Funding the Future

Developing nations need more than words from G20 tax re...

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The following post was originally published on The Conversation and is by Prof Kerrie Sadiq of Queensland University of Technology, who I have met a couple of times and whose work I greatly admire. It is reproduced here with permission:

Tax reform is squarely on the agenda for the G20 Brisbane summit in November. The current international tax regime is broken and it's going to take significant effort on a global scale to fix it.

In a recently released *CEDA Report on securing the G20's future, I recommended the role Australia could play in ensuring real and substantive progress is made in international tax reform.*

There's a very real need to ensure the Brisbane summit is not just a "talkfest". One group that stands to significantly win or lose from reform, or lack of it, is developing nations.

Beyond the OECD

On the ***G20 tax reform agenda is the specific problem of tax avoidance. Base erosion and profit shifting (BEPS), promoting international tax transparency and the global sharing of information are prominent.***

But an often overlooked priority is ensuring developing nations benefit from the G20's tax agenda, particularly in relation to information sharing. This priority is perhaps the most important in ensuring genuine global success, especially in an era of rapid economic growth in these countries. The work of the G20 and OECD is to be commended, but the question that needs to be addressed is whether it will go far enough in solving the issues facing non-OECD nations.

At a functional level, if developing nations are to benefit from the work of the G20, the tax reform agenda must be responsive to the impact of BEPS in low-income countries.

Many of the world poorest countries rely heavily on corporate income tax. On average, it represents 20% of their revenue compared to 8-10% for developed countries. The same countries are also often the most affected by multinational entities engaging in profit shifting activities.

Data limitations mean it is hard to estimate the cost of aggressive tax planning, but few would challenge studies that indicate it costs developing nations billions of dollars a year. These are the same countries that rely on foreign aid and lack the resources to deal with poverty or fund health care and education.

Getting developing countries to the table

The OECD ***report to the G20 Development Working Group outlines the risks and challenges faced by developing nations. As expected, key findings include a lack of legislative measures needed to address BEPS, lack of information, a lack of capacity to implement highly complex rules and to challenge well advised multinational entities, and a lack of effective legislation and gaps in capacity as compared to developed nations.***

The OECD report was produced in consultation with developing nations and various international organisations. However, it sought only to address the flaws in the current system rather than considering reasonable alternatives. If developing nations are to genuinely benefit from G20 tax reform further steps need to be taken.

First, developing nations themselves need to be at the table. The membership of the G20 partially addresses this. But at the recent International Tax Symposium in Tokyo and hosted by the Australian Treasury, we saw developed nations, supported by corporate sponsors, largely leading the charge. Many people question whether developing nations and civil society groups who represent them were able to participate on an equal footing.

Second, the G20 must be encouraged to draw on the work of international bodies beyond the OECD and with expertise in international tax. These bodies go further than addressing the flaws in the current system, and examine new models to combat tax avoidance. The IMF is one such example.

In its recent study on spillovers in international corporate taxation (the cross-border effects from national corporate policies), the IMF recognises the problem is especially marked and important for developing countries and that alternatives need to be considered. Some form of minimum taxation for example on turnover, strengthening worldwide taxation, and the use of a formula to allocate the tax base across jurisdictions are all discussed as

possible alternatives.

Australia is in a unique position in the Asia-Pacific region to ensure the tax reform agenda is broad and genuinely inclusive. Developing nations must be able to contribute directly to discussions, and the focus of the G20 must extend beyond the priority areas of the OECD.

If developing nations are to truly benefit from the G20 tax reform agenda bolder measures that are arguably more effective and potentially easier to administer should be considered.

https://www.youtube.com/watch?v=dCk4BkvFgZs&list=UUuXIowInziNVbm51ZN0-gXA#t=22