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Cut-rate taxes are the latest temptation in the wake of Brexit

LONDON COULD MOVE FASTER ALONG THE ROAD TAKEN BY CAMERON: INCREASINGLY FAVOURABLE TAXES FOR INDIVIDUALS AND EVEN MORE SO FOR BUSINESSES, TO MAKE UP FOR THE EXPECTED LOSS OF COMPETITIVENESS.

By Eugenio Occorsio

Now that Theresa May's government has accelerated the Brexit procedures, one question is again on the lips of economists the world over: what if Great Britain, to limit the damage done by its exit from the EU, were to embark on an aggressive tax policy? What if the wise Henry Kissinger was right when he defined Brexit, in the Wall Street Journal, as "a classic illustration of the law of unintended consequences"? "I'd be cautious about any expectation that London might be turned into a tax haven, not least because it's unlikely that it'll want to diverge from the OECD's recommendations", Antonio Tomassini, partner with international law firm DLA Piper, was quick to clarify.

"It's not taxation that the United Kingdom will be focusing on during the Brexit process", confirms Massimiliano Cagliero, president of Banor Capital, an asset management company based in London. "After all, if we're looking for some sort of haven, London already is one". Indeed, the synergy between relatively low taxes for both individuals and businesses, the perfect operation of the financial structures and the possibility of effective triangulation with various islands, from the Channel to the Caribbean, which are British colonies as well as obvious tax havens, is already working to excellent effect. And Cameron himself was already pushing taxes on business profits down: last year he lowered them from 24% to 20% (OECD average: 25%) and was talking about lowering them even more, to 17% or even 15%, following close on the heels of Ireland, where they are 12.5%. In Italy, by comparison, businesses are taxed at 27.5% (the "IRES" corporation tax), which the government has promised to bring down to 24% in 2017, and then there's the 3.9% regional business tax (IRAP). But the difference becomes truly colossal if we consider the rest of the tax burden, especially labour taxes, which takes actual tax pressure in Italy to 64.8%, compared with 32% in the UK, one of the lowest levels in the world.

It's no coincidence that recent years have seen companies rush to set up in the United Kingdom: suffice to mention Italy's FCA and GTECH or the technology multinationals. For individuals, things are even easier. "The non-domiciled resident mechanism means that anybody can move to London [ed.'s note: 500,000 Italians have done so] and then pay the low personal taxes in Great Britain for earnings produced there, and zero

taxes on all consultancy or similar, or other business, that they conduct in their home country or anywhere else", explains Cagliero.

Antonio Tomassini points out that "If the Italian government suspects that a given individual doesn't really live in London, it is up to that same administration to prove it". And that's a crucial point. "This privilege is reserved for Great Britain because it isn't on any tax haven blacklist. Switzerland and Monte Carlo are no longer on the main blacklist but are still on the one for natural persons' residence. And the burden of proof is reversed: it's up to the individual to show that for at least 183 days they were indeed outside their country of origin". The point is again crucial: it's for this reason that Great Britain has no interest in exaggerating on the tax front, "because if it goes too far with these privileges it could be viewed as an outright tax haven, with all the unpleasant consequences that would entail". Many of the Brexit negotiations will involve walking this narrow path without "slipping"; a false step would be a catastrophe if something happened to drive foreign people and businesses to leave the country.

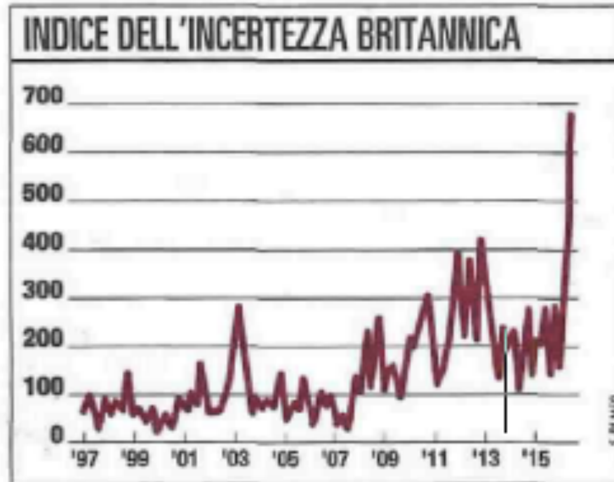
And there's another factor at play. "The possibility of an English tax haven is plausible, and in part follows the road that's already been embarked upon but is far from being fully implemented. However, a more subtle but equally efficient possibility aired by the OECD in a recent examination of the post-referendum tax outlook in Great Britain is more probable", explains Marco Palacino, managing director for Italy at BNY Mellon IM. "Here's the deal. At present, European banks and financial firms, so for the time being British ones too, have no way to offload VAT because they themselves, to start with, are not obliged to apply it to their customers. If Great Britain were no longer subject to EU law, it could allow its credit institutions and related businesses to recoup the VAT paid for services and advisory in some way, without having to impose it on clients. That would be a really significant stimulus for banks' margins and for the British financial sector, and would enable London to retain, at least in part, its role as a global financial hub".

The prospect of tax cuts extends from businesses to, potentially, capital gains tax for citizens. But there's a risk it could be a double-edged sword. "If the prospect is aired too enthusiastically just when the negotiations are getting under way", continues Palacino, "it could cast a sour note over the Brexit process and make it less friendly. In addition, any British government would struggle to get public opinion to accept the idea that the revenue produced in Great Britain by multinationals is subjected to lower taxes, given the hostility shown to American giants that use complex structures to reduce their tax burden". One last point that shouldn't be underestimated is the impact that lower taxation would have on the British budget. If this is combined with the potential economic slowdown that Brexit could cause, it most certainly can't be taken for granted that Great Britain can afford it.

Gibraltar's revolt: "Back to the ballot box"

Gibraltar (photo, left), viewed as a semi-tax haven, was the region with the highest percentage of "Remain" voters in the referendum, at 96%.
And it's now asking out loud for a second referendum to somehow overturn the result of the first one. An option that sees it allied with Scotland, with which it is openly aiming to form an unprecedented anti-London alliance.

BRITISH UNCERTAINTY INDEX



GROWTH IN "PARADISE"

Crescita del PIL a confronto = GDP growth compared

Isola di Man = Isle of Man

Gran Bretagna = Great Britain

TAX BURDEN

Tasse sui profitti = Taxes on profits

Tasse sul lavoro = labour taxes

Altre tasse = other taxes