

Taxes, Tax Havens and Public Services: what are the links?

PIPSC Ontario Steward Council Meeting
21 September, 2019, Toronto

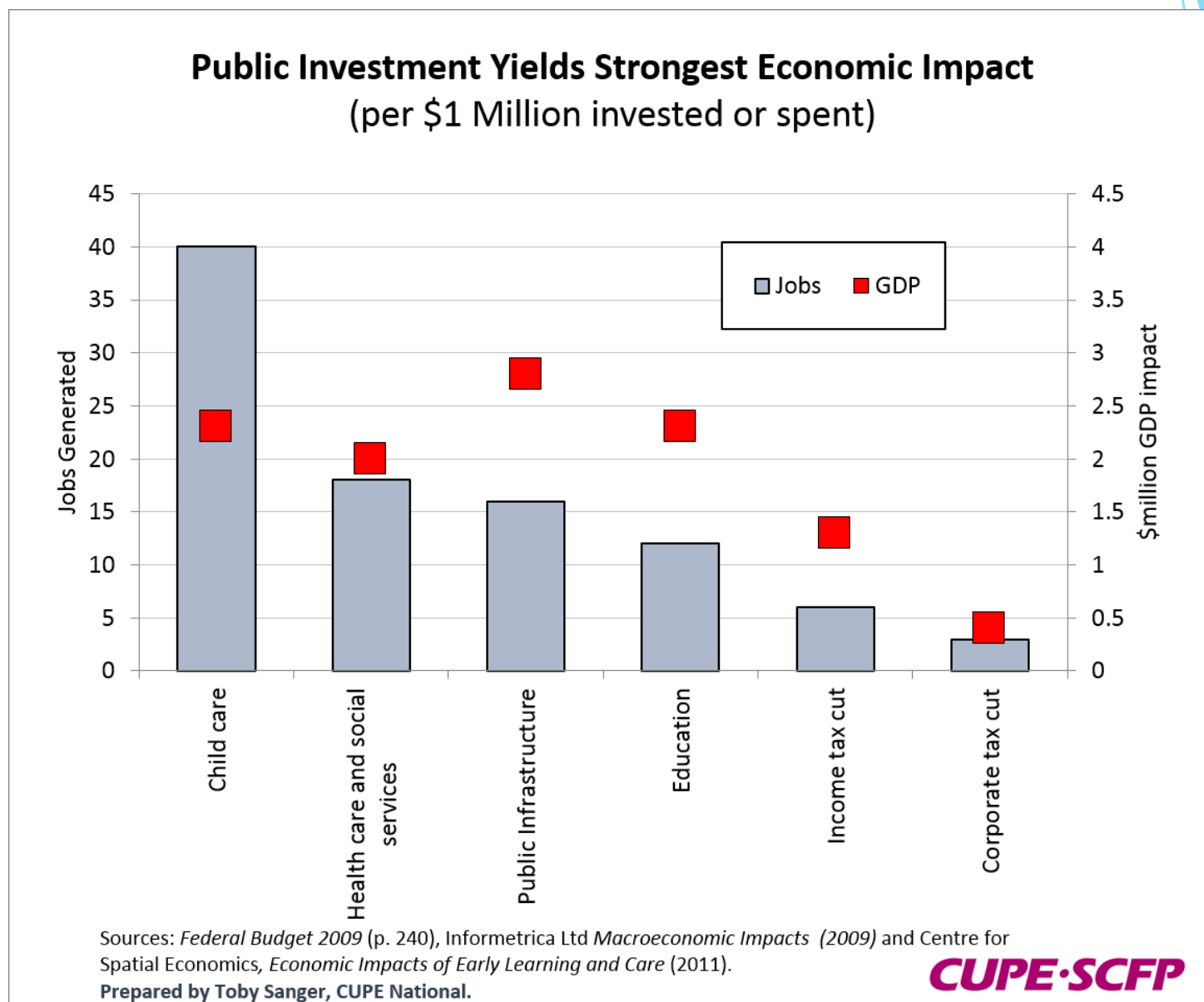
Toby Sanger, Director
Canadians for Tax Fairness



Why taxes?

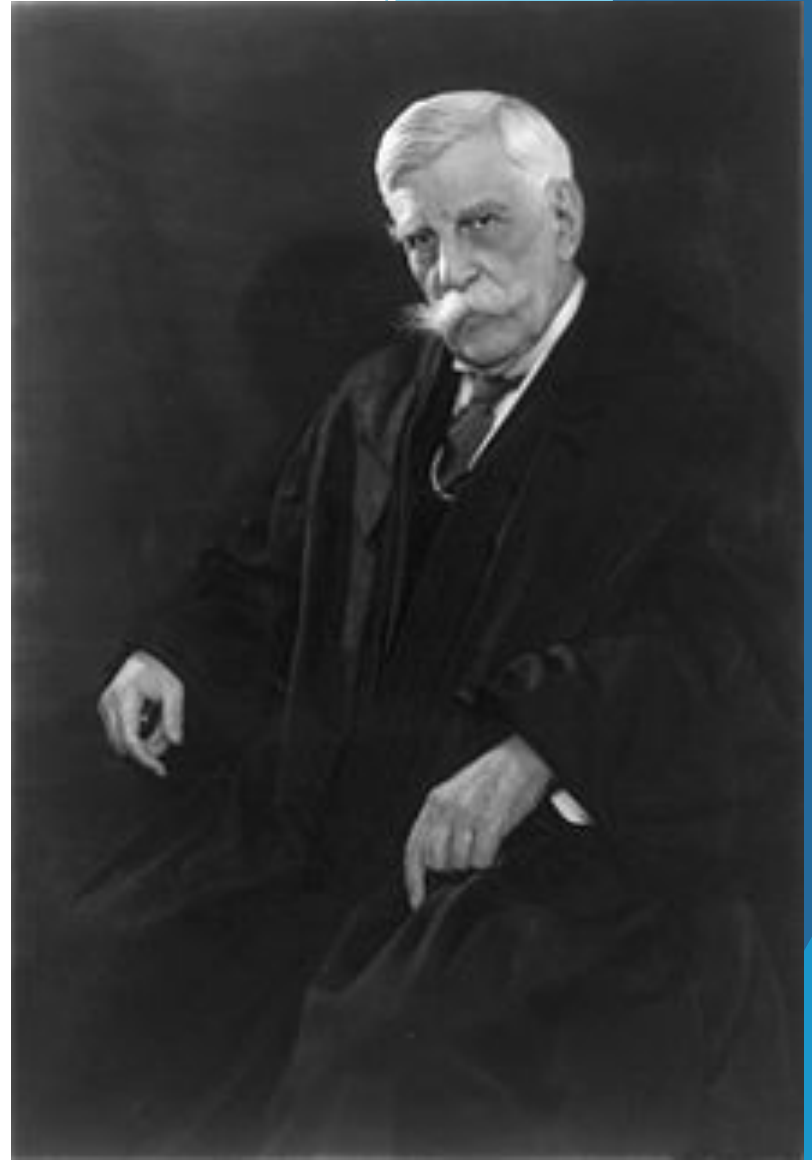
1. Pay for public services - revenues
2. Redistribution - fairness
3. Economic
 - a) Incentives & disincentives:
 - i. sin & enviro taxes, charges and fees “Pigouvian” taxes;
 - ii. tariffs, tax preferences and expenditures for other economic and social reasons, etc.
 - b) Macroeconomic: countercyclical, helps to smooth out business cycle


Public services deliver stronger boost to economy, jobs *and equality* than tax cuts



Taxes are the price we pay
for a civilized society.


U.S. Supreme Court Justice
Oliver Wendall Holmes, 1904





I don't want to abolish government. I simply want to reduce it to the size where I can drag it into the bathroom and **drown it in the bathtub.**

Grover Norquist, May 21, 2001
President of Americans for Tax Reform, an organization that opposes all tax increases

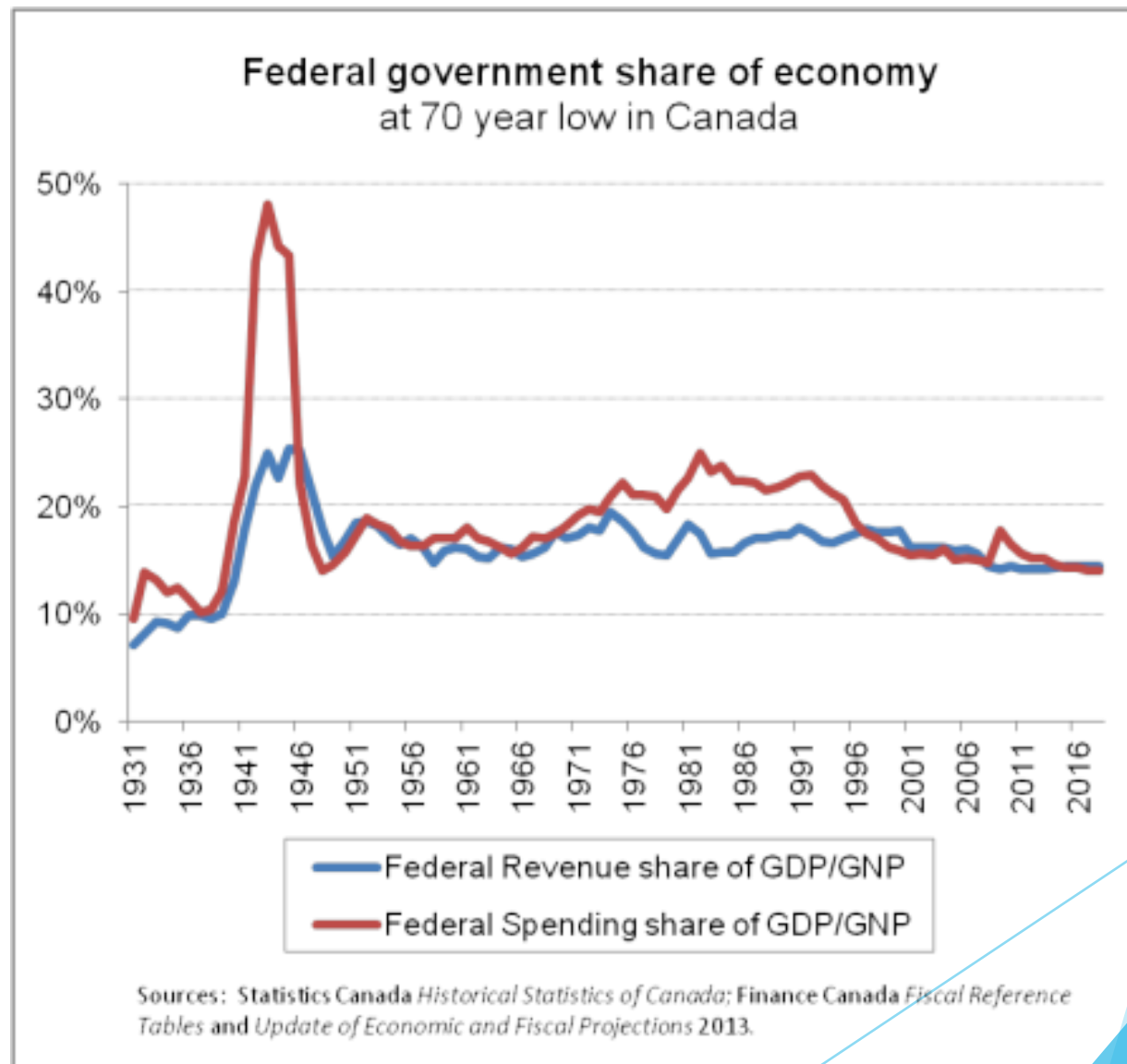




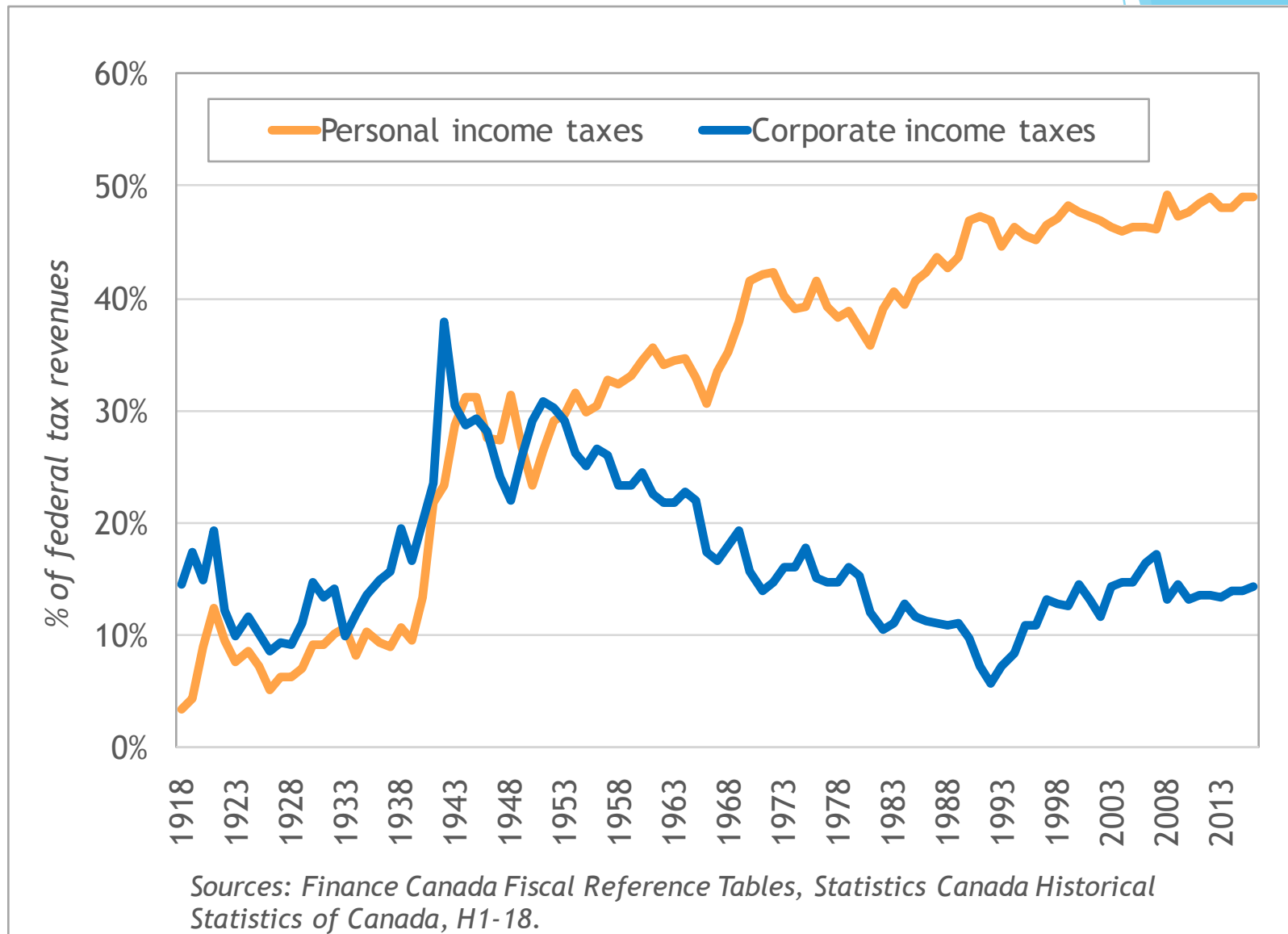
*“You know, there's two schools in economics on this. One is that there are some good taxes and the other is that no taxes are good taxes. I'm in the latter category. **I don't believe that any taxes are good taxes.**”*

Stephen Harper, July 10, 2009

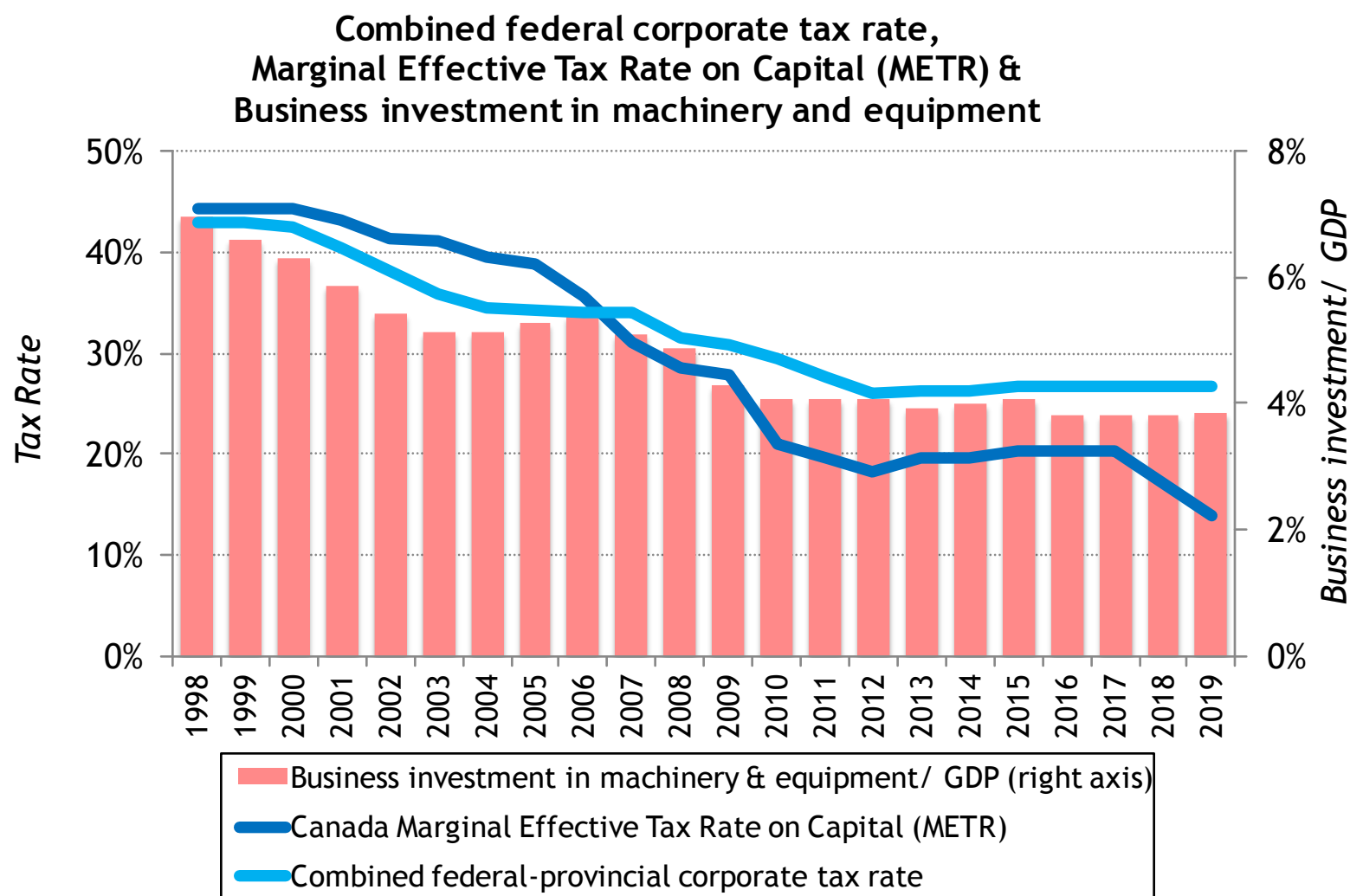
Federal gov't revenues & spending cut to a 70-year low as a share of economy under Harper



Major shift from taxes on business to taxation of households

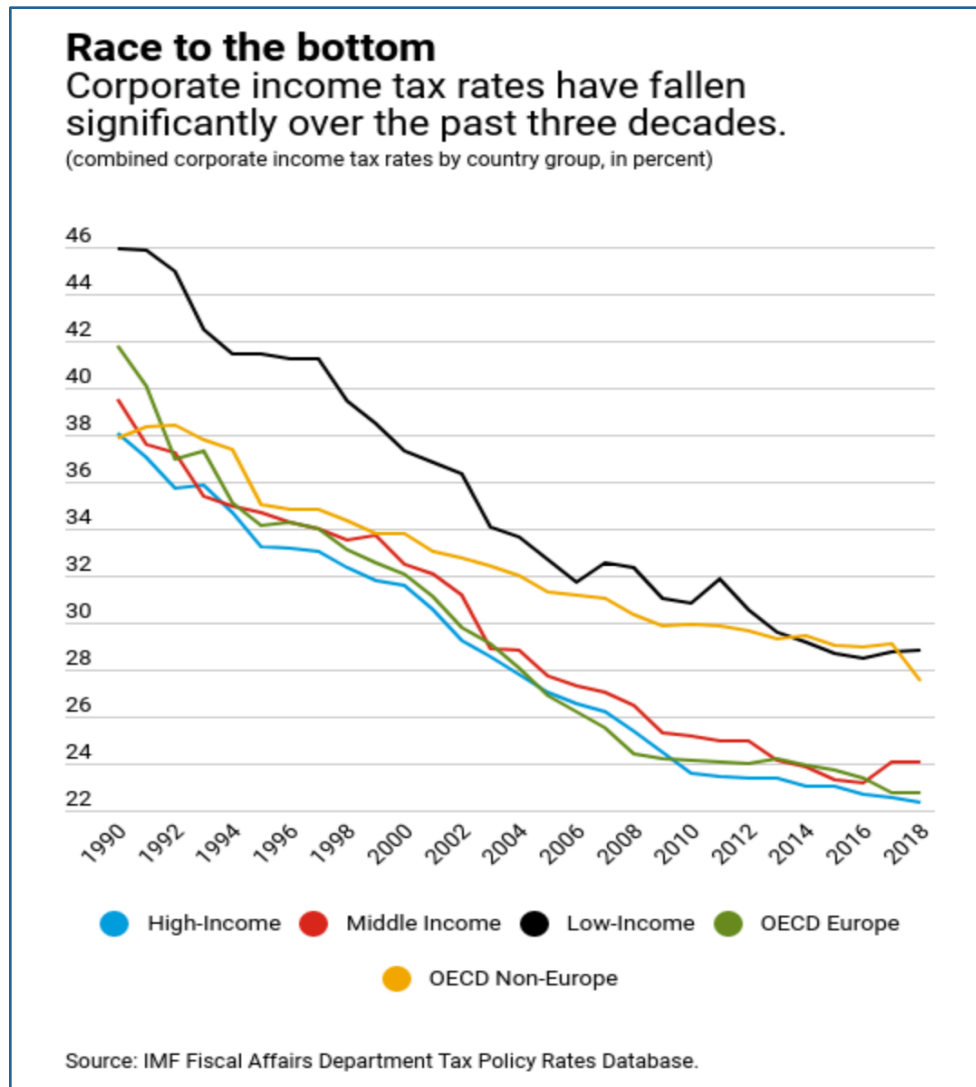


Deep cuts to corporate taxes, no increase in rates of business investment



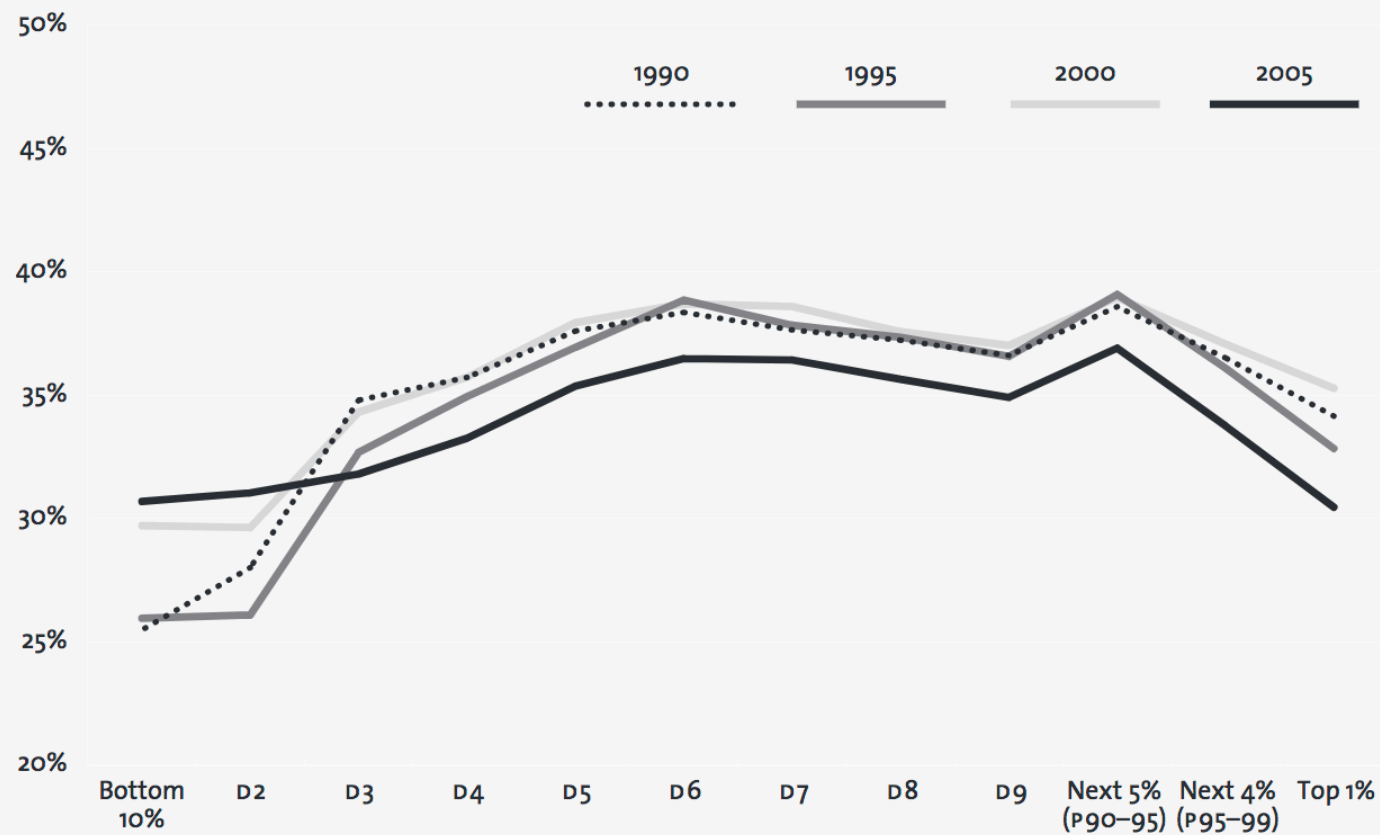
Sources: Statistics Canada Cansim table 380-0064; Bazel, Mintz and Thompson, 2017 Tax Competitiveness Report; Chen and Mintz Federal/provincial Combined METRs on capital 1997-2006, 2010; Finance Canada Fall Economic Statement 2018.

International race to the bottom with corporate tax rates



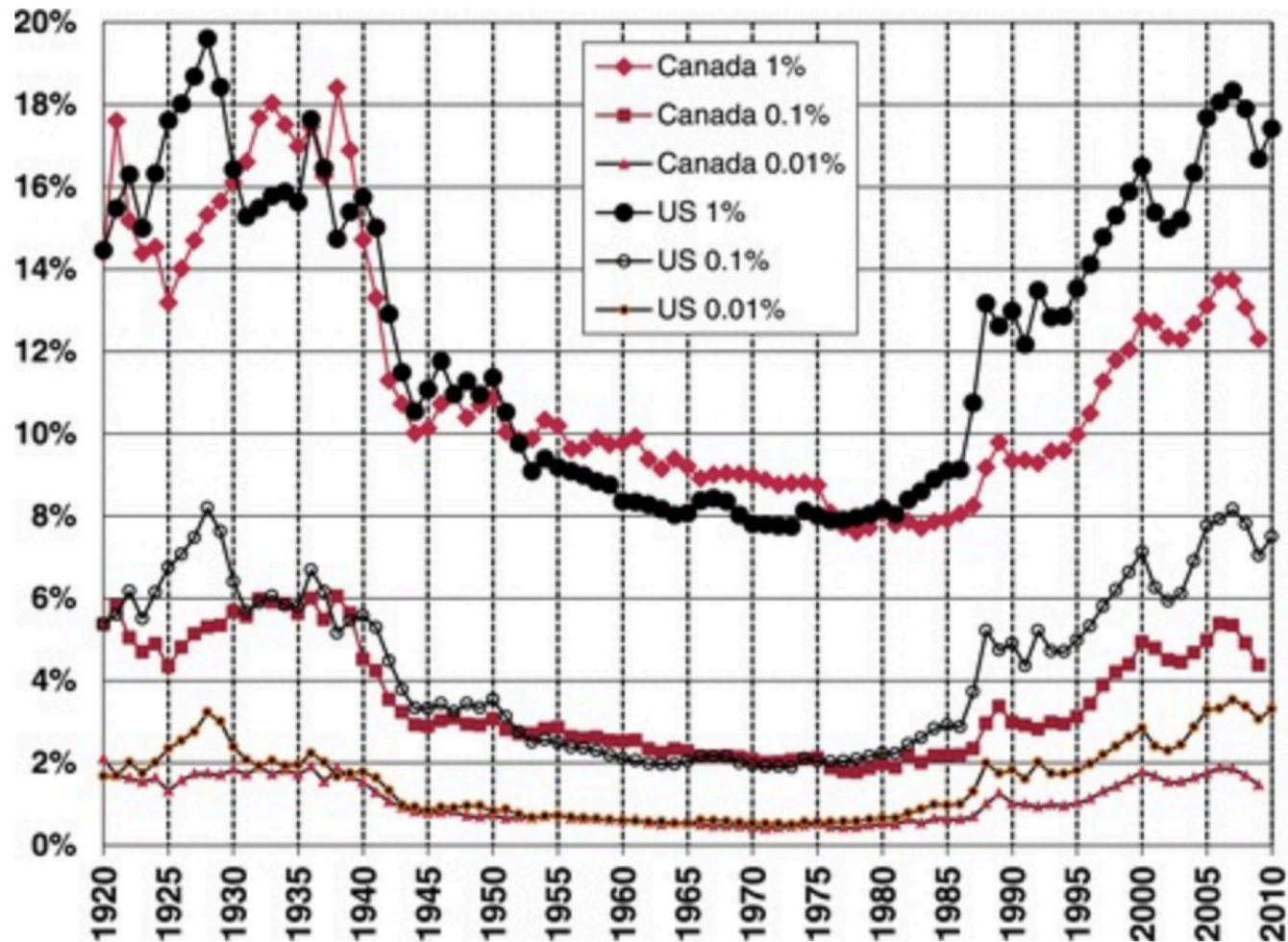
Eroding tax fairness in Canada

FIGURE 1 Total Tax Rates



Includes impact of all taxes. Source: Marc Lee, Eroding Tax Fairness, Tax Incidence in Canada 1990 - 2005, CCPA 2007.

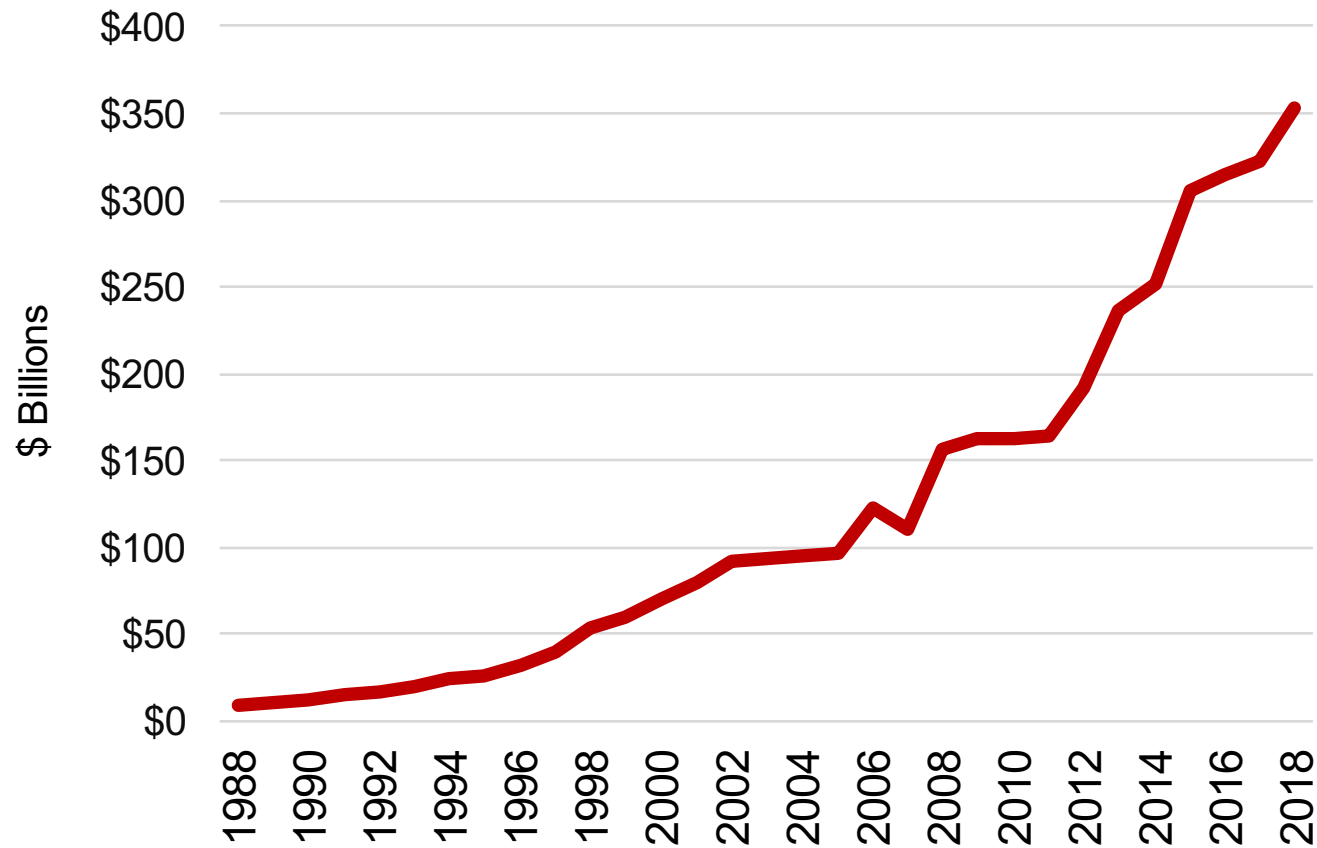
Growing inequality, top 1% take larger share of the pie



Source: Michael Veall, *Canadian Journal of Economics*, 2012.

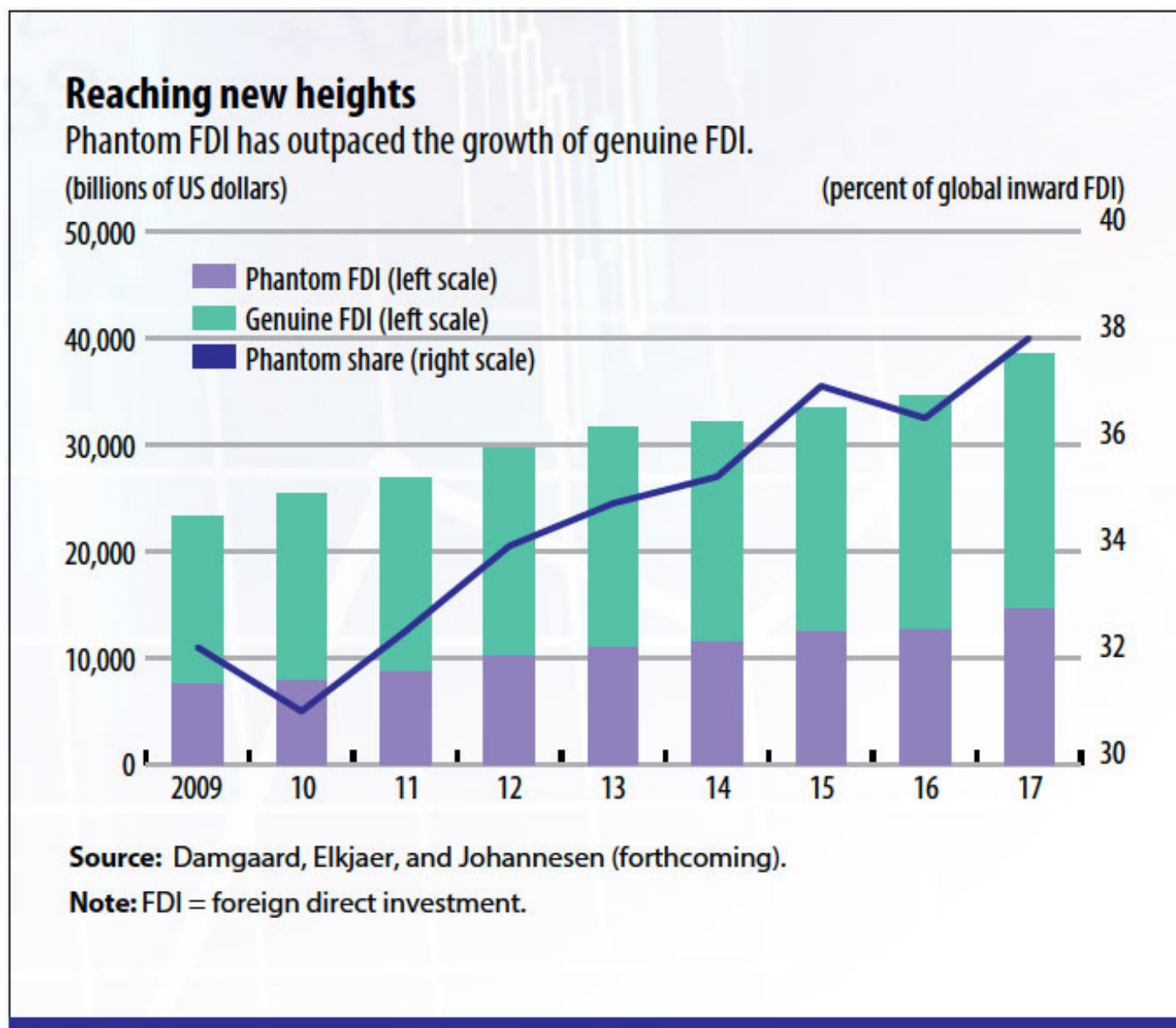
Wealth sheltered in tax havens exploded

**Canadian corporate funds
reported in top 12 tax havens**



Source: Statistics Canada Table: 36-10-0008-01

Fake investment for tax avoidance > US\$15 trillion = 38% of total international investments, says IMF



The World's Offshore Financial Wealth

	<i>Offshore wealth (\$ billions)</i>	<i>Share of financial wealth held offshore</i>	<i>Tax revenue loss (\$ billions)</i>
Europe	2,600	10%	75
United States	1,200	4%	36
Asia	1,300	4%	35
Latin America	700	22%	21
Africa	500	30%	15
Canada	300	9%	6
Russia	200	50%	1
Gulf countries	800	57%	0
Total	7,600	8.0%	190

Zucman (2014). p. 140.

What could \$8 billion pay for?



\$500
for each household

Elimination of university and college tuition fees.



80,000
nurses

National pharmacare program.



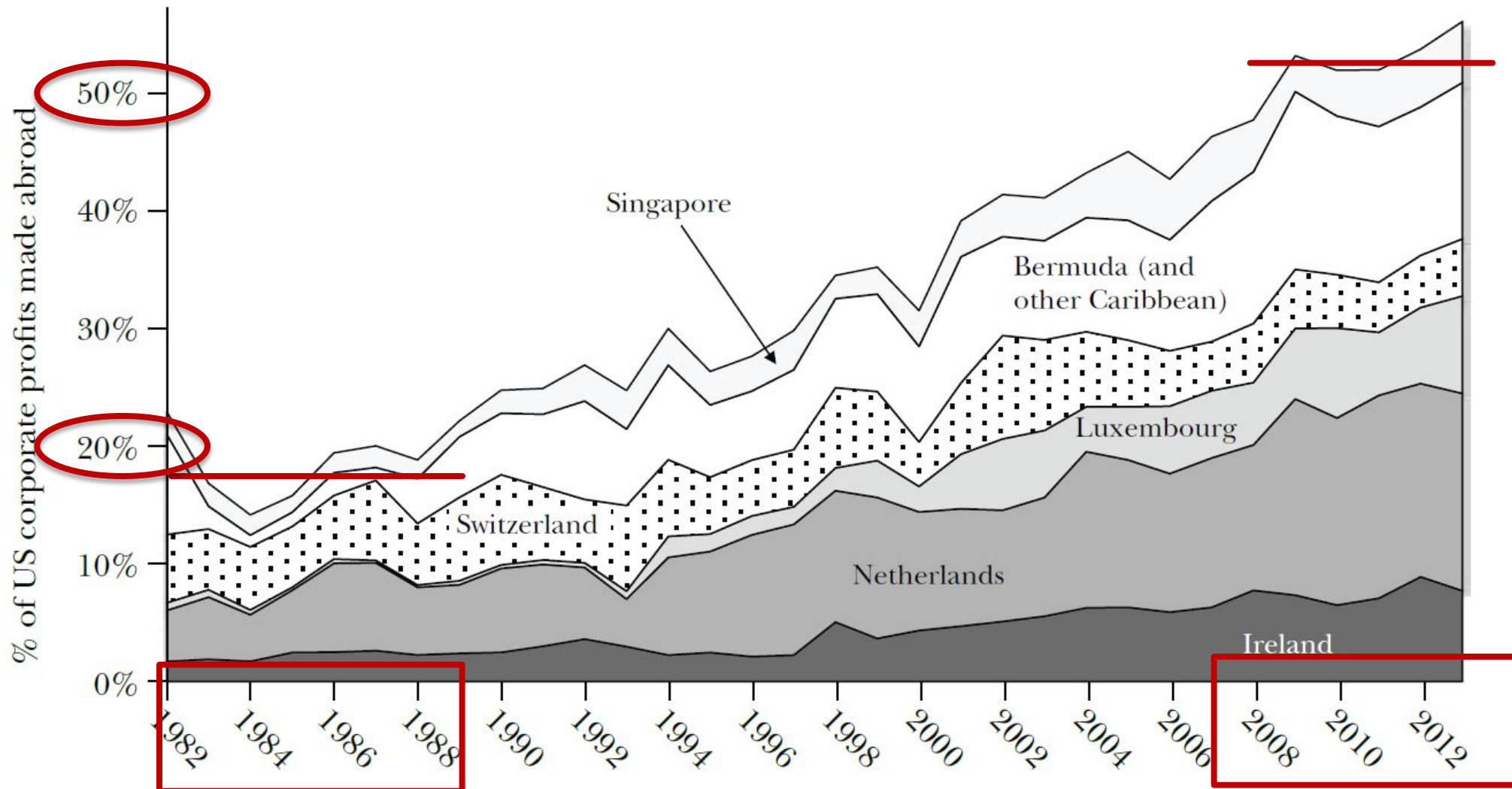
4 million
affordable
childcare
spaces

Addressing climate change with Green New Deal.

The multinationals

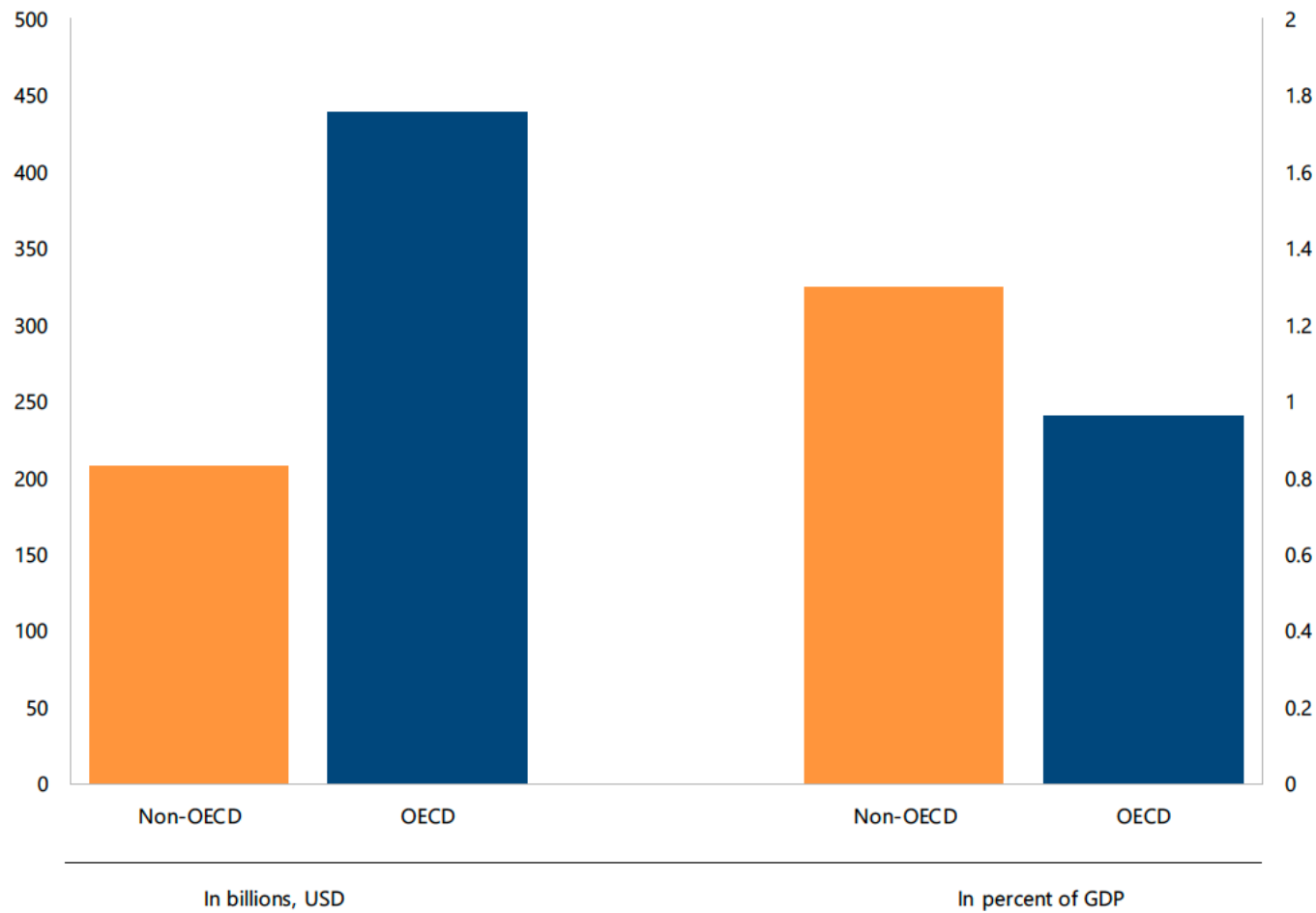
Figure 2

The Share of Tax Havens in US Corporate Profits Made Abroad



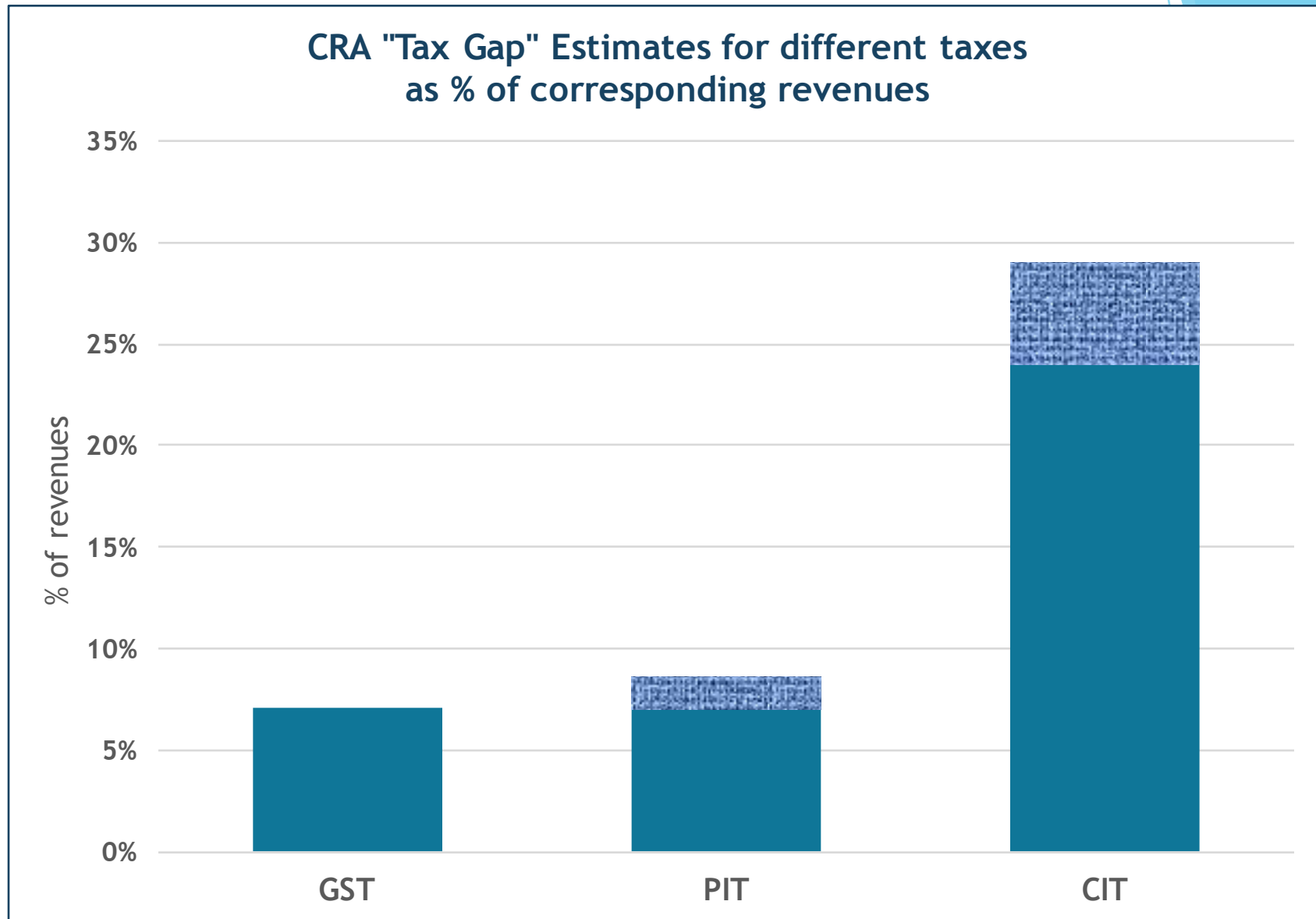
Close to \$1 trillion worldwide lost to profit & tax shifting with tax havens according to IMF

Figure 1. Estimated Revenue Losses from Profit Shifting in 2013



Source: Crivelli, de Mooij, and Keen (2016).

"Tax gap" in Canada over \$20 billion, most from corporate tax avoidance



What is a tax haven?

1. Very low or zero effective tax rate for offshore corporations and individuals.
2. Secrecy/ lack of transparency on ownership.
3. Very light regulations, regulations and supervisory regimes,
4. No requirement that offshore businesses or individuals have any substantial activities or physical presence in the territory.

Assets not actually in these countries/ jurisdictions; just there for tax purposes.


There are 40-80 established tax havens around the world, depending on the criteria and who makes the list.

Important distinction: tax evasion and tax avoidance.

- ▶ **Tax evasion:** consists in not or inaccurately declaring all of one's income to the tax authorities in order to pay less tax. Is a illegal and criminal.
- ▶ But often a fine and grey line between what is legal—tax avoidance—and what is illegal—tax evasion.
- ▶ This line can shift depending on who (and what judge) is looking at it and as laws change.

Important distinction: tax evasion and tax avoidance.

- ▶ **Tax avoidance:** includes all transactions, schemes and strategies to reduce taxable income and thereby taxes.
- ▶ Legal, aggressive tax avoidance involves exploiting and abusing laws and institutions while respecting the letter of the law.
- ▶ **“Tax dodging”** = tax evasion + aggressive tax avoidance.

The background features abstract geometric shapes in various shades of blue. On the right side, there is a large, complex shape composed of several overlapping triangles and polygons. On the left side, there is a smaller, simpler blue triangle. The overall design is modern and minimalist.

*Use of tax havens often
entirely legal!*

Who are big abusers of tax havens?

- **Wealthy individuals:** Irvings, Bronfmans, Paul Martin Jr, Bono, kleptocrats, the Queen, many, many others.
- **Large corporations,** esp including finance, mining, oil and gas, tech & digital, pharma, infrastructure, mega-brands.
- More than 90% of Canada's largest corporations have subsidiaries in tax havens.
- Large accounting & legal firms & tax haven industry: KPMG, EY, Deloitte, etc.



FIFTH ESTATE

Wealthy Canadians exposed in KPMG offshore tax 'sham'



\$5-million 'minimum' entry fee to get into offshore scheme

Techniques for shifting profits to tax havens

1. **Transfer pricing:** exchange goods or services between affiliated companies at lower or higher than market rates so profits are booked in low tax jurisdictions with no or low profits in host countries.
2. **Intellectual property (IP) royalties:** patent or trademark owned by affiliated company in tax haven with large royalties paid to it.
3. **Intra-company loans:** corporations pay large interest payments on loans to affiliated finance company based in tax havens.
4. **Other techniques:** “Double Irish with a Dutch Sandwich”

Cameco shifts billions in profits to Swiss subsidiary through transfer pricing

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Did this company engineer the largest tax dodge in Canadian history?

By Bruce Livesey in News, Energy | April 25th 2016



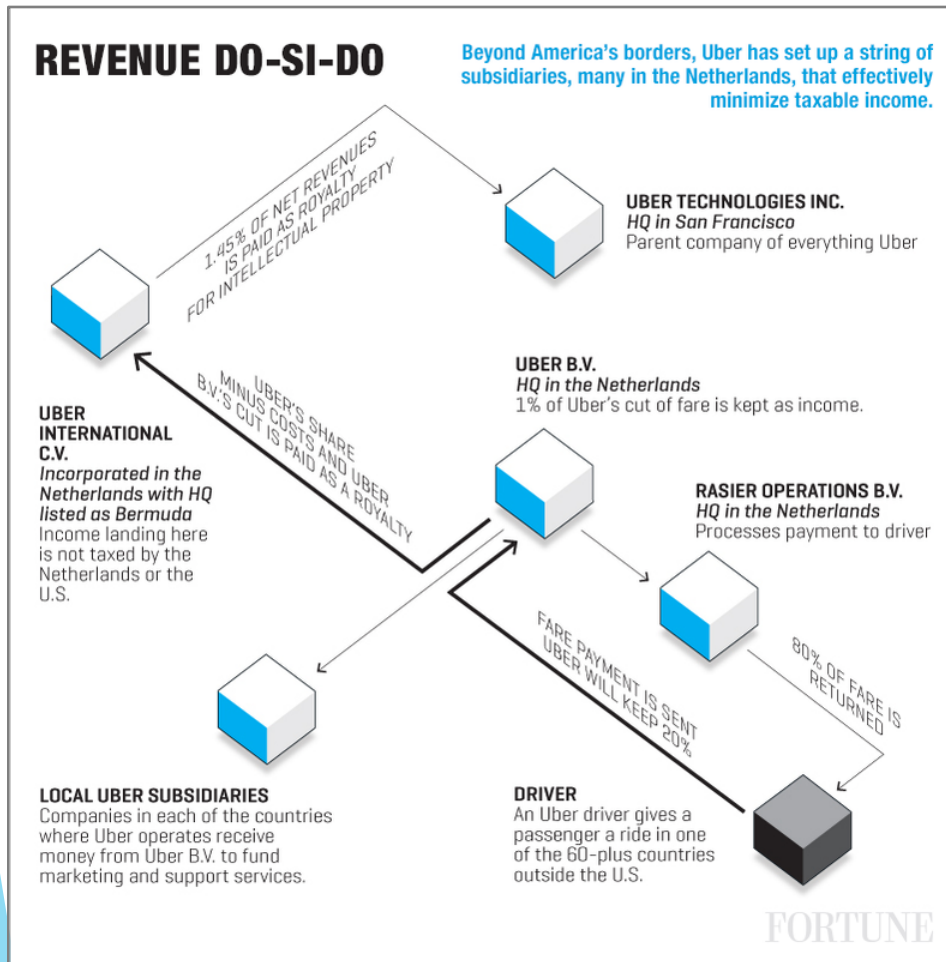
Cameco Ltd: largest publicly-traded uranium mining corporation in world. Predecessor companies had been publicly owned, then privatized.

Avoids Canadian tax by transfer pricing and profit shifting to a Swiss marketing subsidiary. 17-year deal to sell uranium at \$10/lb (while price of uranium reached \$140/lb). Also sent half of profits to Barbados subsidiary.

Taken to court by Canada Revenue Agency for \$2.1 billion in back taxes, but Tax Court recent ruling puts that in peril.

Hasn't paid corp taxes for in Canada for years, CEO paid \$6 million, just laid off 700 workers in Saskatchewan.

Uber tax avoidance scheme →



- Ride for \$100.00, no VAT/GST in some countries.
- Money goes directly to Uber BV in Netherlands, \$80 returned to driver who may or may not pay income, sales, payroll or other taxes.
- Drivers independent contractors and can pay lower rates through small business.
- Of \$20 to Uber, half costs, only 1% or 20 cents booked as income in NL, taxed at 25% so 5 cents in NL corp tax.
- \$9.80 to Uber Int'l SV in Bermuda, no tax
- Only 1.45% of this or 14.2 cents goes back as royalty to Uber Technologies in U.S, so another 2 cents in US corp tax

Total = 7 cents in corp tax on revenue of \$100 and Uber net income of \$10

- Uber global corporate tax rate = 0.7%

Starbucks uses different techniques to reduce tax around the world



STARBUCKS EMEA LTD

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 2 OCTOBER 2016

8. TAXATION (continued)

	2 October 2016			27 September 2015		
	Dividend	Continuing operations	Total	Dividend	Continuing operations	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Profit before tax	130,000	89,106	219,106	631,003	50,965	681,968
Tax at the UK Corporation tax rate of 20.0% (2015: 20.5%)	26,000	17,821	43,821	129,356	10,447	139,803
Tax effect of expenses that are not deductible in determining taxable profit	-	(6,164)	(6,164)	-	3,937	3,937
Share based payments temporary difference	-	827	827	-	633	633
Retirement benefits payments temporary difference	-	9	9	-	2	2
Adjustment in relation to prior years	-	(9,103)	(9,103)	-	-	-
Tax effect of income not taxable in determining taxable profit	(26,000)	-	(26,000)	(129,356)	-	(129,356)
Tax expense for the year	-	3,390	3,390	-	15,019	15,019
Effective tax rate	0.0%	3.8%	1.5%	0.0%	29.5%	2.2%

UK Companies House

<https://beta.companieshouse.gov.uk/>

Moved Starbucks Euro, ME and Africa HQ to UK in 2015, but still paying only 1.5% rate of tax.

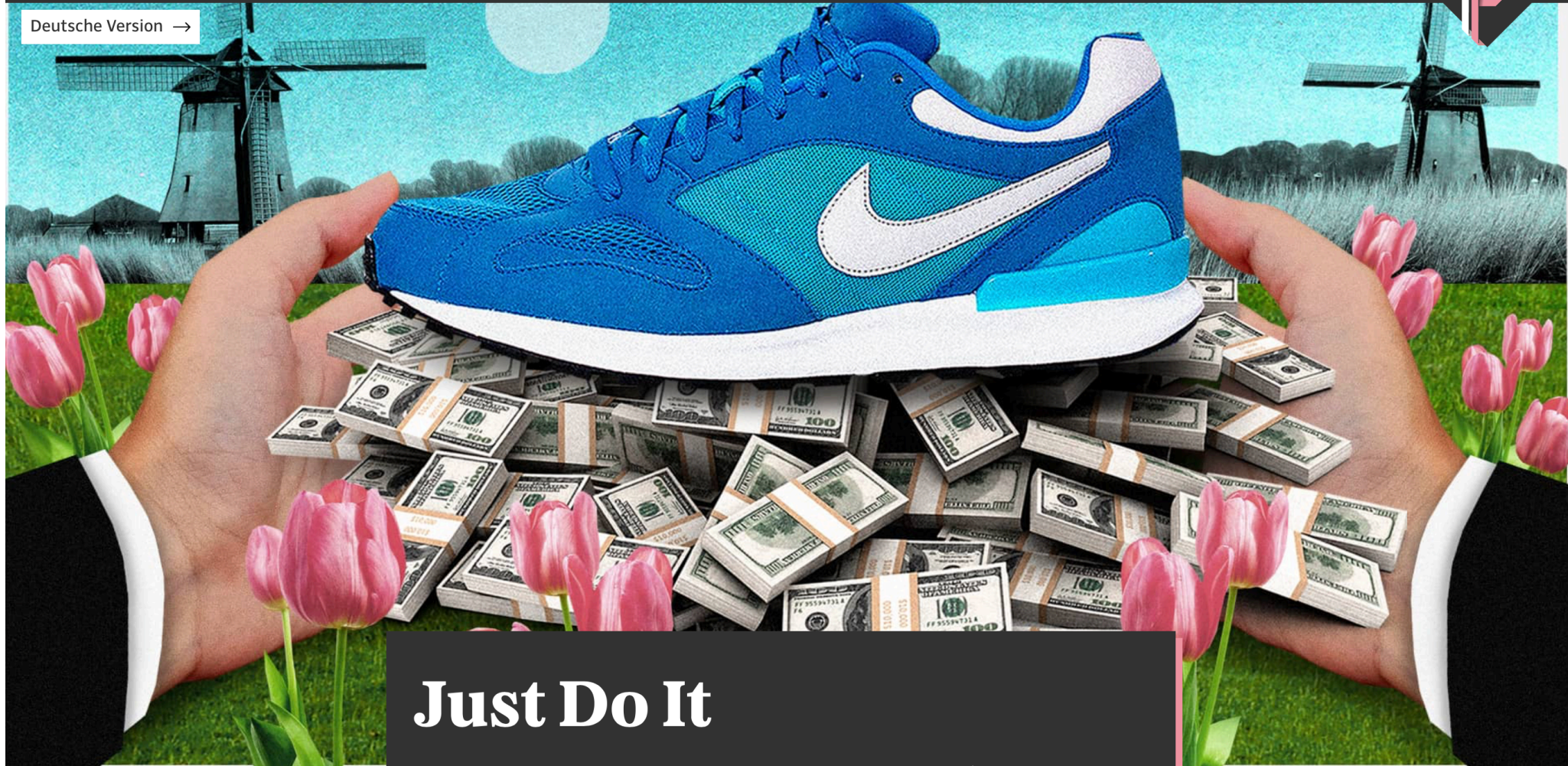
Nike & taxes: *Just evade them*

Paradise Papers -
The Shadowy World of Big Money

Süddeutsche Zeitung



Deutsche Version →



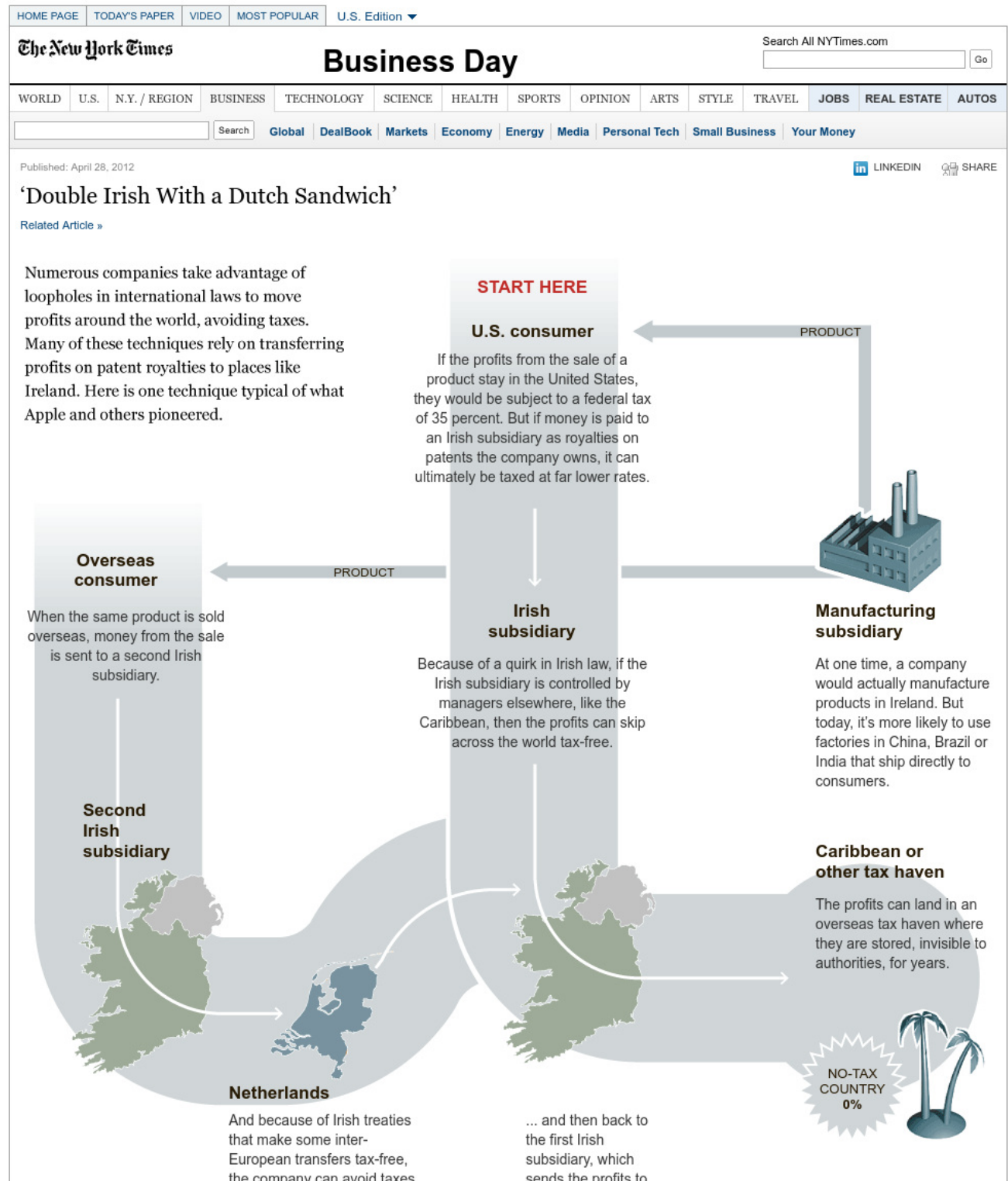
Just Do It

Nike is synonymous with athletics the world over. But there's one discipline in which the company seems unbeatable: the competitive sport of tax avoidance.

By Elisabeth Gamperl, Frederik Obermaier and Bastian Obermayer - 06. November 2017

Double Irish with a Dutch sandwich

Source : Duhigg & Kocieniewski (2012). *How Apple sidesteps Billions in taxes*, New York Times, 28 April, 2012



International tax system broken and in desperate need of reform

“A new approach to international corporate taxation is urgent.

The ease with which multinationals seem able to avoid tax... undermines faith in the fairness of the overall tax system.

The current situation is especially harmful to low-income countries depriving them of much-needed revenue to help them achieve higher economic growth, reduce poverty, and meet the 2030 Sustainable Development Goals.

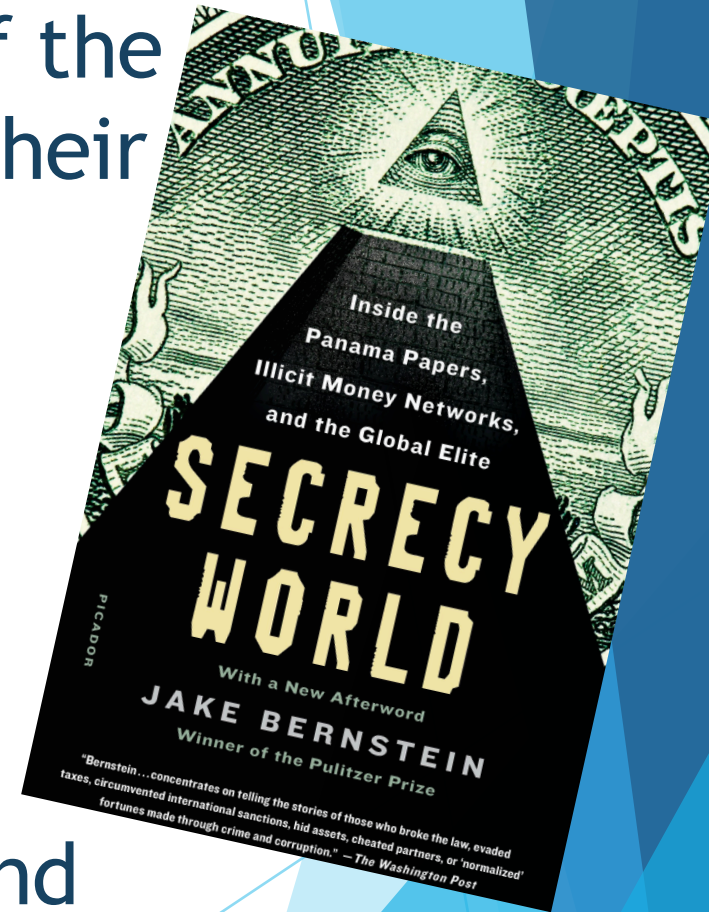
...we clearly need a fundamental rethink of international taxation.”

Christine Lagarde, Managing Director of the International Monetary Fund



Tax havens - secrecy jurisdictions

- Wealthy individuals and corporations take advantage of the secrecy of tax havens to hide their wealth.
- Goes hand in hand with money laundering, criminal activities, hiding corrupt payments and bribes.
- Often use private companies and trusts.



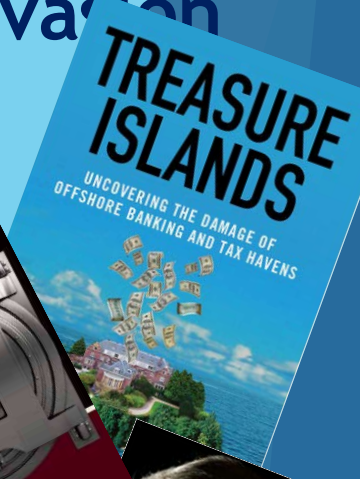
Tax Haven Leaks

- UBS leaks 2007-
- Offshore leaks 2013
- LuxLeaks 2014
- Swiss Leaks 2015
- Panama Papers 2016
- Paradise Papers 2017



Why haven't governments acted to end tax evasion and close down tax havens?

- Western countries, including Canada, UK, US, Netherlands, etc all complicit in establishing tax havens from the start!
- Most tax havens are dependencies/ former colonies.
- Politicians may have talked about tackling tax havens but many were taking advantage of them.
- Canada signed dozens of tax agreements with tax havens, allowing wealthy Canadians and corporations to bring income back without being taxed.



Conservative cuts to CRA

From Harper's 2012 Budget, Canada Revenue Agency was scheduled to face a \$900 million budget cut and to shed 3,000 positions.

Criminal investigations consolidated, compliance, research, special enforcement faced cuts, increased automation, less time to work on more complex cases, corporate and offshore area.

Political interference, going after charities, sheltering KPMG and other well-connected promoters.

What is Wrong at the CRA?

And How to Fix It.

Interviews and Conversations with Auditors, Investigators and Managers at
Canada's Beleaguered Tax Agency
Canadians for Tax Fairness
December 2015

European dividend tax refund scam

- Tens of billions in dividend rebates lost by Euro countries to banks for fraudulent claims.

- Germany. \$36.2 billion
- France €17 billion
- Italy, €4.5 billion
- Denmark €1.7 billion
- Belgium. €201 million



- Large banks and investment funds took advantage of tax treaties, pension funds, lack of capacity and oversight at revenue authorities.

International tax justice organizations



International Consortium of Investigative Journalists

INVESTIGATIONS > [PARADISE PAPERS](#) ▾ JOURNALISTS BLOG DATA ▾ ABOUT

Q LEA

AN ICIJ INVESTIGATION **PARADISE PAPERS: SECRETS OF THE GLOBAL ELITE**

Tax justice organizations in Canada

- ▶ **Canadians for Tax Fairness (C4TF)**
 - ▶ PIPSC and other unions supportive and active in C4TF
 - ▶ Saskatchewan Citizens for Tax Fairness
 - ▶ Nova Scotians for Tax Fairness
 - ▶ Doctors for Fair Taxation
- ▶ **Échec aux paradis fiscaux**
- ▶ **ATTAC Quebec**



**DOCTORS FOR
FAIR TAXATION**



Some initial demands on tax dodging - domestic

- Reinvest and increase capacity in Canada Revenue Agency
- Estimate the “tax gap”: revenues lost to tax dodging
- Close tax loopholes
- Tougher laws, penalties, enforcement and prosecution (amend voluntary disclosures) for evaders and promoters
- Tax internet giants and e-commerce, on sales and profits
- Increase transparency and information sharing
 - Public registry of ultimate business owners
 - Public reporting of what corporations actually pay

Some initial demands on tax dodging - with international collaboration

- ▶ Participate in Multilateral Automatic Tax Information Exchange Agreements
- ▶ Country-by-country reporting of multinational corporate profits and taxes
- ▶ Amend tax treaties, end double non-taxation
- ▶ Tax multinationals where they actually do business, production and sales

PIPSC Shell Game reports

Undermining Tax Fairness

90% of CRA
tax professionals
agree with Canadians:
“it is easier for
corporations and
wealthy individuals
to evade and/or avoid
tax responsibilities.”



Only **16%**
of CRA professionals
believe the agency
has adequate audit
coverage capacity to
ensure tax laws are
applied fairly.



- **Resources:** Call for reinvestment in CRA technical advisors, technology and training, regional offices, whistleblower protection.
- **Policy:** corporate transparency, tax e-commerce companies fairly, address profit shifting by multinationals.

Progress: re-investments in CRA

Budgets	Re-investments in CRA
2016	\$444 million/5 years, priority on higher incomes and offshore
2017	\$524 million/5 years
2018	\$91 million/5 years + \$42 million for Tax Court
2019	\$151 million/5 years for auditors compliance on offshore, cryptocurrencies, \$66 million for IT systems \$50 million for compliance in real estate
	<i>But more investments needed, still about \$500 million less than should be.</i>

Return on investments in CRA estimated by government at 10 to 1!

CRA tax gap estimates

Tax Gap	Findings
GST	\$2.9 billion,
PIT	\$8.7 billion
Int'l PIT	\$1-\$3 billion
CIT	\$9.4 - \$11.4 billion = 24-29% of related revenues

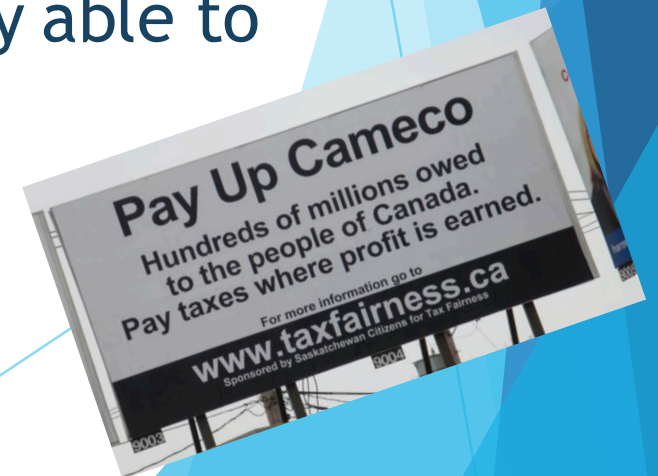
Tax avoidance and evasion much high by larger corporations than by smaller business and individuals.

Tackling tax dodging and loopholes

Conservative and Liberal governments have made a number of positive changes to close or address specific international tax dodging measures for corporations and wealthy individuals.

These are important, but they are also patches on system that needs much more significant measures and reform.

Larger multinationals are still very easily able to dodge taxes.



International progress

OECD Base Erosion and Profit Shifting (BEPS) Action Plan

- Country by country reporting by large multinationals
- Common reporting standard
- Automatic exchange tax information
- Multilateral changes to tax treaties

OECD/IMF/UN now finally considering fundamental reforms to international corporate tax rules

Much more to be done!



On tax havens and multinational tax dodging

- Stronger penalties and enforcement, including of promoters, Increased funding to the CRA & prosecution services.
- Restrict corporations involved in tax evasion from government contracts.
- Publish data on how much large corps actually pay in tax, strengthen protection for whistleblowers.
- Make internet giants & MNEs pay fair share of tax.
- Global minimum tax, treat MNEs as unitary enterprises, apply taxes based on real economic factors, sales, employment & assets.

PLATFORM FOR TAX FAIRNESS

A plan to restore equality, strengthen the economy and invest in quality public services.

Canadians for Tax Fairness

What you can do:

- ▶ Election: ask candidates and parties what they would do on tax fairness issues.
- ▶ Sign up for our tax fairness news weekly at www.taxfairness.ca
- ▶ Spread the messages through your networks, with social media, letters to the editor, talk radio, to politicians, campaigns, etc.
- ▶ Organizational and individual support to C4TF.
- ▶ Provide us with input on issues, perspectives, priorities, what's needed at the CRA.



Thank you!

www.taxfairness.ca

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