



Summary Report

Webinar Series on Development and COVID-19

Tax policy options for funding the post-COVID recovery in the Global South

23 July 2020 – 1500 to 1645 (CET)



1. Welcoming Remarks

Prof Carlos Correa, Executive Director, South Centre started the webinar¹ addressing the participants on behalf of the South Centre. Prof Correa highlighted that the South Centre, as an intergovernmental organization works very closely with a number of non-government organizations such as the Global Alliance for Tax Justice with the objective of promoting the interests of developing countries. Prof Correa then mentioned that the world is living in a very critical time in which governments around the globe need to generate essential income to face the effects of COVID-19 related health and economic crisis. For Prof Correa, the current pandemic has drastically reduced developing countries ability to collect taxes as current measures to contain the spread of the virus, which include confinement and lock-down measures, has affected revenues of small and medium companies, which cannot pay their taxes.

Given this scenario, for Prof Correa, this is a very timely discussion as at the same time foreign direct investment, Official Development Aid (ODA) and other sources for foreign financing of developing countries are also reducing. Therefore, the role of tax authorities is crucial. Likewise, he emphasized that there are other structural issues that the tax community needs to face, particularly on how to tax the so-called digital economy. This is an important long-term issue that the tax community in developing countries must address in a very serious and coherent manner and certainly there is a need to increase the capacity of developing countries to work together to make their voice heard in international negotiations and ensure a fair distribution of taxing rights.

Dr Dereje Alemayehu, Executive Coordinator, Global Alliance for Tax Justice mentioned that the Global Alliance of Tax Justice comprises five continental tax justice networks in Africa, Asia, Latin America and Caribbean, North America, and Europe. The objective of this organization is to campaign to stop tax evasion and avoidance by multinationals and wealthy individuals, and promote a progressive redistribution of tax in countries and for a fairer distribution of taxing rights globally, including the reform of the international tax system within the framework of the United Nations.

For Dr. Alemayehu, the current multilateral system is facing multiple crises which prevent it from addressing key global and structural issues such as fair distribution of taxes globally and illicit financial flows. Similarly, it was highlighted that those profiting from the current state of things are blocking reform of the international financial architecture through an inclusive process. For Dr. Alemayehu, developing countries cannot stop tax dodging and illicit financial flows on their own and will remain victims of divide and rule tactics of rich countries if they don't collaborate. Finally, Dr. Alemayehu was of the view that solidarity and cooperation among developing countries is necessary to overcome poverty and inequality for the creation of a better world for all.

2. Kickoff Speaker

Mrs. Lidy Nacpil, Coordinator, Asian Peoples' Movement on Debt and Development spoke² on the Challenges of Domestic Resource Mobilisation (DRM) in the Global South amid COVID-19, and mentioned that considering this issue as a challenge is an understatement for developing countries, as they are already facing many obstacles in their economic system deriving from legacies of a long history of colonial plunder. Mrs. Nacpil emphasized that the current economic system is oriented towards the generation of profits for multinational corporations and big business. Given that the current economic system is based on principles of neoliberalism, developing countries are impoverished, not for lack of capabilities, but because their efforts and resources leave the country in the form of illicit financial flows, capital flight, profit repatriation, interest payments on unsustainable and illegitimate debts, losses from underpriced exports and overpriced imports and unfair trade relations.

Mrs. Nacpil highlighted that the balance sheet of developing countries shows a net outflow of resources going to developed countries, which at the same time perpetuates the myth that they lack wealth and capital justifies the pursuit of foreign investments and loans. For this, Mrs. Nacpil recalled a number of calls made by tax justice organizations for stopping harmful incentives which only benefit corporations and establish mechanisms for preventing multinational corporations from shifting profits to low and zero tax jurisdictions through the separate entity principle.

In the same vein, Mrs. Nacpil stressed that debt payments of unsustainable and illegitimate sovereign debts should be suspended and cancelled. This decision will give governments more fiscal space for facing the current crises. Some other measures mentioned by Mrs. Nacpil include progressive tax reforms on large income, assets

¹ Recording available at <https://www.youtube.com/watch?v=JTnqI4tOMoU>

² Presentation available at

https://docs.google.com/presentation/d/1NjiiCHR3j0O2VU5qMWHt6UNUR35XDN4_19_BUTjXu90/edit#slide=id.g8682b43039_0_0



and wealth and introducing a global minimum corporate tax rate that is sufficient to fund quality public services and universal social protection. Mrs. Nacpil reminded that the most immediate demand is establishing of a global tax body under the auspices of the United Nations that can support the recovery from the crises, in particular by promoting domestic and regional tax transparency measures, curbing illicit financial flows, country by country reporting for multinational corporations, public registers of beneficial owners and the automatic exchange of information.

Mrs. Nacpil also emphasized that there is no tax justice without fiscal and economic justice. She underscored the state's duty to protect the people and give primacy to human rights – not the banks, corporations, and the wealthy. Fiscal policies should take invest in social protection for all, especially the poor and the informal workers living in poverty, and in public services that address and fulfill the rights and needs of women and that recognize, reduce, reallocate and socialize unpaid care work and social reproduction. Finally, Mrs. Nacpil concluded that should move away from the discredited economic policies of neoliberalism.

3. Discussion Panel

Mr. Eric Mensah, Co-chairperson, UN Committee of Experts on International Cooperation in Tax Matters considered the issue of redistributing taxing rights to developing countries – the Two Pillar Approach and the way forward from the impasse. Mr. Mensah spoke in his personal capacity and explained that the discussion was divided in two parts. First Mr. Mensah discussed about the two pillars approach. Mr. Mensah explained that the tax challenges arising from the digitalization of the economy was identified as one of the main areas in the OECD-BEPS project was focusing since 2015. According to a report prepared under BEPS action one, the digitalization of the economy could exacerbate BEPS issues and raise broader tax challenges, particularly on how taxing rights on income generated from cross-border activities in the digital age should be allocation among jurisdictions. Mr. Mensah explained that possible options to address those challenges and related concerns were identified in such discussions, but ultimately none were agreed.

The Group of 20 and the BEPS Inclusive Framework prepared several proposals on the allocation of taxing rights through modifications to the rules on nexus and profit allocations. The BEPS Inclusive Framework agreed a policy note in January 2019 that grouped their proposals into two pillars - one of nexus and profit allocation and another on ensuring a minimum level of taxation. This note also include an agreement to examine them as the basis for possible consensus based on international principles and notions of the international tax system, including permanent establishment and the arms-length principle. Nevertheless, for Mr. Mensah the approach described by the inclusive framework as a unified approach was developed to deal with the tax revenue losses from digitalization by giving market jurisdictions access to more tax revenue and by effectively introducing a global minimum tax rate.

Mr. Mensah then addressed a series of questions concerning the current discussion on taxing the digital economy. One element discussed was if the current global talks by international tax bodies will lead to a multilateral solution that will be beneficial for developing countries. Citing a published article from the Amsterdam University, Mr. Mensah believed that the exclusion of the principle of significant economic presence limits the potential benefits of taxing the digital economy for developing countries. Including this principle was an important contribution made by some developing country-oriented organizations like the Group of 24 and the United Nations Tax Committee, therefore there was a need to discuss an alternative approach. Mr. Mensah referred to such alternative approaches and indicated that a multilateral solution to the issue may not be possible immediately.

For Mr. Mensah, achieving such alternative approaches will require new negotiating platforms, moving away from the current discussions, for example following the model of the Third International Conference on Financing for Development. This conference might gather different intergovernmental organizations, such as the United Nations, the International Monetary Fund and the World Bank, operating on an equal footing, and will aim at achieving and implementing a simple and easy tax model for the digital economy, which thereafter can be crystallized in a multilateral agreement.

Mr. Rajat Bansal, Member, UN Committee of Experts on International Cooperation in Tax Matters commented on alternative international frameworks from the South for taxing the digitalized economy. Mr. Bansal started by giving a small background on the increased use of electronic means for the provision of goods and services, particularly by multinational enterprises. Nevertheless, the revenue derived from such activities is not benefiting countries where those activities take place, primarily because tax treaties allow taxation only subject to certain rules entitling taxing rights to residence jurisdictions. Mr. Bansal recalled that the OECD BEPS project was the forum chosen to discuss this issue, and the Global Forum for Tax Transparency took measures for increasing transparency using exchange of information. Nevertheless, the nub of the issue, which is critical

for developing countries, remained unaddressed. For Mr. Bansal, attention on this matter is necessary as allocation of taxing rights to developing markets where the revenue is created has not been conceived in current tax treaties.

Although the BEPS Action Plan included discussions on the taxation of the digital economy, no conclusion was reached and it was left for states to consider three possible options for taxing the digital economy, but no multilateral agreement was reached. This led for the OECD Inclusive Framework to continue working on the matter, and other countries took unilateral measures to tax the digital economy. Some of these measures included the digital service tax (DST) and India's equalization levy, among others. While such actions were recommended by the BEPS Action Plan, there were concerns raised on the possibility of double taxation and therefore the need to speed up the work for finding a global solution. Efforts towards a global solution led to the so called 'unified approach'.

Mr. Bansal then discussed the work done by the United Nations Tax Committee and explained that a subcommittee was constituted in 2017 with the mandate of discussing the issue of the taxation of the digital economy. The first thing decided, was to work independently from other forums, mainly to keep the interests of developing countries. This meant that the work done by the subcommittee was simultaneous with other forums. Mr. Bansal recalled that he proposed an alternative approach to taxing the digital economy and based on such proposal a drafting group of developing countries was constituted to submit an alternative to the Committee.

Mr. Bansal went on to explain the innovative option looking at the scope of application (which sectors are covered) and the method of taxation attributable to the market economy (computing of profits); this approach also included four relevant principles of applicability, simplicity, significant revenue for developing countries, elimination of double taxation and viability to resolve disputes. The alternative approach consisted in drafting a new article in the UN Tax Treaty Model considering how multinational enterprises are normally taxed. Following this approach, MNEs are locally taxed on domestic thresholds and not on global thresholds. Doing the opposite is too cumbersome and has the potential of disturbing the complete picture. Finally, Mr. Bansal was of the view that including such article in the UN Model Tax Treaty is an important progress, as although is not a treaty in itself, it has a great persuasive value for the negotiation of bilateral tax treaties.

Mr. Daniel Uribe Teran, Programme Officer, Sustainable Development, Climate Change and Gender Program, South Centre discussed about some of the national measures for taxing the digitalised economy. Mr. Uribe mentioned that the presentation was based on the document published by the South Centre addressing the national measures that States around the globe have adopted to tax the digital economy.³ Mr. Uribe highlighted that the current situation generated by COVID-19 has exacerbated the inequality gap already existent before the COVID-19 pandemic and referred to the 2019 UN Human Development Index, recognizing that the new generation of inequalities (access to health, education and present day technologies) are not only increasing, but countries are going back to levels of extreme poverty.

It was recalled that the recovery phase of the current crises should look at building resilience from external shocks leading to the need of mobilizing resources, efforts that should not be limited to facilitation and promotion of foreign direct investment or official aid for development. On the contrary, for Mr. Uribe, actions taken for facing the crises should strengthen the States capabilities and capacities to increase revenue collection at the domestic level. Given that responding to the economic effects of the crises will require to push for stimulus packages, for Mr. Uribe it is essential to discuss the right of States to tax the digital economies, and examine what countries are already doing.

Mr. Uribe addressed the different measures States are currently taken. The first measure is the digital service tax, which has been implemented by most of the countries, in particular those from the OECD. This measure has allowed states to tax profits generated in their jurisdiction by non-residents, even if a company has no physical presence. Such approach is a reflection of how profits are attributed, with the objective of recognizing the added value in the jurisdiction where it is created, in particular the user of the platform or service. A similar approach is the one taken by the UK and the application of the diverted profit tax. Although not limited to the digital economy, this tax considers charging a higher proportion of corporate tax rate if a company is using any kind of abusive tax planning schemes. A second option introduced by developing countries is the significant economic presence, which expands the business connection to the taxing jurisdiction through the application of a digital nexus, even without physical presence. For determining the revenue generated from such platforms or interfaces, domestic jurisdictions can consider a combination of different key elements, for example the use of data bases including information of users, the volume of digital content which is delivered by a particular company, the

³ See: <https://www.southcentre.int/wp-content/uploads/2020/05/RP-111.pdf>



billing or payment of digital services through local currency or domestic bank services, among others.

Mr. Uribe continues by mentioning that other measures consider fractional apportionment as a profit attribution mechanism for taxing the digital economy. For Mr. Uribe, this is a simple mechanism to allocate taxes in the domestic jurisdiction, as it looks at taxing a portion of the revenues made by a company in that jurisdiction. It basically looks at key elements for such distribution, including sales, assets held by the company, manpower and users. States have also put in place a withholding tax on digital transactions, which is similar to a digital service tax, but it applies it to the user or the financial institution facilitating the transaction.

Mr. Ricardo Martner, independent economist and Commissioner of the Independent Commission for the Reform of International Corporate Taxation (ICRICT) addressed the issue of financing the recovery from COVID-19 – domestic options for developing countries

Mr. Martner spoke about financing during and post Covid-19 with a Latin America perspective. He noted that the pandemic has resulted in a serious drop in GDP estimated at 10% on average in Latin America with higher estimates in some countries particularly in hard hit areas. Fiscal deficit will be at 10% of GDP in many countries and many are financing the deficit with debts through access to capital markets with low interests. These debts have to be paid in the future. Mr. Martner highlighted that the global pandemic has led to major structural increases in public expenditure to support health, incomes and employment. The question of who will ultimately foot the bill will need to be answered, but the economic burden must not fall disproportionately on disadvantaged groups and countries. Reductions in corporation tax 'to stimulate reconstruction investment' will be neither economically effective nor socially desirable. Rather, corporate tax systems should be strengthened by accelerating truly inclusive international cooperation on base erosion and minimum rates, by making these taxes more progressive to stimulate small firms, and by ensuring effective taxation of the offshore wealth of shareholders.

He made reference to an ICRICT report titled "[The Global Pandemic, Sustainable Economic Recovery, And International Taxation](#)" which highlights five key steps governments can take to tackle tax avoidance—which has left governments with fewer resources to meet critical priorities in the wake of the pandemic—end the era of tax havens and the 'race to the bottom' on corporate taxation.

- apply a higher corporate tax rate to large corporations in oligopolised sectors with excess rates of return;
- set a minimum effective corporate tax rate of 25% worldwide to stop base erosion and profit shifting;
- introduce progressive digital services taxes on the economic rents captured by multinational firms in this sector;
- require publication of country by country reporting for all corporations benefitting from state support;
- publish data on offshore wealth to enable all jurisdictions to adopt effective progressive wealth taxes on their residents and to be able to better monitor effective income tax rates on highest income taxpayers.

These recommendations can be linked to this discussion on two elements: i) setting a minimum effective corporate taxation rate to avoid tax competition within countries at regional and global level set at 25%. There are many exemptions in the current corporate tax in the region and no country has set the corporate tax at 25%, so there need to revise and analyze the CIT rate and exemptions in the corporate tax rate for COVID-19 recovery. Current discussion is mostly on the deferment or reduction of CIT, the discussion is on an effective tax rate, an active state in the future and public investment is key in the recovery. ii) Digital tax rates are also important, currently there is low collection as most countries are not digitalized economies and so the need to look for other sources e.g. Wealth tax is being discussed in many countries Argentina, Colombia, Peru. The Chilean Parliament is discussing on a tax vote for the super-rich at about 2.5% of GDP. The ICRICT report emphasizes the publication on offshore wealth data for financial transparency which is important for wealth tax. Progressive tax systems go further than this, because most countries do not have progressive tax systems as they rely more on VAT. There is a need to make more efficient tax administration systems in developing countries.

Mr. Charles Abugre, Member of Technical Advisory Council of Tax Justice Network Africa, considered the issue of South-South cooperation facing the COVID-19 induced socio-economic crisis.

Mr. Abugre spoke about South-South cooperation facing the COVID-19 induced socio-economic crisis. His presentation reflected some of the presentations by earlier speakers and recent work on South-South cooperation by UNCTAD, UNDESA etc. He noted that four contextual issues need to be emphasized for emerging economies and developing countries and their ability to manage and transition from the COVID-19 induced economic crisis and build resilience. These countries have:

- High economic vulnerabilities



- Low levels of preparedness and harsh and poor underlying socioeconomic conditions
- Low capacity to respond on their own
- Low capacity to recover on their own
- Low capacity to build resilience against a future similar crisis and therefore cooperation is critical.

Given the experience of efforts so far to draw from the international, global entities, e.g. UN, G20, and Bretton woods institutions to support the recovery and management of the COVID-19 crisis by developing countries, South-South cooperation is central and at least four favorable conditions need to be considered:

- Developing countries need each other, current geopolitics shows that interdependence is necessary including the structure of multilateralism.
- South-South cooperation has advanced beyond the aid system that triggered it. It has advanced in the areas of trade, investments, cultural exchange etc.
- Leading economies have real financial muscle, some are part of G20, BRICS and are key players in their regional groupings.
- Economic institutions have been established, these key institutions that can be leveraged not only for the response but for building back better.

He emphasized that South-South cooperation cannot be simply around mercantilist reasons, each country seeking to expand its economic and political interest by cooperating with others or grounded by narrow nationalism. There is need to cooperate for a higher purpose, for example the UN Secretary General noted that it is necessary to build better societies out of the crisis that have to be fairer, safer and greener, must underpin the solidarity needed to create a cooperation framework and cooperate into building and running institutions that help each country and regions to build fairer, better and greener societies.

He noted that an UNCTAD report on the COVID-19 disaster point to the fact that many Southern groupings have made important statements e.g. G77, BRICS, but there are no collective concrete proposals on the ground as to how that would underpin a South-South cooperation of a different character. Cooperation of COVID-19 response and recovery should be underpinned by an ambition for a different role of cooperation and the role of the South in the global economy and society around four main issues:

- Scaling up of resources by freeing of fiscal space including on cooperation on tax matters and expansion on DRM.
- Building resilient economies to address low- and middle-income countries with high sources of capital and unable to grow beyond middle income and transformed economies
- Leap frog technology for all
- Building economic and social infrastructure for resilience for a greener, safer, fairer world.

Resources need some muscles e.g. G20 initiative, IMF, WB and regional development banks have provided do not exceed 200 billion USD, far less that AU collective request for emergency support, it is a scratch on the back, far less than debt obligations for these countries for 2020, debt service provisions under G20 is far less than debt obligations for developing countries. Mr Abugre had some suggestions on what can South-South do on the following areas:

- Liquidity - front-institutions can be leveraged, BRICS can extend its contingency arrangement to non-BRICS countries, same to other liquidity funds like Arab monetary fund, Latin America, African development bank, as on their own they are insufficient.
- Debt - Debt stock on developing countries exceeds 170 of their combined GDP. Poor countries pay a higher percentage of their revenue to private lenders, it is the highest expenditure for developing countries and is increasing. South-South solidarity and ambition should promote this, debt relief including tackling the legal basis for a fairer private debt work out, innovative measures are needed to address debt, e.g. debt swaps for SDGS, environment. State contingent clauses in private debt contracts and for countries to not go begging and are able to freeze debt payment and deal with crises. A mechanism is needed for creditor countries collective mechanism is needed to enable a more ambitious approach to debt relief.
- Development finance and institution – spirit of solidarity and ambition to leverage institutions and cover more than their existing scope e.g. Asian Infrastructure Investment Bank, BRICS Development Bank, Africa Investment and Infrastructure Bank, however there is no institutional framework to foster these cooperation, can collectively breath life in revitalizing national banking destroyed by years of Structural Adjustment Policies (SAPs) and liberalization of the financial sector.
- Trade, industry and investment – many OECD countries are providing subsidies for their industries, many developing countries are resistant, collective call for WTO peace clause to support revitalization of the industries to do so through subsidies.



- Human and financial resources to building necessary infrastructure for the taxation of the digital economy, which is poor.
- Cooperation for medical research.
- Support for small scale green agriculture.
- Cooperation on tax matters – expansion in South-South trade and investment – increase fiscal capacity need to deal with IFFs and race to the bottom, South-South solidarity is crucial. The wealthy and MNCs are hiding their wealth in new and emerging tax havens. Developing countries need to commit to Automatic Exchange of Information, Beneficial Ownership and Country by Country Reporting (ABC) of tax justice and stemming of IFFs.

4. Concluding remarks

The speakers examined the challenging international economic context for developing countries and policy options for developing countries both at the domestic and international levels.

Global economic context

It was highlighted that developing countries face reduced investment and ODA flows and declining revenue prospects. The pandemic has also exacerbated inequality, and the new generation of inequalities (access to health, education and present day technologies) are not only increasing, but countries are going back to levels of extreme poverty. This worsens their existing vulnerabilities caused by illicit financial flows, capital flight, profit repatriation, interest payments on unsustainable and illegitimate debts, losses from underpriced exports and overpriced imports and unfair trade relations. Hence, actions taken for facing the crises should strengthen the States' capabilities and capacities to increase revenue collection at the domestic level.

Reductions in corporation tax 'to stimulate reconstruction investment' will be neither economically effective nor socially desirable. Rather, corporate tax systems should be strengthened by accelerating truly inclusive international cooperation on base erosion and minimum rates, by making these taxes more progressive to stimulate small firms, and by ensuring effective taxation of the offshore wealth of shareholders.

Policy options

At the international level, it was stressed that a multilateral solution to taxing the digitalized economy must be based on the principles of applicability, simplicity, significant revenue for developing countries, elimination of double taxation and viability to resolve disputes. The exclusion of the Significant Economic Presence (SEP) proposal from the Unified Approach to Pillar One was critiqued. The UN Tax Committee is preparing a solution that is more tuned to the realities of developing countries.

It was also stressed that an alternative is needed to the Inclusive Framework for framing the rules on international taxation. The demand for upgrading the UN Tax Committee to an intergovernmental body was reiterated.

At the domestic level, the following concrete options were discussed:

- a digital service tax or equalization levy;
- a withholding tax on digital transactions;
- significant economic presence laws that would mandate nexus to digitalized non-residents;
- profit attribution through fractional apportionment;
- apply a higher corporate tax rate to large corporations in oligopolised sectors with excess rates of return;
- set a minimum effective corporate tax rate of 25% worldwide to stop base erosion and profit shifting;
- introduce progressive digital services taxes on the economic rents captured by multinational firms in this sector;
- require publication of country by country reporting for all corporations benefitting from state support;
- publish data on offshore wealth to enable all jurisdictions to adopt effective progressive wealth taxes on their residents and to be able to better monitor effective income tax rates on highest income taxpayers.
- commit to Automatic Exchange of Information and Beneficial Ownership registration.

It was stressed that developing countries cannot stop tax dodging and illicit financial flows on their own and will remain victims of divide and rule tactics of rich countries if they do not collaborate. Solidarity and South-South cooperation among developing countries is necessary to overcome poverty and inequality for the creation of a better world for all.