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Health *versus* Wealth?
Tax and Transparency in the Age of COVID-19

MEDIA ADVISORY

Below are key elements to accompany the webinar and press conference on May 28th (please register here or here for live questions). There is no embargo, feel free to use this information before the conference and contact us with any questions.

What is the impact of the COVID-19 crisis on the economy and public finances?

Beyond the devastating impact on health, and the healthcare system, the full global economic impacts of the COVID-19 crisis are yet to be known, but we already have some estimates:

- **Economic costs**: estimates already run into the trillions of dollars (Oxfam has estimated that workers are projected to lose as much as $3.4 trillion in income
- **Employment**: Over a billion workers are at high risk of unemployment, mostly in low-paid jobs, where a sudden loss of income is devastating. The International Labour Organization (ILO) estimates that half of working people could lose their jobs within the next few months.
- **Public finances**: The COVID-19 crisis will result in simultaneous supply and demand shocks that are rapidly translating into falls in tax collection in every country. These falls are likely to be particularly pronounced for corporate income tax, which tends to fall drastically in times of economic down-turn as short-term profitability in the business sector collapses.
- **Illicit financial flows:** Illicit financial activity has already, and is expected to, increase during the COVID-19 crisis, with developing countries set to suffer the most from the instability and shifted attention.

What is the situation in developing countries?

The weaker health care systems and other vulnerabilities in emerging and developing countries could result in devastating human and economic effects. Additionally, the vast amount of informal workers in developing countries tend to have a lack of legal and social protection, leaving them particularly vulnerable to the pandemic's economic and social costs. Economically, most developing countries are facing a combination of rapid declines in export and tourism revenues and capital outflows. In just the first two months of the crisis, portfolio outflows from emerging markets were estimated at $100 billion.

While most developed countries are instituting large fiscal stimulus packages, this is much more difficult for developing countries, who lack greater reserves of strong currencies. To make matters worse, developing countries cannot borrow in their own currency and many cannot run large fiscal debts either. Policy space is reduced by external constraints on the balance of payments and by fears of capital flight.

Why is inequality likely to rise?

While every society is vulnerable to crises, the ability to respond effectively differs significantly around the world:

- **Health**: The most developed countries have on average 55 hospital beds, over 30 physicians, and 81 nurses per 10,000 people, compared to 7 hospital beds, 2.5 physicians, and 6 nurses in the average least developed country.
- **Informal jobs**: The crisis is likely to increase informal employment as a survival strategy. In Latin America for example, 53.1% of the workers were working in the informal sector in 2016. Informal work is likely to be less secure, less protected and more poorly paid.
- **Poverty**: The World Bank has warned that the virus could push between 40 and 60 million into extreme poverty this year, with sub-Saharan Africa and South Asia hardest hit.
- **Hunger**: The United Nations World Food Programme (WFP) warns that the pandemic could double the number of people suffering acute hunger, pushing it to more than a quarter of a billion by the end of 2020.
- **Gender**: Across every sphere, from health to the economy, security to social protection, the impacts of COVID-19 are exacerbated for women and girls simply by virtue of their sex. Unpaid care work has increased, with children out-of-school, heightened care needs of older persons and overwhelmed health services. Women are also on the COVID-19 frontline, representing 70% of the global health and social care workers. There are also those who get the most fragile labour contracts.
- **Social and racial disparities**: in the United States, for example, recent data indicate that deaths from COVID-19 are disproportionately high among communities of colour — black and Latino patients in particular.
- **Digital gap**: And with widespread lockdowns, the digital divide has become more significant than ever. 6.5 billion people around the globe – 85.5% of the global population – still don't have access to reliable broadband internet, which limits their ability to work, access public information and continue their education under any form of lockdown and social restrictions.
- **Government capacity**: In addition to all of these factors, countries will differ greatly in the resources and the capacity they have to manage and to fund their way out of the crisis, exacerbating inequalities between, as well as within, countries.
- **Reliance on vulnerable sectors**: Many countries are heavily reliant on particular sectors that are likely to be acutely affected by the crisis. For example, Caribbean nations are likely to suffer economic contraction due to disruptions to the tourism sector. In 2018, tourism revenues accounted for more than 20% of GDP in Caribbean nations; in a scenario where tourism revenues drop by 30% in 2020, the GDP will suffer a retraction of 2.5% in the region.

Why should governments spend more?

The pandemic has highlighted something that had been almost forgotten by policy makers across the world in the past few decades: the importance of expenditure in public health and social protection systems. A return to 'austerity' would be both catastrophic and political suicide.

Policies of reducing government expenditure on health services have been shown to be fundamentally flawed, generating major vulnerabilities in societies and economies. In fact, almost every country, with the exception of the smallest and poorest, are already taking action. This first round of planned responses already represents an unprecedented level of global expenditure, estimated by the IMF to be in the realm of $8 trillion.

Why is it imperative for governments to have more fiscal resources?

New government expenditures on public health provisions, social support and corporate bailouts will amount to several percentage points of GDP. According to the IMF, the large resulting fiscal deficits will drive up Debt-to-GDP ratios by 20 or 30% in advanced economies and by 10% in developing countries in just one year. Available options to boost revenues will vary for different countries. Money creation and borrowing will be a major part of the response in many richer nations, and debt cancellation should also be taken into consideration. What is clear is that increasing tax revenues will likely be part of the strategy in nearly every country.

What are the policy proposals that are already in play across the globe?

Exploring what immediate actions can be taken to reduce illicit outflows and to boost the potential for progressive taxation will be a vital part of the wider response to this crisis. A host of policy proposals are already in play across the globe, some previously under discussion and some previously unthinkable.

The IMF's policy tracker summarizes the key economic responses governments are taking to limit the human and economic impact of the COVID-19 pandemic. These include expenditure on health care, employment support, enhanced welfare such as cash transfers, tax deferrals, reductions and breaks and subsidies for vulnerable sectors. The vast majority of responses involve increased expenditure, as would be expected in a crisis situation. But as discussed below, there are already evolving discussions on how income may be enhanced in ways that do not undermine recovery efforts.

Why should corporate bailouts only be given with strict conditionalities?

It is important to help businesses, preserve jobs and revive the economy once the worst of the pandemic is over. But there is growing consensus in many countries that this cannot be unconditional. It should not be acceptable for a company claiming state aid to report high profits in countries with very low taxes, where it has little economic substance, and meanwhile report losses in countries where it concentrates the bulk of its activities, but where taxes are high. This is how an estimated 40% of overseas profits made by multinationals around the world are artificially transferred to tax havens, according to economist and ICRICT Commissioner Gabriel Zucman.

To date, France, Belgium, Denmark, Poland, Wales, and Argentina have all announced similar measures to block tax haven-tied corporations from receiving COVID-19 bailouts. These praiseworthy statements may nevertheless be limited by what each country considers tax havens. While tax havens may conjure up an image of palm trees and white-sand beaches, Belgium, Ireland, Luxembourg, Malta, and the Netherlands are seen by many as responsible for a majority of tax avoidance in the EU. American multinationals alone have been estimated to cause the EU to lose nearly 25 billion euros in corporate taxes annually.

It has therefore been suggested that states should base their policies on ambitious lists, such as the Tax Justice Network's Financial Secrecy Index, which ranks jurisdictions according to their secrecy and the scale of their offshore financial activities.

Can the money hidden in tax havens help countries pay the COVID-19 bill?

There is an estimated $8 trillion-$35 trillion sitting offshore and it is certainly possible some of this vast amount could be tapped, as long as there is sufficient political will. While there have been long standing efforts and processes to increase transparency in the financial system and to reform rules to bring wealth back onshore, the COVID-19 crisis creates an urgency to push forward with reforms at a pace that may have previously been politically difficult.

Why is it more urgent than ever to reform the international corporate tax system?

The current system is based on treating the various affiliates of multinationals as if they were independent of each other (the so-called "arm's length principle"). This has encouraged multinationals to create complex tax-avoidance structures by forming hundreds of affiliates in convenient jurisdictions. Concretely, this system allows multinationals to legally (or at least in ways that go legally unchallenged) allocate their profits to low-tax jurisdictions or tax havens, and, consequently, pay low, or zero, in taxes. With the accelerated digitalization of the economy, the amounts diverted are constantly increasing, mainly because digitalization makes it very hard to establish where production takes place. As a consequence, a digital multinational's revenues typically bear no relation to its reported profits and resulting tax bill.

As a result, too many countries are facing shortfalls of public revenues and have made the choice to either put the burden on families and workers, or make cuts to public investments that are now undermining their health or social protection capacity. There is widespread consensus that the system needs reform, but as yet any advances have been incomplete and have less to offer, particularly for the poorest countries that are in greatest need.

What are the main ideas under discussion for international corporate tax reform?

As the world experiences very exceptional circumstances that require exceptional measures, here are some of the ideas under discussion, some of which could be temporary, while others would necessitate a real and fair reform of the international tax system.

Temporary ideas under discussion:

- **A tax on excess profits**.
- **A solidarity COVID-19 tax on the wealthy.**

More profound changes:

- **A digital sales tax on all highly digitalized businesses**.
- **A minimum corporate tax** set at a sufficient and fair level, on a country-by-country basis, and based on a fair allocation of profits in every country.
- **The adoption of unitary taxation**, meaning taxing multinationals according to the genuine economic substance of what they do and where they do it – rather than the current system where they are taxed according to the artificial legal forms that their advisers contort them into. Such a reform is described here in a recent ICRICT report.
- **Greater transparency to support identification and recovery (or taxation) of hidden wealth**: accelerate transparency and automatic exchange of information mechanisms for developing

countries by supporting non-reciprocal information exchange across developed and developing countries.

How is the COVID-19 crisis likely to impact the processes for international negotiations on reform?

COVID-19 is a global crisis that requires strengthened coordination across almost every aspect of the global economy, including transparency and tax reforms. Currently the system is fragmented, where discussions on transparency and corruption are almost completely isolated from discussions on global tax reform, despite the fact that they are often focused on similar systems, overlapping problems and solutions. In addition, there is a long standing concern that the processes of global tax reform especially are still not fully inclusive and many of the positive moves in recent years, such as the exchange of information between countries on offshore wealth, still excludes many of the countries that could benefit the most from such exchanges.

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WHO WE ARE

Financial Transparency Coalition:

The Financial Transparency Coalition (FTC) is a global civil society network working to curtail illicit financial flows through the promotion of a transparent, accountable and sustainable financial system that works for everyone. Its members are the Asian Peoples Movement on Debt and Development, the Centre for Budget and Governance Accountability, Christian Aid, European Network on Debt and Development, Fundación-SES, Global Financial Integrity, Global Witness, Latin American Network on Debt, Development and Rights, Pan-African Lawyers Union, Tax Justice Network, Tax Justice Network Africa, and Transparency International.

The Independent Commission for the Reform of International Corporate Taxation:

The Independent Commission for the Reform of International Corporate Taxation (ICRICT) aims to promote the international corporate tax reform debate through a wider and more inclusive discussion of international tax rules than is possible through any other existing forum; to consider reforms from a perspective of public interest rather than national advantage; and to seek fair, effective and sustainable tax solutions for development.

OXFAM:

Oxfam is a global movement of people working together to build a future where everybody enjoys equal rights and has enough to eat every day. Together with their partners, Oxfam is working in more than 90 countries to build this positive future now. They save, protect and rebuild lives in times of crisis, support lasting solutions to poverty, tackle inequality and stand up together to break down the barriers that keep people poor.

PUBLIC SERVICES INTERNATIONAL:

Public Services International (PSI) is a global trade union federation representing 20 million working women and men who deliver vital public services in 163 countries. PSI champions human rights, advocates for social justice and promotes universal access to quality public services. PSI works with the United Nations system and in partnership with labour, civil society and other organisations.