Turn the Tide: The G20 must act on rising inequality, starting with fairer global tax reform

Executive Summary

The gap between the rich and the rest is extreme and growing. G20 nations are not immune.

In the time that Australia has held the G20 Presidency (between 2013 and 2014) the total wealth in the G20 increased by $17tr but the richest 1% of people in the G20 captured a staggering $6.2tr of this wealth – 36% of the total increase. This is because, in the vast majority of G20 countries, the richest 1% of people took an even bigger share of the economic pie in the past year. Yet G20 countries are still home to more than half of the world’s people living in poverty. The G20 cannot afford to ignore the problem of inequality.

These same problems exist around the world, with seven in 10 people living in countries where inequality is worse than it was 30 years ago, and a billion people still living in extreme poverty. Extreme inequality is also preventing millions of people from lifting themselves out of poverty, causing a vicious cycle that must be broken.

A vivid example of the role of growing social and economic inequalities is the Ebola crisis. The virus is tearing through West Africa because countries don’t have the public health infrastructure to stop it. G20 leaders need to swiftly ensure all the personnel, equipment and funding required to halt the outbreak are made available, as outlined by the Framework for a Global Response to the Ebola Outbreak.

In spite of the inequality explosion and its harmful effects, G20 countries are pursuing growth strategies that are too narrowly focused on increasing GDP rather than targeting the fairer distribution of growth that would reduce inequality and improve the lives of the poorest people, as well as the wealthy. G20 countries represent around 90% of global gross national product and 80% of world trade, giving them unrivalled policy influence over their own countries and others. Their decisions directly affect the poorest countries.

The G20 must live up to its commitment to promote inclusive growth, which requires prioritising strategies that will close the gap between the poorest 40% of people and the wealthiest.
High on the G20 agenda, and essential to solving the problem of inequality, is a review of global rules to tax multinational corporations, through the G20/OECD Base Erosion and Profit Shifting (BEPS) process. Australian Treasurer Joe Hockey has said that ‘tax evasion and avoidance is a global problem and the effects are sometimes felt hardest by the poorest people in the poorest countries’.

Oxfam shares these concerns: Our research shows that developing countries could be losing more than US $100 billion every year because of corporate tax dodging and tax breaks for corporationsvi. This would be almost enough to get every child into school four times over.vii

Oxfam welcomes progress made on global corporate tax reform, but the BEPS process is not sufficient to deal with the global tax issues developing countries face, or to address all of the fundamental problems that currently allow multinational corporations to get away with not paying their fair share of tax.

The G20 must be willing to go beyond the OECD-led Base Erosion and Profit Shifting (BEPS) plans, and work with all countries to fundamentally re-write global tax rules, tackling the tough issues that especially matter to developing countries such as source versus residence taxation, tax competition, and ‘spillover’ effects. Merely tinkering around the edges of the fundamental reforms required is not enough.

The G20 needs to show it is serious about tackling inequality by returning to its commitment to inclusive growth, and by committing to go beyond existing tax reform plans so that the tax system works for the majority, rather than privileging large multinational corporations and the richest countries.

Inequality is worsening, including in G20 countries

Inequality – both of wealth and income - is a problem knocking hard now on the doors of the G20 nations. In the time that Australia has held the G20 Presidency (between 2013 and 2014) the total wealth in the G20 increased by $17trviii but the richest 1% of people in the G20 captured a staggering $6.2tr of this wealth; 36% of the total increase. This is because in the vast majority of G20 countries the richest 1% of people took an even bigger share of the economic pie in the past year.ix Yet G20 countries are still home to more than half of the world’s people living in poverty.x The G20 cannot afford to ignore the problem of inequality.
Income inequality across the G20 countries shows similar worrying trends. For all of the nine G20 countries that have sufficient data available, the richest 1% of people (as measured by their income) have increased their income share significantly since 1980. In 1980 the top 1% in Australia, one of the more equal countries in the G20 at the time, earned 4.8% of the country’s income. By 2010, this group captured an additional 4% of the pie, with a share of more than 9%. In the US, the richest 1% started the 1980s with just over 8% of national income. By 2012, their share had increased to a massive 19%.
The growing gap between the rich and the rest is preventing millions of people from lifting themselves out of poverty. Recent research from Oxfam has shown that in countries like Kenya, Indonesia and India, millions more people could be lifted out of poverty if income inequality were reduced.¹¹ Inequality hinders growth, corrupts politics, stifles opportunity and fuels instability.¹²

G20 countries need to think beyond increasing GDP and prioritise inclusive growth that will boost the living standards of the majority and not just the wealthiest

Global economic stability is an urgent priority for G20 leaders. However, the Australian Government, as president of the 2014 G20, has refused to recommit the group of 20 to an inclusive growth agenda, and thus far has not acknowledged the impact of inequality on growth. Financial institutions such as the IMF, the World Bank and the OECD and many other G20 governments do recognise the issue as a threat to growth and among them is next year’s host, Turkey. For this reason, it is crucial that momentum on inequality is not lost this year and that the G20 commits to inclusive growth, with specific measures to be implemented and reported on next year.

If G20 countries do not move to strategies that promote inclusive growth, there is growing evidence that they risk damaging the prospects for sustainable¹⁴ economic growth, not to mention ignoring the injustice of social and economic inequality.

Extremes of inequality are bad for growth and bad for achieving cohesive, democratic societies.¹⁵ In countries with extreme economic inequality, growth is not sustained and future growth is undermined.¹⁵ Earlier this year, the IMF said that it would be a mistake to focus on growth and let inequality take care of itself, because the resulting growth may be ‘low and unsustainable’.¹⁶

G20 countries need to commit to monitoring the impact of additional growth on the bottom 40% and the top 10% in their respective countries, and commit to closing the gap. Signing up to a post 2015 Millennium Development Goal that states their commitment to do just that would be an easy first step for each of them to take.

To date there has been insufficient focus by the G20 on reducing inequality between women and men. Across the G20 and beyond, women are paid less than men, do most of the unpaid labour, are over-represented in part-time work and are discriminated against in the household, markets and institutions. If present trends continue, it will take 75 years for the principle of equal pay to become a reality.¹⁷ Policies are needed to eliminate the barriers to women’s economic equality.

The recent announcement that G20 leaders are tackling gender inequality by aiming for a target to reduce the gender pay gap by 25 per cent by 2025 is certainly a welcome first step.

For the target to work, it will have to be accompanied by truly bold social policies that, for example, support fully accessible and affordable child care for all mothers and families, including the very poorest.

There is also a need for the G20 to make other commitments such as closing the gender pay gap, recognising women’s unpaid care work and guaranteeing equal political representation and fair living wages in the workplace.

The world’s growing social and economic inequalities have also been linked to the Ebola outbreak.
Jim Kim, President of the World Bank, and Dr. Margaret Chan, head of the World Health Organization, have both recently linked inequality and Ebola, with Chan stating: “The rich get the best care. The poor are left to die... Ebola has been, historically, geographically confined to poor African nations. The R&D incentive is virtually nonexistent. A profit-driven industry does not invest in products for markets that cannot pay.”

The Ebola outbreak is an unprecedented situation that requires huge international focus. Families and communities in Liberia, Sierra Leone and Guinea have been torn apart, distrust and fear have spread, and around 4000 children have lost one or both parents.

As major players on the world economic and political stages, G20 leaders have a crucial role to play in the global efforts to combat Ebola in West Africa, both in terms of mobilising an extraordinary outlay of resources, effort and political will, and in the longer term, providing greater funding for health systems in some of the world’s poorest countries to ensure these types of crises cannot take hold again.

To tackle inequality, G20 countries must also work with all countries to end the race to the bottom on corporate tax, and go beyond BEPS to fill all the cracks in the global tax system

In 2013, the G20 took the long-awaited and welcome initiative of committing to tackling corporate tax dodging by endorsing the OECD action plan against Base Erosion and Profit Shifting (BEPS). We also acknowledge the G20’s additional global tax reform initiatives, such as that to promote a standard model for automatic exchange of tax information. The G20 should support an approach that enables developing countries to receive tax information without having to reciprocate while they build their capacity. Otherwise, it will exclude less advanced economies from the benefits of transparency in tax matters. At present, only half of G20 countries have committed to implement the new standard by 2017, and the position of key countries including India, USA and Switzerland remains unclear. The decision to share country-by-country-reporting information between tax administrations is also a positive step. Country-by-country reporting information should, however, also be public so that citizens - not just governments - can see if multinationals are paying their fair share of tax. That would be genuine transparency.

Despite this progress, there is a need for more fundamental and deep-seated reform to the global tax system, which has thus far been off the table for discussion within the G20 and the OECD. Issues such as source versus residence taxation (the question of where profits are to be taxed – where the company is tax-resident or where it generates its income), tax competition between countries (whereby countries reduce their tax rate or offer tax incentives to attract foreign investment), and “spillover” effects, especially on low income countries (the impact of tax rules and practices in one country on other countries) are not being sufficiently addressed.

These topics are of particular importance to developing countries. G20 countries have a responsibility to ensure that tax reforms serve the interests of all countries. This requires going beyond the current tax reform agenda and working with all countries in an equal partnership to re-write, not ‘tinker with’, global tax rules to ensure that companies are paying their fair share of tax to serve the public interest globally.

Companies need to pay their fair share of tax if we are to tackle inequality.

Inequality rises when tax rules are unfair. When corporations pay less tax, profits increase, and these profits accrue overwhelmingly to the top 10% and 1% richest people especially. In the US, for example, about 80% of corporate income is held by households in the top fifth of the income scale, and about 50% is held by the top 1%.
Governments make up shortfalls by levying higher taxes on other, less wealthy sections of society. This is particularly unjust because corporations depend on “public goods” that have been paid for by taxes, like educated and healthy workforces and infrastructure like roads and ports.

It is impossible to calculate the true extent of the financial losses that all countries sustain because multinationals do not pay taxes proportionate to their real profits. Nevertheless, conservative estimates for potential tax losses are in the billions.

Estimates of how much developing countries lose because of gaps in the international tax system vary, but by Oxfam’s recent calculations, developing countries lose at least US $100 billion every year because of corporate tax dodging and generous tax breaks for corporations. This would be almost enough to get every child into school four times over.

In 2012, Sierra Leone’s tax incentives for just six firms were equivalent to 59% of the country’s entire budget - more than eight times the government’s spending on health, and seven times the spending on education.

Yet this is one of the countries where Ebola is spreading at a terrifying pace. It is no coincidence that the countries where the deadly virus has hit hardest are some of the poorest in the world. Sierra Leone, Liberia and Guinea are ranked in the bottom 12 countries on the Human Development Index and are among the world’s worst resourced when it comes to health infrastructure.

Most developing countries do not have a place at the table where global corporate tax rules are set.

In spite of the importance of corporate tax revenue for developing countries, these countries are marginalised from major international tax negotiations. The OECD’s BEPS process – touted as the only game in town to ‘re-write global tax rules’ - may include the 44 countries that represent 90% of the world’s economy but to date the reform negotiations have not included governments representing more than a third of the world’s population.

It is true that the OECD has taken steps to consult developing countries as part of the BEPS process. According to the OECD it has consulted more than 80 developing countries through four regional consultations and five thematic global fora. The OECD worked with regional tax administration bodies like ATAF (Africa) or CIAT (Latin America) to organise consultations in Asia, Latin America and Africa for March 2013 and a fourth round in Paris for African francophone countries.

However, many representatives from developing countries either could not participate in the meetings or expressed concerns that they did not have access to enough information to meaningfully contribute to negotiations. Moreover, it is not clear how the input received from developing countries has been fed into the technical groups carrying out the work on BEPS. The OECD is keen to support processes that promote the full and equal participation of non-OECD and non-G20 countries in decision-making processes. We welcome that the OECD has accepted that more needs to be done.

As recognition of the unbalanced participation so far, the OECD is expected to announce a roadmap to ‘upgrade’ developing countries’ involvement in the BEPS process negotiations ahead of the G20 Summit.

In spite of these outreach efforts, the fact remains that developing countries are not equal negotiating partners in the BEPS process. The fault does not lay with the OECD. The fact is the OECD is ultimately accountable only to its member countries. Similarly, the G20 can
only fully represent its members. For this reason, a more legitimate and representative process is required to deal with other aspects of global tax reform. An increasing number of institutions and countries are recognising this, alongside other concerns, and are challenging the process as a result.

For example, in October 2014, a grouping of Finance Ministers from Francophone Low Income Countries made a statement about the need for a more legitimate process to reform international tax - one that addresses the issues in the current tax system that most contribute to inequality, injustice and lack of revenue for governments. They specifically mentioned the problem of continuing tax competition.xxvii

In India’s August 2014 submission to the UN Tax Committee it said: “In many of the discussions and decisions at the OECD, India gathers the impression that the real issues are being swept under the carpet and the superficial ones are sought to be addressed.”xxviii

In September, the United Nations Conference on Trade and Development (UNCTAD) stated “the current globalized economy encourages tax competition among countries and the international tax architecture has failed, so far, to properly adapt to this reality - thereby allowing a massive haemorrhaging of public revenues.”xxx

Also in September, IMF representatives stated: “What is important now is to recognise that beyond the current initiatives, important though they are, lie deeper unresolved issues that have hardly begun to be addressed.”xxx

**G20 countries must accept a more broad and ambitious agenda is required beyond the BEPS action plan, involving all countries to write corporate tax rules that work in the public interest.**

All the solutions offered through the OECD-BEPS process so far build on and reinforce the existing international tax system, including the arm’s length principle (which allows multinational companies to treat their subsidiaries as separate entities, allowing them to ‘shift’ profits between them) and a tax treaty system which gives preference to ‘residency countries’ (usually rich countries) over ‘source countries’ (usually poor countries).xxxi

The broken international tax system and the race to the bottom on corporate tax are much more far-reaching than the issues covered by BEPS. In other words, the rhetoric of the OECD and the G20 Finance Ministers at the September finance ministers’ meeting – on how global tax reform is really being tackled - is not matched by reality.

It is high time the G20 acknowledge that the OECD-BEPS process by itself will not deliver all that is needed and commits to investing in a complementary process of global corporate tax reform that can - one that is committed to a fundamental review of international taxation and possible alternatives to the current system. And one in which developing countries can be a central part of setting the rules in the interests of all.

**What Oxfam wants from the G20:**

- Acknowledge inequality is a serious global problem requiring action in the Brisbane Action Plan, and make a commitment to address inequality, and promote inclusive, equitable and sustainable growth policies.

- Finish the job of clamping down on tax dodging by multinationals – by going beyond the global tax reform under way to promote the inclusion of all developing countries in decision-making, and broadening the scope of tax negotiations to include public country by country reporting, non-reciprocal automatic information exchange,
reporting requirements for extractive industry companies and public beneficial ownership registries.

- Acknowledge the role that growing social and economic inequalities in the world have played in the Ebola outbreak, and commit to both scaling up the response to the crisis to reduce the spread of the disease, and to investing in quality public health services to prevent such crises in future.

- A more comprehensive commitment to addressing gender inequality such as closing the gender pay gap, recognising women’s unpaid care work and guaranteeing equal political representation and fair living wages in the workplace.

**Oxfam policy experts at the Summit**

Oxfam will have a team of policy experts at the Brisbane summit, available for interview, comment and analysis in English, Spanish, French and Turkish.

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i Mid 2013 and mid 2014 data in current US$

ii 15 of the 19 G20 countries (not including the EU) saw the richest 1% of adults increase their share of wealth between 2013 and 2014: Argentina, Australia, Brazil, China, France, Germany, India, Indonesia, Italy, Korea, Mexico, Russia, South Africa, Turkey, United Kingdom. In these 15 countries the richest 1% of people’s share of wealth increased by nearly 3% on average. The countries that saw the biggest increases in their share of wealth for the top 1% in the last year were Russia (3.9%) and Argentina (3.7%) and Indonesia (7%). In just 4 G20 countries the share of wealth of the top 1% of adults decreased, by just 0.1% in Canada, Japan and the US and by -1.6% is Saudi Arabia.

iii Oxfam analysis using World Development Indicators data from 2011/2010 (latest available) for % of Population Living on Less Than $2/day. G20 countries make up approximately 53% of the population living on less than $2/day for 2010/2011.


v Oxfam ‘Even It Up’ report

vi The 100 billion total is is based on two calculations. The first is an estimated “corporate tax gap” of $49.8 billion across developing countries (as defined by the World Bank – ie. low and middle income countries) using new data on corporate income tax revenue from the ICTD Government Revenue Dataset. This assumes a 22% corporate tax gap in developing countries (the difference between actual tax collected and expected tax
collected), due to tax avoidance and evasion based on the methodology presented here: http://www.actionaid.org.uk/sites/default/files/doc_lib/post_2015_-_tax.pdf. The second is $55 billion of foregone revenue due to tax breaks, using new data on corporate income tax revenue from the same ICTD dataset, using the methodology of 24% of corporate tax revenue in “foregone revenue due to tax exemptions” as presented here: http://www.actionaid.org/sites/files/actionaid/give_us_a_break_-_how_big_companies_are_getting_tax-free_deals_2.pdf


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Oxfam calculations based on data from the World Top Incomes Database

Oxfam, ‘Even It Up’ report.

The measure of GDP alone also fails to take into account the costs of climate change, which are already being disproportionately felt by the poorest, most vulnerable communities worldwide. And much of this growth will often be at the expense of the climate – until there are proper policies in place which make polluters pay for their emissions through proper pricing of carbon. For Oxfam’s recent papers on climate change and hunger and on the need for strong climate policies in the EU see http://www.oxfam.org/en/grow/research/hot-and-hungry?utm_source=oxf.am&utm_medium=KwN&utm_content=redirect and http://www.oxfam.org/en/grow/policy/eu-2030-energy-and-climate-change-package

Oxfam, Even It Up report

Oxfam, Even It Up report


http://www.huffingtonpost.com/jim-yong-kim/the-fight-against-ebola-i_b_5938716.html


This is based on an estimated “corporate tax gap” of $49.8 billion across developing countries (low and middle income, as defined by the World Bank) using new data on corporate income tax revenue from the ICTD Government Revenue Dataset. This assumes a 22% corporate tax gap in developing countries (the difference between actual tax collected and expected tax collected), due to tax avoidance and evasion based on the methodology presented here: http://www.actionaid.org.uk/sites/default/files/doc_lib/post_2015_-_tax.pdf. It also includes $55 billion of foregone revenue due to tax breaks, using new data on corporate income tax revenue from the same ICTD dataset, using the methodology of 24% of corporate tax revenue in “foregone revenue due to tax exemptions” as presented here: http://www.actionaid.org/sites/files/actionaid/give_us_a_break_-_how_big_companies_are_getting_tax-free_deals_2.pdf

The BEPS process includes 44 countries, which are the 34 countries currently members of the OECD plus the non-OECD G20 countries. The population of the countries in the world aside from these 44 countries makes up 35% of the world’s population.

As explained by Action Aid in its September 2014 paper, the distinction between residence and source taxation can be defined as whether you tax money where it is earned (source taxation) or where the person or company earning the money is based for legal purposes (residence taxation). This creates a natural tension between the interests of those countries where most multinational companies reside (usually in rich countries) and developing countries (often source countries). Addressing the current imbalance between source and residence taxing rights would be very valuable for developing countries.