

IOTA Digital Workshop

Combating international tax avoidance and aggressive tax planning through the use of legal entities in tax havens

Group Discussion 1

Methods used to identify hidden beneficial ownership in aggressive tax avoidance structures

FEEDBACK FROM GROUP 2

Question 1

How do you assess the compliance risk in an aggressive tax planning structure?

FEEDBACK FROM GROUP 2

Participants generally agreed that commercial databases such as Orbis and TP Catalyst are useful starting points for risk assessment but are insufficient on their own for determining whether a company located in a preferential tax regime carries out genuine business activities.

Common risk indicators included:

- ✓ Transactions with related parties in low-tax or offshore jurisdictions.
- ✓ The use of tax havens within group structures.
- ✓ Significant passive income payments abroad.
- ✓ Excessive debt financing in relation to equity.
- ✓ Limited personnel or operational capacity in foreign entities.
- ✓ Unusual profitability patterns, particularly where routine entities consistently report losses.

Several participants emphasized the importance of examining the commercial rationale of a structure, understanding who ultimately benefits from it, and following the flow of funds to determine where profits accumulate.

We also heard an interesting example from Poland, where econometric analysis, machine learning, and large-scale databases are used to identify risk indicators and improve case selection. In addition, large companies have obligations to disclose information on their tax strategies, creating another source of risk assessment data.

Question 2

What are the most common risky tax schemes/ structures/ transactions based on your experience?

FEEDBACK FROM GROUP 2

A recurring theme was profit shifting through jurisdictions that offer more favorable tax treatment. Participants described structures where profits, dividends, or capital gains are routed through intermediary entities to reduce taxation in the jurisdiction where the value was generated.

Several common schemes were identified:

- The use of intermediate holding companies to channel funds while obscuring the identity of the ultimate beneficial owner.
- Structures relying on participation exemptions or treaty benefits to minimize taxation.
- Transfer pricing arrangements where limited-risk distributors or manufacturers consistently report losses or negative margins.
- The increasing use of trusts, foundations, offshore entities, and insurance-based structures to separate ownership from control and create additional layers of complexity.

Across countries, participants noted that these structures often share the same characteristics:

- Lack of economic substance.
- Minimal or no employees.
- Mailbox companies.
- Artificial routing of income.
- Extensive intragroup transactions.
- Difficulties in identifying the real beneficial owner.

Question 3

What are the tools/ sources of information that you utilise to address a potential tax risk?

FEEDBACK FROM GROUP 2

There was strong agreement that international cooperation is one of the most valuable tools available to tax administrations. Exchange of information can provide access to ownership data, financial records, bank information, and evidence regarding the economic substance of foreign entities.

Participants also highlighted several important sources of information:

- Country-by-Country Reporting (CbCR).
- DAC6 disclosures.
- Transfer pricing reporting obligations.
- Tax strategy disclosures.
- International databases such as Orbis.
- Financial statement analysis and effective tax rate analysis.
- Internal data analytics tools and risk models.

At the same time, a common challenge identified by many jurisdictions is the lack of reliable beneficial ownership information, particularly when offshore structures use nominee directors or service providers.

Question 4

Is there a mechanism in your domestic legislation to tax the ultimate Beneficial Owner of an offshore company?

FEEDBACK FROM GROUP 2

Different approaches were reported.

Finland noted that Controlled Foreign Company, or CFC, rules remain its primary mechanism for taxing income accumulated in offshore entities controlled by domestic taxpayers. According to the Finnish experience, these rules have been upheld by the courts and aligned with EU anti-avoidance requirements.

Other jurisdictions, including Portugal and Georgia, rely primarily on General Anti-Avoidance Rules. Under these approaches, tax administrations seek to identify the true economic beneficiary, demonstrate the absence of economic substance, and recharacterize arrangements where legal form does not reflect economic reality.

An important observation from the discussion was that the main challenge is often not the legal framework itself, but the ability to gather sufficient evidence. Tax administrations face a significant burden of proof when demonstrating lack of substance, artificial arrangements, and the identity of the real beneficial owner. Following the money and tracing financial flows was repeatedly highlighted as the most effective investigative approach.