

# **Illicit financial flows:** *Tax havens and development*

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## Talking points:

1. Financial flows and Secrecy jurisdictions
2. The changing public debate and policy making around international tax rules & structures since the financial crisis
3. What can Mozambique do?

# What is a tax haven?

*Tax havens ~ Offshore Financial Centre ~ Secrecy jurisdiction*

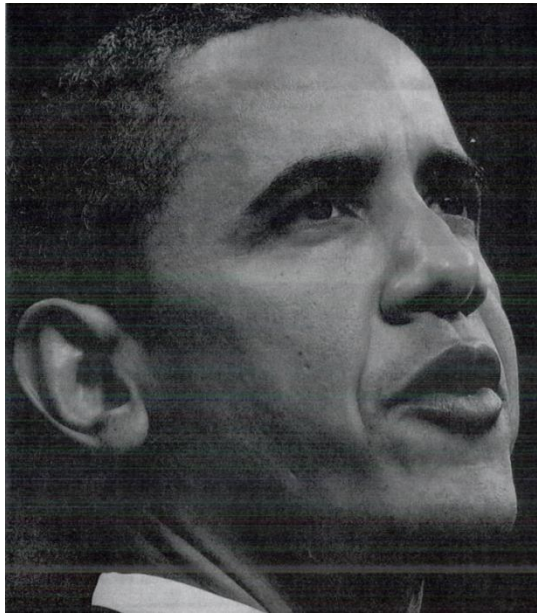
1. Very low or no tax on capital income
2. A special tax regime for shell companies ('ringfencing')
3. A lack of transparency concerning ownership and/or lack of effective supervision
4. No effective exchange of information on tax issues with other countries and jurisdictions

→ Combination of secrecy rules and virtually zero tax terms

→ Granting tax residency based on no substantial activity means that tax havens steal other countries' tax bases

*“Either this is the largest building in the world or the largest tax scam”*

(US President Barack Obama, Jan. 5, 2008, debate in Manchester, N.H)



...about Uglan House, a small building on Cayman Islands, where **12.748 companies are registered** and supposedly conduct their business (among them Coca Cola and Intel Corp.) **No real activity is going on!**

- **British Virgin Islands (BVI)**

- 19 000 inhabitants (low level of education)
- 830 000 registered companies on BVI
- Authorities **claim** that these **companies run and/or manage** their business from BVI and thus are tax residents there

→ There are 43 (=830 000/19 000) companies pr. capita

→ Some BVI residents are board members (and directors even) of hundreds (and in some cases even thousands) of companies

**Illustrative of the lack of activity of substance in tax havens**

## ‘Tax havens’: not only small, islands in the sun

	<b>Absolute share</b>	<b>Secrecy</b>	<b>FSI 2011</b>
1	United States	Nauru	Switzerland
2	United Kingdom	Maldives	Cayman Islands
3	Luxembourg	Turks & Caicos	Luxembourg
4	Switzerland	Marshall Islands	Hong Kong
5	Germany	Belize	USA
6	Cayman Islands	St Lucia	Singapore
7	Hong Kong	Vanuatu	Jersey
8	Singapore	Seychelles	Japan
9	Ireland	Montserrat	Germany
10	Japan	Bermuda	Bahrain

Financial Secrecy Index (2011); (Components: secrecy + size)

# Tax havens: how big?

- Half of world cross border trade is via tax havens
- Wealthy individuals: up to 20 *trillion USD* offshore
  - Rich people in developing constitute 20% of this number
  - Indications that only 5% of those placing assets in tax havens declare them for taxation

# Tax evasion facilitated by tax havens undermine national tax systems and increase the costs of taxation

- Tax havens (secrecy jurisdictions) make it **harder** to tax enterprises
  - ❖ Transfer pricing practiced by multinational companies
- Consequently, tax revenue **falls** - or to compensate - taxes are levied at a **too high rate** on the remaining tax bases: **this hampers growth**
- In some countries, capital flight may also have reduced the political elite's interest in domestic economic growth and development



# **The changing public debate and policy making around international tax rules & structures since the financial crisis**

First response to the crisis: Let's get the tax havens!

“Many citizens of developing (and developed) countries now have easy access to tax havens and the result is that these countries are losing to tax havens almost three times what they get from developed countries in aid. If taxes on this income were collected billions of dollars would become available to finance development.”

Jeffrey Owens, then Director of OECD Centre for Tax Policy Administration (January 2009):

“We will set down new measures to crack down on those tax havens that siphon money from developing countries, money that could otherwise be spent on bed nets, vaccinations, economic development and jobs.”

Gordon Brown, then Prime Minister of the UK (March 2009):

“We stand ready to take agreed action against those jurisdictions which do not meet international standards in relation to tax transparency. We are committed to developing proposals, by end 2009, to make it easier for developing countries to secure the benefits of a new cooperative tax environment.”

G20 Declaration (April 2009):

Serious international policy discussions about these problems take place now

- **U.S. Congress legislation** (July 2010): Dodd-Frank Act
- **European Union (EU)**
- **Global Forum on Transparency and Exchange of Information for Tax Purposes**
- **G20**
- **OECD**
- **Extractive Industries Transparency Initiative (EITI)**
- **Africa: High Level Panel chaired by Thabo Mbeki** and hosted by the Economic Commission for Africa (ECA)
- **African Tax Administration Forum (ATAF)**

# Bilateral initiatives

## Norway: “Tax havens and development”

### ➤ Recommendations (some):

- Advisors and facilitators registry
- Information duty and annual accounts
- Transfer pricing
- Tax treaties
- Convention on transparency in international economic activity

# What can Mozambique do?

## 1. Strengthen intra-governmental coordination and exchange of information:

- Coordination/cooperation between Central Bank, FIU, ACB, Treasury, AT, Justice, Foreign and Trade Ministries

## 2. Strengthen capacity of Central Bank, Tax adm, Ministry of Finance

## 3. Improve regulation of banking sector

- Establish legislation that makes aggressive, personal marketing of banking in tax havens more difficult
- Comprehensive ‘know-your-customer’ (KYC) routines could help to detect suspicious transaction and to give guidance on how to act when discovered
- Training of bank personnel in due diligence and KYC principles
- Introduce third-party information legislation for banks/finance institutions

## 4. Bring private sector and CSOs into reform process

# What can civil society do?

- Do the things that CSOs and national and international organisations alike want to achieve
- Start by focusing on three things:
  1. Improving the exchange of information among national tax authorities
  2. Getting more information from transnational companies about the real locations of their activities and profits
    - Country-by-country reporting
    - Project-by-project reporting
  3. Mobilise for an international convention on transparency in international economic activity

Muito obrigado!

THANK YOU FOR YOUR ATTENTION!