

# BOONS AND BANES OF TAX HAVENS

YOU NEED TO KNOW THIS

## Did you know?

In 2012, it was estimated that black money worth ₹24.5 lakh crore is hidden away from Indian authorities in multiple Tax Havens. Economists believe that recovering this amount would give a significant boost to the Indian economy.

Despite enacting the Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015, a substantial amount of such money continues to remain outside the clutches of our economy. Some argue that an Indian Tax Haven might be a solution.

Although Tax Havens are of various types, with different legal and regulatory mechanisms, here is a basic understanding of how they work:



### What are Tax Havens?

Jurisdictions that impose little or no tax on the profits from transactions carried on there, or on persons resident there.



### Where are Tax Havens usually found?

Small areas with narrow scope for economy activity due to shortage of land and natural resources. Eg.: Singapore, Hong Kong, Switzerland, Mauritius, Cayman Islands, British Virgin Islands, Panama, Bahamas, etc.



### Who benefits from Tax Havens?

Multi-national corporates and High Net-worth Individuals benefit from Tax Havens by legally reducing their tax liability.



### When do people opt for Tax Havens?

When individuals or companies holding enormous wealth, intend to avoid paying taxes, and safeguard their wealth from tax authorities.



### How do Tax Havens work?

By enforcing laws, which impose low-tax or no-tax for individuals or companies based in that area.

## Indian Scenario:

Besides the prevalent Black Money issue, statistics show that only 1% of the Indian population pays income tax. In this context, a Tax Haven in India may -

### Boons

- ◆ Attract higher foreign direct investments and increase economic activity in non Tax Haven areas.
- ◆ Infuse more capital into the economy and strengthen the banking sector and financial markets.
- ◆ Facilitate economic growth and stability by reducing the cost of financing investments.

### Banes

- ◆ Diminish taxes collected by the State, thereby affecting social development.
- ◆ Reduce tax accountability of rich corporates and individuals and safeguard their ill-gotten wealth.
- ◆ Increase tax liability on crippling middle business which could eventually lead to their demise.



What is good for India?

## References

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