Glossary

Contents

40 Financial Action Task Force recommendations	In 1990 the Financial Action Task Force issued 40 Recommendations intended to provide a complete set of countermeasures against money laundering covering the criminal justice system and law enforcement, the financial system and its regulation, and international co-operation. Since then, a number of amendments have been made made, with the latest in February 2012. These include new priority areas such as corruption and tax crimes. In addition, a new risk-based approach wil allow financial institutions and other designated actors to apply their resources to higher-risk areas. See http://www.fatf-gafi.org/topics/fatfrecommendations/documents/internationalstandardsoncombatingmoneylaunderingandthefinancingofterrorismproliferation-thefatfrecommendations.html for more details.
Accountant	A person, usually but not always qualified by examination, who prepares accounts, offers taxation and commercial advice and who may audit the accounts of companies and other limited liability entities when that is required by law.
Accounts	The annual published statements issued by a company in accordance with the legislation and regulation of the country in which it is incorporated for the benefit of shareholders and others (if they are permitted access under local law) who wish to appraise the financial performance of a limited liability company or other limited liability entities such as a limited liability partnership. If the company is registered on a stock exchange which requires compliance with the rules of the International Accounting Standards Board, then the accounts will also have to comply with their rules. Otherwise they will comply with locally issued accounting standards. Accounts will normally include a statement from the directors of the company providing an overview of the trading of the entity for the year, a profit and loss account showing its income and expenditure during the period and its net profit plus an estimate of taxation liabilities that will arise from them, a cash flow statement showing how it used the net cash surplus or deficit that it generated during the course of the year, a balance sheet showing its total assets and liabilities at the year-end as represented by the total net investment by the shareholders and notes to the accounts which explain each of the statements.
Accounting data	The books and records, both internally generated and supplied by third parties with whom the entity contracts, which are required to prepare a set of accounts.
Accounting standards	Regulations governing the way in which certain transactions are reported within the accounts of companies and other entities. Originally issued on a national basis, and usually by the professional bodies of accountants within each country, they are now being supplanted by International Financial Reporting Standards issued by the International Accounting Standards Board.

Accumulation period	Some jurisdictions, such as the UK, stipulate that a trust may not exist in perpetuity and that the capital of the trust must instead after a stipulated accumulation period be distributed to the beneficiaries. The length of such period varies depending on the trust deed and nature of the trust. Some jurisdictions, usually in secrecy jurisdictions, allowed trusts to continue in perpetuity.
Affiliated company	A company likely to be more than 20% owned by another company that does not however own more than 50% of it. The owning company often has significant influence over an affiliate but not absolute control which 50% usually brings.
Aggressive tax avoidance	A term used by those who try to argue that some tax avoidance is acceptable by seeking to rank schemes so that some are worse than others. Aggressive tax avoidance is a term applied to the use of complex schemes of uncertain legality to exploit taxation loopholes. The term tax avoidance is applied by TJN to all schemes that seek to get round the law.
Arising basis	A method for taxing income earned somewhere other than the country where the taxpayer is resident for tax purposes. Under the arising basis income earned outside the country of residence is liable to tax in the year in which that income is earned even if it is not remitted to the country where the taxpayer is resident and liable to pay tax. Compare with the remittance basis.
Arm's length method	This is an OECD guideline that has become the central organising method for determining the internal prices of trades between affiliates of multinational corporations (or between an affiliate and the parent company), for tax purposes. Under this method, the internal price is supposed to be the same as if the two related parties are in fact unrelated and trading at arm's length with each other in a free market. This fiction – treating a multinational as a loose collection of separate unrelated entities trading bilaterally with each other at arm's length – has created huge gaps in the international tax system, allowing for abusive transfer pricing and large-scale tax avoidance. It is frequently impossible to find a anything like a realistic 'arm's length' price – for example, because the relevant internal trade is unique in the market (meaning relevant 'comparables' are simply not available), or because some transactions, such as royalty payments for the use of a brand – are intrinsically hard to value.
Associated company	See affiliated company.
Articles of Association	See Constitution.
Asset protection trust	An asset protection trust includes a clause preventing a trust beneficiary from passing his or her expected interest in the trust to a creditor. The Cook Islands created the world's first asset protection trust law in 1989. This was controversial because under its provisions the settler of the trust could also be a beneficiary, a feature generally making a trust void in the USA and UK. The law in question has now been copied by a large number of tax haven jurisdictions as part of the general "race to the bottom" in regulation. Controversially it has also been copied by some US states, including Delaware.

Automatic exchange of tax information	The sharing of tax information between countries, where a jurisdiction receives relevant information from a foreign jurisdiction about its own taxpayers with assets or income in that foreign jurisdiction. This exchange of information should be automatic and not require a specific request from tax or law enforcement officials from one jurisdiction to the other.
Banking secrecy	Banking secrecy laws strengthen the normal contractual obligation of confidentiality between a bank and its customer by creating criminal penalties that prohibit banks from revealing the existence of an account or disclosing account information without the owner's consent. These laws can be used to block requests for information from foreign tax authorities. Banking secrecy is not just created by law: it can also be created by fact. For example some of the UK linked tax havens do not have banking secrecy laws but by the time a bank account is hidden behind a trust and a company, often with each being in different jurisdictions, the same effect is achieved. Until 2005, most of the concluded double tax agreements did not specifically include provisions to override banking secrecy laws when responding to information requests by foreign treaty partners. Bank secrecy was, and remains in these cases, a massive obstacle to progress in obtaining information required to secure tax enforcement.
Bare trust	A bare trust is a trust in which the beneficiary has an absolute right to both the income and capital of the trust and may as such ask for them to be paid to them at any time. The result is that the trustees are simply nominees for the beneficiary. This means that the trust income and gains are also the property of the beneficiary and should therefore be taxed as their own in whatever jurisdiction they are resident.
Bearer shares	A bearer share differs from a normal share because no record is kept of who owns it. Whoever physically has the bearer share is for legal purposes its owner. Bearer shares are used to preserve anonymity on the part of owners. Because of their potential use for money laundering and in tax evasion they are severely frowned upon but some states, including the UK, still allow their use regardless.
Beneficial owner	The warm-blooded human being (or 'natural person') who ultimately owns or controls the asset in question. The beneficial owner is not necessarily the same as the beneficiary. The term is used in contrast to the legal owner of a property, which may be a trustee or a nominee who has legal title but does not have power to control or enjoy the benefits of it. In many cases, assets are hidden behind structures such as discretionary trusts, where the original owner has given the assets away, but nobody has yet received them (thus the asset is, legally speaking, in an 'ownerless' limbo. In many cases, the beneficial owner of an asset is the natural person that the relevant legislation deems it to be.
Beneficiary	The natural person who is ultimately entitled to the benefits that flow from an arrangement such as a trust or life insurance policy. This may or may not be the beneficial owner.

Big 4	The "Big 4" are the four firms of accountants who dominate the world's audit, accountancy and taxation advice markets. They are, in order of significance, PricewaterhouseCoopers, Deloittes, KPMG and Ernst & Young. No other firms compare in terms of influence, size and market share. All 4 are present in almost every major, and many minor, secrecy jurisdictions. They dominate accounting standard-setting worldwide and can therefore be said not only to comply with the rules of accounting, but to at the very least heavily influence the composition of the rules themselves. See http://www.pwc.com , http://www.deloitte.com/ , http://www.kpmg.com/ and http://www.ey.com/
Bilateral information exchange	Exchange of information between the tax authorities of states can be done bilaterally or multilaterally. When done bilaterally, two main types of agreements are used. The first are Double Taxation Agreements (DTAs). The second are Tax Information Exchange Agreements (TIEAs). Bilateral Double Taxation Agreements and Tax Information Exchange Agreements are agreed between the two participating states: no other state is party to the agreement. In multilateral agreements more than two states are parties to the agreement. Bilateral agreements are relatively common; multilateral agreements are very rare.
Brass plate company	See Shell Corporation.
Capital gains tax	A tax on the profits from the sale of capital assets such as stocks and shares, land and buildings, businesses and valuable assets such as works of art.
Capital flight	The process where wealth holders deposit their funds and other assets offshore rather than in their country of residence. Usually the result is that assets and income are not declared in the country in which a person resides. Capital flight and tax evasion are intimately linked phenomena.

Cell company	A protected cell company, or PCC, is like a standard limited company that has been separated into legally distinct portions or cells. The revenue streams, assets and liabilities of each cell are kept separate from all other cells. Each cell has its own separate portion of the PCC's overall share capital, allowing shareholders to maintain sole ownership of an entire cell while owning only a small proportion of the PCC as a whole. The undertakings of one cell have no bearing on the other cells. Each cell is identified by a unique name, and the assets, liabilities and activities of each cell are ring-fenced from the others. If one cell becomes insolvent, creditors only have recourse to the assets of that particular cell and not to any other. It is claimed that PCCs can provide a means of entry into captive insurance market to entities for which it was previously uneconomic. The overheads of a protected cell captive can be shared between the owners of each of the cells, making the captive cheaper to run from the point of view of the insured. This was the reason why PCCs started. There is now evidence that they are more generally available. As has been noted: *"The astute offshore practitioner can employ an offshore protected cell company as an effective asset protector and privacy enhancer. With an offshore insurance corporation, it is market practice that provides tangible benefits; with the protected cell company, it is the structure of the entity itself -- think of a house with a locked front door, and rooms inside, each with a separate lock and key.* *Protected Cell companies have -- in concert with other entities -- been used to construct what has been called 'an impenetrable wall' against creditors and prying eyes. Whilst these claims can only be tested by time, this novel use of a PCC for asset protection and financial privacy is an interesting approach and a valuable piece of intellectual property".* See http://www.offshore-fox.com/offshore-corporations/offshore_corporations_030404.html Seen in this way they pose considerable problems for those investigating secrecy jurisdiction activity, not least because as yet effective information sharing agreements with regard to their activities have yet to be developed. PCCs were first developed in Guernsey in 1997 but are now widely available.
Charitable trust	A trust established for purposes accepted by law as having a charitable purpose. These are often abused, because of their tax-free status. They can be used to pass assets between generations, free of inheritance tax, while keeping them firmly under family control. Money can be extracted by family members via fees or salaries, for example, meaning that despite the charitable structure there may be little or no benefit to charity.
Citizenship basis of taxation	This is one way of deciding who within a state is liable to pay tax in that place. The citizenship basis of tax ensures tax is paid on the worldwide income of all citizens of the state irrespective of whether they are physically resident or not in the territory. The best known example of a country using the citizenship basis is the USA.

Civil tax matters	A civil tax matter is one where the person committing a tax offence is not facing a prison sentence. What precisely constitutes a civil tax matter is largely defined in diverging national tax laws. Often, a civil tax matter defines a wrongful payment or non-payment of taxes that (in contrast to a criminal tax matter) remains below a certain threshold. This can be the case because the amount of tax evaded is considered rather low and/or the act was based on negligent rather than intentional behaviour. The distinction is important for international cooperation. Today, most cooperation between authorities takes place only if criminal tax matters are involved. The cooperation in civil tax matters takes place mostly through specific, bilateral treaties. (see: Information exchange). Compare with criminal tax matters.
Company or corporation	A legal entity created by law treated as a separate legal person from those who set it up. Almost all countries allow for the creation of companies but the rules by which they do so vary considerably. Most offer limited liability, which means the members of the company are not liable for its debts if it were to go bankrupt. When companies were first made available it was thought that this was a privilege, and certain duties were demanded in return, not least that accounts and information concerning the ownership and management of the company should be put on public record. That principle has been undermined by offshore secrecy.
Company secretary	The company secretary usually acts as the chief administrative officer of the company, leaving the directors free to concentrate on running the business. In practice the role of company secretary has had diminishing significance over many years and some jurisdictions, for example the UK, no longer require that there be a company secretary in the case of private companies. A corporation may hold office as company secretary. The company secretary serves the Board of Directors of the company and does not therefore share their legal responsibilities.
Consolidated accounts	A group of companies is made up of two or more member companies with one company owning, directly or indirectly, more than 50% of each of the other members. When this happens the shareholders of the ultimate parent company can only appraise the return on their investment if they can see the combined result of the parent company in which they have invested and that of all the subsidiary companies that it controls. This outcome is achieved by preparing consolidated accounts. In consolidated accounts all the trading between members of the group of companies is eliminated because this cannot generate profit for the ultimate parent company shareholders, which can only be earned by trading with independent third parties. It is only a third-party trading that is reflected in consolidated accounts. The balance sheet in a set of consolidated accounts only reflects liabilities owing to or from third parties, those between group companies being eliminated.

Constitution	A constitution is a set of rules for the government of an organisation. Perhaps most commonly associated with states, they also manage the way in which companies, corporations, trusts, foundations and other organisations are managed. The constitution of a company is often called its articles and memorandum of association, or in the USA its articles and memorandum of incorporation. For a trust the constitution is the trust deed, for a partnership it is either the partnership deed or agreement. It is important that third parties have access to such constitutions, not least because they often include limitations on the activities of the entities in question and if they trade beyond those agreed limitations their actions can be deemed to be ultra vires i.e. beyond their powers, and in that case the person trading with the entity that has acted in this way may find themselves without legal recourse for recovery of their funds.
Contingent liability	A liability which will only arise if a conditional event occurs: for example, a tax liability that will only be due if a tax return is challenged as inaccurate by a tax authority. The liability can be calculated as the total possible sum due, multiplied by the probability of the conditional event occurring. If the resulting figure is small it is customary for little or no liability to be included in the accounts of a company. If the probability is small but the potential liability is big, the risk of the liability arising may be separately disclosed in the accounts of a company, but this has not been the precedent to date. In the USA this was changed by the introduction of Financial Accounting Standards Board (FASB) Financial Interpretation Note 48 (FIN 48) 'Accounting for uncertain tax positions'. This requires that all tax positions where there is uncertainty as to the outcome be disclosed and quantified. This for the first time gave indication of how much tax companies were trying to hold back through tax planning schemes. The effect can be material. For example in its December 2008 accounts Google Inc said: *"In addition, as a result of having adopted Financial Accounting Standards Board Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48) in January 2007, we increased long-term taxes payable by $400.4 million in the year ended December 31, 2007 as FIN 48 specifies that tax positions for which the timing of the ultimate resolution is uncertain should be recognized as long- term liabilities. We also recognized additional long-term taxes payable of $362.8 million in the year ended December 31, 2008".*
Controlled foreign corporation (CFC)	A CFC is a subsidiary company or corporation of another (parent) company. The CFC is registered in a tax haven or other territory where little or no tax is charged on the profit the subsidiary makes. This clearly opens up opportunities for profits to be shifted from the parent company to the offshore subsidiary, to avoid tax. To prevent this, CFC rules provide that profits declared by the subsidiary can in some cases be subjected to tax in the country of residence of the parent company even though it is not actually resident there. Since the turn of the millennium, EU court rulings have dramatically undermined their effectiveness, leading to a boom in offshore activity.

Coordination centres	A special form of company with taxation advantages, often used to attract corporate headquarters to a country. Most notably found in Belgium, the Netherlands and Ireland and are often used by IT and other intellectual property based companies that can sell their services at a distance over the web or by companies that rely heavily on patent income e.g. pharmaceutical companies.
Corporation tax	A tax on the profits made by limited liability companies and other similar entities in some countries. This is usually a form of income tax, but it can also embrace a capital gains tax. Corporation taxes are typically lower than those used for ordinary income tax purposes, especially fo high net-worth individuals, giving them considerable incentive to transform their personal income into corporate income.
Country by country reporting	A proposed form of accounting in which a multinational corporation will be required to report in its accounts in which countries it operates, what the names of its subsidiaries are in each and every jurisdiction in which it operates, and to publish a profit and loss account of each such jurisdiction, without exception, howing its sales and purchases, both from third parties and intra-group, the number of employees it has and the cost of employing them, its financing costs both third party and intra-group, its profit before tax, its tax charge split between current and deferred tax, and a summary of its assets and liabilities in the location.
Criminal tax matters	A criminal tax matter refers to a person committing a tax offence that carries criminal penalty e.g a prison sentence. What constitutes a criminal tax matter is largely defined in diverging national tax laws. Often, a criminal tax matter defines a wrongful payment or non-payment of taxes that (in contrast to a civil tax matter) falls above a certain threshold. This can be the case because the amount of tax evaded is considered high and/or the act was based on intentional behaviour. The distinction is important for international cooperation. Today, most cooperation between authorities takes place only if criminal tax matters are involved. However, this does not imply that cooperation takes place necessarily if a criminal tax matter is suspected. Neither does it imply that this cooperation is effective. The most reliable form of cooperation in criminal tax matters takes place through specific, bilateral treaties only (see: Information exchange). Compare with civil tax matters.
Currency transaction tax	A form of financial transaction tax: it is a tax levied by a country that issues a currency on all the trades in that currency worldwide at very low rates e.g. 0.005 per cent. See financial transaction tax for more details.
Director	Shareholders own limited companies but they do not run them. That job is given to its directors. All limited companies must have at least one director. The directors of limited companies may be other limited companies in many jurisdictions. Directors are responsible for the management of the affairs of a company and its compliance with all laws that apply to it. Directors are usually appointed by the members of the company at General Meetings of the membership. In many offshore arrangements directors are 'nominees' who sell their names to the company so that they can be considered directors. Despite holding that office these 'nominees' actually have little or no knowledge of what the company actually does, its real affairs being managed by other people who are technically called 'shadow' directors, but whose identity is often hard to discover.

Direct taxa-tion	Taxes on profits, income and gains i.e. the residual benefits that accrue to the tax-payer from a transaction. Examples are income taxes, corporation taxes, taxes on capi-tal gains and taxes on gifts.
Discretionary trusts	Most offshore trusts permit payments to be made to almost anyone at the discretion of the trustees, which means that the identity of the beneficiaries of those trusts can remain a secret. In practice, trustees normally follow a 'letter of wishes', provided by the settlor, instructing them who they are to pay money to, when and how. There is, therefore, much less discretion about who actually benefits from those trusts then their trust deeds would suggest is the case.
Dodd–Frank Wall Street Reform and Consumer Protection Act	A broad financial reform bill enacted into law by the United States in July 2010. - Dodd-Frank Section 1502: Requires companies selling or manufacturing products made with minerals originating from designated conflict countries to disclose to a public database where the minerals came from and what steps the company took to ensure that purchase or processing of the minerals have not financially benefited armed militia groups in those countries. - Dodd-Frank Section 1504: Requires oil, gas, and mining companies to publicly dis-close all payments to governments in each jurisdiction in which they operate.
Domicile	The country identified as a person's natural country of origin even if that person has not been resident there for extensive periods of time. The concept is important in de-termining who pays tax in some countries, and most especially in the UK where a "non-domiciled" person need not necessarily pay tax on their worldwide income when domiciled people must. This explains why the UK is a tax haven for wealthy peo-ple.
Double tax relief	Tax relief given by the country in which the taxpayer resides for tax paid in another country on a source of income arising in that other country to ensure that no more tax is paid on that income than is demanded to be paid by the country with the higher of the two rates that might be applied to it.
Double tax agreement or treaty (DTA)	An agreement between two sovereign states or territories to ensure, as far as possi-ble, that income arising in one and received in the other is taxed only once. Includes rules to define Residence and Source, and limits on Withholding Taxes. Also usually in-cludes provisions for cooperation to prevent avoidance, especially information ex-change. Many are now being rewritten as attitudes on information exchange develop.
Economically active population	The economically active population of a place comprises "all persons of either sex above a specified age who furnish the supply of labour for the production of economic goods and services (employed and unemployed, including those seeking work for the first time) [...] during a specified time reference period." (OECD).
Effective tax rate	The percentage of tax actually paid in relation to the total income of the person pay-ing the tax. This can either be calculated for one tax, or for all taxes payable. It is used as a basis for comparison within a state, to see if a system is progressive or regressive, and for international comparison.

Egmont Group	The Egmont Group consists of 108 financial intelligence units (FIUs) from across the world. Financial intelligence units are responsible for following "money trails" in efforts to counter money laundering and terrorist financing. The Egmont Group is intended to share understanding and promote collaboration amongst FIUs.
Elsewhere	An unknown place in which it is assumed, but not proven, that a transaction undertaken by an entity registered in a secrecy jurisdiction is regulated.
Enforcer	The Enforcer oversees the actions of the trustees of a trust to ensure that those actions further the purposes stated in the trust deed / documents / instruments. It is commonplace in locations where trust enforcers are allowed that the trust instrument provides that the Enforcer has an absolute right of access to any information or document which relates to the trust, the assets of the trust or to the administration of the trust. The role of trust enforcer does three things. First it implies a lack of trust in the trustees. Second it makes clear that the trustees cannot and do not manage the trust because the enforcer clearly has power over them and therefore must in practice be the trustee. Thirdly, because the enforcer will in many cases be working on behalf of the trust settlor there must be doubt whenever there is an enforcer in situ as to whether the settler has actually divested themselves of control of the assets held in trust, which is a pre-condition of a valid trust in most major jurisdictions but not in those places where enforcers are not allowed. Enforcers are not part of UK trust law.

European Union Code of Conduct on Business Taxation	The EU's Code of Conduct for business taxation was established by its Council of Economics and Finance Ministers (ECOFIN) in December 1997. The Code is not a legally binding instrument but it clearly does have political force. By adopting this Code, Member States undertake to roll back existing tax measures that constitute harmful tax competition and refrain from introducing any such measures in the future ("standstill"). The Code was specifically designed to detect only measures which unduly affect the location of business activity in the Community by being targeted merely at non-residents and by providing them with a more favourable tax treatment than that which is generally available in the Member State concerned. The criteria for identifying potentially harmful measures include: - an effective level of taxation which is significantly lower than the general level of taxation in the country concerned; - tax benefits reserved for non-residents; - tax incentives for activities which are isolated from the domestic economy and therefore have no impact on the national tax base; - granting of tax advantages even in the absence of any real economic activity; - the basis of profit determination for companies in a multinational group departs from internationally accepted rules, in particular those approved by the OECD; - lack of transparency. The Code has had considerable impact both within member states, but most especially on the tax havens affected associated with the UK or the Netherlands. This has been most clearly seen in the tax reforms imposed on the Crown Dependencies of Jersey, Guernsey and the Isle of Man.

European Union Savings Tax Directive	The EU Savings Tax Directive was adopted to ensure the proper operation of the internal market and tackle the problem of tax evasion. It was approved in 2003 and came into effect on July 1st, 2005. It is an agreement between the Member States of the European Union (EU) that requires Member States to exchange information with each other about EU residents who earn interest on savings and investments in one EU Member State but live in another. Although the legal scope of the Directive does not extend outside the EU, certain jurisdictions – such as Switzerland, Liechtenstein, Andorra, Monaco, and San Marino – have agreed to put in place legislation that supports the aims of the Directive. All Member States are ultimately expected to automatically exchange information on interest payments by paying agents established in their territories to individuals resident in other Member States. While the vast majority of EU member states have applied automatic information exchange as their effective system for cooperation, Austria and Luxembourg remain committed to a system of information reporting at the end of an indefinite transitional period, during which they levy a withholding tax at a rate of 15% for the first three years, 20% for the following three years, and 35% thereafter. They transfer 75% of the revenue of this withholding tax to the investor's state of residence. Both Austria and Luxembourg are entitled to receive information from the other Member States. The investor in those places has an option to provide for preliminary information of his or her Member State of residence for tax purposes about the savings held abroad, or to permit the disclosure of the income to the same State, as an alternative to the retention or withholding tax. The Directive has a relatively broad scope that covers interest from debt-claims of every kind whether obtained directly or as a result of indirect investment via most collective investment undertakings and other similar entities. The European Commission on 13 November 2008 adopted an amending proposal to the Savings Taxation Directive, with a view to closing existing loopholes and better preventing tax evasion. Progress on this is currently being blocked by Austria and Luxembourg, both of whom refuse to participate in automatic information exchange and prefer a tax withholding option instead. The major weaknesses in the Directive are that it only applies to interest income and only to income paid to individuals and not to companies, trusts, foundations and other arrangements. The proposed amendments would address many of these issues.
Export processing zones	Artificial enclaves within states where the usual rules relating to taxation and regulation are suspended to create what are, in effect, tax havens within larger countries. The rules that are relaxed may be for import and export taxes or corporation taxes or all three and may also extend to relaxing other regulations e.g. on health and safety or the environment.
Facilitation payments	A bribe designed to quicken the pace at which an official performs a routine, nondiscretionary action, sometimes referred to as a "grease payment." Facilitation payments are legal under the Foreign Corrupt Practices Act but not under the OECD Anti-Bribery Convention or the vast majority of anti-bribery statutes around the world.

Financial Action Task Force (FATF)	The Financial Action Task Force (FATF) is an inter-governmental body whose purpose is the development and promotion of national and international policies to combat money laundering and terrorist financing. The FATF has published 40 Recommendations in order to meet this objective.
Financial Intelligence Unit (FIU)	Financial intelligence units (FIUs) are government agencies responsible for countering money laundering and terrorism financing. See also Egmont Group.
Financial reporting standards	The term now commonly used for accounting standards.
Financial Sector Assessment Programme (FSAP)	The FSAP is a joint IMF and World Bank effort introduced in May 1999 and aims to increase the effectiveness of efforts to promote the soundness of financial systems in member countries. Its work programmes seek to identify the strengths and vulnerabilities of a country's financial system; to determine how key sources of risk are being managed; to ascertain the financial sector's developmental and technical assistance needs; and to help prioritize policy responses. The results are published in Reports on Observance of Standards and Codes (ROSCs). The FSAP also forms the basis of Financial System Stability Assessments (FSSAs), in which IMF staff address issues of relevance to IMF surveillance, including risks to macroeconomic stability stemming from the financial sector and the capacity of the sector to absorb macroeconomic shocks.
Financial services industry	A collective term to cover a wide range of activities that relate to the management of money and other investments. The companies represented might include banks, loan and mortgage companies, mutual savings and deposit companies, credit card companies, insurance companies, pension companies, stock exchanges and all the brokerage related to them, plus support services such as accountants, lawyers, actuaries and more.
Financial services-to-GDP	Ratio of the output of value of the services supplied by the financial services industry in a jurisdiction to the Gross Domestic product of that place.

Financial Stability Forum (FSF) Financial Stability Board (FSB)	The Financial Stability Forum (FSF) brings together senior representatives of national financial authorities (e.g. central banks, supervisory authorities and treasury departments), international financial institutions, international regulatory and supervisory groupings, committees of central bank experts and the European Central Bank. The FSF is serviced by a small secretariat housed at the Bank for International Settlements in Basel, Switzerland. The FSF was first convened in April 1999, at the initiative of G7 Finance Ministers and Central Bank Governors, in order to promote international financial stability, improve the functioning of financial markets and reduce the tendency for financial shocks to propagate from country to country, thus destabilizing the world economy. The FSF's mandate is: - to assess vulnerabilities affecting the international financial system; - to identify and oversee action needed to address these; and - to improve co-ordination and information exchange among the various authorities responsible for financial stability. Although the financial crisis which began in 2007 provided clear indication that the FSF had neither achieved its goals nor given warning of an impending crisis, the G20 London Summit in April 2009 re-established the FSF as the Financial Stability Board (FSB), with a broadened mandate to promote financial stability.
Financial statements	See Accounts.
Flags of convenience	The flag of a country with easy or lax maritime regulations and low fees and taxes, flown by ships registered in such countries, even though they have no substantial connection with the country. Liberia was once the best known but many tax havens now offer such services. They are also commonly associated with regulatory abuse e.g. with regard to seafarers pay and work conditions.
Flat tax	A tax system in which as income increases above an agreed tax free sum the amount of tax paid remains constant in proportion to total income. Compare with progressive taxes. The term is usually only applied to income taxes.
Flee clause	A flee clause is a provision included in a tax haven / secrecy jurisdiction trust deeds requiring that the management and administration of a trust be changed to a different jurisdiction if a disadvantageous event occurs such as the breakdown of law and order in the place in which the trust is administered of the imposition of taxation on the trust.
Foreign Corrupt Practices Act (FCPA)	A U.S. law passed in 1977 that makes it illegal for U.S. citizens, U.S. corporations and certain non-U.S. corporations to bribe foreign officials.

Foundation	Foundations are distinct legal entities, and therefore to some degree equivalent to companies or corporations, except that they are almost invariably set up for charitable purposes or for the administration of the assets of a family or other social grouping. In many states they fulfil a role that charitable trusts play in jurisdictions with Anglo Saxon law. Foundations are subject to considerable variation in legal structure, but are usually characterised by owning property in their own right despite having no persons who claim ownership rights over the assets of the foundations. Foundations are usually managed by a board. In some jurisdictions, such as Austria, foundations are reasonably transparent and must file data on public record. In others, such as Panama and Liechtenstein they are extremely secretive. The appeal of foundations is growing as trustees seek to limit their liability to settlors, beneficiaries and others and as such foundation laws are becoming more common-place in Anglo Saxon legal systems.
Freezing of assets	The process by which a person suspected of money laundering may have their assets seized temporarily by the state(s) investigating their affairs to ensure that if the case against them is proven those funds con be either claimed by that state or be returned to those to whom the rightfully belong. See also tracing of assets and seizing of assets.
Front corpo-ration	A corporation that has conducted or is currently conducting some legitimate business in order to hide illicit activity. For example, a gas station where the owner also acts as a launderer for a drug cartel, moving drug money through the gas station's legitimate accounts.
Gross Do-mestic Product (GDP)	Gross Domestic Product (GDP) is a measure of the economic output of a country. It is the total value of all goods and services produced in a country in a period, irrespective of who produced them. The method for computing the GDP involves statistical infer-ence: it is not an accounting process. The GDP is usually expressed in the national cur-rency. GDP is usually calculated as GDP = consumption + gross investment + govern-ment spending + (exports – imports).
Generally Accepted Ac-counting Principles (GAAP)	A corporate accounting standard used for financial reporting in the United States and some other countries, established and overseen by the Financial Accounting Stand-ards Board. GAAP is in the process of being merged with the International Financial Reporting Standard. Changes could be made to GAAP/IFRS that require the adoption of country-by-country reporting.

General anti-avoidance principle (GAntiP)	A legal principle that seeks to prevent a taxpayer from obtaining the taxation benefit arising from any transaction if they undertook it solely or mainly to obtain a tax benefit. It does so by looking at the motivation of the taxpayer at the time of entering into the transaction, which is usually determined by the likelihood of any tax advantageous step in a transaction having a commercial explanation. If a commercial motive for each step in a transaction can be offered then it is likely that the person undertaking it will secure the tax benefit inherent in the transaction. If no such motive can be found, then tax benefits would not be obtained. Compare with a *general anti-avoidance rule*.
General anti-avoidance rule	A general anti-avoidance rule seeks to tackle those who try to break the rules of taxation through the use of further rules. Rather than considering intention, it lays downs ways of interpreting a series of events to determine whether the benefit of tax legislation can be given to the taxpayer. Rules are invariably open to interpretation, hence a general anti-avoidance rule runs the risk of increasing the opportunity for abuse.
Gift tax	Taxes charged on gifts either during life or on death. The charges may be on the donor or on the cumulative value of gifts received by the recipient.
Gini coefficient	The Gini coefficient is a measure of income inequality within a country. It is usually expressed as a percentage or index where either 1 or 100% indicates "perfect" inequality and 0 or 0% indicates "perfect" equality of income distribution. The compiling of the Index requires that costly surveys be undertaken. Neither the IMF nor the World Bank computes Gini coefficients as part of their country missions and programmes. Thus, the Gini coefficient has a rather sparse coverage in terms of countries and years available. Scandinavian countries have Gini coefficients of around 25%, continental European countries of around 30%, Anglo-Saxon countries of around 40%, many Latin American Countries of around 50-60%, and some African countries reach Gini coefficients of 60-70%.
Goods and services tax (GST)	Goods and services tax or sometimes a general sales tax. See *sales tax*.
Hague Convention of the Law Applicable to Trusts and on their Recognition	The Hague Convention of the Law Applicable to Trusts and on their Recognition was signed on 1 July 1985 but came into force on 1 January 1992. The Convention aims to harmonise trust law by creating mutual legal recognition of trusts, defining the characteristics of trusts and setting out rules for determining the governing law of trusts with a cross border element.
Hawala transactions	An informal system of money transfer between entities in different countries. Brokers use handshake deals and/or agreements with counterparts in other countries to move money without physically transferring funds (especially across borders) or using bank transfers. Often extremely difficult to monitor, hawala is used primarily in the Middle East, East Africa and South Asia.

Hedging	In theory hedging is a form of insurance involving a variety of financial instruments including call options, put options, short selling or futures contracts. Genuine hedging can reduce market risk, for example on the price of a crop to be sold at a future date. In reality much hedging involves speculation, often of a very short-term nature. Its complexity hides the risks latent within it while the fact that a lot of hedging is recorded offshore (even though managed from onshore) suggests that a significant proportion of hedging activity is conducted to shift real profits made onshore into offshore locations.
Here	A transaction taking place and regulated within the geographical limit of a jurisdiction. Compare with somewhere, elsewhere and nowhere.
High net-worth individuals	Otherwise known as HNWIs (pronounced hen-wees). Generally categorised as individuals with more than US$1 million of financial assets (i.e. worth excluding the value of their main home) available for investment.
Holding companies	A company that either wholly owns or owns more than 50 percent of another company, the latter being called a subsidiary. An intermediate holding company is a holding company which has one or more subsidiaries but is itself owned by another company. The term 'ultimate holding company' refers to the one that is finally not controlled by another company. Some holding companies have thousands of subsidiary companies.
Horizontal ring-fencing	The tax and regulation regime in a jurisdiction may discriminate between local companies (or trusts, etc.) and those that are owned by non-resident people. Horizontal ring-fencing occurs if non-resident people or foreign (business) activity is generally privileged in matters of tax and regulation. For example, secrecy jurisdictions often exempt non-residents from paying income tax on corporate and/or personal income. Such jurisdictions might also exempt non-residents from paying tax on income that stems from foreign sources and at the same time encourage or allow these non-residents to conduct business primarily or exclusively abroad.
Human Development Index	The Human Development Index measures the "development" of countries and their populations by capturing more than purely economic data. It is published by the United Nations Development Programme (UNDP). Apart from monetized income, it integrates life expectancy and educational attainment (e.g. literacy rates) of the population in the Index. The Index is a single number between 0 and 1, where 1 stands for very high human development, 0 for very low human development.
Illicit financial flow	Illicit money is money that is illegally earned, transferred or utilized. Breaking laws anywhere along the way earns such funds the label. Frequently described as "dirty money". These cross-border transfers come in three forms: (1) the proceeds of bribery and theft by government officials; (2) criminal activities including drug trading, human trafficking, illegal arms, contraband and more; and (3) commercial trade mis-pricing and tax evasion. The latter is by far the largest, and is believed to comprise two thirds of the total.
Income tax	A tax charged upon the income of individuals. It can also be extended to companies. The tax is usually charged upon both earned income from employment and self employment and unearned income e.g. from investments and property.

Incorporated cell company	A form of cell company. See cell company.
Indirect taxes	A form of tax charged upon transactions, usually upon their gross value. Examples include sales taxes, value added taxes, goods and services taxes, stamp duties, land taxes and excise and customs duties and levies of all sorts.
Information exchange	See bilateral and multilateral information exchange.
Inheritance tax	A tax charged upon the gifts people make out of their wealth, most commonly (but not always) at the time of their death.
International Accounting Standards Board (IASB)	A privately owned company registered in Delaware in the USA but based in London in the United Kingdom, which issues International Financial Reporting Standards. It is largely financed by the largest firms of accountants in the world and other major actors in the financial services industry. It is self-regulating and resists government interference. Its status as an issuer of accounting standards was transformed when its standards were adopted by the European Union for use by all companies quoted on stock exchanges in that territory from 2005 onwards.
International Asset Recovery	Efforts to return the proceeds of corruption to their country of origin.
International Bureau of Fiscal Documentation (IBFD)	IBFD is an international provider of cross-border tax expertise and independent tax research. See http://www.ibfd.org/?bookmarkablePage=home
International Business Corporations (IBC)	A type of company offered by many offshore finance centres and tax havens, usually one which receives all or most of its income from abroad. IBCs usually pay an annual registration fee but are subject to minimal or zero tax rates. Now less common than a decade ago as a result of pressure brought to bear on the jurisdictions offering them as a result of the EU Code of Conduct on Business Taxation.
International financial centre (IFC)	See offshore financial centre.
International financial reporting standards (IFRS)	Accounting standards issued by the International Accounting Standards Board for use by quoted companies in the whole of the European Union and more than 70 other jurisdictions. The accounting standards of the USA, Japan and other nations are converging with International Financial Reporting Standards. Changes could be made to IFRS to require the adoption of country-by-country reporting.

International Monetary Fund (IMF)	The International Monetary Fund (IMF) is an organization of 188 countries, working to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty around the world. The IMF promotes international monetary cooperation and exchange rate stability, facilitates the balanced growth of international trade, and provides resources to help members in balance of payments difficulties or to assist with poverty reduction. Through its economic surveillance, the IMF keeps track of the economic health of its member countries, alerting them to risks on the horizon and providing policy advice. It also lends to countries in difficulty, and provides technical assistance and training to help countries improve economic management. This work is backed by IMF research and statistics. One of the Bretton-Woods Institutions founded after World War II, the IMF has been subject to considerable criticism, partly as a result of its role in promoting the 'Washington Consensus'.
International provider	A financial services supplier making supply within the regulated market from an international financial centre to clients in more than one country, including that in which it is itself located.
Internationally regulated	A transaction regulated in more than one jurisdiction, with all jurisdictions being aware of the others involvement.
Inversion	The act of a parent company whose headquarters are located within one jurisdiction switching registration with an offshore subsidiary they own to secure location within that offshore jurisdiction in order to secure a tax advantage. At one time mainly occurring in the USA, it became a UK phenomenon as well from 2009 onwards and has also been used by corporations such as Glencore, which is technically registered in Jersey as a result.
Investment fund	Investment funds are marketed opportunities to buy units in a collective investment entity which in turn invests in a broad range of other assets with the objective of creating diversified risk and consistent investment returns.
Irrevocable trust	A trust where the settlor cannot reclaim the trust property or derive benefit from it once it has been transferred to the legal ownership of the trustees.
Knowingly unregulated	A transaction which is not regulated by any jurisdiction, or where the degree of regulation is so minimal that this is effectively the case, with this being known to all parties with any responsibility for the entity. This has the effect that the transaction takes place 'nowhere'.
Land value taxation	A tax on the rental value of a site, assessed as if it were undeveloped and unimproved - in other words, as if it were bare land. It therefore charges tax on an immoveable and therefore unavoidable tax base which is always firmly located within a jurisdiction – the land itself.

Lawyer	A person providing advice on the law, who prepares legal agreements or who pursues disputes through the legal system of a jurisdiction. The use of the term and the entitlement to practice as a lawyer is regulated in many jurisdictions.
Local provider	A financial services provider supplying services to entities resident in the jurisdiction in which they themselves operate.
Locally regulated	A transaction or entity that is solely regulated within the jurisdiction in which it is registered or takes place.
Legal person	A legal person is a person that is not necessarily a human being but still has rights and obligations. Companies and many types of partnerships are legal persons, as are most foundations. The rights and obligations of a legal person are not equivalent to those of a natural person and are usually limited e.g. to the holding of ownership, entering into contractual relations etc.. Most, but not all legal persons will be owned by natural persons. Exceptions are legal persons owned by legal persons: these then create groups of companies, and foundations, which have no ownership but which are established for the benefit of designated groups, usually comprising natural persons. As such some argue that legal persons act as mere agents for their members or those on whose behalf they act, but this does not reflect their rights in law and the impact they consequently have on the arrangement of property rights within and between jurisdictions and as such they have to be considered as persons in their own right separate from those natural persons who own them or benefit from their existence.
Legal system	There are basically two different types of legal system of significance in international tax legal. The first is civil or roman law, the second is common law. According to Wikipedia, civil law is the most widespread type of legal system. Common law is employed in the USA and the UK (and most of the latter's former colonies). The main difference between the two systems is the relative importance of case law i.e. law made by judges when offering opinions on cases heard before them in common law systems. These play a crucial role in common law but civil law, in contrast, relies almost solely on statutes and the constitution for rule making. Sometimes, legal systems display a blend of both or apply one system in one particular legal domain and the other in the remaining legal system. When such a blend exists, that of significance here is the one used for taxation and commercial law.
Licence (Licensing)	A contract for the use of property, often intellectual property such as a patent, copyright or trademark. If ownership of the intellectual property is placed in a company located in a tax haven the licence fee income paid to that tax haven company may be exempt from tax whilst the fee paid to it may be subject to tax relief in the country from which it is paid, giving a significant tax benefit. This type of tax exploitation is now commonplace in the IT, pharmaceutical and similar sectors where patents are commonplace.

Limited company or corporation	A limited company is a legal person with an existence separate from those natural persons that own it. Those natural persons interest in the limited company is delineated by the number of shares that they own within it. The management of a limited company is governed by its constitution. This is usually split into two parts, described as the articles and memorandum of association (or incorporation). The-day to-day management of the affairs of a company are delegated to a board of directors who are elected by the members. Those directors do not necessarily have an ownership interest in it. The directors are often served by a company secretary who manages the administration of the company. There are variants on this theme such as protected cell companies, incorporated cell companies, and various types of corporation. Some jurisdictions, such as the UK, designate companies differently if their shares may be traded but their structure is fundamentally similar. The limited company or corporation is by far the most company type of legal person in the world.
Limited liability partnerships (LLP)	A partnership that provides its non-corporate members with limited liability. LLPs are frequently based offshore for tax avoidance purposes.
Limited liability	The right granted in law to the members of a company to be protected from claims made by that company's third party creditors in the event of its insolvency. First found in 16th century England, its more general availability revolutionised the raising of capital in the 19th century and permitted the industrial revolution. Now available at very low cost in almost every jurisdiction in the world (California being one of the last to grant it, in the 1940s). Whilst of benefit when used properly it is also an opportunity for fraudulent abuse, requiring its proper regulation which can rarely happen in secrecy jurisdictions where too little information is available to regulators for this purpose.
Look through	"Look through" when used as tax terminology refers to a legal person (and some other entities, such as unlimited partnerships) that undertake transactions but whose existence is then ignored when the resulting taxation liabilities are computed because the profits arising are attributed by the tax authority of the jurisdiction in which the liability arises to those persons, whether legal or natural, that have an ownership interest in the entity that is "looked through" and the tax liability is computed upon them in its place. Those members are then liable for the tax due. Partnerships, whether limited or unlimited are the most commonly "looked through" structures but such arrangements have been adopted for limited companies in some of the UK's Crown Dependencies to avoid the ring fencing provisions of the EU Code of Conduct for Business Taxation.
Loophole	A technicality that allows a person or business to avoid the scope of a law without directly violating that law. Loopholes are crucial to tax avoidance since they are the mechanism by which people 'get round the law' – which is what tax avoidance really involves.

Low tax	A term that is hard to define since it is subjective. Low tax is often used to describe tax regimes where no tax is due; for example the Cayman Island where there is no direct taxation. More commonly it refers to a particular tax rate that is low in comparison to prevailing norms in other equivalent jurisdictions. Because of this subjectivity the term has little practical use.
Lowtax.net	A web site promoting the use of tax havens / secrecy jurisdictions with web address http://www.lowtax.net/
Memorandum of Association	See Constitution.
Money-laundering	The process of 'cleaning' money from criminal or illicit activities (including tax evasion) to give it the appearance of originating from a legitimate source.
Multilateral information exchange	Exchange of information between the tax authorities of states can be done bilaterally or multilaterally. When done bilaterally, two main types of agreements are used. The first is Double Taxation Agreements (DTAs). The second is Tax Information Exchange Agreements (TIEAs). Bilateral Double Taxation Agreements and Tax Information Exchange Agreements are agreed between the two participating states: no other state is party to the agreement. In multilateral agreements more than two states are parties to the agreement. Multilateral agreements are rare: the European Union Savings Tax Directive is a notable exception.
National insurance contributions	See social security contributions. Often called NIC.
Natural person	A human being! Compare with a legal person, such as a limited company or corporation.
Net financial services exports-to-GDP ratio	The ratio of the output of the financial services sector of a jurisdiction to its total GDP. The higher the ratio the more dependent upon financial services the jurisdiction is. In some secrecy jurisdictions, such as Jersey, this ratio is as high as 50%. That is exceptional.
Nominee owner	A nominee owner of an asset is a person who allows their name to be used for the purposes of recording legal ownership of the asset in question but who at the same time enters into an agreement with the beneficial owner of the asset to confirm that they will always act following the instructions of that beneficial owner with regard to the exercise of the rights derived from their legal ownership of that asset and will at any time surrender that ownership to another person upon direction of the beneficial owner. It is common place for nominee owners to pre-sign documentation authorising the transfer of legal ownership of the asset which the beneficial owner may use to effect that change at any time of their choosing. The nominee is usually paid a fee for their services but otherwise has no interest in the transactions that relate to assets which they publicly or legally profess to own. Nominee owners are commonly used in secrecy jurisdictions when ownership of an asset has to be recorded on public registers and the beneficial ownerships wish to disguise their identity. Nominee owners are not trustees as they have no discretion available to them with regard to the exercise of their duties: they are mere agents of the beneficial owners.

Nominee directors	Nominee directors act as the legal managers of limited companies and other legal persons. When doing so they act on behalf of the real managers of these entities, who will in many cases be the beneficial owners of them. It is common place for nominee directors to pre-sign letters of resignation from the companies for which they supposedly act, which the beneficial owner may use to effect that change at any time of their choosing. The nominee is usually paid a fee for their services but otherwise has no interest in the transactions that relate to the company which they publicly or legally profess to manage, apart from appending their signature to legal documentation including board minutes when requested to do so. Nominee directors are commonly used in secrecy jurisdictions when directorships have to be recorded on public registers and the beneficial owners wish to disguise their identity. Nominee directors are not trustees as they have no discretion available to them with regard to the exercise of their duties: they are mere agents of the beneficial owners.
Nominee company secretary	See nominee directors: the situation of a nominee company secretary is similar.
Non-bank Financial Institutions (NBFI)	A non-bank financial institution is a financial institution that does not have a full banking licence or is not supervised by a national or international banking regulatory agency. They might range from equity and debt financing institutions to insurance, pension, leasing, asset management, consumer finance and non-bank mortgage institutions.
Non-UCITS	See UCITS.
Nowhere	The part of the secrecy space where by design or chance the combination of unregulated entities used results in transactions being unregulated or only lightly regulated.
OECD (Organization for Economic Co- operation and Development)	The OECD brings together the governments of countries committed to democracy and the market economy from around the world. Established in 1961 it has developed a particular role with regard to tax related issues where it has established most of the rules with regard to taxation of transnational corporations, to systems for information exchange now in use, the most commonly used models for double tax agreements and Tax Information Exchange Agreements and has played a significant role in the attack on tax havens / secrecy jurisdictions. It has, however, been criticised for being a ‘rich country club’ and for being too lenient on its own members.
OECD Global Forum on Taxation	The Forum is part of the work of the OECD’s Centre for Tax Policy and Administration, but with particular emphasis on negotiation, application and interpretation of tax treaties, transfer pricing and effective exchange of information between tax administrations.
OECD Transfer Pricing Guidelines	Guidance first created by the OECD in 1995 to define rules for multinational corporations’ use of transfer pricing, including the “arm’s length” principle.

Off balance sheet	Off balance sheet usually refers to an asset and its associated debt or financing activity which have been excluded from inclusion in the balance sheet of a company. Leasing arrangements are amongst the most common off balance sheet arrangements, although accounting standards are meant to have tackled this issue in theory if not in practice. Other arrangements can include whole subsidiaries excluded from consolidation because they are 'orphan entities' or contingent liabilities such as letters of credit, derivatives, futures, swaps and other complex financial instruments.
Offshore	There is no agreed definition of offshore. It can only be described. The term has often been used to describe any jurisdiction (regardless of whether they are islands) which provides tax and regulatory privileges or advantages, generally to companies, trusts and bank account holders on condition that they do not conduct active business affairs within that jurisdiction. In its 2008 report 'Creating Turmoil' the Tax Justice Network tackled this issue. It suggested that offshore does not describe geography. It most certainly does not refer to island locations. The term 'offshore' refers to the location of the customers of an offshore financial centre i.e. those people the tax haven / secrecy jurisdiction intended should make use of the structures they permit under their law. What characterises these customers is that they are not in the tax haven where the OFC is located. They are 'elsewhere' i.e. they are located in another jurisdiction. This concept was first recognised in London, and as far as the UK was concerned that 'elsewhere' was always 'offshore'. The term stuck, even when the geography to which it originally related had little or no meaning. What this amounts to is the following: an offshore transaction is recorded in one place (a secrecy jurisdiction) on behalf of parties who are actually elsewhere. Those transactions might have the legal form of taking place in the tax haven in which they are recorded. The reality is that their substance, and benefit, occurs elsewhere. The term 'offshore' does, as a result, describe a disconnect between the place where a transaction is recorded and the place where its economic substance occurs. It is for this reason that the world's secrecy jurisdictions were able to say that the economic crisis that developed from 2007 onwards was not of their creation. By definition that had to be true. Nothing recorded in an OFC actually takes place there. In consequence those secrecy jurisdictions that host OFCs can fairly claim they are not responsible for what is recorded in the OFC for it always takes place elsewhere.
Offshore Banking	The supply of banking services from an offshore financial centre located in a secrecy jurisdiction to customers who are not located in the jurisdiction.

Offshore Financial Centre (OFC)	Although most tax havens like to call themselves Offshore Finance Centres (OFCs) the terms are not synonymous. Tax havens offer low or minimal rates of tax to non-residents. This does not however mean that they also host a range of financial services providers. An OFC offers low tax rates and hosts a functional financial services centre, usually including branches or subsidiaries of major international banks as well as the offices of accountants and lawyers to service offshore clients. States and microstates that host tax havens and OFCs dislike both terms, preferring to call themselves International Finance Centres. See also 'secrecy providers'.
Offshore Financial Centre Assessment Programme (OFC-AP)	The offshore financial centre (OFC) programme was launched by the IMF in July 2000 to address potential vulnerabilities in financial systems by identifying gaps in supervision and improving the coverage of statistics on the activities of OFCs in financial markets. The assessment component of the programme focuses on jurisdictions with significant financial activity and few previous assessments of standards, subject to the agreement of the jurisdiction, while the statistical component has concentrated on extending the coverage of the Coordinated Portfolio Investment Survey (CPIS). 44 jurisdictions were assessed in the first round of the programme. Reports for most were published. The second round of reviews is now in progress. The weakness of the programme is that it focuses on systems, not their application. As such a jurisdiction scores well in the programme for having the right legislation in place. The actual application of that legislation has to date not been subject to review. As a consequence it is not clear what contribution the programme has really made in achieving its objectives, although vast amounts of legislation have been produced.

Offshore Group of Banking Supervisors (OGBS)	The OGBS says its aims are: - to allow members to identify and discuss issues of mutual interest, establish an identity of purpose and share knowledge and experiences; - to participate with relevant international organisations in setting and promoting the implementation of international standards for cross-border banking supervision, and for combating money laundering/terrorist financing; - to encourage members to apply high standards of supervision based on internationally accepted principles; - to promote a general raising of standards among member jurisdictions through a peer group approach and mutual independent evaluation; - to agree and promote a positive, constructive and coordinated response to the approaches made by other supervisory authorities for assistance in the effective consolidated supervision of international banks; - to promote the adoption of a Statement of Best Practice for trust and company service providers. To be a member a jurisdiction must have: - A clear commitment is made to the Basel Committee on Banking Supervision's Core Principles; - A clear commitment is made to the 40 Recommendations of the Financial Action Task Force on money laundering, and the 9 Special Recommendations of the Task Force on terrorist financing; - The necessary legislation and administration to put these commitments into effect is in place or in early prospect; - There is evidence of either a satisfactory track record of translating the commitments into effect or a detailed plan for doing so within a reasonable time frame; - The commitments are entered into with the knowledge and support of the relevant political authority. In 2010 the members were Aruba, Bahamas, Barbados, Bermuda, British Virgin Islands, Cayman Islands, Cook Islands, Guernsey, Isle of Man, Jersey, Labuan, Macau, Mauritius, Netherlands Antilles, Panama, Samoa and Vanuatu whilst Antigua-Barbuda and the Eastern Caribbean Central Bank have observer status.
Offshore Group of Insurance Supervisors (OGIS)	This organisation consists of insurance regulators and supervisors from offshore jurisdictions. The formal objects of the organization are to provide mechanisms and forums whereby insurance supervisors from jurisdictions concerned with offshore insurance business may discuss areas of mutual interest and concern and formulate appropriate policies; to provide assistance and encouragement to appropriate non member jurisdictions to establish regimes for the supervision of offshore insurance business at least to standards equivalent to those of the Group; to represent the interests of the Group at international forums and to promote the proper supervision of offshore insurance business.

Orphan companies	Companies that are created by a parent organisation that are deliberately structured by that parent entity so that they are off balance sheet so that the assets or liabilities that they own are excluded from inclusion in the parent's own balance sheet. A common way to engineer this is to create a company to which the off balance sheet assets and liabilities are transferred, which is owned by a charitable trust and which is therefore neither under the ownership nor control of the parent entity. This is why it is described as an orphan; it has become parentless whilst being dependent.
Parent company	A company that controls another company (which is then called its subsidiary company) either by owning more than 50% of the second company or by controlling the composition of its board of directors. A parent company may have thousands of subsidiary companies, some of which will themselves be parent companies, in which case they are called intermediate parents. In that case the company not subject to control at the top of the hierarchy is called the ultimate parent company.
Partnerships	Any arrangement where two or more people agree to work together and share the resulting profits or losses. A partnership can be between individuals, companies or a mixture of both.
Payroll taxes	See social security contributions.
Permanent Establishment	An office, factory, or branch of a company or other non-resident. Under double tax treaties business profits are taxable at source if attributable to a Permanent Establishment. May include construction sites or oil platforms in place for over 6 months. Rules regarding permanent establishments can be dependent upon arrangements concluded in double tax treaties.
Politically Exposed Person (PEP)	A person entrusted with a public function, such as a politician or employee of a government agency. The term is sometimes inclusive of their relatives and close associates. Banks are supposed to treat PEP clients as high-risk clients, applying enhanced due diligence at both the inception of the relationship and on an ongoing basis to ensure that the money in their bank account is not proceeds of corruption.
Poll tax	A tax that levies the same sum on each person irrespective of their ability to pay. Poll taxes are profoundly regressive and unjust.
Predicate offence	An underlying crime, such as drug trafficking, which generates the illicit money to be laundered and is a necessary element of building a criminal money-laundering charge. According to the FATF 40 recommendations, tax evasion should be classified as a predicate offence for money laundering.
Preferential tax treatment	A situation in which individuals or companies can negotiate their tax treatment in the state in which they have a tax liability. Pioneered by Switzerland in the 1920s, the arrangement is commonplace in tax havens.
Private company	A company not quoted on a stock exchange. Shares cannot usually be sold without the consent of the company or its owners; in many countries little or no information need be disclosed on the activities of such companies even though their members enjoy the benefit of limited liability.
Private legal entity	See private company. Limited liability partnerships and foundations are also private legal entities.

Profit laun-dering	The process of transferring profits from a territory in which they would be taxed to another in which there is either no tax or a lower tax rate. Mechanisms for achieving this include transfer-pricing, re-invoicing, licensing, thin capitalisation, corporate re-structurings and inversions.
Progressive taxes	A tax system in which, as income rises, the amount of tax paid increases in proportion to the income as well as in absolute amount i.e. the percentage tax rate increases as the income rises. Also referred to as Graduation. Compare with flat and regressive taxes.
Protected cell company	See cell company.
Public com-pany	A company whose shares are available to be bought and sold by anyone who wishes without consent being required from the company itself. In many cases, public companies are also “listed” or “quoted” companies which means that they are quoted on a recognised stock exchange. They are generally required to be more transparent than private companies.
Public record	Information is available on public record if it is freely available to any interested party or for a fee that does at most represent the handling costs of the supplier without any profit element being added. To qualify as publicly accessible data, internet availability is essential. The opposite to information being on public record is that the information is kept confidentially without public inspection. Layers of legal secrecy provisions may enable and further enhance the secretive quality of such 'non-public' information and prevent foreign authorities and the public from accessing information.
PPP (Pur-chasing Power Par-ity)	Purchasing Power Parity describes a measurement method that is designed to improve the cross-country comparability of economic and social data. When comparing the level of economic development between two countries it is hard to compare the GDPs in two different currencies with each other. In order to achieve a "common denominator" for comparison, recourse is taken mostly to the US-Dollar. However, current exchange rates might distort greatly the values of the GDP when converting the domestic currency in US-Dollars. Therefore, the domestic price level needs to be taken into account before meaningful comparisons of GDPs (and other monetary data) can be undertaken. This is what PPP analysis achieves. It integrates the domestic price level into the computation of the applicable exchange rate. If GDP is expressed in PPP-terms, it conveys a more accurate picture of the economic disparity between two countries.
Quoted com-pany	See public company.

Race to the bottom	The downwards trend of tax rates and regulatory requirements on capital arising from competition between sovereign states to attract and retain investment. Considered to be 'tragically ironic' by many development theorists, as empirical analysis shows that low tax regimes are in fact not determinant factors in whether or not multinational corporations invest in a particular jurisdiction. More important are factors such as infrastructure quality, political stability and workforce capability. It is a feature of the race to the bottom that jurisdictions now attempt to "compete" by cutting tax rates erroneously believing this will attract investment, and paradoxically harming their development prospects by forsaking the domestic tax returns required for purposeful economic development.
Redomiciliation	Corporate redomiciliation is the process by which a company moves its domicile from one jurisdiction to another by changing the country under whose laws it is registered or incorporated, while maintaining the same legal identity. This can pose problems when a company is able to redomicile without leaving trace of its previous existence, allowing it to evade investigation by law enforcement and other authorities.
Registered office	The official address at which a company may be contacted. Unfortunately this is very often the address of a lawyer or accountant and as a result no clue as to the real whereabouts of the company is provided in such cases, which assists with creating a veil of secrecy over their activities.
Registration	Formal registration is the process required to create a legal person such as a limited company or corporation, limited partnership or foundation. It is usually achieved by submitting the registration data (see below) required by the jurisdiction in which it is to be legally located. Such arrangements rarely apply to trusts, for which it is uncommon for there to be a formal registration process, and which are created by trust deed in most cases without formal consent of a state.

Registration data	Registration data is the information that must be filed with the regulatory authorities of a state to establish a limited liability entity, trust, foundation or other legal person or entity. In the case of a limited liability entity this might be the constitution, details of members, directors and secretary: in the case of a trust the constitution, name of settlor, the trustees and any instructions such as side letters regarding management of the arrangement, and so on. The quality and quantity of registration data required differs vastly depending on the type of legal entity or arrangement chosen and the jurisdiction where this structure is created. In some cases little or no data need be filed with central authorities. In others rather more is required, and even proof of identity of beneficial owners must be made available. Usually data requirements are more onerous for companies and foundations than for trusts, where in most cases little or no registration data is needed. The requirement to hold such data is devolved to those professional persons helping establish such entities in many jurisdictions. The weaknesses in registration data are not exclusive to tax havens / secrecy jurisdictions. Neither the UK nor USA requires data on the beneficial ownership of limited liability entities to be made available to regulatory authorities when companies or corporations are formed within their domains. The weaker registration data is, the more likely it is that 'shell corporations' will be created for the purposes of abuse that will be difficult to trace.
Regressive taxes	A tax system in which, as a person's income from all sources increases, the amount of tax they pay reduces in proportion to their income even if it increases in absolute amount i.e. their percentage tax rate falls as their income goes up. Compare with progressive taxes and flat taxes.
Regulated entity	An entity that is located within the regulated space and is regulated both in its jurisdiction of registration and in all other jurisdictions in which it trades.
Regulated market	A market in which regulated entities trade with each other.
Regulated space	That area previously known as onshore in which all transactions are knowingly and openly regulated by one or more national agencies.
Reinsurance	Some large companies decide not to insure their risks with the conventional insurance markets but instead set up their own insurance companies. When insurance companies do this it is called reinsurance. By setting up a captive or reinsurance company offshore, a tax deduction for the premiums paid is available in the country where the risk is located whilst the premiums are received offshore where there is little or no tax. This is another form of tax avoidance.

Re-invoicing	Re-invoicing involves invoicing a sale to an agent, typically based in a tax haven or OFC, who subsequently sells on to the final purchaser. In practice the agent pays part of their mark up to the original vendor or to the purchaser, usually to an offshore account. This is a widely used process for laundering profits to a tax haven. The process is dependent upon secrecy for its success. It is now commonly denied that such practices occur but it is only secrecy that prevents such claims from being tested.
Remittance basis	The remittance basis is one of the ways in which income earned outside the country in which a person resides can be brought within the scope of tax in that place. The remittance basis says that tax is only due in the year when income is remitted to the country in which the taxpayer is resident: it is not taxable when it actually arises. The remittance basis enables a person to avoid tax indefinitely in their country of residence provided their overseas income is kept and / or spent abroad. Compare with the arising basis. Both have relevance within the context of the residence basis of taxation.
Remittance basis, companies	The remittance basis for companies is a compromise between the residence basis for companies and the territorial basis for companies. All the income of the subsidiaries of the parent company subject to the remittance basis can be taxed in the jurisdiction in which it is resident under the remittance basis but only when it is paid by way of dividend back to the parent corporation. The result is that there is a very strong incentive to keep funds subsidiaries outside the parent company jurisdiction and to reinvest them overseas rather than remit them, where they would be taxed. This is having a massive impact on US multinational company behaviour where this system is in operation.
Revocable trust	A trust that a settlor may revoke with the consequence that they can reclaim full title to the trust property they originally settled into trust, or what remains of it. This is not legal in UK law unless the trust is a ‘bare trust’ which is a mere nominee arrangement. Many offshore trusts are now of this sort but masquerade as being proper trusts where the settlor has irrevocably disposed of his or her entire interest in the trust property. The result is that such trusts can be considered sham arrangements.
Residence	For an individual, the person’s settled or usual home; for simplicity a presumption may be applied based on a rule-of-thumb, such as presence within the country for six months or 183 days in any tax year. It may be possible to be resident in more than one country at one time (though double tax treaties aim to prevent this in legal terms). Some individuals may also try to avoid being resident anywhere. For companies, residence is usually based on the place of incorporation but can also be where the central management and control of the company is located, if they are different. Tax haven companies formed for non resident owners are usually defined not to be resident in their country of incorporation. If they use secrecy to deny their presence in another state where they really trade they can achieve non-residence through stealth. This is, of course, tax evasion, and is a major cause of the tax losses attributable to tax havens / secrecy jurisdictions.

Residence basis (individuals)	Under the residence basis of taxation residents of a territory pay tax in that place on all their worldwide income wherever it arises, usually with a credit being given for tax already paid overseas. The aim is to discourage residents from investing abroad in lower tax countries, by ensuring that income is taxed at the resident country rate if it is higher. Compare with source and unitary basis.
Residence basis (companies)	The residence basis for companies is in some ways more complex than for individuals as companies can be made up of many individual subsidiaries all reporting to a parent company. The term 'residence basis' will usually be applied in this situation to the tax regime that applies to the parent company. If it is taxed on a residence basis then the jurisdiction in which it is based will seek to charge the income it earns to tax, either through taxing dividends received from those subsidiaries when they are remitted to that jurisdiction or through the operation of controlled foreign company rules. In combination with transfer pricing arrangements these provided a triumvirate of controls to make sure all group income was likely to be eventually be taxed in the parent company jurisdiction, with credit having been given for foreign tax already paid. Compare with remittance basis and territorial basis for companies
Ring-fencing	Ring fencing describes situations in which different and preferential tax and regulatory treatments are given by tax havens to companies and trusts owned by non-residents compared to the treatment given to companies and trusts owned by their own residents. In most cases the latter will be prevented from taking advantage of the arrangements available to non-residents.
Robin Hood Tax	See Tobin tax.
Safe harbour provisions	A safe harbour provision is granted under statute or a regulation on the condition that the party performed its actions in good faith. In effect they excuse inadvertent breaches of the law when undertaken in good faith and without intention of securing advantage. In US tax it can mean an accounting method that avoids legal or tax regulations and allows for a simpler method of determining a tax consequence than those methods described by the precise language of the tax code.
Sales tax	Taxes on sales can be levied in two ways. Firstly, as a general sales tax added to the value of all sales with no allowance for claiming a rebate on tax paid. Secondly, as a value added tax (VAT) (sometimes called a goods and services tax – GST) charged by businesses on sales and services but which allows businesses to claim credit from the government for any tax they are charged by their suppliers. The burden of VAT therefore falls almost entirely on the ultimate consumers. GST and VAT are both regressive taxes since lower income households always spend a higher proportion of their income on consumption and therefore invariably spend a greater proportion of their income on this tax than do better off households. VAT is by far the most widely used form of sales tax.

Sanctions	Measures a country might take against a non-cooperative tax haven. Measures endorsed by the G20 include: - increased disclosure requirements on the part of taxpayers and financial institutions to report transactions involving non- cooperative jurisdictions; - withholding taxes in respect of a wide variety of payments; - denying deductions in respect of expense payments to payees resident in a non-cooperative jurisdiction; - reviewing tax treaty policy; - asking international institutions and regional development banks to review their investment policies; and, - giving extra weight to the principles of tax transparency and information exchange when designing bilateral aid programmes. See http://www.g20.utoronto.ca/2009/2009ifi.html
Secrecy jurisdiction	Secrecy jurisdictions are places that intentionally create regulation for the primary benefit and use of people and legal entities not resident in their geographical domain. That regulation is designed to undermine the legislation or regulation of another jurisdiction. To facilitate its use secrecy jurisdictions also create a deliberate, legally backed veil of secrecy to ensure that the people from outside the jurisdiction making use of its regulation cannot be identified.
Secrecy provider	The lawyers, accountants, bankers, trust companies and others who provide the services needed to manage transactions in the secrecy space.
Secrecy space	The unregulated spaces that are created by a secrecy jurisdiction that are suggested to be outside their domain and so are treated by them as being 'elsewhere' or 'nowhere'. Both of these are domains without geographic existence.
Secretary	See company secretary.
Secretly unregulated	An unregulated transaction undertaken by an entity created using the law or regulation of a secrecy jurisdiction that is not reported to those authorities elsewhere that have legitimate interest in it despite there being an obligation for such report to be made.
Securities	The legal instrument (paper or electronic) that proves entitlement to a financial property right is a security. It might relate to share or stock ownership in a limited liability entity such as a company or corporation, to a bond issued in respect of debt or to the contract for a future right, derivative or other financial instrument. In each case the document indicates a right to ownership of the asset and a right to receive the income derived from it.
Seized assets	Assets appropriated by regulatory authorities from those found guilty of or suspected of money laundering offences.

Settlor benefit	Any benefit from a trust that is returned to the settlor. Under UK law such benefits are prohibited but many secrecy jurisdictions now permit the creation of trusts from which the settlor may benefit as a beneficiary or by way of return of the trust property. There is some doubt about whether arrangements of this sort can properly be considered to be trusts.
Shareholders	The owner of the shares in a company. In many instances the registered shareholders of companies registered in secrecy jurisdictions are nominees, which prevents identification of the real-life beneficial owners.
Shell bank	A bank without a physical presence or employees in the jurisdiction in which it was incorporated.
Shell corporation	A limited liability entity usually formed in a tax haven / secrecy jurisdiction (including the UK and USA) for the purposes of hiding illicit financial flows, tax evasion or regulatory abuse. The entity is highly unlikely to have a real trade, its sole purpose being to hide transactions from view. No one knows how many such corporations there are, but they are commonplace. Other names are sometimes used e.g. 'brass plate companies', indicating a legal entity whose only real presence is the plaque on the wall of a lawyer's office recording the location of its registered office.
Social security contributions	Payments made towards a fund maintained by government usually used to pay pension and unemployment benefits. Health benefits are sometimes covered as well. Social security contributions are generally considered to be taxes. They are covered by the more generic name payroll taxes since they are often collected alongside income taxes from the payments made to employees but they can also be charged on the self-employed as well.
Society for Trust and Estates Practitioners	The Society of Trust and Estate Practitioners (STEP) is a professional body which it says "provides members with a local, national and international learning and business network focusing on the responsible stewardship of assets today and across the generations." STEP has been associated with many offshore trust developments.
Somewhere	A place other than that in which a regulated entity resides in which it undertake transactions that are both reported and regulated, with transparent interaction between that place and the location in which the regulated entity is registered or resides taking place, at least on request.
Source basis	Taxation of income in the territory where it is earned. Compare with residence and unitary bases. Under double tax treaty rules, income attributable to a Permanent Establishment is taxable at source. Some countries tax only on a source basis, and consider income earned outside the country exempt; but some tax on the basis of both source and residence (subject to a foreign tax credit) to ensure a more comprehensive approach and to tackle obvious opportunities for tax avoidance arising from shifting a source of income out of a country if a residence basis is. Compare with residence and unitary bases.

Special purpose vehicles	Any company, trust, LLP, partnership or other legal entity set up to achieve a particular purpose in the course of completing a transaction, or series of transactions, typically with the principal or sole intent of obtaining a tax or regulatory advantage, for which reason many are located in tax havens / secrecy jurisdictions.
Stamp duty	A tax on the value of contracts. Usually charged on contractual dealings on shares and other stocks and securities and on dealings in land and property.
Stolen Asset Recovery Initiative (StAR)	A partnership between the World Bank and the U.N. Office on Drugs and Crime that supports international efforts to end safe havens for corrupt funds. In the fall of 2011StAR released the landmark report, "The Puppet Masters: How the Corrupt Use Legal Structures to Hide Stolen Assets and What to Do About It" which focused on the adverse impact of legal structures.
Stop Tax Haven Abuse Act (STHAA)	A draft Act introduced into the US Senate in 2007 and 2009, in both cases by Senator Carl Levin but in the first instance with the support of the then Senator Barack Obama. It was introduced in every session of Congress thereafter. The Act says its purpose is "To restrict the use of offshore tax havens and abusive tax shelters to inappropriately avoid Federal taxation, and for other purposes." In practice the Act proposes to do this by increasing the degree of disclosure required of those using tax havens, by shifting the onus of proof regarding their abuse from the tax authorities onto the tax payer, by limiting tax reliefs for payments to offshore entities and by tackling trust abuses. The Act identifies 34 jurisdictions it considers abusive.
Suspicious Transactions Report (STR) Also called Suspicious Activity Reports	STRs are used by those engaged in the financial services industry (including in many countries those engaged in tax activity) to report transactions involving money laundering to the relevant regularity authorities for them to investigate further. An STR does not require the person submitting the report to have proof that money laundering is taking place: they must report simply if they suspect that it is taking place. It is for the authorities to prove the case. The number of reports varies widely between jurisdictions and between professions and firms within jurisdictions suggesting that universal awareness and compliance of the obligation to report does not exist. Many seem to think tax abuse need not be reported, especially if in another jurisdiction. That is usually not true, but the number of STRs on this issue in tax havens / secrecy jurisdictions seems remarkably low despite that fact.
Sub-Group on Level Playing Field Issues (OECD Global Forum on Taxation Sub-Group on Level Playing Field Issues)	The OECD Global Forum on Taxation created the Sub-Group on Level Playing Field Issues to discuss the importance of achieving a global level playing field in respect of improving transparency and effective exchange of information in the tax area. It was a necessary step the OECD was required to take following the 2001 action of the USA in halting almost all progress on the OECD's harmful tax competition initiative. In practice it sought to build bridges between the tax havens and the OECD, a process effectively brought to an end by the G20 meeting in London in April 2009 when the OECD was given back its role of imposing standards on tax havens / secrecy jurisdictions.

Subsidiary company	A company 50% or more owned or controlled via its board of directors by another company which is then called its parent company.
Tax arbitrage	The process by which a sophisticated tax payer plays off the tax systems of two different countries to obtain a tax benefit. Most commonly tax arbitrage is between the tax laws of different jurisdictions but it can also relate to exploiting different accounting regulations to achieve tax beneficial effects or to trading one tax off against another within a jurisdiction e.g. income tax against corporation tax.
Tax avoidance	The term given to the practice of seeking to minimise a tax bill without deliberate deception (which would be tax evasion or fraud). The practice may be summarised as 'seeking to get round the law'. Tax avoidance usually entails setting up artificial transactions or entities to re-characterise the nature, recipient or timing of payments. Where the entity is located or the transaction routed through another country, it is international avoidance. Special, complex schemes are often created purely for this purpose. Since avoidance often entails concealment of information and it is hard to prove intention or deliberate deception, the dividing line between avoidance and evasion is often unclear, and depends on the standards of responsibility of the professionals and specialist tax advisers. An avoidance scheme which is found to be invalid entails repayment of the taxes due plus penalties for lateness. Some claim that this term refers to any activity that reduces the amount of a person's income subject to tax, for example, claiming of allowances and reliefs clearly provided for in national tax law. This is not a position with which TJN agrees. If the law provides that no tax is due on a transaction then no tax can have been avoided by undertaking it. This practice is now generally described as tax compliant. TJN instead uses the term tax avoidance to refer to the practice of seeking to not pay tax contrary to the spirit of the law. Some also call this aggressive tax avoidance, although this is not a term we consider useful. This term is one of the most contentious in the tax lexicon.
Tax base	The range of transactions that a country chooses to tax. A broad base includes a wide range of transactions. A narrow base includes relatively few transactions.
Tax competition	Tax competition is the pressure brought to bear on governments to reduce taxes, usually to attract investment, either by way of reduction in declared tax rates or through the granting of special allowances and reliefs such as tax holidays or the use of export processing zones. In practice tax competition largely benefits mobile activities or businesses, but the competition to attract investment may result in an overall decline of corporation tax rates and in the amounts of corporation tax paid, often resulting in a switch of the tax from the owners of capital to workers and consumers.

Tax compliance	A term that means making payment of tax due without engaging in tax avoidance or evasion. It is used in contrast to the terms tax avoidance and tax evasion. Tax compliance in this context is used as a test of a person's intention before they undertake a transaction. It asks whether the person is seeking to comply with the spirit of the legislation concerning the transaction into which they are entering. If they are, then it should be presumed their intent was to be legal. If, on the other hand, they are seeking to comply with the letter but not the spirit of the law (and it is usually possible to determine this from the form the transaction takes) then it should be presumed their intent was to get round that law, the onus of proof otherwise falling upon them. This test can be used in connection with a general anti-avoidance principle to determine whether that principle should be applied to a transaction, or not. A person who has used an appropriate motive is 'tax compliant'. The term can also refer to the process of complying with the administrative requirements of tax law e.g. completing a tax return.
Tax efficiency	A term used by tax professionals to suggest getting away with paying as little tax as possible. It is often used a euphemism for tax avoidance.
Tax evasion	The illegal non payment or under-payment of taxes, usually by making a false declaration or no declaration to tax authorities; it entails criminal or civil legal penalties.
Tax gap	The difference between the tax a government would collect if all tax due in accordance with its law was paid and the amount that it is actually paid. The tax gap has three components: tax avoidance, tax evasion and tax paid late.
Tax haven	Any country or territory whose laws may be used to avoid or evade taxes which may be due in another country under that country's laws. The Organisation for Economic Cooperation and Development defines tax havens as jurisdictions where: - Non-residents undertaking activities pay little or no tax; - There is no effective exchange of taxation information with other countries; - A lack of transparency is legally guaranteed to the organisations based there; - There is no requirement that local corporations owned by non-residents carry out any substantial domestic (local) activity. Indeed, such corporations may be prohibited from doing business in the jurisdiction in which they are incorporated. Not all of these criteria need to apply for a territory to be a haven, but a majority must. See also *secrecy jurisdiction*.
Tax holidays	A period during which a company investing in a country does not have to pay tax under an agreement with that country's government.

Tax Information Exchange Agreement (TIEA)	TIEAs are bilateral agreements under which territories agree to cooperate in tax matters through exchange of information. In practice the model was little used until the G20 applied considerable pressure to tax havens / secrecy jurisdictions to sign such agreements. There have been hundreds signed since 2009 as a result but the evidence is that they are little-used because of the considerable obstacles to making requests that are inherent within the agreements themselves.
Tax Justice Network (TJN)	The Tax Justice Network is an independent organisation launched in the British Houses of Parliament in March 2003. It is dedicated to high-level research, analysis and advocacy in the field of tax and regulation. It works to map, analyse and explain the role of taxation and the harmful impacts of tax evasion, tax avoidance, tax competition and tax havens. Its objective is to encourage reform at the global and national levels. It is not aligned to any political party.
Tax mitigation	A phrase used by tax professionals when describing the desire to pay as little tax as possible. Another euphemism for tax avoidance.
Tax non-compliant	A person, natural or legal, who is not seeking to be tax compliant. See tax compliance.
Tax planning	A term used in two ways. It can be used as another term for tax mitigation. When, however, tax legislation allows more than one possible treatment of a proposed transaction the term might legitimately be used for comparing various means of complying with taxation law. If that is the motive then tax planning is consistent with tax compliance.
Tax rate	The rate at which a tax is charged. This is usually expressed as a percentage of the chargeable tax base e.g. x% of income. It can, however, be expressed as a fixed sum e.g. $Y per transaction undertaken.
Tax return	The official document on which a taxable person must declare either their liability to tax or details of the transactions which should give rise to tax. Historically these were paper based returns, and that remains true in many parts of the world, but on-line electronic filing is now becoming more commonplace. In either case the return will usually require the person submitting it to make a declaration that the information supplied is correct with criminal penalties arising if that statement is proved to be incorrect.
Tax shelter	An arrangement designed to protect part or all of a person's income from taxation. The offer of such an arrangement may result from a government desire to encourage some types of behaviour or activity, but it could equally may be a commercial or legal ruse, often artificial in nature, used to assist tax avoidance activity.
Territorial basis	A basis for taxation that only charges the income of the residents of a territory to tax if it comes from a source also located in that territory. The obvious weakness in this basis for tax, which is uncommon for individuals but increasingly common for companies, is that it encourages the artificial relocation of a source of income out of a territory and to a tax haven.

Territorial ring-fencing	The tax and regulation regime in a jurisdiction may vary depending on where the business activity geographically takes place. Territorial ring-fencing is created by a jurisdiction that offers designated territorial areas in which non-residents and/or foreign business activity is privileged over locals and/or domestic economic activity. This privilege may take the form of lower tax rates or of lower reporting and/or regulatory requirements. For example, a jurisdiction may create "export processing zones" in which all production must be exported and/or only foreigners can invest. Most of this production is untaxed and applicable environmental and social standards are often low.
Thin capitalisation	Thin capitalisation describes the process of financing a company with a high proportion of loans rather than shares. Used by transnational corporations to reduce the business profits of a subsidiary in a relatively highly taxed location, since the interest on loans is usually allowed as a deduction against profit, so reducing tax paid, whereas dividends on shares are paid out of after-tax income. The interest is usually paid to another subsidiary of the transnational corporation located in a tax haven where no tax is paid upon its receipt, resulting in an overall reduction in the tax charge of the group of companies.
Tobin tax	A Tobin Tax (also called Currency Transaction Tax, Financial Transaction tax and Robin Hood Tax) is a tax on trading on the foreign exchange markets named after the late James Tobin, the Nobel Prize winning economist, who proposed the idea as a means of reducing high frequency low margin trading on currencies. It may also be applied trades in other financial products such as shares, bonds, gilts, derivatives and hedges. The case for adopting a financial transaction tax is gaining political support in Europe.
Tracing of assets	The process of recovering illicit funds relocated to jurisdictions in which they do not belong as a result of illicit financial flows. See also freezing of assets and seizing of assets.
Trade mispricing	The act of misrepresenting the price or quantity of imports or exports in order to hide or accumulate money in other jurisdictions. The motive could be to evade taxes, avoid customs duties, transfer a kickback, launder money or some other purpose. Abusive transfer pricing: A transfer-pricing scheme in which trade mispricing has occurred. Used by multinational corporations to shift profits from high-tax jurisdictions to low-tax jurisdictions. Trade-based money laundering: A technique where trade mispricing is used to hide or disguise income generated from illegal activity.

Transfer-pricing	A transfer pricing arrangement occurs whenever two or more businesses (whether corporations or not) which are owned or controlled directly or indirectly by the same people trade with each other. The term transfer pricing is used because if the entities are owned in common they might not fix prices at a market rate but might instead fix them at a rate which achieves another purpose, such as tax avoidance. If a transfer price can be shown to be the same as the market price then it is acceptable for tax purposes. What are not acceptable for tax purposes are transfer prices that increase the cost or reduce the sales value in states which charge higher tax rates and increase the sales value or reduce the costs in states with lower tax rates. The difficulty for many corporations at a time when over 50% of world trade is within rather than between corporations is that there is no market price for many of the goods or services they trade between their own subsidiaries. This situation arises because they are never sold to third parties. This gives rise to complex models in which attempts are made to allocate value to various stages within the supply chain within a company, which process is wide open to potential abuse. For this reason it is argued that such firms should be taxed on a unitary basis.
Transnational corporations (TNCs)	A corporation with subsidiaries or divisions in two or more nations. Also known as multinational corporations (MNC).
Trusts	A trust is formed whenever a person (the trust settlor) gives legal ownership of an asset (the trust property) to another person (the trustee) on condition that they apply the income and gains arising from that asset for the benefit of a third person (the beneficiary). Trusts can be established verbally but typically take written form. Trustees are frequently professional people or firms charging fees. Trusts are usually of one of three types: - discretionary trust - charitable trust - interest in possession trust
Trustee	A person who holds the legal title to assets held in a trust and who administers it. The first trustees of a trust will be appointed by the settlor. The trustees may be paid for their work but are not usually allowed to be beneficiaries of the trust they administer. In secrecy jurisdictions trustees are often hired nominees who sign papers sent to them by the real controllers of the trusts they administer. In many cases that is the settlor.
Trust beneficiary	Anyone who may obtain a benefit from a trust. A person who has a right to receive a benefit from the trust has an ‘interest in possession’. If someone can receive a benefit but has no legal right to do so they are called a discretionary beneficiary. They only get a benefit if and when the trustees decide to pay it to them.
Trust company	A trust company provides the services of trustees and /or administrative staff who manage the affairs of trusts on behalf of those trustees.

Trust deed	The agreement that governs the management of a trust. The trust deed is usually in written form and sets out the wishes of the trust's settlor. It will specify who are to be the trustees, how they will manage their affairs, how their successors will be appointed, for whose benefit the trust property is to be managed and when they shall be entitled to receive it. If the trustees are afforded discretion on any such issue it will state this and the limits of that authority. The trust deed will also state the period for which the trust may operate, the law of many jurisdictions requiring that this be limited. Despite appearances trust deeds are frequently not comprehensive and are often accompanied by a 'letter of wishes' which states what the trustees are actually to do with the trust property. As such the legal form of the trust specified in the trust deed can frequently be negated by the letter of wishes issued by the settlor.
Trust settlor	The person who establishes a trust by gifting assets to it. Having made the gift they are usually supposed to have no further influence over a trust but in many tax havens that is not the case and the settlor often remains in complete control of the assets of the trust despite having supposedly gifted them for the benefit of others.
UCITS	'Undertakings for Collective Investment in Transferable Securities' (pronounced yoo-sits) are collective investment schemes subject to a set of European Union directives that are intended to allow them to operate freely throughout the EU on the basis of a single authorisation from one member state. Collective investment schemes include investment funds and trusts, unit trusts, many insurance based products, including mutual funds and more. Such funds are intended to be invested in risk bearing securities, and should not therefore pay a return akin to interest. It is up to the fund to apply for UCITS status. The issue has tax significance in the context of the European Union Savings Tax Directive.
Unitary basis	Unitary taxation treats the income of a group of companies as being one combined sum subject to tax. That taxable income is then apportioned for tax to be assessed by applying a formula to determine in which countries it might best be considered to have been earned (hence the term 'formulary apportionment' is widely applied to this process). Each state may then apply the rate of tax to it that it wishes. Unitary taxation is an alternative to the residence and source bases of taxation. Unitary taxation has been used in federal countries such as the USA where an allocation formula based on a ratio of sales, employment costs and assets employed within each state is used. It has been opposed by tax authorities (and MNCs) because they consider that it would be too difficult to reach international agreement, most especially on the formula. However, taxation of highly integrated MNCs may in practice entail a formula-based allocation of profits, albeit through negotiation of the sums allocated to each state under the arm's length method of transfer pricing for which there is frequently no realistic basis for determination because of the absence of alternative market based evidence of third party pricing.

UN Convention against Corruption (UNCAC)	The United Nations Convention against Corruption was adopted on 14 December, 2005, and is the most comprehensive global convention combating corruption. It is a binding agreement ratified by 160 countries on standards and requirements for preventing, detecting, investigating and applying sanctions on corruption. The convention requires its member states to adopt and follow a set of general guidelines and preventive measures as well as more detailed legislative action. In particular member states must criminalise the bribing of both national and foreign officials and to return funds obtained by corruption to the states from which they were stolen.
UNCAC Coalition	Formed in 2006, it is composed of more than 300 civil society organizations in more than 100 countries with the goal of promoting ratification, implementation and monitoring of the U.N. Convention against Corruption.
UN Drug Convention 1988	The 1988 United Nations Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances is one of three major drug control treaties currently in force. It provides additional legal mechanisms for enforcing the 1961 Single Convention on Narcotic Drugs and the 1971 Convention on Psychotropic ubstances. The Convention entered into force on November 11, 1990. As of January 1, 2005, there were 170 Parties to the Convention.
UN International Convention for the Suppression of the Financing of Terrorism	International Convention for the Suppression of the Financing of Terrorism, adopted by the General Assembly of the United Nations on 9 December 1999. See http://www.un.org/law/cod/finterr.htm
UN Convention against Transnational Organized Crime	The United Nations Convention against Transnational Organized Crime, adopted by General Assembly resolution 55/25 of 15 November 2000, is the main international instrument in the fight against transnational organized crime. See http://www.unodc.org/unodc/en/treaties/CTOC/index.html
Unlimited company	An entity incorporated in the same way as a limited liability company or corporation except that the members have unlimited liability for the debts of the company. Rarely found, they exist in some Anglo Saxon law jurisdictions where they have been little used. However, in exchange for unlimited liability they offer in locations such as the UK and Ireland the chance to have the status of being a separate legal entity taxable in its own right but without having obligation to place accounts on public record. This has been exploited by some corporations with major subsidiaries in Ireland to avoid details of their tax avoiding activities in that state from being disclosed.

US-INCSR (US-International Narcotics Control Strategy Report)	The INCSR is the United States Government's country-by-country two volume report that describes the efforts to attack all aspects of the international drug trade, chemical control, money laundering and financial crimes. It is available at http://www.state.gov/j/inl/rls/nrcrpt/
Unregulated entity	An entity created within a secrecy jurisdiction intended for use in the unregulated market that operates in the secrecy space. This entity will not be accountable for its transactions either because that has been engineered to be the case, in which case it is operating nowhere, or because there is deliberate omission to make that declaration in a place elsewhere to that in which it is legally located, which place elsewhere is unaware of the unregulated entity's obligation to make that declaration because of the existence of the secrecy space.
Unregulated market	An alternative term for 'offshore'. It is the sum of the commercial operations created to exploit the secrecy spaces created by secrecy jurisdictions. Unregulated entities trade within the unregulated market, either with other unregulated entities or with regulated entities.
Value added tax (VAT)	A tax levied on transactions designed to cumulatively tax value added within jurisdictions. This is achieved by charging VAT on imports into and on the sales of registered traders within a jurisdiction but by allowing those same registered traders to make claims for all VAT charged to them for offset against the VAT they collect from their customers. The result is that VAT should only be charged to end-consumers within the jurisdiction (exports invariably being exempt from charge). The range of goods and services on which VAT is charged varies from states. Reduced and zero rates are used in some jurisdictions to reduce the regressive impact of the tax which otherwise imposes the greatest proportionate burden on those with lowest incomes in a society as they invariably spend the greatest proportion of their incomes on consumption, which is the tax base for VAT.
Vertical ring-fencing	Vertical ring-fencing exists in the tax system of a jurisdiction if non-resident people and/or foreign owned business entities are provided with privileged taxation status and this privilege is dependent upon their using certain types of legal entity and / or their undertaking specified economic activity. International Business Corporations (IBCs) are an example of a vertical ring fence commonly available in many secrecy jurisdictions. Only those not resident in the secrecy jurisdiction are allowed to own IBCs and their income is exempt from tax in the secrecy jurisdiction in which they are incorporated on condition that they do not trade there.
Washington Consensus	The term 'Washington Consensus' was coined in 1989 by John Williamson. It originally described the economic policy prescriptions used by Washington DC-based institutions such as the International Monetary Fund and World Bank, but subsequently evolved to denote a belief and vigorous advocacy of free-market ideology.

Wealth tax	A tax on a person's declared wealth, typically imposed annually at a very low rate. Once commonplace in Europe these are now little-used since they are thought to encourage people to hide assets offshore. However, there is renewed interest in their use and how they might play a role in reducing inequality and tackling the public finance deficits around the world.
Withholding tax	Tax deducted from a payment made to a person resident outside the jurisdiction in which the payment originates. Generally applied to investment income, such as interest, dividends, royalties and licence fees.