TAX HAVENS: The response of the international community



International Tax Policy Forum/ American Enterprise Institute Conference

December 11, 2006

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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?

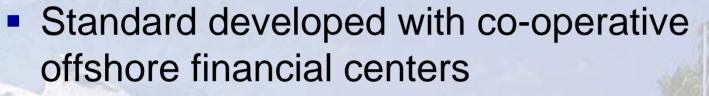
- harmonization or setting minimum tax rates
- impinging on national fiscal sovereignty
- an unfair competitive advantage for OECD financial centers

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



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

Liechtenstein

Monaco

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

OECD 🕊 🔵

State of play

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 inititatives

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