Forum: ECOSOC

Issue: Combating tax avoidance in economic disparity

Student Officer: Hanzade Durmuşoğlu

Position: President Chair

Introduction

In 2022, the global economy reached $101.6 trillion, hitting a new milestone. However, despite the size of it quintupling the past 30 years, this growth has not been quite reflected on a societal level: the gap between the rich and the poor gets wider as the global economy continues to flourish. As cliché as it sounds, the richest 1% of the world has more wealth than the rest combined since 2015. The wealth in question is not acquired by completely legal ways either. Since 2014, powerful multinational corporations and individuals who are on top of Forbes' billionaires list have been reported to be committing tax evasion and avoidance by a number of documents. As the majority of the world still lives in poverty, the increasing incidents of tax evasion and avoidance only serve to deepen the pressing economic dilemmas of today. Not only does tax evasion through tax havens provide unlawful profit to these companies and individuals, but it also deprives Less Economically Developed Countries (LEDCs) from ensuring vital services to its citizens.

Tax evasion has existed as long as taxes themselves have been imposed, and it has reached new heights with the invention of tax havens and new ways to avoid local tax regulations. The first recognized tax haven hub was the Zurich-Zug-Liechtenstein triangle in the 1920s, but practically everywhere in the world with little to no corporate taxes can be used as a tax haven nowadays. Due to the increase in globalization and the rise of multinational corporations, the rich evading nearly 25% of their tax duties seems to have become the norm. Especially after the pandemic, companies and individuals have sought to avoid taxes in the face of tight fiscal policies, similar to how the public reacted to new tax regulations after the Great Depression.

Times of recession and expansion come and go, and it is vital to ensure that the gap between the rich and poor does not widen by implementing the correct tax reforms. Especially when nations face recession after events that impact the global economy, it becomes increasingly difficult to regulate corporations' and high-profile individuals' behavior towards tax regulations. Therefore, at heightened times of economic disparity such as post-pandemic economics, governments should prioritize investigations on tax evasion and avoidance to make attempts toward bridging the gap between the poor and rich. Moreover, it should be noted that efficient tax regulations do actually benefit social and income equality, contrary to popular belief. Studies have shown that there is a decrease of 25% in income inequality[1] measured by the Gini index when taxes are applied according to the respective governments' needs.

As we experience circularity in terms of history repeating itself in various domains, governments should pay closer attention to which monetary and fiscal policies turned out to be the most efficient in the past and optimize their future policies to prevent increasing the gap between the fortunate and the less fortunate even more.

Definition of Key Terms

tax haven: A tax haven is a nation that offers reduced or no taxation on bank deposits made by foreign companies and individuals in an atmosphere that is both politically and economically stable. They offer tax benefits to corporations and the very rich, with a clear possibility that they may be abused in nefarious tax avoidance schemes. Companies and rich people can legally conceal money generated abroad to avoid paying higher taxes in the US and other countries by using tax havens, thus evading local tax authorities and concealing money.

tax avoidance: Tax avoidance is the use of legal strategies to reduce an individual's or a company's income tax liability. Tax evasion, which relies on unethical practices like fabricating deductions and underreporting income, is not the same as tax avoidance.

multinational corporations (MNCs): A company is considered a multinational corporation (MNC) if it conducts business in at least one nation other than its own. According to some definitions, it also produces at least 25% of its revenue outside of its own nation. A multinational corporation typically maintains branches, factories, or other facilities throughout the world in addition to a centralized headquarters that organizes worldwide administration. Some might have budgets that are larger than those of small nations.

income inequality: The unequal distribution of income among a population is known as income inequality. The more unequal the distribution of income, the higher the income inequality is. Populations can be segmented in a variety of ways to demonstrate different degrees and manifestations of income inequality, such as inequality in income based on race or gender. The degree of income disparity in a population can

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[1] Joumard, Isabelle, Mauro Pisu and Debbie Bloch (2012), "Tackling income inequality: The role of taxes and transfers", OECD Journal: Economic Studies, published online first. http://dx.doi.org/10.1787/eco_studies-2012-5k95xd6l65lt

be examined using a variety of metrics, such as the Gini coefficient.

tax pyramiding: When a finished good or service is taxed more than once along the production process, this is known as tax pyramiding. Depending on how far down the supply chain a company is, this results in drastically varying effective tax rates, which hurt low-margin businesses the most.

General Overview

Tax evasion has a long history dating back to prehistoric societies where people tried to evade paying taxes imposed by governing authorities. The rise of globalization and the rising capital mobility in the contemporary age made tax avoidance a serious problem for governments all over the world with the expansion of multinational firms and the globalization of finance. Governments have taken a number of steps to prevent and combat tax evasion in response to this issue, including tightening tax rules and regulations, improving tax administration, closing tax loopholes, and fostering greater international collaboration. Despite these initiatives, tax evasion continues to be an issue as people and businesses look for ways to reduce their tax obligations.

Base Erosion and Profit Shifting

So, how exactly do tax havens operate and how do corporations gain profit from evading taxes? Base Erosion and Profit Shifting (BEPS) is a term used to describe one method through which a country's tax base gets eroded. In order to reduce their tax liability, multinational corporations use this method to transfer earnings made in one country to other countries and tax-free or low-tax jurisdictions, such as offshore financial centers. This strategy is lawful, but it also tilts the playing field by reducing the tax bases of the nations where the earnings were produced. Because they typically lack access to these profit shifting strategies, small and medium-sized enterprises typically pay substantially greater taxes than large corporations, which leads to economic disparity in the long run.

BEPS is detrimental to enterprises, citizens, and governments alike. Governments lose vital tax revenue from some of the biggest corporations in the world. This money could be used for infrastructure improvements, pensions, health care, and education. The cost of providing services that would have otherwise been covered by business income tax collections is passed on to the public either through increased taxes or a reduction in the availability of such services. Moreover, purely domestic companies struggle to compete with global corporations that can reduce their tax obligations by moving profits offshore. This unfair competition adds to the existing global economic disparity as the vast majority of wealth continues to be stored in the hands of multinational corporations, the 1% of the world. Therefore, it is imperative that tax avoidance and profit shifting is minimized in order to restore income equality and decrease economic disparities.

History of Tax Havens

Today, due to the sheer scale of the situation, tax havens are drawing more and more attention. The Bank of International Settlement (BIS) quarterly figures revealed that since the early 1980s, almost half of all international banking assets and liabilities were channeled through offshore financial centers (OFCs). Since there are no credible statistics on corporate tax avoidance, it is assumed that this is the main cause of why so much Foreign Direct Investment (FDI) travels through tax havens. Conservative estimates place the annual cost of individual tax avoidance and evasion at $800 billion and $1 trillion.

Today, tax havens serve all of the main financial and economic hubs throughout the globe. Three categories are still extensively used to classify modern tax havens: Tax havens with a base in the United Kingdom or the former British Empire are the first and still by far the largest. It consists of the Crown Dependencies, Overseas Territories, Pacific atolls, Singapore, and Hong Kong, and is centered on the City of London and fed by the Euromarket. The second group includes financial affiliates, private banking, and more specialized European havens. The Benelux nations—Belgium, Netherlands, and Luxembourg—Ireland, as well as, of course, Switzerland and Liechtenstein—make up the other polar region that emerged in Europe. The third consists of a diverse set of either new havens from the transition economies and Africa, or emulators like Panama, Uruguay, or Dubai.

By categorizing tax havens in this way, we can better understand the challenges and chances of creating a coordinated global campaign to combat them. It is obvious that the OECD lacks the necessary tools to combat tax havens, not least because many of its members, notably the UK, Switzerland, Ireland, and the Benelux nations, are themselves regarded as tax havens. The financial crisis has also made the United States and Western Europe weaker and allowed creditor nations more leeway, like Singapore, Hong Kong, which China protects, and the Gulf States, some of which are emerging as big tax havens. However, the strain on public finances is great, and while governments cannot afford to raise taxes due to concerns about further domestic consumption decrease, collecting any taxes lost through tax havens would be a tempting idea. Therefore, it is likely that the pressure on tax havens will persist.

But what should the fight against tax havens actually entail? Tax havens have historically distinguished between residents and non-residents; they have a tendency to tax their own population and local enterprises, often significantly, while offering reduced taxation to non-residents. That is no longer the case thanks to the EU Business Directive, which mandates that all EU member states and their dependents must treat citizens and non-residents equally for taxation purposes. After this conflict is resolved, opacity will be the biggest problem. Systems and rules developed by tax havens help to conceal the true owner of assets placed in their territories. As long as secrecy is upheld, potential tax evaders, avoiders, and money launderers will attempt to use these nations to conceal their assets. We require an internationally recognized code of conduct to guarantee asset tracking and ownership transparency.

Major Parties Involved and Their Views

Cayman Islands

One of the most well-known tax havens in the world is the Cayman Islands. Due to the lack of a corporate tax, the Cayman Islands are an excellent location for multinational firms to base subsidiary entities and defer paying taxes on some or all of their income. The Cayman Islands have zero direct taxes on citizens in addition to having no corporate tax and are viewed as tax-neutral.

Like many other tax havens, the Cayman Islands have come under fire for encouraging tax evasion and avoidance by both people and businesses. The Cayman Islands have taken action in recent years to address these worries, including negotiating automatic information exchange agreements with other nations and enhancing banking sector transparency.

India

In India, where a sizable section of the population and enterprises disregard tax laws and regulations, tax evasion is a big issue. Tax evasion gives people an unfair edge over others who follow the law since it limits the amount of money available for infrastructure and public services. In order to combat tax evasion, the Indian government has implemented new technologies like the Goods and Services Revenue (GST) system and stepped up enforcement operations. This has improved tax collection and compliance. The government continues to have trouble implementing tax rules and regulations, particularly in the informal sector, and tax evasion is still a problem in India. The problem of tax evasion also worsens income disparity and impedes the nation's economic growth.

USA

The US has taken aggressive action to combat tax evasion and put in place safeguards to stop people and businesses from failing to pay their fair share of taxes. Both domestic and foreign tax evasion fall under this category. In order to comply with the US's intricate tax laws, both individuals and corporations must accurately record their income and pay the necessary taxes. If this is not done, there may be severe fines and penalties as well as potential criminal accusations.

The US has recently adopted particularly aggressive approaches against offshore tax evasion and put policies into place to improve openness and information sharing with foreign nations. Along with being a member of the OECD, which establishes guidelines for tax transparency and information exchange, they have also inked tax information exchange agreements with numerous other nations.

British Virgin Islands

The British Virgin Islands (BVI) are frequently referred to as a "tax haven" because of its advantageous tax policies, which include low tax rates, tax exemptions, and a lack of tax information sharing with other nations. However, because of its lack of tax transparency and application of global tax compliance standards, the BVI has recently been under increased scrutiny from international organizations, including the OECD. The BVI has taken measures to enhance its reputation, including agreeing to abide by the OECD's requirements for tax openness and information exchange and establishing tax information exchange agreements with a number of nations. It still receives criticism for its lack of tax transparency and its role in encouraging tax evasion and is still seen by some as a refuge for tax avoidance.

Switzerland

Switzerland has a reputation as a tax haven due to its long history of banking secrecy and favorable tax structure for individuals and enterprises. The nation has a federal tax system that gives cantons (states) the freedom to enact their own tax rules and rates. This has led to Switzerland becoming a well-liked location for people and corporations wishing to lower their tax obligations, coupled with a lack of tax information interchange with other nations. Yet, in recent years, international organizations like the OECD have increased their pressure on Switzerland to improve tax transparency and implement global tax compliance norms.

OECD

In order to advance policies that would enhance the economic and social well-being of people around the world, the Organization for Economic Cooperation and Development (OECD) was founded in 1961. It is made up of 36 nations, several of which are among the most developed nations in the world, including the United States, Japan, Germany, the United Kingdom, and France.

The goal of the OECD is to give governments a space to collaborate, exchange ideas, and look for answers to challenges they face in common. The organization's activities span a variety of topics, such as global trade, employment, education, innovation, environmental protection, and development. The OECD also functions as a think tank, offering economic research and policy suggestions to its member nations and the rest of the world.

The OECD places a lot of emphasis on information sharing and tax transparency. To promote transparency and deter tax fraud and avoidance, the organization has created a variety of initiatives, including the Common Reporting Standard (CRS) and the Base Erosion and Profit Shifting (BEPS) programme. The OECD also establishes guidelines for information sharing and tax transparency, which its member nations are required to follow.

Timeline of Events

19th Century	Large firms grew as a result of the industrial revolution and started to avoid taxes by moving their profits to countries with low tax rates.
20th Century	Governments stepped up their efforts to enforce taxes during the First World War and the Great Depression as they looked to earn money for military and humanitarian expenses.
1960s	In order to promote policies that will enhance the economic and social well-being of people all over the world, the Organization for Economic Cooperation and Development (OECD) was founded.
1980s-1990s	As a result of people and companies trying to lower their tax obligations by moving assets and income to tax-friendly jurisdictions, offshore tax evasion increased as a result of the globalization of financial markets.
2010s	International organizations like the OECD expanded their efforts to promote tax transparency and prevent tax evasion and avoidance in response to the financial crisis, which raised public scrutiny of tax evasion and avoidance.

2018	The OECD launched the Base Erosion and Profit Shifting (BEPS) programme to target tax evasion by multinational firms. In order to curb tax evasion, financial institutions are now required to provide information about their clients to tax authorities under the Common Reporting Standard (CRS).

UN Involvement

The UN acknowledges tax evasion as a global problem that significantly affects the growth and welfare of nations and their citizens. As part of its broader efforts to assist sustainable development, the UN is dedicated to promoting tax justice and the fair and effective operation of tax systems.

In order to accomplish this, the UN has developed a number of programs and policies designed to deter tax evasion and promote tax transparency and information sharing. These consist of:

1. **The Addis Ababa Action Agenda:** The 2015-adopted agenda acknowledges the value of taxes as a source of revenue for supporting sustainable development. It motivates nations to enhance their taxation policies and work together to combat tax avoidance and evasion.
2. **The UN Model Double Taxation Convention:** This convention offers a framework for nations to negotiate and reach agreements on agreements to prevent double taxation and to prevent tax evasion and avoidance.
3. **The United Nations Tax Committee:** The UN Tax Committee offers a forum for nations to exchange knowledge and best practices on matters pertaining to taxes, as well as to encourage collaboration in the fight against tax evasion and avoidance.
4. **The UN Development Programme (UNDP):** To assist developing nations in strengthening their tax systems and preventing tax evasion and avoidance, the UNDP offers technical support and capacity building.

The Addis Ababa Action Agenda

The Third International Conference on Financing for Development, held in Addis Ababa, Ethiopia, in 2015, resulted in the adoption of the Addis Ababa Action Agenda. In order to create the conditions and resources required for sustainable development, the Action Agenda outlines a thorough and integrated approach to funding for development. It motivates nations to enhance their taxation policies, work together to combat tax avoidance and evasion, and support information sharing and tax transparency. It also asks for the improvement of international tax cooperation and the creation of an equitable and open international tax system.

As the agenda acknowledges the significance of financing for development and the necessity for a thorough and integrated approach to financing for development, all nations and stakeholders are encouraged to cooperate in order to guarantee that financing for development is in line with the SDGs and the larger development agenda. The agenda is recognized as both a framework for action and a call to action.

The Addis Ababa Action Agenda is viewed as a significant step toward advancing tax equity and funding sustainable development, but it also faces a number of obstacles and detractors. The Agenda's suggested actions have been adopted slowly, and nothing has been done to track and evaluate how well it is being implemented. Critics contend that the Agenda has only had a minor effect on developing nations, especially in terms of raising their tax collections. The policies mentioned in the Agenda are frequently difficult for developing nations to implement successfully due to a lack of money and manpower, and they may also have trouble implementing existing tax laws and regulations. There have been worries that the resources committed to assist the Agenda's implementation have not been sufficient. Furthermore, despite requests for greater tax openness and information sharing, there hasn't been much progress in this area, and tax havens and secrecy jurisdictions continue to be a major enabler of tax avoidance and evasion. Some nations claim that such actions would violate their sovereignty and the privacy of taxpayer data.

The UN Model Double Taxation Convention

Countries all over the globe frequently use the UN Model Double Taxation Convention as a starting point when negotiating double taxation treaties since it offers guidelines on how to eliminate double taxation in international tax problems. By offering a framework for the settlement of tax disputes between nations, the Convention intends to lessen the effects of double taxation on global trade and investment. It outlines regulations for the prevention of tax evasion and avoidance as well as advice on how taxing authority should be distributed among nations. It is founded on the idea of taxation according to residency, which states that regardless of the country in which an individual earns their income, the country in which they reside determines their tax obligations. The exchange of information between tax authorities, which is regarded as a crucial instrument in the battle against tax evasion and avoidance, is included in the Model Convention as well.

As much as the convention is regarded as an important tool for promoting tax cooperation and reducing the adverse effects of double taxation, there exists numerous concerns about its content and implementation: The Model Convention offers suggestions for drafting double taxation treaties but does not enforce strict guidelines on all nations. As a result, the provisions of double taxation treaties negotiated by various nations may differ significantly, which could produce inconsistent results. Concerns have been raised about the Model Convention's insufficient incentives for nations to share information and the effectiveness of its enforcement of its information-exchange provisions. Last but not least, the agreement contains provisions meant to deter tax avoidance and evasion, although these restrictions have come under fire for being inadequate and having a narrow scope.

Relevant UN Documents

- United Nations Code of Conduct on Cooperation in Combating International Tax Evasion : resolution / adopted by the Economic and Social Council (30 June 2017, E/RES/2017/3)
- Avoidance and evasion of tax : the problems and modes of international co-operation seen from the viewpoint of the United Kingdom of Great Britain and Northern Ireland. (12 May 1983, ST/SG/AC.8/L.40)
- **United Nations manual for the negotiation of bilateral tax treaties between developed and developing countries (2016)**

  This Manual, created by the UN Tax Committee, serves as a concise training resource for those with little prior knowledge of tax treaty negotiations. It aims to offer useful advice to developing country tax treaty negotiators, particularly those that negotiate under the UN Model Double Taxation Convention between Developed and Developing Countries..
- Committee of Experts on International Cooperation in Tax Matters : report on the 3rd session (29 October-2 November 2007, E/2007/45)
- International financial system and development : report of the Secretary-General (8 August 2016, A/71/312)
- **United Nations handbook on administration of double tax treaties for developing countries (2013)**

  The International Tax Compact (ITC) and the Financing for Development Office (FfDO) collaborated to implement the project that led to the creation of this handbook. It offers developing nations useful advice on how to implement double tax agreements, particularly those that use the UN Model Double Taxation Convention between Developed and Developing Countries, while taking into account their unique needs and interests.
- **Committee of Experts on International Cooperation in Tax Matters (14 August 2010,**

E/RES/2010/33)

This document includes requests for the Secretary-General to submit a report to the Council by March 2011 that examines the improvement of institutional frameworks to foster international cooperation in tax matters, including the Committee of Experts on International Cooperation in Tax Matters; a request to the President of the Economic and Social Council to call a meeting of the Council to discuss international cooperation in tax matters by spring 2011; and a reiteration of the Council's commitment to the principle of tax transparency.

- **United Nations handbook on selected issues in protecting the tax base of developing countries (2015)**

  This Handbook discusses a number of problems that are especially crucial and pertinent to developing countries in protecting and expanding their tax bases in order to boost their capacity to collect taxes. It seeks to identify the most appropriate choices accessible to developing countries to secure the tax base. It was created in cooperation with government officials from developing nations, UN Tax Committee members, international tax specialists, and other international and regional organizations.

Evaluation of Previous Attempts to Resolve the Issue

Base Erosion and Profit Shifting (BEPS) Project

The Base Erosion and Profit Shifting (BEPS) project was launched to address the challenges posed by tax avoidance strategies used by multinational corporations (MNCs). The project aimed to close the gaps in the international tax system that allowed MNCs to minimize their tax liabilities by shifting profits to low-tax or no-tax jurisdictions.

The project has been widely seen as a positive development in the fight against tax avoidance strategies used by MNCs. However, there are also some limitations and problems that come with it: Some countries may struggle to fully implement the recommendations due to technical, legal, or regulatory difficulties. Moreover, The BEPS project involves the coordination of tax rules and regulations across countries, but there may still be significant differences in the way that countries apply the standards. Additionally, some countries have resisted the implementation of the BEPS project, either because of concerns about the potential impact on their tax revenues or because they view it as a threat to their own tax systems. The project covers a wide range of tax avoidance strategies, but it is not a comprehensive solution to the problem of tax evasion and avoidance.

Common Reporting Standard (CRS)

The Common Reporting Standard (CRS) offers a framework for the automatic sharing of tax-related data across nations. It seeks to advance greater openness and collaboration in matters of international taxation and to aid in the fight against tax evasion and avoidance. Bank accounts, investment funds, insurance contracts, and other financial items are all covered by the CRS. It is a crucial weapon in the battle against tax evasion and avoidance as more than 100 nations have pledged to implement the CRS by 2021, and many of those nations have already started the automatic information exchange required by it. The CRS is anticipated to contribute to improved transparency and collaboration in international tax problems and is seen as a key advancement in the battle against tax evasion and avoidance.

Although CRS is widely seen as a move in the right direction in the battle against tax evasion and avoidance, financial institutions must make considerable adjustments to their systems and operational procedures in order to comply with the CRS, and doing so can be time-consuming and costly. Privacy and data protection issues are raised by the cross-border sharing of tax-related data under the CRS, there is a possibility that the tax authorities or unauthorized third parties could abuse this information. Although the CRS mandates that participating nations implement comparable reporting criteria, there may still be substantial variations in how the rules are applied around the globe. A few nations have opposed the CRS's implementation, either out of concern for their citizens' privacy or because they see it as a danger to their own revenue bases. It can be difficult for some nations to implement the CRS because it takes a lot of financial and human resources, especially those with little capacity.

Possible Solutions

Tax systems can be strengthened so that governments can improve their tax collection processes by using technology, streamlining administrative procedures, and enhancing compliance. Governments can seek for international cooperation through the exchange of information between tax authorities, mutual assistance in tax collection, and coordinated enforcement efforts. It is vital that Member States continue to address tax havens, especially the ones that they have stable political relationships and alliances with, and reduce opportunities for tax evasion by imposing penalties and sanctions, and entering into tax information exchange agreements. By increasing the pressure on tax haven countries, Member States will be indirectly improving transparency in the tax system. They may also require disclosure of financial information, improve transparency of tax rulings, and increase public access to tax information as long as it does not impeach any country’s national sovereignty. Member States can improve the international tax treaty network by negotiating new treaties, based on the UN models and guidelines that already exist, and updating existing treaties to address tax avoidance and evasion. They can also encourage voluntary compliance by reducing the burden for taxpayers, improving the tax administration processes, and providing education and outreach. Please be mindful that this solution leans more towards the countries' internal affairs rather than international relations, however, these kinds of solutions can always be presented as friendly advice.

Member States had and will always have the right to impose penalties and sanctions on those who engage in tax evasion and avoidance, particularly to the companies and individuals who are located in their territory and to their citizens. Even though the nature of MNCs complicates the act of sanctioning, keep in mind that all UN committees have the right to request the Security Council to impose sanctions when necessary. In general, these solutions require the cooperation and collaboration of governments around the world to ensure that the international tax system is fair, transparent, and effective. Effective implementation of these solutions will help to reduce tax evasion, increase tax revenues, and promote a more equitable and sustainable global tax system while simultaneously solving the issue of economic disparity by working towards a more equal distribution of income.

Notes from the Chair

Delegates should be mindful of their own delegations' tax policies while drafting clauses, as one of the main reasons for the lack of international uniformity on this subject stems from Member States' vastly differing views on the topic. Additionally, they are advised to regularly check OECD's website for the latest news, events, and projects regarding tax evasion and profit shifting. For the ones who are interested and want to learn more about tax evasion history, checking out the article Tax Evasion and Inequality by Annette Alstadsæter, Niels Johannesen, and Gabriel Zucman that describes the events of *Swiss Leaks* and *Panama Papers* in detail, which are very interesting cases of tax avoidance/evasion that haven't been mentioned in this report. Last but not least, delegates are advised to adhere to UNDP's mission and the SDGs whilst preparing for the conference, as they are also pertinent to the issue.

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