

Tax Justice & the International Taxation System

ICTU Global Solidarity Summer School 2015
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Research for new economic policies

Outline

- 1. The International Taxation System is broken**
- 2. Some (brief) Observations on its repair**

1. The International Taxation System

- Talking about the international corporate taxation system
- Note, there is not really a system, rather a set of separate and competing rules across countries...
- Origins in the 1920s but now dated
- Numerous routes to both minimise and shift profits
- Including:

- *Debt financing* with deductions for interest costs
- *Intellectual property* ownership, licences and royalties
- *Transfer pricing*
- *Tax reliefs + special arrangements* (knowledge box)
- *Competition between governments* for investment
 - “driving rates down and reliefs up”

(Michael Devereux, IIPF TCD 23/8/15)
- *Competition between competing firms* for share prices, growth and returns

The Dozen Most Obvious Corporate Tax Havens

12 Countries with Highest Reported Profits as a Share of GDP in 2010
from Subsidiaries of American Corporations (dollars in billions)

	Reported Profits of US-Controlled Subsidiaries	Gross Domestic Product	Subsidiary Profits as % of GDP
Bermuda	\$ 94	\$ 6	1643%
Cayman Islands	51	3	1600%
British Virgin Islands	10	1	1102%
Bahamas	10	8	123%
Luxembourg	55	52	106%
Ireland	87	208	42%
Netherlands Antilles	1	4	25%
Netherlands	127	772	16%
Cyprus	3	23	13%
Barbados	0	4	10%
Singapore	20	217	9%
Switzerland	47	551	9%
Total for Dozen Most Obvious Tax Havens	\$ 505	\$ 1,849	27%
Total for All Other Countries in IRS Data	\$ 424	\$ 42,363	1%

*Foreign taxes paid to any foreign countries, not just to countries listed.

Source for Profit and Tax Figures: IRS, Statistics of Income Division, April 2014

<http://www.irs.gov/uac/SOI-Tax-Stats-Controlled-Foreign-Corporations>

Source for GDP Figures: World Bank <http://data.worldbank.org/indicator/NY.GDP.MKTP.CD>,

United Nations Statistics Division <http://unstats.un.org/>

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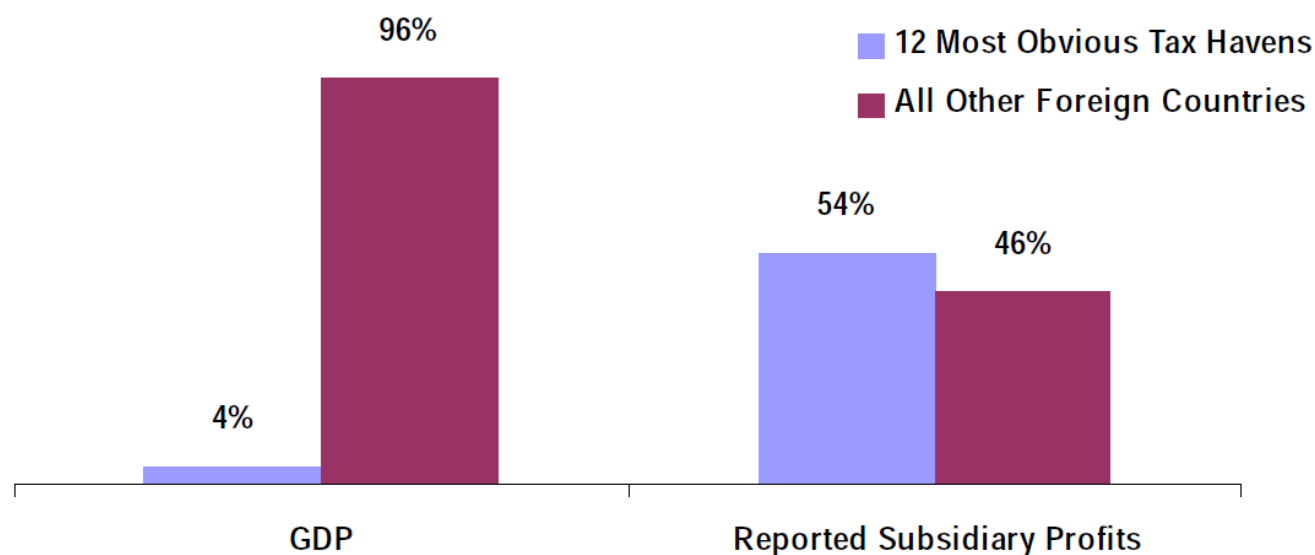
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“This is a much higher share of GDP than the profits reported in more significant European countries: about half a percent of GDP in Germany and France, and 3% in the UK.”

Combined GDP and Reported Subsidiary Profits in 2010, 12 Tax Havens vs. All Other Countries



Source for Profit and Tax Figures: IRS, Statistics of Income Division,
April 2014

Source for GDP Figures: World Bank

• Cash-piles parked ‘indefinitely’ off shore

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US taxation

Barack Obama sets out plan to tax US companies on \$2tn profits held abroad

Apple, Microsoft and General Electric would face bills of \$10bn or more under president's budget proposal for one-off levy plus 19% tax on offshore cash

Rupert Neate in New York

@RupertNeate

Monday 2 February 2015 22.14 GMT



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Barack Obama sets out his budget proposals in a speech at the Department of Homeland Security in Washington, DC. Photograph: SIPA/Corbis

Barack Obama's plan to force US multinationals to pay tax on the more than \$2tn

Top 10 US overseas cash piles

COMPANY	CASH PILE
General Electric	\$110bn
Microsoft	\$76.4bn
Pfizer	\$69bn
Merck	\$57.1bn
Apple	\$54.4bn
IBM	\$52.3bn
Johnson & Johnson	\$50.9bn
Cisco	\$48bn
Exxon Mobil	\$47bn
Citigroup	\$43.8bn

NOTE: Figures are from 2013, the latest available. Overseas cash has changed significantly for some.

SOURCE: Capital Economics

The Economist

Feb 26th 2013 “The missing \$20 trillion”



“If you define a tax haven as a place that tries to attract non-resident funds by offering light regulation, low (or zero) taxation and secrecy, then the world has 50-60 such havens. These serve as domiciles for more than 2m companies and thousands of banks, funds and insurers. Nobody really knows how much money is stashed away: estimates vary from way below to way above \$20 trillion”

- *Ugland House, George Town, Cayman Islands*

- 5 floors
- Home of a law firm
- Registered office of more than 18,800 entities
- Census 2010: 54,878
- 0% corporate tax rate



+

amazon



...

2. Some Observations on its repair

- Broad realisation that change is needed:
 - tax losses from the recession
 - public annoyance at low tax levels
 - NGOs and impacts on developing countries
- Some short observations:

1. Increasing transparency is key
2. Abolishing corporate taxes is the easiest solution – but hardly a fair solution
3. Corporate taxation is about the 100% of corporate tax payers and not just the elite who can pay to manage their affairs
4. OECD BEPS process is good, but focused on country by country reforms and mainly on alignment of taxes to economic activity
5. Beyond BEPS, need for further reform - ideally to align taxes to sales (destination); similar to EU CCCTB
6. Reforms will ↓ € to Irish state: inevitable and impact...

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- <http://qz.com/214727/why-us-companies-can-earn-51-billion-in-the-cayman-islands-even-though-its-gdp-is-only-3-billion/>