UN Convention on International Tax Cooperation

Call for Inputs

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[1] Brazilian Campaign for the Right to Education: https://campanha.org.br/
Andressa Pellanda, General Coordinator, andressa@campanhaeducacao.org.br
Helena Rodrigues, Executive Coordinator, poleduc@campanhaeducacao.org.br

For the kind attention of:

Mr. Ramy Youseff, Chair of the Intergovernmental Negotiating Committee to draft a United Nations Framework Convention on International Tax Cooperation and two early protocols (INC) and Mr. Daniel Nuer, Co-Lead of Workstream I.

Cc: Permanent Representatives and Observers to the UN in New York

Abstract

The text advocates for a comprehensive UN Tax Convention to reform the international tax system, emphasizing equitable taxation of multinational enterprises (MNEs) by replacing the flawed transfer pricing system with unitary taxation and formulary apportionment. It stresses the need for a minimum corporate tax rate and fair profit allocation based on economic activity. The Convention should align tax policies with sustainable development, human rights, and inequality reduction, incorporating progressive taxation, environmental taxes (following the polluter-pays principle), and gender-responsive fiscal measures.

Additionally, the text calls for a UN framework on International Development Cooperation (IDC) to democratize global governance, reframing aid as a justice-based obligation for the Global North. Debt sustainability requires progressive tax reforms, debt relief, and rejection of austerity, supported by a multilateral Sovereign Debt Convention.

Systemic reforms in global economic governance are urged to address power imbalances, prevent private sector dominance, and ensure inclusive decision-making, particularly for the Global South. Climate justice must be prioritized, with climate finance being grant-based and separate from ODA, avoiding trade measures that hinder developing nations' autonomy.

Transparency in education funding is highlighted, advocating for detailed per-student investment tracking, inspired by Brazil's *Custo Aluno Qualidade* (CAQ) model. Effective monitoring mechanisms at national and international levels are essential for equitable, quality education and sustainable development.

Overall, the proposals aim to create fairer fiscal systems, reduce inequalities, and integrate environmental and social justice into global economic governance.

I. Tax Convention and Education

<u>Fair allocation of taxing rights, including equitable taxation of MNEs</u>

While we support that the Committee takes a stepwise approach to the commitment-topics outlined in paragraph 10, we stress the importance of considering **solutions that can address several items at once**. We note that strong concerns with the **transfer pricing system** have emerged in all workstreams. This is understandable, since this system is directly linked to problems addressed by the two early protocols, namely unfair allocation of taxing rights and frequent occurrence of disputes. However, the transfer pricing system also causes other problems addressed in paragraph 10, such as large-scale corporate tax avoidance.
We believe the **Convention should include a commitment to replace the failed transfer pricing system by developing and implementing a new international corporate tax system that taxes MNCs as coherent entities, on the basis of their global profit** (also known as unitary taxation with formulary apportionment), supplemented by the introduction of an ambitious minimum effective corporate tax rate. The new system should include a balanced

formula that fairly allocates taxing rights to countries on the basis of the level and significance of economic activity that the corporation has in each country. This system should include all corporate profits – also those that are not generated by service provision (i.e. the focus of Workstream II). Thus, it should be addressed in Workstream I (the Convention).

Sustainable development

The ToR specifies the objective of establishing ***"an international tax system for sustainable development"***. Furthermore, the recently adopted Outcome Document of the Fourth Financing for Development Conference – the ***Compromiso de Sevilla*** – also includes decisions that are highly relevant to this, including:

- *"We will promote progressivity and efficiency across fiscal systems to* ***address inequality*** *and increase revenue. We will* ***promote progressive tax systems*** *in countries, where applicable, and enhance efforts to* ***address tax evasion and avoidance by high-net-worth individuals and ensure their effective taxation, supported by international cooperation****, while respecting national sovereignty. We will also* ***promote effective and equitable government spending****."* (paragraph 27(e));

- *"We encourage effective taxation of* ***natural resources****...".* (paragraph 27(f));

- *"We will (...) advance discussions on* ***gender responsive taxation****."* (paragraph 27(g));

- *"We will promote the consideration of the* ***environment, biodiversity, climate (...) in fiscal programming*** *in line with national circumstances, sustainable development priorities, and poverty eradication strategies. While respecting national sovereignty, options may include (...)* ***taxes on environmental contamination and pollution****."* (paragraph 27(h);

- *"We encourage countries to integrate financing of* ***social protection systems and policies, including floors****..."* (paragraph 27(i);

- *"We further reaffirm that the pursuit and enjoyment of* ***human rights*** *and fundamental freedoms for all, encompassing* ***civil, political, economic, social and cultural rights, which includes the right to development****, must be respected, protected and promoted, without distinction or discrimination of any kind."* (paragraph 3)

With this in mind, the Convention should include a **commitment to ensure that fiscal systems are fully in line with the progressive realization of human rights, inequality reduction and sustainable development**, including the achievement of relevant UN goals, obligations and commitments. This should include specific mentions of the goal of reducing inequality within and among countries; environmental protection; gender equality; and the promotion of progressive tax systems.

Furthermore, we want to highlight **environmental taxation and tax cooperation on environmental challenges**, which are issues that are gaining a lot of international traction. **The Convention has a very important role to play on this**, both as a contribution towards tackling global environmental crises and to ensure that international initiatives are considered in an inclusive forum where all countries can participate on an equal footing. Including these issues as a commitment under the Convention can also ensure that the principles outlined in the ToR are applied to environmental taxation, including when it comes to taking "*a holistic, sustainable development perspective that covers in a balanced and integrated manner economic, social and environmental policy aspects".*

We therefore strongly encourage the Committee to add a **sub-commitment on progressive environmental taxation, in line with the polluter pays principle,** under the overall commitment on tax and sustainable development.

II. International development cooperation

The UN Tax Convention presents a critical opportunity to reshape the international financial system by placing International Public Finance at the core of a new financial architecture. This framework should democratize global governance, establish norms for development cooperation, and define the purpose, impact, and effectiveness of international aid, all anchored in the Human Rights international frameworks and the Right to Development. A UN-led process toward a Convention on International Development Cooperation (IDC) would promote coherence across forms of development cooperation, bringing together key stakeholders to shape policy and decisions. The IDC framework must reframe development aid from charity to justice, addressing historical injustices and recognizing the responsibility of the Global North to reduce global inequalities through the strengthening of public services and economical, social, cultural, and environmental rights.

III. Debt and debt sustainability

Public social and educational systems must be sustainably financed through participatory budgeting, progressive taxation, increased aid, debt moratoriums, and the rejection of austerity policies that impact social sectors. Debt renegotiation and progressive tax reforms are essential to increase domestic resources and promote social financing for inclusive and transformative industrial development, with genuine technology transfer and the reduction of trade barriers. Global governance reforms are crucial to address the global debt crisis, ensuring progressive global tax rules, raising tax revenues, and expanding budget allocations for public services, especially for education.

A UN Framework Convention on Sovereign Debt (Debt Convention) and a UN Tax Convention should be negotiated and agreed upon by all Member States through an equitable, inclusive, participatory, accountable, and transparent process. These conventions must establish multilateral debt and tax resolution mechanisms and define a global consensus on principles, rules, and structures across all stages of the debt and the tax cycles. Such an agreement would ensure fair and sustainable debt and tax managements, empowering countries to pursue development goals while safeguarding their fiscal space for social investments.

IV. Addressing systemic issues

Reforms in global economic governance are essential to protect rights and ensure inclusive decision-making. Existing institutions, designed for a different era, have become ineffective, while the rise of new organizations has further fragmented, complexified and put a gridlock in the international landscape. Multistakeholderism, intended to engage diverse actors in governance, has grown in response to funding challenges, but there is a risk of these spaces being dominated by private sector interests, undermining a rights-based agenda and promoting privatization and commodification. Democratic selection processes and balanced true civil society representation are crucial to prevent conflicts of interest and ensure that the diverse voices, particularly from the Global South, are included. Current power dynamics, often reflecting colonial legacies, perpetuate the dominance of the Global North over the Global South.

V. Emerging issues

Developing countries should not have to choose between pursuing development and addressing climate change, as they face rising financing needs, particularly those vulnerable to climate impacts. Climate finance must be additional, grant-based, and distinct from ODA, ensuring it does not divert resources from other development priorities like poverty eradication and the provision of the right to education. Moreover, unilateral trade measures such as the Climate Border Adjustment Mechanism and the Deforestation Act undermine policy autonomy by imposing external standards, disrupting exports, and hindering local production. A fair and balanced approach to trade and climate finance is essential to respect diverse development pathways, empower domestic producers, and prevent increasing dependence on foreign goods during the transition to sustainable economies.

Embedding climate justice and sustainability through environmental education and nature-based learning within public policies is vital for cultivating climate literacy and recognizing the disproportionate impacts of climate change on groups in vulnerable situations. Expanding access to sustainable infrastructure and practices into curricula and training professionals, in an interdisciplinary, intergenerational, and multisectoral approach to children and youth engagement, is key and needs better and more investments.

IV. Transparency, data, monitoring and follow-up

The successful implementation of development policies requires the establishment and strengthening of effective monitoring mechanisms at both the national level and with the support of international organizations. It is essential to adopt improved data parameters in education, particularly in the area of education funding, as comparing investments solely as a percentage of GDP is insufficient. We need more detailed information on per-student investment and the allocation of these resources to specific inputs to effectively monitor the flow of public investments. This approach ensures not only adequate but also better and more efficient funding. In this regard, the “Custo Aluno Qualidade - CAQ” (Cost of Quality Education per Student) stands as a reference mechanism in Brazil, developed by civil society and researchers, and enshrined in the Federal Constitution. It offers a valuable framework for promoting transparency in educational data and public education funding, guiding efforts towards equitable and quality education for all.