ICRiCT

Independent Commission for the Reform of International Corporate Taxation

PRESS RELEASE

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The Mauritius Leaks have once again revealed the devastating impact of tax avoidance. ICRiCT calls for multilateral accord to overhaul the international tax system, the end of tax havens, the adoption of a minimum global tax and the creation of a Global Asset Registry

The Mauritius Leaks have once again highlighted how rich and powerful corporations and the super-rich skirt paying taxes, whether legally or illegally. The schemes are the same, as already revealed by anonymous sources through the International Consortium of Investigative Journalists the Panama Papers, Paradise Papers, Malta Files, Luxleaks, SwissLeaks, among others. This is the latest in a series of leak that demonstrate how broken the current international tax system is.

Why Mauritius?

Mauritius built its position as an offshore financial centre on being a hub for tax avoidance. First it enabled multinationals to avoid capital gains tax in India. Then it created schemes to offer multinationals a low rate (3%) on income they could attribute to their subsidiaries in Mauritius supposedly for providing services to related entities in other countries, especially in Africa, with which it negotiated tax treaties.

Mauritius has an extensive set of tax treaties with African countries, ensuring that investment made in African countries (profits/capital gains on investments) can be routed via Mauritius to rich countries with no/little taxes paid.

No capital gains tax, no inheritance tax, wealth or gift tax, no Controlled Foreign Companies legislation, no transfer pricing rules or thin capitalization rules, no withholding tax on dividends, interest and royalty payments, you name Mauritius doesn’t have it, no wonder it has been used so extensively as a tax haven hub to take money out of Africa and India.

A recent study for the World Bank has estimated that revenue losses to countries in sub-Saharan Africa from concluding a treaty with Mauritius range between 15% and 25% of corporate income tax revenues. Furthermore, it found that concluding a treaty with Mauritius did not increase foreign direct investment.

How was it possible for Mauritius to get past the scrutiny of the Organisation for Economic Co-operation and Development (OECD) on harmful tax practices?

Mauritius, as many other jurisdictions, plays the game so as not to be denounced as uncooperative, but they can maneuver within the grey areas. These countries can say they are respecting the rules, but these rules, that were introduced since 2015 still allow technical tricks. As a developing country, Mauritius can also simply argue that it only emulates OECD
countries such as Ireland, Luxembourg, Switzerland and even the UK, who devised the game and its rules, and are not denounced by the OECD or by the European Union. Mauritius has been subject to OECD review on harmful tax practices and EU tax haven listing processes but looks like it got away with it by simply tweaking its tax regimes so to comply with ridiculously low substance requirements, which can be as little as $30,000 expenditure per year and 1 person employed if assets under management are less than $100m.

Why, after all the other leaks, it is still big news?

The latest leaks show how company profits and the assets of the rich have been sheltered by a network of private banking, legal, accounting and investment industries exploiting the secrecy provided by tax havens. This is how 40% of overseas profits made by multinationals around the world are artificially transferred to tax havens, according to economist and ICRICT commissioner Gabriel Zucman. He also calculates that 10% of global GDP is hidden in tax havens as deposits, shares, bonds and investment funds.

When global corporations and the super-rich dodge their tax paying responsibilities, it is the poorest countries and people who lose most. Governments are left with the options of cutting back on the essential spending needed to fight inequality and poverty and the climate change, or make up the shortfall by increasing taxes such as VAT, which hit ordinary citizens harder. The impact of corporate tax dodging is even stronger for developing countries, since they are more dependent on corporate taxes than developed ones. Corporate tax represents 15% of total tax revenues in Africa and in Latin America, compared to 9% in OECD countries.

What should be done to put an end to these tax avoidance scandals?

Public discontent over corporate tax scandals, as revealed by leaks such as the Mauritius ones has increased. As a result, in 2013, the OECD led the way by initiating a series of reforms, such as the broader exchange of information among tax authorities and requiring multinationals to file a country-by-country reports of where they do their business activities and pay taxes. It is clear that the OECD’s attempts to stop this, through its curbs on harmful tax competition have largely failed so far. Mauritius has been a key cog in the international tax avoidance world, exploiting the same loopholes as OECD countries such as Ireland, Luxembourg, Netherlands, Switzerland, and even the UK.

Hence the importance of the recent proposal by the OECD Inclusive Framework – a body that is now involving 131 member states - that would allow countries to estimate taxes made by multinationals based on the business they do in their territories but also on the profit margins that the multinational make worldwide. A global minimum tax is also being discussed, something that would mitigate tax competition and the race to the bottom. This agenda has been endorsed by the G20 in Fukuoka, Japan in June and by the G7 Finance Minister last week in Chantilly, France. The OECD wants to come to a final agreement by early 2020.

Here are, according to ICRICT, three ways to really tackle tax avoidance:

1. **Tax multinationals on a global basis (unitary taxation)**
   The solution we have advocated within ICRICT is a global formula that would ensure that multinationals’ global profits - and hence the associated taxes - could be apportioned between countries according to objective factors. It is imperative that those should include not just sales, but also employment (at headcount, rather than at payroll level) to truly benefit low-income countries.
2. **Introducing a global minimum corporate tax**
ICRICT also supports the proposal for a global introduction of a minimum corporate tax, as endorsed by the G7. Any multinational that book its profits in a tax haven could therefore be taxed in its home country, up to this minimum rate. This would reduce its interest in transferring its profits to tax havens and put a brake to the race to the bottom. Nevertheless, it is essential that this is well designed, especially by setting a relatively high minimum rate, 20% or over. A global minimum effective rate of below 15% would only encourage a continued race to the bottom in corporate taxation.

3. **A Global Asset Registry**
The failure to force all tax havens to establish public registers of beneficial ownership of companies, trusts and foundations, allows the tax haven industry to keep on flourishing. However, the existing data-collection infrastructure includes potentially powerful tools for transparency, including the recent adoption of tax transparency measures, such as the automatic, multilateral exchange of bank accounts data at a global level between tax authorities, public registries of beneficial ownerships and exchange between tax authorities of country-by-country reporting from multinational companies. This is why **ICRICT advocates for the adoption of a Global Asset Registry that would prove a vital tool against illicit financial flows and tax avoidance and evasion**, by ending impunity for hiding and using the proceeds of crime, and for removing legitimate income and profits from the economy in which they arise for tax purposes. Read more about it our report on Global Asset Registry.

**ICRICT commissioner WAYNE SWAN** is available for comments about the Mauritius Leaks (New York Time zone). Wayne Swan served as the Treasurer of Australia for nearly six years, including three years as Deputy Prime Minister. He has held senior economic roles in the Australian Labor Party since 1993.

**ICRICT Head of Secretariat TOMMASO FACCIO** is also available for comments (UK Time zone)

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**ABOUT ICRICT:**
The Independent Commission for the Reform of International Corporate Taxation aims to promote the international corporate tax reform debate through a wider and more inclusive discussion of international tax rules than is possible through any other existing forum; to consider reforms from a perspective of public interest rather than national advantage; and to seek fair, effective and sustainable tax solutions for development.