance scheme. She invested in the 'Round the World' scheme which offered to lower capital gains tax on the sale of shares by transferring them to trustees in offshore tax havens with 0% capital gains tax. While the scheme was recommended by a number of accountancy firms, it was voided by the Court of Appeal.

Photo: CC BY-SA 2.0



The BBC Presenter Case (2019)

In 2019, HMRC began investigating multiple high-profile BBC presenters who were accused of minimising their tax payments by using personal service companies (PSCs). These presenters were paid through their PSCs, which allowed them to avoid paying the correct amount of tax and National Insurance contributions. Some presenters said they were forced to use such arrangements. The arrangement benefited both the BBC and the presenters. The BBC would not need to operate PAYE (HMRC's system for collecting income tax) or pay employers national insurance, and the presenters could pay less in tax by paying themselves a small wage through their company and receiving the rest of their income on dividends. HMRC pursued the presenters, investigating them for tax avoidance. The BBC apologised to people affected by its policy and agreed to pay £12m to pay off the tax liabilities on behalf of many of the affected presenters. This settlement aimed to resolve the financial challenges faced by presenters who said they had been forced to use PSCs for their engagements with the corporation. This controversy not only resulted in financial repercussions but also damaged the BBC's reputation.

Offshore jurisdictions and high risk countries

What are offshore jurisdictions?

Offshore or low tax jurisdictions, sometimes called tax havens, are countries or jurisdictions around the world; generally small, stable territories with highly favourable tax regimes and few restrictions on business. These places generally levy no taxes on personal income, inheritance or corporate tax, and have strict secrecy laws and a lack of transparency that easily enables foreign investors to hold their money there and avoid or evade tax liabilities in their home country.

Some countries, such as Ireland, deliberately lower their corporate tax rate to attract major international companies, while others, such as Switzerland, have a reputation for highly secretive banking practices.

What are offshore accounts?

Offshore accounts are accounts that exist outside of your home country, allowing you to save money and make transactions in different currencies. Offshore accounts operate in another jurisdiction, meaning that they are outside the legal power/judgement of your residential country. Usually, having an offshore account means that individuals enjoy tax benefits since the money avoids taxation in their home country, and there may not be similar taxes to pay in the country the account is set up in.

Using offshore accounts can open up a channel of professional services abroad, and also encourages global business expansion, trading, investments and growth – all qualities that lead to a strong economy. As above, though, some offshore accounts exist simply to avoid taxation, which can detriment the UK economy. Some popular places to hold offshore accounts for UK residents include the Crown Dependencies of Guernsey, Jersey, and the Isle of Man, Monaco, Switzerland, and Lichtenstein.

Whilst an onshore account is generally considered to be a business/current/savings account within the individual's country of residence, offshore accounts are used for different types of savings accounts and sometimes have links to foreign stock markets.

Depending on the offshore bank, the minimum account opening balance differs. This can start at £10,000 and go all the way up to £100,000 depending on the type of customer they are dealing with, and what the accounts are for.

The link between offshore accounts and 'tax-havens' is that the interest on the accounts is paid without the prior deduction of tax. It is up to the individual to declare income from offshore bank accounts to their relevant tax authorities, and because this is their responsibility, people find ways to avoid it and therefore pay less tax by failing to declare extra income. You may have seen offshore accounts linked with 'tax dodging' in the media.

Offshore accounts aren't always used with the aim of avoiding tax—there are legitimate reasons to use them too depending on different circumstances. Plus, the media has a big part to play in the presentation of offshore accounts, in reality the account holders still need to pay tax because you are still liable for tax on the interest you earn in the same way you would be in the UK. So there is nothing necessarily illegal about offshore accounts—it depends how the owner conducts business that counts.

What steps have been taken against low tax jurisdictions?

Various international efforts have been mobilised against such jurisdictions in recent years, including from the G20 and OECD, which focus on increasing transparency and information sharing with jurisdictions designated as high risk countries. National regulations, including the UK's Criminal Finances Bill, the Sanctions and Anti-Money Laundering Act 2018, the Public Beneficial Ownership Register 2023 and others are aiming to tackle the problem from the other side, criminalising the individuals who use offshore tax schemes to hide their assets, and those that help them.

Trusts and tax evasion

A trust is a legal arrangement in which one party (the settlor) transfers ownership of assets to a trustee, who then manages those assets for the benefit of one or more beneficiaries. Trusts are commonly used in estate planning, asset protection, and to manage wealth across generations. There are various types of trusts, such as living trusts, testamentary trusts, and charitable trusts, each serving different purposes. The trust can hold a variety of assets, including cash, property, stocks, and shares.



Tax evasion risks of trusts

While trusts are legitimate legal tools, they can also be used to facilitate tax evasion if misused. The key risks of tax evasion linked to trusts are:

1. **Concealment of ownership:** Trusts can obscure the true beneficial ownership of assets, allowing individuals to hide their assets and income from tax authorities. For instance, a settlor might transfer assets into a trust and name someone else as the trustee, making it harder for authorities to trace the assets back to the individual and assess any taxes owed.
2. **Income shifting:** Trusts can be used to shift income to beneficiaries in lower tax brackets or to jurisdictions with lower taxes. For example, if the beneficiaries are in a lower tax regime or tax haven, income generated by the trust may be taxed at a reduced rate, enabling the settlor or the trustees to evade higher tax obligations.
3. **Underreporting of assets:** Individuals may use trusts to hide substantial wealth and income, avoiding reporting those assets to tax authorities. This is especially a risk with offshore trusts located in jurisdictions with weak or non-existent tax reporting requirements.
4. **Lack of transparency:** Some trusts, particularly offshore trusts, are established in jurisdictions with minimal or no disclosure requirements. This financial secrecy can make it difficult for tax authorities to track and trace assets, income, and ownership, increasing the risk of tax evasion.
5. **Exploitation of loopholes:** Tax havens and jurisdictions with lenient tax rules often provide the infrastructure for setting up trusts that can be exploited to evade taxes. For instance, the trust may be structured to take advantage of legal loopholes that reduce or eliminate tax liabilities.

Regulatory response to trusts and tax evasion

To mitigate these risks, authorities in many jurisdictions, including the UK and US, have implemented regulations to increase transparency and reduce the abuse of trusts for tax evasion:

- In the UK, the Trust Registration Service (TRS) requires certain trusts to be registered with HM Revenue & Customs (HMRC), detailing the beneficial owners and trustees. This is designed to ensure that trusts are not used to hide assets from tax authorities.
- The FATCA (Foreign Account Tax Compliance Act) and the Common Reporting Standard (CRS) have increased international scrutiny of offshore trusts, with requirements for jurisdictions to share financial information with tax authorities in other countries.
- Beneficial Ownership Registers: Many jurisdictions, including the UK, are now requiring trusts to disclose the beneficial ownership of assets held by the trust, making it more difficult to conceal the identity of those who ultimately benefit from the trust.

Example: Scottish trusts and tax evasion

Recent changes in Scottish trust law, particularly the introduction of Private Purpose Trusts (PPTs) under the Trusts and Succession (Scotland) Act 2024, have raised concerns about potential misuse for tax evasion and money laundering. While the legislation aims to clarify and modernise trust law, experts warn that it could inadvertently create loopholes for financial crime and become loopholes for money laundering, sanctions and tax evasion.

The compliance risks of trusts



Lack of transparency: Some versions of trusts do not appear on public registers and are not required to file accounts. This lack of oversight could allow individuals or entities to conceal assets and evade tax obligations.

Potential for abuse: Trust structures in offshore jurisdictions have been widely misused for tax evasion, money laundering, and sanctions evasion. Trusts can sometimes be used as a vehicle for financial crime, particularly in cases where high-value assets are involved.

Historical precedents: The abuse of trust and obscure company structures in the past has demonstrated how legal structures can be exploited. Some kinds of trusts, such as Scottish Private Purpose Trusts, could present an even greater risk due to their lack of disclosure requirements.

Cross-border tax risks: Because trusts can operate across jurisdictions, some trusts have implications for UK-wide and international tax enforcement, potentially undermining existing anti-money laundering and tax evasion prevention frameworks.

Economic crime and corporate transparency act (ECCTA)

The Economic Crime and Corporate Transparency Act (ECCTA) is a significant piece of UK legislation that aims to tackle economic crime and improve corporate transparency in the ownership of companies, trusts and assets, by strengthening the regulatory framework, increasing accountability and ensuring that companies operate in an open manner. This would make it harder for individuals and entities to conceal assets for tax evasion purposes.

ECCTA received Royal Assent in October 2023 and its various provisions are gradually being brought into force.

The act represents a significant step in the UK's ongoing efforts to combat financial crime, tax evasion, and corporate fraud.

Key changes under ECCTA

1. **Failure to prevent fraud offense:** The ECCTA introduces a new corporate criminal offense for failure to prevent fraud, making organisations liable if employees or agents commit fraud for the company's benefit, unless the organisation can demonstrate it had reasonable fraud prevention procedures in place.
2. **Expanded identification doctrine for senior managers:** The ECCTA extends corporate liability to include economic crimes committed by "senior managers," defined similarly to those under the Corporate Manslaughter and Corporate Homicide Act 2007. This applies to offences like fraud, money laundering, and bribery. While the impact on prosecutions is still uncertain, companies should review their management structures, ensure accountability, and train senior managers on economic crime risks.
3. **Enhanced powers for Companies House:** Companies House is now empowered to take a more active role in ensuring the accuracy and legitimacy of corporate information. It will have the authority to scrutinise and reject filings that appear suspicious, request additional details, and share intelligence with enforcement agencies.

4. **Mandatory identity verification:** Directors, Persons with Significant Control (PSCs), and other key individuals involved in UK-registered companies must now undergo identity verification. This measure aims to prevent the use of false identities and ensure greater accountability in corporate governance. Companies that fail to ensure verification may face penalties, and unverified individuals may be prevented from acting as directors.
5. **Changes to company requirements:** Companies House will now serve as the sole source of truth for corporate information, eliminating the need for companies to maintain separate internal registers for directors, secretaries, and PSCs. However, companies must maintain an internal Register of Members and ensure it is updated within two months of any changes. Failure to provide accurate or timely updates can result in criminal penalties.
6. **Tighter controls on limited partnerships:** Limited partnerships, which have been exploited for tax evasion and money laundering, are now subject to stricter registration and reporting requirements. They must maintain a registered office in the UK, file annual confirmation statements, and provide additional transparency regarding ownership and control.
7. **New offenses and stronger enforcement:** The ECCTA introduces new criminal and civil penalties for submitting false or misleading information to Companies House. Law enforcement agencies now have enhanced powers to investigate and prosecute economic crimes, including the ability to seize and recover illicit assets more efficiently.
8. **Increased information sharing:** The act facilitates better data sharing between Companies House, HMRC, and other financial regulators. This improvement allows authorities to detect and prevent economic crime more proactively.
9. **Greater due diligence obligations:** Businesses, particularly financial institutions, legal professionals, and corporate service providers, must implement stronger due diligence procedures when onboarding clients. The act reinforces the need for organisations to verify beneficial ownership details and conduct ongoing risk assessments to mitigate financial crime risks.

Red flags

Being aware of red flags is vital to the fight against tax evasion and money laundering.



Major Red flags

- Someone living beyond their apparent means without an obvious income stream
- Overly extravagant lifestyle
- Secretive about the type of work they do
- Overuse of cash or exclusive use of cheques or money orders
- Owning large amounts of real estate, bonds, boats, or other luxury products such as art and jewellery
- Transactions involving known tax havens



Other red flag indicators

A number of these secondary indicators taken together may give cause for further investigation:

Geographic

- Use of common addresses by several people or companies
- Use of PO Boxes, non existent addresses or incorrect addresses
- Business not located where the person lives
- Tax refunds posted to an address other than what is listed as the residence
- Countries that do not have adequate AML approaches or are under UN sanctions

Financial

- Large or unusual claims and deductions
- Excessive deposits with unjustified origins
- Acquisition of luxury transport
- Under invoicing on real estate
- Several bank accounts receiving large deposits from different sources
- Insufficient income to start a business
- Private banking
- Anonymous transactions or unknown third parties
- Seemingly unnecessary transactions

Documentation

- Similarities in typing, handwriting, addresses, signatures, or amounts
- Signatures on duplicate documents appear different to each other
- Receipts appear to be handwritten or altered
- Income tax source deduction slips for different employers with similar handwriting or from connected sources such as the same printer.
- No employer identification or curious or strange employer names

Individual characteristics

- Residency of the suspected persons
- Association with certain tax agents
- Previous compliance history
- Tax Identification Numbers in the same range, i.e. beginning with the same three digits
- Similar style of family names on a group of returns
- Group of clients with different employers but same profession
- Person seems too old or too young to start a business
- Repeated loss of identity documents

Business

- Unusually complex ownership structures
- Bonus culture that rewards excessive risk taking
- Lack of clear financial controls or whistle-blowing procedures

Internal

- Employees who refuse to take leave
- Employees who will not allow anyone else to review their files or are overly protective of client relationships
- Lack of routine processes for reviewing files

Checklist:

Preventing the criminal facilitation of tax evasion

1. Risk assessment

- ☐ Conduct a thorough risk assessment to identify potential tax evasion risks within your business operations and supply chains.
- ☐ Evaluate high-risk transactions, jurisdictions, industries, and roles that may be susceptible to tax evasion.
- ☐ Document and regularly review risk assessments to ensure they remain up to date with emerging threats.

2. Proportionality of procedures

- ☐ Develop procedures proportionate to the risks identified in the business.
- ☐ Ensure compliance measures align with the size, structure, and complexity of your organisation.
- ☐ For higher-risk businesses, implement enhanced due diligence and stricter financial controls.

3. Top-level commitment

- ☐ Senior management must publicly commit to preventing tax evasion and demonstrate leadership in compliance.
- ☐ Allocate sufficient resources to implement and maintain anti-tax evasion measures.
- ☐ Set a clear tone from the top by integrating compliance into corporate values.

4. Due diligence

- ☐ Conduct background checks on employees, suppliers, contractors, and third-party agents.
- ☐ Implement enhanced due diligence for high-risk relationships and jurisdictions.
- ☐ Require suppliers and partners to certify compliance with anti-tax evasion laws.
- ☐ Regularly monitor financial transactions for suspicious activities.

5. Communication and training

- ☐ Implement mandatory training for employees, particularly those in finance, sales, and procurement.
- ☐ Ensure staff understand tax evasion risks, red flags, and reporting procedures.
- ☐ Keep employees informed about legal and regulatory changes in tax compliance.
- ☐ Provide clear reporting channels for concerns or whistleblowing related to tax evasion.

6. Monitoring and review

- ☐ Regularly review and update policies and procedures to align with regulatory changes and emerging risks.
- ☐ Conduct internal audits to assess the effectiveness of anti-tax evasion measures.
- ☐ Appoint a compliance officer or team responsible for overseeing compliance efforts.
- ☐ Keep records of training, risk assessments, and due diligence checks as proof of compliance.

7. Whistleblowing and reporting mechanisms

- ☐ Establish confidential whistleblowing channels for employees and third parties to report concerns.
- ☐ Ensure whistleblowers are protected from retaliation and their concerns are taken seriously.
- ☐ Maintain anonymity options to encourage open reporting of suspicious activity.
- ☐ Investigate all reports promptly and take corrective action when necessary.

8. Documentation and record-keeping

- ☐ Maintain detailed records of risk assessments, compliance measures, and policy changes.
- ☐ Keep transaction records and due diligence documentation to demonstrate compliance.
- ☐ Ensure easy retrieval of compliance records for audits or regulatory inspections.

9. Third-party management

- ☐ Ensure third parties comply with your anti-tax evasion policies.
- ☐ Include tax compliance clauses in contracts with suppliers and business partners.
- ☐ Monitor third-party transactions and behaviours for any signs of tax evasion.
- ☐ Conduct periodic reviews of third-party relationships.

10. Internal financial controls

- ☐ Implement clear financial controls to prevent tax fraud and money laundering.
- ☐ Restrict cash transactions and require proper documentation for all payments.
- ☐ Enforce dual approvals for high-value transactions.
- ☐ Regularly reconcile financial records with tax reports.

11. Compliance with cryptocurrency and offshore transactions

- ☐ Ensure crypto transactions are properly recorded and reported to tax authorities.
- ☐ Follow OECD's Crypto-Asset Reporting Framework (CARF) guidelines for crypto compliance.
- ☐ Conduct enhanced due diligence on offshore accounts and transactions in tax-haven jurisdictions.
- ☐ Require disclosure of ownership structures in trusts and shell companies.

12. Response plan for suspected tax evasion

- ☐ Develop a clear escalation process for dealing with suspected tax evasion.
- ☐ Report any suspicions to HMRC or relevant regulatory authorities.
- ☐ Cooperate fully with investigations and provide necessary documentation.
- ☐ Take disciplinary action against employees or third parties found to be involved in tax evasion.

Final steps

1. Ensure policies are regularly updated to reflect legal and regulatory changes.
2. Assign a senior compliance officer to oversee tax compliance efforts.
3. Conduct regular training and awareness sessions for employees.
4. Regularly review audit reports and financial statements for anomalies.

How VinciWorks can help

Training

VinciWorks' tax evasion training incorporates requirements of the Criminal Finances Act and other global measures to ensure corporate compliance with tax evasion. VinciWorks can protect your firm with reasonable procedures to prevent tax evasion, providing a single solution for your global business.

[Learn more](#)

Automated workflows

DAC6

Ensure your organisation's compliance with DAC6 regulations across all EU jurisdictions. VinciWorks' DAC6 reporting solution offers customisable workflows and expert guidance tailored to each member state's specific requirements.

[Learn more](#)

Mandatory Disclosure Rules

The OECD's BEPS Action 12 establishes Mandatory Disclosure Rules (MDR) to tackle CRS avoidance and opaque structures. Post-Brexit, the UK transitioned from DAC6 to its own MDR, aligning with international rules.

eLearning Courses

VinciWorks makes compliance training and eLearning that works. Available in every language you speak. Built by us. *Ready for you.*

[Tax evasion training suite](#)

About Us

We believe compliance enables business. Compliance is an opportunity to be one step ahead, so your organisation can focus on advancing the business.

For over 20 years, VinciWorks has been at the leading edge of re-envisioning compliance tools and training. Our creative and driven team works hard everyday, challenging the traditional compliance industry to become forward-thinking, interactive and engaging. From our vast library of 800+ courses, to the award-winning Omnitrack training and compliance management software, to a curated catalogue of world class resources, VinciWorks is here to support your organisation every step of the way.

We constantly have our finger on the pulse, being the first to adapt our products to new regulations and market changes that impact our customers' businesses. Our flexible solutions ensure that every one of our products is tailored to our customers' unique business needs, placing them at the heart of everything we do.



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