

## **FINANCIAL TRANSPARENCY COALITION'S STATEMENT ON GOVERNMENTS' RESPONSE TO COVID-19**

Within the space of a few weeks, the COVID-19 pandemic has plunged the world into unprecedented human, socio-political and economic crises. The impacts will be long-lasting, and how we respond to the crisis in its aftermath will profoundly shape our future. The pandemic has hit a world which was already experiencing high levels of inequality, including in terms of gender and discrimination based on identity, descent, class, caste and race, which has now become widespread and intersectional. Those experiencing high levels of inequality represent the most vulnerable people and are most impacted by the crisis both in terms of the health impacts as well as the looming economic downturn, compounded by a worsening debt crisis. In terms of structural inequality between countries, we anticipate that such inequalities will worsen due to lack of participating in decision-making by developing nations and marginalized and vulnerable groups.

Financial transparency plays a critical enabling role in reversing these structural inequalities. As we fight them with ever greater vigour, it is vital to mobilise more revenue to tackle both the short-term as well as longer-term impacts of the COVID-19 pandemic. It is also important to address the rampant use of shell companies and financial secrecy which enables money-laundering, corruption and concealment of funds for various purposes that are both unlawful and abusive in terms of the enjoyment of human rights as well as hindering the achievement of the Sustainable Development Goals (SDGs).

The FTC recognises that the current global institutional architecture is insufficient to protect against tax abuse, financial secrecy, money laundering and corruption. Current economic governance also lacks both representation of developing country nations as equals in the rule-making bodies, and wider civil society and stakeholder 'voice' and representation in terms of open and transparent process. This fails to recognise a key human rights principle of full and equal participation in their respective decision making mechanisms.

The OECD's failure to ensure truly multilateral exchange of financial information, and of country-by-country reporting data, leads to the systematic exclusion of smaller and lower-income countries that are not OECD members or cannot impose their will at OECD-led processes sufficiently. This in turn makes global inequality worse. In response, calls for an intergovernmental tax body under the auspices of the UN are ever more urgent to progress in ensuring rules governing taxing rights are decided on an equal footing.

Governments' fiscal response to the pandemic will determine the measure of the human, social, political and economic impact of the crisis, and the subsequent recovery in the medium- and long-term. In this regard, the Financial Transparency Coalition has the following policy asks.

### **Financial transparency is essential to an effective crisis response**

Governments must implement **the ABC of tax and financial transparency** ever more urgently to find more funds to fight the multiple crises.

The 'A' stands for [automatic exchange of financial information](#) currently defined by the OECD Global Forum, which will enable countries to share financial information about each others' citizens who have moved money abroad. Those countries which, due to capacity constraints, cannot participate in sending tax information should be allowed to receive information without the need to reciprocate, while they build up the necessary systems. The 'B' is for [beneficial ownership](#), where countries should also establish public registers regarding the true human owners of companies, trusts and other legal entities, to prevent anonymous companies and individuals from abusing tax systems, and other laws including inheritance, conflicts of interest, and child support among other vital laws and norms. Finally, 'C' stands for [country-by-country reporting](#) where we demand for regulation concerning public reporting of financial and operational data concerning all companies, to prevent multinational corporations from exploiting and abusing loopholes in domestic and international tax laws in tax havens or secrecy jurisdictions.

Comprehensive enactment of the ABC transparency measures would ensure much greater visibility of the ultimate beneficial ownership of assets in tax havens and secrecy jurisdictions alike, whether through legal vehicles or financial accounts; and the joining up of registers of ownership of each type, include major assets such as real estate, would provide the basis for a global asset registry to eliminate, effectively, anonymous ownership of all types - and with it the corruption and tax abuse that it facilitates.

### **Tax justice is crucial for generating additional revenue**

Governments are utilizing higher spending to meet the demands of the health crisis, and by extension the need to protect vulnerable people, finance essential services, cover wages, run institutions and provide corporate bailouts. Increased domestic revenue is thus an absolute necessity. Progressive revenue raising should be governed by a fundamental justice principle of 'ability to pay'; with a dependence on the rich and profitable corporations paying more, and the poor and vulnerable sections of the population paying less.

It is necessary, therefore, that governments raise **personal income tax rates**, especially on top income earners. Levying higher **corporate income taxes** will also boost government revenues, as only profitable corporations pay corporate income tax. Even as most micro, small and medium enterprises have suffered, many businesses have thrived through the catastrophe - most notably, e-businesses and e-commerce companies, big pharmaceuticals, and FMCG conglomerates. The global average corporate income tax rate needs to be increased from the current average of [24.18%](#).

In the same vein, governments also need to consider an **excess profits tax**. Companies that are profiting excessively due to the crises should not grow richer by capitalizing on human misery. It is also extremely important for governments to enact **taxes on wealth** through measures such as a wealth tax, inheritance tax, dividend taxes, land value taxes and capital gains tax, targeted at the super-rich and high earners. This will not only generate revenue but also help redistribute wealth and lessen inequalities. At least nine countries in Latin America (including Bolivia, Brazil, Chile, Ecuador, Paraguay and Peru) are debating new tax measures targeting the ultra-wealthy since March 2020.

However, any proposal to increase government revenues through direct taxation will face the challenge of high levels of financial secrecy, that allows multinational corporations to shift profits to tax havens or secrecy jurisdictions and the wealthy to avoid criminal justice investigation and money laundering probes. Financial secrecy and the culture of tax abuse therefore directly threatens human rights, gender justice and endeavours to bridge inequalities, and puts people's health and livelihoods at risk.

Big businesses and multinational corporations have historically contributed less than their fair share to government coffers and by extension, to public services, social protection and the realization of human rights. They have benefitted from decades of tax competition and granting of [overly generous and unnecessary tax incentives](#), which are highly prone to misuse and abuse. Governments should therefore be transparent and accountable regarding the tax incentives they offer, as well as commit to annual cost-benefit analysis of the incentives in place. Developing Asian countries, especially in view of multinational corporations looking to move their operations out of China, must not be willing to offer new tax incentives to attract these companies. Latin American countries should also not compete for new duty-free and low-tax 'maquila' manufacturing if supply chains regionalise in the LAC region.

#### **Anti-corruption and anti-money laundering: Implementation of existing commitments**

Governments have long agreed to a number of frameworks regarding anti-money laundering and anti-corruption, including the UN Convention Against Corruption (UNCAC) as well as commitments made at various international bodies such as the G20. What these agreements and commitments have in common, however, is their **limited implementation by their signatory countries**. For example, the most recent official [data](#) from the Financial Action Task Force (FATF) and [ratings](#) from OECD Anti-Bribery Convention, covering over 100 countries shows that none of them, including the world's largest financial centres, can be considered effective in tackling money laundering.

In the context of the COVID-19 crisis, as already emphasised by international organizations including the UNODC, World Bank and the IMF, transparency and accountability measures are critical to mitigate the risks of sorely needed fiscal revenues being diverted away from their intended beneficiaries. This makes it all the more urgent to accelerate the effective implementation of existing anti-corruption and anti-money laundering commitments by signatory countries, at the same time as fixing some of the major remaining [gaps](#) in these standards.

#### **Conditions for corporate bailouts**

While the FTC does not advocate in favour of corporate bailouts - and believes that the vulnerable and marginalized sections of the population should be 'bailed out' instead - conditions such as the following should be considered if corporate bailouts are offered. A [few countries](#), like Argentina, Belgium, Denmark, France, Italy and Poland have announced that companies registered in tax havens would not be eligible for government bailouts. However, instead of using arbitrary and politically motivated tax haven lists, governments should rely on assessments based on objectively verifiable criteria, such as the rankings of the [Financial Secrecy Index](#) or the [Corporate Tax Haven Index](#).



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Companies with subsidiaries in any of the top ten ranking jurisdictions, that cannot prove legitimate activity through publicly reported country-by-country data should be ineligible for government aid. Corporations that have been compromised by financial or tax scandals or have received illegal state aid (for instance in the European Union), should be disqualified from receiving a bailout. Further, companies receiving bailout money should be made to mandatorily declare their country-by-country financial and operations data, as well as their corporate ownership and beneficial ownership data publicly. Companies offering dividend income while slashing wages or laying off employees should be ineligible for a bailout.