

Committee/Council: Economic and Social Council (ECOSOC)
Issue: Countering tax evasion
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Introduction

What exactly are the obligations of the citizens towards their country? One of the most important answers to this complex question undoubtedly is: paying taxes.

In the modern economy the state has innumerable responsibilities: the promotion of economic growth and development while achieving competitiveness on the international market, the successful allocation of the country's resources in an efficient manner, the provision of basic goods and services to its citizens, such as security and education, and the maintenance of the necessary infrastructure. Naturally, all these responsibilities result in huge costs and require a lot of personnel. This leaves us with the question of how the state itself can possibly be financed. Of course the state is able to make revenue through donations, the sales of goods and services, international agreements and, potentially, wars, but that is not enough to cover the gap between public revenue and public expenditures. Thus, a new term comes up here: taxation.

Since the state operates on behalf of its citizens, it is only logical that each citizen has the obligation to contribute to the state, so as to ensure its efficiency. After all, the financial success of the state reflects on its citizens due to the fact that the state uses all available resources and finances to support the country and its citizens. Therefore, each time a citizen is taxed (i.e. is obliged to pay a certain amount of money to the state), he is actually helping himself (at least theoretically), as the state can use this money to provide services to the citizens and improve its finances. Consequently, the usefulness of taxation is out of the question, as it forms a large part of a country's economy and cannot be omitted. In ancient times, paying taxes was considered as being an honor and, nowadays, it still remains an important civil duty and basic obligation.

However, things are never as easy as they sound. Tax law is a very complex aspect of a country's legislation, as it usually is thousands of pages long, and unfortunately the enforcement of this law is even more complicated and challenging. Tax itself is a fair principle, as everyone, including individuals and

corporations, is obliged to pay his equal share to the country, i.e. a part of his annual income and consumption. Nevertheless, there are always people who operate outside the law and ignore their basic obligations by refusing to pay taxes or by only paying parts of their taxes. This severe crime of avoiding the payment of taxes is our topic: tax evasion.

Tax evasion undoubtedly constitutes a willful infringement of a country's legislation and it is punishable by the respective law of each country. The actual problem is that it is extremely hard (if not impossible) to catch all tax evaders, since in today's globalized world tax evaders have found many ways to cover their tracks and, as a result, many of them get away with their crimes unpunished. It is obvious that this is unfair: let us not forget that tax evaders do not pay their equal share, thus weakening the county's economy and putting more weight on the shoulders of the tax payers, while they are still enjoying all the services provided by the state without having contributed to their financing. It is a matter of international concern to finally close in on tax evasion and achieve equality before the law and fairness by tracing down all tax evaders and bringing them to justice.

The purpose of this study guide is to analyze the various techniques used by tax evaders and then to propose measures of how it might be possible to combat this severe crime through national efforts and international cooperation.

Definition of Key-Terms

Taxation

"Taxation is the imposition of compulsory levies on individuals or entities by governments. Taxes are levied in almost every country of the world, primarily to raise revenue for government expenditures, although they serve other purposes as well." (Definition by Encyclopedia Britannica)

"Taxation refers to the act of a taxing authority actually levying tax. Taxation as a term applies to all types of taxes, from income to gift to estate taxes. It is usually referred to as an act; any revenue collected is usually called 'taxes'." (Definition by investopedia.com)

Tax evasion

"Tax evasion is an illegal practice where a person, organization or corporation intentionally avoids paying his/her/its true tax liability. Those caught evading taxes

are generally subject to criminal charges and substantial penalties.” (Definition by investopedia.com)

Tax evasion, which is the illegal act of not paying one’s taxes or only paying part of the taxes, should not be confused with tax avoidance, which is “the use of legal methods to modify an individual's financial situation in order to lower the amount of income tax owed. This is generally accomplished by claiming the permissible deductions and credits. This practice differs from tax evasion, which is illegal.” (Definition by investopedia.com) Tax avoidance often involves the willful misinterpretation of tax laws by using loopholes in said law. It is often considered as morally reprehensible, as it involves the avoidance of one’s civil duties, however it is no illegal act and, therefore, not covered by this study guide.

Tax negligence can be considered as a sub-category of tax evasion and refers to unwilling mistakes and errors during the calculation of the taxes owed. As citizens have to submit a report with their income and calculate the taxes owed to the government on their own in most nations, errors may frequently occur during these calculations. If no willful fraud can be proven by the taxation agency, then these people cannot be prosecuted on the grounds of willful tax evasion and they are just fined with a small sum.

Tax gap

The tax gap is “the difference between total amounts of taxes owed to the government versus the amount they actually receive. Generally, a tax gap is caused by taxpayers overstating deductions and understating their income so they can pay fewer taxes; but late paying taxpayers also cause the tax gap.” (Definition by BusinessDictionary.com)

In simple words, it is the estimated loss of the government’s money due to tax evasion.

Tax audit

An audit is “an examination of a company's accounting records and books conducted by an outside professional in order to determine whether the company is maintaining records according to generally accepted accounting principles.”¹ (Definition by TheFreeDictionary.com)

A tax audit is “an audit carried out by a tax collecting agency in order to determine if a taxpayer [a company or an individual] paid the correct amount of tax. Taxpayers are chosen for audits if they have suspiciously high claims for deductions

¹ GAAP on Wikipedia: http://en.wikipedia.org/wiki/Generally_accepted_accounting_principles

or credits, or if their reported income is suspiciously low, but an audit may be done simply as part of a random sampling. If the auditor finds a tax deficiency, the taxpayer has to pay back-taxes, as well as interest and penalties.” (Definition by InvestorDictionary.com)

(Offshore) tax haven

Offshore means “located or based outside of one's national boundaries. The term offshore is used to describe foreign banks, corporations, investments and deposits. A company may legitimately move offshore for the purpose of tax avoidance or to enjoy relaxed regulations. Offshore financial institutions can also be used for illicit purposes such as money laundering and tax evasion.” (Definition by Investopedia.com)

An (offshore) tax haven is “a country that offers foreign individuals and businesses little or no tax liability in a politically and economically stable environment. Tax havens also provide little or no financial information to foreign tax authorities. Individuals and businesses that do not reside [in] a tax haven can take advantage of these countries' tax regimes to [illegally] avoid paying taxes in their home countries. Tax havens do not require that an individual reside in or a business operate out of that country in order to benefit from its tax policies. Andorra, the Bahamas, Belize, Bermuda, the British Virgin Islands, the Cayman Islands, the Channel Islands, the Cook Islands, Hong Kong, the Isle of Man, Mauritius, Lichtenstein, Monaco, Panama, Switzerland and St. Kitts and Nevis [and others] are all considered tax havens.” (Definition by investopedia.com)

Background Information

The basic concept: types of taxes

So as to comprehend all possible forms of tax evasion, it is necessary to make a brief presentation of some forms of taxation. A detailed analysis of all different taxes is unimportant and unnecessary when considering the subject of tax evasion, as taxes themselves are extremely complex and bear significant differences from one another in different countries. Nevertheless, there are some basic types of taxes, which are similar in most sovereign nations:

- **Income tax:** This form of taxation is imposed on every individual and company within a government's jurisdiction. The individual/company is obliged to declare its annual income, so that the state is able to determine the exact amount of income taxes owed to the government. In most

countries the calculation of the income tax is progressive; that means that the higher the income, the higher is the level of taxation. This measure of progressive calculation exists as a way to financially assist low-earners, who only have to pay small percentages of their income, and to obtain more money from wealthy people.

- **Sales tax:** Such a tax is “levied on the sale of goods and services that is usually calculated as a percentage of the purchase price and collected by the seller” (Definition by the Merriam-Webster Dictionary). That means that the consumer is obliged to pay an additional tax, which is included in the price of the products he purchases. The tax is collected by the seller, who is then responsible for handing it over to the government.
- **Value added tax (VAT):** This tax is often considered as being similar to the sales tax. Being used most often in European Union countries, it is imposed on the buyer of a product and calculated based on the value added to the product, i.e. every time the product changes hands with an increased price.² Different to the sales tax, it is not only imposed when the product lands in the hands of a consumer but also when, for example, a retailer sells his product to a company, which will later on sell the product on the market.
- **Other forms of taxation:** Tax law is one of the most complex laws in any country’s legislation, as it may be thousands of pages long. There are hundreds of types of taxes that are imposed on citizens of a country, including estate taxes, which have to be paid for the ownership of land or a house, property taxes, according to which the property of valuable objects or money is taxed, transfer taxes for objects changing hands in a transaction and import or export tariffs. All countries have different regulations and percentages for the existing taxes and many have even adopted completely different systems of how their population is taxed.

The significant feature about taxes is that they do not only apply to the belongings of an individual in his own country. For example, if an American citizen has deposited money in bank account in an offshore tax haven, such as Switzerland or the British Virgin Islands, he is still obliged to include these assets in the tax he pays by informing his taxation agency about the existence of these assets. As a result, this person will also be taxed on his money and his estate property, even if it is scattered across the globe in different countries. By not declaring this property to his country, he would commit the crime of tax evasion and, as a result, be prosecuted, if the state or a taxation agency finds out about his belongings.

² The first time the product is sold, the VAT is calculated based on the whole price of course.

Methods of (modern) tax evasion

In today's globalized society and with the right use of modern technology there are many ways to commit tax evasion and to hide one's crimes. Since the world is becoming increasingly complex and intransparent, it has become increasingly difficult to track down and prosecute tax evaders. It is of extreme difficulty for a tax agency to find out, which specific individuals in a nation of millions are committing the crime of tax evasion by hiding a secret or by giving wrong data to the government.

Nevertheless, tax agencies have been able to track down some tax evaders and have, thus, recognized certain reoccurring patterns, i.e. techniques that are commonly used by tax evaders. In order to counter tax evasion and to reduce the tax gap, it is undoubtedly of great importance to be aware of the methods that are used to commit the crime of not paying one's taxes or only paying one's taxes to a certain extent. Below you will find an analysis the most common methods of (modern) tax evasion:

- **Underreporting the income:** This is the most common form of tax evasion, and, being based on the fact that every individual has to report his annual income to his tax agency on his own underreporting one's income is often the case. By declaring to have a lower income than it is actually the case, it is obvious that an individual can make a lot of profit by paying less taxes based on the fact that it is difficult for the tax agency to be aware of the exact income of every household in the country. However, there is still a risk with this method: the employer. When the tax agency is carrying out a tax audit and is checking on certain suspicious or randomly picked individuals, it might request some information from companies, including the annual income of its employees. Therefore, there are statistically far more cases of underreporting from self-employed citizens than of employees of large corporations.

Nevertheless, there is always the danger that the company itself is not entirely honest about its finances or that it is simply not keeping an organized archive of its transactions and, thus, it increases the level of intransparency. Therefore, the tax agency is often left in the dark, as it has no means of obtaining access to information about payments of workers in cash and illegal deals under the table. As cash leaves no paper trail, such as invoices, it has often become impossible to carry out a successful tax audit with a clear result.

Another important factor in this category is tax negligence, i.e. wrong reports about the income due to lack of information or knowledge about the tax law. Errors are a frequent phenomenon in this case, as the tax law is often thousands of pages long and contains so many paragraphs that it has proven to be impossible for the ordinary tax payer to be aware and to keep track of all existing regulations. Since the average citizen does not know which of his belongings and assets he should include in his tax return, it is obvious that this problem stems both from the complicated tax law and from the problematic access to information about taxation, since it should be the responsibility of the government to give out appropriate and easily accessible guidelines.

- **Offshore accounts in tax havens:** As previously stated, there are some countries, which are ideal for depositing and hiding away money due to the fact that such deposits in these foreign countries are connected with low or non-existent levels of taxation. Furthermore, tax havens usually have a policy, which prohibits their banks from giving out any information to foreign governments; even if it is about a tax audit, which concerns one of their nationals. As a result, it has become extremely difficult for taxation agencies to track all the offshore bank accounts of their citizens and to find out who is hiding non-taxed money in foreign countries due to limited time and personnel and due to a lack of cooperation with other countries; many tax haven countries would consider it an attack towards their policy to give away all their secret bank account data.

However, there is one positive thing about this method of tax evasion: if an individual is actually caught hiding money in an offshore account, he is not in the position to make the claim that this was due to negligence or misinformation. In such a case the tax agency can safely assume that the tax evader did not accidentally deposit millions in an offshore account and it can immediately prosecute him under the accusation of fraud.

At this point, it is important to remind the reader of the fact that not all non-taxed assets in tax havens are illegal and subject to tax evasion, since they might also constitute cases of tax avoidance.

- **Money Laundering:** Money laundering is an excellent way of evading taxes, since it includes the disguise and hiding of both the source and the amount of income. It is usually connected with illegal income, such as money originating from illegal operation and drug deals, and with the right application of this method, criminals are usually able to hide away the money completely by creating a “front / shell company”. Such a company serves no particular purpose other than creating the impression of a completely legal and thriving business. The tax evaders create fake invoices and documents, so as to keep

up the illusion of the company, while in reality it is being used for transferring money from the company's bank account to other ones. The only minor drawback of this method for the offenders is that these companies still have to pay taxes on the small fake income that they have actually reported.

However, with the application of modern technology tax evaders have far more and better possibilities to disguise their steps and to create a web of obscurity around their financial transactions than they did in the past. As a result, another popular method amongst tax evaders is to hide legally or illegally earned income with new methods. Some of these involve the creation of hundreds of separate banks accounts all around the world that usually run on different names. Then, through innumerable financial transaction between these accounts, the tax evader disguises his tracks by storing only small parts of his money in each account.

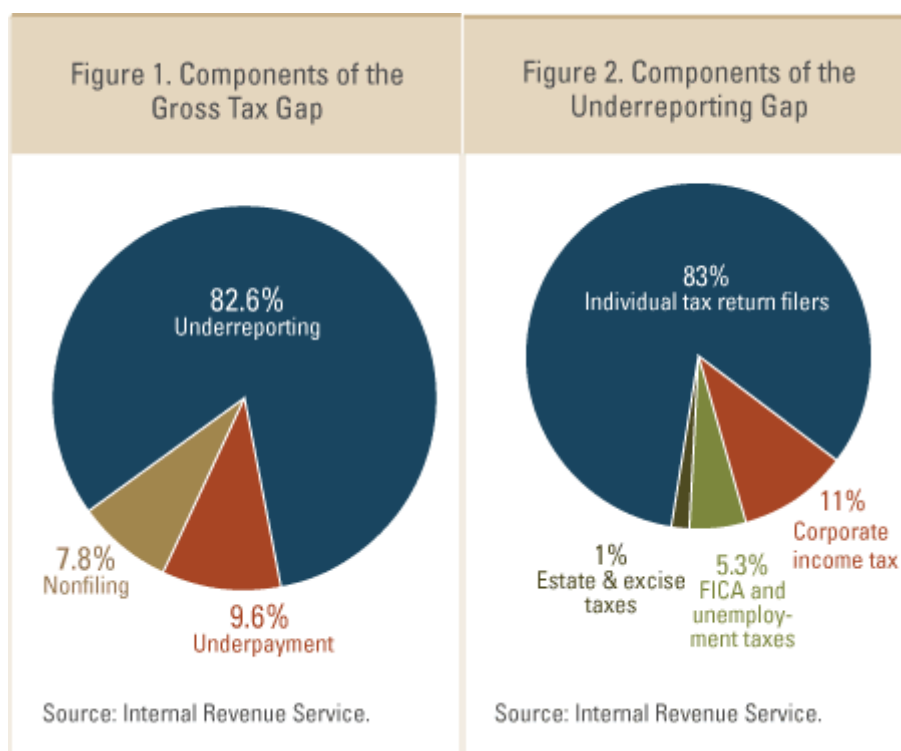
- **Corporate tax evasion:** In spite of the fact that tax fraud by corporations only makes up a comparably small percentage of total tax fraud, it still is a widely spread phenomenon. Companies use the same methods as individuals to achieve tax evasion: underreporting of income, hiding money in offshore accounts, laundering and making illegal accounting schemes. It has become apparent in previous years that not only large international companies are found guilty of systematic tax evasion but that small companies break the law as well. In addition to the already mentioned methods, such illegally operating companies usually pay their employees without any official registration in the company's books and in cash, so as to avoid the creation of a paper trail and the payment of the employment tax, which is imposed on companies in many countries.
- **Smuggling:** Finally let us not forget that all goods, which are being transported to another country, are being taxed by the customs duty. However, when tax evaders have the purpose of transporting illegal goods to another country or simply when they do not want to pay taxes for expensive goods, which are crossing the border, they often find refuge in ways of questionable legality, such as smuggling. This may include both the non-declaration of goods transported into the country and the transportation of goods over the border illegally.

The threat of the (continuously widening) tax gap

Tax evasion is considered a severe crime for a particular reason: it undoubtedly has a huge impact on global economy, as there are estimates that even trillions of dollars have gone missing on the account of tax evaders. However, this money is absolutely necessary for many countries, especially for countries with an

underdeveloped economy, as it is an urgent matter to cover the gap between public expenditures and public revenue.

As a result, the so-called tax gap is a real threat for global economy and the economic stability of many countries, since a major role of taxation is the correct re-allocation of resources within a country's borders, the redistribution of wealth amongst the population and ultimately the promotion of economic stability. Alone in the USA the tax gap came up to 385 billion dollars in 2006 according to estimations. It might be interesting to analyze the diagrams below, as they illustrate the estimated causes of the tax gap in the USA. They reveal that the largest percentage of tax money that is lost due to tax evasion originates from underreporting of income, while underpayment of taxes and non-filing of tax returns only make up comparably small percentages. According to the second diagram, the largest percentage of underreporting is carried out by individual citizens or self-employers, whereas only few corporations choose to commit tax evasion in the USA. Finally, other types of taxes (FICA (Federal Insurance Contributions Act) and unemployment taxes, estate and excise taxes) are only infrequently subject to tax evasion, as the risk of getting caught, when avoiding the payment of these other taxes, is significantly higher.



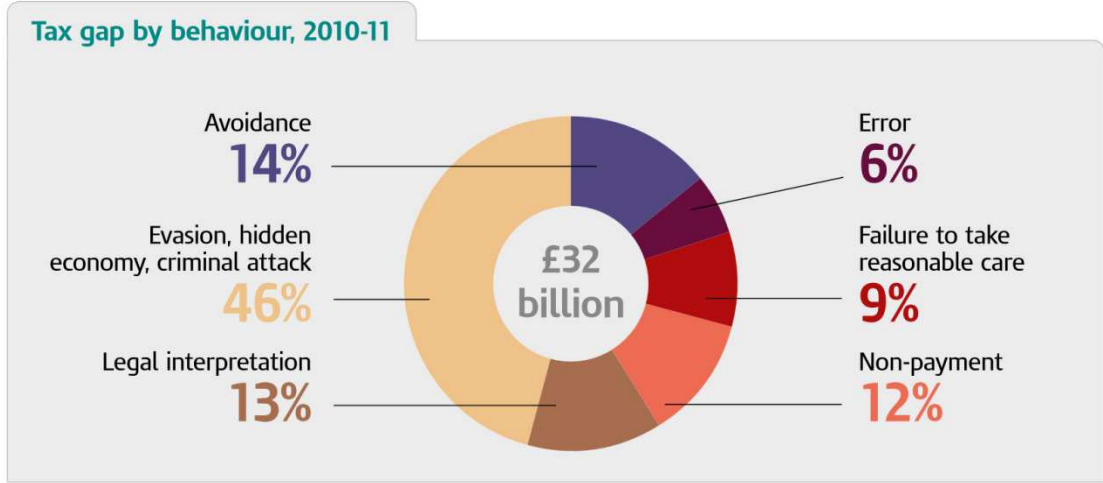
(Source: TaxPolicyCenter.org)

The next diagram illustrates the huge amounts of money lost in the USA due to tax evasion:



(Source: ToddWestMedia.com)

What is more, UK officials have published their estimations concerning the money, which they have lost due to tax evasion over a period of two years. However, when examining the information in the diagram below, please be aware that tax avoidance is included as a sub-category of tax evasion:



(Source: Her Majesty's Revenue and Customs)

A new opportunity: Offshore leaks

The key to dealing with tax evasion is obtaining access to all necessary information. However, information can not only be obtained by states but also by individuals, since in today's globalized society states no longer have monopolistic control over the flow of information in the country and the world. As a result, a new concept comes up: offshore leaks.

Offshore leaks are leaks of information from tax havens and they originate exclusively from individuals. To specify, this means that a certain individual with access to information decides to publish all his knowledge on the internet, to send it to the press or even to sell it to national authorities of another countries as a way of informing the foreign government about the transactions of its citizens in tax havens. For example, it has frequently occurred in the past that employees at Swiss banks decided to burn classified bank data on a CD and to sell it to other countries, such as Germany. This way many tax evaders have been caught and many of them even admitted their crimes out of fear of getting caught and prosecuted. Another recent development concerns the publication of a huge database about tax evaders and shell companies in tax havens by the International Consortium of Investigative Journalists (ICIJ).

It is obvious that these offshore leaks have caused many international reactions and scandals. On the one hand, thousands of tax evaders have been caught due to this phenomenon and many nations have profited due to these recent developments but, on the other hand, all tax havens feel threatened in their national sovereignty, as their largest source of income are their banking systems and the residence of many international companies and even shell companies in their national borders. The most characteristic example is Switzerland, which has greatly protested against these offshore leaks and has urged other nations, such as

Germany, to stop buying their bank data as a way to catch their own (German) nationals, who commit tax evasion, due to the fact that all tax havens have based their economy on their banking system. This means these countries live on their banks and on the trust of foreign investors and tax evaders that they will keep their data secret. A characteristic example for this is Cyprus, which is also considered a tax haven. After many foreigners lost their trust in the banking system of Cyprus due to the breakout of the crisis, they started withdrawing their money and placing it in other tax havens and, as a result, the Cyprian economy has entered a steady decline since then.

To sum up, the dispute over offshore leaks has evolved into a delicate political dispute, which has to be dealt with carefully. Many nations have controversial policies on this subject and the political dispute has been fuelled even more by the fact that many tax havens directly or indirectly support the spreading of tax evasion and, therefore, are against too much transparency in financial transactions.

Major Countries and Organizations Involved

Sovereign countries of the world

Every country is directly affected by the issue of tax evasion in one way or another. As previously stated, many nations wish to create a transparent global network of exchange of information, so as to catch tax evaders, whereas intransparent financial transactions are a basic part of the policy of certain countries, such as tax havens. This delicate political dispute has to be resolved with all necessary attention, while governments should try to focus more on how to catch tax evaders. Undoubtedly, many countries have not been putting enough effort in the investigation of tax evasion, while only few countries seem to be cooperative on an international level.

Nevertheless, the situation in the world has improved a lot in the past few years, as there have been many multilateral agreements and efforts of nations with the purpose of tracking down tax evaders. For example, there has been (quite surprisingly) a bilateral agreement between Switzerland and the USA about the automatic exchange of information between the national authorities and the banks of the two countries with the purpose of tracking down tax evaders, who have deposited their illegal untaxed money in each other's country.

European Union

No one can doubt that the best and most coordinated efforts against tax evasion have been carried out by the European Union. Being a supranational organization, which supports transparency and the free exchange of goods and information between its member states, it has contributed a lot to the solution of the problem by promoting multilateral agreements within its jurisdiction.

Specifically, bank secrecy, as it exists in many tax havens, has been prohibited by EU legislation. Furthermore, the EU has created a system of common taxpayer identification numbers in its member states, as proper identification of taxpayers is an essential step in the fight against tax fraud and evasion. Enhanced collaboration between member states has also made the automatic exchange of information faster and more efficient, as European tax administrations have far better and easier access to information in other countries than they did in the past. In conclusion, international cooperation is essential for combating tax evasion and no other organization has achieved more in this field than the European Union.

United Kingdom

The UK is a special case in our topic, as it faces many obstacles in the combat against tax evasion: its colonies. Still having about ten colonies, the most in the world, the UK has many problems with their administration due to the fact that many of them are considered tax havens. UK officials have expressed their purpose of closing in on tax evasion and reducing the tax gap in their country, but the fact that their colonies, such as the British Virgin Islands, are the ideal place for tax evaders makes their pursuit very hard to accomplish. Currently, the UK has launched many new programs and has funded its tax agency with more resources and modern technology tools, but its largest topic of concern remains its own overseas colonial territories: a bureaucratic and legislative problem that is very difficult to resolve.

Internal Revenue Service (IRS), Her Majesty's Revenue and Customs (HMRC) and other taxation agencies

Every country has taken some measures on its own to track down tax evasion. In order to ensure a more targeted approach in the race against tax evasion, countries have created their own national tax agencies, such as the IRS in the USA and the HMRC in the UK. These agencies usually have hundreds or thousands of employees and have the sole purpose of monitoring the financial activities of their own nationals within and outside of their country. They use modern information technologies and observation systems as a way to track suspicious financial activities and to gather proof for any potential tax evasion. What is more, they carry out tax audits by sending their agents to suspicious or simply randomly picked individuals, so as to close in on tax evaders.

However, these agencies are often subject to criticism, since they are accused of lack of efficiency. Such accusations usually have a point, as they have roots in the fact that such agencies are often extremely under-employed, i.e. they have not enough employees, so as to ensure efficient monitoring of suspicious financial activities. Indeed, the IRS in the USA only has a few thousands employees; compared to the total population of the USA (over 300 million people), the IRS has simply not enough personnel for efficient monitoring.

Timeline of Events

Date	Description of event
1 st century AD - present	Tax resistance and tax evasion have existed for millennia in all countries in human history and can be traced back to the 1 st century AD.
1988	The “Convention on Mutual Administrative Assistance in Tax Matters” is drafted and opened for signature only to OECD (Organization for Economic Co-operation and Development) member states.
1997	The “OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions” is created.
2011	The “Convention on Mutual Administrative Assistance in Tax Matters” is signed by the G20 countries. About 50 countries have already signed it or have expressed their willingness to do so in future.
2013	Offshore leaks, including huge databases about hundreds of thousands of individuals and companies, are published by the International Consortium of Investigative Journalists (ICIJ).

Relevant treaties

Convention on Mutual Administrative Assistance in Tax Matters

“The amended Convention facilitates international co-operation for a better operation of national tax laws, while respecting the fundamental rights of taxpayers. The amended Convention provides for all possible forms of administrative co-operation between states in the assessment and collection of taxes, in particular with a view to combating tax avoidance and evasion. This co-operation ranges from exchange of information, including automatic exchanges, to the recovery of foreign tax claims.” (Source: OECD)

This is the only international convention, which has been signed by many countries, on the topic of tax evasion. No other such treaties that are targeting tax evasion exist and, therefore, this treaty is of extreme importance to our topic.

OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions

“The OECD Anti-Bribery Convention establishes legally binding standards to criminalize bribery of foreign public officials in international business transactions and provides for a host of related measures that make this effective. It is the first and only international anti-corruption instrument focused on the ‘supply side’ of the bribery transaction. The 34 OECD member countries and six non-member countries - Argentina, Brazil, Bulgaria, Colombia, Russia, and South Africa - have adopted this Convention.” (Source: OECD)

Although this convention does not focus specifically on tax evasion, it still plays a major role in our issue, as many incidents of tax evasion are not discovered due to corrupt government officials and tax agents. More monitoring and transparency in tax agencies would ensure a reduction in bribery of such tax agency employees and it would play a significant role in the reduction of the tax gap.

Bilateral and multilateral agreements

Unfortunately, it is the sad truth that there are no really effective or legally binding treaties concerning the combating of tax evasion. The two previously mentioned treaties have had only little impact on the tracking of tax evasion and did not significantly increase transparency and cooperation amongst nations.

Nevertheless, there have been some serious efforts by governments to combat tax evasion on an international level. Despite the fact that there are still no global standards about taxation and no legally binding treaties and obligations, many

nations have decided to start negotiations and to make agreements with tax agencies and national authorities of other countries, so as to ensure an efficient and free exchange of information. There have been many such diplomatic approaches, both bilateral and multilateral ones with the purpose of joining forces, so as to close in on tax evasion, and to providing each other with unlimited information concerning the transactions of foreign nationals in the country; in simple words, countries help each other to track the tax evaders of each other.

Such negotiations and agreements have mostly been done by countries in the European Union but there have also been some diplomatic approaches between countries in other regions. Some of these agreements are between:

- Switzerland and the USA,
- Switzerland and Germany,
- UK, France, Germany, Italy and Spain and
- UK and Switzerland.

However, there are many more such agreements, which strengthen cooperation between countries in this sector, at least to a certain extent.

A brief summary: Previous Attempts to solve the Issue

There have always been attempts by all nations to reduce tax evasion in their own country. These have already been included in the study guide up to now, as they mainly include international agreements with other countries and the creation and funding of tax agencies, which carry out tax audits and monitor suspicious financial transactions of their citizens in their own and foreign countries; since all these points have already been analyzed in previous sections, no further comments are necessary.

Possible Solutions

Obviously, it is extremely difficult to find an adequate solution to the problem of increasing tax evasion, but this should not prevent countries from taking immediate action and working towards a solution to the issue. Of course every country has different policies and interests and, consequently, each country might prefer a different approach to resolve the issue. Below you will find a list of possible solutions to the problem and a brief analysis of each one; however, it is up to each

country to decide whether it wants to implement each solution or whether it wishes to resolve the issue through other approaches.

1. First of all, it is important to further strengthen international cooperation in the combat against tax evasion; therefore, the creation of new bilateral and multilateral agreements between countries would be extremely beneficial for all parties involved. Such agreements would encourage international willingness for the assistance of countries in the fight against tax evasion and ultimately they would lead to the reduction of the tax gap in all countries involved. Such agreements would promote the automatic exchange of information and bank data between countries, thus reducing bank secrecy, while they could also grant mutual direct access to databases as a way of sharing up-to-date information about potential tax evaders and suspicious transactions involving large sums.
2. International cooperation, which is a key aspect of our issue, can only be carried out efficiently, if the use of some common international standards is facilitated. Taking as an example some efforts on this sector, which were carried out by the European Union, the creation of common taxpayer identification numbers would be an important step in the battle against tax evasion. As we can see from the present, despite the fact that many countries are already cooperating on this issue, there is still a lot of confusion and inefficiency, as each country uses different methods for the clear identification of its taxpayers. However, if mutual international databases on taxpayers are to be facilitated, it would be essential to have such common identification numbers, so as to ensure easier and more efficient cross-country comparison.
3. What is more, it would be of great importance for all countries to sign the two existing OECD conventions, namely the “Convention on Mutual Administrative Assistance in Tax Matters” and the “OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions”. As there are no other international treaties, which have been signed by a large amount of countries, the signature and ratification of these two treaties would surely provide important incentives to many governments and strengthen the spirit of international cooperation. The creation of a new treaty could sound like a good idea but its importance would be questionable, as there is need for immediate action and not just the creation of new treaties and documents.
4. Another important measure is the reduction of corruption in tax agencies, as it is common knowledge that bribery is not an unusual phenomenon. Tax agents may favor their friends and relatives in tax audits and unfortunately it is very difficult to prove who is to blame afterwards. Therefore, tax agents

have to be closely monitored by their agencies and more transparency should be ensured in tax agencies with the creation of new legislation and the creation of new organs responsible for such situations.

5. No country is sure of how exactly to proceed with offshore leaks, as many countries choose to ignore the information they receive by journalists, while other countries use such leaks to prosecute tax evaders. Consequently, an international agreement and the creation of guidelines within each country would make the process of dealing with offshore leaks more efficient; some countries may choose to hand the information directly to tax agencies, while other countries might keep it secret to prevent a public outrage and the creation of scandals.
6. Additionally, most experts would agree that tax agencies have to be improved and made more efficient. As tax agencies nowadays only monitor a comparably small amount of the population, it would be beneficial for tax agencies to hire more employees, so that large-scale monitoring would become possible. On top of that, tax agencies should receive more funds and government support; especially the use of modern technology and modern information systems would help a lot in the pursuit of catching tax evaders. Better computer systems, as they exist in the UK nowadays, would ensure better and faster processing and combining of available information, thus enabling tax agencies to track down more tax evaders. Finally, another way of making tax agencies work more efficiently would be the hiring of specialists, such as market analysts and economists, so that the detection of high risk groups and potential tax evaders amongst the population would become possible.
7. The role of the public should not be underestimated. Taking as an example the campaign of the British tax agency HMRC, there should be hotlines and the encouragement of people to notify the agency if they suspect people of tax evasion. The HMRC claims to have caught many people that way, as cooperation with the public and targeted campaigns might prove to be a useful tool against tax evasion. However, countries should carefully consider the adoption of such a system, since such it could be subject to frequent abuse for personal interests.
8. Furthermore, the cooperation of tax agencies with the private sector would be a useful measure for improving the current situation, as tax agencies would have better access to more information by working together with private institutions, such as banks and investment bureaus. Such companies are required by law to keep clear archives of all their actions and customers with the result that a targeted approach to such corporations would surely yield many useful results.

9. A quite questionable method of reducing tax evasion would be the adoption of stricter punishments for prosecuted tax evaders. This would theoretically both be a new source of income for the state, as well as a measure to scare off potential tax evaders, as according to some studies there is a connection between the strictness of the punishment and the number of committed crimes. However, countries should be careful when considering such a harsh measure, as there is no proof that it would be useful and furthermore because it could cause a public outrage.
10. The concept of front companies, which usually operate on fake identities, is a known one. Consequently, such criminal activities by tax evaders would suggest that tax agencies should also cooperate with the police to a certain extent, as the cooperation of police investigators and tax agents could bear useful results due to the criminal nature of the tax evaders.
11. Moreover, a solution to the problem of tax negligence must be found, as many citizens submit wrong reports of their income and do not pay the right amount of taxes, as they are not aware of how exactly the tax law functions. Since tax law is a huge and usually incomprehensible booklet for most people, they do not know for which assets in their possession they are obliged to pay taxes. Therefore, so as to avoid such unnecessary mistakes, there should be transparency about tax law and citizens should have easy access to their tax agencies and have access to information concerning taxation, such as explanations on the internet and in public places.

To sum up, a lot can be done about tax evasion, as there are many possible solutions to our issue. The question is which measures should be implemented by each government and to what extent. Tax evasion is a severe crime against the society as a whole; this is why it must be dealt with on both a national and an international level, so as to finally ensure transparent, efficient and honest payment of taxes by all citizens.

In conclusion, since everyone is a member of society, we all owe to pay our fair and equal contribution to the development of our country. And since no one is above the law, it is the obligation of the state to track down and prosecute all tax evaders.

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