

# Tax Neutrality **EXPLAINED**

## A Tax Neutral Jurisdiction:

- Stated and effective tax rates are the same.
- Generally raises revenue through consumption taxes to fund government services and programmes.
- Combats tax evasion with legislation, regulation, and automatic tax information sharing arrangements that uphold the highest international standards for transparency and cross-border cooperation.
- Poses no risk for aggressive tax avoidance as it does not have tax treaties that provide opportunities for abuse or misuse.
- Alleviates double taxation on cross-border transactions by automatically allocating its taxing rights to the other country which is free to fully apply its domestic tax policy on the cross-border transactions.
- Alleviates double taxation on retained profits in a subsidiary by automatically allocating its taxing rights to the parent entity jurisdiction. The Jurisdiction is then free to fully apply its domestic tax policy, including controlled foreign corporation rules, on the parent entity relating to the subsidiary's retained profits.
- Meets OECD economic substance requirements and therefore poses no risk of unfair tax competition.

## Tax Neutral Does **NOT** Mean Tax Haven

Top Tax Neutral jurisdictions do not pose harm for tax evasion, aggressive tax avoidance, unfair base-shifting, or unfair tax competition they have in place legislation, regulations, and automatic tax information sharing arrangements that uphold the highest international standards for transparency, cross-border cooperation, and economic substance.

Tax Neutral jurisdictions have domestic legal framework that include economic substance legislation and meets all OECD economic substance requirements.

Tax Neutral jurisdictions also support a level of transparency that arguably make them better at combating tax evasion and aggressive tax avoidance than those jurisdictions that rely on the often-opaque system of Double Tax Treaty networks. Double Tax Treaty Networks are by their nature complex and less transparent, and therefore sometimes pose a risk of abuse for tax evasion or aggressive tax avoidance.

Globally responsible Tax Neutral regimes distinguish themselves from many other International Financial Centres (IFCs) which are tax treaty investment hubs that rely on extensive double tax treaty networks.

“ Tax neutral jurisdictions efficiently support global economic growth and innovation. ”

## Addressing the Obstacle Double Taxation Poses to Global Cross-Border Transactions

Tax conflict arises when the two countries involved in the cross-border activities both have domestic tax laws and rules that would result in the same income or profit being taxed twice, once in each country. This tax conflict is generally referred to as “Double Taxation” and is considered by the United Nations, the Organisation for Economic Cooperation and Development (OECD) and others as a significant barrier to beneficial cross-border economic activity.

**Implementation of Tax Neutral policies automatically alleviate double taxation by allocating all of the taxing rights to the other country which is free to impose its domestic tax policy on the cross-border transactions with the Tax Neutral jurisdiction as it sees fit, without the need for a tax treaty. Globally responsible Tax Neutral regimes distinguish themselves from many other International Financial Centres (IFCs) which are tax treaty investment hubs that rely on extensive double tax treaty networks.**

## Top Tax Neutral Jurisdictions Benefit from Fundamental Competitive Strengths

*“Legitimate reasons for using an intermediate jurisdiction may include, but are not limited to...parties to a joint venture of partnership may be from different jurisdictions and want neutrality in selecting the jurisdiction for their venture (including equal legal and tax treatments)...” [World Bank Group]*

Global investors are increasingly engaged in a flight to quality, relocating their resources based on extensive assessments of which financial centres offer the best combination of the following qualifications:

- Efficiency and neutrality
- A global network and diverse industry
- An experienced legal infrastructure and neutral tax environment
- High regulatory standards and respect for appropriate privacy
- World class professionals and credibility
- Stability