ACCA STUDY PROVES FINACNIAL CENTRES DO NOT ERODE TAX BASE OF G-20 NATIONS.

PROFESSOR GILBERT NMO MORRIS

The Association of Chartered Certified Accountants (ACCA) produced a study (see: Lettre below) that rejects the longstanding argument by the OECD and the G-20 nations, that International Financial Centres (IFC) – by their activities – erode the tax bases of G-20 nations. This development is significant because it is a final rejection of the 'impossible proposition" that IFCs are a net negative in the global financial system. Nations – that by failure of regulation, and continued corruption – such as the Libor scandal (http://www.ft.com/intl/indepth/libor-scandal) has shown, that initiated the series of crisis that lead to the near collapse of the global financial system, have spent much of their time since the obvious effects of the crisis have abated, not restoring the global financial system to health, but rather blaming small nations, (former colonies), largely in the Caribbean, for the instabilities in the international financial system.

Others and myself argued the substance of the study by the ACCA, in 2000, and myself in 2001, at the UK Law Society Conference at the Villa d Este, at Lake Como, Milan, Italy, which was sponsored by the MacFarlene's Private Client Group. There I argued that the perception that funds were "soaking away" in IFCs, was a perfect nonsense, advanced by those who know or ought to know better. In 2001, a report by the Federal Reserve Bank of the United States showed that not only did the US borrow 80% of global savings, but that Financial Centres were so central to facilitating that borrowing that 70% of US bank liabilities to foreigners – including China – was processed and registered through IFCs. This means that IFCs were/are responsible for directing nearly $11 trillion

dollars into American (and international) Capital markets, financing US deficits, Debts, Household debts, etc. There is another point: Cayman and BVI have been so prominent in capital aggregation for investments into China in the last 15-years, that I will make the (only apparently) radical statement that: *Cayman and BVI contributed more than any other nation to the maintenance of global demand in the last 12 years*; which even first year economists know was driven my China's demand for resources.

The point to be noted is that International Financial Centres are a significant force in the global financial system. However in recent years, they have faced an onslaught of constant, goal-post-moving unconstitutional impositions from G-20 nations, to prevent them providing services, which are readily available in G-20 nations themselves. (Alaska, Delaware, Nevada, Wisconsin, Colorado; London, Jersey; Macau, Hong Kong and Shanghai). Financial centre governments bear some responsibility for these impositions, since the demands of the G-20 nations exposed an utter lack of sophistication in foreign policy in financial centre governments, and a conceptual failure of their the actual requirements as a financial centre thinking of itself and acting as a principal mechanism contributing to global investment flows.

I do not expect the report from the ACCA to make any significant impact. The G-20 nations will continue boldfacedly to claim the opposite of the report's conclusions, or invent new ones, and timorous Financial Centre governments will prance like ancient priests to conform and capitulate to what they know is not merely nonsense but galloping nonsense.

The result will be that new financial centres will rise in Russia, Turkey to join ones in other G-20 nations and the Middle East. And instead of the 'rule of law' – which G-20 nations are willing to override and IFCs are willing to ignore – the new financial centres will be located in nations that cannot be forced to capitulate. A new world financial order will emerge driven by ruthless tax competition, based not upon lawful rules but – in a return to 19th century power plays – on the basis of balances of power. If you say this seems rich. It was I who said 12 years ago that the OECD would never be satisfied in its demands and that IFCs posed no threat to domestic tax pools.

Read the letter below from the President of the ACCA, Mr. C. Roy-Chowdhury:

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Tax bases are not being worn away

Tax bases are not being worn away

From Mr Chas Roy-Chowdhury.

Sir, I write in response to "Low-tax nations to benefit from avoidance reform, says OECD" (April 3). The Organisation for Economic Co-operation and Development's ongoing overhaul of international tax rules should be welcomed, but amid the debate about corporation tax avoidance, a new paper from RMIT University School of Economics, Melbourne, Australia, suggests the system is not broken or being eroded due to aggressive tax planning by multinational

corporations. The report, “Multinational corporations, stateless income and tax havens”, which ACCA (the Association of Chartered Certified Accountants) commissioned, asserts that there is no evidence to support the belief that UK or the US corporate income tax base is being worn away.

Sinclair Davidson, author of the report and a professor at RMIT, says corporate income tax revenues have fallen in recent years; this is more likely to be a result of poor economic conditions than aggressive tax planning. The research is an important contribution to the debate around corporate tax avoidance. Acca believes companies should not, in principle, pursue aggressive tax avoidance.

Multinationals need to be clear about the value they bring for the benefit of their shareholders and wider society, and to communicate to all stakeholders their underlying commitment to the building of a sustainable business. Companies must see the management of tax obligations as part of that process of creating long-term value.

There is a strong case for the corporation tax system to be modernised, but before policy makers and legislators look at this issue in detail it is important to consider all the facts.

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