Predict and prevent fraud  
— by Ian Pretty and Vishal Marria

As governments struggle to reduce their budget deficits, preventing tax fraud and evasion has the potential to put billions back into the public purse. When the UK last held the G8 presidency in 2005, the focus of the summit was on ending world poverty and supporting development in sub-Saharan Africa. Billions of dollars were earmarked and an agreement made to cancel the debts of the poorest 18 countries. Now, eight years later, it is the pressure on budgets that has set the agenda for the 2013 G8 summit. UK Prime Minister David Cameron has set three goals for the 2013 summit: advancing trade, ensuring better tax compliance and promoting greater transparency. On tax compliance he wrote in the euObserver: “People rightly get angry when they work hard and pay their taxes, but then see others not paying their fair share.”

Public anger

Across the world we have seen a wave of anti-capitalism sentiment as a reaction to the economic recession and those perceived to be responsible for it. In 2009, the Organisation for Economic Cooperation and Development (OECD) published a list of tax havens as part of efforts agreed at a G20 summit to clamp down on such havens. At a more citizen-led level, a groundswell of opinion against tax evasion and avoidance has captured both headlines and the public imagination. For example, the activist group Occupy first came to prominence in 2011 with a protest in Wall Street, New York, USA. Its high-profile camps have since spread to other cities across the world, from London and Brussels to Hong Kong and Sydney, as they demand, among other things, an end to corporate tax evasion.

The pressure on budgets has set the agenda for the 2013 G8 summit

Revelations of tax avoidance, sometimes referred to as “profit shifting”, on a massive scale by some of our biggest consumer brands, prompted members of the public to organise flash protests in shops and switch their brand allegiances. And in the US, the IRS views its Foreign Account Tax Compliance Act (FATCA) as an important development in its efforts to improve tax compliance involving foreign financial assets and offshore accounts. Capgemini’s work supporting the transformation programmes of many such agencies has revealed the value of taking an analytical approach to preventing tax evasion. This is in line with the view of the UK National Fraud Authority and Cabinet Office, who recommend a “more intelligence-led” stance on tax evasion.

As they demand, among other things, an end to corporate tax evasion.

For example, the activist group Occupy first came to prominence in 2011 with a protest in Wall Street, New York, USA. Its high-profile camps have since spread to other cities across the world, from London and Brussels to Hong Kong and Sydney, as they demand, among other things, an end to corporate tax evasion. When they don’t, the sums can be huge: it is estimated that tax avoidance and error costs 145 countries, representing over 98% of world GDP, more than US$3.1 trillion annually.

The tax gap

Just how important the role of tax agencies is in reducing the budget deficit can be seen in some figures from the UK. HM Revenue & Customs (HMRC) estimates that its tax gap – the gap between monies owed and monies paid – had grown to a massive £32 billion in the year 2010/11. Making that dent in the shadow economy is precisely what tax agencies around the world are striving to achieve. For example, in the UK HMRC is now naming and shaming tax evaders through its online and social media channels. And in the US, the IRS views its Foreign Account Tax Compliance Act (FATCA) as an important development in its efforts to improve tax compliance involving foreign financial assets and offshore accounts.

Intelligence Sharing Roadmap (ISR) to facilitate the sharing of information on known fraud across the public sector. It is an approach more commonly used in the private sector where the focus is on “prevention” (as opposed to reacting after the event) through identifying high-risk activities and refusing the provision of a service or product, or flagging high-risk cases for investigation before a transaction is completed.

A number of agencies have already begun this intelligence-led journey. They are using predictive analytics to spot mismatches between a taxpayer’s economic activity and their reported taxable income. So a taxpayer paying tax on an income of just $40,000, yet with lifestyle indicators suggesting they possess properties abroad and a high-spec car, will be flagged before they cheat the system. Social network analysis can also help tax investigators identify potential groups of criminals systematically evading tax schemes.

A combination of these predictive analytics with the more traditional public sector response of detect, investigate and prosecute criminal behaviour is perhaps the most effective way to tackle the issue.

Making connections at HMRC, the United Kingdom

HMRC offers us one of the most successful examples of an analytics-based approach. The agency believes its investment in technology to exploit information and intelligence will help deliver £7 billion more tax yield by 2014/15. How? Its strategic risking tool, Connect, will contribute to this.

It cross matches 1 billion internal and third-party data items to uncover hidden relationships across organisations, customers and their associated data links. These include bank interest, lifestyle indicators and stated tax liability. Connect captures information from 30 different data sources, and transforms it into a standard format for Connect analytical and ‘spider diagram’ visualisation tools. HMRC analysts produce target profiles and risk and intelligence investigators generate campaigns and cases for investigation. Automated feeds into HMRC’s case-management system allocate work to the correct caseworkers, and their feedback further refines intelligence in Connect. This is clever stuff. And it’s getting results. So far Connect has enabled an increasing number of successful investigations and more than £1.4 billion in additional yield has been recovered. HMRC has plans to increase the number of data sets, introduce new risking tools and mine unstructured data in its continuing drive to reduce the tax gap.

Process change

Of course, investment in the tools enabling an intelligence-led approach to evasion is just the start. Making it easy for taxpayers to understand their obligations and comply with the rules is another area that demands the right approach. And for those who still wish to aggressively avoid their obligations, processes must be in place to ensure compliance. Systems must also be flexible enough to allow prevention strategies, detection strategies and business rules to change regularly.

This will prevent agencies from being out-maneuvered by the constantly evolving tactics of tax evaders.

In the end it comes down to an agency’s ability to outsmart the fraudsters, criminal gangs, identity thieves and tax evaders with a combination of process change and technology-enabled insight. Our experience shows that there is real value in using analytics to stay one step ahead of the criminals. With tax agencies around the world looking at how to tackle the multi-billion global tax gap, it is no wonder that this year’s G8 summit has put tax compliance on its agenda.


Ian Pretty, Vice President, Global Tax & Welfare, Capgemini ian.pretty@capgemini.com
Vishal Marria, Senior Director, SAS Fraud and Financial Crime, EMEA & AP vishal.maria@sas.com

26/05/2013 10:55