

Tax Havens and Capital Flight: How to Plug the Leaks

Dónal Godfrey
OECD's Centre for Tax Policy and
Administration
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SUMMARY

- What is a tax haven?
- What are international bodies trying to achieve?
- What are OECD's objectives?
- What is meant by transparency & exchange of information?
- Where does OECD stand in dialogue with Offshore Financial Centres (OFCs)?

What is a tax haven?

- Jurisdictions characterised by:
 - No or nominal taxes (gateway only)
 - Lack of exchange of information
 - Lack of transparency
- Low tax alone does not make a country a tax haven

International Initiatives

- International Bodies

- FATF

- FSF

- EU

- IMF

- OECD

- Common Factors

- Transparency

- International Co-operation

International Initiatives

- Why focus on OFCs ?
 - Easier to access now
 - Numbers are growing
 - May have looser regulation and facilitate tax evasion because of lack of transparency
- Not all OFCs are small island states

How big is the Problem ?

- Italy: Amnesty uncovers €84 billion held abroad
- US: Tax haven abuses cost \$ 40 - \$70 billion annually
- Ireland: Recovers € 840 million in tax and penalties from 15,000 offshore account holders.
- UK: Bank ordered to reveal the identities of hundreds of thousands of offshore account holders

OECD Initiative

- What does OECD seek?
 - Improved transparency
 - Improved exchange of information (EOI)
 - A co-operative approach
 - A level playing field

OECD Objectives

- Why these objectives?
 - So that all countries can enforce their own tax laws
 - Evasion by some restricts governments ability to lower taxes for all and reduces funds for development
 - Developing countries may be particularly hard hit

Standards - Transparency

Key elements

- Reliable books and records
- Availability of ownership information
- Access to bank information for tax purposes

Standards-Exchange of Information

- Prerequisites

- Access to information for tax purposes
- Legal basis to exchange information e.g. Tax Information Exchange Agreements (TIEAs)
- Adequate resources and procedures to process requests

STANDARDS

- Standards reflected in
 - Model Agreement on exchange of information
 - Summary contained in 2006 Assessment by Global Forum on Taxation (page 14)
- Standards have broad support e.g.
 - EU
 - G7
 - G20 (includes Brazil, China, India and South Africa)

Global Forum

- What is it & Who is in it?
 - Multilateral framework including OECD and non OECD countries
 - Around 60 participating partners including all major OFCs e.g. BVI, Cayman Islands, Jersey
 - 33 OFCs have committed to transparency and exchange of information

Global Forum

- What it does?
 - Develops standards
 - Reviews countries laws and administrative frameworks in relation to transparency and exchange of information (2006 Report)
 - Seeks to achieve level playing field

Global Forum

- 2006 Assessment
 - First assessment by Global Forum of convergence of country practices
 - Covers 82 countries, including all main financial centres in the world
 - Confirms progress on transparency by OFCs but more action is required with respect to exchange of information

2006 Global Forum Assessment

- What happens next?
 - Regular updates of assessments
 - Policy Reviews
 - Conclusion of TIEA negotiations

Next Step for OFCs

- Exchange Information - why?
 - International pressure will continue
 - Protect reputation in financial and commercial matters
 - Protect economic interests
 - Mutual benefits for EOI agreements