



Dorothy Perkins, Oxford Street, 4 December 2010

“the difference between evasion and avoidance is the width of a prison wall”

Ex-Chancellor Denis Healey

“we have allowed the term tax avoidance to become far too respectable”

Pravin Gordham, South African Finance Minister

The Myth of Tax Efficiency: Efficient for Who?

“tax is a cost of business. All good businesses should be as efficient as possible in terms of reducing their tax bills.”

International Chamber of Commerce

- ❑ tax avoidance / tax exemptions / tax competition cause market distortions which reduce pressure on businesses to improve productivity and be innovative
- ❑ tax avoidance encourages corporate free-riding – and logically will not stop at zero tax on corporate profits, but negative tax rates – direct and indirect net transfers



“

SABMiller has a massive 65 tax haven companies, more than it has breweries and bottling plants in Africa. Tax havens enable the SABMiller group to use clever accounting to siphon profits out of Africa, taking desperately needed money away from poor countries.

ActionAid estimates that it is ripping off poor countries in Africa to the tune of £20 million a year

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Revealed: how multinational companies avoid the taxman

Elaborate structures to move profits offshore International investigation into banana firms

by Lawrence and Ian Griffiths

Global banana companies supplying the UK are using tax havens to avoid paying tax on their profits here and in developing countries, the Guardian has found. The investigation reveals that large corporations are creating elaborate structures to move profits through subsidiaries to offshore centres such as the Cayman Islands, Bermuda and the British Virgin Islands, to avoid handing money over to tax collectors in the countries where their goods are produced, and in those where they are consumed. Governments at both ends of the chain are increasingly being deprived of the ability to raise tax for development services.

Dole, Chiquita, and Fresh Del Monte, the three companies that supply several UK supermarkets and between them control more than two thirds of the worldwide banana trade, generated over \$50bn of sales and \$1.4bn of global profits in the last five years. Yet they paid just 100m, or just over 1% of profits, in taxes between them over that period, our analysis of their financial accounts reveals.

In some years the banana companies have paid an effective tax rate as low as 0.1%, even though the standard rate in the UK where they have their headquarters is 25%. In some years they file their full accounts at 35%.

The banana companies are not alone. In 2006, a third of the UK's 700 largest businesses paid no corporation tax in the year to 2005-06. A further third paid less than 1% each, according to figures from the national audit office.

The use of offshore havens by rich individuals to avoid paying tax was high on Gordon Brown's agenda this autumn, with the Conservative Party's "non doms" campaign. It is the far bigger challenge for the government is how to keep up with the strategies being developed by large corporations to cut their tax bills.

About 60% of world trade now consists of multinational transfers within transnational companies, according to the OECD. By re-routing their costs towards countries such as the UK or the US that have higher rates of tax, corporations can make little taxable profit in those countries. Instead

their profits are weighted towards subsidiaries they have set up in jurisdictions that charge little or no tax.

Del Monte Fresh Produce UK, Chiquita UK and Dole's UK business, JP Fresh, report combined sales in the UK of over £400m in their most recently filed annual accounts. Yet between them they paid only £128,000 in UK tax.

Fresh Del Monte, currently the supplier of the vast majority of Asda's bananas and some of Morrisons', is registered in the Cayman Islands and has more than 30 Cayman subsidiaries. The Caymans have a zero rate of corporation tax. It also has subsidiaries in other tax havens including Gibraltar, Bermuda, the Dutch Antilles and the British Virgin Islands. Over the last five years its actual tax paid has been as much as \$69m a year less than tax calculated at the standard US corporation rate.

Dole, which supplies bananas to Tesco in the UK, paid actual tax that was \$20m a year less than tax at the standard US rate. Its accounts only list its largest subsidiaries, but these include companies in Bermuda, Liberia and Puerto Rico.

Chiquita, which also supplies Tesco, lists 11 subsidiaries in Bermuda at the end of 2006. Our analysis of its accounts over five years shows that its actual tax paid is as much as \$44m less a year than US standard rates.

In a double blow to the developing countries where the bananas are produced, the fall in tax as a percentage of profit paid by the large corporations has coincided with ruthless driving down of costs. Wages have been reduced on plantations even as working hours have been increased.

Fair trade campaign group Banana Link says Fresh Del Monte sacked all 4,300 of its workers on its Monte Libano plantations in Costa Rica in 1999 and re-employed people on reduced wages and benefits, in a model it later rolled out across all its plantations. Chiquita's plantation labour costs meanwhile, which were 5% of its total costs



in 2004, had been cut to just 2% in 2006. Richard Murphy, a tax expert who advised the NAO on its report on the performance of the UK Revenue and Customs, said that large companies are effectively now able to set their own tax rate. "Corporation tax is falling worldwide as a percentage of profits. Corporations seem to be deciding what they should pay, not as a percentage like the rest of us, but a sum above which they don't want to go," says John Christensen, a former economist and adviser to the Jersey government and director of the campaign group Tax Justice Network, said the Guardian investigation confirmed that the flight of capital was continuing, having reached unprecedented levels in the 1990s. "The trend in the last 30 years has been to shift the burden of tax away from companies on to the consumer and labour. Capital is increasingly going untaxed."

'Corporations seem to be deciding the maximum tax sum they will pay'

Dole declined to comment on the Guardian's detailed allegations, saying that they involved confidential and proprietary information. Chiquita said it complied with all tax laws in the jurisdictions where it does business. Chiquita added that "a significant portion of our earnings occur outside the US where they are subject to taxation at the local tax rate". Both companies say they are working with the Latin American unions to address workers' rights.

Fresh Del Monte said it too operated in many countries and complied with all local tax law and international tax treaties. It added that it also complied with all local labour laws, was a strong proponent of freedom of association, and that the average wage of its agricultural employees in the countries where it operates exceeds the mandated minimum agricultural wage.

Corporations are creating elaborate structures to move profits through subsidiaries to offshore centres to avoid handing money over to tax collectors in the countries where their goods are produced, and in those where they are consumed.

Governments at both ends of the chain are increasingly being deprived of the ability to raise tax for development or services.

teenage terror threat children as young as 10 are being groomed by al-Qaida to take part in terror attacks

International

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Financial

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Sport

Fergie: buy English Manchester United manager Sir Alex

6th November 2007

North
Amer

ATLANTIC

Africa

Ireland : 4p
charged for use of
brand

Consumed in UK :
Import price : 60p
39p retail mark-up
1p taxable profits

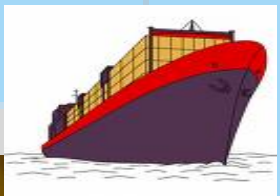
Bermuda : 17p for use
of distribution network

Isle of Man : 4p for
insurance services

Luxembourg : 8p for
financial services

Cayman Islands :
8p for use of
purchasing network

Jersey : 6p charged for
management services



Produced in Latin America
Export price: 13 pence
1.5p labour costs /
10.5p production costs
1p taxable profits



Exemptions and other factors that might distort markets

Loan versus equity capital

Tax holidays

'Ring-fenced' exemptions – including EPZs, SEZs

Preferential rates / ministerial discretion

Exempt import duties on capital goods

Accelerated depreciation rates

“Perhaps the strongest and most relevant policy conclusion one can draw from an examination of the extensive empirical and theoretical literature on the links between taxation and economic development is simply that we do not yet understand much about this issue in general.”

**Taxation and Development
Richard Bird
World Bank Economic Premise – October 2010**



Financial market secrecy: globalisation's achilles heel

- Raises risk premiums
- Harms tax systems and public finance
- Facilitates economic free-riding
- Reduces the efficiency of resource allocation
- Increases the profitability of economic crime
- Encourages rent-seeking activities
- Damages trust and institutional quality



NICHOLAS SHAXSON



TREASURE ISLANDS

**TAX HAVENS AND
THE MEN WHO STOLE THE WORLD**

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