

(unofficial translation)

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"Act against those who facilitate activities in tax havens"

Moral issues and witch hunting have characterized the Paradise Leak debate. But we need to strengthen the laws against the tax haven industry and deal with its facilitators, writes Torsten Fensby, an expert on international tax avoidance and evasion.

So it has happened again. Following earlier revelations such as LuxLeaks and the Panama Papers, the Paradise Leak gives us (again) a glimpse of the gigantic extent of ongoing tax avoidance and evasion activities. Politicians make valiant attempts to appear surprised, those whose activities are revealed emphasize that everything is legal and the tax haven industry's intermediaries, mainly auditing firms, law firms and banks, keep their heads down hoping the media frenzy will soon go away.

Even though the Paradise Leak involves millions of documents, it is still just a small scratch on the surface. PricewaterhouseCoopers (Luxembourg), Mossack Fonseca (Panama) and Appleby (Bermuda) that are mentioned in the latest revelations are only the tip of the iceberg. The Panama Papers show that there are tens of thousands of intermediaries around the world that are engaged in exactly the same activities, simply because they are so lucrative.

The leaks also show with brutal clarity that the tax haven business is becoming an integral part of the Swedish society. Today, not only drug dealers, money launderers and shady tax evaders go through tax havens, but also politicians, athletes, respected public figures,

multinational companies and even private actors that carry out public activities funded by the government.

It is important to understand that tax havens not only undermine our tax bases but are also used to circumvent other market rules. This may involve, for example, the elimination of risk in transactions, the manipulation of financial markets, insider trading, the concealment of assets from creditors, the avoidance of mandatory reporting requirements, buying political influence, paying bribes, keeping companies' real financial situation secret, circumvention of ethical codes - and more. Through specifically designed legislation, the tax havens provide legal instruments enabling individuals and companies to disregard prudential rules that serve to protect market stakeholders and ensuring competition on equal terms.

The tax haven industry has grown so exponentially over the past two decades that it today poses the same systemic threat to the market economy as socialism did in the 1970s. In both cases, it is all about rendering the rules of the game inoperative in order to concentrate power and capital in a few hands.

Thankfully, international organizations have not remained idle in the face of the growing tax haven industry. Under the G20's umbrella, the OECD has developed a framework for the exchange of information of financial and other information as well as rules that make it less profitable to channel investment through tax havens. The EU has also jumped the bandwagon, but its work is being hampered by Member States with tax haven-like legislation, such as Luxembourg, Cyprus, Malta, Ireland, the Netherlands and Belgium, that exploit the requirement of unanimity in tax matters to dilute the European Commission's initiatives against tax haven activities.

The Swedish government has largely implemented the agreements reached at the OECD and the EU. However, Sweden differs from most OECD countries in one important respect.

Despite all the leaks and scandals, neither the current nor the previous government has adopted specific domestic legislation to address problems revealed by the leaks.

Now, do not attempt to justify the government's inaction by invoking the need to protect the Swedish financial market or the competitiveness of the Swedish multinational industry.

The UK has the same MNE industry as Sweden and also London City to protect.

Notwithstanding, this has not prevented the British government from:

- requiring professional associations of lawyers, banks and audit firms to implement guidelines aimed at discouraging aggressive tax planning and tax evasion;
- adopting legislation that in some cases makes company board of directors criminally liable if employees within the organization facilitate or commit tax offenses;
- adopting legislation requiring intermediaries or taxpayers to report tax avoidance arrangements that meet defined criteria for aggressive tax planning (“Disclosure of Tax Avoidance Schemes”).

The above is just a selection of domestic measures adopted by the United Kingdom in recent years to combat international tax evasion. Such measures are also needed in Sweden because the tax haven industry would find it much more difficult to operate here if the tax haven intermediaries are subject to transparency requirements.

Several recently published reports commissioned by the European Parliament also point to the central role of intermediaries in the tax haven industry. The fact that the Swedish Financial Supervisory Authority – following the review [*of the Swedish bank*] Nordea – had nothing to add after the revelations in the Panama documents detailing the bank's extensive tax haven links says a lot about the Wild West mentality that currently prevails among Swedish banks, law firms and auditing firms.

If the government and parliament would come together to make a good faith attempt to wipe out the tax haven industry from the Swedish social apparatus, the first appropriate step to take would be to address the tax haven intermediaries. After all, something is fundamentally wrong in our society when Sweden's best brains rather be engaged in developing aggressive tax schemes than in industrial research and development.