Panama Leaks and the Tide of Tax Reform

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The leak of the **'Panama Papers'** has created an enormous scandal and, more importantly, a great deal of political momentum for the international tax reform agenda. The leak of 11.5 million files from **Mossack Fonseca**, reportedly the world's fourth-largest law firm providing offshore financial services, has exposed a range of politicians, their families and many celebrities. The leak is unique due to its size, but the news story of political elites stashing their wealth offshore is an old one. It has been exposed over time through various leaks, including those in recent years from Luxembourg, Singapore and Switzerland. The Panama Papers differ simply due to the size of the leak and how many key political figures have been targeted, leading to the resignation of the Icelandic Prime Minister and to the application of **intense pressure on the British Prime Minister**. While the Panama Leaks reveal the nefarious activities of individuals, and will lead to pressure to improve rules governing individuals, an equally important outcome will be an accelerated policy agenda on corporate avoidance activities.

We have just seen this week some political action from the **European Commission** on tax transparency, which calls on large firms to make their tax affairs within Europe more transparent. This is a partial measure, which could be greatly improved, but signals the flow of reform. A stronger push from International Economic Organisations (IEOs) on Country-by-Country Reporting is needed. This has been integral to the **OECD's Base Erosion and Profit Shifting agenda**, and now there is an opportunity for the EU and IEOs to take a tougher line on both corporate transfer pricing as well as individual tax avoidance and evasion.

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We should also be aware that the IMF-World Bank Spring meetings are this week. There is a good opportunity for the **IMF** and **World Bank** to put their irons in the fire on tax avoidance and evasion. The IMF's job is to build stable fiscal revenue systems. The World Bank's job is to encourage robust businesses. Tax avoidance and evasion undermine these goals. A recent Oxfam report suggests that most sub-Saharan African recipients of World Bank investments use offshore financial services. When this undermines the amount of taxes paid in the jurisdiction where the businesses actually operates, the use of offshore financial services is damaging. The issue of whether the

World Bank should support businesses that undermine fiscal capacity (and welfare) in the countries where they are based needs to be on the table.

Focusing on such issues is vital for global tax reform to continue apace. It could also focus on the practical aspects of reform. A key issue is simply a **lack of bureaucratic and technical capacity on cross-border tax issues**, even within advanced OECD countries. International carrots and sticks can be created for authorities to speed-up traces on suspected illicit capital flows, as well as how to best use the intensifying Automatic Exchange of Information regime. The IMF has a long-term stake in providing technical assistance to its member states on fiscal matters. Such assistance could be given a shot in the arm by coordinated action with the OECD, whose Global Forum is establishing itself as the leader on fighting tax evasion and avoidance for both individuals and corporations. From the leaks in Panama, Luxembourg and elsewhere, **the tide on tax reform is rising**.