



**Road to the 2013 Lough Erne Summit**

## **PM Letter to the EU on Tax Evasion and Aggressive Avoidance**

**April 25, 2013**

*The Prime Minister has written to Herman Van Rompuy, President of the European Council, setting out the case for radical global action to tackle tax evasion and aggressive tax avoidance*

The letter, copied into leaders of all EU member states, sets out the PM's ambition that the May European Council will inject the political will to tackle the problem and restore confidence in the fairness and effectiveness of our tax system, and calls for action in 4 key areas:

- \* a new global standard for multilateral information exchange
- \* action plans to increase transparency in beneficial ownership
- \* reform of global tax rules through the G20 and OECD, including where we could go further, eg greater country-by-country company reporting on the tax paid in their countries of operation
- \* improving the ability of developing countries to collect tax, building on the example of the government's new joint unit

Battling tax evasion and avoidance is a priority for the G8 summit that the Prime Minister will host at Lough Erne in June.

### **The Prime Minister's letter in full**

24 April 2013

I welcome your proposal to discuss tax evasion and fraud at the May European Council. As you know, the loss of tax revenue resulting from tax evasion and aggressive avoidance is staggering. In a period of fiscal consolidation where hard-working citizens and businesses are being asked to bear extra burdens, we need coordinated, truly global action to address these issues. This is why I put tax transparency at the heart of the 2013 G8 agenda when I wrote to you and other G8 colleagues at the start of this year.

I welcome the initiative of the Commission's recent Action Plan on Tax Fraud and Tax Evasion, which sets out a range of proposals on which Europe can

show leadership. As part of this, we very much support implementing existing measures, including the proposal for amending the EU Savings Tax Directive – where we appear closer than ever to reaching agreement – and proposals for reviewing the full range of tools to tackle evasion and avoidance.

However, as the Commission's Action Plan itself recognises, tax evasion and aggressive tax avoidance are global problems that require truly global solutions. Otherwise, tax evaders will simply play the system and arbitrage between one jurisdiction to another. There is now, ahead of the G8 Summit in June, a timely opportunity for the G8 and EU to inject the political will required to raise international efforts to a new level and take radical, rather than incremental, action in four areas.

Firstly, on tackling tax evasion, the introduction of the Foreign Account Tax Compliance Act by the US could move us rapidly to a new global system of multilateral automatic exchange of information. This covers a wide variety of products and entities – and critically, includes requirements, which the UK is implementing, to ensure that we can collectively tackle tax evasion through the use of offshore trusts.

The UK has also taken other concrete steps to clamp down on tax evasion. We recently concluded automatic information exchange agreements, based on our agreement with the US, with our Crown Dependencies – the Isle of Man, Guernsey and Jersey. We are also in advanced discussions with our Overseas Territories to do the same, and continue to work closely with them and the Crown Dependencies on further concrete steps they can now take to demonstrate their steadfast political and practical commitment to tackling tax evasion.

The recent announcement by the UK with France, Germany, Italy and Spain to pilot multilateral automatic information exchange based on our agreements with the US is a significant step. I am delighted that other European countries, including Poland, have already signalled their willingness to join this initiative. And to support the development of a universal standard, the UK has also asked the OECD to report ahead of the G8 Summit on how to deliver this effectively. I hope that at our May Council we can give the strongest possible message of support from Europe for the rapid adoption of multilateral automatic information exchange as a new global standard, and encourage other jurisdictions to publicly commit to joining a multilateral system at the earliest opportunity.

Second, we must break through the walls of corporate secrecy. A lack of knowledge about who ultimately controls, owns and profits from companies leads to aggressive tax avoidance, tax evasion and money laundering, undermining tax bases and fuelling corruption across the world. Therefore, the G8 and EU must work together to ensure full transparency in beneficial ownership.

This means ensuring full and maximum implementation of the existing Financial Action Task Force standards on transparency in beneficial ownership. I hope G8 Leaders will consider publishing national Action Plans by June that set out concrete steps that their governments will take to achieve this – including, for example, by enhancing the availability of beneficial ownership information through central public company registries. Europe now has a real opportunity to be in the vanguard through the 4th EU Anti-Money Laundering Directive. But as ever, we must work with other countries and financial centres to ensure a level playing field.

Third, I have always been clear that competitive national tax systems go hand in hand with individuals and corporates paying the taxes they owe. The majority of them do so, and make a valuable contribution to society and to the funding of our public services. But some are choosing to shift their profits artificially to ultra-low tax jurisdictions, distorting competition.

Again, we need a truly global solution. As I am sure you will agree, the path to reform starts with the basic recognition that current global tax rules do not reflect the modern and globalised economy that our citizens live and trade in. The UK will, with the rest of the G8, seek to provide high-level political support to the ongoing efforts in the OECD and G20 to identify problems and gaps in these existing rules, and to work up options for reform. And I hope that the European Council can strongly support these efforts, which will reach a critical juncture this summer.

But as part of these longer-term changes, there should be room for a serious debate about what further steps can be taken to address continued attempts at aggressive tax avoidance. For example, we should consider how the steps taken by some firms to undertake country-by-country reporting on the tax paid in their countries of operation can be further encouraged on a voluntary basis. This can hugely benefit tax authorities, especially those in developing countries that have limited capacity to collate this information themselves.

The final theme of the G8 tax agenda is ensuring developing countries can collect the taxes owed to them. The UK is setting up a new unit, joint between our tax authorities and the Department for International Development, to improve the capacity of developing countries to collect tax domestically, including a fair share from multinational companies. I hope all G8 and EU countries can make a similar commitment to prioritise their development assistance in this way.

Our recent success on the EU Accounting Directive will also enable developing countries to access information about payments made to their governments in the oil, gas and mining industries, improving the use of such revenues. To set an example to other countries that are considering similar legislation, I hope you will join me in urging EU partners to commit to early implementation of the Directive. And to complement company reporting, I hope that European countries can seriously consider – as the UK is actively doing – how to implement the

Extractives Industry Transparency Initiative, which enhances governments' own reporting of their extractive tax receipts.

The UK looks forward to continuing to work with all Member States and the European Commission on this hugely important agenda and to addressing these global issues with global solutions. I am confident that the upcoming European Council and the G8 Summit will be remembered as the turning point in the battle against tax evasion and avoidance and the restoration of confidence in the fairness and effectiveness of our tax systems.

I am copying this letter to the President of the European Commission and other members of the European Council.

*Sources:* **Number 10 Downing Street**