Tax Avoidance: Why playing by the rules will be crucial.

Say the words "tax loopholes" and most people think of the current headlines surrounding companies like Apple and Amazon and the very small amounts of tax they seem to pay on their huge profits.

But the reality of tax avoidance – and the measures HMRC are taking to combat it – is very different, and the latest moves have implications for hundreds of business and organisations in the UK, many of whom do not even realise it.

Many UK companies now employ agency staff: this is a widespread practice in both the public and private sectors. It is not uncommon for these agency staff to be employed by an overseas company – which means that they are not liable to UK national insurance and PAYE contributions, despite working full-time in the UK. This practice is costing the UK taxpayer millions of pounds and, not surprisingly, HMRC is keen to put a stop to it.

However, should the practice persist – and HMRC intend to levy penalties from the fiscal year 2015/2016 – then those penalties will be levied on the "end-user," not the overseas company which is outside the jurisdiction of HMRC. Potentially this means that employers of nurses, IT contractors, offshore workers and even teachers could find themselves with a hefty bill that they almost certainly won't have budgeted for.

The advice from Punam Birly, tax partner at KPMG is simple: if you are employing agency staff, make sure that the correct amount of tax and NIC is being paid somewhere in the supply chain.

This is one example of a tax avoidance scheme that is legal at the moment – and obviously, tax avoidance has existed for as long as tax itself has existed. At the moment the pendulum seems to have swung in favour of the companies avoiding tax: writing in the Observer recently, Vince Cable disclosed that big companies paid £5bn less in tax last year than they did in 2001/2002, despite profitability increasing by 65%.

Some of this is explained by the big fall in banking profits, but it also shows that companies are taking advantage of cross-border loopholes.

However, there are now real signs that governments across the world are determined to tighten the net and make sure that companies pay the correct amount of tax. This subject was high on the agenda at the recent G8 meeting, with David Cameron under pressure from all sides to make sure that companies operating in the UK pay their fair share of tax. The recent drive to give more power to HMRC and establish specialist units has seen an increase in the tax take of £15bn and this trend is likely to continue.

If you run a business, it's good business practice to pay as little tax as you legally can. The trouble is the temptation to cross the line from legal tax avoidance to illegal tax evasion can sometimes prove too strong. Without exception, we would always argue against it.

Firstly it's illegal: no-one wants the taxman (and his formidable legal powers) knocking on their door. But there's also emerging evidence that consumers are going to stop supporting companies that 'don't pay their fair share.' The latest consumer survey indicated that 4 in 10 people would support a boycott of companies seen to have evaded tax – and with awareness of the issue growing all the time, this figure can only increase. No-one wants to part of an HMRC 'name and shame' campaign.

Our advice is – and always will be – unequivocal. Run your business, pay the tax due on your profits – and sleep easily in your bed at night.