

### 'United' Kingdom? Tax Avoidance and Inequality in a Time of Crisis

Tom Pettinger and Katharina Meyer, 14<sup>th</sup> September 2020

**It is legal for those who can afford it to avoid paying tax.** This produces a [less competitive and a less equal society](#), which, in light of soaring national debt and expanding procurement during Covid-19, is a pressing concern. The tax haven industry has long been [dominated by British networks](#), and is a phenomenon compounded by policies like the UK Government awarding £4.8bn of Covid-19 procurement contracts [to companies with tax haven links](#), and the [selling of the HMRC London office to a company that pays no Corporation Tax](#). Westminster is in a unique position to pioneer reform.

Tax havens are jurisdictions that offer low or 0% tax rates, and provide a largely anonymous escape for wealthy individuals and corporations from domestic tax responsibilities. The tax legally avoided or illegally evaded through 'secrecy jurisdictions' like the Cayman Islands is [estimated widely](#) to withhold more than [\\$600bn](#) each year of taxes globally. This [jeopardizes UK strategic interests](#) by offering tyrants and criminals the opportunity to [siphon money into 'offshore' \(and often British\) jurisdictions](#) – meanwhile [significantly stunting developing nations' growth](#). HMRC [vastly underreports](#) legal tax avoidance in its tax gap calculations by the order of tens of billions: although officials claim ['all tax owed to HMRC is eventually paid'](#) this figure is [eminently negotiable for those with clout](#).

Measures introduced by the UK Government to tackle non-payment of offshore taxes fail in three ways: A) they only look to make offshore *company* rather than *trust* registries public (in other words, revealing beneficiaries of profit but concealing offshore assets); B) they tackle criminal evasion, leaving the bigger question of avoidance alone; and C) they have [otherwise been ineffective \(like the 'BEPS' scheme\)](#). Complying with the EU's 5<sup>th</sup> Money Laundering Directive, the UK Government has accepted that its Overseas Territories (OTs) and Crown Dependencies (CDs) should provide [public registries of companies by 2023](#). Yet it [rebuffed moves towards public registers of trusts](#), seeking to curb flagrant examples of criminal tax evasion rather than fostering democratic oversight of the issue of avoidance itself. The UK Trust Register, introduced in 2017, does require the registration of trusts' beneficial owners. However, the list is not public (so conflicts of interest remain hidden), the scheme targets only illegal evasion, and it suffers from [significant residency loopholes](#). The UK often claims its offshore jurisdictions are independent, but the [FCO states](#) 'as a matter of constitutional law the UK Parliament has unlimited power to legislate for the Territories', [confirmed by the Supreme Court](#).

**Tackling the principle of avoidance itself is necessary.** As British support for tax havens (designed to foster avoidance) continues whilst transparency initiatives are tinkered with, the burden of national debt will fall on fewer and poorer citizens unable to escape domestic tax rates. Inequality has a [well-documented impact](#) on a nation's physical and mental health outcomes, its crime rates, and education, among many other social 'bads'. These factors obviously put a significant strain on the public purse: the risks of providing tax-avoidance subsidies for the wealthiest, whilst allowing the burden of debt to fall on the least-able, [are substantial](#). **MPs and peers should push Government to:**

- 1. Make offshore *trust* registries (of beneficial ownership) public, as well as company registries.** If any concerns remain about the privacy of 'legitimate financial flows through tax haven trusts' like ['protecting vulnerable people and family support'](#), the onus should be on trusts to demonstrate they are benevolent and charitable, and their privacy worth protecting.
- 2. Establish an independent body to investigate whether companies bidding on government contracts pay appropriate levels of UK tax. Those that don't should be prohibited from winning such contracts.**
- 3. Promote broadly standardized UK taxes in OTs and CDs, by making tax laws apply to a reformed and democratic City of London Corporation, OTs, and CDs automatically, rather than allowing these extra-UK jurisdictions to be exempt from Acts of Parliament.**

Visit our website for further briefings (<https://blogs.soas.ac.uk/cop/>). If you would like a personal briefing or clarification on any of the issues raised here, please contact the author at ([t.pettinger@warwick.ac.uk](mailto:t.pettinger@warwick.ac.uk)). Do contact Professor Alison Scott-Baumann and her team for further briefings and access to other experts ([as150@soas.ac.uk](mailto:as150@soas.ac.uk))