

# WHAT IS INTERNATIONAL TAX POLICY?

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International tax is often portrayed as an obscure technical area of tax law. Aspects of this are true but it is also fundamentally important politically, economically and socially. This article is written as the final in a series to introduce international tax to non-tax professionals generally but particularly to African non-tax professionals for whom the path to entry is full of closed doors.

## **Britain & US: tax policy motives:**

Lets start with policy motives. Joseph Chamberlain (British Colonial Secretary 1895-1903) set up a system of Imperial Preference specifically designed to ward off competition from US and Germany. He was a colleague of Halford Mackinder, better known as the founder of geo-politics. Mackinder's focus was on preparation for war with Germany. Tx policy had to be designed to protect British heavy industry which would be necessary to produce war material in the event of war with Germany. Mackinder acknowledged British supremacy in financial sector but argued what use was a platoon of bankers against a tank brigade? It was Mackinder's fear that left to market forces Germany and the US would destroy the British industrial base.<sup>1</sup>

After WW2 the US fervently promoted free trade. US productivity was the greatest in the world and the US wished to encourage US investment abroad requiring the dismantling of colonial protectionism, whether of British or French origin. However once the tables were turned the US adopted draconian policies against potential competitors, e.g. the Plaza Accords (1985) to force Japan to restrict sales to the US and increase the valuation of the Yen. Japan still under US military occupation/coercion felt unable to resist.<sup>2</sup> When China emerged as a potential competitor it was met in 2018 by massive tariffs on Chinese goods.

“The United States is currently imposing a 25 percent tariff on approximately \$250 billion of imports from China and a 7.5 percent tariff on approximately \$112 billion worth of imports from China.”<sup>3</sup>

Apart from China the US has imposed tariffs, and/or import quotas on many countries ranging from the EU, Canada, Mexico, Brazil, S Korea, Argentina etc. We can see that this tax policy was aimed at shaping trade to achieve geo-political objectives.

## **Reshaping Africa's trade**

It is clear that the future of world trade is moving to Asia. In particular South East Asia is now a greater economic area than Europe. Asia as a whole is a greater economic area (PPP) than Europe and North America put together.<sup>4</sup>

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<sup>1</sup> (Mackinder, 1904) (Semmel, 1958) (Blouet, 2004)

<sup>2</sup> (Ito, 2015) (Frankel, 2015)

<sup>3</sup> (York, 2023)

<sup>4</sup> (statisticstimes, 2021)

However, Africa's trade routes and transport links all face Europe. Reshaping our trade routes and transport links becomes a key strategic necessity. Given the critical importance of this change, should tax policy be enabled to encourage the appropriate steps and investments? When their strategic interests were at stake the UK and the US took dramatic action to further their interests. What dramatic actions should Africa take?

### **Domestic Policy**

US domestic tax policy has changed from 1950s when the top rate of tax for the rich was 91 per cent and for companies was above 50 per cent. Last year the richest 400 in the US paid the lowest rate of tax (23%) of all income groups in the US.<sup>5</sup> Many people are uneasy about tax policy playing a redistributive role but this involves not recognising that it is already playing this role. According to M Brenner the US tax code has redistributed \$3 trillion from the poor and middle class in the US to the top 1%. That is a massive and effective tax redistribution. It just happens to be from the poor to the rich.<sup>6</sup>

If foreign companies have illegally underpaid taxes steps are available to recover these taxes. If a French company for example transferred uranium at a vast undervalue to France then transfer pricing investigation going back decades is appropriate. We should recognise that the current system of revenue authorities collecting taxes only from the middle class and poor and then the government not delivering much of a service is a form of oppression. Collecting tax from the poor and not from the rich is in effect behaving like oppressive rent collectors on behalf of predators. In many countries the tax policy can be used to redistribute some wealth from plutocrats to the poor and needy. These are political decisions that are available to the political system. In South Africa 50 per cent of the population has no net assets. Tax policy could effect some redistribution. Which areas of domestic policy in Africa are the most urgent to address? Which policies would be the most effective to address those areas?

We have addressed above some of the key issues arising in international tax policy, issues that have previously been hidden or obscured but need now to be addressed urgently.

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<sup>5</sup> (Leonhardt, 2019)

<sup>6</sup> (Brenner, 2018) (Brenner, 2017b) (Brenner, 2017a)

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