

Where on earth are you?

**Major corporations
and tax havens**

March 2009



Executive summary

This report builds on a finding in the United States that 83 per cent of the largest US companies have tax haven / secrecy jurisdiction¹ subsidiaries.

The report surveyed 97 of the largest quoted companies in the UK, the Netherlands and France. Of those companies all but one had tax haven subsidiaries. 99 per cent of the European quoted companies surveyed operate in tax havens.

As in the USA, the largest user of tax havens in every country surveyed was a bank. In the USA the largest user was Citigroup, in the UK it was Barclays plc, in France it was BNP Paribas and in the Netherlands ING. ING was also the largest single user of tax havens, with more than 2600 tax haven subsidiaries, putting it comfortably ahead of every other company in the survey. However, this may reflect a different pattern of recognising a subsidiary on its part from that used elsewhere.

The most popular tax haven in the world is Hong Kong. Hong Kong is followed by the Cayman Islands, then Singapore, Switzerland, Luxembourg, Bermuda, the British Virgin Islands, Jersey, Mauritius, the Bahamas, Guernsey, the Isle of Man, Panama, Costa Rica and the Netherlands Antilles in that order.

There are strong regional variations in the use of tax havens. US corporations use the Cayman Islands more than other locations, but also show a bias towards Bermuda, the British Virgin Islands, the US Virgin Islands and Barbados.

U.K. corporations are the biggest users of the UK Crown Dependencies as tax havens. French corporations have a bias towards using Switzerland and Luxembourg and it is only Dutch corporations that break this general rule. They seem to use more Far East tax havens such as Hong Kong and Malaysia, which significantly increases the apparent popularity of these locations in the survey results.

Undertaking this survey has not been without difficulty, particularly in the case of U.K. corporations. The 33 companies surveyed in the UK were selected on the basis of being those for which reliable data was available.

This, in itself, is indication of the enormous secrecy that surrounds the trading of these major corporations, many of which have turnovers bigger than nation states. Even though we have been able to locate some of the tax haven / secrecy jurisdiction companies that these multinational groups have created we know nothing about the following:

- What these companies do in these places;

¹ Secrecy jurisdictions are places that intentionally create regulation for the primary benefit and use of those not resident in their geographical domain that is designed to undermine the legislation or regulation of another jurisdiction and that, in addition, create a deliberate, legally backed veil of secrecy that ensures that those from outside the jurisdiction making use of its regulation cannot be identified to be doing so.

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- How much trade they undertake in these places;
- How many people they employ in tax havens / secrecy jurisdictions;
- How much profit they record in tax havens;
- How much tax they do, or do not pay as a consequence;
- The value of assets hidden from mainstream financial regulators as a consequence of their operating outside the normal regulatory environment by being located in tax havens.

All this information would be available on public record had the companies surveyed been required to present their global financial results on a 'country by country' basis².

Country by country reporting would require that a multinational corporation published the name of each country in which it operates, without exception, the names of all its companies trading in each country in which it operates without exception, and a profit and loss account and limited balance sheet data for each such country in its annual financial report.

This report argues that only through the introduction of country by country reporting will it be possible to assess whether multinational corporations and banks are properly regulated, pay their taxes, and do not abuse the countries in which they operate.

This last point is especially important. Christian Aid has estimated that developing countries lose at least \$160 billion a year in lost tax revenues from the abuse of transfer pricing and accounting rules by major multinational corporations. This abuse would have been highlighted, or eliminated, if the corporations in question had been required to account on a country by country basis with enormous benefit arising to the developing world in consequence.

This report does not suggest that anything illegal has been happening. But our findings suggest that current legal practice has to change substantially for the benefit of the ordinary people of this world, wherever they reside.

² For more information see http://www.taxjustice.net/cms/upload/pdf/Country-by-country_reporting_-_080322.pdf

Background

In December 2008 the US Government Accountability Office published a report³ entitled 'International Taxation: Large U.S. Corporations and Federal Contractors with Subsidiaries in Jurisdictions Listed as Tax Havens or Financial Privacy Jurisdictions'. It may not have been the punchiest title in history but what it said was important:

Eighty-three of the 100 largest publicly traded U.S. corporations in terms of 2007 revenue reported having subsidiaries in jurisdictions listed as tax havens or financial privacy jurisdictions.

Suddenly, and for the first time, there was data on the proportion of the largest US corporations using tax havens as a part of their business operations. As the report made clear, this did not imply any illegality on their part. But in view of the current worldwide attention being given to tax haven activity the finding was significant.

This paper seeks to build on that finding. It does so by comparing the data from the USA with new research relating to major corporations in the UK, France and the Netherlands. In each case the data has been targeted at the largest corporations in these countries, although as is noted, not all desired information was found to be available.

In undertaking the work The Tax Justice Network excluded the UK and the Netherlands from its list of tax havens because the US report had already done so. We consider both to be tax havens.

Main findings

The main findings of this survey are:

	United Kingdom	Netherlands	France	USA	Total
Sample size (listed corporations)	33	25	39	100	197
Total number of companies in groups surveyed ²	19768	25753	9274	9604 ⁴	64399
Total number of tax haven subsidiaries found	2612	3298	767	2422	9099
Average number of tax haven subsidiaries per company	79.2	131.9	19.7	24.2	63.8
Average percentage of tax haven subsidiaries	14.0%	10.2%	7.3%	26.2 ^{2%}	14.4%

³ <http://www.gao.gov/new.items/d09157.pdf> accessed 13-3-09

⁴ Except for the USA where the total number refers not to total number of companies in the group, but to the total number of foreign subsidiaries only. This results in an understated number regarding the total number of companies and in an overstated number for the average percentage of tax haven subsidiaries per corporation.

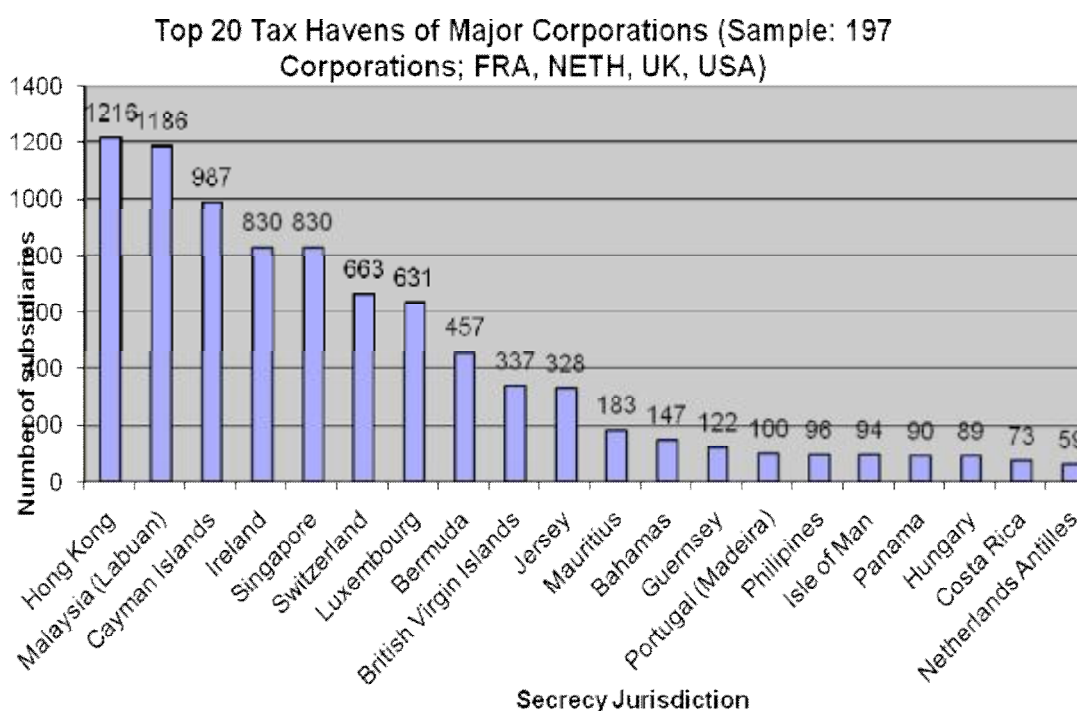
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Unlike the USA, where 17 per cent of the sample had no tax haven subsidiaries, all the UK companies had tax haven subsidiaries. Barclays plc had the most (315), just beating BP plc (294) into second place.

The Netherland produced just one company (from a sample of 25) without a tax haven subsidiary but at the same time contributed the company with the most tax haven subsidiaries of all: ING, the Dutch based bank, had an incredible 2,604 such subsidiaries out of an equally incredible 17,861 total number of companies within the group. It should be noted that this may be the consequence of ING treating as subsidiaries many companies it may manage on behalf of clients of the bank. If so they maintain their records differently from other companies surveyed. This has the consequence of making Hong Kong and Malaysia appear more popular within the survey than they might otherwise be.

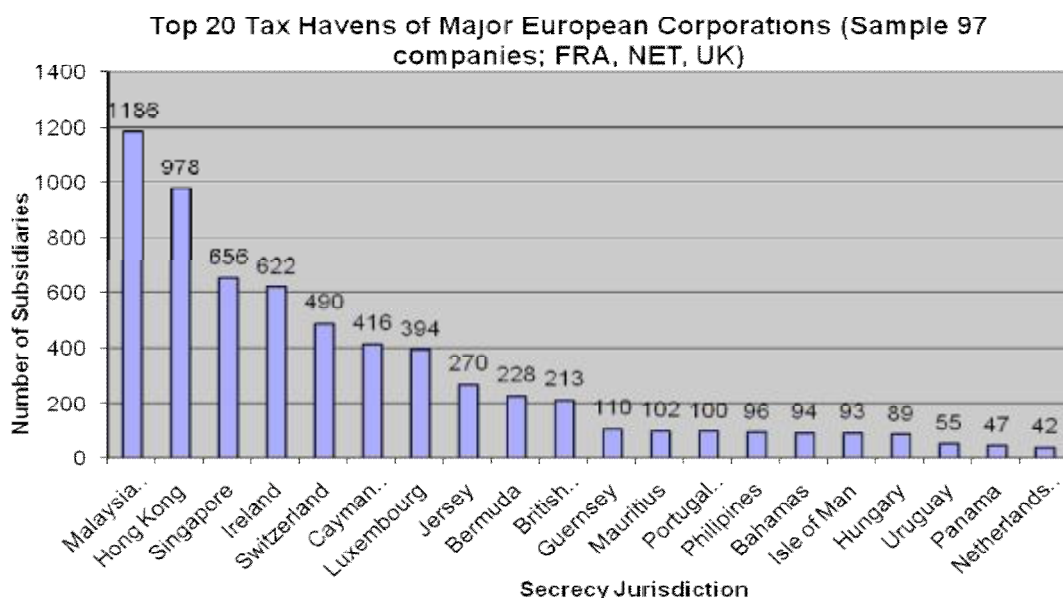
In France all of the 40 companies surveyed had at least one tax haven subsidiary. BNP Paribas had most with a total of 189.

Favourite tax haven locations for the sample as a whole were as follows:



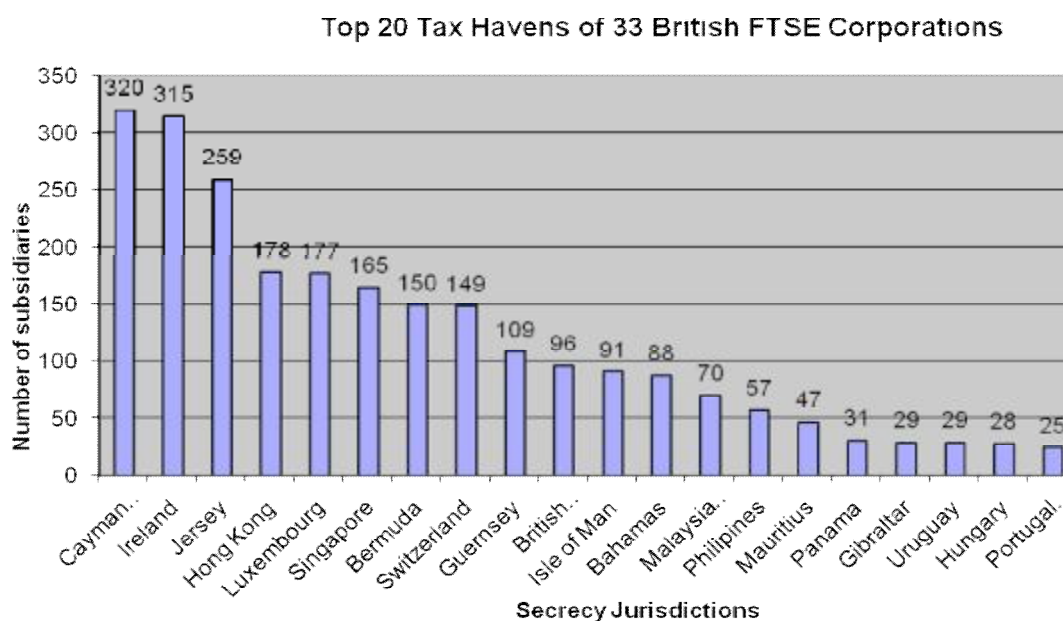
It is striking to compare this with the profile for European companies:

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The Cayman Islands are much less important to European countries than they are to the USA. Singapore and Malaysia are relatively much more important to European concerns.

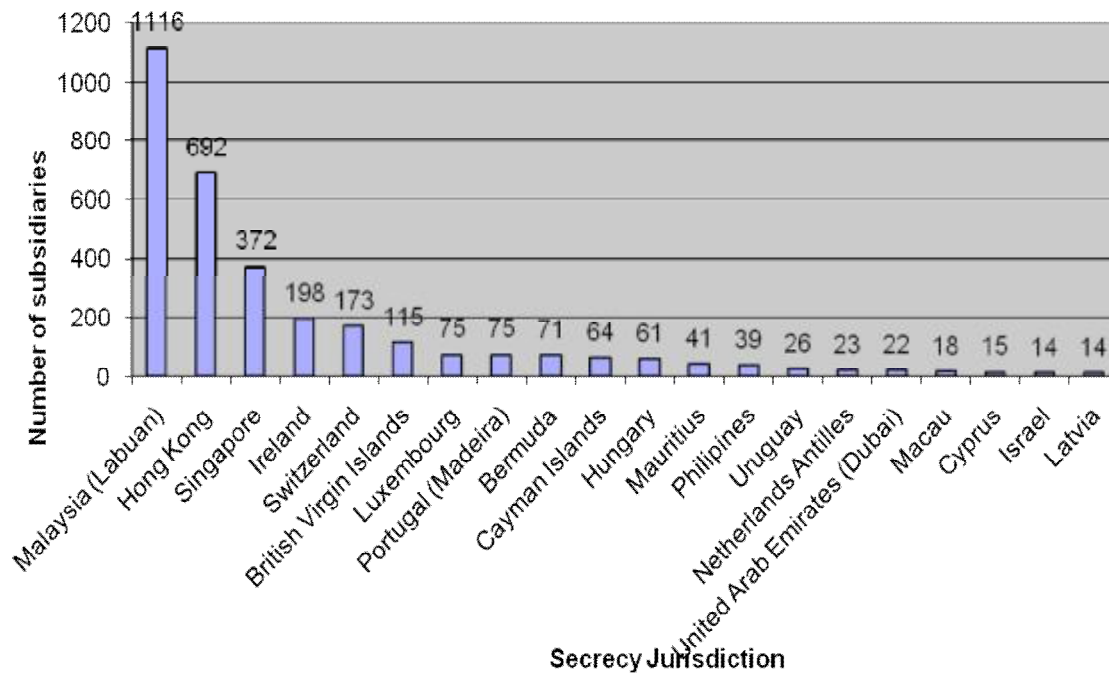
When data for the UK is analysed another story emerges:



British-based territories now come much higher up the rankings. In contrast, Malaysia becomes quite insignificant. Malaysia is, in fact, used almost entirely by the Dutch, where this finding is distorted by ING, as noted above. The Dutch are, unsurprisingly, the biggest users of the Netherlands Antilles. Data on use of the British Crown Dependencies could not be collected for Dutch companies: they are treated as being part of the UK in the data available in the Netherlands. This is reflected in the following graph:

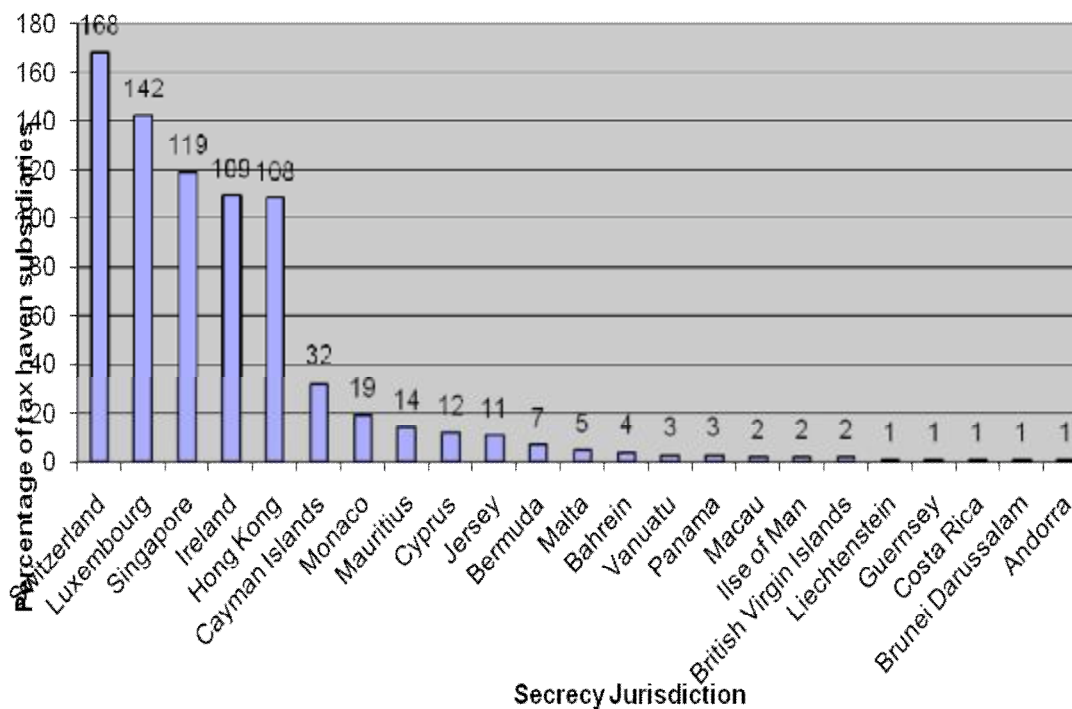
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Top 20 Tax Havens of 25 Dutch Euronext Corporations



The French profile also reveals a different pattern of using secrecy jurisdictions:

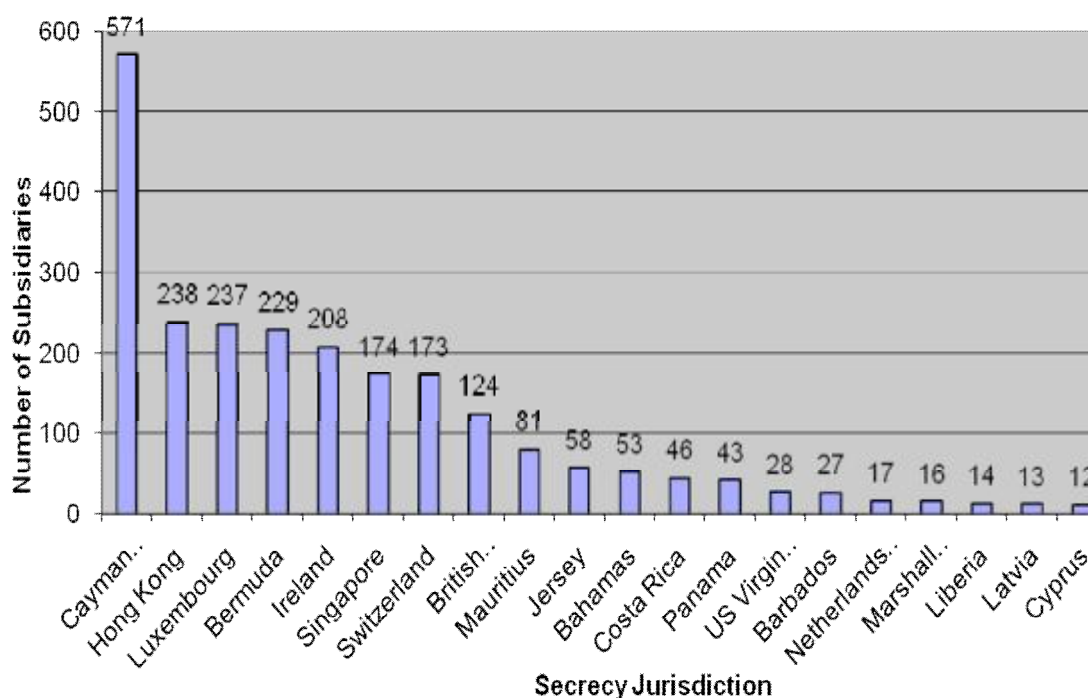
Top 20 Tax Havens of French CAC-40 Corporations



British associated tax havens clearly have little interest for the French. This is not true of US corporations:

Top 20 Tax Havens of 100 Largest US-Corporations

Source: US GAO 2009



Locations such as Bermuda and Jersey feature in the US listing, but so do locations not listed elsewhere, such as Barbados, the Marshall Islands and Liberia (which for all practical purposes is, in this context, run from the Virginia in the USA).

Conclusions

Large multinational corporations use tax havens extensively. 83 per cent of major US corporations used tax havens. 99 per cent of the European quoted companies surveyed operate in tax havens.

Without exception banks are the biggest users of tax havens. Citigroup, Barclays, ING and BNP Paribas take top place respectively in the USA, UK, the Netherlands and France.

Hong Kong is the most popular tax haven in the world. Cayman comes second, followed by Singapore, Switzerland, Luxembourg, Bermuda, the British Virgin Islands, Jersey, Mauritius, the Bahamas, Guernsey, the Isle of Man, Panama, Costa Rica and the Netherlands Antilles, in that order.

There is a strong regional variation in the use of tax havens. French companies have a pronounced bias towards using Switzerland and Luxembourg. The Dutch use Far Eastern locations more than any other country. The British Crown Dependencies are very popular with UK companies. The USA also has a very strong regional bias

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towards the Cayman Islands and territories traditionally associated with it, such as the US Virgin Islands, the Marshall Islands and Liberia.

Recommendations

With some considerable effort by a team of dedicated people we have been able to find out where some of the world's largest corporations trade from.

The effort required is in itself an indication of the enormous secrecy that surrounds the trading of these major corporations, many of which have turnovers bigger than nation states. Even though we have been able to locate some of the subsidiary entities that multinational companies have registered in secrecy jurisdictions, we know nothing about the following:

- What these entities do in these places;
- How much trade they undertake in these places;
- How many people they employ in tax havens / secrecy jurisdictions;
- How much profit they record in tax havens;
- How much tax they do, or do not pay as a consequence;
- The value of assets hidden from mainstream financial regulators as a consequence of their being placed outside the normal regulatory environment by being located in tax havens.

All this information would be available on public record if the multinational companies surveyed were required to present their global financial results on a 'country by country' basis⁵. This basis of accounting is supported by Action Aid, Christian Aid and other development agencies.

Country by country reporting would require that a multinational corporation published the following information in its statutory financial accounts that are sent to its shareholders each year, and which are placed on public record on its website for anyone to access:

1. The name of each country in which it operates, without exception;
2. The names of all its companies trading in each country in which it operates;
3. What its financial performance is in every country in which it operates, including:
 - Its sales, both third party and with other group companies;
 - Purchases, split in the same way;
 - Labour costs and employee numbers;
 - Financing costs split between those paid to third parties and to other group members;
 - Its pre-tax profit;

⁵ For more information see http://www.taxjustice.net/cms/upload/pdf/Country-by-country_reporting_-_080322.pdf

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4. How much it pays in tax and other ways to the government of the country in which it is operating as a consequence (split as noted in more detail below);
5. Details of the cost and net book value of its physical fixed assets located in each country;
6. Details of its gross and net assets in total for each country in which operates.

Tax information would need to be analysed by country in more depth.

This state would provide better information than is currently available almost anywhere on the identity and location of a corporation's subsidiary companies. In addition, it would allow identification of a corporation's contribution to a country's national interest, a task that is virtually impossible at present. And, most importantly, this data would require that the company be held to account for the use that it makes the tax havens.

Nothing could enhance the regulation of the world's financial system more than the introduction of country by country reporting for all multinational corporations.

Unless this form of accounting is introduced any attempts to regulate banks, who are the biggest users of tax havens, will have limited effectiveness.

Without access to this information, tax inspectors in every country will not know how to target their resources to best effect to collect the tax that is not currently being paid. Measures to strengthen public finances are vital if the effects of the recession are to be effectively tackled without long-term impact.

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Thanks

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Richard Murphy of Tax Research LLP was the primary researcher of this work. He was ably assisted by Markus Meinzer. Data from the Netherlands was contributed by SOMO (www.somo.nl) and that for France by Alternative Economiques (<http://www.alternatives-economiques.fr/>). Grateful thanks are offered. A number of volunteers helped with the UK survey to whom thanks are offered.

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Important note

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