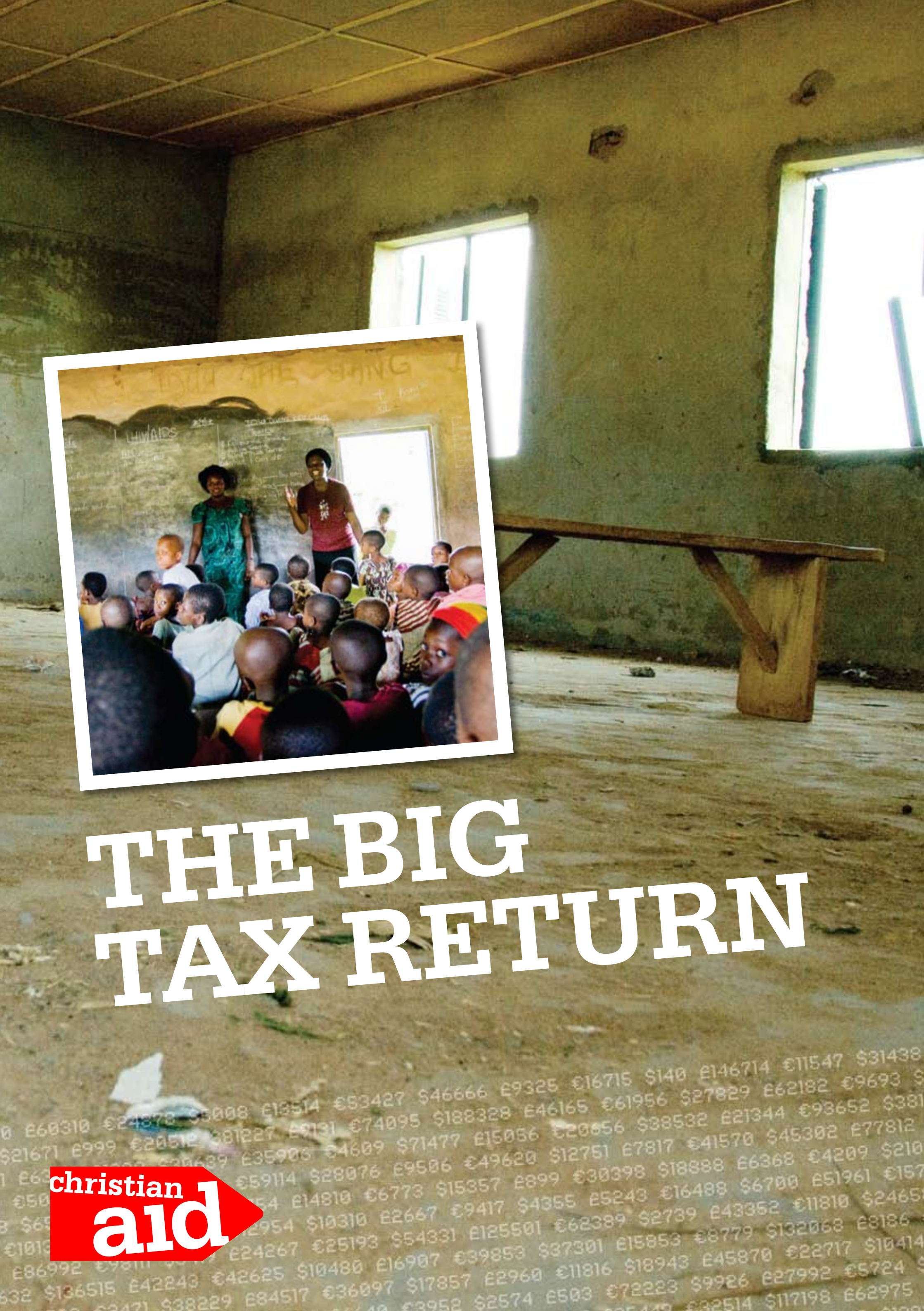


THE BIG TAX RETURN

christian aid

A towering injustice

Imagine if poor countries had the money to help them work their own way out of poverty. The truth is they do – if multinational companies stop siphoning off billions each year in unpaid taxes. The Big Tax Return campaign is about plugging this leak and getting poor countries their money so they can build their own futures.

Things you'll find in this guide:

- **why The Big Tax Return**
- **how tax can make the difference**
- **how companies avoid paying tax**
- **who has the power to make the change**
- **progress so far: success stories**
- **how you can get involved.**

We are arming you with this information because we need you to campaign on behalf of people living in poverty.

We want you to help argue the case for The Big Tax Return with government decision-makers, accountancy firms and international institutions.

Keep in touch with the campaign
www.christianaid.org.uk/tax
020 7523 2264
campaigns@christian-aid.org

'Churches and civil society in Zambia would never have been able to do this work if it were not for the support of our partners like Christian Aid, who support us not only financially but morally as well. My appeal is for them not to relent because the good work that happens here cannot happen without the support [of] our partners everywhere in the world.'
Suzanne Matale,
general secretary,
Council of Churches Zambia

From aid to trade to tax

Christian Aid's aim is to expose the scandal of poverty and to challenge the systems that make and keep people poor. This is why our Drop the Debt and Trade Justice campaigns championed the rights of poorer countries to make their own choices on how best to fight poverty and develop economically. And it's no different with tax. If poor countries receive the tax revenue due to them, they will be raising far more money through their own resources and efforts than they are currently getting in aid.

The Big Tax Return campaign aims to expose and change the scandal of a global tax system that allows the world's richest to duck their responsibilities while condemning the poorest to stunted development, even premature death.

'At least US$160bn a year in unpaid taxes is siphoned from developing countries by multinational companies. That's about one-and-a-half times the global aid bill and about four times the cost of meeting the millennium development goals.'
Christian Aid,
Death and Taxes, 2008

You challenged aid and trade injustice. Now it's time for tax. Above (left): delivering a clear message to then prime minister Tony Blair; (right) campaigners for trade justice

What do we want?

To expose and change the scandal of an unjust global tax system

How tax can make the difference

Tax is the main way wealthy governments raise money. In the UK, the government uses taxes from individuals and businesses to provide essential public services such as healthcare, education, transport and security.

Poorer countries are not raising money like this. It is impossible for them to collect large amounts of taxes from people who survive on less than a dollar a day.

Meanwhile, many businesses making substantial profits from a country's resources are not paying their dues – in particular, multinational companies. This is deeply unjust.

'Illegal trade-related tax evasions will be responsible for some 5.6 million deaths of young children in the developing world between 2000 and 2015. That is 1,000 a day. Half are already dead.'
Christian Aid,
Death and Taxes, 2008

With a transparent and fair global tax system in place, the world's poorest nations would be able to hold companies to account and receive their rightful share of the profits. Then they too would have money to spend on public services.

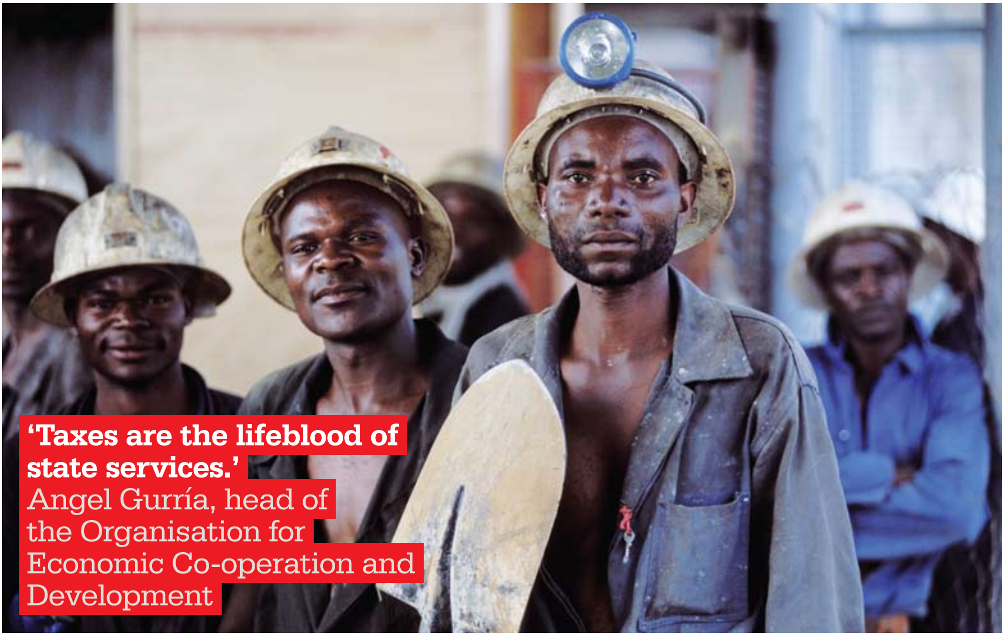
Tackling corruption

Democracy is strengthened by a clear and open tax system. If everyone can see how much money companies make in a country, government leaders are much less able to strike deals with multinationals that line their own pockets while undermining their country's overall wealth.

To survive, governments then have to become more accountable and start to invest in things that their people desire, such as effective public services and institutions.

This makes them stronger and better able to resist pressure from richer, more powerful governments to adopt policies that do not benefit their own country.

Pictured above (left): syringe recycling in India. Tax would be a big boost to public health; (right) miners in Zambia set to benefit from The Big Tax Return



‘Taxes are the lifeblood of state services.’
Angel Gurría, head of the Organisation for Economic Co-operation and Development

Life without tax

Zambia, in southern Africa, has some of the richest deposits of copper in the world. But, like other mineral-rich African countries, it failed to benefit from a world price boom between 2003 and 2008. This was partly because of pressure from the World Bank to keep taxes low. In addition, the multinational mining companies pursued an aggressive strategy of tax avoidance. They did this in a number of ways, for example by pushing for special tax breaks and keeping secret the details of mining contracts.

In a country where only two per cent of people in rural areas have access to clean drinking water, there is an urgent need for more tax revenue.

Zambian churches and civil society are continuing the struggle to ensure a fairer tax deal in the country’s mining industry.

Zambia’s natural resource wealth belongs to its people. They have a right to benefit from the money made from their country’s resources.

‘Copper is a resource that belongs to all of us in Zambia and if it makes money we all have to share in the proceeds.’
Suzanne Matale, general secretary, Council of Churches Zambia

What do we want?

A transparent and fair global tax system

Where the money goes

‘There’s a building in the Cayman Islands that houses supposedly 12,000 US-based corporations. That’s either the biggest building in the world or the biggest tax scam in the world.’
US president Barack Obama, talking about tax havens

Because of tax and accounting rules that do not insist on transparent procedures, multinationals are able to reduce the tax they pay legally (known as avoidance). Some also do it illegally (evasion). Either way, it’s wrong for multinationals to manipulate their declared profits in order to reduce the amount of tax they pay. Critically, in poorer countries, these taxes could pay for health, education and social services.

The world of tax avoidance and evasion is complicated, and it is difficult to calculate the full scale of the problem. Christian Aid has worked out that poorer countries lose out to a figure of US$160bn annually through just two forms of tax evasion: transfer mispricing and false invoicing. Lack of regulation in tax havens also plays a part.

Two real-life examples of transfer mispricing

The diagrams on the right illustrate two examples of transfer mispricing: one an artificially reduced price from Africa to North America; the other an artificially inflated price from North America to Africa.

They were taken from recent research, which revealed numerous examples of transfer mispricing.

What do we want?

No more secrets.

We must have a transparent system where companies declare their profits in the actual countries where the profits were made. This is country-by-country reporting.

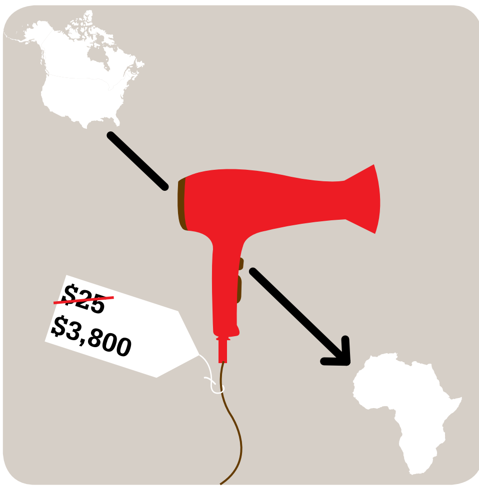
Transfer mispricing
This is where, in order to avoid paying tax, companies sell goods and services to sister organisations at inflated or deflated prices, often using the secrecy and lack of regulation in tax havens to do so.
For example:

- a multinational parent company (parent co) mining, say, diamonds sets up a sister company (dummy co) in a tax haven
- the parent co then sells diamonds mined in one country and with a value of £100 to the dummy co in the tax haven for £50, thus shifting £50 of profit out of the first country
- the parent co then claims that the diamonds cost £50 to extract
- parent co declares no profits in the country where the diamond was mined, successfully avoiding paying corporation tax
- dummy co then sells the diamonds for £100, thus making £50 profit and paying no tax.

False invoicing
This is where two separate companies charge each other for goods and services that are never exchanged or at a price that is artificially inflated or deflated. For example, an importer in the developing world will claim it has paid a foreign supplier a higher price than it has so that it can report lower profits and therefore pay less tax.

The reverse can also happen, where an exporter based in a developing country will deliberately undervalue what is being sold, on paper at least, so that declared profits are once again low.

This is an extremely difficult form of evasion to detect as it is often based purely on verbal agreements between buyer and seller.



How we can pressure multinationals

We want the little known but very powerful International Accounting Standards Board (IASB) to introduce country-by-country reporting. This would help to assess how much tax multinational companies should be paying. Everyone would be able to see:

- where a multinational is operating, including its subsidiaries
- a multinational's name in each country
- what its financial performance is in each country
- the profits it declares and taxes it pays in each country.

So who has the power to make this a reality?

- the IASB
- the Big Four accountancy firms
- the UK government
- the European Union (EU).

You can target all four.

The G20 global economic forum is now waking up to the need for greater transparency but there is a lot to do. Let's keep them at it.

What do we want?

Companies must pay the right tax in the right countries at the right time

The UK government

Prime minister Gordon Brown said in September 2008: 'Some say this time of financial turbulence is the time to postpone the dream of achieving the millennium development goals (MDGs), but this would be the worst time to turn back.'

If the UK government is serious about its support for developing countries, it needs to ensure that companies pay the right tax in the right countries, at the right time. If tax evasion by multinationals were stopped, the MDGs (which aim to halve extreme poverty by 2015) could be paid for several times over.

The City of London is home to the IASB, the Big Four accountancy firms and many of the world's largest multinationals. This places the UK in a unique position to be able to influence these organisations.

The Big Four accountancy firms

They are PricewaterhouseCoopers, Deloitte, Ernst & Young and KPMG. They audit the accounts of all of the FTSE 100 firms (the 100 biggest companies registered in the UK). They have a considerable amount of influence over the IASB: they help fund it and half of the IASB board members are former employees of one of the Big Four.

The EU

The EU as a trading block is the world's largest economy and therefore carries a significant amount of influence. The EU government signs IASB rules into EU law for its 27 member states. France and Germany are very keen to see greater transparency in the way corporations declare their profits, and there is now demand for the EU to be less accepting of tax avoidance and evasion.

International Accounting Standards Board (IASB)

A self-appointed body comprising nominees from large accountancy firms. It devises the rules covering how corporations should produce their annual accounts. More than 100 governments worldwide, including the UK and all other members of the EU, tend to rubber-stamp its findings into law. It could devise new accountancy rules insisting on country-by-country reporting.

Country-by-country reporting

It allows everyone to know:

- ✓ where a multinational is operating, including its subsidiaries
- ✓ a multinational's name in each country
- ✓ what its financial performance is in each country
- ✓ the profits it declares and taxes it pays in each country.

YOU can target them all

As citizens we have the power to call the UK government as well as other institutions and companies to account. Let's use our power together.

Fairer tax: it really does work

Most people in Bolivia are poor, despite the country having incredibly valuable oil and gas resources. In 2003, massive popular protests began that called on the government to use these resources to address poverty, with Christian Aid partners among those campaigning for change.

In 2006 new laws were introduced that dramatically raised the taxes paid by multinationals profiting from oil and gas exports from as little as 18 per cent up to 50 per cent. This generated an estimated US$1.57bn in 2007 – up from US$173m in 2002.

Now money from these taxes goes straight into social programmes, including funding pensions for older people and annual school grants and nutrition programmes for children.

Achievements

Like hundreds of thousands of people, Emitilla spent her life living hand to mouth with no savings. Now, at 77 and too old to continue her work as a cleaner, she is entirely dependent on her monthly state pension. 'If we didn't have this, how would we survive?' she asks.

The pension eases pressure on Emitilla's children, who struggle to support their own families. Now fewer older people are abandoned by their families, and they are not forced to work until the day they die.

Nine-year-old Omar is one of 1.7 million primary-school children receiving the annual school grant. Until this was introduced Omar's mother had to choose between buying school uniforms and

Pictured (far left): Emitilla now looks forward to a sunnier old age; (left) sucking up the goodness: mineral-enriched supplements have slashed anaemia rates in La Paz schools

books or food for the family. The grant is an incentive for parents to keep their children in school, especially girls in rural areas who were usually the first to be taken away from their studies to cut family costs.

The school breakfast programme guarantees at least one meal a day to children in primary schools across the country. In the capital, La Paz, adding vitamins to these meals has cut anaemia levels by one-third. Children are healthier and are better able to concentrate on their lessons.

What do we want?

The justice of people benefiting from the money made from their country's resources

By joining The Big Tax Return campaign, you can make a difference to poor countries' ability to change their own lives. Turn over to find out how...

What we want you to do now

- Go online to find out more and take action today. Visit: **www.christianaid.org.uk/tax**
- Become one of our specialist tax campaigners – you will receive extra regular news on the progress of the campaign and training on the issues. Then you can work with us to spread the message.
- Contact **campaigns@christian-aid.org** for more information.

What do we want?

New accounting standards that will require companies to reveal the profits they are making and taxes they are paying in every country around the world

The correct spelling of the word 'aid' is 'T-A-X'.
Trevor Manuel,
South African
finance minister

For more information on the campaign, check our website www.christianaid.org.uk/tax

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