HOW "PROFIT SHIFTING" LETS MULTINATIONALS DRAIN PUBLIC COFFERS - NEW STUDY

PREFACE

The Covd-19 pandemic is a global once-in-a-century crisis. It hit Europe after a decade of austerity policies cutting public spending and dismantling welfare states. Health care facilities and retirement homes were overwhelmed, unable to cope with the emergency. Teleworking, social distancing and home schooling uncovered a glaring digital divide. Crucial social and technical infrastructure had been neglected for too long as EU member states were tightening their belts. Thus, when the pandemic came, governments were caught off guard.

The health emergency led to a dramatic economic downturn. Faced with looming mass bankruptcies and unemployment, EU governments had not much of a choice but to spent billions on temporary social safety nets and economic stimulus. However, today after a year of crisis management, conservatives are raising their voices again. Alarmed about high levels of public debts, they are demanding fiscal discipline. If a return to another decade of austerity is to be prevented, progressive forces need to seize the moment and call for a redistribution of wealth. This is long overdue!

The extremely unequal concentration of wealth has only exacerbated with the pandemic. The global number of billionaires is rising to new heights. For super-rich corporate owners like

Jeff Bezos, Bill Gates, Elon Musk and Mark Zuckerberg the Covid-19 crisis has been a windfall. Many multinational corporations, especially Big Tech, made super-profits months after months. Microsoft and Facebook are a case in point. Over the year of 2020, their profits jumped up by 44% and 53% respectively. Nonetheless, in contrast to Amazon, these look like small fish. Amazon's profits skyrocketed by 84% with revenues reaching 386 billion USD – which is more or less the size of Ireland's whole GDP.

Part of the success of these corporate giants is, however, that they have turned tax dodging into a business model. With clever designed strategies, many multinational corporations shift their profits to tax havens – complicit jurisdictions like the British Virgin Islands - pushing their tax payments down to almost nothing. In particular, Big Tech is infamous for such methods through which they avoid paying their fair share to the public purse. Tax losses are immense and the community pays the bill eventually through cuts and decay of public services and infrastructure.

The following report uses state-of-the-art methods to provide a comparative up-to-date picture of the scale of profit shifting and tax losses in EU member states. About 287 billion EUR in profits are shifted every year out of the EU leading to tax losses of 50 billion EUR. One third of these profits depart from Germany alone. Almost another third from France. These EU states are, after the USA, the unhappy second and third place in the global ranking of victims of profit shifting. For this reason, they lose more than a quarter of their total corporate tax revenues per year.

However, among EU member states are also key tax havens. Netherlands is the overwhelming number one destination for profits cashing in over 134 billion EUR, which amount to over 10% of the small country's GDP. It collects five times as much profits as Ireland and eight times as much as Luxembourg, which are the most notorious tax shelters in the EU. These figures are emblematic for the extent to which EU governments have failed to address harmful tax practices within the EU. This inertia in taking effective action against tax dodging has to end now.

The years to come must not be another decade of austerity but a decade of tax justice. A key step in this direction would be the introduction of a global minimum taxation for multinational corporations. The current OECD negotiations for the reform of the international tax system are therefore on the right track. However, the negotiations are running into the risk of being watered down by tax havens and corporate interests.

In the 1970s, corporate tax rates among OECD countries still averaged about 45%. After half a century of corporate profit shifting and tax abuse, the average tax rate has plummeted to 25%. Any proposal below this rate will not put a stop to the race to the bottom. Hence, I call on OECD leaders to live up to the historic challenge and establish a global effective minimum corporate tax rate of at least 25%!

Tax Justice Now!

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