

International Tax Governance and mitigation of IFFs through the use of administrative data

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Global Development Conference: Tax Policy for
Sustainable Development

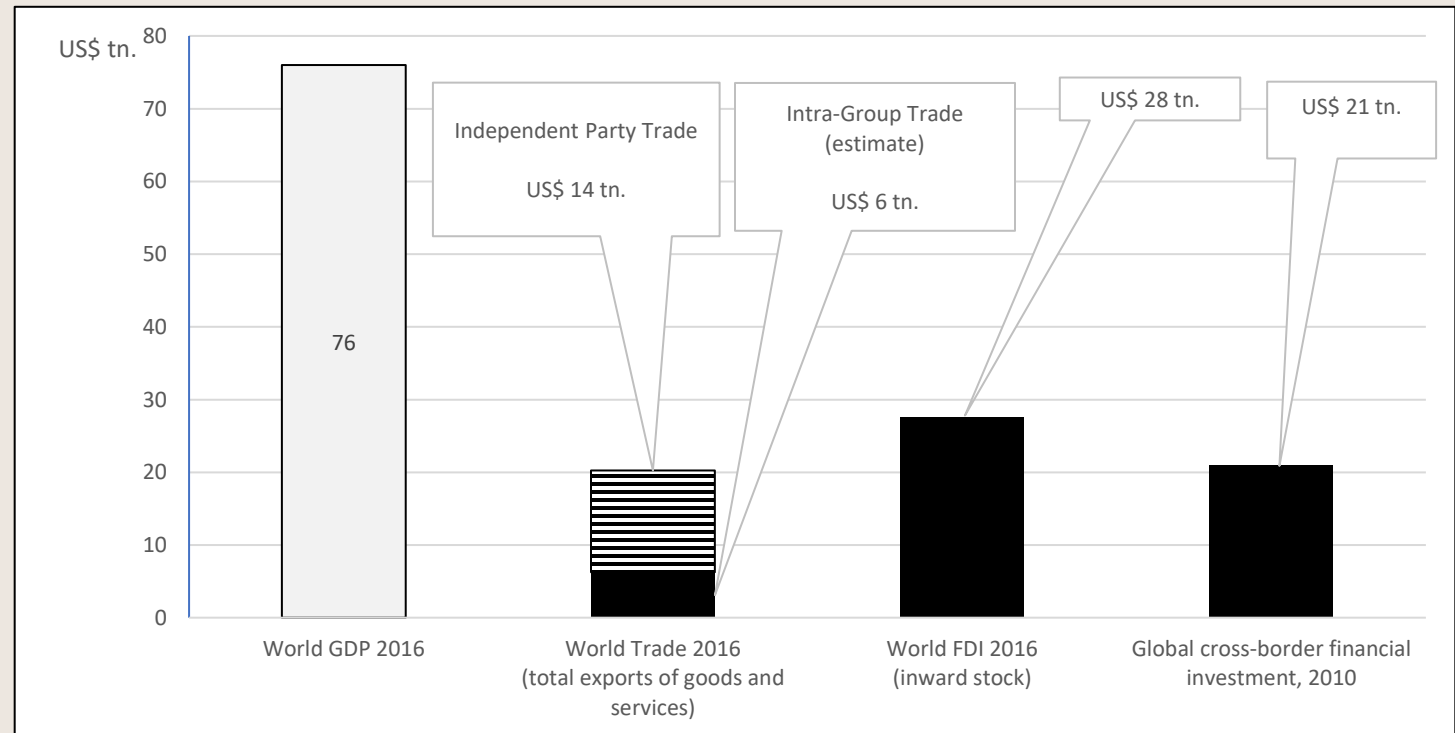
Plenary D: Taxation, International Financial Flows and
Governance

Who sets international tax rules, in the interest of whom?

The dominant role of the OECD in global tax

- OECD Model Tax Convention
- Transfer Pricing Guidelines
- BEPS project (incl. Inclusive Framework)
- Blacklisting Tax Havens
- Information Exchange Upon Request
- Automatic Exchange of Information (CRS)

Figure: Volumes of international cross-border economic activity subject to OECD tax policies (in black)

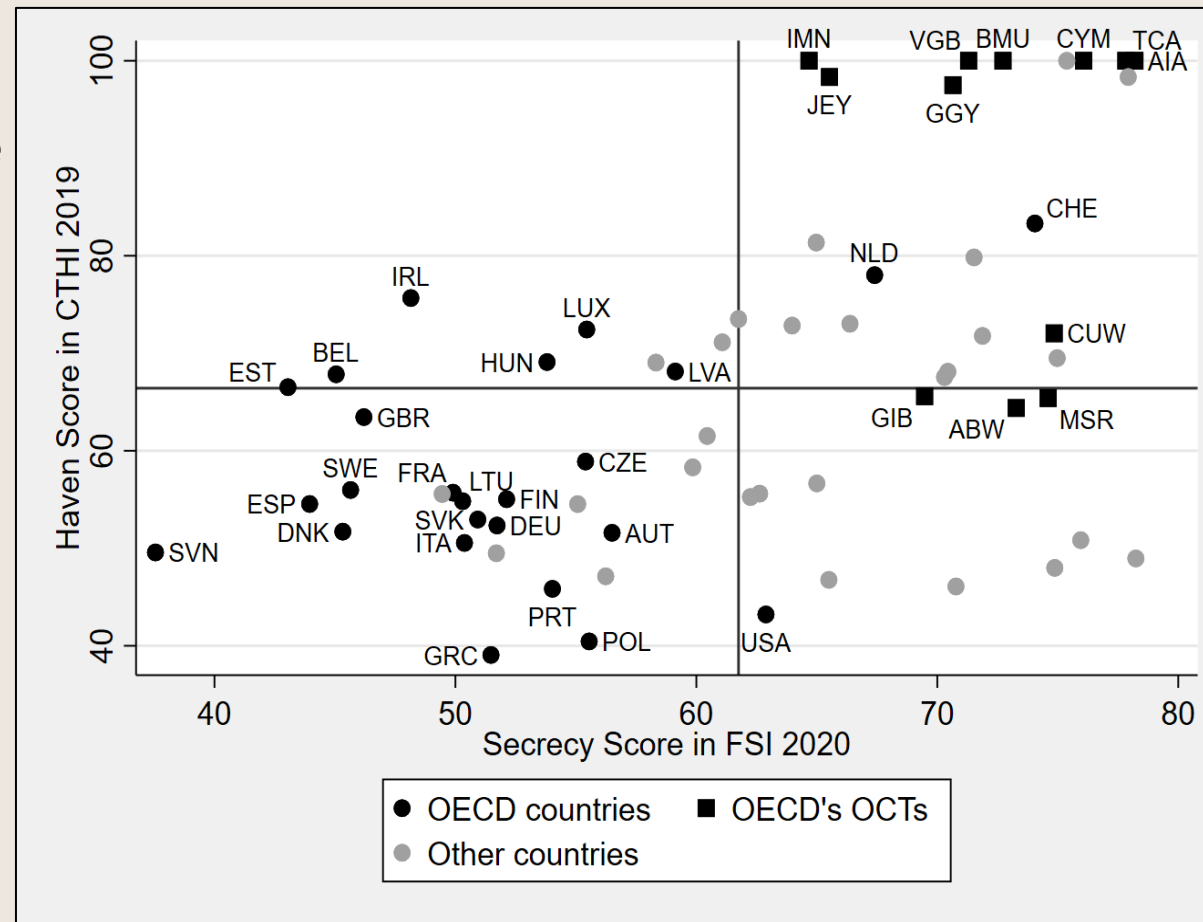


Source: based on Meinzer 2019 (page 2)

Which countries enable IFFs?

OECD hypocrisy in corporate tax and financial secrecy policies

- OECD countries: average secrecy score 54
- OECD dependencies: average secrecy score 73
- Other countries: average secrecy score 67



Source: Eter-Phoya et al., 2022.

Figure: Haven Scores of the Corporate Tax Haven Index 2019 and Secrecy Scores of the Financial Secrecy Index 2020, OECD vs. OECD's Overseas Countries and Territories vs. non-OECD countries. Lines show the means of the two samples.

Outcome I: routing of FDI through OECD dependencies

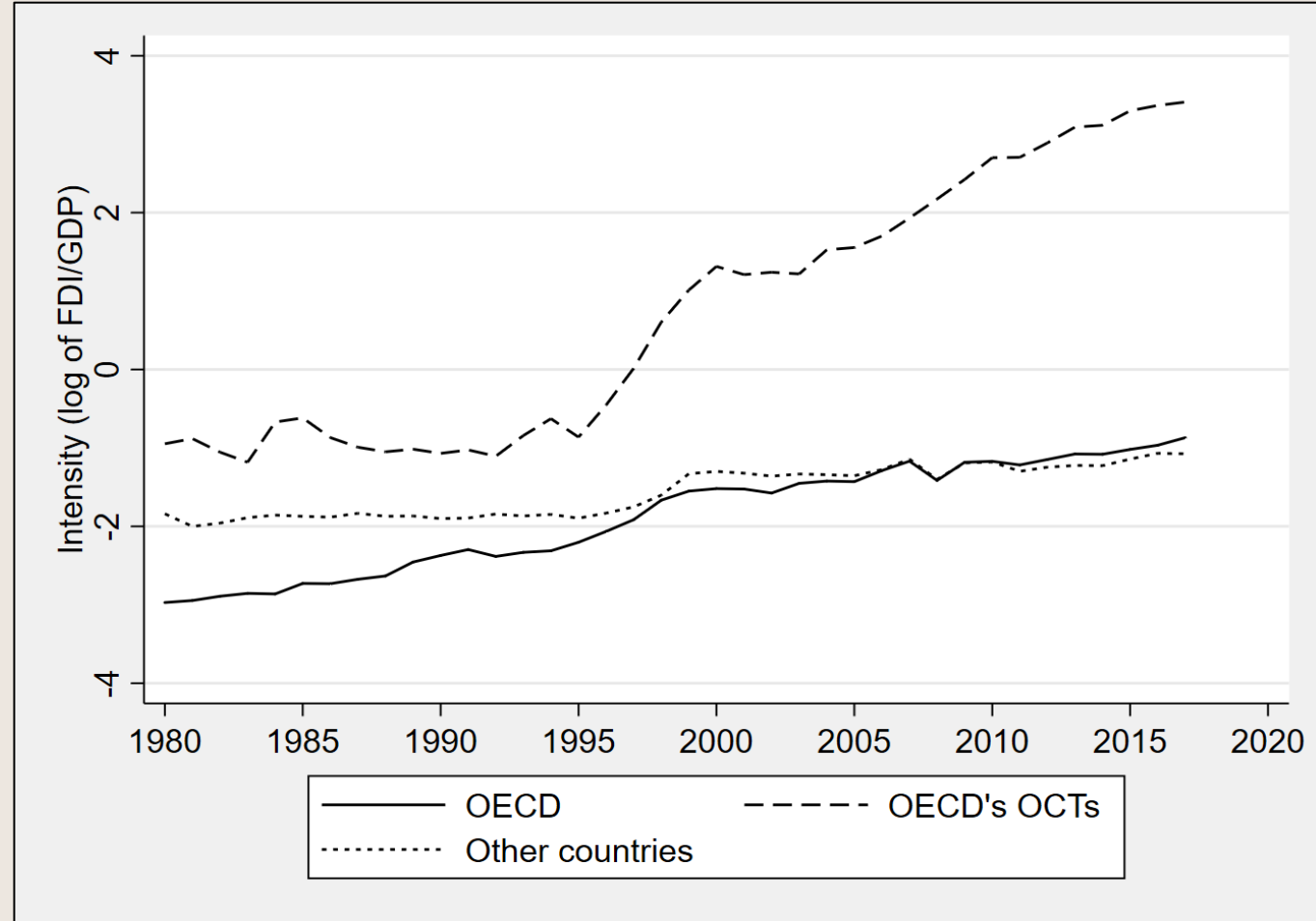
Strong growth of role of FDI in OECD dependencies (often zero corporate tax rates)

What can explain this growth?

→ (This) FDI consists of roundtripping, profit shifting, merger & acquisitions, but not “greenfield” FDI

Motivation?

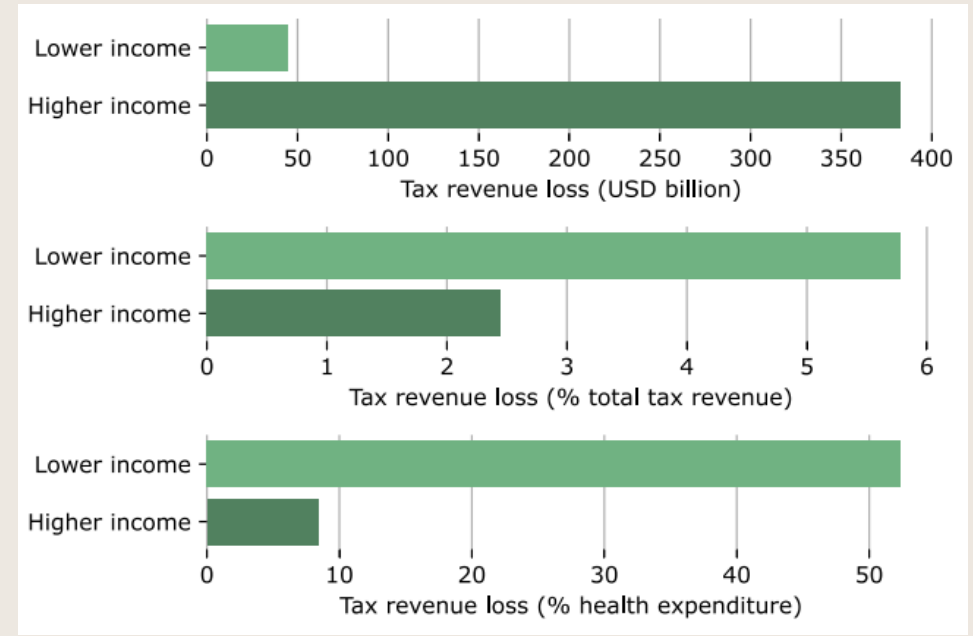
→ Growing corporate tax avoidance in OECD backyard



Source: Etter-Phoya et al., 2022.

Outcome II: very high global tax revenue losses for most countries

\$427 billion in tax is lost every year



#taxjustice2020



Source: Tax Justice Network 2020 (State of Tax Justice): 73,

Elephant in the room?

- Progress on SDGs and tax/GDP has been limited in last 50 years
 - Since BEPS inception 2013, OECD has failed to deliver any tangible additional revenues, and at same time effectively prevented unilateral measures on the digital economy to be considered; kept any benefits mostly away from LICs
 - OECD and IF framework has ignored most requests and input by non-OECD members, culminating in ATAF asking for an end of coercion of non-members
- Could it be that the OECD's role of tax rule making for the whole world is a racialised neo-colonial exercise *par excellence*, continuing the history of the OECD to project imperial powers' preferences after "decolonisation" since 1960?
- Could it be that the tasking of OECD with setting global tax rules or fixing the global tax system can only result in suboptimal tax policies for SDGs, LMICs, exacerbating inequalities?
- Two UN resolutions under discussion at this very moment, [one by the African Group calling for a UN tax convention](#), and [one by the G-77 on countering IFFs](#), for upgrading the UN tax committee to an intergovernmental tax body

Beyond the OECD diktat: some tax options for SDGs

- Policy:

Corporate Income Taxes: Minimum effective tax rate ([METR proposal](#)), alternative minimum corporate taxes, significant economic presence, Art. 7.4 UN model, Art. 12b UN model, excess profits taxes, etc.

- Governance:

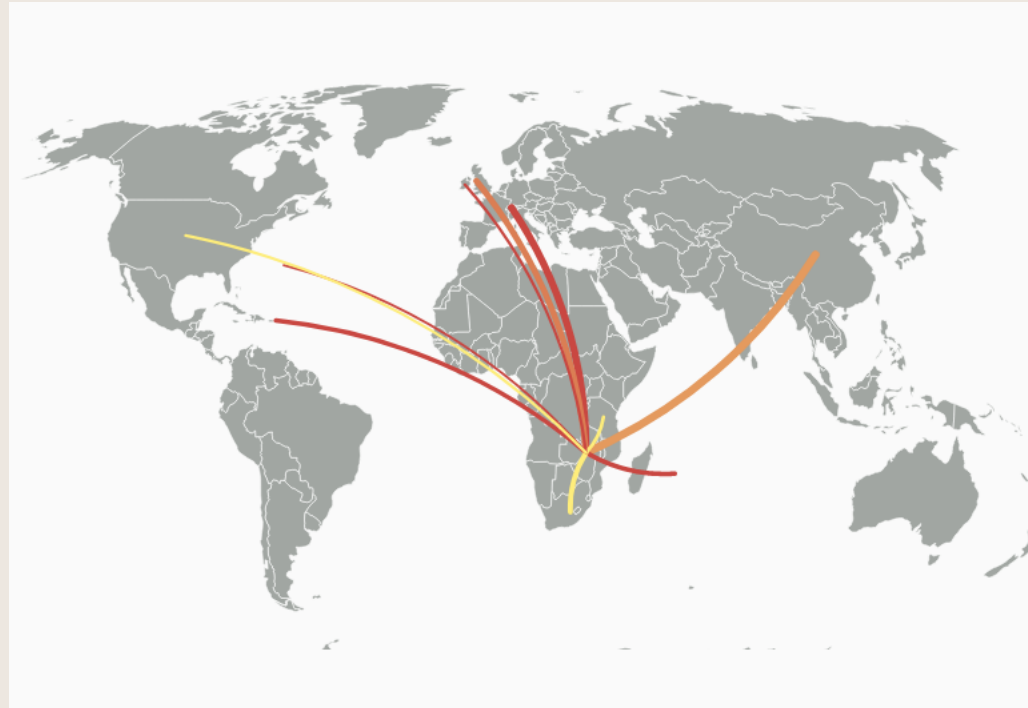
UN tax convention, upgrading UN tax committee shifting away from OECD

- Administrations:

Capacity building, data, research: macro vulnerability analyses; admin level uses of data (targeting audits better: tax authorities; improving investigative techniques: criminal investigations)

From \$-estimates to exposure to IFFs & administrative mitigation

- TJN's IFF vulnerability tracker & country risk profiles
- From macro to micro:
 - Macro analysis gives a top-level analysis, but illicit financial flows happen at individual/firm-level
 - Moving to micro allows to target audits and increase efficiency



Partner Country	Vulnerability share	Haven Score
1. Switzerland	19%	89
2. China	15%	63
3. United Kingdom	12%	69
4. British Virgin Islands	11%	100
5. Mauritius	10%	81
6. South Africa	7%	49
7. Tanzania	4%	48
8. Ireland	4%	77
9. Bermuda	3%	100
10. United States of America	2%	47

Source: <http://iff.taxjustice.net/>

Potential for collaboration on administrative transaction-level data

- IFFs happen at the individual transaction level: enhancing efficiency in curbing IFFs through risk assessment
- Risk mining: data-driven research cooperations with tax administration and law enforcement agencies around the world, eg
 - in EU: TRACE project, building software with and for law enforcement agencies to enhance data driven investigations of online based money laundering (<https://trace-illicit-money-flows.eu/about/>)
 - in Nigeria: data-driven red-flagging of multinational companies for tax audits based on geographic risk (secrecy risks and corporate tax risks) & UNU-WIDER paper
- We are keen to collaborate on implementing the geographic risk approach in administrative practice: please get in touch!

Data portal: end November 2022 (free for researchers & tax admins)

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Collection: CTHI Main Results

This collection contains all available variables for all CTHI reports. For years 2019 – 2021 we provide share, value, score, rank and global scale weight, for prior years we provide only value, share and rank.

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CTHI 2021 haven score

ID: cthi_2021_score

Source: [TJN Public Reports](#)

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Keys: **Country ISO-3**

Haven score in the Corporate Tax Haven Index 2021

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CTHI 2021 rank

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Unilateral cross-sectional dataset

Keys:

- **iso3** — Country ISO-3 — ISO 3166-1 alpha-3 code of a country

Variables:

- **fsi_2022_gsw** — FSI 2022 global scale weight — Global scale weight in the Financial Secrecy Index 2022
- **fsi_2022_score** — FSI 2022 secrecy score — Secrecy score in the Financial Secrecy Index 2022
- **country_name** — Country name — Name of the country
- **iso2** — Country ISO-2 — ISO 3166-1 alpha-2 code of a country

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