

THE ROLE OF FINLAND IN PROMOTING INTERNATIONAL TAX CO-OPERATION

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It is a great pleasure to have the opportunity to speak in this event. I would also like to greet you on behalf of the Finnish Minister of Finance Jutta Urpilainen. If she were here, she would certainly talk about the idea of a more ethical market economy and argue that fight against tax havens and large-scale tax evasion is one of the great challenges of our time. This challenge also implies a clear north-south dimension as developing countries lose tax revenues far more than the amount of annual aid flows. Then there is an urgent need for tax transparency, for tax justice and international cooperation on tax issues.

International co-operation is essential in trying to set limits to tax planning and tax avoidance and prohibiting tax evasion. The financial crisis has created an opportunity and a favourable atmosphere to enhance international tax co-operation.

The Finnish government is committed to stand in the frontline in putting an end in international tax evasion. Intensified action to combat the shadow economy is one of the Government's priorities, too.

At the moment, a draft proposal for limiting interest deductibility in corporate taxation is an example of a legislation aiming to reduce aggressive tax planning and secure Finnish tax revenues. Though the proposed legislation applies equally to domestic and cross-border interest payments, one of the major aims is to limit tax planning in cross-border transactions. The new legislation is planned to come into force at the beginning of the next year.

Multinational corporations account for roughly 60 per cent of the world trade and intra-group transactions account for more than a half of MNC transactions. Different actions have also been taken for reducing tax gap and increasing tax revenues by way of scrutiny and control of transfer pricing of multinational corporations. One of these actions is the tax legislation concerning documentation requirements in transfer pricing. The legislation gives better possibilities for tax authorities to intervene in misuse of transfer pricing as well as to provide active guidance for the customers. International co-operation has been essential in developing transfer pricing know-how.

The Government Programme states that Finland supports the wider dissemination of automatic and multilateral exchange of taxation information. Work will be continued to negotiate agreements with tax havens on the exchange of taxation information. Finland also participates actively in international co-operation in this field.

The **Global Forum on Transparency and Exchange of Information for Tax Purposes** is a multilateral framework for this work. The Global Forum comprises more than one hundred member jurisdictions plus the European Union and international organisations as observers. The Global Forum is mandated to ensure that all jurisdic-

tions have the same high standard of international cooperation in tax matters set down in the Terms of Reference. It is carried out through a comprehensive, rigorous and robust peer review process conducted by teams of expert, independent assessors. The peer review of Finland shall take place in August 2012.

The OECD has identified about 50 states which have bank secrecy legislation for offshore financial centres. **Tax Information Exchange Agreements (TIEAs)** provide one tool to improve transparency and effective exchange of information. Such agreements can diminish interest in using these tax havens for the purposes of tax evasion. More than 700 agreements have been signed during this process.

Parallel with work at the Global Forum, the Nordic Countries have launched a joint Nordic project in order to negotiate Tax Information Exchange Agreements with jurisdictions identified by OECD. In order to strengthen the Nordic negotiating position in relation to tax havens and to hold down negotiation costs, the Nordic countries co-ordinate their negotiation work under the auspices of the Nordic Council of Ministers. The project has been a success. The Nordic countries have individually signed at least 37 bilateral information exchange agreements or changed Exchange of Information articles in already existing tax treaties. The work of the Nordic Project is scheduled to be completed in 2012.

Income from interest on capital is one of the most mobile tax bases, and tax competition is rife. In order to ensure the proper operation of the internal market and to tackle the problem of tax evasion the **Savings Tax Directive** was adopted in June 2003. It has been applicable since 1 July 2005. The directive applies to cross border interest payments to individuals resident in an EU Member State and implies that Member States receive automatically information on interest payments of their residents. Finland also welcomes any further enlargement of automatic information exchange on tax matters.

In this context it might also be useful to have a closer look at the Foreign Account Tax Compliance Act (**FATCA**) recently introduced in the United States. The Act aims at identifying individuals having deposits in foreign financial institutions and being obliged to pay taxes on their deposits and investments to the United States. The legislation has an impact on operators also within EU. The main aim of FATCA is to increase the ability of the U.S. tax authorities to prevent cross-border tax evasion through enforcing the access to information from foreign financial institutions (FFIs).

There have been some concerns about the high compliance costs that application of this legislation would require. Because the policy objective of FATCA is to achieve reporting, the United States is open to conclude bilateral agreements on exchange of information to implement FATCA. Also Finland has indicated that it is interested in the intergovernmental approach.

To tackle the problems of tax evasion requires an ongoing international cooperation and new initiatives on both the European and international agenda. The above mentioned examples of international co-operation provide a good basis for this work and Finland is seriously considering various ways of engaging even more actively in this process.

The Finnish government is also committed to work towards increased stability, transparency and accountability of the international financial markets. In its programme, Finland urges an international financial market tax be introduced on as wide a geographical basis as possible. The aim is to install a global tax, but in the first stage an EU-level system might also be viable. The government also finds it important that EU projects currently in preparation for the regulation of financial markets are expedited. We very much appreciate the excellent work by the International Task Force on Financial Integrity and Economic Development in a number of issues related harmful tax practices.

New initiatives aimed at good global governance have been particularly important on the agenda of the PES (Party of the European Socialists) and other international and national Social Democratic organisations. Our minister of finance Jutta Urpilainen is very committed to promote the initiatives on these platforms, too.

With these remarks I thank you for the opportunity to speak here today. I do hope that our joint efforts of tackling serious problems of tax evasion and cultivating more ethical practices will prove successful.