



Global Tax Evasion Report 2024

For Prelims: Global Tax Evasion Report 2024, Tax Evasion, European Union Tax Observatory, Global Minimum Tax.

For Mains: Global Tax Evasion Report 2024, Inclusive growth and issues arising from it.

[Source: ET](#)

Why in News?

Recently, the **European Union Tax Observatory** has released '**Global Tax Evasion Report 2024**' highlighting several critical issues related to tax evasion, the [Global Minimum Tax \(GMT\)](#) on billionaires, and measures to combat tax evasion.

- The report investigates the **effects of international reforms adopted over the past 10 years**, such as the automatic international exchange of bank information, and the international agreement on a **global minimum tax for MNCs**, among other issues.

What is Tax Evasion?

- Tax evasion is the **illegal act of not paying taxes** that one owes to the government by underreporting income, inflating deductions, hiding money in offshore accounts, or using other fraudulent means to reduce one's tax liability.
- It is a **deliberate and unlawful attempt to reduce tax obligations** by misrepresenting or concealing financial information.

What are the International Reforms to Combat Tax Evasion?

- **Global Minimum Tax (GMT):**
 - A GMT applies a standard minimum tax rate to a **defined corporate income base worldwide**.
 - The [Organization for Economic Cooperation and Development \(OECD\)](#) developed a **proposal featuring a corporate minimum tax** of 15% on foreign profits of large multinationals, which would give countries new annual tax revenues of USD 150 billion.
 - In October 2021, a group of 136 countries, including India, set a minimum global tax rate of 15% for MNCs and sought to make it harder for them to avoid taxation.
 - The framework of GMT aims to discourage nations from tax competition through lower tax rates that result in corporate [profit shifting and tax base erosion](#).
- **Automatic Exchange of Information:**
 - The automatic exchange of information was introduced in 2017 **to fight offshore tax evasion by wealthy individuals**.

What are the Key Highlights of the Report?

- **Challenges in Curbing Offshore Tax Evasion:**
 - Offshore tax evasion has decreased **over the past decade**. In 2013, 10% of the world's GDP was stored in global tax havens, but now only 25% of this wealth remains untaxed.
 - However, challenges remain, **including non-compliance by offshore financial institutions** and limitations in the automatic exchange of bank information.
- **Tax Rates Equivalent to 0%:**
 - Global billionaires have **effective tax rates equivalent to 0% to 0.5%** of their wealth, due to the frequent use of shell companies to avoid income taxation.
 - US billionaires have an effective tax rate equivalent to 0.5% of their wealth and **French billionaires a tax rate of zero**.
- **Profit Shifting by MNCs:**
 - Multinational corporations (MNCs) have shifted around USD 1 trillion to tax havens **in 2022**, equivalent to 35% of the profits they earned outside their headquarters countries.
 - The report red-flagged the trend of **“Greenwashing the Global Minimum Tax”** wherein MNCs can use ‘green’ tax credits for low carbon transition to reduce their tax rates way below the minimum of 15%.
- **Importance of Policy Choices:**
 - Tax evasion, wealth concealment, and profit shifting to tax havens are not natural occurrences but results of policy choices or the failure to make necessary choices.
 - There is a **need to evaluate the consequences of tax policies** and make improvements for sustainable tax systems.
- **Recommendations:**
 - The report advocates for a **global minimum tax on billionaires**, proposing a rate of **2% of their wealth**. Institute mechanisms to tax wealthy people who have been long-term residents in a country and choose to move to a low-tax country.
 - This measure is seen as essential for governments **worldwide to increase their revenue**, address wealth inequality, and fund critical services like education, healthcare, and infrastructure.
 - Reform the international agreement on minimum corporate taxation **to implement a rate of 25%** and remove the loopholes in it that foster tax competition.
 - Implement unilateral measures to collect some of the tax deficits of multinational companies and billionaires in case global agreements on these issues fail.
 - Move towards the **creation of a Global Asset Registry** to better fight tax evasion.
 - Strengthen **the application of economic substance and anti-abuse rules**.

What is the Difference Between Income and Wealth Taxes?

- Wealth taxes are **assessed on the wealth stock**, or the total amount of net wealth owned by a taxpayer, whereas income taxes are levied on the flow from the wealth stock.
- **Example of a wealth tax:** Estate taxes, gift taxes, and inheritance taxes are examples of one-time or infrequently assessed wealth taxes.

What are the Government Measures to Curb Tax Evasion?

- [E-Invoicing](#)
- [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.](#)

UPSC Civil Services Examination, Previous Year Question (PYQ)

Q. The term 'Base Erosion and Profit Shifting' is sometimes seen in the news in the context of (2016)

- (a) mining operation by multinational companies in resource-rich but backward areas
- (b) curbing of the tax evasion by multinational companies
- (c) exploitation of genetic resources of a country by multinational companies
- (d) lack of consideration of environmental costs in the planning and implementation of developmental projects

Ans: (b)

PDF Refernece URL: <https://www.drishtias.com/printpdf/global-tax-evasion-report-2024>

