



**PUBLIC SERVICES
INTERNATIONAL**

The global union federation of workers in public services

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BRIEF 6 ENGLISH

Fixing Corporate Tax

UNION DEMANDS

PUBLIC COUNTRY-BY-COUNTRY

REPORTING FOR CORPORATIONS

PUBLIC COUNTRY-BY-COUNTRY REPORTING

THE PROBLEM: KNOWING WHERE CORPORATIONS ARE MAKING THEIR PROFITS

At least a third of world trade is thought to take place within multinational corporations as their subsidiaries buy from and sell to each other. These transactions are supposed to be priced as if they were taking place between independent companies in an open market but, in reality, internal transactions can easily be manipulated to shift profits into tax havens.

KEY POINT:

TRADE UNIONS SHOULD CALL ON GOVERNMENTS TO:

- REQUIRE MULTINATIONALS PUBLISH COUNTRY-BY-COUNTRY REPORTS ON THEIR PROFITS, TAX PAYMENTS AND OTHER KEY FINANCIAL DATA

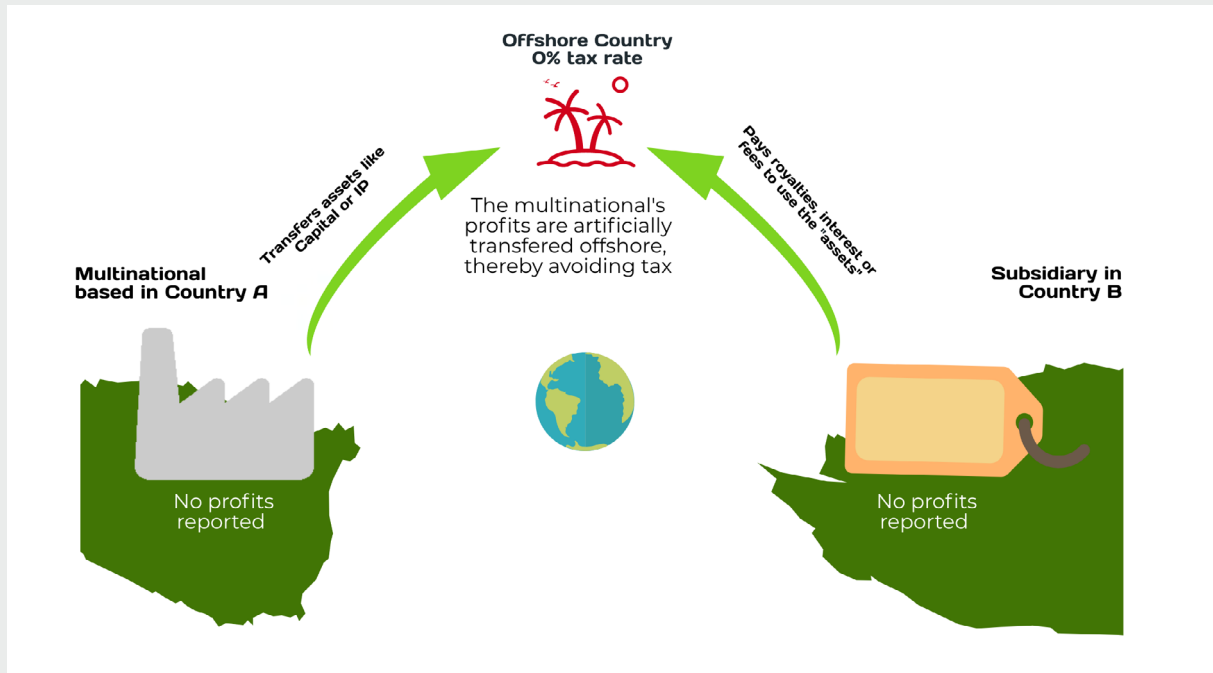
Classic examples of “transfer pricing abuse” are:

- A subsidiary of a multinational company exports its products at a below-market price to a related company in a tax haven, which then sells the products on at a higher price, so that the profits are collected in the tax haven;
- A subsidiary pays a related company in a tax haven, for example royalties for brands or trademarks; interest payments on loans or fees for management services. All these costs can be deducted from the subsidiary's profits, reducing its tax bill in the countries where it does business, while the payments end up in the tax haven.

The shifting of corporate profits offshore not only reduces the tax revenue available to spend on public services like health and education, which union members rely on, but also takes money off the bargaining table for better wages and conditions.

Corporate managers can claim that union demands cannot be met because there isn't enough money, when in fact the money may be sitting in a tax haven. If the tax authority can't collect revenues, because profits have been shifted offshore, then workers can't bargain for fair wage increases either. Workers may have been told that profit shifting is 'efficient' tax behaviour, and works to their benefit: in reality, the same manipulations are used to deprive the tax authority and workers alike.

TRANSFER PRICING VIA TAX HAVENS: HOW IT WORKS



The multinational places the ownership of assets, like capital or intellectual property (IP) such as software, in a tax-haven company which charges the subsidiary in Country B to use them. The costs are deducted from the latter's tax bill in Country B and the money ends up in the tax haven. This transfers profits from where they are created and made (in producing and consuming countries) to an offshore haven where no actual economic activity takes place.

These kinds of abuses are hard for tax authorities to challenge. The tax authority must sift through countless transactions to work out which ones might be mispriced. Then it must prove, sometimes in court, that mispricing is going on, which means going up against armies of corporate lawyers and accountants (see Brief 3). A major problem is that multinationals' accounts often do not give a clear picture of what is going on. In some tax havens, there is no requirement to publish accounts.

Even where accounts are published, they may show large flows of money to and from other subsidiaries, but usually without enough detail to make sense of what these transactions really mean.

Many multinationals don't currently publish country-level details in global accounts or disclose all their subsidiaries, and standards of disclosure vary based on where the multinational's shares are listed. In many countries, for example, private companies which are not listed on local stock exchanges are not required to publish their accounts. Even in the United Kingdom, where companies do publish their accounts, these accounts often contain too little detail to make real sense of transactions between the subsidiaries of the same multinational.

**I BELIEVE THAT WE NEED TO MAKE
TAX DODGING A MORAL ISSUE – AN
ISSUE OF HUMAN RIGHTS.**

Winnie Byanyima, Oxfam Director



PROGRESS TO DATE

The system has long cried out for reform, but for years Governments were heavily influenced by corporate lobbyists. After campaigning by civil society and unions and mounting public pressure, the Organisation for Economic Cooperation and Development (OECD) has finally developed global standards for “country-by-country reporting.”

The original draft accounting standard for country-by-country reporting was drawn up by the Tax Justice Network, a civil society group, in 2003. It was designed to ensure that multinationals would annually report, for each country or jurisdiction where they do business, key information including their profits and taxes paid (see Technical Summary for details). These reports can show when a multinational is booking disproportionate amounts of profit in a jurisdiction where it pays very little tax and has few employees or tangible assets – a classic sign of tax avoidance.

This form of reporting will not stop corporate tax avoidance by itself: for that, deep changes in tax rules are needed.

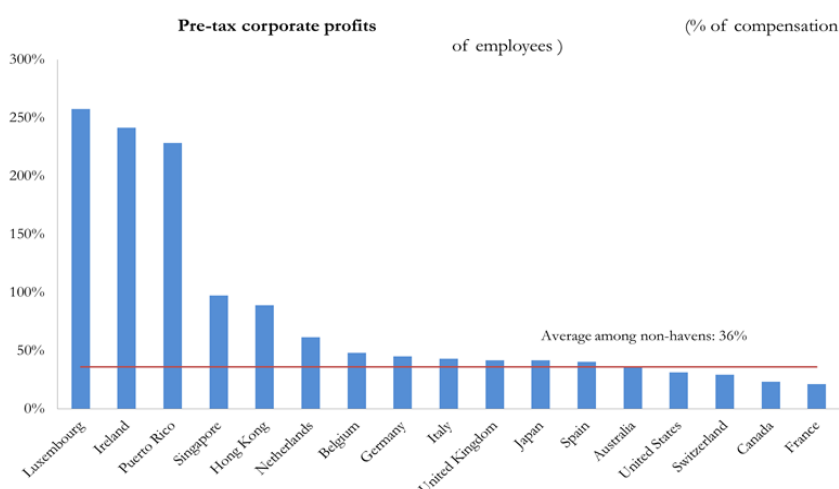
What reporting can do is show more clearly what corporations are up to, making it easier to mobilise public pressure against corporations which dodge tax and governments which enable them. The European Union brought in public country-by-country disclosures for banks and other financial institutions and early analysis shows a ten per cent increase in their tax payments as a result.

However, the OECD is heavily under the influence of powerful governments, some of which are still reluctant to crack down too hard on their own multinationals. As a result, there are serious weaknesses in the OECD standard.

There is progress, however. A new draft standard for public disclosure from the Global Reporting Initiative provides a technically robust alternative to the OECD template. Some multinationals have voluntarily published their own reports, as [UK's Barclays Bank](#) and the telecoms company [Vodafone](#) did after heavy criticism for their use of the European tax haven of Luxembourg. This all shows that public country-by-country reporting does not put corporations out of business or threaten jobs, as some lobbyists claim.

CORPORATIONS BOOK HUGE PROFITS IN TAX

HAVENS LIKE LUXEMBOURG



Source: Zucman, Tøsløv and Wier. *The Missing Profits of Nations*. July 2018

As well as its reporting requirements for financial institutions, the European Union has adopted more limited forms of public country-by-country reporting for oil, gas and mining companies (as have Norway and Canada). As of mid-2018 the EU was considering a [proposal](#) to extend this reporting to multinationals in other sectors of the economy, although this proposal includes various opt-outs and limitations which are likely to be used by some multinationals to evade scrutiny of their tax practices.

OECD STANDARD: KEY ISSUES

- 1.** The OECD standard only requires that companies provide these country-by-country reports to tax authorities, not to the public. Without public reporting, there is simply no way to know whether corporate tax-dodging is being tackled seriously. And without public reports, unions cannot check that multinationals are not hiding profits offshore while claiming that they can't afford better wages and conditions for their employees, or even closing down workplaces and cutting jobs.
- 2.** The standard only applies to multinationals with a turnover of more than €750m, because the OECD resisted pressure from tax justice campaigners to make the threshold lower. This means that many mid-sized multinationals are not obliged at all to show how they are using tax havens.
- 3.** The reports are being shared among national tax authorities via a complicated system designed by the OECD which risks some of the poorest countries not getting the information they need: out of 70-odd countries signed up to the OECD system as of mid-2018, only five were from Africa. A much simpler way to ensure that the reports can be accessed wherever they're needed is to make them all public.
- 4.** The OECD standard does not separate out transactions within a multinational group from those with third parties, nor does it require the reports to be reconciled to a corporation's global accounts. These omissions limit the value of the information provided to explain the companies actions.



Chevron

UNIONS TAKE ACTION

EXPOSING BIG OIL'S TAX DODGING AT CHEVRON

When oil-multinational Chevron and its contractors in Australia engaged exploited foreign workers, undercut existing wages and refused to engage meaningful dialogue, unions took action culminating in a two day strike. When Chevron took the union to court demanding \$20 million in damages the unions looked for new approaches to the industrial dispute.

The International Transport Workers Federation worked with unions across the private and public sector around the world to expose how Chevron uses questionable tax schemes to avoid paying its fair share. In 2015 PSI, ITF and Tax Justice Network Australia produced a [report](#) which revealed how Chevron stashed over US\$35 billion in un-taxed revenues in off-shore accounts.

This led to a Senate Inquiry, where Chevron executives were forced to appear multiple times before politicians, required to provide additional information, compelled to respond to union research and admitted their use of tax havens could reduce tax payments in Australia by \$15 billion. In 2017 Chevron reached a landmark settlement with the tax office and

agreed to pay \$1 billion in back taxes and will likely pay many millions more in future.

This union-led campaign helped reveal Chevron's global tax links. In particular, the use of Netherlands-based letterbox companies sparked the engagement of Dutch Unions, who in 2018 [filed a landmark Tax Complaint](#) against the company with the Organisation for Economic Co-operation and Development (OECD).

The case shows that when multinationals dodge tax globally, unions must link tax campaigning and investigations across borders. Rather than relying solely on militant action and industrial tribunals, the Unions involved decided to directly challenge Chevron's financial behavior.

By helping achieve such significant tax payments from a major corporations, unions have been able to build their negotiating strength and demonstrate that tax can be a key component in building union power. Chevron and other multinationals will now think twice about taking on unions in future.



WHY DOES CORPORATE TRANSPARENCY MATTER FOR WORKERS?

- EXISTING ACCOUNTING RULES OFTEN DON'T REQUIRE MULTINATIONALS TO BREAK DOWN THEIR PROFITS AND TAX PAYMENTS BY COUNTRY, MAKING TAX AVOIDANCE EASIER TO HIDE.
- TAX AVOIDANCE DEPRIVES COUNTRIES OF REVENUE FOR PUBLIC SERVICES SUCH AS EDUCATION AND HEALTHCARE WHICH WORKERS AND THEIR FAMILIES RELY ON. WOMEN LOSE OUT DISPROPORTIONATELY BECAUSE THEY TEND TO BE BIGGER USERS OF THESE SERVICES.
- COUNTRY-BY-COUNTRY REPORTING WOULD MAKE IT CLEARER WHERE CORPORATIONS ARE MAKING PROFITS AND PAYING TAXES – HELPING TO IDENTIFY RISKS OF TAX AVOIDANCE AND ALERTING WORKERS TO WHERE THE HIDDEN PROFITS ARE
- TRANSPARENCY WOULD ALSO HELP TAX AUTHORITIES BY CREATING PUBLIC PRESSURE ON CORPORATIONS TO PAY THEIR FAIR SHARE OF TAXES AND INCREASE PUBLIC CONFIDENCE IN THE TAX SYSTEM

WHAT NEEDS TO HAPPEN

1. All multinationals file a country-by-country report in line with global best practice. Corporations could be required to publish these reports on company websites and governments could publish all the reports in a single place.
2. The highest global standard, at time of writing is Global Reporting Initiative's tax standard. The OECD and all countries should adopt this standard.
3. All Global Union Federations and national union's dealing with Multinational Corporations should demand compliance with the GRI standard in Global Framework Agreements and Collective Bargaining Agreements.
4. The published reports should be in standardised open data format, to make it easier to analyse and compare reports. Since accounting rules can differ from one country to another, the country-by-country reports should be reconciled to the global accounts of the corporation, so as to avoid confusion as to how the different sets of numbers match up.
5. The threshold at which corporations should have to publish these reports should be reduced from the current minimum global turnover of €750m to a much lower figure such as €100 million or US\$100 million, so as not to leave out smaller multinationals.
6. In countries with a lot of investment by foreign multinationals, governments could follow the example of Australia which annually publishes the total income, taxable income and tax payable by large domestic- and foreign-owned companies. This is not a substitute for full country-by-country reporting because it only provides a limited picture of corporations' profits and taxes, not worldwide. It is a useful way of generating public pressure on politicians to crack down on corporations with unjustifiably low tax rates.





UNIONS TAKE ACTION

TAX RESEARCH LIFTS AGED-CARE QUALITY

The Australian Nursing & Midwifery Federation (ANMF) has been spearheading a campaign to increase nurse-to-patient ratios in aged care to make sure elderly people receive the care they deserve. Yet the private sector bosses claimed there wasn't enough funding for more staff.

In response the ANMF released a damning [report](#) revealing how private aged care providers who receive large amounts of government funds are shifting profits offshore. Just a week after release, the report led to an official Senate tax inquiry. The report outlined how Bupa, Allity, Opal Aged Care, and others, use highly complex multinational corporate structures and frequent massive related party loans, to shift large profits offshore. The outsourcing of public services by governments across the world is increasingly under fire as skyrocketing costs, deteriorating quality of service and questionable tax practices stoke public anger.

In Australia this anger has been amplified as evidence of, poor care and nutrition, and inadequate staffing has emerged from a Royal Commission into Aged Care. These poor standards occur despite billions in government funding to for-profit providers.

“THIS RAISES SERIOUS QUESTIONS ABOUT THE COMPLEX TRUST AND CORPORATE STRUCTURES THAT SOME AGED CARE COMPANIES ARE UTILISING, AND HOW TAXPAYERS’ CONTRIBUTIONS TO THESE COMPANIES ARE BEING USED. IT AGAIN SHOWS WHY AGED CARE PROVIDERS MUST BE MADE ACCOUNTABLE FOR THE MILLIONS OF DOLLARS THEY RECEIVE IN GOVERNMENT SUBSIDIES, PARTICULARLY THOSE, SUCH AS THE COMPANIES HIGHLIGHTED IN THIS REPORT, MAKING SIGNIFICANT PROFITS.”

ANMF FEDERAL SECRETARY, ANNIE BUTLER

As a result of the campaign and exposing of tax practices, the public narrative is becoming less about more funding being the answer, to one of more qualified staffing and increased transparency and accountability.

FURTHER INFORMATION

EUROPEAN PUBLIC SERVICE UNION - REPORT

Six Reasons Why Tax Inspectors Want
Public Country-by-Country Reporting.

Accessible at: [https://www.epsu.org/
article/six-reasons-why-tax-inspectors-
want-public-country-country-reporting](https://www.epsu.org/article/six-reasons-why-tax-inspectors-want-public-country-country-reporting)



GLOBAL REPORTING INITIATIVE.

Consultation on a draft standard for taxes
and payments to governments.

Accessible at: [https://www.globalreporting.
org/information/news-and-press-center/
Pages/tax-transparency-investors.aspxv](https://www.globalreporting.org/information/news-and-press-center/Pages/tax-transparency-investors.aspxv)

TAX JUSTICE NETWORK

The Tax Justice Network's webpage on
this issue.

Accessible at: [https://www.taxjustice.net/
topics/corporate-tax/country-by-country/](https://www.taxjustice.net/topics/corporate-tax/country-by-country/)





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Public Services International is a global trade union federation representing 20 million working women and men who deliver vital public services in 163 countries. PSI champions human rights, advocates for social justice and promotes universal access to quality public services. PSI works with the United Nations system and in partnership with labour, civil society and other organisations.