PRI RESPONSE

PROMOTION OF INCLUSIVE AND EFFECTIVE TAX COOPERATION AT THE UNITED NATIONS – CALL FOR PUBLIC INPUT

17 March 2023

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BACKGROUND

On 30 December 2022, the General Assembly adopted a resolution on “Promotion of inclusive and effective tax cooperation at the United Nations” that reaffirms earlier international commitments to scale up international tax cooperation, fight illicit financial flows and combat aggressive tax avoidance and evasion and begin intergovernmental discussion on ways to strengthen the inclusiveness and effectiveness of international tax cooperation. It does so without calling for or ruling out an international tax cooperation framework or instrument that is developed and agreed upon through a United Nations intergovernmental process.

ABOUT THE PRI

The Principles for Responsible Investment (PRI) works with its international network of signatories to put the six Principles for Responsible Investment into practice. Its goals are to understand the investment implications of environmental, social and governance (ESG) issues and to support signatories in integrating these issues into investment and ownership decisions. The PRI acts in the long-term interests of its signatories, of the financial markets and economies in which they operate and ultimately of the environment and society as a whole.

The PRI has been working with institutional investors to promote corporate tax responsibility since 2015. We initiated our work with a guide to help investors understand the risks related to tax avoidance and provide a framework for investor-company dialogue on the issue. In 2017, the PRI supplemented this guidance with a set of disclosure recommendations for companies to strengthen corporate income tax disclosure on tax policy, governance and risk management, and reporting areas. Between 2017-19, 36 institutional investors representing US$2.9 trillion in assets under management collaborated to engage large healthcare and information technology companies to enhance corporate tax transparency. The findings of this engagement are published on PRI’s website. In 2021, the PRI published a discussion paper to explore the concept of tax fairness and its relevance to investors.

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COMMENTS

The PRI welcomes the UN resolution seeking to strengthen the inclusiveness and effectiveness of international tax cooperation.

Deep-rooted profit shifting and financial secrecy in our economic systems have long been a source of concern for responsible investors. Although some progress has been made in combatting tax avoidance and evasion through increased regulations and transparency, tax leakages and tax-related competition among governments continue to erode tax bases.

A fairer international tax system where opportunities for aggressive tax avoidance and evasion are eliminated is in the interests of long-term diversified investors. Tax avoidance practices translate into earnings, reputational and governance risks as well as contribute to macro-economic and societal risks. Moreover, the investment community benefits from a business environment where companies derive their competitive advantage based on better products and services, as opposed to their ability to artificially reduce tax liabilities.

In addition, aggressive tax practices also exacerbate inequality and have a knock-on effect on the economy. The consequences of inequality have become particularly acute and visible following the fiscal pressures posed by the COVID-19 crisis and the confluence of risks that urgently need to be tackled, from climate change and corruption to human rights issues. Rising inequality could have serious implications for social stability – a risk that cannot be mitigated through diversification of the portfolio. These impacts are particularly relevant for large universal owners.

However, investors remain largely unable to systematically assess tax related risks in their portfolio due to the lack of decision-useful and comparable tax information. There have been several voluntary initiatives that have encouraged corporates to demonstrate better tax transparency – most notably the GRI 207 tax standard which provides a reporting framework for tax management. However, these are not mandatory and thus far have had limited impact on the extent of tax disclosures.

In this context, the PRI would welcome additional efforts to improve tax–related regulatory frameworks that establish global norms on responsible tax behaviour, enhance enforcement of existing tax regulations, address the tax challenges of a globalized and digitalized economy and improve the availability of standardised information on corporate tax practices.

The planned report as specified in the UN resolution would provide critical insights on key changes required to bring the international tax system in line with today’s digitalised economy, and to respond to the growing call for a fairer tax system worldwide, including from developing countries.

The intergovernmental negotiations at the UN level might help create the impetus needed to make meaningful progress on reforming the international tax system, including the full implementation of the Organisation for Economic Co-operation and Development (OECD) two-pillar agenda.
The scope and scale of changes needed to reform the international tax system means that both the UN and the OECD can simultaneously work toward a more inclusive and effective international tax cooperation framework.