Fiscal Paradieses and G-20 as a Global Decision Maker

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ABSTRACT

Fiscal Paradieses are described as the “dark side of globalization” because of the negative role they have been playing in the global economy. Today, they are an extremely important reason of tax evasion and tax avoidance, financial instability, money laundering, terrorist finance, and other issues. Recent actions by G-20 have focused on fiscal paradise countries, targeting tax evasion and avoidance issues, because of the fact that the economic crisis in 2008 has showed the destructive influence of fiscal paradieses in the economy not only on national but also on international level. The following year, in 2009, struggling with the fiscal paradieses was the main focus of the G-20 London Summit. In addition, the following four G-20 summits refined the issue concern in fiscal paradieses. This chapter aims to explain what has been achieved regarding the fiscal paradise problems at G-20 summits since the economic crisis of 2008.

INTRODUCTION

It’s all the more suprising because nobody has yet offered a description of ‘tax haven’ on which everyone can agree (Palan, Murphy, Chavagneux, 2010). The IMF, the OECD and the other international agencies tend to adopt the language they think acceptable to their own area. The term ‘tax haven’ is clear meaning, as the French translation (paradis fiscal) makes more clear. “Offshore” also point to island paradieses, but for example Switzerland, Liechtenstein not close to even seasides. We use “Fiscal Paradieses” in this study for description of the places concern in.

Globalisation is designing new tasks hard to cope with in tax policy. Harmful fiscal competition between governments carries negative outcomes like distorting trade and investment and can cause to erosion of national tax bases. Governments support in a powerful manner the OECD to actively follow its work in this area, aimed at developing a multilateral approach under which governments...
can manage individually and collectively to limit the increasing of these harmful tax practices. In addition governments are going to follow in a close manner the progress by the OECD, that is because of produce a report in 1998’ (regards to G7 summit in Lyon 1996). Actually, this was agreed decision from the OECD ministers had taken in May 1996 (OECD, 1998).

Fiscal paradise countries, become a specialist on attracting financial action and investment from other countries, so mainly catching use of less tax rates, and weak regulation (Palan, Murphy, Chavagneux, 2010). International integrations such as International Monetary Fund (IMF), Organisation for Economic Cooperation and Development (OECD), G-7 (G-20), and national governments examining that countries since about 15 years. For reason that they play a negative function on global economy on the other hand related to financial instability, money laundering, terrorist finance, and tax evasion.

Fiscal paradises allow multinational enterprises (MNEs) to shift profits out of high tax jurisdictions into low tax jurisdictions most commonly via transfer pricing (Eden, 2009). The issue of corporate tax avoidance is popular on the political platforms. Last media news regarding the tax affairs of some of the world’s most famous MNEs such as Amazon, Apple, Google and Starbucks have made much hostility from civil society, non-governmental organisations (NGOs) and the general public. Arround 21 to $32 trillion has been invested virtually tax-free through the world’s more than 80 offshore secrecy jurisdictions estimated by The Tax Justice Network. In June 2012 the G20 explicitly referred to “the need to prevent base erosion and profit shifting” (OECD, 2013). Most important advantages of MNEs financial strategy is regard to its tax issues, by nature its transfer pricing activities. MNEs pay lower corporate income taxes by means of transfer pricing. Working with fiscal paradises lets corporates to use useful plans for tax avoidance for them. Such kind of activities could be used by management to develope a competitive advantage by international differences in the tax rates so that diminish corporate tax costs compare with single country firms (Oxelheim, 1998).

Governments lose income tax not only on individual tax level but also corporate tax level on revenue by rotating of income and profits to fiscal paradise countries. The revenue losses of governments from this tax evasion are difficult to calculate, and there is no proper estimation method yet. Though its easy to say tax evasion on the international area may crop up by international companies and rich investors nevertheless this arise can brings both legal and illegal actions as a consequence.

Results of an ampiric study suggest that high home country corporate tax rates will drive firms offshore. Also, high technology MNEs from both the manufacturing and services sector have a real tendency to do this activity. Furthermore, there is important country heterogeneity with MNEs from the liberal market economies showing a greater tendency to do so (Jones & Temouri, 2014).

WHERE FISCAL PARADISES ARE LOCATED?

OECD prepared a report in 1998 regards to against special tax regimes and multinational cooperations in OECD member countries. According to this report, main reasons of fiscal paradises are lack of transparency, lack of detailed information exchange, no sufficient activities. A blacklist and a list of enforcement against fiscal paradises explained in this report. Tiny fiscal paradises in the Caribbean and Pasific had lobbied to large extent in a successful manner by Anglo-Saxon side of the world, by means of that increase of development regarding to this situation in the OECD made a strong barrier in front of their financial centres. Same approach supported by USA, after Presiden