ISSUE BRIEF

Stop tax abuses by multinational corporations and illicit financial flows

1. What are Illicit Financial Flows?

There is no globally accepted definition, approach, or measurement of Illicit Financial Flows (IFFs). The narrow legal definition of IFFs promoted by some powerful institutions attempts to limit it to money that is illegally earned and moved across borders in contravention of existing law. This refers to income earned illegally, for example, through organised crime, money laundering, drug trafficking, embezzlement, terrorist financing or bribery. **This narrow definition ignores a significant spectrum of economic activities that generate income within the law** part of which is later taken out of a jurisdiction unlawfully.[1] Therefore, to take measures that could effectively curb IFFs, its definition should also include activities which may be formally legal but take out resources out of a jurisdiction in an illicit manner such as tax avoidance for profit shifting purposes.

2. What is the link between the activities of Multinational Corporations (MNCs) and IFFs? And why is this important?

MNCs are created to make 'super-normal' profits to enhance the income of their shareholders. For this purpose, they employ a wide range of strategies, including abusive tax planning, to minimise their tax liabilities to revenue authorities in their country of operations. These practices are aimed at circumventing the legal provisions for MNCs to pay their share in taxes. In effect, **MNCs are responsible for the largest proportion of IFFs generated through their activities globally**. MNCs have devised sophisticated financial and operational models that enable them manoeuvre their way through tax systems and shift their profits to low tax jurisdictions and, in many instances, tax havens that are highly opaque in nature.[2]

3. What is the scale of IFFs and its impact on public revenue?

The IFFs driven by MNCs and the wealthy as well as the outright criminal activities cost developing regions billions of dollars in stolen assets and forgone tax revenues. For example, according to the United Nations Economic Commission for Africa (UNECA), **Africa is now losing approximately USD 100 billion annually to IFFs**.[3] IFF estimations in the other developing regions are also of similar magnitude. The immediate consequence of these losses is the **huge revenue gaps to finance development projects and provision of public services**. In addition, governments increase the tax burden on the poor to somewhat reduce this resource gap, and introduce austerity measures by cutting expenditure for basic social services like water, health care, and education which negatively impact the poor, *especially women and children.*

---

[1] the Oxford English Dictionary defines illicit as "not authorised or allowed; improper, irregular; [especially,] not sanctioned by law, rule, or custom; unlawful, forbidden", which is much broader than what is only illegal. http://www.oed.com/

[2] http://www.taxjusticeafrica.net/en/financial-secrecy-index-2018-iffs-challenge-doorstep-african-countries-part-1/

[3] https://www.uneca.org/stories/illicit-financial-flows-continue-impede-africa%E2%80%99s-development-says-eca%E2%80%99s-boko-hlpd-2018

4. Why and how are IFFs and activities of MNCs a women's rights issue?

Women bear the higher burden of regressive and indirect taxation. Women and children are also relatively more impacted by social welfare spending cuts. **The IFFs agenda is thus directly linked to women's rights issues because it deprives countries of public revenue and assets that could have been used to finance gender-responsive social service**s. Further, the assets stashed in secrecy jurisdictions through IFFs, could have been employed to promote women employment with decent wages and to pay for care work.

5. What are the impasses to curb IFFs at the international level?

There is a widely shared recognition that **IFFs undermine the global commitment to implement the Sustainable Development Goals** agreed by the United Nations (UN). Reducing IFFs has been established as target in the Agenda 2030 (Target 16.4). However, in terms of practical measures to curb IFFs, **no tangible progress has been made**. At the global level, there is a determined resistance by those who benefit from the status quo to acknowledge that IFFs should be defined, measured, and monitored from a broader perspective. Although the IFFs phenomenon is global, **its impact is higher on developing countries**; whereas the international financial architecture, which facilitates IFFs, is dominated by rich countries, most of whom are destinations of IFFs.

Country governments are dutybound to improve national legislation and regulation to minimise IFFs. However, IFFs being by nature cross-border flows, **it is mainly through concerted international efforts that it could be rooted out**. Curbing IFFs is thus intrinsically related to the reform of the international architecture. The fight against IFFs should thus include the **promotion of an inclusive intergovernmental process** within the auspices of the UN, in which all nation states could participate on an equal footing.

6. How do we move forward to stop tax abuses and IFFs by MNCs?

- Redressing injustices, ensuring gender equality and realising human rights need resources. Governments and multilateral institutions should urgently go beyond their "financing gap" declamation. **Governments should honour their commitments to curb IFFs as a means of implementing the 2030 agenda and take effective unilateral and multilateral measures to curtail IFFs.**

- The same mechanisms and institutions facilitating IFFs are also the ones facilitating abusive tax practices with impunity. IFFs should thus be addressed as part and parcel of the challenges posed by global tax evasion and avoidance. **There can thus be no partial solution to IFFs unless the whole international financial architecture is reformed within the context of a universally agreed tax and transparency convention**.

- **The establishment of an intergovernmental tax commission within the auspices of the UN will be an essential instrument to end IFFs and tax abuse**. The overall purpose of this intergovernmental commission would be to stop IFFs and international tax dodging by ensuring that governments commit to not serve as destination of IFFs from other countries as well as not eroding each other's tax bases and create transparent and coherent international tax system that supports equality and development.

GLOBAL ALLIANCE FOR TAX JUSTICE