In July 2015, high-level representatives from all around the world will gather in Addis Ababa to discuss the financing of future sustainable development goals (SDGs). An issue very much on top of the agenda will be the mobilization of domestic resources by developing countries and particularly the improvement of tax revenue. And in fact, there is still room for improvement. However, nation-states are limited regarding their room for maneuver – especially when it comes to the taxation of multinational enterprises (MNEs), which is of high importance for many developing countries. Why this is the case and what can be done to improve global tax governance was discussed at the first sef: Policy Lunch carried out by the Development and Peace Foundation (sef:) and its cooperating partner CIDSE on May 6, 2015 at the Representation of the State of North Rhine-Westphalia in Brussels.

Taxes are considered a key means for the mobilization of domestic resources. This is why – among others – the European Union will prioritize tax issues at the 3rd conference on financing for development in Addis, Hubert Perr, Head of Sector Domestic Public Finance at the Directorate-General for International Cooperation and Development of the European Commission, pointed out. Jean Saldanha, Senior Policy Advisor of CIDSE, agreed that efficient tax systems are crucial for development. However, she also stated that, as proven by many industrialized countries with a settled and well working tax system, this is not enough. As domestic resource mobilization is often hampered by inadequate global tax standards, which allow MNEs to artificially shift their profits to low or no-tax locations resulting in little or no overall corporate tax being paid, a global strategy is needed.

The right arena for negotiations

Such a strategy is already on its way: Recognizing the obstacles the G20/OECD initiated the Base Erosion and Profit Shifting (BEPS) Action Plan – “a clear manifestation of the continued ineffectiveness of global tax governance,” as Saldanha assessed it. Participants generally welcomed the role of the G20 in fighting BEPS but disputed whether it should be the arena of future negotiations. Ângela Corbalán, Deputy Head of the Oxfam EU Advocacy Office, welcomed the concurrent proposal of setting up an intergovernmental tax body open for all countries, and Saldanha called upon the European Parliament
thermore, participants claimed that at the time when decision making has been broadened to non-OECD countries officially the action plan has already been in its last year of implementation.

Another reason why participants felt that the OECD may not be the best place to negotiate global tax issues was that the BEPS Action Plan mainly focusses on issues that reflect industrialized countries needs. Issues like the taxation of extractive industries, the allocation of taxing rights and the taxation of services, which are of high relevance for a lot of poor countries, are not part of the agenda.

Apart from discussing the future arena of negotiations, the agreement on automatic exchange of information which was announced last year was also intensively discussed during the Policy Lunch – mainly because it relies on the principle of reciprocity. This means that countries will not be able to receive any information unless they have the capacity to return the same quality of data back to the sender. “What is needed is a step-to-step approach, which does not exclude most developing countries from participating,” Gnassounou claimed.

An additionally decisive point introduced by Corbalán was the need for more transparency. She criticized that within the country-by-country reporting the OECD has decided that sensitive information must be kept confidential and thus will be shared with a limited number of tax administrations only instead of being public for all. Giegold also highlighted the need for full transparency in tax issues: “We need to know clearly who pays which amount of taxes and where.”

At the end all participants agreed that the success of Addis will not depend on the outcome document only. The conference can only be regarded as seminal if the negotiations do have consequences afterwards.