

Special Issue of ECOSOC

Leadership in Addressing the Challenge of Base Erosion and Profit Shifting

- The role of leadership in addressing the challenge of base erosion and profit shifting in the context of the UN Sustainable Development Goals, and
- The role of leadership in addressing the challenge of base erosion and profit shifting in the context of the OECD/G20 Action Plan on BEPS.

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Introduction

Over the last decade there has been increasing public concern in the developed world, especially in the United States (MNEs). Evidence suggests that these concerns are largely unfounded. The world has seen a steady increase in foreign direct investment (FDI) and a corresponding increase in global trade. This has led to a steady increase in the number of multinational corporations (MNCs) operating in the developed world.

Last year the OECD and G20 jointly published the Base Erosion and Profit Shifting (BEPS) Action Plan. This plan aims to address the challenges posed by base erosion and profit shifting (BEPS) in the context of the global financial crisis. The plan is based on the principle of fairness and aims to ensure that multinational corporations (MNCs) pay taxes in the countries where they do business. The plan also aims to ensure that MNCs are not able to avoid taxes by shifting profits to low-tax jurisdictions.

In response to these concerns and increasing international attention, the United Nations Committee of Experts on International Cooperation in Tax Matters has established a Sub-Committee on Base Erosion and Profit Shifting Issues for Developing Countries and coordinated by Ms. Carmel Peters. The Sub-Committee is currently working on a report on the challenges posed by base erosion and profit shifting in the context of the UN Sustainable Development Goals.

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What are the Key Causes Of Base Erosion and Profit Shifting?

The global financial crisis has led to a significant increase in public concern over the activities of multinational corporations (MNCs). This concern is based on the perception that MNCs are able to avoid taxes by shifting profits to low-tax jurisdictions. This is a result of the complex nature of the global financial system and the ability of MNCs to exploit loopholes in the tax system. The key causes of base erosion and profit shifting are:

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1 This Newsletter is largely based on the information note on the same issues written by the UN Subcommittee on Base Erosion and Profit Shifting Issues for Developing Countries and coordinated by Ms. Carmel Peters. It is available at the following webpage: http://www.un.org/esa/d/tax/BEPS_note.pdf

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What has Happened so Far?

G20 countries and the OECD have jointly committed to addressing base erosion and profit shifting. In June 2012, the G20 leaders discussed the need to curb base erosion and profit shifting at their meeting in Mexico. They asked the OECD to explore them in the issue. The report released by the OECD in February 2013 outlined the problem and proposed an Action Plan by mid-2013. The OECD's *Action Plan on Base Erosion and Profit Shifting*

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4 <http://www.oecd.org/ctp/BEPActionPlan.pdf>, page 11.