Report of the Virtual Event
Health vs Wealth?
Tax and Transparency in the Age of Covid-19

May 28th, 2020

Background

This event was developed in response to the rapidly changing, and unprecedented context, of a global health and economic crisis, created by the COVID-19 pandemic.

A partnership between FTC, PSI, Oxfam, ICRICT, the event was envisioned in recognition of the following factors:

- The four organizations have overlapping programmes of work on transparency and tax
- The four organizations have a shared focus on high-level policy development and advocacy but with varied expertise and experiences
- The partnerships aimed to reach a greater number and diversity of audience than any one of the partners could achieve alone

The focus of the event was to

- Identify and interrogate policy actions that have the greatest potential for mitigating the fiscal burden in the immediate impact of the combined economic and health crisis.
- Assess policy decisions that could potentially undermine the capacity of governments with a specific attention to the situation of vulnerable populations particularly in the Global South.

The event was structured a series of panels and discussions, composing of expert advocates for specific interventions and informed respondents who were selected to include a range of voices from civil society, unions, policy institutions, tax administrators and leading experts from all around the world. In addition, both discussants and respondents were asked to consider potential risks, especially those related to the longer-term impact, posed by the pre-existing multidimensional inequalities as it intersects with the current international financial architecture and the need for sharp policy interventions. Two over-arching themes linked the different discussion strands. Firstly, the use of transparency tools to support potential actions and secondly, the importance of voice and governance, and especially representation of the Global South in decision making, given the differential challenges facing different countries.

To view the entire event, please see here.

Summary

- The event highlighted both the necessity and the opportunity for change brought by the Covid-19 crisis.
- It further highlighted that the crisis has, in the main, aggravated pre-existing problems and thus enforcing already known-solutions that can no longer be ignored. With existing, and some new proposals, political will remains a hurdle.
- The event highlighted that there are common, cross-cutting agendas and shared policy objectives for those working on tax, on transparency and on corruption This opens the opportunity to explore further how to bring these groups together and increase regular coordination.
- Finding pathways to increasing and improving cooperation in general was a theme. Coordination between different interest groups and between countries which cannot work well without new approaches given the circumstances we operate in.

- Increased transparency may not be enough on its own, but it acts as a foundation for almost all area of reform that were discussed.

Core Themes & Outcomes

Professor Jayati Ghosh (Jawaharlal Nehru University and ICRICT Commissioner) in her keynote comments began by stressing that the crisis is not just revealing the existing state of global inequality, but will make the situation much worse, as resources in many countries are diverted from critical services towards the health response. The recovery process must not be based on a diversion of resources from existing (and already inadequate) service provisions, but on generating new resources, including from progressive taxation and reducing Illicit financial flows. Professor Ghosh stated that the recovery must come not just in the form of a 'Green' New Deal, but as multi-colored deal, which protects care work alongside the environment, which generates employment and redistributes income and wealth. Ms. Rosa Pavanelli (General Secretary of Public Services International) further argued for the need for the recovery process to include significant investments into public services, pointing out that it is not by chance that governments have found themselves unprepared for the pandemic, leaving thousands of health workers dead for lack of adequate protection. Budgets have been starved as a result of tax avoidance and evasion, including by big pharma and big data companies, many of which will profit from this crisis. Transparency in the financial system and global tax reform can support the recovery and address the broader disfunction of both the finance and health systems.

Session One looked at how to **increase domestic revenue sources from corporate taxation and the cross-cutting issues of global governance and taxing rights** in light of the problems pointed out in the keynote remarks.

There is an urgency of finding sources of tax revenue that have been previously overlooked at such as taxing high-net worth individuals, a radical re-evaluation of tax incentives and the introduction of digital services taxes. The session began with highlighting perspectives from African countries where not only are these interventions necessary but until such a time the rules on permanent establishment are changed and the resident vs source country debate is settled, African countries will continue to lose in a systemic way. Clear domestic rules would be required given that many countries in Africa there is a need for sufficient reassurance before risking any potential action outside OECD guidelines. Despite this, ATAF's recent analysis shows that there is potential to rapidly increase revenue even within scope of the existing rules. At the global level, for African countries, agreements on minimum tax rates and options for excess profits tax are of great importance.

This session laid out three policy proposals, in view of the significant impact it would have for developing countries. The first proposal was to increase revenues by allocating more profit allocation within existing profit allocating norms with no legal changes. This proposal comes with a caveat that under such circumstances if developing countries were to adopt such measures that they should receive support from geopolitically strong countries rather than be challenged. The second proposal put forward was for the OECD to adopt a third pillar of its BEPS process, focused on developing a global excess profits tax. Using CBCR reports to assess consolidated global profits, and identifying where 'excess' profits are being made, it should be possible to create a process to tax these excess profits at an agreed rate and to distribute on a basis to be developed by a representative working party, mandated by the OECD's Inclusive Framework. Finally, a working party on governance, again mandated by one or more members of the inclusive framework should come together to agree a structure and process for global tax policy making that is fit for the future.

'How implementable are these ideas?'

In response to the proposals laid out on the very question of profit allocation, the world 'missed the bus' when the BEPS process was initiated, failing to consider the important aspects of taxing rights from the point of view of developing countries. In that respect, the UN model tax treaty is favorable compared to the OECD model and could be something for developing countries to consider as short-term actions like taxation of capital gains and software royalty. Unilateral approaches are therefore, important in terms of moving the debate and process forward to capitalize on opportunities to increase revenue to source countries within existing scope of transfer pricing and on excess profits taxation. Such measures however, are likely to be resisted by developed countries, given implications for revenue in market economies and previous experience of attempted reforms.

Moreover, the discussion is very clearly an 'economic and political battle', saying that the pandemic has exposed the stupidity of poking holes in social safety nets and the challenge is to guard against any return to austerity politics such as those seen across the globe following the last financial crisis. In a progressive tax system, how you raise funds is as important as how much you raise. Thus, corporate taxation is part of a progressive tax system and it is progressive taxation that makes aspiration possible, funding our health systems, education and infrastructure. Countries have the opportunity to move, in a one-off way, to take steps, such as those outlined by the speakers, and particularly with regard to taxing digital platforms that have profited from the crisis.

Session Two focused on **revenue-raising from wealth and ensuring that revenues raised do reach intended beneficiaries.**

The rapid speed at which the health and economic crisis were unfolding, and the consequent rapid mobilization of funding, created risks linked to procurement, cross border sales, licensing and government support to business and individuals. An opportunity now exists to create and strengthen alliances between non-usual suspects, based around some key aspects of financial transparency. This includes measures such as improved protection to whistleblowers and increased transparency around beneficial ownership of companies, which can both support tax raising efforts and is important to ensuring accountability on governments spending by understanding who is winning contracts. This is a time to increase pressure on global institutions, such as the IMF and World Bank to step up their focus on accountability and transparency. While the resistance to some aspects of domestic resource mobilization, such as wealth taxes, may be reduced in a crisis, ensuring that there is transparency on expenditure will also be important in reducing resistance to change.

Using the example of South Africa where extreme wealth inequality prevails, and has been rising over time, the session outlined opportunities and challenges connected to developing a direct tax on wealth. Wealth tax is important to increase overall progressivity of the tax system, but most importantly in the context of the current crisis, wealth is a legitimate tax base in its own right. The crisis may provide a political window to institute a one-off wealth tax, which itself may open the door to a longer-term approach if it is seen to work. Getting people behind tax reform is more important than getting the design of the reform perfect, however, in the case of a wealth tax, design will matter. If it is too easy to find fault with the design, that will have the effect of undermining the political support and may even be scrapped later. Some of the most important design principles include a strong limit on exemptions (as they open doors for lobby groups and erode tax base and benefits), the need to capture offshore wealth and the need to include intermediaries (e.g. Trusts) holding wealth. Inclusivity is the key to gaining political buy-in, if people believe that some at the top can escape a wealth tax, then they will be less likely to support it. This means that it will be very important to be able to make use of cross-border information, which in turn requires increased capacity by governments to capture and use data. There will also be a need for highly skilled auditing and for strengthened revenue authorities.

In conclusion, a wealth tax is desirable and possible, and now is the time to build towards it. There are some short terms steps, that can be initiated quickly and which also contribute in other areas. These include mandatory self-reporting on wealth, investing in cross-border information exchange and going after high profile people to get the payment of correct income tax, thus setting a tone on new forms of transparency and taxation.

'Bridging the information gap'

Some of the commonalities between averting the risks of corruption under the pandemic, implementation of wealth taxes and tax transparency. Key to all of these is closing the information gap. For the OECD's Global Forum, transparency is a tool for ensuring information is available to be used. This means taking a number of actions including expanding developing country exchange of information network (through the convention of mutual assistance on tax matters), accelerating beneficial ownership information transparency in developing countries (which is also key to effective wealth tax) and extending the use of information beyond tax to include countering corruption, which is possible but only if under specific conditions. The key message is that information exchange systems provide huge potential, but are under-utilized and now is the time to improve this through supporting more effective data protection systems and better systems to process and use data well. This pathway goes beyond the crisis period, but can be started now and civil society is in a strong position to support the process.

Proposals on wealth tax will be threatened by high levels of financial secrecy. Country by country reports (CBCR) need to be made public so all can access to expose wealth concentration mechanisms like tax incentives. Tax incentives are rarely effective in attracting additional investment and rarely have a clear link with any economic strategy. On the other hand, they have costs, and will undermine a countries ability to tackle the COVID-19 crisis. Tackling these also need greater transparency, citizen engagement and more effective regional and global cooperation.

Any cooperation between countries must be prefaced with supporting progressive national efforts. What is most critical for making national wealth tax work is information exchange. For example, 30% of African wealth is held offshore. A wealth tax cannot be effective without both reliable information on that offshore holdings and the ability to use that information well, which is often assumed but not necessarily in place. This could be accompanied with ensuring good interlinkages between institutions in absence of public information on beneficial ownership and CBCR. For instance, beneficial ownership information is collected and used by different institutions and it is important that this is done according to same standard in different institutions. A wider use of data obtained for tax purposes by one institution can be used to counter corruption by other institutions, but only as long as strong coordination mechanisms are in place. There is a need to link groups working on revenue generation and those working on expenditure, to ensure there is stronger overall impact and political buy-in.

Session Three: Tax and Transparency in the Age of COVID - 19 – What have we learned? This session explored additional perspectives, reflections and alternatives on the issues raised, and proposals made, in sessions one and two.

Policymakers in developing countries are facing the urgent challenge of responding to Covid-19, at a time when revenues were already drying up. Many stimulus packages are already in place, but they vary widely in terms of expenditure showing that finding the fiscal space to react will be a significant challenge for many countries. While domestic measures are necessary, a coordinated global response will also be required, given the extent and nature of the crisis. In many instances this has been the case on the expenditure side, for instance many countries have come up with the strong emphasis on cash transfers. On revenue side, non-traditional tax measures are now getting more traction with wealth tax and taxing of higher income individuals at least under discussion, but the political economy is still difficult, although such measures are gaining increasing support from the public.

In terms of taking forward the proposals made in earlier sessions, the demonstration effect of early implementers will be key in opening the door for many countries to adopt new measures. And, while currently the proposals made are presented as a Covid-19 response, given where we were even before the crisis, it is important that they set the template for longer term change. The G24 has proposed the adoption of 'Significant Economic Presence' measures and use of fractional apportionment to support taxation of digital companies and this should also be considered as part of the Covid-19 response, as well as emphasizing the importance of dispute prevention over dispute resolution. An agreed global minimum tax does have good potential for developing countries, but it requires applying rules such as 'subject to tax' rules.

In terms of transparency, information and data represent the foundation for change, countries need to be able to understand implications of anything they are committing to in international agreements. The lack of progress on multilateral solutions means that the likelihood of unilateral measure is increasing, which themselves need to build the opportunity for more fundamental reforms for fairer allocation of taxing rights and to provide rules that are practical and implementable in developing countries. A genuinely inclusive process at the global level is needed but in the shorter term it is cooperation and solidarity amongst developing countries will be key

The second set of reflections agreed that addressing data gaps for developing countries was going to be key to the success of any new approaches to revenue collection in the face of Covid-19. For instance, Nigeria has learned some important lessons from its efforts to address illicit financial flows. It is crucial to ensure that the money returns to the country of origin, and that this data is maintained on what has been recovered. Further, developed countries must proactively support actions by freezing accounts, returning stolen assets. Partnership and responsibility-sharing is key, with multilateral and regional agreements being more effective than bilateral, and any success will require the cooperation of both destination and transit countries. As well as cooperation between countries, the role of civil society is also important both monitoring IFFs and also monitoring that any money that is returned is used well, although imposing conditionalities on use of returned assets is not helpful.

The first point of agreement is that the design of tax policy is still political more than technical. Despite the creation of the Inclusive Framework within the OECD, powerful interests are still able to dominate as has been observed by a number of those closely engaged with the process. The second point of agreement is that politics have shifted sharply as the Covid-19 crisis unfolds, needs become urgent and inequality has been exposed. The first area of identified is the one between needing to bring in revenue urgently versus a desire to ensure consistency with longer term solutions. The second area is the balance between moving ahead with unilateral measures versus a continued commitment to the OECD or other multilateral measures.

In terms of ways forward, we must ask ourselves two questions - firstly, is this the moment to give up hope on OECD delivering any type of progress, given the experience and output to date and the fact that a number of speakers had stressed that countries struggled to engage effectively and influence the process before the pandemic, and this would only become more difficult now. Secondly, if there was consensus on 'moving' from the OECD process? Could there instead be a move towards discreet actions that could be taken unilaterally, but in a coordinated way, that would pave the way towards a new process of reform? Unilaterally applied excess profits taxes and (one-off initially) wealth taxes could both function in this way, and if there were punitive measures on wealth where ownership was unknown, that could also act to accelerate measures on transparency.

One key aspect of the system which continues to be missing is the access to information. The word is divided, between those that receive critical information to help them stem, and recover illicit flows and those that are blocked from getting this information. There are mechanisms (such as the 'Swift' messaging system) that exist and can be used to create greater access to information and would go some way to fixing the inequality in the system.

Now more than ever we need to strengthen the social contract between government and citizens and dealing with IFFs and resource mobilization will be critical in that regard.

Conclusive remarks:

- The tax code must be taken as a record of who has power. The shifts in who pays tax and doesn't reflects this. Transparency is the same, who gets information and who doesn't, reflects who holds power and who does not.
- Nobody can now deny the pain that austerity brings or the importance of investing in decent public services, especially health services. This creates opportunity and political space for reform.
- This event has presented a range of specific opportunities and requirements for reforms linked to tax and transparency. The need for a redistributive tax system has been laid bare by the Covid-19 crisis. The need for transparency and good governance has also been made very clear. People will no longer accept that information is only available to some and not others and the rise of extremist politics will only continue in the absence of transparency. The need to end race to the bottom and tax must be reformed so that taxes are genuinely paid where real business takes place. Finally, and very importantly, there is an absolute urgency to pushing forward and taking advantage of the moment.