

**LEADING GROUP ON
SOLIDARITY LEVIES**

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COMMENTS ON TAX HAVENS

A VIEW FROM CHILE

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- Taxes are the basis on which countries finance social spending.
- Developing and Emerging economies have weaker and more volatile tax bases.
- They also have limited access to counter cyclical external financing

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- The problem of tax evasion and tax elusion is not small and affects developed and developing countries.
- The problem is more important for LDCs due to the limited tax base.
- Oxfam estimates that LDCs lose about US\$50 billion through capital flight and tax havens.
- The U.S. IRS has estimated that much of the tax shortfall of US\$300 billion a year is generated through tax havens.
- Some US\$ 6 trillion are said to be deposited in tax havens. This compares with total transborder transactions in 2005 to be about US 6 trillion (McKinsey).
- The Caribbean and Channel Islands jurisdictions represent an estimated 22% of the total.

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- Reducing tax evasion is an international “good” in the sense that:
 - tax evasion reduces the progresiveness of the tax system
 - Non-mobile tax payers are burdened with higher taxes than they would otherwise

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- The OECD has established four criteria to define a “harmful tax practice”:
 - Low or zero tax rates
 - Separate tax systems for residents and non-residents
 - Lack of transparency regarding ownership and transactions
 - Unwillingness to share information
- Seven of 35 jurisdictions were declared “uncooperative”
- Non OECD countries have greater difficulties in obtaining collaboration.
- Collective action is required

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- Compensation to tax havens for lost revenues is possible.
- Switzerland has such an arrangement with the European Union
- It would be a Pareto improvement in the sense that “home countries” are better off without deteriorating the position of tax havens

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- “No country can successfully ... counter tax evasion if others facilitate its commission.”
(Richard Hecklinger, OECD)
- The subject of tax havens has to be dealt with in a multilateral context, as agreed in the Monterrey Consensus.
- Strengthening the UN Tax Committee by making it an intergovernmental body was an important step in the right direction.

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- A multilateral approach should consider at least four elements:
 - Establish a level playing field of rules and penalties (with due regard for conditions in LDCs)
 - Decisions should be adopted in a universal forum
 - Balance between competing considerations should be observed (privacy v tax authorities)
 - Regulations should balance cost/benefits

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- Next steps. There are a number of possibilities in this area such as:
 - adopting FATF/GAFI standards for financial system operations
 - introduction of minimum taxes on transnational payments of interest and dividends (e.g., Chile)
 - improving accounting information
 - Adoption of certain proposed conventions (e.g., Code of Conduct on Combating Capital Flight and Tax Evasion and Avoidance).

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THANK YOU