The EU tax gap - new evidence shows there is â‚¬1 t...

Blog/2012/02/29/the-eu-tax-gap-new-evidence-shows-there-is-e1-trillion-of-lost-revenue-to-target-t

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The Group of the Progressive Alliance of Socialists & Democrats in the European Parliament issued a report at their press release this morning, part of which dealt with the EU tax gap. This report, which is based on my work (the full report is now available - here), was as follows:

CLOSING THE TAX GAP AND RE-LAUNCHING THE ECONOMY AND JOB CREATION

TWO SIDES OF THE SAME COIN

1. The main finding of the study commissioned by the S&D Group from Tax Research London is that â‚¬1 trillion are lost in potential tax revenue every year (EU27).

2. This loss of public revenue plays a substantial part in the deficit and debt levels we are currently facing, which in turn is negatively affecting public investment levels, growth and employment.

3. A large part of this non-taxed liquidity is feeding into financial trading activity rather than private or public consumption, and investment.

Therefore, by forcefully addressing this "tax gap", the EU could at the same time:

* Contribute to the necessary **stabilisation of financial markets** and of the economy as a whole, by significantly reducing liquidity available for financial trading unrelated to real economic activity;

* Increase available **public revenue** to accelerate necessary fiscal consolidation while reducing its austerity effect (thereby also alleviating current pressure on necessary public spending on education, health or social policy); the study shows that if the tax gap were to be totally closed, EU governments could repay all public debt within 8.8 years (see table below).

* In particular, provide the necessary resources to increase **public investment** geared towards the strengthening of Europe's international competitiveness and growth potential, despite of the consolidation agenda. By channelling an additional amount of about â‚¬200 billion from the reduced tax gap to public investment spending each year, the EU could lift that investment from the current 2.7%/GDP to a realistic target of 3.5% within a few years. This would notably provide essential funding for public investment in sustainable growth technologies.

* This whole new strategy should be framed politically within a **strengthened Europe2020 strategy**, finally backed up by proper funding.

* The governance of this strategy at EU level (as much is to be done directly at member states level) would need to be managed accordingly via the existing processes involving the annual **national stability and growth programmes and the national reform programmes**. Available information on the extent of tax avoidance and evasion in each member state must, in this context, be significantly improved in the public interest.

KEY RECOMMENDATIONS

The EU must take strong action at European and at national levels at the same time. To provide the necessary focus, the European Council must agree on an ambitious while realistic headline target: **Halving the tax gap by 2020**. By moving towards this target, member states would gradually achieve new tax revenue without raising tax rates at the level of several hundred billion â‚¬ a year.

This target can be reached by ensuring action on mainly five key issues:

* Reforming the accounting rules and corporate accounting disclosure
* Upgrading and extending the scope of the European Union Savings Directive
* Ensuring compulsory Common Consolidated Corporate Tax Base
* Introducing country-by-country reporting for cross-border companies
* Strengthening regulation of company registries and registers of trust

This will have to include adequate EU-wide agreements with key non-EU countries currently providing platforms for financial institutions facilitating tax fraud and evasion activities from within the EU, such as Switzerland. The report provides over 30 detailed proposals for policy action at EU and at member states levels.

KEY FACTS AND FIGURES

Using consistently credible sources the report provides a resulting estimate of tax evasion in the European Union of approximately â‚¬860 billion a year. Estimating tax avoidance is harder; however, an estimate that it might be â‚¬150 billion a year is made in the report. In combination it is therefore likely that **tax evasion and tax avoidance might cost the governments of the European Union Member States â‚¬1 trillion a year**.

In a significant number of countries tax lost as a result of the shadow economy might represent more than 20% of total government spending and as a proportion of government revenues that sum lost does in some cases exceed 30% of total income.

On average the tax lost as a result of the existence of shadow economies in Europe represents 105.8% of the total **health care** spending in EU countries.

Country	GDP 2009	Gov't spending as proportion of GDP	Health care spending as proportion of GDP	Size of Shadow Economy	Tax lost as a result of Shadow Economy	Tax lost as a proportion of tax income	Tax lost as a proportion of government spending	Tax lost on shadow economy as % of healthcare spending
	Euro'm	%	%	Euro'm	Euro'm	%	%	%
Austria	284,000	49.0	11.0	27,548	11,763	9.7	8.5	37.7
Belgium	353,000	50.0	11.8	77,307	33,629	21.9	19.1	80.7
Bulgaria	36,000	37.3	7.4	12,708	3,673	35.3	27.4	137.9
Cyprus	17,000	42.6	6.0	4,760	1,671	28.0	23.1	163.8
Czech Republic	145,000	42.9	7.6	26,680	9,205	18.4	14.8	83.5
Denmark	234,000	51.8	7.0	41,418	19,922	17.7	16.4	121.6
Estonia	15,000	39.9	4.3	4,680	1,680	31.2	28.1	260.5
Finland	180,000	49.5	11.7	31,860	13,732	17.7	15.4	65.2
France	1,933,000	52.8	3.5	289,950	120,619	15.0	11.8	178.3
Germany	2,499,000	43.7	8.1	399,840	158,736	16.0	14.5	78.4
Greece	230,000	46.8	7.4	63,250	19,165	27.5	17.8	112.6
Hungary	98,000	49.2	8.2	23,912	9,445	24.4	19.6	117.5
Ireland	156,000	42.0	7.6	24,648	6,951	15.8	10.6	58.6
Italy	1,549,000	48.8	5.1	418,230	180,257	27.0	23.8	228.2
Latvia	18,000	38.5	8.1	5,256	1,398	29.2	20.2	95.9
Lithuania	27,000	37.4	7.8	8,640	2,532	32.0	25.1	120.2
Luxembourg	42,000	37.2	4.1	4,074	1,511	9.7	9.7	87.8
Malta	6,200	44.8	16.5	1,686	577	27.2	20.8	56.4
Netherlands	591,000	45.9	10.8	78,012	29,801	13.2	11.0	46.7
Poland	354,000	43.3	7.1	96,288	30,620	27.2	20.0	121.8
Portugal	173,000	46.1	11.3	39,790	12,335	23.0	15.5	63.1
Romania	122,000	37.6	5.4	39,772	10,738	32.6	23.4	163.0
Slovakia	66,000	34.8	8.5	11,946	3,440	18.1	15.0	61.3
Slovenia	36,000	44.3	9.1	9,432	3,546	26.2	22.2	108.3
Spain	1,063,000	41.1	9.7	239,175	72,709	22.5	16.6	70.5
Sweden	347,000	52.5	9.9	65,236	30,596	18.8	16.8	89.1
United Kingdom	1,697,000	47.3	9.3	212,125	74,032	12.5	9.2	46.9
Total or unweighted average	12,271,200			2,258,223	864,282	22.1	17.6	105.8

Furthermore, the amount of tax lost is on average more than 4 times higher than the amount spent on **education.**

As shown in the table below, there is **no clear relation between the level of taxes and the level of tax evasion** in the European Union Member States:

Country	GDP 2009	Size of Shadow Economy	Tax burden - 2009	Size of Shadow Economy	Tax lost as a result of Shadow Economy
	Euro'm	%	%	Euro'm	Euro'm
Austria	284,000	9.7	42.7	27,548	11,763
Belgium	353,000	21.9	43.5	77,307	33,629
Bulgaria	36,000	35.3	28.9	12,708	3,673
Cyprus	17,000	28.0	35.1	4,760	1,671
Czech Republic	145,000	18.4	34.5	26,680	9,205
Denmark	234,000	17.7	48.1	41,418	19,922
Estonia	15,000	31.2	35.9	4,680	1,680
Finland	180,000	17.7	43.1	31,860	13,732
France	1,933,000	15.0	41.6	289,950	120,619
Germany	2,499,000	16.0	39.7	399,840	158,736
Greece	230,000	27.5	30.3	63,250	19,165
Hungary	98,000	24.4	39.5	23,912	9,445
Ireland	156,000	15.8	28.2	24,648	6,951
Italy	1,549,000	27.0	43.1	418,230	180,257
Latvia	18,000	29.2	26.6	5,256	1,398
Lithuania	27,000	32.0	29.3	8,640	2,532
Luxembourg	42,000	9.7	37.1	4,074	1,511
Malta	6,200	27.2	34.2	1,686	577
Netherlands	591,000	13.2	38.2	78,012	29,801
Poland	354,000	27.2	31.8	96,288	30,620
Portugal	173,000	23.0	31.0	39,790	12,335
Romania	122,000	32.6	27.0	39,772	10,738
Slovakia	66,000	18.1	28.8	11,946	3,440
Slovenia	36,000	26.2	37.6	9,432	3,546

Finally, the following table compares tax losses with government deficits and total government borrowing based on European Union data. **If tax evasion could be stopped total EU public debt could be repaid in just 8.8 years**:

Country	GDP 2009	Size of Shadow Economy	Tax lost as a result of Shadow Economy	Annual deficit 2010	Tax lost as a % of annual deficit	Gov't borrowing 2010	Years it would take tax lost to repay debt
	Euro'm	Euro'm	Euro'm	Euro'm	%	Euro'm	
Austria	284,000	27,548	11,763	13,169	89.3%	205,212	17.4
Belgium	353,000	77,307	33,629	14,355	234.3%	341,019	10.1
Bulgaria	36,000	12,708	3,673	2,269	161.9%	11,428	3.1
Cyprus	17,000	4,760	1,671	926	180.4%	10,619	6.4
Czech Republic	145,000	26,680	9,205	6,815	135.1%	55,825	6.1
Denmark	234,000	41,418	19,922	6,318	315.3%	102,024	5.1
Estonia	15,000	4,680	1,680	-18	0.0%	951	0.6
Finland	180,000	31,860	13,732	4,427	310.2%	87,216	6.4
France	1,933,000	289,950	120,619	136,525	88.3%	1,591,169	13.2
Germany	2,499,000	399,840	158,736	81,630	194.5%	2,079,629	13.1
Greece	230,000	63,250	19,165	24,193	79.2%	328,588	17.1
Hungary	98,000	23,912	9,445	4,116	229.5%	78,596	8.3
Ireland	156,000	24,648	6,951	49,903	13.9%	148,074	21.3
Italy	1,549,000	418,230	180,257	71,211	253.1%	1,843,015	10.2
Latvia	18,000	5,256	1,398	1,386	100.9%	6,876	4.9
Lithuania	27,000	8,640	2,532	1,917	132.1%	10,314	4.1
Luxembourg	42,000	4,074	1,511	710	212.9%	7,661	5.1
Malta	6,200	1,686	577	226	255.2%	4,248	7.4
Netherlands	591,000	78,012	29,801	31,979	93.2%	371,028	12.5
Poland	354,000	96,288	30,620	27,966	109.5%	194,700	6.4
Portugal	173,000	39,790	12,335	15,783	78.2%	160,470	13.0
Romania	122,000	39,772	10,738	7,808	137.5%	37,576	3.5
Slovakia	66,000	11,946	3,440	5,207	66.1%	26,998	7.8
Slovenia	36,000	9,432	3,546	2,027	175.0%	13,704	3.9
Spain	1,063,000	239,175	72,709	98,227	74.0%	638,767	8.8
Sweden	347,000	65,236	30,596	0	0.0%	138,106	4.5
United Kingdom	1,697,000	212,125	74,032	176,488	41.9%	1,357,600	18.3
Total or unweighted average	12,271,200	2,258,223	864,282	785,563	139.3%	9,851,413	8.8