

Will the G8 Communiqué bring changes to the UK tax system?

25/06/2013

Tax analysis: The G8 summit Communiqué urges a crackdown on global tax evasion. Miles Dean of international tax practice, Milestone International Tax Partners LLP, comments on the Communiqué but does not expect it to lead to any real tangible developments. He concludes that despite the broad principles promoted by the Communiqué the UK's tax system is still in desperate need of simplification.

Original news

G8 agrees action on international tax issues

The G8 leaders' Communiqué announced that they will move to establish the automatic exchange of information between tax authorities as the new global standard and will work with the OECD to develop a model for this.

Among other announcements in support of the OECD's work on international tax avoidance, the G8 leaders have stated their intention to draw up a template for multinational companies to report to tax authorities where they make their profits and pay taxes around the world.

The Communiqué is available here.

What are the main conclusions of the G8 on tax issues?

The Communiqué suggests that greater transparency and automatic exchange of information between states will increase tax-take. However, it appears to assume that the principles of greater transparency will automatically prevent base erosion. This is flawed thinking.

Transparency is vital to the prevention of tax evasion but is unlikely to mitigate avoidance.

There's a lot of support for the existing work of the OECD-- is there anything new or surprising in the Communiqué?

A cynic might suggest the Communiqué is simply a sop to the campaigners who want the state to intervene and interfere in our daily lives. Even the less cynical will see that there are no real surprises in the document especially if one expects any real tangible development. There are so many competing interests that achieving anything concrete will take years.

Does the Communiqué move the current tax debate forward? Do you think the principles expounded deal with perceived weaknesses in the international tax system?

It moves the tax evasion debate forward in some respect. However, having beneficial ownership records of offshore companies available onshore is as ridiculous as it sounds. It is unlikely any territory will sign up to this as there is no first mover advantage. A more sensible and pragmatic approach would be to apply Tax Information Exchange Agreements (TIEAs) more rigorously and, if necessary, reduce the threshold for information exchange.

It does nothing to move the Base Erosion and Profit Shifting (**BEPS**) debate on and rightly so-- this is the domain of the OECD and should remain that way.

It appears that the G8 are out of touch with the way in which offshore financial services centres operate and have done so since the Edwards Report, first published in November 1998. It is far more difficult to establish a trust or a company in the Channel Islands, for instance, than it is in the UK. The regulatory environment in the offshore world is arguably streets ahead of that in the G8 countries.

The communiqué supports the OECD's focus on base erosion (which arguably targets one of the perceived weaknesses in the international tax system) but is unlikely to advance the OECD cause all that much.

Does the communiqué change the direction of the evolution of tax law?

The communiqué might purport to change direction/evolution of tax law, but it is unlikely to do so. I don't believe internationalisation is upon us. There are far too many competing interests (even with the G8) for multi-lateral policies to be introduced. We will almost certainly see an increase in information exchange but open season in this regard potentially undermines the rule of law and allows a (particularly overzealous) state to infringe a basic human right-- the right to privacy. This is potentially a very worrying development.

How does the communiqué and the principles it contains affect the on-going tax debate in the UK and the work/reports of the Public Accounts Committee (PAC) and the House of Lords Economic Affairs Committee (EAC) in particular?

The PAC's approach to the tax debate is to antagonise multinational corporations (**MNCs**), to ignore facts, to deny the MNCs a right to a fair hearing, to undermine the rule of law and illustrate its total ignorance of tax and business. The EAC, by contrast, does listen to the witnesses it calls, considers their testimony and is generally well regarded.

Does the release of the Communiqué signify the beginning of a period of significant change and upheaval in the UK's tax system?

Not at all. I don't believe the UK tax system will change significantly as a result of the G8 nor can it be simplified by following the Communiqué. There is no correlation between transparency, openness, base erosion and tax simplification.

The UK's tax system is, however, in desperate need of simplification but there is apparently no political will to do so.

Considering the length of time the OECD has been looking at refining the existing Transfer Pricing (TP) rules, how long do you think it will take to reach global consensus on all of these issues?

It is unlikely that global consensus will ever be reached. The arm's length principle is here to stay but will no doubt be modified to take account of modern trading developments (eg the internet). Thankfully, we will never see the introduction of unitary taxation which isn't the panacea that academics on the left believe it to be. The issue that is constantly overlooked (even with the G8 group of countries) is that tax competition will never go away-- countries will always try to attract inbound investment with tax incentives, reliefs and exemptions.

What are likely to be the next steps in implementing the Communiqué?

While the Communiqué promotes broad principles most tax systems have already taken or adopted a number of steps to promote transparency. As such, the next steps are likely to be limited.

Interviewed by Nicola Laver.

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