actionaid

Tax & Domestic Resource Mobilisation and the G20

International Policy briefing

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Tax dodging by multinational companies has a tremendous impact on developing countries' ability to mobilise domestic resources. As the home states of most of these multinationals, the G20 have a responsibility to acknowledge this impact, and to help developing countries mitigate it. This should lead to three types of response:

1. Increased **support for capacity building (particularly on transfer pricing)** which should be coordinated through the G20, allowing developing countries sufficient flexibility to apply rules suited to their own needs.

2. International reforms to bring about the **transparency and information exchange** that developing countries need, and to create a level playing field in the creation of international tax standards.

3. **Consideration of the impact of their own tax policies** on the interests of other companies, especially developing countries ("spillover analysis").

Introduction

The G20 is in a unique position to take the lead on fair taxation across borders. They have issued positive statements about information exchange and the abuse of "tax havens" in the past, and committed to "ensure developing countries benefit" from this. While the G20 have used their political and economic muscle with tax havens to secure their own access to information and lost tax revenues, developing countries have in large part been left to pick up the crumbs from under the table. The G20's efforts on tax and development have been limited to the technical sphere, with a draft report of the G20's development working group prepared for this summit stripped of all political resolutions.

Tax will be a key pillar of the high-profile Gates Report on financing for development, which will be launched at the summit.

ActionAid calls for the following actions from the G20. The leaders gathered in Cannes are unlikely to take on all these recommendations, but they should reaffirm their positions and, where more work is required, direct the G20 Development Working Group to take serious action on these issues.

Transparency: To ensure that developing countries get their fair share of revenues from economic activity within their borders, it is essential that multinational corporations make more and better information available. The G20 should:

- Agree to adopt regulations in each country that would require listed corporations to disclose payments they make to governments. The "Dodd-Frank" legislation in the U.S. provides a model of how this can be done.
- Commit to further investigation of a country-by-country financial reporting standard for all sectors through the OECD's informal task force on tax and development, to inform the IASB's forthcoming consultation on the subject.

End Tax Haven Secrecy: The G20 created the impetus for a global crackdown on "non-cooperative jurisdictions," which has led to the reinvigoration of the Multilateral Convention on Mutual Assistance in Tax Matters and the Global Forum on Tax Information Exchange. Developing countries wishing to participate in these two initiatives should be assisted through:

- Adoption of a standard to define Global Forum members which do not participate in multilateral information exchange agreements (including the Multilateral Convention as well as regional conventions being developed amongst developing countries) as non-cooperative jurisdictions, thereby strongly encouraging tax havens to join. This will make it a much more attractive option for low-income countries.
- Full membership and participation by all G20 countries in the Convention.
- Establishment of separate standards for developing countries' compliance in the short term. For example, while they develop the capacity to participate fully in

information exchange, there should still be transfers of information transfer to low-income countries.

Reform Rules on Transfer Pricing: A substantial portion of the revenue lost to developing countries results from abuses of "transfer pricing," such as those outlined in ActionAid's report "Calling Time: Why SABMiller should stop dodging taxes in Africa." Transfer pricing is the system through which a multinational company's taxable profits are allocated across the different jurisdictions in which it operates, through the internal trade in goods and services within the group. Critics have argued that the international transfer pricing regime, which is maintained by the OECD, is too complex for developing countries, making it easy for companies to break the rules, and that even when properly enforced it does not result in an allocation of taxable profits that is beneficial to developing countries. The G20 should:

- Make technical assistance in the area of transfer pricing a top priority, to meet the already overwhelming demand from developing countries. Such assistance should recognise that transfer pricing is a tax policy decision to be taken by sovereign states, not a purely technical matter.
- Support regional and global initiatives to develop transfer pricing standards that are appropriate to the situations of developing countries, in particular the UN Tax Committee's Practical Manual on Transfer Pricing.
- Commit in the longer term to supporting the development of a global regime in which international tax standards are set in a forum in which developing country participation is on a par with other states.

Recognize Spillover Effects: G20 countries must recognize that their own laws and agreements have impacts far beyond their borders. They should:

- Analyse the spillover impact of their tax laws regarding multinational companies on developing countries and consider how to compensate for it.
- Use agreements between G20 countries and non-cooperative jurisdictions to advance international cooperation and ensure developing countries benefit from greater transparency and information exchange.

Increase Capacity and Avoid Imposed Agendas: G20 countries should prioritize assistance to countries seeking to increase their tax policy and administration capacity. Technical assistance and policy advice to developing countries should follow the agenda set by developing countries, regional organisations (e.g. the African Tax Administrators Forum [ATAF]) and organisations in which developing countries participate on an equal footing (e.g. the UN tax committee and the UN Economic Commission for Africa). In the short term, this should include:

- Support governments to implement their own plans for developing their capacity to administer tax regimes and enforce tax rules.
- Support for ATAF's diagnostic toolkit as the basis for determining capacity building priorities in Africa.
- Committing resources to strengthen the developing country participation in, and secretariat capacity of, the UN committee.
- Transparency concerning the amount of each G20 member's development assistance devoted to tax capacity building.
- A recognition in the delivery of technical assistance that it is for each country alone to determine its own tax policy, including the decision to adopt international tax standards such as for transfer pricing.

Get Serious About Enforcement: The G20 countries should take well-publicized steps to support more effective tax cooperation by:

- Committing to recognize tax evasion as a criminal offence in all their jurisdictions.
- Agreeing to promote the mandatory establishment of national registers of trusts, companies, or any other legal entities created in their territories with information on accounts, beneficial owners, nominee intermediaries, managers, trustees and settlers. This information should be made available to any tax authority.