

Paying in equally?

Tax havens, tax avoidance, and government support for businesses during the coronavirus pandemic

Summary

There has been substantial public concern that companies that engage in tax avoidance and companies owned by tax exiles will be eligible for government support - despite those companies and individuals having chosen to not pay into the system.

Responding to this, some governments have announced that they will restrict government support to exclude companies based in tax havens from accessing help.

In the UK, the government has signalled that tax changes will be required after the first stage of the crisis has passed and the Chancellor has put on the record that “as we went through this together, we must repair the economy all together”.

This paper provides an analysis of the policies announced so far with regard to the issue of tax avoidance and state support to the economy.

Overall, we find that there are significant technical issues with implementing a ban on providing support to companies linked to tax havens. This includes, but is not limited to, the fact that many companies owned by tax exiles are UK headquartered and so would continue to qualify for government support. These issues mean that such policies are limited in effect. Furthermore blocking support could risk harming employees who have no say in the financial structure of their company.

However, we also find that if governments want to link government support to better tax compliance there are more effective policies available. For example, governments could make the support they provide repayable on demand if companies are found to be involved in unlawful tax avoidance regardless of whether that tax avoidance is structured through a recognised tax haven or not.

In addition, government can take action to make sure that profits received by tax exiles from UK businesses are taxed at rates equal to UK tax resident entrepreneurs, a key issue of public concern.

We also look at how the tax payments of multinational enterprises can be made more transparent without the need for new primary legislation.

In summary, this report sets out the following options that government could take to ensure better standards of tax compliance in the post Covid-19 economy.

- Dividend withholding taxes to equalise the income tax paid on dividends by UK residents and tax exiles.
- Making government support for business repayable if a company is found to be engaging in tax avoidance.
- Creating a list of companies ineligible for state support due to involvement in tax avoidance (regardless of whether that avoidance uses a listed tax haven).
- Invest resources into tax enforcement to ensure better compliance with anti-tax avoidance legislation.
- Mandate the publication of tax data by large, multinational companies.
- Making data available to the public on which companies are accessing support schemes and on what terms.

Introduction

The UK government signalled early on that support for some individuals facing economic hardship during the coronavirus pandemic would come at a price. On 26th March Rishi Sunak announced a package of measures to support the self employed. When making his announcement the Chancellor said:

“I must be honest and point out that in devising this scheme – in response to many calls for support – it is now much harder to justify the inconsistent contributions between people of different employment statuses.

If we all want to benefit equally from state support, we must all pay in equally in future.”

Other than this one statement signalling changes to future tax policies there have been remarkably few conditions placed on the support being given to companies, with the priority being given to designing simple schemes that can be implemented “at pace”.

However, as the government has focused on delivering support quickly to those in need, there has been a lively public debate on whether some companies should be excluded from receiving support, or be subject to more stringent conditions on accessing support.¹

The discussion on the conditionality of government support has ranged from the imposition of environmental conditions to whether companies should be able to pay out dividends.

One issue that has gained particular attention in this discussion is tax avoidance. Even before the outbreak of the global pandemic, tax avoidance was widely seen as an unethical and unacceptable practice.² This was also reflected in the months leading up to the outbreak by business leaders placing more emphasis on the social role of companies. An example of this is economist Klaus Schwab’s Davos Manifesto 2020 which includes the following statement:

“A company serves society at large through its activities, supports the communities in which it works, and pays its fair share of taxes.”

1 *Corporate bailouts should come with strings*, Financial Times, <https://www.ft.com/content/7836c4ce-893e-11ea-a01c-a28a3e3fbd33>

2 *Is it acceptable to legally avoid tax?*, YouGov, <https://yougov.co.uk/topics/politics/trackers/is-it-acceptable-to-legally-avoid-tax>

The outbreak of the Covid-19 pandemic has brought even more attention to the issue, in part because of the way in which the crisis has exposed weaknesses in public administrations and health services that have for years seen cuts to their budgets.

This has been reflected in statements from public figures and the amount of press coverage dedicated to tax avoidance. Faith leaders in the UK, including the former Archbishop of Canterbury, summarised the issue in a letter to The Times:

“During this crisis many of the most vulnerable people in our society are paying the price for a health and welfare system woefully unprepared for an epidemic.... Meanwhile, some large corporations continue to avoid responsibility, making huge profits yet hiding their wealth in tax havens.”³

In Italy, the Pope went further in an interview with La Repubblica, referring to tax avoiders as murderers.⁴

An opinion poll carried out at the beginning of lockdown restrictions on movement in the UK found that over 80% of people interviewed thought that tax avoidance by large multinationals was morally wrong.⁵

Responding to increasing public concern about the idea that companies and individuals that do not contribute to the public finances would still qualify for government funds, some countries have announced policies that would limit economic support measures and exclude companies based in (some) tax havens.

Governments that have not gone down this route have expressed concern such policies risk punishing workers for the actions of their managers and investors.

Whatever the position taken, there appears to be an emerging consensus that the Covid-19 crisis has exposed the dependence of the entire business community on the state, and that once the initial phase of the crisis has passed more action will need to be taken to ensure all contribute to the economic recovery.

In the UK, this was summarised in an [exchange between Rishi Sunak, Chancellor of the Exchequer and Peter Kyle, MP for Hove](#), who put the following question during proceedings in the House of Commons on 27th April:

3 *Clergy attack tax-haven firms seeking coronavirus bailouts*, The Times, <https://www.thetimes.co.uk/edition/news/clergy-attack-tax-haven-firms-seeking-coronavirus-bailouts-9x826tp72>

4 *Covid 19 – Pope says tax avoiders have committed “murder”*, TaxWatch, https://www.taxwatchuk.org/coronavirus_pope_tax_evasion/

5 *New poll reveals concern about the state of public services and support for higher taxes on wealth*, Tax Justice UK, <https://www.taxjustice.uk/blog/new-poll-reveals-concern-about-the-state-of-public-services-and-support-for-higher-taxes-on-wealth>

“In the past 10 years, there has been a very active debate about those relatively few companies that have so aggressively avoided paying tax in this country. Many of those same companies are now relying on the largesse and generosity of taxpayers to remain solvent in these difficult times. As the Chancellor and his Department start to plan for the recovery economy, will he take this opportunity to have conversations with those companies to make sure that when we do recover, they play a much fuller part in our economy going forward? Let us not aim for business as normal when we get back after this crisis; let us aim for business as better.”

The Chancellor responded positively to that statement, saying:

“He is correct: as we emerge from this, it is right to look at things in the round. As we went through this together, we must repair the economy all together.”⁶

Bailout conditionality – what are other countries doing?

There are currently seven countries that have announced that they will take steps to exclude companies involved in tax avoidance from their Covid-19 business support programmes. Most focus on the use of tax havens.

At the time of writing, a number of these announcements are general statements of policy, sometimes given during media interviews by ministers and are not yet detailed proposals. These announcements are summarised below.

Poland

Poland was one of the first countries to announce restrictions on state support based on tax criteria. The country’s Finance Ministry announced a package of support on 8th April. At a press conference on the day of the announcement, the Prime Minister of Poland, Mateusz Morawiecki, said that the relief would only be available to companies that paid taxes in Poland, adding – “Let’s end tax havens, which are the bane of modern economies.”⁷

6 House of Commons Debate, 27 April 2020, <https://hansard.parliament.uk/Commons/2020-04-27/debates/818ACC91-8604-4498-92F6-2D01F2B129C6/TheEconomy#contribution-23CD6CE0-E648-414B-9E1E-5847BA343B4F>

7 Poland launches €22 billion support package for firms in effort to save up to 5 million jobs, Notes From Poland, <https://notesfrompoland.com/2020/04/08/poland-launches-e22-billion-support-package-for-firms-in-effort-to-save-up-to-5-million-jobs/>

Denmark

On Saturday 18th April the government in Denmark announced a new package of financial aid worth £11.7bn.⁸ This was on top of £35bn in support already announced. The new financial aid package contained a new provision that companies registered in tax havens would not be eligible for aid. In addition, companies applying for aid would not be able to pay dividends or to use cash to buy back shares in 2020 and 2021.

Austria

On 22nd April, the Austrian Parliament voted to implement the same policy as announced by Denmark, and ban tax haven registered companies from accessing Covid-19 economic support.

France

On 23rd April, Bruno Le Maire, the French Finance Minister, tweeted confirmation of what he had said during a radio interview, that if a large company has its tax residency or a shell company based in a tax haven, it will not benefit from loans guaranteed by the state or the option to defer social security payments.⁹



Argentina

On 23rd April it was reported that new rules published in the Argentinian Official Gazette would mean that a company with more than 800 employees cannot access government support if the company pays out a dividend or engages in share buybacks using profits from financial years ending after November 2019.¹⁰

⁸ Denmark blocks firms registered in tax-havens from state aid, Reuters, <https://www.reuters.com/article/us-health-coronavirus-denmark/denmark-blocks-firms-registered-in-tax-havens-from-state-aid-idUSKBN2221V8>

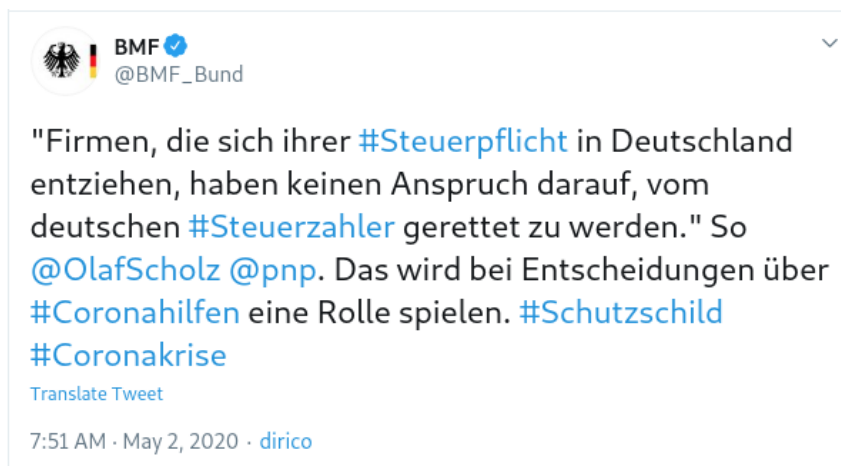
⁹ Bruno Le Maire Twitter, <https://twitter.com/BrunoLeMaire/status/1253324545496215552?s=20>

¹⁰ Techint does not qualify for state assistance, <https://www.pagina12.com.ar/261516-techint-no-califica-para-recibir-la-asistencia-del-estado>

In addition the regulation stated that no company receiving state support can make any payments to any subsidiaries or companies associated with the owners based in tax havens.

Germany

On 2nd May, the German Finance Ministry tweeted that “Companies which evade their duty to pay taxes in Germany have no claim to be rescued by the German tax payer. This will play a role in the context of Corona support.”¹¹



Other developments

On 22nd April, the Belgian Finance Minister [told Parliament](#) that the government there would look at introducing similar measures to France and Denmark.¹²

However, he stressed that such rules were complex because they would need to take into account that some companies have genuine operations in countries considered to be tax havens.

Luigi Di Maio, Italy’s Foreign Minister signalled that he would be urgently raising the issue of tax havens at an EU level. The statement came in an address to staff at the Foreign Ministry reported on by the Italian press on 12th April.

On 29th April European Union officials confirmed that it would be possible to exclude non-EU tax havens from receiving government support, however, the officials confirmed that any attempt to exclude state aid from going to companies based in another EU member state would be unlawful under single market rules.

¹¹ BMF Twitter, https://twitter.com/BMF_Bund/status/1256476267290996736?s=20

¹² *If you want a bailout in Europe, don't use tax havens*, Politico, https://www.politico.eu/article/if-you-want-a-bailout-in-europe-dont-use-tax-havens/amp/?_twitter_impression=true

Blacklisting and its limitations

There is clearly a strong desire from a number of governments to ensure that government support does not end up in the hands of tax avoiders. Of the governments that have announced specific policies in this area, most are excluding companies based in tax havens from receiving support.

However, governments pursuing such policies understand that they will have limited effect, due to the problems with defining tax havens.

Policies which remove government support for businesses that use or are registered in tax havens are not new. For example, the European Investment Bank has had a policy on the use of offshore financial centres by investee companies since 2005.¹³

After interest in tax avoidance intensified in the wake of the 2008 financial crisis this policy was toughened up and it includes a general prohibition on investments linked to non-compliant jurisdictions for tax and transparency purposes (a more technical way of describing tax havens).

In practice this policy was ineffective because it relied on a list of non-cooperative jurisdictions published by the OECD – a list which had no names on it at the time that the policy was introduced.¹⁴

More recently the demand for governments to improve anti-tax haven policies has led to greater efforts being made to define what constitutes a tax haven at a state level and develop “black lists” of tax havens. One of the most prominent initiatives in this area has been the European Union’s list of “non-cooperative jurisdictions”.¹⁵

This was published for the first time in 2017 and is regularly updated by the European Commission. The list only includes non-EU states and is relatively limited in scope, even when considering non-EU countries.

Partly in response to this, NGOs such as the Tax Justice Network have compiled a corporate tax havens index as an alternative.¹⁶ However, this list is not designed to act as a tax haven blacklist and focuses on the deficiencies on tax legislation in all jurisdictions.

13 *Policy towards weakly regulated, non-transparent and non-cooperative jurisdictions and tax good governance*, EIB Group, https://www.politico.eu/article/if-you-want-a-bailout-in-europe-dont-use-tax-havens/amp/?twitter_impression=true

14 *Europe’s tax haven investments in Africa*, EU Observer, <https://euobserver.com/investigations/126144>

15 *Taxation: EU list of non-cooperative jurisdictions*, European Council, <https://www.consilium.europa.eu/en/policies/eu-list-of-non-cooperative-jurisdictions/>

16 *Corporate Tax Haven Index 2019*, Tax Justice Network, <https://www.corporatetaxhavenindex.org/>

As of April 2020 the European Union list of non-cooperative jurisdictions contains the following countries:

- American Samoa
- Cayman Islands
- Fiji
- Guam
- Oman
- Palau
- Panama
- Samoa
- Seychelles
- Trinidad and Tobago
- US Virgin Islands
- Vanuatu

Some South American countries have adopted more comprehensive tax haven black lists, in particular Brazil has 60 low-tax jurisdictions and 12 fiscally preferential jurisdictions on its list.¹⁷

However, countries in the EU are obliged to include companies based in other EU countries in any economic support they offer. This limits the effectiveness of any tax haven black list.

The nature of modern tax avoidance is that multinationals will set up a conduit within a tax friendly EU jurisdiction such as Ireland or the Netherlands, and this conduit will then move money out to more traditional tax havens in order to ensure that profits are not taxed.

Even if action was taken to close this back door, as can be seen from the list above, The European Union list of tax havens does not prevent funds being allocated to companies based in many low, or zero-tax countries around the world. In fact it has been estimated that only 70 companies in Denmark would be excluded from accessing government support under their policy, which uses the EU list. This is

¹⁷ Normative Instruction Rfb No. 1037, Of June 4, 2010, <http://normas.receita.fazenda.gov.br/sijut2consulta/link.action?visao=anotado&idAto=16002>

clearly not insignificant, and includes businesses such as airport duty free shops and phone shops owned by the 3 network, however, academics behind the research accept that the policy is limited.¹⁸

The argument against a bailout ban for tax haven companies

Even if the UK and other European countries were to rapidly create an expanded list of countries to use as the basis of restricting state support, which is unlikely to be feasible, the policy would quickly run into other difficulties.

On the whole, governments have been reluctant to impose too many restrictions on state support, fearing that these restrictions would end up delaying the delivery and harming the people working for companies excluded from government support.

This concern was articulated by the Canadian Prime Minister Justin Trudeau during questions in the House of Commons on whether Canada would put conditions on public money going to companies that engaged in tax avoidance.¹⁹ His response was as follows: “We do not want to punish workers based on the company they work for. They have families and communities that depend on them.... We are focusing on the workers and not the company.”

A similar sentiment was voiced by the UK Government. Following questions from journalists about the actions taken by other countries, the UK Treasury put out the following statement:

“HMRC has robust tools to challenge businesses who avoid paying their fair share of tax. That is the right way to challenge avoidance, not by denying support to British workers who pay their taxes and would otherwise lose their jobs.”²⁰

18 Rasmus Corlin Christensen Twitter, <https://twitter.com/phdskat/status/1253301170745081857?s=20>

19 Trudeau refuses calls to exclude tax haven companies from COVID-19 bailout, The Star, <https://www.thestar.com/news/canada/2020/04/22/trudeau-refuses-calls-to-exclude-tax-haven-companies-from-covid-19-bailout.html>

20 Sunak rejects church leaders' call to bar tax-haven firms from bailouts, The Guardian, <https://www.theguardian.com/business/2020/apr/27/clergy-tax-haven-coronavirus-richard-branson>

Creating effective controls on tax avoidance and bailouts

It seems clear from the debate that has emerged on the issue of tax avoidance and state aid that despite clear public demand for policies designed to prevent companies that are based in tax havens from receiving state aid, there are real limitations and real risks to such an approach.

The question is therefore raised as to whether there might be better ways of designing policies to ensure that all who benefit from the economic guarantees provided by the state contribute through the tax system.

One of the myths about tax avoidance is that it uses the tax system to find legal means of getting out of paying tax – this is often put into the shorthand “tax avoidance is legal”.

The reality is very different.²¹ Under the law as it has been for decades in the UK and many other countries, the courts are able to remove the benefit of any tax avoidance scheme entered into by a company or individual and force them to pay back any tax avoided. In order to do this a tax avoidance scheme must seek to get around the intention – or spirit – of the law, and the scheme should have no real commercial purpose other than to avoid tax. These criteria exclude government sponsored tax shelters, like ISAs from being considered as tax avoidance as far as the law is concerned.

Although most tax avoidance is not permitted by the law, this has not stopped many people and companies continuing to attempt it. One of the problems is that clearly, many see the risks of engaging in a tax avoidance scheme as relatively low compared to the potential to increase profit through gaming the system. If caught the penalties are relatively small and even in cases where the behaviour has been deemed by the Revenue to be fraudulent, often the matter will be pursued as avoidance, rather than the criminal offence of tax evasion.

Increasing the cost of tax avoidance

The government could fundamentally change the equation by making current support for businesses dependent on making sure that companies that receive support do not engage in tax avoidance. This could be achieved by creating a contract with businesses that would require any support given to become repayable on demand if that company was found to be engaging in unlawful tax avoidance.

²¹ *Is Tax Avoidance Legal*, TaxWatch, https://www.taxwatchuk.org/is_tax_avoidance_legal/

Companies involved in tax avoidance could also be excluded from any government support in the future for a period of say, ten years. This would require the government to publish a list of companies ineligible for government support.

What constitutes unlawful tax avoidance would not necessarily need to be limited to judgements in UK tax courts, which can take many years to resolve. The definition could include decisions of the European Commission on tax issues and decisions of the General Anti-Avoidance Rule Panel. It would need to include cases where a company has settled with HMRC and not disputed the case or where the diverted profits tax has applied (a tax which is designed to attack tax avoidance structures).

The latest EU Directive on cross-border tax arrangements (DAC6) (which has already been incorporated into UK law) also presents another opportunity for governments to detect tax avoidance by companies in receipt of government support. The directive requires financial intermediaries and multinational companies to report transactions they enter into which have the hallmarks of tax avoidance. A company that triggered a report under the DAC6 requirements could have the status of any government support reviewed.

Such an approach would require greater transparency from HMRC about which cases had been settled and what companies were subject to the diverted profits tax .

Companies that had facilitated tax avoidance or financial crimes such as money laundering in the UK or anywhere else in the world should also be excluded from any government support.

In order for such a policy to be effective, there would need to be a substantial increase in resources dedicated to enforcement. HMRC already has powers to publish the names of any large companies deemed to be persistently “uncooperative” with the tax authority. However, our research found that since these powers were granted in 2016 HMRC was yet to publish the names of any large companies under that legislation.²²

The current crisis has also exposed how thread-bare HMRC enforcement has become, with news reports emerging that the agency is suspending some enquiries into suspected tax evasion and tax avoidance during the crisis.²³

Both the 2008 financial crash and the Covid-19 pandemic have shown that crises and government intervention to support companies during a crisis are features of

22 *Threat to “name and shame” aggressive tax dodgers fails to bite, new stats show*, TaxWatch, https://www.taxwatchuk.org/hmrc_special_measures/

23 *HMRC suspends some tax investigations due to pandemic*, Financial Times, <https://www.ft.com/content/70471597-dc42-4c70-aff2-d7e03eeabdac>

our economic life. A statement of government policy that the government would not support companies engaged in tax avoidance would have an immediate impact on the insurance market for businesses and access to credit. Insurers and lenders would want to satisfy themselves that a company had a low-risk approach to taxation. A higher-risk approach which could lead to a company being found to be engaging in unlawful tax avoidance, would lead to higher premiums as it would be likely that a business would fail in a crisis.

Large companies in the UK already have to publish a tax strategy on their website, under section 161 of the 2016 Finance Act. Companies could easily signal their risk appetite by publishing a strong tax strategy that explicitly rejects tax avoidance as a business strategy and commits the company to ensuring that profits are declared where real economic activity takes place. These strategies could be made binding by virtue of being used as evidence of the company's approach to tax with regard to contracts with insurers and creditors.

A new era of transparency

Another key element of tax compliance is the transparency of corporate tax payments. In order to better police tax compliance, and to give the public reassurance that taxpayer support is not being misused, the tax system needs to be transparent. This is a point which has already been raised by think tanks such as the Social Market Foundation.

In their report: *Returning the Favour: A New Social Contract for Business* the argument is made that the post-coronavirus world will require a new era of corporate tax transparency and suggested that HMRC should provide information on corporate tax payments which could be compiled into league tables.²⁴

The foundation for this kind of policy already exists in the country-by-country reporting standard that has been implemented by the UK and other OECD countries. Under this standard companies must report to HMRC the amount of tax and metrics of economic activity in each country in which the company operates. The breakdown of a company's activities by country is important because it quickly allows tax authorities to identify mismatches in profit which provides an indication as to whether companies are moving profits to low-tax jurisdictions.

For example, if a company had two subsidiaries, one in the UK and one in Luxembourg, and the country-by-country report showed little profit being made in

²⁴ *Returning the Favour: A New Social Contract for Business*, Social Market Foundation, <http://www.smf.co.uk/publications/returning-favour/>

the UK, but significant profits being declared in Luxembourg, where the company had no staff, then this would be clear evidence that profits were being moved out of the UK to Luxembourg.

Currently these country-by-country reports are only provided to tax authorities on a confidential basis. However, the UK Parliament has already passed legislation that allows the government to put these reports into the public domain.

The 2016 Finance Act compelled large businesses in the UK to publish tax strategies. Schedule 17 (6) of the Act permits the Treasury to compel companies to include their country-by-country reports with their public tax strategies through issuing a new regulation on this issue. No regulations have yet been brought forward under this Act, but it would be a relatively simple process to do so.

Transparency on government support

Currently there is no public information available on which companies receive government support and to what degree. Companies listed on the stock market have made disclosures regarding whether or not they are accessing state support, and news reports have emerged about others. However, there are many many companies which are receiving state aid which do not publish any information whatsoever about the kind or level of support received.

The government is clearly expecting there to be some attempts to abuse the system of support put in place, and has set up a hotline to allow the public to report suspected abuse.²⁵ However, this policy will be limited if the public do not know who is receiving support. The government might consider publishing a list of companies receiving support, which would provide an incentive for companies accessing support to act ethically.

Making sure tax exiles make their contribution

From the moment that government started making interventions to support the economy, much of the public debate on the issue of state support and tax avoidance has focused on companies owned by tax exiles.

Two of the most prominent cases raised by the press have been Arcadia (owned by Lady Green of Monaco) and Virgin Atlantic (owned by Richard Branson of the British Virgin Islands). Both will be benefiting substantially from the government furlough scheme and in the case of Virgin Atlantic, the company has been asking for a

²⁵ HMRC urges people to report companies abusing furlough scheme, Metro, <https://metro.co.uk/2020/04/08/hmrc-urges-people-report-companies-abusing-furlough-scheme-12526123/>

government loan. There are other cases too, such as the Reuben Brothers, described as the UK's second richest family (although tax resident in Monaco) who have furloughed staff in their luxury hotels, horse racing and aviation business and will also be benefiting from a business rates reduction. The Range, a chain of UK homeware shops, benefits from the business rates holiday even though the company has paid £64m in dividends over the last two accounting periods to its owner, Sarah Dawson, based in Jersey.

Despite ownership of these companies being held by UK citizens residing in tax havens, the companies themselves are headquartered in the UK. These companies would therefore be unaffected by any ban on support being provided to tax haven based companies.

The issue that appears to cause concern, is that although these companies are based in the UK, their owners may benefit from support from the UK taxpayer, directly or indirectly, even though they have made the positive choice to leave the UK and not to pay tax here.

This issue could be mitigated by taking the approach of the Argentinian government. This stops companies that receive state support from engaging in transactions with holding companies based in tax havens. This would prevent the payment of dividends or other payments to associated offshore companies and restrict the potential for offshore owners to benefit from bailout funds.

Another approach would be to make sure that the profits of UK companies are captured by the tax system, even if the owners of those businesses are tax exiles. This could be achieved by implementing a withholding tax on dividends equal to the dividend income tax rate paid by UK residents.

Currently, a UK business owner will see tax paid by their company on profits in the form of corporation tax. When the leftover profits are distributed to them in the form of a dividend, the individual then pays dividend income tax on the cash received if they are a UK tax resident.

Tax exiles do not pay the dividend income tax element, even though the profits are ultimately from the same source – the activities of a UK company.

A withholding tax is a tax paid by companies on behalf of the recipient of the dividend. This would mean that the dividend income tax element would be paid up-front, by the company, on behalf of the shareholder. The tax paid can be claimed back by the recipient if they have to pay income tax on their dividends in another jurisdiction with which the UK has a tax treaty.

This is to avoid the same income being taxed twice. If the recipient was a tax exile living in a zero-tax jurisdiction the tax would be paid in the UK as they would not be able to reclaim the withholding tax. Dividend withholding taxes are common in a number of countries including the USA and are a means of equalising the tax treatment of profits received by entrepreneurs based in the home country and tax exiles, as well as making the collection of taxes more efficient.

A more ambitious policy still is to take the approach of the United States which has a world-wide income tax system based on citizenship. Citizens of the United States are liable for US federal income taxes – regardless of whether they live in Boston or Bermuda. In order to get out of paying US federal income tax a US citizen must renounce their citizenship and pay an exit fee.²⁶

Conclusions

There is a significant public demand to see a greater link between tax compliance and the eligibility for government support in times of crisis. Although policies to restrict government support to companies that use tax havens are eye-catching and popular they are limited in their effectiveness, and there are legitimate concerns that such policies would end up harming workers.

If governments wish to restrict state support by excluding companies involved in tax avoidance, a more effective approach is possible by implementing policies that increase the disincentives for companies from engaging in tax avoidance. This could be achieved by increasing transparency on tax disclosures and by making access to government support programs today and in the future dependent on tax compliance. In addition, rather than focus on whether or not companies owned by tax exiles should receive government support, it would be more effective to make sure that tax exiles pay the full rate of income tax on profits derived from UK companies at all times.

26 *Expatriation Tax*, IRS, <https://www.irs.gov/individuals/international-taxpayers/expatriation-tax>