

Press release: HMRC slays tax-avoiding Cyclops

HM Revenue and Customs' (HMRC) legal victory over Cyclops Electronics and Graceland Fixing proved that a multi-million pound tax avoidance scheme used by over a hundred other businesses was a ruse to avoid paying tax.

The businesses used loan notes to pay company directors' bonuses in an attempt to get around paying tax and National Insurance on their awards.

Specially created companies issued loan notes in £10 denominations that matched the bonus amount exactly. Special conditions were included to dodge the tax and National Insurance due when the loan notes were given to the director.

The scheme was designed to take advantage of legislation that provides tax relief for genuine commercial transactions, which has now been amended to prevent any further attempts to exploit the rules.

Penny Ciniewicz, HMRC's Director General for the Customer Compliance Group, said:

We cannot allow tax avoidance schemes like these to deprive the UK of vital revenue. The money we've protected in this case alone would be enough to pay the annual salaries of around 2,400 newly qualified teachers.

The honest majority of people who pay their taxes shouldn't have to carry the burden of paying for the public services we need.

The win at the Upper Tribunal adds to HMRCs' excellent tally, winning 9 out of 10 tax avoidance cases taken to court in the last 2 years, with many more settling before reaching that stage.

The win over Cyclops Electronics, a supplier of electrical components, and Graceland Fixing, a building company, was worth £350,000, with £55.2m in related cases.

Read the decisions of the:

This scheme was devised to work around the anti-avoidance legislation introduced to the employment income share schemes legislation at part 7 ITEPA 2003 by schedule 22 FA 2003. The legislation has been amended to prevent any further attempts exploit the rules.□

This scheme was formulated and implemented in the 2003 to 2004 and 2004 to

2005 tax years.

The scheme was initially designed and promoted by Haines Watts

A loan note is a financial instrument that creates or acknowledges indebtedness.

An [image of Penny Ciniewicz, Director General of HMRC's Customer Compliance Group](#) is available on Flickr.