The holdout

The Bahamas cocks a snook at the war on tax-dodgers


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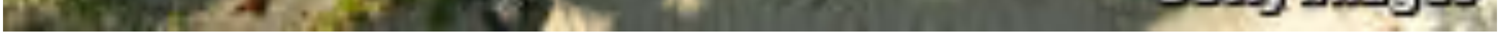

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GROWING peer pressure on countries to exchange information about clients of their financial firms has left tax evaders with few places to hide. Panama was one, but the "Panama Papers" revelations this year have forced it into line: its government is poised to embrace the Common Reporting Standard (CRS), administered by the OECD, a club of mainly rich countries, which is becoming the global benchmark for sharing data. "Automatic"—that is, regular and systematic—exchange is meant to begin in 2017. But some recalcitrants remain. Chief among them is the Bahamas, an archipelago east of Florida and a tax haven of long standing.

Most of the 100-plus countries in the CRS have signed a "multilateral convention" designed to speed up the data-swapping. Although the Bahamas is in the CRS, it is one of a few that have elected instead to strike deals one country at a time—and then only with those with which it already has special data-exchange agreements known as TIEAs. The Bahamas has only 26 of these (not counting TIEAs with other tax havens, which are meaningless). That leaves a lot of gaps. It has only two with Latin American countries, which provide the bulk of its offshore business. It says others are in the works.

The Bahamas justifies this go-slow approach by citing concerns over the security of data passed to other tax authorities, and argues it is better suited to countries (like itself) with systems based mainly on indirect taxes. This looks like an excuse to drag its feet. The OECD has a team policing CRS members' data-security safeguards, which even the Bahamians admit mitigates some of the worries. Mark Morris, an independent tax expert, says the Bahamas has a "disingenuous 'compliant non-compliance' strategy": join the CRS, but choose the clunkier bilateral method and use fabricated confidentiality concerns to share data with as few countries as possible.

The Bahamas Financial Services Board (BFSB), which promotes the islands' financial centre, has stressed at international industry events that it will move very cautiously on information exchange. Some interpret this as a veiled invitation to park undeclared money there. Others say the Bahamas' talk of its strategy being key to its finance industry's "survivability" shows it believes it can carry on only by accepting undeclared funds. Tax-dodgers may also be attracted by the fact that the Bahamas is one of the few places where tax evasion does not count as a "predicate" (underlying) offence for money-laundering charges.

All this worries the OECD's tax-transparency crusaders. Pascal Saint-Amans, the club's head of tax policy, was concerned enough to fly to Nassau last year to address the cabinet. "I told them if they play games they will lose. Their reputation will be hit," he says. The lack of a response has left him "extremely disappointed".

On September 6th, just after receiving questions from *The Economist*, the government issued a press release saying that "progress [is] being made" with CRS compliance, that this is a "priority", and that the Bahamas is "clean". In response to the questions, it said it sees no competitive advantage from not signing the multilateral convention and is "cognizant of the damage" it could suffer if it advertised itself as being a safe place for the tax-shy. It said it is willing to exchange data "with any appropriate partner that approaches us". The BFSB said it "has NOT been promoting the Bahamas as a place for undeclared funds".

The Bahamas is not quite alone. As many as a dozen other CRS countries have declined to sign the convention or equivalent multilateral agreements. But most either have lots of TIEAs with the countries where their clients live (Hong Kong, for instance) or are minnows that even Mr Saint-Amans won't lose sleep over (like Dominica). The United Arab Emirates is a worry, he says. But the Bahamas displays a unique combination of defiance and a sophisticated offshore trust and banking sector, giving clients plenty of choice. Its banks have assets of $223 billion, 26 times its GDP.

Mr Saint-Amans says he now plans to write the government a stern letter. Some might conclude from this that he suspects another visit would be a waste of time.

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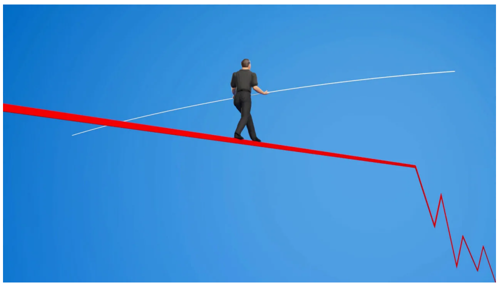

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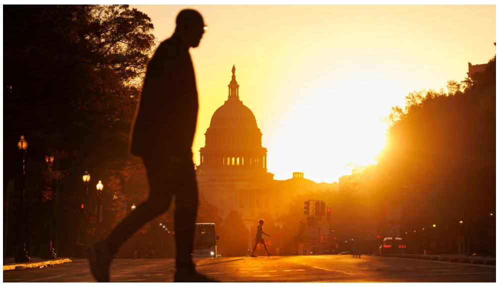

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