Editorial

Paradise Papers: Need to Curb Tax Havens Urgently

The massive trove of secret financial dealings and unimaginable quantum of illicit wealth, stashed in 19 tax havens, which surfaced in the recent fourth consecutive global financial leak in a short span of five years, is a mind boggling expose. This leak of the “Paradise Papers”, reported in the newspapers on November, 7, 2017 contains 13.4 million documents of just two leading offshore finance firms. It will bring to surface, huge quantum of black money stashed in these tax havens. Almost 1,20,000 entities, including both individuals and companies, involving around $10 trillion (Rs 650 lac crores) i.e. almost 4 times the GDP of India, have figured in these papers. The stalwarts, whose financial affairs figure in these papers are as high ranking as Queen Elizabeth II, the President of Columbia, Juan Manuel and US Secretary of commerce, Wilbur Ross. India ranks 19th out of 180 countries with 714 names in the offshore-wealth data leak, in these Paradise Papers, a synonym for papers related to money stashed in tax havens.

Among the 3 preceding leaks of similar clandestine global financial dealings in last 5 years, the first one was Offshore Leaks (2013), the second was Swiss Leaks (2015) and the third one was the Panama Papers leak of 2016. The eighteen months old Panama Papers' leak had contained particulars of 2 lakh companies in 21 offshore jurisdictions. Swiftly switching into action, the Government in India has already ordered a multi-agency probe, within hours of the eruption of names of 714 Indian entities, including corporates, politicians, celebrities, media persons and corporate lobbyists. The multi-agency group, already probing the Panama Papers is being reconstituted to monitor a probe into Paradise Papers as well, and to take swift action in the matter. The probe is being headed by the chief of the Central Board of Direct Taxes (CBDT), to be conducted in coordination with, Enforcement Directorate (ED), Reserve Bank of India (RBI) and Financial Intelligence Unit (FIU).

However, mere presence of the name of an individual or company in the files does not point to any malfeasance or wrongdoing, except if there is an evasion of taxes as well. So, the probing agencies have to rigorously tally the details, surfaced in the leaks with the income tax returns of the concerning entities. Some of the persons named in these papers are already being investigated. Investigating agencies have also sent judicial requests abroad, to get details, certified documents and evidence related to these investments. The agencies are yet to receive a reply from abroad. However, many investments, as mentioned in the papers, are completely new as well. The team probing the Panama Papers has already been given directions to begin a probe into the Paradise Papers as well.

However, in view of the serial leaks (4 in 5 years) and the quantum of wealth stashed clandestinely in the tax havens, governments of major economies, the global financial architecture, the international financial system and the international financial governance structures need to take up the problem of stashing such illicit wealth in tax havens, at multilateral level. Governments must now work together effectively and seek to eviscerate the under cover activities of tax havens and their banks. In the present era of rapid globalisation, free mobility of capital and aggressive tax planning by the tax planners, including the Big Four accounting firms, tax avoidance is now a big business. Some governments crazy for foreign investments too often are seen to be encouraging tax avoidance, in order to attract more and more foreign investments, wherein the sole long-term winners are and would always be the multinational corporations (MNCs) concerned. Basically, the corporate tax avoidance worldwide is huge in volume. At the end of 2016 the giant US technology companies alone were estimated, by the ratings agency, the Moody's Investor Service, to have around $ 1.84 trillion (£ 1.4 trillion) of cash held offshore. These were mainly profits that firms such as Apple, Microsoft and Google registered outside the US, and piled up in tax havens. But personal tax avoidance is bigger. The economist Gabriel Zucman- after analysing discrepancies in countries' national accounts asserts that around $ 7.6 trillion, or 8 percent of global wealth, is held by the entities offshore. The Tax Justice Network campaign group too has disclosed that corporate tax avoidance is costing various governments $ 500bn a year, along with a personal tax avoidance costing around $200bn a year.

Though, in technical terms, the term 'black money' refers to income which has not been reported or disclosed to public authorities. But, it also includes money earned from illegal activities like crime (such as drug trafficking, smuggling, human trafficking etc.) and corruption as well. Various estimates made from time to time, since 1960s have reported the quantum of black money being generated in the economy to be between 20 to 40 percent of the GDP. But, It would be a mis-assumption that all black money flown out is lying in the offshore bank accounts alone. In reality a large portion of the black money flowing out illegally is also being brought back into India through 'Round Tripping' as white, either as export income or as foreign investment or via other means of laundering as upto 70% of FDI flows into India have been through tax havens. Likewise, when the issue of black money had hotted up in 2010, India's exports boomed then, despite an unprecedented stagnation in the world economy. The exports of non-conventional products to non-conventional destinations, since had even been found to be beating China in 2010-11 and 2011-12. Official data for 2010-11 showed a huge increase in exports of $ 30 billion in engineering goods, while engineering companies falling in the BSE 500 list (The Top 500 companies of the Bombay Stock Exchange) show an export increase of only $ 1.38 billion. Who generated these balance exports of $ 28 billion? Minor companies, not listed on stock exchanges or Ghost companies? Anomalies had then been pointed out by the researchers of Kotak Securities with respect to the inflows from Foreign Institutional Investors (FIIs). Official inflows in 2010-11 were shown at $ 22 billion. But, the data of EPFR Global (an International authority providing fund flows and asset allocation data to financial institutions around the world) shows inflows of only $ 4.5 billion, leaving a gap of $ 17.5 billion against official data, open to apprehension of round tripping of illicit flow of black money. So, it is not so that the black income would always stand black.

Moreover, the grinding issues pertaining to indiscriminate capital market liberalisation for FDI as well as FPI facilitating terrorist financing, money laundering and tax evasion needs to be properly addressed through global tax coordination. The illegitimate ideational resistance from offshore financial centers and tax havens, involved in such deals and perpetrating all such financial irregularities also need to be addressed at multilateral or even at plurilateral level, if the tax havens do not cooperate at multilateral level. India, in coordination with the other governments, willing to cooperate, including the US and other industrialized countries must initiate to curb the menace of tax havens perpetrating tax evasion worldwide. Endeavours are already underway, wherein India has been taking a lead since last 3 years. The proposal moved by Prime Minister Modi in the G-20 Summit held in Brisbane in Australia on November 16, 2014 on the exchange of tax related information and transparency in that regard, duly accepted by the G-20 was also a major breakthrough.

The Modi government has already signed a protocol on May 1, 2016, amending the Double Taxation Avoidance Agreement (DTAA) with Mauritius to be fully effective from April 1, 2019, when capital gains will attract tax at the full domestic rates of 15% and 40% of India and Mauritius are also set to begin fresh round of negotiations to amend the 33 years old DTAA. Investments into India routed through Mauritius-based companies alone crossed $114 billion between April 2000-June 2017 are participant in drafting the multilateral treaty, adopted in June 2017 in Paris, wherein 71 countries are now party to global anti-tax avoidance framework. But Mauritius has kept its DTAA with India, out of purview of this treaty. So we have to hold separate talks with Mauritius.

Today, there cannot be any other issue of greater priority, than curbing the tax havens, for the global polity of nations, seriously hurt from tax evasions. In Cayman Islands a tax haven, a single address houses 18,857 corporations, very few of which have a physical presence in the Islands. All countries including, India, US, European Union and most of the countries other than tax havens are collectively suffering from more than a trillion dollars in tax revenue every year.

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