Accounting for Justice

A facilitator's guide to Global Tax Justice

Debt and Development Coalition Ireland

This resource was written by Daniel Finn and Nessa Ní Chasaide. We would like to express our thanks to Alison Leahy and Johnny Sheehan for their assistance.

Note on language

Throughout the resource we use the terms 'North/South', or 'Global North /Global South' rather than 'First World/Third World or 'Developed/Developing' countries. When countries of the 'North' are mentioned we are broadly describing countries in the continents of Europe, North America and Australia and when we write about countries of the 'South' we are broadly referring to countries in the continents of Africa, Asia and Latin America. None of these terms fully describe the diversity within our global society. - For example, the terms North and South minimise inequalities within Northern and Southern societies. We use them as a short hand in a way that seeks not to imply superiority or inferiority between people.

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Introduction

Why Tax?

Tax is a subject which tends to make people's eyes glaze over with boredom! This is despite the fact that tax enormously affects the quality of life of everyone. Tax revenue – collected by governments from individuals and companies – pays for important services in people's lives such as healthcare and education in countries all around the world. However, people living in Northern and Southern countries have very different experiences of taxation.

For people of the Global South, tax has become a matter of life and death. This is because Southern governments often do not have enough funds to pay for basic services. They collect small amounts of tax revenue from their citizens and from companies working in their countries. This has led many Southern governments to become very dependent on loans and grants from richer nations and institutions in order to deliver basic services.

It has recently become clear that Southern countries are illegally losing a huge amount of tax revenue due to the way in which the global tax system is used – and abused. According to Christian Aid, countries of the Global South lose at least US$ 160 billion per year due to tax evasion by multi-national corporations. So tax is not just about figures and percentages – it's about people's human rights.

How to Use the Resource

This resource provides a guide to facilitators to support learning about:

- The role of taxation in society and
- The relationships between Northern and Southern governments, multi-national companies, and citizens on taxation.

The resource is aimed at informal adult learners and can be used to deliver a series of learning units on tax justice (up to 4 hours) or for shorter sessions (minimum 1 hour).

For in-depth learning (of up to 4 hours, split over 2 or 4 learning units) we recommend delivering:

- Activity 1 as an icebreaker
- Activity 2 as an introduction to attitudes about tax
- Activity 3 to learn about the global nature of taxation
- Choose from either activity 4 or 5 which provide learners with an opportunity to explore power dynamics in negotiating tax.

For short learning units of up to 2 hours (which will facilitate introductory discussions on tax) we recommend:

- Activity 1 as an icebreaker
- Activity 2 to explore attitudes about tax
- Choose one of either activity 2,4 or 5

We hope the resource facilitates learning and debate and that you enjoy using it.

Activity 1

Title: **'Tossing Tax!'**

Aim: **An ice-breaker to encourage discussion on attitudes to tax**

Time: **15 minutes**

You will need: **A sheet of paper and a marker for each participant.**

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1. Give each participant a sheet of paper and a marker. Ask them to write down the first thing that comes into their head when they hear the word "tax".
2. Ask them to make the sheet of paper into a paper airplane, or to scrunch it up into a ball if this is easier! Line everyone up and ask them to throw their paper plane/ball towards one end of the room.
3. Once the airplanes / balls have been thrown, ask people to pick one up (not their own) and to read it. Ask the participants to form small groups with the people nearest them and to spend a few minutes discussing the content of the paper airplanes/balls.
4. Ask each group to share with the wider group what messages they read and to discuss why they think participants made these comments.
5. Ask the wider group if they think there is a dominant feeling about tax among the group based on the comments they have heard.

Activity 2

Title: The role of tax in society

Aim: To encourage participants to reflect on the role tax plays in society

Time: 45 mins

You will need: flipchart & marker, pens and paper for small groups

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1. In small groups, ask participants to name items that the government provides through taxation (for example: public transport, overseas development assistance, social welfare payments etc). Ask them to decide on their top 5 items ranked in order of importance to them. While this is happening stick 5 sheets of blank paper on different walls around the room.

2. Ask each group to feed back their top 5 issues and write them on a flipchart. Place an asterisk beside the items that are named so you can identify the most popular issues. Once it is clear what the top five issues are, write each item on a separate sheet and stick them on the walls around the room.

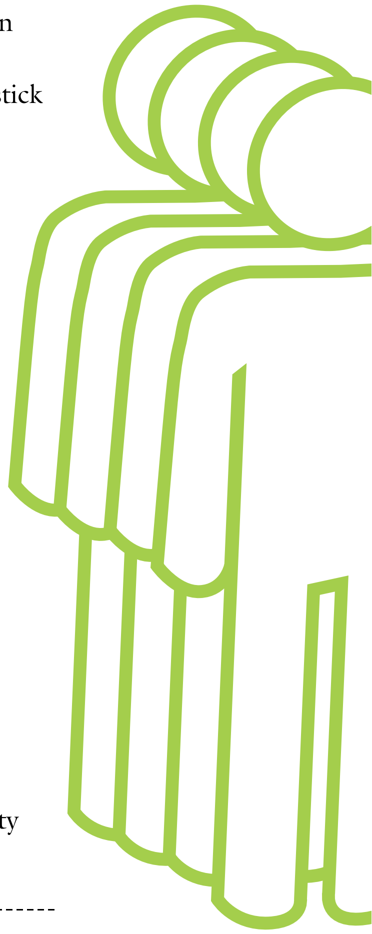
3. Ask the participants to stand beside the item that is of most concern to them. If there are too many people standing beside one item, ask for volunteers to move to other items to ensure a good discussion. Ask them to have a 'buzz chat' with the others for 10 minutes on the following:

   - Do you think the government does a good job in providing this service?
   - What are the problems? Can you think of any solutions?
   - Do you feel you have influence over how these problems are addressed by the government?
   - How do you feel when discussing this issue?

4. Ask the small groups to feed back to the wider group. Write down the feedback on a flip-chart and summarise some of the key points made.

5. Distribute some of the key facts about how taxes are collected (you can photocopy the fact box or read out the key facts from a flipchart). Ask the group:

   - Do you find any of these facts surprising?
   - Are any of these facts of concern to you? Why?
   - What might the experience of a person in the Global South be if doing the activity we have just done?



Key Facts about Tax: Amounts of Tax

- In 2008, the Irish government collected €41 billion in tax receipts. Expected tax receipts for 2009 is €34.4 billion
- 36% of Ireland's tax revenue comes from income tax, 33% from Value Added Tax (VAT – tax on purchase of goods and services), 11% from corporation tax and the rest is from other smaller taxes such as customs and excise duty (Estimates for 2009).
- The government of Rwanda collected €400m in tax receipts in 2008
- Ireland spends over €3,000 per person on health care every year
- Rwanda spends €150 per person on health care every year
- 8% of Bangladesh's national income is raised through tax. 37% of the UK's national income is raised in tax
- Southern countries lose at least €160 billion every year because of tax avoidance by companies operating on their territory

Sources: *Irish Commission on Taxation* (2009); Christian Aid, *Death and Taxes, the True Toll of Tax Dodging,* May (2008); ActionAid, *Accounting for Poverty,* (2009).

Activity 3

Title: A taxing Breakfast!

Aim: To inform participants about the global nature of taxation.

You will need: Flipchart, A4 photocopies of the 'banana profits map'.

Time needed: 1 hour

- Begin by asking the group to talk to the person beside them about what they had had for breakfast today. Ask them to discuss what link their breakfasts have with the wider world. To prompt discussion you can share a quote from Martin Luther King with the group '… *Before you finish your breakfast in the morning, you've depended on more than half the world'.*

- Ask them to feed back to the group any global justice concerns that came up in the discussion about their breakfast.

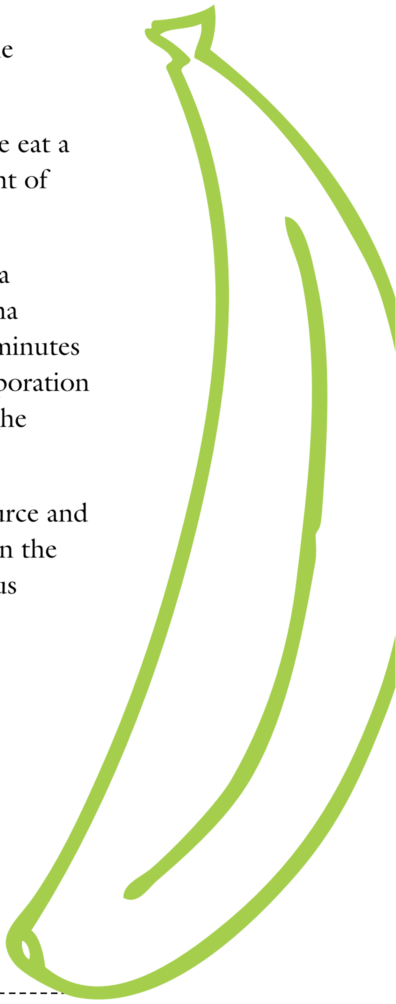
- Divide the group into smaller groups of 3-4 participants. Explain that often people eat a banana for breakfast. Can they think of any link between a banana and the payment of tax? Invite the group to call out their ideas.

- Show each group a copy of the 'banana profits map'. Explain that the map shows a breakdown of the profits from the sale of a banana produced by the 'Yellow Banana Corporation' and where the profits are declared. Ask the group to discuss for 10 minutes if they notice anything interesting about some of the places where the banana corporation earns profits from the production of a banana. What questions does this raise for the group?

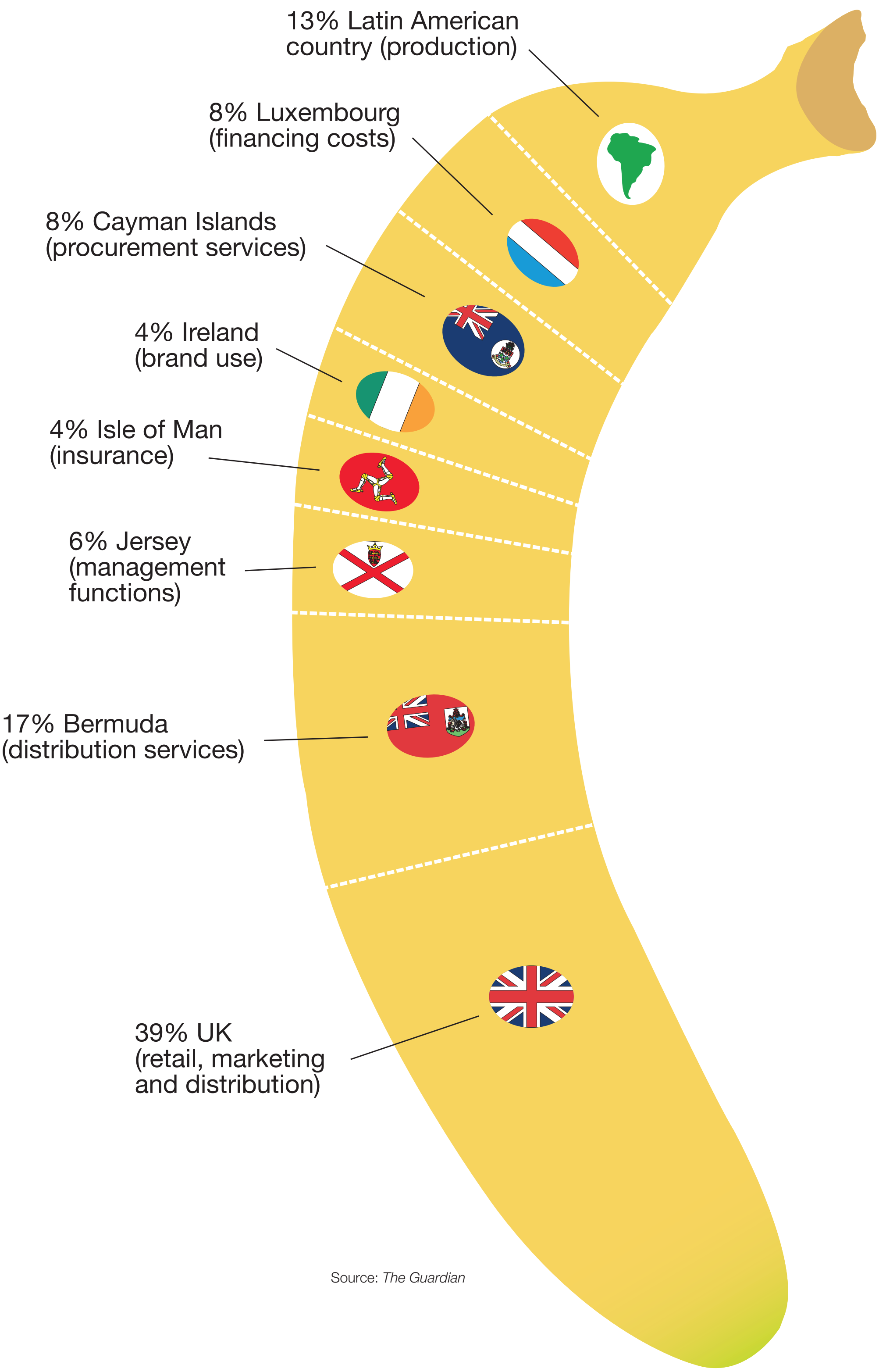
- Provide each group with a copy of the tax justice factsheet at the back of the resource and photocopies of 'Perspectives on tax'. Ask each group to read the factsheet and then the perspectives together. Ask the groups to discuss the differences between the various perspectives. Ask them to respond to some of these questions:

  - What views do you agree with most?
  - What are the reasons for the differences in views?
  - Do you think there are views that are missing?
  - Do you think each speaker is telling the truth?
  - What are the global justice issues raised in the various perspectives?

- Ask each group to feedback to the wider group for a full group discussion on global taxation.



Banarama Profits Map



Source: *The Guardian*

Perspectives on Tax:

Large Accountancy Firm

"A worrying tendency seems to have emerged among external stakeholders to make 'moral' judgments about tax planning and to expect companies to manage their tax affairs in a 'moral' way".

A representative of a large accountancy firm writing in a financial magazine.

Southern Government

"One of the most pressing issues facing our continent is to embark on a path to free African countries from their dependence on foreign assistance and indebtedness. An indispensable condition of this is the strengthening of our capacity to mobilise domestic resources."

African Tax Administrators' Forum (a forum of African civil servants), Pretoria, 2008

"Businesses deliberately blur the line between their country of origin and the countries they operate within, in order to avoid paying tax."

Darmin Nasution, Indonesia's Director General of Taxation, 2009

Northern Governments:

"We will set out new measures to crack down on the tax havens that siphon off money from developing countries – money that could otherwise be spent on bednets, vaccinations, economic development and jobs."

Gordon Brown, UK Prime Minister, 2009

"We cannot continue to tolerate large amounts of capital hidden to evade taxation."

G8 Summit Declaration, 2009

Campaigning Group:

"We support a level playing field on tax and we oppose loopholes and distortions in tax and regulation, and the abuses that flow from them. We promote tax compliance and we oppose tax evasion, tax avoidance, and all the mechanisms that enable owners and controllers of wealth to escape their responsibilities to the societies on which they and their wealth depend. Tax havens, or secrecy jurisdictions as we prefer to call them, lie at the centre of our concerns, and we oppose them".

Tax Justice Network Campaigning Group

"Without facilitators in the developed world, those seeking to avoid paying their dues in the developing world would be unable to operate. But there are plenty of people willing to help: well-paid lawyers and accountants designing aggressive tax-avoidance strategies; bankers; and the administrators of tax havens where the proceeds can be hidden in complex offshore structures of trusts and front companies. The main techniques of evading tax are well known but hard to prove".

Christian Aid, Anti-Poverty Group

(Sources: Christian Aid, Death and Taxes Report, The True Toll of Tax Dodging (2008), ActionAid, Accounting for Poverty, (2009), Tax Justice Network: www.taxjustice.net)

Activity 4

Title: Tax and Mining – What Standards?

Aim: To help participants debate the power relationships between multi-nationals and Southern people regarding tax.

Time: 1 Hour

You will need: Flipchart, markers, photocopies of the Zambia story and the role cards.

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1. Break the participants into three groups and give each group one of three role cards. – A mining company, a Southern government and a Southern social movement.
2. The groups will be given 20-25 minutes to draw up an international code of conduct on tax and mining companies operating in Southern countries.
3. To help each group, give them a copy of the background briefing on 'Zambia and the mining companies' to discuss. Ask them to identify what are the issues raised in this story that are relevant to their role. Then ask them to read their role cards and to prepare a code of conduct on tax and mining for presentation from the perspective of their role.
4. When the groups have discussed the issues from the point of view of their role, they will nominate a spokesperson to present their code of conduct charter.
5. Each group can then respond to the points made by the other groups.

Zambia and the mining companies

- Zambia is one of the world's leading producers of copper. Copper generates most of Zambia's foreign currency.
- In the 1990s, Zambia bowed to pressure from the international financial institutions (IFIs) to privatise its copper mines.
- New contracts for the mining industry were drawn up by a London-based law firm without any input from the Zambian parliament.
- The terms of the mining contracts were published after work by Christian Aid and its partner organisations in Zambia.
- The royalty rate for copper production was set at 0.6%.
- In 2006, the Zambian government received €12 million in tax from €2.2 billion of copper production.
- In 2008, a new government was elected in Zambia and cancelled the contracts, imposing a new royalty rate of 30% on the mining companies.
- The mining companies refused to accept the new contracts and appealed to the World Bank's International Centre for Settlement of Investor Disputes. This dispute is ongoing.

Activity 4 **Role Card 1**

Mining Company

What are your concerns?

You want to cut down on the amount of tax you pay in order to increase your profit margins

There is big money to be made in the mining industry in Africa – for example in 2007, gold exports from Tanzania were worth €554 million

How can you reduce you tax bill?

There are different ways of taxing mining resources:

- *Tax on ore* – companies have to pay tax based on the quantity of ore they have mined in a country
- *Tax on profit* – companies have to pay tax based on the profits they declare in a country

What's the difference?

- It's very easy for a government to calculate what amount of copper, iron, gold etc. has been mined on their territory, and tax accordingly.
- Tax on ore leaves little room for "creative accounting" – you can't hide gold in an off-shore tax haven.
- Tax on profits make it harder for tax authorities to establish exactly how much profit has been made on their territory. For example, companies can exaggerate costs and under-state profits when they file their accounts

Currently companies pay tax on profits, not ore.

Should the Tax Agreement be Confidential or Public?

Companies usually prefer to deal with governments one-on-one and negotiate a deal without having the terms made public.

Business becomes a lot more unpredictable if governments have to face public criticism from opposition parties and social movements who tell them they should have negotiated a better deal.

Activity 4 **Role Card 2**

Southern Government

What are your concerns?

You want to increase the tax take from foreign mining companies based in your territory.

Mining corporations often pay very low rates of tax – in 2006, the copper companies operating in Zambia made €2.2 billion, but only paid €12 million in tax – that's less than 1%

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Should the Tax Agreement be Confidential or Public?

Companies usually prefer to deal with governments one-on-one and negotiate a deal without having the terms made public.

It often makes life a lot easier for you if you don't have to publish the details of agreements reached with foreign companies.

The companies don't like to see commercial terms made public, and you would prefer not to face criticism from opposition parties and social movements who say there should have been a better deal negotiated.

Activity 4 **Role Card 3**

Southern Social Movement

What are your concerns?

You want the government of your country to increase its tax revenue so that there is more money available for public services to benefit your country

You also want to hold your political leaders accountable to make sure that they spend public money in the best way possible

You are very concerned about the environment and the impact that mining is having. For example, large chemical spills have recently killed many fish near a local mine in your country. You are part of a 'No to Mining' women's rights movement that protests against the negative environmental, social and health impacts of mining in your country.

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Currently, companies pay tax on profits, not ore.

Should the Tax Agreement be Confidential or Public?

You want the deal to be public so you can keep a close eye on the deals which your government negotiates with foreign companies.

When deals are kept secret, there's too much room for corruption.

Activity 5

Title: **Who Has the Power?**

Aim: **To assist participants explore the power relationships in negotiating tax**

Time: **45 minutes - 1 Hour**

You will need: **Flipchart, markers, photocopies of the role cards**

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1. Split the group into two groups, and give one half of the class the Acme Brick Company role card and the other half the Government of Ireland role card. Inform the groups that they need to prepare for a meeting with each other to agree the amount of tax that will be paid by ACME to the Government of Ireland.
2. Each group should spend time discussing their roles, agree a position and then appoint a spokesperson from each small group to defend their position. Encourage each group to imagine what the arguments might be for their roles.
3. The two sides are then given a chance to present their views to each other at the meeting. The Government of Ireland spokespersons will begin by explaining how much tax they expect the Acme Brick Company to pay, and what they plan to spend the money on. The Acme Brick Company will then explain how much tax it expects to pay, and why its figure is lower than the Government figure. What will the Government have to sacrifice if it doesn't receive as much tax as it expected?
4. To add to or conclude the discussion, the facilitator can read out some of the facts and statistics from the 'Basic Facts on tax justice' on the last page of the resource.

Activity 5 **Role Card 1**

Acme Brick Company (ABC)

You are the biggest brick company in the world - producing 60% of all bricks. You have opened a factory in a small African country called Ireland. The national currency in Ireland is the Cowen (C)

The Irish ABC factory is the biggest one in Africa. After deducting production costs (wages and raw materials), the value of the bricks you produced in your factory and sold this year was C2 billion. Corporation tax in Ireland is 25% - at that rate, you would end up paying C500 million

Below are some arguments you can use to reduce your tax bill:

We had to buy computers from our parent company to keep track of our sales / orders / accounts etc.

Fair enough - every company these days needs computers. The market price for the computers you imported would be C50 million. But according to the accounts you file, you paid C500 million to your parent company for the computers.

The ACME Brick Company is the most prestigious brand name in the brick industry - people trust our bricks - our Irish factory had to pay for the right to use the brand name

The ACME brand name is owned by a subsidiary of ACME Bricks which is registered in Greenland. They charged you the princely sum of C500 million for the right to print "ACME" on your bricks.

We had to bring in consultants from our parent company to help design our production and marketing strategies so that we could maximise our profits

The consultancy fees are charged to another subsidiary of ACME Bricks which is based in Antarctica. The market value of the services provided would be C50 million - but Acme Bricks Antarctica Ltd. charged C500 million

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ABC Ireland also made a donation of C25 million to build the Acme Hospital in the region of Sligo - this donation is discounted against your tax bill.

Activity 5 **Role Card 2**

Government of Ireland

Ireland is one of the poorest countries in Africa. Its national currency is the Cowen (C). It has recently welcomed investment from the Acme Brick Company, which has built the largest brick factory in Africa on Irish soil. Officials working in the tax office have taken a look at ABC Ireland's accounts and see the company has made **C2 billion** in the last year. Corporation tax in Ireland is 25% - that means ABC Ireland should be paying **C500 million** in tax for this year. What could the government do with that money? (By the way, you are facing re-election in two years' time).

C100 million for ten new public hospitals

The hospitals would contain the most state-of-the-art medical equipment and drastically improve health care in Ireland. The money would also cover a network of rural clinics to provide primary treatment.

C100 million to employ 10,000 new public servants

The public service in Ireland is drastically under-staffed - over the next five years, this money would allow you to recruit 10,000 new teachers, nurses, police officers, bus and train drivers, etc.

C50 million for a major irrigation scheme

Ireland is a very dry country - it hardly ever rains, and much of the country is poor farmland as a result. Experts working for the government have drawn up a three-year programme of irrigation that would improve the productivity of Irish agriculture by **C50 million** every year - but they need an initial investment of **C50 million** to get the project off the ground.

C50 million for a light rail network

Ireland's capital city, Dublin, is one of the most overcrowded cities in Africa. Its streets are permanently congested with traffic, and the pollution is a major threat of public health. A light rail network would allow you to pedestrianise the city centre and get rid of the clouds of smog that hang over everything - even the national parliament.

C100 million for a public works programme

Ireland suffers from high levels of unemployment and has very poor infrastructure. Why not kill two birds with one stone by launching a major programme of public works? There are plenty of roads, bridges, tunnels etc. that need to be upgraded or built from scratch.

Tax Justice: Basic Facts

1 Southern countries lose an estimated $160 billion every year in tax revenue because companies don't pay as much tax as they should

2 One common way for companies to avoid tax is to exaggerate their costs of production. They can do this by, for example, claiming to have paid more for raw materials or machinery than their true value. This is called transfer mis-pricing.

3 Transfer pricing is often used by multi-national companies to reduce their tax bills. Over 60% of international trade takes place between different branches of the same company (for example, between Microsoft in the USA and Microsoft in Ireland). It is easier in this situation for companies to exaggerate their costs. This is called 'transfer-mispricing'

4 Major accountancy firms help design tax minimising schemes for companies. One of the biggest accountancy firms, KPMG, paid a fine of $456m in the USA for "designing, marketing and implementing illegal tax shelters".

5 That fine alone is much bigger than the annual budget of the government of Burundi, a country of 9 million people (in 2008, Burundi's government had a budget of $350 million). It shows how much money can be made helping companies to avoid tax - most companies would be bankrupted by a fine of half a billion dollars, but KPMG is still going strong.

6 Companies and wealthy individuals often place their money in tax havens. Tax havens include countries like Switzerland, Bermuda and the Cayman Islands. They allow people to open bank accounts even if they do not live in the country or do any business there. The details of the bank accounts are kept secret, and little or no tax is charged.

7 According to the Organisation for Economic Co-operation and Development (OECD), between $5 and $7 trillion is stashed in tax havens. Banking secrecy also facilitates corruption and organised crime.

8 The $160 billion lost by Southern countries every year is greater than all the aid they receive from wealthy countries. It would provide them with enough resources to meet all of the UN's Millennium Development Goals by 2015.

9 Tax dodging would be much more difficult if multi-national companies had to file accounts showing how much tax they paid and how much profit they earned in each country.

10 The problems caused by tax havens could also be minimised if every country agreed to supply information to other states about bank accounts held by their citizens - that way, it would become clear if people or companies were using foreign bank accounts to avoid paying tax in the country where they made their money.

Further Information

Reports
Christian Aid Christian Aid, *Death and Taxes, the True Toll of Tax Dodging,* May (2008); ActionAid, *Accounting for Poverty,* ActionAid (2009).

Books
Baker, Raymond, *Capitalisms Achilles Heel: Dirty Money and How to Renew the Free Market System,* John Wiley & Sons, (2005)

Official Bodies
Organisation for Economic Cooperation on Development: www.oecd.org
World Bank: www.worldbank.org

Justice Groups
Debt and Development Coalition Ireland: www.debtireland.org
Tax Justice Network: www.taxjustice.net
Christian Aid: www.christianaid.ie
Trocaire: www.trocaire.org

From learning to Action....

If you are interested in taking action for tax justice, stay get in touch with Debt and Development Coalition Ireland to tell us your plans!

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