Committee: Economic and Social Council

Issue: Preventing Tax Evasion by Multinational Firms

Student Officer: Roy Malta

Position: Deputy President

PERSONAL INTRODUCTION

Dear Delegates,

My name is Roy Malta and I am currently attending 10th grade at Pierce-The American College of Greece. This is my 7th conference and my first-time chairing, as the Deputy President of the Economic and Social Council (ECOSOC) at the 2nd ACGMUN.

To begin with, I would like to congratulate you on your participation at the 2nd ACGMUN, a conference which will give you the opportunity not only to expand your knowledge of international relations but also address worldwide issues through feasible solutions. Seeing that this is the Economic and Social Council, you will specifically have the chance to further examine international economic issues and how they affect sustainable development.

The purpose of this study guide is to introduce you to the second topic of the agenda, namely preventing tax evasion by multinational firms. Even though, the study guide will offer you most of the necessary information on the topic, it is advised you expanded your research further, so that you are sufficiently prepared. To that end, you shouldn't only familiarize yourself with your country's policy on the topics at hand, but all major issues concerning it. All things considered, you will gain an in-depth understanding of a real diplomat's response to each proposition rising in our committee. Ultimately, if you are thoroughly prepared and actively participate on all 3 days of the conference I can guarantee that this will be a wonderful experience for all.

If any questions arise concerning either this topic or the rules of procedure, don't hesitate to send me an email at k.malta@acg.edu

Yours truly,
Roy Malta

TOPIC INTRODUCTION

"Taxation is the price which civilized communities pay for the opportunity of remaining civilized." (Albert Bushnell Hart)

Taxation is both an inherent and a legislative power. It is inherent in nature as it constitutes an attribute of sovereignty. It is considered inconceivable for a state to run any of its affairs without taxes. The state’s existence and running are reliant on incomes and revenues imposed from a variety of sources. Due to taxation including proclamation and usage of principles, it is also regarded as a legislative power. Tax assessment is an arrangement of guidelines, what amount is the tax to be paid, who pays it to whom and when it ought to be paid. All of the government’s money related operations are well-near incomprehensible without the collection of taxes. Aside from this though, taxation can be a successful means so as to accomplish goals of social advancement and economic development. Taxation can be seen as a device that encourages the development of certain exercises by giving exemptions, either by demoralizing utilization of specific products by forcing heavier taxes upon them, like sin taxes on tobacco related products, or by fortifying anemic enterprises. Local industries might be secured through tax collection by imposing higher taxes to remote merchandise. In addition, taxation can likewise be utilized so as to lessen imbalances or disparities in riches and wage by dynamically higher taxes as on account of estate and income tax. In light of all the previous premises, it has become clear that taxation is the lifeblood of the state, without which its existence will be put to risk. Specifically, at a time when every cut of the government’s budget has a big impact on people’s everyday life, it is considered at least unethical of multinational firms to avoid paying their tax liability. Taking into consideration the fact that MNCs benefit from the country’s public services either directly or indirectly, one would only have to characterize a company fulfilling its tax liability as the socially responsible thing to do. Then again, company directors claim that the only real responsibility of the company is maximizing profit something directly related to minimizing tax costs within the realms of what is legal.

DEFINITION OF KEY TERMS

Taxation

Taxation or else known as tax liability, refers to compulsory or coercive money collection by a levying authority, usually the government. It is usually referred to as an act, whose resulting revenue is called taxes.[1]

Taxes

Taxes are generally an involuntary fee levied on individuals or corporations that is enforced by a government entity whether local, regional or national in order to finance government activities. [2]

Tax evasion

Tax evasion is an illegal practice where a person, organization or corporation intentionally avoids paying his true tax liability[3]

Multinational firm

A corporation that maintains assets and/or operations in more than one country. A multinational corporation often has a long supply chain that may, for example, require the acquisition of raw materials in one country, a product's manufacture in a second country, and its retail sale in a third country. [4]

Foreign affiliates

An affiliate is a type of inter-company relationship in which one of the companies owns less than a majority of the other company's stock. Affiliation can also describe a type of inter-company relationship in which at least two different companies are subsidiaries of a larger company. An affiliate is determined by the degree of ownership a parent company holds in another company. [5]

[1] Investopedia.com, taxation, https://www.investopedia.com/terms/t/taxation.asp
[2] Investopedia.com, taxes, https://www.investopedia.com/terms/t/taxes.asp
[3] Investopedia.com, tax evasion, https://www.investopedia.com/terms/t/taxevasion.asp
[4] Financial-dictionary.thefreedictionary.com, multinational corporation, https://financial-dictionary.thefreedictionary.com/Multinational+firm
[5] Investopedia.com, affiliate, https://www.investopedia.com/terms/a/affiliate.asp

BACKGROUND INFORMATION

In order to understand the importance of preventing tax evasion by multinational firms and propose effective solutions, you must be accommodated with background information

Tax avoiding methods

Multinational Firms avoid taxes mostly by taking advantage of legal loopholes and provision granted by the countries involved (which are mentioned at the major countries involved section of the study guide). The main tax-avoidance methods can be summarized in the following examples.

One of the most common techniques MNCs use in order to avoid their tax liability is the exemption or deferral of foreign affiliate income. Most advanced nations typically tax multinational home-country operations, but do not additionally tax profits of the company's foreign affiliates[6], even though many countries choose to treat the multinationals' worldwide income as taxable. Nevertheless, some countries, United States for example, offer an enormous loophole. After paying each country's tax, a company's profits could be deferred indefinitely by the simple trick of not forwarding the profits back. Instead funds are parked in tax havens or are reinvested in other foreign operations.

Moreover, another way firms manage to avoid taxes is by transfer prices or else invoice values. In worldwide supply chains, multinationals send merchandise and ventures whose unit value, chosen by the MNC itself, is regularly influenced by tax considerations. Think of two firms, A and B, both possessed by the same MNC. Firm A has been trading 1,000 products each year abroad to Firm B, invoiced at $1.30 each. Yet, in the event that they are invoiced at $1.80 apiece, Firm B would have to pay Firm A $500 more per year. Firm A's financial gain would increment, and B's would diminish; however, the MNC as a whole would increment its after-tax wage from $2,250 to $2,325. The idea is simple: pay higher amounts to affiliates where taxes are lower, and show lower values where taxes and/or tariffs are higher.

[6] Markle Foundation, IRS Form 990-PF for Markle fiscal year, 2015

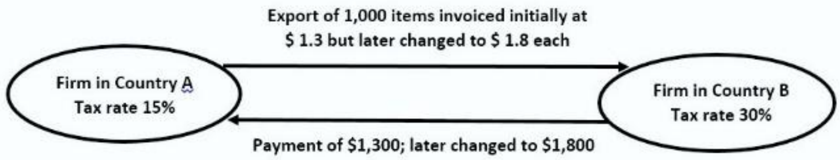


Table 1. Export of 1,000 Items — Payment of $1,300 Changed to $1,800

•	Before Change in Transfer Price (Export Shipment Invoiced at $1.30 Each)		After Change in Transfer Price (Export Shipment Invoiced at $1.80 Each)	
	Firm A	Firm B	Firm A	Firm B
	Tax Rate 15%	*Tax Rate 30%*	*Tax Rate 15%*	*Tax Rate 30%*
Pretax Profit	1,000	2,000	1,500	1,500
Tax	150	600	225	450
After-tax Profit	850	1,400	1,275	1,050
Total MNC Profit	**$850 + $1,400 = $2,250**		**$1,275 + $1,050 = $2,325**	

#1 Export of 1.000 items invoiced initially at $1.3 and later changed to $1.8 each

In the same way tax evasion by MNCs can happen through royalty payments. Have a look at a basic case of how interfirm royalties diminish tax liability. A Japanese firm, having done its R&D in Japan, sets up a subsidiary in the US. In Scenario 1, the US subsidiary pays no royalty for the Japanese technology. In Scenario 2, nothing is different aside from that the Japanese parent company has consented to an extra side arrangement with its US subsidiary, which will then have to pay a 5 percent eminence to it. Under US rules, in spite of the US operation's being the completely owned "child" of its Japanese parent company, the royalty payments are a deductible cost. US tax liability is legitimately lessened from $90 to $75. What's more, the aggregate settlement (after-taxes) to Japan increments from $210 to $225.

Table 2. Japanese MNC's US Subsidiary Royalties — Scenario 1–No Royalty vs. Scenario 2–5% Royalty

Scenario 1: Japanese MNC's US Subsidiary Pays No Royalty		**Scenario 2: Japanese MNC's US Subsidiary Pays 5% Royalty**	
Sales by Japanese subsidiary in USA	1,000	Sales by Japanese subsidiary in US	1,000
Total costs (no royalties involved)	700	Royalty (at 5% on sales)	50
Profit before tax	300	Total costs (excluding royalties)	700
US tax (at 30%)	90	Profit before tax	250
Profit after US tax	$210	US tax (at 30%)	75
		Profit after US tax	175
		Royalty remittance to Japanese parent	50
		Total remittance to Japanese parent	$225

#2 Japanese MNC's US Subsidiary Royalties- Scenario 1-No Royalty vs. Scenario 2- 5% Royalty

Additionally, multinational firms tend to use “Round-Tripping” and evade currency convertibility restrictions. You saw above how tax havens in zero-or low-tax nations, for example, Bermuda, the British Virgin Islands, or the Cayman Islands can be utilized to incorporate shell companies. Such companies serve two capacities: they can hold the MNC's patent and brand rights and they can fill in as the licensor to gather royalties charged to different affiliates comprehensively—this lessens their taxes in light of the fact that each affiliate asserts a derivation in their country for the royalties paid, while the royalties gather tax-exempt in the tax haven.

Favorite Money Routing for Large Multinational Companies

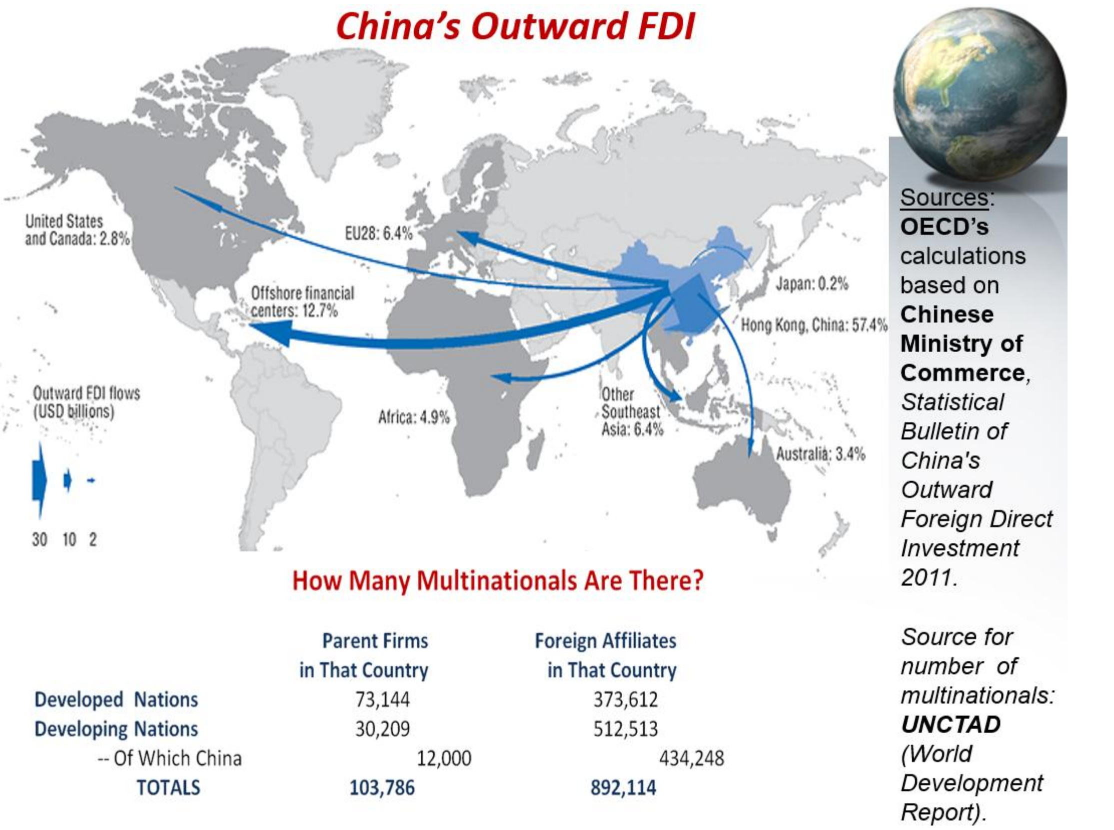
1. An advertiser pays money for an ad in Germany.
2. The ad agency sends money to its subsidiary in Ireland, which holds the intellectual property (IP).
3. Tax payable in Ireland is 10–12.5 percent, but the Irish company pays a royalty to a Dutch subsidiary, for which it gets an Irish tax deduction.
4. The Dutch company pays the money to yet another subsidiary in Ireland, with no withholding tax on inter-EU transactions.
5. The last subsidiary, although it is in Ireland, pays no tax because it is controlled from outside Ireland, in Bermuda or another tax haven.
6. Money is parked in the tax haven from where it can be used for other global investments.

#3 Favorite money routing for multinational companies

There are many different employments of tax havens. First of all, tax havens are used on account of US multinationals, the tax haven shell company goes about as a course—or parking space—for foreign affiliates benefits that are not repatriated back to the US, but rather are utilized for other outside investments. (By keeping the benefits outside the US, the extra US tax liability on the cash is deferred indefinitely) So impactful is this loophole that US MNCs' foreign subsidiaries' collected benefits, which are not yet repatriated back home, are assessed to add up to amongst $2.1 and $3 trillion.[7] Moreover, some tax havens and low-tax countries are utilized for "round-tripping." As much as 57.4 percent of China's outbound FDI capital in

[7] The money does not sit passively in tax haven banks, except temporarily. The funds are typically used to invest in new ventures outside the US.

2011 went to Hong Kong affiliates or subsidiaries, while another 12.7 percent went to Caribbean entities.[8] That implies that as much as 70.1 percent of Chinese outbound FDI capital streams, surpassing $100 billion every year since 2011, have gone to two small-scale economies—the Caribbean and Hong Kong. (By differentiate, Chinese companies' immediate FDI outpouring to European or US affiliates was an unimportant 8.2 percent of the Chinese aggregate.) So, the end result for the 70.1 percent of Chinese outward FDI that went to Hong Kong and the Caribbean? Quite a bit of this Chinese cash made a round excursion, coming back to territory China under the pretense of "foreign investment" with a specific end goal to exploit the still somewhat better terms (e.g., tax cuts, less expensive land, loans) offered by the Chinese focal and common governments to "outside" instead of absolutely "residential" investors.



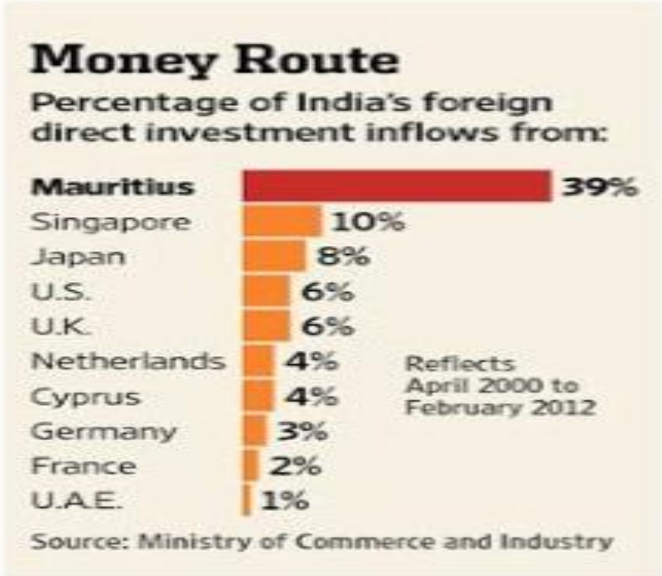
	Parent Firms in That Country	Foreign Affiliates in That Country
Developed Nations	73,144	373,612
Developing Nations	30,209	512,513
-- Of Which China	12,000	434,248
TOTALS	103,786	892,114

#4 China's Outward FDI

Another driver for the Chinese FDI outpouring is the want by Chinese company and wealthy people to sidestep money convertibility confinements. One can't change over the Chinese renminbi (RMB) into dollars or Euros without a written justification. Making a fake subsidiary in Hong Kong or the Caribbean gives that legitimization, because that capital must be conveyed so as to help the Chinese

[8] Organization for Economic Co-operation and Development (OECD), Economic, Environmental and Social Statistics,2013

parent's remote operations. Accordingly, UNCTAD (2011) announced an improbable number of Chinese foreign affiliates: upwards of 434,248 out of an overall aggregate of 892,114 affiliates for all MNCs. One needs to infer that a vast greater part are shell companies, with no financial movement or reason other than round-tripping and avoidance of capital controls. However, it isn't simply China. For Europe, OECD (2015) reports that such "special purpose entities" (SPEs, or shell organizations) account for more than 80 percent of FDI into Luxembourg and the Netherlands, more than 50 percent in Hungary, and more than 30 percent in Austria and Iceland. Around 33% of FDI into India seems to exude from Mauritius because the two nations have a tax treaty.



#5 Money Route Percentage of India's foreign direct investment inflows from April 2000 to February 2012

Thinking about these realities, one would moderately evaluate that 30– 40 percent of all FDI affiliates worldwide in the UNCTAD World Development Reports or World Bank databases are shell companies—a calming thought for investigators and researchers utilizing this information. Nevertheless, this gauge may, indeed, be low.

The final technique multinational firms use so as to avoid their tax liability is the one of inversions. In basic terms, an inversion includes a company moving its corporate headquarters to a lower-tax ward by securing/converging with a remote firm in a lower-tax nation. For sizeable multinational companies, the yearly reserve funds can be in the billions, as showed by the aborted Pfizer (US)- Allergan (Ireland) merger in April 2016.[9] In Ireland, corporate taxes maximize at 12.5 percent contrasted with the more extreme maximum of 35 percent US tax rate. Be that as it may, the US would then lose billions in tax revenues. Different cases since 2012 incorporate Mylan moving to the Netherlands, Burger King to Canada, and Medtronic to Ireland—all of which have tax rates than the US.

Government officials of all stripes have named inversions as unpatriotic. Declaring recent rules in April 2016 that make such outside takeovers much tougher[10], President Obama depicted inversions as "insidious" and included that "…

[9] Lynnley Browning, Pfizer Seen Avoiding $35 Billion in Tax Via Allergan Merger
[10] US Department of the Treasury Press Center, Fact Sheet: Treasury Issues Inversion Regulations and Proposed Earnings Stripping Regulations

fleeing the country just to get out of paying their taxes… [American MNCs] benefit from our research and our development and our patents. They benefit from American workers, who are the best in the world. But they effectively renounce their citizenship... "[11]For all the political rant and abuse, the quantities of inversions have not been many, however each is huge. For the US, six were finished in 2015, up from four in each of the past two years. As long as MNCs have the observation that home country taxes are higher than in different countries, inversions will be proceeding later on.

The Governmental and the Corporate perspectives of tax evasion

Numerous officials trust that corporate taxes (particularly in the US) are already too high and that exploiting loopholes to reduce payments is legitimate. However, many would likewise contend that the company's guardian obligation to amplify investor premiums is vital, and that exploiting arrangements and escape clauses is lawful and morally solid.

The Corporate Perspective

By exploiting laws made by other individuals, MNCs are just doing what ages of rich individuals have been doing as far back as expense was created. That is the means by which they have kept and extended their riches as the years progressed. It isn't past the mind of man to make an assessment framework which does not have escape clauses in it through which the affluent would squirrel be able to away their cash. Be that as it may, no administration could ever do it. It would overlook the main issue of the very presence of the administration, and especially this one, which is to oversee the nation in the interest of the rich, to the detriment of the many.

MNCs paying high tax endure an aggressive inconvenience versus firms situated in lower-tax countries. Paying higher taxes implies profit, and this thusly implies that: shareholders get smaller dividends and less is put once again into R&D—which at last decides the intensity of the firm in worldwide rivalry. Paying taxes just urges reprobate governments to spend more cash on different projects. The US government corporate tax rate (at a most extreme of 35 percent) is now one of the most elevated in the developed world, it is contended. Unlike many major countries, the US tax is relevant both to all American operations, as well as to every single international operation of the company. In the event that governmental laws permit certain loopholes, it is the company's fiduciary obligation toward investors to utilize such provisos to (legitimately) dodge tax liabilities. Either way, amid mergers/acquisitions for "inversions," the difference in residence is just for tax purposes—fundamental operations and employments would stay in the original countries.

---

[11] The White House Office of the Press Secretary, Remarks by the President on the Economy

The Governmental perspective

While it is legitimate to organize funds along these lines, we should scrutinize the morals of a framework that makes the ultra-rich wealthier and prompts developing disparity around the globe. This goes to the principal idea of how we trust society should work. In the event that we concentrate on the damage of tax avoidance to society, as opposed to how it is legitimately characterized, at that point we can see that it adds to developing disparity, builds taxation rates on inhabitant citizens and undermines state authenticity. Besides, the administration's settlement of those structures that encourage assess shirking can likewise be abused by those hoping to cover criminal testimonies. For instance, the UK has seen vast speculation from organizations situated in seaward duty shelters into its property advertise, with suspicious riches being utilized to purchase top of the line properties in London particularly.

Tax evasion not only moves finances from people in general tote – which is much more related in the midst of budgetary severity and monetary vulnerability (think Brexit) – yet in addition undermines apparent social reasonableness. There is an inappropriate exchange of cash far from public merchandise. However regardless of some political talk laying out its harmful impact, it isn't being tended to with adequate meticulousness. The UK – which has power over some of the offshore states – has influenced various vows to handle to assess evasion – however this has not been trailed by correctional, implementation activity.

Tax evasion might be legitimate, however it isn't morally defensible because many of the loopholes and tax provisions have been composed to support corporate interests by campaigning and political impact with respect to the companies. Faultfinders affirm that the much-trumpeted US corporate tax rate actually is not 35 percent—that is just the marginal rate on the last piece of salary, with normal powerful rates differently evaluated to be not more than 19.4 percent[12] or 27 percent[13]. This would put the US taxation rate amidst the OECD advanced-nation group.

Multinationals take advantage of a few other tax avoidance plans, mentioned above, for example, international licensing (royalty payments) between affiliated entities, charging central fixed costs and overheads to various foreign affiliates, creating intercorporate loans or export shipment “transfer-pricing,” and tax-haven subsidiaries. Deferral of tax on US firms' remote source pay is the greatest loophole accessible to US-based multinationals, which clarifies the gathered (yet

[12] Citizens for Tax Justice
[13] Price Waterhouse

unrepatriated) outside profits of US multinationals at between $2.1 trillion and $3 trillion.

Beyond any doubt if a MNC pays less tax, more money is left for shareholder dividends or to put toward recharging the R&D spending plan. Yet, critics contend that higher after-tax profits from tax evasion may be occupied rather into fatter rewards and investment opportunities for top administrators. Inversions may keep up essential occupations and operations in the original nations. Nonetheless, moving the base camp of the company builds the odds of extra employment creation in the other country or somewhere else.

MAJOR COUNTRIES AND ORGANISATIONS INVOLVED

Major tax havens

Apart from the Caribbean islands, the corporate income tax rates of which are in many cases at 0%, European countries with comparatively low corporate income tax rates and a fading tradition of banking secrecy are also thought to be tax havens. Switzerland, Luxembourg, and Ireland are characteristic examples of such. In the east, the Hong Kong Special Administrative Region of the People's Republic of China is also famous for its low corporate taxes and its dominant role in world trade. However, it is noteworthy that the taxation system of Hong Kong is not the same as that of China. Now, what's in it for the tax havens? Those tax havens that have been established in well-governed, economically stable countries or regions experience higher capital inflows, and therefore economic growth, but also increased fiscal revenues and new job opportunities that increase employment for local labor. There are also opportunities for investment in tourism and the improvement of infrastructure.

Tax haven blacklist

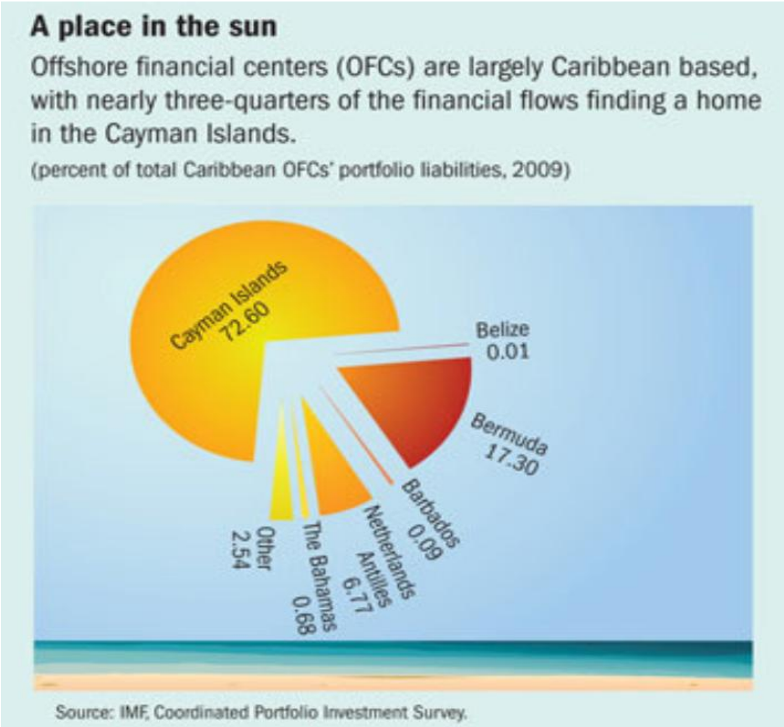
The EU published a "blacklist" of 17 tax havens.[14] It additionally distributed a "greylist" of 47 nations, which incorporate the British Overseas Territories (OTs) and Crown Dependencies (CDs) of Jersey, Guernsey, Bermuda and the Cayman Islands. Nations were blacklisted in the event that they were thought to have neglected to meet universal measures on tax transparency and tax rates, and had not given adequate responsibilities that they would change in the months leading up to the list's publication. Those on the greylist made guarantees to change their tax structures, which incorporate changes to guarantee companies are not utilizing 0%

[14] The 17 countries are: American Samoa, Bahrain, Barbados, Grenada, Guam, South Korea, Macau, the Marshall Islands, Mongolia, Namibia, Palau, Panama, St Lucia, Samoa, Trinidad & Tobago, Tunisia and the UAE

corporate tax rates so as to avoid their tax liability. Despite the fact that the blacklisted jurisdictions won't be qualified for EU stores, unless it is to help advancement, part states neglected to concur on any money related approvals.

The Caribbean

It was estimated by the U.S. Department of Treasury that almost $2trillion in US debt was stored in Caribbean Banking Centers such as the Bahamas, Cayman Islands, Panama, Netherlands, Antilles and Bermuda. As shown on the graph below, the Cayman Islands hold the majority of foreign capital in the Caribbean, as $1.4trillion of the above debt was held in them alone. A greater part of these islands moved into seaward offshore financial business for three reasons. Farming was getting to be plainly unviable as more effective producers began entering their traditional markets. The vast majority of these islands are not enriched with natural resources. Despite the fact that tourism was fruitful in specific districts, it was unpredictable, and its advantages couldn't be misused to its maximum capacity. In recent years, the Cayman Islands have made steps towards decreasing banking secrecy and requesting that banks cooperate with foreign investigators, but corporate tax rates remain at zero. It is also important to note that the Cayman Islands qualify as a British Overseas Territory.



#6 Percent of total Caribbean OFC's portfolio liabilities 2009

Global Financial Integrity

Global Financial Integrity is a non-profit, research and advisory organization based in Washington, DC, that makes efforts to promote global financial development and stability through extensive analyses on illicit capital flight, policy suggestions for developing countries and the promotion of transparency in financial transfers.

Tax Justice Network (TJN)

Tax havens are a particular focus of the work of TJN, which is an international independent organization conducting research, advocating and publishing in the field of international tax and financial regulations. The Tax Justice Network is based in the UK and not aligned to any political party, and it researches the repercussions of tax avoidance, tax evasion and tax havens. In 2013, it launched the Financial Secrecy Index, where jurisdictions are ranked based on their secrecy and the capacity of their activities. It is often strongly positioned against tax havens.

The Organization for Economic Cooperation and Development (OECD)

The OECD is an organization comprised of 34 member states with the aim of promoting policies to improve the economic and social welfare of the global community. The OECD has actively engaged in the issue of tax havens by creating the Global Forum on Transparency and Exchange of Information for Tax Purposes in 2000 to address this issue and request transparency in the exchange of tax information between countries. As a response to the call of the G20 to invigorate the establishment of the necessary standards, the Global Forum was restructured in 2009 and it now has 126 members. Its platform is now also open to non-members and it makes continuous efforts to monitor and ensure the implementation of the transparency standards of its members.

The G20

The G20 is a forum comprised of the governments and central bank governors of 20 of the world's largest developed and emerging economies. During the global financial crisis of 2008-9, the G20 took a global initiative to pressure the largest, most successful and well-known tax havens such as Switzerland to end the era of banking secrecy by signing bilateral transparency agreements under the threat of economic sanctions. This expressed the will of the world's top economies to support policymakers in the invigoration of stricter international financial regulations.

TIMELINE OF EVENTS

Date	Description of event
3000 BC	Egyptians are the first civilization to implement taxation
1st 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

1815	Offshore banking is born at the Vienna Congress
1889	The decline process of the British Empire and the relaxation of Business Incorporation Laws of Delaware facilitate the improvement of the pathway for offshore banking.
1957	The Bank of England comes to an agreement with British banks to create a temporary and informal allowance for banks in the UK to conduct unregulated deals with non-British clients provided they dealt in foreign currency
1960	The OECD is established
1980	Treaty between Luxembourg and Italy puts a cap on the tax rates that the citizens of both countries were required to pay
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[15]
1997	The "OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions" is Created
2000	Creation of the Global Forum on Transparency and Exchange of Information for Tax Purposes.
February 19th 2011	G20 Finance Ministers and Central Bank Governors hold the Final Communique, where they refer to the work of the Global Forum
2013	Offshore leaks, including huge databases about hundreds of thousands of individuals and companies, are published by the International Consortium of Investigative Journalists (ICIJ).
April 11th 2013	The Global Forum shifts its focus to effectiveness of information exchange[16]
April 19th 2013	Declaration on Automatic Exchange of Information issued and signed by all 34 OECD members, as well as some non-members
August 3rd 2015	The Global Forum releases new compliance ratings on tax transparency

[15] UN Tax Committee's Subcommittee on Practical Transfer Pricing Issues Background Paper
[16] Progress Report to the G20Leaders: Global Forum Update on Effectiveness and On-going Monitoring

October 14th 2015	Launch of the Portal on Automatic Exchange of Information
September 14th 2017	Global Forum delivers tools to Caribbean and Latin American countries to address the issue of beneficial ownership information[17]
November 23rd 2017	The Global Forum launches a plan of action for developing countries participation in automatic exchanges of financial account information[18]

PREVIOUS ATTEMPTS TO SOLVE THE ISSUE

Committee of Experts on International Cooperation in Tax Matters[19]

The committee proposes a code of conduct whose goals include ensuring high levels of transparency and exchange of information concerning tax matters, particularly the supply of bank information and information about all beneficial owners of income and assets

United Nations code of conduct on cooperation in combating international tax evasion[20]

The main purpose of the code of conduct is to emphasize the significance of cooperation between nations in order to combat international tax evasion, while simultaneously ensuring that all Member States follow the current code of conduct and assisting development of international norms, practical steps and capacity-building programs so as to protect their tax bases from non-compliance with their tax laws.

POSSIBLE SOLUTIONS

Allocating the taxable profits made by multinationals proportionally to the amount of sales they make in each country

To give an illustration, Firm's A parent company Firm B makes $50 billion a year in profits worldwide, however 50% of the sales take place in a specific country. That being so, the $25 billion would be taxable in the abovementioned country,

[17] Global Forum on Transparency and Exchange of Information for Tax Purposes 2017 Report
[18] Global Forum on Transparency and Exchange of Information for Tax Purposes 2017 Report
[19] "Committee of Experts on International Cooperation in Tax Matters - Report on the fifth session ." *UN.org*, United Nations, 19 Oct. 2009.
[20] "Committee of Experts on International Cooperation in Tax Matters - Report on the twelfth and thirteenth sessions." *UN.org*, United Nations-Ecoomic and Social Council, 2016.

irrespectively of the setting of Firm's A intangible assets or the place its workers are employed. This could put an end to artificial profit sharing, since MNCs might be able to shift around profits, assets and subsidiaries but couldn't possibly move all their costumers to Bermuda

Restricting qualifying criteria for offshore and residency statuses

Instead for being nominal for a company to have offshore ownership, it should become substantive. In addition, the "non-domicile" status should be limited and finite in time and the "non-resident" status ought to exclude everyone with businesses or wealth.

Implementing unitary taxation

Unitary taxation is an alternative type of taxation that can provide a solution for many of the problems inherent in the arm's length principle. Instead of only looking at local subsidiary, under a unitary approach, tax authorities look at the multinational company as a whole. Then, the profits of the MNC are apportioned to whichever country it operates using a formula whose goal is to account the real economic activity taking place in that country. To give an example, when a corporation makes $5bn in profits and 25% of its sales, employees and fixed capital assets (i.e. machinery) are based in a country A, then the abovementioned country has the right to apply a tax of $1,25bn of the multinational's profit. When there are 0 employees, sales and fixed capital assets in a country, it won't have any of the corporations' profit allocated to it.

Replacing the international accounting standards or supplementing them by an internationally agreed tax accounting standard

Most national tax systems may rely on the international accounting standards, however these standards in themselves are not fit for purpose as they are complemented and superseded by national tax accounting rules. Those standards used to be under the control of the United Nations, but the OECD in cooperation with professional accountants lobbied to put them under the jurisdiction of a non-governmental organization, which is more easily influenced by corporate interests and thus their control should return to the UN

BIBLIOGRAPHY

Text

Rainer Lanz & Sébastien Miroudot. "oecd-library." 24 June 2011. *oecd-library.org.*

2017 worldwide corporate tax guide. ey.com: Ernst & Young, 2017.

Back, Philippa Foster. *The guardian*. 23 April 2013.

Boffey, Daniel. "theguardian." 25 July 2017. *theguardian.com.*

Brady, James S. "Remarks by the President on the Economy." 2016.

Browning, Lynnley. "bloomberg." 25 February 2016. *bloomberg.com.*

Committee of Experts on International Cooperation in Tax Matters . "Report on the fifth session (19-23 October)." 2009.

Contractor, Farok J. "documents.aib.msu." 1 September 2016. *documents.aib.msu.*

Global Business. 5 May 2016. Ernest & Young. "Corporate offence: failing to prevent the facilitation of tax evasion ." 2017.

Eyitayo, Oladiwura. "linkedin." 21 December 2015. *linkedin.com.* Fisher, Jasmine M. *Fairer shores: Tax havens, Tax avoidance and Corporate Social Responsibility*. Boston: Boston University School of Law, 2014.

Global Financial Integrity. "gfintegrity." n.d. *gfintegrity.com.* Global Forum on Transparency and Exchange of Information for Tax Purposes. "Tax Transparency: Report on progress." 2017.

John Mutti & Harry Grubert. *The Effect of Taxes on Royalties and the Migration of Intangible Assets Abroad*. Cambridge,MA: National Bureau of Economics, 2009.

Knight, Laurence. "bbc." 4 December 2012. *bbc.com.* "lawgiants." 17 April 2010. *lawgiants.com.*

Maria Gonzalez, Alfred Schipke. "imf." June 2011. *imf.org.*

Markle Foundation. "markle." 2 May 2016. *markle.org.*

Marra Faccio, Larry HP Lang, Leslie Young. "Dividends and expropriation." 2010.

Mathiason, Nick. "theguardian." 24 January 2012. *theguardian.com.*

Matthews, Christopher. "business.time." 26 July 2012. *business.time.com.*

Matthias Dischinger & Nadine Riedel. *Corporate taxes and the location of intangible assets within multinational firms*. Munich: University of Munich , 2008.

Mooji, Marieke De. "Cross-Cultural Consumefr Behavior: A Review of Research Findings." 2011.

Needham, Christopher. "europarl.europa." 23 September 2013. *europarl.europa.eu.*

Nicholas, Chris. "newstatesman." 3 September 2013. *newstatesman.com.*

Organisation for Economic Co-operation and Development (OECD). "Promoting Transparency and Exchange of Infromation for Tax Purposes." 2010.

Organization for Economic Co-operation and Development (OECD). "Economic, Enviromental and Social Statistics." 2013.

Picciotto, Sol. "Towards unitary taxation of transnational corporations ." 2012.

Prem Sikka, Hugh Wilmott. "The Dark Side of Transfer Pricing: It's Role in Tax Avoidance and Wealyth Retentiveness." 2010.

Price Waterhouse. "Tackling tax evasion-new measures." 2015.

Rabah Arezki, Gregoire Rota-Graziosi, Lemma W. Senbe. "imf." September 2013. *imf.org.*

Rego, Sonja Olhost. "onlinelibrary.wiley." 15 January 2010. *onlinelibrary.wiley.com.*

Rene Belderbos, Bart Leten, Shinya Suzuki. "How global is R&D? Firm-level determinants of home-country bias in R&D." 2013.

Rosanne Altschuler, Stephen Shay, Eric Toder . "Lessons the United States Can Learn From Other Countries' Territorial Systems for Taxing Income of Multinational Corporations ." 2015.

Tax Justice Network (TJN). *Ending multinational tax avoidance through unitary taxation*. Chesham : Tax Justice Network (TJN), 2017.

"The role of taxation in an economy." 2015.

theweek.co. 3 November 2015.

U.S. Department of the Treasury. "treasury." 4 April 2015. *treasury.gov. un*. n.d.

United Nations Conference on Trade and Development (UNCTAD). *Reforming International Investment Governance* . Geneva: United Nations, 2015.

Trade and Development Report. Geneva: United Nations, 2014.

Multimedia Resources

(IMF), International Monetary Fund. *percent of total Caribbean OFC's portfolio liabilities 2009*. International Monetary Fund (IMF).

(OECD), Organisation for Economic Co-operation and Development. *OECD Science, Technology and Industry Scoreboard 2013: Innovation for Growth*. Organisation for Economic Co-operation and Development (OECD). *OECD Science, Technology and Industry Scoreboard 2013: Innovation for Growth*. 2013.

MaxxL. *Double Irish with a Dutch Sandwhich.svg* . wikimedia. *Double Irish with a Dutch Sandwhich.svg* . 2013.

Money Route: percentage of India's foreign direct investment inflows. Ministry of Commerce and Industry.

Tax Justice Network (TJN). *Ending multinational tax avoidance through unitary taxation*. Chesham : Tax Justice Network (TJN), 2017.