2022 Financing for Development Forum

Session on Building a fair and effective tax system and combating illicit financial flows

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Third FfD conference took place in 2015, i.e., 7 years ago, and we are half way into the period it was supposed to cover. No progress made! Tax abuse is as rampant as ever; IFF are at highest level. On the other hand, the marginalisation of the UN as the only multilateral institution with universal membership and mandate to address global challenges continues to being marginalised. Decisions and negotiations are taking place in informal forums outside the UN.

The OECD created and led Inclusive Framework (IF) based on the directive of the G20, which itself is an informal club of countries co-opted by the G7, to rubberstamp G7 decisions. IF negotiation outcomes are arrived at without transparent negotiations and procedures. They are then taken to the G20 for final approval. These outcomes have largely ignored suggestions, reservations and objections from developing countries. At the moment IF members are being asked to agree to a far-reaching reform package that will lock developing countries into a binding agreement, in which they will cede their taxing rights without any additional revenue gain.

Pillar 1 proposals would apply to only about one hundred of the largest and most profitable MNEs, those with global sales over €20 billion and a profit rate over 10%. This means, a very high percentage of MNE profits would continue to be allocated under the existing defective rules on ‘transfer pricing’.

Pillar 2 proposes 15% minimum effective rate, which is closer to the corporate tax rates of some secrecy jurisdictions. It will thus leave almost intact the prevailing institutionalised mechanisms for global tax avoidance. Furthermore, given that the corporate income tax rate average globally is around 25%, and in fact 25% -30 in many developing countries, it will unleash a “race to the minimum” rather than putting an end to tax competition between countries. There is still a more egregious aspect of Pillar 2: The agreement states that Inclusive Framework members must accept the explicitly stated “rule order”, according to which undertaxed profit will be first taxed by headquarter countries, and then by conduit countries; only what these two groups leave untaxed can be taxed by source countries! The OECD “solution” further stipulates that all countries would renounce in a binding manner unilateral measures such as levying taxes on digital services and “other relevant similar measures” if they agree to the two pillar solutions.
Anticipating this outcome, The Global Alliance for Tax Justice called upon CSOs around the world to join us in the call to stop the tax deal of the rich. Over 250 CSO from around the world signed on this call. The OECD led process has entered a critical and final phase. The OECD seems to be determined to go ahead with its project in the IF to get “critical number of countries” to agree to its proposal.

Whereas the OECD will have no power and means to force the US and EU member states to accept its proposals, it has shown in the past that it can put developing country members of the IF under pressure to agree to its proposals even if they go against their interests. They are being asked to agree to a proposal without any publicly available impact assessment of the proposals.

The outcome of the OECD-led reform is not going to fix broken global tax rules, which work against the interests of developing countries. But, if endorsed by many countries, it will prevent them from taking unilateral measures to defend their taxing rights and to enhance their domestic resource mobilisation!

We reiterate our call to stop this tax deal of the rich:

- Instead, we urge countries in the Global South to coordinate collectively and make use of their inalienable taxing rights to tax all forms of profits generated in their economy through unilateral measures based on their national legislation.
- We call on countries in the Global South to instead prioritise politically the need for a universal, intergovernmental UN tax body and a UN Tax Convention as the ultimate solution for an equitable allocation of global profits and respect for the taxing rights of developing countries.
- We call on countries in the Global South to support the convening of the 4th Financing for Development Conference in the UN in 2024 as an important venue to move politically on establishing a UN intergovernmental process on tax.