



Bangladesh, where almost 40 million people live below the national poverty line, is estimated to be collecting far less tax than it could be, and losing around £190m a year due to tax avoidance by multinationals. Oxfam is working with SUPRO, a Bangladeshi network of civil society organizations, to call for a fairer tax system and a crack-down on corporate tax dodging. Photo: GMB Akash/Oxfam

# ENDING THE TAX SCANDALS

Five actions the UK government can take to tackle tax avoidance

**When corporations and individuals get away with not paying their fair share of tax, it is poor countries which have the most to lose. This briefing lists five actions the UK government can take to lead the way on a tax avoidance clamp down.**

# INTRODUCTION

Global tax scandals like the latest revelations highlight yet again the extensive and entrenched systems which allow the rich and powerful to legally avoid paying tax.

When corporations and individuals get away with not paying their fair share of tax, it is poor countries which have the most to lose. The tax bases in developing countries, which pay for vital services like health and education, are disproportionately dependent on corporate taxes – twice as much as richer countries.<sup>1</sup> When governments are robbed of vital revenue, it is poor people who are left trapped in poverty, while those with the power to avoid paying taxes grow ever richer – leading to spiralling inequality.

Progressive tax policies have a major role to play in tackling inequality. Greater tax transparency, for example, is a crucial step towards making corporate tax dodging a thing of the past, and closing the gap between rich and poor.

This briefing lists five actions the UK government can take to lead the way on a tax avoidance clamp down.

## 1 END TAX SECRECY

### **Commit to introducing public country-by-country reporting for all multinational companies operating in the UK**

**ACTION: Implement Schedule 19 of the Finance Act 2016**

**GOVERNMENT DEPARTMENTS RESPONSIBLE: HM Treasury, HM Revenue & Customs, Department for Business, Energy & Industrial Strategy**

Ending the secrecy surrounding the tax payments and economic activities of multinationals encourages these companies to pay their taxes everywhere they do business. This is key to achieving financial stability and development not only in the UK, but also in the world's poorest countries where, as the Department for International Development (DFID) has highlighted, there is an urgent need for governments to increase tax revenues, which includes combating corporate tax avoidance.<sup>2</sup>

Ensuring that companies make all their economic activities public will help DFID to support the tax authorities in developing countries as part of the Addis Tax Initiative.<sup>3</sup> Compulsory public reporting is the most cost effective and efficient way of ensuring that developing countries have timely and low-cost access to corporate tax information and are therefore better equipped to claim the taxes due to them.

Last year, the UK government passed legislation as part of the 2016 Finance Bill which would force multinational companies to publish their tax affairs in

line with public country-by-country reporting requirements. The government has not yet implemented this power, stating that it is seeking a multilateral agreement first. While there is still potential for a multilateral agreement to be reached on this in the European Union, discussions have stalled. Rather than use this as an excuse for inaction, the UK government could show the leadership it has previously on tax and transparency and commit to implement public country-by-country reporting by the end of 2019, while continuing to champion a multilateral deal.

An analysis undertaken by Oxfam to determine the scope of unilateral implementation in the UK, as per Schedule 19 of the Finance Act 2016, found that one in five of the world's biggest companies (those with revenue above €750m) would be covered by the legislation.

## 2 MAKE OWNERSHIP PUBLIC

### **Ensure that the UK's overseas territories and crown dependencies introduce public registers of beneficial ownership**

**ACTION: Set a deadline for the UK's overseas territories and crown dependencies to make public their central registers of beneficial ownership**

**GOVERNMENT DEPARTMENTS RESPONSIBLE: Cabinet Office, No.10, Foreign & Commonwealth Office**

It is estimated that 8% of the world's financial wealth (\$7.6 trillion) is now held offshore in tax havens, with around 30% of African wealth held offshore, away from tax authorities. The UK's overseas territories and crown dependencies (OTs and CDs) are key players in this offshore network. Opaque structures in these jurisdictions allow individuals and companies to hide vast amounts of taxable income and profits offshore and thus avoid paying tax. The UK government has shown leadership on the issue of company transparency by establishing a public register of company beneficial ownership information in the UK – in other words, a list of all individuals and companies who ultimately own a company.

In 2013, the UK government also asked the OTs and CDs to produce action plans to introduce public registers. Many, but not all, of the OTs and CDs have set up private central registers, but none had made them public by October 2017.<sup>4</sup> The government must therefore keep up the pressure on the OTs and CDs to make their registers public to ensure full beneficial ownership transparency not only in the UK, but in these key jurisdictions as well.

The UK government should also commit to extending its company register to also cover foundations and trusts.

## 3 EMPOWER DEVELOPING COUNTRIES

### **Enable developing countries to make use of existing beneficial ownership and country-by-country reporting data**

**ACTION:** Establish agreements to share existing beneficial ownership and country-by-country reporting data with developing countries participating in the Addis Tax Initiative

**GOVERNMENT DEPARTMENTS RESPONSIBLE:** Department for International Development, HM Treasury, HM Revenue & Customs

Developing countries have a much higher share of assets held offshore (for example 30% in Africa and 22% in Latin American and the Caribbean<sup>5</sup> versus a world average of 8%) and so potentially have the greatest gains to make from Automatic Exchange of Information (AEOI).<sup>6</sup> While there has been some progress with regards to ensuring that developing countries benefit from AEOI, it has been limited for two reasons:

- 1. Costs of compliance:** Given that developing countries have very little offshore banking in their own financial systems, the cost of providing immediate outbound information from developing countries could be deferred for a temporary period. The UK and its OTs and CDs could waive the requirement for mutual information exchange and unilaterally provide information to developing countries for a temporary period.
- 2. Lack of political will:** Despite high-level political endorsement of AEOI from developing countries, many developing countries are not prioritizing information exchange. Part of the explanation for this appears to be a lack of data on the potential benefits. Financial centres such as the UK and the OTs and CDs should make public aggregated (non-confidential) data on the cross-border holdings in their financial institutions, broken down by jurisdiction of origin. This would help build political will by indicating the potential returns to participation in information exchange, improving the ability of a tax authority to collect taxes.

Globally, the imbalance between developed and developing countries on the results of automatic exchange of information is highlighted by a new Financial Transparency Coalition report, which shows that none of the world's poorest 31 countries is part of the most comprehensive system of automatic exchange of information, the Common Reporting Standard.<sup>7</sup> In contrast, 55 of the world's 78 richest countries are exchanging information. Countries can choose with whom they exchange information: despite some high-profile rich tax havens being part of the system, none are exchanging information with developing countries, which are worst hit by tax avoidance.

## 4 PRIORITIZE ENDING POVERTY

**Ensure that UK corporate tax rules do not incentivize companies to avoid tax in developing countries, and guarantee that poverty reduction is taken into account during the negotiation of tax treaties with developing countries**

**ACTION:** Conduct a holistic ‘spillover analysis’ of tax policy, to identify impacts on developing countries

**GOVERNMENT DEPARTMENTS RESPONSIBLE:** Department for International Development, HM Treasury, HM Revenue & Customs, Department for International Trade

The government should commission 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. This would include studying the impact of the UK’s tax treaty policy with respect to developing countries.

Tax treaties negotiated with developing countries should align with the objectives of UK development assistance, specifically DFID’s domestic resource mobilization policy. This policy includes helping developing countries raise tax revenue to help pay for vital public services like schools and hospitals. The government should ensure that tax treaties do not prevent developing countries in practice from effectively taxing corporate income.

## 5 LEAD THE WAY ON TAX REFORM

**The UK government should join calls for a second generation of global tax reforms**

**ACTION:** Make a commitment to the development of a second generation of global tax reforms at the First Global Conference of the Platform for Collaboration on Tax<sup>8</sup> on Taxation and the Sustainable Development Goals in February 2018

**GOVERNMENT DEPARTMENTS RESPONSIBLE:** Department for International Development, Cabinet Office, No.10, HM Treasury

At a global level, the UK should support efforts to move beyond the tax reform process led by the Organisation for Economic Co-operation and Development (OECD) – known as the base erosion and profit shifting, or BEPS, process – and call for a second generation of global tax reforms that create an international tax system that works in the interest of the majority. This second-generation reform process should include all countries on an equal footing and tackle a number of key issues which have not been sufficiently addressed by the BEPS process, such as:

- The competitive granting of tax incentives and lowering of tax rates;
- Tackling corporate tax havens and harmful tax practices;
- The reallocation of taxing rights between countries, for example by revising tax treaty terms and permanent establishment rules;
- Addressing avoidance of capital gains tax;
- Preventing manipulation of internal transaction prices and developing alternative approaches to the arm's length principle;
- The taxation of commodities.

## OXFAM'S PROGRAMME WORK ON TAX

### The F.A.I.R. – Even It Up programme

#### Putting people at the heart of decision making on tax and spending in the Global South

Oxfam created a new global programme, Fiscal Accountability for Inequality Reduction – Even It Up (F.A.I.R. - EIU) at the end of 2015. See <http://policy-practice.oxfam.org.uk/our-work/inequality/fair> Through F.A.I.R. – EIU we are aiming to scale up our influencing and programming on fiscal justice at national level in the Global South, to have a significant impact on reducing economic inequality globally.

The F.A.I.R. – EIU programme is focused on taxation and public spending – particularly on essential public services and social protection, recognizing the powerful redistributive effect they have as tools in the fight against inequality and poverty.

Oxfam's programme vision puts active citizens and the civil society organizations that represent them at the heart of its approach in 40 countries worldwide. This is about people having the space and voice to exercise their rights to monitor and influence fiscal systems to make sure that they are fair, to mobilize greater revenue and increase and improve spending for quality public services for all. It is about redressing the enormous power imbalances that currently exist, as a result of which large corporations and wealthy individuals are able to exert hugely disproportionate influence over political and economic policies, favouring their own interests at the expense of the interests of the majority.

Oxfam implements F.A.I.R. – EIU through a number of strategies, including:

- **Supporting citizens to engage with government at local and national levels by giving them greater access to information** on public revenue and spending, and equipping them with skills and confidence to participate in decision making processes. In Myanmar Oxfam has done this by supporting public hearings throughout the country which have allowed people to monitor public budgets and to speak to government officials directly about spending decisions.

- **Supporting collective action of civil society partners and networks** by building their capacity on tax and spending issues and reaching out to a broader constituency, including religious groups, trade unions, the private sector and community-based organizations. In Nigeria, Oxfam works in partnership with ActionAid Nigeria, Christian Aid, Civil Society Legislative Advocacy Center (CISLAC), Niger Delta Budget Monitoring Group (NDEBUMOG) and other national civil society organizations to make public finance processes more effective and efficient in order to improve public service delivery to citizens. The creation of the Tax Justice and Governance Platform has meant that a national space now exists for representatives of NGOs and tax authorities to work together on challenges relating to the tax system.
- **Building a strong evidence base through research** on addressing economic inequality. In Indonesia, Oxfam co-released a report on inequality with its civil society partner INFID. The report highlighted the current state of inequality in Indonesia, what is driving it, and suggested reforms of taxation, public services and work and wages regulations to reduce inequality. The report raised awareness of inequality in Indonesia and the government reached out to Oxfam on their strategy to reduce inequality.

We continue to see real change being implemented in a number of countries as result of this work. In Vietnam for example, Oxfam and partners influenced a government decree, meaning that multinational companies with annual consolidated group revenue of €750m or more are now legally required to provide a copy of their global country-by-country reports to the Vietnamese tax authority. This helps to strengthen transparency as it gives tax authorities more information on what companies are paying worldwide, and therefore provides more information to assess levels of tax avoidance locally.

To put this in context, it is estimated that developing countries worldwide are losing \$100m per year due to tax avoidance by multinational companies through transfer pricing and profit shifting practices.<sup>9</sup> This is more than enough to provide education for 124 million children currently out of school, and to pay for health interventions that could prevent the deaths of six million children.<sup>10</sup>

## NOTES

- 1 See Ernesto Crivelli, Ruud De Mooij and Michael Keen (2015). Base Erosion, Profit Shifting and Developing Countries. IMF Working Paper. Fig. 1, page 5: <https://www.imf.org/external/pubs/ft/wp/2015/wp15118.pdf>
- 2 DFID and Justine Greening (2015). <https://www.gov.uk/government/news/greening-tax-generation-key-to-ending-poverty>
- 3 The Addis Tax Initiative. See <https://www.addistaxinitiative.net/>
- 4 Montserrat has committed to introduce a public register.
- 5 Gabriel Zucman (2014). Taxing across Borders: Tracking Personal Wealth and Corporate Profits. *Journal of Economic Perspectives*. 28:4. See table on p.140. <https://gabriel-zucman.eu/files/Zucman2014JEP.pdf>
- 6 Automatic Exchange of Information (AEOI) is a standard established by the Organisation for Economic Co-operation and Development for the exchange of non-resident financial

account information with the tax authorities in the account holders' country of residence.

- 7 Financial Transparency Coalition. (2017). *Unequal Exchange*. <https://financialtransparency.org/unequal-exchange/>
- 8 The Platform for Collaboration on Tax is a joint effort launched in April 2016 by the IMF, the OECD, the UN and the World Bank Group.
- 9 United Nations Conference on Trade and Development (UNCTAD). (2015). *World Investment Report 2015*. Available at: [http://unctad.org/en/PublicationsLibrary/wir2015\\_en.pdf](http://unctad.org/en/PublicationsLibrary/wir2015_en.pdf)
- 10 The total annual financing gap to achieve universal pre-primary, primary and secondary education (as per the SDGs) is \$39bn each year. The number of children out of school is 124 million (59 million young children, 65 million adolescents). See UNESCO. (2016). *Education for people and planet: creating sustainable futures for all*. <http://unesdoc.unesco.org/images/0024/002457/245745e.pdf>  
See also UNESCO. (2015). *Out of school children data release 2015*. <http://www.uis.unesco.org/Education/Pages/oosc-data-release-2015.aspx>  
\$32bn would fund the key healthcare to prevent the deaths of six million children across the world each year. See K. Steinberg et al. (2014). *Advancing social and economic development by investing in women's and children's health: a new Global Investment Framework*. The Lancet. Volume 383, No. 9925, pp1333–1354, 12 April 2014. [http://www.thelancet.com/pdfs/journals/lancet/PIIS0140-6736\(13\)62231-X.pdf](http://www.thelancet.com/pdfs/journals/lancet/PIIS0140-6736(13)62231-X.pdf)

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## OXFAM

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