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I took part in a seminar organised by CityPERC (City Political Economy Research Centre) yesterday, the them of which was whether Brexit would reproduce Singapore on the Thames.

The broad answer was no, but with numerous caveats attached. My own contribution was a discussion of corporation tax and whether or not this could be transformed still further to create an even more relaxed tax environment for some businesses than the UK already provides. My slides are reproduced below but I wanted to elaborate slightly.

The opening slides explore the current environment and suggest that these leave remarkably little room for manoeuvre. OECD rules, double tax agreements, existing low rax rates, a generous tax base and de facto weak regulation of companies and tax already mean the UK is the centre of massive tax abuse to which the government turns a deliberate blind eye: there's not much more we can apparently deliver in this area unless, I suggested, the government decides to do the one thing no one expects. That, I explained, would be abolishing corporation tax altogether.

I stress, I have not heard this suggested, as yet. but since it has long been a favourite idea of right wing think tanks there isn't a Treasury minister who can be unfamiliar with it. In that context my discussion was an exercise in thinking out loud about what I might do if I wanted to create tax haven UK. Abolishing corporation tax was my answer.

If you follow the logic of my slides you will see that this would not create a tax free panacea in the UK. It would create an entirely tax free environment for foreign shareholders in UK companies - which is the tax haven bit of the idea - but I also strongly suspect that it would in fact increase taxes on UK privately owned businesses, where the owners would be deemed to have received the profits that the companies in which they have shareholdings make, and be taxed at their highest marginal income tax rate on these. The argument for doing so would be threefold: first it would be said that this stops tax avoidance. There is some logic to this. Second, it will be said that the self employed do not pay enough tax now (this line is already rolling out, I wonder if in anticipation of this move). Third, it will be argued that this is a tax simplification, which it will be in the same sense that this government says that submitting five tax returns a year in the future is a tax simplification compared to submitting one as at present.

I stress that technically the scheme is possible. It s based on what were called close company tax laws that were commonly used until the mid 1980s. The Crown Dependencies all tried such schemes a decade ago before discovering they were not legal in EU law if they only applied to resident people (as I am sure any UK scheme would do). And with the dividend tax now hitting UK taxpayers and with a basic, non-refundable tax charge being required of UK charities and pension funds who might otherwise do rather well out of this, it is not impossible that the scheme could be revenue neutral with a 17% corporation tax rate.

Why do it? For at least five reasons. First to signal a change not possible in the EU. When Brexit will actually produce so little obvious change in the UK they might be desperate for such a measure.

Second, to be tax aggressive with Europe, and the US come to that.

Third, to claim this will draw inward investment without breaching competition rules (although I doubt it will achieve that investment goal in practice).

Fourth, to appease the Tory right who are going to be might upset by any Brexit deal, including no deal at all.

Fifth, to neuter a tax favoured by sane political parties of all other persuasions who will then have problems reintroducing it.

How would this be possible in quoted companies? I don’t think it would be: I suspect they would be exempted, further biasing the tax system to big business.

And who would the winners be? Those outside the UK. The could trade here tax free. They would pay no UK source tax on profits earned here despite enjoying the benefit of all the facilities we provide. This would be a direct subsidy from the UK to those not resident here, in classic tax haven style.

And the financial services sector - bankers, lawyers and accountants - would win, of course.

How likely is this? For months I have said I cannot see the UK really trying to become a tax haven post Brexit. Now I have thought this through I am not so sure. But remember you will be paying for it if it happens. The free lunch this would provide to those outside the UK would be at cost to the UK taxpayer. But that never stopped a government doing such a thing.

Singapore on Thames?

* *Is this the Brexit direction for the UK?*

* *What might it mean?*
* *What would change?*
* *Is it possible?*
* *Who would benefit?*
* *At what cost?*

Tax haven UK

* *There is a strong tradition of Tory support for tax havens*
* *Mark Fields, Lord Finks, Michael Fallon, and many more have defended tax havens*
* *There should be no surprise that this issue is on the political agenda*
* *The question is what could now be on the political economy agenda?*

What is a tax haven

* *No agree definition*
* *But a secrecy jurisdiction can be defined*
* *A place that creates legislation and regulation for the benefit of those resident elsewhere with the intention of undermining the rule of law in that other place*
* *And which provides a deliberate veil of secrecy to prevent those making use of that regulation from being identified*

Essential points

* *Regulatory provisions can be relaxed de facto as well as de jure*
* *Low tax is not just achieved by tax rate but also by definition of the tax base*
* *Relevant regulation can extend beyond tax e.g. corporate, competition, labour, environmental and other law can all be arbitraged*
* *The abuse promoted can be targeted on both natural and legal persons*
* *Tax is often equated to mean corporation tax but is actually much wider in scope*

What are the constraints on action?

* *With regard to tax the situation is very different dependent on whether corporation tax or other taxes are considered*
* *My core argument is corporation tax action is so constrained expect the action to move elsewhere*

The problem with corporation tax in Singapore on the Thames - 1

* *OECD membership requires compliance with its regulation on international tax: rules are remarkably similar to the EU because EU rules are based on OECD*
* *We have a significant structure of double tax agreements with other nations that embed the OECD tax process in UK corporation tax law, in effect*
* *Politically it would be very hard to reverse the current tax abuse narrative to a sceptical UK public*
* *The 17% corporation tax rate already announced is below international norms.*
* *Each 1% cut costs £2.5 billion: the room for further manoeuvre is not big*

The problem with corporation tax in Singapore on the Thames - 2

* *The changes to CT rules since 2010 have already massively increased the international loopholes in the UK tax system e.g.:*
* *Territorial taxation de facto exists*
* *Controlled foreign company rules are lax*
* *The patent box has been a gift to abusers*

* As have been rules on overseas treasury functions
* HMRC has not responded to pressure to regulate MNCs by devoting many more staff so transfer pricing abuse is likely to remain rampant
* New regulations such as the GAAR and Google tax look like shams: the former has not yet been used after four years on the statute book
* The policy remains that 'the UK is open to business'. Light touch tax regulation is the order of the day for big business

What this means

* Simple tax cutting offers very little that's new and is very hard within current social construct
* The tax base has already been shrunk within international limits
* Regulation is already lax:
* De facto the UK already has no effective company tax or law regulation:
* 1 million UK companies do not submit CT returns each year
* 400,000 do not submit accounts and annual returns on issues such as beneficial ownership required of them
* Almost no penalties are collected for any such offences
* We deliver the veil of secrecy to those who want it by simply not enforcing UK corporation tax and company law
* In these regards it would be hard to be much more like a tax haven
* And if we move beyond corporation tax the domicile rule already makes us a hub for billionaires: it would be hard to make London a lot more attractive to them

The question then: what could all this mean?

* If:
* corporation tax is an existing power structure that is going to constrain further moves in the direction of Singapore
* And we recognise that Singapore is a social model that has remarkably little regard for the rights of the people of Singapore and a lot of respect for the right to abuse of those not resident there, and
* we presume that Singapore on Thames is about replicating this situation
* Then the way to create Singapore on Thames will not be to do some tinkering with the system: the answer is that the plan will be radical

The radical plan

* Abolish corporation tax, altogether and
* Create a new tax that charges people in the UK to tax on the income of the companies in which they own a share: say that this is intended to reduce tax avoidance
* The charge is based on what are called close company rules: forces companies to distribute profits unless they have reasons to retain them or deems they have done so anyway - but only in the case of UK residents and maybe only for non-quoted companies (who pay half of all CT now, near enough)
* Make all dividends tax free
* Would have been illegal in the EU - as I know from fights with the Crown Dependencies on this issue under EU Code of Conduct on Business Taxation - but is entirely legal outside it

The consequence

* *No UK tax at all paid by UK based companies with foreign owners*
* *No UK tax at all on dividends paid to foreign owners*
* *Potentially much higher tax charges on smaller UK business - which is now a clear Treasury strategy in any case*
* *If only applied to dividends of quoted companies then broadly neutral for them on UK based taxpayers*
* *But serious tax savings for them re overseas shareholders*

Costs

* *Loss of CT revenues:*
* *None at all from UK smaller businesses*
* *They are likely to pay more*
* *And if evasion cracked down on they could pay much more - I think £15 billion may be lost to their abuse at present*
* *Half at least of all large company CT may go though - maybe £12 billion - about the same as the amount that a cut in rate to 15% would cost*
* *So potentially revenue neutral*
* *Subject to there being higher taxes in the UK — which will be defended as a crack down on abuse*

Is it possible?

* *Technically, yes*
* *Politically, yes, given the right wing hatred of CT*
* *To the public?*
* *Yes, given the claim it will tackle avoidance*
* *Yes, given it will be claimed it means we just don't tax foreigners (and why should we, anyway? will be the line……)*
* *Yes, given all the spurious arguments on tax incidence that will be spun out*

And will it create a tax haven on the Thames?

* *Yes!*
* *Is a classic tax haven ring fence*
* *Is a classic tax haven corruption of standard tax practices*
* *Lax administration will deliver no tax at all for many*
* *Meaning tax haven UK would be firmly on the agenda*
* *And in classic tax haven style the only winners in the UK will be the financial services elite*
* *The losers will be the people of the UK who will pay extra tax, face greater admin and face unfair competition from foreign owned business*

Is it likely?

* *That's for others to decide*