



Christian Aid Submission

To the Report of the Secretary-General to the Economic and Social Council on options for further strengthening the work and operational capacity of the Committee of Experts on International Cooperation in Tax Matters

2nd March 2015

1 Introduction

1.1 Christian Aid is a Christian organisation that insists the world can and must be swiftly changed to one where everyone can live a full life, free from poverty. We work globally in 45 countries for profound change that eradicates the causes of poverty, striving to achieve equality, dignity and freedom for all, regardless of faith or nationality. We are part of a wider movement for social justice. We provide urgent, practical and effective assistance where need is great, tackling the effects of poverty as well as its root causes.

1.2 Christian Aid has been working on tax and development issue for a number of years, and became the first leading NGO to make it a major campaign priority in 2008. Since then the importance of the issue has been recognised by the G20, the UN, the OECD, the IMF and by many large businesses.

1.3 We welcome the opportunity to provide this submission. With 2015 being a critical year for the world, as new sustainable development goals are negotiated and the Financing for Development process is subject to review, we have a unique opportunity to make progress towards improving global tax cooperation.

- 1.4 Tax revenue is the most sustainable and dependable form of finance and most likely to support progress towards the realisation of human rights, redress gender inequalities and ensure sustainable development through increased public expenditure. In 2008 Christian Aid estimated that developing countries lose USD 160 billion each year to tax dodging. A recent report from a high level panel, chaired by Thabo Mbeki and convened by the African Union and UNECA, concluded that Africa is losing \$50billion/year in illicit outflows. Secrecy jurisdictions enable and facilitate these transfers of wealth outside the reach of tax authorities. Conservative estimates by the Tax Justice Network value this wealth at USD 21 trillion¹.
- 1.5 The impact of such losses, and of the functioning of the tax system more generally, can be far reaching. Tax abuses by trans-national corporations restrict the ability of states to raise adequate levels of tax, violate human rights as they deprive states of development finance and undermine countries' ownership of their own development process. This widens the gap between the North and the South, and undermines efforts to provide public services in countries where they are most needed. At a recent conference, convened by Christian Aid Ireland, Phillip Alston, the UN special rapporteur on extreme poverty and human rights stated² that: *'many of the world's worst human rights situations are driven overwhelmingly by economic factors. Theft, corruption, extortion, the failure to tax, the failure to regulate economic actors fuel these conflicts and help to perpetuate them'*
- 1.6 As Christian Aid has repeatedly made clear³, it is women living in poverty who bear the brunt of this broken and unequal global tax system. Evidence demonstrates that domestic public finance in areas such as social protection, productive diversification and employment, education, care, sexual and reproductive health are essential to reverse multiple discrimination and structural gender inequalities. When the state does not mobilize sufficient resources or provides inaccessible and low quality services, gender inequalities are perpetuated and exacerbated.

2 The need for better global cooperation on tax matters

- 2.1 The problems of large scale tax avoidance and evasion are global in nature and, in large part, require global responses. Effective coordination is critical, especially for developing countries, to avoid a catastrophic 'race to the bottom', signs of which are already apparent.
- 2.2 The issue of international tax cooperation was first officially discussed in the UN Financing for Development negotiations in 2001, during which ambitious proposals were developed – but finally not adopted - by the 2001 report of the High Level Panel on Financing for Development chaired by Ernesto Zedillo. The second FFD process led the Doha declaration to request the ECOSOC to promote international tax cooperation through building on the existing UN Tax Committee

¹ <http://www.christianaid.org.uk/images/taxing-men-and-women-gender-analysis-report-july-2014.pdf>

² <http://www.theguardian.com/world/2015/feb/12/irish-tax-policies-anti-social-developing-countries-un-expert>

³ <http://www.christianaid.org.uk/images/taxing-men-and-women-gender-analysis-report-july-2014.pdf>

2.3 Four years ago, when the issue was first discussed by the ECOSOC under its limited mandate set in Doha and confirmed by the UNGA,, the UN Secretary-General launched a report⁴ which outlined a number of options for strengthening international cooperation in tax matters through promoting the role of the UN tax committee:

- *Strengthening the existing arrangements within the United Nations while retaining the current format of the Committee of Experts;*
- *Converting the Committee of Experts into an intergovernmental commission serving as a subsidiary body of the Economic and Social Council;*
- *Creating an intergovernmental commission and retaining the current Committee of Experts as a subsidiary body of that commission.*

2.4 At the time, a large group of civil society organizations, including Christian Aid expressed a clear preference for the 3rd option⁵.

2.5 The UN Secretary-General's report was followed by a supplementary report⁶ in 2012 with further addressed the issue of gaps in international tax cooperation. In 2011-12, it was decided to establish a new UN expert committee on international cooperation in tax matters to replace the old committee. The new committee's mandate is to:

- *Keep under review and update as necessary the United Nations Model Double Taxation Convention between Developed and Developing Countries and the Manual for the Negotiation of Bilateral Tax Treaties between Developed and Developing Countries;*
- *Provide a framework for dialogue with a view to enhancing and promoting international tax cooperation among national tax authorities;*
- *Consider how new and emerging issues could affect international cooperation in tax matters and develop assessments, commentaries and appropriate recommendations;*
- *Make recommendations on capacity-building and the provision of technical assistance to developing countries and countries with economies in transition;*
- *Give special attention to developing countries and countries with economies in transition in dealing with all the above issues.*

2.6 It is clear that, while extremely valuable, the committee remains under-resourced and that its mandate and scope are insufficient compared to the need.

⁴ http://www.un.org/ga/search/view_doc.asp?symbol=E/2011/76&Lang=E

⁵ <http://taxjustice.blogspot.dk/2011/06/ecosoc-world-needs-intergovernmental.html>

⁶ http://www.un.org/ga/search/view_doc.asp?symbol=E/2012/8

2.7 For decades at the international level, then global norm-setting body on international tax issues has been the OECD, in particular in the area of non-double taxation. Following the evolution of the economic globalisation, the tax work of the G20, OECD and its Global Forum has been expanded substantially, in particular on the areas of automatic information exchange and base erosion and profit shifting.

2.8 The OECD is an organisation that represents the interests of rich countries and secrecy jurisdictions. The OECD sets the global tax rules that are perpetuating inequality and injustice. Christian Aid's analysis of the Base Erosion and Profit Shifting (BEPS) process⁷ shows that the pace and nature of progress has been skewed in favour of those issues most relevant to richer countries, and the specific issues faced by developing countries such as source and residence taxation and tax competition are not addressed. The OECD itself admitted that 'the risks faced by many developing countries may differ from those faced by more advanced economies', yet developing countries are not adequately present in these discussions. The OECD has also launched an action plan to strengthen the involvement of developing countries in their tax related work, but it is unlikely this will be sufficient to create genuinely representative decision making.

2.9 During the third Financing for Development (FFD) negotiations, both civil society and the Group of 77 have repeatedly called for the establishment of an **intergovernmental body** on tax matters. This proposal has previously been discussed and rejected, but is now gaining new momentum. During the FFD session in January 2015, the EU and Japan called for a discussion on a potential mandate of such a body, as well as a "cost benefit analysis" and an assessment of why the existing international tax cooperation does not suffice.

2.10 We believe that the time has come to create an inclusive intergovernmental tax body under the UN. This is necessary to respond to the challenges faced by developing countries and address the power inequalities in global tax coordination and regulation. Action is needed to:

- increase financial transparency
- change the global tax system to ensure a fairer and more appropriate distribution of the global tax base
- create a more inclusive and democratic institutional framework for the governance of the global tax system.
- strengthen tax capacity in developing countries to build progressive tax systems and tackle tax avoidance and evasion

2.11 We believe that this can only be achieved through a new intergovernmental tax body under the auspices of the UN that should be resourced adequately, including with

⁷ <http://www.christianaid.org.uk/Images/we-still-havent-found-what-were-looking-for-november-2014.pdf>

gender expertise, to review the human rights and gender equality impacts of tax policy. This will move us towards a global tax system that can promote development justice.

We therefore recommend that a call for such a body should be clearly stated in the Secretary General's report to the Economic and Social Council and that this call should be integrated into the financing for development follow-up process and to the post-2015 development agenda.