PRESS RELEASE

20 December 2018

New research on profit shifting and corporate tax avoidance.

The largest 10% of multinationals are associated with as much as 98% of an estimated 7 billion ZAR tax loss.

New research on tax avoidance

A new SA-TIED research study estimates that South Africa loses about 7 billion ZAR a year due to profit shifting by multinational corporations; amounting to about 4% of total current corporate income tax receipts. While this assessment is comparable to reviews for other non-tax haven countries, the new study is unique in being the first to estimate profit shifting by firm size. The key finding suggests that 98% of the tax loss is associated with profit-shifting by the biggest 10% of multinational corporations.

The study relies on standard methods for estimating profit-shifting globally, and in a novel way accounts for the increased propensity of larger firms to engage in profit-shifting, which is well established in the literature. By failing to account for differences in profit-shifting by firm size, the authors believe that the current recognized empirical approach to estimating profit-shifting underestimates its scale by 40% to 80% globally.

Profit shifting takes place when multinational firms move profits from a higher-tax-rate country to company affiliates (a parent company, sister company or subsidiary) in a lower-tax-rate country to reduce their overall tax bill. The research concludes that half of all profits shifted out of South Africa are moved to Switzerland. The corporate income tax rate in Switzerland is 8.5%, while that of South Africa is 28%.

Some forms of profit-shifting are legitimate, but the practice is increasingly recognized as a challenge for tax authorities and governments worldwide. The G20 finance ministers (including South Africa) called in 2013 on the OECD to find a solution to these challenges. As a result, the OECD initiated the Base Erosion and Profit Shifting (BEPS) project, which outlines global best practices for countering profit shifting. Profit shifting is increasingly recognized as a key challenge for developing countries because they rely relatively more on corporate tax revenues. In South Africa, 19% of all tax receipts come from corporate income tax.

The new working paper from UNU-WIDER, as a part of the SA-TIED programme, is the first study on profit shifting in South Africa to follow the OECD recommendation of using tax administrative data to enhance understanding of the scale of profit shifting. This research has been made possible by the SARS and National Treasury commitment to global best practice in data access and management for research purposes. **ENDS**

UNITED NATIONS UNIVERSITY UNU-WIDER
national treasury
Department: National Treasury
REPUBLIC OF SOUTH AFRICA
INTERNATIONAL FOOD POLICY RESEARCH INSTITUTE
IFPRI
planning, monitoring & evaluation
Department: Planning, Monitoring and Evaluation
REPUBLIC OF SOUTH AFRICA
the dti
Department: Trade and Industry
REPUBLIC OF SOUTH AFRICA
SARS
TIPS

Contact information

For press inquiries within South Africa, please contact:
Nikiwe Bikitsha
Phone - +27 83 634 6702
Email - Nikiwe@amargimedia.com

For all other press inquiries, please contact:
Timothy Shipp
UNU-WIDER Communications
shipp@wider.unu.edu

Notes to editors:

Comments and statements are available from SA-TIED researcher Ludvig Wier.

The paper is titled '*Big and unprofitable: How 10% of multinational firms do 98% of profit-shifting,'* by Ludvig Wier and Hayley Reynolds. It can be found here.

The SA-TIED programme

This research is a part of the Southern Africa – Towards Inclusive Economic Development (SA-TIED) programme. The programme's official partners are the United Nations University World Institute for Economic Development (UNU-WIDER), the National Treasury (NT), the South African Revenue Service (SARS), the Department of Planning, Monitoring, and Evaluation (DPME), the Department of Trade and Industry (dti), Trade and Industrial Policy Strategies (TIPS), and the International Food Policy Research Institute (IFPRI).

SA-TIED is a research programme between the government of South Africa and local and international research institutes. It is dedicated to creating evidence-based, policy relevant research. The data used in the study is from a completely anonymised database of SARS tax data located at the National Treasury of the Republic of South Africa in Pretoria, South Africa. The anonymisation of the data is a part of global best practice in data security and privacy.

http://sa-tied.wider.unu.edu/