

**The Role of Tax in Financing Sustainable Development**

In March 2016, 11 million documents were leaked from the offices of Mossack-Fonseca, a company based in Panama which specialised in ‘wealth management.’ The documents gave the world a glimpse into the murky world of how corporations, together with teams of lawyers, accountants and wealth advisors, move money through the global financial system in order to maximise profit - and minimise tax payments.

Tax is one of our most basic social contracts. It signifies that we are a part of a society, and as such must pay our dues. For citizens, it is impossible to avoid paying taxation. Corporations, however, can spend many millions of dollars to reduce their tax bills, using complex laws, legal loopholes, and the web of the global financial system.

Fundamentally, we are using laws and rules developed in the 19th Century to run a global economy which in 2018 was worth $84.93 trillion, and saw 389 billion separate non-cash financial transactions. Without radical, enforceable reform at a global level, the social contract of tax, in place to fund decent societies, will continue to be undermined - to the detriment of the most vulnerable.

**Tax Justice and achieving Sustainable Development in the Global South**

*“It is a contradiction to support increased development assistance, yet turn a blind eye to actions by multinationals and others that undermine the tax base of a developing country” Trevor Manuel, South African Finance Minister, 2008*

International NGO Christian Aid estimates that poor countries lose roughly US$160 billion every year because of multinational companies' tax dodging. Over half of the annual $1.3 trillion illicit financial flows leaking out of poor countries each year comprises money lost because of trade mispricing - where multinational corporations operating in poor countries over-invoice for imports or under-invoice for exports, to lower their tax liabilities in the country. The sorts of companies and practices exposed by the Panama Papers play a major role in denying countries in the Global South access to the corporate tax revenues they are entitled to.

**“The Laundromat”: A Jargon-Buster**

**Tax Avoidance or Tax Evasion?**

***“A Lot of It Is Legal!”***

Tax avoidance is a technically legal activity that results in the minimisation of tax payments. By contrast, tax evasion is illegal activity that results in not paying or under-paying taxes. Those who oppose tax justice campaigners rely a lot on claims that the activity of multinational corporations who shift money to avoid paying tax is entirely legal. They are not wrong on this front. One of the major difficulties in ensuring corporations pay their fair share of tax is their ability to pay accountants and lawyers to identify legal loopholes to avoid paying tax.

**Shell Corporations**

***“They set up companies - not real companies, just empty shells!”***

A Shell Corporation is an inactive company which exists on paper, and without employees, and is used to move money across borders without transparency, enabling corporations to reduce their tax bills. The Panama Papers revealed more than 240,000 shell companies. Shell corporations play a major role in driving down the tax revenues from multinationals owed to countries in the Global South. Just last year, the Tax Justice Network reported that two subsidiaries of Walmart in Guatemala had hired dozens of low-paid workers as fake directors of shell companies, in order to sign dodgy invoices for agricultural goods bought on the black market. This practice, known as ‘Trade Misinvoicing’ is one of the biggest global contributors to tax avoidance by multinationals.

To combat the existence of shell companies, tax justice campaigners want a public, transparent international register of the **beneficial owners** of all companies. That would show us who ultimately **profits** from the company.

**The Financial Economy and Debt**

***“Futures, derivatives, bonds, stocks, financial instruments … words, invisible, abstract. Very different from cows.”***

***“Credit is just the future tense of the language of money.”***

When Lehman brothers collapsed on 15th September 2008, it symbolised the way in which the ‘financial economy’ - the buying and selling of money, and speculation on future profits and losses - had come to dominate every part of our economy. Instead of a global economy based on the production of useful goods and services, it was clear our economy was being fuelled by unsustainable bets.

While the ‘money’ which is gambled in our financial system is often abstract, the things which investors are gambling on are not. Increasingly, the gamble is about the rise and fall of the prices of our most basic needs - housing, food commodities, even healthcare and education. Credit - the lending of enormous amounts of money - is what fuels these gambles. And in 2008, when the gambles didn’t pay off, the accumulated debts were swiftly passed from private corporations onto public shoulders.

Instead of tackling the root causes of the financial crisis - unregulated flows of money around the globe, and reckless gambling to make a profit - since 2008 the richest governments have chosen to let the financial system continue to function just as it did before 2008.

It is clear that another debt crisis is on the horizon, and that this time the world’s poor countries will be at its epicentre. As European and other wealthy economies struggled to recover from the last financial crash, the gamblers and investors instead poured money into ‘investment opportunities’ in Africa, Asia and Latin America. Between 2008 and 2016, outstanding debt across Sub-Saharan African countries doubled to $450billion. These debts mean that, when the next financial crisis hit, the effect on poor countries will be far greater than in 2008.