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BRIEF 3 ENGLISH

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# Fixing Corporate Tax

## UNION DEMANDS CURBING TAX COMPETITION

# CURBING TAX COMPETITION

## THE PROBLEM: EXPENSIVE HANDOUTS TO CORPORATE SHAREHOLDERS

Governments around the world hand out tax cuts and tax breaks to corporations, at enormous cost in foregone public revenues which could otherwise be spent on public services like schools and hospitals. All too often these are just expensive subsidies for corporations to make investments they were going to make anyway.

Tax rates on corporate profits have been falling around the world since the 1980s, driven by the belief, energetically promoted by corporate lobbyists, that cutting taxes for big business will bring investment. But when one country lowers tax rates, then others usually follow suit: in this respect, competition between countries on corporate tax rates is no different from competition based on pushing down workers' wages and conditions.

At the same time that tax rates have been falling in many countries, corporate profits have been rising. The consultancy firm McKinsey estimated in 2015 that corporations' net profits have risen fivefold since 1980.

**KEY POINTS:**

TRADE UNIONS SHOULD CALL ON GOVERNMENTS TO:

- NOT MAKE ANY FURTHER CUTS TO CORPORATE TAX RATES
- CURB TAX BREAKS FOR INVESTORS

"BY CONTINUING THEIR RACE TO THE BOTTOM ON CORPORATE TAX, GOVERNMENTS RUN AWAY FROM THEIR DEMOCRATIC RESPONSIBILITIES AND HURTLE HEADLONG INTO THE NEXT GLOBAL CRISIS."WAYNE SWANICRICT COMMISSIONER, FORMER FINANCE MINISTER OF AUSTRALIA "BY CONTINUING THEIR RACE TO THE BOTTOM ON CORPORATE TAX, GOVERNMENTS RUN AWAY FROM THEIR DEMOCRATIC RESPONSIBILITIES AND HURTLE HEADLONG INTO THE NEXT GLOBAL CRISIS."

Wayne Swan
ICRICT Commissioner,
Former Finance Minister of Australia

Governments can lower corporations' tax bills in two main ways. Firstly, they cut headline rates of corporate income tax. Tax rates have fallen sharply since the 1980s from 40-50 per cent to below 30 per cent. Corporate profits have grown as a share of the economy in recent years, but tax revenues have not kept up. The biggest recent decision of this kind was President Trump's gigantic tax cut for US business which slashed the corporate tax rate from 35 per cent to 21 per cent, adding to the public debt and the financial burden on workers and their families for years to come.

As well as cutting tax rates, governments offer tax breaks on particular economic sectors or investments in the hope of attracting and keeping investment. Governments like tax breaks because they are a relatively quick and easy policy lever to pull, compared to building up the skills of workers or increasing the quality of public infrastructure. Another attraction for policymakers is that unlike subsidies, tax breaks do not have to be paid for upfront with public money: governments just collect less tax instead.

In reality, however, tax breaks can be one of the most insidious and expensive ways in which money is drained from the public coffers. It is very hard to know in practice whether the economic benefits of a tax break are worth its cost in foregone public money and few countries carry out a public cost-benefit analysis beforehand or calculate the cost once the tax break has been granted.

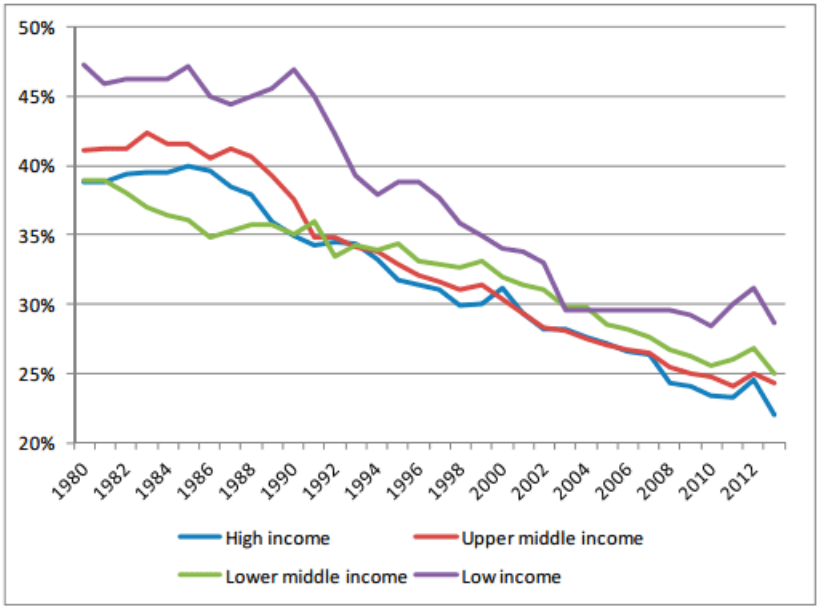
Because they are often complex and opaque, tax breaks are vulnerable to corruption and the capture of politics by corporate lobbyists. Since tax breaks are often designed to attract foreign investment, they can result in large foreign companies being given more favourable tax treatment than local small and medium sized businesses.

Corporations have become skilled at extracting expensive tax breaks by getting countries or regions to compete with each other for their favour. Amazon made headlines in late 2018 by getting cities across the United States to compete for the location of its new headquarters. Despite the fact Amazon is already one of the world's most profitable companies, the enticements offered included 15-year tax exclusions, 100% property tax abatement and the construction of a publicly funded "Amazon University" to create a direct pipeline for people to work at the company. Many cities kept their bids secret from the public, redacting the information of what tax or other incentives were being offered.

Finally, after being promised more than US$2 billion in tax breaks, Amazon chose New York City and a suburb of Washington DC: obvious national centres where they would likely have gone anyway.

**CORPORATE TAX RATES HAVE FALLEN AROUND THE WORLD SINCE 1980**

Figure 2. Corporate Income Tax Rates, 1980–2013




*Source: IMF*

After an unprecedented campaign by local activists in New York who believed Amazon would destroy local neighbourhoods, the company pulled out of the city.

European countries also offer many tax breaks: these include tax rulings, like the one notoriously given by Ireland which allowed the US tech giant Apple to shift its profits into the country at a super-low rate. There has also been a Europe-wide rash of "patent box" tax breaks on profits from intellectual property. There is little evidence that these types of tax breaks actually increase innovation and research, which have their own set of tax breaks. All they do in practice is to further increase the profits of corporations with a lot of proprietary technology or brands.

In developing countries, tax holidays of up to ten years for foreign investors are common: when the tax holiday ends, some investors simply leave, some threaten to leave to win lengthy extensions while others transfer the asset (such as a factory or a hotel) to a new company so as to collect more tax breaks.


# UNIONS TAKE ACTION

## MCDONALD'S: UNHAPPY WORKERS, UNHAPPY TAX SCHEMES

McDonald's is renowned across the world for it's mistreatment of workers – but unions have recently helped reveal its dodgy tax practices too. This has helped build global union power and increase pressure on the company to improve worker conditions.

In 2009, McDonald's (the world's second largest private sector employer) set up a subsidiary in Luxembourg to handle its "intellectual property" and began funneling billions of dollars through the company's accounts. The effective rate of taxation in Luxembourg for this McDonald's subsidiary was 1.7 percent between 2009 and 2015.

Meanwhile, in 2012 in the United States the union movement was launching the Fight for $15 – a widespread campaign to ensure workers, such as those at McDonald's restaurants, would be paid a decent salary. Within a year they were striking in 100 cities across the country. Bad practices weren't just limited to the US. As a global employer, McDonald's has been accused of violating labour and tax laws in Brazil, committing antitrust violations in Asia, and "pioneering" the use of Zero Hour Contracts in the UK.

SEIU, a key union in the Fight for $15 campaign, knew their critique of the fast-food giant had to be broader than only worker issues in the United States. Researchers found that McDonald's was avoiding taxes in Europe on a large scale, around the same time that other multinationals – namely Apple, Google and Amazon – were coming under heavy scrutiny from the European Commission. The SEIU was able to use connections through PSI and EPSU to increase pressure in Brussels. Research provided by the coalition led to two hearings at the European Parliament's Special Committees on Tax Rulings and the launching of a formal investigation into McDonald's tax practices in Luxembourg by the DG COMP: the investigative arm of the European Commissioner for Competition.

Meanwhile, the Fight for $15 has succeeded in getting all major democratic candidates to commit to a $15 minimum wage and had legislation passed through the House– it is yet to pass the Senate. To learn more, check out the PSI/EPSU reports: Unhappy Meal and Golden Dodges.

## TAX TREATIES

Another problem area is bilateral tax treaties. There are more than 3,000 of these treaties, which are meant to divide up the right to tax a multinational's income between the country where it is resident and a country where it does business (the "source" country). In practice, tax treaties can often lead developing countries to give up valuable taxing rights in the belief that this will make them more attractive to investors. Treaties can also be exploited to shift corporate profits more easily into tax havens.

Not all corporate tax breaks are bad: in some cases, there may be no other way to induce corporations to invest in deprived areas where jobs are badly needed, or to smooth the path for investment in vital new industries like renewable energy. However, tax breaks need to be greatly cut back and tightly controlled to stop them being a massive subsidy for investors and corporate executives, at public expense. Any tax breaks or other incentives need to be fully transparent and corporations and governments should be held accountable for any promised economic and social benefits.

The riskiest kinds of tax breaks are those which are offered to particular companies at the discretion of governments, rather than being set out clearly in law and offered to all qualifying companies with the same conditions attached. The possibility of getting a discretionary tax break creates incentives for corporations to bribe public officials and to try and capture domestic politics, for example by financing political parties. Discretionary tax breaks should be outright abolished.


**3000**

DOUBLE TAX TREATIES EXIST AROUND THE WORLD. MANY ARE EXPLOITED BY CORPORATIONS TO AVOID PAYING THEIR FAIR SHARE IN TAX

## PROGRESS TO DATE

There has been no serious international effort to curb cuts in corporate tax rates, which are treated as a sovereign matter for the governments concerned even when the effect is to damage the revenues of other governments by luring away corporate investment. There have been efforts by the OECD and the European Union to curb "harmful tax practices", such as tax breaks that encourage the shifting of profits into tax havens. However, such efforts have had little real effect because they target specific types of tax breaks which governments simply withdraw and replace with new types.

There is good news at last: governments meeting at the OECD were considering, as of mid-2019, whether there should be a global minimum effective tax rate. This would not require all countries to change their tax rates but, in cases where a corporation's profits are being taxed below this level in one country or jurisdiction (such as a tax haven), then other countries would be able to "top up" the tax payable by that corporation.

This concept is a big step forward: until very recently, the OECD did not even see zero taxation as a problem in itself. There are risks, however. If the minimum rate is applied to too narrow a base of corporate activity, then it will not make much difference. And if the rate is set too low then over time it could actually pull-down tax rates around the world towards this minimum level. This is one reason why the rate needs to be at least 25 per cent, which is close to many countries' current tax rates.

Action on tax rates is not enough by itself. Most tax breaks on profits, like tax holidays and "patent box" tax breaks for intellectual property, are a public subsidy to wealthy corporations which don't need handouts: such tax breaks should be phased out. The revenue saved would be better used for public services which benefit society and also improve the investment climate, such as public healthcare, schools, infrastructure, research and development. Other types of tax breaks should be limited and carefully scrutinised.

Governments are often reluctant to end tax breaks for fear that if they do, investment will move to their neighbours. For this reason, groups of countries should work to standardise their tax incentives and eschew tax competition. Ultimately a distribution around the world and make sure that poorer countries have an equal say on global tax rules.

# WHY TAX COMPETITION MATTERS TO WORKERS

- TAX CUTS AND TAX BREAKS MEAN LESS PUBLIC REVENUE TO BE SPENT ON PUBLIC SERVICES WHICH WORKERS AND THEIR FAMILIES NEED, LIKE SCHOOLS AND HOSPITALS.
- TAX COMPETITION REWARDS WELL-OFF SHAREHOLDERS, WHO ARE MAINLY MEN, WHILE USERS OF PUBLIC SERVICES - WHO ARE DIS-PROPORTIONATELY WOMEN - LOSE OUT
- TAX BREAKS ARE PRONE TO LOBBYING AND CORRUPTION AND TEND TO REWARD CORPORATIONS FOR MAKING INVESTMENTS THEY MIGHT HAVE MADE ANYWAY.
- TAX COMPETITION BETWEEN COUNTRIES, LIKE COMPETITION ON WORKERS' WAGES AND CONDITIONS, BENEFITS CORPORATIONS AT THE EXPENSE OF THE REST OF SOCIETY.
- SOME TAX BREAKS MAY BE NECESSARY TO BRING JOBS TO DEPRIVED AREAS, BUT THEY NEED TO BE CAREFULLY MONITORED TO STOP THEM BEING ABUSED.

"I have worked with investors for 60 years and I have yet to see anyone ... shy away from a sensible investment because of the tax rate on the potential gain."

Warren Buffet

Billionaire Investor

## WHAT NEEDS TO HAPPEN

1. Trade unions should call on their governments to stop cutting headline rates of corporate income taxation and agree with other countries on a minimum effective tax rate of at least 25 per cent. This means that profits which are not taxed at this rate or higher in countries where a corporation invests should be taxed again in its home country, and vice versa.
2. All discretionary tax breaks – that is, tax breaks granted to particular companies at the discretion of politicians, rather than being clearly set out in law and offered to all qualifying companies equally – should be abolished to curb the risk of corruption.
3. Tax breaks on profits should be phased out. This includes getting rid of tax holidays, "patent box" tax breaks, tax rulings that are really tax cuts in disguise and Special Purpose Entity regimes allowing multinationals' profits to be routed through holding companies which are subject to low or no taxation.
4. Tax breaks which relieve genuine investment costs should be limited to essential cases, carefully scrutinised by legislators and reported to the public to make sure they are achieving their intended effects. Tax expenditures (the cost of tax incentives) should be regularly reported to the public in budget reports which are detailed enough to allow for informed public scrutiny, broken down on a per-company basis including the estimated revenue cost of each tax break and its associated conditions.
5. Bilateral tax treaties should be carefully reviewed and clauses which abolish or unduly limit the rights of countries to tax outflows of corporate income should be scrapped.
6. Before any tax incentives are given, the government must provide a public cost-benefit analysis, outlining the forgone revenues, critically evaluating the claimed benefits and analysing the potential impact on domestic businesses. This cost-benefit analysis needs to be repeated regularly throughout the life of a tax break .


# UNIONS TAKE ACTION

## CHILE: BUILDING COALITIONS TO OPPOSE REGRESSIVE TAX REFORM

Latin American governments lose significant financial resources through the Illicit activities of multinational companies and through government-gifted tax benefits. The continent's regressive tax systems include low tax rates on property, corporations and dividends, compared to the OECD average.

In Chile in 2018, the President set out to adopt a liberal, pro-corporate agenda, which includes a "tax modernization" program. This seeks to dismantle recent reforms, which were supported by the Association of Internal Tax Service Auditors (AFICH) as an important step to improve progressiveness in Chile's tax system.

To oppose this regressive tax proposal, Chilean unions are educating politicians and building public pressure, through the campaign "Que no te pasen gato por liebre." The main goal is to popularize the tax debate, highlighting how it is more than a technical question. The simple, direct message is that this campaign is not only about tax administration workers but also universal quality public services.

The Union Movement in Chile has outlined how the new program would only favour the rich and multinational corporations (through corporate tax cuts, tax benefits and undermining the tax administration), while placing a higher burden on small businesses.

The campaign has analysed the proposed changes and held public workshops with union members. It has produced, short explainer videos, public billboards, media engagements with radio, newspapers & TV.

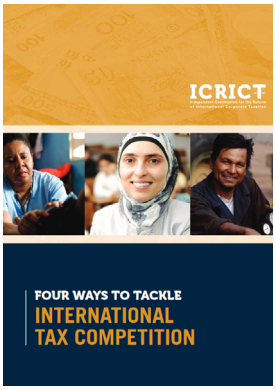
Recent opinion polls show a drop in popular support from 50% to 30% to the proposal. It has succeeded in delaying the government's plan for 18 months. Parliament has invited campaign leaders to discuss the issue three times. They have also lobbied the Ministry of Finance – forcing important amendments to the text.

# FURTHER INFORMATION

## THE INTERNATIONAL COMMISSION FOR THE REFORM OF CORPORATE TAXATION (ICRICT) - REPORT

"Four Ways to Tackle International Tax Competition"

Accessible at: https://www.icrict.com/icrict-documentsfour-ways-to-tackle




## STILL BROKEN - G20 TAX REFORM OXFAM + PSI - REPORT

A report by PSI, OXFAM and other leading organisations ahead of the 2015 G20 meeting, outlining the need to fix the broken international tax system

Accessible at: psishort.link/stillbroken



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