



FACTCOALITION

Financial Accountability & Corporate Transparency

May 24, 2020

The Honorable Dalia Grybauskaitė  
Co-Chair  
High Level Panel on International Financial  
Accountability, Transparency and Integrity  
for Achieving the 2030 Agenda  
United Nations  
New York, NY 10017

The Honorable Ibrahim Assane Mayaki  
Co-Chair  
High Level Panel on International Financial  
Accountability, Transparency and Integrity  
for Achieving the 2030 Agenda  
United Nations  
New York, NY 10017

**RE: FACTI Panel Request for Comments from All Stakeholders**

Dear Co-Chair Grybauskaitė and Co-Chair Mayaki,

On behalf of the Financial Accountability and Corporate Transparency (FACT) Coalition, we write to support the creation of the United Nations High Level Panel on International Financial Accountability, Transparency and Integrity for Achieving the 2030 Agenda (FACTI Panel), and we appreciate this opportunity to share our comments and suggestions with the distinguished panelists.

The Financial Accountability and Corporate Transparency (FACT) Coalition is a non-partisan alliance of more than 100 state, national, and international organizations in the United States working toward a fair tax system that addresses the challenges of a global economy and promoting policies to combat the harmful impacts of corrupt financial practices.<sup>1</sup> The Coalition came together in 2011 when two camps — those fighting poverty and human rights abuse through anti-corruption initiatives and those working on tax and economic justice issues — found common purpose in the long-term effort to hold powerful actors accountable and stem the loss of resources from tax avoidance and evasion.

**Background**

Across the globe, corporations too often drive profit by exploiting non-transparent and corrupt financial practices. Corrupt leaders drain wealth from public coffers, starving investments in infrastructure and public services and undermining economic and political stability. Through both illegal and legal (but ethically dubious) avenues, corporations, wealthy elites, and corrupt leaders mask financial activity, hide corruption, and evade/avoid paying taxes. Because of the

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<sup>1</sup> A full list of FACT members is available at <http://thefactcoalition.org/about/coalition-members-and-supporters/>.

secret nature of the financial flows, it is impossible to know precisely the amount of money at stake, but economist Gabriel Zucman estimates at least \$7.6 trillion is in tax havens and secrecy jurisdictions worldwide.<sup>2</sup> The Boston Consulting Group estimates \$11 trillion.<sup>3</sup> The Tax Justice Network estimates between \$21-32 trillion.<sup>4</sup>

Tax haven abuse presents several alarming problems for stakeholders. The Tax Justice Network estimates that tax avoidance results in a loss of \$500 billion for taxpayers globally each year. The Organisation for Economic Co-operation and Development (OECD) also estimates the annual losses globally to be in the hundreds of billions of dollars.<sup>5</sup> This enormous revenue drain puts pressure on lawmakers to either cut public services that are vital to a functioning economy or to unfairly shift the tax burden to other taxpayers, including those who are less able pay. Either choice leads to regressive fiscal regimes which exacerbate economic inequality — a metric that has been shown to undercut the long-term sustainability of economies and democracies — and undermines the ability of nations to act collectively to solve problems.

Increasingly, the wealth stripping practices of tax avoidance, tax evasion, and corruption are seen as leading drivers of global poverty, and financial secrecy is understood to be a significant tool in weakening democracies.

Consider that the U.S. government spends approximately \$45 billion per year in direct aid to the developing world.<sup>6</sup> FACT Coalition member Global Financial Integrity estimates a ‘value gap’ of \$8.7 trillion in trade between 135 developing and 36 advanced economies. This means there are revenues as high as \$1.5 trillion available for collection by the developing world.<sup>7</sup> If countries were able to reclaim a fraction — say 10 percent — of the lost funds, it would dramatically increase the funding for development and the alleviation of poverty.

Over the past few decades, lost revenue in the U.S. and other developed nations has led to (sometimes draconian) austerity measures. Governments have cut back on vital services, underfunding education, health services, investments in infrastructure that would spark additional economic activity, and more. In the U.S., after years of funding cuts, food assistance for low-income families now averages less than \$1.50 per person per meal.<sup>8</sup>

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<sup>2</sup> Jesse Drucker, “If You See a Little Picketty in This Tax Haven Book, That’s Fine,” *Bloomberg News*, September 21, 2015, <https://www.bloomberg.com/news/articles/2015-09-21/if-you-see-a-little-piketty-in-this-tax-haven-book-that-s-fine>.

<sup>3</sup> Margot Patrick and Simon Clark, “‘Panama Papers’ Puts Spotlight on Boom in Offshore Services,” *Wall Street Journal*, April 6, 2016, <https://www.wsj.com/articles/panama-papers-puts-spotlight-on-boom-in-offshore-services-1459935003>.

<sup>4</sup> “Tax Havens: Super-rich ‘hiding’ at least \$21tn,” *BBC News*, July 22, 2012, <https://www.bbc.com/news/business-18944097>.

<sup>5</sup> Alex Cobham, “Estimating tax avoidance: New findings, new questions,” Tax Justice Network, March 22, 2017, <https://www.taxjustice.net/2017/03/22/estimating-tax-avoidance-questions/>.

<sup>6</sup> Marian Lawson and Emily Morgenstern, “Foreign Assistance: An Introduction to U.S. Programs and Policy,” Congressional Research Service, April 30, 2020, <https://crsreports.congress.gov/product/pdf/R/R40213>.

<sup>7</sup> “New Report Details Serious Discrepancies and Indications of Illicit Activity in International Trade,” Global Financial Integrity, March 3, 2020, <https://gfintegrity.org/press-release/trade-related-illicit-financial-flows/>.

<sup>8</sup> “Chartbook: SNAP Helps Struggling Families Put Food on the Table,” Center for Budget and Policy Priorities, November 7, 2019, <https://www.cbpp.org/research/food-assistance/chart-book-snap-helps-struggling-families-put-food-on-the-table>.

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For all the unnecessary harm to struggling communities in the U.S., countries in the developing world are hit hardest by the secrecy and tax dodging sanctioned by the developed world. Illicit financial flows take a devastating toll on Africa's economy. When illicit flows are accounted for, the African Development Bank finds that — despite all foreign aid, natural resource exports, and other transfers — rich countries take away far more resources than they give to Africa.<sup>9</sup> Without change, economic growth and poverty alleviation efforts face an uphill battle. Therefore, while we can (and should) continue to push for additional international aid and public investment, unless we plug the gaping holes through which money flows out, we cannot build a lasting or sustainable infrastructure in developing countries. It is one of the fundamental reasons why we have not seen greater progress toward ending global poverty.

### **COVID-19**

The challenges outlined above will only be exacerbated by the current COVID-19 pandemic, which presents an unprecedented global health and economic crisis. In the United States, the policymakers have enacted a series of measures resulting in nearly \$3 trillion dollars in new pandemic response spending — without many oversight, transparency, or accountability measures to ensure that the money is not lost to waste, fraud, and abuse. More stimulus will yet be required, as many state and local governments flirt with bankruptcy due to plummeting tax revenues and soaring healthcare expenses. At the same time, some federal lawmakers are already bemoaning the record deficits resulting from the COVID-19 stimulus response. It is only a matter of time before further stimulus measures will need to be entirely paid for; doing so in a sustainable and effective manor will require closing tax loopholes and enacting key financial transparency and accountability measures.

The stakes are even higher in the developing world. The OECD put out a report recently underscoring that sustainable tax and transparency policies are more important than ever in the era of COVID-19.<sup>10</sup> They note:

“[A]ll countries have a direct interest in eradicating the virus and rebuilding economic life throughout the world as a necessity for all. It is for this reason that some are already suggesting the need for a new kind of ‘Marshal Plan’ to support the poorest countries, with a call for unprecedented levels of cash to flow from North to South as a matter of urgency. Although external financing will correctly form the main pillar of such an approach in the short term, domestic resource mobilisation, and taxation in particular, will remain as the only long-term viable source of financing—not just for health systems strengthening—but for all public services, investment and the reconstruction of

<sup>9</sup> “New AfDB-GFI Joint Report: Africa a Net Creditor to Rest of World,” African Development Bank, May 29, 2013, <https://www.afdb.org/en/news-and-events/new-afdb-gfi-joint-report-africa-a-net-creditor-to-the-rest-of-the-world-11856>.

<sup>10</sup> “Tax and Fiscal Policy in Response to the Coronavirus Crisis: Strengthening Confidence and Resilience,” Organization for Economic Cooperation and Development (OECD), 2020, [https://read.oecd-ilibrary.org/view/?ref=128\\_128575-06raktc0aa&title=Tax-and-Fiscal-Policy-in-Response-to-the-Coronavirus-Crisis](https://read.oecd-ilibrary.org/view/?ref=128_128575-06raktc0aa&title=Tax-and-Fiscal-Policy-in-Response-to-the-Coronavirus-Crisis).

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economic life. With fiscal headroom highly constrained, not least with debt servicing limiting the ability of governments to collect and spend precious tax revenues, ***the work to build effective tax systems in developing countries has never been more important and must remain in sharp focus.***” (emphasis added)

Ending financial secrecy, closing tax loopholes, and shutting down tax haven abuse are critical levers in the effort to disrupt the status quo and fundamentally alter the way in which we approach international agreements and the economics of poverty and inequality. We present the following recommendations to realize that goal.

### **Policy Recommendations**

Policymakers should enact the following key structural reforms to increase financial transparency and accountability and strengthen the global economy:

1. *Public Country-by-Country Reporting* — Require that all multinational corporations publicly disclose key financial information (e.g. taxes, profits, revenues, number of employees) on a country-by-country basis in line with the standard promulgated by the Global Reporting Initiative.<sup>11</sup>
2. *Global Minimum Tax* — Strengthen safeguards against offshore corporate tax avoidance, by instituting a strong, global corporate minimum tax that is no less than the current U.S. domestic corporate tax rate and is applied on a per-country basis (rather than as a global average).
3. *Beneficial Ownership Transparency* — Ensure that all legal entities disclose their beneficial ownership information at the time of formation and update it upon any changes.
4. *Automatic Exchange of Financial Information* — Harmonize the U.S. Foreign Account Tax Compliance Act (FATCA) with the Common Reporting Standard (CRS) to ensure that all countries share information automatically with lower-income countries while providing the necessary technical and financial assistance to developing countries to support them in reciprocating the sharing of information with others. In doing so, it is important to:
  - a. maintain the citizenship-based aspect of FATCA for U.S. tax collection purposes, and
  - b. strengthen the CRS by extending FATCA’s 30 percent withholding tax for non-compliance to the CRS.
5. *Legal Entity Identifiers* — All companies that engage in financial transactions should be required to obtain Legal Entity Identifiers (LEIs).<sup>12</sup> Publicly traded companies should be required to disclose such LEIs on their publicly accessible filings with regulators.

<sup>11</sup> “GRI 207: TAX 2019,” *Global Reporting Initiative*, <https://www.globalreporting.org/standards/gri-standards-download-center/gri-207-tax-2019/>.

<sup>12</sup> “Introducing the Legal Entity Identifier (LEI),” *Global Legal Entity Identifier Foundation*, <https://www.gleif.org/en/about-lei/introducing-the-legal-entity-identifier-lei>.

6. *Open Contracting* — Countries should adopt and implement the Open Contracting Open Contracting Global Principles.<sup>13</sup> At the same time, countries should adopt the LEI, or a similar, non-proprietary and open system, that makes the hierarchy of entity ownership transparent, as the standard identifier in the federal procurement process.
7. *Trade Transparency* — Establish a global network of trade transparency units to detect and deter fraud, corruption, money laundering, and tax evasion through the mis-invoicing of price, value, quantity, origin, or quality of goods.
8. *Gatekeeper Anti-Money Laundering Requirements* — Expand anti-money laundering and anti-corruption due diligence obligations to all gatekeepers to the financial system.

Thank you very much for considering the Coalition’s thoughts on this topic. Should you have any questions, please feel free to contact Erica Hanichak at ehanichak@thefactcoalition.org.

Sincerely,

**Clark Gascoigne**  
Interim Executive Director

**Erica Hanichak**  
Government Affairs Director

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<sup>13</sup> “Open Contracting Global Principles,” *Open Contracting Partnership*, <https://www.open-contracting.org/what-is-open-contracting/global-principles/>.

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