

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

Question 1

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

FEEDBACK FROM GROUP 1

A key message from the discussion was that risk assessment is based on a holistic analysis of the arrangement rather than on individual transactions in isolation. Tax administrations look at the overall structure, including the entities involved, the flow of funds, the tax outcomes achieved, the functions performed by the parties, and, importantly, who ultimately controls the arrangement and benefits economically from it.

Another important point was that red flags alone are not enough. Risk indicators may trigger further investigation, but administrations require strong evidence before applying anti-abuse rules or making tax adjustments. Several participants stressed the importance of building a robust evidentiary basis before challenging a structure.

The group also discussed common risk indicators. These include persistent losses, lack of profitability over several years, unusually low salary levels compared to the relevant industry, transactions with low-tax jurisdictions, and unusual cross-border arrangements. Many administrations increasingly rely on automated risk assessment systems to identify such indicators.

Finally, some tax administrations highlighted the value of dedicated compliance approaches for large taxpayers, where risks are assessed in the context of the taxpayer's entire business profile rather than through isolated indicators.

Question 2

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

FEEDBACK FROM GROUP 1

Although this question was discussed only briefly, participants identified several recurring areas of concern. These included offshore entities and low-tax jurisdictions, transfer pricing risks, opaque ownership structures, trusts, nominee arrangements, hidden offshore income, and withholding tax-related schemes. A common challenge is identifying the individual who ultimately controls and benefits from complex cross-border arrangements.

Question 3

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

FEEDBACK FROM GROUP 1

Participants agreed that internal databases and risk assessment systems remain the starting point for most investigations. Increasingly, administrations use automated platforms to consolidate data and identify cases for further review.

Country-by-Country reporting was recognised as an important source of information on multinational groups and potential profit shifting. However, several participants noted that the real challenge is not obtaining the data but integrating and effectively using it within existing IT systems.

Automatic exchange of information was consistently identified as one of the most valuable tools available. Participants referred to CbC exchanges, DAC exchanges, CRS information, and information received from foreign tax administrations. International cooperation and spontaneous exchanges of information were viewed as increasingly important.

Other key sources of information mentioned included:

- Banking data and cross-border payment information.
- Currency transfer registers.
- Company and beneficial ownership registers.
- Information requests to taxpayers and financial institutions.
- Commercial databases and corporate registries.
- International data leaks, such as the Panama Papers and Paradise Papers.

Question 3

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

FEEDBACK FROM GROUP 1

Challenges Identified

- Despite the growing availability of information, participants highlighted several common challenges:
- Data quality issues.
- Difficulties integrating large datasets into IT systems.
- Resource constraints.
- Delays in obtaining foreign information.
- Restrictions arising from banking secrecy rules in some jurisdictions.
- Difficulties associated with trusts and other opaque ownership structures.

Question 4

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

N/A

FEEDBACK FROM GROUP 1