Funding the Future

The OECD admits it has failed to tackle the problems in...

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I have already written about the fact that the OECD has, in the first chapter of its Base Erosion and Profits Shifting (BEPS) report accepted that this is a big issue, much along the lines that the tax justice and NGO community has argued. I have welcomed that.

There are other welcome admissions in the report. For example, this statement in chapter 2:

BEPS relates chiefly to instances where the interaction of different tax rules leads to double non--taxation or less than single taxation. It also relates to arrangements that achieve no or low taxation by shifting profits away from the jurisdictions where the activities creating those profits take place. No or low taxation is not per se a cause of concern, but it becomes so when it is associated with practices that artificially segregate taxable income from the activities that generate it. In other words, what creates tax policy concerns is that, due to gaps in the interaction of different tax systems, and in some cases because of the application of bilateral tax treaties, income from cross--border activities may go untaxed anywhere, or be only unduly lowly taxed.

Again, this reflects much that I have argued. It is not low tax rates per se that makes a tax haven harmful, it is the secrecy that permits profit shifting into the tax haven without being detected that is harmful. This is another welcome admission by the OECD.

So is this:

There are gaps and frictions among different countries' tax systems that were not taken in account in designing the existing standards and which are not dealt with by bilateral tax treaties.

Absolutely right. That's why we're in the mess we are.

It is then frustrating that the OECD then fail to rise to the challenge of tackling these issues, as my next blog discusses.