

Concord

Tax and Finance for Development



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Presentation by
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Tax is exciting!

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And so is accountancy

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**And both are incredibly
important for the
development agenda**

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Then there's the good news:

**- you don't have to
understand much about
either to understand why**

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Let's start with some numbers!



- Government spending is about 36% of national income in the developed world.
- It's paid for by tax
- In the developing world it's much less, even in transition states just half that
- But it's still clear: tax is serious business

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Aid



- We'd like aid to be 0.7% of GDP
- Almost no one pays what's expected of them
- Conclusion: tax is much bigger than aid

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Over the next five years



- Tariffs collapse in Africa
- The IMF / WB have insisted on it
- Informed sources in Paris say the cost to developing countries will be as big as the entire aid budget
- Conclusion: aid might be plugging the tax gap very soon

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Companies conduct trade



- 60% of world trade is intra- group - between companies under common ownership
- The top 50 companies in the UK avoid at least \$20 billion of tax a year
- They achieve this by using tax incentives, transfer mispricing and using tax havens

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Tax havens



- In 2004 we estimate there were \$11.5 trillion of assets held by individuals in tax havens
- Tax cost - \$255 billion a year - 5 times the cost of the MDG
- Three British islands - Jersey, Guernsey and the Isle of Man have \$1trillion of tax evaded assets in them right now
- Tax cost of these islands alone- \$20 billion a year - one sixth of annual worldwide aid

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Who runs the tax havens?



- The UK
- USA
- Switzerland
- Netherlands
- Belgium
- Luxembourg
- China (Hong Kong)
- Singapore

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Who provides the corruption services that let people avoid tax



- The Big 4 accountants
 - KPMG, PWC, E&Y, Deloitte
- Lawyers
- The world's big banks
 - Citigroup, Deutsche, Barclays, BNP
- You can name all these people
- They're the suppliers of corruption services
- They provide the infrastructure that lets it happen

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What's the result?



- A world tax system where capital isn't taxed
- Where the flow of funds is now from the poor to the rich:
 - Within countries
 - And between countries

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Within countries



In the UK:

- The poorest ten percent of the population have an effective tax rate of 53%
- The wealthiest 10% of the population have an effective tax rate of 33%

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Between countries



The total annual flow of illegal money from the developing to the developed world each year is:

- \$500 billion
- Just 3% is bribery
- One third is criminal
- 65% is mispriced trade - done by the world's major corporations
- Question: why is the press so obsessed with bribery?
- Corruption is much, much bigger

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Why does the money flow?



The major purpose of the dirty money structure that we in the West have created is the movement of money from poor to rich—out of the hands of the poor, into the hands of the rich; out of the countries where 80 percent of the world's population lives, into the countries where 20 percent of the world's population lives.

This is the purpose that unites the movers of the corrupt and the criminal and the commercially tax evading components of illicit financial flows. The primary purpose is the shift of money from poor to rich.

Raymond Baker

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The tax situation will get worse



- Tariffs are going
- VAT is coming
- For every \$1 of tariff abolished VAT raises just 30c
- Aid will be a sticking plaster on developing countries tax systems

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What can be done?



- Three things right now
- Of relevance to you whether you're involved in aid, trade, debt or taxation:
 1. **Country-by-country reporting**
 2. **Changing the definition of corruption**
 3. **Supporting the FfD process**

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First - country by country reporting



- All of us monitor companies
- We need to for
 - aid,
 - trade,
 - debt
 - and tax
- But companies don't want us to know where they are, what they're called and what they do

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The problems with accounts



- The world's accounting rules let them get away with this
- Published accounts don't show intra-group trade
- They give little clue about where a company made its profit
- No clue on transfer mispricing
- And none at all on tax haven abuse

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So we wrote our own accounting standard



It says we want to know:

- Every country in which an MNC operates
- What the names of its subsidiaries are there
- No exceptions

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And

for every country (without exception):

- What its sales are, 3rd party and intra-group;
- What its purchases are, split similarly
- How many people it employs and what it pays them
- What interest it receives and pays, intra-group and third party
- What profit it makes
- What tax it pays
- Some balance sheet data

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Why?

Because:

- If a company's Cayman subsidiary:
 - Makes all its sales intra-group
 - Makes all its purchases intra-group
 - Has no employees
 - Has very high profit
 - And pays no tax
- You can be sure there's a fiddle going on

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The wins:

- Governance data
- Accountability
- CSR information
- Trade data
- Debt data
- Labour information
- Tax data

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The winners

- Us – civil society
- The citizens of every country
- The employees
- The shareholders
- Tax authorities, world wide
- Regulators, everywhere
- The companies themselves – they can focus on making money, not fiddling

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What's happened (1)



- It began as my idea
- And we talked about it
- And PWYP liked it
- They published it as “Extracting Transparency”
- We took it to the International Accounting Standards Board
- They ignored us

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What's happened (2)



- We persisted – seeking to change their standard IFRS 8 on segments
- And the IASB ignored us
- So we told the press they had ignored us
- So the IASB said they'd consider the issue, and then ignored us
- So we allied with the investment community
- And challenged the approval of IFRS 8 and got the EU Parliament on board

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And the EU Parliament



Agreed with us!

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They say



- They want country-by-country reporting for the extractive industries
- They want the EC and the IASB to develop it
- We say we want it for everyone, not just extractive industries

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We could win:



- I know UK MNCs pay about 70% of the tax society expects
- Take just the UK and the win would be over \$20 billion
- Add the EU and US – we're into \$100s of billions
- This is the power of tax in the Finance for Development agenda

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Tackling perceptions of corruption



- To win we must:
- Change perceptions of corruption
- Most corruption is tax evasion
- Corruption is not just by government officials in African states
- Switzerland is not the 8th least corrupt country in the world (as the CPI would suggest)

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Moving on from the CPI



- This means we have to seek change in Transparency International's "Corruption Perceptions Index" (CPI)
- This has created the view that corruption is a developing country problem
- And that all aid, debt relief and proceeds of trade and tax reform are wasted
- Well some is, but.....

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Only because it's possible



- Corruption only happens because it's possible
- It's possible because developed countries supply corruption services
- Through tax havens:
 - Half of them are British
- This is the "supply side" of corruption
- TI is now talking about this

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We have to win this change



- Or we'll lose the hearts and minds of the public
- That's why the FfD is tackling tax havens
- They are where the corruption takes place
- And we are beating the tax havens, slowly
- We've changed the law in Jersey and the Isle of Man
- We are winning in Europe (again)

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But this requires support



- Norway has stuck its neck out on this and is leading the field
- It's isolated and lonely
- Please support it
- And the FfD process
- Send people to the FfD taskforce preparing for Doha
- Just make clear you're committed

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And please:

- Ask for country-by-country reporting
- Support a change in the way we see corruption

- We can do this
- We can beat the companies who promote these activities
- And the world will be a better place

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