

INTERNATIONAL CONFEDERATION OF FREE TRADE UNIONS

## ICFTU Online...

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### Having their cake and eating it too - the great corporate tax break

Brussels 06 July 2006 (ICFTU OnLine): , A major report released by the ICFTU today uncovers the disturbing extent of corporate tax avoidance and evasion and warns that unless governments cease engaging in the race to lower corporate taxes, both industrialized and developing countries will face a major public funding crisis.

The figures in the report show that:

- v Average corporate tax rates in industrialized countries have fallen from 45 per cent to 30 per cent in two decades due to tax competition,
- v if corporate taxation keeps receding at the current rate, corporate tax rates will hit 0 per cent by the middle of the century,
- v conservative estimates show that developing countries lose US\$50 billion annually due to tax havens,
- v out of the 275 largest corporations in the US, 82 paid no tax in or received a tax refund in at least one of the years between 2001 and 2003,
- v the number of Export Processing Zones has risen from 850 in 1998 to more than 5,000 in 2004, despite their generally bad track record on labour rights,
- v in 2001, the amount of income estimated to be lost in the US due to the abuse of transfer pricing alone was US\$53.1 billion,
- v as a share of total taxation, corporate taxes have dropped by 15 per cent in the UK and by 22 per cent in Italy since the 1980s, by 41 per cent in Germany and by 43 per cent in Japan since the 1970s and by 53 per cent in the US since the late 1960s.

The report documents the many innovative ways in which companies are escaping their tax obligations, either through exploiting legal loopholes or by simply engaging in illegal behavior. These innovative accounting practices, enabled by the exponential rise in multinational companies, include transfer pricing, income stripping and the parking of intellectual property.

"Governments must stop this tax competition craze if they are serious about ensuring a sustainable future of their societies. They must also start cooperating with each other and the OECD in closing the legal loopholes that have allowed companies to get away with the kind of behavior that would land an ordinary citizen in jail for many years," Guy Ryder, the General Secretary of the ICFTU commented.

Companies as large as Boeing, Halliburton, Morgan Stanley, Pepsi, Citigroup and Xerox are either incorporated in tax havens or have a large number of subsidiaries there. This allows them to under-report their profits for the purposes of paying tax whilst at the same time benefiting from taxpayer money through government contracts.

"The amount of money that is lost to tax havens, from developing countries alone, every year is six times the amount that would be required to fund universal primary education. At a time when business is taking up more share of productivity gains than ever, when companies are reporting higher profits than ever and when employer-sponsored social safety nets are being eroded, would it not be only fair to ask corporations to put something back into the public spending purse? After all, it is only due to government investment in infrastructure and education that these companies have been able to stay competitive. In the long term, this business of having their cake and eating too cannot continue," Ryder concluded.

The rhetoric used by governments to justify the tax war of attrition is that they need to attract foreign direct investment, and yet the report shows that there is no correlation between generous corporate tax breaks and an increase in investment. To the contrary, studies show that the companies that have benefited from such `generosity` have returned the favour by decreasing their investment and fleeing off-shore.

The ICFTU will be holding a media briefing on the report at the OECD offices on Thursday, July 6.

Where: OECD offices (OECD 2, rue André Pascal F-75775 Paris Cedex 16France)

When: July 6, 9-9.30 am

Who: Kristian Weise, Policy Research Officer ICFTU

The full report can be read at [http://www.icftu.org/www/pdf/taxbreak/tax\\_break\\_EN.pdf](http://www.icftu.org/www/pdf/taxbreak/tax_break_EN.pdf)

The ICFTU represents 155 million workers in 241 affiliated organizations in 156 countries and territories: <http://www.icftu.org> ICFTU is also a member of Global Unions: <http://www.global-unions.org> For more information, please contact the ICFTU Press Department on +32 2 224 0204 or +32 476 621 018.

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