Oxfam 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 Oxfam's vision is a just world without poverty. We want a world where people are valued and treated equally, enjoy their rights as full citizens, and can influence decisions affecting their lives. Our purpose is to help create lasting solutions to the injustice of poverty. We are part of a global movement for change, empowering people to create a future that is secure, just, and free from poverty.

1.2 Oxfam sees the issue of economic inequality – the growing gap between rich and poor – as one of the defining issues of our time. Too many still toil in extreme poverty. On the other extreme, wealth is increasingly concentrated in the hands of a few, who can use it to capture disproportionate power to shape the future. The widening gap between the richest and poorest is damaging economies and pushing more people into poverty.

1.3 Taxation is at the heart of the problem of inequality. When tax rules are unfair, inequality rises. At the same time, progressive taxation can fund the reduction of inequality and poverty. Fair and progressive tax systems provide financing for well-functioning states, enable governments to uphold citizens' rights to basic services (such as healthcare and education), and cement the relationship between citizens and governments. Effective domestic resource mobilisation – and primarily taxation - is the most important source of financing for the future sustainable development goals that will be agreed as part of the Post 2015 framework.

The need to improve global cooperation on tax

1.4 The current global corporate tax rules are a major contributor to the problem of rising inequality and are acting as a barrier to revenue mobilisation in developing countries. Developing countries are severely hampered in their ability to raise more tax revenue by an international tax system that facilitates tax dodging by multinational companies, that favours rich countries where multinational companies are resident, and that encourages even poor countries to give ever more generous tax breaks and lower tax rates to attract foreign investments. This is a very serious matter knowing that developing countries rely more on corporate taxes to raise revenue than OECD countries[1]. Oxfam estimates that developing countries lose around US $100 billion every year because of corporate tax avoidance and generous tax incentives.

1.5 The lack of a global tax forum and a fully inclusive international cooperation on tax is at the root of the problems in the international corporate tax system. In October 2014 Finance Ministers from several Low-Income Francophone countries put out a statement demanding their fair share of global tax revenues and highlighting several barriers to increasing their tax revenue. In this statement they identified the key cause of the problems that prevent them from being able to raise sufficient corporate tax revenue as "the lack of decision-making power for low income countries in global tax discussions."[2]

[1] http://www.imf.org/external/np/pp/eng/2014/062514.pdf

[2] [2] http://www.francophonie.org/IMG/pdf/minmeet_washington_oct2014_press_note_en.pdf

2015 – A once-in-a-lifetime opportunity to redefine global governance of tax matters

1.6 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.

1.7 The Third Financing for Development Conference in Addis Ababa – 13-16 July 2015 will play a critical role to end extreme poverty and tackling inequalities everywhere. The Conference will also lay the fundamental groundwork for an agreement in September on the new Sustainable Development Goals as well as in December on a binding climate change agreement. Bringing together representatives of the highest possible political level and open to all countries, the FFD Conference in particular has the potential to act as a catalyst for real change to global corporate tax rules. A key outcome of the FFD conference must be the creation of an inter-governmental body on international cooperation in tax matters under UN auspices.

A new intergovernmental body on international cooperation in tax matters under UN auspices

1.8 On January 21st 2015, the UN released its "Elements Paper" as a basis for negotiations over the coming months. This Elements Paper contains a series of proposals for the new framework including the creation of a new intergovernmental body on international cooperation in tax matters under UN auspices.

1.9 We fully support this proposal and would like to highlight some of the reasons why.

2.0 International tax rules negotiations are currently not inclusive of all countries nor of the issues most important to developing countries, where financing for developing is essential for poverty reduction

- The OECD-led Base Erosion and Profit Shifting (BEPS) review of global tax rules Year 1 was not inclusive, with only 44 countries participating and developing countries barely consulted
- The BEPS process Year 2, despite some improvement (the inclusion of 10 additional countries) is still not ensuring all countries, especially developing countries, have an equal say
- The recommendations coming out of the BEPS process are likely not, in many cases, to benefit developing countries, for e.g. the Country by Country Reporting rules, as announced in February, will only apply to large companies with over 750 million Euros turnover, therefore excluding 85% to 90% of these companies according to the OECD[3] and the data generated will not be publicly available and will be exchanged through tax treaties, putting developing countries at a disadvantage.[4]

2.1 The UN Tax Committee is not sufficiently equipped to reform international tax rules

- The mandate of the committee is limited. It is focusing mainly on double tax treaties. *"The Committee of Experts on International Cooperation in Tax Matters as a subsidiary body of the Economic and Social Council is responsible for keeping under review and update, as necessary, the United Nations Model Double Taxation Convention between Developed and Developing Countries and the Manual for the*

[3] http://www.oecd.org/ctp/beps-action-13-guidance-implementation-tp-documentation-cbc-reporting.pdf
[4] http://www.oecd.org/ctp/beps-action-13-guidance-implementation-tp-documentation-cbc-reporting.pdf

Negotiation of Bilateral Tax Treaties between Developed and Developing Countries." The Committee also has a mandate to look at new and emerging issues that could affect tax cooperation and looks at capacity-building to developing countries and countries with economies in transition.

- Its financing is limited. The Secretariat for UNTC is only two people with a very limited travel budget, allowing for only one five working days session per year in Geneva
- The membership is limited. The Committee comprises 25 members nominated by Governments, which means we don't have again all countries represented at the negotiation table.
- This is not a political body. Participants are acting in their expert capacity and do not engage the country which appointed them when speaking.

2.2 An inter-governmental body on international cooperation in tax matters under the UN is the best solution to address the gaps in global governance of tax

- It will provide an inclusive political framework where all countries can participate in tax negotiations on an equal footing (one country, one vote) and where representatives will have the political mandate to speak on behalf of their governments.
- Under the objective of strengthening international tax cooperation, this new body would have a broader mandate than current discussions being held in the OECD on base erosion and profits shifting: the new body could also look at tax and investment treaties, tax incentives, taxation of extractive industries, beneficial ownership transparency of companies, trusts and other similar legal structures, public country by country reporting, automatic exchange of information for tax purposes and alternatives to the "arm's length principle", and coordinate international action to end tax competition between countries.
- If adequately financed, it will allow for regular meetings possibly leading to an international UN tax convention to ensure a solid framework for greater cooperation, with a clear definition of principles and a secretariat to follow the implementation of agreements reached. Such a recommendation was already expressed in the 2001 "Zedillo-panel" concerning the establishment of an "International Tax Organization" prior to the Monterrey conference.

We therefore recommend that an inter-governmental body on tax be established and that governments commit to it at the 3rd Financing for Development Conference in Addis Ababa in July 2015, in order to ensure an inclusive global tax governance system where all countries can participate in negotiations in the future.