Forum: United Nations Economic and Social Council

Issue #15-02: Imposing measures against corporate tax avoidance and tax havens

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Introduction

The world's evolution has brought multiple challenges to the way countries operate from social, political, and economic aspects. In this specific case, tax avoidance is a current defect of the international taxation system and the fiscal laws of each nation. Corporate tax avoidance is a problem implicating corporations changing their tax laws to benefit the enterprises. According to the Tax Justice Network report in 2020, countries are losing a total of $427 billion in tax each year. Of the $427 billion, almost $245 is lost to multinational enterprises that are placing money into tax havens to report less profit in the countries they do business in and therefore pay fewer taxes than they should. The rest $182 billion are unreported profits and assets hidden by powerful individuals overseas, with no reach from authorities. This report also reveals that lower-income countries are losing money in tax evasion which is equivalent to almost 52% of their health budgets, whilst higher-income countries lose taxes equivalent to nearly 8.4% of their health budgets. Additionally, the State of Tax Justice indicates that higher-income countries are accountable for 98% of global tax evasion losses, and lower-income countries are accountable for 2% of global tax evasion losses.

Definition of Key Terms

Tax

An obligatory contribution to state revenue, established by the government on workers' earnings and incomes or added to certain goods.

Tax avoidance

The use of legal measures to minimize the amount of income taxes owed by a business or individual, for example shifting profits to a low-tax country.

Base erosion and profit shifting

Planned strategies that exploit loopholes present in the international taxation system artificially shift profit to territories with little to no economic activity or taxes, resulting in corporations having to pay little to no taxes.

Tax evasion or tax fraud

The use of illegal measures to avoid the payment of taxes, for example, by not declaring the legitimate amount of profits or using multiple methods to elude paying the income tax.

Tax havens

In this committee, the term tax haven will be defined as sovereign jurisdictions or countries allowing corporations and individuals to register there to pay little to no tax liability, that allow minimal reporting of information, and lack transparency. Tax havens also ensure not to disclose the identity of owners of the corporations or individuals previously established in their jurisdictions.

General Overview

Case studies of enterprise taxation

Amazon was ranked number 4 in the "2020 World's Most Valuable Brands" list by Forbes and in that same year reported a net income of $21.33 billion. In 2020 the company paid 9.4% percent of its income in federal corporate income taxes, after paying 0% in 2018 and close to 1.2% in 2019. Their total effective federal corporate income tax rate was 4.3% on $44.7 billion in profits. The statutory rate is 21%.

In 2020 Netflix's profits rose to $2.8 billion. The company paid less than 1% of federal corporate income taxes, after paying 0% in 2018 and approximately 1% in 2019. Throughout three years Netflix paid a total effective federal corporate income tax rate of 0.4% on $5.3 billion in profits. Once again not meeting the statutory rate of 21%.

Zoom, the video conferencing app that has become indispensable for meetings, school, and jobs in the pandemic has significantly grown in 2020. The net profit of Zoom in 2020 was $671 million, despite that the company paid 0% of federal income tax. Again, not close to the statutory rate of 21%.

Major Parties Involved and Their Views

United States

To administer and collect tax evasion, the United States introduced in 2010 the Foreign Account Tax Compliance Act (FATCA), which generally requires foreign financial institutions to report on their profits or assets that are held by U.S account holders. The Tax Cuts and Jobs Act (TCJA) of 2017 reduced statutory tax rates and made it more beneficial to invest nationally, decreasing the need of using an offshore tax haven.

United Kingdom

The UK has a network of offshore territories and crown dependencies that are considered to be tax havens and are internationally recognized for their jurisdictional secrecy, for example, the Cayman Islands and Guernsey are in first and eleven places on the Financial Secrecy Index (FSI) [1] respectively, and the British Virgin Islands, Cayman Islands and Bermuda are on first, second and third place of the Corporate Tax Haven Index (CTHI) respectively. The United Kingdom's offshore territories and crown dependencies are responsible for more than a third of the $427 billion global tax avoidance according to the Tax Justice Report Documents on Global Tax Losses. Since the report was published, the UK has received pressure for improving its management on corporate tax evasion and avoidance.

Switzerland

The country is responsible for 5.1% of global tax avoidance losses which is equivalent to $12.8 billion, the SonntagsZeitung reported that approximately $10.89 billion were the consequence of corporations moving their income to report it in Switzerland in order to pay lower taxes and the remaining $1.89 came from individuals that move money to the nation looking for lower taxes. It is essential to highlight that Switzerland is number three in the Financial Secrecy Index of 2020 and number five in the Corporate Tax Haven Index of 2021. This

[1] The **Financial Secrecy Index (FSI)** ranks jurisdictions based on their secrecy and the scale of their offshore activities.

place establishes the country in what the Tax Justice Network defines as the "Axis of Tax Avoidance" which includes countries such as the UK (along with its network of crown dependencies and offshore territories), the Netherlands, and Luxembourg. These jurisdictions are responsible for over half of the world's corporate tax losses that countries lose to tax havens. On the other hand, Switzerland signed a tax transparency agreement with the EU and a similar one in which they are signatories of the Foreign Account Tax Compliance Act (FATCA) that consists of sharing information about bank holders from the United States or European countries.

China

China has been trying to improve its management of tax collection and is directly proportional to its decreasing corporate tax avoidance and evasion. It introduced anti-tax avoidance regulations in 2009, only aiming at corporate-level concerns with no clear regulations of the management of individual tax avoidance and evasion. China faces challenges at administering and collecting the due tax due to the anti-individual tax (IIT) because of the weaknesses present in their legislation.

Timeline of Events

Date	Description of event
Late 19th century - Early 20th	The first tax havens are thought to be New Jersey and Delaware. They are often accredited for the creation of the "easy incorporation" technique that is used by tax havens. Although these US states may have created the technique some Swiss

	cantons started to copy the approach and introduced it to Europe in the 1920s.
1920s - 1930s	The British courts introduced the technique of 'virtual' residencies which allowed corporations to consolidate in the nation without having to pay taxes. The British court's decision applied not only to the United Kingdom but to all the British Empire. It was later applied in Bermuda and the Cayman Islands. The technique is said to be the foundation of tax havens.
1950s - 1960s	The Euromarket is a financial market or an offshore inter-bank and a major source of trade that emerged in the late 1950s. The Bank of England had accepted that if a transaction was made by UK banks through a borrower not situated in the UK then it wasn't considered to be a transaction that occurred in England. But since the transactions happened in London no other authority supervised the market and it became "offshore".
1960s - 1990s	After the apparent success of the Caribbean and British tax havens, multiple new territories started to introduce similar techniques and laws as other "successful" havens, for example, the Norfolk haven in 1966 which set a model for other emergent tax havens such as the Cook Islands (1981) and the Marshall Islands (1990).
2009	Tax havens were on the agenda of the G20's London Summit of 2009. Certain countries like Switzerland, Luxembourg, Austria,

Liechtenstein, Monaco, Andorra, and Singapore agreed to abide by the OECD standards. Furthermore, the G20 established 3 lists as proposed by the OECD: the white, gray, and black list. The white consists of countries that meet the tax standard already set, the grey includes countries that have agreed to meet the standards, and the black is for nations that do not agree to meet the set taxing standards.

UN involvement, Relevant Resolutions, Treaties and Events

The OECD has been the main organization in tackling corporate tax evasion, setting their standards, and joining the G20 in order to better implement actions against this issue.

- The **OECD/G20 inclusive framework on BEPS** consists of 15 different actions to tackle tax avoidance. These actions address different challenges, for example, dealing with challenges arising with the digitalization of the economy, reducing incentives of taxpayers to shift profits into jurisdictions with low taxation, focusing on improving transparency, etc. There are 139 countries that are members of the framework.
- The **Global Forum on Transparency and Exchange of Information for Tax Purposes** is one of the leading bodies working on achieving tax transparency and the exchange of information standards globally. It has over 160 members.

Evaluation of Previous Attempts to Resolve the Issue

Since 2009, more awareness has been brought to the corporate tax avoidance issue, the OECD has joined efforts together with the G20 to implement and recommend standards at a global level to end corporate tax avoidance. There has been undeniable progress and new solutions have arised; however, international cooperation in regards to this issue is essential for potential advance.

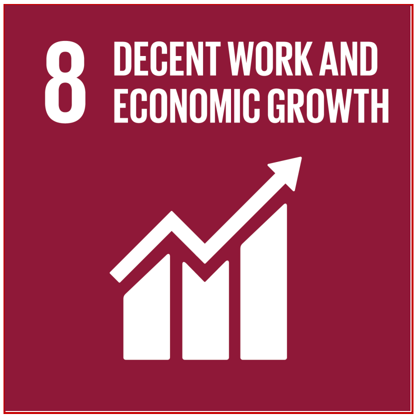
Most of the solutions about corporate tax avoidance focus on transparency and the end of bank secrecy and as previously stated over 160 countries have agreed to the standards outlined by the OECD, nevertheless, multiple jurisdictions that have agreed to these standards are on the top of the lists of the Financial Secrecy Index and Corporate Tax Havens Index.

A significant problem in tax avoidance is the loopholes in jurisdictions that allow for-profit shifting and tax avoidance. If countries want to tackle this affair they should internally examine their laws and correct the loopholes that may allow this kind of action, as we can clearly see that it is not enough to agree to the OECD standards but actually apply them internally in each country.

Possible Solutions

Every country has its fiscal laws and regulations, most importantly different positions in regards to the matter. Some possible solutions to this problem might be 1. Mandating corporations with foreign assets and profits to make periodic reports to a corresponding financial institution (defined by the countries) in regards to the corporation's yearly income, losses, and payment of corporate taxes 2. Better coordinated tax legislation at an international level
3. More international sharing of taxing information between countries, making it more difficult for enterprises or multinationals to artificially shift profits.

Sustainable Development Goal (SDG)



This subject connects to sustainable development goal 8 which is decent work and economic growth. As previously mentioned there are $427 billion lost on taxes every year, with the correct management of tax collection and international cooperation that money can be collected and invested in economic growth.

Economic growth is even more challenging at times like this because of the Covid-19 economic recession that the whole world is experiencing but we need to keep in mind that with cooperation all the SDGs are possible.

"Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all."

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Appendix

I. Amount of money lost to tax havens every year

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