Funding the Future

The EU recognises tackling the tax gap is key to Europe...

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It's rare for Tax Research UK to host guest posts, but Naomi Fowler, producer of the Tax Justice Network Taxcast just produced the following blog for me and I'm delighted to share it (and you can follow on Naomi on Twitter @Naomi_Fowler):

The European Commission seems to be getting serious about tax fraud (press release here). It's just released proposals on 'concrete ways' to 'reinforce the fight against tax fraud and tax evasion.' It's not surprising. Half of the EU Member States are either in stagnation or in decline in the first quarter of this year with dismal prospects for economic recovery since most governments seem signed up to an utterly self-defeating austerity agenda. As the Commission so rightly points out in today's press release 'Member States need every euro that they are due for fiscal consolidation and to rebuild their economies.' Yes, they do. Whether they know how to rebuild their economies is another matter.

As the Tax Justice Network has been pointing out for many years, the figures are truly staggering. The EU is losing around a trillion euros a year because of tax evasion and avoidance. The shadow economy as a whole is estimated to be nearly a fifth of GDP on average across Member States - that's around 2 trillion euros. There's an additional tens of billions stashed offshore unreported and untaxed.

The Commissioner for Taxation, Customs, Anti-fraud and Audit, Algirdas Å emeta says: "Let there be no illusion: tax evaders steal from the pockets of ordinary citizens and deprive Member States of much-needed revenue. If we want fair and efficient tax systems, we must stamp out this activity."

Then he goes on to say: 'If we play as a team, with a common strategy, we can defeat the fraudsters and evaders, and reclaim vast sums of money that are legitimately due."

The 'playing as a team' bit is quite interesting. While it's a bad idea for member states to have centrally controlled economic policies, it's imperative that they do cooperate when it comes to tax enforcement. We've seen what happens when countries negotiate individually with predatory tax havens like Switzerland — Greece has come out of it with a very poor deal for its citizens. (Estimates of Greek money hidden in Switzerland alone is 600 billion euros. Imagine a proper tax on that little lot.) The UK negotiated its own deal with Switzerland too and will forfeit large amounts of tax revenue it could have collected under a better agreement. And of course, there’s no question of prosecutions or any serious consequences for those caught hiding their money by these new deals.

As the Commission puts it ‘Only when Member States are prepared to assist each other can they expect to reap the full benefits of cooperation.’ Quite. Negotiating individual deals with Switzerland was hardly assisting each other and it certainly wasn’t ‘reaping the full benefits’. The implementation of the Savings Directive shows how beneficial cooperation can be - over 4 million records a year on savings in accounts held by non-residents are now sent to the tax authority of their country of residence. These are people who were presumably trying to avoid tax by banking their cash in places like Switzerland, Andorra, Monaco, Lichtenstein and San Marino. An average 20 billion euros has been taxed this way. Now the Commission wants to strengthen the existing Savings Directive by amending it to catch in the net the use of untaxed intermediary structures to obscure beneficial ownership and other fluid and ‘innovative’ financial wizardry devised to escape taxes.

So what else does the Commission have in mind? Among their proposals are to improve tax collection systems within each Member State and to have better cross-border cooperation between Member States' tax administrations. They say they want to ‘promote’ automatic exchange of information ‘where it is the most useful’. I’m not sure what situation they might have in mind where automatic information exchange would not be useful…

They’re also talking about assigning a European Tax Identification Number to every taxpayer engaged in cross border activity, giving Member State tax administrations direct access to each others national data bases and having teams of auditors dedicated to cross-border tax fraud.

It’s interesting to hear that in places like Switzerland they are actually running out of space for safety deposit boxes, such is the demand for them. The Commission expresses its concern that non-banks in the Cayman Islands and Switzerland alone represent almost 20% of all worldwide deposits by non-banks (with a total of $1352 billion deposits). Of course, they want to stop third countries undermining advances in tax enforcement within the EU. They want swift approval to talk about making a deal to Singapore, Hong Kong and Macao. That'll take a lot of persistence...

The Commission wants to ensure ‘EU partners under international trade and cooperation agreements will commit to good governance principles in the tax area.’ Hmm. I don’t think a place like Singapore has the slightest intention of committing to good governance principles any more than Switzerland does. But, the Commission believes there’s now a strong political will to take the ‘concrete’ action it’s proposing. It'll be interesting to see how concrete those steps really are.