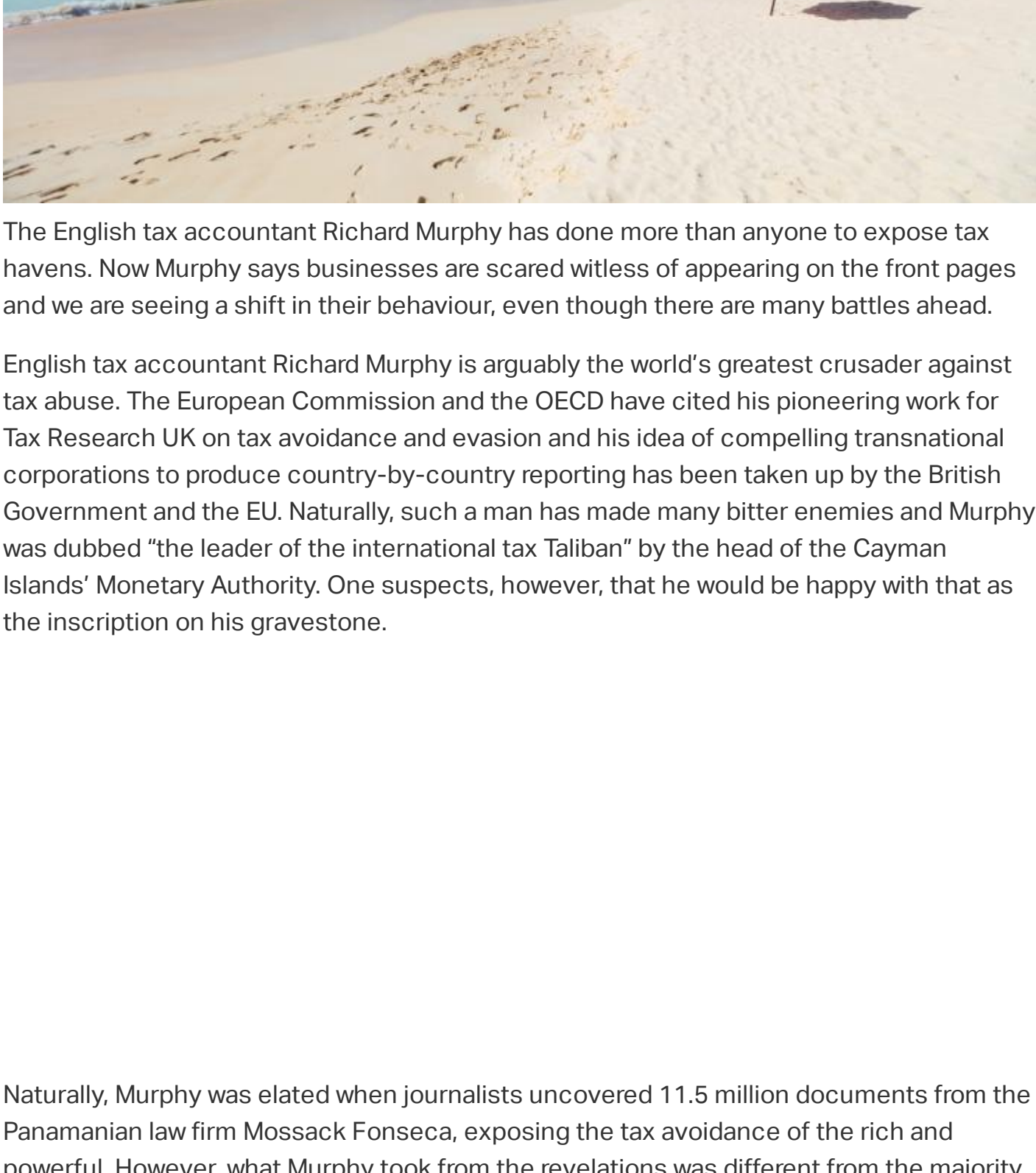


# How the Panama Papers is the Beginning of the End for Tax Abusers

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The English tax accountant Richard Murphy has done more than anyone to expose tax havens. Now Murphy says businesses are scared witless of appearing on the front pages and we are seeing a shift in their behaviour, even though there are many battles ahead.

English tax accountant Richard Murphy is arguably the world's greatest crusader against tax abuse. The European Commission and the OECD have cited his pioneering work for Tax Research UK on tax avoidance and evasion and his idea of compelling transnational corporations to produce country-by-country reporting has been taken up by the British Government and the EU. Naturally, such a man has made many bitter enemies and Murphy was dubbed "the leader of the international tax Taliban" by the head of the Cayman Islands' Monetary Authority. One suspects, however, that he would be happy with that as the inscription on his gravestone.

Naturally, Murphy was elated when journalists uncovered 11.5 million documents from the Panamanian law firm Mossack Fonseca, exposing the tax avoidance of the rich and powerful. However, what Murphy took from the revelations was different from the majority of observers. He noted that since 2008 Mossack Fonseca had offloaded twice as many incorporated companies as it has signed up. "This shows the offshore market is declining, which means people like me are winning. The businesses are scared witless of being on the front page of the Financial Times," he said.

Shaming companies into behavioural change has been Murphy's strategy since he co-founded Tax Research UK in 2003. The first organisation in the world to focus on tax evasion and avoidance, it aimed to get as many tax-dodging companies as possible in the headlines. "We are increasing the chance tax payers will be voluntarily compliant. That's what we call the 'behavioural' model of tax compliance," he said. "Country-by-country reporting is about putting the information on public record which will force the company to change its behaviour as it doesn't want to be seen relocating profits in tax havens."

Murphy says the humiliating headlines are beginning to take effect. Amazon is now billing from the UK rather than Luxembourg, Starbucks has relocated its European HQ to the UK from the Netherlands and Google has made a tax settlement with the British Government. "None of these measures are perfect, but I am not looking for utopia. They are huge steps in the right direction," he said.

The fear of reputational risk, he feels, will eventually spread to the Big Four accountancy firms, Deloitte, PricewaterhouseCoopers (PwC), Ernst & Young and KPMG. The Big Four are the only constant presence in all the world's tax havens and if they left, most tax abuse would end. "The media attention is getting to them as well. They rely on bright students, but the next generation is questioning whether it wants to spend a career helping corporations to hide tax," he said. "A partner at one of the Big Four recently said to me in Luxembourg that they will not be present in tax havens in 10 years time. I asked why and he said 'We haven't got a hope if we stay there. Reputation-wise, we have to get out of those places'."

The public's anger about tax evasion has grown since Murphy lit the bonfire in 2003. After working as an accountant for KPMG and being forced to do things he found unethical, his campaigns have always been infused with moral fervour. He produced research for Tax Research UK showing there was US\$11.5 trillion held in tax havens, equating to US\$255 billion in unpaid tax. More research revealed that EU states lose €1 trillion a year to 'treasure islands', the equivalent of 17.6% of EU government spending. When the OECD and European Commission adopted his figures, he was no longer an obscure accountant, but one of the biggest influences on global tax policy.

Politicians and public figures took up the fight. In 2009, British Prime Minister Gordon Brown announced the first, faltering steps towards greater transparency. In the US, lawyer Jack Blum and economist Jim Henry started their work with the Tax Justice Network. Google and Amazon were publicly humiliated during a Public Accounts Committee investigation into tax avoidance by large corporations. Murphy was behind the scenes briefing the chair of the committee, Margaret Hodge. The Panama papers, whilst revealing nothing new in terms of strategy, are part of the same process of media exposure.

"Companies are beginning to realise the massive reputational risk and politicians have been forced to comply. Prime Minister David Cameron put my idea of country-by country reporting on the agenda at the G8 summit in 2013. I was amazed at the progress. When I wrote my paper, I thought only about two people would ever read it."

After the Panama Papers, the European Commission felt the need to react to the change in public mood. The Commission was already working on measures to force international companies to disclose their earnings and tax bills in the EU, but following the Panama leaks, EC officials toughened up the plans to include tax havens as well. If the move goes ahead, all large companies trading in Europe, including subsidiaries of non-European businesses, will have to publish how much tax they pay outside the EU, including detailed country-by-country information on their finances in tax havens.

Despite the changes in policy, there is clearly a long way to go in tackling the tax abuse of global corporations. One stumbling block in the EU is the absence of an official list of tax havens, although Commission officials have promised one will within months. A further problem is the deep ambivalence of global leaders on the issue. This is exemplified by the contradictory positions of David Cameron.

The British PM claims to be doing more than any previous British leader to tackle tax evasion, but he rushed to the defence of his father lan, who ran an offshore fund, Blairmore Holdings, which was based in the Bahamas and concealed millions of pounds in tax for decades. Cameron implausibly said his father had done nothing unethical and the trust had not been set up to hide tax, but the stigma caused his popularity ratings to plummet.

"Cameron has revealed himself to be corruption's friend not its enemy," said Murphy. "He has refused to make fresh demands of Britain's overseas territories, such as Guernsey, Jersey, the Isle of Man, Bermuda and Gibraltar. On the one hand he says let them have their independence and, on the other hand, he says we need openness and transparency. This paradox is un-resolvable, which is why Cameron is unsuited to the task of heading the international conference on anti-corruption on May 12 in London. He will be the first problem the conference has to address."

Murphy says the UK's pro-tax haven policies are directly related to the pressure imposed on the Government by the City of London. "The City authorities are so insecure about their ability to compete on the world stage they demand the existence of a network of tax havens that will transmit untaxed money to London and return it in the same form," he said. "This unfair competitive advantage over other financial markets means we have a massively overinflated financial services sector in the UK."

Murphy calls this the UK's 'Finance Curse', which is similar to the 'Resource Curse' faced by many developing countries with substantial raw materials. The overbearing importance of one economic sector crushes other activity. "The UK's over-inflated currency means the country's manufacturers cannot compete on the world stage because their products are overpriced," he said.

Although Murphy's focus has been mainly on Europe, he acknowledges that the US remains an even bigger issue for tax campaigners. Even if loopholes are closed in British dependencies, there will still be the option of transferring assets to US tax havens. This is not to say that US corporations do not use overseas tax havens. In fact, they do use them on a colossal scale. A recent report from Oxfam, entitled Broken at the Top, showed how US corporate giants hide US\$1.4 trillion in tax havens despite receiving trillions of dollars in taxpayer support. The sum is held in an "opaque and secretive network" of 1,608 offshore subsidiaries. Apple topped Oxfam's league table, with US\$181 billion held in offshore in three subsidiaries. General Electric was next with US\$119 billion stored in 118 tax haven subsidiaries and Microsoft was third with US\$108 billion. Also in the top ten were Pfizer, Google's parent company Alphabet and Exxon Mobil.

Ironically, Transparency International says it is so easy to create a vehicle to hide your money and identity in the US that there's really no need to go to Panama. The US was ranked third in a list of "the most attractive tax havens to hide assets" produced by the Global Tax Network. Only Switzerland and Hong Kong came higher. Almost every US state allows individuals to incorporate an LLC (a limited liability company), whose beneficiary is secret. Transparency International rates Delaware as the most 'corrupt'. More than 1,000,000 business entities have made Delaware their legal home, including more than 50% of all publicly traded companies and 64% of the Fortune 500. Instead of hiding cash in Panama, or the Cayman Islands, companies and individuals could still turn to the US, Transparency International says.

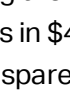
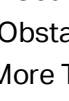
"I see the US as the ultimate tax haven and the world's number one problem, with the UK in second place," said Murphy. "If you want to form a secret shell company, just go to Delaware. You don't have to say who owns the company and you don't have to put your accounts on record. It's a perfect tax haven. The US refuses to participate in automatic exchange processes. Therefore, it demands information from other parts of the world, but supplies nothing in exchange. It is the most transgressing country in the world. The libertarian right in the US says there is an absolute right to privacy, including corporations. So, although they demand that every other country discloses, they will not. It's absurd."

Although he aware of the huge challenges, Murphy remains optimistic. One reason is that in the era of WikiLeaks, Edward Snowden and the Panama Papers, there are bound to be more revelations, increasing the danger of reputational risk. Ronen Palan, a Professor of International Politics at City University London and co-author with Murphy of a book about tax havens, says there is a new player on the scene in the digital age.

"It's not simply about the Government and businesses any more. The new players are the hackers, who will leak information and scandals. This is a worrying for the tax abusers, as they will never know when their names could be leaked. There are likely to be more leaks that have a huge deterrent effect. We already knew about it, but it's quite another thing to see papers and proof. That's why there's such uproar."

Murphy expects, too, that the pressures on companies, governments and the Big Four will ratchet up. "It's a vital issue for the world economy. Tax havens have been created by the neoliberal market to allow big corporations to float freely above the regulations as if they are stateless entities. However, increasingly, civil society and politicians won't allow it. We should also remember that the same mechanisms are being used for pernicious activities, including money laundering, drug trafficking and people trafficking. Like tax avoidance, these activities depend on secrecy and the abuse of regulations. There's no difference in the processes."

See also: [What Have We Learned from the Panama Papers So Far?](#)



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