FACT SHEET

Why we need to Make Multinationals Pay Their Share of Tax

Summary of international tax scandals

Paradise Papers
When: November 2017
Investigation coordinated by: International Consortium of Investigative Journalists (ICIJ)
What: A global news exposé based on 13.4 million leaked files from offshore service providers and company registries. The majority of the files came from the law firm Appleby (in particular from their office in Bermuda), but the files also included documents from the trust company Asiaciti and from 19 different company registers from secrecy jurisdictions around the world.
Among other things, the Paradise Papers revealed the tax planning strategies of more than 100 multinational corporations, including Nike and Apple, as well as offshore activities by more than 120 politicians and world leaders.

The Global Laundromat scandal
When: March 2017
Investigation coordinated by: Organized Crime and Corruption Reporting Project (OCCRP)
What: Between 2011 and 2014, over US$ 20 billion from Russia was laundered through more than 5000 companies, many of the anonymous shell-companies in the UK. The money ended up in over 700 different banks in 96 countries, including several EU countries.

Panama Papers:
When: April 2016
Investigation coordinated by: International Consortium of Investigative Journalists (ICIJ)
What: The Panama Papers scandal was based on 11 million leaked documents from the law firm Mossack Fonseca in Panama. These documents revealed a global network of shell companies and hidden bank accounts, which were being used to facilitate tax evasion, bribery, arms deals, financial fraud and drug trafficking. The leak showed that some of the world's largest banks had been involved in setting up secret offshore structures for their clients, which included a large number of celebrities, including 140 politicians from 50 countries.

Bahamas Leaks:
When: September 2016

Investigation coordinated by: International Consortium of Investigative Journalists (ICIJ)
What: Millions of leaked files from a bank in Jersey and the Bahamas corporate registry revealed how more than 175.000 Bahamian shell-companies and secret bank accounts were being used by politicians and the rich to hide their wealth in tax havens. Well-paid accountants and some of the world's biggest banks were helping their wealthy clients set up these dodgy structures.

Swiss Leaks
When: February 2015
Investigation coordinated by: International Consortium of Investigative Journalists (ICIJ)
What: A leak from the bank HSBC in Switzerland revealed hidden back accounts with assets worth more than US $100 billion, with links to almost every country in the world. The clients included individuals linked to arm's trafficking, bribery, blood diamonds as well as current and former politicians from around the world. The leak showed that the bank kept reassuring its clients that no information would be provided to tax administrations, even in cases where evidence suggested the assets were linked to tax evasion.

Luxembourg Leaks:
When: November 2014
Investigation coordinated by: International Consortium of Investigative Journalists (ICIJ)
What: The so-called LuxLeaks scandal revealed hundreds of secret tax deals (also known as "sweetheart deals") between multinational corporations and Luxembourg. These deals, which were often brokered by PriceWaterhouseCoopers (PwC) allowed many of the corporations to lower their tax payments to very low levels – in some cases to less than 1%. Corporations involved in the scandal included Pepsi, IKEA, AIG, Deutsche Bank - over 300 other companies in all.
The LuxLeaks scandal also became a famous example of the lack of – and urgent need for – whistleblower protection. The two whistleblowers – Antoine Deltour and Raphaël Halet, who had brought forward the documents that led to the LuxLeaks scandal, were both brought to trial in Luxembourg. Initially, the prosecutor had demanded 10 years in jail for Antoine Deltour. In 2017, Antoine Deltour was convicted to pay a fine and received a suspended prison sentence of 6 months. Antoine Deltour appealed the sentence as was finally acquitted in May 2018. Raphaël Halet was sentenced to pay a fine, and also appealed the verdict, but his appeal was rejected. Therefore, his legal battle is still ongoing.

Scale of corporate tax avoidance

Conservative estimates have found that one type of corporate tax avoidance alone is costing developing countries between US $70 billion and $120 billion yearly[1], and globally, the lost tax revenue due to corporate tax avoidance has been estimated to US$500 every year.[2]
The global scandal of tax dodging by multinational corporations is devastating our economies and depriving governments of the funds urgently needed to pay for public services vital to achieve human rights, including women's rights, and sustainable development.

Lack of protection of whistleblowers and journalists

The large tax scandals, which we have seen over the last years, have come about thanks to broad networks of journalists, who have investigated and told the stories, as well as whistleblowers, who have revealed confidential information in the interest of the public good. However, these actions can come at a great cost. Around the world, there are numerous examples of journalists being threatened or even murdered. In India alone, 11 journalists were killed during 2017. In Europe, three journalists involved in reporting on corruption and/or tax dodging have been killed since October 2017: Daphne Caruana Galizia (Malta, October 2017); Jan Kuciak (Slovakia, February 2018); and Viktoria Marinova (Bulgaria, October 2018).
Others have to endure the risk of lawsuits. This was for example the case for two whistleblowers and one journalist that helped reveal the LuxLeaks scandal (see above).

What is a tax haven?

A tax haven is a country or territory that enables companies or wealthy individuals to dodge taxes by moving income or assets to the jurisdiction from somewhere else.

Together with tax haven 'enablers' in the form of lawyers, accountants, banks and lobbyists, wealthy people and multinational corporations have set up sophisticated international systems which use tax havens to ensure that they can pay low or no tax on their profits and wealth. Yet, this elite group is entirely dependent on publicly-funded infrastructure and institutions and publicly-educated workforces to make their money. Such systemic tax dodging (both legal and illegal) has led ordinary people to lose out as wealth flows outwards from the public and into the private hands of the few, hidden away in tax havens. This distorts economies, undermines democracy and deprives people of funding for the vital public services we need to live and the human rights we are all entitled to.

Although many people imagine tax havens are exclusively tropical islands like Bermuda or the Cayman Islands, some of the world's most prominent tax havens include Luxembourg, the Netherlands, and, increasingly, the United States. A growing number of countries are also engaging in what they call 'Tax Competition', which includes introducing the types of policies which are typical for tax havens (such as low effective corporate tax rates or other harmful tax practices).

Tax havens and human rights

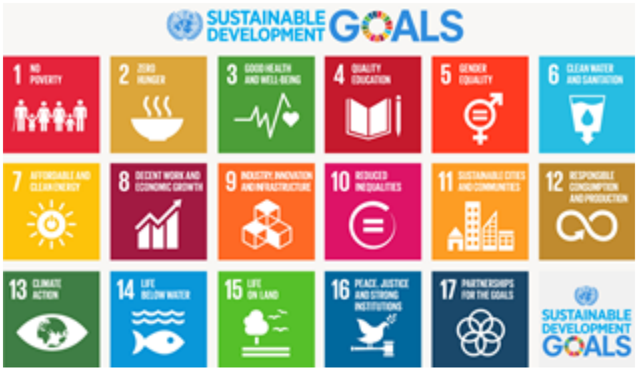
Tax is fundamental for the realization of human rights, not only because it is necessary for ensuring sufficient resources, but also because tax policy plays a fundamental role in redressing inequalities and in shaping how accountable governments are to their people.

Across the world, states have an obligation to respect human rights and many of our international human rights instruments require states to invest the "maximum available resources" in doing so.

Yet many countries struggle to collect sufficient revenue to fund public services essential for people to realize fundamental rights such as to health, education, housing, access to justice and an adequate standard of living.

Right now, tax havens are allowing multinational corporations and wealthy people to deliberately pay low or no tax on their profits and wealth. These inequitable tax rules reduce the financing available for public services to meet human rights. The United Nations Special Rapporteur on extreme poverty and human rights has highlighted that policies which allow large-scale tax dodging may be in breach of the human rights obligations of governments.

Funding global development



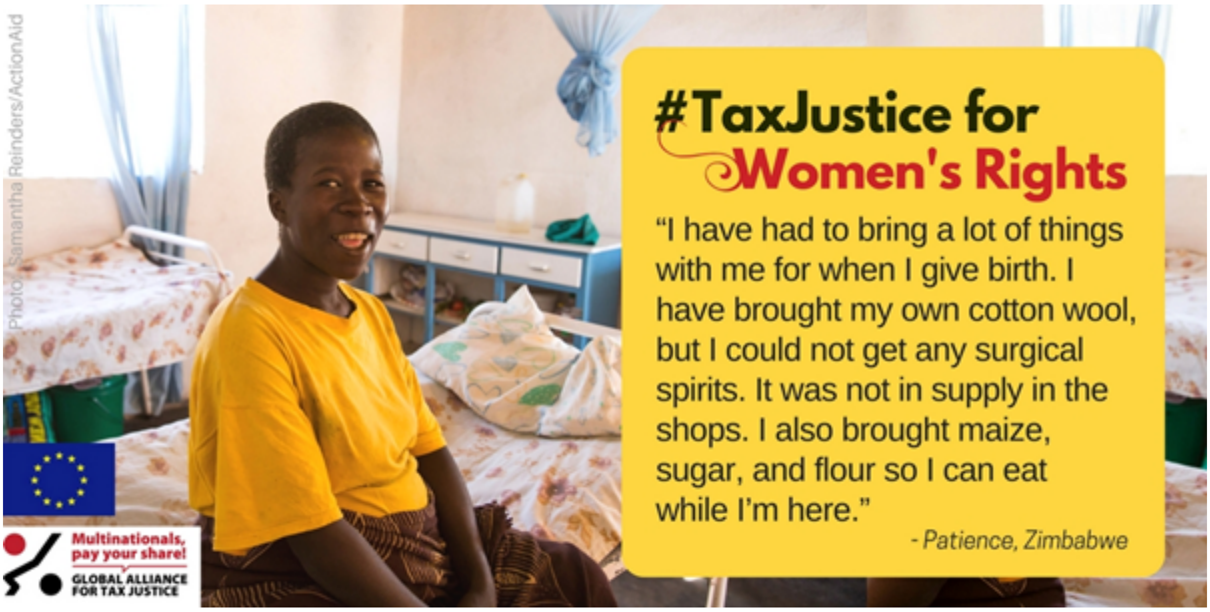
World leaders have committed to a brighter future in 2030 where poverty and inequalities are tackled, but governments now need to progressively raise and spend more domestic resources to make this happen. The UN estimates it will cost US$1.4 trillion per year to reach the Sustainable Development Goals in low- and lower-middle-income countries. But where will this money come from? Stopping international tax avoidance and evasion is a necessity, if governments are to mobilise anywhere near the necessary amounts of funding.

The impact on poor countries

Shifting profits to tax havens can be especially damaging to poorer countries which desperately need tax revenue to pay for public services and tackle poverty. The data released by the SwissLeaks expose revealed that US$48.3 million linked to Zambia was sitting in Swiss bank accounts. At the same time, the Zambian government struggles to fund public services to meet their citizen's rights, with 47% of children not completing primary education and 60% of the population living below the poverty line. Large-scale corporate tax dodging has a disproportionately hard impact on developing countries, which are highly reliant on corporate taxation as a source of income.

Women and girls are paying the highest price

Women and girls tend to be impacted the most when public services are underfunded. For example, the dangers of childbirth mean women suffer more when healthcare services are underfunded. In poor countries, when schooling is not free, families often prioritise sending boys over girls.



Women spend 2.5 times more time performing unpaid care and domestic work than men, which has been valued at 13% of global GDP. Where states don't raise enough revenue to provide vital public services such as healthcare, education and childcare, it is more likely to be women who fill the gap with their unpaid work, reducing the time they have for education, paid employment and rest and leisure.

[1] UNCTAD. (2015). 'World Investment Report 2015', http://unctad.org/en/pages/PublicationWebflyer.aspx?publicationid=1245
[2] Alex Cobham and Petr Jansky, 'Global distribution of revenue loss from tax avoidance', UNU-WIDER, Working Paper 2017/55, March 2017, https://www.wider.unu.edu/sites/default/files/wp2017-55.pdf.