

**ICRICT REPORT:  
THE GLOBAL PANDEMIC, SUSTAINABLE  
ECONOMIC RECOVERY, AND  
INTERNATIONAL TAXATION**

**EXECUTIVE SUMMARY, KEY FIGURES  
AND EXAMPLES**

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The global pandemic has led to major structural increases in public expenditure to support health, incomes and employment. The question of who will ultimately foot the bill will need to be answered, but the economic burden must not fall disproportionately on disadvantaged groups and countries.

Reductions in corporation tax ‘to stimulate reconstruction investment’ will be neither economically effective nor socially desirable. Rather, corporate tax systems should be **strengthened** by accelerating truly inclusive international cooperation on base erosion and minimum rates, by making these taxes more progressive to stimulate small firms, and by ensuring effective taxation of the offshore wealth of shareholders.

The report lists five steps governments can take to tackle tax avoidance—which has left governments with fewer resources to meet critical priorities in the wake of the pandemic—end the era of tax havens and the ‘race to the bottom’ on corporate taxation. The measures ICRICT is asking governments to take are:

- i. apply a **higher corporate tax rate to large corporations in oligopolised** sectors with excess rates of return;
- ii. **set a minimum effective corporate tax rate of 25%** worldwide to stop base erosion and profit shifting;
- iii. introduce **progressive digital services taxes** on the economic rents captured by multinational firms in this sector;
- iv. require **publication of country by country reporting** for all corporations benefitting from state support;

- v. **publish data on offshore wealth** to enable all jurisdictions to adopt effective progressive wealth taxes on their residents and to be able to better monitor effective income tax rates on highest income taxpayers.

## KEY FIGURES AND EXAMPLES

### **Impacts of the pandemic on the global economy:**

Global GDP and trade have already experienced severe contractions, private consumption and investment are depressed, unemployment is soaring and informal workers are suffering huge income losses worldwide:

- [According to the IMF](#), global growth will shrink by -4.2%, a difference of 7 percentage points compared to the projections published before the outbreak of the crisis.
- World trade volumes are expected to drop between -32% ([WTO](#), pessimistic scenario) and -9% ([IMF](#)) in 2020.
- In Latin America, the pandemic should lead to a -5,3% GDP drop in 2020, [the biggest contraction in the region's history](#). Growth in [Asia is expected to stall at 0% in 2020](#), the worst growth performance in almost 60 years; a recession in [several African countries](#) —the first in 25 years— is now likely, with rippling effects on already high poverty numbers
- Most developing countries are facing a combination of rapid declines in export and tourism revenues. Moreover, capital flows are now being diverted towards advanced economies. In just the first two months of the crisis, portfolio outflows from emerging markets were [estimated at \\$100 billion](#).
- Global remittances [are projected to decline sharply](#) by about 20% in 2020 due to the economic crisis induced by the COVID-19 pandemic and shutdown (World Bank).

### **Poverty and inequality will rise:**

- [Oxfam has estimated](#) that workers are projected to lose as much as \$3.4 trillion in income.
- Over a billion workers are at high risk of unemployment, mostly in low-paid jobs, where a sudden loss of income is devastating. The International Labour Organization (ILO) estimates that [half of working people](#) could lose their jobs within the next few months.
- Global human development – which can be measured as a combination of the world's education, health and living standards – [could decline this year for the first time since the concept was introduced in 1990](#), warned the UNDP.

### **Impacts on governments finances:**

- Some [\\$9 trillion in emergency public spending](#) has been rolled out so far. [The IMF's policy tracker](#) summarizes the key economic responses governments are taking to limit the human and economic impact of the COVID-19 pandemic
- [According to the IMF](#), the large resulting fiscal deficits will drive up Debt-to-GDP ratios by 20 or 30% in advanced economies and by 10% in developing countries in just one year. Governments issued more debt than ever, borrowing via bonds and loans [hit a record high](#) of \$2.6 trillion in April.

### **Tax avoidance has left governments with fewer resources to meet critical priorities in the wake of the pandemic:**

- Globally, tax avoidance [diverts 40% of foreign profits](#) to tax havens, according to ICRIC commissioner Gabriel Zucman. You can explore the world map to see how much profit and tax revenue your country loses (or attracts) [here](#).

- IMF's Fiscal Affairs Department estimates annual total corporate tax losses associated with profit shifting [at more than \\$500bn](#), with \$400bn for OECD member states and around \$200bn for developing countries per annum.
- American multinationals alone have been estimated to cause the EU [to lose nearly 25 billion euros](#) in corporate taxes annually.
- Illicit financial activity [has already, and is expected to, increase](#) during the COVID-19 crisis, with developing countries set to suffer the most from the instability and shifted attention.

**Reductions in corporation tax will be neither economically effective nor socially desirable.**

As profits fall, so will corporation tax revenue. Sales and value-added tax revenue decline with consumption, and personal income tax revenue with employment. Large corporations are already lobbying for tax concessions and bailouts. These not only destroy the level playing field of the market, but is particularly adverse for developing countries, who lack the resources to provide such assistance on the scale of the developed countries. As the world economy slowly recovers, tax cuts will not stimulate corporate investment because there is already excess capacity and expansion plans are constrained by uncertainty.

- Global tax revenues will probably fall [in an even in a stronger way than the 11.5% decline they experienced from 2007 to 2009](#).
- Since 2000, average statutory tax rates have declined across OECD member states and most jurisdictions. ([You can find here the figures in the OECD's Corporate Tax Statistics](#) (p. 10) and current [corporate tax rates around the world](#)).
- Corporate tax cuts increase income inequality: [a study](#) made in the US shows that a corporate tax cut of 0.5 percentage points explains about 7.8% of the average rise in the share of income accruing to the top earners between 1990 and 2010.
- Developing countries rely [relatively more on corporate tax income as a source of government revenues](#). Corporate tax represents 15% of total tax revenues in Africa and in Latin America, compared to 9% in OECD countries.
- Developing countries are only able to raise [between 10% to 20% of GDP](#) in tax collection compared with the 40% collected by a typical advanced economy.

**Governments must apply a higher tax rate to large corporations in oligopolised sectors with excess rates of return.**

While the rest of the economy is tanking from the crippling impact of the coronavirus, business at the biggest technology companies is thriving.

- Amazon founder and CEO Jeff Bezos, for example [has seen his net worth grow 30.6%](#) in the past two months, boosting it to \$147.6 billion; the fortunes of Bezos and Zuckerberg combined grew by nearly \$60 billion, or 14% of the \$434 billion total.
- Amazon sales increased 26% to \$75.5 billion in the first quarter.

**No bailout for tax avoidance champions:**

- In the US, cruise lines, which have been pummeled by the economic impact of the pandemic, [may not be eligible to receive relief](#) through the bailout fund included in the \$2 trillion stimulus bill.
- In the EU, companies based in tax havens can be denied aid. France, Poland, Denmark and Scotland, among others, [already announced](#) they want to bar these companies from receiving aid.

**Governments should consider or accelerate the introduction of introduce progressive digital services taxes:**

- Austria, Brazil, France, UK, Italy, India, Indonesia, Spain, Turkey have either adopted or are considering introducing digital services taxes.
- European Union Economy Commissioner Paolo Gentiloni suggested in [a video conference](#) in early April that the coronavirus' impact could persuade some countries to back digital taxation.
- The US government has started an investigation into the proposed digital services taxes that could lead to tariffs being imposed on the above countries' exports to the US.

**Effective taxation of wealth, and in particular offshore wealth, needs to be put in place.**

- According to a recent [report](#) published by Americans for Tax Fairness and the Institute for Policy Studies' Program for Inequality, between March 18 and May 19, the total net worth of the 600-plus U.S. billionaires jumped by \$434 billion or 15%, based on the group's analysis of [Forbes data](#).
- Argentina and Peru [are considering](#) increasing taxes on high-income earners (Argentina has spent about 3.5% of its GDP on coronavirus response, according to a recent [IMF report](#)).
- In 2019, the world's billionaires, only 2,153 people, had more wealth than the poorest 4.6 billion people combined, [according to Oxfam](#), and the pandemic threatening to [push half a billion more people into poverty](#)
- According to Oxfam's report "[Time to care](#)", taxing an additional 0.5% of the wealth of the richest 1% over the next 10 years is equal to investments needed to create 117 million jobs in education, health and elderly care and other sectors, and to close care deficits.

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**ABOUT ICRICT:**

The Independent Commission for the Reform of International Corporate Taxation ([ICRICT](#)) aims to promote the international corporate tax reform debate through a wider and more inclusive discussion of international tax rules than is possible through any other existing forum; to consider reforms from a perspective of public interest rather than national advantage; and to seek fair, effective and sustainable tax solutions for development.