Unpaid taxes costing SA billions, say AU report

By Tamar Kahn

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CAPE TOWN: SA is losing billions of rand in unpaid taxes as companies, criminals and wealthy individuals siphon money out of the country, says a report adopted by the African Union (AU) on Saturday, 31 January.

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The report was produced by the AU high level panel on illicit financial flows, chaired by former president Thabo Mbeki, and estimates Africa loses $50bn a year in this way.

SA is one of the nations most deeply affected by illicit outflows of capital, ranking third after Nigeria and Egypt in cumulative losses from 1970 to 2008. These ran to $81.8bn, or 11.4% of Africa's total illicit financial flows, the report said.

Illicit outflows rob African nations of money that could otherwise have been used to pay for health, education and infrastructure and reduce dependence on foreign aid, said Tax Justice Network Africa policy and advocacy manager Savior Mwambwa.

"Illicit financial flows are more than twice what Africa is receiving in aid. Clearly we are talking about a very obvious source of financing for development."

Illicit financial flows involve the transfer of money earned through corruption, bribes, tax evasion, criminal activities and transactions involving contraband goods. They were growing at an average rate of 9.4% a year, and accounted for 5.5% of sub-Saharan Africa's gross domestic product, Mr Mwamba said. There was a clear pattern, with countries with large extractive industries contributing the lion's share.

The Mbeki report said commercial activities were the largest contributor to illicit financial flows, and described a range of techniques companies employ to move capital off the continent. These include using transfer pricing to shift profits to subsidiaries in low-tax jurisdictions, and trade "mispricing" in which companies deliberately misstate the price or quantity of goods traded.

Among its recommendations is a call to set up a system that will automatically exchange tax information between African countries.

"The practice by which multinational corporations shift profits to subsidiaries in low-tax or secrecy jurisdictions is one of the biggest single sources of illicit financial outflows. In most cases those subsidiaries exist on paper only, while the bulk of the activities of the company happens in another country," said the report.

To tackle the problems posed by anonymous shell companies, partnerships and trusts, the report recommends that African countries require information on owners to be disclosed when these entities are formed and that this information be made publicly available. It recommends that African countries ensure all companies are registered for tax purposes, and that the databases of countries' registration offices and tax authorities be linked.

It also urges African nations to set up transfer pricing units, to which multinationals would be required to submit disaggregated financial reporting on a country-by-country or subsidiary-by-subsidiary basis.

Oxfam "are hoping there can be a United Nations-led global initiative to close the loopholes", said executive director Siphokazi Mthati.

Source: Business Day