

What should the EU do on tax in 2015?

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I [was in Bloomberg and Newsweek yesterday](#) talking about what the EU should do on tax in 2015. This is the relevant bit:

When the commission unveiled its [work program](#) this week, it pledged to drop a stalled energy-tax proposal and resume consultations on a common corporate consolidated tax base. The program also promises an “action plan on efforts to combat tax evasion and [tax fraud](#), including a communication on a renewed approach for corporate taxation in the single market in the light of global developments.”

The EU’s tax policy plans run the risk of sidestepping the central issues, said [Richard Murphy](#), director of U.K.-based Tax Research LLP, in a telephone interview.

“If you want to avoid austerity, it’s ever so simple. Hire tax collectors,” Murphy said, saying cutbacks in tax-agency staff have been counterproductive for the U.K. and other nations trimming their public workforces. He said countries also should put more effort into figuring out what the true gap is between potential taxes and actual revenues, and he called for more work on corporate taxation standards.

“Without trying to create a common consolidated tax base, is there a program of convergence that we can go on even if we never converge?” Murphy said. He said the goal should be to find realistic ways to align national approaches, not a common tax framework to parallel the euro as common currency.

This is, of course, and inevitably, an extract of what was discussed.

I made the point that the EU is, inevitably, in a hiatus in 2015 whilst it waits for BEPS. But that did not mean there as nothing it could do. The programme I outlined was as follows.

First, anticipate BEPS. Get EU information exchange and mutual assistance working as well as possible.

Second, presume BEPS will rely quite heavily on general anti-avoidance principles and

make sure the EU can, as far as possible, coordinate these. Also make it explicitly clear that they are capable of being used to tackle artificial relocation of profit in the EU. Nothing may be more important than that. It would kill George Osborne's Diverted Profits Tax, for a start.

Third, get a true handle on the sale of the issue being tackled. It is, I would suggest, a little absurd that the only available estimate of tax evasion in the EU [has been supplied by me](#). That has to change and the EU has to do a proper, top down, estimate of the tax gap on a systematised basis for all EU states. The UK bottom up estimate is not acceptable: it ignores most tax not paid as a result of people not submitting tax returns and massively underestimates the scale of losses as a result. The EU has no hope of demanding the resources from member states to tackle this issue unless its scale, and so the potential recovery, has been properly estimated.

Fourth, and coming to the CCCTB, it is obvious that corporation tax systems are not working. The CCCTB is a powerful conceptual framework for tax even if a unitary base could not be agreed. Common standards need to be agreed in this area.

Fifth, that means increasing awareness of the need for establishing the appropriate data to form the basis for tax collection. IFRS and all equivalent accounting standards are explicitly stated to be unsuitable for the purposes of tax assessment and yet are used in many cases in the only accounts that an entity prepares. When in well over 90% of cases it is likely that tax authorities are the main user of accounting data this is absurd. The EU has to reclaim the accounting standards setting process for public benefit and demand that accounts fit for tax purposes be prepared by all companies and be supplied to their members. Data for financial markets will always be a secondary consideration for almost all companies: the absurd logic of the IFRS Foundation that those markets are the only party interested in financial data has to be abandoned for good. The EU needs to get on with this now.

Sixth, the EU needs to deliver the best possible financial transactions tax.

And seventh, open registers of beneficial ownership of companies is vital if all automatic information exchange systems are to work.

And next? Automatic information exchange has to be delivered within states as well as between states. It is absurd that in 2016 the UK (and other EU states) will receive more data from Cayman on the ownership of companies with UK directors and shareholders than it will from UK banks on the companies to whom they provide banking services in the UK. It is not possible that the EU shadow economy exists outside the banking system: it is undoubtedly using the banks. So bank data on all likely accounts used to record income must be available to tax authorities. This could start with full automatic information exchange on domestic companies and then extend to accounts likely to be used to record self employment via data from Paypal and card providers. Do that and we make progress in tackling crime. Don't do that and the problem goes on and the EU

economic crisis with it.

That crisis can be solved by tax collection. The issue is as important as that. And the stakes are very high. We just require the political will to address it.

But that brings me to the need to hire tax inspectors and lots of them. That is my wish for 2015.