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PEOPLE CHANGING THE WORLD



DB
Déclaration de Berne
Dichiarazione di Berna
Erklärung von Bern

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GLOBAL FINANCIAL INTEGRITY

A Civil Society Agenda for the OECD

For the CFA-DAC and Global Forum on Development meetings, January 2010

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network**

**Tax
Research UK**

**Task Force
Financial Integrity &
Economic Development**

Background

In 2010, the world's governments will review progress towards their commitments in the Millennium Development Goals. A successful outcome to these goals looks increasingly unlikely, demonstrating the limitations of overreliance on aid as the main source of funds to deliver these commitments.

Paragraph 16 of the Doha Declaration on Financing for Development, and paragraph 39 of the United Nations Conference on the World Financial and Economic Crisis and its Impact on Development, both recognised that the international community has a responsibility to help developing countries to raise their own revenue for development, including through enhanced cooperation to combat tax evasion.

As civil society organisations dedicated to international development and human rights, we therefore welcome efforts by the OECD to connect its work on development and on tax. The OECD's considerable technical expertise in the matter of tax administration and cooperation makes it an important partner in work to help developing countries improve their domestic resource mobilisation (DRM).

Addressing poverty is an urgent matter and we believe DRM plays a pivotal role in this process. In light of the gravity of the task in hand, our ambitions for the OECD for 2010 are as follows.

Country by country reporting

We welcome the UK and France's request for a technical study of country-by-country reporting by the OECD. We look forward to seeing the outcomes of this study and call for the following:

- An open and transparent consultation process on any technical study, in order to encourage the engagement of the full range of stakeholders with the proposal for country-by-country reporting, including developing country governments, their regional and global representative organisations, ECOSOC and its Committee of Experts on Tax Matters, the International Tax Compact, global civil society and the European institutions.
- The OECD to report on the outcomes of its study into a G20 summit during 2010, and the G20 members to set a timetable for further action on country-by-country reporting.
- Noting that private sector self-regulation of financial reporting by the International Accounting Standards Board (IASB) has not provided adequate scope for taking on the views of civil society and other bodies, the OECD, G20, and other international bodies should instruct the IASB to develop a standard for comprehensive country by country reporting, including the obligation for each multinational company to report in each country in which it operates:

- the names of all its companies trading;
 - details of its financial performance;
 - details of its tax charges;
 - details of the cost and net book value of its physical fixed assets;
 - details of its gross and net assets.
- The Investment Committee of the OECD to consider, as part of the process of updating its Guidelines for Multinational Enterprises, the introduction of a country-by-country financial reporting standard into chapter III or X of these guidelines.

Information exchange

On its own, the current OECD standard for information exchange is of little use to developing countries. This is for two main reasons.

The 'foreseeable relevance' criterion creates too high a barrier for developing countries, and often for developed countries, to make successful information requests. An additional automatic standard of information exchange could begin in the short term with limited information of most use to developing countries – on their residents' beneficial interests – moving over time to a more comprehensive basis. This would enable tax authorities to make greater use of on-request information exchange provisions.

Comprehensive automatic exchange of tax information must be a long term goal for the international community, while recognising that a number of constraints will need to be overcome in order to realise its full potential.

Additionally, for most developing countries, a model based on bilateral agreements means that access to tax information is restricted by a country's capacity to negotiate agreements and also relies on the potential treaty partner's willingness to sign an agreement. We therefore welcome the G20, G8 and OECD's consideration of a multilateral instrument to allow developing countries to benefit from the move towards greater tax cooperation.

In that context we call for:

- The creation of a multilateral (not multiply bilateral) tax information exchange convention, which is the best way to benefit developing countries. This should be based on existing information exchange standards, but with the potential for participants to agree to expand its breadth and depth.
- The OECD to begin immediately the development of standards for the automatic exchange of information on the beneficial ownership of financial structures (whether they be bank accounts, companies, trusts, partnerships, foundations or otherwise) located in one jurisdiction where the natural person who is its beneficiary is tax resident in another jurisdiction. This would be an essential first step towards comprehensive automatic information exchange. Also, exchange of this information (prior to automatic information exchange of data on income earned by such structures) would provide both developing and developed countries with essential information they need to ensure effective use can be made of existing (on request)

information exchange standards. In addition it would fulfil paragraph 18 of the conclusions of the Second Conference on the Fight against International Tax Fraud and Evasion by promoting Transparency and Exchange of Information in Tax Matters (Berlin conference).

- Both incorporation of the proposed automatic exchange of beneficial ownership information standard into treaties, and adherence to the proposed new multilateral convention on information exchange on request noted above, to become part of the international standard against which the Global Forum's Peer Review Group should assess jurisdictions. These should therefore be explicitly referred to in its progress reports on jurisdictions and any economic or political countermeasures based upon them.
- The setting of a timetable for the OECD, in conjunction with other bodies in particular the UN Committee of Tax Experts, to develop the technical standards necessary to facilitate comprehensive automatic exchange of information.
- Increased funding for developing countries to strengthen their tax systems, surveillance and collection, and tackle illicit flows of capital. This should include funding for technical assistance as governments require it, for them to purchase from a service provider of their choice. The OECD and its member states should stand ready to participate actively in such technical assistance, where developing country governments request it. It should begin by improving transparency concerning the amounts of ODA set aside for improving tax authorities by all the DAC donors.
- Endorsement of a long-term vision of comprehensive global multilateral tax information exchange agreements, incorporating automatic, on request and spontaneous information exchange provisions, and covering all jurisdictions including those currently labelled non-cooperative. This vision must include a process to ensure participating states meet appropriate global standards of confidentiality, data protection and human rights before they join.

Increasing the knowledge base on capital flight and developing countries

As has been noted by a variety of governmental, civil society and academic studies, there is an urgent need for a deeper understanding of the geography of illicit flows from developing countries. We call for the OECD to develop a research agenda, building on existing research on the magnitude of illicit flows, to assess in more detail the impact of international tax evasion and avoidance on developing countries, and the effectiveness of existing tools to address it.

Development of a political agenda and the Global Forum on Tax Cooperation

We welcome the G20 and OECD's commitment to exploring ways of involving developing countries in the work of the Global Forum.

That the OECD and its associated Forums can and should make a major contribution to the technical aspects of the DRM agenda is clear, but, as the Berlin conference noted, technical work is always embedded within a political agenda, whether explicit or implicit. Where developing countries are concerned, it is imperative that these countries be able to shape the political agenda – a process that cannot take place within the OECD, or within a forum associated with it.

This is especially the case for DRM, because its potential extends beyond revenue generation in developing countries to questions of economic and political sovereignty and of government accountability. Furthermore, global taxation is an area in which the interests of OECD member states, of offshore financial centres, and of developing countries can conflict, for example when arbitrating between the principles of source and residence taxation, or when discussing the taxation of multinational companies.

We therefore pledge to continue our efforts to support the development and strengthening of civil society movements for tax justice in developing countries, and these movements' advocacy towards their governments for greater engagement with DRM. We will also work to promote and strengthen global forums through which the interests of developing countries can truly be represented, including the United Nations Economic and Social Council (ECOSOC) and its Committee of Experts on International Cooperation in Tax Matters, the International Tax Compact, and regional organisations such as the African Tax Administration Forum. It is to these organisations that we will look for the political agenda on tax and development that the OECD's technical work should follow.