

**Association for Accountancy & Business Affairs
Tax Justice Network
Centre for Global Accountability, Essex Business School**

**UNIVERSITY OF ESSEX, 5th-6th JULY 2012
Room 4.722**

Programme

TAX AVOIDANCE, CORRUPTION AND CRISIS

Thursday 5th July

Arrival & Registration: 12.00-12.45

Welcome and Introduction: 12.45 *Prem Sikka (Essex University)*

SESSION 1: PLAYERS AND VICTIMS

13.00- 15.00 facilitated by Jim Henry, TJN-USA

Olatunde Julius Otusanya, Sarah Lauwo, Ahmad Khair Amal Hayati

The Culpability of Accounting Practice in Promoting Bribery and Corruption in Developing Countries

Bribery and corruption are increasing in the developing countries. It has been estimated that some \$400 billion of bribe is paid to political elite in developing countries. Such huge amounts of money cannot be successfully executed without the active involvement of multinational companies (MNCs) from the Western countries. This paper examines the processes involved in the misapplication of accounting practice from the perspective of anti-social criminal practices.

Olatunde Julius Otusanya is affiliated to the Department of Accounting, Faculty of Business Administration, University of Lagos; ***Sarah Lauwo*** is affiliated to the Essex Business School, Essex University; ***Ahmad Khair Amal Hayati*** is affiliated to the Department of Accounting and Finance, Hull University Business School, University of Hull.

Ingrid Hauge Johansen

The Role of the City of London Corporation and Lord Mayor in the Global Financial Crisis

The City of London, also known as ‘The City’ and ‘The Square Mile’, is a financial district located in the heart of London. It is considered to be one of the world’s most important financial centres. The Lord Mayor is the head of the City of London Corporation. His objectives are to promote the City as a leading international financial centre and act as an ambassador for financial and professional services based across the UK. This paper asks whether the Lord Mayor, simply by doing his job, is *duty bound* to promote activities that damage the global economy. It follows the Lord Mayor’s official visits to more than forty countries from the period 2005 to 2010; pre, during and post the financial crisis.

Ingrid Hauge Johansen was formerly an AML analyst at PwC, and is now training as financial investigator at Kroll, London

Nicholas Shaxson, John Christensen

First the Resource Curse: now a Finance Curse?

The phenomenon of the Resource Curse is well established in the literature. Many countries that produce valuable natural resources like oil fail to harness those resources for national development, and in many cases seem to have been actively harmed by them in terms of more conflict and political instability, higher inequality and poverty, greater authoritarianism and more. We examine finance-dependent countries and ask whether there is such a thing as a Finance Curse. We find that there is evidence of such a Curse in some finance-dependent countries, and that many of the fundamental political, economic and social drivers behind this Finance Curse are similar to or the same as those causing the Resource Curse. Each Curse also has drivers that are not found with the other. We examine the trends and processes that are at play in large finance-dependent economies, with a special focus on the United Kingdom; and in small finance-dependent economies, with a special focus on the British tax haven of Jersey.

Nick Shaxson is author of Treasure Islands: Tax Havens and the Men Who Stole the World. John Christensen was formerly economic adviser to the government of Jersey

Tea break

SESSION 2: TAX AND FOREIGN DIRECT INVESTMENT FLOWS

15.30 – 17.00 facilitated by Richard Murphy, Tax Research LLP

Jinning Hong, Keith W. Glaister, Jane Frecknall-Hughes

Mapping Tax Strategy on to a Model of Foreign Direct Investment: A Theoretical Perspective

This paper examines the literature on the foreign direct investment (FDI) decision process undertaken by multinational enterprises (MNEs), with particular reference to the role of tax, in order to investigate and demonstrate the theoretical interface between tax strategy and corporate strategy. The paper uses the general model of the FDI decision making process as developed by Larimo (1987), and maps in detail the relevant elements of tax strategy on to the three main strategic decision making phases of identification, development and selection. The paper offers a theoretical framework for fully integrating taxation into the FDI decision making process, which has not been attempted before. It thus allows a deeper appreciation of how tax considerations can be embedded into a corporate decision making and strategy process.

Jinning Hong is tutor in Business and Economics at the Sheffield International College; Keith W. Glaister is Dean and Professor of International Strategic Management at the University of Sheffield; Jane Frecknall-Hughes is Professor of Law/Head of the Law School at the Open University.

Francis Weyzig

Tax Treaty Shopping: Structural Determinants of Foreign Direct Investment Routed Through the Netherlands

Many multinationals divert Foreign Direct Investment through third countries that have a favourable tax treaty network to avoid country withholding taxes. This is referred to as tax treaty shopping. The Netherlands is the world's largest pass-through country; in 2009, multinationals held approximately €1,600 billion of FDI via the Netherlands. This paper uses microdata from Dutch Special Purpose Entities to analyse geographical patterns and structural determinants of FDI diversion. Regression analysis confirms that tax treaties are a key determinant of FDI routed through the Netherlands. The effect of tax treaties on FDI diversion partly arises from the reduction of dividend withholding tax rates, which provides strong evidence for treaty shopping.

Francis Weyzig is a PhD candidate at Radboud University, Nijmegen, Netherlands.

Tea break

SESSION 3: TAX COMPLIANCE AND ACCOUNTABILITY

17.30 - 18.45 facilitated by Ronen Palan (TBC)

Uddhab Prasad Pyakurel

Tax Avoidance as a Major Agenda of Common People of Nepal

Since taxation plays a positive role by enabling governments to supply basic infrastructure and services, such as education and healthcare to its citizens, it is the duty of each and every human being in the world to be cautiously aware on the issue of tax provisions, and tax avoidance (if any) as well. However, studies indicate that delinquency and manipulation of taxation are rampant in Nepal.

According to preliminary finding of our research, Nepalese people are willing to pay tax (more taxes in some cases), provided the tax administration and distribution system is transparent. However, a large portion of the population is still found far away from basic understandings of taxation. Why? Whether it is ignorance or real lack of understanding? Whether such ignorance/lack of understanding helps rampant delinquency and manipulation of taxation? This particular study is trying to find out answers of these issues.

Uddhab Prasad Pyakurel is a Researcher associated with the Nepal Center for Contemporary Studies, Kathmandu, Nepal

Alain Deneault

Canada's Contribution to the Global Political Crisis

Corruption should be portrayed as a phenomenon more disturbing than the images we spontaneously imagine and associate with corrupt practices: brown envelopes and briefcases stuffed with cash and bearer shares, or strange career promotions. The time has come to consider our entire political culture as being corrupted. Aristotle described the meaning of the word corruption: when something changes to such an extent that we no longer recognise its true nature. This is currently happening to constitutional states that are being offshorised: even their officials can barely remember the historical and fundamental purposes of their own public institutions. This paper focuses on the case of the Canadian jurisdiction, as an example of the ways traditional jurisdictions may change when they are submitted to the dumping effects of offshore countries. One could also raise, with respect to this issue, the case of the Netherlands, Ireland, Belgium or Austria. They, like Canada, are jurisdictions with a double standard: being simultaneously governed by the rule of law and by discreet tax havens.

Alain Deneault is author of Offshore. Tax Havens and the Rule of Global Crime

Ofer Sitbon, Moran Harari

Israel's Missing Billions - a new study of aggressive tax planning and corporate social responsibility

This study analyses the 'Tax Gap' (i.e. the gap between the statutory corporate tax and the actual tax payment) of 25 leading Israeli corporations listed on the Tel Aviv Stock Exchange (TASE) TA-25 index between the years 2006-2009. The study also reviews donations made by these corporations over the same period to the communities in support of social responsibility projects. It found, that the ratio between the corporate community giving of these corporations and the Tax Gap was approximately 1 to 11.

The study concludes that adopting a responsible tax payment policy is an essential part of a corporation's social responsibility. The essence of this argument is that a corporation cannot manage its activities without the help of the country in which it operates, and whose services and resources, it consumes regularly. Given that CSR refers to the area of contribution to society that goes beyond mere compliance with the law, the report claims that the corporation is expected not to exceed its 'license to operate' and to avoid using any form of aggressive tax planning, even when such planning is considered legal.

Ofer Sitbon is the Head of Research of the Corporate Social Responsibility Institute at the Academic Center of Law & Business in Ramat-Gan, Israel. Moran Harari is affiliated to the Corporate Social Responsibility Institute at the Academic Centre of Law & Business in Ramat-Gan, Israel.

18h45 Drinks followed by buffet dinner

SESSION 4: THE PRICE OF OFFSHORE

Starts at 20h30 – moderated by John Christensen

Jim Henry will present his latest estimates for the value of capital flight and the accumulated offshore private wealth stocks from more than 100 top developing countries during the period 1970-2010. New estimates of offshore assets under management by the world's largest private banks, combined with BIS data on cross-border private wealth, and informal surveys of private bankers about their top clients' portfolio preferences, enables estimation of the size and growth of offshore private wealth, much of which is unreported to tax authorities in home countries. Jim will also examine the contribution this offshore wealth stock has made to the concentration of global financial wealth -- now at its highest levels since the 1920s.

After the presentation there will be opportunity for comment and questions.

Friday 6th July

SESSION 5: TAX AVOIDANCE, HUMAN SECURITY AND CRISIS

09.00-10.30 facilitated by Markus Meinzer

Daniel MacKenzie

Human Security and the Offshore Financial System

The discourse of human security has had a major influence on the way security is understood in recent decades. However, mainstream human security has a simplistic account of economics, either omitting economic structures from the discussion about the causes of insecurity or seeing development policy as a neutral technology for achieving growth. The offshore financial system is one economic structure which contributes to human insecurity. Through complex networks of financial centres and secrecy jurisdictions - serviced by an infrastructure of accountants, lawyers and bankers - countries are deprived of a sufficient tax base to support good governance, and illicit activities that feed corruption and violent conflict are encouraged. This paper documents the role of tax havens in damaging economic development, supporting repressive rulers, facilitating the global arms trade and undermining human security.

Daniel MacKenzie studies at the University of Manchester

Jorge Gaggero

Argentina: Lessons from the Past and Recent Improvements

Fiscal reform in Argentina is long overdue. In the mid- 20th century, after reaching a tax structure similar to that of developed countries, the situation deteriorated. The severe fiscal decomposition Argentina suffered since then is an historic 'anomaly' among comparable middle income countries. Increasing social inequality, production stagnation, and severe economic and fiscal instability have characterised the period under review. Failures of fiscal policy were deepened by a vicious circle of foreign debt, corruption, capital flight, and tax evasion and avoidance. This paper will outline how recent governments have reacted to the crises, which is marked by a new political and macroeconomic context. The focus will be on the lessons other countries might learn from the Argentinean case, such as the political, institutional and economic changes that were and continue to be crucial.

Jorge Gaggero is an economist and adviser to Plan Fénix

Matti Kohonen

Education for Tax Justice: Building a culture of rights-based taxation

Taxation is still viewed in many countries struck by the on-going crisis in a negative light and most new taxation measures disproportionately impact the poor. This is why Tax Justice Network has launched a new programme titled 'Education for Tax Justice' with the objective to create training and learning materials for schools, adult education institutions, and citizen tax literacy. Materials currently focus on duties rather broader rights that are supported by taxation while also fail to discuss the scale and harm caused by tax avoidance and financial secrecy. Several scenarios are presented for furthering this programme.

Matti Kohonen has just finished his doctoral studies at the London School of Economics

Coffee break

SESSION 6: TAXING NON NATURAL PERSONS

11.00-12.30: facilitated by Prem Sikka

Tulio Rosembuj

Hybrid Entities

It makes no sense to allow certain taxpayers, largely transnational businesses, to choose between being subject to tax as a corporation or being taxed as a partnership, which enables the partners to use pass-through entities for tax planning. Experience shows that this provision encourages the misuse of hybrid entities which can take advantage of gaps between different tax regimes, known as international tax arbitrage, to achieve double non-taxation. This paper examines the role of hybrid entities used by the financial and banking sectors to avoid tax. The main research finding is that pass-through entities related to transnationals are chiefly used to shift profits to low tax jurisdictions, and should therefore be taxed as a corporation, to avoid artificial losses, abuse in foreign tax credits, structured financial arrangements (loans, credits).

Tulio Rosenbuj is a professor of tax law at the University of Barcelona

Markus Meinzer

Comparative Survey: bank account registries and automatic tax information exchange

Two key policies advocated by the Tax Justice Network, namely a registry of trusts and foundations, and automatic tax information exchange for capital income, lack a solid basis of empirical research to further political change. This research aims to contribute to close these research gaps. First, as relates to registries for trusts and foundations, experiences relating to the design of bank account registries or reporting systems have been analysed as examples of how to model similar registries for trusts and foundations. Second, with respect to automatic tax information exchange for capital income, experiences from the European Savings Tax Directive, under bilateral double taxation treaties and under the Nordic Mutual Assistance Convention have been analysed with a view to assess their comparative performance, to identify preconditions for successful practice, and to draw conclusions for policy formulation.

Markus Meinzer works as an applied researcher and analyst for TJN's International Secretariat

WORKSHOP ENDS

.... until we meet again