Fighting Tax Evasion

What is the issue?

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- ‘International Consortium of Investigative Journalists’ recently released documents called ‘Paradise Papers’.
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- While this will kick off enquiries worldwide, bringing back money secreted overseas will be tough.
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What are Paradise Papers?

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- The Paradise Papers consists of 7 million documents that had leaked form a law firm in Bermuda & its associate in Singapore.
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- But the leaks span for more the 50 years, and many transactions had taken place years ago, when regulations were different.
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- Besides, the origins of transactions are difficult to trace as a thick web of shell companies are usually employed to gain anonymity.
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- Hence, despite the names of 714 Indians featuring in the Paradise Papers, it would be quite difficult to prove wrongdoing.
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Why are difficulties?

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- Clever use of tax heavens by tax evaders effectively shelters them.
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- Notably, many of the transactions could also be legal, with entities simply

exploiting loopholes in the tax structures of countries.
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- The Multi-Agency Group constituted to investigate the Panama Papers found that of the 426 cases, 279 were non-actionable.
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- This was either due to non availability of a specific irregularity or the lack of access to the person or entity in question.
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What are the measures being taken?

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- The Indian government has enabled a series of changes to laws to check tax evasion through tax havens.
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- Indo-Mauritius ‘Double Tax Avoidance Agreement - DTAA’ was tweaked to make investments through Mauritius liable to capital gains tax.
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- The ‘General Anti Avoidance Agreement’ has been implemented which makes innovative tax arrangements liable to scrutiny.
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- Becoming a member of the OECD’s ‘Base Erosion and Profit Shifting’ (BEPS) agreement is also a positive move.
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- While such measures will help curtail future tax losses, bringing back money that has already moved overseas will be difficult.
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How can money be brought back?

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- It’s only when information sharing is seamless, across jurisdictions, that this money can be identified or brought back.
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- Calling for a blacklist of tax havens that refuse to cooperate with other countries on information-sharing could help a little.
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Source: Business line

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