



## Whose Money Is It Anyway?

Since the advent of the income tax, it has been obvious that governments believe that their citizens' earnings actually belong to the government first and that citizens should simply be grateful for whatever pittance their overlords let them keep. Payroll deductions, such as those for income tax, Social Security, and Medicare, have made that state of affairs even plainer; the money is extracted from the employee's paycheck before he ever sees it.



Because the notion that government has the first claim on one's earnings smacks of communism (and rightly so), most Western governments have been loath to admit that they actually believe in it — until now.

Her Majesty's Revenue and Customs (HMRC), the United Kingdom's tax-collection agency, has issued a proposal called "centralized deductions," whereby an employer would send an employee's gross earnings to HMRC, which would then deduct the appropriate taxes and remit the balance to the employee — all done electronically, of course. In other words, the government gets the employee's earnings first and lets the employee keep whatever it deems appropriate.

The proposal is part of a larger [discussion paper](#) put forth in July in an attempt to reform the current Pay As You Earn system, which is similar to the United States' payroll-deductions system, albeit with fewer options for employees. HMRC suggests that employers supply the tax agency "real time information" on those being paid so that HMRC can in turn provide employers with the appropriate tax codes for those employees, enabling more accurate tax assessments throughout the year.

Once Real Time Information has been fully implemented, HMRC proposes "a further, more radical, option" — namely, sending gross pay to the government first and letting it dispense to employees what remains after taxes. The government, naturally, couches this "radical" option in comforting language, saying that it would save employers and taxpayers considerable effort and money and assuring taxpayers that "the system would adhere to the high standards of taxpayer confidentiality that characterize the existing system."

Those "high standards" are, as anyone familiar with the workings of government might expect, a joke. For example, in 2007 HMRC lost two compact discs containing "personal and banking [information] of 25 million people," as [ITPro reported](#) at the time — a breach serious enough to force the resignation of the then-head of HMRC. Earlier this year the agency sent out as many as 50,000 tax-credit notices containing private information about persons other than the intended recipients of the notices, [according to the Register](#).

As George Bull, head of Tax at accounting firm Baker Tilly, told CNBC.com, "If HMRC has direct access to employees' bank accounts and makes a mistake, people are going to feel very exposed and vulnerable."



Written by [Michael Tennant](#) on September 21, 2010

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Those mistakes are not limited to outright data breaches. What if HMRC simply slips up when calculating someone's taxes? "If there's a mistake and the HMRC collects too much money, the difficulty of getting it back could be high with repayments of tax taking weeks or months, [Bull] said," according to CNBC. Indeed, the [Guardian reports](#) that HMRC "has admitted overcharging 4.3 million people ... in the past two years," and it has "18.2m unreconciled cases, potentially affecting 15 million people, dating back to 2004/05." That doesn't even account for the additional 10 years' worth of potential overpayments that HMRC is refusing even to consider refunding.

The push for Real Time Information and Centralized Deductions is part of the U.K. government's campaign to reduce the so-called [tax gap](#), the difference between the amount of taxes the government believes it should be collecting and the amount that is actually being paid. (Sharp-eyed readers will note that the government is far less concerned about refunding overpayments than about collecting underpayments.)

As part of the close-the-tax-gap campaign, Deputy Prime Minister Nick Clegg, of the Liberal Democrats, today unveiled what the *Daily Mail* [calls](#) "a major crackdown on tax avoidance." Clegg isn't just going after those who lie about their incomes to avoid paying taxes; he's gunning for those who seek legal tax shelters, too.

Exhibiting the same mindset as HMRC, Clegg said that both "legal tax avoidance and illegal evasion" are equivalent to "stealing money from your neighbors," writes the *Mail*. That is, keeping your own money is theft — because your pay belongs to the government first.

As a successful politician, Clegg knows how to excite his base, and so his attack is aimed largely at "the better off," as the *Mail* puts it. Among the "better off" are "thousands of ordinary small business owners," says the paper, "whose enterprise is needed to help pull Britain out of recession."

The government is going to spend \$1.4 billion on this anti-tax evasion campaign, increasing the number of people targeted for tax checks 30-fold and the number of criminal prosecutions five-fold.

The campaign, writes the *Mail*, will involve a "team of investigators ... to catch those hiding money offshore," "private debt collection companies," and an increase in HMRC staff.

Perhaps worst of all, HMRC will be authorized to use lie detectors to determine whether it believes taxpayers are lying about their incomes, according to the *Mail*, which adds: "Voice recognition analysis,' which picks up when a caller sounds nervous on the phone, could be used to help work out if someone is misleading tax inspectors."

The British government has just removed the velvet glove from its iron fist, making it clear to all of Her Majesty's subjects that their earnings are not theirs but the government's and that any attempts to retain said earnings, even if legal, will be met with unrelenting force. Clegg's campaign, especially to the extent it targets legal tax avoidance, should be fought tooth and nail, and the government's dream of becoming the nation's paymaster should be even more forcefully opposed. A people who once battled their own kings to secure their liberties surely ought to be able to stare down mere politicians who wish to enslave them to a far greater degree than most royals ever did.



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