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Trump Cut America's Taxes: Now He Should Defund OECD Efforts to Raise Them

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The Organization for Economic Cooperation and Development (OECD) once forged consensus policies among its members to promote prosperity and economic growth. Today, it is little more than an advocate for higher taxes. The once great proponent of open global markets has transformed itself into a dunning agency for European mega-welfare states that are straining to fund the generous but unsustainable pension, health care, and other government programs they have over-promised to their constituents.

One need only undertake a cursory examination of research over the past five years to see that tax-related work by the OECD's Centre for Tax Policy and Administration[1] and by other OECD directorates (for example, on carbon taxes) has been focused almost entirely on studies that buttress political arguments for higher taxes and implementation of more intrusive ways to collect them.

At its 2017 Ministerial Council Meeting (MCM), the majority of the OECD's governing board of directors (finance or treasury ministers from member states) wanted to adopt by consensus a statement outlining the scope of future OECD work. They refused, however, to modify the statement to address concerns of the U.S. delegation from the new Trump Administration that dealt with its sections on trade, investment, and climate change. Instead, for the first time in its history, the MCM took the unprecedented step of publishing its statement[2] without the agreement of the United States, which provides more than 20 percent of the OECD's annual budget. The U.S. is one of 34 OECD member states.

The 2018 MCM will take place on May 30 and 31 in Paris. This year, the American delegation should make the first move. It should announce that the United States intends to withhold future voluntary U.S. government financial contributions that could be used to fund OECD tax work if it continues its lop-sided focus on studies that urge OECD members to increase taxes and implement more intrusive tax collection methods. The blockage on voluntary U.S. funding should continue as long as the OECD refuses to do an equal amount of research on ways to cut government spending, reduce taxation, and make bureaucracies smaller and more efficient.

A Watershed Moment

The 2017 ministerial statement was a watershed moment. The United States was the driving force behind the establishment of the OECD in 1961, after the OECD's predecessor agency (the Organization for European Economic Cooperation) had completed its work to implement the American-funded Marshall Plan to help to rebuild Europe after World War II.

During its first few decades, as the world continued to recover from the most destructive global war in history and to confront the Cold War, the OECD did vitally important work to open markets, enhance flows of capital across international borders, improve the rule of law, fight against corruption and bribery, and increase the confidence of foreign direct investors.

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It also earned a well-deserved reputation for producing reliable and high-quality metrics and statistical analyses of the effects of its member governments' policies that were useful for policy reform efforts among the nations of the developed world.

Unfortunately, in the years since the 2008 financial crisis and the subsequent eurozone crisis, high-taxing European members of the OECD have pushed the organization toward an almost obsessive research focus on international tax avoidance and evasion. These manifest through its base erosion and profit shifting (BEPS) project, and a proposed protocol amending the Multilateral Convention on Mutual Assistance in Tax Matters.

The BEPS project and the protocol are a manifestation of the long-term fiscal unsustainability of European-style welfare programs and the resulting need for additional revenue. The BEPS project also complements a disproportionate OECD focus on income inequality and environmental degradation in developing countries that, in the eyes of OECD's international civil servants, could be addressed best by international wealth redistribution schemes funded by higher taxes in OECD countries (such as the Paris Climate Agreement).

The OECD's BEPS Project

The BEPS project and the resulting Multilateral Convention to Implement Tax Treaty Related Measures to Prevent BEPS are nothing more than international tax regulators' latest attempt to increase taxes on international businesses.[3] The OECD proposal aims to centralize and harmonize global tax rules and increase effective tax rates on international firms.[4]

The current international tax system is imperfect. It allows tax planning and does not tax 100 percent of corporate profits. The BEPS project intends to curb such tax planning. However, the generally porous international tax system has fostered international pressures that keep business taxes relatively low. This has been a boon for economic growth and investment.[5]

Tax competition has facilitated economic growth and international trade with benefits for consumers around the world. Tax competition has forced average corporate tax rates among OECD countries to fall from above 45 percent to below 25 percent over the past three decades.[6] Miraculously, corporate tax revenue has not decreased due to these pressures, but the OECD efforts aim to curb tax competition and generate even greater levels of revenue collection.

The United States declined to sign the Multilateral Convention implementing the BEPS project, but the Treasury Department under the Obama Administration did promulgate regulations to comply with new OECD country-by-country reporting, a recommendation of the BEPS project.[7] The new requirement went into effect in 2016. This new international reporting regime implements the centralization and automatic exchange of tax information with countries around the world.

A trove of new information on multinational businesses give revenue-hungry states the ability disproportionately to extract tax revenue from global companies. In doing so, the OECD may be inadvertently opening the door to global double taxation of some profits. Ironically, curbing double taxation was one of the OECD's most important early international tax-policy achievements.[8]

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3. Jason Fitchner and Adam N. Michel, "The OECD's Conquest of the United States: Understanding the Costs and Consequences of the BEPS Project and Tax Harmonization," Mercatus Center, March 17, 2016, https://www.mercatus.org/publication/oecd-beps-project-tax-harmonization-consequences (accessed May 25, 2018).
4. OECD, "Explanatory Statement, OECD/G20 Base Erosion and Profit Shifting Project," 2015, http://www.oecd.org/tax/beps-explanatory-statement-2015.pdf (accessed May 25, 2018).
5. Chris Edwards and Daniel J. Mitchell, *Global Tax Revolution: The Rise of Tax Competition and the Battle to Defend It* (Washington, DC: Cato Institute, 2008), p. 188.
6. OECD, "Corporate Income Tax: Corporate Income Tax Rates," OECD Tax Statistics (database), 2018, http://dx.doi.org/10.1787/7cde787f-en (accessed May 16, 2018).
7. Kevin A. Bell, "Treasury Official Explains Why U.S. Didn't Sign OECD Super-Treaty," Bloomberg News, June 8, 2017, https://www.bna.com/treasury-official-explains-n73014453413/ (accessed May 29, 2017), and Jason J. Fitchtner and Adam N. Michel, "Comment on the Implementation of Country-by-Country Reporting by the Internal Revenue Service," Mercatus Center, https://www.mercatus.org/publication/comment-implementation-country-country-reporting-internal-revenue-service (accessed May 25, 2018).
8. Andrew P. Morriss and Lotta Moberg, "Cartelizing Taxes: Understanding the OECD's Campaign against 'Harmful Tax Competition,'" *Columbia Journal of Tax Law*, Vol. 4, No. 1 (2013), https://papers.ssrn.com/sol3/papers.cfm?abstract_id=1950627 (accessed May 29, 2018).

International Information Exchange

In addition to the new reporting requirements under the BEPS project, the OECD has a new protocol amending the Multilateral Convention on Mutual Administrative Assistance in Tax Matters. The protocol is part of a new and complicated international tax information-sharing regime that is rounded out by the two other components: the Multilateral Competent Authority Agreement on Automatic Exchange of Financial Account Information and the OECD Standard for Automatic Exchange of Financial Account Information in Tax Matters.

Under the Obama Administration, on May 27, 2010, the U.S. signed the protocol, but it has yet to be ratified by the Senate. If enacted by the Senate, the protocol "will result in the automatic sharing of bulk taxpayer information among governments worldwide, including many that are hostile to the United States, corrupt, or have inadequate data safeguards." David Burton of The Heritage Foundation goes on to explain that these requirements "will add another layer to the already voluminous compliance requirements imposed on financial institutions" and would largely end financial privacy by putting Americans' financial information at risk.[9]

Conclusion and Recommendations

The Trump Administration should consider whether U.S. taxpayers should continue to subsidize an organization that increasingly acts contrary to the expressed wishes of a significant number of Americans, who voted into office in 2016 a government with a mandate to cut government spending and reduce taxes. It could decide to withdraw the United States completely from the OECD by taking the necessary steps outlined in the OECD Convention (treaty of accession).[10]

More generally, it is time to consider privatizing the OECD. In many ways, the OECD already acts like a private entity. Much as a private company or nonprofit might, the OECD spends considerable resources to advertise its brand with a slogan—"Better Policies for Better Lives"—that is reminiscent of the old Fortune 500 company (DuPont's) "Better Living Through Chemistry" advertising slogan. If the European states continue to find value in OECD products to support larger and more intrusive governments, they should find a way to fund those activities without the help of the American taxpayer.

The State Department and the Department of the Treasury should instruct the U.S. Ambassador to the OECD to rescind U.S. participation in the OECD country-by-country reporting requirements, and to remove the United States as a signatory to the protocol amending the Multilateral Convention on Mutual Administrative Assistance in Tax Matters.

By undertaking such actions to defund future OECD tax research and to block the sharing of U.S. tax information with the OECD, the United States can take the first step toward putting the OECD on the road to privatization and protecting U.S. taxpayers.

The OECD should not be provided with the confidential tax information of U.S. companies and citizens and, through privatization, it should be given the opportunity to sell its research in the marketplace—instead of imposing the cost of producing its pro-tax research on American taxpayers.

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Alexander Miller of The Heritage Foundation's Young Leaders program made valuable contributions to this Issue Brief.

9. David Burton, "Two Little Known Tax Treaties Will Lead to Substantially More Identity Theft, Crime, Industrial Espionage, and Suppression of Political Dissidents," Heritage Foundation *Backgrounder* No. 3087, December 21, 2015, https://www.heritage.org/taxes/report/two-little-known-tax-treaties-will-lead-substantially-more-identity-theft-crime.

10. Convention on the Organization for Economic Co-operation and Development, Paris, December 14, 1960, http://www.oecd.org/general/conventionontheorganisationforeconomicco-operationanddevelopment.htm (accessed May 25, 2018).