

## **GOVERNMENT ACTION PROGRAMME TO COMBAT INTERNATIONAL TAX AVOIDANCE**

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## 1 Introduction

The purpose of this action programme is to provide an overview of the *essential measures* to be taken to combat international *tax avoidance and tax evasion* and to impose controls on tax havens. The measures are divided into the following five *areas of focus*:

- 1 Securing the tax base and counteracting harmful tax competition
- 2 Tax supervision and exchange of information
- 3 Public access to information
- 4 Public procurement
- 5 Tax matters in development cooperation

*The aims set by Finland* are introduced *measure by measure* for each area of focus. Many of these measures have already been put into practice. They include measures to be taken at global and EU levels, as well as Nordic and national levels. Finland actively contributes to the efforts of the European Union and participates in other international forums to counteract international tax avoidance and improve transparency.

The current Government Programme states that Finland aims to be on the front line of the fight against international tax avoidance and evasion and lists several measures to promote this objective. In the Government Programme, particular emphasis is placed on combatting the shadow economy. However, means of tackling the shadow economy are not discussed in this action programme. The level of taxation is affected by the tax rate as well as the tax base. State revenues can be protected from the threats posed by tax planning by maintaining a competitive level of taxation.

Taxpayers may undertake certain actions, sometimes referred to as *tax non-compliance*, which erode the tax base of a state and thus reduce national tax revenues. Examples of such arrangements include the shadow economy, tax avoidance and different forms of tax planning, including aggressive tax planning. *Tax avoidance* is an arrangement which is in violation of the purpose of tax legislation. The conditions governing the applicability of the anti-avoidance provision are usually defined in the tax laws. These conditions vary depending on the national legislation. *Tax planning* refers to legal actions undertaken by taxpayers to reduce their tax liability. Tax planning usually involves choosing the most tax-effective course of action that does not violate tax legislation. There is no universal definition for *aggressive tax planning*, and it is not always easily discernible from other forms of tax planning. The term can be used to refer to making arrangements which are legal in themselves but contradict the fundamental purpose of the law. Aggressive tax planning can also be defined as using artificial arrangements or structures and taking advantage of mismatches between national tax systems. As a result, the tax rules of individual states become ineffective and revenues are lost. In combatting tax avoidance, it is essential to identify the types of arrangements that should be addressed. International efforts to tackle tax avoidance should also be taken into consideration, as should the effects that the national measures may have on the competitiveness of domestic companies.

Making use of companies located in countries where tax rates are low and laws protecting secrecy are strict (often called *tax havens*) is also part of the combination of tax avoidance and base erosion. The objective should be to address the use of tax havens through international cooperation, both at a general level and in particular when this is resulting in revenue losses for Finland. Tax planning and concealment of income are examples of practices which can result in tax revenues being lost through tax havens. Especially with regard to measures aimed against tax planning, securing

Finland's competitiveness must also be taken into account. It is therefore crucial that an international consensus on this matter is achieved. International cooperation is also a prerequisite for the effective implementation of the measures. In addition, it is important to identify the forms of tax planning which can and need to be addressed. Measures should be aimed to target aggressive tax planning in particular.

International debate on various forums has shown that combatting aggressive tax planning, tax avoidance and evasion as well as tax havens has become a key issue in international politics. The European Commission has stressed the importance of automatic exchange of information and fair tax competition. On 6 December 2012, the Commission presented a Communication containing an Action Plan to strengthen the fight against tax fraud and tax evasion<sup>1</sup>. According to the Commission, this Action Plan could help to recover several hundred billion in tax revenues lost today. Some of the measures listed in the Communication are already on the decision makers' table in the EU, while others still require more specific proposals by the Commission. In May 2013, the issue was on the agenda for both the Ecofin Council and the European Council.

Strengthening the fight against tax avoidance and evasion was also emphasised at the annual meeting of the World Bank and the IMF in April 2013. In June 2013, the OECD published its Action Plan on Base Erosion and Profit Shifting (the BEPS Project<sup>2</sup>). The G20 countries have given their strong support to the BEPS Action Plan, and they are also participating in the OECD BEPS Project in cooperation with the OECD countries. Meanwhile, the G5 countries have proposed to expand the automatic exchange of information. The G8 countries also support the OECD BEPS Project and the global standard for automatic exchange of information. Furthermore, the G8 countries have made a commitment to look into national measures for improving the transparency of information on ownership. A global standard for automatic exchange of information would also benefit developing countries, as long as they are also offered support for developing their tax administrations.

In April 2013, the Finnish Ministry of Finance and the Parliament of Finland organised a seminar on tax havens, where several speakers commented that the political framework is becoming more and more constricted. Citizens struggling with the financial crisis, adjustment measures and cost-saving programmes find it impossible to accept that some taxpayers are not paying their share.

Measures taken to prevent international tax avoidance also benefit *developing countries*. References to developing countries are not made for the general measures discussed below. However, they do also affect developing countries, and the situation in these countries is taken into consideration in preparing them. Tax issues specifically associated with developing countries are addressed in Chapter 6. Special issues related to developing countries are explored to a greater extent in *the Development Policy Programme of the Government of Finland*. In addition to supporting the development of tax administrations and tax systems in developing countries, promoting good governance is essential as well. The outflow of capital constitutes a major obstacle for developing countries in their efforts to reduce poverty and inequality. Finding international solutions to tax issues is critically important in reducing aid dependence in developing countries.

The leading role of the *OECD* in resolving international tax matters has become increasingly important, as tax evasion and tax competition are evolving constantly and automatic exchange of

<sup>1</sup> COM(2012) 722 final.

<sup>2</sup> Action Plan on Base Erosion and Profit Shifting, OECD 2013

information at an international level is becoming a necessity in the fight against tax avoidance and evasion. The United Nations participates in the work of the OECD's Committee on Fiscal Affairs and its Working Parties, along with China, India, Brazil, Indonesia, Colombia, Russia, Argentina and South Africa, among other countries. The Committee on Fiscal Affairs also collaborates with the Development Assistance Committee to ensure that all measures and recommendations are consistent. The OECD also organises yearly Global Forums<sup>3</sup> focusing on different kinds of taxes. The forums are attended by a great number of UN member states. In addition, the OECD is a long-time participant in the United Nations' *Ecosoc subsidiary committee on tax matters*<sup>4</sup>.

## 2 Securing the tax base and counteracting harmful tax competition

### 2.1 The OECD BEPS Project

The aim of the *BEPS (Base Erosion and Profit Shifting) Project* is to look into tax base erosion, for example in instances caused by tax planning arrangements employed by multinational corporations. Its inclusion on the OECD agenda was strongly supported by the G20 countries. The OECD Committee on Fiscal Affairs (CFA) approved the BEPS report in January 2013. The report aimed to chart the background, identify the reasons for base erosion and profit shifting and locate the essential areas of operation. In June 2013, the CFA approved an Action Plan consisting of 15 actions. The Action Plan identifies the necessary actions, sets the schedule for implementing them and lists the resources and other factors needed for implementation. Work on the Action Plan is scheduled to continue from June 2013 to June 2015.

- *Finland will participate* actively in the work of the various OECD Working Parties involved in *the BEPS Project*, as well as the work of the preparatory Focus Groups, where necessary. Issues covered by the Working Parties include aggressive tax planning and transfer pricing, among others. The related measures Finland is taking are listed below.

#### *Aggressive tax planning*

The OECD established the new Working Party on Aggressive Tax Planning (WP 11) in 2013. The Working Party and its Focus Groups prepare recommendations for adapting national legislation to implement certain actions from the BEPS Action Plan.

- *Finland will participate* actively in the work of the new OECD *Working Party on Aggressive Tax Planning (WP 11)*. Finland is a member of the WP 11 Steering Group and the Focus Groups subordinate to it. The Steering Group is a body which prepares and steers the work of the Working Party.

#### *Updating transfer pricing provisions*

*Transfer pricing* refers to the market-based pricing of services and goods traded between associated enterprises. The OECD is in the process of updating its *Transfer*

<sup>3</sup> E.g. the Annual Meeting on Tax Treaties, the Global Forum on Transfer Pricing, and the VAT Global Forum

<sup>4</sup> For more information on OECD activity at the UN, see Chapter [6.1](#).

*Pricing Guidelines* and finalising *BEPS actions* related to transfer pricing. One of the aims of the revised Transfer Pricing Guidelines is to promote the allocation of taxable income to the country where it was accumulated. In 2013, the UN published its own set of transfer pricing guidelines, formulated in cooperation with the OECD.

- Finland will participate actively in updating the *Transfer Pricing Guidelines* and preparing *BEPS actions* related to transfer pricing.

### ***The transfer pricing program of the Finnish Tax Administration***

A three-year program was started by the Finnish Tax Administration in 2012 to increase the supervision and control of transfer pricing.

- The aims of the program are to enforce tax supervision and control more effectively with regard to transfer pricing and to increase tax revenues.

## **2.2 The Forum on Harmful Tax Practices**

The primary objective of the *Forum on Harmful Tax Practices* is to eliminate harmful tax competition related to geographically mobile financial and other service activities. The member states have made a commitment not to adopt new harmful tax practices and to abolish existing tax practices found to be harmful.

- Finland will participate actively in the work of the *Forum on Harmful Tax Practices*.

## **2.3 The Communication from the Commission containing an Action Plan to strengthen the fight against tax fraud and tax evasion**

The European Commission has stressed the importance of *automatic exchange of information and fair tax competition*. The Action Plan to strengthen the fight against tax fraud and tax evasion<sup>5</sup>, published by the Commission in December 2012, contains a comprehensive *list of actions to be undertaken* in the short as well as the long term. There are a total of 34 proposed actions in various areas of focus. They include actions related to the taxation of savings income, exchange of information and information technology, as well as suggestions to complete current projects, improve administrative cooperation and promote the Union's Code of conduct for business taxation. These actions are divided into projects which have already been prepared or started and need to be completed, and new initiatives which include two recommendations for Member States. Furthermore, the new initiatives are scheduled to be adopted in the short term (in 2013), the medium term (by the end of 2014) or the long term (beyond 2014).

The most essential proposals are given in the form of two *recommendations* for Member States. The Commission recommends that an enhanced *general anti-abuse rule* be used and that Member States adopt the model provision provided by the Commission. The general anti-abuse rule is meant to address artificial arrangements with no real economic substance which have been put into place for the purpose of avoiding taxation. The Commission also recommends that Member States apply a set of minimum standards of

good governance in tax matters. This recommendation is meant to identify non-EU countries not meeting said criteria. Member States should then *blacklist* countries or other jurisdictions which fail to comply with the aforementioned standards. Furthermore, the Commission proposes specific actions to be undertaken to combat aggressive tax planning. Member States are encouraged to review their double tax conventions and address situations resulting in non-taxation with a *so-called subject to tax clause*.

The Council conclusions in response to the Commission's Action Plan were unanimously approved by the Ecofin Council on 14 May 2013. The Commission has established a Platform for Tax Good Governance for implementing and monitoring the Action Plan and reporting on progress.

- *Finland will participate in the further development* of the proposed actions at EU level and look into their effects and applicability to the Finnish tax system at national level. The measures Finland is taking in relation to the general tax-abuse rule, the blacklist and the subject to tax clause are listed below.

#### ***Assessing the need for changes in specific restricting provisions and the general anti-avoidance provision***

- The efficiency and adequacy of the current national legislation and the need for changes *will be assessed*. Related previous work, such as the work of the OECD Working Party on Aggressive Tax Planning related to the BEPS Project, will be utilised in the assessment. The *purpose* of tax legislation is *to prevent international tax minimisation*. The results of the assessment are expected to be available in the spring of 2015.

#### ***Assessing the possibility of compiling a blacklist***

The recommendation in the Commission's Action Plan to strengthen the fight against tax fraud and tax evasion mentions introducing a so-called *blacklist*.

- If blacklisting is introduced, *Finland supports* efforts to introduce it as broadly as possible. Finland will strive to advance the issue at EU level. The objective should be to introduce a common blacklist in all EU countries.
- Efforts have been made to assess *the possibility of compiling a common blacklist* with the other Nordic Countries. According to the available information, no plans have been made to compile national blacklists in Sweden, Norway or Denmark. However, the issue has not been specifically considered in Norway, as it is not a member of the EU. The possibility of adopting a national blacklist in Finland will be assessed if necessary.

#### ***Assessing the need to renegotiate tax conventions to eliminate instances of non-taxation***

The recommendation of the Commission aims to eliminate instances of non-taxation by including a *so-called subject to tax clause* in double tax conventions. Non-taxation is a situation where a certain item of income specified on the double tax convention is not taxed in either contracting state.

- The need to include a subject to tax clause in tax conventions between Finland and other parties has been assessed. This regulation *aims to prevent double tax conventions from being used to avoid paying taxes*. After assessing the situation, it was concluded that adding the subject to tax clause proposed by the Commission to Finland's tax conventions would not result in instances of non-taxation being eliminated more efficiently, as the credit method is usually applied to eliminate double taxation in tax conventions between Finland and other parties. The credit method eliminates instances of non-taxation in the situations where the subject to tax clause proposed by the Commission would be applicable. There is therefore no need to incorporate this regulation into the Finnish model tax convention, which is used as the basis for treaty negotiations.

### **3 Tax supervision and exchange of information**

#### **3.1 The efforts made by the Global Forum and the OECD to enhance exchange of information in tax matters**

Working with the OECD, the *Global Forum on Transparency and Exchange of Information for Tax Purposes* (Global Forum) has created *minimum requirements* for implementing and monitoring exchange of information for tax purposes and transparency of ownership. The Global Forum aims to ensure that all countries (or autonomous tax jurisdictions) comply with the minimum requirements as they exchange information for tax purposes at an international level. The Global Forum conducts peer reviews of the countries to ensure compliance with the minimum requirements. The OECD has also developed a global standard for automatic exchange of information.

- *Finland will participate* actively in the work of the *Global Forum*, aiming to add more countries to the list of Global Forum participants and to tighten the minimum requirements.
- Together with other OECD countries, *Finland will participate* actively in *projects to prevent tax avoidance and evasion through tax havens*.
- *Finland* has made *tax information exchange agreements*. These agreements are complemented by Finland's income tax treaties.

#### ***Nordic cooperation on concluding information exchange agreements***

The Nordic countries have been working together under the umbrella of the Nordic Council of Ministers to conclude information exchange agreements and ensure their practical applicability in formulating Competent Authority Agreements (CAA) where necessary.

- *Nordic cooperation will be continued* both to conclude information exchange agreements and to ensure the practical applicability of said agreements for Competent Authority Agreements where necessary.

### ***Automatic exchange of information***

Cooperation on automatic exchange of information will continue, as the work done to revise the Savings Directive and the Administrative Cooperation Directive progresses in the *EU*, and the global *OECD* standard for automatic exchange of information is applied. An amendment to the Administrative Cooperation Directive was proposed in June 2013, to extend automatic exchange of information to apply to certain types of capital gains.

- *Finland supports the extension of automatic exchange of information* and the related amendments to the Administrative Cooperation Directive.
- *Finland supports the global OECD standard for automatic exchange of information* and starting negotiations on how to apply the standard to cover the current information exchange arrangements in a timely fashion.

### ***The FATCA agreement between Finland and the United States***

In 2010, the United States passed the Foreign Account Tax Compliance Act (FATCA). This legislation aims to prevent tax evasion by ensuring the availability of information on the foreign investments of US taxpayers. To bring the Act into force, the US has already made several FATCA agreements to ensure that local authorities automatically provide US authorities with the information supplied by financial institutions.

- The text of the *FATCA agreement* to be made between Finland and the US was *initialled*. The agreement was signed on 5 March 2014.

### ***Revising the Savings Directive to extend its scope to cover certain other interest rate instruments***

*The objective of the Savings Directive* is to ensure that when an individual resident in one Member State receives interest on savings from another Member State, this income is effectively taxed according to the national legislation of the state of residence. In order to achieve this objective, the Directive regulates the automatic exchange of information on interest payments.

*The expansion of the scope of the Savings Directive* to cover certain other interest rate instruments is yet to be approved, as some Member States have not been willing to approve it thus far. The definition of the income covered by the Savings Directive has been expanded to include interest paid on all kinds of debt instruments, and on certain types of securities under the defined conditions, as well as proceeds from their transfer under the defined conditions. The definition of income also covers proceeds from life insurance contracts and investment funds under the defined conditions, as well as proceeds from the transfer of shares or equities in organisations or other entities with direct investments in the aforementioned debt instruments or securities, or with indirect investments in said instruments under the defined conditions. Not approving the amendment to the Directive will only delay the development of automatic exchange of information. All Member States which enter into a FATCA agreement



with the United States concerning automatic exchange of information have an obligation to provide the other Member States with the corresponding information. It is thus inevitable that automatic exchange of information on capital gains will also be introduced more broadly inside the EU; it is only a matter of time. This also applies to those Member States which have not been willing to approve the amendment to the Savings Directive.

Savings tax agreements have been made with *third parties* to provide for exchange of information equivalent to the scope of the Savings Directive. On 14 May 2013, the Ecofin council adopted a mandate for the Commission to start negotiations with five non-EU countries to adapt the current savings tax agreements to the revised Savings Directive.

- *Finland supports* revising the Savings Directive and extending its scope to cover certain other interest rate instruments.

### ***Revising the Administrative Cooperation Directive***

The new *Directive on administrative cooperation in the field of taxation* (2011/16/EU) entered into force in the Member States on 1 January 2013. The Directive extends and simplifies cooperation between Member States, particularly as regards exchange of information. The extended scope covers all kinds of taxation. Mandatory automatic exchange of information is introduced in stages. Automatic exchange of available information on five categories of income is introduced with the tax periods beginning on 1 January 2014, while the actual exchange of information process begins in 2015. The Directive provides for five types of cooperation: exchange of information (exchange on request, spontaneous exchange and automatic exchange), officials being present in the offices of the administrative authorities of another Member State and taking part in administrative enquiries, simultaneous inspections by tax authorities, notification of documents, and feedback. The Commission proposed an amendment to the Directive in June 2013, to extend automatic exchange of information to apply to certain types of capital gains.

- *Finland supports* the proposed amendments to the Administrative Cooperation Directive providing for the extension of automatic exchange of information.

### ***Cooperation between the tax administrations of the Nordic countries to develop automatic exchange of information***

- *Working to develop automatic exchange of information* is high on the agenda of the tax administrations of the Nordic countries, and they also share their experiences at EU, OECD and global levels.

### ***The project to enhance exchange of information in the Finnish Tax Administration***

The project entails charting the current state of international exchange of information for tax purposes, identifying possible targets for development in the legislation and the

practices employed by the Finnish Tax Administration (e.g. tools used to analyse received information), as well as assessing the need for human resources. The project will make use of internationally established Best Practices. A fixed time period should be set for the project to facilitate evaluating its efficiency and productivity.

- *A project will be started in cooperation with the Finnish Tax Administration to enhance exchange of information.*

#### ***Assessing the option of obligating banking institutions to report large transfers automatically to the tax authorities***

- According to the *preliminary assessment conducted so far*, big data processing at the Finnish Tax Administration would need to be improved before obligating banking institutions to supply the Tax Administration with this data. The Tax Administration is currently conducting a project to reform its information systems (from 2013 to 2018). The processing of data supplied by banking institutions will be assessed in conjunction with this project.

#### ***Assessing the necessity and effects of introducing tax amnesty legislation***

Tax amnesty legislation is based on active repentance, whereby the interests and penalties applied to undisclosed items of income are forgiven or reduced, if certain conditions are met and the taxpayer voluntarily reports said income. Related criminal penalties will also need to be assessed.

- *The chances of increasing the voluntary reporting of foreign income and tax revenues by introducing tax amnesty legislation in Finland will be assessed.* Legislation in other countries has been examined thus far. The results of the assessment are expected to be available in the spring of 2014.

#### ***Assessing tax supervision of foreign workers and businesses***

The *report on the efficiency of tax supervision on foreign workers and businesses*, closely related to the Government Programme, was *published in March 2013*. The adequacy and shortcomings of the legislation regulating the use of foreign labour were assessed in the process. The report has undergone a consultation process and the measures proposed in it are being evaluated based on the comments. *The aim is to create a uniform set of obligations for domestic and foreign persons and entities and to prevent avoiding taxes.*

- *The project is set to continue* in accordance with the enhanced action programme to combat economic crime and the shadow economy (2012 to 2015). In the future, an overall assessment of the adequacy and shortcomings of the legislation regulating the use of foreign labour will be conducted.

## **4 Public access to information**

### **4.1 Country-by-country reporting and introducing the tax footprint by utilising the pilot project conducted at state-owned enterprises**

The Commission's proposal to *amend the Accounting Directives* as regards the disclosure of non-financial information is currently under consideration in the EU. *Country-by-country reporting of taxes* was also discussed in connection to this proposal at the relevant working party of the Council of the European Union. Finland has supported transparency and country-by-country reporting of taxes throughout the negotiations. It has also been underlined that the administrative burden placed on enterprises should not be increased unnecessarily. Finland's position on this issue is that country-by-country reporting should be regulated by following a careful legislative process. This process should include a consultation of stakeholders, as well as an adequate impact assessment considering international developments and the results of an assessment of industry-specific regulations on country-by-country reporting.

The report adopted by the European Parliament Committee on Legal Affairs did not include country-by-country reporting. However, the Committee proposed an amendment to the Accounting Directive, requiring the Commission to consider introducing country-by-country reporting of taxes while reporting on the implementation and the outcome of country-by-country reporting in the extractive and forestry industries. The Commission is to submit its report by July 2018.

At present, it seems likely that country-by-country reporting of taxes will be returned to the Commission for preparation. When country-by-country reporting is considered, it is also important to assess which taxes should be reported.

Information on the income taxes paid by organisations, associations and similar collective entities has been published on the Finnish Tax Administration website since 2011. This makes it easier for citizens making decisions on their spending to take into account where businesses are paying their taxes.

- Finland *aims* to ensure that taxable income is allocated to the right country. Finland also *supports the advancement of country-by-country reporting* in the EU.
- Enterprises where the state of Finland is a majority shareholder will be obligated to report on their taxes on a country-to-country basis.

### **4.2 Expediting the process to open commercial registers to increase transparency of ownership**

- *Finland will strive* to increase the transparency of beneficial ownership information.

### **4.3 Investment activities by pension insurance companies**

In relation to investment activities, issues related to the use of tax havens will be discussed with the pension insurance industry in 2014.

## 5 Public procurement

### 5.1 Preventing the use of tax havens in public procurement

National legislation on public procurement is based on EU legislation, *i.e.* the Directives on procurement and Internal Market law. The purpose of the Directives is to set up a procedure of competitive procurement for bodies governed by public law and other contracting entities, to prevent procurement contracts from being awarded only to domestic or local tenderers and to stop certain products or tenderers from being favoured or discriminated against. The contracting entities may place various requirements on the object of the contract, and also on the tenderer offering the goods, services or construction work concerned. These requirements must be sufficiently specific, comply with the principles of non-discrimination and proportionality and be related to the capability of the tenderer to perform the contract.

An exhaustive list of criteria for situations where a certain tenderer must be excluded from the call for tenderers is found in the Directive and in Section 53 of the Act on Public Contracts. Examples of such factors include serious offences, such as money laundering and committing tax fraud or aggravated tax fraud. Section 54 of the Act on Public Contracts also allows the contracting entity to exclude a tenderer from the call based on other unlawful activity or gross negligence: a tenderer can be excluded if found to have been "guilty of grave professional misconduct or convicted by judgement that has the force of *res judicata* of any offence concerning his professional conduct". A tenderer can also be excluded if found to have neglected obligations relating to the payment of taxes or social security contributions.

In Finland, the City of Helsinki has looked into ways to take factors related to the use of tax havens into consideration in public procurements contracted by the City. The City of Helsinki reported on its assessment in 2013. The aforementioned challenges were examined, and it was found that in order to address the issue of enterprises making use of tax havens, the EU Directives on public procurement would need to be amended to enable tackling the negative effects associated with tax haven states more effectively. In March 2013, the City Board of Helsinki decided to test a procedure whereby all tenderers participating in the call are required to disclose their annual financial statements in a country-by-country format in order to submit a tender. It was confirmed that this requirement could not be used to exclude a tenderer utilising legal tax planning.

In the future, the Directive on procurement is to be amended to include neglecting tax liabilities or social security contributions as a criterion for automatic exclusion. Excluding a tenderer is a serious measure and needs to be performed in compliance with the Directive on procurement. The use of tax havens should therefore either be added to the subject matter of one of the serious offences listed in Section 53 of the relevant national act, or be defined as illegal by another law. In either case, it should also be required that the party in question has been proven as guilty by a judgement that has the force of *res judicata*, which the contracting entity can verify from criminal records or another similar source.

- The possibility to limit the use of tax havens should be explored as part of regulation at EU level. Furthermore, a common applicable definition for the term 'tax haven' for public procurement purposes should be agreed upon.

## 6 Tax matters in development cooperation

Tax issues have become a topical theme in international political debate, because tax avoidance and the outflow of capital reduce tax revenues in the economies of industrialised countries, while also stunting the growth of the domestic capital base in developing countries. An increasing number of voices are calling for global action. The main problems are the same for both the industrialised and developing countries. Therefore, finding common solutions requires that a consistent approach aiming to benefit all parties be adopted and the limited capacity of developing countries, especially the very poorest ones, be taken into account.

The most essential issue from a development policy perspective is ensuring that income from industrial activities and natural resources is taxed in the country of origin. Other central issues include strengthening taxation capabilities, such as good governance, in addition to the actual tax systems, and encouraging multinational companies to employ responsible practices.

*In the Development Policy Programme of the Government of Finland*, particular emphasis is placed on strengthening the taxation capacity of developing countries, enhancing transparency and increasing local resources.

Finland's efforts in the field of development cooperation include having held the Presidency of the Leading Group on Innovative Financing for Development and having cooperated with NGOs to organise a transfer pricing seminar in Helsinki and a follow-up seminar in Tanzania, focusing on the perspective of developing countries and Africa. Finland has introduced tighter guidelines for preventing the use of tax havens in connection to Finnfund. Finland has also joined the Partnership Panel of the Financial Transparency Coalition.

Finland has been supporting the Tax and Development Programme of the OECD and OECD/DAC. In future, Finland will continue to support this cause and remain an active partner in the work of the Tax and Development Programme. Finland will also be participating in the new OECD Working Party on natural resources and taxation.

### 6.1 Nordic cooperation at the UN

The Nordic countries are represented at the *United Nations' Ecosoc subsidiary committee on tax matters* by Norway and Sweden. The term of the current members ends after June 2017. The committee on tax matters also includes representatives from the OECD and several OECD countries, as well as developing countries. Matters to be dealt with by the committee are prepared by OECD Working Parties, which Finland also participates in.

- *Cooperation* with other Nordic countries *will be continued* in order to advance Finland's views on tax matters at UN level.

## 6.2 Cooperation with development finance institutions

- Together with the voting group and other like-minded countries, *Finland will promote* finding solutions to tax issues, including tax havens and illicit financial flows, at the IMF and the African Development Bank during Finland's term on the Board of said institutions.

## 6.3 The EITI Board

- During Finland's term on the Board of the Extractive Industries Transparency Initiative (EITI) from 2013 to 2015, *themes related to taxation will be promoted*, including for example country-by-country reporting, beneficial ownership and open commercial registers.

## 6.4 The discussion on tax avoidance in the context of new UN Millennium Development Goals

*At the United Nations Conference on Sustainable Development, i.e. the Rio+20 Conference* in the summer of 2012, it was decided that a sustainable development financing strategy should be formulated. *The Finnish representative is acting as the co-chair of the Committee of Experts on Sustainable Development Financing (SDFC)*. The chairmanship provides Finland with a high-profile opportunity to advance its views on sustainable development financing, while the UN post-2015 development agenda is drafted. The starting point is to ensure a broad capital base where financial resources are available from several different sources.

- *Finland emphasises* the following goals, which should be used as the basis: *utilising and developing national financial resources*, for example through international trade and investments, *developing national tax systems and international cooperation on tax matters and preventing unregulated outflow of capital*.
- *Finland also promotes the diversification of national financing* in developing countries, for instance by supporting the introduction of new, innovative financial resources, and stresses the importance of improving the quality of domestic and international financial flows, including foreign direct investment. In addition, Finland is making efforts to improve the international investment regime through a separate project based on the multi-stakeholder model of the Helsinki Process. The aim is to maintain a dialogue between the different parties and thus create an atmosphere of mutual trust to facilitate starting international negotiations for fixing the shortcomings of the regime.

## 6.5 Improving dialogue on budget support and connecting tax issues to development cooperation projects

- In bilateral development cooperation, dialogue on budget support will be improved and tax issues connected more tightly to the different projects in the natural resources sector, social security projects and projects in the private sector, when the strategies for the main partner countries are updated. Possible demand for technical

assistance in the main partner countries and possible supply in Finland will be assessed.