Tax Justice in the Global World

This article is based on "**The pursuit of tax justice**" which was published in The Indian Express on 18/10/2021. It talks about the need to eliminate tax abuse as a part of the global struggle for human rights.

Recently, **Pandora Papers investigation** revealed that many of the world's wealthiest people have used tax havens and other nefarious means to evade taxation. This has brought into limelight the concept of tax justice and why elimination of tax abuse and tax havens should be seen as a human rights issue.

Tax justice simply means that the tax should be paid by those from whom it is due. The concept of tax justice entails that the **taxes should be paid equitably by each and everyone who is bound to pay.**

The Present Situation

- **Annual Global Loss**: As per '**The State of Tax Justice Report, 2020 published by the Tax Justice Institute**, the annual global loss due to tax abuse **(Tax abuse: Tax Evasion and avoidance)** is **nearly $427 billion**. Of this, nearly **$245 billion** is lost to "multinational corporations (MNCs) **shifting profit into tax havens**. The other **$182 billion** is lost to wealthy individuals hiding undeclared assets and incomes offshore.
- **Inequitable Impact**: The impact of tax evasion is **more on the lower-income countries**, they lose a much larger equivalent proportion than higher-income countries.
- **Role of Higher-income Countries**: Though they suffer a loss of $382 billion in tax revenue annually, they are responsible for facilitating 98% of all global tax losses.
    - The **Corporate Tax Haven Index 2021 published by the Tax Justice Institute** finds that countries that are members of the **Organisation for Economic Co-operation and Development (OECD)** are together responsible for **68% of the world's corporate tax abuse risks.**

- **India:** As per the **Tax Justice Network**, India is **ranked 47** in the **2020 Financial Secrecy Index published by the Tax Justice Institute**, based on a low secrecy score of 47.84
  - India loses **$10 billion annually** in tax due to global tax abuse. This is equivalent to **0.41% of annual GDP** of India.
  - The main countries through which maximum **tax abuse** happens are **Mauritius**, **SIngapore** and **the Netherlands**.
  - On the plus side, **India does not figure as a corporate tax haven** in any of the global index. Thus, India causes no tax loss to any other country.

Steps Taken to Control Tax Evasion

Global Steps:

OECD's Inclusive Framework's Statement: The **Inclusive Framework's Statement** adopts a **two-pillar solution**.
  - **Pillar one** applies to about 100 of the biggest and most profitable **MNCs** and re-allocates part of their profit to the countries where they sell their products and provide their services.
  - Under **Pillar two**, any company with over EUR **750 million of annual revenue** would now be subject to an **effective minimum rate of 15 per cent.**
  - As per OECD, the global minimum tax **may generate around $150 billion** in additional global tax revenues per year.

Steps by India:

- **Legislative Action:**
  - **The Fugitive Economic Offenders Act, 2018**
  - **The Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015**
  - **Prevention of Money Laundering Act, 2002.**
- **International Cooperation:**
  - **Double Taxation Avoidance Agreements (DTAAs):**
    India is proactively engaging with foreign governments on **Double Taxation Avoidance Agreements (DTAAs)**/Tax Information Exchange Agreements (TIEAs)/Multilateral Conventions.
  - **Automatic Exchange of Information:**
    It will greatly assist the global efforts to combat tax evasion by **proactive sharing** of financial information.
  - **Foreign Account Tax Compliance Act of USA:**
    India has entered into an **information sharing agreement** with the USA under the **US Act.**

Way Forward

- **ABCs of Tax Justice**: All the major economies should incorporate the three transparency measures designed to tackle corporate and private tax abuse and other corruption. They are **automatic exchange of information, beneficial ownership registration and country by country reporting.**
    - **Automatic exchange of information** is a data sharing practice between countries that allows information exchange about corporations and individuals doing cross border transactions in each of the countries.
    - **Beneficial ownership registration** is the **practice of registering the identity of companies and other legal vehicles' beneficial owners**. A beneficial owner is the real person who ultimately owns, controls or receives profits from a company or legal vehicle. This will **uplift the corporate veil** behind which many persons hide to **avoid accountability.**
    - **Public country by country reporting** is an **accounting practice** designed to expose multinational corporations that are **shifting profit into tax havens** for the purpose of paying less tax.
- **Unitary Taxation**: It is a way of taxing multinational corporations **based on where they genuinely do work i.e**., employ staff, operate factories, sell goods and services, **instead of where they set up shell companies** in order to underpay tax i.e., **tax havens.**
- **A UN Convention on Tax:** Establishing a UN Tax Convention would allow **international tax rules to be determined through a genuinely representative process** at the UN that reflects the needs of countries around the world. UN convention on tax can hold countries to **legally binding, equitable standards on corporate taxation, financial transparency and tax justice.**
- **Global Asset Register**: It is a proposal to create **a comprehensive international registry of all wealth and assets** in order to give policymakers and the public the data needed to tackle global tax abuse and redress inequality.
- **India-specific:**
    - Greater **disclosure by companies** of how much profit they make and how much tax they pay in each country they operate in.
    - **Indian Finance Code**: There is a need for simplification of taxation laws in India. In this context there is a need to **implement recommendations of the Financial Sector Legislative Reforms Commission.**

        The Commission proposed Indian Financial Code which would contain new legislation for the Indian financial system as it is considered to be fragmented, with gaps, overlaps, inconsistency and arbitrary.
    - **Adopting International Best Practice:** India may explore the option to revise the **standard of treatment clause** to align it with international practices and include the traditional standard of protection of fair and equitable treatment.

        Also, India should clarify the open-ended terms in the **Model BIT.** This could result in India facing fewer disputes and BIT claims.

Conclusion

- Corporate tax abuse fuels **inequality, fosters corruption and undermines democracy**. To repair this injustice, we must **reprogramme our tax and financial systems** to give equal weight to the needs of **all members of society**, instead of prioritising the desires of the wealthiest multinational corporations.
- **India, inter alia, other developing countries** have a particular need to increase their tax revenue, to ensure that they can pay for essential activities. To achieve this objective, it is necessary that **tools of tax abuse are dismantled** and an **equitable tax system is established** to achieve tax justice.

Drishti Mains Question

With growing cases of tax evasion and rising inequality world over, the demand for a global taxation regime has grown louder. Comment.