ICRICT

Independent Commission for the Reform of International Corporate Taxation

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"Illicit financial flows and development financing in Africa"

members

ICRICT is a group of leaders from government, academia, and civil society, including the faith community.

Ms. Eva Joly, Minister of Parliament, European Union
Rev. Suzanne Matale, Leader of the World Council of Churches, Zambia
Mr. Manuel Montes, Financing for Development Senior Advisor, South Centre
Mr. José Antonio Ocampo (Chair), Former UN Under-Secretary-General
Ms. Ifueko Omoigui Okauru, Former Chair, Federal Inland Revenue Service, Nigeria
Mr. Léonce Ndikumana, Professor of Economics, University of Massachusetts
Mr. M. Govinda Rao, Former Director, National Institute of Public Finance and Policy, India

initiating coalition

ICRICT was initiated by a broad coalition that includes ActionAid, Alliance-Sud, CCFD-Terre Solidaire, Christian Aid, the Council for Global Unions, the Global Alliance for Tax Justice, Oxfam, Public Services International, Tax Justice Network and the World Council of Churches, and is supported by Friedrich-Ebert-Stiftung.

Responding to widespread public discontent with corporate tax avoidance, the impacts of such avoidance on inequality, and concerns that current tax reform processes are inadequate, the coalition has worked since 2014 to establish a nonpartisan body to propose tax reforms in the public interest.

corporate tax avoidance and IFFs

"In their broader sense, illicit financial flows refer also to funds that, through legal loopholes and other artificial arrangements, circumvent the spirit of the law, including, for example, tax minimization schemes used by multinational corporations (MNCs)."

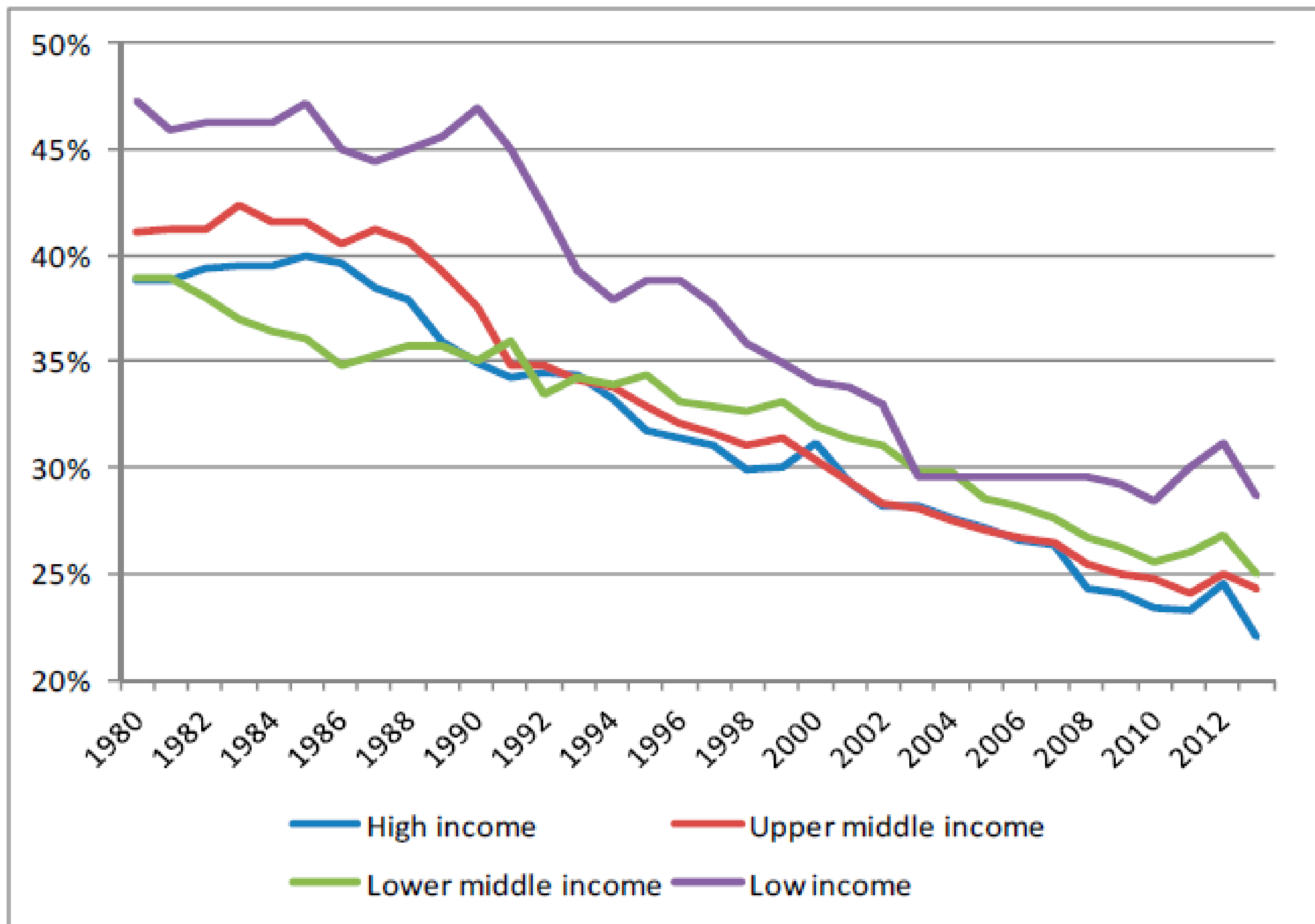
United Nations Conference on Trade and Development (UNCTAD), *Trade and Development Report 2014* (Geneva, 2014), p. 173.

60% of IFFs are attributable to commercial transactions, with transfer pricing abuse a primary enabler of base erosion and profit-shifting, or illicit financial flows

High-level Panel on Illicit Financial Flows from Africa, 2015.

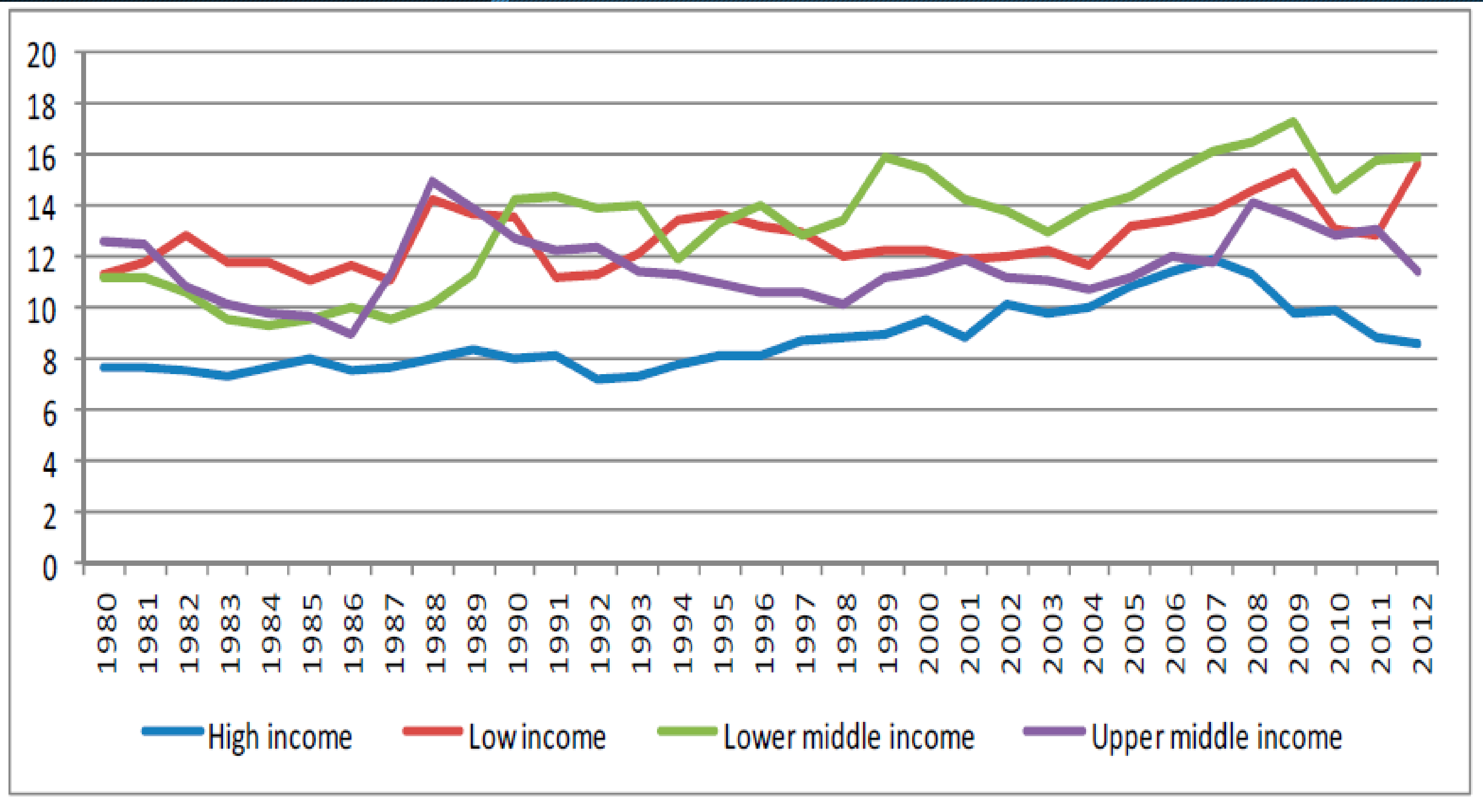
UNCTAD: losses to developing countries - $100 bn annually (2015)
OECD: $100-240 billion annually to all countries (2015)
IMF: long-run annual losses → developing countries: $200 billion per year (1.7% of GDP); OECD countries: $500 billion per year (0.6% of GDP) (2015)

nominal corporate tax rates race to the bottom



Source: IMF 2015

dependence of developing countries on corporate income taxes (% of total revenue)



Source: IMF 2015

impacts

"Tax abuse is not a victimless practice; it limits resources that could be spent on reducing poverty and realizing human rights, and perpetuates vast income inequality. While the rich benefit from this practice, the poor feel the negative impact on their standard of living, their unequal political power and the inferior quality of health and education services for themselves and their children."

Report of the Special Rapporteur on extreme poverty and human rights(A/HRC/26/28, para. 59)

--Limited space for national development priorities
--Insufficient financing for State infrastructure
--Domestic businesses and workers disadvantaged

Tax abuse by multinational corporations increases the tax burden on other taxpayers, violates the corporations' civic obligations, robs developed and developing countries of critical resources to fight poverty and fund public services, exacerbates income inequality, and increases developing country reliance on foreign assistance.

background

The rules and institutions governing the international corporate tax system must change. The world has changed and so should its tax system. The current system has become obsolete and ineffective in preventing tax abuse by multinational corporations.

"We were particularly concerned that only three African countries had transfer pricing units in their internal revenue services. Given the widespread nature of such activities even in developed countries involving well-known companies, we noted that African countries lacking any official monitoring capacity must be very vulnerable to IFFs stemming from transfer mispricing."

High-level Panel on Illicit Financial Flows from Africa (para. 27)

Tax treaty disputes have doubled since 2006; 80% of those disputes concern transfer pricing abuse.

Capacity building at the national level is a start, but only that..

Regional cooperation is also valuable.

background

International corporate tax abuse is primarily a due to a lack of effective international tax cooperation and global governance to create rules that
-work in the interest of developed and developing countries
-work in a globalized, knowledge-based economy

The current reform efforts of the G20/OECD Base Erosion and Profit Shifting initiative is a step in the right direction but cannot be the end of the conversation.

The challenges of tax abuse demand global tax solutions that require inclusive institutions.
-See also Goal 10 of the Post 2030 Agenda – representative institutions are most effective

-Representative character of the HLP report

declaration

Therefore, States should take domestic and international action to:

I. Tax multinationals as single firms

In the long term, the system for taxing a multinational corporation's subsidiaries as separate entities should be replaced by a system of taxing multinational corporations as single and unified firms, using formulary apportionment based upon objective factors.

II. Curb Tax Competition

Developed countries should establish a minimum corporate income tax. States should examine spillover effects of their tax preferences for multinational corporations and eliminate those that facilitate tax avoidance in another country.

declaration

III. Strengthen Enforcement

States should ensure that their tax administrators have adequate resources, independent authority, and legal protection to collect taxes owed from multinational corporations.

IV. Increase Transparency

States should require multinational corporations, both public and private, to file country-by-country reports and, upon filing, make those reports freely available to all tax administrators, without requiring separate treaty or other agreements, so as not to disadvantage developing countries and to facilitate efficient and cost-effective tax administration.

States should also make country-by-country reports available to the public within 30 days of filing.

declaration

V. Build inclusivity into international tax cooperation
States should establish an intergovernmental Commission within the United Nations with adequate resources and begin drafting a UN convention to combat abusive tax practices and eventually adopt a consolidation and apportionment system for taxing global corporate profits.

thank you

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DECLARATION of the Independent Commission for the Reform of International Corporate Taxation