



United Nations Framework Convention on International Tax Cooperation: A paradigm shift in combating tax abuses by multinationals and high net worth individuals?

- The issue at hand is the reform of the international tax system. A long-overdue agenda to address the historical imbalance in the allocation of taxing rights between developed and developing countries. Like other countries in the Global South, Mozambique has much to gain from breaking the status quo and democratizing tax matters at the UN level as a globally inclusive body for international tax cooperation aimed at combating tax evasion and abuse by multinationals and high-net-worth individuals.





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The agenda for reforming the international tax system is being led by developing countries. The central argument for the reform movement is that the current system is grossly unfair, illegitimate, and exclusive, favoring rich nations and multinational corporations at the expense of developing countries.

This derives, among other things, from the fact that the “Rules of the Game” on international taxation were defined unilaterally by the countries of the Global North. In fact, when these rules were defined, many of the countries of the Global South had not yet achieved their independence. In other words, at no time did they have a say in defining them.

Currently, the process of defining international tax norms and standards is largely led by the Organisation for Economic Cooperation and Development (OECD) and the Group of 20 (G20).¹The OECD/G20 has designed two important frameworks to address tax cooperation, the Inclusive Framework

on Base Erosion and Profit Shifting (BEPS) and the Global Forum on Transparency and Exchange of Information for Tax Purposes.

Developing countries are only invited to participate in these frameworks on condition that they agree to apply the underlying norms and standards, and most of them have been excluded from the negotiation and drafting process.² There is therefore still no legitimate and truly inclusive global tax body to define and ensure the implementation of the “Rules of the Game” in the area of taxation.

It is in this context that countries of the Global South have led efforts to democratize discussions on taxation at the level of the United Nations (UN), as a truly inclusive global tax body.³ Only through the United Nations, argue the countries of the Global South, will we be able to move towards establishing a fair and inclusive international tax architecture, with a more coherent and equitable approach to international tax cooperation to combat tax evasion and abuse.

Amid strong opposition from the Global North, reform of the international fiscal architecture moves forward

Discussions about the need to democratise international tax rule-making at the UN level have been ongoing for a long time. However, it was not until December 2023 that a decisive step was taken to end the OECD’s contested reign as the world’s main rule-maker on global taxes.

In a decision considered historic⁴, on 22 December 2023, the General Assembly adopted resolution 78/230 “Promotion of inclusive and effective international tax cooperation in the United Nations. The Resolution established an ad hoc intergovernmental Committee with the task of developing draft

terms of reference for a UN Framework Convention⁵ on international tax cooperation.

The measure received broad support from developing countries, while some industrialized nations expressed reservations, reflected in the Ad Hoc Committee vote.⁶ In total, 110 Member States, including Mozambique, voted in favor of the terms of reference for the new treaty, with 44 abstentions and eight votes against, including Australia, Canada, Israel, Japan, New Zealand, South Korea, the United Kingdom and the United States (see image below).

¹ The UN Committee of Experts on International Cooperation in Tax Matters has also played an important role in advancing more progressive tax rules. However, most of its work continues to consist of recommendations, which are not binding.

² FACTI. (2020, 5 November). Architecture for international tax Cooperation. <https://factipanel.org/docpdfs/FACTI%20IN%20-%20Architecture%20for%20international%20tax%20cooperation.pdf>

³ Global Alliance For Tax Justice. (2023, 12 August). Press Release: A Step Forward in the UN Tax Convention Negotiations. <https://globaltaxjustice.org/news/press-release-a-step-forward-in-the-un-tax-convention-negotiations/>

⁴ Chaparro-Hernandez, S., & Meinzer, M. (2024, May 17). What happened at the first round of UN tax negotiations and what’s next? Tax Justice Network. <https://taxjustice.net/2024/05/17/what-happened-at-the-first-round-of-un-tax-negotiations-and-whats-next/>

⁵ A Framework Convention is a legally binding international treaty/agreement that establishes general principles and guidelines to regulate a given field (in this specific case on international tax cooperation), without detailing specific rules. These details are subsequently defined by additional protocols or agreements.

⁶ Travers, E. (2024, August 16). Why the world needs a UN global tax convention. United Nations News. <https://news.un.org/en/story/2024/08/1153301>



Following a successful organizational session from 20 to 22 February 2024, in New York, United States of America, the Committee held two substantive sessions: the first from 26 April to 8 May 2024, and the last from 29 July to 16 August 2024, both in New York.⁷ There were approximately six months of heated discussions on the draft terms of reference with the contribution of a range of stakeholders, including non-state actors, guided by the objective of establishing a truly inclusive and effective international tax cooperation framework.

Fundamentally, and in accordance with the Terms

of Reference of the Ad Hoc Committee⁸, the proposed UN Framework Convention seeks to establish a global tax system that is inclusive, fair, and effective for sustainable development, covering the economic, social, and environmental dimensions. Commitments include fair taxation of multinationals, combating tax evasion by high-net-worth individuals, and effective taxation in relevant Member States. Two binding protocols will be included, addressing, among other areas, the taxation of income from cross-border services in a globalized and digitalised economy.

What does the convention mean for countries like Mozambique?

The “State of Tax Justice 2023” report indicates that Mozambique loses up to US\$147.3 million in taxes per year to international tax abuses, around 5% of tax revenues collected. Estimates for the African continent as a whole point to losses in the

order of \$8.3 billion. Although, for various reasons (e.g: data availability)⁹, these estimates are likely to be below the actual losses involved, they highlight the injustices perpetuated by the international tax system under the leadership of the OECD.

⁷ United Nations. (nd). Ad hoc committee to draft terms of reference for a United Nations framework convention on international tax cooperation. United Nations Department of Economic and Social Affairs. <https://financing.desa.un.org/ad-hoc-committee-draft-terms-reference-united-nations-framework-convention-international-tax>

⁸ United Nations. (nd). Second Session: Ad hoc committee to draft terms of reference for a United Nations framework convention on international tax cooperation. United Nations Department of Economic and Social Affairs <https://financing.desa.un.org/un-tax-convention/second-session>

⁹ Read more on the TJN’s methodology here: <https://taxjustice.net/wp-content/uploads/2023/07/State-of-TaxJustice-2023-methodology-Tax-Justice-Network.pdf>

Table 1. Tax losses due to tax abuses by multinationals and high-net-worth individuals heritage in selected African countries¹⁰ – State of Tax Justice 2023

Country	Total Losses due to Tax Abuses by Multinationals (A)	Total Losses Due to High Net Worth Individuals (B)	Total annual losses (A+B)	Total losses as a % of Tax Revenues
South Africa	1389.6	616.7	2006.3	1.8%
Nigeria	329.7	224.3	554	-
Egypt	262.6	175.8	438.4	1.2%
Angola	126	183.8	309.8	2.0%
DR Congo	182	28.6	210.6	6.30%
Mozambique	124.5	22.8	147.3	5.0%
Ghana	48.5	66.5	115	1.3%
Algeria	8.6	53.9	62.5	-
Libya	9.6	48.6	58.2	-
Gabon	26.7	20.5	47.2	-

As can be seen from the table above, a large part of the losses result from tax abuses by multinationals. In Mozambique, of the US\$147.3 million lost in tax revenue, approximately US\$124.5 million is diverted by multinational companies that transfer their profits to tax havens, aiming to reduce the amount of profit declared in the country where they operate, which leads to paying less tax than they should. The remaining US\$25 million is lost to wealthy individuals who hide undeclared assets and income abroad (the so-called offshore industry), beyond the reach of the law.

These are much-needed resources “stolen” from a country with increasing financing needs to respond to the current context of multiple crises, including, among others, the prolonged effects of COVID-19, the debt crisis, violent extremism in the northern region and climate change. The opportunity costs in terms of improving the living conditions of Mozambicans are

enormous.

The lost resources could very well be used, within the framework of the existing social contract with Mozambicans, to strengthen fiscal space and government investment in key sectors that contribute to social development (education, health, and social action), which have so far remained markedly marginalized. In fact, looking at the estimates, it is important to note that the country is losing taxes equivalent to around 18.20% and 57.3% of the budgets allocated to the education and health sectors.

There is no doubt about it. Like other countries in the Global South, Mozambique has much to gain from breaking the status quo and democratizing tax matters at the UN level as a globally inclusive body for international tax cooperation to combat tax evasion and abuse by multinationals and high-net-worth individuals. In other words, it will usher in a new era of tax justice and allow developing countries to mobilize cri-

¹⁰ The list comprises the main African countries rich in natural resources. The extractive sector is usually perceived as being a fertile ground for illicit financial flows, including tax abuses by multinational companies.

tical resources to finance key social sectors and their development agenda.

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