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RELEASING THE HIDDEN BILLIONS FOR DEVELOPMENT

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There is mounting evidence that economic growth and social stability is harmed by lack of government expenditure on infrastructure, education and health, and by unequal wealth distribution.

In its latest report on Latin America called *Poverty Reduction and Growth: Virtuous and Vicious Circles*, published on 14 February 2006, the World Bank argues that governments must give higher priority to spending on infrastructure likely to benefit the poor and increase expenditure on education and healthcare. In practice a large proportion of government spending in Latin America is skewed in favour of the well off, and

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governments are collecting far too little tax, especially from the wealthy. It is therefore time to put wealth redistribution back on the international agenda.

The Tax Justice Network argues that in order to assist governments of developing countries with tackling poverty and freeing themselves from external debt and aid dependence, more emphasis must be placed by the international community on tackling the barriers that prevent wealth redistribution. This means combating capital flight, tax evasion, tax avoidance and tax competition.

Releasing the hidden billions for development

The International Conference on Financing for Development (Monterrey Mexico, March 2002) called upon developing countries to mobilize domestic resources for development. This was reaffirmed by:

- § the special high-level meeting of the Economic and Social Council (ECOSOC) with the Bretton Woods institutions, the World Trade Organization and the United Nations Conference on Trade and Developments (New York, April 18, 2005);
- § the High-Level Dialogue on Financing for Development in New York, June 2005;
- § the 2005 World Summit Outcome.

The United Nation's Millennium Development Goals have also focused attention on the need to make resources available to developing countries.



The Tax Justice Network identifies constraints on the ability of governments to raise additional revenues through equitable tax systems as a barrier to development. We therefore call for international measures to help governments to raise additional resources by tackling capital flight and tax evasion, and assist with tackling tax avoidance by companies.

In March 2005 the Tax Justice Network published a briefing paper— *The Price of Offshore* - which estimated the stock of private wealth held by individuals in offshore and onshore tax havens, and undeclared in the country of residence, at about US\$11.5 trillion. We estimate the annual worldwide income on these undeclared assets at about US\$860 billion, and that the annual worldwide tax revenue lost on such undeclared income is about US\$255 billion. That figure approximates the annual funds needed to finance the UN's Millennium Development Goals.

Any comprehensive solution to the problem of capital flight must include (i) improvements in tax administration in developing countries; (ii) the overriding of bank secrecy in onshore and offshore financial centres; and (iii) further implementation of international exchange of tax information, in particular automatic exchange of information.

The Tax Justice Network supports efforts by the OECD to increase exchange of information between national tax authorities, and we particularly support efforts to require offshore tax havens to cooperate with the authorities of developing countries in their attempts to tackle tax evasion. We note that in December 2004 the Finance Ministers from the G-20 countries called for offshore tax havens to allow access to bank and entity ownership information and to adopt OECD standards on effective

information exchange through legal mechanisms such as bilateral information exchange treaties.

The Tax Justice Network also supports efforts to strengthen national tax administrations in developing countries. For example, in a paper published in March 2002 paper, the IMF, OECD and World Bank said that they would commit to assisting developing countries in improving the effectiveness of their tax administrations, thereby increasing governmental revenues of those countries, and mobilizing domestic resources.

Suggestions for international action

The Tax Justice Network calls upon the Quadripartite Group to urge that the United Nations ECOSOC take the following actions to combat capital flight from developing countries:

- § Require offshore tax havens to override bank secrecy in international tax matters, and to publicly disclose all relevant information relating to the beneficial ownership of offshore companies, trusts and foundations;
- § Require offshore tax havens to take steps toward implementing automatic reporting of income, in order to facilitate automatic exchange of tax information.
- § Urge the IMF, World Bank and OECD to combat capital flight from developing countries, and tax evasion in developing countries, in accordance with their commitments under the Joint IMF, OECD, IBRD

Proposal, and to report at least annually to ECOSOC about their progress.

- § Urge the IMF to include as a factor in its Reports on the Observance of Standards and Code for financial sector regulation, whether each offshore tax haven is implementing exchange of information on request, and also taking steps to implement the automatic reporting and automatic exchange of tax information, and to report at least annually to ECOSOC about the IMF's progress.

The Tax Justice Network further calls upon the Quadripartite Group to explore measures to tackle tax avoidance on cross border business activities by:

- § Supporting the introduction of an International Financial Reporting Standard on tax disclosure, as has been proposed, for example, in respect of the extractive industries;
- § Support measures to strengthen the national tax administrations of developing countries and in particular to strengthen cooperation in matters relating to transfer mispricing of cross border trade.

Ladies and gentlemen, past efforts to tackle poverty by increasing economic growth have benefited the rich but not the poor. In a world of plenty, we must restate the case for redistributing wealth between the rich and poor, both within countries and between countries. Tax systems provide the most effective means of achieving redistribution, and we must ensure that measures are taken to prevent tax abuses which benefit the few and harm the many.