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5

BRIEF 5 ENGLISH

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 different jurisdiction to avoid the taxes, regulations and responsibilities 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 Dela-

ware) 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 .

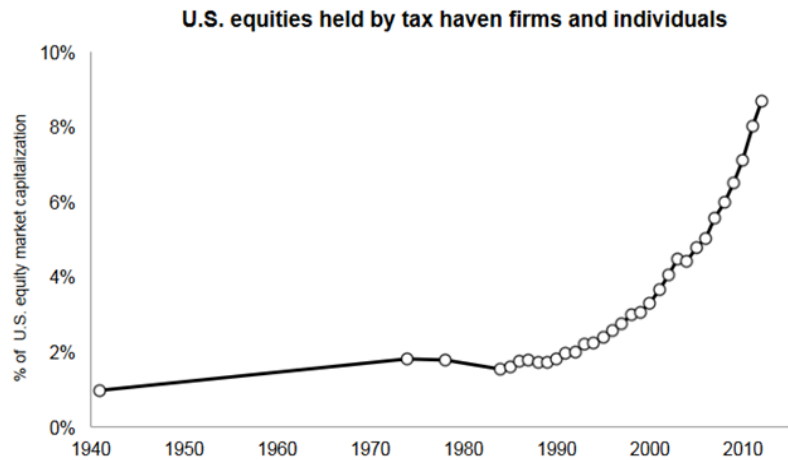
The United Kingdom, which pioneered the creation of the offshore system, is in a class of its own. The offshore tax havens of its Crown Dependencies (including Jersey) and Overseas Territories (including the BVI, Cayman Islands and Bermuda) act as satellites of the City of London, the UK’s global financial 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.”

A growing fraction of wealth is being managed by offshore financial institutions

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).

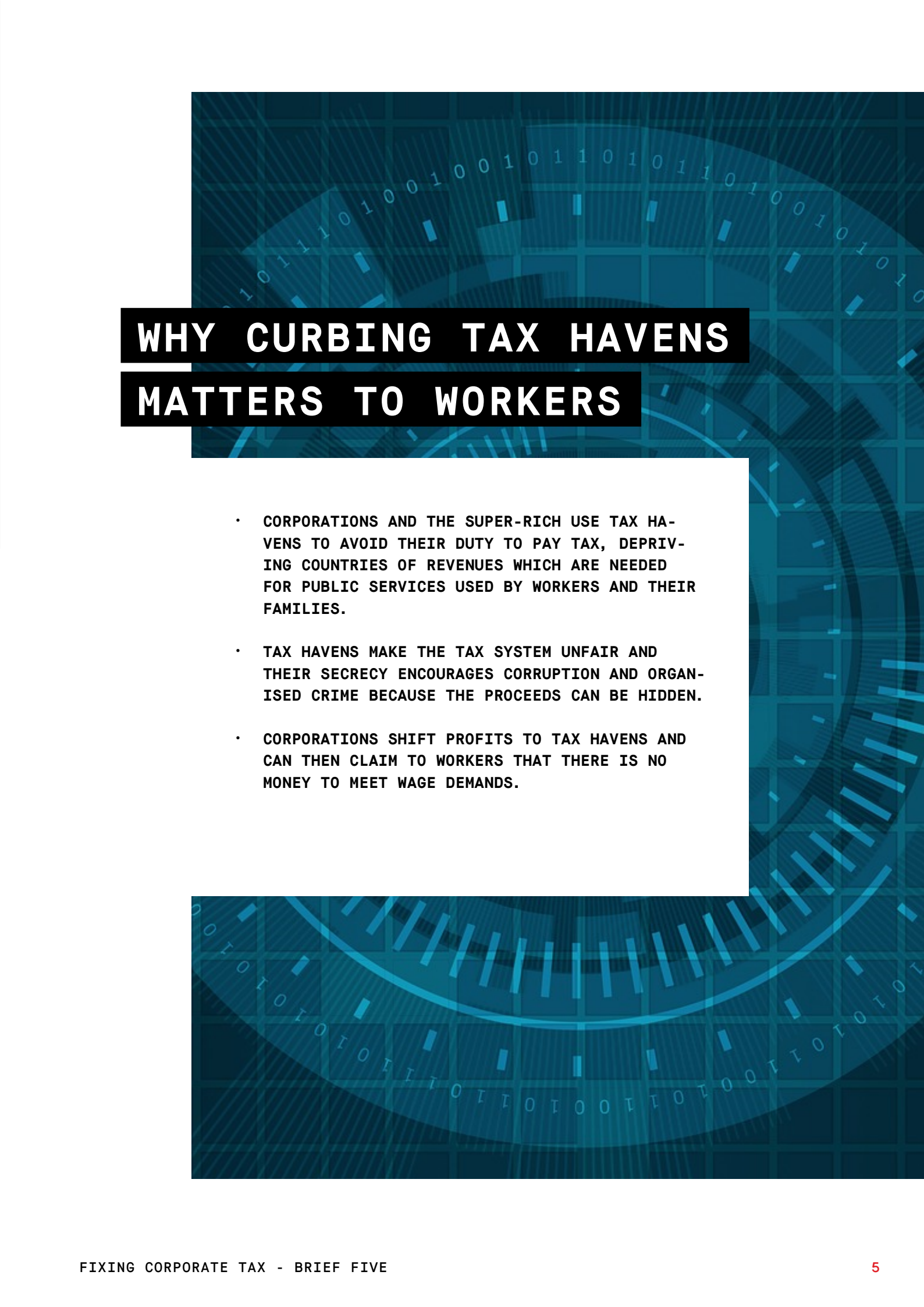
Many countries have anti-tax haven rules which are meant to counter these kinds of transactions but they are often hard to administer because the national tax authority typically has limited resources and must challenge each transaction, often based on complex interpretations of tax rules, in the face 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 com-

bined 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.

The background of the entire page is a dark blue grid. Overlaid on this grid are several concentric circular patterns. Within these circles, there are segments of binary code (0s and 1s) and small, light blue rectangular bars, giving it a digital or data-themed appearance.

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 reg-

isters, 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.

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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 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.