

# Tax Justice, Inequality and Public Services



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# Why Tax anyone?



## Tax and the public good



- Services for people
- Economic development
- Redistribute wealth to end poverty and create opportunity

## Public services and Economic Development



- ▶ Spending increases with development
- ▶ In Europe, Japan and USA government spending as % of GDP
  - 1870 – 11%
  - 1920 – 19%
  - 1937 – 24%
  - 1980 – 42%
  - 1996 – 45%

## History agrees with statistics

### ▶ Industries develop with public investment

- Roads
- Rail
- Air Transport
- Health
- Education
- Public Housing
- Internet

## Inequality – Getting worse

- ▶ Top 1% own 46% of global assets
- ▶ Richest 10% own 86% of global assets
- ▶ US\$ 10 Trillion in tax havens from poor countries
- ▶ US\$ 360 billion each year lost

## Inequality: Effects



- Economically inefficient
- Politically corrosive
- Socially divisive
- Environmentally bad
- Morally unjustifiable

## Public Services and Inequality



- Opportunity - education
- Well being - health
- Wealth redistribution
- Social security – sickness, pensions, child support

## The Myth of Private



- ▶ Cant provide universal coverage
- ▶ Those in need suffer
- ▶ Often inefficient – Health
- ▶ Short term – water and energy
- ▶ Prices go up to fund profit

## The unmet need



- ▶ Climate Change: extra 1.5% of global GDP needed
- ▶ Extra US\$15 Billion to fund health in 49 low income countries
- ▶ Pensions and health in developed north: extra 4.5% GDP needed
- ▶ US\$ 350 Billion to end extreme poverty

# Who do we tax?

## Taxation to Fund Public Services

- Workers: Income tax
- Consumers: Goods and services taxes, Tarrifs
- Wealth: land tax, wealth tax
- Corporations: Profit

## Workers

- ▶ Tax rates falling but mainly due to cuts in top rates
- ▶ Overall burden on workers increasing due to indirect taxes

## Consumers

- Goods and services taxes - regressive
- Usually used on things people need
- Poor pay more

## Very Wealthy

- ▶ Top levels of income tax dropping fastest
- ▶ Use of tax havens – pay little tax
- ▶ Land tax, Wealth tax – politically unpopular

## Corporations

- ▶ US profits tripled to \$US1,200 bill (1990 to 2010)
- ▶ Profits globally 25% GDP (1983) to 35% (2008)
- ▶ Global corporate income tax halved to 2.4% (2008)



And the answer is.....



## Tax Multinational Corporations More (and maybe the wealthy a bit)

- ▶ The methods used to tax multi national corporation largely capture the very wealthy
- ▶ Very wealthy: consider national land taxes – as cant hide them

## Opportunities: Corporations



- Tax Losses: UK (30 Billion) Germany (40 Billion) USA (100 Billion)
- US\$ 100 billion annually lost to developing countries
- If Corporations paid their taxes in Africa the increase would be more than the total inflow of aid

## Africa subsidises the rest of the world



- Between 1970 and 2004 – capital flight from 40 Sub Saharan African countries was 607 Billion  
BUT
- 227 Billion in Debt owed in 2004
- While governments have debt – private individuals hold more than double those assets – mainly in tax havens

## Revenue lost to government from transfer pricing alone

- Zimbabwe 31%
- Cameroon 17%
- Philippines 30%
- Malaysia 15%
- Costa Rica 22%
- Mali 25%

## Giant corporations that have basically stopped paying taxes

General Electric; Boeing; Exxon Mobil;  
Verizon; Kraft Foods; Citigroup; Dow  
Chemical; IBM; FedEx; Honeywell;  
Apple; Pfizer; Google; Microsoft;  
Merck

## What Warren Thinks



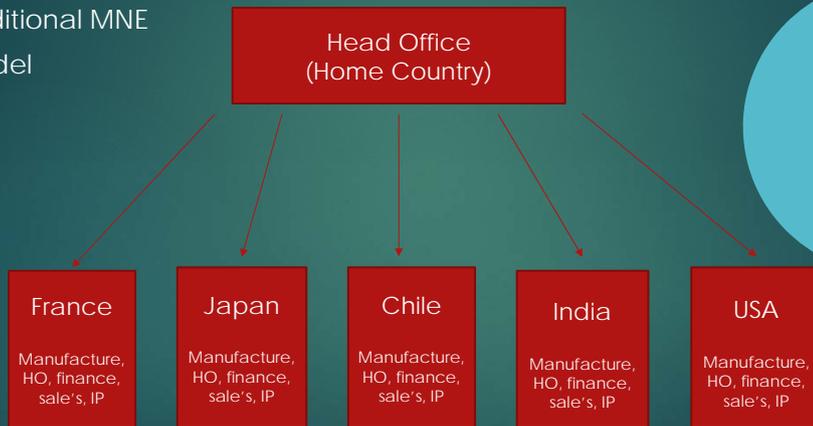
*There's class warfare, all right,  
but it's my class, the rich class, that's making war,  
and we're winning.*

-Warren Buffet (world's third wealthiest person in 2011)

# How do they do it?

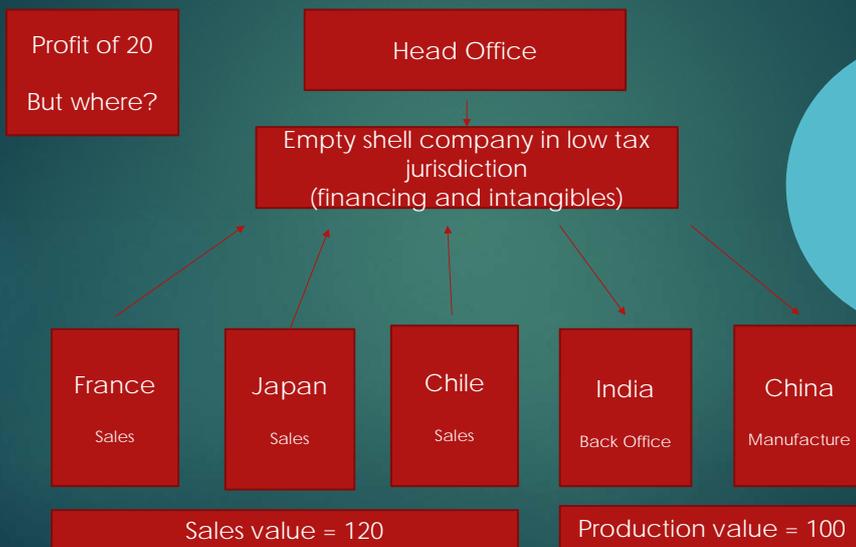
# How does transfer pricing work?

Traditional MNE Model



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# MNE Structure based on Global Value Chains



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## What do the rules say?

- ▶ Arms length principle
- ▶ Must price goods as if they were in the market
- ▶ Uses comparables

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## Problems with the rules

- 80 years old
- Intangibles (brands, patents, methods)
- Debt, loans and interest
- Inflated deductions (management costs)

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## More problems with the rules

- Do local tax authorities have expertise and capacity to determine?
- Political problems of prosecution
- Tax competition

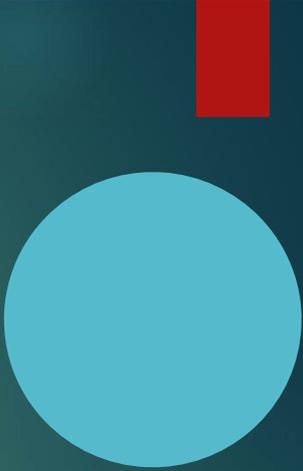
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## MNE Structure based on Global Value Chains

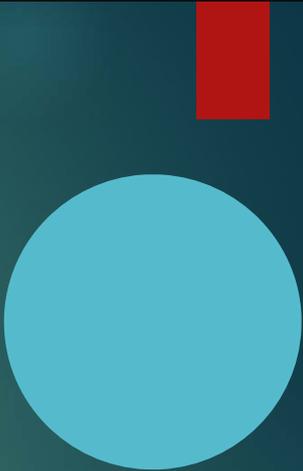


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# Why now?



## G20, OECD and BEPS After 80 years – why now?



- ▶ Financial crisis and austerity
- ▶ G20 Statement
- ▶ OECD – Base Erosion and Profit Shifting (BEPS)
- ▶ Time frames – 30 months

“National tax laws have not kept pace with globalisation of corporations and the digital economy, leaving gaps that can be exploited by multi-national corporations to artificially reduce their taxes” OECD

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## BEPS reform: Transfer pricing

- Country by country reporting (8)
- Transfer pricing documentation (8)
- Intangibles (8)
- Digital Economy (1)
- Hybrid mismatch (2)

## BEPS: Co-ordination

- ▶ Automatic exchange of information
- ▶ Treaty Abuse – Reserve clause (6)
- ▶ Harmful tax practices (5)
- ▶ Multilateral Instrument (15)

## Fix the system or change the system?

- ▶ Current system is based on old global production model
- ▶ Dysfunctional Global Tax Governance
- ▶ OECD makes rules
  
- ▶ Is there an alternative?

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## Unitary taxation and formulary apportionment

- ▶ Calculate whole companies profit
- ▶ Tax total amount of profit
- ▶ Divide tax revenue amongst participating countries
  
- ▶ FTT/ Brazil/ California

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# What can we do?

## Tax is political not technical

- ▶ Winners and losers
- ▶ Politics and interests – how we talk about taxes
- ▶ Have the debate
- ▶ We can make change

## Tax as competition (like wages)

- ▶ Answer is to co-operate (like unions)
- ▶ Tax co-operation
- ▶ Regulate – like the labour market

## Having the debate

- Expose the injustice
- Simplify the arguments
- Show who benefits
- Simple alternatives

## Current Frame: Investment and Jobs

OECD lists the most important concerns of investors:

- Political stability
- Infrastructure – roads, ports, electricity, water
- Natural resources
- Education and skills
- Access to markets

Tax comes way down the list – many are government services that require tax

## Our job – create the political will

- ▶ Work with civil society allies
- ▶ Reach out to private sector unions
- ▶ Influence your national centre
- ▶ Pressure our governments
- ▶ Make sure our governments pressure the global rule makers (OECD & G20)

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