Executive summary

Over the last 10 years, governments have launched major initiatives to reduce international tax evasion. These efforts include the creation of a new form of international cooperation long deemed utopian – an automatic, multilateral exchange of bank information in force since 2017 and applied by more than 100 countries in 2023 – and a landmark international agreement on a global minimum tax for multinational corporations, endorsed by more than 140 countries and territories in 2021.

Yet despite the importance of these developments, little is known about the effects of these new policies. Is global tax evasion falling or rising? Are new issues emerging, and if so, what are they? These questions are of tremendous importance in a context of rising income and wealth inequality, high public debt in the post-Covid-19 context, and large government revenue needs for addressing climate change and for funding health care, education, and public infrastructure.

This report addresses these issues thanks to an unprecedented international research collaboration and major data improvements. Prepared by the staff of the EU Tax Observatory – a research laboratory created in 2021 with unique expertise on international tax issues – this report summarizes work conducted by more than 100 researchers all over the world, often in partnership with tax administrations. This work leverages the availability of new data on the activities of multinational companies (such as country-by-country reports) and the offshore wealth of households (from the automatic exchange of bank information) created by the policy initiatives of the last decade. This report is the first systematic attempt at taking stock of this informational big bang.

We should make it clear at the outset that we do not restrict this report to the study of tax evasion in a narrow sense of fraud. Nor do we cover all forms of evasion, far from it. Our focus is on the issues that have been the focus of international policymaking over the last decade, the challenges posed by globalization for the taxation of multinational companies and high-net-worth individuals. Some of the practices we cover are clearly illegal – such as failing to report income earned on offshore bank accounts. Others are in a legal grey zone between avoidance and evasion – such as shifting profit to shell companies with no economic substance. Others are clearly legal, such as moving abroad to benefit from special tax regimes designed to attract wealthy individuals. All, however, allow the economic actors who have most benefited from globalization to reduce their tax rates to even lower levels, reducing government revenue, and increasing inequality. What is at stake in all cases is the question of the social sustainability of globalization and of modern tax systems.

We uncover positive evolution worth celebrating, but also setbacks, and major issues that remain unaddressed.

- First, offshore tax evasion by wealthy individuals has shrunk. Thanks to the automatic exchange of bank information, **we estimate that offshore tax evasion has declined by a**

factor of about three over the last 10 years. This success shows that rapid progress can be made against tax evasion if there is the political will to do so.

- Second, **the global minimum tax of 15% on multinationals, which raised high hopes in 2021, has been dramatically weakened.** Initially expected to increase global corporate tax revenues by close to 10%, a growing list of loopholes has reduced its expected revenues by a factor of 2 (and by a factor of 3 relative to a comprehensive minimum tax of 20%).
- Third, tax evasion – including grey-zone evasion at the border of legality – is increasingly happening domestically. **Global billionaires have effective tax rates equivalent to 0% to 0.5% of their wealth**, due to the frequent use of shell companies to avoid income taxation. To date no serious attempt has been made to address this situation, which risks undermining the social acceptability of existing tax systems.

We make six proposals to address the issues identified in this report. A key proposal is to institute a global minimum tax on billionaires, equal to 2% of their wealth. We provide a first estimation of the revenue potential of this measure, showing that it would raise close to $250 billion (from less than 3,000 individuals) annually. A strengthened global minimum tax on multinational companies, free of loopholes, would raise an additional $250 billion per year. To give a sense of the magnitudes involved, recent studies estimate that developing countries need $500 billion annually in additional public revenue to address the challenges of climate change[1] – needs that could thus be fully addressed by the two main reforms we propose. All proposals, including potential objections, are thoroughly detailed in Chapter 5.

A key message of this report is that tax evasion is not a law of nature but a policy choice. As interconnected nations we can choose free-for-all policies that allow it to fester, or we can choose coordination to curb it. It is also possible to make major progress through unilateral action, should ambitious global agreement fail.

1. Six main new findings on the dynamic of global tax evasion and international tax competition

This report establishes six new findings about the dynamic of international tax evasion and tax competition. At the outset it is worth stressing that despite the data progress made over recent years, available data sources are still imperfect. Our conclusions are thus necessarily tentative and preliminary. There is a need for more and better public statistics on corporate profits, wealth, and the effective tax rates of the different socio-economic groups, including and especially at the very top of the distribution. Despite these limitations, six robust patterns already emerge.

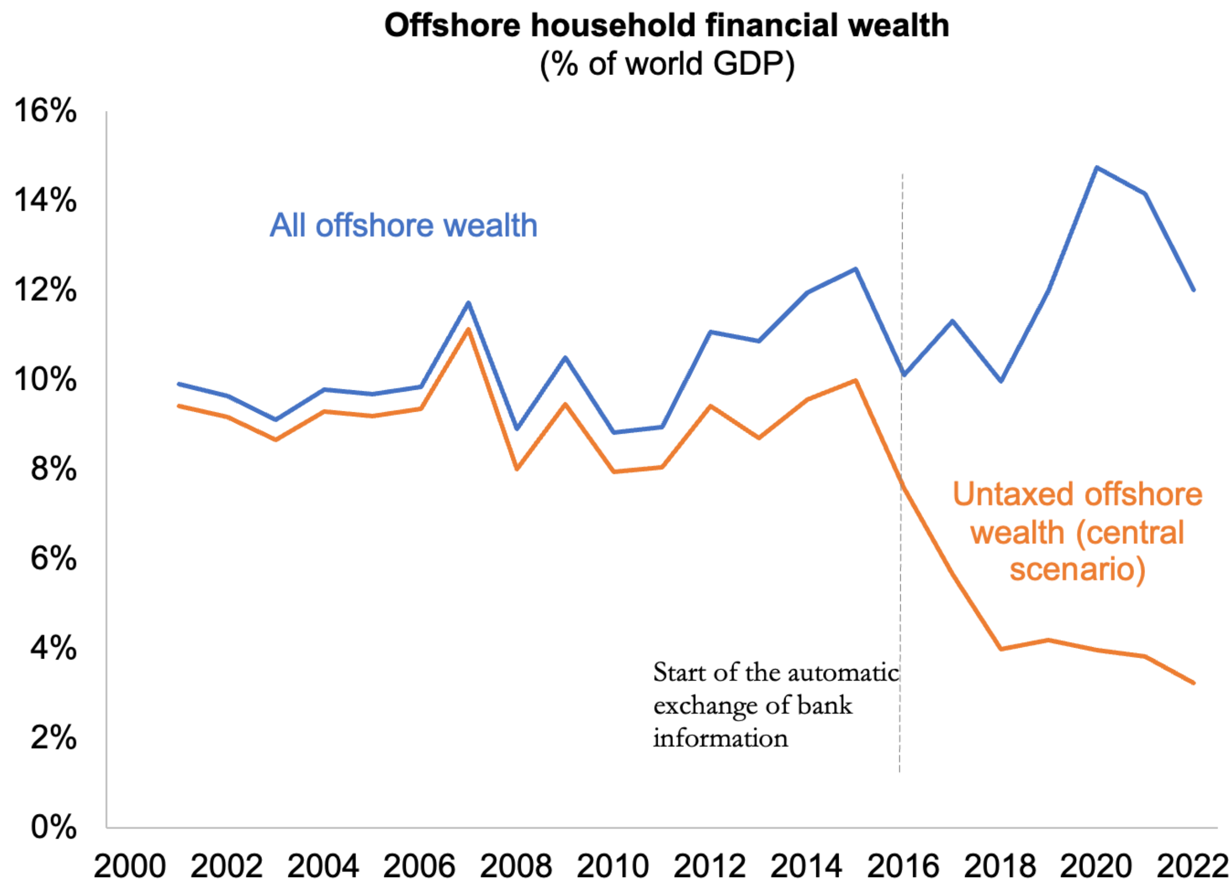
Finding #1: the automatic information exchange, a real breakthrough

Thanks to the automatic exchange of bank information, offshore tax evasion has declined by a factor of about three in less than 10 years. Before 2013, households owned the equivalent of

[1] See "Finance for climate action: Scaling up investment for climate and development", Report of the Independent High-Level Expert Group on Climate Finance, November 2022.

10% of world GDP in financial wealth in tax havens globally, the bulk of which was undeclared to tax authorities and belonged to high-net-worth individuals. Today there is still the equivalent of 10% of world GDP in offshore household financial wealth, but in our central scenario only about 25% of it evades taxation. This reduction in non-compliance is a major success that shows that rapid progress can be made against tax evasion if there is the political will to do so (Figure 1).

Figure 1: The success of the automatic exchange of bank information



Notes: This figure reports the evolution of global household offshore financial wealth (expressed as fraction of world GDP), and of untaxed offshore financial wealth in the central scenario detailed in chapter 1. In this scenario 27% of offshore financial wealth is untaxed in 2022, representing 3.2% of world GDP. Source: for global offshore financial wealth, Souleymane Faye, Sarah Godar, and Gabriel Zucman (2023), "Global Offshore Wealth 2001 – 2022", EU Tax Observatory working paper; for untaxed wealth: EU Tax Observatory computations; see chapter 1 for complete details.

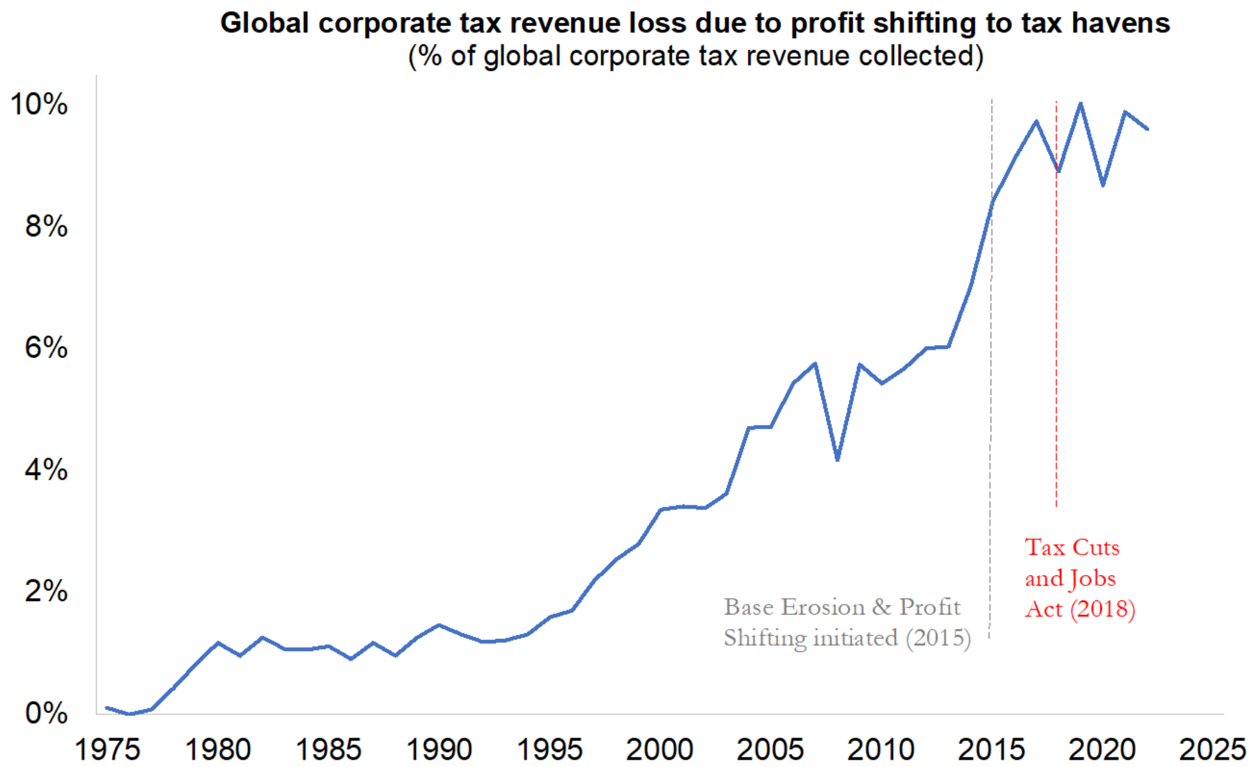
Despite this progress, some offshore tax evasion remains, due to two main issues. First, it remains possible to own financial assets that escape being reported on, whether it's due to non-compliance by offshore financial institutions or to limitations in the design of the automatic exchange of bank information. Many offshore financial institutions duly comply with their requirements, but others may fall short, for fear of losing their customer base and facing no real threat from foreign tax authorities. Second, not all assets are covered by the automatic exchange of bank information. Recent research highlights how some individuals who used to hide financial assets in offshore banks have exploited these loopholes by shifting holdings to non-covered assets, most importantly real estate.

Finding #2: A large amount of profit shifting to tax havens, with no discernable effect of policies so far

A persistently large amount of profits is shifted to tax havens: $1 trillion in 2022. This is the equivalent of 35% of all the profits booked by multinational companies outside of their headquarter country. The corporate tax revenue losses caused by this shifting are significant, the equivalent of nearly 10% of corporate tax revenues collected globally. U.S. multinationals are responsible for about 40% of global profit shifting, and Continental European countries appear to be the most affected by this evasion.

Despite ambitious policy initiatives, profit shifting shows little sign of abating. In 2015, the OECD launched the Base Erosion and Profit Shifting (BEPS) and in 2017, the United States introduced measures to reduce profit shifting by US multinational companies (while cutting its corporate tax rate from 35 to 21 percent and). Yet, 7 years after the start of the BEPS process and 5 years after the U.S. law, global profit shifting appears to have changed only marginally. The global loss of tax revenue due to this shifting appears to have stagnated at about 10% of corporate tax revenue collected (Figure 2). This is not to say that the policy initiatives of the last decade have had no effect: absent these policies, profit shifting may have been even higher today.

Figure 2: Profit shifting by multinational companies has exploded and remains high



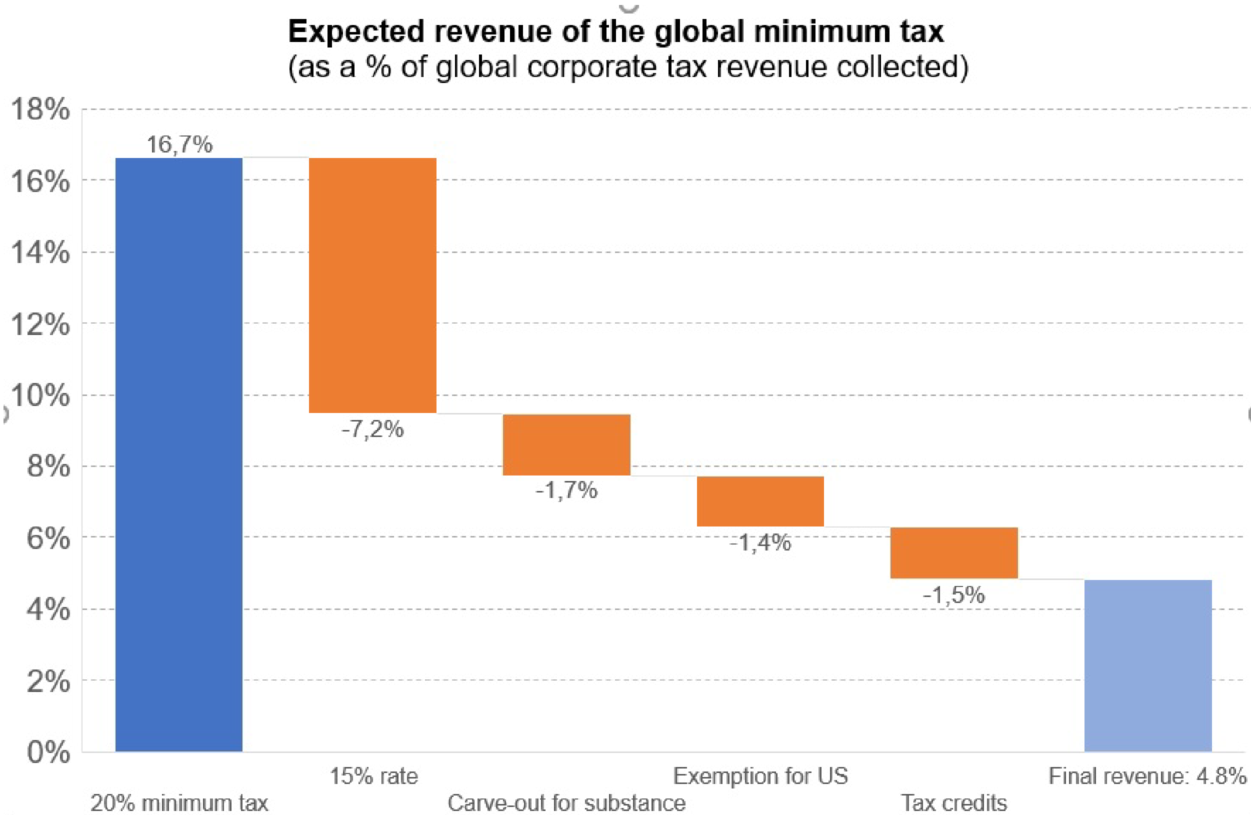
Notes: this figure reports the evolution of the global tax revenue loss caused by this shifting, expressed as a fraction of global corporate tax revenue collected. For reference we indicate the start of the Base Erosion and Profit Shifting process in 2015 and the Tax Cuts and Jobs Act in 2018. Source: Ludvig Wier and Gabriel Zucman (2023), "Global Profit Shifting 1975-2020", EU Tax Observatory working paper, updated to 2022 by the EU Tax Observatory; see chapter 2 for complete details.

Finding #3: The global minimum tax has been dramatically weakened

In 2021, more than 140 countries and territories agreed to implement a pioneering minimum tax of 15% on multinational profits. This is a landmark development: it is the first time that an international agreement puts a floor to how low certain taxes on profits can go. Previously, policymakers attempted to regulate the definition of the tax base, to address inconsistencies in the definition of profits across countries, to improve the allocation of profits internationally – but there was no agreement about tax *rates*, the key aspect of tax policy.

But since the political agreement of 2021, the global minimum has been dramatically weakened by a growing list of loopholes. The global minimum tax, as things stand, would generate only a fraction of the tax revenue that could be expected from it based on the principles laid out in 2021: less than 5% of global corporate income tax revenue as opposed to 9% with a 15 percent rate and no loopholes and more than 16% with a 20 percent tax rate (Figure 3). Even more worrying, the global minimum tax still allows for a race-to-the-bottom with corporate taxes (and may reinforce it) because it allows firms to keep effective tax rates below 15% as long as they have sufficient real activity in low-tax countries. This exemption – a carve-out for economic substance – provides incentives for multinational companies to move production to very low-tax countries – and in turn incentives for tax havens to keep providing rates below 15%.

Figure 3: The weakening of the global minimum tax



This figure reports the estimated revenue (for the year 2023) of a 20% minimum tax on the profits of multinational companies with no exemptions, and the effects of various provisions incorporated in the Pillar Two minimum tax of the OECD Two-Pillar framework: (i) rate of 15% instead of 20%; (ii) carve-out for economic substance (allowing firms to exclude 8% of assets and 10% of payroll from the base of the minimum tax in the first year), (iii) exemption of the domestic profits of US multinationals from the minimum tax (due to the non-participation of the United States and the suspension of the backstop measures allowing other countries to collect the taxes uncollected by the United States until at least 2026), and (iv) preferential treatment of refundable tax credits (which are not counted as negative taxes). A 20% minimum tax without loopholes would generate the equivalent of 16.7% of global corporate tax revenues; after the reduction of the rate to 15%, and the carve-out, US, and tax credit loopholes, revenues are reduced to about 4.8%, i.e., cut by a factor of three. Sources: EU Tax Observatory computations; see chapter 2 and Online Appendix for complete details.

Finding #4: New forms of tax competition are emerging with adverse effects on government revenue and inequality

New forms of aggressive tax competition are emerging that severely affect government revenues. Over the last 15 years many countries have introduced preferential tax regimes to attract specific socio-economic groups perceived as particularly mobile. From a single-country perspective, this strategy can enhance tax collection and boost domestic activity. But globally these policies are negative sum: taxpayers attracted by one country reduce the tax base by the same amount in another, and global tax revenue collection falls. Because the special regimes are primarily targeted to wealthy individuals, they reduce the progressivity of tax systems, fueling inequality. The tax-savings per beneficiary are high as are the fiscal costs for governments (Table 1).

Table 1: The proliferation of special tax regimes in the European Union

	Number of regimes	Fiscal cost (€ million)	Number of beneficiaries	Average tax reduction per beneficiary (€)
Foreign source income	10	5,141	102,378	64,553
Domestic income	15	2,031	151,384	15,415
Pensions	5	295	9,237	32,616
All	**30**	**7,467**	**262,999**	**28,392**

Notes: this table reports summary statistics for the 30 preferential tax regimes studied in chapter 3. “Foreign-source income” regimes (offered by Greece, France, Ireland, Italy, Luxembourg, Malta, Portugal, Spain, Switzerland, and the UK) offer preferential taxation of worldwide income or of foreign income while applying standard taxation to income earned domestically. “Domestic income” regimes (offered by Austria, Belgium, Cyprus, Denmark, Finland, France, Ireland, Italy, Luxembourg, the Netherlands, Sweden) offer reduced rates when performing a specific economic activity in the host country; most of these regimes target high-income workers or specific professions such as scientists, artists, or athletes. “Pension” regimes (offered in Cyprus, Greece, Italy, Malta, and Portugal) target retirees: they offer lower taxation of foreign-source pension income, with the objective of attracting consumers with higher average purchasing power than the resident population. Sources: EU Tax Observatory computations, see chapter 3.

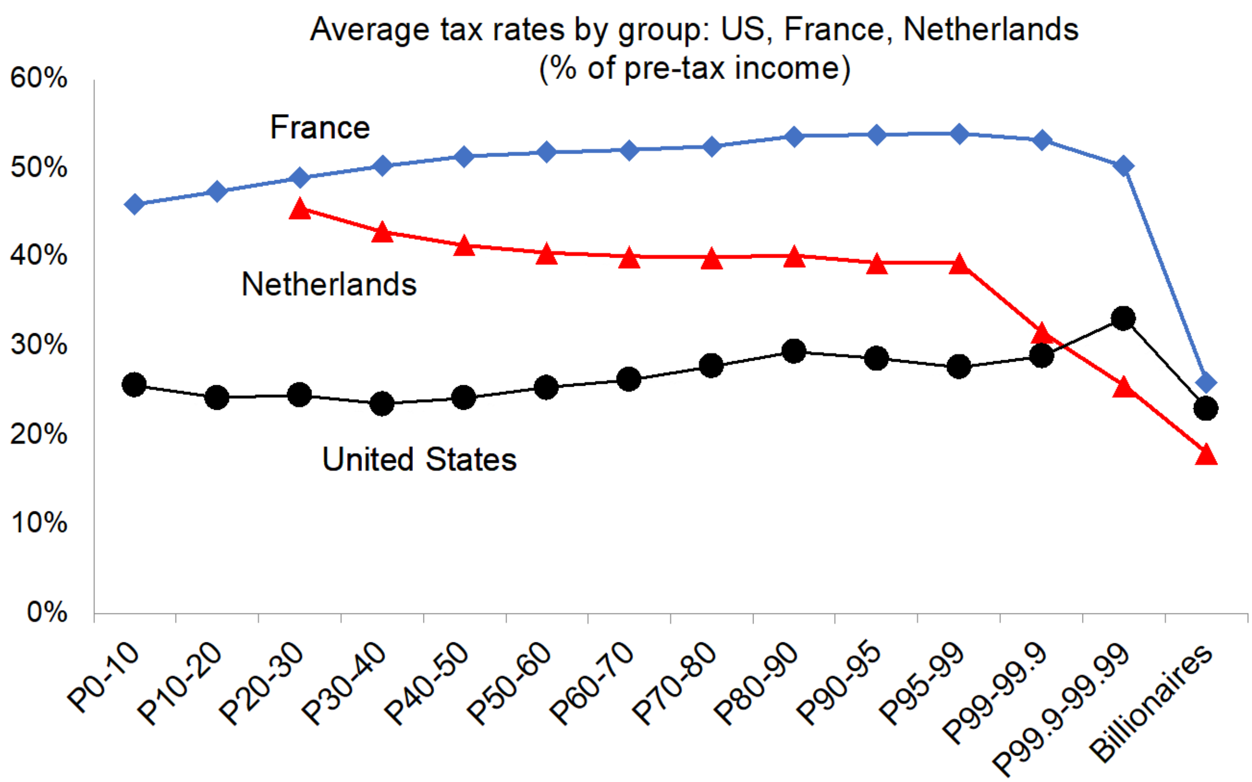
The ongoing subsidies race for green-energy producers may more than offset the revenue gains from the global minimum corporate tax. Triggered by the multiplication of Chinese state aids and the Inflation Reduction Act in the United States, governments around the world are increasingly offering subsidies to producers of green energy. This race is more desirable than standard tax competition (reducing the tax rate for all corporate profits) because it has a crucial positive-sum aspect: it has the potential to accelerate the transition to a zero-carbon global economy. But it also raises some of the same issues as standard tax competition. It depletes government revenues, and if not accompanied by egalitarian measures, it risks increasing inequality by boosting the after-tax profits of shareholders, who tend to be towards the top of the income distribution.

Finding #5: Global billionaires benefit from very low effective tax rates

Pioneering research in partnership with tax administrations shows that global billionaires have very low personal effective tax rates, of between 0% and 0.5% of their wealth. Personal taxes include all individual income taxes and wealth taxes when they exist. In a country like the

United States the effective tax rate of billionaires appears closer to 0.5%, while in a country like France it is closer to 0%. When expressed as a fraction of income and considering all taxes paid at all levels of government (including corporate taxes, consumption taxes, payroll taxes, etc.), the effective tax rates of billionaires appear significantly lower than those of all other groups of the population (Figure 4).

Figure 4: the tax deficit of billionaires



Notes: This figure reports estimates of effective tax rates by pre-tax income groups and for billionaires in France, the Netherlands, and the United States. These estimates include all taxes paid at all levels of government and are expressed as a percent of pre-tax income. P0-10 denotes the 10% of adults at the bottom of the pre-tax income distribution, P10-20 the next decile, etc. Pre-tax income includes all national income (measured following standard national account definitions) before government taxes and transfers and after the operation of the pension system. National income excludes unrealized capital gains but includes the retained earnings of companies. Sources: see chapter 4.

A key reason why billionaires tend to have low effective tax rates is that in many (though not all) countries they can use personal wealth-holding companies to avoid the income tax. In these countries, using a holding company allows wealthy owners of publicly listed corporations that distribute dividends to avoid paying taxes on these dividends. These holding companies are in a grey zone between avoidance and evasion. To the extent that they are created with the purpose of avoiding the income tax, they can legitimately be seen as closer to evasion. Some countries like the United States do not tolerate this practice and automatically subject dividends earned through personal holding companies to the income tax.

Finding #6: A global minimum tax on billionaires would raise large sums

A minimum wealth tax on billionaires equal to 2% of their wealth would address this evasion and generate nearly $250 billion from less than 3,000 individuals. To our knowledge, it is the first time that such a proposal is detailed and quantified – indeed it was difficult to do so before absent data on the amount of tax currently paid by billionaires. The number of taxpayers affected by our proposal is very small, and the tax rate for these taxpayers (2%) would still be very modest – for comparison, the wealth of global billionaires has grown at 7% a year annually on average since 1995 (net of inflation). Even so, the revenue potential is large, due to the concentration of wealth at the top of the distribution and the low current tax rates of billionaires (Table 2). Implementation issues are discussed in detail in chapter 5.

Table 2:
Revenue potential of a minimum tax of 2% on the wealth of billionaires in 2023 ($ billion)

Region	Number of billionaires	Total wealth ($B)	Personal tax currently paid	Revenue of 2% minimum wealth tax ($B)
Europe	499	2,418	6.0	42.3
North America	835	4,822	24.1	72.3
East Asia	838	3,446	8.6	60.3
South & South-East Asia	260	991	2.5	17.3
Latin America	105	419	1.0	7.3
Sub-Saharan Africa	11	52	0.1	0.9
Middle-East & North Africa	75	182	0.5	3.2
Russia & Central Asia	133	586	1.5	10.3
Total	**2,756**	**12,916**	**44**	**214**

Notes: The table reports estimates of the revenue potential of a minimum tax on world billionaires equal to 2% of their wealth. The minimum tax is computed as 2% of their wealth, minus the amount of personal tax (income tax and any wealth tax if it exists) they already pay. For instance, the 499 European billionaires are estimated to have $2,418 billion in wealth. A straight 2% wealth tax would generate 2% of $2,418 billion which is $48.4 billion. After subtracting the amount of personal tax they currently pay (estimated to be equal to around $6.0 billion), the revenue of the 2% minimum wealth tax is equal to $42.3 billion for European billionaires. Source: EU Tax Observatory computations. The wealth of billionaires is taken from the *World Inequality Report 2022*, table 7.3. We assume that billionaire wealth in 2023 is equal to billionaire wealth in 2021, hence revenue estimates should be seen as conservative.

2. Six recommendations to reconcile globalization with tax justice

This report makes six recommendations to address the issues identified above. The common theme of these recommendations is that they focus on reducing the tax deficit of multinational companies and wealthy individuals. The tax deficits are the difference between what these actors pay in taxes today and what they would pay if minimum taxes were well enforced. Reducing the tax deficits of multinationals and wealthy individuals can not only generate large amounts of government revenue, but also contribute to increasing the social sustainability of globalization. Our proposals are the following:

1. Reform the international agreement on minimum corporate taxation to implement a rate of 25% and remove the loophole in it that foster tax competition.
2. Introduce a new global minimum tax for the world's billionaires equal to 2% of their wealth.
3. Institute mechanisms to tax wealthy people who have been long-term residents in a country and choose to move to a low-tax country.
4. Implement unilateral measures to collect some of the tax deficits of multinational companies and billionaires in case global agreements on these issues fail.
5. Move towards the creation of a Global Asset Registry to better fight tax evasion.
6. Strengthen the application of economic substance and anti-abuse rules.

Some of these policies build on existing international frameworks and are implementable in the short or medium term; other take a longer-horizon perspective. The global minimum corporate tax of 15%, despite its limitations, shows that international agreement on minimum tax rates – long deemed utopian – are possible. The same approach could quickly be applied to billionaires. We also consider options that are more ambitious and will likely require more time, as well as options that can be implemented by countries unilaterally but may require some evolution in international treaties.

International cooperation is always preferable, but truly global agreements should be the end point rather than the starting point. Given the interest that some economic actors have in preserving the status quo, insisting on unanimity from the get-go severely limits the realm of possibilities. Instead, recent history shows how unilateral action (or multilateral action by a leading group of countries) can pave the way for eventually nearly global agreements. Unilateral action, if it is well-founded economically, can accelerate rather than impede global cooperation. We provide a detailed discussion of the practicality and revenue potential of unilateral measures to tax high-net-worth individuals and multinationals. **Contrary to a widely held view, ambitious measures are possible even absent international coordination.**