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of the European Union

FRESH-UP ECONOMICS

Tax Injustice in the Global South

– Causes, Consequences & Solutions

By Meaghan Carmody, Financial Justice Ireland

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1. Overview

Tax is a crucial part of the story of global injustice. Unfortunately, many people hear the word tax & recoil - it seems dense, boring & perhaps a topic best left to the 'experts'! This guide will help you understand just what tax is, why it is so important, what global trends threaten fair tax collection, & what might be done to help solve tax injustice globally. Read on for the short version, & keep note of the sentences written in red. These are questions or reflective prompts to help you dive deeper into what you're learning about!

So what do we mean by tax? A tax is a compulsory contribution made by people in a country to the state of that country. Taxes are also paid by businesses, again to the state. In general, the state then decides how to use the tax to 'defray' or mitigate some of the expense of running the country. Importantly, tax isn't a transaction. One person or business cannot say to the government, "I gave you ___ in tax, & I now want a road/hospital/street light in return". It is not an exchange, rather it is a duty that we all pay. It has even been described as the price paid for having a government!

Specifically though, tax has a number of functions, & surprisingly, not all are directly related to the impact of the extra money that the state has at its disposal. These functions can easily be remembered with the handy mnemonic - 'the 4Rs of taxation'. Firstly is **revenue.** This funds essential public services that are critical for the smooth functioning of a country, like education, healthcare, transport infrastructure etc. This revenue allows governments to plan into the future, something not always possible with aid or grants. The second function of tax is to **redistribute** wealth in order to reduce inequality in society & protect those most vulnerable & in need. However, redistribution can be done in more or less just ways, & this depends on how *progressive* or *regressive* the tax system is. The third function of tax is in the **repricing** of goods, whereby social 'bads' might have an extra tax put on them, & social 'goods' might get tax relief. What might an example of a social 'bad' be? & a social 'good'? Finally, tax can actually increase the extent to which citizens feel **represented** by their elected representatives, & so can actually encourage democratic participation. Think about it; if you pay tax to an authority, but that authority does not listen to your views about what is needed in your community, what might happen…? That's right, they may not get your vote again! It's in their interest to listen to you, & one of the reasons you get a say is because you pay tax. This unwritten agreement between citizens & elected decision-makers is what's known as the **social contract.** Finish the anti-British slogan at the time of the American Revolution, "_________ without ___________ is tyranny!"

Tax is a key tool for ensuring what is known as 'distributive justice', meaning that the benefits & burdens of social cooperation (e.g. tax) are shared fairly. But why is *this* important? Distributive justice is important because ensuring global justice requires that all states have the capacity to secure a *just* distribution of advantages between their citizens. However, because of the global tax rules & in particular the exploitation of loopholes in tax systems, many governments are prevented from having enough revenue to meet the needs of their citizens. And it's not just that the tax rules prevent many governments from receiving their fair share of tax, it is also that the lack of tax revenue triggers a self-reinforcing cycle, whereby state institutions such as those to collect tax are degraded so much over time by insufficient tax revenue, that the task of collecting tax becomes increasingly difficult! This has knock-on effects on all of the public services that governments need to provide to their citizens in order to ensure human rights are not breached. Can you think of some human rights that could be negatively impacted without sufficient revenue to provide public services?

The story doesn't end there however. Reflect on what governments might do if they foresee a deficit in their balance sheet. In these situations, they may continue to cut their spending on public services, or even increase taxes on the everyday person, for example Value Added Tax or VAT which is the same for everyone regardless of their incomes (it is 'flat'). Now consider who may be more impacted by cuts to public services, & by increases in 'flat' taxes? That's right; those already poor & vulnerable, & even women & girls, especially if extra VAT is placed on sanitary products, something which has happened frequently.

It does not stop there however. We must ask, what role does the global financial system have to play in this scenario? You may think that in situations where human rights are at risk, global organisations would swoop in to support countries in need. Well many 'International Financial Institutions (IFIs) do, such as the WB & IMF. Can you find what these acronyms stand for? Individual countries can also help. However, most of this financial support is given in loan format, rather than as grants, or aid, or even interest free loans. What is the difference between a loan & aid or grants? & with the IFIs, they have actually used the threat of withholding financial support in the form of loans as a way to promote certain ways of doing things economically around the world. For example, 'tied' to this support are conditions around removing trade barriers, increasing VAT, reducing taxes on foreign investors & more. There are some reasons for this; such as remaining neutral towards business, not hindering competition, & leaving companies with as much profit as possible so that this profit either flows down into our pockets or is transformed into higher wages, better machinery etc. However, these assumptions do not hold when put under the microscope. This suite of policy 'recommendations' is called the **tax consensus**.

The fundamental problem is that our global financial system is replete with loop holes & escape hatches, like a giant game of snakes & ladders. Not even 100 years ago, companies were fixed to where they had a factory, their raw materials, their employees. But today, companies are complex, with many tentacles stretching out all over the world. A company's headquarters might be in country A while raw materials accessed from countries B & C & manufacturing happens in country D. The world is not a single country, & tax laws differ across borders. 'Aggressive' tax planners & 'creative' accountants exploit these mismatches in rules to allow companies to shoot up a ladder, bypassing fair rules, or to use an escape hatch (research what 'capital flight' means), leaving to somewhere more favourable when the rules no longer suit them. As a result, instead of *companies* competing for market share, we increasingly see *countries* competing with one another on tax laws in order to attract investment, resulting in a **'race to the bottom'** on corporation tax.

This tax dodging can be legal (called tax avoidance) or illegal (called tax evasion). Do you think something that is legal is always ethical or moral? Shockingly, this tax dodging costs developing countries more than they receive in aid. Corporate tax is more crucial in these countries than Global North countries because in the Global South, a large portion of the population don't make enough money to earn tax. If multinational corporations (MNCs) paid their fair share of tax in these countries, it could make a huge difference.

There are some solutions however, which if implemented would make a significant difference & help to alleviate global poverty by giving **fiscal sovereignty** back to developing countries. One solution is for tax authorities around the world to automatically share information about what's in bank accounts in their countries with other relevant countries. This prevents companies & wealthy individuals from hiding their money in tax havens, where tax rates are very low. Another solution is to uncover the person at the head of companies that actually benefits from owning the company. Many people are surprised to learn that companies can actually pay people to be the public face of their company, so that the real owner stays hidden. This needs to change, & the names of the **beneficial owners** (who have to be human!) need to be made public. Next, companies with many tentacles (subsidiaries) should be taxed as if they're one company, not many. Finally, the UN should be responsible for global tax regulation, not the OECD. This is because the OECD is actually more so a club of rich countries, whereas the UN is the only global institution where governments participate as equals. Surely this is then the best forum with which to determine global action to reduce inequality.

2. Background information

What is tax?

"Taxation is key to the character & functioning of the state, the economy & society as a whole."
- Solomon Picciotto[1]

Before facilitating any session to do with tax, it is important to ensure a common understanding of 'tax'. Taxes have been described as the price paid for having a government, paid by anyone who benefits from the existence of the state & the public services it provides. The formal definition of a tax is "a compulsory contribution levied upon persons, natural or corporate, made to the public authorities in order to generate revenue to help defray the expense incurred in conferring common benefits upon the residents of the state[2]". In more simple terms, a tax is compulsory, increases government revenue/income, is placed upon those *incorporated* which means both people & corporations[3], & is used for the purposes of offsetting some of the costs that are incurred by governments in the process of providing public services to their population. Tax is a core element of what is known as fiscal policy, or government policy concerning in particular public revenues & taxation.

Even though it is a payment from one party to another, tax differs from a regular transaction as it is not paid with the expectation that a specific output is given on payment, in the way that we may exchange money for food or clothing. In other words, there is no *quid pro quo* (direct return) in the case of a tax. Instead, taxes are paid to the authorities & it is they, along with councils etc. (depending on the decision-making structure of the country's public institutions) who ultimately decide (with more or less input from & responsiveness to the population) what tax revenue should be used for & how it should be apportioned between services.

In contrast however, some argue that tax is a way for governments to deprive citizens of their hard-earned money. The Neoclassical school would be of this approach, arguing that low tax rates allow the private sector to flourish[4]. This analysis of tax ignores the reasoning behind tax systems, namely that their existence supports the fulfilment of economic, social & human rights. The human rights legal framework states that the minimum requirements needed to fulfil economic & social rights include providing sufficient foodstuffs, essential primary healthcare, basic shelter & housing, & the most basic forms of education[5]. Tax is crucial for ensuring that these rights are fulfilled.

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[1] Lecturer, author (book *International Business Taxation*, 1992, & *Regulating Global Corporate Capitalism*, 2011) & co-founder of the Tax Justice Network

[2] Investopedia

[3] Note the existence of "corp", in Latin meaning anything to do with the body.

[4] See here for a useful & interactive resource explaining this perspective https://courses.lumenlearning.com/wm-macroeconomics/chapter/supply-side-economics/

[5] Unicef

What are the purposes of tax? 4Rs & 2Ss.

Revenue

Tax has four key purposes, which are often referred to as 'The Four Rs of Tax'. The first of these is generating revenue, or government income. This revenue provides three functions:

1) It is used to fund **essential public services** like education & healthcare, as well as infrastructure like roads, street lights, & bins.

2) It is also related to the **strengthening of the democratic process**, because when governments receive revenue via tax, it places the citizens of that country in a position whereby they can demand to have an input into how the revenue is spent. Tax is therefore related to democracy.

3) It provides governments with the **predictability** needed to be able to make financing decisions into the future. For example, if a government was using only aid to pay the salaries of all nurses, doctors & teachers, what would happen if that aid were to be removed?

Redistribution

The second purpose of tax is to support the **redistribution** of wealth. Redistribution refers to redistributing the country's resources from the wealthy towards the poorest & most vulnerable people, which can help to reduce inequality in society. This is seen as an 'active' fiscal policy and is in line with the Keynesian school of economic thought.

However, redistributing wealth via tax can be done in a number of ways, & not all are equally just. In fact, the way a country's citizens are taxed can either lessen or increase equality. Therefore the already existing income inequality means that it is not solely enough to increase the *amount* of tax, instead governments must decide *how* to tax its population in order to ensure an equitable burden that does not worsen existing inequality.

Specifically, there are two ways in which tax can be applied on individuals in society that can lessen or increase income inequality. These two ways are **progressive** or **regressive**. A reliance on consumption taxes like sales tax or value added tax (VAT), for example on food or fuel is seen as regressive as everybody is taxed the same amount regardless of their financial status. In contrast, an example of a **progressive** tax is income tax in some countries, as index bands change the tax rate based on how much income is earned, & the more people earn, the more tax they pay (to a point). This is because the marginal utility (i.e. the usefulness of the surplus) is lower as one earns more money . For example, when a person has less money, each unit of that money becomes more valuable. Think about it; the marginal utility of €10 to a person earning €4,000 per month is much greater than to a person earning €10,000 per month.

Repricing

The third purpose of tax is the **repricing** of certain goods. Items may be taxed according to whether they constitute a public 'good' or public 'bad'. Tax can be applied to create a price that accurately reflects the benefits & costs to society. For example, higher taxes on cigarettes & alcohol may discourage their use, both of which are negative for people's health, while tax breaks on the price of bicycles or electric vehicles may incentivise people to choose these modes of transport that are better for the environment & human health. In this way, tax can be used to deter behaviours that are considered socially undesirable, & can be used to incentivise behaviour that is considered desirable to society.

Representation

The final R of taxation is **representation**. Citizens & other entities are generally only required to pay taxes if the taxing authority provides them with a political voice via elected representatives. The relationship of taxation to representation goes back to the time before the American Revolution. At the time, the anti-British slogan "Taxation without representation is tyranny" reflected the resentment of American colonists at being taxed by the British parliament, a political body to which they elected no representatives. Tax can therefore build healthier democracies, because as populations are taxed, they tend to demand stronger political representation & governance. This dynamic has contributed to the emergence of what is known as the **'social contract'** or '**fiscal contract'**, whereby tax-paying members of society vote for certain candidates & in doing so expect them to raise & spend the taxpayer's revenue in a way that benefits the voter. A study found that in 113 countries between 1971 & 1997, introducing or increasing taxes without simultaneously increasing or improving service delivery led to citizens demanding their rights, & to subsequent democratic reforms[6]. This trust given to authorities by citizens when paying tax is important for building a shared accountability between citizens & governments. However this trust is threatened by a perception of unfairness, which tends to increase when ordinary citizens feel that they are paying too much, while the richer players are not contributing their fair share.

Stability

Another purpose of tax is (**macroeconomic) stability**. Tax provides macroeconomic stability by being used as a fiscal lever in times where there is too much demand & not enough supply of certain goods or services in the economy. This situation can increase inflation, defined as the general price of goods & services as measured by the Consumer Price Index (CPI). Imposing a tax on the scarce goods or services can reduce demand, & therefore reduce inflation.

Sustainability

Finally, tax is a more **sustainable** source of finance for southern governments for a few reasons. Firstly, it is less likely to be vulnerable to the sudden removal of money or capital from a country, so called '**sudden stops'**.

Secondly, tax from revenue isn't subject to interest repayments, unlike debt. Financing projects via debt can result in the tax raised domestically going towards paying off the debt, reducing the revenue available for public services. Debt servicing can thus swallow tax revenue. For example, in Nicaragua in 2008, debt servicing swallowed one quarter of the entire annual tax take, which was equivalent to 36% of total public spending & was more than the country's entire health budget that year. Another example can be found in the Philippines where the debt service from 1986 to 2008 for interest payments averaged just over 25% of the country's national budget. This was without paying off any of the principal of the loan; it was solely paying the interest. More recently in 2010, just under 25% (24.34%) of the Philippines' budget was spent

[6] Ross (2014)

on interest repayments & just under 30% (28.95%) went towards paying off the principal. In contrast, 28.5% total was allocated to public services like health, education & housing[7].

The third reason that tax may be preferable to debt as a financing tool is that with loans, external donors (that don't necessarily understand the needs of the country) can dictate how the loan is spent, rather than the domestic government. Increasing the domestic tax take reduces a country's reliance on external loans & the debilitating repayment of these loans into the future, & affords them increased agency & space to determine their own national policies (fiscal sovereignty) rather than having them dictated by donors.

What about aid?

There is a role for foreign aid, however there are a number of issues attached to relying on aid rather than tax revenue as a source of national finance. Firstly, aid can encourage rent-seeking behaviour in the political elites in the country receiving aid, an economic concept referring to when an entity seeks to gain wealth without any reciprocal contribution of productivity. Secondly, it can make rulers accountable to foreign donors rather than their populace, increasing government *responsibility* to donors, while sacrificing their ability to be genuinely *responsive* to their citizens[8]. Thirdly, aid is volatile, as its amounts can change rapidly over a short period of time. This reduces the ability of the government in the aid-receiving country to plan accordingly into the future. Finally, aid is unable to match the revenue-generating potential of tax. In fact, some have estimated the revenue loss of corporate taxes of low-income states due to to be greater than the combined foreign aid budgets of high-income states in 2007[9]. "We calculate…that the loss of corporate taxes to the developing world is currently running at US$160bn a year (£80bn). That is more than one-and-a-half times the combined aid budgets of the whole rich world – US$103.7bn in 2007." (p. 2)

A note on Modern Monetary Theory

Another part of the story of tax has to do with Modern Monetary Theory (MMT). From the perspective of MMT theorists, spending and taxing in a country's own currency creates a cycle that allows money to be created, and so gives worth to currency. Money is spent into the economy and then taxed; i.e. revenue is not always required to be sent to the government before it can be spent. This is a little challenging to get one's head around as it is fundamentally different to the way most people are taught to think about the economy! Please see the FreshUp article on Modern Monetary Theory for more information on this concept and how it relates to tax. It's also important to note that many countries around the world cannot issue their own currencies. What's more, in order to trade on international markets, dollars must be used as it is to the dollar that all other currencies are pegged.

[7] All examples cited can be found in Action Aid, Tax Justice Advocacy Toolkit (2011)

[8] The concepts of responsibility & responsiveness in politics can be attributed to the political scientist Peter Mair

[9] Death & Taxes (2008)

Framing: What is distributive justice & what does it have to do with tax?[10]

This guide to tax approaches tax from the perspective of distributive justice. Distributive justice is an approach that concerns the fair distribution of the benefits & burdens of social cooperation, such as taxation. Global justice requires that all states have the capacity to secure a just distribution of advantages between their citizens[11]. States must, therefore, have the capacity to design their legal & economic institutions in such a way that they reflect the concepts of distributive justice. Distributional justice also means an ability to determine the size of the government budget & the level of redistribution, important elements of fiscal policy[12]. However, many low-income countries face difficulty in raising revenue which affects their ability to pursue redistributive programmes, a core component of fiscal self-determination. This guide will outline some of the ways that this happens, & some of the policy solutions offered.

Tax is a key tool used to redistribute resources, & so the tax policy debate is one of the few areas of law in which discussions of distributive justice are considered appropriate. Most other economic regulation is oriented towards *maximisation* of wealth, rather than its *distribution*. What is different about discussions of tax in law is that tax is a tool used *after* productivity has been maximised, entering afterwards to set about rearranging the wealth distribution in society.

How is tax an issue of Global Justice?

Tax is necessary to fund essential services. This is particularly relevant to countries in Africa, Asia, & Latin America (southern countries) for a number of reasons. Firstly, southern revenue authorities already tend to be under-resourced, for many reasons but one of which is the issue of sovereign debt (see FreshUp guide on Debt). This creates a vicious cycle whereby with less revenue, the tax authorities struggle to improve their tax-collection capacity.

A key issue found across the board is the association between tax justice & development. In the 2000s, Christian Aid began to link tax to global inequality & development issues by publicising the fact that developing countries lose more money through the tax evasion practices of large corporations than they receive through official aid[13]. Moreover, global tax rules that facilitate tax dodging are exploited by corporations & wealthy individuals to deliberately deprive countries of the resources they need to meet their country's needs & fulfil human rights obligations. Tax justice advocates frame tax malfeasance or bad practice as an issue of concern to human rights, because without government revenue from tax, it is much more difficult for a government to fulfil obligations relating to health, education, security, climate change & other issues.

Additionally, insufficient tax from corporations & wealthy individuals has knock-on effects domestically regarding the burden of ensuring sufficient tax revenue is generated, as when governments don't have

[10] Content in this section is sourced from the book Tax Justice, the Ongoing Debate (2002)

[11] Appeldoorn (2016)

[12] Dietsch (2015, p.35)

[13] See report, 'Death & Taxes' (2008)

sufficient tax revenues from a variety of sources to meet the country's needs they are encouraged to place the tax burden on the everyday person.

Furthermore, when governments cut public spending or increase everyday taxes to plug the revenue gap, this burden falls disproportionately on certain social groups. One of the ways they do this in the absence of corporation taxes is by increasing indirect taxes such as Value Added Tax. This disproportionately affects women & girls[14] because they spend most of their income on household goods. Additionally, flat-rate personal taxes are more likely to increase the tax burden on those with lower incomes. In many countries, this is disproportionately women.

What's more, according to the International Labour Organisation (ILO), women perform more than 76.2% of the total hours of unpaid care work, so when governments cut public services through austerity measures to increase revenue, women act as 'shock-absorbers', taking on the care & educational work that must be done regardless of public support.

The tax consensus: How have tax-policy recommendations impacted developing countries?

Some would argue that taxation without representation still occurs today, as global tax rules are developed without input from impoverished countries, making them by definition unrepresentative. Rather than being accountable to their citizens, many southern governments are in fact more accountable to donors & international financial institutions (IFIs) that provide them with aid & debt, especially as many southern country governments depend on aid & debt for a high percentage of their revenue. Donors & IFIs can impose conditionalities with their aid (called '**tied aid'**) or conditions with debt (i.e. loans). The policies demanded by these conditions can actually make it *more* difficult for the government to raise revenue via tax.

The 'tax consensus' refers to this general set of principles which multilateral donors in particular have adhered to in their tax-policy recommendations to developing countries[15]. Christian Aid examined the role of the IMF in promoting particular tax policies in 18 Sub-Saharan countries to find patterns in their recommendations, & found that the IMF tries to impose a 'one-size-fits-all' tax policy on countries, regardless of their specific situation[16]. For example, a key element of the tax consensus has been the focus on indirect taxes – in particular a shift toward a Value Added Tax, which is a regressive tax as it is applied equally to everyone regardless of their income, & as aforementioned, can disproportionately impact on women & girls.

Debt was used as a vehicle for this conditionality throughout the Debt Crisis in the 1980s & 1990s in the Global South. This debt crisis led to more loans towards the Global South from IFIs such as the World Bank & IMF [See FreshUp article on Debt]. The conditionality required to access loans included minimising the taxation of foreign investors However prior to this, taxing foreign investors was an important lever for increasing government revenue.

[14] Details found on Global Alliance for Tax Justice website

[15] See Cobham (2007)

[16] See Marshall (2009)

A study exploring IMF recommendations for 18 Sub-Saharan countries between 1992 & 2008 found that one of the most heavily recommended tax changes was to introduce VAT.[17] The use of 'sin' taxes has proved popular in the tax consensus. However, this strategy can have negative impacts on both poor consumers & producers. An example is in India, where regressive kerosene & paraffin taxes targeted poor Indians.

What is the logic behind the tax consensus?

Tax neutrality

A key principle of the tax consensus is **tax neutrality**, which means trying to avoid changes that may distort the market. As a result, tax neutrality manifests in an increase in consumption taxation over trade taxation or direct taxation on income. The key issue with tax neutrality is that it assumes that as long as distortionary taxes are absent, for example taxes that would affect business practice, the economy will deliver an efficient & optimal allocation of resources. Tax neutrality also assumes that governments have a range of other instruments at their disposal to tackle inequality, however in the case of many countries, but in particular developing ones, these assumptions do not hold. This is because due to already weak tax collection systems, weakened by debt burdens for example, the pre-tax economy will *not* be efficient, & governments typically will *not* have available to them a range of instruments to mobilise revenue & redistribute wealth.

Trade liberalisation & its relationship to tax

The tax consensus also supported trade liberalisation, in other words the reduction of both export & import taxation. According to the neoclassical school, trade liberalisation increases market efficiency. The logic behind import-tariff reduction is that if a small economy reduces its tariffs, it increases the flow of imports which will have domestic consumption taxes placed on them. An accompanying well-administered rise in the consumption tax that is equal to the drop in the tariff will therefore leave prices at the same level while raising greater revenue from a broader tax base[18]. However, the revenue response has proved to be very weak, particularly so in the poorest countries where trade taxes had constituted a significant proportion of revenue. Many southern countries rely heavily on the taxation of imports, as these taxes are relatively easier to collect & less costly to administer than other forms of taxation, in particular tax on informal economic activity which is prevalent in southern countries. Removing this option has meant the removal of a key method of generating tax revenue for many countries. Despite this situation, many countries have progressively lowered trade tariffs during the last few decades because of World Bank & IMF conditionalities.

Supply-side fiscal policy

According to the neoclassical school, lowering taxes & enacting tax consensus policies is that by doing so, the economy is stimulated. The argument is that by being 'pro-business' (i.e. by lowering corporate tax), the financial benefit will trickle down to all individuals in society. This theory is known as supply-side

[17] See Investopedia, 'Supply-side Economics'

[18] What's more, it was rationalised that the investment would help to develop the country, bringing jobs, infrastructure etc. & that the resulting competition with European imports would be best for consumers.

economics or supply-side fiscal policy. The theory is as follows[19]: By lowering individual tax, people will have more money in their pockets & therefore more money to spend, encouraging production & economic growth. By lowering corporate tax, businesses have more profit, & will have more funds to hire more labour & invest in improving their service, benefiting society as a whole. As they employ more & increase wages, they continue to add more money to consumers' pockets. This cycle continues (it is surmised), resulting in more economic growth, compensating for the lost tax revenues. Supply-side economists believe that high tax rates strongly discourage efficiency of resource use & they have historically focused on promoting corporate income tax reductions rather than personal.

This theory does not always hold however. For example, Bill Clinton's tax increases on top earners caused economic growth to *increase* for 8 years & created over 20 million jobs. In contrast, in 2001 & 2003 George W. Bush lowered the top tax rate & cut top rates on capital gains & dividends. Despite the forecast in line with supply-side economics, the economy *barely grew*[20]. Additionally, in Kansas in 2012, tax cuts on top earners & business owners were drastically cut, while in California taxes were raised on top earners to the highest rate in the USA. Kansas has now fallen behind most other states in terms of economic growth, while California has progressed in the rankings. However, that said, there are many related factors & it can be difficult to pinpoint effects with a high level of confidence & to determine the exact outcome of any one theory or set of policies.

A further argument against supply-side fiscal policy is that there is a growing trend among corporations to engage in stock buybacks rather than reinvesting in line with the theory's assumptions. Buybacks occur when companies place the cash they may gain from lower taxes back into the pockets of their shareholders rather than investing in new plants, equipment, innovative ventures, or their workers. According to the Tax Policy Center, in 2018, US corporations spent more than $1.1 trillion to repurchase their stock rather than invest in new plants & equipment or pay their workers more.[21]

Competition is good for the economy

Further neoclassical rationale for the tax consensus is that increased competition is good as it encourages companies to make better products & drives the cost of goods down to attract consumers. However, in recent decades there has been a shift from *companies* competing, to *countries* competing. The globalised nature of mobile capital means that tax systems that exist in one part of the world can influence economic activity in another. The result of this is that even if sovereign tax laws tend to be within the remit of one country, the tax laws that exist in country A can influence the economic activity that takes place within the borders of country B. Governments are now competing with one another to attract private investment. There are many ways they do this; via reduced regulations so that companies can operate more freely without so-called 'red tape'. Or tax concessions, tax breaks & tax 'holidays' are used to attract investment. For example, 'maquilas' in Latin America can, in some countries, be exempt from import duty, income tax, taxes on the repatriation of profits, VAT, asset taxes & municipal taxes.

The logic behind cutting corporate tax rates is that by doing so, it is surmised that countries can attract capital, which therefore will make workers more productive because of the increase in machines, plants & equipment, resulting, it is theorised, in increased wages for workers. As a result of this logic, between

[19] See Investopedia, 'Supply-side Economics'

[20] See video, The Failure of Trickle-Down Economics | Robert Reich, 2017

[21] See CNBC (2018)

1985 & 2018, the global average corporate tax rate fell from 49% to 24%[22]. Since the 1980s, the corporate income tax rate, the top inheritance tax rate & the top personal tax rate have all been in decline. Examples abound globally of corporation tax being reduced. For example in the UK, the rate dropped from 28% in 2010, to 19% in 2017, to 17% in 2020. In the US, it dropped from 35% to 21% with the Tax Cuts & Jobs Act of 2017. This reduction has been even more significant in southern countries. The logic & laws which initially were used to attract investment in order to develop certain countries, have now transmogrified into mechanisms that firms can exploit to avoid paying taxes. In Guatemala in 2005 for example, the fiscal *losses* due to the existence of maquilas was almost 16% of total tax collected that year[23].

As a global trend, when corporation tax decreases, VAT increases, which is a regressive tax which tends to impact women & girls disproportionately. In low-income countries, two thirds of tax revenue is raised through indirect taxes like VAT. While high-income states have by & large been able to protect their revenue flows by shifting the tax burden to relatively immobile economic factors such as labour, income & consumption (with predominantly regressive effects), low-income states have generally been unable to offset the decrease in corporate income tax revenue[24].

Despite arguments for tax competition claiming that lower tax regimes are essential for attracting investors who will in turn provide jobs, revenue, infrastructure, & increased wages, a number of cross-country studies have concluded that the costs of tax incentives in terms of lost revenue frequently outweigh the benefits in terms of increased productive investment. The winners of tax competition are the MNCs that can play governments off one another as they vie for investment by continuously lowering their tax rates. Those who lose in this dynamic are the citizens whose governments are deprived of revenues with which to fund public services.

How is the world different today than when the dominant tax rules were created?

Most of the existing country-to-country tax rules were created in the 1920s, in a world where tangible capital was paramount: factories, warehouses & physical goods. Two major developments have combined with a situation whereby the current tax rules have not kept pace with said developments, and because of this, companies can now take advantage of global tax rules in order to minimise how much tax they pay & maximise how much profit they earn.

The first development was the removal of capital controls in the 1970s & 1980s. This allowed corporations to easily move their operations & capital between countries. For the first time after WWII, corporations could threaten sovereign nation states with their departure if the terms were not favourable, threatening a sudden stop to that flow of revenue & the associated employment etc. They were able to hit two birds with one stone; they could get the highest profits possible without regard for the needs of the country in which they were based, & they could dictate the terms of their investment to the nation-state. This

[22] (Tørsløv et al.)

[23] (Tørsløv et al.)

[24] Avi-Yonah 2000, Dietsch 2011a, as cited in van Apeldoorn, 2016

reduced & continues to reduce the state's policy space, resulting in diminished revenue via corporation tax for the state.

The removal of capital controls also sparked the emergence of the 'race to the bottom'; competition between countries on the rate of corporation tax they charge corporations. Since capital became more mobile, nation states have tried to attract Foreign Direct Investment (FDI) through low tax rates, financial incentives & even financial secrecy. The IMF, the WB, regional development banks & the EU have all been part of promoting this developmental strategy known as the 'tax consensus'.

An outcome of capital mobility is **capital flight**. Capital flight denotes money leaving a country rapidly, & is defined as the transfer of assets abroad to reduce loss of principal, loss of return, or loss of control over one's financial wealth due to government-sanctioned activities. This can be in response to many stimuli; & is not always illegal. However one key reason capital flight takes place is for the asset-holder to escape paying tax. As Nicholas Shaxson summarises "To *escape* rules you don't like, you take your money *elsewhere*, offshore, across borders."[25]

The second development is that today in our highly digitised & financialised world, MNCs can conduct their business in a jurisdiction in which they have little or no physical presence. The existing rules[26] say that the profits of a company can only be taxed in a country different to that in which it is headquartered if the company has a *physical* presence there. However this is often not the case when it comes to intangible items, for example intellectual property. What's more, a country which headquarters a particular company, for example country A & the global HQ of Tech Company Inc., does not tend to tax the income on *foreign* activities of that company, as it assumes that the country in which the company is operating, i.e. Country B will receive the tax. However that is not always the case, in particular for intangible goods.

Corporate tax dodging in the Global South

Calling countries that suffer from tax dodging 'poor' does not accurately reflect the situation. They are often rich in resources, but poor in revenue by virtue of exploitation of global rules in order to dodge tax. They are not inherently poor; instead they have been *made* poor. The OECD report in 1998, 'Harmful Tax Competition: An Emerging Global Issue'[27], is credited with first putting the issue of tax avoidance on the political agenda. By showing how wealthy individuals & MNCs are facilitated by states that are competing for foreign direct investment (FDI), the OECD was prescient in its warning that this may affect states' fiscal sovereignty. It may 'erode national tax bases', 'alter the structure of taxation' & 'hamper the application of progressive tax rates & the achievement of redistributive goals'.[28]

Tax dodging costs developing countries more than they receive in aid. The IMF estimates of long-run revenue loss for developing countries from corporate tax evasion is $200 billion[29]. Corporate tax is more

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[25] https://www.imf.org/external/pubs/ft/fandd/2019/09/pdf/tackling-global-tax-havens-shaxon.pdf
[26] As of 2021
[27] See OECD (1998)
[28] OECD (1998,. p. 14)
[29] See Shaxson (2015)

crucial in these countries than Global North countries because in the Global South, a large portion of the population don't make enough money to earn tax. If MNCs paid the tax in these countries, it could make a huge difference. For example in Zambia, public services have lost an estimated US$27 million as a result of Zambia Sugar's tax avoidance schemes & the special tax breaks given to it. This is enough money to put 48,000 Zambian children in school. In 'lower income countries' tax losses are equivalent to nearly 52 per cent of their combined public health budgets'[30].

What are the impacts of tax dodging?

Tax dodging increases regressive taxation in the Global South

The reduction of tax from corporations, combined with weak tax collection systems (which are themselves further weakened by inadequate revenue) means that southern countries have limited options with which to raise revenue. One of the only methods left is therefore to tax ordinary people. Due to the nature of many southern societies in which the informal sector is large & the rural populations also tend to be significant, hindering smooth collection of tax, governments implement regressive taxes on the population via VAT in order to ensure maximum revenue-generation. A **regressive** tax is a tax imposed in such a manner that the tax rate decreases as the amount subject to taxation increases. These generally have a regressive effect on income equality[31]. This is despite the rural populations & those in the informal sector being those least able to afford to pay VAT. It is those populations that end up spending a much higher percentage of their minimal incomes on essential goods & services that carry VAT than those with much larger disposable incomes. Compounding this is the fact that progressive property & other wealth taxes are difficult to implement for political reasons[32], and progressive income & capital gains taxes are relatively easy to avoid or evade[33].

Tax dodging reduces revenue predictability

In countries that don't have a stable tax base, tax revenue is diminished & unpredictable, making it difficult to carry out the functions mentioned in part one, as well as having the revenue required to spend on infrastructure & public services. Without this predictability of revenue into the future, the capacity to plan for the future development of their country is somewhat eroded. For example, issues such as tackling HIV, responding to malaria, & addressing high maternal & infant mortality rates all require reliable long-term funding from governments. This principle has been displayed in Bolivia since 2005, where since 2005 the Bolivian government has been reversing a privatisation policy contained within an IMF-imposed structural adjustment programme (loans with conditions). The government sought to change the royalties & tax structure applied to multinational corporations (MNCs), a move which generated increased government revenue from oil & gas extraction. This gave the government increased fiscal space & allowed it to increase spending on social services including pensions, healthcare & education.

Tax dodging affects domestic compliance on tax

[30] Mansour (2020)

[31] Ahmad & Stern, 1989 (p. 1021, as cited in van Apeldoorn, 2016)

[32] Ahmad & Stern, 1989 (as cited in van Apeldoorn, 2016)

[33] Bird & Zolt (2005, p. 933)

Tax dodging can also influence tax compliance. This is because the perception that the taxes of citizens are being put to good use & that other economic actors aren't unfairly dodging their tax responsibilities is crucial to ensuring tax-paying compliance.

Classic studies on tax compliance found that compliance depends positively on (i) the perceived or expected level of redistribution, & (ii) individuals' expectation of others' compliance levels[34]. It has already been shown that tax dodging reduces available revenue in Global South countries, reducing the capacity for redistribution, & then likely influencing the tax compliance in affected countries. Additionally, levels of compliance are dramatically weakened by the absence of international measures to tackle evasion through tax havens & by multinational firms. This highlights a flaw in the existing tax consensus that does not allow for direct redistribution of wealth, & so promotes a self-reinforcing cycle of diminished tax compliance. Indeed, evidence exists to show that the size of the shadow economy depends directly on the level of 'tax morale' - that is, the belief in contributing to society by paying taxes[35].

What strategies are used to avoid paying tax?

Base Erosion & Profit Shifting (BEPS)

Base erosion (diminishing the amount of government revenue accrued via tax by deducting payments such as interest or royalties from taxable profits) & profit shifting (shifting profits to low or no-tax jurisdictions or where there is no or little economic activity by that company) refers to the suite of tax strategies used to exploit mismatches & gaps in tax systems between countries. Developing countries' higher reliance on corporate income tax means that they suffer disproportionately from BEPS. The first comprehensive view of the cost of profit shifting for governments worldwide found that governments of the EU & developing countries are the prime losers of this shift[36]. Over $200 billion of the $500 billion lost globally due to BEPS is lost from the Global South; more than those countries receive in aid from the Global North.

Close to 40% of multinational profits are shifted to tax havens each year. Based on reports filed by the biggest multinationals to OECD members, the tax lost each year to international corporate tax abuse & private tax evasion costs countries altogether the equivalent of nearly 34 million nurses annual salaries every year – or **one nurse's annual salary every second**. The OECD estimates conservatively[37] that 4–10% of global corporate income tax revenue (100–240 billion USD annually) is lost to BEPS[38].

More recent figures from the Tax Justice Network analysing OECD data track US$467 billion worth of corporate profits shifted into tax havens, leading to a loss of US$117 billion around the world annually[39]. However this is only a collation of data from just 15 countries. By using higher quality data from 2017, the Tax Justice network estimated that profit shifting for US data is likely in the region of $US840 billion, & by extrapolating to the global picture they arrive at US$1.3 trillion a year. Including indirect effects from the

[34] Bosco & Mittone (1997)

[35] Torgler & Schneider, 2009.

[36] Tørsløv, Wier & Zucman (2020)

[37] See OECD (2017)

[38] OECD (2015, P.4)

[39] See Tax Justice Network (2021)

race to the bottom, the annual losses imposed by the use of tax havens by MNCs is likely in excess of US$500 billion[40].

Transfer (mis)pricing, or 'Creative Accounting'

International regulation requires companies to price goods & services as if they were selling them in the open market & as if they are not selling between subsidiaries. This is supposed to ensure that they are taxed accordingly. This rule is called '**arm's length principle**' i.e. goods & services should be sold 'at arm's length'.[41] There are valid reasons why transfer pricing exists, for example if a company has a subsidiary in France that makes vinegar & one in Ireland that bottles it, then there are reasons you want to be able to sell between different subsidiaries. However, when this doesn't take place using the arm's length principle & instead reduces the company's declared profits & therefore taxable income, it is called transfer mispricing. Put simply, they sell a resource or item to a subsidiary company at a price different to the market price in order to report lower profits & therefore pay lower tax.

Let's take an example. Imagine a company's headquarters is in country A where the corporate tax rate is 35% (of pre-tax profits). They may set up a subsidiary in country B which has a lower tax rate, for example 5%. The company may then tell Country A that their pre-tax profit is lower than Country A thinks it is because in fact, they need to pay the subsidiary to use the intellectual property (IP). For example, on US$1 million pre-tax profits, the company may send $800,000 to the subsidiary in royalties & licensing, drastically reducing the amount of profit on which the higher (35%) corporation tax may be charged; US$200,000 instead of US$1 million. By moving pre-tax profit offshore to a lower tax rate jurisdiction via an IP subsidiary, the company pays significantly less tax overall than it would have done had it not had the option of creating offshore subsidiaries in lower tax rate jurisdictions.

For tangible goods (as opposed to IP) it is very possible to monitor & regulate transfer pricing. But what happens in a scenario where the item(s) traded between subsidiaries have no easy comparison on the market, & so the price can't accurately be determined? For example, how can the worth of this logo be determined? It can be powerfully argued that much of Apple's value comes from its reputation, so it does not make sense to compare the value of Apple's IP to that of a brand new company that has no societal reputation. So then the question arises, at what price should Apple sell their IP to Apple subsidiary companies? This question is becoming increasingly relevant in today's digitised world, however the rules for monitoring & regulation transfer pricing in the realm of IP have not kept pace with global technological developments. Since for many such transfers no comparable market transactions exist that would allow

[40] This estimate was arrived at by using a methodology created by researchers at the International Monetary Fund.

[41] The OECD article which refers to this principle is as follows:

> Article 9 of the OECD Model Treaty Provision:
>
> "Where A) an enterprise of a contracting state participates directly or indirectly in the management, control or capital of an enterprise of the other contracting state, or
>
> B) the same persons participate directly or indirectly in the management, control or capital of an enterprise of a contracting state & an enterprise of the other contracting state,
>
> And in either case conditions are made or imposed between the two enterprises in their commercial or financial relations which differ from those which would be made between independent enterprises, then any profits which would, but for those conditions, have accrued to one of the enterprises, but, by reason of those conditions, have not so accrued, may be included in the profits of that enterprise & taxed accordingly."

for an accurate price determination, MNCs will likely continue to be able to manipulate the system for tax purposes[42] until a system for accurately determining market prices in IP exists.

The victims of trade mispricing are often poorer countries where the revenue authorities are often under-resourced & unable to monitor or prove what is happening. The Mbeki Report revealed that African countries lose over $50 billion/year in illicit financial flows (IFFs), transfer mispricing being a significant cause of this. According to research by Action Aid, 20 developing countries could be missing out on as much as $2.8bn in tax revenue from Facebook, Alphabet Inc. (Google's parent company) & Microsoft due to global tax rules. This is unjust, especially considering how developing countries offer tech businesses new markets, increased global brand recognition & billions of new users' data, which translate into continuing revenue growth.

Ironically, some of the methods that countries are taking to regain lost tax revenue are in fact affecting the use of apps such as Facebook. In 2018, the Ugandan, Zambian & Benin governments announced or imposed new taxes on mobile internet customers to use certain apps[43]. These taxes, (which are also an effort to protect national telecom industries), are partly a result of the diminished tax base due to the activities of corporate actors.

Secrecy Jurisdictions

The impact of transfer mispricing is compounded by global secrecy & lack of transparency in financial reporting. Secrecy jurisdictions, more commonly known as tax havens, facilitate the opacity of financial holdings & transactions. They allow companies & wealthy individuals to hide assets & so avoid paying tax. Their refusal to share information on these holdings with other countries prevents other countries from knowing if their residents or companies which operate on their shores are holding more assets than declared. In 2015, close to 40% of MNC profits made outside of the country where their parent company is located were shifted to tax havens.

Aggressive Tax Planning

After 4 decades of economic globalisation whereby companies have increasingly been facilitated to operate across borders, it is evident that many of these companies have adopted what are known as 'aggressive tax policies' in order to avoid paying tax. This has allowed them to lower their **effective tax rate** to jurisdictions with very low rates & sometimes 0%. These companies are allowed to move their operations, but the citizens of the countries which they deprive of tax are unable to move, & are burdened with consumption taxes to plug the '**tax gap'**.[44]

What can be done?

Principles underpinning solutions

[42] Avi-Yonah (1995, as cited in van Apeldoorn, 2016).

[43] Uganda has since rescinded the tax (2021) & the tax in Benin was revoked shortly after its introduction due to popular protest.

[44] OECD Podcast (2021)

As the world has become increasingly globalised economically, certain principles have emerged to explain the fiscal relationship of corporations to nation-states, & these have inspired policy proposals to help ameliorate the situation. The **principle of economic allegiance**[45]"requires anyone that obtains significant benefits from an economic community to pay tax to that community"[46]. Dietsch terms this principle the '**membership principle'** because it determines in which country or countries an individual or corporation is liable to taxation & thus a 'member'. The membership principle states that 'individuals & companies should be viewed as members [and pay tax] in those countries where they benefit from the public services & infrastructure'[47]. The principle of economic allegiance, if followed logically, should rule out tax competition as MNCs are prevented from conducting economic activities in a high tax country while shifting profits to low or zero-tax jurisdictions or 'tax havens'. However, as we have seen, that is not always the case because of mismatches & loopholes in tax systems between countries.

The second principle is the **national rental principle[48].** Since, from an internationalist position, states are entitled to the productive economic factors they control like capital, natural & technological resources, they are then also entitled to benefit from the productive use of those factors. They may do this by charging rent, in other words by taxing individuals & MNCs who create value by making productive use of the economic factors in their territory. By this logic, profit shifting, for instance by means of transfer mispricing, prevents states from taxing the economic value derived from the resources to which they are entitled.

Finally, there is a principle that says that **taxes should be paid where value is created**. However, it is not enough to say that activity is taxed where value is *added*. Due to the nature of global value chains, the distribution of value-added in GVCs is skewed against low-income countries, since if MNCs are taxed where they create *value*, they will mostly be taxed in high-income OECD countries where *manufacturing* takes place, rather than sales. Low-income countries, generally engaging in low value-added economic activity, are only then allocated a small share of the tax base if any, while high-income OECD countries, generally engaging in high value-added economic activity, are allocated a large share of the tax base[49].

Solutions

Three of the key solutions to global tax dodging are the 'ABCs'; Automatic Exchange of Information, Beneficial Ownership & a Common Consolidated Corporate Tax Base.

Automatic Exchange of Information (AEI)

Automatic exchange of information (AEI) is a method of data-sharing that prevents both corporations & individuals from using bank accounts they hold abroad to hide the true value of their wealth. By obscuring the extent of their wealth, they pay less tax at home. With AEI, country A will take all of the information it has on person A & corporation A, & if they are normally resident, i.e. living or headquartered in country B, then country A will automatically exchange information on their financial holdings with country B.

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[45] OECD (2013, p. 8).

[46] Pinto (2003, p. 196), in van Apeldoorn (2016)

[47] Dietsch (2015, p. 82,83)

[48] Musgrave & Musgrave (1972, p. 73) in van Apeldoorn (2016)

[49] van Apeldoorn (2016)

The goal of AEI is to increase tax transparency. However, many solutions attempt to do this, so AEI is not unique in that regard. The crucial element of AEI however is the *automaticity* of it; if in place, information is exchanged with the 'home' country automatically. This means revenue authorities are alerted immediately about their residents' (individual or corporate) financial holdings in other countries, & don't have to engage in lengthy & sometimes expensive negotiations with other countries regarding the release of the financial information.

Today, nearly 100 countries are automatically exchanging information with each other. The information shared covers over 84 million accounts containing a total of $11 trillion. Unfortunately this does not cover all countries. This state of affairs means that money is still flowing to secretive jurisdictions that continue to withhold information on the financial holdings in their country. 'The Price of Offshore, Revisited' report looked at 139 low & middle income countries to find details on their unreported capital flows. It found that roughly one third of offshore financial assets can be attributed to so-called 'developing' countries; countries in the Global South. Tax transparency is therefore only as strong as its weakest link.

Interestingly, countries that are seen as debtors are actually creditors when capital flight & tax flows are taken into account. Nigeria is classified as a 'debtor' country as on aggregate it owes the rest of the world more money than it is owed. However, when the capital outflows from Nigeria are scrutinised, it is clear that it is actually a net-creditor!

What's more, the lack of complete AEI increases capital flight. The 'Capital Flight from Sub-Saharan African Countries, 1970 – 2010' report found that the 33 Sub-Saharan countries covered by this report lost a total $814 billion dollars of taxable income from 1970 to 2010 because of capital flight, for an accumulated capital stock of $1.06 trillion in 2010. This far exceeds their external liabilities of $189 billion, making the region a 'net creditor' to the rest of the world. This shows how issues of debt are related to issues of tax.

Global Asset Register & Beneficial Owners

A Global Asset Register has been touted as a tool to create a registry of all international wealth & assets & their real 'beneficial owners'. A beneficial owner is the human that ultimately benefits from the profit accrued due to the ownership of a company or legal body. The legal owner of a company could be another company (like a 'shell' company), or it could be an accountant, or somebody else altogether. This *legal* owner generally must be registered, however the *beneficial* owner usually does not have to be registered. Oftentimes, the legal owner may not even know who the beneficial owner is! Financial globalization has made this process opaque, as one company can have another company as its legal owner, & that company can have even another company as its legal owner, & so on, obscuring the beneficial owner(s) via a long & complex chain of legal ownership. This makes it very difficult to track & tax profit, & ensure that no laws are broken throughout the chain.

The crux of beneficial ownership is that the beneficial owner must be a human. By requiring beneficial owners to be registered just like legal owners, beneficial ownership registration laws make sure the wealthiest are held to the same level of transparency & accountability as everybody else. However, because of the nature of global capitalism & the ability of capital to move freely across borders, this won't work for everyone unless *all* countries register beneficial owners. Until that happens, profits will continue to be able to be relocated to the place most amenable to paying low or no tax by those who wish to hide their identities from the rule of law globally. In order for this to work effectively, governments must drop the threshold from owning 25 percent of shares to owning at least one share in a company, so that true beneficial owners cannot escape being categorised as beneficial owners.

Most countries already have national registries, however these alone cannot account for the assets held abroad. By providing a public & centralised global resource showing who owns what & where, the register would provide a way to record, measure, & understand the distribution of global wealth. This would increase transparency, & give regulatory authorities the power to develop effective tax policies to reduce the exploitation of secrecy jurisdictions.

Common Consolidated Corporate Tax Base (CCCTB)

There are two ways to approach the taxing of a company that operates across multiple borders with subsidiaries nested under a parent company. The first method is via the 'Arm's Length Pricing Principle'.

The second is to have a 'Common Consolidated Corporate Tax Base'; a single set of rules to calculate the taxable profits of companies. The EU is in the process of one within its parameters. With the EU CCCTB, cross-border companies would only have to comply with one, single system for computing their taxable income, rather than many different national rulebooks. The CCCTB seeks to apply a universal tax code for all MNCs operating inside the EU earning in excess of €750m. Companies earning above this threshold will file one tax return for all of their corporate EU activity. The EU claims that the CCCTB will contain robust anti-avoidance measures in order to prevent BEPS to non-EU countries. If so, this will eliminate mismatches between national systems that are exploited by those seeking to avoid paying tax.

Unitary Taxation

A similar method of allocating pre-tax profits is called 'Unitary Taxation', & it suggests that governments treat an MNC as one group made up of all its local subsidiaries. This is instead of treating each subsidiary as an individual entity separated from the global chain, which as seen in the transfer pricing example, allows a company to apportion some of its profits to an offshore subsidiary in a lower tax rate jurisdiction.

With unitary taxation, the countries in which *sales* take place are identified, not just the location of manufacture or company headquarters. The pre-tax profits that the multinational corporation declares as an entire group are then apportioned to each country where it operates, based on how much of its *real economic activity* took place in that country. The apportionment formula looks at where the sales take place, where employees are, & where the physical assets are. The pre-tax profit is then split into thirds between these three categories. This profit is then taxed in the respective countries accordingly depending on the percentage of the overall sale which that country accounts for[50]. This same process takes place for apportioning the pre-tax profit assigned to 'employees' & 'assets'. With unitary taxation, countries have the ability to set the tax allowances or credits as well as the tax rate & have full transparency over the profits a company makes & in what countries that profit-making activity is supported. All of this greatly increases national agency over tax collection.

[50] For example, if a company's pre-tax profit is $1 million, then one third of this will be allocated to 'where the sales takes place; sales'. This is $333,000. If country A accounts for 30% of the sales, it will tax 30% of $333,000. If country B has 60%, it will tax 60% of $333,000 & country C will take 10% of $333,000.

Civil society proposal: UN body for global tax regulation

The current global tax system which consists of a complicated web of bilateral trade treaties & differing regulations across regions & countries results in inconsistent policies across the world, leading to the emergence of policy mismatches which are amenable to exploitation by those seeking to dodge paying tax. In this world of globalisation & capital mobility, there remains no international body tasked with ensuring tax rules are applied fairly, making it deeply challenging to regulate this area. A global problem requires a global solution. That is why the Group of 77 (G77), representing more than 130 developing countries, has repeatedly proposed the establishment of an intergovernmental tax body under the auspices of the United Nations (UN) to plug the gaps & fix the loopholes in the global tax system.

Why the UN?[51] The UN is the only global institution where all governments participate as equals, & so it is a good forum to seek to achieve a global commitment to action. Because of this, it is the only body that can legitimately claim to be in a position to create a level playing field. In order for this to happen, all countries must feel that if they change their tax policies, they will not be negatively impacted to the advantage of another country. Otherwise, it will contribute to hesitancy due to the perceived '**first mover'** disadvantage, whereby more stringent tax policies may simply result in businesses & wealthy individuals registering themselves in other jurisdictions.

A UN tax body would also allow for stronger cooperation between tax administrations, facilitating an increase in transparency via AEI. It would also likely result in governments needing to rely less on unilateral (one-sided) action. It would also contribute to the creation of a better global environment for business due to the increase in certainty regarding policies around the globe, reducing perceived risk & increasing investment. Crucially, it would also likely speed up an end to the race to the bottom, as governments would no longer have reason to fear capital flight due to the existence of lower-tax jurisdictions or more favourable tax policies elsewhere. Additionally, a globally coordinated system of tax regulation is likely to see increased buy-in from governments because, as aforementioned, all governments are equals in the UN so it is unlikely that a government will be hesitant to adopt policies because they are seen to have been created without the participation of said government. What's more, if the world's poorest countries were able to participate effectively in the development of global tax rules & standards, they would be able to ensure that the global system also works for their countries.

Negotiations regarding global tax rules impact citizens all over the world, & disproportionately those in developing countries. That is why many suggest that negotiations should take place in a neutral forum where all countries are on an equal footing; as opposed to in the OECD where some countries are members & others are not. What's more, it is suggested by CSOs that all countries should be allowed to participate in setting the agenda; not just the OECD members & G7 countries.

[51] See Eurodad; Financial Transparency Coalition (2019)

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Further resources on tax justice

Books	● Treasure Islands by Nicholas Shaxson ● The Triumph of Injustice: How the Rich Dodge Taxes and How to Make Them Pay (with Emmanuel Saez), WW Norton, October 2019. [Tax policy simulator]. [Slides]. [Data & Appendix]. ● The Hidden Wealth of Nations, University of Chicago Press, 2015. Second edition updated and extended, 2017, Le Seuil.
Articles	https://gabriel-zucman.eu/policy-debates/
Videos	Financial Justice Ireland, 'Tax Justice' - search on YouTube
Podcasts	The Tax Cast Planet Money - Episode 390: We Set Up An Offshore Company In A Tax Haven https://www.npr.org/sections/money/2016/03/16/470722656/episode-390-we-set-up-an-offshore-company-in-a-tax-haven?t=1628768695927
Websites	missingprofits.org taxjusticenetwork.net Eurodad Afrodad Latindad
Key thinkers (perhaps follow on Twitter)	Gabriel Zucman Emmanuael Saez James S. Henry Ann Pettifor Grace Blakely

3. Training material

Overview

This document constitutes enough material for a short workshop on an introduction to tax for adult learners. Each activity can also be stand-alone, but Activity 4 requires more prior knowledge on the part of the participants. All of them can be facilitated online or offline. Ideally participants will have read the short article about tax before the workshop, but it isn't essential.

Activity 1: What is tax?[52]

Session objective: To draw out existing knowledge in the room, come to a shared understanding of tax, set a baseline conceptual foundation that will be used in upcoming activities and feel comfortable operating as a group.

Learning objective(s):
- Definition of tax

Time required: 30 minutes

Group size: 24

Materials required:
- Flip chart stand / wall
- Prepared flip chart sheet [1] with 'what we know about tax' written on top (to prevent needing to remind the group if they go off topic)
- Prepared flip chart sheet [2] with tax definition on it (keep hidden until end of activity)
- 'Bicycle rack' on wall for questions and comments that come up that can be addressed later (this is important so learners know they have been heard, but the activity stays on track)

Methodology:
1. Explain to the group the learning objectives of this activity.
2. Ask the group in plenary (in a circle) to share anything they know about tax, and jot down key words on flip chart [1]. To ensure the key words and concepts are captured, the facilitator may need to prompt the participants by asking questions such as; Why do we pay tax? How do governments collect tax? Who pays tax?
3. After 10 minutes of this, split the whole group into smaller groups of 3. If you like, you can do this by numbering them to ensure that friends are split up and the group mingles.
4. Give them 5 minutes to come up with a definition of tax based on the words, concepts and ideas on the flip chart. Give each group an A4 piece of paper or card, and ask them to write their definition clearly in marker on this card. This should be fun and they should feel under pressure timewise.
5. After 5 minutes, ask each group to stick their card on a wall (each card on the same wall).
6. Definition gallery: Give the entire group a couple of minutes to read and reflect on the definitions given by their peers.
7. Convene a discussion for 10 minutes. Ask the group; what patterns do you see? What is common to all definitions? Is there anything you agree with from other groups? Anything you don't agree with?
8. Reveal this definition, "a tax compulsory contribution levied upon persons, natural or corporate, made to the public authorities in order to generate revenue to help the government defray the expense incurred in conferring common benefits upon the residents of the state" on the flip chart sheet [2] that you prepared before the workshop.
9. Ask the group to pick out key terms from the definition.
    a. Facilitate an understanding of compulsory; persons, natural or corporate; revenue; common benefits; and residents of the state.

[52] Activity written by Meaghan Carmody, Financial Justice Ireland (2021)

b. Tell them you are now going to look more deeply at one element of this definition; revenue.

More detailed information and guidance for trainers:

This activity should contribute to building the confidence of learners as they are facilitated to realise that they already know a lot about tax, and that it's not as complicated as they may believe. To achieve this, try not to tell anyone they are wrong in this activity, and let them do most of the talking. Additionally, to increase confidence, make sure everyone has a chance to contribute. In part 4, walk around and remind the group to make sure everyone is being given a chance to contribute before beginning to draft a definition. Also, try to encourage those who didn't speak up in step 2 to speak up in step 7, by saying gently 'maybe now let's hear from somebody we haven't heard from yet'. Make sure to be clear on the system you're using to manage the oral contributions as this makes it easier for quiet or shy people to speak up. Can learners just shout out, or should they raise their hand? Be explicit.

Activity 2: Tax - what is it good for?[53]

Session objective: Learners build on the last step of the previous activity, and have an opportunity to connect personally with the purposes that tax serves in their community. They also get to do some outdoor learning.

Learning objective(s): Learners will -
- Understand deeply one of the 4 Rs of tax; revenue.
- Have identified at least 3 services in their local community that tax revenue provides or supports.
- Have identified a public service that is unavailable in their community.

Time required: 1.5 hours

Group size: 24 overall is ideal , 8 x small groups of 3

Materials required:
- Camera-phone, one per group
- Projector and screen if doing step 9 [optional]

Methodology:
1. Ask the group to think of a public service that they are personally grateful for in their community. The more personal it is, the better, for example: “The time my partner got help to give birth safely” or “A good road for me to take my goods to market”, or “the school I was educated in.”
2. Distribute sheets of paper and ask participants to write the words ‘tax pays for’ followed by just one public service that they have named as most important to them, for example “Tax pays for healthcare so that people close to me can give birth safely.”
3. Give everyone blu-tak and ask them to stick their sheet on a wall around the room.
4. Ask everyone to go around the room and read everyone else’s contributions.
5. Give each person 3 sticky dots and ask them to place their 3 dots on the services that mean the most to them, placing one on their own one.
6. Ask them to get back into their groups of 3 from earlier.
7. Give very clear instructions for the next few steps, including what time they should be back. Make sure at least one person per group has a camera phone with enough battery. If not, rearrange the groups.
8. Give groups 5 minutes to make a plan for what streets they want to go to and what types of public services they want to find. Encourage them to think broadly and try to notice things on their walk that they might usually take for granted.
9. [Optional] Tell groups they need to send all pictures to the facilitator - easiest is via WhatsApp and then download them via WhatsApp Web. Alternatively, use email. The facilitator, while the group is out, creates a powerpoint presentation of the pictures. If doing this step, you need a projector, laptop and connector.
10. Groups leave for outside the venue to take photos of public services that are funded at least in part by government revenue.
11. Take a short break after they return.

[53] This activity is adapted from Action Aid’s Tax Justice Reflection Toolkit: 24 participatory tools to learn and act on tax injustice (2021) https://actionaid.org/sites/default/files/publications/Tax%20Justice%20Toolkit_English.pdf

12. On returning from the activity, the facilitator organises a sharing session with participants, asking them:

- What did you find?
- Are you satisfied with the level of service provision in this area and/or your home area? Why/why not?
- Which services are missing in your area?
- Which services in your area are public and which private?
- What would you do about the missing public services?

More detailed information and guidance for trainers:

The facilitator should be very sensitive to accessibility needs and mobility constraints of participants. Make sure not to put anybody on the spot by asking the whole group 'is there anyone here with mobility issues?' or similar. Some disabilities are invisible. Ensure that they are aware that this activity is optional, and for anyone who doesn't want to or isn't in a position to take part, facilitate them to stay back and do remote research instead.

Activity 3: The global tax take[54]

Session objective: To facilitate an insight into the global nature of taxation and how companies can exploit the mismatches and loopholes in these rules to shift profits to low-tax jurisdictions and therefore make more profits.

Learning objective(s): By the end of the session, learners will -
- Have a basic understanding of tax havens
- Have a basic understanding of transfer (mis)pricing

Time required: 45 minutes

Group size: 24

Materials required:
- Projector (if in person)
- Screen/wall (if in person)

Methodology:
1. Explain the learning objectives of the session.
2. Think, pair, share: Ask the group to reflect individually on what they understand by the term 'tax haven'. Then ask them to, in pairs, discuss their understanding.
3. Facilitate a discussion, getting a few contributions from the group, to get a shared understanding of this term. Supplement where necessary.
4. Share the following quote from Nicholas Shaxson with the group on a pre-prepared flip chart sheet, "To *escape* rules you don't like, you take your money *elsewhere*, offshore, across borders."
5. Watch the video 'Transfer Pricing and Tax Havens' with the group https://www.khanacademy.org/economics-finance-domain/core-finance/taxes-topic/corporate-taxation/v/transfer-pricing-and-tax-havens

Preparation in advance by the trainer:

The trainer should be able to explain clearly what a tax haven is, and be able to explain in simple terms how companies exploit global tax rules to shift profits.

[54] Activity written by Meaghan Carmody, Financial Justice Ireland (2021)

[55]Transfer pricing allows corporations to shift profits from high-tax jurisdictions to low-tax jurisdictions. Thus, a corporation is trading with different subsidiaries rather than with external companies. This artificial shift, when performed by multinational corporations that produce up to 80% of the world's trade, will result in lower taxes.

This transfer pricing policy resulted in a U.S. Senate investigation of Apple Inc. The Senate found that an Apple entity in Ireland received $74 billion in global receipts from 2009 to 2012, on which Apple paid a tax of less than 2% to Ireland. Another entity received $30 billion and paid nothing. The European Commission has said Ireland gave Apple undue tax benefits and must recover 13 billion euros in unpaid taxes.[678]

This was since appealed by Ireland, and Ireland won the case.

Multinationals can manipulate the transfer prices of transactions between these affiliates/subsidiaries to shift profits from high- to low-tax jurisdictions. For example, a firm's affiliate may hold a patent in a low-tax haven and charge exorbitant brand royalties to affiliates in high-tax countries, thus maximizing profits in the low-tax jurisdiction. In theory, transfer prices are meant to reflect market prices that would prevail in arm's length transactions between two unrelated parties. But such prices often cannot readily be established: try valuing a unique widget for a jet engine that isn't sold on the open market, or a drug patent. In practice, the value is often what the company's accountants say it is.[56]

55 https://www.investopedia.com/ask/answers/060316/why-ireland-sometimes-referred-tax-haven.asp
56 https://www.imf.org/external/pubs/ft/fandd/2019/09/tackling-global-tax-havens-shaxon.htm

Activity 4: A Taxing Subject[57]

Session objective: Using 'Read and Explain' pairs, students become experts on tax havens and transfer mispricing and explain what they've learned to their partner

Learning objective(s):
- Tax havens
- Transfer mispricing

Time required: 45 minutes

Group size: 24

Materials:
- Tax haven sheet x number of pairs in half of the group
- Transfer mispricing sheet x number of pairs in half of the group

Methodology:
1. Explain the learning objectives of the activity.
2. Begin by explaining that there are a number of ways that companies can dodge or evade paying taxes. In fact, paying as little tax as possible, regardless of the social consequences, has for many become an acceptable way of doing business. Through this activity participants will examine some of the practices and systems that allow tax dodging such as trade mispricing and tax havens. Some of these are illegal, some are technically legal but involve the use of 'loopholes.'
3. Split the whole group into two and name one half A and one B.
4. Tell each group to get into pairs. Give each pair in A 'Tax Havens' below and B 'Transfer Mispricing'.
5. To begin with, each person in each pair **skim** reads the entire text in silence to get the gist of it. Give enough time for this.
6. Then they take turns reading and orally **summarising** *each* paragraph. They both read the first paragraph. Then one person summarises it (without looking at the text) while the other checks the paragraph for accuracy and offers prompts to help if anything is left out. The person checking should be holding the sheet.
7. They then read the next paragraph and change roles until they have completed the entire text.
8. Take a short break and then repeat the process for the other worksheet, with group A and group B swapping worksheets.

[57] Activity adapted from Financial Justice Ireland's From Grassroots to Government resource

Tax havens – so what's the problem?
Tax is the foundation of good government and a key to the wealth or poverty of nations. Yet many places allow big companies and wealthy individuals to escape their responsibilities in relation to paying fair taxes.

Tax havens offer not only low or zero taxes, but something broader. What they do is to provide facilities for people or entities to get around the rules, laws and regulations of other jurisdictions, using secrecy as their prime tool.

The offshore system is a blind spot in international economics– which helps explain why so few people have woken up to the scandal of tax havens. Yet tax havens are one of the structures that enable billions of dollars to be robbed from poorer countries.

How big is the problem, and what is its nature?
Assets held offshore, beyond the reach of effective taxation, are equal to about a third of total global assets. Over half of all world trade passes through tax havens. The amount of money lost by developing countries due to tax havens is far greater than annual aid flows.

Using secrecy and tax loopholes to avoid tax does not only happen in islands and small states. The largest financial centres such as London and New York, and countries like Switzerland and Singapore, offer secrecy and other special advantages to attract foreign capital flows. As corrupt dictators and other élites strip their countries' financial assets and relocate them to these financial centres, developing countries' economies are deprived of local investment capital and their governments are denied desperately needed tax revenues. Countries that lose tax revenues become more dependent on foreign aid.

So what have tax havens got in common?
- Secrecy
- Allow non-residents to open bank accounts
- Low or no corporate tax rate
- No disclosure of information to other countries

Where are they?
Many locations around the world are considered tax havens, though there is no list everyone agrees on. The following are tax havens according to the Tax Justice Network, in order of how much they facilitate tax dodging (2021):[58]
- British Virgin Islands (British Overseas Territory)
- Cayman Islands (British Overseas Territory)
- Bermuda (British Overseas Territory)
- Netherlands
- Switzerland
- Luxembourg
- Hong Kong
- Jersey (British Crown Dependency)
- Singapore
- United Arab Emirates
- Ireland
- Bahamas

[58] https://cthi.taxjustice.net/en/

Transfer mispricing

Transfer mispricing, also referred to as 'cooking the books' may at first glance seem like a matter that's only of interest to accountants or lawyers. However it is relevant to anyone who cares about tackling global poverty and inequality. It is about the manner in which businesses, in particular multinational corporations, shift billions of pounds of profits between countries to reduce, or even dodge completely, their tax bill.

With multinationals, a system called transfer pricing works when a subsidiary of a parent company sells something to another subsidiary in another country – it could be anything from nuclear reactors to cornflakes. It may also apply to the sale of things such as management services and insurance. As long as the subsidiaries of the same multinational charge each other a fair market price – known in regulatory circles as an 'arm's length' price such transactions are perfectly legal.

So what's the problem?

In practice, transfer pricing means that a subsidiary of a company can charge a vastly reduced, or inflated, rate for goods and services to another subsidiary elsewhere in order to minimise their tax liability. So goods are exported and sold to a sister company at knockdown prices from the country where they were produced, and this keeps the profits low - which means the tax paid in that country is also low.

The company buying them then sells them on at their true market value from a country where the tax rate is much lower. This practice is usually not possible where there is a rival product to provide a price comparison – e.g. cornflakes made by another manufacturer - but it often works is when the company has a unique product, e.g. its own trademark, which is harder for revenue authorities to place an independent value on, or in some cases where it claims that the original product has had value added in some way in the second, lower-tax country.

In other situations, goods from wealthy countries are sold to developing countries at hugely inflated prices to enable the company that is the buyer to shift large amounts of money abroad while at the same time reducing its tax bill at home.

The OECD introduced global tax reforms to address the abuse of transfer pricing called the BEPS process. However, many activists are concerned that it doesn't go far enough, and that developing countries weren't involved in writing the rules.

With 60 per cent of world trade now taking place within, rather than between multinational companies this practice has been called 'the ugliest chapter in global economic history since slavery' by businessman and author, Raymond Baker.

4. Interactive learning

Tax Justice Quiz

1. Which one of the following is NOT one of the ***4 R's of taxation***:
   a. Revenue
   b. Redistribution
   c. Royalties

2. Who is likely to be more impacted by increases in ***'flat' taxes***?
   a. Those already poor and vulnerable
   b. The wealthy in society
   c. Public Servants

3. What do we mean by a '***race to the bottom'*** between governments?
   a. When governments decrease taxes and reduce regulations to make themselves more attractive to foreign companies than other countries.
   b. When a company moves its profits from one country to another in order to pay less tax.
   c. When interest rates are increased in order to combat inflation

4. True or False? ***Tax dodging*** by large companies costs developing countries more than they receive in aid.
   a. True
   b. False

5. Fill in the missing word. Taxation without _______ is tyranny.
   a. Redistribution
   b. Revenue
   c. Representation

6. ***Tax neutrality*** results in an increase in which kind of taxes?
   a. Company royalties
   b. Tax on trade
   c. Tax on consumption

7. Which African country has lost an estimated US$27 million as a result of a sugar company's ***tax avoidance*** schemes & the special tax breaks given to it?
   a. Algeria
   b. Zambia
   c. Kenya

8. Numerous cross-country studies on ***tax incentives*** have concluded that:
   a. The costs of tax incentives in terms of lost revenue frequently outweigh the benefits in terms of increased productive investment.
   b. The winners of tax competition are the multinational corporations that can play governments off one another as they vie for investment by continuously lowering their tax rates.
   c. Both a & b

9. Which of the following are impacts of ***tax dodging***:
   a. An increase in regressive taxation in the Global South
   b. A reduction in revenue predictability
   c. A reduction in domestic compliance on tax
   d. All three

10. Which of the following are solutions being proposed for reforming the tax system from a global justice point of view? Tick all that apply.
   a. Tax authorities around the world should automatically share information about what's in bank accounts in their countries with other relevant countries.
   b. Large companies should be allowed to move as much money as they like freely and anonymously between different countries.
   c. Companies with many tentacles (subsidiaries) should be taxed as if they're one company, not many.
   d. The UN should be responsible for global tax regulation, not the OECD