PUBLIC SERVICES
INTERNATIONAL

The global union federation of workers in public services

BRIEF 4 ENGLISH

4

Fixing Corporate Tax

UNION DEMANDS

STRENGTHENING TAX AUTHORITIES

STRENGTHENING TAX AUTHORITIES

The rules for corporate taxation need to change to ensure that all corporations pay their fair share of tax, but corporations have proven repeatedly that having better tax rules alone will not ensure compliance: more resources for national tax authorities are needed for enforcement. Yet many tax administrations do not have the resources to be fully effective.

THE PROBLEM: UNDER-POWERED TAX AUTHORITIES COLLECT LESS REVENUE

KEY POINT:

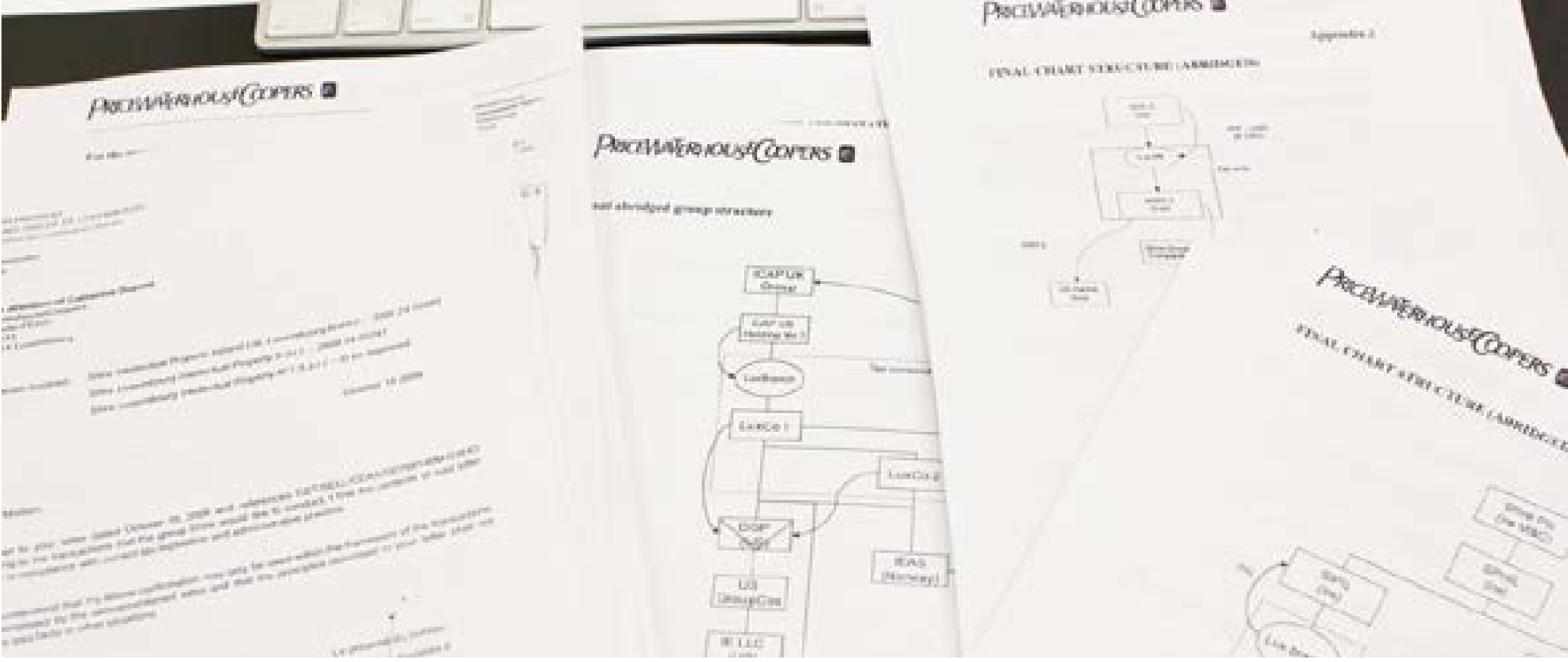
TRADE UNIONS SHOULD CALL ON GOVERNMENTS TO:

- PROVIDE MORE RESOURCES AND POLITICAL SUPPORT FOR THEIR NATIONAL TAX AUTHORITIES

The arrangements used by multinationals to avoid tax can be highly complex and a multinational which is challenged on the "transfer pricing" of transactions between its subsidiaries – which is often abused to shift profits into tax havens – can usually call on armies of well-paid lawyers and accountants to argue its case. Tax authorities rarely have the resources to effectively challenge multinationals' tax schemes, and the problem is typically all the worse in lower -income countries.

Tax authorities need expertise, resources and the political support of governments. Tax officials need their trade union rights to be protected and they need adequate training and whistle-blower protections which enable them to speak out if they need to.

Lack of resources also means tax authorities cannot give sufficient attention to all sources of revenue and will be slower and less efficient. This in turn affects the willingness of taxpayers to comply and may encourage the use of more aggressive tax avoidance schemes. A 2013 study by the European Public Services Union found that since the financial crisis, employment in tax offices had been cut in 24 out of the 28 EU member states, with the loss of 50,000 jobs. These cuts mean fewer audits of large companies and rich individuals - meanwhile for ordinary citizens, tax payment is increasingly automatically processed.



In the United States, the Internal Revenue Service has seen its staff budget cut by about 15 per cent since 2013. Such cuts to tax authorities have been part of a "light-touch" approach to taxing corporations and the wealthy in these countries which has also included huge tax cuts and a reluctance to use the full force of the law against tax abuse.

When tax authorities do not have the resources and political backing to go after the income and assets of wealthy corporations and the super-rich, the inevitable result is that these taxpayers will get away with paying less. Governments are left with less money to pay for public services and either have to cut these services or raise more money from taxes which are paid by the public. Either way, workers and their families lose out.

Where tax authorities have the data and the backing to do their work, the results can be dramatic. For years, the UK's tax authority was run down by successive governments. Public anger against tax dodging has led to a tougher and more focused approach: in 2018/19 some £560 million in tax was collected on British citizens' offshore income, nearly double the amount two years earlier.

The need for well-resourced tax authorities is particularly acute in developing countries which often raise less than 20 per cent of their Gross Domestic Product in tax revenue from all sources, compared to more than 30 per cent in most OECD countries. Developing countries are especially vulnerable to highly abusive transfer mis-pricing schemes which play on tax authorities' lack of capacity. The Mbeki High Level Panel on Illicit Financial Flows estimated the African continent loses up to $50billion per year – a large share of which is in the form of tax avoidance and evasion. It has been estimated that countries in Sub-Saharan Africa, for example, would need to add roughly 650,000 tax officials to reach average global staffing levels.

Hiring more staff is not enough in itself. Staff need to be motivated and fairly remunerated, so that they are not attracted by higher salaries on offer in the private sector. They need to enjoy their rights as workers and to have whistle-blower protections which enable them to hold their own agencies to account.

AFTER THE U.K. GOVERNMENT FIRED OVER 3000 TAX WORKERS, A PARLIAMENTARY COMMITTEE ESTIMATED THE LAYOFFS RESULTED IN £10 LOST TAX FOR EVERY £1 SAVED

Adding more resources and staff works. A recent study of mining taxation in Africa found that Tanzania's revenue authority had created an international taxation unit with ten staff which, at a staff cost of about US$130,000 a year, had raised about US$110 million since 2012 in a developing country where more revenue is desperately needed to pay for public services for citizens.

Tax authorities also need independence from politicians and the executive, who may be lobbied for lenient treatment by vested corporate interests, as well as strong internal controls against corruption.

Yet another factor exasperating the problem is the sheer power of major accounting firms. The Big Four – PWC, EY, KPMG and Deloitte - currently employ over 900,000 people: nearly twice the number of all tax department employees in every EU country combined. These firms often employ former tax officials and politicians, creating an unhealthy revolving door between business and politics.

A fair system for taxing multinational profits would be one that is relatively simple for tax officials to apply, particularly in poorer countries where expert staff are scarcer. The opposite is true at the moment because of the dominance of the "arm's length principle", which requires tax authorities to treat transactions between subsidiaries of the same multinational as if they were deals between independent companies in an open market.

The result is that if tax officials think a corporation has mis-priced these internal transactions in order to avoid tax, they must expend a great deal of time and effort to try and pin down the precise circumstances of the transaction. Yet the corporation itself controls the key information and can bring in armies of highly-paid lawyers and accountants to argue its case.

A much better and simpler approach would be for governments to admit that the arm's length principle simply does not work when applied to the huge and complex corporate structures of today and to tax multinationals instead as the single global firms that they really are (see Brief 1).

Whatever the tax rules in place, governments need to provide tax authorities with sufficient staff and resources to do their work because increasing the capacity of tax administrations can have a positive effect on revenues which is greater than its cost. In developing countries in particular, this will mean a large increase in the number of staff.

The UK union PCS estimates that each tax inspector dedicated to compliance brings in some £650,000 (€755,000) net of staff costs per year and a "special investigations unit" that fights the most complex tax avoidance cases has yielded 450 times its costs.

"DEVELOPING COUNTRIES RELY MORE ON CORPORATE TAX REVENUES BUT HAVE FEWER MATERIAL AND HUMAN RESOURCES TO GO AFTER TAX DODGERS"

BERNARD ADJEI
DEPUTY GENERAL SECRETARY
PUBLIC SERVICE WORKERS' UNION
GHANA

UNIONS TAKE ACTION

OUTSOURCING THE TAX OFFICE TO TAX DODGERS?

Tax Collection requires highly skilled, rigorously independent staff to ensure public revenue is collected and spent in the public interest. But the Australian Tax Office- the Government department charged with collecting tax - has outsourced many of its functions to Serco, Stellar and Outsourcing Inc, who together hold contracts with the ATO worth more than $250 million.

These companies are also engaged in some questionable financial practices. Australian Unions, including the Community and Public Sector Union (CPSU, a PSI affiliate), worked with the Center for International Corporate Tax Accountability and Research (CITCAR) to investigate these issues.

Serco, known for its immigrant detention and private prison business, is the largest provider of outsourced labour to the ATO, with contracts worth over $120 million. The CICTAR investigation highlighted how Serco's reputation is so questionable that even Appleby, the law firm at the centre of the Paradise Papers tax-scandal, considered them a "high-risk" client with a "history of problems, failures, fatal errors and overcharging."

Stellar Global, awarded over $50 million in ATO call-centre contracts, recently garnered controversy after declaring their European branch bankrupt, owing over $200,000 USD to the UK tax authority and avoiding redundancy payments for its workers. Less than a month beforehand, Stellar Europe made a payment of over $100,000 USD to its parent company - a shell entity in the British Virgin Islands.

The report generated high-level media coverage with CPSU General Secretary Nadine Flood telling the Guardian "the Australian community doesn't like outsourcing and privatisation at the best of times, let alone when lucrative ATO contracts are being given to companies whose own tax practices are under a cloud."

The CICTAR report made strong recommendations for policy makers including for full public disclosure of the ultimate parent company and/or all beneficial owners of any government contractor and full transparency for all public contracts. Many of these recommendations subsequently influenced key parts of the Australian Labor Party policy platform at the last election.

To read the full report "Exposing Corporate Webs"and to learn how CICTAR can help your corporate tax campaign, check out their website.

Tax authorities also need to be provided with the information they need to ensure that corporations and the super-wealthy do not exploit the tax-haven system to avoid or evade tax. This means ensuring that all countries can automatically access information about their citizens' assets in other countries ("Automatic Exchange of Information").

Tax authorities would also benefit greatly from wider transparency. Country-by-country reports on multinationals' tax practices should be made public (see Brief 1), as should making public the real owners of companies (see Brief 7).

By enabling the media, trade unions and civil society to scrutinise corporations and uncover problems, these measures would generate pressure on governments to provide more support to their tax authorities. Transparency is also necessary if the public is to have confidence in the fairness of the tax system, which at the moment is often impenetrably opaque. Democracy requires that all parties to the policy-making process have access to information about whether and how policy is working.

Many of the recent corporate tax avoidance scandals which have galvanised Governments into action have only come to light because of leaks and whistle-blowers. Governments should back an International Labour Organisation convention to protect whistle-blowers like Antoine Deltour and Raphael Halet, employees of the giant accounting firm PwC who revealed its complicity in industrial-scale tax avoidance and were put on trial as a result.

UNIONS TAKE ACTION

PRIVATISATION AND TAX DODGING – REVEALING THE LINKS

Corporations which profit from privatisation often end up dodging their taxes, exacerbating austerity and justifying further sell-offs. By highlighting these links, unions can build strong public opposition to both privatisation and tax dodging.

PSI runs workshops to develop the skills of union officials to dig deep into company accounts and corporate structures to detect wrong doing, tax dodging and help build their case in wage negotiations and against the privatisation agenda.

These workshops helped Ugandan activists reveal how Actis – a UK based private equity company – used a holding company in the tax haven of the Mauritius to funnel profits from Umeme – a privatized Ugandan electricity provider - offshore. After these revelations, the Ugandan Tax Authority confirmed it is "now following the case."

The research produced in these workshops has been compiled into a PSI report - Private Profits and the Public Purse - revealing how corporations engaged in privatisation, from the Caribbean to Switzerland, are engaged in questionable financial practices.

To learn more about Union Tax Journalism and how it could help your campaign, contact Finance Uncovered - a training organisation or get in touch with PSI Communications team to find out about upcoming workshop opportunities (communications@world-psi.org)

WHAT NEEDS TO HAPPEN

Trade unions should call on their governments to :

1. Ensure tax authorities are independent from all branches of government, and from other governmental agencies and bodies, as well as from economic and political influence.
2. Ensure tax authorities are adequately resourced, including staff and IT infrastructure and have a strong mandate and legal instruments to enforce tax laws and policies
3. Ensure tax authorities have well-trained, well-remunerated and motivated professional staff with supportive working conditions, who enjoy their human and trade union rights.
4. Work with other Governments under the auspices of the International Labour Organisation (ILO) to create an ILO Convention for the Protection of Whistle-blowers, which would provide adequate legal protection and physical security for those who report corporate wrongdoings.
5. Ensure that tax authorities have a mandate to maintain databases of all companies and trusts registered in their jurisdiction and their beneficial owners and hold records of their annual financial accounts.
6. Push for multinationals to be taxed as single global firms, using unitary taxation with formulary apportionment, simplifying tax administration and improving effectiveness.
7. Require multinationals under their jurisdiction to publish country-by-country reports of their finances and tax positions, so as to enable informed public scrutiny which provides legitimacy and political support for the work of tax authorities.
8. Act, where they can, to provide technical and financial support for building the capacity of the tax authorities of poorer countries and cooperate with them wherever possible. This support needs to be designed and led by the tax authorities which receive it, and all involved need to ensure there are no conflicts of interest.

FURTHER INFORMATION

EUROPEAN PUBLIC SERVICE UNION - REPORT
Impact of austerity on jobs in tax services and the fight against tax fraud and avoidance

CENTRE FOR INTERNATIONAL CORPORATE TAX ACCOUNTABILITY AND RESEARCH - REPORT
Tax practices of outsourced service and labour hire corporations in the Australian Taxation Office.

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PUBLIC SERVICES INTERNATIONAL

45 AVENUE VOLTAIRE, BP 9
01211 FERNEY-VOLTAIRE
CEDEX, FRANCE

TEL: +33 4 50 40 64 64
E-MAIL: PSI@WORLD-PSI.ORG

WWW.WORLD-PSI.ORG

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.