ICRICT
Independent Commission for the Reform of International Corporate Taxation

PRESS RELEASE

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Taxing multinationals: Unified Approach proposal is not good enough – ICRICT urges Secretariat to bring G24 proposal back to the table and to publish economic impact analysis so that the debate can be both transparent and objective.

Last month, under the mandate of the G20, the OECD Secretariat has presented a proposal to address the challenges of taxing multinational corporations in the digital era. It is now being discussed within the "Inclusive Framework", a group of 134 countries across the globe, including developing economies. Their next meeting will take place in January 2020, which gives the countries, especially the developing ones, very little time to weight on the final decision. The fast pace of the reform process and the OECD pressure to reach a consensus in the coming months means that the risk of unsatisfactory solutions is high.

The OECD's proposal is based on two "pillars". The first one, "Pillar 1", is to establish clearly where corporate profits are generated for tax purposes. The OECD publicized it on Oct 9. The second one, "Pillar 2", is the establishment of an effective minimum corporate tax at the global level, and the proposal was made public a month later.

ICRICT welcomes the opportunity to respond to the OECD's request for input on the Secretariat Proposal. We have just submitted our response about the first part, the "Pillar 1". **You can read our submission here**, quickly summarized below.

The OECD's proposal does not go far enough to change the current dysfunctional system

1) **The proposal introduces even greater complexity**, leaving the current dysfunctional transfer pricing system (designed in the 1920s) largely in place, while adding a three-stage bolt-on solution just for a small percentage of global profits.

2) **We reject the proposal of splitting "routine" (i.e. locally generated) and "residual" (i.e. internationally generated) global profits of multinationals**. It is not possible to distinguish them as *all* profits are essentially the result of the global activities of the firm. This proposal would keep the existing dysfunctional rules in place to determine how most multinationals profits are taxed and result in little reallocation of taxing rights.

3) **Changes to the allocation of taxing right shouldn't depend only on sales**, as proposed by the Secretariat. It would tend to advantage advanced economies who consume more whilst developing countries significantly benefit if **employment** is included in any allocation formula.

4) **The reform's scope is too limited**. What could be a comprehensive reform with new rules applicable to all businesses, is now reduced to new complex rules for only "*large consumer-facing businesses*", and likely to be further watered down by carve-outs for specific industries/business models. Such a proposal is likely to exempt a large proportion of multinationals. In our view, the outcome of this negotiation should be applicable **to most if not all multinationals**.

5) **The Intergovernmental Group of Twenty-Four (G-24) proposal would allocate *all* profits** through the use of a **balanced** formula (including employment in particular, as well as digital users and the use of natural resources). This is a much better proposal that the OECD Secretariat has decided to replace with its current proposal. We urge the Secretariat and the Inclusive Framework to bring it back to the negotiating table.

6) **The distributive implications of this proposal are unclear**, **as the OECD has not published any economic impact analysis in order to support their proposal**. Countries are asked to sign up to a "consensus proposal" without the economic impact being made publicly available for scrutiny. We urge the OECD secretariat to publish the economic impact analysis of this proposal before the Inclusive Framework meeting in January 2020, along with the full data from multinationals' country-by-country reporting. Without this, the 134 members cannot fully evaluate whether it is in their interests to sign up to this reform.

7) **We are concerned that the complexity built in the OECD's proposal will lead to an increase in disputes.** We acknowledge that several developed countries are also calling for tax certainty (i.e. mandatory arbitration or other dispute resolution mechanisms) to be a condition for a redistribution of taxing rights towards developing countries. We believe that developing countries should not accept stricter and opaque dispute resolution mechanisms as a condition for consensus to be found.

Concluding remarks

As an independent Commission, we have urged governments to move away from the existing transfer pricing system towards a unitary approach to taxation of multinationals, based on a system of **multi-factor global formulary apportionment, together with a global minimum tax**.

According to the IMF, governments lose at least $500bn a year as a result of corporate tax shifting. And Economist Gabriel Zucman – member of ICRICT - estimate that some 40% of overseas profits made by multinationals are transferred to tax havens. Any reform that does not significantly increase global tax revenues from multinationals does not adequately address these concerns about tax avoidance.

We therefore urge the OECD Secretariat to redouble its efforts and work with the Inclusive Framework representatives to come up with the comprehensive solution that is urgently needed, and meanwhile to publish country by country data on the actual and proposed distribution of the taxable profits of multinationals between jurisdictions so that the debate can be both transparent and objective.

You can read our whole submission here

Read our latest report about how to change the way multinationals are taxed, with solutions that are in the interest of both developed and developing countries

Quotes of ICRICT commissioners (Please feel free to use them):

José Antonio Ocampo, Chair of ICRICT, said:
"The OECD's proposals are neither ambitious nor fair enough. They would only apply to very large multinationals and the allocation of these profits would depend solely on volume of sales, excluding employment and other factors that would favor developing countries".

Joseph Stiglitz, Professor at Columbia University and ICRICT Commissioner:
"The world is facing multiple crises – including climate change, inequality, slowing growth, and decaying infrastructure – none of which can be addressed without well-resourced governments. Unfortunately, OECD's proposals for reforming global taxation simply don't go far enough".

Jayati Ghosh, professor of economics at Jawaharlal Nehru University in New Delhi and member of ICRICT said:
« It is important for the developing countries to look at this issue seriously and take a clear position at the OECD meetings, because the outcome will be very important for their own abilities to raise tax revenues. Governments that are currently ineffective in battling both economic slowdown and declining tax revenues cannot afford to neglect this crucial opportunity ».

For any enquiries, or to speak with one of our 15 commissioners, or ICRICT **Head of Secretariat TOMMASO FACCIO,**
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ABOUT ICRICT:
The Independent Commission for the Reform of International Corporate Taxation (ICRICT) aims to promote the international corporate tax reform debate through a wider and more inclusive discussion of international tax rules than is possible through any other existing forum; to consider reforms from a perspective of public interest rather than national advantage; and to seek fair, effective and sustainable tax solutions for development.