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GENDER AND TAXATION SYSTEMS

Trends in taxation policies have had regressive consequences for many women, but the issue is less well researched than gender bias in government spending programmes. Caren Grown and Imraan Valodia make the case for applying gender analysis to ensure that tax policies promote equity of treatment.

Over the past decade most developing countries have significantly reformed their tax systems, prompted in part by trade and financial liberalisation. Several nations have embarked on some form of gender-sensitive budgeting on the spending side. Few of these, however, address the revenue side. It would seem a good idea to start changing this, because tax policies often have important, though unrecognised, gender implications.

In low and low-middle-income countries, the International Monetary Fund has advised governments to rationalise taxes, amend regulations on exemptions and credits and on joint filing of personal income taxes, and to introduce user charges for some public services. Some countries have also introduced new taxes, such as capital gains taxes. These reforms have had far-reaching implications for the level and form of tax revenue, and for how the burden of taxation falls on different groups. In many countries, discussions about tax reform are dominated by the views of economists and financial analysts, and the process of reform is often not subject to full democratic debate. As a result, technical considerations of efficiency and ease of administration often overshadow discussions of social (and gender) equity.

In high-income countries, indirect taxes account for only about a third of tax revenue, while the other two-thirds comes from direct taxes such as personal income or corporate taxation. In low-income countries, however, it is the other way around: about two-thirds of tax revenue is raised through indirect taxes, which include trade taxes (such as import tariffs), excise taxes (such as on alcohol and cigarettes) and broad-based taxes on goods and services (such as General Sales Tax and VAT.) Income tax, however, accounts for just over a quarter of tax revenue in low-income countries.

Trade liberalisation has intensified the pressure to reform systems in many countries, with conflicting effects. On the one hand, corporate profits tax rates have fallen substantially as developing countries compete to attract footloose capital. On the other hand, requirements to reduce trade tariffs have forced governments to compensate for this loss of direct taxes by introducing indirect taxes such as value-added taxes.

This has had two main effects. First, research suggests that these alternative forms of revenue have not replaced the revenue from lower trade taxes, forcing governments to cut spending on public services and social protection programmes. Second, increased reliance on indirect taxation has tended to make the tax system more regressive overall in many developing countries, making it harder for poor countries to use taxes as a tool for redistributing wealth.

A growing body of research suggests that the need for social protection has increased in countries that have liberalised their economies. Employment practices have become increasingly flexible as employers attempt to reduce costs. This has gender implications because the proportion of women in 'flexible' jobs tends to greatly exceed that of men. Many women in developing countries earn their livelihoods through informal employment, and therefore lack formal contracts, work security, and access to leave or health benefits. There is consensus that social protection programmes can improve their lives, reduce their vulnerability and increase their ability to earn a living.

While gender activists have begun to participate in discussions and policy analysis regarding the need for social protection on the spending side in developing countries, few studies address how taxation affects the 'losers' of trade liberalisation. More research is needed here: for example, incidence analyses of indirect taxes will provide insights into whether the burden of taxation has been shifted to poorer households, and particularly to women, as tax reforms that increase sales taxes and reduce corporate taxes are implemented.

"Few studies address how taxation affects the 'losers' of trade liberalisation."

Preliminary research suggests that some personal tax policies are explicitly biased against women. In South Africa before 1994, for instance, women were taxed at a higher marginal rate than men, based on the argument that the male was the breadwinner and women's incomes supplemented the household income, so should be taxed more heavily.

Similar – though often less explicit – biases exist in personal income tax systems in other developing and developed countries. For instance, tax exemptions such as car allowances in personal income tax codes typically favour men, who are more likely to own cars (for which tax credits are often allowed), while discriminating against women (who are more likely to incur other forms of travel costs). Although this is less researched, some consumption taxes may be biased against poor women who spend a larger proportion of their incomes on consumption goods.

"There is concern that contemporary tax reforms tend to increase the incidence of taxation on the poorest women while failing to generate enough revenue to fund the programmes needed to improve their lives."

As noted earlier, there is concern that contemporary tax reforms tend to increase the incidence of taxation on the poorest women while failing to generate enough revenue to fund the programmes needed to improve their lives. The introduction of value-added taxes in many developing countries is a case in point. As Table 1 shows, even with generous zero-rating of basic foods in South Africa, VAT is a regressive tax, placing an unfair burden on poorer households, who spend a larger proportion of their incomes on VAT compared to higher income households. Women in South Africa tend to be over-represented in lower income households, and consequently pay an unfair portion of the VAT take.

Table 1: Incidence of VAT on households in South Africa

Annual Household Income ('000)	Total VAT paid in Rands	VAT paid as % of total tax paid	VAT paid as % of annual income
R18	1,799	86	10
R30	2,910	54	10
R75	6,141	25	8
R140	10,241	18	7

Gender analysis of tax policy can potentially improve reform efforts. Alternative measures (including the mix of direct and indirect taxes, and the structure of rates, exemptions, credits, allowances, and so forth) should be explored to assess whether they address the goals of raising revenue and promoting gender equality objectives.

Tax policy should be part of public discussions about the level of government services and who should pay for them, including the share paid by women and men in their role as investors, consumers, workers, and employers. This debate is particularly important in countries where the pressure to raise revenue is great, but where state capacity to do so has been undermined by trade and financial liberalisation.

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They are currently engaged on a two-year study of gender and taxation in seven countries.

editorial

TRICKLING DOWN, OR GUSHING UP?

"Market failures and poverty hamper investment and damage growth. Inequality and poverty create vicious circles: poor regions cannot attract investment because of inadequate infrastructure, and they get poorer."

Despite record commodity prices, stock market highs, and strong output growth, poverty and social exclusion persist in developed and developing countries. Wealth has become more concentrated than at any stage in modern history, with the disparities especially painful in the developing world. The economics of 'trickle-down' have failed.

Trickle-down theory has been part of the economic canon for decades. Leave markets to function with minimal intervention, the argument goes, and the benefits of growth will spread widely. Inequality *per se* does not matter. Avoid redistributing wealth, but instead let the rich get richer, and the wealth will trickle down to the poor. The celebrated economist JK Galbraith famously described trickle-down as the "'horse and sparrow' theory of income distribution and its taxation. If you feed a horse enough oats, some will pass through to the road for the sparrows." Or, as President Kennedy put it, all boats float on a rising tide.

These arguments are not credible. Inequality matters. Market failures and poverty hamper investment and damage growth. Inequality and poverty create vicious circles: poor regions cannot attract investment because of inadequate infrastructure, and they get poorer. Massive inequalities stir up ethnic and class tensions, which generate political and economic turmoil – from which the rich can protect their wealth by hiding it offshore, so widening the inequality and increasing resentment. Trickle-down economics fosters policy biases that actively discriminate against women, who make up a disproportionate share of the poor. The list of failures goes on, and on. This might sound like heresy to fans of trickle-down, but wealth redistribution, and policies to provide better schools, healthcare, and provision for the elderly, should benefit the rich too.

Official statistics show that about 85 per cent of global assets are owned by just 10 per cent of the world's population. The 300,000 highest paid people in America earn more than the combined incomes of 1.5 billion people – a quarter of the world's population. In fact, the statistics underestimate inequality because they do not take into account the huge volume of wealth held by rich people in secret offshore structures. In 2005 we estimated the value of this offshore personal wealth at $11.5 trillion, a figure that has surely grown since then.

Access to essential services is also highly unequal. Public health spending in rich countries ranges from 13 to 23 per cent of state revenues, but it is below 10 per cent in developing countries – often far below. In terms of actual money spent, of course, the comparison is far starker. Education spending shows a similar pattern of widening inequality between rich and poor countries: for example, lack of revenue has forced Congo, The Gambia, and Mongolia to halve their education spending since 1991.

According to Raymond Baker, an expert on illegal and illicit capital flows, every dollar that flows into developing countries as foreign aid is matched by ten dollars of dirty money flowing back under the table, through the offshore interface. What is astonishing is that while tax haven activities and tax competition bear a very large share of the blame for the inequality that trickle-down economics has helped foster, it is ignored by many development theorists. There is a gaping hole in the development literature: Baker calls the offshore interface "the biggest loophole in the free-market system… (facilitating) the movement of money from the bottom to the top of the global income streams." With $500 billion flowing out of the poorest countries each year, trickle-down is not happening. It looks more like gushing-up.

feature

Anna Thomas

A RICH SEAM

Reforms to tax and royalty regimes have led to an unequal division of recent gains in commodity prices, and there is evidence that tax incentives and subsidies generally do not pay for themselves through increased investment. Anna Thomas explores why this has become an election issue in several countries.

Tax is often an election issue. But in the September 2006 Zambian elections the focus was not on taxes paid by individuals, but on the taxes paid by companies mining copper. In Bolivia, the government's commitment to increase taxes on companies extracting oil and gas has led to threats of court action by affected firms.

Many commodity prices have risen dramatically in recent years. The price of copper rose nearly five-fold between 2002 and 2006, while other minerals and oil have also seen spectacular rises. Foreign investment in these sectors is booming in many countries, and profits for the mining industry as a whole increased eight-fold between 2002 and 2005. But not all countries are sharing in the rewards.

There are four main ways that countries are supposed to benefit from foreign investment. Jobs can be created, local industries can get knock-on business, know-how can come into the country, and the government can gain revenue. (It should be noted that this analysis does not venture into the wide academic literature on the "Resource Curse" – by which countries that depend on mineral resources are often actively harmed by them.) In the extractive industries, relatively few jobs are created, knock-on local economic impacts are small (because few jobs are created and the specialised equipment is typically imported) and knowledge transfer is limited. So the potential benefits for poor countries should lie with the revenue gains.

In practice, however, **Christian Aid's** research shows that the revenue benefits to countries vary considerably. Of the eight countries investigated, four have taken a declining share of revenues from mining production since the commodity price boom. Three have increased their share, and one has seen little change. Some countries are clearly giving up revenue that could be spent on schools, railways, nurses, and many other public goods.

We examined the situations in Bolivia, Zambia and the Philippines.

Box 1: Zambia

Between 1992 and 2004, the copper industry's total contribution to the Zambian treasury fell from more than $200m to just $8m – even though copper prices had climbed by more than 25% and copper production was roughly the same, at 400,000 tonnes, in each of those years. From 2002 to 2004, the Zambian government's revenue as a share of the total value of copper production fell from an already tiny 1.5% to just 0.7%. One company was even so embarrassed by this state of affairs that it started paying tax, even though it remains within its tax holiday. In recent Zambian elections, the opposition won a majority on the Copper Belt after campaigning on this issue. The government now plans to increase royalty rates slightly. However, in his budget speech in February 2006, the Finance Minister estimated that the government was likely to receive less than US$11 million from royalty payments in 2006 – or 0.1 per cent of the value of the previous year's production.

Table 1: Government mineral revenue as a share of total value of production

Country	Key commodity	2002	2003	2004	2005
Ghana	Gold	5.5	6.0	6.4	-
Tanzania	Gold	14	-	8	10
Papua New Guinea	Gold, copper, oil	7	16	15	24
Philippines	Gold	3.9	3.7	7.9	3.9
South Africa	Gold, nickel, platinum	10	9	4	-
Zambia	Copper	1.5	1.4	0.7	-
Bolivia	Oil, natural gas	31	28	27	-

Sources: Ghana: Ghana Chamber of Mines (2006); Tanzania: Bank of Tanzania; Papua New Guinea: Bank of Papua New Guinea; Philippines: AER (2006); South Africa Chamber of Mines, Zambia: Zambia Central Bank; Bolivia: Bolivia Oil and Gas Report; Christian Aid 2006.

Bolivians discussing the oil industry say that *"the government sold off its assets for the price of a dead chicken."* We analysed the rapidly-growing oil and gas sector between 1999 and 2004, not long after privatisation in the mid 1990s. Bolivia got a poor deal in several ways. Instead of paying the government for the assets they gained, the companies were allowed to invest their payments straight back into the business. Unbelievably, they were also allowed to offset this investment against tax. Royalty rates were slashed from 50% to 18%. Not surprisingly, we found that the government lost $2.2 billion during 1999-2004 from subsidies, the costs of privatisation and foregone taxes -- a figure that outweighs the $2.1 billion that was collected from taxes, royalties and other payments. The current government is raising tax rates significantly – and the companies, the **IMF** and the US government are all making threatening noises. But no companies have, to date, left the country.

"Popular incentives, tax holidays, subsidised financing or free land, serve only to detract value from those investments that would likely be made in any case."

McKinsey

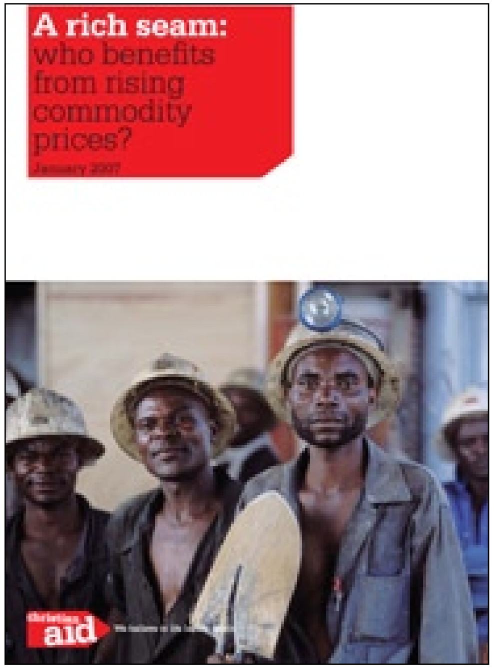
In Zambia, secret deals have tied the government to 20 year contracts with the copper companies. Documents made public by Christian Aid show that companies investing in copper mines (privatised as part of the conditions of an **IMF** debt relief deal in 1996) have not only shed most of the former state-run enterprises' social responsibilities, but pay astonishingly low taxes and royalties (see Box 1 and Table 1).

The Philippines government, in the face of countrywide protests, promised in its 1995 Philippine Mining Act that mining profits would be shared on a 50:50 basis between companies and the Filipino people. Between 2001 and 2005, however, mining companies paid less than 15 per cent of their profits in taxes and royalties to the government. These tax reductions happen in two ways: the government might make a bad deal (accepting less in taxes and royalties than the company would have been prepared to pay), or companies might spirit money out of the country so that is not taxed there. Both are happening.

The wave of privatization and liberalization in the 1980s and 1990s (frequently as a condition on **World Bank** or IMF finance) and pressure to use tax enticements to attract investors, have led to lower taxes and royalties. In the last 20 years 35 African countries have enacted new mining laws, resulting in lower corporate tax and royalty rates in every case. But increasingly, evidence (for example from **McKinsey, PriceWaterhouseCoopers**, and the World Bank), suggests that offering these incentives is not worth the loss of revenue it implies. McKinsey, for example, said that "popular incentives, tax holidays, subsidised financing or free land, serve only to detract value from those investments that would likely be made in any case."

Companies use several methods to fiddle the figures to avoid tax, such as through transfer mispricing, or by underreporting the amount they extract. For example, in Bolivia it appears that the quantity of gas produced may have been underreported. Nickel has been imported from Chile to the US at around a thousandth of the world price.

This cannot be allowed to continue. Companies should pay reasonable tax rates. Developing countries need to seize the moment of high commodity prices, and use the extra leverage high prices provide to negotiate better deals for themselves. And donors and international institutions should support them, if they are serious about their commitments to reducing poverty.



Christian Aid's report A Rich Seam *can be downloaded from: http://www.christianaid.org.uk/indepth/0701mining/index.htm*

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"The government sold off its assets for the price of a dead chicken"

Bolivian saying

feature

Sheila Killian

TAXING THOUGHTS

High wages and rising prices have undermined the competitive edge that low tax rates gave to the Irish economy. The government has responded by providing generous tax credits on research and development spending in an attempt to anchor footloose business. But shifting the goal posts for tax competition has sinister, unforeseen implications for developing countries argues Sheila Killian.

Traditionally, countries seeking to attract investment by fostering a low-cost business environment have done it by moderating wage demands, by subsidising infrastructure and fostering human capital, or by maintaining low taxes. Of these approaches, taxes are the easiest to manipulate. Tax competition traditionally involved the simple strategy of reducing tax rates to attract business. Multinationals responded by locating high-profit, highly mobile activities within the target jurisdiction. In general these are low-skill activities such as manufacturing, which can be fairly easily moved to new locations if tax rates rise or if a more attractive proposition presents itself.

Department of the Taoiseach, Dublin, Ireland

Ireland is now finding that low taxes alone will not anchor the multinationals on which it has become so dependent. The inward investment has brought high wages and rising prices, and Ireland has become an expensive country to do business in. It is now losing low-value manufacturing jobs to Eastern European and developing countries. So Ireland has embarked on a second round of tax competition. The government is encouraging multinationals to locate not just their production facilities in Ireland, but their Research and Development (R&D) too. The hope is that intellectual capital is less mobile, less easily replicated, and will root the multinational more firmly in Irish soil.

Ireland offers two main incentives. One is a 20 per cent tax credit for any increase in R&D spending after 2003. Given that the tax rate in Ireland is currently only 12.5 per cent, this effectively allows a 160 per cent tax deduction for qualifying expenditure, which covers a wide range of activities. Naturally, this encourages multinationals with an Irish presence to designate as much as possible of their spending there as R&D. A second 'anchoring' strategy is a total exemption from tax for patent income, where the associated R&D work has taken place in Ireland (see box). So as multinationals increase R&D spending in Ireland, they can patent the resulting technology and charge patent royalties to other divisions of the group. The stream of royalties is not taxed when dividends are received in Ireland, and no withholding

LATEST NEWS

In March, the EU successfully attacked Ireland's strategy of anchoring multinationals in Ireland using R&D facilities. Two years ago, the European Commission had decided that Ireland's patent royalty scheme (under which companies could get a full tax exemption on patent royalties only if the underlying R&D had taken place in Ireland) contradicts the principle of freedom of establishment throughout the EU, and threatened Ireland with legal action. As a result, Ireland has agreed that the tax exemption on patent income can cover patents based on R&D conducted anywhere in Europe.

In addition, the amount of royalties that can be funnelled through Ireland will now be capped at €5 million for each company from 2008. In the absence of such a limit, patent royalties from all over the EU could have been channelled tax-free through Ireland.

tax is imposed where the dividends are paid overseas.

> *'companies can use their intellectual property to strip profits out from the developing countries where the goods are manufactured'*

With manufacturing work being moved to lower-cost developing countries, patent royalties can now be charged to (and tax consequently deducted from) these poorer countries for the use of technology developed in Ireland. This 'royalty pipeline' shifts taxable profits first from the developing country to Ireland, then from Ireland to the multinational's home country (such as the U.S.,) free of Irish withholding tax. Multinationals have, unsurprisingly, responded by increasing R&D spending in Ireland and obtaining patents there. While goods formerly produced in the North are now increasingly manufactured in the South, the patent income flows from the poor South to the rich North.

Ireland illustrates how companies are now shifting their priorities away from producing goods towards producing intellectual property. And this has some rather sinister, unforeseen implications for poor countries.

Since patent royalties are paid between subsidiaries within the multinational group, and not on the free market, transfer pricing becomes opaque, which makes it very hard for taxing authorities to challenge the rate paid, because there is no benchmark to compare it with. So companies can use their intellectual property to strip profits out from the developing countries where the goods are manufactured, and repatriate them through countries like Ireland with minimal tax. And, once companies think of product development in terms of intellectual capital rather than trade, low-margin products (on which royalties cannot be recouped like this) are seen as unviable, and research priorities are concentrated on high-margin products - on obesity drugs, for example, rather than on malaria medication. This is one reason why poverty campaigners have had to fight so hard for discounts on items such as anti-retroviral drugs in sub-Saharan Africa. In addition to this, intellectual property rights prevent the process of learning-by-copying, and the production of generic drugs by local companies in the South, which exacerbates the technological divide in all areas protected by intellectual property rights.

The ideological underpinnings of these processes are unclear. Countries like Ireland set out to achieve a defined objective – attracting and anchoring inward investment, but the measures they have used impoverish developing countries in ways they may not have foreseen.

The system suits multinational firms. As long as their activities are couched in terms of intellectual property rather than the simple production of saleable goods, their taxes are minimised, their transfer pricing is opaque, and their selling prices are high. As more countries join in the second round of tax competition, they will have a wider choice of attractive locations, and even greater bargaining power with the governments of competing countries. The first round of tax competition has been harmful enough. This new game based on intellectual property threatens to be even more damaging.

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feature

Fausto Hernández-Trillo

TAX AND INEQUALITY IN MEXICO

In Mexico, the Constitution mandates the state to use tax policy as a means to redistribute income. As Fausto Hernández-Trillo reports, however, some aspects of fiscal policy are regressive, and overall it scarcely contributes to reducing high and persistent levels of poverty and inequality. Mexico's experience brings out an important point: fiscal policy needs to be considered as a whole, and not just from the tax revenue side.

Fiscal policy has proven to be effective tool in narrowing inequalities in income, and in alleviating poverty. Targeted and efficient social spending can also generate growth by improving human capital.[1]

In Mexico, one fifth of the population is extremely poor and over half are poor. While 40 per cent of income goes to the richest 10 per cent of the population, just one percent of income goes to the poorest 10 per cent. This inequality is not only high, but persistent too.

Governments can use various instruments for redistribution, including *financial instruments,* such as taxes and direct financial transfers, and *transfers in kind*, involving the provision of public goods – chiefly education and health services. Financial transfers often have shorter-term effects (by redistributing current income), while transfers in kind develop human capital and create a longer-term capacity to generate income. (This is not clear-cut: suitably targeted financial instruments can also be used to promote equitable access to essential services and can improve human capital, while public provision of education and health affects the distribution of current disposable income by freeing household spending for other purposes.)

In mature welfare states, massive financial transfers have been used to achieve dramatic reductions in the inequality of disposable incomes. In Mexico, however, such transfers represent only a small proportion of redistributive spending, barely changing the overall distribution of income.

Revenue Side

On the revenue side, the Mexican tax system has been regarded as neutral (similar things are taxed in similar ways) and progressive (tax rates rise with income.) However, when the revenue and the income sides of the fiscal policy are combined, we find that even though it is progressive in relative terms, it is less progressive than in other countries in the region such as Chile.

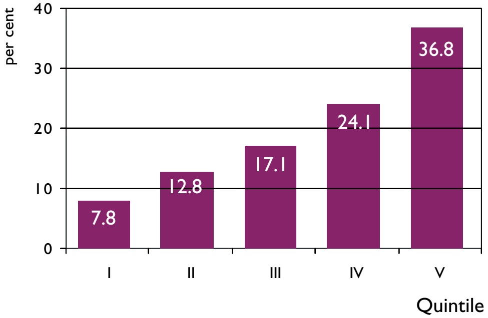
Mexico's tax system, like any tax system, contains several elements. One is corporate and personal income tax, which are progressive. Another is Value Added Tax (VAT.) VAT can be highly regressive, and in Mexico's case, special subsidies built in to reduce this impact have failed to reduce the overall regressive nature of VAT – and have also significantly reduced the overall tax take: almost half of the entire range of products and services are exempted or taxed at zero rate. It is estimated that for each peso exempted to the poorest 20 per cent of the population, nearly five pesos is exempted to the richest 20 per cent – *see Figure 1* (over). The subsidies have been estimated to account for nearly 3 per cent of GDP.[2]

> According to the 2006 World Bank* report on poverty reduction in Latin America, the region as a whole is under-collecting on most types of direct and indirect tax. In the case of personal income tax, not a single country is collecting above or in line with international experience. Argentina fares worst overall, under-collecting tax by over 12 per cent of GDP. Mexico also ranks poorly at -5.3 per cent of GDP, largely due to the high level of tax evasion on personal and corporate taxes.
>
> On the spending side, the World Bank report also notes that poverty alleviation programmes targeted at rurally based poor people work best when spending is targeted at the provision of public goods (rural roads, health and education, research and development, extension services) and when policy biases such as over-generous tax allowances for capital intensive activities are removed. The report also concludes that "on the tax front, first item on the agenda would be strengthening anti-tax evasion programs and addressing the existing high level of exemptions."
>
> * Lopez, J.H. *et al* (2006) *Poverty Reduction and Growth: Virtuous and vicious circles*, World Bank Latin American and Caribbean Studies

1 Lindert, 2004

2 Hernandez and Zamudio (2004)

Figure 1: VAT Implicit Subsidy by household income (quintile 1 = poorest)



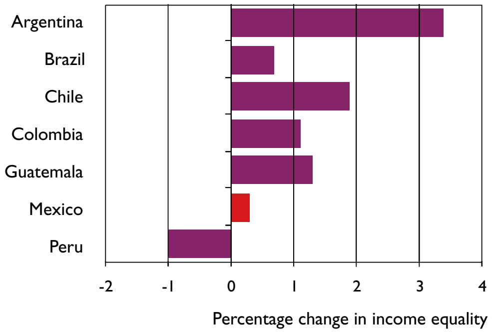
Expenditure Side

To understand the overall incidence of fiscal policy, the government's spending programmes must also be taken into account. Mexican social spending has historically been low by international standards, and it has also been generally proportional rather than progressive – see *Table 2*.

As expected, public spending on tertiary education is highly regressive, as much of the uptake of higher education is concentrated on young people from high income households. Compare this to Chile, where social spending is far more progressive. See *Table 3*.

Chile, for example, directs twice as much as Mexico of its social spending to the poorest 20 per cent of population. Chile also spends only 4 per cent of its social spending budget on the richest 20 per cent of people, which compares with 19.4 per cent in Mexico. Overall, the impact of public transfers in Mexico on income inequality is low compared to other major economies in Latin America. See *Figure 2*.

Figure 2: The impact of public transfers on income inequality



Source: Lindert, Skoufias and Shapiro (2005). Note: a positive entry indicates that inequality declines when transfers are taken into account

Evaluating Mexico's different social programmes to determine how the benefits are distributed shows that most of these programmes – such as pensions schemes for state employees – are regressive in absolute terms. There are some exceptions, notably *Oportunidades* (a health, education and nutritional programme targeted at poor people) which is highly progressive in its impact. Health services for the uninsured, primary education, and preschool spending, for example, are also progressive in absolute terms. The redistributive effects of these programmes are generally more progressive in urban areas.

In summary, social spending in Mexico needs to be made more progressive if it is to achieve the goal of reducing income inequality. Fiscal policy also needs to be considered as a whole, and not just from the tax revenue side.

Table 2: The share of social spending by household income in Mexico

Quintile	Social Spending	Health Spending	Education Spending (total)	Tertiary Education
1	18.2	17.6	18.4	0.7
2	20.5	23.9	19.6	6
3	21	24.4	20.1	10.5
4	20.8	21.8	20.5	25
5	19.4	12.3	21.4	57.9

Source: ENIGH, Scott 2001

Table 3: The share of social spending by household income in Chile

Quintile	Social Spending	Health Spending	Education Spending (total)	Tertiary Education
1	36	50	34	23
2	28	35	27	16
3	20	21	19	22
4	12	6	13	20
5	4	-12	8	20

Source: Scott 2003

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The full version of this paper is available for download from www.taxjustice.net/newsletter

news and research

From Bamako to Nairobi

Alvin Mosioma, Coordinator, Tax Justice Network for Africa. Contact: Africa@taxjustice.net

AFRICA IS AMONGST THE regions most affected by the faulty global financial architecture: for every dollar of foreign aid and loans flowing into Africa, **around 8 dollars flow out through corrupt practices.** Despite this alarming estimate, however, the impact of massive resource outflows on African economies has by and large been excluded from the debate on poverty eradication. The combination of illicit capital flight and associated tax evasion, tax competition, trade mis-pricing and other related aggressive tax malpractices by companies and rich elites in Africa, plus revenue losses arising from import tariff reductions brought by market liberalization, has accelerated the rate of resource outflow from the Continent.

Participants attending tax justice seminars at the 2006 World Social Forum (WSF) in Bamako, Mali, strongly supported the idea of organizing a concerted effort throughout African civil society to highlight these issues. The idea born in Bamako was finally, realised with the successful launch of the Tax Justice Network for Africa in Nairobi on the 24th January, 2007. This marked one of the most prominent outcomes of the 2007 WSF and received wide media coverage, locally and internationally. More than 100 participants from across the world attended the launch, and over 25 African organisations signed up as founding members of the African network. Its website can be found at www.taxjustice4africa.net.

Since January, a steering committee consisting of 10 organizations representing different regions of the continent has been set up. This committee will be meeting in June in South Africa to agree on a work programme, to devise strategy, and to lay the ground work for future activities.

The launch of the African Tax Justice Network comes at an opportune moment. Whilst there is some awareness of the issues, tax policy matters are often viewed among civil society as complex and therefore to be left to experts. TJN for Africa will support research to highlight the impact of capital flight and unjust tax policies on people throughout Africa. The initial priority will be on networking and coalition building, with the goal of mainstreaming tax justice issues in the campaign work of economic justice organizations. As the network grows, it will also engage in lobbying and advocacy at relevant policy decision-making levels, and in organizing effective campaigning through the media and other channels.

Feedback from the 2007 Tax Justice Council

THE TAX JUSTICE COUNCIL IS the highest decision-making body of the global network. The Council meets annually to decide on advocacy and campaign priorities; to elect Board members and officers; and to receive feedback from national and regional networks and from the Board and its officers. Council Meetings are open to all Members, Supporters and the general public.

The 2007 Council Meeting, held on 19th January in Nairobi, attracted 43 participants from 17 countries. The Meeting received a progress report from the outgoing Chairman, Sven Giegold, and a progress report from Bruno Gurtner on work with institutions including the World Bank, IMF, OECD and the UN Tax Committee.

The Meeting also received an oral report from John Christensen, Director of the International Secretariat, on progress with network building; national and international advocacy; campaign activities; research; network communications; and measures to improve the accountability and transparency of the work of the International Secretariat.

The new Constitution of the global Tax Justice Network was agreed in 2006 and the governing body – Tax Justice Network Association International Sans But Lucratif – was registered by the Belgian authorities in October 2006. The 2007 Council Meeting therefore presented the first opportunity to set subscription rates for Members and Supporters and invite new members to join the Association.

This was also the first opportunity to elect a full Board of Directors to serve on the newly constituted Board (see inset box). Sven Giegold, who has chaired the International Steering Committee since the formation of the Tax Justice Network in 2003, stood down from this role, and Bruno Gurtner

(Cont'd)

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(senior economist of AllianceSud, Switzerland) was elected to Chair the new Board of Directors. François Gobbe and Sven Giegold were elected to serve as Treasurer and Secretary respectively.

The Minutes of the Council Meeting, including fuller details of the progress reports from the outgoing Chairman and the Director-International Secretariat, and agreed priorities for 2007/2008, plus the lists of new Members and Supporters, and participants at the Meeting on 19th January can be downloaded from the TJN website at www.taxjustice.net.

TJN BOARD OF DIRECTORS, ELECTED JANUARY 2007

African Community Development Foundation, represented by John Kweri

AllianceSud, Switzerland, represented by Bruno Gurtner

Attac-Deutschland, represented by Sven Giegold

Attiya Waris, representing Tax Justice Network for Africa

Christian Aid, UK, represented by Anna Thomas

Economic Justice Coalition, Mozambique, represented by Viriato Tamele

Integrated Social Development Centre (ISODEC), Ghana, represented by Vitus Azeem

Jo Marie Griesgraber, representing TJN-USA

Kairos-Europe, Belgium, represented by François Gobbe

Secours-Catholique, France, represented by Michel Roy

Tax havens feature strongly at Oslo meeting

TAX HAVENS AND CAPITAL flight were chosen by the Norwegian government as a major theme of the second plenary meeting of the Leading Group on Solidarity Levies. Coming at the conclusion of the Norwegian presidency of the Leading Group, the meeting in Oslo attracted 150 delegates, including representatives from 24 Leading Group member countries and four observer countries, with significant participation from think-tanks, academia, international organisations and NGOs.

In advance of the meeting the Norwegian government commissioned the TJN International Secretariat to prepare a report, titled *Closing the Floodgates: Collecting tax to pay for development*,* for use as a basis for discussion on how the Leading Group can tackle the problems of capital flight and tax evasion. John Christensen introduced the report and its key recommendations during a roundtable discussion, with further contributions from Luis Eduardo Escobar, Chilean Presidential Adviser to the Technical Group (GT-7), Dónal Godfrey, Head of the Harmful Tax Practices Unit at the OECD Centre for Tax Policy and Administration, and Jon Borgen, Secretary-General of Transparency International Norway.

The need to tackle tax havens was taken up as a major theme in the final statement of the participating NGOs. Morten Eriksen, Managing Director of the Norwegian NGO Forum, highlighted how tax havens support corrupt practices and called on the Leading Group to use the opportunity of the Monterrey plus 6 global summit in Doha in 2008 to make the link between tax havens and poverty, and to outline a programme for action against the tax havens.

In his summing up at the end of the plenary meeting, Atle Leikvoll, deputy secretary general of the Norwegian Ministry of Foreign Affairs noted the strong support for action against tax havens and capital flight and proposed that during the follow-up process the Norwegian government "will take special responsibility for consulting within the Leading Group and taking a lead in putting an appropriate process into place."

Meantime, Eva Joly, special adviser to the Norwegian aid agency Norad and former French examining magistrate responsible for investigating Elf Acquitaine's use of slush funds, has spoken publicly about her support for Tax Justice Network's analysis of how tax havens stimulate corruption. "We have not finished the anti-corruption debate" she said to *Development Today*, "It is important now that the spotlight is put on the tax havens. In my opinion, that is one of the biggest problems the world faces today."

* *Closing the Floodgates* can be downloaded from: http://www.taxjustice.net/cms/upload/pdf/Closing_the_Floodgates_-_1-FEB-2007.pdf

news and research

A Youth Tax Justice Network

Emma Lochery
Email: youthtaxjustice@gmail.com Blogsite: www.ytjn.blogspot.com

Alvin Mosioma and Roman Kuenzler celebrate the launch in Nairobi

AT THE 2007 WORLD SOCIAL Forum in Nairobi, Kenya, students announced plans to build a Youth Tax Justice Network.

The network will be a platform for students and other young people to share research and advocacy experiences, helping them to support local campaigns and link in with the wider international network.

Students meeting at the forum – from three different continents – discussed the relative absence of tax justice issues from both their curricula and their activist networks. At the same time, they saw tax injustice in their own communities — under-funded public services, corruption linked to the use of secret bank accounts and offshore trusts.

The Youth Tax Justice Network invites any interested students and youth to join with them, especially in this early stage of building the network. If you would like to get involved or simply learn more, please contact Emma Lochery at emma.lochery@gmail.com.

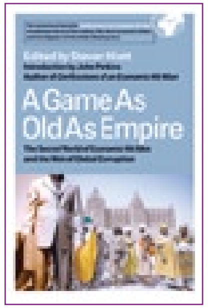
Big Four Accountants remain major players in tax havens

Chris Steel

DESPITE NINE YEARS OF investigation and blacklisting by organisations like the Organisation for Economic Cooperation & Development and the Financial Action Task Force, the Big Four global accountancy firms (KPMG, Ernst and Young, PricewaterhouseCoopers, and Deloitte) still operate in most of the world's 70-plus tax havens. What is surprising, however, is that while they admit to working in the premier tax havens, they do not admit on their websites to working in some of the minor tax havens, as my research has shown.

Unfortunately, the OECD and FATF have reacted to political pressure and removed the vast majority of these tax havens from their blacklists of 1998 and 2002, even though little has changed regarding harmful tax practices in these places. Jersey provides a clear demonstration of this: in 2006 Jersey enacted a new law on trusts which allows the settlor to create a trust, and have access to the trust's funds, while completely hiding his or her real identity. These scams have to stop if tax havens are to become legitimate offshore financial centres. The Big Four firms seem to be taking no part in calling for such change. Why are they not doing this?

reviews



A Game As Old As Empire
Stephen Hiatt (editor)

ISBN 978-1-57675-395-8 (hardcover)

Price: $24.95

Published by Berret-Koehler

The worldwide web of corruption
by Chris Steel

The playwright and actor Noel Coward said that "everybody in the world is bent". *A Game As Old As Empire* seems to confirm that cynical view. A sequel to the best-selling *Confessions of an Economic Hit Man*, this is a compilation of contributions from investigative journalists and specialists whose experiences support and expand on John Perkins' exposé of how debt became a tool for political dominance. The authors, including TJN's John Christensen, Jim Henry and Lucy Komisar, provide detailed evidence of how economic hit men employed by powerful institutions have systematically undermined the integrity of markets and the rule of law.

The Bank of Credit and Commerce International (BCCI) was heavily involved in financing gun-running, drug-trafficking, money-laundering, and funding dictators, whilst being "in bed" with the Reagan and Bush administrations, who were implicated in illegal dealings such as Oliver North's Iran-Contra deal. The Central Intelligence Agency was fully aware of these activities – and even funded them. BCCI provided counterfeit documents and letters of credit, enabling Osama Bin Laden, his extended family, and other wealthy Saudis to use tax havens to hide at least $30 million by registering sham organisations like the Muwafaq Foundation, a known al-Qaeda front. The use of nominee directors, shell companies, false record keeping and the illegal purchase of another bank was known but not reported by their auditor, Price Waterhouse, who helped BCCI perpetrate their fraudulent activities.

This alarming book makes clear how deeply implicated economic hit-men have been in manipulating the post-Cold War era.

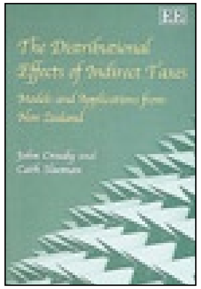
The Nigerian dictator Sani Abacha arranged to have an average of $15 million a day in foreign aid, loans and taxpayers' money transferred to secret bank accounts in Switzerland and other tax havens, with the full knowledge of legions of bankers, lawyers and accountants, none of whom alerted the police. Much of Abacha's stolen wealth came to my home island of Jersey, where very little of the considerable money-laundering that goes on is reported to, or recorded by, the police.

Corruption seems to have infested the entire fabric of financial markets. Riggs Bank described Chilean dictator Augusto Pinochet under know-your-client protocols as a "retired professional who achieved much success in his career" and provided the offshore companies he used to evade tax. Accountancy firm KPMG evaluated that the profit from selling illegal tax shelters was greater than the potential fines, and it went ahead and promoted the shelters to its clients. A tax partner from London-based accountants Moore Stephens said, "no matter what legislation is in place, the accountants and lawyers will find a way around it." A corporate lawyer working for the Reagan administration said, "I do not subscribe to the theory that a company that violates tax and exchange control regulations is a bad corporation."

The web of corruption even extends to think-tanks and academia. In Greg Muttitt's devastating chapter on recent events in post-war Iraq, we meet Dan Witt, director of an American lobbying organisation which masquerades as a 'research and education foundation' but gets its funding from Big Oil (and Gas.) Witt has spearheaded efforts to secure Iraqi oil for his clients in a way which allows the government to "be seen to be running the show - and the company can run it behind the camouflage of legal title symbolizing the assertion of national sovereignty." Small wonder that the majority of Iraqis are skeptical about the occupier's intentions.

This alarming book makes clear how deeply implicated economic hit-men have been in manipulating the post-Cold War era. With global demand for mineral and other resources on the rise, the stakes are high and rising. Worryingly, there are few signs of political will to tackle the threats to livelihoods and security which the various authors of this book expose. Anyone claiming an interest in current affairs should factor *A Game As Old As Empire* into their analysis.

reviews



The Distributional Effects of Indirect Taxes

John Creedy and Cath Sleeman

ISBN:
13 978 1 84720 042 6

Published: 2006 by Edward Elgar, Cheltenham, UK

288pp Price: £65

Modelling equity

by John Christensen

When researchers analyse the distributional impact of tax measures, they frequently assume that household spending patterns will not change when taxes and prices are raised or cut. But in practice, households adjust their spending according to the price elasticity of the goods or services in question.

This detailed study of indirect taxes in New Zealand models how people and households change their behaviour in response to a variety of taxes, including excise duties, a petrol tax, and a carbon tax. It looks at a variety of household types, taking account of household spending patterns and inequality, and it assesses efficiency gains or losses from the changes in terms of the excess burden of taxation (defined as inefficiencies that are generated by distortions in consumer spending patterns that arise from tax-induced changes in relative prices.)

The authors applied their models to specific tax proposals in New Zealand and found little evidence that, for example, the excise duty regime is regressive and inefficient, as had been claimed. They also looked at a proposed carbon tax set at $25 per tonne of carbon dioxide emitted, and found that while households with relatively low total spending levels spent proportionately more of their available budget on carbon-intensive commodities such as petrol and household fuel and power, the impact of a carbon tax set at that rate is small, and the resulting welfare losses could be compensated by appropriately designed policies.

Because of its emphasis on the distributional impacts of tax policies in terms of actual household spending, rather than on gross personal income, this will be a useful addition to the existing literature on how to measure indirect taxes' impacts on households at different ends of the income and expenditure spectrums. Although New Zealand is used to provide real-life examples, the models used do have a more general application.

A warning, however: this book is clearly written for economists, tax policy specialists and those with an interest in welfare economics. Others would very likely find the level of detail (and the price!) somewhat daunting.

CALENDAR

16th April 2007
New York: Spring meeting of ECOSOC, BWIs and UNCTAD – TJN represented by David Spencer

20th – 21st April
Berlin: Alternative-ECOFIN summit – see www.alternativer-ecofin.org

5th – 7th June
Rostock: The Alternative G-8 Summit – see www.g8-alternative-summit.org

6th – 8th June
Heiligendamm: G-8 summit meeting under the German presidency – see www.g-8.de

16th June
London: Its broke – let's fix it! An Alternative Economics Conference organised by Friends of Le Monde Diplomatique – TJN represented by John Christensen – see www.mondediplofriends.org.uk

28th June
Washington: conference on Illicit Financial Flows organised by Global Financial Integrity – TJN represented by John Christensen – see http://ciponline.org/financialflows/index.htm

2nd – 27th July
Geneva: ECOSOC Substantive Session

September
Seoul: 3rd Plenary Session of the Leading Group, with an accompanying strategy meeting of NGOs involved in solidarity levies, capital flight and tax evasion

September
New York: UN General Assembly and GT-7 side event (to be confirmed)

Fourth Quarter 2007
New York: UN General Assembly High-level Dialogue on Financing for Development