Education International
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POLICY BRIEF

TAX AVOIDANCE BY MULTINATIONALS

Global Corporate Taxation and Resources for Quality Public Services

Report by Education International edited by Bob Harris and Laura Figazzolo

In the context of current austerity policies triggered by economic crisis, unions have been asked to accept severe cutbacks and austerity measures on the basis that there is no money available. This is not true!

Did you know?

- Trillions of USD, Pounds and Euros are lost annually to societies through tax avoidance and evasion – **enough to provide the resource needs** of the UN Millennium Development Goals (MDGs) and the budget requirements for social services in industrialized countries.
- This **money is not collected through taxation** because multinational companies use their global reach and legal loopholes to avoid fair fiscal obligations. Tax laws are national while the economy is global and that has created unprecedented opportunities for tax minimization and avoidance.

What does research say?

The report commissioned by the EI Research Institute has collected evidence that there is enough money to provide quality public services, including education, for all!

Existing research on **capital held offshore** estimates that about **$10 trillion goes untaxed each year**. In addition, international financial flows, both legal and illegal are estimated to account for somewhere between $ 1 and $1.5 trillion. Of that amount more than 60% are commercial transfers, including abusive transfer pricing, mispricing and fake transactions. In terms of the rates of return in 2005 dollars, the ensuing tax **loss due to offshore holdings is $250 billion.** That amount is more than three times the OECD countries' official development assistance to the entire world. Furthermore, over the last twenty years, statutory **corporate tax rates have fallen by a third**, from around 45% to less than 30% on average in OECD countries while revenues stagnated and profits rose. The strategies that multinationals use include **tax havens, tax arbitrage** (when countries compete with reductions and breaks to attract investment), and less well known technique of **transfer pricing** when trade is happening within global corporations.

Public services are not charitable expenses. Corporations themselves **use public services** provided by the state. They benefit from a state's transportation infrastructure—the roads, railways, airports, and harbours used to receive materials and to move products to market. Corporations also benefit from public safety services, including police, fire, and medical emergency services. The state judicial system protects their contractual, intellectual property, and other legal rights. Corporations also **depend on the public school systems** to produce an educated workforce — an especially important role in the information society of the 21st Century. High-quality school systems also help attract qualified employees.

What can be done?

- Closing tax loopholes and implementing proper international tax regulation, and abandoning government incentives to reduce and avoid taxes.
- Advocate for a new taxation system, based on formulary apportionment when global corporations would pay taxes in countries where they operate, proportionally to their sales or operational costs.
- To achieve this, political will is required but also the widespread acceptance of tax avoidance as a legitimate goal of corporations must change.
- Link up with Education International and other Global Tax Justice Campaigns like Action Aid's

LINK TO THE FULL REPORT

http://www.ei-ie.org/en/websections/content_detail/3272