Developing Nations and the Automatic Exchange of Information Standard – A ‘One Size Fits All’ Solution?

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Abstract

Suggested measures to counter international tax avoidance and evasion are numerous. Many of the proposals focus on substantive regulatory and policy amendments to ensure that aggressive tax planning measures are adequately dealt with. Complementing such measures is the call for greater disclosure and reporting requirements. In particular, we have recently seen the OECD, at the invitation of G20 countries, develop what it refers to as the new single global standard for the automatic exchange of information between key authorities worldwide. This standard, if adopted by a nation, would require the annual automatic exchange of information relating to financial accounts obtained from financial institutions and exchanged in a common reporting format or standard. The OECD defines automatic exchange of information as the systematic and periodic transmission of ‘bulk’ taxpayer information by the source country to the residence country concerning various categories of income. Theoretically, the adoption of the automatic exchange of information standard on a global scale would equip all nations to address the illicit flow of money to locations, which result in tax avoidance. However, the success of the automatic exchange of information standard relies on nations to be able to first, collect and supply the information required and second, effectively use and benefit from the information provided to it. This means that such an adoption places an onerous administrative burden on a nation and this is arguably especially the case for developing nations which do not have the same level of administrative resources and intellectual capital as developed nations. Studies have revealed that developing nations support the automatic exchange of information and view it as an opportunity to address illicit financial flows. However, the implementation of such a regime, according to the OECD, requires a sound legal framework, technical know-how, infrastructure, and personnel capacity. Consequently, developing nations are most concerned about the lack of capacity to (1) collect the information locally to allow full reciprocal information exchange, (2) analyse the information received, and (3) deal with information technology. The purpose of this paper is to critically analyse the OECD’s automatic exchange of information standard and assess the standard from the perspective of developing nations and emerging economies, including Global Forum members. It does so with the aim of revealing the ‘unique’ administrative and enforcement issues which may arise for those nations.

Keywords: international tax, developing nations, automatic exchange of information