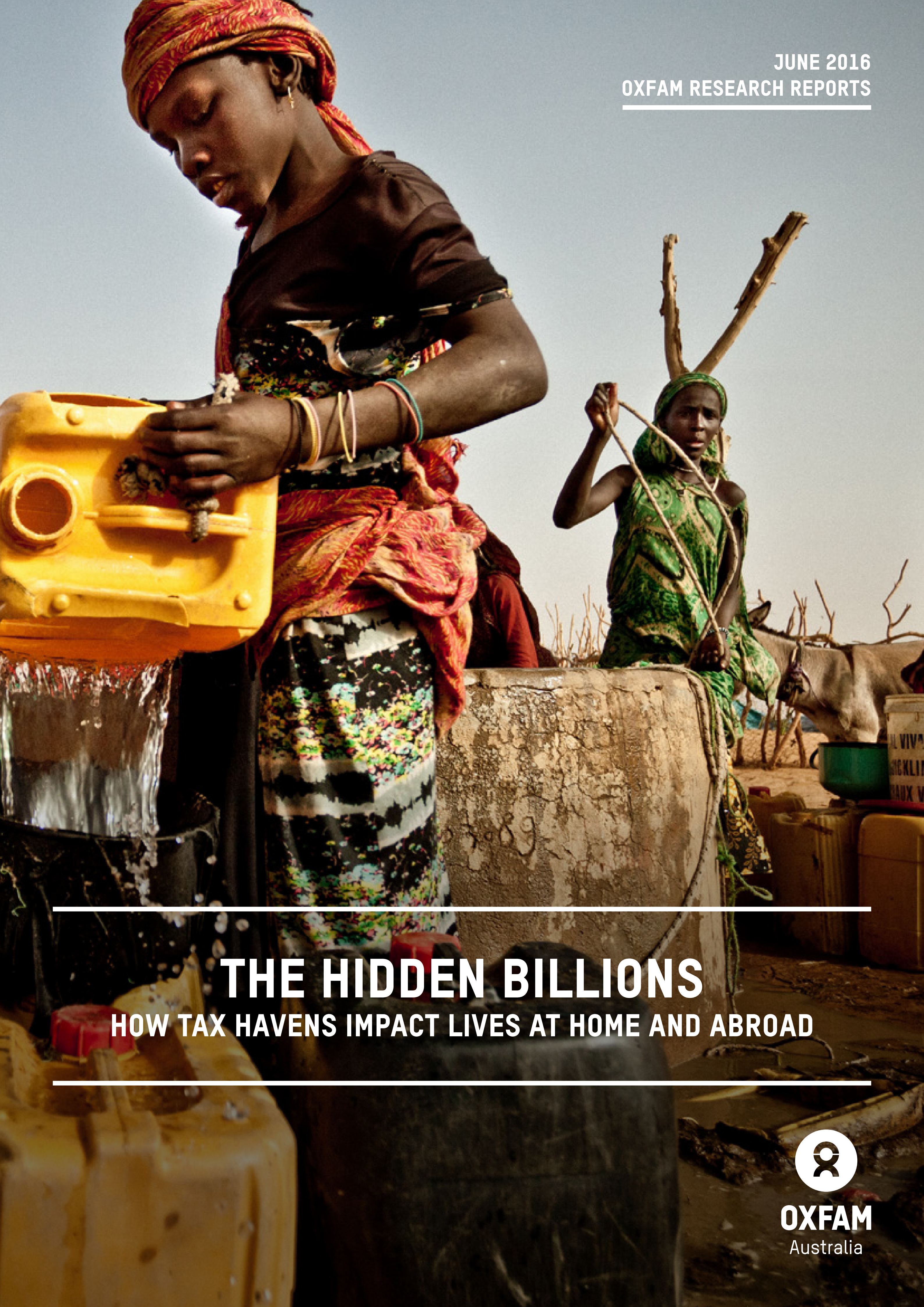


JUNE 2016
OXFAM RESEARCH REPORTS

THE HIDDEN BILLIONS

HOW TAX HAVENS IMPACT LIVES AT HOME AND ABROAD

OXFAM
Australia

Kyamirambo, Rwanda: Six-year-old Hamida writes on a blackboard used by her father who is a teacher. Photo: Simon Rawles/Oxfam.

Front cover:
Natriguel, Mauritania: Fari Awade draws water from one of the few wells that haven't run dry in the drought. Photo: Pablo Tosco/Oxfam.

CONTENTS

Horijon Polli, Bangladesh: Shobnam lives in a slum in which all residents are from the low-caste Hindu sweeper comminuty. Photo: Tom Pietrasik/Oxfam.

ENDORSEMENTS

"Tax havens play no meaningful role in the world economy beyond minimising the tax paid by multinational corporations. The Oxfam report highlights the fiscal cost of tax havens, but also what this means for addressing poverty and underdevelopment.

"As recommended in the report, added transparency of multinationals' tax affairs, along with society's expectations about corporate responsibility and increased consumers' and investors' activism ought to be part of the solution. Greater international collaboration, which has been achieved in other issues such as money laundering, will also help."

Professor Flavio Menezes
School of Economics
University of Queensland

"As Jeff Sachs rightly points out, tax havens do not just happen. These are creations of the wealthiest and most powerful in our society. Advanced countries' governments are now dominated by giant multinational oligopolies, and bringing to end this abusive global system is by no means an easy task. However, good men and women should never pass by on the other side."

Professor Geoff Harcourt AO FASSA FAcSS
Emeritus Reader in The History of Economic Theory, Cambridge, 1998
Emeritus Fellow, Jesus College, 1998
Professor Emeritus, Adelaide, 1988
Visiting Professorial Fellow, UNSW Australia, 2010–2016

"Oxfam have yet again prepared a strikingly important report on one of the major impediments to development, this time on tax avoidance through tax havens.

"All citizens of developing countries (as well as of Australia) are deprived of accessible and high quality essential services because of the loss of public revenue that this immoral tax avoidance causes. It is essential that all countries strengthen tax law to require publication of company ownership and structure, and of profits earned so that statutory taxes are paid. Establishment of a United Nations advisory International Taxation Office has become essential to facilitate collaboration between countries about passage and enforcement of their tax legislation."

Professor John Langmore
School of Social and Political Sciences,
University of Melbourne
Former Member for Fraser in the Australian Federal Parliament

"The market for providing financial services to the very rich — including profitable multinational companies — is characterised by international competition. This Oxfam report helps to quantify an often unobserved side-effect of this market: the provision of financial services that enable multinational corporations to substantially lower the tax they pay in the countries where real economic activity takes place. The market for such services will operate as long it is economically advantageous and politically feasible for both sides of that market to transact.

"If the international community wishes to put pressure on the players in this market, then it should work towards the imposition of economic and/or political consequences for those who use or provide these services. What would become of the tax revenue presently lost to other nations via "tax haven" services, if collected, is not obvious. Nonetheless, this Oxfam report suggests several promising policy options that pursue increased transparency and an increase in the costs of providing or using special financial services that can assist the multinational corporations in their tax avoidance efforts."

Associate Professor Gigi Foster
School of Economics
UNSW Australia

"Tax avoidance is a direct attack on civil society. Human experience — codified by economic theory — has taught us that there are some things which individuals, corporations and markets do well. However, there are things vital to a well-functioning human society that require collective action. Such collective action needs funding and without it, it won't occur. In that sense, tax avoidance and the tax havens that facilitate it are a travesty."

Associate Professor Tony Bryant
School of Economics,
Macquarie University

EXECUTIVE SUMMARY

Despite there being enough food for all, we live in a world where one in nine people still go to bed hungry each night. This is a world where just 62 individuals hold the same amount of wealth as the poorest half of the world's population, and where hundreds of thousands of people still don't have access to basic services such as health care or clean and safe drinking water.

The persistence of these extremes has led Oxfam to ask "What is keeping this unfair system in place?" The answer lies, at least in part, in unchecked power and hidden financial systems in which money is unavailable for essential public services because it sits instead in the coffers of wealthy corporations and individuals. One of the great contradictions of our "information age" is that while we are overwhelmed by information, the most powerful individuals and companies in our society are still able to operate in secrecy — with limited accountability and transparency.

Recently, the Panama Papers leaks brought to light a fraction of the murky underside of a hidden financial system: one that allows big business and the super-rich to hide billions of dollars that they should be paying in tax. These leaks revealed thousands of examples of questionable practices. From Australia alone, more than 800 cases came to light and are now being investigated by the Australian Taxation Office (ATO). Perhaps even more astounding is that Mossack Fonseca — the firm at the heart of the Panama Papers — is just one company among many involved in this practice.

In this report, Oxfam Australia has undertaken original research and modelling to show that Australian-based multinationals are ripping billions of dollars both out of the Australian economy, and the economies of some of our poorest neighbours. We use the most up-to-date global data on investment flows to show the scale of this problem, and the potential impact it is having on services for everyday people around the globe.

Using this approach, we can reveal that **as a result of tax dodging by Australian-based multinational corporations, the Australian public missed out on an estimated AUD $5-6 billion in 2014 (USD $4-5 billion),** that could have otherwise been spent on essential public services such as hospitals or schools. (Note that throughout this study, where we report on impacts within Australia, we have used Australian dollars, and have also provided conversions into US dollars. For figures outside Australia, and projections over time, we have used US dollars.)

We can also reveal that developing countries fared much worse. Globally, Oxfam has found that more than one in every $2 of private foreign investment in developing countries came from a tax haven in 2014. This resulted in an estimated USD $638 billion in profits being "shifted" to tax havens. **The tax on this amount — which has been ripped out of 110 developing countries — is estimated to be around USD $172 billion in foregone revenue.** We have provided more detail on each of these figures below. **Thirty-three of the developing countries that received the largest amount of investment by Australian-based multinationals, had an estimated USD $2.3 billion in tax revenue ripped from them.**

Our research also looks at the impact that this tax dodging by Australian-based multinationals is having on the ability of some of the world's poorest countries to invest in essential services, like health and education.

Nations like the Philippines, for instance, are missing out on revenue from Australian-based companies that could build an estimated 1,700 new classrooms per year[1]. In Ghana, funding lost due to the use of tax havens by Australian-based multinationals could pay for an estimated additional 1,400 primary school teachers, and nearly 600 nurses, a year.

Similarly, Papua New Guinea (PNG), our closest neighbour, is losing out on funds for water and sanitation that could otherwise build 1,000 clean toilets a year. Students like Rebecca Mark, from the Eastern Highlands of PNG, are just some of the 60% of people across that nation who have limited access to improved water and sanitation. Until Oxfam worked with Rebecca's school to build these facilities, she and her fellow students had to walk to a nearby river when they were thirsty, cupping it in their hands to drink. After going to the toilet, they washed their hands at a muddy waterhole in the school grounds[2]. Tax dodging practices take much-needed revenue away from governments — money that could otherwise be spent on essential services like clean water and sanitation.

While there isn't country-by-country public reporting of the tax affairs of big companies, Oxfam Australia has produced estimates[3] that reveal the extent of the tax-dodging being undertaken by multinational corporations and the subsequent impact on vulnerable communities — it's in the billions of dollars. This secrecy under which multinationals companies operate is itself a major concern, and one which Oxfam is calling on to be reversed.

1 See Chapter 5 for details of this and other essential services calculations.

2 See case study page 33.

3 See Chapter 4, and the Technical Appendix for more information about the econometric modelling undertaken.

Transparency is critical if poor countries are to receive the money they need for life-saving public services. Money that should be going towards schools, hospitals, clean water and other social safety nets for ordinary people is instead ending up in the pockets of some of the world's wealthiest corporations and individuals.

It doesn't have to be this way.

Australia can take action now by making public the tax affairs of the large companies that operate here — not only their tax affairs in Australia, but in every country in which they operate. We know this is possible. Other countries, including the United States[4], Canada[5], and in Europe[6], have made country-by-country tax-transparency a reality in certain industries. For the Australian Government, the choice is clear: side with the multinational corporations who engage in these tax-dodging practices, or side with humanity and make the changes needed to do so.

"The abuses are not only shocking, but staring us directly in the face. We didn't need the Panama Papers to know that global tax corruption through the havens is rampant, but we can say that this abusive global system needs to be brought to a rapid end. That is what is meant by good governance under the global commitment to sustainable development."

Professor Jeffery Sachs[7]

In this report, Oxfam looks at the practice of corporations using tax havens to shift profits. There are many ways multinational corporations minimise their tax bills. One of the popular ways is to set up shell companies in tax havens.

4 The Dodd-Frank legislation passed in the US in 2010, when implemented, will require all mining, oil and gas companies listed on US stock exchanges — including Australian mining giants — to report on taxes paid to governments in the countries in which they operate.

5 In 2014 the Canadian Government passed the Extractive Sector Transparency Measures Act, requiring oil, gas and mining companies to report on payments they make to governments — both domestically and internationally — on a country-by-country and project-by-project basis. The Act came into force in June 2015.

6 In March 2013, French MEPs introduced an ammendment to the Banking Law No. 2013-672, requiring French banks to disclose information regarding their activities (turnover, number of staff and subsidiaries) in each country where they operate. The same requirement has been implemented at the European level, with the addition of profits, tax paid and public subsidies received, in the CRD IV directive adopted in June 2013. The French banking law was adopted in July 2013.

7 This is a quote from Professor Jeffery Sachs in support of Oxfam's open letter to world leaders entitled "Tax havens serve no useful economic purpose", May 2016.

Shell companies exist on paper and have little or no actual business activity associated with them. Multinationals then get those shell companies to provide loans to a subsidiary located in a third country. Routing investments this way enables multinational corporations to exaggerate payments on the loans in the third country, thereby "shifting" profits back to the tax haven where they pay little or no tax on those "shifted" profits. That's why it's worrying when there's a lot of investment coming through tax havens — it's a tell-tale sign that profits are being shifted offshore, and money that should be paid in taxes is being hidden.

CORPORATE TAX DODGING IS COSTING AUSTRALIA

Oxfam estimates that nearly **one in every $5 of overseas investment in Australia came from a tax haven in 2014.** This means around USD $16 billion (AUD $19 billion) in profits was "shifted" via tax havens in that year. We estimate that this **"offshoring" cost Australian taxpayers between USD $4-5 billion** (AUD $5-6 billion) in 2014. To put the scale of the loss in perspective, this is around twice as much as the Victorian Government[8] is planning to invest in schools over the next four years[9]. In other words, Australians are losing out on revenue of around $4-5 billion annually that could go to schools or hospitals, or other essential public services in Australia.

AUSTRALIAN TAX LOSSES IN 2014

One in every $5 of foreign investment came from a tax haven.

USD $16 billion (AUD $19 billion) in profits was "shifted" to tax havens.

Between USD $4-5 billion (AUD $5-6 billion) in tax revenue was lost to Australia.

8 Victorian Government, *Victorian Budget 15-16*, 2015, page 9

9 The 2015/2016 Victorian Government Budget invests $2.9 billion in schools (education spending) over the next four years.

GLOBAL TAX DODGING IS ALSO STARVING DEVELOPING COUNTRIES OF MUCH-NEEDED FUNDS FOR DEVELOPMENT

Our analysis shows that, in 2014, **more than one in every $2 of private foreign investment in developing countries globally came from a tax haven.** We estimate that approximately USD $638 billion in profits was shifted out of developing countries by multinational corporations operating all around the world. This resulted in around **USD $172 billion of tax revenue being ripped out of developing countries.** Money that is desperately needed for schools, hospitals, roads and other essential services that fight poverty and generate prosperity.

> **DEVELOPING COUNTRY TAX LOSSES IN 2014, DUE TO GLOBAL USE OF TAX HAVENS**
>
> One in every $2 of foreign investment came from a tax haven.
>
> USD $638 billion in profits was "shifted" to tax havens.
>
> USD $172 billion in tax revenue was ripped out of 110 developing countries.

AUSTRALIAN-BASED MULTINATIONAL CORPORATIONS ARE PART OF THIS GLOBAL PROBLEM

Multinational corporations based in Australia[10] are also responsible for starving developing countries of tax revenue: they are part of this global problem.

Using classifications by international organisations, we have identified 20 tax havens that were used by Australian-based multinationals. These include **Mauritius, Singapore, Ireland[11], the Netherlands, Malaysia (Labuan), and Hong Kong.** Investments in these 20 tax havens increased by 40% (or USD $22.7 billion) between 2009 and 2014.

Based on our estimates of the money flowing from Australia through tax havens and then onto developing countries, we estimate that **USD $7.7 billion in profits were "hidden" in tax havens** by Australian-based multinationals in 2014. "Shifted" profits mean unpaid tax, and this report shows that **Australian-based multinationals using tax havens are depriving developing countries of an estimated USD $2.3 billion in tax revenue every year.**

Large developing countries such as India and Brazil, as well as **neighbouring countries such as PNG, Indonesia, the Philippines, and Thailand are being starved of millions of dollars in tax revenue** — and Australian-based multinational corporations are part of the problem.

> **DEVELOPING COUNTRY TAX LOSSES IN 2014, DUE TO AUSTRALIAN-BASED MULTINATIONALS USING TAX HAVENS**
>
> USD $7.7 billion in profits was "shifted" to tax havens.
>
> USD $2.3 billion in tax revenue was ripped out of 33 developing countries.

TAX DODGING IS DEPRIVING SOME OF THE WORLD'S POOREST PEOPLE ACCESS TO ESSENTIAL SERVICES SUCH AS EDUCATION, HEALTH, CLEAN WATER, AND SANITATION

The world's poorest people, and women in particular, bear the brunt of harmful tax dodging — they are the human face of tax dodging. Oxfam has investigated past spending by governments in developing countries to credibly estimate how much they are *likely* to spend on health, education, clean water, and gender equity services (such as programs to help stop violence against women and girls), with the money that Australian-based multinational corporations are shifting out of developing countries through tax dodging. On this basis, we estimate that **over the next five years, USD $4.1 billion in potential spending on essential services will be ripped out of some of the world's poorest countries.**

Of this, our modelling shows that USD $2.1 billion would have been spent on education, and around USD $1.5 billion on health, water, and sanitation. It also shows that about USD $33 million is being torn from programs that would otherwise have targeted gender inequality and help improve conditions for women in developing countries, and that USD $500 million is also being lost to social protection programming expenditure.

> **ESTIMATED LOSSES IN ESSENTIAL PUBLIC SERVICES IN DEVELOPING COUNTRIES, DUE TO AUSTRALIAN-BASED MULTINATIONALS USING TAX HAVENS**
>
> Annual loss in tax revenue in 2014: USD $2.3 billion.
>
> Total projected tax loss 2015 to 2020: USD $13.6 billion.
>
> Total projected loss in essential services spending 2015 to 2020: USD $4.1 billion.
>
> BREAKDOWN OF THE TOTAL PROJECTED LOSS IN ESSENTIAL SERVICES:
> Education: USD $2.1 billion
> Health and sanitation: USD $1.5 billion
> Social protection: USD $500 million
> Gender equality: USD $32 million

What's more, our data shows that the biggest impact is on developing countries in our own region. Over the next five years for instance, we estimate that **Indonesia will be deprived of USD $360 million that could go towards education,** and **PNG** — one of Australia's poorest neighbours and a recipient of substantial investment from Australia — **stands to lose around USD $17 million in expenditure that could go to providing essential services.**

WHAT CAN THE AUSTRALIAN GOVERNMENT DO?

Australia is part of this global problem. At a time when inequality is worsening around the world, and fighting extreme poverty is harder than ever before, we are calling on the Australian Government to act swiftly. We've heard a lot in Australia about the need to crack down on tax dodging, but the solutions proposed so far — while a step in the right direction — do not go far enough.

Tough talk by politicians has not resulted in enough policy change to really tackle multinational tax avoidance. We need to know which Australian-based companies are dodging tax and by how much. This means full transparency of the tax affairs of large companies is needed if Australia really wants to lead on policies that will prevent tax dodging. It is crucial that the Australian Government acts to make tax fair by legislating to help ensure that Australian-based multinational corporations pay their fair share of tax — both at home and abroad.

SUMMARY OF RECOMMENDATIONS

MAKE TAX TRANSPARENT AT HOME AND ABROAD.

Modify current legislation so that multinational companies with an income of AUD $250 million or more, and which function in or from Australia, are required to publicly report on their incomes, employees, profits earned, and taxes paid, in **every country** in which they operate. This will make the use of tax havens more transparent, and make it harder for large corporations to continue to shift profits out of the poorest nations.

CURB IRRESPONSIBLE USE OF TAX HAVENS.

Consult with the International Monetary Fund (IMF) and the Organisation for Economic Cooperation and Development (OECD) to develop a list of tax havens, and legislate further disincentives (beyond the proposed Diverted Profits Tax or "DPT") to prevent companies from using these havens to avoid paying their fair share of tax. Transfer the burden of proof to companies, requiring them to demonstrate a legitimate reason for investing in a tax haven.

MAKE MULTINATIONAL OWNERSHIP PUBLIC.

Follow through with the commitment to establish a public registry of the ultimate owners of companies, foundations, trusts, and accounts that include all companies registered in, or operating in and from Australia. In addition, commit to the establishment of a global centralised public register that also includes jurisdictions that are tax havens. Such a register would deter Australians from acting as the "front people" for shell companies in tax havens.

STRENGTHEN LAWS TO LIMIT THE USE OF TAX TRICKS.

We should also further limit, or eliminate, the use of interest and other financial payments as deductions on loans that have been provided by foreign subsidiaries located in tax havens.

SHARE WHAT WE KNOW.

Require that the Australian Taxation Office share country-by-country financial reports and companies' tax information with relevant developing countries' tax authorities (beyond the OECD automatic information exchange arrangements and tax agreements). In addition, help developing countries to institute mechanisms to identify tax dodging. Together, these actions will help reduce tax-dodging by Australian-based multinational corporations operating in developing countries.

SUPPORT GLOBAL ACTION TO END TAX DODGING.

Oxfam, along with many other international observers and experts, believes that a global tax body is the best way to end the use of havens to dodge tax. The Australian Government needs to actively assist developing countries to participate in such platforms, so that developing nations have a seat at the table alongside more wealthy nations.

10 Throughout this report, references to overseas activities of multinational corporations based in Australia include Australian-owned multinational companies and international companies that have an Australian base and operations.

11 Steps by Ireland, in recent times, to counteract tax avoidance include beginning the phasing out of the "Double-Irish" structures, publishing a spill over analysis on the effects of the Irish tax system on developing countries and introducing country-by-country reporting (though this reporting will not be made publicly available).

Efate Island, Vanuatu: Merelyn Willy and her son, Joseph, get water from a tank supplied in the aftermath of Tropical Cyclone Pam. Photo: Vlad Sokhin/Panos/OxfamAUS

1. INTRODUCTION

Early in 2016, Oxfam research showed that the richest 62 individuals owned more wealth than the world's poorest 50%, and that global wealth inequality has been increasing over the last 15 years[12]. The negative consequences of this concentration of wealth and power are being felt both at home and abroad. Inequality is bad for society, and bad for the economy, because it stifles economic growth[13].

Fiscal policy — government policy related to tax and spending — is the main tool governments use to affect income distribution, and therefore reduce inequality[14].This is because tax and spending policies can alter the distribution of income, both over the short and medium term[15]. Governments can choose, for example, to spend on services that increase equality, such as good schools for everyone and strong, accessible health systems. Spending in these areas improves equality because, over the long term, it reduces poverty and increases people's quality of life and chances of prosperity.

To pay for these services, all countries need to ensure that sufficient tax is collected in a fair way and spent wisely — this is part of ensuring that citizens have fair access to quality schools, hospitals, roads, water and other services. But the faulty global tax system is starving the poorest countries of money that should be invested in these areas. Too often wealthy individuals hide their capital in tax havens, and large companies shift profits to low-tax countries to avoid paying their fair share of tax in the territories in which they operate. The recent release of the Panama Papers, revealing pervasive tax avoidance among the world's elite, has highlighted the extent of these practices. One recent estimate[16] is that USD$7.6 trillion of individual wealth — more than the combined gross domestic product (GDP) of the UK and Germany — is currently held offshore in tax havens.

The faulty global tax system is one of the key reasons that economic inequality continues to spiral out of control. Australia must join with other countries and demand that multinational companies be more transparent about their finances and pay their fair share of tax — everywhere they operate.

This report highlights how the use of tax havens affects lives in Australia and abroad. We used econometric modelling to simulate the lost tax revenue in Australia, and in developing countries that receive investments from Australian-based corporations. Our findings indicate that the effects of corporate tax dodging are more sharply felt in developing countries than in developed countries such as Australia.

Although tax might seem like an issue far removed from everyday lives, taxation policies impact everyone, everywhere. The provision of public services relies on the generation of sufficient revenue, and tax evasion and avoidance prevents money flowing to essential services such as schools, hospitals, and infrastructure.

In addition to estimating lost tax revenue due to Australian multinational corporations' use of tax havens, Oxfam's new research also estimates the impact on public expenditure in the areas of health, education, water and sanitation, and gender equality. Our research shows that millions are being ripped out of these essential areas in some of the poorest communities around the world, and that Australian-based multinational corporations are contributing to this.

12 Oxfam International, "An economy for the 1%", *Oxfam Briefing Paper,* January 2016.

13 International Monetary Fund, "Fiscal Policy and Income Inequality", *IMF Policy Paper,* January 2014.

14 Ibid footnote 13.

15 Ibid footnote 13.

16 Ibid footnote 12.

PK5 district, Central African Republic: An internally-displaced child carries water.
Photo: Vincent Tremeau/Oxfam.

2. INEQUALITY AND FISCAL POLICY

Inequality of income and wealth is a rising global challenge. Recent empirical and theoretical work shows that high levels of inequality can be harmful to economic growth[17], slow down recoveries from recessions[18], contribute to recessions like the Global Financial Crisis (GFC)[19], adversely affect people's sense of individual wellbeing and happiness[20], increase gender inequality[21], and increase political instability[22].

THE EXTENT OF INEQUALITY

Figure 1 shows the extent of wealth inequality on a global scale. Except in the wake of the GFC, the wealth of the richest people in the world has been steadily increasing. In 2015, the richest 62 individuals in the world owned more wealth than the poorest 50% of people combined[23].

Inequality might not be as extreme as this in Australia, but statistics show that the problem is increasing here as well, making it more important than ever to address economic inequality before more damage is done.

From 1988–2011, Australia experienced growth in incomes of around USD $180 billion (2005 Purchasing Power Parity (PPP)), but this growth has, unfortunately, been dramatically unequal. The income growth, for that period, experienced by the richest 10% of Australians has dwarfed that experienced by the rest of Australia. Their income growth was greater than that of the poorest half of Australians combined. As shown in Figure 2, the richest 10% (shown by the 10th decile) acquired a 28% share of national income growth, while the poorest 10% (shown by the 1st decile) received a 3% share of this growth, and the poorest 50% received 26.2% combined.

17 Ibid footnote 13.

18 Stiglitz, J. (2013), *The price of inequality*. New York: W. W. Norton & Comp

19 Kumhof, M., Rancierem R., and Winant, P. (2015), "Inequality, Leverage, and Crises", *American Economic Review,* 105(3): 1317-1245.

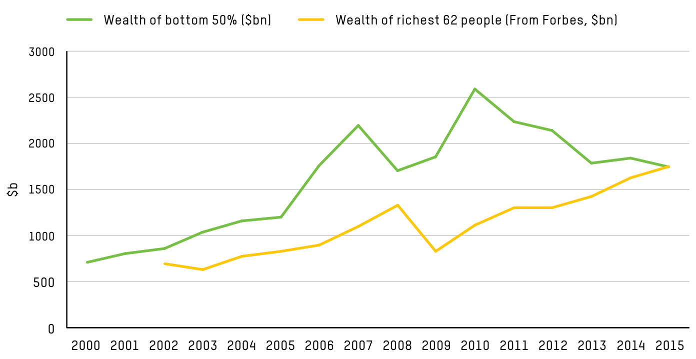
20 Alesina, A., Di Tella R., and MacCulloch, R. (2004), "Inequality and happiness: Are Europeans and Americans different?" *Journal of Public Economics,* 88(9-10): 2009-2042.

21 Gonzales, C., Jain-Chandra, S., Kochhar, K., Newiak, M., and Zeinullayev, T. (2015), "Catalyst for Change: Empowering women and Tackling Income Inequality", *IMF Staff Discussion Note,* 2015

22 Alesina, A., and Perotti, R. (1996) "Income distribution, political instability, and investment", European Economic Review, 40(6): 1203-1228.

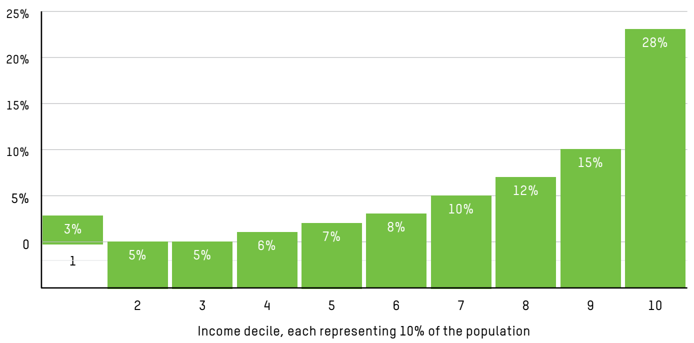
23 Though inequality within countries continues to worsen, there are significant improvements in income inequality between countries. Over the past 30 years, average annual GDP growth has been higher in low-income and middle-income countries than in rich ones, with emerging economies such as China and India leading this catch-up process. The proportion of the world's population living in extreme poverty has declined from 36% in 1990 to 16% in 2010 (see Oxfam International, Economy for the 1%, 2016).

FIGURE 1. GLOBAL WEALTH INEQUALITY



Source: Oxfam, Economy for the 1%, 2016

FIGURE 2. SHARE OF INCOME GROWTH THAT ACCRUED TO EACH DECILE BETWEEN 1988 AND 2011



Data from Lakner-Milanovic (2013) World Panel Income Distribution (LM-WPID) database. Retrieved 29 October, 2015 from: https://www.gc.cuny.edu/Page-Elements/Academics-Research-Centers-Initiatives/Centers-and-Institutes/Luxembourg-Income-Study-Center/Branko-Milanovic,-Senior-Scholar/Datasets. Created for Lakner, C., & Milanovic, B. (2013). Global income distribution: From the fall of the Berlin Wall to the Great Recession. World Bank Policy Research Working Paper, (6719). https://openknowledge.worldbank.org/handle/10986/16935

FISCAL POLICY AND ITS ROLE IN REDUCING INEQUALITY

"Fiscal policy" - refers to the way in which governments direct public spending (what they choose to spend money on) and revenue (the tax they collect), and other policies associated with public spending and revenue. A government's fiscal policy can have a huge impact on the fight against poverty. Broadly, there are three main objectives of fiscal policy[24]:

- **macroeconomic stability** — keeping a country's economy stable;
- **provision of public goods and services to correct market failure** — spending on important areas like health and education, which are often not entirely privately provided, but benefit all of society; and

24 Ibid footnote 13.

- **welfare-improving income redistribution** — spending on areas such as social security that act as a safety net to prevent people falling into poverty.

If governments direct their public spending towards essential services such as hospitals, schools and clean water, this is likely to have the greatest impact on poverty and inequality. In fact, the IMF argues that fiscal policy is the primary tool that governments can use to affect income distribution, and therefore reduce inequality[25]. This is because both tax and spending policies can alter the distribution of income, over the short and medium term. For example, education spending can affect the inequality of market incomes (such as wages) through their impact on future earnings. Other fiscal instruments, such as income taxes and welfare payments, can reduce the inequality of disposable incomes, including indirectly, via their impact on wages and savings[26].

At a time when all levels of government in Australia (local, state, and federal) are facing budget pressures, it is more important than ever to crack down on tax evasion and avoidance — especially in an environment of rising inequality at home and abroad. Tax evasion and avoidance hinders the reduction of poverty, and exacerbates economic inequality. Although this paper focuses on the tax dodging of multinational corporations, rather than tax minimisation by wealthy individuals, there is some overlap of the two, because individuals use companies (and shell companies) to evade and avoid paying income tax.

Another factor that must be considered is gender inequality, which is both a cause and consequence of economic inequality[27]. When workers lose wealth and power, it is women — already over-represented in low paid, informal, vulnerable, and precarious work — who lose the most. Fair and well-designed fiscal policies enable investments that can support equality between women and men, particularly in developing countries in our region — but more needs to be done to ensure that Australian-based multinational corporations are not depriving governments of the money needed to increase investment in this important area.

25 Ibid footnote 13.

26 Ibid footnote 13.

27 Ibid footnote 21.

Paov villiage, Cambodia: Mon Soko and Kon Maree are students at a school Oxfam built. Previously the village had only a temporary school constructed out of leaves and wood. Photo: Dustin Barter/OxfamAUS.

3. AUSTRALIA'S USE OF TAX HAVENS

Our analysis has identified 20 tax havens that big corporations operating in or from Australia are using to route investments overseas. In 2014, popular tax havens used by Australian-based multinational corporations included Mauritius, Singapore, Ireland[28], the Netherlands, Malaysia (Labuan), and Hong Kong. Our analysis shows that in 2014, Australian-based companies invested USD $79.1 billion in tax havens.

TAX TRICKS USED BY MULTINATIONAL CORPORATIONS

There are many ways that multinational corporations can minimise tax obligations, though — in their simplified form — they all involve one strategy: inflating or exaggerating costs to make profits look smaller than they really are. The outcome of this is that profits are artificially shifted out of jurisdictions where real business activity takes place, and into tax havens.

TAX EVASION AND TAX AVOIDANCE

Tax evasion and tax avoidance are *both* forms of tax minimisation, and the only difference between the two is that one is often legal and the other is not. Tax evasion is a criminal act because it is an attempt to get out of paying legitimate tax liabilities. Tax avoidance, however, is the use of legal tactics to reduce tax owed.

Arguably they are both immoral and inherently unfair. When corporations enjoy the benefits of shared assets (public goods) such as roads and other infrastructure, but do not contribute to the asset itself by paying corporate tax, it is clearly inequitable and unfair. In many developing countries — and in Australia — taxation of essential goods and services is an important source of revenue for government, yet these taxes place the biggest burden on the poorest people of society. At the same time, many big corporations avoid and evade paying tax. This is simply unfair, contributes to rising inequality, and greatly reduces community well-being, which is why Oxfam is working to change the current global tax system.

Throughout this report, we use a number of terms that refer to ways to avoid and evade tax, including "tax tricks", "tax minimisation", and "tax dodging". Although wealthy individuals also avoid and evade tax, the focus of this report (and the estimates therein) is on multinational corporate entities and their tax dodging practices.

28 Steps by Ireland, in recent times, to counteract tax avoidance include beginning the phasing out of the Double-Irish structures, publishing a spill over analysis on the effects of the Irish tax system on developing countries and introducing country-by-country reporting (though this reporting will not be made publicly available).

HOW DO COMPANIES USE TAX HAVENS TO DODGE TAX?

The focus of this report — the use of tax havens — is one such way that multinational corporations reduce their tax bills. As revealed in the recent Panama Papers, many multinational corporations set up subsidiaries in tax havens, which are often just "shell companies", which operate with next to no real business activity. These shell companies then invest in a third country, and shift the profits they make in that country back to the tax havens so that they pay no or minimal tax in the country in which they operate. This is why investment flows coming from tax havens are a tell-tale sign that profits are being shifted offshore.

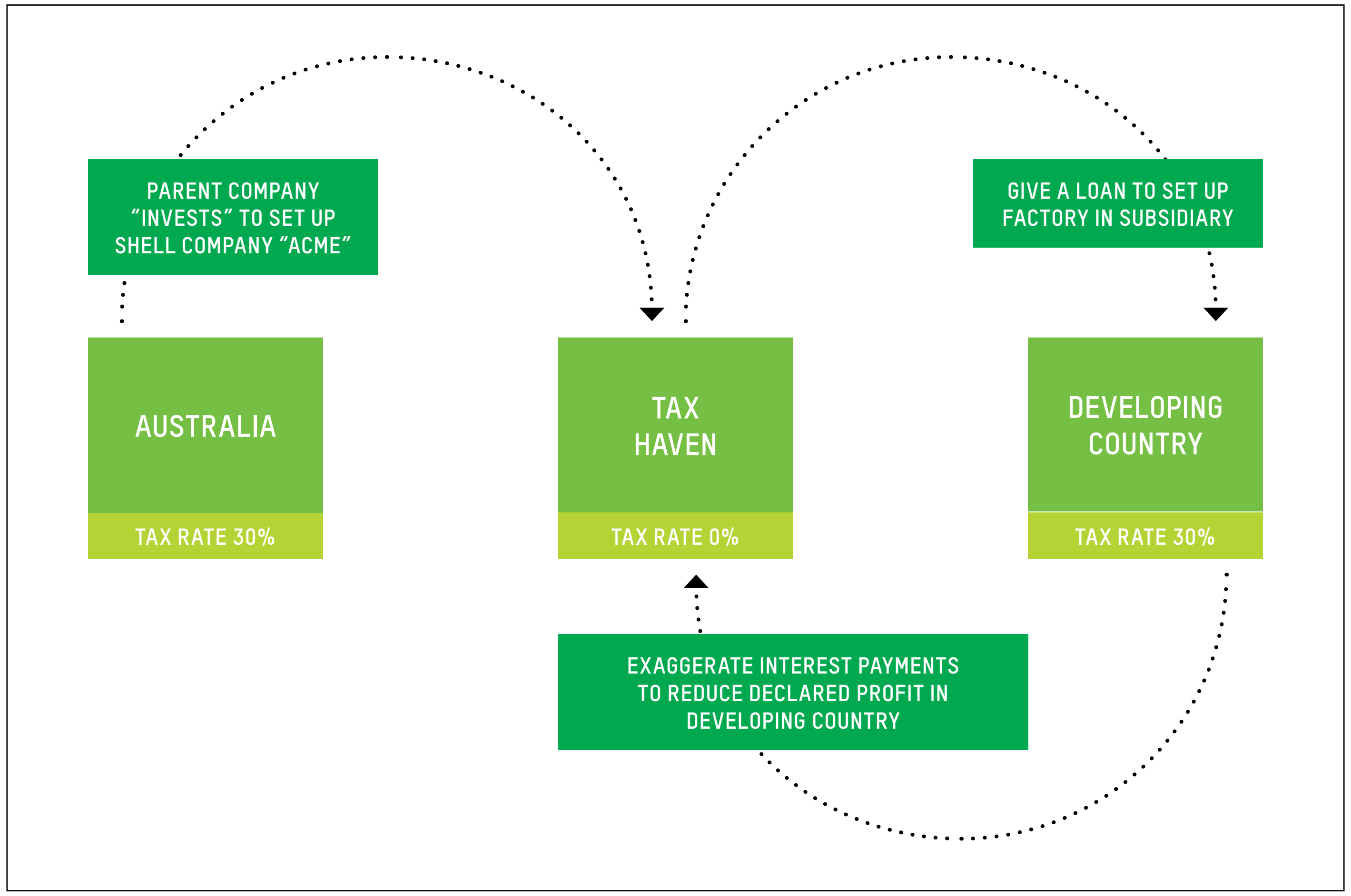
Here is a simplified example of one way tax havens can be used to dodge tax:

- **Step 1:** A multinational corporation based in Australia sets up a "shell" company called ACME in a tax haven. ACME operates with little or no activity: it has little or no staff or machinery engaged in productive economic activity in the tax haven.
- **Step 2:** The multinational corporation then "invests" in ACME by providing it with a loan: essentially an investment going from Australia to a tax haven.
- **Step 3:** ACME then invests in its subsidiary company located in a developing country and provides it with a loan to set up a factory. This shows up as an investment going from the tax haven to the developing country.
- **Step 4:** ACME then exaggerates the cost of interest payments (and other tax deductible costs) in the developing country. In reality, of course, the interest payments are a transfer within the same group of companies. By inflating costs, the declared profit in the developing country is greatly reduced, which results in a lower tax bill in the developing country. At the same time, the interest income received by ACME is not taxed because it is located in a tax haven.

In contrast, if the interest income was received in Australia (or any location that is not a tax haven) then that income would (in most cases) be taxable. This is why multinational corporations use tax havens to dodge tax.

The figure below demonstrates one of the many ways that Australian-based multinational corporations can use tax havens to reduce their tax bill in developing countries.

FIGURE 3. HOW DO COMPANIES USE TAX HAVENS TO DODGE TAX?



Regardless of the strategy used, the common theme of all evasion and avoidance practices is the misalignment of tax liabilities and economic activity, by inflating costs in high-tax jurisdictions and thereby reducing declared profits. There is a more detailed review of some popular tax tricks in the Technical Appendix. Though there is no "magic bullet" solution to the problem, an overarching set of policy solutions is needed to correct for the misalignment between tax liabilities and economic activity, and transparency of information is at the heart of the changes required.

WHAT MAKES A JURISDICTION A TAX HAVEN?

Unfortunately, despite some past efforts, no international process has led to the adoption of a universal definition of a "tax haven". The most commonly used definition is the one adopted by the OECD, which contains four criteria: zero or very low taxes; lack of transparency; practices preventing the effective exchange of information for tax purposes, and; absence of a requirement that activity be substantial (transactions may be "booked" in the country with no or little real economic activity).

WHAT IS A TAX HAVEN[29]?

Tax dodging encompasses both tax avoidance, and illegal tax evasion, both of which minimise the contributions companies and individuals make to society. It is often difficult to distinguish between the two, and there is certainly some tax planning that may be legal according to the letter of the law, but that goes against the spirit of the law.

Tax havens are jurisdictions or territories which have intentionally adopted fiscal and legal frameworks that allow non-residents to minimise the amount of taxes they should pay where they perform substantial economic activity. Tax havens tend to specialise. While most of them do not tick all the boxes, they usually fulfil several of the following criteria:

- They grant fiscal advantages to non-resident individuals or legal entities without requiring that substantial economic activity be carried out in the country or dependency.
- They provide a significantly lower effective level of taxation, including zero taxation.
- They have adopted laws or administrative practices that prevent or limit the automatic exchange of information for tax purposes with other governments.
- They have adopted legislative, legal or administrative provisions that allow the non-disclosure of the corporate structure of legal entities (including companies, trusts, and foundations) or the ownership of assets or rights.

It is common to make a distinction between "corporate tax havens", which adopt particular rules that enable corporations to avoid paying their fair share of tax in other countries, and "secrecy jurisdictions", which provide the necessary secrecy for individuals or entities to avoid paying tax. The Tax Justice Network (TJN) defines secrecy jurisdictions as those that enable people or entities to escape the laws, rules and regulations of other jurisdictions, using secrecy as a prime tool. For the purposes of this paper, the terms "secrecy jurisdiction" and "tax haven" are largely used interchangeably.

In order to truly curb the global menace of tax dodging, Oxfam is calling for the creation of a global tax body, in order to assess the risks posed by these jurisdictions. The outcomes of these evaluations should also be made public as a disincentive for those who use, and facilitate the use of, tax havens.

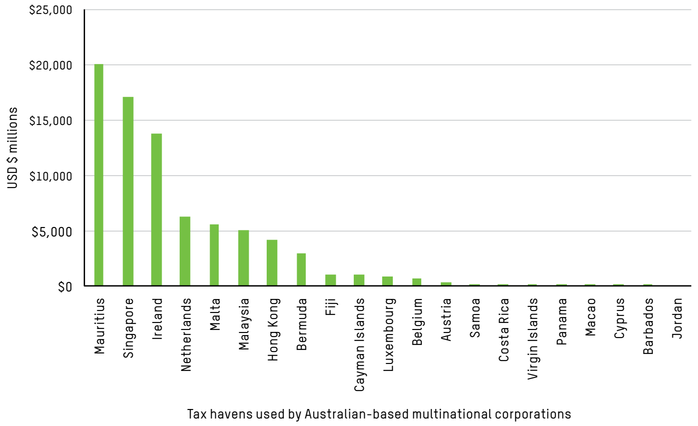
29 See Technical Appendix for details of tax havens identified by nine different international organisations and used in this report.

ANALYSIS OF AUSTRALIA'S USE OF TAX HAVENS

Our analysis of foreign investment data[30] from the International Monetary Fund (IMF) shows that in 2014, Australian-based multinational corporations used 20 tax havens, and that between 2009 and 2014, investments in these tax havens grew by USD $22.7 billion. Of course, not all of these investments will end up as profits shifted offshore - the practice that results in lost tax revenue. Estimates of profit shifting appear in the next section.

The majority of tax haven investments by Australian-based multinational corporations were in Mauritius, Singapore, Ireland, and the Netherlands, some of which are well-known as locations used to minimise tax obligations. Malta, Malaysia (Labuan) and Hong Kong are also recipients of substantial investment from Australian-based multinational corporations.

FIGURE 4. AUSTRALIAN INVESTMENTS IN TAX HAVENS - 2014

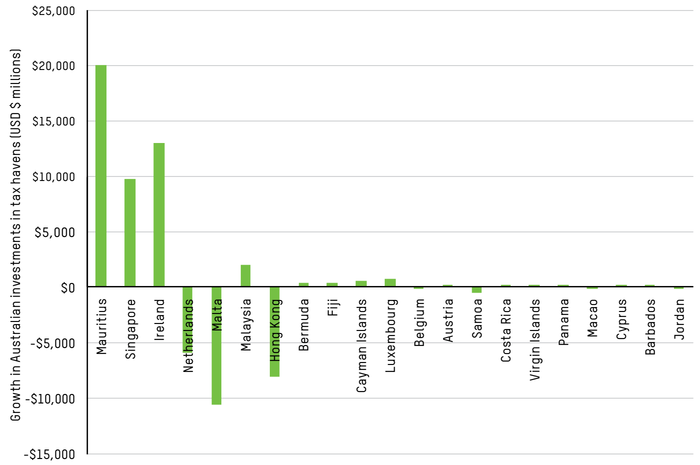


Source: Oxfam, 2016; using IMF CDIS (2015) Mirror Data for Australia. Note that Austria, Costa Rica, Cyprus, Ireland, and Mauritius estimates differ from IMF Inward Reporting Economy data since the "not specified" category in the data is allocated (using information from previous years and inward reporting economy data) to these countries where data was reported as "confidential". Note that data for Labuan financial centre is not available. We suspect that the vast majority of direct investment flows to Malaysia would be routed through Labuan to minimise tax obligations.

30 The data used in this Oxfam study is from the International Monetary Fund (IMF) Coordinated Direct Investment Survey (CDIS), which reports bilateral investment stocks (debt and equity). That is, this data shows Foreign Direct Investment (FDI) stocks from each origin-country to each destination-jurisdiction from 2009 to 2014. Since the data is bilateral only, it is not possible to directly observe flows routed through tax havens. In addition, since the survey covers enterprises, only multinational corporates will be captured, so use of tax havens by individuals is excluded.

In 2009, Australian investments in tax havens were estimated at USD $56.4 billion. This has increased to USD $79.1 billion in 2014: an increase of USD $22.7 billion in investments in locations that are notorious for aiding and abetting tax-dodging practices. The graph below shows the growth between 2009 and 2014 in Australian investments for each identified tax haven. Although there are significant offshore investments in Hong Kong and the Netherlands, these locations are now less preferred, and investments in Mauritius, Singapore, Ireland, and Malaysia are instead increasing.

FIGURE 5. GROWTH IN AUSTRALIAN INVESTMENTS IN TAX HAVENS (BETWEEN 2009 AND 2014)



Source: Oxfam, 2016; using IMF CDIS (2015) Mirror Data for Australia. Note, that Austria, Costa Rica, Cyprus, Ireland, and Mauritius estimates differ from IMF Inward Reporting Economy data since the "not specified" category in the data is allocated (using information from previous years and inward reporting economy data) to these countries where data was reported as "confidential".
Note that data for Labuan financial centre is not available. We suspect that the vast majority of direct investment flows to Malaysia would be routed through Labuan to minimise tax obligations.

One of the constraints of the IMF data used in this study is that the specific multinational corporations participating in the survey cannot be identified because all responses are confidential and the data is reported in aggregate terms only.

This is one of the reasons why it is imperative that more data and information is made publicly available, particularly because we live in a world where trade and investment flows are tremendously complex and intertwined. Oxfam is calling for publicly available country-by-country reporting of financial information, so that the public does not have to rely on modelling estimates or major leaks such as the Panama Papers to know the true extent of tax dodging.

"Tax havens undermine the rule of law by encouraging criminality on the part of the most prominent and prosperous members of society, and by facilitating the activities of criminal and terrorist organisations. They deprive governments of tax revenue they are lawfully entitled to, impairing their ability to promote the general welfare and increasing the burden of taxation on the rest of society. Any legitimate economic function provided by tax havens could also be obtained in a system with proper accountability and enforcement. Voters must insist that their elected officials end these abuses."

Professor Andrew McLennan
School of Economics
University of Queensland

Kwa Zulu Natal, South Africa: A secondary student learns maths, but also the importance of setting life goals and developing new skills in her school. Photo: Matthew Willman/OxfamAUS.

4. TAX REVENUE LOSSES AT HOME AND ABROAD

METHODOLOGY

Given the opacity of the IMF data, it is no easy task to model the fiscal impact of the use of tax havens. There are two challenges that need to be overcome. Firstly, given that available data is bilateral (from one country to another) only, we cannot trace funds being "washed" in tax havens on their way to developing countries. Secondly, given the lack of publicly available country-by-country reporting data, profitability of investment and any inconsistencies in declared tax liabilities are not directly identifiable.

To overcome these issues, Oxfam has followed the method developed by UNCTAD (2015)[31], and used IMF data to build two econometric models[32]. The first of these is used to estimate investment flows from Australian-based corporations being channelled through tax havens, and the second is used to estimate the extent of profit being shifted offshore as a result of multinational corporations using tax havens.

Collectively, these two models answer the following questions:

- How much Australian-based multinational corporate investment in developing countries is being routed via tax havens?
- How much profit is being shifted out of each country because multinational corporations use tax havens?

In response to the first question, broadly speaking, the analysis revealed that only 11% of foreign investment "stays" in tax havens and the rest "leaves" — which confirms the conduit nature of tax havens. We also found that while there might be some direct investment in developing countries, there is also a large amount of investments routed via tax havens, possibly to supplement the direct investment in-country.

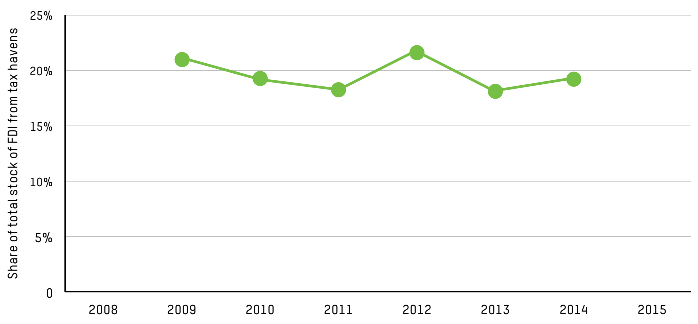
In response to the second question, our analysis found that when 10% of total foreign investment comes from tax havens, declared profit in developing countries is, on average, around 1.8% lower. This is because multinational corporations are shifting profits to tax havens to minimise tax in developing countries. In contrast, the profit shifted for developed countries, such as Australia, is lower at 1.5%[33]. Consistent with other international studies[34], these results show that while all countries are affected, developing countries are more sharply affected by multinational corporations using tax havens to shift profits offshore[35].

TAX REVENUE LOSS FOR AUSTRALIA

Not only is Australia part of the problem, it is also a victim of tax dodging. In a world where trade and investment is incredibly complex and convoluted, foreign multinational corporations seek to gain access to the Australian market, its consumers and its economy. There are many foreign companies investing in Australia, and many of these investments are channelled via tax havens, thereby minimising tax obligations to Australia.

The following graph shows Australia's exposure to tax havens. At the peak of this exposure in 2012, around $22 of every $100 of foreign investment in Australia came from a tax haven. This figure currently sits at around $19 of every $100. As noted earlier, when a country is "exposed" to tax havens, then it is likely that profit is being shifted offshore.

FIGURE 6. EXPOSURE TO TAX HAVENS (% OF TOTAL FOREIGN DIRECT INVESTMENT) — AUSTRALIA



Source: IMF CDIS data (2015), Oxfam (2016) calculations.

Over the six-year period shown above, Australia's average exposure to tax havens was 20%[36]. Based on this, we estimate that over USD $16 billion (AUD $19.6 billion) was "shifted" out of Australia and into tax havens in 2014, resulting in estimated lost tax revenue to Australia of between USD $4 and $5 billion (AUD $5 and $6 billion) in 2014. In other words, foreign multinational corporations operating in Australia used tax havens to reduce their tax liabilities to our government. This tax loss will only worsen, unless the Australian Government acts swiftly and decisively to clamp down on tax dodging.

The table below shows the estimated tax loss in 2014, based on the current statutory Company Tax Rate (CTR) of 30% on profits, and an assumed Effective Tax Rate (ETR) of 25%[37]. Upper and lower confidence intervals of the regression model are used to calculate the bounds of the estimated tax losses.

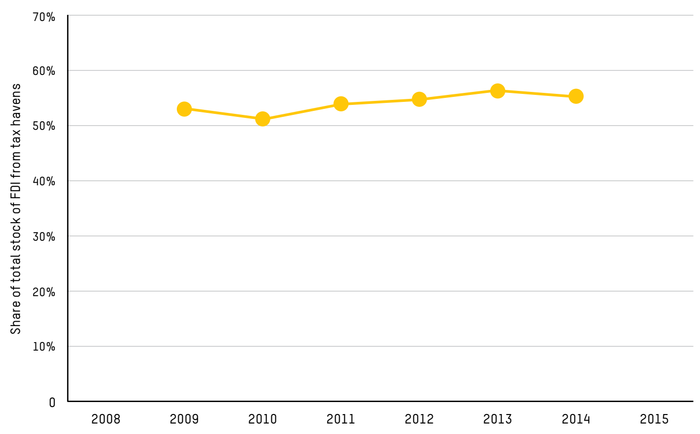
TABLE 1. GROSS PROFIT SHIFTED AND LOST TAX REVENUE (US $ BILLIONS) IN 2014 — AUSTRALIA

	PROFIT SHIFTED TO TAX HAVENS	EFFECTIVE TAX RATE (25%)	COMPANY TAX RATE (30%)
Average estimate	$16.20 b	$4.05 b	$4.86 b
Lower limit (90% CI)	$8.81 b	$2.20 b	$2.64 b
Upper limit (90% CI)	$35.41 b	$8.85 b	$10.62 b

Source: Oxfam (2016)

Notes: ETR is based on analysis of aggregate tax payments. Upper and lower limits are based on the 90% Confidence Intervals (CI) of the model. We prefer CTR to ETR because the former excludes any reductions due to tax dodging.

FIGURE 7. EXPOSURE TO TAX HAVENS (% OF TOTAL FOREIGN DIRECT INVESTMENT) — DEVELOPING COUNTRIES



Source: IMF CDIS data (2015), Oxfam (2016) calculations.

TAX REVENUE LOSS IN DEVELOPING COUNTRIES

Now we turn to the profit shifting practices of multinational corporations operating in developing countries. As shown in Figure 7, developing countries experience significantly more exposure to tax havens than Australia (and many other developed countries). Analysis of 110 developing countries in our dataset reveals that tax haven exposure has been steadily increasing, reaching 56% ($56 of every $100 invested) in 2014. Even though the data is aggregated, this analysis suggests that developing countries are more likely to be adversely affected by the use of tax havens than developed countries.

Using 2014 levels of tax haven exposure, we estimate that multinationals operating around the world (and not just from Australia) shifted USD $638 billion in profits offshore and out of developing countries. As a result, globally operating multinationals ripped an estimated USD $172 billion[38] in tax revenue out of developing countries. In 2009, we estimate that the tax loss was around USD $80 billion. In the span of six years, the tax revenue ripped out of developing countries has increased by a staggering $92 billion — at a compounding rate of 17% per year on average.

If exposure levels remain stable, we anticipate that developing countries will keep losing this amount of tax revenue (in real terms) in years ahead. It is for this reason that there needs to be greater international consensus and global action to clamp down on multinational corporations that are using tax havens.

31 UNCTAD, *World Investment Report,* 2015.

32 The Technical Appendix contains a more detailed explanation of the methodology, and a review of alternative approaches. As is the case with any econometric modelling, these models produce stylistic representations based on average relationships. It might be the case that actual values for individual countries are above or below the average. It is for this reason that we report confidence intervals of the Model 2.

33 The estimated coefficient for developing countries is 20% higher than that for developed economies in our dataset. In other words, the effects are more sharply felt in developing countries.

34 Crivelli, E., De Mooij, R., and Keen, M. "Base Erosion Profit Shifting, and Developing Countries", *IMF Working Paper,* 15 (118).

35 This finding is consistent with studies such as UNCTAD, *World Investment Report,* 2015 and Crivelli, E., De Mooij, R., and Keen, M. "Base Erosion Profit Shifting, and Developing Countries", *IMF Working Paper,* 15 (118).

36 We use this average rate of exposure in Model 2 (for developed countries) to simulate the extent of profit shifting in Australia, and subsequently the lost tax revenue using two metrics — the statutory Company Tax Rate (CTR) and Effective Tax Rate (ETR). The ETR used is based on analysis of aggregate tax payments.

37 ETR is based on analysis of aggregate tax payments in ATO data.

38 The mean estimate of the Oxfam model (using 2009-2014 data) sits between the upper limit of USD $288 billion and lower limit of USD $107 billion, with a probability of 95%. UNCTAD (2015), using 2009-2012 data and an alternative specification (region fixed-effects model with slightly different controls and alternative list of tax havens), produces a mean estimate of USD $89 billion. Both tax loss calculations use an FDI weighted average corporate tax rate of 27%.

"This is an important contribution by Oxfam to help the economic development of poor countries. The report shows how multinational corporations divert profits to tax havens and in the process rob tax revenue for both the developed countries and the developing countries. The estimates provided show that in Australia USD $7.7 billion was concealed by tax havens and that meant that developing countries lost USD $2.3 billion of tax revenue. These revenues would have helped to improve health, education, and tackle poverty in both rich and poor countries.

Oxfam is to be congratulated for this work."

Honorary Professor of Economics P.N. (Raja) Junankar
Industrial Relations Research Centre,
UNSW Australia

Qambar Shaddadkot, Pakistan: Reshma (10) collects clean water after floods. Photo: Timothy Allen/Oxfam

TAX REVENUE LOSS DUE TO AUSTRALIAN-BASED MULTINATIONAL CORPORATIONS

Based on Australia's use of tax havens, we estimate that USD $7.7 billion of profits were "hidden" in tax havens, and that multinational corporations operating from Australia and using tax havens are depriving developing countries of nearly USD $2.3 billion in tax revenue annually.

Our analysis of IMF data shows that in 2014, USD $10.35 trillion was invested in tax havens identified in this study. Of this, an estimated USD $79.13 billion was from Australian investments in 20 tax havens. In other words, around $1 in every $100 found in tax havens is from Australian-based multinational corporations. Based on Australia's use of tax havens[39], we estimate that in 2014, around USD $7.7 billion of profits were "hidden" in tax havens, and around USD $2.3 billion of tax revenue was ripped out of developing countries.

Our data also revealed that 55 developing countries received investments from the 20 tax havens used by Australian-based multinational corporations. Using econometric modelling, we have estimated the extent of shifted profits associated with Australian investment in these tax havens. Figure 8 (overleaf) shows the estimated profit shifted and lost tax revenue for developing countries that are most severely affected (above USD $4 million in lost tax) by Australian-based multinationals using tax havens in 2014.

Our modelling shows that Australian-based multinational corporations are depriving these developing countries of around USD $2.3 billion in tax revenue annually. This is money that could have been used for the provision of essential services that are necessary to lift the most vulnerable people out of poverty. **Large developing countries, such as India and Brazil, as well as Asia-Pacific countries, such as Indonesia, the Philippines, PNG and Thailand, are being starved of millions of dollars in tax revenue every year.**

39 For this calculation, we used a more restricted list of "tax havens" to limit the bias due to investment not related to profit shifting. Jurisdictions that appear on six or more international organisation lists (considered in this study) was used as the threshold. This resulted in the inclusion of 29 tax havens in our calculation. We used the 2011 figure for Australia (1.21% of total investment in tax havens) because data is more comprehensive in that year, and it is also the peak of Australian tax haven use at the given threshold. Alternative thresholds and years produce estimates within the bounds of the confidence intervals of tax loss estimate arising from Model 2. A full list of the tax havens examined in this study can be found in the Technical Appendix.

TABLE 2. ESTIMATED PROFIT SHIFTED AND LOST TAX REVENUE (USD $ MILLIONS) IN 2014 — SELECTED DEVELOPING COUNTRIES

Country	Shifted profit	Lost tax
BRAZIL	$1652.62	$561.89
INDONESIA	$1227.32	$343.65
INDIA	$897.10	$304.93
KAZAKHSTAN	$690.28	$138.06
MEXICO	$420.75	$117.81
THAILAND	$381.94	$114.58
NIGERIA	$327.30	$98.19
PHILIPPINES	$305.35	$91.61
SOUTH AFRICA	$211.02	$72.91
ROMANIA	$328.13	$52.50
MONGOLIA	$184.92	$49.93
TURKEY	$238.70	$47.74
BULGARIA	$140.33	$37.89
BOTSWANA	$132.77	$33.19
GHANA	$107.95	$29.15
UKRAINE	$104.27	$26.07
SRI LANKA	$50.84	$17.79
MOLDOVA	$46.89	$12.66
UGANDA	$41.67	$12.50
TANZANIA	$40.51	$12.15
PAPUA NEW GUINEA	$41.65	$11.25
BANGLADESH	$26.06	$7.17
PERU	$18.96	$5.69
PAKISTAN	$11.41	$3.99

Source: Oxfam (2016). Notes: the estimate for PNG is based on average levels of exposure to tax havens, since IMF CDIS data was not available. Lost tax revenue is calculated using country-specific company tax rates. Though not reported, the Effective Tax Rate (ETR) is assumed to be 20%, and is based on UNCTAD (2015). However, the ETR might be lower for most developing countries in our dataset. Country-specific Corporate Tax Rates (CTR) are used where available. We prefer CTR to ETR because the former excludes any reductions due to tax dodging, and because of difficulties in assessing ETR in most countries. Developing country tax havens are excluded from the analysis in this table. Developing country classification is as per World Bank. Low, lower-middle, and upper-middle income groups have been classified as developing countries for the purposes of this analysis.

The estimates in this study are inherently conservative, since they are based on Australian-based multinational corporations directly investing in tax havens, and do not include investments *not* routed via tax havens. There are likely to be some Australian investments in countries that are not tax havens, where multinational corporations based in those countries channel investments via tax havens. To represent this possibility, we produced an additional scenario that is included in the Technical Appendix.

Furthermore, the estimates in this study pertain only to the use of tax havens. There are many other tax tricks available to multinational corporations to reduce their tax bills in the countries in which they operate. Therefore, the full tax loss due to corporate tax dodging is likely to be well above the estimate in this report.

TAX REVENUE LOSS TO DEVELOPING COUNTRIES THAT ARE TAX HAVENS

Australian-based multinational corporations make investments in some tax havens that are themselves developing economies. Whilst these companies (as non-residents) enjoy favourable taxation conditions in these countries, the poorest people are being deprived of necessary essential services.

In this section, we estimate the tax losses that developing country tax havens experience as a result of receiving investments from Australian-based multinationals. Using rates of return on foreign investment, we can simulate average profits that would be generated by Australian investments in each tax haven, then using the difference between the domestic corporate tax rate and the low rate[40] on offer to non-resident investments[41] we estimate tax losses to each tax haven that is a developing country.

Of course, such an estimation would be a hypothetical one[42], because many of the investments would be "washed" in these tax havens and then make their way to other countries. Additionally, some of the flows into these tax havens would not occur if they did not offer favourable tax conditions to multinational corporations. For this reason, these estimates should not be considered separate from the annual tax loss estimate of $2.3 billion due to Australian-based multinational corporations. The aim of this simulation is to demonstrate that even tax havens, particularly those in developing countries, lose out by providing favourable tax conditions to multinational corporations — the only ones to benefit from tax minimisation are the wealthy owners of multinational corporations.

Assuming that 20%[43] of Australian investments in these tax havens is "genuine" and associated with real economic activity, we estimate that Australian investments in tax havens that are developing countries result in those countries losing over USD $47 million annually in tax revenue. Asia-Pacific countries, including Malaysia, Fiji, and Samoa, are the top losers.

TABLE 3. GROSS PROFIT AND LOST TAX REVENUE (USD $) IN DEVELOPING COUNTRY TAX HAVENS USED BY AUSTRALIA IN 2014

DEVELOPING COUNTRY TAX HAVENS THAT RECEIVED PRIVATE INVESTMENT FROM AUSTRALIA	AVERAGE GROSS PROFIT ON AUSTRALIAN INVESTMENT (USD $)	LOST TAX REVENUE (USD $)
Costa Rica	$184,907	$44,378
Fiji	$107,838,740	$10,783,874
Malaysia	$145,975,313	$32,114,569
Mauritius	$6,892,947	$827,154
Panama	$809,300	$161,860
Samoa	$14,880,363	$3,214,158
TOTAL	**$276,589,929**	**$47,146,929**

Source: Source: Oxfam (2016); using IMF CDIS (2014) and Balance of Payments (2014) data

Notes: The gross profit is calculated on the basis that Australian investments (genuine in-country investment) follow the average rate of return. Tax revenue is calculated as a scenario where profits are taxed in the developing country tax haven with no change in investment behaviour.

Oebaba Village, Covalima, Timor-Leste: Prisca Da Silva Gomez with her daughter Juanita (8) and son Alexandre (3). When crops have failed, Prisca's family has previously relied on nutrient-poor "akar" (the processed trunk of the Sago Palm tree) to survive. Photo Rodney Dekker/OxfamAUS.

40 Where data is not available, we benchmark the calculations to the tax rate differential from a Mauritius case study.

41 Bracking, S., and Ware, G. (2013). *Is Mauritius a tax haven?* (The Africa Report). Retrieved from http://www.theafricareport.com/North-Africa/is-mauritius-a-tax-haven.html

42 The simulation does not account for behavioral responses in foreign investment or any spillover economic benefits of genuine foreign investment.

43 This assumption is informed by the econometric modelling, which, broadly implies that around 11% of investment "stays" in a tax-haven country, and the rest "leaves". We use 20% to be conservative in our estimate of investments for offshoring purposes.

5. IMPACT ON ESSENTIAL SERVICES IN DEVELOPING COUNTRIES

TABLE 4. ESTIMATED PUBLIC EXPENDITURE IMPACT OF GLOBAL TAX HAVEN USE (USD $ BILLIONS) - DEVELOPING COUNTRIES

	EDUCATION	GENDER EQUALITY	HEALTH	SOCIAL PROTECTION	WATER AND SANITATION	TOTAL
2014 expenditure	$29.3	$0.4	$15.8	$5.7	$5.0	**$56.2**
Present value of projected expenditure (2015-2020)	$178.8	$2.6	$96.5	$34.5	$30.5	**$342.9**

Source: Oxfam (2016)

Taxation and tax policy might seem like a complex and convoluted area of economics, but it does not have to be. The other side of tax revenue —public expenditure —provides the "human face" behind a subject often associated with accountants and lawyers. In this section, we look at the impact of lost tax revenue on essential public services in developing countries, by modelling the spending on essential public services that *could* realistically be provided if tax revenue was not ripped out of these countries because of multinational corporations using tax havens.

Not all USD $172 billion in 2014 lost tax revenue (due to multinationals operating around the world) would have been used for essential services: we find that, on average, 33% of government spending goes towards essential services such as education, health, water and sanitation, social protection, and gender equality programs. A large chunk of the rest goes towards servicing debt, which is a major issue for many developing economies. Using publicly available data on the composition of public expenditure[44] in developing countries, we have estimated:

- essential services public expenditure that could have been spent in 2014; and
- the Present Value[45] (at December 2015) of projected essential services expenditure that will be ripped out of the poorest countries over the next five years if multinational corporations continue to avoid taxes at the 2014 levels.

The global numbers are staggering to say the least.

- Of the USD $172 billion of tax revenue "lost" to developing countries in 2014, around 33% (USD $56 billion) would probably have been spent on essential services. This includes $29 billion for schools and $15 billion for hospitals in some of the poorest countries around the world.
- Using publicly available IMF forecasts of public expenditure, we estimate that global use of tax havens will cost a staggering USD $342 billion (in present value) in essential services expenditure over the next five years. Of this, nearly USD $179 billion could have gone towards schools and improving educational outcomes of the poorest people. Nearly USD $97 billion will be torn out of hospitals in developing countries, resulting in poorer health outcomes, including many preventable deaths.

THE IMPACT ON DEVELOPING COUNTRY PUBLIC EXPENDITURE DUE TO TAX DODGING BY AUSTRALIAN-BASED MULTINATIONAL CORPORATIONS

We now turn to the impact on public expenditure due to profit shifting conducted by tax dodging Australian-based multinationals operating in developing countries. Again, we used publicly available data of the composition of public expenditure of each country to simulate essential services that *could* be provided over the next five years if the Australian Government (and counterparts) take action to end the era of tax havens. As before, we have used 2015 values (at December) in order to provide a meaningful interpretation of projected expenditures.

We have reported only on the 24 countries estimated to have each lost over USD $4 million in tax revenue in 2014.

We found that over the next five years, middle-income countries in our region, such as Indonesia, will be deprived of an estimated USD $357 million that could go towards education. PNG — one of Australia's poorest neighbours and a recipient of substantial foreign direct investment and Overseas Development Assistance (ODA) from Australia — is losing nearly USD $17 million in essential services expenditure, nearly USD $10 million of which would go towards education over the next five years.

In total, **Australian-based multinationals that use tax havens will deprive developing countries of around USD $4.1 billion in spending on essential services over the next five years.** Around USD $2.1 billion of this would go towards education, and around USD $1.5 billion on health, water, and sanitation. Around USD $32 million is being taken away from programs that aim to reduce gender inequality and improve conditions for women, and nearly USD $500 million will be taken out of social protection programs.

The modelling suggests that the impact of tax-dodging Australian-based multinationals is largely concentrated in the Asia-Pacific region, where there are a lot of Australian investments. We estimate that over the next five years, USD $125 million will be ripped out of public education in the Philippines — this is money that could have gone towards building 1700[46] classrooms per year[47]. The impact on sanitation is also severe. Our modelling estimates that the Philippines will also lose out on $21 million in public sanitation expenditure — this is money that could provide over 14,000[48] permanent toilets per year[49].

However, lower middle-income countries in Africa — such as Ghana — are also estimated to be impacted by tax dodging Australian-based multinational corporations. Over the next five years, nearly $31 million in public education expenditure — enough to pay for over 1400[50] experienced primary school teachers per year[51]; and nearly $18 million in public health expenditure — enough to pay for nearly 600[52] nurses per year[53], is being ripped out the Ghana.

Lack of action to change the rules and systems that allow this to occur is exacerbating global inequality and starving developing countries of the opportunity to lift more people out of poverty.

44 Sources include Government Spending Watch and ADB data. Any gaps in the data set are supplemented by the averages of the available data. The use of historical composition of public expenditure assumes that current levels of institutional quality and efficiency of public expenditure allocations remain constant over the next five years. This means that domestic levels of corruption, and public sector efficiency remained fixed for the forecast period.

45 Present Value (PV) accounts for the changing value of money over time: a dollar today does not have the same value on this day next year. We use a nominal global discount rate of 5% to calculate the PV. Public expenditure forecasts are from IMF World Economic Outlook. The PV calculations assume that growth in lost public expenditure (due to the use of tax havens) follows the general trend of the overall public expenditure forecasts by IMF. In other words, it is assumed that growth in tax revenue mirrors public expenditure forecasts, and that the economic condition encapsulated in the growth rates of the IMF public expenditure forecasts also apply to revenue collected from tax-dodging multinational corporations.

46 Oxfam International. (2006). *Free, quality education for every Afghan child.* Retrieved from https://www.oxfam.org/sites/www.oxfam.org/files/Free,%20Quality%20Education%20for%20Every%20Afghan%20Child.pdf

47 This is based on a cost of USD $14,660 per classroom in 2016, and pro-rata allocation of USD $125 million in public education expenditure across five years. The estimates from the Oxfam International study were inflated to be brought to 2016 dollars.

48 Philstar Global. (2015). *Foreign organization introduces low-cost toilets to Bantayan.* Retrieved from http://www.philstar.com/cebu-news/2015/10/01/1505901/foreign-organization-introduces-low-cost-toilets-bantayan

49 This is based on a cost of USD $300 per permanent toilet in 2016, and pro-rata allocation of USD $21 million in public sanitation expenditure across five years.

50 My Wage Ghana. (2015). Retrieved from http://www.mywage.org/ghana/home/career/ghana-job-pay/ghana-primary-school-teachers

51 This is based on an annual salary of USD $4288 per Ghanaian primary school teacher (with 5 years' experience) in 2016, and pro-rata allocation of USD $30.46 million in public education expenditure across five years.

52 BBC. (2015). *How Ghana has reversed exodus of nurses.* Retrieved from http://www.bbc.com/news/world-africa-31637774

53 This is based on an annual salary of USD $6000 per Ghanaian nurse in 2016, and pro-rata allocation of USD $17.58 million in public health expenditure across five years.

TABLE 5. ESTIMATED IMPACT ON PUBLIC EXPENDITURE (USD $ MILLIONS) DUE TO AUSTRALIAN-BASED MULTINATIONAL CORPORATIONS THAT USE TAX HAVENS IN DEVELOPING COUNTRIES

RANK	COUNTRY	TOTAL ESTIMATED LOST TAX IN 2014	DISCOUNTED PRESENT VALUE (PV) OVER 5 YEARS (2015-20)					
			TOTAL	EDUCATION	GENDER EQUALITY	HEALTH	SOCIAL PROTECTION	WATER AND SANITATION
1	Brazil	$561.89	$830.24	$432.84	$6.29	$233.60	$83.55	$73.95
2	Indonesia	$343.65	$684.73	$356.98	$5.19	$192.66	$68.91	$60.99
3	India	$304.93	$599.78	$281.27	$6.06	$101.18	$128.10	$83.15
4	Kazakhstan	$138.06	$276.00	$143.89	$2.09	$77.66	$27.78	$24.58
5	Mexico	$117.81	$202.87	$105.76	$1.54	$57.08	$20.42	$18.07
6	Thailand	$114.58	$242.29	$126.31	$1.84	$68.17	$24.38	$21.58
7	Nigeria	$98.19	$153.71	$80.14	$1.16	$43.25	$15.47	$13.69
8	Philippines	$91.61	$240.75	$125.51	$1.82	$67.74	$24.23	$21.44
9	South Africa	$72.91	$151.16	$77.63	$1.04	$43.31	$14.89	$14.28
10	Romania	$52.50	$99.56	$51.91	$0.75	$28.01	$10.02	$8.87
11	Mongolia	$49.93	$65.93	$34.79	$0.45	$17.95	$6.50	$6.23
12	Turkey	$47.74	$87.17	$45.44	$0.66	$24.53	$8.77	$7.76
13	Bulgaria	$37.89	$64.91	$33.84	$0.49	$18.26	$6.53	$5.78
14	Botswana	$33.19	$54.64	$28.49	$0.41	$15.37	$5.50	$4.87
15	Ghana	$29.15	$59.29	$30.46	$0.39	$17.58	$5.54	$5.32
16	Ukraine	$26.07	$35.87	$18.70	$0.27	$10.09	$3.61	$3.20
17	Sri Lanka	$17.79	$26.59	$11.38	$0.46	$11.66	$0.35	$2.74
18	Moldova	$12.66	$42.35	$11.25	$0.11	$8.42	$21.06	$1.52
19	Uganda	$12.50	$21.87	$12.07	$0.04	$7.78	$0.17	$1.80
20	Tanzania	$12.15	$31.09	$15.89	$0.25	$7.60	$3.55	$3.80
21	Papua New Guinea	$11.25	$16.79	$9.32	$0.08	$5.63	$0.25	$1.51
22	Bangladesh	$7.17	$14.47	$7.11	$0.24	$2.60	$3.56	$0.95
23	Peru	$5.69	$11.03	$5.25	$0.10	$3.23	$1.32	$1.13
24	Pakistan	$3.99	$8.82	$4.53	$0.06	$2.53	$0.87	$0.83
	GRAND TOTAL	**$2226.39**	**$4071.19**	**$2076.92**	**$32.14**	**$1080.46**	**$489.50**	**$392.16**

Source: Oxfam (2016)

CASE STUDY: PAPUA NEW GUINEA (PNG) — OUR CLOSEST NEIGHBOUR LOSING OUT ON MILLIONS

Tax dodging is a global issue, and Australian companies are part of the problem. Here we provide a short case study, and overleaf are two country profiles to demonstrate that harmful tax dodging practices by multinational corporations, and inaction by governments have a real impact on people's lives.

HERE IS A SNAPSHOT OF ONE PERSON'S STORY.

It's simple. Tax avoidance is depriving poor communities of basic public services.

Spending on essential services and appropriate infrastructure by national governments (either directly or through non-government organisations) is one of the best ways of reducing global inequality. But tax dodging is reducing government revenues.

Loopholes and tax havens enable multinational companies that do business in Australia, and with our poorer regional neighbours to evade paying their fair share of tax. The result is that spending on essential services and infrastructure in places like Bangladesh, Indonesia and Papua New Guinea, is falling well short of what's needed to lift people out of poverty.

Rebecca Mark (pictured) is a student at Namta Primary School in the Eastern Highlands of Papua New Guinea (PNG). At the time this photograph was taken, Rebecca was 14 and had been at the school for seven years.

Until 2013, the school did not have any clean water facilities. Rebecca and her fellow students had to walk to a nearby river when they were thirsty, cupping it in their hands to drink, and after going to the toilet, they washed their hands at a muddy waterhole in the school grounds. In the image above, Rebecca is showing a glass of this water compared to a glass of clean water.

Poor water quality, and inadequate washing facilities, inevitably meant that children became sick, and regularly missed school. This is not uncommon in a country where around 60%[54] of the population does not have access to clean water.

Programs aimed at giving people access to clean water and sanitation can improve health and education outcomes. At Namta Primary School, two 9,000-litre water tanks were installed so that students could wash their hands with clean water and access clean drinking water. The same program involved the building of six new toilets, giving young women privacy and making it easier for them to maintain their personal hygiene when menstruating.

54 Oxfam Australia. (2010). Water in Papua New Guinea. Retrieved from https://www.oxfam.org.au/2010/10/water-in-papua-new-guinea/

Daulo district, Easter Highlands, Papua New Guinea: Rebecca and her fellow classmates previously had to wash their hands in dirty water collected from a waterhole (pictured at right) after going to the toilet. Photo: Rodney Dekker/OxfamNZ.

We estimate that harmful tax dodging by Australian-based multinational corporations will deprive PNG of around USD $1.5 million in public services related to water and sanitation over the next five years — enough to provide 1000[55] permanent toilets per year[56] for other students like Rebecca.

Legislation that requires Australian multinationals to report on and make public the profits they earn and the taxes they pay — in all the countries in which they operate — will help curb tax avoidance, because tax dodgers can be held to account. Just minor reductions in tax avoidance could make a huge contribution to lifting millions of people out of poverty in our region.

55 Ibid footnote 48.

56 This is based at a cost of USD $300 per permanent toilet, and pro-rata allocation of USD $1.51 million public sanitation expenditure across five years.

COUNTRY IN FOCUS: PNG

PNG, one of Australia's closest neighbours, is also one of the poorest in our region with a GDP per capita of USD $2,331 for a population of 7.5 million[57] in 2015. It is estimated that around 39.9% of the population live below the poverty line[58].

Given its geographical proximity to Australia, it is not surprising that Australia is PNG's main trading partner: nearly 36% of PNG exports are to Australia, and around 35% of PNG's imports are from Australia[59]. In 2014, Australian-based multinational corporations invested over AUD $11 billion in PNG[60].

The modelling undertaken for this report estimates that, due to Australian-based multinational corporations shifting profits to tax havens, PNG loses around USD $12 million in tax revenue annually. Over the next five years, this is around USD $17 million in public expenditure that would go towards essential services in PNG. Of this, we estimate that around $5.6 million will be ripped out of health services — that's enough to provide over 66,000[61] vaccinations at birth each year[62].

The resource sector, particularly gold mining and oil and gas, has traditionally been a focus of Australian-based multinational corporation investment[63]. As noted by the Australian Department of Foreign Affairs and Trade (DFAT), key Australian companies in the mining and petroleum sector in PNG include Santos, Oil Search Ltd and Highlands Pacific Ltd[64]. Other key investors in PNG include Australian-based companies Coca Cola Amatil, and Nestlé Australia[65].

57 DFAT. (2015). *Papua New Guinea* (Fact Sheet). Retrieved from http://dfat.gov.au/trade/resources/Documents/png.pdf

58 World Bank. (2009). *World Development Indicators* (PNG estimate in 2009). Retrieved from http://data.worldbank.org/country/papua-new-guinea

59 Ibid footnote 57.

60 Ibid footnote 57.

61 WHO. (2010). *Global Alliance for Vaccines and Immunization* (Fact Sheet). Retrieved from http://www.who.int/mediacentre/factsheets/fs169/en/

62 This is based at a cost of USD $17 per vaccine at birth, and pro-rata allocation of USD $5.6 million in public health expenditure across five years.

63 DFAT. (2015). *Papua New Guinea* (Country Brief). Retrieved from http://dfat.gov.au/geo/papua-new-guinea/pages/papua-new-guinea-country-brief.aspx

64 Ibid footnote 63.

65 Ibid footnote 63.

COUNTRY IN FOCUS: INDONESIA

Indonesia is one of the more highly populated countries in Australia's neighbourhood. With 252 million people in 2014[66], Indonesia is a key market for Australian exporters and investors. Although Indonesia's economy is large (USD $872 billion in 2015), their GDP per capita is still relatively low at around USD $3,400[67], and poverty remains entrenched, with around 11.3% of the population living below the poverty line[68].

The modelling undertaken for this report estimates that Indonesia is one of the countries most affected by Australian-based multinational corporations shifting profits to tax havens. We estimate that in 2014, the loss to Indonesia was around USD $344 million, and that over the next five years, around USD $685 million will be ripped out of essential public services expenditure. More than half of which would have gone towards education — enough to provide nearly 5000[69] classrooms per year[70]; and around $61 million is being torn out of public sanitation — this could provide over 40,000[71] permanent toilets each year[72].

Australian private sector investment in Indonesia in 2014 was around $8.1 billion[73]. The Department of Foreign Affairs and Trade (DFAT) reports that Australian companies are among the leading investors in Indonesia's resources and energy sector, and that more than 250 Australian-based companies have a presence in Indonesia[74].

66 DFAT. (2015). *Indonesia* (Fact Sheet). Retrieved from http://dfat.gov.au/trade/resources/Documents/indo.pdf

67 Ibid footnote 66.

68 CIA. (2014). *The World Factbook* (Indonesia estimate in 2014). Retrieved from https://www.cia.gov/library/publications/the-world-factbook/fields/2046.html

69 Ibid footnote 46.

70 This is based on a cost of USD $14,660 per classroom in 2016, and pro-rata allocation of USD $356.98 million in public education expenditure across five years.

71 Ibid footnote 48.

72 This is based at a cost of USD $300 per permanent toilet, and pro-rata allocation of USD $60.99 million public sanitation expenditure across five years.

73 DFAT. (2015). *Indonesia* (Country Brief). Retrieved from http://dfat.gov.au/geo/indonesia/Pages/indonesia-country-brief.aspx

74 Ibid footnote 73.

Mymensingh, Bangladesh: Razia (9) washes outside her home. Rapid urbanisation means more and more people are being crowded into inadequately serviced slums that lack adequate water and sanitation. Tom Pietrasik/Oxfam.

6. CONCLUSION

This report shows that tax minimisation schemes, particularly the use of tax havens, deprives governments of tax revenue at home and abroad. Developing countries are particularly vulnerable, and therefore substantially affected by harmful tax minimisation practices.

AUSTRALIAN GOVERNMENT ACTIONS DO NOT GO FAR ENOUGH

To their credit, the Australian Government and many OECD member countries have been working to reduce the tax losses that result from multinational tax avoidance. However, the vast majority of measures neglect the impact on developing countries. In this section, we identify inadequacies in the policies of the Australian Government, and provide policy recommendations required to tackle this issue at home and abroad. An extended analysis of the Australian Government's policies in this area is included in the Technical Appendix.

PUBLIC COUNTRY-BY-COUNTRY REPORTING

In December 2015, the Australian Government introduced legislation to curb multinational tax avoidance. Based largely on OECD recommendations, this legislation introduced country-by-country reporting of financial information for large companies. There are, however, two key concerns with the measures as they stand.

Firstly, the legislation only applies to companies with a global income of at least AUD $1 billion, which means it does not apply to many large companies.

Secondly, and perhaps more importantly, the financial information that must be reported is available only to the Australian Tax Office (ATO) and not the public. Furthermore, there are few information exchange agreements with the ATO and developing countries, and next to none with the poorest countries in our region, which makes it hard to hold large corporations to account. It also means that citizens both in Australia and affected developing countries do not have access to information about large companies' tax affairs for every country in which they operate.

There is, however, fair precedent for the level of transparency for which we are advocating, as explained below.

- Following widespread involvement of civil society organisations, legislation came into force in 2013 requiring European banks to publish information about their profits, turnover, staff, tax payments, and subsidies received in each territory in which they are established, including tax havens.
- The Dodd-Frank legislation passed in the US in 2010, will, when implemented, require all mining, oil and gas companies listed on the US stock exchanges — including Australian mining giants — to report on taxes paid to governments in the countries in which they operate. Canada has also implemented similar reporting standards for extractives companies, in order to support development in the countries where they operate and make it harder to conceal illicit payments.

We are also calling on the Australian government to legislate for mandatory disclosure reporting in the extractives sector. This legislation should require companies to report on taxes and profits on a project-by-project basis, and a country-by-country basis. For the extractives sector, aggregate payment information at a country level is limited, as royalties and other payments vary greatly and are usually negotiated on a project-by-project basis. Project-level data is therefore crucial so that citizens can track who is gaining from particular resources, and governments can more accurately track company compliance. Enacting this legislation is vital if we are to achieve true transparency in the extractives sector and bring Australia in line with other jurisdictions such as the Europe, the US and Canada.

Public country-by-country reporting, and public access to this information has four key benefits:

- It dissuades companies from offshoring their profits improperly and artificially.
- It ensures that all tax authorities, including those in developing countries, have access to the data. If reporting is not made public as advised by the OECD, there is a definite risk that developing countries will be unable to access the data.
- It allows investors, customers or company employees to better measure the risks the group could be exposed to (such as geopolitical, legal and financial), and therefore assists in the efficient allocation of capital across global financial markets.
- Public information enables media, civil society organisations, and the general public to hold large multinational corporations to account — this is part of any well-functioning democratic process.

DIVERTED PROFITS TAX AND COMPANY OWNERSHIP INFORMATION

Late in April this year, the Australian Government announced its commitment to a public register of ultimate owners of multinational corporations. While this is a welcomed announcement of a crucial step to preventing the use of shell companies to shift profits, the government needs to follow through with its promise.

The Treasurer, in his May 2016 Federal Budget, also announced a Diverted Profits Tax (DPT) of 40%, aimed at reducing the profits being diverted to tax havens. While this is a good measure, it has a key limitation, in that the DPT only activates if an Australian-based multinational corporation reduces its tax liability in Australia by 20%. This means that corporations can continue to divert profits up to this threshold in order to avoid detection.

RECOMMENDATIONS

Recent Oxfam research has shown that the global wealth inequality crisis is reaching new extremes. Power and privilege is being used to skew the economic system to increase the gap between the richest people and the rest of the world's population[75].Fiscal policy is the primary tool governments can use to affect income distribution, and therefore reduce inequality[76] because both tax and spending policies can alter the distribution of income, over the short and medium term. A faulty global tax system is one of the reasons that economic inequality continues to spiral out of control.

Consistent with analysis undertaken by UNCTAD and IMF, this report also finds that harmful tax evasion and avoidance practices affect developing countries the most. Our empirical analysis of foreign direct investment shows that developing countries exposed to tax havens experience lower reported profits than developed economies exposed to tax havens. However, tax dodging is a global problem, and also affects the lives of people living in Australia.

WHAT CAN THE AUSTRALIAN GOVERNMENT DO?

Australia is part of this global problem that affects lives at home and abroad. The poorest people, and women in particular, bear the brunt of harmful tax dodging. At a time when inequality is worsening around the world, and fighting poverty is harder than ever before, we are calling on the Australian Government to swiftly curb this menace by taking the following actions.

Make tax transparent at home and abroad.
Modify current legislation so that multinational companies with an income of AUD $250 million or more, and which function in or from Australia, report publicly on their incomes, employees, profits earned and taxes paid in every country in which they operate. Legislate so that highly localised industries, such as businesses in the extractives sector, are also required to report publicly on a project-by-project basis. These measures will make the use of tax havens more transparent.

75 Ibid footnote 12.

76 Ibid footnote 13.

Curb irresponsible use of tax havens.
Consult with the IMF and the OECD to develop a list of tax havens, and legislate disincentives, such as the proposed Diverted Profits Tax (DPT), to prevent companies from using these havens to avoid paying their fair share of tax. Transfer the burden of proof to companies, requiring them to demonstrate a legitimate reason for investing in a listed tax haven.

Make multinational ownership public.
Adhere to the commitment to establish a public registry of ultimate beneficial owners of companies, foundations, trusts, and accounts that include all companies registered in, or operating in and from Australia. In addition, commit to the establishment of a global centralised public register that also includes jurisdictions that are tax havens.

Strengthen laws to limit the use of tax tricks.
Prevent debt loading, by further limiting (or eliminating entirely) interest deductions and other financial payments on loans from foreign subsidiaries located in jurisdictions with low or no tax.

Share what we know.
Have the Australian Taxation Office and other appropriate agencies share country-by-country financial reports and companies' tax information with relevant developing countries' governments, beyond current OECD automatic information exchange arrangements and existing tax information agreements.

Support developing countries with tax infrastructure.
By sharing tax and financial information with tax authorities in developing countries, Australia can help to reduce tax-dodging practices by Australian-based multinational corporations operating in those countries. The Australian Government must also act to assist these countries develop mechanisms to identify tax dodging.

Support global action to end tax dodging.
Oxfam, along with many other international observers and experts, believes that a global tax body is the best way to end the use of tax havens by tax dodgers. The Australian Government needs to actively assist developing countries to participate in such a platform.

Tax dodging is a global problem that affects lives at home and abroad. Inaction by the Australian Government, and morally bankrupt practices of Australian-based multinational corporations that use tax havens are ripping millions out of the poorest communities in our region. At a time when global inequality is rising, it is crucial that the Australian Government acts to make tax fair by getting multinational corporations to pay their fair share of tax at home and abroad.

Dadaga Village, Niger: Binta Boukary and her daughter Fatima. Binta thanks her luck that Fati had access to treatment when sick. "If this [medicine] had not been available I would have lost my daughter to the fever. I was so worried; I couldn't sleep at night." Fati is one of the lucky ones. Many children in the developing world do not have access to appropriate medical care. Photo: Abbie Trayler-Smith/Oxfam.

7. TECHNICAL APPENDIX

This appendix provides:

- More information about tax avoidance and minimisation strategies
- More detail about the methodology used to analyse foreign direct investment data
- Detailed analysis of relevant policies of the Australian Government.

TAX MINIMISATION STRATEGIES

Though there are many ways for multinational corporations to minimise tax, according to UNCTAD (2015), the two main schemes[77] often quoted in the literature are "Transfer Pricing" and "Financing Schemes", which are described below.

TRANSFER PRICING

This scheme involves artificially manipulating prices (between entities) such that the costs of production are recorded as higher than they actually are, in order to reduce tax liabilities in a high-tax jurisdiction. Typically, multinational corporations use this scheme to price intangible assets such as Intellectual Property (IP) at a high value in a high-tax jurisdiction[78], thereby reducing tax due in that location. The Australian Tax Office (ATO) has rules to ensure that such activity is minimised by applying the "arm's length principle"[79]. Transfer pricing is particularly a problem in developing countries that do not have basic expertise and instruments to detect transfer pricing[80].

77 Ibid footnote 31.

78 Ibid footnote 31.

79 ATO. (2015). *International transfer pricing — applying the arm's length principle.* Retrieved from https://www.ato.gov.au/Print-publications/International-transfer-pricing---applying-the-arm-s-length-principle/

80 Ibid footnote 31.

FINANCING SCHEMES

This involves using an offshore entity to finance investments in a given country. By using an offshore entity where tax rules are lax, a multinational corporation is able to reduce its tax obligation in the country of investment. This scheme, typically used to finance investments in tangible assets (such as machinery and equipment), is particularly suitable for capital intensive industries (such as extractives)[81]. The country of investment is hit the most because the multinational corporation claims artificially high financing costs as an offset on profits generated in-country. This situation allows multinational corporations to avoid paying tax where economic activity takes place.

As noted by UNCTAD (2015)[82], these schemes are rarely used in isolation. However, both transfer pricing and financing schemes may use tax havens, though it is a necessary condition for the latter.

Other schemes that multinational corporations use include[83]:

- **Hybrid entities** — taking advantage of differences in classifications of entities and financing instruments;
- **Treaty shopping** — setting up entities in a jurisdiction only in order to obtain the tax benefits that are granted under the relevant tax treaty; and
- **Deferred repatriation** — where tax payments are deferred until profit is repatriated.

81 Ibid footnote 31.

82 Ibid footnote 31.

83 Ibid footnote 31.

Although multinational corporations use these, and many other minimisation schemes, to reduce tax liabilities in the countries in which they operate, this report focuses on the use of tax havens. Given that the report does not cover these other tax minimisation schemes, it is likely that the actual amount of tax avoided would be well above that estimated in this study. In other words, the estimates in this study are conservative.

Regardless of the strategy used, the common theme in all evasion and avoidance practices is the misalignment of tax liabilities and economic activity, achieved by inflating costs and reducing declared profits. There is no "magic bullet" solution to the problem: an overarching set of policy solutions is needed to correct this misalignment, and transparency of information must be at the heart of the changes.

TAX HAVENS IDENTIFIED BY INTERNATIONAL ORGANISATIONS

As noted in Chapter 3, there is no universal definition of a "tax haven" and therefore no universal list that is used by all countries and institutions. Some international bodies have created their own lists based on specific criteria. For the purposes of this study, we have adopted UNCTAD terminology[84], and consider "tax havens" as equivalent to Offshore Financial Centres (OFCs). We use the term "tax havens" because it is a colloquial term that encompasses both Special Purpose Entities (SPE) and Tax Havens, as per the UNCTAD definition of OFCs.

84 Ibid footnote 31.

Tax havens essentially have no or low effective taxes and no or low requirements for substantial economic activity. Although SPE countries also have no or low requirements for economic presence, they may have normal corporate tax rates. A key benefit for conduit investments is that SPE countries usually have large tax treaty networks that eliminate or substantially limit withholding taxes, and may also have tax exemptions for dividend income[85].

The jurisdictions considered to be "tax havens" for the purposes of this study is based on a review of several frequently used lists produced by nine international institutions. These include: United Nations Conference on Trade and Development (UNCTAD); International Monetary Fund (IMF); Bank for International Settlements (BIS); US Government Accountability Office (GAO); Financial Times Stock Exchange (FTSE); European Commission (EC); European Parliament (EP); Organisation of Economic Cooperation for Development (OECD); and Tax Justice Network's Financial Secrecy Index (FSI). The table below lists the 52 jurisdictions identified by these organisations.

85 Ibid endote 31

TABLE 6. JURISDICTIONS IDENTIFIED BY INTERNATIONAL ORGANISATIONS

	JURISDICTION	INTERNATIONAL ORGANISATIONS THAT HAVE IDENTIFIED THESE JURISDICTIONS AS TAX HAVENS								
		BIS	EC	EP	FSI	FTSE	GAO	IMF	OECD	UNCTAD
1	Andorra		Y	Y		Y	Y	Y		
2	Anguilla	Y	Y	Y	Y	Y	Y		Y	Y
3	Aruba	Y	Y	Y	Y	Y	Y	Y	Y	Y
4	Austria				Y					Y
5	Bahamas, The	Y	Y	Y	Y	Y	Y		Y	Y
6	Bahrain, Kingdom of	Y	Y	Y	Y	Y	Y		Y	Y
7	Barbados	Y	Y	Y	Y	Y	Y		Y	Y
8	Belgium									
9	Belize		Y	Y	Y	Y	Y	Y	Y	Y
10	Costa Rica		Y	Y	Y	Y	Y	Y	Y	Y
11	Bermuda		Y	Y	Y	Y	Y	Y	Y	Y
12	Virgin Islands, British	Y	Y	Y	Y	Y	Y	Y	Y	Y
13	Cayman islands				Y	Y	Y			
14	Curacao	Y			Y					
15	Cyprus		Y		Y	Y	Y	Y	Y	Y
16	Dominica		Y	Y		Y	Y		Y	Y
17	Delaware			Y	Y	Y				
18	Fiji			Y						
19	Gibraltar	Y	Y		Y	Y	Y	Y	Y	Y
20	Grenada		Y			Y	Y		Y	Y
21	Guam	Y		Y						
22	Guernsey		Y	Y	Y	Y	Y	Y	Y	Y
23	China, P.R.: Hong Kong	Y	Y	Y	Y	Y	Y			
24	Ireland					Y	Y			
25	Isle of Man	Y	Y	Y	Y	Y	Y	Y	Y	Y
26	Jersey	Y	Y	Y	Y	Y	Y	Y	Y	

TABLE 6. JURISDICTIONS IDENTIFIED BY INTERNATIONAL ORGANISATIONS (CONTINUED)

	JURISDICTION	INTERNATIONAL ORGANISATIONS THAT HAVE IDENTIFIED THESE JURISDICTIONS AS TAX HAVENS								
		BIS	EC	EP	FSI	FTSE	GAO	IMF	OECD	UNCTAD
27	Jordan					Y	Y			
28	Labuan, Malaysia			Y	Y			Y		
29	Lebanon	Y		Y	Y	Y	Y			
30	Liberia		Y		Y	Y	Y		Y	Y
31	Liechtenstein		Y	Y	Y	Y	Y	Y	Y	Y
32	Luxembourg				Y	Y	Y			
33	Macao, China, P.R.	Y		Y	Y	Y	Y	Y		
34	Maldives		Y	Y		Y	Y			
35	Malta		Y		Y	Y	Y		Y	Y
36	Marshall Islands, Republic of		Y	Y	Y	Y	Y		Y	Y
37	Mauritius	Y	Y	Y	Y	Y	Y		Y	Y
38	Monaco		Y	Y	Y	Y	Y	Y	Y	Y
39	Montserrat		Y	Y		Y	Y	Y	Y	Y
40	Nauru				Y	Y				Y
41	Netherlands		Y	Y					Y	Y
42	Niue		Y	Y		Y	Y		Y	Y
43	Palau			Y				Y		
44	Panama	Y	Y	Y	Y	Y	Y	Y	Y	Y
45	Sint Maarten	Y	Y	Y	Y	Y	Y	Y	Y	Y
46	Samoa	Y	Y	Y	Y	Y	Y	Y	Y	Y
47	San Marino	Y								
48	Seychelles		Y	Y					Y	Y
49	Singapore		Y	Y	Y		Y		Y	Y
50	St. Kitts and Nevis		Y	Y	Y		Y		Y	Y
51	St. Lucia		Y	Y	Y	Y		Y	Y	Y
52	St. Vincent and Grenadines			Y	Y	Y	Y			

Source: collated by Oxfam (2016) for the purposes of this study, using lists developed by nine international institutions.

METHODOLOGY

Given the opacity of the IMF data, it is no easy task to model the fiscal impact of the use of tax havens. There are two challenges that need to be overcome. Firstly, given that available data is bilateral (from one country to another) only, we cannot trace funds being "washed" in tax havens on their way to developing countries. Secondly, given the lack of country-by-country reporting data, profitability of investment and any inconsistencies in declared tax liabilities are also not directly identifiable.

ESTIMATING AUSTRALIAN-BASED MULTINATIONAL CORPORATE INVESTMENTS ROUTED VIA TAX HAVENS

Since the IMF CDIS is bilateral data only, it is not possible to identify when Australian investments are "washed" in tax havens (en route to developing countries) to minimise tax liabilities in the countries in which they operate.

To overcome this, we built an econometric model that estimates the relationship between global investment in the 20 tax havens we identified Australia-based multinational corporations use, and investments that countries received from those tax havens. In addition, we also modelled the relationship between investments that directly came from Australia (i.e. not channelled via tax havens) and investments countries received from those 20 tax havens.

The analysis revealed a statistically significant positive relationship between global investments in tax havens and the countries that receive investments from those tax havens. Broadly speaking, this relationship shows that the vast majority of increases in global investment in tax havens used by Australia-based multinationals are associated with investments received by countries that are not tax havens. This suggests that only a very small amount of global investment "stays" in tax havens and the rest "leaves" — which confirms the conduit nature of tax havens[86].

86 More strictly, the estimated coefficient suggests that a 1% increase in global investment in tax havens used by Australia-based multinationals is associated with a 0.89% increase in investments received from those tax havens, on average.

In addition, we found that there is a statistically significant positive association between direct investment from Australia, and investments received from tax havens used by Australian-based multinational corporations[87]. This suggests that while there might be some direct investment in developing countries, there are also many investments routed via tax havens, possibly to supplement the direct investment in-country.

The estimates from this model are stylised since they are based on "averages", rather than traceable individual company investment flows, which, as previously noted, remain hidden from public view. It would take a leak of massive proportions, or new laws on transparency like those we have called for, to make this information easily accessible. Although, as with any model, estimates for any individual country may be above or below the average, these estimates are statistically valid measures and therefore useful to reveal the scale of Australian-based multinational "conduit" investment.

ESTIMATING PROFITS SHIFTED DUE TO AUSTRALIAN-BASED MULTINATIONAL CORPORATIONS USING TAX HAVENS

As noted by UNCTAD (2015)[88], there are two approaches to estimating profit shifting and associated tax losses: trade mispricing; and profitability. The former relates to tax minimisation associated with operating costs, while the latter relates to financing costs.

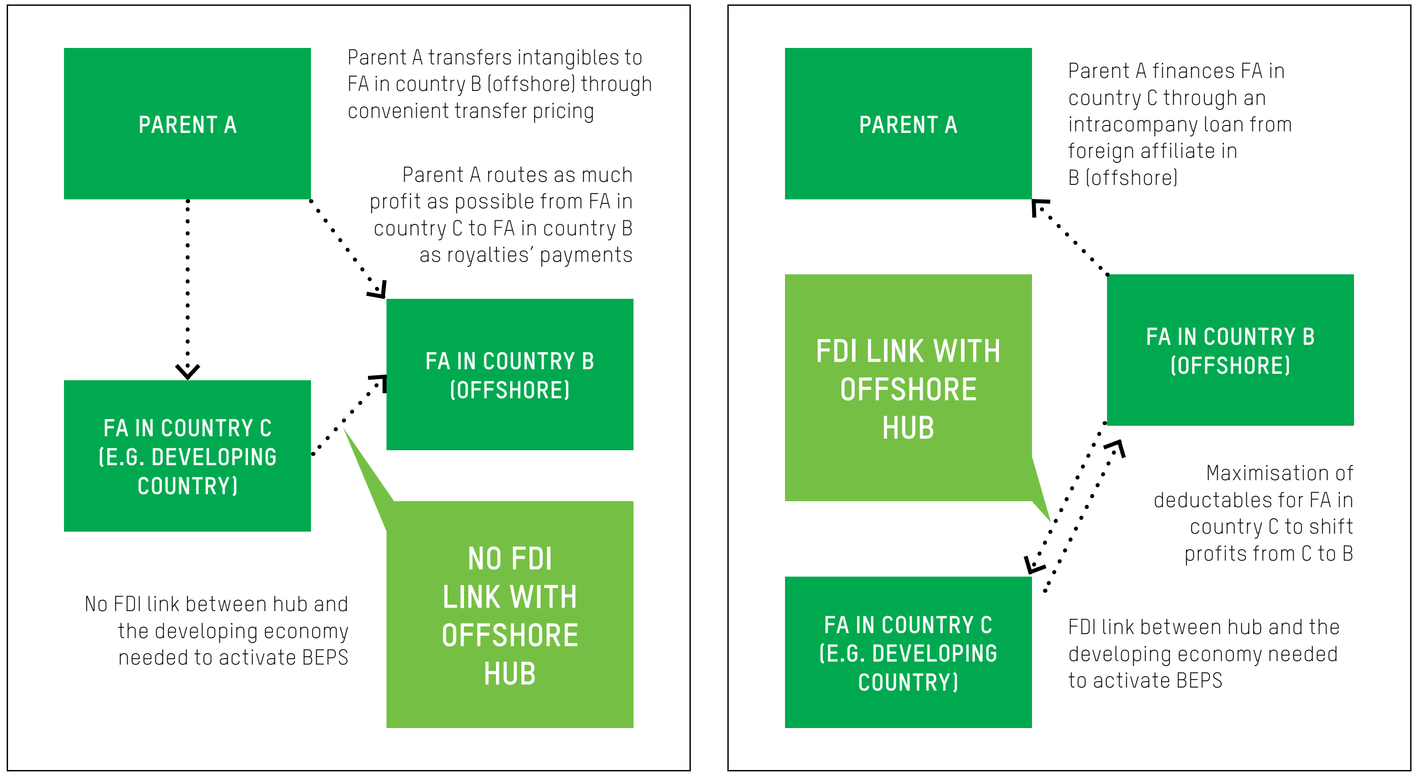
87 Strictly speaking, the estimated coefficient suggests that a 1% increase in direct investment from Australia is associated with a 0.11% increase in investments received from those tax havens used by Australia-based multinational corporations, on average.

88 Ibid footnote 31.

FIGURE 8. TWO APPROACHES TO ESTIMATING PROFIT SHIFTING

NO DIRECT FDI LINK WITH OFFSHORE HUB
Example: Transfer-pricing scheme

DIRECT FDI LINK WITH OFFSHORE HUB
Example: Financing scheme



Source: adapted from UNCTAD (2015).

The "trade mispricing" approach relates to the "transfer pricing" tax trick, and does not necessarily involve the use of tax havens. For example, two companies operating in two countries with different tax rates (where neither tax rate is zero) can alter prices so that profits appear in the jurisdiction with the lower tax rate.

The "profitability approach" is based on a negative relationship between a country's exposure to tax havens and the profits generated by Foreign Direct Investment (FDI). This approach relates to the "financing schemes" tax trick. UNCTAD (2015)[89] found that countries that are more exposed to investments from tax havens (or more strictly — being channelled via tax havens) tend to have a lower rate of return on FDI. Following UNCTAD (2015)[90], we have used the profitability approach in this report to estimate profit shifting, because it directly relates to lost tax revenue due to the use of tax havens.

89 Ibid footnote 31.

90 Ibid footnote 31.

Using data for the period 2009-2014, our findings were similar to those of UNCTAD (2015)[91]: that there is a statistically significant negative association between the extent of a country's exposure to tax havens (expressed as a share of total FDI coming from tax havens) and the profitability of foreign direct investments. This implies that countries that are more exposed to tax havens experience lower reported profits as a result of financing schemes that are designed to "shift" profits.

Our econometric analysis finds that when 10% of a developing country's total FDI stock comes from the tax havens identified in this study, the rate of return on the FDI stock (net reported profit) is, on average, around 1.8% lower. The profit lost for developed countries is lower: a 1.5% lower rate of return for 10% exposure. This suggests that developing countries are affected more by multinational corporations using tax havens than are wealthier countries — which is consistent with the findings of research undertaken by UNCTAD and IMF.

91 Ibid footnote 31.

TECHNICAL DESCRIPTION OF ECONOMETRIC MODELLING

The data used in the econometric analysis is from IMF CDIS, which has a panel structure with 6 years (2009 to 2014) and 196 countries (unbalanced). This section provides an overview of the technical aspects of the modelling and the models' specifications.

MODEL 1: AUSTRALIAN USE OF TAX HAVENS AS A FOREIGN INVESTMENT CONDUIT

The sample used in the estimation consists of 55 countries (developing and developed) that receive investments from the 20 tax havens used by Australia-based multinational corporations. The dataset has a panel structure (6 years), though it is unbalanced in nature.

The model is estimated using a Fixed Effects estimator (time and unit effects), which is supported by relevant diagnostic tests[92]. The estimation equation is given by:

$$Y_{i,t} = \beta_0 + \beta_1 X_{1,i,t} + \beta_2 X_{2,i,t} + \delta_t + \varepsilon_{i,t}$$

where:

Y denotes the investment received by each country (i) from the tax havens used by Australian multinational corporations;

X_1 denotes global investment to the tax havens used by Australian multinational corporations;

X_2 denotes direct Australia investment to each country;

δ_t represents time fixed effects; and

ε is the error term.

Control variables used include corporate income tax rates and per-capita GDP. All variables other than the controls enter the model in natural logs, and therefore estimated coefficients are elasticities. Alternative functional forms and specifications were tested as part of robustness tests.

92 Robust test for differing group intercepts rejects the null of common intercept. Hausman test rejects the null that GLS estimates for Random Effects are consistent.

MODEL 2: SHIFTED PROFIT DUE TO TAX HAVEN EXPOSURE

The full sample used in the two estimations consist of 90 countries for the period 2009-2014. We excluded the 38 tax haven countries because the objective of the analysis is to estimate the impact of profit shifting that are the result of the use of tax havens. The dataset has a panel structure, though unbalanced in nature. Unlike Model 1, the focus is not only on countries with investments received from tax havens used by Australia. Instead, the sample is expanded to include countries that receive investments from 51 tax havens identified by nine international organisations[93].

The model is estimated using a Random Effects estimator (with time effects), which is supported by relevant diagnostic tests[94]. The estimation equation is given by:

$$ROR_{i,t} = \beta_0 - \beta_1 Exposure_{1,i,t} + \delta_t + \varepsilon_{i,t}$$

where:

ROR denotes the Rate of Return on total FDI (Balance of Payments FDI income (after tax) as a share of Total FDI) for each country

$Exposure_1$ represents each country's exposure to tax havens (share of total FDI received from tax havens);

δ_t denotes time fixed effects; and

ε is the error term.

Unlike Model 1, this model is estimated over two samples: 55 developing countries, and 35 developed countries. Significant outliers are dropped in both estimations. Control variables used in the developed country sample include corporate income tax rates, per-capita GDP, and private sector credit as a share of GDP. For the developed country sample estimation, per capita GDP is replaced with mining rent as a share of GDP. All variables (except controls in the developing country sample) enter the models in natural logs, and therefore estimated coefficients are elasticities. Alternative functional forms and specifications were tested as part of robustness tests.

ADDITIONAL SCENARIO OF LOST TAX REVENUE

It is possible that the owners of Australian-based capital are using multiple locations of investments before funds end up in tax havens. Given data constraints, it is impossible to model this case with reasonable accuracy. There is likely to be some Australian investments in countries that are not tax havens, where multinational corporations based in those countries channel investments via tax havens. Conversely, it is also possible that capital from overseas is being invested in Australia, which then makes its way to tax havens.

This web of investment is huge and complex, and not observable in the IMF CDIS bilateral investment data. This is why it is crucial that beneficial ownership structures of companies are made public. A public registry of ultimate beneficial owners would provide information about the origin and multiple destinations of investments via structures of ownership, thereby increasing transparency and accountability.

To represent the possibility that Australian-based investment in tax havens might be routed via non-tax haven countries, we have developed an additional scenario using the upper (95%) confidence interval[95] of Model 2. This represents the upper limit of the tax loss to developing countries as a result of tax dodging by Australian-based multinationals. The results of this simulation are shown in Table 7.

In aggregate, we estimate the tax loss to be around USD $3.8 billion, with shifted profit as high as USD $13 billion.

93 The model was also tested for the IMF list of tax havens, and for the 20 OFCs used by Australia-based multinational corporations. The results are largely similar, which supports the notion that parameter estimates are not highly sensitive to the definition of tax havens.

94 Fixed Effects estimates were not significant. Hausman test does not reject the null that GLS estimates for Random Effects are consistent. In addition, the Breusch-Pagan test rejects the null that the variance of the unit-specific error is zero. Taken together, these diagnostics support the use of Random Effects estimator

TABLE 7. UPPER CONFIDENCE INTERVAL SIMULATION OF LOST TAX REVENUE (USD $ MILLIONS) IN 2014 IN SELECTED DEVELOPING COUNTRIES

DEVELOPING COUNTRIES THAT RECEIVE FDI FROM TAX HAVENS USED BY AUSTRALIAN CORPORATIONS	SIMULATED (GROSS) PROFIT SHIFTED	LOST TAX REVENUE (USING FIXED ERT 20%)	LOST TAX REVENUE USING COUNTRY SPECIFIC CTR
Brazil	$2,768.03	$553.61	$941.13
Indonesia	$2,055.68	$411.14	$575.59
India	$1,502.59	$300.52	$510.73
Kazakhstan	$1,156.17	$231.23	$231.23
Mexico	$704.72	$140.94	$197.32
Thailand	$639.73	$127.95	$191.92
Nigeria	$548.20	$109.64	$164.46
Philippines	$511.44	$102.29	$153.43
South Africa	$353.44	$70.69	$122.11
Romania	$549.60	$109.92	$87.94
Mongolia	$309.74	$61.95	$83.63
Turkey	$399.81	$79.96	$79.96
Bulgaria	$235.04	$47.01	$63.46
Botswana	$222.38	$44.48	$55.60
Ghana	$180.81	$36.16	$48.82
Ukraine	$174.65	$34.93	$43.66
Sri Lanka	$85.16	$17.03	$29.81
Moldova	$78.53	$15.71	$21.20
Uganda	$69.79	$13.96	$20.94
Tanzania	$67.85	$13.57	$20.35
Papua New Guinea	$69.76	$13.95	$18.84
Bangladesh	$43.66	$8.73	$12.01
Peru	$31.76	$6.35	$9.53
Pakistan	$19.11	$3.82	$6.69
TOTAL	**$12,932.25**	**$2,586.45**	**$3,729.06**

95 Strictly speaking, the confidence interval represents the fact that we can be 95% certain that the mean relationship between exposure to tax havens and shifted profit sits between the upper and lower estimates of Model 2. In other words, this simulation captures the possibility that tax revenue losses due to tax havens exposure could be higher than implied by the average of Model 2.

DETAILED POLICY ANALYSIS

This section contains an analysis of current Australian Government policies, including inadequacies and recommendations for policy changes that will tackle tax dodging at home and abroad. The findings of this analysis have been used to develop the recommendations in this report.

CURRENT ARRANGEMENTS	IDENTIFIED INADEQUACY	RECOMMENDED POLICY SOLUTIONS
LIMITED AUTOMATIC EXCHANGE OF TAX AND FINANCIAL INFORMATION		
Australia recently adopted the Common Reporting Standard (CRS) to enable Automatic Exchange of Financial Information (AEOI) with participating overseas tax authorities.	It excludes many developing countries' and least developed countries. The information is only exchanged between tax authorities.	While all countries should commit to implement Automatic Exchange of Information, Australia can still act now to make this information public, so that all countries can access the information.
Australia is party to Taxation Information Exchange Agreements (TIEAs) with OECD member countries and committed jurisdictions. TIEAs aim to establish effective information exchange and improve transparency of taxpayers' financial arrangements/transactions for tax purposes.	Information can only be provided on request, which means that a jurisdiction is not obliged to provide information if the other jurisdiction has not asked for it.	Broaden the scope of TIEAs. Develop more sophisticated cooperation and sharing arrangements between Australia and other countries with jurisdictions outside AEOI mechanisms.
NO FORMAL MECHANISM FOR DISPUTE RESOLUTION BETWEEN TAX AUTHORITIES		
There are a number of agreements in place between consenting tax authorities. These include: OECD convention on mutual administrative assistance in tax matters (OECD convention); Multilateral Competent Authority Agreement (MCAA); and Standards of Automatic Exchange of Information (AEOI Standards).	The AEOI Standard can rely on either a bilateral legal instrument (such as a treaty) or a multilateral legal instrument (such as the OECD Convention) as its legal basis, which means that many jurisdictions may end up picking and choosing the jurisdictions they would exchange information with.	Develop a multilateral instrument to modify tax treaties to efficiently implement the tax treaty-related Base Erosion and Profit Shifting (BEPS) measures outlined by the OECD.

* Challenges with the practical implementation of AEOI due to lack of capacity in some developing countries.

CURRENT ARRANGEMENTS	IDENTIFIED INADEQUACY	POLICY SOLUTION
DISINCENTIVES TO DISCOURAGE THE USE OF TAX HAVENS THAT ARE NON-CO-OPERATIVE		
Tax Administration Act 1953, and Tax Laws Amendment (Combating Multinational Tax Avoidance) Bill 2015. The amendment was introduced to tackle multinational tax avoidance in-line with OECD guidelines.	The current legislation does not provide adequate measures to prevent harmful use of tax havens and Special Purpose Entities.	Develop a list of tax aggressive and non-cooperative list of jurisdictions, in consultation with international organisations. Grant the Tax Commissioner the power to deny any claimed deduction for a transaction with any such identified jurisdiction, and place the onus on the company to demonstrate legitimate investment. Lower the 20% threshold on Australian tax liability in the recently announced Deferred Profits Tax (DPT).

CURRENT ARRANGEMENTS	IDENTIFIED INADEQUACY	POLICY SOLUTION
INTERNATIONAL COOPERATION ON TRANSFER PRICING AND THIN CAPITALISATION RULES		
Australia introduced rules to minimise thin capitalisation by altering the "safe harbour" debt ratio. The ATO also enforces the "arm's length" principle to ensure that debt/equity costs from related entities are minimised.	Abuse of transfer pricing may be a particular problem for developing countries, as companies might take advantage of weak monitoring infrastructure to get around exchange controls and to repatriate profits in a tax-free form. OECD Guidelines have a three-tiered approach to review documentation: in Australia, companies are required to submit only one form of documentation, unless considered high risk.	Proactively exchange information with tax authorities in developing countries. Implement public country-by-country reporting requirements to help developing countries limit transfer pricing and thin capitalisation issues. Assist developing countries with tax monitoring so that they can develop the necessary infrastructure to limit these tax dodging practices.
	The current Australian laws on debt loading still allow for *some* debt loading via worldwide gearing ratio rules.	Prevent debt-loading by further limiting (or eliminating entirely) interest deductions and other financial payments on loans from foreign subsidiaries located in low or no tax jurisdictions.
PUBLIC COUNTRY-BY-COUNTRY (CBC) REPORTING OF FINANCIAL INFORMATION		
The Tax Laws Amendment (Combating Multinational Tax Avoidance) Bill 2015 introduced country-by- country reporting for entities with a global income over AUD $1 billion.	This information is to be exchanged between tax authorities only, which means that neither the public nor civil society organisations will be able to access this information. Developing countries that are not party to the AEOI standard will not receive this information.	Make public the country-by-country financial information, including incomes, assets, employees, profits earned and taxes paid in every country in which they operate. Legislate so that highly localised industries, such as businesses in the extractives sector, are also required to report on a project-by-project basis.
The current global revenue threshold is based on the OECD commitment of EUR € 750 million (AUD $1 billion).	This threshold excludes some large MNCs operating in Australia and overseas.	Modify legislation so that reporting requirements apply to multinational companies with an income of AUD $250 million (ATO definition*) or more.
	Current legislation only requires companies to disclose subsidiaries that are material to its operations.	Modify legislation so that companies must disclose all subsidiaries, not just those that the company deems material to its activities.
PUBLIC REGISTER OF BENEFICIAL OWNERSHIP		
The Australian Securities and Investments Commission (ASIC) maintains a corporate database of companies registered in Australia. The Australian Government recently announced its intention to make this information public.	It is not clear if the public register will include companies registered overseas.	Follow through with the public commitment and develop a public register of ultimate beneficial owners of companies registered in or operating in (and from) Australia.
CORPORATE SECTOR WHISTLE-BLOWER LEGISLATION		
Australia has good laws to protect whistle-blowers in the public sector.	There is no such legislative protection for employees in the private sector.	Follow through with the commitment to develop legislation that protects whistle-blowers in the private sector. Provide financial incentives based on the ability to collect funds. G20 countries made a commitment to such legislation in 2010 and 2012.
REFORM AUSTRALIA'S ANTI-MONEY LAUNDERING LAWS		
The *Anti-Money Laundering and Counter-Terrorism Financing Act 2006* is the key legislative instrument to prevent financial laundering.	The current legislation does not cover lawyers, accountants, corporate service providers, or real estate agents.	Amend the legislation to include these services that are often at the heart of secretive offshoring of individual wealth, and profits of multinational corporations.

* ATO. (2016). *Large business.* Retrieved from https://www.ato.gov.au/business/large-business/

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