

## TAX HAVENS: The response of the international community



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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

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## 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

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## 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

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## 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

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## 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

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## 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.

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## 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

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## 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

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## 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

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## 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

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## 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

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## State of play : tax haven work

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

Andorra	Monaco
Liechtenstein	Marshall Islands
Liberia	

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## State of play: offshore financial centers

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

Aruba	Dominica	Nauru
Antigua	Guernsey	Panama
Anguilla	Grenada	Samoa
Bahamas	Gibraltar	San Marino
Bahrain	Isle of Man	Seychelles
Belize	Jersey	St. Kitts & Nevis
Bermuda	Malta	St. Vincent
British V.I.	Mauritius	St. Lucia
Cayman Is.	Montserrat	Turks & Caicos
Cooks Is.	Neth. Antilles	US Virgin Is.
Cyprus	Niue	Vanuatu

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## 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 initiatives

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## 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

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## 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

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## Is there a future for tax havens?

Not as  
concealment  
centers

Yes, as service  
centers