

TAX AND THE UNITED NATIONS SUSTAINABLE DEVELOPMENT GOALS



Introduction

The International Chamber of Commerce (ICC), as the world business organization, works to promote open, rules-based multi-lateral trade and investment, the market economy system, sustainable economic growth, responsible business conduct and a global approach to regulation. ICC supports business' contribution to peace, prosperity and inclusive growth. In the area of taxation, ICC seeks to promote transparent and non-discriminatory treatment of foreign investments and earnings that eliminates tax obstacles to cross-border trade and investment.

ICC is an indispensable partner of intergovernmental organisations and international stakeholders in leveraging business engagement for a more sustainable world. In 2015 the United Nations (UN) General Assembly adopted the 2030 Agenda for Sustainable Development and the 17 UN Sustainable Development Goals (SDGs), calling on all countries to improve the lives of people everywhere. A core aim of the SDGs is to eradicate poverty in all its forms and dimensions, recognizing that it is the greatest global challenge and is an indispensable requirement of sustainable development.¹ Improving economic growth is a necessary driver to achieving this goal. ICC's mission to promote a system of open, cross-border exchange for the benefit of society as a whole underlines the integral role that international business plays in fostering growth and development.

This ICC paper will address how effective tax policy can facilitate economic growth, and in doing so, support the UN SDGs. The paper will highlight measures that would support trade growth and outline the potential risk areas that exist.

ICC policy approaches in support of SDG principles

ICC has been actively engaged throughout the UN SDG campaign and has continuously underscored the importance of collaboration between the private sector and intergovernmental organizations as vital to making progress towards achieving the SDGs and ensuring a more sustainable and prosperous future for all.

ICC issued the Business Charter for Sustainable Development (2015), which was specifically designed to enable companies to contribute to implementing the SDGs. Based around eight guidelines, the Charter sets out a strategic framework to enable companies to place sustainability at the heart of their operations. These guidelines include sustainable value chain approaches, transparency in communications and reporting, as well as inclusive economic growth and improvement. The framework makes the case for sustainability as a key driver of competitiveness in today's economy.

As the international community confronts the task of implementing the SDGs, ICC stresses the need for governments to maintain and strengthen investment promotion and protection agreements to help realize the vision of driving foreign direct investment in sustainable development. Investment, including foreign direct investment (FDI), plays an important role in determining a country's economic prospects. In Foreign Direct Investment—Promoting and

¹ <https://sustainabledevelopment.un.org/content/documents/21252030%20Agenda%20for%20Sustainable%20Development%20web.pdf>

protecting a key pillar for sustainable development and growth (2016) eight policy principles are established to provide a foundation for leveraging the investment needed to eradicate poverty, combat climate change and ensure inclusive growth. The paper notes that nations, as well as sub-central governmental units, should focus on clear, non-discriminatory and well-implemented policies, including on taxation. In doing so, countries help create a climate that nurtures private investment, including FDI.

In order to fully leverage information communication technology (ICT) for sustainable development, policy approaches must be consistent with the mutually supporting layers of the ICT ecosystem, spanning economic, technical, social, cultural, and governance issues. To this end, ICC also published a roadmap—ICT Policy and Sustainable Economic Development (2017)—to support governments in developing an interoperable, open, seamless and secure ICT ecosystem underpinned by private sector investment and robust multi-stakeholder dialogue. ICC encourages all governments to consider these recommendations in the development of enhanced policy frameworks, to harness the power of ICTs to drive economic, social and environmental progress towards realisation of the SDGs.

Interplay between tax policy making and economic growth

The world's population is predicted to increase by 2 billion people by 2050,² and the population of the world's least developed countries is projected to double³ by 2053, in some countries even tripling.⁴ By 2025 half of the world's population will be living in water-stressed areas.⁵ Under such circumstances, the need for large-scale investment in economic growth and development becomes evident.

Whilst there is no panacea, it is evident that greater alignment of investment and tax policies would be essential in promoting investment, job creation and economic growth. International commerce remains a powerful mechanism to help lift people out of poverty. Tax is intrinsically linked to development as taxation provides the revenue that states need to mobilize resources and reinforce a country's infrastructure. Taxation "provides a predictable and stable flow of revenue to finance public spending, and shapes the environment in which investment, employment and trade takes place."⁶

Further, it is important to have a fair, efficient, and effective revenue collection infrastructure to promote economic and social development. Domestic resource mobilization⁷ (DRM) has been proposed as a way to meet the SDGs with the development finance already available. However, DRM can be impeded by unclear and confusing tax systems. It is imperative that companies are able to move products and services into areas where they are most needed without unnecessary administrative impediments.

SDGs—how tax policy can facilitate their achievement

The adoption of the 2030 Agenda for Sustainable Development brought a commitment from all countries to a set of universal, integrated and transformational goals and targets—codified in the 2030 Agenda. However, translating the vision of the SDGs into action is a major challenge.

2 <http://www.un.org/sustainabledevelopment/blog/2017/06/world-population-projected-to-reach-9-8-billion-in-2050-and-11-2-billion-in-2100-says-un/>

3 http://www.un.org/en/development/desa/population/pdf/commission/2014/documents/ECN920143_EN.pdf

4 <http://www.unfpa.org/world-population-trends>

5 <http://www.who.int/mediacentre/factsheets/fs391/en/>

6 <https://www.cgdev.org/publication/can-stopping-tax-dodging-multinational-enterprises-close-gap-development-finance>

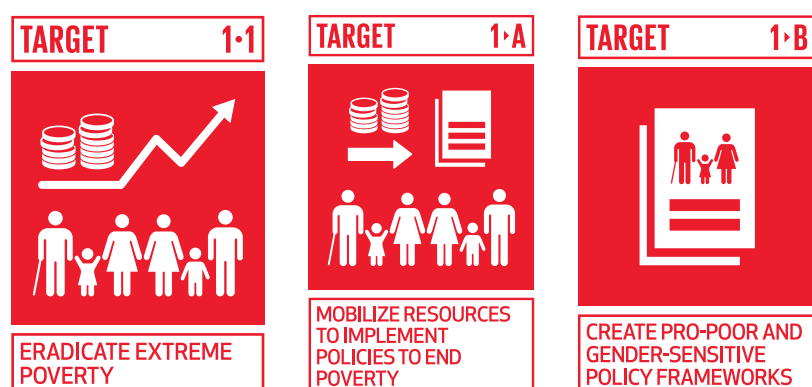
7 http://stats.unctad.org/Dgff2016/partnership/goal17/target_17_1.html

In addition to the ICC policy initiatives, the OECD released the document Policy Coherence for Sustainable Development (2017), which “seeks to inform policy making by showing how a policy coherence lens can support implementation efforts, drawing on OECD evidence and analysis. It identifies challenges and good institutional practices for enhancing policy coherence in SDG implementation, drawing on the experience of the early implementers of the SDGs. The report introduces eight building blocks for policy coherence for sustainable development, as well as a conceptual “coherence monitor” to track progress on policy coherence.⁸

Policy coherence helps create a level playing field which is essential to encourage investment. Successful economies create an enabling environment and infrastructure, which incorporate well-implemented policies that attract investment and support economic development and growth.

The aim of the SDGs is to relieve poverty and improve economic growth, and the private sector can be viewed as a key driver to achieving this goal. Taxation policy is a key component to help promote investment and economic development and has an integral role to play in facilitating the achievement of the SDGs as illustrated in the overview below:

Goal 1: No poverty⁹



Revenue collection contributes to national treasuries, which finances national development plans and in turn works towards reducing poverty. Effective tax policies are integral to ensuring that profits are taxed where economic value is created; corporate income tax should be levied according to where economic activity takes place and profits are earned. This principle is at the heart of the G20/OECD Base Erosion and Profit Shifting (BEPS) project. Collaboration with business, for an inclusive and transparent process, throughout the BEPS project has been essential to helping define the contours of a suitable global tax framework that encourages business activities, job creation and economic growth. Governments must agree on acceptable forms of tax competition and in return businesses must adhere to rules and principles agreed upon by and between countries. Predictable tax rules are essential for cross-border trade, business investment, jobs and growth. They set a solid foundation that enables mobilisation of resources.

⁸ <http://www.oecd.org/development/policy-coherence-for-sustainable-development-2017-9789264272576-en.htm>

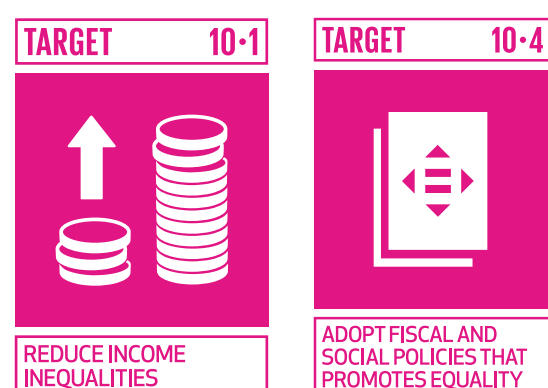
⁹ <http://www.oecd.org/development/policy-coherence-for-sustainable-development-2017-9789264272576-en.htm>

Goal 8: Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all¹⁰



The achievement of SDG 8 will require more private-sector investment. The Addis Ababa Action Agenda (2015) recognises this by stating that “private business activity, investment and innovation are major drivers of productivity, inclusive economic growth and job creation.” Income tax treaties could help trade grow by providing greater certainty for business, reducing double taxation and providing a mechanism to fight tax avoidance. The World Bank’s Paying Taxes 2018 report notes that for many businesses in developing countries the tax burden is already quite high. For example in sub-Saharan Africa, effective tax rates facing medium-sized companies are 7 percentage points higher than the world average.¹¹ Tax policies that promote investment and innovation, particularly in developing economies, would go a long way in attracting foreign direct investment (FDI), which consequently provides opportunities for decent work, innovation and increased productivity to effectively increase the gross domestic product of countries. Financing is key to the success of the 2030 Agenda and sound investment and tax policies will play a critical role in leveraging the investment needed to eradicate poverty and ensure inclusive growth. Effective implementation of the SDGs requires widespread support from the private sector, awareness and recognition of the key role they have to play in achieving these goals, and an active response to ensure that business models align with the global objectives.

Goal 10: Reduce inequality within and among countries¹²



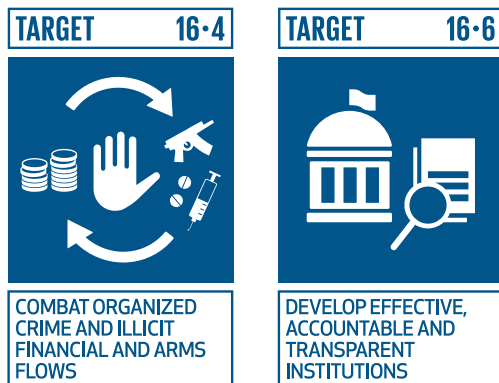
Tax policies should be designed to support sustainable economic development, reduce inequality and promote inclusive growth. In addition, tax policies should be flexible and capable of adjusting to socio-economic changes as the fiscal environment in which they operate evolves.

¹⁰ <http://www.oecd.org/development/policy-coherence-for-sustainable-development-2017-9789264272576-en.htm>

¹¹ <https://www.pwc.com/gx/en/services/tax/publications/paying-taxes-2018.html>

¹² <http://www.oecd.org/development/policy-coherence-for-sustainable-development-2017-9789264272576-en.htm>

Goal 16: Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions for all¹³



The OECD Inclusive Framework enables all countries to participate on an equal footing with the OECD and G20 countries in the implementation of the OECD/G20 BEPS plan. Ensuring a consistent global approach that allows developing countries to adopt minimum standards of the BEPS plan is an important step in order to fight tax evasion. It should be noted, however, that work on illicit financial flows should be distinguished from measures to prevent tax avoidance, as this is a different phenomenon from criminal activity and requires different measures. These illegal activities should be clearly distinguished from the use of lawful and legitimate methods of tax planning and tax management. Greater cooperation between governments and the business community is needed to achieve a balanced and successful tax system that provides for the effective, accountable and transparent institutions that the SDGs call for. The principal aim of country-by-country reporting should be to develop a high-level risk assessment tool to provide tax authorities with a better overview of multinationals' global activities and taxes paid, while expressly not being the basis of taxation itself. In addition, there is also a need for greater transparency from governments about how much tax is collected and how it is spent.

As an increasing number of tax authorities are revising their tax policies in response to the international guidelines outlined in the G20/OECD BEPS package, it is evident that tax compliance could become more burdensome for business, particularly with increased reporting obligations. It will also result in greater costs for tax administrations at a time when there is great pressure on public funding. As revenue bodies and businesses work to find their footing in the post-BEPS implementation environment, co-operative compliance is ever more relevant and could be a powerful tool that is a cost effective and efficient solution for the benefit of both business and tax administrations (alongside other related initiatives such as digitalisation). The OECD first referred to co-operative compliance “as a relationship that favours collaboration over confrontation and is anchored more on mutual trust than on enforceable obligations” and “a relationship with revenue bodies based on co-operation and trust with both parties going beyond their statutory obligations.”¹⁴ Thereafter, the OECD characterized the concept as “transparency in exchange for certainty.”¹⁵

With the need to increase revenue yield and in response to perceptions that large multinationals engage in tax avoidance, some tax administrations have progressively adopted more adversarial approaches. Tax administrations are also under severe cost pressure and as a result they need to become as efficient as possible. Achieving efficiency also relies on responsible business practice by multinational enterprises and playing an appropriate role in the administration of taxes.

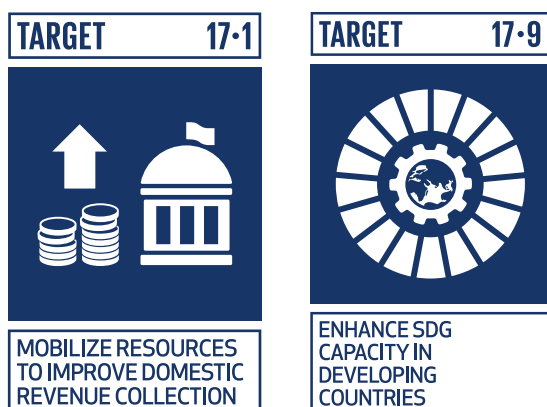
¹³ <http://www.oecd.org/development/policy-coherence-for-sustainable-development-2017-9789264272576-en.htm>

¹⁴ OECD, “Study into the Role of Tax Intermediaries”, p39 (OECD 2008)

¹⁵ OECD, Cooperative compliance: A Framework—From Enhanced Relationship to Cooperative Compliance”. P31 (OECD 2013)

Recently, the OECD and the IMF issued a joint report on tax certainty as a response to heightened concern expressed by the G20 leaders about uncertainty in tax matters and its impact on cross-border trade and investment, especially in the context of international taxation. Co-operative compliance could be an effective response to addressing these challenges and plays a key role in achieving tax certainty, which in turn impacts cross-border trade and investment.

Goal 17: Strengthen the means of implementation and revitalize the global partnership for sustainable development¹⁶



There is a need to recognise and support existing initiatives aimed at capacity building through international organisation and collaboration between developing countries (e.g., UN Transfer Pricing Issues in Extractive Industries; the Platform for Collaboration on Tax between UN, OECD, World Bank and IMF; OECD programmes through which businesses undertake to help tax authorities understand their business models).

The SDGs present an important roadmap which could guide policy at domestic, regional and international level, to redirect public and private investment flows to eradicate poverty and promote a more sustainable world for all. As a driver of economic growth and employment and an important source of investment, business has an integral role to play. While governments have the ultimate responsibility to determine policy at domestic level, collaborative and meaningful action by business is fundamental to achieving the SDGs. It is in this context that ICC highlights the following considerations for both businesses and governments.

¹⁶ http://www.un.org/ga/search/view_doc.asp?symbol=A/RES/70/1&Lang=E

Key considerations for businesses and governments

- > The OECD/G20 Base Erosion and Profit Shifting (BEPS) Project marks a milestone in an era of unprecedented international tax cooperation. The BEPS Project helps governments close the gaps in international tax rules through a comprehensive, coherent and co-ordinated reform effort.
- > Clear, consistent and transparent international standards of taxation are essential for cross-border trade, business investment, jobs and growth. Furthermore, co-operation is a key consideration to simplify administrative processes that facilitate trade.
- > Governments should agree on acceptable forms of tax competition and avoid labelling businesses as aggressive tax planners or tax avoiders when using legislated tax incentives. In return, businesses must adhere to rules and principles agreed upon by and between countries.
- > A lack of co-ordination between countries on tax rules (including differences between developing countries and emerging markets on source and residence-based taxation, different definitions of economic instruments and legal entities, as well as administrative procedures) can lead to double-taxation or unintended double non-taxation.
- > The key to balancing local tax legislations while avoiding double-taxation of businesses operating internationally is a dispute resolution mechanism.
- > Tax must be raised in a way which is fair, reduces inequality and sustains economic growth—tax policies must not impede this.
- > There is a misconception that development funding could be financed entirely or primarily by “cracking down on the questionable tax practices of multinational enterprises.”¹⁷ Impartial estimates indicate that BEPS reduces tax collections globally by \$100 billion.¹⁸ While significant, this amount is not enough to fund implementation of the SDGs. Further, these revenues would likely not accrue to those countries most in need of development funds.¹⁹ The most important source of revenue for funding the SDGs is economic growth. Thus, tax policies that encourage growth are required to meet these goals.
- > Blind adherence to a push for more taxation is likely to have adverse consequences unless the international community prioritises improving the investment climate and support for better and more effective tax systems, rather than more tax collection.²⁰
- > In some cases targeted taxes will help specific goals—such as relating to climate change; however the most important aspect is how to increase the overall tax take in developing countries to invest in the SDGs.²¹
- > Developing countries often have inadequate infrastructure, social protection and services. Many view the lack of resources from taxation as a constraint to achieving the SDGs.
- > Co-operative compliance could be a powerful tool that is a cost-effective and efficient solution for the benefit of both business and tax administrations. It could also help in enhancing certainty for business, which is an important driver for trade and investment.

17 <https://www.cgdev.org/sites/default/files/Can-stopping-tax-dodging-by-MNEs-close-the-gap-in%20FFD-Consultation-Draft.pdf>

18 <http://worldinvestmentreport.unctad.org/wir2015/wir2015-ch5-international-tax-and-investment-policy-coherence/>

19 <https://www.cgdev.org/publication/can-stopping-tax-dodging-multinational-enterprises-close-gap-development-finance>

20 <https://www.odi.org/sites/odi.org.uk/files/resource-documents/11536.pdf>

21 <https://responsibletax.kpmg.com/page/the-impact-of-tax-on-delivering-the-sustainable-development-goals>

Conclusion

Effective taxation policy works conjointly with investment policy as a key driver for foreign direct investment and economic growth. International tax rules serve to safeguard the fundamental principles of enhancing cross-border trade, foreign direct investment and economic growth while allowing economies to retain sovereignty over their tax policy in support of their own social and fiscal policy objectives. Determining the right balance for effective domestic resource mobilisation is essential, particularly for developing countries. Business is an indispensable partner for governments in implementing the 2030 Development Agenda. Collaboration is key, as all businesses, large and small governments, civil society and local authorities need to work together actively and constructively in partnership to achieve the UN SDGs by 2030.