International Corporate Taxation and Financing for Development

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The Independent Commission for the Reform of International Corporate Taxation

- ICRICT aims to promote: wider and more inclusive discussion of international tax rules; reforms based on global public interest rather than national advantage; and to seek fair, effective and sustainable tax solutions for development.
- Chaired by José Antonio Ocampo and includes as commissioners Kim Jacinto-Linares, Eva Joly, Rev. Suzanne Matale, Léonce Ndikumana, Ifueko Omoigui Okauru, Govinda Rao, Magdalena Sepúlveda and Joseph Stiglitz - plus a.n.other…
- ICRICT was initiated in 2015 by a coalition of civil society and labour organizations; and is funded by the Friedrich-Ebert Stiftung and the Ford Foundation. More on www.icrict.org

Five reasons why ICT is central to ‘innovative’ international development finance

- International tax coordination/competition is a systemic issue as it involves a major negative externality arising from global capital market integration and is thus inseparable from any viable solution to development finance issues.
- International and national private investors require an equitable (between large/small and local/firms) and stable tax system to fund infrastructure, skills, etc without macroeconomic instability.
- Funding the 2030 SDGs requires a progressive national tax base with effective collection because indirect taxation (VAT) has reached a similar upper bound worldwide, and thus international tax cooperation.
- Stabilization of international capital markets, and enabling developing countries to ride out external shocks, requires considerable fiscal surpluses in order to crease reserve buffers and policy space for counter-cyclical macroeconomic policy.
- Development assistance is essentially an intergovernmental fiscal transfer; where federal models of fiscal redistribution may be more relevant in future than the current ‘donor/recipient’ relationships

In particular, private development finance initiatives all require fiscal underpinning

- Engaging private investment with development finance requires overcome well-known market failures; seems logical to fund these with a levy on profits from global investment (i.e. ICT).
- Traditional form has been public export credit banks (loans) and export credit guarantee schemes (underwriting)
- Market fundraising by MDBs also requires G7 government underwriting (contingent fiscal liabilities)
- ‘Blended finance’ requires official assumption of highest risk tranches of debt; while PPPs imply contingent government bailout if projects are unprofitable.

Development costs of international tax competition

- Lost corporation tax revenue (and personal income tax on external assets too) one of the major negative externalities of globalisation; affecting both developed and developing countries. Total lost revenue larger than ODA; though clearly loser countries not same as aid recipients.
- Particular problem for developing countries who cannot apply PIT to shareholder dividends; so local profits tax on foreign corporations their only recourse. Also unable to access data on own nationals’ overseas assets. No evidence that lower CIT rates promote growth.
- Recent IMF research shows that (a) tax competition has little effect on capital flows (FDI) as opposed to asset shifting; and none on growth or reemployment; (b) tax base shifting from direct to indirect taxes is worsening inequality.

Some ICRICT proposals

- ICRICT has worked on these themes, taking evidence from government, international agencies and civil society. Particular focus on the limitations of the OECD BEPS system.
- Key proposal is to move towards global unitary taxation of large firms operating across borders; basing apportionment on alignment of the rights to tax with location of real economic activity eg sales, employees, real investment (G20).
- Preliminary steps recommended towards this ultimate goal include: setting of minimum rate worldwide; public country by country reporting; apportionment of fixed share profits to developing country tax base; agreement on allowable expensing.

Possible Institutional Directions of travel

- Recognize central role of international taxation, and thus effective intergovernmental tax coordination, in the redesign of international development finance.
- Extend negotiation of international tax agreements beyond the OECD towards all UN members; working towards a single definition of tax base (and thus reduce ’tax base erosion’)
- Rethink the international ODA system in terms of the principles of fiscal federalism; integrating tax apportionment with ‘aid’.
- Consider the negotiation of a UN Convention on Taxation, in order to end ‘harmful practices’ (OECD) in tax competition.