A Down to Earth Guide to TAX JUSTICE

THIS IS PART OF A SERIES OF SHORT COUNTRY FOCUSED GUIDES AIMED AT BRINGING GLOBAL ISSUES *'down to earth'* THROUGH THE USE OF CASE STUDIES AND HUMAN STORIES

THIS GUIDE TELLS STORIES FROM ***Zambia, Sierra Leone, Bolivia,*** AND ***Rwanda***

Tax Justice – why it matters?

Christian Aid estimates that developing countries lose $160 billion every year due to unscrupulous multinational companies dodging tax. This means that for every $10 given in aid to southern countries, $15 slips out through tax dodging. This money could be used to fund development, build schools, roads and hospitals, and eventually help developing countries break free from dependency on aid. In fact $160bn is

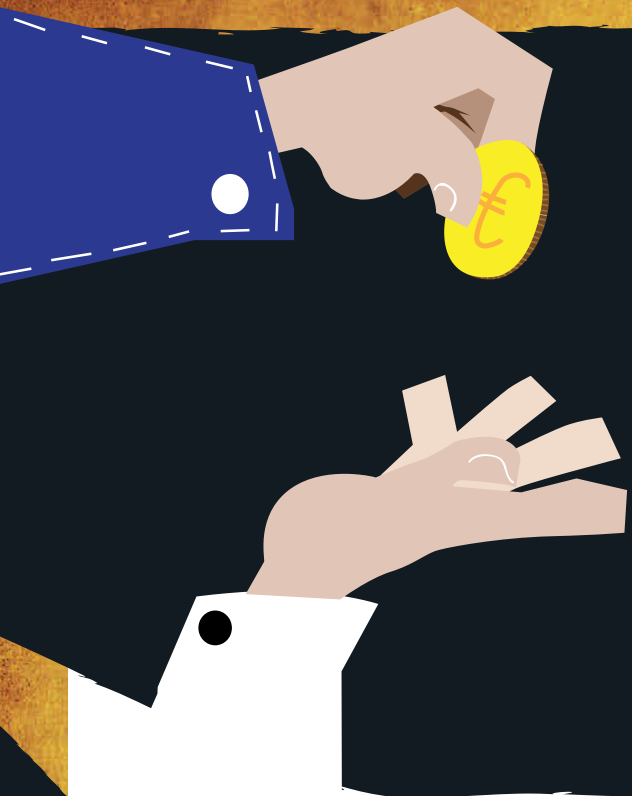
- Enough to save the lives of 350,000 children under the age of five every year

Taxation is more than collecting money for governments to spend on public services. A fair tax system also makes governments more accountable to their citizens.

So what's the problem?

In most developed countries, tax revenue pays for basic healthcare, roads, schools, social welfare and lots more. But many poorer countries struggle to collect taxes for a variety of reasons. Sometimes weak governance and institutions prevents them collecting revenue efficiently. Often there is a legacy of resistance to paying taxes, stemming from colonial times when taxes paid simply funded the occupying power. And sometimes people feel there is no point contributing taxes to corrupt and unaccountable governments. Furthermore, many people in poorer countries work in the informal economy or 'black market' which leaves them outside the tax net. It is not surprising then that personal income taxes make up a very low percentage of overall tax revenue in Southern countries.

Added to this, the way in which so many multinational corporations are able to operate means billions of dollars leave southern countries without anyone noticing. But more on this later…



Are we paying *enough* taxes?

In 2010 the Irish government collected €31.5 billion in taxes. Total Irish government expenditure for 2011 was €42 billion. The biggest areas of spending are €14.2 billion for social welfare, €10.6 billion for health and €8.3 billion for education. International Cooperation (which includes overseas aid) was assigned just over half a billion euro. Ireland's total tax-take is one of the lowest in the 'developed' world. Some groups argue that it is not possible to develop social services on a par with the rest of Europe while having a total tax-take that is far below the EU average. They argue that Ireland's tax-take must be increased by broadening the tax base and by eliminating tax breaks for the rich.

Tax as a percentage of national income in selected countries

LOW INCOME			
Bangladesh	8%	Guatemala	1.3%
Rwanda	13.6%	Uganda	12.6%
MIDDLE INCOME			
Brazil	36%	Argentina	24%
South Africa	29%	India	9%
HIGH INCOME			
France	43.6%	Sweden	48.2%
UK	37%	Ireland	27.4%

What do *you* think?

Many countries (e.g. France and Sweeden) that are noted for their excellent social services pay for this by high taxation rates.

- **Do you think this is a good policy?**
- **Would people in Ireland be happy to pay higher taxes to maintain a higher standard of health and education?**
- **What about in Southern countries?**
- **What do you think can be done to increase the tax-take of Southern governments?**

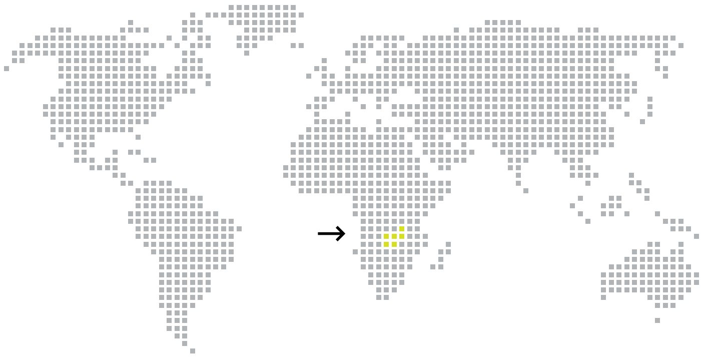
What about corporation tax?

As illustrated by the table below, Ireland's corporate tax rate of 12.5% is one of the lowest in the world. This has been the subject of debate in recent times. Some argue that Ireland's low corporation tax rate has been a major incentive in attracting foreign companies to Ireland and if this rate was increased we would risk losing much needed jobs and investment. Others point out the enormous revenue that the Irish exchequer misses out on as a result of this low tax rate as well as the fact that Ireland's low tax rate may be used by some companies as a way of avoiding paying higher taxes in other countries where they operate, including poorer Southern countries. Without a requirement for multinational companies to file financial reports on a country-by-country basis, Ireland could be leaving itself open to multinational companies exploiting Ireland's low tax rates to shift profits from Southern countries to Irish-based subsidiaries.

What do *you* think?

Rates of corporation tax in selected countries

USA	35%
Spain	30%
France	33%
Belgium	33.9%
UK	28%
Ireland	12.5%
Bermuda	0%



The Missing Millions

A Case Study: Zambia

- A view from Christian Aid

'Zambian people know, whether they have been to school or not, that they are not benefitting from the minerals in their own country. We are not benefitting from the mining companies in our country both because the right taxation regime is not in place and because we lack the capacity to carry out comprehensive audits.'

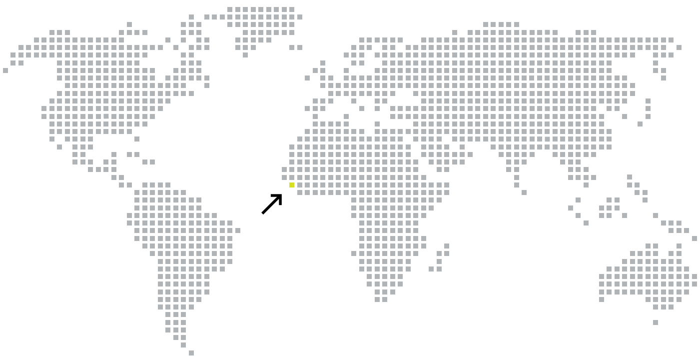
Sam Bwalya, Zambian Revenue Authority (quoted in Christian Aid report, May 2010)

Copper is hugely important to Zambia 's economy and accounts for around three-quarters of its export earning. The country is one of the eight largest copper producers in the world with the metal used to make wire, rods, brass and other products.

In 2006, the Zambian government set up special areas in all districts throughout Zambia called Multi-Facility Economic Zones (MFEZ). The aim was to attract foreign investment by offering 0% tax on profits for the first 5 years and 0% import duty on raw materials, good and machinery. As a result of this generous tax system mining has not contributed much to the government's purse and now that the price of copper and other commodities has fallen, tax income is even lower and the government has been forced to increase borrowing to pay for basic services.

In 2006, the Zambian government received $12 million in tax from $2.2 billion of copper production.

A Zambian Copper Mine



A Case Study: Sierra Leone

- A view from National Advocacy Coalition on Extractives (NACE), Sierra Leone

- Sierra Leone is one of the poorest countries in the world.
- Life expectancy in Sierra Leone is just 48 years for men and a literacy rate of only 40%

In 2009 the Government of Sierra Leone passed a new law in 2009 called the Mines and Minerals Act. The government celebrated the passing of the act as good for investors, and good for the people and the state for whom they argued it ensured greater fiscal, social and environmental benefits. However, after the new legislation was ratified, the government contravened many of the key provisions of the new Act. According to the National Advocacy Coalition on Extractives (NACE), a civil society group based in Freetown, Sierra leone, the contract, relating to mining iron ore deposits, contains lots of discrepancies including allowing the company to pay less royalties than the market rate. Extraordinarily, the contract also contained a clause stating that the contract takes precedence over the provisions of the Minerals Act. Justice groups in Sierra Leone have protested against this. However the company disagrees. In its 2009 annual report, the chairperson of the company noted "the ongoing support and commitment to both London Mining and the project by the Government and more broadly, the people of Sierra Leone as a whole".

"The new Minerals Act is a positive step [..] but only if [..] implemented. If the London Mining agreement is allowed to proceed, other companies will negotiate their own special deals and the new Minerals Act might as well be thrown away".

Cecilia Mattia, the coordinator of NACE, Sierra Leone

Dodgy Business

Large multinational companies have bases in many different countries and can freely shift taxable income across borders by a system called *'transfer pricing'*.

This means that one part of the company provides goods or services to another for a price that is agreed between them. Of course there is nothing illegal about this. The problem arises when these arrangements are set up to enable money to move from one country to another and so avoid paying taxes. For example, when a company based in a Southern country sells goods at deflated prices to a related company elsewhere in the world, or buys goods at inflated prices, money is shifted out of one country and into another so that the company can then declare less profit and pay less tax.

Christian Aid cite examples of transfer pricing such as, when a hairdryer that would retail for about $25 dollars in the United States is sold from the US to Africa for $3,800. Or when a bed that should retail for $119.99 is sold from Africa to the United States for $5

The research shows that between 2005-2007 the total amount gained from trade mispricing into the EU and US from non EU countries was an estimated $850 billion. If tax had been paid on this money, non-EU countries would have raised around $365 billion in revenue.

Tax havens

A tax haven is described as a jurisdiction that has no or nominal taxes and doesn't exchange much tax information with other tax authorities.

(Bloomberg.com)

And poorer countries are not the only ones losing out

It is estimated that the diversion of profits to tax havens around the globe is depriving the United States Treasury of anywhere from $10 billion to $20 billion in lost tax revenue each year. President Obama recently promised to clamp down on companies who are avoiding paying taxes in America through tax dodging and the use of tax havens. He aims to raise about $190 billion over the next decade by outlawing offshore tax-avoidance schemes. He said *'There's a building in the Cayman Islands that houses supposedly 12,000 US-based corporations. That's either the biggest building in the world or the biggest tax scam in the world.'*

The Guardian newspaper calculated in 2007 that the world's three biggest banana companies paid on average 14% tax on their profits, despite all three having their head offices in the US, where the corporate tax rate is 35%.

OBAMA SEEKS END OF CORPORATE TAX BREAK TO RAISE $190 BILLION

May 4, 2009 (Bloomberg

What do *you* think?

**Big companies hire hundreds of legal and accountancy experts to research tax legislation in countries across the world and exploit the loopholes that they may find in order to help companies avoid paying taxes. While there is nothing illegal in avoiding paying taxes in these ways, it does beg the question is it just?
What do you think?**

What are rich countries *responsibilities?*

The majority of global trade does not take place between different companies but within multinational companies themselves – in other words, one part of the same company trading with another.

The way they account for their profits means that the tax hit occurs where they choose, usually in the country that has the low corporation tax. This has disastrous consequences for poorer countries that lose billions as a result.

'A wedge-shaped chunk of land 96 miles long sitting halfway between Washington and New York, the state of Delaware is home to 870,000 people, 0.3% of the US population. But more than half of the nation's publicly traded companies are incorporated here, including 60% of the Fortune 500 firms. One anonymous office block serves as the registered address of more than 200,000 corporations.'

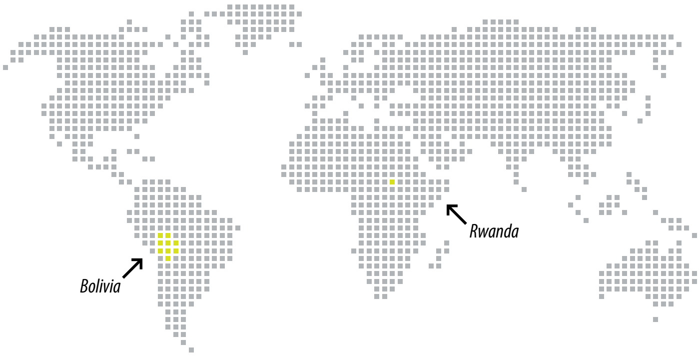
Andrew Clark, The Guardian, 10th April 2009

'Tax authorities lack the resources to combat the tax avoidance industry. Ernst & Young alone employs over 900 professionals to sell transfer pricing schemes. The US tax authorities employ about 500 full-time inspectors to pursue transfer pricing issues and Kenya can only afford between three and five tax investigators for the whole country.'

Prem Sikka, The Guardian, 12th February 2009

'In October this newspaper reported that Google had over the past three years cut its tax bill by €2.2 billion using a strategy known as the double Irish. Profits from Google's non-US operations were shifted through its Irish subsidiaries and onwards towards Bermuda as part of an operation that allowed the multinational to reduce its corporation tax on non-US earnings to a minuscule rate of 2.4%. In 2005 The Irish Times also reported that an Irish subsidiary of Microsoft made a profit of €682.4 million but paid no corporation tax. The profits came in part from Microsoft's operations in Africa, where Bill Gates, the company's chairman, has been busy making charitable donations. The company at the heart of the tax structure was based at the offices of Matheson Ormsby Prentice Solicitors in Dublin.'

Colm Keena, Irish Times, January 8th 2011



‘Taxation is key to increasing our legitimacy and ability to make our own decisions’

Mary Baine, Commissioner General, Rwanda Revenue Service, 2009

Some Good News Stories

Bolivia

- A view from Christian Aid

Bolivia’s oil and gas industry is the biggest industry within Bolivia and has generated huge wealth and profits. However since the country privatised its oil and gas industry (as part of its conditions for getting debt relief from international lenders) it has struggled to get a fair share of this wealth. It is not surprising that Bolivians become extremely annoyed about the fact that the people were not seeing any benefits from the country’s natural resources and protests took place between 2003 and 2005, known as the ‘gas wars’. As a result of this pressure the Bolivian government passed a law in May 2005 that provided for a new royalties and tax structure on oil and gas profits, in order to increase state’s share of the revenue. Since January 2006, President Evo Morales has introduced further changes to contracts with the oil and gas industry leading to increased revenue for the Bolivian government – from an income of around US$173 million in 2002 to about US$1.56 billion in 2007. With this extra money, the Bolivian government has introduced a universal state pension for everyone over 60, a universal grant for primary schoolchildren and a school breakfast scheme that guarantees them at least one meal a day. They also introduced a new material health programme. None of this would have been possible without tax reform.

Rwanda

Southern countries often need support and expertise to build up their capacity to gather taxes more efficiently. Irish tax officials (funded by Irish Aid) have trained the Rwandan tax authorities and this experience provides a positive example of what can be achieved with focused support to national tax authorities. In Rwanda, tax revenue increased threefold between the establishment of the Rwandan Revenue Authority in 1998 and 2006. Since 2003 spending on water and sanitation has increased more than five fold, health expenditure has increased almost fivefold and education expenditure has more than doubled.

What you can do?

Tax dodging by some unscrupulous multinational companies costs Southern countries an estimated **$160bn a year** – almost twice the entire global aid budget. So what can be done about it?

Ending tax secrecy

The Debt and Development Coalition, together with other groups, is calling for a new accounting standard that would force companies to reveal how much profit they made in each country where they operate and how much tax they paid in every country. Country-by-country reporting would make it easier to spot when figures were being manipulated to avoid paying tax. In addition, groups are looking for better tax information exchange between tax authorities so that they can build a better picture of a company’s profit-making activities and transfers of profits between countries.

↘ What do *you* think?

What would your solutions be?

For more information check out www.debtireland.org

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Research support from Karen Reidy is gratefully acknowledged.

DDCI acknowledges the support of Irish Aid and Trócaire. The ideas, opinions and comments within this publication are entirely the responsibility of the authors and do not necessarily reflect Irish Aid or Trócaire policy.

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