

Background Paper
The Learning Generation

Global Taxation
Financing Education and the Other
Sustainable Development Goals

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Global Taxation: Financing Education and the Other Sustainable Development Goals

A report to The International Commission on Financing Global Education Opportunity

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Contents

Foreword.....	iii
Executive summary	iv
1. Introduction	1
BOX: Why Education Should be a Global Priority and Responsibility	3
2. Context: Financing the SDGs.....	5
2.1 Costs and Financing of the Education SDG	5
2.2 Costs and Financing of the SDGs	5
Figure 1: Estimated annual costs of meeting the SDGs, % GDP	6
2.3 Domestic Resource Mobilization	6
Figure 2: Tax revenue (including social security contributions), % of GDP	7
Figure 3: Revenue capacity, % GDP	8
3. What to tax?.....	10
3.1 Corporate Income	10
Motivation	10
Figure 4: Profit shifted out by US multinationals, % of declared profit, 2012	12
Policy issues	12
Potential challenges.....	14
3.2 Personal Income and Wealth.....	15
Motivation	15
Table 1: Regional breakdown of offshore wealth (Zucman)	16
Figure 5: SwissLeaks data as % of each country's GDP	17
Figure 6: Falling tax rates and the rise of the 1%	18
Policy issues	18
Potential challenges.....	21
3.3 Financial Transactions.....	21
Motivation	21
Technical Aspects.....	22
Potential Challenges	23
3.4 Summary of findings	23
4. International Governance	25
4.1 An intergovernmental tax body.....	25
BOX: The Zedillo Report on an intergovernmental tax body	26
The role of an international tax organization	26
4.2 Allocation decisions	29
4.3 Necessary or additional?	30
5. Conclusions	31
Recommendations for Action	33
References	34

Foreword

In a world of rising economic inequality, education is one of our most powerful weapons in the fight to equalize our societies and put an end to poverty and exclusion. Yet when we fail to invest adequately in education, this opportunity is shamefully squandered. Children are left out of the classroom, unable to pay fees, or unable to learn to their potential without enough trained teachers and materials.

Too often, civil society leaders are told by governments that our demand for free, quality public education for all children is an ideal vision, but that the money simply isn't there. This report proves that to be untrue. The funding if we look for it is plentiful, if we ensure that all, especially big corporations and the richest individuals, pay their fair share of tax. The Panama Papers this past month have made clearer than ever how tax havens are depriving governments – especially developing nations – of revenue that is urgently needed to deliver on people's rights to quality public services. They play a central role in driving the crisis of extreme inequality around the world.

This study is an important and timely contribution to the work of the International Commission on Financing Global Education Opportunity. The Sustainable Development Goals (SDGs) are a solemn commitment by 193 countries to redress injustice and inequality within a framework that offers a sustainable future for the planet and its children. Education has a critical role to play, both as a key goal in itself and as a means to support the achievement of all the other goals. But to deliver on its transformative potential, education needs long term sustainable financing. Whilst development aid can and should play a role, it is too short term and unpredictable to deliver the resources needed to build truly effective and accountable education systems.

The estimated global education resource gap currently sits at \$39 billion a year, which seems like a formidably high figure. But looked at from the perspective of reforms to global tax, this figure is eminently within reach. For sustainable education financing, expanding the tax base of developing countries in a fair way is the central challenge and opportunity.

This report makes the case that revenues and wealth generated in developing countries must be fairly reinvested. It explores the potential of globally-levied taxes and shows the urgent need for more challenging and coordinated international actions to fairly tax multinational companies in every country in which they operate. And this report highlights the need for strengthened support to ensure fairer domestic tax collection. Rebalancing the tax burden from labour and consumption to wealth and capital is crucial, requiring more from those who have more. In this way it perfectly complements another report submitted to the Commission by ActionAid, which focuses on domestic tax and builds its analysis from the national-level upwards.

If we are serious about achieving this global shift, it is time for global tax rules to be agreed and enforced by a globally representative, intergovernmental tax body. The International Commission on Financing Global Education Opportunity can play a pivotal role in showing unequivocally that such reforms are the most credible way to deliver truly sustainable financing for the education SDG.

As this report shows, the evidence is clear. Education for all is fundable. Fair taxation is achievable. The policy menu set out shows how it can be done. Now is the time to work together to press world leaders to ensure that the rich and powerful can no longer shirk paying their fair share, so that the vision of Education for All can be realized.

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Executive summary

This paper has been prepared for the International Commission on Financing Global Education Opportunity. Their overall mandate, “to reverse the lack of financing for education around the world”, links directly to the newly-approved U.N. Sustainable Development Goals (SDGs), of which Goal 4 concerns education:

“Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all.”

Education is a fundamental human right, an established global priority, and a global public good, the provision of which is not only a moral imperative but also essential to the achievement of all development goals. While the Commission’s concern is with education, this report focuses on global taxation to support all the SDGs. Overall, the SDGs provide a powerful framework for global commitments to human progress for the period 2016-2030.

The SDGs also imply a step change in ambition – including in the level and nature of the required funding. Leading estimates suggest an overall requirement, annually, of additional *public* financing equivalent to around 27% of GDP in low-income countries (LICs), and 7% in lower-middle income countries (LMICs). Education accounts for around a fifth of that requirement in LICs, and a third in LMICs. The additional financial requirement is estimated at \$1.4 trillion annually overall. The most optimistic assessments of the potential for domestic revenue mobilisation to contribute still leave a gap of \$150 billion or more each year.

For a variety of reasons, and despite some progress in the last decade, tax revenues in most lower-income countries have not seen any great convergence towards OECD country averages. In addition to their different economic structures, and domestic political issues such as elite willingness to support progressive tax policies, two main reasons for this international pattern can be identified. One is the relatively consistent advice from international organisations following a ‘tax consensus’ that has overemphasised taxes on the sale of goods and services, while neglecting direct taxes on income, profits, assets and capital gains.

The second reason is the global failure to challenge tax havens, which has grown as a cause and facilitating factor of international tax avoidance and evasion, and the driver of a wider regulatory and tax ‘race to the bottom’.

Two main types of response are considered: global reforms to support domestic taxes, and globally-levied taxes. Of the former, reforms can help to address the major losses due to international evasion and avoidance. Globally, revenues losses due to multinational corporate tax manipulation is estimated (including by IMF researchers) at or above \$600 billion annually (for all countries, not just lower income ones). Revenue losses on income taxes due to undeclared offshore wealth, meanwhile, are estimated to approach \$200 billion. Progress in these two areas – which will depend in large part on global counter-measures – can make a vital contribution to closing the domestic revenue gap.

Of globally-levied taxes, a financial wealth tax, as suggested by Thomas Piketty, has major revenue potential. Levied at 0.01% annually, revenues could cover the estimated requirement for additional public financing of the SDGs. Levied instead at 1%, revenues might plug the entire incremental financing gap. Finally, a global financial transactions tax could potentially contribute revenues in a range of \$60 billion to \$360 billion. In each case, international measures to ensure greater transparency could alternatively support the levying of such taxes at the national level. As discussed below, the important role of tax in supporting governance and state-citizen relationships would

suggest a preference for national taxes where feasible. Our main recommendations to the Commission therefore concern coordinated international action to ensure the availability of information for national or global taxes, with the following measures likely to have high benefit: cost ratios and to be relatively readily achievable:

- **Publication of country-by-country reporting on the OECD standard (with later changes possible), from all MNEs**
- **Public registers of ultimate beneficial ownership of companies, trusts and foundations**
- **Comprehensive, automatic exchange of financial information between jurisdictions**
- **A global, public registry of financial wealth**

The first three measures can be enacted by or between national policymakers, to standards developed by international organisations such as the OECD. The risks of information flowing primarily to OECD members and not to developing countries would be likely to remain, however; as well as the deeper issue of a non-representative organisation holding responsibility for global standard-setting. A global financial registry would require an overarching global body, since the underlying markets and institutions are effectively transnational in character.

A single body coordinating each of the four data and exchange processes identified would in fact be highly valuable, ensuring consistency and comparability as well as availability. In addition, such a body could provide a mechanism also to coordinate rule changes, and to enact new, global taxes on the basis of political consensus, with revenues to be used in support of SDG achievement in lower-income countries above all.

A further recommendation to the Commission is therefore to request that the Economic and Social Council of the United Nations establish a globally representative, intergovernmental tax body. Mandated by the G20, the IMF, World Bank, UN and OECD have now launched a joint platform on tax which may offer some hope of broader coordination among researchers at these institutions; but this is a body designed to allow technical research progress and there is no intention for this to become a forum for representative political discussions among countries. A new intergovernmental body would be charged, in addition to the measures laid out above, with providing:

- **An internationally representative forum for political decisions over tax rules, including early emphasis on:**
 - (i) **the taxation of multinationals including the move towards a consistent unitary approach (potentially, but not necessarily, including common apportionment approaches);**
 - (ii) **active consideration of a global wealth tax, and/or of measures to support domestically-levied wealth taxes; and**
 - (iii) **active consideration of a global financial transactions tax, and/or of measures to support regionally-levied financial transactions taxes.**

Becoming the home for multinationals' country-by-country reporting and for global financial asset data provides an immediately useful role and the opportunity for the new body to build credibility and legitimacy. The overlap in data necessary for financial wealth taxes and financial transaction taxes imply economies of scale in this area that make it sensible to include both in the body's remit, while providing a comprehensive fix to international corporate tax rules is likely to deliver the lowest-hanging fruit in terms of addressing egregious profit-shifting and double non-taxation. Importantly, such a body would provide the first globally representative forum to discuss the range of tax issues that have major implications for international distribution – including, crucially, the financing of the SDGs.

1. Introduction

This paper has been prepared for the International Commission on Financing Global Education Opportunity. Their overall mandate is “to reverse the lack of financing for education around the world.”¹ This mandate is tied directly to the newly-approved U.N. Sustainable Development Goals (SDGs), of which Goal 4 concerns education:

“Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all.”

This goal is then broken down into a number of targets to be achieved by 2030. UNESCO estimated the cost of achieving a number of these education targets and found that there is a considerable shortfall after accounting for potential domestic resource mobilization and projections of ODA (Official Development Assistance). The Commission is supporting a number of studies to look at these costs and mechanisms for financing them. The premise of this paper is that, given the limits of other sources of revenue, the only viable means for raising sufficient revenue is through three complementary aspects of global taxation:

1. Coordinated global action to expand the tax bases of developing countries (see also the ActionAid report to the Commission on specifically domestic opportunities);
2. Global tax measures that give rise to additional, nationally-allocated revenue streams; and
3. Global taxes that give rise to supranational revenue streams, and so require additional allocation decisions and mechanisms.

Note that the first two aspects effectively generate national tax revenues; only the third results in ‘aid-like’ funds to be allocated by some political decision. Since earmarking (e.g. for education) is problematic; and given that the sixteen other SDGs will also require additional revenue; this paper focuses on raising general revenue for all the SDGs through the three aspects of global taxation. Nonetheless, it is important to recognize why education is especially deserving of global finance (see Box).

The SDGs provide a powerful framework for global commitments to human progress for the period 2016-2030. While following in the logic of the predecessor Millennium Development Goals (MDGs), the SDGs imply a step change in ambition – including in the level and nature of the required funding.

Crudely, the MDGs could be said to identify priority targets for the motivation and coordination of additional aid spending; whereas the SDGs are embedded squarely in domestic revenue mobilisation: that is, tax. This represents important progress. Financially, the associated budget is generally much larger than that of aid alone. Politically, this reflects a significant improvement in the prospects for SDG alignment with the entire budget, and with national decision-making.

Moreover, the evidence is increasingly clear that the higher the share of domestic tax revenues in government spending, the stronger will be the institutions of governance and effective political representation (Prichard et al, 2014) – so that not only are the funds more likely to be well spent at that point, but over time it is more likely that a responsive state and a stronger social contract with citizens will emerge. In this way, the SDG attention to domestic resource mobilisation is likely to support valuable progress far beyond the purely financial. And as Thomas Piketty argues in his major volume *Capital in the Twenty-First Century*, successful ‘social states’ deliver not only the ‘regalia’ of

¹ <http://educationenvoy.org/commission/>

the police, courts, army, foreign affairs and general administration, but critically also about 10-15% of national income in health and education spending and a similar amount on social protection measure to bolster household incomes.

If raising additional revenues domestically was easy however, either technically or politically, then the SDGs might not now be necessary. The SDG framework and the Financing for Development process would certainly not put the emphasis on tax that they do. The G8, G20 and OECD groups of countries would not have devoted their focus since 2013 to measures to address tax evasion and tax avoidance internationally (indeed, this only came about after five years of growing public discontent in many countries following the 2008-09 global financial crisis). The African Union, Economic Commission for Africa and African Economic Research Consortium would not have made the wider issue of illicit financial flows out of Africa a priority theme of both policy and research (AU/ECA, 2015; Ajayi & Ndikumana, 2015).

It is not reasonable, then, to expect domestic policy changes alone to deliver the necessary increase in revenues to deliver the SDGs – including, crucially, the targets that relate to education. The International Commission on Financing Global Education Opportunity – and all concerned with financing the SDGs – must consider a wide range of possible interventions that could unlock the necessary step change in funds.

While a companion study by ActionAid will explore some similar issues, looking from the domestic level upwards, this report addresses issues of global taxation. In particular:

- What global measures are necessary to deliver powerful change in the ability of national governments to raise revenues domestically in a progressive way?
- What taxes, if any, could be raised globally in order to support those domestic processes? How should they be governed and distributed in order to strengthen national ownership and channels of political representation?

In what follows, we review the literature and make recommendations to the Commission on alternative forms of global taxation, focusing on corporations, financial transactions, and wealth. For each of these areas we will review current efforts, potential revenue, implementation mechanisms, and challenges.

There are and have been a number of recent efforts to move towards global reforms of the international tax system. OECD has been engaged in examining ways to reduce the profit shifting and base erosion from multinational. The recent Independent Commission for the Reform of International Corporate Taxation's (ICRICT, 2015) report explored ways to further raise revenue from multinational corporations. Nobel laureate in economics, James Tobin, long ago proposed a tax on international financial transactions and a number of countries and agencies are examining this alternative. Thomas Piketty's (2014) recent, widely-read book, *Capital in the 21st Century*, details growing global inequality and proposes one remedy – a global tax on wealth. In each case, global measures can be envisaged to support the raising of taxes at national, regional or global level; the consistent feature being the need for global coordination of one type or another.

At the Financing for Development conference last July in Addis Ababa there was considerable support to strengthen the United Nations efforts in this regard, although, in the end, the proposal for an intergovernmental tax body was not approved. Such a body is now feasible, and indeed necessary if the international community wishes to attain its Global Goals. **We believe the most significant recommendation the Commission can make to the U.N. is to call for global taxation mechanisms that can raise funds dedicated to the financing of education and the other SDGs;** and

while individual avenues offer the scope for progress, the overall logic points towards the **establishment of an intergovernmental tax body** to support advances across the board.

Section 2 of this report explores the financing requirements of the education SDG, and of the whole SDG framework, and the current limits to existing sources of funds. Section 3 weighs the potential for global progress in each major area of taxation, and identifies the policy measures that could yield significant benefits. Section 4 addresses questions of international governance arrangements, in terms of the need for intergovernmental agreement and mechanisms both to deliver global progress on taxation, and also in respect of those measures that would generate revenues at the global rather than national level (or in jurisdictions other than those where SDG spending priorities rest) – and hence require international (re)allocations to be made. Section 5 draws together the overall conclusions, including immediate recommendations for action.

BOX: Why Education Should be a Global Priority and Responsibility

While education is not a miracle solution that will resolve all the world's problems, it is an essential part of the solution to global challenges, as other Commission reports will elaborate. More and better education cannot be simply left to each nation alone to support themselves, especially in LICs and LMICs, which do not have the capacity to raise sufficient revenue on their own, but needs to be a global priority and responsibility for at least the following reasons:

Education is a fundamental human right and already is a global priority

Education has long been on the global agenda in the post-World War II era and even before. The U.N. Declaration of Human Rights and subsequent conventions established global standards for education. These were solidified by the 160-country Education for All accord that was signed in 1990 in Jomtien and ratified once again in Dakar. And, of course, this was further solidified in the MDGs and the SDGs. That education is seen as a global responsibility is also clear from the decades of international support going to education.

Education is essential to the other 16 SDGs

While education is supremely important in its own right, a well-educated world populace is fundamental to the attainment of all the other SDGs. For example, more and better education is essential to reducing poverty, eliminating hunger, improving health, achieving gender equality, lowering inequality, remedying climate change, and building sustainable communities.²

Education for girls and women is especially important

There is widespread agreement that the education of girls and women is an especially important investment for society. There are a range of non-market benefits that accrue related to child mortality, child and maternal health, early marriage, family planning, and household production.

Businesses are mobile

In today's world, capital is very mobile. At present, this is often a race to the bottom where companies search for cheap and often unskilled labor. An educated world populace can make this less of a race to a bottom and more of one where countries can share more equally in the benefits of labor. This may be especially salient in the future as the rapid pace of technological change

² GPE, "17 ways education influences the new 17 global goals." <http://www.globalpartnership.org/blog/17-ways-education-influences-new-17-global-goals>

automates more less-skilled jobs. Education will be of greater importance to make sure poor countries and poor communities don't get left further behind.

People are mobile

While labor is not as mobile as capital, despite immigration restrictions, people can be very mobile, as witnessed by immigration crises around the world. Brain drain can be a problem as educated people in fragile states leave, but this is not a reason to cut back on education. The opposite is true. We need to offer quality education as well as institute policies to create opportunities everywhere to make productive use of educated people.

Education contributes to peace

A good education, along with better post-educational opportunities, contribute to a more peaceful solution to current social problems. A well-educated populace can contribute to political stability and reduced inequality which are precursors to a more peaceful world. When a population receives a high quality education with the skills necessary to participate in the economy, they are more likely to participate in building democracy and democratic institutions.

Education is also a question of morality

Today, individual survival and success depend heavily on the accident of where one is born. Children should not be disadvantaged owing to the circumstances of their birth. There is a collective responsibility to ensure all children have equal opportunity. Morality demands giving all the world's children a fair start.

Education is a global public good

What it means to be a global public good has been the subject of debate, but even if we take the rather narrow definition of economists, having an educated world populace is a public good. Education establishes a global climate that enhances democracy, rule of law, and equality of opportunity. If we consider broader definitions of public good – like the World Bank's "goods and services essential for survival" – education qualifies.³

Taken together, all these considerations reinforce the current and historical practice and the future need to make sure education remains a global priority and responsibility.

BOX ENDS

³ World Bank, "Global economy: Global public goods."

<http://web.worldbank.org/WBSITE/EXTERNAL/EXTABOUTUS/0,,contentMDK:20627295~pagePK:51123644~piPK:329829~theSitePK:29708,00.html>

2. Context: Financing the SDGs

2.1 Costs and Financing of the Education SDG

UNESCO (2015a) estimated that to meet SDG targets for pre-primary, primary, and secondary education, annual expenditures in low income and lower middle income countries will have to increase from about US\$149 billion in 2012 to, on average, US\$340 billion over the 2015-2030 period. However, domestic and ODA revenues are only projected to cover US\$301 billion, leaving a US\$39 billion annual financing gap – even after assuming additional domestic spending, based on increased domestic tax revenues as a share of GDP and budget allocations to education greater than 20%.⁴

This gap is an underestimate for a number of reasons. It does not cover all the SDG targets, omitting costs related to tertiary education, adult literacy, skills for work, and scholarships. The gap estimate also does not include all middle income countries, nor the wealthier nations. The education goal and targets apply to all nations and will generate significant costs to these nations as well if they are to be met. Lastly, the projection scenario makes optimistic assumptions about GDP growth and domestic resource mobilization which are unlikely to be met. For example, expenditures in countries are predicted to increase from 3.5% to 6.3% of GDP between 2012 and 2030 (UNESCO, 2015b)

Even if it is an underestimate, the \$39 billion estimated gap is large indeed. The Global Partnership for Education (GPE), the major multilateral effort to provide additional financing for education, has only been able to provide about \$.5 billion a year – suggesting that more than 80 times the resources are needed annually to finance the education SDG. Total annual ODA for these levels of education would have to increase at least six times to cover the gap.

The Commission and others are considering ways to meet this gap but it is likely that increased innovative finance alternatives (e.g., social impact bonds) offer little hope for substantially closing this gap – hence the need for new global tax revenues.

A related issue, in addition to the volume of financing, is its *stability*. The importance of consistent budgets for e.g. paying teachers makes aid potentially problematic, and arguably more so than for other sectors. This militates in favour of long-term donor commitments, but also of giving particular attention to tax financing.

2.2 Costs and Financing of the SDGs

The Sustainable Development Solutions Network (SDSN) has conducted the most comprehensive assessment of cost estimates for each SDG. The SDSN study (Schmidt-Traub, 2015) ranks the UNESCO (2015b) assessment for education as among the best – only two out of 24 examined score higher for suitability. Schmidt-Traub (2015) also rebases all of the cost estimates to 2013, and reworks further where necessary to allow full comparability across SDGs.

Overall, the SDSN assessment is that (p.9):

[L]ow- and lower-middle-income countries may need to increase public and private expenditure by some \$₂₀₁₃1.4 trillion per year (\$343-360 billion for LICs and \$900-944 billion for LMICs) in order to reach the SDGs. This corresponds to 4% of these countries' estimated

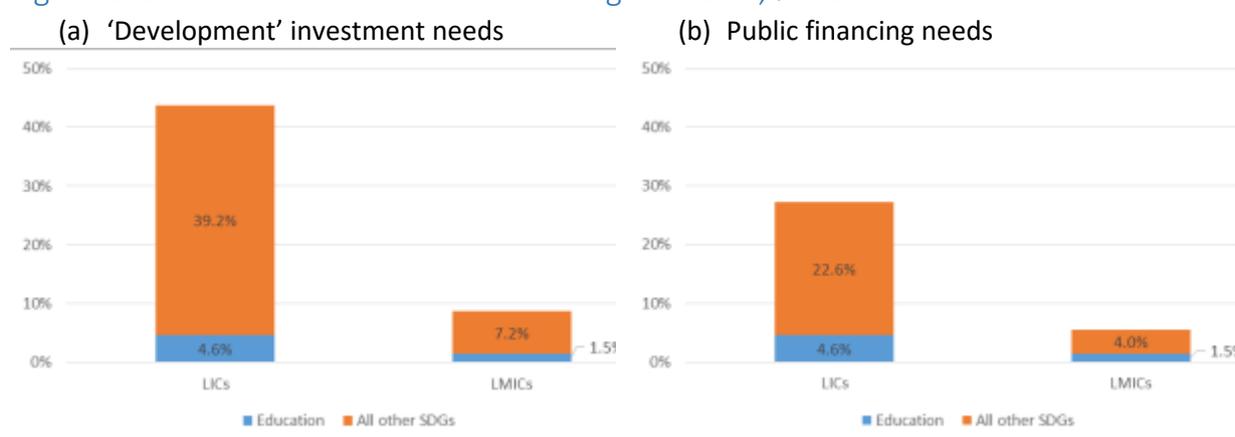
⁴ An updated estimate of the costs of the education SDG is being prepared by the Commission.

GDP over the period measured in purchasing power parity (PPP) and 11.5% of GDP in international dollars, or 0.8-1.3% of world GDP... At the global level an incremental 1.5-2.5% of world GDP may be required to finance the achievement of the SDGs in all countries.

The comparison to world GDP provides a stark illustration of the extent to which the required cost exceeds the potential for aid funding, even were the politically unlikely UN target level of 0.7% of GNI to be achieved across all high-income donor countries.

Figure 1 shows the GDP share of estimated costs for low- and lower-middle income countries, distinguishing between the total annual, incremental costs, and that part estimated to require public financing. As noted, the full education costs must be met from public financing; so that education accounts for a greater share of the total public financing requirement than it does of the total cost. For low-income countries, education is estimated at 11.7% of the total cost, but 20.2% of the public financing requirement. For lower-middle income countries, education is 20.6% of total cost, but 36.7% of the public financing requirement.

Figure 1: Estimated annual costs of meeting the SDGs, % GDP



Note: Data taken from Schmidt-Traub (2015), table B.3. Non-education costs are mid-range estimates.

It is the overall GDP shares that are most striking, however – and we next compare these to the availability of domestic revenues.

2.3 Domestic Resource Mobilization

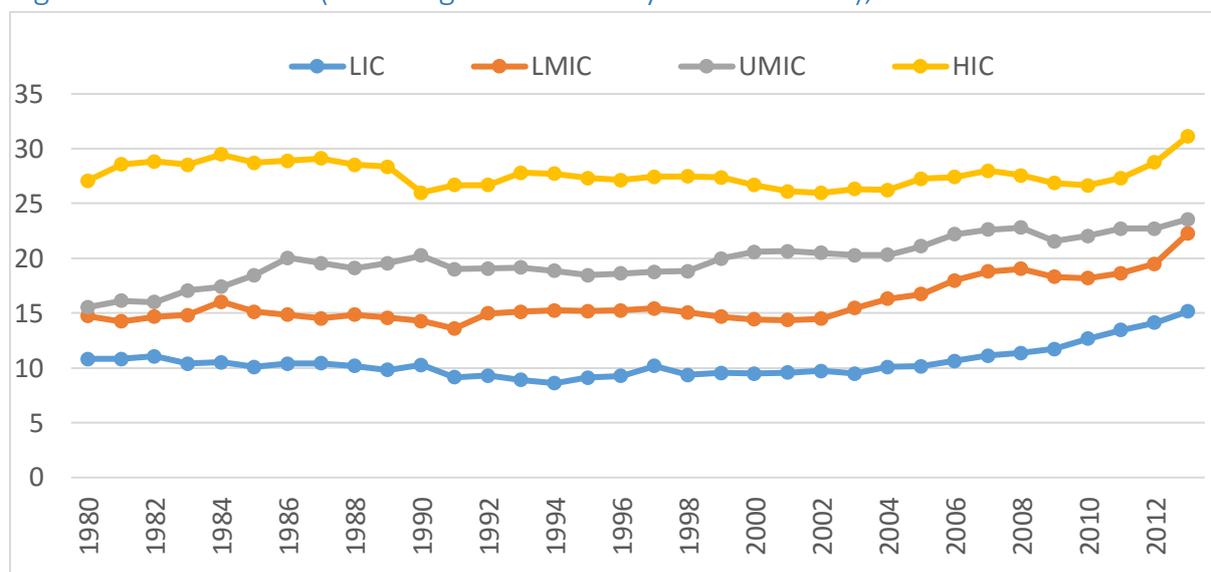
Domestic resource mobilisation – that is, national and subnational taxation – has rightly been put at the centre of the implementation of the SDGs. Long neglected during the dominance of the Washington Consensus, and entirely absent from the Millennium Development Goals framework, fair taxation is now recognised once again as playing a central role in development. While revenue and redistribution are the most commonly considered objectives of tax, the 4 Rs of tax (Cobham, 2005) also include the re-pricing of economic alternatives (e.g. taxing carbon emissions or tobacco), and – perhaps most importantly, although often overlooked – political representation, and the accountability of states to citizens (Prichard et al, 2014).

For this reason, the contribution of tax to the SDGs is likely to go far beyond revenues raised. The starting point, however, in terms of revenues is not an encouraging one. Figure 2 shows the long-term trends in total tax revenue to GDP, using the most complete source, the International Centre for Tax and Development's Government Revenue Dataset (the ICTD GRD, now hosted at UNU-WIDER in Helsinki).

McNabb & LeMay-Boucher (2014) identify a range of reasons why there has been relatively little convergence towards high-income country revenue levels in low- or middle-income countries, on average – or at least not until the early 2000s. These include:

- economic structure (in particular, reliance on subsistence agriculture, and large-scale informal sectors);
- tax evasion and avoidance by high-earning individuals (see IMF, 2011; and Kangave et al., 2016);
- a ‘race to the bottom’ to attract investment from multinational corporations (OECD 2014); and
- low tax morale, typically associated with citizens’ low level of trust in public officials or administrations.

Figure 2: Tax revenue (including social security contributions), % of GDP



Source: ICTD Government Revenue Dataset (downloaded February 2016). LIC, LMIC, UMIC and HIC refer to low, lower-middle, upper-middle and high (per capita) income countries, respectively.

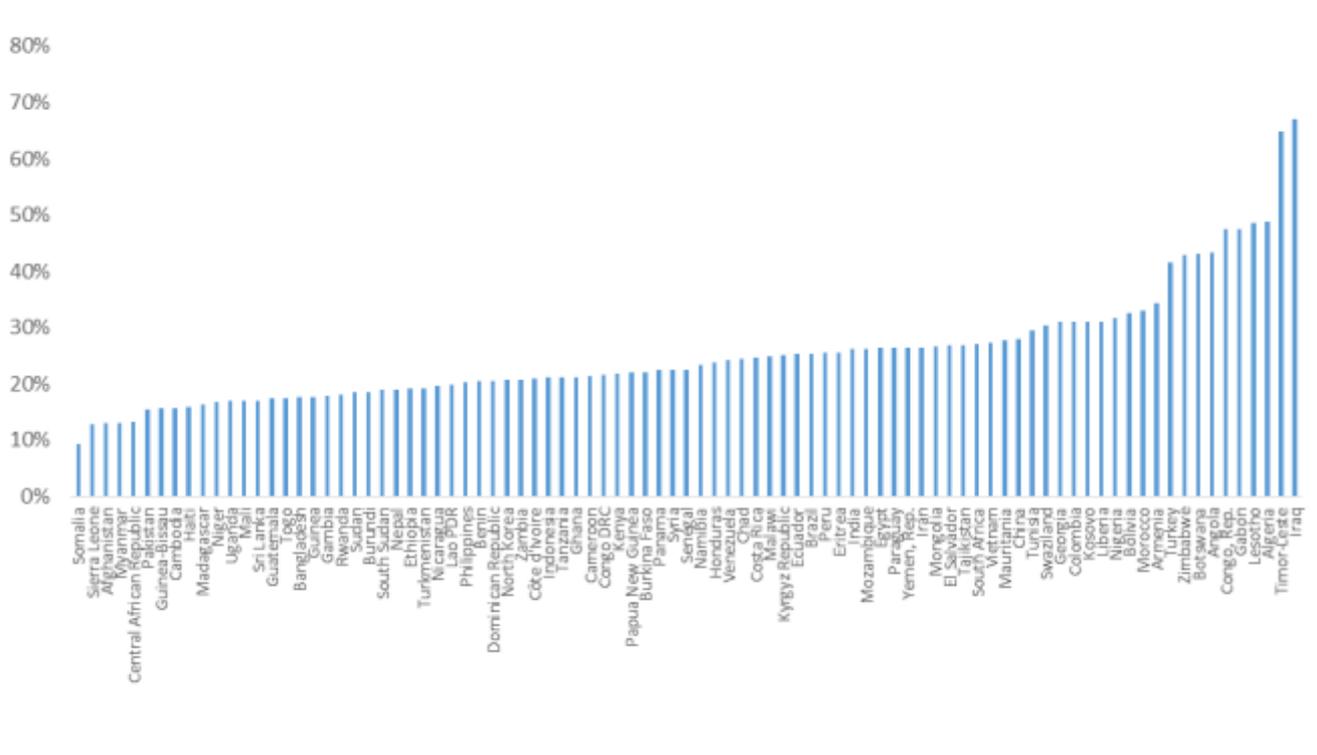
In addition, the long-standing ‘tax consensus’ promoted by the IMF and others (Adam & Bevan, 2004; Heady, 2004) has been a major obstacle (Cobham, 2007). A core component was to encourage the removal of trade taxes that produced major revenue streams, above all in the lowest-income countries; and to replace this with the introduction of Value-Added Tax (VAT) or similar taxes on the sales of goods and services. This advice was all too often given (Marshall, 2009) even after the IMF’s own research showed that it tended to result in revenue losses, especially in low-income countries (Baunsgaard & Keen, 2005). At the same time, the tax consensus encouraged relative neglect of direct taxation (that is, taxes on incomes, profits and capital gains; see e.g. Ruiz Rodriguez et al., 2016).

Researchers at the Overseas Development Institute (Manuel & Hoy, 2015) have constructed basic measures of tax and non-tax revenue capacity, to support assessment of the reasonable contribution – under current norms and international rules, at least – that domestic resource mobilisation could make. The median revenue capacity for low-income countries is 18% of GDP, and 26% for middle-income countries; but as figure 3 shows, there is a considerable variation, not least due to the presence of natural resources.

Taken with the SDG costs identified above, the impression is that some middle-income countries may be able eventually to meet their public financing needs, by pushing towards their domestic revenue capacity. For most, however, and probably for all low-income countries where the financing needs are so much higher, even reaching revenue capacity – compared to the 50% progress that Manuel & Hoy (2015) suggest might be feasible – would not come close to filling the public financing need. While some reprioritisation of official development assistance is possible, there will remain in many cases – and overall – a very substantial gap indeed.

Additional measures are therefore urgently required, in the area to which this report is addressed: global taxation, including global measures to allow a step change in domestic progress.

Figure 3: Revenue capacity, % GDP



Source: adapted from Manuel & Hoy (2015).

Building on a distinct analysis for the Sustainable Development Solutions Network (2015), Schmidt-Traub (2015) suggests benchmarks for government revenues as a share of GDP to be achieved by 2020: for LICs, 19%; and for LMICs, 22%. In addition, it is proposed that developing countries might increase the share of spending devoted to the SDGs by 20% - resulting, according to Schmidt-Traub, in target revenue shares of 60% of central government revenue in LICs (equal to 11% of GDP) and 66% in LMICs (equal to 15% of GDP).

On the basis of assumed economic growth rates, Schmidt-Traub (2015) draws the conclusion that lower-middle-income countries may be able to self-finance sufficient public SDG investments over the period to 2030, but will require international co-financing at the outset; while low-income countries may require external, public finance of \$152 billion to \$163 billion annually.

Substantial caution is needed in interpreting this illustrative finding, however (as Schmidt-Traub emphasises also). In particular, the evidence of recent decades provides little cause for optimism about the ability of low-income countries, working in isolation, to increase their revenues – although the experience of the most recent decade is somewhat more positive, albeit inconsistent. But while

the renewed policy focus in this crucial policy area provides further encouragement, the international obstacles to domestic progress remain powerful – as will be seen below.

Finally, the SDSN's estimated *total* incremental financing (for all countries) need of \$1.4 trillion annually should in any event be considered as the relevant benchmark for additional revenues in this report, since the tax measures relate both to new global revenues and to additional national revenues.

3. What to tax?

We have seen the scale of the funding challenge posed by the SDGs, including the significant component associated with education alone, and the extent to which existing aid and domestic revenue mobilisation will struggle to fill the identified gap. But while the broad need for global taxation measures is clear, the specifics are not – and as the history of the Zedillo report (see Section 4) shows, progress on international tax issues is difficult to engender even when there is deep, political consensus on the common project to be financed.

This section therefore turns to specific global taxes and global reforms that can unlock revenue at country level, looking at both the technical questions and some of the political obstacles. As discussed in section 2, the longstanding emphasis in advice to developing countries has been to promote taxes on goods and sales (especially VAT), at the expense of attention to direct taxes on income, capital gains, profits (and to replace trade taxes lost to liberalisation). This, and the international agenda of last five years or so, point to where the main opportunities are now: that is, direct taxes. But major obstacles remain.

Sub-sections 3.1 and 3.2 address taxes on corporate income and personal, cross-border wealth and income. These have potential both in the form of new global taxes and - perhaps preferably – by way of global interventions to support domestic taxation. In addition, and drawing from the Zedillo report, looking at global level revenue-raising suggests the possibility of additional taxes on specifically international phenomena. Most well established among these is the idea of taxing financial transactions (3.3). Note that we do not consider a number of other potential taxes, which might contribute to the SDG financing but in general should be analysed primarily as contributing to sustainability aims (e.g. taxes on air travel and tourism); nor do we look at less well developed alternatives such as the idea for a global lottery (although we note that in general lotteries can have regressive distributional implications).

In each sub-section, we discuss parallel considerations: the motivation, including the potential scale of revenues at stake and additional benefits likely; the main policy issues involved, and the steps needed; and the likely obstacles to progress. Finally, we summarise the main findings of this section.

3.1 Corporate Income

Motivation

There are three main motivations to prioritise global tax measures in respect of corporate income: the scale of effectively untaxed income; the distributional consequences for lower-income countries; and the extent of political will currently to tackle the problem.

The last year has seen a number of new estimates of revenue losses due to multinational tax abuses, all pointing at a higher scale than previously recognised. Research for UNCTAD's World Investment Report (UNCTAD, 2015) identified that investment via tax havens and SPE (special purpose entity) jurisdictions resulted in a substantial reduction in the declared returns to FDI in developing countries, implying a revenue loss of around \$100 billion annually (broadly related to thin capitalisation). Researchers at the IMF's Fiscal Affairs Department (Crivelli *et al.*, 2015) examined a broader measure of tax haven 'spillovers', estimating total tax losses at over \$400 billion for OECD countries and around \$200 billion for developing countries.

A Tax Justice Network study (Cobham & Janský, 2015) found that the profit shifting of US-headquartered multinationals likely resulted in around \$130 billion of revenue losses in 2012 (compared to just \$12 billion in 1994, highlighting just how the scale of abuse has grown over two decades). A rough extrapolation on the basis of the US share of world FDI – assuming other

multinationals are equally aggressive in their tax behaviour – implies a global revenue loss of around \$650 billion, in line with the IMF study although the two are driven by quite different data and methodology.

OECD researchers (OECD, 2015) suggest a range of \$100-\$240 billion globally, which seems somewhat inconsistent. However, where UNCTAD and IMF researchers rely primarily on national tax data, and Cobham & Janský (2015) on a comprehensive global dataset on the activities of one country's multinationals, the OECD analysis is based on a database of company balance sheets which has been shown to lack sufficient coverage of either tax havens⁵ or developing countries⁶ to provide the basis for such a global analysis.

Overall, current data and research suggest global, annual revenue losses of \$600-\$650 billion, or around 25% of corporate tax revenues on average.

The new wave of research also sheds light on the global distributive implications. The more comprehensive, but less disaggregated results are those of the IMF researchers. Their estimates are that short-run losses amount to around 0.2% of GDP for both developing countries and OECD countries (as groups), while the long-run losses are around 1% of GDP for OECD countries and 1.3% for developing countries.

The GDP comparison does not show the full difference in intensity of losses, however, because developing countries have lower tax revenues in general: often 10-20% of GDP, rather than 30% or more in OECD countries. **The revenues foregone are therefore substantially greater in comparison: perhaps 6-13% of existing tax revenues in developing countries, as opposed to just 2-3% in OECD countries.**⁷ With international corporate tax rules largely set by the OECD and its member states, this is evidence of a sharp inequality in the distribution of global corporate taxing rights.

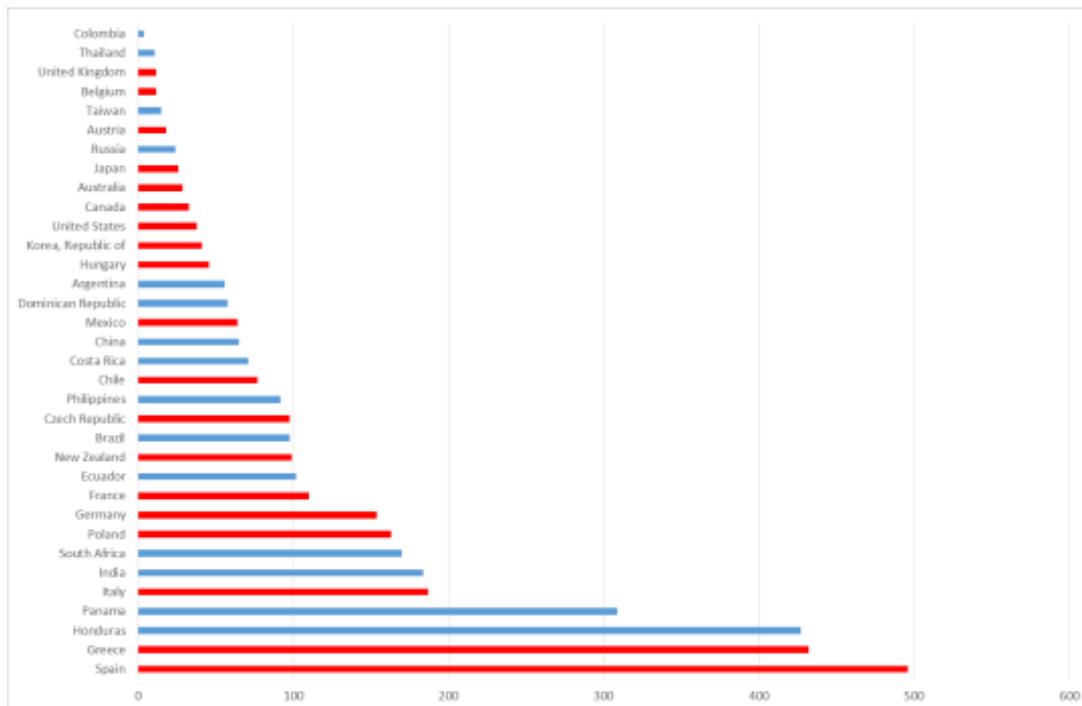
The Tax Justice Network study looks only at US-headquartered multinationals, but provides a more detailed breakdown of revenue losses, shown in Figure 4 as the estimated shifted profit as a percentage of the profit actually declared in country. While non-OECD members do somewhat worse, the absence of a clear pattern highlights the importance for future research of focusing on country-specific analysis. Aligning with country-level estimates of SDG costs will also be informative.

⁵ As Clausing (2015, p.2) identifies (emphasis added): “the Orbis data... has extremely limited data on tax haven countries. Even when observations exist, key data fields are often missing. Analysis using these data excludes the observations that are driving most of the income shifting behavior”.

⁶ As a paper referenced in the same OECD study puts it (Cobham & Loretz, 2014, p.8): “We use the largest commercially-available database of company balance sheets, Orbis, provided by Bureau van Dijk. Using a dataset of up to 211,360 individual companies in 26,795 corporate groups, we simulate the static distributional consequences of a number of different apportionment factors. The most obvious finding is that coverage is severely limited among developing countries, and increasingly so for lower-income countries. Despite the large number of firms in the initial dataset, the level of reporting for lower-income countries is insufficient to predict revenue consequences reliably. The challenge for the OECD BEPS initiative is clear”.

⁷ See also the discussion of estimates in Oxfam (2016).

Figure 4: Profit shifted out by US multinationals, % of declared profit, 2012



Source: Cobham & Janský (2015); see Annex II at <http://taxijustice.net/scaleBEPS>. OECD members are shaded red.

Research on the incidence of corporate taxes (Clausing, 2012; Tax Justice Network, 2015a) suggests the majority falls clearly on shareholders and top executives, so that a reduction in tax avoidance is likely to have progressive distributional implications within countries – as well as between countries, by addressing the historic inequality in the distribution of taxing rights.

Finally, policymakers and the public in many countries are focused on the issue of corporate tax avoidance to an unprecedented degree. In part, this reflects the success of civil society organisations (including the contributors to this report), in building awareness over many years. In part, it reflects the political moment: the global financial crisis of 2008 (and since) has contributed in many OECD member states in particular to a sharp focus on fairness in taxation, and on those perceived not to be participating fully. And in part, the new attention reflects substantive change in the degree of abuse: Cobham & Janský (2015) find that only 5-10% of the profits of US multinationals was misaligned with their economic activity in the 1990s (that is, declared elsewhere for tax purposes rather than where the underlying activity took place), this grew to 15-20% in the early 2000s and most recently to 25% or more.

While the political window of opportunity for significant change will not stay open forever, the foundations are deep and so the opportunity is likely to endure for some time. This is supported by the growing perception that the biggest revision of the OECD's rules for decades, the Base Erosion and Profit Shifting initiative (BEPS), has largely failed to deal with the problem.

Policy issues

The BEPS initiative had a single goal: to align better the profits of multinationals with the location of their real economic activity. The problem for the OECD is that this is simply not an outcome that anyone would expect – nor indeed an intention – of the current set of rules. This is because the rules

are based on the fiction that individual entities within a multinational group can be considered as independently profit-maximising.

This 'separate accounting' approach can trace its current dominance to a League of Nations decision of 1928, when the multinational operations were a far cry from today's scale and complexity, and largely an issue between inter-war imperial powers and in their own relationships with current or former colonial possessions. Separate accounting relies upon establishing for intra-group transactions, the appropriate market prices – that is, the prices that would be apply between truly independent entities, or arm's length pricing – so that the 'right' level of profit should arise for each of the individual entities within the group, and they can then be assessed for tax on that (separate) basis.

The entire logic of multinational corporations is opposed to this view. Only because it is more efficient to internalise certain transactions and relationships does it make economic sense for entities to be part of the same group; and profit is maximised at the group level, not at the level of individual entities.

As such, the economic logic for the alternative approach speaks for the main alternative to separate accounting, which is unitary taxation: to tax on the basis of the multinational group itself being the relevant unit: the locus of managerial decisions and of profit maximisation.⁸

Increasingly, even with the OECD rules, it is recognised that it is often not possible to determine arm's length prices – and so some basis (typically relating to the scale of economic activity) is needed to apportion profits among entities within the group. Starting from the unit of the group would make such an approach much more consistent, as the Independent Commission for Reform of International Corporate Tax (ICRICT, 2015) has proposed.

Indeed, the most obvious step would be to follow the approach variously taken among US states, Canadian provinces and Swiss cantons (among others): formulary apportionment. This is the process of adopting a formula to establish the share of economic activity in each country (for example, a weighted average of payroll and sales), and then to apportion that share of global profits to be taxed in each country. The European debate is also engaging on similar approaches now.

In addition to ensuring the alignment of profits that was the unattainable goal of OECD BEPS, this approach has the potential to eliminate double taxation and double non-taxation, since any overlaps or gaps between the tax base claimed by any one country from a given multinational would be immediately visible. Also laid bare would be the inbuilt inequality of taxing rights which many bilateral tax treaties with OECD members end up imposing on lower-income signatories (as ActionAid's painstaking research and creation of a new treaty dataset has shown: Hearson, 2016; ActionAid, 2016).

The immediate step would to publish the country-by-country reporting of all multinationals.

Country-by-country reporting requires data on the various components of economic activity to be reported for each country of operation, along with profits and tax paid. The G20 and G8 groups of countries mandated the OECD to produce a standard in 2013, following the original Tax Justice Network proposal ten years previously. The data currently will only be provided to tax authorities, preventing the intended benefits of holding multinationals and tax authorities to public

⁸ This discussion draws from Picciotto (2013).

accountability. Many policymakers, including those at the top of the UK government and the European Commission, have however pledged to make the data public.⁹

With such data available publicly, the extent of profit misalignment would be clear – and without any longer relying on the various methodologies used in the research discussed above, to make use of the limited data that is available. As the OECD (2015) itself highlighted in the BEPS process, a serious baseline for the scale of BEPS will only be possible if these data are made available – making it especially unfortunate that the new *OECD* rules allow data only to be supplied to individual tax authorities (subject to confidentiality criteria, and the data not being used for formulary approaches). Such is the complexity of these arrangements that it is argued (Cobham, 2015) that making the data public is likely to yield benefits in cost reduction, even before any potential revenue growth.

National authorities might, with the data made public, simply take the decision to switch to a **unitary basis and formulary apportionment** approach, or perhaps maintain the OECD rules but create an alternative minimum tax based on requiring perhaps 80% of some formulary apportionment profit level to be assessed for tax, regardless of any transfer pricing or other potentially manipulated arrangements. This is likely to yield substantial revenue benefits, not least for lower-income countries, and especially if a **minimum floor for effective tax rates** (perhaps 15-20%) can be agreed to prevent a race to the bottom.

Potential challenges

The main objection raised to a unitary and formulary approach has been the erroneous claim that global agreement on a common formula would be needed. In fact, any country could unilaterally pursue such an approach. While double taxation would be a possible outcome, it already is under the current system – and would be much more transparent under a formulary approach. Part of the objection may actually relate to the likelihood that double *non*-taxation would also likely become much more visible.

In fact, the growing expert consensus on the failure of the current international tax rules makes a defence of separate accounting increasingly untenable. Opponents of full formulary apportionment tend to argue either for the abandonment of corporate tax (which would be both highly costly, and likely to disadvantage lower-income countries most of all), or for a destination-based corporate tax (e.g. Devereux and la Feria, 2014) which takes the form of a somewhat more complex apportionment approach (and might also disadvantage lower-income countries), but accepts the unitary principle.

A concern about any move towards a global system of formulary apportionment relates to the formula used. There is a risk that lower income countries would lose out if the formula were not generated with their interests in mind – for example, if tax allocation related to sales rather than numbers of employees. Data on US multinationals however shows that most developing countries would gain, regardless of the formula, because the elimination of egregious profit-shifting would dominate the relative factor mix (Cobham & Janský, 2015).

⁹ At present, specific EC proposals for publication relate to a subset of the data only, in which variables for major non-EU 'tax havens' and developing countries would be aggregated – making the result of little value for the latter in particular. Such a proposal is unlikely to survive public demands for accountability of multinationals and tax authorities, however, and so will almost certainly be revisited. See e.g. <http://www.taxjustice.net/2016/04/12/press-release-tax-justice-network-responds-to-european-commission-proposals-for-public-country-by-country-reporting/>.

The main remaining resistance is likely then to be based on familiarity with the current rules, rather than any great evidence base that it delivers appropriately – whether in terms of overall revenues, of a level playing field for domestic businesses, or in terms of distribution between countries.

3.2 Personal Income and Wealth

Motivation

There are three main arguments in favour of looking at global measures in respect of personal income and wealth taxes. Two mirror those for corporate taxation: the scale of effectively untaxed income; and the distributional consequences for lower-income countries; while the third relates to the direct importance of the measures involved, in terms of both within-country distribution and likely governance and anti-corruption benefits.

From a national perspective, these aspects of direct tax have been neglected. In part, this reflects the damaging ‘tax consensus’ discussed above. In part, it reflects the relatively recent history in many cases of illegitimate (colonial) states – the same issue that means southern European countries with more recent periods of dictatorship also tend to have notably low levels of personal tax compliance. Increasingly, however, lower-income countries are assessing the potential of taxing high net-worth individuals in particular (see e.g. Kangave *et al.*, 2016, on Uganda).

At the international level, ‘tax havens’ – or more usefully, financial secrecy jurisdictions – are the core of the problem. By holding and managing assets of non-residents, without providing information to the relevant home authorities, secrecy jurisdictions facilitate and incentivise the non-declaration of assets, income and capital gains (see Tax Justice Network’s Financial Secrecy Index, and Cobham *et al.*, 2015 for a discussion of the full range of issues involved).

The provision of financial opacity by secrecy jurisdictions plays two important roles. One is to obscure the true extent of inequality from the public and policymakers alike. The impact of Thomas Piketty’s (2014) *Capital in the Twenty-First Century* rests in large part on the detailed revelations of the true extent of inequality over a hundred years or more in a number of major economies.

Piketty’s central policy proposal is for a global wealth tax. While such a tax would also directly address inequality, the proposal is intended first and foremost as a means to ensure that a global financial registry is created and maintained, with the distributional data necessary to allow both the assessment and tracking of inequality.

That such data typically go uncounted – along with those on incomes, despite the great strides made by Anthony Atkinson and collaborators on the World Top Incomes Database that provided Piketty with much of his material – is not only a reflection of the power of those who are hidden, but also an obstacle to further progress. The prospects for policy responses are stifled by the lack of public or policymaker awareness of even the distribution itself.

A second important function of tax haven opacity is to frustrate the attempts of policymakers to curtail inequality. This allows both unscrupulous individuals and multinational companies to hide the origin and/or the existence of their assets and incomes, in order to evade or to avoid direct taxation.

These secrecy channels are also used for a wider set of illicit financial flows – most obviously, to launder the proceeds of crimes such as illegal logging; arms, drugs and human trafficking; and the theft or exploitation of state assets, and related forms of public and private corruption. As the Norwegian Government Commission on Capital Flight out of Developing Countries (2009) put it: “Potentially the most serious consequences of tax havens are that they can contribute to weakening

the quality of institutions and the political system in developing countries. This is because tax havens encourage the self-interest that politicians and bureaucrats in such countries have in weakening these institutions.” Greater transparency would therefore contribute importantly to the achievement of SDG 16.4, which aims to curtail illicit flows (Cobham, 2015).

While there are significant uncertainties over the scale of this range of hidden activities, there is no longer any doubt that the magnitudes (of tax revenues lost) are substantial in terms of the potential development impact. Global estimates of individual wealth ‘offshore’ span a wide range. The lowest is \$7.6 trillion in 2013, Gabriel Zucman’s (2014) assessment which is based on the mismatch between the publicly acknowledged bilateral assets and liabilities of a list of ‘tax haven’ jurisdictions, and an estimate (based on Swiss data) of the likely proportion of the mismatch that is actually declared to home tax authorities.

The highest estimate, made by James Henry for Tax Justice Network in 2012, suggests a range of \$21-\$32 trillion, based on triangulation of multiple methods (and data sources). The likely value of assets undeclared for tax purposes lies in between; Henry does not argue that all offshore assets are undeclared, and Zucman is clear that his estimate relates only to one part of the asset range that should be considered.

In terms of annual tax revenues lost as a result of undeclared income generated by these assets, Henry offers an indicative figure of \$189 billion (based on statutory tax rates applied to a conservative 3% return on the lower bound of his asset range). Zucman estimates a global tax loss of \$190 billion based on his much lower undeclared asset total and a nominal offshore return of 7% (based on research findings that pre-tax returns rise with wealth, and on returns data from large diversified funds).

Estimates of undeclared wealth also suggest a particular intensity in lower-income countries. The regional breakdown of Zucman’s estimates is reproduced in Table 1. With the exception of Russia and Gulf countries where the tax implications are trivial, the proportion of wealth held offshore is largest for Africa and Latin America – more than twice that of Europe and many times higher than that of the US. While it is difficult immediately to construct an equivalent share of current revenues, the estimated revenue losses for Africa and Latin America appear disproportionate to their shares of world GDP.

Table 1: Regional breakdown of offshore wealth (Zucman)

	<i>Offshore wealth (\$ billions)</i>	<i>Share of financial wealth held offshore</i>	<i>Tax revenue loss (\$ billions)</i>
Europe	2,600	10%	75
United States	1,200	4%	36
Asia	1,300	4%	35
Latin America	700	22%	21
Africa	500	30%	15
Canada	300	9%	6
Russia	200	50%	1
Gulf countries	800	57%	0
Total	7,600	8.0%	190

Source: Zucman, (2014). Notes: Offshore wealth includes financial assets only (equities, bonds, mutual fund shares, and bank deposits). Tax revenue losses only include the evasion of

personal income taxes on investment income earned offshore as well as evasion of wealth, inheritance, and estate taxes.

Supporting this finding for Africa, there are also regional estimates of lost capital that strongly imply the region is a net creditor to, rather than a net debtor of, the rest of the world. Former African Development Bank chief economist Léonce Ndikumana and his co-author James Boyce have produced a series of estimates of the stock of African flight capital offshore since the 1970s, most recently for an important new volume produced by the African Economic Research Consortium (Ajayi & Ndikumana, 2015). They estimate that the stock of unrecorded capital built up between 1970 and 2010 for 39 African countries and held offshore is approximately \$1.3 trillion, or 82% of those countries' 2010 GDP. In contrast, the stock of external debt stood at \$283 billion – so the scale of hidden African wealth offshore is estimated to exceed recorded external debt by a ratio of more than four to one.

Finally, a narrower study, but with global coverage, provides additional supporting evidence for the view that developing countries in general suffer a greater intensity of tax haven exposure. The 'SwissLeaks' data leaked from 2008 by whistleblower Herve Falciani revealed the pattern of foreign holdings in the bank accounts operated by HSBC Switzerland.

The data are only a snapshot, and cannot be extrapolated with any confidence due to the continuing lack of consistent data on international banking. Nonetheless, they provide a unique insight into the business model of a major global bank operating in the jurisdiction which is consistently shown to be the biggest global tax haven. For some countries such as Kenya, Egypt and Burundi (see Figure 5), this single bank held assets worth *more than 1% of GDP*. African countries both north and south of the Sahara are consistently the most exposed – entirely consistent with Zucman's startling estimate that 30% of African wealth is offshore in a narrow range of financial assets. A number of countries in both Latin America and south Asia also show significant exposure. Latin American residents held in HSBC accounts in Switzerland between 2006 and 2007, the equivalent to 26% of total public investment in health in the region.

Figure 5: SwissLeaks data as % of each country's GDP

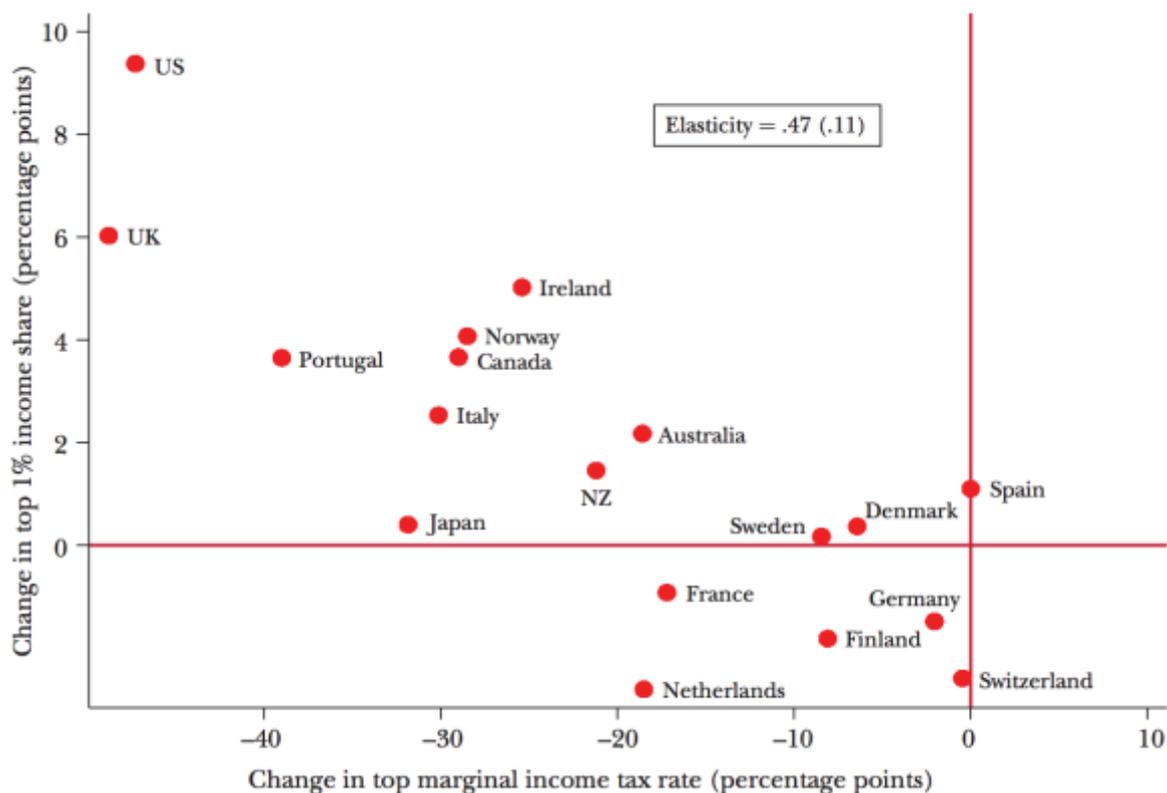


Source: Christian Aid/Financial Transparency Coalition analysis of SwissLeaks data published by ICIJ: <http://www.swissleaksreviewed.org/#global-map>.

Finally, the work of Piketty and collaborators has shown (see Figure 6) how reductions in top marginal rates of income tax over time were correlated with major rises in inequality – most clearly in the shares of national income held by the top 1%. And economic inequality represents a major threat to the achievement of the SDGs, imposing costs across a whole range of outcomes: from poorer physical and mental health (Pickett & Wilkinson, 2015), to worse prospects for sustained economic growth (Ostry *et al.*, 2014), and worse outcomes for women and girls (Gonzales *et al.*, 2015).

There is a strong case to be made that global measures to facilitate more effective wealth and/or income taxation would be progressive in terms of both between-country and within-country inequality – both of which are intended outcomes of the SDGs, and would benefit many other targets within the framework.

Figure 6: Falling tax rates and the rise of the 1%



Source: Atkinson *et al.*, 2013, using World Top Incomes Database.

Policy issues

As with corporate taxes, there are opportunities both to introduce new, global measures (for example, Piketty’s proposed global wealth tax), and to capture the benefits through some intergovernmental mechanism and agreement to support the achievement of the SDGs; and also for global measures that would primarily support national implementation of existing or new tax measures (standard taxes on income, wealth and capital gains).

While the difference in approach is explored further below, the technical measures in each case have substantial overlap. Specifically, income and wealth taxes rest on the consistent availability of

information on the ownership of assets and income streams. The elimination of key aspects of financial secrecy is therefore crucial.

Important progress has been made in recent years on the two main measures required: establishing the **beneficial ownership of companies, trusts and foundations**; and **exchanging information on assets and income streams automatically** between jurisdictions, on a comprehensive, multilateral basis.

Major obstacles remain in each case, however. In respect of public registries of companies, few countries have yet delivered. For example, the UK's extensive network of secrecy jurisdictions has yet to follow its lead (or been required to do so, as the UK government could legally do). The states of the USA are actively competing with each other for the business income that stems from allowing the registration of anonymous companies for whatever purpose, so the federal government's repeated commitments to transparency in this area have been to no avail. There has been little progress on the beneficial ownership of trusts and foundations; although the French, German, Italian, Spanish and UK governments have announced an agreement to exchange such information automatically, ensuring that necessary arrangements, including registers, will be put in place.¹⁰

The main technical issues lie in establishing common international practices for the identification of beneficial owners, and open data standards for the provision of ownership information – neither of which presents a particular challenge at the technical level. Consider, for example, the global, automatic exchange of personal identity information that underpins passport checks on travellers worldwide.

The US also presents a significant barrier to progress on automatic information exchange. It was the administration's Foreign Account Tax Compliance Act (FATCA) which, by requiring automatic information provision from foreign financial institutions about the accounts of US citizens, broke the bank secrecy resistance of Switzerland and others. That in turn underpinned a wider shift towards the multilateral, automatic information exchange that the European Union had pioneered with its Saving Directive, and the OECD produced a new multilateral standard at the behest of the 2013 meetings of the G8 and G20 groups of countries.

Sadly, however, the US has U-turned on its original commitment to this multilateral instrument. Instead, bilateral agreements have been negotiated to ensure FATCA data flows, with reciprocity in only a handful. Almost inevitably, other countries – and major secrecy jurisdictions such as Switzerland in particular – have followed this lead, and have increasingly signalled a willingness to limit their data provision to larger, more powerful economies.

At the same time, the OECD standard broke with the typical approach of global agreements and eschewed the principle of 'common but differentiated responsibilities' – instead requiring full reciprocity from all participating states. A clear impact of this approach is to exclude a great many lower-income countries. Malawi, for example, would need to invest substantially to be able to inform Luxembourg, for example, if any of the latter's citizens held bank accounts in a Blantyre bank – but without doing so, the OECD standard prevents Malawi from receiving information automatically from Luxembourg about Malawian citizens' holdings there.

¹⁰ As detailed in a joint letter published April 2016:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/516868/G5_letter_DOC140_416-14042016124229.pdf.

The technical challenges in building the necessary capacity to reciprocate, especially in low-income countries where the potential benefits may be greatest, are substantial. However, a short window (say five years) of receiving data without reciprocity being enforced, would go a long way both to demonstrate the value of being able to receive such data, and to incentivise creation of the necessary systems since using the data efficiently would require much of the investment to be made.

The overarching policy proposal is that of Piketty, for a **global registry of financial wealth** – which would necessarily include ownership via companies, trusts and foundations. This has thus far received relatively little attention in terms of practical feasibility studies. It could, in theory, be achieved in various ways. One, as suggested by Zucman (2014) and Piketty (2014), would be to draw upon (and possibly to take into public control) the major existing databases of the ownership of financial instruments such Eurostream, ClearStream and the National Depository Trust Corporation, and build to a single registry with global coverage. Another might be to establish a central, open registry drawing on (some of) the information being exchanged automatically under the multilateral agreement. Financial institutions could be required to establish ownership information (including via Taxpayer Identification Numbers, TINs) for any entity with which they conducted business; or withholding taxes could be imposed upon any accounts for which ultimate beneficial ownership was not recorded, giving a clear incentive for transparency.

A part of the resulting database could be fully public (individual asset holdings, and bilateral income data aggregated at jurisdiction level, for example); while other information (for example individual, annual income streams) could be private to the relevant (home and host) tax authorities. Publication of individual wealth (as opposed to its provision for use in assembling rigorous distribution analyses) might be a question for individual polities.

Levying a **global wealth tax**, possibly via financial institutions, would require global enforcement capacity over, as well as transparency of the assets under management of, all financial institutions. While that might have been thought unrealistic even until relatively recently, the US imposition of withholding taxes on financial institutions via the Foreign Account Tax Compliance Act (FATCA) has been effective in ensuring automatic financial information provision globally, to just one country's authorities. An intergovernmental body with broad support would be able to achieve global or near-global coverage also.

While levied globally, the resulting revenues would be allocated directly according to national wealth: that is, after shaving perhaps a fraction of a percentage point to cover administration costs, the tax revenues would accrue at the national level, according to the wealth held by residents. More globally progressive schemes could be considered, of course; but there is a strong appeal of simply rendering to national authorities that which is due on the basis of national wealth. As noted, this would itself be highly progressive given the pattern of currently undeclared offshore wealth.

By 2015, private global financial wealth was estimated to stand at \$156 trillion (BCG, 2015). A Piketty-esque global wealth tax at 0.01% annually would therefore raise a maximum \$15.6 billion, before losses from evasion and avoidance, and costs of administration. As Piketty (2014) notes, the major benefit would be the creation of knowledge of the full wealth distribution – including for national redistributive measures. Nonetheless, the resulting revenues could still make a non-trivial contribution to a specific SDG area such as education in low-income countries. Alternatively, a 1% wealth tax could conceivably generate revenues of the order of magnitude that is estimated to be required incrementally for the entire SDGs.

Potential challenges

The challenges are largely political. While the evidence suggests greater progress against global financial secrecy in the last three years than in the preceding decade or more, there are worrying counter-trends. Chief among these is the rise of the US as a secrecy jurisdiction (Tax Justice Network, 2015), which not only represents a serious global issue on its own, but also undermines the momentum for progress across a wide range of other jurisdictions.

Politically, the OECD is quite unable to discipline its biggest member;¹¹ and so the possibility of counter-measures against smaller, non-cooperative jurisdictions is tainted by the suggestion of hypocrisy and an un-level playing field. We consider these political questions more fully in section 4, where possible international governance arrangements are discussed.

The political challenges around a global wealth tax are of course substantially greater; although at the higher end of putative 0.01% - 1% range, the rewards in terms of the SDG financing gap are equivalently great. Finally, some challenges might arise in converging international arrangements with countries' existing wealth taxes.

3.3 Financial Transactions

Motivation

The idea to levy a tax on financial transactions (FTT) is alluring for its promise to kill at least two birds with one stone. Raising revenues from financial sector transactions seems to fall on an economic sector which can afford to pay higher taxes and which has an open bill across the world from the cost of its bailout rescue with taxpayer funds. A large part of the tax incidence would be on the owners of traded securities and would have "highly progressive" distributional effects (Matheson 2011: 23). Secondly, the tax holds the promise to throw "sand in the wheels" of international finance, to regulate fragile and failing financial markets and to help preventing future financial crises.¹²

The financial crisis propelled the idea of a tax on financial transactions into the arena of the politically feasible. An IMF working paper (Matheson, 2011) showed that the type of FTT most widespread among G20 countries was that which is applied to securities transactions, especially on secondary equity trading, rather than on currency or bank transactions. Securities transaction taxes were applied by China, India, Indonesia, Italy, South Africa, South Korea, and the UK; and among non-G20 members with substantial financial centres, Hong Kong, Singapore, Switzerland and Taiwan.

In the lowest category by revenues raised, France, India, Japan, Germany and Italy collected during the 1990s (except for India: since 2004) at the most around 0.2% of GDP, but often much closer to 0.05% of GDP. The mid-category of countries comprised UK, South Africa, South Korea and

¹¹ As seen most recently in the response to the 'Panama papers' leak, in which OECD documents and senior staff repeatedly referred to Panama as the major jurisdiction which had not yet signed up to the automatic exchange of tax information; when in fact the United States had explicitly refused to do so: <http://www.taxjustice.net/2016/04/06/tax-haven-usa-after-panamapapers/>.

¹² James Tobin, quoted on page 1, in: Wahl, Peter 2014: The European Civil Society Campaign on the Financial Transaction Tax (International Labour Office / Global Labour University - WP 20), Geneva, in: www.global-labour-university.org/fileadmin/GLU_Working_Papers/GLU_WP_No.20.pdf; 10.3.2016.

Switzerland, with 0.2-0.7% of GDP in the decade up until 2009. Finally, the relatively small non-G20 financial centres of Hong Kong and Taiwan have seen up to 1% or even 2% of GDP raised.

There is a very broad range of estimations on the revenue raising potential of a FTT because there are almost indefinite multiple parameters, including the definition of the base, geographical scope, tax rate, elasticity of trading, avoidance techniques, potential substitution effects, etc (see e.g. McCulloch & Pacillo, 2011 – including a global revenue estimate by Tax Research LLP for 2007/8 of \$376bn).

The EU Commission (2013) estimated the revenue raising potential of its FTT proposal in the order of €34bn or around 0.4% of EU11 GDP. In the technical guidance of the 2013 EC11 proposal, it is clarified that: “The policy initiative of establishing a common framework of FTT is not about introducing a European tax but about harmonising national taxes”¹³. Consistent with this approach is the distribution of the tax revenues, which falls in its entirety to the participating EU member states - none of it goes to the EU or any other international body.

Generally speaking, financial transaction taxes appear to accrue naturally where the financial trading takes place. A wealth tax, for example, can be levied in a financial centre with the revenues accruing to the home state; whereas the tax base of financial trading belongs in a clearer sense to the centre itself. Therefore, low income countries, which often lack a substantial financial market activity, are unlikely to benefit from such transaction taxes – unless there are explicit arrangements for such a distribution, for example reflecting an agreement to use FTT revenues for aid to support the education SDG. For some middle-income countries however, especially if they host substantial financial markets and stock exchanges, the introduction of an FTT accruing to the financial transactions host economy could play a modest role in raising revenues – perhaps up to around 0.5 to 1% of GDP, if raised unilaterally.

Technical Aspects

Financial transaction taxes have played a role in the domestic tax structure of many countries. In the absence of an international tax body, all financial transaction taxes would need to be levied by national tax administrations, possibly supported by multilateral agreements that support the collection of the taxes. An intergovernmental body, however, could operate a regional or global FTT including arrangements for (possibly progressive) allocation of revenues. As with wealth taxes, these could reflect the country of trading entities, rather than the trading host jurisdiction.

Most securities trading, including over the counter transactions, are dependent to a large degree upon central settlement systems and clearing houses, such as CLS, CHAPS, Target or Clearstream (McCulloch & Pacillo, 2011, pp.22-24). However, because these national clearing houses sometimes receive only partial information on the trading partners, it would be required to oblige central financial messaging services such as SWIFT to either report full data about transactions directly to central banks or tax administrations, or to apply the tax themselves.

It appears that this requirement to convince economic actors of non-participating jurisdictions to report vital information for a seamless functioning of the tax is the most compelling reason for a multilateral approach towards a FTT. Similar to the US FATCA law, which used the size of the US financial market as a leverage to force financial institutions worldwide to report about US accounts,

¹³ See example 87, on page 46, in:

http://ec.europa.eu/taxation_customs/resources/documents/taxation/other_taxes/financial_sector/ftt_examples.pdf; 11.3.2016.

only a joint approach by various countries appears to be sufficient to incentivise financial institutions worldwide to participate in reporting the necessary information. On the other hand, the widespread existence of national level FTTs suggests that this is not a prerequisite to levy tax revenues of up to 1% of GDP in middle income countries.

Potential Challenges

The challenge to make this tax work for financing for development lies in the distribution of the tax base, which is virtually absent in low income countries. The question arises then, how the revenues raised of any FTT would be transferred to developing countries. Traditionally, the strongest conceptual link between FTTs and the idea of a global or multilateral level levying the tax, has been with the tax on foreign currency transactions as envisaged originally in the 1970s by Tobin. This kind of tax has a justification for being multilateral since it would only affect cross-border transactions. However, the revenue potential of a pure tax on forex trading in most reviewed studies is low compared to a comprehensive securities transaction tax. It is not expected to raise more than US\$ 50bn annually (Matheson, 2011).

The greater revenue raising potential of FTTs stems from broader securities transaction taxes. However, for those broader-based FTTs, the case for a multilateral collection or even distribution of revenues is weaker, because not only cross-border transactions are affected. The European Union failed to reserve even a portion of the envisaged FTT for its own budget, and so it might appear unlikely that in a hypothetical, broader multilateral project for such a comprehensive FTT, the preparedness to redistribute the tax earnings or earmark the funds for development purposes would be higher. In addition, as explored in the previous section, the wider political benefits from domestic revenue mobilisation are likely to be lost if instead an aid-like flow of funds from financial centres is relied upon. Nonetheless, to the extent that there is political will to prioritise SDG achievement, global or regional FTTs do have the potential to generate new revenue streams.

The scope for the necessary intergovernmental agreement and allocation mechanism is discussed in section 4. Without such a step, it remains questionable if FTTs can play an important role for financing sustainable development goals in LICs. For MICs however, especially those with growing stock exchanges and economies, FTTs may be a useful complementary and highly progressive financing source. The challenge for those MICs would appear to consist in the *projection* of their taxing rights, similar to the 2013 EC11 proposal by the EU beyond traders located in the national territory. The challenge may indeed consist in their case in the creation of an open, multilateral platform that allows them to benefit from the political clout of larger market participants. In that sense, it may prove useful to explore with the EU Commission and especially some key member states of the EC11 group (now only 10) the options to mirror, or expand, the possibly soon existing European FTT to non-EU member states.

3.4 Summary of findings

This section has explored the potential for three main tax types: corporate, personal wealth and income, and financial transaction taxes.

The estimated scale of multinational profit-shifting at around 25% of global profits suggests potential annual revenue losses of \$600 billion, of which perhaps a third relate to developing countries. Here the solutions take the form of international measures to support domestic taxation: transparency measures, in the form of **public country-by-country reporting** by multinationals; and possible rule changes, including **unitary approaches** to overcome the illogical nature of current OECD rules.

In the area of personal direct taxes on income and wealth, there are opportunities both for global measures to support domestic taxation, and for global measures with a direct national distribution. First, global progress on **beneficial ownership transparency** – up to and including a **global financial registry** – and on the **automatic exchange of financial information**, would provide powerful tools for national tax authorities to challenge evasion – which potentially costs towards \$200 billion in annual lost revenues. Second, the same data would also allow a globally applied wealth tax, accruing nationally on the basis of ultimate ownership of taxed assets – and where a 1% rate could potentially meet the SDG financing requirement in full, with even a 0.01% rate potentially making a significant contribution, while inevitably depending on the ultimately revealed distribution of undeclared assets.

To make a full contribution to the SDGs, **financial transaction taxes** would be most likely to require full arrangements not only for global levying but also agreement for redistribution on the lines of official development assistance – for example, earmarking for public education in low-income countries. Revenue estimates vary widely, but global revenues could exceed \$300bn.

4. International Governance

The need for additional revenues to give the world a chance of meeting the SDGs is clear. (And it *is* only a chance, not a certainty; since the necessary policy environment for full progress is of course much wider than the funding requirement.)

4.1 An intergovernmental tax body

The preceding section considered three facets of global taxation: measures to create new, global taxes giving rise to additional revenues at that level (such as some versions at least of FTTs); those global measures which by overcoming major obstacles would instead give rise to significant new revenues at national level (such as transparency measures to support domestic profit and income taxes); and global measures which would generate nationally allocable revenues, such as a wealth tax administered globally on the basis of nationally-determined ownership. There are of course some overlaps, where for example given changes to ownership transparency could support both global levying *and* easier domestic mobilisation of wealth taxes. Clearly, however, the differences are great. Revenue-raising at global level brings a stronger requirement for global governance, and necessitates mechanisms for subsequent distribution (to countries and/or above and below – that is, to regional or subnational entities).

Global fixes that facilitate *domestic* revenue mobilisation, on the other hand, are not immune from governance questions – far from it. In fact, a central problem with international arrangements on tax matters is the absence of good governance: specifically, of transparent and accountable process in decisions that have major implications for the international distribution of taxing rights.

The dominant body in setting international rules for the taxation of multinational corporations is the OECD, a group of just 34 countries. The OECD, at members' behest, also plays an important role in setting norms and defining standards relevant to international aspects of the taxation of personal income and wealth.

And so the main cross-cutting feature of corporate and individual tax issues at the cross-border level is the completely inappropriate nature of the governance arrangements: in short, that the rules are largely made by and for a small group of the richest countries only. The inappropriateness of these arrangements is exacerbated by the differential importance of the likely tax losses – as we have seen in the preceding section, it is likely that the relative importance of foregone revenues is greatest in lower-income, non-OECD countries. In addition, as was seen in section 2, these are also the countries where the need for additional revenues to make progress on the SDGs, including education, is by far the greatest.

Meanwhile, the UN tax committee (the 'Committee of Experts on International Cooperation in Tax Matters') has minimal resources, a technical mandate rather than a political one to discuss policy, and is largely side-lined – although its reports on aspects such as transfer pricing (e.g. 2012) do at least provide some small space to explore beyond the narrow boundaries of the OECD approach.

An appropriately resourced and fully representative, intergovernmental tax body was a central demand of the G77 group of developing countries, and of many civil society organisations from the global South and North, at the Addis Financing for Development (FfD) summit in July 2015. Although blocked then by a number of OECD governments, the idea has retained broad support and no little momentum. **Mandated by the G20, the IMF, World Bank, UN and OECD have now launched a joint platform on tax which may offer some hope of broader coordination among researchers at these**

institutions. Those involved have been clear, however, that this is a body designed to allow technical research progress in some specific areas such as the abuse of double tax treaties.¹⁴ That is, there is no intention yet to create a forum for representative political discussions among countries; and no suggestion of pooled decision-making, or significant sharing of technical resources, among the institutions involved, although perhaps that could develop over time, if effective ways of working were to emerge.

An intergovernmental tax body is an idea with a long tradition – most famously, perhaps, proposed in the Zedillo report which formed the basis for the UN’s Monterrey Consensus on FfD (see Box), and the preceding research by then-head of the IMF’s fiscal affairs department, Vito Tanzi (e.g. 1996). For the type of global taxation that will be necessary to finance the SDGs, as has been seen, an intergovernmental tax body is crucial. It is striking, too, that the Zedillo report identified some of the key aspects found here also: including the oversight of multilateral information exchange, the compilation of relevant statistics, and the shift to unitary taxation of multinationals.

BOX: The Zedillo Report on an intergovernmental tax body

Former Mexican president Ernesto Zedillo chaired the High-level Panel on Financing for Development, which in 2001 delivered its major report on financing to support the recently inaugurated Millennium Development Goals. In addition to discussing many of the tax types considered here, the Zedillo report also made the case for an intergovernmental tax body (pp.27-28):

The role of an international tax organization

Most countries’ tax systems evolved at a time when trade and capital movements were heavily restricted, so that enterprises operated largely within the borders of their home country and most individuals earned their incomes from activities in their home country.

Matters are much more complex in today’s global village. We thus propose that the International Conference on Financing for Development and the Globalization Summit consider the potential benefits of an International Tax Organization (ITO) to:

- *At the least, compile statistics, identify trends and problems, present reports, provide technical assistance and develop international norms for tax policy and administration.*
- *Maintain surveillance of tax developments in the same way that IMF maintains surveillance of macroeconomic policies.*
- *Take a lead role in restraining tax competition designed to attract multinationals with excessive and unwise incentives.*
- *Slightly more ambitiously, develop procedures for arbitration when frictions develop between countries on tax questions.*
- *Sponsor a mechanism for multilateral sharing of tax information, like that already in place within OECD, so as to curb the scope for evasion of taxes on investment income earned abroad.*
- *Perhaps most ambitious of all, an International Tax Organization might in due course seek to develop and secure international agreement on a formula for the unitary taxation of multinationals.*

¹⁴ Briefing given to civil society groups, April 2016.

If an ITO succeeded in curbing tax evasion and tax competition, there would be two beneficial consequences. One would be an increase in the proportion of a given volume of taxes paid by (a) dishonest taxpayers and (b) mobile factors of production (such as capital). Most people would consider this an unambiguous gain. The second consequence would be an increase in tax revenue at given tax rates.

An ITO would also be of great importance in developing and implementing innovative sources of finance if they were agreed upon by the international community.

BOX ENDS

Civil society, in supporting the G77 group of developing countries as they sought an intergovernmental tax body as the key outcome of the Addis FfD summit, proposed the following criteria (Global Alliance for Tax Justice, 2015), namely that an intergovernmental tax body be:

- Democratic: All governments must have an equal say in the agenda setting, the procedures, negotiations and the implementation
- Neutral: The host institution and secretariat must be unbiased and all countries must be members on an equal footing
- Have an open agenda: All countries must have an equal right to put forward proposals for how to fix the global tax system
- Transparent: The public must be able to access negotiating documents, procedures, positions of governments and decisions. Key meetings should be viewable to the public
- Participatory: Stakeholders, including civil society, must be given good access to meetings and decision makers in order to allow for them to have a meaningful participation
- Ensure a good working environment for the governments of the world's poorest countries: In order to participate on an equal footing, the world's poorest countries must be ensured that meetings are accessible and affordable. Developing country governments must also be provided good opportunity for coordinating internally

Civil society also set out ten reasons in favour (Global Alliance for Tax Justice, 2015):

- **A key step towards a coherent global system.** *Currently, the international tax system consists of a complicated web of thousands of bilateral tax treaties and different parallel international systems to regulate, for example, information exchange and corporate reporting. Negotiation of a globally agreed system is the only way to remove the complexity, confusion, inconsistency and mismatches that exist today. A truly global tax body is a crucial first step towards this goal.*
- **Stronger cooperation between tax administrations.** *A coherent global system will make it easier for tax administrations to communicate and cooperate. This will further strengthen international coherence and improve working conditions for tax administrations.*
- **Less unilateral action.** *Blacklisting and special restrictions on transfer pricing, financial transfers, corporate reporting and documentation are only some of the measures individual governments are currently introducing to protect their tax base. If the crisis in the global tax system continues to be unresolved, we are likely to see many more of these kinds of self-protective measures. Only truly global cooperation can ensure that all governments have a real alternative to unilateral action.*
- **Ending the race to the bottom.** *The fear of losing investments is currently driving governments to introduce tax incentives, loopholes and harmful tax practices in a tragic*

'race to the bottom', which is costing countries billions of dollars in lost tax income. Through truly global cooperation, we can turn this sad development around.

- **Better business environment.** *Clear, consistent, global and stable rules are good for business. Operating across diverse, inconsistent national tax systems creates heavy administrative burdens, legal uncertainty and high risks for international business.*
- **A level playing field.** *Today, governments who commit to increasing transparency and closing loopholes fear that being a 'first mover' will result in businesses and wealthy individuals registering themselves in other jurisdictions. Through truly global negotiations, governments can agree on coordinated global action and ensure a level playing field.*
- **Stronger implementation.** *No government will feel obliged to implement tax standards and norms adopted in closed rooms where it was not welcome. The UN is the only global institution where all governments participate as equals, and therefore the place to achieve a global commitment to action.*
- **Less double taxation and double-non-taxation.** *The wide variety of mismatches between national tax systems is the core reason why some get taxed twice on the same income while others don't get taxed at all. Only truly global cooperation can put an end to these problems.*
- **More financing for development in the poorest countries.** *Currently, the world's poorest countries are excluded from decision making on global tax standards, and international systems often don't take into account their realities and interests. This means lower tax income and thereby less available financing for development in these countries.*
- **Fair and consistent global action against tax havens.** *Many governments are currently trying to protect their tax base through national blacklists based on criteria that are often both unclear and inconsistently applied. While random blacklisting can be burdensome for impacted countries, it will not solve the tax haven problem. Action against tax havens must be fair, consistent and globally coordinated in order to be effective.*

The penultimate point is the ultimate concern here, but most of the others chime with the wider aims of the SDGs and/or with the need to address global taxation if the necessary revenues are to be found.

The main risks are two:¹⁵ either that a body once created would be starved of resources (as is the UN tax committee) and hence unable to be effective; or resourced in a similar way to the OECD (i.e. by the richest countries) and hence unlikely to respond to the broader global concerns and in particular those of lower-income countries. Additional resources dedicated by the UN system would appear to offer a solution; but also suggests that political obstacles have prevented such an allocation to date.

One way through this would be to mandate a body in such a way that it was effectively self-financing from early on, for example by being allocated a very small share of the revenues that its actions gave rise to: for example, where the new body served as a central administrator, it might receive a fraction of a percentage point of the income streams on which information was exchanged automatically and multilaterally; or a share of FTT revenues; or a fraction of a percentage point of the global profit base of multinational companies for which it helped to administer the country-by-country reporting data, and/or a unitary tax approach.

An intergovernmental tax body, mandated to deliver global tax measures including both transparency and rules, and facilitating revenues in support of the SDGs, would be a global public

¹⁵ For a discussion, see: <http://uncounted.org/2015/07/03/addis-ffd-an-intergovernmental-tax-body/>.

good in its own right and would be likely to deliver extremely high returns on investment (see e.g. Cobham, 2015 on the potential benefit: cost ratios of each of the main transparency measures discussed).

4.2 Allocation decisions

There are a number of important allocations to consider. One relates to the allocation of government budgets at the national level, within which the established benchmark of 20% to education is clearly important, and further supported by the SDGs' emphasis – it would not, for example, be consistent with the framework to suggest that as one of 17 goals, education should receive a 1/17 share of development spending!

A further decision, where the funds involved are not national revenues from the outset, relates to the proportion of education funding that would be passed via the Global Partnership for Education – or some successor that might emerge – rather than directly to governments for their own allocation decisions to be taken.

In relation to the global taxation decisions that are largely the subject of this report, two further questions arise:

1. To what extent should measures be pursued that establish a global, enabling environment for national tax measures; and to what extent should measures be pursued that raise revenues at the global level or in countries where the need for SDG spending is minimal, and then reallocated?
2. In the latter case, how should the reallocation be governed?

In terms of the first question, the analysis in sections 3.1 and 3.2 provides relatively strong support for the view that addressing international obstacles to the taxation of corporate income, and of personal income and wealth, will be doubly progressive: that is, it will reduce both between-country and within-country inequalities. The revenues potentially arising in countries of greater SDG need may be smaller in absolute terms but are likely to be greater in proportion to current budgets, than those arising elsewhere. Estimates of offshore assets suggest this may be especially powerful for wealth taxes, including where these might be globally administered but nationally held on the basis of the country of ultimate beneficial ownership of assets.

The evidence is clear that national taxation is associated with stronger political representation over time; so as such, the SDG preference in terms of the likely long-term benefits must be for just these measures.

Measures that can raise revenues at the global level, or in jurisdictions of less SDG need, however, may still have a role to play – because the overall revenues required are so substantial. The issue here would be to find ways to allocate the resulting revenues so that they do the least damage to national governance, and are also least susceptible to the kind of political pressures that have hindered the OECD over decades.¹⁶

In these cases, then – for example, following the introduction of a global FTT – the governance and transparency of the allocation mechanism will be critically important, along with the strength of consensus on very substantial redistribution towards lower-income countries.

¹⁶ A current example is the apparent inability of the OECD to identify its largest member, the United States, among those financial centres such as Panama which have rejected the multilateral, automatic exchange of tax information: <http://www.taxijustice.net/2016/04/19/oecd-had-bad-panama-papers/>.

A particular issue may arise in relation to incentives. Within a federal structure, for example, central government may choose to encourage local revenue effort by e.g., matching funds raised; or to prioritise those least able to raise revenue locally; or simply to allocate funds on the basis of need, regardless of local revenues. There are inevitably trade-offs between the risks of leaving certain citizens without sufficient support, and those of either discouraging states to raise revenues locally or of encouraging inequalities.

There are obvious parallels where revenues are raised globally in order to support national education or other SDG spending. An intergovernmental body managing a global FTT could, for example: (i) allocate more to countries with lower education spending (with the aim of increasing coverage of quality education, but the risk of incentivising national spending on other priorities); (ii) allocate less to countries with lower education spending (with the aim of incentivising prioritisation of education, but the risk of increasing international inequalities, and doubly penalising people whose governments do not see education as a high priority); or again, (iii) allocate according to need alone.

The risks inherent to both (i) and (ii) are clear. They also share a common feature of seeking to change national priorities from those of the elected governments. Despite the best of intentions, this may ultimately be to pursue short-term benefits (in higher education spending) at the cost of longer-term damage (undermining the relationship between state and citizens in lower-income countries, and perhaps ultimately the quality and/or level of actual education spending). On this basis, option (iii) is clearly more attractive – and has the additional attraction of making the funds less ‘aid-like’, and instead more stable over time, more resistant to political influence and so less likely to undermine progress in national governance.

4.3 Necessary or additional?

In section 3, we identified a range of transparency measures, new taxes and rule changes for existing taxes, each of which could make a substantial contribution to the revenues needed to meet the SDGs – including education. Each has different implications for the necessary, or preferred, governance arrangements.

For potential revenues arising at the global level, or predominantly in high-income countries, as would be likely with financial transaction taxes, there would be no option but to put in place arrangements to govern agreement on both the raising and the reallocation of funds. As noted, decisions over the basis of allocation would be required; and would be both potentially fraught, given the trade-offs involved, and potentially undermining of good governance in recipient countries.

For potential revenues arising at the national level from global-level tax – namely, the possible case of a global wealth tax based on nationally-established beneficial ownership data – international arrangements are again necessary, but the complexity and political pressure may be less since the allocation of revenues can be entirely mechanical.

Finally, for global measures designed to improve national-level taxing capacity, it would be possible to make substantial progress without any overarching, representative intergovernmental body. Indeed, such has been the nature of progress since 2013 on beneficial ownership, automatic exchange of information and country-by-country reporting. But this progress, largely delivered by the OECD with a mandate from G8 or G20 countries, has not been without its weaknesses.

Public registries of beneficial ownership are few and far between; and agreements to share or allow access to ownership information privately are largely to the benefit of OECD member states.

Similarly, many developing countries remain outside of the new arrangements for automatic information provision; and most multinationals will provide country-by-country data to their (typically OECD member) headquarters country tax authority in the first instance, with other OECD countries much more likely than the average developing country to be positioned to receive the data under exchange arrangements.

We have seen in section 3 that the revenue costs of both corporate tax avoidance and individual evasion through offshore asset-holding are estimated to be proportionally higher for developing countries than OECD members. The non-representative nature of the OECD may then not be a neutral element in the distribution that results from the organisation's role in international tax arrangements - which suggests a strong argument for globally representative arrangements, *even if* no global-level taxation were to be pursued.

Lastly, given the relationship between the different measures explored – centred on data on largely financial asset ownership, income and transactions; and on the coordination of rules for their taxation – there are likely to be clear benefits, not least through economies of scale, to combining the relevant responsibilities within a single, globally representative, intergovernmental tax body.

5. Conclusions

The establishment of an intergovernmental tax body may make a critical contribution to the changes in global taxation that will determine whether or not the necessary funding is available for the SDGs. There are a set of well-defined measures that could have been delivered within existing governance frameworks; but, to date, have each only been achieved in a piecemeal fashion which, if anything, has actually exacerbated the pre-existing inequalities in taxing rights between richer and poorer countries (by increasing transparency substantially more for the richer countries).

In the field of corporate tax, the key facilitating measures to make significant national-level revenue increases possible are the transparency and accountability that would be delivered by fully public, country-by-country reporting by multinationals; and the policy space for development of international tax rules that reflect the unitary nature of multinationals and abandon the myth of separate accounting. Alternatively, the same data would make it possible to develop a fully global unitary tax, using formulary apportionment to allocate tax base between jurisdictions; and if required, also to take a small proportion of the global tax base in order to reallocate some additional revenues in support of SDG delivery. Total revenues globally are potentially of the order of \$600 billion annually, although the majority would arise in major economies. Nonetheless, the benefits in proportion to existing tax revenues would generally be highest in lower-income countries.

In respect of taxes on personal income and wealth, the key facilitating measures for national-level revenues are public registers of beneficial ownership of companies, trusts and foundations; comprehensive, automatic exchange of financial information between jurisdictions; and the development of a global, public registry of financial wealth. Revenues due under existing national income taxes might be of the order of \$200 billion; and if anything, more progressively distributed than those of corporate taxes.

As such, measures to support national revenues from multinational corporate profits, and from cross-border personal income and wealth, can play an important role – but are unlikely to close the entire gap for low-income countries in particular (estimated by Schmidt-Traub (2015) to exceed \$200 billion, or more than a quarter of their GDP).

The same measures would, however, also make possible a global wealth tax. If set at 1% annually, a global wealth tax could in theory meet the SDG financing gap in its entirety, although the technical and political requirements appear highest of all scenarios considered. Estimates of the relative scale of undeclared offshore wealth suggest that lower-income countries might benefit very substantially from a proportionate allocation of revenues, even with a much lower rate; and additionally from the governance impact, which might be powerful indeed. International commitment to a more progressive distribution of revenues could increase the SDG benefit still further.

In respect of financial transaction taxes, revenues (potentially in a range globally of \$60 billion to \$360 billion) would most naturally arise in those countries with major financial markets – which will have little or no overlap with those where the SDG financing need is greatest. Here the international consensus on allocation to the SDGs would need to be powerful indeed; but the European progress on the mechanisms suggests both the technical and potentially the political challenge might be more readily met. In addition, the implied engagement with data warehouses of financial instrument ownership – and the transparency enabled as a result – could have important additional benefits in providing the basis for a global financial wealth registry.

Between the three areas of corporate taxes; personal income and wealth taxes; and financial transaction taxes, there is no question that the revenues are potentially available to meet the estimated incremental SDG financing needs of around \$1.4 trillion annually. The appropriate combination of the three tax types, and of the mix between nationally and globally levied, is not immediately clear. On the one hand, the importance of tax in governance relations militates in favour of nationally levied measures, and perhaps tips the balance somewhat towards personal income and wealth taxes; but on the other hand, the urgency of financing needs for the SDGs militates against leaving any serious options aside at present.

Recommendations for Action

Our main recommendations to the Commission concern coordinated international action to ensure the availability of information for national or global taxes, with the following measures likely to have high benefit: cost ratios and to be relatively readily achievable:

- **Publication of country-by-country reporting on the OECD standard (with later changes possible), from all MNEs**
- **Public registers of ultimate beneficial ownership of companies, trusts and foundations**
- **Comprehensive, automatic exchange of financial information between jurisdictions**
- **A global, public registry of financial wealth**

The first three measures can be enacted by or between national policymakers, to standards developed by international organisations such as the OECD. The risks of information flowing primarily to OECD members and not to developing countries would be likely to remain, however; as well as the deeper issue of a non-representative organisation holding responsibility for global standard-setting. A global financial registry, meanwhile, would require an overarching global body, since the underlying markets and institutions are effectively transnational in character.

This report therefore suggests a weight of evidence in favour of an intergovernmental tax body, for three reasons. First, it would create a space for policy discussions, in order to overcome the power imbalances that appear to have resulted in the current international tax framework locking in powerful inequalities in taxing rights that penalise lower-income countries. Second, such a body could take data-collation responsibilities that are necessarily global in nature, generating a global public good in terms of understanding of wealth and income distributions, and of the availability of data as the basis for effective taxation. Third, this body could also administer certain global taxes and/or to oversee the allocation of some revenues from globally applied taxes with nationally-arising revenues, to reflect an agreed prioritisation of SDG needs.

A further recommendation to the Commission is therefore to request that the Economic and Social Council of the United Nations establish a globally representative, intergovernmental tax body. In addition to the measures above, this body should be charged with providing *an internationally representative forum for political decisions over tax rules, including early emphasis on:*

- *the taxation of multinationals including the move towards a consistent unitary approach (potentially, but not necessarily, including common apportionment approaches);*
- *active consideration of a global wealth tax, and/or of measures to support domestically-levied wealth taxes; and*
- *active consideration of a global financial transactions tax, and/or of measures to support regionally-levied financial transactions taxes.*

Becoming the home for multinationals' country-by-country reporting and for global financial asset data provides an immediately useful role and the opportunity for the new body to build credibility and legitimacy. The overlap in data necessary for financial wealth taxes and financial transaction taxes imply economies of scale in this area that make it sensible to include both in the body's remit, while providing a comprehensive fix to international corporate tax rules is likely to deliver the lowest-hanging fruit in terms of addressing egregious profit-shifting and double non-taxation.

Such a body would provide the first globally representative forum to discuss the range of tax issues that have major implications for international distribution – including, crucially, the financing of education and the SDGs.

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