

Tax avoidance: talk by
Richard Murphy to
the ARC and CIOT
18.11.09

☐ Tax avoidance

Why are we still debating it?

A few years ago there was only avoidance
and evasion

Which were the thickness of a prison wall
apart

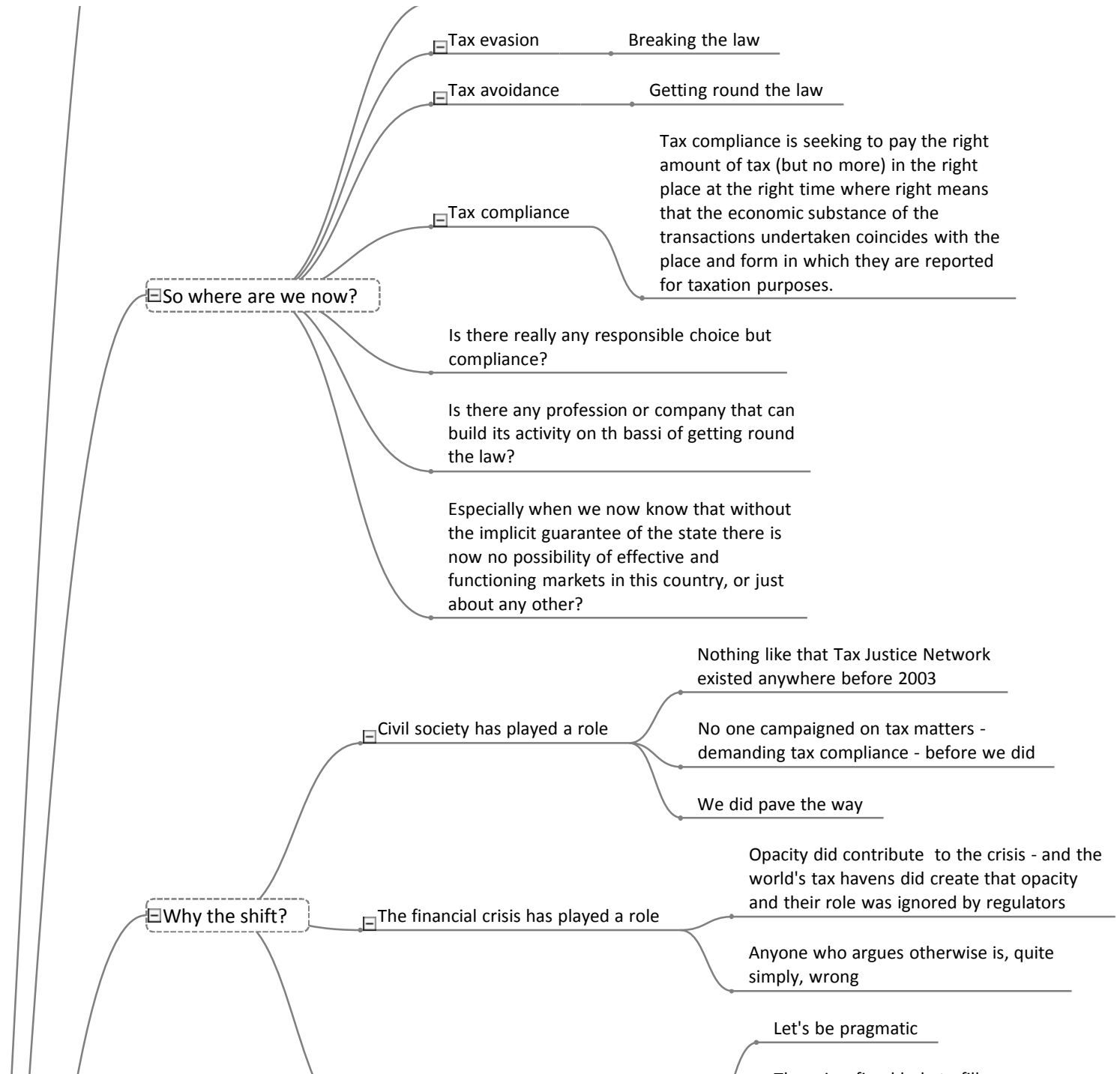
Pravin Gordhan, South African Finance
Minister said at a meeting in the House of
☐ Commons only a couple of weeks ago

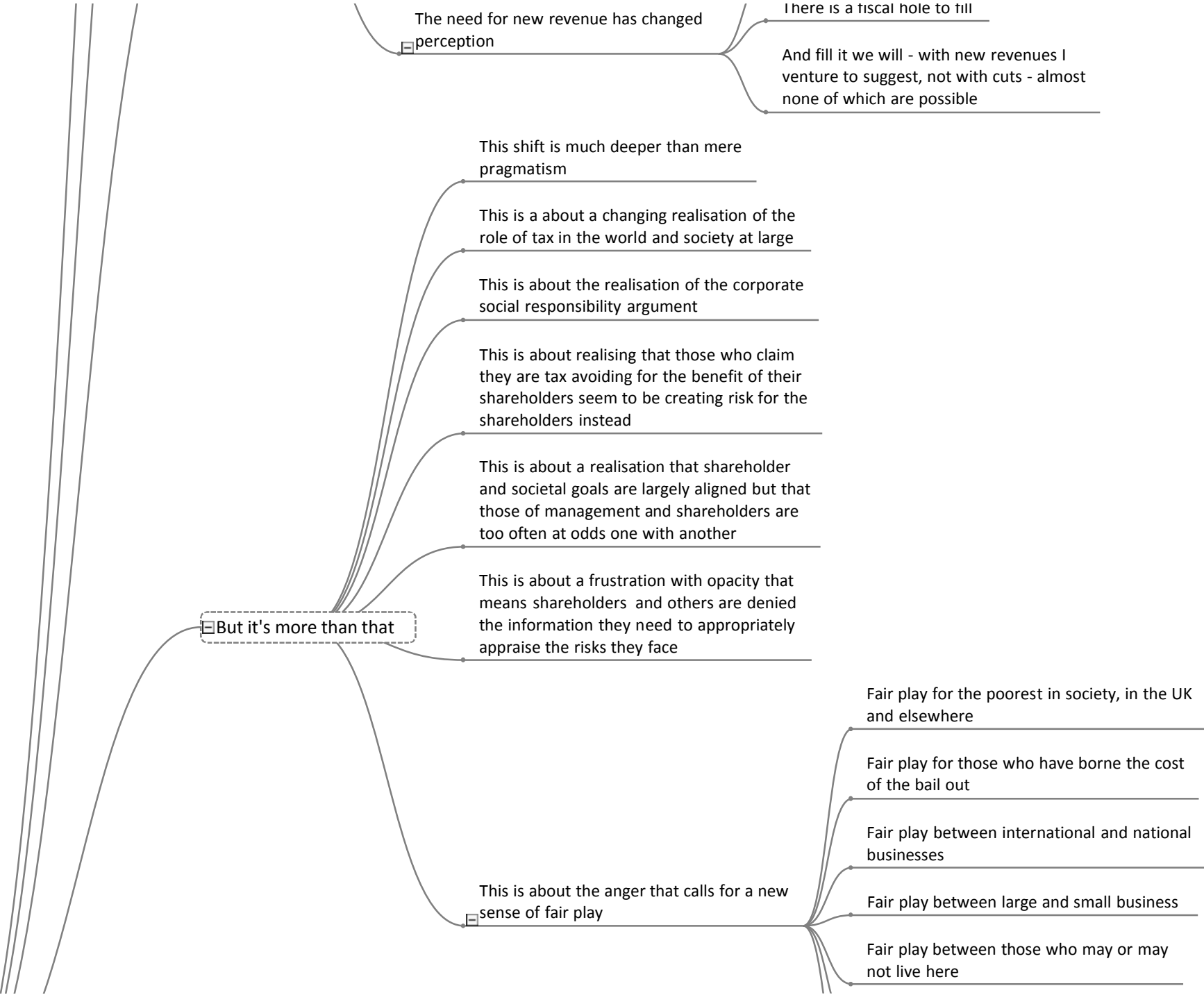
Tax avoidance is a smarter form of evasion
and is not acceptable.

And he said there is a new key debate: how
to change corporate culture and make tax
avoidance economically and morally
unacceptable.

Even Dave Hartnett would not have said that
a while ago

← We have three options to consider now





☐ The need for new revenue has changed perception

I here is a fiscal hole to fill

And fill it we will - with new revenues I venture to suggest, not with cuts - almost none of which are possible

This shift is much deeper than mere pragmatism

This is about a changing realisation of the role of tax in the world and society at large

This is about the realisation of the corporate social responsibility argument

This is about realising that those who claim they are tax avoiding for the benefit of their shareholders seem to be creating risk for the shareholders instead

This is about a realisation that shareholder and societal goals are largely aligned but that those of management and shareholders are too often at odds one with another

This is about a frustration with opacity that means shareholders and others are denied the information they need to appropriately appraise the risks they face

☐ But it's more than that

☐ This is about the anger that calls for a new sense of fair play

Fair play for the poorest in society, in the UK and elsewhere

Fair play for those who have borne the cost of the bail out

Fair play between international and national businesses

Fair play between large and small business

Fair play between those who may or may not live here

☐ Tax avoidance - a game now played by losers?

☐ But that drives change it is not change in itself

- The change is something quite different
- The change comes from the fact we're starting the creation of a new economic paradigm
- For a long time business and the profession have called for certainty in tax
- That's a call consistent with the economic theory of rational expectations
- It's a theory that - like the efficient market hypothesis - assumes that we only face risk and not uncertainty and that risk is calculable
- It's a demand that assumes that once risk is known action can be determined- including the then rational decision to avoid, knowing the calculable costs and benefits of of doing so
- But the theory of rational expectations has been proven wrong.
- And there are no efficient markets
- That's because we actually live in a world of fundamental uncertainty - one where the odds can't be calculated
- And this changes the world of tax avoidance for good

Fair play between countries
Fair play by government - so that tax cheats and benefit cheats are treated in the same way

I'll suggest it is this

What is that new world?

A world where the odds cannot be calculated

Where the price of getting things wrong will be a lot higher - but inherently uncertain because the ramifications are much broader than before

Where the reward for getting things right is markedly increased

Where the getting things right is the only way of achieving certainty

Where therefore tax compliance and the associated transparency that goes with it has a strong and persistent reward

Where being tax compliant definitely pays and being non-compliant has considerable, but uncertain cost

Where tax avoidance does not pay

Where country by country reporting assists companies to demonstrate that they are tax compliant

Where tax disclosure in accounts is designed to show that tax avoidance is not being undertaken

Where shareholder risk is reduced as a result

Where long term value of shares rises as a result

Where tax yields increase but not as markedly as the tax of meeting tax obligations goes down

Where the same reward calculation will

