Newsletter September 2003

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Tax Justice Network Forthcoming events

October 4th Jersey, Channel Islands: 'Past imperfect, future uncertain: the changing offshore world'

An open conference called by Attac Jersey with representation from Attac France, to be chaired by John Christensen of the Tax Justice Network, former economic advisor to Jersey. This conference will review Jersey's role as a tax haven, and challenge the Jersey government's view that there is no other future for the island. Contact: jeanandersson42@hotmail.com

12th-16th November European Social Forum 2003, Paris

Tax Justice Network has proposed two seminars, both in association with several other groups represented with in the network, including Attac Germany, Attac France, Attac Jersey, Association for Accountancy and Business Affairs, Berne Declaration, Kairos Europe, Swiss Coalition, Tobin Tax Network, and War on Want

- Pinstripe Outlaws: how company directors and their professional advisers subvert democracy
- "Only the little people pay taxes": tax havens, development and democracy

In addition, we will propose several smaller workshops, including

- Campaign workshop, "Fight for Tax Justice" - this will be a key workshop, and all Tax Justice Network members, activists and interested parties are encouraged to attend. Please also invite potential signatories to the Tax Justice Network Declaration
- Fiscal amnesties

At time of going to press, none of the dates or locations have been confirmed. Please check this page again soon for updates on this information.

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Pinstripe Outlaws

Pete Coleman muses polemically on the purpose of tax legislation, the subversion of the social contract, and why wealthy tax avoiders are giving outlaws a bad name.

Once upon a time in the west…

Despite capitalism's tendencies to favour the rich above the poor, all mainstream theories of efficient taxation in a capitalist economy excuse only the poorest from a contribution. In many developing countries, ravaged by unequal relations with the heartlands of capitalism, this can be large sections of the population - rural communities and informal sector workers - but in the industrialised countries, few people have income or consumption so low that the state does not extract at least some tax. The rapid spread of consumption taxes across the world in the last three decades means that even where workers do not pay direct taxation, pretty much everything above (and sometimes including) the barest means of survival requires a tax payment.

Taxation brings with it two competing obligations. Usually, a human being's first reaction is a desire to minimise tax. The tax transaction is experienced as the forces of bureaucracy taking something away; not exactly pleasant for any of us. After all, we possess legitimate motives to generate and protect resources for ourselves, for our families, and for our businesses. This is one of the great unifying experiences of modern life, a gripe of truly global proportions.

The second, competing obligation is the social contract, an obligation to contribute to public revenue, arising from the individual's or the corporation's status as a beneficiary of the broader society around it. We accept that to have a legal system, education, healthcare, national defence, infrastructure, and even government itself, then this has to be paid for. Only if the state takes an income, a cut of the economic activity occurring within its territories, can it organise these kinds of public goods and services. Thus we also accept this second obligation, despite its apparent contradiction to the first.

These competing obligations are mediated by legislation. The first impulse is restrained by the state, to allow the realisation of the second. As individuals, we are relieved of the contradiction when we accept legislation as being in our social interest. In general terms, the law sets out what is intended and consensual. In this regard, tax legislation is no different from other legislative restrictions on our individual actions, such as laws against theft and violence. Such laws are accepted by consensus, because despite reducing one freedom, they help shape society around us to provide different freedoms, to our net benefit.

In principle, if the social contract's worth more than the paper it should be written on, then what is intended and consensual is also morally just. Most of us accept we will contribute what is legally due, and no more. High-tax enthusiasts don't voluntarily pay more than the minimum just to make their point, and proponents of lower taxes don't usually resort to criminal tax evasion just to make theirs.

Desperado

So what is wrong with this picture? When we minimise our taxes according to legislation, but then pay up what we owe, is this not tax justice? Why do we need a campaign, a democratic intervention, a social movement?

The answer lies within the current nature of tax legislation - put simply, in key areas, it is now failing the majority of citizens. The tax burden is shifting, away from the wealthy, and onto ordinary people. National tax legislation has failed to remain effective in the 21st century global economy, and has not been replaced or sufficiently strengthened by effective international legislation. This is not a point of view - this is a matter of fact, proved by trends in aggregate tax figures, and proved by the massive capital flows passing through tax havens that dwarf the real economic activity occurring there.

In a world of nation states, the social contract has been most effective when working on a national basis. Indeed, as citizens, we still accept our side of the contract by reference to national legislation. Capital though has gone international. Big Money faces no immigration controls, it needs no passport, no state to call its home. Capital is free to roam the world at practically no cost - this is the key change of the last two decades. This means that all too often, capital can simply duck out of the national social contract. Meanwhile, at the global level - despite international law and international institutions, despite tax treaties and OECD initiatives - the international social contract (if such a thing exists at all) fails to prevent massive global tax avoidance. Some might say it positively encourages it.

By failing to keep pace with changes in the global economy, tax legislation now helps to undermine the very social contract that it is charged with upholding. Wealthy individuals and corporations run rings around national legislation to avoid paying taxes in the countries in which they operate. Capital zooms in and out of tax havens at the touch of a button. Economic activity is often recorded as occurring wherever taxes are low, irrespective of where it actually takes place. Specialist accountants and lawyers are highly rewarded for imaginatively and deliberately subverting the intended, consensual levels of tax in those states where the real economic activity happens. A quick trawl through the web reveals how brazen such advisors are, shamelessly advertising their ability to help dismantle the social contract in return for a big fat fee.

Of course, the terms of the social contract - what is actually intended or consensual - are only a vague ideal. However, there are certain obvious indicators, such as the comparative rates of tax actually paid by different sections of society, or standard legislative rates of tax, or recent historical rates of tax. All such indicators suggest the inescapable conclusion that the low effective tax rates enjoyed by some of the world's wealthiest individuals and corporations are neither intended, nor consensual. In this respect, Big Money now operates outside of any meaningful social contract, beyond the scope of the intended and consensual rates of tax in the economies from which it draws its profits. Beyond a certain point, modern tax avoidance is actually legislation-avoidance. Capital has - quite literally - become an outlaw.

Hang 'em high

Although society may encourage some tax allowances and tricks - particularly to encourage certain social policies or economic activities - it is also obvious when these tricks are pushed too far. As described in Lucy Komisar's article elsewhere in this edition, studies from the US revealed a shockingly large number of giant corporations paying little or no tax throughout the mid-1990s. The most famous individual study of the same period revealed that News Corporation paid around 7% on profits, even though the three countries in which most of its activities occurred had standard corporation tax rates averaging around 30%. Such low corporate tax payments are neither intended by the legislation, nor consensual within the societies where News Corporation carried out its business. On the contrary, they undermine the social contract. Such corporations have become freeloaders, successfully externalising the cost of maintaining the public goods and services - indeed, the broader socio-economic frameworks - on which their business relies.

Similarly, wealthy individuals who organise their affairs through offshore trusts and secret accounts are also freeloading, departing from what is intended and consensual. If the law appears to allow it, it is only because it's not up to the job of preventing it. At no time has the question been put to democratic electorates, "should the super-rich pay tax at rates lower than the average working family?" In recent decades, the social contract for taxation has been re-written, largely by just one party - the wealthy themselves. *This has occurred not through democratic legislation, but through its exact opposite - the undermining of democratic legislation.* That's what's wrong with the simplistic picture presented by those who defend the world's worst tax avoiders, those who seek moral refuge in their legally sanctioned tax assessment, no matter how low. In east and west alike, civilisation's great legends have always taught us that you don't have to be a criminal to be an outlaw.

The Tax Justice Network seeks redress. We are voices from the other party to the social contract. It seems to us that capital's been running the show, governments have either gone along with it or done a pretty poor job of resisting it, and the ordinary folk haven't had much of a say. The TJN exists to enable a response. Through social justice movements, through citizens' groups, through trade unions and NGOs, through the institutions of democracy, we seek to facilitate political action, and to promote research and education. Our declaration describes the problems, and begins to search for solutions. Our proposals are intended to strengthen the social contract for taxation, both at national and international levels.

Despite the balance of power in the world economy, we have one advantage that the wealthy tax avoiders don't - we are a network drawn from civil society, from ordinary people. The wealthy are few in comparison. Capital's not quite as self-reliant as all the bluster and bravado would have us think. On both micro and macro levels, history shows what happens when capital withdraws too far from the social contract on which it relies. One way or another, recent global tax trends carry grave risks. We intend to stop these pinstripe outlaws from stitching up their deals with compliant states, leaving the rest of us to pick up the bill. Maybe everybody cheers an outlaw when they're a lone figure fighting the forces of oppression, but not when it's the bank manager himself who's emptied the safe and skipped off into the desert with the whole town's cash.

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Why the U.S. needs tax justice

Despite a reputation as a nation resistant to taxes, campaigns for tax justice are well established in the US. Journalist Lucy Komisar explains why.

"Only the little people pay taxes." That is the famous statement uttered by tax cheat and hotelier Leona Helmsley, as reported by her maid. She ended up in prison for tax evasion. But she was an exception. Today, the U.S. administration and Congress work together to remove tax burdens from the rich and shift them to the middle class and the poor. Here's how that has happened.

The U.S. income tax dates to the 16th Amendment to the U.S. constitution, ratified by the states in 1913. It was adopted because of a Supreme Court decision in 1895 that ruled that the attempt of Congress the year before to tax incomes uniformly throughout the United States was unconstitutional. Before that, most revenue came from "excise" taxes on liquor, tobacco, and the like.

Until World War II, only the rich paid income taxes. As a result of war expenses, Congress broadened the base, increasing the number of taxpayers by ten between 1939 and 1945. They also established a highly progressive rate structure, with rates reaching 94 percent for the richest taxpayers.

Between 1939 and 1945, revenues increased from $1.0 billion to $18.4 billion, and by the end of the war, taxes were 40 percent of revenues, the most important part of government finances.

Progressive taxation as a part of the 'social contract' in the U.S.

Joseph J. Thorndike, Director of the Tax History Project (www.taxhistory.org/) explains that the U.S. could have adopted a national sales tax, or other alternatives, but President Franklin Roosevelt decided - impelled by the wartime need for a progressive tax seen to be just - to create a broader, steeper income tax, part of a longer political process beginning at least a decade earlier.

Thorndike said, "The 1930s witnessed the growth of an intellectual consensus for mass-based income taxation." He cited the impact of the "New Deal" electoral coalition, which came during "the class-charged 1936 presidential election," Roosevelt's commitment to tax fairness and his high-profile campaigns against wealthy tax avoiders, the views of the technocrats in the Treasury Department, headed by Treasury Secretary Henry Morgenthau, and the fiscal needs of World War II at a time when the Depression had reduced other federal income. (Morgenthau was the father of Robert Morgenthau, the Manhattan District Attorney who is the U.S. law enforcement official most committed to attacking tax havens.)

What's changed and why

Between then and now, there has been a sea change in American politics, due largely to the decimation of the political power of the American trade union movement. Unions in the early 1950s represented 35 percent of workers but in 2001 counted only 13 percent (9 percent of private-sector and 35 percent of public sector workers.) Political power has shifted to the corporations, which buy administrations and members of Congress through campaign contributions.

Under Roosevelt, the U.S. initiated "withholding taxes" - deductions made by employers from workers' paychecks. There was little chance workers could cheat when they filed their annual "tax returns." But owners and professionals were not subject to withholding. And they found it easy not to report income.

Tax burden for the rich, poor, and middle classes

In the 1980s, the rightwing Ronald Reagan administration and a compliant Congress drastically slashed taxes on wealth and corporations. In 1981, the top tax bracket - the amount charged on the very rich - dropped from 87 percent to 50 percent. Then in 1986, it was cut again to 28 percent, while the corporate tax rate was reduced from 50 percent to 35 percent. Changes in 1990 and 1993 (the last under Bill Clinton) raised the top individual rate to 39.6 percent. The George Bush 2001 tax cut - skewed in favor of the very rich - dropped the top rate again, to 33 percent. But, of course, that number is not actually paid by the rich, who hire armies of accountants to invent tax shelters and hide their money offshore.

And in the 1990s, an orchestrated campaign accusing the US Internal Revenue Service (IRS) of 'unfair practices' led to legislation that banned the agency from getting tough on tax cheats. To make the IRS less effective, Congress cut its budget. So even while the rich had seen their legal taxes cut, the IRS lost interest in seeing that they paid even those sums. The IRS shifted the focus of its audits from the rich to the middle class and poor. And it has taken only limited action against institutional cheating though tax shelters and tax havens.

One example is legal action in 2000 that got 1998 and 1999 American Express and MasterCard records for U.S. taxpayers with accounts in Antigua and Barbuda, the Bahamas, and the Cayman Islands. It is not illegal to have such accounts, but they must be reported on tax returns. They rarely are. Based on what it discovered, the IRS began hundreds of cases to recover back taxes. It said, "If the MasterCard information is representative of the industry, there could be 1 to 2 million U.S. citizens with debit/credit cards issued by offshore banks. This compares with only 170,000 Reports of Foreign Bank & Financial Accounts being filed in 2000 and only 117,000 individuals indicating they had offshore bank accounts (tax year 1999). The search was expanded in 2002 to get records of MasterCard payments for Americans' accounts in more than 30 offshore havens.

However, IRS attempts to go after offshore tax evasion is inadequate. Senator Carl Levin, author of legislation against shell banks adopted by the U.S. in 2001, in May 2003 wrote the IRS that "abusive tax shelter transactions and offshore tax avoidance schemes entered into primarily by corporations and high income individuals, result in tens of billions of dollars in lost U.S. revenues each year, with estimates ranging from $40 to $70 billion annually." He said while the IRS demands that poor citizens provide documentation of tax claims, "no equivalent requirements exist for taxpayers claiming millions of dollars in tax benefits involving undocumented domestic and offshore trusts."

He cited a study by the Transactional Records Access Clearing-house (TRAC) at Syracuse University that the vast majority of 2002 IRS audits were aimed at low and middle income taxpayers. The study found that in 2002 audits of corporations totaled only 3 percent of total IRS audits, but accounted for over 80 percent of the additional taxes recommended, with most resulting from audits of corporations with assets exceeding $250 million. The TRAC statistics also indicate the IRS is auditing a much smaller percentage of corporations than ten years ago.

The result is that the burden of taxes has shifted increasingly from the wealthy and the corporations to the middle class and the poor.

Robert S. McIntyre, director of Citizens for Tax Justice (Washington D.C.) and a member of the steering committee of TJN, said "During the 1950s, U.S. corporations paid 28 percent of federal revenues. Now, corporations pay just 11 percent. "
A study by the CTJ's Institute on Taxation and Economic Policy (www.ctj.org/itep/) found that although big corporations are supposed to pay 35 percent of their profits in taxes, 250 of the nation's largest and most profitable corporations paid only 20.1 percent in 1998, down from 22.9 percent in 1996, and far below the 26.5 percent that a similar group of large companies paid back in 1988. Among companies that actually got rebates yielding tax rates in 1998 of less than zero, were Texaco, Chevron, PepsiCo, Pfizer, J.P. Morgan, Goodyear, Enron, Colgate-Palmolive, MCI Worldcom, General Motors, Phillips Petroleum and Northrop Grumman.

McIntyre, who wrote the study, said, "With significant help from Congress, corporations appear to be finding ways around the tax reforms adopted in 1986." He said, "If big corporations actually paid 35 percent of their U.S. profits in federal income taxes, as the tax code ostensibly requires, corporate income taxes this year would total at least $308 billion. But actual corporate-tax payments this year are expected to be only $136 billion." He said, "Microsoft, in fact, actually paid no tax at all in 1999, despite $12.3 billion in reported U.S. profits. Microsoft's tax rate for the past two years was only 1.8 percent on $21.9 billion in pre-tax U.S. profits."

How tax havens contribute to problems in the U.S.

Tax havens are an important avenue for the tax evasion by the rich and corporate. A major reason why many major corporations pay little or no federal income tax. is the use of tax havens for transfer pricing, estimated to cost U.S. taxpayers some $43 billion in 1999. (cf study by Professors Simon Pak and John Zdanowicz, Florida International University).

A new tactic is corporate inversions, whereby a U.S. company creates a new parent corporation based in a tax haven like Bermuda. The company and any foreign subsidiaries become subsidiaries of the new parent, and the entire corporation then benefits from tax reporting and regulations that are often significantly less demanding and expensive than those in the United States. In the past few years, about two dozen publicly traded companies have reincorporated in Bermuda or announced they would do so. Rich individuals also set up phoney offshore residences.

The IRS thinks that the country loses $75 billion a year because U.S. corporations and rich people set up phoney headquarters or residences in offshore tax havens. Among the corporate offshore tax dodgers are Harken Energy, which set up an offshore tax evasion while President George Bush was on its board, and Halliburton, which went from nine to 44 offshore havens while Vice President Dick Cheney was running it. Are tax evaders patriots?

Trade unions, workers' pension funds and state officials are taking the lead in a campaign to prevent-and to bring back those who've already gone. They have filed legal suits and shareholder resolutions. Several members of the U.S. Congress have introduced legislation to end the offshore tax advantages. Senator Charles E. Grassley, the Iowa Republican who is the chairman of the finance committee, would narrow or eliminate the gap between the effective tax rates of these tax cheats and their onshore competitors.

Legislation in Congress and several states would ban the governments from signing contracts with expatriate American companies. However, the Republicans blocked a measure that banned companies with offshore mailboxes from getting contracts from the Homeland Security Department. Apparently they think getting less revenue makes the U.S. stronger.

Some NGOs such as Citizen Works, Taxpayers for Common Sense and The Bermuda Project are attacking the corporate inversions and the use of offshore havens to escape taxes. Citizen Works lists the corporate tax dodgers with information about their estimated tax savings, U.S. government contracts and product descriptions.
(www.citizenworks.org/corp/tax/corp_tax_dodgers.php)

How tax practices impact on economic and social development in the U.S.

The failure to collect revenues has had a devastating impact on the ability of the federal and state governments to pay for social programs.

The Bush administration said would cut child care subsidies for 200,000 children over five years. Its budget also cuts housing aid and other social spending.

Most states have had to close budget deficits of $40 to $50 billion. As a result, they have cut back on social programs. For example, the state of Missouri, to save more than $360 million, eliminated health insurance coverage for about 36,000 low-income parents. It reduced health services for new mothers, including family planning and postpartum services. It ended dental services for low-income adults, affecting about 300,000 people. Similar moves were taken by other states to cut health and welfare services. (Center on Budget and Policy Priorities, www.cbpp.org/)

The Portland, Oregon police budget has been cut by more than 10 percent in the last three years. Station houses now close at night, and 64 officers have been cut from the 960-member force. There's no overtime pay; so, undercover drug agents may stop following suspects or executing search warrants when their shifts are over. The city can't pay much for public defenders, but the U.S. Supreme Court says people can't be kept in jail without access to lawyers. So, police tell suspects in nonviolent crimes that if they can't afford lawyers, they will be freed. Not surprisingly, crime is rising: car thefts up 19 percent and home burglaries up 21 percent over last year.

Prospects for progressive taxation in the future

With corporate control of U.S. government increasing and influencing both the Republicans (traditionally the party of business) and now also the Democrats (who once represented the interests of labor), the chance for tax "reform" to shift the burden back to the wealthy is very small.

The only chance to reduce the gap between what the rich pay and what they should pay is to end their use of tax havens. Though the U.S. anti-corporate inversion campaigns are targeting use of tax havens for phoney registrations, there are not yet campaigns in the U.S. that broadly attack the use of offshore centers to help people and corporations cheat on taxes. The Tax Justice Network provides a rallying point around which individuals and groups can work with each other to build such campaigns.

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Transfer pricing: how to get 160 missile launchers for the price of a ballpoint pen

With the increasing dominance of the multinational corporation, manipulation of transfer prices has become one of the main methods by which taxes are avoided. Professor Prem Sikka explains how the scam works.

Would you buy any of the following? How about plastic buckets from the Czech Republic at $973 each, or fence posts from Canada at $1,854 each? Perhaps a kilo of toilet paper (about four rolls - unused) from China for $4,122; a litre of apple juice from Israel for $2,052; a ballpoint pen from Trinidad for $8,500; or maybe a pair of tweezers from Japan at $4,896 each? Not persuaded by such brilliant bargains? Then would you like to sell a toilet (with bowl and tanks) to Hong Kong for $1.75, prefabricated buildings to Trinidad at $1.20 each, bulldozers to Venezuela at $388 each, or missile and rocket launchers to Israel for just $52 each?

You won't find such dodgy prices in your local market, but these are the actual prices charged by some of the world's biggest multinational corporations, all authorised by some of the best accountants, and by political friends in high places. Their game is to shift the tax burden onto somebody else. It is played through 'transfer pricing'.

'Transfer pricing' is the accountant's term for purchases and sales that take place within the same group of companies. Because the transactions are within the same company, management has enormous scope to ignore commercial, 'arms-length' prices, and trade at arbitrary prices instead. This affords opportunities to shift capital and taxes without any questions being asked.

Although many national tax authorities treat such tricks as tax evasion, they often do not have sufficient resources to scrutinise companies' books sufficiently to identify such transactions. This gives enormous scope to companies and accountants to bend or break the rules. Indeed, with multinationals often the only suppliers of many goods and services, they are even in a position to rig the perceived commercial prices – effectively setting their own laws for what they can get away with.

Suppose a multinational company has a factory in country 'A'. The factory produces a television for £200 and 'sells' it to a subsidiary of the same group, based in tax-haven 'B.' The price of this transfer is arbitrarily defined by accountants as the cost of production, £200. This tax haven subsidiary then sells it to another foreign subsidiary in country 'C' for another arbitrary transfer price of £375. The television is then sold to a consumer in country 'C' for £350.

The multinational company reports a real worldwide profit of consumer price less cost of production, ie £350 - £200 = £150; this ignores the transfer prices. But this global profit is not liable to tax, since tax systems are nationally-based. In each of the 3 countries through which the television has passed, the profits declared in each have been artificially defined.

The subsidiary in tax haven 'B' reports a large profit, equal to the difference between the two transfer prices: £375 - £200 = £175. Being declared in a tax haven jurisdiction, little or no tax is paid on this 'profit'. The subsidiary in country 'A' reports a profit of zero, since it transferred the television at the cost of production. The subsidiary in country 'C' has actually managed to record a loss of £375 - £350 = £25, which it can offset against tax arising from other operations in country 'C'. As if by magic the multinational has ended up generating a net tax loss, despite real global profits. Armies of accountants legitimise these figures, and tax authorities have little practical choice but to accept them. Indeed the big accountancy firms devise the schemes, audit them and then say that the resulting company accounts are ‘true and fair’. The fact is, by doing so they organise and legitimise the dishonest shifting of the tax burden away from these giant companies, onto the rest of the population.

Although this kind of simplistic and arbitrary transfer pricing may risk being declared an illegal sham, there is little doubt that variations on the theme are common. You only have to look at the miraculously low global tax payments by many multinationals through the 1990s, or at the vast amounts of crude oil which are traded in a mountain village in landlocked Switzerland, to suspect that this is both well organised and widespread. The aggregate figures for world trade confirm it: around 60% of all trade takes place within multinational corporations, and around 50% appears to pass through tax havens, even though there is scant productive activity occurring there. Evidence from the USA suggests that accounting practices masquerading as transfer pricing 'policies' are having a bigger impact on wealth transfers from ordinary people to corporations than any of the headline financial scandals (e.g. Enron, WorldCom). A recent study estimated that due to the transfer pricing policies of major multinational companies, for the years 1998 to 2001, the US Treasury lost more than $175 billion of tax revenues. That is an extraordinary figure, even by American standards.

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Global News

For a good collection of news articles on the world's tax havens, and on developments in Europe and the US, please visit the UK-edited site 'Offshore Watch' at http://visar.csustan.edu/aaba/aaba.htm. Here, to indicate the global nature of tax justice issues, we extract a selection of summary reports and a word or two of commentary on recent events in a range of countries around the world.

Bangladesh: *sugar scam not so sweet for economy.*
A recent investigation concluded that corrupt officials helped sugar importers evade 90% of excise taxes. As well as depriving the government of revenue, the high illegal earnings encouraged importers to flood the market with imported sugar, causing an outflow of much-needed foreign currency, and damaging national sugar production. This is a simple and clear example of how a single tax-evasion scam can undermine the economy of a developing country.

Bolivia: *Government try to shift the tax burden.*
Earlier this year, 30 people died in riots as the government tried to shift the tax burden onto ordinary people and local businesses by imposing a payroll tax. In July, the government subsequently backed down from the proposed tax, in favour of a crackdown on corporate tax evasion to try and plug the gaps in the budget deficit. However, the new proposal is still likely to bring thousands of local businesses into the scope of taxation. Within the political economy of Bolivia, will this measure succeed in taxing the mobile capital of the super-rich, and the highly profitable Bolivian operations of US multinationals? If the crackdown only takes a cut from profits that would otherwise have fuelled local economic development, whilst leaving untouched the profits remitted to tax havens or to the US, what will this measure really achieve for the people of Bolivia? The government's original proposal and the deaths of 30 protesters are indicative of where the pressure of Bolivia's budget deficit is really falling.

China: *statistics suggest enormous transfer pricing scams by 'foreign' corporations.*
China's National Tax Bureau reported late last year that between 60% and 65% of foreign firms in China reported trading losses in the late 1990s, and claimed that transfer pricing and other artificial techniques are being used to reduce these companies' declared taxable income. This is despite a corporate tax rate for foreign-owned companies less than half that for Chinese businesses. The leading source of foreign investment into China is believed to be the British Virgin Islands (BVI) - over the same period, the rapid increase in the number of companies registered in this tax haven is believed to have been the flight capital of Hong Kong's and China's super-rich. In other words, capital flees to a tax haven, is then re-invested in productive economic activity in its country of origin, but then manages to avoid tax by artificially manipulating transfer prices to report a loss. If the National Tax Bureau is correct, then the only purpose of this transfer price manipulation is to shift profits out of China Since the parent company is in a tax haven, then no prizes for guessing how much tax is being paid on the eventual profits.

Israel: *new tax haven policies proposed*
Classic tax haven policies have been recommended by a government tax reform committee. The measures propose substantial tax exemptions to foreign companies

that are 'managed' in Israel, but have most of their operations elsewhere. The Israeli Justice Ministry apparently voiced concerns, because of the association between these kinds of policies and money laundering, but Prime Minister Sharon lent his support to the proposal in September, shortly after Israel's removal from the FATF money laundering blacklist. Whatever the reasons for new competitive tax practices being implemented in developing countries, Israel, of all places, is hardly an impoverished state with a lack of indigenous capital and scant other options for economic development. Rather than falling victim to an uncontrolled 'race to the bottom' in offering tax exemptions for the wealthy, these proposals suggest that the current Israeli government intends to deliberately speed up the pace of this damaging trend.

Mauritius: *tax exemptions offered to information technology firms.*
Many countries around the world lack information technology infrastructure and expertise, and Mauritius plans to make up for its shortfall by offering tax exemptions to Inidan software firms. Specifically, a zero rate of taxation until 2008 is being offered. For anyone concerned about economic development, this is a difficult policy to criticise because of the potential benefits it can bring to the Mauritius economy. The anti-developmental effects of the information technology gap between rich and poor countries has been extensively studied, and it is quite possible that this proposal will bring real economic development to Mauritius without significantly damaging public revenue or services either there or in India. However, the proposal remains a good example both of how the opportunities for capital to escape taxation are increasing, and also of the difficulties inherent in restricting competitive tax practices. In the first instance, such policies need scrutiny by civil society, to see if they represent genuine economic progress or just plain bullying and bribery by multinationals.

Nigeria: *US giant caught out over tax exemptions*
Oil-field services giant Halliburton is being reviewed by both the US Security and Exchange Commission and the Nigerian government over alleged improper payments and a possible massive underpayment of tax. According to the US SEC, the firm's Nigerian subsidiary reportedly paid $2.4 million to an entity owned by a local tax official. Although the US SEC reports that the official held himself out to be a tax adviser, just how much 'tax advice' was provided to justify a $2.4 million fee? At what level of Halliburton's financial control was such a large payment authorised? Whatever the outcome of this particular case, it rightly raises questions about the relationships between multinationals and corrupt officials, and how such relationships can impact negatively on government revenue in developing countries.

Russia: *Political rivalries threaten the 'no-tax' normality for the super-rich*
Tax evasion in Russia occurs on a scale possibly unique in the world, while state employees such as doctors, teachers, scientists and soldiers often wait months for their wages. Recently, energy company Gazprom, and oil companies Sidanko, Onako and Eatern Oil, have been singled out by the tax authorities for a crackdown, expected to raise hundreds of millions of dollars in public revenue. Ordinary Russians will no doubt welcome the move, but it is noticeable that it comes at a time when the Moscow newspapers have been reporting claims that elements within the current regime are looking for an easy way to indict the oligarchs behind these companies. Faced with either paying up or clearing their investments out of Russia, key figures seem to be choosing the latter - adding further to the truly massive capital flight leeching out the Russian economy in the last few years.

Slovakia: *proposed tax overhaul to benefit the wealthy*
The new proposals from the Slovakian Finance Minister suggest a flat rate of income tax for all taxpayers, widely expected to be around 20%, and to raise the rate of indirect tax on necessities in line with the higher rate on luxuries. The usual guff has been quoted in the media that this will be great for the 'business environment.' countered by more sensible voices clarifying how this will shift the tax burden onto the poor. In addition, critics suggests it will reduce overall income of the state, hitting the poor not only with a greater tax burden but also with reduced public services. In a country already struggling with a large informal sector and the poverty of those working within it, can this kind of proposal represent anything else but a serious social and economic injustice?