

Is there life after Brexit?

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"Never, never, my friend, ask a question unless you already know the answer"

"Never ask a question unless you know the answer in advance". This age-old rule, followed by lawyers all over the world, has been forgotten in Britain, the legal capital of the world. The people were asked and their answer was not the one anticipated. What happens now?

One thing we can be certain about is that David Cameron will go down in history as one of the weakest prime ministers of this great country. What began as his tactical game aimed at luring the anti-immigrant minded voters, mainly from among working class people and lower-level managers, led to the turmoil this country did not experience since the miners' strikes in 1984-1985. No one foresaw it and nobody wanted it.

The problem is not that the British people voted the way they did. In the end, Britain may well be alright - though this is hard to believe - and the UK outside the EU will be better, stronger and richer.

The real problem lies in the fact that there is no real political force ready to lead the country towards a new future, the future outside one of the largest and most influential trade and political alliances. There is no plan and there is no leader able to face this new reality.

Only one party, the UK Independence Party, stood for Brexit. This party has one MP in the British parliament.

If Britain leaves, it will have to negotiate dozens of trade agreements with the EU and the rest of the world in a matter of months. Most UK trade agreements with countries outside the European Union were signed by the EU and will terminate if Britain leaves the union. Negotiations on such agreements take years and historically the British government has been able to negotiate one or two international treaties at the same time. Now, it will be necessary to deal with dozens of agreements. The government will be swamped.

Britain is like a frigate rushing through hostile waves. There is no helmsman on board. Nor there is a map or navigation devices.

We therefore believe that it is too early to say that the UK is going to leave the EU. It is likely that Britain will not trigger Article 50 of the Lisbon treaty and announce a second referendum.

As a precedent we see the Republic of Ireland where the population had initially rejected the possibility of EU membership in a national referendum held on the 28th June 2008. Instead of following public opinion, however, the government held a second referendum. This time supporters of European integration were victorious, and the country signed the Treaty of Lisbon.

We can't exclude such a scenario, particularly because there is no political force ready to sign a document making the country's exit a legally binding fact: neither the Conservatives nor Labour are prepared to do this.

However, the referendum is over, and we should try to foresee how the situation develops if Brexit becomes reality.

Fiscal Union

"Life after Brexit" will be largely determined by the UK's need to renegotiate trade agreements with the EU. Without favourable agreements with the European Union, Britain may be unable to enter good agreements with the rest of the world. To do this, her government will have to find areas where it has strong bargaining power.

The British economy is fairly open already and such positions are few. Co-operation against tax avoidance is one.

Although Brexit is on everyone's lips, tax avoidance is no less important. Global companies that are rapidly displacing traditional businesses can, if they want, pay very little tax. For example, in 2014 Amazon's revenues in Britain reached £5.3 billion while its tax obligations were £11.9 million, a negligible amount. Facebook's tax payments in the UK amounted to £4,327. This is less than the liabilities of one low-level manager: an annual salary of £26,500 would generate £5,392.80 in taxes.

According to the European Commission, Starbucks and Fiat each did not pay €20 - €30 million - money they will have to pay up. This is a significant amount: Starbucks's tax bill for last year did not exceed €600,000 and Fiat paid less than €400,000.

In fact, tax avoidance may be more serious problem than Brexit. At least, it hits the EU in the wallet harder.

For a long time the European Union, and especially Germany, has been promoting the idea of a fiscal union. Fiscal union can bring an end to tax avoidance. It implies the

harmonization of tax rates, Common Consolidated Corporate Tax Base and cooperation of tax authorities in different countries, including automatic exchange of financial information.

Britain has traditionally hindered the creation of relevant legal instruments and tried to lure multinational companies and individuals with an 'understanding' regime. For instance, this government slashed the rate of income tax from 28% to 20% and adopted new rules to create a favourable tax regime for multinational corporations by giving a number of benefits to know-how companies - perfect instruments for aggressive tax planning.

Britain does not support the idea of Common Consolidated Corporate Tax Base. "A Common Consolidated Corporate Tax Base has been around a very long time," says David Gauke, "It is a proposal still looking for a justification." In particular, David Gauke, Financial Secretary to the UK Treasury, said that his country is not prepared to coordinate efforts to combat tax avoidance. On the contrary, the British government welcomes competition in taxation.

With regard to cooperation in the exchange of information the United Kingdom technically is a party to the relevant agreements. However, how will these agreements be executed in practice remains at the discretion of the British government.

Accordingly, we believe Brexit would mean, on the one hand, a sharp increase in the activity of the remaining EU countries to create a Fiscal Union and, on the other hand, the UK attempts to lure multinational companies and wealthy individuals.

Marco Research

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