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Standing Committee
on Sustainable Development

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10 October 2024

Panel debate

Towards a fair global financial system: The role of parliaments in preventing corporate tax avoidance and achieving sustainable development

Wednesday, 16 October 2024, 09:30 – 13:00
Plenary B&C, level 0, CICG

Concept note

Taxation and Sustainable Development

Taxation revenue is vital to the Sustainable Development Goals (SDGs), as taxes provide governments with the public funds needed to invest in sustainable economic and social development.

However, multinational enterprises (MNEs) exploit gaps and variations in tax rules between countries to avoid paying taxes or to lower their tax liability, thereby depriving governments of the revenue they need to drive the SDGs.

What is Tax Base Erosion and Profit Shifting (BEPS)?

Tax Base Erosion and Profit Shifting (BEPS) occurs when a MNE artificially shifts its profits, assets and taxable income out of the jurisdiction where the economic activity occurred to a low or no-tax location to reduce its tax liability.

According to the Organisation for Economic Co-operation and Development (OECD), these MNEs exploit domestic tax rules through tax planning strategies that erode tax bases through deductible payments like interest or royalties, and shift profits to locations where they have little or no economic activity to reduce their tax liability.

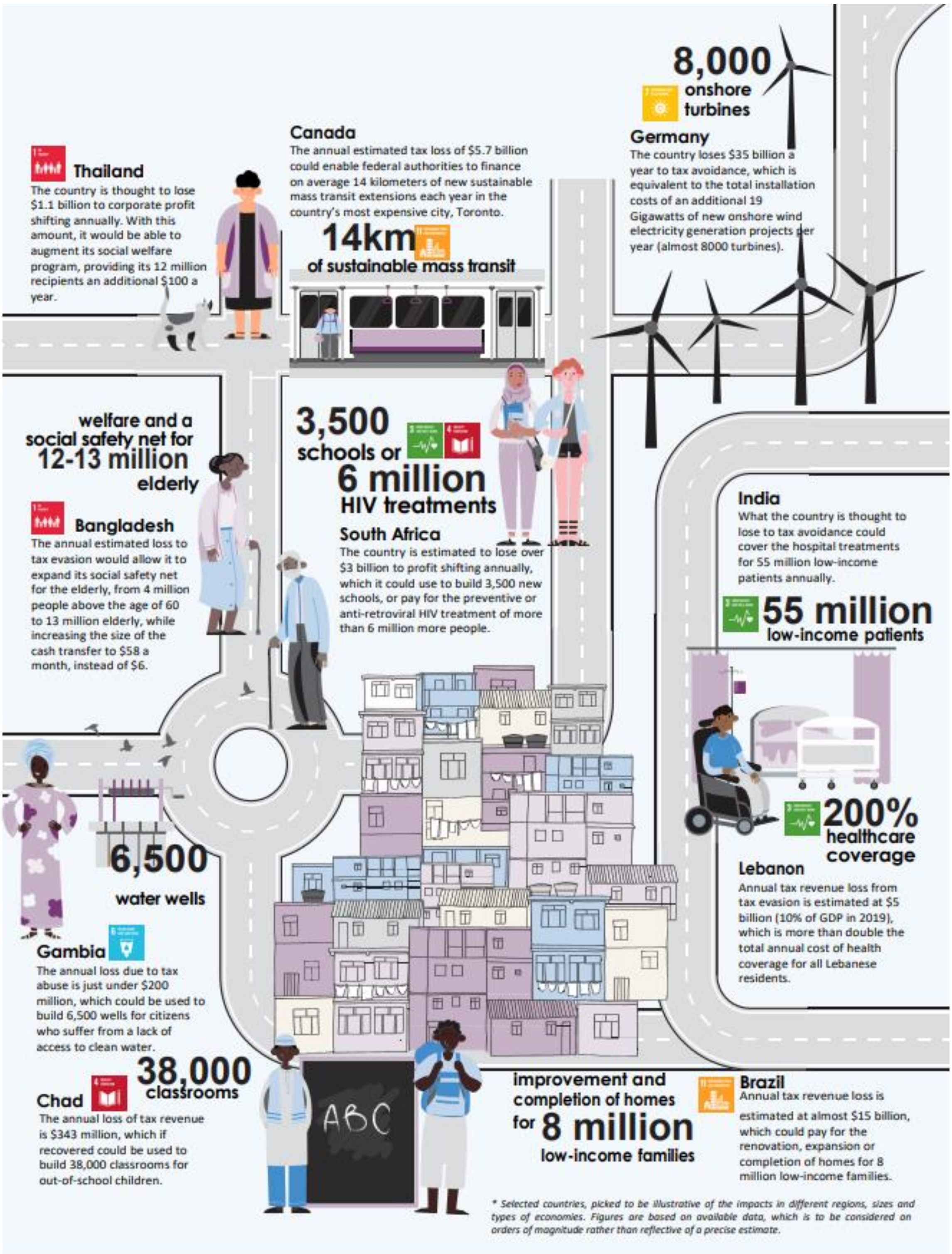
The globalization of trade and the digital economy, including tax digitalization, have provided MNEs with opportunities to exploit jurisdictional boundaries by shifting profits and taking advantage of tax loopholes within or between national tax regimes, thereby undermining the integrity of the international tax framework.

What is the global cost?

The OECD estimates that BEPS practices, which affect all countries, cost governments globally between USD 100 to 240 billion in lost tax revenue each year. That is equivalent to between 4 to 10 percent of global corporate income tax revenue.

BEPS practices disproportionately undermine tax revenue generation in developing nations. This limits the financial resources available for public services, infrastructure and investment, which in turn undermines efforts to achieve the SDGs and stifles the development journey.

In addition to the financial costs, BEPS practices undermine the fairness and integrity of tax systems by giving a competitive advantage to MNEs that operate across borders over companies that operate at a domestic level. This means that family-owned businesses and local companies operating in a domestic market with MNEs are at a competitive disadvantage. Voluntary compliance by all taxpayers can also be eroded when multinationals are seen to avoid paying their fair share of taxation.



Source: Financial Integrity for Sustainable Development. Report of the High Level Panel on International Financial Accountability, Transparency and Integrity for Achieving the 2030 Agenda. February 2021.

The data in the infographic above is taken from a source outside the IPU and is thus not under the Organization's responsibility.

What can parliaments do?

Legislators can act together to tackle BEPS, hold MNEs accountable for their global tax practices, restore public trust in international and domestic tax systems, and build a more resilient global economy for a sustainable future.

Parliaments and parliamentarians can take the following steps to address BEPS practices to establish a system of financial integrity for sustainable development:

- **Inquiring and reporting:** Use a parliamentary committee or other inquiry process to investigate BEPS practices to understand the nature and extent of the problem and make recommendations for change.
- **Data collection and reporting:** Call for better reporting standards regarding tax losses arising from BEPS practices and ensure that data on BEPS is collected and made publicly available for analysis to encourage public awareness and debate.
- **Legislation:** Draw on the OECD BEPS Action Plan to draft proposed laws relating to Controlled Foreign Company (CFC) rules, rectify loopholes in tax laws and inconsistencies in transfer pricing laws and rules.
- **Regional cooperation and information exchange:** Work with other parliaments in the same region to exchange tax-related information and best practices on curbing BEPS.
- **Setting and monitoring standards:** Establish mechanisms to monitor compliance and reinforce financial integrity for sustainable development, including administrative procedures and resources for the enforcement of rules and legal mechanisms to resolve disputes.
- **Advocating for change:** Encourage participation in international agreements that promote tax transparency.

Want to know more?

Attend the IPU panel debate on 16 October 2024 at 11:00

The IPU Standing Committee on Sustainable Development will hold a panel debate entitled " The role of parliaments in preventing corporate tax avoidance and achieving sustainable development" at the 149th IPU Assembly in Geneva on 16 October 2024.

Moderated by Senator Deborah O'Neill, Australian Delegation, the panel will include:

- Mr. Ben Dickinson, Deputy Director, OECD Centre for Tax Policy & Administration
- Ms. Kalale Mambwe, Project Manager, Tax Inspectors Without Borders Initiative
- Mr. Ahtesham R. Khan, Head of UNDP Tax for SDGs Initiative,
  Sustainable Finance Hub, UNDP

Visit and view

- OECD BEPS webpage and OECD Action Plan to address BEPS
- UNDP Sustainable Finance Hub