University of St Andrews

UNIVERSITY OF LEICESTER

Policy Brief - #1.5
Case study – Luxembourg

The impact of the Luxembourg's tax policies on Determinants of Health and Mortality rates

GRADE Government Revenue and Development Estimation

The consequences of tax abuse

Tax abuse is increasingly being recognised as a significant barrier to development. Government revenue in low-income-countries relies more heavily on corporate tax than in high-income-countries, and tax abuses by international players can have a much more significant impact on their ability to accrue government revenue and invest in healthcare and education (Moore, 2015). Our peer-reviewed research on Government Revenue and Development (GRADE) has demonstrated that an increase in government revenue in low-income-countries can have a significant impact on its ability to provide Determinants of Health (e.g. sanitation and drinking water) and reduce under-5 (U5) and maternal mortality rates.

Tax policies in Luxembourg

Luxembourg has been recognised both as a stark offender and victim of tax abuse. In 2020, the Tax Justice Network released a report on the State of Tax Justice (SOTJ). For the first time, the report revealed an account of how much each country loses annually to tax evasion and corporate tax abuse. In this report, Luxembourg is ranked 6th both on the Corporate Tax Haven Index, which ranks countries by how strongly they have enabled corporations to abuse taxes, and on the Financial Secrecy Index, which ranks countries by how strongly their financial systems allow individuals to hide their finances from the law. It is also one of four countries that comprise what has been dubbed the 'axis of tax avoidance', namely the UK, the Netherlands, Luxembourg, and Switzerland. Together, these countries are responsible for almost half of all corporate tax abuses.

In response to reports on tax abuses within Luxembourg, the EU Commission allowed for the creation of the OpenLux register, which reveals the beneficial owners of all accounts opened within the country's boundaries. However, the report only provides company names, rather than individual names, defeating the intended purpose of the register: creating transparency. A thorough investigation of the files by French newspaper Le Monde revealed that many of the beneficiaries belonged to high profile individuals, ranging from politicians to members of organised crime. These types of tax abuses have been shown to have serious consequences, particularly for low- and middle-income countries. This report aims to contribute towards the growing evidence base of the impact of tax abuse enabled by the Netherlands on low-and middle-income-countries.

Harm caused by Luxembourg's tax policies

We used the figure provided by the SOTJ to demonstrate Luxembourg's role in total harm caused to other countries through tax abuses, see figure 1. Additionally, we calculated Luxembourg's share in global harm caused through corporate tax avoidance and tax evasion.

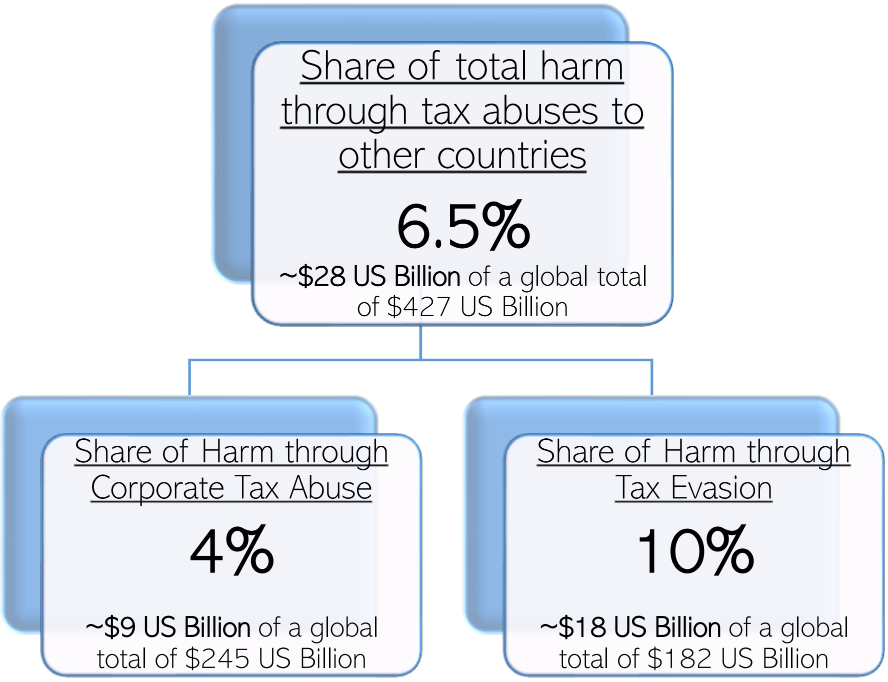
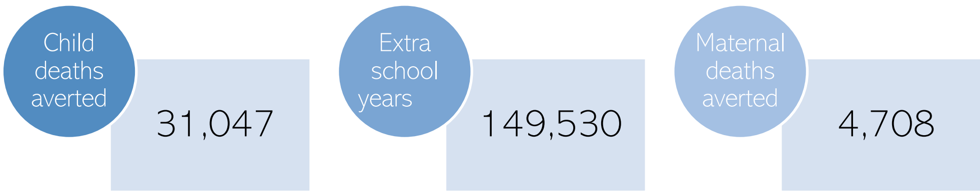


Figure 1 Harm caused by Luxembourg's tax policies

These figures demonstrate that Luxembourg play a significant part in the harm caused to other countries through tax abuses. At 6.5% of the global total, 4% of global corporate tax abuse and 10% of global tax evasion, Luxembourg plays a significant role in the world in the harm done to other countries through tax abuses. The impact of curtailing these losses in low-income-countries could make a great difference in their ability to provide healthcare and education and reduce mortality rates. If only a small amount of the $28 billion lost to tax abuse by Luxembourg were available to governments in these countries, it could potentially have a significant and long-lasting impact. If the total tax abuse were to be distributed equally across all 7.6 billion global citizens, it could increase government revenue per capita by $3.60. Considering that the average government revenue per capita in low-income-countries lies at $116, this would amount to an increase of 3.1%. Previous studies have demonstrated noticeable long-term impacts, with an increase of only 10% in national tax revenue leading to a 17% increase in public health expenditure in low-income- countries (Tamarapoo et al., 2016). A minor increase in government revenue within low-income- countries will assist in the promotion of fundamental human rights, a condition of treaties such as the Universal Declaration of Human Rights and the United Nations Convention for the Rights of the Child, it is vital that the impact of tax abuses is recognised.

Increased coverage of the determinants of health and the number of child deaths averted associated with an increase in government revenue equivalent to the proportion of global tax abuse attributable to Luxembourg (10-year projection)



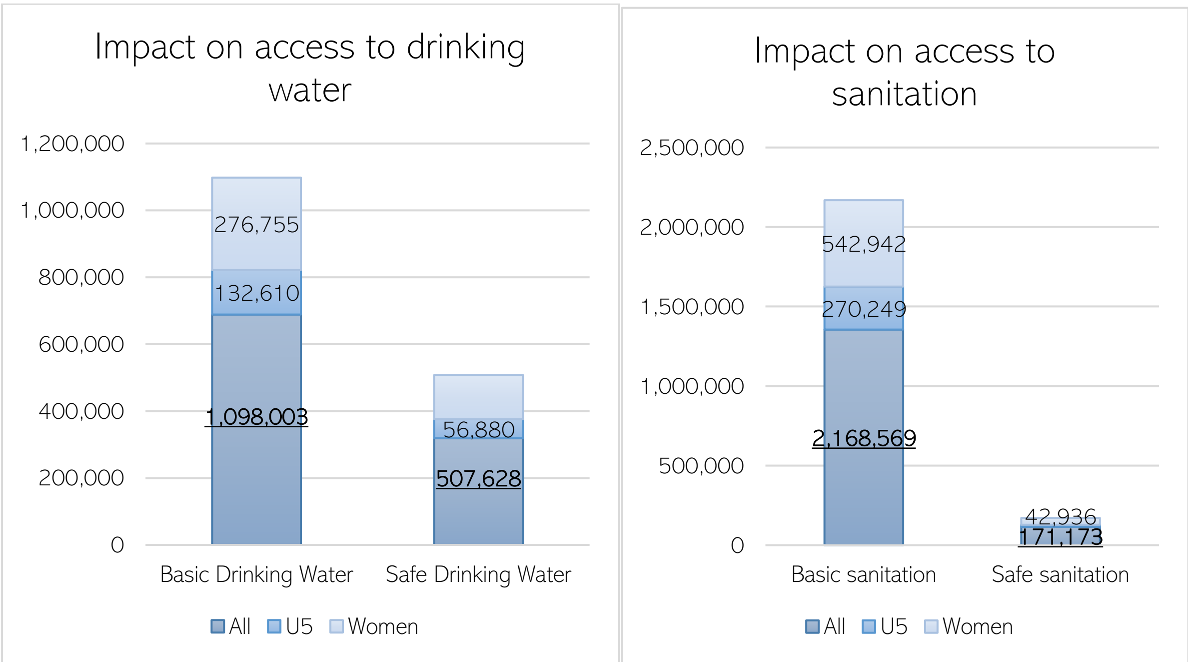


Figure 2 The potential of reconsidering Luxembourg's tax policies

We used our GRADE tool to calculate the effect of Luxembourg's tax abuses on DOH and mortality rates of other countries. Luxembourg contributes 6.5% of the total harm through tax abuses to other countries, if they did not enable these tax losses annually ($28 US Billion), we estimate that over a ten-year period, 38,224 Under-5 deaths and 4,708 maternal deaths would be averted, children would attend school for an extra 212,000 years, around 1 million people (of which 170,000 are children and 365,000 are women under 50) would access basic drinking water and 2.2 million people (of which 270,000 are children and half a million are women under 50) would access basic sanitation, see figure 2. These figures demonstrate that Luxembourg's tax policies have significant human consequences and must be carefully reconsidered. Equally they demonstrate the huge potential for children if these policies are reviewed.

Call for Action

These figures demonstrate that Luxembourg's tax policies come with a serious human cost and impact the right to health for many children. It is essential that governments worldwide recognise the impact tax abuses have on Determinants of Health and mortality rates, particularly within low-income-countries. Allowing tax abuses to continue actively undermines fundamental human rights, which stands in direct opposition to the Universal Declaration of Human Rights and the United Nations Convention for the Rights of the Child. We are calling for action from Luxembourg and leaders worldwide to take measures to prevent policies which allow tax abuses to continue.

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