ICRICT
Independent Commission for the Reform of International Corporate Taxation

PRESS RELEASE

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ICRICT: "OECD'S PROPOSALS ARE CANONISING GRADUALISM AND INCREASING INEQUALITY"

What is happening today?

Today, under the mandate of the G20, the OECD Inclusive Framework has just presented a new stage of the BEPS 2.0 initiative, to address the challenges of taxing multinational corporations in the digital era. Previous attempts at tax reform have only tried to plug the holes in our international tax system with limited success. As a result, multinational corporations are still paying less tax than before the financial crisis in 2008 and they continue to shift as much as 40 percent of their foreign profits to tax havens.

The expectations were very high on this new round of discussions lead by the OECD to deliver the very fundamental reform needed to ensure our century old tax system could now be fit for purpose in today's increasingly digitalized economy.

This new proposal was meant to build the potential for an overhaul of the existing rules based on the system of transfer prices and the arm's length principle, which has enabled multinationals to shift profits from both developed and developing countries, to low or no tax jurisdictions. **But, although there is progress in that direction, it is very limited.** This is why we consider, as ICRICT commissioner Joseph Stiglitz put it, that **OECD is canonising gradualism**.

ICRICT critique of the proposal on the table:

Any reform actions by OECD Inclusive Framework taken now should be explicitly agreed by G20 next week to be the first step towards **taxing multinational as single and unified firms, using formulary apportionment** based upon objective factors, and result in a system that is **simpler, easier to administer, more efficient and more equitable.**

The OECD proposal moves for the first time *beyond the arm's length principle* and start taxing multinationals as global firms and distribute global profits between countries. This is a first important step towards an international tax system that comes to terms with the reality of today's global corporate economy, but:

1. What could be a comprehensive reform with new rules applicable to all businesses, it is now reduced to new complex rules for only consumer-facing businesses, likely to be further watered down by carve outs for specific industries/business models.

2. We reject the likely proposal of splitting "routine" and "residual" global profits of multinationals and making only a fraction of the latter subject to formulary apportionment. This will keep the existing dysfunctional rules in place to determine how the majority of multinationals profits are taxed and result in little reallocation of taxing rights, and adds additional complexity and tax uncertainty to the system.
3. An equitable distribution of taxing rights can only be achieved through a balanced formula that includes supply and demand factors, as allocation based on sales tend to advantage advanced economies who consume more whilst developing countries significantly benefit if employment is included in any allocation formula.
4. We are therefore concerned about the likelihood that this reform **is going to benefit OECD countries first and foremost**, as the proposal results in a limited shift of taxing rights, and only to market jurisdictions. This is likely to further exacerbate the current inequality in the system in the allocation of taxing rights between developed and developing countries.

Read more on our latest paper released on Sunday: *International Corporate Tax Reform: towards a fair and comprehensive solution*

Please find our Media Advisory here, giving all the explanations about the tax reform process

ICRICT Chair José Antonio wrote an Op-Ed published by French leading newspaper Le Monde on 9 October calling developing countries to mobilise for a real reform.
You can read it here (and the full version on ICRICT's site here).

Quotes of ICRICT commissioners (Please feel free to use them):

Joseph Stiglitz, Professor at Columbia University and ICRICT Commissioner:
"Under the current proposal, most of a corporation's income would still be treated using the dysfunctional transfer price system, with only a 'residual' allocated on a formulaic basis. The rationale for this division is unclear; the best that can be said is that the OECD is canonising gradualism."

José Antonio Ocampo, Co-director at Banco de la Republica (Colombia) and Chair of ICRICT, said:
"It is time for developing countries to mobilize. If the Heads of State and finance ministers of these countries are not on top of the proposals, they will soon find themselves forced to accept a new international tax system that will not suit them. The winners will be developed countries and their multinational enterprises, but it will then be too late to complain".

For any enquiries, or to speak with one of our 15 commissioners, or ICRICT **Head of Secretariat TOMMASO FACCIO,**
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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.