Conference Report

Tax Justice to Promote Social Justice

Research on Taxes for Development

University of Vienna, Vienna (Austria)

Tuesday, 24 February 2015
A conference of the Global Alliance For Tax Justice (GATJ) and the European Association of Development Research and Training Institutes (EADI).

Hosted by the Vienna Institute for International Dialogue and Cooperation (VIDC) and the Department of Development Studies (IE) – University of Vienna.
Welcome and Introduction

Martina Neuwirth (VIDC & member of GATJ-Coordinating Committee), Austria

Petra Dannecker (Head of Department of Development Studies, IE), Austria

**Martina Neuwirth:** Taxation does play an important role for the mobilization of public domestic revenues (revenues that declined because of the global financial crises). Tax policies can also be designed to curb inequalities and can also enhance democratic governance by making governments more accountable to their tax-paying citizens. But many countries, especially so-called developing countries, find it hard to increase their tax revenue because of tax avoidance, tax evasion and still increasing illicit financial flows (flows that are largely untaxed). We will explore the reasons for this, what has been or will be done and what should be done against it.

The conference will also be an opportunity for networking between researchers and activists, as well as between researchers of different fields and researchers, and between activists and officials. It takes place at a time when the negotiations over the outcome document for the Financing for Development (FfD) conference, taking place in Addis Ababa in July, are already in full swing at the UN.

The two guiding questions of the conference are therefore:

1. In view of the upcoming FfD conference: What is needed to support tax justice and what institutions and measures are needed on the international and national level?

2. Cooperation: How can we cooperate better and what do we need for a better cooperation?

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Keynote: Reinventing Tax Justice to Achieve Social Justice - Current Challenges, Future Opportunities

Krishen Mehta (Senior Global Justice Fellow, Yale University & Senior Advisor, Tax Justice Network), USA

Chair: Karin Fischer (Head of Dept. Politics and Development Research, Univ. of Linz), Austria

Krishen Mehta: As we know, Socrates said that the “unexamined life is not worth living”. We might equally say that the unexamined economy is not capable of securing our common well-being. It is our obligation to address the fault lines that exist in the global financial architecture and to seek to remedy them.

If the children born in the European Union today expect to live in a stable, sustainable, and sane world, then every child born in Ethiopia, Indonesia, or Bolivia, needs to have the same expectation. We live on a small planet and we are all connected.

There are two important global issues that we need to address if we wish to protect future generations. One is the issue of deepening inequality in almost every country and region in the world. As we all know, extreme inequality is not caused by nature. It is a product of laws and the exercise of power. 500 billion US dollars are transferred in debt payments from the South to the North every year.

The second issue is the need for a fairer distribution of the rewards of globalization. Tax justice is about how the fiscal rewards of globalization should be shared. Zambia has great wealth, due to the rich copper belt under its land, but also great unemployment. Mining companies pay very little tax on their extraction. They sell it through Switzerland at higher prices. If Zambia could sell its copper at Swiss prices, their GDP would increase.

We also see a close relationship to inequality and the rewards of globalization when looking at the effects of climate change. This affects all countries – but famines only happen in poor countries.
Famines are an effective market solution because they reduce demand. That may be a provocative answer. But more climate change is going to affect the poor countries way more than the rich ones. Poorer countries don’t have the resources to adapt, they have to borrow money from the open markets and get more indebted. The least expensive way for raising government revenue and financing capital expenditures is through the tax system. Borrowing externally is the most expensive way to raise capital. In Jamaica 60% of the Jamaican GDP goes into servicing debt.

The bottom line is that resources for development are key, so that countries do not have to borrow to face the challenges that lie ahead. Tax resources are needed if we are to reduce inequality, eradicate poverty and fulfill human rights. Taxes are the acknowledgement of redistributive justice. It’s the least expensive way of generating revenue.

Have corporations won on the issue of tax justice? The percentage of their contribution to the national tax burden has been reduced by over two thirds in the last 50 years. Now they contribute only 8.5%. A number of companies push the boundaries between legitimate tax planning and illegal tax avoidance to a considerable extent. 75% of the profits are deemed to have been earned in Switzerland, Cayman or Singapore.

There seems to be something wrong with the trade system. Corporate profits have never been higher, and their contributions to society have never been lower.

But are corporations really invulnerable? Seen from inside the Board Room, corporations are concerned about

- reputational risk – they fear being challenged in public hearings and by tax authorities,
- what the pension funds and other important investors are saying,
- what the activist community, journalists and whistleblowers are doing,
- their future leaders – they are also exposed to information and are questioning the direction of the companies.

Important goals in the area of Corporate Taxation are:

- Protecting the corporate tax base: We need to bring it up to 15-20 % again. Countries can do things on their own to do this.
• Addressing the issue of tax competition – what is Luxembourg doing, or Ireland?
• Making enhanced use of the profit split method, and advancing unitary taxation. Joseph Stiglitz also argues for a global formulary apportionment. We need a more holistic vision of how global profits should be shared.

Let’s not vilify the MNCs. To counter the power of their lobby groups, we need to build a broad alliance.

We also need to protect whistleblowers. Those who reveal tax abuses have to be offered immunity from prosecution under international law. This is in the public interest, and needs to be a priority for us.

With regards to transparency, secrecy jurisdictions created regulations for non-residents. It’s perfectly legal to deposit the proceeds of crime from other jurisdictions into the Western economies. We must harmonize predicate offences; crimes in one country much be recognized in other countries.

With regards to tax and budget policies, there are four important areas in which to enhance host-country tax revenues:

• Actions that countries can take unilaterally – eg. withholding taxes etc.
• Addressing the informal economy – bring it into the formal. Developing countries have two problems, their elites and MNCs. Even if there’s a 10% increase on tax in the informal economy – it would wipe out the deficit.
• For resource rich countries, assisting them in renegotiating mining contracts
• Focusing also on local governance and corruption.

This is important because tax justice is a pathway to social justice.

We are stewards of future generations whose views are not represented in the marketplace. ‘The underprivileged must find protection in the alliance of the fortunate.’ (John Ruskin) The 17th Century physicists, mathematician, and philosopher, Blaise Pascal, is known to have said: ‘Justice and power must be brought together, so that whatever is just may be powerful, and whatever is powerful may be just.’ That is our challenge in these modern times.
As we address the fault lines in the global financial architecture, let us also keep in mind that lower income countries need to be part of the emergence of a new global tax system so that their interests are better represented. If the post-2015 development agenda is to succeed, then fair and effective tax systems must be in place to fund national development plans. This calls for country-by-country reporting by multinational companies, and expanded exchange of tax information among jurisdictions.

**Discussion:**

Audience: How did all this happen globally without us noticing? What is the fundamental cause of this global system?

Mehta: Post–colonial wealth protection. The needs of the North for its consumption require a continuous drain on natural resources around the world. This has come at a low cost (labor/materials) and the protection of the status quo comes at the expense of the South. This needs to be first understood before it can be tackled.

Audience: Are these companies too big to be trusted? Companies are vulnerable on the inside – we should not underestimate the power of the public challenges to MNCs. We need to put resources into whistle-blowers etc.

Mehta: If we vilify MNCs, we give the impression that there are just a few bad apples. But the issue is more systemic than that, there are norms that allow this to happen.

Audience: How can you tax high incomes and wealth instead of taxing trade (to prevent costs being passed on to consumers)? If we want to protect democracy, we need to redistribute via tax. If could gain massive resources, if we have a small tax on offshore wealth, a Financial Transaction Tax would be another way.

Audience: Is the problem that we have an aberration in the system? Or is the system an aberration? Those who benefit from the status quo are naturally resistant to change. We’re accomplices to crimes if we allow the wealth to easily flow into our economies.

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Panel 1: Taxing Corporations – Fair Share versus Race to the Bottom Approaches

**Sol Picciotto** (University of Lancaster, BEPS Monitoring Group), UK: “Taxing Multinational Business in an Interdependent World.”

**Alvin Mosioma** (Executive Director, Tax Justice Network Africa), Kenya: “A Race to the Bottom: The effects of international corporate tax competition on African countries.”

Chair: Tove Ryding (Policy and Advocacy Manager for Tax, European Network on Debt and Development - Eurodad), Brussels

**Sol Picciotto:** The problems are indeed systemic, and rooted in the ‘financialization’ of the corporation resulting from misuse of the corporate form. Karl Marx first pointed to the contradictory nature of the joint stock company, because it provides an institutional basis for the coordination of socialized labor but within a form of private property; and the seminal essay by Ronald Coase on the theory of ‘the firm’ similarly stresses that the economic benefits of internalization of economic activity within the administrative organization of the firm mainly derive from effective coordination of labor. However, MNCs have become too big to manage or to regulate, because they have increasingly derived their power from their ability to exploit regulatory differences between states, especially in relation to finance and taxation, which led to today’s financialized multinational corporate capitalism. Peer Hull Kristensen and Jonathan Zeitlin provided a sociological analysis of managers at the local level, showing the distorting role of finance on corporate structure (“Local Players in Global Games”).

The financialization of corporations needs to be addressed, in order to ensure effective management. Central to this is better regulation of the corporation based on a proper understanding of its economic form and justification. Hence, international coordination of taxation of corporate profits should be based on the business reality that an MNC is a unitary entity.

International tax rules were first formulated in the 1920s when international capital flows were mainly portfolio investment, so they gave the right to tax business profits to the state of source, where the business was located, while the returns on investment (interest, dividends) were to be taxed in the state of residence of the investor. However, tax authorities understood that special
rules were needed for foreign direct investment by MNEs, which coordinated related business activities through branches and affiliates in different countries. The League of Nations study of 1932-1933 resulted in Article 9 of the Draft Convention that gives powers to adjust accounts of corporate entities, but using the criterion ‘as if they were independent enterprises’. The independent entity concept has become increasingly entrenched to encourage tax planning, because it creates incentives to create subsidiary ‘independent entities’ and to transfer activities to convenient tax jurisdictions.

So MNEs and wealthy families pioneered the use of tax havens from the 1920s, and this was extended in the expansion of MNEs from the 1950s using offshore finance to manage profit flows in different currencies and minimize tax on retained earnings. When currency controls were relaxed after 1979, the offshore tax haven and financial secrecy system mushroomed.

We can undercut the use of the offshore system by reversing the concept of the ‘independent entity’ and reforming tax policies so that corporations are taxed where their economic activity (‘country by country’) takes place. This requires a ‘unitary’ approach, which could become a full unitary taxation system with formulary apportionment.

In some ways this is emerging from the OECD BEPS process (BEPS = Base Erosion, Profit Shifting), but they have refused to make it explicit, and the result is likely to be confused and contradictory. For example, they have produced a template for country by country reporting, as requested by the G20, but propose that filing would be with the home country of the MNE’s parent, which would control access subject to conditions of confidentiality and appropriate use.

The ability of MNCs to manipulate finance is massive. The deductibility of interest is central to this mode. The Treasury function is centralized in a MNE, but it organizes internal finance to gain maximum benefit from the deductibility of interest from gross profits. A new approach is currently being proposed under BEPS Action 4 which would cap interest deductions by simply taking consolidated interest costs of the MNE as a whole and apportioning them with the MNE; but it is being resisted by MNCs, which argue for fixed interest rate caps, although these have been shown to be ineffective, as they are generally set far too high.
Several of the BEPS proposals are therefore adopting a unitary approach, but mainly for apportioning costs, but the key issue is allocation of profits. This is mainly to be dealt with by transfer pricing rules, where the OECD proposals could be disastrous as they will create a very contradictory situation. The main emphasis is on adjustment of prices of transactions between associated enterprises using a ‘facts and circumstances’ analysis examining ‘functions performed, assets employed, and risks assumed’. But this means that every tax authority will need specialists to scrutinize each firm and its transactions – a very subjective and complex exercise.

The real issue is apportioning profits. The profit split method, however, does move more towards a unitary approach, but the proposals on this so far are insufficiently formulated.

The BEPS Monitoring Group is proposing different options to move towards a more unitary system (see https://bepsmonitoringgroup.wordpress.com/).

**Alvin Mosioma:** A US Supreme Court judge once said that “tax is the price we pay to live in a civilized society”.

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**Should nation states compete?** The dominating doctrine under the neo-liberal agenda, pushed by the IFIs, is that competition between national states is desirable because it leads to efficient allocation of public goods, increases efficiency and creates an environment that encourages investment and job creation. Kenya, for example, is being advised by the World Bank to institute such policies, to increase foreign direct investment. But this narrative has a number of flaws:

- Tax policies should be part of a social contract between companies, citizens and government, in order to fund public services, infrastructure and fiscal self-determination of states.

- Competition between states cannot be healthy as there is no international regulatory framework to ensure fairness.

- Tax competition encourages beggar-thy-neighbor policies and ‘treaty shopping’.

- State failure (unlike company failure) is not an option.
Structures and dimensions of tax competition in Africa lead to secrecy. Outdated Double Taxation Agreements (DTAs) limit or undermine cross border taxation. Many of these agreements date back to the 1950s and 1960s and were instituted under colonial powers. We also see a continuous reduction of corporate tax rates, and a shift of the tax burden to income and consumption taxes (away from mobile capital). Last but not least, tax incentives exacerbate this increasing tax gap.

Impacts of harmful tax competition: Illicit financial outflows from Africa (1970-2009) amount to approx. 60 billion US dollars of annual losses. In Kenya, CSOs have taken the government to court over its signing of a DTA with Mauritius, as there was no public participation in this international treaty decision. (Meanwhile, the government has postponed implementation until 2016 and, for court consideration, CSOs are working on a more indepth analysis of the treaty’s impact).

Tax incentives (like tax holidays, exemptions, Export Processing Zones, etc.) distort resource allocation, complicate administration and create opportunities for corruption. Moreover, broad economic features are more important to attract investors. Even where used successfully, they are not cost-effective, and they create a “race to the bottom”, harming the tax bases of all countries. A TJN-Africa study shows that 2.8 billion US dollars are lost each year due to tax incentives in four East African countries (Kenya, Uganda, Tanzania and Rwanda). This represents a huge cost: In Tanzania, losses are equivalent to one fifth of the education and two fifths of the health budget. Other problems also unfold over time, such as attracting only ‘footloose’ investment.

Policy recommendations:

- a global regulatory framework is needed to ensure a level playing field
- there needs to be coordination and harmonization at the sub regional level to address this race to the bottom
- outdated tax agreements need to be renegotiated to tackle double non-taxation
- a Tax Expenditure Analysis (at least annually) is necessary as part of the budget process, to also increase the transparency of costs and benefits of incentives
Discussion:

Mosioma: The recommendations of the Mbeki High Level Panel on Illicit Financial Flows show an important recognition of the need for policy change across African countries. The next step is now to move towards more national-level discussions on the implementation. The Kenyan Ministry of Finance announced that they would review tax incentive agreements. How to translate this into actual policy change remains a challenge. The African Tax Administrators Forum (ATAF) is working on mapping tax incentives across Africa and related issues.

Picciotto: Harmonization of rules is a challenge within the EU. Luxembourg, Ireland and the Netherlands have been enabled to set up tax havens which undermine efforts to have an integrated and simpler system. One solution might be a European-wide corporate tax system, either a CCCTB or simply a common corporate profits tax. Otherwise corporations are encouraged to create complex Kafka-esque structures in response to inappropriate regulation.

Audience: Nations are a construct; MNCs have become shadow states.

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Panel 2: Let There be Light! A Case for Transparency


Zorka Milin (Senior Legal Advisor, Global Witness), USA: “Beneficial Ownership Information and Public Registries as Tools Against Corruption and Tax Fraud: Where do we stand?”

Chair: Teresa Marshall (Campaign & Communications Coordinator, Global Alliance for Tax Justice)

Moran Harari: Why is Automatic Information Exchange (AIE) crucial? AIE will be implemented as a global standard from 2017 onwards (although countries have to have bilateral tax agreements in place or need to be party to a multilateral convention). Until then, the most dominant mechanism
to exchange tax information between countries is 'upon request'. This means that countries that wish to obtain information from other countries are usually required to go through a long and cumbersome process in order to find out the true beneficial owners of complex corporate structures. Bank secrecy can hinder requests for information.

The new OECD standard of AIE has a potential to change that.

Who will get the information according to the new standard? Tax authorities, but only when there is a bilateral or a multilateral Competent Authority Agreement (M-CAA). This requires a formal legal basis to get it properly up and running (Double Tax Agreement, Tax Information Exchange Agreement, or the OECD Multilateral Convention on Tax Assistance). Unfortunately, the M-CAA is more bilateral than multilateral in practice because it requires each jurisdiction to decide which other jurisdictions it wants to exchange with. Some countries, like Switzerland, have already indicated that they will only choose countries where they have strong political or economic ties – therefore many developing countries may lose out in this “dating system”.

What kind of information will be exchanged? That is laid down in the Common Reporting Standard (CRS): It covers financial account information, including different kinds of income, such as those stemming from interests, dividends and balance accounts. Due diligence should be performed by so-called reporting financial Institutions.

The AIE is huge advance, it is better than the US Foreign Account Tax Compliance Act (FATCA) and the EU Savings Tax Directive. Tax authorities now will not have to file a request. Information is collected on every resident and it should reach authorities much quicker. A Swiss bank, for example, will also have to ‘look through’ to the real beneficial owner of a Jersey trust (who owns a Bahamas company, whose Luxemburg nominee director officially owns the bank account).

So far, 52 countries have signed the new M-CAA. But, to become effective and to prevent tax dodgers from migrating to countries that are not part of the M-CAA, the standard has to be applied really worldwide. However, there are no incentives or punishments to encourage the signing of this agreement. There are countries that have already declined to sign the M-CAA (amongst them the
USA, as they rely solely on FATCA – which enables the US to receive information on US tax residents worldwide without being obliged to exchange information on a reciprocal basis. Another weakness is that the financial information can only be used for tax purposes, and not for anti-money laundering purposes.

TJN has found 35 loopholes in the standard, two of them being a) the threshold of 250,000 US dollars for pre-existing entity accounts (pre-existing = opened before 2016) and b) the possibility for a ‘look through’ to controlling persons being only possible for passive non-financial entities. Beneficial ownership registers would provide a cross reference but many governments have not yet been willing to set up such national registers.

These registers have to be set up, and the loopholes of the new AIE standard need to be fixed. Furthermore, developing countries need to be included better – they do not have the resources yet to engage in bilateral treaties. We need to defer the reciprocity requirement until they have the human and technical capacity to engage in reciprocal information exchange. Before this is possible, we need to provide them at least with aggregate data on deposits and financial assets held by their residents abroad. The Bank of International Settlements has this data but does not publish it.

When it comes to MNC activities, tax authorities can also gather information via the new country-by-country reporting (CBCR) requirements. CBCR will be part of a three-tier transfer pricing documentation developed under the OECD’s BEPS initiative under Action 13.

According to the OECD, the CBCR applies to all sectors and to MNCs with turnovers over 750 million US dollars. The reporting procedure is as follows: a) the ultimate parent files to the authorities of its home country, b) the home country’s authorities share information automatically with other authorities under a CAA, c) there is a secondary mechanism in case they don’t file. The first reports have to be filed for the fiscal year 2016.

A major weakness here is that there will be no public access to the CBC reports. This might also harm developing countries’ authorities because, as previously said, many countries have no Exchange of Information Agreements with other countries in place and will therefore not receive information from other countries’ tax authorities. There is also a risk of ‘head office’ shopping. And jurisdictions should use the information in the CBC Report only as specified in the Action 13 Report.
appropriate use’). This means that data can only be used for assessing high-level transfer pricing risk and other BEPS related risks, but not as a basis for an income allocation formula (i.e. for unitary taxation).

**Zorka Milin:** Tax and corruption are closely linked. These diseases need to be treated, and one prescription is transparency.

The biggest roadblocks to the investigations of Global Witness have always been **anonymous corporations**. You can have one company hidden inside another company, like a Russian doll. To find the last Russian doll – an individual, the beneficial owner – is difficult.

Mr Teodorin Obiang, the son of Equatorial Guinea’s dictator, for example used anonymous companies to extract money and buy luxury goods, mansions, planes.

The US is the most popular destination for the corrupt, the UK is number two. A study by the World Bank found that the US is the easiest place in the world to set up an anonymous company, followed by the UK, including the overseas UK territories. But there are other countries as well, like Austria where people around the former Ukrainian president Yanukovich set up an anonymous company which then owned his villa. This is truly a global problem: see the ‘Great Rip Off’ interactive map of Global Witness: [http://www.globalwitness.org/greatripoff](http://www.globalwitness.org/greatripoff). It’s not just corruption: anonymous companies have featured in many of the US cases against Swiss banks for facilitating tax abuse.

Is focusing on transparency deflecting from other legal changes? It’s more than law enforcement – the public deserves to see the information and to be able to hold people and companies to account. There is nothing natural about corporate secrecy.

**Where do we stand?** We have:

- the standards of the Financial Action Task Force (FATF) of 2012 (good research tools to see how countries are acting on anti-money laundering or transparency),
- the Anti-Money Laundering Directive (AMLD) at the EU level,
- the G8 Action plan of June 2013 (mentions legal arrangements, e.g. ‘trusts’),
• the G20 High level principles,
• the OECD system of exchanging tax information, and
• business support, e.g. B Team.

There is definitely an important role for academics. The Academics Stand Against Poverty (ASAP) campaign on illicit financial flows. Research, for example with regards to privacy vs. transparency, is urgently needed, as civil society activists need experts to help them addressing questions of economics, law and philosophy. Academics are also educators, and can influence their students and connect them with activists. We should encourage them to write about these subjects or to participate in campaigns.

Discussion

Audience: We also have to address the data problems – researchers need reliable data to address questions.

Harari: One danger for the success of AIE is that some countries that only receive information but do not send (and therefore also do not collect) information, offer citizenship to those people that have an interest in becoming ‘non-reportable’.

Audience: We now have policies but we need to monitor implementation.

Audience: The Global Alliance needs to show how AIE, BEPS and beneficial ownership are linked. The next phase is to make sure implementation will work even with (non-public) CBCR. 2015 is going to be a crucial year.

Audience: Beneficial ownership information is crucial – no-one opens a Swiss bank account in his or her own name.

Audience: There are weak penalties for tax evasion/secret bank accounts – too many voluntary settlements. They pay back taxes plus interest but no penalty.

Audience: There was a study on the FATF framework – it was not
efficient in developing countries because they were forced to develop institutions. It’s therefore not flexible enough to incorporate differences between countries. Beneficial ownership according to their definition is at 25%.

Milin: You need both sticks and carrots, for example keeping a blacklist of countries that fail to comply with agreed standards, and agreeing on the consequences of blacklist status.

Audience: The US has been a leader, but now it’s backed off.

Audience: Taxing the rich is done by taxing their corporations - they don’t have their money in their personal accounts.

Audience: We need to find companies that suffer from the status quo – we need to split the corporate opposition.

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Panel 3: Tax and Budget Policies to End Inequality

Patricia Miranda (Fundacion Jubileo Bolivia), Bolivia: “Strengthening National Tax and Budget Systems To Address Inequalities And Protect Human Rights: The experiences in Latin America.”

Margit Schratzenstaller (Researcher, Austrian Institute of Economic Research), Austria: “Gender Responsive Taxation and Gender Budgeting: How to overcome political and institutional hurdles.”

Chair: Dennis Howlett (Executive Director, Canadians for Tax Fairness)

Patricia Miranda: The Latin American region has a fairly low tax burden of 20.1 % tax-to-GDP on average. The taxation of non-renewable natural resources contributes in large part to current income.

Key characteristics of the tax systems in Latin America:

- Regressive tax systems: 70% indirect taxes; 30% direct taxes
- There exist several exemptions, special treatments, and bilateral trade agreements (tax free zones) which reduce tax revenues.
• The region experiences high levels of tax evasion, tax avoidance, opacity.

• Illicit flows from Latin American countries to tax heavens amount to 2,000 billion US dollars (1970-2011).

• There is a need for capacity building in tax administrations.

Social features in Latin America:

• Poverty has been reduced from 43.9 % to 28.2 % between 2002 and 2012.

• But it is still the most inequal region in the world (Gini of 0.496).

• In 15 years, the middle class increased from 20 % to 30 % of the population.

• Jobs: the informal sector still employs 70 % of people with lower incomes.

• There are serious social-environmental issues, like damaging mega projects, extractive industry projects, violations of indigenous people’s rights, etc.

The situation in Bolivia:

• Fiscal revenues have multiplied by five in the previous nine years.

• Extreme poverty could therefore be reduced by half.

• Also public investment has multiplied by five.

• Bolivia has had a fiscal surplus over the past eight years.

• Key revenues come from the taxation of hydrocarbons (gas!) of 50 % and high international prices

• 40% indirect tax revenues collected.

• Tax revenues are distributed in part to regional governments. But distribution is uneven, depending on the hydrocarbon tax income per region.
• More funds are currently spent on infrastructure than on education and health.

National/regional challenges:

• Keep current social achievements and eradicate poverty and inequality.

• Diversify current productive matrix (i.e. the sources of tax income).

• Create a progressive and inclusive tax system.

• Eliminate exemptions.

• Work on a fiscal pact: Discuss the national development model, the ways to make revenues more sustainable and to redistribute funding resources.

Fundación Jubileo, in cooperation with university students, is currently working to launch a simulation of such a compact, to show the Bolivian government how such a dialogue can be carried out.

Civil society challenges:

• At national level: reforms are needed towards a fair tax system, fiscal pact

• At regional level: Unasur (Union of South American Nations), CELAC (Community of Latin American and Caribbean States), CEPAL (UN Economic Commission for Latin America and the Caribbean)

• At global level: Financing for Development process of the UN - Latin American ambassadors at the UN, support from the G77

• Awareness raising is necessary as well as the inclusion of indigenous people, women and youth.

Margit Schratzenstaller gave a presentation on A) the gender impact of taxation and B) Gender Responsive Budgeting in Austria
A) Some stylized facts regarding gender differences that should be taken into account by a gender-sensitive analysis and design of taxes/a tax system:

• There are gender differences regarding paid work (including formal and informal work, wages, horizontal/vertical segregation)
• The lion’s share of unpaid work is still done by women
• There are gender differences in disposable income and consumption expenditures
• There are also gender differences in wealth.

This adds up to an overall challenge to make tax systems more equitable and sustainable.

Gender equality goals that are relevant for taxation:

• Increasing female employment rates
• Improving earning opportunities for women
• Improving reconciliation of work and family life for men and women
• More equal distribution of paid and unpaid work between men and women
• Considering and reducing the unequal primary distribution of income and wealth between men and women through the tax system
• Equal access to specific tax measures and instruments

Relevant gender specific effects of taxation:

• Effects on employment incentives / paid employment of women and distribution of paid work between men and women
• Influence on distribution of unpaid work between men and women
• Gender differentiated distributional effects (incidences) of various taxes/tax categories (direct taxes, indirect taxes, social security contributions) and specific tax instruments (e.g. tax allowances or tax credits)
International empirical results:

- The empirical relationship between taxation and individual labor supply has been explored extensively.
- There are also some results on the gender-differentiated distributional effects of the taxation of labor incomes and consumption taxes.
- Under-researched are the taxation of wealth and capital income (incidence) and of gender-differentiated behavioral effects of ‘sin taxes’.

Distributional effects of taxes per gender:

- Directly and indirectly regressive taxes (consumption taxes, social security contributions) impose a higher burden on women.
- Progressive taxes impose a higher burden on men.
- The regressive effect of tax allowances granted within the personal income tax is favorable for men, while tax credits are favorable for women (due to their on average lower taxable incomes and tax liabilities).
- Taxes on wealth and capital incomes impose a higher burden on men (exception: inheritances?).
- Men profit over-proportionately from the trend towards the dualization of income taxes.
- Due to the different structure of consumption, tax reliefs and the structure of specific excise taxes exert gender-differentiated distributional effects.

Relevant elements within the direct taxation of earnings include the average tax burden (participation decision), the marginal tax burden (decision about number of hours worked), tax relief for child care expenses and others.
Taxes and employment incentives per gender - main results of econometric analyses:

- (Tax) elasticity of the number of hours worked: a) Compared to men, elasticities for women determined in empirical studies display a much broader range, b) average and median elasticities of labor supply are significantly higher for women, c) family status and existence of children exert a strong influence on female labor supply, d) elasticity of labor supply is relatively high in Sweden, relatively low in UK and US

- (Tax) elasticity of the participation decision: a) Participation decision of married women very sensitive, b) particularly high sensitivity in lower income/low-skilled groups (also for men), c) non-labor incomes (partner income or transfers) exert considerable dampening effects particularly on labor supply of mothers.

Taxes and employment incentives per gender - main results of microsimulation studies:

- Joint taxation dampens participation rate of women in partnerships.

- Individual taxation increases labor supply (participation, number of hours worked) of women in partnerships and reduces - under the assumption of joint maximization of a household utility function - labor supply of men in partnerships (however, to a smaller extent compared to effects on women).

Taxes and unpaid work:

- Relevant elements of tax systems: a) system of household taxation, b) treatment of unpaid work in social security systems (e.g. non-contributory co-insurance of non-active partners), c) consumption taxation (influences decision between home production and buying of goods and services on the market)

- There are no empirical studies on the influence of taxes on overall volume, gender-differentiated supply and distribution of unpaid work.

B) Gender Responsive Budgeting (GRB) in Austria

General context:
• Considerable and persistent gender gaps at all levels

• Sizeable public sector inefficiencies can be assumed at all levels of government

• Insufficient funds for child care, schools, long-term care, universities, public transport

• Austria very low on female participation/high inequality

The goals of GRB are to increase the effectiveness of budget policy, increase transparency and accountability and raise gender awareness. Target groups are the public (voters and tax payers), Members of Parliament, federal government & administration.

The legal provisions are to be found in the Federal Constitution, the federal budget law as well as in the gender impact assessment directive for all new laws, projects, directives, etc.

GRB is resting on two pillars: a) GRB in the budgeting process: GRB was introduced in 2013 at the federal level - obligation to formulate one gender equality objective for each ministry/budget chapter (as one of a maximum of 5 objectives within performance budgeting) AND one concrete measure to achieve this objective - development of appropriate indicators.

b) GRB within regulatory impact assessments: aims at assessment of ‘effective’ impact of new laws, regulations, directives, and other larger projects

At current stage, there are still problems in implementation and coordination and participation.

Strengths:

• Strong legal basis and broad political consensus

• GRB as integral element of a major budget reform

• Comprehensive approach of GRB

Problems:

• no coordination of Gender Responsive Budgeting and Gender Impact Assessments

• insufficient coordination between ministries
• insufficient coordination with relevant strategies at national level (e.g. NAP for gender equality)

• not embedded into macroeconomic and institutional framework and context related to budgetary procedures (e.g. Fiscal Council)

• GRB not considered in the European budget procedures (e.g. budgetary draft plan due mid-October)

• problems with gender and data expertise in public administration

• focus on women

• no binding quality standards

• data situation

• No overarching gender equality strategy and explicit overarching gender equality objectives

• no explicit coordination with gender mainstreaming

• very limited participation of stakeholders

• no coordination with sub-national levels of government

Discussion:

Miranda: When Bolivia had the courage to apply the direct tax to hydrocarbons, there was a lot of fearmongering that companies would leave. But, in fact, they didn’t, and they are still there, making profit. The problem is that they have not invested further. In the interim, the government has not invested in other productive industries. Poverty has been reduced because of cash transfers to vulnerable people, and work in the informal sector (67%). There are few new formal jobs.
Schratzenstaller: Recommendations for developing countries? One needs an overarching gender equality strategy. Also wider education efforts about the process of GRB, and gender awareness trainings are necessary.

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Wrap Up Discussion: The Way to Addis - Taxes as a Key Source for Domestic Revenue and Sustainable Development

_Dereje Alemayehu, Chair, Coordination Committee, Global Alliance for Tax Justice_

_Isa Baud, President, European Association of Development Research and Training Institutes (EADI)_

_John Christensen, Director, Tax Justice Network_

_Conference Participants_

_Chair: Martina Neuwirth (VIDC, GATJ-Coordinating Committee), Austria_

Isa Baud: There are tensions but also complementarities between researchers and campaigners. There is a discussion about the valorization of society – assessing research results.

The issue is how we link tax justice to development processes. Tax is at the centre of the social contract – and businesses and banks are negating this under the neoliberal framework. It’s not development aid, it’s tax revenue – the only sustainable source of funds for development.

Audience: Development aid has dictated what development should be. Fair taxation is needed for achieving equality as well as development.

John Christensen: The Tax Justice Network as an independent international network was launched in 2003. Over time, the network grew bigger and bigger. Today, TJN is more focused on research (and researchers), but does not coordinate campaigns. Therefore several years ago, the movement split into TJN and the Global Alliance for Tax Justice, which brings the campaigning organizations together. There is also a global network of investigative journalists – the Bureau of Investigative
Journalists in London - that is already having an impact. Great research is coming out – and TJN can amplify those messages with experts in the media.

Human rights are becoming an issue also in tax debates – countries have to maximize resources in order to fulfill their human rights obligations (including their economic and social rights obligations).

There is a connection between Financing for Development, the Sustainable Development Goals and the COP. Climate change and tax – that needs more research, especially on subsidies going into the fossil fuel industry.

**Dereje Alemayehu:** We have stopped thinking in terms of alternatives. We get stuck in the functional logics of the system – which now is profit maximization. You study economics, not to solve problems but not to be cheated by other economists. Take for example the dissociation of ownership from management. We have to challenge this system logic. We have to talk about the corporate capture of political and policy processes. We also have to recognize that this is linked to the erosion of democracy. Society has become powerless.

The main message must be to bring capitalism under society’s control! The state and business should serve society. The analysis must be radical, the approach should be pragmatic.

Our ultimate goal should be to have a majority in our respective societies for our alternative projects.

With regards to the Financing for Development (FfD) process: We have to reverse the outflows of capital from poorer countries, otherwise there is no development. We must acknowledge that the poor countries are funding the rich ones – and reverse this trend. FfD should address these systemic resource leakages – and it should be done through the UN which is the only democratic and truly global institution we have.

**John Christensen:** The OECD is a leopard that won’t change its spots. We see lots of failures of its members, for example the UK’s beneficial ownership register that will not cover trusts. New kids on
the block are already starting to fragment the OECD’s rule book, for example China. We must elevate the UN Tax Committee to be a genuine democratic power.

The British tax haven empire emerged just at the end of their formal empire in 1956. Capital has been winning the battle against labor by breaking free from the nation-state. The only way to box it in is through international cooperation.

Today we run the risk of winning the battle against tax avoidance on one hand but losing the fight on tax competition and any capacity to tax wealth and capital. When they decide to abolish corporation tax at all, no tax has to be avoided. That exacerbates inequality - all current measures of inequality, like Gini, are massively understated by cutting out the top 1%.

We have to have the power to hold governments as well as businesses to account. We’ve had opportunities to do this – but they’ve failed. We need to empower people to rise up and take control.

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