

## **Fair Tax for the UK**

### **A submission from Unite to the Labour Party Policy Review**

#### **Introduction**

Tax is an issue at the core of politics and so any election campaign. The tax commitments any party does make do however come in two different types.

The first are specific proposals that are time relevant relating to allowances, reliefs, rates and specific proposals that relate to the current economic circumstance at the time of an election. These are important, but with an election two years away cannot be on Labour's agenda at present.

The second type of commitment a party makes relate to policies that reflect its underlying philosophy. This submission to the Labour Party concerns such issues.

What it does is three things. Firstly it says Labour must be committed to fairness in UK taxation but recognises that this is an area where there has been considerable misunderstanding as to what is meant by that term.

As a result the submission explains why it thinks tax is important and what it can do. As we note, raising money to fund government spending is just one of the five things that tax can really achieve.

Next the submission explains what the characteristics of a fair tax system are. Most thinking on this issue is seriously out of date. Many on the political right would claim we need to look no further than Adam Smith to answer this question and that is very obviously wrong in the 21<sup>st</sup> century. That is why this submission suggests a new framework that Labour could use to explain why its tax policies make sense and how they all relate together. At this stage in the election cycle this is vital if Labour is to convey a clear message on tax.

Secondly, this submission looks at why people have been angry about tax, because there is no doubt that they are. This section concludes that people are angry because they believe that they are suffering the impact of austerity whilst others are not paying the tax they owe as a result of either tax avoidance or tax evasion.

Thirdly, having settled on these issues as being core to what Labour must say this submission then offers concrete proposals on what can be done, looking at the issues of tax avoidance and tax evasion separately.

On tax avoidance the submission suggests that Labour should find out who might be tax avoiding by:

- demanding that every UK company and group publish a single figure in its accounts for the sales, pre-tax profit and tax paid by the group of companies of which it is a member in the UK;
- Promoting full country-by-country reporting by every multinational corporation so that we know for every such company where it trades, where it makes its sales, where it earns its profits and where it makes its tax;
- Requiring that a UK multinational corporation must ensure that the accounts of all the companies in its group are on public record.

Next Labour should commit to provide H M Revenue & Customs with the resources it needs to tackle tax avoidance: at present it has far too few.

Those additional staff would, however, need the right legislation to tackle the problems that they will find. That legislation does not exist at present and the present government's proposed General Anti-Abuse Rule is far too limited in scope to achieve that aim. It would, for example, not touch the tax avoidance of Google, Amazon and Starbucks investigated by the House of Commons Public Accounts Committee in 2012. In that case Labour has to commit itself to introducing a General Anti-Tax Avoidance Principle to tackle tax avoidance. That legislation has to also have penalties attached to it. It is only if that is the case that tax avoiders will really be deterred from pursuing their current behaviour.

That will not be enough though to tackle the tax abuse that is now common place in tax havens, and which the current government has encouraged. Labour will have to take measures, including new powers to withhold tax from payments made to tax havens, to stop this abuse. It will also have to reform corporation tax law to limit the harmful effects of the Conservative's introduction of what is called territorial taxation which has made it much easier for UK based companies to shift profits to tax havens and total avoid tax as a result.

Finally on tax avoidance, Labour will have to become a champion for international tax reform, as it was when last in office because there is no doubt that international cooperation will make tackling some of these issues much easier.

On tax evasion there is some overlap with the agenda on tax avoidance, especially when it comes to the need for additional resources. However, in this case the need is not just for more staff, although that is undoubtedly true; there is also a need for many of the offices that H M Revenue & Customs has shut to be re-opened. Tax not only has to be seen to be managed in the local economy, the local economy's tax cannot be managed unless our tax authority is locally located. That is especially true when it comes to tax crime.

Next, as with tax avoidance, Labour has to ensure that these tax inspectors have the information they need to pursue tax evaders. The first way to do this is by substantially improving the regulation of limited companies in the UK. At present hundreds of thousands of these companies disappear each year without anyone knowing if they owe tax, or not. Changes in the resources of Companies House, but most especially the law on banks advising when they open and close bank accounts for companies would transform the information

available to H M Revenue & Customs to challenge tax evasion through small limited companies.

Changing the way that the self employed are required to submit their tax returns and again requiring that better information be supplied on their affairs by banks would have exactly the same deterrent effect on those who at present are self employed and do not declare the fact or under declare their income. H M Revenue & Customs think that may be almost half of all self-employed people. The changes required are relatively simple but their impact could be significant; this is exactly the sort of intelligent approach to tax collection that Labour has to bring to the tax system.

Finally Labour has to work to tackle tax haven abuse. That means working to develop and extend the European Union Savings Tax Directive, which looks possible now for the first time in years, whilst at the same time demanding that the UK's own tax havens operate to the highest standards of transparency and accountability so that no one can accuse the UK of applying double standards on this issue.

Labour knows it needs to raise tax revenues. What this submission makes clear is that this is possible, but that it is best done by thinking about the design of our tax system to make it fairer not just for each and every person in the UK who now pays their taxes in full, but also for the UK's honest businesses who have for too long suffered competition from businesses that have avoided their obligations to pay in full and so have gained an unfair competitive advantage over their honest rivals. That reward to cheating has to end. This submission explains how Labour could do that.

## 1. The questions Labour has asked

Labour has invited comment on its future taxation policies. In doing so it has said:

*The Government's economic failure means a Labour Government in 2015 is likely to inherit a deficit and tackling tax evasion and avoidance will be extremely important. When we are facing tough choices and people across the country are struggling with the cost of living, all savings are important.*

*Every £1 million raised by tackling tax avoidance and evasion is the equivalent of the salaries for 50 newly qualified teachers. Yet when it comes to closing the tax gap, deep cuts to HMRC mean it is being asked to do much more with much less.*

*We want to know how best we can:*

- *Ensure individuals and businesses pay the tax they owe*
- *Lead the way in tackling tax avoidance and evasion via the havens*

In its more detailed commentary Labour posed a longer series of questions:

***We want to know how best we can:***

- *Deliver fairness in the tax system*
- *Ensure individuals and businesses pay the tax they owe*
- *Lead the way in tackling tax avoidance and evasion via the havens*

### ***Policy challenges***

1. *How can we deliver fairness and ensure that businesses and individuals pay the tax they owe?*
2. *Are changes in the law needed to ensure companies pay fair taxes, and if so what changes?*
3. *What specific loopholes are there that need to be addressed?*
4. *How can we improve transparency in company reporting?*
5. *What can the UK do to tackle tax avoidance in the British overseas territories and what requires action at an EU or international level?*
6. *What further action should be taken if progress is not made voluntarily?*
7. *How should we clamp down on criminality and tax evasion?*
8. *What resourcing is necessary to tackle tax avoidance and evasion and is reform of HMRC needed?*
9. *How could a Labour government encourage more responsible tax practices?*

This paper is a response to these questions and those related ones we think important.

## **2. Structure of this submission**

The questions Labour has asked are both very broadly based in the first instance and quite detailed when it comes to specifics. As a result this submission does five things:

1. It asks what the reasons for taxation are. We do so because it is widely assumed that it is just a money raising exercise, and that is not true.
2. We look at why there is anger and frustration about the UK tax system at present.
3. We ask just what fair taxation is.
4. The ways that a fair tax system might be created are addressed in two parts. The first part asks how the existing tax system can be made to work. That involves looking at the tax gap, tax avoidance, tax evasion and what can be done about them.
5. Lastly we consider more detailed and specific proposals for change in the UK tax system that would deliver greater fairness within it. Quite deliberately this review sticks to policy and not rates and allowances (with odd exceptions that are policy related). That is because it is not yet known what rates and allowances will be in operation in 2015 and so what changes might be needed to them.

### **3. Why do we tax?**

The British have never been sure about whether they love or hate tax.

For more than 60 years there has been widespread support for the services that tax has helped deliver in the UK. That remains the case today, as public concern about cuts in services proves.

On the other hand the British have never paid their taxes willingly or with enthusiasm. Some have sought not to do so: the current debates on tax avoidance and tax evasion are the clearest possible evidence of that.

This ambiguity is reflected in something else, which is a considerable lack of clarity about what tax is meant to do. Before discussing tax policy it is, we think, really important to recall that there are five reasons for tax.

#### **1. Raising revenue**

It might sound like a statement of the glaringly obvious to say that tax raises money, but it is of course possible to pay for government services from borrowing as well. That is happening at present. Getting the balance between tax and borrowing right is one of the most critical decisions a government has to make. It is at the core of most current economic debate, and in that case the glaringly obvious has to be stated.

#### **2. Repricing goods and services in the market place**

All taxes might raise money, but not all taxes have that as their main purpose. Many items are taxed because the government wants to discourage their use. Tobacco and alcohol are in this category because of their health impact. Taxes on oil and other carbon usage are also in this category, but to counter their environmental impact and to preserve their supply. On the other hand some items are removed from tax to make sure they are more readily available. Most food, children's clothing and books and newspapers do not have VAT on them for this reason.

#### **3. Redistributing income and wealth**

In most countries in the world tax is used to redistribute income and wealth. The UK is no exception. Progressive taxation, which means that the percentage of their income or wealth that a person pays increases as their income or wealth increases is designed to achieve this goal, and does do so in the UK.

#### **4. Recalibrating the economy**

When an economy is overheating and there is a risk of inflation then governments want to take demand out of the economy so that things rebalance and return to normal. Raising

taxes can do that by reducing the money available to be spent, which in turn reduces the scale of economic growth. When there's a recession a government might seek to stimulate the economy. That can be done by cutting taxes, which increases the amount of cash available to be spent, which in turn increases demand. This is called fiscal policy. Of course, if government spending is unaffected by the amount of tax raised the difference is made up by borrowing or repaying debt (as happened in the UK for several years around 2000).

## **5. Raising representation**

It was little appreciated until recently that countries with higher overall tax rates tend to be amongst the most democratic states in the world, and amongst the richest as well. What observers of developing countries have realised is that this is not an accident. When taxes are higher people engage with their government more, and are also more willing to pay the tax demanded of them because they feel they have some control over the choices made about its use. It seems that people who pay tax also vote. In that case tax is, even if indirectly, one of the key drivers of democracy because people see it is the link between them and the government that makes them want to hold it to account.

### **What does this mean?**

The 5 Rs of tax (because, by chance each of the reason for taxing can be described that way) make clear that tax policy is not just a simple matter of making the books balance. Too much current debate about tax has focused on that single issue. It's important of course, but when considering tax policy it is by no means the whole story. That's something that Labour has to remember, and remind people of, often.

#### 4. Why are people angry about tax?

In 2013 people seem angrier about tax than they have been for a long time.

Google, Amazon and Starbucks have proved that multinational companies can get round the UK tax system and pay little or nothing as a result.

Companies like Comet, Jessops and HMV have failed and thousands have lost their jobs at least in part because of competition from virtually tax-free on-line retailers who have created an unlevel playing field biased against the British High Street.

People like comedian Jimmy Carr have shown that if you can afford to pay expensive lawyers then you can avoid your tax bills.

Cutting the top rate of income tax from 50% to 45% at a time when tax was being put up or benefits cut for most ordinary people simply felt unfair to many.

Small business is wondering why big business is getting a tax cut of 7% in just four years when it is getting none. Ordinary people are asking why VAT has gone up 5% in about the same time period.

This mood was well summarised by Catherine Mckinnell MP speaking in the House of Commons on 7 January when she said<sup>1</sup>:

*People are angry, however, at the apparent ability of multinational corporations to use extremely complex and, indeed, aggressive tax-planning arrangements, devised and promoted by highly paid tax experts, to shift profits offshore that have actually been generated from economic activity here in the UK. These profits have been generated from hard-working, UK tax-paying consumers and firms, in what appears to be yet another example of one rule for those at the top and another rule for everybody else.*

*People are also angry at the hugely significant amounts of money being lost to the Exchequer at a time when living standards are being squeezed, Government borrowing and debt figures are up, growth forecasts have been downgraded yet again, and the public services on which we rely are being cut up and down the country. The Government's priorities are to give a tax cut to millionaires while striving, low and middle-income families and pensioners are struggling to make ends meet, so it is little wonder that we are seeing increasing hostility to those multinational corporations that are managing to avoid paying their fair share—and, indeed, to a system that allows them to do so—when it appears that the poorest and often the most vulnerable in society are bearing the brunt.*



Whilst it's true that no-one loves tax what is becoming clear is that people – not just activists, but ordinary people up and down the UK – do not like tax cheats and realise that the time has come to address the problems that they create in the UK economy. The time for a new approach to tax has arrived.

Labour can make the issue of tax its own at the 2015 general election. There are three ways to start that now, each of which is tackled in this report.

First it has to commit itself to fairness in the tax system. That means it has to set out the principles that drive that fairness.

Secondly it has to make clear that it understands why there is unfairness in the tax system now.

Last it has to provide a clear policy direction that will tackle the issues identified.

It is these issues that this submission looks at next.

## 5. What is fairness when it comes to tax?

The world over different people have different ideas about what fairness means. That's as true of tax as anything else, so it is vital that Labour knows what it means when it comes to fairness and tax.

One definition of tax fairness is that everyone of similar social circumstances should pay the same amount of tax on the same level of income, irrespective of its source. This is called 'horizontal' fairness. What it means is that people should be treated as equals by the tax system.

Another common definition of fairness in the tax system is that as a person's income, wealth or spending rises so should the amount of tax that they pay as a proportion of their income or wealth. This is called 'vertical' fairness. It assumes that as you have more money you can afford to pay more tax as a proportion of your income or wealth because your basic needs have already been met.

Both these concepts are important. There is no doubt that both have an instinctive appeal to many people right across the political spectrum. Some of the anger with the current tax system reflects the fact that these objectives are not always achieved at present. They are not, though, the only definitions of tax fairness. Nor are the four objectives that Adam Smith set out for a tax system in 1776 now an adequate system for assessing its fairness. That taxes should be paid proportionate to income, with some certainty, convenient to pay and efficient to collect pay as he suggested may be desirable but in a complex, modern society any idea of tax fairness needs to embrace a broader concept of fairness and efficiency than these suggest to be necessary.

In this submission we suggest that tax fairness has to be built into a tax system from beginning to end. So, what is taxed has to be fair, and the right people have to be taxed. The rates used have to be appropriate, and those paying have to understand why they owe tax. In addition they must have a chance to complain about a tax bill if they think it is wrong, and have that complaint properly heard. Even that though is not enough to ensure fairness. The tax system has also to be accountable to those who pay for what is done with the taxes raised as well. And all if this has to happen in a way that is open and accountable.

We summarise those objectives in the 10 C's of taxation. These require that a fair tax system is:

1. **Comprehensive.** In other words, a tax system has to be broadly based so that a wide range of economic activities covering income, wealth and spending are charged to tax so that no one activity is penalised when compared with another and overall rates for any one tax can be kept as low as possible;

2. Comprehensible, which means that the system has to be as certain as is reasonably possible. This also demands that the system have as few loopholes that can be abused as can be achieved;
3. Compassionate. In practice this means that the tax system must take into account the capacity to pay and that inevitably means those with greater income or wealth must pay more as a proportion of their income or gains than those with less;
4. Compliant with human rights. No system is fair if it is discriminatory.
5. Complementary to social objectives. What this means is that tax should encourage what society thinks desirable, and discourage what it considers harmful. This, amongst other things, embraces the idea of green taxation;
6. Complete. This means that everyone who has an income of the type that should be taxed does actually pay it. If some escape doing so, whether through loopholes or tax evasion, the system is discredited;
7. Computable. This requires that any tax liability owing can be calculated with reasonable accuracy. If a tax can't be calculated no one can be sure if it is due or not;
8. Coordinated. This requires that taxes integrate with each other, with benefits and with other policies as far as possible. It also means that the tax system has to be managed so that it coordinates with that of other countries to minimise the risk of tax being lost in loopholes between tax systems.
9. Competently managed. This requires that a tax authority is clear, accurate and timely in its work. It also means that its work must be open to appeal and matters must be put right if it is shown it has got things wrong;
10. Communicated. It's vital that if democracy is to work that people not only pay tax, but that they also know why they pay it and what is done with tax. Government is responsible for reporting just what is done with the funds it collects or the system fails.

A modern tax system requires a modern framework by which its effectiveness can be appraised. We think these principles are the essential basis for that framework and they can be summarised in five words, which are that Labour should tax:

- Fairly
- Appropriately
- Consistently
- Transparently
- Sustainably

These are that Tax FACTS Labour should stand by and they have the aim of delivering:

- A progressive tax system that is fair to all
- A level playing field for all business
- Strong support for a stable economy
- Stability in the future.

## **6. The unfairness of the tax system: Tax avoidance, what it is, and what we can do about it**

Some problems within the UK's tax system come from problems inherent in its design. Those issues are important, of course, and need addressing, but at present most people agree that the really big problem needing addressing in the UK tax system is that people simply aren't paying the tax that they owe. If a good tax system is one that ensures that the right amount of tax is paid in the right place at the right time then it is very clear that at present the UK is not achieving that goal.

There are two reasons why the right amount of tax is not being paid. The first is tax avoidance, which is the subject of this section of this submission. The second is tax evasion, which will be addressed in the next section. It's appropriate to separate the two as they arise in different ways and so need different solutions.

Tax avoidance is any action that involves taking steps to secure a tax advantage never intended by parliament. This means it is about avoiding the intention of the law – hence the name 'tax avoidance'. This definition is important. What it means is that if a tax relief is specifically intended for use by parliament – like the tax free exemption on an ISA, or the tax relief on a pension contribution – then no one can say that claiming it is tax avoidance. Nor can businesses claiming the expenses that are properly incurred by them be tax avoidance. Those are things parliament intended.

There are though things that parliament did not intend. It did not intend that people shift their profits to tax havens, for example. Nor did it intend that companies that look like they're trading in the UK somehow manage to claim that they're not here at all. What is more, such things do not happen by chance; they happen because someone planned that tax should be avoided as a result. That never happens by accident; it always happens by design.

There are, in essence, five ways in which tax avoidance takes place. First, it seeks to reallocate income from one person to another with a lower tax bill. This might be a reallocation between family members, or it could be an attempt to move money from one company to another, for example.

Secondly, the place where something takes place is changed. This is what, very obviously motivates tax haven abuse and profit shifting of the sort undertaken by Google, Amazon and Starbucks in 2012.

Thirdly, tax avoiders try to change the nature of a transaction so that the tax bill is reduced. An obvious example is to try get something treated as a capital gain because gains are more favourably taxed than income. This is common, for example, in private equity deals<sup>ii</sup>.

Fourthly, tax avoiders try to delay the recognition of income to defer tax bill (deferring a payment means tax is not paid at the right time, so it is tax avoidance). An obvious example

is the case of Goldman Sachs wondering whether to defer the payment of bonuses to its senior staff until after 6 April 2013 when the top rate of income tax its staff would pay would reduce from 50% to 45%<sup>iii</sup>.

Lastly, tax avoiders try to obscure the information available on a transaction so that what they are doing cannot be identified. This is incredibly commonplace, and very hard to crack and existing rules on company reporting make it very easy to do. This partly explains the exasperation within the comment Margaret Hodge MP made recently when she said “The time has come to stop relying on Private Eye to tell us when things go wrong”<sup>iv</sup>.

In combination tax avoidance that falls within these five categories costs the UK billions of pounds a year. No one can, of course, be quite sure how much that cost is because, as the fifth category makes clear, tax avoiders are very keen to hide just what they are doing. Richard Murphy for the TUC estimated in 2008 that tax avoidance cost the UK £25 billion a year, split fairly equally between individuals and big business, and the TUC have never found reason to revise it downward since then<sup>v</sup>. H M Revenue & Customs on the other hand think it costs no more than £5 billion a year in total<sup>vi</sup>. Since this number would, however, exclude all the tax avoidance by large US tech giants, which by itself some think now runs to £3 billion a year<sup>vii</sup>, many think this a serious underestimate.

What such a brief summary makes clear is that this is a big and complex problem. However, that need not daunt those seeking to address it, it just means that big and bold solutions are needed from Labour. Because, quite clearly, that requires priorities to be set this submission focuses on five key ways of tackling tax avoidance that are priorities at this moment. Each has a broad theme underpinning it. Those themes are:

1. Finding tax avoidance;
2. Tackling tax avoidance
3. Deterring tax avoidance;
4. Dealing with tax havens;
5. Seeking international cooperation on tax avoidance.

### **Finding tax avoidance**

All tax avoidance is important, but it looks very likely that at present that by multinational corporations is the most significant. Large companies can hide their tax avoidance in two ways.

Firstly, they can locate their tax avoidance operations in tax havens. One of the ways of identifying a tax haven is that it does not require the companies that are located there to put their accounts on public record so that we know what they are doing. This is true of the subsidiaries of multinational corporations just as much as it is true of private companies.

Secondly, because of the way multinational corporations prepare their accounts they take out of them all the transactions that take place between companies within the group –

although these are (as Google, Amazon and Starbucks have shown) precisely the ones used to shift profits from places like the UK to low tax locations like Luxembourg, Bermuda and Switzerland.

If we are going to tackle tax avoidance by multinational corporations we have to find it. That means Labour has to stick with and build on the commitment to increased corporate transparency for multinational corporations that it made in January 2013<sup>viii</sup>. It can do this in a number of ways:

- It can demand that every UK company and group, whether it be wholly UK based, a multinational company or a subsidiary of a company based elsewhere, publish a single figure in its accounts for the sales, pre-tax profit and tax paid by the group of companies of which it is a member in the UK. Absurdly it is almost impossible to get this data at present;
- Promote this idea internationally and demand full country-by-country reporting by every multinational corporation so that we know for every such company where it trades, where it makes its sales, where it earns its profits and where it makes its tax. The EU Parliament has already demanded this disclosure<sup>ix</sup> and various international organisations are moving towards it. Labour could champion this issue;
- Require that a UK multinational corporation must ensure that the accounts of all the companies in its group are on public record so that if they are not, for example, published in the Cayman Islands if it has a subsidiary there then they are published by it on its UK web site and at Companies House here in the UK. It should not be possible for a UK company to hide its activities from view behind tax haven secrecy.

Tax avoiders do not want to be identified: as Amazon and Starbucks have proved, they find it deeply embarrassing when they are. The time to expose them has arrived.

### **Tackling tax avoidance**

In 2005 when H M Revenue & Customs was formed from the merger of the Inland Revenue and HM Customs & Excise it had 104,000 staff<sup>x</sup>. That number has now fallen to about 71,000<sup>xi</sup> and HMRC say they intend to cut that number to 61,000 by 2015<sup>xii</sup>. No one disputes that some job losses resulted from automation, but not all can be explained that way. As the Public Accounts Committee noted<sup>xiii</sup>, in 2012 H M Revenue & Customs had just 65 transfer pricing specialists dedicated to tackling international profit shifting by multinational corporations on its staff. That is just too few to tackle the billions of international trade that passes through the UK each year, all of it potentially able to shift profit from the UK and into low tax countries.

If H M Revenue & Customs is to successfully tackle the issue of tax avoidance job cuts have to end and it has to be seen for what it is: a government department that raises money and not one that spends it. Right now the UK needs every penny it can get to clear its deficit. This is not the moment to cut H M Revenue & Customs any more. This is the moment to invest in it, and the experts it needs if we are to beat the problem of tax avoidance.

## **Deterring tax avoidance**

Tax is complex: we all know that. It's also wise that we accept this as a fact. In a complex world we need complex tax law to let business trade the way it wants and yet make the contribution it owes to society on the money it makes. What we also have to accept is that this complexity does also, and inadvertently, create the loopholes that permit tax avoidance. That is not deliberate, of course: it is the result of putting in place the laws business needs and often demands to let it trade the way it wants.

Of course, no one has to abuse the loopholes that appear in the law. Many businesses choose not to do so. But some do abuse, and for those some serious measures are needed to deter them from what they're doing.

The best deterrent there is to tax avoidance is a General Anti-Tax Avoidance Principle<sup>xiv</sup>. Unfortunately the UK government has chosen not to introduce such a principle. It is instead planning a General Anti-Abuse Rule<sup>xv</sup>: it could not even bring itself to say it was tackling tax avoidance.

There are three fundamental problems with the government's proposal. First, it does not tackle any tax arrangement that is considered to be a normal commercial arrangement. Since all the structures used by Google, Amazon and Starbucks (and so many other companies) are now considered to be normal commercial arrangements not one of them will be affected by the government's General Anti-Abuse Rule.

Secondly, the General Anti-Abuse Rule requires a very high burden of proof to be available to H M Revenue & Customs before it can suggest abuse took place. A double defence is offered to taxpayers and unlike almost all existing tax law the taxpayer is presumed innocent and it for HMRC to prove they are not. As such the odds are stacked against HMRC winning a case from the outset.

Lastly, there are no penalties for anyone who is found to have fallen foul of the General Anti-Abuse Rule. All they have to do is pay the tax that they sought to avoid. As such there is no deterrent effect at all in this Rule.

Labour needs to challenge this and put a General Anti-Tax Avoidance Principle in place that would say that if a taxpayer put a step or steps into a transaction with the sole or main purpose of achieving a tax saving then that step will be ignored when it comes to calculating the tax they owe. This will cover so called normal commercial arrangements as well as packaged tax avoidance schemes (and the dividing line between the two is often rather fine). It must also be for the tax payer to prove themselves innocent and for penalties to be due if they have fallen foul of the law.

On the other hand Labour must not deter business from operating in the UK and it is known to be the case that uncertain tax law can do just that. There is an answer to this problem:

Labour should offer any business that wants it an advance ruling on the acceptability of its tax arrangements. Those businesses would, of course, have to pay for that ruling but they pay for tax advice now so the cost to business is unlikely to increase as a result. That way tax avoiders can be deterred, and penalised if they still tried to abuse, whilst honest business can get a clean bill of health in advance and operate with certainty in the UK economy. This is win for all business in the UK, and creates a level playing field where no one can use tax abuse to outdo their business rivals, which is important if Labour is to build an economy with a long term focus built on investment in real business activity and skills that are needed as the foundation of future prosperity.

### **Tackling tax avoidance in tax havens**

Tax havens are used for both tax avoidance and tax evasion. Here we are concentrating on tax avoidance, which happens most especially when business profits are shifted to these locations. This is commonly associated with payments for royalties on technology (of the sort Google make) or for the use of a name (as it seems Starbucks make) or for the supply of marketing advisory and other services (as, again, it seems Starbucks make). None of these payments are illegal, and it is possible that value is provided for them, but the key issue is making sure they are also not used for tax avoidance purposes, as seems to very commonly be the case.

There are a number of ways Labour could challenge such payments:

- If they were really thought to be artificial they could be challenged using a General Anti-Tax Avoidance Principle;
- If such payments are made to a low tax jurisdiction Labour needs to reintroduce the power to have tax deducted at source from such payments before they leave the UK. This concept is familiar to many people: it is exactly the same as having tax taken off interest paid to a bank account in the UK to make sure that this has been paid;
- The UK has adopted a 'territorial' basis for taxation under the current government. This means that H M Revenue & Customs are now being told to turn a blind eye to all profits a UK company makes outside the UK. This is unacceptable: when it is clear that it is very easy for a UK based company to shift profits out of the UK to a tax haven and then potentially bring them back to the UK tax free a massive loophole has been created in UK tax law by the current government that urgently needs plugging. Tackling this issue will not be easy, but Labour has to commit to doing so and has to commit to researching all the available avenues to achieving this aim. It is wrong that the current government has basically given up the UK's powers to tax profits made in this country by turning a blind eye to those shifted abroad and it falls to Labour to re-establish tax sovereignty on behalf of the UK.

### **Seeking international cooperation on tax avoidance**



Much of the tax avoidance that has been highlighted in the press in 2012 has occurred because of the abuse of the rules of international taxation. These rules are largely the work of the Organisation for Economic Cooperation and Development, which is an organisation of which the UK is a member. It sets, for example, the rules on where companies are resident or not, which have been abused by Google and Amazon in particular, and the rules on transfer pricing which the Public Accounts Committee challenged Starbucks on.

If tax avoidance is to be tackled then Labour has to work with the OECD to demand changes in the rules of international taxation. These changes must reinforce the UK's right to challenge companies on these issues using a General Anti-Tax Avoidance Principle and other related measures already noted.

There are specific issues Labour needs to work on with the OECD and others on this issue:

- Cooperation with the EU is required to make sure that where EU states set out to assist tax avoidance practices – which it seems that Ireland, the Netherlands, Luxembourg and some others commonly do at present – then the arrangements that they permit are blocked in future and can be challenged by withholding tax at source when the result is that profits flow almost straight through these places to tax havens with little or no tax being paid on the way, as happens, for example, in the case of Google;
- Cooperation with the OECD is required to ensure that the so called 'transfer pricing' rules – which determine whether or not the sums paid for royalties, copyrights, management charges and so on are fairly stated – can be brought up to date.
- Cooperation with the OECD is also required on the rules on the residence of companies that seem to have been abused very frequently, not least by Google and Amazon. These now need to reflect the internet age. At present they are firmly rooted in the steamship era.
- Labour needs to also promote research internationally to ensure that in future new and alternative methods are developed to tax multinational corporations so that they are not subject to double taxation but that also ensure that they are subject to tax on all their profits in the right place at the right time. This is not the case at present and it is not clear that this is possible under existing rules. Labour has to pioneer the research that makes this possible.

This is an ambitious programme for change to tackle international tax abuse, but it recognises that Labour can deliver real reforms in the UK without seeking international consent to tackle tax avoidance, and recognises that on some issues it needs to challenge the world to change in the way that is needed to ensure that we can enjoy tax justice for all.

## **7. The unfairness of the tax system: Tax evasion, what it is, and what we can do about it**

Tax evasion differs from tax avoidance: whereas some argue that tax avoidance is legal because it is not specifically banned tax evasion unambiguously involves breaking the law. That means it is about not declaring income, gains and profits received to H M Revenue & Customs or it is about claiming expenses for offset against income that are not due. It also covers smuggling, not declaring VAT and a host of other tax crimes, including the use of offshore tax havens to hide what is going on in a person or company's affairs.

### **Tax evasion is a crime**

Crime is the key word here. Tax evasion is not about cheating. It is about theft. Despite that far too often a blind eye has been turned to the issue and attention has been given to benefit fraud instead. Both issues are important, and both are wrong. But best estimates for benefit fraud are that £1.2 billion is lost a year to this activity, which is just 0.7% of the total welfare budget<sup>xvi</sup>.

### **How much tax evasion costs**

H M Revenue & Customs estimate of tax evasion is officially just £4 billion, but this is largely due to semantics. When their estimates of criminal attacks on the tax system, error for which the tax payer is liable and tax losses to the hidden economy (all of which come in the usual definitions of tax evasion) are taken into account then the total sum lost to tax evasion according to HMRC is £19 billion a year.

Others do not agree. Tax campaigner and chartered accountant Richard Murphy has suggested on behalf of PCS, the trade union representing a majority of HMRC's workers, that tax evasion in the UK might be £70 billion a year. His work for the Progressive Alliance of Socialists & Democrats in the European Parliament, of which Labour is a member, suggested that in the EU as a whole the tax lost to tax evasion might be in excess of €850 billion a year<sup>xvii</sup>. The UK element was €74 billion, or about £62 billion, a year. This work is now the basis for the EU's estimate of tax evasion<sup>xviii</sup>.

### **Why tackle tax evasion?**

What is clear is that whichever estimate is used tax evasion is a massive issue for the UK economy. There are three reasons for tackling it.

Firstly, it is vital that the rule of law be upheld in the UK. If people believe it is easy to get away with a crime more and more people commit that crime and we face a break down in law and order. It has been argued that<sup>xix</sup> *“One should not underestimate the negative consequences that misleading estimates of the tax gap may produce. As the HMRC has pointed out, they may undermine public trust in HMRC. Tax collection depends on voluntary*

*compliance; if any individual believes that others are avoiding tax then he or she is perhaps less likely to comply voluntarily themselves.”.*

We have sympathy with this sentiment. Equally we think that this problem exists whatever the correct estimate of its scale because admitting to losing £19 billion is plenty serious enough. What is more worrying is that HMRC does not appear to be investing appropriately in researching tax evasion’s true scale, leading to the Financial Times saying in October 2012 that<sup>xx</sup> HMRC’s estimates were “complete guesswork”. It is a view that the Public Accounts Committee shared in December 2012 when they said that<sup>xxi</sup> “HMRC is too passive in its approach to closing the tax gap”. If the law is to be upheld and people are to know that is the case then clearly better information on and a more informed approach towards the tax gap is required.

Secondly, tackling tax evasion is part of the necessary equation for rebalancing the government’s books. Whatever was tolerated before 2008 with regard to tax evasion cannot be tolerated now. In a time of relative plenty where, overall, there was little stress in the public finances it was possible to take the relaxed approach to the tax gap that the Public Accounts Committee suggests that H M Revenue & Customs still adopt. However, that era has now passed, and as a result it is now essential that the tax gap, of which tax evasion forms the largest part, must be addressed with vigour if cuts are to be avoided.

Thirdly, and importantly, tackling the tax gap is vital if everyone, and most especially businesses, are to be given a chance to prosper in the UK. If the tax gap is £19 billion a year that still means that large numbers of businesses are operating in what is called the shadow economy where at least part of their income is untaxed. This provides them with an unfair competitive advantage over honest businesses that pay all their taxes and so have higher costs. The consequence is corrosive. Honest business is undermined, and might fail. With any such business that fails go the job prospects of those who work for it. When we need every job that we can get in the UK that is serious, but there may be another, even more serious consequence. That is that the shadow economy forces honest business to cut costs. That in turn means wages are kept low, so that people are not given a fair reward for their work and that investment is cut. The result is that tax evasion by competitors may mean a business cannot afford to invest for its long-term future, and this means that the UK’s growth prospects are being damaged by the tax gap and our failure to address it. Again, this suggests that urgent action in the interests of business is needed to tackle this issue.

### **What can be done about tax evasion?**

Because of the sheer scale of tax evasion and the fact that the number of taxpayers potentially engaged in the activity is much larger than for tax avoidance the issue of how to tackle tax evasion is complex. It has also to be conceded that nothing will ever eliminate tax evasion in its entirety: tax crime is as old as tax itself. This suggests that priorities are needed to ensure resources are used to best effect.

Any effective programme to tackle tax evasion requires three things:

1. Sufficient resources to support the programme;
2. Ways to secure information on tax evaders
3. Strong deterrent effects.

The programme outlined here has all three.

### **Resources**

As has already been noted, the staff resources available to H M Revenue & Customs have been cut significantly since 2005. More than 40,000 jobs will have gone at H M Revenue & Customs in a decade by the time HMRC achieves its target of about 61,000 staff in 2015. Some of those job losses have been the result of automation without a resulting loss in effectiveness, but that is not true for a great many of them.

There has been a secondary element within this programme, and this has been an extensive programme of office closure in H M Revenue & Customs that has seen its offices in many towns and cities shut.

The impact of these two policies has been significant. Tackling tax evasion is about beating crime. Much of that crime is local, and so requires local knowledge if it is to be beaten. That local knowledge has been lost firstly because the people who had that knowledge are no longer employed and secondly because the offices from which they worked have been closed. The life of the tax evader has been made a lot easier as a result. If tax evasion is to be tackled effectively H M Revenue & Customs has to be seen to have a presence in local communities where, like police on the beat, it provides the assurance that the law is being enforced.

This can be evidenced in many ways. It could be a visible presence at local car boot sales, where many unregistered traders operate. It could be through monitoring of local businesses, with visits to those who appear to be unregistered. It could also be through a presence in the community through schools where knowledge of tax should be taught. Detection and prevention go hand in hand. But without enough people in the right place H M Revenue & Customs cannot do the job we ask of it and tackle tax crime in the way that is needed and as such a commitment of new resources to the task of tackling tax evasion is vital.

### **Securing the information needed to beat tax evaders**

Some tax evasion is petty; it is unlikely that beating it will ever raise much revenue and business is little disrupted by it. That however is not true of a significant part of it. That part is organised and operates at considerable cost to H M Revenue & Customs and society at large.

There are three types of persistent tax evasion where the biggest problem to tackling the crime is securing the information needed on who is likely to be committing the frauds that are involved. These are:

1. Fraudulent trading, especially (but not entirely) through limited companies;
2. The cash economy and under-declared income;
3. Offshore tax abuse and undeclared investment income.

The ways of achieving these three results are addressed next, with the deterrent effect of each proposal being noted.

### **Tackling fraudulent trading**

Fraudulent trading is one of the biggest components of tax evasion. It happens when a business operates entirely outside the recorded economy. Such trading can either be undertaken by an individual or through a limited company set up for this purpose. The main way of tackling both issues is to create laws that have maximum chance of such trading being identified and associated with specific, named, individuals who can then be subject to H M Revenue & Customs enquiry, a process that is surprisingly hard at present.

The first way to achieve this is by significantly improving the quality of company registration and regulation in the UK. Companies House, an executive agency of the Department for Business, Innovation and Skills, is responsible for running the UK company registry. At present this is not an effective operation.

Firstly, as research has shown<sup>xxii</sup>, hundreds of thousands of companies are removed from the UK register of companies each year simply because Companies House has lost touch with them. There is little attempt made to trace these companies: it is simply assumed that because they have not replied to requests for accounts or other returns that are required to be submitted by law that they have ceased trading, or have never traded at all, and the company is dissolved.

There is, however, no evidence to support this view. That is because there is simply no evidence at all as to what these companies were formed for, what they have done, why they have ceased to respond to requests for information and as to whether they owe any tax or not. All that is known is that they are not responding to official letters sent in brown envelopes, but that is exactly the sort of behaviour that might be expected of a tax evader.

There is also good reason why these companies may not respond, and for Companies House realising that pursuing them is bound to be a fruitless exercise. When a UK company is formed and when a person is appointed to be an officer or shareholder of it the only check that is applied to the forms submitted to Companies House is that the postcode is real. Otherwise everything is accepted at face value as being correct without any checks at all. As a result it is easy to form a company at an accommodation address, and even register it in the name of people who do not exist or are dead<sup>xxiii</sup>, and no one knows that has happened.

Of course a bank should not open an account for a company in that situation, but in fact in the UK there is a flourishing industry in company formations where the directors, shareholders, company secretary and the registered address are all nominees for the real owners and managers of the business. Many companies offering such services also provide bank account opening services for the companies they supposedly manage in this way. There may be legitimate reasons for such operations, but what is undoubtedly true is that they also make it easier to commit fraud and for a company to be formed, trade and then be dissolved without ever paying any of the tax that it owes without anyone in government being any the wiser. Indeed, so hard is information to secure in such situations that a complete blind eye is turned to this possibility.

This problem can be addressed in three ways. Firstly, the law should be changed so that no one can be a director or shareholder of a UK company without their having proved their identity to Companies House to the standards required for money laundering purposes. This approval would have to be updated every three years at least, with serious penalty for failure to do so.

Secondly, all companies must be required to disclose their real trading address on Companies House records: the age of accommodation addresses should be brought to an end.

Most importantly though, by far, any bank opening an account for a company in the UK should be required to both check the accuracy of the data at Companies House and report any discrepancies they find and then report that they have in fact opened such an account to both Companies House and H M Revenue & Customs, specifying in the process who they believe the beneficial owners of the company to be, who the bank signatories are, where they are resident and the address at which the bank will be corresponding with the company. Any change in these arrangements would also have to be advised, but since the bank has a duty to collect this information already under money laundering rules the extra work required would be very modest.

The advantage to both Companies House and H M Revenue & Customs of this arrangement is that if this were to happen they would immediately know which companies were, and by inference, were not active. Companies with active bank accounts are likely to be trading and probably have tax liabilities to settle, whether they be PAYE, VAT or corporation tax. Companies without bank accounts can probably be safely ignored.

Of course such a system is open to abuse, for example by companies running bank accounts outside the UK, but to object to this largely costless proposal to secure the information on which companies are really trading in the UK seems hard. If H M Revenue & Customs then demanded tax returns and Companies House demanded accounts from all companies with bank accounts it would be considerably harder for companies to undertake fraudulent trade in the UK. That would be especially true if the right to receive information was matched by a right on the part of H M Revenue & Customs to go back to the banks who operated bank

accounts to demand copy statements and other information if any company refused to supply it within three months of accounts or a tax return being due for submission with nothing having been sent and if in that case liability for the tax owing by the company became the personal responsibility of the directors.

Nothing wakes tax evaders up quicker than the prospect of being caught, let alone the prospect of being caught and being held liable for the tax due. The deterrent effect of these proposals would be as powerful as the information they might supply. Either way, radical reduction in the fraudulent use of UK limited companies would result from them and that is long overdue. Labour should deliver this essential change.

### **Tackling the cash economy**

There are two other ways to tackle fraudulent trade. Both are designed to disclose information and make the identification of those committing fraud much harder.

The first again involves banks. Any UK bank operating an account for an individual with a pattern of sporadic deposits of cash, cheques or sums from Paypal and credit card processing then they should have an annual duty to identify and notify that fact to H M Revenue & Customs. There are, of course, already extensive obligations on banks to notify authorities if they suspect money laundering; these proposals simply extend these notification requirements.

As with the obligation to notify company bank accounts this new obligation need not place an onerous obligation on banks: the sorting to find which accounts to notify could be done entirely by computer. The benefits are, however, twofold. Firstly HMRC would get computer files they could match with the names and addresses of those they think self employed with the opportunity to then follow up on cases where it seems that someone may not have notified that they were trading. Secondly, and as importantly, there would be a significant deterrent effect in this notification process. Of course some people would resort to using cash, but as the use of cash in business becomes increasingly rare this will be of decreasing concern, especially as even those who handle cash have to bank sometimes, and will fit the pattern of reporting that is suggested here.

Finally, the way in which the self employed need to present their accounts to H M Revenue & Customs on their tax returns needs to change. This has remained unaltered for many years and follows the pattern of much larger businesses unless they have sales of less than £30,000 per annum, when they need only report their sales and costs leaving a net income to be taxed. There are many problems with this system. First of all, over many years H M Revenue & Customs inspectors have reported suspiciously large numbers of businesses reporting income just below the £30,000 threshold and its predecessors. The chance that this implies fraud seems high. Secondly it is likely that more than 2 million people in self-employment supply insufficient information to H M Revenue & Customs for them to assess the credibility of the returns they are supplying as a result of this rule.

This needs to change, not least because H M Revenue & Customs themselves estimate that nearly 50% of all self-employed people understate their income on their tax returns. This requires a redesign in the way self-employed people are required to submit their tax returns to reflect the fact that the risk of tax evasion fraud is not usually in the expenses claimed by a business, but in the recording of sales income. That means that in future smaller businesses should be offered the option of using a 'flat rate' business expense deduction if they wish (although this would not be obligatory) to simplify their affairs but all small businesses, whether incorporated or not, would be required to provide much more information with regard to their sales.

In the case of businesses that work mainly by invoicing the information required would be on who their top ten customers in a year were by value. Nothing could identify the problem of false self-employments more quickly than that data.

In the case of businesses receiving cash or in any form of retail activity the analysis required would be their sales data by week. This data would be extraordinarily hard to falsify correctly; there is now substantial evidence available of the way in which people almost invariably falsify data that would quickly reveal likely mis-stated information. Since tax return filing on line is now commonplace processing this information would be relatively straightforward for H M Revenue & Customs risk assessment purposes. Most importantly, having to supply it would provide an enormous deterrent to those tempted to commit fraud.

Nothing gets round the fact that following up on this information requires people to handle investigation cases. H M Revenue & Customs need more staff. However, securing the data to ensure HMRC's chances of finding those committing tax fraud is vital and increasing the odds in HMRC's favour is part of the essential process of beating tax crime. These measures are intended to do just that.

### **Beating offshore abuse**

The offshore world of tax havens and secrecy jurisdictions are used in two ways for tax abuse. One way is by multinational corporations undertaking sophisticated tax avoidance using offshore arrangements. Ways to address this problem have already been noted.

The second way is through tax evasion by individuals and companies. Almost without exception they use these locations (that include Jersey, Guernsey, the Isle of Man, The Cayman Islands, The British Virgin Islands, the Turks And Caicos Islands, Gibraltar, Bermuda and others for which the UK is internationally responsible) because of the deliberate secrecy that these places provide to those placing funds in their banks, companies, trusts and other arrangements.

It is not illegal to use a tax haven. It is illegal to use one to evade tax due somewhere else and since in most of the UK territories noted and other locations such as Switzerland, Panama and even Luxembourg and Austria, finding out just who has ownership of a bank



account, let alone a company or trust, is nigh on impossible. It is secrecy that is at the heart of the issue to be addressed when it comes to tax havens.

There are, however, welcome developments on this front that give grounds for hope in 2013. These are:

- The opportunities created by the US Foreign Accounts Tax Compliance Act (or FATCA for short);
- The chance of extension of the European Union Savings Tax Directive;
- The possibility of enhanced cooperation with UK territories.

These three opportunities provide the basis for a realistic programme of work for a Labour government.

### **The opportunities in FATCA**

Like most things to do with tax, FATCA is complicated in practice but simple in essence. The USA has, like the UK, had enough of its citizens hiding their money offshore. Because of its substantial position in the world economy and the fact that almost every bank, the world over, wants to trade in the USA, it has decided to demand that every state around the world that might handle the bank accounts and other assets of US citizens must either report the existence of, and the income from, those accounts held abroad to the USA annually or the banks in question must deduct tax at source from the payments of income on those accounts and pay it over to the USA instead. Since the arrangements for deducting tax are, if anything, even more onerous than the requirements to supply information all over the world states and tax havens are lining up to give the USA the information it wants. The list of places complying includes all the UK's tax havens and places like Switzerland, Luxembourg and Austria that have always previously refused to countenance any such arrangement.

Such a move could, of course, be dismissed as being a special case that could only apply to the USA. To some degree that is true. However, FATCA is actually a turning point in the attack on tax havens for two reasons. The first is that because states like Austria and Luxembourg that have stood in the way of Europe agreeing progress on tackling bank secrecy have no choice but agree to the US demand for information exchange they will also, because their European partners have what is called 'most favoured nation' status with them for diplomatic purposes, agree to grant the same information exchange to all the EU's 25 other states, including the UK. That makes progress on the European Union Savings Tax Directive possible, which is the subject of the next section.

It does more than that though because Switzerland, which for many purposes is the most important tax haven in the world, has persistently refused to cooperate with the EU and its member states because it has argued that because Austria and Luxembourg were not cooperating with the rest of the EU nor did it need to do so. That defence will now have gone and in the future it is more than likely that Switzerland will have to enter into the type

of full information exchange agreement with all EU member states that it is now agreeing to do with the USA.

The other point about FATCA is that as the UK's tax havens are agreeing to comply with it the UK is in a position to demand that they supply the same information to the UK. This is the subject of the third section, below.

### **Extending the European Union Savings Tax Directive**

The European Union has been a surprisingly effective organisation in the attack on tax havens given that it has no direct responsibility for taxation matters in the member states. Its 1997 Code of Conduct on Business Taxation, whose implementation was led by Labour MP Dawn Primarolo for a decade, did a lot to tackle harmful tax practices, not least in the UK Crown Dependencies of Jersey, Guernsey and the Isle of Man, all of which are bound by EU rules through the UK even though they are not themselves members.

More importantly, the EU's 2005 Savings Tax Directive introduced the idea of automatic information exchange between member states and the tax havens run by the UK and the Netherlands on income earned by a person resident in one location from a bank located in another one. This principle was hard fought against by the tax havens, Austria, Luxembourg and at one time Belgium but over time the scale of opposition has fallen. For example, only Jersey holds out against full cooperation now amongst the UK Crown Dependencies. However, there were serious weaknesses in the Savings Tax Directive. It only applied to bank interest and not other investment income, and only to income received by individuals and not companies or trusts. This meant that it is likely that well over 90% of offshore income was not covered by the Directive.

Since 2008 the European Union has been working to update the Savings Tax Directive. Its proposals would extend the Directive to companies, trusts and other arrangements and would cover a very much wider range of income than interest. Austria and Luxembourg have been the stumbling block to date but as has been noted already, now they are agreeing to supply the US with this information they will in due course have no choice but to comply with the EU demand that they do so with the other member states. That now provides a realistic chance that the European Union can now open new information exchange systems that will shatter a whole raft of tax haven secrecy.

Of course that will not end all tax haven secrecy; places like Singapore will remain outside this system, but once a new EU system is in place the demand to extend it can be made, as the US is doing. Labour has to commit to both extending the European Union Savings Tax Directive and to then demanding its extension to other states. This is the best way of shattering tax haven secrecy.

### **The UK's own tax havens**

There is an obvious embarrassment to the UK in having so many tax havens under its protection. Not only does this threaten the UK's tax revenues, it also threatens key institutions in the UK economy. For example, HSBC has recently suffered a record fine in the USA for money laundering offences that occurred in the Cayman Islands and then only because of the nature of its tax haven status. It was reported that HSBC was not prosecuted solely because of the risk of the organisation failing if that course of action had taken place. If the UK had been required to deal with that outcome the cost of tax haven secrecy could have been incalculable.

The UK now has to address this secrecy or face the serious economic consequences of failing to do so. FATCA provides that opportunity. The UK is responsible for the foreign relations of each of its territories. It is right that they become FATCA compliant as the USA demands, but it is also absolutely right in that case that the UK that has responsibility for ensuring that they meet this US demand require exactly the same information from each of those locations about UK resident people who have accounts there. This is possible because, firstly we can legislate for each of these places and, secondly because we could also deny them US FATCA legislation if they do not cooperate with the UK on this issue. Labour must do both.

That will not, however, be the end of the matter. As has already been noted, if fraudulent trading is to be prevented the regulation imposed by Companies House in the UK must be improved considerably. That is also true for the UK's tax havens. The UK has to demand that not only should its tax havens now do automatic information exchange with the UK but must also put on public record the accounts of all the companies registered in their domains and the true identity of the beneficial owners and managers of these companies. Only then will their secrecy be shattered for good. Only then too will our banks be truly protected from the sort of risk HSBC took. And since this data will have to be maintained to ensure FATCA compliance there is no excuse for not publishing this information in future.

The time for transparency has arrived and Labour must demand it.

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