Tackling leakages that undermine public domestic resource mobilization in developing countries

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Session: “Plugging financial leakages and mobilizing domestic and international resources to deliver on the Sustainable Development Goals”
Financing for development requires a holistic approach to resource mobilization across a number of domains.

**International resource mobilization**
- ODA
- Private capital flows (FDI, portfolio, etc.)

**Domestic resource mobilization**
- Taxes
- Financial market development
Developing countries have made significant strides in increasing their tax take...

SELECTED COUNTRIES: TAX BURDEN, AROUND 2016  
(Percent of GDP)

Africa (16 countries):  
13.9% of GDP (2000)  
18.9% of GDP (2016)

LAC (25 countries):  
18.0% of GDP (2000)  
22.7% of GDP (2016)

Source: ECLAC, on the basis of data from OECD.stat.
International tax evasion and avoidance (aggressive tax planning): strategies that exploit loopholes and discrepancies in tax rules that result in the “disappearance” of income for tax purposes or the shifting of profits to low-tax jurisdictions where the enterprise has little or no real activity.

Illicit financial flows: money that is illegally earned, transferred or used and that crosses borders.

Domestic tax evasion and avoidance: tax non-compliance by natural persons and corporations. Most strongly associated with the income tax and the value-added tax, but can extend to other taxes as well.

International tax evasion and avoidance (aggressive tax planning): strategies that exploit loopholes and discrepancies in tax rules that result in the “disappearance” of income for tax purposes or the shifting of profits to low-tax jurisdictions where the enterprise has little or no real activity.

Tax havens: abuse of offshore financing hubs to conceal assets and income from national tax authorities, or to facilitate tax evasion or avoidance.

Fiscal incentives for investment (generally to attract FDI).
Estimated illicit financial flows from developing regions remain elevated

LATIN AMERICA AND THE CARIBBEAN: ESTIMATES OF GROSS OUTFLOWS FROM GOODS TRADE MISINVOICING, 2000-2015
(Billions of US dollars)

AFRICA: ESTIMATES OF NET OUTFLOWS FROM GOODS TRADE MISINVOICING, 2000-2015
(Billions of US dollars)

Source: ECLAC.

Source: ECA.
Rampant tax evasion significantly undermines public revenues, as exemplified by LAC.

LATIN AMERICA: TAX REVENUES AND ESTIMATED EVASION, 2015
(Percent of GDP and billions of US dollars)

Estimated evasion: US$ 340 billion (6.7% of GDP)

Source: ECLAC, on the basis of official figures.

a Effective collection and estimated evasion are calculated on the basis of the take for the two taxes expressed in dollars; the sum of this value is presented as a percentage of the GDP of the reporting countries (weighted average). Finally, these percentages are applied to the GDP of Latin America to calculate the regional value in dollars.

b Estimate on the basis of data from Argentina, Brazil, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Mexico and Peru.

Source: ECLAC, on the basis of official figures.

- Rampant tax evasion significantly undermines public revenues, as exemplified by LAC.
- Estimated evasion: US$ 340 billion (6.7% of GDP).
- Source: ECLAC, on the basis of official figures.
Tax losses due to aggressive tax planning by MNEs in developing countries may be greater than among developed countries

**ESTIMATED TAX LOSSES DUE TO BASE EROSION AND PROFIT SHIFTING**

*(Billions of US dollars)*

<table>
<thead>
<tr>
<th>Model</th>
<th>Scope</th>
<th>Range</th>
<th>Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>OECD aggregate tax rate differential</td>
<td>Global</td>
<td>100-240 (4-10% of CIT)</td>
<td>2014</td>
</tr>
<tr>
<td>UNCTAD offshore investment matrix</td>
<td>Global</td>
<td>200 (8% of CIT)</td>
<td>2012</td>
</tr>
<tr>
<td>UNCTAD offshore investment matrix</td>
<td>Developing countries</td>
<td>66-120 (7.5-14% of CIT)</td>
<td>2012</td>
</tr>
</tbody>
</table>

The use (and abuse) of tax havens entail significant estimated costs...

### FINANCIAL WEALTH IN TAX HAVENS AND ASSOCIATED PERSONAL INCOME TAX LOSSES

*(Billions of US dollars and percent)*

<table>
<thead>
<tr>
<th>Region</th>
<th>Offshore financial wealth</th>
<th>Percent of national financial wealth held offshore</th>
<th>Annual personal income tax tax losses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Europe</td>
<td>2,600</td>
<td>10%</td>
<td>78</td>
</tr>
<tr>
<td>United States</td>
<td>1,200</td>
<td>4%</td>
<td>35</td>
</tr>
<tr>
<td>Asia</td>
<td>1,300</td>
<td>4%</td>
<td>34</td>
</tr>
<tr>
<td>Latin America</td>
<td>700</td>
<td>22%</td>
<td>21</td>
</tr>
<tr>
<td>Africa</td>
<td>500</td>
<td>30%</td>
<td>14</td>
</tr>
<tr>
<td>Canada</td>
<td>300</td>
<td>9%</td>
<td>6</td>
</tr>
<tr>
<td>Russian Federation</td>
<td>200</td>
<td>52%</td>
<td>1</td>
</tr>
<tr>
<td>Persian Gulf</td>
<td>800</td>
<td>57%</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>7,600</strong></td>
<td><strong>8.0%</strong></td>
<td><strong>190</strong></td>
</tr>
</tbody>
</table>

... that are largely confirmed by recent tax amnesties in LAC

### RESULTS OF RECENT TAX AMNESTIES IN LATIN AMERICA

*Billions of US dollars*

<table>
<thead>
<tr>
<th>Country / Year(s)</th>
<th>Declarations</th>
<th>Undeclared assets registered</th>
<th>Taxes / fines paid</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Argentina (2016-2017)</strong></td>
<td>254,700 (96% natural persons, 4% corporations)</td>
<td>US$ 116.8 billion (21% of GDP) (80% of declared assets were held abroad)</td>
<td>US$ 10.2 billion (1.8% of GDP)</td>
</tr>
<tr>
<td><strong>Brazil (2016)</strong></td>
<td>25,114 (99.6% natural persons, 0.4% corporations)</td>
<td>US$ 53.4 billion (3% of GDP)</td>
<td>US$ 16.0 billion (0.8% of GDP)</td>
</tr>
<tr>
<td><strong>Chile (2015)</strong></td>
<td>7,832</td>
<td>US$ 19.0 billion (8% of GDP)</td>
<td>US$ 1.5 billion (0.6% of GDP)</td>
</tr>
</tbody>
</table>

*Source: ECLAC.*
Fiscal incentives for attracting investment have not been cost effective

- For Latin America this is due in part to the widespread use of “tax holidays”, which are a particularly blunt to investment incentive
  - Often are unrelated to the amount of capital invested or potential profits generated
  - Creates incentives to “game” the system: profit shifting and the closing/reopening of companies to maintain incentive
  - Have a tendency to become entrenched, permanently limiting public revenues

- In general there is a limited relation between tax incentives and investment performance and outcomes in the region

- Estimates of foregone revenues suggest they come at a considerable cost:
  - Argentina (1.1% of GDP), Colombia (0.8% of GDP), Chile (2.2% of GDP), Ecuador (1.6% of GDP) and Guatemala (0.9% of GDP)
Tackling these challenges will require a level of international cooperation in the area of fiscal affairs that currently does not exist

**Global**
- Create an intergovernmental organ within the United Nations with a strong mandate in the area of international fiscal cooperation
- Promote the rapid adoption of transparency measures such as automatic exchange of financial and fiscal information
- Push for the adoption of multilateral instruments to tackle double no taxation and aggressive tax planning in developing countries (including a review of all tax related provisions in double taxation treaties and bilateral investment treaties)

**Regional**
- Across the board review of the use of fiscal incentives for investment
- Explore other manners to reduce harmful fiscal competition (for example, harmonization of CIT rates/systems)
- Create a regional working group on international taxation issues to facilitate the exchange of information and best practices
- Create regional tools to facilitate analysis of international transactions (a regional database of arm’s length pricing information, etc)

**Country**
- Raise awareness among all relevant economic authorities of the crucial importance of greater cooperation in tax affairs, including between countries as well as between ministries in countries
- Adapt tax frameworks to incorporate newly established best practices in international taxation (BEPS)
- Strengthen tax administrations, especially in the area of international taxation
- Adopt continuous processes of cost-benefit analysis for all fiscal incentives
Thank you!

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