America: the top tax haven

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Even though issues related to tax havens have made big headlines following the disclosure of the Panama Papers, little attention, if any, has been paid to the fact that the United States is now the world's biggest tax haven.

Indeed, Washington has pursued a strategy of destroying tax havens in such countries as Switzerland, establishing a system to absorb global money into the U.S. and helping U.S.-headquartered multinationals avoid taxes.

A global war over taxation is likely to be intensified as the European Union has launched tax reform aimed at preventing the U.S. government and corporations from taking the lead in this area.

The address 1209 North Orange Street, Wilmington, Delaware, is where more than 280,000 corporations from the world over have registered their headquarters. Wilmington is a city with a population of only 70,000. All of the companies registered at the address are shell companies. They take advantage of preferential tax treatment and strict confidentiality rules provided by the state of Delaware, the oldest tax haven in the U.S. Among these companies are former U.S. Secretary of State Hillary Clinton's ZFS Holdings and former U.S. President Bill Clinton's WJC, LLC.

Recently, Nevada, Wyoming and South Dakota have joined Delaware as tax havens by levying no local corporate tax and no resident tax on individuals, and by protecting firms registered there with tight confidentiality rules.

When some 11.5 million documents originally from the Panamanian law firm Mossack Fosenca were disclosed in April, Russia and China labeled the incident as an American conspiracy. This is because the papers included the names of such celebrities as Russian cellist Sergei Roldugin, who is a close friend of President Vladimir Putin, and relatives of some members of China's Politburo Standing Committee, including President Xi Jinping,while mentioning not many more than 200 American citizens, none of them a well-known figure.

Bradley Birkenfeld, a whistleblower who in 2008 exposed tax avoidance tactics of UBS, a major Swiss bank, told MSNBC in mid-April that he was puzzled by such a small number of Americans appearing in the papers and expressed his personal view that the CIA may have pulled some strings.

The famous whistleblowing website WikiLeaks, meanwhile, said that billionaire George Soros and the U.S. Agency for International Development were behind the release of the Panama Papers as they are known to have financially assisted the International Consortium of Investigative Journalists, which has been analyzing the voluminous documents.

There has been only circumstantial evidence to support the allegation of an American conspiracy. For example, reporters of the German newspaper Suddeutsche Zeitung are said to have never met in person the self-styled whistleblower John Doe, who phoned the paper to expose the Panama Papers.

But the mention of only a small number of Americans points to the fact that mega-corporations and the ultrarich in the U.S. no longer need to seek tax havens abroad. Conversely, the U.S. has become an ideal place for European and Asian multinationals to protect their money.

For more than the past decade, the U.S. government has successfully coordinated with its tax and financial arms and the OECD in wiping out rival tax havens in Switzerland and the Caribbean.

UBS, Credit Suisse and other private banks in Switzerland had long served as tax havens for wealthy people throughout the world primarily because of the strict code of confidentiality they were offering. After the 2008 tax avoidance scandal involving UBS was exposed by Birkenfeld, however, the successive U.S. administrations under Presidents George W. Bush and Barack Obama threatened Swiss banks by saying they would no longer be able to do business in the U.S. should they stick to those confidentiality rules.

The Swiss banks had to pay the equivalent of hundreds of billions of yen as reconciliation money to settle their cases with the U.S. Although Birkenfeld was sentenced to 40 months in prison for aiding in tax evasion, he received a reward of more than ¥8 billion.

In 2010, the U.S. enacted the Foreign Account Tax Compliance Act (FATCA) requiring all foreign banks to submit all relevant information on Americans who have opened accounts with them to the U.S. Internal Revenue Service. This requirement means that in case an account is opened under the name of a proxy, the bank must disclose the name of a person who receives the actual benefit from the opening of the account.

The disclosure requirement is so strict that not only Switzerland but other countries dependent on the banking industry like Luxembourg and Austria have stopped functioning as tax havens.

At Washington's urging, the OECD and the Group of 20 nations have launched a campaign to eradicate tax havens, blacklisting notorious havens like the Cayman Islands and the British Virgin Islands. In February 2014, the OECD compiled the Common Reporting Standards in an attempt to spread the FATCA regime worldwide and called on its member nations to comply.

But a development that astonished taxation and financial authorities over the world happened. The Obama administration refused to comply with the CRS on the grounds that there is a domestic law imposing confidentiality obligations on American banks. As of the end of last month, Nauru and Vanuatu in the southern Pacific and the U.S. were among the few countries that were not accepting the CRS.

Thus the U.S. emerged as a country most advanced in terms of confidentiality obligations and tax avoidance, causing a reversed flow of money from Switzerland and other former tax havens to the U.S., as evidenced by opening of a new branch in Reno, Nevada, by Rothschild of Britain. Other Swiss and British banks followed suit.

What is the global total of the money accumulated in tax havens? The OECD's conservative estimate is between $100 billion and $200 billion. But the Tax Justice Network, a British nongovernmental organization, has come up with an astounding figure of between $21 trillion and $32 trillion. The latter figure easily reaches one-third of the world's total GDP of $76 trillion as calculated by the World Bank in 2013 .

The U.S. government has also been keen on protecting Amazon, Starbucks, Apple, Google and other American multinationals. These companies are continuing the practice of shifting profits made in Japan, Europe and the rest of the world to tax havens where corporate tax rates are low.

In 2009, for example, the Tokyo Regional Taxation Bureau ordered Amazon to pay a penalty tax of ¥14 billion for its sales in Japan in the 2003-2005 period. Amazon refused to pay the tax by claiming that it only had warehouses in Japan and was not engaged in sales activities. The U.S. government intervened in the matter and got the tax bureau to retract the order in 2010.

Such actions of Washington have angered the European Union. Margrethe Vestager of Denmark, who became the European commissioner in charge of competition in November 2014, declared that the EU would not tolerate tax avoidance by multinationals headquartered not only in Europe but also in the U.S. and made clear her confrontational attitude toward the U.S. by taking up Starbucks, Fiat Chrysler Automobiles, Apple and Google for discussion.

Germany, France and even Britain, which has an offshore financial market in London, have stepped up moves to clamp down on tax avoidance by multinationals. The British public vented their rage over the fact that Facebook's subsidiary in Britain paid a corporate tax of only £4,327 (about ¥800,000 at the exchange rate prevailing at that time) in fiscal 2014. To counter the moves by European countries, Obama declared his intention of protecting multinationals headquartered in the U.S. This confrontation is adversely impacting current talks on a free trade agreement across the Atlantic.

Most countries had built a network of bilateral taxation treaties based on the 1928 treaty model created by the League of Nations. The model has two main pillars -- prevention of tax evasion and double taxation. Lately, however, multinationals have built up a system of not paying tax to any government by taking advantage of tax havens.

John Gapper, a columnist for the Financial Times, has pointed out that unless corrective measures are taken, the international agreements on taxation could collapse, leading to a global tax war.

It is highly doubtful that the Japanese government is aware of the rapid changes taking place across the globe on matters related to taxation. The administration of Prime Minister Shinzo Abe still believes that lowering the corporate tax rate would stimulate investments by foreign companies in Japan.

If he seriously thinks that Japan's effective corporate tax rate of 32.11 percent will induce international enterprises to do business in Japan, he's very wrong. This is nothing but an illusion.

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