Britain at centre of international “corporate tax haven network”

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Research by the Tax Justice Network (TJN) advocacy group shows how Britain is at the centre of an international web of tax havens, solely serving the profit interests of transnational corporations (TNCs).

The study by the London-based group, which calls for “the elimination of cross-border tax evasion and limit tax avoidance, so large corporations and wealthy individuals pay tax in line with their ability to do so,” found that the UK and a number of its territories are the world’s foremost facilitator of global tax avoidance. It states that the UK has “single-handedly” done the most to ensure that existing rules on corporation tax are overcome. It is estimated that approximately $500 billion (£395 billion) in corporation tax is lost to avoidance.

The report reveals how successive UK governments have facilitated, on behalf of corporations, the construction of a global network in which hundreds of billions of pounds are funnelled away from national taxation, thereby slashing tax revenues required to pay for public services.

The TJN offers this definition: “A corporate tax haven is pretty much what most people would imagine it to be: a jurisdiction that provides facilities to help multinationals escape paying taxes elsewhere.”

The TJN compiles what is defined as a Corporate Tax Haven Index. It ranks according to how aggressively and extensively a territory and jurisdiction contributes towards assisting TNCs to avoid paying taxation.

The UK “corporate tax haven network,” explains the TJN, is by far the world’s greatest enabler of corporate tax avoidance. British territories and dependencies made up four of the top 10 places on the avoidance index who do their utmost to “proliferate corporate tax avoidance.” Such nefarious activity supplements the main UK centre of financial parasitism, the City of London—a swindler’s paradise which operates virtually as a law unto itself. The UK mainland is ranked just outside the top 10, at 13th on the list, and is the world’s biggest economy able to operate effectively as an offshore tax haven.

Eight jurisdictions are part of the UK-centred tax haven network of territories and dependencies: the British Virgin Islands, Bermuda, the Cayman Islands, Turks and Caicos Islands, Anguilla, the Isle of Man, Jersey and Guernsey. The report notes that if these British Overseas Territories and crown dependencies were calculated together, the UK would top the index overall.

Tax haven territories linked to Britain are responsible for approximately a third of the world’s corporate tax avoidance, a figure in excess of four times more than the next greatest tax haven, the Netherlands.

Many of these top-ranking tax haven territories, including the top three—British Virgin Islands, Bermuda, the Cayman Islands—are geographically tiny but are home to trillions of dollars of foreign direct investment motivated by reducing tax bills rather than any genuine economic activity.

Alex Cobham, chief executive at TJN, stated, “A handful of the richest countries have waged a world tax war so corrosive, they’ve broken down the global corporate tax system beyond repair.” Cobham continued, “The UK, Netherlands, Switzerland and Luxembourg, the Axis of Avoidance, line their own pockets at the expense of a crucial funding stream for sustainable human progress. The ability of governments across the world to tax multinational corporations in order to pay teachers’ wages, build hospitals and ensure a level playing field for local businesses has been deliberately and ruthlessly undermined.”

The Corporate Tax Avoidance Index is the first ever study of its size and scope to score each country’s system based on the degree to which it facilitates tax avoidance. This measure is then combined with the scale of its corporate activity to determine the share of global taxes avoided. The index covers 64 jurisdictions and their scores reflect how aggressively they use tax cuts and create loopholes, secrecy and other mechanisms to attract corporate activity.

The countries listed by the index, explains the TJN, have created a downward spiral of taxation in a “race to the bottom,” that increasingly depletes tax revenues and therefore public spending on crucial services. The TNCs utilise the transport infrastructure, postal services, scientific research, property rights and court systems paid for by public funds to maximise profits but make no contribution themselves. Therefore, the tax burden falls increasingly upon waged workers, who cannot avoid paying their taxes.

Countries compete with one another to provide the most favourable conditions for Foreign Direct Investment, tax loopholes and incentives to attract globally mobile capital. As a consequence, they create a downward spiral towards the bottom where the tax burden is removed almost entirely from the TNCs and hoisted entirely onto the shoulders of workers and small businesses. The profits of the TNCs increase in direct proportion to decreases in corporate taxation.

The TJN estimates that national governments are losing $500 billion in tax to corporate tax havens annually. The IMF recently estimated that some of the world's poorest economies lose an incredible $200 billion per year, representing an even larger proportion of their collective GDP.

Tax avoidance assists the monopoly over commodity production enjoyed by the global corporations. They design their global production networks and internal trading to integrate into a web of subsidiaries and affiliates across tax havens around the globe. These affiliates trade with one another and it is estimated that up to one-third of all world trade is conducted within the TNCs.

The TNCs seek to shift their profits into the zero- or low-tax havens and conversely to shift all costs they incur into higher tax locations where they can be deducted against their tax bills.

This "transfer pricing" allows TNCs to adjust their internal pricing at which their affiliates trade with one another across borders in order to minimise profits in the countries with higher taxes and maximise profits in the tax havens.

The TJN points out how even the "headline" tax rates published by countries can be deliberately misleading. It warns, "Don't be misled by a country's headline tax rate: this rate might be bypassed through sweetheart deals between the tax administration and multinationals, and its tax system may well contain gaps and loopholes. Luxembourg, for instance, claims to tax corporate income at 26 percent. Yet Luxleaks [a financial scandal revealed in November 2014 via an investigation conducted by the International Consortium of Investigative Journalists] revealed that some multinationals were taxed at less than 1 percent."

There can be little doubt the other members of "the axis of avoidance," the UK, Netherlands and Switzerland, utilise similar tax avoidance tactics.

The global corporations enjoy rules and laws that are the polar opposite of those faced by workers. Employees must automatically pay their taxes to the state in deductions straight from their pay packet. Self-employed workers face financial punishment if they do not pay their taxes promptly. In stark contrast, governments like the UK allow the giant global corporations to avoid paying almost any taxes on their enormous profits into public funds.

The competing sections of the ruling class in Britain, who are fighting to ensure the strategic interests of the factions of big business they represent, are committed to ramping up the exploitation of the working class.

Central to this is ensuring the competitiveness of British capital through further deregulation of the economy and massive giveaways to the corporations and super-rich in tax concessions. Such policies were outlined by all the favoured candidates in the ongoing leadership contest to determine the next Conservative Party leader and UK prime minister. Some £84 billion in annual tax cuts was outlined by five of the remaining candidates. The favourite of the two final candidates, Boris Johnson, outlined £10 billion in tax cuts for 3 million high earners and denounced any policies that would "hike taxes to penal rates and attack wealth creation and private property …" His opponent, Jeremy Hunt, plans to slash corporation tax from its current level of 19 percent to below even that of the 12.5 percent in the Irish Republic.

Production organized by the TNCs under capitalism, involving the exploitation of hundreds of millions of workers, rather than providing for human need, only creates ever greater grotesque levels of private wealth that the super-rich hoard in their tax havens or fritter away on socially useless luxury amulets.

The billions of pounds of unpaid taxes by TNCs alone, without even including their gigantic profits, are an undeniable refutation of capitalist governments of all political stripes who insist there are "no funds" as "we are living beyond our means" and "cannot afford" to provide a decent standard of living for the working class. The reality is that there are gigantic sums that could be immediately utilized under a planned socialist economy to provide high-quality jobs, homes, education, transport, healthcare, cultural and leisure facilities for all.