

The UK is defending tax abuse, not promoting 'tax compe...

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The [Guardian has reported that](#):

Britain will reject plans announced in Brussels this week to combat industrial-scale tax avoidance by the world's biggest multinationals, the Treasury minister responsible for tax policy has said.

David Gauke, financial secretary to the Treasury, told representatives from the European parliament that Britain would not adopt the measures to introduce certain common tax rules. "He was very clear that the UK is insisting on tax competition," said German MEP Michael Theurer, who met with the UK treasury minister on Thursday. "It was really a shock from the minister."

I met that EU delegation yesterday afternoon, representing the Fair Tax Mark with Meesha Nehru. I can say as a result that the comments made by HMRC and David Gauke in the morning were still reverberating in the afternoon and I think Michael Theurer is spot on with his comments.

It is shocking that the UK is so dedicated to tax competition. The suggestion that tax competition between states is something to be promoted is dangerous idea when all competition is necessarily predicated on the idea that it is acceptable for participants to fail. We cannot afford failed states and anything that even hints at that possibility has no place in the international tax system.

That does not mean that international uniformity is necessary, but cooperation and, where appropriate, harmonisation, are essential if tax is not to be an instrument to exercise control from one state over another. In this context there should be no mistaking the fact that those who propose tax competition are the ones who are seeking to exercise control. Time and again right wing think tanks have said things like this by Dan Mitchell of the US based Center for Freedom and Prosperity^[1], writing on this occasion for the UK based Adam Smith Institute:

Tax competition exists when people can reduce tax burdens by shifting capital and/or

labour from high-tax jurisdictions to low-tax jurisdictions. This migration **disciplines profligate governments** and rewards nations that lower tax rates and engage in pro-growth tax reform.

The emphasis is mine, and appropriate. Think tanks like those Mitchell works for go out of their way to defend tax havens^[iii]. **And what they are really saying is that tax havens should be able to use their laws to undermine the tax laws of other states by inducing the relocation of economic activity to low tax jurisdictions. This is what tax competition means, and this is what the UK is subscribing to.**

There can be no doubt that some low tax states — like Ireland — have induced some real companies to relocate real economic activities through the offer of low taxes. But it's also entirely true that places like Ireland are also part tax haven activity which induces no real change in economic activity at all, barring the relocation of where accountants record the profits of the companies for whom they work for tax purposes. This process is called profit shifting^[iii].

Profit shifting is, I stress, a pen pushing exercise, usually backed by a lot of paperwork. Perhaps the biggest single expose of the activity to date came from the Luxleaks disclosures in late 2014^[iv]. The key issue there was secrecy, as it always is in these cases. That's why the EU was on its mission in the UK yesterday. Large companies secured tax advantages from the use of obscure Luxembourg subsidiaries that had little or no economic substance to them where the details of what they were doing was hidden from the states who lost tax as a result.

This is the reality of tax competition from tax havens that right wing think tanks promote on behalf of their corporate funders. It is why in 2009 I suggested that in most cases tax havens were better described as secrecy jurisdictions^[v]. These I defined as places that intentionally create regulation for the primary benefit and use of those not resident in their geographical domain with that regulation being designed to undermine the legislation or regulation of another jurisdiction and with the secrecy jurisdictions also creating a deliberate, legally backed veil of secrecy that ensures that those from outside the jurisdiction making use of its regulation cannot be identified to be doing so. This, of course, is exactly what Luxembourg did in the Luxleaks cases. Most of the tax scandals of recent years have revolved around this tax haven secrecy being used to hide the artificial relocation of profits. Google did that to move profit to Bermuda; Starbucks did it to Switzerland via the Netherlands and Amazon did it to Luxembourg: the theme is always the same.

It's important to say in that case that this so called tax competition is not about real competition or anything like it. Any economist knows that

competition to be fair requires that all the participants have available to them all the information they need to make an informed decision. Tax competition works in exactly the opposite way, and hides everything from view that it can, which reveals what this activity really is: it is economic warfare waged from tax havens that are places that have sold their right to legislate to facilitate attacks on the law of other countries, and then provide secrecy to ensure that those involved cannot, as far as possible, be identified.

The EU is seeking to eliminate this abuse, albeit [without the vigour I would wish for](#). But what's really shocking is not just that [so many tax havens are British](#), but that we will go so blatantly out of our way to defend tax abuse, which is what David Gauke is doing.

[i] <http://www.adamsmith.org/sites/default/files/images/stories/tax-competition.pdf>

[ii] See, for example, <http://www.adamsmith.org/research/think-pieces/save-the-tax-havens-we-need-them/> by the director of the Adam Smith Institute

[iii] The OECD is dedicated to ending it. See <http://www.oecd.org/ctp/beps.htm>

[iv] <http://www.icij.org/project/luxembourg-leaks>

[v] <http://www.financialsecrecyindex.com/PDF/SecrecyWorld.PDF>