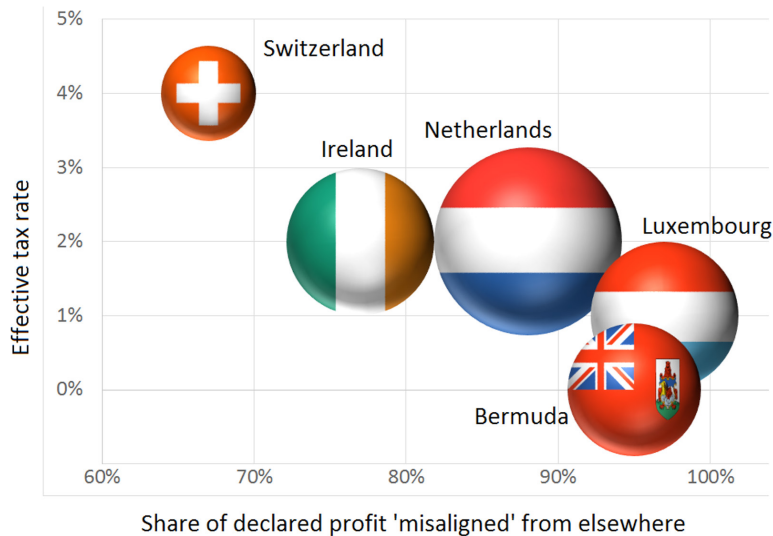


Tax avoidance and evasion – The scale of the problem

Profit misalignment of US multinationals



2018) using more robust revenues data indicates a more conservative global revenue loss nearer \$500 billion – although with lower-income countries still losing around \$200 billion.

Overall, current data and research suggest global, annual tax losses of \$500 billion or more. This represents over 20% of corporate tax revenues.

By their very nature, tax avoidance and tax evasion are extremely difficult to measure. Both rely on the use of financial secrecy, so cash flows are hidden from view.

In the absence of financial transparency, and of detailed, public country-by-country reporting by multinationals, definitive statistics are impossible to determine. However, over the years TJN and other researchers have sought to assess the scale of tax losses to governments.

Corporate tax dodging

Overall, current data and research suggest global, annual tax losses of \$500 billion or more. This represents over 20% of corporate tax revenues.

Researchers at the IMF's Fiscal Affairs Department (Crivelli et al., 2016) have studied a broad measure of tax haven 'spillovers', estimating total tax losses at over \$400 billion for OECD member states and around \$200 billion for lower-income countries. A replication by Tax Justice Network researchers (Cobham & Janský,

A different Tax Justice Network study (Cobham & Janský, 2017) found that the profit shifting of US-headquartered multinationals alone likely resulted in around \$130 billion of revenue losses in 2012 (compared to just \$12 billion in 1994, highlighting just how the scale of abuse has grown over two decades).

A rough extrapolation on the basis of the US share of world FDI – assuming other multinationals are equally aggressive in their tax behaviour – implies a global revenue loss of around \$650 billion, in line with the IMF study although the two are driven by quite different data and methodology.



\$500bn

Estimate of annual tax losses to governments due to profit shifting by multinational companies

Research for UNCTAD's World Investment Report 2015 looked at a specific form of tax dodging, foreign direct investment via tax havens and SPE (special purpose entity) jurisdictions. The UNCTAD study found that there is a substantial reduction in the declared returns to foreign direct investment in developing countries when investment takes this route. Their figures implied a revenue loss of around \$100 billion annually, from this one channel of profit shifting alone.

The OECD study (2015) is an outlier in the research, suggesting a range of \$100-\$240 billion globally. However, their analysis is based on a database of company balance sheets which has been shown to lack sufficient coverage of either tax havens or developing countries to provide the basis for such a global analysis.

The impact of corporate tax dodging on income distribution

The research in this area also sheds light on the global distributive implications of tax dodging. The more comprehensive, but less disaggregated results are those of the IMF researchers. Their estimates are that short-run losses amount to around 0.2% of GDP for both developing countries and

OECD countries (as groups), while the long-run losses are around 1% of GDP for OECD countries and 1.3% for developing countries.

The GDP comparison does not show the full difference in intensity of losses, however, because developing countries have lower tax revenues in general: often 10-20% of GDP, rather than 30% or more in OECD countries. The revenues foregone are therefore substantially greater in comparison: perhaps 6-13% of existing tax revenues in developing countries, as opposed to just 2-3% in OECD countries. The country-level findings provided by Cobham & Janský (2018) make clear that the losses are greatest in absolute terms for high-income countries, but much higher as a share of total revenues for lower-income countries – where additional revenues are most badly needed.

Research on the incidence of corporate taxes suggests that the corporation tax is a tax which is mostly paid for by shareholders and top executives, so that a reduction in tax avoidance is likely to have progressive distributional implications within countries – as well as between countries, by addressing the historic inequality in the distribution of taxing rights.

Tax dodging is on the rise

Cobham & Janský (2017) find that only 5-10% of the profits of US multinationals was misaligned with their economic activity in the 1990s (that is, declared elsewhere for tax purposes). This grew sharply, however, reaching 15-20% of global profits in the early 2000s and most recently to 25% or more.

\$32tn

Higher estimate of the amount of private wealth held offshore

Wealth

While there are significant uncertainties over the scale of undeclared offshore wealth, there is no longer any doubt that the magnitudes (of tax revenues lost) are substantial in terms of the potential development impact. Global estimates of individual wealth 'offshore' span a wide range. The lowest is \$7.6 trillion, Gabriel Zucman's (2013) assessment which is based on the mismatch between the publicly acknowledged bilateral assets and liabilities of a list of 'tax haven' jurisdictions, and an estimate (based on Swiss data) of the likely proportion of the mismatch that is actually declared to home tax authorities.

The highest estimate, made by James Henry for Tax Justice Network in 2012, suggests a range of \$21-\$32 trillion, based on triangulation of multiple methods (and data sources). The likely value of assets undeclared for tax purposes lies in between; Henry does not argue that all offshore assets are undeclared, and Zucman is clear that his estimate relates only to one part of the assets that should be considered, while Henry includes a broader range.



In terms of annual tax revenues lost as a result of undeclared income generated by these assets, Henry offers an indicative figure of \$189 billion (based on statutory tax rates applied to a conservative 3% return on the lower bound of his asset range). Zucman estimates a global tax loss of \$190 billion based on his much lower undeclared asset total and a nominal offshore return of 7% (based on research findings that pre-tax returns rise with wealth, and on returns data from large diversified funds).

Estimates of undeclared wealth also suggest a particular intensity in lower-income countries. The regional breakdown of Zucman's estimates show that, with the exception of Russia and the Gulf countries where the tax implications are trivial, the proportion of wealth held offshore is largest for Africa and Latin America – more than twice that of Europe and many times higher than that of the US. While it is difficult immediately to construct an equivalent share of current revenues, the estimated revenue losses for Africa and Latin America

appear disproportionate to their shares of world GDP – a finding confirmed anecdotally by analysis of the leaks from HSBC Private Bank Switzerland, carried out by Christian Aid and the Financial Transparency Coalition.

Zucman estimates a global tax loss of \$190 billion [from private wealth held offshore] based on his much lower undeclared asset total and a nominal offshore return of 7%

Supporting this finding for Africa, there are also regional estimates of lost capital that strongly imply the region is a net creditor to, rather than a net debtor of, the rest of the world. Former African Development Bank chief economist Léonce Ndikumana and his co-author James Boyce have produced a series of estimates of the stock of African flight capital offshore since the 1970s, most recently for an important new

volume produced by the African Economic Research Consortium (Ajayi & Ndikumana, 2015).

They estimate that the stock of unrecorded capital built up between 1970 and 2010 for 39 African countries and held offshore is approximately \$1.3 trillion, or 82% of those countries' 2010 GDP. In contrast, the stock of external debt stood at \$283 billion – so the scale of hidden African wealth offshore is estimated to exceed recorded external debt by a ratio of more than four to one.

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We are an independent international network launched in 2003. We conduct high-level research, analysis and advocacy on international tax; on the international aspects of financial regulation; on the role of tax in society; and on the impacts of tax evasion, tax avoidance, tax 'competition' and tax havens. We seek to create understanding and debate, and to promote reform, especially in poorer countries. We are not aligned to any political parties.

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