Tax Research UK

The State of Tax Justice – a review

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1. Introduction

The Tax Justice Network (TJN) published its State of Tax Justice (SOTJ) review in November 2020[2]. This note considers whether that report lives up to its claim that 'it is the first piece of research to present comprehensive estimates of the huge sums of tax each country in the world loses every year to corporate and private tax abuse – and what this means in terms of countries' health spending.'[3]

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[2] https://www.taxjustice.net/reports/the-state-of-tax-justice-2020/
[3] https://www.taxjustice.net/reports/the-state-of-tax-justice-2020/ page 4

2. Data issues

It is important to note that although the SOTJ report claims to refer to 2020 it does, in fact, use data for 2016 with regard to corporate tax abuse[4], and for what appears to be 2018 in some cases, but for 2016 in the main with regard to private international tax abuse. No attempt appears to have been made to normalise the data when varying sources of differing dates have been used.

Furthermore, in the individual country reports no indication is given as to the year for which government revenue and other support data used refers. Nor is the source of that data made clear in those individual reports. The basis on which exchange rates are managed is also not disclosed.

The SOTJ data is problematic in that case. It is assumed that 2016 data should be used throughout in the analysis that follows. Some of the resulting issues arising are addressed in the appendix to this note.

3. Testing the claims made

The SOTJ claim is that:

> *the world is losing over $427 billion (USD) in tax a year to international tax abuse. Of the $427 billion, nearly $245 billion is lost to multinational corporations shifting profit into tax havens in order to underreport how much profit they actually made in the countries where they do business and consequently pay less tax than they should. The remaining $182 billion is lost to wealthy individuals hiding undeclared assets and incomes offshore, beyond the reach of the law.*

This is claimed to be 'the state of tax justice'. This note contextualises this claim. It does so by considering whether the claim made is a fair representation of the tax gaps of countries where at least some more broadly based data is available on such issues. The EU member states are used for this purpose because the EU has for several years published VAT tax gap data for all its members states, which can provide the basis for the broad macroeconomic appraisal that the SOTJ also seeks to offer. No other equivalent officially sourced data set is known to exist[5].

It is obviously understood that the EU is not representative of the world. No claim is made that it is. The EU is being used firstly because data is available and secondly because that

[4] https://stats.oecd.org/Index.aspx?DataSetCode=CBCR_TABLEI#

[5] Other sources exist e.g. https://ideas.repec.org/a/wej/wldecn/785.html but they are not from official sources.

data is likely to be more reliable than average because of the focus on tax data collection within the Union driven by its statistical agency, Eurostat, and its Tax Directorate.

4. Methodology

The EU published a report on its VAT gap by member states for 2016[6]. Although later reports are available[7] the data for 2016 will be used as the basis for comparison with the data used in the SOTJ.

The relevant data which is at the core of the EU's analysis that follows is in this table:

Table 1 – VAT gaps in the EU 2015 and 2016, millions of euros

	2015				2016			
MS	**Revenues**	**VTTL**	**VAT Gap**	**VAT Gap (%)**	**Revenues**	**VTTL**	**VAT Gap**	**VAT Gap (%)**
Belgium	27,578	30,906	3,329	10.77	28,722	31,801	3,079	9.68
Bulgaria	4,059	5,117	1,058	20.67	4,417	5,110	693	13.56
Czechia	12,382	14,903	2,521	16.92	13,091	15,256	2,165	14.19
Denmark	25,493	28,546	3,054	10.70	26,519	28,985	2,466	8.51
Germany	211,616	236,322	24,706	10.45	218,784	241,463	22,679	9.39
Estonia	1,873	1,999	127	6.33	1,974	2,118	144	6.78
Ireland	11,955	13,375	1,419	10.61	12,826	14,436	1,610	11.15
Greece	12,885	18,243	5,358	29.37	14,333	20,249	5,916	29.22
Spain	68,601	71,498	2,897	4.05	70,591	72,557	1,966	2.71
France	151,680	171,547	19,867	11.58	154,430	175,326	20,896	11.92
Croatia	5,690	5,941	251	4.22	6,016	6,086	70	1.15
Italy	101,061	136,814	35,753	26.13	102,957	138,945	35,988	25.90
Cyprus	1,517	1,690	174	10.28	1,664	1,746	83	4.73
Latvia	1,876	2,265	389	17.17	2,032	2,290	258	11.27
Lithuania	2,888	3,880	992	25.57	3,026	4,009	983	24.52
Luxemburg	3,442	3,523	80	2.28	3,416	3,445	29	0.85
Hungary	10,669	12,611	1,943	15.40	10,587	12,216	1,629	13.33
Malta	684	708	24	3.42	729	749	20	2.71
Netherlands	44,879	49,584	4,705	9.49	48,557	50,581	2,024	4.00
Austria	26,247	28,529	2,282	8.00	27,300	29,449	2,149	7.30
Poland	30,075	39,727	9,652	24.30	30,479	38,483	8,004	20.80
Portugal	15,368	17,640	2,272	12.88	15,770	17,554	1,784	10.16
Romania	12,939	19,747	6,808	34.48	10,968	17,105	6,137	35.88
Slovenia	3,218	3,507	289	8.24	3,315	3,604	290	8.04
Slovakia	5,420	7,664	2,243	29.27	5,420	7,292	1,872	25.68
Finland	18,974	20,379	1,405	6.89	19,694	21,401	1,707	7.98
Sweden	40,501	41,975	1,474	3.51	42,770	43,236	465	1.08
UK	182,152	204,752	22,600	11.04	166,866	188,906	22,040	11.67
Total EU-28	1,035,722	1,193,392	157,672	**13.20**	1,047,253	1,194,398	147,146	**12.30**
Median				**10.70**				**9.90**

Source: European Commission as noted in text

The EU's methodology is to estimate what it describes as the VTTL. This is the 'VAT Total Tax Liability'. It is estimated on the basis of the GDP of the state for which the calculation is undertaken. The estimated VAT due on end consumption within that state is worked out

[6] https://ec.europa.eu/taxation_customs/news/vat-gap-report-2018_en

[7] https://ec.europa.eu/taxation_customs/business/tax-cooperation-control/vat-gap_en#:~:text=In%20nominal%20terms%2C%20the%20overall,to%20revert%20the%20positive%20trend.

given the breakdown of consumption in that jurisdiction's GDP calculation. Intermediate VAT charges are, therefore, automatically eliminated from consideration throughout supply chains and net liabilities that should theoretically be owing are estimated in their place based on macroeconomic data. In tax gap terminology, this is a 'top down' estimate of a tax gap, based on the believed or estimated level of real activity within an economy[8]. The estimated VTTL is then compared with actual government VAT receipts to estimate the missing liability owing, which is the VAT gap.

In tax gap terms this does require that what is in effect a five-tier tax gap be considered. These tiers have been described as follows[9]:

1. The tax base gap, which refers to the cost of tax bases not taxed by choice;
2. The tax rate gap, which refers to the costs, both positive and negative, of granting higher and lower rates of tax that vary from the normal standard rate as well as the cost of all allowances and reliefs granted to taxpayers, for whatever the reason;
3. The cost of tax evasion[10];

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[8] There are two broadly based approaches to estimating tax gaps. The first is a top-down basis method. This does, in effect, take information from the estimation of gross domestic product for a jurisdiction and then estimates the tax that might be due on that gross domestic product. This method has to take into consideration the current tax system of the jurisdiction, accounting for the reliefs, allowances and exemptions in force to then estimate the theoretical yield due from a tax, which is then compared with the actual sum paid to estimate a tax gap. This approach is particularly relevant to the first and second tiers of the tax gap noted in the text.

The second basis of estimation is a bottom-up method. This data usually starts from within the tax jurisdiction. For example, the data for the unpaid tax gap (tier 5) should be published by a tax authority each year, as a matter of course. It would also be reasonable to expect that any tax authority should create and calculate a measure of the tax unpaid as a result of tax avoidance schemes that they wish to challenge. Not having this information, would effectively mean allocating resources inappropriately. Such figures should be published as an approximation to the tier 4 tax gap, i.e. that for tax avoidance.

If actual tax collected is added to the totals for the unpaid tax gap and the tax avoided tax gap, and this number is then subtracted from the figure for the total tax base less the tier 1 (tax base) and tier 2 (tax spends) tax gaps, the result should be an estimate of the tier 3 tax gap for tax evasion. The figure will not be precise, but the scale of the issue being challenged can then be estimated, and a plan to tackle it can be prepared. The estimate will not be perfect, but is still required to identify the scale of tax evasion and for providing a basis for future actions to tackle tax evasion.

[9] Murphy, R. 2021. 'Reappraising the Tax Gap. Chapter 4 in Unger, B. at al 'Combating Financial Fraud and Empowering Regulators'. Oxford: Oxford University Press.

[10] The illegal non-payment or under-payment of taxes, usually by making a false declaration or no declaration to tax authorities; it entails criminal or civil legal penalties.

4. The cost of tax avoidance[11];
5. The cost of bad debt i.e. declared sums owing that are not actually paid.

As will be noted below, both tax base and tax rate gaps exist within VAT, largely because of significant exemptions provided, e.g. with regard to education, healthcare and financial services, and because of reduced VAT rates on many other supplies e.g. food and heating. These costs have to be estimated based on nationally available data before losses to tax abuse (whether evasion or avoidance and deliberate non-payment) are calculated.

VAT has the advantage when estimating tax losses of being subject to very little tax avoidance activity. Most losses are to tax evasion resulting from non-declaration of VAT chargeable income, the failure to register for VAT, and non-disclosure of trades in anonymous companies. The criminality of much of this loss does not alter the validity of the extrapolation of this data noted below. Receipts, even from criminal activity, are still taxable, at least in theory.

As is apparent from Table 1, having allowed for these issues there remains considerable non-declaration and underpayment of VAT in almost all EU countries.

Anecdotally, Eurostat officials have expressed concern about some of the data in that table to the author of this paper. In particular, they cast doubt on the accuracy of data from Spain, Sweden and Malta. Cyprus was excluded from this analysis for a number of years because of similar doubts on data quality, with a belief that data on the VAT gap was understated.

[11] The term given to the practice of seeking to minimise a tax bill without deliberate deception (which would be tax evasion or fraud). The practice may be summarised as 'seeking to get around the law'.

Tax avoidance usually entails setting up artificial transactions or entities to re-characterise the nature, recipient or timing of payments. Where the entity is located or the transaction routed through another country, it is international avoidance. Special, complex schemes are often created purely for this purpose. Since avoidance often entails concealment of information and it is hard to prove intention or deliberate deception, the dividing line between avoidance and evasion is often unclear and depends on the standards of responsibility of the professionals and specialist tax advisers.

An avoidance scheme which is found to be invalid entails repayment of the taxes due plus penalties for lateness.

Some claim that this term refers to any activity that reduces the amount of a person's income subject to tax, for example, claiming of allowances and reliefs clearly provided for in national tax law. This is not true. If the law provides that no tax is due on a transaction then no tax can have been avoided by undertaking it. This practice is now generally described as tax compliant. Instead the term tax avoidance should refer to the practice of seeking to not pay tax contrary to the spirit of the law.

This term is one of the more contentious in the tax lexicon

On the same anecdotal basis staff at both Eurostat and the UK's Office for National Statistics have told the author of this note that there are estimates for the shadow economy included in GDP in all EU countries but they have alsoi suggested that they are significantly smaller than those indicated to be appropriate by VAT gap analysis. Requests made for this information have not resulted in its disclosure. Because it is presumed, on the basis of indications given, that the estimates included are small they do not impact the analysis that follows.

There are two remaining important points to note. The first is that the SOTJ and VAT tax gaps measure quite different tax losses. VAT is a tax on end consumption within a jurisdiction. As a result it is a domestic measure relating to matters arising within a jurisdiction, excepting that it is charged on imports. The SOTJ measures tax lost to other jurisdictions. In other words, it considers tax bases potentially moved entirely out of the jurisdiction, which are quite specifically not covered by almost any official tax gap definition now used, including that for the VAT gap. In addition, the evasion addressed by the SOTJ effectively relates to exports from the jurisdiction, which can almost never be subject to VAT under EU rules. As a result the two measures do not, in effect, overlap. As such they can be considered additive. This fact is reflected in the analysis that follows.

Finally, the VAT gap can only apply to tax issues that are reflected within GDP. This is inherent within the nature of that tax, and within the calculation of GDP itself. The consequence is that any broader tax gap estimate based upon the VAT gap will necessarily omit those tax losses arising on taxes not reflected in GDP e.g. those arising on capital gains, wealth, property transfers and other such largely capital related issues.

5. Extrapolating the VAT gap

These points being noted it is also important to highlight a particular assumption that is made in the analysis that follows. The VAT gap that is published by the European Union does only relate to that one tax. There is no equivalent estimate for other taxes across the EU. Whilst some EU member states (and now former EU member states, in the case of the UK) do publish more detailed tax gap analyses only the UK attempts to do this across almost all its tax bases, which it does annually[12].

What is also almost universally true of tax gap analysis about almost any tax base excepting VAT is that a 'bottom-up' approach is used for calculation purposes. Bottom-up tax gap measures differ significantly in approach from the top-down type analysis used for VAT tax

[12] https://www.gov.uk/government/statistics/measuring-tax-gaps

gap purposes. What they do is sample tax returns submitted within the tax system, with some additional random sampling taking place of those not submitting returns, with the intention that these audits should then provide sufficient information for the purposes of extrapolation to establish a tax gap for the base as a whole. The approach has obvious appeal to a tax authority: the data that they would, in any case, generate as a consequence of investigating taxpayers that they think non-compliant can be reused for statistical purposes, with an apparent saving in cost. There are, however, many concerns about this approach including that:

- Those investigated are predisposed to have committed error;
- Just because a taxpayer is investigated does not mean that all errors are found;
- It is widely believed by tax practitioners that there is a bias in tax audit towards simpler cases;
- Identification of those who have chosen to remain outside the disclosed tax base is very hard, and may be seriously underestimated: for example, less than 50% of UK companies are requested to make tax returns in each year because it is assumed that the rest do not trade, with very little evidence to support this claim ever being required and very few investigations being made;
- Some issues that are considered tax avoidance are not recorded as such within bottom-up tax investigations. Many aspects of profit shifting fall within this category;
- Almost any random audit process tends to under-represent the weighting that should be due to those with wealth who it is thought are most likely to tax abuse[13].

To estimate a tax gap for EU member states on a basis consistent with the SOTJ does therefore require that a different assumption be made. This alternative assumption is based on the fact that if VAT payment is to be suppressed by evasion it does necessarily mean that turnover is not recorded in the accounts of the entities in which it should be declared. The two events have to happen or detection of the VAT fraud would be easy to detect. It then follows that since the turnover is suppressed so must other taxes not be paid because there is no mechanism available to inject the missing income not declared back into accounts to cover the other liabilities due. The missing other liabilities might be personal income tax e.g. on income taken directly from undeclared turnover and not declared by a self-employed person, or on an employee's salary, or corporation tax. Social security would also be missing. No matter what the size of the entity some or all of these taxes must not be paid if VAT is not declared, and that lost must be in proportion to the VAT loss. It is an accounting fact that this must be the case, although this is not reflected in many current tax gap disclosures e.g. that by HM Revenue & Customs in the UK. That is because their bottom-up approach to tax gaps does not identify this loss.

[13] See for example Alstadsæter et al, 2019, https://www.aeaweb.org/articles?id=10.1257/aer.20172043

In the analysis that follows this accounting logic is used to extrapolate the VAT gap loss across the economy. Saying that, it is appropriate to note two exceptions where that extrapolation cannot be made. The first is that VAT cannot be due on that part of GDP which is imputed to reflect the loss of rental income as a result of home ownership in a jurisdiction. This is not income in any normal sense, and there is no cash transaction or tax liability associated with it and as such extrapolation must be constrained to not charge a tax loss on this part of GDP. It is also the case that VAT losses are unlikely within the government sector because little of its activity is within the scope of VAT charge. This does not mean that government accounting is assumed to be free of corruption, but that the corruption is instead assumed to take place at the interface of the public and private sectors and so should be reflected only in the private sector estimates. As such extrapolation of the VAT gap to the government managed part of the economy is also inappropriate. This is reflected in the calculations noted below.

These points being made it is suggested that extrapolation of the VAT gap does, for the reasons noted, provide the best likely estimate of the domestic tax gaps arising in EU economies and that to these can be added the SOTJ estimates of tax loss arising outside the jurisdiction but actually due to it to then estimate the overall tax losses for the sake of determining whether the SOTJ claim that its represents the total tax losses to tax evasion can be sustained.

6. The workings

A series of detailed calculations have been undertaken to test the hypothesis that this paper explores. Table 2 is the SOTJ data translated into euros at the official rate for 2016 published by Eurostat[14].

Table 2

[14] https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Exchange_rates_and_interest_rates

	A	B	C	D	E	F	G	H	I
Country	Total annual tax loss	Annual tax loss due to corporate tax abuse	Annual tax loss due to offshore tax evasion	Tax loss inflicted on other countries	Euro / US dollar exchange rate 2016	Total annual tax loss in Euros 'm	Annual tax loss due to corporate tax abuse in Euro 'm	Annual tax loss due to offshore tax evasion in Euro 'm	Tax loss inflicted on other countries in Euro'm
Austria	$995,623,647	$341,964,284	$653,659,363	$716,721,458	1.1069	€ 899	€ 309	€ 591	€ 648
Belgium	$3,863,626,209	$1,151,058,582	$2,712,567,627	$3,062,033,835	1.1069	€ 3,490	€ 1,040	€ 2,451	€ 2,766
Bulgaria	$41,628,373	$25,458,270	$16,170,103	$195,356,370	1.1069	€ 38	€ 23	€ 15	€ 176
Croatia	$31,227,339	$11,853,046	$19,374,292	$206,581,863	1.1069	€ 28	€ 11	€ 18	€ 187
Cyprus	$1,084,929,713	$19,535,548	$1,065,394,165	$1,446,227,757	1.1069	€ 980	€ 18	€ 963	€ 1,307
Czechia	$460,947,518	$385,099,549	$75,847,969	$629,086,617	1.1069	€ 416	€ 348	€ 69	€ 568
Denmark	$1,821,793,867	$696,039,350	$1,125,754,517	$2,316,671,494	1.1069	€ 1,646	€ 629	€ 1,017	€ 2,093
Estonia	$65,575,777	$50,834,664	$14,741,114	$0	1.1069	€ 59	€ 46	€ 13	€ 0
Finland	$919,705,621	$324,744,135	$594,961,487	$1,376,575,354	1.1069	€ 831	€ 293	€ 538	€ 1,244
France	$20,236,181,334	$14,351,950,377	$5,884,230,957	$4,491,183,105	1.1069	€ 18,282	€ 12,966	€ 5,316	€ 4,057
Germany	$35,063,677,505	$24,394,593,521	$10,669,083,984	$3,416,456,374	1.1069	€ 31,677	€ 22,039	€ 9,639	€ 3,087
Greece	$1,358,760,428	$353,785,574	$1,004,974,854	$16,353,763	1.1069	€ 1,228	€ 320	€ 908	€ 15
Hungary	$411,400,888	$350,975,069	$60,425,819	$984,603,213	1.1069	€ 372	€ 317	€ 55	€ 890
Ireland	$14,462,658,146	$199,121,037	$14,263,537,109	$15,830,940,779	1.1069	€ 13,066	€ 180	€ 12,886	€ 14,302
Italy	$12,384,868,729	$8,804,628,006	$3,580,240,723	$4,335,870,350	1.1069	€ 11,189	€ 7,954	€ 3,234	€ 3,917
Latvia	$64,585,689	$36,338,947	$28,246,742	$3,021,891	1.1069	€ 58	€ 33	€ 26	€ 3
Lithuania	$99,781,709	$90,652,973	$9,128,736	$16,887,038	1.1069	€ 90	€ 82	€ 8	€ 15
Luxembourg	$11,242,651,185	$551,354,310	$10,691,296,875	$27,607,634,145	1.1069	€ 10,157	€ 498	€ 9,659	€ 24,941
Malta	$389,065,115	$7,040,335	$382,024,780	$292,245,911	1.1069	€ 351	€ 6	€ 345	€ 264
Netherlands	$10,601,294,005	$935,184,630	$9,666,109,375	$36,371,503,832	1.1069	€ 9,577	€ 845	€ 8,733	€ 32,859
Poland	$2,249,162,517	$2,087,650,707	$161,511,810	$274,281,054	1.1069	€ 2,032	€ 1,886	€ 146	€ 248
Portugal	$1,046,072,964	$494,051,357	$552,021,606	$553,241,485	1.1069	€ 945	€ 446	€ 499	€ 500
Romania	$874,432,845	$861,946,120	$12,486,725	$0	1.1069	€ 790	€ 779	€ 11	€ 0
Slovakia	$412,170,442	$355,046,091	$57,124,352	$138,651,472	1.1069	€ 372	€ 321	€ 52	€ 125
Slovenia	$213,882,104	$97,089,677	$116,792,427	$61,148,855	1.1069	€ 193	€ 88	€ 106	€ 55
Spain	$4,376,809,767	$2,665,706,984	$1,711,102,783	$3,105,968,772	1.1069	€ 3,954	€ 2,408	€ 1,546	€ 2,806
Sweden	$2,698,394,836	$1,141,020,813	$1,557,374,023	$4,632,125,939	1.1069	€ 2,438	€ 1,031	€ 1,407	€ 4,185
United Kingdom	$39,583,847,405	$10,269,722,405	$29,314,125,000	$42,464,646,560	1.1069	€ 35,761	€ 9,278	€ 26,483	€ 38,364
Total	$167,054,755,677	$71,054,446,361	$96,000,309,317	$154,546,019,286		€ 150,921	€ 64,192	€ 86,729	€ 139,621

Table 3 provides VAT gap data from sources already noted, EU member state GDP data from Eurostat for 2016, and a breakdown of tax revenue by type as a percentage for each country as published by the Director General for Tax in the EU for 2016[15]:

Table 3

[15] https://ec.europa.eu/taxation_customs/news/taxation-trends-report-2018_en

	J	K	L	M	N	O	P	Q	R	S
	GDP Euro'm	VAT Gap Euro'm	%VAT gap	VAT as % GDP	Other Indirect tax as % GDP	PIT as % GDP	CIT as % GDP	Other direct tax as % GDP	Social security as % GDP	Taxes as % GDP
Austria	€ 357,608	€ 2,149	7.30	7.70	6.90	9.40	2.40	1.10	14.70	42.30
Belgium	€ 430,085	€ 3,079	9.68	6.80	6.70	12.20	3.40	1.50	13.80	44.40
Bulgaria	€ 48,640	€ 693	13.56	9.20	6.30	3.00	2.10	0.50	7.80	29.00
Croatia	€ 46,619	€ 70	1.15	13.00	6.50	3.70	2.20	0.70	11.70	37.80
Cyprus	€ 18,929	€ 83	4.73	9.20	6.20	2.90	5.80	1.00	8.50	33.60
Czechia	€ 177,439	€ 2,165	14.19	7.40	5.10	3.80	3.50	0.20	14.70	34.70
Denmark	€ 283,110	€ 2,466	8.51	9.60	6.90	26.00	2.70	1.50	0.10	46.40
Estonia	€ 21,932	€ 144	6.78	9.40	5.80	6.00	1.70	-	11.50	34.50
Finland	€ 217,518	€ 1,707	7.98	9.10	5.50	13.00	2.20	1.50	12.80	44.10
France	€ 2,234,129	€ 20,896	11.92	6.90	9.20	8.70	2.60	1.70	16.80	45.60
Germany	€ 3,134,740	€ 22,679	9.39	7.00	3.90	9.20	2.70	1.00	15.20	39.00
Greece	€ 174,237	€ 5,916	29.22	8.20	9.10	5.90	2.50	2.00	11.10	38.80
Hungary	€ 116,130	€ 1,629	13.33	9.30	9.00	4.90	2.20	0.40	13.60	39.30
Ireland	€ 270,810	€ 1,610	11.15	4.70	4.00	7.50	2.70	0.50	3.90	23.30
Italy	€ 1,695,787	€ 35,988	25.90	6.10	8.50	12.00	2.10	1.00	12.90	42.60
Latvia	€ 25,360	€ 258	11.27	8.20	6.30	6.40	1.70	0.40	8.30	31.20
Lithuania	€ 38,890	€ 983	24.52	7.80	4.20	4.00	1.60	0.10	12.20	29.80
Luxembourg	€ 54,867	€ 29	0.85	6.50	5.60	9.40	4.60	1.20	10.90	38.30
Malta	€ 10,589	€ 20	2.71	7.30	5.80	6.80	6.50	0.70	5.50	32.70
Netherlands	€ 708,337	€ 2,024	4.00	6.90	5.20	7.20	3.30	1.40	14.80	38.80
Poland	€ 427,092	€ 8,004	20.80	7.00	6.50	4.80	1.80	0.50	12.80	33.40
Portugal	€ 186,490	€ 1,784	10.16	8.50	6.40	6.80	3.10	0.40	9.10	34.40
Romania	€ 170,063	€ 6,137	35.88	6.50	4.90	3.70	2.20	0.60	8.00	25.90
Slovakia	€ 81,052	€ 1,872	25.68	6.70	4.10	3.30	3.50	0.50	14.10	32.20
Slovenia	€ 40,443	€ 290	8.04	8.20	6.50	5.20	1.60	0.70	14.50	36.60
Spain	€ 1,113,840	€ 1,966	2.71	6.40	5.40	7.30	2.30	0.90	11.40	33.30
Sweden	€ 466,267	€ 465	1.08	9.60	13.00	15.70	2.80	0.30	2.70	44.10
United Kingdom	€ 2,434,119	€ 22,040	11.67	6.80	6.20	9.10	2.80	2.40	6.30	33.70
Total / Average	€ 14,985,121	€ 147,146	11.93	7.86	6.42	7.78	2.81	0.88	10.70	36.42

Table 4 translates this data into gross revenues based on the GDP of the country, and also shows the gross VTTL:

Table 4

	T	U	V	W	X	Y	Z	AA
	VAT revenue Euro'm	Other indirect tax revenue Euro'm	PIT revenue Euro'm	CIT revenue Euro'm	Other direct tax revenue Euro'm	Social security revenue Euro'm	Total revenue Euro'm	VAT revenue plus VAT gap Euro'm
Austria	€ 27,536	€ 24,675	€ 33,615	€ 8,583	€ 3,934	€ 52,568	€ 151,268	€ 29,685
Belgium	€ 29,246	€ 28,816	€ 52,470	€ 14,623	€ 6,451	€ 59,352	€ 190,958	€ 32,325
Bulgaria	€ 4,475	€ 3,064	€ 1,459	€ 1,021	€ 243	€ 3,794	€ 14,106	€ 5,168
Croatia	€ 6,061	€ 3,030	€ 1,725	€ 1,026	€ 326	€ 5,454	€ 17,622	€ 6,131
Cyprus	€ 1,741	€ 1,174	€ 549	€ 1,098	€ 189	€ 1,609	€ 6,360	€ 1,824
Czechia	€ 13,130	€ 9,049	€ 6,743	€ 6,210	€ 355	€ 26,083	€ 61,571	€ 15,295
Denmark	€ 27,179	€ 19,535	€ 73,609	€ 7,644	€ 4,247	€ 283	€ 131,363	€ 29,645
Estonia	€ 2,062	€ 1,272	€ 1,316	€ 373	€ 0	€ 2,522	€ 7,566	€ 2,206
Finland	€ 19,794	€ 11,963	€ 28,277	€ 4,785	€ 3,263	€ 27,842	€ 95,925	€ 21,501
France	€ 154,155	€ 205,540	€ 194,369	€ 58,087	€ 37,980	€ 375,334	€ 1,018,763	€ 175,051
Germany	€ 219,432	€ 122,255	€ 288,396	€ 84,638	€ 31,347	€ 476,480	€ 1,222,549	€ 242,111
Greece	€ 14,287	€ 15,856	€ 10,280	€ 4,356	€ 3,485	€ 19,340	€ 67,604	€ 20,203
Hungary	€ 10,800	€ 10,452	€ 5,690	€ 2,555	€ 465	€ 15,794	€ 45,639	€ 12,429
Ireland	€ 12,728	€ 10,832	€ 20,311	€ 7,312	€ 1,354	€ 10,562	€ 63,099	€ 14,338
Italy	€ 103,443	€ 144,142	€ 203,494	€ 35,612	€ 16,958	€ 218,756	€ 722,405	€ 139,431
Latvia	€ 2,080	€ 1,598	€ 1,623	€ 431	€ 101	€ 2,105	€ 7,912	€ 2,338
Lithuania	€ 3,033	€ 1,633	€ 1,556	€ 622	€ 39	€ 4,745	€ 11,589	€ 4,016
Luxembourg	€ 3,566	€ 3,073	€ 5,158	€ 2,524	€ 658	€ 5,981	€ 21,014	€ 3,595
Malta	€ 773	€ 614	€ 720	€ 688	€ 74	€ 582	€ 3,463	€ 793
Netherlands	€ 48,875	€ 36,834	€ 51,000	€ 23,375	€ 9,917	€ 104,834	€ 274,835	€ 50,899
Poland	€ 29,896	€ 27,761	€ 20,500	€ 7,688	€ 2,135	€ 54,668	€ 142,649	€ 37,900
Portugal	€ 15,852	€ 11,935	€ 12,681	€ 5,781	€ 746	€ 16,971	€ 64,152	€ 17,636
Romania	€ 11,054	€ 8,333	€ 6,292	€ 3,741	€ 1,020	€ 13,605	€ 44,046	€ 17,191
Slovakia	€ 5,430	€ 3,323	€ 2,675	€ 2,837	€ 405	€ 11,428	€ 26,099	€ 7,302
Slovenia	€ 3,316	€ 2,629	€ 2,103	€ 647	€ 283	€ 5,864	€ 14,802	€ 3,606
Spain	€ 71,286	€ 60,147	€ 81,310	€ 25,618	€ 10,025	€ 126,978	€ 370,909	€ 73,252
Sweden	€ 44,762	€ 60,615	€ 73,204	€ 13,055	€ 1,399	€ 12,589	€ 205,624	€ 45,227
United Kingdom	€ 165,520	€ 150,915	€ 221,505	€ 68,155	€ 58,419	€ 153,350	€ 820,298	€ 187,560
Total / Average	€ 1,051,512	€ 981,065	€ 1,402,631	€ 393,086	€ 195,819	€ 1,809,473	€ 5,824,190	€ 1,198,658

Table 5 begins to analyse this data.

Table 5

	AB	AC	AD	AE	AF	AG	AH	AI
	VAT gap % to gross revenue	VAT gap as % of net revenue	% of GDP potentially subject to VAT	Value of economy subject to VAT	Tax due on part of economy subject to VAT	Taxes lost if VAT gap applies across the whole VATable economy	Tax lost due to non-recording of income within the economy per SOTJ	Total potential tax gap
Austria	7.24	7.80	70.87	€ 253,437	€ 107,204	€ 8,367	€ 899	€ 9,266
Belgium	9.53	10.53	66.99	€ 288,114	€ 127,923	€ 13,468	€ 3,490	€ 16,958
Bulgaria	13.41	15.49	76.96	€ 37,433	€ 10,856	€ 1,681	€ 38	€ 1,719
Croatia	1.14	1.16	77.18	€ 35,981	€ 13,601	€ 157	€ 28	€ 185
Cyprus	4.55	4.77	73.50	€ 13,913	€ 4,675	€ 223	€ 980	€ 1,203
Czechia	14.15	16.49	74.78	€ 132,689	€ 46,043	€ 7,592	€ 416	€ 8,008
Denmark	8.32	9.07	64.81	€ 183,483	€ 85,136	€ 7,725	€ 1,646	€ 9,371
Estonia	6.53	6.98	77.64	€ 17,028	€ 5,875	€ 410	€ 59	€ 470
Finland	7.94	8.62	73.55	€ 159,984	€ 70,553	€ 6,084	€ 831	€ 6,915
France	11.94	13.56	68.80	€ 1,537,081	€ 700,909	€ 95,010	€ 18,282	€ 113,291
Germany	9.37	10.34	68.49	€ 2,146,983	€ 837,324	€ 86,540	€ 31,677	€ 118,218
Greece	29.28	41.41	71.67	€ 124,876	€ 48,452	€ 20,062	€ 1,228	€ 21,290
Hungary	13.11	15.08	73.03	€ 84,810	€ 33,330	€ 5,027	€ 372	€ 5,399
Ireland	11.23	12.65	72.16	€ 195,416	€ 45,532	€ 5,759	€ 13,066	€ 18,825
Italy	25.81	34.79	66.88	€ 1,134,142	€ 483,145	€ 168,087	€ 11,189	€ 179,276
Latvia	11.04	12.41	69.65	€ 17,663	€ 5,511	€ 684	€ 58	€ 742
Lithuania	24.47	32.41	74.27	€ 28,884	€ 8,607	€ 2,789	€ 90	€ 2,879
Luxembourg	0.81	0.81	79.81	€ 43,790	€ 16,771	€ 136	€ 10,157	€ 10,293
Malta	2.52	2.59	93.91	€ 9,944	€ 3,252	€ 84	€ 351	€ 436
Netherlands	3.98	4.14	81.04	€ 574,036	€ 222,726	€ 9,223	€ 9,577	€ 18,801
Poland	21.12	26.77	67.88	€ 289,910	€ 96,830	€ 25,924	€ 2,032	€ 27,956
Portugal	10.12	11.25	80.66	€ 150,423	€ 51,745	€ 5,824	€ 945	€ 6,769
Romania	35.70	55.52	71.14	€ 120,983	€ 31,335	€ 17,396	€ 790	€ 18,186
Slovakia	25.64	34.47	80.04	€ 64,874	€ 20,889	€ 7,201	€ 372	€ 7,573
Slovenia	8.04	8.74	74.98	€ 30,324	€ 11,099	€ 971	€ 193	€ 1,164
Spain	2.68	2.76	74.72	€ 832,261	€ 277,143	€ 7,643	€ 3,954	€ 11,597
Sweden	1.03	1.04	70.08	€ 326,760	€ 144,101	€ 1,497	€ 2,438	€ 3,935
United Kingdom	11.75	13.32	74.16	€ 1,805,143	€ 608,333	€ 81,003	€ 35,761	€ 116,764
Total / Average	11.87	14.82	73.92	€ 10,640,364	€ 4,118,898	€ 586,568	€ 150,921	€ 737,489

Column AB records the VAT gap as published by the EU. However, this relates to gross revenue (i.e. VAT paid plus the VAT gap, or the VTTL) and so is not useful as a rate to be applied to the recorded net collections for other taxes. Column AC restates the gap as a percentage of net revenue so that the loss can be extrapolated across other taxes.

Column AD is the percentage of GDP to which VAT might potentially apply, having eliminated the state sector and the part of GDP that represents notional rents, for reasons previously discussed. AE is the resulting value of that part of the economy that might be used as the basis for extrapolation from GDP.

In column AF the overall tax due on the part of the economy that is subject to VAT is estimated.

In column AG the VAT gap percentage rate is applied to the sum in column AF to estimate the total potential tax lost as a result of the suppression of the turnover of entities to evade VAT liabilities. This sum is the estimated domestic tax gap for the jurisdiction.

In column AH the SOTJ estimate for tax lost is noted and in column AI it is added to the domestic tax loss. As previously noted, the two measure quite different losses, one within the jurisdiction and the other outside and as such this addition can be made. The resulting figure in column AI is the total tax gap for the jurisdiction.

Table 6 extrapolates these findings:

Table 6

	AJ	AK	AL	AM
	% of tax gap considered by SOTJ	Total SOTJ tax gap as % of CIT receipts	SOTJ profit shifting losses of CIT as a % of total CIT receipts	SOTJ tax evasion losses as a % of CIT receipts
Austria	9.71	10.48	3.60	6.88
Belgium	20.58	23.87	7.11	16.76
Bulgaria	2.19	3.68	2.25	1.43
Croatia	15.22	2.75	1.04	1.71
Cyprus	81.48	89.28	1.61	87.67
Czechia	5.20	6.71	5.60	1.10
Denmark	17.56	21.53	8.23	13.31
Estonia	12.62	15.89	12.32	3.57
Finland	12.02	17.36	6.13	11.23
France	16.14	31.47	22.32	9.15
Germany	26.80	37.43	26.04	11.39
Greece	5.77	28.18	7.34	20.84
Hungary	6.88	14.55	12.41	2.14
Ireland	69.41	178.69	2.46	176.23
Italy	6.24	31.42	22.34	9.08
Latvia	7.86	13.53	7.61	5.92
Lithuania	3.13	14.49	13.16	1.33
Luxembourg	98.68	402.43	19.74	382.69
Malta	80.69	51.07	0.92	50.14
Netherlands	50.94	40.97	3.61	37.36
Poland	7.27	26.43	24.53	1.90
Portugal	13.96	16.35	7.72	8.63
Romania	4.34	21.11	20.81	0.30
Slovakia	4.92	13.13	11.31	1.82
Slovenia	16.60	29.86	13.55	16.31
Spain	34.09	15.43	9.40	6.03
Sweden	61.96	18.67	7.90	10.78
United Kingdom	30.63	52.47	13.61	38.86
Total / Average	25.82	43.90	10.52	33.38

Column AJ is the most significant here. It shows the proportion of a jurisdiction's tax gap explained by the SOTJ. Table 7 re-sorts this into cascading numerical order:

Table 7

	AJ
	% of tax gap considered by SOTJ
Luxembourg	98.68
Cyprus	81.48
Malta	80.69
Ireland	69.41
Sweden	61.96
Netherlands	50.94
Spain	34.09
United Kingdom	30.63
Germany	26.80
Belgium	20.58
Denmark	17.56
Slovenia	16.60
France	16.14
Croatia	15.22
Portugal	13.96
Estonia	12.62
Finland	12.02
Austria	9.71
Latvia	7.86
Poland	7.27
Hungary	6.88
Italy	6.24
Greece	5.77
Czechia	5.20
Slovakia	4.92
Romania	4.34
Lithuania	3.13
Bulgaria	2.19
Total / Average	25.82

A number of features become very apparent.

The SOTJ is very good at explaining tax gaps in tax havens (Luxemburg, Cyprus, Malta, Ireland, the Netherlands and the UK) but is not so good in other jurisdictions. Sweden is an odd data exception because along with Spain it suggests it has a very low domestic tax gap.

In well over half the sample of countries the SOTJ explains less than twenty per cent of the tax gap.

In eleven jurisdictions it can fairly be called immaterial: the tax gap issue of concern is almost entirely domestic and not international.

Overall, the SOTJ explains an unweighted average of 25.82 per cent of tax gaps. Comparing the totals for columns AH and AJ in table 6 makes clear that the weighted average is 20.46 per cent. Tax havens are smaller states, on average. This means that 79.54 per cent of tax gaps are not explained by the SOTJ. And this assumes that that SOTJ is itself fairly stated.

7. Is the SOTJ fairly stated?

There are, unfortunately, reasons to doubt that the SOTJ is fairly stated. As previously recorded section 3 of this note, the SOTJ suggests that:

> *the world is losing over $427 billion (USD) in tax a year to international tax abuse. Of the $427 billion, nearly $245 billion is lost to multinational corporations shifting profit into tax havens in order to underreport how much profit they actually made in the countries where they do business and consequently pay less tax than they should. The remaining $182 billion is lost to wealthy individuals hiding undeclared assets and incomes offshore, beyond the reach of the law.*

It is important to note that these two activities are fundamentally different. Profit shifting is tax avoidance activity i.e. a tier 4 tax gap. Holding undeclared assets to facilitate tax evasion is a tier 3 tax gap. The discussion here focuses on the second of the two issues noted.

The methodology used in the SOTJ report is noted in a methodological annex published separately to it[16]. The issue relates to an assumption that because a jurisdiction has what the Tax Justice Network identifies as 'excess bank deposits' that it thinks are attributable to those from outside the jurisdiction where those deposits are located[17] it is reasonable to assume

[16] https://taxjustice.net/wp-content/uploads/2020/11/SOTJ-2020-Methodology.pdf page 10

[17] The SOTJ report identifies the following territories as having excess bank deposits: Andorra, Bahamas, Barbados, Belize, Bermuda, British Virgin Islands, Cayman Islands, Curacao, Cyprus, Finland, Gibraltar, Guernsey, Hong Kong, Ireland, Isle of Man, Jersey, Liberia, Luxembourg, Malta, Marshall Islands, Mauritius, Netherlands, Panama, Samoa, Seychelles, Singapore, St. Vincent and the Grenadines, Switzerland, Turks and Caicos Islands, United Arab Emirates, and the United Kingdom.

that this activity is undertaken for the purposes of tax evasion, and that evasion does actually take place at cost to the jurisdiction where the beneficial owner of the 'excess deposit' is tax resident.

There are numerous problems with using this methodology. First, it uses Bank of International Settlement data that does not differentiate personal and corporate deposits. The report, which suggests that all the losses result to wealth, does not make that clear. This is simply wrong: some of the losses are not due to those with wealth.

Second, the estimation of tax losses does not recognise that there may be commercial reasons for some of these deposits despite this being referring to the fact in the methodology note. Some sectors that use the jurisdictions noted may have reasons to hold high cash deposits e.g. the reinsurance sector. There may be good reason to suggest that this might involve profit shifting, but to then include the cash deposits held in a second calculation risks double counting.

Third, if some of the excess bank deposits relate to genuine (rather then shell company) the use of personal tax rates to estimate all the losses is wrong. Corporate tax rates should be used in some cases, and these are almost invariably lower than top marginal personal income tax rates as used in the SOTJ calculations.

Fourth, it is wrong (and historically the Tax Justice Network recognised this[18]) to assume that all offshore holding is for the purposes of tax abuse. Such deposits can be held for other reasons e.g. for commercial confidentiality, or to hide money from creditors and spouses to prevent claims being settled, or to shield assets from taxes other than those on income, which is now thought to be particularly commonplace in offshore tax planning. None of these give rise to any reason to not declare income for tax purposes.

Fifth, the assumption that cash deposits pay 5% interest might be best described in a number of ways, including 'heroic', 'optimistic', 'unaligned with real world experience' or just 'highly unlikely to be correct' when real world rates on cash deposits have rarely been much above zero for a considerable period of time, whichever currency is used to hold accounts in[19]. This rate is likely to be substantially overstated as a result and, as a consequence, so too are the tax losses likely to also be seriously overstated.

[18] See for example page 34 here from evidence submitted by TJN to the UYK House of Commons in 2009 http://www.taxresearch.org.uk/Documents/CreatingTurmoil.pdf

[19] The US Federal Funds Rate has not exceed 2.41% since 2010 and has spent most of that time at rates very close to zero: most of the time bank deposit rates are not likely to much exceed that and in pounds and euro they were close to zero throughout the period https://www.macrotrends.net/2015/fed-funds-rate-historical-chart

Sixth, implicit in the methodology is the assumption that the success that tax justice campaigning has had in requiring automatic information exchange from tax havens has had no impact on taxpayer behaviour. This is particularly surprising. The whole purpose of the tax justice movements campaigning to secure this advance was to create the smoking gun that would force a change in taxpayer behaviour[20]. This 'smoking gun' data has existed in most cases since 2017[21], meaning that it is highly likely that aware taxpayers are not now taking the risk of not disclosing bank deposit assets in offshore locations to their domestic tax authorities when those domestic authorities are likely to receive data upon them direct from the source banks with which they are held. Whilst it was once entirely reasonable to think that many who held offshore bank accounts would not declare them because the chance of being discovered was very low tax justice campaigning has now changed this situation. To presume that all excess offshore bank deposits remain undeclared despite that success is a very surprising assumption that either undermines the credibility of all previous tax justice campaigning, or is wrong.

Considering these issues in combination, it is very likely that the tax loss claimed for personal tax evasion of the type appraised within the SOTJ is seriously overstated, and most likely the proportion of tax gaps explained by it noted in the previous section of this report are also overstated as a consequence. Precise estimate of that degree of overestimation is hard to estimate, but given that a 1% rate of return on offshore bank deposits might have been hard to secure during much of the period being considered[22], and given that it is likely that a significant part of the income held offshore is now being declared by those with the benefit of enjoying it in the place that they are resident, the TJN claim may well be between five and ten times the likely sum actually lost. In other words, the tax evasion that they claim to exist in the sum of $182 billion per annum may actually be no more than $18 billion per annum and is very unlikely to exceed £36 billion per annum.

8. Conclusions about the SOTJ

As noted at the outset, the purpose of this note was to test the claim made by the SOTJ that 'it is the first piece of research to present comprehensive estimates of the huge sums of tax each country in the world loses every year to corporate and private tax abuse – and what this means in terms of countries' health spending.'[23]

[20] See for example my 2009 paper on this issue http://www.taxresearch.org.uk/Documents/InfoEx0609.pdf

[21] See https://www.oecd.org/tax/automatic-exchange/

[22] As evidence see https://ciiom.barclays.com/content/dam/overseas-barclays-com/documents/important-information/payments-rates-and-tariffs/Previous_interest_rates_IBIM6242_OS.pdf which makes it clear just how low rates are, and have been.

[23] https://www.taxjustice.net/reports/the-state-of-tax-justice-2020/ page 4

The evidence noted above suggests that this claim is not true. The SOTJ might (but only might) provide this indication for some tax haven states. It definitely does not do so for other states, and in many cases provides almost no meaningful explanation at all of the tax gap that a country suffers, or its causes. The SOTJ's claims for itself are wrong, in themselves as a result. The data it provides is also likely to be wrong. The indicative data it provides as to the consequences of tax abuse is also very likely to be wrong, and in many cases (as in the UK) simply misleading. The SOTJ report does not provide a useful indication as to the state of tax justice. It is actually potentially quite misleading as to what that state might be.

9. Why the SOTJ has failed

This conclusion on the SOTJ gives rise to the question as to why it is that a major civil society organisation might issue a report that is so misleading in an area where it has supposed expertise, established on the basis of a track record of successful campaigning and apparently authoritative report generation. In turn this leads to the question as to what does need to be done to appraise the true state of tax justice.

a. Background data to inform this section

To contextualise these questions some data is required. First, it should be noted that the World Bank estimated World GDP to be US$76.4 trillion in 2016, the year to which the SOTJ appears to relate[24].

In 2016 the OECD estimates[25] that the GDP of OECD member states was $56.1 trillion, or 73.4% of world GDP.

In 2016 the average overall tax rate in OECD countries[26] was 34.4%.

In 2016 Chile and Mexico had the lowest overall tax collection rates in the OECD at 18.8% and 16.1% respectively[27]. They were likely to be above average for non-OECD countries.

Assuming average tax paid of 15% outside the OECD total then total tax paid in the OECD was approximately $19.3 trillion and outside the OECD was $3 trillion, or $22.3 trillion in total in the world in 2016.

[24] https://data.worldbank.org/indicator/NY.GDP.MKTP.CD
[25] https://data.oecd.org/gdp/gross-domestic-product-gdp.htm
[26] https://www.oecd-ilibrary.org/sites/4de4270b-en/index.html?itemId=/content/component/4de4270b-en
[27] https://www.oecd-ilibrary.org/sites/4de4270b-en/index.html?itemId=/content/component/4de4270b-en

Table 5 suggests that the EU VAT gap based on net revenues received (which the above noted figure for tax paid is) might be 14.8% (column AC). Other possible estimates within that data are close to that figure. It is likely that tax gaps will be bigger outside the EU. Others also suggest that the figure for the EU is, anyway, an underestimate[28]. Presuming it to be a reasonable, low side estimate, the total worldwide tax gap would be £3.3 trillion.

The SOTJ report addresses tax losses of, at most £427 billion. If the figure for tax evasion that it uses is at least five times overstated, as analysis in this note suggests possible, the likely, the tax gap it addresses is no more than £281 billion. That is a sum that is just 8.5% of the total, reasonably estimated, worldwide tax gap.

Assuming that TJN have, after correction for errors noted, correctly estimated the offshore tax gap 91.5% of tax gaps are domestic in that case, and not international.

It is stressed that there are numerous assumptions implicit in this estimate, but the basis for calculation is cautious and is only being used as an indication of scale. Whether the tax gap that the TJN estimates is 8.5% of the total tax gap, or was even double that figure, it is still apparent that the total domestic tax gap massively outweighs the international tax gap on which the SOTJ focuses, and which it suggests is the sole indicator of the state of tax justice.

b. Questions arising for TJN, the wider tax justice movement and its funders

In no particular order questions that might be asked of TJN and thereafter the wider tax justice movement are:

a. Why has the Tax Justice Network made an incorrect claim with regard to the SOTJ by suggesting that its limited perspective on the tax gap provides definitive answers to any questions relating to that issue?
b. Is it aware that the claims it has made, based as they are solely on international tax abuse, are incorrect?
c. Why does the Tax Justice Network appear unaware that the domestic tax gap is significantly more important than the international tax gap despite research continually showing this to be the case[29]?

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[28] See https://www.vero.fi/globalassets/harmaa-talous-ja-talousrikollisuus/laajuus/jmlc-09-2015-0027fskrbm.pdf

[29] See, for example:

Murphy, R. 2006. 'Mind the Tax Gap'. Ely: The Tax Gap Limited.

http://www.taxjustice.net/cms/upload/pdf/Mind_the_Tax_Gap_-_final_-_15_Jan_2006.pdf.

Murphy, R. 2008. 'The Missing Billions'. London: Trades Union Congress.

Murphy, R. 2011. 'The Cost of Tax Abuse: A Briefing Paper on the Cost of Tax Evasion Worldwide'. London: Tax Justice Network.

d. Was the SOTJ adequately internally or externally peer reviewed given the sum invested in it, and the very public claims made for it?
e. Does the Tax Justice Network really understand the uses of offshore when it continues to focus almost entirely on corporate and personal income tax losses arising from tax haven use when much of secrecy jurisdiction use now appears to relate to capital taxation planning or other uses, which may be abusive but which do not necessarily involve any loss of tax at all?
f. Does the Tax Justice Network have the skills to appreciate the errors in the claims it is making, which at once time it certainly did?
g. Is the Tax Justice Network using its available resources to best effect by focussing so heavily on tax havens and international tax gaps (by producing the SOTJ, Corporate Tax Havens Index and Financial secrecy index, all of which deliver a broadly similar message) when the domestic tax gap is usually much more important to a jurisdiction, the people living in it, the delivery of public services in that place and the sound macroeconomic management that doing so requires, and so to the increase of the wellbeing of people worldwide?
h. Should not the Tax Justice Network now be refocussing its attention now that it is clear that so many of its demands in the international tax arena have been met?
i. Would funders be better advised to redirect resources to the investigation of domestic tax gaps, their causes, implications and the means to both assess them and tackle their consequences?
j. Should much more effort now be given by tax justice campaigners to investigating other methods of tackling tax abuse e.g. by promoting the use of qualitative tax spillovers assessments that seek to explain them which civil society groups could prepare[30]?
k. Should there be a new focus to tax justice campaigning, paying attention to issues such as:
    - Increased resource mobilisation for domestic tax authorities;
    - Enhanced in-jurisdiction automatic information exchange to beat domestic tax evasion;

Murphy, R. 2012. 'Closing the European Tax Gap'. Brussels: Group of the Progressive Alliance of Socialists & Democrats in the European Parliament.
Murphy, R. 2014a. 'Tax Evasion in 2014'. London: Public & Commercial Services Union. http://www.taxresearch.org.uk/Documents/PCSTaxGap2014Full.pdf.
Murphy, R. 2014b. 'In the Shade: Research on the UK's Missing Economy'. Tax Research UK. http://www.taxresearch.org.uk/Documents/Intheshade.pdf
Murphy, R. 2019. 'The European Tax Gap: A Report for the Socialists and Democrats Group in the European Parliament.' Brussels: Socialists and Democrats Group in the European Parliament. https://www.socialistsanddemocrats.eu/sites/default/files/ 2019–01/the_european_tax_gap_en_190123.pdf.

[30] See Baker, A. and Murphy, R., 2019, The Political Economy of 'Tax Spillover': A New Multilateral Framework' https://onlinelibrary.wiley.com/doi/full/10.1111/1758-5899.12655

- The promotion of purposive tax legalisation;
- The use of general anti-avoidance principles;
- The development of professional codes of conduct for those engaged in tax practice;
- Better regulation of companies and trusts within jurisdictions and enhanced disclosure requirements;
- The development of new taxes to meet the demands that society is now creating, including on climate change, pandemic management and growing inequality, which many of the taxes in the existing array do not address?
- Reform to limited liability regulation and most especially the access to that privilege and the publicity given to its use, including in the supply of full accounts on public record;
- Enhanced accounting for taxation by all corporations, whether multinational in their operations or not, so that the contribution that business is making on a wider basis to society can be better appraised, which is usually impossible at present.

It is suggested that not just TJN, but the whole tax justice movement now needs to address these issues.

10. Final comments

It is stressed that the findings of neither the SOTJ nor this paper about tax gaps are definitive. Tax gap analysis is always a matter of measuring shadows with the best tools currently available. It is inevitable that there can and will be dispute about methods to use and comparisons to be made. However, such are the disparities noted above between domestic and international tax gaps that it now seems inappropriate that domestic tax abuse receives the very limited degree of attention that tax justice campaigners now give it when it, and its consequences, are very likely much the largest single issue needing to be addressed by them.

Tax justice campaigners have done an excellent job in bringing international tax abuse to the world's attention. That issue is now being addressed. If, however, tax campaigners are really concerned about the full range of the impacts arising from tax abuse then they should now be focussing their attention on domestic tax abuse and means to address it. This seems to be particularly true in lower income countries if the EU sample is to be presumed indicative of the rest of the world. The relief of poverty would seem to demand this refocussing of attention, and since poverty related issues have always been the main focus of tax justice campaigning it is hard to avoid the need for a reorientation of tax justice campaigning now.

It is to be hoped that this paper can provoke debate on this issue.

Appendix 1

The SOTJ and the UK – a data review

1. Purpose of this analysis

The SOTJ report includes data appendices for many countries. The UK is one of them and is used for the purpose of this comparison because it is the jurisdiction with which the author of this note is most familiar. The comparison is made to test whether the SOTJ country data is reliable.

2. SOTJ data

The SOTJ country report for the UK says[31]:

[31] https://iff.taxjustice.net/#/profile/GBR

$39,583,847,405

lost in tax every year to global tax abuse

Equivalent to

5.4% of tax revenue
(Tax Revenue : $740 billion)

Equivalent to loss of

$607 per member
of population
(Population: 65 million)

0% 10%

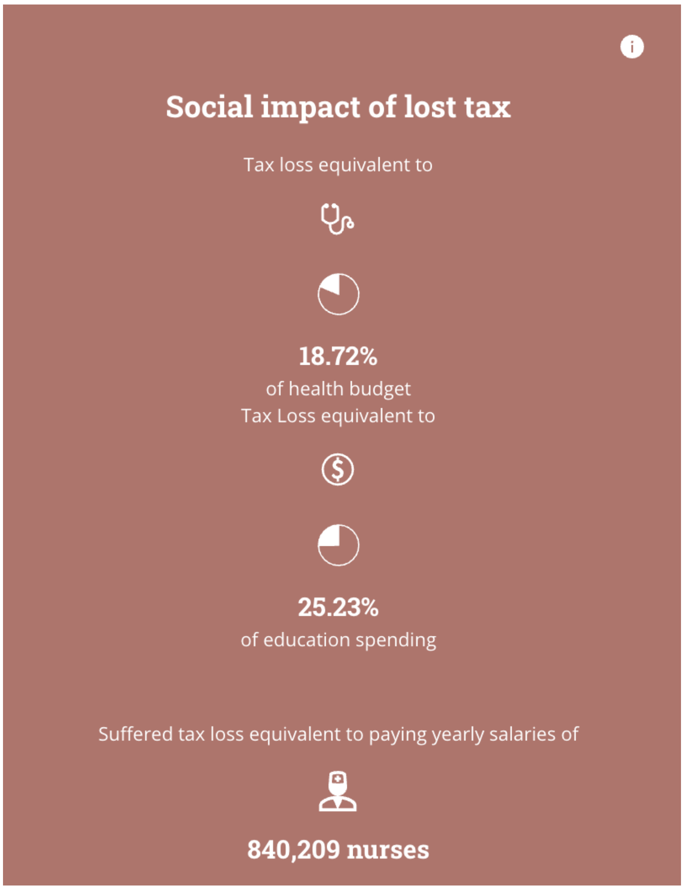
greater than
Global Average Tax Revenue Loss
2.6%

greater than
Regional Average Tax Revenue
Loss of 3.4%

Breakdown of tax abuse losses

$10 billion
lost to global tax abuse committed
by multinational corporations.

$29 billion
lost to global tax evasion
committed by private individuals.



This appendix checks the likelihood that these claims are correct.

3. Data from the UK

The exchange rate used in this note is that published by HM Revenue & Customs[32] for the US dollar for 2016 of £1 = $1.2399.

UK GDP for the year is that reported by the Office for Budget Responsibility[33] of £2,016.7 bn. If data from Eurostat had been used instead – as noted in the analysis in the rest of this note using Eurostat's exchange rate for 2016 - the resulting GDP would have been £1,994.7 bn. The difference is immaterial at 1.1 per cent.

UK government receipts for the year are as shown by this table of the outcome for 2016/17 published by the Office for Budget Responsibility to support the 2018 UK budget[34]:

32 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/572945/exrates-monthly-1216.csv/preview

33 https://obr.uk/download/public-finances-databank-april-2021/

34 https://obr.uk/download/economic-and-fiscal-outlook-march-2018/

Table 4.6: Current receipts

	£ billion						
	Outturn	Forecast					
	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Income tax[1]	177.3	181.6	188.5	195.2	202.5	209.5	218.5
of which: Pay as you earn	149.7	154.9	159.1	163.2	168.9	174.7	181.6
Self assessment	28.5	28.4	30.3	32.8	34.4	35.8	38.0
National insurance contributions	125.9	132.3	136.5	140.6	145.0	149.7	154.9
Value added tax	121.8	125.7	130.4	134.6	138.7	142.9	147.4
Corporation tax[2]	53.0	55.1	56.9	56.7	56.4	56.6	58.4
of which: Onshore	52.4	53.4	55.5	55.3	54.9	55.2	57.1
Offshore	0.6	1.6	1.4	1.4	1.5	1.3	1.3
Petroleum revenue tax	-0.7	-0.5	-0.5	-0.6	-0.5	-0.5	-0.4
Fuel duties	27.9	28.1	28.2	28.9	29.6	30.3	31.0
Business rates	29.4	29.6	30.8	31.6	32.0	32.4	33.8
Council tax	30.4	32.0	34.1	35.8	36.9	38.0	39.1
VAT refunds	13.8	14.0	14.3	14.5	14.8	15.1	15.4
Capital gains tax	8.4	7.8	8.8	9.0	10.9	10.7	11.0
Inheritance tax	4.8	5.3	5.4	5.6	5.9	6.1	6.4
Stamp duty land tax[3]	11.9	13.1	12.9	13.4	13.9	14.5	15.2
Stamp taxes on shares	3.7	3.5	3.5	3.6	3.7	3.8	3.9
Tobacco duties	8.7	8.8	9.1	9.0	8.9	8.9	8.8
Spirits duties	3.3	3.5	3.5	3.6	3.8	3.9	4.0
Wine duties	4.2	4.3	4.3	4.4	4.6	4.8	4.9
Beer and cider duties	3.6	3.7	3.7	3.8	3.9	4.0	4.0
Air passenger duty	3.2	3.4	3.5	3.7	3.8	3.9	4.1
Insurance premium tax	4.9	5.9	6.0	6.1	6.1	6.1	6.1
Climate change levy	1.9	1.8	1.9	2.2	2.2	2.2	2.2
Other HMRC taxes[4]	7.4	7.4	7.4	7.5	7.5	7.7	7.8
Vehicle excise duties	5.8	6.1	6.2	6.3	6.4	6.7	7.0
Bank levy	3.0	2.4	2.3	2.1	1.7	0.9	0.9
Bank surcharge	1.7	1.8	1.8	1.8	1.9	1.9	1.9
Apprenticeship levy	0.0	2.6	2.6	2.7	2.8	2.9	3.0
Licence fee receipts	3.2	3.2	3.3	3.3	3.4	3.5	3.5
Environmental levies	5.2	8.6	10.4	11.7	12.2	12.5	12.8
EU ETS auction receipts	0.4	0.4	0.6	0.7	0.5	0.5	0.6
Scottish and Welsh taxes[5]	0.6	0.7	1.0	1.0	1.1	1.1	1.2
Diverted profits tax	0.1	0.2	0.3	0.3	0.2	0.1	0.0
Soft drinks industry levy	0.0	0.0	0.2	0.2	0.2	0.2	0.2
Other taxes	7.3	7.1	6.7	6.9	7.1	7.3	7.5
National Accounts taxes	**672.1**	**699.2**	**724.9**	**746.2**	**768.1**	**788.1**	**815.4**
Less own resources contribution to EU	-3.4	-3.4	-3.4	-3.4	-3.4	-3.4	-3.4
Interest and dividends	6.4	7.2	9.0	10.3	11.4	12.6	13.9
Gross operating surplus	47.7	45.8	42.2	43.7	45.5	47.2	48.5
Other receipts	3.6	3.4	3.1	3.2	3.2	3.0	2.3
Current receipts	**726.5**	**752.2**	**775.8**	**800.1**	**824.9**	**847.5**	**876.6**
Memo: UK oil and gas revenues [6]	*0.0*	*1.1*	*0.9*	*0.8*	*1.0*	*0.8*	*0.9*

[1] Includes PAYE, self assessment, tax on savings income and other minor components, such as income tax repayments.

[2] National Accounts measure, gross of reduced liability tax credits.

[3] Includes SDLT for England, Wales (up to 2017-18) and Northern Ireland.

[4] Consists of landfill tax (excluding Scotland and Wales, from 2018-19), aggregates levy, betting and gaming duties and customs duties.

[5] Consists of devolved property transaction taxes and landfill taxes but not the Scottish rate of income tax or aggregates levy.

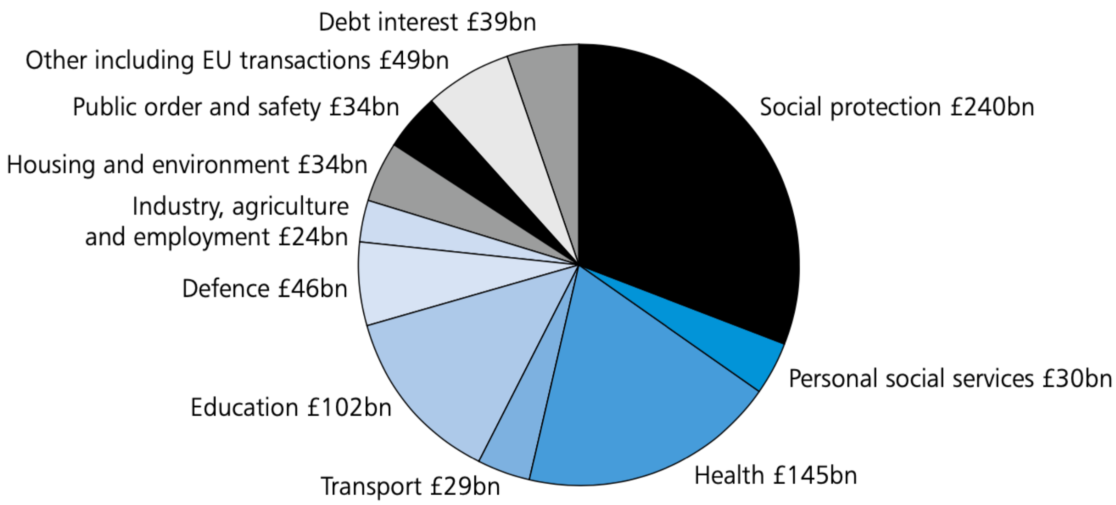
[6] Consists of offshore corporation tax and petroleum revenue tax.

Total spending is poorly reported within the UK as an out-turn, but is well reported as a forecast, and for 2016-17 it was budgeted as follows[35]:

Government spending and revenue

Chart 1 shows public spending by main function. Total Managed Expenditure is expected to be around £772 billion in 2016-17.

Chart 1: Public sector spending 2016-17

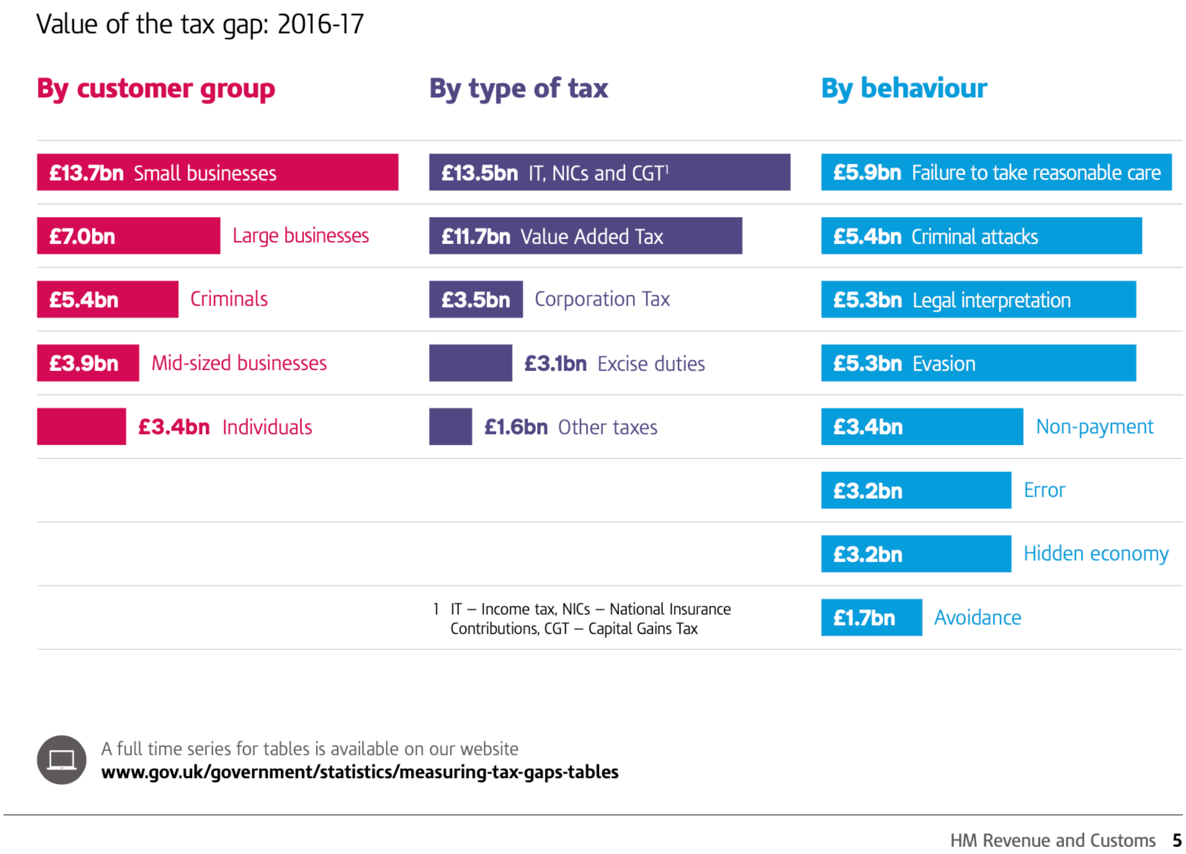


Sources: Office for Budget Responsibility 2016-17 estimates. Illustrative allocations to functions are based on HMT analysis including capital consumption figures from the Office for National Statistics. Figures may not sum due to rounding.

The UK does measure tax gaps. That for 2016/17 was as follows[36]:

[35] https://www.gov.uk/government/publications/budget-2016-documents

[36] https://webarchive.nationalarchives.gov.uk/20190509073425/https://www.gov.uk/government/statistics/measuring-tax-gaps



4. Data comparison

The data noted above has been compared.

a. Tax gaps

The SOTJ tax loss for corporation tax alone is, when translated into sterling, £31.92 billion. HMRC says the UK tax gap is £33/40 billion, although only £3.5 billion relates to corporation tax. The two figures clearly do not relate to each other. SOTJ offers no explanation for the difference.

b. Tax revenue

The SOTJ says that UK tax revenue is $740 bn, which is £597bn when translated into sterling. The UK says it is £672.1bn, a difference of 12.6 per cent. SOTJ does not explain the difference.

c. Health spend

The SOTJ report implies its tax gap is 18.72% of health spending, implying that spending amounts to $211.4 bn a year, or £170.52 bn when translated into sterling. Actual spending was £145bn a year. The overstatement is 15 per cent.

d. Education

The SOTJ report implies its tax gap is 25.23% of education spending, implying that spending amounts to $156.9 bn a year, or £126.5 bn when translated into sterling. Actual spending was £102bn a year. The overstatement is 19.4 per cent.

e. Nursing pay

Extrapolating nursing pay from the data in the SOTJ report suggests each nurse was paid £37,992pa. In 2021 average UK nurse pay is £33,384 pa[37]. The overstatement is 13.8%.

f. Nurse numbers

The SOTJ report suggests the UK lost the equivalent of 840,209 nurses pa as a result of the tax gap it estimates. In 2021 there were 299,184 nurses in the UK[38]. What the lost nurses might do in the UK is not explained within the SOTJ.

5. Conclusions

It would appear that all the data used by the SOTJ for the UK is materially inaccurate, meaning that it makes misleading suggestions as to losses arising to the UK even if its estimate of the UK tax gap was right.

The number of nurses comparison for the UK is also materially misleading: it implies the UK requires many more nurses than is actually the case. The comparison is not, in that case, of any practical use.

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[37] https://www.nurses.co.uk/careers-hub/nursing-pay-guide/#average-wage-for-a-UK-Nurse-in-2021

[38] https://www.gov.uk/government/news/record-numbers-of-doctors-and-nurses-working-in-the-nhs#:~:text=The%20number%20of%20nurses%20in,the%20end%20of%20September%20show.