

Tax Havens, Transparency, and the G8

Written by Peter Clegg

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PETER CLEGG, JUN 27 2013

In recent months a number of groups have been vocal in their criticisms of tax havens, particularly those located in the Caribbean. In May, for example, Action Aid published a report – How Tax Havens Plunder the Poor – which criticised the role of tax havens in siphoning off tax revenue from the poorest countries of the world. While, the Tax Justice Network estimates that the concealment in tax havens of financial assets alone may constitute a loss to developing countries' public revenues of some US\$120-160 billion a year.

The criticism of tax havens and their use has also been a big issue in Europe and the US. Companies such as Barclays, Vodafone, and Amazon have been attacked for using offshore subsidiaries to legally reduce their corporate tax bills. Several media outlets have set aside significant space to consider the issue. For example, *The Guardian* along with the Washington-based International Consortium of Investigative Journalists (ICIJ) published details of thousands of clients, many with secretive holdings, in the British Virgin Islands (BVI) and elsewhere.

Buffeted by public disapproval, under pressure from NGOs, and with the global economy remaining sluggish, many politicians have spoken openly about the tax base of their countries being eroded by wealthy individuals and multinational companies who are using tax havens to reduce their levels of taxation below acceptable levels.

Since the turn of the year UK Prime Minister David Cameron has placed great emphasis on finding ways to deal with tax avoidance and offshore secrecy. For example, in late April he sent a letter to the President of the European Council of Ministers, Herman Van Rompuy, stating his intention to bring the world's leading economies together to deal with tax evasion and fraud. More recently in May, Cameron wrote to the leaders of the UK's Overseas Territories and Crown Dependencies, in an attempt to show he was getting the UK's house in order.

In the letter Cameron identified two key issues: tax information exchange and beneficial ownership. He stated: "Dealing with tax evasion is not just about exchanging information. It is also about improving the quality and accuracy of that information. Put simply, that means we need to know who really owns and controls each and every company". In other words, the true owners of any offshore vehicle should be known and details recorded on properly resourced and centrally managed registries.

At a meeting on June 15 in London, the Overseas Territories and Crown Dependencies agreed to sign the OECD's Convention on Mutual Administrative Assistance in Tax Matters. The Convention provides for all possible forms of administrative cooperation between states in the assessment and collection of taxes. This cooperation ranges from exchange of information, including automatic exchanges, to the recovery of foreign tax claims.

It was also agreed that the Overseas Territories and Crown Dependencies should produce national action plans for the creation of company registries. However, it is not clear how quickly the registries will be established and where the financing will come from to create the highly sophisticated systems that are required.

Three days later at the G8 meeting, a 10-point "Action Plan" was agreed, including that the automatic sharing of tax information should take place and companies should report on the profits they make and the taxes they pay in each country where they operate. However, some of the details were vague, and some important proposals suggested by Cameron were not adopted. In particular:

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- There was only lukewarm support to create beneficial company registries, and no other G8 country supported the UK's call for the registries to be made public and therefore more accessible and transparent.
- Russia and Germany were unwilling to publish national action plans to combat tax evasion.
- There was no agreement to incorporate developing countries into the scheme to automatically exchange tax information.

The Caribbean Overseas Territories, who strongly defend the probity of their offshore financial industries, have been taken aback by the Cameron's stance on their tax haven status. They had already, with some reluctance, agreed to the automatic exchange of information bilaterally with the UK and multilaterally with the UK, France, Germany, Italy and Spain. The Territories are concerned that the changes of beneficial ownership – particularly if not all tax havens are included – will seriously undermine their economic viability.

The Territories' offshore financial services sector is extremely important in terms of GDP, employment and government revenue. For example, 60% of the BVI's revenue comes from the financial sector. Through this model, the Territories have developed very successful economies. However, they are concerned that little thought has been given to the economic effects of reform. If their offshore sectors shrink what are the alternatives? Anguilla is looking at fishing and the Cayman Islands is considering medical tourism, but neither would be adequate replacements. Any economic weakening in the Territories would also have implications for the UK. At the present time, only Montserrat receives budgetary support from the UK, but this might change if the offshore sector shrinks. The UK, however, would be reluctant to provide significant additional funds.

So, the Territories hope – and there is some justification for this view – that with the UK's reluctance to financially support them; the UK's commitment in its recent White Paper on the Territories that it “will continue to represent the interests of those Territories which meet [international standards]” and “will strongly support their right to compete freely in international markets”; and the gaps in the G8 Action Plan, their offshore sectors will survive, albeit under a tighter international regulatory framework.

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