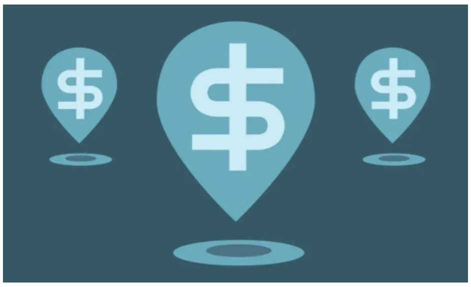
FORMULARY APPORTIONMENT UNDER UNITARY TAXATION



Unitary taxation with formulary apportionment is a way of taxing multinational corporations as a single unit based on where they carry out real economic activity rather than where they formally declare their profits. It simplifies the taxation of multinational enterprises, reduces disputes, and allows for a fair allocation of taxing rights.

The problem

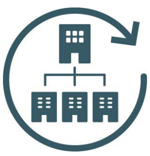
Profit shifting for the purpose of tax abuse by multinational companies is a social menace. Every year, multinational corporations **shift around 40 per cent of their profits to tax havens**, costing countries an estimated **US$348 billion** in lost tax revenue.

The revenue lost by governments as a result of this widespread practice **undermines public services, erodes tax sovereignty, fuels inequality, and threatens the human rights of people and communities.**

All countries deserve a fair allocation of taxing rights that reflects real economic activity. We could sharply curb profit shifting with the obvious alternative approach to corporate taxation: taxing profits in the location of the underlying real economic activity.

The solution

Unitary taxation with formulary apportionment promotes fairer taxing rights and helps prevent disputes by taxing profits where real activity occurs—not where companies choose to declare them. Each year, over a trillion dollars in profit is shifted to low-tax jurisdictions. This approach removes much of the manipulation and conflict built into current transfer pricing rules. The UN Framework Convention on International Tax Cooperation (UNFCITC) is the place to implement it. It should:



Treat multinationals as unitary entities: Multinational corporations and transfer pricing remain major challenges in today's tax system. Recognising them as single global businesses would simplify taxation and block many methods used to underpay tax.

Apportion profits based on real economic activity: Global profits should be shared between countries where a multinational operates, using a simple formula that reflects the scale and nature of its real economic presence—capturing both supply-side factors (like employment) and demand-side factors (like sales).

Create global transparency mechanisms: Tools like a central public database for country-by-country reports and a global asset register will help countries make informed decisions, tackle tax abuse, and enable citizens to hold governments and companies accountable for fair taxation.

Establish an ambitious minimum tax rate: A global minimum effective corporate tax rate is crucial to ending the race to the bottom and ensuring a fairer share of global taxing rights.

TAX JUSTICE NETWORK