

The Taxcast, July 2022 transcript

Naomi: “Hello and welcome to the Taxcast, the Tax Justice Network podcast. We’re all about fixing our economies so they work for all of us. I’m your host, Naomi Fowler. You can find us on most podcast apps. Our website is www.thetaxcast.com If you’re on twitter, we’re on @thetaxcast. And if you want to make sure you never miss a Taxcast, email me on naomi@taxjustice.net and I’ll put you on the subscriber’s list.

I’m speaking to you from one of the world’s busiest shopping streets, Oxford Street in London. I’m outside one of MANY sweet shops – or candy stores, as they’re known in the States that have sprung up along here, there’s about 30 of them, it’s pretty bizarre actually! So, you may be wondering what do sweet shops have to do with tax justice and corruption? Oh everything! And it’s rotting away more than just teeth. It’s hurting people in other countries too.

Let’s rewind a little to where we are today and what’s going on with these pop-up sweet shops. So we had the 2008 financial crash – which nations never recovered from. There’s been the rise of online shopping and the *Amazonisation* of economies. The pandemic *decimated* high streets and shopping centres everywhere. Here in Britain we’ve been impacted by Brexit, *and* the invasion of Ukraine is only just starting to wreak havoc on economies. On major shopping streets like this one everywhere, businesses have been closing, and shop spaces becoming vacant. That means that the old-time easy money maker for owners of land and buildings in prime shopping sites has been slowing right down. Here’s one trader:

Trader: “it’s very very very different now, 88% down, so it’s a significant drop particularly on the week, at the weekend it builds a little bit but we are nowhere near what we would normally expect to see, this isn’t going away quickly.”

Naomi: “Now if *you* owned this land, or those buildings with empty shop spaces sitting unrented, you’d be looking to transfer the hit of having to pay business rates and taxes to someone else as fast as you could, right? And that’s where pop-ups like these sweet shops come in – presumably without too many questions being asked by letting agents. The borough of Westminster where I am here on Oxford Street collects the most business rates in the whole of the UK - £2.4 billion a year. But some of these shops aren’t paying their business rates. Here’s the director of revenues at Westminster Council Martin Hinckley speaking to the BBC recently:

“We’re often given shell company names or false information, the bottom line is to try and follow the money trail. The key will be when we can trace where the money’s going. The short fall doesn’t just affect Westminster, the vast majority of Westminster’s business rates is redistributed across the country so that’s millions that won’t get redistributed across the country.”

Naomi: “The local authority, Westminster council, is now chasing £7.9 million in unpaid business rates by 30 shops. The thing is, if you’re a crook who wants to make a killing on one of the world’s most lucrative shopping streets, it’s like taking candy off a baby. You can

dodge all costs other businesses have to pay and in many cases, sell fake or unsafe stuff, all with total impunity. Here's journalist and anti-corruption campaigner Oliver Bullough on this subject – we've interviewed him a few times on the Taxcast and he's here on a video for the Royal United Services Institute for Defence and Security Studies:"

Oliver: "Money laundering regulations have got much tighter and now banks are obliged to be suspicious about the origin of the wealth of their clients. And that means their clients, the criminals have had to get much cleverer. How have they done that? They have aimed to put as much distance as they can between the crime they've committed and the money in the bank. And the way they do that is they own the money via a shell company. Now, I know what you're thinking, because I know what most people think when the word 'shell company' is mentioned. Normally we think of a tax haven somewhere perhaps in the Caribbean, a sunny place for shady people. Over the years they were implicated in so many scandals, that they raised so many red flags for regulators that criminals started to shy away from them and instead they turned to the UK. So just how and why did specifically the UK end up at the centre of so many crimes? It's incredibly easy - go online, go onto the Companies House website - that's our company registry - pay 12 pounds and you too can have a shell company. I registered one myself - it took me less than 24 hours to receive the deeds showing I owned the company. I called it Crooked Crook Crook which I thought was pretty funny, but it turned out that actually I was being fairly unimaginative by the standards of international criminals. Once you have a company registered in whatever name you like, you can use it to hide your identity when you're moving money around, no questions asked. So that's the how and what about the why? Well despite the scandals of recent years British companies have a veneer of respectability and our company registry is very large, it has almost four million companies on it and half a million more are added every year so there is a very large crowd in which your company can hide while it's engaging in criminal behaviour."

Naomi: "Nice eh? So the UK is basically Crime Central for this stuff - it attracts people from all over the place because it's got such a lax company registration regime. £12 to register a company online. That's about \$14. No id needed. No UK bank account needed. As you can imagine, there are plenty of scam stories. Here's Graham Barrow of The Dark Money Files podcast who specialises in the UK's Companies House registrations:"

Graham: "Well, it's almost, it's almost where do you start? Some of them are ridiculous. One of my favourites, the United States of America Corporation Limited and the United African States Corporation Limited, and they've all got like 10 trillion pounds of capital, which is just nonsense. We've got, there's there's Jesus, holy Christ as a director. Elvis Presley is a director. Beyonce was for a while the PSC of a company, I don't think she knew that. So you name it, Companies House has probably got it."

Naomi: "In case you're wondering, PSC is a person of significant control."

Graham: "We've been monitoring a network of companies that were being set up in, in empty shops. They've been using the names of real people and actually they were real people who, who have worked at one or another for just two companies and it's about 1500 of these. So, so it's absolutely clear that somebody has hacked into the HR files of these two

companies, stolen all of the people's details and then used them to create directors. Now what's happening right now, because we monitor these things, is all of those companies are now filing court orders to remove them because although you can put them on with no checks whatsoever, to remove your name as a PSC or shareholder, you've got to go to court to have it taken off, which is about the most ludicrous thing you could think of is - yeah, well, we'll let anybody go on without any checks, but you can't come off it without proving that you shouldn't be on there in the first place, it's bonkers!"

Naomi: "Yep. It is. Here's Ray McCann. He's worked in tax since 1975."

Ray: "I came across a situation where for tax avoidance reasons, thousands of companies were being set up at the same time, with the same individual as the director. And in some cases there was 2000 companies being set up in the same day with the same individual as a director, and it wasn't raising any flag."

Naomi: "Ray was a government tax inspector for many years, and he also worked for PwC, was former president of council of the chartered Institute of taxation, former chair of the professional standards committee. He's worked in the UK, the United States, Germany and with the Australian and Canadian tax authorities."

Ray: "If you think back historically why we have companies like that and limited liability companies in particular, you know, we were looking to boost trade in Victorian times and the limited liability was a good way of individuals getting involved in a venture, but at the same time being able to safeguard all of their assets so that in the event that the venture went wrong, they could limit their liability to what they had invested in and wouldn't expose the whole of their wealth to risk. Almost anyone can set up a limited company and there's not a huge amount of regulation as regards what that company can be used for once it's actually set up. It strikes me that that is a complete own goal if the UK is lecturing the outside world about the importance of transparency and beneficial ownership registers and so on, for us to have a situation where a tax avoidance scheme on a large scale involving a huge amount of lost revenue can quite happily sail through Companies House and it doesn't raise any kind of alert, and no one asks a question as to how is it that someone can set up a company or thousands of companies at the same time with the same director, who if I remember right was about 18!"

Naomi: "Ha! Here's Graham Barrow again, of the Dark Money Files podcast:"

Graham: "Very often the damage it does it does in other countries, because other people in other places and particularly corrupt people really like UK companies because of this perception of being clean and transparent. So the damage it's doing is partly arm's length, not entirely but that damage at arm's length is people living in other countries whose taxpayers money is being stolen from them, which should be paying for hospitals and schools and roads and education and transport - it's being stolen from them, put through UK companies in huge quantities. You know, if you were setting up a criminal network, not that I would dream of doing that, but I could do a really good one! What you'd want to do is you want to involve as many different countries as possible. So, having a UK company that may

be has, let's say an American person with significant control, but actually their address that they've given, and I've seen this is, in Hungary. But the banking is in Slovakia and the directors are actually two limited companies who are based in the Marshall Islands. And so we haven't got a clue who runs those companies, 'cos you can't find out, you've already got four or five different jurisdictions involved. Now, if you're gonna take any action, you need to have cooperation between the law enforcement in those jurisdictions. Well, they ain't ever going to cooperate. Your ability to actually attack that network is virtually zero because they're non-cooperative countries and you know, you can do an RFI - request for information - to the Marshall Islands and you'll get nothing - at the moment Hungary, probably not gonna be terribly cooperative with us in terms of law enforcement enquiries, and the US, I mean the PSC it could be completely fictitious anyway, it may not even exist, no one's gonna check. So, you know, from a criminal point of view, it's a perfect storm of loveliness. Some days I get really, really, really frustrated because you see, how are we ever gonna stop this? And actually the first and most important step is requiring full verification of people when they create a company, it's just so stupidly obvious!"

Naomi: "Ha! It is! So Ray, back to you - what possible good reason could somebody have for setting up 2 or 3 or 4,000 companies at a time in their name, or indeed somebody else's name, I mean there's examples of people setting up companies calling themselves Mickey Mouse."

Ray: "Well, I mean the short answer Naomi is there is no good reason. Uh, and if there *is* a good reason, no one's ever given me that good reason. There's lots of good reasons as to why, you know, a firm or an individual might want to set up, you know, one, two companies that are inactive at that point in time so that as a venture, you know, expands, they may use companies for that but I defy anyone to give a good reason as to why you would set up 2000 companies on the same day, with the same individual shown as director. It's just up to no good and even if it is a proper legitimate venture, some quick questions from Companies House would actually flush out whether in fact there was something going on that should raise wider concern within HMRC."

Naomi: "HMRC is the UK's tax authority, Her Majesty's Revenue and Customs. But there are rarely any questions asked. And there's loads of juicy services being offered that are flourishing in that environment. Graham Barrow again:"

Graham: "There are, um, they're called EMIs, electronic money institutions and they offer, they offer packages, there's one, I'm not gonna name them for obvious reasons, but they have a thing called a non-resident package, so for the price of the company incorporation for anyone who doesn't live in the UK, they will provide them with, uh, an electronic money institutions business banking. Now, you know, it's kind of almost a given that that banking will not be UK banking. It'll be ultimately, although it might have a UK IBAN number, bank, account number, but the location in the UK is purely electronic. It's a virtual UK location. So we're almost like we're making this easy deliberately for people to launder money through the system!"

Naomi: “And it doesn’t have to be this way does it? If you look around at the systems in other countries for setting up companies, the US is also one of the world’s worst. But take a look at Germany for example – and they have a much stricter system. You need a notary for various filing activities..”

Graham: “In person, in person! Yeah!”

Naomi: “- you need to actually have a *bank account* in Germany to have a registered company in Germany (unlike the UK) – that’s something the UK government has resisted for a long time. So yeah, it doesn't have to be this way does it?”

Graham: “No, and I, I bet it costs more than 12 pounds in Germany as well! One of the things that they like to announce is how easy it is to, to be entrepreneurial, but the trouble with that is at 12 pounds it just encourages everything from the loonies on one side to the really deeply troubling on the other, to incorporate just thousands of companies ‘cos it's so damn cheap and all we ask is that you have an address in the UK to register a company yet we don't ask for anything else. You don't have to live here, work here, do any business here. We have hundreds of thousands of companies registered here in the UK that have no economic benefit to the country whatsoever, we don't have banking, we don't have trade, we don't have employees. We don't have anything other than names on a company it's just stupid!”

Naomi: “So Ray, why wouldn't the example that you give, like 2, 3, 4,000 companies registered by the same person in a day, why wouldn't that raise red flags? What is wrong with the system that’s not sort of going, whoah, hang on a minute. let's do some investigation!?”

Ray: “Well see, it's an excellent question Naomi. And I think the straightforward answer to it is the system's not configured to flag up something like that. Um, I mean it's like the banks now, in secret will have their keys that, you know, if, if their customers do certain things that will flag up something in the bank and the bank will make a decision as to what it's doing there, that might result in a report to the National Crime Agency. It might just be something that the bank manager will be asked just to query it. But as far as I could see Companies House wasn't configured at all to identify situations where that type of thing happened. And I think any reasonable person would look at that type of situation and just think, why is that happening? Why are you setting up 2000 companies on the same day with the same individual as a director? And given that Companies House ultimately are the regulators of corporates in the UK then you would expect such a, a monitoring system to exist within companies house to identify potentially problematic transactions.”

Naomi: “Graham Barrow:”

Graham: “I think Companies House are caught between a rock and a hard place because they don't have a mandate to do really proactive management of fake filings because their mandate comes from 1844 by and large when none of this was really thought about, but incidentally it cost a fiver in 1844 to create a company. So if it had gone up by inflation, it would be about 770 pounds now and not 12 pounds. And the reason it's only 12 pounds is

because the mandate actually says Companies House may only recoup the cost of the incorporation. So I actually know them really well at Companies House and their desire to do well is actually strong. They haven't got financial or human resources to do anything about it. It is squarely in the lap of the government here. It is *ridiculous* that you have to take more identification to go and get a library card, to borrow a book than you do to create a limited liability company, which potentially is a cost to the taxpayer if you go bust, it is bonkers and it should stop and that's a government issue."

Naomi: "There's been campaigning by anti-corruption people forever on these issues and the British government has claimed it's going to tackle this many times, and so far it still hasn't. Here's Oliver Bullough again:"

Oliver: "We're not giving our company registry the powers to police the registry. They don't have a duty to check the information of companies that are already created, for example. Under the proposed reforms the registrar of companies will remain a librarian rather a detective which is what we really need and to be honest it isn't really clear how determined the government actually is to clean up our company registry. Reforms cost money always but how much money would this actually cost? Let's say instead of costing 12 pounds a year to register a company, it costs 20 pounds that would probably raise enough money for the Companies House to be able to check the information provided to it for every single company - it doesn't seem very much of a price to pay."

Naomi: "Graham Barrow would go higher, and compared to other countries, it's still cheap:"

Graham: "If you buy a new car in the UK, it costs you 55 pound to register that new car. And it doesn't appear to dissuade people from buying new cars very much. I would've thought if you charged a hundred pound to start a company, most people start companies because they think they're going to be successful. You don't start expecting to fail. And a hundred pound as a cost of actually getting off the ground doesn't seem a lot to me. And that would then enable Companies House, it would fund Companies House to do proper due diligence on the people starting companies. I would go further and say that you actually have to have an official, a legal officer of the company in the country in which it's registered. So there is an accountable person. If you get caught doing dodgy stuff, there is somebody gonna be accountable because I mean, there are thousands of companies I know that are registered to people who live currently in the Donesk region of Ukraine. Well obviously that's not a place we're gonna go to very quickly to say, 'oi, you haven't filed your accounts for the last two years.' You know, it's not gonna happen because it's currently under the control of Russia. So what, what's the point? Why do we allow this? And because if you don't trade in the UK, you don't have to file any accounts either. You can just be a non-trading UK company. We'll never be any the wiser. So it's just rubbish."

Naomi: "Ray McCann again:"

Ray: "You hear it all the time, you know, oh well, we'll learn the lessons, but we never really seem to learn the lessons. The next scandal is a variation on a theme of the previous scandal. If someone sets up a company, I don't think it's too onerous for them to answer a

few extra questions as to why, why are you setting this company up and what is the purpose of it? When I was in the revenue at one time I was responsible for the clearance of mergers, demergers, all that kind of stuff. I actually wanted to introduce a clearance for the transfer of assets abroad legislation and I couldn't get any traction on it at all. Couldn't get anyone to agree that it was a good idea and it struck me that it was a fantastic idea, you know, if someone wants to put their money in Jersey then they write to revenue and say 'I'm putting my money in Jersey' and then the revenue know that they're doing it, you know and the problem is it's all secret."

Naomi: "According to Graham Barrow, even just requiring a company being registered to have a UK bank account would be a massive leap forward:"

Graham: "I know we criticise 'em for lots of things, but I've worked at a lot of the banks and one thing actually they do take seriously is proper verification when you create the account. I reckon at least 10% of the companies formed every day and that means 3 or 400 companies every day are, are formed, they're never gonna bank in the UK. That can be just anything that would be picked up if they were required to bank here in the UK and actually would probably stop the company formations dead in the water because there would be no point."

Naomi: "I always find myself asking this question - when it comes to legislation and making the system more accountable, do politicians actually understand these issues? Are they just ignorant of how their own financial systems work or are they knowingly serving private interests and lobbyists who want a deliberately lax system?"

Ray: "I think it's a combination of things. It's all of that. Most Parliamentarians aren't tax experts and you can forgive them for that but there should be some process whereby Parliament understands the laws that it makes. And, and it's not just tax it's, it's other areas as well, but they're under so much pressure in Parliament to get the Parliament schedule of bills and so on through Parliament that at the end of the day, you know, I, I just don't think there's any conceivable way that they could be completely briefed in terms of what the consequences of the legislation are gonna be. I think our parliamentary processes should be able to scrutinise the legislation in a way that, you know, they at least understand the consequences of it. Well, they should get the time. Because it's too important."

Naomi: "Graham – if you were Prime Minister, or Finance Minister, how would you fix this?"

Graham: (Laughs) "They're never gonna let that happen! I mean, I would immediately introduce Companies House reforms that require at the very least insist on proper verification. You know, you've gotta prove who you are, who your shareholders are. You have to have a UK address. I would require a UK accountable person for every company that is formed here in the UK because we should get some economic advantage, we shouldn't just be allowing anyone anywhere in the world, I mean, the number of Chinese companies that are using the UK to get, you know, to trade in NFTs and crypto and all sorts of stuff is just barmy. So we, of course, we need to encourage entrepreneur activity. We want people to start businesses like they're good for the economy, but they should be businesses that are based here in the UK, provide UK employment, provide a benefit to the UK exchequer,

provide benefit to the UK economy and we should start controlling that. There are people all over the world who, because it's expensive to have a limited liability company in their country, incorporate a UK one instead. So we take the burden for other countries, you know, potential bankrupt companies because it's cheaper to do it here than there?! I'm not being xenophobic here. I don't care where you come from, but if you're gonna create a UK company, it should benefit the UK economy. End of story.”

Naomi: “And do politicians understand in your view or do they just not get it?”

Graham: “Uh, they don't get it. I was on a bus with some politicians a few weeks ago. I won't name them, but we were doing a tour of London's oligarchs with the wonderful Oliver Bullough and Oliver said ‘come and talk to these people about Companies House.’ And they didn't even know that on most week days, 3000 companies were formed at Companies House. That was a shock to them. If you don't know that that 750,000 companies are formed every year...they didn't know that at least 20% of all companies formed in the UK have completely offshore directors and PSCs, they didn't know that either. So if you have no comprehension of the scale of the problem, how are you ever going to be part of the solution?!”

Naomi: “We’ve got to carry on shouting it from the rooftops! I’ve been speaking with former UK tax inspector Ray McCann and to Companies House sleuth Graham Barrow of The Dark Money Files podcast – check that out if you haven’t already heard it, it’s brilliant. That’s it for now from the Taxcast. Next month is a Taxcast holiday but I’ll be back in September. If you miss us too much, check out our other podcasts you might have missed, there’s more than a hundred to choose from on www.thetaxcast.com Thanks for listening, bye for now.”