

Tax evasion and tax avoidance

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Definitions

- **TAX EVASION:** Tax evasion is an illegal activity in which a person or entity deliberately avoids paying a true tax liability. Tax evasion applies to both the illegal nonpayment as well as the illegal underpayment of taxes. To determine tax evasion, the agency must be able to show that the avoidance of taxes was willful on the part of the taxpayer.
- **TAX AVOIDANCE:** The term tax avoidance refers to the use of legal methods to minimize the amount of income tax owed by an individual or a business. This is generally accomplished by claiming as many deductions and credits as are allowable. Tax avoidance is not the same as tax evasion, which relies on illegal methods such as underreporting income and falsifying deductions.





Spain

EFFECTS AT MACROECONOMIC LEVEL



country's welfare

EMPLOYMENT

REDUCTION OF UNEMPLOYMENT

INCREASE IN REAL FACTOR INCOMES

the level of fraud → in Spain would be in line with the countries of the south of the EU

levels much higher than the Community average

PENALTIES FOR TAX EVASION IN SPAIN

according to the amount of fraud

FRAUD



CRIME



MORE THAN €120,000

With imprisonment for up to 5 years

With payment of a fine up to 6 times the amount of the fraud





Spain

1990	→	28.34%
1992	→	21.16%
1994	→	28,81%

VAT EVASION

Has led to a significant loss of tax revenue collection

Has one of the highest rates of EU

Exceeding 15% of estimated potential revenue collection in the same time period

Spain comes in at 22.6%.

Spain loses at least **6.35 billion** a year due to tax evasion by **multinationals and large fortunes**

TAX EVASION LOSSES

Could be used to **vaccinate**

Cover 8.51% of the total **health budget**.



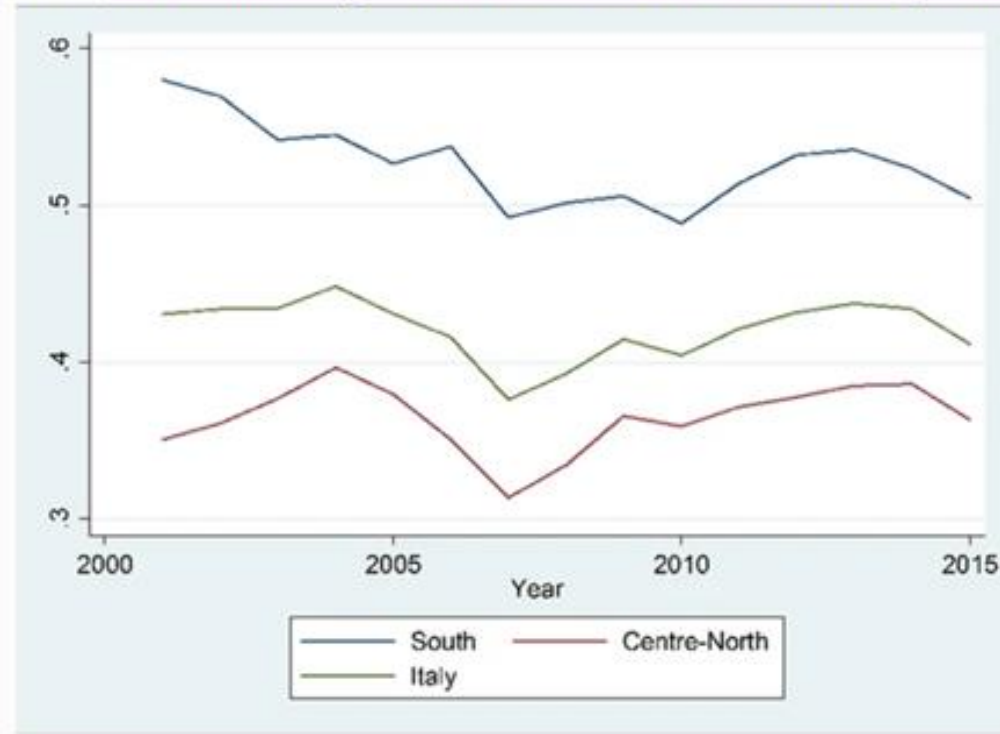
Italy

Year	Tax evasion in billions	% of GDP
1981	28	7/8
2015	265	16/18
2020	192	11

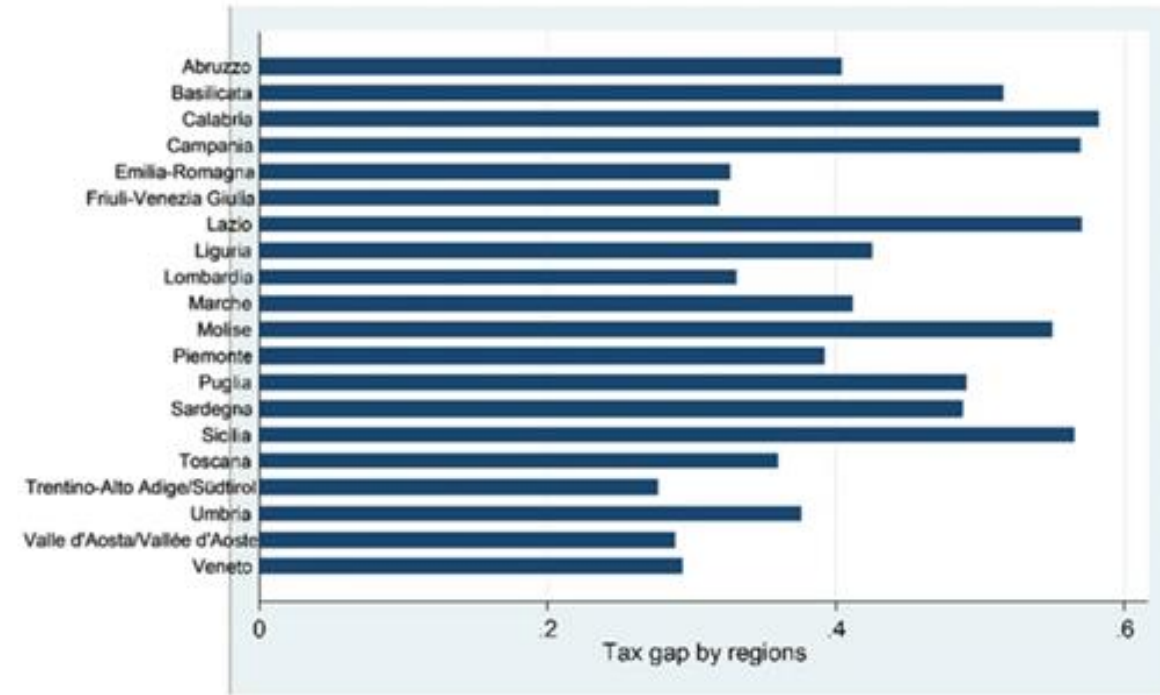
Determinants of tax evasion:

- **Perception of the government:** 'grabbing hand' or 'helping hand'
- **Education:** two potential opposite effects. The better knowledge of the tax system favour positive feelings about taxation, turning out in a lower level of tax evasion, but on the other hand, it may also increase the capability of how to evade taxes, leading to a high level of tax evasion.
- **Unemployment rate:** a decline in the labor participation force rate may be associated to a switch of workers from the official market to the hidden market, so that unemployment should generate tax evasion.
- **Psychological determinants:** researches proved that citizens' intrinsic motivation to pay taxes decreases when the neighbours are more willing to evade.
- **Effect of local efficiency on tax morale for Italian municipalities:** Empirical results show that public spending inefficiencies negatively affect citizens' tax morale and this effect is larger if the level of public spending is lower.

Results:



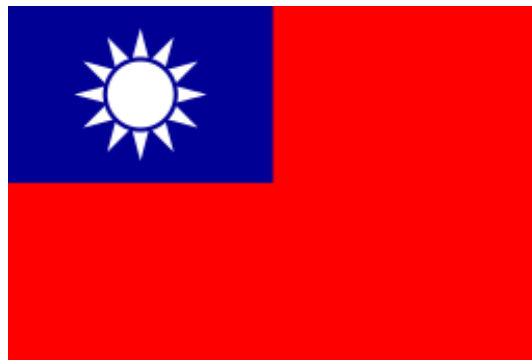
(a) Tax gap



(b) Tax gap by regions

Overall, it can be noticed that tax evasion is on average always above 30% and sharply upturns since 2007, when the financial crisis started. Furthermore, regions located in the southern part of Italy are characterized by a high level of tax gap compared to those in the center-north.

The channels through which public spending affects taxpayers' behavior may work dissimilarly in different parts of Italy. We are indeed considering a country that is very heterogeneous in terms of economic and social conditions.



Taiwan

To avoid Tax Evasion → Imposing Harsher Punishments

Before Amendment

Imprisonment: Maximum a 5 years –sentence

Criminal Detention

Penalty : 60,000 NT\$ (1877€)

After Amendment

Since 30.Nov.2021

**Imprisonment Max
imum a 5 years –
sentence**

+

**Penalty
5,000,000NT\$
(156445€)**

**Major
case**

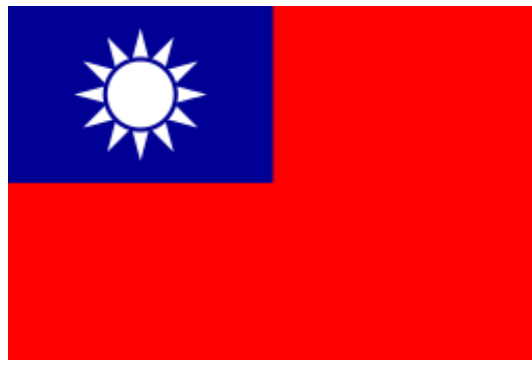
**Imprisonment
5~7 years**

+

**Penalty
NT\$10 million (312891€)
~NT\$100 million(3128911€)**

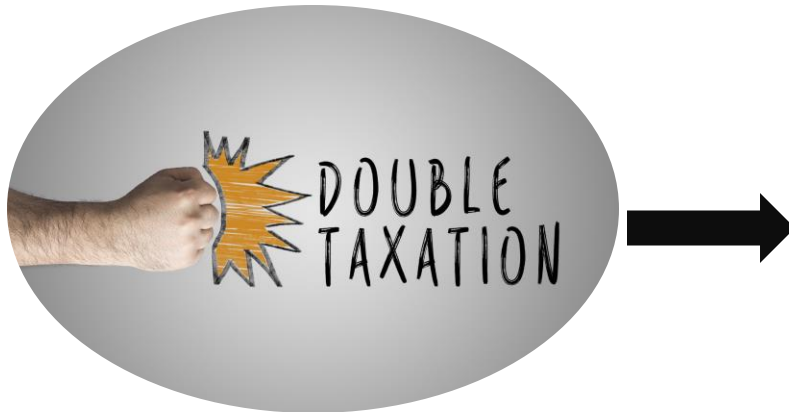
Financial rewards:

Who provide information that helps taxation authorities root out tax fraud and evasion, with a maximum of NT\$4.8 million per case.



Taiwan

To decrease tax avoidance & Tax Evasion



Eliminate double taxation

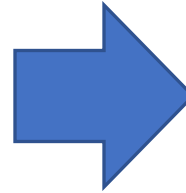
Sign agreements for the elimination of double taxation

There are 34 comprehensive Income Tax Agreements and 13 international Transportation Income Tax Agreements which have been signed and brought into force.



France

Assessment: Corporate Tax **32%**
CAC 40 companies Tax **5-7%**



HOW IS IT POSSIBLE?



WHAT DOES THAT REPRESENTS ?

Many things are hidden

Tax avoidance/evasion:

company avoidance + tax drift + individual evasion = **90-110B\$**
= **At least 214\$/month/pers.**





France

Solution of the government :

- Increased the fines up to 2 million\$ for persons
- Up to 6 years of jail
- Insurance for informers
- Promotion of compliance upgrade
- Infiltration squad





European Union

The cost of the tax avoidance by those big companies in EU

The biggest problem of tax avoidance is happened on those companies from US who try to avoid paying tax. They using public services without putting money into it.

EU countries lose over
\$27 Billion
in corporate tax a year to
the axis of tax avoidance
due to US firms shifting
profit into the four tax
heavens.

	Country	Tax loss
	France	\$6.9 bn
	Germany	\$4.1 bn
	Italy	\$3.9 bn
	Belgium	\$2.6bn
	Spain	\$2.5bn



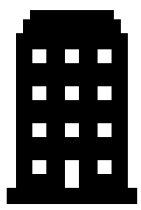


European Union

How the big companies try to avoid taxation

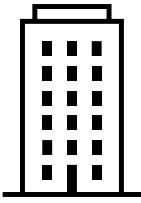
Corporate Profit Shifting

Head Quarter – Tax Heaven (lower tax)



- Luxembourg
- Netherland
- Switzerland
- UK

Shell Company



Invoice/ service



Fees



Real company in the country(higher tax) where they really earn money



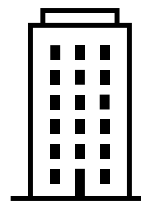
Profit

Intellectual property right



Fees

Subsidiary of the company



Patent



Formula



Algorithm

ESSCA land

- Small country in Europe
- Problems:
 1. The **corporate tax rate is very high**, around 30% (global minimum corporate tax rate was agreed on a rate of 15% and the document was signed by country leaders on 30 October 2021)
 2. In the last decades, a lot of companies **changed their headquarters**, moving to more favorable countries
 3. The last companies remained manage to shift their profits to foreign subsidiaries in countries with lower tax rates, a practice known as an **offshore tax-shelter**.

 *ESSCA land is losing lots of revenue in tax avoidance*



Next tax system

Corporation tax rate will be lowered, at least below the EU average (20.7%).

This will comport less revenue for the Government in the beginning, but then companies will come back because of the new profitable situation.

A multinational company is headquartered in country A, manufactures product parts in country B, assembles the product in countries C and D, then distributes its final product in country E.

