International Information Sharing

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Final Summation

Four decades of increased trade and financial liberalization, coupled with rapid advances in communications technology, have dramatically increased cross-border trade and financial activity. These developments have had positive effects on the global economy but have also made the tax authorities' task more difficult. While taxpayers can operate relatively unconstrained by national borders, tax authorities must respect these borders in carrying out their functions. Although most taxpayers seek to comply with the tax laws, non-compliance in the international context presents significant and growing challenges for tax administrators around the globe. While it is difficult to quantify the overall revenue losses from this form of non-compliance, it is generally regarded in many countries as constituting a serious level of revenue leakage. Left unchecked or treated inadequately, it is inevitable that national tax bases will be further eroded, with negative future consequences for honest taxpayers and the overall integrity of national tax systems.

The experience of many tax administrations indicates that international non-compliance cuts across all taxpayer segments and takes many different forms:

- Individuals concealing taxable assets or income through the use of foreign bank accounts, offshore trusts or shell companies, often located in countries that do not exchange relevant information for tax purposes.
- Small or closely-held businesses using shell companies to shift profits abroad often using fictitious invoices or over (or under) charging for related party transactions.
- Large (often multinational) corporations engaging in any number of sophisticated transactions ranging from cross-border financial schemes which are profitable only due to the embedded tax benefits, to the misuse of tax treaties, to the manipulation of transfer pricing to artificially shift income into low tax jurisdictions and expenses into high tax jurisdictions.

Administrative co-operation between foreign tax authorities helps them to deter, detect, correct and, in appropriate cases, penalize, such non-compliance. A key element of such co-operation in tax matters is information sharing between tax authorities. Exchange of information between tax authorities gives them access to relevant information that they otherwise would not be able to obtain. It also helps them to maintain sovereignty over their choice of tax system. If taxpayers are able to cheat the domestic tax system by concealing income, assets and the true nature of their activities abroad, the design of that country's tax system may become increasingly influenced by the effects of secrecy laws (or de facto secrecy resulting from lack of effective exchange of information) of other countries rather than domestic tax policy objectives.

Legal instruments that provide for exchange of information in tax matters have been around for some time but have recently grown in importance due to the changing, more global economic environment. Tax authorities are also thinking more strategically about the types of information they exchange and how they exchange it. The use of technology to share information has the potential to improve the efficiency of exchange of information but must provide equivalent guarantees of confidentiality to those available under traditional, paper-based exchanges of information.

Overall, the trend to strengthen information sharing capabilities between tax administrations is likely to continue not only in terms of the legal instruments and the technology used, but also, and perhaps more importantly, in the development of more strategic approaches to information sharing. As technology, the global economy and information exchange practices continue to evolve, there will be an ongoing need to ensure that an appropriate balance is maintained between taxpayers' legitimate expectation of privacy and tax administrations' legitimate need for information to enforce their respective tax laws.