

Taxing questions in a digital age

Earlier this month, the Organisation for Economic Co-operation and Development (OECD), which is based in Paris, announced plans to crack down on tax avoidance schemes by large multi-nationals. The 15-point plan aims to stop companies artificially moving profits from one country to another, in order to reduce their tax.

The report by the OECD says that global tax rules are out of date. They were created in a pre-Internet age, and were originally designed to ensure that a company does not pay tax in two different countries at the same time. Maybe that was fine once upon a time, but in the age of on-line business, companies today operate in many countries. They use the current laws, it is claimed, to pay tax in no countries at all!

If the plans go ahead, they will be the first ever internationally co-ordinated attempt to reform the global taxation system.

So, what's the problem? A company with huge sales in one country can avoid paying tax there, simply by 'routing' sales through an artificially created base in, say, Dublin or Luxembourg. The idea behind the proposed reforms is that a company should pay tax in the country *where the economic activity takes place*.

At this time of austerity, public opinion has been quick to criticise the tax practices of several companies in the digital age. 2013 has seen the 'naming and shaming' of multi-nationals: Google, Amazon, Apple and Starbucks are regularly under the spotlight.

But have such firms actually done anything wrong? Spokesmen point out that no laws have been broken. Everything they do is perfectly legal. It is a company's duty, they argue, to minimise their tax bills in order to increase profits for their shareholders.

I wonder. Is it really fair that multi-nationals avoid paying tax by using these perfectly legal methods? Should we close such tax 'loopholes'?

Questions to ask your students:

What do you think about the tax-avoidance strategies used by many multi-national companies?

Should international tax-laws be changed in the age of the Internet?

Websites to explore:

<http://www.bbc.co.uk/news/uk-23389695>

http://en.wikipedia.org/wiki/Tax_avoidance