



Issue: Combating international tax avoidance and evasion

Forum: General Assembly 2

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Introduction

Both tax evasion and tax avoidance are critical issues that have been predominant on an international scale for an extended amount of time. However, what distinguishes these two issues is that tax avoidance is considered a legal practice while tax evasion is illegal and criminalized in a majority of countries. The main concern with tax fraud and crimes is the repercussions that the country's economy would face as a result of loss in tax money.

Definition of Key Terms

Tax

A tax is a monetary fee placed on an individual or a firm, which is payable to the government or else punishable by law. The government then utilizes this money for public goods and common goods such as healthcare and infrastructure; it is also utilized for subsidies in order to stimulate production of certain goods to increase their supply.

Capital Gains

The term capital refers to the idea of financial assets that businesses have which can be either physical property or even simply money. Capital gains tax is a type of tax on the profit one makes from selling various types of assets such as real estate or stock investments.

Criminal Charge

A criminal charge is an accusation made by the government stating that someone has committed a crime. Usually the punishment for these crimes differs from country to country and mainly by the crime being punished. These charges usually come in the form of written accusations and are then prosecuted.

Income Tax

An income tax is a tax placed on an individual's earnings (based on one's income). This income tax essentially means that the value stated on their paycheck is not the value that they will be able to use to purchase goods and services thus reducing their purchasing power.

Offshore Banking

Offshore banking refers to the depositing of money and funds in a bank that is outside one's country of residence. Individuals and companies who deposit their money outside of their home country as to avoid tax liabilities.

Shell Company

A shell company is an inoperative company used as a channel for financial transactions or a company that is kept inoperative with the purpose to be used for future necessities.

Tax Evasion

Tax evasion is the illegal practice, which a majority of countries view as a crime, where corporations or individuals intentionally pay less tax than is required of them or simply avoid paying them altogether (not to be confused with tax avoidance).

Tax Avoidance

Tax avoidance is the legal practice of altering one's financial situation as a means of lowering the amount of tax one has to pay to the government (unlike tax evasions this practice is monitored/reported and legal).

Tax Haven

A tax haven, sometimes known as an offshore financial center, is any country where businesses and individuals can deposit money with very little tax debt. Tax havens have very low tax rates and lack transparency, which makes other countries choose to deposit their money there.

Tax Liability

Tax liabilities can also be defined as tax debts occur when one fails to pay taxes on their income to their government. These taxes on businesses ultimately differ from country to country due to different tax laws. In some countries, the penalty for failure to pay taxes can be as severe as being sent to jail.

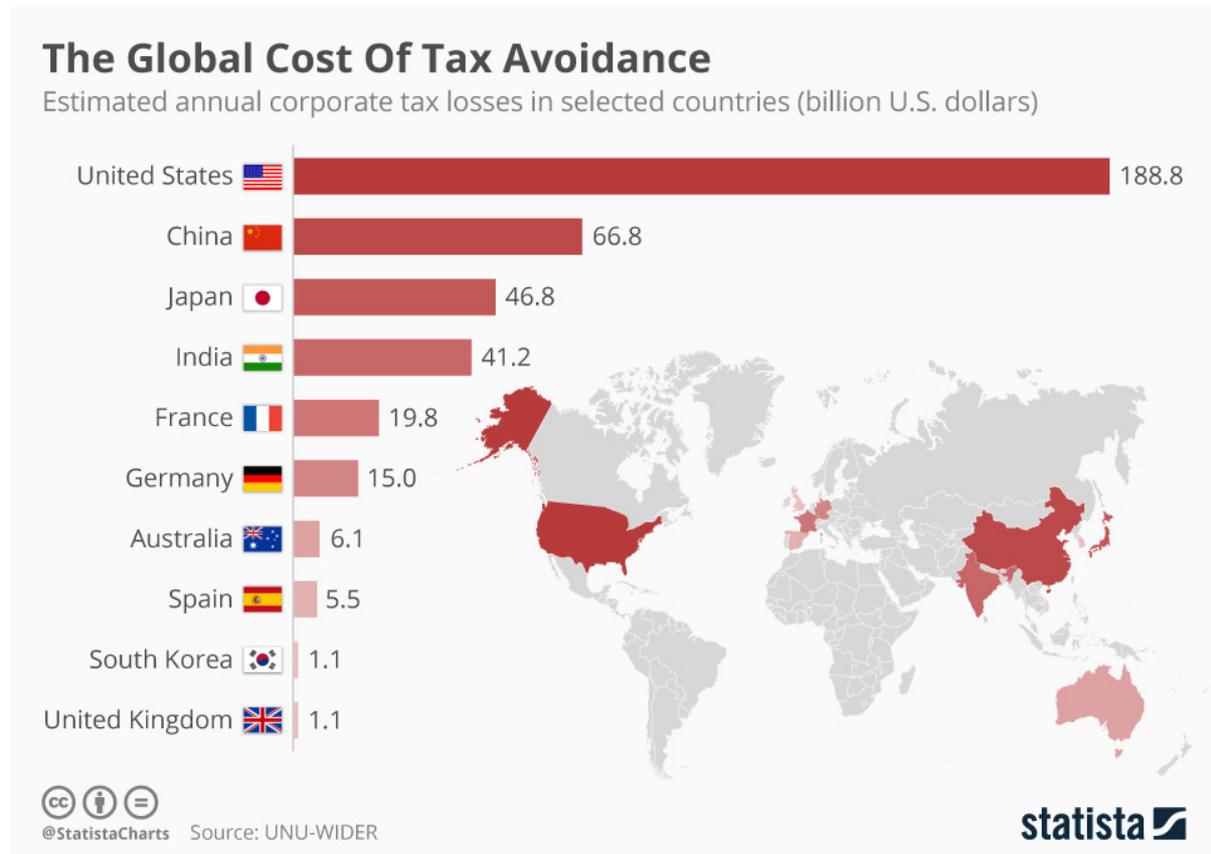
General Overview

Tax avoidance can be defined as the legal pursuit of reducing one's taxes through methods that abide by tax codes and government regulations. Some businesses avoid paying the entire sum of their taxes by obtaining their reductions and protecting income taxes which are both legal in accordance to state tax codes. Various strategies used in tax avoidance include: tax deductions to reduce expenses (which would result in an overall reduced amount of tax owed), establishing tax deferral plans which ultimately delay the time at which a firm or individual would have to pay the taxes, utilizing tax credits granting businesses or individuals money that is to be spent for legitimate reasons, and tax loopholes as they legally allows some parties to avoid paying taxes.

Tax evasions can be characterized by the misinterpretation of a business' or an individual's total income and/or assets as a means of decreasing the amount of taxes owed to their governments. The various types of tax evasion commonly used are: failing to report total income, exaggerating deductions and expenses, hiding interest through the utilization of offshore accounts, failing to pay taxes collected from others (mainly for businesses), and the act of simply hiding money.

The issue of tax evasions and crimes can be traced back to the creation of offshore banking in the 19th century at the Congress of Vienna in 1815. Nowadays, tax evasions and avoidances affect global economies on a large scale and result in the annual loss of over billions of dollars, for some countries tens of billions and for others maybe even 100 of billions of dollars.

The chart below shows a list of countries that suffer from tax avoidance as of 2017 and by how many billions of dollars are lost annually as a result of this practice.



Major Parties Involved

European Commission

The European Commission, established in 1958, is the executive branch of the European Union composed of commissioners from each European Union country established in 1958. The main role of the EU Commission is to listen to the desires of the European Union and to implement certain strategies and control the budget. They concern themselves with developing plans to overcome taxation corruption and issues for their member states.

The Group of 20 Summit (G20)

This sector of the United Nations is composed of the 20 very powerful world economies (European Union and 19 other countries) as well as members of the central bank. The main role of the G20 is to ensure financial stability and it encourages debate and discussions regarding the various policies in place regarding finances. In 2014, they decided on a new means of sharing tax information where countries have the ability to exchange information regarding taxes with one another, which was then managed by the OECD.

Organization for Economic Cooperation and Development (OECD)

The OECD, founded in 1961 in France, is an economic organization comprised of 36 member states whose main role is to promote world trade and to ensure its economic development and stability. Their role in combating tax evasion is that they were able to obtain 35 jurisdictions that are qualified as tax havens to comply with their plea to promote transparency in the year 2000.

Switzerland

The banking sector in Switzerland is known for its possession of foreign assets with an estimated 1/3 of worldwide funds in offshore enterprises are in fact in Switzerland. Banking laws were established with the Federal Act on Banks and Savings Banks prohibiting Switzerland to share the identities of those who have accounts in their banks as their laws are founded on the concept of confidentiality. Due to this, many deem that Switzerland is actually facilitating the process of tax evasion.

United Nations Office on Drugs and Crime (UNODC)

This sector of the United Nations focuses on the attempt to fight international crimes and drug use and acquires their funds from donations and the governments. Established in 1977, the UNODC focuses on handling corruption, preventing terrorism, trafficking, crime and the issues of drug abuse. The way in which they handle corruption is actively attempting to prevent tax crimes and by publishing articles and reports on tax corruption to increase awareness.

The United States

In the United States tax evasions or any tax-related fraud is considered a crime and is punishable sometimes through imprisonment. Initially, the U.S. did not concern itself with the use of offshore enterprises and allowed their citizens to deposit their assets outside of the nation, however due to the use of offshore enterprises acting as a means of avoiding to pay domestic taxes, they began instituting new laws in order to facilitate the process of identifying the individuals with these intentions. In 2009, the U.S. government began investigating to process of identifying tax evasion and has begun charging foreign banks for allowing U.S. citizens to deposit money and funds.

World Bank

The World Bank is composed of 189 countries where their main goal is to find solutions in order to solve poverty in developing countries (LEDCs) and to ensure sustainability and development. They want to end poverty by reducing the disparities in the global population of people who reside in countries of extreme poverty. They tie into this issue of tax evasions and avoidance as they study tax corruption and raise awareness on

the issues of tax frauds and establish projects to facilitate countries in preventing tax corruption.

Timeline of Key Events

1815	The start of offshore banking occurs at the Congress of Vienna.
1989	Offshore banking is more prevalent as a result of the laxity of the Business Incorporation Laws of Delaware as a result of the decline of the British Empire.
1996	The OECD deploys their harmful tax practices strategy to increase transparency to promote tax information exchange between member states and other countries.
2003	The launch of the Tax Justice Network: an advocacy group responsible for establishing a new means of understanding both financial centers and financial globalization. The TJN is essentially a group of researchers and activists who concern themselves with the main tax issues, one of them being the issue of offshore banks being posing as tax havens.
2009	A group of G20 leaders in London concerned with the issue of tax havens declare that “the era of banking secrecy is over” and request that the OECD’s do something to ensure its efficacy.
2014	The Luxembourg Leaks Report; the emergence of a financial tax scandal lead by journalists from the ICIJ (The International Consortium of Investigative Journalists).
2016	The European Council and the nation of Andorra reach an agreement regarding the improvement of tax compliance to allow the exchange of information and ensuring more transparency.
2016	The Panama Papers: the leakage of 11.5 million financial documents regarding information from clients of offshore enterprises.
2017	The Paradise Papers: the leakage of financial files from offshore entities revealing interactions with the Queen and members of Donald Trump’s administration.
2017	Multilateral Competent Authority Agreement: a standardized and efficient method used to facilitate the exchange of information regarding the Standard for Automatic Exchange of Financial Information in Tax Matters.

Previous attempts to resolve the issue

2017 (Economic & Social Council)	As a result of a serious financial crisis and over 20 million individuals suffering from extreme cases of hunger, the Economic and Social Council adopted a resolution on April 20 th , 2017, named “United Nations Code of Conduct on Cooperation in Combating Tax Evasion.”
2017 (G20)	The G20 adopts “High-Level Principles on Countering Corruption in Customs.” The aims of this resolution were to reform international trade policies by lowering costs, reorganizing customs procedures, decreasing the amount of unnecessary regulatory afflictions and strengthening services that assist in enabling trade.

Possible Solutions

Protection of whistleblowers (Luxleaks)

The protection of whistleblowers could potentially be utilized as a possible solution to combat tax avoidance and evasion. Whistleblowers are known as individuals who report on the illegal acts and violations where companies and businesses do not comply with regulations and violate public trust (an example would be illegal safety regulations in the workplace or environmental hazards and violations). These individuals tend to share information regarding their employers.

The necessity to protect these individuals lies in the fact that they would obtain an insider’s view and perspective on what is occurring in a company and would experience it first hand, therefore they would be more reliable sources of the corruption that lies within these enterprises. However, some individuals might choose to withhold information from the public as they may suffer consequences from their employer. Therefore, through means of protection, individuals would be more compliant in sharing the information, as they would not suffer retaliation from their employers as a result of unleashing information on their illegal activities and violations.

Increase transparency

In order to solve the issue of tax evasions and avoidance, countries could attempt to focus more on implementing transparency amongst member states in order to ensure that no information is being withheld. Transparency with reference to banking means that the central bank will provide the public with the information on its policies, procedures and strategies. By doing so, there would be no secrecy among member states and among the banks and their society thus also creating a sense of trust.

By ensuring transparency, it would allow all member states to be aware of the banking situation in other countries and jurisdictions as the information would be shared with them. Many central banks nowadays believe transparency to be extremely crucial in today’s society, therefore it is necessary to assist them in achieving transparency in order to ensure a more efficient and reliable banking sector.

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