REFORMING CORPORATE TAX POLICY TO ADDRESS GLOBAL INEQUALITY

Big corporations engaging in tax avoidance will always be one step ahead of the game unless governments ‘walk the talk’ in tackling these dodges and loopholes, and cooperate to overhaul global tax rules. Previous attempts at tax reform have attempted 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 continue to shift as much as 40% of their foreign profits to tax havens.¹

When multinational corporations, particularly in high risk sectors such as tech, pharmaceutical, oil and gas, and mining, use tax havens and aggressive tax planning to avoid paying their fair share, it is ordinary people, and especially the poorest, who pay the price. The U.S. government must lead and support global cooperation to revise and implement responsible tax policy to tackle tax avoidance and the race to the bottom on corporate taxation.

HOW THE U.S. CAN SUPPORT A FAIRER GLOBAL TAX SYSTEM

1. Congress must fully implement the 15 percent global minimum effective corporate tax rate agreed upon in the 2021 OECD global tax deal, to avoid creating a race to the bottom. Congress can also act to increase the statutory corporate tax rate, reversing the harmful corporate tax cuts of the 2017 Tax Cuts and Jobs Act.

2. Support the establishment of an inclusive, transparent, and fair framework convention on tax at the United Nations through the process initiated in 2023. As the global body of nations, the UN is the most legitimate and appropriate forum for a global agreement on tax and for setting international tax rules.

3. Review and revise tax treaties with other nations to ensure developing countries are not losing their taxing rights and implement strong tax anti-abuse rules. Tax treaties between lower and higher income countries generally unfairly allocate more taxing rights to the higher income country, ensuring that money flows untaxed from developing countries to high income countries. Many treaties result in multinational companies not paying certain types of tax at all in any country. Rich countries have a responsibility to ensure fair taxation with their investments and the projects they finance.

4. End corporate tax secrecy by ensuring all multinational companies publish tax transparency reports including financial details (e.g. revenues, third-party revenues, profits, tax, and employment) for every country in which they operate. The current OECD initiative on country-by-country reporting falls well short of the mark, as it does not cover all multinational corporations and it does not require companies to make their financial reports publicly available. Disclosures should be in line with the Global Reporting Initiative’s GRI-207: Tax 2019 Standard. Development finance institutions should only invest in companies that have adopted responsible tax policies; for example, by publishing tax transparency reports with country-by-country financial information for every country in which they do business.

5. Implement a windfall profits tax. A 50 to 90 percent windfall tax should be applied to mega-corporations across all sectors registering sudden, excessive increases in profits during crisis. As excess profits also occur outside crisis periods, particularly when companies hold monopolistic positions, U.S. policymakers and the UN tax convention process should explore permanent taxes on excess profits.

THE SECURITIES AND EXCHANGE COMMISSION

International cooperation takes time, but U.S. policymakers can act now to support a fairer global tax system and curb tax avoidance. The SEC can adopt rules requiring increased tax disclosures that include greater reporting of key financial information by companies, in line with the leading standard to enhance tax transparency and best practice. Requiring these disclosures would align the SEC with a growing regulatory trend towards tax transparency; the EU has adopted requirements for a form of public country-by-country reporting, Australia has announced legislation to adopt public country-by-country reporting, and the Financial Accounting Standards Board has adopted requirements for greater tax disaggregation.

WHY IT MATTERS FOR INEQUALITY

Significant changes to the way multinational companies are taxed could spell the end of corporate tax havens and put a stop to the damaging race to the bottom on corporate tax. It could mark the beginning of a new fairer tax era where poor countries are able to claim their fair share of corporate tax revenues, and access the funds they need to tackle poverty and inequality.

In the U.S., responsible taxation would generate new revenues that can be deployed to fund inequality-busting investments in social spending for working families as well as climate financing, while reducing the vastly outsized role corporations now play in bending public policy.

FIGHTING INEQUALITY TO BUILD A BETTER WORLD

Oxfam believes that poverty is a policy choice, and that the ultrawealthy and giant corporations have hijacked our systems to benefit a select few. We are working to redress the balance of power, putting it back in the hands of working families in the U.S. and around the world.