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The interconnections between tax crimes and corruption in the United Kingdom

Author
Dr. Branislav Hock

September 2021
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The interconnections between tax crimes and corruption in the United Kingdom

Dr. Branislav Hock
Senior Lecturer in Economic Crime at the University of Portsmouth
branislav.hock@port.ac.uk

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Introduction

Policing corporate economic crime and especially tax crime presents a regulatory challenge. Value Added Tax (VAT) fraud, for example, often includes complex interactions between multiple foreign subcontractors and other companies. Moreover, tax systems may feature inequalities, being it economic, legal, and political inequalities, allowing for an improper tax advantage by bending the rules of the tax system, taking advantage of the technicalities of a tax system or mismatches between two or more tax systems. When investigating and prosecuting tax fraudsters and other criminals, criminal justice agencies face substantive, procedural, and operational obstacles. In the UK, this is accompanied by a complex set of legislative and regulatory mechanisms targeting both criminals and those that facilitate tax crimes.

This report will explore, from a phenomenological perspective, the interconnections between tax crimes and corruption in the UK, so to identify relationships that exist between fraudulent and corrupt practices in the area of taxation with a focus on VAT fraud. The report will begin by analysing the UK legal framework related to tax evasion as well as to corrupt business practices such as bribery and money laundering. It will then move on to explore first, key interconnections between tax crimes and corruption, before examining UK-specific issues associated with professional enablers, fighting MTIC fraud, and corporate transparency. The report will then move to consider the concept of collective action, before using it to contribute to the development of a phenomenological concept of fiscal corruption. The report will end by considering how the practices of fiscal corruption can be countered.

1. The legal framework in the United Kingdom

This section aims to critically discuss the most significant pieces of UK domestic legislation in relation to the fight against tax crimes and corruption with a special focus on VAT fraud. This discussion will set the necessary legal context for the critical analysis of interconnections

between tax crimes and corruption (section 2) as well as the VIRTEU research topics (section 3).

1.1. Tax evasion offences

Tax evasion includes deceiving or cheating of the tax authorities. In its essence, the term refers to a deliberate and illegal reduction of tax liability. This means that a person deliberately not declare and account for the taxes that they owe (HM Treasury, 2019: 6; see also House of Commons, 2020: 5-8).[1] This includes paying too little tax as well as various types of fraudulent tax refund claims.

Some of the most important VAT tax-related offences include:

a) Cheating the public revenue (common-law offence);
b) Fraudulent evasion of VAT (section 72 of the Value Added Tax Act 1994);
c) Failure to prevent the facilitation of tax evasion (the Criminal Finance Act 2017).

1.1.1 Cheating the public revenue

While tax frauds are criminalized in England and Wales by a number of statutory offences such as the fraudulent evasion of VAT, the most serious tax evasion offences are dealt with by the common law offence of cheating the public revenue. Consider, for example, the application of common law in the case of the Berkshire-based gang that orchestrated a missing trader intra-community (MTIC) VAT fraud. Through the scheme, the gang defraud £34 million in VAT and laundered £87 million after selling illicit alcohol. Nine fraudsters have been jailed for more than 46 years (HMRC, 2019).

The theft of VAT from a government by organised crime groups often involves the exploitation of differences in how VAT is treated in different EU Member States. It is well known that the MTIC fraud is the most common form of VAT fraud (Europol, n.d.). In the UK, the legal grounds for criminal prosecution of MTIC schemes is defrauding or cheating the general public (R v

[1] Similarly in the US, Section 7201 of the Internal Revenue Code provides: "Any person who willfully attempts in any manner to evade or defeat any tax imposed by this title or the payment thereof shall […] be guilty of a felony […].

Hudson, 1956). Cheating the public revenue is a so-called conduct offence which means that actual loss does not have to materialize in order for an offender to be held criminally liable. Moreover, it is an established principle in case law that a deception is not a necessary ingredient of this common law offence (R v Mavji, 1987). In *R v Mavji* (1987), for example, the court deemed sufficient that the defendant failed to register for VAT with dishonest intent to evade tax.

Nevertheless, the UK prosecutors must prove the dishonesty of an offender beyond reasonable doubt. Case law has made this task easier in recent years. In *Ivey v Genting Casinos* (2017: 27), the court established a two-stage test to determine whether a defendant acted dishonestly:

1. The first question is what was the actual (subjective) state of the individual's knowledge or belief as to the facts (and whether such belief is genuinely held).
2. The second question is whether the conduct was honest or dishonest as determined by objective standards of ordinary decent people. This question needs to be answered irrespective of the defendant's actual belief about the fact.

This overrules the long-standing test that maintained that one must view their actions as dishonest as set out in *R v Ghost*. In other words, *Ivey v Genting Casinos* makes a subjective view of the defendant, whether their behaviour would be regarded as dishonest by ordinary people, irrelevant (see McEvoy, 2017). The above analysis illustrates the breadth of the common law offence. This breadth helps the UK enforcement authorities to capture the complexity of MTIC schemes such as the Berkshire gang scheme.

As will be seen in the following section, the common law offence of cheating the public revenue overlaps with statutory tax offences. Historically, the common law offence has been considered as more appropriate than statutory offences for prosecuting serious crimes (R v Mavji, 1987). This is because the common law offence is not limited by statutory maximum penalties and carries a maximum penalty of life imprisonment. It must be noted that the Sentencing Council has published offence specific guidelines that every court must follow

unless it would be contrary to the interests of justice. For example, the guideline suggests that where the offending is on the most serious scale, involving sums significantly higher than £50 million, sentences of 15 years and above may be appropriate depending on the role of the offender (Sentencing Council, 2014).

1.1.2 VAT fraud – the Value Added Tax Act 1994

Distinct offences to the common law offence of cheating the public revenue are tax offences under section 72 of the Value Added Tax Act 1994 (VAT Act). Most importantly, section 72 of the VAT Act provides a specific offence related to the fraudulent non-payment of VAT as well as fraudulent VAT claims by way of refund and repayment.

a) Fraudulent evasion of VAT: Under section 72(1) the VAT Act 1994, it is a criminal offence to be knowingly concerned with the fraudulent evasion of VAT. The fraudulent evasion includes the amount (if any) that is falsely a) claimed by way of credit for input tax; b) understated in the context of the output tax; and c) claimed by way of refund or repayment.
b) Furnishing false information: Under section 72(3) of the VAT Act, it is a criminal offence if any person, with intent to deceive, produces, furnishes, sends, or otherwise makes use any document which is false. It is also an offence if a person makes any statement, they know to be false or recklessly make a statement which is false.

For most offences under section 72 of the VAT Act, the maximum penalty on conviction is 7 years imprisonment and/or an unlimited fine.

Moreover, section 69C of the VAT Act gives powers to HMRC to impose fixed penalties for all entities entering into a transaction connected with the fraudulent evasion of VAT who knew or should have known that such translation may be associated with fraud.[2]

[2] See section 2.2 below discussing the MTIC fraud.

It is worth noting that VAT evasion-related offences are also present in a number of other statutes. For example, VAT frauds related to the smuggling of goods can be prosecuted under section 170 of the Customs and Excise Management Act 1979.

1.1.3 Failure to prevent the facilitation of tax evasion

Under the Criminal Finance Act 2017 (CFA 2017), incorporated bodies and partnerships (further referred to as businesses) can be held liable if they fail to prevent the facilitation of tax evasion of their associated persons. The CFA establishes two offences:

1) UK tax evasion offence (section 45 of the CFA);
2) Foreign tax evasion offence (section 46 of the CFA).

Under section 45(4) of the CFA, the original UK tax evasion offence includes both the cheating of the public revenue offence and the fraudulent evasion of a tax (this is similar to section 46(5)c of the CFA that focuses on foreign tax evasion). This indicates that the CFA, in fact, does not introduce new substantive offences. Rather, sections 45 and 46 of the CFA newly impose a strict liability on UK businesses and foreign businesses.

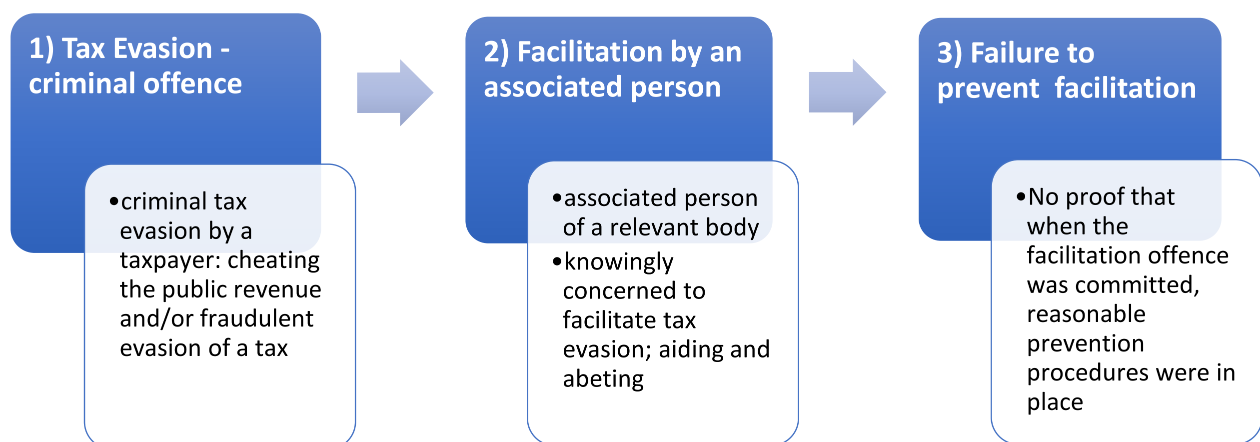

Figure 1: Elements of the strict liability offences of the failure to prevent facilitation of tax evasion

The model of strict liability consists of three steps. These are illustrated in Figure 1.

1) There must be a criminal tax evasion offence committed by a taxpayer. A taxpayer can be, for example, a client of a business.[3]
2) The facilitation of a criminal tax evasion must be committed by an "associated person". Such an associated person is under section 44(4) of the CFA a person that acts in the capacity of a business (and not in a personal capacity). This is a person who performs services for or on behalf of a business. A person may be an employee, an agent, but also other persons such as subsidiaries, contractors, and consultants (Home Office, 2017: para 289).[4] Section 45(5) of the CFA provides the definition of the UK tax facilitation offence which includes, for example, that an associated person shall be "knowingly concerned in, or in taking steps with a view to, the fraudulent evasion of a tax by another person" or be aiding and abetting such evasion offence. For the foreign tax evasion offence under section 46(6) of the CFA, there is, again, the requirement of dual criminality.
3) A business fails to prevent its associated person from facilitating tax evasion. Under sections 45(2) and 46(3) and (4) of the CFA, it is a defence to prove that, when the tax evasion facilitation offence was committed, a business had in place such prevention procedures as it was reasonable in all the circumstances to expect (or that it was not reasonable in all the circumstances to expect having such procedures). The question how reasonable preventative measures should look is further discussed in section 3.

The adoption of the "failure to prevent" offences in the area of tax evasion follows the successful introduction of this model of corporate liability in the area of foreign anti-bribery law (see section 7 of the UK Bribery Act 2010). The two tax evasion offences, however, go even further than the failure to prevent bribery offence. Unlike in the area of anti-bribery law, anti-evasion law does not require enforcement authorities to show that the associated person was acting in order to obtain or retain business or an advantage in the conduct of business

[3] Note that the requirement of "dual criminality" must be present in the context of the foreign tax evasion offence under section 46(5). It means that if a foreign conduct is not criminal in the UK, section 46 does not apply. Moreover, a foreign tax evasion offence shall be criminal under the foreign law in question.

[4] Note that the notion of associated person is identical to that of section 8 of the Bribery Act 2010.

for a corporation or a partnership. Moreover, as illustrated in Figure 1 above, the liability is based on a three-stage process in which the original substantive offence is removed twice from the relevant business. Under the UK Bribery Act (the Bribery Act), only two steps are involved – bribery by an associated person and the failure to prevent it (Copp and Cronin, 2018: 11).

1.2. UK law against corrupt business practices

Many economic crime schemes whether they relate to tax frauds, international bribery, and money laundering, feature similar patterns in that perpetrators use complicated systems of corporate veils to hide the true identity of business owners, the source of funds, and the purpose of their business. This is important because large tax frauds will often feature other crime types and regulatory violations. We will see in chapter 3 that, from the perspective of EU action against those crimes and regulatory violations, measures adopted in the context of one crime type, such as money laundering, are also relevant in the context of other crime types, such as tax evasion. Being it question of investigation, enforcement, sanctions, and international cooperation, the quest for policy-makers and other relevant bodies is to identify linkages between underlying legal mechanisms and institutional structures, and utilize advantages associated with substantive overlaps. The importance of these substantive overlaps justifies the following introduction of the most important legislative alternatives to anti-tax fraud legislation, namely international anti-bribery law and anti-money laundering law.

1.2.1 International bribery – the UK Bribery Act 2010

The Bribery Act is considered as one of the strictest and most comprehensive anti-bribery statutes in the world (Hock, 2020a: 54-55). It criminalises both active bribery which takes place when a person offers, promises or gives an advantage to another person to induce or reward a person for the improper performance of a relevant function or activity (section 1(2) and (3)), as well as passive bribery, which takes place when a person requests, agrees to receive or accepts an advantage intending that, in consequence, a relevant function or activity

should be performed improperly (section 2(2) and (3)). Importantly, the Bribery Act applies not only when a relevant function is of a public nature, but also regarding any private-to-private bribery (section 3(2)).[5] The Bribery Act enables punishment of individuals with a sentence of up to ten years and an unlimited fine (Section 11(1)). Legal persons can also face an unlimited fine (Section 11(2) and (3)).

The Bribery Act was adopted in response to significant criticism of the Organisation for Economic Cooperation and Development's Working Group on Bribery (OECD, 1999). The Bribery Act implements requirements of the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions and criminalises bribery of foreign public officials (section 6). This means that this is a criminal offence under the UK law if, for example, a business bribes a foreign government official in order to obtain or retain business in an overseas jurisdiction.

The Bribery Act is important for the analysis of tax frauds and tax evasion for at least two reasons. The first reason is the substantive link between bribery and tax evasion. Clearly, a bribe is, from the point of a briber, an expense, and, from the point of a bribee, an income (see Beach, 2016). For example, a corporate briber will need to declare a bribe as a legitimate business expense, hence falsifying their books and records. The bribed person will then likely not declare all income to the tax authority, hence being a tax cheat. Especially in large international bribery schemes, tax authorities are under increasing pressure to detect international bribery more actively when investigating tax evasion cases (OECD, 2017).

The second reason is the fact that the failure to prevent the facilitation of tax evasion offence is to a large extent inspired by section 7 of the Bribery Act. Under section 7, a commercial organisation can be held criminally liable for its failure to prevent bribery of its associate persons. Under section 7(2), similarly as in the case offences of the failure to prevent facilitation of tax evasion, there is a defence available for a commercial organisation which

[5] Note that The UK Bribery Act 2010 Guidance indicates that "It is recognised that there are circumstances in which individuals are left with no alternative but to make payments in order to protect against loss of life, limb or liberty. The common law defence of duress is very likely to be available in such circumstances."

proves that it had in place adequate procedures designed to prevent its associated person from undertaking bribery. While we have not seen any prosecution of tax evasion based on "the failure to prevent" offence, corporations paid billions in financial sanctions in cases involving section 7 of the Bribery Act. Consider, for example, SFO v Rolls Royce plc [2017], SFO v Airbus SE [2020], and SFO v Amec Foster Wheeler Energy Limited [2021].

1.2.2 Money Laundering

Tax evasion and tax frauds are closely related to money laundering (OECD, 2019a). Not only in that tax crimes are predicate offences of money laundering (FATF, 2012), but criminals employ substantively similar techniques to clean the proceeds of their crimes and to evade taxes. The UK approach in this area is significantly influenced by various international efforts, such as the OECD Recommendation to Facilitate Cooperation between Tax and Other Law Enforcement Authorities to Combat Serious Crimes, that aim to increase the understanding of the common practices in these sub-fields of economic crime and enhance cooperation between tax authorities and anti-money laundering (AML) authorities. Clearly, the substantive linkages between tax crimes and money laundering present an opportunity to utilize existing AML measures and frameworks to fight tax evasion and tax frauds.

Whether it be criminals that want to legitimize proceeds of their crimes, professionals that help them to do so, or financial institutions and other gate-keepers that may turn a blind eye on these activities, the UK system provides a complex system of laws and regulations against money laundering. This is not different from the Member States of the EU that have also implemented Financial Action Task Force (FATF) recommendations and a number of international conventions, such as the United Nations Convention Against Transnational Organized Crime, and the EU AML Directives.[6]

In this context, the UK AML laws moved beyond their primary focus on the fight against illegal drugs, organised crime, and the prevention and detection of money laundering by financial

[6] The 4th AML Directive (2015/849) and the 5th AML Directive (2018/243) take into account the FATF recommendations and go further on a number of issues such as beneficial ownership information. In addition, please note that the UK has opted out from complying directly with the 6th AML Directive (2018/1673).

institutions, to the regulation of new entities and professionals such as estate agents, lawyers, and payment providers. The UK Proceeds of Crime Act 2002 (POCA) defines the offence of money laundering (part 7), deals with restrain orders and confiscations orders (part 2)[7], and established an obligation to various entities to report suspicious activities to the National Crime Agency (NCA) (part 7). Furthermore, the UK also includes a complex system of secondary legislation, especially as provided in the Money Laundering Regulations 2017 (MLR).

Furthermore, a criminal conviction is not needed to pursue the proceeds of unlawful conduct. The freezing orders (part 5 of POCA), civil recovery orders (part 5 of POCA), and unexplained wealth orders (UWOs) (section 362A-362I of POCA) give the UK enforcement authorities unique powers to impact on the wealth and status of people who operate at the high end of a high risk (NCA, n.d.). Moreover, NCA can tax criminal income provided it has reason to suspect that someone's income has criminal origin (part 6 of POCA).[8]

2. Interconnections between tax crimes and corruption

The aim of this chapter is to investigate the interconnection between tax crimes and corruption. This is undertaken by analysing the UK's approach against economic crime and its relationship to the EU's approach. The chapter first examines the grey area between legitimate levels of tax planning and illegitimate practices associated with tax evasion and corruption. Secondly, the chapter analyses the UK's response to MTIC fraud. The third sub-chapter provides a discussion about challenges associated with tax transparency and beneficial ownership.[9]

[7] Note that the UK authorities can also apply the "criminal lifestyle" provision of the POCA to increase the recovery of the proceeds of unlawful conduct. In essence, shall a person be found to have a criminal lifestyle under section 75 of POCA, the calculation of their benefit figure will be based on the examination of their financial history over a six-year period. Their benefit figure not be limited to alleged benefit associated with criminal conduct in question. This will very likely lead to a higher benefit figure.

[8] Note that tools allowing non-conviction-based confiscation are also part of the FATF's Recommendation 4 (FATF, 2012).

[9] Please note that there are multiple other issues such as online VAT fraud and new responsibilities of online marketplaces for preventing tax fraud and collecting VAT on behalf of their sellers. These are outside the scope of this report.

2.1 Power, corruption and tax

The UK is one of the leading financial services centres in the world. The limited restrictions on establishing business in the UK and the volume of transactions present opportunities for criminals to exploit the system. Moreover, the lack of transparency associated with owners of legal entities, especially those registered in the Crown Dependencies and Overseas Territories, and aggressive tax planning practices raise questions of the legitimate creation of economic value.

In recent years, the taste of the society for more equality in paying corporate taxes has increased. One question is whether the fact that UK tax returns of foreign multinationals are half of comparable domestic corporations, and that thanks to profit shifting more than half of those foreign multinational subsidiaries report zero taxable profits, is fair and equal (Bilicka, 2019). In addition, the Panama Papers, Paradise Papers, FinCEN and other recent leaks of financial information have further raised the public demand for transparency, equality, and fairness.

Academics also contribute to the discussion about equality and fairness of socio-legal systems. In this discussion, corruption is often not viewed as an offence or a transaction. Rather, corruption is considered as a political phenomenon that reflects inherent inequalities in society (Johnston, 2010). In this context, history suggests that modern societies are successful because they feature inclusive economic and political institutions (Acemoglu & Robinson, 2016). These institutions are characterized by pluralism, political centralization, law and order, and secured property rights (*ibid*).

Having more inclusive economic and political institutions implies less corruption. Inclusive economic and political institutions make it more likely that the society at large would consider many forms of inequality as illegal. Yet, the illegality or criminalisation of certain forms of corruption does not imply its existence or non-existence. In other words, there are many forms of corruption that are legal. Teachout (2014), for example, discusses how the French king gave Benjamin Franklin an expensive gift. The gift raised concerns whether the politician

was able to use his own independent judgment when negotiating with the king. More than 200 years later, the US Supreme Court confirmed the right of corporations to provide unlimited contributions to outside groups to influence elections. This raises huge questions about public interest and private interest, excessiveness and greed (Teachout, 2014). Under this view, corruption is a political dilemma associated with the distribution of power and wealth, rather than an illegal transaction (Johnston, 2010).

It must be noted that the discussion about corruption as a political phenomenon is an alternative to the Transparency International definition, "the abuse of entrusted power for private gain", which is consider as the mainstream (see Sullivan, 2009: 6). While this definition of corruption is predominantly used for policy purposes, it is reflected in how various forms of corruption are criminalised under international law and national laws. Consider, the United Nations Convention against Corruption (UNCAC), which avoids further defining the term corruption, preferring instead to rely on a set of specific types of corruption offences such as bribery, embezzlement, trading in influence, abuse of function, illicit enrichment, and money laundering. Moreover, establishing a set of specific corruption offences is the mainstream approach in many national legal systems (OECD, 2007).

When enforcement authorities are investigating corruption and building their prosecution, it is important to have a clarity of what constitutes a crime. At the same time, the criminal justice system should integrate a broader understanding of corruption in order to prevent the exploitation of legal loopholes, especially by those in the position of power. The intersection between tax avoidance and tax evasion is one key example that illustrates the relative importance of both the broad understanding of corruption and the narrow one.

2.1.1 Degrees of tax planning

Before embarking on how the UK treats tax avoidance, we require some minimum conceptual discussion about tax evasion, tax avoidance, and tax planning.

Table 1 provides working definitions of key terms. These terms represent various degrees of tax planning. The key problem in this conceptual discussion is a grey zone between legitimate

tax planning and immoral, illegitimate, and perhaps unlawful tax avoidance. Jallai (2020: 66-74) argues that tax avoidance schemes are driven by a desire of multinational corporations to rearrange their business in a way to formally comply with the letter of the law, while acting against its spirit. In doing so, they are not only rearranging their legitimate business activities but also artificially setting up entities and processes that lack real justification. In addition, the conceptual discussion includes the term "aggressive tax planning". While the Organisation for Economic Cooperation and Development (OECD) and EU documents often refer to aggressive tax planning, academics suggest that this is not a legal term. Rather, as academics argue, aggressive tax planning should be used as a principle that facilitates a policy change and constructs the limits of legitimate tax planning (Jallai, 2020: 71-74).

Table 1: Degrees of tax planning	
Tax planning and mitigation	Involves legal responses to tax legislation and acting in compliance with the purpose of legislation. For example, using tax reliefs for the purpose intended by the legislator.
Tax avoidance	Involves "bending the rules of the tax system to gain a tax advantage that Parliament never intended." (HM Treasury, 2015: 5).
Aggressive tax planning	Consists "in taking advantage of the technicalities of a tax system or of mismatches between two or more tax systems for the purpose of reducing tax liability." (European Commission, 2012: 2). The term overlaps with the term tax avoidance. The term is criticized by academics for its ambiguity (Jallai, 2020: 71-74).
Tax Evasion	Is always illegal. It is a deliberate and illegal reduction of tax liability

This conceptual discussion raises questions of practical relevance. When, for example, immoral, illegitimate, and perhaps unlawful tax avoidance becomes tax evasion? The answer lays not only in adopting new legislation, but also in our understanding of how actually corporations avoid taxes (see Meldgaard et al., 2015). The lack of knowledge about how taxes are avoided implies lower estimates of tax gap.

2.1.2 The loss associated with tax evasion and tax avoidance in the UK

There is a growing body of evidence that tax evasion and tax avoidance are a significant problem in the UK. According to an official statistic of HMRC released in July 2020, the tax gap is estimated to be £31bn in 2018-2019 (HMRC, 2020a). This represents 4.7% of tax liabilities. In this context, **the VAT tax gap represents** 10bn, which is 32% of the total tax gap. VAT gap represents the second highest tax loss following after the 12.1bn (39%) loss associated with personal income taxes. According to earlier estimates, VAT losses due to extra-EU distance sales of goods are between £1 to £1.5 billion every year in the UK, which represents 8-12 % of the VAT gap (ECA, 2019: 35; NAO, 2017: 19). In comparison, the MTIC fraud presents 4% of the VAT gap (*ibid*). It is estimated that **in 2018/19 the loss from tax avoidance was £1.7bn (5%), while the loss associated with tax evasion was £4.6bn (15%). It must be noted, however, that when conducing these estimates, HMRC operates with narrow definitions of tax avoidance and tax evasion.**

HMRC excludes from its estimates of the loss associated with tax evasion various types of VAT tax frauds. If we stick to a broad definition of tax evasion – including not only the reduction of tax liabilities, but also criminal acts associated with it, for example, VAT repayment fraud and the MTIC fraud – the loss from tax evasion is much higher. Criminal attacks present **£4.5bn (14%) loss and the so-called criminal schemes, situations in which an entire source of income is not declared, £2.6bn (9%)**.

Moreover, **HMRC includes in their estimate a category of "legal interpretation" as the source of tax gap, accounting for £4.9bn (16%)**. **Many high-level aggressive tax avoidance schemes, however, are not reflected in the estimate because HMRC considers them legal. For example, the tax gap excludes profit shifting.**

The loss from tax avoidance and tax evasion is at least £6.3bn (20% of the tax gap)

The cost of tax evasion is much higher when tax frauds are included

The cost of tax avoidance is estimated £0.1bn in the context of VAT

It must be noted that tax avoidance is according to HMRC estimates mainly the matter of corporate tax, personal income taxes, and other direct taxes – representing cumulatively **£1.6bn tax loss (HMRC, 2020a: 14). The estimates show that VAT** avoidance is a small proportion of the tax gap – only **£0.1bn.**

HMRC has been criticized for understating the tax gap (Murphy, 2019b). Other estimates, suggest that the loss associated with tax avoidance and tax evasion is much higher (Murphy, 2019a). Murphy (2019b), for example, estimates that the cost of evasion is more than £70bn and the cost of tax avoidance £11bn. What remains clear is that tax evasion and tax avoidance are very costly for the UK society.

2.1.3 Fighting professional tax evasion and avoidance in the UK

Tax avoidance has become a huge business in at least two different ways. The first is associated with the effort of multinational corporations to optimize their tax planning. The second is associated with professional promoters and enablers of tax avoidance schemes.

The case of General Electric illustrates how large multinational corporations have transformed their tax departments into money-making machines operated by thousands of tax lawyers. In effect, not only that many corporations pay hardly any taxes, but they often book positive tax benefits (Kinder & Agyemang, 2020). The times may be changing as HMRC has become more active in tackling aggressive tax avoidance and tax evasion. Most recently, HMRC has accused General Electric of fraudulent misrepresentation in order to gain a tax advantage in the UK worth $1bn (Kinder, 2020). Moreover, the General Electric case suggests how tax avoidance schemes might be accompanied by various corrupt acts. For example, making misrepresentations to the Government could ultimately lead to the penalisation of a corporation for aggressive tax avoidance.

While the General Electric case features “only” a contract law dispute between HMRC and the corporation (Tax Watch, 2020), it illustrates how the UK is taking a more proactive and critical stand against complex tax avoidance schemes. It is true that HMRC does not bring criminal charges against corporations and their advisors for dishonest tax avoidance.

Nevertheless, in the last decade, the UK has not only significantly increased its effort to tackle tax evasion but also started tackling certain forms of tax avoidance.

For example, the UK has adopted comprehensive anti-avoidance rules that to a large extent meet, or even exceed, the minimum standards set out by the EU law, for example, those in the EU's Anti-Tax Avoidance Directive (ATAD) (2016/1164). More specifically, the general anti-abuse rule under part 5 of the Finance Act 2013 and profit shifting associated with controlled foreign companies under part 9A of the Taxation (International and Other Provisions) Act 2020 were largely already part of UK law before the ATAD (BBC, 2019a). Regarding other measures – such as anti-hybrid rules, which prevent companies from exploiting the legal characterisation of payments or entities to achieve a double deduction or similar hybrid mismatch result, and corporate interest restrictions, reducing tax liability through excessive interest payments – the UK has fully aligned with ATAD. The ATAD was created in response to the OECD recommendations and according to experts, it is not likely that Brexit will dramatically change these laws (*ibid*).

Given the evolution of the UK anti-avoidance policy and the emergence of UK anti-avoidance rules, the playing field for corporations and professional facilitators of avoidance schemes has changed. This is especially true when it comes to the UK's effort to tackle promoters of mass-marketed tax avoidance schemes (HMRC, 2020c). Table 2 summarizes the main UK instruments that aim to mitigate this type of tax avoidance.

Table 2: Fighting mass marketed tax avoidance and its promoters	
Instruments	**Substance**
The Disclosure of Tax Avoidance Schemes (DOTAS) and Disclosure of Avoidance schemes: VAT and other indirect taxes (DASVOIT)	These are rules designed to help HMRC obtain early information about tax avoidance schemes. DOTAS (direct taxes) and DASVOIT (indirect taxes) are two similar, but separate regimes that primarily oblige promoters of schemes to notify authorities of any new scheme. DASVOIT regime came into force in 2018 (replaced the old disclosure regime VADR) and HMRC can impose a penalty of up to £1 million to promoters that fail to make a disclosure. This is a complex system of primary, secondary, and tertiary legislation (see HMRC, 2018a).

The General Anti-Abuse Rule (GAAR) and Enablers Penalty Regime	The statutory GAAR, introduced by the Finance Act 2013, aims to prevent activities that reduce tax liabilities in a way that satisfy the letter of the law but are against its spirit. Many argue that HMRC was given strong powers that could be subject to misuse. This is why the system offers safeguards such as applying a “double reasonableness” test under section 207(2) of the Finance Act 2013, which requires HMRC to show that “abusive” tax arrangements cannot be reasonably regarded as a reasonable course of action. Moreover, HMRC is required to obtain the opinion of an independent advisory panel (House of Commons, 2020). Enablers Penalty Regime under schedule 16 Finance (No. 2) Act 2017 is similar to GAAR but focuses on those that are involved in the design and sale of abusive schemes.
Accelerated payment notice (APN)	APN requires taxpayers involved in avoidance schemes under DOTAS or GAAR to pay a tax that HMRC believes is owned. There is not a formal appeal against APN but a taxpayer can make representation.
Follower notices	A follower notice requires an amendment of a tax return. These notices are based on a final judicial ruling in another case which HMRC believes applies to disputes with those that are sent a follower notice. It is possible to ignore a follower notice but in case the disputed scheme does not work, there is a penalty of up to 50% of the additional tax payable (see Wood, 2019).
Promoters of Tax Avoidance Scheme (POTAS) and Serial Tax Avoider Regime (STAR)	Promoters of Tax Avoidance Scheme (POTAS) rules focus on highest risk promoters. HMRC can impose penalties of over £1 million and directly disrupt the promoter’s business. “A promoter is carrying on a business as a promoter if it carries on a business that includes or has included the design, marketing, implementation, organisation or management of avoidance schemes” (HMRC, 2015b: 11). The STAR regime focuses on the users – tax payers – of the avoidance schemes. If a tax payer, despite receiving a warning notice, continues using avoidance schemes, they may be sanctioned by penalties, being publicly named as serial tax avoiders, and be restricted to receive direct tax reliefs.

The complex set of rules focusing on fighting mass marketed tax avoidance and its promoters (see Table 2) have facilitated the closure of the avoidance gap by approximately £2 billion (HMRC, 2020d: 7). Nevertheless, the promoters of tax avoidance schemes are constantly

creating new schemes.[10] This is why HMRC regularly publishes information about new tax avoidance schemes on its website (HMRC, 2021b). What remains an issue are the so-called disguised remuneration schemes, based on “non-taxable” payments to people in place of their salary (*ibid*). The mitigation of the disguise schemes has become a policy priority in this area. The promoters of tax avoidance schemes, for example, started targeting workers returning to the National Health Service (NHS) to help respond to the Covid-19 pandemic (HMRC, 2020b).

2.1.4 Deregulation and tax collection

The extent to which society should accept aggressive tax planning is associate with a political choice over the extent to which the state should regulate the market. When and how public ordering should step in to rectify market failures has been discussed for decades (Hock & Gomtsian, 2018: 188). Here, the link between corruption, tax evasion, and tax avoidance reconnects with the discussion about inclusive political and economic institutions (Acemoglu & Robinson, 2016). These institutions should provide societal means to choose the extent of freedom given to businesses when planning their taxes.

From this perspective, a jurisdiction that provides more leeway to plan taxes has a competitive advantage over jurisdictions that provide less leeway. More specifically, while the stricter UK law determining an appropriate degree of tax planning and the HMRC’s more proactive action against undesirable forms of tax avoidance, might result in the collection of more taxes from the market, such approach might be associated with costs of making the UK market less attractive to international trade (Dean, 2011). This is associated with a bigger question of how countries that adhere to a collective standard benefit collectively, in economic and societal sense, and how they benefit individually.

[10] For example, in June 2021, HMRC published a guidance on tax avoidance using unfunded pension arrangements used to reward a director for the services they provide to a company in a way that seeks to avoid paying Income tax and National Insurance contributions, while obtaining Corporation Tax relief at the same time (HMRC, 2021a).

The exit of the UK from the EU's Internal Market policy is associated with new opportunities for the UK to start engaging in new types of deregulation and tax collection. This might include various types of VAT exemptions (see de la Feria & Krever, 2013) and free-trade arrangements, (Korver, 2018) including freeports. History, however, suggests that there is a risk that excessive deregulation benefit only a small elite and makes others worse off (Fisher, 2019).

The re-introduction of free trade ports has been part of the UK government plan to boost post-Brexit trade (HM Treasury, 2020). Free ports, for example, could boost the UK manufacturing and create new jobs (Barnard, 2018).

> Free ports are warehouses located in free zones. Customs' presence is not mandatory in free zones. Any non-EU goods can be introduced there without presentation and declaration to customs, free of import/ export duties and taxes (Articles 158 and 245 of the European Union Customs Code) […] (European Commission, 2019: 98)

Yet, freeports increase the risk of illicit activities associated with, for example, money laundering and tax evasion (Korver, 2018; Moiseienko et al. 2020). Moreover, Gilmour (2021) demonstrates that the secretive offshore space in which freeports operate helps to obscure beneficial ownership and illicit trade-based practices. This is associated with the lack of transparency and transaction control in freeports:

> Free ports offer high security and discretion and allow transactions to occur without attracting attention of authorities. Only the value of goods entering a free port needs to be declared via a self-declaration, which is usually not checked (Korver 2018). The goods can be traded in the safety of free ports without ever having been taxed. (European Commission, 2019: 99)

2.2 Tackling MTIC fraud

VAT-related evasion poses key, and direct, threat to the EU's financial interests as well as financial interests of its Member States.[11] At the EU level, the MTIC fraud has been considered as one of the most prevalent and costly forms of VAT fraud. This type of fraud involves

[11] Consider the definition of fraud affecting the Union's financial interests provided in Article 3 of Directive (EU) 2017/1271 of 5 July 2017 on the fight against fraud to the Union's financial interests by means of criminal law.

complex activities of organised criminal groups that exploit legislation that allows trading across the Member States without accounting for the VAT right away. For example, carousel fraud involves the import of goods through the chain of conspiring corporations, one of them being a missing trader. The role of the missing trader is to charge VAT to a customer, not declare and pay the tax, and disappear. The conspiring exporter then claims the reimbursement of VAT payments that never occurred (Europol, n.d.).

While it is very difficult to estimate the size of MTIC fraud (see European Commission, 2018a), existing data suggest that the problem is very significant. Europol (n.d.), for example, indicates that this type of fraud costs revenue authorities approximately €60 billion annually in tax losses (Europol, n.d.). Nevertheless, it must be noted that the share of the MTIC fraud on the VAT gap in the UK has decreased. According to HMRC, it has declined from a peak in 2005/2006, where it was between £2.5 billion and £3.5 billion, to between £0.5 billion and £1.0 billion in 2013-14, and has stayed broadly stable since (HMRC, 2015a: 27). The MTIC fraud causes 4% of the VAT gap whereas VAT losses due to extra-EU distance sales of goods are between £1 to £1.5 billion every year in the UK (ECA, 2019: 35; NAO, 2017: 19).

Arguably, when it comes to combating the MTIC fraud, the UK has been more successful than any other EU Member State (Corrective, 2019). Rod Stone, a leading tax fraud expert, summarized key reasons that helped the UK to fight effectively the MTIC fraud (*ibid*):

- The UK uses a holistic strategy to combat the VAT carousel fraud. This included new, and often untested, options to fight fraud. When the UK was facing a peak in the MTIC fraud in 2005, the UK authorities were able to increase the dis-allowance of import tax claims with respect to actors involved in carousel frauds.
- HMRC has strong investigatory powers associated with raiding business premises. These powers relate to both civil investigations under schedule 36 of the Finance Act 2008 as well as criminal investigations under the part 1 of the Police and Criminal Evidence Act 1984 (PACE). While strong powers are controversial (see House of Lords,

2018), HMRC was able to use them effectively to identify missing traders and cancel their VAT registrations (see Aldridge, 2017: 83-117).

- Moreover, the investigatory powers provided by part 8 of POCA 2002 makes the fight against MTIC more effective, including, for example, search and seizure warrants, a disclosure order, an account monitoring order, and an unexplained wealth order (UWO), and associated interim freezing order.
- The law on insolvency procedures provides a useful tool to recover the money associated with VAT fraud. While the recovery hardly comes from the missing trader, who is just an empty shell, the money can be recovered from the exporter and its directors. It is important to note that there is a more general link between the abuse of insolvency procedures and tax evasion. HMRC (2018b: 4) indicates that the so-called phoenixism, involving "the practice of running up tax liabilities in a limited liability entity, then avoiding paying them by making the company insolvent – and setting up a new company to carry out the same practice again.", is a serious issue and proper targeting of the issue is essential.
- The use of the so-called opportunity principle in enforcement. Unlike the legality principle common in many EU countries, the opportunity principle allows enforcement authorities to prosecute only cases with the biggest impact.
- The possibility of high criminal sanctions against individuals based on the cheating the public revenue offence. Consider, for example, the case with Dilawar Ravjani, one of fifteen individuals sentenced in a carousel fraud case, who was sentenced to seventeen years in prison (Guardian, 2012).
- HMRC can impose penalties for all entities entering into a transaction connected with the fraudulent evasion of VAT who knew, or should have known, that such transactions were associated with fraud (see Eskander, 2017). In addition, the offence of failure to prevent the facilitation of tax evasion also opens new opportunities for effective prosecution of associated persons.

While controversial in many respects, HMRC and other UK authorities have been proactive in tackling the MTIC fraud. And their creative ways of policing tax frauds have frequently been contested in front of the courts, for example, when innocent third parties involved in fraudulent schemes were refused to be granted VAT rebates.[12]

In addition, one of the most effective instruments in fighting the MTIC fraud has been the application of the domestic reverse charge mechanism, requiring all traders to account for VAT at the time of purchase (Frunza, 2009: 266-268). According to the amendment of the EU Directive on the common system of value added tax, the Member States can use this mechanism to combat fraud.[13] Article 199b then allows the possibility to use the Quick Reaction Mechanism:

> A Member State may, in cases of imperative urgency […] designate the recipient as the person liable to pay VAT on specific supplies of goods and services by derogation from Article 193 as a Quick Reaction Mechanism ("QRM") special measure to combat sudden and massive fraud liable to lead to considerable and irreparable financial losses.

This provision allows the Member States to derogate from a standard process that requires domestic suppliers of goods or services to charge the VAT to its customers.

The application of reverse charge is effective in fighting the MTIC fraud exactly because it prevents the missing trader from charging its customers the VAT tax amount and disappearing before paying the VAT due to the authorities. Unlike the standard system, the reverse charge mechanism prevents domestic suppliers from charging VAT on their invoices. This means that domestic suppliers are not receiving the VAT from customers. Rather it is the customer who needs to report both their purchase and their supplier's sale (European Commission, 2018b: 1-2).

[12] See Bond House Systems Ltd (Case C-484/03)).

[13] Council Directive 2013/42/EU of 22 July 2013 amending Directive 2006/112/EC on the common system of value added tax, as regards a Quick Reaction Mechanism against VAT fraud.

Being it electronic products-related frauds in early 2000s or carbon emissions trading frauds at the end of 2000s, HMRC applied the reverse charge mechanism in sectors fraudsters targeted the most. Furthermore, HMRC has decided to apply the mechanisms in the building and construction sector. The VAT reverse charge was applicable from March 2021 in order to mitigate organised tax fraud on labour (MPA, 2021).

2.3 Beneficial ownership and tax frauds

The UK financial system, the real estate market and professional service providers are particularly vulnerable to various forms of economic crime. Given the complexity and volume of transactions, we see strong evidence that some businesses within these sectors fail to sufficiently prevent economic crime, or they even willingly facilitate economic crime. In this section, we will focus on two main issues, 1) an effort to enhance global corporate transparency through the registers of beneficial owners, including criminal opportunities associated with the UK Overseas Territories and Crown Dependencies, and 2) loopholes in the UK domestic system of corporate transparency.

2.3.1 Beneficial Ownership and the UK

The lack of transparency in corporate finance has been highlighted as a major concern to have emerged from a series of scandals, including the Panama Papers and the Paradise Papers, associated with the use of complex corporate structures and anonymous shell companies (Transparency International UK, 2018). Not only do these scandals show thousands of celebrities and politicians engaged in dubious offshore business activities, but they also reveal how criminals use anonymous shell entities and secretive trust arrangements to hide their identity and the true nature of their transactions. At the EU level and globally, there has been a huge effort to enhance transparency through requiring corporations to disclose their beneficial ownership so that governments make it more difficult for criminals to use shell corporations for illegal financial activities and tax evasion (see Gilmour, 2020).

One frequently discussed instrument has been the register of beneficial owners. In some way, this effort has been a success. EU countries, some more successfully than others, have implemented registers of beneficial owners. According to Global Witness (2020), however, 17 of 27 Member States do not yet have a centralised register of the beneficial owners of companies which is open to all members of the public.[14] Only 5 of 27 Member States have implemented a public register which is free to access.[15] The UK was one of the first EU countries to implement the registers and belongs to this category.

Registers of beneficial owners are an important improvement in the EU's effort to increase corporate transparency and mitigate money laundering, tax frauds, and other economic crimes. While having their origin in the protection of the financial system by means of prevention, detection and investigation of money laundering and terrorist financing, they are widely recognized to serve a wider purpose. Tools and mechanisms associated with the EU corporate transparency reform, including automatic exchange of beneficial ownership information and the analysis of available data is also important in mitigating other economic crimes, including tax evasion.

While enhanced transparency of beneficial ownership is a way forward in limiting criminal opportunities and misuse of shell companies, the system has several loopholes. These loopholes are present both at the EU level as well as at the UK level. Most obvious loopholes are associated with the definition of beneficial ownership. Most definitions apply high thresholds of ownership or voting rights for an individual to be considered a beneficial owner. Such thresholds, however, can be circumvented relatively easily by establishing a circular ownership and employing other ownership layering techniques (see Gilmour, 2020).

Moreover, the standard of corporate transparency in the UK Overseas Territories and Crown Dependencies presents a major problem as, according to some studies, they remain major tax havens that proliferate corporate tax avoidance and evasion (Tax Justice Network, 2019

[14] These are Belgium, Croatia, Cyprus, Czechia, Finland, France, Greece, Hungary, Italy, Lithuania, Malta, Netherlands, Portugal, Romania, Slovakia, Spain and Sweden.

[15] These are Bulgaria, Denmark, Latvia, Luxembourg and Slovenia.

and 2020). In the British Overseas Territories, the UK Parliament has unlimited powers to legislate. Crown Dependencies are self-governing dependencies of the Crown, with their own legislative assemblies and legal systems (Ministry of Justice, n.d.). In practice, the UK interest to legislate for the Overseas Territories or pressure Crown Dependencies to legislate are stronger in the context of foreign policy and national security (House of Commons, 2019a: 13; House of Commons, 2019b). Also, because the UK considers certain AML measures as tools of foreign policy and national security, the Overseas Territories and Crown Dependencies have committed to introduce publicly accessible registers of beneficial owners of businesses registered in the Overseas Territories by 2023 (House of Commons, 2019a: 13; House of Commons, 2019b: 14-18; UK Government, 2020). Moreover, the UK has progressed in their collaboration with the Overseas Territories and Crown Dependencies in the area of international bribery (OECD, 2019b).

Nevertheless, academics argue that financial interests incentivise the UK to maintain the *status quo*. Blanco and Arjona-Sánchez (2020) argue that despite waging a public war against banking secrecy, the UK still operates the world's most sophisticated and secretive offshore centre through its relationship with the Overseas Territories and Crown Dependencies. Similarly, we see that according to t**he Financial Secrecy Index**, a ranking run by the Tax Justice Network, that ranks jurisdictions according to their secrecy and the scale of their offshore financial activities, the UK's efforts in this area are backsliding. In its 2020 edition, the index indicates that the UK increased its secrecy score more than any other country, placing 12th on the index (Tax Justice Network, 2020). Moreover, if the UK and its Overseas Territories and Crown Dependencies would be evaluated as a single entity, they would rank first on the index (*ibid*).[16]

[16] See also the Corporate Tax Haven Index, a ranking of jurisdictions most complicit in helping multinational corporations underpay corporate income tax. In this index, the UK is the world's 13 greatest enabler of global corporate tax abuse (Tax Justice Network, 2021).

2.3.2 UK domestic issues – disclosure compliance and company records

While we have seen huge progress in tackling the MTIC fraud, many relatively simple VAT frauds persist at the domestic level. False invoicing, manipulation of VAT liabilities and accounting schemes, and the deliberate failure to register for VAT are the most obvious examples. The enabler of these frauds is the fact that the UK is one of the easiest places to create a company: it can cost as little as £12 and take less than 24 hours (Bullough, 2019).

A British shell company presents a key opportunity to be exploited by fraudsters, especially in challenging times such as the global pandemic. The pandemic has been associated with a huge increase in government spending. The urgency of the spending presents huge opportunity for fraudsters to exploit the lack of checks and the ambiguity of underlying rules. In this context, the National Audit Office warned that since the Covid pandemic, the UK have faced a record level of new incorporations. In the second quarter of 2020, for example, we saw an increase of 3.6% in new incorporations (Thomas, 2020). Moreover, during this period, the number of dissolutions fell by 90%.

The key problem in the UK is the lack of company registration oversight by the UK Companies House in terms of disclosure compliance and proper verification of company records. It is true that since April 2016 most UK entities have been required to maintain beneficial ownership or persons with significant control registers and submit this information to Companies House for inclusion on its public website. Yet, the Companies House only checks whether required information were submitted; it does not have powers to verify whether the information is true and correct (see Shalchi & Mor, 2021). The Global Witness (2019) revealed that 336,224 companies simply said that they have no beneficial owner. The limited power and resources of the UK authorities to verify the submitted information seriously undermines the effectiveness of the regime, especially when considering that effective due diligence and verification processes has been considered as instrumental in limiting economic crime (see FATF, 2020). At present, high risk clients need to be subject to sophisticated checks and certifications during the onboarding stage and throughout the commercial relationship. Analogical checks are not applied when registering a company by the Companies House.

Experts suggest several options how to minimize the above-discussed loopholes. The first option is to increase resources and powers of public entities. With some obvious socio-economic costs, associated with an increasing presence of the state in private affairs as well as huge financial burden, the Companies House could be transformed from a mere administrator to an active regulator. Verification and monitoring of submitted information, in cooperation with other authorities such as HMRC, would be the cornerstone of this effort. A more proactive approach in terms of data collection as well as identification and analysis of suspicious activities is an obvious step forward. Moreover, an increase in enforcement and sanctioning of conduct associated with lying about beneficial ownership is also desirable.

The second option is to move more responsibilities to the private sector. This option would mean yet another increase in the presence of private sector in policing criminal activities, large business costs, as well as significant government costs in modifying and monitoring the system. Nevertheless, it is obvious that financial institutions and other obliged entities such as accountants and lawyers are in a good position to collect credible information about actual economic activity in the UK, where trading is taking place, and who really controls operating companies. Murphy (2020) argues that relevant entities should, for example, provide annual information to the Companies House and HMRC on their clients and total sums deposited by those clients in their bank accounts. While information is automatically exchanged by tax authorities at the international level, the UK does not require such automatic exchange with regards to companies trading in the UK.

The combination of the ease to establish a company in the UK, the lack of corporate transparency, and the lack of automatic exchange of information on domestic business activities presents an opportunity for tax fraudsters. Maybe paradoxically, this opportunity originates in exploiting loopholes in what is designed as purely domestic business activities. This may be a surprising finding given huge effort to prevent transnational corporate crime schemes.

3. Collective action and fiscal corruption

To identify key problems associated with tax frauds and suggest effective solutions, this chapter offers a collective action perspective. This chapter will discuss a collective action perspective in order to contribute to the development of a phenomenological concept of fiscal corruption. To illustrate the value of the perspective, the chapter will also analyse responses aimed at countering the practices of fiscal corruption and address the specific research topics of the VIRTEU project consisting of corporate criminal liability, whistleblowing, and the principle of *ne bis in idem*.

3.1 The collective action perspective

The collective action perspective is useful for structuring and evaluating responses to complex problems such as transnational tax fraud. The core of collective action is the provision of public goods (Olson, 1971). Many societal problems persist because states, public authorities, businesses, and community members fail to act collectively to resolve them (Hock, 2020a). Tax fraud is one such problem.

An effective and fair tax system is a public good, as are tools and mechanisms associated with policing tax frauds and other economic crimes. Tax fraud not only reduces tax collection and economic growth, but is also associated with negative externalities such as an increase of alternative taxes and misallocations in resource use (Torgler, 2008). Moreover, tax frauds have many socio-economic effects associated with unfair income distribution, market competition, and under-resourcing of public services (Alm & Kasper, 2020). Because of those negative effects, relevant actors have sustained cooperation and mitigated certain forms of economic crimes including tax fraud.

While collective action against tax fraud would benefit society at large, opportunism and temptation to free-ride are ever present. These problems are not only associated with states, but include private actors, whose cooperation, being it private-private cooperation or public-

private cooperation, is crucial for the resolution of many collective action problems associated with economic crime (see section 3.3.3).[17]

In future studies on fiscal corruption and tax frauds, the collective action perspective can be used both as an analytical framework of tax fraud and corruption problems, and as a normative framework of tax regimes and counter-fraud and corruption tools (see Table 3).

Table 3. Functions of the Collective Action Perspective

Collective Action Perspective	
Key rationale	Individually rational behaviour leads to collectively irrational outcomes. Because of freeriding, a public good is not provided (see Olson, 1971; see analysis in Hock, 2020a: 14-18).
Analytical function	A framework to structure societal problems – conceptualise difficulties faced in social dilemma situations. Suggests in what situations actors decide to act in common interest of a group. Identification of sub-problems that need to be resolved in order to provide public goods (see Ostrom *et al*. 2002).
Normative function	A framework to assess the ability of systems to overcome problems associated with the provision of public goods (collective action problems). If given interventions, systems, solutions etc. are able to ensure more public goods, then they are better (see North, 1991; Ferguson, 2013).

3.2 The notion of fiscal corruption and collective action

In this section, the development of a notion of fiscal corruption is presented. Firstly, the section discusses fiscal corruption as a policy concept, which highlights inherent inequalities and the lack of provision of public goods associated with the collection and payment of taxes.

[17] Many forms of free-riding is technically not a collective action problem, but a more general problem of opportunism. The problem of opportunism, which is a broader concept. In this report, these terms are used interchangeably.

Secondly, the section focuses on how the concept of fiscal corruption informs a holistic approach to the investigation and prosecution of tax frauds.[18]

3.2.1 Fiscal corruption as a policy concept

Fiscal corruption as a policy concept highlights inherent inequalities associated with the collection and payment of taxes. From the collective action perspective, while not always illegal, this corruption undermines public goods. Fiscal corruption not only reflects the weaknesses of underlying laws and regulations to provide public goods associated with tax, but also focuses on the substance, meaning whether the legal and societal understanding of that public good is fairly constructed and highlighted in the tax system.

Table 4. Fiscal Corruption – Policy Definition:

Fiscal corruption is an inequality, being it economic, legal, and political inequality, in society allowing for an improper tax advantage by bending the rules of the tax system, taking advantage of the technicalities of a tax system or mismatches between two or more tax systems, or deliberately and illegally reducing tax liability.

On this reading, corruption is a theoretical concept that reflects the need for more inclusive economic and political institutions (Acemoglu & Robinson, 2016, see also section 2.1). It goes in line with a view that corruption is a political phenomenon that reflects inherent inequalities in society, rather than being concerned with individual transactions or offences (Johnston, 2010).

Moreover, the above notion of fiscal corruption highlights the relationships between tax avoidance, aggressive tax planning, tax evasion, and corruption. From a policy perspective, it is important to understand inherent inequalities in tax systems. As a matter of fact, there are

[18] It is important to clarify that part of the VIRTEU project centres around a grey area between tax avoidance and tax evasion, which indeed is a major issue in various corporate tax and income tax schemes. Yet, as has been illustrated in section 2 of this report, VAT fraud is mainly associated with tax evasion.

many forms of tax treatment that are legal but immoral, unethical, and undermine public goods. Should existing laws and social norms support the provision of private goods that undermine public goods, then the system is corrupt. The definition reflects the tiny line between tax avoidance, aggressive tax planning, and tax evasion (see Table 1 above). The discussed notion of fiscal corruption may help determining whether some forms of tax avoidance and aggressive tax planning should become illegal and treated as a form of tax evasion in the future.

However, constructing and implementing a legal concept of fiscal corruption is a very challenging task, especially because of the struggle to define the concept of corruption for the purpose of criminal law. The mainstream approach in many jurisdictions has been establishing the offences for a range of corruption behaviour (OECD, 2007). This is similar to the UNCAC approach, which avoids defining the term corruption, preferring instead to rely on a set of specific types of corruption offences such as bribery, embezzlement, and trading in influence.

Similar approaches could be used in the context of fiscal corruption; establishing the offences associated with tax crime for a range of corrupt acts. In this context, the listing of offences associated with fiscal corruption, including money laundering and bribery, is useful for enhancing a holistic approach to the investigation and prosecution of tax frauds (see section 3.3). The above discussed policy definition of fiscal corruption can capture different corrupt tax schemes, but it does so to inform a policy discussion about loopholes associated with tax-related laws and regulations, and to inform the practice of policing complex economic crimes.

3.2.2 Undue influence and institutional challenges in the UK

Part of the VIRTEU project was to identify potential cases that may be symptomatic of undue influence on the political decision-making process. The following table includes issues relevant to the UK that deserve to be further investigated.

Table 5. Potential cases of undue influence and institutional challenges in the UK

The practice of limiting the scope of the criminalization of tax evasion practices	A fundamental issue is that tax fraud is not priorities by enforcement authorities and it is not considered as a serious crime by the society. The trade-off between the effectiveness of the civil route, including non-trial resolutions, vs the benefits associated with criminal prosecutions. Focus on the corporate accountability rather than on individual criminal liability of corporate executives.
The adoption of legal instruments favourable to tax evaders (e.g., tax amnesties and forms of negotiated resolutions).	Amnesties + reduction of tax liability (references) part of the policy of prioritizing revenue collection over law enforcement (Osita Mba, VIRTEU National Workshop for the UK, 1:03:00). The adoption and use of Deferred Prosecution Agreements in the UK appears problematic under several aspects like a lack of transparency, the vagueness of the concept of the "interest of justice," a pay to perpetrate crimes culture and the structural lack of focus on individual liability (Grasso, 2020).
The continued reluctance to adopt effective transparency regimes	An ongoing effort to enhance global corporate transparency through the registers of beneficial owners. Yet, the UK's efforts in this area are backsliding. According to the Financial Secrecy Index, the UK increased its secrecy score more than any other country, placing 12th on the index (Tax Justice Network, 2020). Moreover, if the UK and its Overseas Territories and Crown Dependencies would be evaluated as a single entity, they would rank first on the index (*ibid*). Criminal opportunities associated with the UK Overseas Territories and Crown Dependencies persist. Loopholes in the UK domestic system of corporate transparency. The key problem in the UK is the lack of company registration oversight by the UK Companies House in terms of disclosure compliance and proper verification of company records. A British shell company presents a key opportunity to be exploited by fraudsters, especially in challenging times such as the global pandemic; A cultural reluctance to use whistleblowers in the UK.
Deregulation, exceptionalism, and potential harmful tax	Fraud risks associated with deregulation and exceptionalism: With the UK leaving the EU, the functioning of international measures against fraud are impacted by the question of

practices adopted by national states competing against each other.	rationales that guide the fight against tax frauds. How the protection of internal market, direct and indirect economic loss, transparent and effective functioning of tax collection, or other aspects influence the counter-fraud efforts? These issues will construct the EU's future relationship with the UK. The key question is how, and to what extent the UK's view of public goods matches with the one of EU's and its Member States. The re-introduction of free trade ports has been part of the UK government plan to boost post-Brexit trade. Yet, free trade ports increase the risk of illicit activities associated with, for example, money laundering and tax evasion (Korver, 2018; Moiseienko et al. 2020). Liechtenstein disclosure facility (Osita Mba, VIRTEU National Workshop for the UK, 1:03:31)[19] UK-Switzerland agreement over tax evasion practices unveiled by the HSBC Suisse data leak (Osita Mba, VIRTEU National Workshop for the UK, 1:03:40)[20]
Revolving door practices, unethical lobbying and undue influences on the political decision-making process, and other potential institutional challenges	Movement through the "revolving door" between legal, regulatory and corporate positions remains an issue, especially because of a high risk of undue influence on the process and the potential conflict of interest (see Dávid-Barrett, 2011). Similar risks have been referred to by the experts during the VIRTEU workshops. For example, Lloyedette Bai-Marrow indicated: "It is problematic, but the difficulty is what do you do about that. […] The SFO is a very fantastic example of that revolving door. In both directions […] There is a little bit of an obsession with private practice and those in private practice […] HMRC actively encouraging that and including SFO in the hope that having those who are in private practice […] can sort of help bring the organisation up a bit, and so it has actually now become, in my view, the government policy to encourage much more of that fluidity between the public sector and the private sector. It may not be desirable but that's the way the machine

[19] See the following Memorandum of Understanding concluded between the Government of Lichtenstein and HMRC relating to cooperation in tax matters: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/387363/mou-lich.pdf

[20] See HMRC (2015) Statement of HMRC on tax evasion and the HSBC Suisse data leak. https://www.gov.uk/government/news/statement-by-hmrc-on-tax-evasion-and-the-hsbc-suisse-data-leak

	works." (VIRTEU National Workshop for the UK, 1:49:18; see also an example given by Osita Mba, VIRTEU National Workshop for the UK, 2:01:40) Internal cooperation and coordination problems associated with the work of key national enforcement authorities. There are still separate databases, still separate investigative processes and each agency works in a different way. There is not an appetite to tackle these crimes effectively and use all existing powers; many cases are, hence not tackled in their complexity (see section 3.3.1).
Adoption of a high level of complexity in regulation, or imposition of procedural burdens or other obstacles to investigations and enforcement.	Complexity in the use of intrusive investigative techniques to unveil corrupt practices (Rachel Cook, VIRTEU National Workshop for the UK, 2:15:30), contradicted using phone tapping against whistleblowers (Osita Mba, VIRTEU National Workshop for the UK, 2:37:00).
Any other potential symptom of undue influence on the political decision-making process.	N/A

3.3 Countering the practices of fiscal corruption in the UK

A collective action perspective can be used as a framework to structure societal problems. In this section, the analysis focuses on key collective action problems in countering the practices of fiscal corruption. These are associated with three key areas: a) substantive and institutional fragmentation; b) enforcement and international cooperation; c) the involvement of private sector in policing.

3.3.1 Substantive and institutional fragmentation

UK tax evasion offences (section 1.2) and other UK law against corrupt business practices (section 1.3) established a coherent legal standard criminalising tax evasion. Nevertheless, a much broader legal background is available to impact corrupt practices associated with tax. For example, a bribe, covered by the Bribery Act, will likely not be declared as an income to

the tax authority, constituting a tax offence (see 1.3.1). Moreover, an advantage associated with bribery and the bribe itself are the proceeds of crime, and persons involved in bribery schemes are money launderers (see 1.3.2). In other words, many economic crime cases can be qualified as tax frauds, bribery, and money laundering at the same time. This complexity of economic crime is followed by legal and institutional fragmentation.

The said legal and institutional fragmentation has advantages as it provides multiple options for policing crimes associated with fiscal corruption. These advantages, however, can be enjoyed only if the UK is able to overcome associated collective action problems. It is important to be able to prosecute individual elements of fiscal corruption cases, as it is important to prosecute cases in their complexity.

Having multiple specialised laws and agencies may lead to complex institutional structures and the lack of internal cooperation and coordination between competent policing authorities. For example, individual agencies may be driven by opportunism and refrain from helping other agencies, focusing on only very specific elements of complex criminal schemes.

The notion of fiscal corruption and its integration in the system of policing economic crime might help to overcome some collective action problems associated with the lack of effective investigation and prosecution of corrupt tax behaviour. At the same time, it reveals some systemic weaknesses of legislative framework and institutional structure. Some key considerations associated with the substantive and institutional fragmentation follow:

1. From a collective action perspective, it is important that relevant actors, including the society at large understand what is public good. In this context, a fundamental issue is that tax fraud is not prioritised by enforcement authorities and it is not considered as a serious crime by the society. Mike Betts (VIRTEU National Workshop for the UK, 1:09:30) indicated that having been involved in fraud investigations for many years […] *It was never something we felt was particularly on our radar. And was always something over there dealt with by others.* Moreover, Betts (VIRTEU National

Workshop for the UK, 52:20) stressed that the issue with tax fraud has similarities with bribery offences, as the relative success of the Bribery Act was associated with a campaign informing society about the harmful effects of bribery:

> When we started introducing the Bribery Act […] get people understanding bribery was so problematic […] Is there any activity around for people to understand the harm of tax crime. […] Unless people are bought into why this is such a harmful area of criminality and the impact of it, you're always going to struggle getting the uptake to actually do too much about it.

2. HMRC, NCA and other relevant authorities should be able to better cooperate and coordinate their actions when dealing with cross-cutting cases. Tax investigation is an opportunity to detect associated economic crime, including corruption, bribery, cartels, etc. (OECD, 2017). HMRC, for example, should not only focus on tax-related issues, but also proactively look for bribery and money laundering in major criminal cases. The lack of internal cooperation and coordination is a major problem in this area. For example, Mike Betts (VIRTEU National Workshop for the UK, 1:09:50) indicated that:

   > […] the *conduit between law enforcement agencies is effective and probably more effective now than ever before, but historically was always slightly problematic, that you know sharing data and information intelligence between agencies and probably to a degree now, it is not what perhaps the public might expect to be, so you know sharing intelligence databases, there are still separate databases, still separate investigative processes and each agency works in a different way.*

   Clearly, the construction of HMRC and NCA is very different from police forces, and the professionalisation project that is taking place might improve internal cooperation and coordination in this area.[21]

3. The wide character of money laundering legislation offers an opportunity to policing authorities to apply its provisions in tax evasion cases. Confiscations, civil recovery orders, and other similar tools that are conventionally used to disrupt predicate crimes, are, in fact, also anti-tax evasion tools. It is important to further investigate

[21] See more about the Counter-Fraud Profession and Standard on the website of the UK Government: https://www.gov.uk/government/groups/counter-fraud-standards-and-profession

the spectrum of options that are available to enforcement authorities and how prosecutorial discretion should be exercised (see also section 3.3.2 below).

4. As was revealed during several VIRTEU workshops, it is important to look at the intersection between tax fraud and corruption from the perspective of the actors involved, from individuals to enterprises. One key issue is a need to better understand how professionals get involved in facilitating tax fraud (see VIRTEU Roundtable Discussion Session 1) and systemic issues associated with regulatory capture that provide perverse incentives to deprioritise the policing of certain forms of fiscal corruption (VIRTEU International Symposium). Consider, for example, failures of major UK audit firms such as PwC to provide adequate assurance (SFO v Airbus SE, 2020). According to Airbus Group SE (2016: 23):

> "Prompted by a whistleblower's allegations, Airbus Group conducted internal audits and retained PricewaterhouseCoopers ("PwC") to conduct an independent review relating to GPT Special Project Management Ltd. ("GPT"), a subsidiary that Airbus Group acquired in 2007. The allegations called into question a service contract entered into by GPT prior to its acquisition by Airbus Group, relating to activities conducted by GPT in Saudi Arabia. PwC's report was provided by Airbus Group to the UK Serious Fraud Office (the "SFO") in March 2012. In the period under review and based on the work it undertook, nothing came to PwC's attention to suggest that improper payments were made by GPT. In August 2012, the SFO announced that it had opened a formal criminal investigation into the matter."

   Furthermore, other cases illustrate how major audit firms enable some major cases of economic crime, including EY who "failed to report suspicious activity at one of the world's largest gold refineries and then altered a compliance report to hide the crime." (BBC, 2019b).

3.3.2 Enforcement and international cooperation

Law enforcement is a broad area including investigation, prosecution, and the sanctioning of offenders for offences associated with fiscal corruption. Many law enforcement problems are collective action problems, including internal cooperation and coordination of enforcing

authorities, the independence and professionalism of law enforcement, and the effective exercise of prosecutorial discretion. The following parts introduce key discussion points.

1) Why do we enforce tax-related laws and regulations? Civil Route vs Criminal Route

The essential question associated with the provision of law enforcement as a public good, is why relevant laws and regulations should be enforced. Answering this question will help better resolve many societal dilemmas associated with an adequate exercise of prosecutorial discretion.

For example, the application of money laundering legislation, which policing authorities can use in some tax evasion cases, issues a societal dilemma. The AML provisions associated with the recovery of criminal finance might indeed be the easiest and most cost-effective route for relevant enforcement authorities. The recovery orders, however, are not equivalent to criminal prosecution, and international organisations such as the OECD have criticized the UK for using them too often as a substitute to criminal prosecution (OECD, 2012). Similarly, as have emerged from VIRTEU workshops, too often HMRC is going down the civil route instead of the criminal route when investigating tax frauds (VIRTEU National Workshop for the UK, 35:20 58:15).

2) Corporate criminal liability and settlement procedures

Policing corporate crime has traditionally been a challenge (Levi, 2008). In the UK, policing corporate crime has been particularly challenging because of the common law identification doctrine. Under this doctrine, the liability of corporations is closely linked with acts of the board of directors and senior management. These are individuals who represent the "directing mind and will" of the corporation. The identification doctrine makes it more difficult for the UK authorities to investigate and prosecute corporate crime.

The "failure to prevent" model of corporate criminal liability presents a new tool that makes it easier to sanction businesses for economic crimes such as tax evasion (see section 1.2.4). Most importantly, this model makes the knowledge and actions of the board of directors and

senior management less relevant for the prosecution of businesses. This is the key issue in overcoming barriers associated with the identification doctrine, which does not cover illegal acts committed on behalf of a company by lower-ranked employees.

The failure to prevent model provides for a wide-reaching extraterritorial jurisdiction of UK enforcement authorities (Home Office, 2017: paras 302-304). The failure to prevent facilitation offences do not only cover UK-based businesses, but also foreign businesses. When the evasion of the UK tax is concerned, the UK jurisdiction covers any organisation in the world. In addition, the failure to prevent offence also covers the evasion of foreign tax by UK businesses as well as foreign businesses that carry on business or part of a business in the UK (section 46(2b)). This means that, for example, a facilitation of the evasion of Australian tax by employees of a Japanese company might constitute an offence under section 46 of the CFA. Should the Japanese company have a business presence in the UK, it can be held criminally liable in the UK for the failure to prevent the said tax evasion. However, it is foreseen that in many cases such extraterritorial action will raise political questions as the foreign country suffering the tax loss might be a more appropriate jurisdiction for such action (Home Office, 2017: para 304).[22]

We have yet to wait to see any enforcement actions based on the "failure to prevent" model in the area of tax evasion. It is important to note that while the introduction of this model creates new incentives for corporations to prevent tax evasion, the scope of its application is limited to tax evasion/fraud, hence cannot deal with some elementary problems associated with bending the rules of the tax system, taking advantage of the technicalities of a tax system, and mismatches between two or more tax systems (see Table 4).

Furthermore, the failure to prevent model co-exists with introduction of Deferred Prosecution Agreements (DPAs) in the UK. A DPA allows resolving a cases "out-of-court" and defer prosecution in order to hold the defendant corporation to account should it fail to comply with the terms of the agreement (Grasso, 2016; Hock, 2020b). While the DPA is only

[22] This is also related to the discussion about *ne bis in idem*, see section International Cooperation below.

available to the SFO and the Directors of the Crown Prosecution Service, there are r similar procedures allowing other UK authorities to agree with corporations to a financial penalty or other outcome rather than corporations contesting their formal action.

For example, a person who is or may be subject to enforcement action of the Financial Conduct Authority (FCA) may wish to discuss the proposed action with FCA staff through settlement discussions (FCA, 2021: chapter 5). FCA has started fining banks for failing to put adequate AML systems and controls in place. Financial penalties imposed by the FCA are significant: Standard Chartered had to pay £102m in 2019 and Commerzbank London nearly £38m in 2020 (FCA, 2019 and 2020).

DPAs and similar non-trial resolutions make it easier to conclude complex economic crime cases. However, being it rule of law issues, potential misuse of prosecutorial discretion, focus on corporations rather than individuals, and their insufficient deterrence effect, many have criticised non-trial resolutions (see Grasso, 2016; Hock, 2020b). More generally, the system of policing large corporations for economic crime predominantly relies on civil measures and lacks criminal investigations. This is a cross-cutting issue that can be seen in other areas of policing (see de la Feria, 2020).

3) Whistleblowing

Whistleblowing is gaining its momentum in the UK and across the world. For example, an important role of whistleblowing is well-documented in the area of foreign anti-bribery law (OECD, 2017) and by multiple high-profile cases, including the above discussed *Airbus* case and *EY* case. During the VIRTEU workshops, this topic was frequently discussed and participants consider whistleblowing to be very important in tax cases. Participants highlighted, however, issues and controversies associated with whistleblowing in the UK:

1) Culture: “There is a cultural reluctance to use whistle-blowers in the UK and its very much, I think HMRC.” (Osita Mba, VIRTEU National Workshop for the UK, 2:26:50). Dilpreet Dhanoa indicated that uncovering something and bringing that forward

should also be something that is protected, and it is something that the system still is struggling with (VIRTEU National Workshop for the UK, 1:13:05).

2) HMRC have a discretionary whistle-blower reward programme in a form of a hotline. According to Mary Inman, the data that comes out of there, they don't publicise it very much, but some FOI request indicate that HMRC typically only paid about £400.000 a year in rewards (Mary Inman, VIRTEU National Workshop for the UK, 2:25:03). While there is a hotline, however, as Osota Mba indicated "once you mention a reward, or any form of advantage, you are off. There is no reward system. What happens is if you give useful information, HMRC can at their discretion give you something if they want to but they don't bargain with you. […] They don't bargain with whistle-blowers at all." (Osita Mba, VIRTEU National Workshop for the UK, 2:27:06).
3) A related topic that has not been explored in sufficient detail is the questions of "genuine" whistleblowing. Lloyedette Bai-Marrow: "As a prosecutor, or former prosecutor, I have really been challenged speaking to whistle-blowers as well as those who work with whistle-blowers around how we as lawyers approach whistle-blowers […] It is important for us to separate the information that the whistle-blower provides from the whistle-blowers themselves.[…] Oftentimes our first instinct as lawyers is really to say here is that person what is their motive, what have they got to say, why are they doing this, rather than looking at the information first […] I think the first thing we should look at is the information that has been provided and the value of that information" (VIRTEU National Workshop for the UK, 2:31:00).
4) Covid-19 and whistleblowing: "With the Covid relief schemes, we have seen a lot of whistle-blowers, which is perhaps not usual" (Rachel Cook, VIRTEU National Workshop for the UK, 1:11:58)

According to HMRC (2020e: 130), in the financial year 2019/2020, they had 46 relevant whistleblowing concerns raised. 40 of those cases were investigated and closed in the same financial year. During 2019/2020 HMRC set an ambition to develop a stronger "speak up" culture.

4) International cooperation

There is strong evidence that international cooperation is crucial in disrupting international forms of tax fraud, including MTIC fraud, tax evasion, and online VAT fraud (see Stroligo et al., 2018). Policing global economic crime problems, however, is undermined by many collective action problems associated with the lack of trust, credibility, and clarity on what and how needs to be done and by whom (see Hock 2020a).

International cooperation is an area crossing disciplines. More, or less, centralised international regimes have been developed to counter various forms of economic crime. In some areas, such as EU competition law, the enforcement is more centralised and coordinated, in other areas we do not see any organisation with transnational enforcement powers (Hock, 2020a: chapter 9). For example, the area of international bribery is characterised by the broad extraterritorial jurisdiction of the US, and increasingly also other countries such as the UK.[23]

While such extraterritorial enforcement has been subject to alleged dis-coordination, when arguments of *ne bis in idem* and double jeopardy has been raised (for a detailed analysis see Hock, 2020a: section 4.9.4), the practice has seen an emergence of the so-called global corporate resolutions, when enforcement authorities of many countries have been able to take into accounts each other's overlapping jurisdictions (Hock, 2017; Hock, 2020b). The area of transnational tax fraud has been largely unexplored from this perspective, and further research is needed into what specific problems, being it *ne bis in idem* specific and other problems of international cooperation, including exchange of information, joint investigation teams, and other measures work specifically in the area of tax fraud.[24]

[23] This discussion goes way beyond the issue of international bribery. Consider, for example, the introduction of the Global Anti-Corruption Sanctions Regulations 2021 (SI 2021/488) in the UK.

[24] Throughout the report, multiple other collective action problems associated with international cooperation has been discussed, including issues of offshore jurisdictions and exceptionalism of nation states, including free trade zones.

Lastly, the standard of corporate transparency in the UK Overseas Territories and Crown Dependencies is a major collective action problem. For issues associated with corporate transparency and the role of UK overseas Territories and Crown Dependencies see section 2.3.1.

3.3.3 Private sector and policing

An effective response to fiscal corruption is also the matter of the private sector, whose cooperation, being it private-private cooperation or public-private cooperation, in policing is crucial. Indeed, policing of economic crime in the UK is dominated by private actors – being it organisations proactively preventing themselves from fraud and other economic crimes, or professional businesses offering private policing services (Button, 2019). In some areas of economic crime, such as insurance fraud, such cooperation is voluntary, as insurance companies clearly have strong interest in preventing insurance fraud. In other areas, however, the government must regulate to provide sufficient incentives, for example, by the threat of criminal liability when corporations and individuals facilitate tax evasion as discussed in the previous section.

There are many research problems associated with a proper involvement of a private sector in policing fiscal corruption that require attention. The following list includes key suggestions:

1. **Corporate compliance and responsibilisation**

The "failure to prevent" model of corporate criminal liability in combination with non-trial-resolutions (see section 3.3.2) is closely associated with corporate compliance programmes and responsilisation of the private sector to police economic crime. The adoption of multiple new laws in this area have clearly catalysed legally mandated reforms of internal corporate policies and processes. There is a large amount of literature in business ethics, accountancy, and law on this topic indicating that these programmes may be having a positive effect on corporate behaviour, but equally, there is often a considerable gap between internal policy and practice (Dávid-Barrett. et al., 2017).

These processes are associated with various regulatory activities imposing new responsibilities for tasks which previously would have been the duty of the state. This involves, for example, various reporting obligations such as the suspicious activity reporting in the area of money laundering (see section 1.3.2). In this context, we have seen an emergence of multiple multi-stakeholder initiatives in this area, including the National Economic Crime Centre and its Joint Money Laundering Intelligence Taskforce, which is a partnership between law enforcement and the financial sector to exchange and analyse information relating to money laundering and other economic crimes.[25]

2. The role of professional supervisory bodies

An important area for policing fiscal corruption is the competence of the so-called AML supervisors, including HMRC, FCA and Gambling Commission, as well as 25 legal and accountancy professional body supervisors such as the Solicitors Regulation Authority (SRA). SRA is undertaking AML compliance, tax avoidance, and other campaigns and reviews of firms. It also regularly publishes multiple guidance documents and warning notices (see SRA, 2019).

3. The victims of fiscal corruption

During the VIRTEU workshops, it was identified that tax fraud is often considered as a "victimless crime" (see for example Rachel Cook VIRTEU National Workshop for the UK, 1:11:50). This is also reflected in the availability of effective remedies. For example, while a perpetrator may be sanctioned for not paying tax, their other associated benefits, for example, in terms of distorting competition by being able to charge lower prices than competitors, is not taken into account. This is an area of further research as there are clearly more categories of victims and undue benefits associated with tax fraud.

[25] See the website of the National Crime Centre <https://www.nationalcrimeagency.gov.uk/what-we-do/national-economic-crime-centre>.

Conclusion

This report has explored the interconnections between tax crimes and corruption in the UK, so to identify relationships that exist between fraudulent and corrupt practices in the area of taxation with a focus on VAT fraud. It began by considering the UK legal framework related specifically to tax evasion and more generally to corrupt business practices, including anti-bribery law and anti-money laundering law. The report then moved on to explore some of the interconnections between tax crimes and corruption, including issues associated with power, deregulation, and degrees of tax planning such as tax avoidance and aggressive tax planning. Furthermore, the report analysed UK-specific issues associated with professional enablers, fighting MTIC fraud, and corporate transparency. The report ended with a discussion about the concept of fiscal corruption and with suggestions associated with a collective action perspective to better understand how the practices of fiscal corruption can be countered.

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VIRTEU sessions

- VIRTEU Roundtable Discussion Session 1 - 29th of January 202, Exploring the interconnections between tax crimes and corruption
- VIRTEU *International Symposium "The Professionals: Dealing with the Enablers of Economic Crime," 21st July, 2021*
- VIRTEU National Workshop for the UK - 23rd July 2021

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VAT fraud: Interdisciplinary Research on Tax crimes in the European Union

Grant Agreement number: 878619
Project Coordinator: Dr. Costantino Grasso,
Associate Professor (Reader) in Business and Law

Manchester Metropolitan University

VIRTEU is a high-profile legal research project, which includes both comparative and interdisciplinary studies, funded by the European Union under the HERCULE III programme.

The project explores the interconnections between tax crimes and corruption to unravel the intimate relationships that exist between fraudulent and corrupt practices in the area of taxation with a focus on VAT fraud, which poses a direct threat to the European Union's financial interests.

Coventry University
William Morris Building
Coventry
CV1 5DD

T: +44 (0)7974 984111
E: cfciprofservices.fbl@coventry.ac.uk
www.coventry.ac.uk/cfci

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