

BANKING ON KNOWLEDGE

G20 should enhance cooperation on exchange of information from offshore tax havens

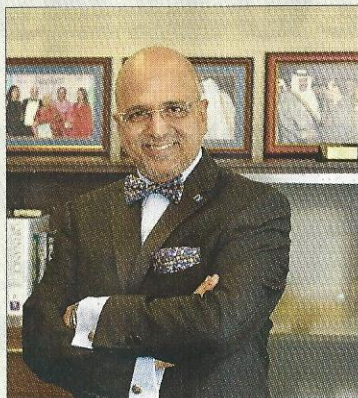
By Dr R Seetharaman

Offshore financial centres span the globe and can be found from the US to the South China Sea. It is used to seek geographical diversity, high-quality services and as part of tax planning. According to BCG Global wealth 2015, globally, private wealth booked in offshore centres grew by 7% in 2014 to reach \$11tn.

The overall rise was driven mainly by asset flows originating in Asia-Pacific, Eastern Europe and Middle East and Africa.

The global share of wealth held offshore remained fairly stable in 2014 at 7% of total global wealth.

Proximity remained a key driver for offshore wealth originating in Western Europe, with most offshore assets booked in Switzerland, the Channel Islands and Dublin, Luxembourg,



and the UK. A similar dynamic was observed in Eastern Europe, with offshore wealth booked in Switzerland, the UK, the Channel Islands and Dublin, and Luxembourg. The Caribbean and Panama were also common destinations. As for offshore wealth

originating in Asia-Pacific (excluding Japan), Singapore and Hong Kong remained the top destinations. Wealth originating in Asia-Pacific (excluding Japan) was also booked farther away, such as in the UK and Switzerland. Latin American wealth booked offshore tended to go to the US and the Caribbean owing to cultural and historical ties, as well as to Switzerland. The pressure to close deficits in advanced economies has turned a spotlight on tax evasion on off shore industry in recent times.

The practice called Base Erosion and Profit Shifting (BEPS) has allowed companies to move profits out of the countries where money is earned and into jurisdictions such as Luxembourg, Ireland or Bermuda that do not tax them. In an increasingly interconnected world, national tax laws have not always kept pace with global corporations, fluid movement of capital, and the rise



of the digital economy, leaving gaps and mismatches that can be exploited to generate double non-taxation. This undermines the fairness and integrity of tax systems. Base Erosion and Profit Shifting (BEPS) refers to tax planning strategies that exploit these gaps and mismatches in tax rules to artificially shift profits to low or no-tax locations where there is little or no economic activity, resulting in little or no overall corporate tax being paid. BEPS requires global solutions.

At G20 meeting in October 2015, G20 has endorsed a package of measures to tackle corporate tax avoidance. An OECD/G20 report stated laws allowing companies to shift profits to low-tax

jurisdictions, which means that between \$100bn and \$240bn is lost annually. This equates to between 4% and 10% of global corporate tax revenues. The final BEPS package gave countries the tools they need to ensure that profits are taxed where economic activities generating the profits are performed and where value is created, while at the same time give business greater certainty by reducing disputes over the application of international tax rules, and standardising compliance requirements. Countries are also focusing intently on the implementation phase of the global common reporting standard for the automatic exchange of financial account information (AEOI), produced

by the OECD in 2014. There are now 94 jurisdictions committed to undertaking the first automatic exchanges by 2017 and 2018.

The OECD is working with G20 countries and the Global Forum on Transparency and Exchange of Information for Tax Purposes to support jurisdictions with the tools and practical guidance necessary for globally consistent implementation.

By doing so, they are working to minimise the compliance burdens for both governments and financial institutions. Global governance through G20 has brought reforms to enhance regulation on offshore tax havens. It should further enhance the co-operation among countries with regard to exchange of information in relation to offshore tax havens.

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