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The role of the United States as a tax haven

New Greens/EFA research looks at implications for Europe

On the same week of the publication of the Panama Papers' database by the International Consortium of Investigative Journalists, providing a useful resource to track shell companies often created with the objective to evade taxes or launder dirty money, the **Greens launch a new report** on why the United States are becoming the biggest tax haven on the planet.

- Greens/EFA report: The role of the US as a tax haven and the implications for Europe

At the heart of the Panama Papers scandal was how Mossack Fonseca, a law firm based in Panama, helped its clients create shell companies in more than 20 tax havens in order for them to hide from the authorities behind a smoke screen. Many countries in the world are very lax when it comes to checking who the real physical persons behind a company or a trust are – an essential feature though to ensure that these entities have a legitimate purpose and are not just meant to hide the proceeds of illegal activities. But tax havens are not as exotic as one could imagine.

Actually, according to our research, the U.S. is becoming one of the biggest tax havens, precisely because its legislation has loopholes when it comes to knowing who owns and control companies. The U.S. is a major financial centre but the transparency of its legal framework is not consistent with the responsibility involved in being a major financial hub. Indeed, an investigation in 2012 found that creating an anonymous shell company is easier in the U.S. than in the rest of the world and states like Wyoming, Delaware and Nevada are among the most likely to supply untraceable shell companies to foreign clients. New measures announced by President Obama last week to increase financial transparency are not ambitious enough (and will – for some – require Congress' approval) to close the current gaps in US laws, which allow bad actors to deliberately use U.S. companies to hide money laundering, tax evasion and other illicit financial activities.

In addition to these loopholes, the U.S. hasn't fully committed to automatic exchange of tax information with other countries, according to the new international standards developed by the Organisation for Economic Cooperation and Development (OECD). Instead, the U.S. decided to sign a series of bilateral agreements with namely European countries but the exchange of tax information is not done through an equal partnership. Our research found that EU countries have to provide more tax information to the U.S. than this country is sending to Member States. This can create a strong incentive for those trying to hide from tax authorities to move their assets to the U.S., with less chance to be reported to EU authorities.

On this basis the paper makes a series of recommendations, including calling on all countries to create public registries of beneficial owners. This is a topical request, just ahead of the London Summit

on anti-corruption organised tomorrow by the UK. One of the key demands indeed for this Summit is to ensure that the UK will pressure its overseas territories to commit to implement public registries for companies.

Another recommendation is the request for the European Union to carefully screen the U.S. when they will elaborate their common European blacklist of tax havens (expected for the Summer). Determining who is a tax haven or not should not be a political exercise but a thorough analysis based on objective criteria. Should the U.S. not meet basic standard of transparency and cooperation, the EU should seriously consider including the U.S. on its upcoming blacklist of tax havens.

From May 17 to May 19, a European Parliament delegation from the Special Committee on Tax Rulings (TAXE2) will visit the U.S. to exchange with stakeholders on U.S. tax legislation and on-going reforms. We will make sure to relay our new findings to U.S. authorities and call for the United States to start applying decent tax transparency standards, given the role the country plays in the global economy.

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