Oxfam Australia research note:

Fiscal impact of Australian-based multinational corporations using the world's worst corporate tax havens

In June 2016, Oxfam Australia launched its report *The Hidden Billions – How tax havens impact lives at home and abroad*. Applying econometric modelling to the latest available International Monetary Fund (IMF) data on Foreign Direct Investment (FDI), the report revealed that tax haven use by Australian-based multinationals cost Australia around USD $4.8 billion in lost tax revenue annually, and cost developing countries an estimated USD $2.3 billion every year. The report was launched with an online poll that showed that 90 per cent of Australians polled think the Government should do more to stop multinational corporations avoiding paying tax in Australia and in every country in which they operate.

In this Research Note, we provide additional analysis using the econometric model based on UNCTAD (2015), and outlined in the Technical Appendix of *The Hidden Billions*. The table below shows the estimated amounts of tax foregone by Australia, due to tax dodging multinationals shifting profits to the world's worst corporate tax havens[1] . Upper, lower, and average estimates are provided for both the statutory Corporate Tax Rate (CTR), and Effective Tax Rate (ETR).

In aggregate, these tax havens are estimated to have cost Australia around **$3.6 to $4.3 billion US dollars** in the year ending December 2014 – which is the most recent data available. This accounts for around 90% of Australia's lost tax. Based on the best publicly available data, the modelling also shows that of the 15 worst tax havens, **The Netherlands (US $1.5 billion), Switzerland (US $0.8 billion), and Singapore (US $1.10 billion) are the top three tax havens used by tax dodging Australian-based multinationals**.

[1] Refer to the *Tax Battles* report for more information on how and why Oxfam identified these jurisdictions as the world's worst corporate tax havens.

TABLE 1. ESTIMATED AUSTRALIAN TAX LOST TO WORLD'S 15 WORST TAX HAVENS

	Mean estimate		Lower limit (90% CI)		Upper limit (90% CI)	
	CTR (30%)	ETR (25%)	CTR (30%)	ETR (25%)	CTR (30%)	ETR (25%)
Bermuda	$0.35 B	$0.29 B	$0.19 B	$0.16 B	$0.77 B	$0.64 B
Cayman Islands	C	C	C	C	C	C
Netherlands	$1.48 B	$1.23 B	$0.80 B	$0.67 B	$3.22 B	$2.69 B
Switzerland	$0.73 B	$0.61 B	$0.40 B	$0.33 B	$1.60 B	$1.33 B
Singapore	$1.08 B	$0.90 B	$0.59 B	$0.49 B	$2.35 B	$1.96 B
Ireland	$0.03 B	$0.03 B	$0.02 B	$0.01 B	$0.07 B	$0.06 B
Luxembourg	$0.10 B	$0.08 B	$0.05 B	$0.05 B	$0.22 B	$0.18 B
Curacao	$0.00 B	$0.00 B	$0.00 B	$0.00 B	$0.00 B	$0.00 B
Hong Kong	$0.44 B	$0.37 B	$0.24 B	$0.20 B	$0.96 B	$0.80 B
Cyprus	C	C	C	C	C	C
Bahamas	$0.04 B	$0.04 B	$0.02 B	$0.02 B	$0.09 B	$0.08 B
Jersey	$0.08 B	$0.07 B	$0.04 B	$0.04 B	$0.17 B	$0.14 B
Barbados	C	C	C	C	C	C
Mauritius	C	C	C	C	C	C
British Virgin Islands	C	C	C	C	C	C
TOTAL	**$4.33 B**	**$3.61 B**	**$2.35 B**	**$1.96 B**	**$9.46 B**	**$7.88 B**

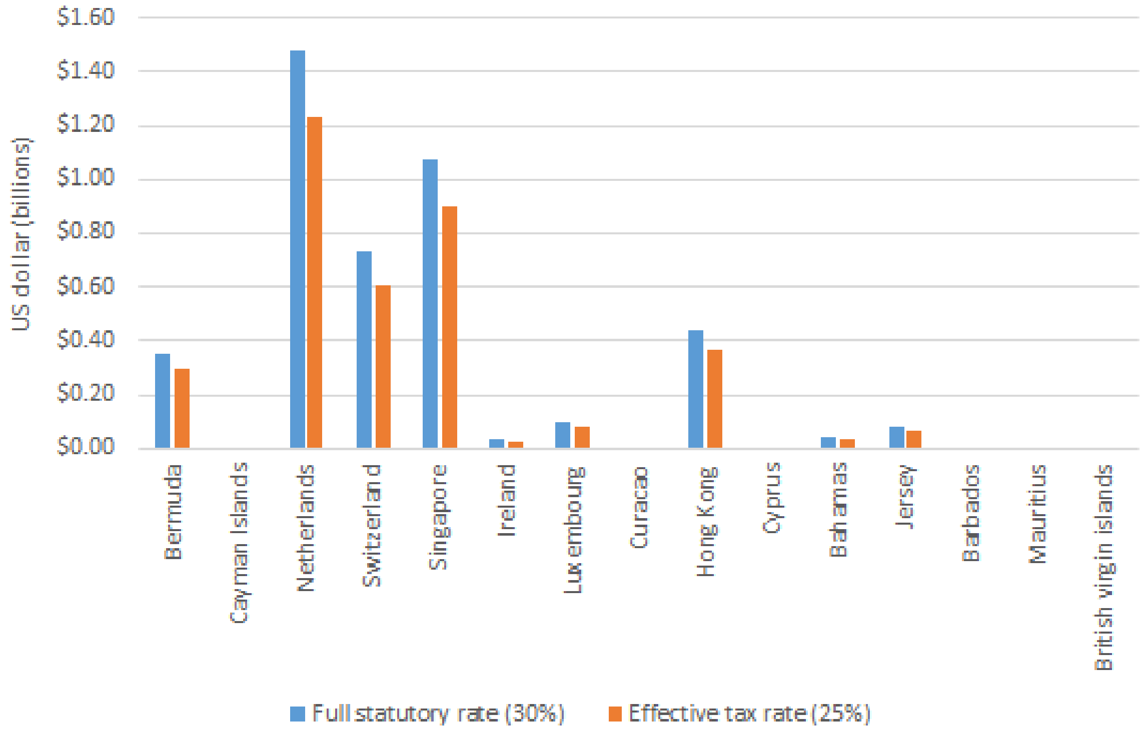
Source: Oxfam (2016) calculations, using IMF CDIS FDI Inward Reporting Economy data (2016).

Notes: Econometric modelling from *The Hidden Billions* (2016). Cells with "c" reflect data that were suppressed by the reporting economy to preserve confidentiality in the IMF CDIS (2016) Inward FDI dataset. Since Switzerland was not included in the June 2016 report, a downward adjustment factor has been applied to derive these tax loss estimates. 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.

The tax loss estimates, using the mean estimates of the econometric modelling, are also reported in the graph below for both corporate and effective tax rates. The estimates in the *Hidden Billions* report are based on econometric modelling applied to International Monetary Fund (IMF) Foreign Direct Investment (FDI) data for the period 2009-2014, which is the latest available. Pages 44-46 of *The Hidden Billions* report outline the methodology, which, as noted on p. 44 of the report follows the econometric modelling approach adopted by the United Nations Conference on Trade and Development (UNCTAD).

Since country-by-country reporting is not public in Australia, IMF FDI data was used to conduct aggregated data analysis. This is why **it is crucial that the Australian Government modifies current legislation so that multinational companies that function in or from Australia report publicly on their incomes, employees, profits earned and taxes paid in every country in which they operate.** The Australian Government should also legislate so that highly localised industries, such as businesses in the extractives sector, are required to report publicly on a project-by-project basis. These measures will make the use of tax havens more transparent.

FIGURE 1. ESTIMATED AUSTRALIAN TAX LOST TO EACH TAX HAVEN - 2014



Source: Oxfam (2016) calculations, using IMF CDIS FDI Inward Reporting Economy data (2016).

Notes: Econometric modelling from *The Hidden Billions* (2016). Cayman Islands, Barbados, Cyprus, Mauritius, and British Virgin Islands do not have tax loss estimates because Inward FDI data was suppressed by the reporting economy to preserve confidentiality in the IMF (2016) dataset. Since Switzerland was not included in the June 2016 report, a downward adjustment factor has been applied to derive these tax loss estimates.