



Cato Institute Fellow On “Well-Run Bermuda”

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Instead of persecuting “well-run” jurisdictions like Bermuda for their “non-destructive tax policies” the US should be reforming its own tax system so that American citizens also can benefit from such policies a senior fellow at the Cato institute wrote in a recent commentary for the political website “The Hill.”

Daniel J. Mitchell, a top expert on tax reform and supply-side tax policies at the Washington D.C. libertarian think tank, said offshore financial centres are currently embroiled in a two-front battle.

“The first attack was launched a few months ago by a left-wing international bureaucracy based in Paris. Funded with American tax dollars, the Organisation for Economic Cooperation and Development [OECD] published a report on “Addressing Base Erosion and Profit Shifting,” [BEPS] and will follow up in a few months with specific recommendations,” said Mr. Mitchell in a commentary published on Thursday [Apr. 19].

“This new OECD scheme is targeting multinational companies for a big tax hike, probably by requiring global tax returns, but that means tax havens are in the cross hairs because their pro-growth tax policies make them attractive locations for cross-border economic activity. Indeed, the OECD specifically has complained that ‘small jurisdictions act as conduits, receiving disproportionately large amounts of Foreign Direct Investment compared to large industrialised countries and investing disproportionately large amounts in major developed and emerging economies’.

“In other words, the bureaucrats [who rather conveniently get tax-free salaries while trying to raise the burden on the rest of us] think well-run jurisdictions such as Bermuda and the Cayman Islands somehow are bad because big companies are attracted by their non-destructive tax policies.”

Mr. Mitchell said the second attack on low-tax financial centres was triggered by the recent theft of client data from service providers in jurisdictions including the British Virgin Islands.

“This led to news reports that some shady individuals utilised tax havens,” he said. “The ‘Washington Post’ tried to foment a scandal because 30 out of 4,000 Americans on the list had some interaction with the legal system.

“That’s actually a very low rate. You almost certainly would find far more evidence of misbehavior if you took a random sample of 4,000 Americans from just about any cross-section of the population. Particularly if you examined the financial affairs of 4,000 people from Wall Street. Or 4,000 Prius owners. Or 4,000 people who wear Birkenstocks.

“It’s wrong to stereotype and profile based on certain characteristics, yet anti-tax haven demagoguery is perfectly acceptable in political circles since it is seen as expanding the power of government over taxpayers.”

Mr. Mitchell said the real issue the US should be addressing is whether America needs “some sort of external constraint to protect us from fiscal crises that are triggered by the overspending and overtaxing of the political class.”

“For a couple of decades following the Reagan and Thatcher tax cuts, governments around the world have been forced by tax competition to lower tax rates, reduce double taxation of saving and investment and reform their tax system,” he said. “Defenders of the welfare state and proponents of class-warfare tax policy have resented this liberalising process and grab any opportunity to demonise tax havens, particularly since these jurisdictions have strong human rights laws that protect the financial privacy of investors.

“What makes this debate so surreal is that the United States actually is one of the world’s biggest tax havens, both because of attractive incorporation laws in states such as Delaware and Nevada and because we don’t tax – or require the reporting of – much of the interest and capital gains paid to non-resident foreigners ... Instead of persecuting other jurisdictions for doing the same thing, we should be reforming our tax system with a simple and fair flat tax so that American citizens also can benefit from such policies.”