

PÄY AND DISPLAY

In Scandinavia, citizens' tax returns are published online for all other citizens to view. Could a similar system help to reduce the yawning wage gaps in countries like the UK?

WORDS ANNIE MAKOFF-CLARK

Last year, Jeff Fairburn, CEO of housebuilding firm Persimmon, was asked to leave the company after it was revealed he had received £75m in bonuses, despite the fact that some staff in the company weren't earning the Living Wage.

Fairburn's finances aren't all that unusual either – there's often a degree of uproar when the salaries of top executives at UK-listed companies are revealed. And that's with good reason: 2019 research from the High Pay Centre thinktank and Chartered Institute of Personnel and Development (CIPD) found that UK CEOs earned more in the first three days of January than the average employee makes in a year.

While this pay gap doesn't make for easy reading, it's not exactly a new problem. That's partly why the government introduced a regulation in 2013 that requires all UK-listed companies to publish the salaries of their top executives. But maybe that's not going far enough. Currently, only top executive pay is made visible to the public. Even then, the figures are published by the companies themselves, so there is arguably scope for manipulation, allowing them to present a more favourable picture.

The Scandi solution

The Scandinavian approach to transparency seems radical compared to the UK's, where talking about your salary is a taboo. In countries such as Norway, Sweden and Finland, tax-collecting agencies release the income and tax details of every single citizen. Every return can be accessed online by anyone – you just need an internet connection.

In Norway, the practice of releasing returns publicly has been in place since 1863. Now, thanks to digital records, it's even easier to have a peek at other people's salaries, although the country introduced a law in 2014 that ensures people are told who is viewing their tax information – leading, unsurprisingly, to the number of searches decreasing.

Many Scandinavians, then, can view the tax returns and earnings of their neighbours, potential partners, spouses and colleagues. There's a good reason why the Finns call the day when tax returns are released 'National Envy Day'.

But the system inevitably helps with holding prominent figures and companies to account. The highly public nature of the records also makes tax evasion very difficult.

"These things are inevitably less of an issue if it's known they can be checked," explains Richard Murphy, a chartered accountant and economist. "The open tax system also helps to promote gender equality and reduces pay gaps in general."

Dr Guy Michaels, associate professor of economics at the London School of Economics, agrees. "It means that people who earn less can ask for more, since they'll know

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what their peers are earning," he says. "This could reduce income inequality at a time when it seems to be getting worse."

However, says Michaels, the system has its limitations. Not only is there an issue around privacy, but there is evidence that those with below-median pay become less satisfied when they learn they are earning less than others, leading to problems





WHAT'S THE BIG IDEA?

Publishing everyone's tax and salary information for everyone else to see, as they do in Norway, Sweden and Finland.

WHAT'S GOOD ABOUT IT?

It forces a conversation about wage gaps and greatly reduces tax evasion and aggressive avoidance.

WHAT'S BAD ABOUT IT?

It can sow the seeds of discontent among the less well paid, killing motivation and harming staff retention.

such as low engagement levels and difficulty retaining staff.

Would it work in the UK?

With all this in mind, could we ever see a similarly open tax system in the UK? Murphy suspects not. "The model works in Scandinavia," he says. "Their society is overall very honest, trusting and compliant. I know because I work there. It is also egalitarian. Our society in the UK, however, is different. We are class-ridden and jealously preserve status and wealth. The UK is absolutely not ready for this yet."

For chartered accountant and former HMRC adviser Richard Baldwin, complex feelings around privacy would be enough to put people off. "The British can be very private

when it comes to their personal finances and earnings," he explains. "And it's ironic that some well-known figures are more than comfortable making open displays of wealth, yet notoriously cagey when it comes to their own tax affairs."

Baldwin points to a possible compromise: making the tax returns of prominent figures, including the CEOs of FTSE companies, publicly available, to help bring about greater accountability. At the same time, a more open tax culture may encourage greater responsibility among other people too.

"Fundamentally, if greater transparency in our tax affairs makes society better and fairer as a whole, this can only be a good thing," notes Baldwin.