European Parliament FISC Subcommittee on Tax Matters

Public hearing, 26 January 2021: "The impact of Brexit on the level playing field in the area of taxation"

Panel II: *Brexit, cooperation or competition? Corporate income tax, digital services tax and the OECD negotiations*

Opening statement, Alex Cobham (chief executive, Tax Justice Network)

Thank you for the opportunity to present a civil society perspective. The questions being considered by the committee today are of great importance for the future of effective international tax cooperation, with ramifications for EU tax revenues and beyond. I'm grateful to be able to highlight the important threats posed by Brexit, and the potential for the EU to counter these.

The Tax Justice Network is an international organisation dedicated to the belief that a fair world, where everyone has the opportunities to lead a meaningful and fulfilling life, can only be built on a fair way of tax, where we each pitch in our fair share for the society we all want. Each day, we equip people and governments around the world with the information and tools they need to reprogramme their tax systems to work for everyone.

These efforts have increasing momentum, as the global coronavirus pandemic lays bare the urgent need for revenues to support public health systems and economic interventions, and the equally urgent need to do so progressively, in order to combat the gross inequalities that have also been exposed.

In these brief opening remarks, I will make three points. First, the scale of the UK and its network of dependent territories makes it the biggest global threat to a level playing field for tax. Looking at offshore tax evasion, primarily by wealthy individuals, the UK 'spider's web', including Crown Dependencies such as Jersey and Overseas Territories such as Cayman, accounts for 15% of the global risks identified by our Financial Secrecy Index; and almost half of the estimated revenue losses worldwide. On each measure, the next biggest threat is posed by the USA.

Turning to corporate tax abuse, the UK network accounts for over a third of the risks in our Corporate Tax Haven Index, and nearly 30% of the revenue losses worldwide due to multinational companies' profit shifting. The next biggest threat, on each measure, is posed by the Netherlands.

In total, the UK network imposes revenue losses worldwide of some $160bn a year. And while Brexit may reduce the ability of the UK to protect its dependent territories from EU counter-measures, the UK itself is now less restricted, should its government decide to pursue even more aggressively a deregulatory race to the bottom.

The second point is that the revealed preferences of the current UK government confirm that this is indeed a likely scenario. The Brexit negotiations saw the UK sacrifice continuous, full EU access for UK financial services, in the name of maintaining greater 'freedom' for regulation to diverge. This prioritisation of tomorrow's potential dirty business, over today's significant actual activity, does not suggest that the freedom to diverge will be go unused.

The UK has also taken significant steps against tax transparency in the last year – refusing to release aggregate data on the automatic exchange of information on offshore financial accounts, and reneging on a commitment to publish aggregate data on UK multinationals' country by country reporting. Such an embrace of opacity does not suggest there is nothing to hide.

At the same time, the UK government has dragged its feet – at best – on its own parliament's efforts to promote transparency of beneficial ownership in the network of dependent territories, and on measures to introduce transparency for foreign companies owning UK property.

The European Parliament was therefore well advised to pass the resolution last week which calls for "a thorough assessment of [the UK], including continued assessment of the UK's overseas territories and Crown dependencies, in accordance with the standards set by the Code of Conduct Group; [and] highlights that a future relationship between the EU and the UK should be based on mutual values and geared towards common prosperity, which automatically excludes aggressive tax competition".

Tax revenues in the EU and beyond will be safer, the sooner are the Parliament's recommendations followed – including the application of common and objectively verifiable criteria to jurisdictions inside and outside the EU, from the Netherlands to the USA.

Ultimately, however, the threat of tax abuse is worldwide, and is rooted in the power imbalances between countries at different levels of economic might. A comprehensive solution cannot rest on the EU exerting its power, but instead needs a globally representative process.

The truth of this is seen with shocking clarity in the OECD corporate tax reform process, which manages to be both comprehensively biased against lower-income countries, and apparently unable to deliver reforms that satisfy even its own members. The 'Inclusive Framework' has never had the power to take decisions. Even their original work plan was never carried out, as the secretariat set aside the G24 proposal without even evaluating it, in order to pursue the questionable fruits of a US-France bilateral negotiation.

Not only did that bilateral negotiation on 'Pillar 1' fail to stick for the US and France, the secretariat's own evaluation showed that tax havens would barely lose out – the biggest single profit shifting haven, the Netherlands, could even stand to gain – while OECD members would see minimal gains, and lower-income countries little or nothing.

The original intention of the process remains vital – to go beyond the arm's length principle, shown to be unfit for purpose, introducing a unitary approach and a global minimum tax. But the OECD appears unable to deliver, beholden as it is to a few powerful members who themselves are subject to the heavy lobbying of profit-shifting multinationals and their professional enablers including the big four accounting firms.

One month from now, the UN FACTI Panel will deliver its final report on how to reform the global architecture to combat illicit financial flows, including corporate tax abuse. The expectation is that they will call for a UN convention to raise tax transparency standards globally, and an intergovernmental UN body to set international tax rules. An enlightened EU would throw its support behind that initiative, and work with the G77 group of countries to deliver reforms for the benefit of all.

This committee has an important opportunity to push EU member states and the European Commission to engage in those processes at the UN, and in the harsh light of the pandemic, to support the best chance for globally inclusive progress that there has been for a generation.