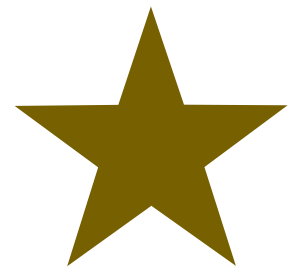


Tax justice for sustainable development



At first glance, the links between taxation and development are not immediately obvious. But domestic tax revenue in developing countries is the most important source of finance for development.

Aid still has an essential role to play in helping to eradicate poverty, as well as in responding to humanitarian crises. However, the scale of resources needed, the unpredictability of aid flows and the need for developing countries to set their own development agenda all point to the need for states to identify more predictable and sustainable sources of income.

The most obvious of these is tax. Establishing effective, progressive tax systems to generate the funds needed for government expenditure would ultimately move developing countries away from an over-reliance on aid to a more sustainable and predictable flow of public financing.

Relationship between tax and good governance

A state's ability to mobilise and spend tax revenues fairly and effectively is central to good governance. Taxation underpins sustainable development, providing the framework that protects citizens' rights and addresses public needs through the effective allocation of state resources. Solid tax relationships between the state, businesses and citizens provide a strong foundation for broad-based growth and state accountability, and can also attract increased investment funding, by increasing social stability.



Establishing a level playing field on tax would deliver greater sums of sustainable finance for development than overseas aid can ever provide, as well as promoting good governance and helping generate mutual accountability between state and citizen.

Despite this, many developing countries are being deprived of badly-needed tax revenue. Citizens often do not pay taxes – because they are poor, unemployed, they work outside the formal economy or there is no effective tax collection system – but the sums of money involved are dwarfed by the sums involved in *tax avoidance (legal use of tax regimes or loopholes to reduce the amount of tax paid)* or *tax evasion (illegal non-payment)* by some unscrupulous commercial companies – totalling an estimated \$160 billion per year.

For many decades, multinational corporations (MNCs) have been able to 'sell' goods or services within different divisions of a company, in different jurisdictions, using a system known as *transfer pricing*.

This covers everything from nuclear reactors to cornflakes, and also includes intangibles – management services, insurance or intellectual property rights. The level at which these prices are set greatly affects the profits declared within different parts of a multinational company.

Given that 60 percent of the world's trade now takes place within, rather than between multinational companies, there is ample opportunity for some to engage in abusive transfer pricing. This is of particular concern in developing countries, who have few other sources of tax revenue compared to wealthy countries.

Unrelated companies can also make secret deals, with the same effect of artificially reducing tax liabilities, in a process called *false invoicing*.

What are Irish NGOs doing about it?

- ★ Irish NGOs are working with local and international partners, undertaking and commissioning *research* to inform their work and underpin their advocacy work on tax justice.
- ★ Civil society organisations and political bodies, such as the European Parliament, are calling for the introduction of an accounting standard for MNCs that would oblige them to report on the tax paid and profit made in each of the jurisdictions in which they operate. This *country by country reporting* would provide host governments with the information they need to help identify instances of illegal profit shifting by the company.
- ★ Civil society organisations are calling for a global agreement on the *automatic exchange of tax information* between jurisdictions. A multilateral agreement where information is shared between states on an automatic basis would provide the transparency that poor countries need to start clawing back the billions they are missing out on in tax revenue. Existing bilateral tax information exchange agreements have failed to achieve the transparency needed to identify the companies and individuals who hide money in offshore tax havens.
- ★ Grassroots organisations and NGOs around the world are also calling for *capacity building programmes* providing developing countries with the necessary expertise and administrative capacity to raise taxes effectively.

Enabling developing countries to raise and spend their own taxes will leave them better able to deliver public services, less dependent on foreign aid, a more attractive environment for inward investment and more answerable to their own citizens.

