

Paradise lost: The imminent fall of tax havens

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Last update: 19 June 2018



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With the latest slew of financial scandals revealed in the Paradise Papers, people may think it is business as usual for tax avoiders and evaders. Not so, said OECD Secretary-General Angel Gurría, who told the press that these tax practices are “a legacy that is fast being dismantled.”

“It all started 10 years ago in February 2008 with the Liechtenstein leaks,” says OECD’s tax chief Pascal Saint-Amans. “Because of that and the financial crisis we were able to draw political attention to our work on transparency and cracking down on tax avoidance addressed through the Base Erosion and Profit Shifting Project (BEPS).”

The first thing the OECD did, in 2009, was focus on transparency, Mr Saint-Amans says. The outcome of that was to marshal the countries and jurisdictions who are members of the Global Forum on Transparency and Exchange of Information for Tax Purposes (which has 147 members) into consenting to Exchange of Information on Request. This meant that the tax authorities in Mexico, for

example, could request information on your bank account in Switzerland and obtain it. “But,” says Mr Saint-Amans, “they had to find you first.” Tax authorities had to know where a person was operating to know which country to request information from.


Now this system is being complemented by a mechanism that allows for automatic exchange of information (AEOI). As many as 102 countries and jurisdictions have publicly committed to implementing automatic exchange of information, with 49 having started exchanges in September 2017 and a further 53 taking up exchanges in September 2018. From now on, if you have a bank account in another country, this financial information will be reported automatically and annually to your country of residence. You may be able to place your money where you like, but will no longer be able to “hide” it, and certainly not in tax havens. Even before automatic exchanges were activated, the mere threat of them has recovered significant tax revenue: more than 500,000 taxpayers have disclosed offshore assets over the past eight years with close to €85 billion identified as a result of voluntary compliance mechanisms and offshore investigations.

While the automatic exchange of information tackles the problem of secret bank accounts belonging to individuals, the cross-border shifting of taxable profits by multinational corporations to lower or eliminate taxation requires other solutions. This is where the BEPS project comes in, comprising 15 measures to tackle tax avoidance.

The Inclusive Framework on BEPS (which groups 106 members) is in charge of implementing the BEPS measures, articulated around four minimum standards that are closely monitored, with jurisdictions assessing each other’s implementation through a peer review process. The four key elements of the BEPS Project address harmful tax practices, treaty abuse, country-by-country reporting and dispute resolution mechanisms, two of which form part of the “BEPS multilateral instrument”. Also known as the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent BEPS, it was signed in June 2017 and now covers 71 countries. Mr Saint-Amans notes that it will modify most of the existing 3,500 bilateral treaties once it is ratified domestically, a process that is now under way. This will close loopholes in thousands of tax treaties worldwide, thus reinforcing them against abuse while providing better certainty for both tax administrators and taxpayers.

Revenue losses from BEPS are conservatively estimated at US\$100-240 billion annually, or the equivalent of 4-10% of global corporate income tax revenues. As state pension reserves, tax credits for education and other such public services are being jeopardised by the prospect of tax shortfalls in almost every country in the world, recouping some of this money will bring relief, and more importantly, fairness to taxpayers and citizens.

These leaks have once again shone a light on the role that intermediaries, such as certain corporate and trust service providers, play in promoting aggressive tax schemes. Countries must continue to co-operate on tax issues in order to close loopholes and tackle abusive tax situations. With the OECD's work on BEPS and exchange of information we may be finally saying good-bye to lost taxes. And for tax dodgers, lost paradises, too.

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References

Read about the Inclusive Framework on BEPS www.oecd.org/tax/beps/beps-about.htm

Read more about BEPS www.oecd.org/tax/beps/beps-actions.htm

Read about the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent BEPS <http://oe.cd/mli>

Global tax and transparency: We have the tools, now we must make them work <http://dx.doi.org/10.1787/51035059-en>