Funding the Future

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The OECD report to the G20 finance ministers meeting at the weekend was interesting. It said (and I have abbreviated a little):

The OECD's work on BEPS is also being informed by engagement with business and civil society. In general, business recognises that there is a need to restore trust in the international tax system by revisiting the tax rules. Business emphasised that the current rules work effectively in most areas but other areas may require an adjustment to the rules, in particular where the substance and taxation of transactions has diverged. Business has acknowledged the importance of economic substance and called on the OECD to establish a common definition of economic substance, proposed the creation of a joint OECD/ business group to work on issues related to the digital economy, supported the establishment by the OECD of uniform international rules on Controlled Foreign Company (CFC) and on interest deductibility, and offered to work on a business code of tax conduct as part of the BEPS agenda.

TUAC, the Trade Union Advisory Committee to the OECD is very supportive of the BEPS initiative and its objective to eliminate double non-taxation and more effectively address aggressive tax planning. They would like the scope of the BEPS project to be enhanced by calling for greater transparency from MNEs, including country-by-country tax reporting, and by addressing the speculative use of derivatives for tax evasion purposes, including through a financial transaction tax on OTC derivatives.

*Briefings of NGO's have also been organised. NGOs expressed strong support for the BEPS report and presented a policy paper commenting on the report signed by 58 different NGOs ("*No More Shifty Business"). They strongly argued that worldwide consolidated accounts were the starting point to put an end to BEPS.

So, there are three responses. Note the weighting given to them.

And note that the TUAC and 58 NGOs all say country-by-country reporting is vital. Civil society has much common ground with trade unions.

But then I note an article in the Tax Journal. This, heavily influenced y a briefing from Ernst & Young says:

The OECD's action plan to tackle base erosion and profit shifting is unlikely to include a root and branch reform of the international tax system, but last week's report to G20 finance ministers suggests that recommendations may include uniform international rules on controlled foreign companies and the deductibility of interest.

OECD tax officials said in a recent article that the arm's length principle was 'an essential element' of a fair allocation of taxing rights between countries. And discussions with OECD representatives last month indicated that the intention is 'not to abandon the traditional arm's length standard [for transfer pricing] but rather to make refinements to the existing regime', according to Ernst & Young. Some tax campaigners have called for fundamental reform and a system of 'unitary taxation'.

Given that the last report is broadly right let's assume the rest is too. In which case we have to be preparing ourselves for a massive disappointment yet again, from the OECD. They failed the world in 2009 on tax havens and the actions needed to tackle them (or we would not need to repeat the exercise in 2013) and it looks like they will do so again. In the OECD report Addressing Base Erosion and Profit Shifting published in February they said that the use of aggressive tax strategies by some multinationals was eroding the tax base of many countries and threatening the stability of the international tax system. But now all it looks like we may get as a result are a few tinkerings at the margins of the system as a forlorn and inevitably doomed attempt to amend that whole process.

As the Tax Journal notes

Writing in the French newspaper Le Figaro last week, GurrÃ-a said: 'The G20 has asked us to review international tax rules in order to put SMEs and multinationals on a level playing field.

'Combating the erosion of tax bases and the shifting of profit has become a priority now that taxpayers' trust in the effectiveness and fairness of their tax systems depends on it. Eliminating double taxation of transnational investment is necessary for growth and employment.

'While this objective must be maintained, it is also necessary to do away with "double non-taxation" and the shifting of profits to tax-free jurisdictions where no real activity takes place. In July, I shall present the G20 with an action plan to put an end to such practices.'

The suggestions made so far fall a very long way short of delivering any such possibility. In which case the question has to already be asked as to whether the OECD is about to fail us, spectacularly, yet again?