Eighteenth Session of the Committee of Experts on International Cooperation in Tax Matters – Sharing Policy Asks on Illicit Financial Flows, Tax Incentives and Reform of International Financial Institutional Architecture

Policy Submission to Representative of India

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

Subject: Highlighting policy asks on the reform of international taxation ahead of the Eighteenth Session of the Committee of Experts on International Cooperation in Tax Matters (April 23-26, 2019)

With reference to the Eighteenth Session of the Committee of Experts on International Cooperation in Tax Matters to be held between April 23 and 26, 2019, **we are writing to you to highlight some of our policy asks on reforming the international tax system** in order to address the loopholes in international tax policy and tax laws.

Adopting a progressive, well-rounded definition of illicit financial flows

The issue of illicit financial flows (IFFs)[1] is urgent and complex, that concerns authorities across the world. Curbing illicit financial flows is essential for realizing human rights and achieving sustainable development. Illicit financial flows comprise of a broad spectrum of activities, which negate the realization of human rights across the world, especially developing countries. It is therefore crucial that the international community place illicit financial flows and progressive tax systems at the heart of international tax policy and development.

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 IFFs[2] – 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.

We would therefore urge the Committee of Experts on International Cooperation in Tax Matters to recognize the issue of illicit financial flows as a human rights issue.

Tax incentives and a race to the bottom

The use of tax incentives is prevalent across the world, but the practice has become more widespread over the past couple of decades, especially in low income countries. However, there is no definitive data on the global magnitude of incentives granted, given that not all countries collect and publicly report such data and the fact that there is no standardized methodology for reporting across all countries.

Tax incentives run into billions of dollars in revenue foregone – revenue that could have been used to secure human rights and finance crucial development needed in cash-strapped countries. Further, there is also ample evidence of the abuse of tax incentives regimes, treaty shopping and the tendency on part

[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

of countries to consistently lower their tax rates and engage in a ‘race to the bottom’ in hope of attracting foreign investment.

We would urge the Committee of Experts on International Cooperation in Tax Matters to recognize the need to engage in the discourse of tax incentive abuse, and adopt this issue in its mandate. We would urge the Committee to take cognizance of the magnitude of the issue, and recommend standardized, public reporting of the data on tax incentives by all countries.

A democratic, representative intergovernmental body for designing norms of international taxation

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.

(For further information on these issues, please contact us at <director@cbgaindia.org> or <neeti@cbgaindia.org> or at 011-4920 0400 / 401 / 402).