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ICRICT 

Independent Commission for the Reform
of International Corporate Taxation

**THE GLOBAL PANDEMIC,
SUSTAINABLE ECONOMIC
RECOVERY, AND
INTERNATIONAL
TAXATION**

ABOUT ICRICT

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

ICRICT was initiated and is supported by a coalition of the following civil society and labor organizations: Action Aid, Alliance-Sud, the Arab NGO Network for Development, the Center for Economic and Social Rights, Christian Aid, the Council for Global Unions, the Global Alliance for Tax Justice, Oxfam, Public Services International, Tax Justice Network, South Center, Canadians For Tax Fairness and the World Council of Churches. The creation and work of ICRICT is supported by [Friedrich-Ebert-Stiftung](#), [The Joffe Charitable Trust](#), [The American Assembly](#), [The Network for Social Change](#), [Friends Provident](#) and [The Andrew Wainwright Reform Trust](#).

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THE GLOBAL PANDEMIC, SUSTAINABLE ECONOMIC RECOVERY, AND INTERNATIONAL TAXATION

The global pandemic has led to major structural increases in public expenditure to support health, incomes and employment. 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, and by making the system more progressive, which will require increased transparency of multinationals and offshore wealth.

In consequence, responsible governments should:

- i. apply a **higher corporate tax rate to large corporations in oligopolised sectors with excess rates of return**;*
 - ii. set a **minimum effective corporate tax rate of 25%** worldwide to stop base erosion and profit shifting;*
 - iii. introduce **progressive digital services taxes** on the economic rents captured by multinational firms in this sector;*
 - iv. require **publication of country by country reporting** for all corporations benefitting from state support;*
 - v. **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.*
- 1.** The world is still struggling to contain the first stage of infection the COVID-19 pandemic, to be followed quite likely by a second or more waves until a vaccine is found and available worldwide, so that some sort of ‘new normality’ can be restored. Global GDP and trade have already experienced severe contractions and recovery will be slow and unbalanced. Uncertainty about the speed and depth of the stages of the pandemic is pervasive, so risk aversion is high and thus private consumption and investment are depressed – independently of the disruptions to supply chains and thus production.
 - 2.** A return to ‘normality’ is unlikely for some time to come. Nonetheless, it is important to remember that productive capacity – both capital and human – has not been destroyed or diverted to other uses, as would be the case in wartime. If, however, there is a prolonged economic downturn accompanied by large numbers of bankruptcies, then organizational capital will be destroyed, and the normal increase in human and physical capital that is expected after a crisis will be weaker or may not take place.

3. What has occurred is a rapid and radical disarticulation of the world economy, with the consequences being disproportionately harsh for those with less savings to spend or less able to claim fiscal support. The limits on movement of people have seriously impacted key service sectors such as tourism, entertainment services and air passenger transportation. Controls on mobility and economic activity within countries have also generated production declines, increased unemployment and serious income losses for informal workers.
4. Lockdown measures in developed countries appear to be relatively effective in terms of both public health and public welfare despite the disarticulation of the economy. However, the new government expenditures on public health provision, social support and corporate bailouts – added to the weakening of tax revenues as production and incomes fall - will drive up Debt-to-GDP ratios by 20 percentage points or more in several advanced economies in 2020 alone.¹
5. In contrast, weaker public health systems and pandemic lockdown measures in developing countries have already had devastating impacts on livelihoods and nutrition for a large proportion of the population. The domestic economic impact of the pandemic is magnified by falling export demand, the breakdown of supply chains, the collapse of foreign tourism and the fall in commodity prices. The sudden decline of overseas worker remittances has also exacerbated the income effects. The debt ratios will also rise sharply in most developing countries, but their capacity to undertake expansionary fiscal policies is constrained by external capital flight.
6. In an ideal world, economic recovery, and rapid growth once the pandemic is contained would steadily reduce both the fiscal deficit and the debt ratio and raise the sustainable fiscal deficit ratio. Wars can spur social solidarity, make countries aware of pre-existing weaknesses, and increase political resolve to address them. But in practice debt default is not uncommon in post-war situations. The immediate losers are bondholders and thus this option is in effect a one-off tax on their assets, but subsequent loss of access to domestic and international debt markets can suppress investment and delay economic recovery. If the monetisation of debt held by the central bank leads to inflation under supply constraints, this will also reduce the nominal debt ratio. Again, bondholders see their real wealth reduced, but inflation will raise interest rates and reduce real wages.
7. Although these debt management alternatives are likely to have weak effects in the current context, the newfound reluctance of international financial institutions to rely on austerity measures to generate fiscal surpluses and pay down debt is to be welcomed in view of both the evident inefficiency of such measures in recent crises and the impact on the most vulnerable sectors of the population.
8. In view of the pressing need for fiscal resources, maintaining the present tax rules will not be sufficient. As profits fall (except perhaps for large e-commerce multinationals and medical suppliers) so will corporation tax revenue. Sales and value-added tax

¹<https://www.imf.org/en/Publications/FM/Issues/2020/04/06/fiscal-monitor-april-2020> Page 6

revenue decline with consumption, and personal income tax revenue with employment. Global tax revenues will therefore probably fall in an even in a stronger way than the 11.5% decline they experienced from 2007 to 2009².

9. Large corporations are already lobbying for tax concessions and bailouts to ‘stimulate reconstruction investment’. Lowering still further corporate taxation would further exacerbate the international ‘race to the bottom’ of corporate tax rates aimed at attracting foreign investment. Bailouts themselves represent a major threat to the already fragile world rules-based trading regime, with its proscription of state aid. Such aid not only destroys the level playing field of the market, but is particularly adverse for developing countries, who lack the resources to provide such assistance on the scale of the developed countries.
10. There is no evidence that the recent trend of lowering corporate tax rates has in fact stimulated productive investment and growth.³ During the current pandemic, it is clear that most large firms have excess capacity and face liquidity problems which can be resolved by bank loans.⁴ Moreover corporate tax is effectively a tax on pure profits, which will be low or even negative while the pandemic lasts, and so lowering the rate will not help them. As the world economy slowly recovers, tax cuts will not stimulate corporate investment because there is already excess capacity and expansion plans are constrained by uncertainty. Essentially, corporate taxes are a withholding tax on dividends, and thus in effect an income tax on the wealthy because shareholdings (directly, or indirectly through e.g. pension funds) are even more unequally distributed than income.
11. The pandemic has reinforced the need for greater international cooperation in sectors like health, transportation, and finance in particular. The same is true of taxation. This is not the time to reduce tax rates or halt tax coordination efforts. In a globalised world, this can only be achieved by international cooperation to prevent tax avoidance by large firms –implementing the agenda proposed by the G-24⁵ for global formulary apportionment of taxing rights. A strengthened system should be supported by an effective minimum tax rate on global profits of multinational corporations of at least 25%⁶.
12. Excess profits taxes on firms benefitting from the peculiar conditions of the pandemic have been widely debated, such as perhaps e-delivery firms at present or pharma in the near future, based on the precedent of similar taxes during WW2 on military suppliers or more recent windfall taxes on oil firms. The revenue could be specifically directed towards the costs (public and private) of the pandemic. Here again, effective tax collection by the countries where such firms operate require a global approach in order to be effective.⁷ Current support for measures of this kind suggests that governments should consider progressive profit taxes, with higher rates on larger firms (especially monopolies/oligopolies) and lower rates on smaller firms in highly competitive sectors. This should include progressive digital services taxes, which

²<https://data.worldbank.org/indicator/GC.TAX.TOTL.GD.ZS>

³<https://www.icriect.com/icriect-documentsfour-ways-to-tackle-p5>

⁴See Bank of International Settlements <https://www.bis.org/publ/bisbullo.pdf>

⁵https://www.g24.org/wp-content/uploads/2019/03/G-24_proposal_for_Taxation_of_Digital_Economy_Jan17_Special_Session_2.pdf

⁶<https://www.icriect.com/international-corporate-taxation-reform>

⁷<https://www.taxnotes.com/featured-analysis/its-time-pillar-3-global-excess-profits-tax-covid-19-and-beyond/2020/05/01/2cg34>

target the economic rent of digital businesses, so that the tax rate increases as sales increase.⁸

13. Further, the special nature of the contract of corporations with the state has been highlighted by the pandemic. Legal incorporation confers a series of privileges, such as limited liability and government support in national crises, but also imposes obligations – particularly taxation to fund the ‘social contract’. By exploiting tax havens in order to reduce their fiscal contribution, corporations logically give up their claim to support from the governments where most of their activity takes place. This contradiction is vividly illustrated by claims of cruise lines under flags of convenience for support by the US⁹. It seems logical to forbid state support to corporations that are headquartered, or have subsidiaries, in tax havens, as some governments have already proposed¹⁰. Furthermore, state aid to corporations should be conditional on the publication of country-by-country reporting data.
14. If the wealthy are not to bear a proportionate share of the economic burden of the pandemic, local income taxes and even international corporate tax coordination will not be sufficient. Therefore, effective taxation of wealth, and in particular offshore wealth, needs to be put in place. Faced with a global crisis, there is a natural urge for the wealthy to withdraw equity from firms and replace it by debt, hopefully government backed (which is what happened with the US corporate tax reform in 2017), and then shift assets offshore to keep them ‘safe’ – safe, that is, from the tax authorities. The use of ‘offshore’ structures allows not only the real ownership of this wealth to remain hidden, but also its location and perhaps its very existence. This same secrecy also creates fertile ground for tax evasion, avoidance, and for financial crimes.
15. The creation of asset registers¹¹ would allow wealth inequality to be measured and understood, facilitate well-informed public and policymaker discussions on the desired degree of inequality and support appropriate taxation to reduce the negative consequences of inequality. As an immediate step to enable states to levy effective wealth taxes on their residents’ offshore as well as onshore wealth, the OECD should ensure immediately that their information exchange arrangements including the Common Reporting Standard are fully opened up to all countries, including non-OECD developing countries that have been excluded to date. Last, but not least, the OECD must publish aggregate data on overseas private wealth by country of origin and destination, in order to enable taxpayers to hold their governments to account for failing to tax undeclared offshore assets, to enable all governments to adopt effective progressive wealth taxes on their residents and to be able to better monitor effective income tax rates on highest income taxpayers.

⁸ A number of countries have legislated for or are considering introducing digital sales taxes. On 27 May 2020, the European Commission unveiled a proposal for a digital services tax as part of the 2021-2027 EU budget. https://ec.europa.eu/info/sites/info/files/factsheet_3_en.pdf <https://taxfoundation.org/digital-tax-europe-2020/>

⁹ <https://www.nbcnews.com/business/business-news/most-cruise-lines-don-t-pay-taxes-u-s-just-n1172496>

¹⁰ <https://news.bloombergtax.com/daily-tax-report-international/companies-based-in-tax-havens-can-be-denied-aid-eu-confirms>

¹¹ <https://www.icrict.com/press-release/2019/3/25/icrictnew-paper-a-roadmap-for-a-global-asset-registry-measuring-and-tackling-inequality-curbing-tax-avoidance-tax-evasion-corruption-and-illicit-financial-flows>

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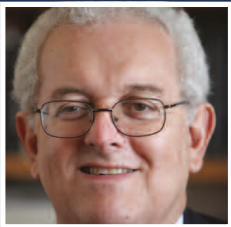
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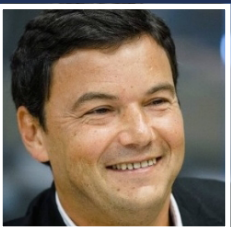
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