The Tax Justice Network’s written submission in support of the visit by the United Nations Special Rapporteur on extreme poverty and human rights to the United Kingdom of Great Britain and Northern Ireland from 5 to 16 November 2018.

About the Tax Justice Network

The Tax Justice Network (TJN) is an independent international network dedicated to high-level research, analysis and advocacy in the area of international tax and financial regulation, including the role of tax havens. TJN maps, analyses and explains the harmful impacts of tax evasion, tax avoidance and tax competition; and supports the engagement of citizens, civil society organisations and policymakers with the aim of a more just tax system.

Above all, we see our role as weather-changers: we pursue systemic changes that address the international inequality in the distribution of taxing rights between countries; the national inequalities – including gender inequalities – that arise from poor tax policies; and the national and international obstacles to progressive national tax policies and to effective financial regulation.

Summary

Since the late 1970s there has been a policy trend in the United Kingdom and elsewhere towards lower rates of both personal and corporate income tax. This has accelerated in many countries including the UK since the global financial crash of 2007/8, above all with respect to corporate tax. Our contribution to the forthcoming examination by the Special Rapporteur on Extreme Poverty on the impact of austerity policies on poverty focuses on the context in which low taxation and the continued ‘tax gap’ in the United Kingdom plays a part in the rationale to limit public spending and to create additional hardship for the poor or for those for whom this fiscal approach generates a significant risk of falling into poverty. Our submission highlights the importance of taxation to raise revenue and to redistribute income and wealth. We also point to arguments which challenge the economic rationale of fiscal austerity and we highlight some of the key impacts of the UK’s regressive taxation policies and laws on ‘rights’ and inequalities.

Taxing for growth

Personal and corporate income tax provide important revenue for governments as does indirect ‘consumption’ taxes such as VAT. VAT, however, disproportionately impacts on the poorest in societies, especially women who are often burdened by filling in gaps in social care. Successive governments in the UK have targeted reductions in ‘progressive’ direct taxes, such as corporation tax, adding to the loss of the government revenue available for social protection. At the same time the UK Government has increased VAT. This approach follows a fiscal model of ‘taxing for growth’ and budgetary austerity. This trend towards lowering direct taxes is documented by the OECD as one which recent UK Governments and other OECD member states have followed under the false hope of ‘using their tax policies more aggressively to chase GDP growth’. Corporation tax in the UK stands at 19% one of the lowest of the OECD countries. This rate keeps in line with the former Chancellor’s promise to reduce Corporation Tax to 17% by 2020. The loss of revenue from corporation tax creates a shortfall which is often made up from other taxes. In the UK an increase of VAT from 17.5% to 20% came into effect in January 2011. This approach represents part of a fiscal austerity package that shifts wealth to the already wealthy, while leaving the poorer
members of society facing a higher proportion of their income being taxed for essential goods and services.

The use of corporation tax to stimulate economic growth is both damaging and flawed because in addition to the loss of revenue available for public protection there is strong evidence that it creates a global driver of competition; a so-called ‘race to the bottom’. Corporations ‘shop’ around for the lowest tax rates or find no-tax jurisdictions in which to register their entity. This practice has the ‘spill over’ effect of draining revenue from the countries where the economic activity takes place. Not only are the rights of UK citizens impacted by low corporation tax but so too are the citizens of those countries who are losing domestic resources.

The UK Government has taken steps to address the corrosive impact of tax dodging and financial secrecy and in May 2018 amended legislation to impose public registers of beneficial ownership of companies on the UK’s Overseas Territories. However, the UK’s government’s intention to impose any meaningful level of transparency across its network of overseas territories is already being called into question in the weeks after the passing of the amendment to the Sanctions and Anti-Money Laundering Act 2018 (c. 13); an amendment which intends to impose public registers of beneficial ownership of companies on the UK’s Overseas Territories. Recent investigations undertaken by Private Eye magazine have revealed regarding the UK Government’s disingenuous ‘will’ for the intended scope of the amendment to go ahead as intended.

The ‘Tax Gap’: Tax compliance and enforcement in the United Kingdom

The Conservative and Unionist Party launched its 2017 Election Manifesto on 18 May and had this to say on ‘Stopping tax evasion’:

‘We have taken vigorous action against tax avoidance and evasion, closing the tax gap – the difference between the amount of tax due and the amount collected – to one of the lowest in the world.’

It is not clear how such a claim can be operationalised given the year on year under resourcing of Her Majesty’s Revenue and Customs (HMRC), the key tax regulatory body for the United Kingdom and central to the functioning of Government. In 2016, Tax Justice Network who has written extensively on how to tackle tax cheating by multinational companies and the Public and Commercial Services Union (PCS) launched a report which charts a series of internal reorganisations and change programmes since 2005. The proposals (2016) formulated by HMRC management, Building our Future (BoF), are the most radical and far reaching changes proposed so far which will introduce a new digital system. The report found that the resource implications of the changes would see redundancy for thousands of employees and the closure of 170 HMRC offices located around the United Kingdom. The reduction in the size of the agency odd is in general terms odd given the increasing population (see Figure 1).

Of more significance is meeting the Conservative manifesto pledge in tackling tax avoidance and evasion. As the TJN/PCS report notes “Years of austerity, coupled with several high-profile tax avoidance scandals have put tax collection high on the political agenda.” It begs the question why HMRC and the UK Government would inflict such ‘self-harm’ upon its ability to secure increase tax revenue.

HMRC claim that their performance on corporate income tax is “uniquely good” with a 2016 estimate of corporation tax avoided is £3.7bn, less than 1% of the UK’s actual tax due from all sources.” Looking more closely at this calculation and analysed against an earlier report on the tax gap estimating a total revenue loss of £120bn the discrepancy arises from the way in which corporate tax is calculated. In terms of direct taxes (corporation tax and income tax), HMRC are understood to calculate tax starting ‘from the assumption that companies are declaring the correct amount of tax’. Calculations of the tax gap are made on ‘the basis of whether it [HMRC] has found errors or evidence of avoidance on those tax returns’ and as HMRC itself admits, ‘most tax avoidance is hidden’. It is difficult not to conclude that with the reduction in staffing and the potential loss of institutional knowledge and expertise from the department there would be an increase in the amount of tax avoided.

The ‘tax gap’ inevitably contributes to UK Government’s rationale to curb public spending which the poorest rely on for social protection services especially during unemployment or for those in low paid employment, or during either short term or enduring ill-health.

The UK Austerity Plan

Since the global financial crisis in 2007/8 great emphasis has been placed on reducing the UK Government’s national debt. The increase in debt, triggered by the ‘bailing out’ of banks, was seen to necessitate policy action which would reduce the size of the national debt. The central focus for halting further increases and reducing the debt turned to public spending cuts to income tax cuts – corporate and personal – and, a shift to increasing consumption taxes, specifically VAT set the scene for austerity in UK.

This was the “settlement” imposed on the UK by the then Chancellor of the Exchequer George Osborne who explained the Conservative policy in 2015 in his budget speech presenting:

‘A Budget that sets out a plan for Britain for the next 5 years to keep moving us from a low wage, high tax, high welfare economy; to the higher wage, lower tax, lower welfare country we intend to create’.
The deliberate purpose of the Cameron / Osbourne Government was to create a pro-market environment and minimal state economy. To varying degrees this has been the approach of successive governments since the Thatcher Governments in the 1970s.

Governments since 2010 have attempted to soften the hard reality of ‘austerity’ policies by drawing on a more palatable ‘spin’ from the spirit of post war years where sacrifice, necessity and pulling together were born out of the ravages of war. Then, as now, while politicians exulted the ‘wonderful people of Britain’, contemporary evidence highlighted a ‘jaded and sceptical’ electorate. In 2012, at the Conservative Party conference Chancellor George Osbourne delivered a speech which seemed deliberately designed to recall those post war years and the necessity of austerity:

‘We made a promise to the British people that we would repair our badly broken economy...the economy is healing. That healing is taking longer than we hoped because the damage was greater than we feared...I told this conference:

“We’re all in this together”.

It was more than a slogan it spoke of our values and of our intent. That there would be sacrifices, and cuts that would be tough to make; that everyone was going to have to play their part and in return we would build an economy that works for all’.xvi

In 2010 the UK’s national debt stood at 75% as a percentage of GDP. Rather than effecting an increase in revenue raising, reign in expenditure on public services became the Coalition Government’s raison d’etre. Several policy and legislative changes were introduced which have heaped greater hardships on the poorest in the UK. Welfare Reform Act 2012 known through its impact as the ‘bedroom tax’ aimed to cut the public spending on social protection services by £18 billion.xvii A documented consequence of the Welfare Reform Act has been its impact on the health of the very poorest. xviii The Social Care Act also came into force in 2012 reorganising health provision. It also coincided with ‘unprecedented cuts’ to local authority public spending including on ‘social support schemes, housing and welfare payments’ – social protections which are needed to support those adults and families living in poverty. xix

While these examples of austerity policy have had a profound effect on the scale of poverty they have had little impact on their intended purpose as set out by the former Chancellor. The UK’s gross debt has continued to grow and was ‘£1,786.3 billion at the end of December 2017, equivalent to 87.7% of gross domestic product (GDP), 27.7 percentage points above the reference value of 60% set out in the Protocol on the Excessive Deficit Procedure’. xx

Leaving aside the poverty impacts of austerity policies, many economists have questioned the ‘sense’ of austerity policies and their value on economic activity.xxi Some go further and are clear austerity of the last decade in the UK and other countries was and is a mistake. xxii Economists at influential institutions, such as the OECD, so-called ‘rich countries club’, have called into question the usefulness of austerity policies.xxx

Impact of austerity on ‘rights’ and social protection

In March 2018 the Equality and Human Rights Commission (EHRC) published its report on Welfare Reform and Welfare-to-Work Programmes in the United Kingdom. The report is a cumulative impact assessment of evidence looking at a range of policy reforms introduced from 2010 onwards by the Coalition and Conservative governments respectively. The EHRC is clear that the purpose underpinning the welfare reforms were to provide: ‘a clear strategy and set of policies aimed at incentivising paid work over inactivity and reducing welfare expenditure. They were also aimed at
simplifying the welfare system’. Since 2010 the welfare ‘reform programme’ has shifted towards an arguably unjustifiable ‘focus on cost cutting’ as part of the Government’s roll out of austerity.xxv

The evidence gathered of increasing signs of poverty is startling. It shows, for example, how the policy to ‘cap’ the benefits in any one single household receives from state has a disproportionate negative impact on children,xxvi - being 75 times more likely to impacted than adults; and that, disaggregated by gender, female recipients in single claimant households are much more likely to be affected by the benefit cap than males. Other research into the increasing scale of homelessness in the UK identifies the cause in the lack of social housing, a reduction in social protection services and the reduced value of benefits.xxvii

The full picture of the impact of the UK’s austerity policies is only likely to be revealed in the coming years. Lack of reliable data with which to gather evidence will also add to the incompleteness of our understanding of poverty in the UK.xxviii

The cuts to corporate income tax rates and the failure to prevent haemorrhaging of revenue through tax cheating have continued to undermine policies intended to lift people out of poverty and prevent people from falling into poverty. While additional tax revenue does not guaranteexxix protection from poverty, it can provide policy space for social protections and the realisation of people’s fundamental rights.

Conclusion

There is ample evidence that the depth and breadth of people experiencing poverty in the UK is greater than it ever has been since the global financial crisis.xxx The failure to recognise and to act to reverse the impact of austerity policies on public services has determined continued hardship for many living in poverty and for those others who are at risk of falling into poverty. Fiscal policies of the last decade have neglected to maximise revenue through progressive taxation and political will has squeezed resources from the UK’s collection agency. Together with the failure to implement financial transparency policies and laws across all its jurisdictions, this approach amounts to a dereliction, which by design, has compounded and deepened the poverty experienced by many UK citizens.

Other Groups of interest: TJ-UK, Women’s Budget Group, Alt Austerity, EHRC

Endnotes:


6 See note xxv above.


https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicspending/bulletins/ukgovernmentdebtanddeficitforeurostatm/aat/december2017#main-points


http://cfmsurvey.org/surveys/importance-elections-uk-economic-activity


