WHO PAYS THE PRICE?

HUNGER: THE HIDDEN COST OF TAX INJUSTICE

POVERTY

Hunger still blights the lives of one in eight of the global population – some 868 million people.[1] Progress towards halving the number of people who are hungry by the year 2015 – a goal set by world leaders at the turn of the century – is tragically slow. New solutions are urgently required to end this scandal.

Tackling tax dodging and ending financial secrecy could provide the US$50bn the Food and Agriculture Organization of the United Nations (FAO) estimates is needed every year to eradicate hunger by 2025.[2] The UK government, as chair of the G8 in 2013, has a golden opportunity to take determined action to make tax justice a major weapon against poverty and hunger.

The right for all people to have 'a standard of living adequate for the health and wellbeing of himself and his family, including food…' was enshrined in the United Nations' Universal Declaration of Human Rights more than 60 years ago.[3] Subsequent UN declarations and conventions underline the duty of governments to respect, protect and fulfil that right.[4]

That the world remains a long way off seeing these commitments met is a shameful indictment of modern-day priorities: 2.3 million children still die of malnutrition every year,[5] while the life chances of those who are stunted are dramatically reduced. The sad truth is there would be enough food for everyone if the interests of the poor were properly upheld. Lacking, however, is the political will needed to safeguard their rights, and sufficient resources in developing countries to implement pro-poor policies that would usher in lasting change, such as building resilient livelihoods (eg to cope with climate change-related shocks) or developing access to local and regional markets for small-scale farmers.

Aid, trade and the tax-loss saga

Today, low-income countries collect an average of only 13 per cent of their GDP in tax revenues, compared to around 35 per cent in Organisation for Economic Cooperation and Development (OECD) countries.[6] By closing the corporate tax gap, the tax take in developing countries could be far higher. In 2008, Christian Aid estimated that tax evasion associated to trade mispricing by multinational corporations (MNCs) costs developing countries around US$160bn (£102bn) in lost tax revenues every year, far more than what they receive in aid,[7] and more than three times the amount the FAO estimates is required to end hunger.[8]

Tax dodging by MNCs and wealthy individuals is facilitated as a result of policies adopted to attract increasing foreign capital. Indeed, some countries – those known as tax havens – have made their capacity to attract foreign capital their major economic activity, usually through the offering of nil or low tax rates and the granting of secrecy provisions.

'Tackling tax dodging could provide the US$50bn needed every year to eradicate hunger by 2025'

christian aid

Swissploitation: the cost of trading with Switzerland

In new research on Switzerland – the country at the top of the Financial Secrecy Index[9] – Christian Aid reveals that as much as US$578bn (£367.6bn) could have been shifted from developing countries to Switzerland between 2007 and 2010 because of trade mispricing.[10]

Turnover by commodity transit-traders based in Switzerland in 2011 was 36 per cent higher than Switzerland's GDP.[11] In transit-trade, 'contracts may be concluded, deliveries scheduled and ships chartered from Swiss offices, but the actual goods… never touch Swiss soil'.[12] Had Zambia received for its copper exports in 2010 the same price Switzerland obtained when the copper was resold to other countries by Switzerland-based traders, it could have doubled its GDP.[13]

The combination of a low-tax rate regime, opacity in trade rules and damaging banking secrecy have made transit-trade a hugely profitable business for Switzerland, at the expense of some of the poorest countries in the world.

Secret transactions and the hidden millions

Tax competition and the lack of inter-government cooperation have resulted in numerous legal loopholes as well as a lack of financial transparency, which allows MNCs and wealthy individuals to avoid paying their fair share of tax.

The complex structures set by MNCs and wealthy individuals to avoid paying tax often involve the establishment of subsidiaries in low-tax, high-secrecy jurisdictions. More than half of world trade now follows through such a route: half of all banking assets are held offshore, and one-third of foreign direct investment is channelled through such accounts.[14] Recent research by the Tax Justice Network estimates that rich individuals alone could be hiding as much as US$21tn (£13.4tn) in tax havens.[15]

Financial secrecy enables other forms of illicit capital flight too, including corruption. Research published by Global Financial Integrity estimated that US$854bn (£543bn) illicitly escaped from sub-Saharan Africa between 1970 and 2008.[16] This is double the aid flows received over the same period, and four times the size of Africa's debt in 2008, thus making sub-Saharan Africa – the region with the highest prevalence of undernourishment – a net creditor to the rest of the world.

Tax revenues should account for at least 20 per cent of a country's GDP for sustainable development to become a reality.[17] Evidence suggests that countries with higher collections generally have lower levels of undernourishment.[18]

Tax dodging, tax havens and hunger in India

India's gross national income per capita doubled between 1995 and 2010.[19] Yet, India is home to one-quarter of the world's undernourished people. With a tax-to-GDP ratio of 16.8 per cent, India obtains a relatively low level of tax revenues compared to other emerging economies.[20]

New research by Christian Aid on 1,500 MNCs operating in India has revealed that those MNCs with links to tax havens pay 30.3 per cent less tax on their profits than those MNCs with no such links.[21] This confirms that MNCs with connections to tax havens face higher incentives and opportunities to shift profits into low-tax jurisdictions to avoid paying their fair share of tax.

With around 3,500 disputes over alleged mispricing, India has the most transfer-mispricing cases in the world after Japan and Canada.[22] According to the country's Directorate of Transfer Pricing, the amounts involved in mispricing ran at US$8.1bn (£5.2bn) in 2010-11 and US$12.6bn (£8bn) in 2011-12. Corporation tax of 33 per cent on these amounts would have provided an additional US$6.9bn (£4.4bn) in revenues.[23] This money could have been used, for instance, to finance India's public food distribution system, which currently does not reach many of the poorest households in the country.

What the UK government should do

Hunger is the greatest challenge of our time, with untold human and economic costs around the world. We will need every tool at our disposal to eradicate this injustice.

As the evidence above shows, closing the corporate tax gap would more than meet the US$50.2bn (£34.7bn) that is estimated to be required every year to end hunger.[24]

The UK government, as the G8's chair in 2013, should lead the G8 in taking meaningful steps towards global tax transparency. It should:

- Launch a Convention on Tax Transparency. This should institute transparency measures to prevent companies and individuals from hiding wealth – such as a global standard for registration and public disclosure of ownership of companies, foundations and trusts. The G8 should also commit to pushing tax havens to sign and join the Multilateral Convention on Mutual Administrative Assistance on Tax Matters, as well as taking robust and binding counter-measures against tax havens that fail to participate in these initiatives by the end of 2013.
- End corporate taxpayer secrecy by introducing country-by-country reporting for all sectors within the G8's own jurisdictions. The G8 should push the International Accounting Standards Board (IASB) to have country-by-country reporting as a global accounting standard.

In addition, the UK government should:

- Ensure that the OECD's Base Erosion and Profit Shifting (BEPS) initiative includes the voices of developing countries in negotiations and decision-making. The measures adopted under this initiative must tackle MNCs' aggressive tax planning and enable developing countries to obtain their fair share of tax.
- Ensure that the G20 adopts all the recommendations provided in 2011 by the OECD, UN, World Bank and International Monetary Fund to support the development of more effective tax systems. This includes the commitment to undertaking 'spillover' analysis of the impact of their own tax systems on those of developing countries, as well as promoting effective exchange of tax information.
- Ensure that the European Union's new Anti-Money Laundering Directive removes the cloak of secrecy around ownership of companies.

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Christian Aid's report *Who Pays the Price? Hunger: the hidden cost of tax injustice* can be downloaded from christianaid.org.uk/resources/policy/tax.aspx

'Hunger is the greatest challenge of our time'

Endnotes

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Poverty is an outrage against humanity. It robs people of dignity, freedom and hope, of power over their own lives.

Christian Aid has a vision – an end to poverty – and we believe that vision can become a reality. We urge you to join us.

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