Company tax dodging has devastating effect on developing world

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Billion-pound tax dodging companies behave like "parasites," robbing from the poor on a grand scale, according to new research.

Experts spent four years investigating the extent of tax avoidance on socio-political development in Africa and found that poor countries are increasingly dependent on aid, and stuck trapped in a cycle of poverty because Western governments have failed to eradicate tax abuse.

Tax avoidance occurs when companies and rich individuals manipulate the rules of the tax system to try to pay less than they owe. They do this by lobbying governments for tax breaks and lower corporate tax rates, exploiting obscure loopholes in tax laws or shifting profits into tax havens.

Professor Jia Liu from the University of Portsmouth co-authored the study. She said: "Tax should redistribute wealth from corporations and rich individuals, fund public services and tackle poverty. Yet multinational companies dodge billions of dollars in tax every year, acting as giant corporate parasites on the countries they operate in, sucking profits out and leaving the rest of society paying the price.

"These companies make a huge profit but they don't contribute to society as they should. It is unconscionable to focus on maximizing their profits, while millions of Africans go without adequate nutrition, health and education.

"It is not illegal, but it is certainly not ethical."

Unlike tax evasion, which is a crime, tax avoidance stays just within the law, although in the past tax authorities have used their power to crack down on the most blatantly outrageous schemes.

Professor Liu said: "Lots of high-earning footballers, including stars such as Wayne Rooney, Steven Gerrard, Gary Lineker and David Beckham, invested in various tax-avoidance schemes on the recommendation of financial advisers. They and up to 100 fellow professionals had to pay back huge sums because the Inland Revenue ruled these schemes to be illegal.

"Of course, in developing countries, the tax authorities aren't always so keen to intervene, especially when huge multinationals are involved."

Professor Liu and colleagues highlighted a number of case studies to illustrate the way tax dodging schemes are carried out.

The data were obtained through archival documentation from the media, published documents by regulators, NGOs and other documentary sources to show tax dodging practices used by companies operating in developing countries, particularly Sub-Saharan Africa.

Professor Liu said: "We can only discuss what's in the public domain, which depends on what comes out of court cases, investigation reports and whistle-blowers' accounts of tax avoidance, but even with limited access to the full picture, it is easy to conclude that the practice of tax dodging has an alarming effect on poverty and inequality."

The paper explains that companies can get away with tax avoidance through a combination of tax haven transactions and huge tax concessions awarded by governments themselves.

"It's a sad state of affairs, but multinational companies are often able to dodge tax because the tax rules of the countries allow them to. African governments are lured by local and international capitalists and seem to forget they have obligations and responsibilities to their own electorates."

One case study in the paper focuses on Zambia, a country with abundant natural resources, yet little tax revenue. Major mining companies are producing vast amounts of copper, but pay few taxes to the government.

It is estimated that Zambia loses $US2bn a year to tax avoidance.

Professor Liu said: "Over half of the tax revenue from mining comes from just one company. This means that the other five mining companies either paid no corporate tax at all or paid only a token amount."

Developed countries like the UK also play a central role in the "offshore" system that allows companies to dodge tax, through its own global network of tax havens.

Some of the major corporates like Amazon, Apple, eBay, Facebook, Google, Microsoft and Starbucks avoid tax through complex organizational structures. They have networks of banks, lawyers and accountants to create convoluted and secret financial structures, which reduce transparency and enable tax avoidance.

"This is fundamentally unjust and undermines the ability of the tax system to fulfill its core purpose to raise revenue for public services and redistribute wealth," added Professor Liu.

The paper argues that governments around the world need to crack down on tax avoidance by reforming domestic tax authorities, promoting transparency and closing loopholes.

The research is published in the *Journal of Financial Crime*.

More information: Olatunde Julius Otusanya et al, Influence of tax dodging on tax justice in developing countries: some theory and evidence from Sub-Saharan Africa, *Journal of Financial Crime* (2022).
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