

Stop corporate tax abuse — fund climate solutions and other public needs:

The Cut Unjustified Tax Loopholes Act, S. 2075

The financial costs developing countries face because of climate change are very large and growing by the day. In 2009, the World Bank conservatively estimated that it will cost developing countries up to \$100 billion per year to adapt to the impacts of climate change. It may cost even more for these countries to reduce greenhouse gas emissions in order to help curb climate pollution.¹ However, the price tag of not taking action is far greater.²

While the sums of money developing countries need to address the climate crisis are very substantial, innovative solutions exist that would generate revenue and make the global economy more equitable. Requiring multinational corporations to pay their fair share of taxes through the elimination of tax loopholes is one solution that alone could generate hundreds of billions of dollars.

In the U.S. Congress, Senators Carl Levin (D-Mich.) and Kent Conrad (D-N.D.) have introduced a bill, the Cut Unjustified Tax Loopholes Act, S. 2075, that would crack down on corporate tax abuses. This bill would help bring a sense of fairness back to the U.S. tax system and restore revenue that could be used to tackle critical global issues like climate change and poverty.

Why are corporate tax loopholes a problem?

Through both illegal and shady legal means, tax-dodging multinational corporations stash trillions of dollars in offshore tax havens, where they pay little-to-no taxes by hiding their money or by manipulating prices paid to their subsidiaries for goods and services, a practice known as abusive transfer pricing. By manipulating these prices, corporations move money around within a group of companies they own with the end goal of claiming large profits in offshore tax havens. They can then claim no profits — and therefore not pay any taxes — in the countries where their activities actually take place, whether in developing countries or in the U.S. Tax evasion refers to those practices that are illegal, whereas tax avoidance refers to legal — though sometimes unethical and shady — ways to pay as little tax as possible.

Developing countries lose more in tax revenue than they receive in foreign assistance each year. According to Christian Aid in 2008,³ developing countries lost at least \$160 billion in revenues due to tax evasion, a sum significantly larger than the rich world's foreign aid flows. What's more, if legal means of tax avoidance were also taken into consideration, the revenue loss would be far greater. Christian Aid further estimated that tax evasion accounts for the deaths of some 1,000 children under the age of 5 every day due to poverty and disease.

What's tax justice got to do with climate solutions?

Tax loopholes allow wealthy corporations and individuals to further enrich themselves rather than pay their fair share towards public goods. In developing countries, the revenues these countries could gain by closing loopholes and enforcing tax laws could be used to tackle critical problems and improve the lives of their citizens. A substantially increased tax base would help enable poorer states to chart a sustainable path

1 See, for example, chapter 6 of the World Bank's World Development Report 2010, <http://siteresources.worldbank.org/INTWDR2010/Resources/5287678-1226014527953/Chapter-6.pdf>.

2 See, for example, Stern Review: The Economics of Climate Change, http://news.bbc.co.uk/2/shared/bsp/hi/pdfs/30_10_06_exec_sum.pdf, and <http://web.mit.edu/mitei/news/seminars/n-stern.html>.

3 <http://www.christianaid.org.uk/pressoffice/pressreleases/may2008/deathandtaxes.aspx>



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for development and pay for many essential human needs — for example, providing clean water, educating the next generation of doctors and nurses, eradicating hunger, delivering clean energy access through distributed renewable energy and making agricultural practices more resilient to the impacts of climate change.

Similarly, cracking down on tax dodgers in the U.S. would make billions of dollars available for essential public services, from environmental protection to education to public health. It would also allow the U.S. to provide more resources for international priorities. As the world's largest economy and its largest historical climate polluter,⁴ the U.S. is both morally and legally obligated⁵ to help developing countries deal with the climate crisis, which is largely not of their making. A slice of newly available tax revenue could go toward a fair U.S. contribution to international climate finance — funds to help developing countries to adapt to the unavoidable impacts of climate change (i.e. adaptation), reduce greenhouse gas emissions (i.e. mitigation) and embark on clean energy development paths.

Why the CUT Loopholes Act?

The CUT Loopholes Act strikes at the heart of tax dodging and levels the playing field now stacked in favor of big corporations. It is expected to result in \$155 billion in revenue over 10 years by closing U.S. tax loopholes exploited by multinational corporations and wealthy individuals.

Among its provisions, S. 2075 would:

- *Crack down on offshore tax havens* — Sometimes called secrecy jurisdictions, tax havens allow multinational corporations to minimize tax payments as much as possible through a cloud of secrecy, starving countries of legitimate tax revenue.
- *Combat abusive transfer pricing* — This is a form of tax evasion where subsidiaries of a single multinational corporation manipulate prices they charge each other for goods and services to achieve an unfairly low tax rate.
- *Require country-by-country reporting* — There is an alarming lack of basic transparency in how corporations report their financial activities. Fundamental to holding corporations accountable for paying their fair share of taxes is basic knowledge of what they're doing in which country. The CUT Loopholes Act would require reporting on corporations' "employees, sales, financing, tax obligations, and tax payments" on a country-by-country basis. This stands in contrast to current practice, where multinational corporations with multiple subsidiaries report their overall financial activities on a consolidated basis without breaking down reporting on a per country basis.

The CUT Loopholes Act would also put in place a number of other measures to increase transparency and put the brakes on abusive tax practices of multinational corporations.

While the CUT Loopholes Act focuses on U.S. corporations, it charts a path toward ensuring that multinational corporations do not move money out of developing countries that should be taxed there. The legislation would make tax havens less attractive globally and help pave the way for the eventual diminishment of the tax haven industry. Tax-dodging corporations would then have to pay their fair share of taxes in developing countries, rather than draining money out of poor nations and funneling it into their own coffers. The CUT Loopholes Act could also serve as an example to be emulated by other countries.

To learn more about this important piece of legislation, go to: <http://www.levin.senate.gov/newsroom/press/release/levin-conrad-introduce-cut-tax-loopholes-act/>.

⁴ See <http://timeforchange.org/cumulative-co2-emissions-by-country>.

⁵ See United Nations Framework Convention on Climate Change, <http://unfccc.int/resource/docs/convkp/conveng.pdf>.