PUBLIC SERVICES INTERNATIONAL

The global union federation of workers in public services

FRIEDRICH EBERT STIFTUNG

BRIEF 1 ENGLISH

1

Fixing Corporate Tax

UNION DEMANDS

WHY CORPORATE TAXATION NEEDS DEEP REFORM

INTRODUCTION

Deep reform of international tax rules is needed to ensure that the corporate world and the very rich pays more tax to fund public services that workers and their fam-ilies depend on and reverse the massive inequalities in wealth and power that the current global economy creates. The se-crecy which enables the super-rich to hide wealth in tax havens needs to end.

Too many people are not aware of the scandalous amounts that our governments are allowing multi-national companies and the very wealthy to avoid. Vested interests spend a lot of money telling us that the is-sues are too complex for ordinary people to understand and that the rich will always find a way around the rules. In fact, the an-swers already exist.

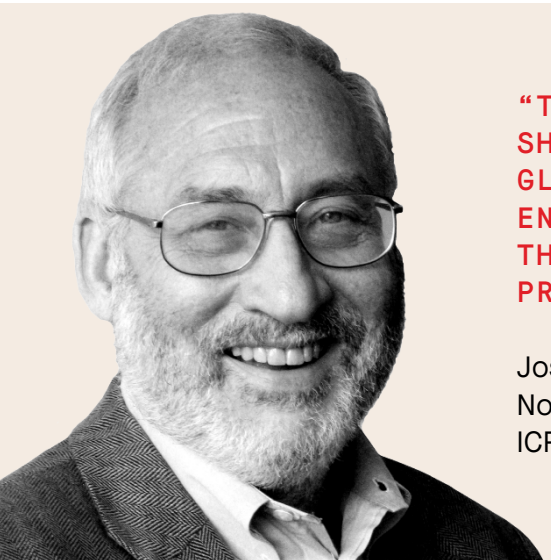
WHAT IS LACKING IS THE PO-LITICAL WILL.

Every time we expose the injustice, the people overwhelmingly support us and we make progress. Global unions are committed to working with the Tax Justice movement to keep on exposing the problems and for advocating for the answers.

These briefs outline the reforms to the international corporate tax system that the global labour movement thinks are most important and provides specific demands for trade unions to make to their governments for domestic, regional and global reform to fix these problems.

If your union would like to know more about how to campaign for tax justice, please contact Daniel Bertossa at PSI or Jason Ward at CICTAR:

daniel.bertossa@world-psi.org
jason.ward@cictar.org



"THE FIRST ELEMENT OF SOCIAL RESPONSIBILITY SHOULD BE PAYING YOUR FAIR SHARE OF TAX. INSTEAD, GLOBALIZATION HAS ENABLED MULTINATIONALS TO ENCOURAGE A RACE TO THE BOTTOM, THREATTENING THE REVENUES THAT GOVERNMENTS NEED TO FUNCTION PROPERLY."

Joseph Stiglitz
Nobel Prize-Winning Economist
ICRICT Commissioner

SUMMARY OF KEY DEMANDS

Throughout these briefs, a series of political demands have been included to help union leaders and members effectively engage in the tax debate. Here is an extracted selection of the 16v most important of these demands:

1. Tax multinationals as single global firms, based on a formula which gives due weight to the contribution of labour to the creation of corporate profits (see Briefing 2)
2. Adopt a minimum effective tax rate of at least 25 per cent, to prevent tax competition based on the factors used in the formula (see Briefing 3)
3. 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 (see Briefing 3)
4. Abolish all discretionary tax breaks and phase out tax breaks on profits, including tax holidays, "patent box" tax breaks, tax rulings that are really tax cuts in disguise and Special Purpose Entity regimes with low or no taxation (see Briefing 3)
5. Limit tax breaks which relieve genuine investment costs to essential cases, carefully scrutinised by legislators and reported in detail to the public (see Briefing 3)
6. Carefully review bilateral tax treaties and scrap clauses which abolish or unduly limit the rights of countries to tax corporate income (see Briefing 3).
7. Ensure that tax authorities are independent from all branches of government, and from other governmental agencies and bodies, as well as from influence from economic and political actors (see Briefing 4)
8. Ensure that tax authorities are adequately resourced in terms of staff and IT infrastructure and have a strong mandate and legal instruments to enforce tax laws and policies (see Briefing 4)

SUMMARY OF KEY DEMANDS (CONTINUED)

9. Ensure that tax authorities have well-trained, well-remunerated and motivated professional staff with supportive working conditions, who can enjoy their human and trade union rights (see Briefing 4)

10. 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 as well as physical security if needed for those who report corporate wrongdoings (see Briefing 4)

11. Ensure that the tax authority has 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 (see Briefing 5)

12. Adopt measures to deter financial flows into tax havens, such as higher withholding taxes, denying tax deductions for payments to related parties in tax havens and barring companies which use tax havens from bidding for public contracts (see Briefing 5).

13. Require all multinationals to publish country-by-country reports in line with global best-practice standards, in an open data format and reconciled to multinationals' global accounts (see Briefing 6).

14. Work with other governments to reform the OECD's Common Reporting Standard so that all jurisdictions which sign up to it automatically share tax information with other jurisdictions, with a five-year exemption for lower-income countries (see Briefing 7).

15. Require that individuals who are physically present in a jurisdiction for less than half a year do not get tax residency, and not sell residence rights to individuals in return for money or investments in a country (see Briefing 7).

16. Introduce a register of the ultimate beneficial ownership of companies, trusts and foundations in that jurisdiction, which is public, free to use, up to date and verified (see Briefing 8).

BRIEF ONE: WHY CORPORATE TAXATION NEEDS DEEP REFORM

THE PROBLEM:

AN OUTDATED SYSTEM OPEN TO ABUSE

For decades wages have stagnated, public services have been squeezed and inequality has risen as workers struggle to understand why the riches of globalisation seem to pass them by. Recent leaks and scandals have revealed a missing piece of the riddle: many multinational corporations are avoiding their fair share of tax, often helped by willing governments.

Corporations have drained many hundreds of billions of dollars into the world's tax havens. At the same time, governments compete to offer tax cuts and tax breaks to corporations. The results are bigger private profits and much less public money for essential services like schools, healthcare, public housing and transport, with more tax raised from workers and consumers instead. This constitutes a transfer from workers and the poor to the wealthiest corporations and people on the planet.

When a corporation is based in one country and does business in another, the question arises: where should its profits be taxed? Early in the last century, governments agreed to answer this question by treating different parts of a corporation as if they were independent entities, trading with each other in an open market: the so-called "arm's length principle".

That solution, designed for a simpler world, has long since broken down. Multinationals learned how to exploit the arm's length principle by using accounting tricks to shift profits out of the countries where they do business and into tax havens. These manoeuvres are designed to fall within the law, and they are defended by armies of corporate accountants and lawyers. Over-stretched tax authorities often struggle to successfully challenge them.

It is easy to spot evidence of the problem by opening the accounts of a multinational.

Its list of subsidiaries will usually include companies in the Netherlands or Luxembourg, in tiny islands in the Caribbean or the English Channel, or in the US state of Delaware. Few if any staff work at most of these subsidiaries, which exist largely on paper. Their purpose is to book profits which were really earned in other places, then pay little or no tax on them. This practice is so common that according to IMF researchers, as much of 40 percent of the world's foreign investment is actually "phantom" investment which is routed from one country to another via a tax haven.

This practice is estimated to cost anywhere up to US$650 billion a year in lost public revenues. Developing countries, which depend relatively more on corporate taxes than high-income countries, are particularly at risk. The advent of digital-era companies like the US tech giants, which do business in many countries while having little or no physical presence there to tax, has brought the flaws of the system to crisis point.

RACING TO THE BOTTOM

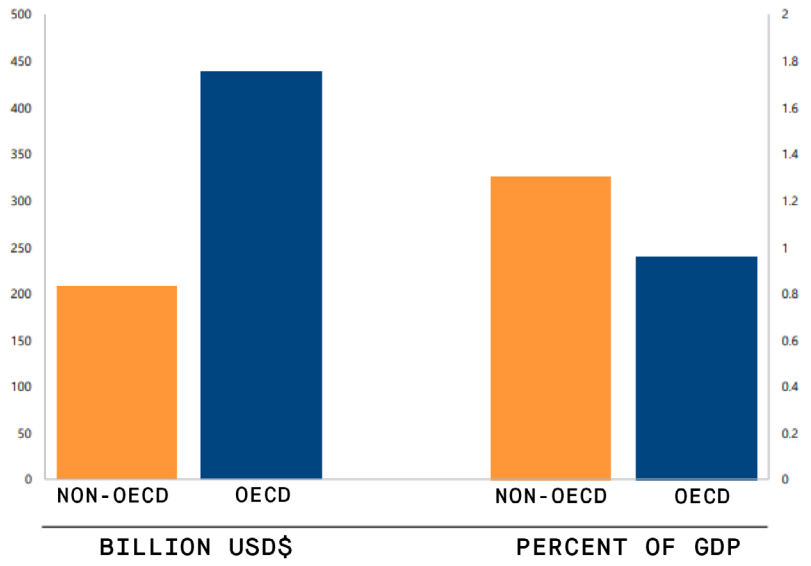
A giant and related problem is that countries compete against each other for international capital by offering tax breaks or cuts in tax rates. Whenever a country or territory offers a tax break to foreign investors, then some corporations will try to shift profits from somewhere else to take advantage of it. The result is a fool's game that costs revenue to all countries but does not increase the pool of investment and jobs.

The logic is the same as the "race to the bottom" on labour rights, pay and working conditions. The willingness of governments to lower standards, in the hope of luring investment from other countries, gives corporations an opportunity to play governments off against each other to get the best deal for themselves, at public expense.

Corporate tax cuts and "offshoring" of profits are part of a shift since the 1980s towards greater economic rewards for capital at the expense of labour. When profits are shifted offshore, the company can claim that less money is available for collective wage bargaining or to invest in creating new jobs. The same maze-like arrangements of companies in tax havens which help corporations to avoid tax also help them to evade accountability towards workers and consumers. By making private wealth hard to find and hard to reach, tax havens reinforce the power of bosses over labour.

IMF ESTIMATES COST OF TAX AVOIDANCE AS HIGH AS US$650 BILLION A YEAR

ESTIMATED REVENUE LOSSES FROM PROFIT SHIFTING, 2013



Progress to date

Corporate tax avoidance blossomed in the high noon of neoliberalism, between the end of the Cold War and the financial crisis that began in 2007. Although many countries have anti-tax haven rules, efforts to rein in the problem were largely ineffective, not least because some governments saw a light touch on tax avoidance as necessary to bring investment.

In some countries tax competition has actually got worse: The United States under President Trump, for example, has adopted reforms to deter tax avoidance by US corporations overseas while at the same time slashing the US corporate tax rate from 35 per cent to 21 per cent. This is creating a huge hole in the US public finances for which workers and their families will pay for years to come.

Since the financial crisis, public anger and campaigning by civil society groups and trade unions has slowly woken governments up to the reality that the status quo is not sustainable. Many governments are still trying to face both ways, however, by adopting measures against tax avoidance while cutting tax rates or offering new tax breaks.

WHY CORPORATE TAX REFORM MATTERS TO WORKERS:

- WHEN CORPORATIONS PAY LESS TAX ON THEIR PROFITS, WORKERS AND OTHER CITIZENS MUST PAY MORE, OR PUBLIC SERVICES LIKE SCHOOLS AND HOSPITALS SUFFER.
- LOW TAX RATES ENRICH THE WEALTHY PEOPLE WHO OWN MOST CORPORATE SHARES AND INCREASE THEIR POWER IN SOCIETY, WHICH UNDERMINES DEMOCRACY.
- THE STATUS QUO REFLECTS THE EXCESSIVE POWER OF CORPORATE LOBBYISTS OVER GOVERNMENT, AT THE EXPENSE OF LABOUR AND THE WIDER PUBLIC INTEREST.
- TAX HAVENS ENABLE CORPORATIONS TO SHIFT PROFITS OFFSHORE WHILE CLAIMING TO THEIR WORKERS ONSHORE THAT THEY CAN'T AFFORD WAGE INCREASES.

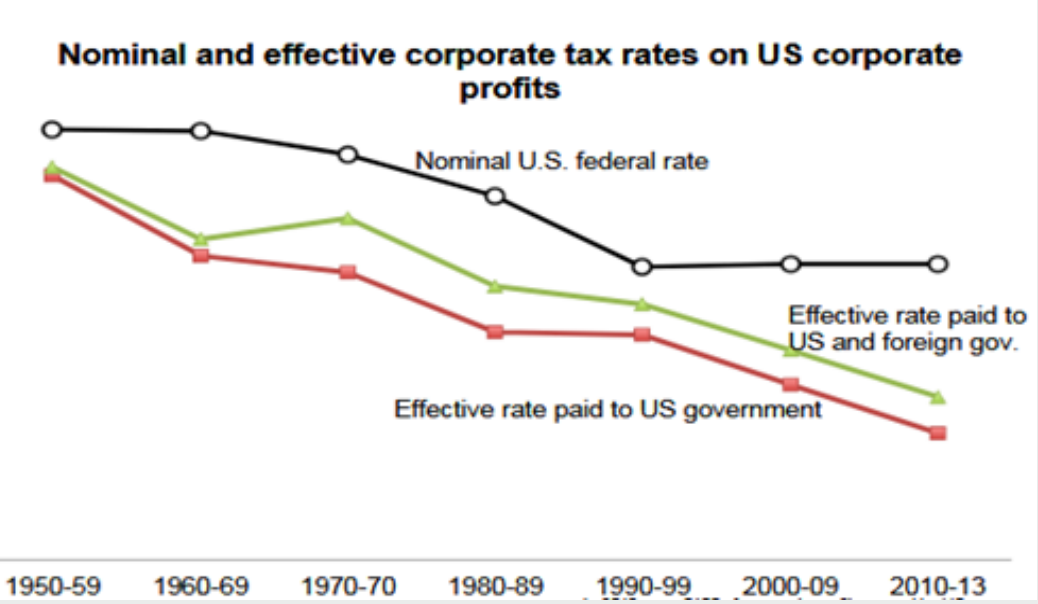
The Organisation for Economic Cooperation and Development (OECD) attempted in 2013 to tackle some of these problems. Its Base Erosion and Profit Shifting (BEPS) project, which finished in 2016, seems to have led some tax authorities to take a tougher line with low-taxed multinationals. However, BEPS did not get at the roots of the problem, which are the arm's length principle itself and the availability of low or no taxation on corporate profits.

Instead, BEPS laid hundreds of pages of new guidelines on top of the status quo. As a result, various countries started to introduce their own tax reforms aimed at digital multinationals like the giant US tech companies. Such taxes may raise extra revenue, but they only add to the unworkable complexity of international taxation without solving the underlying problems.

They have, however, prompted the United States and other key governments to agree that a bigger shakeup of international taxation is needed.

As of 2019, the OECD was hosting new negotiations (labelled "BEPS 2.0" by some) which at last recognises these fundamental problems. For the first time in years, there is a sense that deeper change might be possible. However, the lead role of the OECD is problematic because it is not a globally representative body but a club of mostly rich countries, each of which seeks to change the rules to benefit its own perceived national interest and the interest of its own companies. There is also quite a high risk that the solution will be a weak and short-lived compromise between the OECD's most powerful members.

THE RATE OF TAX PAID BY US CORPORATIONS HAS FALLEN BY A THIRD SINCE THE 1990S



Source: Gabriel Zucman, The Hidden Wealth of Nations, 2015

WHAT NEEDS TO HAPPEN

1. Multinationals must be taxed as single global entities, not as collections of separate companies, each taxed individually as if they were independent of each other
   - (see Briefing 1: Taxing multinationals as single global firms).
2. Governments need to phase out harmful tax breaks and stop slashing tax rates, so that all corporations are taxed highly enough to pay a fair contribution to society
   - (see Briefing 2: Curbing tax competition)
3. Tax authorities need the resources, the political backing and the information to curb corporate tax avoidance and stop the super-rich hiding wealth offshore
   - (see Briefing 3: Strengthening tax authorities and Briefing 6: Automatic exchange of information).
4. Governments must adopt robust measures to deter the use of tax havens by multinationals and the super-rich
   - (see Briefing 4: Curbing tax havens)
5. International taxation must be more open to public scrutiny so as to deter corporate tax avoidance and other abuses involving tax havens, such as corruption
   - (see Briefing 5: public country-by-country reporting for corporations; Briefing 7, Making public the beneficial owners of companies)

These demands are linked to each other. For example, all the other reforms depend on strong and independent tax authorities with access to the information they need. Public country-by-country reporting is needed so that journalists, workers and other citizens can see when multinationals are shifting profits into tax havens and can use the information to hold companies and governments to account. Without better public reporting of corporations' tax affairs, there is no way to know if other reforms are working or not.

Some of these reforms, such as taxing multinationals as single firms or curbing tax competition, need international cooperation which ultimately needs to be governed by a global body more democratic and inclusive of all countries than the OECD. The logical place to host this global body would be at the United Nations. Other solutions can be adopted unilaterally by governments, or groups of governments, and should be because there is no guarantee that effective multilateral solutions will be agreed soon. If some governments adopt unilateral reforms, this may prod others into agreeing deeper changes at the international level, just as the introduction of digital revenue taxes in some countries has opened the way for broader debate at the OECD.

After years of injustice in the taxation of corporate profits, an opportunity for deeper reform now exists. Trade unions can and should play a central role in demanding that all multinationals pay a fair share of tax on their profits, for the good of workers and society.

WHY GLOBAL TAX PROBLEMS REQUIRE GLOBAL GOVERNANCE

Some of the problems identified in these briefings can be addressed by governments at national or regional level but comprehensive and fair solutions need to be global, which requires global tax governance.

The dominant rule-making body in the world of international taxation is the OECD, a club of currently 36 countries which has taken on itself the role of negotiating and disseminating tax rules which are highly influential and sometimes incorporated into countries' domestic laws.

This role is very controversial because the OECD is dominated by the governments of rich countries, mostly in the West, and has a history of giving more weight to their concerns than to those of developing countries. For example, for many years the OECD was resistant to addressing the imbalances in taxing rights between the "residence" countries where multinationals are from and the "source" countries where they invest, which tended to limit the rights of developing countries and incentivise the use of tax havens by corporations.

The OECD takes its mandate for this role, not from a truly global organisation with a basis in international law like the United Nations, but from the Group of 20 countries which includes the world's largest economies but excludes nearly 200 other countries.

Centre for International Corporate Tax Accountability and Research

CICTAR: LEADING GLOBAL TAX RESEARCH

While corporations have the resources to invest heavily in understanding and lobbying around tax matters, trade unions, civil society, workers and the community often do not. That is why a coalition of unions, NGOs and public interest groups formed the Centre for International Corporate Tax Accountability and Research: a centralised global resource providing information about the practical effects of corporate tax policy and behaviour.

The Centre enables unions and campaigning organisations to understand the tax practices of the corporations which affect them. CICTAR's research has been used to engage the main stream media, support wage claims and effectively lobby politicians on tax matters. CICTAR's work across the globe has already helped expose hundreds of millions of dollars in dodged taxes, sparked dozens of news stories, spurned an Australian senate inquiry on outsourcing and helped end a 700 day long collective bargaining dispute.

If you think your corporate campaign could benefit from a tax angle or your tax campaign needs corporate examples, contact: jason.ward@cictar.org

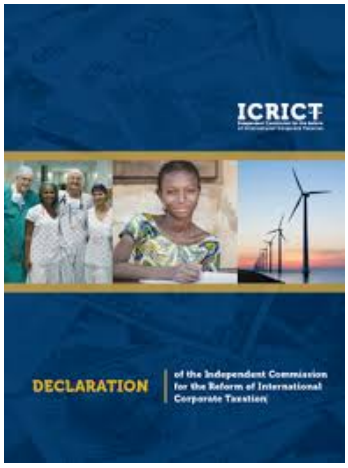
In response to such criticism, the OECD has created an Inclusive Forum in which the governments of non-OECD countries can present tax reform proposals and argue their positions. This forum is very recent and it remains to be seen how much influence non-OECD countries can actually wield. The OECD's "BEPS 2.0" reform project, set to conclude in 2020, has been working to such a tight timetable that there is quite a high risk of the interests of smaller and poorer countries taking second place to behind-the-scenes deals between the biggest countries.

There needs to be a global convention to set international tax norms which is negotiated and administered by a global body inclusive of all countries on an equal basis. The logical place for such a body would be the United Nations. Currently, the UN has only a small technical committee which has been deliberately marginalised by OECD member states which prefer the OECD, over which they have much more influence, to take the lead.

A global tax convention and tax body could not magically solve all the problems of international taxation, because there are different and sometimes conflicting national interests at stake. However, these would have more legitimacy than the OECD and would provide smaller and less powerful countries with a better chance to take part in decisions.

FURTHER INFORMATION

THE INDEPENDENT COMMISSION FOR THE REFORM OF INTERNATIONAL CORPORATE TAXATION (ICRICT)



Tax policy affects everyone. But workers and citizens are all too often excluded from the important debates, leaving larger corporations, big accounting firms and tax lawyers to write the rules in their interests.

Responding to widespread anger on corporate tax avoidance, ICRICT brings together economists, academics and politicians with global reputations to provide credible alternatives to fix the global tax rules in the public interest - not corporate interest. Chaired by former UN Under-Secretary General José Antonio Ocampo, its commissioners include Thomas Piketty, Jayati Ghosh and Nobel-Prize-Winning Economist Joseph Stiglitz.

PSI is proud to be a founding member of ICRICT. If you want to know more about how to fix the broken tax rules, visit their website: www.icrict.com

THE INTERNATIONAL CENTRE FOR TRADE UNION RIGHTS – JOURNAL

Want to know more about how tax affects workers?In 2018 PSI guest-edited the ICTUR Journal for a special feature on Tax Justice for Workers.

The issue outlines why tax matters to workers, providing a series of strong examples from around the world showing how unions have linked wage justice and workers rights to the fight for tax justice.

Check out the full issue here: psishort.link/ictur

THE GLOBAL ALLIANCE FOR TAX JUSTICE

GATJ is an international movement of civil society groups and trade unions , united in campaigning for greater transparency, democratic oversight and redistribution of wealth in national and global tax systems.

Website: www.globaltaxjustice.org

THE TAX JUSTICE NETWORK

Tax Justice Network (TJN) is an independent international network focused on research, analysis and advocacy in the area of international tax and financial regulation, including the role of tax havens. Their website provides new research and regular news on the fight for Tax Justice, tailored for use by civil society.

Website: www.taxjustice.net

THIS PUBLICATION WAS MADE POSSIBLE
THANKS TO THE GENEROUS SUPPORT OF
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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.

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PUBLIC SERVICES INTERNATIONAL
The global union federation of workers in public services
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BRIEF 2 ENGLISH

2

Fixing Corporate Tax

UNION DEMANDS | UNITARY TAX

TAXING MULTINATIONALS AS SINGLE GLOBAL FIRMS

UNITARY TAXATION

TAXING MULTINATIONALS AS SINGLE GLOBAL FIRMS

KEY POINTS:

TRADE UNIONS SHOULD CALL ON GOVERNMENTS TO:

- START TAXING MULTINATIONALS BASED ON THEIR GLOBAL PROFITS
- WORK WITH OTHER GOVERNMENTS TO MAKE UNITARY TAXATION WITH FORMULARY APPORTIONMENT A REGIONAL AND THEN A GLOBAL STANDARD

The root of many of the problems with corporate taxation is that multinational corporations are not taxed as single global entities, but as collections of subsidiaries trading with each other as if they were separate companies. While no one genuinely believes that subsidiaries of multinationals can act independently of each other, that is how they are treated for tax purposes. The reasons for this go back to arcane international debates nearly a hundred years ago, when multinationals were smaller and far fewer in number than they are now.

THE PROBLEM: MULTINATIONALS PLAYING A FRAGMENTED TAX SYSTEM

More than a third of world trade is estimated to take place within multinationals. The "arm's length principle", which is the cornerstone of corporate taxation, requires that these trades are priced as if they were transactions between independent companies in an open market.

In reality, the arm's length principle is nonsense. Multinationals have a high degree of control over their subsidiaries, which would never exist in an open market, and many transactions nowadays involve intangible assets like software or brands which are very hard to value anyway. The result is that multinationals can manipulate their internal transactions so that the profits end up in tax havens, not in countries where they actually do business.

Multinationals have shifted huge amounts of profit offshore by placing capital or intellectual property in offshore tax havens or, increasingly, in countries which offer special low-tax regimes for foreign capital. The tax-haven companies then charge their fellow-subsidiaries to use these assets. The latter can deduct these charges from their own profits, thus slashing their tax bills, while the money ends up in the tax havens. These practices are so endemic that tax havens are hard-wired into the global structures of many corporations.

Thousands of pages of rules and guidelines have been written to try and make the fiction of the arm's length principle appear to match reality, while industries of well-paid tax experts advise corporations on how to exploit the principle to avoid tax. Yet the growing dominance of the digital giants – creating and selling their products via cyberspace and paying minimal tax in many countries – is making it even clearer that the arm's-length principle is broken.

PROGRESS TO DATE

A round of reforms led by the Organisation for Economic Cooperation and Development (OECD) between 2013 and 2016 were supposed to make it harder for multinationals to book profits in tax havens where they have little or no genuine business. These reforms were known as Base Erosion and Profit Shifting (BEPS) – a technical term for tax avoidance. Although BEPS may have had some effect on multinationals using tax havens, there is no evidence to suggest the reforms have come close to solving the huge global problem of tax avoidance.

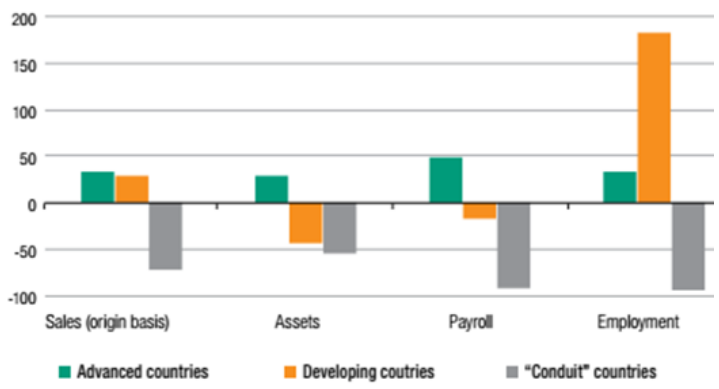
OECD member states and other countries are now working on another round of reforms aimed at the problems of taxing digital companies, which were not addressed in BEPS. Recognition has crept into the debate that the arm's length principle does not work in an online business world where companies may have no physical presence at all in the countries where they sell their services. Some countries are moving ahead despite the OECD process, and are introducing their own, ad-hoc taxes on revenues.

FORMULARY APPORTIONMENT

The solution is for governments to tax multinationals as what they really are: single global firms. This is called unitary taxation and it is one of the options being considered by the OECD, though only in a very limited form which is tacked onto the status quo rather than replacing it. The way it would work in practice is by "formulary apportionment": this means that the multinational's profits would be divided up for taxing purposes between the different countries where it does business, based on a formula which considers where the company has its sales, where its employees are and what physical assets and resources it uses. Each country would then tax its allotted portion of the multinational's profits.

The advantage of unitary taxation is that transactions within multinationals – which are often manipulated to steer profits into tax havens – would no longer matter because the multinational would be taxed on its global profits, wherever those profits are. The importance of formulary apportionment is that unlike intangible assets such as capital or software, a company's employees, customers and physical assets cannot be easily moved into tax havens in order to game the tax rules.

FORMULARY APPORTIONMENT OF US CORPORATIONS WOULD MEAN LESS PROFITS BOOKED IN "CONDUIT" TAX HAVENS AND MORE IN OTHER COUNTRIES.



Source: IMF

At the same time, the choice of formula could have large effects on different countries. For example, a formula which gives a heavy weight to labour costs would be more beneficial than one based on sales for developing countries where goods are produced for export, but which are not themselves big consumer markets. This is why it is important that global debates on changing the tax system are held in forums where all countries, including developing countries, also have a voice. This was not the case with BEPS. The current negotiations do give a place to developing countries but the OECD's claim to be truly inclusive will depend on the extent to which their concerns are taken into account.

Unitary taxation with formulary apportionment would not stop countries from competing against each other for investment. Governments could still try to lure multinationals to move staff or physical assets into a country by offering lower taxes on the portion of profits allocated to that country. At the very least, this would mean that tax incentives would be based on the transfer of actual jobs and investment and not just on transfers on paper, but the current problem of countries undercutting each other's tax revenues would continue. To deal with this problem, all countries would also need to adopt a minimum effective rate of corporate income tax which PSI, EPSU and the European Trade Union Confederation believe should be 25 percent.

WHY UNITARY TAXATION MATTERS TO WORKERS

- TAXING MULTINATIONALS AS SINGLE GLOBAL ENTITIES, RATHER THAN AS COLLECTIONS OF SEPARATE FIRMS, WOULD STOP THEM USING INTERNAL TRANSACTIONS TO MOVE PROFITS INTO TAX HAVENS AT THE COST OF THE PUBLIC REVENUES AND PUBLIC SERVICES.

- THE STATUS QUO MAKES IT EASIER FOR CORPORATE MANAGERS TO SHIFT PROFITS INTO TAX HAVENS, THEN CLAIM TO WORKERS THAT MONEY IS NOT AVAILABLE FOR PAY RISES.

- A GLOBAL SYSTEM BASED ON UNITARY TAXATION WOULD BE FAIRER, SIMPLER TO ADMINISTER AND WOULD BE LIKELY TO RAISE MORE REVENUES.

- UNITARY TAXATION IS BETTER ABLE THAN THE STATUS QUO TO REFLECT THE CONTRIBUTION OF LABOUR TO CORPORATE PROFITS.

Unitary taxation requires cooperation and agreement between the different countries where the multinational does business. The European Union has taken some steps in this direction through its plans for so-called Common Consolidated Corporate Tax Base (CCCTB). As the name suggests, the aim is to create a single Europe-wide tax base for corporations, on which they can be taxed in a unitary fashion.

However, at the time this briefing was written, the CCCTB plan was generally seen to have stalled because of opposition from lower-tax countries within the EU which would find it harder to undercut their neighbours.

WHAT NEEDS TO BE DONE?

Trade unions should call on their governments to:

1. **Tax multinationals as single global firms, based on a formula which gives due weight to the contribution of labour to the creation of corporate profits.**
2. **Underpin unitary taxation with a minimum effective tax rate of at least 25 per cent, to prevent tax competition based on the factors used in**

A shift to unitary taxation will take time, but there are interim steps that governments can take. Public country-by-country reporting, by which multinationals would disclose their profits and tax payments and other key financial data for each country where they operate, would make it easier to apply a unitary approach.

Governments could also make more use of two methods of transfer pricing assessment which, although part of the OECD's status-quo approach, move in the direction of unitary taxation by considering a multinational's global profits. These are the profit-split method and the shared net margin method. Another approach would be to use formulary apportionment in an alternative minimum corporate tax (see Technical Summary).

Given the need for international cooperation, and the OECD's reluctance to push for deeper reform, governments should work for a global tax convention against tax avoidance and tax competition, overseen by a global tax body at the United Nations which is the only international institution with enough legitimacy among all countries to take on the task. Such a global body is needed to ensure an equal voice for low- and middle-income countries outside the OECD to ensure that their interests are taken into account.

25%

THE MINIMUM EFFECTIVE GLOBAL RATE OF CORPORATE INCOME TAX, SUPPORTED BY PSI

TECHNICAL SUMMARY

Governments should support the adoption of formulary apportionment, with the widest possible application. Countries in the European Union should agree to a Common Consolidated Corporate Tax Base (CCCTB), along the lines proposed by the European Parliament and include the digital presence of a company and the gradual lowering of the threshold at which the CCCTB applies, until it covers all companies trading across borders.

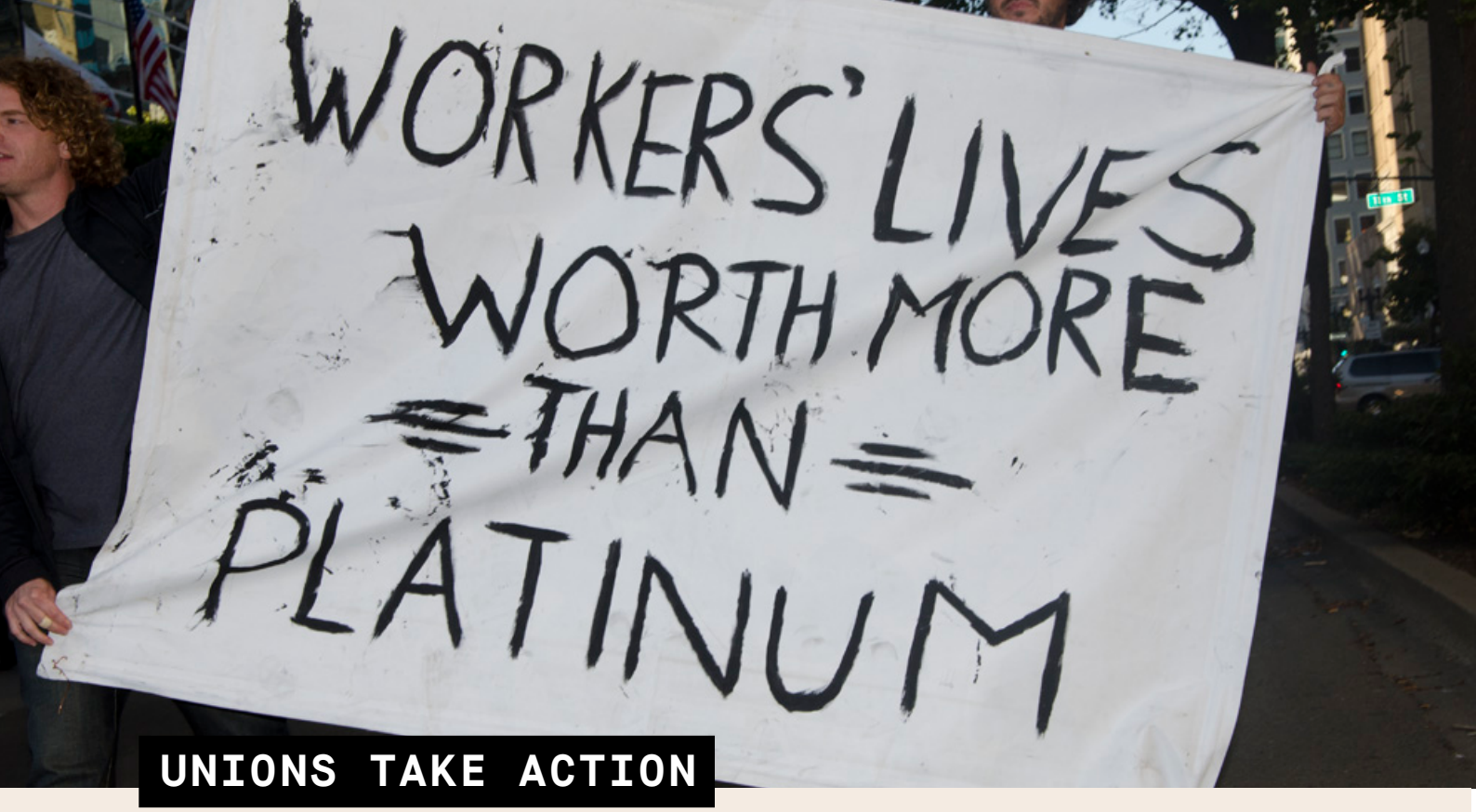
Other regional bodies, such as the African Union, should consider introducing a regional CCCTB in line with that being developed in the EU with formulary apportionment based on sales, numbers of employees, physical assets and resources used.

In the longer term, unitary taxation with formulary apportionment will need to be embodied in a global convention as the OECD only has 36 member states and is not equally representative of all countries in the world.

Regions and individual countries should also consider intermediate steps towards unitary taxation, including for example:

- Requiring public country-by-country reporting by multinationals under their jurisdiction, which would provide much greater clarity about where profits are booked and where the tangible factors which contribute to them are located.
- Making more use of the profit-split and shared net margin methods for transfer pricing, both of which are OECD-approved methods, but which calculate the local taxable income of a multinational with reference to its global profits.
- Introducing an alternative minimum corporate tax, calculated as a country's share of a corporation's global profits based on a formula, which would act as a backstop to existing corporate taxes.

To establish unitary taxation with formulary apportionment as a global norm, a global tax convention should be created, which also establishes a minimum effective corporate tax rate of at least 25 per cent, and which is supported by a well-resourced global body at the United Nations with a mandate to curb tax competition, promote tax cooperation and make sure that the concerns of poorer countries are given the same weight as those of richer ones.



UNIONS TAKE ACTION

SOUTH AFRICA: TAX DODGING DRIVES DOWN WAGES – AND KILLS

At the Marikana Mine in South Africa, workers were told by their employer, Lonmin, that their demands for a wage increase were outrageous. In a widely reported tragedy during a strike over wages, more than 30 miners were brutally killed in 2012.

But in 2014, the Marikana Commission of Inquiry (MCI) gave researchers access to the financial statements of Lonmin's subsidiaries in South Africa. One question was, if the striking workers' demands were, in fact, affordable for the company (which refused to negotiate).

The confidential financial statements showed that Lomin's South African Subsidiary transferred an average $16 million in 'sales commission' to a letter box company in Bermuda each year. But there was no one in Bermuda selling anything. The company receiving these millions had the exact same address as Appleby Services – the lawfirm at the heart of the Paradise Papers. If the money sent to Bermuda were divided by 4000, the number of striking workers, this alone covered a wage increase of about 100 percent.

The books also revealed how more than USD$10 million per year was spent on 'management fees'. This helped to pay huge salaries to forty managers. From 2010-2012, they also received share based bonuses, costing USD$6.5 million per year.

Profit shifting is a key issue for public sector workers – who rely on government revenue to pay their wages. But it is also a huge issue for private sector workers – such as the striking miners – as it obscures the real profits of a company and undermines their case in wage negotiations.

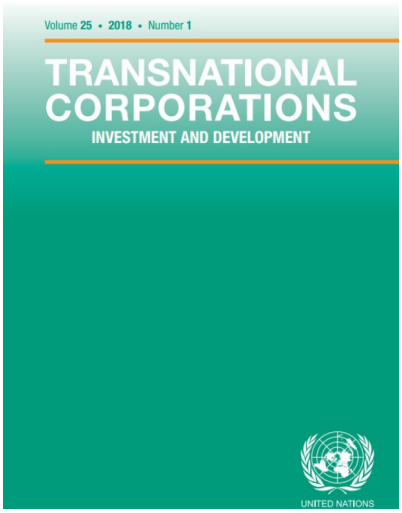
The Lonmin striking workers were told that their demands were outrageous. When the books of all Lonmin's companies were opened, this was revealed as untrue. Public and private sector unions must step forward. The space for higher wages for all workers is huge.

FURTHER INFORMATION

THE INTERNATIONAL COMMISSION FOR THE REFORM OF CORPORATE TAXATION (ICRICT)

A road-map to improve rules for taxing multinationals.

Accessible at www.icrict.com



UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT - REPORT

Sharing the corporate tax base: equitable taxing of multinationals and the choice of formulary apportionment.

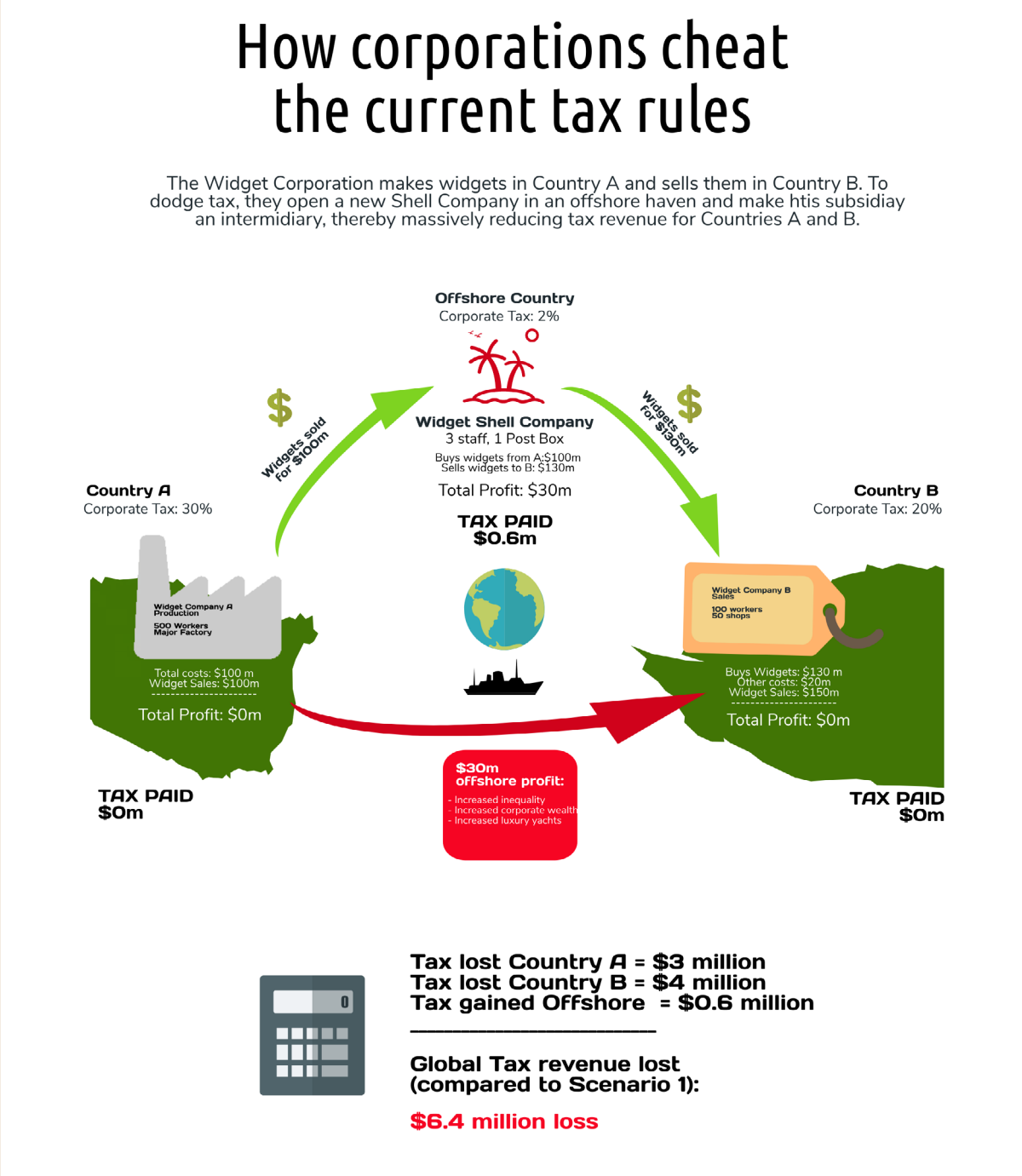
By Tommaso Faccio and Valpy Fitzgerald

Accessible at https://unctad.org/en/Publication-Chapters/diae2018d4a5.pdf

APPENDIX - INFOGRAPHICS

THE FOLLOWING INFOGRAPHICS ARE DESIGNED TO GIVE A SIMPLE OVERVIEW OF HOW NEW GLOBAL TAX RULES, INCLUDING UNITARY TAXATION, WOULD BENEFIT BOTH PRODUCING AND CONSUMING NATIONS, COMPARED WITH THE CURRENT GLOBAL TAX REGIME.

For reasons of simplicity this example uses transfer mispricing (the manipulation of prices paid for goods and services between related parties) as the means of shifting profits to tax havens. In the modern economy the methods more likely to be used involve placing intangibles in the tax haven such as intellectual property, debt finance or risk. The company would then charge itself for these services to shift the profits to the tax haven.



How Unitary Taxation would allocate $30m global profits from "the Widget Corporation"

Unitary Taxation allocates taxing rights to where economic activity takes place.
This requires a formula based-on key business and production factors:

	Production Country A	Sales Country B	No real activity Offshore
Employees	500 (83%)	100 (16%)	3 (0.5%)
Fixed Assets	$100m (50%)	$100m (50%)	$0 (0%)
Sales	$0 (0%)	$150m (100%)	$0 (0%)
Proft allocation (simple average of production factors)	44.3%	55.3%	0.2%
Profit allocation from $30m:	$13.29m	$16.59m	$0.6m
Country tax-rate:	30%	20%	2%
Tax collected by country:	$4m	$3.3m	$0.0012m

Total Global Tax paid by The Widget Corporation:
$7.3 million

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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

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BRIEF 3 ENGLISH

3

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.

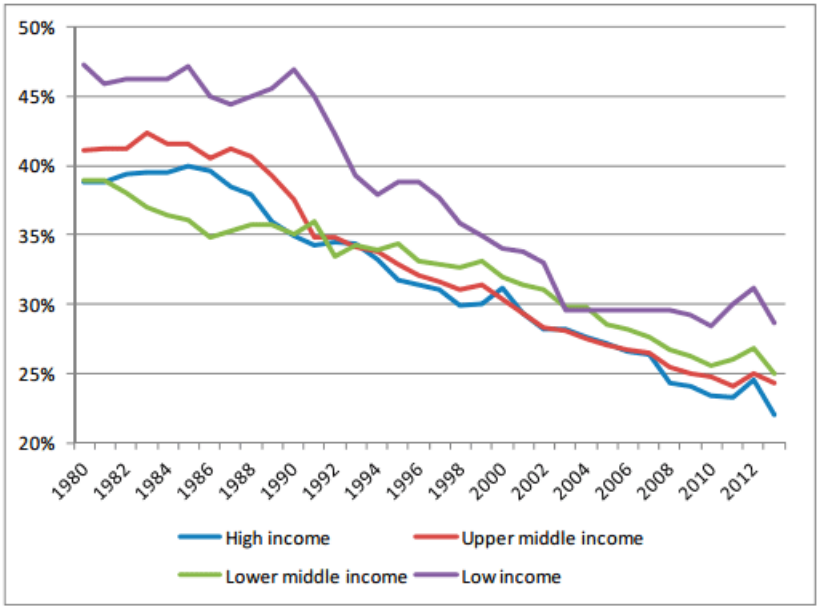
Because they are often complex and opaque, tax breaks are vulnerable to corruption and the capture of politics by corporate lobbyists. Since tax breaks are often designed to attract foreign investment, they can result in large foreign companies being given more favourable tax treatment than local small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

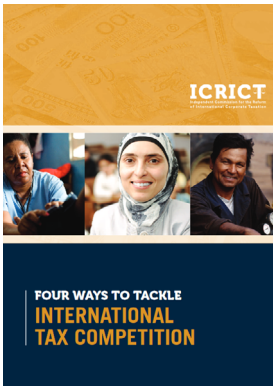
Recent opinion polls show a drop in popular support from 50% to 30% to the proposal. It has succeeded in delaying the government's plan for 18 months. Parliament has invited campaign leaders to discuss the issue three times. They have also lobbied the Ministry of Finance – forcing important amendments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

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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:

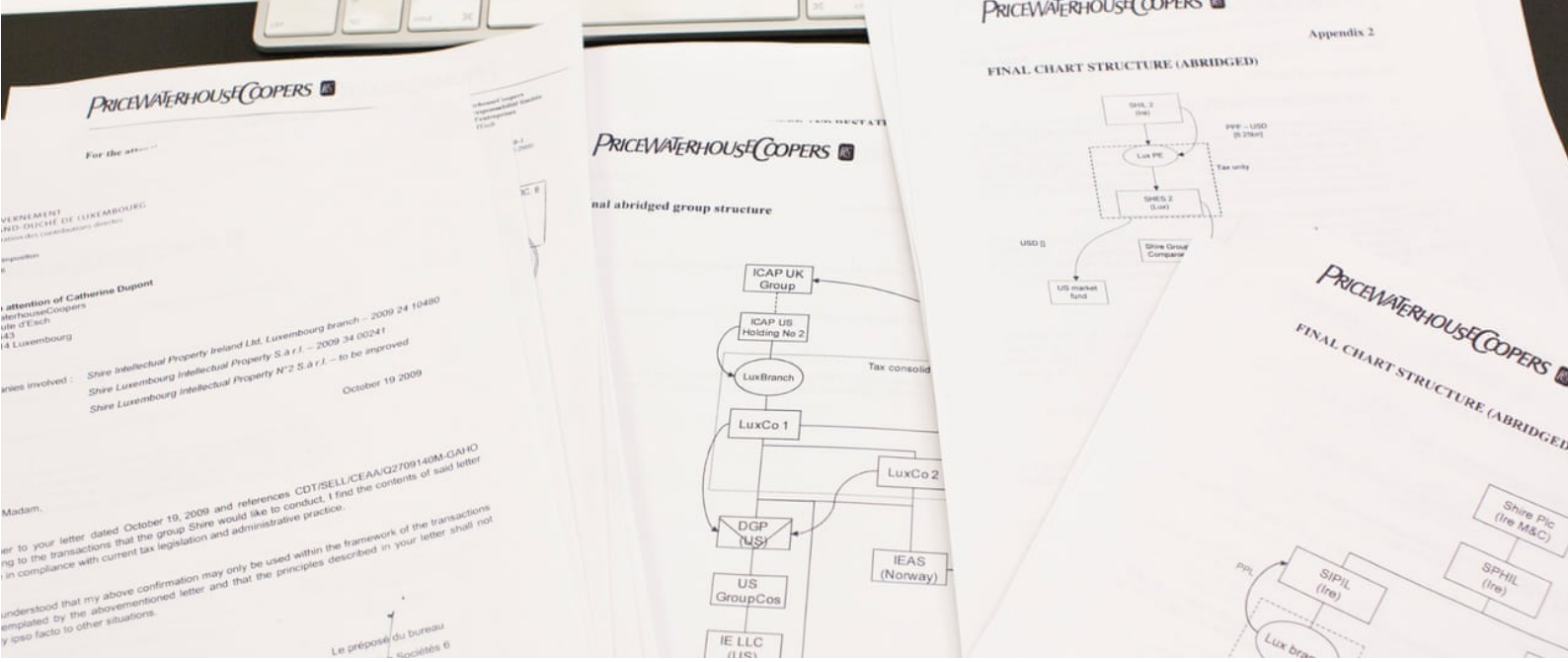
TRADE UNIONS SHOULD CALL ON GOVERNMENTS TO:

- 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

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BRIEF 5 ENGLISH

5

Fixing Corporate Tax

UNION DEMANDS CURBING THE USE OF TAX HAVENS

CURBING THE USE OF TAX HAVENS

Corporations and wealthy people shift billions of dollars into tax havens, avoiding or evading tax and reducing public revenue available to spend on schools, hospitals and public services needed by workers and their families. Tax havens increase inequality, drive down private sector wages and make it harder for trade unions to hold corporations to account. It has been estimated that tax havens hold eight per cent of the global private wealth of households, a sum equivalent to ten per cent of the world's economic activity.

THE PROBLEM: OFFSHORE HIDEAWAYS FOR WEALTH

KEY POINT:

TRADE UNIONS SHOULD CALL ON GOVERNMENTS TO:

- IMPOSE HIGHER WITHHOLDING TAXES ON ALL PAYMENTS TO TAX HAVENS
- SUPPORT GLOBAL EFFORTS TO END TAX HAVENS

US corporations, which include some of the most egregious tax avoiders in the corporate world, are estimated to have booked more than half their foreign profits in tax havens.[1]

Some tax havens offer near-total financial secrecy which enables the super-rich to keep their wealth off the books and out of sight. Tax-haven secrecy is also integral to a lot of corruption and organised crime and enables the offshore rich to evade their responsibilities and use their wealth to interfere in democratic politics.

The existence of tax havens poses a basic challenge to the fairness of the tax system, because it enables corporations and the super-rich to wriggle out of paying tax, at the expense of others. The result is that workers and other citizens must pay more tax, if vital public services are to be funded.

The secrecy of the tax-haven system poses a threat to democracy itself, because of the role that "dark money" can play in influencing politics and elections. For example, the Paradise Papers helped reveal how far-right billionaire Robert Mercer used the tax-haven of Bermuda to bolster a multi-million dollar war-chest to influence the US election in Donald Trump's Favour.

1 *Gabriel Zucman. The hidden wealth of nations. The scourge of tax havens. Slide presentation, 2015.*

HOW TAX HAVENS WORK

A tax haven can be a country, a territory or a state within a country. There is no single universally accepted definition of a tax haven but their common features include a low or zero tax rate on income from abroad, little or no requirement for genuine economic activity to take place in the tax haven in return for accessing its tax regime and often, almost impenetrable secrecy. For example, companies in many tax havens do not have to publish their accounts or identify who their owners are.

Tax havens come in different shapes and sizes. Money and assets collect in "sink" tax havens, often tiny island territories like the British Virgin Islands (BVI) and Cayman Islands. The wealth is only there on paper and secrecy helps much of it to disappear from public view. Although the media often focuses on these tropical island tax havens, they are in reality only points in a vast global network for moving money from onshore to offshore which also includes the world's financial centres. The concept of offshore finance, at its heart, is all about "moving" elements of a business operation - either physically, legally or artificially, to a differet jurisdiction to avoid the taxes, regulations and responsibilites of the host country.

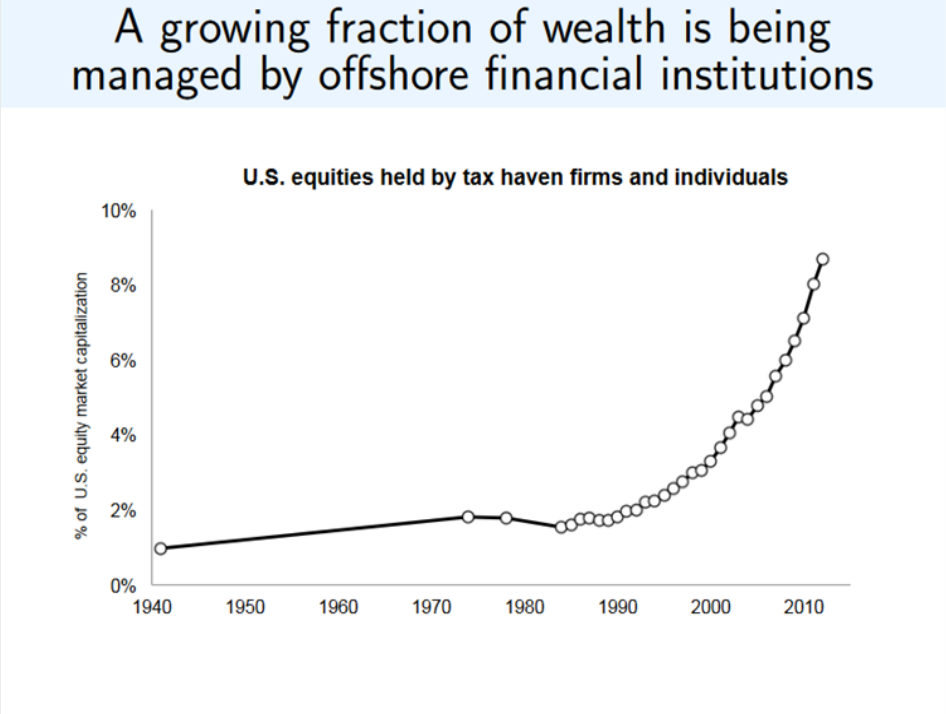
Conduit" tax havens, which channel money from "sink" tax havens into third countries, are often small countries which charge tax on companies in their domestic markets while offering an array of tax breaks for corporate income flowing through to other places. The biggest of these "conduit" tax havens for multinationals is the Netherlands, with Ireland, Switzerland, Luxembourg and Singapore and other places playing similar roles. Certain US states (notably Delaware) act as tax havens within the United States. IMF researchers have recently concluded that nearly 40 per cent of foreign direct investment around the world is actually "phantom" investment which has been routed from one country to another via these tax havens .

The United Kingdom, which pioneered the creation of the offshore system, is in a class of its own. The offshore tax havens of its Crown Dependencies (including Jersey) and Overseas Territories (including the BVI, Cayman Islands and Bermuda) act as satellites of the City of London, the UK's global financial centre, which uses them to move money and assets around. The Tax Justice Network considers the UK to be the world's greatest enabler of corporate tax avoidance.

With a few partial exceptions such as Switzerland, being a tax haven does not create many jobs because the real work of manufacturing or selling or providing services is done elsewhere. The main beneficiaries of tax havens – corporations and the super-rich – are barely in these places at all. Subsidiaries in tax havens may have a handful of staff, to comply with local rules on "economic substance", but often they exist only on paper.

There is an increasing body of evidence that the net effect of the tax-haven business model, even in countries like Ireland and Switzerland, can be to harm such countries by distorting their economies and their politics. Financial Journalist Nick Shaxson, in his book The Finance Curse, describes how "Ireland's economic growth... shows no correlation – no correlation at all – to it's long history as a tax haven."

TAX HAVENS: A BOOMING BUSINESS



Multinationals can use accounting tricks to move their profits into tax havens, reducing their tax bills in the countries where they really earn their profits (see Briefing 1: Taxing multinationals as single firms). These kinds of transactions are usually opaque, because multinationals are not required to disclose much information about them, but they are not actually hidden. For example, multinationals are commonly required to list their subsidiaries, including those in tax havens, but not the amount of profit reported in each (see Briefing 5: public country-by-country reporting).

Many countries have anti-tax haven rules which are meant to counter these kinds of transactions but they are often hard to administer because the national tax authority typically has limited resources and must challenge each transaction, often based on complex interpretations of tax rules, in the face of armies of highly-paid lawyers and accountants who work for multinationals (see Briefing 3: Strengthening tax authorities).

Big tax cases can take years to resolve and can end up in court if the multinational decides to fight. These difficulties have combined with a common attitude among many governments (at least until recently) that attracting corporate business is more important than cracking down on tax avoidance, with the result that the problem has flourished.

Secrecy is vital for the other main use of tax havens: as a hideaway for corrupt funds, the proceeds of organised crime and the evasion of tax by the super-rich, as revealed in such media exposes as the Panama Papers. Anonymous companies (whose ultimate owners do not have to be made public) are a standard component of large-scale corruption schemes: they have been used by corrupt officials to hide their ill-gotten gains and by certain corporations to hide the payment of bribes.

Corporate bribery is always bad for workers, even when it secures contracts, because it puts public officials in the service of private vested interests, rather than the public, because it undermines the legal system, and because corporations will try to recover the cost of the bribe by charging more highly for their services.

WHY CURBING TAX HAVENS MATTERS TO WORKERS

- CORPORATIONS AND THE SUPER-RICH USE TAX HAVENS TO AVOID THEIR DUTY TO PAY TAX, DEPRIVING COUNTRIES OF REVENUES WHICH ARE NEEDED FOR PUBLIC SERVICES USED BY WORKERS AND THEIR FAMILIES.

- TAX HAVENS MAKE THE TAX SYSTEM UNFAIR AND THEIR SECRECY ENCOURAGES CORRUPTION AND ORGANISED CRIME BECAUSE THE PROCEEDS CAN BE HIDDEN.

- CORPORATIONS SHIFT PROFITS TO TAX HAVENS AND CAN THEN CLAIM TO WORKERS THAT THERE IS NO MONEY TO MEET WAGE DEMANDS.

PROGRESS TO DATE

The problem of tax havens has been growing for decades. An attempt by the Organisation for Economic Cooperation and Development (OECD) after 1998 to curb the problem was rendered largely ineffective by opposition from the United States.

The latest attempt by the OECD, during the so-called Base Erosion and Profit Shifting (BEPS) project from 2013 to 2016, may have had some effect in encouraging Governments to get tougher. However, the BEPS outcomes are so convoluted (including many hundreds of pages of new guidance) that they are often hard to apply, and they are widely recognised not to have got to the root of the structural problems that enable tax avoidance (see Introductory Briefing: Why Corporate taxation needs deep reform).

Some countries, unwilling to rely on the solutions agreed during the BEPS process, have adopted their own unilateral approaches. The UK and Australia have recently created "diverted profits taxes" which are intended to deter corporations from stashing profits in tax havens. The Netherlands is planning to tax payments by corporations to other tax havens at a higher rate from the early 2020s. Ironically, some of these countries are at the same time trying to protect their own low-tax practices: the Netherlands is one of the world's biggest corporate tax havens and the UK has soft-pedaled on curbing the gigantic role played in the offshore tax-haven system by its dependencies and territories.

There has been progress on the automatic exchange of tax information between governments, which enables tax authorities to locate the assets of their citizens abroad, including in tax havens (see Briefing 6). Some countries are also starting to require that companies disclose their ultimate beneficial owners (the people who really own them) in public registers, although no tax haven has done so yet (see Briefing 7: Making public the beneficial owners of companies, trusts and foundations).

Various countries have blacklists of tax havens, as does the European Union, but these lists are often highly politicised and ineffective. Tax-haven blacklists need to be robustly and objectively defined or they end up as politically motivated absurdities.

The EU black list, for example, only included twelve countries or territories as of mid-2019. This list excluded the EU's own tax-haven states and the major tax havens of the Caribbean: the latter were let off the hook in return for quite weak and slow-acting reforms which might make it a little more complicated for multinationals to shift profits offshore, but will not stop them altogether.

Many tax havens realise they cannot resist reform entirely, so their new tactic is to promise change, but as far in the future as possible. For example, some of the UK's offshore territories have agreed to adopt public registers of the ultimate owners of companies but only from 2023. In the meantime, public tax revenues around the world are still being lost.

As of 2019 the OECD was considering further reforms which could lead to a global minimum effective tax rate. This would mean that if corporate profits are taxed at a very low rate or not at all in one jurisdiction, then another could tax them up to the minimum rate. A global minimum tax rate would threaten the business model of zero-tax havens like the BVI and the Cayman Islands, although low-tax jurisdictions like Luxembourg could adapt to it by raising their rates to the minimum.

A global minimum effective tax rate would be a very powerful tool against tax avoidance and super-low taxation in general. However, a weakly designed approach might not make much difference. For example, a minimum rate which is very low or has many exemptions could fail to collect much more tax and could even drag down existing tax rates in countries where the rate is relatively high now. This would mean that multinationals can no longer pay zero tax but end up, in aggregate, not paying much more tax than they do now. For this reason, the details of a minimum-rate scheme are crucially important to how well it works. Even if a minimum rate is put in place, there is likely to be a long-running political battle over its implementation as some corporations try to get around it.

12

THE NUMBER OF JURISDICTIONS CURRENTLY ON THE EU'S TAX-HAVEN BLACKLIST.

64

THE NUMBER OF JURISDICTIONS ON TAX JUSTICE NETWORK'S CORPORATE TAX-HAVEN INDEX.

UNIONS TAKE ACTION

EXXON, TAX AND COLLECTIVE BARGAINING

In 2017, Exxon Mobil & UGL/CIMIC slashed the wages of a group of Australian Gas Workers by up to 40%, cut conditions and allowances and fired workers.

The result was a strike, lasting over 700 days. The unions and workers involved made examining the tax practices of the companies a key part of their picket-line strategy.

Tax evasion worth billions of dollars by the energy giant was exposed by the campaign, which played a major role in pressuring the Australian government to increase taxation on resource companies. This will lead the public to receive an extra US$4 billion in revenue, with more set to come.

Unions successfully lobbied the government into reopening a senate inquiry into corporate tax avoidance. ExxonMobil was also forced to admit that it is owned by a shell company in the Netherlands, which is in turn owned by another company in the well-known tax haven of the Bahamas.

By raising the issue around the world, their struggle received support, solidarity and coverage from other unions and workers who increased pressure on the company.

TROY CARTER, ONE OF THE WORKERS INVOLVED, SAID:

"OUR WAGES WERE BRUTALLY CUT BY OUR EMPLOYER - BUT RESEARCH WE DID THROUGH OUR UNION SHOWED THE MILLIONS FLOWING THROUGH THE COMPANY COFFERS TO TAX-HAVENS. THESE STRUGGLES ARE CLEARLY LINKED."

In July, 2019, the Unions involved finally managed to get the companies to agree to renegotiate for a union-ratified collective agreement.

To learn more about how unions made the tax angle a key part of this industrial campaign, check out the report "Is Exxon Paying its Fair Share of Tax in Australia?"

WHAT NEEDS TO HAPPEN

Many countries already have anti-tax haven rules, but these rules usually put the onus on tax authorities to prove that corporate profits are being shifted offshore, which can be very difficult.

Rules which would automatically apply to all payments to tax havens (unless the taxpayer can prove that tax has been paid at the other end), would be a more effective way to deter the use of tax havens. Such rules are now being seriously considered at the OECD or by other mainstream institutions like the IMF.

1. **Trade unions should call on their governments to:**

- **Automatically impose higher withholding taxes on all payments into tax havens, making it uneconomical to move money or assets there;**
- **Bar corporations from deducting from their tax bills any costs (such as interest payments, royalties or fees) which are paid to related companies in tax havens;**
- **Ban companies which use tax havens from bidding for public procurement contracts, or at least require that all profits from public procurement must be booked and taxed in the country which awards the contract.**
- **Insist that all governments around the world automatically receive information about the assets of their citizens in other countries; the poorest countries, which may not be able to provide this information to other countries in return, should be exempted from having to do so for the time being.**
- **Insist that all countries and territories create up-to-date and comprehensive public registers of the ultimate beneficial ownership of companies and other corporate vehicles which can be used to hide assets, such as trusts.**
- **Provide sufficient resources and political support to their national tax authorities.**

UNIONS TAKE ACTION

UGANDA: EXPOSING TAX HAVEN LINKS

Ugandan unions have long opposed the privatization of public services to foreign corporations and the disastrous effect corporate tax dodging has on public revenues. Through research in collaboration with PSI, members were able to reveal the links between these issues and spurn action.

Working with Finance Uncovered - a journalist training organisation - this research revealed how UK private equity firm Actis used holding companies in the offshore tax haven of the Mauritius for its investment in Umeme: Uganda's privatized electricity service. The Mauritius effective corporate tax rate is 3% while in Uganda it is 30%. Actis was once part of the UK's Commonwealth Development Corporation (CDC), a controversial investment arm of the Britain's Department for International Development. The CDC encouraged privatisations, often to the benefit of British corporate interests.

Actis received an enormous profit of over $100m from its involvement in Umeme. There is a very strong likelihood that a substantial amount of those profits were not taxed in Uganda, the place where those profits were made but rather in the Mauritius. This could mean forgone public revenue above $38million: 6% of the nation's health budget.

After approaching the Ugandan tax authorities to raise this issue, the government reopened its examination of Actis' tax affairs. To learn more about the links between privatisation and tax dodging check out the PSI report: Private Profits and the Public Purse

FURTHER INFORMATION

CICTAR

For case studies of offshore tax avoidance, see Centre for International Corporate Tax Accountability and Research.

CICTAR is a trade union-supported global research centre that publishes research into corporate tax avoidance to help workers and other citizens understand how the tax practices of multinationals affect their working lives and communities.

If you think your corporate campaign could benefit from a tax angle or your tax campaign needs corporate examples, contact: jason.ward@cictar.org

Website www.cictar.org

TAX JUSTICE NETWORK

Tax Justice Network (TJN) is an independent international network focused on research, analysis and advocacy in the area of international tax and financial regulation, including the role of tax havens. Their website provides new research and regular news on the fight for Tax Justice, tailored for use by civil society.

Website: www.taxjustice.net

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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

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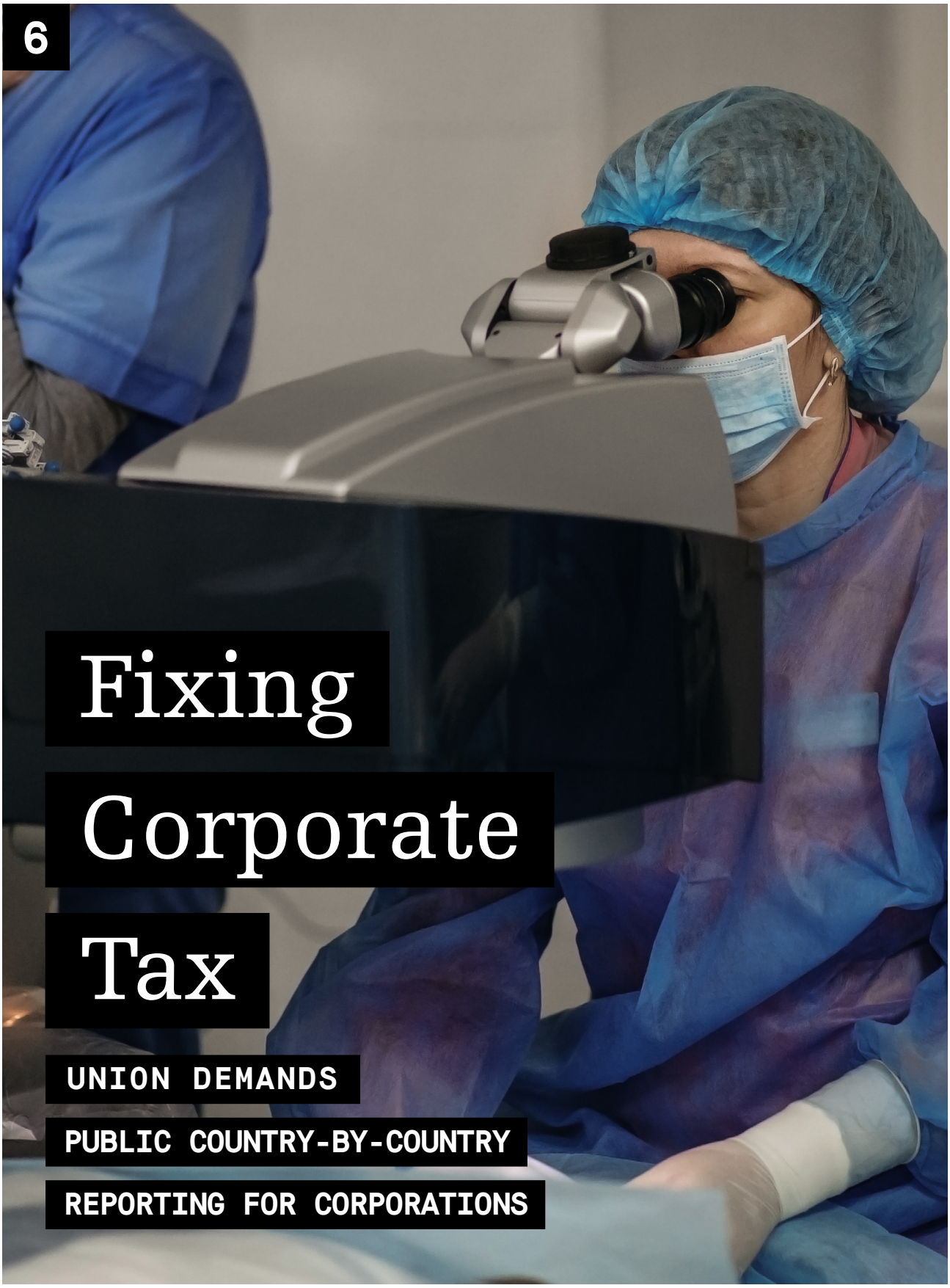
BRIEF 6 ENGLISH



6

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:

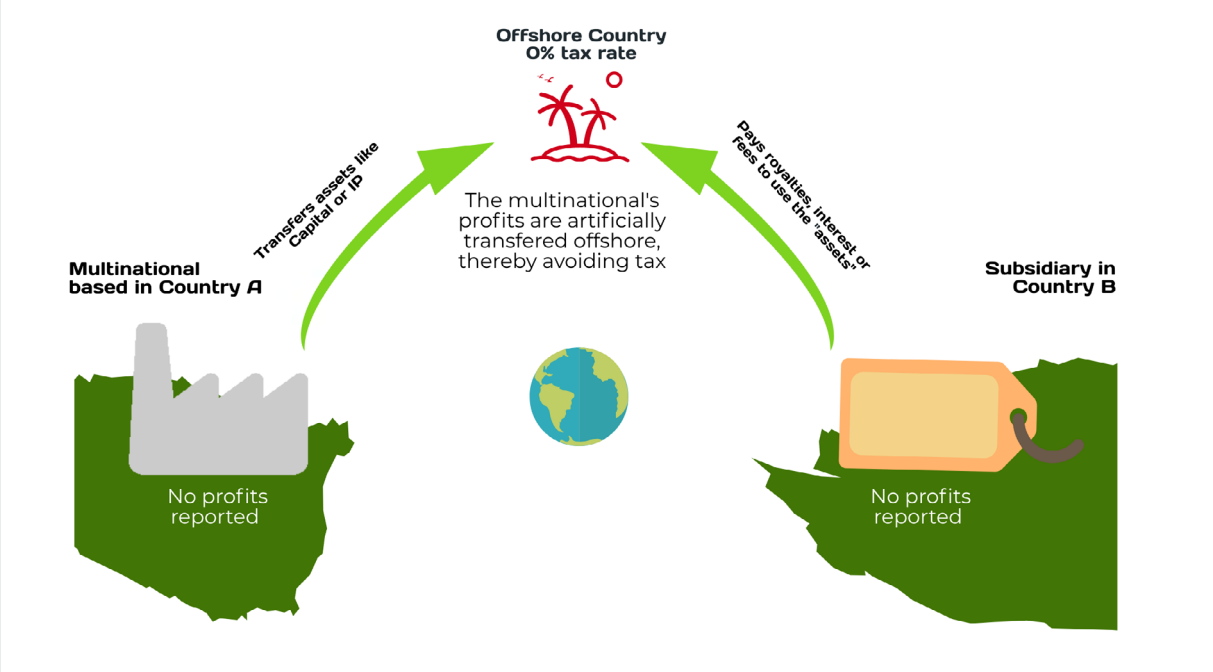
- A subsidiary of a multinational company exports its products at a below-market price to a related company in a tax haven, which then sells the products on at a higher price, so that the profits are collected in the tax haven;

- 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

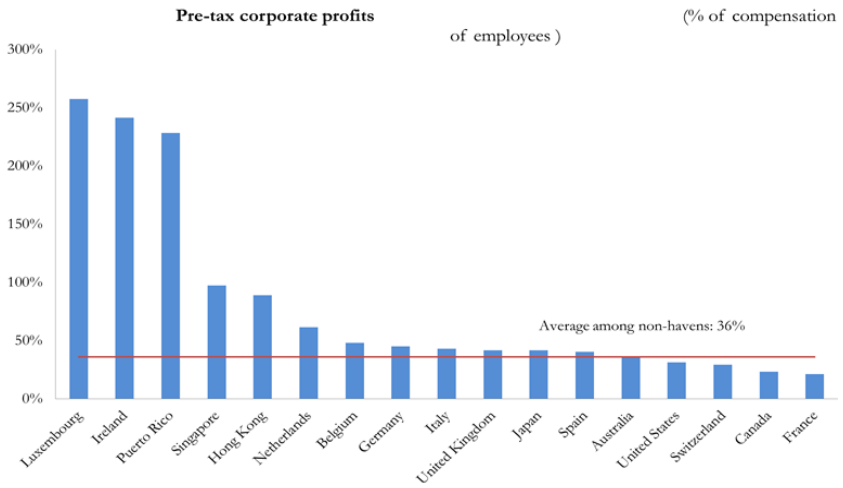
PROGRESS TO DATE

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.

CORPORATIONS BOOK HUGE PROFITS IN TAX HAVENS LIKE LUXEMBOURG



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

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.

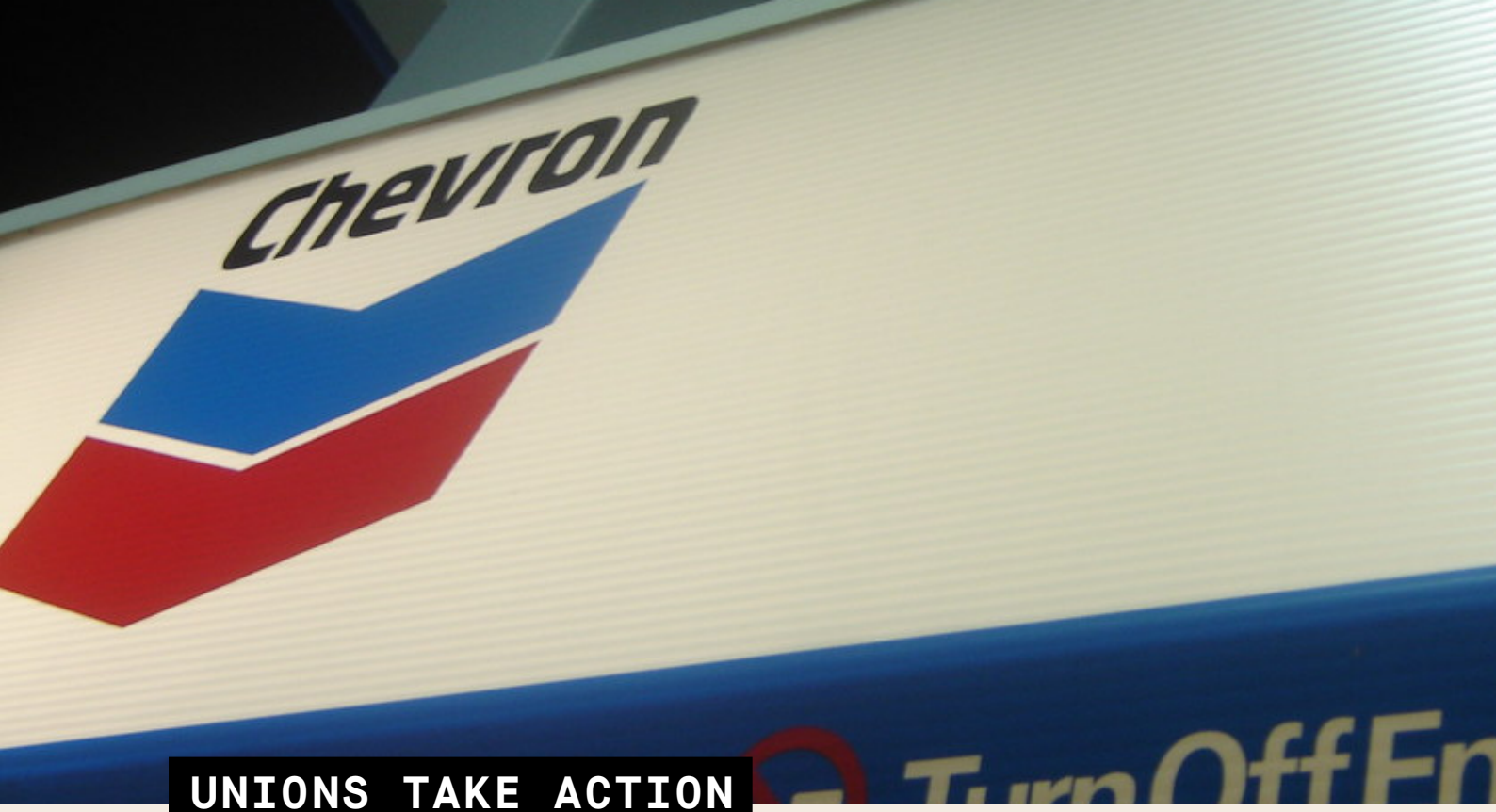
However, the OECD is heavily under the influence of powerful governments, some of which are still reluctant to crack down too hard on their own multinationals. As a result, there are serious weaknesses in the OECD standard.

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.

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.**



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 offshore 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.


TAX Pays FOR
OUR SCHOOL

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

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

TAX JUSTICE NETWORK

The Tax Justice Network's webpage on this issue.

Accessible at: https://www.taxjustice.net/topics/corporate-tax/country-by-country/

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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

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BRIEF 7 ENGLISH

7

Fixing Corporate Tax

UNION DEMANDS AUTOMATIC EXCHANGE OF INFORMATION

AUTOMATIC EXCHANGE OF INFORMATION

THE PROBLEM: FINDING THE OFFSHORE ASSETS OF THE SUPER-RICH

Tax havens are estimated to harbour eight per cent of the world's financial wealth which has been shifted offshore by wealthy people.

This means that huge sums in tax revenue, which fund public services like health and education, are lost. Tax-haven secrecy also helps the super-rich to cream off and hide a disproportionate share of the value created by labour. Further increasing inequality, it concerntrates wealth and power that is used to influence elections and capture governement policy.

Tax authorities have long struggled to prevent the offshoring of private wealth. A tax authority which suspected a wealthy citizen of hiding cash or assets in another country or territory would have to laboriously seek information from that jurisdiction, which might provide it belatedly, if at all. The problem is particularly difficult for low- and middle-income countries whose tax authorities are often short of resources to pursue tax evaders.

This represents a redistribution of wealth from workers to the offshore rich which afflicts all countries but has proportionately bigger effects in poorer countries which desperately need the revenue.

That's why the Tax Justice Network began campaigning for multilateral, automatic information exchange in 2003, so that tax authorities would not have to go through an arduous process just to request the information. The trade union movement actively supports this campaign.

KEY POINT:

TRADE UNIONS SHOULD CALL ON ALL COUNTRIES TO:

- AUTOMATICALLY EXCHANGE TAX INFORMATION ON THEIR CITIZENS' ASSETS OVERSEAS, SO THAT TAX AUTHORITIES CAN FIND AND TAX THE OFFSHORE ASSETS OF THE WEALTHY

	Offshore wealth ($ bn)	Share of financial wealth held offshore	Tax revenue loss ($ bn)
Europe	2,600	10%	75
USA	1,200	4%	36
Asia	1,300	4%	35
Latin America	700	22%	21
Africa	500	30%	15
Canada	300	9%	6
Russia	200	50%	1
Gulf countries	800	57%	0
Total	**7,600**	**8.0%**	**190**

THE HUGE SCALE OF WEALTH IN TAX HAVENS

Source: Gabriel Zucman,
The Hidden Wealth of Nations, 2015

UNIONS TAKE ACTION

NIGERIAN LABOUR MOVEMENT MOBILIZES FOR TAX JUSTICE

Nigerian unions have been at the forefront of the fight for public funding for development – much needed across the country. Nigeria loses up to $327 million a year on import duty exemptions. This is more than double the Federal budget allocation to health and more than the budget for education. If retained, this revenue could be invested in productive sectors of the economies to lift Nigeria's growing population out of under-development and poverty. According to Nigerian authorities, the Netherlands is an important destination of its oil exports, but a substantial part of these sales does not appear in Dutch data. Capital often flows through the Netherlands to avoid tax – such as the infamous "Double Dutch Sandwich" corporate structure.

Outrage at this situation led PSI and FES to bring together public and private sector unions, civil society and the Nigeria Labour Congress to better understand the problem and take action. This resulted in the establishment of a national Platform to mobilise unions and citizens against illicit financial flows and tax dodging, which generated significant media coverage and made tax a strong political issue.

The Platform has led rallies to the Ministry of Finance, multinational headquarters have been occupied by protesters demanding they pay their fair share and, along with ITUC Africa, unions have backed a continent-wide campaign called "Stop The Bleeding" aimed at reducing Illicit Financial Flows – especially from corporate tax dodging.

For more information, check out PSI's Paper: Tax Justice Nigeria

"THE GOVERNMENT OF NIGERIA CAN COLLECT MORE REVENUE BY REDUCING UNNECESSARY TAX INCENTIVES TO MULTINATIONAL COMPANIES. THIS WILL HELP TO ADDRESS THE CHALLENGES OF FUNDING PUBLIC INFRASTRUCTURE DEVELOPMENT, PROVIDE AND EXPAND SOCIAL PROTECTION BENEFITS TO NIGERIANS, ESPECIALLY THE INDIGENT ONES, AND ASSIST IN WAGES OF PUBLIC SECTOR WORKERS, AS WELL AS AID EMPLOYMENT CREATION. WE ALSO BELIEVE THAT THE GOVERNMENT'S FIGHT AGAINST ILLICIT FINANCIAL FLOWS WILL BE MORE SUCCESSFUL WITH THE INVOLVEMENT OF ALL STAKEHOLDERS, INCLUDING TRADE UNIONS AND THE WIDER CIVIL SOCIETY."

NIGERIA TAX PLATFORM DECLARATION TO THE GOVERNMENT
(CO-SIGNED BY PSI)

PROGRESS TO DATE

Since the global financial crisis, international efforts to make it harder for the super-rich to hide profits overseas have crept forward. The Organisation for Economic Cooperation and Development (OECD) finally developed a Common Reporting Standard (CRS) for the Automatic Exchange of Information, which requires jurisdictions to collect information on the bank accounts and assets of foreign citizens and automatically pass this information to their home countries, to check that they are paying the correct amount of tax.

This mechanism should ensure that national tax authorities can obtain the information they need to make sure that their citizens are not evading tax at home by hiding money or assets abroad. The fact the CRS exists at all is a major step forward.

"WE BELIEVE CITIZENS AND DECISION MAKERS ALIKE SHOULDN'T HAVE TO RELY ON INDIVIDUAL WHISTLE-BLOWERS RISKING THEIR FREEDOM IN ORDER TO REVEAL THIS KIND OF INFORMATION"

CHRISTIAN AID UK

However, there are major problems with the OECD scheme:

- The OECD insists that for countries to ask for tax information, they must be able to provide the same information for other countries. This is a problem for lower-income countries which may need more time to get ready, but in the meantime cannot get information about their own citizens.

- The OECD considers countries and jurisdictions to be compliant with the CRS even if they only share information with a select number of other countries. The result is that many of the most secretive jurisdictions, like Switzerland, have signed up to the CRS but simply refuse to share information with many lower-income countries. The United States has refused to sign at all.

- Some jurisdictions which are not signed up to the CRS offer 'citizenship by investment' schemes which can be exploited by wealthy people who acquire citizenship so that their wealth is not disclosed to their countries of origin.

So, the CRS needs to be tightened up and made more inclusive. At the same time, national tax authorities around the world need to be given the resources and the political support they need to make use of the data obtained through the CRS to go after wealthy tax evaders at home who may be politically well-connected (see Briefing 3: Strengthening tax authorities)

WHY DOES AUTOMATIC EXCHANGE OF TAX INFORMATION MATTER TO WORKERS?

- IF TAX AUTHORITIES CANNOT GET THE INFORMATION THEY NEED TO CHASE DOWN TAX EVADERS, THEN THE RESULT WILL BE RELATIVELY LESS TAXATION OF THE WEALTHY AND MORE TAXATION OF WORKERS.
- TAX EVASION MEANS LESS MONEY FOR PUBLIC SERVICES THAT WORKERS AND THEIR FAMILIES RELY ON, LIKE SCHOOLS AND HOSPITALS. THIS INCREASES THE BURDEN OF DOMESTIC CARE WHICH FALLS MAINLY ON WOMEN.
- THE ABILITY TO HIDE MONEY OFFSHORE MAKES THE WEALTHY EVEN RICHER, CONTRIBUTING TO INEQUALITY.
- GETTING INFORMATION AUTOMATICALLY WILL PARTICULARLY HELP LOW AND MIDDLE-INCOME COUNTRIES, WHERE MORE REVENUE IS BADLY NEEDED.

WHAT NEEDS TO HAPPEN

Trade unions must:

1. Call on governments to reform the Common Reporting Standard such that all jurisdictions which have signed up to the CRS should be obliged to share information automatically with all other jurisdictions which have signed up. Lower-income countries should be allowed to immediately obtain information on their citizens abroad but should be given a five-year window to get the systems in place before they must reciprocate.
2. insist that governments ensure that individuals who are physically present in a jurisdiction for less than half a year do not get tax residency. Residence certificates should not be sold for money or in return for investments. These measures would make it harder for wealthy people to avoid the CRS by buying tax residence in jurisdictions which have not signed up to it.
3. National tax authorities must be given more resources and political support to go after tax evaders at home, based on information about their hidden wealth overseas which has been received under the CRS.

UNIONS TAKE ACTION

NO GENDER JUSTICE WITHOUT TAX JUSTICE

Ensuring tax justice becomes a political issue, not just a technical issue is a key part of feminist struggle. When debates about tax are unnecessarily complicated they exclude workers and the community from fully understanding the implications and participating in that very debate. The voice of women is essential to the fight for tax justice, as women are often disadvantage by the tax system but benefit disproportionately from public spending.

In 2016, PSI, along with Friedrich Ebert Stiftung and Tax Justice Network, held the first Global Forum on Gender and Tax to build the strong links between these issues. This was the first forum bringing together global civil society, trade unions and gender justice groups. PSI has continued to build coalitions through a series of further meetings in the UK, Colombia and throughout Africa.

The cost of corporate tax avoidance is too often paid by women through increased taxation on basic goods to provide for those under their care. Numerous studies show how this entrenches gender inequalities.

Women and girls – especially those marginalised or living in poverty - also suffer the most when public services are starved of adequate funding. This includes lack of access to free quality public healthcare, water, education, childcare, social protection, and anti-violence, sexual and reproductive health services, and lack of safe public transport that make cities safer and more accessible for women. Women spend 2.5 times more time performing unpaid care and domestic work than men. When social services are starved of public funding, women are forced to take on an even greater share of unpaid work.

Unions must ensure women trade union leaders are empowered with the necessary knowledge about tax and other economic issues strengthens unions and women's leadership within them.

FURTHER INFORMATION

For up-to-date reports on Automatic Exchange of Information, see the Tax Justice Network's page on the issue:

https://www.taxjustice.net/category/policy/automatic-exchange-of-information/

For the OECD's official page on its Common Reporting Standard, see:

http://www.oecd.org/tax/automatic-exchange/common-reporting-standard/

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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

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8

BRIEF 8 ENGLISH

Fixing Corporate Tax

UNION DEMANDS

MAKING BENEFICIAL OWNERSHIP PUBLIC

MAKING BENEFICIAL OWNERS PUBLIC

THE PROBLEM: HIDDEN OWNERS, HIDDEN WEALTH

Some jurisdictions around the world do not require companies or other legal vehicles, such as trusts or foundations, to publicly disclose the identities of the people who ultimately own them or control their assets. This means that such vehicles can be used to evade tax or hide criminal assets or corrupt payments.

KEY POINT:

TRADE UNIONS SHOULD CALL ON GOVERNMENTS TO:

- **CREATE PUBLIC REGISTERS OF THE TRUE OWNERS OF COMPANIES, TRUSTS AND FOUNDATIONS**

The ultimate beneficial owner of a company, trust or foundation is not necessarily the shareholder because he or she may own it through other companies. Corruption and fraud schemes often use strings of anonymous legal vehicles, each in a different jurisdiction, to make it as hard as possible for law enforcement agencies to catch up.

The Panama Papers and other leaks of confidential records from tax havens have shown that many hundreds of politicians, businesspeople and other prominent figures around the world have made use of anonymous companies to hide their wealth offshore. The result is that their own countries are prevented from taxing this wealth and using the funds to pay for public services which workers and their families rely on, such as education and health.

Anonymous companies can also be used by corrupt executives or controlling shareholders to siphon money out of businesses, potentially putting these businesses in danger of failure and workers in danger of losing their jobs. As well as corrupt politicians, anonymous companies can be used by organised crime and even by terrorists to hide the movement of money.

"THERE'S NO GOOD REASON FOR SOMEONE TO HAVE AN ANONYMOUS SHELL COMPANY"

MO IBRAHIM
INVESTOR

To curb this problem, the ultimate beneficial owners of companies – the people who really own or control them – need to be made public as a matter of course, not only via leaks or whistle-blowers. The same rule needs to apply to trusts and foundations, which can also be used to hide the ultimate owners of assets.

The tax justice movement has campaigned for years for all countries and jurisdictions to create registers of the beneficial owners of companies, trusts and foundations and make these registers public. Public registers of this kind will make it much harder for the corrupt to hide their wealth behind corporate secrecy.

There has been some progress, though the problem is still very far from being solved. The Extractive Industries Transparency Initiative (EITI), a global initiative for the oil, gas and mining industries, will require all of its nearly 50 implementing countries to adopt public registers of beneficial ownership by 2020. The United Kingdom has already adopted its own public register and in May 2018 passed legislation which requires its overseas territories – including notorious tax havens like the Cayman Islands and British Virgin Islands – to adopt these registers in future.

Other countries are resistant, however, including the United States which is now one of the world's biggest tax havens and offers high levels of secrecy. The United States has agreed in principle that its states should end anonymous ownership of companies, but no US administration has made this into a requirement, so states go on competing with each other to attract people who want to hide funds and assets. This, in turn, gives political cover to smaller jurisdictions outside the United States to resist greater openness.

European Union countries have agreed to create registers of the beneficial owners of companies and trusts, but the latter will only be accessible to people with a "legitimate interest." In the UK the register is widely used but its quality is weakened by a lack of resources to verify the information and a lack of sanctions for non-compliance.


Multinationales,
payez votre part
d'impôts!
Alliance mondiale pour la justice
GlobalTaxJustice.org


Week of Action 19-23 June 2017
TaxJustice for

MORE TRANSPARENCY NEEDED

The Independent Commission for the Reform of International Corporate Taxation (ICRICT), which PSI supports, has recently begun to explore the feasibility of a Global Asset Register, linking information on the beneficial ownership of companies, trusts and other legal vehicles with data on the ownership of financial securities, property and other assets. The idea is that a global register could be used against financial crime and make fairer taxation of wealth possible.

Taxation cannot be fair for workers and other citizens until wealthy people and corporations are obliged to be open about what they own and where. In many countries workers are required to register the ownership of their homes, cars and even their dogs. It should not be possible for the rich and powerful to avoid transparency.

Further measures are needed. Jurisdictions which offer hidden ownership of companies and trusts are a key part of the offshore system, which is also used by multinationals to avoid tax, though usually by playing accounting games with their profits rather than by hiding their ownership.

So, governments also need to adopt measures to deter corporations and the super-rich from moving their money into tax havens (see Briefing 3. Measures against tax havens).

WHAT NEEDS TO HAPPEN

1. Trade unions should insist that every country and jurisdiction introduces a register of the ultimate beneficial ownership of companies, trusts and foundations incorporated or registered in that jurisdiction. The register should be comprehensive, public and free to use and all the information in it should be up-to-date and verified.

- In some countries, this means making an existing register open to the public or improving its quality. In others, this will mean the creation of such a register, including legal requirements on companies to identify their ultimate beneficial owners which are backed by meaningful sanctions for those who do not comply.

2. Trade unions should also insist that governments give national tax authorities the resources and political support they need to go after assets which are hidden by wealthy citizens in overseas tax havens (See Briefings 3 and 6)

FURTHER INFORMATION

TAX JUSTICE NETWORK

The Tax Justice Network's page on the mechanics of offshore secrecy.

Accessible at: https://www.taxjustice.net/topics/secrecy/the-mechanics-of-secrecy/

ICRICT

An international body supported by Public Services International as well as civil society groups, ICRICT has published its briefing on a Global Asset Register.

Accessible at: psishort.link/gar

THE FINANCIAL TRANSPARENCY COALITION

This civil society coalition has its own resource page on ownership secrecy

Accesible at: https://financialtransparency.org/issues/beneficial-ownership/

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Centre for International Corporate Tax Accountability and Research

SPECIAL BRIEF

SPECIAL BRIEF ENGLISH

Digital Profits Tax

EFFECTIVE TAXATION OF EXCESS PROFITS OF GLOBAL TECH GIANTS:

REVENUE FOR RECOVERY & MOMENTUM FOR GLOBAL REFORM

POLITICAL MOMENTUM FOR ACTION

Despite years of promises from the Organisation for Economic Cooperation and Development (OECD) to limit multinational tax avoidance, the growing scale of tax dodging by tech giants such as Google, Amazon, Facebook, Apple and other multinationals has driven public outrage and forced governments to take action. Funding for public health and economic recovery from the coronavirus crisis is urgently needed, and new revenue measures are being considered and implemented across the world.

Ending corporate tax avoidance requires a range of actions including greater transparency, a global minimum tax, a global approach to unitary taxation and taxing excess profits. PSI's eight-part briefing series outlines them in detail (here). A unilateral digital profits tax can be consistent with these broader solutions.

KEY POINT:

TRADE UNIONS SHOULD CALL ON GOVERNMENTS TO:

IMPLEMENT A UNILATERALLY APPLIED DIGITAL PROFITS TAX WHILE CONTINUING TO PURSUE A MULTILATERAL AGREEMENT FOR REFORM OF THE ENTIRE GLOBAL CORPORATE TAX SYSTEM.

Since the pandemic began, public budgets have been squeezed and working people are making immense sacrifices, but the already obscene wealth of tech billionaires has increased dramatically. Jeff Bezos, the CEO of Amazon, has increased his wealth by US$73.2bn in the first six months of the pandemic. Facebook's Mark Zuckerberg has increased his wealth by US$45bn and Google's Larry Page by US$18bn.

Public outrage, combined with COVID related budget pressure, has moved more and more governments to impose, or consider, digital service taxes (DSTs). DSTs directly tax certain revenue streams of large digital companies. The UK and France have both developed DSTs, although France has delayed their implementation after retaliatory trade threats by the US. The European Union may revive its proposed regionwide digital tax if the OECD process fails and many other countries have proposed or implemented DSTs across Europe, Asia, Latin America and Africa. DSTs are a reaction to the failure of multilateral discussions and have gained momentum across the political spectrum. Despite popular appeal, DSTs are limited in scope and only apply to tech giants with global annual revenues above €750m (US$840m) and cover narrow digital revenue streams, such as online advertising. Tax rates range from 2% to 7.5% of selected revenue streams. As a tax on revenue (rather than profit), costs are much more likely to be passed on to consumers and allow global tech giants to continue to flout the obligation to pay tax on profits where they are generated.

SUMMARY

- **The best way to effectively tax the global tech giants is through a multilateral agreement for reform of the entire global corporate tax system.**
- **However, current efforts to achieve this are failing. In response, governments are adopting unilateral approaches, based on directly taxing certain revenue streams (rather than profits) of large digital companies.**
- **Unilateral action is necessary, but these approaches will raise relatively little tax and are not the way forward. Furthermore, they are regressive as costs will be passed onto consumers. They will be difficult to implement, subject to legal challenges and trade retaliation and may undermine political and public support for more fundamental reform in future.**
- **A different form of unilateral action is needed based on countries taxing an allocated proportion of the global profits, dependent on genuine economic activity in each country. A unilaterally applied digital profits tax can achieve this.**

Unfortunately, DSTs are regressive, will raise relatively little tax and move us further away from needed international solutions to effectively tax the excess profits of global tech giants. Poorly designed DSTs could create a false impression that they have ended tax dodging or, alternatively, be used by lobbyists to argue that tax changes are ineffective. This would undermine the public support and political will needed for genuine reforms to ensure that all global corporations pay a fair share.

DIFFERENT SOLUTIONS NEEDED

Tax dodging is not a new problem, nor is it unique to global tech companies. What is really required is comprehensive reform of the tax system that would ensure that multinationals are taxed on global profits. Tax revenues would be allocated to countries based on the location of real economic activity, not artificially shifted to where profits are taxed the least, or not at all, in a destructive race to the bottom. Proposals from the OECD's current 'inclusive framework' discussions, involving nearly 140 countries, take genuine steps in acknowledging multinationals as single entities to be taxed at the global level.

The application of a 'unitary' principle for taxation of multinational profits at the global level is essential. However, current OECD proposals also have significant conceptual and practical flaws and deliver very little revenue - especially to countries which need it most. Additionally, US demands that its corporations, some of which are the largest tax dodgers, are able to opt out has killed the prospect of any meaningful global agreement through the OECD in the near future.

Well designed, unilateral measures to tax global tech companies could increase income for governments to help respond to the immediate crisis and will also increase the pressure on corporations and governments for meaningful global reform. The more countries or regional bodies adopt effective unilateral approaches to taxing global tech giants, the faster a global agreement – and a pathway to broader reforms – will become feasible in the future.

GLOBAL DIGITAL PROFITS TAXES (DPTS)

A BETTER, BROADER, NATIONAL APPROACH

A more effective approach than the current crop of DSTs for achieving increased revenues and pressure for global reform would be for countries to impose a form of digital profits tax. Digital profits taxes are simply taxes on the global profits of a company that allocate a proportion of revenue to individual countries based on actual economic activity in that country. This makes it impossible to avoid tax by shifting profits to tax havens, since they will still be taxed elsewhere, regardless of to where profits are artificially shifted. The percentage of the global profits allocated in each country could depend on different factors including sales, workers, users, data collection and physical assets in that country.

Governments can harness the current momentum behind DSTs to introduce a tax on a portion of global profits allocated to genuine economic activity at the national level. This approach would be more aligned with proposals put forward at the global level, including by the G24 group of countries at the OECD and by India at the UN. Such an approach could ultimately be used for all multinationals, but immediately applied to global tech giants, widely acknowledged to exploit a lack of physical presence to avoid tax where profits are generated. The OECD's definition of automated digital services, which covers a number of business models including the use of social media platforms, online intermediary platforms and online advertising, amongst others, is a possible starting point for determining the inclusion of multinationals within a digital profits tax.

A national allocation of the global profits of multinationals directly tackles the widespread abuse of the current defective and outdated international tax rules, which allows profits to be shifted to where they are taxed the least, or not at all. This would make the widespread abuse of tax havens largely irrelevant, and fully reflects the principle of treating multinationals as single entities and taxing profits where real activities take place, making a strong foundation for longer term global tax reform.

In addition, the use of a digital profits tax would:

- Collect more revenue than DSTs, especially for countries that need it most

- Work within the current tax treaty framework and be less open to trade retaliation

- Be progressive, transparent, simple, fair, and easier to implement for all countries

- Be far less likely to be shifted onto consumers and would level the playing field for all businesses

- Ensure that corporations that do not make profits don't pay taxes – but corporations that make profits are taxed fairly

Minimum tax rates could be applied and progressively increased based on the scale of a multinational's digital platform, monopoly power and global profits. Digital profits taxes would be a fair and transparent way to calculate and collect corporate income tax payments owed by the largest global tech giants.

As public health and government budgets are crippled by the coronavirus crisis, there has never been a better time to push forward with fundamental changes to stop the fastest growing corporations from evading obligations to fund public services.