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Tax justice is more important than ever

Fiscal and monetary measures have dominated the response to the corona crisis. But we also need a tax justice agenda to address growing inequalities

Not long ago, in September 2019, the Global Preparedness Monitoring Board outlined the threat of a pandemic capable of killing millions as *imminent*. This independent group of experts, convened by the World Bank and the WHO after the first Ebola crisis, highlighted that for too long, world leaders' approach to health emergencies had been characterised by a cycle of panic and neglect, and that current preparedness for health crises was 'grossly insufficient'.

Fast forward to 2020: In the space of a few weeks, our efficient, interconnected, globalised and technologically advanced world has been brought to its knees by the Covid-19 pandemic. What started out as a health emergency has soon emerged as the biggest human, social and economic crisis we have known in decades.

The pandemic hit a world that was already experiencing high levels of inequalities, on the lines of gender, identity, descent, class, caste and race, which have become widespread and intersectional. Those experiencing such inequalities – women, people living in poverty, migrants, refugees, the elderly and the marginalised – represent the most vulnerable people who are going to be disproportionately affected by the pandemic's obvious health risks as well as the economic downturn and a worsening debt crisis. In terms of structural inequality between countries, such inequalities will worsen due to systemic exclusion of developing countries from spaces of decision-making.

The impacts of this pandemic will be long-lasting and how we respond to the crises now and in their aftermath will profoundly shape our collective future. The short-term response to the crises as well as longer-term reconstruction efforts (especially of public services) require domestic resources – and investments in tune of billions of dollars across the globe. Particularly hard hit are countries from the Global South, which were

cash-strapped to begin with.

Regression on taxation

However, the economic response by countries has mainly focussed on fiscal and monetary measures. Questions of progressive taxation, tax justice and financial transparency as well as democratic tax cooperation have not only been absent from national and international political agendas but have instead seen severe regression.

Governments have already and are going to spend considerably higher resources to meet the demands of the health crisis, the need to protect vulnerable people, finance essential services, cover wages, run institutions and offer corporate bailouts. In a scenario where domestic resources are an absolute necessity, revenue should be raised governed by a fundamental justice principle of 'ability to pay' – with a dependence on wealthy individuals and profitable corporations paying more and the poor and vulnerable paying less. It is therefore crucial that governments raise personal and corporate income tax rates on top income earners and profitable corporations, respectively.

Big businesses and multinational corporations have also historically contributed less than their fair share to government coffers and by extension, to public services, social protection and realisation of human rights in countries where they operate.

In the same vein, governments also need to consider an excess profits tax on extremely profitable corporations. While lockdowns in various countries have spelled suffering for most micro-, small- and medium-sized enterprises (MSMEs), many businesses have thrived through the catastrophe, including e-businesses, e-commerce platforms, big pharmaceuticals and FMCG conglomerates. Companies profiting excessively due to the crises should not grow richer by capitalising on human misery.

It is equally important for countries to enact taxes on wealth through measures like a wealth tax, inheritance tax, dividend tax, land value tax and capital gains tax targeted at the super-rich and high-income earners. This will help raise revenue as well as redistribute wealth and lessen inequalities. A bunch of Latin American countries including Bolivia, Brazil, Chile, Ecuador, Paraguay and Peru are debating new tax measures targeting the wealthy since March 2020.

Multinationals need to pay their share

Big businesses and multinational corporations have also historically contributed less than their fair share to government coffers and by extension, to public services, social protection and realisation of human rights in countries where they operate. With the aid of an industry of facilitators and enablers of illicit finance like the Big Four accounting firms, they have benefitted from harmful tax competition between tax regimes and overly generous and unnecessary tax incentives. Developing Asian countries should be cautious in offering new tax incentives to businesses looking to move their operations out of China and Latin American countries should not compete for new duty-free and low-tax 'maquila' manufacturing if supply chains regionalise in their region.

Any proposal to increase government revenues through direct taxes faces the challenge of high levels of secrecy in the global financial system, which allows multinational corporations to shift their profits to tax havens or secrecy jurisdictions, and the wealthy to avoid criminal investigation and money laundering probes. Stronger financial transparency measures are critical at this juncture, as well as international cooperation to address the issues raised by tax havens.

Corporate bailouts are extremely vulnerable to misuse and abuse.

While governments across the world are pursuing paths of direct benefits transfers and wage subsidies directed at the poor and wage earners, a marked feature of governments' fiscal packages has been corporate bailouts for big businesses and multinational corporations. This is grossly unjust, as corporate bailouts divert public funding from MSMEs. These rarely have more than a month's worth of operational reserve, but employ the biggest chunk of the working population. This is sure to result in cascading unemployment and business closures in the medium term, if by some stroke of luck, MSMEs survive initial shocks.

Conditionalities on corporate bailouts

A few countries like Argentina, Belgium, Denmark, France, Italy and Poland have announced that companies registered in tax havens would not be eligible for government bailouts. However, instead of using arbitrary and politically motivated lists of tax havens, governments would do well to rely on assessments based on objectively verifiable criteria, such as the Financial Secrecy Index or the Corporate Tax Haven Index.

Companies with subsidiaries in any of the top ten ranking jurisdictions on these lists that cannot prove legitimate activity through publicly reported country-by-country data should be ineligible for government aid.

The conditionalities on corporate bailouts should go further, to ensure transparency and accountability of such government aid. Corporations that have been compromised by tax and financial scandals or have received illegal state aid (for instance in the EU) should be disqualified from receiving a bailout. Further, companies receiving bailout money should be made to mandatorily declare their country-by-country financial and operations data, as well as their corporate ownership and beneficial ownership data publicly. Companies offering dividend income while slashing wages or laying off employees should be ineligible for a bailout.

Corporate bailouts are extremely vulnerable to misuse and abuse. Meaningful and democratic international cooperation on offering, monitoring and reporting on bailouts is crucial, especially for countries in the Global South. Efforts to narrow bailout eligibility criteria by countries in the Global South will be futile if they do not have access to information that is outside their jurisdiction. Cooperation on eligibility criteria for bailouts is also important to ensure that companies do not receive bailouts from multiple governments – something that is currently legally possible due to the wonders of structures such as Limited Liability Companies (LLCs) and Limited Liability Partnerships (LLPs). Cooperation should also ensure transparency and accountability around bailouts, and should certify if bailout funds are indeed being used for protecting jobs and livelihoods.

It is evident that the world before the Covid-19 pandemic was marked by grossly unsustainable, unjust and unequal patterns of access, distribution and consumption. These past few months, as debilitating as they might have been, have presented us with a real opportunity to build anew instead of rebuild – a world marked by justice, equity and rights. And what better place than to start with this?



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