Curriculum Unit Nine

Title  Paying for the transition to sustainable development, the role of international tax reform

This unit is based on the work of the Tax Justice Network that highlights issues of tax avoidance and evasion by means of indices on tax havens and financial secrecy. It allows students to explore issues of global governance linked to international tax reform that can be considered a partnership between the G20, OECD, EU and UK government influenced by international and national NGOs. By focussing on the UK financial services industry and tax havens, it also raises questions about their future after Brexit.

The unit focuses on SDG 17 partnerships for the goals and GCE topic one, local, national and global systems.
Key idea

International tax reform requires a partnership between international agencies and regional and national governments. It can provide governments with increased taxes that they can spend on sustainable development.

Inquiry questions

Why are increased tax revenues needed to tackle the UK’s debt and pay for the transition to more sustainable forms of development both in the UK and in the wider world (a post-pandemic recovery in the form of a national and international green new deal)?

What amount of tax should citizens and corporations pay?

Who and what suffers when corporations and rich people evade and avoid paying tax?

Why should governments take action to close down tax havens, end secrecy on tax matters, and impose a digital services tax?

What role does the financial sector play in Britain’s economy and how is it threatened by Brexit?

Where does the UK rank on the corporate tax haven index and the financial secrecy index? What explains these rankings?

What explains the attitudes that politicians adopt in debates on international tax reform in the EU and UK parliaments?

Key understandings

Tax havens and financial secrecy allow corporations and rich individuals to avoid paying tax.

Tax avoidance (legal) and evasion (illegal) undermine democracy; generate economic and political inequalities; disrupt markets; damage innovation; worsen financial instability; create recessions and reduce economic growth.

The City of London is at the centre of a network of tax havens situated in jurisdictions that are a legacy of empire. They allow corporations and individuals to avoid paying tax on their profits and wealth.
The corporate tax havens index ranks the world’s jurisdictions according to the extent to which they contribute to the world’s multinational corporations escaping from paying tax and eroding the tax revenue of other countries. The financial secrecy index ranks jurisdictions according to the secrecy and scale of their offshore financial activities.

Since 2009 the OECD, on behalf of the G20, has been seeking to end tax evasion (illegal) and avoidance (legal), bank secrecy, and tax havens. It has established measures to prevent corporations eroding national tax rates and shifting profits to low tax jurisdictions. It has created a global forum to exchange information, tackle non-compliance on tax matters, and tackle offshore tax evasion. It has also introduced a global digital services tax on technology companies such as Google, Facebook and Amazon.

The future of the UK financial services industry has been a key topic in debates over Brexit. A ‘hard’ or no deal Brexit is likely to damage the industry as rights to trade in EU states under the supervision of UK regulators will be lost.

Debates in the European and UK parliaments over international tax reform reveal a left/right split on taxation (high/low) and international regulation (welcome/unwelcome).

**Key concepts** interconnectedness, interdependence, taxation, welfare, government revenue and expenditure, financial services, global capital flows, tax havens, financial secrecy, rentier capitalism, multinational corporations, profit shifting, global governance, laws and regulations, international agencies, multilateral partnerships, international NGOs, power, politics, decision making, radical democracy, global citizenship.

**Key values** social justice, democracy, solidarity, transparency, procedural values associated with political literacy

**Key skills** interpreting graphics on government revenue and expenditure; using interactive websites on tax haven and financial secrecy indices; debating measures proposed by OECD and tax justice network; skills associated with political literacy when interpreting debates in the European and UK parliaments.
Learning outcomes

Students will develop understanding of the role of the financial services sector in the UK economy and its future after Brexit. They will consider what policy position a global citizen should adopt to international tax reform and compare this position to those adopted by a range of politicians speaking in debates in the European and UK parliaments. By preparing for and participating in a mock parliamentary debate they will develop their political literacy.

Learning activities

Interpreting graphics on UK government revenue, expenditure and debt. Comprehending an edited version of a briefing sheet on corporate tax havens published by the tax justice network. Discussing the appearance of Starbucks, Amazon and Google before the public accounts select committee in 2015. Holding a mock parliamentary debate on international tax reform after studying edited videos of a debate in the EU council of ministers; a meeting to brief green MEPs in the European parliament; and a speech by an SNP MP on tax evasion in the UK parliament.

Assessment task

Students write an essay on global tax reform to a format based on Ruttenberg’s objectives of radical democratic global citizenship education (page 322).

Links to Unesco guidance

<table>
<thead>
<tr>
<th>SDG 17 Partnerships for the Goals. Strengthen the implementation and revitalise the global partnership for sustainable development.</th>
<th>A selection from the related objectives</th>
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<tr>
<td>Cognitive learning objectives</td>
<td>The learner understands global issues, including issues of financing for development, taxation, debt and trade policies, and the interconnectedness and interdependency of different countries and populations. The learner understands the importance of global</td>
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multi-stakeholder partnerships and the shared accountability for sustainable development and knows examples of networks, institutions, campaigns of global partnerships. The learner knows the concepts of global governance and global citizenship.

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<tr>
<th>Socio-emotional learning objectives</th>
<th>The learner is able to raise awareness about the importance of global partnerships for sustainable development. The learner is able to experience a sense of belonging to a common humanity, sharing values and responsibilities, based on human rights.</th>
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<tr>
<td>Behavioural learning objectives</td>
<td>The learner is able to become a change agent to realise the SDGs and to take on their role as active, critical and global sustainability citizen. The learner is able to contribute to facilitating and implementing local, national and global partnerships for sustainable development.</td>
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<td><strong>GCE topic 1 Local, national and global systems Learning objectives</strong></td>
<td><strong>A selection from the key themes</strong></td>
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<tr>
<td><strong>Lower secondary (12 – 15 years)</strong> Discuss how global governance structures interact with national and local structures and explore global citizenship.</td>
<td>National context and its history, relationship, connection and interdependence with other nations, global organisations and the wider global context (cultural, economic, environmental, political). Global governance structures and processes (rules and laws, justice systems and their interconnections with national and local governance systems. How global decisions affect individuals, communities and countries. Rights and responsibilities of citizenship in relation to global frameworks and how these are applied.</td>
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<tr>
<td><strong>Upper secondary (15 – 18 years)</strong> Critically analyse global governance systems, structures and processes and assess implications for global citizenship</td>
<td>Global governance systems, structures and processes and the way that regulations, politics (policies?) and decisions are made and applied at different levels. How individuals, groups, including the public and private sectors, engage in global governance structures and processes.</td>
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</table>
Critical reflection on what it means to be a member of the global community and how to respond to common problems and issues (roles, global connections, interconnectedness, solidarity and implications in everyday life).

Suggested learning approaches for SDG 17 include analyse the development and implementation of global policies on climate change, biodiversity etc (taxation)

**Preparation**

Using the Office for Budget Responsibility’s (OBR’s) brief guide to UK public finances prepare PowerPoint slides on how Britain raises and spends tax revenues and the extent of its budget deficit. The Institute of Fiscal Studies also provides information of Britain’s tax revenues and the House of Commons Library has a briefing on public finances in different countries and regions of the UK. Information is Beautiful has a useful graphic on the government’s income and expenditure.

Read three articles from the New Statesman:

**How Britain’s tax havens imperilled the welfare state, K Koram, 9.12.2019**

**How a no-deal Brexit would harm the UK public finances for decades, I Stockton, 14.10.2019**

**Brexit isn’t done: what next for financial services, G Eaton, 5.02.2020**

Watch four short You Tube videos:

**Starbucks, Google and Amazon grilled over UK tax avoidance** 2015

**Tax havens explained** 2018

**Will Britain become a tax haven after Brexit?** 2018

**How tech companies avoid paying tax explained with magic** 2015

The longer documentary film The Spiders Web provides much more information on Britian’s ‘second empire’ of offshore tax havens. The 2019 feature film The Laundromat, based on the Panama papers, focuses on tax havens.
The report Tax avoidance and tax evasion from the House of Commons library (April 2020) estimates that the tax gap (difference between tax due and tax collected) was £35B in 2017/18. Of this £1.8B was avoidance and £5.3B evasion. The report notes concern about mass marketed tax evasion schemes and outlines three major initiatives by UK governments to undermine the market. Patrick Cannon offers analysis of Britain’s tax gap. Note (Activity Sheet 9.1) the Tax Justice Network estimates that globally governments lose $500B (£400B) in tax due to corporate tax havens.

Visit the OECD webpage on international taxation and watch the video on tackling tax avoidance and evasion. Also watch the video on the Global Forum on transparency and exchange of tax information.

Ensure you have a basic understanding of the G20 and OECD and their roles in global governance. Review the sources on the EU and democracy cited in the chapter. Watch the short video How democratic is the EU?

Visit the tax justice network and its webpages on the corporate tax haven index and the financial secrecy index. Familiarise yourself with these two indices and the information the web pages provide.

Finally if you need convincing all this is central to geography read these articles

Financial Geography 1: Geographies of Tax, M. Aalbers, Progress in Human Geography, 2017


Britain’s epicentre: London’s financial services sector and its place in the UK economy, S Hall, (LSE blog)

Possible procedure

The unit is in three parts: UK public sector finance; tax havens and international tax reform; and associated proceedings in the European and UK parliaments. Each part is likely to require several lessons.

At the start of the unit, tell the students they will be assessed on their contribution to a mock UK parliamentary debate on tax avoidance and evasion. They will be assigned the role of an MP, will prepare a speech on the early day
motion selected for debate, and if fortunate will be called by the speaker to take part in the debate. All will be assessed on their prepared written speech.

1 UK public sector finance

Introduce the topic of taxation. Discuss student’s existing ideas on how the government raises and spends money. What percentage of government revenue is raised from income tax, corporation tax, VAT, fuel duty, etc? What percentage of government spending goes on health, education, pensions, defence, overseas aid etc? What is the difference between revenue and expenditure in the countries and regions of the UK? Use the slides you have prepared from the OBR publication to answer these questions. Note that London, the South East, and East of England are the only regions of fiscal surplus.

Explain that in 2020 the covid pandemic had resulting in falling government revenues and rising spending as the UK entered the worst recession for 300 years. In May the UK’s debt exceeded 100% GDP for the first time since 1963. Discuss with students the causes of extra spending and falling revenues and the associated problems for local authorities that were being forced to make budget cuts. Explain that uncertainty over Brexit also raised questions about government revenues in the future with supporters and opponents of Brexit offering different opinions (see Stockton’s NS article).

Emerging from the pandemic and recession with a more sustainable economy via a green new deal was widely discussed in 2020 and was supported by the TUC and Labour and Green parties (see chapter). How should such a recovery be financed? What is the role of increased government borrowing (possible in 2020 at record low interest rates) and increased taxation. Richard Murphy of tax research UK argues that it will require wealth taxation (a global wealth tax as proposed by Thomas Picketty). Discuss with students the desirability of national and international green new deals (more sustainable forms of development) and how they should be financed.

2 Tax havens and international tax reform

Show the video Tax havens explained. This is fast moving and you will probably need to pause it several times to explain terms and ideas.

Now explain that there are NGOs seeking tax reform, one of which is the tax justice network. Activity sheet 9.1 is largely based on its briefing notes on tax
havens. Read through the activity sheet with the students explaining ideas, answering questions and ensuring comprehension. There are cartoons that may help students to grasp the main ideas. Use the Wired video How tech companies avoid paying tax explained by magic to explain shell companies based in tax havens. Again you will need to pause and explain as it is fast paced.

The UK government estimates tax avoidance and evasion at around £7 Billion for 2017/18. This is around one percent of total government spending.

Introduce students to the corporate tax haven index and the financial secrecy index. The Corporate Tax Haven Index ranks the world’s most important tax havens for multinational corporations, according to how aggressively and how extensively each jurisdiction contributes to helping the world’s multinational enterprises escape paying tax, and erodes the tax revenues of other countries around the world. It also indicates how much each place contributes to a global “race to the bottom” on corporate taxes. In 2019 the UK ranked 13th on this index.

The Financial Secrecy Index ranks jurisdictions according to their secrecy and the scale of their offshore financial activities. A politically neutral ranking, it is a tool for understanding global financial secrecy, tax havens or secrecy jurisdictions, and illicit financial flows or capital flight. In 2020, the UK ranked 12th on this index.

Explore these indices via their web pages with the students. Does it surprise students that the UK ranks so highly on these indices? The UK is a large supplier of financial services much of it linked to flows of capital into offshore tax havens that are a legacy of empire (Koram NS article and The Spiders Web documentary). The financial services industry is centred on the City of London, provided 6.5% of UK economic output in 2017, and is threatened by a hard Brexit. How do the students feel about corporations and rich individuals avoiding tax through the use of tax havens? How do they feel about the City of London’s role in this?

Now show the OECD video on tackling tax avoidance and evasion. Explain that directed by the G20, the OECD is seeking reforms of the international tax system that will need to be implemented by the EU and UK government introducing new laws. The OECD seeks to tackle:
- **Base erosion and profit shifting** whereby corporations seek to erode or lessen the profits they declare to be taxed and/or shift them to a jurisdiction where taxes are lower;
- The challenges arising from the digitalisation of the economy by introducing a **global digital tax**
- Secrecy by creating a **global forum** on transparency and the exchange of information for tax purposes that will fight offshore tax avoidance. This forum benefits poor countries that are now able to collect more tax.

Do students consider this work by the OECD worthwhile? Who is likely to support/oppose such reforms? Is the OECD democratic? What is the **UK delegation to the OECD** and how are its staff appointed?

### 3 Related events in the EU and UK parliaments

In the final part of this unit students should further develop their political literacy by considering how OECD reforms have been received and processed by the EU and UK government before holding a mock parliamentary debate. There are numerous reports of proceedings within the EU and UK parliaments that could provide resources for classroom activities. The video listed below provide direct insights into the workings of the EU and UK government and with careful editing and explanation should enable teachers to complete coverage of global governance in the context of global tax reform.

**Council of the European Union debate on fair taxation 6.11.2018.** The Council consists of relevant ministers drawn from each country. Ministers discussed the establishment of a **digital services tax**. The UK finance minister at that time was the chancellor Philip Hammond.

John Christensen from the Tax Justice Network speaks at an event at the **European Parliament** organised by the European Free Alliance of the Greens on Brexit and the future of tax havens (22.01.2019). His talk covered the impact of Brexit on tax evasion and money laundering and offered recommendations on how the EU should move forward in its treatment of the UK, its satellite havens and the City of London. A summary of his talk and the slides he used. Worstall makes the case for the ‘Singapore on Thames’ model of Britain’s future and it is critiqued in **Ethical Consumer**. Also see the video Will Britain become a tax haven after Brexit?
In June 2015 Starbucks, Google and Amazon appeared before the public accounts (select) committee of the House of Commons. What is a select committee? What do they do? How are the members seeking to hold these corporations to account?

Chris Stephens MP (SNP Glasgow South West) speaking in the debate on tax evasion in the House of Commons 25.02.2020. The full debate is recorded in Hansard. It is important for students to reflect on how politicians of the left, right and centre view tax justice.

Now introduce the mock parliamentary debate activity. First divide the class into MPs reflecting the current composition of the House of Commons. Next ask each MP to submit an early day motion on tax avoidance and evasion for debate. Put all the motions in ‘a hat’ and draw one for debate. Ask the proposer to appoint a seconder as their main supporter. Ask other parties to appoint a principal opposer and seconder. Appoint a speaker to chair the debate and give students time to prepared and write their speeches of maximum two minutes duration. Allow cooperation organised by party whips (chosen by the party’s MPs) on lines of argument but not on the detailed content of speeches. Hold a time limited mock debate, hold a vote on the motion, and discuss the result drawing comparisons with proceedings in the House of Commons.

Conclude by linking the three parts of the unit to global citizenship. Do students feel that in future they will be able to exercise their voice and play a part in such debates as that over global tax reform? What do they see enabling/hindering their participation? Would they join/support the tax justice network? What roles do emotions, an understanding of power, and political literacy play in global citizenship? What do they consider they still have to learn if they are to become truly global citizens?

You can use Activity Sheet 9.2 to introduce the assessment task or introduce it in your own way having adapted it to the interests and abilities of your students.
Activity Sheet 9.1  The Tax Justice Network explains tax havens

The Problem

Multinational companies produce and sell goods and services in more than one country. They rely on a wide range of public services to support their activities (roads, health, education, police and courts). All these things need to be paid for – largely through raising tax. When multinationals use corporate tax havens to escape paying their contribution to these public services, they are free-riding off the taxes paid by other people.

In 2017 Amazon paid £4.5 million in tax on UK pre-tax profits of £72 million (6.25%). In 2018 Google paid £49.3 million in tax on declared UK profits of £202.4 million (24%) but its sales in the UK were estimated to be £5.7 billion.

Cheating on tax causes great harm:

1. It undermines support for democracy and for markets as it creates a sense that there is one set of low-tax rules for large and powerful corporations and wealthy individuals and another set of rules for everyone else.

2. It generates large economic and political inequalities by shifting the burden of taxation away from the wealthy shareholders of corporations and onto the backs of ordinary people who must either pay higher taxes or have reduced public services.

3. By helping large corporations to out-compete their smaller and more locally based rivals, cheating on tax distorts markets and contributes to the rise of monopoly power.

4. It damages innovation by rewarding corporate managers for turning their attention away from building better products and services and towards tax minimisation and financial engineering.

5. It worsens financial instability by boosting too-big-to-fail banks and disproporionately rewarding highly profitable risk-taking at taxpayers’ expense over mundane industrial and other wealth creating activities.
6. It creates recessions and reduces economic growth.

**What is a tax haven?**

A tax haven is a jurisdiction that provides facilities to help multinational corporations escape or undermine the tax laws, rules and regulations of other jurisdictions so reducing their tax payments in these jurisdictions.

Multinationals can reduce the tax they pay by producing goods and services in one country and declaring the profits made when selling these goods and services in another, low tax country or offshore tax haven. They can also prompt jurisdictions to lower their tax rates to attract inward investment by corporations. This may result in a ‘race to the bottom’ on corporate taxation.

There is a global network of offshore tax havens as revealed by the tax havens index. Different jurisdictions offer different mixes of facilities to mobile forms of financial capital that multinationals and wealthy individuals have to invest. Corporate tax havens are the main players but there are also ‘secrecy jurisdictions’ (revealed by the financial secrecy index) which attract illicit capital flows by providing laws and other facilities to hide that capital and ownership from public scrutiny and the forces of law and order. The City of London is at the centre of a network of tax havens: crown dependencies and overseas territories like Jersey and the Cayman Islands; former colonies like Hong Kong.

**The tax havens index** ranks jurisdictions according to how corrosive their corporate tax policies are to the global economy. In 2019 the five top ranking corrosive jurisdictions were the British Virgin Islands, Bermuda, the Cayman Islands, Netherlands and Switzerland. The UK ranked 14th.

**The Financial Secrecy Index** ranks jurisdictions according to their secrecy and the scale of their offshore financial activities. A politically neutral ranking, it is a tool for understanding global financial secrecy, tax havens or secrecy jurisdictions, and illicit financial flows or capital flight. In 2019 the five top ranking jurisdictions were the Caymen Islands, USA, Switzerland, Hong Kong, and Singapore. The UK ranked 12th.
Race to the bottom

Corporate tax havens also foster a worldwide race to the bottom. As one jurisdiction introduces a new tax loophole or incentive or tax cut to attract mobile capital, others will try to put in place an even more attractive offering, triggering others in turn to join in, resulting in an unseemly race to the bottom that steadily shifts the tax burden away from wealthy shareholders of multinational corporations, who are mostly wealthy people, and towards lower-income groups. That is why, in many countries, corporate taxes are falling while corporate profits are rising.

All these factors feed a rise in populism, political extremism and even authoritarianism in many countries as inequalities rise and public services decline. Tackling corporate tax havens is one of the great political and economic challenges of our age.

How big is the problem?

Current research suggests that governments around the world lose over US$ 500 billion — half a trillion dollars — in tax each year due to corporate tax havens. The IMF, for instance, recently that rich countries lose some $450 billion annually to tax-haven related corporate tax dodging, while lower-income countries lose $200 billion (which represents a bigger share relative to their smaller economies). But remember: tax losses are just one dimension of the damage. The harm that corporate tax havens inflict on democracy, on society, and on our trust in politics and markets, is incalculable.

How is system rigged?

Multinationals are taxed under an international architecture of tax that was set up a century ago, and which has utterly failed to keep pace with technology, secret banking, and the high-speed modern world.

Every multinational has many subsidiaries and affiliates festooned across tax havens and other countries around the world. These affiliates trade with each other, and over a third of all world trade is reckoned to happen inside multinationals like this. But the core problem with this system is that it encourages multinationals to shift large profits into low-tax or zero-tax havens,
where they pay little tax and to shift their costs into high-tax countries to deduct against their tax bills there.

How do they do this? The most common technique is “transfer pricing,” where a multinational adjusts the internal prices at which its affiliates trade with each other across borders, to minimise profits that the accountants recognise in the high-tax countries, and to maximise profits recognised in corporate tax havens. The CTHI points to where these profits are going, and which havens are most aggressively facilitating these practices.
Activity Sheet 9.2 An essay on global tax reform

In this geography unit you have studied efforts by the Tax Justice Network and others to bring about reforms to the international tax system. You have learnt about the roles of the G20, the OECD, the EU and the UK government and have held a mock parliamentary debate on a related motion.

Now you are going to write an essay about how you are feeling and thinking at the end of the unit. You will write your essay under four headings. Try to write about 100 to 150 worlds on each.

First your EMOTIONS.

How do you feel about corporations and rich individuals avoiding tax?

How do you feel about the UK’s positions on the corporate tax havens and financial secrecy indices?

Next your UNDERSTANDING

Why is tax avoidance and evasion a political issue?

What has tax avoidance and evasion to do with global governance?

And then about POWER

What do you understand by economic or financial power?

What do you understand by political power?

What has the unit taught you about the distribution of power in the world?

And finally POLITICAL LITERACY (your ability to think about and act on the politics of global tax reform)

What kind of politicians support global tax reform? What kind oppose it?

Why do we need institutions like the OECD?

What actions should a global citizen take in relation to global tax reform?