



JUST AN ILLUSION. Don't think you've got away from the taxman – as states increasingly sign agreements to exchange information about taxpayers, so the refuge of island tax havens is steadily eroding. Picture: Bloomberg

Nowhere to hide from tax

TAX DODGERS: STATES STEP UP SIGNING NEW EXCHANGE OF INFORMATION PACTS

» Tax dodgers have had a fine run, island-hopping between tax jurisdictions to evade the clutches of the taxman, but the net is steadily closing as states increasingly exchange information.

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Ingé Lamprecht

Tax dodgers may soon find there is virtually no place to hide as international jurisdictions step up efforts to increase the automatic exchange of information.

Against the background of an expanding global focus on cross-border tax evasion, governments increasingly access more information to verify the scope of assets held offshore.

Fatca

The Foreign Account Tax Compliance Act (Fatca), a US piece of legislation, requires foreign financial institutions to report on US account holders. The Act affects the majority of investment, corporate and wealth management firms – including South African corporates who operate in this space.

Although South Africa has no comparable legislation, it is one of the “early adopters” of the Organisation for Economic Co-operation and Development’s (OECD) Common Reporting Standards (CRS).

Under CRS, the South African Revenue Service (Sars) will start to receive similar information from partnering jurisdictions.

Speaking to *Moneyweb* on the sidelines of a Global Tax Transparency Conference hosted by Maitland and The Fiduciary Institute of South Africa (Fisa), RC Terblanche,

director at CRS Mondial, said more than 50 countries have already signed up to the CRS and the figure will grow.

Terblanche said the Global Forum currently drives the automatic exchange of information. The hope is that countries will receive financial account information to determine if tax evasion or avoidance is taking place.

But will the automatic exchange of information bring an end to tax evasion and avoidance? Or will funds likely be moved to jurisdictions such as Panama, Ukraine, Belarus, Botswana and Zimbabwe that haven’t signed up?

Andrew Knight, partner at Maitland, said a “reportable account” is an account held with a financial institution in a country that has imposed reporting obligations. Thus, taxpayers may argue that they could find a financial institution in a country that is not subject to the reporting obligations.

But, in practice, the bank where the account is being held may be wary to assist the client in shifting funds to a country that will soon be “unwelcome” as far as the CRS is concerned, Knight said.

Other possibilities could be to hold cash, gold bullion or artwork, but each of these present practical difficulties.

Terblanche expects the type of exchanged information to be expanded to include, for example, capital gains tax (CGT), properties and rental within five years.

Coming clean

So taxpayers may have to seek refuge in the Voluntary Disclosure Program (VDP).

Nel Schoeman, associate at Maitland, said the main aim and purpose of the VDP is to encourage voluntary disclosure of previous tax non-compliance.

Schoeman said in terms of the VDP, taxpayers who meet the requirements wouldn’t be liable for the full scale of penalties that would normally apply and would be protected against criminal prosecution.