Funding the Future

The OECD is moving in the right direction

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The OECD proposal for automatic information exchange, published overnight, has a realistic appraisal of taxpayer and bank behaviour implicit within it. They say:

In order to limit the opportunities for taxpayers to circumvent the model by shifting assets to institutions or investing in products that are not covered by the model a reporting regime requires a broad scope across three dimensions:

ï‚· The scope of financial information reported: A comprehensive reporting regime would cover different types of investment income including interest, dividends and similar types of income, and also address situations where a taxpayerseeksto hide capitalthatitselfrepresentsincome or assets on which tax has been evaded (e.g. by requiring information on account balances).

ï‚· The scope of accountholders subject to reporting: A comprehensive reporting regime requires reporting not only with respect to individuals, but should also limit the opportunities for taxpayers to circumvent reporting by using interposed legal entities or arrangements. This means requiring financial institutions to look through shell companies, trusts or similar arrangements, including taxable entities to cover situations where a taxpayer seeks to hide the principal but is willing to pay tax on the income.

ï‚· The scope of financial institutions required to report: A comprehensive reporting regime would cover not only banks but also other financial institutions such as brokers, collective investment vehicles and insurance companies.

Besides a common agreement on the scope of the information to be collected and exchanged, an effective model of automatic exchange of financial information also requires an agreement on a robust set of due diligence procedures to be followed by financial institutions to: (i) identify reportable accounts and (ii) obtain the accountholder identifying information thatisrequired to be reported for such accounts. The due diligence procedures are critical as they help to ensure the quality of the information that is reported and exchanged.

The most important points here are:

1) More than interest is covered

2) Companies are covered

3) "Other arrangements' are covered - which I sincerely hopes covers trusts and foundations because it is hard to see what else is envisaged

4) The understanding that a wide range of financial institutions has to be covered is very welcome - because this has been a wide open door for abuse

5) A wider range of income is covered than the European Union Savings Tax Directive as it currently stands - which is vital.

The moves are in the right direction on these issues.