

# The OECD's tax plans reallocate taxable profits to weal...

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*I share [this post from the Tax Justice Network](#), published by them this morning, which shows (amongst other things) the value of country-by-country reporting, even at an early stage of data being available:*

The OECD's highly anticipated proposal for reform of international tax rules will likely further intensify global inequalities and fail to curb rampant tax abuse, new analysis reveals. The OECD's reform plan is expected to reduce profits booked in corporate tax havens by just 5 per cent, and redistribute the proceeds largely to the richest countries — despite the fact that lower-income countries currently lose a higher share of their tax revenues to corporate tax abuse.<sup>1</sup> High income countries stand to receive around 80 per cent of the redistributed profits as tax base. Upper-middle income countries are expected to see some benefit, but lower-middle income countries are projected to see their tax bases actually shrink by 3 per cent.

The analysis, carried out by Alex Cobham (Tax Justice Network), Tommaso Faccio (University of Nottingham) and Valpy Fitzgerald (University of Oxford) and commissioned by the Independent Commission for the Reform of International Corporate Taxation (ICRICT<sup>2</sup>), compares what is currently known about the OECD proposal<sup>3</sup> with two other leading proposals for reform — one by tax justice campaigners<sup>4</sup>, and one put forward by the International Monetary Fund (IMF). The analysis is published on the same day that ICRIC<sup>5</sup> released a technical critique of the OECD's proposals.<sup>5</sup>

The OECD approach was found to be far weaker in tackling rampant tax abuse. Whereas the OECD proposal is expected to result in a drop of just 5 per cent in profits booked in corporate tax havens, the IMF proposal is predicted to result in a drop of 43 per cent and the tax justice campaigners' proposal is predicted to result in a drop of 60 per cent.

The analysis also found that the OECD proposal is by far the least beneficial for non-OECD members, including the G24 and G77 groups of countries. The tax base of OECD countries would collectively grow by nearly \$5 billion under the OECD reform,

while the tax base of G24 countries would collectively grow by \$0.7 billion and the tax base of the G77 group of countries by just \$0.3 billion.

The proposal put forward by tax justice campaigners on the other hand was predicted to result in the tax base of OECD countries collectively growing by nearly \$27 billion, while the tax base of G24 countries would collectively grow by \$29 billion and the tax base of G77 by \$19 billion.

### ***OECD reform rewards richer consumer economies over producer economies***

Amid a scramble to reform an international tax system haemorrhaging \$500 billion every year to tax dodging by multinational corporations<sup>6</sup>, the three proposals put forward by the OECD, the IMF and tax justice campaigners break with a century-old approach of taxing a multinational group's subsidiaries individually as separate entities. The three proposals instead seek to apply a unitary approach that taxes a multinational group as a whole and apportions the tax owed by the group to the various countries in which the group operates.<sup>7</sup> The proposals vary on how much of a multinational group's global profit is to be apportioned, and how the apportioning among countries is determined. The OECD and IMF apportion profits to countries based on the location of a multinationals' sales, whereas the tax justice campaigners' proposal apportions profit based on the location of multinationals' sales and employees. The new analysis published today models the different impacts the proposals are expected to have on countries' revenues.

The OECD and IMF have limited the scope of their unitary tax reform to only apply to multinational groups' residual profit, ie the extra profit generated from intangible assets, like intellectual property, considered to be beyond the profit generated from a business's routine assets, like plant machinery.<sup>8</sup> The OECD and IMF have proposed apportioning multinational's residual profit to the countries where multinationals sell their goods and services, which the analysis shows will favour richer consumer economies of OECD countries over producer economies of non-OECD countries. By excluding employment as a factor for apportionment and prioritising intangible assets which are often parked in corporate tax havens, the OECD and IMF proposals give greater taxing rights to richer countries at the end of the sales process, where multinational groups sell their brand name running shoes, than to lower-income countries at the start of the process, where multinationals' shoes are stitched together.

The proposal put forward by tax justice campaigners, similar to the proposal put forward by the G24 group of countries, would apportion all of a multinational group's profit based on the location of both sales and employment in order to reflect the taxing rights of both market economies and producer countries.

### ***Global inequality in taxing rights shrinks when multinational groups pay tax where they employ staff***

The analysis revealed that when the location of a multinational group's employees was added as a factor in how tax owed by a multinational group is apportioned, tax bases increased in lower-income countries under all three proposals — and often also in OECD countries, with the exception of the US. Adding employment as a factor for apportionment to the OECD proposal resulted in a growth instead of a shrinkage of lower-middle income countries tax bases — something the OECD has not reflected in its proposals, despite its importance in the G24 proposal.

### ***Campaigners and economists call on OECD to release full data behind proposal for scrutiny***

The analysis published today uses new aggregate statistics from multinational companies' country-by-country reporting.<sup>9</sup> This type of data was made available to the public for the first time in 2019, following years of campaigning by tax justice groups.

Although the country-by-country reporting data provides unprecedented transparency on the activity of multinational corporations, the aggregate data made available to the public and used in the analysis only covers multinationals headquartered in the US. The OECD has been collecting more country-by-country reporting data on multinational corporations headquartered in many of its member states, however, the organisation is not planning to make the data publicly available before early 2020, potentially after key elements of the reform proposals have been pushed through.

Alex Cobham, chief executive at the Tax Justice Network and a co-author of the study, said:

***"We're concerned the OECD may be fumbling a golden opportunity to lead the world into a new era of equitable international tax rights. After promising the radical shift in international rules that is urgently necessary, the OECD seems to be lapsing back into tinkering at the margins — doing little to redistribute profits from tax havens, and even less for the lower-income countries that lose the most to corporate tax abuse."***

***"It's crucial that G24 and G77 countries in the Inclusive Framework are able to scrutinise the proposals fully, and they should demand the OECD release its full country-by-country data so that governments can make informed decisions on the likely impacts on their economies and their citizens."***

The Tax Justice Network is calling for an urgent reconsideration of the OECD approach and for the OECD to publish its full country-by-country reporting dataset so as to open up the proposals to public scrutiny. Individual countries and the EU should prioritise the publication of company-level reporting.

#### **Download the report Notes**

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The following jurisdictions are classified as tax havens for the purposes of this analysis: Mauritius, Aruba, Bahamas, Barbados, Bermuda, British Virgin Islands, Cayman Islands, Curacao, Panama, St. Kitts and Nevis, Puerto Rico, St. Lucia, Trinidad and Tobago, Virgin Islands, Guam, Hong Kong, Macau, Saudi Arabia, Singapore, United Arab Emirates, Cyprus, Guernsey, Ireland, Jersey, Luxembourg, Malta, Monaco, Netherlands, Switzerland plus income currently attributed to “Stateless entities and other country”.

- \* The views expressed in the commissioned publication are those of the author(s) and do not necessarily represent the views of the ICRICT.
- \* The study modelled two versions of the OECD proposal, one based on apportioning all of residual profit and one based on apportioning only 20 per cent of residual profit. Since the most recent version of the proposal discussed at the OECD is that based on apportioning 20 per cent of residual profit, the results presented in this press release are based on the 20 per cent residual profit version of the proposal.
- \* The G24 have also put forward a proposal for reform based on unitary apportionment. The G24's proposal is the closest proposal to that put forward by tax justice campaigners and analysed in the report.
- \* ICRICT's technical critique of the [\*\*OECD's proposals will be available here from 11pm on Sunday 6 October.\*\*](#)
- \* **The Tax Justice Network has estimated that \$500 billion in tax is avoided by multinational corporations annually. This is more conservative than the IMF's estimate of \$600 billion in tax avoided each year. The research from both organisations confirms that lower-income countries lose around \$200 billion a year: less than high-income countries in absolute terms, but substantially more as a share of current tax revenues.**
- \* **For more information on unitary taxation read the [Tax Justice Network's briefing here](#) and view the infographic [at the bottom of this webpage.](#)**
- \* **Both the OECD and IMF split multinational groups' profit into two categories: routine profit and residual profit, where only the latter is apportioned to the countries in which a multinational group operates. Routine profit, based on the idea of there being some 'normal' return to fixed capital, will continue to be taxed under current international rules or by applying a set level of return on capital (the IMF suggests 7.5%). Residual profit is the profit that exceeds this level, and is intended to reflect profit generated from intangible assets such as intellectual property, would be apportioned to countries according to the location of companies' sales. This is intended to ensure that market economies – where consumers buy the final products – receive a greater share of the associated taxing rights. The OECD's proposal offers non-OECD members a significantly smaller share of taxing rights than the IMF's proposal due to the different ways in which the proposals treat routine profit. The OECD proposal, as understood,**

***allocates the routine profit in line with current tax rules — the same rules that result in lower-income countries losing a markedly higher share of their tax revenues to corporate tax abuse. The IMF proposal allocates routine profit according to the imagined return on fixed capital, which is at present at least more evenly distributed among countries of operation.***

\* ***Country-by-country reporting*** is a reporting practice that requires companies to publish information for every country they operate in, rather than only provide a single set of information at a global level that blankets all their operations.