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MAKING THE SUPER-RICH PAY THEIR FAIR SHARE

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Public Finance, Taxation & Black Money incl. Government Budgeting

Transparency seems to have become taboo in India. As the country remains mired in an economic slowdown, with evidence of falling employment and consumption, the government is persistent in its denial. Instead of actually addressing the problem, it seeks to suppress or manipulate official data to somehow provide a more optimistic picture. We saw this once again recently as the Union Budget was presented, based on numbers for revised estimates for the current year and Budget estimates for the coming year that the Finance Ministry itself knows are unlikely.

The opacity of data also extends to cross-border movement of funds generated through a range of activities, including tax evasion, misappropriation of state assets, laundering of the proceeds of crime, and bribery. Even here, India still has a lot to do, as confirmed by the recent publication of the Financial Secrecy Index by the Tax Justice Network, a U.K.-based financial advocacy group. On the surface, India has managed to reduce its contribution to global financial secrecy, with its rank falling from 32 on the 2018 index to 47 in 2020, but this is partly because the new edition of the index covers more countries than it did two years ago.

It is true that the government has adopted and supported a few transparency reforms, such as the automatic exchange of tax and financial information with other jurisdictions, like Switzerland. Thanks to that, for example, if an Indian citizen has an account with a Swiss bank, and has a balance over a certain threshold, this information will be sent to the Indian tax authorities automatically.

But stopping the financial haemorrhage and making multinationals and the super-rich pay their fair share of taxes requires much more. Capital flight out of India by Indian elites and foreigners alike has been undermining our country’s development for decades. An important part of these flows is the result of artificial profit shifting by multinational companies taking advantage of an outdated international tax system.

These multinationals may be making profits in India but can easily declare those profits in a low tax jurisdiction like Hong Kong and justify that transaction as a payment for the use of a patent. According to one estimate, this strategy represented a loss of $27.5 billion in 2014 for the Indian government, up from $142 million in 2000.

The government did create a beneficial ownership register — which would allow the identification of the beneficial owner of an asset regardless of whose name the title of the property is in — but the law is weak, since it exempts a lot of people at the discretion of the authorities. Also, this register is not accessible to the public.

That’s not all. Three years ago, the government took the paradoxical decision to set up onshore international financial services in the country. This is how the International Financial Services Centre in the Gujarat International Finance Tec-City (GIFT-City), Gandhinagar, emerged, modelled after offshore financial centres such as Hong Kong, Singapore, the City of London and Dubai. While this has not created much employment, it has led to growing possibilities for regulatory arbitrage by financial firms, with potentially very problematic consequences.

Meanwhile, the government keeps granting tax incentives on a discretionary basis, even though there is little evidence that these incentives attract investment. Instead, as shown recently in

International Monetary Fund research, factors such as quality of infrastructure, a healthy and skilled workforce, market access and political stability matter much more. The massive reduction in corporate tax rates has thus far not led to any increase in private investment — but it has meant a significant reduction in tax revenues, with devastating consequences. It translates into a lack of resources for education, healthcare, food and nutrition and infrastructure. India is already an outlier among similarly placed developing countries with its low tax-GDP ratio of 18%. The government budget is also highly dependent on indirect taxes like the Goods and Services Tax which are regressive and hit ordinary citizens harder.

It is now beyond obvious that India cannot revive its economy without increasing public spending, and so increasing its fiscal resources is essential. Among other measures, this requires urgent adoption of legislation and institutional reforms to end financial opacity — including, for example, opening the beneficial ownership register to the public and stopping the creation of onshore tax havens.

In addition, the Government of India must also assume a more vocal role in the international debate about how to make multinationals pay their fair share of taxes. This means continuing to appeal for a United Nations tax body, which is much more legitimate than the Organisation for Economic Co-operation and Development (OECD), the arena where tomorrow's global tax system is being decided. The OECD's proposals, published at the end of 2019, are neither ambitious nor fair enough, as the Independent Commission for the Reform of International Corporate Taxation (of which I am a member) explained in a recent report. If the organisation continues to remain deaf to the demands of developing countries, India must be prepared to go it alone, thinking unilaterally about how to make multinationals pay what they owe.

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To reassure Indian Muslims, the PM needs to state that the govt. will not conduct an exercise like NRC

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