Global Coalition for
SOCIAL PROTECTION FLOORS

STATEMENT

FINANCING PUBLIC SERVICES, IN PARTICULAR SOCIAL PROTECTION, IN A FAIRER GLOBAL TAX ORDER:

A POLICY PRIMER ON THE UN FRAMEWORK CONVENTION ON INTERNATIONAL TAX COOPERATION

On behalf of the Global Coalition for Social Protection Floors - GCSPF

1. THE CHALLENGE: PERSISTENT FINANCING GAPS FOR SOCIAL PROTECTION

Today, 3.8 billion people remain entirely without social protection coverage (ILO 2024). This represents a fundamental breach of the universal right to social security, enshrined in international law and reaffirmed in the ILO's Social Protection Floors Recommendation (No. 202) and the Sustainable Development Goals.

The urgency of closing this gap is high. Climate change, conflicts and recurring economic shocks are dramatically expanding the need for robust social protection systems. The COVID-19 pandemic demonstrated, once again, that social protection is the primary institutional mechanism through which societies mitigate crises, protect lives and stabilize their economy. Yet the fiscal foundations of social protection are under pressure. Many governments face mounting debt burdens, reduced Official Development Assistance, and constrained domestic fiscal space.

Against this backdrop, international tax abuse stands out as a structural and often overlooked driver of the social protection financing gap. According to the Tax Justice Network's State of Tax Justice 2025, governments across the world lost an estimated US$1.7 trillion to corporate profit shifting and offshore tax evasion between 2016 and 2021 — revenue that could close the global financing gap for social protection floors.

The problem, however, runs deeper than lost revenue. Under prevailing international tax arrangements — characterised by regulatory fragmentation, misaligned profit allocation rules, and the absence of effective multilateral oversight — countries face a structural constraint on their capacity to design and sustain progressive domestic tax systems. Where multinational corporations are able to shift profits to low-tax jurisdictions and high-net-worth individuals to shelter wealth in secrecy jurisdictions, the redistributive function of taxation is systematically compromised. Governments, particularly in lower-income countries, face pressure to rely more heavily on regressive consumption taxes and to compete for investment through reductions in corporate tax rates — a dynamic that erodes both the revenue base and the equity of national tax-transfer systems. The consequence is not merely a financing shortfall, but a structural weakening of the policy instruments through which social protection systems fulfil their core functions of risk management, poverty reduction and inequality mitigation.

2. A HISTORIC OPPORTUNITY: THE UN FRAMEWORK CONVENTION ON INTERNATIONAL TAX COOPERATION

The negotiation of a United Nations Framework Convention on International Tax Cooperation (UN Tax Convention) represents a defining moment in the governance of the global economy. For the first time in history, an intergovernmental process is underway to establish a legally binding, universally inclusive framework for international tax cooperation — one in which all UN member states participate on an equal footing, irrespective of economic size or political weight.

The process was formally established by UN General Assembly Resolution 79/235 of December 2024, which mandated an Intergovernmental Negotiating Committee (INC) to draft both the Framework Convention and two early protocols. The INC is scheduled to meet three times per year through 2027, with the final text to be submitted to the General Assembly for adoption. As of early 2026, negotiations have moved from organisational to substantive matters, with working groups advancing draft text across three workstreams: the overall framework convention, the taxation of cross-border services in a digitalised economy, and the prevention and resolution of tax disputes.

The significance of this process lies not only in its technical ambitions but in its political architecture. Previous efforts to reform international tax rules — conducted primarily within the OECD's Inclusive Framework — have proven structurally limited in their ability to represent the interests of lower-income countries, and politically fragile in the face of unilateral pressure from powerful states. The retreat of key actors from multilateral tax cooperation in recent years has, paradoxically, lent new urgency to the UN process and reinforced the case for a rules-based framework that is resilient to unilateral coercion.

The Framework Convention should be high-level but not weak or merely aspirational: it should establish clear substantive commitments that guide subsequent protocols and prevent fundamental political questions from simply being deferred.

Against this backdrop, the momentum within the UN negotiations is notable. The African Group has played a leading role in driving ambition, consistently advocating for source-based taxing rights, equity in the allocation of revenues, and meaningful capacity support for developing country tax administrations. The G77 and China have similarly advanced positions centred on redistributive fairness and the effective participation of all countries in rule-setting. This coalition-building around shared interests represents a qualitative shift in the politics of international tax governance — and a concrete demonstration that inclusive multilateralism, though under pressure, remains a viable and powerful force.

In particular, the Convention should move beyond a simple residence-versus-source dichotomy and ensure that taxing rights reflect real economic contributions and value creation, especially employment, sales and productive assets.

3. WHY SOCIAL AND FINANCE MINISTRIES MUST ENGAGE

The negotiations on the UN Tax Convention are not, at their core, a technical matter of international taxation. They are a foundational policy decision that will shape the capacity of governments to finance and design the tax-transfer systems upon which social protection depends. This is why the active and coordinated engagement of both social and finance ministries is essential.

The relationship between taxation and social protection operates through multiple, interconnected channels. As Cobham, Hujo et al. (UNU-IIGH/UNRISD/Tax Justice Network 2025) set out, tax systems perform five distinct functions relevant to social development: revenue generation, redistribution, representation, repricing, and regulation. Each of these functions is affected by the quality of international tax cooperation. When that cooperation is weak or absent, the consequences extend far beyond a revenue shortfall. They include a structural compression of redistributive capacity, a weakening of the social contract between states and citizens, and a reduced ability of governments to make use of the regulatory function of taxation to achieve socially desirable results.

The empirical evidence on this is substantial. Research under the Commitment to Equity (CEQ) framework, pioneered by Nora Lustig and colleagues, has demonstrated through fiscal incidence analysis across a large number of low- and middle-income countries that the combination of progressive direct taxation and well-designed social expenditure represents the most powerful available instrument for poverty reduction and inequality mitigation. Lustig et al. (2025), examining fiscal policy outcomes across Latin America, confirm that countries achieving the greatest redistributive impact are those able to sustain progressive

direct tax structures alongside adequate levels of social spending — a combination that is systematically undermined when corporate profit shifting and offshore wealth evasion erode the direct tax base and force governments towards more regressive revenue instruments.

This dynamic carries a direct institutional implication. Decisions taken in the UN Tax Convention negotiations — on profit allocation rules, transparency standards, source-based taxing rights, and the treatment of high-net-worth individuals — will determine the degree of fiscal space available for social protection in the coming decades. Finance ministries that negotiate without explicit social policy objectives risk locking in outcomes that constrain redistributive capacity for a generation. Social ministries that remain absent from the process will find themselves unable to deliver on commitments to universal social protection, not for lack of political will, but for lack of the fiscal architecture to support it.

Both ministries, in other words, have a shared and urgent interest in an ambitious outcome. The UN Tax Convention is not a peripheral agenda item for either. It is, arguably, the most consequential international policy process currently underway for the long-term sustainability of social protection systems worldwide.

International tax cooperation should expand the fiscal space available for universal social protection, decent work, quality public services and sustainable development.

4. KEY NEGOTIATION ISSUES RELEVANT TO SOCIAL PROTECTION

Three substantive areas of the UN Tax Convention negotiations carry particular significance for the financing and design of social protection systems. Ministries of social affairs and finance alike should be aware of the stakes involved in each.

a) Source-Based Taxation and the Allocation of Taxing Rights

The question of where multinational corporations are taxed — in the country where profits are declared, or where economic activity actually takes place — is the central redistributive issue of the entire negotiation. Under the prevailing principles, inherited from early twentieth-century international tax rules, multinationals are able to shift profits artificially to low-tax jurisdictions, depriving source countries — particularly in the Global South — of revenues generated by real economic activity on their territory. A shift towards stronger source-based taxing rights, or ultimately towards unitary taxation with formulary apportionment, would realign revenue flows with the geography of production, employment, and sales. For lower-income countries, the fiscal implications are substantial. The African Group and G77 have

consistently advocated for source-based taxing rights in the INC negotiations, and their position deserves active support from social ministries with a stake in sustainable financing.

Labour is not simply another indicator of economic presence: workers are a fundamental source of the value from which corporate profits arise. Employment should therefore be recognised as a core allocation factor, measured through both headcount and payroll alongside sales and productive assets.

Parties should progressively develop rules for the fair allocation of taxing rights that reflect substantive economic activities and the jurisdictions in which value is created, including through approaches based on unitary taxation and formulary apportionment. This would address the structural opportunities for artificial profit shifting created by separate-entity accounting, intra-group pricing, royalties, management fees, financing arrangements and intangible assets.

The Convention should establish a clear direction of travel towards treating multinational enterprises increasingly as integrated economic units and allocating their taxable profits according to objective indicators of substantive economic activity. It need not settle the complete formula at this stage, but it should provide that subsequent protocols deepen and operationalise this commitment.

The rapid growth of the **digital economy** has created a new frontier of untaxed or undertaxed economic activity. Digital multinationals generate substantial profits in jurisdictions where they have no significant physical presence, exploiting gaps in international tax rules designed for a pre-digital era. The first early protocol under the UN Tax Convention addresses precisely this issue — the taxation of income from cross-border services in a digitalised economy. For developing countries, which have been particularly disadvantaged by existing rules that favour residence-based taxation of digital services, this protocol represents a concrete near-term opportunity to expand the revenue base available for social investment. Social ministries should ensure that their finance counterparts approach this protocol with distributional objectives explicitly in view.

This labour component should also cover, where necessary, economically dependent subcontracting and similar arrangements. Platform work, franchising and other business models should not allow the labour contribution to disappear from the allocation formula merely because of the legal organisation chosen by a multinational enterprise.

b) Tax Transparency and Automatic Exchange of Information

Transparency is the precondition for effective taxation. Without reliable information on where multinationals book their profits and where wealthy individuals hold their assets, tax authorities — especially in lower-income countries

with limited administrative capacity — are unable to defend their revenue base. The Tax Justice Network's State of Tax Justice 2025 estimates that public country-by-country reporting alone could have recovered US$475 billion in corporate tax revenues between 2016 and 2021 — equivalent to 27.6 per cent of total losses from corporate profit shifting over that period. The UN Tax Convention offers the opportunity to establish public country-by-country reporting as a universal standard, alongside robust automatic exchange of financial account information and beneficial ownership transparency — what the Cobham et al. (2025) briefing paper terms the "ABC of tax transparency". For social ministries, these transparency measures are not abstract governance reforms: they are the informational infrastructure on which credible revenue projections and sustainable social budgets depend.

c) Taxation of High-Net-Worth Individuals

Extreme wealth concentration is both a symptom and a driver of inadequate social protection financing. The effective tax rate of billionaires is lower than the income tax of tax payers with median incomes in nearly all countries, due to a global race to the bottom on corporate taxation and the insufficient taxation of capital income. The combination of taxes on capital and wealth is estimated to be below 0.5 per cent of their wealth and thus only a small share of average wealth growth at around 7 per cent (EU Tax Observatory 2024). In addition, an estimated US$9 trillion in private wealth remains undeclared and untaxed offshore. Beyond increased transparency, the UN Tax Convention and its early protocols provide an opportunity to establish an enabling environment for national action and possibly first international standards for the taxation of high-net-worth individuals. CEQ research consistently shows that progressive wealth and income taxation, when combined with well-designed social expenditure, produces the strongest redistributive outcomes — but only where the international architecture prevents wealth from escaping domestic tax systems through offshore channels.

5. RECOMMENDATIONS FOR NEGOTIATORS

The negotiations on the UN Framework Convention on International Tax Cooperation are at a critical juncture. The decisions taken in the coming two years will shape the fiscal architecture within which social protection systems must operate for decades. The following recommendations are addressed to delegates from ministries of social affairs and finance participating in the INC process, and to their counterparts engaged in national interministerial coordination. They are grounded in the analytical framework set out in sections 1–4 and reflect the shared interest of social and finance ministries in an ambitious, inclusive, and development-oriented outcome.

1. Anchor human rights as an explicit objective of the Convention

The preamble and objectives provisions of the Framework Convention should explicitly affirm that enhanced international tax cooperation serves the realisation of human rights, the eradication of poverty, and the reduction of inequality as foundational purposes. Delegations should advocate for treaty language anchored in the Universal Declaration of Human Rights, the International Covenant on Economic, Social and Cultural Rights, and the 2030 Agenda for Sustainable Development — in particular SDG 1 (No Poverty), SDG 10 (Reduced Inequalities), and the Addis Ababa Action Agenda's and Sevilla's commitment to domestic resource mobilisation. Such framing positions the Convention within the broadest normative consensus of the UN system and establishes a rights-based interpretive framework for all subsequent protocols and implementation measures.

2. Support robust source-based taxing rights for developing countries

Delegations should actively support the positions advanced by the African Group and G77 in favour of stronger source-based taxing rights and a shift away from the arm's length principle as the sole basis for profit allocation among related entities. In practical terms, this means endorsing provisions that expand withholding tax rights on digital and cross-border services, advocating for the long-term inclusion of unitary taxation with formulary apportionment as a policy option under the Convention, and resisting treaty language that would entrench existing OECD-model arrangements as the default standard. For countries of the Global South, source-based taxation is not a marginal technical preference but the primary mechanism through which the proceeds of economic activity on their territory can be captured for public investment, including social protection.

Delegations should therefore advocate a clear pathway towards unitary taxation and formulary apportionment, with the detailed formula, thresholds and weighting of factors developed through subsequent protocols and technical negotiations.

3. Secure the inclusion of high-net-worth individual taxation

Delegations should seek to include provisions in the Framework Convention that create an enabling environment for the taxation of high-net-worth individuals. Specific elements to advance include: a multilateral framework for the identification and disclosure of beneficial ownership; a global asset registry open to tax authorities across signatory states. These measures address the dimension of international tax abuse with the most direct redistributive relevance, and their inclusion would represent a qualitative advance on existing international standards. Delegations should also commit to systematic data collection and exchange on best practices.

4. Establish automatic multilateral information exchange as the universal standard

Delegations should advocate for automatic exchange of financial account information, beneficial ownership registration and public country-by-country reporting to be established as binding universal standards under the Convention, superseding the existing patchwork of bilateral agreements and voluntary commitments. The current architecture of tax transparency — in which the most comprehensive information exchange arrangements are concentrated among high-income countries — systematically disadvantages lower-income countries whose tax administrations most urgently require access to cross-border financial data. A truly multilateral transparency framework, as envisaged in the "ABC of tax transparency", would create the informational foundation for effective revenue collection across the full range of signatory states, enabling governments to defend their tax base and, by extension, the social expenditure it supports.

5. Embed capacity support for developing country tax administrations in the treaty text

Enhanced international tax cooperation will only translate into expanded social protection financing if lower-income countries have the administrative capacity to implement and enforce the rules agreed. Delegations should insist that the Convention include legally binding provisions on technical assistance and capacity development, rather than treating these as voluntary or supplementary matters. Such provisions should cover audit capacity for complex cross-border transactions, access to information technology infrastructure for data exchange, training for tax officials in transfer pricing and digital economy taxation, and dedicated funding mechanisms — potentially including a multilateral tax cooperation fund financed by contributions from high-income signatories. Without this, the Convention risks delivering its gains disproportionately to countries already equipped to exploit new rules, deepening rather than reducing asymmetries in effective tax capacity.

6. Coordinate national positions across social and finance ministries before and throughout the INC

The institutional separation of tax and social policy portfolios within national governments is a structural obstacle to an ambitious outcome from the UN Tax Convention. In practice, finance ministries often lead international tax negotiations with objectives centred on investment attraction and bilateral competitiveness, while social ministries remain unaware of, or uninvolved in, a process that will directly determine their fiscal room for manoeuvre. Governments should establish formal interministerial coordination mechanisms — including joint technical working groups and shared negotiating mandates — as well as regular reports to national

parliaments to ensure that distributional objectives are integrated into national negotiating positions from the outset. At the international level, regional groupings and UN system agencies, including the ILO, UNDESA, and UNCTAD, should be called upon to provide technical support to delegations seeking to bridge the social-fiscal policy divide and advance coordinated positions in the INC.

A fair international tax system is an essential condition for restoring the fiscal sovereignty of states. By reducing profit shifting, strengthening the taxation of multinational enterprises and high-net-worth individuals, and allocating taxing rights according to substantive economic activity, the Convention can expand fiscal space for universal social protection, decent work, quality public services and sustainable development. Detailed expenditure priorities should remain subject to democratic and sovereign decision-making.

The Convention should recognise employment and labour as a fundamental factor in the location of value creation, including employment headcount and payroll and, where necessary, economically dependent labour. This will help ensure that future allocation methods are not disproportionately influenced by mobile financial or intangible factors.

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