

## What we want from the G8 - the TUC view

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The [following is what the TUC says it expects from the G8 on tax](#). I share its views. I should add I advise the TUC on tax matters:

*The TUC welcomes the Prime Minister's intention to tackle multinational tax avoidance and evasion at the G8 summit in Northern Ireland on 17 and 18 June, but has warned that 'warm words will not be enough' - radical action is required at both the G8 and UK level to crack down on tax dodging.*

*In a briefing published today (Friday), the TUC has set five tests for the summit.*

*It also warns that the UK is not in a position to meet one of the changes the government says it supports at the G8 - company registers to assist information exchanges between countries --- because the UK does not have a proper register of trusts or require the registration of the beneficial owners of UK companies.*

*The TUC briefing says that in order to be effective the G8 summit needs to:*

- \* Use the new structures already required by US tax rules to introduce full multilateral automatic information exchange (AIE) of overseas earnings and holdings whether held by individuals or within trusts, companies or other structures.*
- \* Ensure that all tax havens are included in any new agreements on AIE.*
- \* Agree full disclosure of the beneficial owners of trusts, companies and other legal structures. These should be open to all and not just tax authorities.*
- \* Support radical action by the G20 to tackle companies such as Google, Apple and Starbucks who do not appear to pay tax where they earn their profits. This should include country-by-country reporting.*
- \* Involve developing countries and the UN in the multinational forums that are discussing tax and provide them with the technical help they need.*

*The TUC briefing comes as new polling published today by the International Trade*

Union Confederation (ITUC) shows that 85 per cent of voters in 13 countries (including six G8 economies) support policies to stop large and multi-national corporates avoiding tax.

The UK is ranked top of the G8 countries polled in terms of voter support to curb tax havens, with 96 per cent of voters in support of policies. Germany is second in terms of support (91 per cent), followed by Canada (88 per cent), France (82 per cent), Russia (75 per cent) and Japan (74 per cent).

TUC General Secretary **Frances O'Grady** said: 'It has taken years of campaigning to get governments to take tax justice seriously. But with voters across the globe hit by austerity and spending cuts, no politician can now ignore the corporations and super-rich individuals who say that tax is for the little people.

**'But while we can welcome the intentions, the test will be in the delivery. Warm words will not be enough. This is why we have set the summit five tests, and warn the Prime Minister that he cannot be taken seriously in calling for the real owners of trusts and companies to be registered until the UK sets up its own register.'**

**Commenting on the poll findings, ITUC General Secretary Sharan Burrow** said:

**'Workers are paying for the financial crisis with their jobs, while corporations are denying ailing economies the revenue they so badly need.'**

**'The sheer scale of tax evasion revealed by one corporate tax scandal after another is matched only by the injustice to workers and their families.'**

**'In developing countries in particular, national economies are robbed of revenues which could be used to address critical needs of such as food security, health, poverty alleviation and education.'**

## **TUC briefing on G8 summit tax issues**

### **What the government says**

**David Cameron says his priority during the G8 Presidency will be the global economy.**

**He has said that he will use the UK's Presidency to help generate growth, jobs and prosperity for the long term. To achieve this, he says that the UK will focus on open economies, open governments and open societies to support free trade, tackle tax evasion and encourage greater transparency and accountability. He has put particular emphasis on dealing with tax issues. In this TUC briefing we examine what needs to be achieved at the G8 summit.**

**The UK says it has four objectives regarding these issues at Lough Erne. They are:**

- \* Tackling tax evasion**
- \* Improving transparency**
- \* Dealing with tax avoidance**
- \* Assisting developing countries**

**Tax evasion**

**The G8 deals with international issues and its focus should therefore be on tax evasion taking place across international borders, and most especially that linked to tax havens.**

**This issue has been the subject of previous international summits, most especially the London G20 in April 2009, and the failure of the measures taken on that occasion is the reason why the issue needs to be addressed again now.**

**But there is a big difference between 2009 and today. The G8 has an opportunity at Lough Erne not available to it any previous meeting.**

**This is the result of the USA's new commitment to automatic information exchange with countries all over the world that hold information on the foreign taxable income of US citizens.**

**This commitment was embodied in US law in 2010 in what is called the Foreign Accounts Tax Compliance Act (FATCA). This becomes operational in 2014. This Act specifically only applies to US citizens. All the FATCA agreements made by the USA are bilateral - which means that they are strictly between the USA and other individual countries.**

**But to make FATCA work, any country that wants to hold deposits from US citizens needs systems to provide this kind of information. Once in place, these can be used by other countries to demand the same automatic exchange of information to track the overseas income of their tax residents. Full transparency has become a realistic possibility for the first time.**

**Almost certainly as a direct result of FATCA, together with strong campaigning against tax abuse by unions and others, UK ministers have changed their position on what is called automatic information exchange (AIE).**

**AIE happens when income earned in one country by a person who is resident in another country is automatically reported to the country where the person**

***lives, whether the person involved likes it or not. This can be done bilaterally - that is between two countries - or multilaterally, which happens when many countries sign up to the same system. European countries are already used to the second system as a dilute form of this has been in operation in most EU states since 2005.***

***Until a little over a year ago the UK argued vociferously against AIE. It has now declared itself in favour of it, and most especially on a multilateral basis.***

***The power of automatic information exchange is that it exposes the people who hide money in tax havens to a much greater risk of discovery. This is especially true when AIE covers income held in the names of companies and trusts that a person owns or controls in a tax haven as well as funds in their own name.***

***The low or zero rate tax rates that tax havens have to offer lose much of their appeal if that income is declared to a person's tax authority in the place where they live. This is because the income in question will be taxed despite being located in a tax haven, as is usually required by law. AIE therefore makes tax evasion a lot harder.***

***The biggest consequence is not that lots of people are prosecuted as a result, but that behaviour changes as people either stop using tax havens or declare the income they have there.***

***The following things would help achieve the goal of defeating tax evasion through tax havens:***

- \* A commitment to multilateral automatic information exchange;***
- \* A demand that all tax havens take part;***
- \* A clear commitment to fund the necessary development costs for the AIE systems that will have to be developed by the OECD;***
- \* A commitment to make AIE cover individuals, companies and trusts or the whole process can be avoided far too easily;***
- \* A commitment to cover a wide range of income sources and not just bank interest;***
- \* A clear timetable for the introduction of AIE.***

***Anything less than this list will represent a failure to deliver by the G8.***

***Improving transparency***  
***Automatic information exchange can only work if the information is available to exchange. The second challenge for the G8 agenda is to ensure that***

**information is available.**

**Most people evading tax hide it in companies, trusts, foundations or other structures. These are very commonly set up and registered in tax havens, who require little or no disclosure by such structures.**

**To be effective automatic information exchange needs to apply to all funds - whether held by an individual or any of the companies, trusts and various combinations of them that accountants, lawyers and bankers put together.**

**Just as the UK has traditionally objected to AIE, it has defended the secrecy of these structures. But it has now changed its mind. Money laundering rules that apply around the world require that information on the beneficial ownership of companies, trusts and foundations must be known to any financial service provider that pays them any income. The UK therefore now says that AIE for such structures is not only possible, but will impose no significant burden.**

**To make this work the UK is now demanding that all countries have central registers of companies and trusts that record the information on their beneficial owners. This is a key - and welcome - G8 demand.**

**What to expect:**

- \* That this demand that registers of beneficial ownership be created is made;**
- \* That it will only be demanded that the register be open to tax authorities.**

**What is really needed:**

**A register open to the public as well as tax authorities - as that would stop a great deal of commercial fraud now undertaken through limited companies, trusts and other arrangements both on and offshore.**

**Putting our own house in order:**

**The UK's current company register does not record who really beneficially owns UK companies and so the UK fails way short of this standard at present. This poses a real problem for the government.**

**The UK company register has been so starved of resources and staff that hundreds of thousands of companies disappear from it - or are technically 'struck off' - each year simply because they do not reply to letters asking for the information they are legally obliged to file, again meaning we fall far short of desired standards in this country. Significant new investment is needed to ensure we run an effective register of companies in the UK, let alone one that properly records beneficial ownership.**

**The UK does not have a trust register, or anything approaching it and much work will be needed to create one. Serious investment is needed to establish the needed transparency for UK based structures. This is urgent.**

### **Tackling tax avoidance**

**Across the world multinational corporations do not appear to be paying the tax they owe in the right place at the right time.**

**It is unlikely that this G8 will make any progress on tackling tax avoidance. This is because tax avoidance by multinational corporations has been adopted as a priority by the wider G20 group. The OECD announced in February that they would deliver a report to the G20 in advance of its meeting in September, but is not yet complete. The best that can therefore be expected at the G8 are warm noises of encouragement to the G20 to take appropriate action.**

**We have no problem in principle with this being dealt with by the G20, but the prospects of real change are currently poor.**

**The OECD has said that 'what is at stake is the integrity of the corporate income tax' and that 'the international common principles drawn from national experiences to share tax jurisdiction may not have kept pace with the changing business environment'. But comments made by the OECD since February suggest that the fundamental reforms needed to ensure that multinational corporations pay tax where they trade are unlikely to happen. Instead mere tinkering with the existing, failed, rules is likely.**

**This is why we need a strong commitment from the G8 that its members will press the G20 for effective change.**

**What is needed:**

- \* That the G8 support the demand for country-by-country reporting by multinational corporations, which would require that they publish data on their sales, employment costs and headcount, profit and taxes paid (as a minimum) by country, which information is not available at present;**
- \* That the G8 support a programme of widespread reform of the global corporation tax system and the treaties that underpin it to ensure that tax is paid at the right place, in the right amount and at the right time, which is clearly not the case at present.**

### **Assisting developing countries**

**Developing countries have a special problem with tax avoidance and tax evasion. Estimates vary, but most academic and development agency commentators agree that Africa, for example, loses more from tax abuse by multinational companies shifting their profits into tax havens through transfer mispricing than they gain from development aid.**

**Developing countries are very clear about what they need. First they need technical aid on tax matters. Secondly, they need reform of the global tax system to make sure they can find the profits to tax. But most of all they are**

***clear that they need a voice at the table to be heard on this issue.***

***Unfortunately the G8 and the G20 exclude developing countries from their considerations. The OECD, which is tasked by these groups with solving these problems is also made up of the richer states, and with just over 30 members excludes most countries from its considerations. As a result developing countries feel excluded from a debate that has massive impact on them.***

***The TUC would like to see:***

- \* The G8 bringing the UN and its tax committee (which is largely ignored by the OECD) into this debate as this would open representation to all countries;***
- \* Specific proposals for technical assistance to developing countries to assist them in collecting tax, including allowing them to collect taxes on payments of royalties, copyright fees, rents and management fees which are very often not permitted under the OECD style tax agreements that developed countries ask them to sign;***
- \* Increased aid to ensure that developing country tax authorities have the training and finance they need to recruit, train and retain the staff they need, many of whom leave to join international firms or their accountants at present as soon as they are qualified in tax.***

***The UK has not given much indication that these objectives will receive the support they deserve at the G8.***