Forum: Second General Assembly

Issue: Addressing the issue of tax evasion by multinational corporations

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Introduction

Tax avoidance strategies exploited by multinational corporations have become a source of major public outcry and policy concern in recent years. While not strictly illegal in most cases, the sophisticated tax planning techniques utilized by large multinational companies have enabled the systematic shifting of billions in profits annually to international subsidiaries in low or no-tax countries. By taking advantage of mismatches and loopholes across different national tax regimes, these corporate tax practices, though technically legal, essentially rob governments of substantial tax revenues. Estimates suggest tax evasion by multinationals costs anywhere from $500 billion to $600 billion globally per year. As corporate tax receipts dwindle, budget shortfalls intensify and pressure mounts on individual taxpayers to fill fiscal gaps. This tax avoidance epidemic has thus raised issues of fairness, equity, and public trust in the global tax architecture.

Definition of Key Terms

Tax Evasion

The illegal nonpayment or underpayment of taxes by deliberately misrepresenting or concealing income. This is a criminal offense.

Tax Avoidance

Taking advantage of legal loopholes and gaps in tax law to arrange affairs to pay less tax. Technically legal but unethical.

Transfer Mispricing

A form of tax avoidance where transactions between internal units of a multinational are used to shift profits to low/no tax jurisdictions.

Base Erosion and Profit Shifting (BEPS)

Tax avoidance strategies that exploit gaps between different tax jurisdictions to shift profits to where they will be taxed at lower rates.

Double Irish Arrangement

A BEPS technique using Irish and non-Irish subsidiaries to shift profits and avoid taxes. No longer allowed after 2020.

Dutch Sandwich

A BEPS scheme involving a Dutch subsidiary to avoid withholding taxes on money moved to tax havens.

Tax Haven

A country with very low or no taxes where multinationals shift profits. Examples: Cayman Islands, Bermuda, Isle of Man.

Shell Company

A corporation with no significant assets or operations, usually in a tax haven, used to hold profits and avoid taxes.

Tax Gap

The difference between expected tax revenue based on rates and actual taxes collected. Tax evasion contributes to this gap.

Arm's Length Principle

The OECD standard that transactions between related entities should be valued as if between independent parties. Important for limiting transfer mispricing.

Aggressive Tax Planning

Organizing affairs in a way that complies with the letter but not the spirit of tax law to minimize tax payments.

Tax Competition

When countries purposefully lower tax rates to incentivize multinationals to declare profits in their jurisdiction. Leads to race to the bottom.

Tax Ruling

An agreement between a tax authority and a company about how a specific transaction or arrangement will be taxed. Can enable tax avoidance.

Inversions

When a multinational company changes its country of residence to avoid taxes. Typically involves merging with a foreign company and moving headquarters abroad.

Hybrid Mismatches

Exploiting differences between two countries' tax rules regarding financial instruments or entities to lower taxes.

Patent Boxes

Tax incentives offered by some countries to encourage companies to locate intellectual property assets there. Can facilitate BEPS.

Controlled Foreign Corporations (CFC) Rules

Laws that tax parent companies on the global income of their foreign subsidiaries located in low-tax jurisdictions. An anti-avoidance measure.

General Anti-Avoidance Rule (GAAR)

Legislation designed to deter tax avoidance that counters transactions with no substantial purpose other than reducing tax burdens.

Tax Information Exchange Agreements

Agreements between countries to share information relevant to enforcing tax laws. Improves transparency.

Key Issues

Lost Tax Revenue

Tax avoidance by multinationals costs governments billions in lost corporate tax revenue each year, intensifying budget shortfalls. The tax gap between projected revenue based on statutory rates and actual collections is substantial. This lost revenue could be used for infrastructure, education, healthcare, and other public services.

The immense tax revenues lost each year due to corporate tax avoidance and evasion create major fiscal and economic impacts. Estimates suggest the global corporate tax gap exceeds $500 billion annually. This lost revenue results in deep cuts to public spending and/or higher deficits.

For example, the estimated corporate tax gap in the United States is $100 billion per year. These billions could provide funding for public priorities like infrastructure renewal, expanded healthcare access, universal pre-school, or poverty reduction programs. Instead, the revenue loss leads to strained government budgets.

In developing countries, lost corporate tax revenues are even more debilitating. An estimated $200 billion is lost annually to multinational tax avoidance in poorer countries, money that could be used for economic development and social programs. Africa alone loses over $50 billion, exacerbating lack of investments in education, healthcare, and other public services.

Overall, the massive drain on public revenues caused by corporate tax practices sabotages government efforts to invest in human capital and sustainable growth. It also

places an undue burden on individual taxpayers. Targeted global reforms are essential to ensure multinationals pay their fair share and contribute to national budgets commensurate with their economic footprints.

Fairness and Inequality

Corporate tax avoidance shifts more of the overall tax burden onto individual taxpayers and small businesses who can't exploit international loopholes. This exacerbates economic inequality and perceptions of unfairness in the tax system.

The sophisticated tax avoidance maneuvers utilized by large multinational corporations have effectively rigged the global tax system in their favor at the expense of average taxpayers. When big companies restructure operations to minimize taxes, a larger share of the tax burden falls on individuals, small businesses and domestic-only firms who lack access to the same tax planning resources and international loopholes.

This systemic inequity breeds public resentment and undermines confidence in the fairness of the tax code. Polls show the stark tax burden disparity between wealthy corporations and ordinary citizens is considered unfair by the vast majority of the public in developed nations. The inequality is even more pronounced in developing countries which see foreign multinationals strip revenues that could be used to fund anti-poverty programs.

Overall, the ability of highly profitable global companies to artificially lower their tax rates through tax havens and other avoidance strategies worsens income inequality. It also weakens public trust in the progressivity of the tax system. Government efforts to compel multinationals to pay taxes commensurate with income are crucial to restoring fairness and trust.

Competitive Disadvantage

Domestic companies that operate only in their home country are at a competitive disadvantage compared to multinationals that can engage in sophisticated tax planning to dramatically lower tax bills. This unequal playing field distorts markets.

The complex tax minimization strategies used by multinational corporations put purely domestic companies at a huge disadvantage. Domestic firms competing in the same markets lack access to the same tax planning techniques and international corporate structures that allow multinationals to lower tax obligations. This unequal playing field makes it difficult for domestic companies to compete on pricing and reinvestment. A 2017 study found that a 1 percentage point increase in corporate tax rates reduces domestic firms' assets by 3.6% but has no effect on multinationals able to shift incomes cross-border. Domestic companies often struggle to maintain margins against foreign multinationals with drastically reduced tax bills.

The unlevel competitive conditions also disadvantage domestic companies seeking to grow internationally. Established multinationals are able to continue exploiting tax loopholes and consolidation strategies that new market entrants cannot access.

Economic Efficiency

Resources devoted to elaborate tax avoidance planning could be put to more productive uses. The schemes undermine optimal capital allocation and damage economic efficiency. The extensive resources devoted to complex corporate tax avoidance planning imposes meaningful economic opportunity costs. The accounting and legal fees for crafting intricate tax minimization schemes divert investments from more productive research, innovation, and business expansion initiatives.

One study estimated over $15 billion is spent annually in the U.S. alone just on corporate tax planning and compliance costs associated with profit shifting techniques. Economists estimate these resources dedicated to tax arbitrage could be more efficiently utilized to generate GDP boosts of over $1 trillion globally if invested in fundamental business enhancements instead.

Tax avoidance practices also undermine efficient capital allocation across jurisdictions. Profit shifting techniques and debt loading maneuvers disproportionately allocate earnings and assets to low-tax countries rather than where long-term business investments make fundamental economic sense. This leads to an economically inefficient distribution of corporate resources, assets, and activity across countries. Eliminating tax avoidance incentives would improve investment decisions and optimize global capital allocation to drive increased productivity and growth.

Public Trust

When large corporations are seen to be shirking tax obligations by exploiting technicalities, it undermines public trust in the tax system and government institutions. Voluntary compliance suffers as a result.

The public views corporate tax avoidance as unethical and unfair which breeds distrust in both business and government. A 2019 survey across 10 countries found 60% view corporations' use of tax havens, loopholes, and special treatment to minimize taxes as morally wrong. When highly profitable multinationals like Amazon or Starbucks use convoluted schemes to erase tax bills, it provokes public outrage.

This perception of systematic cheating fuels discontent towards corporations, tax policymakers, and governing institutions more broadly. It also weakens confidence in the equity and progressivity of the tax system, making individuals less likely to comply

voluntarily. Restoring public trust requires decisive government steps to prohibit corporate tax gaming and compel multinationals to contribute tax revenues on par with their income.

Global Tax Competition

Countries purposefully lower corporate tax rates and offer tax rulings to attract multinationals' profits, triggering a race to the bottom that deprives all governments of tax revenues.

The incentives for multinationals to shift profits and assets to low-tax jurisdictions triggers damaging tax competition between countries. Nations aggressively undercut each other's corporate tax rates and offer preferential tax rulings as they try to entice companies to declare incomes within their borders. This race-to-the-bottom dynamic leads to declining tax revenues globally.

A 2018 OECD study found corporate income tax rates declined on average from 32% to 23% between 2000-2018 across advanced economies as countries tried to boost investment appeal. But this tax competition proved self-defeating as governments lost revenues while multinationals simply shifted to even lower tax rates.

Developing Countries

Tax avoidance diverts revenues from developing countries which are the least able to absorb the fiscal loss. Estimated over $200 billion annually is drained from these countries.

The tax revenues lost to multinational tax avoidance impose an especially heavy toll on developing countries. These nations are already constrained in their ability to fund critical public services and invest in development. When corporate tax avoidance strips

away over $200 billion annually, it severely aggravates challenges with poverty, health, education and infrastructure in poorer countries.

For example, African countries are estimated to lose $50-80 billion yearly, around 2-3% of GDP, from base erosion and profit shifting by foreign multinationals. This lost revenue steals away a crucial funding source for healthcare, sanitation, infrastructure, and other pro-poor spending. The UN has cited tackling corporate tax avoidance as vital for developing nations to meet the Sustainable Development Goals. Targeted global reforms are essential to prevent multinationals from draining poorer economies of essential tax revenues.

Major Parties Involved and Their Views

British Cayman Islands

The British overseas territory of the Cayman Islands has developed into one of the world's most notorious tax havens, facilitating tax avoidance by multinational corporations. The Caymans impose zero corporate tax and minimal reporting requirements, making it hugely attractive for companies to book profits there while avoiding taxes in home countries.

It is estimated over $70 billion in corporate profits are shifted to the Cayman Islands annually. The IMF has named the Caymans an uncooperative tax haven and the OECD has repeatedly criticized it for failing transparency standards. Major corporations like Amazon and Apple have subsidiaries in the Caymans despite little real economic activity there.

The Cayman Islands' tax haven status deprives other nations of tax revenues. To combat this, the EU and G20 have applied pressure for reforms. However, critics argue

the Caymans' efforts remain minimal to avoid blacklisting rather than meaningful commitment to curbing tax evasion.

Stronger international cooperation and sanctions for uncooperative tax havens could significantly help fight corporate tax evasion worldwide. The Cayman Islands exemplifies how extremely low-tax jurisdictions divert billions in revenue and undermine anti-avoidance efforts. Targeted policy changes and consequences for the Caymans and similar havens are likely needed.

United Kingdom

The United Kingdom has demonstrated support for major international tax reform initiatives aimed at combatting evasion, especially by multinational corporations. The UK was an early adopter of the OECD's Base Erosion and Profit Shifting (BEPS) framework that sets guidelines to limit profit shifting and close international tax loopholes exploited by companies. The UK has also signed on to various tax information sharing agreements through the OECD to improve transparency and data available to tax authorities.

Within the UK, Her Majesty's Revenue and Customs (HMRC) has beefed up enforcement and implemented harsh penalties for tax evasion in recent years. Tax avoidance is legal but considered unethical, while tax evasion involves deliberate manipulation or concealment of information to illegally avoid paying taxes. The UK differentiates between the two. Criminal penalties for intentionally evading income, corporate, VAT and other taxes can include heavy fines and even imprisonment.

Various UK laws have been passed to better detect and deter tax evasion schemes. These include the requirement for taxpayers to declare offshore assets, increased HMRC investigatory powers, and provisions to hold enablers of tax evasion accountable. Many of these measures originated from EU-wide initiatives during the UK's membership.

While no longer an EU member, the UK remains committed to global tax reform and enforcement against illegal evasion both domestically and by multinationals. Sustained international cooperation and coordinated unilateral actions will be key to making continued progress on this issue.

France

France has emerged as one of the most vocal and active supporters of reforms aimed at combating tax avoidance by multinational corporations. At the OECD, France's representatives played a pivotal role in the 15-point Base Erosion and Profit Shifting (BEPS) plan endorsed by the G20 in 2015. The BEPS framework was designed to standardize international tax rules and reporting to prevent corporate profit shifting and tax avoidance exploits.

France has continued to urge the OECD to take an aggressive stance on enacting strong BEPS measures, advocating for transparency initiatives such as public country-by-country reporting of multinationals' tax and financial data. Domestically, France has implemented robust controlled foreign company rules to limit profit shifting to overseas subsidiaries in tax havens.

Most recently, France has championed a proposal for a global minimum corporate tax rate aimed at curtailing tax competition between countries. This would reduce incentives for multinationals to shift declared profits and assets to low tax jurisdictions. France aims to garner international consensus for a minimum rate as high as 25%.

Overall, France's impatience with the slow pace of voluntary reforms has led its embrace of a stricter approach involving sanctions for uncooperative tax havens. France's forceful leadership on these issues reflects an assertive policy stance aimed at preventing tax base erosion and restoring tax fairness at both the domestic and global level.

International Monetary Fund (IMF)

As an international financial institution, the International Monetary Fund aims to promote macroeconomic stability and financial integrity globally. As tax evasion by multinational corporations undermines both these goals, the IMF has made combating international tax avoidance a priority issue in recent years.

The IMF assists its member countries in strengthening their tax administrations and overall fiscal capacities. This includes providing technical assistance to improve tax policy design, revenue administration, and compliance management. By bolstering domestic tax systems, the IMF aims to curb tax evasion and illicit financial flows.

At the multilateral level, the IMF has voiced strong support for international initiatives like the OECD's Base Erosion and Profit Shifting (BEPS) framework that aim to reform global tax standards and synchronize national tax systems. The IMF views such collaborative measures as essential to limiting profit shifting and other tax avoidance maneuvers deployed by multinational corporations across tax jurisdictions.

The IMF also conducts surveillance of international tax issues and promotes information sharing between tax authorities as a key tool to enhance transparency and close loopholes. Through extensive research, advocacy, and direct capacity building support, the IMF seeks to drive policy change and build consensus around the need for comprehensive global tax reforms to tackle the systemic issue of corporate tax evasion. Its technical expertise and broad membership uniquely position the IMF to advance this agenda.

Organisation for Economic Cooperation and Development (OECD)

The Organisation for Economic Co-operation and Development (OECD) has been at the forefront of coordinating global efforts to combat international tax avoidance and

evasion. A major initiative is the OECD/G20 Base Erosion and Profit Shifting (BEPS) project launched in 2013.

The 15-point BEPS Action Plan aims to standardize international tax rules and reporting requirements to prevent multinational corporations from shifting profits to low tax jurisdictions. Key actions include curbing harmful tax practices, boosting transparency through improved information exchange, aligning taxation rights with economic activity, and strengthening dispute resolution mechanisms.

The OECD provides guidance, toolkits, and monitors implementation of the BEPS standards. Over 135 countries have signed on to follow the BEPS framework. The OECD also regularly updates its influential Model Tax Convention that forms the basis for bilateral tax treaties worldwide.

In addition, the OECD hosts the Forum on Harmful Tax Practices which pressures tax havens to comply with transparency and substantial activity requirements. Through its advocacy and research, the OECD has helped drive global coordination and policy change to counter international tax avoidance. Continued OECD leadership will be critical for making progress on tackling multinational tax evasion.

Development of Issue/Timeline

Date	Event	Outcome
1921	League of Nations established the Committee on Double Taxation	The League of Nations' Committee on Double Taxation produced model bilateral tax conventions that pioneered international

		coordination to avoid double taxation and allocated taxing rights between residence and source countries. This laid the foundations for future model treaties
1957	UN Model Tax Convention was published	The UN Model Double Taxation Convention was published to provide developing countries with a template to negotiate equitable tax treaties with developed economies that aim to eliminate double taxation while protecting source country taxing rights.
1963	The OECD Model Tax Convention was adopted	The OECD Model Tax Convention on Income and Capital was adopted to eliminate double taxation within OECD member countries through standardized rules on taxing rights, tax credits, and dispute resolution that formed a basis for bilateral tax treaties worldwide.

1989	G7 Finance Ministers report on tax havens and harmful tax practices	The G7 published a report directly naming tax havens and preferential tax regimes that erode other countries' tax bases, spurring the first concrete global action to identify and curtail harmful tax competition.
1998	The OECD Harmful Tax Practices initiative was launched	The OECD Forum on Harmful Tax Practices launched a blacklist to pressure designated tax havens into compliance by increasing financial transparency and requiring substantial economic activity for registered companies.
2013-2015	OECD launches Base Erosion and Profit Shifting Project (BEPS)	The OECD/G20 Base Erosion and Profit Shifting (BEPS) project delivered a landmark 15-point action plan to reform international tax rules, improve transparency, close loopholes, and restrict corporate profit shifting and tax avoidance.

2016	G20/ OECD Inclusive Framework established to monitor BEPS implementation	The Inclusive Framework on BEPS was established for OECD and G20 countries to collaborate on implementing reforms from the BEPS project across jurisdictions.
2019	The OECD Inclusive Framework for BEPS expands to over 140 countries	The BEPS Inclusive Framework expanded to over 135 member countries working jointly on enacting the anti-tax avoidance policy measures.
2021	G20/ OECD agreement on a two-pillar plan for reforming international tax rules	The G20/OECD two-pillar solution established an unprecedented global consensus on a minimum corporate tax rate of 15% and re-allocation of some taxing rights to source countries.

Previous Attempts to Solve the Issue

Base Erosion and Profit Shifting (BEPS) Project

The Base Erosion and Profit Shifting (BEPS) project was launched by the OECD and G20 countries in 2013 in response to growing public outcry over tax avoidance by multinational enterprises. BEPS refers to tax planning strategies used by companies that exploit gaps in tax rules across different jurisdictions to shift profits to low or no-tax locations where they have little economic activity.

The 15-point BEPS Action Plan aims to reform international tax standards and national tax laws to curb these practices. Major actions include: preventing treaty shopping and tax treaty abuse, aligning taxation rights with substantive economic activity, transfer pricing rules to prevent shifted profits, countering harmful tax practices and transparency issues, and developing a multilateral instrument to swiftly implement measures

The BEPS project focused on synchronizing different countries' domestic tax rules that multinationals take advantage of. By closing international loopholes, BEPS aims to improve transparency, prevent tax base erosion in source countries, and realign taxation with real economic substance. Over 130 countries have signed on to follow BEPS standards. Implementation remains ongoing as countries enact domestic reforms and new global standards are developed. The BEPS project reflects unprecedented coordinated action to systematically tackle gaps enabling global tax avoidance by multinationals and level the playing field.

Forum on Harmful Tax Practices

The Forum on Harmful Tax Practices is an intergovernmental body established by the OECD in the late 1990s to address the risks posed to national tax bases by tax havens and preferential tax regimes. It consists of over 60 OECD, non-OECD, and developing countries.

The Forum focuses on monitoring and pressuring designated tax havens to comply with transparency standards and implement substantial activity requirements for companies registered there. This aims to curb the shifting of passive income to entities in no/low tax jurisdictions with no real economic functions.

The Forum also conducts reviews of OECD member country tax systems to identify potentially harmful preferential tax regimes that can facilitate offshore profit shifting. Examples include patent boxes, preferential treatment of intangibles, and favorable rulings used by multinationals to lower effective tax rates.

Through a process of peer reviews and naming-and-shaming, the Forum urges countries to abolish or modify regimes and practices that enable tax base erosion and profit shifting to tax havens. It also facilitates dialogue on developing coordinated defensive measures. The Forum plays an important role in safeguarding countries' tax bases and tackling global tax avoidance.

United Nations Model Double Tax Convention

The United Nations Model Double Taxation Convention between Developed and Developing Countries is a template for bilateral tax agreements aimed at eliminating double taxation and tax evasion, while also ensuring fairness in taxing rights between source and residence countries.

Double taxation occurs when the same income is taxed in two different countries, for example, when both a subsidiary's home country and the country where profit was earned impose corporate taxes. The UN Model Convention provides tiebreaker rules and directives on which country gets to tax different types of income.

The Convention also outlines measures for information sharing and non-discrimination between treaty partners. Developing countries are provided taxing rights over passive income earned within their jurisdictions to counter tax avoidance by foreign multinationals.

The UN Model Convention serves as a starting point for negotiations on bilateral tax treaties worldwide. It complements model conventions from the OECD and US by offering perspectives tailored to preventing tax base erosion in developing countries. The Convention also aligns with BEPS actions and global transparency initiatives.

Overall, the UN Model Convention creates a multilateral framework and baseline for equitable, transparent tax treaties that limit double taxation while protecting against tax evasion and avoidance. It provides an important reference for developing countries seeking fair tax treaties with developed economies.

Possible Solutions

Global Minimum Corporate Tax Rate

The global minimum corporate tax rate refers to an international tax policy proposal that aims to curb tax competition and prevent multinational corporations from shifting profits to low-tax jurisdictions.

Under this proposal, countries would agree to set a minimum rate of corporate tax that multinational companies would be subject to regardless of where they report profits and activities. The rate most commonly proposed is 15-25%.

This would remove the incentive for companies to artificially shift incomes and assets between subsidiaries across borders to declare profits where effective tax rates are the lowest. Companies would have to pay at least the minimum rate wherever they operate.

The effect would be protecting countries from continued tax base erosion as multinationals would lack tax haven options to reduce tax bills. Estimates suggest a 15% global minimum could generate $150 billion in additional global tax revenue annually.

Challenges exist in garnering broad-based agreements and preventing circumvention, but the measure is gaining support from major economies like the G7 and OECD. If successfully implemented, the global minimum corporate tax could significantly curtail profit shifting, tax competition, and haven-oriented tax planning strategies deployed by multinational corporations.

Public Country-by-Country Reporting

Public country-by-country reporting (CBCR) refers to a proposed tax transparency measure that would require multinational corporations to publicly disclose key financial data on a country-by-country basis.

Under public CBCR, large multinationals would have to publish annually their revenues, profits before tax, taxes paid and accrued, number of employees, tangible assets, and other indicators broken down by each country or jurisdiction where they operate. This would provide the public, media, civil society groups and all tax authorities visibility into where companies book profits, economic activity, and tax payments across the countries they span.

Public CBCR aims to help detect tax base erosion and profit shifting to low-tax jurisdictions. It also supports an assessment of misalignment between real economic activity and declared taxable income. By shining a light on potential tax avoidance maneuvers, public CBCR would deter aggressive tax planning and empower tax authorities with data to better target audits and anti-abuse enforcement. However, companies resist the transparency measure as disclosing commercially sensitive information. Despite opposition, public CBCR is gaining support from tax justice advocates as a crucial anti-tax avoidance tool to complement OECD’s BEPS framework.