LIMA FAST FACTS – TAX AND THE BEPS PROCESS

The global inequality crisis is undermining economic growth and the fight against poverty. Nowhere is this more apparent than in Latin America – the world’s most unequal region. G20 Finance Ministers meeting in Lima can start to tackle inequality through further reform of the global tax system. This could release significant funds, which developing countries could use to invest in tackling poverty and inequality. It is estimated that Latin American and the Caribbean countries lose around half of their potential tax revenues because of tax dodging.

What have the G20 done to tackle corporate tax dodging?

Following the financial crisis and a spate of high profile tax dodging scandals involving global brands such as Apple and Starbucks, the G20 mandated the OECD to come up with an a package of measures to tackle aggressive tax avoidance by multinational companies (tax dodging, which while not yet deemed illegal, tax avoidance is morally dubious). In response, the OECD set up the Base Erosion and Profit Shifting (BEPS) process in 2013 in order to redesign the 90-year-old international tax system so that it was fit for purpose in the 21st century.

The mandate of the G20 in 2013 was that developing countries should reap the benefits of this reform too. Developing countries are hit particularly hard by corporate tax dodging because their tax administrations have limited capacity to track down and reclaim the taxes they are owed and because they are only able to raise limited tax revenues from a largely poor population.

On 5 October the OECD is expected to present the final set of deliverables or actions agreed through the BEPS process. On 8 October G20 Finance Ministers meeting in Lima are expected to endorse the OECD tax package and launch a consultation on how to go about implementing them. It will then be submitted to G20 heads of State for adoption at the November (15th-16th) summit in Turkey (Antalya).

What's wrong with BEPS?

Oxfam recognizes the efforts made over the past two years to deliver the tax package. The measures will strengthen existing rules and provide tax authorities with better tools to identify corporate tax cheats (the proposed template for country by country reports is a significant step forward). However, on the whole, this package of measures, simply patches up the existing rules, making them more complex and in many cases contradictory. It does not provide the coherent and comprehensive set of reforms that are needed.

Many of the recommendations in the BEPS tax package are too weak and some critical issues for developing countries are not addressed. For example:

- Two thirds of the world’s governments had no formal role in the BEPS negotiating process – this includes countries such as Peru.
- BEPS will not ensure multinational countries pay tax where they do business. Tackling this issue would enable Ecuador to double, and Honduras to quadruple, their corporate tax base.
- BEPS will not reduce the use of tax havens.
- BEPS will not stop the race to the bottom where countries offer increasingly generous tax incentives to attract investment. Between 2005 and 2010 mining companies in Colombia paid US$456 million per year in income tax, but received tax discounts, deductions and exemptions worth US$925 million. For every dollar that they paid in taxes, the State did not collect two.
- BEPS does not address tax avoidance in sectors that are important in developing countries such as the extractives industry.
- BEPS will not require multinational companies to produce public reports for each country in which they operate - the information will only be accessible to tax administrations. These reports, which include a breakdown of their employees, physical assets, sales, profits, and taxes (due and paid) would help governments
make an accurate assessment of whether companies were paying their fair share of
taxes but citizens, consumers and shareholders deserve the right to have access to
this information too.

What’s wrong with the BEPS process?

Two-thirds of the world’s governments had no formal role and no real say in the BEPS
process – as a result many of their concerns are not addressed by the action plan. The
OECD is only considering a more active role for developing countries in the implementation
phase, starting from 2016. This would mean developing countries can more fully participate in
discussions on how to implement decisions made by others. The G77 group of developing
countries were resolute in their call for equal participation negotiating global tax reform at the
recent UN Financing for Development Conference in Addis Ababa. The G20 cannot ignore
this legitimate demand from a negotiating bloc that includes over two thirds of the world’s
governments.

Opposition from the corporate lobby and some rich countries has narrowed the scope of
reform – leaving many key tax loopholes have not been addressed. The corporate lobby has
had excessive influence in the process - for example when the OECD opened consultation on
new draft rules at the end of 2013 almost 87 percent of the contributions came from the
business sector.

What is Oxfam calling for in Lima?

Oxfam is calling on G20 Finance Ministers meeting in Lima to support a second generation of
global tax reforms that include all countries on an equal footing, and which create an
international tax system that works in the interest of the majority – not the vested interests of
the few.

This second-generation reform process should embrace all governments, and all relevant
international organizations (IMF, WB, UN, OECD, etc) allowing for a more legitimate and
representative dialogue. Ultimately we need an independent global tax body that includes all
governments – including developing countries.

This second-generation reform process should urgently tackle a number of key issues, which
have not been addressed or have been insufficiently addressed by the BEPS process. These
include: putting a stop to overly generous and unproductive tax incentives; ensuring
multinational companies pay tax where they do real business; taxing capital gains; and
stopping the use of tax havens.

Oxfam is also calling on the IMF and the World Bank to back calls for a more a second
generation of tax reform which involves all countries on an equal footing and to support
developing countries to fully participate in this process. The World Bank and the IMF should
also get their act together.

- The IMF’s technical advice and loans to countries should put into practice the more
  progressive positions it takes at headquarters, such as recommending an end
discretionary and unproductive tax exemptions provided to corporations.
- The World Bank should abandon the part of its ‘Doing Business’ indicator that incites
countries to reduce corporate taxes and should ensure that projects financed by the
International Finance Corporation (the private sector arm of the World Bank) do not
support wasteful tax exemptions or irresponsible corporate tax behavior.
- Both institutions should give political and public backing to those countries that want
more progressive tax systems, including by supporting them to ensure corporations
pay their fair share of tax.