



The socio-economic impact of Base Erosion & Profit Shifting (BEPS)





Overview

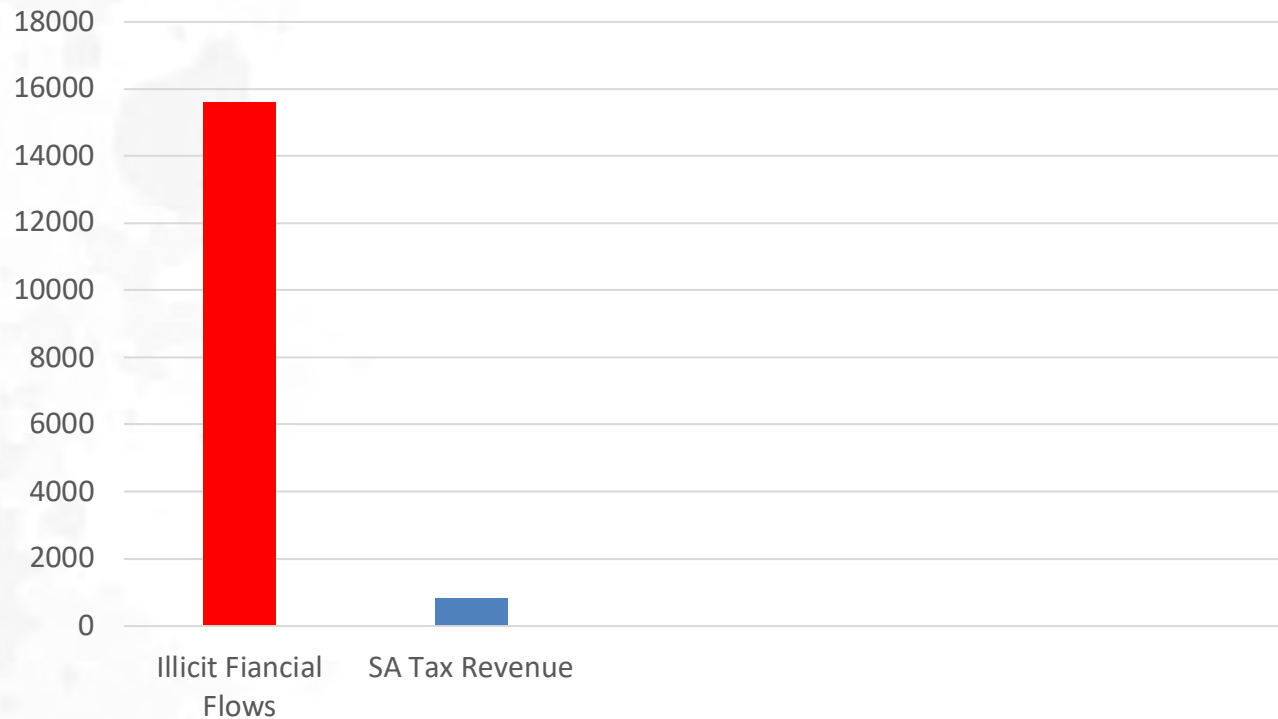
1. What is Profit shifting
2. The extent of Profit shifting
3. How it is done?
4. Can profit shifting be stopped?
5. What must be done?
6. Concluding remarks

What is Profit Shifting?

- Around the world power is shifting from countries to big corporations - also known as transnational corporations (TNC's). TNC's are often legally based on one country, have their corporate management in a second, their financial assets in a third and their administrative staff spread over several more. One of the ways that TNC's are concentrating their power is through profit shifting.
- Profit shifting refers to the strategies implemented by big corporations to move money/capital from one country to another, where they will have to pay very little or no corporate taxes.
- They do this using various mechanisms including transfer pricing, intercompany loans and other 'charges and levies'.

Extent of Profit Shifting?

Graph 1: Global IFFs compared to SA Tax revenue (2013) in Billions of Rands



Extent of Profit Shifting

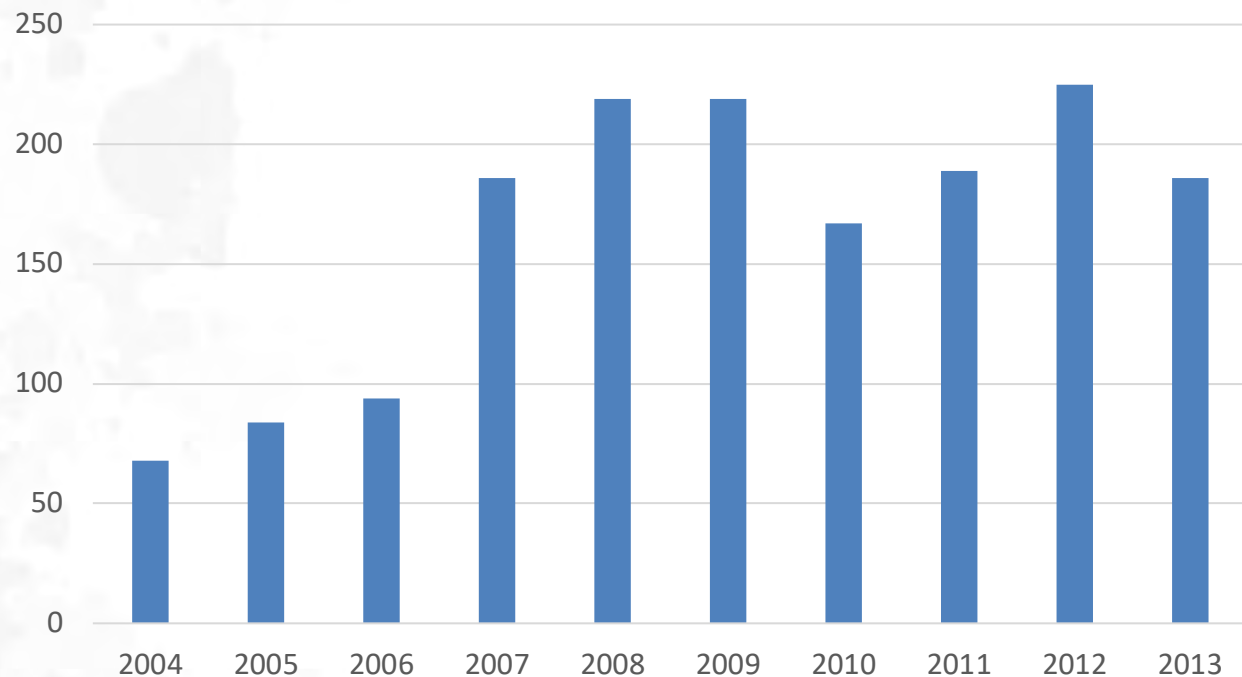
- Intercompany transactions is between 60-70% of global sales!
- Mostly these transactions have no economic substance.
- The problem is not new – phenomena of capital flight has been coming along since before the ending of apartheid.

Extent of Profit Shifting from SA

- Profit shifting from SA is substantial. GFI (2013 ranked SA 11/15 developing countries with the highest volume of capital outflows.
- Since then SA has made the largest jump from 10th – 7th spot.

Extent of Profit Shifting from SA

Graph 2: IFF from SA (2004-2013) in Billions of Rand

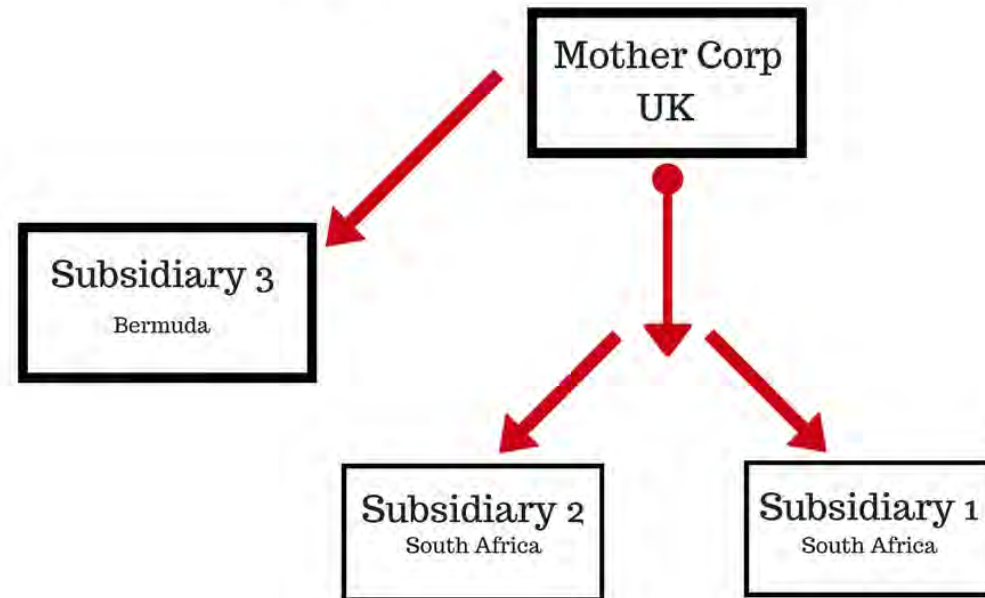


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Strengthening Alliances for a Wage-Led, Low-Carbon, Sustainable and Equitable Development Path for Southern Africa

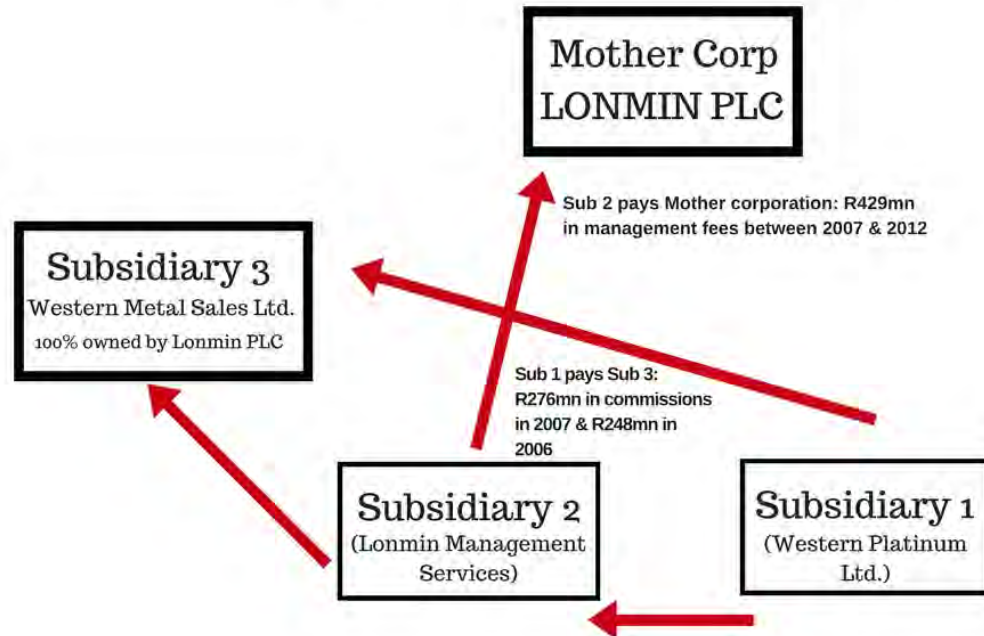
How it is done?

**DIAGRAM 1: LONMIN PROFIT SHIFTING
THROUGH TRANSFER PRICING**



How it is done?

DIAGRAM 2: LONMIN PROFIT SHIFTING THROUGH TRANSFER PRICING



This is an extremely simplified organogram. In reality it looks more like this....

DIAGRAM 3: LONMIM ORGANORAM

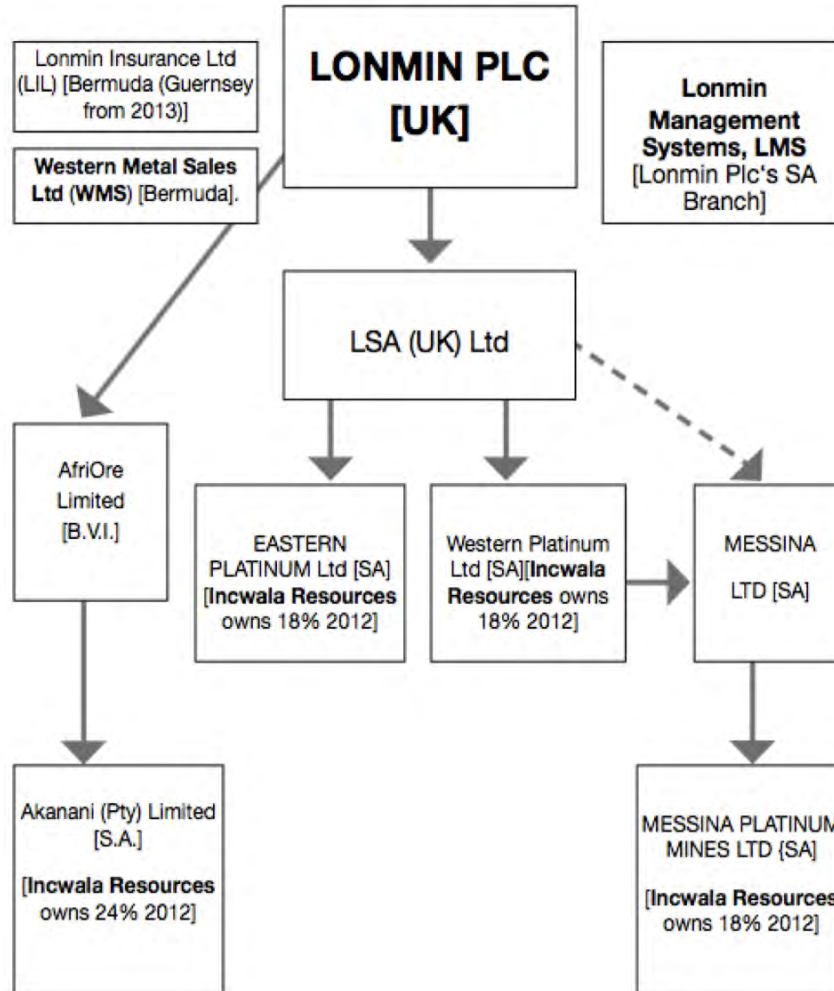


Table 1: The management fees paid by LMS (SA) to Lonmin Plc (UK)

| LMS | True INCOME | Fees to PLC | Fees/Income |
|--------|---------------|---------------|-------------|
| FY2007 | R 336 230 637 | R 88 046 150 | 26,2% |
| FY2008 | R 490 350 273 | R 98 117 583 | 20,0% |
| FY2009 | R 360 015 839 | R 134 578 958 | 37,4% |
| FY2010 | R 453 108 256 | R 108 620 197 | 24,0% |
| FY2011 | R 546 789 599 | R - | 0,0% |
| FY2012 | R 399 731 721 | R - | 0,0% |

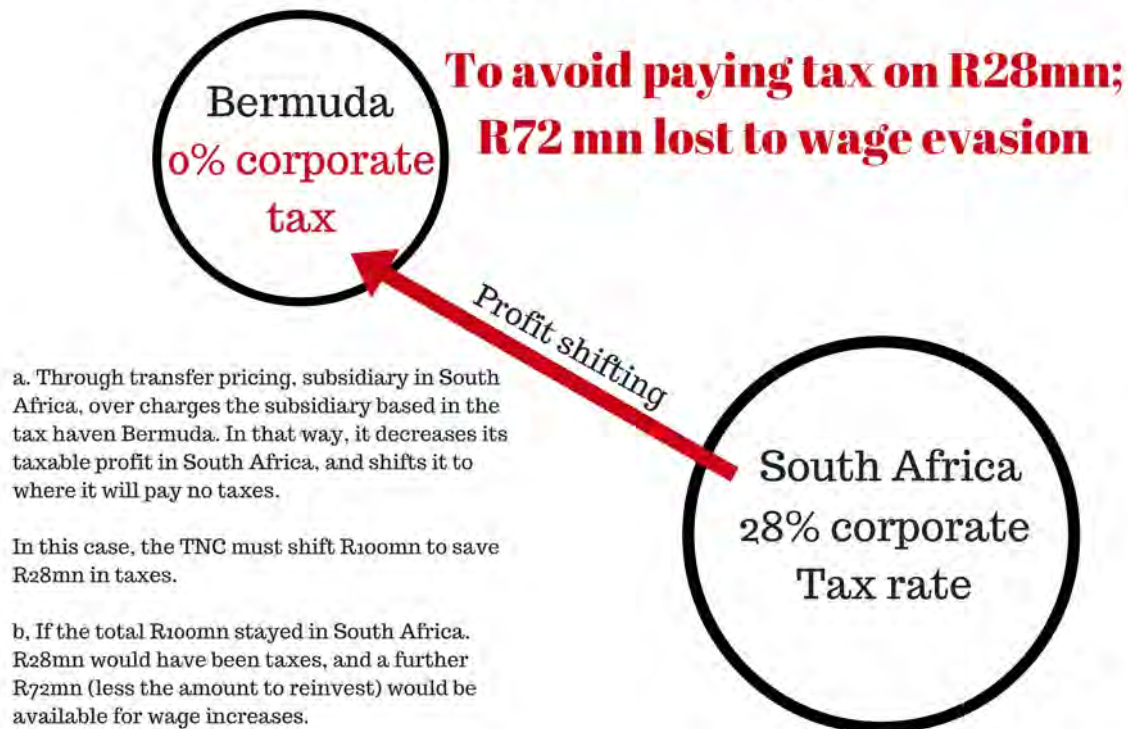


How these mechanisms work?

- Transfer pricing
 - Trade misinvoicing
- Charging levies, licensing / royalty agreements and patents
- Intercompany loans (thin capitalisation)

Consequences

DIAGRAM 4: Wage evasion vs tax evasion - an example of R100mn



Can profit shifting be stopped?

- Depends on how well resourced the oversight authority is
- The challenge of the auditing firms
- Importance of transparency & public disclosure



What must be done?

1. An amendment to the Companies Act to say that All TNC owned corps must publish AFS publicly
2. Increased resources for the Companies and Intellectual Property Commission (CIPC)
3. Zero Tolerance on Profit Shifting Practices



Conclusion

- Profit shifting is a complex network that is hidden behind a veil of complexity and secrecy.
- As long as TNC's and their subsidiaries do not submit AFS it will be extremely difficult to fight profit shifting and wage evasion
- The first step is to start enforcing subsidiary-by-subsubsidiary reporting, country-by-country reporting and through the process, slowly we will be able to shed light on the heinous corrupt practices of the very rich.



THANK YOU!

For more information:

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