G20 Performance on International Taxation

Michael Motala
April 8, 2020 | Last updated: April 14, 2020

Michael Motala, researcher with the G20 Research Group, details the G20’s commitments and progress in improving fairness in the global taxation system.

When G20 leaders meet in Buenos Aires, they will again discuss improving fairness in the international taxation system. As host, Argentina will focus on opportunities and challenges due to technological change and digitalisation. Its summit will seek to fight tax avoidance and evasion, work towards implementing transparency commitments, avoid base erosion and profit shifting (BEPS) by digital multinational corporations and identify how the digital economy generates value.

The G20 is well positioned to reaffirm its commitments on BEPS, including adopting the findings on rulings exchange among developing countries, implementing updates to tax treaties to reflect new standards and sanctioning non-compliant regimes.

Commitments
Since 2008, the G20 has made 75 commitments on international taxation: 3% of its 2,398 commitments overall. Its first commitment came at the 2008 Washington Summit, where it pledged to work with the Organisation for Economic Co-operation and Development (OECD) and address the lack of transparency in global tax governance owing to the failure of information sharing. At the 2012 Los Cabos Summit, it tasked the OECD with addressing tax base erosion, profit shifting and the digital economy. At St Petersburg in 2013, leaders committed to the automatic exchange of information (AEOI) as the new global standard and reaffirmed their full support of the OECD’s work. In 2014 at Brisbane, they welcomed significant progress on the OECD/G20 BEPS Action Plan.

Base erosion refers to tax planning strategies that exploit gaps and mismatches in tax rules to artificially shift profits to low- or no-tax locations with little economic activity. Most corporations engage in legal forms of profit shifting, resulting in tax avoidance, but other techniques are illegal, resulting in tax evasion. The BEPS initiative is concerned with tax avoidance by multinational corporations. In 2015, the OECD estimated that corporate profit shifting erodes up to $240 billion from the global tax base.

The G20 reaffirmed its previous commitments at Antalya in 2015. At Hangzhou in 2016, leaders committed to achieving a global fair, modern tax system, pledging support for timely, consistent and widespread implementation of the BEPS package. The G20 again reaffirmed these objectives at Hamburg in 2017, adding that leaders would undertake defensive measures against non-cooperative jurisdictions with insufficient tax compliance. In short, the G20 has reaffirmed the BEPS Action Plan at every summit since 2013.

Compliance
Of the 75 commitments made since 2008, five corresponding with the BEPS Action Plan have been assessed by the G20 Research Group for G20 members’ compliance. Compliance averages 87%, and is rising. The first assessed commitment, in which leaders pledged to change rules to tackle tax avoidance and aggressive corporate tax planning, was agreed at St Petersburg in 2013, and secured compliance of 68%. The second commitment, with 90% compliance, was agreed at Antalya in 2015, where the G20 reaffirmed its commitment to AEOI by the
end of 2018. Third, the G20 also committed at Antalya to strengthening developing economies’ engagement with the international tax agenda, which achieved compliance of 93%. Fourth, at Hangzhou in 2016 the G20 committed to continuing support for tax cooperation through BEPS, and secured compliance of 83%. Fifth, following the Hamburg Summit in 2017, overall interim compliance with the BEPS action items was 100%.

Causes and consequences
The global financial crisis in 2008 and the shock of the 2012 transatlantic scandals exposed the tax avoidance practices of Starbucks, Amazon, Apple and Google. Tax cooperation went to the top of the global political agenda. In December 2012, the British House of Commons issued a report condemning the use of secret jurisdictions, royalties and complex corporate structures used by firms to avoid paying their fair share of taxes. Across the Atlantic, the White House issued the President’s Framework on Business Tax Reform, articulating the need to cut tax loopholes and subsidies. These events culminated in the G20 tasking the OECD with developing a new international taxation agenda now known as the OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting.

Although the first five years of the BEPS initiative have been lauded due to the successful cooperation and implementation of the BEPS action items, the election of US president Donald Trump and the European Commission’s unilateral approach to taxing digital technology companies raise important questions about the future of global tax governance. The 2017 tax overhaul by the US Congress strongly suggests the United States is seeking to enhance its tax competitiveness.

The European Commission’s decision to fine Amazon $294 million for illegal tax advantages in October 2017, coupled with its proposed 3% tax on digital multinational corporations ahead of the G20 finance ministerial meeting in Buenos Aires, has raised the ire of US treasury secretary Steven Mnuchin. This recent transformation in the tone of transatlantic fiscal relations portends a shift from strong plurilateral cooperation within the G20 to a unilateral beggar-thy-neighbour approach driven by the imperatives of global tax competition.

Corrections
At Buenos Aires, the G20 must do more than reaffirm its past commitments on BEPS and on a more transparent international taxation system. Although it boasts a perfect compliance score on the most recently assessed collective commitment on the BEPS Action Plan, ongoing revelations about aggressive corporate taxation practices underscore members’ sustained vulnerability to aggressive tax avoidance and efficient tax planning. What is needed is an enhanced commitment to monitoring and enforcing compliance, treaty harmonisation and sanctioning of non-compliant regimes.

The views and opinions expressed in this article are those of the authors and do not necessarily reflect the views of the Global Solutions Initiative. This article was originally published in G20 Argentina: The 2018 Buenos Aires Summit by GT Media Group and the G20 Research Group, 2019. View the original article.