

Sixteenth Session of Experts on International Cooperation in Tax Matters - Sharing Policy Asks on the Reform of International Financial Institutional Architecture

Policy Submission to Representative of India

(May 8, 2018)



Centre for Budget and Governance Accountability
(www.cbgaindia.org)

Subject: Highlighting policy asks on the reform of international financial institutional architecture ahead of the Sixteenth Session of the Committee of Experts on International Cooperation in Tax Matters (May 14-17, 2018)

We congratulate Government of India's leadership with regard to India being a vocal supporter of the demand for an intergovernmental tax body under the auspices of the United Nations, as well as being the first country to have made a voluntary contribution to the UN Tax Trust Fund.

The issue of illicit financial flows (IFFs)¹ is urgent and complex, that concerns authorities across the world. Curtailing IFFs is central to domestic resource mobilisation, as IFFs severely undermine national efforts to raise revenue to invest in social security, finance development and secure human rights. Developing countries continue to lose revenue to tax dodging by multi-national corporations (MNCs) and the elite, crime, corruption and money laundering. In 2015 alone, developing countries lost approximately \$1 trillion to IFFs² – a highly conservative estimate of the issue. Countries across the world also bear tax losses of about \$500 billion to tax avoidance by MNCs each year – of which India alone loses about \$41.17 billion to such practices annually.³ This is in large part made possible due to mismatches in or weak national tax policy and laws, which result in loopholes for tax avoidance and corruption internationally.

With reference to the Sixteenth Session of the Committee of Experts on International Cooperation in Tax Matters to be held on May 14-17, 2018, **we are writing to you to highlight some of our policy asks on reforming the international institutional architecture on finance**, to address the loopholes in international tax policy and tax laws.

International tax norms are currently designed by the Organisation for Economic Co-operation and Development (OECD) and the G20, as well as some lesser known bodies such as the Financial Action Task Force (FATF), Bank of International Settlements (BIS), Basel Committee on Banking Supervision (BCBS), Financial Stability Board (FSB), International Accounting Standards Board (IASB) and International Organization of Securities Commission (IOCSO). While these bodies may appear to be a diverse group of institutions focusing on different aspects of international tax, they form a close web and are inter-linked through funding agreements and reciprocal membership.

The membership of these international bodies most often comprises of rich, developed countries from the Global North; and the secretariat or headquarters of these bodies is located in the Global North as well. Most developing countries, especially low income countries, are not members of such institutions and therefore do not have the policy space to shape international tax standards that affect them directly. The norms designed by these exclusive institutions thus run the risk of benefiting developed countries, often at the expense of developing nations which are expected to implement these norms without enough scrutiny and contextualization.

We would therefore request that the Committee of Experts on International Cooperation in Tax Matters support the establishment of a well-resourced, intergovernmental tax body under the auspices of the United Nations, to achieve a neutral, democratic and inclusive platform for shaping norms of taxation and promoting international tax cooperation.

¹ Illicit financial flows (or IFFs) are cross-border movement funds generated through a range of activities including tax evasion, misappropriation of state assets, laundering proceeds of crime as well as tax dodging by multi-national corporations and elites by abuse of domestic tax laws, bilateral tax treaties and trade and investment agreements. Common to illicit flows is that they tend to be aided by financial secrecy.

² Global Financial Integrity, 2017

³ UNU-Wider, 2017

The then Minister of State for Finance, Mr. Jayant Sinha stated at the Third International Conference on Financing for Development (FfD) in July 2015:

“In today’s interconnected world, tax policy is a global public interest, having ramifications far beyond national borders. Greater information exchange is good, but not a substitute for genuine and equitable multilateralism in deciding global norms and standards on taxation. If this is truly a universal agenda, then all of us must have an equal seat at the table to legislate on global issues. The lack of an ambitious decision on upgrading the UN Committee of Experts on international cooperation on tax matters into an intergovernmental body, in our view, is a historic missed opportunity.”

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