# Illicit financial flows - the European debate

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# What is Europe discussing

- IFF **definition**
- **Access to information** to reveal tax dodging
- **Tax standards** for multinational corporations
- **Who sets the global rules**
- **Blacklisting**
- **Capacity building** of developing countries

# IFF definition

- Illegal = Corruption and tax evasion by individuals
- Tax avoidance by multinational corporations – not illegal, but a major source of outflows

NB! Corruption is seen as a developing country problem

# Access to info about tax dodging

- Beneficial ownership: **Who are the owners** of shell companies and trusts? Important to reveal tax evasion and corruption (**Panama Papers**)

- Country by country reporting: **Where do multinational corporations pay tax and where do they do business? (LuxLeaks)**

# Ex. Barclay's Bank

| Country | Commentary | Turnover | Profit / (loss) before tax | Total tax paid | Corporation tax paid | Social Security paid | VAT paid | Bank Levy paid | Other taxes paid | Public subsidies received | Average number of employees |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | £m | £m | £m | £m | £m | £m | £m | £m | £m | |
| United Kingdom | We are one of the largest banks in the UK, with operations spanning all our business lines. As we are headquartered in the UK, the profit figure includes intra-group dividends received and gains on internal reorganisations which occurred in 2013. These intra-group items are not taxed in the UK and so are key elements in calculating the taxable loss we incurred in the UK in 2013. | 18,953 | 4,874 | 1,425 | 55 | 440 | 474 | 421 | 35 | - | 54,595 |
| United States | Our principal US activities include a significant and wide ranging Investment Bank business and our Barclaycard operations, but we have operations across all our business lines with the exception of retail banking. We pay US taxes, including federal, state and local corporate income taxes, on the profits from those activities at rates in excess of the UK corporation tax rate. | 5,869 | 703 | 301 | 215 | 86 | - | - | - | - | 10,688 |
| South Africa | Barclays owns 62.3% of Barclays Africa Group, which in turn owns Absa Bank, a household name in South Africa, and provides a full range of banking services including retail and Investment banking. Operations span all our business lines. Profits are taxed locally at rates in excess of the UK corporation tax rate | 3,202 | 941 | 295 | 226 | 11 | 58 | - | - | - | 31,765 |
| Luxembourg | We carry on Investment Banking activity in Luxembourg including equities business, client financing and funding to our international operations. Whilst Luxembourg will continue to be an important location for our investment banking business, our operations there are changing following the closure of the Structured Capital Markets unit in 2013. Those changes mean the 2014 snapshot is expected to show significantly reduced turnover. Luxembourg tax was not paid on the great majority of the profits due either to the offset of existing tax losses or as a result of dividends being exempt from tax under Luxembourg law | 1,389 | 1,380 | 20 | 20 | - | - | - | - | - | 14 |
| Jersey | We provide banking, investment management, trust and fiduciary, and brokerage services in Jersey, within the Wealth and Investment Management business line. These activities are taxed locally at rates below the UK rate. A significant part of the profit arises from Investment Bank business, most of which is ultimately taxed in the UK. | 972 | 801 | 10 | 9 | 1 | - | - | - | - | 285 |

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14 employees in Luxembourg, making £1.38 billion in profits...???

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While 54,595 employees in the UK made £4.87 billion in profits?

14 employees in Luxembourg, making £1.38 billion in profits...???

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| Italy | Our operations span all our business lines. The low level of tax paid reflects losses in our operations in Italy. | 282 | (153) | 42 | 4 | 21 | 17 | - | - | - | 1,193 |
| Kenya | Our operations span all our business lines and are locally taxed at a rate higher than the UK corporation tax rate. | 204 | 79 | 39 | 35 | - | 4 | - | - | - | 2,912 |
| Isle of Man | We provide banking, investment management, trust and fiduciary, and brokerage services, all within the Wealth and Investment Management business line. These activities are taxed locally at rates below the UK rate. | 175 | 99 | 9 | 7 | 2 | - | - | - | - | 506 |
| UAE | Our operations span all our business lines. Under local law no tax is payable on these operations. | 167 | 22 | - | - | - | - | - | - | - | 675 |
| Egypt | Our operations span all our business lines and are locally taxed at a rate higher than the UK corporation tax rate. | 122 | 56 | 19 | 17 | 1 | 1 | - | - | - | 1,336 |
| Ghana | Our Ghana Retail, Corporate banking, Investment Bank and Wealth and Investment Management operations are locally taxed at a rate higher than the UK corporation tax rate. | 113 | 55 | 21 | 16 | 4 | 1 | - | - | - | 1,165 |
| Botswana | Our Botswana Retail, Corporate banking, Investment Bank and Barclaycard operations are taxed locally at a rate just below the UK corporation tax rate. | 93 | 30 | 6 | 6 | | - | - | - | - | 1,225 |
| Tanzania | As our Tanzania Retail, Corporate banking and Investment Bank activities generated little profit no tax was due other than employment taxes. | 86 | 1 | 1 | - | 1 | - | - | - | - | 1,862 |
| Monaco | Our Monaco Wealth and Investment Management activities are taxed locally at a rate above UK corporation tax. | 84 | [illegible] | 11 | [illegible] | 5 | 2 | - | - | - | [illegible] |

1862 employees in Tanzania, making almost no profit, resulting in £0 corporate tax...???

# Access to info about tax dodging

**Full agreement:**
European tax authorities should have this information

**Disagreement:**
- Should this information be public?
- Should developing countries have this information?
- Should whistleblowers be punished?

**Arguments against public information:**
- *"Developing countries cannot be trusted"*
- Risk of "double-taxation"

# Access to info about tax dodging

An example of “risk of double taxation”:

The European Commission has found that Ireland helped Apple avoid tax payments worth 13 billion Euros

**Apple’s profits originated from**:

- Europe
- The Middle East
- India
- **Africa**

Now, the **EU and US are discussing who has the right to tax the money**

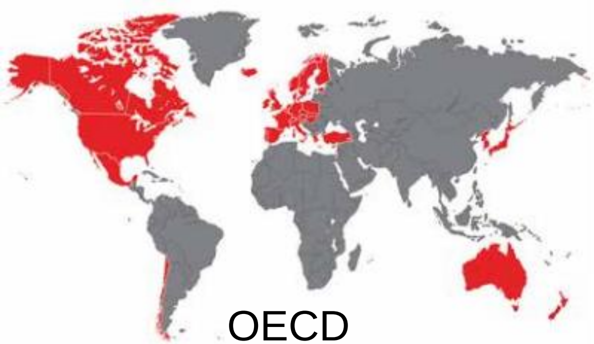
# Tax standards for multinational corporations

- Implementing the newest OECD Transfer Pricing standards (“BEPS”) – a conservative review of existing standards

Europe does not want to discuss:

- Allocation of taxing rights between developed and developing countries
- Today: Residence (developed) countries favored over source (developing) countries

# Who sets the global rules?


OECD

# Rule-makers & Rule-takers


Least Developed Countries


G20

# Who sets the global rules?

Answer: OECD and G20

For the last decade, developing countries have asked for a **seat at the table**, but developed countries have rejected the demand.

Developing countries are **invited to follow the rules "on an equal footing", after the rules have been decided**

# Blacklisting

EU's blacklisting process

1) **No EU country can ever get blacklisted**
2) **The blacklist is a political negotiation in the EU**

The last EU blacklist included, for example, Liberia, but not Luxembourg, Switzerland, Ireland, the Netherlands or the United States

**3) Next blacklist will include criteria about following the OECD rules**

# Capacity building

Often through the OECD

Two important examples:

- **Transfer pricing support**: Including writing legislation

- **Tax Inspectors Without Borders**: Representatives of EU governments entering the tax administrations of developing countries – often in countries where the EU countries have a high number of corporate interests

# Political disagreements

**The European Parliament supports:**

- Public country by country reporting
- Public ownership information
- Giving developing countries a seat at the table
- New ways of taxing multinational corporations

The **EU Member States are often split**, but leaning towards rejecting the above mentioned points

The **media and civil society** are very critical towards tax dodging – and very active in the debate eurodad

You know what they say…

***If you are not at the table…***

You know what they say…

***If you are not at the table…***

***you're on the menu!***

# Thank you!