

TAX HAVENS: The response of the international community



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Presentation by
Jeffrey Owens
Director
Centre for Tax Policy and Administration
OECD

Integrated financial markets pose new global challenges

- New opportunities for illicit activities:
 - Money laundering
 - Misuse of corporate vehicles
 - Terrorist financing
 - Tax abuse
 - Threats to stability of financial system

All activities which thrive in climate of secrecy, non-transparency and non-cooperation

The response of governments

- Launching the FATF
- Creating the FSF
- Creating the OECD Forum on Harmful Tax Practices
- Parallel tracks but common goals:
 - To improve transparency
 - To raise governance standards in financial centers
 - To encourage cooperation to counter abuse

How big is the offshore issue?

- \$5-7 trillion held offshore
- 360,000 Shell Companies in the BVI
- \$9.4 billion from BVI to China
- Brazil reports a deficit of \$4 billion trade with Caribbean Islands
- Singapore now 3rd biggest private wealth centre after Luxemburg and Switzerland
- Caymans 5th largest deposit banking center in the world

What does OECD mean by a tax haven

- Jurisdictions characterized by:
 - Lack of transparency
 - Lack of effective exchange of information
 - In a word: excessive secrecy
- So a low tax jurisdiction is not necessarily a tax haven
- OECD consistently advocates benefits of low rate/broad base tax regimes

Much money held offshore is there legally

OFCs may:

- Offer legitimate tax planning opportunities
- Provide a neutral regulatory environment for residents of other countries to do business e.g. collective investment funds; captive insurance
- Be used for non-commercial reasons

Yet revenue implications of the illegitimate use of tax havens can be serious

- Ireland collects almost €900 million from Irish residents with offshore Channel Island accounts
- Italian tax amnesty results in €84 billion being repatriated
- Senate Finance Committee quotes estimates of \$40-70 billion lost to tax havens
- UK expects to recover £1.9 billion from its recent clampdown on offshore evasion

The reality is we don't know exactly, but sums are large.

The broader policy implications

- Undermines the fairness and integrity of our tax system
- Tax evasion by some restricts the ability of governments to lower tax rates for all
- Distorts financial and capital flows
- Undermines national sovereignty

OECD objectives

- What does the OECD seek?
 - improved transparency
 - improved exchange of information
 - a co-operative approach

- What is not sought?
 - harmonization or setting minimum tax rates
 - impinging on national fiscal sovereignty
 - an unfair competitive advantage for OECD financial centers

OECD approach

Recognizes:

- Interest of government in protecting integrity of tax system and confidentiality of taxpayer information
- Interest of business community in avoiding excessive burden
- Countries' right to tailor their own tax systems to their own needs
- The need to move towards a level playing field and mutual benefits

Transparency

- Standard developed with co-operative offshore financial centers
- Key elements
 - reliable books and records
 - beneficial ownership information
 - access to bank information
- Transparency unlikely to be a significant concern for bona fide business

Key principles in model agreement on exchange of information

- On request only
- Covers civil and criminal tax matters
- Requests cannot be rejected on grounds of dual criminality requirement or absence of domestic tax interest
- Parties must have power to obtain bank and ownership information
- Information must be ‘foreseeably relevant’
- No fishing expeditions
- Protection of taxpayer confidentiality

Almost no compliance burden on business

State of play : tax haven work

Only 5 offshore jurisdictions now listed as un-cooperative tax havens:

Andorra

Monaco

Liechtenstein

Marshall Islands

Liberia

State of play: offshore financial centers

33 offshore jurisdictions committed to transparency and effective exchange of information:

Aruba
Antigua
Anguilla
Bahamas
Bahrain
Belize
Bermuda
British V.I.
Cayman Is.
Cooks Is.
Cyprus

Dominica
Guernsey
Grenada
Gibraltar
Isle of Man
Jersey
Malta
Mauritius
Montserrat
Neth. Antilles
Niue

Nauru
Panama
Samoa
San Marino
Seychelles
St. Kitts & Nevis
St. Vincent
St. Lucia
Turks & Caicos
US Virgin Is.
Vanuatu

Fourth Global Forum held in Melbourne:

Andorra; Argentina; Austria; Barbados; China; Hong Kong; Liberia; Macao; Malaysia; Monaco; Russia; Singapore; South Africa; Switzerland; & UAE enter the dialogue

With Argentina; China; Hong Kong; Macao; U.A.E.; Russia; South Africa endorsing the transparency and effective EOI principles

Global Forum process now held up
as « model » for other initiatives

State of Play

- Survey of 82 financial centers on transparency and EOI practices issued in May:
 - vast majority have mechanisms for EOI on criminal and civil tax matters
 - only a very small minority require a domestic tax interest
 - the majority can get access to bank information for criminal and civil tax matters
 - vast majority have due diligence requirements

Survey confirms progress is being made but more action is required

From principles to implementation

- Bilateral agreements are key implementation tool
- Agreements which benefit both parties
- US has 13 TIEA's, the Netherlands and Australia have one each
- Over 40 negotiations underway

Is there a future for tax havens?



Not as concealment
centers



Yes, as service
centers

