actionaid

Embargoed until
00.01, 11 October 2011

Addicted to tax havens:
The secret life of the FTSE 100

October 2011

The full extent to which FTSE 100 companies use tax havens has, for the first time, been compiled, analysed and published in an accessible and searchable format by ActionAid.[1]

Of the 100 biggest groups listed on the London Stock Exchange, 98 use tax havens. ActionAid's research shows just how embedded the use of tax havens is in the structures of nearly all Britain's biggest companies.

The findings are of particular concern because many FTSE 100 groups are set to benefit from plans currently under consideration by the Treasury to give multinational companies using tax havens an £840 million tax break, by relaxing the very rules designed to prevent tax-haven abuse.[2]

An expanded tax revenue base in developing countries is the only sustainable source of funding for governments to invest in reducing poverty and inequality. It means that they don't need to depend on aid and can achieve self-reliance. Yet, the OECD estimates that developing countries lose almost three times more to tax havens than all the aid they receive each year.[3] Spent effectively, this sum would easily be sufficient to achieve the Millennium Development Goals.

Corporate tax avoidance, one of the main reasons companies use tax havens, has a massive impact on developing and developed countries alike. The lack of transparency makes it difficult for developing country tax authorities to identify and collect taxes owed by global companies operating in their countries.

With this in mind, ActionAid's research raises serious questions about many of Britain's best known businesses. How has the use of tax havens reached such epidemic levels? What is the impact on the UK exchequer, the stability of the international financial system and the ability of developing countries to raise tax revenues to invest in reducing poverty?

ActionAid found that:

- The FTSE 100 largest groups registered on the London Stock Exchange comprise 34,216 subsidiary companies, joint ventures and associates.
- 38% (8,492) of their overseas companies are located in tax havens.
- 98 groups declared tax haven companies, with only two groups, Fresnillo and Hargreaves Landsdown, who did not.
- The banking sector makes heaviest use of tax havens, with a total of 1,649 tax haven companies between the 'big four' banks. They are by far the biggest users of the Cayman Islands, where Barclays alone has 174 companies.
- The biggest tax haven user overall is the advertising company WPP, which has 611 tax haven companies.
- The FTSE 100 companies make much more use of tax havens than their American equivalents.
- There are over 600 FTSE 100 subsidiary companies in Jersey (more than in the whole of China), 400 in the Cayman Islands and 300 in Luxembourg – all tiny tax havens.

We believe that the FTSE 100 have big questions to answer about why they require such a massive number of companies registered in tax havens. While this piece of research in itself does not prove tax avoidance, it highlights the extent of these multinational groups' operations in places that provide tax advantages and help obscure information.

In recent times, politicians around the world and across the political spectrum have talked tough on cracking down on the use of tax havens to avoid taxes. With both developing and developed countries continuing to suffer the effects of the global financial crisis, decisive action to tackle tax havens from both the UK government and G20 leaders is well overdue.

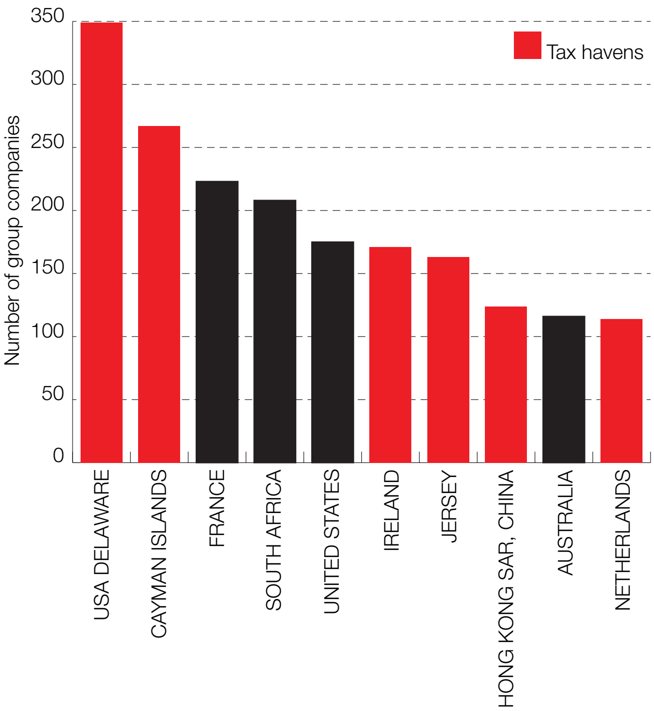
The banks and the financial sector are by far the heaviest users of tax havens

"Much of the shadow banking sector, a major contributor to the economic crisis, was also only possible because of tax haven secrecy."
Vince Cable MP, 2009[4]

The global financial crisis has caused hardship around the world and was originally triggered by the reckless over-reaching of the banks and financial sector. The first meeting of G20 leaders in London in April 2009 identified that the catalyst of the crisis was a toxic mix of complex financial products routed through tax havens.[5]

Our research shows that despite efforts to clean up the banking sector, banks are still doing a brisk business via tax havens. The big four high street banks have 1,649 tax haven subsidiaries between them – more than half of all their 3,067 overseas subsidiaries.

The big 4 high street banks' top overseas locations



HSBC is the biggest financial sector user of tax havens in the FTSE 100, with a grand total of 556. Some other figures are particularly revealing:

- Barclays has 174 companies located in the Cayman Islands alone
- Lloyds group has 97 companies in the Channel Islands
- HSBC has 156 companies in the US state of Delaware, compared to 97 in the rest of the USA

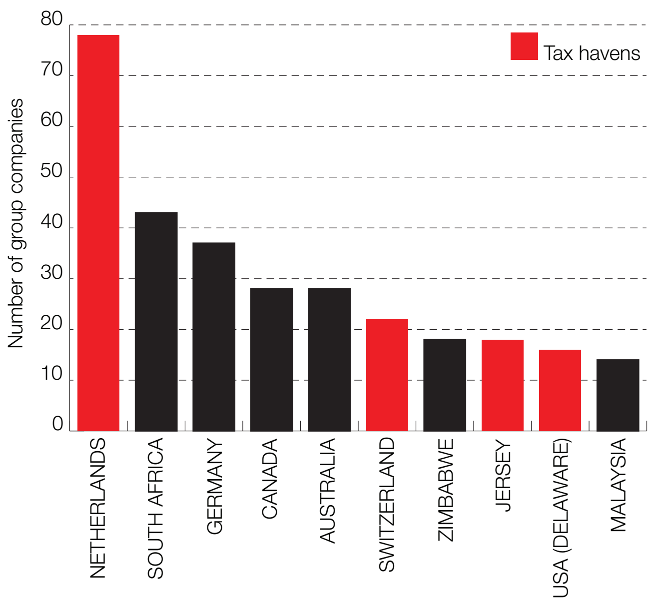
Although the banks are largely profitable again, they are still getting a fantastic deal on their tax bills. This is partly because of their tax avoidance, and partly because they are carrying forward losses made during the financial crisis. In the last budget, the government gave banking and finance companies a tax break worth £80 million per year when it changed the way their foreign branches were taxed.[6]

The offshore invasion

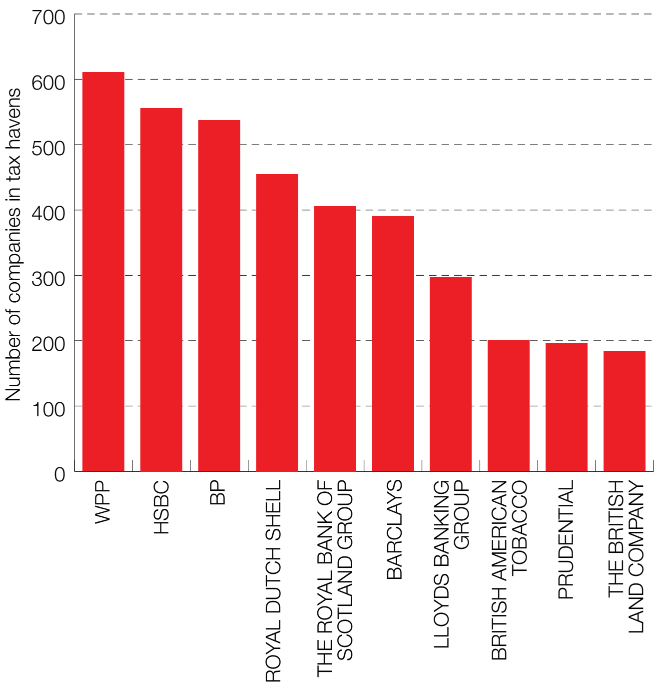
It's not only the banks who are making such big use of tax havens. Our research reveals startling facts about many other companies:

- Oil and mining companies comprise the other big group of tax haven users. BP and Shell have almost 1,000 tax haven companies between them, including more than 100 in the Caribbean (hardly a major source of oil). The extractive industries often operate in developing countries, where natural resources play a central economic role.
- British American Tobacco has a massive 200 companies in tax havens. It is also one of the most prevalent in developing countries.
- There are also some surprises: all our supermarkets use tax haven structures – perhaps expected in the case of global behemoth Tesco, but not so for UK-only retailers such as Morrisons and Sainsbury's.

British American Tobacco's top overseas locations



The biggest tax haven users in the FTSE 100



Many of these companies are ‘mailbox’ companies, which are often used as part of tax avoidance schemes. They exist in name only and are usually administered by offshore law firms. In locations such as Mauritius, Jersey and Delaware we have identified hundreds of subsidiaries owned by dozens of different multinationals that are registered at a handful of individual addresses, belonging to offshore law firms.

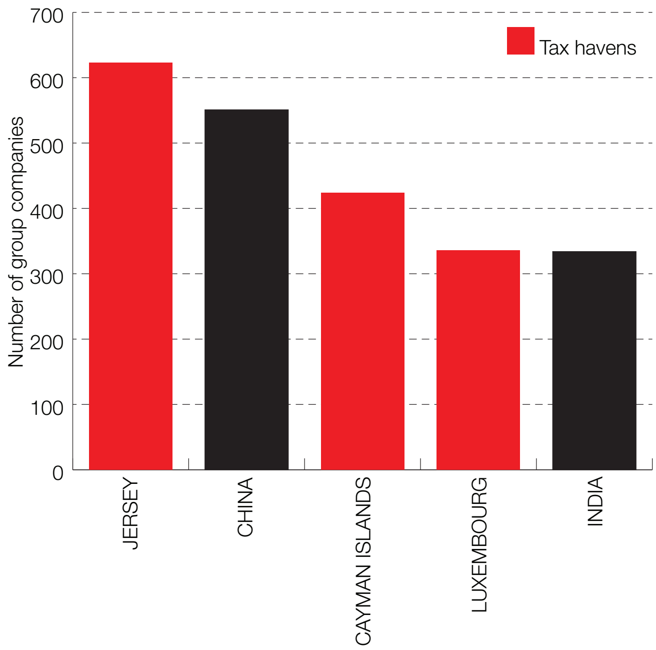
The FTSE 100’s favourite tax havens

While it is true that some of the FTSE 100 subsidiary companies do some business with real economic substance in tax havens, in most cases the huge number of subsidiaries in a given location does not reflect the actual level of business carried out. This suggests another motivation for their choice.

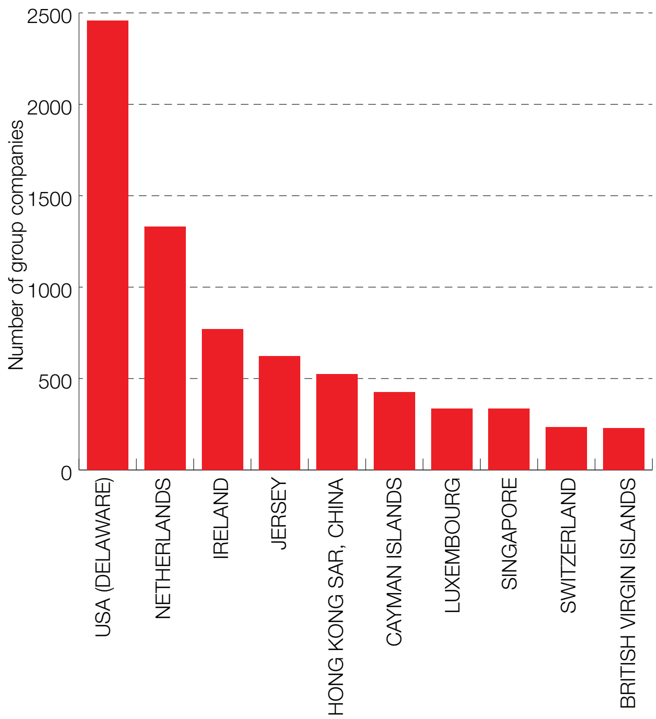
For example, why do more than two-thirds of the companies registered in the US (surface area: nearly 4 million square miles) appear to be located in the tiny state of Delaware (surface area: less than 2,000 square miles)? Why are many of them registered at one address, the Corporation Trust Center, 1209 Orange Street, Wilmington? The state’s favourable tax regime and limited disclosure regime must surely play a part.

Despite bilateral trade between the UK and China worth £39.2 billion,[7] the FTSE 100 have fewer companies registered in the whole of China (551), than on the tiny island of Jersey (623).

FTSE 100 companies in selected countries



The FTSE 100’s favourite tax havens



While the people of Jersey must benefit from a few retail outlets and offices belonging to these groups, that can't explain why around 200 Jersey companies, belonging to at least 26 different FTSE 100 groups, are registered at a single address. This is the office of "one of the leading offshore firms", Mourant Ozannes. Another 57, belonging to 18 groups, are registered at the office of "leading global offshore law firm", Ogier. These law firms also have offices in other offshore destinations such as the British Virgin Islands, Cayman Islands and Dublin.

Jersey: top 10 users

The British Land Company	143
Lloyds Banking Group	72
Barclays	35
HSBC	31
The Royal Bank of Scotland Group	25
The Capita Group	19
Randgold Resources	19
British American Tobacco	18
Schroders	18
Petrofac Inc.	16

Similarly, despite bilateral trade between the UK and India worth £13 billion,[8] the FTSE 100 have fewer companies registered in India (334), than in Luxembourg (336).

The mining company Anglo American has 30 companies registered in Luxembourg – hardly known for its rich mineral deposits. The names of some of these companies – Anglo Venezuela Investments Sarl and Kumba West Africa Sarl – hint at the links between these tax haven vehicles and the developing countries in which the mining activity really takes place.

Luxembourg: top 10 users

WPP	33
Anglo American	30
Prudential	22
Lloyds Banking Group	18
The Royal Bank of Scotland Group	17
The British Land Company	16
HSBC	14
Barclays	13
Reckitt Benckiser Group	12
Vodafone Group	11

The Cayman Islands is home to 174 companies owned by Barclays, ranging from the artfully named Ballon Nouveau Investments Limited to the more prosaic Barclays Structured Principal Investing GP. The same tax haven plays host to British Gas (Malaysia) SA and an Xstrata group company, Falconbridge (Botswana) Investments Limited.

Cayman Islands: top 10 users

Barclays	174
The Royal Bank of Scotland Group	37
HSBC	30
Lloyds Banking Group	26
International Power	20
Standard Chartered	17
Prudential	15
Tesco	14
BP	10
Man Group	10

FTSE vs. Fortune

A comparison with a similar analysis[9] undertaken with the 100 largest American multinationals uncovers many more tax haven companies belonging to the FTSE 100 than to their American equivalents.[10]

	US	UK
Groups with overseas companies	86	99
Groups with over 100 companies in tax havens	4	23
Groups with over 50% of their overseas companies in tax havens	12	31 3 had 100% in tax havens: Morrisons, Land Securities Group & Resolution
Number of tax havens where the top 100 companies have a presence	36/50	43/50

How ActionAid compiled this information

This research is based on information that had never been disclosed, let alone analysed, until this year.[11] UK law compels companies to report all of their subsidiary companies, together with their country of registration. When we looked for this information in early 2011, we discovered that more than half of the FTSE 100 were not complying with this legal obligation. When enquiries to individual companies failed to persuade them to disclose the information, we submitted complaints to Companies House, forcing the disclosures as part of companies' annual returns and sparking Business minister Vince Cable to announce an investigation.[12]

Nine of the FTSE100 are listed in London but registered offshore, and are only obliged to disclose their 'principal' subsidiaries in their annual accounts. We have used these abridged lists, apart from WPP, which had filed a much larger list with the Securities & Exchange Commission in the United States. Having compiled a full set of subsidiary listings, ActionAid was assisted by company information specialists **www.duedil.com** to process the data into a useable format.

Why are tax havens so addictive?

"Tax havens aren't just about tax. They are about escape – escape from criminal laws, escape from creditors, escape from tax, escape from prudent financial regulation – above all, escape from democratic scrutiny and accountability."
Nick Shaxson, 'Treasure Islands: Tax havens and the men who stole the world'[13]

Tax havens commonly attract businesses for two reasons.

1 Low tax rates

_ Low, or even zero tax rates provide an obvious incentive for companies to shift profits out of the jurisdictions in which they do business, and into tax havens. One way companies are able to do this is by establishing subsidiary companies in tax havens that own intangible assets, such as trademarks, or provide 'management services'. By charging a fee to the company's operating companies in higher-tax countries, profits are transferred away from where the economic activity is undertaken, and into tax havens.

Jurisdiction	Effective corporate tax rate
Jersey	0%
Cayman Islands	0%
Mauritius	3%
Ireland	12.5%
Hong Kong	16.5%

_ Company ownership structures often involve intermediate holding companies in tax havens in an effort to take advantage of different countries' rules for capital gains tax, cross-border financial transactions, and the different terms of bilateral tax treaties. A key aim is to find a route to move profits around that minimises taxes that would be levied when they crossed borders, for example on dividends paid from one country to another.

2 Secrecy

_ Many commentators use the term 'secrecy jurisdictions' to emphasise a less well known, but equally damaging characteristic of many tax havens. Tax havens help create a veil of secrecy around the transactions undertaken within them, with numbered Swiss bank accounts an obvious example. Secrecy helps to undermine the regulations of other jurisdictions, while providing an effective shield against investigations into tax avoidance and evasion. The Tax Justice Network recently updated its authoritative ranking of secrecy jurisdictions.[14]

_ In some tax havens, secrecy and minimal reporting requirements are more important than the tax rates on offer. For example, we found that amongst the FTSE 100, more than 2,000 subsidiary companies are registered in the tiny US state of Delaware, famed for the corporate secrecy it offers, compared to less than half this number in the rest of the USA.

How have we defined tax haven?

There is no standard international definition of tax haven jurisdictions.[15] For this research, we have used a list compiled by the Government Accountability Office of the United States Congress,[16] of 'Jurisdictions Listed as Tax Havens or Financial Privacy Jurisdictions'. We supplemented this with the inclusion of the Netherlands and the US state of Delaware, which are important tax havens but were not included in the US Congress list.[17]

Counting the cost of tax havens

"We will also target tax evasion and off-shore tax havens… Everyone must pay their share."
UK Chancellor George Osborne[18]

Tax havens facilitate tax avoidance and evasion, which undermine the revenue bases of both developed and developing countries. Additional revenues are urgently needed both to tackle the deficits incurred during the financial crisis in rich countries, and to invest in the fight against poverty in poor countries. The roaring trade undertaken by tax havens leads to the tax burden being shifted from the companies and rich individuals who use their services, on to ordinary people and businesses who comply with their tax obligations. At the same time, the loss of government revenues means lower investment in public services.

A US Senate report has estimated that the USA could be losing US$100 billion a year to tax havens.[19] Estimates for the UK vary, but the figure could be as high as £18 billion.[20]

Boots' tax haven HQ

In 2008, Nottingham-based Boots was bought by a private equity firm. Despite its 150 year history in the UK, the official headquarters of Boots was switched to the Swiss canton of Zug, to an address above a post office. The former head of corporate finance at the company estimated that this move has lowered the company's UK tax bill by over £100 million a year.[21]

Damaging development

"Aggressive tax avoidance is a serious cancer eating into the fiscal base of many countries."
Pravin Gordham, South African Finance Minister, 2009[22]

The use of tax havens by multinational companies operating in the developing world has resulted in huge revenue losses that governments can ill afford.

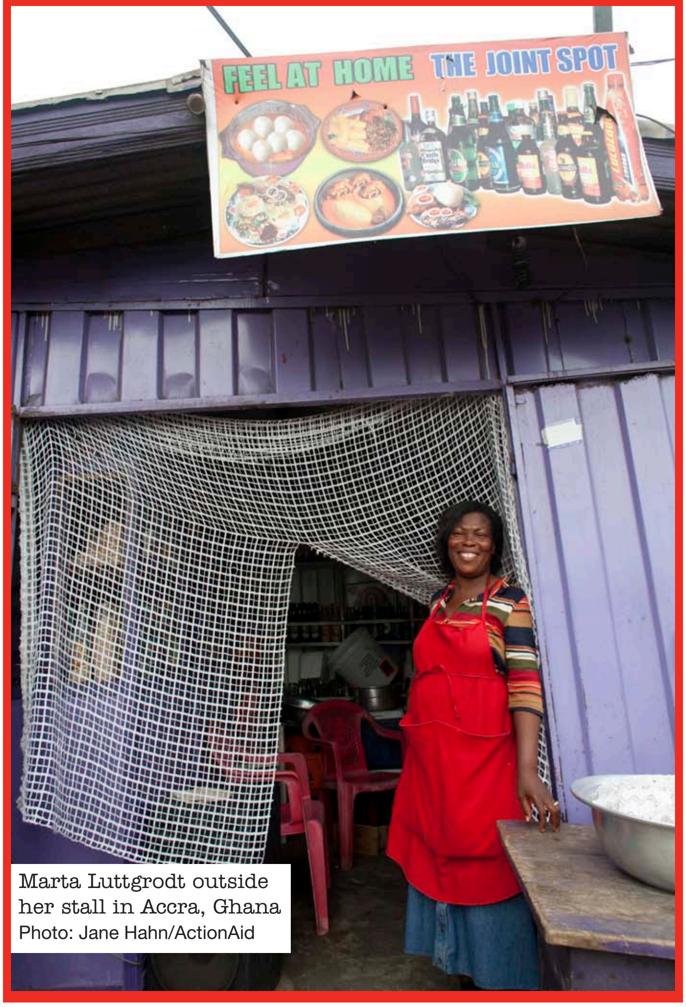
In *Calling Time*,[23] ActionAid exposed how FTSE-listed Grolsch and Peroni owner SABMiller uses tax havens to siphon profits out of developing countries across Africa and India. We estimate that the tax it avoids in Africa is enough to educate an additional 250,000 children there.

SABMiller's tax dodges include moving its procurement to Mauritius, paying millions for 'management services' to a subsidiary in Switzerland, and moving its African beer brands to the Netherlands. ActionAid estimates that SABMiller has been reducing its African tax bill by one fifth.

Many developing countries are improving their tax systems to generate additional revenues. However their efforts are being massively undermined by tax dodging undertaken via tax havens. This stifles progress towards greater self-reliance and keeps many countries dependent upon aid.

Who pays more tax: Marta or SABMiller?

Marta Luttgrodt sells beer from her market stall in Accra, Ghana, in the shadow of the SABMiller brewery. She pays annual tax stamps to the authorities and says, "If we don't pay, they come [to lock our stalls] with a padlock." SABMiller has been shifting so much of its profits out of Ghana and into tax havens that its Ghanaian subsidiary has been declaring a loss, thereby paying no corporation tax. Incredibly, this means Marta has been paying more corporation tax in Ghana than the giant multinational whose UK parent company declares profits in excess of £2 billion a year.



Marta Luttgrodt outside her stall in Accra, Ghana
Photo: Jane Hahn/ActionAid

Tackling the tax havens

"We want to put a stop to tax havens. We want results on this, with a list of tax havens and a series of consequences."
French President Nicolas Sarkozy after the 2009 G20 summit[24]

Companies' responsibility:

Since the financial crisis, scrutiny of tax havens and the tax affairs of multinational companies has increased massively. The G20 has called on 'non-cooperative jurisdictions' to share more tax information, leading to a proliferation of bilateral tax information exchange agreements. The *Financial Times* argues that, "Tax is becoming an important source of reputational risk,"[25] while the Chief Executive of GlaxoSmithKline has criticised companies that "float in and out of societies according to what the tax regime is. I think that's completely wrong."[26]

Prudent businesses and investors should be more transparent about their approach to tax planning, and their use of tax havens. This research raises questions that the 98 FTSE 100 companies who are currently using tax havens should be prepared to answer. Our paper, *Tax Responsibility*[27], published earlier this year, sets out how responsible businesses should address tax planning. It includes a recommendation that companies should rule out particular tax practices involving tax havens.

Enforcing corporate transparency:

While companies can take a lead on ensuring their tax affairs meet ethical standards, it is ultimately the responsibility of governments to put in place the international deals needed to tackle tax havens and close tax loopholes.

Increased transparency is vital to ensure that the scale of this issue is understood. The same transparency would also help stakeholders and investors to assess those risks. The difficulty that ActonAid experienced in obtaining even this limited data highlights the need for the UK government to be much more proactive in this area. Both Chancellor George Osborne and Business minister Vince Cable should:

- Ensure that Companies House enforces Sections 409 & 410 of the Companies Act 2006, so that information on UK-registered multinational companies' subsidiary companies is accessible to the public without the need for a protracted complaints process.
- Work through the EU, OECD and G20 – especially at the Cannes summit in November 2011– to create global accounting standards that require companies to break down their accounts on a country-by-country basis.
- Work through the OECD to support the sharing of best practice on corporate registry systems in all countries, so that citizens of developing countries have access to company accounts in the same way that we do in the UK.

Ending tax haven secrecy:

With financial turmoil continuing to stalk the global economy, the G20 summit in France this year must take the opportunity to finish the job it started in 2009. It should bring an end to tax haven secrecy by:

- Ensuring that all tax havens are forced to share information with tax authorities, not only in rich countries, but also in developing countries that want to receive it, by supporting multilateral tax information exchange initiatives.

Ordinary people and small and medium-sized businesses in both developing and developed countries lose out when companies use tax havens to avoid their taxes. Given the ongoing economic crisis, government action is urgently needed to wean companies off their addiction to tax havens.

Now, more than ever, business as usual is a false economy.

Endnotes

1 Full data is available at www.actionaid.org.uk/taxhavens

2 This is the estimated fiscal impact in 2015-16, given on page 93 of http://bit.ly/qw9wBH

3 Gurria, A, (Secretary General of the OECD). 'The Global Dodgers'. *The Guardian*, 27 November 2008

4 Cable, V. 'The Offensive Secrecy of Tax Havens'. *The Guardian,* 29 September 2009. See http://bit.ly/qUG1gB

5 The April 2009 London Summit communiqué notes that "Major failures in the financial sector and in financial regulation and supervision were fundamental causes of the crisis" and commits to "to take action against non-cooperative jurisdictions, including tax havens". See http://bit.ly/n1aCIn

6 See http://bit.ly/oHD6wr

7 UK Trade & Investment data. See http://bit.ly/nfJ1Am

8 UK Trade & Investment data. See http://bit.ly/qsqT59

9 United States Government Accountability Office. *'International Taxation: Large U.S. Corporations and Federal Contractors with Subsidiaries in Jurisdictions Listed as Tax Havens or Financial Privacy Jurisdictions'*, December 2008. 50 tax havens are listed on page 12, see http://1.usa.gov/nZUjYR

10 The UK analysis includes associates and joint ventures if they were disclosed by the groups, not only subsidiaries. The UK data is also based on full company listings, not simply principal subsidiaries. The UK figures in this table exclude subsidiaries in Delaware and the Netherlands, to match the list used for the GAO report.

11 Our methodology builds on that of previous projects, in particular a Tax Justice Network report, *'Where on Earth Are You'*, available at http://bit.ly/r8FB3l, and a TUC report, available at http://bit.ly/ohARBF. Publish What You Pay Norway published a report, *Piping Profits*, in September 2011 which performed the same analysis for the extractive industries. Figures differ slightly because we have used data disclosed more recently. See http://bit.ly/q8atNQ

12 Holmes, L. 'Cable calls for fines on firms failing to disclose tax havens'. *Mail on Sunday*, 5 March 2011. See http://bit.ly/pYzjR1

13 Shaxson, N. *'Treasure Islands: Tax havens and the men who stole the world',* 2011. See http://treasureislands.org/

14 See http://www.financialsecrecyindex.com/

15 Contrary to popular opinion, the OECD does not maintain a list of tax havens. A list of 'non-cooperative jurisdictions' originally published for the London summit in 2009, is based on a narrow set of criteria, and has since been updated such that only five countries are now listed as non-compliant. An OECD report in 2000 did give a list of 40 tax havens, but this list is no longer updated.

16 United States Government Accountability Office. Op cit.

17 For the Netherlands, see van Dijk, M., et al. *The Netherlands: a tax haven?* Somo, Amsterdam, 2006 at http://bit.ly/aC2zuB. For Delaware, see Mathiason, N. 'Delaware – a black hole in the heart of America'. *The Observer*, 1 November 2009, at http://bit.ly/1WCHML, and also the Financial Secrecy Index profile of Delaware at http://bit.ly/qSXtSo

18 Osborne, G. 6 October 2009. See http://bit.ly/nBTeeK

19 Levin, C. *'Senate, House Members Introduce Stop Tax Haven Abuse Act'.* See http://1.usa.gov/pddzua

20 This is the estimate given in Murphy, R. *'Tax Havens Report'*, 2011. See www.pcs.org.uk/taxhavens. HMRC produces an annual estimate of the 'tax gap', which includes tax avoidance and evasion, available at http://bit.ly/qKsRHW

21 Lawrence, F. *'How Boots' Swiss Move Cost UK £100m a Year'.* The Guardian, 11 December 2010. See http://bit.ly/psjkLj

22 Houlder, V. 'Tax Officials on Trail of Hidden Wealth'. The *Financial Times,* 29 May 2009. See http://on.ft.com/q5LGNI

23 ActionAid. *'Calling Time: Why SABMiller should stop dodging taxes in Africa'.* 2010. See http://bit.ly/o3PWGJ

24 Cited in *'European Nations Seek Crackdown on Tax Havens'.* 22 February 2009. See http://bloom.bg/o8c5ci

25 Houlder, V. 'Tax claims hit reputations as well as coffers', *Financial Times*, 8 November 2010. See http://on.ft.com/oriTzz

26 Cited in Clark, A. *Andrew Witty of GSK:* 'Big firms have allowed themselves to be seen as detached from society' *The Observer,* 20 March 2011. See http://bit.ly/nMEL1K

27 ActionAid. *'Tax Responsibility: The business case for making tax a corporate responsibility issue'*, 2011. See http://bit.ly/qVbbQH

ActionAid UK
33-39 Bowling Green Lane
London EC1R 0BJ
United Kingdom

+44 (0)20 3122 0561

ActionAid is a registered charity no. 274467