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The Case for a Pay-Where-You-Play Tax System

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NEW DELHI—This week, delegates from around the world will gather in New York to negotiate the proposed United Nations Framework Convention on International Tax Cooperation, a landmark agreement aimed at making global tax cooperation more inclusive and effective. If adopted, the Convention would represent the most consequential overhaul of the global tax system in nearly a century, fundamentally changing how countries tax multinational corporations and, potentially, the world's wealthiest individuals.



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New research by the global union federation Public Services International (PSI) and the Tax Justice Network underscores the urgent need to reform the international tax system. Drawing on publicly available country-by-country reporting data, it estimates that governments could collect an additional \$500 billion in corporate tax each year by replacing today's "pay-where-you-say" system with a "pay-where-you-play" approach.

The current system is the product of century-old rules that are no longer fit for purpose. By allowing governments to tax multinational corporations where they declare their profits rather than where they generate them, it rewards companies for shifting taxable income into tax havens before reporting it.

In 2012, the G20 tasked the OECD with aligning where profits are reported with where companies actually operate. That effort failed, and profit shifting has only intensified. According to the PSI/Tax Justice Network report, taxing profits where they are actually earned would increase multinational corporations' tax payments by 24% without requiring any country to raise its corporate tax rate.

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The negotiations in New York represent the best opportunity in decades to replace the outdated "pay-where-you-say" model with a "pay-where-you-play" framework that taxes multinational corporations where they employ people and sell goods and services. This reform could make tax

havens obsolete overnight and restore governments' ability to tax economic activity taking place within their own borders.

Under such a framework, the largest revenue gains would go to the world's richest economies, but the greatest impact would be felt in the poorest. For many lower-income countries, the additional revenue would amount to several times what they currently collect from multinational corporations. This is consistent with the findings of the annual State of Tax Justice reports: while the largest economies lose the most to corporate tax abuse in absolute terms, lower-income countries suffer the greatest losses relative to the size of their tax bases.

That is not to say that advanced economies would not benefit. The United States, for example, would collect an estimated \$35.5 billion in additional tax revenue—enough to increase spending on renewable energy 45-fold and create more than 265,000 jobs. The United Kingdom would receive \$16.9 billion, enough to fund its newly introduced cost-of-living measures six times over. EU member states, meanwhile, would collect roughly \$65.7 billion annually, enough to quadruple current spending on climate adaptation in agriculture, energy, and transport. Spain and France, both confronting their most devastating wildfire seasons on record, would receive and \$4.2 billion and \$25.5 billion, respectively.

For the Global South, the gains would be transformative. In a single year, the report estimates, lower-income countries would collect more than the total amount they currently owe the International Monetary Fund in outstanding loans.

So how do we move from today's "pay-where-you-say" system to a genuine "pay-where-you-play" one? Article 5 of the draft UN Tax Convention—the product of two years of negotiations—tries to do just that by allocating taxing rights among countries based on clear, objective factors like sales, employment, and natural resources.

If adopted, the Convention would end the century-old practice of transfer pricing, through which multinationals use internal transactions to shift profits to low- or no-tax jurisdictions with little connection to where they actually do business. Every country except the most aggressive corporate tax havens stands to benefit from such a change, and even those jurisdictions can offset their losses by simply imposing moderate taxes on the profits earned within their borders.

That said, the draft Convention can still be strengthened. The commitment to a "pay-where-you-play" approach must be backed by practical measures, particularly country-by-country reporting (CbCR)—a simple yet powerful transparency tool that requires multinational corporations to report key financial information separately for every jurisdiction in which they operate. Since 2015, large multinationals have been required under OECD rules to provide these reports confidentially to tax authorities. Making them public would subject multinationals to the same accountability standards as smaller domestic businesses.

Strikingly, even private reporting has been shown to increase companies' effective tax rate by around 1.5 percentage points, generating tens of billions of dollars in additional revenue. And where those same reports are made public, the gains are roughly twice as large.

Public reporting would also ensure that all countries benefit equally. At present, reliable access to CbCR remains largely limited to OECD members. Most lower-income countries receive incomplete information, obtain it only after long delays, or have no access to it at all. With the EU and Australia already requiring public CbCR for selected high-risk jurisdictions, there is no justification for denying every other country access to the same data. The UN Convention must therefore establish a global CbCR database.

Lastly, it is worth remembering that democracy itself emerged from the struggle for fair taxation, reflected in the principle of "no taxation without representation." For decades, multinational corporations have been shifting profits out of the countries where they are generated into

accounting “nowhere” zones. This has led to widespread economic insecurity, creating fertile ground for billionaire-backed authoritarianism.

The UN Tax Convention offers a different path, asserting that the shops, offices, factories, and workers that generate global profits matter. By restoring the link between where profits are made and where they are taxed, the Convention advances a modern form of taxation with representation and carries forward one of democracy’s oldest principles.

As negotiations conclude in New York, delegates must ensure that the UN Tax Convention lays the foundation for a fairer, more transparent international tax system. The alternative is to preserve a tax system that has repeatedly put corporate interests ahead of people and the planet.

JAYATI GHOSH

Jayati Ghosh, Professor of Economics at the University of Massachusetts Amherst, is a member of the Club of Rome’s Transformational Economics Commission and Co-Chair of the Independent Commission for the Reform of International Corporate Taxation.

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