

Time for transparency

The Paradise Papers affair reinforces the need for more accountability in finance, for the sake of human rights, public services and trust in the democratic process

The Paradise Papers affair is not about Bermuda, or Appleby, or even about the who's-who named in the leaked documents. Like the Panama Papers and the Bahama Leaks before them, the revelations instead point toward the systemic way the rich and powerful are able to avoid paying their fair share of taxes, the corruption of the West, and the inherent rot in our democracies – all of which are gnawing at the foundations of our countries and institutions.

Tax havens are countries or regions that offer financial secrecy, escape from tax and a complete avoidance of financial regulations and criminal laws, aided by an efficient industry of lawyers, bankers, accountants and offshore service providers. This parallel world helps the rich get richer not by way of increased economic activity but by avoiding paying their fair share. It's a setup that's tailored towards a very specific audience: the transnational capitalist class, a global ruling class made up of economic and political actors like multinational corporations (MNCs), financial institutions, forces from political parties, media conglomerates and technocratic elites.

Developing countries lose more than \$1 trillion annually to illicit financial flows (IFFs) – funds generated through a range of activities including tax evasion, misappropriation of state assets and laundered proceeds from crime. Particularly concerning is the clandestine origin of these funds and the secretive nature of illicit transactions. Coupled with this, countries across the world lose \$500-\$600 billion of potential revenue each year to profit-shifting by MNCs to tax havens. Estimates suggest that the rich hold close to 11.5 per cent of the world's GDP – or \$8.7 trillion – in tax havens.

While one would usually imagine the global elite troop to Switzerland or palm-fringed Caribbean islands with their ill-gotten gains, smaller offshore islands are actually only turntables that route this wealth to real financial centres like the City of London, the United States and

Germany, which stand to benefit a great deal from wealth belonging to rich foreigners and round-tripped profits accrued by MNCs. So it's no surprise that there has been very little concerted political momentum in developed countries to address the inherent secrecy in our global financial system; any attempts by developing countries to do so have been blocked by richer countries.

The reason this is of pressing urgency – particularly to developing countries – is that these nefarious activities have significant implications for human rights. Tax abuse and tax dodging erode the country's tax base, compelling governments to compensate for the loss of revenue by imposing regressive, indirect taxes on consumption, which disproportionately impact the poor and vulnerable. Regressive tax structures limit the redistribution that social programmes aim for, as they end up being funded by the same people they set out to benefit. This also has severe adverse impacts on human rights for women and gender equality, as women take up additional unpaid labour at home with no provision for or low-quality public services.

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Domestic revenue lost to IFFs also has substantial consequences for development, especially with respect to global commitments made towards achieving the Sustainable Development Goals by 2030. These goals, though ambitious, are intrinsically about realisation of basic human rights for people across the globe. Tax-dodging reduces the revenue available to governments, especially in poorer nations, thus constraining them from fulfilling economic, social and cultural obligations.

Tax avoidance practices and tax havens lie at the heart of increasing economic inequality. The richest one per cent of the world's population own about 40 per cent of global assets, while the bottom half owns about one per cent of the world's assets. Increases in income inequality have occurred in the developing countries that were most successful in pursuing dynamic growth – this growth, however, exacerbated income disparity rather than bridging the gap. Tax avoidance is directly responsible for wage evasion, too – for every \$100 lost by a developing country to IFFs, the state exchequer loses \$25-\$28, according to its corporate tax rate. The remainder could potentially have gone towards wages and reinvestment. Tax avoidance and tax havens are therefore instrumental in widening the wage gap between employees and company executives, who are paid up to 2,000 times more than the median pay.

This is systematically linked to greater inequality in non-income outcomes, and threatens access to food, housing, healthcare and sanitation. This is not only a violation of basic human rights, but also affects public participation due to eroded trust in democratic processes. Tax abuse is a grave threat to political and economic security too, especially in developing countries. It prevents countries from sustainably investing in institutional reform, building capacity in its institutions and strengthening the state's oversight and regulatory bodies, thus undermining state institutions and the government's legitimacy. Tax abuse by elites also leads to weakened tax morale and widespread non-compliance, as the taxes paid by citizens don't serve them by providing decent public services. Revenue lost to tax avoidance leads to corruption, in turn resulting in a loss of national resources.

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But there is nothing inevitable about financial secrecy and inequality. The primary way in which tax havens are able to conduct business and financial transactions in absolute secrecy is through lax corporate ownership norms. Anonymous companies – entities with low or no real economic activity, where the identity of the beneficial owner or the person behind them is hidden under layers of secrecy – make it possible for the beneficial owner to launder and invest their profits in a Manhattan penthouse or a \$400 million yacht. Away from public scrutiny, these companies often form networks of companies across multiple jurisdictions, much like Russian Matryoshka dolls. Countries across the world must clamp down on anonymously held companies and establish freely and publicly accessible centralised registers of beneficial owners of all legal entities like companies, trusts and foundations.

While MNCs own hundreds of companies and subsidiaries in different jurisdictions, their economic and financial reporting is folded into global or, at best, regional figures. The OECD has recently mandated MNCs with an annual consolidated revenue of more than €750 million to report their information regarding revenue accrued, profits earned, taxes paid, number of employees, assets and so on, on a disaggregated, country-by-country basis. This threshold of €750 million must be lowered to have more MNCs report their data and operations at country level. Further,

the OECD does not require this information to be available in the public domain; countries should, however, legislate to have this data made available so that citizens can hold corporations accountable.

After all, transparency never hurt.



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