

# The 5<sup>th</sup> IMF-Japan High-Level Tax Conference for Asian Countries

## Countering Tax Avoidance and Evasion by the Wealthy



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# Outline



- Why are special considerations needed for HWIs?
- A dedicated unit for HWIs
- Closely-held companies and their owners
- Database for HWIs
- International cooperation
- Unconventional approaches
- Inheritance Tax/Wealth Tax

# Why are special considerations needed for HWIs?



## Similar features to Large Taxpayers

- 1) Complexity of business activities
  - 2) Revenue contribution (e.g. in the U.S., the top 1% paid 37% of PIT in 2009; top 5% paid 59% (NTU))
  - 3) Opportunity to undertake aggressive tax planning
  - 4) Impacts on integrity of tax system (e.g. Greece)  
OECD, “Engaging with High Net Worth Individuals on Tax Compliance”
- A dedicated unit for HWIs could better administer HWIs as in the case of Large Taxpayer Office; at least, special approaches need to be taken.

# A Dedicated Unit for HWIs



## Indonesia:

- Established in 2009 with the focus to provide better service for HWIs in greater Jakarta
  - In 2012, merged with “LTO 4”
- Share of PIT revenue by HWI Office to the total PIT revenue is 15% (2012)
- Full-fledged functions covering all national taxes
- Lesson: not so successful? Impediments to hinder HWI Office from fully functioning
- Differences between HWI Office admin and non-HWI admin: not so significant, but more intensive taxpayer service and compliance activities in HWI Office

# A Dedicated Unit for HWIs (cont.)



## Sri Lanka:

- Established in 1971
- Share of PIT revenue by HWI Office to the total PIT revenue is 14%
- Full-fledged functions but covers only PIT; provide information on other taxes to relevant sections
- Lesson: successful
- Differences between HWI Office admin and non-HWI admin: more detailed audits for selected cases and rapid audits for all returns in HWI office

# Closely-held Companies and their Owners



- A owner could avoid (reduce) tax burden by using its closely held (family-owned) company
- Tax office covering the company also covers its owner
  - Bangladesh, India, Lao, Myanmar, Sri Lanka
- Tax office covering the owner also covers its company
  - Indonesia (HWI Office), China
- Local (district) office covers both
- Need for information sharing and coordination
  - Singapore: family-owned business is high risk for CT Division
- Tax law provisions may be necessary to counter tax avoidance using closely-held companies.

# HWI Database



- Need for database integrated information on HWIs
- Special database for HWIs
  - Indonesia: HWI system
  - India: (not for HWIs) reporting requirement on a wide range of transactions
  - Philippines: Run After Tax Evaders (RATE) Program
- Reporting requirement on cross-border remittance
  - China, Lao, Singapore, Sri Lanka
- Reporting requirement on overseas assets
  - India, Indonesia, Singapore (upon request), Sri Lanka

# International Cooperation



- Exchange of information
  - OECD initiative on transparency
  - Automatic exchange of Information
  - Reciprocal
  - Incentives for using EOI
- FATCA (Foreign Account Tax Compliance Act )
  - requires foreign financial institutions (FFI) to report to the IRS about their American clients
  - FFIs that do not both register and agree to report face a 30% withholding tax on certain U.S.-source payments made to them
  - Intergovernmental agreements
- Convention on Mutual Administrative Assistance in Tax Matters



# Unconventional Approaches



- Publishing names of HWIs
  - Myanmar, Philippines
- Honoring HWIs
  - Indonesia, Laos, Myanmar, Nepal, Sri Lanka (privilege card), Vietnam (only for corporations), China (some local offices)
- Shaming tax evaders
  - Philippines
    - ❖ Wesley Snipes, Queen of Mean
- Voluntary Disclosure vs. Amnesty

# Inheritance Tax/Wealth Tax



- Inheritance Tax

  - Indonesia (Income Tax), Vietnam, Philippines, Timor-Leste (?)

- Wealth Tax

  - Bangladesh: surcharge to PIT by an amount of net wealth exceeding 20 mil Taka

  - India: on net wealth exceeding 3 mil Rupees

- Property Tax (recurrent)

  - China, Indonesia, Philippines