

Eurodad Tax Training

Session 1: Tax Justice
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European Network
on Debt and Development

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Introduction

Introduction to Eurodad & Umbrella project (Maruša)

10 Second Intro:

- **Name,**
- **Organisation,**
- **area of interest and Country**

What we'll be covering

■ Session One: (Today!)

- Intro to tax and justice
- How does international tax avoidance work?
- What are tax treaties / transfer pricing/withholding taxes

■ Session Two

- Corporation tax rates & the race to the bottom
- What is the current international tax system?
- What is the role of the OECD/EU/UN?
- What is BEPS/CCCTB/ unitary taxation?
- How does tax link to the other issues I work on?

Virtual Walking debate / Poll



What is tax justice?

The role of tax

What is the tax base

How is tax a justice issue?

What does tax do?

- **Raises revenue to fund government activity**
- **Addresses economic inequalities** [through progressivity - people who earn more are taxed more - and/or redistribution]
- **Advances public policy** – ‘sin’ taxes, incentives tax breaks – tax policy can influence whether you get married, quick smoking or buy an electric or diesel car
- **Helps governments manage the economy** (e.g. inflation)

The Tax Base – What do we tax?

- Income – what we receive
- Wealth – what we have
- Turnover – what we spend

Our choices about what to tax and how shape society

Why do we pay tax?

- We pay tax to the government who provides services – **fiscal contract**
- Link between taxation and democracy - 'No taxation without representation'

How do we pay tax?

- Different kinds of taxes – taxes on income, taxes on capital, taxes on purchases (VAT), corporation tax, 'wealth' taxes, e.g. property tax

How is tax a justice issue?

- Tax and spending are major instruments of redistribution
- Without Revenue from taxes, no income to address other issues
- Different countries have different approaches, including different approaches to redistribution and fiscal contracts

Sweden: high redistribution, low inequality

US: low redistribution, high inequality

Varying examples of 'fiscal contracts':

- *Sweden: broad based regressive taxes, universal services*
- *US/Ireland: narrower more progressive tax base, limited services*

How is tax a justice issue?

- Tax rules can worsen or lessen inequality **within** countries and **between** countries

Some Facts:

- Every year, more than **\$500 bn** is lost globally to tax avoidance, over **\$200 bn** of this is lost from developing countries – more than they receive in aid
- In addition, developing countries give away an **estimated \$138 billion** in **tax breaks** to companies.
- In 2010, IMF estimated that the money on the balance sheets of small island tax havens alone amounted to **US\$18tn** – *about a third of the world's financial wealth*(IMF Working paper 2010)
- 98 of the FTSE 100 companies have presence in tax havens (Action Aid)





How does
international tax
avoidance work?

Tax avoidance, Tax evasion and Tax dodging

- Avoidance = **legal** ways to minimise tax bill
- Evasion = **illegal** ways to avoid paying tax legally due
- Dodging = used by tax campaigners, captures actions that could be both and allows us to highlight problems with actions that are still legal/involve loopholes but are unjust

Why does there need to be an international tax system and what does it look like?

- States have almost complete control of their own tax laws so why an international system?
 - *Individuals live in one country and pay taxes in another (cross-border workers, property owners)*
 - *Corporations carry out trade across borders: with other corporations and with other subsidiaries/'branches' of their own corporations*
- **Double Taxation – where two or more jurisdictions claim the right to the same taxable event/payment and the taxpayer faces a double charge**
- The solution is co-ordination to allocate **taxing rights** between states

Bilateral Tax Treaties

- Agreement between two countries to avoid issues of double taxation
- More than 3500 bilateral tax treaties in place globally

Withholding Taxes

- Where *A* is making payment to *B*, *impose tax on B by requiring A to deduct percentage of payment and remit* directly to Revenue. *B* can then claim credit against tax for amount already paid by *A*.
- Purpose: *anti-avoidance / effectiveness* – because higher risk of (recipient) taxpayer non-compliance, or difficulty for authorities monitoring, or no enforcement jurisdiction against recipient.
- **Key** tools for imposing direct taxation on non-residents

ZAMBIA Case Study

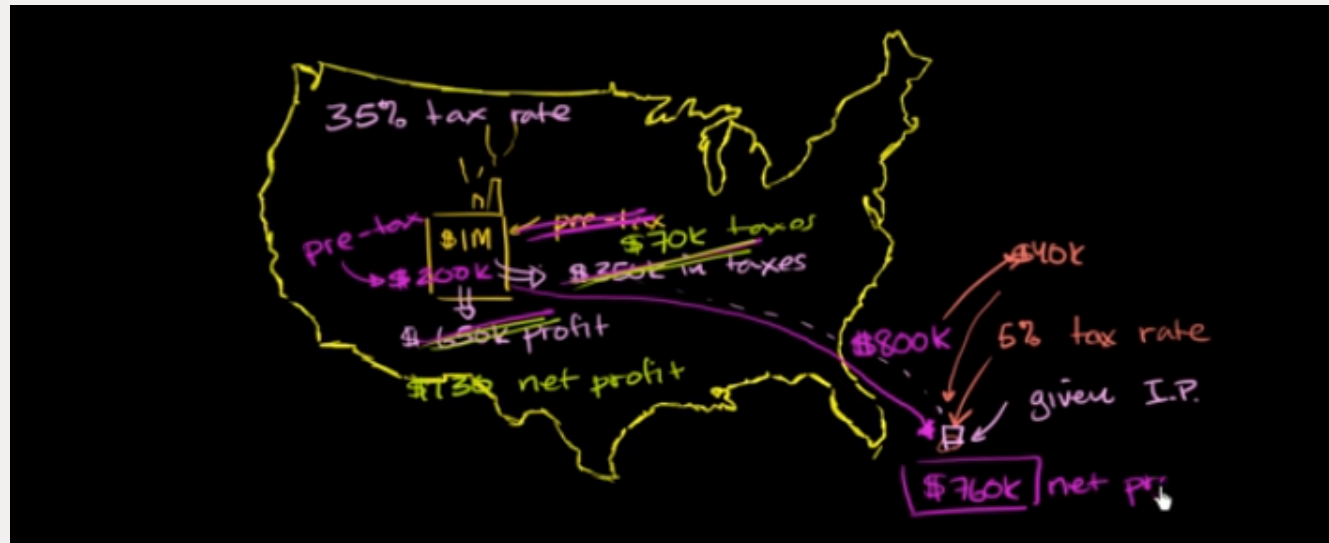
- DISCUSSION – questions are in google doc, link will be shared with your individual breakout group, please make notes in the google doc

What is transfer pricing?

- Over 50% of world trade takes place within large TNCs.
- 'Transfer pricing' refers to the price of transactions between related companies, in particular companies within the same multinational group.
- Governments set rules to determine how transfer pricing should be undertaken for tax purposes

How is tax avoidance facilitated - What is transfer pricing? / mis-pricing

- <https://www.khanacademy.org/economics-finance-domain/core-finance/taxes-topic/corporate-taxation/v/transfer-pricing-and-taxhavens>



How can we avoid this?

- Transparency
- Public Country-by-Country reporting
- Automatic Exchange of information

Next session

- We will cover:
- The current system setting the rules on tax – what is the role of the OECD, UN, EU
- Alternatives
- Corporate Tax rates and the race to the bottom
- Links with other issues and tax

Eurodad Tax Training

Session 2



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What we'll be covering

- Session Two
 - *Info on Umbrella Capacity plan*
 - *Recap of session 1& qs*
 - *Role of Corporation Tax Race to the Bottom*
 - *Key players on international stage*
 - *Alternatives*
 - *How to relate to your own issues*

Capacity Building on Tax Justice - plan

KNOWLEDGE FOCUSED EVENTS

- Intro to Tax Justice I and II providing short basic overview of the issue
- Tax Justice Policy Talk introduction to Eurodad policy workstreams on tax justice; as introduction to the monthly calls, so that participants can ease into on going policy discussion (Eurodad, TJ-E)
- 3 thematic workshops diving into the connection to topic priorities of new members/allies, linking to older members

SKILLS ORIENTED EVENTS

- Getting technical: how to read tax documents and present them to public developing research and analytical skills for a joint report
- Tax Justice Movement building advocacy and campaigning on tax, good practices, citizens engagement, key players

Welcome

- We are



- Courtesy of the Network Strengthening Project co-financed by the European Union.

Help us do better

- Rapid Review of today's workshop
- Link to the form:
https://docs.google.com/forms/d/e/1FAIpQLSd_ykyZ2hxUECkFRrTA9FJEESoaNCH6jEQYjOKMr_NzQ-te6g/viewform
- Please write *Intro to Tax Justice I* under capacity building action

RECAP

- Session One:
- Tax and Justice
- Transfer Pricing
- Zambia Case Study
- Tax Treaties

Answers to Questions

- Data/stats
- What happens to money after it moves to a low tax jurisdiction
- Policy sessions

How is tax a justice issue?

- Tax rules can worsen or lessen inequality **within** countries and **between** countries

Some Facts:

- Every year, more than **\$500 bn** is lost globally to tax avoidance, over **\$200 bn** of this is lost from developing countries – more than they receive in aid
 - Just based on available data, close to 40% of multinational profits (more than \$700 billion in 2017) are shifted to tax havens each year – check available info for your country here: <https://missingprofits.world/>
 - Based on reports filed by the biggest multinationals to OECD members, over \$427 billion in tax each year to international corporate tax abuse and private tax evasion, costing countries altogether the equivalent of nearly 34 million nurses annual salaries every year – or one nurse's annual salary every second. – check if information is available for your country here: <https://www.taxjustice.net/reports/the-state-of-tax-justice-2020/>
- In addition, developing countries give away an estimated **\$138 billion in tax breaks** to companies.
- In 2010, IMF estimated that the money on the balance sheets of small island tax havens alone amounted to **US\$18tn** – *about a third of the world's financial wealth*(IMF Working paper 2010)
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Ireland and the UK: Top Five 'conduits'

Sinks	Conduits
Luxembourg	The Netherlands
Hong Kong	United Kingdom
British Virgin Islands*	Switzerland
Bermuda*	Ireland
Cyprus	Singapore

Source: Nature, July 2017

Other Places to Find information

- Tax Justice Network
- Global Alliance
- Eurodad

Where else?



What is the 'race to
the bottom' on
corporate tax rates?

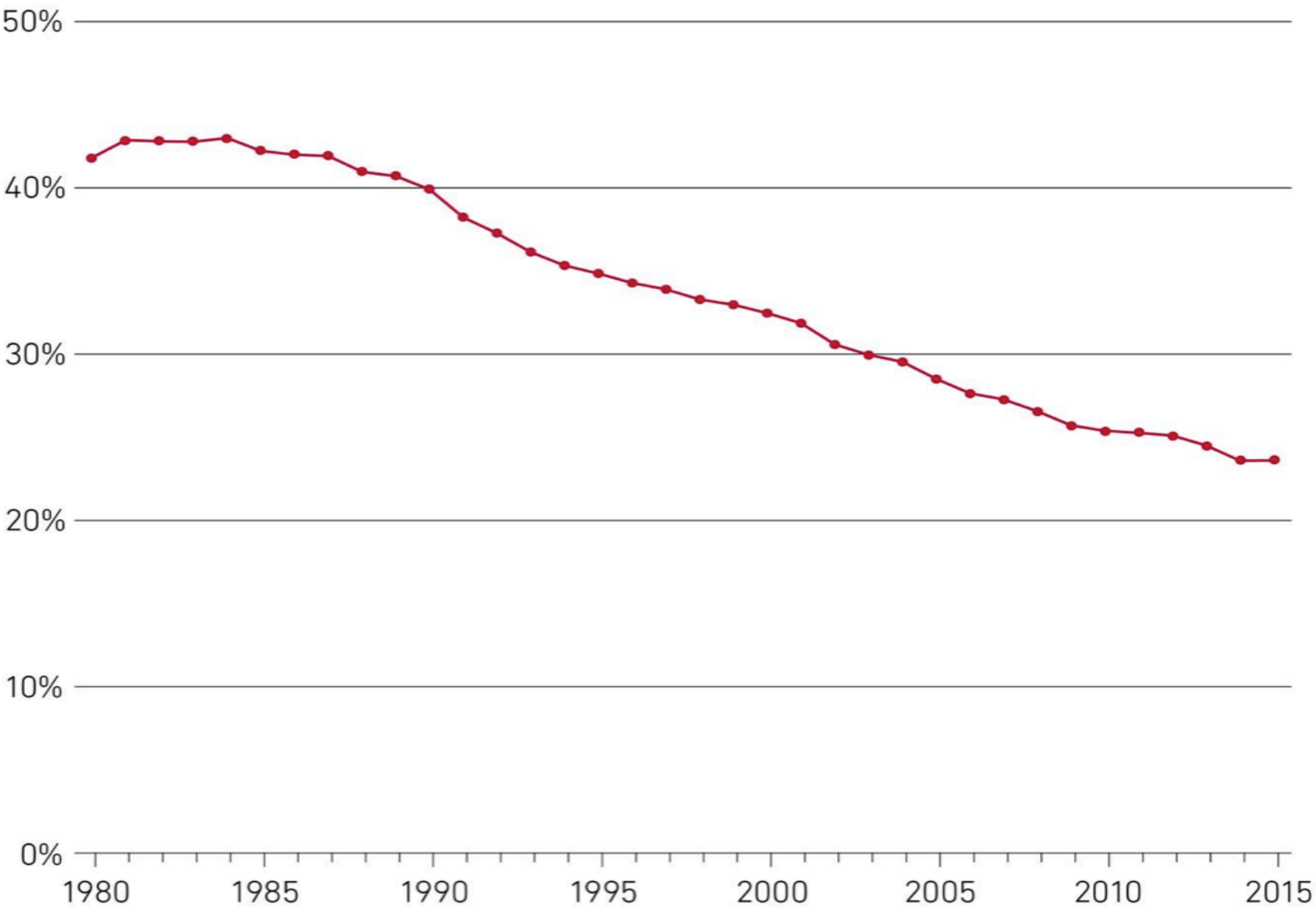
How should we decide where our tax take comes from?

- Government revenue comes from a mixture of income tax, corporation tax, 'wealth' taxes (e.g. capital gains, inheritance), & VAT
- As a global trend, when corporation tax reduces, VAT increases

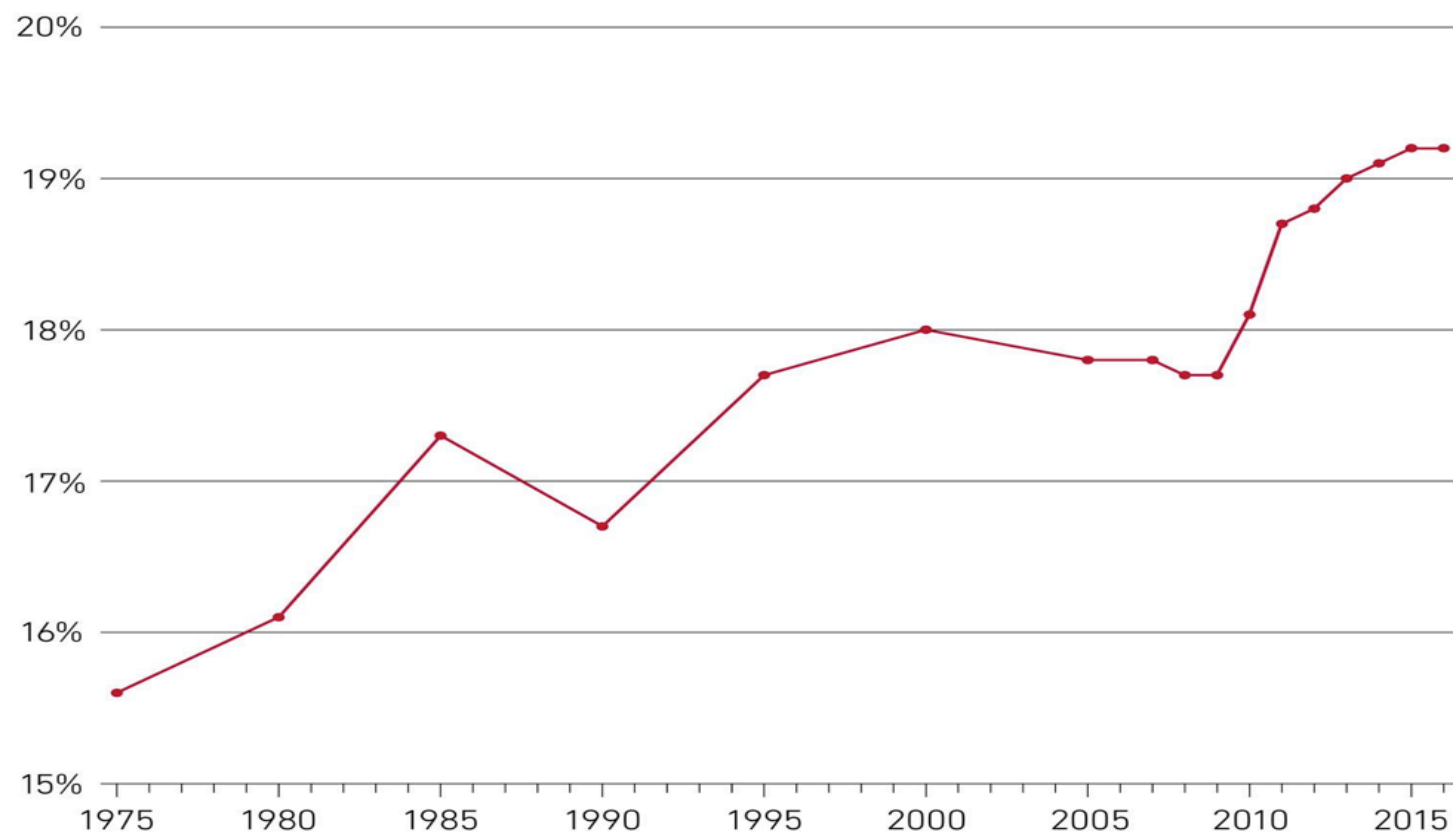


Global Corporate Income Tax Rate 1980-2015

Source: Eurodad calculations based on IMF data¹



OECD Average VAT 1975-2016



What system do we have now?

- Countries have system of 'double taxation treaties' often using OECD framework
- No international body governing tax rules
- OECD setting the rules and leading reform process – BEPS and BEPS II

What are the organisations currently setting tax rules ?

OECD – ‘Model Treaty’ + BEPS

UN – limited role

EU – EU countries only

OECD BEPS

- Base Erosion and Profit Shifting
- **Problems:** BEPS doesn't go far enough
- **OECD** – 'rich country club'
- Makes countries in global south rule-takers
- Introduced suite of anti-avoidance measures - Controlled Foreign Corporation Rules – provisions for taxation of profits of non-resident subsidiaries in low-tax jurisdictions
 - *Strengthening / Clarifying Application of Arms Length Principle for Transfer Pricing*
 - *Improved Transparency including re Tax Rulings and Preferential Tax Regimes*
 - *Country-by-Country Reporting – transparency mechanism to identify where MNEs make profits and pay taxes*
 - *General Anti-Abuse / Anti-Avoidance Mechanisms*
 - *Multilateral instrument*



EU Tax Policy

The EU

- does not have a direct role in collecting taxes or setting tax rates
- does oversee national tax rules in some areas (e.g to ensure the free flow of goods, services and capital around the EU)
- also promotes co-operation between MSs for tackling tax avoidance and tax evasion

European Commission

- work plan for 2021: digital taxation, energy tax directive, CBCR, FTT, CCCTB

European Parliament

- ECON and FISC committees

Council

- focus on tax challenges from digitalisation, economic recovery and taxation, and tax good governance

UN Tax Policy

Committee of Experts on International Cooperation in Tax Matters

- a subsidiary body of the ECOSOC (25 members)
- reviews the UN Double Taxation Convention
- capacity building and technical assistance

ECOSOC Forum on Financing for Development follow-up (FfD Forum)

- intergovernmental process
- reviews the Addis Agenda

Addis Ababa Action Agenda (AAAA)

- adopted in 2015
- the global framework for financing sustainable development in support of the 2030 Agenda

Global Tax Body



What are the alternatives?

Common Consolidated Corporate Tax Base:

A single set of rules to calculate companies' **taxable** profits in the EU.

With the CCCTB, cross-border companies would only have to comply with one, single EU system for computing their **taxable** income, rather than many different national rulebooks

What are the alternatives?

Unitary Taxation :

governments treat a multinational corporation as a group made up of all its local branches, instead of treating each local branch as an individual entity separated from the global chain. The profits that the multinational corporation declares as a group are then apportioned to each country where it operates based on how much of its real economic activity took place in that country.

Breakout Groups

Panama Paper



Tax seems
interesting:

Why should I care?

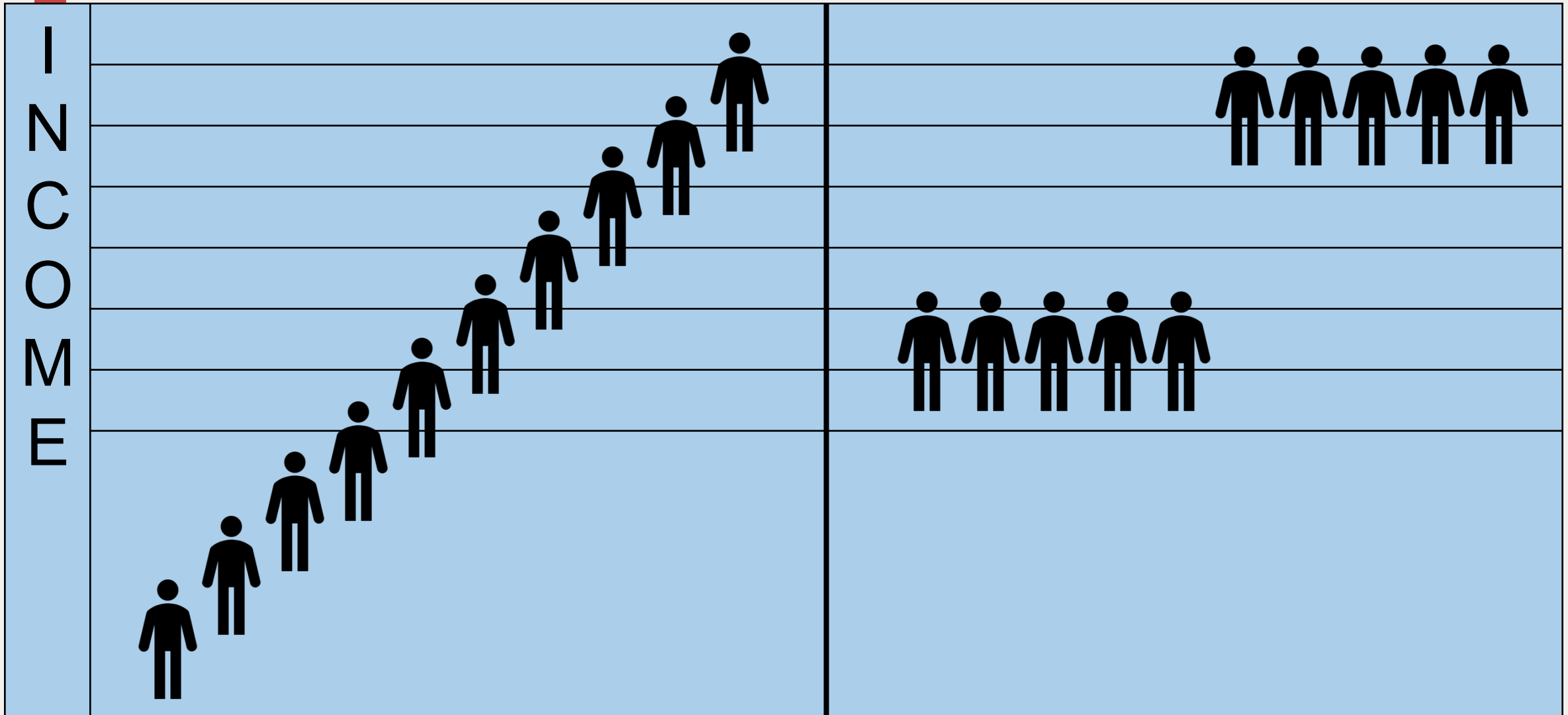
Reasons to care about tax while working on other issues

Revenue raised by taxes is necessary to fund other social policies

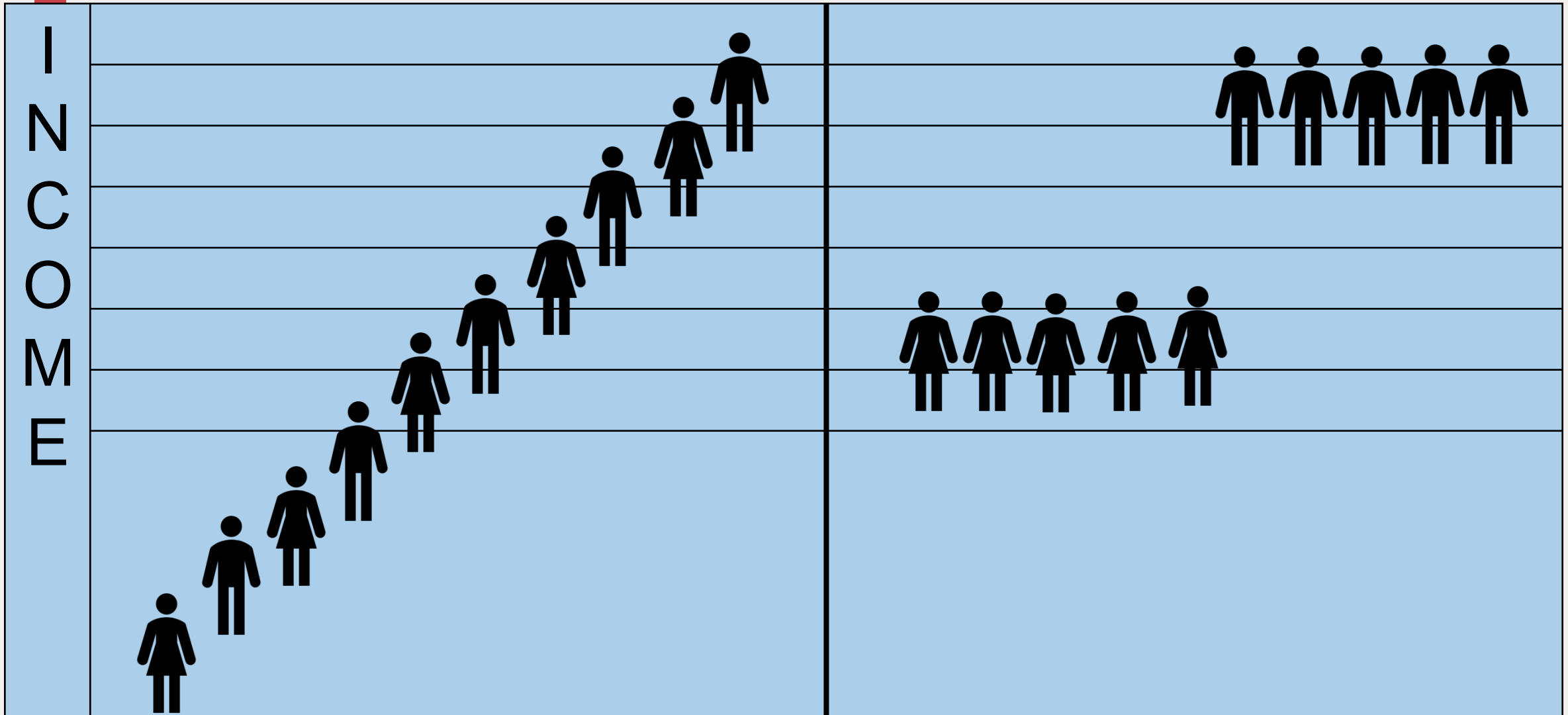
Money taken out of the system leads to inequality

Others??

Which should we prefer?



Which should we prefer?



Global days of action: key demands

- 1. Stop illicit financial flows and harmful tax practices that facilitate tax avoidance and tax evasion and are biased towards wealthy countries, multinational corporations, and the wealthy.
- 2. Reduce unfair tax burdens on women and adopt progressive and gender just taxation
- 3. Remove gender bias and discrimination in tax policies and laws.
- 4. Ensure tax and fiscal policies recognise and serve to represent, reduce and redistribute unpaid care work.
- 5. Increase allocation of tax revenues for gender responsive social services

Breakout group

- What issue do you see connections with?
- What kind of work on tax would you like to do?
- What support do you need?

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