EPSU's closing the tax gap campaign "We want it back: Europe's missing €1Trillion"

Briefing, November 2012

Crack down on tax dodgers not public service workers

In times of austerity for the majority and prosperity for the few, collecting the thousands of billions Euros in unpaid tax must be the highest priority for Europe, not cutting down on public service jobs and pay and on hard fought welfare states and social protection.

Join the EPSU's *Missing €1Trillion campaign*, check and feed into www.notaxfraud.eu for information on the scale of tax fraud and tax dodging in Europe, how much money tax staff bring back to society, why it is wrong to cut public services, why it is right to collect taxes for the general interest, and how we can make a difference for another Europe.

Europe can simply not afford further tax fraud, avoidance, offshore tax abuses that are robbing the population of an estimated € 1000 billions in lost revenue yearly. The culture of fraud and avoidance of the have-lots results in tax increases for the lower income earners and undermines the fairness and legitimacy of tax collection as a whole.

EPSU, the European Federation of Public service Unions, represents some 270 trade unions organising 8 million workers in local, regional and central government, EU administration, health and social services, energy and water.

We defend those very workers who have been the target of 4 years of devastating cuts in jobs, pay and pensions. These cuts are economically, socially and politically wrong.

The way forward is to close, or at least significantly reduce Europe's tax gap, the difference between what is owed and what is actually paid to public authorities, would allow investment and job creation in welfare, education, childcare, elder care, renewable energy, sustainable development in and outside Europe.

Instead of investing in tax collecting services, most EU governments are imposing cuts that will cost money rather than save it. For instance, in the UK each tax inspector dedicated to tax compliance yields €810,000 a year. In Spain, € 40 billion are collected as a result of tax investigation in cases of fraud. In Italy, for every euro spent on its functioning, the revenue agency has recovered € 3.6 through the fight against tax evasion. In Denmark, it is estimated that 400 job cuts in tax administration cost society more than €1.3 billion of non-collected tax.

Clearly, any attempt to claw back the lost revenue requires well-trained staff and resources to match the sophistication of tax fraud and tax planning carried out on a global scale.

Since the start of the financial crisis, EU public deficits have rocketed from 1.4% in 2007 to 6.4% in 2010, down to 4.5% of GDP in 2011, and the public debt up from 60.3% of GDP to a whopping 82.2% in 2011 or more than € 10 trillion.

We are told that the solution is to cut public spending. Yet public deficits have risen due to the public bail out of the financial industry, sluggish growth and unpaid taxes, not because of too high public spending, too big a welfare state or overpaid civil servants and other workers.

What is clear is that if governments continue axing more jobs this will only exacerbate the deficit crisis – more people will be unemployed and there will be less public revenue just when people need it most.

EPSU argues that the reality is that not a single € needs to be taken away from any public services.

Independent research estimates that **€ 850 B** is lost annually in **tax evasion (illegal)**, and a further **€150 B in tax avoidance** a practice by large companies and wealthy individuals that can be legal but is morally wrong. In total it is **€ 1Trillion** that is lost annually[1], or based on 2010 figures:

- 139,3% of EU public deficits, more than 100% of 16 national public deficits
- 105.8% of healthcare spending
- One of the biggest single expenditure items for most governments
- Slightly more than the European firewall of 800 €billion to rescue debt country default
- 19 times EU development aid spending
- Enough to repay total EU public debts in 10 years time

Tax policy is a national competence, but fighting tax fraud requires by definition binding EU and international rules based on transparency, exchange of information and cross-border cooperation. It is a matter of good governance. Countries with a compliant tax population that knows taxes are a price we pay for a decent society, will continue to do so while the system across Europe is seen to be fair, policed in an even-handed way and transparent. If governments, the European Commission, the IMF are soft on large tax dodgers, facilitate tax avoidance and cut tax services, then general level of compliance will be lost. And, once lost, it will be difficult to regain. It is essential that EU coordinated actions stop tax dumping and prevent member states breaking away from mutual solidarity and investment in social welfare.

EPSU recognises that closing the tax gap will take time but there is a lot we can do together in Europe to change this. There are **9 steps**, some of which already in place but not implemented, that governments and EU institutions can take to raise public revenue, finance public services, redistribute wealth and income and stimulate the economy:

1. Stop the cuts in public service jobs and employ more staff in tax services to investigate fraud cases and non payment of tax debt. This will more than pay for itself;

2. Agree EU common principles for progressive, fair, efficient and simpler taxation systems to reverse downward trend of corporate and top income taxes and upward trend of indirect unjust tax (e.g. VAT);

3. Enhance data on the tax gap across the EU including tax fraud, tax avoidance and unpaid tax debt, publish those data and set targets and means for reducing the tax gap including targets for adequate resources to the national tax administrations as part of the EC annual growth survey and European Semester;

4. Eradicate all tax heavens -in and outside the EU- based on a common broad definition and an EU blacklist of tax heavens, backed up by a decent job and investment strategy in those territories affected;

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[1] *Closing the European Tax gap,* Richard Murphy, Feb.2012
http://www.socialistsanddemocrats.eu/gpes/media3/documents/3842_EN_richard_murphy_eu_tax_gap_en_120229.pdf

5. Ban secrecy, large tax dodgers' best friend, by disclosing information on tax owed to tax authorities and on corporate accounts so that those who escape tax or exploit tax loopholes know they are known. For this country by country reporting must be introduced across all sectors of the economy i.e. all multinational companies must report sales, profits, and taxes paid in all jurisdictions in their audited annual reports and tax returns. The EU draft directive for a common consolidated corporate tax base should be made mandatory together with a minimum corporate tax rate of at least 25%;

6. Ban access to all forms of state or EC aid to countries and companies that fail to respect, at the very least EU standards of information exchange, transparency and non harmful tax measures;

7. Adopt the proposed upgraded EU savings directive to shatter the secrecy of tax heavens and implement the directive on exchange of information on capital and income between authorities;

8. Establish or strengthen national wealth registries (e.g. on yacht, car ownership..) that can be correlated with tax return data as well as national company and trust registers including data on the beneficial owner (not just the legal owners), the actual place of business and registered office of the company and identity of the company's main bankers;

9. Support the EU draft directive for a Financial Transactions Tax that will not only raise Billions of Euros but will also reduce financial speculation fed by the flow of uncollected tax;