

# INTERNATIONAL TAX COOPERATION

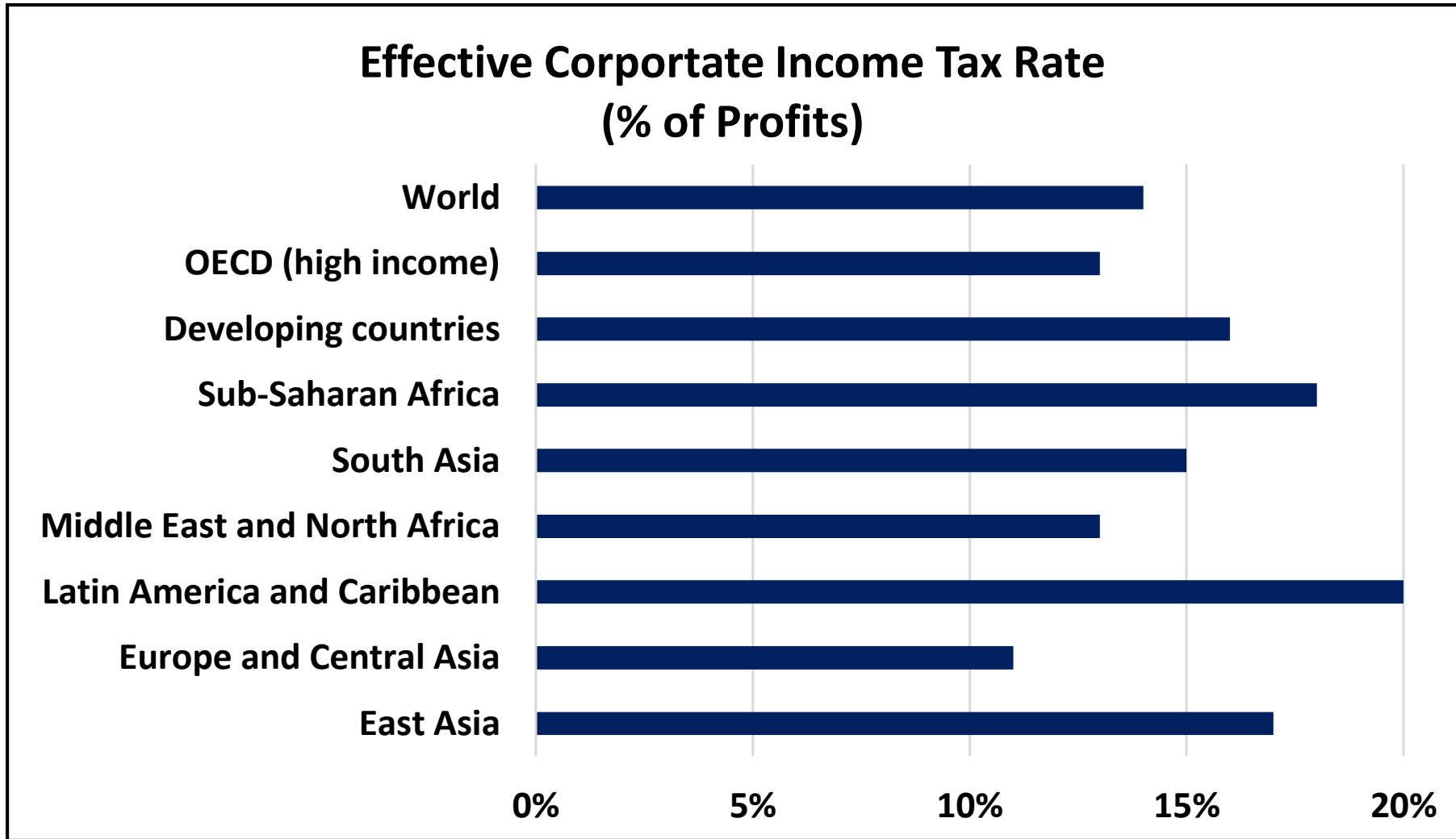
Presentation in the G-24 Technical  
Group Meeting, Abuja, Feb. 19-20

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# ADVERSE TRENDS

- ❖ Long-term negative trend of corporate income tax (CIT) rates since the 1980s. The 2017 US tax reform, which reduced the CIT from 35 to 21% was a major step in that process.
- ❖ Reduction of top personal income tax rates.
- ❖ Effective tax rates are even lower due to special benefits on capital income and (even more) on capital gains.
- ❖ Offshore financial centers have strengthened these trends but are not the only factors behind them.
- ❖ As a result, increasing weight of indirect taxes
- ❖ All of this has strengthened adverse income inequality trends.

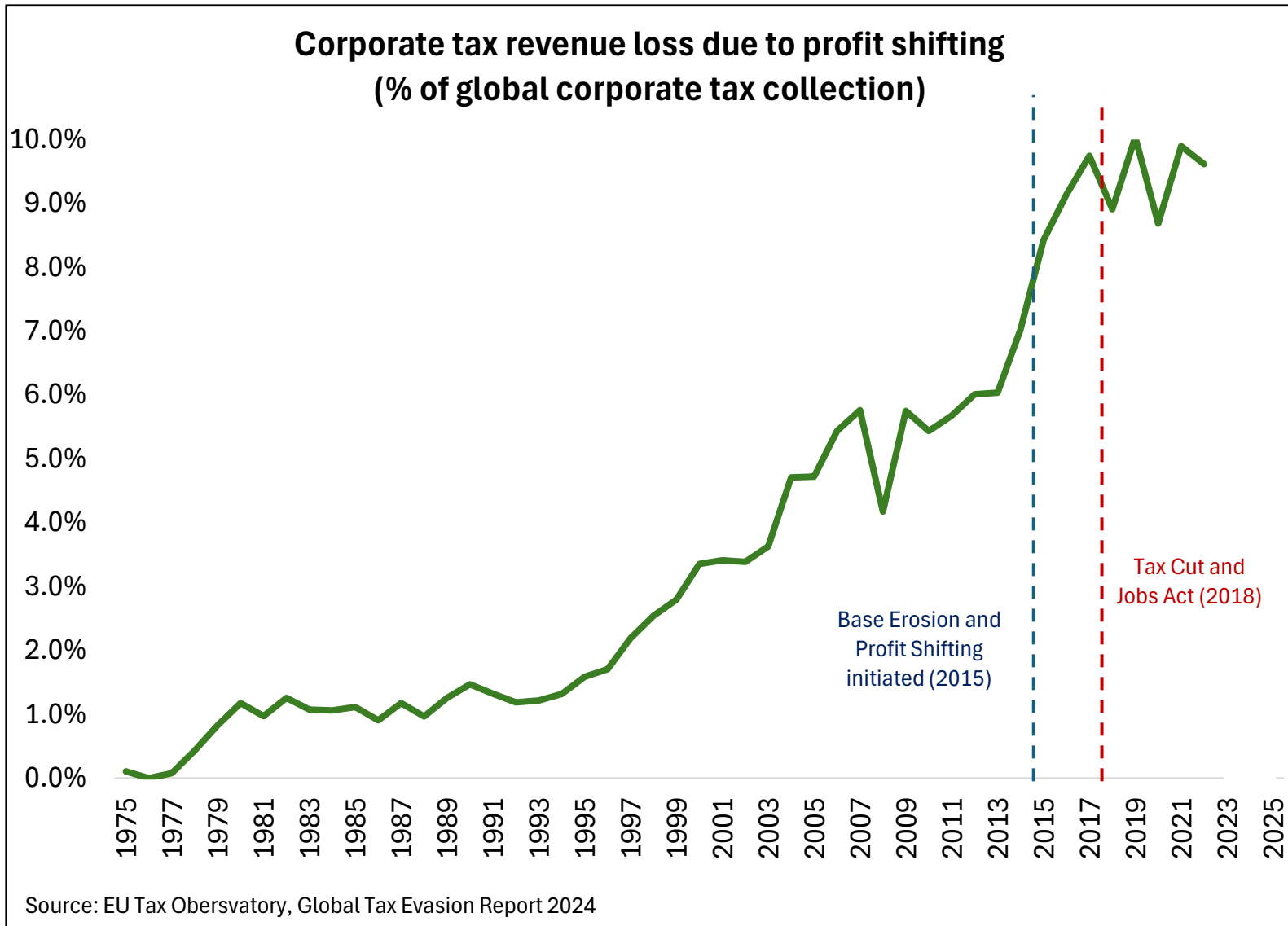
# BENEFITS REDUCE EFFECTIVE TAXATION RATES



# COSTS OF A FLAWED SYSTEM

- ❖ The major effect of current trends in tax rates is the location of *financial assets*, rather than real investment.
- ❖ This is a result of offshore financial centers, but also of tax provisions in many countries.
- ❖ MNEs as a whole transfer 30% or more of their income earned to lower-tax affiliates.
- ❖ Revenue losses (IMF): \$200 billion (1.3% of GDP) for non-OECD countries and \$400-\$500 billion for OECD countries (around 1% of GDP)
- ❖ The costs are relatively high for developing countries, as corporate income taxes account for around 16% of fiscal revenue in these countries vs. 8% in developed ones.

# LOSS OF TAX REVENUES DUE TO PROFIT SHIFTING



# AGREEMENTS IN THE OECD INCLUSIVE FRAMEWORK

- ❖ Pillar 1: Reallocation of taxing obligations, but only for 25% of profits of very large multinationals... and only for residual and not to “routine profits”.
- ❖ Pillar 2: Minimum tax rate of 15% (compared with proposals for 21% from US, 25% from ICRICT). Taxation in the main headquarters of the firms.
- ❖ Elimination of digital taxes.
- ❖ Very limited benefits for developing countries (for all of Africa Pillar 1 would only generate 31 million dollars).
- ❖ Debate on when this provisions would apply.

# THE UN TAX CONVENTION: AGREED GUIDING PRINCIPLES

- ❖ Universal in approach and scope
- ❖ Holistic: it should cover in a balanced and integrated manner economic, social and environmental policy aspects
- ❖ Be sufficiently flexible, resilient and agile
- ❖ Provide rules that are as simple and easy to administer
- ❖ Require transparency and accountability of all taxpayers.
- ❖ Based on these principles, it would guarantee
  - ✓ A fair allocation of taxing rights, including equitable taxation of MNEs and addressing tax evasion and avoidance by high net-worth individuals.
  - ✓ Addressing tax-related illicit financial flows, tax avoidance, tax evasion and harmful tax practices.

# THE UN TAX CONVENTION: DESIRABLE ISSUES (1)

- ❖ Equitable taxation of profits of MNEs that guarantees a fair reallocation of taxing rights between countries.
- ❖ Nexus rule based on the principle of significant economic presence.
- ❖ Coordinated taxation of windfall or excess profits, and possibly a 25% global effective minimum tax on the profits of MNEs.
- ❖ Public country-by-country reporting of multinationals' economic activities.
- ❖ Clear criteria for taxing activities associated with the exploitation of natural resources.

# THE UN TAX CONVENTION: DESIRABLE ISSUES (2)

- ❖ Fair taxation of cross-border –including digital— services, bases on gross or net revenues (net based on average tax of the MNC involved)
- ❖ If digital services taxes are preserved, international coordination.
- ❖ Effective taxation of rich individuals, based on minimum income taxes + possible taxation of wealth as a complement to taxation of income.
- ❖ Common principles for ensuring transparency of wealth ownership, including a Global Asset Registry based on beneficial ownership of all assets.
- ❖ Strong sharing of information among tax authorities.
- ❖ Appropriate system of governance for international tax cooperation.

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