tax justice network

Our taxes, our lives – Britain's failed tax consensus

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For the last 30 years, British tax policies have been based on the assumption that the only way to stimulate growth is to provide tax breaks to rich people and companies. Instead of investing in more social capital – that means better education, more training, - and improved transport and energy infrastructure – we have tried to compete with Germany, France and the Scandinavian countries by undercutting them on tax. The result is a disaster – by shaping our tax system to subsidise investors and attract Russian billionaires, we have arrived at the bizarre situation whereby, under the current government, the poorest 10% of the population pay proportionately more of their household income in tax than anybody else, while the wealthiest 10% pay less than those on average incomes.

Worse still, for the past half century Britain has taken the lead in encouraging rich people from other countries to evade and avoid taxes by using former British colonies and Crown Dependencies as tax havens. This has been done in order to support the banking activities of the City of London, which lies at the core of a global network of small island havens dotting the Caribbean region, Europe, Africa and the Far East. We point fingers at the Gnomes of Zurich but let's not forget that British lawyers, accountants, and bankers lead the world in supporting tax evasion and avoidance, and British politicians for decades have protected these activities because few have had the courage to stand up to the political might of the City of London.

The result, according to a report we prepared for the TUC last year, is that Britain loses £25 bn every year to corporate and personal tax avoidance. This is in addition to the unknown tens of billions lost to tax evasion and tax planning by wealthy people. And ordinary people in Britain aren't the only losers from this process. Christian Aid reports that the governments of developing countries lose $160 bn each year to corporate tax dodging, which massively outweighs global aid budgets and causes huge damage to those countries.

But it gets worse. Under pressure from corporate lobbies and the City of London, Britain leads the way in promoting tax competition. Almost daily we read that such and such a company has threatened to shift their corporate base from London to Dublin, Luxembourg, or Switzerland. BBC's Today programme interviews endless numbers of corporate pundits lobbying for tax breaks to keep the City of London competitive: interestingly the interviewers never ask why City lawyers and bankers don't reduce their massive fee rates in order to stay competitive – its always a case of "we need more tax breaks, or our most talented people will shift to Monaco or Guernsey."

Britain has played a lead role in promoting tax competition. Just to remind you, tax competition does not benefit consumers. It doesn't create additional employment. It doesn't encourage enterprise or innovation. The only beneficiaries of tax competition are the companies, who can cut their tax bills by forcing a race-to-the-bottom in corporate tax rates. But instead of cooperating with other countries to resist these tax competition pressures, Britain takes the lead in blocking cooperation and protecting our tax haven economy. Even after the London G-20 summit, at which global leaders agreed to tackle the tax havens, the measures they promote are so half-hearted, so weak and ineffective, that they are virtually worthless. But there is a real risk that come the Autumn pressures for change will have diminished and nothing worthwhile will have been achieved.

The outcome of Britain's development strategy based on tax competition and tax policies that favour rich people and powerful corporations is that our society now is significantly more unequal than it was in 1975. The richest 20 per cent of the population are about 7 times richer than the poorest 20 per cent – making Britain about the most unequal of all industrial countries (after Portugal, the US and Singapore) (source: UNDP)

This inequality carries a huge cost. As a society we rank almost lowest on the index of health and social problems (only the US and Portugal are lower). In almost every part of this index Britain scores amongst the worst performers, including infant mortality rates; obesity; numbers of teenage births; levels of mental illness; drug addiction; imprisonment rates; social mobility; and life expectancy.

This already bad state of affairs can only deteriorate as unemployment rises and the effect of public services cuts now being mooted start to bite. An already unequal society will become even more unequal and social cohesion will deteriorate further. A complete change of direction is needed.

As a starting point, we should recognise that tax concessions to rich people and companies do not encourage enterprise or long-term investment. Real investors look for strong domestic markets, productive workers, reliable sources of raw materials, good transport and communications infrastructure and economic stability. All of which requires public investment.

The government's policies of giving tax concessions to hedge fund investors and private equity financiers has created market distortions which destabilise the economy and encourage speculation. By allowing interest tax relief on corporate borrowings we encourage debt leveraging and effectively subsidise capitalists at the tax payer's expense. The super-rich who benefited most from neoliberal tax regimes have turned out not to be wealth creators at all. Most of the "wealth" came from land, property and finance, and it turned out to be illusory.

So let's begin by scrapping the non-domiciled rules which creates a lot of anomalies: abolishing the non-dom rules would raise additional billions in tax revenue. Removing the special treatment given to capital gains and debt financing would help to stabilise markets. It would also encourage investment to create real jobs, and it would raise tens of billions of additional tax revenue. Introducing an FTT (Financial Transaction Tax), even at a minimalist rate of less that 0.01 per cent would reduce the volume of speculative trades on the financial markets whilst also raising billions of additional revenue. The same applies to a CTT (Currency Transaction Tax) on the SU$3 trillion of currency trades each and every working day.

Taxation can be remade with the aim of ensuring that what is called "the burden of taxation" is more fairly shared. The Chancellor made a start last autumn with, for instance, when he raised the marginal tax rate to 50% tax on incomes of more than £150,000. We should push him to go further. The starting point is to counter the argument that raising income taxes on top incomes is self-defeating. Even if tax havens are closed, and the opportunities for fleeing abroad diminished (who now wants our "talented" bankers?), it is said accountants will find ways to minimise a high earner's liabilities. But accountants simply exploit loopholes governments have created. It isn't impossible to close them. As a matter of priority the government should enact a General Anti-Avoidance Provision into law, rolling back the boardroom culture of using secretive structures to dodge regulation and tax.

Britain should abandon its fifty year attachment to the tax haven economy. Now is the time to promote a multilateral programme of automatic information exchange between countries. This is the most effective way of deterring tax evasion.

The current system for taxing companies hasn't worked for decades and should be replaced by an international framework for taxing them on what is known as a unitary basis. Rich people and companies should no longer be allowed to use secretive offshore companies and trusts to avoid disclosing their activities and thereby evade tax. None of these practices are compatible with the enforcing the rule of law or adhering to the principles of open and fair markets which we preach but do not practice.

The benefits to British people would be immense. As I mentioned earlier, tax avoidance alone is costing the government £25 bn each year. Let's consider how we could spend that money.

For starters, an extra £25 bn would allow the Chancellor to hike state pensions by 20 per cent and also build an extra 50 hospitals. Or it would allow an almost doubling of central government expenditure on housing and environment. Alternatively, it would fund a massive programme to convert this country to a less energy intensive green new deal, funding hundreds of thousands of new jobs and reducing waste and pollution. £25 bn would allow us to increase the education budget by almost 30 per cent. The benefits of doing this would be enormous, not least if we cut the student loans programme and relieved young people of the extraordinary debt burden they face on completion of their studies.

In summary, tax policies shape the society we want. The current policies, carried forward since the 1980s, have created an unequal, divided society and a massive legacy of public debt, costly public finance initiatives and impoverished public finances. The ideology that shaped these tax policies is now thoroughly discredited. The tax consensus promoted by Britain, the IMF and Washington have not delivered what was promised here in Britain or elsewhere. We need to re-establish the principle of progressive taxation. We must abandon our development strategy based on tax havens and tax competition. We should engage in international cooperation to strengthen tax systems. And we should kick into touch for once and for all the half-baked notion that the only way to run an economy is to cut taxes on rich people and substitute monopoly private companies for properly funded public services. If anyone doubts that public services can operate much more efficiently and less expensively than private services, I invite them to compare the publicly owned Swiss railways with the Virgin operated London to Manchester service.

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