

# Lobby your MP to stop a new tax loophole costing developing countries billions

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We need as many MPs as possible to take action now to stop the Government from opening a new tax loophole. They tell us (and we've seen) that they're much more likely to do so if a constituent like you meets them face-to-face.

Don't worry if you haven't done something like this before. You don't need to be an expert (your MP won't be) and this guide should give you all the information you need.

## What's in this guide?

- More information on the Government's proposals to open a new tax loophole
- How to lobby your MP on the issue and what to ask them to do
- Tricky questions you may get asked (but don't have to remember)

## Why now?

The Government are going to announce their proposal to open a new tax loophole during this year's Budget announcement on 21 March. Once this happens, the proposals will form part of the Finance Bill which MPs will debate in Parliament until June.

## What help can you give me?

We're holding four **lobbying training days** in March. These are designed to boost your knowledge, let you meet other lobbyists and give you a chance to practice what you'll say to your MP.

- **London - Saturday 3 March** - 11am - 4pm - ActionAid office, Bowling Green Lane, EC1R 0BJ
- **Inverness - Saturday 10 March** - 10.30am - 3.30pm - Spectrum Centre, 1 Margaret St, IV1 1LS
- **Bristol - Saturday 17 March** - 11am - 4pm - YHA Bristol, 14 Narrow Quay, BS1 4QA
- **London - Saturday 24 March** - 11am - 4pm - ActionAid office, Bowling Green Lane, EC1R 0BJ

If you can't make a training day, we're also holding a **phone briefing** so you can learn more about the issue and hear from others who have lobbied their MPs.

- **Wednesday 29 February** - 7pm - dial 0203 122 0600 and enter 584 when prompted.

Sign up for both at <http://actionaid.org.uk/taxjustice> or contact James on the details below.

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## Get in touch

Let us know if you have any questions, when you're meeting your MP or anything else:

James Blair

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0203 122 0743

# A new tax loophole? More info on the proposals

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## What are the new tax loophole proposals?

The Government is proposing to water down the UK's anti-tax haven rules, making it easier for multinational companies to move profits into tax havens. **ActionAid estimates that developing countries could lose £4 billion a year, while the Treasury admits the UK will lose £1 billion.**

Although they're not perfect, the current rules are a significant hurdle that makes it much harder for multinationals to use tax havens, both in the UK and in developing countries.

**We need an urgent rethink.**

## How do these rules work?

**The current anti-tax haven rules (officially known as Controlled Foreign Company rules) are designed to deter companies from exploiting the low tax rates offered by tax havens.**

If a British multinational company shifts its profits from anywhere in the world into any tax haven, the UK tops up its tax bill. This means the company ends up having to pay the full UK rate of tax, no matter where they try to hide their profits.

This covers all UK companies and although they're not perfect, the rules cover multinationals trying to avoid tax in the UK or in developing countries.

The changes the Treasury are proposing mean the rules will only apply if the company is avoiding tax on profits earned on economic activity in the UK. If a British company tries to move money from a developing country into a tax haven, it will be completely ignored.

## Why is this happening?

**Some multinationals have been lobbying hard to water down anti-tax haven rules for some time. The Treasury has accepted their demands because it hopes multinationals that moved their headquarters to tax havens like Ireland, will move back to the UK.**

This is also part of a much bigger race to the bottom on corporate taxation. Multinational companies want to pay as little tax as possible and by lobbying for a better deal from individual countries (like the UK), they're able to gradually open up loopholes and drive down tax collection standards right around the world. This so-called 'tax competition' makes it increasingly hard for any country to collect a fair amount of tax from multinational companies.

**That's why ActionAid has also been pushing for better international standards, to ensure tax justice for both rich and poor countries.**

## What is the bigger tax justice problem?

Developing countries need to increase their own tax revenue bases to invest in the doctors and teachers they need, and to eventually break free from a dependency on international aid. Many are on the road to doing this, with poor people starting to receive better public services and aid dependency decreasing.

But the efforts of developing countries to improve their revenue collection are being undermined by the tax dodging of multinational companies that operate there.

ActionAid has shown how UK companies like Grolsch owner SABMiller, shifts the profits it makes in developing countries, into tax havens. Less profit in developing countries means companies pay less corporation tax in that country. It's ordinary people that lose out as they either have to pay more, or public services are cut.

The UK Government's proposals to water down our own anti-tax haven rules could make this situation even worse, depriving developing countries and the UK of billions each year.

## How do multinational companies dodge their taxes in developing countries?

ActionAid research has shown how the UK based owner of Grolsch and Peroni – SABMiller - siphons an estimated £100 million in profits out of Africa and into tax havens like Switzerland and Mauritius each year.

**The company avoids enough tax to educate an additional 250,000 African children each year. In Ghana, market traders like Marta Luttgodt have been paying more in corporation tax than the giant SABMiller brewery next door.**

SABMiller is able to do this by setting up subsidiary companies in tax havens. Intellectual property, like its beer brands are moved there and then enormous fees for using these brands are charged to the developing country subsidiary. This enables the company to shift its profits out of developing countries (where they'd be charged a higher rate of tax) and into tax havens, where they pay very little.

This is just one example of the type of practices happening around the world. The current UK anti-tax haven rules don't prevent all tax dodging, but they do make it much harder for companies to get away with it. The proposals on the table will make it much, much easier.

**The OCED estimates that developing countries lose three times more to tax havens, than they receive in aid each year. Many developing countries aren't able to match the expensive accountants and lawyers that multinationals employ to find tax loopholes, so they're often unable to effectively challenge tax dodging.**

The G20, the UN, the World Bank, the IMF and many developing countries themselves have identified tax dodging as a big problem, which is keeping countries locked in poverty.

## How will people in developing countries be affected?

**Tax dodging by multinational companies has a profound impact on developing countries. Take Zambia. Two in every three Zambians live below the poverty line and the country spends less per child on education than any other country in southern Africa.**

Several large western companies in Zambia are facing big questions about their tax contribution – or lack of it.

Brewing giant SABMiller, for example, lowers its tax bill in Zambia by making huge payments into tax havens like Switzerland and the Netherlands. Meanwhile, a leaked audit

**When big businesses dodge their taxes it makes life even tougher for people such as Amelia Mwawa.**



Amelia Mwawa, 32, is a widow who tries to make a living on her market stall in the shadow of a Glencore-owned copper mine in Kankoyo, Zambia. *“Most of us are widows,” she says. “We don’t have anybody to take care of us. The only way of survival is to go into the bush to grow vegetables and crops. Even if we go out farming, we have no inputs to put into the ground so that the crops go up. We get poor yields. But nevertheless we have to continue because it’s our means of survival.”*

Getting a decent education and quality medical care for her children is a real struggle for Amelia. The local clinic struggles to treat everyone, and the costs of medicines are high.

*“It can help us a lot if [Glencore] paid their taxes. If the Government were being given that amount [of tax], maybe they could use it to improve some of our services.”*

report on FTSE-listed mining giant Glencore shows that Zambia could be losing as much as £76 million in corporation tax a year from just one of its copper mines.

## How will the UK be affected?

**The Treasury's own figures show that the UK will lose £1 billion of tax revenue every year if our anti-tax haven rules are watered down.**

Here's an example of how it works. Many multinational companies have their own internal finance operations, which work like an in-house bank, lending money to other subsidiary companies around the world. The Treasury is proposing to make it easier for these financing arms to operate in tax havens through a 'partial finance company exemption'. Rather than topping up the tax rates in full, they'll be allowed to pay just 5.75% in tax.

This will make it more attractive for UK multinationals to register more financing companies in tax havens, which could also have a knock on effect for developing countries.

## Which companies stand to benefit?

Recent research by ActionAid showed for the first time the full extent of tax haven use throughout the FTSE 100 (the UK's biggest 100 companies). 98 of the companies are using tax havens, where you'll find a whopping 38 per cent of all of their overseas companies located.

Our high street banks are the heaviest users with 1,649 tax haven companies shared between Barclays, HSBC, RBS and Lloyds. Barclays has 174 companies registered in the Cayman Islands alone. If our anti-tax haven rules are watered down, you can expect all of these figures to rise.

**82 of FTSE 100 also have operations in developing countries. They all stand to benefit, just as the developing world and the UK will lose out.**

A number of companies that have huge operations in developing countries have been lobbying hard within the Treasury for these rule changes including SABMiller, Barclays, British American Tobacco, Vodafone and BP.

While multinational companies that use tax havens stand to benefit by £5 billion a year, these rule changes will make it much harder for small and medium size companies – both here and in the developing world. They can't afford the expensive accountants needed to shift their profits around world meaning they will be less competitive and could end up paying more tax than their bigger rivals.

## What's the government said so far?

**ActionAid alerted the Treasury to the impact that watering down anti-tax haven rules will have on developing countries almost two years ago – but they've been listening to the voices of multinationals, rather than us.**

In December 2011, the Treasury published proposed changes to the rules, which it plans to include in its budget announcement on 21st March. If this happens, they will form part of the Finance Bill which MPs will debate in Parliament until June.

## What have politicians been saying about tax justice lately?

**Since the start of the year, political leaders have been falling over themselves to talk tough on tax dodging.** David Cameron candidly admitted that "I worked in corporate Britain and I know how companies use the complexity of the tax system to endlessly reduce their tax payments."

The Prime Minister has also publicly committed to tackling this issue. In January 2012 he announced his desire to see an 'anti-avoidance' rule in the forthcoming Budget. Speaking at an event for small businesses, he announced: "One of the things that we are going to be looking at this year is whether there should be a general anti-avoidance power that HMRC can use, particularly with very wealthy individuals and with the bigger companies, to make sure they pay their fair share."

Nick Clegg made tackling tax avoidance one of the top priorities of the Liberal Democrats in 2012, while Ed Miliband called on the Government to end tax haven secrecy.

At the end of last year, following months of campaigning by ActionAid supporters, the Government signed up to the G20 declaration that stated 'We reiterate the importance of our commitment to deal effectively with tax havens and non cooperative jurisdictions including the fight against illicit capital flows considering their impact on development.'

At the same summit, the UN, World Bank, IMF and OECD presented a joint report that recommended all G20 countries should assess the impact on developing countries if they were thinking about the type of changes the UK is now making.

When contacted by ActionAid supporters last year, MPs from all the main parties agreed the government needed to close tax loopholes. **MPs we've spoken to about the current proposals have been surprised that anti-tax haven rules are being relaxed.**

## What are we calling for?

**We want the Treasury to seriously rethink the rule changes before the budget. This revenue is urgently needed to invest in the healthcare and education that people in developing countries require.**

We want them to assess and help mitigate the impact of any changes on developing countries. Providing additional funding to help developing countries improve their own tax systems could help in the short term.

If our anti-tax haven rules do get watered down, it will make it much harder for developing countries to become independent from international aid.

The UK government must rethink its proposals right now, but ultimately tax dodging is an international problem that requires international solutions. The government should be leading international efforts to close tax loopholes, crack down on tax havens and make it harder for multinationals to dodge their taxes.

Greater transparency would make it easier to identify which companies are using tax havens to avoid paying their bills. Tax havens should also be made to share vital information with developing countries, enabling them to track down the tax cheats.

## Further details about the proposals

Check out the Tricky Questions at the back of this guide if you want more details of the proposals, but remember that **you don't need to know this much detail to lobby your MP**. If they have any questions you can't answer, offer to send them the answer after the meeting. If the answer isn't here, contact us on the details below and we'll help you out.

You can currently find very detailed information on the Government's proposals online:  
<http://www.hmrc.gov.uk/budget-updates/march2011/draft-tax-finance-bill-2012.htm#5>

# How to lobby your MP on tax dodging

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You and your MP have a vital role to play. Government proposals will be debated in Parliament around the budget and then the detailed scrutiny of the new legislation will happen in the months afterwards. They'll have a direct opportunity to influence the decision making process and you have a direct influence on them.

After our campaigning at the end of last year, hundreds of MPs have already pledged to help close tax loopholes – this is their big opportunity to act.

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## The step-by-step process



### 1. Book a meeting with your MP

All MPs have regular surgeries or slots in their diary just to meet constituents face to face, in their constituencies. This will probably be between 15 – 30 minutes long.

- You can often find your MP's surgery details on their website, or call their office (sometimes listed in the yellow pages or use directory enquiries). It's always quicker and easier to make the appointment over the phone.
- If you don't know who your MP is, type your postcode into <http://www.theyworkforyou.com/> or call the House of Commons switchboard on 020 7219 3000 and tell them your postcode.

### 2. Tell us the date

Let us know when you're lobbying your MP so **we can send you the most up-to-date and relevant information to give them.**

### 3. Research

Read through this lobby guide and think about what you're going to say. You don't need to have a speech written or know everything about the subject. **Make sure you put together some key points you want to get across and what you are going to ask them to do.**

It's also a good idea to find out a little about your MP. They will appreciate that you've bothered to find out a little about them and you'll get a better idea of the person you are meeting. Visit their personal website or use [www.theyworkforyou.com](http://www.theyworkforyou.com) to find out whether they hold any important government positions and sit on any relevant committees. You can also call us and we can send you their profile.

### 4. Lobby!

This won't be an abnormal meeting. **It'll just be you and your MP having a chat about an issue that concerns you, so treat it as such.** It may seem a bit intimidating, but don't worry. They are human too and won't expect you to be an expert. **In fact there's a good chance you'll know more than they do.**

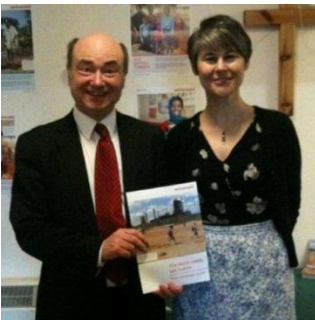
- Make sure you arrive early and be really polite to the MP's staff (they can be useful allies). You may have to wait a little, but you'll then be invited into the meeting room with your MP and possibly one of their staff.
- Present your case and ask your MP for their views on the issue. **They may want to talk a lot so don't worry about jumping in and asking them to take action on the issues early on.**
- Give your MP a copy of our latest MP briefing. We'll send you one to suit your particular MP or you can download a generic one from <http://actionaid.org.uk/taxjustice>
- If you can't answer a question, just offer to get back to them later and move on.

## 5. Get agreement to action from MP

**Make sure you get a definitive answer to what you're asking them to do.** They will often try and wriggle out of committing by saying things like 'I will certainly consider doing...'

- If they won't commit to what you want them to do, **ask them to do something else** (see right for examples)
- Say thank you when you leave and state how you will next communicate (e.g. "I look forward to hearing from them after you have spoken to the Minister" or "I'll get back to you when I've found out about that question I couldn't answer").

## 6. Get a photo



No matter what happens at the meeting, it's always a good idea to get a picture of you and your MP. Ask if a member of the MP's staff can take the photo and if the MP is in agreement, have the picture taken with you both holding a 'close tax loopholes' placard (we can send these to you).

## 7. Follow-up and thank

Always send your MP an email or letter to thank them for meeting you. Confirm what they agreed to do in the email/letter and give them any additional information they have requested.

## 8. Let us know how it went

Call or email James (0203 122 0743 or [james.blair@actionaid.org](mailto:james.blair@actionaid.org)) and let him know how your meeting went. It's really important for us to know how MPs are reacting and what they are promising to do.

## What can you ask your MP to do?

There are lots of things your MP could do, but some have more impact than others. **Let us know that you're going to lobby your MP and we'll send you an up-to-date briefing to give your MP**, including specific actions your MP can take. Otherwise, use the (roughly prioritised) list of suggestions below.

Be ready to negotiate your way down the list or if they're particularly keen, suggest multiple actions.

- **Raise a question at the next Treasury ministerial question time (we can provide them with suggested text)**
- **Make an intervention on tax justice for developing countries at the next Budget debates**
- **Write a blog post or comment piece in the media**
- **Support campaign by having photo taken with you (and 'close tax loopholes' placard)**
- **Write to George Osborne or Danny Alexander**

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## Hear from ActionAid supporters who have done it already

Don't take our word for how easy it is to lobby your MP, hear from ActionAid supporters who have done it themselves. Watch the video at <http://bit.ly/AAlobbyvideo> or check the Campaigns Blog at <http://bit.ly/AACampaignBlog> for regular updates from Community Campaigners who have lobbied their MPs.

## Tricky questions and answers

**You don't need to remember these Q&As. Offer to follow-up with your MP if they ask any of these.**

### **The Government is also introducing a general anti-avoidance rule, so won't that sort everything out?**

No. Watering down our anti-tax haven rules means the Government are giving the green light for the biggest multinationals to make even greater use of tax havens. An anti-avoidance rule is unlikely to prevent the kinds of tax planning that the proposals will allow. In any event, the anti-avoidance rule only applies when UK tax is avoided, so it will have no effect on tax dodging by UK companies in developing countries.

### **If the current rules are good, why have you been complaining about tax dodging by MNCs for so long?**

As we've shown with Grolsch & Peroni owner SABMiller, even though the current rules make it harder for companies to take advantage of loopholes to dodge their taxes in poor countries, they don't prevent it altogether. The solution to this is better international rules and greater transparency – not throwing the baby out with the bathwater as current government proposals would do.

### **Aren't these reforms already working, with AON moving its HQ from the US to the UK?**

When multinational companies move their headquarters to a new country, it generally involves moving just a few senior staff – 20 in Aon's case, all of them non-doms. So it doesn't mean lots more jobs or tax revenue for the UK if the proposed rule changes go through. While there might be a short term bounce, making it easier for multinationals to use tax havens means that ordinary people will end up paying more in the long run.

### **Shouldn't we be looking after the UK first at the moment?**

These reforms will affect people in the UK and developing countries in the same way. We should be looking after ordinary people right now, wherever they live. When big companies dodge their taxes, it's ordinary people who end up picking up the tab. That's why the Government should be focused on driving forward international solutions, not rewarding multinationals for using tax havens.

### **Don't we need to stimulate business activity with business tax breaks so we can get out of this crisis?**

The Government is already giving companies a number of tax breaks, including a major reduction in the headline rate of corporation tax, for this purpose. These particular reforms are inaccessible to the vast majority of British companies, which are too small to set up the complex tax structures needed. In practice they will encourage the biggest companies to engage in more tax dodging, especially in developing countries, rather than stimulating business activities.

### **It's wrong to say that if companies pay less tax then people pay more. All taxes are paid by people anyway and higher business taxes stifle growth & job creation, which reduces the overall tax take.**

It's true that taxes on profits are ultimately paid by shareholders, workers or consumers, but corporation tax is still an important way of sharing out tax obligations fairly, especially across the different countries in which a multinational company operates. The evidence for the impact of higher business taxes on growth and jobs is also mixed, and depends on a complicated set of different factors in the economy. Sometimes raising taxes can stimulate growth, if they are spent by the Government on investment that promotes it. That's especially true in developing countries, where the lack of education, healthcare and infrastructure can be a real obstacle to growth and investment.

### **The Treasury has been consulting on these changes extensively for years. Why are you only making a fuss about it now?**

ActionAid have been raising our concerns through numerous consultation submissions and meetings with Treasury ministers for nearly two years. So far, they've refused to acknowledge the impact on developing countries, so now bringing this to the public attention as a last ditch effort to prevent billions being lost.