
THE SHIRTS OFF THEIR BACKS

How tax policies fleece the poor

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Contents

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| Introduction | 03 |
| 1. Shifting the tax burden onto poor people | 05 |
| Case study: Bolivia's tax troubles | 07 |
| 2. Tax avoidance and tax havens | 10 |
| Case study: The shrinking public purse in Kenya | 13 |
| 3. Laundering profits | 14 |
| 4. Who is responsible for the tax crisis? | 16 |
| 5. Tax justice | 18 |
| 6. Recommendations | 20 |
| Endnotes | 23 |

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Introduction

The debate about how poor countries fund their escape from poverty has hitherto focused mainly on calls for debt cancellation and increases in aid. These factors are important, but they are only pieces in a larger and more complicated puzzle.

Solving the puzzle involves looking not only at the money and resources that flow into poor countries, but also at those that countries already have but are unable to marshal for the fight against poverty and at those that leak away.

This briefing focuses on the importance of taxation in poor countries as another and vital piece in the puzzle. New research from a global network of economists – the Tax Justice Network – points firmly towards the importance of taxation as a means of raising money to fund poverty eradication. But it also throws into sharp relief capitalism's 'Mr Hyde' persona, which undermines both the global economy and the taxing capability of poorer countries by dragging billions of untaxed money offshore.¹

Tax plays a critical role in the development of an equitable society. Progressive forms of taxation,² such as income, profit or capital-gains taxes, are the main means by which wealth is redistributed. Tax is also arguably a cornerstone of democracy, giving individuals and businesses a financial stake in society. Yet taxation is facing a crisis in poorer countries.

In the rich world, government revenue from taxation between 1990 and 2000 averaged 30 per cent of gross domestic product (GDP).³ In sub-Saharan Africa, the average over the same period was 17.9 per cent of GDP, in Latin America 15.1 per cent and in south Asia 10.5 per cent.⁴

This low tax yield in poorer regions of the world limits the domestically generated resources available to governments for essential public services, such as healthcare and education. It also hampers wealth redistribution, which is perhaps one of the reasons why developing countries are increasingly unequal. The shortfall is partly met by aid payments from the rich world, but these have proved volatile and have often come with harmful economic strings attached.

It is not by accident that poor countries have been unable to increase the amount of revenue they raise through taxation. There are three specific tax strategies that have hindered them:

1. **Tax competition** between countries means poorer nations have been forced to lower corporate tax rates, often dramatically, in order to attract foreign investment.⁵
2. **Trade liberalisation** has deprived poorer countries of taxes on imports. In some cases, these had yielded up to one-third of their tax revenue.
3. **Tolerance of tax havens** has helped wealthy individuals and multinational companies (as well as criminals, corrupt leaders and terrorists) move their wealth and profits offshore to avoid paying tax.

This briefing suggests that measures must now be taken to minimise tax competition below a certain tax rate. It also suggests that as trade taxes diminish, governments and international institutions should focus their attention on taxing income and profits, rather than on making up the shortfall with value-added tax (VAT). It concludes with a call for international action to reduce tax avoidance and tackle the veil of secrecy surrounding tax havens.

It also suggests there are incentives, such as increasing their own income from tax and tracking the flow of terrorist money, for the governments of rich countries to act on the issue of tax avoidance. It calls on the UK to take a lead.

1. Shifting the tax burden onto poor people

Tax has hitherto been neglected as a weapon in the fight against poverty and in the building of democratic accountability in poor countries.⁶ As tax strategies have changed, they have threatened to increase poverty by gradually shifting the burden of taxation from rich to poor.

The impact of the shift in the tax burden, resulting from tax competition, trade liberalisation and tax havens, has meant that poor people in the developing world are being asked increasingly to meet the domestic portion of the bill for reaching the Millennium Development Goals (MDGs) – the internationally agreed targets for tackling poverty.

This shifting tax burden is not exclusive to poorer countries. Britain's own tax take from incomes and profits fell from 15.8 per cent of GDP in 1975 to 12.9 per cent in 2003. During the same period, other taxes, such as those levied on consumption, rose from 19.5 per cent of GDP to 22.4 per cent.⁷ This is an echo of a global trend which is more severe in poorer countries and indicates growing inequality.

As taxes on the profits of business, on the earnings of wealthy individuals and on trade have diminished, VAT has increased. This is regressive⁸ and shifts more of the burden of taxation onto the shoulders of poorer people. Moreover, VAT has not replenished tax revenue lost elsewhere. According to the International Monetary Fund (IMF), in low-income countries, for every US\$1 lost in trade taxes, only 30 US cents has been recovered in sales and consumption taxes.⁹

Competition that involves setting low rates of corporate tax or giving tax holidays in order to attract investors from different countries is throttling public services in those countries and may be significantly harming economic growth.

A 2004 report by the global consulting firm McKinsey highlights the ineffectiveness of offering such incentives to companies. The report examines foreign direct investment (FDI) in Brazil, China, India and Mexico. It concludes that while FDI brings significant benefits, such as employment and technology, 'popular incentives such as tax holidays, subsidized financing or free land, serve only to detract value from those investments that would likely be made in any case.'¹⁰

Tax is an obvious source from which countries can generate cash to fund human development. It is also one of the means by which they can begin to free themselves from dependence on handouts and the punitive conditions often attached to aid. Tax can help countries determine their own route out of poverty.

But in the past 30 years, low-income countries have experienced a slump in the amount of tax they collect because of falling tax yields from trade taxes and the stagnant rate of direct taxes, such as income and profits taxes.¹¹

There has been a similar trend in middle-income countries where the need for additional revenue is not as great, but where tax is important as a means of redistributing wealth. For both low and middle-income categories, the changing trend means the burden of taxation has shifted, from rich to poor.¹²

The very organisation that has presided over many of these changes – the IMF – has produced new research, showing that for every US\$1 poor countries have lost by liberalising trade tariffs, they have ‘at best’ recovered just 30 cents through other forms of taxation. Even middle-income countries have recovered only 45 to 60 cents of each dollar lost.¹³ Moreover, those countries that have followed IMF advice and attempted to recover lost trade taxes through VAT have fared no better than those that have not.¹⁴

Case study: Bolivia's tax troubles

Bolivia is the poorest country in South America, yet it is sitting on gas and oil reserves worth billions. The contradiction between the country's grinding poverty and the fact that companies such as British Gas and BP are paying relatively little tax for extracting its valuable resources has not been lost on the Bolivian people: popular protests have toppled two governments in as many years.

When Bolivia's gas industry was privatised in 1996, under heavy pressure from the IMF, consortia of companies negotiated a deal that meant they paid very little tax on the value of the gas extracted at the wellhead.¹⁵ The companies were only required to pay 18 per cent of the market price for the new reserves, in a form of tax known as 'royalties'. Ninety-seven per cent of Bolivia's reserves were deemed 'new', thus exempting them from a further 25 per cent income tax.

The idea behind the 1996 privatisation was that it would increase investment in gas and oil and thereby boost production. So even if Bolivia's share of the cake were smaller, the cake itself would be larger.

But in practice, while production did increase dramatically, Bolivia's earnings barely rose. British Gas, BP and others were enjoying very healthy profits from their operations in the country – even as Bolivia's main non-renewable resource was being depleted at an escalating rate. Meanwhile, despite having very low local production costs,¹⁶ Bolivians were paying US\$1.60 per gallon for petrol – almost as much as US consumers.

Ten years after privatisation, as prices of crude oil and natural gas reached record highs,¹⁷ the Bolivian people called for changes to the rules of the game. In April 2005, the four biggest multinational oil companies – BP, Exxon Mobil, Shell and ConocoPhillips – announced that their incomes had risen by 39 per cent compared with the previous year.

This is the background to the widespread blockades in May and June 2005. A loose coalition of former tin miners, teachers, urban community groups and indigenous women sporting bowler hats, decided it was time for a change. Aided by geography and Bolivia's sparse road network, protestors were able to bring La Paz to a virtual standstill for three weeks.¹⁸ Most international flights to the airport in nearby El Alto

were suspended and in scenes reminiscent of the UK's fuel protests in 2000, activists were able to cut off the supply of petrol to the city centre.

In a bid to quell the unrest, the Bolivian congress passed a law in May 2005 that will eventually impose a new 32 per cent tax on oil and gas exploitation. Protestors believe it will be easy to avoid paying.

But the mere mention of such legislation was enough to ring international alarm bells. In October last year, a deputation from the foreign office reportedly told the Bolivian government that a British promise to cancel Bolivia's foreign debt could be at risk if the Bolivians raised taxes on gas production.¹⁹

Not surprisingly, the Bolivian move was also deeply unpopular with the companies. Even before the government fell in June 2005, British Gas wrote a letter to the Bolivian gas minister, Guillermo Torres, which he interpreted as threatening to initiate proceedings at an international arbitration court for breach of contract if the proposed tax increase went ahead. A spokesman for British Gas told Christian Aid the letter was written 'in order to reserve our rights in respect of decrees and resolutions, which contravened the terms of the previous Hydrocarbons Law of the Shared Contract... At no stage did the company initiate legal proceedings or state an intention to do so.'

On 9 June 2005, faced with the irreconcilable demands of the multinationals and the protestors who wanted total nationalisation, President Mesa stepped down without either vetoing or signing the controversial gas tax bill into law.

Millions of Bolivians live in grinding poverty. In El Alto, the sprawling city above La Paz where migrants come in search of scarce jobs, a quarter of the population have no running water and diseases such as dysentery and diarrhoea are rife. For cooking, thousands are still using makeshift wood-burning ovens that they have to construct each day from dried mud.

Yet Bolivia has enormous wealth. It has some of the cheapest gas-production costs in the world, making it an extremely profitable country in which to operate. Companies such as British Gas and BP could afford to pay higher taxes and still achieve enviable profits.

In Venezuela, for instance, companies pay 30 per cent royalties on the value of the oil they produce, as well as 50 per cent income tax. But there is still plenty of foreign investment.

In the 1950s, Norway was one of the poorest countries in Europe. By the 1960s, it became clear that there were substantial oil and gas deposits in the Norwegian continental shelf. Through careful management of these reserves, the government was able to substantially improve the nation's financial position.

The Norwegian tax system is complex, but according to one study, the average government take for a standard 100-million-barrel field is around 75 per cent.²⁰ This money is channelled into the Norwegian Government Petroleum Fund, which is invested to subsidise the welfare state, both now and in the future, after the reserves have run out.

Much of US and European government development policy in Bolivia has focused on aid and debt relief. But raising the tax levied on extracting Bolivian gas would provide an enormous development fund, without costing US and European taxpayers a penny. The building of water mains in El Alto, for example, could be funded several times over.

The much-vaunted May 2005 agreement, to provide debt relief to highly indebted poor countries, is worth US\$44 million a year to Bolivia. The country owes the World Bank and IMF US\$2 billion.²¹ The estimated total value of Bolivia's gas reserves is US\$250 billion.

2. Tax avoidance and tax havens

In parallel with the shift towards more regressive tax, the tax-avoidance industry has burgeoned thanks to tax havens.

Tax havens have allowed multinational companies, rich individuals, corrupt leaders, criminals and terrorists to keep their wealth away from the prying eyes of national tax authorities. In the words of one tax expert, 'I have never come across any reason for people to set up an offshore trust [in a tax haven] other than to avoid tax.'²²

While the impact of tax havens affects all countries – Britain alone is estimated to lose more than £100 billion in avoided taxes each year²³ – it is reaching crisis proportions in the developing world, and especially in Africa and Latin America.

Raymond Baker, a guest scholar at US think-tank the Brookings Institution and one of the US' foremost experts on money laundering, recently published *Capitalism's Achilles Heel*, an exposé of the flaws inherent in global capital. In it he estimates that US\$1 trillion a year of 'dirty' money flows into the global banking system, one half of which comes from developing countries and the transition economies (countries emerging from the legacy of Soviet control). This sum – US\$500 billion – is more than six times the current global aid budget.²⁴

Tax avoidance by businesses, especially by multinational corporations, which are in a unique position to use tax havens to 'profit launder' (see page 14), accounts for US\$200 billion of this figure. A further US\$250 billion of individuals' money, including the proceeds of criminal activity, is lost using the same system of tax havens. The remaining US\$50 billion is lost, through the same system, as a result of corruption.²⁵

If the avoidance of tax is not reason enough to raise concern about tax havens, the fact that the proceeds of crime, corruption and even terrorism also end up offshore, ought to be. These flows of dirty money piggyback on the sophisticated money-moving apparatus set up by multinational banks and businesses in order to facilitate tax avoidance.

Vast sums of money have been put beyond the reach of tax authorities. Each day, money that should be used to build healthcare and education services in developing

countries is directed instead towards 72 tax havens – 35 of which are British territories, dependencies or Commonwealth members.

Tax havens are inherently secretive and this is an essential part of their appeal. As a result, they make it easier to avoid paying tax. Their low- or no-tax status and the secrecy surrounding them, is what also appeals to corrupt leaders and criminals.

At least US\$11.5 trillion is currently held in offshore tax havens.²⁶ This is approximately 30 per cent of the holdings of the world's richest individuals.²⁷

Clearly, not all of this originates from developing countries. But to illustrate the sheer volume of money this represents: if the earnings from US\$11.5 trillion were taxed at a modest rate of 30 per cent, it would raise an annual sum of US\$255 billion. This is more than three times the current global annual aid budget and twice the amount the United Nations is calling for to fund the MDGs.

This vast sum may be just the tip of the iceberg. The world's wealthiest individuals hold US\$11.5 trillion offshore. This does not include the laundered profits of businesses which operate through offshore tax havens to avoid tax. Nor does it include the financial assets of those whose wealth amounts to less than US\$1 million. The total sum of money currently held offshore is not known.

Regardless of where the money held in tax havens originates, one clear fact emerges: wealth that is not taxed where it is earned and which remains untaxed, robs the public purse and hence moves resources from public to private and from poor to rich. Moreover, the crisis of tax avoidance using tax havens is likely to be deeper in most developing countries.

Studies of offshore wealth holdings have shown that rich individuals in developing countries tend to keep a far larger proportion of their wealth in offshore tax havens than their North American and European counterparts. For example, more than half of the total holdings of cash and listed securities of rich individuals in Latin America is reckoned to be held in offshore tax havens.²⁸

Tax havens affect developing countries in a number of ways:

- Secret bank accounts and offshore trusts encourage wealthy individuals and

companies to escape paying taxes by providing a place for untaxed earnings and profits to be banked.

- Many multinational corporations launder profits earned in developing countries by importing goods at hugely inflated prices and exporting commodities at a fraction of their true value. They do this through paper subsidiaries in tax havens, providing them with a significant tax advantage over their nationally based competitors and fleecing governments of tax revenue.
- Banking secrecy and trust services provided by globalised financial institutions operating offshore provide a secure cover for laundering the proceeds of political corruption, fraud, embezzlement, illicit arms trading and the global drugs trade.

Case study: The shrinking public purse in Kenya

In January 2005, the Kenyan Revenue Authority (KRA) revealed that it is currently owed a staggering US\$1.32 billion in unpaid taxes, much of which, according to KRA commissioner-general Michael Waweru, is probably unrecoverable. US\$1.32 billion represents approximately half of total state revenue in a country which currently has an external debt of around US\$6 billion.

According to Waweru, some of the tax debts are held by businesses that are no longer trading in Kenya, or which are no longer in operation. KRA has intensified efforts to raise revenue, partly by broadening the tax base and improving tax compliance. But discussions between the Tax Justice Network and a senior Kenyan tax official in late 2003 revealed that the KRA remains under-resourced when it comes to taxing multinational businesses, which typically operate their accounts through offshore companies created to conceal true operational costs and profits.

Revenue from trade taxes, in particular import tariffs, fell by more than 25 per cent between 1972 and 1998. In the same period, Kenya's tax yield from incomes and profits remained more or less the same. Only revenue from tax on sales of goods and services – the most regressive form of taxation – increased.²⁹

3. Laundering profits

Profit laundering is a term used in this briefing and by the Tax Justice Network to refer to the business practice of moving profit from the countries in which it was earned and where it would incur tax, into tax havens.

Because it is not possible to do this in an above-board fashion without the relevant tax authorities noticing, a number of practices have developed which draw profit out of the parts of the company registered in territories that tax and into shell or holding companies registered in tax havens. These fall into a legal grey area and include the overpricing of imports and underpricing of exports into and out of territories that tax, as well as the lending of money at very high interest rates by tax-haven-based companies.

It is only possible to launder profits if tax havens exist and if they are shrouded in a veil of secrecy that tax authorities cannot penetrate.

It is important to remember that these transactions occur within companies, between different subsidiaries and affiliates, for the purposes of tax avoidance. The UK government estimates that between 50 and 60 per cent of world trade is accounted for by transactions between different parts of the same company, creating ample scope for mispricing and, as a result, the laundering of profits.³⁰

For instance, Raymond Baker in *Capitalism's Achilles Heel* details a number of examples of under-priced exports, such as TV antennas from China priced at US\$0.04, rocket launchers from Bolivia at US\$40 and US bulldozers at US\$528. Baker also gives examples of over-priced imports, such as German hacksaw blades, priced at US\$5,485 each, Japanese tweezers at US\$4,896 and French wrenches at US\$1,089.

According to Baker, in Latin America, between 45 and 50 per cent of this kind of transaction have been mispriced. In Africa, the figure rises to 60 per cent, with imports and exports mispriced by an average of 10 per cent.

Multinational companies are uniquely positioned to take advantage of tax havens, because they operate in a variety of jurisdictions. While there is nothing to stop a nationally based company registering another company based in a tax haven to

facilitate profit laundering – and many do – this risks drawing attention to its activities and, of course, it instantly makes it a multinational.

The ability of multinationals to take advantage of tax havens to avoid tax and launder profits distorts markets. It gives them an edge over nationally based competitors, which has nothing to do with the inherent quality or price of the goods and services they are selling. This undermines the basic notion of capitalism.

Even in rich countries, multinational companies are managing to avoid paying tax. Recent research suggests that at least 75 per cent of UK-quoted companies do not pay tax at the notional rate of 30 per cent that applies to them. Some pay less than half this rate. In the US, 60 per cent of corporations with at least US\$250 million in assets reported no federal tax liability for any of the years between 1996 and 2000.³¹

4. Who is responsible for the tax crisis?

International institutions have encouraged changes in tax strategies; governments in both rich and poor countries have willingly lowered tax rates, in the belief that this attracts foreign investment; rich individuals and multinational business can – and do – move their money freely around the world and into and out of tax havens. All have played a part in creating the current malaise in taxation, which is close to crisis in the developing world.

International institutions: In the drive for liberalisation, the World Bank and IMF have made legitimate a system that encourages a deadly dogfight between poor countries desperate to attract investment. This ‘tax competition’ has been hugely corrosive to their tax base and has created a climate in which multinational corporations call the shots.

The IMF and World Bank have also forced countries to liberalise trade, which has reduced the yield from trade taxes and encouraged them to replace them with VAT. Yet the IMF’s own recent report (cited on page 5) suggests this has been unsuccessful – it has left poor countries with a tax shortfall and has shifted the burden of taxation from rich to poor.

Multinational corporations: Truly responsible companies would not launder profits through tax havens. Just as it is the obligation of good citizens to pay tax, it is also the obligation of good ‘corporate citizens’ to pay corporate tax.

In recent years, multinationals have championed corporate social responsibility (CSR), an increasingly complex global network of social and environmental codes and standards. Through our recent *Behind the Mask* report, Christian Aid showed the gap between rhetoric and reality in this debate, and has argued for companies to be regulated according to government-set standards wherever they operate. Tax must now be added to this agenda.

Christian Aid is a firm believer in the importance of business in tackling poverty, but smaller, nationally based companies must be able to compete with large multinationals, rather than be put at a disadvantage because of the tax-avoidance industry.

Accountants: Accountancy firms – many of them global corporations – are champions of ‘tax planning’ whereby, along with their clients, they organise networks of offshore subsidiaries to avoid paying tax.

The collapse of Enron provided a rare insight into precisely how this works. The US senate report into the Enron case shows how accountants Anderson facilitated Enron’s massive tax avoidance. The company paid no tax at all between 1996 and 1999. Tax planning by the accountants made this possible and involved setting up a global network of 3,500 companies, more than 440 of which were registered in the Cayman Islands.

The subsequent Sarbanes-Oxley legislation in the US is intended to act as a deterrent, by making directors and shareholders more responsible for the consequences of such strategies. But it does little to lift the veil of secrecy surrounding tax havens.

Banks are pivotal in the world of offshore finance. The banking names with which consumers in Britain are familiar are also present in offshore tax havens, facilitating tax avoidance – especially in the developing world. Without these banks, tax havens would not be able to function.

Tax authorities and the world’s tax system in general would also be very much cheaper to run and more effective without banking secrecy.

Wealthy elites/corrupt leaders/criminals/terrorists: Dirty money flows readily into tax havens because they offer the kind of secrecy that is required. To avoid paying tax on personal wealth and to hide away ill-gotten gains, wealthy elites, criminal gangs, corrupt leaders and terrorists have piggybacked on a system created by accountants, banks and companies, and tolerated by the governments of the rich world.

5. Tax justice

Alongside calls for justice in aid, debt cancellation and trade, those working to eliminate poverty must increasingly emphasise tax justice.

Poorer countries need aid and trade and to be free of debt, but they also need to build a broader tax base and use tax to redistribute wealth by seeking to levy more taxation on those with a greater ability to pay, rather than applying more regressive taxes, such as VAT. This is an essential prerequisite for more just and equal societies.

But poor countries cannot do this alone, especially while global finance conceals a system that encourages rich multinational corporations and wealthy elites to take their wealth elsewhere and avoid paying tax. If the benefits of globalisation are to be extended to poor people in developing countries, governments must regain the capacity to tax their citizens and businesses operating within their countries, and to use the revenues to finance essential public services.

The main transgressors when it comes to tax *injustice* are multinational corporations. The effort to bring about tax justice must begin with them and their coterie of banks and accountants. But self-regulation is not the answer.

The experience of organisations such as Christian Aid, which have campaigned for business responsibility, is that voluntary efforts alone are not enough. So while a truly responsible company may seek to pay appropriate taxes in the correct jurisdiction, no amount of campaigning can guarantee this will happen.

The action on tax justice must, therefore, be governmental, inter-governmental and multilateral.

There are three reasons why rich countries should be concerned about tax justice – and help bring it about. Christian Aid and the Tax Justice Network are particularly keen to see UK action on the issue, given its position as a centre of global finance and its role in international development.

1. Justly levied tax is an indispensable weapon in the war on poverty. As countries develop their economies, they need to use taxation as a means of redistributing

wealth and bolstering the public purse, to further investment in infrastructure. This, in turn, will help foster development.

2. It is in the interests of governments in the rich world to act, because they also lose income through tax avoidance.

3. In a world increasingly affected by acts of terrorism, a system of global finance built on secrecy cannot be tolerated. After 9/11, the US government acted swiftly to cut off sources of terrorist financing, much of which involved the use of tax havens. This demonstrates that, where there is the will, it is not beyond the power of the authorities to track money around the world.

6. Recommendations

1. Strengthening international cooperation on tax

Strengthening international tax cooperation is a crucial part of remedying the current imbalance between multinational business and tax regimes that are confined to national boundaries. This does not necessarily mean common tax rates, but it does require agreement on a set of common ground rules that will enable countries to reduce the scope for tax avoidance and for activities such as profit laundering.

A starting point for strengthening international cooperation is recognising that the principal incentives for tax avoidance are banking secrecy and confidentiality laws in tax havens, as well as tax-free interest on bank deposits and other interest-bearing financial instruments. The environment of secrecy provided by tax havens prevents governments from automatically exchanging information about cross-border income payments. This enables and encourages the flight of capital and tax avoidance.

The exchange of information between tax jurisdictions is critical for lifting the veil of secrecy and ultimately making tax havens history.

Extending this initiative:

- All banks and other financial institutions should be required, as a matter of legal duty, to disclose to the relevant authorities all interest, dividends, royalties, licence fees and other income that they pay to citizens and companies across the world.
- This information should be automatically exchanged between countries.
- The appropriate tax from the country in which the income was earned can then be levied by that country's tax authority, thus eliminating tax havens.

2. Reducing aggressive tax avoidance and profit laundering

Because tax havens exist to facilitate tax avoidance by offering secrecy, the sharing of information would help reduce their effectiveness and, therefore, tax avoidance itself.

Aggressive tax avoidance must also be countered through what is known in taxation law as a 'general anti-avoidance principle' to help clarify legal grey areas surrounding

the mispricing of imports and exports within companies.

General anti-avoidance principles are enshrined in national tax laws. These enable the authorities to take action if businesses try to avoid paying tax – by the setting up of paper companies to launder profits, for example.

The activities of multinationals also require a special set of rules to prevent them avoiding taxation. This will involve finding a means of taxing their profits internationally and at an agreed rate, and distributing this across the countries in which the company operates. This may be complex, but it is necessary, because multinationals are currently able to distort markets by exploiting their advantage in tax-avoidance over national companies.

In the meantime, it is a challenge to all multinationals, large and small, to take the initiative to reduce their reliance on tax avoidance and profit laundering.

3. Reducing the pressure to compete on tax

Poor countries need to tax, especially the activities of business, since their take from income tax is bound to be low as long as a high proportion of their populations remains poor.

The pressure on them to compete with one another for investment should be eased – not least because this may be an ineffective way of attracting FDI in the first place (see page 5). Strategies such as setting a global minimum rate of corporate taxation should be considered.

4. Looking to the future of taxation alongside globalisation

Globalisation is here to stay. It is therefore necessary to consider how tax information and policy can be brokered, shared and protected in the longer term.

One solution, favoured by the Tax Justice Network, is a World Tax Authority, which would be developed out of the sharing of information between national tax authorities. This would monitor the impact of tax policies and protect national policies from harmful international practices, such as those described in this briefing.

Such an authority would be responsible for tackling tax competition, tax havens and profit laundering – thereby leveling the global playing field. In the words of one senior

IMF official, such an authority may prove necessary to 'make tax systems consistent with public interest on the whole, rather than the public interest of specific countries.'

Right now, the globalisation of tax is an abject failure. It rewards shareholders and owners of large, multinational corporations, wealthy elites, criminals and terrorists – at the expense of domestic economies and poorer individuals. This is particularly the case for people and businesses in poorer countries, for which the proper international regulation of taxation is of paramount importance.

Endnotes

- 1 This briefing is based on the Tax Justice Network's publication *Tax us if you Can* published in September 2005.
- 2 'Progressive' taxes place a greater burden on those with more ability to pay and less burden on those who are poorer and, as a result, redistribute wealth more effectively than 'regressive' taxes (see footnote 8).
- 3 Figure is for OECD countries.
- 4 Alex Cobham, *Taxation Policy and Development*, The Oxford Council on Good Governance, April 2005.
- 5 See *The McKinsey Quarterly 2004 - 1*, McKinsey and Company, 2004 and Abdur Chowdhury and George Mavrotas, *FDI and Growth: A Causal Relationship*, research paper: 2005/25, UNU-WIDER, 2005. Research by McKinsey highlights the ineffectiveness of incentives, including tax breaks, in attracting foreign investment. The Chowdhury/Mavrotas paper affirms this, suggesting that wider policies favouring GDP growth are more important in attracting investment than offering tax breaks to individual investors.
- 6 See Michael Ross, *Does Taxation Lead to Representation*, UCLA, September 2002.
- 7 OECD.
- 8 Regressive taxes place proportionately more of a burden on those with lower incomes. VAT or sales and consumer taxes are regressive because they are levied on specific consumer items and are paid by anyone who buys that item, regardless of their means. Taxes on income are the most progressive forms of taxation because the levy increases as the income increases.
- 9 Thomas Baunsgaard and Michael Keen, *Tax Revenue and Trade Liberalisation*, IMF Working Paper WP/05/112, June 2005.
- 10 See *The McKinsey Quarterly 2004 - 1*, McKinsey and Company, 2004. Research by McKinsey highlights the ineffectiveness of incentives, including tax breaks, in attracting foreign investment.
- 11 Alex Cobham, *Taxation Policy and Development*, The Oxford Council on Good Governance, April 2005.
- 12 Ibid.
- 13 Thomas Baunsgaard and Michael Keen, *Tax revenue and Trade Liberalisation*, IMF Working Paper WP/05/112, June 2005.
- 14 Ibid.
- 15 Derrick Hindery, 'Social and Environmental Impacts of World Bank/IMF-funded Economic Restructuring in Bolivia', *Singapore Journal of Tropical Geography*, 25 (3), 2004, p. 281-303.
- 16 Jim Shultz, 'The curse of wealth under the ground', *ZNet*, 1 Aug 2004.
- 17 Juan Forero, 'Energy-Rich Nations are Raising Price of Foreign Admittance', *New York Times*, 5 July 2005.
- 18 <http://news.bbc.co.uk/1/hi/world/americas/4616127.stm>
- 19 Carl Mortished, 'National Backlash Threatens British Stakes in Bolivian Gas', *The Times*, 25 October 2004.
- 20 Wood Mackenzie, *Global Oil & Gas Risk And Rewards*, Nov 2004.
- 21 *Bolivia – Unconditional Debt Relief*, briefing document, Plataforma de Acción Contra la Pobreza, a Bolivian non-governmental organisation.
- 22 *The Times*, 10 July 2000.
- 23 Pre Sikka, 'Accountants: a Threat to Democracy', the *Guardian*, 5 September 2005.
- 24 Raymond Baker, *Capitalism's Achilles Heel*, August 2005.
- 25 Ibid.
- 26 'Tax lost in havens costs \$255 billion a year', Tax Justice Network, 27 March 2005.
- 27 Based on Boston Consulting Group, 'Winning in a Challenging Market', Global Wealth 2003 and Merrill Lynch/Cap Gemini, *Ernst & Young World Wealth Report* – various years.
- 28 According to the Boston Consulting Group (2003) 30 per cent of wealth holdings of Asian high-net-wealth individuals (excluding Japan) are held offshore. The figure is 70 per cent for the Middle East and 50 per cent for Latin America. BCG does not even attempt to tackle Africa, but the Tax Justice Network estimates it is comparable to the Middle East figure.
- 29 Ibid.
- 30 *The Economist*, 2004.
- 31 Tax administration: Comparison of the reported tax liabilities of foreign- and US-controlled companies, 1996-2000. US General Accounting Office, February 2004.