Ireland: the Tax Haven that Dare Not Speak Its Name

By Cillian Doyle
Global Research, January 14, 2016
CounterPunch 12 January 2016

Region: Europe
Theme: Global Economy

We're not a tax haven, we have never been involved in any kind of tax malpractice – Michael Noonan, Irish Minister for Finance 5th October 2015

If your top political figures need to constantly state that your country*is not* a tax haven, then the chances are it probably *is* a tax haven. And as the UN's Philip Aston says, 'When lists of tax havens are drawn up, Ireland is always prominently among them'. Following their investigation into the tax affairs of Apple, Senators Carl Levin and John McCain similarly found that by any 'common sense definition of a tax haven' Ireland easily met the criteria. I mean when *Forbes*regularly ranks you in their list of 'Top ten tax havens', there's not really much of a debate to be had.

Here in Ireland there's no debate to be had, well certainly not one of any genuine substance, largely because our mainstream media considers it a relatively taboo subject. With both our public and privately owned media organisations reflecting the kind of political establishment and corporate opinion that's heavily invested in the tax haven strategy, its little wonder that much of the Irish public is unaccustomed to the notion that we're a tax haven, despite the broad international consensus.

Just take pharmaceutical giant Pfizer's announcement last month that it was relocating its HQ here, in another corporate inversion designed solely to slash its tax bill. This drew international condemnation with the *Financial Times* calling us a financial 'black hole', *the Guardian*argued that we should be 'subject to economic sanction', whilst US presidential hopefuls Trump, Clinton and Sanders all issued criticism of their own.

As usual our media skirted around the issue, stating obvious facts like our tax regime was 'back in the international spotlight', but failing to offer any serious analysis of why this was. Then of course there was the customary denial by a top political figure, this time our Minister for Agriculture Simon Conveney, who declared 'Nobody is using Ireland as a tax haven'.

Someone should tell poor Simon to take a stroll down to the Irish Financial Services Centre (IFSC). There he'll find a small building located at 5 Harbour Master Place which houses around 250 companies controlling almost €2 billion worth of assets, but he won't find any employees – because there are none. Not even a fella to clean the brass plates on the door.

But as Bob Dylan said 'the times they are a changing'. The OECD has recently launched its new Base Erosion and Profit Shifting project (BEPS) designed to clamp down on this kind of corporate tax dodging, talk of standardised European corporation tax rates in the air, and pretender to the US Presidency Bernie Sanders has already made clear that if elected he'll clamp down on the kind of corporate tax dodging '[that cheats not only America out of tax revenue but also Ireland'].

Obviously none of this is guaranteed to put an end to corporate tax dodging or the countries that facilitate it, but it's a clear indication of which way the wind is blowing, meaning Ireland urgently needs to change course. The first step is facing up to the fact that we are a tax haven, so let's review the historical and contemporary evidence.

A taxing history

The dominant economic narrative here in Ireland is that we were the economically 'sick man' of Europe up until the 1990s, after which time we slashed corporation tax, multinationals flocked and the Celtic Tiger was born. It's the old low corporation tax = high growth rates line; yes that old chestnut!

In reality our tax haven strategy was born back in the 1950s after a range of tax exemptions on corporate income and profits, as well as offshore tax exemptions were introduced. But it was the late 1970s before things really got going, as our Industrial Development Authority (IDA) began marketing Ireland abroad as a 'no tax' regime, and the idea of establishing a dedicated Irish Financial Services Centre (IFSC) was hatched.

Former head of the IDA and one of the IFSC's chief architects Padraic White, co-authored the book *The Making of the Celtic Tiger*. In the book he describes how he recruited Bob Slater, a Wall Street expert on offshore banking, who 'examined the success of Bermuda in creating jobs in financial services, and he was satisfied that Ireland could emulate its achievement.' Yes Ireland planned to create its very own Bermuda triangle, but the only thing that would be going missing was the tax obligations of multinationals.

Although our Central Bank initially rejected the plan because it 'smacked of a banana republic', it was revived in the 1980s following the election of a new government under the notoriously corrupt Charles Haughey, a man who would siphon off the equivalent of 45 million euro in today's money whilst being central to one of the largest tax evasion scams in the history of the state.

Today the IFSC administers almost 50% of global alternative investment funds (hedge funds, venture capital, derivative contracts, mortgage back securities, etc) and with its low taxes and light regulation has disparagingly been referred to as the 'Wild West of European Finance'.

The Celtic Tiger didn't take off because large multinationals flocked here after we slashed corporation tax in the 1990s. As the graph from the Tax Justice Network shows Ireland had long been trying to market itself as a tax haven; it just wasn't working, not until we joined the European Single Market in 1993.

Nevertheless the misleading notion that low corporation tax means high growth, buoyed by the kind of historical revisionism that our media and politicians regularly engage in, has deified Ireland's low tax regime into some kind of sacred cow. Challenging this orthodoxy has been very difficult as those who try are characterised as treasonous bastards attempting to kill the goose that laid the golden egg.

The has served to narrow the parameters for debate on the issue of corporation tax, meaning that even the political forces of the left from the weak social democrats to the radical left do not advocate raising our 12.5% rate.

(Tax Justice Network http://www.taxjustice.net/2015/03/12/did-irelands-12-5-percent-corporate-tax-rate-create-the-celtic-tiger/)

If it walks like a duck…

The two defining characteristics of a tax haven are; (1) a jurisdiction there is little/no tax liabilities for foreign individuals/businesses and (2) where key financial information is suppressed. Ireland, as we shall see, easily ticks both of these boxes.

1) Tax!? No thanks, we're a multinational

Our 12.5% corporation tax rate is often referred to as the 'cornerstone'of our economy, but even the dogs on the street know that the amount that's usually paid is as little as 2%, and sometimes it's nothing at all. Between 2007 and 2012 the likes of Google, Microsoft, and pharmaceutical giant Abbott Laboratories, all managed to pay less than 1% tax on their profits.

They do this through a process called transfer pricing, also known as profit shifting. With 60-70% of global trade now done intra firm big multinationals are more likely to trade with different subsidiaries of themselves than with rivals. This brings opportunities to artificially shift profits from high to low tax jurisdictions.

And here in Ireland we wrote the book on the transfer pricing. Well ok maybe we didn't write the book, but the Irish Tax Institute does run specialist courses in the thing, advertising it as 'The only global event that brings you the ''how to'' of transfer pricing'. And to be fair the accountants in the ITA are speaking from experience, many of them having worked for the 4 big accountancy firms based here (PricewaterhouseCoopers(PwC), KPMG, Deloitte and EY) who assist multinationals in evading tax. For example a recent report by the British House of Commons Public Accounts Committee found the PwC was promoting tax evasion on an 'industrial scale'.

One particular incident from their report focused on PwC's orchestration of a loan by Shire Pharmaceuticals between its subsidiaries in Ireland and Luxembourg, which assisted them in dodging a huge bill that should have been due to the Luxembourg authorities.

Now take a look at the box below to see who Ireland's biggest 'trading partners' are. Yes in first place it's our old friend Bermuda, and this is in no small part thanks to Google shifting its profits between Google Ireland Ltd and Google Ireland Holdings, which is a Dublin-registered company that's actually located in Bermuda. This direct investment data does not signify any genuine economic activity taking place, rather what it demonstrates is how Ireland allows the Googles and Shires of this world to shift their profits between their different subsidiaries in order to dodge tax.

2) The Secrets we keep

A climate of financial opacity is the other major characteristic of a tax haven. So its little wonder that a recent report by 19 European non-governmental organisations found that Ireland's lack of "financial and company transparency" is one of the chief reasons we're such an attractive location for corporate subsidiaries. You see the problem with this kind of corporate secrecy is that it tends to attract those with something to hide. Here's a trio of examples which illustrate how Ireland helps to facilitate such secrecy.

Firstly there's the case of Apple who are currently (and welcomingly) being investigated by the European Commission to see if they arranged a number of illegal 'sweetheart' tax deals here. Ireland's strict law surrounding *taxpayer confidentiality* has meant that these deals, although widely suspected, have been beyond the scrutiny of both the public and our national parliament, despite being of huge significance to the public purse.

If found guilty Apple could be forced to repay the state for up to ten years' worth of tax, a figure that JP Morgan estimates could be as high as €19 billion. And as anyone who has been paying attention to Irish affairs over the last few years could surely attest – we could really do with the money. Unfortunately our government is preparing to take a case to the European Court of Justice to oppose such a ruling.

Next up is our shadow banking sector which enjoys a similar opacity. For instance Special Purpose Vehicles (SPVs) like mortgage backed securities (MBS), which we all know played a major role in the global financial crisis, aren't even regulated by our Central Bank who claims their job is to regulate firms rather than specific instruments. Prior to 2008 they didn't even bother to keep a record of how many of these institutions were operating here.

In the wake of the crash pressure was put on the Irish state to place greater oversight on the industry. We responded by hiring just two people to supervise an entire sector worth €2,250 billion. Even if those two individuals were Superman and the Flash they still wouldn't have a hope of keeping up. But I guess that just shows how serious our government was on shining a light on the shadow banking industry.

Lastly is the area of offshore trusts, a means of avoiding tax so common that even the dogs on the street could tell you what they're used for. The users of trusts enjoy relative anonymity which makes it difficult to ascertain who owns them, what assets they control and thus how to tax them. That's why the establishment of a public register of all the beneficial owners of companies and trusts is presently being pursued at the European level. Unsurprisingly our government, along with the likes of Luxembourg, are lobbying hard behind the scenes to have the idea shot down.

The Sad Conclusion

Ireland's tax haven strategy isn't just screwing our own citizens; we're screwing the citizens of other countries too. Our legal framework undercuts the tax laws of other nations by encouraging economic activity to relocate here purely in order to dodge tax. Christian Aidestimates that the loss to developing countries from the kind of transfer pricing operations that Ireland facilitates is somewhere in the region of $160bn annually, with developed countries like America losing around $60bn per year.

For that reason the international community is now taking steps to clamp down on tax havens and the transfer pricing they facilitate. The net is beginning to close but unfortunately the Irish public, misled by the misinformation spouted by our media and politicians, are blissfully unaware of this. We need to wake up, because as Richard Murphy the economic adviser to Jeremy Corbyn says, "No one believes companies locate in Ireland because of great employees, infrastructure etc. They just think of tax-dodging as the first, last and only reason."

Cillian Doyle is an economist with the People Before Profit Alliance of Ireland.

The original source of this article is CounterPunch

Comment on Global Research Articles on our Facebook page

Become a Member of Global Research

Articles by: Cillian Doyle