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G20 FACTSHEET #2: INTERNATIONAL TAXATION

INSTITUTE FOR ECONOMIC JUSTICE
RESEARCH POLICY ADVOCACY

Who Profits from a Weakened International Taxation System: MNCs, the Super-rich or States?

Introduction

As the world's wealthiest economies gather in South Africa throughout its G20 Presidency, citizens, civil society, and social movements should ask, "Who profits from a weak international taxation system?". The current international tax system suffers from loopholes and biases that enable the super-rich and multinational corporations (MNCs) to shift their profits to tax havens, at the expense of public health, education, and infrastructure. In 2024 alone, cross-border tax abuses have caused an estimated US$492 billion in global revenue losses for governments.[1] These abuses limit governments' access to life-changing revenue, which can be used to improve people's lives.

South Africa's G20 presidency presents a unique opportunity to champion tax justice and shape a path towards a more equitable international tax system.

Why do we need a just international taxation system now?

Extreme concentration of wealth and increasing inequality

In 2024, global billionaire wealth increased three times faster than in 2023, while global poverty levels have remained relatively the same in the last 40 years.[2] Billionaires like Elon Musk, Jeff Bezos, Mark Zuckerberg, Jensen Huang, and Bernard Arnault are projected to become trillionaires within the next decade.[3] At the same time, 20% of Africa's population still goes to sleep hungry.[4] South Africa is a mecca of inequality, with the top 10% of its population holding 86% of the aggregate wealth.[5]

THIS EXPLAINER DISCUSSES THREE KEY ISSUES

First, why there has been an effort to reform the global tax system and advocate for tax justice. Second, what has been on the G20 agenda related to international taxation? Lastly, issues beyond the G20 agenda are crucial to global taxation.

THIS FACTSHEET IS PART OF OUR SERIES ON THE 2025 G20

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FACTSHEET #2

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The wealthiest 10% of South Africa's population holds 86% of the wealth

Proportionately, billionaires pay less taxes than other citizens. They evade scrutiny by lobbying politicians and policymakers. They also avoid taxes by taking out loans against the value of the stocks they hold in their companies, rather than receiving income from the companies themselves. This means they don't record 'income', even though that's what it is. On the other hand, workers generally earn an income through salaries that governments can easily verify and tax. Since the 1950s, various countries have shifted towards consumption taxation like Value Added Tax (VAT).[6] This shift towards VAT occurred at the end of World War II, as the war had resulted in scarce capital and strong labour unions, limiting the potential for governments to source funds from income taxes. For countries in the global South, the trend towards VAT became prominent in the 1970s and 1980s.[7] Today, despite a 600% increase in wealth in the US, Western Europe, and China since the 1950s, VAT remains a dominant approach to taxing people. VAT is regressive because people with low incomes are likely to spend a higher share of their income on consumption.

State and international tax laws are unable to tax multinational corporations effectively

In today's globalised world, large corporations often do their business across borders, working through a spider's web of related companies. Some of these multinational corporations (MNCs) are wealthier than small countries today. Two-thirds of all global trade takes place between the different branches of related companies.

The international tax laws and treaties that govern how companies tax these MNCs are based on principles developed over 100 years ago, before most African countries gained independence from colonial powers, and at a time when corporations were simpler and smaller entities.

This provides modern multinationals with numerous opportunities to structure their affairs in a way that minimises their tax liability. With the help of accounting and auditing firms, lawyers, and tax specialists, these MNCs set up offices in tax havens and secret jurisdictions where other countries can't access their financial information. They 'shift' their profits from one country to another by setting up payments between their own different companies, the most common type of what is known as **illicit financial flows**. One famous example is how Apple forced all of its subsidiary companies to pay billions of dollars to their Irish company for the use of their logo and intellectual property.

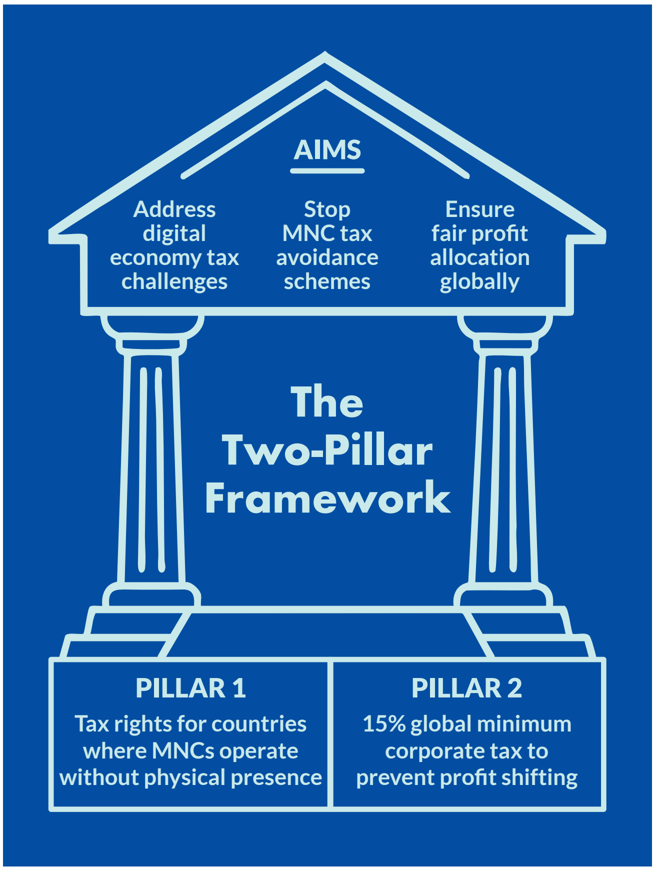
The difficulty of taxing MNCs is linked to the challenge of taxation in the digital economy. Since MNCs participating in the digital economy, such as X, Google, Facebook, and Microsoft, do not have a physical presence in some countries where they conduct economic activities, many of them avoid paying taxes. These MNCs capitalise on the slow pace at which governments adjust tax laws and regulations in the fast-moving digital economy.

G20 and international tax

Within the G20, international taxation is primarily discussed at the G20 Finance Ministers and Central Bank Governors Meetings, where key elements of tax reform, such as the Two-Pillar Solutions framework, are addressed.

OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting (BEPS)

Historically, international tax rules have been established by the OECD—a group of middle- to high-income countries based in the Global North. Following the 2008 Global Financial Crisis,



BASE EROSION AND PROFIT SHIFTING (BEPS) refers to tax planning strategies that MNCs use to exploit loopholes in tax rules to move their profits to low or no-tax locations. MNCs can shift profits because countries compete with each other to attract foreign investment by deregulating specific sectors or cutting corporate tax.

the G20 tasked the OECD with starting a process of reforming international tax rules. Global South countries strongly preferred the United Nations (UN) as the platform for discussing reforms, given the UN's democratic structure. Consequently, the OECD established a broader body called the Inclusive Framework to address these concerns. This process has faced a lot of criticism, but it ultimately produced the Two-Pillar Framework, with backing from the G20 states, which aims to:

- Address tax challenges caused by the digital economy;
- Curb tax abuses by MNCs taking advantage of differences in tax rules between countries; and
- Prescribe that MNCs allocate profits fairly between countries.

This became the 'Two-Pillar Framework Solution'.

- **Pillar one** aims to set rules for allocating taxing rights to countries where MNCs conduct economic activities but do not have a physical presence.
- **Pillar two** aims to introduce a 15% global minimum corporate tax to prevent profit shifting to low-tax countries, giving the countries where companies are headquartered the right to tax.

Since the Two-Pillar Solution Framework is a G20 initiative, its assessment features strongly on the G20 agenda.

Critics have highlighted several weaknesses of the Two-Pillar Solution Framework, which disadvantage developing countries. These weaknesses include:

- **Excessive representation for developed countries and limited membership and representation for developing countries.** Of the 137 jurisdictions in the framework, we find a considerable number of colonies or tax havens of developed countries. For example, the UK has eight jurisdictions in the framework, including a mix of crown dependencies and territories like Bermuda, Cayman Islands, and British Virgin Islands, giving the UK incredible voting power, yet the framework excludes developing countries like Algeria, Ghana, Uganda, and Zimbabwe.[8]
- **Insufficient revenue gains.** While the two-pillar solution is often lauded for its potential to generate $100 billion annually, this pales in comparison to the estimated $600 billion lost annually due to tax avoidance practices, which primarily affect developing countries.
- **Complicated rules.** The framework has complex rules, including a global revenue threshold and distinctions between routine and residual profits, which can be challenging to apply in developing countries.
- **Rules benefit developed countries.** Current rules prioritise income inclusion rules over regulations that would help developing countries, such as the undertaxed payment rule.
- **Lack of transparency.** Current rules do not outline the procedures for making decisions, making it difficult to understand how different interests are balanced.

What was on the Brazil G20 tax agenda?

Brazil's G20 Presidency prioritised 'Taxing the Super Rich', which resulted in G20 leaders declaring a commitment for countries to tax high-net-worth individuals (HNWI) and shift to a progressive form of taxation.

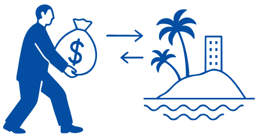
What is on the South African G20 tax agenda?

South Africa came out strongly in support of the 'Taxing the Super Rich' initiative from the Brazilian Presidency. While there was great optimism that the initiative would be carried forward and the South African government committed to extending the 'Taxing the Super Rich' discussions into its Presidency, the conversations have not made meaningful progress in the **G20 Financial Ministers and Central Bank Governors Meetings, nor the International Financial Architecture Working Group (IFAWG)**. South Africa's National Treasury has not appeared committed to driving forward this agenda. While negotiations on international taxation currently take place in the OECD and the UN, the G20 could have played a stronger role in raising the ambition on commitments to progressive international taxation.

PROGRESSIVE TAXATION refers to a tax regime where individuals are taxed at higher rates if they generate a higher income.

Timeline

November 2019 Initial proposal to establish UN Tax Convention



23 December 2020 Adoption of the UN Resolution on Inclusive Tax Cooperation aimed to include developing countries in tax policymaking

8 October 2021 OECD announces 15% global minimum corporate tax rate

December 2022 UN General Assembly resolution 77/244, beginning intergovernmental discussions on ways to increase international tax cooperation, and requesting that the Secretary-General write a report evaluating the various options

September 2023 UN Secretary-General's report on options for international tax cooperation, recommending the establishment of a Framework Convention on International Tax Cooperation

23 November 2023 UN Resolution instructing an Ad Hoc committee to finalise terms of reference (ToRs) that will govern the negotiations about the UN Tax Convention

26 April-May 8 2024 First round of ToR negotiations

29 July-16 August Second round of ToR negotiations

21 November 2024 TORs adopted, 125 votes yes, 9 against, 46 abstained

February 2025-2027 ongoing formal negotiations to establish a UN Tax Convention and the first two protocols

International tax beyond the G20

UN Framework Convention on International Tax Cooperation (UN Tax Convention)

> **UN TAX CONVENTION**
>
> **From now until the end of 2027, the UN has a mandate to negotiate the UN Tax Convention and the first two protocols, which will cover:**
>
> 1. **Taxation of income derived from the provision of cross-border services; and**
> 2. **Tax dispute prevention and resolution.**

For decades, countries in the Global South (especially the Africa Group) have been pushing for international tax reform to take place at the United Nations level. After intense campaigning, in 2022, the United Nations adopted a resolution to establish a framework convention for international tax cooperation, aiming to address global tax issues, particularly those affecting developing countries. Many countries in the Global South hope that discussions at the United Nations will address the weaknesses of the OECD-led process, including the lack of democratic participation, and support outcomes that favour developing countries that need the financing most. This has led to tension between the Global North and South, with OECD countries arguing that the UN could duplicate their existing process and should therefore only play a supporting role, while developing countries in the G77 are seeking a solution that could surpass the ambition of the Two-Pillar proposal.

These topics extend beyond the scope of the OECD G20 tax agenda, allowing for more inclusive participation. However, questions remain around how this will impact the OECD's Two-Pillar framework, especially for countries like South Africa, which have already begun implementation.

The debate does not end there

- **What can citizens do to achieve global tax justice?**
- **How should governments work towards achieving 'Taxing the Super-rich' and MNCs?**
- **Can the G20/OECD Two-Pillar Framework be modified to benefit Africa and other low-income countries?**
- **Should the G20 and OECD governments abandon the implementation of the Two-Pillar Framework Solution and focus efforts towards a UN International Taxation regime?**
- **What implications do South Africa's priorities have in advancing Brazil's 2024 agenda?**

Endnotes

1 Tax Justice Network. 2024. The State of Tax Justice Report 2024.

2 Oxfam. 2025. Takers not Makers: The unjust poverty and unearned wealth from colonialism.

3 The Economic Times. 2025. These are the five people who could be trillionaires in the next few years.

4 World Economic Forum. 2022. A fifth of people in Africa are suffering from chronic hunger. This map shows where the situation is most severe.

5 Chatterjee, A. et al. 2021. Wealth Inequality in South Africa, 1993 - 2017

6 Zucman G. 2023. Globalisation, taxation, and inequality.

7 Bird. R. 2013.'Taxation and Development: What Have We Learned from Fifty Years of Research?

8 South Centre. 2020. Assessment of the Two-Pillar Approach to address the tax challenges arising from the digitalisation of the economy.