The Question of Offshore Banking and Tax Evasion by MNCs

History

Offshore banking arose from the need for individuals of substantial wealth to find a safe and viable location to place this wealth whilst incurring minimal tax. By the end of the 20th century there were many tax havens across the globe, and a huge amount of wealth stored within them. As they proliferated, competition grew and similarly these services multiplied with regulations and requirements relaxing in severity. Such legislation such as the Swiss Banking Act in 1934 consequently made it illegal for banks to provide account and personal information of their customers to authorities unless certain requirements were met. This meant that transparency reduced and so offshore banking developed.

Offshore banking by definition signifies the act of opening new bank accounts in a jurisdiction which is not necessarily that of their residence by either the individual or in this case a Multi-National Corporation(MNC). MNCs engage in such activities for reasons of high interest rates leading to larger returns in savings, more enforced and present privacy laws, and most commonly lower rates of tax. A Multinational Corporation is a business that has activities located in more than two countries therefore contributing to international production. With offshore banking and tax evasion dating back decades, such issues have been propelled over the past years by increased demands for tax havens and their subsequent proliferation. With the regulation and legality of offshore banking being complementary towards the wants of MNCs, tax havens have created room for illegal activities which now play a role in the global financial system. Tax havens are defined as countries that offer foreign individuals and other entities a small tax liability in a guaranteed environment of stability and safety often dissimilar towards the natural home of foreign finances.

Corporations such as Apple, Microsoft and Starbucks currently reap the benefits of tax havens. The greatest problem in dealing with this issue is the lack of transparency that surrounds tax havens, which allows many corporations to fly under the radar and continue to damage local economies by not contributing their share to the governments that they should belong to..

A report by the Tax Justice Network discovered governments worldwide are losing up to $250 billion annually due to offshore accounts. While offshore banking itself isn't illegal, it can be if the intent is to evade tax. Tax evasion is deliberately avoiding paying taxes, by either underpaying them or failing to pay them outright. Similarly, failure to report foreign activity to the tax authorities in the country of residence becomes illegal if the intent is tax evasion in many countries.

A recent study published by the United Nation University World Institute for Development Economics Research (UNU-WIDER) found that MNCs have been evading taxes amounting up to $500 billion annually. Methods of this tax evasion include the movement of profits to low-tax jurisdictions known as tax havens as a means of reducing tax liability –the amount of taxation a business owes based on current tax laws. If such actions were brought to justice could lead to the potential increase of total revenues of governments worldwide by 4.5%. Tax havens are situated world-wide and some examples are The Cayman Islands, Luxembourg and Switzerland.

Possible Solutions

Bearing in mind that MNCs are not completely subject to government intervention as they are multinational and therefore cannot by forced to pay corporate taxes in their country of origin, which is dissimilar to individual citizens, versatile and relevant solutions must be put forward.

As MNCs revenue is dependent upon consumer purchases, a “name and shame” type measure could be potentially successful as it raises awareness to where these consumers are placing their money and the consequences arising from this transaction. One of these consequences is that as less tax is payed, resulting in a lack of public funding due in large part to the MNCs. This could cause a reduction in consumer support and inevitable revenue loss for MNCs. This acts as an incentive to MNCs to engage in legal tax activities over tax evasion, with the aim being to make the loss they make by contributing full amount of tax less than the loss they would make in the wake of a consumer scandal. With public image being of dire importance and a large factor of MNCs revenue this could curb the issue of tax evasion. The potential deterioration of their public image and reputation could cause immediate action by MNCs.

Stronger regulations adopted by willing nations that are enforced would similarly aid the issue of offshore banking and tax evasion. An internationally recognized framework of legislation by all countries to reduce disparities amongst nations would be a huge step in the right direction. At the upmost importance is international cooperation in combatting this issue as it is the secrecy and confidentiality behind offshore banking which allows the practice to flourish and so agreed measures, agreements and legislation among member nations could resolve this.

Current Attitudes of Nations

Switzerland

With Swiss banks being home to one-third of all worldwide funds deposited in offshore accounts as well as the many laws promoting secrecy and confidentiality among private bankers, it is little wonder that Switzerland has gained an international reputation as one of the most successful tax havens in the world.

Panama

Attracts copious amount of offshore investment due to tax rates (little to none), favourable tax legislation (no tax reporting requirements) and enforced banking secrecy laws meaning it is by definition a tax haven and therefore a gold mine for the deposition of foreign money.

The Cayman Islands

Corporate tax rates in The Cayman Islands remains at 0%, however recently adopted measures to decrease bank secrecy and so promote transparency have slightly improved the situation. It is important to remember that the Cayman Islands are a British Overseas Territory.

United Kingdom

The UK government has a good reason to act, with the cost of £5.2 billion due to tax evasion with the year 2015-15, estimated to have been lost by the UK economy by the HMRC, the UK tax collection agency, and numerous actions have been taken. The creation of criminal offences by aiding tax evasion and increasing accessibility of taxing records by eliminating the requirement for tax investigation authorities to prove “intent to evade tax” and prosecute have aided the fight against offshore banking and tax evasion.

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