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HMRC Set to Launch US-Style 'Reward Scheme' for Whistleblowers

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The United Kingdom is set for a step change in the way in which it combats tax evasion. His Majesty's Revenue & Customs (HMRC) – the UK's tax, payments and customs authority – has announced plans to adopt a US-style approach of an enhanced reward scheme for individuals who blow the whistle on those engaged in illegal tax evasion. The aim of the new scheme is to target those in serious noncompliance with their tax obligations in the UK and financially incentivise individuals, particularly those working with high net worth individuals or multinational businesses, to blow the whistle to the HMRC of any illegal tax activities of their employers. The reward scheme will come into force later this year.

Current approach

The current approach in the UK towards whistleblowing lacks a structured framework across regulators and enforcement agencies. The HMRC's existing rules invite whistleblowers to report on businesses or individuals suspected of committing tax evasion. However, HMRC only financially rewards those whistleblowers on a discretionary basis, and the payout is typically far less than could have been achieved in the US. In practice, this has meant that there have been relatively few individuals in the UK who were willing to blow the whistle on their suspicions of tax evasion, and this has hampered HMRC's ability to identify, investigate and prosecute tax evasion offences. As it stands, HMRC estimates an annual loss of tax revenue of up to £5.5 billion per year in the UK.

HMRC reward scheme

It is envisaged that the new reward scheme will offer a financial incentive to whistleblowers of up to 25% of any additional tax revenue recovered by HMRC from enforcement action linked to the information which was provided. This approach is modelled after similar programmes in Canada and the US which have been very successful. Under the US approach, a whistleblower must provide US tax authorities with credible information of tax underpayments which allows for the collection of taxes, penalties or interest over a certain amount. Once done, the whistleblower can receive between 15% to 30% of the recovered amount. Some figures from US authorities suggest that while $89 million was paid to 121 whistleblowers between 2022 – 2023, those payments enabled US authorities to collect an additional $338 million in taxes.

This development ties in with parallel drives from other UK enforcement agencies, such as the Serious Fraud Office (SFO), where similar schemes are being sought to incentivise whistleblowers to step forward. The SFO has historically expressed frustration at the number of potential UK whistleblowers who have sought rewards in the US, and it now wishes to encourage reporting in the UK. The head of the SFO, Nick Ephgrave, has made the SFO's position plain in that regard: 'I happen to know that since 2012, 700 UK nationals have gone to America to whistle blow because they feel they cannot do it here because there isn't incentivisation. I would invite us – not just the SFO – but invite us to think on this policy and think about whether we want to consider incentivising whistleblowing. I think it has many benefits'.

Takeaways

When enacted, the new reward scheme will provide a strong financial incentive for those aware of tax evasion to step forward and blow the whistle. Given the success of similar incentivised reporting schemes in other jurisdictions, it is anticipated that the UK's new approach also will lead to an increase in investigations and prosecutions. This trend will likely be accelerated significantly if the SFO adopts a similar incentivisation process and leverages the new 'failure to prevent fraud' offence in the Economic Crime and Corporate Transparency Act 2023 (see our November 2024 blog post on this topic). Accordingly, it would be a good opportunity for

businesses to revisit their compliance and whistleblower procedures now and ensure that they are fit for purpose.

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