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Arab policy choices and financing opportunities in a new world tax order

Summary

Over the past four decades, international tax competition ushered a race to the bottom, which resulted in visible declines to corporate tax rates in Arab countries. In the midst of this situation, several countries have been contending with a number of tax distortions arising from: (a) excess reliance on indirect forms of regressive taxation to make up for the downward pressures on corporate taxation; (b) weak tax collection efficiency and the presence of large untaxed informal activity; (c) low tax compliance due to tax evasion/avoidance attributed, in part, to weak governance and institutional conditions as well as regional instability; (d) generous tax and fiscal incentives -that remained largely unaccounted for in terms of forgone public revenues- awarded to foreign direct investments to make up for inherent structural deficiencies; and (e) tax abuses on the part of multinational corporations (MNCs) that sought to reduce tax liability through profit shifting and resorting to complex aggressive tax planning schemes.

The present document provides a digest of the salient findings drawn from an extensive regional assessment undertaken by the Economic and Social Commission for Western Asia (ESCWA) on the state of Arab tax systems in a new world tax order. In particular, the assessment considers the leakages, revenue potentials, efficiency and effectiveness of corporate tax regimes in order to establish whether the region stands to benefit from the proposed global tax reforms advanced by the Group of 20/Organisation for Economic Co-operation and Development (G20/OECD) under the two-pillar solution. The document argues that the gains from the proposed global tax reforms pale in contrast to the diverse financing needs of the Arab region and discount the capacity to administer their increased complexity under prevalent institutional set-ups that lack multilateral consensus over the reform of the international financial architecture. Potential tax revenue gains for Arab countries will remain modest as long as the proposed reforms remain slanted in favour of OECD/MNCs' ultimate parent jurisdictions. Several elements also influence Arab tax sovereignty, undermine national rights to regulate automated digital services, and negate Arab regional dispute resolution courts and mechanisms.

Alternative proposals have been advanced to ensure that a truly reformed global tax system is set in place. These proposals consider diverse, yet viable pathways to reform the global tax architecture other than what is currently implemented in the OECD under plurilateral formats. In this regard, the document advocates for new modes of enhanced multilateral forms of tax cooperation within the United Nations, deeper forms of regional tax collaboration within the League of Arab States, and different modes of taxation to regulate automated digital services as provided for under the newly introduced articles of the United Nations Model Tax Convention.

Contents

Introduction

1. In the era of mass digitalization, new business models have emerged, allowing multinational corporations (MNCs) to generate income without maintaining a physical presence in the markets where their goods and services are being sold or where their real economic activity is being created, and to capitalize on the large web of value chains. Digitalization, nonetheless, has offered opportunities for tax abuse to mutate (whether it is a repercussion of tax evasion/avoidance, arbitrage, irregular application of transfer pricing rules, base erosion, profit shifting, or simply to shield wealth), bypassing the very mechanisms designed to combat it in the traditional economy. Digitalization, however, can operate in the opposite direction and improve tax compliance by enhancing operational efficiency and tracing information associated with the cross-border movement of financial transactions.

2. Tax abuse on the part of MNCs has resulted in massive corporate tax revenue leakages in developing countries, stripping them of significant resources that could have been harnessed to progress the 2030 Agenda for Sustainable Development and mitigate the cascading crises that have marked our time, including the socio-economic impacts of the COVID-19 pandemic and the triple food-fuel-climate crisis. Investigative reporting made possible through the Panama papers, Bahama briefs and other offshore leaks suggest that trillions of dollars? have been channelled out of developing countries undetected by tax administrations through the international financial system. According to newly released estimates, the share of corporate profits in global income increased from 15 per cent to close to 20 per cent between 1975 and 2019, while corporate tax collection stagnated, with an estimated 37 per cent of multinational profits artificially shifted to 41 low tax jurisdictions in 2019, representing a loss of 10 per cent of corporate income tax revenue globally, or $969 billion.[1]

3. In an attempt to address some of the tax challenges arising from digitalization, the G20/OECD Inclusive Framework on Base Erosion and Profit Shifting (BEPS) advanced a two-pillar solution in the form of a “multilateral” instrument that would enter into force in 2024. Pillar one aims to ensure a fairer distribution of taxing rights and reduce incentives for profit shifting by reallocating a portion of the profits of the world’s largest and most profitable companies to source countries. Pillar two seeks to reduce tax competition by enacting a 15 per cent global minimum corporate effective tax rate across tax jurisdictions.

4. To support Arab countries in navigating the complexities of the new world tax order, the Economic and Social Commission for Western Asia (ESCWA) undertook an extensive analysis of the state of Arab tax systems with a focus on tax revenue leakages, MNCs’ activities in the Arab region and their Foreign Direct Investment (FDI) patterns along both extensive and intensive margins.[2] The analysis offered a preliminary assessment of the proposed G20/OECD tax reforms, and advanced a number of policy considerations to curb corporate tax leakages and optimize the collection and mobilization of domestic public revenues to intensify the role of taxation as an effective means to bridge the great finance divide and solve the Sustainable Development Goals (SDGs) financing dilemma.[3]

5. The present document outlines the salient findings of the analysis undertaken with respect to the G20/OECD Inclusive Framework on BEPS, with a particular focus on the impact of enacting the proposed global minimum effective corporate tax rate (Global Anti-Base Erosion (GloBe)) on domestic public revenues and Arab investment interests. Recognizing that several aspects of applying the two-pillar framework will continue to evolve, several policy choices confronting potential Arab subscribers need to be weighed before

[1] European Union Tax Observatory, Global Profit Shifting, 1975-2019, 2022.

[2] Foreign Direct Investment (FDI) extensive margins refer to the decision to invest by non-residents in a reporting country (FDI flows). It is a measure of the geographical and sectoral drivers that incentivize direct investments by non-residents to a reporting jurisdiction. Alternately, FDI intensive margins refer to the size of investment (FDI stocks) or the depth of direct investment made in a resident enterprise by non-resident investors over time and is often measured by the amount of investment per unit of capital, labour or other inputs.

[3] ESCWA, Survey of Economic and Social Developments in the Arab region - Chapter 4, 2023.

the framework comes into effect, especially in relation to the application of significant pillar-two compromises on public revenues, MNC locational decisions, FDI patterns, tax leakages and incentives.

6. The first section of this report provides a synopsis of the state of taxation in the Arab region. An assessment of MNC operations is then provided in the second section, highlighting the challenges imposed on the Arab corporate tax base with respect to their direct investment activity. The third section analyses the changing nature of the nexus between FDI and corporate taxation in selected Arab countries. ESCWA quantitative assessments of the corporate tax losses/gains of the G20/OECD proposed tax reforms are thereafter detailed in section four. The report concludes by presenting a set of proposed tax reforms to safeguard Arab tax sovereignty and the role of taxation to sustain a steady stream of financing for development in the new world tax order.

I. The state of taxation in the Arab region

7. Over the past four decades, international tax competition has ushered a race to the bottom, leading to visible declines in corporate taxation. In the midst of this situation, the Arab region has been contending with its tax paradoxes:

8. To attract the capital prowess of MNCs, Arab countries reduced headline corporate tax rates by almost half between 1980 and 2020 to outmatch falling global corporate taxes. In the process, the region lost at least $50 billion in potential tax revenues to international tax competition.

9. To make up for the downward pressures on corporate taxation, Arab tax administrations resorted to indirect forms of regressive taxation. Indirect taxes garner appeal for their fast revenue creation potentials but are regressive in nature, given that tax effort disproportionately shifts to lower-income individuals, exacerbating inequality. This comes at a time when the wealthiest 10 per cent control 81 per cent of the region's wealth (up from the pre-pandemic level of 75 per cent). It is worth noting that high indirect consumption taxes provoke counterfeit and carousel trade, whereas high indirect trade taxes have been found to trigger fraud and trade misinvoicing ($77 billion in annual losses for the region).

10. High headline corporate tax rates (up to 85 per cent) did not yield commensurate revenues or translate into high effective taxes for the region (8 per cent on average, compared to 22.5 per cent in OECD countries).[4] The high headline corporate taxes reported/applied in the region were cancelled out by the generous tax and investment incentives awarded to non-resident investors to compensate for structural deficiencies, regional insecurity, elevated risk premiums and the less-than-ideal performance in attracting FDI. On average, between 2019 and 2020, 60 per cent of corporate tax revenue potentials in the region were undercut by tax incentives without securing commensurate increases in MNC activity or public revenues.[5]

11. Tax exclusions, exemptions and deductions from corporate income along with preferential tax rates and refundable tax credits decreased the region's average effective tax rates (AETR), with the lost opportunity running as high as $9 billion in additional tax revenues annually.[6]

12. In addition to tax incentives and exemptions that remain largely unaccounted for in terms of forgone domestic public revenues, public coffers endured substantial leakages estimated at $8.9 billion due to corporate tax abuse.[7] Tax abuse by MNCs has been associated with aggressive tax planning strategies, base erosion, profit

4 ESCWA calculations based on OECD statistics on forward looking effective tax rates (ETRs) in 2020.

5 ESCWA calculations and empirical assessments based on Orbis and Tax Foundation (2019).

6 Ibid.

7 Country-by-country reporting (2017), OECD and State of Tax Justice Report, Tax Justice Network, 2021. Countries included: Algeria, Djibouti, Egypt, Iraq, Jordan, Lebanon, Libya, Mauritania, Morocco, Oman, Qatar, Saudi Arabia, Sudan, Syrian Arab Republic, Tunisia, United Arab Emirates, and Yemen.

shifting, irregular application of transfer pricing rules and tax arbitrage, which has allowed MNCs to dodge taxation when repatriating profits/dividends and repaying debt under increased conditions of international capital mobility and without the necessary prudence in current account liberalization and management.

13. Between 2012 and 2019, nearly 69 cents on every dollar invested in Arab countries was repatriated untaxed corporate passive income out of the region.[8] This figure stands in contrast to the 46 cents that OECD countries gain on every dollar they invest abroad. Between 2011 and 2019, the Arab region returned $1.5 on every dollar gained in FDI inflows. On average, the Arab region returns $1.5 in FDI outflows for every dollar it receives in inflows, effectively turning into a net exporter of capital (noting that, globally, an estimated $15 trillion in phantom investments[9] have been channelled to shell companies, including in some of the region's financial centres).

14. By 2019, a third of registered MNCs operating in the Arab region were taxed below the proposed global minimum effective tax rate of 15 per cent. Based on a counterfactual scenario, the Arab region could have generated $2.3 billion in additional corporate tax revenues had the proposed GloBE minimum effective corporate tax been applied to all undertaxed MNCs in the region.[10]

II. MNC activity in the Arab region

15. More than 5,114 MNCs (the majority of which are owned by OECD countries) operate in the Arab region, yet 83 per cent of their operations are concentrated in only four countries (United Arab Emirates, Morocco, Egypt and Saudi Arabia), which traditionally account for the highest FDI inflows registered in the region.

16. MNCs and their associated FDI inflows have not generated proportionate increases in employment. The pattern of inward capital investments remains slanted towards extractive industries and real estate, constituting almost half of the investments received by the region but accounting for only 10 per cent of job opportunities. In contrast, MNCs operating in the automotive industry, textiles, communication, and electrical equipment have been responsible for creating the highest number of jobs and employment in these sectors.

17. The generous tax, fiscal and investment incentives awarded by countries in the Arab region did not dissuade MNCs from reinvesting their profits out of these countries, as large portions of their turnover were repatriated as dividend pay-outs, stock buybacks and debt repayments. MNCs also shifted their profits to reduce their tax footprint, exposing the region to volatile capital outflows.

18. In general, MNCs maintain their operations at roughly the minimum operating scale that makes them profitable and exhibit low tendencies to reinvest profits in the Arab region, as demonstrated by their stable stock levels in Arab countries. Passive income repatriated on existing stocks to source countries (or transitioned to low-tax jurisdictions) amounts to $1.24 for every dollar of capital investments received. This is also attributed to the thin capitalization rules in some Arab countries.

19. The tax burden that MNCs end up enduring in the region does not correspond to the profits they make. MNC investment patterns in the region and their sectoral distribution reveal that their cross-border direct investments are slanted towards the extractive sector (governed by production sharing agreements) and the real estate sector (often untaxed). Accordingly, the profits that MNCs generate from the Arab region (5 per cent of their global profits on average) seem to be increasing at a higher pace than the taxes they pay. While this may be interpreted as a sign of attractiveness for MNCs, it also implies that the region is well below its potential

[8] ESCWA based on data from the International Monetary Fund (IMF) and the World Bank.

[9] Jannick Damgaard, Thomas Elkjaer, and Niels Johannesen, What is real and what is not in the global FDI network?, IMF Working Paper, 2019.

[10] Ibid.

in terms of taxing MNCs, which calls for the need to rationalize tax incentives and bring MNCs to compliance (curbing tax abuse).

III. Re-visiting the tax-FDI nexus in the Arab region

20. Intensive FDI margins (the decision of how much to invest) are asymmetrically sensitive to corporate income tax (CIT) rates in the Arab region. The reaction of FDI to changes in headline CIT rate is in itself driven by a plethora of other considerations, notably the foreign tax treatment of source country/outbound FDI and domestic tax incentives, and the preferential tax treatment awarded to specific sectors through distinct tax and investment laws and regulations and special economic zones or the so-called vertical tax expenditures.

21. Extensive FDI margins (investment decisions) in the Arab region are driven by a host of structural determinants other than taxation. FDIs remain susceptible to political instability, democratic change and follow movements along the democracy index. FDI inflows are influenced by the level of institutional quality, bilateral trade links, human capital, and cultural similarities. A cumulative marginal improvement in institutional quality components leads to an increase in FDI by 22 per cent, while a marginal increase of one percentage point in CIT statutory rates is associated with a contraction in FDI by 14 per cent.[11]

22. In the final count, considerable FDI potentials in the region remain untapped. MNC profits from the Arab region indicate its relative attractiveness but also imply that the region holds unexploited potentials in terms of potential revenues that could be accrued from ending corporate tax abuse as well as rationalizing preferential treatment of foreign corporates.

IV. Corporate tax revenues: gains, losses and potentials

23. Evidence from country-by-country reporting released for the first time in 2017 confirms that MNCs are shifting profits and engaging in tax planning and round-tripping schemes. Several Arab countries are being exploited as conduits of capital due to their thin capitalization rules and low-tax regimes, thereby inflicting harm to other countries in and outside the region.

24. ESCWA empirical assessments report that the Arab region suffers annual revenue losses of $8.9 billion due to corporate tax abuse[12] and that, in 2019, more than a third of profitable MNCs in Arab countries were taxed below the effective tax rate of 15 per cent. Almost all undertaxed MNCs in the region (99 per cent) operate in non-extractive industries.

25. The OECD estimates that the introduction of a global minimum effective tax rate of 15 per cent (GloBE tax) would raise an additional $150 billion in global annual tax revenues. The IMF puts this figure at $168 billion ($62 billion in tax revenue due to the elimination of profit shifting and an additional $106 billion due to the reallocation of purged profits from low to high-tax countries) or 4.5 per cent of global CIT revenues. The European Union (EU) Tax Observatory puts this figure at $213.9 billion, with more than half accruing to the EU and the United States of America, while China and India would gain $4 billion. Oxfam estimates that 52 developing countries stand to gain a meagre $2.16 billion.

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[11] The relative importance of these factors varies depending on host country attributes and type of investment. Explicitly controlling for Gulf Cooperation Council (GCC) countries, CIT statutory rates appear trivial, while the importance of oil production and human capital is amplified. The absence of a significant reaction of FDI to varying statutory tax rates is attributable to the extreme variability in rates applied to different tax brackets and sectors in GCC countries and mostly on the large distance between statutory and effective tax rates.

[12] Country-by-country reporting (2017), OECD and State of Tax Justice Report, Tax Justice Network, 2021. Countries included: Algeria, Djibouti, Egypt, Iraq, Jordan, Lebanon, Libya, Mauritania, Morocco, Oman, Qatar, Saudi Arabia, Sudan, Syrian Arab Republic, Tunisia, United Arab Emirates, and Yemen.

26. The 2023 Financing for Sustainable Development Report[13] showcases the ESCWA assessment of the G20/OECD two-pillar solution. The report highlights that, had the proposed GloBe minimum effective corporate tax rate of 15 per cent been applied to all undertaxed MNC subsidiaries operating in the Arab region in 2019, tax revenues would have increased by 38 per cent. Applying a minimum effective tax rate of 15 per cent to each undertaxed MNC in the region generates $2.3 billion in additional corporate tax revenues.

27. Alternatively, higher revenue gains can be expected from raising the average effective tax rates (AETRs) to 15 per cent at the country/jurisdictional level. Had Arab economies raised their AETRs to 15 per cent and applied them across the board to both domestic and foreign firms (even if they don't meet the prescribed threshold[14]), $5.5-$9 billion in additional tax revenues would have been generated.[15]

28. Relocating taxing rights over MNC residual profits under pillar one to the market jurisdictions is estimated by the OECD to shift taxing rights on $200 billion of corporate profits. IMF estimates suggest a net global increase of $12 billion in corporate income taxation based on reallocation of $150 billion in the tax base. Relocating taxing rights as proposed by the GloBE pillar one reforms may generate up to $10 billion for the Arab region.[16] These gains would be possible only if pillar one covered all MNCs rather than MNCs with an annual unitary turnover above 20 billion euros.

29. Under the current pillar one reforms' design, revenue gains for the region would be low, and some Arab countries may even witness tax revenue losses. The EU Tax Observatory reports that Qatar and the United Arab Emirates risk incurring annual losses of $33 million dollars and $13.5 million, respectively,[17] while the Tax Justice Network estimates a loss of $1 million for Jordan.[18] The biggest winners would instead be Saudi Arabia with revenue gains between $8.2 and $807 million,[19] and Egypt between $3.9 and $77 million.[20]

V. Conclusions and policy recommendations

30. **Combatting tax abuse** in all its forms, whether it is perpetrated by individuals or corporations, is key to preserving the efficiency, fairness and revenue generation role of taxation. When personal and corporate tax leakages remain unaccounted for in tax policy design, the deadweight losses from these revenue leakages may exceed the marginal gains from any tax reform or increase in the level of tax compliance, thereby undermining the importance of taxation as a prime means to mobilize domestic public resources and sustain adequate financing for the SDGs.

31. **Reducing harmful tax competition** requires, in the first instance, a reformed international tax system that responds to the realities of growing cross-border trade and investments taking place under increased conditions of capital mobility and digitization. In this regard, Arab countries may resort to the General Assembly resolution on the "promotion of inclusive and effective international tax cooperation at the United

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[13] United Nations, Inter-agency Task Force on Financing for Development, Financing for Sustainable Development Report 2023: Financing Sustainable Transformations, 2023.

[14] Pillar two would apply to MNCs with a global turnover of more than 750 million euros.

[15] The upper-bound estimate of the impact of changing country-level AETR on CIT revenues is a non-causal assessment calculated as the difference between statutory taxes paid by companies and what could be accrued with a 15 per cent AETR in proportion. The lower bound estimate is assessed using a panel Ordinary Least Squares (OLS) regression controlling for economic cycle simultaneous shocks.

[16] Tax Justice Network estimates, Impact of pillar one solution, selected Arab countries based on unitary MNC profits (2020).

[17] Mona Barake and Elvin Le Pouhaër, Tax Revenue from Pillar One Amount A: Country-by-Country Estimates, EU Tax Observatory, 2023.

[18] Tax Justice Network estimates, Impact of pillar one solution, selected Arab countries based on unitary MNC profits (2020).

[19] Michael P. Devereux and others, The OECD Global Anti-Base Erosion Proposal, Oxford University Centre for Business Taxation, 2020.

[20] Vladimir Starkov and Alexis Jin, A tough call? Comparing tax revenues to be raised by developing countries from the Amount A and the UN Model Treaty Article 12B regimes, South Center, 2022.

Nations", which proposes alternative options to reform the global tax architecture, including through an international tax cooperation framework or a multilateral instrument developed and agreed upon through a United Nations intergovernmental process.

32. **Reducing tax competition under pillar two** may add asymmetric increments to Arab countries' tax base. However, countries applying interest deduction limitations or withholding taxes on corporate debt and interest payments may be required to review their application once the corresponding rules are uniformly adapted under pillar two. Tax revenue gains would remain contingent upon the Subject to Tax Rule (STTR)[21] compromises to be reached. However, since pillar two provides for a formulaic substance carve-out that will exclude an amount of income of the carrying value of tangible assets and payroll, the carve-out may lower these gains. In this context, any policy reversals on foreign tax credits by MNCs' ultimate parent jurisdictions would evidently have an impact on how FDI outflows and MNC passive income are reported, and therefore taxed in source and destination jurisdictions.

Corporate taxation and substance-based carve-outs

Pillar two of the OECD proposal includes substance-based carve-outs that result in a decrease in the tax base subject to the proposed global minimum tax of 15 per cent. The reduction is calculated based on two factors, namely employee compensation and tangible assets of an MNC.

As an example, consider a multinational company from country A that earns $100 million profits in a tax-friendly jurisdiction, which taxes these profits at a rate of 5 per cent. Without any carve-outs, country A would collect the tax deficit of the MNC operating in that jurisdiction, which is calculated as $100 million * (15 per cent – 5 per cent) = $10 million. This way, the MNC would pay $5 million in taxes in the tax-friendly jurisdiction where it operates and $10 million to country A, making a total of $15 million taxes with a global effective rate of 15 per cent.

With substance-based carve-outs, the MNC can deduct a portion of its personnel costs and tangible assets from the amount to be taxed by country A. Suppose the carve-out corresponded to 5 per cent and assume that tangible assets and payrolls were equal to $100 million dollars each. In that case, the carved-out amount would be 5 per cent * ($100 million + $100 million) = $10 million. This amount would have to be subtracted from the tax base to which the country A's surtax is applied, resulting in the MNC paying $90 million * 10 per cent = $9 million to the tax authorities of country A, reducing the revenue generated by the worldwide minimum corporate tax in country A by $1 million.

33. Rationalize tax incentives and reduce the gap between headline corporate taxes and their real effective incidence on MNCs and domestic corporates. High statutory corporate income tax rates in the Arab region do not translate into high effective tax rates or yield high corporate tax revenues. Generous tax incentives undercut the region's corporate tax revenue potentials by 60 per cent on average, without necessarily rendering commensurate increases in the tax net of Arab countries. In fact, MNC profits in the Arab region are, in proportion, much higher than the taxes they pay. Arab countries are recommended to redesign their tax brackets and rationalize tax incentives to minimize revenue losses and improve the equity and efficiency of their corporate tax systems. Arab countries should remain cognizant that the GloBE proposal would have a profound impact on domestic tax incentives, which may be indirectly nullified or reduced when they lead to an effective tax rate (ETR) below the 15 per cent threshold for in-scope MNCs.

[21] Under the STTR, MNCs would be required to pay tax on profits earned in jurisdictions that have a low or no tax rate, or where profits are artificially shifted to avoid taxation. The rule would establish a global minimum tax rate of at least 15 per cent and would apply to all multinational enterprises (MNEs) with global revenue of over 750 million euros. The STTR would require income earned in a low-tax jurisdiction to be subject to a minimum level of taxation in another jurisdiction. For example, if an MNE earns income in a country with a tax rate of 5 per cent, it would be required to compensate and pay tax on that income at a rate of at least 15 per cent in another jurisdiction. The rule would also address cases where an MNE uses tax incentives or other arrangements to shift profits to low-tax jurisdictions. In these cases, the income would still be subject to tax in the jurisdiction where it was earned, even if it is not subject to tax in the low-tax jurisdiction.

34. **Assess the implications of the proposed G20/OECD two-pillar solution.** Policymakers should undertake a thorough assessment of the proposed G20/OECD two-pillar proposal, and weigh whether it would be more beneficial to advance alternate reforms under different configurations. Overall, the current GloBE proposal pales in contrast to the Arab region's financing needs and discounts its capacity to administer their increased complexity. Tax revenue gains for the Arab region would remain, at best, modest in absolute terms, especially as the two pillars remain slanted in favour of MNCs' ultimate parent jurisdictions. Arab countries that subscribe to the G20/OECD Inclusive Framework may advocate for the expansion of MNCs to which the Inclusive Framework would apply (lower the profitability thresholds to determine in-scope MNCs; renounce the distinction between routine and residual profits or lower the profitability ratios employed to determine MNCs' routine-profits or assert higher reallocation percentages over residual profits; and avoid negating established regional tax dispute bodies or compromising developing nations' "right to regulate" the delivery of automated digital services, especially in relation to the proposed moratorium on digital service tax and the binding dispute settlement mechanisms that negate relevant regional bodies).

35. Whether the GloBe tax benefits Arab Inclusive Framework members ultimately rests on a host of factors, namely (1) whether MNCs operating in the Arab region are taxed below the global minimum effective tax rate, as well as the number of undertaxed subsidiaries with revenues exceeding 10 million euros (EUR) and turnover exceeding EUR 1 million, that belong to MNC groups with combined financial revenues of EUR 750 million; (2) the level of statutory corporate taxes, the withholding of taxes imposed on cross-border payments (STTR) of dividends and interests, and any profit-based levy such as a profit-based mineral royalty or tax on economic rent paid by MNCs; (3) the scale of tax incentives and deductions granted to MNCs that render reduced ETRs on these MNCs; (4) the effect of reducing profit shifting by allowing market countries to recover part of their lost tax revenues due to corporate tax leakages which ran as high as $8.6 billion in 2018; and (5) whether other countries not parties to the OECD Inclusive Framework will apply the GloBe tax and commit to giving up their sovereign tax rights to enforce digital service taxes (DSTs).

36. **Strengthen tax administration, enforcement and capacities** for more efficient revenue collection and monitoring. Arab countries should consider the benefits of establishing national and regional registries for beneficial ownership, as well as of improving data quality and reporting standards for corporate profits and the taxation of MNCs. This includes implementing the country-by-country reporting (CBCR) standards, and the automatic exchange of information in tax matters. By the end of 2022, and according to the Common Reporting Standard (CRS), information on over 111 million financial accounts was exchanged automatically, covering total assets of almost 11 trillion euros. From 2019 to 2021, almost 2.6 billion euros of additional revenue was identified due to exchange of information on request. Despite these figures, many developing countries, including several in the Arab region, are not fully benefiting from the automatic exchange of information system. In fact, as at the end of 2022, there are no least developed countries and only five African countries that have received information.

37. **Address structural deficiencies.** Arab countries are advised to focus on the underlying drivers and the factors that are responsible for incentivizing multinational corporate activity and transferring their capital and technological prowess into the region, most notably by improving institutional quality. This is crucial to attract long-term responsible direct investments and ward off any reversals or phantom investments exploiting and roundtripping investment through the region. These factors also include enacting real purposeful incentives linked to the SDGs to ensure higher reinvestment of corporate profits and reverse their thin capitalization.

38. **Enhanced regional fiscal and tax cooperation.** The League of Arab States has yet to match the level of regional integration to combat tax abusive practices with that of other areas. There is currently no dedicated body that is uniquely poised to address cooperation in fiscal affairs and tax abuses. A strong regional guidance should be developed to coordinate tax incentives and strengthen regional cooperation on tax matters, and to harmonize Arab efforts to curb profit shifting and corporate tax evasion and avoidance, especially as the Arab region forges ahead with deeper forms of regional integration.
