Session 7
Tax related illicit financial flows
Locating tax risk - the way to tackle illicit financial flows

Richard Murphy
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Beirut, November 2018
There are illicit financial flows

• This is a fact
• It’s also true we will never stop them entirely
• This means everything we say today is about risk mitigation
The questions we need to address

• What are the risks?
• How do they arise?
• What can actually be done about them?
• Why is it worth tackling them?
• Why is it worth expending political capital on this?
• What are the tools we need to use?
What is tax for?

• It is assumed that pays for government expenditure.
• This is at best only partly true
• Government spending can also be funded by:
  • Borrowing
  • Aid
  • Local currency creation
• So while may have an important role in the funding cycle of government that is not its only use
Tax has other uses:

- Creating macroeconomic control of an economy
  - This is through fiscal macroeconomic management
- Underpinning the value of the local currency by requiring its use to settle tax liabilities
- Income and wealth redistribution
- Repricing market failure
- Incentivising socially beneficial activities
The Joy of Tax

• Put all these facts together and you have what I call *The Joy of Tax*
• Tax is the single most powerful peaceful instrument a government has to shape the society that it controls
• The challenge of illicit financial flows is that they undermine any government’s chance of achieving that goal
• The big challenge of illicit financial flows is not then the money alone - however important that is
• The big challenge of illicit financial flows is that they challenge the ability of the state to deliver a whole range of policy options that it wants to create on behalf of those who live in the jurisdiction for which a government is responsible
How to tackle this?

• The choice to date has been to blame some now familiar villains
  • Organised crime
  • Those who are corrupt
  • Multinational corporations
  • Tax havens
• The response is
  • Anti-money laundering measures
  • OECD BEPS
  • Country-by-country reporting
  • Calls for unitary taxation
• Trust me, I buy them all
  • But the time has come to go further
We need new tools to identify and tackle tax abuse

• There are two key new tools:

1. *Measuring tax gaps*
2. *Undertake tax spillover assessments*

• These requires political will
• And they require funding - if necessary from the IOs to help achieve this – which is something I am explicitly calling for
The tax gap (1)

• The tax gap is a measure of the tax that could be but is not collected by a government
• All countries have a theoretical tax yield they could collect based on current GDP and law
• They don’t get it because of the tax gap, which comes in five parts
  1. The cost of tax bases not taxed, such as wealth (A)
  2. The cost of tax allowances and reliefs a government grants (B)
• Take these two off the theoretical tax base calculated on GDP and you get the technical tax yield. Then deduct
  3. Tax evasion (C)
  4. Tax avoidance (D)
  5. Tax bad debt (E)
• And you get to tax actually paid
The tax gap (2)

• The tax policy gap is
  • Tax bases not taxed + tax reliefs given away
  • = A + B

• The tax compliance gap is
  • Tax evasion + tax avoidance + tax evasion
  • = C + D + E

• The total tax gap is:
  • Theoretical tax base based on GDP
  • Take away A + B + C + D + E
  • = Tax actually paid

• Every government had to know these figures, I suggest, or they’re not in control of their economy
Tax spillovers

- Tax spillovers assess the likelihood that one part of a tax system causes harm to another part of a tax system, either domestically or internationally.
- Tax spillovers happen domestically and internationally.
- They involve all taxes, but especially direct ones.
- And they involve the administration of tax as well as the taxes themselves.
- The IMF has tried to appraise them quantitatively but this has proved to be very hard.
- Professor Andrew Baker of Sheffield University and I now propose a qualitative measure.
Qualitative tax spillovers - the assessment grid

<table>
<thead>
<tr>
<th>United Kingdom international tax spillovers: risk to other countries from the UK</th>
<th>The issue in other countries</th>
<th>Sub totals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax spillovers</td>
<td>Income tax</td>
<td>Corporation tax</td>
</tr>
<tr>
<td>Income tax</td>
<td>4</td>
<td>1</td>
</tr>
<tr>
<td>Corporation tax</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Capital gain tax</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>Social security</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Tax politics</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Tax administration</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Company and trust administration</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>International agreements</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Total</td>
<td>31</td>
<td>29</td>
</tr>
</tbody>
</table>
Qualitative tax spillovers - the process

- Four domestic taxes and four tax admin systems are marked for the risk that they create domestically first and internationally second
- Then the domestic tax system is appraised for the risks imposed on it from elsewhere
- The higher the score the bigger the risk
- The colour coding simply helps identify the big risks – they are in red
- The process is designed to identify the biggest targets for reform
Qualitative tax spillovers – our suggestion

• It’s our suggestion every country could and should do a qualitative tax spillover assessment
• Then they will know what reform is really needed
• And how effective it might really be
• This is the way for all countries – and not just OECD ones – to reclaim the agenda on this issue
• We think it’s time to use a systematic tool for each country to create its own demands for reform
Thank you

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Session 7

Tax related illicit financial flows

Financing for Development Office
Economic Development & Integration Division
Tax related illicit financial flows

*Not avoiding avoidance*

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Financing Sustainable Development:
Curbing Illicit Financial Flows
UN ESCWA, Beirut
29 November 2018
Overview

- Shifting narratives: getting to SDG 16.4
- Not avoiding avoidance
- Proposed indicators
1. Shifting narratives:
From MDGs to SDGs

From aid to tax

From corruption to illicit financial flows
Where is ‘corruption’?

Corruption Perceptions Index
Where is ‘corruption’?
Financial Secrecy Index
From corruption to IFF

Early 2000s: TJN
Later 2000s: GFI and ‘IFF’
2011-2014: AU/ECA Mbeki panel
2012-2013: UN HLP on Post-2015
2015: SDGs agreed
Target 16.4

By 2030, significantly reduce illicit financial and arms flows, strengthen the recovery and return of stolen assets and combat all forms of organized crime.
Types of illicit financial flows

1. Market/regulatory abuse
2. Tax abuse
3. Abuse of power, including theft of state funds and assets
4. Proceeds of crime

Each can be situated in terms of
- capital legality; and
- transaction licitness
IFF by capital and transaction type

Figure 2.1
 Origins of illicit financial flows

Old ‘corruption’ view – emphasis here

‘New’ IFF view: corporate abuses also in scope
2. Not avoiding avoidance
Three reasons to retain MNE avoidance

1. Substance: inclusion is what was agreed in SDGs
2. Definition: illicit ≠ illegal
3. Scale and robustness of estimates
Foundations of SDG inclusion

▪ African Union/UNECA High Level Panel
  ▪ We placed emphasis on illegality across any stages of such outflows to show that a legal act in one geographical location does not nullify the intent and purpose of such outflows, which is to hide money even if legitimately earned.
  ▪ We also felt that the term “illicit” is a fair description of activities that, while not strictly illegal in all cases, go against established rules and norms, including avoiding legal obligations to pay tax.
Foundations of SDG inclusion

- African Union/UNECA High Level Panel
  - IFFs originating from commercial activities have several purposes, including hiding wealth, evading or aggressively avoiding tax, and dodging customs duties and domestic levies. Some of these activities, especially those linked to taxation, are described from a more technical perspective as “base erosion and profit shifting” especially within the ambit of the OECD.
Foundations of SDG inclusion

▪ High Level Panel on Post-2015
  ▪ Developed countries could also pay more attention to exchanging information with developing countries to combat tax evasion. Together, they can also crack down on tax avoidance by multinational companies through the abuse of transfer pricing to artificially shift their profits across international borders to low-tax havens.
  ▪ Developed countries... have special responsibilities in ensuring that there can be no safe haven for illicit capital and the proceeds of corruption, and that multinational companies pay taxes fairly in the countries in which they operate.
Definitional questions: two views

▪ Illicit = illegal
  ▪ “Illicit financial flows (IFFs) are illegal movements of money or capital from one country to another. GFI classifies this movement as an illicit flow when the funds are illegally earned, transferred, and/or utilized.”

▪ Illicit ≠ illegal
  ▪ Illicit: “forbidden by law, rules or custom” (OED)
  ▪ Illicit > illegal (e.g. tax); illicit < illegal (e.g. Blankenburg & Khan)
  ▪ But in all cases, for legal or social reasons, illicit = HIDDEN
Three reasons to retain MNE avoidance

1. Substance: inclusion is what was agreed in SDGs

2. Definition: illicit ≠ illegal

3. Scale and robustness of estimates
3. SDG indicators
Technical issues: Defining an indicator

16.4.1

- Total value of inward and outward illicit financial flows (in current United States dollars)

Issues:

- Uncertainty of estimates (since IFF hidden by definition)
- Complexity of alternatives (e.g. risk-based)
- Risk of failing to deliver accountability
Proposed IFF indicators

Profit shifting: SDG 16.4.1a
An indicator of misaligned profits, based on OECD country-by-country reporting data

- The value of profits reported by multinationals in countries, for which there is no proportionate economic activity
Profit ‘misalignment’

Share of declared profit 'misaligned' from elsewhere

- Switzerland
- Ireland
- Netherlands
- Luxembourg
- Bermuda
Proposed IFF indicators

Undeclared offshore assets: SDG 16.4.1b
An indicator of automatic exchange of tax information to address offshore tax evasion by individuals, based on OECD Common Reporting Standard

- The global sum of country-level undeclared assets
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Annex: IFF indicator methodology
Profit shifting: SDG 16.4.1a

- An indicator of misaligned profits, based on OECD country-by-country reporting data:
  
  *The value of profits reported by multinationals in countries, for which there is no proportionate economic activity*

- Key advantage: specific measure (as vs estimate)
- Disadvantage: Profit misalignment > illicit:

<table>
<thead>
<tr>
<th>Criminal</th>
<th>Unlawful avoidance</th>
<th>Profit shifting</th>
<th>Profit misalignment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Evasion</td>
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<td>Unlawful avoidance</td>
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<td>Lawful avoidance</td>
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<td>‘Natural’ (i.e. not tax-related) misalignment</td>
</tr>
</tbody>
</table>
Profit shifting: SDG 16.4.1a

Defined for each jurisdiction, can be summed across some or all. For each jurisdiction \( i \) we define the misaligned profit as:

\[
\chi_i = \omega_i \Pi - \pi_i \quad \text{...(1)}
\]

where:

- \( \omega_i \) is the share of all multinationals’ economic activity in jurisdiction \( i \);
- \( \Pi \) is the global, gross profits of all multinationals; and
- \( \pi_i \) is the share of all multinationals’ gross profits declared in \( i \).
Profit shifting: SDG 16.4.1a

Economic activity captured as simple average of indicators of production (share of FTE employees in jurisdiction, $\iota_i$) and consumption (final sales in jurisdiction, $\gamma_i$). We define, for all $i$:

$$\omega_i = \frac{1}{2} (\iota_i + \gamma_i)$$

We also use the label $\Omega$ for the global total of multinationals’ economic activity, and define:

$$\Omega = \sum_{i=1}^{n} \omega_i; \text{ and}$$

$$\Pi = \sum_{i=1}^{n} \pi_i$$

It follows that the global sum of misaligned profits, $X$, is equal to zero:

$$X = \sum_{i=1}^{n} \chi_i = 0$$
We propose that the profit misalignment indicator for use in SDG target 16.4 is the global sum of positively misaligned profits – that is, the total excess profits declared in jurisdictions with a greater share of profits than would be aligned with their share of economic activity. Equivalently, this can be calculated as half the sum of the absolute values of misaligned profit:

\[ SDG_{16.4.1a} = \frac{1}{2} \sum_{i=1}^{n} |\chi_i| \]  

...(2)

Underlying jurisdiction-level misalignment measures => accountability
Undeclared offshore assets: SDG 16.4.1b

The undeclared offshore assets indicator is defined as the excess of the value of citizens’ assets declared by participating jurisdictions under the OECD Common Reporting Standard (CRS), over the value declared by citizens themselves for tax purposes to their tax authorities.

- **Key advantages:**
  - Specific measure (as vs estimate)
  - Breadth: evaluates a key outcome of most illicit outflows

- **Disadvantages:**
  - Does not allow breakdown of IFF by channel
  - CRS imperfect (limited by asset type; loopholes)
Undeclared offshore assets: SDG 16.4.1b

For each jurisdiction $i$ we define the undeclared assets as:

$$
\phi_i = \sum_{j=1}^{n} \beta_{j,i} - \alpha_i 
$$

...(3)

where:

$\alpha_i$ is the sum of assets declared by citizens of jurisdiction $i$ as being held in jurisdictions $j = 1, \ldots, n$ where $j \neq i$; and

$\beta_{j,i}$ is the sum of assets of citizens of jurisdiction $i$ reported as being held in jurisdiction $j$. 
Undeclared offshore assets: SDG 16.4.1b

We propose that the undeclared offshore assets indicator for use in SDG target 16.4 is the global sum of jurisdiction-level undeclared assets:

\[ SDG_{16.4.1b} = \sum_{i=1}^{n} \phi_i \]  

...(4)

Again, the underlying jurisdiction-level measures will allow monitoring and accountability in a number of ways.
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Financing for Development Office
Economic Development & Integration Division
Let us talk IFF

Dr. Manal Abdel Samad Najd

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Let us talk IFF
Let us talk IFF

Fight Against Corruption
Let us talk about Illicit Financial Flows.

$2 trillion (approx.)

Illicit financial flows in/out of developing economies

Did you know?

Tax evasion
Corruption
Other Crimes

Dr. Manal NAJD, UNESCWA, Beirut, 28-29 Nov., 2018
Key figures

Increase in the cost of public contracts in developing countries, due to CORRUPTION.

25%

Source: OECD, World Bank, and GFI reports

IFFs pose a huge challenge to political & economic security globally, mainly to developing countries

$1 Trillion

Paid each year in BRIBES worldwide

$1.1 trillion

Amount of IFFs that left developing countries in 2013.

Tax evasion is... 2.5 TIMES when businesses identify corruption to be commonplace

14-24%

% of IFFs in total trade of developing country.
Is the Region Ready for SDG 2030?

Sustainable Development Goals

1. No Poverty
2. Zero Hunger
3. Good Health and Well-Being
4. Quality Education
5. Gender Equality
6. Clean Water and Sanitation
7. Affordable and Clean Energy
8. Decent Work and Economic Growth
9. Industry, Innovation and Infrastructure
10. Reduced Inequalities
11. Sustainable Cities and Communities
12. Responsible Consumption and Production
13. Climate Action
14. Life Below Water
15. Life on Land
16. Peace, Justice, and Strong Institutions
17. Partnerships for the Goals

Let us talk IFF

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What’s going on around the world?

Free movement of goods, labor, and capital
What’s going on around the world?

Revolution of the Digital World

(more complicated & intangible trade)
Let us talk about developments in Information and Communication Technology (ICT)

What’s going on around the world?
What’s going on around the world?

Accelerated evolution in the Financial Systems
Let us talk IFF

What’s going on around the world?

5

Globalization

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Financial Institutions

Still

Old & Traditional Regulations

Limited Resources

Dr. Manal NAJD, UNESCO, Beirut, 28-29 Nov., 2018
More **Challenges** are facing countries nowadays:

- More potential **RISK** due to growing financial crimes (*mainly cross-border crimes*).
Let us talk IFF

Tax evasion/fraud

- Continue to increase and be considerable worldwide,

- Amounting to many billions of dollars per year,

- Especially where corruption is widespread.
Tax evasion/fraud

Horizontal Equity
- Negative Impact

Vertical Equity
- Curbing the tax role in redistributing wealth

Economy & Digital Transactions
- Widespread IFFs
Let us talk IFFs for Arab Countries (2004-2015)

Source: GFI Report 2017 and Author

Average (IN)

Yemen
Tunisia
Qatar
Morocco
Libya
Kuwait
Jordan
Egypt
Algeria

0% 5% 10% 15% 20% 25% 30%
Who are the key players in IFFs?

Fraudulent Taxpayers

Corrupt Customs/ Tax Agents

who facilitated the forged transactions

Shell Companies

Who are the key players in IFFs?
How Lebanon has confirmed its commitment towards combatting illicit financial flows?

Full compliance of Lebanon with the requirements to fight against money laundering & terrorism fighting
How **Lebanon** has confirmed its commitment towards combatting **illicit financial flows**?

Acknowledgement of the several **legislative actions** taken by the Lebanese government

**Feb. 2016**

Full compliance of **Lebanon** with the requirements to fight against **money laundering & terrorism fighting**

**Credibility Boost** of Lebanon’s financial institutions abroad
How Lebanon has confirmed its commitment towards combatting illicit financial flows?

Acknowledgement of the several legislative actions taken by the Lebanese government

1. Laws and Regulations
2. Multilateral Agreements
How Lebanon has confirmed its commitment towards combatting IFFs?

1. **Laws & Regulations**

   1. Anti-Money Laundering
   2. Declaring cross-border transportation of Money
   3. Exchange of Information
   4. Cancelling Bearer Shares & Promissory Notes
   5. Beneficiary Owner (BO) Law
   6. E-Transaction Act
   7. Whistleblower Act
   8. Transparency Enhancement in the Oil & Gas
   9. Judicial Mediation Act

Lebanon
1. Anti-Money Laundering and Terrorism Financing Law:

1) Smuggling and Trafficking of narcotic drugs...
2) Participation in illegal associations, in the purpose of committing crimes.
3) Terrorism, as defined by the Lebanese legislations.
4) The financing of terrorist acts or similar, …
5) Trafficking of illicit arms.
6) Kidnapping using weapons or any other mean.
7) Insider trading, confidentiality violation, …
8) Practicing debauchery or inciting others to sexual deviance, by deploying organized gangs.
9) Corruption (bribery, power abuse, illicit enrichment)
10) Theft, violation of trust, embezzlement.

11) Fraud, including fraudulent bankruptcy.
12) Counterfeiting public and private documents and instruments (cheques, credit cards, stamps, …).
13) Goods smuggling, as per Customs legislations.
14) Counterfeiting goods …
15) Air and maritime piracy.
16) Human trafficking and migrants smuggling.
17) Sexual abuse, …
18) Environmental crimes.
19) Extortion.
20) Murder.

21) **Tax evasion**, as per Lebanese legislations.
2. Declaring the Cross-Border Transportation of Law *(Law no. 42/2015)*:

- More than $15,000

**Lebanon**

Individuals transporting physically

Inside/outside border

Currency/Negotiable Instruments
3. Exchange of Information Law (Law no. 55/2016):

- Enforcing and implementing the terms of any Agreement related to exchange of information for tax purposes.

- Requiring from any person to disclose the requested information in accordance with this agreement.
4. Cancelling Bearer Shares & Promissory Notes Law (Law no. 75/2016):

Companies (including companies limited by shares) are prohibited to issue bearer shares and promissory notes after the entry into force of the law.
5. Beneficiary Owner (B.O.) Regulations (Decision 2018):

BO Transparency to fight against IFFs
- Money laundering
- Tax Evasion
- Terrorism Financing

Identifying individuals who eventually own/control vehicles
- Companies
- Partnerships
- Trusts
- Private Foundations

Detecting criminals who hide behind entities to engage in illegal acts
5. Whistleblower Act (Law no. 83 2018):

- Encouraging the **disclosure of information** relating to acts of **corruption**
- Investigating information **disclosed** and the prosecution of the corrupt people
- Protects the corruption **detector** from any prosecution, or physical or moral damage
- Ensuring the **whistleblower's security** & personal safety, & a reward program for recovering stolen public money
How **Lebanon** has confirmed its commitment towards combatting IFFs? – *Multilateral Agreements*
How Lebanon has confirmed its commitment towards combatting IFFs? – *Multilateral Agreements*

1. 12/05/2017
   Multilateral Convention on Mutual Administrative Assistance in Tax Matters

2. 12/05/2017
   CRS Multilateral Competent Authority Agreement (CRS MCAA)

3. In process…
   Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting (BEPS)
Let us talk IFF

What Needs to Be Done by the Arab Countries to tackle IFFs?

10 Recommendations
Let us talk IFF

What Needs to Be Done by the Arab Countries to tackle IFFs?

1. Reinforcing tax related cooperation/exchange of information; Tax Administration v/s Customs Authority

- To manage cross-border transactions
- To Facilitate legitimate trade
- To fight against financial crimes
- To ensure compliance in other issues: safety, security, IP, health, environment, ...

Dr. Manal NAJD, UNESCWA, Beirut, 28-29 Nov., 2018
What Needs to Be Done by the Arab Countries to tackle IFFs?

2. Applying criminal prosecutions for serious tax offences:

- Tax Penalties
- Criminal Sanctions
- Publicity of successful prosecutions
What Needs to Be Done by the Arab Countries to tackle IFFs?

3. Strengthening governance to reduce corruption and tax evasion

Improving **voice and accountability** and **government effectiveness**, since they have the **largest positive and significant impact** on tax revenue performance

Requiring from Multinational companies to **publicly disclose** their **financial info** on a **country-by-country** bases

Categorizing Taxpayers under a “gold-silver” scheme according to their (1) reliability, (2) accuracy & (3) stability
What Needs to Be Done by the Arab Countries to tackle IFFs?

4. Enforcing Anti-Money Laundering Regulations

- Penalties
- Criminal Sanctions
- Criminal Employees in Financial Institutions
- Professional Facilitators: • Lawyers, • Accountants, • Corporate service providers
What Needs to Be Done by the Arab Countries to tackle IFFs?

5.

Eliminating anonymous shell companies

Disclosing the Beneficial Owners B.O.

- Disclosed upon formation
- Freely available to the public
- Updated regularly

Who is behind the business veil?

Let us talk IFF.
What Needs to Be Done by the Arab Countries to tackle IFFs?

6. Curbing Trade Mis-invoicing

Customs Agencies should:
- Treat trade transactions involving a tax haven with highest level of scrutiny.

Governments should:
- Equip/train officers to better detect intentional mis-invoicing.
- Implement the Digital Stamps
What Needs to Be Done by the Arab Countries to tackle IFFs?

7. Collaboration Between Countries


- Creating a new Arab intergovernmental tax body.

- A robust international cooperation developed/developing countries, in partnership with the civil society and the private sector.
Let us talk IFF

8. The **Private Sector’s Role**

What Needs to Be Done by the **Arab Countries** to tackle IFFs?

**Rights**
- To have a business environment with fair, clear, and transparent tax/trade policies.

**Obligations**
- To ensure their tax/trade practices comply with local laws.

**Tax Evasion** = **Fiscal Unfairness**
What Needs to Be Done by the Arab Countries to tackle IFFs?

9.

The Civil Society’s Role

Watchdog that controls the behavior of Public/Private Officials

Promoters of Transparency of Revenues/Expenditures

Activists
Let us talk IFF

10. The International Community’s Role

- Standard Rules
- Consistent Enforcement
- Follow-up and Control

What Needs to Be Done by the Arab Countries to tackle IFFs?
Alarm Bells are ringing in the developing world and mainly in the Arab Region. Substantial and enduring IFFs lead to considerable social costs on both, governments/citizens. Tax evasion/fraud increase worldwide, amounting to many billions of dollars per year, especially where corruption is widespread. Tax evasion/fraud impede government efforts to mobilize domestic resources.
To Conclude...

**Transparency** is KEY to curb **IFFs**

Work is needed to improve the quality of **public governance**.

And, finally ...
And Finally ...

Curbing IFFs

A greater coordination and cooperation around key issues and players.
Thank you

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Lecturer at Top Universities, in Lebanon and abroad
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Financing for Development Office
Economic Development & Integration Division
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Oliver Pearce

November 2018
Financing for Development

Investment needed c. $5-7 trillion a year to achieve SDGs…

Extreme income poverty reduction fallen quickly since c. 1980

Further reductions require significant investment in many LICs and LMICs.
DRM increasingly important.
Need to overcome extreme economic inequality.
Wealthier economies tend to have higher tax/GDP ratios

Increasing tax revenues

But ‘tax effort’ varies significantly across countries.

Tax composition varies, but some (mainly regressive) trends clear.
Accounts for 1/6 of all tax revenues in LICs.

Corporate tax

Corporate tax transcends borders in complex ways:

- Opportunities for avoidance and evasion.
- Should be a progressive tax.
- Loopholes in international tax system
- Grey area between legal and illegal… but focus on illegitimate & illicit.
- Estimated to cost developing countries $100-200 billion/year.
Enablers of tax avoidance and evasion

**Tax havens**

But ‘tax effort’ varies significantly across countries.

Tax composition varies, but some (mainly regressive) trends clear. *Panama Papers* etc. shown role of tax havens in tax avoidance. Tax havens offer inducements and secrecy to attract financial flows.
Estimating corporate tax avoidance

Discerning precise scale of avoidance hard
But some common propositions widely held.

Impact high
- Likely to remain so even with new rules

Developing countries lose more
- More reliant on corporate tax, but gaining less from new rules

Transparency helps
- But new substantive rules needed
Impact of tax rule changes

BEPS project helped in limited way

Changes are ‘patches’ to existing system

MNCs still able to manipulate intra-group financial flows.
Countries still competing with each other (including on rates).
Developing countries have less access to information.
More information, more deterrence.

**Transparency impacts**

Country by Country Reports already filed.

Few developing countries can access many relevant CBCRs.
Should allow wider scrutiny.
More transparency is a deterrent (emerging evidence from transparency requirements for banks in the EU).
Impacts of lower government revenue

Beyond foregone revenue

Corporate tax should decrease economic inequality, but due to avoidance, it is in practice hardly progressive.
Tax incentives

What and who are prioritized for government support?

Childcare

Business
Tackling corporate tax avoidance

Scale of the challenge recognized
Governments need to cooperate, not compete.

Participation
- Developing countries engaged in decision-making.

Transparency
- Detect and deter avoidance.

Substantive reform
- Prevent avoidance.
Supporting displaced families with water and sanitation in Iraq. Image: Tommy Trenchard/Oxfam