SouthViews
No. 227, 29 September 2021
www.southcentre.int
Twitter: @South_Centre

Ending Extreme Poverty by Ending Global Tax Avoidance

by Abdul Muheet Chowdhary

The world is estimated to lose around USD 500-600 billion in revenues from corporate tax avoidance each year. Ensuring that governments can collect this revenue through ending global tax avoidance will play a major role in ending extreme poverty. Overseas aid provided to developing countries focused on eliminating extreme poverty must therefore incorporate addressing tax avoidance, especially by Multinational Enterprises, as a core component of their efforts.

I. What Does Ending Global Tax Avoidance Mean?

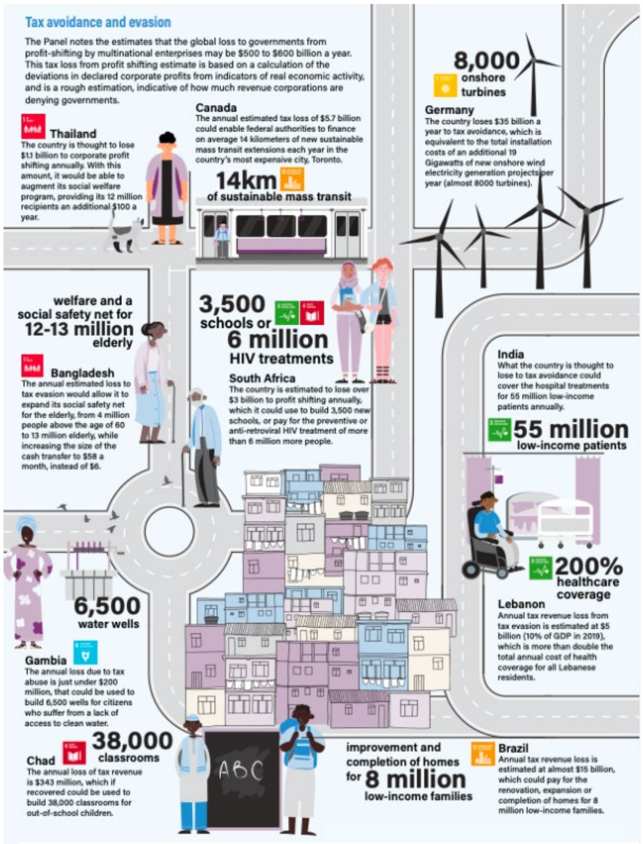
In today's globalized world, Multinational Enterprises (MNEs) conduct business activities in multiple jurisdictions. To give just one example, Shell operates in 99.1 The term 'jurisdictions' is important because it is not the same as a country. For example, the Cayman Islands, Isle of Man and Jersey are all jurisdictions and widely regarded as tax havens[2], but not independent countries.

However, some of these MNEs do not pay their fair share of taxes in the jurisdictions where their profits are earned, or in other words are the "source" of their profits. Rather, complex and aggressive tax "planning" strategies are used which exploit gaps and loopholes in international tax rules to artificially shift profits from high tax to low tax jurisdictions, which are mostly tax havens. This is often combined with heavy involvement of secrecy jurisdictions to hide the true owners of wealth behind a labyrinth of shell companies. The latest estimate of the amount of corporate income tax revenue the world has lost as a result of these tax avoidance activities comes from a 2021 report of a United Nations (UN) Panel known as the High Level Panel on International Financial Accountability, Transparency and Integrity for Achieving the 2030 Agenda (FACTI Panel),[3] which puts this figure between USD 500-600 billion.[4]

[1] Shell, *Tax Contribution Report: Our Tax Data* (2019). Available from https://reports.shell.com/tax-contribution-report/2019/servicepages/downloads/files/our-tax-data-shell-tcr19.pdf.
[2] Corporate Tax Haven Index, Tax Justice Network. Available from https://cthi.taxjustice.net/en/.
[3] See https://www.factipanel.org/.
[4] High Level Panel on International Financial Accountability, Transparency and Integrity for Achieving the 2030 Agenda, *Financial Integrity for Sustainable Development* (United Nations, February 2021). Available from

Thus, ending global tax avoidance means ensuring that MNEs pay their fair share of taxes in the countries which are the 'source' of their profits, especially when these are developing countries.

II. How Will Ending Global Tax Avoidance End Extreme Poverty?



Source: FACTI Panel Report, page 11

Tax avoidance harms all countries, both developed and developing. But the *impact* differs. An additional USD 50 million in the national budget may not matter much to Germany but means a great deal to Bangladesh. The deprivation of revenues through tax avoidance undoubtedly hits developing countries harder. Hence, the first and most direct implication is that countries will have more money to spend on poverty eradication, including by investing in public goods such as schools and hospitals. In its report, the FACTI Panel gives some concrete examples.

The second implication is that it will level the playing field between domestic and foreign companies.[5] When a company such as Amazon[6] or Nike[7] avoids paying taxes, it means it has more funds at its disposal. These additional funds can be used to crush domestic competition through predatory pricing or acquisitions. When local businesses die out or are unable to grow, it means job losses, further worsening poverty. In extreme situations it can even lead to monopolies or oligopolies, where only a few large companies dominate the market making it virtually impossible for other companies to challenge them. Google's domination of the online advertisement space is a modern-day example of a monopoly.[8]

---

https://uploads-ssl.webflow.com/5e0bd9edab846816e263d633/602e91032a209d0601ed4a2c_FACTI_Panel_Report.pdf.

[5] Dr. Vinay Kumar Singh, "Interaction of Transfer Pricing & Profit Attribution: Conceptual and Policy Issues for Developing Countries", Policy Brief, No. 3 (Geneva, South Centre, 2018). Available from https://www.southcentre.int/tax-cooperation-policy-brief-3-august-2018/.

[6] Rupert Neate, "Amazon had sales income of 44bn in Europe in 2020 but paid no corporation tax", *The Guardian,* 4 May 2021. Available from https://www.theguardian.com/technology/2021/may/04/amazon-sales-income-europe-corporation-tax-luxembourg.

[7] Patricia Cohen, "No Federal Taxes for Dozens of Big, Profitable Companies", *New York Times*, 2 April 2021. Available from https://www.nytimes.com/2021/04/02/business/economy/zero-corporate-tax.html.

[8] David McCabe and Daisuke Wakabayashi, "10 States Accuse Google of Abusing Monopoly in Online Ads", *New York Times*, 16 December 2020. Available from https://www.nytimes.com/2020/12/16/technology/google-monopoly-antitrust.html.

This vicious spiral of poverty also harms the tax-avoiding MNEs themselves: the people in the jurisdictions they are operating in have less money to purchase their goods or services.

By contrast, ensuring that MNEs pay their rightful share of taxes, in fact contributes to a virtuous cycle of prosperity. Local businesses have a level playing field to compete in and the unfair advantage of more funds through tax avoidance is gone. This generates more jobs and consequently more incomes.

Thus, ending global tax avoidance will have a direct impact on ending extreme poverty.

III. Ending Global Tax Avoidance Also Makes Globalization Work for All

The failure to address global tax avoidance has meant the gradual acceleration of the dynamic laid out in the previous section: countries have shrinking budgets, the state's ability to provide a level playing field and a safety net reduces, big companies become bigger, wealth inequality grows, market failures spread across sectors, unemployment rises, and poverty increases. This is bound to lead to social instability, and much of the backlash against globalization can be attributed to precisely these dynamics.

Globalization has focused excessively on the free movement of capital, through reducing trade and investment barriers, and opening markets around the world. While this has produced some winners, it has also produced a great many losers, who have articulated their legitimate concerns through support for unconventional politics and social movements. Rather than dismissing the voters as crude bigots, it is important to engage with their concerns on imbalanced globalization.

A more balanced and sustainable globalization is one where the fruits of wealth creation are fairly distributed to the society that is their source. It is here that international taxation plays a key role; it provides the *redistributive* element of globalization that is essential for its sustenance. As capital has become global, so must the institutional architecture to tax it. At present there is no equivalent of a World Trade Organization for international taxation[9]; stronger multilateralism in this regard[10] would give governments more resources to provide relief to the 'losers' of globalization. Citizens would be more likely to support open markets if they knew there was a robust social safety net to fall upon, funded by MNEs paying their fair share of taxes. This is especially important for developing countries, especially small ones, who need the support of international tax multilateralism to be able to take on big MNEs whose revenues may often be larger than their gross domestic products (GDPs).[11]

[9] FACTI Panel Report, Recommendation 14.
[10] Ibid.
[11] Paul Dughi, "Apple, Amazon Wealthier than More than 90% of the World's Countries", *Medium*, 29 March 2021. Available from https://medium.com/stronger-content/apple-amazon-wealthier-than-more-than-90-of-the-worlds-countries-17dbae8b98fe.

IV. Developed Countries Also Benefit from Ending Global Tax Avoidance

It is in the self-interest of developed countries to ensure that the international tax system is reformed so MNEs pay taxes in the developing countries where they make profits. There are several reasons for this.

First, this will mean reduced forced migration. The tragic realities of human caravans in Latin America[12] desperate to enter the United States or the waves of African dead that wash up on the shores of Europe[13] are also failures of their own countries to provide them adequate opportunities. If developing countries were able to collect their rightful share of tax revenues, they would have more resources to carry out developmental activities and provide more opportunities to their people, lessening the incentives for forced migration. It can also be argued that public tolerance in the West for immigration is steadily reducing, which adds to the political pressure to find ways to prevent forced migration.

Second, it would benefit the producers of the developed countries, as they will have more consumer demand from developing countries. As outlined in Section II, ending tax avoidance contributes directly to ending extreme poverty and increasing incomes, aka purchasing power. This can boost demand for goods and services from developed countries, creating a win-win situation.

Third, there are multiple benefits for investors from developed countries. If countries are able to collect more taxes and have more resources at their disposal, this increases their ability to improve the so-called 'ease of doing business', provide infrastructure and enforce contracts. This is beneficial for all investors but especially foreign direct investors.

Returning to the argument in Section II, more tax collection from MNEs improves the playing field for domestic firms. This means higher returns for portfolio investors from developed countries. Normally in the developed countries, markets are saturated with low growth and low inflation, and thus portfolio investors receive lower returns. This is not the case for emerging markets who are growing at a faster rate and where companies have higher profit margins. Thus, the equity and debt returns from emerging markets (which are mostly developing countries) are better and these can be even higher if tax avoidance is curtailed.

Lastly, all investors would like to know that the companies they are investing in are not up to any scams or wrongdoing,[14] such as tax avoidance and/or evasion. Hence, a more fair and transparent tax system which reduces the chances of such activities is also beneficial for investors.

---

[12] "Migrant caravan: Guatemala blocks thousands bound for US", *BBC News*, 18 January 2021. Available from https://www.bbc.com/news/world-latin-america-55699540.

[13] Lisa Schlein, "IOM Says Up to 130 Dead as Boat Overturns in Mediterranean", *VOA News*, 23 April 2021. Available from https://www.voanews.com/europe/iom-says-130-dead-boat-overturns-mediterranean.

[14] Alex Cobham, "Investors demand OECD tax transparency", *Tax Justice Network*, 19 March 2020. Available from https://www.taxjustice.net/2020/03/19/investors-demand-oecd-tax-transparency/.

V. How Can Developed Countries Help End Global Tax Avoidance?

Through international development assistance specifically, a practical step developed countries can take is to provide capacity building to developing country tax officials. By learning the 'rules of the game' and better understanding how to administer them, developing countries will be more effective at collecting taxes from MNEs. Inspiration can be taken from programs such as Tax Inspectors Without Borders[15] which focuses on audits, the work of the Global Forum on Tax Transparency and Exchange of Information and the South Centre Tax Initiative's Peer Exchange capacity building mechanism where developing countries share best practices with each other.[16] Such interventions can be combined with ongoing poverty alleviation programs to have a stronger impact.

There are several technical areas on which capacity building is needed by developing country tax officials. These are:

- Audit: To confirm the veracity of the MNE's documentation.
- Compliance risk management: To find out which MNEs and transactions are at most risk of non-compliance with tax rules.
- Transfer pricing analysis: To determine whether a cross-border intra-group transaction has taken place at the market price.
- Use of beneficial ownership information: To find out which human beings ultimately own and control companies.
- Use of anti-abuse rules in tax treaties: To prevent tax treaties from being misused for obtaining undue benefits.

In addition, capacity building on implementing the Actions of the Base Erosion and Profit Shifting[17] project would also be helpful for developing countries.

With these interventions, developed countries can, through their international development efforts, seek to end global tax avoidance and build a fairer, more sustainable world for all.

Author: Abdul Muheet Chowdhary is a Senior Programme Officer with the South Centre Tax Initiative of the South Centre.

This essay was originally published by the Coalition for Global Prosperity.

*** The views contained in this article are attributable to the author and are personal, and do not represent the institutional views of the South Centre or its Member States.**

[15] Organization for Economic Co-operation and Development, "Tax Inspectors Without Borders and partners pass USD 1 billion milestone in additional tax revenues for developing countries", 27 June 2021. Available from https://www.oecd.org/tax/tax-inspectors-without-borders-and-partners-pass-usd-1-billion-milestone-in-additional-tax-revenues-for-developing-countries.htm.

[16] South Centre, "Peer Exchange on Transfer Pricing Mutual Agreement Procedure and CBCR Risk Assessment", Virtual, 17-19 March 2021. Available from https://taxinitiative.southcentre.int/event/peer-exchange-on-transfer-pricing-mutual-agreement-procedure-cbcr-risk-assessment/.

[17] Organization for Economic Co-operation and Development, BEPS Actions (OECD/G20 BEPS Project). Available from https://www.oecd.org/tax/beps/beps-actions/.

SOUTHVIEWS is a service of the South Centre providing opinions and analysis of topical issues from a South perspective.

To view other articles in SouthViews, please click here**.**

To see the previous version of SouthViews, please click here**.**

For more information, please contact Anna Bernardo of the South Centre: Email bernardo@southcentre.int**, or telephone +41 22 791 80 50.**