

Senate Economics Legislation Committee
ANSWERS TO QUESTIONS ON NOTICE
Treasury Portfolio
Additional Estimates
2014 - 2015

Department/Agency: Treasury

Question: AET 14

Topic: Banks Assessment of Global Revenue Leakage

Reference: Hansard page no. 36 - 25 February 2015

Senator: Heffernan, Bill

Question:

Senator HEFFERNAN: Can I ask one question on notice.

CHAIR: This is the last question before we break; one question on notice.

Senator HEFFERNAN: Would you guys kindly provide to this committee on notice a brief on the World Bank's assessment of global revenue leakage, which includes their figures of \$3 trillion, and, if you can, the graph of the increase in the derivative swap market in that process and transfer pricing.

Mr Fraser: We can certainly provide a commentary on it.

Senator HEFFERNAN: No, a brief.

Mr Fraser: Hang on. I was trying to say earlier that it is an issue which is alive and well. I have met with the commissioner. The commissioner is looking into the whole issue to make sure that we have got our facts right before we start to advise—if there is a need for advice—on policy.

Senator HEFFERNAN: If there is a need?

Mr Fraser: Senator, you need to know the extent of the problem before you start putting policy together. That is a pretty basic principle.

Senator HEFFERNAN: You might know that for three years I have been doing the research. I just want to know what you have done. So you will take it on notice?

Senator Cormann: I will take it on notice, yes.

CHAIR: The minister will take it on notice. We will suspend. I will just let you know that we are done with macroeconomics and we will return with Fiscal Group. Thank you, Secretary, for staying on for that extra half an hour. We much appreciate it.

Answer:

Tax avoidance by multinationals is a significant issue for Australia and the world.

In 2013, Treasury released a Scoping Paper assessing the risks to Australia's corporate tax system. The paper concluded that the extent to which base erosion and profit shifting (BEPS) is currently affecting Australia's corporate tax base is unclear as it is difficult to isolate the impact of tax avoidance strategies from other factors.

It is clear that the risks to the corporate tax base are increasing. These risks arise from entrenched structural features of the corporate tax system, including tax treaties; globalisation, and tax competition; and changes in the global economy, including the rise of the digital economy and the global reach of multinationals.

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The paper also found that as Australia has a greater reliance on corporate tax it is more vulnerable to the effects of corporate tax base erosion than other OECD countries.

Measuring BEPS is a difficult issue worldwide. As part of the G20/OECD BEPS Project, the OECD is developing methodologies to collect and analyse data on BEPS (Action Item 11). Treasury is closely monitoring the OECD work on this action item, which is scheduled to be completed later this year.

The figures quoted by Senator Heffernan appear to refer to the 2011 Tax Justice Network (TJN) Report which estimated that approximately \$3.1 trillion US dollars per year is lost in global tax evasion.¹

The TJN used estimates from a World Bank policy research working paper about the size of the shadow economy in each country and then estimated the uncollected tax on this activity. However, the World Bank paper is explicit about the fact its estimate of the size of shadow economies does not include tax evasion.² Tax evasion (that is, the illegal non-payment or underpayment of tax) is not the same concept as tax avoidance and should not be conflated.

The TJN report assumes that 14 per cent of the Australian economy is engaged in tax evasion. Research conducted by the Australian Bureau of Statistics in 2013 suggests this result is implausible.³

¹The Tax Justice Network 2011, *The Cost of Tax Abuse: A briefing paper on the cost of tax evasion worldwide*, Available from: http://www.tackletaxhavens.com/Cost_of_Tax_Abuse_TJN%20Research_23rd_Nov_2011.pdf

²Schneider F, Buehn A, Montenegro C 2010, *Shadow Economies All over the World: New estimates for 162 Countries from 1999 to 2007*, The World Bank, Washington D.C., Available from: <https://openknowledge.worldbank.org/bitstream/handle/10986/3928/WPS5356.pdf?sequence=1>

³ Australian Bureau of Statistics, 2013, *Information Paper: The Non-Observed Economy and Australia's GDP, 2012*, 5204.0.55.008, Available from: <http://www.abs.gov.au/AUSSTATS/abs@.nsf/ProductsbyCatalogue/C337805DECD9BF29CA257BE3001DCA2D?OpenDocument>