POSTCARD

50. Could changes in the international tax system be a strategy for dealing with inequality?

Mick Moore

At the level of tax design, the answer to this question is clear and positive. It would be easy, for example, to draft the international treaty and the national legislation required to implement Thomas Piketty's (2014) proposal for a global tax on wealth. The obstacles to acceptance and implementation of those proposals are merely political – but at the same time they are formidable. There has been a steady, worldwide movement away from wealth taxes of any kind in recent decades, and the many previous calls for international cooperation to establish some kind of global tax have failed (Bird, 2015). Political realism suggests that we start somewhere else.

There is one slightly more promising launch pad: the considerable progress that has been made very recently in establishing a system for the automatic exchange of financial account information in tax matters (see OECD, n.d.). This sounds very technical. The system essentially increases and eases the flow of information to national tax authorities about the financial assets held by individuals and companies in other jurisdictions. China could discover, for example, what bank accounts its citizens hold in Portugal. This initiative is not transformative. Having access to more information is one thing, and having the resources and political incentives to make use of it to plug tax gaps is another. Many governments are unenthusiastic about taxing their rich friends, and there are still many legal devices to keep secret or obscure the real ownership of assets. At present, the information flows relate only to financial assets, not to real estate, gold bars, jewellery or Picassos. Few developing countries have yet qualified to join the system. Nevertheless, in the long term automatic information exchange provides a basis for the more effective taxation of rich people.

But what about companies, especially larger, transnational corporations? They are well placed to avoid taxes through more or less legal devices. One of the main techniques used is transfer mispricing. When companies within the same transnational group trade with one another across international borders, they may not account for these transactions at the 'real' market price for the goods and services involved. Instead, they may try to choose prices that are designed to shift group accounting profits to low-tax or no-tax locations. Transfer pricing is now illegal in most countries. However, it remains widespread, because it is very hard to police. It is a cause of significant tax losses, especially to governments of low-income countries.

It is easy to design changes to international tax rules that would reduce these losses. The obstacles to doing so are political. The resistance comes mainly from the rich countries. Some of the most significant tax haven activities are located in rich countries, rather than in small tropical islands. The OECD, acting under a mandate from the G20, has just spent two years trying to agree reforms to narrow the scope for legal tax avoidance by transnationals. The agreement, announced in October 2015, is rather modest in scope (see OECD, 2016).

Any positive, direct impact of the OECD's proposed measures will be more on government finances than on the distribution of income. In most countries, a strategy to reduce income inequality should put as much emphasis on effective taxation of the local rich as on reducing tax evasion and avoidance by companies. In many poor countries, little attention has yet been paid to taxing the personal incomes of the growing ranks of the rich and mega-rich.

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So the answer to the opening question is that any changes to the international system that currently seem politically feasible are likely to contribute only marginally to reducing inequality. They could, however, be very helpful to national governments that are serious about the issue. When will they get serious? A good winning combination is a government that is really hungry for more revenue and a political movement that is well informed about the inequities of existing patterns of revenue raising.

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■ ***Mick Moore*** *(UK) is a political economist. He has done extensive field research in Asia and Africa, especially Sri Lanka, India and Taiwan, China. He has taught at the Massachusetts Institute of Technology. His broad research interests are in the domestic and international dimensions of good and bad governance in poor countries. He focuses specifically on taxation and governance, and is the founding chief executive officer of the International Centre for Tax and Development.*

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