SAIMUN 2017 Research Report

Committee: General Assembly 2

Issue: The question of preventing offshore tax evasion

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1. Description of Issue

The first records of taxation was found in ancient Egypt when scribes, who were tax collectors for the Pharaoh, imposed taxes on cooking oil (A history). Since then, the idea of taxes still exist. However, it is inevitable that some companies or individuals avoid the taxes that are imposed on them.

In most countries, taxes are taken from individuals or companies that have an income and this is how the government gets money (Who pays tax?). Taxes are required to fund government operations, such as public developments and service to improve its country's standard of living. Although individuals' taxes generally may seem small compared to a corporation's, tax evasion by especially wealthy individuals cannot be considered as negligible. Therefore, it is crucial that taxes are being paid properly so that the government avoids losing billions of dollars, taking away funds that are used in developing its country.

The issue is that companies or individuals deliberately avoid paying taxes. Companies or individuals do so in order to retain as much of the profit they earn as possible. One of the most common method that companies use is misrepresenting their income and therefore is required to pay less tax (Tax evasion). Offshore accounts fraud is another method individuals opt for which is a method of illegally hiding income by using opening accounts in foreign countries to avoid paying taxes to its own government. Companies that illegally avoid paying their taxes would have a higher advantages over those that do, therefore it is unfair towards the individuals or companies that regularly pay their taxes (Singh, M.). Tax evasions are difficult to regulate because of the high levels of secrecy regarding withholding financial assets of the country's client from authorities. Furthermore, A report by the Tax Justice Network found that governments worldwide lose about $250 billion annually due to offshore accounts (Said, S.).

Tax evasion also has a large impact on the economy. For examples, the billions of dollars lost due to tax evasion will cause projects for national development to not be able to be funded. The government can either cut the budget on projects or take a loan, which would lead to debt. Eventually, this would lead to a financial crisis that would threaten the global economy (Gleeson, P.). Therefore, it is critical to take steps to prevent offshore tax evasion.

2. Definition of Key Terms

Tax

Taxes are compulsory monetary contributions to the state or government. This could be either direct such as income taxes or indirect taxes, for example sales tax (Taxes).

Tax Haven

Tax havens are countries that have a low tax rate or even none on its inhabitant corporations. Corporations and individuals use tax havens to their advantage to avoid paying the higher tax rates in their country (Singh, M.).

Tax Avoidance

Using legal methods to lower the obligations of paying taxes such as donating to an approved charitable entity. Tax avoidance should not be confused with tax evasion, which is using illegal methods to avoid paying taxes (Tax Avoidance).

Tax Evasion

Deliberately avoiding paying the taxes by companies or individuals. This applies to both illegally not paying taxes or underpaying taxes. Generally, if misrepresenting tax is deemed unintentional, one would not be considered guilty of tax evasion. Since tax evasion is illegal, not paying taxes properly could lead to one being liable to pay any unpaid taxes and may also be required to serve jail time (Tax Evasion).

Offshore Tax Evasion

One of the main methods used to avoid corporate taxes, offshore tax evasion is when individuals or corporations save their money in offshore bank accounts in foreign countries as to not pay the taxes in their country of residence. Some individuals also make accounts under a false name in foreign countries which also makes it harder to track (Off-Shore Accounts Fraud).

3. Timeline of Key Events

Event	**Description**
1960 - The OECD was established	18 European Nations in addition to the United States and Canada collaborated to create an organization that is focused on economic development (About the OECD).
2000 - List of Tax Havens issued	The OECD issued a report that identified tax havens according to the OECD's criteria. Since then and 2002, the OECD's standards of transparency and exchange of information have been formally committed to by 31 jurisdictions (Monaco).
April 2009 - G20 summit in London	After the G20 meeting, the OECD Secretariat provided a detailed report on progress towards the implementation of the global exchange of information for tax purposes. This report represents the progress and results to have more transparency between borders' financial services (Newsroom).
8 June 2015 - The implementation package on Country-by-Country Reporting for Action 13 of the BEPS project is published	The implementation package on Country-by-Country Reporting for Action 13 of the BEPS project expects that information, such as profits, taxes paid, and assets of Multinational Enterprise Groups will automatically be traded between tax authorities (About Automatic Exchange).

4. Positions of Key Member Nations and Other Bodies on the Issue

The Organization for Economic Co-operation and Development (OECD)

The OECD is a forum in which governments are able to connect and work together on finding solutions to common issues. Its mission is "to promote policies that will improve the economic and social well-being of people around the world". The OECD's goals are to fight against tax evasion and to end bank secrecy (About the OECD).

G20 Countries

The G20 countries have prioritized the issue of fighting tax avoidance and have agreed to highlight irregularities by implementing data sharing measures (Timms, M.). All of the G20 countries have signed or is committed to sign The Multilateral Convention on Mutual Administrative Assistance in Tax Matters that provides a platform for automatic exchange of information (Taxation - OECD).

Tax Haven Countries

Some tax haven countries are the Bahamas, The Isle of Man, Hong Kong, etc. (Tax Haven). Such countries play a role in encouraging offshore tax evasion as they offer low tax rates in addition to lack of transparency and a minimal amount of information shared with foreign tax authorities. Therefore, individuals and companies opt for opening bank accounts overseas in order to save their money and avoid paying taxes in their country of residence (Singh, M.).

Tax Justice Network

The Tax Justice Network is an independent international network was established in 2003. Their core mission is to make fundamental changes to issues regarding tax, tax havens, and financial globalization. The Tax Justice Network also provides information about the consequences of tax evasion, tax avoidance, and tax havens (Our goals and methods).

Greece

Greece is one example of a country that has been suffering from a prolonged financial crisis. The tax evasion in Greece is significantly higher in comparison to other developed countries. Although the exact scale of tax evasion in Greece is unknown, they have been losing about "€11 and €16 billion a year" and has become more of a social norm (Georgakopoulos, T.).

5. Suggested Solutions

One method the UK's then chancellor George Osborne has implemented in 2015 is the name and shame. As its name suggests, Her Majesty's Revenue and Customs named and shamed the companies or individuals that were guilty of avoiding tax. This attempt was to bring multinational corporations who have avoided taxes to attention and thus having public pressure to pay taxes. However, this relied too heavily on the media which inevitably moves on to cover other stories therefore the idea of public pressure was unsuccessful (Allen, K.). However, it holds true that the media plays an important role in influencing the public so a possible solution would be to implement the name and shame strategy but on a global scale.

The governments could enforce harsher punishments to those found guilty of tax evasion and therefore would discourage individuals and corporations to opt for offshore tax evasion. Another method would be to increase tax transparency between tax authorities so that the information doesn't even need to be asked for. In order the automatic information exchange to work, tax havens must also agree to share information as most tax havens remain secretive (About Automatic Exchange).

Unitary taxation is another method that can be implemented. It is taxation based on the actual operations such as where the workforce and assets are based instead of solely taxing based on where the company claims to be based in, for example a tax haven (Unitary tax).

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