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The United States Fight Against Harmful Tax Competition

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Abstract

The United States taxes its citizens on their worldwide income. Since the U.S. taxpayers are not always very complaisant the government has had to create ways to disclose and control transactions and penalise non-compliant taxpayers. The United States has been, and is one of the world's leading countries in the fight against harmful tax competition, ever since it decided to implement the Controlled Foreign Corporation legislation in 1934. This legislation consists of different sets of legislation that work together to let the IRS tax a shareholder on the income of a foreign company. This is done even though the shareholder has not yet received any dividends from that company. Treaty shopping has been countered with a limitation on benefits... (More)


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THE UNITED STATES FIGHT AGAINST HARMFUL TAX COMPETITION

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"Harmful tax practices may exist when regimes are tailored to erode the tax base of other countries. This can occur when tax regimes attract investment or savings originating elsewhere."7. Tax competition between states is a good thing. The power of individuals and companies to vote with their feet is one of the most potent weapons against overweening government. Any attempt to deprive them of places to run must surely be considered an attack on freedom and a threat to prosperity.24. The United States has experienced faster economic growth, which has resulted in the creation of 30 million net new jobs since the mid-1970s compared with 3.5 million in all of Europe (almost all of which were government jobs).30. roll back existing tax measures that constitute harmful tax competition and. refrain from introducing any such measures in the future ("standstill"). The Council, when adopting the Code, acknowledged the positive effects of fair competition, which can indeed be beneficial. The Code of Conduct requires Member States to refrain from introducing any new harmful tax measures ("standstill") and amend any laws or practices that are deemed to be harmful in respect of the principles of the Code ("rollback"). The code covers tax measures (legislative, regulatory and administrative) which have, or may have, a significant impact on the location of business in the Union. The criteria for identifying potentially harmful measures include Harmful tax practices have increased over the years, with the number of funds increasing by more than 1400% over the last fifteen years. 21 Currently, over $1 trillion is invested in offshore funds. 22 According to the study by the British poverty-fighting organization Oxfam, developed countries lose approximately $50 million in revenue annually from citizens utilizing tax havens. 23. Another significant misconception is that the OECD Members are afraid of competition from low cost offshore financial centers. 29 The OECD Members are open to competition as long as it is transparent, non-discriminatory, and by jurisdictions that support the elimination of harmful tax practices.