

It's time to tax corporations where employees work, not...

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This was published by the [Tax Justice Network](#) yesterday, and I share it as I think it important. Their research was funded by the EU Horizon 2020 Combating Financial Fraud and Empowering Regulators (COFFERS) project, of which I am a part through City, University of London:

Decades of tax wars among the world's richest countries are unravelling the century-old global corporate tax system, new research finds. Forty per cent of today's cross-border direct investments reported by the IMF — \$18 trillion in value — are being booked in just 10 countries that offer corporate tax rates of 3 per cent or less.

The Corporate Tax Haven Index, published today by the Tax Justice Network, has identified the UK and a handful of OECD countries as the jurisdictions most responsible for the breakdown of the global corporate tax system — with the UK bearing the lion's share of responsibility through its controlled network of satellite jurisdictions. These countries have aggressively undermined the ability of governments across the world to meaningfully tax multinational corporations. An estimated \$500 billion in corporate tax is dodged each year globally by multinational corporations¹ — enough to pay the UN's under-funded humanitarian aid budget 20 times over every year.²

The research captures a global corporate tax war waged by the UK through its network of satellite jurisdictions across the world. The data also reveals an aggressive annexation of low income countries' tax rights by the UK and OECD countries including France and Sweden.

The top 10 most corrosive corporate tax havens in the world

The first ever study of its size and scope, the Corporate Tax Haven Index³ ranks countries by their complicity in global corporate tax havenry. The index scores each country's tax system based on the degree to which it enables corporate tax avoidance. Each country's corporate tax haven score is then combined with the scale of corporate activity in the country to determine the share of global corporate activity put at risk of tax avoidance by the country. The greater the share of global corporate activity

jeopardised by the country's tax system, the higher it ranks on the index.

The Corporate Tax Haven Index complements the Tax Justice Network's Financial Secrecy Index, which ranks countries by their contribution to global financial secrecy with a focus on individuals, as opposed to multinational corporations.

The top 10 countries that have done the most to proliferate corporate tax avoidance and break down the global corporate tax system are:

1. British Virgin Islands (British territory)
2. Bermuda (British territory)
3. Cayman Islands (British territory)
4. Switzerland
5. Luxembourg
6. Jersey (British dependency)
7. Singapore
8. Bahamas
9. Hong Kong

These 10 jurisdictions alone are responsible for over half (52 per cent) of the world's corporate tax avoidance risks as measured by the Corporate Tax Haven Index. Over two fifths of global foreign direct investment⁴ reported by the International Monetary Fund is booked in these 10 countries, where the lowest available corporate tax rates averaged 0.54 per cent. The top three ranked jurisdictions are part of the British-controlled network of satellite jurisdictions to which the UK has outsourced some of its corporate tax havenry.

The top 10 jurisdictions have dealt the global corporate tax system a devastating double blow. First, the colossal scale at which the jurisdictions have enabled corporate tax avoidance risks to woo multinational corporations has made countries' statutory corporate tax rates meaningless. Second, the jurisdictions have triggered a 'race to the bottom' across the globe that will further deplete tax revenues as countries desperate to claw back foreign investment engage in the false economy of 'tax competitiveness' and increase their complicity in corporate tax havenry. The corporate tax avoidance risks and corrosive lose-lose outcomes documented by the new index illustrate that what is often referred to as 'tax competition' is more aptly described as 'tax war'.⁵

World Tax War: The UK is responsible for over a third of the world's corporate tax avoidance risk

The Corporate Tax Haven Index documents a corrosive corporate tax war waged by the UK against the ordinary citizens of rich and poor countries through a network of satellite jurisdictions to which the UK has outsourced some of its corporate tax havenry.⁶ While the UK ranks 13th on the index, its Overseas Territories and Crown Dependencies dominate the top of index. The British Virgin Islands, Bermuda, the Cayman Islands and Jersey ranked 1st, 2nd, 3rd and 7th respectively. Bahamas, a British Commonwealth territory, ranks in 9th.

The UK with its corporate tax haven network is by far the world's greatest enabler of corporate tax avoidance and has single-handedly done the most to break down the

global corporate tax system, accounting for over a third of the world's corporate tax avoidance risks as measured by the Corporate Tax Haven Index. That's four times more than the next greatest contributor of corporate tax avoidance risks, the Netherlands, which accounts for less than 7 per cent.

Nearly 14 per cent of foreign direct investment reported by the International Monetary Fund — over \$6 trillion — is booked in the UK network, where the lowest available corporate tax rates averaged 1.73 per cent.

Of the 10 jurisdictions whose tax systems received the highest corporate tax haven scores for enabling corporate tax avoidance, 8 are part of the UK network: the British Virgin Islands, Bermuda, the Cayman Islands, the Isle of Man, Turks and Caicos, Anguilla, Jersey, and Guernsey.

Annexation of low income countries' tax rights

The Corporate Tax Haven Index has revealed an aggressive dispossession of low income countries' tax rights spearheaded by the United Arab Emirates, the UK and France. Out of all double tax treaties⁷ negotiated by jurisdictions ranked by the Corporate Tax Haven Index with low income and lower middle income countries, 75 per cent secured reduced withholding tax rates from low income and lower middle income countries that were below the average withholding tax rates those countries offered, in so doing stripping away poorer countries' few defences against illicit financial flows. The double whammy of corporate tax avoidance risks and reduced withholding rates makes it incredibly difficult for low income countries to stop the syphoning of tax revenues from their economies.

The world's most aggressive countries in terms of driving down other countries' withholding tax rates through treaties are:

1. United Arab Emirates
2. United Kingdom
3. Switzerland
4. Netherlands
5. Sweden
6. Ireland
7. Spain
8. Cyprus
9. Luxembourg
10. Austria

Among OECD countries ranked by the Corporate Tax Haven Index, 72 per cent of treaties negotiated with low income and lower middle income countries secured reductions in withholding tax rates to below the average withholding tax rates offered by those low income and lower middle income countries. Moreover, the OECD countries on average were 41 per cent more aggressive towards low and lower middle income countries than non-OECD countries were.

Former colonial empires France and the UK are the most aggressive among OECD countries towards low income and lower middle income countries. The reduced withholding tax rates that France negotiated with low income and lower middle income

countries were on average 8 percentage points below the average withholding tax rates offered by those countries. The reduced withholding tax rates that the UK negotiated with low income and lower middle income countries were on average 7 percentage points below the average withholding tax rates offered by those countries. France secured the greatest average withholding tax reductions from Uzbekistan (18 percentage points), Niger (15 percentage points) and Togo (15 percentage points) — whose combined GDP is 50 times poorer than that of France.⁸ The UK secured the greatest average withholding tax reductions from Ukraine (19 percentage points), Myanmar (18 percentage points) and Kosovo (16 percentage points) — whose combined GDP is 14 times poorer than that of the UK.⁹

The United Arab Emirates and Mauritius are the most aggressive countries ranked by the Corporate Tax Haven Index towards African countries. The United Arab Emirates secured the greatest average withholding tax reductions from Mozambique (25 percentage points), Kenya (24 percentage points) and Sudan (21 percentage points). Mauritius secured the greatest average withholding tax reductions from Senegal (35 percentage points), the Republic of Congo (28 percentage points) and Tunisia (25 percentage points).

Alex Cobham, chief executive at the Tax Justice Network, said:

***“The hypocrisy revealed by the Corporate Tax Haven Index is sickening. A handful of the richest countries have waged a world tax war so corrosive, they’ve broken down the global corporate tax system beyond repair. The UK, Netherlands, Switzerland and Luxembourg — the Axis of Avoidance — line their own pockets at the expense of a crucial funding stream for sustainable human progress. The ability of governments across the world to tax multinational corporations in order to pay teachers’ wages, build hospitals and ensure a level playing field for local businesses has been deliberately and ruthlessly undermined.*”**

“When our laws for taxing global corporations stop working, the global economy stops working for the vast majority of us. All around us we see inequalities go unaddressed, political extremism unchallenged and democratic institutions faltering — and the thread that runs through it all is a failure to defend progressive taxation. To curtail the corporate tax avoidance that costs hundreds of billions of dollars every year, governments must finally deliver international rules that ensure profits are declared, and tax paid, in the places where real economic activity takes place. Corporations should be taxed where their employees work, not where their ledgers hide.”

The Tax Justice Network is calling on governments to use the Corporate Tax Haven Index to evaluate their vulnerabilities to corporate tax avoidance risk, both internal and from other countries, and immediately identify opportunities for minimising their exposure. Ultimately, the Tax Justice Network is calling on governments to implement a

unitary tax approach that will ensure full alignment of multinationals' taxable profits with the location of their real economic activity. The Corporate Tax Haven Index provides a roadmap to a unitary tax approach — each action taken by countries to lower their Corporate Tax Haven Index ranking serves as a step towards unitary taxation.¹⁰

Additional findings

EU hypocrisy

The Corporate Tax Haven Index documents the sobering hypocrisy of the European Union. Excluding the UK, the EU is responsible for over a third (35 per cent) of the world's corporate tax avoidance risks as measured by the Corporate Tax Haven Index.

The Axis of Avoidance

The "Axis of Avoidance" — the UK, with its corporate tax haven network, Netherlands, Switzerland and Luxembourg — dominate the top of the Corporate Tax Haven Index. Together, they are responsible for half of the world's corporate tax avoidance risks. Over 40 per cent of foreign direct investments reported by the International Monetary Fund — \$18 trillion in value — are booked in these four countries' jurisdictions, which on average have offered corporate tax rates of 3 per cent or less. The "Axis of Avoidance" have booked, and exposed to dangerous degrees of corporate tax avoidance risk, international direct investments from multinational corporations equivalent to over a fifth of global GDP, or almost the entire economic output of the EU.¹¹

The Finance Curse

The biggest receivers of tax incentives across the world are the banking and financial sectors. The data captures one aspect of the finance curse¹² effect, where countries tend to reward rent-seeking and speculative activities disproportionately compared to activities more rooted in the real economy, like agriculture or manufacturing.

Over half of EU countries (57 per cent) allow companies engaged in financial activities to pay no tax, while an additional 29 per cent grant partial exemptions. In 86 per cent of EU countries, investment companies are taxed less than bakeries and groceries. Moreover, 18 per cent of EU countries allow companies engaged in banking and insurance activities to pay no tax, while an additional 18 per cent grant partial exemptions. In 49 per cent of EU countries, banks are taxed less than bakeries and groceries.

Two-faced corporate tax rates

The Corporate Tax Haven Index provides evidence of the discrepancy between the statutory corporate tax rates that countries advertise and the real, legally documented, lowest corporate tax rates that countries offer.¹³ Over a third of countries ranked by the Corporate Tax Haven Index (22 out of the 64) offer a zero percent lowest available corporate tax rate. The OECD members offer an average lowest available corporate tax rate of 16 per cent — far below the average statutory corporate tax rate of 23 per cent.¹⁴

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[**View Corporate Tax Haven Index**](#)

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Notes to Editors

- 1)** The Tax Justice Network has [**estimated that \\$500 billion in tax is avoided by multinational corporations annually. This is more conservative than the IMF's estimate of \\$600 billion in tax avoided each year.**](#)
- 2)** The UN's [**funding requirements for its Humanitarian Response Plans in 2018 was \\$25.2 billion, of which \\$15.2 billion was funded.**](#)
- 3)** See 'What is the Corporate Tax Haven Index?' section below for more information about the index, how it works and what it measures.
- 4)** We use foreign direct investment data from the IMF that are recorded for the immediate counterpart economy only, implying that we are not able to capture information on ultimate investor or host country, nor to capture round-tripping and other similar phenomena. On this topic, important new research by Daniel Haberly at the University of Sussex (to be launched at the Tax Justice Network annual conference, at City University, London on 2 July) will demonstrate how much new methods and data combinations can add to our understanding of the global foreign direct investment distribution.
- 5)** As one jurisdiction introduces a new tax loophole or tax cut or secrecy facility to attract mobile capital, others respond by offer even bigger or more devious mechanisms. This triggers others to try and get in on the act. The result sometimes gets called "tax competition", but a more appropriate term is tax wars. These result in an unseemly race to the bottom, which is always harmful. The Corporate Tax Haven Index contains several indicators that demonstrate how a corporate tax haven's tax system can place pressure on others to degrade theirs in response, and the overall ranking itself is a measure of each jurisdiction's contribution to this toxic race. For more information see the annex.
- 6)** The UK has effectively outsourced the corporate tax haven game to a "spider's web" of Overseas Territories and Crown Dependencies, which opted to stay politically and institutionally connected to Britain after the collapse of the British Empire in the 1950s and 1960s. Britain has [**full powers to impose or veto lawmaking in these places. Powers to appoint key government officials in these jurisdictions rest with the British Crown; laws must be approved in London. These jurisdictions continue to operate via British courts and the British legal system, and are umbilically connected to and supported by the City of London and the British political establishment. The network of satellite tax havens represents "an extension of the City of London" financial centre. The jurisdictions, which include Cayman, Bermuda, Jersey and the British Virgin Islands, enjoy partial**](#)

autonomy from Britain in certain areas. This half-in, half-out arrangement with Britain allows the City of London to benefit from often nefarious activities run out of these secrecy jurisdictions, as the Corporate Tax Haven Index evidences, while allowing the British government to maintain distance when scandals arise. For more on Britain's role, and its relationships with its satellite secrecy jurisdictions, please see the annex.

7) Tax treaty data analysed by the Corporate Tax Haven Index is taken from the International Bureau of Fiscal Information tax research platform as of July 2018.

8) Based on the IMF's [World Economic Outlook 2018](#), ***the combined GDP of Uzbekistan (\$41,241), Niger (\$9,226 million) and Togo (\$5,358 million) in 2018 was \$55,825 million. France had a GDP of \$2,775,252 million.***

9) Based on the IMF's [World Economic Outlook 2018](#), ***the combined GDP of Ukraine (\$124,603 million), Myanmar (\$68,559 million) and Kosovo (\$7,981 million) in 2018 was \$197,068 million. The UK had a GDP of \$2,828,644 million.***

10) The unitary tax approach treats each multinational corporate group as a single global entity. Its total global profits would be allocated out to the countries where it does business, in proportion to the amount of genuine economic activity carried out in each country. Each country can then tax its share of global profits at whatever rate it likes. The unitary tax approach essentially cuts corporate tax havens out of the international tax system. For more information on solutions, including the unitary tax approach, see Part F of the Annex.

11) According to the IMF's [World Economic Outlook 2018](#), ***global GDP was \$84,740,322 million and the EU had a total GDP of \$18,750,052 million. The \$19 trillion foreign direct investment figure is compared to global GDP to provide a sense of scale. Foreign direct investment is a stock measure and GDP is flow measure. Therefore, any comparisons between the two measures should be treated with caution.***

12) The "finance curse" is a condition where a financial sector becomes predatory and harmful to the economy that hosts it once the sector grows beyond a useful size and role. Recent evidence revealed that the finance curse cost the UK economy £4.5 trillion in lost economic output between 1995 and 2015 and cost the US economy \$22.3tn (£17.9tn) in lost economic output between 1990 and 2023. More information is [available here](#).

13) In contrast to the statutory tax rate, the Lowest Available Corporate Income Tax Rate measured by the Corporate Tax Haven Index takes into account lower rates as evidenced in territorial tax systems exempting foreign income; numerous sectoral exemptions in four or more economic sectors; admissive holding company tax regimes

or exempt types of company; exemptions upon distribution or retention of profits; and documented tax rulings. For more details, see our [***Haven Indicators.***](#)

14) Average statutory corporate tax rate of OECD countries ranked by the Corporate Tax Haven Index [***based on OECD data.***](#) ***OECD countries ranked by the Corporate Tax Haven Index are: Austria, Belgium, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Netherlands, Poland, Portugal, Slovakia, Slovenia, Spain, Sweden, Switzerland, United Kingdom, USA,***

What is the Corporate Tax Haven Index?

The Corporate Tax Haven Index provides the first ever systematic, unpoliticised and objective measure of the jurisdictions that have done most to bring the global corporate tax system to its current point.

The Corporate Tax Haven Index covers 64 jurisdictions and rests on two measures: a Corporate Tax Haven Score, reflecting how aggressively each jurisdiction uses tax cuts, loopholes, secrecy and other mechanisms to attract abusive multinational activity; and a Global Scale Weight, reflecting how big a player it is in cross-border activity.

The Corporate Tax Haven Score is assembled from 20 different haven indicators, each assessing a different mechanism used by multinationals to escape tax. The Scale Weight uses a new dataset which we have constructed from IMF data on foreign direct investment.

The Corporate Tax Haven Score and Global Scale Weight are then combined with a mathematical formula to create a final Corporate Tax Haven Index score for each jurisdiction, whose two components reflect both how intensively and how extensively each jurisdiction is involved in helping multinationals escape tax. The Corporate Tax Haven Index scores are the basis for the final ranking.

The Corporate Tax Haven Index relies on and generates massive amounts of new data and reveals for the first time a range of new patterns and stories. It also provides clear pathways towards the fundamental reforms the world must now embrace, if it wants to find a response to soaring inequality and political extremism in many countries.

The Corporate Tax Haven Index complements the Tax Justice Network's long-established [***Financial Secrecy Index,***](#) ***which ranks the world's jurisdictions according to their complicity in enabling individuals to hide their finances from the rule of law, including dictators, money launderers and wealthy individuals.***

For more details on the methodology used for the Corporate Tax Haven Index, [***click here.***](#)

For frequently asked questions about the Corporate Tax Haven Index, [click here](#).

Is corporate tax avoidance legal?

No, this is a common misconception. Much, if not most, of what routinely gets called corporate 'tax avoidance' involves activity that cannot be called 'legal'. For more information on this, please read [our recent article in the Financial Times](#) **on the subject.**