

An Orientation Workshop on

Fault Lines in the International Tax System and Illicit Financial Flows

Centre for Budget and Governance Accountability and Financial Transparency Coalition

March 20-21 | Viceroy Conference Hall, The Claridges Hotel | Dr. APJ Abdul Kalam Road, New Delhi

Agenda

March 20 (Monday)

9:30 – 9:45 Welcome and Introductions

9:45 – 11:15 Why Do Domestic Resource Mobilisation and Progressive Tax Systems Matter?

Domestic resources are key to ensuring that countries have sustainable revenue for public spending on social protection and for interventions across social sectors including health, education, and so on. Domestic resource mobilisation is also crucial for financing of development, sustainable growth and poverty reduction. Further, indirect taxes (such as Value Added Tax, Sales Tax etc.) are regressive in nature, as the proportion of one's income going towards consumption taxes tends to be higher at lower levels of income. Revenue foregone by countries in the nature of tax exemptions or tax incentives also needs a deeper probe. This session will address the basic concepts related to taxation, direct and indirect taxes, tax justice and the fundamental significance of domestic resource mobilisation for financing of development.

11:15 – 11:30 Coffee / Tea

11:30 – 1:30 Why We Should Care About Illicit Financial Flows and Their Corrosive Impacts

Over the past half century, the shadow financial system has grown more complex, and the tools to hide and move money, undetected, have proliferated. Whether it's through anonymous companies or tax havens, illicit financial flows – money that is illegally or unethically earned, transferred or utilised – severely impact countries. This issue is of particular concern for already cash-strapped developing countries, which need resources to invest in development. This session will focus on the issue of illicit financial flows, different estimates of illicit financial flows, the main vehicles through which such illicit money is generated and their corrosive effects on developing countries.

1:30 – 2:30 Lunch

2:30 – 3:45 Manipulation of Import and Export Prices: Trade Misinvoicing

One of the primary ways in which illicit financial flows are generated is through misinvoicing of trade receipts. The price of imported goods is inflated and higher payments to foreign suppliers are stated, thus reducing profits and in turn the taxes to be paid on profits made. The reverse is also done – the price of goods being exported is deflated, thus reporting depleted profits. Estimates suggest that developing countries lose between \$160-200 billion in tax revenue each year due to trade misinvoicing. This session will focus on the practice of trade misinvoicing, the process through which it is carried out, and methodologies through which trade misinvoicing can be identified.

3:45 – 4:00 Coffee / Tea

4:00 – 5:30 Tax Avoidance by Multi-National Corporations: Transfer Mispricing

About 60 per cent of all world trade is carried out between global corporations and their subsidiaries. A ‘transfer price’ is the value paid for an exchange of goods and services between related affiliates of the same multi-national corporation (MNC). If these goods or services are sold at their true rate (the rate at which they would be sold to unrelated business entities), or ‘arm’s length principle’, the transaction is legitimate. However, this requirement is often flouted with transactions mispriced to enable the parent company to shift money (often to tax havens) to minimise taxes. This session will focus on transfer mispricing and ways to address this practice.

March 21 (Tuesday)**9:30 – 11:00 Tax Havens and Financial Secrecy**

Tax havens offer low (or no) tax rates, secrecy of ownership and functioning, and the ability to sidestep regulations controlling financial services. At least 367 of the world’s 500 biggest companies together maintain 10,366 subsidiaries in tax havens, and approximately 50 per cent of world trade is reported to take place through tax havens. The brunt of these practices is borne most by developing countries – as budgets shrink, investment in vital public services decreases, thus hurting the poor and perpetuating greater inequality. The secrecy afforded to the rich and powerful by the existence of a network of tax havens also severely damages developing countries. This session will focus on the role played by tax havens, and the impact of financial secrecy on developing countries.

11:00 – 11:15 Coffee / Tea

11:15 – 1:15 Public Country-by-Country Reporting and Beneficial Ownership Transparency: Shining a Light on Financial Secrecy

This session will focus on the need for **Public Country-by-Country Reporting by MNCs** describing their operations in every country where they are located; and transparency in **Beneficial Ownership** of companies, to recognise the true human owners who ultimately control or profit from a company. These two policy reforms will help address corporate secrecy, which fuels crime, corruption and unreported income and wealth, along with transfer mispricing by multi-national corporations.

1:15 – 2:15 Lunch

2:15 – 3:30 Automatic Exchange of Financial Information between National Tax Authorities

The OECD-G20 led Automatic Exchange of Information standard requires jurisdictions to collect and report financial information of foreign nationals and entities, and share this information with respective foreign governments. This would imply that countries which have committed to the standard will receive financial information regarding their non-resident nationals and entities automatically. This session will focus on the standard of Automatic Exchange of Information, its benefits and challenges for developing countries, and the loopholes in the process.

3:30 – 3:45 Coffee / Tea

3:45 – 5:15 Global Governance: Who Makes the Rules?

The importance of global cooperation is becoming more and more evident, as issues such as domestic resource mobilisation to finance development, regional and global tax cooperation and illicit financial flows are assuming crucial roles for countries through the world. However, the standards of international taxation and the processes of norm setting are dominated by the OECD and the G20, or a bunch of the richest countries across the globe. Developing countries have little space at international platforms to design standards of international tax that impact them directly. A resourced and representative intergovernmental tax body was a central demand of the G77 and civil society at the Financing for Development Conference at Addis Ababa in July 2015. This session will focus on the existing structure of governance on matters of international taxation, and whether a new and inclusive regime is necessary to design the rules of the global financial system – one that works for everyone.

5:15 – 5:30 Closing Remarks and Vote of Thanks