Press Release
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New estimates reveals the extent of tax avoidance by multinationals

- Global tax losses estimated at $500 billion a year
- Losses account for a higher share of GDP in lower-income countries
- Losses in some countries such as Zambia and Argentina exceeded 4% of GDP
- Biggest dollar losses in the USA, estimated at $190 billion in 2013

New figures published today by the Tax Justice Network provide a country-level breakdown of the estimated tax losses to profit shifting by multinational companies. Applying a methodology developed by researchers at the International Monetary Fund to an improved dataset, the results indicate global losses of around $500 billion a year. The figures appear in a study published today by the United Nations University World Institute for Development Economics Research (UNU-WIDER, in Helsinki).

While this global total is more cautious than the $600 billion estimate of the IMF researchers, the distribution is also different. Losses are now estimated to be even more intense in lower-income countries in relation to GDP and as a proportion of total tax revenues. In addition, today's estimates include the full country breakdown.

Profit shifting is the process whereby companies move profits from their subsidiaries in higher tax countries, where the real economic activity takes place, to other subsidiaries in 'tax havens'. This is typically achieved by the multinational company setting up internal trades which exploit international tax rules to move taxable profits from one jurisdiction to another.

Profit shifting has been a big focus of international attention since scandals at companies like Apple and Amazon revealed the scale of distortions - and the systemic nature of avoidance schemes marketed by big 4 accounting firms was then laid bare in the 'LuxLeaks' revelations.

Tax Justice Network chief executive, Alex Cobham and Petr Janský of Charles University in Prague, carried out the analysis which recreates the methodology of a study published by researchers at the International Monetary Fund in 2016. Cobham and Janský replicate the IMF analysis, and then repeat it using a more robust source of national tax revenue data.

The data showed that whilst the largest losses occurred in rich economies such as the United States, lower-income countries were the biggest victims of profit shifting. Some countries, such as Argentina (4.42%) lost a significant proportion of their GDP to profit shifting. In Chad, the estimated losses to profit shifting were larger than all of the (non-resource) taxes collected in the country that year. In Pakistan the losses were 40% of tax revenues. While any estimates of this deliberately hidden phenomenon are necessarily uncertain, the order of magnitude indicates that the economic development of countries may in some cases be significantly undermined by the activities of multinational companies.

The calculated losses to individual countries can be seen in this interactive global map: goo.gl/vZiWjj Copy short URL

A spreadsheet with the data can be found here: https://docs.google.com/spreadsheets/d/1r7jdXvQ1NaGjUUkH1afniE3xvTyCu7NC8BZWZjkkQ-k/edit?usp=sharing

On the publication of the report Alex Cobham, chief executive of the Tax Justice Network said:

> *These findings support the long-held view that it is lower-income countries that suffer the most intensive losses due to tax dodging by multinational companies. The current status quo, in which international tax rules are set at the OECD where lower-income countries lack any effective voice, is simply untenable.*
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> *Now we need political progress to challenge profit shifting. Governments around the world can legislate today for the publication of multinational companies' country-by-country reporting - revealing the precise pattern of profit shifting to citizens, and giving tax authorities the power to curtail it.*

Petr Janský said:

> *There is still a lot of work to be done to fully understand the impacts of tax avoidance across the world, but this study is an important step forward. Combining the methodology of the IMF researchers with the improved data from the International Centre for Tax and Development allows us to move a little closer to the real scale of profit shifting. And by publishing estimates of global tax avoidance at the level of individual countries, and making these available to other researchers and policymakers, we hope to advance the debate.*

Notes

1. The Tax Justice Network is a non-partisan expert network which focuses on tax avoidance and tax havens
2. The study was published as part of the WIDER working paper series. A link to the full study can be found here: https://www.wider.unu.edu/node/74539
3. The original study by IMF researchers is Crivelli, E., De Mooij, R., & Keen, M. (2016). Base Erosion, Profit Shifting and Developing Countries. *FinanzArchiv: Public Finance Analysis*. https://doi.org/10.1628/001522116X14646834385460.
4. The improved tax data is drawn from the ICTD-WIDER Government Revenue Dataset, which is available at https://www.wider.unu.edu/about-grd.
5. Alex Cobham is chief executive of the Tax Justice Network
6. Petr Janský is assistant professor of economics at Charles University in Prague.