Tax avoidance as key element of growing inequality & poverty.

Low-tax jurisdictions, “pass-through economies” and tax havens undermine tax collection worldwide.
"Tax havens are at the center of the financial crisis."


“Loopholes for some mean higher tax rates for everyone else.”

The Economist (July 2013)

"Businesses must pay taxes wherever their economic activity and where added value is created”

G20 Summit, Declaration of the Heads of State (2013)
Destruction of the social contract

Taxation system is obsolete and unfair, designed to foster systematic tax evasion and avoidance by multinationals.

This is gradually destroying the basic social contract that makes people accept paying taxes, depriving both developed and poor countries of funds necessary to provide basic social services.
Current state of events 2020

Virtuous of the north, fiscal sinners.

The COVID-19 pandemic has brought the world economy to its knees. Fiscal bonanza of some northern countries (and ex-colonies) is not only explained by their ability to save. 

Global profit shifting by multinationals distorts competition, trade & investment patterns; affects the location of financial and other service activities; increases inequality and promotes loss of tax revenue worldwide.

Source: The Missing Profit of Nations.
Why should be worried?

THE CONSEQUENCES OF TAX EVASION: BIG NUMBERS, HUGE PROBLEMS.

01 It weakens and impoverishes the State. Less tax collection means less hospitals, fewer schools, less healthcare. All citizens suffer.

02 It increases the fiscal effort that citizens must bear. Those who do not have the mechanisms or resources to invent sophisticated plots are the ones that must support the State's funding effort.

03 The principles of the social contract get broken. The voluntary compliance to pay taxes and the democratic foundations are broken, thus causing social unrest worldwide.

At least half of world trade passes through a tax haven.

60% of world trade is between companies of the same group, so they can more easily alter the conditions in which the operations.

42% of the net profits of large North American companies comes from tax havens.

Latin American assets in tax havens is equivalent to all of Brazil's GDP.

Source: OXFAM.
Massive need for public sector resources, huge demands on government budgets that highlights the need for a global equitable international tax system. It is imperative to start taxing those who have avoided paying their fair share in the past.

INTERNATIONAL COOPERATION IS FUNDAMENTAL TO OVERCOME THIS SITUATION AND STOP GLOBAL PROFIT SHIFTING.

### Current state of events in numbers

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<th>GDP &amp; Trade</th>
<th>Capital Outflows</th>
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<td>2020, worst performance ever. GDP World - 4.2% GDP LATAM -5.3% GDP Asia 0% Volume of world trade could fall 32%</td>
<td>From emerging markets US$ 100 billion in the first two months of COVID-19. Global remittances decline by 20%.</td>
<td>Public sector has spent US$ 4.9 trillion. Large fiscal deficits: debt-to-GDP ratio will increase by 30% in advanced economies and 10% in developing countries in 2020.</td>
<td>Will lose as much as US$ 3.4 trillion in earnings. Unemployment: 1 billion workers.</td>
<td>US$ 7.6 trillion sleep in tax havens, 10% of world GDP or 60% of LATAM GDP. Missing profits: 40% of multinational profits are missing US$ 700 billion in 2017</td>
<td>Direct loss in taxes per year due to corporate tax avoidance: US$ 50-70 billion for EU countries, developing countries US$ 170 billion. Between 2007 and 2009 global tax revenues dropped by 11.5%. Now, could be worse.</td>
</tr>
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Europe

Virtuous of the north, fiscal sinners.

The fiscal bonanza of some of them is not only explained by their ability to save.

Ireland, Switzerland, United Kingdom (ex-colonies in the Caribbean), Luxembourg and the Netherlands.

85%  
The 5 are responsible of 85% global corporate tax avoidance.

33%  
Ireland, Luxembourg and the Netherlands received about 33% or US$185 billion.

10%  
The Frugal Thief: 10% end up in the Netherlands.

Source: The Missing Profit of Nations; Council on Foreign Relations.
Being a tax heaven
Very attractive idea.
Lowering the Tax Rate Pays Off

So...let's all be like Ireland

Many havens collect a lot of tax revenue by applying low rates to the huge tax base they attract.
Race to the bottom: Leprechaun economics

1980
- COMMON CORPORATE TAX
  Global average corporate tax rate was 50% same as Ireland.

1990
- FINANCIAL GLOBALIZATION
  Global average corporate tax rate declined to 40%.

2000
- BEGGAR THY NEIGHBOR
  Ireland’s leprechaun economics set a corporate tax of 20%.

2020
- GEOGRAPHIC DISCONNECTION
  Ireland’s corporate tax stands at 12.5%, 9.5% or even zero vs. world average of 25%.

What’s next?
+ VULNERABILITY
  Tax collection in developing countries is 10%-20% of GDP vs. 40% in advanced economies. LATAM and Africa are more vulnerable: taxes represents 15% of total tax revenue vs. 9% in OECD countries.

IRELAND: “beggar thy neighbor policy”

Services trade data tells you more about tax avoidance than about actual trade.

R&D Exports

70% of all U.S. exports of R&D are to low-tax jurisdictions.

Missing Profits

40% of all corporate profits are transferred to low-tax jurisdictions.

Leprechaun Economics

Pre-tax corporate profits (% of compensation of employees)

Special purpose entities of US multinationals in tax havens are abnormally profitable.

Be like Ireland

Pre-tax profits of affiliates of U.S. multinationals (% of compensation of employees)
The fallacy of financial globalization

Not all FDI is created equal

Global FDIs

US$ 40 trillion

A lot of financial globalization has been driven by tax avoidance.

Phantom in nature

Reinvested earnings among corporate shells equal to the combined annual GDP of China + Germany.

50%

50%

37%

US$ 15 trillion

40%

Small brotherhood

Hong Kong, the British Virgin Islands, Bermuda, Singapore, the Cayman Islands, Switzerland, Ireland, and Mauritius.

Siamese brothers

Luxembourg and the Netherlands

Luxembourg (600,000 people, US$4 trillion in FDI) equals U.S. in terms of FDI reception, much more than China.

Source: IMF
In less than a decade, phantom FDI has climbed from 30% to almost 40%.

Most FDI stems from mergers and acquisitions, not greenfield investment.

Rising “globalization” could simply mean more tax arbitrage, not more real integration.
Globalization brings geographic disconnection

**Digital Companies are the Big Beneficiaries.**

They accumulate their fortunes in tax havens, avoiding paying their corresponding taxes in the countries where they operate and earn income.

In 2018, digital companies paid an average effective tax rate of 9.5% within the EU vs. 23% paid by traditional businesses.

Notes: This graph shows the difference between Apple’s, Facebook’s, Alphabet’s, and Nike’s global consolidated profits, and the sum of the profits made by Apple’s, Facebook’s, Alphabet’s, and Nike’s subsidiaries, as recorded in Orbis. The difference is due to the fact that the subsidiaries where these firms make the bulk of their profits are not visible in Orbis. Source: authors’ computations using Orbis data.
Profit shifters & tax avoiders all over the economy

Tax haven firms are abnormally profitable within all economic sectors.

Only 17% of multinationals’ profits are visible in financial accounts micro-data.
Tax evasion mechanism:

FISCAL ENGINEERING & MECHANISMS TO PAY LESS

01 Dutch Sandwich and Double Irish: setting up “special purpose entities” in tax havens, low-tax jurisdictions and “pass-through economies.

02 Transfer pricing: manipulation of intra-group export and import prices among subsidiaries.

03 Intra-group interest payments & loans (tax deductible).

04 Strategic location of intangibles: allocation of intellectual property among subsidiaries in low-tax jurisdictions.

05 Double taxation agreements: abuse of these agreements, which are intended to avoid taxing twice the same profit.

The huge profits of foreign firms make tax havens abnormally profitable.

The unrecorded profits of multinationals in tax havens.
Base erosion and profit sharing affect us all

MONEY IN TAX HEAVENS
US$ 7.6 TRILLIONS
10% of world GDP, 60% LATAM GDP

MISSING PROFITS
US$ 700 BILLIONS
(2017)

DIRECT LOSS
DEVELOPING ECONOMIES
US$ 170 BILLIONS
P/YEAR

73% of tax heavens belong to OECD,
27% to developing countries.

DIRECT LOSS EU
US$ 50 - 70 BILLIONS
P/YEAR

DIRECT LOSS AFRICA
US$ 14 BILLIONS
P/YEAR

Fuente: World Gold Council, Statistica, the World Bank, CoinMarketCap

Source: Tax Justice Network; Oxfam; The Missing Profit of Nations.
Who loses most?

**EU COUNTRIES ARE THE BIG LOSERS BUT DEVELOPING ECONOMIES ARE THE MOST VULNERABLE.**

Where do the shifted profits come from?

EU countries lose 35% of total corporate profits but have a higher tax collection ratio (40%) and lower vulnerability (corporate taxes as % of total tax revenues is 9%).

**DEVELOPING COUNTRIES**

01 Lower tax collection as % of GDP: 10% – 20%.

02 Higher vulnerability: in LATAM and Africa corporate taxes represents 15% of total tax revenue.

03 Developing countries should not give away their taxing rights.
Real numbers, real consequences

The consequences of tax evasion & avoidance on real people.

Lost of fiscal revenues in Africa

- 65% Tax avoidance & evasion
- 30% Criminal activities
- 5% Corruption

Africa could save the lives of 4.0 million children without the burden of current levels of tax leakage.

The EU stops collecting every year the equivalent of twice of the public spending on health for 508 million inhabitants.

Developing counties could finance the education of 124 million children with the evaded taxes.

Tax evasion in LATAM would be enough to help getting out of the poverty line 32 million people, equal to all the people living in poverty in Bolivia, Colombia, Ecuador, El Salvador and Peru together.

Source: Oxfam
Number One Priority

TAX AVOIDANCE

GLOBAL WARMING

By starving countries of money needed for education, healthcare and job creation, tax havens are exacerbating poverty and inequality across the world. All citizens lose out.
Inequality and poverty:

THE HIDDEN COST OF TAX AVOIDANCE & TAX EVASION

Inequality is increasing worldwide partly because the super-rich and multinationals pay less and less taxes.

As a result, governments must cut these services or compensate for the scarcity of resources by raising taxes on the rest of the citizenry. Both options harm the poorest, increasing the inequality gap.
Global remittances are expected to fall a record 20% this year alone - more than during the Great Recession in 2009.

According to the World Bank, +70-110 million people are pushed back behind the line of poverty - living on less than $1.9/day.
Inequality and poverty

This international tax system and evasion is undermining the welfare state even in wealthy countries.

The social elevator is not working since 2008.

Net average income (Index 2008 = 100)

Increasing inequality in wealthy economies

% of GDP in the hands of the richest 10%

Rising social tensions are inevitable within this reality.
Monetary stimulus amplifies the wealth gap in the US.

When inverted, the Fed’s balance sheet asset has followed the share of total assets held by the bottom 50% remarkably close.

Since QE 1 started, the less financially privileged parts of the society have suffered from a shrinkage of wealth.
Actions to be taken

01. Same Criteria
   The OECD and EU should strengthen the listing criteria of tax havens to include the pass-through economies adding zero-tax and low-tax regimes.

02. Ban Patent Boxes
   Governments should ban the use of patent boxes and similar measures that entice companies to shift their profits from one country to another to avoid paying tax.

03. Unify Taxation
   Minimum effective corporate taxation at 15% worldwide and progressive taxation on digital & tech companies to reduce the incentive for companies to shift profits to low- or zero-tax countries and end tax competition between countries.

04. More Transparency
   End corporate tax secrecy by ensuring all multinational companies publish financial reports for every country in which they operate. Transparency and public country by country reporting.

05. Global Governance
   Strengthen global tax governance by creating a global tax body where all countries can work together on an equal footing to ensure the tax system works for everyone.
06. International Reform

The need for a World Fiscal Summit to be held under the UN umbrella, that could promote a reform of the international tax system.

07. "Source" Principle

Worldwide adoption of the principle of "source", by which all companies would essentially pay taxes where the company develops the economic activity (usually in developing countries).
The Pandora’s box is now open

As the COVID-19 deficit climbs into the trillions, a tax plan targeting digital companies is getting new traction and “likes”.

An effort to capture the profits of businesses with little or no physical presence in markets where they do business and create profits from.

French quest to bring fresh tax money

“CAFA tax” (Google, Apple, Facebook and Amazon): imposes 3% levy on the total annual revenues of the largest technology firms providing services to French consumers. The French Economy Ministry said it believed the tax would raise €500 million per year.

Fast and furious response

President Trump has vowed to impose $2.4 billion in tariffs on French goods and to any other country he dare to impose tariffs on US multinationals.

Limiting the scope after threats

France, the U.K., Italy and Spain offer to limit digital tax after U.S. threats. The finance chiefs from the four countries offered to proceed with a “phased approach”, delaying the discussion to the end of 2020.
International cooperation is fundamental to stop tax avoidance.
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