Challenges in tax transparency mechanism

What is the issue?

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- Global Forum has a strict peer review in its tax transparency mechanism across the world.
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- Yet it has few challenges to overcome.
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What is Global Forum?

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- The Global Forum on Transparency and Exchange of Information for Tax Purposes (Global Forum) was constituted in 2009.
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- Currently, Global Forum has 146 member countries.
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- The aim of the Global Forum was to ensure that all countries fully implement the international standards on tax transparency and exchange of information (EOI).
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- Every country is peer reviewed on these standards, after review rating is awarded which may be ‘Compliant’, ‘Largely Compliant’, ‘Partly Compliant’ or ‘Non-Compliant’.
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- Global Forum has assigned ratings to 116 countries, the whole process has been very efficacious.
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- India is a member of all three main working bodies of the Global Forum Steering Group, Peer Review Group (PRG) and AEOI Group. In fact, India is vice-chair of PRG and AEOI Group.
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What are the concerns in claiming tax evasions?

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- Powers of tax authorities are confined to their national borders, and no universally accepted institutional mechanism is available to deal with this problem
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- There were very few legal tax treaties with Tax havens (TH) through which tax information could be obtained.
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- There were strict bank secrecy laws in TH, as providing any information about assets of foreign citizens would lead to reduction in their revenues and GDP.
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How peer review process is tackling these concerns?

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- The peer review process has led to elimination of bank secrecy in a large number of countries.
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- At the start of the review process in 2016, there were 65 countries which had bank secrecy laws and so could not exchange banking information.
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- This number has been reduced to a meagre five countries at the end of 2016.
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- It works in this way, suppose country X has domestic bank secrecy laws which prohibit the sharing of banking information with other countries.
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- As this is against the international standards, an adverse rating will be awarded to country X during peer review and country X will then be persuaded to amend its legal systems.
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- Hence, all global forum members are persuaded to increase their bilateral EOI relationships with all relevant countries.
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- The adverse rating also has a reputational effect, International organisations such as World Bank and IMF do not grant assistance to a country if the rating is adverse.
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What are the challenges before global forum?

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- The Global Forum has been substantially successful in curbing the menace of tax evasion, however some challenges remain.
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- It does not have the power to take direct action against any country, which is not following the tax transparency standard, it can only award an adverse rating
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- Tax evaders are inventing new techniques of evasion, due to its multilateral nature it is difficult for the Global Forum to target such evasions.
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- Global Forum operates on the principle of “consensus” implying that all countries should agree, which sometimes leads to less than optimal decision-making while deciding complex tax issues.
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- There are still countries which are outside the purview of Global Forum and are being used by tax evaders.
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- There has been tremendous increase in work which has put stress on the limited resources of Global Forum.
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Source: Business Line

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