Sun, sea and tax avoidance: Corporations and Finance

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What is a tax haven?

- no or low taxes
- lack of effective exchange of information
- lack of transparency
- no requirement of substantial activity
What are the major tax havens?
2018 Secrecy Ranking
See full index here

1. Switzerland
2. USA
3. Cayman Islands*
4. Hong Kong
5. Singapore
6. Luxembourg
7. Germany
8. Taiwan
9. United Arab Emirates (Dubai)
10. Guernsey*
11. Lebanon
12. Panama
13. Japan
14. Netherlands
15. Thailand

* British overseas territory or crown dependency. If Britain’s network were assessed together, it would be at the top.

2019 Haven Ranking
See full index here

1. BVI*
2. Bermuda*
3. Cayman Islands*
4. Netherlands
5. Switzerland
6. Luxembourg
7. Jersey*
8. Singapore
9. Bahamas
10. Hong Kong

* British overseas territory or crown dependency. If Britain’s network were assessed together, it would be at the top.
Tax havens are at the heart of the global finance system

- 50% of all international banking lending is done in tax havens
- 30% of the world’s stock of Foreign Direct Investment are registered in tax havens
- 40% of multinational profits are shifted to tax havens each year

Palan, Murphy & Chavagneux 2010; Tørsløv, Wier & Zucman 2019
The hidden wealth of nations

- 8% of households’ financial wealth is held in tax havens, i.e. USD 7.6 trillion
- This costs USD 190 billion every year to governments, i.e. 1% of global government revenue
- 18% of US corporate profits are ‘made’ in tax havens
- This reduces US corporate tax liabilities by $130 billion a year

Zucman 2015
The missing profits of nations

Non-tax havens (% of corporate tax revenue lost)
- > 20%
- > 8%
- > 4%
- < 4%

Tax havens

No data

Tørsøv, Wier & Zucman 2019
Global Wealth Chains

transacted forms of capital operating multi-jurisdictionally for the purposes of wealth creation and protection

Seabrooke and Wigan 2017
What are some uses of tax havens? Are they legitimate or illegitimate?
All of the above crimes are enabled by anonymous companies.
Compliance  Planning  Avoidance  Evasion
2 main tax cheating strategies used by multinational corporations:

- Transfer (mis)pricing
- Earnings stripping, thin capitalization
Sources of data

• International organisations
• Tax havens themselves
• Banks and accounting firms
• Company reports
• National accounts, tax authorities and central banks
• Civil society organisations
• Leaks
Why are tax cheating and financial secrecy a problem?
Addressing tax avoidance globally

- Information exchange between countries
- Registration of ultimate owners
- Country-by-country reporting
- Unitary taxation
Financial secrecy and the biosphere
Panama Papers reveal offshore payments by Madagascar's seafood king

Panama Papers put Pacific Andes at center of Namibian tax cheat allegations

Indonesian court helps to reveal which huge corporations own vast hidden profits: from Asia's palm oil to hit Iceland
Tax havens and global environmental degradation

Victor Galaz\(^1\,^{1,2*}\), Beatrice Crona\(^1\,^2\), Alice Dauriach\(^2\), Jean-Baptiste Jouffray\(^1\,^{1,2}\), Henrik Österblom\(^1\) and Jan Fichtner\(^3\)

Recent releases of classified documents in the past years have offered a rare glimpse into the opaque world of tax havens and their role in the global economy. Although the political, economic and social implications related to these financial secrecy jurisdictions are known, their role in supporting corporate activities with potentially detrimental environmental consequences have until now been largely ignored. Here, we combine quantitative analysis with case descriptions to elaborate and quantify the connections between tax havens and resource degradation both in global fisheries and the Brazilian Amazon. We show that while only 4% of all registered fishing vessels are currently flagged in a tax haven, 70% of the known vessels implicated in illegal, unreported and unregulated fishing are, or have been, flagged under a tax haven jurisdiction. We also find that on average 70% of all investigated foreign capital to focal companies in the soy and beef sector directly impacting the Brazilian Amazon was transferred via known tax havens, representing as much as 90–100% of foreign loans for some companies. We highlight key research challenges for the academic community that emerge from our findings and present a set of proposed actions for policy that would put tax havens on the global sustainability agenda.
Tax havens and environmental sustainability

Two complementary case-studies representing Global Environmental Commons

Financial fraud and evasion of regulation

Aggressive tax planning as ‘hidden subsidies’
Brazilian Amazon

Fishing vessels convicted for illegal, unreported and unregulated fishing

Flows of foreign capital to selected companies in the soy and cattle sectors
Illegal Unreported and Unregulated (IUU) fishing

Galaz et al. 2018
Tax havens and deforestation in the Amazon

Credit availability linked to increased deforestation
Nepstad et al. 2014
Dalla-Nora et al. 2014
Banco Central do Brasil

Departamento de Monitoramento do Sistema Financeiro e de Gestão da Informação
Divisão de Capitais Internacionais e Câmbio

Registros Efetuados


ROF - REGISTROS APROVADOS EM: MAIO/2010
IMPORTAÇÃO FINANCIADA

<table>
<thead>
<tr>
<th>REGISTRO</th>
<th>EMPRESA NACIONAL</th>
<th>EMPRESA ESTRANGEIRA</th>
<th>PAÍS</th>
<th>MOE</th>
<th>VALOR</th>
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<tr>
<td>TA520319</td>
<td>JOSE PUPIN</td>
<td>HENCORP BECSTONE CA</td>
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Foreign capital from tax havens to the beef and soy sectors in the Brazilian Amazon (2000–2011)

Galaz et al. 2018
68% of all analysed foreign capital is transferred through tax havens.

A few large multinational companies receive 90-100% of their foreign capital through their own subsidiaries located in tax havens such as the Cayman Islands.
<table>
<thead>
<tr>
<th>Focal company</th>
<th>Loans received (million USD)</th>
<th>Loans from subsidiary in a tax haven (% total loans)</th>
<th>Cash in advance received (million USD)</th>
<th>Cash in advance from subsidiary in a tax haven (% total cash in advance)</th>
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<tbody>
<tr>
<td>Amaggi</td>
<td>162</td>
<td>0</td>
<td>272</td>
<td>0</td>
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<tr>
<td>Archer Daniels Midland</td>
<td>1,666</td>
<td>100</td>
<td>0</td>
<td>NA</td>
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<td>Bertin</td>
<td>1,032</td>
<td>33.9</td>
<td>844</td>
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<td>Bunge</td>
<td>307</td>
<td>54.1</td>
<td>6,830</td>
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<td>Cargill</td>
<td>4,321</td>
<td>91.6</td>
<td>2,734</td>
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<td>JBS</td>
<td>1,776</td>
<td>63.4</td>
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<td>Louis Dreyfus</td>
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<td>NA</td>
<td>704</td>
<td>0</td>
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<td>Marfrig</td>
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<td>Minerva</td>
<td>3</td>
<td>0</td>
<td>504</td>
<td>49.6</td>
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</tbody>
</table>

Galaz et al. 2018
So why is this a problem?

- Potentially large losses of tax revenues from extractive/natural resource intensive activities
- Hidden subsidies with detrimental ecological consequences on the ground
- Lack of transparency reduces accountability, ability for policy-makers to address problems, data gaps for researchers
Take-home messages

1. Financial secrecy jurisdictions are at the heart of 21st century capitalism. Global wealth chains are made opaque in order to create and protect wealth.

2. Multinational corporations use sophisticated strategies to pay less tax. This raises inequalities and erodes governments’ tax revenue. Secrecy also facilitates corruption.

3. Financial secrecy allows companies to obfuscate their ownership, thus enabling illegal fishing. Tax avoidance also creates ‘hidden subsidies’ to resource exploitation.
Thank you!

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Questions

• Can you think of examples of companies which are famous for evading tax? How do these examples relate to what you learned in this lecture?

• In a world of globalisation of capital, is it possible to effectively fight tax evasion?

• Should we worry about the sustainability impacts of financial secrecy? Why/why not?

• Should we rely on leaks as a data source?