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Response to European FISC Subcommittee

- **UK will pass from being a member of the Code of Conduct group on harmful tax practices and could be listed as a tax haven – how do you see such a change in status?**

- I think that the UK's departure from the EU is likely to intensify **tax and regulatory competition** between the UK and the EU.

- Former Chancellor Phillip Hammond threatened that Britain could become a 'corporate tax haven' in 2017. Evoking the idea of a 'Singapore on Thames', a low taxation and light regulation approach in the UK to draw investment away from mainland Europe.

- But there are two important points to contextualise this threat. **Firstly**, it was a threat related to a situation in which Britain temporarily **lost access** to the Single Market. Britain now has tariff and quota free access under the trade agreement.

- **Secondly,** this was before COVID's impact on public finances and the formation of a new electoral coalition for the Conservatives, drawing on 'red wall' voters from former Labour strongholds. The tax haven approach is unlikely to be popular with these voters.

- UK tax changes will likely be geared towards industrial policy and the regional 'levelling up' agenda – therefore, we may see sectorally and geographically specific measures, geared towards sectors identified as key to Britain's comparative advantages and regions in need of economic revitalisation.

- For example, Prime Minister Johnson has endorsed plans for up to **10 free ports** across the UK – allowing firms to import goods and then re-export them outside normal tax and customs rules.

- There could also be specific taxation and regulatory measures to **support innovations in financial services and other priority sectors.**

- A further immediate drop in corporate taxation is unlikely in COVID/Post-COVID fiscal context. In fact, chancellor Rishi Sunak has been mooting a rise in corporate taxation in advance of the March budget.

- I therefore consider the wholesale switch to a 'Singapore on Thames' model unlikely.

- Such an approach would make it hard for the Conservative Party to hold together its electoral coalition – the party has promised major infrastructural investment rather than further tax cuts.

- Furthermore, the UK will be constrained by the **level playing field provisions** and the EU's capacity to threaten the use of **tariffs** and the removal of **equivalence** for financial services. The EU has significant leverage.

- The UK is also still part of the G20 and OECD, and thus subject to their initiatives on tax evasion/avoidance.

- It is important to note that there is already **significant competition on taxation from within the EU**. Recent research on the profits of US MNCs shows that Ireland and the Netherlands are more important sites for corporate tax evasion.

- **Do you consider that the UK could be listed as a tax haven/is there a chance that the UK modifies its line against tax avoidance and evasion?**

- Regarding listing the mainland UK as a tax haven, it's not clear what the benefits of this would be for the EU. There is no 0% corporate taxation rate on the UK mainland.

- Such a measure is unlikely to have the same reputational consequences as for small states e.g. Overseas Territories and Crown Dependencies, these entities compete more based on **REPUTATION**. Given its size and structural importance to the global financial system, financial flows to London would continue despite blacklisting.

- **Since the UK cannot influence the discussions on the tax havens listing process anymore, do you consider that Brexit will influence the way Crown dependencies and Overseas territories will be assessed in future?**

- It is important to stress that the UK's relationship with the Overseas Territories has been **strained recently**, due to the introduction of the 2018 'Sanctions and Anti-Money Laundering Act'.

- After the Panama-papers scandal, the UK became the first G20 state to commit to public register of beneficial owners.

- **OTs** required to establish publicly-accessible beneficial ownership registers, allows Foreign Secretary to impose them by Order in Council if they fail to do so by the end of 2020.

- **There has been some OT resistance to the bill** – from Bermuda, British Virgin Islands, and the Cayman Islands.

- These territories had suggested that they would only comply with the Act if it became a **global standard.**

- But the bill **does not apply to the Crown Dependencies**, Guernsey, Jersey and the Isle of Man.

- **UK** legislation does not usually extend to the CDs and requires consultation and consent from them.

- Unlikely for an Order in Council to be effective in the CDs without **consent from local legislatures.**

- **In sum,** I expect Britain to be active in regulatory and tax competition. But I would expect strategic subsidies/tax breaks rather than the slashing of corporate tax rates and the turn to a 'Singapore on Thames' model. In this sense, it is likely to be a more disaggregated approach to the post-Brexit economic model.

- On issues of tax evasion, Britain's position has evolved substantially recently, with the introduction of the Sanctions and Anti-Money Laundering Act. This represents a tougher stance on tax evasion and avoidance. It has provoked resistance from Overseas Territories. But it is important to note that it does not apply to the Crown Dependencies. Britain has much more limited control over their policies.