International Journal of Marketing & Financial Management, Volume 5, Issue 5, May-2017, pp 72-80
ISSN: 2348 –3954 (Online) ISSN: 2349 –2546 (Print),

www.arseam.com
Impact Factor: 3.43

Cite this paper as : Aastha Jain & Anubhuti Yadav (2017), "OFFSHORE FINANCIAL MARKETS CRACKDOWN: AN ASSESSMENT", International Journal of Marketing & Financial Management, ISSN: 2348 –3954 (online) ISSN: 2349 –2546 (print), Volume 5,(Issue 5,May-2017), pp 72-80

OFFSHORE FINANCIAL MARKETS CRACKDOWN: AN ASSESSMENT

Aastha Jain
Research Scholar,Centre For Economic Studies and Planning, Jawaharlal Nehru University, New Delhi, India

Anubhuti Yadav
Assistant Professor, Deen Dayal Upadhyaya College, University Of Delhi, India

ABSTRACT

Offshore financial markets, also known as the tax havens, have been drawing great attention from all over the globe in the recent years, especially from the Organization for Economic Cooperation and Development (OECD) and the G20 nations. They have been increasingly coming under the inspection lens and rightly so as they anchor a relatively large amount of the world's foreign direct investment. In 1998, the OECD initiated a fight against the harmful tax practices by the tax havens. After the 2008 financial crisis, the initiative gained momentum, this time it was supported by the G20 countries and the OECD equally. Tax havens were asked to engage into at least 12 bilateral information exchange treaties. This paper attempts to assess the tax havens crackdown undertaken by the OECD and the G20 countries. The study finds that though considerable measures have been taken the question still remains who will bell the cat.

Key Words: Tax Havens, G20, OECD, Tax Competition, Offshore Financial Markets

I. WHAT ARE TAX HAVENS?

Offshore financial markets or the tax havens developed in the mid-20th century. They came into being through the development of the Eurodollar market in London. The English law defines only what is forbidden and not what is allowed. The consequence of this law was lack of regulation, which allowed financial institutions to deal in non-sterling deposits made by non-residents. Banks accepted deposits made in US dollars and loaned them onwards. These transactions were recorded in a separate book to show that they occurred in a place independent of the UK and thus, it took place 'offshore'. To top it, depositors also avoided any taxation, which otherwise they would have to pay if they repatriated these dollars to the USA or converted them to sterling. This marked the emergence of tax havens as distinct entities in 1957. Further development of the telecommunication networks in the 1960s led to strengthening of the inter-state financing activities. In fact, the presence of good telecommunication facilities in Caribbean led to its emergence as an offshore financial center.

Lately, the interest in tax havens has grown manifold due to the harmful effects they are causing on the non tax havens and the global shifting of capital towards them. Given the huge interest they are attracting, it is surprising that there is still no ideal definition of what the expression means. According to the OECD report (OECD, 1998), "Many fiscally sovereign territories and countries use tax and non-tax incentives to attract activities in the financial and other services sectors. These territories and countries offer the foreign investor an environment with a no or only nominal taxation, which is usually coupled with a reduction in regulatory or administrative constraints. The activity is usually not subject to information exchange because, for example, of strict bank secrecy provisions. These jurisdictions are generally known as tax havens." Simply saying, all those territories that offer favorable tax structures for foreign investors combined with no exchange of information are called tax havens or the offshore financial centers.

Significance of tax havens

Individuals and corporations for a variety of reasons use tax havens. First, they are used by people for tax avoidance and tax evasion purposes. Tax avoidance is legal reductions in taxes. On the other hand, tax evasion is illegal in nature. It involves non-disclosure of income in order to reduce the tax liability.

Second, people with a criminal intent are increasingly using them. Tax havens are accused of facilitating all sorts of criminal activities like money laundering, tax evasion, fraud, terrorist funding, drug trafficking, bribery and extortion. Thus, these hidden criminal activities take place under the blanket of tax havens.

Third, entities and individuals looking for cheaper business avenues use them. Due to lax rules and regulations, they can avoid the costs to comply with the regulations on their transactions and hence prefer to move business in such locations. Fourth, offshore financial centers are also used by people undertaking completely legitimate activities. But, they want to keep their wealth a secret. Thus, tax havens are used for anonymity purposes.

Fifth, tax havens are also used to disguise the national identity and smoothening the process of 'round-tripping' of investment capital. The practice of round-tripping is quite fascinating. In this situation, capital originating in one country finds a way to leave that country, 'reflag' itself and returns to the country of origin as foreign direct investment. China is a major beneficiary of this tactic. A significant chunk of China's foreign direct investment is through round-tripping. The motive behind this practice is not only the low taxes offered in the tax havens but also the preferential treatment granted to the FDIs in contrast with the restrictions placed on domestic investments in China. Thus, a desire to control the domestic economy by rules and regulations, leads to firms taking advantage of identity arbitrage of investment capital to reap economic profits.

There are plenty of strategies, which are used to exploit the loopholes and evade taxes in the tax havens. These include tax evasion, debt and earnings stripping, transfer pricing, patent and intellectual property licensing. Big corporations have sealed the deals in tax havens to avoid paying taxes and increase their profits. The most recent case is that of Vodafone. Vodafone has been accused of using transfer pricing by undervaluing its share issued to its parent company. The Indian Tax department called this a disguised loan and claimed taxes should be paid on it. But Vodafone won the case by arguing that share premium is a capital receipt not income and hence not taxable. Vodafone's purchase of Hutchinson in 2007 also drew a lot of attention from the tax authorities, but this case was also won by Vodafone. Another famous case of corporate fraud is of Enron. Enron avoided paying income taxes for 4-5 years by using close to 900 subsidiaries in tax havens. It made billion of dollars this way before ultimately collapsing.

Transactions in these countries have a common characteristic; they operate under the veil of secrecy. Governments of tax havens undertake these activities to raise revenue in the form of fee collection by the registering countries. Individuals and corporations make enormous profits by moving their investments to tax havens. They avoid and evade paying taxes by reducing their effective tax rates under the cloak of banking secrecy offered by the tax havens governments. But there are also some harmful effects associated with the activities of tax havens that are discussed below.

Risks posed

The rise in globalization of trade and investment has fundamentally changed the relationship among domestic tax systems. The integration of the world's financial markets is creating new challenges for the domestic tax policies. Globalization lends mobility to capital that leads to the development of the capital and financial markets and also encourages the countries to improve the fiscal climate by reducing taxes. Thus, globalization has had some positive effect on the development of tax systems. But, in the process a dark side of globalization has also come into light.

In order to attract capital, tax havens have been engaging in harmful tax practices. The negligible tax rates offered by these offshore financial centers affect the location of finance. It undermines fair competition for real economic activities. The decision to locate capital should be based on economic considerations and not solely by tax factors. This is essential for continued global economic growth. It also erodes the tax bases of other

countries, distorts trade and investment patterns. Thus tax policies in one economy have repercussions on other economies as well. According to the OECD's report (1998), "If the spillover effects of particular tax practices are so substantial that they are concluded to be poaching other countries' tax bases, such practices would be doubtlessly labeled "harmful tax competition"."

So far we have seen that tax havens serve as a location where investors can hold their capital and they are spared from the scrutiny of tax authorities of other countries, as these transactions are kept confidential. These functions cause harm to the tax systems of other countries as they facilitate both corporate and individual tax evasion and avoidance. They cause a loss in revenue to the non-tax haven countries by eroding their tax base. They also carry the risk to distort trade and investment. Such tax practices are harmful because they reduce global welfare. The governments around the globe must take measures to strengthen international cooperation; thereby avoiding a worldwide reduction in welfare caused by distortionary tax policies.

Apart from the harmful tax competition, tax havens are also accused of unintentionally supporting terrorist funding. As tax havens provide banking secrecy, there is no control over who is depositing the funds and for what purposes these are being used. This poses a risk on the entire humanity.

II. THE OECD AND TAX HAVENS

The Organisation for Economic Co-operation and Development (OECD) is the foremost institution that has been fighting for an international tax standard for almost 20 years now. The OECD took upon itself the responsibility to take actions against the harmful practices of tax havens. In 1998, it came up with the report, Harmful Tax Competition: An emerging global issue. In this report, the OECD established four main criteria to identify tax havens. These are: "

a) No or only nominal taxes

No or only nominal taxation on the relevant income is the starting point to classify a jurisdiction as a tax haven.

b) Lack of effective exchange of information

Tax havens typically have in place laws or administrative practices under which businesses and individuals can benefit from strict secrecy rules and other protections against scrutiny by tax authorities thereby preventing the effective exchange of information on taxpayers benefiting from the low tax jurisdiction.

c) Lack of transparency

A lack of transparency in the operation of the legislative, legal or administrative provisions is another factor in identifying tax havens.

d) No substantial activities

The absence of a requirement that the activity be substantial is important since it would suggest that a jurisdiction may be attempting to attract investment or transactions that are purely tax driven. " (OECD, 1998)

The report also focused on identifying countries with a potentially harmful preferential tax regime. The key factors in identifying the harmful preferential tax regime were no or low effective tax rates, "ring-fencing" of regimes, lack of transparency and lack of effective exchange of information. The term "ring-fencing" means that foreign investors are entitled to get tax benefits on mobile financial services that the domestic investors are excluded from. The OECD argued that by undertaking these tax practices, the activity just shifts from one country to another rather than significant generation of any new activity. Thus, the governments are getting stuck in a Prisoner's Dilemma situation where to give themselves a competitive edge in the business, they are collectively worse off.

The OECD made a series of recommendations to combat the harmful tax competition. These were unilateral,

bilateral and multilateral in approach with a focus on coordinated international action. The report contemplated blacklisting and internationally coordinated economic sanctions against those tax havens that still engage in the harmful tax practices. It was urged that all countries should cooperate with international tax information requests. There should be an end to bank secrecy; transparency should prevail. Luxembourg and Switzerland abstained in the approval of the report. Both these countries rejected the argument given by the report that bank secrecy leads to harmful tax competition.

Further work done

As a part of its continued actions, the OECD endeavored to curb the harmful preferential tax regimes in member countries and to force cooperation in the tax havens. In 2000, another report was published. It was focused on improving access to bank information for tax purposes. According to this report (OECD, 2000), all the OECD countries should "permit tax authorities to have access to bank information, directly or indirectly, for all tax purposes so that tax authorities can fully discharge their revenue raising responsibili- ties and engage in effective exchange of information."

In June 2000, the OECD published another report called Towards Global Tax Co-operation: Progress in Identifying and Eliminating Harmful Tax Practices. This report listed 47 member jurisdictions that were identified as potentially harmful preferential tax regimes and another 35 jurisdictions that were identified as tax havens. This list of 35 tax havens was not to be used for "coordinated defensive measures". The OECD stated in this report that another list will be made in a period of 12 months i.e. by 31st July 2001 which will consist of the names of uncooperative tax havens. To avoid being in this list of Uncooperative Tax Havens, the tax haven had to make a "public political commitment by a jurisdiction to adopt a schedule of progressive changes to eliminate its harmful tax practices by 31 December 2005." (OECD, 2000)

To avoid naming and shaming, 28 out of 35 countries provided commitment letters to the OECD between 2000 and 2001. They agreed to exchange information on the lines of the international tax information standard established by the OECD report. As a result, there were only 7 countries in the Uncooperative Tax Havens List published in mid-2002. By 2008, only three countries remained on the list: Andorra, Liechtenstein, and Monaco. In March 2009, even these countries passed public statements declaring that they intend to implement the international tax standards. Consequently, now there are no non-cooperative jurisdictions on the OECD's list.

The OECD also took several other actions to increase global tax information exchange while simultaneously developing the Uncooperative Tax Havens list. The Global Forum on taxation was established in 2001. It was created to promote and discuss issues of transparency and exchange of information for tax purposes. As per Global Forum's homepage "The original members of the Global Forum consisted of OECD countries and jurisdictions that had agreed to implement transparency and exchange of information for tax purposes. The Global Forum now has 139 members on equal footing and is the premier international body for ensuring the implementation of the internationally agreed standards of transparency and exchange of information in the tax area."

In 2002, a model Agreement on Exchange of Information on Tax Matters was issued by the OECD. This could be signed by countries on a bilateral or multilateral basis to fulfill their commitments to tax information exchange. The OECD tried to convince the countries to sign Tax information exchange agreements (TIEAs) wherein exchange of information would take place upon request. The countries would also have option to decline the request "if the disclosure of the information would be contrary to public policy". Also there is a provision for confidentiality of information. In 2004, G20 released a communiqué supporting the work of the OECD. In 2006, the Global Forum published a report entitled Tax Co-operation: Towards a Level Playing Field – 2006 Assessment by the Global Forum on Taxation. The report covered 82 jurisdictions to assess the legal and administrative frameworks for tax transparency and tax information exchange. This would help the OECD determine what is needed to achieve a global level playing field in the field of taxation. In 2007, the OECD summarized is findings as follows:

> “Significant restrictions on access to bank information for tax purposes remain in three OECD countries (Austria, Luxembourg, Switzerland) and in a number of offshore financial centres (e.g. Cyprus, Liechtenstein, Panama and Singapore). Moreover, a number of offshore financial centres that committed to implement standards on transparency and the effective exchange of information standards developed by the OECD’s Global forum on Taxation have failed to do so.”

Critique

The work done by the OECD in curtailing the harmful tax competition has been much appreciated globally. However, there also have been problems and criticisms along the journey. Although many tax havens committed to the OECD, the implementation has been very weak. This is a direct consequence of certain loopholes and exemptions in the OECD standards. The countries only had to give a public announcement and a written letter to the OECD that they will implement the internationally agreed standard. The actuality after giving the commitment is quite different. The OECD gave all its attention to information exchange on request. But this was undermined by the “Isle of Man” clause stated that no reforms were required until all the listed countries and every OECD member state — including Luxembourg and Switzerland — committed to do the same. Thus, the havens were actually committed to nothing.

Countries signed TIEAs, but even these agreements lack effectiveness due to technical issues. To formulate a request for exchange of information, prior knowledge is required which is often hard to get. Thus, there is a weak positive correlation between exchange of information and tax evasion detection. The article that allows the countries to decline the request of exchanging information could be manipulated by the requested party. Thus, effectively there would be very less information exchange. Nonetheless, it can be argued that some information exchange is better than none at all.

The OECD actions against tax havens have also been criticized on the ground that the economy of these nations would be severely impacted. But, the OECD can only recommend; it does not have the right to make a country follow these recommendations. Moreover, OECD members themselves are engaged in harmful tax practices; no proposed sanctions were imposed on them. Thus, this seems like a case of pot calling the kettle black. The OECD faced increasing pressure because it turned a blind eye to two of its members and tax havens: Switzerland and Luxembourg. The OECD relaxed its approach as compared to the tough stance it took in 1998. Eventually, out of the 4 identifying criteria only 2 remained. Zero tax rates and no substantial activity were dropped as criteria to declare a jurisdiction as tax haven. The idea of internationally coordinated sanctions did not work out. USA’s support to the OECD also declined when George W. Bush came into power in 2001. All the abovementioned reasons led to a softening of the OECD’s actions.

III. G20 TAKES THE LEAD

G20 countries are Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Republic of Korea, Mexico, Russia, Saudi Arabia, South Africa, Turkey, the United Kingdom, the United States and the European Union. The G20 countries took the lead to tackle the tax havens from the OECD after 2008-09. This marked an end to the secure relationship between the OECD members and tax havens. There were severe tax scandals in Liechtenstein and Switzerland that angered France, Germany and USA. The latter three governments lost millions of dollars due to this tax evasion. Another factor for this shifting of course was the appointment of Barack Obama who is an ardent supporter of tougher actions against tax havens. To top it all, the onset of the financial crisis of 2008 made matters worse for the tax havens. The Western countries wanted to recover their lost tax revenue from tax havens.

The actions taken by the OECD were deemed to be too slow. G20 asked the OECD to draw up new lists with categories whether the countries and jurisdictions have fully implemented the OECD standard or not. Three lists were created:

a) **White list** - This list consists of jurisdictions that have signed at least 12 TIEAs and have also substantially implemented the internationally agreed tax standard.
b) **Grey list** – This list consists of jurisdictions that have committed to the OECD's internationally agreed tax standard but have not substantially implemented it. Their TIEAs are less than 12.
c) **Black list** – This list has countries, which have not yet committed to the internationally agreed tax standard.

The G20 summit took place in London on 2nd April 2009. The G20 countries urged all the tax havens to sign at least 12 bilateral information exchange tax treaties. To come in the white list, a country had to sign at least 12 TIEAs. In April 2009, there were 40 jurisdictions in the white list, 38 in the grey list, which included Luxembourg and Switzerland and 4 in the blacklist (Costa Rica, Malaysia (Labuan), Philippines and Uruguay). Between this Summit and the end of 2009, a total of more than 300 treaties were signed by the tax havens of the world. This request was backed by a threat of economic sanctions by G20 countries. No tax haven wanted to tarnish its reputation by being on the blacklist. Within 5 days of the release of the lists, all the countries committed to the OECD's tax standard of exchange of information on request on civil tax matters. As a result, by September 2009, the blacklist was empty and only 9 countries were there on the grey list. Switzerland and Luxembourg amongst many others were moved to the white list after they hurriedly negotiated tax treaties around the world. The former two countries had earlier hurriedly committed to the tax standard just before the Summit to avoid getting blacklisted. The then G20 president committed "to take action against non-cooperative jurisdictions, including tax havens. We stand ready to deploy sanctions to protect our public finances and financial systems. The era of banking secrecy is over."(G20 2009)

Critique

The making of these lists involved a lot of power politics. It is surprising how Hong Kong and Macau were not on the grey list even though they seemed to be fitting the criteria for it. This was due to China's resistance to the idea of creating the lists in the first place. China's multi- billion commitment to the IMF played a role. After intervention by then President Obama and the British Prime Minister, China was given the status in the white list, while Hong Kong and Macau were excluded as the Special Administrative Regions, which have committed to implement the internationally agreed tax standard. This shows that little tweaking is merrily done to fulfill various other political reasons.

The statement that 'the era of banking secrecy is over' seems to be too ambitious. According to the G20, the problem of tax havens has been essentially solved, as there are just 9 jurisdictions on the grey list and none on the blacklist. The countries were shifted to the grey list if they just gave a commitment to cooperate. Many of the big tax havens like Switzerland were placed on the white list on the basis that they had negotiated TIEAs with at least 12 other countries. Many countries in the grey list simply signed agreements amongst themselves. These haven-haven agreements are not very helpful. As mentioned earlier, the agreements based on request do not lead to much exchange of information. According to Shaxson and Christensen "A country cannot use a TIEA to ask for general information about its citizen's assets and income. Instead it must already know (and specify) who the tax cheat is, and what they are suspected of, to force the haven to act. This is better than nothing - but it does little to deter tax evaders." They also go on to say that this threshold of just 12 agreements in itself is very low. The minimum agreements signed in order to make it to the white list should be raised to at least 60.

Johannesen and Zucman (2014) undertook a study to examine the impact of these treaties. They found that treaties have led to a relocation of deposits from highly compliant tax havens to lowly compliant ones. For example, Switzerland would still get funds from the countries which have no treaty with it. In some cases, tax evaders have even left the funds in the same location as they deemed that the probability of detection to be low. Thus the total deposits in the tax havens have remained the same. There has not been much repatriation of the

funds back home. They also found that some tax evaders were deterred by the threat of enforcement.

The effectiveness of the treaties is weak which was one of the major let down of the G20 Summit. The era of bank secrecy is far from over till the automatic exchange of information is adopted. Another failure was the lack of attention paid to the multilateral agreements. Moreover, the will of G20 to actually go through with the sanctions also seems to be vague. The OECD said "Neither the Global Forum nor the OECD has the power to impose sanctions on countries that do not implement the standards. Individual countries whether OECD or non-OECD will decide for themselves what actions they consider necessary to ensure the effective enforcement of their tax laws. The G20 has produced a list of potential measures based upon an analysis provided by the OECD."

IV. RECENT DEVELOPMENTS

The Global Forum started a peer review process in 2010 to keep an eye on the jurisdictions' regulatory as well as implementation framework. The review happens in two phases. Under Phase 1, the legal and regulatory aspects of exchange are examined. Under Phase 2, exchange of information in practice is examined. Then the countries are placed under the categories as compliant, largely compliant, partially compliant and non-compliant. The ratings in November 2016 are given below:

Jurisdiction ratings following a Phase 2 review	
Australia, Belgium, Canada, China (People's Republic of), Colombia, Denmark, Finland, France, Iceland, India, Ireland, Isle of Man, Japan, Korea, Lithuania, Mexico, New Zealand, Norway, Slovenia, South Africa, Spain, Sweden	Compliant
Albania, Argentina, Aruba, Austria, Azerbaijan, Bahamas, Bahrain, Barbados, Belize, Bermuda, Botswana, Brazil, British Virgin Islands, Brunei Darussalam, Bulgaria, Burkina Faso, Cameroon, Cayman Islands, Chile, Cook Islands, Cyprus, Czech Republic, El Salvador, Estonia, Former Yugoslav Republic of Macedonia, Gabon, Georgia, Germany, Ghana, Gibraltar, Greece, Grenada, Guernsey, Hong Kong (China), Hungary, Israel, Italy, Jamaica, Jersey, Kenya, Latvia, Lesotho, Liechtenstein, Luxembourg, Macao (China), Malaysia, Malta, Mauritania, Mauritius, Monaco, Montserrat, Morocco, Netherlands, Nigeria, Niue, Pakistan, Philippines, Poland, Portugal, Qatar, Romania, Russia, San Marino, Senegal, Singapore, Slovak Republic, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Saudi Arabia, Seychelles, Switzerland, Turks and Caicos Islands, Uganda, United Kingdom, United States, Uruguay	Largely Compliant
Andorra, Anguilla, Antigua and Barbuda, Costa Rica, Curaçao, Dominica, Dominican Republic, Indonesia, Samoa, Sint Maarten, Turkey, United Arab Emirates	Partially Compliant
Marshall Islands, Panama Federated States of Micronesia*, Guatemala*, Trinidad and Tobago*	Non Compliant

Source: OECD, http://www.oecd.org/tax/transparency/exchange-of-information-on-request/ratings/

This is a great initiative as it allows the Global Forum to track the implementation status. It also creates the fear of stigmatization by the G20 and eventual sanctions in case of non-compliance. Further possibilities of multilateral agreements are also being investigated by the Global Forum.

Work was also done against the base erosion and profit shifting (BEPS) in 2013. 15 actions were identified to curb the tax avoidance. BEPS is to be implemented in 2017. 2017 is quite a turning year in the future of international tax transparency and the end of bank secrecy. The Global Forum is also moving to automatic exchange of information (AEOI) in 2017. This will help in achieving greater transparency at a global scale. The first exchanges are scheduled to begin from September 2017. Essential technical and legal infrastructures are being set up for this launch. It is yet to be seen whether these said implementations would take place in a timely fashion or not. The impact of these can only be ascertained at a later stage.

JURISDICTIONS UNDERTAKING FIRST EXCHANGES BY 2017 (52)
Anguilla, Argentina, Barbados, Belgium, Bermuda, British Virgin Islands, Bulgaria, Cayman Islands, Colombia, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Faroe Islands, Finland, France, Germany, Gibraltar, Greece, Greenland, Guernsey, Hungary, Iceland, India, Ireland, Isle of Man, Italy, Jersey, Korea, Latvia, Liechtenstein, Lithuania, Luxembourg, Malta, Mexico, Montserrat, Netherlands, Niue, Norway, Poland, Portugal, Romania, San Marino, Seychelles, Slovak Republic, Slovenia, South Africa, Spain, Sweden, Turks and Caicos Islands, United Kingdom
JURISDICTIONS UNDERTAKING FIRST EXCHANGES BY 2018 (48)
Andorra, Antigua and Barbuda, Aruba, Australia, Austria, The Bahamas, Bahrain, Belize, Brazil, Brunei Darussalam, Canada, Chile, China, Cook Islands, Costa Rica, Curaçao, Dominica, Ghana, Grenada, Hong Kong (China), Indonesia, Israel, Japan, Kuwait, Lebanon, Marshall Islands, Macao (China), Malaysia, Mauritius, Monaco, Nauru, New Zealand, Panama, Qatar, Russia, Saint Kitts and Nevis, Samoa, Saint Lucia, Saint Vincent and the Grenadines, Saudi Arabia, Singapore, Sint Maarten, Switzerland, Trinidad and Tobago, Turkey, United Arab Emirates, Uruguay, Vanuatu

Source: OECD, https://www.oecd.org/tax/transparency/AEOI-commitments.pdf

V. CONCLUSION

Tax havens have been drawing great attention from around the world lately as they attract maximum foreign direct investment flow. The first major initiative to curtail the harmful tax practices was undertaken by the OECD in 1998 with its report Harmful Tax Competition: An emerging global issue. This report defined the major criteria on which the tax havens and the potentially harmful preferential tax regime would be identified. In 2000, it published the lists of potentially harmful tax regime and tax havens. To avoid naming and shaming, many countries committed to the internationally agreed standard of information exchange on request on civil tax matters. The Global Forum on taxation was established in 2001 to promote and discuss issues of transparency and exchange of information for tax purposes. Even after commitment, the implementation has been poor in most of the jurisdictions. The OECD is also accused of turning a blind eye to its members and tax havens: Switzerland and Luxembourg. The OECD encouraged the tax havens to sign Tax Information Exchange Agreements (TIEAs) but these have fundamental shortcomings. Information exchange on request needs prior information, which is hard to get, and eventually leads to negligible amount of information being exchanged. The tax evaders have optimally exploited the loopholes and exemptions of the agreement. With time the OECD actions became toothless.

After the global crisis of 2008, the G20 countries took the lead. The OECD was asked to make three lists: white, grey and black. In order for a jurisdiction to be whitelisted, it had to sign at least 12 bilateral TIEAs. To be in the grey list, all a jurisdiction had to do was to commit to the agreed tax standard. No commitment puts the country in the blacklist. Although soon after the London Summit of April 2009, there was no country in the blacklist, the end of bank secrecy is still a dream. The signing of tax information exchange treaties have not led to a decrease in the total global deposits in tax havens. What they have achieved is a relocation of funds amongst the tax havens. The TIEAs seem to be mere paperwork one needs to do to get the 'white' tag. The threshold of 12 treaties is too low, it should be raised to at least a 60. The threat of economic sanctions looks non-credible. The only viable solution is the automatic exchange of information.

Nevertheless, the efforts of the OECD and the G20 have not gone unappreciated. The implementation of automatic exchange of information (AEOI) and Base Sharing and Profit Shifting (BEPS) actions in 2017 is pushing the world towards the end of bank secrecy. Positive changes are expected.

REFERENCES

Dharmapala & Dhammika (2008). What problems and opportunities are created by tax havens?. Oxford Review of Economic Policy, 24 (4), 6 61-79.

G20 (2009, April 2). The Global Plan for Recovery and Reform, Final Communique of the G20 Summit Held. London. Retrieved from http://www.g20ys.org/upload/files/London_l.pdf.

Global Forum on Transparency and Exchange of Information for Tax Purposes. (1998-2017). Exchange of Information on Request Portal. Retrieved from http://www.eoi-tax.org.

Johannesen, Niels, & Zucman G. (2014). The End of Bank Secrecy? An Evaluation of the G20 Tax Haven Crackdown. American Economic Journal: Economic Policy, 6 (1), 65-91

Organization for Economic Cooperation and Development. (1998). Harmful tax competition: an emerging global issue. Paris: OECD

Organization for Economic Cooperation and Development. (2000). Towards Global Tax Cooperation: Progress in Identifying and Eliminating Harmful Tax Practices. Paris: OECD

Organization for Economic Cooperation and Development. (2007, December10), OECD Reports Progress in Fighting Offshore Tax Evasion, but Says More Efforts Are Needed. Retrieved from http://www.oecd.org/document/48/0,3343,en_ 2649_201185_39482288_1_1_1_1,00.html

Shaxson, Nicholas, & Christensen J. (2011). Time to Black-List the Tax Haven Whitewash. Financial Times. Retrieved from http://taxjustice.blogspot.in/2011/04/time-to-black-list-tax-haven-whitewash.html

Sullivan, M. A. (2007). Lessons From the Last War on Tax Havens. Tax Notes.

The Case of the disappearing tax havens. (2010, November 12). Retrieved from http://taxjustice.blogspot.in/2010/11/case-of-disappearing-tax-havens.html

Vlcek , W. (2009). Behind an Offshore Mask: Sovereignty Games in the Global Political Economy. Third World Quarterly, Vol. 30, No. 8, pp. 1465-1481

Willis, A. (2009, March 13). Switzerland, Austria and Luxembourg relax banking secrecy. Retrieved from http://euobserver.com/?aid=27775.