

Research Report

**Economic and Financial**

**Affairs Council**

The Question of The International Tax Havens



**Background Information**

A tax haven refers to a location with exceptionally low tax rates for non-domiciled investors. Tax havens are often viewed negatively for political reasons. A proportion of tax havens disclose zero taxation (tax neutrality), whilst modern corporate tax havens reject any association with such tax rates, instead implementing non-zero headline tax rates but with use of base erosion and profit shifting (BEPS) to achieve effective tax rates close to zero, impacting global tax revenues. Over 15% of countries are considered to have some form of tax haven, with financial services providing prosperity to offshore financial centres (OFCs) often leading to an overly inflated GDP per capita due to accounting practices. Previous efforts to combat tax havens included tax transparency and data sharing. However, the rise of OEDC compliant corporate tax havens using BEPS tools have resulted in rising criticism, exposing the gap between the public perception of tax havens as tropical islands and the reality of modern corporate tax avoidance. This resulted higher tax jurisdictions, causing the US and numerous EU states to leave the OECD BEPS project in 2017 and 2018—introducing anti-BEPS tax measures to increase taxes paid by corporations, adopting hybrid tax systems, and proposing digital services tax.

**Issues**

The use of tax havens reduces the total tax revenue in some countries. This is because capital held in tax havens leaves tax bases—this is estimated to be between $7 - $10 trillion.

Tax havens can have substantial impacts on LEDC’s, as less tax revenue is taken in, leading to a reduction in public and social services and the provision of essential infrastructure. This in tern may have negative implications on economic growth. This leads to inequality between Member States: by allowing wealthy corporations to shield their profits, those in LEDC’s suffer. Additionally, the lack of transparency by firms facilitates money laundering, tax evasion, and illicit financial flows.

**Countries Involved**

The Bahamas, USA, UAE, British Virgin Islands, Switzerland, Luxemburg, Singapore, and the Netherlands, as well as any Member State facing accusations of being a tax haven or facing negative economic effects as a result of tax havens.

**Relevant Treaties and Organisations**

**The Common Reporting Standard (CRS)** is an international standard for the automatic exchange of financial account information between tax authorities, facilitating the sharing of financial data among participating countries to combat tax evasion.

**Base Erosion and Profit Shifting (BEPS)** aims to address tax avoidance strategies commonly used by trans-national corporations. BEPS provides recommendations, including but not limited to practices for countries to prevent profit shifting to tax havens.

**The Financial Action Task Force (FATF)** addresses tax evasion and financial secrecy, in addition to money laundering and financing terrorism.

**The United Nations Model Double Taxation Convention** aids developing countries in negotiating tax treaties with other Member States and promotes fair and equitable taxation practices.

**The Global Forum on Transparency and Exchange of Information for Tax Purposes** reviews the implementation of international standards for exchange of tax information between Member States, as well as compliance with the standards of transparency and exchange of information.

**European Union (EU) Initiatives** including the Anti-Tax Avoidance Directive (ATAD) and the Automatic Exchange of Information (AEOI) under the Common Reporting Standard have been introduced in an effort to reduce tax evasion.

**Useful Links:**

<https://www.wsj.com/articles/corporations-push-profits-into-tax-havens-as-countries-struggle-in-pursuit-study-says-1528634659>

<https://www.imf.org/en/Publications/fandd/issues/2019/09/tackling-global-tax-havens-shaxon>

<https://www.bloomberg.com/opinion/articles/2017-04-11/tax-havens-can-be-surprisingly-close-to-home>

<https://www.oecd.org/tax/beps/background-brief-inclusive-framework-for-beps-implementation.pdf>

<https://www.weforum.org/agenda/2020/02/how-do-corporate-tax-havens-work/>

<https://www.theguardian.com/commentisfree/2017/nov/08/tax-havens-dodging-theft-multinationals-avoiding-tax>