Funding the Future

The FTSE 100 and tax havens

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Action Aid has published a report today on the use of tax havens by FTSE 100 companies that builds on work originally done here. In its summary of its findings it says:

The full extent to which FTSE 100 companies use tax havens has, for the first time, been compiled, analysed and published in an accessible and searchable format by ActionAid.

Of the 100 biggest groups listed on the London Stock Exchange, 98 use tax havens. ActionAid's research shows just how embedded the use of tax havens is in the structures of nearly all Britain's biggest companies.The findings are of particular concern because many FTSE 100 groups are set to benefit from plans currently under consideration by the Treasury to give multinational companies using tax havens an £840 million tax break, by relaxing the very rules designed to prevent tax-haven abuse.

An expanded tax revenue base in developing countries is the only sustainable source of funding for governments to invest in reducing poverty and inequality. It means that they don't need to depend on aid and can achieve self-reliance. Yet, the OECD estimates that developing countries lose almost three times more to tax havens than all the aid they receive each year. Spent effectively, this sum would easily be sufficient to achieve the Millennium Development Goals.

Corporate tax avoidance, one of the main reasons companies use tax havens, has a massive impact on developing and developed countries alike. The lack of transparency makes it difficult for developing country tax authorities to identify and collect taxes owed by global companies operating in their countries. With this in mind, ActionAid's research raises serious questions about many of Britain's best known businesses. How has the use of tax havens reached such epidemic levels? What is the impact on the UK exchequer, the stability of the international financial system and the ability of developing countries to raise tax revenues to invest in reducing poverty?

ActionAid found that:

- The FTSE 100 largest groups registered on the London Stock Exchange comprise 34,216 subsidiary companies, joint ventures and associates. _

- 38% (8,492) of their overseas companies are located in tax havens.

- 98 groups declared tax haven companies, with only two groups, Fresnillo and Hargreaves Landsdown, who did not._

- The banking sector makes heaviest use of tax havens, with a total of 1,649 tax haven companies between the ‘big four’ banks. They are by far the biggest users of the Cayman Islands, where Barclays alone has 174 companies.

- The biggest tax haven user overall is the advertising company WPP, which has 611 tax haven companies.

- The FTSE 100 companies make much more use of tax havens than their American equivalents.

- There are over 600 FTSE 100 subsidiary companies in Jersey (more than in the whole of China), 400 in the Cayman Islands and 300 in Luxembourg — all tiny tax havens.

We believe that the FTSE 100 have big questions to answer about why they require such a massive number of companies registered in tax havens. While this piece of research in itself does not prove tax avoidance, it highlights the extent of these multinational groups’ operations in places that provide tax advantages and help obscure information.

In recent times, politicians around the world and across the political spectrum have talked tough on cracking down on the use of tax havens to avoid taxes. With both developing and developed countries continuing to suffer the effects of the global financial crisis, decisive action to tackle tax havens from both the UK government and G20 leaders is well overdue.