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TAX HAVENS:

PROFIT FOR THE WEALTHY, PAIN FOR COMMUNITIES AND WORKING CLASS

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TABLE OF CONTENTS

This brief on tax havens and their implications on states' ability to realize human rights has been put together by members of the Economic Policy Working Group including; Center For Economic and Social Rights (CESR), Al Haq, Egyptian Initiative for Personal Rights(EIPR), Centro de Estudios Legales y Sociales (CELS) and Fundación para el Desarrollo de Políticas Sustentables (Fundeps)

INTRODUCTION

Tax avoidance, using legal loopholes and tax evasion by navigating the existing laws have long histories entwined with the capitalist global economy and financial system[1] and obfuscation of wealth accumulation - draining countries of crucial resources. As much of the world continues to struggle with maintaining some sense of public stability during the course of the Covid-19 pandemic, the hidden problems associated with tax havens have been even further exposed to the world. While many people are struggling to survive the disrupted economies and loss of millions of jobs via closed employment opportunities and reduced economic activities[2], financial capital and the wealthy have increased their wealth. It is therefore, incumbent upon all stakeholders to take action now, while the issue remains exposed by the pandemic, before it gets buried again under the various layers of tools available to those who seek to maintain the status quo of systemic inequality at the expense of the most vulnerable.

What are tax havens?

> Tax havens[3]: are jurisdictions with low or no income taxes as well as with elements of opaque banking structures undermining national and international laws and norms.

They provide the wealthy and multinational companies (MNCs) with the opportunities to escape their tax responsibilities and undermine rule of law.

The Corporate Tax Haven Index[4] 2019 by the Tax Justice Network estimated that governments around the world lose $500 million in corporate tax havens. The IMF[5], in the same period, estimated that rich countries lose $450 million and low-income countries lose $200 million in tax havens respectively. If invested in provision of public services, these financial resources could make a difference in addressing several issues.

- The low-income countries suffer more heavily than developed economies from fiscal abuse. They drain the equivalent of 5.5% of their financial receipts from tax payments by abusing the taxation law while high income countries lose the equivalent of 1.3%.

Why are tax havens a problem?

Corporations and wealthy individuals operate their businesses in both rich and poor countries worldwide. In both cases, they rely heavily on an extensive range of public services and benefits to achieve their business goals. These include health and education systems, roads, security and judiciary to protect their property, etc. All these services need to be paid for through progressive taxes, applied on those with the ability to pay but are currently not being paid.

Problem 1: ⚠

- MNCs often do not pay their fair share of these taxes by way of siphoning profits into tax havens[6] leading to reduced revenues for countries to tax.

Problem 2: ⚠

- Tax havens have led governments to impose unfair tax regimes and practices that expose the poor to overtaxation to cover for the huge budget and revenue deficits while these corporations and wealthy individuals maximize profits which are hidden in offshore accounts. Multinationals and global value chains have consistently taken advantage of low wages and cost of materials in the global south leading to accumulation while exploiting the poor.
  - Example: Kenya recently introduced a 16% VAT on cooking gas succumbing to pressure from the IMF at the expense of poor communities and citizens who heavily rely on cooking gas for household and domestic use.

Problem 3: ⚠

- Nearly 8% of the total global wealth is hidden in offshore accounts which are untaxed and thirdly, tax havens have led to unfair competition between multinational corporations and local enterprises, killing of local innovations and weakening of small and medium size enterprises.This is worsened by the subsidies and tax holidays that are often given to the multinationals by governments as incentives.

Problem 4:

- Tax havens have pushed countries to rely on external financing to deal with budget deficits, thus increasing their debt burden. The intersection of tax havens and global debt crisis has been worsened by the COVID-19 pandemic.

How do tax havens increase inequality, poverty and threaten human rights?

Since the start of 2020, inequalities have widened even further, and the failures of the predominant economic system, of which tax havens and tax abuse are a major component. According to Oxfam 2020, while over 400 million jobs (livelihoods) have been lost, 32 of the world's most profitable companies made $108 billion in profits in 2020, more than any other year. In contrast, $ 10.9 trillion was the value of unpaid care work in 2018[7], this figure could have increased as a result of COVID 19.

- **The global GDP grew by a mere 45% while in the same period, the global corporate profit growth was at 150 percent.**

This partly explains the current struggles by governments in the world (particularly in the Global South) to fulfill their human rights obligations, manage the pandemic and address the economic crisis, while operating in an extremely constrained fiscal space, with often overwhelming sovereign debt and increasing inequality.

International cooperation is needed to ensure corporations are taxed instead of competing for their capital which could eventually raise revenues for realizing human rights. **The loss of huge revenues perpetuated by multinational corporations and companies in taxes which could have been used instead to realise human rights, for example by providing public services will only exacerbate inequalities.**

Dramatically, in the same period, we have experienced an exponential increase in the number of billionaires in the world. In the US alone, 56 more individuals joined the ranks of America's most wealthiest[8] people bringing the total number of billionaires in the US to 659. In the same period, over 140 million [9]people who are poor or one emergency away from economic ruin live in the US. Much of this wealth is hidden in offshore accounts untaxed. On the contrary, 115 million people globally have been pushed into extreme poverty as highlighted by the World Bank[10] in the same period.

Tax havens benefiting from the pandemic

COVID-19 pandemic has not only exposed governments to further loss of revenue through tax havens, it has also revealed that low-tax jurisdictions (tax havens) are potentially sources of fiscal instability and corruption. Surprisingly, while the pandemic has ravaged and affected workers and small businesses, it has benefited large companies who are making immense profits.

These include the big technology companies, pharmaceuticals and producers of consumer goods.

<u>Example:</u>

- Facebook
- Pfizer
- Visa
- Zoom
- Amazon

Are all expected to reap big gains from the pandemic. Pfizer alone is expected to increase their profit margins by 21% in 2020-21. Zoom, which saw an unprecedented rise in consumption of its services as a direct consequence of the world going 'virtual' due to the pandemic, paid zero in corporate income taxes and reduced their worldwide income taxes by $300 million in 2020 "using stock based compensation". [11]

The more these corporations/companies generate in the form of profits, the more they give to their shareholders and the less taxes they submit to governments in their jurisdictions. The shareholders end up hiding their shares in offshore accounts untaxed instead of reinvesting in securing jobs and improving the working conditions of workers.

Tax havens, undermining human rights

Governments require financial resources to provide services essential to realizing rights. Under Article 2 of the International Covenant on Economic, Social and Cultural Rights, states are obligated to use the "maximum available resources"[12} to realize economic, social and cultural rights. They can generate this revenue in several ways, but taxation is generally the most important, sustainable and accountable source.[13]

- **When wealthy individuals and MNCs avoid paying a fair share of taxes, countries lose revenue that could otherwise be used to provide basic services, social protection and other investments essential to rights.**

Prior to COVID 19 pandemic, the debt crisis was already affecting several governments, the pandemic has only worsened the situation. With the current economic depression as a result of the pandemic, many governments are facing budget deficits and shrinking fiscal space. Consequently resorting to borrowing from international financial insitutitions and private creditors increasing their debt distress. This has pushed many countries into implementing drastic austerity measures to service debt obligations impacting negatively on recovery efforts, [14] further 85% of the 107 loans negotiated between the IMF and 85 national governments to respond to Covid 19 crisis indicate plans to undertake austerity.

Additionally to cuts that affect provision of rights such as health and education, the poorest households fall into debts to cover the basic needs such as housing, clothing, medicines and even food in a context of income decreases. This financial extractivism[15] leads to a greater precarization of the lives of people that are pushed to accept precarious job conditions in order to face their debts, and especially women's lives because of the increasing feminization of poverty.

What needs to be done to combat tax havens?

Here is growing momentum on a raft of progressive proposals which include:

- Amendments made to the UN Model Double Taxation Convention between developed and developing countries on Article 12B to tax all payments including automated digital services (like Amazon), excess profits tax applicable on tech giants that have turned a profit in the pandemic,[16] wealth taxes, global minimum tax between 25-30% on MNCs using local thresholds that correspond to the size of the economy, public country by country reporting of accounting and financial information by MNCs and public beneficial ownership registries of all legal entities.[17] The proposed 15% Global Minimum Tax by the G7 is a starting point, however, this needs to increase to between 25-30%.

- An urgent need for instigating more human-rights aligned political decisions regarding MNCs that are either registered or conducting operations via prominent tax havens, including denying access to corporate bailouts to them.

- The report by the High Level Panel on International Financial Accountability, Transparency and Integrity (FACTI) Panel report argues for inclusive and legitimate global body tax matters at the United Nations Economic and Social Council to address such systemic issues and ultimately provide a fair and impartial mechanism to resolve international tax disputes.[18]

- Systematic, rigorous and participatory assessments on the extraterritorial impacts of tax abuse by tax haven jurisdictions to inform economic policy reforms and agreements, so as to tackle constraints on fiscal space that undermine states' human rights obligations.[19]

FOOTNOTES

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