

Panama Papers give timely stimulus to global tax cooperation

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PANAMA

Papers have given a new impetus to ongoing international cooperation to check aggressive tax avoidance & evasion and to improve tax collections to finance development. The resulting additional tax accruals should serve as fiscal stimulus for global recovery, which has so far been fragile and uneven.

It is pleasant surprise to learn that global tax transparency initiatives have lately led to impressive disclosure of wealth stashed in tax havens.

As put by Organisation for Economic Co-operation and Development (OECD) in latest 'update on tax transparency' (UTT) submitted to G20 Finance Ministers,

"Progress has been massive and has already translated in to more than half a million taxpayers disclosing their assets held offshore to the tax administrations of their countries of residence, with at least 50 billion Euros in additional revenues identified in countries that have put in place voluntary disclosure programmes and similar initiatives to allow taxpayers to come forward to correct their past tax transgressions."

We can expect much more unearthing of black money stashed in tax havens. We should also look towards efficient and larger tax receipts. The basis for these twin expectations is decision by OECD, International Monetary Fund (IMF), the United Nations (UN) and the World Bank Group (WBG) to launch a ***"Platform for Collaboration on Tax"*** (PCT).

According to PCT concept note released on 19th April, PCT would facilitate development of eight toolkits by March 2018. These kits would be prepared to transform Base Erosion and Profit Shifting (BEPS) outcomes into user friendly guidance for low-capacity countries. One toolkit titled 'Options for Low Income Countries' - Effective and Efficient Use of Tax Incentives for Investment' has already been released.

The cooperation among international organizations (IOs) to develop a common approach for dealing taxation challenges and deliver joint outputs alone can't deliver desired results. The key lies in each country implementing wholeheartedly the toolkits and other agreed global initiatives. The countries themselves have to cooperate fully for exchange of tax information and financial transactions.

The international standards on tax transparency established in recent years under OECD aegis are sound and well-conceived.

As put by OECD in UTT,

"we must ensure (their) implementation is global and effective. Moreover, we cannot allow any jurisdiction to continue to benefit from failing to meet their commitments and implement global standards."

OECD's Common Reporting Standard (CRS) provides for automatic exchange of financial account information between tax authorities (AEOI). For AEOI, already 98 jurisdictions have committed to implement the CRS in 2017 or 2018. More generally, almost 100 countries and jurisdictions are now covered by the multilateral Convention on Mutual Administrative Assistance in Tax Matters. It provides the most comprehensive legal instrument to streamline the implementation of commitments to tax transparency.

Panama is one of only a few financial centres that have so far refused to commit to the CRS. Panama has not signed nor expressed any interest in signing the multilateral Convention.

After release of Panama Papers by International Consortium of Journalists, OECD aptly lashed out at Panama. In a release issued on 4th April, OECD stated that Panama Papers' revelations have shown the light on Panama's culture and practice of secrecy.

Panama is the last major holdout that continues to allow funds to be hidden offshore from tax and law enforcement authorities. The OECD has been leading a global crackdown on these practices since 2009, working hand in hand with the G20.

Through the Global Forum on Transparency and Exchange of Information, OECD has regularly warned of the risks of countries like Panama failing to comply with the international tax transparency standards. OECD says that

"Panama must put its house in order, by immediately implementing these standards."

If this admonishing does not work, G20 and UN should consider imposing sanctions on Panama and other jurisdictions that drag their feet in embracing and implementing global standards for exchange of tax information and prevention of money laundering.

UN has done well to identify efficient and progressive taxation as means to financing projects to attain sustainable development and eliminate poverty across the globe.

It is here pertinent to factor in Addis Ababa Action Agenda of the Third International Conference on Financing for Development adopted last year by countries under the aegis of UN.

The Action Agenda says:

"We will redouble efforts to substantially reduce illicit financial flows by 2030, with a view to eventually eliminating them, including by combating tax evasion and corruption through strengthened national regulation and increased international cooperation. We will also reduce opportunities for tax avoidance and consider inserting anti-abuse clauses in all tax treaties."

UN has also secured countries' commitment to enhancing revenue administration through modernized, progressive tax systems, improved tax policy and more efficient tax collection.

This calls for coordinated action by all countries and regular monitoring of the implementation efforts. We hope proposed PCT would perform this task well by synergizing efforts of IOs and countries.