Boosting Domestic Revenue in Africa–Addressing Tax Avoidance by U.S. Multinational Enterprises in Africa

Tax avoidance hinders economic and social growth around the globe, but these impacts are particularly appalling in Africa

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WASHINGTON, DC, UNITED STATES, December 1, 2022 /EINPresswire.com/ -- "Profit shifting" in African mining results in tax revenue losses of $470 million to $700 million every year (recent IMF report). "Profit shifting" refers to a common tax avoidance practice by multinational companies. They reduce their tax burden by moving the location of their profits from high-tax countries to low-tax countries. In any other context, practiced by any other demographic, it would be called theft.

Tax avoidance hinders economic and social growth around the globe, but these impacts are particularly appalling in Africa. Multinational corporations and foreign governments from industrialized nations have a long history of low tax payments in Africa because of unequal economic ties, trade arrangements, and colonial-era perks. Tax avoidance effects are more pronounced on the African continent because of:

1. Unequal bargaining power to reform their tax regimes;
2. Authoritarian incumbents who profit from brokering special secret deals with businesses; and
3. Weaker tax administration capacities to investigate and enforce tax compliance.

Consequently, Africa loses more money due to outmoded and uneven tax treaties and trade rules than it receives in aid. Another sobering fact worth repeating. Africa loses more than it receives in aid.

As President Biden hosts leaders from across the African continent in Washington, DC, on December 13-15, 2022, for the U.S.-Africa Leaders Summit, domestic revenue creation and addressing issues of profit shifting and tax avoidance by U.S. multinational corporations should be at the forefront. Inevitably, a strong correlation exists between the usage of tax havens and the ownership of subsidiaries in developing nations by multinational corporations from industrialized countries such as the United States, which are frequently characterized by significant market imperfections and weak institutions.

Politicians rely on the claim that tax exemptions attract multinational investment. There is no evidence to support this claim. They are looking, in fact, for specific conditions that set a conducive environment for business. These include a viable market (supply and demand), the existence of an inexpensive and skilled workforce, the existence of road and electrical infrastructure, political and security stability, as well as good governance or anti-corruption. If the above needs and conditions of multinationals are met, they will come even uninvited. Tax exemptions, which shield corporations from paying their fair share, are not necessary and rob communities of important public services.

Tax dodging has played a significant role in generating severe economic and social damage in developing countries. This, in turn, has led to a fall in life expectancy and a deterioration of the quality of life. In developing nations, particularly in sub-Saharan Africa, the magnitude of unmet fundamental requirements is vast. Reports show that three billion people in the developing world live on less than two dollars per day.

Taxation revenues are crucial to improving this grave situation in developing economies. Taxes allow governments to redistribute wealth to reduce poverty; they also provide education, healthcare, social security, pensions, efficient public transportation, clean water, and other services that developed economies take for granted.

The problem cuts across both established and developing countries. Tax revenues are being eroded by the practice of some of the wealthiest taxpayers, particularly numerous multinational corporations such as Amazon, to opt out of the corporate tax system. They accomplish this through creative (and legal) tax haven transactions and massive government tax incentives.

- Existing data indicates that Amazon avoided approximately $5.2 billion in federal corporate income taxes in 2021; however, the company reported record profits of more than $35 billion (75 percent higher than its record haul in 2020) and paid only 6% of those profits in federal corporate income taxes.

- Only three of the fifteen resource-intensive economies in sub-Saharan Africa had lower corporate income tax rates for mining in their tax code, while six had higher tax rates for the sector. Nonetheless, it is common practice to negotiate lower corporate income tax rates in contracts with specific mining enterprises. As an incentive in at least one resource contract with investors, nine governments have decreased ad hoc corporate income tax rates. This has resulted in a lower effective corporate tax rate than statutory rates in the mining industry.

 Existing international efforts to combat corporate tax evasions, such as the Base Erosion and Profit Shifting (BEPS) process led by the Organization for Economic Co-operation and Development (OECD), have continued to leave multinational corporations with vast tax loopholes to exploit in the developing world. As a result of being excluded from BEPS reform discussions, many African states are not profiting from them.

On December 14, 2022, the Administration will host a Business Forum focusing on business, trade, and new “deals’ between U.S. and African businesses and investors. As the Administration lifts the business sector, political leaders – U.S. and African – must include profit shifting and tax evasion on the forum agenda. These issues will not be solved during a three-day event but must be on the agenda for post-Summit action.

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