

Forum: Economic and Social Council (ECOSOC)

Issue #EC-01: Combating transnational tax evasion and illicit financial flows

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Introduction

The issue aims to address the billions of dollars that are lost to tax evasion and illicit financial flows on an international level. The main roadblock is communication, collaboration, transparency, and efficiency within bureaucratic systems. This committee is highly involved with investigations such as the Panama Papers, the Paradise Papers, and the Pandora Papers. Member States must aim to promote a resolution that encapsulates these obstacles while taking into account proper representation of the interests of their State.

Definition of Key Terms

Transnational Tax Evasion

The illegal act of not paying or underpaying taxes wherein more than one nation is involved.

Illicit Financial Flows

The act of transferring financial capital out of one nation to another while breaking national or international laws.

Shell Company

A shell company is a legal entity that exists on paper but does not have any active business operations. It generally holds and move assets for other corporations or individuals, and is sometimes used for illicit purposes such as tax evasion.

Issue Overview

Tax evasion and illicit financial flows, henceforth known as TE and IFF, respectively, have been around as long as institutions such as states have had concepts similar to taxes. In response to these situations, some individuals have taken it upon themselves to utilize illegal methods of straying from the grasp of the law. This issue has become more prevalent as states adopt more socialist policies and globalization has taken place; in response, the wealthy have found more ways of exploiting loopholes in, or outright breaking, the law.

Historical Background

TE and IFFs were practiced for a long time but, a notable case is in 2009 when upwards of 1 trillion dollars were laundered according to the UN. However, many of the more influential cases were brought up in the last decade seeing as globalization has ensued. It is important to note that states such as Ireland, Switzerland, and many African, Central American, and South American states are utilized by corporations and individuals to commit TE and IFFs.

Latest Events

In 2022, we have thus seen many instances in which this activity has been exposed to the general public; among these, the Panama Papers, the Paradise Papers, and the Pandora Papers have been the most well known.

The Panama Papers

The Panama Papers are an international scandal of financial documents that were publicly leaked that displayed the involvement of many significant political and financial players in TE and IFFs. This investigation, led by the International Consortium of Investigative Journalists (ICIJ), revealed that these individuals of great influence used off-shore bank accounts and illegal services provided by companies to take funds from treasuries, among other activities.

The documents came from a firm in Panama, thus the name the Panama Papers, and were internal files that detailed actions like the creation of shell companies. However, these papers do not draw the line at financial matters; they venture into social, human rights and other issues. For example, one of this firm's clients utilized the company's resources to violate the rights of underage Russian orphans, and Lionel Messi was under investigation for tax evasion in Spain by using one of the shell companies.

The company's co-founder, Ramón Fonseca, has stated that his firm kept these records, as is common practice and that they are not responsible for the uses that their clientele gives to their shell companies, in the same way that a car company is not. (ICIJ, *et. al.*, 2016)

The Paradise Papers

The second of these previously mentioned instances is the Paradise Papers which details the activities such as TE and IFFs that influential individuals and companies used. Similar to the Panama Papers, this investigation was launched by the ICIJ in 2017 and shows financial and legal manoeuvres that the clients of firms such as Appleby. (ICIJ, *et. al.*, 2017)

The Pandora Papers

The most recent investigation on TE and IFFs is the Pandora Papers, published by the same consortium as the aforementioned investigations in 2021. These documents entail more than double that of the Panama Papers according to the ICIJ, amounting to more than two terabytes of files that unmask the financial and legal actions that firms took for their clients. As in the previous investigations, these clients included political leaders, economic powers, and people of general influence, such as movie stars and sports players. It is worth mentioning that the possession of these shell companies that are often used in these illegal activities is, in fact, completely legal.

This investigation found that “Poor nations are disproportionately harmed by the stashing of wealth in tax havens...”, thus making this an issue of economic and social inequality apart from a legal one. Poorer nations tend to be more corrupt, whether the chicken or the egg came first is for one to find out but, this remains true; so, many political leaders were found participating in these illegal transfers and such, stealing taxes from their citizens which affects their infrastructure among other services provided by the government.

Additionally, it was found that cryptocurrency was entangled into the web due to a so-called “Bitcoin Czar” who was mentioned in the files that were unearthed in the investigation. (ICIJ, *et. al.*, 2021)

The ICIJ states that these investigations are ongoing and that there is much else to be found, as denoted by the name of their last investigation, the Pandora Papers, which are named after Pandora’s Box which “still evokes an outpouring of trouble and woe.” according to the same source. The ICIJ also reported that states recuperated much of the taxes that were evaded, as much as 1 billion US dollars with the Panama Papers alone, due to these investigations. (ICIJ, *et. al.*, 2021)

Major Parties Involved

United Nations Organizations

The United Nations presides over many international issues and this issue is no exception. Subsidiaries such as the Economic and Social Council and the International Court of Justice are highly involved in this matter. The ECOSOC is mixed into these affairs due to its jurisdiction over financial issues, and statements issued and conferences held about TE and IFFs. The ICJ is involved in this matter due to the judicial nature of many of these cases and how these are international issues that must be dealt with by extranational organizations.

Third Party International Organizations

Third Party International Organizations are used to join States and investigate international issues such as tax evasion. Some include the International Trade Center, The Organization for Economic Cooperation and Development, and the International Consortium of Investigative Journalists.

Involved States

Involved States include countries such as the United States of America and Switzerland that are involved in the issue but are not incriminated in any sense, more so their companies or citizens are, or they have taken action.

Incriminated States, Companies, or Individuals

Incriminated states, companies, or Individuals include countries such as Russia and Iceland, who have had leaders involved in the issue and had claims taken against them, companies such as HSBC, and individuals that have evaded taxes or used illicit financial flows. Many have issued statements against these claims, as is the case of Vladimir Putin.

Alleged Havens and Firms

Alleged Havens and Firms are states or firms that have taken action that allowed for the evasion of taxes or of illicit financial flows such as Panama and firms mentioned in the investigations that were published by the ICIJ.

Timeline of Events

Date	Description of Event
March 14th, 2012	Revision of UN Convention on Taxation
April 3rd, 2016	Panama Papers Release
November 12th, 2017	Paradise Papers Release
October 3rd, 2021	Pandora Papers Release

Relevant UN Treaties and Events

- [Addis Ababa Action Agenda](#)

Addis Ababa Action Agenda of the Third International Conference on Financing for Development (2015)

- [GUIDING PRINCIPLES ON BUSINESS AND HUMAN RIGHTS](#)

A guide that was used as a reference for companies regarding the issue of TE.

- [The Sustainable Development Agenda](#)

A referential agenda that could be used to describe the goals of the UN.

- [United Nations Model Double Taxation Convention](#)

The UN convention for international taxation that was set by the ECOSOC.

Past Action

Little has been done about these issues except for law suits and the sentencing of individuals and corporations due to investigations like the Panama Papers. The G20 has also worked to provide international conferences for the top economies of the world where these issues have been discussed to no avail. Additionally, the Organisation for Economic Co-operation and Development has lead discussions on bilateral treaties on global tax regulations. These efforts have been mirrored by the likes of Member States such as Kenya and organizations like the World Bank. Nevertheless, these issues are still nowhere near being solved and must be dealt with through cooperation of Member States in forums such as the ECOSOC, that has pledged to fight against this injustice.

Possible Solutions

Higher Transparency

Member States could propose a higher communication rate between Member States and UN agencies to assure that TE and IFFs do not occur. However, many Member States will not be open to divulging information.

Expanding International Jurisdictions

Member States could propose that the international jurisdictions of different agencies be expanded to increase the rate at which these criminals are caught. However, many Member States will not be open to divulging information or giving away jurisdiction.

Increasing Penalties

Member States could propose that the penalties for international TE and IFFs be increased to make it a riskier process for those wishing to participate in these illegal activities; this could potentially mention the International Court of Justice. However, universal agreement on the punishment and enforcement of such may be challenging due to the high influence they tend to possess.

Decreasing International Trade

Member States could propose that states take protectionist policies to minimize international trade, making the number of transnational transfers fall, making it easier to catch TE and IFFs. However, many Member States are not fully autonomous, so they may not be able to apply an extreme version of this solution, and many Member States are supported almost exclusively by trade.

Lowering Taxes

Member States could propose that taxes be decreased to make it less profitable to evade them or use IFFs. However, many Member States will not agree to this due to their need for taxes, especially States with larger government expenditures.

Modernization of Legal Procedures

Member States could propose that legal procedures be transferred to digital files that, for example, could be monitored by algorithms to find TE and IFFs. However, many Member States would not agree to this due to certain biases for traditional procedures.

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