T20 Commentary

G20 BRASIL 2024
CONSTRUINDO UM MUNDO JUSTO E UM PLANETA SUSTENTÁVEL

T20 Brasil 2024 Let's rethink the world

Recommendation 2 – Employ Progressive Fiscal Policy and Repurpose Fossil Fuel Subsidies to Reduce Inequalities and to Promote Climate Justice

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Introduction

The great challenges of our times, especially hunger, poverty, inequalities and climate change, urges the need to mobilize public resources – new, additional, accessible and debt-free. These resources can be leveraged through fiscal measures targeted at individuals and companies that pay no or very little taxes, as well as companies that contributes to the social and environmental problems that we are trying to tackle, such as oil and gas multinationals companies (MNCs). There are severe obstacles to the ability of countries individually implementing certain progressive tax reforms, such as wealth taxes, that can allow them to increase their revenue. In addition, even if wealth taxes were implemented at country level, this would not reduce inequality inter-countries since very rich individuals are resident in high-income countries. Furthermore, the feasibility of implementing mechanisms to combat tax evasion and avoidance depends on close co-operation between countries, hence the importance of implementing the United Nations Framework Convention on International Tax Co-operation (UNFCITC).

This commentary addresses the urgent need of implementing the UN Convention in the next years. Currently the conditions are in place for it to become a reality, since the Convention's Terms of Reference were recently approved.

Brief contextual background and general objective of the commentary

Tax policies are essential to mobilize the substantial public resources necessary to tackle hunger, poverty and global warming. Furthermore, tax reforms can also impact inequality as long as they promote tax systems that are more progressive, oriented towards the realization of human rights, transparent and participatory (The Initiative for Human Rights Principles in Fiscal Policy, 2021).

Fiscal policy is a critical tool for guaranteeing the progressive realization of human rights since without resources, there are no rights. There is growing awareness that fiscal policy, in addition to being a key instrument in guaranteeing rights, is also governed by commitments and obligations that States assume at the international level and have enshrined in their own constitutions.

Transparency and social participation in tax policies are needed to take into consideration the voices of groups of the population (women, indigenous people, workers, peasants, afro descendants, among others) who have been historically excluded from political representation in fiscal decision-making processes and consequently harmed by the systems.

Additionally, transparency and social participation are crucial to tackle corruption, illicit financial flows and tax avoidance and elision which diverts valuable public resources from human rights financing, and both directly and indirectly increases the risks of the violation of rights. On the other hand, this bleeding of resources leads to a loss of trust in public policy which enables elites, MNCs and other interest groups to control the State with the aim of reinforcing their privileges (Iachr and Redesca, 2019). As these actors gain more political power, they exercise even greater undue influence to reduce corporate and capital taxation, broaden tax allowances and exemptions, and increase legal loopholes enabling tax avoidance. Tax systems based on indirect and labor taxes reduce tax progressivity and equity, shifting the tax burden onto the shoulders of the most disadvantaged and vulnerable groups in society. This in turn undermines the very criteria of justice underpinning the rule.

In this context, the objective of this commentary is to strengthen the importance of building and implementing the UNFITC to mobilize public resources to tackle hunger, poverty, inequalities and global warming, and to promote the progressive realization of human rights.

Policy Recommendation Overview

The second recommendation of the T20 Brazil 2024 Communiqué (T20 Brazil, 2024) – which has the support of Tasks Forces 1, 2, 3 and 6 – calls for the implementation of progressive fiscal policies and reallocation of fossil fuel subsidies to reduce inequalities, to fight hunger and poverty and to promote climate justice. One central mechanism to achieve this recommendation is the implementation of the UNFCITC which reforms the international tax system and ensures more tax rights to developing countries in contrast to the OECD proposal (named Pilar 1 and Pilar 2).

Besides the reform of the international corporate taxation through the UNFCITC, calls have been made to tackle the low-taxed ultra rich individuals, as proposed by the Brazil's presidency of G20. Studies carried out by Zucman (2024) show that a minimum tax on centimillionaires would raise up to U$ 390 billion per year globally. Other estimates for 172 countries, published by Tax Justice Network (Palanský and Schultz, 2024), reveal that adopting a moderate and progressive tax on net-wealth similar of the Spain's "solidarity surcharge" could lead to an average increase in national budgets of 7% each year. This equates to a potential global revenue of more than U$ 2 trillion, which is double the amount needed for developing countries' external climate finance. However, considering that the top rich individuals are mostly residents of high-income countries is mandatory that some of this proposed global wealth tax revenues being transferred to low income.

This measures not only would mobilize new public resources but also would effectively address regressive features of contemporary tax systems at the top of the wealth distribution.

Implementation Pathways

The UNFCITC terms of reference were approved in August 2024 by the Ad Hoc Committee created for this purpose. The next United Nations General Assembly (UNGA) should approve the Terms of Reference (ToR) and install a Member State-led negotiating committee which would meet until 2027 and submit the final text of the framework convention to the General Assembly for its consideration in the first quarter of the eighty-second session (United Nations General Assembly, 2024).

The ToR content is not the ambitious one claimed by civil society (Global Alliance for Tax Justice, 2024), but it represents a step forward in the fight for a fair and effective international tax system. It was elaborated with the contribution of all countries, not only developed ones, and it counted with civil society participation. It reflects an agreement on important commitments such as promoting fair allocation of taxing rights to developing countries, including equitable taxation of multinational enterprises; ensuring mechanisms that considers the tax autonomy and administrative capacity of developing countries; promoting effective mutual administrative assistance in tax matters; addressing tax-related illicit financial flows, tax avoidance, tax evasion and harmful tax practices; and, addressing effective prevention and resolution of tax disputes (United Nations General Assembly, 2024).

Potential Barriers to Implementation

The current fragmentation and ineffectiveness of international tax rules represent a major obstacle to progressive taxation all over the world contributing for deeper inequalities, especially among poor countries. Based on the OECD tax models which were initially designed for the use of its own members countries and benefits capital exporters countries, the current international system failures also result in higher tax losses for lower-income countries as a share of current tax revenues (Chowdhary and Picciotto, 2021).

Progress has been achieved over the past decade, including the OECD/G20 Inclusive Framework on "Base erosion and profit shifting" (BEPS). However, ongoing efforts have raised several questions regarding the effectiveness and fairness of the rules introduced, as well as the legitimacy and accountability of the process that gave birth to these (Hugo and Lovold, 2022).

In response, a growing number of States, civil society actors, and decisionmakers have argued for a new approach, which takes the form of a new international convention on tax, the UNFCITC (Chowdhary and Picciotto, 2021).

OCDE members are undermining the UNFCITC process. They fear it will duplicate the OCDE work on international tax cooperation and lead to more tax autonomy of countries. Additionally, corporate interests and members of the tax avoidance industry act to weaken the Convention. Existing evidence (Corporate European Observatory, 2018) underline how the private sector has been using its privileged position within the regulatory process to hold back progress and ambition in tackling the problem.

Drivers for a Successful Implementation

The UNFCIT has the support of the Africa Group, the G77 and civil society organizations. The Colombian, Chilean, and Brazilian governments are supporting the Convention and leading a process to explore regional positions through the recent creation of the Regional Tax Cooperation Platform for Latin America and the Caribbean (PTLAC) (ECLAC, 2023).

This is an issue considered as central for most governments all over the world.

Feasibility and Maturity Assessment

There is a growing understanding that despite a decade of global tax reforms proposals primarily led by the OCDE, the current tax rules fail to address inequalities, hunger, poverty and climate change. This consensus flowed into a series of measures since 2022 that strengthens the UNFCITC: by the end of 2022, led by the Africa Group, all governments agreed to start an intergovernmental UN Tax Process; the following year, on behalf of the Africa Group at the UN, Nigeria tabled a draft resolution calling for the negotiation of a comprehensive UN Convention on Tax; the proposal was put forward at the 2nd Committee of the UN General Assembly; and, at mid-August 2024, the terms of reference of the Convention were approved. This process reveals the feasibility and maturity of the Convention.

Conclusion

The creation of fair and effective tax systems is a central concern of States around the world, and high on the political agenda for their citizens. In today's globalized world, this requires a strong institutional framework for international coordination and cooperation.

A UN tax convention represents a major shift in how international taxation is approached, with the potential to significantly impact the architecture of global financial systems and how tax dollars are used for the public good. Democratizing and universalizing international tax governance has become an urgency.

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