



# AFRICA - Tax Evasion

SMA Justice Briefing No 13

"You shall love your neighbour as yourself." Mark 12:31

Money, money, money - it's  
a rich man's world.

## ROBBING THE POOR TO PAY THE RICH - Corporate Tax Evasion

In western countries taxation plays an important role in the distribution of benefits to citizens. Services such as water, sanitation, health care and education are provided by the State and financed through Tax revenues. In most developing countries and especially in Africa this tax benefit relationship has not been established simply because taxes due are not paid.

**"We estimate that tax dodging by some unscrupulous multinational companies costs impoverished countries as much as \$160 billion each year, which is far more than they receive in aid."** Christian Aid

Governments have the right to tax profits made on economic activities within their borders so that their citizens can enjoy the benefits this brings. However, in developing countries the exercise of this right is frustrated by some multinational companies who evade tax in a very calculated and deliberate way. (See reverse)

Unpaid tax revenue could, according to some experts, more than cover the cost of achieving the UN's Millennium Development Goals, a series of targets agreed by the 189 UN member States in 2000 to build a better world for humanity by 2015. Tax revenues would allow the achievement of these Development Goals in relation to health, education and the reduction of poverty. However, instead of bringing all these needed benefits to the poorest, evaded tax fattens the profit margins of wealthy corporations and individuals.

Africa already bears the financial weight of Debt repayments. **Tax revenue loss is another unjust burden that is squeezing more out of Africa.**

Corporate tax avoidance is theft that perpetuates underdevelopment, Aid dependence and Debt. This tax fraud is further impoverishing the world's most vulnerable people.



## BREAKING THE CYCLE OF INJUSTICE

The complex and secretive world of tax avoidance is fuelled by greed and enabled by banking secrecy and the lack of political will in the developed world. As a result in spite of an abundance of natural and human resources, more wealth flows out of Africa than in. Debt repayments and Tax avoidance are the main reasons for this deficit. At the same time Aid Agencies, International donors and individuals are putting money into Africa but this only makes up part of the deficit. Both Africans and donors are losing out - both are using up their limited resources and wealth is pouring out of Africa. For every dollar Africa receives in Aid, five dollars flows out in debt servicing and tax evasion.

In this scenario the only beneficiaries are those who extract profits from Africa's debt and through tax avoidance. They are, in affect, taking money from the pockets of both Africans and donors alike. **This is an unjust, wasteful and illogical situation that sustains a cycle of dependence, underdevelopment and poverty.** A significant contribution could be made to breaking this cycle if companies were required to declare their profits on a country by country basis. This would allow authorities in developing countries to trace and levy the taxes needed to reduce Aid dependence and secure a sustainable source of income.

## TIME FOR CHANGE

For years NGO's have called for new regulations requiring tax havens to disclose information on money entering their jurisdictions. Western Governments (who ultimately have the power to reform banking and accounting rules) such as those of the US, Germany, France and the UK and also international groupings such as the G20 have made frequent conciliatory noises about shutting tax loopholes. However, they have taken no decisive action to remedy the situation. **This lack of action amounts to an unspoken approval that is, in effect, perpetuating deprivation in Africa and in other developing nations.** Effective tax systems are needed to stop multinationals exploiting financial loopholes that deprive African countries of sustainable revenue for development.

The benefits of fair tax systems would be manifold. Levied taxes would replace much of the Aid spent in poorer countries. The sustainable income provided through taxation would not only encourage improved services and development but also good governance. Taxes help make governments more accountable, political systems more democratic and countries more stable. Ultimately even Multinational Companies working in such an environment would also benefit from political stability, better infrastructure and a more educated and healthy workforce.

## CHURCH SOCIAL TEACHING

The Encyclical *Caritas in Veritate* identifies under-development in the world as being due to *"the lack of brotherhood among individuals and peoples."* Below are some quotations relevant to tax evasion. They make it clear that these practises are contrary to the social teaching of the Church in that they do not respect the principle of Human Dignity as they deprive people of what is rightfully theirs, or the principles of Solidarity and the Common Good as they essentially promote greed and the hoarding of wealth by a few to the detriment of the many.

*"Once profit becomes the exclusive goal, if it is produced by improper means and without the common good as its ultimate end, it risks destroying wealth and creating poverty. Economic development ... is meant to produce real growth, of benefit to everyone and genuinely sustainable".* Par 21

*"What should be avoided is a speculative use of financial resources that yields to the temptation of seeking only short-term profit, without regard for the long-term sustainability... in countries in need of development."* Par 40

*"Due consideration for the way in which the capital was generated and the harm to individuals that will result if it is not used where it was produced... it is not right to export these things merely for the sake of obtaining advantageous conditions.....without making a real contribution to local society by helping to bring about a robust productive and social system, an essential factor for stable development."* Par 40

**The massive flow of illicit money out of Africa is facilitated by a global shadow financial system comprising of tax havens, disguised corporations, anonymous trust accounts, fake foundations, trade mis-pricing and money laundering techniques.**

Global Financial Integrity - see [www.gfip.org](http://www.gfip.org)

## TAX DODGING – How it works

Because Multinational Companies report their profits and taxes on a worldwide basis rather than country by country it is very difficult for national authorities to calculate taxes due in their particular country.

Most African governments lack the resources and access needed to unravel the complicated financial dealings of multinational companies whose turnover is often many times more than their annual budgets. To make matters even less clear unscrupulous companies move profits from subsidiaries in developing countries to places where they have to pay the least amount of tax - i.e. to tax havens such as the Cayman Islands, Jersey, Bermuda, Switzerland etc. This process is called "capital flight" and it is made possible by the secrecy of the global financial system. Christian Aid defines capital flight as *"the unrecorded and untaxed illicit leakage of capital and resources out of a country."* It is believed that in the Cayman Islands alone Banks hold at least five trillion dollars (that is five million, million dollars) in non-residential accounts.

One way used to avoid tax is to inflate the cost of raw materials, machinery and also the value of less tangible assets such as management costs and administrative services. In this way profits and therefore the taxes due on them are artificially reduced. Another tactic is to secretly send locally earned funds offshore and then bring them back as "foreign investment" to avail of preferential tax treatment.

Accountancy firms operating on behalf of Multinational clients deliberately develop tax minimising "products" for their clients. These exploit loopholes in international and national laws and make full use of banking secrecy and data protection rules in order to conceal cash transfers. While most of these schemes may technically be legal their effect is most certainly morally wrong and unjust.

The net effect of hiding profits is that the countries where they are generated are deprived of the tax revenue they are entitled to and consequently of the development and essential services they need. **For multinational companies tax evasion means greater profits - for Africans it is a matter of life and death.**

**ACTION FOR TAX JUSTICE:** Christian Aid and Debt and Development Coalition Ireland (DDCI) are, at present, campaigning for a just tax regime. Specifically they seek for increased tax transparency through reformed accountancy rules that make country-by-country tax reporting a legal requirement. They are also calling on Unilever and Vodafone to pave the way by voluntarily adopting country by country profit and tax disclosure and so become examples of good practise for other companies to follow.

Nessa Ni Chasaide from Debt and Development Coalition Ireland said;  
***"Companies are increasingly investing time and money into corporate social responsibility, but they need to recognise that paying the right amount of tax in the right place is essential to doing business in an ethical way."***

In addition Christian Aid is also focusing on the November 2011 G20 Meeting which will be held in France. It wants to put pressure on the G20 and on member Governments to keep previously made pledges to close tax loopholes and so end, what is by neglect, a tacit acceptance and support for the tax evasion that is preventing development in African countries.

**For more information and to support Action for Tax Justice visit [www.debtireland.org](http://www.debtireland.org) and [www.christianaid.ie/tax](http://www.christianaid.ie/tax)**



**Tax Revenue could support the development of roads, water and agricultural projects.**