2025 ATI General Assembly
Consultative Group 3 meeting

Combatting Illicit Financial Flows (IFFs) and Ensuring Policy Coherence for Revenue Generation

Day 3 – 24 July, 09:15 – 11:00

Capital Hotel and Spa, Addis Ababa, Ethiopia

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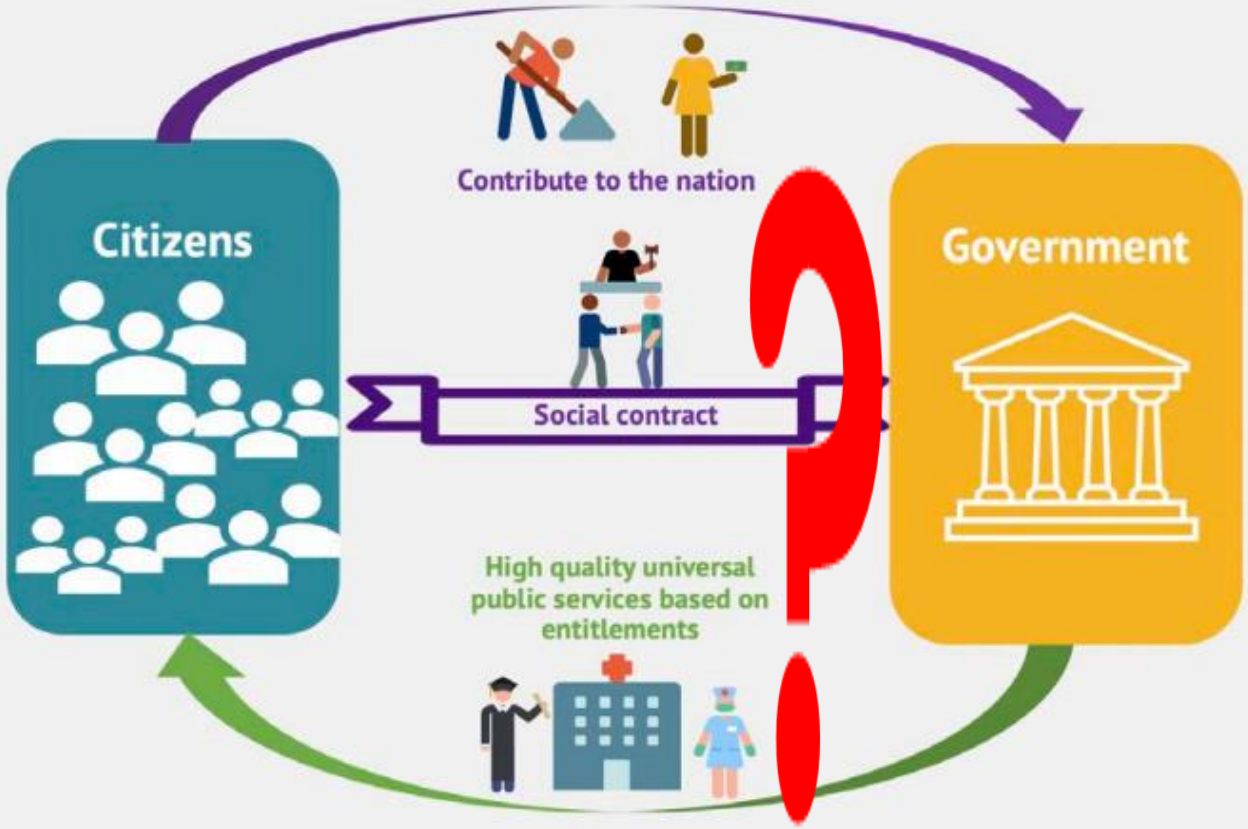
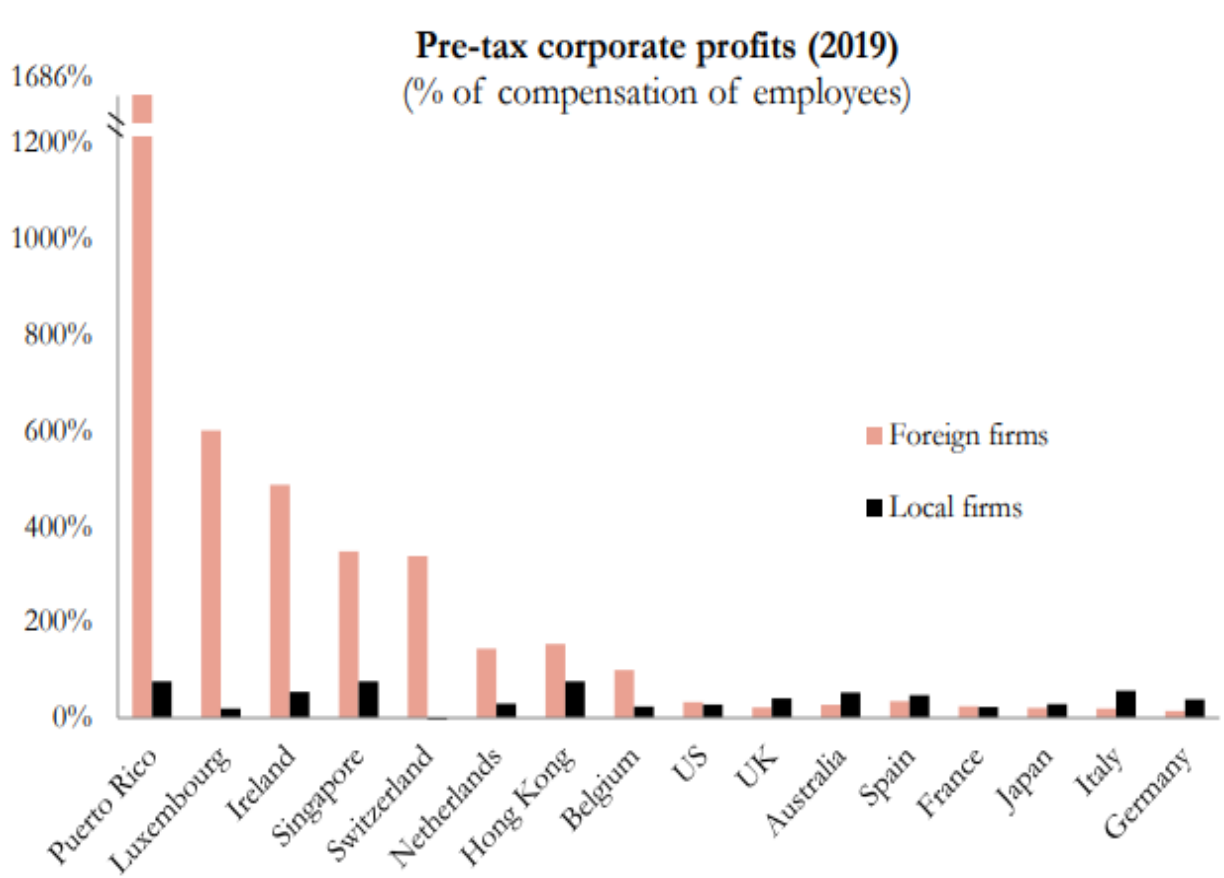
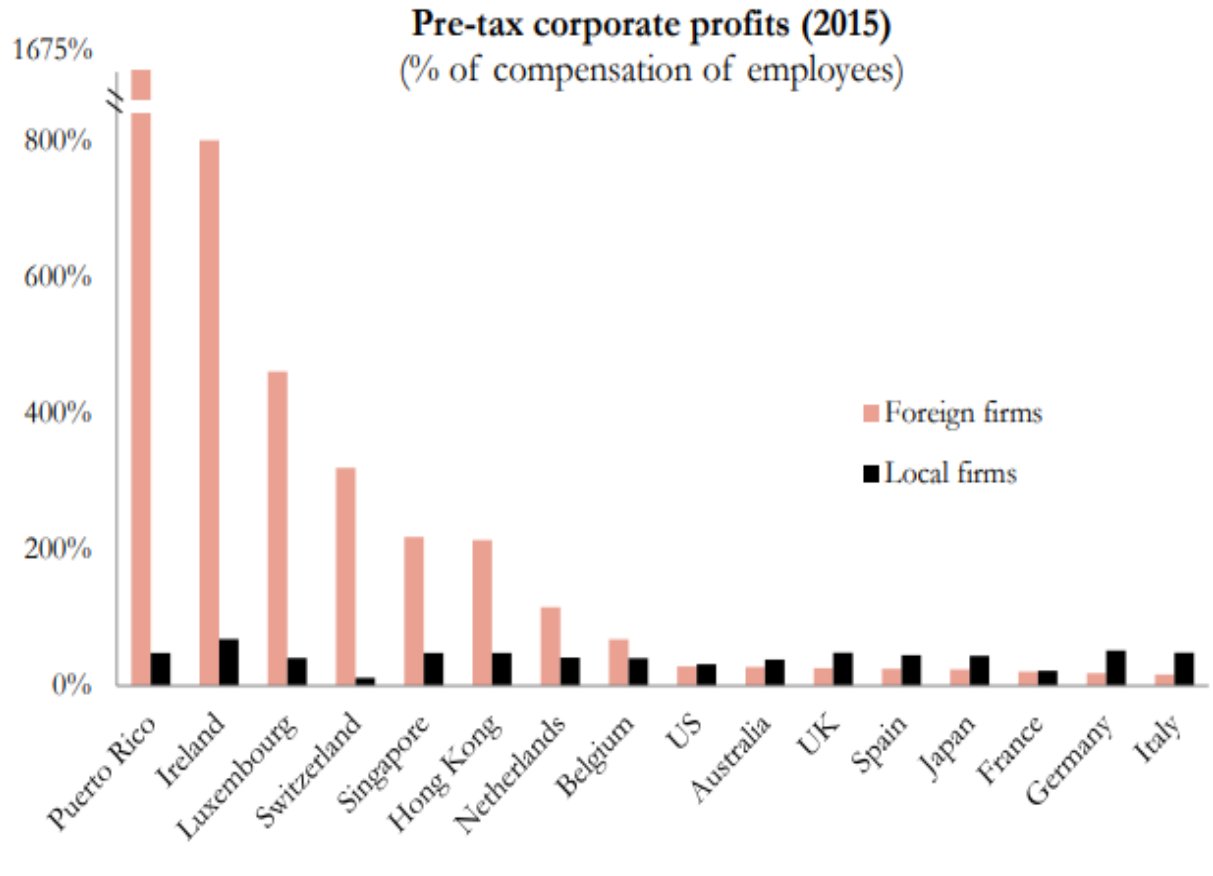
"Illicit financial flows (IFFs) and tax avoidance present significant obstacles to domestic revenue mobilisation, particularly in low- and middle-income countries. These practices erode national tax bases, distort economic governance, and ***undermine the social contract*** *between governments and citizens."*

ATI 2025 Concept note



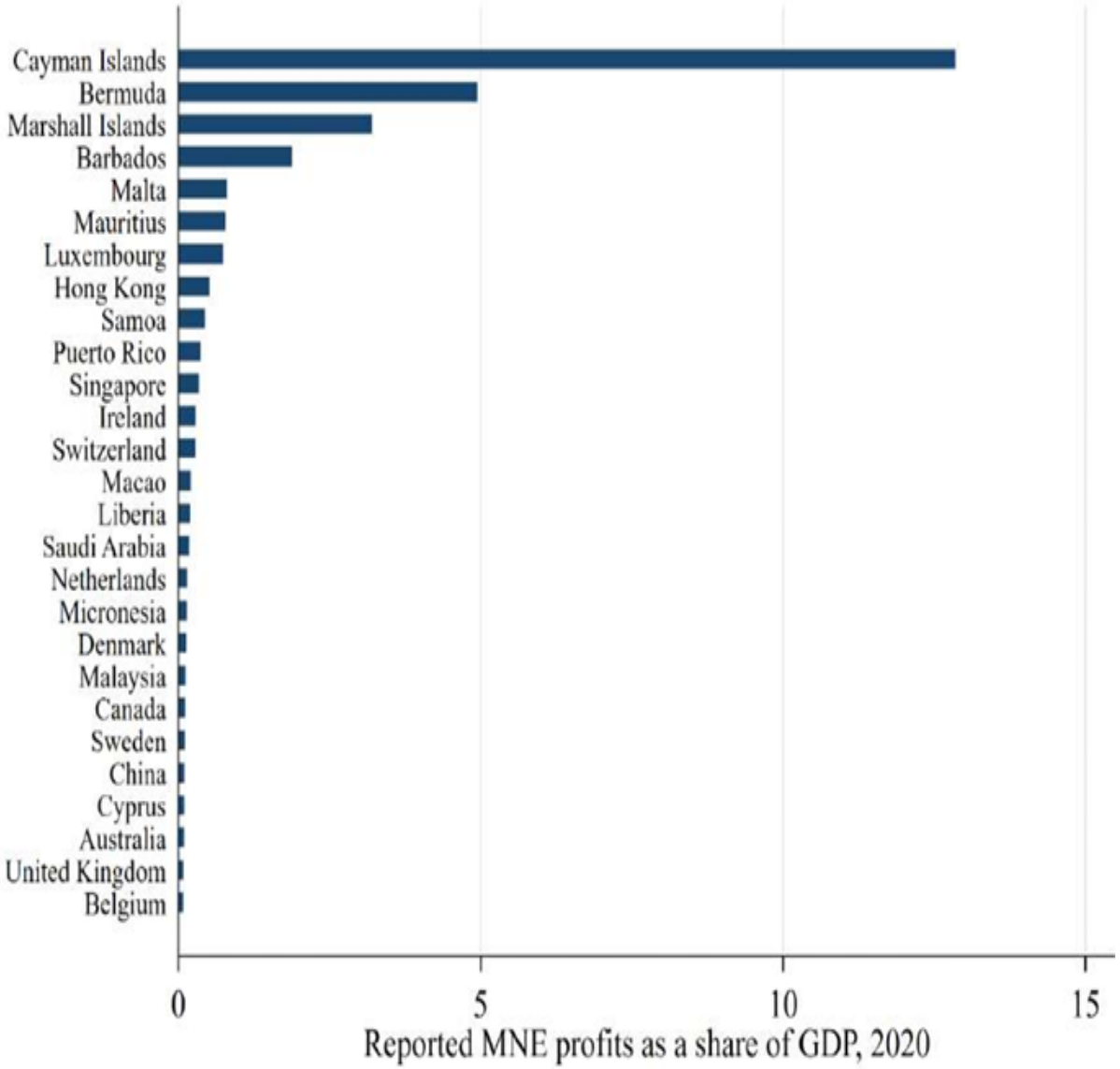
Profitability in foreign versus local firms: Comparing 2015 and 2019

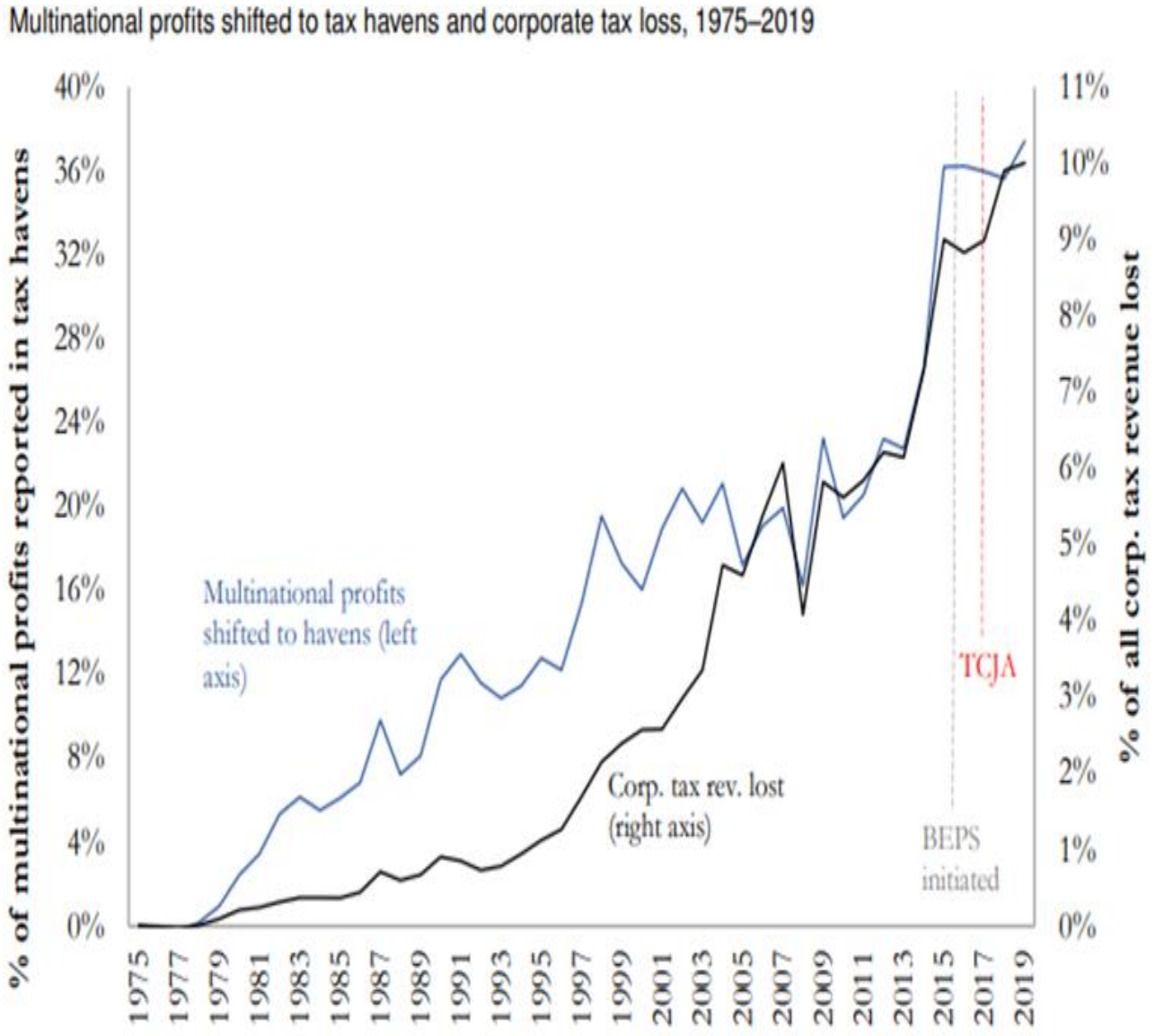




Source: WIDER Working Paper 2022/121

Profits are primarily reported in tax havens





Why Does It Matter?

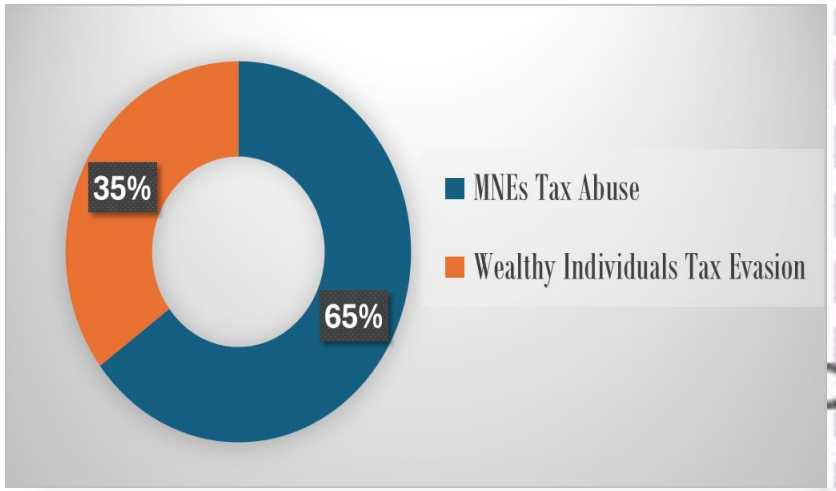
Hon. Irene Ovonji-Odida

Chair, Tax Justice Network

Commissioner, Independent Commission for the Reform of International Corporate Taxation (ICRICT)

$4.8 trillion to tax havens

That's equivalent to losing a year of worldwide spending on public health over the next 10 years



$480 billion is lost to tax havens a year

$311 billion is lost to cross-border corporate tax abuse by **multinational corporations**

$169 billion is lost to offshore tax evasion by **wealthy individuals**

Higher income countries lose more tax but their tax losses represent a smaller share of the money they have to spend

$433 billion lost

9% of public health budgets

Lower income countries lose less tax but their losses represent a far larger share of the money they have to spend

$47 billion lost

49% of public health budgets

State of Tax Justice 2023

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How to Fight IFFs and Tax Avoidance?

Separate Accounting: The traditional approach of taxing MNEs.

Unitary Taxation: Taxing MNEs as a single entity.

OECD Two-Pillar Solution to ensure fair taxation.

Pillar 1: Aims to redistribute taxing rights to market jurisdictions where MNEs have significant business but no physical presence.

Pillar 2: Introduces a Global Minimum Tax (GMT) of 15% to curb profit shifting to low-tax jurisdictions.

Income Inclusion Rule (IIR)– Parent companies must pay a top-up tax if a subsidiary pays below 15% (**base not clear**).

Undertaxed Profits Rule (UTPR)– Allows other jurisdictions to collect unpaid taxes if the parent country does not impose IIR (same as **QDMTT?**).

Qualified Domestic Minimum Top-up Tax (QDMTT)– Allows source countries to impose their own top-up tax to prevent revenue loss.

Country-by-Country Reporting (CbCR): As a Tool to Identify Profit Shifting Exposure

Require **Multinational Enterprises (MNEs)** to report financial data on a CbC basis.

- Use CbCR database to ensure if economic activity is aligned with reported profit.

Using CbC Database and steps:

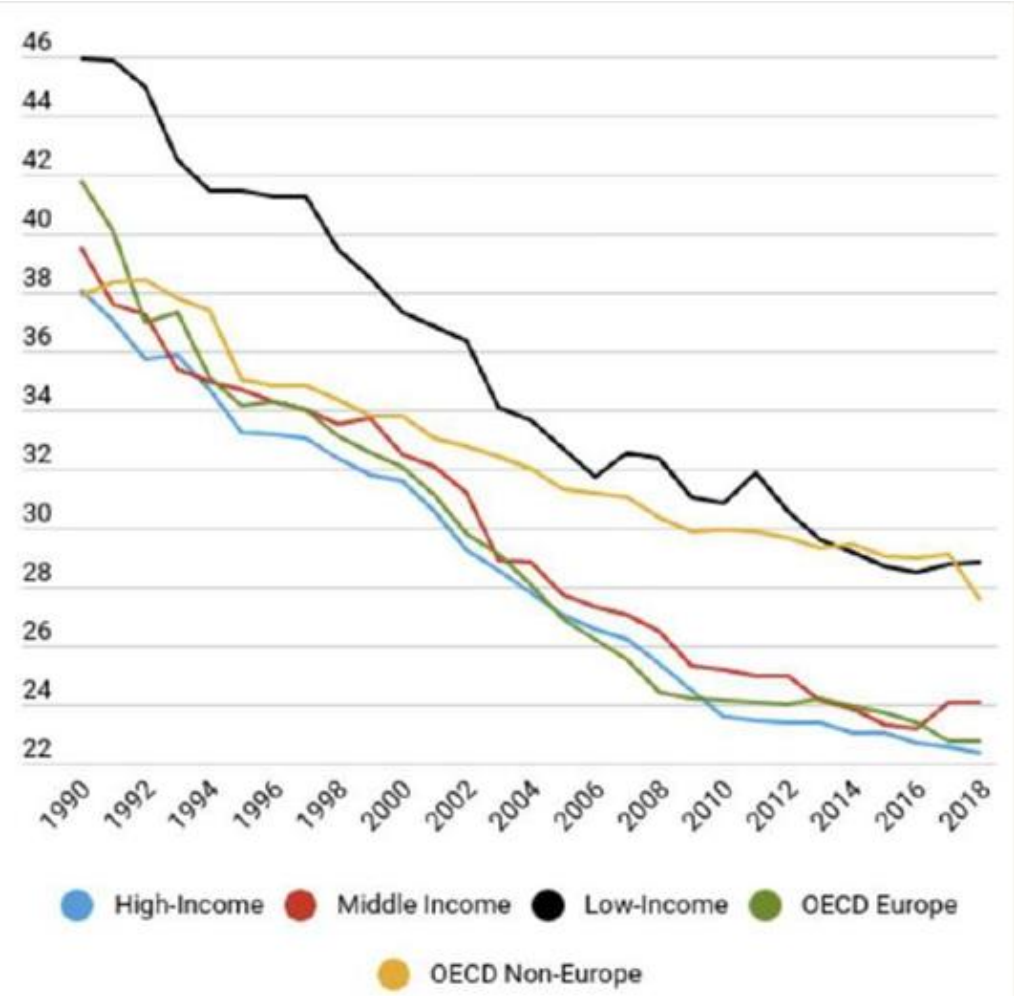
- **Understand the presence of MNEs**
- **Assess the Risk of Profit Shifting**
- Estimate the Effective Tax Rates (ETRs)
- Policy & Research Applications – Data Driven Policy Decisions and Insights.

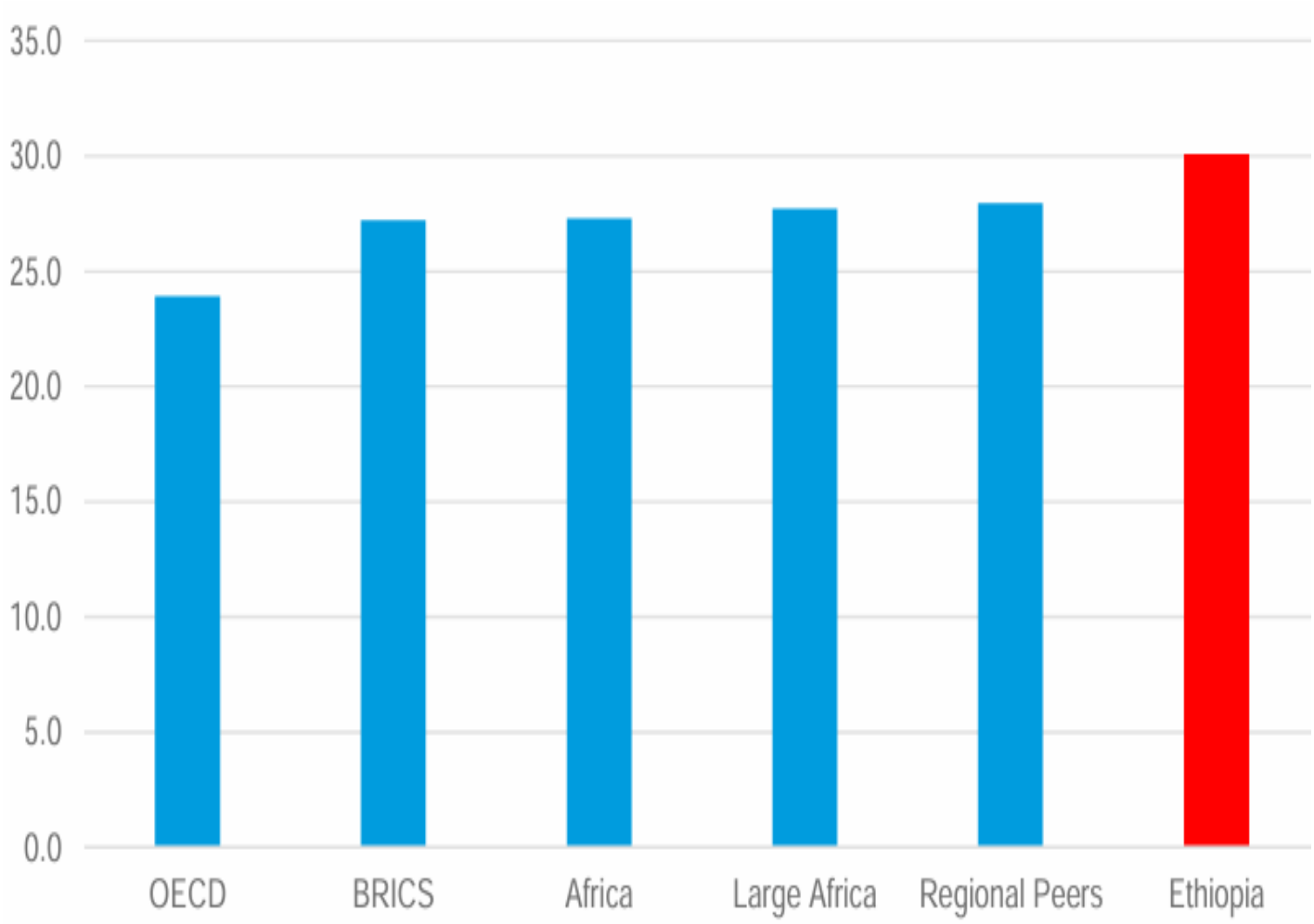
Limitations of the CbC database:

- Aggregated CbC, not firm-level.
- Confidentiality challenges hinder data publication.
- Double counting of intracompany dividends.
- Entities exempted from corporate income tax still file CbCRs.

Lasting Solutions (Medium to Long-Run): Identifying Underlying Factors or Reasons

Corporate income tax rates are declining while it remains higher in Developing Countries – the lower the better



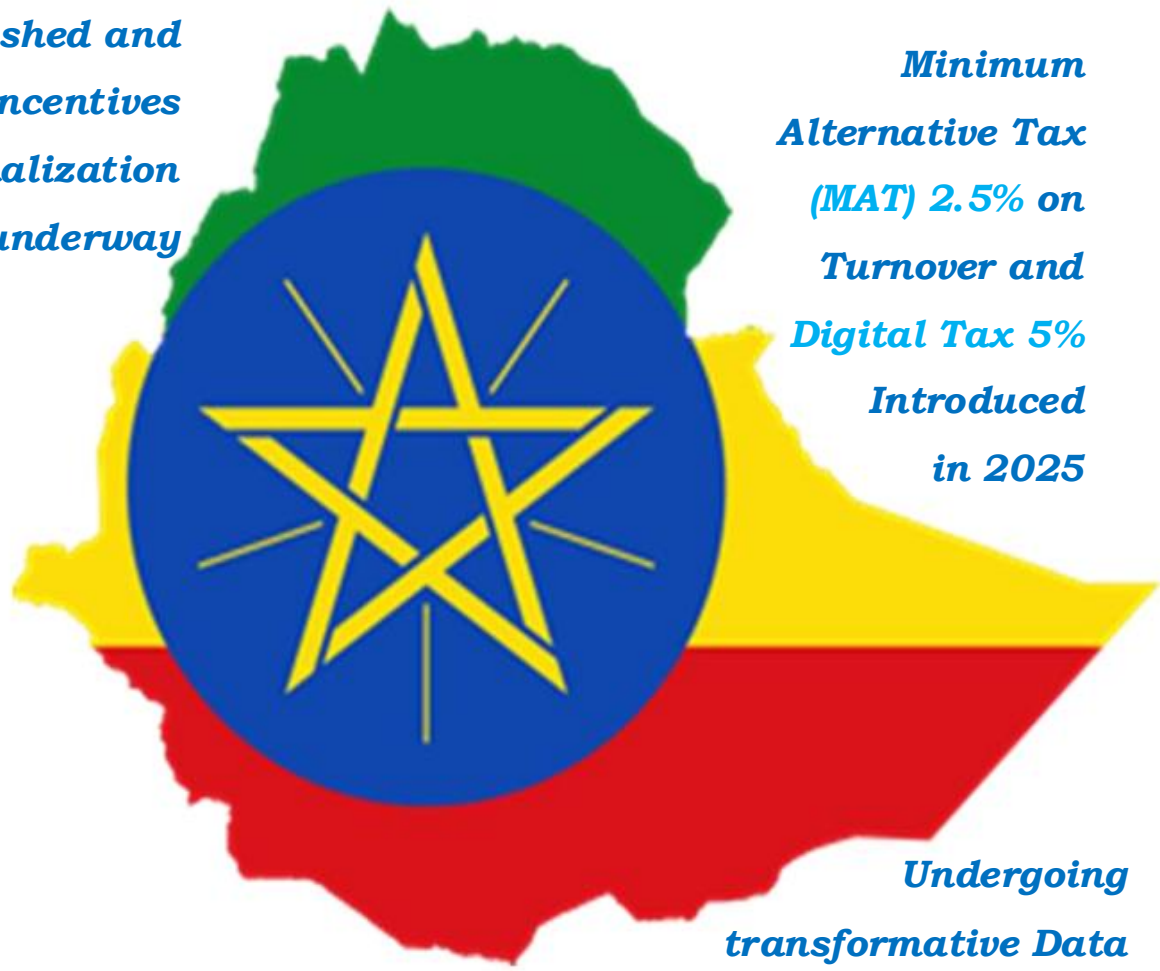


Why Profit shifting and … Cont.

- Infrastructure – access and quality.
- Standard of leaving (Education, Health, etc).
- Availability of peace and stability with predictability.
- Medium and long-term prospects in economic, social and political (creating a feeling of entry is easier now).
- Proximity to second-best economy.
- Establishing best tax policy and tax administration.
  - Introduce Minimum Alternative Tax (MAT) and strengthen tax laws.
  - Build strong data system, analysis capacity, and digitization of tax administration – **CbCR (availability and accessibility for domestic too!)**

Tax Expenditure reports published and further tax incentives rationalization underway

Minimum Alternative Tax (MAT) 2.5% on Turnover and Digital Tax 5% Introduced in 2025



Undergoing transformative Data System Reform

National Medium-Term Revenue Strategy (NMTRS)

I thank You!

Country-by-Country Reporting Data in ATI partner countries

The International Tax Compact facilitates the Secretariat of the ATI. The ITC is a provider of secretarial services for results-oriented initiatives in the area of tax and development. It aims to promote fair, efficient, and transparent tax systems for sustainable development. The German Federal Ministry for Economic Cooperation and Development (BMZ) has launched the ITC in 2009 and commissioned the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH to facilitate the ITC. The ITC is currently funded by the German Federal Ministry for Economic Cooperation and Development (BMZ) and co-funded by the European Union.

Schweizerische Eidgenossenschaft
Confédération suisse
Confederazione Svizzera
Confederaziun svizra

Embassy of Switzerland in Tanzania
Ubalozi wa Uswisi Tanzania

Tax systems that work for people and advance the Sustainable Development Goals

Co-funded by the European Union

Facilitated by

Country-by-Country Reporting Data in ATI partner countries

Overview of the project

Matthew Amalitinga Abagna
Miroslav Palanský

July, 2025

TAX JUSTICE NETWORK

Outline

- Overview of the project.
- Country-level findings.
- Policy recommendations.

Strengthening Tax Capacity through Country-by-Country Reporting

- Designed to build the capacity of tax administrations in Benin, Ghana, Tanzania, and Zambia to effectively use CbCR data for corporate risk assessment.
- Enhance the readiness of participating countries to engage in the design and implementation of global tax reforms.
- Strengthens domestic resource mobilisation by building the capacity of tax authorities to detect, assess, and counter profit shifting using CbCR data.
- Provides tools, knowledge, and policy engagement opportunities that empower countries to shape—not just implement—international tax rules.

Project Milestones

- November 2024: First virtual session.
- December 2024 – February 2025: Country-level engagements.
- March 2025: In-person workshop, Lusaka.
- March-May 2025: Post-workshop virtual follow-up.
- June 27: Final virtual workshop on country level results.

Country-Level Analysis of Profit Shifting

Data

- We use OECD Country-by-Country Reporting (CbCR) data, which was first proposed by the Tax Justice Network (TJN) in 2003.
- OECD BEPS Action 13 in 2015 established CbCR requirements for multinational enterprises (MNEs) with annual turnover above €750 million.
- The OECD compiles and publishes anonymised and aggregated CbCR data.
- Provides consolidated information on the distribution of income, profits, taxes paid, and economic activity across the jurisdictions where MNEs operate.
- These reports are shared with tax authorities to support preliminary transfer pricing assessments and to help identify potential BEPS risks.
- The most recent release, the 2024 edition of the OECD Corporate Tax Statistics, covers reporting years from 2016 through 2021.

Misalignment Methodology

- Uses the misalignment method to analyse CbCR data and estimate profit-shifting patterns.
  - Compares "theoretical profits" with reported profits to identify potential profit shifting.
  - Theoretical profits in a country are calculated as: total global profits × the country's share of the MNE's economic activity.
- We apply the Tax Justice Network's *State of Tax Justice (SOTJ)* formula, which assigns equal weight: 50% to the number of employees (E) and 50% to wages (W).
- Theoretical profits are based on employee numbers and wages, as they reflect real activity and are harder to manipulate than capital.

Misalignment Methodology

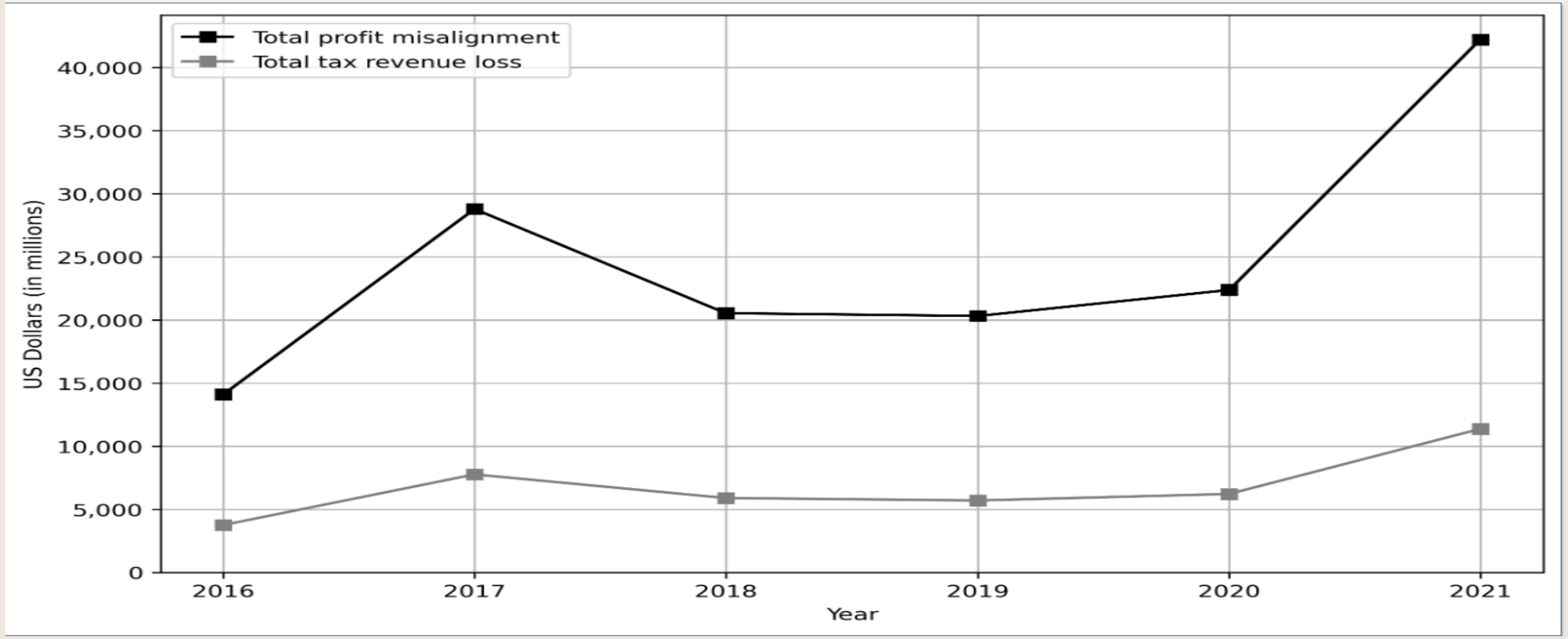
$$p_{ij} = \sum_{i=1}^{I} \pi_{ij} \times \left(0.5 \times \frac{W_{ij}}{\sum_{i=1}^{I} W_{ij}} + 0.5 \times \frac{E_{ij}}{\sum_{i=1}^{I} E_{ij}} \right)$$

- We estimate profit shifting at the bilateral level as the difference between reported profits (π_{ij}) and theoretical profits (p_{ij}) of MNCs from parent jurisdiction *j* operating in country *i* ($S_{ij} = \pi_{ij} - p_{ij}$).
- A negative S_{ij} indicates that profits are being shifted out of jurisdiction *i*.
- A positive Sij thus indicates that profit is shifted into jurisdiction *i*.
- We calculate the total profit shifted out of a country by summing all negative bilateral profit misalignments (S_{ij}).
- Tax revenue losses for country *i* are calculated by multiplying profits shifted out of the country by its corporate income tax (CIT) rate.

Estimated Profit Shifting and Tax Revenue Losses in the 33 ATI Partner Countries

- In 2021, a total of 6,320 Country-by-Country Reports were filed for the 33 ATI Partner Countries.
- The US, Japan, and China have the most MNEs operating and the highest total revenues in the 33 ATI countries, while Indonesia, the US, and South Africa report the highest profits.
- The Cayman Islands, a well-known tax haven, reports an aggregate loss of US$961 billion in the 33 ATI countries.

Estimated Profit Shifting and Tax Revenue Losses in the 33 ATI Partner Countries



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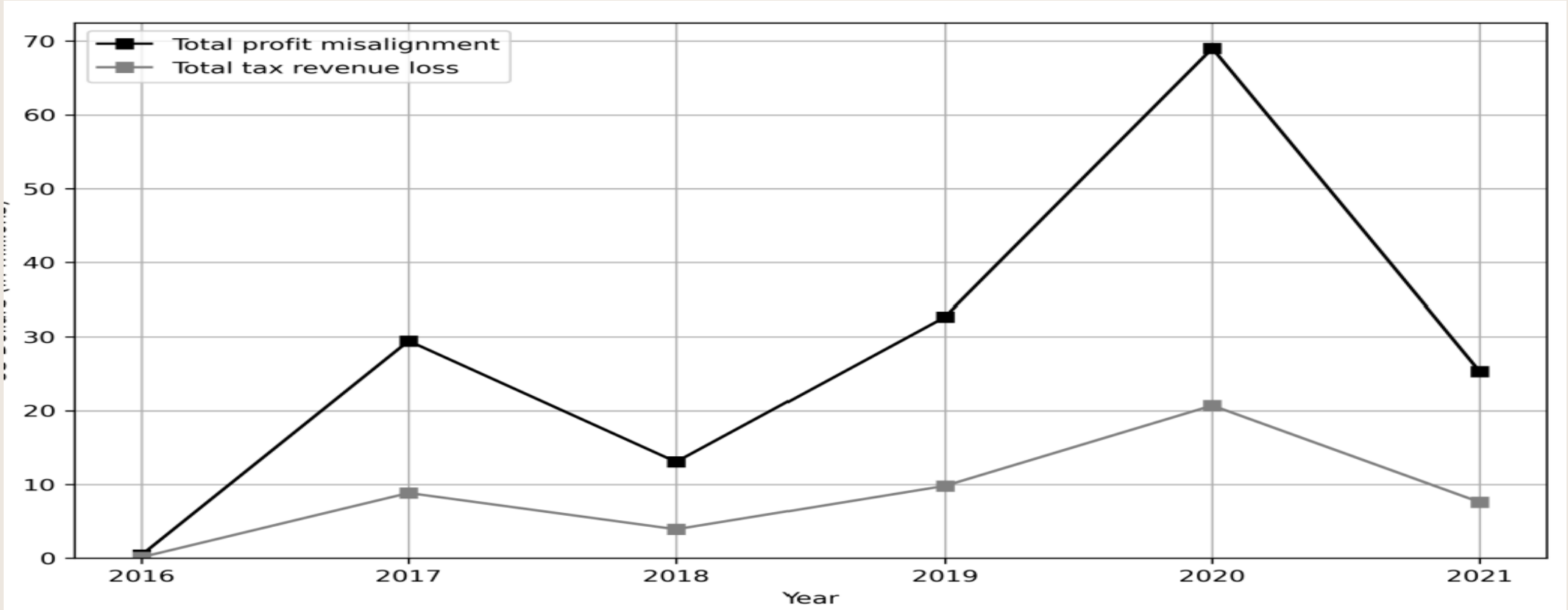
Participating Countries- Benin

- In 2021, five countries reported CbCR data on Benin: the United Arab Emirates, China, Germany, France, and Romania.
- Between 2016 and 2021, the number of countries reporting on Benin never exceeded five.
- France is the most represented, with 17 reports from French MNEs.
- In 2021, French MNEs' theoretical profits in Benin were US$81.5 million, but only US$33.3 million was reported.
- This profit misalignment resulted in an estimated tax revenue loss for Benin of US$7.6 million in 2021.

Participating Countries- Benin



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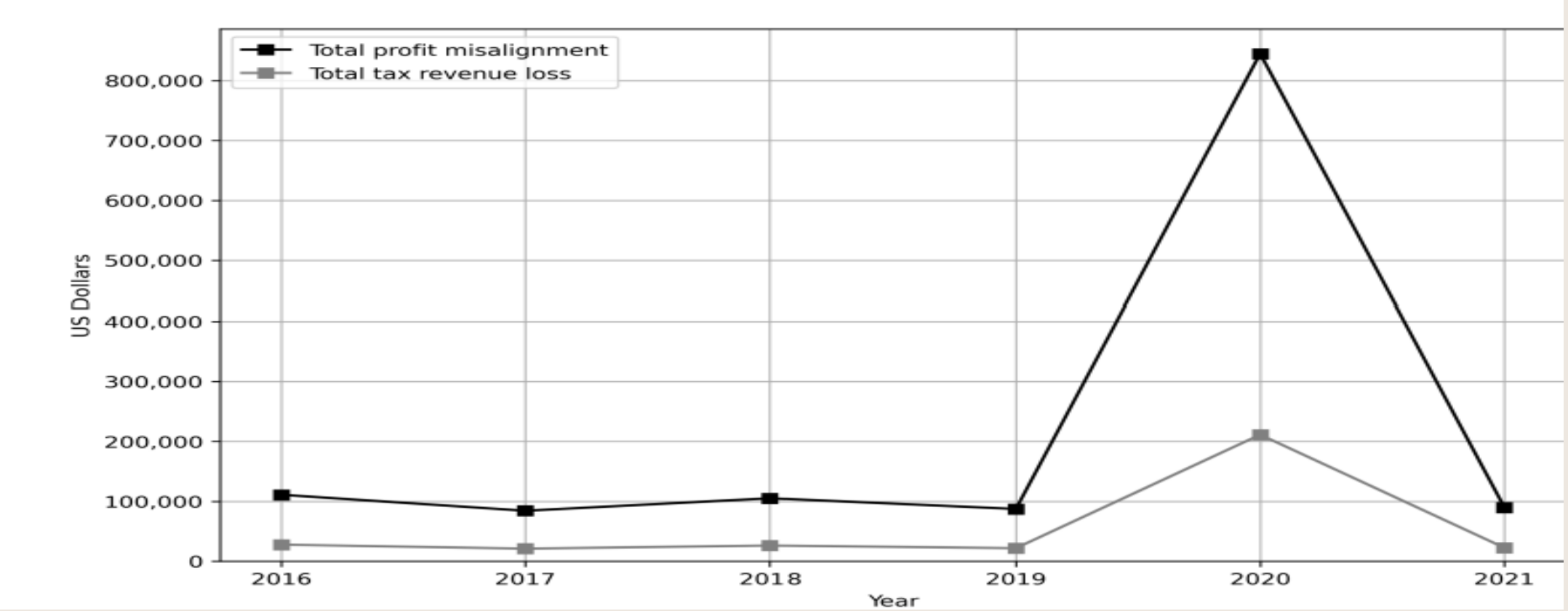
Participating Countries- Ghana

- Twenty countries reported CbCR data on Ghana in 2021, and a total of 23 unique jurisdictions reported on Ghana between 2016 and 2021.
- U.S. MNEs filed the highest number of reports on Ghana, with a total of 71 submissions.
- South African MNEs account for the largest number of employees among reporting firms in Ghana.
- Six tax havens or secretive jurisdictions reported on Ghana: the UAE, Bermuda, Switzerland, the Cayman Islands, Hong Kong, and Luxembourg.

Participating Countries- Ghana



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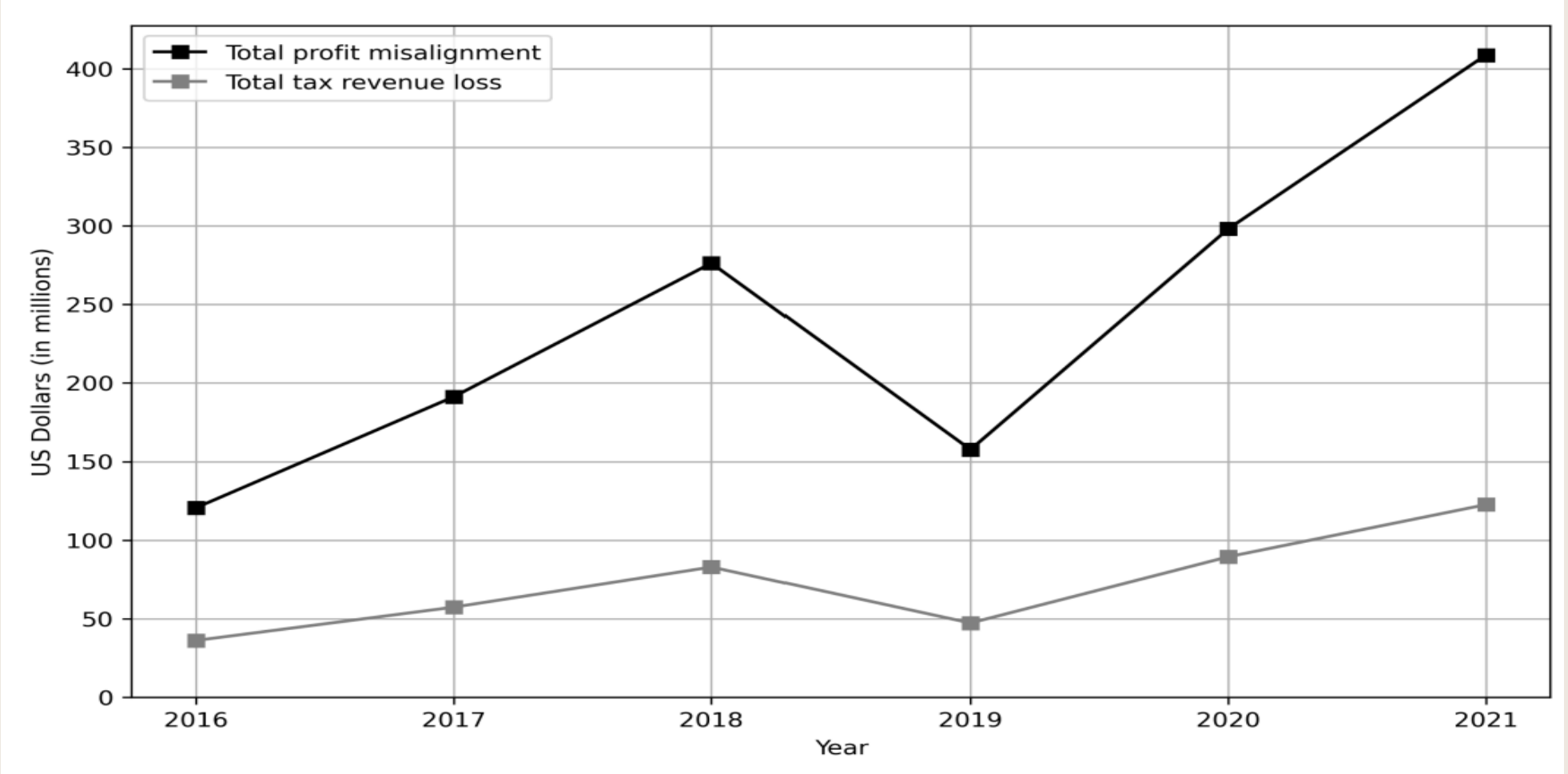
Participating Countries- Tanzania

- 15 countries reported CbCR data on Tanzania in 2021.
- US MNEs are the most present (40 reports) but employ only 3,102 people.
- Chinese and South African MNEs, with half as many reports, employ over 8,000 people.
- South African MNEs are the most profitable, hold the largest assets, and pay the most tax.
- Four tax havens/secretive jurisdictions reported on Tanzania: UAE, Switzerland, Cayman Islands, and Hong Kong.

Participating Countries- Tanzania



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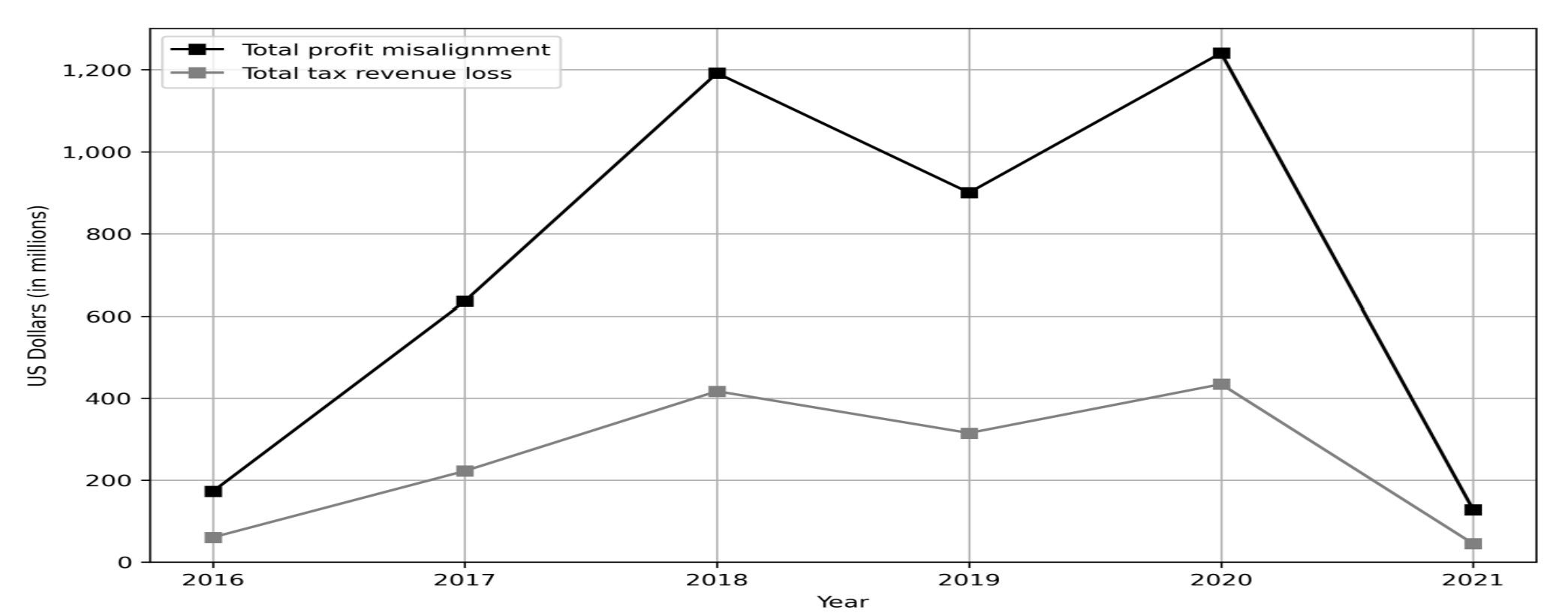
Participating Countries- Zambia

- In 2021, 11 countries reported CbCR data on Zambia, with a total of 13 unique jurisdictions reporting at some point between 2016 and 2021.
- With 35 reports, South African MNEs have the largest presence in Zambia, with over 11,000 employees.
- Two reporting jurisdictions are regularly considered secretive and tax haven jurisdictions: Switzerland and the Cayman Islands.

Participating Countries- Zambia



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Statutory vs. Effective Tax Rates

- Effective Tax Rates (ETRs) are calculated by dividing Income Tax Accrued by Profit Before Income Tax.
- These ETRs are then compared to the Statutory Corporate Income Tax rates.
- This comparison provides tax administrations with valuable insights into the impact of tax incentives and highlights the gap between de jure (legal) and de facto (effective) corporate taxation.

Statutory vs. Effective Tax Rates

Table 11: Statutory vs. Effective Corporate Income Tax Rates and Their Difference in Benin, Ghana, Tanzania and Zambia in 2021.

Country	Statutory Corporate Income Tax Rate	Effective Tax Rate	Difference (expressed in percentage points)
Benin	30%	22.6%	-7.4
Ghana	25%	22.2%	-2.8
Tanzania	30%	30.2%	+0.2
Zambia	35%	26.6%	-8.4

Notes: *Statutory Corporate Income Tax* rates are sourced from the OECD Corporate Income Tax Database and the Tax Foundation Database. The *Effective Tax Rates* are calculated by dividing income tax accrued by profits before income tax, using data from the OECD CbCR database. The *Difference* (expressed in percentage points) is computed by subtracting the Effective Tax Rate from the corresponding Statutory Corporate Income Tax Rate.

Policy Recommendation

- **Building Access and Capacity for Effective Use of CbCR Data:** ATI partner countries can adopt an incremental approach by first improving access to CbCR data and progressively building the capacity to analyse and use it, viewing current limitations as opportunities for long-term investment aligned with revenue priorities.
- **Digitalisation and e-declarations:** A crucial step for tax administrations with access to CbCRs is to digitize all reports into a standardized, centralized database—ideally through mandatory online submissions—which would enable efficient data processing, support advanced analysis using statistical tools, and gradually build a comprehensive and consistent dataset.
- **Establish a regional data sharing platform for transfer pricing, with a focus on the extractive sector:** ATI partner countries should establish a regional platform to share transfer pricing data, enhance joint analysis, and strengthen tax enforcement and revenue mobilisation.

Policy Recommendation

- **Advocate globally for more precise Public Country-by-Country Reporting data, including beneficial ownership information:** Tax administrations should push within the Inclusive Framework for a comprehensive reform of the current OECD CbCR framework, and they should advocate for a truly global and encompassing CbCR regime within the context of the United Nations Tax Convention.
- **Deepen Engagement in Global Tax Reform Processes:** ATI partner countries should actively participate in UN Tax Convention negotiations to promote inclusive, transparent tax governance that addresses developing countries' needs. This includes fairer tax rights, simplified rules, stronger regional coordination, and improved administrative capacity to reduce external reliance.

Thanks for your attention

Questions and comments are welcome