



Time for the Australian Government to assist developing countries in overcoming corporate tax avoidance

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Those who want to be rich, however, fall into temptation and become trapped by many foolish and harmful desires that plunge them into ruin and destruction. For the love of money is the root of all kinds of evil. By craving it, some have wandered away from the faith and pierced themselves with many sorrows.

1 Timothy 6:9-10

Tax avoidance and tax evasion by multinational corporations continue to play a significant role in depriving governments of vital revenue to pay for hospitals, health care clinics, schools, universities, aged care, mental health services along with other community needs. The Australian Government has made commendable efforts to stem the losses that Australia has suffered from tax avoidance by multinational corporations. These efforts have made an impact. However, multinational technology corporations continue to avoid paying the taxes they should in Australia by transferring profits to other parts of the corporation located offshore. In the last financial year, Google had \$4.3 billion in sales in Australia, but paid only \$59 million in tax. Google argues that most of the sales to Australians take place in Singapore, so that it can shift most of its profit there. Facebook had \$674 million in sales in Australia and only paid \$17 million in tax. It also claims most of the sales to Australian occur offshore, to avoid paying tax in Australia.

The support Australia has given to global tax reforms to address the impact of corporate tax avoidance on people in developing countries has been far more limited.

The scale of tax avoidance as it impacts on developing countries

The extent of tax avoidance and tax evasion by multinational corporations and other businesses at a global level remains significant. It is estimated that 40% of the profits made by multinational corporations are transferred across borders into tax havens.

It is estimated \$720 billion a year is being stolen through tax evasion and tax avoidance carried out by multinational corporations. Of this amount, \$290 billion is stolen from developing countries.

The position of the Uniting Church

The Uniting Church in Australia at its Inaugural Assembly in 1977 stated that in response to the Christian gospel:

We pledge ourselves to seek the corrections of injustices wherever they occur. We will work for the eradication of poverty and racism in our society and beyond.

In 2008 the Synod of Victoria and Tasmania meeting resolved to become part of the Tax Justice Network and support its aims to:

- Promote international cooperation on tax regulation and tax-related crimes;
- Oppose tax havens;
- Promote progressive and equitable taxation; and
- Promote tax compliance and a culture of responsibility.

The good news

There has been some good news in the struggle to curb tax avoidance by multinational corporations as it impacts on developing countries. The OECD has reported that since 2015, around 290 harmful tax arrangements being offered by governments to multinational corporations to assist the corporation in cheating other governments of tax revenue have been identified. They have all been amended or abolished.

As of the end of 2019, almost 1,000 financial crime investigators from 100 countries have been trained in several sites of the OECD's International Academy for Tax and Financial Crime Investigations.



The UN Development Program and the OECD have set up Tax Inspectors Without Borders to provide on-the-job assistance to developing country tax authorities to tackle multinational corporate tax avoidance and tax evasion. So far, Tax Inspectors Without Borders has allowed developing countries to recover over \$830 million in tax revenue.

What action can be taken now?

There are currently proposals being discussed by governments at the global level to address tax avoidance by multinational corporations. One such suggestion is for multinational corporations to have to pay a minimum rate of tax globally. If they have structured their affairs globally to avoid that minimum rate of tax, then governments in the places the corporations are doing business would be entitled to collect extra tax up to the global minimum. The measure would help put a lot of secrecy jurisdictions that sell low tax rates out of business.

There is a second proposal that would allocate part of a corporation's profits to be taxed by governments according to a formula. However, the current proposal by the OECD would see wealthy countries being able to collect more tax revenue in the places products and services are sold at the expense of tax revenue to developing countries where the products and services are made. The OECD proposal would allow multinational corporations to allocate their profits wherever they want for most of their activities. Only a small portion of the tax would be reallocated, possibly not more than 20%. The OECD proposal is only likely to see a reduction of 5% in the profits allocated by multinational corporations to tax havens. A proposal by the Tax Justice Network (outlined in the points below in the letter to the Treasurer) would see a 60% reduction in the multinational corporate profits allocated to tax havens.

What you can do

Write a polite and respectful letter to:

The Hon Josh Frydenberg MP
Treasurer
PO Box 6022
House of Representatives
Parliament House
Canberra ACT 2600

Salutation: Dear Treasurer

Points to make in your letter:

- Thank the government for the actions that have been taken to address tax avoidance by multinational corporations as it impacts on Australian tax revenue. Note that the reforms introduced have had an impact, but more will still need to be done.
- Express concern at the impact tax avoidance by multinational corporations has on the well-being of people in developing countries, especially as the impact of the COVID-19 crisis is hitting developing countries.
- Seek assurance that the Australian Government will support reforms at a global level that would ensure that multinational corporations must pay tax in developing countries based on the business they are doing in those countries. The improvements should include the right to deny deductions made to a related part of the corporation where the payment was not subject to tax at a minimum rate. It should also include the right of a source country to impose tax when the profit has not been subject to a minimum rate of 25% corporate income tax.
- Ask that the Australian Government reject any proposals to change the global tax rules that would collectively leave developing country governments worse off.
- Ask that the Australian Government advocate for a shift to a global formula to allocate the profits of multinational corporations based on employment and sales. Such a formula should seek to ensure profits are allocated based on where the corporation is doing business. Profits must not be distributed according to artificial structures designed by the corporation to avoid paying tax.
- Ask that the Commonwealth Government introduce a digital profits tax on the multinational technology corporations that have benefited as a result of the COVID-19 pandemic.