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Tax Revolution?

Oxfam briefing on new round of global negotiations on international tax reform.

On June 8th and 9th G20 Finance Ministers meet in Fukuoka, Japan. They are expected to give the green light to a new round of negotiations on international tax reform – BEPS 2.0.

Previous attempts at tax reform have attempted to plug the holes in our international tax system with limited success. As a result, multinational corporations are still paying less tax than before the financial crisis in 2008 and multinational corporations continue to shift as much as 40 percent of their foreign profits to tax havens[i].

This new round of discussions offers the potential for the fundamental reforms needed to ensure our century old tax system is fit for purpose in the increasingly digitalized economies of the 21st Century.

If governments get it right, these negotiations could significantly change the way all multinational companies are taxed – not just the tech giants. This process could spell the end of corporate tax havens and put a stop to the damaging race to the bottom on corporate tax. It could mark the beginning of a new fairer tax era where poor countries are able to claim their fair share of corporate tax revenues – and access the funds they need to tackle poverty and inequality.

What's new about this round of negotiations?

The first round of negotiations on tax reform were led by the Organisation for Economic Cooperation and Development (OECD) and concluded in 2015 under the mandate of the G20. The Base Erosion and Profit Shifting Agreement (BEPS 1.0) closed some of the loopholes in the tax system that allowed corporations to avoid tax – for example through 'abuse' of tax treaties. However the reforms fell well short of what is needed to put a stop to corporate tax avoidance.

BEPS 2.0 will explore more fundamental reforms including issues such as where companies' profits should be taxed and whether there should be a global minimum effective corporate tax rate. This could mean that all multinational corporations are required to pay a minimum amount of tax no matter where the profits are registered, and that companies are required to pay more tax where they make their money – rather then whatever tax haven they are based in.

The negotiations will be held in the OECD Inclusive Framework, a body that is now involving 129 member states from across the globe. For the first time developing countries will have a seat at the negotiating table from the outset and a real opportunity to ensure the reforms meet their needs.

What will be discussed?

The OECD has outlined its proposals or work plan for the negotiations here. It identified two key challenges – or pillars – for discussion:

Pillar 1 – Taxing rights. Where should corporate profits be taxed? The OECD plans to allocate more taxing rights to countries where a corporation's products and services are consumed and where their digital users are resident. Under the current system many countries have little or no right to tax profits generated from sales and other digital activities on their territory, because a company needs to be physically present in order to be taxed and because the current rules don't take account of the value which customers and digital users bring to a company. These reforms could mean many countries – including many developing countries - will for the first time be able to tax big corporations including the big tech giants based on the profits they generate in their country.

Pillar 2 – Global Anti Base Erosion: Should all corporations be required to pay a minimum rate of tax? The OECD wants to introduce a global minimum effective tax rate in order to ensure that all corporate profits are taxed at a minimum level. An ambitious minimum corporate effective tax rate applied in every country would remove the incentive for companies to move their profits to low or zero corporate tax countries – effectively putting tax havens out of business – and put an end to the damaging tax competition between countries that has seen the average rate of corporate income tax across 94 jurisdictions fall from just over 28.6 percent in 2000 to 21.4 percent in 2018.

Is this just about the tech giants?

The big tech companies, who no longer need to be physically present in a country to make profits there, have thrown the weakness of the current tax rules into stark relief. This problem will only get bigger as the digital economy, which currently accounts for between 15 and 20 percent of global GDP, is growing fast. For example, in Latin America the digital economy is expected to account for half of the region's GDP by 2022. Technology is also changing the way every single industry operates and the whole tax system needs to change to keep pace.

Who is involved in these negotiations?

The negotiations are taking place under the OECD Inclusive Framework and will involve all 129 member states and jurisdictions – a huge improvement on the first round of negotiations, which were limited to developed economies and a handful of big developing countries.

Some developing countries will not be able to participate because they have yet to sign-up to the OECD minimum tax standards – a prerequisite for membership of the OECD Inclusive Framework. These tax standards have been designed by, and for, developed countries and many developing countries do not see the added value for their own tax systems. As such, Oxfam proposes to temporarily allow all countries into the Inclusive Framework without signing up to the OECD standards. There are also concerns that poor countries are not adequately represented on the Inclusive Framework steering group that leads the negotiations while developed countries are over-represented.

Where do governments stand on these proposals?

Germany and France have been championing the proposal on the global minimum effective tax rate, while the United States and India have been pushing for more taxing rights to be allocated to consumer markets – although India is pushing for a simpler system than the US where the tax a corporation pays is based on its economic presence in a country.

New Zealand and Nordic countries such as Sweden and Denmark are against the partial shift of taxing rights to consumer markets, as they fear they will lose out.

How long will this take?

The timetable is ambitious. The BEPS 2.0 process officially started in January 2019. The G20 Finance Ministers are expected to give a formal endorsement to the work programme, which defines the focus of, and process for, the negotiations when they meet in Japan. The OECD aims at having an outline of the final agreement in January 2020 for approval by G20 Heads of State at a Summit in Saudi Arabia in November 2020.

Why is this an issue for Oxfam?

The global corporate tax system is unfairly biased against poor countries. It has prevented developing countries from collecting their fair share of corporate tax – reducing the revenue they have available to tackle poverty and inequality. This problem has been exacerbated by the rising digital economy in recent years.

At the moment, developing countries often have little or no taxing rights over the huge profits companies generate providing digital services to customers in their countries despite being a significant part of the growing digital economy. By mid-2016, 73 percent of the world's Internet users were from Africa, Asia, the Middle East, Latin America and the Caribbean.

Developing countries lose an estimated $100 billion a year in tax revenues as a result of tax dodging by multinational corporations – and even more as a result of damaging tax competition between countries.

An ambitious global minimum effective tax rate and a fairer distribution of tax rights could release billions of Euros that are desperately needed to end hunger, tackle the climate crisis, and ensure all children have the chance of an education.

What would Oxfam like to see happen?

- BEPS 2.0 is an historic opportunity to put a stop to damaging tax competition and corporate tax avoidance, and to build a fairer tax system that works for the benefit of all people and not just a fortunate few. To ensure these discussions are a success the OECD and G20 must:
- Give all countries a seat at the negotiating table – removing the need for countries to sign-up for the OECD minimum tax standards – and ensure the interests of developing countries are given equal weight in negotiations.
- Ensure an equitable rebalancing of taxing rights between developed and developing countries for all economic sectors – and not just tech giants. Oxfam fully supports the proposal by the G24 to allocate multinational profits based on the profits made in the country and not simply on where the company choses to register itself.
- Simplify the tax system so it is easier to understand and administer.
- Ensure the Global Minimum Effective Tax rate is set at an ambitious level and applied at a country-by-country basis without exceptions.

Contact information

Oxfam's tax experts are available for interviews and background.

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[i] https://gabriel-zucman.eu/files/TWZ2018.pdf