ICRICT
Independent Commission for the Reform of International Corporate Taxation

PRESS RELEASE

For immediate release
20 January 2020

ICRICT: Fix the global tax system to fix the inequality crisis

The inequality crisis remains unaddressed and out of control. Hundreds of millions of people are living in extreme poverty while large rewards go to those at the very top. In 2019, the world's billionaires, only 2,153 people, had more wealth than the poorest 4.6 billion people combined, according to Oxfam. A new generation of inequalities is opening up, around education, technology and climate change. The demonstrations that swept across the world last year signal a global revolt against extreme inequality and the poor living standards for a large amount of the world's population.

Faced with popular demands, governments excuse themselves by arguing that their coffers are empty and implementing austerity program. These measures only aggravate economic, social, gender and racial disparities, depriving people of access to health care, education, or housing, especially in developing countries.

Inequality is not beyond solutions. One of the most obvious is to change the international corporate taxation system, which is not only obsolete, but also unfair, since it allows for systematic tax evasion and avoidance by multinationals. Corporate taxation is one of the most important tools in addressing inequality. Tax evasion and avoidance by multinationals further increases income inequality, as corporate equity mostly belongs directly or indirectly (e.g. through investment funds) to wealthy individuals who receive profit income through dividends and capital gains.

In the face of global outrage at the low or even close to zero corporate taxes paid by some of the world's largest multinationals, last year, the OECD put forward proposals for a new international tax system to address the challenges of taxing multinational corporations in the digital era. For the first time, the OECD proposal moved beyond the arm's length principle considering taxing multinationals as global firms and distribute global profits between countries. This is progress, but overall the proposals are neither ambitious nor fair enough as we explained in our latest report.

This year could set the foundations of our next international tax system, with the OECD's "Inclusive Framework" (a group of 137 countries across the globe) next meeting taking place at the end of January in Paris. We urge economic leaders who are meeting for the World Economic Forum in Davos to push for a real reform that would benefit both developing and developed countries. This would not be achieved if the negotiations are driven by what multinationals are prepared to accept, as we have seen in the recent spat between the US and France over the imposition of a digital sales tax.

All countries have a stake in developing a sustainable international tax system that can help to deal with the extreme inequality of today. **A weak outcome dictated by the preferences of one or two G7 countries will further undermine of the OECD's legitimacy in its role as the institution responsible for setting norms for international taxation.**

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

José Antonio Ocampo, Professor at Columbia University and ICRICT Chair:

"After decades of inaction, the OECD made an important move challenging the very foundation of the international tax system, which is the ability of multinationals to report their profits in the subsidiary of their choice. In this debate, however, we do not play on an equal terms. Rich countries have more human, political and financial resources to make their views prevail. With the largest concentration of multinational headquarters, they are also those most influenced by the pressure of the corporate world, at the expense of their own citizens and the rest of the world".

Jayati Ghosh, Professor of economics at Jawaharlal Nehru University (New Delhi) and ICRICT commissioner:

"Since a multinational actually functions as one entity, it should be treated that way for tax purposes. So, the total global profits of a multinational should be calculated, and then apportioned across countries according to some formula based on sales, employment and users (for digital companies). This is something that is already used in the United States where state governments have the power to set direct and indirect tax rates".

Magdalena Sepúlveda, Executive Director of the Global Initiative for Economic, Social and Cultural Rights and ICRICT commissioner:

"If multinationals - and the super-rich - do not pay their fair share of taxes, governments cannot invest in access to education, health care, and decent pensions, or take measures to mitigate and adapt to the climate crisis. The impact is even greater for developing countries, as they rely more on corporate taxes. Furthermore, the tax burden is shifted to the poorest, usually through taxes regressive to consumption, such as value-added tax (VAT)".

"It is incumbent on all of us to make a clear commitment to the issue of international taxation, no longer considering it as a technical issue to be discussed behind closed doors. We must work collectively to put the interests of the majority of citizens above the often-unreasonable profits of a small group of shareholders".

Videos of ICRICT commissioners (please feel free to use them):

We won't succeed in tackling inequality without making multinationals pay their fair share of taxes, says **Jayati Ghosh,** Professor at Nehru University and ICRICTcommissioner. Watch her here:

A fair international tax reform can't be won by the technocrats, says ICRICT commissioner **Wayne Swan**. Watch him here:

The richest companies in the world don't pay taxes, reminds us **Joseph Stiglitz**, Professor at Columbia University and ICRICT Commissioner. Watch him here:

Thomas Piketty, Professor at Paris School of Economics and ICRICT commissioner explains how unitary taxation works (in French). Watch him here:

KEY FIGURES

- Globally, tax avoidance diverts 40% of foreign profits to such havens, according to ICRICT commissioner Gabriel Zucman.
- IMF's Fiscal Affairs Department estimates annual total corporate tax losses associated with profit shifting at more than $500bn, with $400bn for OECD member states and around $200bn for developing countries per annum.
- In 2018, 82% of global wealth generated went to the richest 1% of the world's population, while the poorest 50% - 3.7 billion people - did not benefit from this growth in the least.
- Developing countries are only able to raise between 10% to 20% of GDP in tax collection compared with the 40% collected by a typical advanced economy.
- According to Oxfam latest report ("Time to care"), taxing an additional 0.5% of the wealth of the richest 1% over the next 10 years is equal to investments needed to create 117 million jobs in education, health and elderly care and other sectors, and to close care deficits.
- Since 2000, average statutory tax rates have declined across OECD member states and most jurisdictions. (You can find here the figures in the OECD's Corporate Tax Statistics (p. 10) and current corporate tax rates around the world).
- Corporate tax cuts increase income inequality: a study made in the US shows that a corporate tax cut of 0.5 percentage points explains about 7.8 percent of the average rise in the share of income accruing to the top earners between 1990 and 2010.
- Developing countries rely relatively more on corporate tax income as a source of government revenues. Corporate tax represents 15% of total tax revenues in Africa and in Latin America, compared to 9% in OECD countries.

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

MEDIA CONTACT: LAMIA OUALALOU
loualalou@gmail.com or by WhatsApp +52 1 55 54080974.

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.