

Fixing the international tax system



but no organisation to facilitate global cooperation on tax.

Instead there are a collection of regional bodies, or ad-hoc institutions which have various different functions. The most powerful of these is the Organisation for Economic Co-operation and Development (OECD), a group of just 35 of the world's wealthier nations. The maximum that the UN can muster is a poorly resourced committee of experts that meets twice a year and has no political role.

The international implications of tax policies, and the potential for them to come into conflict with each other, is well understood by nation states and has been well understood for a very long time. After all, one of the causes of the U.S. War of Independence was a transatlantic dispute on the taxation of tea.

Today, large multinational companies operate and pay taxes in many different countries around the world and can use differences in national tax systems to their advantage.

Wealthy individuals and money launderers have superseded the nation state, using companies and trusts based in secrecy jurisdictions to shield their wealth from tax collectors and law enforcement.

However, despite all of this, taxation is perhaps the only international issue of importance where there is no effective, global, intergovernmental institution which can facilitate the coordination of tax policies and promote better standards of tax governance. There is a UN Security Council, a World Trade Organisation, A World Bank and even an International Postal Union,

Issues

The lack of any comprehensive global body to work in the area of tax policy has meant that pressure to reform the global tax system has been slow to translate into action. The most ambitious attempt in recent years has come from the G7 and G20, which mandated the OECD to come up with a set of proposals for combating tax avoidance by multinational companies. The outcome of this was the Base Erosion and Profit Shifting Programme (BEPS).



However, as a government-dependent think tank of some of the richest nations on the planet, the OECD has neither the mandate, the experience, or legitimacy to drive through the important political decisions required to progress global action on tax avoidance and evasion.

As a result, the outcome of the BEPS programme, although with some potential for progress in combatting tax avoidance, was widely seen as inadequate, leaving ample scope for multinationals to shift profits into lower tax jurisdictions.

An appropriately resourced and fully representative, intergovernmental tax body was a central demand of the G77 group of developing countries, and of many civil society organisations from the global South and North, at the Addis Financing for Development (FfD) summit in July 2015. However, the establishment of such a body was blocked then by a number of OECD governments, led by the United States.

In the absence of meaningful co-operation on tax matters, we are left with a race to the bottom. Countries feel they need to 'compete' with one another to attract money through lowering tax rates and tearing up regulations. Often governments describe this competition in a positive light, but the reality is that tax competition is a conflict

where everyone loses. Poorly regulated financial services lead to the public becoming victims of fraud, low tax rates starve governments of the revenue required to provide good quality public services. Small and medium sized domestic businesses lose out against multinational tax avoiding giants, no matter how good their product in terms of quality or price. Because there is nothing creative, forward-looking in this process, but mainly destruction, we prefer to speak about tax wars as opposed to "tax competition".

Solutions

The current international system has failed to address the problem of tax havens and tax avoidance. The time has now come for a redesign.

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The problem with recent attempts to deal with tax avoidance has been that senior politicians have only engaged with the issue on an international level

in occasional meetings of groups like the G8, and only then as part of a crowded agenda. Dealing with the complex international issues of financial regulation and tax requires sustained political engagement at the highest level.

International efforts to combat climate change provide a good model as to how countries can reach political consensus on an ambitious international agenda. The United Nations Framework Convention on Climate Change was negotiated at the 'Earth Summit' in Rio de Janeiro in 1992. The parties to the convention meet annually to assess progress towards combatting climate change. The Framework is supported by a secretariat and an expert panel.

It is this focus on a single issue which helps to drive forward progress.

To deal with the crisis in our global financial system governments should convene a global summit focused on illicit financial flows, including tax avoidance and financial secrecy under the auspices of the United Nations.

That summit should set some ambitious targets to reduce all forms of illicit financial flows and design a framework for how these targets would be monitored and achieved.



In particular this would mean the establishment of a new international organisation to assist countries in managing their tax systems. An agenda for such an organisation would be to monitor the international financial system through the collection of data and statistics, provide technical assistance to countries looking to improve their tax collection systems and provide independent analysis of tax policies in the same way that the IMF provides analysis of macro-economic policies.

In addition, a key role for that international organisation would lie in the creation and maintenance of a set of international tax accounting standards that would allow tax administrations, consumers, investors and civil society to robustly assess a multinational company's financial position on a country-by-country basis.

The design of accounting standards (IFRS and US-GAAP), which determine multinationals' financial reporting, have been dominated for decades by the big four accounting firms. These firms in turn play an important role in enabling tax avoidance and illicit financial flows.

This apparent major conflict of interest has resulted in flexible, but not very robust accounting rules which serve the interests of tax avoiding multinationals and their professional enablers. Wrestling back from the International Accounting Standards Board control over the design of international financial reporting standards and nesting it in a public institution under the umbrella of the United Nations is paramount for making progress against tax avoidance.

The body should also seek the establishment of an arbitration mechanism like the World Trade Organisation (another UN body), which resolves disputes between different countries' tax policies. Such a body could adjudicate on whether governments were adopting policies designed to encourage companies to shift profits away from the countries where that profit is made, and into tax havens (for example, the use of special tax deals which are currently being targeted by the EU as an example of unlawful state aid), and to allow countries to take collective defensive measures such as the imposition of tariffs and taxes on countries engaging in such behaviour.

We are an independent international network launched in 2003. We conduct high-level research, analysis and advocacy on international tax; on the international aspects of financial regulation; on the role of tax in society; and on the impacts of tax evasion, tax avoidance, tax 'competition' and tax havens. We seek to create understanding and debate, and to promote reform, especially in poorer countries. We are not aligned to any political parties.

Published by the Tax Justice Network, 38 Stanley Avenue, Chesham, Buckinghamshire HP5 2JG United Kingdom

email: Info@taxjustice.net

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