

Tracing trails: implications of tax information exchange programs for customs administrations¹

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Abstract

The G20 recently agreed to adopt multilateral automatic tax information exchange as a global standard in the fight against cross-border tax fraud and evasion. The Organization for Economic Cooperation and Development (OECD) has, since the late 1980s, promoted tax information exchange between tax authorities to help its member states identify residents' incomes and assets contained in tax havens. The global customs community could benefit from a similar type of endeavour as cross-border trade on which customs administrations impose levies is as susceptible to tax evasion as other cross-border economic activities. Additionally, revenue generated by customs administrations accounts for a considerable share of government tax revenue. The World Customs Organization (WCO) has developed a variety of instruments and tools dealing with the exchange of customs information for its Members. Customs administrations hoping to enhance the exchange of customs information can focus on identifying trails that trade transactions leave not only in export countries and other competing import countries but also in the trade payment process.

1. Introduction

Discussions on fiscal transparency and the exchange of tax information were top of the agenda for G8 leaders who met in Lough Erne, Northern Ireland in June 2013. During the G20 summit that ensued in St Petersburg, the global leaders agreed to adopt multilateral automatic tax information exchange as a new global norm to tackle cross-border tax evasion and avoidance. In fact, efforts to control cross-border tax evasion and avoidance which exploit tax havens began as early as the 1960s.³ However, the global leaders' renewed concern can be attributed to the global financial crisis of 2007-08 and subsequent global tax scandals involving tax havens (Scott 2012; Tobin & Walsh 2013). Irrespective of whether tax havens can be held to account for the global financial crisis,⁴ global leaders, prioritising the restoration of strong and sustainable growth in the world economy, have emphasised the importance of fair tax revenue and fighting cross-border tax evasion and avoidance (Nicodeme 2009; Cameron 2013).

The ultimate goal of tax information exchange is to locate and levy taxes on hidden tax bases which, due to bank secrecy laws and national jurisdictions, remain concealed. The Organisation for Economic Cooperation and Development (OECD) has, since the late 1980s, promoted tax information exchange between tax authorities to help its member states identify residents' incomes and assets contained in tax havens. The OECD's tax information exchange initiative does not include information concerning customs duties. Furthermore, the G20's renewed focus on cross-border tax evasion and avoidance does not take into account the global customs community's concerns and activities, in spite of the fact that cross-border trade on which customs administrations impose levies is as susceptible to tax evasion

as other cross-border economic activities. Additionally, revenue accrued by customs administrations accounts for a considerable share (in some cases up to 30%) of government tax revenue.

Fulfilling one of their primary roles, levying taxes on cross-border trade and chasing illicit trade transactions, customs administrations have come to realise that information exchange with foreign customs administrations and with other domestic relevant authorities is necessary. The global customs community has explored ways to exchange trade data for over a decade. In this respect, the OECD's tax information exchange initiative with support from the G20 should lead to a renewed impetus amongst the global customs community. Analysis of the progress of tax information exchange and implications of such an exchange of information would be useful for customs administrations and could lead to renewed momentum in terms of inter-connectivity of those agencies.

2. Tax information exchange

2.1 Background

Cross-border tax evasion and avoidance, issues which G20 leaders have agreed to tackle, stem from an increased tax base mobility and the resultant tax competition (Avi-Yonah 2000; Genschel & Schwarz 2011). Since the 1950s, as the world has become increasingly globalised, cross-border mobility of taxable assets and activities, such as capital, labour, corporations, goods and services, has increased greatly (Nicodeme 2009). However, unlike taxpayers operating across borders, tax authorities remain confined to their national borders (OECD 2012). It has therefore become increasingly difficult for tax authorities to identify undeclared tax bases,⁵ unless taxpayers declare their incomes and assets overseas honestly (Thuronyi 2001). As the tax burden for taxpayers depends on the withholding taxes of source countries, that is, those countries where taxpayers work and invest, some taxpayers have moved workplace, assets, and businesses to low-tax jurisdictions to avoid a higher rate of taxation. Some small countries⁶ have lowered their tax rates and enhanced bank secrecy laws to attract new tax bases and afford protection to those who would otherwise face prosecution in their countries of residence (Keen & Ligthart 2006; Genschel & Schwarz 2011).

The OECD launched an initiative in the late 1990s aimed at encouraging its members to harmonise their tax rates to reduce tax differentials whilst simultaneously persuading low-tax jurisdictions to raise their tax rates. However, this initiative triggered much discussion about possible infringements on national tax sovereignty. The OECD reorientated its focus on the exchange of information on a tax base where countries do not need to relinquish any of their national tax sovereignty in taxing their own residents, and can help others to exercise their sovereignty in taxing their citizens (Keen & Ligthart 2006; Nicodeme 2009). The OECD has endeavoured to encourage exchanges of tax information between tax havens and other countries for over a decade. After the financial crisis of 2007-08 and the resultant focus on fiscal transparency, the G20 committed to the establishment of a new global standard for *automatic* exchange of tax information.

2.2 Types of information exchange and legal frameworks

There are three main types of tax information sharing: on request, automatic, and spontaneous. Information exchange on request involves transmitting tax information in response to a specific request from the residence country. An automatic exchange of information enables tax authorities of the source country to pass all tax-relevant information, periodically, to the residence country with whom they have agreed to exchange information. In the latter concept, spontaneous information exchange, the authorities of one country, on their own initiative, send information which may be acquired in the course of an audit to the tax authorities of another country, believing that it would be of interest to them (Keen & Ligthart 2006).

The most common form of information exchange is known as information exchange on request. However, since information exchange on request is premised on requests for information on specific taxpayers, the tax authorities have difficulties in making use of this type of information exchange without a grounded suspicion of an instance of tax evasion or avoidance. In addition, information sharing with another country is not necessarily in a country's best interests (Keen & Ligthart 2006; OECD 2012) and information is not transmitted as efficiently or as promptly as those countries that require the information would expect. Thus, the European Union (EU) and the United States of America (US) have opted to support automatic exchange of tax information.

Table 1: Types of information exchange and their legal frameworks

	Bilateral approach	Multilateral approach
Exchange on request	<ul style="list-style-type: none"> • Double taxation treaties • Tax Information Exchange Agreements 	<ul style="list-style-type: none"> • EU Mutual Assistance Recovery Directive • OECD <i>Multilateral Convention on Mutual Administrative Assistance in Tax Matters</i>
Automatic exchange	<ul style="list-style-type: none"> • Double taxation treaties (e.g., FATCA of the US) • OECD <i>Multilateral Convention on Mutual Administrative Assistance in Tax Matters</i> 	<ul style="list-style-type: none"> • EU Savings Tax Directive • EU Administrative Cooperation Directive

Source: Han & McGauran 2013.

Irrespective of the different types of information exchange, tax information exchange is always predicated on a legal foundation (Keen & Ligthart 2006). There are a number of legal instruments in place to support tax information exchange. These instruments are categorised in three forms: double taxation treaties, multilateral conventions, and other bilateral agreements outside tax treaties. Most tax information is exchanged through double taxation treaties which are concluded to avoid double taxation⁷ and to prevent cross-border tax evasion (Thuronyi 2001). Many countries have also entered into bilateral agreements solely concerned with information sharing.⁸ These agreements are sometimes intended to strengthen information sharing provisions in existing applicable double taxation treaties (Keen & Ligthart 2006). The bilateral approach, however, entails not only considerable costs with regard to the negotiation and amendment of agreements (Thuronyi 2001) but also engenders difficulties associated with the third-country problem: non-cooperating third countries benefit more from information exchange cooperation than cooperating countries due to an increase in the inbound flow of tax-base evading tax in the so-called 'cooperative countries' (Genschel & Schwarz 2011).

In response to these problems, a number of multilateral agreements on information exchange have been concluded. The major multilateral instruments are the EU Mutual Assistance Recovery Directive, the EU Savings Tax Directive, and the OECD Multilateral Convention on Mutual Administrative Assistance in Tax Matters. The EU Mutual Assistance Recovery Directive⁹ provides for the exchange of information on request on direct taxes and certain indirect taxes (value-added tax and excises) among authorities of the EU (Keen & Ligthart 2006). The EU Savings Tax Directive provides for automatic information exchange (as distinct from a simple request mechanism) on interest accrued from savings (OECD 2013b). The EU Administrative Cooperation Directive expands the scope of automatic information exchange to encompass income from employment, directors' fees, life insurance products, pensions, and immovable property (European Commission [EC] 2013).

The OECD *Multilateral Convention on Mutual Administrative Assistance in Tax Matters*¹⁰ contains a provision for the automatic exchange of information on a broad array of taxes covering direct taxes and virtually every form of indirect taxes (excluding customs duties) levied at both national and local level (Genschel & Schwarz 2011). However, the Convention’s automatic exchange framework is not a typical multilateral agreement. The information exchanges are based on a unique set of integrated bilateral treaties; they require a separate agreement between the competent authorities of the parties which can be entered into by two or more parties thus allowing for a single agreement with several parties (with actual automatic exchanges taking place on a bilateral basis) (Keen & Ligthart 2006; OECD 2013b). The Convention was amended in response to a demand from the G20 in 2009 to align it to the international standard on exchanges of information and to open it to all countries, in particular to ensure that developing countries could benefit from the new, more transparent, environment. As of December 2013, the number of signatories to the Convention is 61¹¹ (OECD 2013a).

Table 2: Automatic tax information exchange systems

	The current EU Savings Tax Directive	The revised EU Savings Tax Directive	The EU Administrative Cooperation Directive	The Foreign Accounts Tax Compliance Act of the US
Subject of information exchange	Savings income	Savings income, Investment funds, pensions and innovative financial instruments, and payments made through trusts and foundations	Income from employment, directors’ fees, life insurance products, pensions, and immovable property	Foreign accounts of the US taxpayers
Contracting parties	26 ¹² EU member states	27 EU member states	27 EU member states	Ireland, Denmark, Germany, Japan, Mexico, Norway, Spain, Switzerland, and UK (9)
Effective date	July 2005	Adoption before the end of 2013	January 2013	March 2010

Source: Han & McGauran 2013.

3. Implications for customs administrations

Even if goods cross borders, customs administrations do not engage in cross-border taxation as those agencies only impose customs duties and other taxes on goods in accordance with the destination principle. Nevertheless, the OECD’s tax information exchange initiative has several implications for customs administrations. Information exchange with relevant authorities enables customs administrations to trace trails that traders leave behind and to identify elusive tax bases.

3.1 Information exchange between customs administrations

Goods upon which customs administrations levy taxes leave trails in both import and export countries. Customs administrations of such import countries could leverage data contained in export declarations

sourced from export countries when auditing import declarations to verify their accuracy by comparing import data and the corresponding export data. This kind of bilateral exchange of trade transaction data is best exemplified by the trade transparency unit (TTU) of the United States Immigration Customs Enforcement (US ICE) and similar organisations found throughout Argentina, Brazil, Colombia, Paraguay, Mexico and Panama (Zdanowicz 2009). These TTUs collected and compared import/export declarations from the US with export/import declarations of the other participating countries to identify any anomalies in trade transactions.

Operation Deluge, a collaboration between US ICE and Brazilian authorities conducted in 2006, focused on the analysis of trade transactions data and resulted in the detection of the evasion of Brazilian Customs duties and taxes amounting to more than USD200 million. Goods which have a global reach and benefit from global consummation, however, may require a different approach. Multinational corporations (MNCs) trade globally-sold goods *intra firm* and are less likely to leave a visible trail of discrepancies between export and import declarations. However, they could leave differing trails in different import countries. Customs administrations could identify price differentials among the same goods which can lead to the detection of under/over valuation, by comparing import declarations of different countries. In practice, several customs administrations unofficially managed to exchange information on the prices of goods that were exported by MNCs. There is little evidence about how much information was exchanged and how such exchanged information was used to detect under/over valuation of MNCs; nonetheless, an analysis of the prices of identical goods traded amongst MNCs could potentially help to tackle the issue of transfer pricing and MNCs. The establishment of an *intra-firm* trade database, and the sharing of information concerning the price of goods traded *intra-firm* between customs administrations, could prove to be an effective remedy to the issue of transfer pricing amongst MNCs.

In response to the need for trade information exchange between customs administrations, the global customs community has developed various mechanisms for exchanging information. These mechanisms are suitable for both enforcement and trade facilitation purposes, and include the exchange of best practices, intelligence, and individual trade transactions. The WCO has also provided instruments and frameworks to support information exchange between customs administrations. The WCO Council adopted the *International Convention on Mutual Administrative Assistance for the Prevention, Investigation and Repression of Customs Offences* (known as the Nairobi Convention) in 1977 to enable multilateral mutual assistance including the exchange of enforcement intelligence and assistance during investigations. Then, in 2003, the WCO developed the *International Convention on Mutual Administrative Assistance in Customs Matters* (the Johannesburg Convention); however, this Convention has not entered into force. The WCO revised a Model Bilateral Agreement on Mutual Administrative Assistance in Customs Matters for a more enhanced mutual assistance process in 2004. Based on the WCO Model Bilateral, many customs administrations have concluded mutual administrative assistance agreements, including MOUs, and have exchanged enforcement information and intelligence spontaneously or on request.

The World Trade Organization's (WTO) Trade Facilitation Agreement, announced in December 2013 at the WTO ministerial conference in Bali, advocates that trade information be exchanged between customs administrations on request.¹³ In addition, the WCO has developed the Globally Networked Customs framework to standardise and facilitate the exchange of commercial and enforcement information. Recently, several customs administrations have succeeded in exchanging not only static information, such as information on authorised economic operators, but also recurring commercial data, such as export and transit data. The WCO is undertaking standardisation of the information exchange cases in the form of modules called "utility blocks" to ensure that the information contained therein is shared with other customs administrations. To accelerate the exchange of enforcement information, the WCO operates the Customs Enforcement Network (CEN) platform, which encompasses databases and communication tools. The WCO encourages the exchange of information regarding smuggling of illegal drugs, tobacco, counterfeit goods, and endangered flora and fauna via the CEN database and coordinates enforcement operations and projects via CENcomm.

The global customs community has a distinct advantage over tax authorities in the realm of information exchange. Trade data exchange is less complex than tax information exchange. Unlike tax information which tax authorities source from financial institutions to share with foreign tax authorities, records of trade transactions already exist within customs administrations. In addition, customs administrations do not face the ‘third-country problem’ when exchanging trade data. In other words, the trade tax base (that is, trade transactions) is not as mobile as other tax bases (for example, capital) in terms of taxation; the mobility of trade transactions is determined by importers; trade taxes are imposed in the destination country, and high trade tax rates and trade data exchange do not have a direct influence on importers when deciding which goods to import. In spite of the favourable environment which is alleged to exist for customs information exchange, the WCO has faced significant hurdles in its efforts to facilitate information exchange. Compared to tax authorities, customs administrations of import countries do not have a legal basis from which to claim information on export goods and exporters from customs administrations of export countries. In practical terms, tax authorities of residence countries can request information on their residents’ incomes and assets from their counterparts based in source countries because they have a right to impose taxes on the incomes and assets of their residents living in source countries. In contrast, customs administrations of import countries do not have the right to take any measures on exporters of export countries as they often encounter difficulties obtaining corresponding export data from customs administrations of export countries. However, if the need to share data is mutual between the customs administrations, the exchange of export data can be easily effected. To prevent an imbalance in the provision of information between customs administrations, customs information exchange would ideally be conducted on an automatic basis and not on request.

3.2 Information exchange with tax authorities

Importers leave trails not only during the customs clearance process but also whilst filing tax returns and processing trade payments. Customs administrations can uncover hidden tax bases and help tax authorities improve their enforcement performance by comparing customs’ trade data and relevant data from tax authorities.

As far as information exchange between customs administrations and tax authorities is concerned, customs administrations are not as dependent on information from tax authorities regarding traders’ incomes and assets in their daily activities as is imagined. Nonetheless, information regarding imports and exports from tax authorities could prove beneficial: information which pertains to purchases and sales from the perspective of the tax authorities. In other words, traders’ imports/exports of goods from/to other countries are seen as purchases/sales of goods from the perspective of tax authorities. Since all imports are supposed to be reported as purchases (that is, cost) to tax authorities, a comparison between customs administrations’ import data and tax authorities’ purchase data could theoretically result in the detection of undeclared or misdeclared tax bases for both parties.

It is important to note, however, that information exchange between customs administrations and tax authorities may not be mutually beneficial. Tax authorities can benefit from customs’ trade data because trade data are compiled on a trade transaction basis, and thus it is easy for tax authorities to identify which import or export transactions are not reported as purchases or sales by comparing taxpayers’ (traders’) tax return documents and customs trade data. However, tax information does not necessarily serve customs administrations in the detection of illicit trade because electronically sharable tax information is usually maintained per business unit and includes aggregate quarterly sales and purchases figures for each business, and no information on individual sales/purchases. Thus, customs administrations need to receive additional specific information from tax authorities to identify whether there are undeclared imports/exports among reported purchases/sales. In other words, electronically sharable tax information is at an aggregate level for customs administrations, even information pertaining to individual businesses. It could be useful in gauging each trader’s business transaction volume during certain assessment periods

but it is less useful in the detection of illicit trade transactions, as illustrated in the experiences of the Finnish and Korean customs administrations.

Finnish Customs and the Finnish tax authority exchange information from import/export declarations and VAT recapitulative statements. Unlike import/export declarations which are maintained on a transactional basis, VAT recapitulative statements include information on the total supplies to other taxpayers on a quarterly basis. Analysing each declaration using VAT recapitulative statements does not automatically lead to the detection of VAT fraud cases but is useful in identifying abnormal transactions. The Korea Customs Service (KCS) also regularly exchanges information on tax bases such as trade transactions, quarterly purchases and sales of traders with tax authorities. The Korean example demonstrates that the introduction of automated systems to customs and tax authorities is important in exchanging information on tax bases because the electronic recording of traders' trade activities and systematic management of them are essential in identifying relevant data and collecting such data from the other party. The experience of the KCS suggests that the exchange of information on tax bases serves as a reference point to narrow down investigative targets rather than a guarantee of the detection of evasion of customs duties and taxes.

Unlike with the exchange of information between customs administrations and tax authorities, customs administrations can benefit from detailed transactional information from tax authorities, especially with respect to taxing transfer pricing. Customs administrations and tax authorities address the same tax bases (transfer prices of MNCs), and have the same goal (the collection of more tax) but each approaches the issue from a different perspective. Customs administrations concentrate on importers' undervaluation whereas tax authorities zero in on MNCs' overvaluation (Blouin, Robinson & Seidman 2012). Trade taxes (for example, customs duties and VAT) are imposed on the values of the goods whereas corporate income tax is levied on net profit – the difference between sales and purchases – and the more purchases, the less tax payment. Some MNCs report two different transfer prices¹⁴ to customs administrations and tax authorities to minimise their tax payment. A comparison of MNCs' import and purchase data for a particular commodity helps customs administrations and tax authorities to identify decoupled transfer prices. The decoupled transfer prices are likely to result in the detection of either customs duty evasion or corporate income tax evasion, although customs administrations and tax authorities need to coordinate their respective audits. The WCO and the OECD have engaged in a cooperative endeavour¹⁵ to harmonise customs valuation and taxation on transfer pricing (Ping & Silberztein 2007).

In addition to sharing ordinary trade data, customs administrations can help tax authorities to detect cross-border tax evasion by sharing export and import declarations pertaining to the means of payment (for example, cash). Some residents may declare their exports of cash to Customs when leaving for other countries and purchase immobile assets overseas with the exported cash without reporting these assets to tax authorities of residence countries; some residents may declare their imports of cash earned overseas to Customs, not reporting the income to tax authorities. Thus, if customs administrations share export or import declarations of monetary instruments with tax authorities, tax authorities can detect unreported cash-based incomes and assets. Furthermore, exchange of cash export/import declarations between customs administrations can enhance tax authorities' ability to detect unreported cash-based incomes and assets. In other words, when some residents declare their cash exports to Customs of departure countries but not to Customs of arrival countries, then tax authorities of residence (arrival) countries have little chance of discovering unreported cash-based incomes and assets. However, exchange of information on cash export/import declarations between customs administrations can make a difference in the detection of unreported cash-based incomes and assets.

Customs administrations can benefit from tax information not only in the detection of illicit trade but also in the collection of unpaid trade taxes. Customs administrations have difficulties in dealing with traders' default on tax payment because many administrations do not have the requisite information on traders' incomes and assets which could enable them to collect the tax due. As customs administrations do not

have the requisite information to hand to enforce payment on trade taxes, traders can continue with their domestic businesses even if they default. Information exchange could prove beneficial for customs administrations in these instances and help to ensure the recovery of unpaid trade taxes from traders, leveraging tax information including traders' incomes, assets, and domestic business transactions.

Exchange of information between customs administrations and tax authorities covers not only tax bases, such as trade transactions, purchases, sales, incomes, and assets, but also investigative cases. Customs administrations and tax authorities can encounter the other party's enforcement targets, while examining or investigating their own enforcement targets. Unlike French Customs and tax authorities that have an obligation to inform the other party of any suspicious cases that they encounter while conducting examinations for their own purposes, most customs administrations and tax authorities will hesitate to share with the other party their findings related to the other party under the pretext of protection of the privacy of traders or taxpayers and of respect for the other party's turf. However, information on investigative cases is more useful and efficient than that on tax bases in the detection of their enforcement targets.

In Finland, prior to exchanging information on investigative cases between customs administrations and tax authorities, assessment on illegal and informal economies is made by the Gray Economy Information Unit of the Finnish tax authority in consultation with Finnish Customs in order to better aim to enforcement targets. In the course of conducting surveys on the gray economy and developing compliance reports of suspicious taxpayers, the unit collects information about suspicious individuals from the tax authority, Customs, and the pension service. Customs administration's criminal investigation unit and tax administration's VAT Anti Fraud Unit regularly exchange intelligence and early warnings on VAT returns and conduct joint operations to tackle missing trader inter-community (MTIC) fraud cases. In Korea, investigative information exchange between the customs administration and tax authority is concentrated on cross-border tax evasion. Whereas the customs administration informs the tax authority of cases where evasion of corporate income tax is suspected, while investigating the flight of capital overseas and money laundering, the tax authority hands over the cases that are related to money laundering and capital flight uncovered during the investigation of cross-border tax evasion to the customs administration.

4. Conclusions

Although it manifests itself in a different manner, tax evasion is as firmly embedded in cross-border trade as it is in cross-border economic activities, such as saving and investing. Illicit trade which exploits the disconnected trade data flows between export countries and import countries has posed a serious threat to the tax revenues of many developing and some developed countries which are dependent on international trade. Information exchange is as important for the global customs community as it is for tax authorities. Recent initiatives by the G20 leaders and the OECD, such as its multilateral automatic tax information exchange initiative, have significant implications for customs administrations in identifying elusive tax bases and combating illicit trade. The fact that an exchange mechanism such as tax information exchange already exists within tax administrations might galvanise customs administrations into action and lead to the resumption of discussions regarding customs information exchange.

The global customs community, taking into account the challenging reality of customs information exchange, needs to examine an alternative information source which they can leverage in the combat against illicit trade and even money laundering-trade payment data, while striving for customs information exchange. Customs administrations have conventionally dealt with the movement of goods but have somewhat ignored the movement of trade payments. Even if trade data exchange is enforced between customs administrations as tax information exchange is between tax authorities, it may not result in the detection of illicit trade. Trade data exchange is based on the misleading assumption that export

declarations are more accurate than import declarations. However, given the fact that customs authorities focus more on import declarations than export declarations, the accuracy of export declarations is of little consequence for customs administrations. To this day, only a small number of customs administrations have switched their focus from the examination of the movement of goods to the direction in which payment flows. This methodology, examining both the flow of payment and goods, can lead to the discovery of important indicators in the detection of illicit trade transactions.

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Notes

- 1 The views expressed in this article are those of the authors and do not necessarily represent those of the WCO or WCO policy.
- 2 The authors are grateful to Robert Ireland and Man-hee Jo of the WCO, Leea Hoffman of Finnish Customs, and Matthew Yongho Joo of the Korea Customs Service for their insightful input.
- 3 The US tried to hold a tight rein on tax havens in the 1960s (*The Economist* 2013). The OECD in 1998 introduced the Harmful Tax Practices initiative to discourage the use of preferential tax regimes and to encourage effective information exchange among tax authorities. As part of the initiative, the OECD produced a list of tax havens in 2000 (Dharmapala 2008).
- 4 It is true that many special purpose entities/vehicles were located in tax havens/offshore financial centres. However, according to many scholars and professionals, tax havens are not necessarily a cause of the global financial crisis of 2007-08 (Palan 2010).⁵ Many countries tax their residents' overseas income and assets in accordance with the residence principle (Genschel & Schwarz 2011).
- 6 For small countries, a cut of tax rates is likely to bring in more revenue gain by an increase in inbound flow of tax base than revenue loss by it (Keen & Ligthart 2006; Genschel & Schwarz 2011). However, contradictory evidence is also provided that tax havens may not intensify tax competition to the extent that might be anticipated (Tobin & Walsh 2013).
- 7 Most countries assert a right to tax both residents on their worldwide income from domestic and foreign sources under the residence principle and domestic income earned by domestic or foreign owners under the source principle (Genschel & Schwarz, 2011).
- 8 Many double taxation treaties are concluded on the basis of the OECD Model Tax Convention on Income and on Capital (Owens & Bennett 2008) and the OECD Model Agreement on Exchange of Information on Tax Matters became the basis for Tax Information Exchange Agreements (TIEAs) (Nicodeme 2009).
- 9 This Directive was originally introduced in 1976 in the name of the EC Mutual Assistance Directive and was adopted in 2010 after consolidation following a number of revisions (O'Shea 2010).
- 10 In addition to automatic information exchange, the Convention features tax examination abroad and simultaneous tax examinations and international assistance in the collection of tax debts (Keen & Ligthart 2006).
- 11 The number of contracting parties to the Convention was only nine by 2003 and increased to 17 by 2009. Since 2010, 44 countries have signed the Convention.
- 12 Austria and Luxembourg have been allowed, for a transitional period, to apply a withholding tax instead of engaging in the automatic exchange of information on savings. However, Luxembourg will move to the automatic exchange of information from 2015 (EC 2013).
- 13 Trade information exchange between customs administrations is indicated in Article 12 Customs Cooperation of the WTO's Trade Facilitation Agreement.
- 14 According to the OECD and the WTO guidelines concerning transfer pricing, transfer prices used for customs duties and corporate income tax do not need to be identical to be consistent (Blouin, Robinson & Seidman 2012).
- 15 The WCO and the OECD had two joint conferences in Belgium, in 2006 and 2007, to seek to harmonise two different approaches and two joint workshops, in Korea in 2012 and South Africa in 2013, to train customs officers and tax officers about transfer pricing.

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