

Is the EU at the root of our tax problems?

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I'm inherently at heart pro-Europe. As a passport holder of two EU states, and as someone who appreciates the right to movement that it delivers, as well as the dialogue that it has created that has undoubtedly contributed to peace on one of the most historically volatile areas of the world, I find it very hard to be anti-European.

I also have some belief in the value of overall low tariff trade and consistency in regulation. I also approve of a mechanism that reallocates wealth between as well as within countries. There is much about the EU to like.

But that is not to say that it is all right: that is far from true. And here I do not refer to the minor irritations, of which there are many, or the long running sores such as the obvious failures of the common agricultural policy. I do instead refer to the fundamental tents on which the EU was built, because they are wrong.

As [Christopher Booker \(not someone I usually have much sympathy for\) noted in the Telegraph yesterday](#):

Astonishingly, however, entirely missing from all the outrage [on international tax abuse] is the simple explanation of how and why this racket has come into being. It all stems from the "four freedoms" laid down in the founding treaty of the European Union, especially the freedoms of "capital" and "establishment", which entitle firms to move all their income to the country where they want their tax base to be, to give them the smallest tax liability. This has completely destroyed the sovereign right of national governments to levy tax in a country where income is earned. Google, Amazon, Apple and the rest can thus quite legally channel all their earnings wherever tax rates are lowest.

Now let's say straight away Booker is not entirely right: the US has a massive international tax problem and it is not in the EU. [Africa is being fleeced](#) of the tax due to it and it is not in the EU either. So Booker massively overstates his case, considerably. That does not mean that there is no case to answer because there is.

It is a fact that the freedom of capital movement and the freedom of establishment that

the EU provides have been the subject of considerable abuse. Like so much in modern tax, the consequences of these 1950s ideas cannot have been imagined when these supposed rights were established. The same is exactly true of the OECD concept of permanent establishment in its double tax treaties. Put the two together and there is a perfect recipe for abuse. Companies clearly trading in one location (Amazon and Google in the UK) can completely legitimately argue that they are 'elsewhere' for tax and the OECD and EU provide them with cover.

It's not surprising that the [CBI has launched a three year pro-EU campaign as a result](#). The whole EU is structured to provide asymmetric power to capital at cost to the state and the people who live in EU countries.

But does that mean we have to leave the EU? I doubt it as yet, although I have never ruled it out. What it does mean that just as we have to change the paradigm under which the OECD operates so too do we need to change the paradigm under which the EU operates. If all the benefit accrues to capital then quite clearly the EU is not fit for purpose as it is. But that requires reform, not abandonment.

The EU is in part at the root of our tax problems. But more than that, the EU embodies a notion that capital has rights greater than the individual and state enjoys and that it is free despite its amorphous nature to enjoy those rights in any way it pleases. That is a corrupt philosophy and one that has to be reformed. Then we'd be another step on the way to claiming the right to tax capital as we should. But be warned; that will be a long slow process. I have promised I will retire by the time I am 83: that is 28 years away right now. I can see this issue being on the agenda for quite some time into that planning horizon.