

# BRITISH-BASED CORPORATIONS AND THE TAX ‘RACE TO THE BOTTOM’



Over the past 20 years, many of the large corporations listed on the London Stock Exchange have paid tax at rates significantly lower than headline rates in many countries around the world. This often means that governments have less funding to provide public services and to reduce poverty. The picture is complex – the ‘race to the bottom’ does not affect all companies equally – but opaque accounting practices and the widespread use of tax havens suggest that some companies are engaging in tax avoidance. This discussion paper looks at the evidence for 25 of the largest London-listed companies and explores what measures could be taken to improve transparency and ensure that they pay their fair share.

## Oxfam Discussion Papers

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## SUMMARY

There is widespread concern among governments, international organizations and civil society that countries and territories around the world have triggered a destructive ‘race to the bottom’ on corporate taxation by cutting their tax rates, or enabling corporations to avoid tax through incentives or loopholes.<sup>1</sup> This is a particular concern for low- and middle-income countries which are relatively more dependent on corporate tax than high-income countries<sup>2</sup> and urgently need more revenues to invest in public services which relieve poverty.<sup>3</sup> Success in implementing the 2030 Agenda for Sustainable Development (the Sustainable Development Goals)<sup>4</sup> depends to a great extent on the ability of developing countries to generate and mobilize public resources for the provision of essential public services, which directly impact gender equality (see Box !: Tax and inequality). If large companies’ tax payments are falling, developing countries in particular have lower revenues with which to fund essential public services.

This discussion paper analyses the tax record of 25 of the largest companies listed on the London Stock Exchange. This group includes huge extractive companies such as Royal Dutch Shell and BHP Billiton, the giant banking group HSBC and other multinationals such as Unilever, Diageo and RB (formerly Reckitt Benckiser), which sell well-known brands around the world.

These corporations are all members of the FTSE 100 stock index and most of them do business in at least one low- or middle-income country, sometimes many. The research for this paper examined their revenues, profits and tax payments over a 20-year period from 1998 to 2017 to see whether competitive tax-cutting by countries, tax incentives and possible opportunities to avoid tax, have lowered the actual rates at which these 25 huge corporations pay tax around the world.

Over the 20-year period these companies collectively paid more than £560bn in tax on their profits, or nearly £30bn a year on average: this underlines the huge sums in public revenues at stake around the world, even from small differences in companies’ tax rates.

The key findings of this research are:

- 1. The tax picture:** The rate at which companies pay tax varies greatly between them. This suggests that some companies are more willing or able to engage in ways to lower their taxes. Some of these companies had low tax rates persistently below the headline rate of tax across many countries, which suggests tax incentives or tax avoidance may have played a part. Interestingly, the actual tax rate of a given company does not appear to have a very close relationship to the prevailing headline rate of tax in a given country. On the one hand, many companies paid tax at a significantly lower rate than our benchmark average in one or more five-year periods; on the other hand, around half of the companies had a higher tax rate in recent years than during the early part of the period under study, despite statutory rates falling.
- 2. The data issues:** Tax competition and tax avoidance may be more complex and variable in their effects than is sometimes assumed in public debates about corporate taxation. Investigating this complexity would be easier if companies published ‘country-by-country’ reports of their tax payments and related data – a longstanding recommendation of civil society organizations, including Oxfam; the UK government already supports this measure in principle. Such reports would make it easier to identify and further investigate persistently low cash tax rates in certain countries. Currently, researchers must contend with corporate accounts that are highly complex and sometimes obscure, which makes it hard to establish with confidence exactly why corporations have paid tax at particular rates.
- 3. The way forward:** The OECD recently launched negotiations on new international corporate tax reforms. The proposals include a minimum effective tax rate (ETR). This research

suggests that such a policy could potentially prevent companies from paying very low rates of tax, as well as lead to greater convergence of ETRs by reducing the opportunities for riskier tax avoidance practices. And if so, could a minimum ETR be useful in putting a 'floor' under tax rates, and in helping to create fairer competition between businesses? Aside from the OECD process, there may be other options for countries wishing to address the apparent variability of effective corporate tax rates between companies. One practical step could be for governments that are recipients of investment by multinationals to also require corporations' local subsidiaries to publish their accounts (which many do not do at the moment). Doing this would provide a clearer picture of dealings between multinationals and their subsidiaries, which can be manipulated to avoid tax.

# 1 CORPORATE TAX AND TAX COMPETITION

There is growing concern<sup>5</sup> that in the hope of attracting investment, countries and territories around the world have triggered a race to the bottom in the taxation of corporate income by cutting their tax rates or creating opportunities for companies to reduce tax through incentives or loopholes. In other words, by competing with each other, countries may be needlessly giving up revenues<sup>6</sup> that could be spent on essential public services that benefit society and contribute funds to tackle poverty and the power inequalities that prevent its alleviation, including the critical inequalities between men and women. The economist Gabriel Zucman has found that the effective tax rate on US corporate profits was around 45% during the 1950s, at a time when the headline or nominal rate was just above 50%. Since the early 2000s the effective rate has been below 20%, far lower than the US headline rate, which was 35% until the Tax Cuts and Jobs Act legislation of 2017.<sup>7</sup> Developing countries are disproportionately badly hit, losing an estimated \$100bn annually to corporate tax avoidance by multinational corporations (MNCs).<sup>8</sup> Oxfam identifies tax avoidance as the use of legal (but unethical) methods to modify a taxpayer's financial situation in order to lower the amount of tax owed.

## Box 1: Tax and inequality

Taxing the profits of companies, particularly large, successful corporations, is one of the most progressive forms of taxation. It raises more income for national budgets, and when this revenue is invested in public services, it contributes to reducing inequality by putting 'virtual income' in the pockets of poor people. Properly invested, tax revenue gives people the opportunity to escape poverty through services like good healthcare and education. Investing in care-based services can yield positive macroeconomic results and help close gender gaps.<sup>9</sup> Progressive tax can help address gender inequality. Indeed, there is an increasing body of analysis showing that tax avoidance negatively affects women's rights. In 2018 a UN Women report concluded that transnational tax avoidance planning and tax havens have negative effects on gender equality.<sup>10</sup>

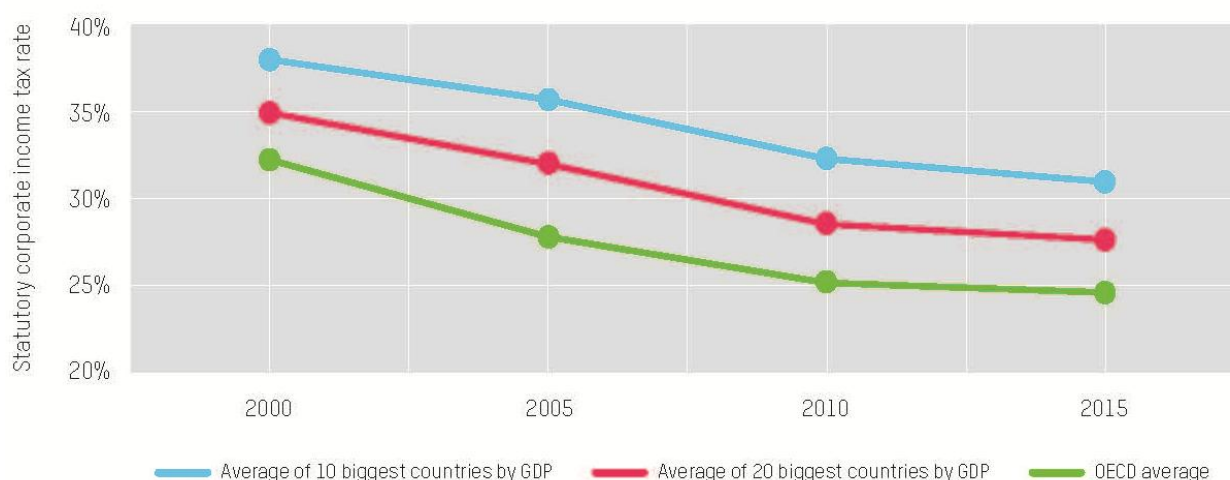
The European Parliament has also recognized the harmful effect of tax avoidance and evasion on women in a report on gender equality and taxation policies in the EU.<sup>11</sup> If governments need to make up a shortfall in revenue due to tax avoidance, other sources of tax are likely to affect women as consumers, since most developing countries raise two-thirds or more of their tax revenue through consumption taxes. Such taxes tend to be regressive, eating up a larger proportion of income the poorer people are.<sup>12</sup> Women are both more likely to be poor than men and to depend the most on public services.<sup>13</sup> Cuts in public services tend to fall disproportionately on women, including in the UK.<sup>14</sup> Gender-responsive budgeting can help to ensure that spending prioritizes services that help close gender gaps. Thirteen countries have fully met having a gender-responsive budget tracking system.<sup>15</sup>

Corporate tax dodging also widens the inequality gap between men and women in other ways. When companies fail to pay their fair share of taxes, more profits get funnelled to shareholders and senior executives, who are overwhelmingly male.<sup>16</sup> In its recommendations to the UK government, the Committee on the Elimination of Discrimination Against Women (the CEDAW Committee) called on the UK government to ensure greater tax transparency in UK-linked tax havens and to revise its corporate, trust, financial and tax legislation, policies and practices, with a view to fully realizing the enjoyment by women of their rights under the CEDAW Convention, both nationally and globally.<sup>17</sup> These recommendations complement those in the report by the UN Committee on Economic, Social and Cultural Rights, which called on the UK to reform tax policies to address 'persistent social inequality'.<sup>18</sup> Governments could undertake 'spillover analyses' of their tax policies to understand how they impact on other countries, including different impacts on women and men in poorer countries.

## THE 'RACE TO THE BOTTOM' ON CORPORATE TAX

The existence of tax competition is well established. Many countries have cut taxes on corporate profits in recent years, either by reducing their headline rates or by offering tax breaks for particular types of business activity. Opportunities for multinationals to shift profits into tax havens appear to have proliferated, despite the efforts of the OECD's project on base erosion and profit shifting (BEPS).<sup>19</sup>

**Figure 1: Falls in headline rates of corporate income tax since 2000**



The result is a threat to public revenues which is relatively more acute in the low- and middle-income countries where Oxfam works, because these countries rely to a relatively greater extent on corporate tax receipts than high-income countries.<sup>20</sup> A recent paper by the International Monetary Fund (IMF) notes that 'low-income countries are especially exposed to profit shifting and tax competition (and have limited alternatives for raising revenue'.<sup>21</sup>

Proponents of tax competition argue that cutting tax for businesses stimulates growth, increasing employment and so leading in turn to higher tax receipts. But when countries engage in international tax competition, if one country succeeds in attracting investors by lowering its tax rates, then other countries can nullify its advantage by doing the same thing. The result is that all countries stand to lose revenues, without necessarily increasing the pool of investment. As the IMF's outgoing managing director Christine Lagarde once put it succinctly: 'The race to the bottom, by definition, leaves everybody at the bottom.'<sup>22</sup> Nevertheless, tax competition – including through cutting corporate tax rates – is an idea that has been energetically pushed by many commentators.<sup>23</sup> It has become widely practised by governments which either buy in to the concept or see no alternative but to compete with their neighbours in this way. In the US, the recent cut in the corporate tax rate has apparently led to lower corporate tax revenues and a reduction in research and development, at the expense of dividends and share buy-backs.<sup>24</sup>

In the UK, there is a lively debate about whether corporate tax rate decreases have essentially 'paid for themselves' through sustained or increased tax revenues. The evidence appears somewhat inconclusive. The statutory rate is now much lower (19%) than ten years ago (30%), while nominal revenues from corporate tax have risen. However, analysis from the IFS suggests that the amount of corporate tax revenues as a proportion of total tax revenues has tended to decline over recent years, and this trend is set to continue. The developments occurring over the most recent two years, when there has been an increase in the relative contribution of corporate tax revenues, appear likely to be somewhat short-term. Evidence from IFS research shows that the recent increase in the relative contribution of corporate tax revenues may be explained as the result of changes in the way CIT is paid and fluctuations in oil tax receipts,

among other factors.<sup>25</sup> More starkly, recent analysis has found that corporate tax comprised 2.6% of GDP in 2017 compared with 3.5% in 2006.<sup>26</sup>

### Box 2: Tax rates on corporate profits

- The **headline, nominal or statutory** rate of tax is the tax rate set out in law. Many countries offer lower rates for particular types of business activity.
- The **effective tax rate** (ETR), recorded by corporations in their regulated and audited accounts, includes tax due in the current year ('current tax') and tax which, for a variety of reasons, is due in other years ('deferred tax'). It can be lower than the headline rate for various reasons, not all of which are contentious.
- The **cash tax rate** is the tax paid by a corporation in a given year, compared with its pre-tax profits in that year. This comparison is inexact because the cash tax figure often includes payments of tax incurred in other years. However, this is the rate used in this paper because, over time, it shows how much money has actually been received by governments.

In the long run, the effective and cash tax rates should match as tax payments deferred from the past are eventually paid off. The research for this study found that over a period of 20 years, this was indeed roughly what happened (see Appendix 1: Methodology).

- **Tax avoidance** involves not paying the right amount of tax as defined and intended by lawmakers. There is often a grey area between tax avoidance and tax evasion, with some arguing that avoidance in many cases is not legal and always illegitimate.<sup>27</sup>

There is evidence from the United States that corporations have been paying tax at declining rates for many decades. Governments use a mix of tax rates and other policies – for example, providing incentives – to set rules for what profit or income companies should pay tax on. As a result of incentives and other rules, it is reasonable to expect some divergence between statutory and effective rates, even over time, but the significance of the gap might be bigger than anticipated in some cases.

The extent to which tax competition has actually depressed public revenues around the world is hard to determine. The Organisation for Economic Co-operation and Development (OECD), a club of 36 mostly high-income countries, finds that although headline rates have fallen, tax revenues have not fallen as a share of economic activity. Corporate tax revenues represented 2.8% of gross domestic product (GDP) in OECD countries in 1998 and 2.87% of GDP in 2016. The USA is an exception, with its corporate tax revenues falling from 2.23% of GDP to 1.92% in that period.<sup>28</sup> There is some evidence, though, that corporate tax revenues now make up a smaller proportion of tax revenues as a whole.<sup>29</sup>

The OECD has described this picture of falling rates but stable revenues as a 'paradox', where the share of corporate profits in the economy has grown but tax revenues have not kept pace; but it has also said that the issue needs more study in order to fully understand it.<sup>30</sup>

Understanding this paradox does indeed need further research; this paper's contribution is to look at a set of data from 25 companies to try to understand what has been happening at some of the largest London-listed companies.

### **Box 3: The OECD process for the international corporate tax system**

The international tax landscape has seen a multitude of reforms over the past five years. Despite a proliferation of initiatives, the reforms have been unable to fundamentally transform an almost century-old international tax system based on outdated rules and principles. As a result, multinational corporations are still paying less tax than before the 2008 financial crisis,<sup>31</sup> and as much as 40% of their foreign profits are shifted to tax havens.<sup>32</sup>

On 9 June 2019, G20 countries officially gave the green light to an OECD-led work programme to develop a consensus-based solution to reform the international corporate tax system, addressing the challenges of taxing multinational corporations in the digital era.<sup>33</sup> Options go beyond how to tax digital giants by considering the broader challenges of an increasingly digital economy. The OECD process is a chance to reform the system, put a stop to corporate tax dodging and end the race to the bottom in corporate tax rates and incentives. The governments of developing countries in particular should play an active role in negotiations to ensure the solutions will allow them to claim fairer amounts of tax from large companies; success should include rebalancing taxing rights<sup>34</sup> in favour of developing countries.



## 2 UK COMPANIES AND THE RACE TO THE BOTTOM

As described above, the global context has been one of falling tax rates in many countries and increasing opportunities for tax avoidance. This research set out to understand the effects of this context on the tax payments made by a sample of 25 companies. Have tax payments fallen as tax rates have gone down? How similar are companies' cash tax rates to actual headline tax rates? What might we be able to conclude about the phenomenon of tax competition?

The 25 companies in the sample belong to the FTSE 100 share index, which comprises the top 100 companies on the London Stock Exchange (LSE). The companies were selected as the largest in the FTSE 100 by market capitalization (the market value of their shares) at the end of 2017 which were also listed in London in 1998 (see Appendix 1: Methodology).<sup>35</sup>

ABF	Anglo American	Astra Zeneca	Aviva	Barclays
BAT	BHP Billiton	BP	BT	CRH
Diageo	GSK	HSBC	Imperial Brands	Lloyds Bank
National Grid	Prudential	RBS	RB	Rio Tinto
Shell	Shire	Standard Chartered	Unilever	Vodafone

These 25 corporations include some of the largest multinationals in the world, such as the oil companies Shell and BP and the giant banking group HSBC Holdings.<sup>36</sup> Many of these companies do business, and are significant taxpayers, in developing countries where Oxfam works. Studying the tax histories of this set of huge corporations, listed on one of the world's biggest stock markets, is a useful way of contributing to the general discussion of global tax competition and its effects. The aim here was to test, for this set of corporations, the concern that multinationals have become more profitable over time and yet are paying a lower rate of corporation tax on those profits. We focus on corporation tax because it is the subject of OECD-led negotiations of significant global reform. While companies make many kinds of payments to governments, corporation tax remains particularly important in developing countries, and is a progressive tax when properly implemented.

### Box 4: Data limitations

Companies' profits and tax rates can rise or fall sharply from one year to the next for legitimate reasons, such as a loss or a big tax bill coming due, and this means that a comparison between two specific years may be distorted by a single large and unusual event. To reduce this potential for distortion, the research covered a longer time period – the 20 years from 1998 to 2017 – and broke the two decades down into four periods of five years. It then analysed companies' total pre-tax profits and tax payments during each of these periods.

Some companies highlighted how much they had changed during the 20-year period, for example through mergers and acquisitions, entry into new markets or product development. Exceptional items can have a particularly distorting effect. A company in 2017 may have looked very different to its predecessor in 1998. Internal company changes may indirectly have tax impacts. Policy changes at the national level can also have direct and indirect impacts on the rates of tax companies actually pay. Oxfam's research looked only at an external average statutory rate among these factors.

Any research over a long period faces some technical challenges (see Methodology appendix). For example, London-listed companies changed their accounting standards in the mid-2000s from the UK Generally Accepted Accounting Practice (GAAP) to the International Financial Reporting Standards (IFRS). Accounts published before this change are not directly comparable with those published since. This change appeared to have a varied impact on companies.

Even our twenty-year timespan cannot take account of deferred tax charges of certain highly capital-intensive companies, for example, National Grid.<sup>37</sup> Due to government reliefs for capital expenditure, such companies are likely to have significant variance between the cash tax paid and the overall tax charge across the 20-year period. Another issue affecting some companies concerns rules for pension schemes and share options. The rules applicable to tax deductions for contributions to pension scheme deficits and vesting of share options mean that cash tax can be reduced without a corresponding impact on pre-tax profits. For example, BT advised that during the 20-year period there are certain years in which its pension deficit contributions and/or the company's Employee Sharesave Scheme very significantly impacted the basis of its cash tax calculation.

These and other technical and methodological issues mean that the resulting findings should be seen as a rough sketch and not a clinical diagram. It is possible, for example, that a larger sample of companies or a longer time period might produce a different result (see Appendix 1: Methodology). This has to be borne in mind when drawing conclusions from the findings. At the same time, relevantly, the limitations highlight the usefulness of having comprehensive and consistent data published by companies ('public Country by Country Reporting') as called for elsewhere by Oxfam and others:

## THE FINDINGS: A MIXED PICTURE

While the findings did not show that *all* large corporations have become more profitable and are paying relatively less tax on their profits, they do show that a large proportion of the 25 companies have been paying tax on their profits at startlingly low rates for some or all of the period since 1998.

In 1999, the UK headline rate of tax for corporations dropped to 30% from 31% previously; meanwhile the average across all countries in the OECD in 1998–2002 was 32%. The cash tax rate of the 25 companies was 22%, with a lowest rate paid of 14% and the highest rate paid of 48% (a couple of companies also paid tax despite making a loss in this period).

In the 2013–17 period, the UK headline rate dropped from 23% to 19% and the OECD average was 25%. The cash tax rate of the 25 companies was 21%, disguising large fluctuations within and between companies over the 20 years in total, with a lowest rate paid of 8% and the highest rate paid of 110% (again, a couple of companies also paid tax despite making a loss in this period).<sup>38</sup>

Looking at the whole period 1998–2017, we observe that thirteen companies, or around half the sample, were paying tax at a *higher* rate in 2013–17 than they were in 1998–2002. Nine companies paid tax at a *lower* rate in the more recent period. One company (HSBC Holdings) paid roughly the same tax rate in both periods. The figures for two companies (Vodafone and the Royal Bank of Scotland Group plc) defy easy classification because of years when they made big losses and also paid big tax bills.

There was also no clear upward trend in profitability. Nine companies were relatively *more* profitable before tax in 2013–17 than in 1998–2002 and 15 were relatively *less* so, while one company (National Grid) was equally profitable in both periods.<sup>39</sup> This means that it was not possible to identify a clear pattern of higher profitability and lower tax rates across the two decades.

There is more evidence for such a pattern in the decade before the global financial crisis, however: 21 companies were more profitable in 2003–07 than they had been in 1998–2002, and 12 of these companies were also paying lower rates of tax. The crisis appears to have disrupted this picture, with some companies becoming less profitable after 2007 and paying tax at higher rates.

Though we might expect greater ‘clustering’ of cash tax rates as headline rates have fallen (not least because there is diminishing space to reduce cash rates significantly below headline rates), this does not appear to have happened. This finding may add weight to calls for a minimum ETR that could ensure a consistent minimum rate of corporate tax paid by companies.

What this data show is that there is no single or linear trend across the 25 companies. Given that some of the companies have changed the nature of their business or have undergone even more fundamental changes through merger and acquisition (M&A), etc., it is likely that some of the variation we see in tax rates is driven by non-tax factors. Still, 12 companies in the first time period, 11 in the second period, four in the third period and five in the fourth period had cash tax rates at least five percentage points below the prevailing OECD average.

The following sub-sections look at three clusters of companies: those with tax rates that are higher more recently than in the earlier period; those with tax rates that are lower more recently than in the earlier period; and other companies.

## COMPANIES WHOSE TAX RATES HAVE RISEN

The 13 companies with higher cash tax rates in 2013–17 than in 1998–2002 were:

- oil companies BP and Royal Dutch Shell;
- mining companies Anglo American<sup>40</sup> and Rio Tinto;
- Barclays and Standard Chartered banks;
- Imperial Brands, formerly Imperial Tobacco;
- household products company RB, formerly Reckitt Benckiser;
- insurance company Prudential;
- international building materials company CRH;
- pharmaceutical companies AstraZeneca, GSK and Shire (the last of which is no longer listed in London).

The cash tax rates for these 13 companies tended to be higher than the statutory rate in the most recent period, or significantly higher than the cash tax rate the companies paid in the early period of the research.

Five of these 13 companies are oil or mining companies, and cash tax rates for companies in these sectors have generally risen since 1998. There are various possible reasons for this, meriting further research. Governments have tried to capture more of the returns from oil, gas and mineral extraction since the commodity price boom of the 2000s and it may be that newer extractive projects with tougher fiscal terms for companies have reached the point of generating profit and, therefore, more tax revenue.<sup>41</sup> Several of these companies made huge losses in the period from 2013 to 2017 as the commodity boom tailed off, which has also increased the ratio of tax payments to profits.

If extractive companies are excluded from the sample on the grounds of governments’ tendencies to tax them differently, then the numbers of companies with higher and lower tax rates are roughly equal (nine versus eight).

Two of the companies paying tax at higher rates are banks. British banks have faced a number of additional bank-specific tax measures since the financial crisis. These include the introduction of a bank levy and an 8% corporation tax surcharge, as well as limitations on loss utilization and the non-deductibility of certain conduct costs.<sup>42</sup>

For companies in other industries, the possible explanations for rising cash tax rates are less immediately obvious. The fact that a company's cash tax rate has risen does not necessarily mean that it has not been avoiding tax. In fact, many of the 25 companies in the sample, including some of the 13 with higher cash tax rates, have networks of subsidiaries in corporate tax havens. BP and Shell, the most striking examples, have dozens of tax haven subsidiaries between them.<sup>43</sup> While it is not a direct proxy for tax avoidance, much research has shown that use of corporate tax havens which offer low tax rates can lead to significantly reduced ETRs for MNCs overall.<sup>44</sup> At the same time, many companies engage in substantive business activity in tax havens, for example by providing retail services to customers living there. Meanwhile, financial flows going through tax havens may have already been taxed in another jurisdiction.

Some companies have had tax disputes with tax authorities despite having comparably high effective rates at periods. For example, BHP Billiton paid an extra A\$529m (£293m) to the Australian tax authority in 2018 in respect of transactions with Singapore over the preceding 16 years. According to BHP's Stock Exchange Release, the amount represented less than 1% of BHP's Australian tax payments over the period of the dispute (BHP paid A\$75bn in Australian taxes and royalties over the sixteen-year period). In addition, to provide future certainty, BHP stated it will be revising its corporate structure so that all profits made in Singapore from Australian assets would now be taxable in Australia. Rio Tinto has had a similar dispute with the Australian tax office, where an early period was settled and later periods are now in dispute; notwithstanding the company says it is adopting a position for those periods consistent with the settlement agreed with the tax office. Both companies have improved their public reporting on payments to governments over time.<sup>45</sup> Rio Tinto says it is reducing its use of tax havens.

Although a high or rising cash tax rate does not necessarily mean that a company is not avoiding tax, it does suggest that a company is doing more of its business in countries or industrial sectors where the headline tax rate is relatively high, or that loopholes have closed or incentives have ended. It may also suggest that a company has not been able or willing to cut its tax rate as much as some other companies.

## COMPANIES WHOSE TAX RATES HAVE FALLEN

The nine companies whose tax rates were lower in 2013–17 than in 1998–2002 were:

- household products company Unilever;
- mining company BHP Billiton;
- Associated British Foods;
- British American Tobacco;
- insurance company Aviva;
- drinks company Diageo;
- Lloyds Banking Group;
- BT, formerly known as British Telecom;
- National Grid, a global energy utility.

The reduction in headline tax rates does not seem to explain fully why these companies should have paid less tax on their profits in 2013–17 than they did in 1998–2002, as there are big differences in the scale of the fall. For example, Associated British Foods' tax rate was less than

nine percentage points lower in the later period than in the earlier period, and is roughly equivalent to the decline in headline tax rates in many countries (see below). Some companies had a cash tax rate higher than the benchmark rate in either or both the earlier and later period; the magnitude of the relative and absolute decline of the cash tax rates varied. Yet the cash tax rates of Unilever and British American Tobacco<sup>46</sup> were respectively about 14 and 16 percentage points lower, a much bigger drop than the average statutory rate. The reasons for these differences are not clear without detailed analysis of each company, which is beyond the scope of this paper, but the differences underline the fact that multinationals' tax histories have not all followed the same path.

There may be many reasons why a company's cash tax rate falls, such as a higher preceding cash tax rate or increased use of tax incentives. But assuming that governments set headline rates that they expect companies to pay over the medium term, cash tax rates that are significantly and persistently below statutory levels may be an indication of tax avoidance. A company's propensity for tax avoidance may be partly determined by the advice it receives or the risk appetite of management or the pressure from shareholders to deliver high profits. These stakeholders may benefit from lower cash tax rates directly or indirectly. On the one hand, companies tend to be incentivized to increase overall profits to boost market value, etc., while on the other hand, when it comes to paying tax, they tend to want to reduce recorded taxable profit to reduce the taxes paid. Though it is beyond the scope of this study, it could be instructive to assess profit and tax levels with other financial indicators such as dividend payments, share buy-backs and other costs, including staff remuneration.

The very complexity of international tax rules and the opacity of company tax practices may help to explain the low cash tax rates of some companies. Perhaps some companies game the international system more; the variance suggests that measures to ensure greater consistency in the application of rules could reduce this gaming. Some proponents of a minimum ETR cite this as one of its advantages.

## OTHER COMPANIES

HSBC Holdings, the global banking conglomerate, paid tax in 2013–17 at an average rate that was almost unchanged from 1998–2002. Two other companies are harder to categorize. The telecommunications company Vodafone, whose finances are very complex compared with some of the other companies on the list, made losses in nine of the 20 years covered in this research but still paid large sums of tax in some of these loss-making years. The Royal Bank of Scotland Group plc also made large losses which affected its cash tax rate over the period.

### 3 WHAT'S THE RIGHT TAX RATE?

Some of the companies in the sample pay tax on their profits at much lower rates than others, but what would be the 'right' rate of tax? There is no single answer to this question because each country's tax regime is different and headline rates can vary widely, as well as the extent of tax incentives on offer for particular sectors or activities.

A company which paid tax on its profits at a global average rate of 23% might not cause an eyebrow to be raised if those profits were earned mostly in countries such as Turkey or Indonesia, where the headline rates are currently between 20% and 25%. The same corporation might incur suspicions of tax avoidance, or that the tax incentives on offer to it were too generous, if those profits were earned in countries like Germany, India or Brazil (or, until recently, the United States) where the headline rate is 30% or more.

Multinationals have generally not broken down their turnover and profits by country. In many countries where multinationals do business, the accounts of their subsidiaries are not published either (the UK being a rare exception) unless they are listed on local stock exchanges. These typically require publication of accounts (and not all of a corporation's business in a given country will necessarily be done through its local subsidiary). So it has usually been impossible to find out exactly where MNCs make their profits, what headline rates those profits are subject to, and how much tax is paid.

This picture is slowly starting to change due to voluntary action by certain multinationals or because of European banking legislation: mining companies and big European financial institutions now publish some country-by-country financial data, as does Vodafone. But for most London-listed corporations, including most of the 25 in the sample, it is still impossible to know precisely what headline tax rates their profits would be subject to.

So, how to work out whether the global rate at which a company pays tax is 'too low'? General benchmarks can be found by looking at the average headline tax rates for groups of countries where most of these 25 corporations do business, calculated in the same five-year blocks between 1998 and 2017 as the companies' profits and tax payments. These benchmarks have to be treated with caution, because the average rate can vary widely depending on which countries are included in the group. For example, the world's 10 largest economies as of 2017, measured by gross domestic product (GDP), included the United States, the biggest European economies, China, Japan, India and Brazil. The average headline rate in this group, calculated in five-year blocks, fell from 38% to 31% over the two decades. The average headline rate in the 20 largest economies, which also includes Mexico and Indonesia, was somewhat lower than the top 10 economies and fell from 35% to just below 28%.

For the industrialized countries of the OECD, of which there are now 36, the average headline rate fell from just over 32% to just under 25%.<sup>47</sup> The average headline rate for OECD countries is used as a benchmark in this briefing because it is the lowest of these three groups of countries. Given the uncertainties about exactly how much profit the 25 sampled corporations are making in different countries, it is best to use a conservative measure. However, using this as a benchmark may understate the true gap between headline and cash tax rates for corporations which are making more profit in countries where the headline rate is above the OECD average (and the reverse would also be true).

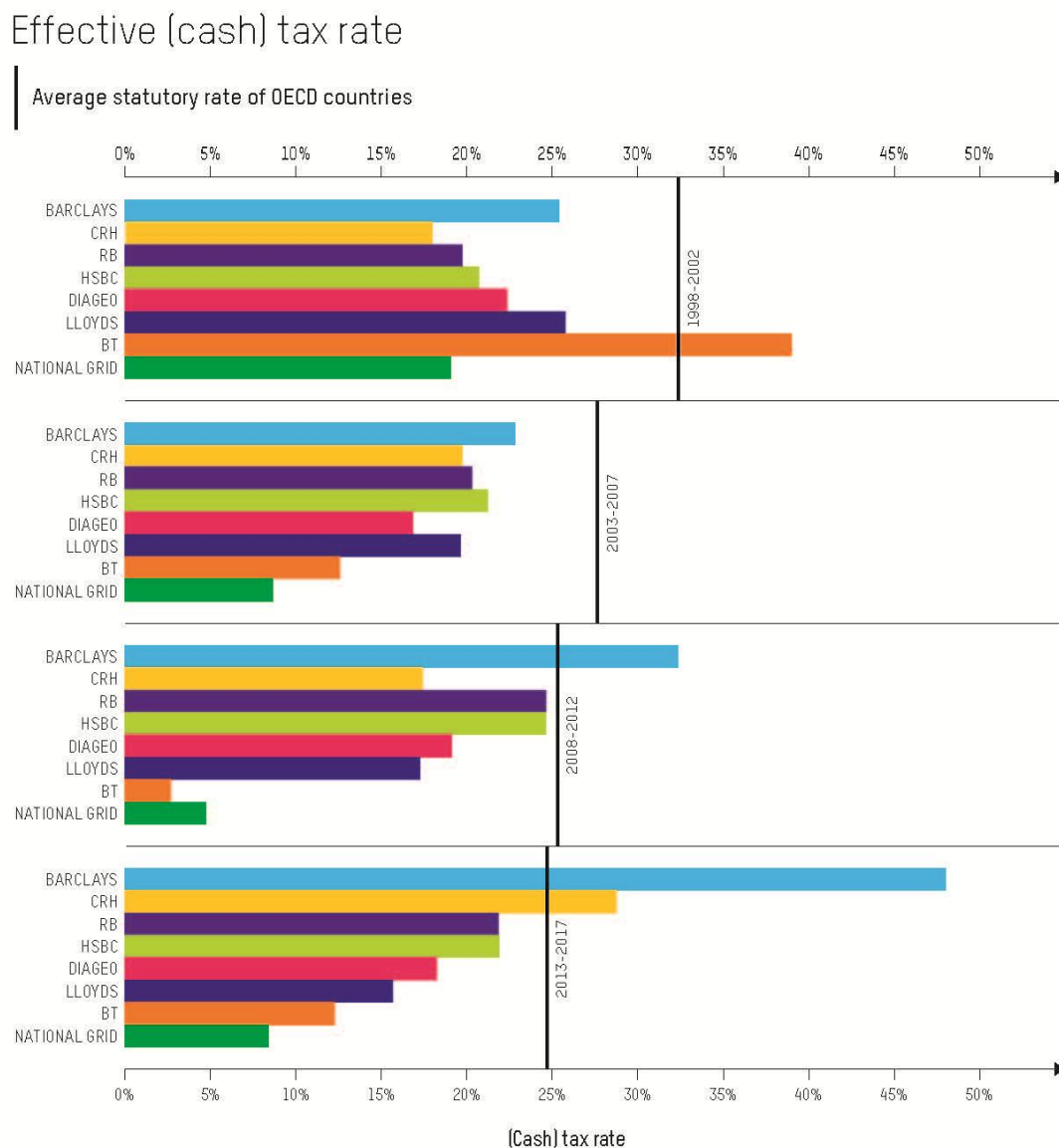
## CASH TAX RATES OVER TIME

There are various uncontroversial reasons why corporations may pay less than the headline rate of tax in countries where they do business: for example, because they have claimed tax allowances for investment or they have past losses which can be carried forward and offset against future tax bills. However, the figures show that many of the 25 companies in the sample have paid tax for long periods at rates that were well below the chosen benchmark.

Thirteen of the 25 companies paid tax in at least one of the four periods between 1998 and 2017 at an average rate that was at least five percentage points lower than the OECD rate – which, as noted above, is itself quite a low benchmark by world standards. These companies were Anglo American, Royal Dutch Shell, Barclays, CRH, RB, HSBC, Aviva, Diageo, Lloyds Bank, BT, The Royal Bank of Scotland Group plc, Shire and National Grid.

Eight of these companies paid tax at a rate at least five percentage points below the OECD rate for at least two of the periods: in other words, for 10 out of the 20 years these corporations were paying tax at rates which were far below the headline rates in most of the world's major economies. HSBC and Diageo stand out as companies that do business in developing countries and have paid tax at very low rates across the entire period of study.<sup>48 49 50 51</sup>

**Figure 2: Cash tax rates for eight selected companies between 1998 and 2017**



The figures in Fig. 2 denote that a cash tax rate for that period is at least five percentage points below the OECD average rate. BT and National Grid earn much of their income in the UK, where the headline rate between 2013 and 2017 averaged just over 20%.<sup>52</sup> See Appendix 1: Methodology for an explanation of how the five-year rates are calculated.

## IMPACTS OF LOW TAX RATES

It is hard to quantify the effects of these low tax rates on the public finances of different countries because, as noted, the necessary kinds of country-by-country corporate data are still scarce. However, the sums involved are huge: taken together, the 25 sample companies paid about £560bn in tax between 1998 and 2017, or nearly £30bn a year on average. This means that even small differences in tax rates may have very large fiscal consequences.

For example, the household products company RB (which Oxfam has studied before<sup>53</sup>) paid tax at rates of around 20–22% in three periods shown in Fig. 2. If RB had paid tax at the benchmark rate we use then it might have paid an additional £909m in tax around the world over the 20 years, or about £46m a year. The same assumption applied to Diageo suggests that the drinks conglomerate might have paid £3.6bn more tax around the world over the 20-year period, or about £180m a year. The gigantic size of HSBC gives it an equivalent figure of more than £14bn over the 20 years, or more than £700m a year in tax revenues around the world.<sup>54</sup>

These only hypothetical estimates show that the global revenue effects of the very low tax rates enjoyed by some London-listed corporations run to billions of pounds a year. While the absolute amounts in smaller, developing countries are lower, revenue gaps are likely to be proportionately higher, partly because of the relative importance of corporate tax.

## EXPLAINING LOW TAX RATES

There are various factors that can affect a multinational's cash tax rate over time and make it hard to determine why that rate has risen or fallen. For instance:

- A corporation may change shape over time as it acquires or divests assets and moves in and out of sectors or countries with different tax rates;
- The tax base (the types of profit which are subject to tax) may widen or narrow over time because of policy changes by governments;
- New taxes may be imposed on particular sectors or activities, as with UK banks.

It is also highly likely, however, that a corporation's tax rate may be affected by tax avoidance. Many of the 25 companies in the sample have extensive networks of subsidiaries in corporate tax havens, and the primary purpose of such tax havens is to reduce taxes for taxpayers. To take some random examples, as of 2017, HSBC had hundreds of subsidiaries in 19 different tax havens; AstraZeneca had 21 subsidiaries in 9 different tax havens; and RB had 83 subsidiaries in 14 different tax havens.<sup>55</sup>

The fact that a corporation has subsidiaries in a corporate tax haven does not in itself amount to proof that it is avoiding tax, because the tax haven subsidiary may not actually be receiving any income shifted from elsewhere. However, the existence of these networks is strong evidence for what many had already long ago concluded: that tax avoidance and the ability to book profits under low-tax regimes can and do have significant effects on the amount of tax that multinationals pay around the world.<sup>56</sup>

It is hard to tell from the outside the extent of these effects. The accounts of big corporations are highly complex, commonly running to dozens of pages, and there is a lot of latitude for a



corporation to exercise judgement about how to report particular items. Some items in the accounts are not required to be explained in great detail (and perhaps could not be explained without making companies' financial statements even longer than they already are).

So there may be indications of possible tax avoidance – for example, where a corporation notes in its accounts that it is in dispute with a tax authority, or where the accounts of a subsidiary show large transactions with related companies in corporate tax havens – but the published figures are unlikely to prove absolutely that this is the case.

This means that, at present, the public is left reliant on the national tax authority of its own country, which does have the legal power to obtain more information about operations within its borders. but which may lack the resources or the political backing to take a strong position in the lengthy negotiations that can result when a tax authority challenges a corporation's tax position. The public is being asked to take it on trust that the tax authority is handling the problem.

## THE EXAMPLES OF DIAGEO AND BARCLAYS

The gap between what can be gleaned by an outsider from a corporation's accounts and what in-depth investigations may later reveal is exemplified by the case of Diageo plc, a conglomerate which produces and sells well-known alcohol brands such as Guinness and Johnnie Walker and which does business in many low- and middle-income countries.

Diageo has consistently paid a very low cash tax rate: between 18% and 22% since 1998, by the five-year method used in this briefing, over a period when the average OECD rate was between 24% and 32%. Although there could be more than one reason for this, in the case of Diageo there is arguably strong evidence for tax avoidance being a factor.<sup>57</sup>

An investigation by The Guardian newspaper in 2009 found that in 2000 Diageo had moved the ownership of the Johnnie Walker whisky brand from a subsidiary in the UK to another subsidiary in the Netherlands, which is a favoured tax haven for multinationals. Diageo in Scotland continued to blend Johnnie Walker whisky in return for a relatively small fee while the bulk of the profits arose at Diageo's marketing centre in the Netherlands, where part of these profits remained untaxed due to special deductions related to the transfer of the brand ownership. In 2006 a similar set of transactions moved the ownership of Diageo's J&B whisky business to the marketing centre in the Netherlands. The Guardian suggested that these changes might have cost the UK as much as £100m a year in tax revenues.

Various other details of Diageo's interactions with tax authorities appear in later financial statements. However, the precise nature of such issues, or the countries whose revenues they might affect, were not required to be disclosed in the accounts and often have not been explained in any detail. In 2018 Diageo said that it had incurred an 'additional tax charge' of £143m in the UK for the years 2014 to 2017 to agree 'transfer pricing and related issues'.<sup>58</sup> The corporation has also said that due to 'significant ongoing changes in the international tax environment and an increase in global tax audit activity ... it is expected that [Diageo's] tax rate may increase in future years'.<sup>59</sup> This can be interpreted as showing that as tax laws have changed, Diageo increasingly expects that governments may oblige it to pay more tax.

The difficulty in making sense of a multinational's tax affairs from the outside, in an era when the public does not necessarily trust governments to hold corporations to account,<sup>60</sup> makes a strong case for public country-by-country reporting of key data, including the profits made and taxes paid in each country. Many national tax authorities increasingly have access to these reports via the OECD, but some developing countries – and the public – do not. Diageo stressed to us that they are supportive of moves to improve international co-ordination. There is a strong business case for companies to see improved coordination, clarity and simplicity.

Public country-by-country reporting would not necessarily prove that a corporation was avoiding tax, or even explain why its tax rate had changed from one period to the next. It would, however, act as a diagnostic tool for identifying cases where large or sudden anomalies suggest a need for investigation, or possibly a rethink of tax policies such as excessive tax breaks.

## **Barclays and country-by-country reporting**

An example of a big anomaly underlined by public country-by-country reporting is provided by the case of Barclays Bank, a British bank with extensive operations in Africa and other regions outside the OECD countries. Until the EU introduced new rules requiring banks to publish more detailed information about their tax payments, researchers largely relied on data from their own country or from leaks; most whistleblowers made use of data from within EU operations. Barclays came under heavy criticism in the UK for its tax avoidance practices, in particular the routing of business through the European tax haven of Luxembourg, which 10 years ago attracted attention from journalists.<sup>61</sup>

The bank agreed to wind down its tax planning operation in Luxembourg and became one of the first British multinationals to voluntarily publish a country-by-country report. Its first such report, for 2013, revealed that the bank had a turnover of nearly £1.4bn in Luxembourg, which was almost pure profit because so little tax was paid on it. Yet out of more than 140,000 employees of Barclays worldwide, only 14 worked in Luxembourg.<sup>62</sup> Large profits in a company with a handful of staff, based in a tax haven, point to tax avoidance.

By the time of Barclays' 2017 report, the profits booked in Luxembourg had fallen to below £400m and there were 41 employees, although the bank's turnover in Luxembourg was still almost as big as its business in the vastly bigger economy of neighbouring Germany, where it had more than 600 employees.<sup>63</sup>

A full analysis of Barclays' tax affairs is beyond the scope of this paper. However, these few numbers do illustrate the value of country-by-country reporting in drawing attention to big anomalies, such as the booking of large profits in small jurisdictions with low tax rates, which may need further scrutiny and public debate.

Perhaps it would be ideal for governments and national tax authorities to be left alone to handle multinationals' tax affairs. However, without the pressure of public scrutiny and debate, tax authorities will not necessarily be given the resources and the political backing to take a firm line with lightly taxed corporations. Public country-by-country reporting could enable that pressure to be more targeted.

## 4 CONCLUSION: A CASE FOR MORE TRANSPARENCY AND A MINIMUM TAX RATE?

The findings of this research show that the global race to the bottom on tax does not seem to have had a uniform effect on the 25 very large corporations which make up the sample: some are paying tax at higher rates, some at lower. This suggests that tax competition has not always pushed corporations' cash tax rates downwards, yet it is a complex phenomenon.

For years at a time, some corporations have been able to pay very low rates of tax, compared with global benchmarks. Whether as a result of avoidance, declining rates or other factors, lower corporate tax revenues can leave developing countries with a choice between a greater reliance on less progressive taxes such as VAT or just coping with less money to invest in poverty reduction.

Based on these findings, should the 'race to the bottom' still be a concern as far as London-listed companies are concerned? The big differences between these 25 companies make the case for close scrutiny of the factors that influence a particular company's tax position, which might include the nature of the sectors and countries where it operates and the business decisions taken by senior management, as well as its attitude towards tax and tax avoidance. These differences make clear that the headline or statutory rate of tax in a country is a poor guide to how much tax a corporation doing business in that country might actually be paying.

### A CASE FOR MORE TRANSPARENCY?

At the moment, it is not possible in most cases to understand the revenue effects of corporations' tax practices in each of the countries where they do business. This is a particular concern for low- and middle-income countries because of their generally greater reliance on corporate income tax revenues to pay for the public services that are needed to relieve poverty.

Therefore, all corporations could be required to publish country-by-country reports, as some of the London-listed companies have recently started to do, whether voluntarily or because of regulations applying to sectors such as extractives, or through European banking legislation. Companies which pay tax at relatively high rates should welcome transparency as a way to distinguish themselves from more aggressive competitors.

Developing countries which receive multinational investment do not need to wait for international consensus that country-by-country reporting should be public. One way to create more transparency is to require local subsidiaries of multinationals to publish their accounts. This would provide a fuller picture for the public in these countries of the profits that multinationals are making locally and the rates of tax they are paying, or not paying.

This is an area where the UK could offer technical assistance to low- or lower-middle-income countries, noting that the UK's own registrar Companies House provides the accounts of UK companies and is an important resource for the analysis of corporate tax positions.

The UK could also press its Crown Dependencies (Jersey, Guernsey and the Isle of Man) and its Overseas Territories (which include key tax havens like the British Virgin Islands, the Cayman Islands and Bermuda) to require the publication of local accounts by companies.

There is a broader argument, beyond the scope of this paper but worth bearing in mind, that corporate accounts are themselves in need of reform because they are narrowly designed for the use of investors and do not provide a clear enough picture to other stakeholders in corporations, such as employees, trading partners and tax authorities.<sup>64</sup>

## A MINIMUM EFFECTIVE TAX RATE

The fact that some of the 25 corporations in the sample have been able to pay tax for very long periods at rates that are far below the headline rates of the world's large economies underlines the relevance of the proposal for a global minimum effective rate of tax on corporate profits. If set at a high enough level, robustly constructed and properly administered, this should put a floor under tax competition and could help to narrow the gap between the headline rates set by countries and the low cash tax rates actually paid by some companies.

This idea is under discussion in the context of the OECD's Inclusive Framework and it appears to have quite widespread support from governments. The form and level of a minimum effective rate will determine how effective it is at curbing very low tax rates, however. For instance, the minimum effective rate would need to be relatively high, with few or no exemptions. And the tax rates actually paid by corporations (to determine whether they are paying above or below this minimum rate) would need to be established for each country where the corporation operates, and not at the global level, because the latter could mean that large tax payments in higher-tax countries raise a corporation's global average rate to the point that the minimum rate cannot be applied in other countries (e.g. lower-income countries), where it may be paying tax at much lower rates.

## QUESTIONS FOR DISCUSSION

What steps might the UK government take to:

- Require all large companies under its jurisdiction which do business in more than one country or jurisdiction to publish country-by-country reports?
- Support the worldwide adoption of a minimum ETR on corporate profits, set at a high enough level to ensure that it is robust?
- Provide technical assistance to developing countries, where appropriate, to make public the accounts of local companies (including the subsidiaries of multinationals), on the model of the UK's Companies House, and press the UK's Crown Dependencies and Overseas Territories to do the same?
- Undertake 'spillover analyses' of their tax policies to understand how these impact on other countries, including different impacts on women and men in poorer countries?

Could other governments, especially in developing countries:

- Require the local subsidiaries of multinational corporations to publish their accounts?

## APPENDIX 1: METHODOLOGY

The London Stock Exchange (LSE) lists some of the world's biggest multinational corporations, and the research for this study aimed to test whether these corporations have become more profitable, and are paying relatively less tax on that profit, than in the past.

It was not feasible to examine the accounts of all listed companies, so a sample was chosen. For simplicity's sake, this sample was made up of the largest 25 companies in the FTSE 100 stock index, measured by their market capitalization at the end of 2017, which were also listed on the stock exchange in 1998. The data on market capitalization were kindly provided by the LSE. It is not possible to know how far these 25 companies are typical of London-listed companies as a whole, or of large British companies in general, so a study of more companies might produce different results.

The choice of a 20-year period was arbitrary but it was intended to be long enough that any long-term trend could be clearly seen. The reason for choosing 2017 was that, at the time the research was conceived, this was the latest year for which accounts were certain to be available for all the companies. Companies which were among the top 25 but were not listed in 1998, such as the commodities trader Glencore, were not included in the sample. The reason for this was simply to ensure that a complete set of accounts were in the public domain for the entire 20-year period.

In a few cases where a listed company had been created since 1998 by the merger of two other listed companies, and where the merged company did not report financial disclosures going back to 1998, the accounts of the biggest of the two precursor companies were used instead.<sup>65</sup>

Companies' profits and tax payments can spike or fall from one year to the next, sometimes so sharply that when the figures are averaged out over a period of time the effect is to distort the general pattern. To reduce this problem, the research added up companies' profits and tax payments in five-year blocks and calculated five-year tax rates by dividing the latter by the former. Pre-tax profitability was calculated in the same way, by dividing pre-tax profits over a five-year period by revenues over the same period. This is not a method used by companies themselves, but arguably it produces a less distorted result than averaging yearly figures.

The research is based on companies' tax payments, taken from their cash flow statements, rather than on the 'book' tax obligations that are recorded in their income statements. The reason for this is that the latter include current and deferred tax – that is, tax which is incurred in a given year but, for various reasons, does not have to be paid until later. The view taken in this briefing is that from the point of view of public revenues, it matters more to know what tax revenue has been paid than what might be paid in future.

The cash and 'book' tax figures should balance out over time, as tax obligations deferred from the past are eventually paid off. The research found that this was indeed more or less what happened over the 20-year period: the total tax incurred by the 25 companies over the entire period was around £565bn and the amount paid was around £559bn.

There were technical issues which mean that the findings of the research should only be taken as a general outline, and not as being scientifically precise. It would not have been possible to address these issues without very detailed analysis of companies' financial statements, which was beyond the scope of the research. Among these issues are:

- **London-listed companies changed their accounting standards** in the mid-2000s from the UK Generally Accepted Accounting Practice (GAAP) to the International Financial Reporting Standards (IFRS). Accounts published before this change are not directly comparable with those published since. In the cases of some of the 25 companies, this change did not seem to have much effect on the figures, but in other cases the effect was quite large.

- Insurance companies reported their turnover and profits on a different basis under UK GAAP and did not publish a single figure for their total revenues that could easily be compared with this figure under IFRS. For this reason, Aviva and Prudential were not included in the calculations of pre-tax profitability, which used total revenue figures.
- **Some companies restated their accounts.** Wherever possible, the research used the most recent figures and worked backwards. Companies sometimes use different terms to describe the same items in their accounts, or change the terms that they use over time, so that sometimes an element of guesswork is unavoidable.
- **Companies reported in one of three different currencies:** pounds sterling, US dollars or euros. For this research, the latter two currencies were converted into pounds sterling at the exchange rate on 31 December of the year concerned. Two companies (Shire and Vodafone) changed their reporting currency during the 20-year period of study.

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- 34 Allocation of taxing rights between jurisdictions is a major international tax issue. The concern for states is how to tax their residents on their worldwide income and foreign residents on income generated from the source located in the territory of the state.
- 35 Note that 'London-listed' is not a synonym for 'UK' companies, since companies are headquartered in other countries and not seen as UK companies. We do refer to 'British-based' as an alternative to 'London-listed' in the title.
- 36 All the companies in the sample are multinationals in the sense that they have done business in more than one country. However, some operate in a small number of countries outside the UK, whereas others are globally diverse, and not all are direct investors in developing countries.
- 37 During 2013-17 National Grid invested £19.6bn in energy networks. For tax purposes, they deduct these costs more quickly than the associated depreciation in their statutory accounts. The impact of this is to defer tax payments to a later date and therefore reduce their cash tax rate. For example, in the US, the federal government has at various times introduced accelerated depreciation to encourage investment and economic growth, most recently in the aftermath of the financial crisis. This has allowed companies to deduct up to 100% of their eligible capital expenditure in the year of the expenditure rather than over a longer period (e.g. 20 years).
- 38 The cash tax rate expressed as a percentage of the OECD average headline rate moved from 69% to 84% from the first five-year period to the last. This suggests that cash tax rates paid by companies are moving closer to the headline rates; this might be expected as headline rates fall, so squeezing the likelihood of companies paying rates significantly below the statutory rate. But the wide variation across companies – with some paying higher than the headline rate as well as a number paying significantly lower, even in recent years – merits further probing.
- 39 Leaving aside companies which paid corporation tax when not making a profit in a five-year period, the variation of cash tax rates across the companies also changed a little, from 34 percentage points to 102 percentage points (the 110% cash tax rate is an outlier, but the next highest cash tax rate is 62%, which would give a variance of 54 percentage points).



- 40 The London-based Anglo American plc was formed through a merger in 1999. The data for 1998 were taken from the larger of the pre-merger companies, also called Anglo American (listed in South Africa).
- 41 For extractive companies, where additional sector-specific types of payments to governments are common and tax rates may be sector- or even project-specific, corporate income tax may not tell the full story. For a more thorough analysis of these companies, country-by-country payment disclosures as required in the European Union/under UK law can help inform a more comprehensive analysis.
- 42 Financial Times (2017). Riddle of UK's rising corporation tax receipts. 26 April 2017. Available from (paywall): <https://www.ft.com/content/ca3e5bd2-2a7e-11e7-9ec8-168383da43b7>
- 43 According to companies' annual return (AR01) reports filed at the UK registrar Companies House, which include lists of subsidiaries.
- 44 T. Wright and G. Zucman (2018). The Exorbitant Tax Privilege. NBER Working Paper Series. <https://gabriel-zucman.eu/files/WrightZucman2018.pdf>
- 45 The companies provide information beyond the minimum requirements of the mandatory disclosure of payments to governments under UK law, though they do not yet publish the full suite of country-by-country details (including country-specific profits) that civil society has encouraged.
- 46 Due to a large acquisition which significantly distorted the data, we only used data for BAT until 2016 to present a more accurate reflection of the company's overall tax position.
- 47 For OECD countries, rates are taken from [http://www.oecd.org/tax/tax-policy/tax-database.htm#C\\_CorporateCapital](http://www.oecd.org/tax/tax-policy/tax-database.htm#C_CorporateCapital). For non-OECD countries the rates after 2003 are taken from <https://home.kpmg/mm/en/home/services/tax/tax-tools-and-resources/tax-rates-online/corporate-tax-rates-table.html> and prior to 2003 from KPMG corporate tax surveys for 1998, 1998, 2000, 2001 and 2002. In certain cases where the OECD rates include time-limited additional taxes for certain types of corporation, KPMG rates have been used instead. Rates for Saudi Arabia from 1999 to 2005 are taken from <https://tradingeconomics.com/saudi-arabia/corporate-tax-rate>. No rate could be found for Russia before 2000. In all cases, the choice of source is intended to produce a conservative estimate of the average rate, which means that the difference between headline rates and the rates paid by companies may be slightly higher in reality.
- 48 Diageo told us that intra-group debt-financing, the provision of services between group members, and how the company charged for the use of brand assets, affected tax rates in many developing countries. There are many varied and complex tax laws across countries – including cases where indirect and direct taxes are not compatible, presenting a challenge for managing business across countries. Diageo concluded that 'our effective and cash tax rates across many developing countries vary greatly year-on-year due to a wide range of factors, including the high-levels of economic and political uncertainty that those countries often experience.'
- 49 In the case of the Barclays banking group, the gap for 2003–07 was 4.9 percentage points.
- 50 Lloyds Bank told us that they are a highly UK-centric company, and generally expect to pay cash taxes at or above the UK tax rate each year. As part of the publication of their tax strategy document, they reconcile their cash tax payments to the tax charge for the year, along with a country-by-country analysis of profits and taxes paid. [https://www.lloydsbankinggroup.com/globalassets/lloyds\\_banking\\_group\\_tax\\_strategy\\_october2018.pdf](https://www.lloydsbankinggroup.com/globalassets/lloyds_banking_group_tax_strategy_october2018.pdf)
- 51 Between 2007 and 2010, BT received repayments of tax overpaid in prior years. These total £1,326m (2007 – £376m, 2008 – £521m, 2009 – £4m, 2010 – £425m) and are separately identified in the accounts as prior period repayments. Taking into account the effect of these refunds for overpayments in previous years would lead to a slightly lower tax rate in the 1998–2002 period (around 34% rather than 46%) and a significantly higher tax rate in the 2008–12 period (around 23% rather than 3%).
- 52 National Grid has a substantial US business. It told us that 'In the US, the federal government has at various times introduced accelerated depreciation to encourage investment and economic growth, most recently in the aftermath of the financial crisis. This has allowed companies to deduct up to 100% of their eligible capital expenditure in the year of the expenditure rather than over a longer period (e.g. 20 years). The impact of this is to defer the payment of tax to later years. Given our large eligible capital expenditure we have been in a net tax loss position in the US since the government last reintroduced accelerated depreciation. Hence we have made no significant federal tax payments in this period. This, together with a reducing UK corporation tax rate contributes to a low cash tax effective rate.'
- 53 O. Pearce (2017). Making Tax Vanish: How the practices of consumer goods MNC RB show that the international tax system is broken. Oxfam. Available at: <https://policy-practice.oxfam.org.uk/publications/making-tax-vanish-how-the-practices-of-consumer-goods-mnc-rb-show-that-the-inte-620289>
- 54 These estimates were made by calculating the difference between the tax actually paid by these companies on their profits and the tax that would have been paid on those same profits at the OECD average rate.
- 55 Analysis of companies' AR01 forms, filed at the UK's Companies House. The list of corporate tax havens includes: Andorra, Anguilla, Antigua and Barbuda, Aruba, the Bahamas, Bahrain, Belize, Bermuda, the British Virgin and Cayman Islands, the Cook Islands, Cyprus, Dominica, Gibraltar, Grenada, Hong Kong, Ireland, Jersey, Lebanon, Liechtenstein, Luxembourg, Macao, the Maldives,

Malta, the Marshall Islands, Mauritius, Montserrat, Nauru, the Netherlands, Niue, Samoa, San Marino, the Seychelles, Singapore, St Kitts and Nevis, St Lucia, St Vincent and the Grenadines, Switzerland, the Turks and Caicos Islands, the US Virgin Islands and Vanuatu.

- 56 Consultancy.UK (2018). Global corporates shifted \$616bn in profits to 11 tax havens. <https://www.consultancy.uk/news/18324/global-corporates-shifted-616-billion-in-profits-to-11-tax-havens>
- 57 See, for example, R. Brooks (2013). The Great Tax Robbery; how Britain became a tax haven for fat cats and big business; and various articles in The Guardian from 2009 and 2010.
- 58 Diageo plc. (2018). Consolidated Financial Statements for 2018. Note 7b. <https://www.diageo.com › investors › financial-results-and-presentations>
- 59 Diageo plc. (2018). Consolidated Financial Statements for 2017. <https://www.diageo.com › investors › financial-results-and-presentations>
- 60 See, for example, polling conducted by charities including Oxfam, reported in the Independent 6.12.2015: <https://www.independent.co.uk/news/business/news/google-apple-and-starbucks-face-laughable-fines-for-tax-dodging-a6761981.html>
- 61 See, for example, The Guardian (2009). Barclays denies whistleblower was forced out. 6 April 2009. <https://www.theguardian.com/business/2009/apr/06/barclays-tax-avoidance>
- 62 Barclays plc (2014). Country Snapshot 2013. <https://www.home.barclays/content/dam/home-barclays/documents/citizenship/Reports-Publications/CountrySnapshot.pdf>
- 63 Barclays plc (2018). Repositioned for growth, sharing and success: Country Snapshot 2017. [https://www.home.barclays/content/dam/home-barclays/documents/investor-relations/annualreports/ar2017/Barclays\\_Country\\_Snapshot\\_2017\\_final.pdf](https://www.home.barclays/content/dam/home-barclays/documents/investor-relations/annualreports/ar2017/Barclays_Country_Snapshot_2017_final.pdf)
- 64 For a discussion of this issue, see the newly created Corporate Accountability Network at <http://www.corporateaccountabilitynet.work/>. One of its founders is Richard Murphy, the British accountant and campaigner who co-created the concept of country-by-country reporting in the early 2000s.
- 65 For BHP Billiton, the company provided Oxfam with combined data for the two pre-merger companies which we used in our analysis.



## Oxfam Discussion Papers

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