



LAPOINTE ROSENSTEIN MARCHAND MELANÇON

L.L.P. Attorneys

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Justification for tax havens

Recent media coverage put the concept of tax havens back on the radar. Admittedly, tax havens have had very bad press in recent years. Just remember the scandals of hidden funds kept in banks operating in tax havens, the breaches of their bank secrecy and the huge profits being diverted from industrialized countries to these low tax countries.

Nowadays, large multinational companies look bad giving the impression they only think about their profits, caring very little about the income they are depriving their government, and being insensitive to the low after-tax income remaining in employees' pockets.

Where are we with tax havens?

A little history: Tax havens were very popular for individuals in the 1960s and up to the mid-2000s. A number of taxpayers were able to divert income to tax havens to avoid paying taxes in their country of residence. Moreover, the income earned in these foreign accounts was not reported to tax authorities. There was a time when people showed up at a tax heaven bank to deposit bags full of cash. This practice was also still common in the 1980s and even the early 1990s. Governmental pressures became increasingly intense and banks were the first to suffer the consequences. Now they no longer accept cash and are increasingly concerned about the legality of the funds and their origin and as a consequence, it is very difficult for a person to open a bank account and transfer funds to a foreign country.

Then came the end of the bank secrecy: pressures from the American, German, French, Italian and Canadian governments on the underground economy and their attempts to unveil the bank secrecy led to the end of this privilege. Thanks to the OECD. Foreign accounts holders must now close their bank accounts and repatriate their funds to their country of residence, and must disclose the required information to their tax authorities. Some try to find other ways to continue to hide funds held abroad from their government. In short, banking secrecy no longer exists on foreign bank accounts. And we can say the same for Canadian bank accounts.



**Pierre A. Lessard, M. Tax
Partner**
514-925-6322
pierre.lessard@lrm.com

What about these multinationals that have set up sophisticated structures to transfer a significant portion of their profits to low-tax territories?

We all heard of Apple, Dell, Google and other giants who enjoy effective taxation rates ranging from 10% to 15% because they use complex tax structure in low tax countries. We can state that all multinationals, whether American, German, French or Canadian, use tax havens in one way or another if their business activities allow it. Why? Because the primary goal of their administration is to maximize the financial performance of their company. And what are the components of their financial performance? Sales performance, optimizing processes or service, cost control, and, of course, tax efficiency. This last item is indeed an important component of corporate financial performance.

Tax efficiency means the optimal use of tax rules for the characterization of income, expenses, depreciation, tax credits, etc. The less tax the company pays, the better will its financial performance be, and this is what the directors of

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the corporation and its shareholders want. So if a director of a corporation has the opportunity to structure his company activities in a completely legal way so that a portion of the profits are taxed at a low rate, in a tax haven, he will do it since he fulfils his mandate within the corporation.

Is it ethical? For an employee working every day and the hard way, it is not. For the corporation, it is, since the financial performance is better.

The situation is unacceptable for governments, because they need money and the profits diverted to low tax countries could be used to reduce their deficits. In the government perspective, these practices must therefore stop.

For multinationals, these actions are morally acceptable. It is part of maximizing performance and it is a way to maintain competitiveness. Everyone does it and it would be unfair, in their mind, not to be able to use tax havens.

In conclusion, it would be fair to say that within five to ten years, despite the powerful lobbying of these multinationals, they will no longer be able to use tax havens: governments will have tightened the screws and shut the door. We are now living the end of the bank secrecy, and within few years, we will live the end of tax heavens.

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