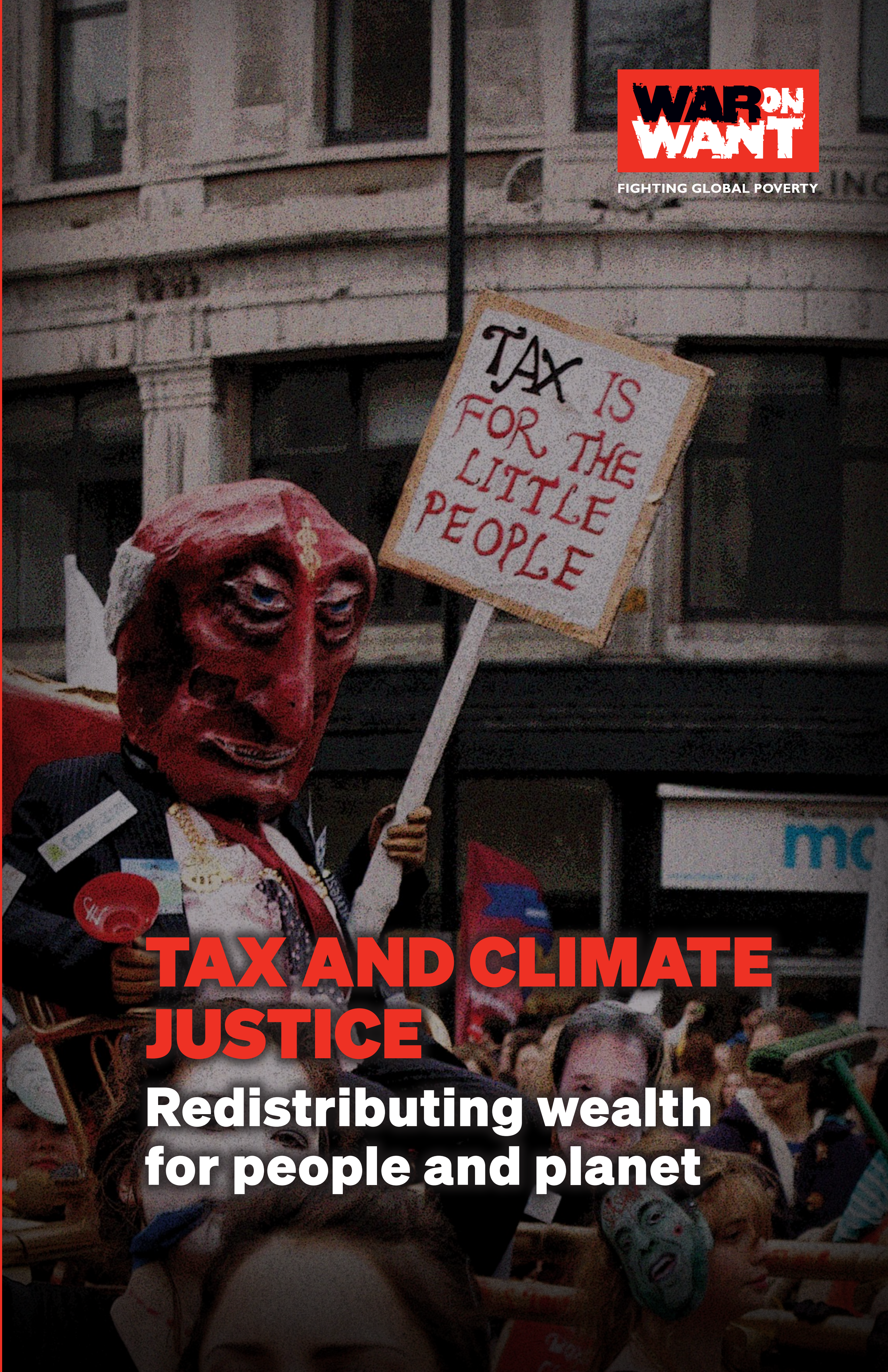
WAR ON WANT GLOBAL ECONOMY SERIES • 3. TAX

FIGHTING GLOBAL POVERTY



TAX AND CLIMATE JUSTICE

Redistributing wealth for people and planet

Tax and climate justice: Redistributing wealth for people and planet

November 2023

About War on Want

War on Want fights against the root causes of poverty and human rights violations, as part of the worldwide movement for global justice.

We do this by:

- working in partnership with grassroots social movements, trade unions and workers' organisations to empower people to fight for their rights
- running hard-hitting popular campaigns against the root causes of poverty and human rights violations
- mobilising support and building alliances for political action in support of human rights, especially workers' rights
- raising public awareness of the root causes of poverty, inequality and injustice, and empowering people to take action for change.

Join us!

The success of our work relies on inspiring people to join the fight against poverty and human rights abuse.

Get involved with our work:

Visit: waronwant.org

Email: support@waronwant.org

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Cover image: Street theatre performance protesting against austerity measures in the UK, London, March 2011.
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Introduction

War on Want has always believed that poverty is political. From our long-standing advocacy for justice not charity, to our campaigns to expose the worst of corporate exploitation and greed, it is clear that poverty is the result of political decisions made by those who hold power: governments and corporations, working within a rigged global economic system.

It's this system that has enabled wealth, power and influence to consolidate into the hands of a few. Today the ten richest men in the world own more than the bottom 50% – 3.1 billion people.[1] People in the wealthiest countries can expect to live on average over 30 years longer than those in the poorest countries.

War on Want protesting outside RBS in London, one of the UK's largest banks known to have subsidiary companies in tax havens.

The richest 10% of people are responsible for nearly 50% of global carbon emissions. Meanwhile, the poorest 50% contribute just 12%. Poverty has devastating implications for the ability of countries and communities to mitigate the effects of climate and ecological breakdown. People in the poorest countries, who have contributed the least to global heating, are already suffering and will continue to suffer the worst of its effects.[2]

None of this is inevitable. But it has become clear that defeating global poverty and averting climate and ecological breakdown just isn't possible under the current economic system. We have to change it. And debt, tax and trade rules are vital places to start.

War on Want has worked on tax justice for over 25 years, from leading campaigns for a tax on international financial transactions in the late 1990's, campaigning against tax havens and tax dodging throughout the 2000s, and exposing the tax abuses of large corporations like Boots and Vodafone and the impact of the UK's network of tax jurisdictions. Our more recent research has uncovered how McDonalds has avoided paying millions in tax with our campaign efforts contributing to holding the company to account.[3]

The UK is responsible for 35% of the world's tax loss, making it by far the world's greatest enabler of global tax abuse.

The UK is responsible for 35% of the world's tax loss, making it by far the world's greatest enabler of global tax abuse.[4] Corporations use the UK as a conduit for dodgy tax arrangements that enable them to erode the tax base in the UK and across the world. London is home to the City of London Corporation, and the location of much of the UK's financial sector, which provides support for tax dodging. The UK is also at the centre of a web of many of the worlds tax havens through its crown dependencies such as Jersey and Guernsey and the Isle of Man, and overseas territories like the Cayman Islands, Bermuda and the British Virgin Islands. The UK government therefore plays a key role in the global tax system.

1. The global tax system

> **"Inequality begets further inequality. As the top 1% grow richer, they have more incentive and more ability to enrich themselves further. They exert more and more influence on politics, from election-campaign funding to lobbying over particular rules and regulations...This process has been most devastating when it comes to tax."[16]**

The current tax system facilitates a highly unequal distribution of wealth, driving deeper levels of inequality both in the UK and globally. Fairer taxation could help redistribute a higher proportion of a society's wealth towards workers, plug critical gaps in financing for public services, fund a just transition, and provide the resources to help mitigate against the impacts of climate breakdown.

We will also struggle to make a just future a reality without changing the way that taxation incentivises fossil fuel use, impedes the energy transition, contributes to continued ecological damage, and facilitates wealth extraction from the Global South to the Global North. Tax justice alone is not a panacea to the problems created by the global economic system. But together with tackling injustices created through the trade system and the role of debt, it is an important entry point for efforts to transform to a fairer and more equitable economic system that prioritises the wellbeing of people and protects and repairs the natural world.

> **Since the start of the COVID-19 pandemic, the wealth of the ten richest men has doubled while 99% of the world's population are worse off.**

a) Global economic inequality and tax

We live in a world of great inequality. Since the start of the Covid pandemic, the wealth of the ten richest men has doubled, while 99% of the world's population are worse off.[5] Inequality is also stark within countries, including the UK – in 2023, the richest 50 families in the UK held more wealth than half of the UK population, comprising 33.5 million people.[6] This inequality manifests in terms of carbon emissions. Ultra-wealth is highly correlated with extremely resource intensive lifestyles, with the consumption of the 1% 100 times higher than the poorest 50%.[7] The richest 10% of people (who primarily live in the Global North) were responsible for more than half of the carbon added to the atmosphere between 1990 and 2015.

The current tax system supports this vastly unequal distribution of wealth and income. The foundations of extreme inequality were laid in the systems of wealth extraction and exploitation of much of the world by European powers during colonisation. Under empire, colonies became very poor. Estimates of the wealth extracted from India by Britain over roughly 200 years are around US$45 trillion in today's money.[8] And although colonisation of the Global South by Global North countries in formal terms has broadly ended, the extraction of resources and labour has not. Attempts to analyse the scale of the plunder of the commodities of the Global South by the Global North,[9] found that drain from the Global South amounted to $152 trillion when accounting for lost growth between 1960 and 2018, with governments remaining under "sustained pressure to extract and export energy and raw materials...to make ends meet."[10]

What has enabled this ongoing extraction and exploitation is the economic system in the form of racial capitalism that we live under, whereby the fruits of labour and material resources generate profits which accrue to the owners of capital, mostly in the Global North. The global economic order, of which the tax regime plays a critical component, helps protect this power disparity, enabling those who hold economic power to wield it to their further gain. Most of the rules that determine where that wealth is accrued, how profits are distributed in society and any rules that might help redistribute wealth are made primarily by elites in Global North countries.

> **Lower income countries' tax losses are equivalent to nearly 52% of their combined public health budgets, whereas higher income countries' tax losses are equivalent to 8%.**

Proportionately speaking, wealth is taxed far less than income, and systems of avoidance exist to enable both wealthy private individuals, and transnational corporations, to avoid their wealth and profits from being taxed, in some cases almost at all. In effect only the 'little people' pay taxes.[11]

This has devastating consequences for the great majority of people, especially in the Global South who stand at the front lines of climate and ecological breakdown.

Tax dodging affects almost everyone, but the impacts of the loss of tax on the Global South are particularly detrimental. Although higher income countries lose more to global tax abuse, tax losses have much greater consequences in lower income countries: "[L]lower income countries' tax losses are equivalent to nearly 52% of their combined public health budgets, whereas higher income countries' tax losses are equivalent to 8% of their combined public health budgets."[12]

> **In the UK the top rate of income tax was cut from 83% in 1979 to 40% in 1988. In the US the top rates went from 70% in 1981 to 40% in 1988.**

The scale of global tax loss is difficult to estimate. There is a lack of transparency around private and corporate wealth and financial flows to be able to assess the true scale of global tax loss. The Tax Justice Network calculates that the visible tax loss was US$480 billion (based on 2018 data) US$169 billion in private tax evasion, and US$311 billion in corporate profit shifting,[13] with the largest multinational corporations shifting a trillion dollars per year, and private offshore holdings due to illicit financial flows estimated at 11 trillion.

Alongside tax dodging, tax policy has shifted further and further in favour of the super wealthy and multinational corporations, and against ordinary working people, the poor and people of colour. We have seen dramatic cuts in the top rates of income tax in many countries, as the burden of taxation has been shifted away from top earners and the wealthy and towards lower wage workers. In the UK the top rate of income tax was cut from 83% in 1979 to 40% in 1988. In the US the top rates went from 70% in 1981 to 40% in 1988.[14] In March 2023, it was revealed that multi-millionaire UK Prime Minister Rishi Sunak paid the same effective tax rate as a nurse.[15]

The UK loses almost £45 billion a year to global tax abuse. £17 billion of this tax loss is due to cross-border corporate tax abuse by multinational corporations and £28 billion is due to offshore tax evasion by wealthy individuals.[17]

Striking teachers in Nottingham in February 2023 highlight underfunding in education.

kthrn CC: BY-NC-ND 2.0

When governments lose out on tax revenue, they often respond by cutting public services, or passing the burden of taxation to everyone else, who can much less afford it. The Tax Justice Network says that countries in the Global South miss out on US$1 trillion every year in capital flight and tax evasion. In Africa alone, an amount equivalent to 40 years of the development funding the continent receives is transferred illicitly out of the country every year.[18] Tax loss has the impact of preventing countries from being able to fund public services and infrastructure, and to respond to health and climate crises.

The Global South misses out on US$1 trillion every year in capital flight and tax evasion while the UK loses almost £45 billion a year to global tax abuse.

If we want to ensure that tax rules don't stand in the way of a just future that is redistributive and reparative, we must understand how it is rooted in systems of extraction and exploitation.

b) Tax as a component of racial capitalism

Similar to other European powers, much of the wealth that the UK accrued through the colonial era was generated through the taxation of colonised countries, which didn't benefit from the revenue generated by tax collection at all. It was pure extraction which served to prop up the colonial administration, to help fund imperial wars, and to subsidise the British state.

This extraction had a devastating effect on the colonised; after the British East India company took over collecting rights in Bengal in 1765, they forcibly trebled tax collections over five years, and people were driven into starvation.[19] An estimated 10 million people (one third of the population of Bengal) died in the famine of 1770. The British administration would continue to collect taxes in the areas worst affected by famine, with taxation collected on exports of grains taking place in years when thousands, or even millions, were dying of starvation.[20] This devastation would continue long into the 20th century – between 1900 and 1946, even though India registered the second largest export surplus earnings in the world for three decades before 1929, there was virtually no increase in per capita income during that time.[21]

Tax as one-way-extraction can be contrasted with the contemporary popular understanding of taxpayers and tax collectors and administrators being in a relationship of reciprocity and mutual responsibility that we are familiar with, and is commonly understood as part of the social contract. Colonised people were part of the political entity of the British empire in as far as they contributed substantially in financial terms to its success – but were excluded from the social contract. The revenue generated through colonial taxation would never be used to alleviate famine or for any other kind of welfare in the colonies. By contrast, in Britain, relief measures in the form of Poor Laws were in place from the late 16th century until it became part of the modern welfare state after the second world war.[22] Colonisers were concerned that agreeing to mitigate the effects of famine using revenue generated through taxation would lead to demands for greater inclusion of colonised people in the web of reciprocity.[23]

The idea of "colonial self-sufficiency" underpinned the approach that sought to ensure that the burden of colonial administration was borne by the colonies themselves. In regions of the world with high trade potential (often coastal), colonisers preferred to tax trade (indirect taxation), as it was cheaper to administer, while inland colonisers resorted to direct taxation, such as taxing income.[24] This influenced the ways in which tax is collected today in formerly colonised countries, which have been and still are significantly more economically dependent on income from taxes on trade and consumption,[25] rather than taxation on income. Since the 1970s, in line with the neoliberal orthodoxy in favour of trade liberalisation that lowers trade taxes, when Global South countries signed up to trade deals they lost significant tax revenue, which they have typically not been able to make up from other taxes. Low income countries typically recover no more than about 30 cents of each lost dollar[26] after reducing trade taxes despite efforts to do so, including through increasing Value Added Tax – VAT – a politically regressive tax which tends to fall more heavily on poor people and women.[27] High income countries were easily able to make up the lost revenue from other sources. The removal of import taxes also removed critical protections to infant industries, where domestic producers found themselves in competition with foreign producers who could produce at lower cost.[28]

One of the other consequences of extraction through taxation was that the British empire could engage in low cost imperial wars, also that for people in Britain, the burden of domestic taxation was greatly eased, which enabled the government to quell unrest at home. Narratives about the creation of the British welfare state after the second world war often overlook the fact that the financial burden of the building of the welfare state (as well as the financial burden of the war itself) was dependent on the continued reaping of a financial dividend from the colonial empire. The UK did this by cancelling debt that it owed to India and Pakistan, and subordinating the economies of its colonies to its own needs.[29] We know that the transition to a low carbon economy won't be just if it is based on this same model of extraction.

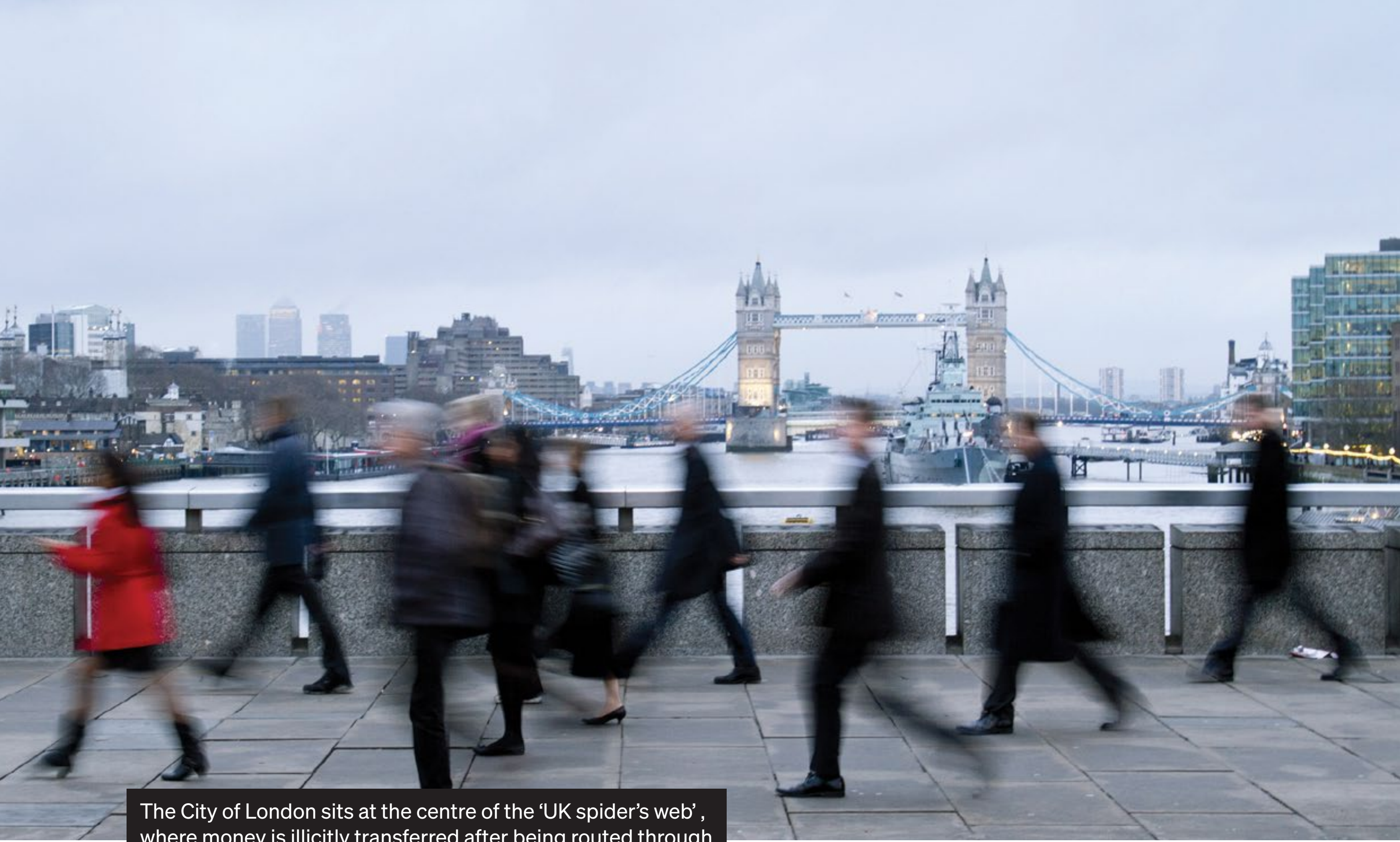
The injustices of the extraction in the colonial era continue to the present. Global norms and rulemaking on tax are shaped by North-South power dynamics. For most of the last century, international tax rules have been determined by a club of 38 wealthy countries that make up the OECD (Organisation for Economic Cooperation and Development), which include some of the world's biggest tax havens, (OECD countries are collectively responsible for 78% of global tax loss) while the UK has maintained a hidden, financial 'second empire' of tax havens.

c) Britain's 'Second Empire'

The UK is responsible for an estimated 35% of the world's tax loss making it by far the world's greatest enabler of global tax abuse.[30] Corporations use the UK as a conduit for dodgy tax arrangements that enable them to erode the tax base in the UK and across the world.

British Overseas Territories the Virgin Islands, Cayman Islands and Bermuda were ranked first, second and third on the Tax Haven Index in 2021.

The UK, especially when including its overseas territories and crown dependencies[31] rank very highly on both the Tax Justice Network's Financial Secrecy Index and Tax Haven Index. The British Virgin Islands,



The City of London sits at the centre of the 'UK spider's web', where money is illicitly transferred after being routed through British Overseas Territories and Crown Dependencies.

Cayman Islands and Bermuda came in first, second and third spots on the Tax Haven Index in 2021.[32] The City of London has been described[33] as the spider at the centre of a web of tax havens around the world feeding money to the City, with the offshoring of activity to places like Cayman Islands, Guernsey or Jersey helping to mask London's prominence.

Wealthy individuals and multinational corporations increase their profits by storing them offshore in these tax havens and secrecy jurisdictions[34]. The proliferation of offshore tax havens has undermined economic sovereignty of nations and has created a race to the bottom between countries as they seek to attract investment by offering tax breaks and concessions to multinational corporations and investors. This plays to the mutual disadvantage of governments that want to provide well-funded public services to their people.

The establishment of tax havens and the deregulation of the financial system that followed is linked to the crisis of climate justice we face:[35]

- The rise in tax havens is intimately linked to the process of decolonisation, in which wealthy colonisers with investments and property sought to hide their wealth from both the newly decolonised states and their home states which might have taxed their wealth and income highly
- This left newly independent countries with a need to kick-start their economies deprived of capital needed and reliant upon conditional loans from international development banks
- This had lasting implications for the economic development of formerly colonised countries, whose ability to respond to economic, health and climate crises is deeply affected by capital flight,[36] and low levels of tax enforcement that has origins in European colonialism[37]
- Countries, including those at the forefront of the climate crisis, have been and are being deprived of vast sums of revenue through tax loss, which could be used to address climate mitigation and adaptation, and loss and damage
- The financial deregulation that followed the creation of offshore financial centres has meant that entire economic sectors critical to human and ecological wellbeing (e.g. food) are dominated by financial interests, and driven by a motive of shareholder maximisation over considerations such as ecological impact and sustainability[38]

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Among the big US tech firms accused of aggressive tax avoidance over the last decade research singled out Amazon as the worst offender.

- The privatisation of public services reinforces the tax abuse system. In the UK, fully privatised gas and electricity distribution networks make the highest profit margins of any sector and these profits are channelled to tax havens, sovereign wealth funds, foreign pension funds, and some of the world's wealthiest individuals[39]

Much of the power and wealth the UK accrued through empire has been maintained by the fiscal rules, financial deregulation and secrecy that ensure that London has remained the worlds centre of finance. This financial deregulation greatly undermined the original ambitions of the Bretton Woods[40] system which aimed to impose financial regulations and restrict capital movements. The colonial roots of tax abuse and illicit financial flows, and the impacts of this abuse on countries most impacted by the climate crisis are exemplary of how the climate crisis is also a crisis of colonialism and racialised capitalism.

It is incumbent upon progressive voices to ensure that the historical role of tax in wealth extraction is factored into the calculation of reparations and climate finance owed by Global North countries to Global South countries, as well as proposals for a more just global tax system.

d) Trends in corporate power and tax abuse

Trends in tax policy reflect patterns of colonialism and extraction, but also the exponential growth and power of multinational corporations since the 1970s. For decades governments have been pitted against one another in providing more and more attractive environments to businesses, an important component of which are tax breaks and low corporate tax rates.

> **In developed regions the average corporate income tax rate more than halved between 1980 and 2021, from 41.8% to 19.9%.**

Corporate income tax (CIT) rates have fallen dramatically since the 1980s, in all regions of the world. In 1980 the worldwide corporate income tax rate was 39.3% on average, and has fallen to an average of 22.7% today.[41] In developed regions the average CIT rate more than halved between 1980 and 2021, from 41.8% to 19.9%.[42] Despite this, multinational corporations still seek to pay as little tax as possible, often by shifting profits to low tax jurisdictions, or through a network of countries with tax arrangements.

A study measuring this corporate profit shifting found that alongside a quadrupling of global profits going to multinational corporations, there has been an upsurge in the percentage of multinational profits shifted to tax havens, increasing from less than 2% in the 1970s to 37% in 2019. The study also estimates that the corporate tax lost from global profit shifting has increased from less than 0.1% of corporate tax revenues in the 1970s to 10% in 2019.[43]

As more and more power became centralised in the hands of fewer corporations, so did responsibility for the increasing levels of environmental harm and damage that has caused the climate crisis. However, the power and wealth of these same corporations has also bought them access to corridors of power where they are able to influence tax policy, meaning the ability to tax them effectively has also diminished.

e) The failure of the OECD

Who decides tax policy is also at the centre of the injustices that unfair and unequal taxation creates. The decisions to allow tax havens to set up and proliferate is one way in which the global economy has been geared towards the interests of former colonising countries. Tax policy disproportionately disadvantages Global South countries is because the rules of global tax policy are dictated by the OECD – a club of 38 wealthy countries, who have created norms around taxation that suit the structure and development of those wealthy countries, denying Global South countries tax sovereignty, and imposing a model of taxation ill-suited to Global South economies.

The domination of global tax policy by OECD countries has resulted in failure, with devastating consequences for Global South countries, but also for the vast majority of ordinary people in wealthy countries like the UK. Despite some meagre attempts in the last decade to 'democratise' OECD processes, and address base erosion and profit shifting, what proposals are emerging from this drawn-out process lack ambition, democratic participation and would be largely ineffective even if they were to be implemented.[44]

The 'first pillar' of the reform process aimed to address profit shifting, while the second pillar would remove the incentive for profit shifting by implementing a global minimum effective tax rate of 15% for Multinational Enterprises (MNEs) which meet a threshold (US$750 million) in annual revenues, with implementation scheduled to begin in 2024 in some countries. This in no way reflects the priorities of Global South countries or their civil society allies who had been advocating for a minimum rate of 20% or 25%.[45] Global South scholars warn that in reality the new rules won't benefit poorer countries at all. Another provision of the 15% rule states that priority for the collection of taxes is given to the jurisdiction where the headquarters of the corporation is based, which are very often in the wealthiest countries. Some estimates say that 60% of the revenue from the minimum tax rate will go to G7 countries, which have just 10% of the world's population.[46]

OECD countries have worked hard to try to defend the role of the OECD in creating norms and policies around tax, despite the evidence that its policies are ineffective in tackling tax avoidance or profit-shifting.[47]

2. The fossil fuel industry

What gets taxed? Choosing to tax some things and not others effectively creates subsidies for the things that aren't taxed. Subsidies provided by governments to fossil fuels constitute one of the biggest challenges of the tax and climate nexus that we must address in a Global Green New Deal.

Fossil fuel subsidies:

- Reduce the cost of developing fossil fuels, shifting their true costs onto the poor through climate impacts, and rewarding the fossil fuel industry, skewing incentives in their favour
- Take public money away from other uses
- Delay the energy transition and make renewables less competitive
- Encourage excessive consumption in wealthier households and businesses by distorting markets

a) Climate and ecological impacts

The Intergovernmental Panel on Climate Change (IPCC) has found that emissions from fossil fuels, in the form of coal, oil and natural gas, are the dominant cause of global warming. In 2018, 89% of global CO_2 emissions came from fossil fuels and industry.[48] Fossil fuel companies are huge polluters, yet they continue to benefit from government subsidies and favourable tax policies that are incentivising and enabling their climate destructive practices. This is a contradiction that sits at the heart of the climate crisis, and the role of tax is a key element.

Conserving biodiversity requires reducing intensive resource extraction and ending fossil fuel use, instead investing in long term projects that respect planetary boundaries and diversifying economies that meet the social and environmental needs of local populations. The global economy is deeply entwined with our natural world, and yet governments are still pandering to the fossil fuel industry.

Undermining biodiversity

Human society continues to be powered by fossil fuels, yet we are also reliant on the Earth's biodiversity – the variety of life on Earth in all its forms, from genes and bacteria to entire ecosystems such as forests or coral reefs. Earth's rich natural resources provide essential elements to sustain life – food, clean water, and medicines for example. And for the role of biodiversity in Earth's processes such as carbon storage and water recycling. Over half of global GDP is dependent on nature. More than 1 billion people rely on forests for their livelihoods, with land and ocean absorbing more than half of all carbon emissions. Yet between 2010 and 2020, the UN estimated that the net loss in forest globally was 4.7 million hectares per year.[49] Studies show that many thousands of species are projected to go extinct through deforestation, mining and large scale agriculture.[50]

Fossil fuel extraction directly damages biodiversity, wrecking natural habitats and polluting soils, rivers, oceans and air. Even the exploration process can harm biodiversity through noise pollution from drilling, clearing vegetation to provide access to sites. During extraction habitats are further polluted and destroyed, and after, through the burning of fossil fuels and the production of climate damaging greenhouse gases.[51] Yet biodiversity is the world's strongest natural defence against climate change. However, the current tax system continues to shore-up and enable a deeply polluting industry that we actually need to phase out as quickly as possible.

b) Fossil fuel subsidies

There are multiple definitions of what constitutes a fossil fuel subsidy, which in turn has meant very different statistics about the extent to which fossil fuels are subsidised. Most analyses distinguish between *production* subsidies – subsidies that make it less costly for producers to develop resources in the first place, such as tax breaks for capital investment, requiring a lower share of profits to be given as tax from developing a resource, public finance specifically given to fossil fuel production, – and *consumption* subsidies, which reduce the price of energy to consumers, for example, through government controls on the cost of petrol or energy. The International Institute for Sustainable Development estimated that 86% of all fossil fuel subsidies were consumption subsidies in 2019.[52]

There are a few different estimates of the scale of fossil fuel subsidies globally, including from the International Energy Agency (IEA), the Organisation for Economic Cooperation and Development (OECD), and the International Monetary Fund (IMF). Some consider a totalling up of the IEA and OECD estimates a reasonable way to approximate the spend on worldwide support to fossil fuels. In 2021 this estimate was at almost US$700 billion[53] with a further increase in consumption subsidies in 2022 to a high of US$1 trillion. The most comprehensive approach has been taken by the IMF, which estimated that the world would spend US$5.9 trillion on energy subsidies in 2020 or about 6.8% of GDP, expecting this to rise to 7.4% of GDP in 2025.[54] The 2021 IMF paper calculated the UK's total fossil fuel subsidies (explicit and implicit subsidies) at US$24 billion.

The case can be made that consumption subsidies are social and political necessities, given the hardship that people face due to rising energy bills. However it is clear that from a climate perspective we cannot afford to subsidise fossil fuels without addressing energy sources and use more systemically, especially considering that some parts of the world have been historically low users of energy, and that interventions to support people struggling through energy crises must be targeted through carbon dividends.

The Energy Profits Levy introduced in March 2022 nearly doubled the tax relief available to fossil fuel corporations for new investments.

When the UK government introduced the Energy Profits Levy[55] in March 2022, they also decided to give fossil fuel companies a high tax break for new fossil fuel investments, despite new oil and gas fields effectively putting climate targets out of reach. When introduced, it nearly doubled the tax relief available to fossil fuel corporations.[56]

As it stands, fossil fuel subsidies are substantial and stand in the way of a just transition, and increase our collective dependence on the fossil fuel sector, coming at great cost to public finances, and locking in further dangerous climate and ecological damage. We must flip the current situation on its head, and instead use tax policies to heavily discourage and end investment in fossil fuel development and infrastructure. In the UK this can start by demanding that the government end fossil fuel production subsidies.

c) Corporate greenwashing

Fossil fuel companies are at the forefront of corporate green washing, spending billions on marketing and public relations to present a false narrative to give the impression that they are changing their practices and providing solutions to the climate crisis. However, they continue to seek and secure lucrative licenses to further extract and burn fossil fuels, and are now turning their attention to profits they can make in mining materials needed for renewable energy, using the same methods that have caused devastation to Indigenous communities and their lands.

African countries are estimated to be losing about $450–730 million in corporate income tax revenue a year from the tax avoidance of multinational mining companies.

Ricardo Luengo CC: BY-NC-ND 2.0

La Paloma Glacier, located in the Yerba Loca Park, about 50km from Santiago, Chile's capital. This glacier is allegedly under threat from the current upgrade plans of Anglo-American's Los Bronces mining project.

Mining companies, similarly, make claims of corporate responsibility and climate leadership, but behind their greenwashing tactics is a model of profit extraction based on tax avoidance, environmental devastation and human rights abuses for Global South communities. London-based mining company Anglo-American's mining projects have left a long trail of destruction and pain: dispossession of Indigenous communities, overconsumption of water, deforestation, and destabilisation of ecosystems. Chilean authorities, community activists and land defenders have warned its latest copper mining project could contaminate the Maipo River Basin, which provides drinking water for nearly six million people, and melt Andean glaciers at an accelerated rate.

It is not unique among mining companies that operate in some of the world's most mining-intensive economies, that seek to avoid paying tax. African countries, including many of the most mining-intensive economies in the world, are estimated to be losing about $450–730 million in corporate income tax revenue a year on average from the tax avoidance of multinational mining companies.[57]

Companies like Anglo-American portray themselves as 'green' and 'responsible' despite their devastating environmental impacts. Wealthy Global North corporations plan to maintain their profits and satisfy the North's clean energy ambitions, through the exploitation of raw materials needed for the energy transition.[58] Countries must have the policy space to be able to determine the model of their own economic development, including the extent to which that is dependent on resource extraction. Economic measures such as implementing effective and adequate Corporate Income Tax, ending tax subsidies to fossil fuel companies must play a crucial role as part of a Global Green New Deal, to redress the balance of power that fossil fuel and mining companies have, forcing behaviour change of the most polluting industries and paving the way for a just transition. Yet current debates focus on environmental tax policies, which do not go far enough.

3. Dangerous distractions

OECD-led processes on tax reform are just one aspect of a set of dangerous distractions on the road to tax justice and climate justice. There are a number of ideas that are being experimented with that ultimately delay progress, and fail to address the fundamental flaws with the ways in which the tax system currently bolsters the fossil fuel economy, and undermines global inequality.

a) Reliance on carbon pricing and emissions trading systems

The idea behind carbon pricing – putting a cost on the burning of an amount of fossil fuels – is that it incentivises reducing carbon emissions among those who are responsible for it and can avoid it, by sending an economic signal to emitters, and by generating revenue for the state collecting the taxes. The idea is linked to efforts to cap the total amount of emissions allowed, which decreases over time – participants in a scheme then trade emissions allowances or face fines.

Does it work? No. The relatively few studies of whether carbon pricing schemes work or not show that the reductions on emissions are very limited (between 1% and 2% per year, contrasted with the 45% drop the Intergovernmental Panel on Climate Change says we need to see by 2030), with emissions trading schemes performing even worse.[59] Even if they did work, carbon pricing schemes only cover 23% of global carbon emissions.[60] Carbon intensive infrastructure projects are still being initiated in places with carbon pricing regimes. Carbon pricing approaches greenhouse gas emissions as a market issue with a market-based solution, that fails to appreciate the scope and depth of climate and ecological breakdown as a systemic problem. Aside from carbon pricing schemes roundly failing to deliver decarbonisation, emissions trading schemes do not deliver the redistributive, transformative change we need to see, and offer a way for the maintenance of an unjust status quo in terms of who gets to pollute.

Carbon pricing as a concept has been championed by the fossil fuel industry itself, "one of the best tools we have" according to Shell CEO Ben Van Beurden in 2014.[61] Undercover recordings of Exxon executives revealed the company cynically backed a carbon tax as an "advocacy tool" as they knew they could exert the necessary power to ensure the initiative didn't affect their bottom line.[62] The concept has become an easy greenwashing talking point, which offers fossil fuel corporations a way to maintain their social license to operate, and to stave off more concerted regulatory action.

There may be a role for some of the underlying logic of carbon pricing – principally that carbon production must factor in the true social and environmental cost, but the climate movement would rather see this expressed in the form of a (much higher) tax on the production of fossil fuels such as a climate damages tax.

b) Carbon border taxes or 'carbon border adjustment mechanisms'

Another idea linked to carbon pricing is a Carbon Border Tax or adjustment mechanism (CBAM), which the EU has already introduced. The EU's Carbon Border Tax puts a tax on a selection of carbon-heavy items from outside the EU where the originating country does not have as strong a control on carbon as the EU. This proposes to help prevent 'carbon leakage' – the possibility that if the carbon price is increased, EU firms would re-locate to non-EU countries where costs are lower. The UK is considering implementing a similar tax.

Why doesn't this work? First of all it must be recognised that the design of this policy is about gearing taxation in the interest of European industries, which seems like a continuation of a development dynamic that will further deprive Global South countries of opportunities for their own economic development. The EU's CBAM is projected to generate revenue for EU countries, but at no point is the revenue linked up to the obligations of EU countries to finance climate action.

Global South analysts say it fails to address the core problem of systemic overconsumption in the Global North, and that the production systems allow wealthier countries to offshore emissions and not count them as their own.

c) Global North led and undemocratic decision-making spaces

Decisions about who is and is not facilitating tax avoidance cannot be left in the hands of those that profit from the status quo. The European Union keeps a list of tax havens, or 'non-cooperative jurisdictions for tax purposes' which fails to list any EU member states, or the UK or the US in its list, despite many of these being among the most harmful tax havens in the world.[63] Among the Tax Justice Network's Corporate Tax Haven Index, The British Virgin and Cayman Islands, Netherlands, Switzerland, Luxembourg, Jersey, Ireland, UK, Cyprus and Belgium all rank highly. It is also evident that tax justice initiatives proposed by the OECD have been ineffective at reforming trends towards base erosion and profit shifting, and has held back progress on taxing corporations fairly. The OECD also fails basic tests of democratic participation – it is unsurprising that it is a poor venue for transformative, progressive change that shifts the balance of power away from the former colonial powers that make up its members. However, it is not the only forum that has attempted to take on tax issues of global importance, and efforts to strengthen global tax policy making at the United Nations must be advanced if we are to see progress.

Global North led initiatives to date have also failed to address fossil fuel subsidies. In 2009, G20 nations proposed that they end 'inefficient' fossil fuel subsidies, a process which has resulted in very limited progress. The World Trade Organisation's Agreement on Subsidies and Countervailing Measures (ASCM) is sometimes posited as the appropriate venue for rules on fossil fuel subsidies, as it is the only multilateral agreement in force providing legally binding rules governing the use of subsidies and remedies. Although the World Trade Organisation fares better in terms of a democratic multilateral space, the ASCM only implements remedies to unfair subsidies if they have 'trade distorting' effects, not if they are damaging to the climate.

4. Transforming tax: The real solutions

"The climate justice and tax justice movements are not separate, or even parallel, issues. They are so intimately enmeshed that our collective success or failure in addressing each of them will be integral to determining outcomes for the other."[64]

The approach around which we define solutions to climate injustice and global inequality, including tax, should take equity and responsibility as guiding principles. The 'polluter pays' principle commonly referred to in UN climate talks seeks to reflect the fact that nations have contributed differently to the climate and ecological crises throughout history and attributes responsibility for that damage proportionately.

That means historic polluters must pay more for the costs of climate mitigation and adaptation, and loss and damage borne disproportionately by historically lower carbon emitting nations. Solutions should be reparative in that the measures should seek to address damage already done, and accommodate transformations that will shift the underlying mechanisms that produced the imbalances in the first place.

How can the tax system be geared towards these ends, along these principles? There are three main potential strands to this work:

- Using taxes to **change government relationships with the fossil fuel industry**. This should include ending fossil fuel subsidies and increasing investment in and subsidies for renewable energy, publicly owned and community energy, and introducing aviation and transport levies. Ending the extraction and use of fossil fuels is crucial to stopping further ecological damage, and for the repair of the earth's biodiversity.
- Increasing **funding for climate finance and ensuring that the cost of climate adaptation and the just transition** is borne by those most responsible and who can best afford it. This could happen through a Climate Damages Tax, wealth taxes, permanent and meaningful windfall taxes, and a Financial Transactions Tax, all aimed at changing ecologically damaging practices including by corporations.

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Thousands of people march across Waterloo Bridge in London on their way to Trafalgar Square as part of the 2022 Global Day of Action for Climate Justice as world leaders meet in Egypt for COP27.

- **Using tax to help transform inequality and poverty** along which climate injustice is experienced. This means ensuring wealthy people and corporations pay a fair share of tax, through meaningful and effective corporate tax rates (building on demands for country by country reporting) and unitary taxation, capital gains taxes with income taxes, reforming income taxation and VAT, wealth taxes and more.

In order to make these a reality, it will require doing things differently. Big changes require political will, a public consensus for change that can articulate popular demands around tax and climate justice, as well as rejecting the failed and unjust forums that have resulted in the scandalous status quo, while forging a new democratic, representative multilateral decision making processes under the auspices of the United Nations.

a) Tax and the fossil fuel industry

Our economies, governments and communities must have a different relationship with the fossil fuel industry, and with energy. Taxation can be an important part of the shift in getting out of fossil fuels by penalising investment in them, and of funding new publicly owned renewable energy generation companies. Investment from the increased revenue as well as reinstating tax relief incentives for investment in community energy can also help create shifts in energy ownership and production towards renewable and community-owned models.

The UK's recent Independent Review of Net Zero[65] recommends a review into the tax system to determine how policy can incentivise investment in decarbonisation. Civil society recommendations along these lines suggest making changes to tax credits and investment allowances such as the 'super deduction' and Research and Development tax credit, reforming them to make sure that they only apply to investments that meet climate goals,[66] and to expand allowances across green investments.[67] What is important here from a global justice perspective is that any such review takes into account the full, global scope of the tax system of the UK and its territories and crown dependencies on the ability of countries everywhere to fund loss and damage and invest in just transitions.

The UK has one of the lowest effective tax rates on offshore oil and gas profits in the world; less than US$2 a barrel in 2019 compared to the nearly US$22 for every barrel in Norway.

Ending subsidies and tax breaks for the fossil fuel sector is an important part of changing the relationship between governments and the industry, especially for production subsidies.[68] While the majority of fossil fuel subsidies are consumption subsidies, the OECD's figures on production subsidies show that the highest government for support for fossil fuel production is concentrated in the Global North, which should be a priority for termination.[69]

UK tax breaks for fossil fuels

The oil industry pays little tax in the UK at present because it receives very large tax breaks. The UK's domestic fossil fuel subsidies are estimated at between 13.6 billion and 18.5 billion per year in recent years.[70] The UK has one of the lowest effective tax rates on offshore oil and gas profits in the world, with the treasury receiving less than US$2 a barrel in 2019 compared to the nearly US$22 for every barrel in Norway.[71] The UK government introduced an Energy Profits Levy of 25% in May 2022, (increased to 35% in 2023) which also gives significant exemptions for companies that invest in further oil and gas production, thus creating another tax break and commiting the government to billions in subsidies in tax relief for investment in new oil and gas projects.[72]

Export Credit Agencies serve as an intermediary between governments and exporters, providing credit insurance or financial guarantees – or both. Countries must also end financial support for new oil and gas infrastructure by ensuring that their Export Credit Agencies are fossil free. Between 2019 and 2021, Export Credit Agencies provided US$34 billion of financing per year to companies developing fossil fuel projects through government-backed loans, guarantees, credits and insurance, with Canada, Japan, Italy, China, Germany providing particularly high levels of support.[73]

b) Funding climate finance

Tax can play a critical role in funding climate finance. Wealthy countries have already undermined their credibility by failing to live up to a commitment to provide US$100 billion in climate finance per year in 2009.[74] The sums of money that will need to flow to Global South countries facing the impacts of climate and ecological breakdown vastly outstrip this unmet promise. For Loss and Damage alone, Climate Action Network estimate that US$50 billion per year will be needed by vulnerable countries, rising to around US$300 billion per year by 2030.[75] Estimates of the sums needed by 2050 range from US$1.1 trillion to US$3.6 trillion per year.[76]

Tax forms part of the solution to meet climate finance needs. Proposals include:

- Implementing a **Climate Damages Tax**; A Climate Damages Tax, as proposed by Stamp Out Poverty and others under the slogan 'Make Polluters Pay' would be a charge on the extraction of each tonne of coal, barrel of oil, or cubic litre of gas calculated based on how much climate pollution (CO_2e) is embedded within the fossil fuel.[77] This would be paid into a UN managed fund and distributed in such a way as to recognise historical responsibility for carbon emissions, with low income countries retaining all the revenue generated from fossil fuels extracted in their countries. The Climate Damages Tax proposed could raise US$210 billion in its first year.[78] One dynamic of taxation on the extraction and use of fossil fuels, is that if the tax is effective in shifting incentives away from fossil fuels and towards renewables, then ultimately, over time the source of taxation is gradually reduced. However, in the meantime, there is a large pool of taxable profit to target.
- The implementation of windfall taxes leading to **meaningful permanent taxes** on profits would have the impact of both changing the relationship between government and the fossil fuel sector, and contributing to climate finance. Fossil fuel corporations have made unimaginable profits in the last few years, building on decades of profiteering that has driven the planet towards ecological collapse. Shell made US$9.65 billion in profit during the first three months of 2023 – its highest ever first-quarter return.[79] It is time to put an end to it and implement meaningful windfall taxes on excess profits in the fossil fuel (and other)

sectors. Research by the Heinrich Boell foundation suggests that a 10% tax on average annual oil, gas and coal profits of US$1 trillion would realise US$100 billion, that could come under the auspices of a climate damages tax, with a proportion transferred to a climate finance fund for poorer countries. Some countries have already implemented windfall taxes – the EU has agreed to impose a windfall tax on surplus fossil fuel profits and on excess revenue from electricity costs – with estimates that this could raise 140 billion Euros.[80] Oxfam research finds that if the excess profits (profits that are more than 10% in excess of average profits over the years 2010-2021) from fossil fuel producers in the UK Continental Shelf were taxed at 90%, this alone would raise £13 billion.[81]

- **A wealth tax for climate financing**; Although greater taxes on wealth is needed generally in order to equitably redistribute wealth, some are calling for a portion of this to be allocated to climate finance. There is a strong case for directing revenue generated from a wealth tax towards climate justice, given that studies show that the people who would be subject to wealth taxes (the very wealthiest in our societies) are disproportionately responsible for carbon emissions. A wealth tax of 2% on millionaires, 3% on people with over US$50 million, and 5% on billionaires could raise US$1.7 trillion per year, according to Oxfam.[82]

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A wealth tax in the UK?

Tax Justice UK reports that wealth taxes have wide popular appeal, with 78% of people in the UK supporting higher taxes on those who own assets worth over £10 million.[83] Measures the UK could take on extreme wealth, including a 1-2% tax on assets over £10 million, could raise as much as £50 billion.[84]

- A proposal from the South Centre (an intergovernmental organisation of developing countries helping to combine efforts and expertise to promote common interests) proposes a '**Climate Finance Withholding Mechanism**' which would attempt to "recover and redirect funds from international trade and commerce towards implementing the climate finance commitment with developing countries."[85] The Withholding Mechanism would require that an amount equivalent to the tax levied by the developed country would be retained in the developing country to help meet climate finance commitments.

A frequent flyer levy could raise around £4 billion a year in the UK, while an international shipping levy could raise US$100 billion.

- **Transport levies**; could also contribute to climate finances. A frequent flyer levy would progressively tax flights in such a way that the amount of tax paid on a flight would increase with each flight taken in a year. In the UK, 15% of people take 70% of all flights, while nearly 50% of the population do not fly at all in a given year.[86] It is estimated that in the UK this could raise around £4 billion per year.[87] An international shipping levy could help address the lack of responsibility the shipping sector has taken for carbon emissions, which represent 2.9% of the world's greenhouse gases.[88] A levy could raise US$100 billion a year in the medium term.
- Implementing a **Financial Transaction Tax (FTT)**: A financial transaction tax (FTT) is a levy on foreign currency exchange or financial instruments or contracts like bonds, stocks, options, and derivatives. It can also apply as a currency transaction tax (CTT) on foreign currency exchange. Some, very minimal Financial Transactions Taxes are already in place, in the US, in India, and are under discussion in the EU. It has been estimated that FTTs could raise US$7-16 billion per year.[89] Another proposal calls for an 'Ubuntu Restoration Tax' of 1% on the estimated value of global financial markets in wholesale currency trading, fixed income trading, stock markets and commodities trading of US$15.8 trillion per day would raise US$158 billion per day, equivalent to US$40 trillion per year.[90]

c) Fair shares, wealth and corporate taxation

A critical component of shifting towards a Global Green New Deal for climate and economic justice will include addressing the power of corporations, including their power to inflict environmental harm, to externalise the climate costs of their operations, to exert power over regulatory bodies and governments and evade regulations and taxation.

Tax justice activists and organisation, including War on Want have called for a range of changes to the global tax system, and particularly to the role the UK plays in it. These shifts include:

Fairer corporate income tax

- Increasing corporate income tax would contribute to general taxation, especially in the Global South will ensure that Global South countries have the funds to support their energy transitions. The proposed set of OECD rules that aim at limiting base erosion and profit shifting through a 'minimum' tax rate of 15%, (the GLoBE rules), will be of very limited benefit or may actually negatively impact developing countries. The rules only apply to large corporations with turnover of over 750 million Euros, are complex for developing countries to implement, and prioritise the rights of the home countries of multinational enterprises to collect tax, which are mostly developed countries. There are no MNEs taxable under these rules in least developed countries.[91] Even if it were implementable, a minimum rate of 15% is inadequate and must be higher – a number of countries called for 25% during negotiations.

Cracking down on tax havens

- **Implementing Automatic Exchange of Information:** an automatic data sharing practice that prevents corporations and individuals from abusing bank accounts they hold abroad to hide the true value of their wealth and pay less tax than they should at home. A country takes the information it has on the financial activity of individuals and businesses operating in its borders but are resident elsewhere, and shares that information with the other country – enabling countries to ensure the correct rate of tax is paid.
- **Beneficial Ownership Registration and tackling Trusts**: It is all too easy to mask who the real owners of corporations are, which enables them to evade their tax responsibilities. Corporations build complex ownership chains across many countries through shell companies. Beneficial Ownership registration means forcing companies to disclose the 'beneficial owner'- the owner who receives a benefit, states can then ensure that these people pay a fair share of tax.[92] However wealthy people are increasingly using trusts – legal mechanisms which enable the suspension of ownership of wealth – to hide their wealth.

Country by Country Reporting (CBCR)

- CBCR requires companies to publish how much profit and cost they incur in each of the countries they operate in, instead of publishing all the profits and costs they incur around the world as a grouped sum. This would make it possible to see when corporations are shifting profits from where they make them, and into tax havens. CBCR provisions are slowly coming into being – in 2023 Australia is set to implement legislation[93] that will require companies to publish their profits publicly, which will be a step up from OECD standards which enable these accounts to remain private. The UK amongst other OECD countries have been seeking to impede progress towards CBCR.

Implementing a wealth tax and ensuring fairer general taxation

- Implementing a wealth tax as described in the section above not only helps fund loss and damage, but also redistributes wealth throughout deeply unequal societies. Ideally, wealth taxes are global, but study suggests wealth taxes are effective even if they are not. We must also impose higher taxes on wealth relative to labour, and move away from regressive taxes like VAT that hit the most economically vulnerable and marginalised disproportionately.

5. Conclusion: Aligning movement demands and building political will

A fairer global taxation system will encourage an energy transition, and start to shift the balance of power that has been skewed heavily in favour of wealthy individuals and countries of the Global North. However, addressing the inequalities of wealth that have accumulated through decades of asymmetries in power will take further redistribution and reparations.

Driving change towards a tax system for a fairer and climate just world may require the concurrent movement demands for a just tax system today *and* reparative financing and other measures to redress loss and damage and the accumulation of wealth in the hands of the few.

Currently there is no global governance structure for tax. For the last half century, global tax policy has been taken up by the OECD, even though it was never mandated to do so. This is an undemocratic, unconscionable situation that cannot continue. As a small club of wealthy countries, its policies have failed to secure the changes needed to the tax system, sustaining an unjust status quo, and blocking progress. It relies on voluntary compliance, with no penalties for countries that don't comply, and has failed to handle country data on tax issues adequately, such that we are still using tax data from 2018 to measure tax dodging by corporations and wealthy individuals in 2023.

The United Nations is a much more appropriate forum for the global governance of tax policy and the creation of a global tax body. It has so far been an observer rather than a leader in global tax discussions, and that must change.

As a representative body, with 196 members with permanent offices at the UN's headquarters, it is a much more democratic, and transparent space where alliances of Global South governments and the tax justice movement may be able to progress their collective interests.

In November 2023, a resolution was adopted by countries at the United Nations which paves the way for a new legally binding agreement that would establish an overall, global, system of international tax governance. The initiative was led by the African Group of countries – none of which are OECD members. The resolution has been adopted despite the attempts by the UK government to defang it and their voting against it along with the EU, US and other rich countries.

The initiative however has strong support among global majority countries, and civil society can take the opportunity to build on this success. Civil society organisations in the UK can support this initiative by urging the government to support a UN Framework Convention on tax. To date the UK government's contributions to the discussions on the matter, however, much like the contributions of other OECD member states, have been to defend the status quo and the role of the OECD, to favour minor improvements to the OECD's processes rather than to risk "duplication" of efforts and "fragmentation" through a UN process.

Building a movement for change that popularises demands can play a role in creating that political will. The public desire to ensure that the burden of taxation is distributed fairly is strong, and there is generally a high degree of awareness about the tax dodging practices of multinational corporations and wealthy individuals. It is of course, not just Global South countries that would benefit from more transparent, democratic and ambitious global tax governance.

To date the connections between the tax justice and climate movements have not been strong but that is changing quickly, as the combined crises of fossil fuel profiteering, the cost of living and the climate and ecological crises are drawing into sharp focus the obscene profits of fossil fuel giants, and demands for adequate taxation of these profits are growing. War on Want continues to build on a baseline level of knowledge and public attitudes to profiteering fossil fuel corporations to build demands for fairer taxation with an internationalist vision essential to reimagining an alternative global economy that prioritises the right of all people to live with dignity and in harmony with the planet, focuses efforts towards a just transition, resources towards the repair and protection of the Earth's biodiversity and eco-systems.

A just transition means states must change the relationship they have with the fossil fuel sector. Taxation is a way of making that change happen, of disincentivising fossil fuels and incentivising investment in renewables. This will require political will, and for states, especially the UK to shape the economic and financial system to advance the common good.

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Cost-of-living crisis protest at London Kings Cross in October 2022.

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