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Pay taxation, buy civilisation

A robust international tax system is the best defence against authoritarianism. And there's increasing political will for change

Read this interview in German.

You say that the impact of taxation avoidance is much harsher in the developing world than, let's say, in Australia and Germany. Why?

The stakes are very high, particularly for the developing world. In the developing world, personal income taxes (PIT) are considerably lower than the OECD average and corporate income tax (CIT) is considerably higher than the OECD average. So when CIT is evaded in the developing world, it has a far greater impact on and opportunity cost for those economies.

It's been extremely difficult in countries like Germany and Australia to deal effectively with rampant tax evasion of multinationals through debt dumping and profit shifting. And it's even more difficult in the developing world to deal with these harmful tax practices. I've seen up close in the Asia-Pacific just how vulnerable countries like Indonesia are to debt dumping and transfer pricing to tax havens like Singapore.

That's why we need radical solutions to tax evasion and an end to the destructive race to the bottom on tax rates. At the same time, we need to build progressive tax systems so we can deal with the growing wealth and income inequality that is now accelerating in the developing world – as it has in the developed world.

Populists are currently very successful in promising the revival of a strong nation-state. Fiscal policy is a core element of national sovereignty. Doesn't an international agreement constitute an attack against already weakened nation states?

It's simply not possible to have prosperous middle class societies without a level of taxation that can deliver decent chances for everyone and sustain successful, legitimate democratic government. Strong fiscal policies that focus on growth with equity is the only

long-term defence against authoritarianism and preservation of democratic values. As the saying goes: pay taxation, buy civilisation.

Healthcare for all, education for social mobility, a decent social safety net for those left behind, the elimination of political and business corruption, strong public regulation of the environment – these are what a troubled world needs. They are the best weapons we have against cynicism, populism and hate-mongering.

The international community has made some progress in the last years, for example with Base erosion and profit shifting (BEPS), which was driven by the OECD. But these reforms are designed mainly by developed countries. What should be done to take the needs of the Global South into consideration?

The Independent Commission for the Reform of International Corporate Taxation (ICIRICT) welcomes the OECD's recognition that we need radical changes to the BEPS process. The bringing together of the developing world through the Inclusive Framework is a welcome initiative but we're extremely concerned that will not be enough to secure the reform of the international tax system, which has been frequently crushed by powerful vested interests in the past. Across the developing world there needs to be a much louder voice and a greater degree of urgency in developing consensus for:

First, stronger domestic resource mobilisation through the development of progressive tax systems with measures that need to lift growth so that tax-to-GDP ratios can be lifted sustainably.

Second, voices from the emerging world need to be much louder in key forums such as the OECD, UN and the IMF.

Third, domestic resources mobilisation is just as much about governing and domestic support as it is about the design of individual tax and expenditure policies.

Germany and France propose a global minimum corporate tax. Is such a minimum tax already the solution to the problem? What should the minimum level be in order to be effective?

Over the last two years, the ICRICT has outlined a pathway forward. It has proposed that the world should move away from the transfer pricing system towards, first, a unitary taxation of multinationals and, second, a global effective minimum tax rate. Together, these would drastically reduce the capacity and financial incentives for multinationals to shift profits between jurisdictions and for countries to cut their tax rates.

I believe the minimum rate should be significantly higher. As the US

has introduced an effective minimum global minimum rate of 11 per cent (raising to 13 per cent), a global agreement should be reached that ensures a minimum effective tax rate of 20 per cent. The minimum rate should over time be raised to narrow the gap with top personal income tax rates.

The European Union recently failed in its attempt to build consensus on a common corporate taxation level. Why are you and your colleagues from ICRICT optimistic that a real makeover of the international system is possible and coming soon?

The political will to address the failure of the current system is visible, demonstrated by a number of countries introducing a number of unilateral measures to stop tax evasion by multinationals, from the US introducing a major reform in 2017 and a number of countries introducing new rules to tax the digital giants (India, France, Italy and others) or stop profit shifting by multinationals (UK diverted profits tax). The risk associated with inaction are also very high, such as more unilateral measures and more disputes, and this increases the pressure for change.

Digitalisation makes it even harder to apply taxation of corporate activity. When companies like Facebook do not have a real 'production facility', how can taxation systems handle this?

The digital economy exposes all the contradictions of the separate entity principle and demonstrate its unsustainability in the long run. The current rules were devised nearly 100 years ago at a time when there was no internet and where you had to have a physical presence to trade in a country. The examination of tax challenges associated with the digital economy at the OECD presents the perfect opportunity for global leaders to be bold and to push for a rethink of international tax norms.

A system of formulary apportionment addresses this issue as it's irrelevant which entity concludes the sale to the customer. Global profits are allocated to countries on the basis of sales, employment and assets and IMF research shows that using a combination of sales and employment as formulary apportionment factors will likely benefit both advanced and developing countries. It would ensure that the lion's share of the profits and associated taxes would be allocated to countries where resources are extracted, sales are made, services are provided and consumed, and products are manufactured.

ICRICT urges governments to implement unitary taxation of multinational companies. Is that ever going to happen?

The rules are already moving towards unitary taxation. Exchange between tax authorities of country by country reporting data of multinationals finally provides a unitary global view of multinationals, which are unitary businesses operating across borders. The OECD has admitted for the first time this year that rules need to move beyond the fiction of the separate entity principle, a recognition that the current system is no longer fit for purpose.

The Intergovernmental Group of 24, which represents nearly half of the world's population, believes a system of formulary apportionment is the way forward, so the narrative has finally shifted. But it's a slow process, as the vested interest in the current system is extremely high. Last week, the IMF published a report indicating that the current system is under extreme pressure and new alternatives must be considered, including ICRICT's global formulary apportionment.

Why should a just worldwide tax system be a core issue for every social democrat?

Tax abuse by multinational corporations increases the tax burden on other taxpayers, violates the corporations' civic obligations, robs developed and developing countries of critical resources to fight poverty and fund public services, exacerbates income inequality, and increases developing countries' reliance on foreign assistance.

Furthermore, harmful multinational corporate tax practices are a form of abuse that weakens society and demands urgent action. This is even true when the practices of corporations are within the law, and especially so when corporations have used their political influence to get tax laws that provide them scope for such abuses.

Across the globe, countries consistently levy a corporate tax on corporate profits largely because it's easier to collect tax from registered and regulated companies than profits in the hands of individual shareholders, many of whom may reside abroad (or pretend to, by holding their shares through offshore companies or trusts).

By failing to collect the revenue that's lost through tax abuse by multinationals, governments are failing in their obligation to mobilise all available resources towards the realisation of human rights and the sustainable development goals and thereby condemning millions of people across the developing world to poverty, lack of opportunity and lower living standards.

This is why a fair worldwide tax system must be a core issue for every social democrat.

This interview was conducted by Claudia Detsch.



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