Tax havens like the Cayman Islands (one of the UK’s Overseas Territories) are fuelling inequality which is keeping children like Morgan in poverty. Photos: Shutterstock (left), Sam Tarling/Oxfam (right).

ENDING THE ERA OF TAX HAVENS

Why the UK government must lead the way

The gap between the rich and the rest is growing. Tax havens are at the heart of the inequality crisis, enabling corporations and wealthy individuals to dodge paying their fair share of tax. This prevents states from funding vital public services and combating poverty and inequality, with especially damaging effects for developing countries. The UK heads the world’s biggest financial secrecy network, spanning its Crown Dependencies and Overseas Territories and centred on the City of London – but this in fact provides an unparalleled opportunity to help end the era of tax havens. As the UK Prime Minister prepares to host the anti-corruption summit in May, this briefing paper outlines how tax havens fuel the inequality crisis which leaves poor countries without the funds they need, the UK’s role in the global tax haven system, and what the government can do about it.
SUMMARY

The UK government has played a significant role in the fight against global poverty. In 2015, the world embarked upon the most comprehensive attempt ever to fight poverty. The new Sustainable Development Goals (SDGs) go far beyond their predecessors, the Millennium Development Goals (MDGs), in both ambition and scope. Much of the framework for the SDGs draws on the recommendations of a high-level panel co-chaired by UK Prime Minister David Cameron, including two central elements. First, the SDGs recognise the fundamental importance of challenging inequality if poverty is to be addressed; and second, the framework makes clear that domestic taxation, rather than aid, is the key source of finance to deliver progress.

The UK is widely recognised as having led the way among bilateral donors on effective aid commitments to support the MDGs. At the same time, the Department for International Development (DFID) made important commitments to improve both knowledge and capacity in the field of tax (reinforced in the Addis Tax Initiative in 2015). And in 2013, the UK-hosted summit of G8 countries provided clear global leadership against the scourge of tax havens and corporate tax dodging.

With its hosting of an international anti-corruption summit in May, the UK is uniquely positioned to take the fight against global poverty to the next level by confronting tax dodging. Tax havens are estimated to be costing poor countries at least $170bn in lost tax revenues every year. The recent furore over Google’s tax payments in the UK has brought tax dodging back once again to the top of the political agenda. While corporate tax dodging affects all countries, including the UK, developing countries are hardest hit by this tax abuse. The UK government’s response must be to implement solutions that not only benefit the UK but all countries hit by tax dodging.

Tax havens are jurisdictions or territories which allow non-residents to minimise the amount of taxes they pay where they perform substantial economic activity. It is common to make a distinction between ‘secrecy jurisdictions’, which provide the necessary secrecy for individuals or entities to avoid paying tax, and ‘corporate tax havens’, which adopt particular rules that enable corporations to avoid paying their fair share in other countries. For the purposes of this paper, the terms ‘secrecy jurisdiction’ and ‘tax haven’ are largely used interchangeably.

‘Secrecy jurisdictions’, and the financial secrecy they promote, are a major driver of inequality and corruption – both of which undermine attempts to end poverty and suffering. Secrecy jurisdictions offer anonymous company ownership, which is a consistent feature of international corruption cases, including money laundering and the theft of public assets.
They also refuse to exchange financial information with other countries, in order to promote offshore tax evasion of the type revealed by the Swiss Leaks investigation – and which is estimated, at a minimum, to involve $7.6 trillion of individuals’ undeclared assets. On top of this, a range of failures in corporate transparency facilitate the most harmful corporate tax avoidance, as Lux Leaks laid bare.

Secrecy also obscures the true extent of inequality, reducing public awareness of the scale of the problem and the damage caused, and leading policy makers to believe that resources are scarcer than they actually are.

The overall effect is to reduce potential revenues that can be used to fund vital public services, which often leads policy makers to rely instead on indirect taxes such as those on consumption of goods and services – both of which are likely to hurt people at the bottom of the distribution. They also tend to make gender inequalities worse, because women are disproportionately over-represented in the lower part of the distribution. Efforts to curtail poverty are inevitably undermined.

Tax haven secrecy also undermines a range of other policies designed to support good governance for the wider benefit of societies – and to resist capture by self-interested elites. Financial secrecy facilitates grand corruption, money laundering and the hiding of political conflicts of interest. Last but far from least, tax haven secrecy has a significant impact on the ability of financial regulators to identify and mitigate risk in capital markets. This was an important contributory factor to the global financial crisis that began in 2007 and continues to cast a long shadow.

And so the UK’s anti-corruption summit is extremely timely. Hosted by UK Prime Minister David Cameron, the anti-corruption summit provides an opportunity to dismantle the financial secrecy that threatens the SDGs’ progress against poverty before it even begins. The UK is especially well placed to show leadership here because it controls or directly influences by far the largest network of tax havens in the world. This network, encompassing the UK’s Crown Dependencies and Overseas Territories and centred on the City of London, is estimated to account for nearly a quarter of global financial services provided to non-residents within a jurisdiction. Taken together, this UK entity would sit at the top of the ranking in the Tax Justice Network’s Financial Secrecy Index, which ranks the scale and depth of financial secrecy by jurisdiction.

For many of these jurisdictions, the UK retains ultimate sovereignty – and so Her Majesty’s Government has not only a historic responsibility but a unique opportunity to help end the era of tax havens. Success in these areas could be transformative in the fight against global poverty and inequality.
The UK government should act unilaterally in the following areas:

**Corporate tax**
- Require multinational companies to make country-by-country reports publicly available for each country in which they operate and support efforts at both European and international levels to achieve this standard globally.
- Conduct a rigorous and independent ‘spillover analysis’ of UK corporate tax rules.

**Transparency of beneficial ownership**
- Extend the UK’s public registry of beneficial ownership to trusts and other legal entities.
- Require the UK’s Crown Dependencies and Overseas Territories to introduce public registries of beneficial ownership.

**Information exchange**
- Exchange tax information automatically on a comprehensive, multilateral basis, and without requiring reciprocity from lower-income countries.
- Publish aggregate statistics showing the size and origin of the assets in UK financial institutions.
- Make clear that information provided can be used in anti-corruption efforts.
- Require the Crown Dependencies and Overseas Territories to carry out each of these measures.
- Ensure that UK government departments and contractors do not use tax havens.

**City of London Corporation**
- The government should mandate an independent, fully public review of the functioning and operations of the City of London Corporation.

At a global level, the UK government should support international efforts to end the era of tax havens. These should include the following:

- Begin a second generation of inclusive global tax reforms to fix the broken international tax system.
- Set up integrated, binding, exhaustive and objective monitoring exercises of tax havens at the global level, in order to assess the risks posed by these jurisdictions. These exercises should be held regularly and their outcomes should be made public.
- Increase transparency around tax rulings and the granting of tax incentives.
The Big Four audit firms should:

- Publish an OECD Base Erosion and Profit Shifting (BEPS) country-by-country reporting template in its entirety, and encourage their clients to do the same.
- Only assist with tax returns which fulfil both the spirit as well as the letter of the law.
- Refrain from any lobbying on tax issues which might be reasonably construed as being against the public interest.
- Publish comprehensive data on an annual or more frequent basis of the full set of political activity in each jurisdiction.
1 GLOBAL INEQUALITY: A CONTINUING FAILURE

Economic inequality damages us all. When we accept greater inequality, we are condemning ourselves to worse lives – and not only for those at the bottom of the distribution, but across our entire society.

When we live in more unequal societies, we suffer a whole range of negative outcomes: from poorer physical and mental health to worse prospects for sustained economic growth and worse outcomes for women and girls (as the International Monetary Fund and other researchers have shown).¹

Recent research by Oxfam has shown that, in 2015, just 62 rich individuals had the same wealth as 3.6 billion people – the poorest half of the world’s population.² And while the wealth of the richest 62 people has risen by more than half a trillion dollars since 2010, the wealth of the world’s bottom half has fallen by more than a trillion dollars in the same period.³

Figure 1: The wealth of the richest 62 individuals continues to grow, while that of the poorest half of the world stagnates

While extreme inequality hits the world’s poorest hardest, it is a growing problem in richer countries too. Analysis of Credit Suisse data for the UK shows that total net wealth has increased dramatically in the past 15 years, from £6.4 to £10.1 trillion. More than a quarter of the total national increase in wealth over the past 15 years has amassed to the richest 1 percent of the UK population – who now have an average wealth of £3.7m each, an increase of £1.5m each since the millennium. Meanwhile, the average wealth of someone in the bottom 10 percent was just £1,600 last year, making them on average only £500 wealthier than at the turn of the century.4

Economic inequalities based on gender are deeply entrenched around the world. Women are concentrated in low pay and informal sector work without labour rights or social protection. Statistics from UN Women show that on average women earn only 70–90 percent of what men earn. At the same time, women do the bulk of unpaid work in countries at all income levels.5 International Monetary Fund (IMF) researchers have found gender inequality to be worse in multiple dimensions of human development when income inequality is higher.6
Box 1: Oxfam’s Even It Up Campaign

Research by Oxfam recently revealed that the top 1 percent have now accumulated more wealth than the rest of the world put together. Such extreme inequality makes no moral or economic sense, and it is hampering efforts to end extreme poverty. Decades of experience in the world’s poorest communities have taught Oxfam that poverty and inequality are not inevitable or accidental, but the result of deliberate policy choices. Inequality can be reversed. When Oxfam launched its Even It Up campaign in 2014, calling for action on taxation, investment in public services and decent jobs and wages for all to tackle the rising tide of extreme inequality, it joined a groundswell of voices calling for action. These include the diverse voices of faith leaders, individual billionaires and the heads of institutions such as the IMF and the World Bank, as well as trade unions, social movements, women’s organisations and millions of ordinary people across the globe. These voices are all calling for world leaders to take action to end extreme inequality.

Some people claim that concerns about inequality are driven by the ‘politics of envy’. They often cite the reduction in the number of people living in extreme poverty as proof that inequality is not a major problem. But this is to miss the point. As an organisation that exists to tackle poverty, Oxfam is unequivocal in welcoming the fantastic progress that helped to halve the number of people living below the extreme poverty line between 1990 and 2010. Yet if inequality within countries had not grown during that same period, an extra 200 million people would have escaped poverty. That could have risen to 700 million had poor people benefited more than the rich from economic growth. We cannot end extreme poverty unless we tackle extreme inequality.

The scale and impact of economic inequalities beg powerful questions: why do we accept such damage to human development and to progress against poverty? Why is such a waste of human potential tolerated, either at national or at global level? An important component of the answer concerns tax havens and their role in undermining the taxation of wealthy individuals and multinational corporations (MNCs). In addition, the corrosive effect of tax havens on governance and accountability is a corrupting influence that weakens the will and ability of states to fight poverty.

Tax havens prosper by helping others to hide income and assets from the authorities in other countries. Their aim is to achieve impunity: impunity from taxation. The result is greater poverty for others. Tax havens fuel both inequality and corruption, and deprive governments around the world of vital revenues to invest in quality, universal public services for all. The UK government must play its part in tackling extreme inequality to meet the commitments set out in the Sustainable Development Goals (SDGs). The anti-corruption summit hosted by David Cameron in May provides a unique opportunity to help end the era of tax havens once and for all.

When we accept greater inequality, we are condemning ourselves to worse lives – and not only for those at the bottom of the distribution, but across our entire society.
Section 2 of this paper examines the uses of tax haven secrecy by wealthy elites and MNCs and the impact this has on poverty, inequality and corruption. Section 3 highlights how tax havens hit developing countries hardest. Section 4 shows how the UK came to sit at the centre of the global financial secrecy network. The final section provides recommendations, indicating how the current UK government can address its historic responsibility by seizing a unique opportunity to help end the era of tax havens at the forthcoming anti-corruption summit.

The scale and impact of economic inequalities beg a powerful question: why is such damage to human development, and such a waste of human potential, tolerated either at national or global level?
2 TAX HAVENS ARE AT THE HEART OF THE INEQUALITY CRISIS

Long sidelined by the dominance of the Washington Consensus, and entirely absent from the MDGs framework, tax revenues are now recognised once again as playing a central role in development.\(^9\) DFID has put significant emphasis on the issue over recent years, for example by funding the world-leading International Centre for Tax and Development (ICTD).\(^{10}\)

The recent furore over Google’s tax payments in the UK has brought tax dodging up the political agenda.\(^{11}\) Members of Parliament (MPs) of all parties pointed the finger at Google for dodging taxes in the UK and funnelling profits through Bermuda. Recent news that Facebook will pay more tax on its business in the UK also grabbed headlines.\(^{12}\) Surveys continue to show huge public concern about tax abuse, and indicate that a huge majority of the UK public back new laws to clamp down on tax havens.\(^{13}\) Corporate tax avoidance remains the top public concern when it comes to business behaviour, according to the most recent survey by the Institute of Business Ethics.\(^{14}\)

Increasingly, businesses both big and small are speaking out against tax dodging, and calling on the government to take concrete action.\(^{15}\) For example, Andy Street, managing director of retailer John Lewis, said recently: ‘If you think two companies making the same profit, one of them pays corporation tax at the UK rate, one does not because it claims to be headquartered somewhere else. That is not fair. The government is trying to address that but as yet we’ve not actually seen that [reform] really, really bite.’\(^{16}\)

Tax havens create an uneven playing field. Some multinational companies are well positioned to take advantage of tax havens, but other businesses, whether large domestic companies or smaller businesses, are unable to do the same. Similarly, it is only very wealthy individuals that can afford the armies of tax lawyers and accountants needed to hide wealth in tax havens, so ironically it is those with the greatest financial means who are best placed to avoid paying their fair share.

As tax revenues from MNCs and wealthy individuals fall short, governments are left with two options: either to cut back on essential spending needed to reduce inequality and poverty or to make up the shortfall by levying higher taxes on other, less wealthy sections of society, and smaller businesses in the domestic economy. Both options see those at the bottom lose out and the inequality gap grow.
Box 2: What is a tax haven?

Tax dodging encompasses both tax avoidance and illegal tax evasion, both of which minimise the contributions companies and individuals make to society. It is often difficult to distinguish between the two, and there is certainly some tax planning that may be legal according to the letter of the law but that goes against the spirit of the law.

Tax havens are jurisdictions or territories which have intentionally adopted fiscal and legal frameworks that allow non-residents to minimise the amount of taxes they pay where they perform substantial economic activity.

Tax havens tend to specialise, and most of them do not tick all the boxes, but they usually fulfil several of the following criteria:

- They grant fiscal advantages to non-resident individuals or legal entities only, without requiring that substantial economic activity be carried out in the country or dependency.
- They provide a significantly lower effective level of taxation, including zero taxation.
- They have adopted laws or administrative practices that prevent the automatic exchange of information for tax purposes with other governments.
- They have adopted legislative, legal or administrative provisions that allow the non-disclosure of the corporate structure of legal entities (including companies, trusts, and foundations) or the ownership of assets or rights.

It is common to make a distinction between ‘corporate tax havens’, which adopt particular rules that enable corporations to avoid paying their fair share of tax in other countries, and ‘secrecy jurisdictions’, which provide the necessary secrecy for individuals or entities to avoid paying tax. The Tax Justice Network (TJN) define secrecy jurisdictions as those that enable people or entities to escape the laws, rules and regulations of other jurisdictions, using secrecy as a prime tool. For the purposes of this paper, the terms ‘secrecy jurisdiction’ and ‘tax haven’ are largely used interchangeably.

Oxfam calls for the setting up of integrated, binding, exhaustive and objective exercises in monitoring tax havens at a global level, in order to assess the risks posed by these jurisdictions. These exercises should be carried out regularly and their outcomes should be made public.

Whilst these issues are real and serious for a country such as the UK, they impact even more heavily on poorer countries, as we will explore in section 3 of this paper.

Tax revenue is essential to fund vital public services such as education, health and infrastructure, as well as cash transfers such as child benefit and state pensions. Universal, free public services are proven to tackle inequality and poverty. Ending the era of tax havens will ensure that the necessary funds for these services can be raised in a more redistributive fashion – in particular, through direct taxation of income, profits, wealth and capital gains, rather than through consumption taxes such as VAT that are likely to be more regressive and can lead to the poor subsidising the rich.

Tax havens represent a major obstacle to fighting inequality – both by hiding its true scale, and by undermining progressive taxes.
By hiding income and assets, tax havens allow both MNCs and unscrupulous individuals to evade or avoid direct taxation, thereby allowing them to amass even more wealth and making inequality worse. This makes direct taxation less effective – damaging revenues and the scope for redistribution. Perhaps more importantly, the secrecy promoted by tax havens makes corruption pay, and with impunity. The majority of us do not have access to this global tax haven network: it is the preserve of big business and a wealthy elite. When the wealthy fail to pay their fair share of tax, the rest of us are left to pick up the tab.

THE REVENUE COSTS OF TAX HAVENS

The most easily quantifiable cost of tax haven secrecy is the scale of revenues lost around the world due to tax not being paid. There is no doubt that this has a huge impact on development potential, despite the inevitable uncertainty about estimates of the sums involved and the need for better data. Global estimates of individual and corporate wealth held ‘offshore’ span a wide range.

The highest estimate of individual wealth hidden away in ‘secrecy jurisdictions’ suggests a range of $21–32 trillion, based on triangulation of multiple methods (and data sources).

A conservative estimate looking at the mismatch between the publicly acknowledged bilateral assets and liabilities of a list of ‘tax haven’ jurisdictions is that $7.6 trillion was hidden by wealthy individuals ‘offshore’ in 2013. Taking into account nominal tax rates in countries of origin, it is estimated that $190bn of revenue is lost globally as a result of individuals' wealth being hidden offshore, with at least $70bn being lost to the world’s poorest regions.

Gabriel Zucman has also estimated that (as of 2014) individuals from the UK are holding at least $284bn (over £170bn) offshore, approximately 2 percent of the UK net wealth as estimated by Credit Suisse. This is costing the UK more than $8bn (£5bn) per year in lost tax revenues. It is likely that the wealthiest people are the most prolific users of tax havens, therefore if this hidden wealth were included in Oxfam’s analysis of the wealth distribution in the UK, we would expect to see an even greater share of wealth being held by the richest 1 percent.

New estimates of revenue losses due to corporate tax abuses all point to a larger scale than previously recognised. In 2015 IMF researchers examined a broader measure of tax haven ‘spillovers’, estimating total tax losses in the long run of approximately $600bn globally. A Tax Justice Network (TJN) study found that the profit shifting of US-headquartered multinationals alone was likely to have resulted in around $130bn of revenue losses globally in 2012.

While developing countries are hit hardest by corporate tax dodging, it is important to note that rich countries, such as the UK, also suffer. It is
often assumed that the richest and largest economies, home to most of the world’s multinationals, defend the current system because it is in their own interests to do so. However, among the biggest losers to the broken global corporate tax system in absolute terms are G20 countries themselves, including the US, UK, Germany, Japan, France, Mexico, India and Spain. This shows that even developed countries with state-of-the-art tax legislation and well-equipped tax authorities cannot stop multinationals dodging their tax without a thorough reform of the global tax system.

**TAX HAVENS: DRIVERS OF GLOBAL CORRUPTION**

Tax haven secrecy also undermines good governance – and prevents policy makers from resisting capture by self-interested elites. Tax rules are just a sub-set of the wider laws and regulations that are undermined by the ability of the wealthy to hold assets anonymously.

Corruption is commonly understood as ‘the abuse of power for private gain’. When individuals and organisations seek to use their power to avoid paying the taxes they owe by utilising preferential facilities such as tax havens, which provide them with undue tax-free rewards, this is a form of corruption.

The financial secrecy that many tax havens provide facilitates grand corruption, money laundering, the hiding of political conflicts of interest, the manipulation of markets and the evasion of anti-trust law. This undermines democracy and creates the conditions for insecurity to flourish.

Organisations including Global Witness and Transparency International have led the way in highlighting just how pervasive anonymous ownership is, not least in the London property market. Global Witness recently reported that substantial parts of the city’s famous Baker Street are owned by a mysterious figure with close ties to a former Kazakh secret police chief accused of murder and money laundering. Transparency International’s analysis shows that 36,342 London properties covering a total of 2.25 sq miles are held by anonymous companies. Using police data, it also showed that 75 percent of properties whose owners are under investigation for corruption made use of offshore corporate secrecy to hide their identities. A recent Channel 4 documentary, *From Russia with Cash*, revealed the apparent willingness of London estate agents to facilitate corrupt purchases. Deutsche Bank analysis suggests that Russian money constitutes a major part of the roughly £1bn a month of hidden capital inflows to the UK.

There is also increasing agreement that tax dodging by MNCs should be seen in this light – that is, as another form of corruption. World Bank president Jim Yong Kim has labelled it explicitly as ‘a form of corruption that hurts the poor’.

*Some companies use elaborate strategies to avoid paying taxes in countries in which they work, a form of corruption that hurts the poor.*

World Bank president, Jim Yong Kim
Overall, tax havens undermine not only tax systems but also the wider effectiveness of states. The Norwegian Government Commission on Capital Flight out of Developing Countries made the case powerfully: ‘Potentially the most serious consequences of tax havens are that they can contribute to weakening the quality of institutions and the political system in developing countries. This is because tax havens encourage the self-interest that politicians and bureaucrats in such countries have in weakening these institutions.’

TAX HAVENS: DRIVERS OF ECONOMIC CRASHES

Last but far from least, tax haven secrecy has a significant impact on the ability of financial regulators to identify and mitigate risk in capital markets. This was an important contributory factor to the global financial crisis that began in 2007 and continues to cast a long shadow. Given the growing economic inequality we have witnessed in the aftermath of the financial crisis, the role that tax havens played in creating the conditions for it is doubly important. We need to tackle tax havens in order to challenge the causes and symptoms of the financial crash.

The evidence from the crisis shows just how little national regulators were aware of the offshore activities of subsidiaries of major financial institutions in their charge, and how this facilitated the extraordinary credit boom that led – as credit booms do – to bust. From the nominally Irish entities of German and US banks such as Bear Stearns which violated international regulations on asset-capital ratios many times over, to the repeated story of apparently highly performing London-based operations exposing US parents to untold risk (most dramatically in the case of AIG), the consistent findings are that home country regulators either did not know what was happening or did not feel it was in their remit to intervene, while the ‘offshore’ regulator (UK or Irish) seems to have felt home regulators were in charge – so regulation fell between the cracks.

The deliberate and systematic exploitation of financial secrecy to circumvent capital market regulation provided the basis for higher profits in the short term – largely enjoyed by a wealthy few – and at length a global crisis for the many. The crimes that tax haven secrecy enables give rise, therefore, to greater economic inequality and to less well functioning and competitive markets, and to greater political inequality through the corruption of systems of democratic representation. Tax havens are corrupting global markets.

As members of the UK government prepare for the international anti-corruption summit in May, ending the era of tax havens must be at the top of their agenda.

‘Potentially the most serious consequences of tax havens are that they can contribute to weakening the quality of institutions and the political system in developing countries.’

Norwegian Government Commission on Capital Flight out of Developing Countries
3 TAX HAVENS HURT DEVELOPING COUNTRIES THE MOST

It’s estimated that poor countries lose out on a staggering $170bn of taxes every year because of tax havens – vital revenue that is desperately needed to pay for public services like healthcare and education.40

Individual studies can give a powerful indication of the scale of impacts. An ActionAid case study found that Australian mining company Paladin had cut $43m from its tax bill in Malawi. This could have paid for either: 431,000 HIV/AIDS treatments, 17,000 nurses, 8,500 doctors or 39,000 teachers.41

In terms of both corporate profit shifting and individual undeclared wealth, the evidence supports the view that developing countries are worst affected. For corporate profit shifting, IMF researchers estimate that losses are around 1 percent of GDP for OECD countries and 1.3 percent for developing countries. However, the GDP comparison does not show the full difference in intensity of losses, because developing countries have lower tax revenues in general: often 10–20 percent of GDP, rather than 30 percent or more in OECD countries. The proportion of revenues foregone is therefore substantially greater in comparison: perhaps 6–13 percent of existing tax revenues in developing countries, as opposed to just 2–3 percent in OECD countries.42

Estimates of undeclared individual wealth also suggest a particular intensity in developing countries. One estimate is broken down by region, see Table 1. With the exception of Russia and the Gulf countries, the proportion of wealth held offshore is largest for Africa and Latin America – more than twice that of Europe and many times higher than that of the US. While it is difficult immediately to construct an equivalent share of current revenues, the estimated revenue losses for Africa and Latin America appear disproportionate to their shares of world GDP. Oxfam calculates that the $14bn a year that African countries lose to individuals hiding their wealth offshore would be enough to pay for healthcare that could save the lives of four million children and employ enough teachers to get every African child into school.43

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Oxfam calculates that the $14bn a year that African countries lose to individuals hiding their wealth offshore would be enough to pay for healthcare that could save the lives of four million children and employ enough teachers to get every African child into school.
Supporting this finding for Africa, there are also regional estimates of lost capital that strongly imply that the region is a net creditor to, rather than a net debtor of, the rest of the world. Former African Development Bank chief economist Léonce Ndikumana and co-author James Boyce have produced a series of estimates of the stock of African capital flight offshore since the 1970s, most recently for a new volume produced by the African Economic Research Consortium. They estimate that the stock of flight capital built up between 1970 and 2010 for 39 African countries and held offshore is approximately $1.3 trillion, or 82 percent of the 2010 GDP of these countries. In contrast, the stock of external debt stood at $283bn – so the scale of African wealth hidden offshore is estimated to exceed recorded external debt by a ratio of more than four to one.

Finally, a narrower study, but with global coverage, provides additional supporting evidence for the view that developing countries in general suffer a greater intensity of tax haven exposure. The ‘Swiss Leaks’ data, leaked in 2008 by whistleblower Hervé Falciani, revealed the pattern of foreign holdings in the bank accounts operated by HSBC Switzerland.

The data provide only a snapshot, and cannot be extrapolated with any confidence due to the continuing lack of consistent data on international banking. Nonetheless, they provide a unique insight into the business model of a major global bank operating in the jurisdiction which is consistently shown to be the biggest global tax haven.

For some countries, such as Kenya, Egypt and Burundi, HSBC held assets worth more than 1 percent of GDP. African countries both north and south of the Sahara are consistently the most exposed to corporate tax dodging in terms of proportion to GDP/tax revenues. This is exacerbated by Zucman’s startling estimate that 30 percent of African

### Table 1: Estimate of undeclared individual wealth broken down by region

<table>
<thead>
<tr>
<th>Region</th>
<th>Offshore wealth ($ billions)</th>
<th>Share of financial wealth held offshore</th>
<th>Tax revenue loss ($ billions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Europe</td>
<td>2,600</td>
<td>10%</td>
<td>75</td>
</tr>
<tr>
<td>United States</td>
<td>1,200</td>
<td>4%</td>
<td>36</td>
</tr>
<tr>
<td>Asia</td>
<td>1,300</td>
<td>4%</td>
<td>35</td>
</tr>
<tr>
<td>Latin America</td>
<td>700</td>
<td>22%</td>
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</tr>
<tr>
<td>Africa</td>
<td>500</td>
<td>30%</td>
<td>15</td>
</tr>
<tr>
<td>Canada</td>
<td>300</td>
<td>9%</td>
<td>6</td>
</tr>
<tr>
<td>Russia</td>
<td>200</td>
<td>50%</td>
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<tr>
<td>Gulf countries</td>
<td>800</td>
<td>57%</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>7,600</strong></td>
<td><strong>8.0%</strong></td>
<td><strong>190</strong></td>
</tr>
</tbody>
</table>


Africa is a net creditor to, rather than a net debtor of, the rest of the world [...] the scale of African wealth hidden offshore is estimated to exceed recorded external debt by a ratio of more than four to one.
wealth held by individuals is held offshore in a narrow range of financial assets. A number of countries in both Latin America and south Asia also show significant exposure.

Box 3: HSBC, and the UK’s curious ambivalence

In 2010, the UK government – via Her Majesties Revenue and Customs (HMRC) – received from France the HSBC Swiss account data leaked by Herve Falciani (and subsequently part-published by the ICIJ as ‘SwissLeaks’). The same year, the incoming coalition government made the Rev. Stephen Green, former HSBC Group Chief Executive (2003–6), Chair of HSBC Private Banking Holdings (Suisse) SA (2005–10) and HSBC Chairman (2006–10), a member of the House of Lords and appointed him as a trade minister.\(^{51}\)

In 2011, the UK signed an agreement with Switzerland under which Swiss banks would withhold some taxes on undisclosed accounts held by UK taxpayers and remit them to the UK, whilst maintaining the secrecy of account holders. The deal was criticised by TJN for providing effective immunity for criminals. TJN also published analysis showing that the UK would receive at best a fraction of the revenues promised due to various loopholes.\(^{52}\)

Five years later, in February 2015, HMRC told the Public Accounts Committee that from SwissLeaks data on 6,800 entities it had identified 1,000 tax evaders but had secured just a single conviction. In the same month, the former public prosecutor Lord Ken MacDonald QC argued that the bank itself should have been considered for criminal prosecution: \(^{53}\)

‘It seems clear, from the evidence we have seen, that there exists credible evidence that HSBC Swiss and/or its employees have engaged over many years in systematic and profitable collusion in serious criminal activity against the exchequers of a number of countries.’

The Public Accounts Committee questioned HSBC’s chief executive Stuart Gulliver. This revealed details about his personal tax status, including that he was non-domiciled in the UK for tax purposes, that he had a Swiss bank account and was previously paid through a Panamanian company, which Gulliver himself acknowledged were further damaging the bank’s reputation. Some MPs blocked an attempt to question Lord Green himself to find out what he knew about the scandal during his time in charge of the bank.\(^{54}\)

In January 2016, the UK financial regulator, the Financial Conduct Authority (FCA), confirmed to Sky News that it would not pursue HSBC over the tax evasion facilitation highlighted by SwissLeaks, only a month after announcing its decision to drop its wider review into banking culture.\(^{55}\) Both decisions were taken while the regulator lacked a permanent chief executive, after the ousting of the ‘hardline’ Martin Wheatley, in a move described by the FT as a signal that the government was bringing to an end the post-financial crisis era of intrusive regulation.\(^{56}\) In February 2016, HSBC announced its decision to remain in the UK following a review, announced in April 2015, about whether to relocate its headquarters to Hong Kong.

This case raises a number of questions about the UK government’s appetite to tackle tax abuse. Is the UK simply more tolerant of tax evasion than other countries that had less at stake but pursued the criminals and the revenues more vigorously?\(^{57}\) Did the bank’s economic importance affect its treatment? Do political relationships play a role? Is there a specific HSBC issue at play, or is this merely symptomatic of a wider ‘Finance Curse’?\(^{58}\)
Few countries have as little exposure, in proportional terms, as the United States, which has been by far the most aggressive in unilaterally challenging Swiss bank secrecy. In stark contrast, the UK is the only OECD country with an exposure comparable to the majority of developing countries – and yet the UK’s response has been puzzling, to say the least.

The evidence shows clearly the broad scale of damage done to development through the financial secrecy provided by tax havens. It is no coincidence that one major difference between the MDGs agreed in 2000 and the SDGs agreed in 2015 is the inclusion both of supporting tax and of combating illicit financial flows in the latter. Pressure from developing countries to move past the aid-driven MDG agenda is an important element of this progress.
4 THE UK’S GLOBAL TAX HAVEN NETWORK

HOW THE UK AND OUR TERRITORIES DOMINATE GLOBAL FINANCIAL SECRECY

When people think of tax havens, they often think of paradise islands. However, this perception disguises the fact that major financial centres around the world are also in many ways ‘offshore’. The UK accounts for 17 percent of the global market in offshore financial services, and occupies 15th place on TJN’s Financial Secrecy Index. This Index also shows how the UK’s network of related territories dominates global financial secrecy – in aggregate, they account for nearly a quarter of global financial services provided in one jurisdiction to those not resident in that jurisdiction. If the UK and this network that it leads were to be treated as a single entity, then this entity would sit at the top of the Financial Secrecy Index.

This network includes most notably the 14 Overseas Territories, including such offshore giants as the Cayman Islands, the British Virgin Islands and Bermuda, and also the three Crown Dependencies (Jersey, Guernsey and the Isle of Man). Though these jurisdictions have a measure of independence on internal political matters, the UK supports and oversees them: the Queen appoints many of their top officials for example. As Jersey Finance, the official marketing arm of the Jersey offshore financial centre, puts it: ‘Jersey represents an extension of the City of London.’

In terms of UK influence over its Crown Dependencies and Overseas Territories, the Foreign and Commonwealth Office (FCO) puts it bluntly, defining the ‘constitutional relationship’ as follows (emphasis added):

‘The UK, the Overseas Territories and the Crown Dependencies form one undivided Realm, which is distinct from the other States of which Her Majesty The Queen is monarch. Each Territory has its own Constitution and its own Government and has its own local laws. As a matter of constitutional law the UK Parliament has unlimited power to legislate for the Territories.’

The World Bank has shown that the UK’s Overseas Territories are the number one destination of choice for the world’s corrupt to set up anonymous companies.

In the case of the Crown Dependencies, the question is not whether the UK has the power but when it is appropriate to exercise it. And the
question of when it is appropriate to exercise this power is largely one of political judgement. This is the longstanding position set out by the 1973 Royal Commission on the Constitution, the so-called Kilbrandon report, and reiterated in a parliamentary answer in May 2000.65

HOW THE UK NETWORK EMERGED

The UK’s responsibility for this global financial secrecy network derives from its driving role in the establishment of secretive financial services sectors in so many of these jurisdictions, as documented in Nicholas Shaxson’s Treasure Islands: Tax havens and the Men Who Stole the World.66 The UK also played a pivotal role in the emergence of ‘offshore’ companies and trusts. Court decisions of 1876 and 1929 established the principle of (corporate) residence without taxation, setting the basis for future ‘international business corporations’, a cornerstone of offshore, anonymous and unregulated ownership.67 The emergence in English common law of trusts, meanwhile, provided a legal means of separating ownership and control of assets – a separation all too commonly exploited for corrupt practices, despite also having some legitimate uses.68

More recently, the opening up of the ‘Euromarket’, including Eurobonds from 1963, as a new, unregulated financial space created a huge opportunity for London.69 And while the Bank of England was clear on the possible risks, it was also largely indifferent to any costs for others. As one of its top officials, James Keogh, said in 1963, ‘It doesn’t matter to me whether Citibank is evading American regulations in London. I wouldn’t particularly want to know.’70 And a Bank of England memo the same year stated, ‘However much we dislike hot money… we cannot be international bankers and refuse to accept money.’71

A secret Bank memo of 1969 said of the emergent UK network, ‘We need to be quite sure that the possible proliferation of trust companies, banks, etc., which in most cases would be no more than brass plates manipulating assets outside the Islands, does not get out of hand. There is of course no objection to their providing bolt holes for non-residents.’73

As Leo Sheppard of TaxAnalysts said, ‘The British think they do finance well. No. They do the legal stuff well. Most of the big investment banks there are branches of foreign operations…They go there because there is no regulation whatsoever’.74

The UK’s involvement stretches back much further than the Euromarket, however, and is now much more wide reaching. This is particularly true in relation to the City of London, and to the major financial institutions found there.
A GLOBAL NETWORK CENTRED ON ONE SQUARE MILE

The City of London, the world’s oldest continuous municipal democracy, is a unique body, at least ten centuries old. It is the municipal authority for the City of London, and is the only local authority in the UK where businesses are able to vote in local elections. Fewer than 10,000 residents actually live in the ‘Square Mile’.

The City of London Corporation is officially a lobbyist for the UK financial services sector and for financial deregulation, both at home and abroad. A City of London ‘Remembrancer’ liaises with the UK Parliament, bringing intelligence from the political sphere back to, and lobbying on behalf of, the City. The Corporation, which predates Parliament, has various other special privileges and ‘freedoms’, putting it in some ways outside of normal UK civic governance.

The City of London Corporation has historically fought for ‘freedom’ to trade relatively unhindered by demands and pressures from various sovereigns and governments – and often from tax. Particularly in the second half of the 20th century, it focused increasingly on defending the ‘freedoms’ of finance. Britain’s history of ‘light-touch’ regulation leading up to the global financial crisis in 2007/8 has deep roots in the Corporation’s lobbying activities and ideological defence of ‘freedom’ for finance, alongside mainstream private sector financial players.

The Lord Mayor of the City of London Corporation – not to be confused with the Mayor of London, who runs the vastly larger London metropolis – is explicitly tasked with promoting the financial services industry and lobbying for financial liberalisation around the globe. The Corporation has long been a cheerleader for Britain’s offshore ‘satellite’ havens: successive Lord Mayors have called them ‘a core asset of the City’ and a ‘fantastic adjunct’ to the UK, and leading officers have defended the Crown Dependencies and Overseas Territories (with which they are sometimes closely linked personally) against demands for basic transparency.

The lobbying also extends to pushing other jurisdictions, especially in developing countries, to set up new ‘offshore’ financial centres – including for example Kenya, where anti-corruption campaigner John Githongo warned that the proposed centre would be ‘like a financial crime aircraft carrier, self-contained and able to cause considerable damage’. The idea here is not, of course, to create competition for London – rather, and in keeping with the historical pattern, to establish additional feeders of funds back to the City. There seems to be no consideration of possible side effects in terms, for example, of creating a weakly regulated hub that might promote corrupt practices in the region.
THE BIG 4 AUDIT FIRMS

The ‘Big Four’ auditing firms are Deloitte, Ernst & Young, KPMG and PricewaterhouseCoopers (PwC). The four are not in fact individual companies, but rather international networks of professional services providers, offering variously external audit, taxation services, management and business consultancy, and risk assessment and control. While other smaller firms also provide these services, the ‘Big Four’ are globally dominant in auditing, signing off the accounts of more than 80 percent of the largest US firms and a similar proportion in many other major economies.

They also help manage the tax affairs of these large corporations and, as such, are centrally involved in much of the profit shifting done by multinational companies – in some cases, such as that of PwC as revealed by ‘LuxLeaks’, as key promoters of new techniques or channels. When questioning PwC in 2013, the UK’s Public Accounts Committee cited evidence from a PwC insider that the firm ‘will approve a tax product if there is a 25 percent chance – a one-in-four chance – of it being upheld. That means that you are offering schemes to your clients where you have judged there is a 75 percent risk of it then being deemed unlawful.’

On occasion, the Big 4 have acted outside the law. In the US, Ernst & Young paid a fine of $123m to the US tax authorities in 2013 to resolve allegations of tax fraud; KPMG paid a fine of $456m in 2005 after admitting ‘criminal wrongdoing’ over the sale of avoidance schemes and a number of its former personnel also received prison sentences. But in Britain, as professor of accounting Prem Sikka wrote in 2013:

‘A large number of tax avoidance schemes have been declared illegal by the UK courts. [Treasury sources] have referred to the schemes marketed by the big accountancy firms as “blatantly abusive avoidance scams”, but this has not been followed up with any investigation, inquiry, prosecutions or fines. No accountancy firm has ever been fined or disciplined by its professional body for selling unlawful tax avoidance schemes. In fact, there are no negative consequences for the designers of such schemes.’

Accounting academic Atul Shah has highlighted flaws in the governance, leadership culture and ethics of the Big Four firms and their operations. In particular, he has argued that regulatory arbitrage – using their expertise to help clients by avoiding the substance of regulations and rules – is ‘in their very nature’. This idea, of a business model that relies in part on the deliberate frustration of the intentions of regulators and policy makers, raises a larger question about whether these firms should ever be seen as objective providers of technical expertise. As Shah puts it, ‘The Big 4 are not culturally neutral’.

The Big Four are indeed major providers of technical expertise to policy makers in many countries (both for lucrative fees and by offering pro bono services and secondments that may generate sellable knowledge). Both in their City of London operations and globally, the
Big Four have the potential to exert enormous influence, positive or negative, over tax policies and the administration of tax, with concomitant potential to affect inequality and poverty.

Together, the loose financial regulatory environment, the institutionalisation of the City of London Corporation, and the actions of auditing firms with operations in the UK, mean that the UK provides many favourable conditions for enabling less than transparent financial flows. When we add in the network of secrecy jurisdictions that the UK has ultimate sovereignty over, the responsibility of setting a good example and leading the actions of others becomes even clearer.

UK POLICY: CALLING TIME ON TAX HAVENS?

In 2013 the Prime Minister, David Cameron, led global efforts to crack down on financial secrecy – most notably through the UK’s hosting of the G8 summit, which produced some important early progress in both corporate transparency and the exchange of tax information between jurisdictions. The UK also committed to establishing a public registry of the beneficial ownership of its companies, which is about to bear fruit – but without corresponding action as yet from the Crown Dependencies or Overseas Territories, barring Montserrat.

At the same time, however, the UK has taken a number of unwelcome steps – some with potentially deep costs for the world’s poorest countries. The actions have made it harder for poorer countries to access the levels of tax revenues they need, and even to know about what revenues they are potentially missing out on. These are most clearly seen with respect to the UK government’s stance on corporate taxation.

In 2013 the OECD embarked on its Base Erosion and Profit Shifting (BEPS) initiative to fix the broken global corporate tax system. The UK’s stance on particular mechanisms of profit shifting undermined these global attempts to fight abuse, and will cost revenues both at home and abroad. Rather than eliminating the ‘patent box’, a mechanism identified as harmful in supporting profit shifting through the use of intellectual property, the BEPS initiative has instead codified its practice due to UK intransigence – leading, unsurprisingly, to a rush by other states to adopt the same mechanisms, all of which will exacerbate rather than curtail the problem. The US Treasury was so irritated that it took the highly unusual step of publicly criticising the UK’s ‘unhelpful’ approach, while an OECD source highlighted the UK’s defence of another mechanism, which an ActionAid study estimated in 2012 would cost developing countries £4bn per year in lost tax revenues, by making it easier and more attractive to shift their profits into the UK.

Secondly, at the technical level, the BEPS effort was hampered from the beginning by the insistence on maintaining the ‘separate accounting’ approach – that is, treating each company within a multinational group as a separate, profit-maximising entity, and trying to establish the market
prices for intra-group trades to ensure that profit is declared where it should be. Such an approach is diametrically opposed to the logic of modern multinationals: that they can be more efficient if they internalise many transactions, and maximise profit at the level of the whole group. The alternative approach, increasingly supported by leading economists and international experts, is to treat the entire multinational group as the taxable entity, and then determine how to apportion profits between the different jurisdictions where real economic activity takes place.93

Thirdly, even country-by-country reporting – the major transparency commitment which appeared to have been won – was overturned after heavy lobbying (not least from US multinationals). It has been a long-standing demand of civil society organisations for multinationals to report on their activity (including tax paid) on a country-by-country basis, so that major distortions could be seen and challenged. From the outset, the key element of the proposal was transparency: the data must be public so that both companies and tax authorities can be held accountable. Sadly, the lobbying has seen a sound OECD standard based on the original proposals adopted but then restricted – so that the data will, at present, only be provided to home country tax authorities (i.e. mainly those in OECD member countries). Highly conditional mechanisms then apply for whether that information can be shared with tax authorities in developing countries where the multinational operates.94

To make country-by-country reporting work, governments must now commit to publish this information, and in open, machine-readable format. Encouragingly, UK Chancellor George Osborne has responded to the enormous public anger over Google’s recent tax settlement by committing to deliver just this.95 EU discussions are ongoing, so it remains to be seen whether the UK will act unilaterally or if all member states will act together.

**Box 4: Public country-by-country reporting**

The current global tax system makes it easy for multinational companies to shift their profits into jurisdictions with low or zero tax rates to minimise their tax liability. They can do this with virtual impunity because they are only required to publish the total amount of profit generated as a whole group and the total amount of tax paid globally, rather than breaking it down by country. Without being able to see what profits are being generated and what taxes are being paid in every country where they operate, governments cannot know if they are receiving a fair amount of corporate tax. Just as importantly, citizens cannot know, and therefore cannot hold governments or corporations to account. That is why it is essential that country-by-country reporting data is made publicly available. By making this information publicly available, developing countries will also get access to the information so that they can hold companies to account.

The failings of BEPS highlight a big problem of governance. Unfortunately, due to developing countries being largely excluded from the BEPS process and the influence of corporate lobbyists, the outcomes
have failed to properly address the needs of poor countries and only go a small way towards reforming the dysfunctional global tax system.96

Although there were some attempts to include some developing countries, ultimately the decisions made were political – and inevitably, an organisation like the OECD must answer to its members, and funders. Corporate tax abuses are especially costly for developing countries, as seen in section 3 above – so the next attempt to fix the system must take place within a structure that is fully, globally representative. Oxfam recently gave a cautious welcome to the OECD’s plans to open up its tax reform process to developing countries. 97 However, the OECD is only inviting poor countries to join now if they accept a tax reform package they had no say in designing, which doesn’t meet many of their needs and fails to address critical issues such as the use of tax havens. Ultimately more fundamental reforms to the global tax system are needed to put a stop to corporate tax scandals and ensure that all countries – rich and poor – can claim the tax revenues owed to them.

As developing countries, including the G77, and civil society movements from all around the world demanded at the Financing for Development summit in Addis Ababa in 2015, it is time for an intergovernmental tax body with full UN representation.98 This approach should build in attempts to reduce inequalities by giving less powerful countries an equal voice. If the UK is serious about ending the corruption of corporate tax abuse, and the higher costs faced by developing countries, it should lend its support – both political and financial – to accelerating this process.

In terms of corporate transparency, the UK has certainly delivered more at home, opening up Companies House data, including company accounts and annual returns, and committing to the public register of beneficial ownership for companies. If this is followed by equivalent action on trusts and foundations, and is rolled out across the Crown Dependencies and Overseas Territories without further delay, the UK can truly say that it has played a role in ending the era of tax havens.

Box 5: Public registers of beneficial ownership

It is essential that we know what assets wealthy individuals own offshore if we are to make sure that everyone is paying the right amount of tax. Wealthy individuals can establish anonymous ‘trusts’ and other legal entities in secrecy jurisdictions to hide what they really own. This is a mechanism used by money-launderers, embezzlers and drug cartels, as well as by tax dodgers. This is why we need all jurisdictions to publish registers of who really owns and benefits from assets (the ‘beneficial owners’).

The UK government has introduced a public register of beneficial ownership for companies, but must expand this register to include trusts and foundations, the structures of choice for tax dodgers. It must also use its influence to ensure that the UK’s Overseas Territories and Crown Dependencies introduce public registers of beneficial ownership for companies, foundations and trusts.

The rich countries’ club, the OECD, has had its chance – it is time for an intergovernmental tax body with full UN representation.
The final major area of secrecy – and one again characterised by major inequality in the taxing rights of richer and poorer countries – is in access to information on income and assets held abroad. The 2013 G8 summit put great stress on the inclusion of developing countries in the new, multilateral mechanism for automatic exchange of tax information, but in practice this is not (yet) the case.

Box 6: Reconceiving corporate responsibilities on tax: beyond legal compliance

Due to the mobility of functions within MNCs, and the availability of jurisdictions where those functions can be treated as profit centres without becoming liable for significant amounts of tax, MNCs are well positioned to organise their affairs to minimise their tax bills. This systemic weakness in the global tax architecture demonstrates clearly that, to tackle corporate tax avoidance in a globalised economy, governments must fundamentally reform corporate tax rules on an equally global scale.

But for the foreseeable future, companies will continue to face an inconsistent international tax system with incomplete regulation and much room to manoeuvre. Put bluntly, MNCs have multimillion-dollar choices about where and how they pay tax.

Legal compliance, in this context, is insufficient. As is the case with many issues of corporate responsibility, it is not just regulation, but values, that must shape the tax behaviour of companies. This is tax responsibility beyond legal compliance – conduct that reflects a company's broader duties to contribute to public goods on which it may itself depend.

A tax-responsible company will be transparent about its business structure and operations, its tax affairs and tax decision making. It will assess and publicly report the fiscal, economic and social impacts of its tax-related decisions and practices. And it will take progressive and measurable steps to improve the sustainable development impact of its tax behaviour.

As good practice, a company can:

- Adopt the OECD BEPS country-by-country reporting template before it is statutorily required to do so, and publish it in its entirety.
- Align its economic activities and tax liabilities by unwinding or changing tax-driven transactions and structures to book less of its income, profits and gains in jurisdictions and legal entities where they attract low or no tax and in which related assets and activities are not located.
- Where a company retains income and profit centres in low-tax jurisdictions for non-tax reasons, it can take steps to publicly demonstrate:
  - That the relevant income or gains should be located and taxed in that low-tax jurisdiction for non-tax reasons; or
  - That the arrangement is not primarily tax-motivated because its non-tax advantages cannot be achieved in other higher-tax jurisdictions.

A more detailed discussion of corporate responsibilities on tax can be found in Oxfam, ActionAid and Christian Aid (2015). Getting to Good: Towards responsible corporate tax behaviour.
Many developing countries have signed up to the multilateral Convention on Mutual Administrative Assistance in Tax Matters, which provides for but does not mandate automatic exchange of information. Meanwhile, the new OECD multilateral process for automatic exchange, the Common Reporting Standard (CRS), is increasingly limiting the likely provision of data to developing countries and demanding reciprocity from them; many developing countries inevitably lack the capacity to do this, and have few or no relevant assets in any case. Furthermore, the risk is that the new mechanism may again actually worsen the inequalities in taxing rights facing the poorest countries. The UK should lead the way by providing information itself to all appropriate jurisdictions. And it should require the same from the Crown Dependencies and Overseas Territories, committing to recognise no jurisdiction as being fully compliant unless it does the same.
5 TIME TO END THE ERA OF TAX HAVENS

The UK government has a historic opportunity at the anti-corruption summit in May 2016 to help end the era of tax havens. Doing so would have a lasting impact on global efforts to eradicate poverty and end extreme inequality. Sitting at the heart of the biggest global financial secrecy network, the UK has both a historic responsibility and a unique opportunity. The UK government has already taken some welcome steps towards financial transparency. Committing to deliver the steps laid out below, by the time of the summit, would put this government into the history books for its contribution to curtailing tax evasion, tax avoidance and other forms of corruption all around the world. Above all, it would make a major contribution to the fight against poverty for which the SDGs provide the new framework.

The UK government should act unilaterally in the following areas:

Corporate tax

- Require all large MNCs to make country-by-country reports publicly available for each country in which they operate, including a breakdown of their employees, physical assets, sales, profits and taxes (due and paid), so that there can be an accurate assessment of whether they are paying their fair share of taxes. Support efforts at both European and international levels to achieve this standard globally.
- Conduct a rigorous and independent ‘spillover analysis’ of UK corporate tax rules to assess whether they have harmful knock-on effects on the ability of developing countries to collect their own taxes.

Transparency of beneficial ownership

- Extend the UK’s public registry of beneficial ownership to trusts and other legal entities, so that the ultimate owner of all corporate vehicles in the UK is known.
- Require the UK’s Crown Dependencies and Overseas Territories also to introduce public registries of beneficial ownership for companies, trusts and other legal entities.

Information exchange

- Exchange tax information automatically on a comprehensive, multilateral basis, and without requiring reciprocity from lower-income countries.
• Publish aggregate statistics showing the size and origin of the assets in UK financial institutions, to help monitor the impact of automatic exchange of information and to generate political will for other countries to join.

• Make it clear that information provided can be used in anti-corruption efforts as well as to address tax evasion, to ensure the maximum utility of information shared under the automatic exchange of information.

• Require the Crown Dependencies and Overseas Territories to carry out each of these measures.

• Ensure that UK government departments and contractors do not use tax havens, by introducing requirements into procurement contracts that set minimum financial transparency criteria for the jurisdiction of incorporation.

City of London Corporation

• The government should mandate an independent, fully public review of the functioning and operations of the City of London Corporation, looking at its internal democratic processes, transparency and accountability; its impact on the same for the UK; the wider impact of its lobbying overseas; and any spillovers to other countries, especially developing countries.

At a global level, the UK government should support international efforts to end the era of tax havens. These should include the following:

• Begin a second generation of inclusive global tax reform to fix the broken international tax system, including a commitment to end the race to the bottom, to work towards an effective minimum global tax rate and appropriate consideration of unitary taxation, and involving all countries on an equal footing and all relevant international institutions through an intergovernmental tax body.

• Set up integrated, binding, exhaustive and objective monitoring exercises of tax havens at a global level, in order to assess the risks posed by these jurisdictions. These exercises should be held regularly and their outcomes should be made public.

• Specifically agree definitive financial secrecy criteria for a blacklist of secrecy jurisdictions, and countermeasures against them and the individuals and companies using them.

• Increase transparency around tax rulings and the granting of tax incentives.
The big 4 audit firms, both in their City of London operations and globally, have the potential to exert enormous influence over tax policies and the administration of tax. They should:

- Publish an OECD BEPS country-by-country reporting template in its entirety, and encourage their clients to do the same.
- Only assist with tax returns which fulfil both the spirit as well as the letter of the law.
- Refrain from any lobbying on tax issues which might be reasonably construed as being against the public interest.
- Publish comprehensive data on an annual or more frequent basis of the full set of political activity in each jurisdiction, defined to include any direct and indirect lobbying, any paid and pro bono support provided to political parties and governments, and any public advocacy.
Notes


3 Ibid.

4 Oxfam calculations based on Credit Suisse (2013 and 2014). *The Global Wealth Databook*. https://www.credit-suisse.com/uk/en/news-and-expertise/research/credit-suisse-research-institute/publications.html. Calculations include negative wealth (i.e. debt), therefore the bottom 10 percent includes some people who are in net debt, such as graduates with loans to repay, but the majority are people with small amounts of net wealth. This group has net wealth of only a tenth of 1 percent of UK wealth and is negligible to the overall picture of a divided Britain. Negative wealth as a share of total wealth has remained constant over time, such that wealth distribution trends over time are not affected.


22 Ibid. Calculated using the average exchange rate for 2014 of 0.61 GBP:USD


24 The IMF defines spillovers as the direct impact of one country’s tax policy on another country’s tax base and tax policy. This can arise through either an impact on real activities (investment), the shifting of paper profits, or by encouraging harmful tax competition between countries. The IMF makes a distinction between ‘base spillover’ and ‘strategic rate spillover’. Base spillover is the direct impact of one country’s tax policy on the tax bases of other countries. This can arise through either an impact on real activities (through investment and the like) and/or the shifting of paper profits. Strategic rate spillover is the impact of a country’s tax policy choices on the tax policies of other countries, i.e. tax competition.


As a paper referenced in the same OECD study puts it (emphasis added): ‘We use the largest commercially-available database of company balance sheets, Orbis, provided by Bureau van Dijk. Using a dataset of up to 211,360 individual companies in 26,795 corporate groups, we simulate the static distributional consequences of a number of different apportionment factors. The most obvious finding is that coverage is severely limited among developing countries, and increasingly so for lower-income countries. Despite the large number of firms in the initial dataset, the level of reporting for lower-income countries is insufficient to predict revenue consequences reliably. The challenge for the OECD BEPS initiative is clear.’ A. Cobham and S. Loretz (2014). *International Distribution of the Corporate Tax Base: Implications of Different Apportionment Factors under Unitary Taxation*. International Centre for Tax and

As the OECD itself highlighted in the BEPS process, a serious baseline for the scale of BEPS will only be possible if companies’ country-by-country reporting data are made available – rather than, as under the new OECD rules, only being supplied to individual tax authorities. OECD (2015). Op. cit.


48 The Bank for International Settlements (BIS) holds, but does not make publicly available, locational data on the holdings of banks – which would reveal, for example, the aggregate volume of Indian assets in accounts in Switzerland. The BIS publishes instead consolidated data, showing, for example, Indian holdings in Swiss-headquartered banks – such as holdings in a New Delhi branch of UBS. This problem was raised in A. Cobham (2012). *Tax Havens and Illicit Flows*, pp.337–372, in *Draining Development? Controlling Flows of Illicit Funds from Developing Countries*, P. Reuter (ed.) Washington, DC: World Bank. [https://openknowledge.worldbank.org/handle/10986/2242](https://openknowledge.worldbank.org/handle/10986/2242). The issue has subsequently become the subject of a campaign by ONE: [http://www.one.org/international/blog/hsbc-scandal-why-tax-havens-are-fuelling-global-poverty-and-how-you-can-help-stop-it/](http://www.one.org/international/blog/hsbc-scandal-why-tax-havens-are-fuelling-global-poverty-and-how-you-can-help-stop-it/)

49 Per the main ranking of tax haven activity – the Tax Justice Network’s Financial Secrecy Index (FSI) – which Switzerland has topped since 2013.

50 Swissleaks Reviewed. [http://www.swissleaksreviewed.org](http://www.swissleaksreviewed.org)


61 Percent shares of global financial services exports from: Ibid.


68 Ibid.


76 City of London Corporation. Key City Officers. https://www.cityoflondon.gov.uk/about-the-city/how-we-make-decisions/Pages/key-officers.aspx

V. Houlder (2013). *Tax: Trouble abroad for the City?* Financial Times http://www.ft.com/cms/s/2/dbc8af56-0fc5-11e3-a258-00144feabdc0.html#axzz41q0K5J6a


Ibid.

The KPMG case refers to advice provided to clients in the late 1990s. KPMG has since adopted global principles for a responsible tax practice (https://home.kpmg.com/uk/en/home/services/tax/kpmg-uk-principles-of-tax-advice.html) which are the foundation of expected standards and conduct and have been fully adopted by KPMG in the UK.


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