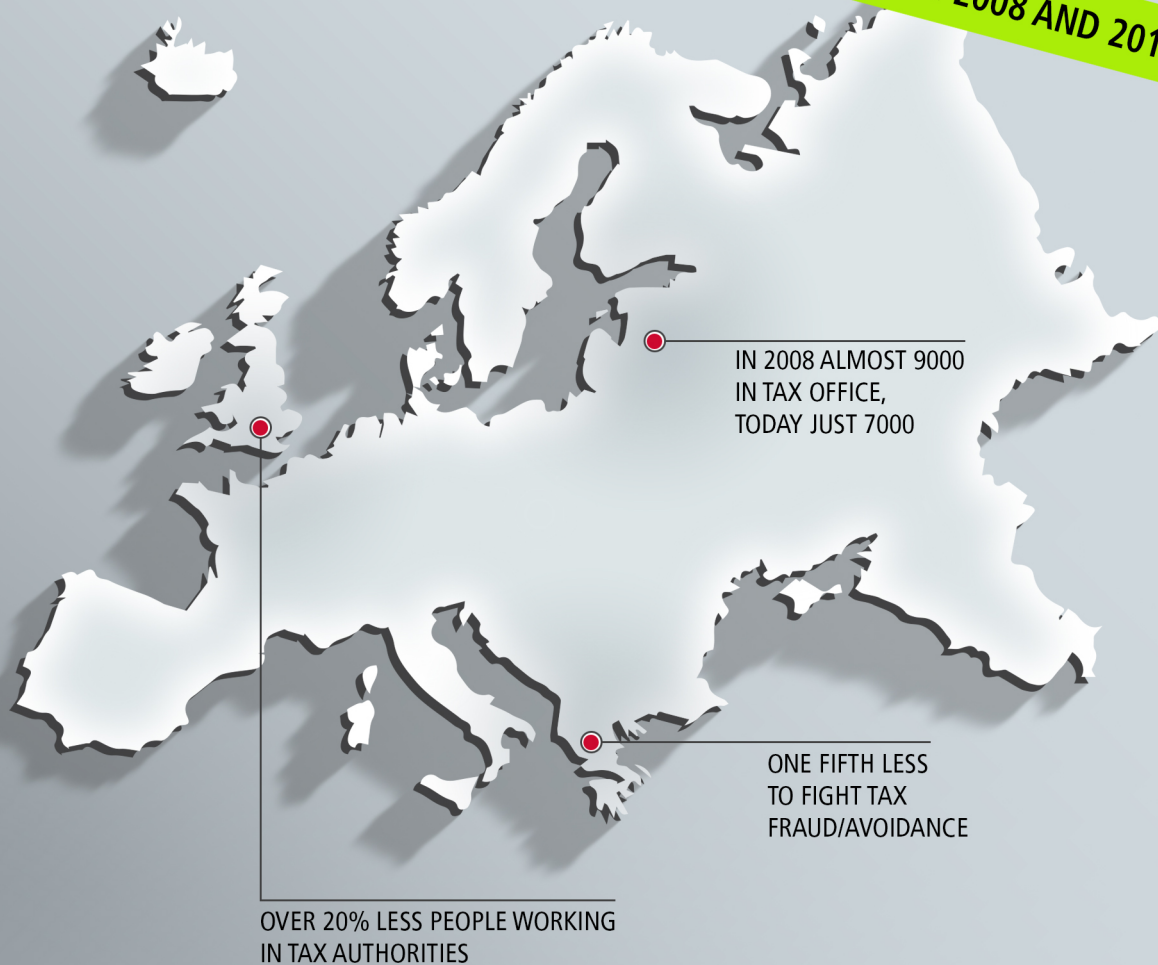


56865 TAX INSPECTORS LESS BETWEEN 2008 AND 2012



THE IMPACT OF AUSTERITY ON TAX COLLECTION: ONE YEAR LATER AND STILL GOING BACKWARDS

A REPORT FOR THE EUROPEAN FEDERATION OF PUBLIC SERVICE UNIONS
BY THE LABOUR RESEARCH DEPARTMENT, UK.
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EXECUTIVE SUMMARY

A year ago, EPSU produced a report on the impact of austerity on tax collection between 2007 and 2011. It found that despite strong verbal commitments from governments on tackling tax evasion and avoidance, austerity policies meant that the resources to do so were being reduced.

Sadly, the current report shows that little has changed.

European and indeed world leaders continue to say that ensuring that all taxpayers pay their fair share is a high priority.

The overall tax ratio in the EU – total taxes and social contributions as a proportion of output (GDP) – was 38.8% in 2011 but there are significant differences between countries. The tax ratio is highest in Denmark at 47.7% in 2011, and lowest in Lithuania at 26.0%. In general the new EU Member States in central and Eastern Europe have low levels of tax, while the Nordic states are among the higher tax countries. There are also major differences in how tax is collected, through direct taxation, indirect taxation or social contributions, and these differences reflect historical developments and political choices. However, the situation in Europe provides no evidence of a correlation between a high tax ratio and a high rate of tax fraud and avoidance.

The amount of tax raised has increased since 2010 as countries have sought to tackle the problems caused by the financial crisis.

Despite this, it is clear that member states collect less than they legally should.

It is difficult to know how big this “tax gap” is although the European Commission and Parliament have talked of €1,000 billion being lost each year, which is the figure used by EPSU in its campaign against tax fraud and avoidance. A detailed study by the Commission in 2013 found that the VAT tax gap alone was €193 million each year.

One of the reasons why less tax is raised than expected is that large corporations shift profits to countries where tax rates are lower, something made easier by the internet. A UK parliamentary enquiry accused Google of routing sales through Ireland deliberately to reduce its tax bill. Earlier this year, the European Commission launched formal investigations regarding the compliance with EC state aid rules of national corporate tax rebates granted to Apple, Starbucks, and Fiat by the Irish, Dutch and Luxembourg authorities respectively. At the time of completing this report, the Irish Minister announced the phased abolition of the controversial “double

Irish” tax scheme that has enabled multinationals such as Apple to dramatically cut down their tax bills.

Tax avoidance and tax evasion do not just deprive governments of revenue. They also affect other taxpayers, who have to pay more, and other businesses, which face unfair competition. A further consequence is that public confidence in the whole tax system is eroded.

Partially as a result of this, the European Commission has made recommendations to at least 15 countries on the need to improve tax compliance in the framework of the EU Semester.

However, the number of employees available to carry out these recommendations has been sharply cut. Overall, 24 out of 30 states (EU plus Iceland and Norway) cut employment in tax authorities between 2008 and 2012, and, in the countries where comparable figures are available, **a total of 56,865 jobs have been lost**. This is equivalent to 9.6% of the 593,000 that were there at the start of the period.

Two countries, Greece and the UK, cut employment in tax authorities by more than a fifth in four years, and a third, Latvia, cut it by 19.8%.

In total 12 countries experienced a loss of more than 10% of jobs in their tax authorities over just four years.

There are some signs that this process is slowing but not that it has stopped, and at least eight countries have made further cuts in 2013 and/or are planning further job reductions in the future.

These staff cuts are having an impact on morale in the tax authorities, with particularly high levels of unhappiness in the UK. The shortage of staff has also led to a failure to collect the taxes that are due and damaged the service provided to the public. Tax authorities are reducing the number of local tax offices – closing them all in the UK – or failing to give them the necessary support. Levels of customer service are sometimes poor.

The risks posed by loss of so many key staff have caused governments in Spain and Ireland to change course slightly. Both countries have taken on new staff or plan to do so. However, experience in the Netherlands, where fewer staff were employed than originally promised, indicates the opposition to adequately resourcing the tax authorities.

The danger is that a deterioration in the service and advice provided to citizens in the area of taxation will combine with a belief that others are able to escape their tax obligations, causing severe damage both to public confidence in the tax system and the financing of public services and social protection.

INTRODUCTION

In March 2013, EPSU produced a report on the impact of austerity on tax collection.¹ It found that although Europe's leaders, at both European and national levels, were expressing concerns about the need to end tax avoidance and tax evasion, in practice the austerity measures they were implementing were making it harder to ensure effective tax collection. In 24 of the 28 countries analysed, the number employed by the tax authorities had fallen, and in some countries the declines were very substantial, with the UK tax body (HMRC), for example, losing around a fifth of its employees over three years.

These cuts in staffing had been introduced despite the fact that in many countries EPSU's affiliates had protested against the plans of their national governments and warned of their potentially damaging consequences.

The report concluded:

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

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

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

Now, just over a year later EPSU has looked again at the issue and finds that little has changed. Again Europe's political leaders say they want fair and effective taxation but they are failing to provide the means that would enable that to be delivered.

THE CALL FOR FAIR AND EFFECTIVE TAXATION

The need for fair and effective taxation continues to be recognised in political statements, sometimes at the very highest level. For example, at the G20 summit in St Petersburg in September 2013, taxation was a key element in the final "Leaders' Declaration".

This stated: *"In a context of severe fiscal consolidation and social hardship, in many countries ensuring that all taxpayers pay their fair share of taxes is more than ever a priority. Tax avoidance, harmful practices and aggressive tax planning have to*

be tackled.... Profits should be taxed where economic activities deriving the profits are performed and where value is created"

Action to tackle tax fraud and evasion has also been declared a high priority within the European Union. A speech to the European Parliament by Algirdas Šemeta, the European Commissioner for taxation in April 2014, indicated how the issue had moved up the agenda.

"If we look back five years, we will remember that this issue was barely on the political radar. Gathering serious interest or momentum for measures to tackle tax fraud was nearly impossible.

"Thankfully, that has changed dramatically.

*"Citizens' demands for fair burden sharing, and Member States' needs in terms of revenues, became too great for national authorities to ignore."*²

THE PATTERN OF TAXATION IN THE EU

The overall tax ratio in the EU – total taxes and social contributions as a proportion of output (GDP) – was 38.8% in 2011 but there are significant differences between countries. The tax ratio is highest in Denmark at 47.7% in 2011, and lowest in Lithuania at 26.0% (see Table 1). With the single exception of Ireland, all of the six countries with tax ratios below 30% are in Central and Eastern Europe, while the seven countries with tax ratios above 40% are the three Nordic EU members (Norway is also in this category, although outside the EU), plus Belgium, France, Italy and Austria. (See Table 1)

The European Commission groups tax revenue into three main areas: indirect taxes, of which by far the most important is VAT; direct taxes on income and wealth including taxes on wealth transfers that are only levied occasionally, such as inheritance taxes; and social contributions normally paid by both employers and employees. On average for the then EU 27, these three revenue streams accounted for roughly equal shares of total tax revenues, with indirect taxes providing 34.5%, direct taxes 33.2% and social security contributions 33.5%, as the 2013 report on tax trends from the European Commission indicates.³

However, this report also shows that the average hides major differences between countries. Bulgaria is the country where indirect taxes make up the highest proportion of total tax revenue – they account for more than half the total (54.2%). In contrast, in Belgium, indirect taxes provide only 29.6% of total revenue, the lowest figure in the EU.

In Denmark it is direct taxes that provide almost two-thirds (62.8%) of tax revenue, the highest proportion in the EU, while in Lithuania direct taxes are of least importance, accounting for just 17.0% of tax revenue. One reason why direct taxes make up such a high proportion of taxation raised in Denmark, is that social contributions there are so low, just 2.1% of the total, the lowest proportion in the EU. The country where social contributions are most important is the Czech Republic, where they make up 44.7% of the total.

These differences reflect historical developments and political choices with regard to the progressive nature or not of tax regimes. For example, seven EU states,

Table 1: Tax ratio in EU 2010 and 2011

| Country | Tax ratio (%) | |
|-------------------------|---------------|-------------|
| | 2010 | 2011 |
| Denmark | 47.4 | 47.7 |
| Sweden | 45.4 | 44.3 |
| Belgium | 43.8 | 44.1 |
| France | 42.5 | 43.9 |
| Finland | 42.5 | 43.4 |
| Italy | 42.5 | 42.5 |
| Austria | 41.9 | 42.0 |
| Germany | 37.9 | 38.7 |
| Netherlands | 38.8 | 38.4 |
| Luxembourg | 37.5 | 37.2 |
| Slovenia | 37.8 | 37.2 |
| Hungary | 37.9 | 37.0 |
| UK | 35.4 | 36.1 |
| Cyprus | 35.6 | 35.2 |
| Czech Republic | 33.5 | 34.4 |
| Malta | 32.6 | 33.5 |
| Portugal | 31.5 | 33.2 |
| Estonia | 34.1 | 32.8 |
| Greece | 31.7 | 32.4 |
| Poland | 31.8 | 32.4 |
| Spain | 32.1 | 31.4 |
| Ireland | 28.3 | 28.9 |
| Slovakia | 28.1 | 28.5 |
| Romania | 26.7 | 28.2 |
| Latvia | 27.2 | 27.6 |
| Bulgaria | 27.5 | 27.2 |
| Lithuania | 27.0 | 26.0 |
| EU-27 (weighted) | 38.3 | 38.8 |
| Norway | 42.6 | 42.5 |
| Iceland | 35.0 | 35.9 |

Source: Taxation trends in the European Union 2013 Edition

all in Central and Eastern Europe (Bulgaria, the Czech Republic, Estonia, Latvia, Lithuania, Romania and Slovakia) have chosen to have flat-rate income tax rates. These range from 10% in Bulgaria to 25% in Slovakia, and help explain why in many of these countries direct taxation plays a smaller role in overall revenue raising.

The tax ratio table also illustrates the fact that there is no automatic link between levels of tax avoidance and evasion and the total tax ratio. An EU Commission working paper on tax reforms, published in 2013, identified 13 countries that were seen as facing “a particular challenge” in the area of tax compliance. They were Bulgaria, Cyprus, Greece, Hungary, Italy, Latvia, Lithuania, Malta, Poland, Portugal, Romania, Slovenia and Spain.⁴ With the exception of Italy, every one of these states has a tax ratio that is below the EU average.

Rather than levels of tax, it is social norms and ideas of fairness that play a role in the extent of tax avoidance and evasion. As the Commission document goes on to say, the findings of recent experimental research “*suggest that tax payers might be less compliant if they believe that others are not paying their due amount of taxes*”.

INCREASING TAX REVENUES ...

Irrespective of how tax is raised, in many countries the overall amount has increased since 2010, as governments have sought to tackle the problems caused by the financial crisis. As a recent working paper from the Commission notes, “*Given the continued need for fiscal consolidation, many Member States have recently increased taxation across the board, i.e. implemented measures covering direct and indirect taxes as well as social security contributions*”.⁵

In some countries a number of temporary tax measures and tax increases are expected to be phased out, but the pressure on government finances will continue. As the Winter 2014 economic forecast published by the European Commission pointed out “*all member states except Bulgaria, Estonia, Finland, Germany, Hungary, Italy, Latvia, Lithuania, Luxembourg, Romania, and Sweden are currently subject to the Excessive Deficit Procedure*”.⁶

... BUT STILL GAPS

However, despite the continuing need to raise taxes, to pay for the services on which European citizens depend, it is also clear that member states collect less than they legally should. As Herman van Rompuy, former President of the European Council, pointed out in April 2013, “*Every year around €1 trillion is lost in EU member states because of tax evasion and tax avoidance ... the same as the entire GDP or total income of Spain*”.

As noted in the 2013 EPSU report, this figure comes from work from the tax expert Richard Murphy, who prepared a report for the Progressive Alliance of Socialists & Democrats in the European Parliament in February 2012.⁷ This the estimate EPSU has used in its campaign “Europe’s missing €1tn: we want it back”. The same estimate was also used by European Commission President, José Manuel Barroso,

when he spoke to the European Parliament on 12 December 2012, and by the EU Tax Commissioner, Algirdas Šemeta, when he introduced the Commission's action plan on the fight against tax fraud and tax evasion on 6 December 2012.

The hidden nature of tax evasion (an illegal action, which results in the correct tax not being paid) and tax avoidance (an action which in itself is not illegal but is contrary to the spirit of the law and makes use of legal loopholes within it to pay less tax) makes it very difficult to produce precise figures on the amount of tax which is not being collected. As a recent report from the European Commission noted, *"By definition, it is difficult to know about phenomena or practices which are meant to remain undetected, such as tax fraud"*.⁸

Frequently, estimates of tax lost are couched in general terms. For example, the European Commission report to the European Council (the summit of the EU's leaders) in May 2013 stated: *"Estimates show that tens of billions of euros remain off-shore, often unreported and untaxed, reducing national tax revenues"*. However, some attempts have been made to assess the scale of the "tax gap", the tax that should be collected but is not.⁹

In 2013, a report for the European Commission on the extent of the VAT tax gap in the EU was published by a joint Polish-Dutch team of experts.¹⁰ It found that the overall VAT tax gap for 26 EU states (Cyprus and Croatia were not included) was €193 billion in 2011, equivalent to 18% of the total VAT that should have been paid, and 1.5% of total EU GDP. Although the report makes it clear that the whole of this amount is not a result of fraud – it also results from bankruptcies and other irrecoverable debts as well as legal avoidance – it indicates that substantial amounts of VAT that should be collected are not. In its latest report on taxation trends (2014) the Commission finds that the EU VAT gap increased by 5 percentage points since the start of the crisis in 2008.

The countries with the smaller VAT tax gaps, expressed as a proportion of the total VAT liable, are Sweden (2%), Malta (4%), Netherlands (9%), and Denmark, Ireland and Slovenia (all 10%). Those with the largest VAT tax gaps are Romania (48%), Latvia (41%), Greece (39%), Slovakia (37%), Lithuania (36%) and Hungary (30%). Italy (27%) also has a substantial VAT gap, but the EU's three other largest economies have smaller VAT tax gaps: France (19%), Germany (12%) and the UK (13%).

The UK tax authorities also regularly publish reports on the size of the tax gap, and the latest figures for 2011-12 show a total of £35 billion being lost, 7.0% of total tax liabilities.¹¹ The report finds that £4.7 billion is accounted for by criminals, £4.7 billion by individuals, £8.8 billion by large businesses and £16.7 billion by small and medium sized businesses. However, a report by the UK parliamentary committee responsible for the tax authorities noted that this calculation *"does not include an assessment of the amount of tax lost through tax avoidance, therefore it represents only a fraction of the amount that the public might expect to be payable"*.¹²

It is the issue of tax avoidance that has been central to much of the recent work of the Organisation for Economic Co-operation and Development (OECD) on tax. In a report delivered to the G20 summit in September 2013 the OECD stated that,

"There is a growing perception that governments lose substantial corporate tax revenue because of international tax planning designed to shift profits in

ways that erode the taxable base of developed and developing countries to locations where they are subject to a more favourable tax treatment. This type of tax planning can often lead to double non-taxation, i.e. situations where income is not taxed anywhere: not in the taxpayer's country of residence nor in the source country."

The report noted the use of the internet had made it "much easier for businesses to locate many productive activities in geographic locations that are distant from the physical location of their customers". It also pointed out that "these developments have been exacerbated by the increasing sophistication of tax planners in identifying and exploiting the legal arbitrage opportunities and the boundaries of acceptable tax planning".

The internet search company Google is one of the corporations which have been accused of artificially arranging their affairs to avoid paying tax. It is alleged that it does so by making Ireland, where corporation tax is lower, the place from which invoices for its advertising space are issued. The UK parliamentary committee which investigated the issue was in no doubt that Google was pursuing an active strategy of tax avoidance. In its report published in June 2013 the committee concluded:

"Google generated US \$18 billion revenue from the UK between 2006 and 2011. Information on the UK profits derived from this revenue is not available but the company paid the equivalent of just US \$16 million of UK corporation taxes in the same period. Google defends its tax position by claiming that its sales of advertising space to UK clients take place in Ireland – an argument which we find deeply unconvincing on the basis of evidence that, despite sales being billed from Ireland, most sales revenue is generated by staff in the UK. It is quite clear to us that sales to UK clients are the primary purpose, responsibility and result of its UK operation, and that the processing of sales through Google Ireland has no purpose other than to avoid UK corporation tax."

Since then the latest published figures for Google's UK operations show that the company paid £11.6 million in corporation tax in the UK in respect of 2012, and the company continues to be criticised for its tax arrangements.

THE CONSEQUENCES OF TAX AVOIDANCE AND EVASION

Reports from both the OECD and EU institutions make it clear that, in their view, the impact of tax evasion and tax avoidance goes much wider than depriving government of money that it has a right to expect.

In its Action Plan on Base Erosion and Profit Shifting (its description of the mechanism by which profits are transferred to low taxation countries), which was presented to the G20 summit in September 2013, the OECD makes it clear that governments, individual taxpayers and businesses are all harmed.¹³ It states:

· "Governments are harmed. Many governments have to cope with less revenue and a higher cost to ensure compliance. Moreover, Base Erosion and Profit Shifting (BEPS) undermines the integrity of the tax system, as the public, the media and some taxpayers deem reported low corporate taxes to be

unfair. In developing countries, the lack of tax revenue leads to critical under-funding of public investment that could help promote economic growth. Overall resource allocation, affected by tax-motivated behaviour, is not optimal.

- *“Individual taxpayers are harmed. When tax rules permit businesses to reduce their tax burden by shifting their income away from jurisdictions where income producing activities are conducted, other taxpayers in that jurisdiction bear a greater share of the burden.*

- *“Businesses are harmed. MNEs [Multinational Enterprises] may face significant reputational risk if their effective tax rate is viewed as being too low. At the same time, different businesses may assess such risk differently, and failing to take advantage of legal opportunities to reduce an enterprise’s tax burden can put it at a competitive disadvantage. Similarly, corporations that operate only in domestic markets, including family-owned businesses or new innovative companies, have difficulty competing with MNEs that have the ability to shift their profits across borders to avoid or reduce tax. Fair competition is harmed by the distortions induced by BEPS.”*

The European Commission has also emphasised that the consequences of tax evasion and tax avoidance go far beyond their impact on government finances. As it noted in a statement in December 2013¹⁴:

“Every year, billions of euros of public money are lost in the EU due to tax evasion and tax avoidance. As a result, Member States suffer a serious loss of revenue, as well as a dent to the efficiency their tax systems. Businesses find themselves at a competitive disadvantage compared to their counterparts that engage in aggressive tax planning and tax avoidance schemes. And honest citizens carry a heavier burden, in terms of tax hikes and spending cuts, to compensate for the unpaid taxes of evaders. Fighting tax evasion is therefore essential for fairer and more efficient taxation.”

The European Council, in its discussions in May 2013, similarly referred not just to the need to “protect revenues” at a time of “fiscal consolidation” but also to “ensure public confidence in the fairness and effectiveness of tax systems”.

In other words, all these statements emphasise that it is not just that the tax system should collect enough money, but also that it should be collected in a way that citizens see as fair and efficient.

SPECIFIC RECOMMENDATIONS FOR ACTION ...

This concern has led the European Commission to include proposals to improve on tax compliance in the Country-Specific Recommendations addressed to member states within the context of the system of EU economic and fiscal policy coordination, known as the European Semester.

The recommendations for 15 countries are set out in Table 2 below and indicate the areas where the European Commission felt that changes are necessary. (See Table 2)

For some countries, it is clear that more effort is required to combat evasion and avoidance.

Table 2: EU Country-Specific Recommendations

| Country | Recommendation/comment |
|----------------|--|
| Belgium | "The Belgian taxation system relies disproportionately on direct taxes and contains loopholes that diminish its fairness." |
| Bulgaria | "improving tax compliance remains a key challenge" |
| Croatia | "the value of charged but uncollected taxes and social contributions more than tripled between 2005 and 2010 and amounted to about 13% of the total taxes and contributions collected in 2010" |
| Czech Republic | "limited progress on tax collection and compliance" |
| Greece | "addressing the structural weaknesses of the tax administration remains urgent" |
| Hungary | "the government see tax non-compliance as having a major impact on revenues" |
| Italy | "Measures have been taken to improve tax governance, enhance compliance and fight against evasion but the size of the challenge requires further action." |
| Latvia | "considerable challenges in this area [of the informal economy]" |
| Lithuania | "the Lithuanian tax system is characterised by a low overall tax burden, ... especially on capital and to a lesser extent on labour, and a significant degree of tax evasion" |
| Malta | "some measures have been taken to improve tax compliance, but concrete gains are yet to materialise" |
| Poland | "progress on a comprehensive tax compliance strategy would mean higher revenues, given the existing tax structure" |
| Romania | "low tax compliance and high tax evasion represent major challenges for Romania's tax system ... the relative ease with which the self employed can avoid taxes could also be a factor [in explaining low tax receipts]" |
| Slovakia | "the authorities' powers to prevent tax fraud and recover unpaid taxes appear to be limited" |
| Slovenia | "there appears to be room for improving tax compliance" |
| Spain | "there remains scope for further action so as to ensure that taxes are collected in line with tax law" |

Source: Country-Specific Recommendations in 2013, taken from the Staff Working Documents in all cases except Belgium

Table 3: Changes in employment in tax authorities 2008-12

| Country | Name of body |
|----------------|---|
| Austria | Steuer und Zollverwaltung |
| Belgium | SPF Finances (headcount 1 January following year) |
| Bulgaria | National Revenue Agency |
| Croatia | Porezna Uprava |
| Cyprus | Inland Revenue Department |
| Czech Republic | České Daňové Správy |
| Denmark | Skatteministeriet |
| Estonia | Ministry of Finance |
| Finland | Tax Administration staff (FTE) |
| France | DGFiP |
| Germany | Bundesministerium der Finanzen Steuerbehörden |
| Greece | Ministry of Economics |
| Hungary | National Tax and Customs Administration |
| Iceland | RSK |
| Ireland | Irish tax and customs |
| Italy | Agenzia delle Entrate |
| Latvia | VID (State revenue service) |
| Lithuania | VMI (State Tax Inspectorate) |
| Luxembourg | Administration des Contributions directes & AED |
| Malta | Inland Revenue Department |
| Netherlands | Belastingdienst (FTE) |
| Norway | Skatteetaten (FTE) |
| Poland | Ministerstwo Finansów |
| Portugal | Ministry of Finance |
| Romania | National Agency for Fiscal Administration |
| Slovakia | Daňové Riaditeľstvo Slovenskej Republiky (Slovak tax directorate) |
| Slovenia | Davčna uprava Republike Slovenije |
| Spain | La Agencia Tributaria |
| Sweden | Swedish Tax Agency (1 January following year) |
| UK | HMRC Core Department (FTE - year to following March) |
| Total | |

* Does not include Poland

Sources: Austria IOTA; Belgium www.pdata.be; Bulgaria Annual reports of tax authorities 2009-2012, IOTA 2008; Croatia IOTA; Cyprus IOTA; Czech Republic Informace o činnosti Celní správy České republiky za rok 2012; Denmark IOTA; Estonia IOTA; Finland Brief Statistics 2012; France DGFiP annual reports; Germany IOTA; Greece IOTA; Hungary IOTA; Iceland Annual reports of tax authorities (RSK); Ireland Annual reports Revenue; Italy IOTA; Latvia Annual reports of state revenue service (VID); Lithuania IOTA;

| 2008 | 2009 | 2010 | 2011 | 2012 | Change 2012/2008 (% and numbers) | |
|-------------|-------------|-------------|-------------|-------------|---|---------|
| 7,865 | 7,761 | 7,501 | 7,398 | 7,321 | -6.9% | -544 |
| 30,576 | 30,042 | 29,297 | 28,184 | 26,933 | -11.9% | -3,643 |
| 7,796 | 7,439 | 7,643 | 7,577 | 7,596 | -2.6% | -200 |
| 4,331 | 4,493 | 4,409 | 4,380 | 4,298 | -0.8% | -33 |
| 570 | 590 | 537 | 526 | 477 | -16.3% | -93 |
| 15,408 | 15,391 | 14,744 | 14,662 | 14,762 | -4.2% | -646 |
| 8,708 | 8,177 | 7,629 | 7,402 | 7,173 | -17.6% | -1,535 |
| 1,825 | 1,818 | 1,812 | 1,740 | 1,555 | -14.8% | -270 |
| 5,757 | 5,595 | 5,336 | 5,229 | 5,130 | -10.9% | -627 |
| 126,586 | 124,614 | 121,929 | 117,964 | 115,411 | -8.8% | -11,175 |
| 112,981 | 112,295 | 110,894 | 110,650 | 110,000 | -2.6% | -2,981 |
| 12,280 | 11,892 | 11,555 | 9,760 | 9,596 | -21.9% | -2,684 |
| 15,635 | 15,607 | 15,607 | 23,060 | 22,482 | 43.8% | 6,847 |
| 94 | 98 | 268 | 264 | 259 | 175.5% | 165 |
| 6,590 | 6,100 | 6,076 | 5,962 | 5,732 | -13.0% | -858 |
| 35,568 | 33,584 | 33,238 | 33,047 | 32,311 | -9.2% | -3,257 |
| 5,074 | 4,461 | 4,176 | 4,147 | 4,069 | -19.8% | -1,005 |
| 3,986 | 3,676 | 3,585 | 3,312 | 3,296 | -17.3% | -690 |
| 910 | 915 | 915 | 914 | 936 | 2.9% | 26 |
| 257 | 253 | 241 | 253 | 241 | -6.2% | -16 |
| 30,894 | 30,707 | 29,964 | 29,010 | 28,106 | -9.0% | -2,788 |
| 5,814 | 6,135 | 6,087 | 5,943 | 5,903 | 1.5% | 89 |
| 43,235 | 48,217 | 42,801 | | | | |
| 15,155 | 14,536 | 14,000 | 13,605 | 13,586 | -10.4% | -1,569 |
| 31,281 | 30,793 | 29,448 | 27,025 | 26,668 | -14.7% | -4,613 |
| 5,731 | 5,730 | 5,698 | 5,444 | 8,781 | 53.2% | 3,050 |
| 2,586 | 2,554 | 2,526 | 2,506 | 2,421 | -6.4% | -165 |
| 27,951 | 27,555 | 27,880 | 27,613 | 26,962 | -3.5% | -989 |
| 10,419 | 9,922 | 10,267 | 10,463 | 10,783 | 3.5% | 364 |
| 82,003 | 73,695 | 67,797 | 67,004 | 65,040 | -20.7% | -16,963 |
| 657,866 | 644,645 | 623,860 | 575,044* | 567,828* | | |

Luxembourg Annual reports of tax authorities; Malta IOTA; Netherlands 2008-2011 Annual reports of tax authorities (Belastingdienst) 2012 email from Belastingdienst; Norway Annual reports tax authorities (Skatteetaten); Poland IOTA; Portugal Síntese estatística do emprego público and Observatório do emprego público; Romania IOTA; Slovakia IOTA; Slovenia Annual reports of tax authorities (DURS); Spain Annual reports of tax authorities (La Agencia Tributaria); Sweden email from tax authority (Skatteverket); UK Annual reports and accounts HMRC.

For Italy, for example, the Commission recommends the following.

“Steps towards greater traceability of transactions – notably by imposing lower thresholds for the use of cash – and better targeting of tax assessments and inspections appear promising and could effectively help to fight against tax evasion and enhance compliance. Similarly, the recent implementation of a system allowing the tax administration to crosscheck data from banks and financial operators with income tax statements may contribute to deterring evasion and increasing recovery. As also acknowledged in the national reform programme, pursuing this effort is essential. This will require making full use of existing instruments, monitoring their impact and undertaking additional action.”

...WHILE RESOURCES ARE CUT

However, while the Italian government is being urged to put effort into tackling tax evasion and tax avoidance, the human resources to do this are being reduced. Between 2008, the start of the crisis, and 2012 the number employed by the country's main tax authority Agenzia delle Entrate fell by 3,257 or 9.2% on a comparable basis

In no sense is Italy the exception. Indeed, the fall of around 9% over four years is close to the average for the EU as a whole, as the figures in the table show. These cover employment in tax authorities in the 28 EU member states plus Iceland and Norway and they indicate that 24 of these 30 states have cut jobs.¹⁵ The exceptions are Norway, Luxembourg and Sweden, which have all seen small increases over the four years, and Hungary, Iceland and Slovakia, where there have been major changes in the administrative structure of the tax authorities.

The raw figures show that the total number employed in the 30 national tax authorities in 2012 was 567,828, compared with 657,866 in 2008, an apparent drop of 90,000. However, there are no employment figures for Poland in 2012, while the structural changes in Hungary, Iceland and Slovakia make comparisons for these countries impossible. If these four countries are excluded from the calculations, a total of 56,865 jobs have been lost in 26 tax authorities between 2008 and 2012, equivalent to 9.6% of the 593,000 which were there in the same 26 countries at the start of the period.

In some countries the cuts have been very substantial.

Two countries have cut the number of those employed in their tax authorities by more than a fifth, Greece (21.9%) and the UK (20.7%) over four years, and Latvia, with 19.8% of jobs lost is very close to this level. There are another five countries where the percentage of jobs lost ranges from around 15% to 18%, Denmark (17.6%), Lithuania (17.3%), Cyprus (16.3%), Estonia (14.8%) and Romania (14.7%). A further four countries, where job losses were smaller in percentage terms, still saw more than one in ten jobs in tax authorities go between 2008 and 2012: Ireland (13.0%), Belgium (11.9%), Finland (10.9%) and Portugal (10.4%).

In total, therefore, 12 countries experienced a loss of more than 10% of jobs in their tax authorities over just four years. (See *Table 3*)

There is some indication that overall job losses may be slowing down. Looking at the totals for the 26 countries where there are comparable figures over the four years, the rate of decline has fallen from 3.1% between 2008 and 2009 to 1.8% between 2011 and 2012.

However, across the EU as a whole there is no indication that the loss of jobs has stopped or been reversed. (See *Table 4*)

Table 4: The speed of change

| Year | Total jobs change on previous year* | |
|-------|-------------------------------------|---------|
| | Percentage | Number |
| 2009 | -3.1% | -18,178 |
| 2010 | -2.7% | -15,507 |
| 2011 | -2.4% | -13,210 |
| 2012 | -1.8% | - 9,970 |
| TOTAL | | -56,865 |

* Based on 26 countries with comparable figures over four years
(excludes Hungary, Iceland, Poland and Slovakia)

The latest figures in the table relate to 2012, or in the case of the UK to March 2013, and, in some countries, later figures are available which indicate that the fall in the numbers employed in national tax authorities is continuing. In others, plans for further employment reductions have been published.

- In **Belgium**, for example, the figures from the Federal personnel database pdata.be show that the total headcount at SPF Finance (including the catering provided by fedorest) fell from 26,933 at the end of 2012 to 25,999 at the end of 2013, a 3.5% decline in a single year.¹⁶

- In **Denmark**, following a merger of local and national tax administrations in 2005, the initial plan was for the number employed to fall by almost 40%, from 10,700 full-time-equivalent (FTE) jobs to 6,400 by 2012. However, employment reduction has been less rapid than forecast, partly due to delays with major IT projects. Nevertheless, in the 2014 Finance Act, ongoing reductions in employment are still planned. The numbers engaged directly in tax are expected to fall from 7,046 in 2012 and 6,885 in 2013, to 6,393 in 2014, 6,175 in 2015, 6,036 in 2016 and 5,912 in 2017.¹⁷

- In **Finland**, where the 2012 annual report from the tax administration (VERO) states that “on average the head count has shrunk by 2.7% each year since 2008”, there are plans for a further 7% reduction from 2012 to 2015.¹⁸

- In **France**, in response to a question in the French National Assembly in January 2013, the French Ministry of Finance announced that it intended to cut the number of employees in the tax authorities DGFIP by 2,023 in 2013¹⁹ and a further 1,988 FTE jobs are expected to go in 2014, according to a parliamentary report.²⁰ This is equivalent to the loss of around 1.7% of those employed each year.

- In **Norway**, figures from the union YS Stat indicate that in the period from the end of 2012 to 30 June 2013, the total number employed in tax administration fell from 6,393 to 6,311, a 1.3% drop in six months.

- In **Portugal**, figures on the number employed in the public sector show that employment in the Ministry of Finance has fallen from 13,586 in December 2012 to 13,285 in December 2013, a 2.2% fall.²¹

- In **Spain**, the latest figures for La Agencia Tributaria, the Spanish tax agency, for the end of 2013, show employment at just 26,231. This is 2.7% lower than a year earlier and takes the level of employment down to “historic minimums”. Indeed the number is so low that it has caused the Spanish government to reconsider its policy of cuts in this area (see below).²²

- In the **UK**, the tax authorities, HMRC, told a parliamentary committee that it “plans to reduce the number of customer-facing staff by 8,500 (about a third) by 2015”, and that it “expects the number of contact centre staff handling telephone calls to almost halve from 6,900 in 2011-12 to 3,700 in 2014-15”.²³

THE IMPACT OF STAFF CUTS

One clear result of cuts in the number of employees working in tax authorities is on the morale of those remaining.

In **France**, a survey of staff opinion in the finance ministry undertaken by IPSOS for the government at the end of 2013 and revealed by the union CFDT-Finances, found that 49% of the staff were concerned by the cuts in the numbers employed and 72% thought that their working conditions were worsening. Only 58% thought that they had sufficient resources and support to do their job well, a 7 percentage point fall on the position a year earlier, and around half of those responding thought the quality of the service had got worse, a 6 percentage point increase over six months.²⁴

In the **UK**, where more jobs have gone, the situation seems even worse. A recent report by UHY Hacker Young, the accountancy group, on the position in HMRC noted that 1,697 staff had left in 2012-13, the largest figure since 2008-09 and suggested that it was in part a result of falling staff morale, as HMRC was under relentless pressure to cut costs and improve performance. Roy Maugham, tax partner at UHY Hacker Young said: *“HMRC has come in for some stinging criticism recently over its performance and it seems to be taking some time for staff morale to be restored.”*²⁵

The low level of morale in HMRC is indicated by its own surveys of staff opinion. In the latest survey covering Autumn 2013, only 26% agreed that HMRC was managed well (2% agreed strongly with this and 24% agreed), while 50% disagreed (30% disagreed and 20% disagreed strongly). When asked whether changes in HMRC were “usually for the better”, the results were even worse; only 17% agreed with this (1% strongly agreed and 16% agreed), while 54% disagreed (34% disagreed and 20% disagreed strongly). Although these results were slightly better than in the same survey in 2012, they were much worse than for the Civil Service (central government) as a whole (-17 percentage points on overall management and -10 percentage points on change).²⁶ The biggest gap between HMRC and the Civil Service

as a whole was on the question as to whether individuals are proud when they tell others that they work for the HMRC. Only 28% agree or agree strongly with this, compared with 56% for the whole of the Civil Service, an indication of the specific morale problems faced by the UK tax authorities.

These low levels of morale are not just a concern for those working in the tax authorities. They also affect the service that tax payers receive. As Roy Maugham from UHY Hacker Young points out: *"It's concerning to see such a high turnover of staff dealing with personal tax as this will have an impact on everyday taxpayers, who are often the most in need of guidance to ensure they get their tax affairs right"*.

The impact of cuts in employment is also being felt in other ways.

Most obviously it can mean that less tax is being collected than should be the case, as the experiences of Greece and the UK, the two countries which have cut employment in tax authorities by more than a fifth since 2008, indicate.

In **Greece**, where the union POE-DOY has produced its own figures showing how the number of tax employees has fallen by 19% in just two years, from 12,119 in 2010 to 9,760 in 2012, tax arrears have gone from €45 billion at the end of 2011 to €56 billion a year later. Tryfon Alexiadis, Vice-President of the union, wonders whether the government, which has introduced 22 separate pieces of tax legislation in two years, wants the system to improve.²⁷

In the **UK**, an external expert, Ronnie Ludwig, head of the private wealth group at Saffrey Champness, argued that lack of staff was one reason explaining HMRC's failure to collect as much tax as expected from offshore accounts. He said:

*"When HMRC failed to raise the projected amount from offshore bank accounts, its leaders were publicly humiliated for a failure that was almost inevitable. The collection target was far too optimistic and the legislative and manpower resources provided to tackle the problem were far too unrealistic. If this pattern is set to repeat itself over the course of the current anti-avoidance drive, it is no wonder that senior HMRC staff are short of morale."*²⁸

The National Audit Office, which examines the performance of public bodies, also expressed concern about the impact of limited resources on HMRC's ability to collect the tax it is owed. Commenting specifically on schemes constructed specifically to minimise tax, it said:

*"... when we looked at HMRC's response to marketed tax avoidance schemes, we found it had 41,000 open avoidance cases at 31 August 2012, and had yet to demonstrate whether it could successfully manage this number down. HMRC therefore faces a considerable management challenge if it is to continue to meet its commitments to increase revenue by stepping up its anti-avoidance and anti-fraud activities."*²⁹

In **Denmark**, there have been in total 1535 job losses (- 17.5%) between 2008 and 2012. The number of employees dedicated to recovering tax debt has reduced from 1065 in 2011 (on a full time basis) down to 943 in 2013. This has led to increased amounts owed to tax authorities both with regard to personal income tax up from 7.2 bn DKK in 2011 to 8.5 bn DKK in 2012, and corporate tax, up from 6.9 bn DKK in 2011 to 7.7 bn DKK in 2012.

In **Ireland**, back in 2011, the Revenue Commissioners forecast already expressed concerns that the employee target "of 5,678 foreseen for 2014 was risky and too

steep a reduction in the context of the real risks to compliance". In their annual report of 2012, the revenue commissioners also stated that "during the year 282 staff retired resulting in a loss of experience and gaps in critical skills."

Cuts in employment can also mean that tax payers get a worse service, damaging public confidence in the fairness and effectiveness of the whole system. Many countries have reduced or plan to reduce the number of local tax offices, where taxpayers can go to resolve problems.

This is the case in **Finland**, where the tax authority VERO announced at the end of 2012 that it planned to end its operations in 20 locations across Finland by 2015.³⁰ In Greece, the union POE-DOY reports that the number of tax offices has fallen from 288 in 2010 to 80 in 2013. The Italian tax authorities (Agenzia della Entrate) has a major programme of closures and in March 2014 it announced that it planned to close a further 58 local tax offices out of a total of 374.³¹ The tax authorities in the Netherlands also plan to close 22 of the existing 40 tax offices.³²

In the **UK**, HMRC has gone even further. In March 2013, it announced that it was planning to close all of its 281 local contact centres and replace them with mobile advisers, putting 1,300 jobs at risk. In February 2014, HMRC confirmed that it was going ahead with the proposal and that all the contact centres would be closed by the end of June 2014. However, the National Audit Office stated in 2013 that *"HMRC had made good progress in reducing costs and had met its revenue targets, but had much further to travel to raise customer service standards to an acceptable level"* with the following example: target for HMRC is that 80% of calls are answered within five minutes; Industry benchmark is that 80% of calls are answered within 20 seconds.

Although many taxpayers now deal with their tax affairs online, this is not possible for everyone, with the most vulnerable the least likely to be able to do this. As the union PCS, representing the majority of HMRC employees, has pointed out, a quarter of the 2.5 million people using these services are migrant workers and they often have complex tax queries. Its General Secretary, Mark Serwotka, said: *"These closures seriously undermine the government's claim that it wants to ensure people pay their taxes"*.

In **France**, where they have been relatively few local closures, the situation is different. The tax authorities, DGFIP, are committed to maintaining a decentralised organisation, with 2,961 offices across the country.³³ However, a report to the national parliament in October 2013, expressed the fear that while there was a stated commitment to maintain this network, in reality cuts in resources meant it was being hollowed out: *"The current approach, which faces two ways, looking to proclaim that tasks and network will be maintained, while at the same time reducing the means, cannot function in the long term."*³⁴ In fact, in view of the long queues for taxpayers and falling numbers of employees to the extent that staff in tax offices are taken away from their normal job to work in reception, the DGFIP accepted that staff *"face difficulties in carrying out their in reception in good conditions."*

The overall impact of these and other staff reductions can result in a much worse service to taxpayers, with negative consequences.

As the National Audit Office report on HMRC in the UK concluded:

"HMRC aims to deliver three strategic priorities: to improve customer ser-

vice; to reduce operating costs; and to reinvest money from its efficiency savings to generate increased tax revenue. There are inherent tensions in reconciling these priorities. Our 2012-13 work programme helped us to form a view on HMRC's progress against each priority. We found that HMRC had made good progress in reducing costs and had met its revenue targets, but has much further to travel to raise customer service standards to an acceptable level. Improving its service to customers is an important element of HMRC's strategy to collect a higher proportion of the tax due by helping people and businesses to comply voluntarily with their tax obligations.”³⁵

What this means in practice is indicated by a separate parliamentary report that looked specifically at HMRC's customer service. This found that while the industry benchmark for answering telephone calls was to answer 80% of calls within 20 seconds, HMRC's target was to answer 80% of calls within five minutes. In 2012-13 it was taking HMRC an average of six minutes to answer calls and 10% of calls were not answered at all.³⁶

In France, a freeze in the tax threshold decided by the government in 2011 resulted in an additional one million extra households paying tax in 2013, after an increase of 940,000 in 2012. With falling numbers of employees, the consequence was that tax offices were overwhelmed by people submitting forms and seeking advice. Staff in tax offices were taken from their normal jobs to work in reception. In 2012 the DGFIP had already agreed that staff *“face difficulties in carrying out their work in reception in good conditions.”*³⁷

A CHANGE OF HEART?

In Spain, the government appears to have started to recognise that cuts in the numbers employed in the tax authority, La Agencia Tributaria (AEAT), have gone too far. In April 2014, it published a decree allowing the AEAT to recruit more staff than the 10% of those lost through natural wastage, which is the rule in the rest of the public sector.³⁸ The accompanying document stated that the fall in the number of employees was *“more than worrying”*, as the AEAT had suffered *“a serious reduction”*, which, if not halted, could result in the loss of a quarter of its employees in the ten years 2010 to 2020. The average age of those employed by the AEAT had increased *“from a little more than 40, at the time it was created, to around 50 years currently”*. As a result retirements in the next few years could, the document went on, *“put at serious risk, the improvement of its performance, which would be desirable, or at least its maintenance”*, something which would result in *“grave damage to the public interest”*.

As the document pointed out, *“it is more than likely that excessive reductions in personnel costs will result in a very negative impact on the deficit, which make them very ill-advised”*. With each euro spent on the fixed costs AEAT staff producing an income 15 times higher, it is not surprising that the AEAT plans to recruit an additional 166 employees, on top of the 72 already planned.³⁹

In **Ireland** too, it seems that there is a realisation that cuts in employment in tax authorities can be self-defeating. The spending review produced by the Office of

the Revenue Commissioners, the Irish tax authorities, in 2011 stated that too many employees were being lost. It said:

"ISER [incentivised early retirement], normal retirement and the upcoming departures before February 2012 has had the effect of taking key experience and skills from Revenue at far too fast a pace. Some of these skills must be replaced as a matter of urgency. Staffing has reduced by 655 since 2008 and we estimate that a further 560 staff will retire by 2014."

The review went on to say that the planned employment ceiling of 5,678 foreseen for 2014 *"is already too risky, and too steep a reduction in the context of the real risks to compliance"*. It pointed out that having fewer staff would lead to more tax being lost: *"increased non-compliance would more than outweigh any savings on staff"*. It seems that these warnings have been heeded as the number employed in the Revenue has risen slightly to 5,745 (FTE) in 2013, an increase of 13 (0.2%) compared with 2012, although it is still 13% down on 2008.

However, even where new employees are planned, they may not in fact appear.

This has been the experience in the Netherlands, where, following a campaign from the union, FNV Abvakabo, in December 2012 the government promised to strengthen the service and increase the number of tax inspectors. However, rather than the 1,600 promised, only 500 new staff are being taken on with the rest being transferred from other parts of the service.

Commenting on the reports Mieke van Vliet from Abvakabo said: *"Wiebke [the government minister responsible] knows that there is a lot more money that could be brought in, but he says he is still 'on the look out' for it. The employees know exactly where it can be found ... Why doesn't he get to work on it straight away, rather than making cuts. Politics has an obsession with small government and it has got to stop."*⁴⁰

CONCLUSION

The developments in the Netherlands indicate that even where there is a realisation that tax officials more than pay for themselves in terms of revenue, political pressure prevents them being recruited in sufficient numbers.

Even in Ireland and Spain, where the tax authorities are increasing or plan to increase their staff, the numbers employed are still way below the levels before the start of the crisis.

This report demonstrates that on average tax authorities across Europe have lost around one in ten of their employees in the period 2008 to 2012, and that in many countries this process is continuing. Cuts in employment on this scale make it more difficult for the tax authorities to pursue those who deliberately seek to evade and aggressively avoid tax. However, they also make it more difficult for all taxpayers obtain the support they need to pay the right amount of tax at the right time.

Where a deterioration in the service and advice provided to citizens in the area of taxation is combined with a public belief that others are able to escape their tax obligations – perhaps entirely, the damage to public confidence in the tax system is severe. The consequences of this loss of confidence are felt across society.

ENDNOTES

ENDNOTES

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