Impact of austerity on the fight aginst tax fraud and avoidance: an update

A report by the Labour Research Department

9 October 2013

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# Issued to be covered

- Reminder of previous position
- Context
- New information on
  - The pressure for action
  - Cuts in employment
  - Problems caused

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# Reminder of previous position: 1

- Tax avoidance and tax evasion: issue of growing concern
  - Politicians across Europe call for action
- Pressure to cut deficit
  - Most governments in deficit and commitment to balanced budgets
- Substantial tax gap (between expected and actual tax revenue)
  - Algirdas Šemeta: €1,000 billion (December 2012)

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# Reminder of previous position: 2

- Examples of tax avoidance and evasion
  - Starbucks, Amazon, Google in UK; Lagarde CD in Greece
  - Proposals for action in tax in EU country-specific recommendations
- Fewer tax employees
  - Down in 24 out of 28 countries between 2011-2007
  - 50,000 jobs lost
- More job losses to come
  - Most countries plan cuts

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# Reminder of previous position:3

- Impact of cuts
  - Poorer service and fewer checks
- Smarter working not complete solution
  - Needs investment and time
- Action by tax authorities can generate additional income and income is lost by cutting staff

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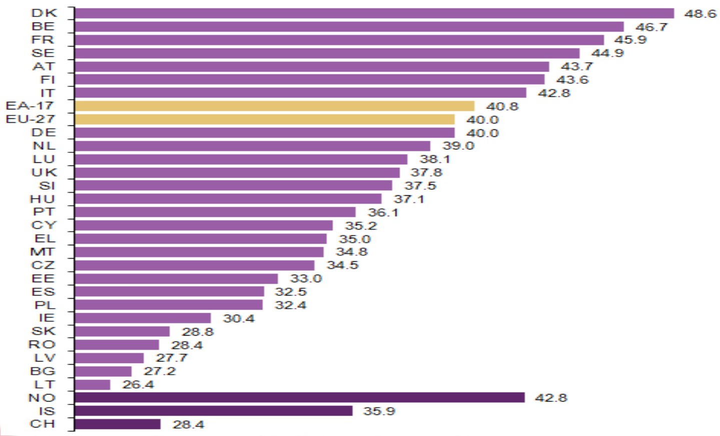
# Tax as percentage of GDP: 2011

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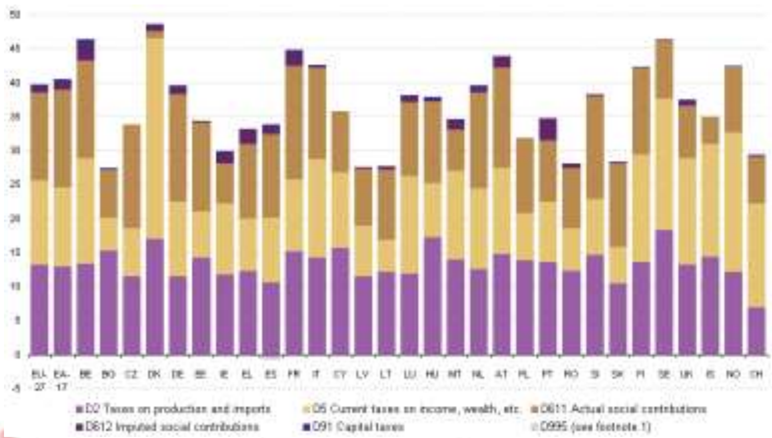
# Type of tax raised: 2011

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# Tax still an issue of political concern: at global level

*"In a context of severe fiscal consolidation and social hardship, in many countries ensuring that all taxpayers pay their fair share of taxes is more than ever a priority. Tax avoidance, harmful practices and aggressive tax planning have to be tackled."*

G20 Leaders' declaration: St Petersburg September 2013

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## Still pressure to cut the deficit

- European Commission economic forecast (Spring 2013)
  - "Fiscal consolidation is set to continue"
  - Overall budget deficit likely to be 2.8% in Euro area and 3.2% in EU in 2014
  - Down from 3.7% in Euro area and 4.0% in EU in 2012
- But reduction in deficit in 2012 due to increase in taxes
  - Member states "raised taxes on income and wealth and, to a lesser extent, indirect taxes"
- So tax has played a big role in reducing deficit

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## But countries are not raising all the taxes they expect to raise

- "Every year around €1 trillion is lost in EU member states because of tax evasion and tax avoidance … the same as the entire GDP or total income of Spain"
  - Herman van Rompuy President of the European Council (April 2013)

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# Evasion

- Example: VAT
  - New EU report (July 2013) estimates VAT gap at €193 billion in 2011 (1.5% of GDP) in 26 states, up from 1.1% in 2006
  - Size of VAT gap ranges from 0.2% of GDP in Sweden to 7.9% in Romania, 4.7% in Greece, 4.7% in Latvia and 4.4% in Lithuania (although not all evasion)
- Example: money held offshore:

  "Estimates show that tens of billions of euros remain offshore, often unreported and untaxed"

  European Commission May 2013

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# Avoidance

- *"There is a growing perception that governments lose substantial corporate tax revenue because of international tax planning designed to shift profits in ways that erode the taxable base of developed and developing countries to locations where they are subject to a more favourable tax treatment"*

  OECD Report to G20 Summit September 2013

- This is made worse by internet sales which allow companies to supply goods in one country but book profits in another

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# Example: Google

- UK sales (2006-2011) $18,000 million
- UK taxes paid (2006-2011) $16 million
- Google states sales of advertising space to UK clients takes place in Ireland (where tax is lower)
- "*An argument we find deeply unconvincing*"
  House of Commons Public Accounts Committee (June 2013)
- Latest: Google pays £11.6 million tax in UK for 2012

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# Results – according to OECD

- "Governments are harmed
  - Many governments have to cope with less revenue and a higher cost to ensure compliance
- Individual taxpayers are harmed
  - When tax rules permit businesses to reduce their tax burden … other taxpayers … bear a greater share of the burden
- Businesses are harmed
  - corporations that operate only in domestic markets, have difficulty competing with MNEs [multinational] that have the ability to shift their profits across borders to avoid or reduce tax"
    OECD Action Plan on Base Erosion and Profit Shifting 2013

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# Conclusions – according to European Council May 2013

- "It is important to take effective steps to fight tax evasion and tax fraud, particularly in the current context of fiscal consolidation, in order to
  - protect revenues and
  - ensure public confidence in the fairness and effectiveness of tax systems
- Increased efforts are required in this field, combining measures at the national, European and global levels"

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# EC tax proposals at national level 1

- Bulgaria: "improving tax compliance remains a key challenge"
- Croatia: "the value of charged but uncollected taxes and social contributions more than tripled between 2005 and 2010 and amounted to about 13% of the total taxes and contributions collected in 2010"
- Greece: "addressing the structural weaknesses of the tax administration remains urgent"
- Hungary: "the government see tax non-compliance as having a major impact on revenues"
- Italy: "measures have been taken to improve tax governance, enhance compliance and fight against evasion but the size of the challenge requires further action."
- Lithuania: "the Lithuanian tax system is characterised by a low overall tax burden, … especially on capital and to a lesser extent on labour, and a significant degree of tax evasion"

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# EC tax proposals at national level 2

- Malta: “some measures have been taken to improve tax compliance, but concrete gains are yet to materialise”
- Poland: “progress on a comprehensive tax compliance strategy would mean higher revenues, given the existing tax structure”
- Romania: “low tax compliance and high tax evasion represent major challenges for Romania’s tax system … the relative ease with which the self employed can avoid taxes could also be a factor [in explaining low tax receipts]”
- Slovakia: “the authorities’ powers to prevent tax fraud and recover unpaid taxes appear to be limited”
- Slovenia: “there appears to be room for improving tax compliance”
- Spain: “there remains scope for further action so as to ensure that taxes are collected in line with tax law

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# But employment in tax authorities falling

- Up-to-date figures for 27 out of 28 EU states plus Iceland and Norway (only Poland missing)
  - Show change between 2008 and 2012
    - In three countries structure of tax authority has changed making comparisons impossible: Hungary, Iceland and Slovakia
    - Four countries show a small increase in employment in tax authorities between 2008 and 2012: Germany (+0.5%), Norway (+1.5%), Luxembourg (+2.9%) and Sweden (+3.5%)
    - All other states (22 out of 26) show employment falling

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# The extent of the cuts

- 11 countries have cut employment by more than 10%
- Of these, five have cut employment by more than 15%
- Average fall 8.9% (not weighted)
- Loss of 52,000 jobs in total

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| Country | Change 08-12 | Country | Change 08-12 |
|---|---:|---|---:|
| Greece | -21.9% | Italy | -9.2% |
| UK | -20.7% | Netherlands | -9.0% |
| Latvia | -19.8% | France | -8.8% |
| Lithuania | -17.3% | Austria | -6.9% |
| Cyprus | -16.3% | Portugal | -6.4% |
| Estonia | -14.8% | Slovenia | -6.4% |
| Romania | -14.7% | Malta | -6.2% |
| Denmark | -14.3% | Czech Republic | -4.2% |
| Ireland | -13.0% | Spain | -3.5% |
| Belgium | -11.9% | Bulgaria | -2.6% |
| Finland | -10.9% | Croatia | -0.8% |

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# Future cuts

| Country | Planned cuts |
|---|---|
| Belgium | Reform Coperfin 2.0 plans to reduce number of local offices by two-thirds and cut staff |
| Denmark | Reduction planned from 7,589 in 2012 to 7,319 in 2013 and 6,520 by 2016 (14% cut)<br>Includes cut in tax appeals staff from 217 in 2013 to 155 in 2017 (29% cut) |
| Finland | 7% reduction in staff expected between 2012 and 2015 |
| France | In 2014 the loss of jobs "will be comparable to that of 2013" [2,053 out of 117,000] Bruno Bézard, Head of DGFiP |
| Italy | 58 offices to be closed by 2014, although agreement signed with unions on 30 July 2013 |
| Norway | Employment cut from 6,393 to 6,311 in first six months of 2013 |
| UK | Plan to cut "customer facing staff" by 8,500 (about one third) by 2015 and to halve the number of staff handling telephone calls from |

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# Problems caused 1

| Country | Problems where employment has been cut |
|---|---|
| Denmark | Increased amounts owed to tax authorities:<br>Personal tax: up from 7.2 bn DKK in 2011 to 8.5 bn DKK in 2012<br>Company tax: up from 6.9 bn DKK in 2011 to 7.7 bn DKK in 2012<br>Number of employees recovering debt: 1,065 FTE in 2011 and 943 in 2013 |
| France | Long queues for taxpayers as one million extra households pay tax in 2013 (940,000 extra in 2012) with falling numbers of employees. Staff in tax offices are taken from normal jobs to work in reception. In 2012 DGFiP accepted that staff "face difficulties in carrying out their in reception in good conditions" |
| Ireland | "We consider that our [employee target] of 5,678 foreseen for 2014 is already risky and too steep a reduction in the context of the real risks to compliance" (Revenue Commissioners 2011 forecast)<br>"During the year 282 staff retired resulting in a loss of experience and gaps in critical skills." (Revenue Commissioners 2012 Annual Report) |

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# Problems caused 2

| Country | Problems where employment has been cut |
|---|---|
| UK | "HMRC had made good progress in reducing costs and had met its revenue targets, but has much further to travel to raise customer service standards to an acceptable level" National Audit Office 2013<br>Example:<br>Target for HMRC is that 80% of calls are answered within five minutes<br>Industry benchmark is that 80% of calls are answered within 20 seconds<br><br>Also not certain to meet its commitments to raising revenue: HMRC "had 41,000 open avoidance cases [where tax consultants market schemes to reduce tax] at 31 August 2012, and had yet to demonstrate whether it could successfully manage this number down" National Audit Office 2013 |

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# Positive result

| Country | Success where employment has increased |
|---|---|
| Sweden | "Despite the high tax level the Swedish tax system is generally efficient" European Commission 2013 |

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## Some conclusions

- Continues to be a major need to improve tax collection and combat evasion and avoidance
- But countries are still cutting employment in tax authorities
- The aim is to improve efficiencies through new technology and methods
- But customer service is being damaged in many countries making more difficult for taxpayers to pay the right amount at the right time

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- Thank you for your attention
- Grateful for any further information

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