

Impact of austerity on jobs in tax services and the fight against tax fraud and avoidance in EU-27 + Norway



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Introduction

In November last year EPSU, the European Federation of Public Service Unions, launched a campaign to close the tax gap in Europe. EPSU believes that it is essential to reduce tax evasion and tax avoidance and ensure that governments are able to collect the levels of the tax that have been democratically agreed.

EPSU sees action on tax evasion and avoidance as key to tackling the crisis in public finances, caused by the financial crisis that started in 2007-08, and to promoting fairness in the taxation system so that ordinary individuals are no longer bearing the cost of non-payment by those who cheat and manipulate the system.

The campaign flows from the EPSU tax justice charter (adopted by the EPSU Executive Committee, 2010) alongside its demands for the introduction of a Financial Transactions Tax, a common strategy to increase tax on capital and EU common principles on fair and progressive taxation, and the eradication of tax havens.

In launching this campaign, EPSU has been encouraged by the action that its affiliates across Europe have already taken to draw attention to evasion and avoidance and the need to tackle it. This has included:

- the campaign Stop Velfærdskronernes Flugt (Stop the Flight of the Money for Welfare) by HK/Stat in **Denmark**, which combined analysis, political pressure, mass communication and member mobilisation to push for change;
- the Tax Justice campaign supported by the PCS in the **UK**, which has highlighted the extent of the tax gap in the UK and the way it is undermining public services and the development of a more equal society, both in the UK and globally;
- the work of Ver.di in **Germany** against Steuerflucht (tax flight);
- the reports from syndicat national Solidaires Finances Publiques in France, which have highlighted the extent of tax evasion and avoidance, beginning in 2008;
- the document 'Miljarden voor het oprapen' (Billions for the taking) produced by ABVAKABO FNV in **the Netherlands** to highlight the way that tax was not being collected;
- the campaigns by FP CGIL in **Italy** against government policies which favoured those evading taxes at the expense of those that paid them; and
- the work of **Belgian** unions, which, as far back as 2007, were calling on the government to reinforce the struggle against tax fraud.

As well as highlighting extent of tax evasion and avoidance, a common feature of almost all these campaigns has been to expose how the resources available to tackle them have been eroded. This is also a central part of the EPSU campaign.

This report reveals how employment in tax offices has been cut in 24 out of 28 states (EU member states plus Norway) in the past four years with the loss of 50,000 jobs already and more cuts to come. It provides examples of the way that those employed in tax administrations can generate substantial amounts of additional revenue, as well as showing where revenue is currently being lost.

It indicates that it is not enough for governments to say that they want to combat tax evasion and avoidance. To do so effectively, they must also provide the resources.





An issue of growing concern

The issue of tax avoidance and tax evasion is of growing concern to citizens and policy makers in Europe. Following a series of stories in the media of major companies and wealthy individuals structuring their affairs to avoid the tax that the majority of companies and individuals have to pay, national leaders are increasing calling for action.

Speaking to World Economic Forum in Davos 24 January 2013, UK Prime Minister **David Cameron** said that tax evasion and tax avoidance was “an issue whose time has come. After years of abuse people across the planet are rightly calling for more action, and most importantly there is gathering political will to actually do something about it.” Cameron also made it clear that he was not just talking about tax evasion, which, as he said, “is illegal ... [and] can and should be subject to the full force of the criminal law”. He was also talking about tax avoidance, some forms of which, he said, “have become so aggressive that I think it is right to say these raise ethical issues, and it is time to call for more responsibility and for governments to act accordingly”.

Cameron’s views were echoed two days later by the German Federal Chancellor, **Angela Merkel**. At a meeting with the Chilean president in Santiago on 26 January 2013, she said: “There is too much tax fraud, tax evasion and tax competition and too many low-tax zones in the world, in respect of which a lot more needs to be done. There are shadow banks. We will deal with that at the next G20 summit.”ⁱ

The French President, **François Hollande**, has also indicated his concern about the way individuals and companies can organise their affairs to avoid tax. Asked at a press conference after a meeting of the European Council on 14 December 2012 about the case of actor Gerard Depardieu, who had indicated he was moving to Belgium, Hollande called for greater tax harmonisation to prevent citizens moving around Europe to optimise their tax arrangements. It would not mean, he said, that there would be the same system everywhere “but that we cannot have fiscal dumping in a certain number of situations for companies or individuals”.ⁱⁱ

Mario Monti, the Italian prime minister, has also emphasised the need to tackle tax evasion. Speaking at a meeting in February 2012, when he brought together a special task force on tax evasion, he said that “recovering tax evasion must become an instrument to improve the efficiency of the economic system in a more equitable framework”.ⁱⁱⁱ

At European level, the President of the European Commission **José Manuel Barroso** has also expressed his concern. On 12 December 2012 he told the European Parliament that “It is estimated that around one trillion Euros a year are lost through tax evasion and avoidance in the European Union every year. That is money which ought to be available to put to the public good, but which is simply lost.”



Pressure to cut the deficit

One key reason for this growing concern about tax lost through evasion and avoidance is the continuing pressure on European governments to reduce their deficits.

The latest European Commission economic forecasts show that, with the exception of **Estonia, Hungary and Sweden**, the budget of every government in the EU was in deficit in 2011.^{iv} The deficit for governments across the whole of the EU, which was just 0.9% of GDP in 2007, had ballooned to 6.9% in 2009 and in 2012 it is still expected to be 3.6%, with no government in surplus and only the Swedish government achieving a balanced budget. The latest forecast from the European Commission is that it will still be 2.9% in 2014. Even by that year it is expected that 13 member states will have government deficits that exceed the 3.0% Maastricht threshold.

These high levels of deficit are to a large extent a consequence of the 2008 financial crisis and the recession it caused. However, under pressure from financial markets, European governments have adopted policies which aim to eliminate government deficits as rapidly as possible.

At European level this approach has been turned into a binding commitment through the **Treaty on Stability, Coordination and Governance in the Economic and Monetary Union**. This was initially agreed in December 2011 and signed by the governments of 25 states, those of the Euro zone states plus eight other governments on 2 March 2012. The Treaty includes a commitment that the signatory states will incorporate “through provisions of binding force and permanent character, preferably constitutional”, a rule under which: “the budgetary position of the general government of [the signatory state] shall be balanced or in surplus.”

With this need to balance budgets, which incidentally is also an aim in the two non-signatories to the treaty, the **Czech Republic** and the **United Kingdom**, governments are looking to generate as much income as possible from their existing tax systems through pursuing those evading tax and closing tax avoidance loopholes.

There is also a political pressure to do this, as citizens and voters who pay tax resent those who do not. As Barroso asked the European Parliament in December 2012: “Why should citizens and companies who respect their tax obligations have to pay for the unscrupulous or criminal behaviour of others? How can that be fair?”

One very clear example of the growing public concern about the unfairness of tax avoidance and tax evasion is provided by the furore in **Greece** over the so-called Lagarde list. This list of deposits, held by more than 2,000 wealthy Greeks at the Geneva branch of HSBC, was given to the Greek government in 2010 by **Christine Lagarde**, currently head of the IMF, but at the time French finance minister, to allow the government to pursue Greeks who might be evading tax.^v The failure by the government to pursue the individuals involved and the subsequent attempt to prosecute a journalist who published the list was seen as an attempt by rich and powerful people to protect themselves, while the rest of society suffered.

Comments in a study produced by the European Commission in 2012 point out that increased tax revenue and greater fairness are particularly important in the present period of austerity. The study notes:



"Improving the efficiency of tax collection and tackling tax evasion can increase government revenue and ensure that the redistributive properties of the tax system functions. This is particularly relevant in times of fiscal consolidation, also with a view to enhancing the social acceptability of tax hikes by creating a perception of a fairer distribution of the adjustment burden."^{vi}

The size of the tax gap

A combination of tax evasion and tax avoidance means that taxes raise less money than they would have done had these factors not been present. The difference between expected tax revenues and actual tax revenue is known as the "tax gap".

It is very difficult to calculate the size of the tax gap as, by its nature, tax evasion is hidden and tax avoidance is difficult to define. The **European Commission** has referred to estimates of a tax gap of €1,000 billion. This was the figure used by the European Commission President Barroso in his speech to the European Parliament on 12 December 2012. It was also the figure used by the EU Tax Commissioner, **Algirdas Šemeta**, when he introduced the Commission's action plan on the fight against tax fraud and tax evasion on 6 December 2012, when he said: "Around one trillion euros is lost to tax evasion and avoidance every year in the EU. Not only is this is a scandalous loss of much-needed revenue, it is also a threat to fair taxation."

The €1,000 billion figure comes from a report prepared for the **Progressive Alliance of Socialists & Democrats** in the European Parliament by the well known tax expert, **Richard Murphy**, in February 2012.^{vii} Using figures on the size of the shadow economy, he calculated that tax evasion accounted for some €860 billion a year across the whole of the EU, with tax avoidance estimated as costing around €150 billion a year. Although he emphasised that these figures needed to be treated with caution, he said, with reference to the tax evasion figures, that "other recent estimates of tax gaps might even suggest the estimates ... to be conservative ... [but] they ... appear to fall into the range of plausible estimates".

Relatively few countries have made their own national estimates of the tax gap. Those that have include:

- the **UK**, where figures from the tax authorities estimate the tax gap in 2010/11 to have been £32 billion (€37 billion at today's rate) or 6.7% of tax due;^{viii}
- **Sweden**, where the tax gap was estimated by the Swedish National Tax Agency in 2008 to have been SEK 133 billion (€15.7 billion at today's rates) or 10% of the tax due;^{ix}
- **Denmark**, where the tax gap for business alone was calculated at DKK 26.5 billion (€3.6 billion at today's rates) for 2006;^x
- **Finland**, where the Director General of the Tax Administration in 2011 noted that the Finnish tax gap was estimated at between €4 billion and €7 billion, although this was based on international comparisons rather than the Finnish authorities own studies;^{xi} and
- **France**, where a report by the Cour des comptes in 2007 estimated tax fraud as costing between €20.5 and €25.6 billion per year, of which between one third and one half was accounted for by VAT fraud (these figures do not include tax avoidance).^{xii}

These figures are generally lower than those suggested by the Murphy calculations as are those in a separate EU study on the VAT gap, which estimated it at 12% of the



theoretical liability across the EU in 2006.^{xiii} Murphy deals with some of the differences between his and national figures in his report.

It is not surprising that the estimates differ. As the Swedish report on the tax gap in a single country says, “the uncertainty in the calculations is large in all respects. The uncertainty is least in areas where the material has consisted of results of compliance controls based on random samples. However these have only been available in a few limited areas. The uncertainty is considered greatest with regard to the tax gap with international connections and the tax gap for large companies, where there is a not insignificant amount of tax avoidance.”

However, it is not necessary to establish the precise size of the tax gap, interesting as it might be. Whichever set of estimates is chosen, the amount of tax not being collected which should be collected is very substantial. As **Mark Serwotka**, general secretary of the PCS union, which has used Murphy to calculate the tax gap in the UK, pointed out in a press release on 18 October 2012:

“Research conducted for us puts the figure [for the UK tax gap] much higher at more than £120 billion lost each year, largely through tax avoidance and evasion by very wealthy individuals and organisations. But even by the government's own modest estimate [of £32 billion] these are huge sums, amounting to a quarter of the budget deficit that ministers claim is the single biggest issue we face.”

The extent and impact of tax avoidance and evasion

There are numerous examples of the sort of tax evasion and aggressive tax avoidance which lead to this tax gap. It is not possible in this report to cover all the cases that have been revealed in the recent past. But a few instances give an indication of the scale of the problem.

The tax avoidance strategies of three multinational companies, **Google**, **Amazon** and **Starbucks**, were examined by a parliamentary committee in the UK.^{xiv} The committee's conclusions on each of them are as follows:

- **Starbucks** stated it had made a loss for 14 of the 15 years it had been operating in the UK, with only a small profit in 2006. The result is that over this period it has paid a total of £8.6 million (€10 million) corporation tax in the UK. The committee found it difficult to believe that a commercial company with a 31% market share by turnover was trading with apparent losses for nearly every year of its operation in the UK. This was inconsistent with claims the company was making in briefings to its shareholders that the UK business was successful and it was making 15% profits in the UK. The committee suspected that Starbucks was using a number of devices, such as the payment for intellectual property rights, the amount paid for coffee in Switzerland and an inter-company loan at a high rate of interest, to “remove profits from the UK to ... areas with lower tax”.
- **Amazon** has over 15,000 staff in the UK, invoices UK customers from the UK, hires UK staff in the UK, has inventory physically in the UK for UK customers and to all intents and purposes has the majority of its economic activity in the UK, rather than in Luxembourg, but pays virtually no corporation tax in the UK.
- **Google** explained to the committee that it minimised tax within the letter of the law and that low tax areas or tax havens influenced where it located its group companies. In the UK, Google Ltd recorded revenues of £396 million (€460



million) in 2011, from Google Ireland, but paid corporation tax of only £6 million (€7 million).

These examples, led the committee to conclude that:

“International companies are able to exploit national and international tax structures to minimise corporation tax on the economic activity they conduct in the UK. The outcome is that they do not pay their fair share. We believe that this practice is widespread and that HMRC is not taking sufficiently aggressive action to assess and collect the appropriate amount of corporation tax from these multinationals.”

Nor is this a purely British problem. In February 2013, the French culture minister **Aurélie Filippetti**, referred to the need for Google to fulfil its “fiscal obligations” when talking about an agreement between the company and French newspapers.^{xv} And in January, **Fleur Pellerin**, French economics minister pointed out that Google’s French subsidiary “only declared around a €40 million turnover, a ridiculous sum in relation to its real activity in the country”. She said she was “a war” against “fiscal piracy”^{xvi}

In the area of tax evasion, as well as the more colourful examples, such as the Lagarde list in Greece or the CDs recovered by the German tax authorities with details of bank accounts in Switzerland and Liechtenstein, there is plenty of evidence of its extent based on more detailed studies.

A recent report indicated the degree of tax evasion in **Italy**.^{xvii} Based on a survey of 1,225 adults in Italy, it found that among certain occupations and professions a high proportion of income was not declared to the tax authorities. As well as those working in skilled manual trades, the list also includes lawyers and architects (see table).

Occupation/profession/personal service	Percentage of income not declared
School tutoring	88.3%
Private lessons (music etc)	66.1%
Painters/masons	49.0%
Gardeners	48.4%
Decorators	48.4%
Smiths	47.7%
Personal care	47.5%
Plumbers	46.9%
Carpenters	46.9%
Lawyers	38.5%
Electricians	36.4%
Floor layers	35.5%
Architects	34.6%

In terms of the total amount of tax evaded, dentists, with 31.4% of income not declared, are in third place with €639 million tax not paid, behind painters and masons (€1,077 million) and those providing personal care (€1,028 million).

In **Denmark**, a report by the Danish economic council estimated that evasion through underreporting annual taxable income costs society approximately 5 billion DKK annually (€670 million at today’s rates) in lost tax revenue.^{xviii}

In **Greece**, a recent IMF report pointed to the problems tax evasion produces.^{xix} It found that: “Widespread tax evasion has eroded the fairness of the tax system and forced an increase in the tax burden on the formal economy (some 4¼ percent of



GDP in additional revenue measures over 2011–15).” The report called for “a fairer tax system characterised by a more progressive tax burden.” It also noted that “the bulk of the gains will need to come through better tax collection, particularly from the relatively affluent self-employed (the locus of much tax evasion in Greece).”

Looking across the EU as a whole, **European Commission** report published in 2012 found that:

“A number of Member States face the challenge of improving tax governance. This relates to a large shadow economy and/or high levels of potential VAT fraud and evasion in some countries, or the efficiency of tax administration in others.”^{xx}

In several of the country-specific recommendations for action, published by the **European Commission** on 30 May 2012, there were specific proposals on tax. These included:

- **Bulgaria** – “there is considerable scope for improvement in tax compliance and advancing in this area would allow Bulgaria to support higher growth-enhancing expenditures”;
- **Czech Republic** – “low effective taxation of self-employed compared to employees on account of extensive recourse to lump sums and tax deductibles ...tax compliance still remains an issue”;
- **Italy** – “the structure of the tax system and the high level of tax evasion and undeclared work have adversely affected the economic performance of the country”; and
- **Slovakia** – “tackling one of the largest VAT gaps in the EU could bring significant additional revenue”.

Fewer tax employees

However, this growing understanding of the need to collect taxes in a fair and effective way is not being matched by a willingness to invest the necessary resources to do so. Across Europe, as part of the policy of deficit reduction, governments are reducing the numbers of those employed in raising revenue, whose job it is to collect tax, combat tax evasion and close down the loopholes which allow tax avoidance.

Figures are available for all 27 EU member states plus Norway, although there are differences in the type of employees and time period covered. They show that in 24 out of 28 countries the numbers employed in tax administration have fallen (see table and Annex).

The figures, which as far as possible cover the period from 2007 – that is just before the crisis – to 2011, show very sharp falls in employment in some countries. **Denmark** has experienced the largest drop, losing more than a quarter of its tax staff (28.7%) over four years¹, but other countries have also lost a large proportion of their staff. The **UK** (19.2%) has lost around one fifth of its tax employees, and Latvia (17.5%) and **Lithuania** (16.9%) have both seen staff cut by more than one sixth – in Lithuania over just three years. **Portugal** (11.6%) and **Finland** (11.0%) have lost more than one in 10 tax staff in four years. There are no detailed year-by-year figures

¹ This calculation is based on budget figures for the period 2010 to 2011, showing a fall from 8,858 in 2007 to 6,320 in 2011; figures taken from the annual reports of the Danish tax authorities show a smaller, although still considerable fall of 12.2%, from 8,850 in 2007 to 7,768 in 2011.



for **Ireland**, going back to 2007, but the annual report of the Irish tax authorities for 2011 notes that “our staffing complement was reduced to 5,962 in 2011 and, following more recent retirements, fell to 5,732 by 1 March 2012. This represents a 13% reduction in staffing since 2008.”^{xxi}

Five other countries have also lost more than one in 15 of their tax staff over the four-year period, including **Sweden** (8.8%), Italy (8.3%), **Belgium** (7.8%), **Estonia** (7.5%), **France** (6.8% over three years from 2008), while **Slovakia** (6.4%), the **Netherlands** (6.3%), the **Czech Republic** (5.9%) and **Slovenia** (4.6%) have lost around one in 20.

Those with lower rates of losses over four years include **Germany**, where the number of employees working in financial administration at both national and regional level has fallen by 1.9% and Norway, where it has gone down by 1.1%.

Luxembourg and **Spain** are two countries where tax employment has risen over four years – by 1.6% in **Spain** and 1.8% in **Luxembourg**. However, the 2011 figures for Spain show that this increase has ended and as the next section indicates, employment is likely to fall.

The information for all of the countries listed above comes from the annual reports or other documents of the tax authorities/ministries of finance, or in the case of **Germany**, **Portugal** and the **UK** from the national statistical offices. As a result they cover changes over four or, in some cases, three years.

However, for eight countries the information on employment comes from the **Intra-European Organisation of Tax Administrations** (IOTA) and only covers the period 2008 to 2010. However, despite only presenting information on the changes between 2008 and 2010, tax employment has fallen in six of these countries as well: down by 6.2% in **Malta**, 5.9% in both **Romania** and **Greece**, 4.6% in **Austria**, 1.1% in **Bulgaria** and 0.2% in **Hungary**. There are also some more recent, although incomplete, figures from **Cyprus**, which indicate, that between 2008 and 2011 employment fell by 34 posts and there have been a further 32 posts lost since that point.

In looking at the figures it is also very important to recognise that the type of employees included and the way they are counted vary from country to country. For example, in **Luxembourg** the figures include only those employed in direct and indirect taxation, while in **Estonia** they are for whole of the ministry of finance. In the **UK** the tax employment figures are based on headcount, while in **the Netherlands** they are full-time equivalents.

All this, plus the basic differences between countries on the way that tax is collected, mean that the comparisons between countries are not reliable. As the **OECD** noted in its study on the administration of tax, “such comparisons are difficult to carry out in a consistent fashion given a range of variables to be taken into account ... The most obvious factors to be taken account of that are not related to efficiency and effectiveness are: 1) the size of the legislated tax burden; and 2) the range and nature of taxes administered, in particular whether the revenue body is responsible for the collection of social security contributions.”^{xxii}

However, if vertical comparisons – between countries – are not useful, horizontal ones – showing how tax employment has changed over time in each country – are, and they show a very clear downward trend.



Expressed as a single number, the figures show that 50,000 jobs have been lost in national tax authorities and similar bodies over the last four or so years (see Annex).

Employment in tax authorities in 2011 and change between 2007 and 2011

(Employment figures in italics are for 2010; change figures in italics show change over a shorter period than 2007 to 2011 – see notes)

Country	Tax employment	Percentage change
Austria*	<i>7,501</i>	-4.6%
Belgium	29,297	-7.8%
Bulgaria*	<i>7,708</i>	-1.1%
Cyprus*	<i>574</i>	0.7%
Czech Republic	14,662	-5.9%
Denmark	6,320	-28.7%
Estonia	<i>2,572</i>	-7.5%
Finland	<i>5,367</i>	-11.0%
France**	117,964	-6.8%
Germany	187,149	-1.9%
Greece*	<i>11,555</i>	-5.9%
Hungary*	<i>15,607</i>	-0.2%
Ireland ***	5,962	-13.0%
Italy	33,047	-8.3%
Latvia	<i>4,147</i>	-17.5%
Lithuania**	3,312	-16.9%
Luxembourg	914	1.8%
Malta*	<i>241</i>	-6.2%
Netherlands	29,010	-6.3%
Norway	5,943	-1.5%
Poland*	<i>48,735</i>	0.6%
Portugal	13,760	-11.6%
Romania*	<i>29,421</i>	-5.9%
Slovakia	5,544	-6.4%
Slovenia	2,506	-4.6%
Spain	27,613	1.6%
Sweden	10,267	-8.8%
UK	74,380	-19.2%
* Employment figures for 2010 and change for period 2008 to 2010		
** Change covers three years 2008 to 2011		
*** Change is the percentage fall from 2008 reported in the 2011 annual report		

Further job cuts

The situation is also not static, as in most countries further job cuts are planned. In January 2012, an OECD report ^{xxiii} noted the following cuts planned for countries in the EU:

- **Austria:** reduction in budget of 3% until 2014, but now having to absorb staff from other agencies; no overall change;



- **Belgium:** federal limits of one new recruit for every three departures (around 1,000/1,500 each year in Ministry of Finance);
- **Denmark:** long-term target to reduce staff levels by 35% and total expense level by 25% compared to 2004; state budget projects 7,764 FTEs (2011) and 6,528 FTEs (2015), a reduction of 17%;
- **Finland:** reduction in staffing of 7% (equivalent to 335 FTEs) from 2012 to 2015;
- **France:** revenue body allowed only one recruit for every three departures (while the ratio is one to two for the government as a whole);
- **Germany:** targets for cost reductions set individually by most states;
- **Hungary:** reductions of 10%+ (2011) and 3%+ (2012) in material costs;
- **Ireland:** staff reduced from 6,581 to 5,944 from 2009 through 2011, and administrative budget cut by 5% (2009), 13% (2010) and 2% (2011);
- **Netherlands:** budget reduced by EUR 400 million (1/6 of total) until 2015 for tax and customs: EUR 240 million from efficiency gains and EUR 160 million through legislation;
- **Spain:** salaries cut by 5% in 2010; budget for 2011 permits only one new recruit for every 10 departures; and
- **UK:** savings of 25% required over four years (2011 to 2015) with capacity to reinvest GBP 900 million in compliance activities producing additional revenue; staff reduced by 10,000 to 56,000.

The OECD reported at that time that **Estonia, Norway and Sweden** also faced cuts in costs and/or staff in the future although they had not set targets. Only in **Poland** did the tax authorities not face cuts in staff and/or costs.

The impact of cuts in employment

There are already indications that this loss of staff is having a damaging impact on the ability of tax authorities to provide a fair and efficient service to those complying with the law and to pursue those who are not doing so.

First there is the simple fact that there are not as many people as in the past to do the work, large parts of which cannot be automated. There are a number of examples across Europe of the impact this is having and the importance of having sufficient staff:

- in **Belgium**, the union (CSC Services publics) reports that cuts in overtime make it increasingly difficult to carry out checks on bars, hotels and restaurants at weekends – precisely the time when they are busiest;
- in **France**, the French union (Solidaires Finances Publiques) reports that the French tax authorities (DGFIP) will have lost 18% of their employees between 2002 and the end of 2013 and, although many of these are not in the area of compliance, many of the jobs that have gone have been at the first stage of tax control, receiving tax declarations, keeping files up-to-date and carrying out simple checks;^{xxiv}
- a separate report on **France** by the Cour des comptes, the highest national auditing body found that the control function of the DGFIP was under-staffed with only 1,100 inspectors in the three national directorates dealing with complex and international fraud;^{xxv}
- in **Germany** a report by the Bundesrechnungshof (the highest German auditing body) found in 2006 that the tax authorities were failing to apply tax legislation on income from employment appropriately because of the workload in tax



offices; a follow up report published in 2012 found that the situation had not improved, as individual employees were dealing with more tax returns than in the past^{xxvi}

- in the **UK**, the introduction of a new system of tax and national insurance in 2010-11, which combines pay and tax details, led to a big increase in calls (up from 80 million to 122 million) and a sharp drop in the tax authority's customer service levels (it answered 48% of telephone calls, compared with a 90% target). It was only able to return to a 74% level of calls answered by introducing a number of measures, including employing 2,500 temporary staff.^{xxvii}

A second impact is that cuts in employment mean that the tax authorities are losing some of their most experienced and skilled staff. This problem has clearly been recognised by the Irish tax authority. In its latest annual report the Revenue Commissioners noted that:

"This sudden reduction in staffing levels has resulted in the loss of critical skills in many of our business areas. Sanction was sought from the Department of Public Expenditure and Reform to allow some leeway on the staffing numbers and to allow us to recruit externally and from within to replace these critical skills. This is essential in order to maintain our capacity to collect taxes and tackle non-compliance."^{xxviii}

The loss of experienced staff has also been observed by those who deal with the **UK** tax authority (HMRC) on a daily basis in their work. Chas Roy-Chowdhury, of the Association of Chartered Certified Accountants (ACCA), expressed similar concerns to those noted in **Ireland**:

"We now have the situation where those people who could leave did leave; the ones who were getting on into their 50s, I guess. They received good pension pay-offs, but they were the ones with the experience and knowledge in tax. HMRC have divested themselves of that knowledge base at a local level as well ...Lots of the people who knew about tax have now haemorrhaged from the organisation."^{xxix}

In **Belgium**, the CSC Services publics union reports that the tax service is losing a large number of staff who have long experience of dealing with VAT issues and that these staff are not being replaced.

Coping with the loss of staff

The tax authorities themselves hope to deal with cuts in funding and staff by using resources more effectively, and the OECD has set up a "working smarter" project to examine ways of doing more with less. In a 2012 report^{xxx} it suggests a number of possible smarter working strategies including:

- centralising tax administration and streamlining administrative processes;
- making greater use of information technology, including in the area of compliance; and
- making changes to legislation so that taxation becomes simpler.

However, the OECD report also makes clear that many of the gains are not achievable in the short term. It makes this clear in its conclusions:

"By and large, smarter compliance outcomes require revenue bodies to invest a fair amount of resources and effort before benefits can be harvested. This



would suggest that working smarter in compliance requires a strategic focus over the medium and long term.”

It is also necessary for several factors to be in place, as the latest annual report from the Finnish tax authorities points out:

“Further productivity improvements are only possible if the proportion of automated control is increased. However, significant changes in this field are only possible if material and procedure-related legislation is streamlined. Productivity improvements also require the digitalisation of printed information, more extensive electronic transactions and continuing development of the IT architecture.”^{xxxix}

In reality, in many countries, these conditions are not present.

In the Netherlands, a report from the public services union ABVAKABO painted this picture of the situation, including the use of automated checking:

“Things are demonstrably going wrong at the tax authorities. In practice there is scarcely any time for the ‘adequate supervision’ promised by management. The chance of a business being audited is now once in every 43 years and of the 200 or so parameters that the computer uses in assessing private tax returns, some 95% are usually disabled because otherwise too many returns would be ‘thrown out’ for further inspection when there is no manpower available to do it.”^{xxxix}

In the UK, the late delivery of two IT projects meant that none of a forecast £743 million of tax yield had been achieved by 2010-11.^{xxxix}

In Germany, a report from the Bundesrechnungshof in 2012 looked in detail at the use of automated systems to check citizens’ tax returns in particular in the area of taxes on employment. The auditing authority examined a number of areas that had been checked using IT risk management systems and it found that the proportion of cases with incorrect claims was “alarmingly high”, ranging from 34% to 100%, depending on the type of claim.^{xxxix} The report also found that spot checks did not eliminate the problem, as on average a tax return would only be subject to a check once every 50 years. It also found that the financial consequences of the unsatisfactory level of checking were “not small”. Overall, the report concluded that “The introduction of automated risk management in the area of employee [tax collection] did not lead to the intended improvement in the implementation of tax legislation”.

The Bundesrechnungshof report also found that “complex and rapidly changing tax laws make it more difficult to implement tax legislation” and this is a common feature across the EU. The danger is that tax authorities are being expected to cut staff while at the same time tax legislation becomes more complex and new structures and IT systems are being introduced with the long-term aim of reducing costs, but which in the short term make the situation more difficult.

This is the threat that faces the UK tax authorities (HMRC), in the view of the UK accountants’ association. In evidence to a parliamentary committee they concluded:

“ACCA simply cannot see how HMRC can hope to even maintain current service levels, with reduced staff and budget. The aim of reducing the tax gap is worthy, but if reduced funding leaves HMRC unable to address the basics of maintaining a service for compliant taxpayers the potential damage to the economy and reputation of the United Kingdom is immense.”^{xxxix}



The accountants compared the situation to the private sector and considered that it was:

“hard to imagine any commercial environment where a department would be expected to increase output of an ever more complicated product while being forced to cut staff numbers, operate on reduced funds and implement relentless restructuring of its business model.”

More recently, commenting on the low level of tax paid by US multinationals in the UK, a parliamentary committee concluded:

“It is also unclear whether HMRC has the necessary resources or are devoting the time and effort to collect the appropriate level of tax.”^{xxxvi}

Generating additional income through action by the tax authorities

There is clear evidence of the way that action by the tax authorities reduces tax evasion and avoidance and generates additional income. Examples include:

- the Italian tax agency, Agenzia delle Entrate, which found in 2011 that, “for every euro spend on its functioning, the Agency has recovered 3.6 through the fight against tax evasion”^{xxxvii};
- the Spanish tax authority, La Agencia Tributaria, which reported in 2010 that, “as the result of a fraud prevention plan introduced in 2005, the average debt settled by each taxpayer audited increased from €116,712 to €250,888 between 2005 and 2010”,^{xxxviii}
- Finland, where the union Pardia estimates one tax inspector yields €627,000 a year;
- Norway, where the Tax Administration’s results for 2011 show that controls of 6,000 companies uncovered more than NOK 29 billion (some €4 billion) that had not been correctly declared for taxation. This is a very high amount, and was the result of several large cases that were uncovered during the year. Two of the cases concerned amounts of more than one billion Norwegian kroner, and another six cases concerned amounts of more than half a billion;^{xxxix}
- the UK, where the union PCS estimates that each tax inspector dedicate to compliance brings in some £650,000 (€755,000) net of staff costs a year and a “special investigations unit” fight the most complex tax avoidance cases has yielded 450 times its costs;
- Slovenia, where the process of tax control and auditing produced an additional €275 million in tax liabilities in 2010 – 58% more than the year before.^{xl}

...and losing it by cutting staff

There is also at least one very clear example of the way that cutting tax employees can result in a loss in revenue. This is the experience of the HMRC in the UK, where, in line with government policy to cut public sector employment, HMRC cut the number of staff working on compliance and enforcement activity by 3,387 to meet headcount reduction targets. The consequence was that some £1.1 billion (€1.2 billion at today’s prices) of additional tax revenue was lost. As the parliamentary committee, which investigated the case, concluded:

“We are not convinced that the decision to reduce staff numbers working in this area in the past represented value for money for the taxpayer. The Department has estimated that, in shedding more than 3,300 staff, it lost £1.1 billion in





potential tax revenue: about £10 in tax lost for every £1 in running costs saved.”^{xli}

Conclusion

Revenue lost through tax evasion and avoidance is money that is not available to pay for the public services that society needs and citizens want. However, the problem with tax evasion and avoidance is not simply a loss of resources. It also that evasion and avoidance raise the question of fairness – that honest taxpayers, whether individuals or organisations, begin to feel that others are not making a proper contribution to society.

An effective and a fair tax system needs enough employees in the tax authorities to pursue those paying less tax than they should and to provide an efficient service to individuals and organisations who are paying the right amount of tax. However, this report makes it clear that almost every tax authority in Europe is cutting the number of staff that it employs and it has provided a range of examples of the difficulties that this causes. Although an increased use of IT and new working measures has the potential to allow staff to work more effectively, the evidence suggests that this is not a short-term solution.

As in many other areas of the public services, providing an effective tax service relies on the employees within it. Making cuts on the scale that many countries are planning is likely to have damaging consequences – both for the public finances and individual taxpayers.



ⁱ „Es gibt auf der Welt viel zu viel Steuerbetrug, Steuerhinterziehung, Steuerwettbewerb sowie Niedrigsteuergelände, hinsichtlich derer man noch sehr viel mehr tun muss. Es gibt Schattenbanken. Damit werden wir uns auf dem nächsten G20-Gipfel beschäftigen.“ (Statements von Kanzlerin Merkel und Präsident der Republik Chile, Piñera Echenique in Santiago de Chile 26 Januar 2013)

ⁱⁱ « Mais que nous ne pouvons pas avoir des dumpings fiscaux sur un certain nombre de situations d'entreprises ou de particuliers. » (Conférence de presse à l'issue du Conseil européen : Bruxelles - Vendredi 14 décembre 2012)

ⁱⁱⁱ “Il recupero dell'evasione deve diventare uno strumento per migliorare l'efficienza del sistema economico in un quadro più equo.” (Task Force per lotta all'evasione fiscale, 28 Febbraio 2012)

^{iv} Figures from *European Economic Forecast Spring 2012* and *European Economic Forecast Autumn 2012: Economic and Financial Affairs*, 2012

^v See for example Guardian, 7 January 2013

^{vi} Tax reforms in EU Member States: Tax policy challenges for economic growth and fiscal sustainability – 2012 Report, European Commission 2012

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^{viii} Measuring tax gaps 2012: Tax gap estimates for 2010-11, HM Revenue and Customs, October 2012

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^{xi} Finnish Tax Administration : Annual report 2011

^{xii} La fraude aux prélèvements obligatoires et son contrôle, Cour de comptes, March 2007

^{xiii} Study to quantify and analyse the VAT gap in the EU-25 Member States, Reckon LLP, September 2009

^{xiv} House of Commons Committee of Public Accounts: HM Revenue & Customs: Annual Report and Accounts 2011–12; Nineteenth Report of Session 2012–13, November 2012

^{xv} Dimanche Plus 10 February 2013

^{xvi} Le Monde 18 January 2013

^{xvii} III Rapporto Eures: Legalità ed evasione fiscale in Italia viste dai cittadini, October 2012

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^{xxii} Tax Administration in OECD and Selected Non-OECD Countries: Comparative Information Series (2010), OECD 3 March 2011

^{xxiii} Information note: Working smarter in structuring the administration, in compliance, and through legislation. OECD January 2012

^{xxiv} Rapport du syndicat national Solidaires Finances Publiques : Evasions et fraudes fiscales, contrôle fiscal, January 2013

^{xxv} Rapport fait au nom de la commission d'enquête sur l'évasion des capitaux et des actifs hors

de France et ses incidences fiscales N° 673 Sénat session extraordinaire de 2011-2012

^{xxvi} Bericht nach § 99 BHO über den Vollzug der Steuergesetze, insbesondere im Arbeitnehmerbereich, Bundesrechnungshof, January 2012

^{xxvii} HM Revenue & Customs: Customer service performance; Report by the National Audit Office, December 2012

^{xxviii} Annual Report 2011: Eighty-ninth Annual Report of the Revenue Commissioners for the year ended 31 December 2011

^{xxix} Administration and effectiveness of HM Revenue and Customs: House of Commons Treasury Committee, July 2011





^{xxx} Information note: Working smarter in structuring the administration, in compliance, and through legislation. OECD January 2012

^{xxxi} Finnish Tax Administration Annual report 2011

^{xxxii} Billions for the taking, ABVAKABO 2012

^{xxxiii} House of Commons Committee of Public Accounts: HM Revenue and Customs: Compliance

and Enforcement Programme Eighty-seventh Report of Session 2010–12, May 2012

^{xxxiv} Bericht nach § 99 BHO über den Vollzug der Steuergesetze, insbesondere im Arbeitnehmerbereich, Bundesrechnungshof, January 2012

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^{xxxvi} House of Commons Committee of Public Accounts: HM Revenue & Customs: Annual Report and Accounts 2011–12; Nineteenth Report of Session 2012–13, November 2012

^{xxxvii} Agenzia delle Entrate: Bilancio di esercizio 2011

^{xxxviii} La Agencia Tributaria : Memoria 2010

^{xxxix} The Norwegian Tax Administration : Annual report 2011

^{xl} Republic of Slovenia : Ministry of Finance: Tax administration annual report : 2010

^{xli} House of Commons Committee of Public Accounts: HM Revenue and Customs:

Compliance

and Enforcement Programme Eighty-seventh Report of Session 2010–12, May 2012



Annex

Employment in tax authorities and similar bodies: 2007 to 2011

Country	Name of body	2007	2008	2009	2010	2011	Change (number)	Change (percent)
Austria	Steuer und Zollverwaltung		7,865	7,761	7,501		-364	-4.6%
Belgium	SPF Finances	31,764	31,343	30,576	30,042	29,297	-2,467	-7.8%
Bulgaria	National Revenue Agency		7,796	7,335	7,708		-88	-1.1%
Cyprus	Inland Revenue Department		570	590	574		4	0.7%
Czech Republic	České Daňové Správy	15,575	15,408	25,391	14,744	14,662	-913	-5.9%
Denmark	Skatteministeriet	8,858	7,232	6,730	5,995	6,320	-2,538	-28.7%
Estonia	Ministry of Finance	2,782	2,693	2,481	2,507	2,572	-210	-7.5%
Finland	Tax Administration staff	6,031	5,930	5,663	5,466	5,367	-664	-11.0%
France	DGFIP		126,586	124,617	121,929	117,964	-8,622	-6.8%
Germany	Finanzverwaltung (Bund & Laender)	190,838	187,451	186,994	186,760	187,149	-3,689	-1.9%
Greece	Ministry of Economics		12,280	11,892	11,555		-725	-5.9%
Hungary	National Tax and Customs Administration		15,635	15,607	15,607		-28	-0.2%
Ireland	Irish tax and customs				6,076	5,962	-850	-13.0%
Italy	Agenzia delle Entrate	36,030	35,568	33,584	33,238	33,047	-2,983	-8.3%
Latvia	VID (State revenue service)	5,029	5,074	4,461	4,176	4,147	-882	-17.5%
Lithuania	VMI (State Tax Inspectorate)		3,986	3,676	3,585	3,312	-674	-16.9%
Luxembourg	Administration des Contributions directes & AED	898	910	915	915	914	16	1.8%
Malta	Inland Revenue Department		257	253	241		-16	-6.2%
Netherlands	Belastingdienst	30,970	30,894	30,707	29,964	29,010	-1,960	-6.3%
Norway	Skatteetaten	6,032	5,814	6,135	6,087	5,943	-89	-1.5%
Poland	Ministerstwo Finansów		48,454	48,203	48,735		281	0.6%
Portugal	Ministry of Finance	15,569	15,155	14,536	14,035	13,760	-1,810	-11.6%
Romania	National Agency for Fiscal Administration		31,281	30,793	29,421		-1,860	-5.9%
Slovakia	Daňové Riaditeľstvo Slovenskej Republiky	5,925	5,731	5,730	5,698	5,544	-381	-6.4%
Slovenia	Davčna uprava Republike Slovenije	2,627	2,586	2,554	2,526	2,506	-121	-4.6%
Spain	La Agencia Tributaria	27,165	27,951	27,755	27,880	27,613	448	1.6%
Sweden	Swedish Tax Agency	11,259	10,802	10,419	9,922	10,267	-992	-8.8%
UK	HM Revenue and Customs	92,110	90,960	88,870	82,960	74,380	-17,730	-19.2%
Total jobs lost							-49,907	



Notes and sources:

Figures for changes are for longest period in table; those not between 2007 and 2011 are in italics; the figures for change in Ireland are based on the Revenue Commissioners' report of a 13% of jobs lost

Sources as follows

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Figures for Austria, Bulgaria, Cyprus, Greece, Hungary, Malta, Poland and Romania from Intra-European Organisation of Tax Administrations
www.iota-tax.org





EPSU is the European Federation of Public Service Unions. It is the largest federation of the ETUC and comprises 8 million public service workers from over 275 trade unions; EPSU organises workers in the energy, water and waste sectors, health and social services and local and national administration, in all European countries including in the EU's Eastern Neighborhood. EPSU is the recognized regional organization of Public Services International (PSI).

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