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**

Concept Note

Domestic resource mobilisation is a central but often neglected element of development policy. National tax policies are integral to raising revenue for governments to invest in social security, make interventions across key social sectors, finance development, strive to reduce inequality and secure human rights.

Low tax-GDP ratios[1] in several Asian countries, however, continue to constrain policy interventions for sustainable development. The overall taxation rates in Asia at a regional scale are among the lowest in the world, below the tax levels in the European Union, the Americas, Africa and the Middle East.[2] Many Asian countries also have high levels of dependence on indirect taxation, with Value Added Tax or Goods and Services Tax rates averaging at about 12.5 per cent in the Asia Pacific region.[3] Indirect taxation is regressive in nature, as the proportion of one's income going towards consumption taxes tends to be higher at lower levels of income. In addition, developing Asian economies often engage in aggressive tax competition in order to create the perception of a conducive climate to attract foreign investment; this is often reflected in 'tax holidays', tax incentives, and corporate tax exemptions. Engaging in such practices is also known as a 'race to the bottom', and impede the mobilisation of adequate resources in many Asian countries.

While progressive and effective national tax policies are vital to raising domestic resources, the secrecy mechanisms of the shadow financial system limit the ability of governments to raise revenue on their own. Illicit financial flows encompass the cross-border movement of money that is illegally earned, transferred or utilised, resulting from tax evasion, trade manipulation, organised crime, and corrupt payments to public officials in exchange for influence or access to resources; as well as wider aspects of illicit flows, including tax avoidance by multi-national companies. Common to illicit flows is that they tend to be hidden by those carrying them out. Whether it is through anonymous companies or tax havens, or through the lack of effective information sharing between authorities across borders, illicit financial flows have a crippling effect on countries, especially developing countries.

Tax evasion, tax avoidance, crime and corruption are the broad components contributing to illicit financial flows. Depending on the country context, the degree to which each of those components is driving such illicit flows could differ. Some studies have suggested that developing countries primarily lose revenue due

[1] The tax-GDP ratio is the proportion of the tax collected in a country compared to its gross domestic product (GDP). The tax-GDP ratio is an indicator of fiscal performance. The higher the ratio, the higher the tax revenue collected.
[2] Martinez-Vazquez, Jorge. 2011. Taxation in Asia. Asian Development Bank
[3] KPMG International. 2013. Asia Pacific Indirect Tax Country Guide

to trade misinvoicing through falsifying trade invoices and transfer mispricing through mispricing transactions between related business entities.

Data leaks in the last few years, such as the Panama Papers, Swiss Leaks and Lux Leaks point towards the underbelly of financial secrecy offered to the rich and powerful through tax havens. Aided by an efficient industry of tax lawyers, bankers, and accountants, tax havens are countries or jurisdictions that offer extremely low tax rates, secrecy in various forms, avoidance of financial regulations and criminal laws, and escape from corporate governance rules.

Even as reforms to fix these loopholes in the international tax system are being put forward, the design of global bodies currently setting the rules, such as the OECD and the G20, has led to a systematic exclusion of developing countries from making the rules of global finance that affect them directly. The absence of an inclusive and global tax body also contributes to disparities between developed and developing countries. A well-resourced and inclusive intergovernmental tax body has been a central demand of the G77 and supported by civil society.[4]

In such a context, Centre for Budget and Governance Accountability (CBGA) and Financial Transparency Coalition (FTC) are planning to organise a two-day Orientation Workshop for Asian civil society organisations, titled '**Fault Lines in the International Tax System and Illicit Financial Flows**' in **New Delhi** on **March 20-21, 2017**.

The Workshop aims to further the discourse on the centrality of domestic resource mobilisation in the process of development, the corrosive impacts of illicit financial flows and financial secrecy, and loopholes in the international tax system. The Workshop would focus on substantial debates pertaining to:

- Significance of domestic resource mobilisation and progressivity in national tax systems;
- Illicit financial flows and their corrosive impacts;
- Vehicles used by commercial enterprises to dodge their taxes, such as trade misinvoicing and transfer mispricing;
- Tax havens and impacts of financial secrecy;
- Policy reforms to curb tax evasion and tax avoidance; and
- Reforms needed to international financial institutions that shape norms and standards of international taxation.

The Workshop would bring together civil society organisations from several Asian countries, academics and technical experts on issues related to international taxation and illicit financial flows.

(For more information on the conference, please write to us at neeti@cbgaindia.org)

[4] Inter Press Service. Developing Nations Seek Tax Body to Curb Illicit Financial Flows. August 8, 2016