Syllabus subtopic: Effect of Policies and Politics of Developed and Developing Countries on India’s interests, Indian Diaspora.

Prelims and Mains focus: about the move and its implications; about tax haven and its characteristics

News: European Union finance ministers added Panama, the Seychelles, the Cayman Islands and Palau to the EU’s blacklist of tax havens, while giving Turkey more time to avoid being listed.

Background

- The list, which was set up in 2017 after revelations of widespread tax evasion and avoidance schemes, now includes 12 jurisdictions.

- The other listed jurisdictions are Fiji, Oman, Samoa, Trinidad and Tobago, Vanuatu and the three U.S. territories of American Samoa, Guam, and the U.S. Virgin Islands.

What are the implications?

Those on the blacklist face reputational damages, higher scrutiny in their financial transactions and risk losing EU funds.

What Is a Tax Haven?

- A tax haven is generally an offshore country that offers foreign individuals and businesses little or no tax liability in a politically and economically static environment.

- Tax havens also share limited or no financial information with foreign tax authorities.
• Tax havens **do not typically require residency or business presence for individuals and businesses** to benefit from their tax policies.

• **Offshore tax havens benefit from the capital their countries draw** into the economy. Funds can flow in from individuals and businesses with accounts setup at banks, financial institutions, and other investment vehicles. Individuals and corporations can potentially benefit from low or no taxes charged on income in foreign countries where loopholes, credits, or other special tax considerations may be allowed.

• **A list of some of the most popular tax haven countries includes:** Andorra, the Bahamas, Belize, Bermuda, the British Virgin Islands, the Cayman Islands, the Channel Islands, the Cook Islands, The Island of Jersey, Hong Kong, The Isle of Man, Mauritius, Lichtenstein, Monaco, Panama, St. Kitts, and Nevis.

• **Worldwide there is not a comprehensively defined standard** for the classification of a tax haven country. However, there are **several regulatory bodies that monitor tax haven countries**, including the **Organization of Economic Cooperation and Development (OECD)** and the U.S. Government Accountability Office.

• **Characteristics of tax haven countries generally include:**
  1. no or low income taxes,
  2. minimal reporting of information,
  3. lack of transparency obligations,
  4. lack of local presence requirements, and
  5. marketing of tax haven vehicles.