Attac Action plan for the closure of tax havens

Ever since the time of the League of Nations there have been international discussions about the problem of tax havens. Because of the politically driven liberalisation of the financial markets, especially within the EU and the European Economic Area, the tax haven problem has become more acute. Based on information from the Federal Ministry of Finance, around 300 billion Euros from wealthy private individuals are moved from Germany into tax havens. In addition there is the damage done by accountants moving company profits abroad, and by the international competition to provide the lowest possible taxation on capital income. Both of these problems are closely linked, as private individuals can easily store their wealth in corporate bodies so that they are taxed as businesses.

We propose a package of national and international measures. The national measures will make tax evasion unattractive and will track down those who practise it. The international measures will attack the problem at the root and will drain the energy from the tax havens so that the funds already stored there will contribute to our public goods.

National Measures

Employees in the tax authorities

According to estimates by employers there will be a need for 3000 inspectors, 300 tax investigators, and 2700 employees in the income tax assessement sector.

Federal tax administration

Tax collection must become the responsibility of the national Federal authority. Currently, the administration costs for administering taxes are borne by the individual Federal States. However the profits have to be shared with all the other Federal States through the national financial equalisation programme, thus making the attraction of an efficient taxation system lower for each State. The Federal Tax Administration therefore needs to prevent an inefficient or uneven tax system from being abused as a location factor in the competition between the Federal States.

Relaxation of bank secrecy in the field of taxation

Paragraph 30a of the fiscal code considerably limits the the possibilities for action by the tax investigation authorities and thus protects the tax dodgers. The fiscal code needs to be changed so that the tax authorities can demand information from banks and other financial service providers about all business dealings such as transfers to tax havens. This could provide many clues about tax evasion even in the past.

Prohibition of self-notification as a form of exclusion, minimum sentences in cases of severe tax evasion
Tax evasion which runs into millions must always lead to a prison sentence, in order to increase the deterrent effect. Self-notification leading to exclusion must be eliminated except in trivial cases.

Use of credit card data in tax havens
Foreign tax authorities have successfully used details of credit card transactions in order to get wise to tax dodgers. Tax authorities must ge hold of details of all credit card transactions and use them to trace bank accounts in tax havens.

Tax transparency for TNCs
German companies which have subsidiaries or branches abroad must be compelled to make public

- the countries in which they have subsidiaries or branches
- the level of profit and taxes on profits in the said subsidiaries and branches.

This will enable investors as well as the general public to check the veracity of their data.

Strengthening of the taxation at source in company taxation
In order to make it less attractive to move company profits from Germany into low-tax jurisdictions, the elements of commercial tax which are independent of profit must be strengthened. Interest, rent and leasing rates should broaden the assessment basis of the local business tax, so that the tax is more uniformly distributed over time, tax evasion abroad becomes less attractive, and the rate of the local business tax can be cut.

International measures

Measures against tax evasion to Liechtenstein and other tax havens outside the EU

Blacklist of tax havens and economic sanctions
Tax havens need to be on a blacklist organised by the government. Tax havens are countries which

- have very low taxes, or none at all, on certain forms of capital income and which are used by German citizens to evade taxes
- and which refuse
  - to introduce an automatised information exchange system through which interest, dividends and capital gains as well as shares in companies are communicated to the German tax authorities, or
- which refuse to provide administrative cooperation in the case of tax evasion.

Germany should enter into bilateral negotiations with these states in order to agree an automatic exchange of information and administrative cooperation in matters of taxation. The Blacklist and the measures to be undertaken should be coordinated with other states which are prepared to take action. They are however appropriate for a state which wishes to act on its own.

Economic sanctions should be imposed on the tax havens on the Blacklist, including the cancellation of trade advantages, refusal of tax deductibility of costs in these countries, introduction of reporting requirements on all transactions, and the introduction of taxation at source on payments in tax havens.

Within the European Economic Area, Germany can invoke Article 43 of the EEA Treaty. If tax havens within the EEA decide to make a complaint at the European Court of Justice against the restrictions on free movement of capital, this should be regarded as a political opportunity. The possibility for making such a complaint does not exist for tax havens which are not members of the EEA.

Finally, Germany should refuse all further cooperation agreements with tax havens on the blacklist. In particular, the Schengen Agreement with Liechtenstein should not be ratified.

Measures against tax evasion and tax havens within the European Union

The EU's savings' tax directive has introduced the principle of automatic information exchange into international law. This automatic exchange has been put into practice in 24 EU states; they are, however, inadequate and need to be extended in three areas:

- Dividends, capital gains and yields on innovative capital products such as derivatives must be included.
- Not only private individuals but also companies, trusts and foundations must be included.
- The guidelines must also apply to third countries (cf. the measures for non-EU states).

In order to get round the very common tax avoidance and the aggressive tax competition in corporate profits, a common market needs to have a minimum rate of company tax – for example 30% - to be used in the framework of a common EU tax base.

As consensus within the EU would be necessary for these measures, the German Federal Government needs to be prepared for conflict. The government must make it clear at the next round of budget negotiations that Germany will not continue to serve as the largest net contributor to the EU budget as long as the measures for tax harmonisation and the closing down of EU tax havens are not making progress. Just as the government fights for the interests of farmers and car manufacturers, we expect a consistent commitment to the fiscal basis of the social state and just division of wealth. This is not a specifically German matter, but is in the interest of everyone who does not have high capital incomes. The closures of European tax havens also benefits the developing countries, which lose at least $50 billion every year from the public purse because of tax havens.

Further Decisions

Parliament and government now have a duty to speed up the progress of the necessary measures against tax evasion and tax havens. This topic must not sink into oblivion when the media attention has died down. We suggest that
- several parliamentary committees organise hearings on this subject; and
- experts from applied science and civil society are invited to participate.

Attac advises citizens to use the European and national elections in 2009 to demand stricter consequences for tax evasion and tax fraud.

Recent decisions of the federal government

On the occasion of the state visit of the prime minister of Liechtenstein, Otmar Hasler, Chancellor Merkel demanded certain measures be adopted by Liechtenstein. The fact that the government is prepared to confront this issue and demand cooperation on international agreements is an important step in the right direction. Liechteinstein would thus be brought up to the same level of tax regulation as other EU countries.

However, the cooperation agreements which are demanded do not provide a solution for the problem of tax evasion. The agreement on combatting fraud between the USA and Liechtenstein excludes tax fraud. The arrangements in the USA to exchange tax information with providers of financial services in Liechtenstein refers only to US bonds. The implementation of the EU guidelines on money laundering does not apply to simple tax evasion.

The recognition of the OECD standards on information exchange on tax issues makes information exchange compulsory only in individual cases after national measures have been exhausted. However when the tax authorities do not know the owners of tax haven funds of €300 billion, then even information exchange in individual cases does not help a lot.

The globalised financial markets need the introduction of an international automatic information exchange in tax matters as well as international taxes, so that the gulf between rich and poor can be closed.

Signed by: Attac Germany, Campact, Federation of reformed churches in Germany, Forum Democratic Left 21 (left of the social democratic party), Initiative for pro-ecumensim in Baden-Württemberg, Inkota network of development initiatives, Left party group in the Bundestag, Medico International, National Teachers' Union (GEW), Network of development organisations in Baden-Württemberg, Plea for an ecomenical future, Young Socialists in the Social-democratic party (Jusos)

Translation: coorditrad, (coorditrad@attac.org)