EUTAX Observatory

TAX AVOIDANCE AND OFFSHORE WEALTH: POLICIES FOR TOMORROW

13TH JUNE 2022 | SOFITEL EUROPE BRUSSELS

SUMMARY

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TAX AVOIDANCE AND OFFSHORE WEALTH: POLICIES FOR TOMORROW

13th June 2022

hosted by

EUTAX Observatory

PROGRAMME

09.30-10.10	Registration
10.10–10.20	Welcome Address by *Gabriel Zucman* Director of the EU Tax Observatory
10.20-10.30	Statement by *Gerassimos Thomas* Director General Taxation and Customs Union
10.30–11.45	Academic-Policy Mixtape ***Will the Global Minimum Tax Suffice?***
	Keynote by *Michael Keen* Tokyo College, University of Tokyo
	Policy Discussion with *Alex Cobham - Tax Justice Network* *Michael Devereux - Centre for Business Taxation, Oxford* *Kira Peter-Hansen - Member of the European Parliament (Greens/EFA), Vice-Chair Subcommittee on Tax Matters* *Pascal Saint-Amans - OECD*
11.45-13.00	Panel Session ***New Forms of Tax Competition*** *Benjamin Angel - DG TAXUD* *Sarah Godar - EU Tax Observatory* *Nadine Riedel - University of Münster* *Paul Tang - Member of the European Parliament (S&D), Chair Subcommittee on Tax Matters*
13.00 – 14.00	Networking Lunch
14.00 – 15.30	Academic-Policy Mixtape ***The Case for a Global Asset Registry***
	Keynote by *Matthew Collin* World Bank
	Policy Discussion with *Elisa Casi-Eberhard - Norwegian School of Economics* *Luis Garicano - Renew Europe* *Andres Knobel - Tax Justice Network* *Theresa Neef - EU Tax Observatory*
15.30 – 16.00	EU Tax Observatory Young Researcher Award
16.00 – 16.15	Concluding Remarks
16.15 – 17.30	Networking Cocktail

SUMMARY

On Monday the 13th of June 2022, the EU Tax Observatory held in Brussels its first annual policy event. In the beautiful setting of the Sofitel Europe Hotel, policymakers and academics had the opportunity to meet and discuss the future of our tax systems in view of the challenges of tax avoidance and hidden wealth.

WELCOME ADDRESS BY GABRIEL ZUCMAN

In his welcoming address, Gabriel Zucman (Director of the EU Tax Observatory) celebrated the great work achieved by the Observatory since its creation in June 2021. He went on stating the high ambitions the Observatory has for the future, as the tax system of the 21st century is still to be invented. Zucman indeed reminded that the current tax system is still the brainchild of the 1950s, a time when it made sense to exempt savings and tax consumption and wages because capital stocks and inequality of revenues were low. The dramatic change in this picture since the 1950s, said Zucman, makes the transformation of the EU tax system a necessity to face the inequality and ecological challenges.

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STATEMENT BY GERASSIMOS THOMAS

Mentioning the COVID crisis, the war in Ukraine, climate change, technological transformations and growing inequality, Gerassimos Thomas (Directorate-General for Taxation and Customs Union, European Commission) welcomed a conference that comes at the right time since governments need to strengthen fiscal revenues to tackle these issues. He also pointed out the need for more such medium- and long-term debates on tax policy as coming challenges imply reforms of the EU tax mix that can no longer primarily rely on labour- and consumption-based taxes. According to Thomas, we are at one of these once-in-a-while big steps where tax systems have to readjust to face current challenges.

ACADEMIC -POLICY MIXTAPE
WILL THE GLOBAL MINIMUM TAX SUFFICE?

KEYNOTE

The first keynote speech was given by Michael Keen (Research Fellow at University of Tokyo). His presentation focused on the economics of Pillar 2 of the OECD global minimum corporate tax agreement, both on the technical aspects of its implementation and its potential consequences. He first outlined the main objectives of Pillar 2, namely curbing tax competition and profit shifting, but also reducing the distortions to investment that may emerge from different tax regimes across countries. Keen argued that the design of Pillar 2 is such that it increases the Average Effective Tax Rate, while keeping the Marginal one – the one more relevant to incentives – very close to zero.

The following part of his presentation shed a light on the basic structure of Pillar 2, with the top-up tax ensuring that fifteen percent of profits minus carve-out (a fixed proportion of payroll and tangible assets) becoming the absolute minimum that a firm can pay, anywhere in the world. Michael Keen discusses how this bare minimum resembles a rent tax and raises the question of whether this feature of the agreement is deliberate.

The following part of his presentation focuses on the estimated impact of Pillar 2 on profit shifting, tax competition, and tax revenue. Existing estimates forecast a significant reduction of profit shifting, although not a complete overcoming of the phenomenon, as the 15% minimum tax does leave some incentive for companies headquartered in high tax countries to rellocate to offshore financial centers. The effect on tax competition is expected to be a large reduction in the incentive to enter a race to the bottom, although the carve-out does allow for some potential competition amongst low-taxes countries. Corporate tax revenue is expected to increase between 2 and 6% globally, and as large as 15% in the EU. Michael Keen, however, highlighted how the largest welfare improvement from Pillar 2 does not come from the increased revenue per se, but rather from the sharp reduction in the incentive to shift profits.

His concluding remarks underlined the uncertainty surrounding the responses from countries depending on their current tax regime, and the potential implications of Pillar 2 for investment and for FDIs. Lastly, Keen wondered what the effects of such a crucial reform will be on the future of tax policy, and if more steps will be made in this direction.

ACADEMIC -POLICY MIXTAPE
WILL THE GLOBAL MINIMUM TAX SUFFICE?

POLICY DISCUSSION

This policy discussion, moderated by Sam Fleming (Brussels Bureau Chief at Financial Times), was about the current adoption by countries of Pillar 2, a tax reform that would guaranty an effective minimum tax rate of 15% paid by firms on profits.

Alex Cobham (Tax Justice Network) noted that many lower-income countries feel that their voices have not been heard in the negotiations and are concerned that the OECD agreement will not bring them revenue. He said that this agreement will not suffice to end profit shifting and that the corporate tax race to the bottom will continue. In this context Pillar 2 is viewed as the first step of a longer process.

In response to a question from the audience, Michael Devereux (Centre for Business Taxation, Oxford) argued that Pillar 2 is a pro-business agreement, providing a safer and simpler environment. On investment, he said that even if we know little about the impact of Pillar 2 on investment, on average, investment decisions will not be affected. To end the debate, he questioned whether or not Pillar 2 could become the model we want to tax businesses with in the 21st century.

Kira Peter-Hansen (MEP Greens/EFA, Vice-Chair Subcommittee on Tax Matters) agreed with the other participants on the historical step forward in the area of business taxation that represents Pillar 2. She mentioned that the next ECOFIN is the best opportunity for the EU to implement Pillar 2. However, she was concerned about countries using refundable tax credits to attract profit shifting, and she mentioned that there are still many loopholes to close. She added that Pillar 2 must not be seen as an imposed decision to low-income countries.

For Pascal Saint-Amans (OECD), Pillar 2 expresses the recognition that we need a new tax system based on cooperation. He continued arguing that is the result of a cycle that began in the 1990s, when countries realized that tax competition was not working. As he pointed out, the 15% minimum rate is effective, not nominal, which means that companies cannot escape it. He was optimistic about the implementation of Pillar 2 soon, since the key principles have already been accepted by 137 countries, among which a number of low-tax countries. On Pillar 1 he explained that it has been delayed to 2024 only because it requires the development of multilateral conventions and exchange of information that are currently at the heart of negotiations. He agreed with Kira Peter-Hansen that we need to keep in mind the difficult coordination between developed and developing countries in order to address issues in a post-COVID environment.

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NEW FORMS OF TAX COMPETITION

PANEL DISCUSSION

This panel, chaired by Panayiotis Nicolaides (Director of Research at the EU Tax Observatory) was about the new preferential tax schemes EU countries have implemented to attract companies and high-income earners. Panellists discussed to which extent tax competition through these schemes is harmful for the EU.

Observing that decision-making on tax matters is often done by experts and influenced by lobbies, Paul Tang (MEP, S&D, Chair Subcommittee on Tax Matters), highlighted the need for democratic scrutiny and greater transparency on tax competition. He also emphasised the necessity of a public debate driven by equity rather than efficiency considerations. to transparency.

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Nadine Riedel (University of Münster) stated that tax competition may be bad when it leads to a race to the bottom but might, on the other hand, prevent badly designed tax systems and over-taxation. Using as an example tax credits on R&D, Riedel further argued that some preferential tax regimes are meant to boost activities that are beneficial for countries. She also noted that the impact of tax competition through preferential schemes is still limited, although it may add to inequality and social tensions, especially after COVID when governments might try to attract high-skill employees working remotely.

Benjamin Angel (DG TAXUD) reminded the audience that one third of the 500 regimes reviewed under the Code of Conduct had to be dismantled. He however acknowledged that there is room for improvement, especially when it comes to the extension of the Code of Conduct to Personal Income Tax. He argued that workers' mobility is a good thing for the EU, but that this mobility should not arise from tax competition only because low Personal Income Tax rates would lead governments' tax revenues to rely on indirect taxation, thus decreasing progressivity. According to him, "residency by investment" schemes should be distinguished from "citizenship by investment" schemes: the latter being the real problem while the former only requires anti-money laundering provisions to be implemented.

Sarah Godar (EU Tax Observatory) referred to a recent report by the EUTO showing that, in past years, EU governments have come up with innovative tax reforms to incentivize high-income expats to relocate to their countries. According to the report's estimates, at least 200 000 people currently benefit from these schemes with a tax revenue loss equal to the annual budget of Erasmus. She argued that, in the absence of a coordinated approach, a potential solution would be for countries to implement extraterritorial taxation on an interim basis, allowing to collect the tax gap from former high-income tax residents who have moved abroad for tax purposes.

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ACADEMIC -POLICY MIXTAPE
THE CASE FOR A GLOBAL ASSET REGISTRY

KEYNOTE

The afternoon keynote was given by Matthew Collin (World Bank). His presentation was titled: Are we ready for a global asset registry?

Matthew Collin started by arguing that the recent implementation of sanctions against Russian oligarchs highlighted how many countries do not know who owns assets in their territory. According to him, a Global Asset Registry that comprehensively records who owns what would solve this situation.

He further claimed that two powerful building blocks already exist for this institution: first, the Automatic Exchange of Information (AEoI) under the Common Reporting Standard and, second, beneficial ownership registries. Under the AEoI, about 100 countries exchange information on the financial accounts of individuals. The announcement of the policy has decreased offshore deposits substantially. However, its coverage is not comprehensive. Blind spots remain, for example, in non-cooperating jurisdictions.

Further, Collin welcomed the fact that countries have put in place beneficial ownership registers that record the natural person behind companies incorporated in their territory. Nonetheless, their effectiveness against financial secrecy is unclear. Collin et al. (2022) analyse behavioural responses to beneficial ownership registration in the United States. They do not find a significant behavioural effect due to registration. This result might be due to the absence of suspicious transactions or because registrations are not verified and systematically checked so that the thread of detection is very low. Matt Collin concluded by pointing out that a comprehensive Global Asset Registry that involves the European Union and the United States, as well as developing countries, has the potential to close many blind spots and reduce the scope for illicit financial flows. For an effective global asset registry, the capacity of existing schemes must be increased alongside adequate verification and checking mechanisms.

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ACADEMIC -POLICY MIXTAPE
THE CASE FOR A GLOBAL ASSET REGISTRY

POLICY DISCUSSION

The following Policy Discussion, moderated by Ana Matos Neves (reporter for LUSA), saw the participation of Elisa Casi-Eberhard, Luis Garicano, Andres Knobel and Theresa Neef. It focused on the need for a comprehensive global asset registry to tackle illicit financial flows and tax evasion, its building blocks at the EU and global level and its implementability in the next decade.

Elisa Casi-Eberhard (Norwegian School of Economics) underlined the importance of the Automatic Exchange of Information under the Common Reporting Standard for financial transparency. She cautions that differences in participation and reporting under the CRS incentivize behavioural responses such as transferring deposits to non-cooperating countries. She discussed shell companies and crypto assets as newly emerging vehicles to hide wealth and emphasized the limited availability of data in these sectors, a problem to which a solution can only come from a joint effort.

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Last, she stressed the importance of access to high-quality and harmonised data from the Common Reporting Standard to facilitate financial authorities' checking procedures.

Luis Garicano (MEP, Renew Europe) highlighted how the Russian invasion in Ukraine has brought to the forefront the relevance of monitoring international financial flows and offshore wealth. He underlined the current lack of coordination across EU administrations since the responsibility for enforcing sanctions lies within the individual Member States. As a co-rapporteur for the legislation on the newly to be established Anti-Money Laundering Authority (AMLA), he outlined that this institution can take a leading role in establishing financial transparency if sufficient funds are dedicated to its functioning. He ended his contribution with optimism, as he believes the EU can set the example in defining new international standards of transparency.

Andres Knobel (Tax Justice Network) points out that, in the last few years, that financial transparency has overall increased. More and more countries release asset ownership data, and we are seeing more and more cooperation between governments. He argued that developing countries would substantially benefit from financial transparency in the Global North since most hidden investments occur in stable markets of industrialized countries. To ensure transparency over assets held in industrialized countries, offshore entities should be prevented from owning assets unless they disclose their beneficial owners.

Theresa Neef (EU Tax Observatory & World Inequality Lab) started her contribution by highlighting the estimated size of hidden wealth: the equivalent of 10 to 13% of global GDP is held as offshore wealth. Financial secrecy has severe consequences for inequality, undermines governments' tax revenues and facilitates illicit financial flows for the purpose of money laundering and corruption. She highlighted how we need comprehensive transparency across all relevant asset types. These include real estate, bank accounts, securities – bonds and stocks-, business assets, as well as luxury goods, like yachts, planes, artworks and jewellery. A comprehensive global, or at least European, Asset Registry would be a potent tool for tracing hidden wealth and curbing illicit financial wealth. With the Anti-Money Laundering Legislation and the Directive on Administrative Cooperations (DAC), the EU has two decisive legislative actions to establish financial transparency. Nonetheless, these have to be improved by closing apparent blind spots and thoroughly evaluating their effectiveness. Researchers should be able to access data from these policies to assess their impact.

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