Confessions of a justified tax avoider ... and why a flat tax would stop fiddles

Michael Fry | 20th November 2017

Let's start with a brief history of my own career as a tax avoider. Quite a long time ago now, I spent three years of my life in Brussels, working as the employee of a Scottish company. It paid me my salary gross, with no deductions of any kind, and did not know or care (in any case never asked) about my relations with the Belgian tax authorities.
Admittedly at arm's length, those relations were trouble-free. Soon after my arrival I got a visit in my office from a short, round, jolly Flemish accountant, who specialised in serving expat workers like me. He had a winning sales pitch: "You wanna pay a lodda tax or a leedle tax?"

My answer certainly pleased the accountant. I think he must have been some kind of Flanders nationalist, who enjoyed depriving the Belgian state of revenue. Already in visible decay, it would have been quite incapable of investigating the affairs of the tens of thousands of expats who lived and still live in or round Brussels, with no permanent abode but coming and going the whole time. Every single one of them known to me was doing the same thing about his tax. Perfectly legal, and why pay more? A move to a foreign country can be stressful in its unfamiliar routines: house-hunting, healthcare, schools, quite apart from starting a new job. Add on a head-to-head, in either French or Dutch, with the taxman? No, thank you. Better to consign it to a jolly accountant. At the end of my three years he presented me with a certificate saying I was all square in Belgium – and away we went for a sumptuous farewell lunch just off the Grand Place.

Tyrannical outfit

As a result of those three years of virtually tax-free employment I built up a tidy nest egg. I popped over to London and asked an adviser at my bank, a Scottish bank, what to do with it. He told me to set up an account in Jersey, also tax-free. At this point, if I can plead in my own defence, I had little idea of coming back to Scotland. I fancied going to America, which in fact I next did. Even if I had wanted to pay more tax, where should I have done so? In Belgium, where I had no roots or connections except an office? In Scotland, where I no longer resided? Or in America, land of the free?

There it turned out harder than you might think. Now I was a visiting academic at an Ivy League university. In its turn it employed a short, round, jolly accountant, this time a Korean-American, to oversee the tax affairs of the many foreigners it was able to attract into its hallowed halls, to its great pleasure and satisfaction. His personal pride and joy was to ensure that none of us honoured guests of his hospitable institution would feel oppressed by the US Inland Revenue. A notoriously tyrannical outfit, every year it sends forth to taxpayers a huge, detailed form, many pages long, on which they make any error at their peril. I gladly entrusted my form to the Korean, and three weeks later was called back in to sign it. At the bottom right-hand corner of the last page stood my tax liability: $0.00. A smile of Buddhist beatitude beamed over me as I scribbled my name.

My nest-egg remained intact, then, and was finally invested in my own country. When at length I did return to Scotland it was sunk not into the frivolous foibles of the super-rich but into good bourgeois bricks and mortar, or rather into Craigleith sandstone and Ballachulish slates, in which form it will one day pass to my heirs. I remain, of course, very small fry compared to those whose names adorn the Paradise Papers. Even so, in my wandering years I joined them as a tiny cog in the gigantic mechanisms of an ever more global economy, dwarfing every national economy. I don't believe participants in it think much about tax: it just all gets done for you, with hardly an act of will by yourself. This is how things will go on for the rest of the 21st century.

Primitive premise

Yet the accompanying international tax systems are still largely based on the primitive premise that goods will be made in one country and exported to another, so that borders enclose the convenient place to tax them. Nowadays, on the contrary, the components of an end-product may be designed, manufactured and assembled in several countries before being sold in a different market altogether. Patterns of employment follow, and increasingly the vital workers switch about on these long supply chains. Some industries are already served by a truly global labour force: in Scotland we see it in North Sea oil. Yet most of our governments, including the Scottish government, continue to act as if production carries on inside national units, with a clearly definable locus for the creation of value and so for taxation. Nicola Sturgeon was working on just this assumption in her speech last week to a meeting of the British-Irish Council in Jersey, calling in this home of offshore bank accounts for international tax transparency. She will whistle for it.

So what is it that this government, or any government, should do about taxing a footloose workforce in an economy where individual and corporate ingenuity constantly transcend the mental horizons of ponderous bureaucracy? Up to now the answer in the UK has been to multiply regulation, to the point where the tax code today totals 17,000 pages, more than anybody is ever going to read, let alone understand (in Hong Kong the corresponding figure is 276 pages). The very complexity in fact equates to freedom for the flashier and fishier operators. It explains why so many cash-rich companies and multi-millionaires want to come and do business in London.

Some observers, among them columnists on this newspaper, say that in response we should tax the rich till the pips squeak – or try to. This was a course the UK did attempt to follow in the 1970s, to little effect. It merely whetted the appetites of the affluent for the years of deregulation and get-rich-quick that followed. In any case, as mobility is of the essence in the global economy, those targeted by the taxman can at a pinch just remove themselves to a friendlier jurisdiction. When they escape, the burden falls on people lower down the income scale. Yet I thought the point of the system was to be progressive in its impact.

Real alternative

The real alternative to all this nonsense is the flat tax. Either everybody would pay exactly the same rate of income tax, except that the poor would pay nothing. Or else, in a less rigorous model, there might be a lower and a higher rate, say of 20 per cent and 40 per cent, again with exemption for the poor. There would be no other exceptions or allowances.

Simplicity is itself an advantage for both a tax-paying public and a tax-gathering government. It does away with fiddles, which can no longer be hidden in the thickets of regulation, but more especially because successful citizens are free of a sense of being targeted by a rapacious state. They do not flee, but stay and pay up. In their private investment they have no need of Panama, but can patriotically devote their resources to raising the rate of economic growth at home – something of which we have an acute need in Scotland. Countries which have introduced the flat tax (six members of the EU, for example) find their revenues rising. So there is actually more money to deal with the problems of those not yet rich enough to pay the tax.

Of course, you need otherwise to forget about equality. Tax systems in the western world have since the Second World War sought as one of their aims to bring about equality through redistribution, and have failed. Especially in Scotland, the government works on definitions of equality which are vague and feeble. Flat tax would offer some useful focus amid the flood of impotent waffle.

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