Tax Justice: Report Documents Global Tax Losses

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News

On 20 November 2020, the Tax Justice Network published the State of Tax Justice 2020 report. The report is the first of its kind on tax evasion that comprehensively identifies the amount of tax revenue each nation loses every year to corporate and private tax abuse. The report also analyses what the loss in taxes means for public health spending, in particular in times of COVID-19. In addition, it provides an annual "snapshot" of country-by-country rankings on the Tax Justice Network's Corporate Tax Haven Index and Financial Secrecy Index. The countries' vulnerability to illicit financial flows is tracked by the Tax Justice Network's vulnerability tracker.

The report revealed that countries are losing a total of over $427 billion in tax revenue annually due to international, corporate tax abuse and private tax evasion. This is the equivalent of nearly 34 million nurses' annual salaries every year – or one nurse's annual salary every second. Other key findings of the report include:

- Of the $427 billion, nearly $245 billion is lost because multinational corporations shift profits into tax havens.
- The remaining $182 billion is lost because wealthy individuals hide undeclared assets and incomes offshore, beyond the reach of the law.
- On average, the world's nations lose the equivalent of 9.2% of their health budgets to tax havens every year.
- Higher-income countries lose a lot more tax than lower-income countries, but the impact is far greater on the latter – in comparison to the amount of tax they typically collect and to health expenditure, they lose more proportionally: whereas tax losses in higher-income countries are equal to 8% of their public health budgets, tax losses in lower-income countries are equal to over half their public health budgets (52%).
- A regional comparison of tax losses reveals the same pattern, i.e., less tax revenue is lost in North America and Europe, on the one side, whereas considerable tax revenue is lost in Latin America and Africa, on the other;
- The biggest tax losers are: (1) the United States, (2) the United Kingdom, (3) Germany, (4) France, and (5) Brazil;
- Higher-income countries are responsible for facilitating nearly all global tax losses (98%), while lower-income countries are responsible for less than 2% of all global tax losses.
- Over one third of lost tax revenue is enabled by jurisdictions that fall under the UK's network of Overseas Territories and Crown Dependencies, such as the Cayman Islands (this network, which facilitates corporate and private tax abuse and has the City of London at its centre, is also called the UK's spider's web);

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ISSN: 1862-6947
https://eucrim.eu

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- Over half of global corporate tax abuse is enabled by the UK (with its Overseas Territories and Crown Dependencies), the Netherlands, Luxembourg and Switzerland – labelled as the "axis of tax avoidance";
- EU-blacklisted jurisdictions cause only 1.72% of global tax losses (costing countries over $7 billion in lost tax revenue annually), while EU Member States cause 36% (costing countries over $154 billion in lost tax revenue annually).

The Tax Justice Network highlights that "(a)lmost every person in almost every country in the world foots the bill incurred by tax abusers. People suffer needlessly poor public services, needlessly deep inequalities, needlessly high rates of death, needlessly weak and corrupt governments and public administrations. Only tax abusers and the very wealthy in tax havens win, at the cost of everyone else." Against this background, the authors of the report make three key recommendations to governments:

- Introduce an excess profits tax on large multinational corporations, e.g., for digital tech giants, that is designed to cut through profit-shifting abuse;
- Introduce a wealth tax to fund the Covid-19 response, with punitive rates for opaquely owned offshore assets;
- Establishing an UN tax convention that sets international standards for corporate taxation and for the necessary tax cooperation between governments in a transparent and democratic way.

The global community is called on to get involved in a fundamental reprogramming of the global tax system, which requires comprehensive rewriting of international tax rules and tax transparency measures.

The "State of Tax Justice 2020" report is based on OECD data, which aggregated country-by-country reports on multinational corporations' profits and tax revenues (published in July 2020). The report analyses these data in a systematic way for the first time. Unlike previous studies, it focuses on direct losses and singles out indirect losses from global corporate tax abuse, which allows a clearer picture of tax loss estimates to be painted.

Alongside the report, the Tax Justice Network launched a publicly available online data portal that contains additional data, detailed estimates of lost tax revenue on a country-by-country basis, data comparisons by regions, and a range of other issues discussed in the published report.

The report immediately triggered reactions from the European Parliament. In a press release dated 20 November 2020, the chair of the EP's subcommittee on tax matters, *Paul Tang* (S&D, NL), said that the EP shares many of the concerns in the report regarding the EU's record on tax avoidance. He added that "some of the countries that seem responsible for most of global tax losses are not on the blacklist of the European Union." He called on the Council to justify its removal of the Cayman Islands during the last update in October 2020. He also announced an EP resolution on the process of listing non-cooperative jurisdictions for tax purposes (à separate news item).

German MEP *Sven Giegold* (Greens/EFA) voiced his disappointment over the fact that Germany and the UK had refused to make public tax data on multinational companies. He demanded that large companies be obliged to disclose their profits per country as well as the taxes paid on them. In a second step, a minimum tax rate for corporations must be established.

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The project is co-financed by the Union Anti-Fraud Programme (UAFP), managed by the European Anti-Fraud Office (OLAF).

Co-funded by
the European Union