# ECLAC Inputs for the report on the Promotion of Inclusive and Effective Tax Cooperation at the United Nations

**The need for an international cooperation and multilateral agreement for a fair and transparent global tax system, particularly for developing countries**

- There is growing recognition that international cooperation is needed to fundamentally reshape the global tax system to be fairer and more transparent to contribute to the transformation of our global economy. At the global level, it is important to build consensus to advance an international tax reform proposal that generates revenue for financing sustainable development and provide an SDG stimulus.
- From the perspective of developing countries, ensuring a fair international tax system is a major priority, given the important weight of multinationals in their economies. While tax measures in recent years have closed loopholes at the margins, the tax framework is fundamentally the same. Institutional partners include the United Nations and its agencies, the OECD, the IMF, World Bank, regional multilateral banks, such as the Inter-American Development Bank, national tax administrations, and regional and multilateral tax entities.
- Developing countries require international cooperation to improve access to financing for development to strengthen fiscal space and overcome impacts of crises, including the triple crisis on food, energy and finance, and the COVID-19 pandemic. Middle income countries, such as the ones in Latin America and the Caribbean, require access to financing for development to align their economic recovery on a path with the reduction of existing inequalities and structural gaps.
- Another priority for developing countries is to advance a global agreement to eliminate spaces for tax evasion and illicit financial flows (IFFs). This agreement should target the reduction of tax evasion by multinationals and individuals through tax havens and profit shifting. In Latin America and the Caribbean, the tax losses from tax evasion are staggering. ECLAC estimates that evasion of income tax and value added tax resulted in a loss of US$ 325 billion in 2018, equivalent to 6.1% of the region's GDP. Available studies suggest that income tax non-compliance is particularly serious: many countries collect less than half of the revenue that their systems should theoretically generate. ECLAC estimates for IFFs in the region from trade misinvoicing suggest that many of these flows are linked to products that are part of global value chains, pointing to possible abuses related to transfer pricing.
- Limiting losses caused by tax evasion and IFFs will require greater international cooperation to curb these illicit practices. The agreements reached as part of the Inclusive Framework for BEPS are an encouraging first step, but more ambitious agreements are crucial for developing countries.
- International cooperation will also be required to complement actions at the national level to ensure that new internationally accepted best practices are adopted and successfully implemented. Tax frameworks will need to be strengthened to face 21st century challenges. Beyond legislation, substantial investments will also be required to strengthen tax and customs authorities. To that end, the international community must follow through with its commitments made as part of Sustainable Development Goal 17, allowing developing countries to leverage additional resources to invest in their tax systems.

The need for a global tax agreement on extractive industries

- Extractive industries are important sources of public revenues for developing countries. In Latin America and the Caribbean, fiscal revenues from oil and gas exploration and production averaged 2.6% of GDP in 2021, spanning a range from 0.1% of GDP to 8.2% of GDP at the country level. Oil and gas revenues in some countries represented more than 20% of total public revenues in 2021. Mining revenues in the region averaged 0.7% of GDP in 2021, reaching upwards of 3% of GDP in some countries.
- It is imperative to introduce more progressive and transparent fiscal regimes, backed by supporting international tax frameworks, to ensure that developing economies receive a just share of the economic rents from the sector. Given the potential power asymmetries between large multinational oil and gas and mining enterprises and developing countries, global and regional agreements are needed to halt pressure on governments to lower royalties and avoid the race to the bottom with tax incentives and tax breaks, which limit public revenues from royalties and related instruments and investments locally.
- The sector is set to undergo major change as countries globally enact measures to meet their greenhouse gas emissions reductions outlined in their national determined contributions as part of the Paris Accord. A net-zero transition will result in a sharp decline in hydrocarbon revenues in the region, with a concomitant impact on public finances, potentially leading to explosive debt dynamics (Titelman and others, 2022). Against this backdrop it is crucial for hydrocarbon producers to adopt fiscal frameworks that maximize their participation in the economic rents of the sector in order to provide long-term financing for transformative investments. In contrast, the widespread adoption of low-carbon technologies will dramatically increase demand for certain minerals and metals. For mining countries, it is important to strengthen their fiscal frameworks in anticipation of future developments.
- IFFs from the extractive sector are also a key concern for policymakers in the region. Given the sheer size of revenues and profits from extractive activities, any losses due to IFFs can have severe consequences for public revenues. ECLAC estimates that IFFs of transactions related to non-renewable natural resources originating from the region totaled US$ 131.5 billion in a decade, 3% of GDP annually. Therefore, a global push towards more transparency is required, with global rules and accountability to strengthen tax and customs administrations and a push for a full disclosure of real value of exports and profits made.

The detrimental impact of illicit financial flows (IFFs)

- IFFs threaten countries' ability to achieve the 2030 Agenda. The lack of reliable statistics on IFFs creates high uncertainty about their size, origins, and impact on development and hampers policy action to combat IFFs.
- Tackling tax evasion and IFFs, which are key barriers to domestic resource mobilization in Latin America and the Caribbean, will require strong cooperation at the multilateral level. Tax non-compliance in Latin America resulted in an estimated loss of US$ 325 billion in 2018, equivalent to 6,1% of GDP. IFFs arising from the manipulation of international trade in goods are estimated to have reached US$ 85 billion in 2016 (1,6% of GDP).
- These efforts should be supported by multilateral agreements to reduce tax evasion by multinational corporations and of natural persons through tax havens and the transfer of profits, as well as IFFs.
- IFFs stand at the crossroad of several different policy agendas. IFFs originating in the legitimate economy divert resources for development, erode the tax base, and hamper structural transformation and sustainable economic growth. Large-scale organized crime (and other illicit economic activity) weakens state institutions by fueling corruption and violence and undermines the

rule of law. It discourages public and private investment and deprives the legitimate economy of resources that are needed for sustainable development in all its dimensions. Combating IFFs, therefore, is a crucial component of global efforts to promote peace, justice, and strong institutions, as reflected in target 16.4 of the Sustainable Development Goals: “By 2030, significantly reduce illicit financial and arms flows, strengthen the recovery and return of stolen assets and combat all forms of organized crime”.

- Within the UN System, UN Regional Commissions have played a key role in the analysis and estimation of IFFs and bringing this work to the global agenda. This work was given significant impetus in 2011 when the 4th Joint African Union Commission/United Nations Economic Commission for Africa (AUC/ECA) called on the Economic Commission for Africa (ECA) to create a High-Level Panel on IFFs from Africa. The panel, which began its work in the following year, was given the mandate to assess the volumes and sources of IFFs, explore how IFFs occur in Africa and to develop actional policy advice for countries in Africa and in the rest of the world. The High-Level Panel on IFFs published early estimates of tax and commercial-related IFFs, produced by ECA, that revealed the large scale of resources lost to IFFs in the region1.
- The detrimental impact of IFFs on financing for development was a key issue of debate during the Third International Conference on Financing for Development held in Addis Ababa in 2015. Signatory countries to the outcome document of the Conference, the Addis Ababa Action Agenda, pledged to redouble their efforts to reduce IFFs with the aim of eliminating them. The outcome document also acknowledged the work of the High-Level Panel on IFFs in Africa and called on international and regional organizations to publish estimates of the volume and composition of IFFs.2 As a result, the UN Regional Commissions began pioneering work to publish estimates of tax and commercial IFFs for their region, including ECLAC in 2016 and ESCWA in 2018.

### Trade-related IFFs and tax evasion estimates in Latin America and the Caribbean

The Addis Ababa Action Agenda, adopted to during the Third International Conference on Financing for Development, placed the topic of IFFs squarely in the regional debate on financing for development. While trade and capital flows associated with illicit activities were an acknowledged pre-existing problem in the region, the work of the conference elevated the topic from a purely national consideration to one with regional implications. To support these nascent regional policy discussions, ECLAC produced its first estimates of IFFs due to trade misinvoicing, in line with the mandate established in the Action Agenda, in 2016 (ECLAC, 2016a). A methodology was developed by ECLAC to produce detailed estimates of IFFs by destination countries and products with the aim of providing countries with analytical tools to inform policymaking.

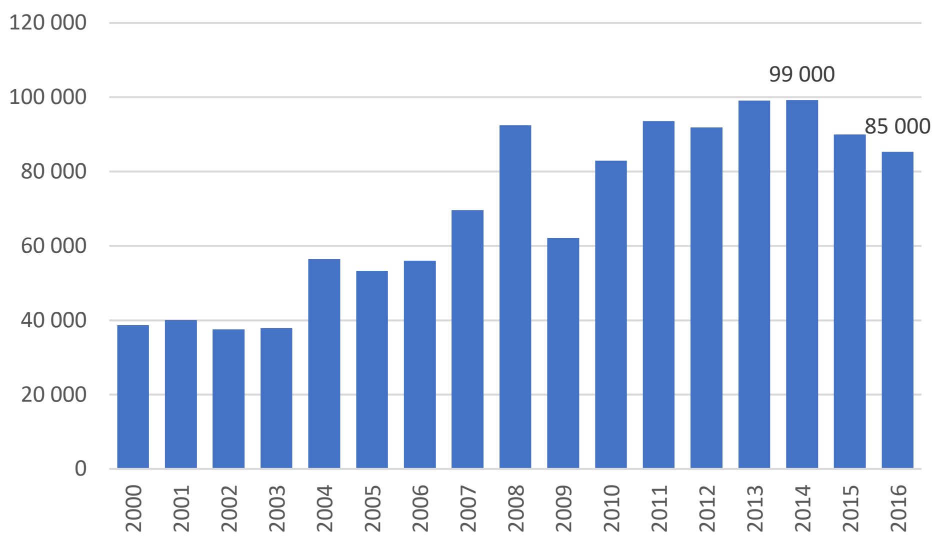
ECLAC’s initial estimates, included as part of the Economic Survey of Latin America and the Caribbean 2016, highlighted the varied nature of IFFs in the region. A key finding was that a significant share of estimated IFFs was related to goods traded as part of global value chains – such as semiconductors, automobiles, and textiles – often between related enterprises (ECLAC, 2016a). IFFs related with trade in non-renewable natural resources were also found to be significant, which led to additional research into IFFs in mining, including the use of price filters applied to specific products (ECLAC, 2016b).

[1] ECA (2015).
[2] Addis Ababa Action Agenda, para 24.

ECLAC's work in this area complemented policymaking efforts addressed at tackling aggressive tax planning practices, particularly the abuse of transfer pricing, by multinational enterprises, being developed in other forums such as the G20/OECD Base Erosion and Profit Shifting (BEPS) project. For example, the Mexican tax authority announced an initiative to crack down on these practices after the launch of the report and subsequent press coverage.

Updated estimates suggest that the overall volume of trade related IFFs has declined in recent years (ECLAC, 2019). In 2016, gross outflows reached US$85 billion, equivalent to 1.5% of regional GDP (figure 2). The fall in estimated IFFs reflects lower outflows from Brazil, Colombia and Costa Rica as well as a reduction in IFFs related to non-renewable natural resources. IFFs also fell as a proportion of export values for a range of goods, suggesting that this result was not driven just by a decline in exports, but also corresponds to measures taken by tax and customs administrations.

Figure 2.
**Latin America and the Caribbean (33 countries): estimated value of trade misinvoicing, 2000-2016**
(Millions of dollars)



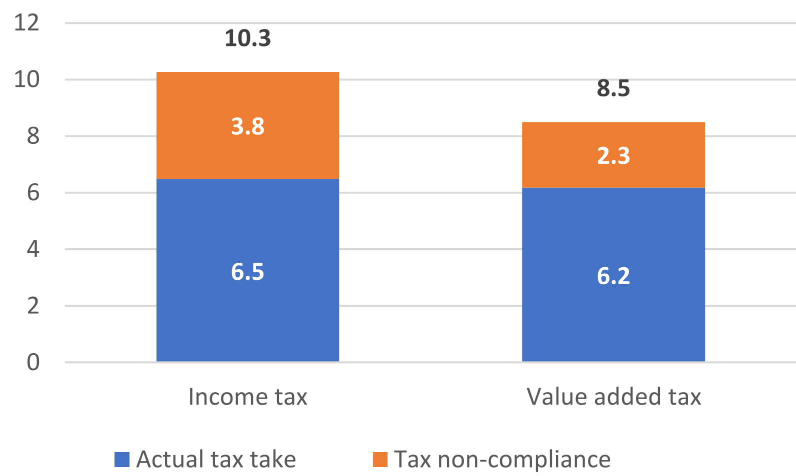

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC).

Another historical barrier to resource mobilization efforts in the region is tax evasion.[3] While tax non-compliance is not unique to the region, it is pervasive and entrenched. Domestic tax evasion, especially by enterprises and high net-worth individuals with the capacity to shift resources to tax havens and offshore financial centres, can also serve to increase IFFs. Research suggests that tax systems in some countries of Latin America receive less than 50% of the revenues from corporate and personal income taxes that they should theoretically generate (ECLAC, 2020). The scale of evasion, and by implication the potential size of the pool of additional IFFs, is reflected in the results of recent tax regularization programmes in the region that resulted in significant one-time revenues in countries such as Costa Rica (0.6% of GDP in 2018-2019) and Trinidad and Tobago (1,5% of GDP in 2019) (ECLAC, 2020). During 2020, measures to tackle tax evasion and avoidance, especially of large firms, by the Tax Administration Service (SAT) of Mexico resulted in 1.7% of GDP in revenues (ECLAC, 2021).

[3] While there is no one commonly accepted definition of tax evasion it can be broadly defined as the illegal failure, intentional or unintentional, to pay taxes. A related, although more narrowly defined, concept is that of tax non-compliance which is the deliberate attempt to illegally avoid or reduce the liquidation of tax liabilities. This differs from tax avoidance, where legal means that go against the spirit of the law are used to reduce tax liabilities.

In recognition of this key challenge for domestic resource mobilization in the region, ECLAC began to produce estimates of tax evasion in Latin America in 2016 with the aim of supporting regional policy discussions (CEPAL-Oxfam, 2016; ECLAC, 2016c). In the intervening years these estimates have driven the regional discussion on efforts to tackle tax evasion, providing an important benchmark for focussing attention on this key issue. Estimates for 2018 suggest that tax evasion in Latin America resulted in US$ 325 billion in lost revenues in 2018, equivalent to 6.1% of GDP (ECLAC, 2020). Income tax evasion accounts for a significant share of this amount (equivalent to 3.8% of GDP), with evasion of the VAT estimated at 2.3% of GDP (figure 3).

Figure 3.
**Latin America: estimated income tax and value-added tax (VAT) non-compliance, 2018**
(Percentages of GDP)




**Source:** Economic Commission for Latin America and the Caribbean (ECLAC).

## A global proposal to reshape the global tax system to improve international cooperation against tax evasion and IFFs should take the following into consideration:

- **Putting the United Nations at the centre of international tax and financial affairs.**
    - The United Nations can play a catalytic role in this space, ensuring that the voice of all countries, and especially developing countries, are heard in processes where new rules and regulations are formulated with significant impact on their ability to mobilize resources for sustainable development.
    - To that end, the role of the Committee of Experts on International Cooperation in Tax Matters must be strengthened, incorporating an intergovernmental mechanism for building the consensuses necessary for international rulemaking in favour of domestic resource mobilization.
    - Expand the role of the UN Tax Committee to incorporate intergovernmental mechanisms for the discussion and agreement of international tax and financial affairs.

- **Upgrading existing tax frameworks.**
    - Incorporate newly agreed international tax measures into domestic tax frameworks. This may require significant modifications depending on each country case.
    - Introduce or strengthen anti-tax evasion rules to provide tax administrations with additional tools to address aggressive tax planning.
    - Create an international best practices framework for tax and customs administration that is regionally adapted to standardize tax and financial information and strengthen financial transparency measures, especially pertaining to beneficial ownership.

- **Strengthening tax and customs administrations.**
    - Generate tools to improve compliance and oversight, including investments in technology and staff specialization.
    - Advocate for the international community to provide needed financing and technical assistance (including investments) in line with SDG 17.1.
    - Support tax and customs administrations to strengthen tax compliance and oversight. Specific areas to be developed:
        - Adoption of electronic invoicing across the board, including domestic commercial transactions and customs filings.
        - Creation of specialized units specifically targeting large taxpayers; assembling teams to tackle trade-related IFFs for products with a high potential for capital outflows.
        - Application of big data and other data cross-matching procedures to detect tax and trade irregularities; build synergies with data products deriving from international initiatives (CbC reporting, tax and financial information exchange).
        - Creation of one-stop and online facilities to improve voluntary tax compliance.
        - Development of electronic payment mechanisms to speed payments by taxpayers and refunds from tax authorities.

- **Adopting estimations of IFFs and relevant policy measures.**
    - Using existing regional political and economic institutions to drive adoption of IFF volume estimations and related policy measures. These entities are well placed to provide spaces for South-South dialogue, channel technical assistance requests and adopt mandates to spur action at the national level. Estimation of IFF volumes, supported by the UN developed statistical framework, can support domestic resource mobilization by:
        - Building public consensus and policy momentum to take actions to tackle IFFs, which in some cases may require confronting pressures from domestic actors, political and economic.
        - Refining methods so that supporting agencies who participate in the production of IFFs estimates with national statistical offices can improve the supervision and control of IFFs. For example, skills upgrading and technical investments in methodologies and data will be crucial to support tax and customs administrations address IFFs as well

as domestic and international tax evasion and avoidance. ECLAC's work on trade related IFFs highlighted the value of these estimates for identifying potential areas for transfer pricing abuses.4

- **Building regional positions with respect to the international tax debate.**
  - Middle- and low-income countries have a limited influence in the global tax and financial debates. This asymmetry must be reduced by providing technical assistance and promoting consensus in forums to construct a regional position, which in turn would allow countries to better engage in international tax debates, benefit the countries' efforts to mobilize financing for development, and tackle tax evasion and IFFs.
  - Analyse the impact of different international tax reform proposals in the region.
  - Regional Commissions can promote the creation of regional positions to provide countries with additional leverage as they participate in international tax rule-making processes. They can provide technical assistance and forums to:
    - build regional agreements to reduce tax evasion and reduce IFFs,
    - facilitate transfer pricing reviews,
    - improve the supervision and control of foreign assets, and
    - strengthen of the use of automatic exchanges of tax and financial information.

- **Progressive taxation.**
  - Have international community agreements and technical assistance to strengthen domestic tax frameworks in favour of progressive and environmental taxation.
  - Ensure that multinational enterprises pay taxes where value-added is created.

- **Tax frameworks to cover the digital economy.**
  - Financial technology innovations, including cryptocurrencies, may constitute new forms of untaxed financial flows.
  - The rapid growth of the digital economy has eroded national tax bases. Taxing the digital economy should also be a priority area for multilateral coordination.
  - Provide support to countries through policy research and technical assistance to move towards digital taxation measures.

- **Taxes related to the environment and public health.**
  - Incentivize sustainable consumption and production through taxes.
  - In the case of countries that produce non-renewable natural resources, particularly mining countries, the fiscal frameworks applied to the extractive sector should be reviewed and strengthened to achieve greater progressivity.
  - Despite falling prices, fiscal revenues from non-renewable natural resources continue to play an important role in public finances of producing countries. During 2019, these resources accounted for more than 20% of total public revenues in some countries in Latin America and the Caribbean.

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[4] CEPAL (2016), Economic Survey of Latin America and the Caribbean 2016 (LC/G.2684-P), pgs. 123-130 [online] https://repositorio.cepal.org/bitstream/handle/11362/40327/50/S1600797_en.pdf

- **Incorporation of a gender perspective in fiscal policy.**
    - Achieve an inclusive transformative recovery through fiscal policy. There is growing recognition that fiscal policy is not gender neutral. It is important to continue promoting efforts to incorporate the perspective into fiscal policy in the region.
    - It is essential to generate information on public spending with an impact on gender, as well as to strengthen the capacities of the control entities to analyze the budget with a gender perspective. The inclusion of the gender approach in public procurement could be an important instrument in the development of women's SMEs and the generation of resources to promote women's autonomy.

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