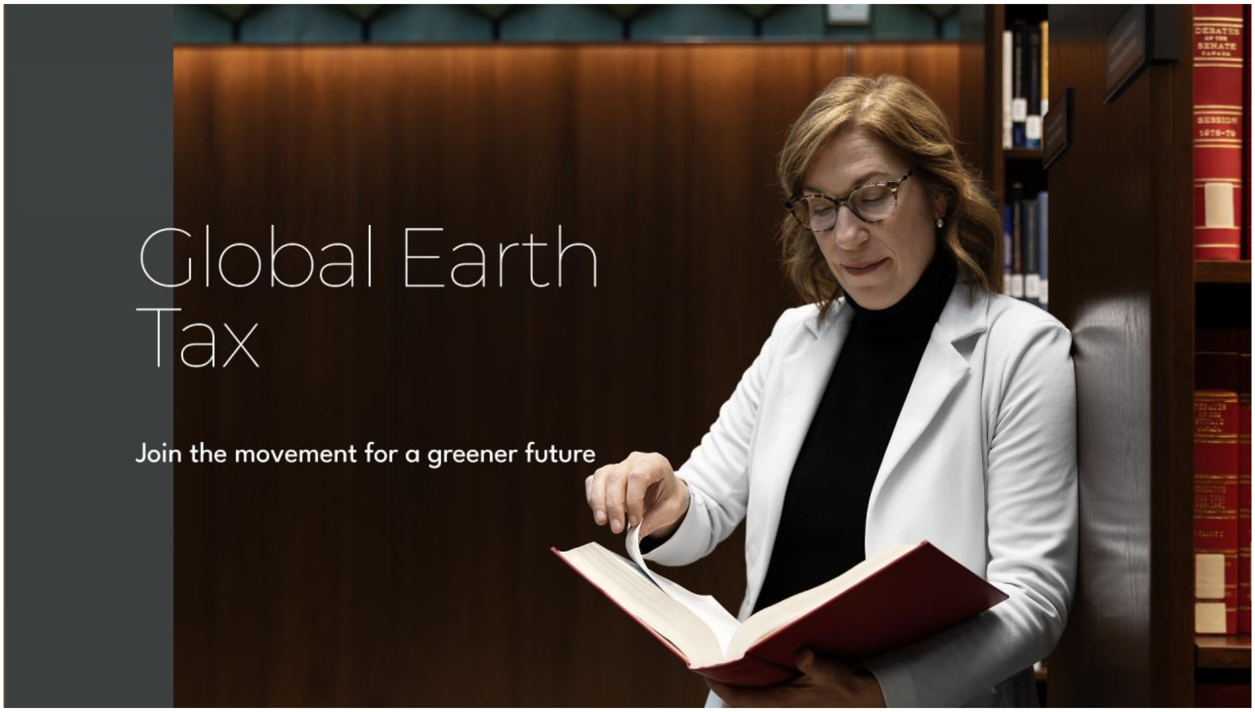

A Global Earth Tax

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My professional journey has provided me with a unique and multifaceted lens through which to view taxation. At the start of my career, as a tax adviser in a small, lively town, I worked closely with entrepreneurs who were looking to expand their businesses into the United States. This was my first encounter with the complexities of international tax law. I moved on to become Canada's tax treaty negotiator, eventually heading the Tax Treaty Unit at the OECD, in Paris. This role offered me the chance to explore the tax systems of various countries and to work under the OECD/G20 Inclusive Framework, which led to my participation in meaningful collaborations with both developed and developing economies. We addressed the complex challenges in the international tax landscape, especially those emerging from the digitalization of the economy. In 2021, I returned to Canada to lead the drafting of the Canadian Digital Services Tax Act before shifting into politics, where my focus became environmental protection. I became the first woman to be elected as a Member of Parliament for Pontiac, a riding reflecting the rich tapestry of the Canada's cultural mosaic, blending rural and urban areas, French and English-speaking communities, and two Indigenous communities.

Why do we pay taxes? This answer to this fundamental question is profoundly expressed, in my view, by the inscription on the IRS headquarters in Washington, DC: "Taxes are the price we pay for a civilized society." In this article, I apply this principle to the current international context, exploring how global taxes may be the price to pay for a sustainable world.

The climate crisis is a global challenge that requires a concerted global effort. No single country possesses the political or economic capabilities to address this issue alone, and success cannot be attained without the active involvement of both individuals and businesses.

While individuals and businesses drive innovation, create jobs, and fuel our economy's growth, governments provide essential social infrastructure (such as education, healthcare, justice, police services, and safety regulations) and physical infrastructure (including energy plants, airports, roads, railways, ports, schools, hospitals, and prisons). At the heart of this symbiotic relationship is taxation. Individuals and businesses contribute a portion of their revenue as taxes, supporting efforts by governments to sustain and enhance the infrastructure that underpins the taxpayers' success. Historically, in many countries, this partnership between governments and taxpayers has fostered prosperity and the growth of the middle class. This model has traditionally depended, however, on the assumption of an endlessly resilient ecological infrastructure—a premise no longer tenable. Today, as the foundations of our ecological infrastructure begin to falter, a question arises: How can we effectively pivot toward protecting this infrastructure? Global taxes can be a powerful tool in this context because they can facilitate the mobilization of global capital to the end of making the world's societies and economies greener, more resilient, and more inclusive.

Are you skeptical of such claims? Consider this: the International Maritime Organization, a UN agency, committed in March to introducing the world's first global carbon levy for ship emissions. This groundbreaking move represents one of the first globally agreed-upon levies among nations.

As governments face urgent demands to increase revenue to fight climate change, they encounter a concerning trend: significant wealth concentration among and within certain countries. Data from the OECD's Income and Wealth Distribution Database reveal that, on average, the wealthiest 10 percent of households in OECD countries own more than half of all household wealth in those countries. This disparity is even more striking globally, with the richest 10 percent holding 76 percent of all wealth, according to the Global Wealth Report. A factor contributing to this inequality is the ability of multinational corporations and wealthy individuals to exploit international tax law differences, thereby effectively reducing their taxes. This tax strategy not only perpetuates wealth disparities but also limits governmental capacity to fund critical public services and environmental initiatives.

This situation led to the introduction of the OECD/G20 base erosion and profit shifting (BEPS) project in 2013. This project and the ensuing work addressing the digitalization of the economy (work known as pillar 1 and pillar 2) aim to create better, globally coordinated tax rules so that large companies pay their fair share of taxes. Pillar 1 represents a significant step forward in increasing the fairness of international taxation; it proposes a formula-based method for allocating MNEs' profits across countries. However, the process of transforming this concept into practice poses considerable challenges, especially when it comes to global consensus and implementation. The preference for a global solution is widespread, but skepticism remains about the feasibility of, and timeline for, the effective implementation of such an approach. In the interim, several countries, prepared to act unilaterally if necessary, have moved forward with their digital services taxes (DSTs), which are narrower in scope than the OECD's pillar 1 initiative.

These efforts, although they indicate some progress in tax reform, often seem separate from the challenge of protecting our ecological infrastructure. This separation reflects a significant gap between how we approach the taxation of large multinational companies and how we tackle global challenges. To close this gap, we need to approach tax reform as part of a bigger picture, using it to support environmental protection and sustainable development, and thus to link economic policies with global ecological and social goals. Economic prosperity cannot exist without an ecological infrastructure.

I believe that linking the taxation of MNEs directly to the fight against climate change can create a unified effort. In the event that pillar 1 is not realized, it could be repurposed—from a mechanism for reallocating the tax base under existing corporate income tax, into an incremental global Earth tax on the largest and most profitable MNEs' market-based profit. An incremental new tax of this kind would innovatively use a DST-like mechanism to tax MNEs, with a view to funding ecological protection efforts.

With respect to technical design, the implementation of a DST-type mechanism could be achieved through a conversion formula. Essentially, an adjustable tax rate (reflecting the profit margin of the MNE) applied directly to sales, akin to the design of a DST, could replicate the impact of a corporate income tax rate on profit. This approach would not only allow for further simplification but also ensure a tax rate that reflects the MNE's profit margin and its capacity to pay. In addition, this design would make it more challenging for MNEs to simply transfer the tax burden to consumers, because the tax would increase with higher profit margins. Such a tax, as a separate levy designed to protect our environment, would stand apart from the complicated rules about transfer pricing and the tricky methods used to prevent double taxation under pillar 1.

The immediate advantage of this proposal lies in its potential to resolve any impasses in negotiations by introducing the necessary—and, at times, profound—simplifications required to make pillar 1 a feasible option that governments can endorse. The proposed tax has the capacity to create additional revenue for all governments involved, furthering a goal that will benefit everyone regardless of where they live. Thus, it will eliminate the need to balance the interests of countries that might otherwise emerge as fiscal winners or losers because of the redistribution of tax rights under pillar 1. With the protection of the environment as their common goal, all participating governments stand to benefit from this proposal. Moreover, MNEs, particularly the larger and more profitable ones, will contribute their share when it comes to restoring and protecting the ecological infrastructure without which none of them could prosper.

Naturally, governments will be responsible for earmarking the revenue generated from the global Earth tax, directing it to the protection and restoration of ecological infrastructure and ensuring that it serves the collective benefit of all. Indeed, the multilateral agreement to implement such a tax should focus not only on generating funds but also on how these funds may be used to protect our planet and secure our collective future. MNEs should contribute financially to governments that are committed to using the global Earth tax for significant environmental goals, such as reducing carbon emissions and building climate-resilient infrastructure. A designated percentage of these contributions should be allocated directly to the Green Climate Fund, a UN initiative aimed at assisting developing countries in their efforts to combat climate change.

One may plausibly imagine that, in a few short years, an inscription on some organization's headquarters, somewhere in the world, will read, “the global Earth tax is the price we pay for a sustainable world.”

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