

What does the taxman know about you, your finances and your lifestyle?



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What does the taxman know about you, your finances and your lifestyle?

The offices of the taxman are not usually credited with efficiency and success. But there is one aspect of HM Revenue & Customs which is highly – some would say terrifyingly – efficient, and that is its powerful computer program called 'Connect' which is accessing and trawling databases of personal financial information on an unprecedented scale.

The software has been developed at a cost of £80m over seven years. Its basic job is to scour vast databanks of personal and commercial information, seeking to unearth links between individual taxpayers and businesses, income, assets and transactions. It then matches its findings against the information the taxpayer has provided through their return. Discrepancies are flagged and could prompt a tax investigation.

The searches take mere seconds and are undertaken repeatedly to capture new information on

Your income and pensions ...

One of Connect's biggest jobs is to hunt for income disparities. It will process information about your bank account balances and income, and match this with other information – mainly your tax return and, for example, and your PAYE data submitted by your employer.

Your property ...

HMRC has for years had access to Land Registry databases, but it can now conduct searches faster than ever before.

The Land Registry typically holds details of the price you paid for a property and your mortgage lender, if there is one. By cross-referencing stamp duty records with the Land Registry's files Connect can identify where capital gains tax is thought to be owing.

Your business ...

For genuine small businesses Connect has other weapons at its disposal, such as an ability to plough through a staggering four years of credit card transactions.

Again, without hefty computing power such exercises would have been impossible. Now Connect can crank into action to check that your stated sales fit with this electronic record of card takings.

Your bank accounts, savings and investments ...

Banks and other financial firms report to HMRC the interest paid to individuals across scores of millions of accounts, and this data is fed into Connect. The main object is to spot undeclared, taxable savings income.

But Connect can go further, identifying, for example, whether investors have exceeded their annual Isa allowance.

If you are claiming tax relief on pension contributions, and entering this on your tax return, Connect will be wanting to see a parallel increase in the balance held by your pension provider.

HMRC's impressive new software trawls billions of items of data from dozens of sources in its hunt for underpaid tax – and it's about to have access to even more information, which can be shared with 60 other countries

From next year Connect's powers will extend further still. September 2016 is when HMRC starts having access to files held by banks and other financial firms based in British overseas territories, such as the Channel Islands; and from 2017 Connect goes truly global with access to data in a further 60 countries.

A success? Yes, in that the numbers of investigations initiated by Connect are growing, and in that £3bn extra tax has been clawed in as a result of Connect since its launch in 2008.

But many have their doubts. Not only is there a possibility that some of the data could be erroneous or incomplete – triggering spurious tax investigations or worse, possible prosecutions – but there are also fears about security.

And then, of course, the niggling anxiety about so much of our personal information residing in the hands of the state.



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