

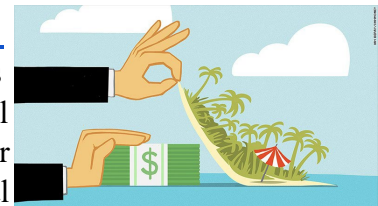


Tax Avoidance and Evasion: Mechanisms for Corporate Commercial Theft

This fact sheet series aims to raise awareness about the global threat to development that Illicit Financial Flows (IFFs) pose, and what we can do to stop the threat.

Taxes are an essential part of the "social contract" between people and governments. People pay various taxes, including income, sales, licensing fees, and property, to governments (local, state, and federal) for the public goods and essential services they receive. Everyone depends upon public goods and services, including mail delivery, education, public safety, clean water, roads, the environment, and social protections like healthcare for seniors (Medicare). From trash removal to protecting natural resources and public land, everything that people depend upon is funded by taxes.

[Tax avoidance](#) (legal approaches to reduce tax) and tax evasion (illegal ways to minimize tax)—are abuses that reduce the revenue streams that people rely on to fund the common good. The mechanisms used by the ultra-wealthy and corporations are complex and depend on finance experts or so-called enablers. The enablers, lawyers, accountants, and bankers, help their clients' ability to hide wealth using various strategies and mechanisms, including tax havens, base erosion, and profit shifting. The [Pandora Papers](#) expose how the ultra-wealthy and multinational corporations avoid and evade taxes in ways that blur the distinction between legal and illegal. Tax havens are countries that offer very low tax rates, for example, Luxemburg, Switzerland, and the Cayman Islands. Several US states are also tax havens, including Delaware and [South Dakota](#).



Many people want to lower their taxes. But 40 years of [US tax cuts for the wealthy are driving inequality](#), which means that total federal revenues are stable because working people pay more. While tax avoidance isn't always illegal, companies that use these practices knowingly exploit their consumers by moving taxable income overseas. For [example](#), by **shifting its profits**, Microsoft has over \$76 billion in profits stashed offshore, which cannot be taxed by the United

States until brought back home. When Microsoft shifts tax from a higher-tax jurisdiction, it erodes that country's tax base, a tactic commonly known as **base erosion**. And when the ultra-wealthy and global corporations use legal loopholes and unethical practices to lessen tax liability and maximize after-tax assets, working people lose

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Prime Minister Imran Khan, Pakistan

According to the UN, **base erosion and profit shifting** cost governments between [\\$500 billion and \\$600 billion a year](#) in lost tax revenues, while money laundering has been estimated at around \$1.6 trillion a year." In comparison, ["vaccinating the world against COVID-19 is \\$50-70 billion."](#)

Tax Justice Network (TJN) describes another abusive tax mechanism that corporations use, [transfer pricing](#): the technique multinationals use to shift profits out of one country and into a tax haven by selling goods and services to themselves at artificially high prices. TJN provides this example: "let's say it costs a multinational corporation \$100 to produce a crate of bananas in Ecuador. It sells that crate to an affiliate located in a tax haven for \$100, leaving no profits in Ecuador. The tax haven affiliate sells that crate to an affiliate in Poland for \$300, leaving \$200 profit in the tax haven. That Polish affiliate sells the crate at the actual market price of \$300 to a supermarket, leaving no profits in Poland. As a result, the multinational pays no tax in Ecuador and Poland, and the \$200 in profits shifted to the tax haven do not get taxed." Pakistani Prime Minister Imran Khan recently described this theft: "It is disgusting the way money is plundered in the developing world from people who are already deprived of basic amenities: health, education, justice and employment... Offshore accounts protect these crooks."

How do Tax Avoidance and Tax Evasion impact the US?

US citizens suffer the effects of tax abuse, as do others around the globe. A [Treasury Department report released in September 2021](#) stated that "The wealthiest 1 percent of Americans are the nation's most egregious tax evaders, failing to pay as much as \$163 billion in owed taxes per year... Tax compliance rates are high for low- and middle-income workers who have their taxes deducted automatically from their paychecks. The rich, however, are able to use accounting loopholes to shield their tax liabilities."

Commenting on US-based corporations, Alex Cobham, TJN's chief executive, notes: "With only six US tech companies protecting \$100 billion in revenue over a decade, the spillover into the lack of available resources for Americans struggling during the pandemic is staggering. Minorities suffer the greatest from COVID-19, and every US citizen is impacted in some way by the illicit actions of a few."

Tax Avoidance and Tax Evasion, Barriers to African Development

The oil and mineral extraction industry in Africa alone is responsible for a 6 percent loss in annual GDP on the continent, not including other measures that take the continent's resources and capital. Like the US, Africa also suffers revenue losses when companies like Facebook and Microsoft don't pay taxes on their digital earnings. The international development group ActionAid stated that "poorer countries are missing out on up to \$2.8bn (£2.2bn) in tax revenue that could be used to tackle the pandemic," highlighting the lack of international protections against illicit tax measures.

What can you do?

Please sign the petition: [Multinational Corporations Are Stealing Africa's Money and Resources!](#) It urges US House and Senate Africa Subcommittee leaders to hold hearings and pass a joint resolution condemning IFFs. After adding your voice, please forward the link to your friends and colleagues.

Next, support organizations in Africa and the US that are working on these follow the issues. In Africa, [Tax Justice Network Africa](#), a continent-wide research and advocacy group advocates for the firm implementation of economic equity. In the US, please join the US-Africa Bridge Building Project and support our strategic partners, including the Washington, DC-based FACT Coalition, which works to promote transparency and advocates for an equitable playing field. Sign up to receive informational updates or use their forum to [notify your representative](#) of the issues regarding illicit tax practices in the US.

With your support, we can build the collective power needed to ensure that "We The People" overcomes corporate corruption, political gridlock, and systemic inequalities in our economic system.

**The US-Africa Bridge Building Project sincerely thanks Research and Social Media intern Seamus Love for contributing to the Stop the Bleeding fact sheet series.*

The US-Africa Bridge Building Project links economic inequality activists and social movements to strengthen collective efforts for tax justice at all levels of the global economy. Ending IFFs is a critical part of that fight. [Please join us to receive periodic updates.](#)

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