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POVERTY

TAX HAVEN SECRECY – KEEPING THE POOR POOR

`There's a building in the Cayman Islands that houses supposedly 12,000 US corporations. That's either the biggest building in the world or the biggest tax scam in the world.' Barack Obama, US President

Imagine the difference US$160bn a year would make to the fight against world poverty: to health, education, sanitation, clean water and other services in the world's poorest countries. It could fund the United Nations' Millennium Development Goals several times over, eradicate malaria and other deadly diseases, or it could help to build people's resilience to ever more frequent drought and floods in the face of climate change.

Yet US$160bn every year is the amount of revenue being denied to developing countries by unscrupulous multinational corporations that use tax haven secrecy to dodge taxes.

Christian Aid's Trace the Tax campaign seeks to challenge the financial secrecy that is preventing poor countries from collecting the taxes they are due.

Tax haven secrecy lies at the root of the problem. Read on to find out why – and how this unjust system can be ended.

What is a tax haven?

Views differ on exactly how to define a `tax haven'. But most of the world's 60-odd tax havens share two distinct features:

- high levels of financial secrecy
- very low or zero levels of tax.

Where do tax havens fit into the global economy?

- More than half of world trade – at least on paper – passes through tax havens.[1]
- More than half of all banking assets and a third of multinational company investments are routed via tax havens.[2]
- In 2010 the International Monetary Fund estimated that the money on the balance sheets of small island tax havens alone amounted to US$18tn – about a third of the world's financial wealth.[3]

Tax havens therefore lie at the heart of the global economy.

Where are tax havens located?

- in Europe, including Switzerland, Luxembourg and the Netherlands
- in places linked to Britain's former empire, including Britain's Crown Dependencies in the Channel Islands, Ireland, the Cayman Islands, Hong Kong, the Bahamas and Dubai
- in countries in the US zone of influence, including the American Virgin Islands, and certain US states such as Delaware and Florida.

What's all the fuss about?

The shifting of profits to tax havens by some unscrupulous companies can cost poor countries billions of dollars in lost tax revenues every year.

The Organisation for Economic Co-operation and Development (OECD) – a body that brings together the world's wealthiest nations – recognises that developing countries are losing more from tax dodging than they receive in aid. Based on extensive research by tax specialists in 2008-9, Christian Aid puts the loss to developing countries at US$160bn a year – more than one-and-a-half times the global aid budget.[4]

Much of this lost tax revenue is ending up in tax havens – sometimes legally, sometimes not.

How do companies use tax havens?

Some multinational companies use tax havens for legitimate purposes – for example, travel companies with operations in the Caribbean. But many other companies use them to hold huge sums of money that would attract tax in other countries. The standard practice is:

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- A company creates a subsidiary company in a tax haven that collects profits made in other countries, including developing countries.
- The tax haven charges little or no tax on these profits.
- The identity of the parent company that owns both the subsidiary and associated bank accounts and trusts in the tax haven is generally kept secret, so that the true extent of profits made and taxes dodged remains hidden.

Financial secrecy: the key to the problem

Companies that dodge tax can do so because of:

- financial secrecy in tax havens
- a lack of transparency in companies' accounts.

What we can do to end tax haven secrecy

A global coalition of civil society organisations from Europe, Africa, Latin America, North America and Asia are calling on world leaders in the G20 to end tax haven secrecy.

An end to tax haven secrecy would make it easier for tax authorities in all countries – including developing countries – to detect where tax dodging is going on and claw back the money they are losing.

Specific measures that would help end tax haven secrecy:

- a multilateral agreement requiring tax authorities all over the world – including tax havens – to exchange information about the assets of companies and individuals in their jurisdictions with tax authorities in other countries
- a new international accounting standard requiring multinational companies to report on their profits made and taxes paid in every country where they have subsidiary companies – including tax havens.

Please show your support for the campaign and send a message to G20 world leaders at: endtaxhavensecrecy.org

ACT NOW TO END TAX HAVEN SECRECY!

How profits are shifted to tax havens to dodge tax

US$160bn is what developing countries are thought to be losing from tax dodging every year – and that's from just two forms of company tax dodging known as 'abusive transfer pricing' and 'false invoicing'. Tax havens are a key link in the often complex chain of financial transactions behind these practices.

Here's a simplified example based on a banana in your fruit bowl. In reality a multinational company sells and ships your banana directly to a supermarket, which then sells the banana directly to you. On paper, the route is more roundabout – via one or multiple tax havens:

A company in a banana-producing country sells a banana to a subsidiary company in a tax haven at a very low price – the same price that it cost to grow the banana in the first place.

As a result, it looks like there's little or no tax to pay in the country where the banana was produced.

The subsidiary in the tax haven then sells on the banana to a subsidiary in another country at a very high price – by claiming (on paper) that high-cost financial services have been incurred in the tax haven.

The profits made on the sale of the banana by the subsidiary company in the tax haven are very high, but the company pays little or no tax on this profit because of the low tax rates in the tax haven. No questions are asked about these high profits, thanks to the secrecy in the tax haven.

Endnotes

1 Figure quoted in Nicholas Shaxson's *Treasure Islands: Tax Havens and the Men who Stole the World*, Bodley Head, 2011, based on a statistic quoted by the Paris Group of Experts in 1999 and on research undertaken by J Christensen and M Hampton. Evidence indicates the share has grown since 1999.

2 See Ronen Palan, Richard Murphy and Christian Chavagneux, *Tax Havens: How Globalisation Really Works*, Cornell University, 2010.

3 IMF Working Paper, *WP/10/38*, in February 2010.

4 See Christian Aid's *False Profits: Robbing the Poor to Keep the Rich Tax-Free*, March 2009, and *Death and Taxes: the True Toll of Tax Dodging*, May 2008.

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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