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Automatic Exchange of Information:

A Caribbean Perspective

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Abstract

As technology has been advancing throughout the years making our world more global, it has also increased capital mobility. While this mobility has made our world "smaller" and more efficient, it has also made it easier for taxpayers to avoid and evade taxes. In order to combat this, the OECD has proposed a Model, which allows for automatic exchange of information. The OECD Model is also heavily based on the U.S. Foreign Account Tax Compliance Act. The U.S. FATCA has had many implications for banks around the globe. One example of this is the banking sector in Switzerland, where FATCA has fundamentally shifted Switzerland's policies on tax evasion and bank secrecy laws. However, the implications of the OECD Model on smaller countries such as the islands of the Caribbean are still unknown, and will depend on many factors including the amount of revenue the tax authorities will get and the costs of providing the information. While the incentive of a country to exchange information may depend on its tax system and its size, it would be beneficial to implement a system in which the additional tax revenues collected from the residence country is shared with the country providing the information. This could make the OECD Model more sustainable in the long run, and lead to a more optimal level of global welfare.

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1. Introduction

As technology has been advancing throughout the years making our world more global, it has also increased capital mobility. With just a press of a button it is possible to make a payment transaction from Curaçao to Hong Kong, or even deposit cash from the U.S into a savings account in Switzerland. While this mobility has made our world "smaller" and more efficient, it has also made it easier for taxpayers to avoid and evade taxes. If a home country has a domestic withholding tax rate of 30% on interest received, while a foreign country has a tax rate of 15%, a taxpayer would be inclined to opening a deposit account in the foreign country knowing it could easily withdraw any amount of his money at any time anywhere. This incentive is increased if the foreign country has bank secrecy laws in place that prevent the banks from sharing the taxpayer's bank information with his home country. Even if the home country would tax its residents on their worldwide income, it would be almost impossible to tax them on their foreign deposits given the lack of information of such deposit account even existing, unless the taxpayer would voluntarily give this information.

Tax avoidance and tax evasion cost governments around 190 billion USD per year (Zucman, Fagan, & Piketty, 2015). While this only amounts to about 1% of the global tax revenues, tax evasion has been a central debate in international taxation for many years. It has led to the implementation of many mechanisms for dealing with the issue, such as the exchange of information among jurisdictions. A few examples would be the implementation of article 26 of the OECD Model Tax Convention in 2002, and the EU Savings Directive that came into force in 2005. More recently, the U.S introduced in 2010 their Foreign Account Tax Compliance Act (FATCA), which requires every U.S. citizen, even those with a U.S. nationality living outside of the U.S., to report on a yearly basis their foreign held financial accounts to the Financial Crimes Enforcement Network. It also requires foreign financial institutions (FFI's) to search for indicia indicating any client with a U.S. status, and to report their assets and identity to the IRS. This allows the U.S. to tax their citizens both on their domestic as well as their foreign deposits, making

it harder for taxpayers to evade taxes. In 2013 the G20 Leaders committed to automatic exchange of information, and endorsed the OECD's work as the global standard (OECD, 2014). The project contains a Model Competent Authority Agreement (CAA), and the common standard on reporting (CRS) and due diligence for financial institutions. This model, much like the U.S. FATCA, focuses on countries automatically exchanging information regarding a resident taxpayer that holds a bank account in the other country. While the FATCA only applies to people with a U.S. nationality, the OECD Model takes a global approach. Thus far 101 jurisdictions have committed to implement the automatic exchange of information, with countries[1] such as the Netherlands, Portugal, Belgium, Germany, France, Curaçao, Ireland and Colombia being early adopters that will undertake exchanges by 2017, and countries such as Switzerland, Hong Kong, Singapore, Aruba, Bermuda, China and Japan following suit in 2018. The U.S. has indicated that it will commit to automatic exchange of information by use of its FATCA, and by signing intergovernmental agreements with other jurisdictions[2].

The automatic exchange of information enables countries to properly levy taxes on its residents, and thus collect more revenue. But while this is true, it also implies huge costs for the countries. These costs can be generally divided in two groups, the compliance costs, and the loss in revenue. The compliance costs will be mostly borne by financial institutions due to the huge amount of due diligence that has to be done, and IT frameworks that have to be implemented to carry out this task. Secondly, the loss of revenue will be in the form of less foreign investment, especially for countries that are attractive due to their bank secrecy laws. While this may not be the case for capital exporting countries, it will have a huge impact on capital importing countries such as the Bahamas, Bermuda, the Netherlands Antilles[3], and the Cayman Islands. Since the economy of some of these islands is heavily based on their financial sector, the costs of automatic exchange of information could well surpass the benefits. It is estimated that the

[1] See Appendix A for the list of countries.
[2] Recently on 11 of May 2016 Bahrain, Nauru, Panama and Vanuatu also announced that they have committed.
[3] The Netherlands Antilles was dissolved in 2010, with Curaçao and Sint Maarten becoming autonomous within the Kingdom of the Netherlands, and Bonaire, Sint Eustatius and Saba becoming special municipalities of the Netherlands.

FATCA will have an implementation cost of 500 – 1000 billion USD worldwide, while the added tax revenue is estimated to be 9 billion USD (Brodzka , 2014). Even though these estimates only relate to the overall costs of FATCA, it can be assumed that the AEoI project will have an even bigger impact as it is on a global scale.

It is easy to understand why some islands would choose to commit to exchanging information regardless of the costs. Concerns of being regarded as uncooperative and possibly being labeled as a tax haven would put pressure on the governments to commit. The bad reputation could harm future prospects of foreign investors investing on these islands. This implies that the AEoI is a double-edged sword, while committing could lead to high compliance costs for the country; not doing so could also be harmful in the long run. In one study, Bacchetta and Espinosa (2000) show that countries can have equal incentives to provide information to each other in a framework of frequent interaction, however these incentives are less equal when there are high compliance costs, reciprocity agreements and high negotiation costs. Where compliance costs are high, introducing a "revenue-sharing" system to the AEoI could equalize the incentives. As of now the benefits of the automatic exchange of information will be the added tax revenues that the jurisdictions will be able to collect, however for a country that has far less residents compared to the counterparty, its benefits will be much lower in comparison. Revenue sharing would alleviate the burden of the "losing" country by having the "winning" country share a portion of its collected revenue. This could be seen as some kind of compensation that would decrease the risk of smaller jurisdictions finding ingenious methods to not comply.

Research Question

This leads to this Thesis' research question; what is the economic impact of the AEoI on the islands of the Caribbean, more specifically Aruba, the Bahamas, Bermuda, the Cayman Islands and Curaçao? This research question will be analyzed as follows.

Chapter 2 will focus on the AEoI project as a whole. Both the Model CAA and the CRS will be analyzed and discussed. While this chapter will not focus on the implications of

the AEoI, it will give a better understanding of how the model will work.

Chapter 3 will analyze the U.S. FATCA. As the OECD automatic exchange of information is heavily based on the FATCA model, this chapter will explain FATCA in detail, and draw a comparison between the two models. Even though there are similarities, the differences between the two systems could give some insight in how AEoI will impact financial institutions and governments.

Even though data on the implications of the AEoI are not currently available, it is helpful to see how FATCA has affected the economy of a country with a huge financial sector, such as Switzerland. Chapter 4 will analyze the economic impact FATCA has had on Switzerland, and how they have reacted to this development. Even though Switzerland is much larger in comparison to the islands in the Caribbean, studying the effects on Switzerland will give a good understanding of what can be expected.

Chapter 5 will discuss the economic composition of each island. The timeframe for this analysis will be from 2008 up to 2013. The economic composition is crucial, as it will shed some light on what can be expected. If an island's economy were heavily based on agriculture or tourism, one would predict a small impact, as the financial sector would not be a major factor in the economic development of the country. However, if the financial sector constitutes a big part of the country's GDP, the AEoI will indeed have an effect on the island's economy.

Chapter 6 will analyze the benefits and potential costs for both the government and the financial institutions on the islands. Even though it may be difficult to quantify the exact benefits and costs, a rough estimate will give an idea whether this project is sustainable. Although the types of costs and benefits will be similar for all the islands, the amounts will vary depending on e.g. the size of the population, the amount of foreign wealth held by the financial institutions and the amount of wealth held by residents in foreign jurisdictions such as Switzerland.

Chapter 7 will discuss some alternatives to the current AEoI model. The system of revenue sharing as was introduced in the EU Savings Directive will be looked at. This chapter will discuss a model that was proposed by Keen and Ligthart (2006) that looks at the optimal portion of the revenue that has to be shared. Even if the costs of implementing AEoI would outweigh the benefits, such system would make the exchange of information sustainable in the long run.

Finally, Chapter 8 will summarize the main findings of this Thesis, and conclude with the author's opinion.

2. Automatic Exchange of Information

2.1 Introduction

The OECD has had a long history of combating tax evasion and tax avoidance. It is estimated that the cost of tax evasion is nearly 190 billion USD per year (Zucman, Fagan, & Piketty, 2015). This issue has been the center debate of international taxation for decades, and while tax avoidance is legal and tax evasion is illegal, they are both perceived as being bad. One of the most recent developments in this area has been the so-called Panama Papers, where 11.5 million documents containing client's information of more than 214.000 offshore companies were leaked to the public. Even though some of these offshore companies are being legitimately used for non-tax purposes and others for tax avoidance purposes, which the tax authorities know of, everyone being mentioned in these papers is receiving negative criticism by the public. It is argued that even if tax avoidance and aggressive tax planning are legal, they are immoral and that the entity or individual should pay their fair share. These recent public attentions have spurred political interest in dealing with the issue. In 2013 the G20 leaders committed to automatic exchange of information, and endorsed the OECD's work as the global standard (OECD, 2014). The project includes the Model Competent Authority Agreement (CAA), and the common standard on reporting and due diligence for financial institutions (CRS). These two documents are not separate but rather complement each other. The Model links the CRS with the legal basis allowing the required financial information to be exchanged. The CRS contains the standards for due diligence and reporting that establishes the automatic exchange of financial information. This chapter will focus on the original Model and the CRS procedures. Section 2 will analyze the Model and describe the information that is required to be shared according to the Model. Section 3 will then look at the CRS procedures, while Section 4 will describe the alternative Models such as the non-reciprocal and the multilateral versions. Section 5 will conclude the chapter.

2.2 The Model

The Model CAA provides methods to ensure that the information exchanged flows accordingly. The Model is drafted on the principle that the information exchanged is reciprocal, meaning that both jurisdictions have an equal gain, and that the exchange will be done on a bilateral agreement. While this is the basis of the Model, it is possible to sign a multilateral version of the Model instead of signing multiple bilateral agreements. Although the agreement would be multilateral, the exchange of information would still be done on a bilateral basis.

Figure 1. The sections in the Model CAA

Section 1	Definitions.
Section 2	Type of Information to be exchanged.
Section 3	Time and manner of the exchange.
Section 4	Collaboration on compliance and enforcement.
Section 5	Confidentiality and Data safeguards that must be respected.
Section 6	Consultations and Amendments.
Section 7	Term of Agreement.

Source: OECD

Figure 1 depicts how the Model is divided. While each section is crucial on its own, the main parts are section 2 and 3. It is important to establish the type of information that has to be exchanged and how frequently it has to be exchanged. In order for the Model to be efficient and effective, the information needs to be accurate, complete, precise and understandable and thus the right amount of information needs to be exchanged. It would not be enough for example to only provide the name and the amount of the taxpayer's deposit account. Even if this little piece of information would be more helpful than no information at all, it would be difficult to make proper use of it if the taxpayer's name is very common in his home country. According to Section 2 of the Model, the following information needs to be exchanged.

- The name, address, Taxpayer Identification Number (or a functional equivalent), date and birthplace of each "Reportable person" that is an account holder of the account.
- The number of the account
- The number and name of the "reporting financial institution"
- The account balance or value as of the end of the calendar year.

Section 2 also deals with custodial, depository and so-called rest accounts (i.e. any accounts not covered by the custodial or depository accounts provision). The most important parts of information are the taxpayer's name, TIN and account balance/value. This would make it easier to properly identify the person in question, and would allow the tax authorities to tax him accordingly. The period in which the information has to be exchanged is specified in section 3 of the Model. According to this section, the concerning countries need to take two years into account, the first reporting year and the years thereafter. With respect to the first year, the Contracting States are free to insert their own date. In the subsequent years, the Contracting States should exchange the information within nine months after the end of the calendar year to which the information is related. This nine-month period is only a minimum standard; hence the Contracting States are free to choose a shorter period. This ensures that jurisdictions will exchange the information at the same time, or at least within the same timeframe. While the Model sets the legal basis for exchanging the information, every financial institution will have to adhere to the procedures set by the CRS in order to be able to provide the required information.

2.3 CRS

The common reporting standard sets out a framework which financial institutions can use in order to facilitate their due diligence process. Having a common standard guarantees that every reportable financial institution are reporting the same type of information. If one country would provide more information than another country, this could lead to taxpayers moving their assets to the jurisdiction that provides the least amount of

information. The CRS divides the due diligence in two groups, mainly individuals and entities. Within these groups rules are established for dealing with pre-existing and new accounts. One of the main differences between the two groups is that there is no minimum threshold for individuals. The procedure is as follows.

Individuals

- ***Pre-existing account***
    - If the account is a cash-value insurance or an annuity contract account, the financial institution is not required to report, review or identify the account holder's information providing that the institution is not allowed to disclose such information by law.

    - If the account is a Low Value Account (i.e. an account with an aggregate value of less than 1.000.000 USD as of 31 December of the related year), the financial institution may use the current residence address in its records, based on documentary evidence, to establish the resident jurisdiction of the taxpayer. In case that the financial institution does not rely on a current residence address, it is required to search in its electronic data for any indicia of residency.

    - Should the account be a High Value Account (i.e. an account with an aggregate value greater than 1.000.000 USD as of 31 December of the related year), the financial institution is required to electronically search its database for specific indicia of the client. The indicia include for example the account holder's residence status, his residence address and telephone number. In case that the financial institution is unable to collect all the required indicia from its electronic database, it is then required to search for the missing information in its paper records such as recent contracts or documents.

- ***New account***

- With regards to any new account the financial institution is required to obtain a self-certification from the client, in which it enables the financial institution to determine the residence of the client for tax purposes. If this is the case, the self-certification should include the TIN of the corresponding jurisdiction.

Entities

- ***Pre-existing account***
  - Entity accounts with an aggregate value of less than 250.000 USD as of 31 December of the related year are not subject to any review. This implies that the entity is not considered a reportable person, and thus will not be reported or identified.

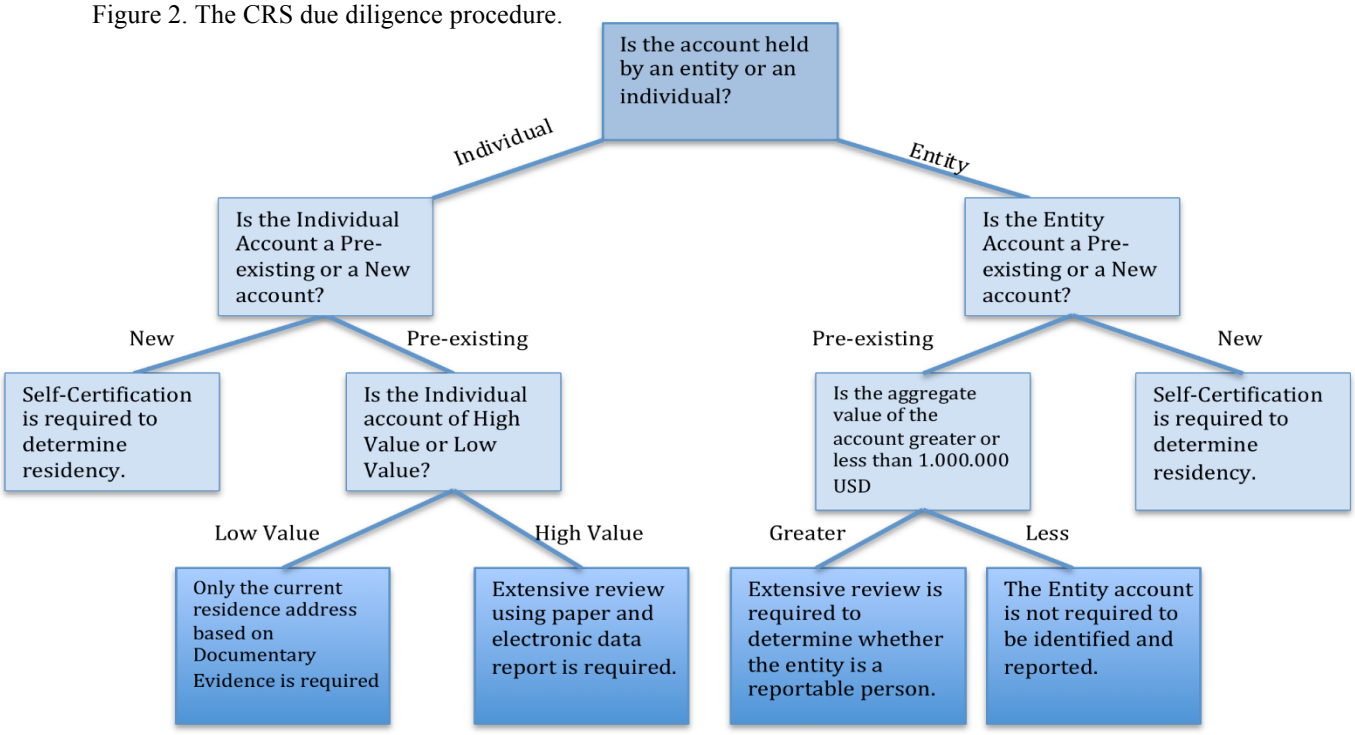
  - If the entity account has an aggregate value greater than 250.000 USD as of 31 December of the related year it will be subject to review. This review will indicate whether the entity is indeed a reportable person. In order to determine whether this is the case, the financial institution is required to check information maintained for customer relationship purposes, to determine whether the entity is a resident of a reportable jurisdiction. This could be for example the place of incorporation or an address in a reportable jurisdiction.

- ***New account***
  - Similar to the case of new individual accounts, the financial institution is required to obtain self-certification to be able to assess whether the entity is a resident of a reportable jurisdiction.

The CRS procedures make a clear distinction between entity and individual accounts. As was mentioned, the main difference is the minimum threshold for pre-existing entity accounts. Even though for pre-existing individual account a distinction is made between high and low value accounts, the difference lies in the fact that both accounts will end up being reported nonetheless, whereas for entity accounts only the "high value" entity

accounts will be identified and reported. In the case of new accounts, no distinction is made between high or low value accounts. Both the new entity and individual accounts will require a self-certification, and will both be reported regardless of the aggregate value. There are also exceptions to the accounts. In the case of an individual account, if the account constitutes as a cash value insurance account or an annuity contract, the account will not be reported. The insurance account is a contract under which the financial institution agrees to pay a certain amount upon the occurrence of a specific contingency, such as death, an accident or property risk. The annuity account is a contract under which the financial institution agrees to make payments for a period of time that is determined wholly or partly by the life expectancy of the account holder or another individual. In the case of an entity account, if the entity is an investment company or a non-active company, which derives more than 50% of its gross income from passive income, then in principle the entity will not be subjected to reviewing. If the entity is an investment company, the financial institution is then required to follow two steps. First it has to determine the controlling persons of the entity, and then it has to determine whether these individuals are reportable persons. This is the case if the individuals have a residency in a reportable jurisdiction. Only if the controlling person is a reportable person, may the financial institution identify and report the entity account.

Figure 2. The CRS due diligence procedure.



Source: OECD

2.4 Alternative Models

The Model CAA is based on the principle that the information exchanged between jurisdictions is reciprocal. This means that the information exchanged should be equally beneficial for both countries. However, this will not be the case if for example country A is a capital-exporting country, while country B is a capital-importing country. The amount of foreign held accounts by residents of country A will be more compared to those of residents of country B, and thus country A has more to gain from exchanging information than country B. Even if both countries were to be capital-importing countries there would be an inequality if one country does not have any income or capital gain taxes. This is the case for example for Bermuda, Bahamas, Cayman Islands and the United Arab Emirates. Such countries would not gain from the information received, as the government would not impose any taxes on such foreign income. The OECD decided to add a non-reciprocal version of the Model to make it possible for jurisdictions to choose that variant (OECD, 2014). The main difference between the two versions is that the non-reciprocal variant only requires for one jurisdiction, mainly the one with no income tax, to exchange the information. There are also many costs associated with the negotiation of a bilateral agreement. Such costs would build up if a country would have to sign an agreement with multiple jurisdictions. In order to reduce these costs, the OECD has also added the multilateral version of the Model CAA (OECD, 2014). As of now 80 countries[4] have signed the multilateral agreement. Even though the model is multilateral, the exchange of information will still be done on a bilateral basis.

2.5 Conclusion

The OECD has taken major steps to promote and enforce automatic exchange of information. While some countries have been doing so for some time now, such as the EU with their Savings Directive, it has never been done on a global scale. Even though the Savings Directive was a step in the right direction, as it was only limited to the EU,

[4] Some countries such as Hong Kong have opted to sign individual bilateral agreements instead of the multilateral version.

many taxpayers were still able to circumvent the system by just depositing their capital elsewhere, such as in Switzerland or Singapore. The OECD approach will now make these much harder as even countries that have been listed as tax havens are now committing to exchange information. By introducing the CRS, the OECD is also making sure that the information reported between, for example, Belgium and Argentina is the same as the information reported between Japan and Canada. This prevents some countries to provide less information, which would attract those foreign investors that are looking to avoid the new system. By providing a multilateral version of the Model it also makes it more appealing for countries to commit, as they are no longer required to sign individual bilateral agreements, which would take a lot more time and amount to higher costs.

3. The Foreign Account Tax Compliance Act

3.1 Introduction

Taxes around the world are levied based on three principles, namely the territoriality principle, the residency principle and the citizenship principle. The territoriality principle is based on the idea that country will only levy taxes on investments or business done within its borders. The residence and the citizenship principle, on the other hand, are based on the idea that the taxpayer is taxed on his worldwide income, regardless of where the investment or business is carried out. The difference between the two principles is that in the case of residency, the country will only impose taxes on the worldwide income as long as the taxpayer is considered a resident of the country. In the case of citizenship, the person will remain liable for taxation as long as he holds his citizenship, regardless of where the person lives. Almost every country imposes taxes based on the residential principle with the exception of two, Eritrea and the United States[5] (Ernst & Young, 2011). Even if the United States imposes taxes on anyone with a U.S. citizenship, it is relatively easy to avoid paying such taxes. Generally speaking, U.S. based corporations can choose to invest and maintain their assets in foreign countries. While the U.S. does levy taxes on the worldwide income, income generated by foreign investments is exempted from taxation until the investment is repatriated. This allows corporations to avoid taxes by simply not repatriate anything. The decision to repatriate is then based on the U.S. after-tax return compared to the foreign after-tax return (Scholes, Wolfson, Erickson, Hanlon, Maydew, & Shevlin, 2015). Individuals can also avoid taxes by opening a bank account in a foreign country that has bank secrecy laws. The lack of information would impede the Internal Revenue Service (IRS) from collecting any taxes. It is estimated that this so-called round-tripping tax evasion by U.S. investors leads to an annual tax revenue loss of approximately 1 to 2 billion USD (Hanlon, Maydew, & Thornock, 2015). In order to combat these tax losses, the U.S. has implemented several

[5] Finland, France, Spain, Italy, Hungary, Mexico, Vietnam and the Philippines are some of the countries that also tax based on citizenship albeit only in limited situations.

mechanisms that require foreign financial institutions to exchange information with the IRS. While in the past information was exchanged on request, recent developments have led to automatic exchange of information. Such developments have been the implementation of the Qualified Intermediary (QI) system and the Foreign Account Tax Compliance Act (FATCA). This chapter will analyze the implications of FATCA. Section 2 will discuss the QI system, while Section 3 will analyze FATCA in depth. Section 4 will draw a comparison between FATCA and the OECD automatic exchange model and Section 5 will conclude.

3.2 Qualified Intermediaries

The Qualified Intermediary system (QI) was introduced in 2001 by the United States. It was an attempt to close the loopholes for American offshores that were round-tripping transactions (Schaller, 2015). In the past, the United States would request information from foreign financial institutions if there were any suspicion of tax evasion or tax fraud. This system was, however, not efficient as the tax authorities would need to first have any indication that tax evasion was taking place. Even if there were any indications, the requests were generally accepted only in the case of tax fraud (Song, 2015). However, because some countries such as Switzerland had a narrow definition of tax fraud, the requests were sometimes rejected. This led the United States to implement a more efficient system of gathering information, the QI System. This system, in a nutshell, requires foreign financial institutions to report the accounts of individuals that are receiving US source income. Even though the aim of the QI system is to prevent U.S. citizens from evading taxes by opening an offshore account, the scope is much broader. The system applies to anyone, regardless of nationality, who receives a U.S. source fixed, annual or periodic income – such as dividends or interest – through a foreign financial institution (Song, 2015). This implies that even non-U.S. investors are affected by the QI system. According to Grinberg (2012) the QI system marked the first time financial institutions habitually functioned as cross-border intermediaries. It relies on third-party information and withholding to impose U.S. taxes on U.S. based income (Schaller, 2015). The U.S. introduced a “stick and carrot” approach to incentivize financial institutions to comply with the system. The system provided three inducements for cooperation:

1) It provides anonymity for non-U.S. clients from the U.S. financial institutions, thus protecting the client's identities from the foreign bank's competitors.

2) It provides anonymity from the IRS. This ensures that the IRS will not exchange the information to the tax authorities of the client's home country.

3) It ensures accurate and timely application of tax treaty benefits for non-U.S. clients.

The acronym "QI" refers to the division of the foreign financial institutions in two categories within the U.S. system (Schaller, 2015). Foreign financial institutions are by default regarded as Non-qualified intermediaries (NQI). This implies that by default they are seen as supporters of tax evasion. Due to this implication, every NQI is required to report and identify every bank clients at the beneficial owner level to a Qualified Intermediary, or to a US Withholding Agent. In addition, the NQI is required to withhold 30% of all the U.S. source income of its bank clients (McGill, 2013). While withholding 30% would not have any direct impact on the NQI, it would make it less attractive than QI banks, and thus put them at a comparative disadvantage. In order to be regarded as a QI, the foreign financial institution is required to sign an agreement with the IRS. Qualified Intermediaries are required to identify and report each U.S. bank clients separately, while non-U.S. bank clients are reported on a pooled level[6]. While the QI system was a more efficient way of collecting information and it became the first example of cross-border withholding regime, it was not perfect. Ten years after the implementation of the QI system, the UBS scandal in Switzerland proved the extent to which QI could be abused. Swiss banks managed to facilitate tax evasion for U.S. clients using the QI status (Grinberg, 2012). While the QI system provided the IRS some assurance that U.S. taxes were being collected by QI's, the scandal showed that the system still had many exploitable loopholes.

[6] This ensures that the identities of non-U.S. clients are not being reported.

3.3 FATCA

The UBS scandal followed by President Barack Obama's campaign to commit to the crack down on tax evasion, led to the enactment of FATCA (Grinberg, 2012). While FATCA is not the name of a new law per se, the system was enacted in sections 1471 to 1474 of the Internal Revenue Code. The system was designed to strengthen U.S. law in tax withholding procedures, and close the loopholes left by the QI system. The main cruxes of the FATCA are the requirements for the foreign financial institutions (FFIs). In a nutshell, FFIs are required to sign an agreement with the IRS to identify the residency status of their clients, and to report to the IRS the account information of the U.S. clients (Song, 2015). The financial institutions are required to obtain information of each account holder to determine whether the account is a reportable account (i.e. a U.S. account held by a U.S. person of a foreign entity with substantial U.S. ownership). If the account is indeed a reportable account, the FFI is required to report the balance or value, as well as the amount of dividends, interest and gross proceeds from the sale of property related to U.S. client's account. While FFIs are normally foreign banks, in the case of FATCA is has a broader definition. It includes non-U.S. entities such as broker, dealers, insurance companies, hedge funds, private equity funds and security vehicles (Deloitte, 2013). The FATCA incorporates various "stick" approaches to penalize non-compliance. While the system is theoretically voluntarily, FFIs that choose not to sign an agreement with the IRS will be subjected to a 30% withholding "penalty tax" on U.S. derived income including interest, dividends, pass-through payments and proceeds from U.S. security deposits (Song, 2015). Furthermore, U.S. clients that fail to provide the required information will be considered "recalcitrant account holders", and will also be subjected to 30% withholding tax on their U.S. derived income. Moreover, the FFIs are required to close down the bank accounts of long-term recalcitrant account holders, and the IRS also takes sanctions against non-complying FFIs. These "stick" approaches are a double-edged sword for foreign financial institutions. Firstly, if an FFI does not comply, it will be subjected to 30% of all its U.S. derived income payments. This implies that a "complying" U.S. client may see his deposit decrease with 30% due to his bank being a non-complying FFI. This will make the FFI less attractive, and may incentives his clients to deposit their assets elsewhere. Secondly, FFIs could choose to deny a U.S. client an

account in order to avoid complying with FATCA, however, seeing as North America occupies more than 30% of the global millionaire wealth, this is not feasible (McKinsey&Company, 2013). Finally, even if the FFI' would deny opening accounts for U.S. clients, it would not relieve itself from being subjected to the 30% withholding tax on its U.S. source income. If the FFI would have huge amount of investments in the U.S., this could still have a big impact for the FFI. It should be noted, however, that the FATCA system is not a withholding tax system on its own, but rather a documentation system that utilizes the tax system to increase tax compliance (Schaller, 2015). It is not a policy instrument to directly raise additional tax revenues, but rather a system to improve tax compliance and thus increase tax revenues from foreign held capital income (McGill, 2013). The issue at the beginning of FATCA was that it was not compatible with domestic laws in some countries. This was especially the case in countries that have bank secrecy laws preventing their financial institutions from providing any client information. This led the U.S. to sign intergovernmental agreements (IGAs) with so-called FATCA Partner Countries. These agreements intend to simplify the identification and reporting procedures, while also removing withholding and accounts closures from FFI's (McGill, 2013). The IRS (2016) makes a diction between two types of IGAs, namely Model 1 and Model 2. Each model assigns different tasks and rules to the FFI's and each jurisdiction is free to choose which model they want to sign. The two models are, in a nutshell, as follows:

Model 1 IGA:

- The partner jurisdiction agrees to report specified information about U.S. accounts that are held by all relevant FFIs located in that jurisdiction.

- FFIs have to identify every U.S. account pursuant to due diligence rules contained in the Annex of the IGA.

- FFIs are required to report specified information about their U.S. held accounts to the tax authority of the partner jurisdiction.

- The partner jurisdiction, in turn, will report the information to the IRS on an automatic basis.

- The exchange of information under a Model 1 IGA may be done on a reciprocal or non-reciprocal basis.

- Partner jurisdictions signing a reciprocal Model 1 IGA will be asked to complete an International Data Safeguards & Infrastructure Workbook.

Model 2 IGA:

- The partner jurisdiction agrees to enable all relevant FFIs located in that jurisdiction to directly report specified information about their U.S. accounts to the IRS.

- FFIs are required to identify U.S. accounts pursuant to due diligence rules contained in the Annex of the IGA.

- FFIs have to report specified information about the U.S. accounts to the IRS.

- FFIs are also required to report to the IRS aggregate information with regards to holders of pre-existing accounts who do not permit to have their information reported, on the basis of which the IRS may make a "group request" to the partner jurisdiction for more specific information.

The main difference in the two models lies in the data transmitting channels. In Model 1, the FFIs become an intermediary, and thus reports to the tax authority of their home country. The tax authority then reports this information to the IRS. In the case of Model 2, the FFI is required to register and directly report to the IRS. Model 2 also includes a provision indicating that the U.S. is willing to enter into further negotiation regarding a direct reporting system (International Adviser, 2012). This implies that Model 2 jurisdictions have the option to renegotiate into a Model 1 agreement. As of now, 99

countries, including the Bahamas, Cayman Islands and Curaçao have signed a Model 1 IGA, while 14 countries; including Bermuda, Switzerland and Hong Kong have signed a Model 2 IGA (U.S. Department of The Treasury, 2016).[7]

3.4 Comparison

The implementation of the U.S. FATCA has led to major developments in the automatic exchange of information. In 2013, the UK Chancellor of Exchequer announced their version of FATCA, the so-called UK FATCA (Pinsent Masons, 2016). It was originally intended to operate from 2014 onwards with no specific end date. However, following the implementation of the OECD CRS, the UK decided to phase out the UK FATCA, and fully implement the CRS instead. The CRS draws heavily on the IGAs approach set by the U.S. FATCA in order to maximize the efficiency and reduce the cost for financial institutions (OECD, 2014). The differences between the FATCA and the CRS are driven by the multilateral nature of the CRS and other U.S. specific aspects (e.g. the taxation concept on basis of citizenship, and the presence of a withholding tax). Despite the differences, FATCA IGA jurisdictions and financial institutions can largely align the requirements of their Model 1 IGA with the requirements of the CRS (OECD, 2015). Figure 3 below depicts the main differences between the two systems. The distinctions, albeit small, are in the definitions, the minimum threshold, the reporting deadlines and the penalty for non-compliance. Some definitions are broader in one model than the other. One example would be certain financial institutions that are treated as non-reporting under FATCA, whereas they are considered reportable institutions under the CRS, such as local client base financial institutions (Pinsent Masons, 2016). The CRS only has a minimum threshold of 250.000 USD for pre-existing entities, whereas the FATCA also includes a minimum threshold of 50.000 USD for individual accounts. In the case of penalties for non-compliance, the FATCA imposes a 30% withholding "penalty tax", while only domestic law penalties are applicable under CRS. The main difference between the Model 1 and Model 2 IGA also applies to the CRS. Where in the Model 2 FFIs are required to directly report to the IRS, under the CRS FFIs report to their home tax authority, who in turn reports to the partner jurisdiction. This indicates that

[7] See Appendix B for the full list of countries

under the CRS, the tax authorities carry some of the administrative burden to ensure that the financial institutions are complying.

Figure 3: Comparison between CRS and FATCA

Key requirement/ feature	CRS	US FATCA
Registration required?	No, unless not already registered with local tax authority	Yes, with IRS unless exempt or certified deemed compliant
Who is a financial institution?	An Investment Entity, Depositary Institution, Custodial Institution or a Specified Insurance Company, with certain entities treated as exempt from reporting, such as Governmental entities, international organisations, central banks, certain retirement funds, trustee documented trusts and exempt collective investment vehicles	Similar to CRS but the entities treated as exempt from reporting are subject to the negotiated position set out in Annex 2 to the IGA. Although the exempt categories under FATCA are broadly similar to those under the CRS, FATCA includes some additional exemptions such as in relation to "local client base" financial institutions not contained in the CRS
Penalties for non-compliance	Domestic law financial penalties No withholding tax but "Investment Entities" in non-CRS jurisdictions are treated as passive non-financial entities that need to provide information about their controlling persons to entities within the CRS in which the Investment Entity holds financial accounts	FATCA withholding tax if non-compliant or lose compliant status Domestic law financial penalties for minor breaches / infringements
What is a reportable financial account?	A financial account held by: one or more individuals or entities resident (or effectively managed if the entity, such as a partnership, does not have a tax residence) in the reportable jurisdiction a passive non-financial entity with one or more controlling persons that is a reportable person described above. An "Investment Entity" in a non-CRS jurisdiction is treated as a passive non-financial entity for these purposes.	A financial account of a reporting financial institution that is held by: - one or more US citizens or US resident individuals - one or more US established partnerships, companies or trusts a non-US entity with one or more controlling US persons, other than US listed companies and certain tax exempt persons
Do de minimis thresholds for being a financial account for diligence and reporting purposes apply?	No de minimis thresholds apply, except a $250,000 de minimis that applies for pre-existing entity accounts	-$50,000 de minimis for individual and depositary accounts -$250,000 de minimis for entity accounts
What are the due diligence deadlines?	31 December 2016 for electronic and paper searches of high value (more than $1m) individual accounts 31 December 2017 for electronic searches of entity accounts and low value individual accounts	30 June 2015 for electronic and paper searches of high value (more than $1m) individual accounts 30 June 2016 for electronic searches of entity accounts and low value individual accounts

Source: AIMA

3.5 Conclusion

The U.S. has been combating tax avoidance and tax evasion for many years. With the implementation of FATCA, it re-establishes its commitment to decreasing tax evasion. Albeit not perfect, the U.S. is trying to create a system in which foreign banks automatically exchange information with the IRS. By introducing "stick and carrot" approaches it makes sure that financial institutions are less reluctant to comply. Given the fact that the OECD Model is heavily based on the FATCA IGA's model, it decreases the risk of banks incurring high operating costs as they are already setting an infrastructure in place in order to comply with FATCA. This will allow the financial institutions, to a certain extent, to use the same infrastructure to comply with CRS. Nevertheless, the CRS has a much broader scope than FATCA, as financial institutions are now required to provide information of many more clients instead of only those with a U.S. source income. This will undoubtedly lead to higher costs. FATCA has also changed the landscape of many countries such as for example Switzerland, in where bank secrecy is no longer a selling point to attract foreign investors. This puts high pressure on the banking sector to seek other sources of revenues, which could ultimately affect the economy of the country.

4. Impact of FATCA on Switzerland

4.1 Introduction

Over the past century, Switzerland has managed to build a formidable reputation as a tax haven with a bank secrecy system that provides the outmost privacy and protection for its clients. Even though Switzerland's share of the world's offshore wealth has slightly decreased in recent years, the country still remains the ideal destination for tax evaders, holding more than 25% of global offshore wealth in 2015 (Song, 2015). While bank secrecy laws have been one of the main reasons for opening a Swiss bank account, recent developments, such as FATCA and AEoI, have completely reshaped Switzerland's financial sector. The closing of Wegelin, Switzerland's oldest bank, in 2013 was a very symbolic moment for the Swiss financial industry (Song, 2015). As Switzerland is now obliged to automatically sharing information with other jurisdictions, a "level-playing field" has been set for the Swiss and other financial markets such as Hong Kong and Singapore. Switzerland can no longer depend on its bank secrecy laws, and thus must find other ways to remain attractive if it wishes to remain the top destination. This chapter will discuss the developments of the Swiss bank sector prior to FATCA, and analyze the impact the FATCA has had on the Swiss bank industry. Section 2 will look at the history of the banking industry is Switzerland. Section 3 will discuss the policies of Switzerland with regards to tax avoidance prior to FATCA, while Section 4 will analyze the impact of FATCA on the Swiss banking industry. Section 5 will end with a short conclusion.

4.2 History of the Swiss Bank Industry

The start of the Swiss banking industry success has its roots back in the 18th century, with banking icons such as Lombard Odier Darier Heutsch (Allen, 2013). However, it was not until the 20th century that Switzerland managed to cement its place at the top of international private banking. As Europe was confronted by World War 1, many countries were facing hyperinflation and exchange control, and thus wealthy Europeans began investing their assets in more stable countries, such as Switzerland (Song, 2015).

The private banks managed to seize the market share of individuals who wanted to conceal their assets from government investigations, or feared that their savings would be lost due to the instability in their home country. By the end of World War II, Switzerland was able to replace Brussels as the world's leading banking hub (Allen, 2013). Despite their early success, Switzerland started to face heavy regulations by the Nazi government due to their legislation in 1933, which required citizens to declare all of their foreign assets (Song, 2015). In order to deal with these regulations, the Swiss Parliament introduced the infamous Swiss Banking Act, which took Switzerland's banking reputation to a whole new level. Article 47 of the Act introduced the code of secrecy for banking and account information (Song, 2015). The code created the concept of banker-client privilege that provided privacy to clients. It provided that any person in his capacity as body, employee of a bank or auditing firm that attempted to induce any infraction of the professional secrecy, was subjected to imprisonment or a fine. The Banking Act tried to protect Switzerland's banking system, and thus prevented individuals and other entities from exchanging financial information to any foreign government. Currently, banking secrecy is protected in a multi-layer under both civil and criminal codes of the Swiss law (Song, 2015). The Swiss Civil Code (1907) provides that any client can request a judge to prevent a bank from delivering confidential information, while the Swiss Code of Obligation (1911) gives a client the ability to take action against a bank for damages for violation and disclosure of confidential information. Financial institutions also face criminal prosecution if they release any confidential information about their clients. This multi-layered legal protection of banking secrecy promoted an environment for Switzerland to attract foreign clients and establish itself as one of the most competitive wealth management centers in the world (Song, 2015). Not surprisingly, Switzerland also became an attractive destination for U.S. investors looking to benefit from the bank secrecy laws. The U.S. offshore wealth in Switzerland amounted to total of 40 billion USD in 2011 (BCG, 2012).

4.3 Switzerland's Policies on Tax Avoidance Prior to FATCA

Even though the banks in Switzerland have not faced any domestic civil or criminal punishment when assisting foreign clients conceal their assets, they have been subject to risk of punishment and scrutiny by foreign governments, including the U.S. (Song, 2015). This has led the U.S. and Switzerland to enter into numerous agreements, over the past fifty years, regarding the bank secrecy laws and tax evasion. The U.S. legal system generally sees foreign bank secrecy systems as promoting illegal activities, and thus prosecutors have tried to enforce its national laws regardless of their effects on foreign laws (Song, 2015). Even though the U.S. does recognize that banks are obliged to respect a client's confidential information, it does not allow such privilege when it comes to government investigations. In response to discovering that secret bank accounts were been used by Americans to evade taxes and shelter assets, the Congress enacted the Bank Secrecy Act (BSA) in 1970. This act allowed the IRS to access bank records and it facilitated criminal and tax investigations for money laundering. Ever since, the U.S. has entered in numerous tax agreements with Switzerland, as it was becoming one of the preferred financial hubs for U.S. residents that wanted to shelter their assets. These agreements sought to avoid international double taxation and prevent tax avoidance and evasion (Song, 2015). The U.S. and Switzerland first entered into a tax treaty in 1951, which focused on administrative support for eliminating double taxation. The treaty, however, was inefficient in reducing tax evasion, as Switzerland agreed to exchange any information only in criminal cases that involved tax fraud. The problem was that the term "tax fraud" was narrowly defined under Swiss law[8], which reduced the cases regarded as such. Furthermore, even if a case did involve tax fraud, the Swiss authorities were not required to provide the U.S. with the proof of fraud for further U.S. proceedings (Song, 2015). The first major U.S.-Swiss co-operation effort took place in 1973, when both countries signed the Mutual Legal Assistance Treaty (MLAT) to fight organized crimes. However, because the MLAT was not intended to combat tax-related issues, the two countries decided to sign the Memorandum of Understanding (MOU) in 1982. The MOU

[8] According to Swiss Supreme Court cases, tax fraud refers to tax avoidance of a significant amount when the taxpayer uses forged or fortified documents or adopts fraudulent conduct to deceive the tax administration.

led to co-operation on insider trading investigations, and made Switzerland pledge assistance by marking specific procedures for collecting and reporting information to the U.S. (Song, 2015). The 1951 tax treaty was continuously updated and got replaced in 1996. The new, and now current, treaty improved the exchange of tax information provisions and broadened the tax fraud definition.[9] However, because the 1996 Treaty was more focused on the limitation of its benefits rather than to an exchange of information, it was updated in 2003 with a mutual agreement (Song, 2015). The agreement provides that the competent authorities of both countries shall exchange information as is necessary for the prevention of tax fraud (U.S. Department of the Treasury, 2003). The 2003 Agreement made Swiss authorities to agree in exchanging information if the U.S. suspected that a person was committing tax fraud, such as evading taxes by using offshore accounts. However, even though the definition of tax fraud was broadened, the agreement did not elaborate on the implementation of the exchange of information (Song, 2015). Furthermore, Swiss authorities were required to exchange information only if the U.S. suspected of any tax fraud, meaning that the U.S. authorities would first have to know about the tax fraud. Due to the limitation of exchange on request, the U.S. had not been able to actually effectuate a successful information exchange system, until the implementation of FATCA (Song, 2015).

4.4 The Impact of FATCA

Since the implementation of FATCA, the Swiss banking industry has been and will continue to be significantly affected. The U.S. FATCA system has managed to completely turn the Swiss bank's long tradition of bank secrecy upside down. The entire financial industry is witnessing micro and macro-level of economic impacts. Even though FATCA has drastically shifted Switzerland's focus on tax evasion policies, it was not the only incident that started the alteration. In the few years prior to FATCA, Switzerland entered into a so-called Rubik Agreement with Austria, Germany and the U.K. (Song, 2015). This agreement focused on anonymous tax withholding, similar to the EU Savings Directive, as a substitute for automatic exchange of information regarding non-Swiss

[9] Article 26 of the tax treaty defines tax fraud as: fraudulent conduct that causes or is intended to cause an illegal and substantial reduction in the amount of the tax paid to a Contracting State.

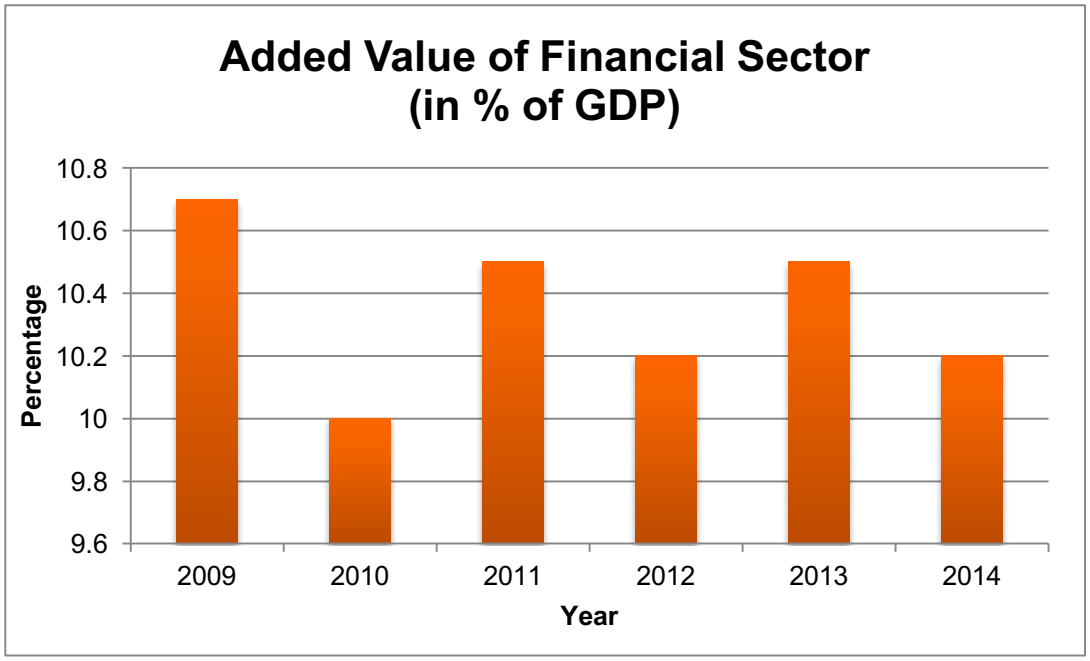
clients holding a Swiss account. Residents of the partner countries that held a Swiss account in the past and chose to keep those accounts after May of the year the agreement came into force would be charged a one-time lump sum (Grinberg, 2012). The one-time charge would vary from 15 to 41 percent of the assets, and was intended as a compensation for past tax evasion. The Rubik Agreement also required the Swiss banks to levy a withholding tax on future investment income and capital gains.[10] The Swiss banks would then transfer the tax revenues to the competent authority of the partner jurisdiction. Once the Swiss banks imposed the withholding tax, the taxpayer's obligation was fulfilled (Song, 2015). If residents of the partner countries, that had a Swiss account, would transfer large volume of assets to other jurisdictions, Switzerland would report ten of these jurisdictions to the partner country. This was also the case if the residents would completely move their entire funds out of Switzerland. However, Switzerland was not required to disclose the identity of any of those individuals. The agreement sought to maintain client anonymity through anonymous withholding (Song, 2015). The Rubik Agreements was Switzerland's solution to tax co-operation while protecting bank secrecy laws. However, this solution was obscured by the implementation of the FATCA, as Swiss banks are now required to disclose U.S. client's information. The burden of implementing FATCA is considerably impacting the economic health of the Swiss banks as their costs rise and their margins fall. It is estimated that the implementation costs for FACTA are around 200-300 million CHF (Mombelli, 2014). This is on top of the hefty settlement costs that many banks are facing for the U.S. criminal investigations for facilitating tax evasion (Song, 2015).[11] Additionally, declining margins have become the norm for Swiss banks since the recession. It is attributed to low performance of assets under management, elevated competition and increase in regulatory pressures (KPMG, 2015). According to a study done by KPMG (2015), two-thirds of the private banks were reported negative returns, while the remaining one-third were in decline in 2013. The

[10] The Swiss-Austria agreement required a withholding tax of 25% on future investment income, the Swiss-UK agreement required a withholding tax of 48% on interest income, 40% on dividend income and 27% on capital gains, and the Swiss-Germany agreement required a withholding tax of 26.375% on future investment income.

[11] To settle the criminal charges, UBS agreed to pay a $780 million penalty. Credit Suisse set aside $324 million to deal with this issue, but the Department of Justice ended up settling with the bank for $2.6 billion.

average cost-income ratio was at 81% as the industry was unable to reduce their costs, and was further impacted by increase of compliance and remediation costs. Banks that paid fines for the U.S. tax evasion saw their return on investment (RoI) decline with 8.2%. The amount of banks reporting losses also increased with more than 50% (KPMG, 2015). While at first sight it may not seem as much, these changes have a huge impact on the Swiss economy.

Figure 4. Added Value of the banking industry

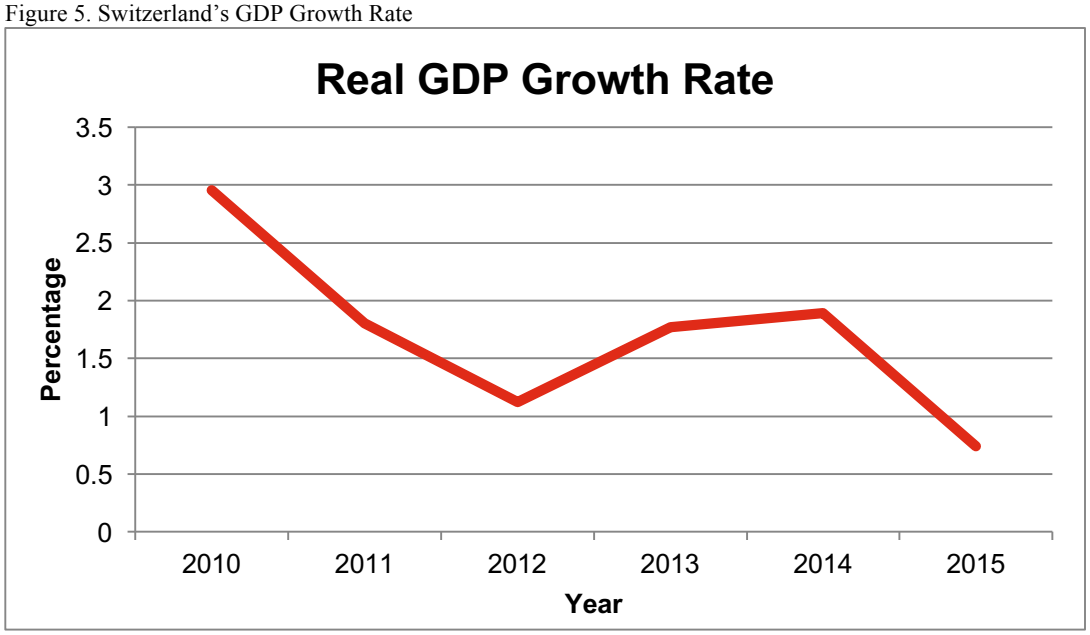


Source: SIF (2010, 2011, 2012, 2013, 2014)

Figure 4 depicts the added value the banking industry has to the GDP of Switzerland. It is clear that it is a vital component of the Swiss economy as the industry was about 10.2% of the GDP in 2014 (i.e. CHF 66 billion).[12] While this is not the only factor affecting the GDP growth, it is clear that the decline in the banking industry has impacted the growth in the country.

[12] The banking industry accounted for CHF 59.2 billion, CHF 60.9 billion, CHF 63.4 billion, CHF 66.0 billion in 2011, 2012, 2013 and 2014 respectively.

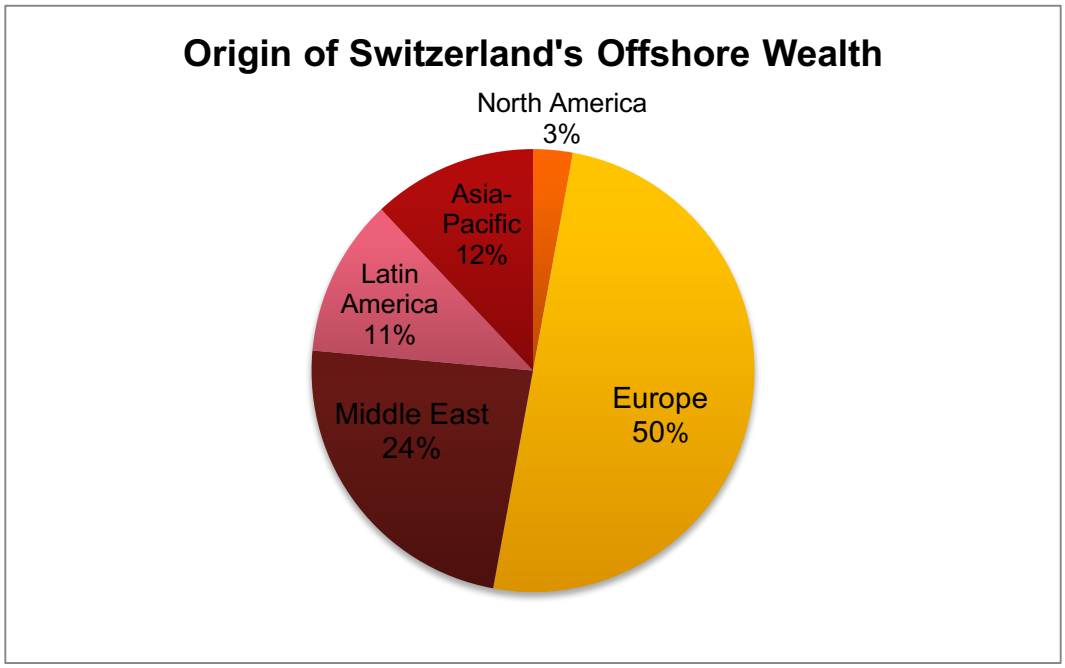
Figure 5. Switzerland's GDP Growth Rate



Source: OECD Data

Figure 5 shows that the GDP growth rate has declined from 2.9% in 2010, to 0.74% in 2015. Since the enactment of FATCA, the pressure for transparency has impacted the private banking sector (Song, 2015). Most of the private Swiss banks focus their core effort on asset management and private banking, exclusively attracting high net-worth individuals. They do not require funds from the public, or make any loans and investments (Song, 2015). The private banking sector is one of the most important sources of revenue for Switzerland, as it managed CHF 3.08 billion in assets and it created CHF 26.5 billion of gross revenues in 2013 (SBA & BCG , 2014). Due to the decline in client assets and an increase in competition from banks in client's resident countries, Swiss banks have seen a decrease in revenue since 2007. As untaxed offshore assets are now being regulated, many clients have shifted their assets elsewhere. This increase in transparency has allowed financial centers such as Singapore and Hong Kong to quickly catch up to Switzerland's status as the top destination for wealth management (Song, 2015). As a result of these recent developments and increased competition, the Swiss private banking has seen a change in customer base with a rise in assets from emerging markets.

Figure 6. The origin of Switzerland's Offshore Wealth



Source: BCG (2011)

Growth regions such as Latin America, Asia and the Middle East are becoming increasingly important for Switzerland. Figure 6 illustrates the origin of the offshore wealth in Switzerland in 2011. It can be seen that the Middle East, Latin America and Asia accounted for 24%, 11% and 12% respectively. The shift in customer base has led to a decrease in profitability despite the inflow of new customers. Due to these changes, Swiss banks have been evaluating new business opportunities by adjusting their footprint in the global banking industry, and leveraging new potential (Song, 2015). It is evident that FATCA has been shaping and will continue to shape the banking industry in Switzerland. Even though the implementation costs are high, Switzerland has an economic incentive to actively comply with FATCA. This is due to the "stick" approach used by FATCA and the significance of the U.S. capital market. The Swiss banks are unable to escape the 30% penalty on the non-compliant FFI's. Some people argue that FATCA is flawed because banks could simply avoid it by denying accounts to U.S. clients. However, it is not feasible for Swiss banks to do so, as the size of the U.S. wealth remains attractive for the banks (Song, 2015). In 2008, the U.S. held approximately 36% of the global millionaire wealth, and is expected to remain near 34% by 2016

(McKinsey&Company, 2013). Furthermore, denying accounts to U.S. clients will still not mitigate a non-compliant FFI from being subjected to the 30% penalty tax. Switzerland is one of the top investors in the U.S. as it had an estimated direct investment of $212 billion in 2013, while the U.S. represented about 19.8% of Switzerland's investments abroad in 2011 (Embassy of Switzerland, 2013). This implies that FFI's are required to comply with FATCA if they wish to avoid paying 30% on their U.S. source income. Even though FATCA could discourage financial institutions to invest in the U.S., the Swiss banks are unable to overlook the magnitude of the U.S. market (Song, 2015).

4.5 Conclusion

By agreeing to an exchange of information and reporting client's information to the U.S. tax authorities instead of an anonymous withholding tax, FATCA has fundamentally shifted Switzerland's policies on tax evasion and bank secrecy laws. Switzerland has recently indicated that it intends to negotiate a reciprocal Model 1 IGA to replace its Model 2 IGA. This means that the Swiss tax authorities will serve as an intermediary between the financial institutions and the IRS, and thus it removes some of the administrative burden from the Swiss banks. It is hence noticeable that FATCA has not only affected the economic health and focus of the Swiss banking industry, but it has also transformed the look and character of the Swiss private banking.

5. The Economies of the Caribbean Islands

5.1 Introduction

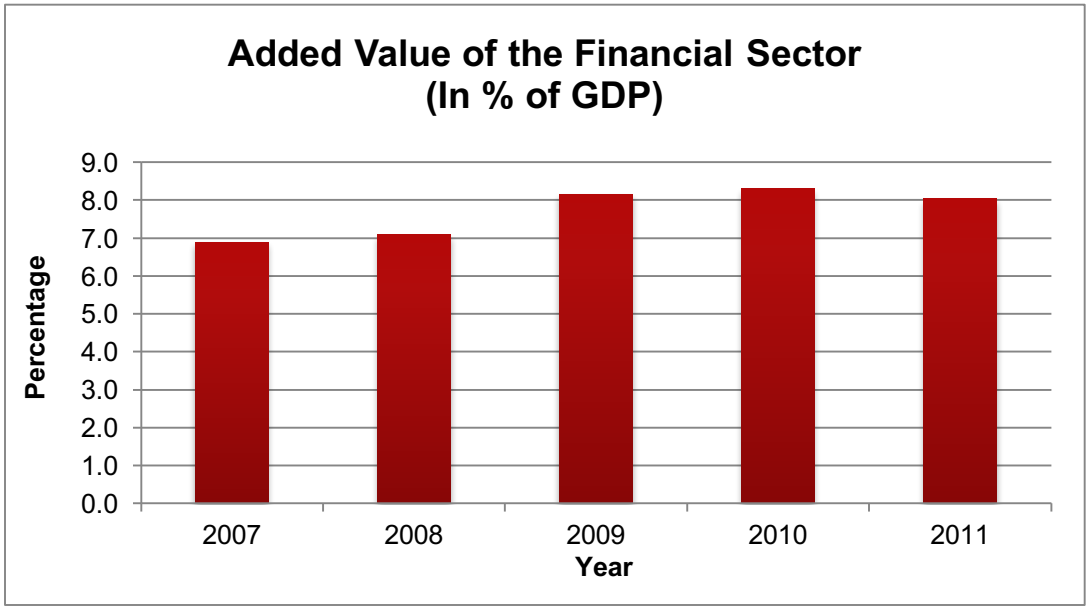
The Caribbean islands, more specifically Aruba, Bermuda, the Bahamas, the Cayman Islands and Curaçao (hereinafter: the islands), have been for many years a top destination for offshore wealth.[13] Due to their preferential tax regimes and or bank secrecy laws, many foreign investors have sought to shelter their assets on these islands. While many regard these islands as tax havens, the recent developments such as FATCA and AEoI have shifted the islands' policies with respect to bank secrecy and tax co-operation. So far Curaçao, the Bahamas and the Cayman Islands have signed a Model 1 IGA, while Bermuda has signed a Model 2 IGA. All the islands have also committed to automatically exchanging information for tax purposes, with Curaçao, Bermuda and the Cayman Islands undertaking their first exchange by 2017 and the remaining two islands following suit in 2018. While these commitments will change the outlook of these islands as uncooperative tax jurisdictions, it will undoubtedly have implications for the financial sector due to the high administrative and compliance costs. However, whether these implications have a huge impact on the economy of the island depends on the magnitude of the banking industry and its added value to the country's GDP. If the economy of an island were heavily based for example on tourism and agriculture, one would not expect a significant impact. On the other hand, if the banking industry would constitute a large portion of the GDP, one could expect a negative effect on the economy. This chapter will thus analyze the composition of each island's economy. Sections 2 to 6 will focus on each island individually, and Section 7 will end with a short conclusion.

[13] Technically speaking, Bermuda and the Bahamas are not located in the Caribbean but rather in the Atlantic Ocean, but due to cultural similarities and for simplicity, they will be regarded as Caribbean islands.

5.2 Aruba

The economy of Aruba is an open system, with tourism constituting the largest portion of the country's income. Due to the increase in tourism in the last years, businesses such ashotels, construction and restaurants have flourished. Even though the island suffers from a poor soil and low rainfall, which harms its agriculture, aloe export and fishing also contribute to the island's economy. Other important industries include offshore banking and oil refinery. In addition to exporting aloe, the country also exports art, machinery, transport and electrical equipment. Aruba is heavily dependent on imports and making efforts to broaden its exports in order to achieve a more preferable trade balance (Central Intelligence Agency, 2016). The majority of the island's consumer and capital goods are imported, with the Netherlands, the U.S., and Panama being among the major suppliers. Aruba levies corporate, withholding as well as personal income taxes. Instead of levying VAT, the government levies turnover taxes by imposing a 1.5% tax rate on the turnover made by any taxable transaction. The island also has some beneficial tax regimes such as the Free Zones, which imposes a 2% corporate tax rate instead of the standard 25% rate on entities that provide services abroad. With a population of about 106.795 as of 2013, the island has one of the highest GDP per capita in the Caribbean at $24.429 (Central Bureau of Statistics, 2013). Aruba's official currency is the Aruba Florin (Afl), which is pegged to the U.S. dollar at 1.79 Afl to 1 USD. Because of the large amount of American tourists, and due to the fact that the Aruban Florin is pegged to the U.S. dollar, many businesses (i.e. hotels and resorts) actually operate using the U.S. dollar. While the biggest contributors to the economy are tourism and petroleum bunkering, the financial sector also constitutes a decent percentage of the island's economy. Figure 7 below shows the added value of the financial sector to the GDP.

Figure 7. Added value of the financial sector in Aruba

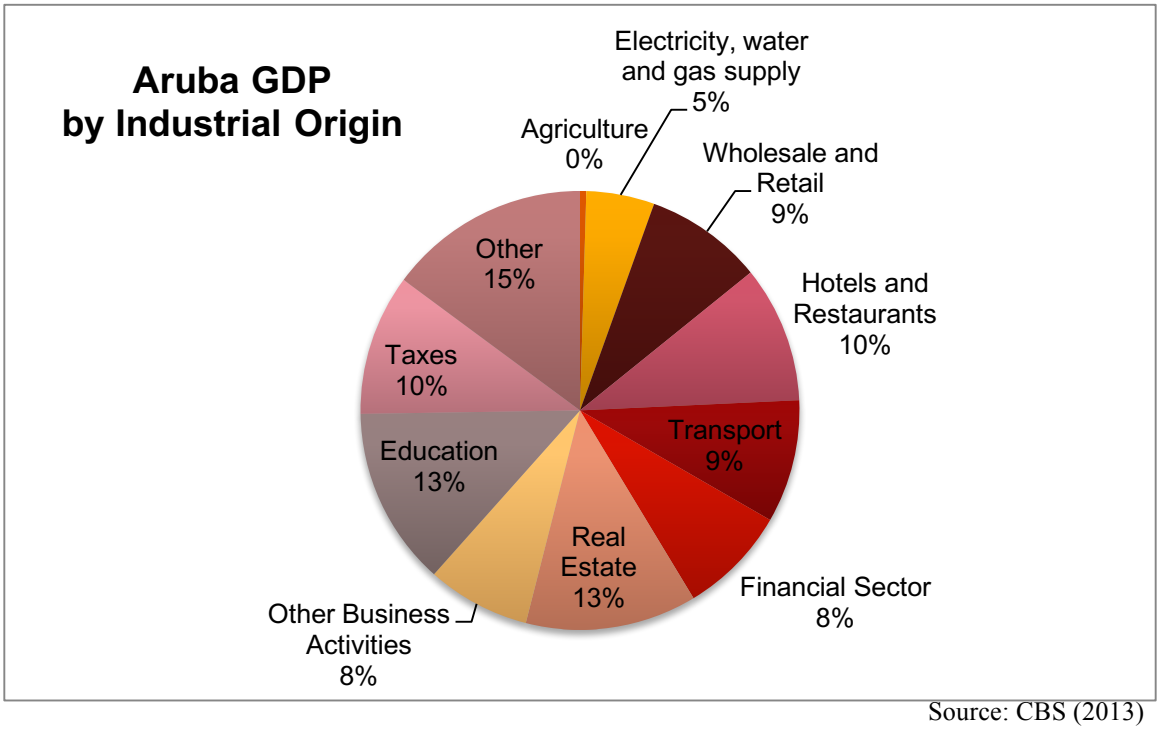


Source: CBS (2013)

It can be seen that the financial sector forms on average 7.7% of the island's GDP. While this is not particularly high, it is still about 355.99 million Afl (i.e. 198.88 million USD) (CBS, 2013). The financial sector has been expanding slowly but steadily. In 2006 the banking industry had an approximate added value of 7.0%, while in 2011 it was 8.02%. On the other hand, in comparison to the other industries, the financial sector is relatively small. Figure 8 below shows the complete composition of Aruba's GDP. As can be seen, the real estate, the hotel and restaurant, and the wholesale and retail industries constitute a big percentage of the GDP, approximately 12.6%, 10.1% and 8.8% respectively. The "other" sector includes construction, manufacturing, health and social work, and community services.[14] The smallest portion of the GDP is the agriculture, which only constitutes approximately 0.5%. Seeing as the financial sector is one of the smaller sectors, including other business activities and electricity supply, it will not be a surprise if the implementation of AEoI does not bare much burden on Aruba's economy.

[14] The construction, manufacturing, health and social work, and community services sectors all form 5.4%, 4.2%, 4.6% and 6.7% of the GDP respectively.

Figure 8. Aruba's GDP composition in 2011



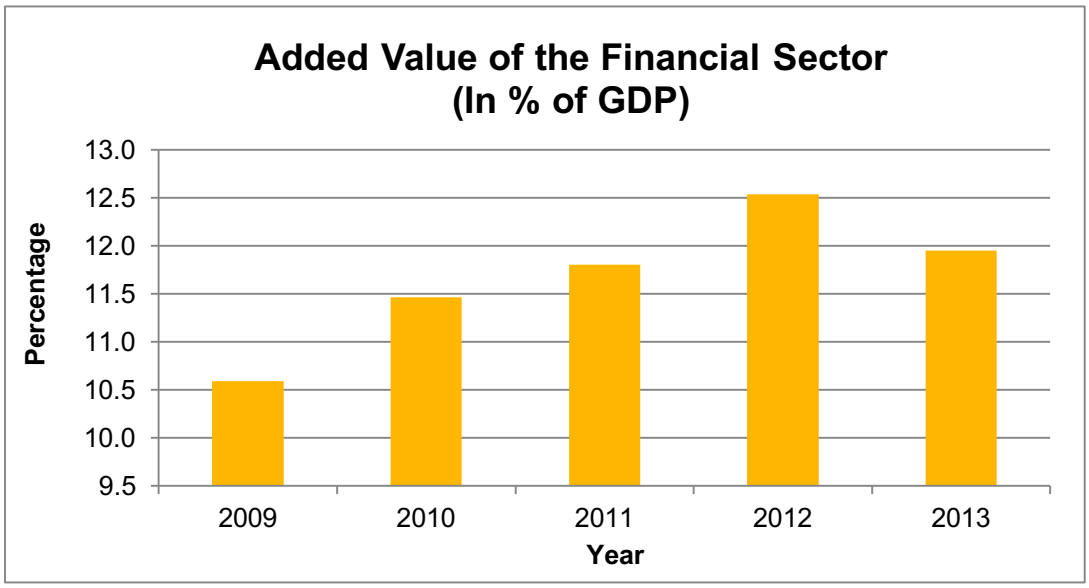
Source: CBS (2013)

5.3 The Bahamas

The economy of the Bahamas is heavily dependent on tourism and offshore banking. Due to steady growth in tourism and an increase in construction of new resorts, residences and hotels, the GDP of the island has seen solid growth. Tourism is extremely important for the island as it accounts for nearly 60% of the GDP and it accounts for almost half of the country's workforce (Ministry of Finance, 2013). Manufacturing and agriculture contribute together approximately 5.8% of the Bahamian GDP and show little growth (Central Intelligence Agency, 2016). In addition to tourism and banking, the island has also been supporting the development of the e-commerce. The official currency of the island is the Bahamian dollar (B$), which is pegged to the U.S. dollar on a one to one basis, meaning B$1 = $1. The economy has a very competitive tax regime, as the island has no income tax, corporate tax, or capital gains tax. The only sources of revenues are from import tariffs, VAT, license fees, property and stamp taxes, and payroll taxes. With a population of approximately 359.000 as of 2013, the island has a GDP per capita of about $23.429 (Ministry of Finance, 2013). One of the main pillars of the Bahamian

economy is the financial sector. Despite many changes such as the recent FATCA, or the implementation of "know your customer" (KYC) rules, the island has maintained its status as an attractive offshore financial center.

Figure 9. Added value of the financial sector in the Bahamas

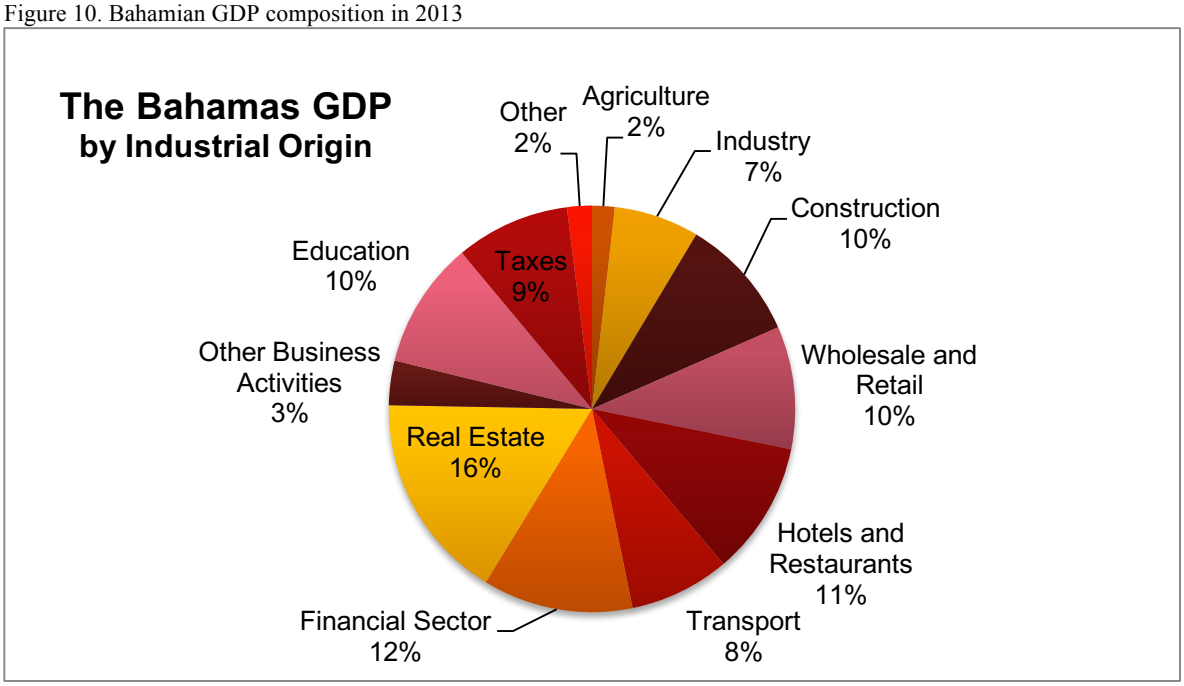


Source: Ministry of Finance (2013)

Figure 9 above shows the added value of the financial sector. The added value of the financial sector has been steadily increasing throughout the years, from 10.6% to 12.0% of the GDP. This is actually high, accounting for approximately B$1.01 billion. Even when compared to the other sectors on the island, the banking industry is the second highest, right after real estate. Figure 10 below presents the full composition of the Bahamian GDP. The three top contributors are the real estate sector, the financial sector, and the hotels and restaurants, with each accounting for 16.5%, 12.0% and 10.6% of the GDP respectively. What is remarkable is the fact that taxes account for approximately 9.1% of the GDP, despite the fact that the island has not income, corporate or capital gains taxes. Indirect taxes accounted for about 84% of the total taxes in 2012 (Ministry of Finance, 2013).[15] Given the fact that the financial sector forms a significant portion of the economy, if the banks are unable to manage the high compliance costs of the AEoI, it will pose a high burden on the Bahamian economy.

[15] In 2015, the government introduced a VAT at a rate 7.5%

Figure 10. Bahamian GDP composition in 2013

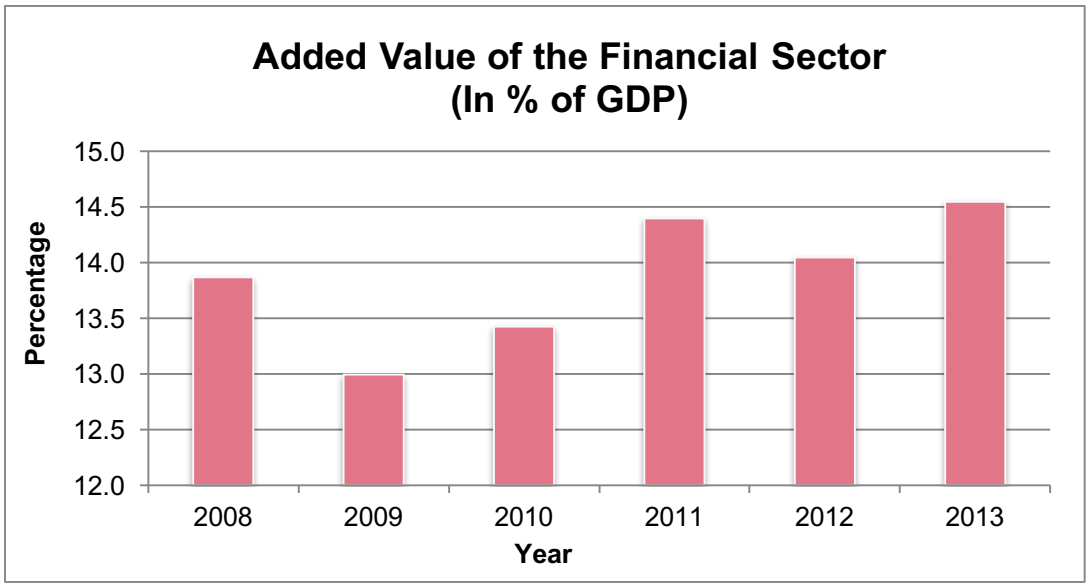


Source: Ministry of Finance (2013)

5.4 Bermuda

Bermuda is a well-known offshore financial center for its well-deserved reputation for its financial regulatory system. The island has managed to attract many international companies due to its minimal standards of business regulations and laws. The island, similar to some of the other Caribbean islands, has no income, corporate and capital gains taxes. The government's main source of revenue is import duties, although it also imposes a real estate and payroll tax. The island's official currency is the Bermudian dollar (BD$), which is also pegged to the U.S. dollar on a one-to-one basis, meaning BD$1 = 1 USD. As of 2013, Bermuda had a population of approximately 65.091 and a GDP per capita of about $85.747, making it one of the highest in the world (Government of Bermuda, 2014). Bermuda has little of exports or manufacturing, and almost all consumer and manufacturing goods are imported. Bermuda's importing partners include South Korea, the U.S., Germany and Italy, while its exporting partners include Spain, Germany and the UK. The financial sector on the island constitutes one of the main contributors to its GDP. Figure 11 shows the added value of the banking industry.

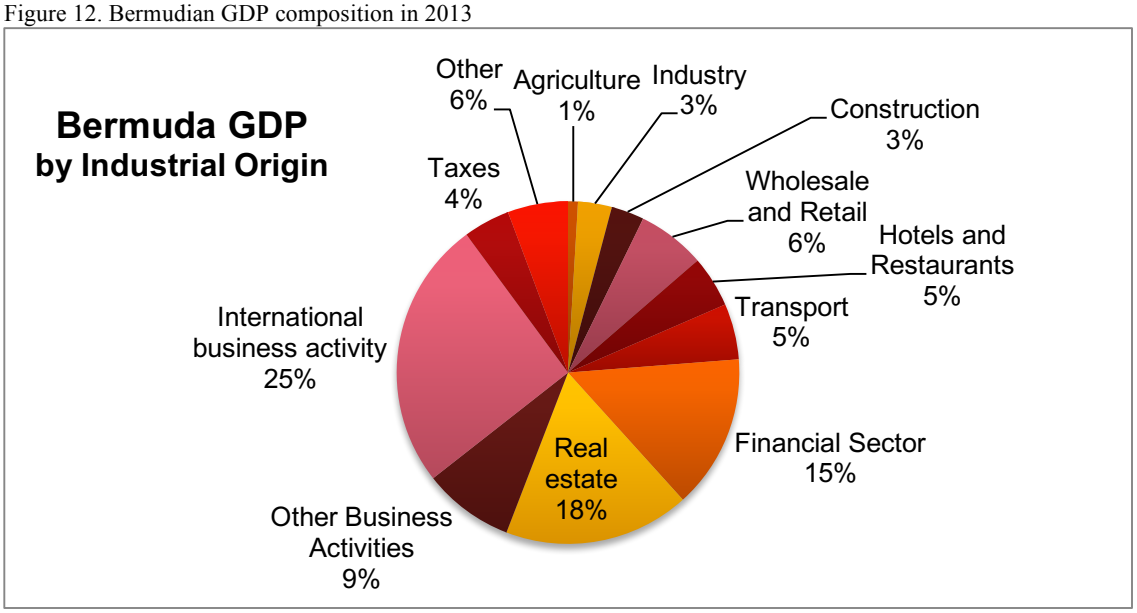
Figure 11. Added value of the financial sector in Bermuda



Source: Government of Bermuda (2015)

Even though the banking industry suffered a decrease in 2009, due to the financial crisis, it has managed to regain its magnitude. The average is about 13.9% of the GDP, which accounts for approximately BD$645.51 million. This indicates the importance and the implications that the banking industry has for the island's economy.

Figure 12. Bermudian GDP composition in 2013



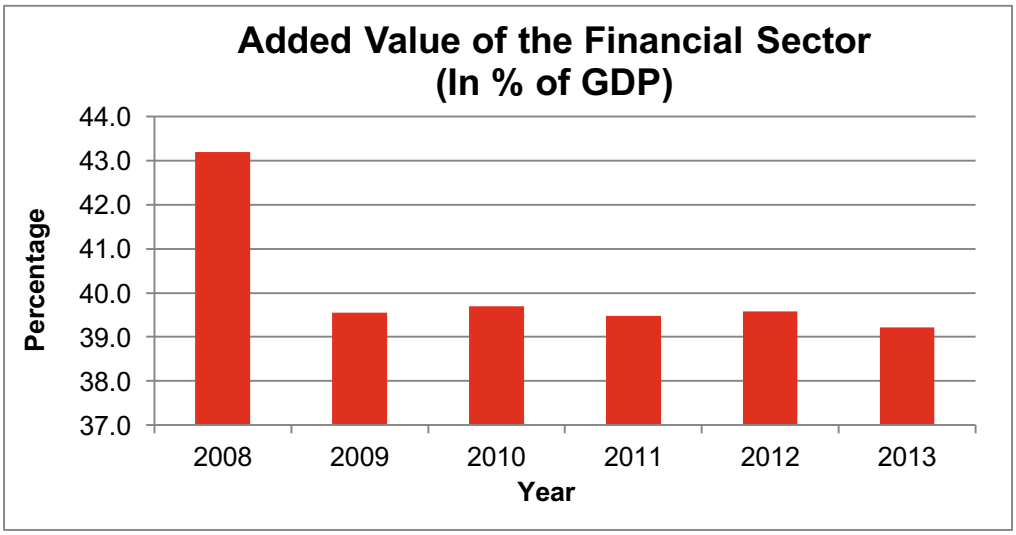
Source: Government of Bermuda (2015)

The importance of the international business activities is certainly reflected in its share of GDP, which has remained at 25% since 2008. There are many large international companies that are based in Bermuda, such as Bacardi Ltd. These international companies are an important source of foreign investment for the island. However, despite the attractive tax regimes, many international companies have also moved to other jurisdictions such as Ireland in search of a more stable environment (Molloy, 2009). Regardless, the banking industry has remained stable and will most likely continue to be one of the main pillars of the Bermudian economy.

5.5 The Cayman Islands

The Cayman Islands is one of the largest international financial centers in the world. As of 2007 it held approximately $2 trillion in banking assets (GAO, 2008). As a result of being considered a significant tax haven, the Cayman Islands have been under constant pressure by governments and organizations. The OECD threatened to put the islands on their "blacklist", while the UK pressured the Cayman Islands to implement their own version of the EU Savings Directive (the Cayman EUSD Law) (Mozzart Ozannes, 2012). This led the country to improve their transparency and regulations. The islands had a population of approximately 58.238 as of 2014, and a GDP per capita of about $48.095 (The Economics and Statistics Office , 2015). Its official currency is the Cayman Islands Dollar (KYD), which is pegged to the U.S. dollar on a fixed exchange rate of KYD1 = $1. Similar to the Bahamas and Bermuda, the Cayman Islands do not have a personal income, corporate, or capital gains tax. There is also no estate or inheritance taxes on real estates and other assets held on the islands. The main source of revenue for the government comes in the form of indirect taxes, such as import duties, that can range from 22% to 25% on imported goods. The government also levies tourist accommodation taxes, and flat licensing fees on financial institutions. Despite the high tourism, the financial sector remains the most important contributor to the islands' economy. Figure 13 shows the added value of the banking industry.

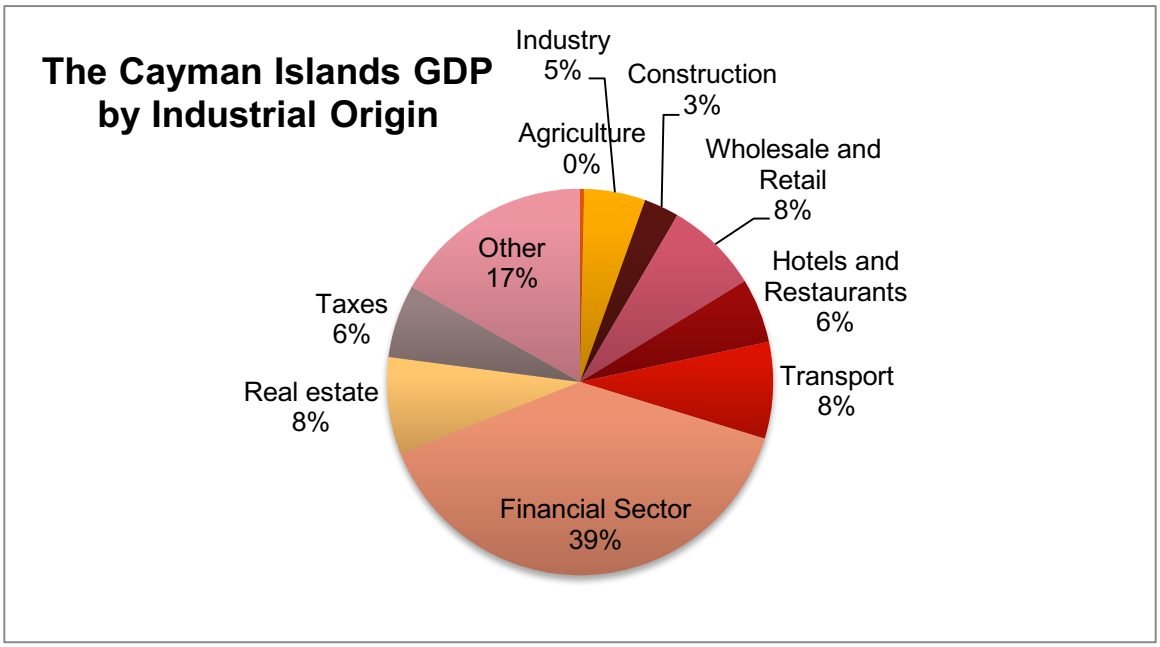
Figure 13. Added value of the financial sector on the Cayman Islands



Source: The Economics and Statistics Office (2015)

Despite the decrease in 2008, the financial sector is clearly the backbone of the economy, contributing to an average of 40.1% of the GDP, which accounts for approximately KYD1.07 billion. Even when compared to every sector on the islands, the banking industry remains the top contributor. Figure 14 shows the GDP's entire composition.

Figure 14. The Cayman Islands' GDP composition in 2013



Source: The Economics and Statistics Office (2013, 2015)

It is remarkable that the financial sector alone contributes more than all the other sectors, excluding taxes and "other", combined. In 2011, the Cayman Islands ranked the second most significant tax haven on the Financial Secrecy Index, falling behind Switzerland. In 2013, the Cayman Islands ranked fourth, ahead of Singapore but behind Hong Kong, and in 2015 they ranked fifth (Financial Secrecy Index, 2015). The islands also ranked the world's sixth largest financial center, with banking assets exceeding $1.4 trillion as of 2014 (Financial Secrecy Index, 2015). Seeing the importance and the magnitude of the banking industry, the implementation of the OECD's automatic exchange of information will certainly have an impact on the islands' economy if financial institutions are unable to cope with the compliance costs.

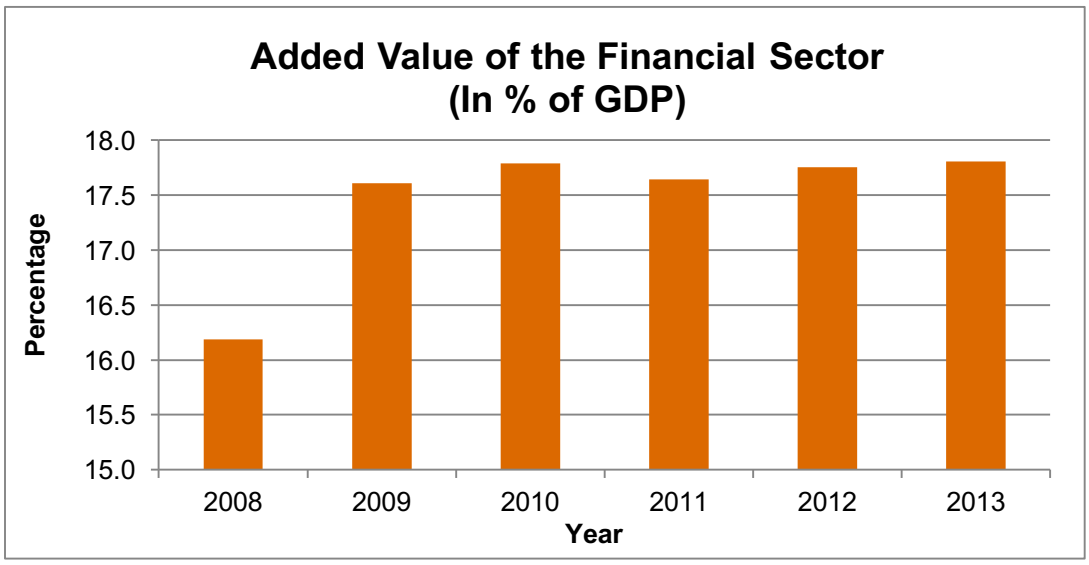
5.6 Curaçao

The island of Curaçao has an open economy, with international trade, tourism, oil refining and bunkering and international financial services being the most important sectors. The so-called "open arms policy", which focuses on information technology companies, is one of the government's efforts to attract foreign investment. The island has an excellent natural harbor that allows it to accommodate large oil tankers (Central Intelligence Agency, 2016). The island imports oil from Venezuela, which after being refined at the island's refinery is exported to the U.S. and Asia. Most of the consumer and capital goods are imported, with the U.S., the Netherlands and Venezuela being the major trading partners (Central Intelligence Agency, 2016). With a population of about 154.843 as of 2014, Curaçao has a GDP per capita of approximately $20.332. Unlike some of the other Caribbean islands, Curaçao does have corporate taxes and personal income taxes similar to the box-system of the Netherlands. Due to its beneficial tax regimes such as the E-zone and tax holidays, it manages to attract a lot of foreign investments. Curacao's official currency is the Netherlands Antillean guilder (ANG), which is pegged to the U.S. dollar at a fixed rate of $1 = ANG 1.79.[16] Up until 2001, the island was famous for its offshore practices, but due to pressure from the OECD, the EU and the Netherlands, the

[16] After the dissolution of the Netherlands Antilles, Curaçao and Sint Maarten proposed to replace the Antillean guilder with the Caribbean guilder (CMG), which would remain pegged to the U.S. dollar at the same rate of $1 = 1.79 CMG. This currency has yet to be introduced.

island implemented the New Fiscal Framework (Financial Secrecy Index, 2015). This Framework abolished ring-fencing treatment of offshore companies, who were given preferential tax treatments. However, the Framework also included a clause, which guaranteed that existing offshore companies could continue to benefit from the tax treatments until 2020. Despite these changes, the financial sector on the island remains one of the most important contributors to Curaçao's economy. Figure 15 below exhibits the added value of the financial sector.

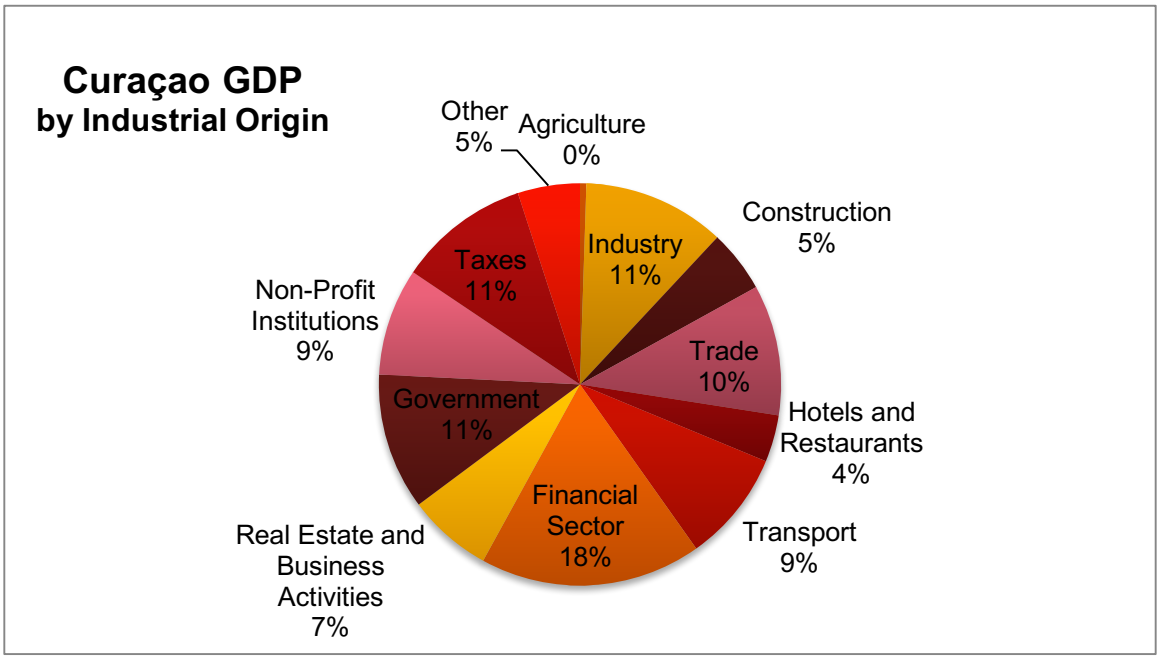
Figure 15. Added value of the financial sector in Curaçao



Source: CBS (2009, 2015)

The share of the banking industry has remained stable in the last few years, with an average of 17.5% of the GDP, which accounts for approximately $550.95 million. Compared to the other islands within the Kingdom of the Netherlands, Curaçao has the largest financial center. When looking at the other sectors on the island, the financial sector still remains as the top attributor. As can be seen from Figure 16 below the banking sector forms the biggest share of the island's GDP, followed by Industry (i.e. Manufacturing, Gas, Water and Electricity supply), Taxes and Trade, with each contributing 17.8%, 11.4%, 10.6% and 10.5% respectively. Similar to the Cayman Islands, Curaçao's financial sector is the most important industry for the island, attracting large amount of foreign investments.

Figure 16. Curacao's GDP composition in 2013



Source: CBS (2015)

Compared to the other islands, Curaçao and Aruba are also the islands with the most commitment to automatic exchange of information. The islands are required to exchange information for tax purposes based on FATCA, the OECD's multilateral convention, and the EU Savings Directive.[17] This could lead to the islands having the highest compliance costs among all the other Caribbean islands, which could in turn harm their economy.

5.7 Conclusion

It is clear that the financial sector forms an important pillar in the economy of the Caribbean islands. Even though some islands do not even impose corporate or capital taxes on foreign investments, these foreign assets benefit the financial sector that in turn creates jobs and increases the capital stock of the islands. When comparing the added value among the islands, one can expect that CRS will have the biggest impact on the Cayman Islands and Curaçao as their financial sector constitute the biggest part of their GDP, with 39% and 18% respectively. Whether this is indeed the case depends on many

[17] The EU Savings Directive is applied through the intervention of the Netherlands.

other factors, such as the ability of the financial institutions to cope with the additional costs. If, for example, the financial institutions of an island with high added value are unable to efficiently implement these changes and incur huge losses as a result, one may see an impact on the economy. The impact on the economy will also depend on the cooperation between the government and the financial institution. While the banks may have the responsibility to collect and report the information, it does not necessarily mean that they should also bare the entire financial burden on their own.

6. Costs of Exchanging Information

6.1 Introduction

The exchange of information has been a tool that has been used by governments for many years. While the exchange has previously been based on a request basis, the automatic exchange allows tax authorities to be more in efficient in taxing its taxpayers who hold assets abroad. Another solution to the problem would be to impose withholding taxes on all outflows of income that are deemed taxable (Tanzi & Zee, 2001). While countries that have a lot to lose by exchanging information would prefer to withhold taxes instead, this system is not without its limitations. This system may have detrimental effects on attracting foreign investments and can increase the risk of offshore operations (Tanzi & Zee, 2001). For these reasons, many countries would choose to exchange information rather than withhold taxes. However, exchanging information also has its own economic hurdles such as incentive incompatibility and transaction costs. While Chapter 7 will focus more on the incentives, this chapter will analyze the potential costs of exchanging information. The worldwide costs of implementing the CRS will undoubtedly be very high. In Switzerland alone it is estimated that the costs of implementing CRS will be about 300 to 600 million francs (approximately 303 to 607 million USD) (Rist, 2014). The amount of costs will of course depend on the IT infrastructure already set in place by the financial institutions and the model that the government choose to exchange information (i.e. bilateral or multilateral). If the IT infrastructure is already advanced enough that financial institutions are able to collect the necessary information without having to incur high costs, this will decrease the impact of CRS in the financial sector. Additionally, if governments choose, for example, the multilateral version of the OECD model, financial institutions will already have an idea of which taxpayers they will have to report as this will include all the countries that have signed the multilateral agreement. By choosing to sign bilateral agreements a government can decide its own AEoI partners, however, this implies that financial institutions will also have to perform new due diligence each time the country signs a new agreement,

which leads to higher compliance costs and inefficiencies (Kinsley, Ho, & Lu, 2015).[18] As was mentioned above, this chapter will analyze the potential costs of implementing the CRS on the Caribbean islands. Even though the first exchanges will occur in 2017, financial institutions have already been preparing for it for some time, and thus the effects should already be noticeable. Section 2 will discuss the development of the bank's profitability throughout the years on each island. Section 3 will then analyze the GDP growth to see whether there has been any effect on the islands' economy already. Section 4 will discuss other costs and effects that the CRS may have, while Section 5 will conclude.

6.2 Banking Profitability on the Islands

The compliance costs of implementing automatic exchange of information can be and should be borne by both the government and the financial institutions. The reality, however, is that in most of the cases the financial institutions will be the ones carrying the whole burden, including the risk of being fined if the compliance is not done adequately. This increase in costs could have an impact on the profitability of the financial institutions, either in the form of increased operation expenses or a decrease in income due to less foreign clients opening a bank account. The impact will of course depend on the bank's ability to cope with the changes. Since the CRS can be seen as an expansion of FATCA, the effects of these new procedures can already be observed.

6.2.1 Aruba

The financial sector in Aruba is a stable one, boasting 12 supervised institutions, including commercial banks, international banks and credit unions. Table 1 shows the composition of the banking sector in Aruba. The Central Bank of Aruba granted FirstCaribbean International Bank Limited on September 19, 2014 a license to pursue the business of a credit institution through a branch office in Aruba (Centrale Bank van Aruba, 2014). This office is expected to become operational in the course of 2016 and thus has not been included in Table 1.

[18] This was one of the main points criticized by financial institutions in Hong Kong.

Table 1. Number of supervised institutions within the banking sector

	2010	2011	2012	2013	2014
1. Total	11	11	11	11	12
2. Commercial Banks	4	4	4	4	5
3. International Banks	2	2	2	2	2
4. Bank-Like Institution	3	3	3	3	3
a. Mortgage banks	1	1	1	1	1
b. Other specialized financial institutions	2	2	2	2	2
5. Credit Unions	2	2	2	2	2

Source: CBA (2014)

While each institution may have an effect of some extend, this paper will only focus on the commercial banks. It should be noted, however, that while expenses and income have increased and decreased, not all the changes are attributable to the implementation of FATCA and AEoI. This also holds true for the rest of the islands. As can be seen from Table 2, the total income and total expenses of the commercial banks have been increasing since 2010. Even though the total expenses have been increasing, mainly due to higher salaries and an increase in other expenses, the total income have seen a stronger increase and thus increasing profits.

Table 2. Total Income and Total Expenses of the Commercial Banks

(in Afl. Million)	2010	2011	2012	2013	2014
1. Total Income	**300.5**	**317.2**	**341.9**	**352.7**	**359.4**
a. Net Interest Income	195.6	202.1	218.1	220.5	218.1
b. Operating Income	104.9	115.1	123.8	132.2	141.3
2. Total expenses	**200.6**	**207**	**215.8**	**218**	**229.3**
a. Salaries & employee benefits	87.6	94	98.4	102	109.8
b. Additions to the loan loss provisions	22.2	13.6	9.6	4.3	4.6
c. Other expenses	90.8	99.4	107.8	111.7	114.9

Source: CBA (2014)

While the report does not specify what "other expenses" mean, one can assume that due diligence and related administrative costs fall under said expenses. Assuming that this is indeed the case, it is noticeable that the expenses have been increasing gradually over the years, instead of abruptly in a year or two. One explanation would be that it is possible that the amount of accounts that are required to be reported is low, and thus the amount of due diligence that has to be done is also low. Another explanation could be that banks have been preparing for FATCA for some time now, which allowed them to spread the necessary investments over the years. While one could argue that CRS will have a similar effect, one cannot ignore the fact that CRS will have a broader impact, as the banks are now required to collect information of more clients instead of only those with a U.S. citizenship. This will undoubtedly increase administrative costs even more.

6.2.2 The Bahamas

The banking sector in the Bahamas has been quite volatile in the past 8 years. This is due to many factors, including the financial crisis of 2009 and supposedly the impact of FATCA starting from 2014. As can be seen from Table 3, the banking profitability has been decreasing ever since 2009.

Table 3. Banking Profitability

(In B$ million)	2008	2009	2010	2011	2012	2013	2014
Net Income	**289.3**	**213.6**	**208.7**	**229.3**	**168.4**	**161.1**	**-114.1**

Source: Central Bank of the Bahamas (2009, 2011, 2012, 2013, 2014)

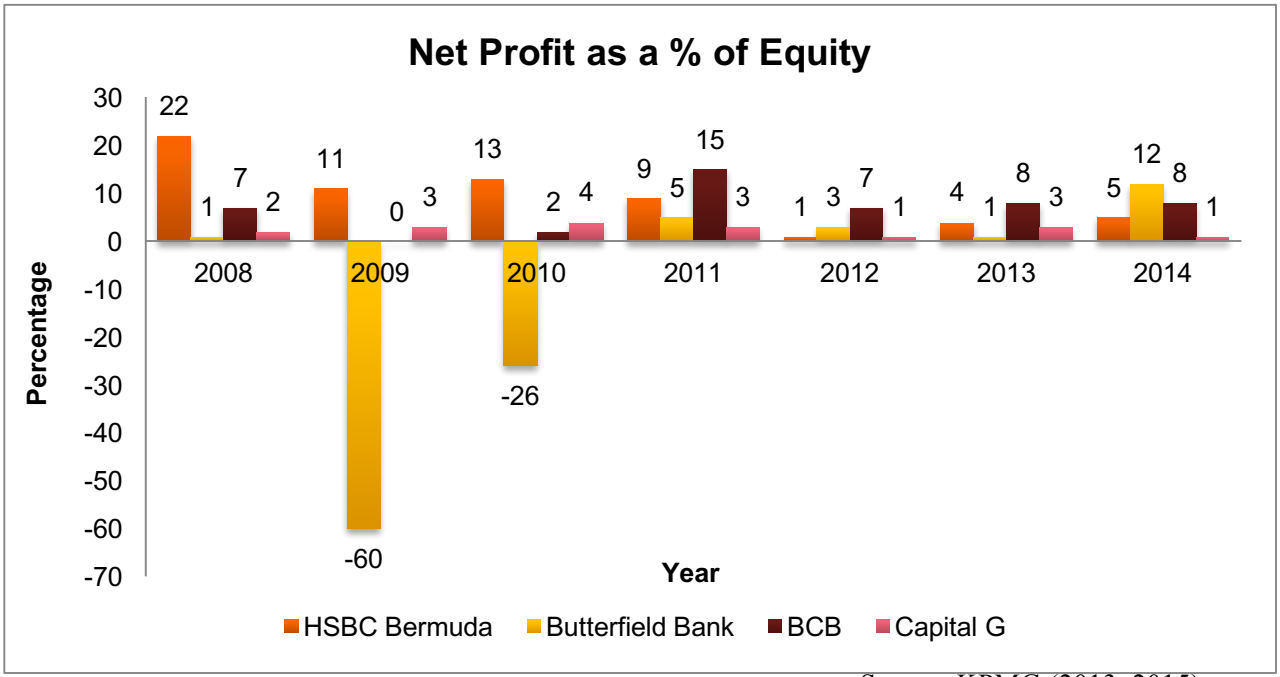
As was mentioned above, the decrease in profits during 2009 can be related to the financial crisis. The strong decrease in 2012 can be attributed to the decrease in interest margins, which in turn decrease interest income. There were also other factors such as a B$45 million hike in provisioning for bad debts and a B$7.5 million decrease in non-core revenues. However, what is more interesting is the abrupt decrease in 2014, which even became a net loss of B$114.1 million. A decrease of B$28.3 million and B$0.8 million in interest and commission income respectively attributed to the decrease in net income. However, banks experienced a significant impact on profitability outcomes due to high operating costs (The Central Bank of The Bahamas, 2014). Operating costs were higher by 38.9% at B$478.7 million, due primarily to a B$146.8 million increase in

"miscellaneous" operating costs. These costs include professional services and Government fees. While the report does not specify it, it may be assumed that the administrative costs due to the implementation of FATCA are also included in this category. This shows that FATCA has definitely had an impact on the profitability of the domestic banks in the Bahamas. The banking sector returned to profitability in 2015 (The Central Bank of The Bahamas, 2015). The net income reached B$135.3 million due to an increase in interest income, and a decrease of 43% of the "miscellaneous" operating costs. This may indicate that after a year the banks managed to streamline the due diligence procedures. This could also indicate that the impact of the CRS will be smaller as the necessary infrastructure has already been set. However, since the CRS will be done on a larger scale, the domestic banks will more than likely experience an impact on their profitability.

6.2.3 Bermuda

The Bermuda banking sector is made up of four banks. Even though the banks differ in size, if one bank fails it could have an impact on the island's economy. As can be seen from Figure 17, the profitability of the banks has been quite volatile in the past 8 years.

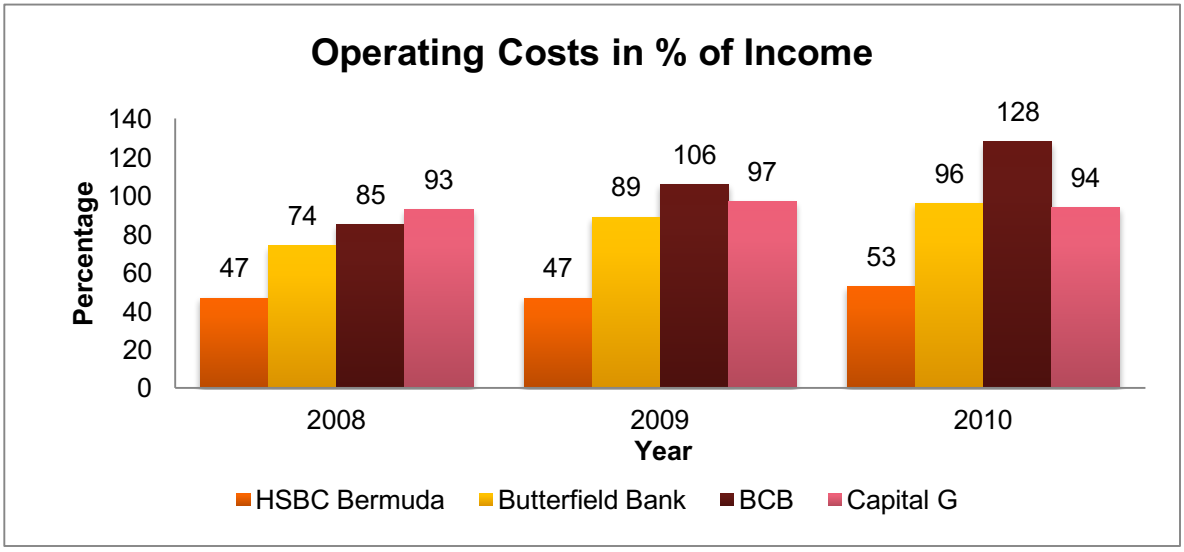
Figure 17. Net Profits of the Bermuda Bank Sector



Source: KPMG (2013, 2015)

The financial crisis resulted in a drastic decrease in profits in 2009 for the banks, with the exception of Capital G, as it is quite noticeable from Figure 17. HSBC dropped from 22% to 11%, Butterfield went from 1% to a net loss of 60%, BCB declined from 7% to 2% and Capital G increased from 2% to 3%. And while the profits for all the banks increased in the later years, the banks were put under pressure due to higher costs from regulatory compliance and increased customer due diligence. This was most apparent in 2010 when the operating costs, which include the compliance costs, rose for the banks. Figure 18 exhibits the operating costs of the banks from 2008 to 2010.

Figure 18. Operating Costs of the Banking Sector



Source: KPMG (2011)

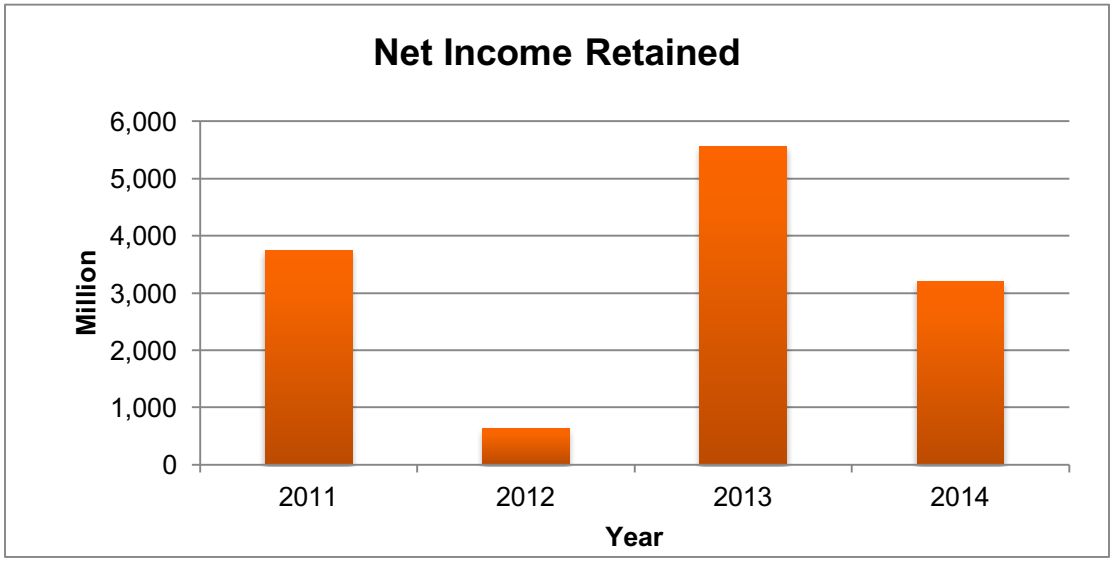
Even though the costs decreased after 2010, it is highly likely that the costs will increase again due to the new compliance procedures required by the CRS. Whether the banks will manage to maintain their profits will depend on their ability to search for other sources of revenue (KPMG, 2014).

6.2.4 The Cayman Islands

Despite its relatively small size, the Cayman Islands has a very strong banking sector with over 194 banks and a total asset of US$1.45 trillion as at December 2014 (Cayman Islands Monetary Authority, 2015). Due to the banks large trading and investment portfolios they are affected by a lot of factors. In 2011-2012 they incurred high trading

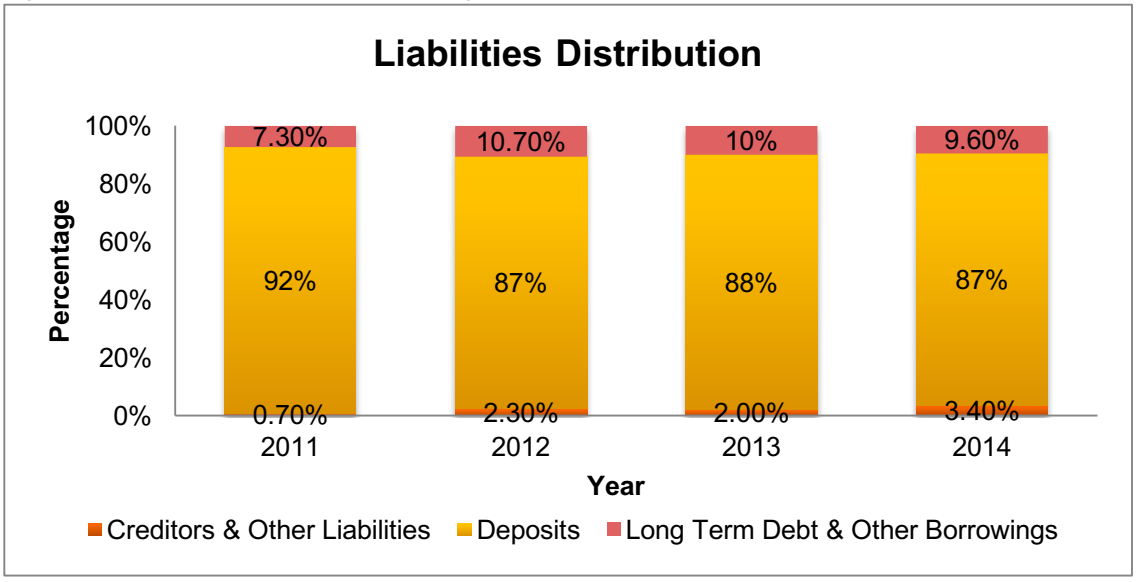
losses due to market volatility, the sovereign debt crisis in Europe and deteriorating macroeconomic conditions as seen in the effects of lower oil prices (Cayman Islands Monetary Authority, 2015). Regardless of the possible factors, it is safe to assume that these banks are also set under high pressure due to the new FATCA and CRS regulations, which increase operating costs and thus decreases profits even more, as can be seen from Figure 19.

Figure 19. Total Net Income Retained of the Banking Sector



Source: Cayman Islands Monetary Authority (2015)

Figure 20. Liabilities Distribution in the Banking Sector



Source: Cayman Islands Monetary Authority (2015)

Given the lack of data, it is difficult to observe the effect of the costs of the new regulatory compliance and due diligence procedures. However, as can be seen from Figure 20, the biggest liabilities of all the banks are the deposits from clients, accounting for 92%, 87%, 88% and 87% of the total liabilities in 2011, 2012, 2013 and 2014 respectively. While these deposits range from Government & Central banks and Group banks, individuals and corporations comprise 25% of the total liabilities, which accounts to nearly US$466 million. This implies that the potential amount of due diligence that will be required in order to comply with FATCA and CRS could lead to a high increase in operating costs. Whether this will affect the banks' profitability will again depend on their ability to generate more revenue and their ability to streamline the compliance process.

6.2.5 Curaçao

Curaçao has a very strong and stable financial sector, boasting over 50 commercial and international banks, and having over a total of US$38 billion in assets. Similar to Aruba, only the commercial banks will be analyzed. It should also be noted that one must be careful when interpreting the results as the data includes both the banks from Curaçao and Sint Maarten. This is due to the fact that the Central Bank oversees the banks in both regions. Nevertheless, the data is representative as Curaçao's banking sector is much larger in size. Table 4 depicts the total expenses and total income of the commercial banks between 2008 and 2014.

Table 4. Total Operational Income and Expenses of the Commercial Banks

(In ANG million)	2008	2009	2010	2011	2012	2013	2014
Total Operational Income	**817.3**	**811.9**	**824.2**	**869.7**	**894.9**	**884.1**	**893.1**
Salaries & other employees expenses	296.1	297.3	308.6	334.2	343.4	352.1	360.9
Occupancy expenses	95.4	100.1	95.1	99.9	100.1	91.6	90.9
Other operating	126.2	126.4	132.2	139	157.8	176.1	169.2

expenses							
Net addition to general provisions	34.6	52.6	69.6	51.4	86.3	30.8	61.8
Total Operational Expenses	**552.3**	**576.4**	**605.5**	**624.5**	**687.6**	**650.6**	**682.8**
Net Operating Income	**261.5**	**235.5**	**218.6**	**245.2**	**207.3**	**233.5**	**210.3**

Source: Centrale Bank van Curaçao en Sint Maarten (2011, 2014)

It is noticeable that even though total expenses have been increasing in the past years, the net income has remained relatively stable. Similar to Aruba, the operating expenses have been increasing, however, the increase has been gradual instead of a sudden one. This could indicate that the commercial banks have managed to spread the costs of the regulatory compliance and due diligence procedures over the years. While the other islands are obliged to exchange information based on FATCA and on the upcoming CRS, Curaçao must also do so based on the Europese Spaarrenterichtlijn (ESRR)[19]. It could be possible that the banks managed to take the necessary steps upfront and lay down the required infrastructure, which allowed them to streamline the process and thus spread the costs over the years. This might indicate that the effect of CRS will not be a significant one. Nevertheless, given the larger scale of the CRS, one can expect the operating costs to keep increasing, which will undoubtedly put pressure on the banks to remain profitable.

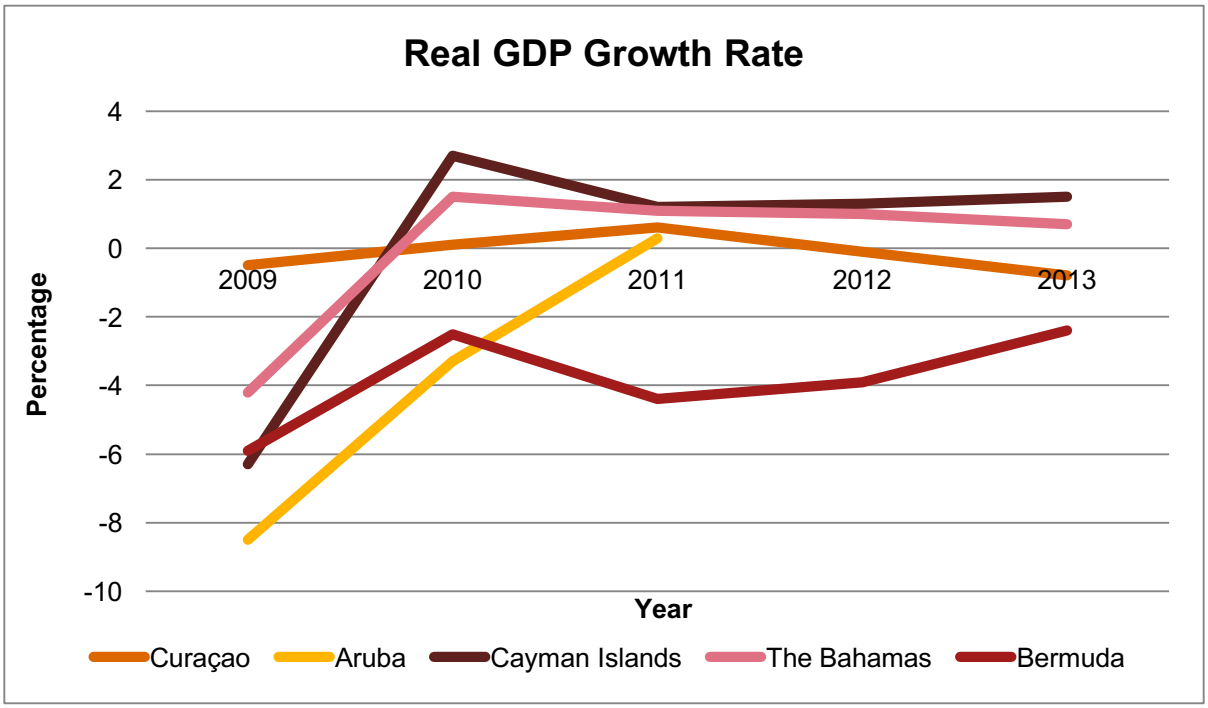
6.3 GDP Development

One of the most important and most used indicators to measure the economy's health is the GDP growth rate. It allows policymakers and central banks to judge whether the economy is expanding or contracting (Picardo, 2016). If the GDP growth rate of the islands have remained stable, it would indicate that the economy of the island have

[19] As of 2015, Curaçao, Aruba, Sint Maarten, Saba, Bonaire and St. Eustatius are required to automatically exchange financial information with Europe through the Netherlands.

expanded despite the fact that some banks have suffered in their profitability. Figure 21 shows the real GDP growth rate of all the islands.

Figure 21. Real GDP growth rate of the Caribbean Islands



Source: Department of Statistics (2015), The Economics and Statistics Office (2015), CBS (2013), CBS (2015), Department of Statistics (2014)

Even though the GDP growth rate is influenced by many factors, it is noticeable (as expected) that there is definitely a link between the profitability of the banks of the growth rate. For all the islands, the rate increases and decreases according to the profitability of the banks. For example, both the banks on the Cayman Islands and Bermuda saw an increase in profitability in 2013, which is consistent with the increase in growth rate in that respective year. While the banks in Curaçao saw an increase in profitability in 2011, the GDP growth rate increased with 1%. This shows that the effects of CRS will definitely have an impact on the GDP. If the banks are unable to streamline the CRS procedures, operating expenses will continue to increase. For islands that already have negative growth rates, this could bring serious issues. Higher costs could also mean higher interest rates, which would increase the risk of defaults. Since it also common for banks to make loans among each other, if one would fail it could create a

certain domino effect. Another risk banks face is the closure of accounts. If a client's sole reason to open an account were to avoid taxes, he would have no incentives anymore and could decide to close his account. While this would lead to less due diligence required it would also lead to less revenue for the bank. One of the ways tax authorities could help would be to penalize individuals that do not cooperate, and provide an amnesty for those who willingly give their information. This might increase the cooperation of the individuals, which in turn would help the financial institutions with their due diligence by shortening the process, and thus decreasing costs.

6.4 Other Costs

Apart from operating costs for the financial institution, it is important to realize that the CRS will also bring other types of transaction costs, which not all are of monetary nature. Similar to the risk that banks have of losing existing clients, the country itself runs the risk of losing potential foreign investors. It is no secret that many investors decide to invest in a particular country due to their possible attractive tax schemes or banking secrecy. If these investors are no longer able to make use of those benefits, they will no longer have an incentive to invest in said country and thus affecting the economy of that country as a consequence. Another issue may arise from the discrepancy in the values placed by any two countries on each other's taxpayer information (Tanzi & Zee, 2001). A capital-importing country would put a higher value on the information than a capital-exporting country simply by the fact that the former has more to lose. This is because a capital-importing country tends to attract more foreign investors, and thus has a higher risk of losing revenue if it starts exchanging its information. Even if both countries are, for example, capital-importing countries some discrepancy will arise if the two countries differ in size. It is easy to see that a country that attracts 1 million foreign investors, and has 100.000 residents with capital abroad has less to gain than a country that attracts the same 1 million foreign investors but also has 1 million residents investing abroad. The former would rather not exchange information as its extra tax revenue from the acquired information will not offset its possible lose of foreign investment. This could lead to a lowering of enthusiasm on the part of the losing country to continue implementing, with the same rigor, any agreement that has been reached (Tanzi & Zee, 2001).

Notwithstanding these possible costs, there may also be other issues such as linguistic difficulties. If everyone would speak one language this problem would not arise. Unfortunately, this is not the case. Even though English is a common language, not everyone is good at it. In some cases the tax authorities' employees only speak the national language. This can become problematic if, for example, the Colombian administration has to exchange information with the German administration. Or if the Japanese tax authorities is required to contact the Russian authorities. In which language would the information be provided, and who will be translating all the necessary documents. While some of these issues may not be deal breaking, they are factors to be taken into consideration (Tanzi & Zee, 2001). Given the fact that over 101 countries have committed to exchange information on an automatic basis, it will put pressure on those who have yet to sign, as it could give the impression that they support tax avoidance and tax evasion. However, as was said above some countries will lose and some will win. If the cost of providing the information continuously exceeds the extra revenue, some countries may feel discouraged to continue following the agreement and may seek ingenious methods to not comply.

6.5 Conclusion

The actual impact of the automatic exchange of information will not be fully evident until after 2017 when the islands start exchanging the information. As was mentioned previously, the actual impact will depend on many factors including the amount of revenue the tax authorities will get and the costs of providing the information. Governments will also assess the situation and take necessary steps to make the procedure more efficient. This could lead to less cost for the financial institutions and thus less pressure on the profitability. However, it could also be the case that governments will not provide a helping hand to the banks. Consequently, banks will face a challenge to maintain the costs as low as possible and to seek new sources of revenues. Depending on their ability to deal with said challenges, it could definitely have a negative impact on the economy. Similarly, if the costs of providing the information far exceed the revenues, banks or even tax authorities might be inclined to not comply, which would

render the entire purpose of the OECD proposal useless, specially if more than one country decides to take the same route.

7. An Alternative Proposition

7.1 Introduction

The institutional setup of a tax system can heavily influence the government's incentives. For example, if countries tax their residents based on the territoriality principle, the competition among jurisdictions would be fierce, as they would try to maintain domestic investments and also attract foreign investments. Taxes would be driven down, which could lead to a race to the bottom. On the other hand, when countries apply the residence-based principle, competition is less fierce as taxpayers are taxed on their worldwide income, regardless of the income's origin. This allows tax rates to be higher, and arguably closer to their optimal level. However, one of the main drawbacks of this system is that it requires tax authorities to have full information about their residents in order to be efficient. As it is generally difficult for tax authorities to completely monitor all the assets that its residents hold abroad, the authorities have to hope that either the residents will report truthfully, or that foreign authorities will provide the information. Given that it is very easy for individuals and entities to shelter their assets, it is unlikely that full information will be provided directly by them, and thus the participation of foreign authorities is required. Despite the high costs that a government or its financial institutions will have to incur in order to be able to provide the necessary information, the question arises whether fully exchanging information is the optimal solution. It can be argued that while a country will gain extra tax revenue due to the new information, it will also become less attractive to foreign investments as they no longer have the benefit of being able to shelter their assets. If the latter effect dominates, it will have a negative impact on the economy. The country would then have no incentive to cooperate, and could lead to the country trying to find any exploitable loopholes. This is especially the case when the two exchanging countries are asymmetric in size. Small countries have more to loss, compared to large countries, as their population is smaller, and thus the extra tax revenue will be limited. This chapter will thus analyze and discuss whether exchanging information is optimal, and it will provide an alternative to the current exchange of information system. Section 2 will analyze the optimal level of information

exchange in various scenarios. Section 3 will present and discuss an alternative model, while Section 4 concludes.

7.2 The Optimal Level of Information Exchange

Taxation has been, for many centuries, one of the main sources of revenue for governments. While at hindsight it would make sense to keep taxes high in order to collect even more revenue, governments can also use taxation as a tool to influence the public behavior. If the government is concerned with the environment, it can increase taxes on cars, which would lead to people buying fewer cars and thus lead to less pollution. If the government wants to increase the amount of research & development being done in its country, it can implement certain tax benefits such as the Dutch innovation box to make it more attractive. If it wants to attract additional foreign investments it could lower its tax rates, which would in turn make it more attractive compared to foreign countries. Seeing as a government usually tries to maximize its country's utility, it is not clear why a government would have an incentive to provide information about its non-residents to foreign authorities. This would make foreign investments in the country less attractive, which in turn would lower the country's capital stock and tax revenues. One reason would be the so-called reputational mechanism, which implies that in a repeated game, it could be optimal for governments to share information (Bacchetta & Espinosa, Information sharing and tax competition among governments, 1995). In the absence of any reputational mechanism, the incentive to share information may depend on the features of the tax system. If a country does not impose taxes on non-residents, it may not care about foreign investments, and so will be indifferent as to the amount of information being shared. If, however, the country does impose taxes on non-residents, it may still have an incentive to exchange information for strategic reasons. By providing information to foreign tax authorities, the domestic country allows the foreign country to set higher tax rates on capital. This is because foreign taxpayers will now have less incentive to evade taxes as they are now being taxed regardless of where they put their assets. The increase in the foreign tax rates will in turn decrease domestic tax evasion as investing abroad has become less attractive, and thus the domestic government is able to increase tax rates and earn more tax revenues. This

result is denoted as the strategic effect. On the other hand, by providing information, the domestic country also becomes less attractive for foreign investments (the direct effect). Depending on the magnitude of both effects, the equilibrium could lead to partial information exchange. Even if the strategic effect dominates, full information sharing may not necessarily be the optimal solution (Bacchetta & Espinosa, Information sharing and tax competition among governments, 1995). The model presented by Bacchetta & Espinosa (1995) looks at two scenarios, namely the pure residence-based system, and the initial source-based system. In the first case governments only levy taxes on their residents. They show that the country's utility is maximized, and is thus optimal, if and only if the portion of information exchanged is equal to 1, meaning there is full sharing of information (Bacchetta & Espinosa, Information sharing and tax competition among governments, 1995). In the second scenario the government levies taxes on both residents and non-residents. They show that, unlike in the first scenario, the country's utility is not maximized if the portion of information exchanged is equal to 1, meaning that the optimal level is reached only when partial information is exchanged. The intuition is that due to imperfect tax credits, the decision of the consumers is distorted and thus governments supply incomplete information to reduce the distortion (Bacchetta & Espinosa, Information sharing and tax competition among governments, 1995). While the model indicates that a government will decide on the amount of information to be supplied based on the tax system, they ignore some important aspects. Firstly, the model assumes that both countries are symmetric in size and hence their gains are equal. Secondly, the result from the pure residence-based scenario implies that governments are indifferent to supplying information, as they have nothing to lose from attracting less foreign investments. This ignores the non-tax effects that foreign investments have to an economy. In countries where the financial sector constitutes a big added value to the GDP, the government would still benefit from foreign investments. This could imply that the optimal level is less than 1 when maximizing the country's utility. Finally, the model assumes that the government does not incur any costs for collecting and sharing the information. If there is a high marginal cost of providing the information, exchanging it may not be sustainable (Bacchetta & Espinosa, Exchange-of-Information Clauses in International Tax Treaties, 2000).

7.3 The Revenue-Sharing System

Looking at the optimal portion of information that should be exchanged would help countries to maximize their own utility. However, when the gains of providing information are minimal, it could be difficult to encourage a country to voluntarily adopt effective information exchange. One argument could be that despite the unequal gains for each country, exchange of information may lead to global welfare maximization. Unfortunately, many countries, if not all, will look at their own best interest and thus maximize their own utility even if it does not lead to the optimal global welfare level. In order to put pressure on non-cooperative countries (i.e. losing country), the winning country may argue that by not providing information non-cooperative countries are supporting tax evasion. In response, the non-cooperative country could then argue that they are not to be blamed if the residents of the other country decide to break the law (Keen & Ligthart, Incentives and Information Exchange in International Taxation, 2006). Regardless of the argumentation, it is clear that automatic exchange of information has been widely adopted as 101 jurisdictions have already committed. Given the fact that complete exchange of information may not be the optimal solution as was shown by Bacchetta & Espinosa (1995), the question arises whether the current OECD model could be made more efficient. The alternative system proposed by Keen & Ligthart (2006) draws heavy inspiration from the EU Savings Directive. The Directive, which came into force in 2005, required the EU member states to exchange information with each other on an automatic basis. Given the bank secrecy laws of some of the member states, it gave the option to adopt a withholding tax system instead of exchanging information. The countries that chose the withholding system were given a 7-year transitional provision. [20] The withholding tax rate would increase every three years, starting at 15% in the first years, 20% in the next and finally being 35% after 6 years (Llorca, 2010). The remarkable feature of this system was that the countries withholding the taxes were required to share 75% of the revenues with the countries where the taxpayer was resident. This feature has not been analyzed much in previous literature, and is at the core of the alternative model proposed by Keen & Ligthart (2006). Instead of looking at the optimal portion of information that needs to be exchanged, the model analyses the amount of

[20] Austria, Belgium and Luxembourg chose the withholding system. Belgium decided to discontinue the withholding as of 2010, choosing to exchange information as of that date.

revenue that should be shared with the source country (i.e. the information provider). By accompanying information exchange with some transfer of additional revenues it may be possible to generate Pareto gains, which could induce low-tax countries to voluntarily exchange tax information (Keen & Ligthart, Incentives and Information Exchange in International Taxation, 2006). The model also takes into consideration the effects of two countries being asymmetric in size, and it compares it to a scenario in which countries would only withhold taxes instead of sharing information. The results of the model are as follows:

Finding 1: "*Under information exchange (hereinafter: IE), the equilibrium tax rate in both countries is lower if the proportion of the revenue collected from the exchange of information that is kept by the residence country is smaller."*

The intuition is that the country's revenue is affected in two ways: (1) the amount of revenue it receives from foreign investors and (2) the additional revenue it receives from exchanging the information. Revenue sharing has a strategic effect under IE as countries will lower their tax rates in order to attract foreign investors. This will generate domestic tax revenues (assuming the country levies taxes on non-residents) as well as additional revenue due to the revenue share, meaning double benefits. The incentive to attract foreign investors by setting lower tax rates is thus greater if the amount that is kept by the residence country is lower (Keen & Ligthart, Incentives and Information Exchange in International Taxation, 2006). This leads to the next finding.

Finding 2: *"Under IE, the sum of the revenues across both countries is lower the smaller the proportion of the revenue collected from the exchange of information that is retained by the residence country is."*

As was explained above, if the residence country would share more of its additional revenue, the country providing information would be induced to lower its tax rates, as it would benefit from attracting foreign investors. However, by lowering the tax rate, the total amount collected would also decrease, leading to a lower aggregate across the two

countries. The revenue-sharing system also has another effect on the allocation of the revenues. Due to the asymmetry in size between the countries, a conflict of interest arises. While increasing the amount of revenue that is kept by the residence country would tend to benefit both countries due to the higher equilibrium tax rates, smaller countries will prefer a higher level of revenue sharing. This is because the increased share of revenue collected from its own residents is less than the revenue it loses from the reduction in the revenues collected from foreign investors (e.g. because of information sharing it becomes less attractive to foreign investors), due to the amount of foreign investors being more numerous than the amount of residents (Keen & Ligthart, Incentives and Information Exchange in International Taxation, 2006).

Finding 3: "*Under IE:*

(a) Revenue in the large country is strictly increasing in μ.

(b) Revenue in the small country is:

i. *Everywhere strictly decreasing in μ if α < (1/3);*

ii. *Maximized at μ* = (1-P)(3α-1)/(P(1-α)) if α is between [(1/3) , 1/(3-2P)];*

iii. Everywhere strictly increasing in μ if α > 1/(3-2P)."

Here μ represents the proportion of revenue retained by the residence country (with μ=1 signifying the residence country retaining everything). The symbol α is initially expressed as α= n/N, with n being the size of the small country and N being the size of the large country, and thus α signifies the difference between both countries (i.e. the smaller α is the bigger the difference between the countries). P denotes the likelihood of information transfer. This finding shows that large countries will always prefer to retain the revenue (meaning μ=1), whereas the preference of the small country depends on its size. If the small country is large enough (α > 1/(3-P)) it will also prefer μ=1 as its loss in foreign investors will be offset by the gain in revenue from taxing its residents investing abroad. When the difference is sufficiently great, however, it will prefer revenue sharing (Keen & Ligthart, Incentives and Information Exchange in International Taxation, 2006). Finally, when compared to a withholding system, Keen & Ligthart (2006) find some interesting results.

Finding 4: *"Compared to withholding taxes:*

(a) Both countries are indifferent to IE with all revenue being shared to the source country ($\mu=0$);

(b) The large country strictly prefers IE with any μ between [0,1]; and

(c) For the small country, IE is

i. *Always less attractive if $\alpha < (1/3)$*

ii. *More attractive if α is between $[(1/3) , 1/(3-2P)]$*

iii. *Always more attractive if $\alpha > 1/(3-2P)$*

These results show that when the difference between the two countries is large, even sharing the additional revenue would not induce the small country to switch voluntarily to a system of automatic exchange of information (Keen & Ligthart, Incentives and Information Exchange in International Taxation, 2006). If the difference in size is small, the smaller country will prefer the residence country to retain all the additional revenue, whereas in intermediate cases larger countries can induce the smaller country of exchanging information by forgoing some of the revenue and sharing it. While these results make a good case for introducing the model as an alternative to the current OECD model, they have some caveats. Firstly, the model assumes that collecting and sharing the information can be done without baring any costs. While this assumption is made to simplify the model and to easier show the implications of a revenue-sharing system, relaxing this assumption may cause different results. It could lead to the range of α widening, as smaller countries would prefer revenue sharing even more to compensate for their costs. Secondly, the model assumes that countries are able to levy different tax rates to residents and non-residents. While this is indeed the case for many countries, some countries such Brazil, Chile and Turkey apply a non-discriminatory withholding tax. Applying a non-discriminatory tax is sometimes done because it may be hard to enforce tax differentiation, especially if residents can effectively disguise themselves as non-residents. Keen & Ligthart (2007) analyze the implications of relaxing this assumption in another paper. They find that any outcome under less than fully effective information exchange can be Pareto dominated, in terms of revenues, by a system in

which information is not exchanged, but rather where a large proportion of the withholding tax revenue collected is returned to the residence country (Keen & Ligthart, Revenue Sharing and Information Exchange under Non-discriminatory Taxation, 2007). This differs from the findings in Keen & Ligthart (2006) that, in the case of discriminatory taxation, the aggregate revenue across both countries is higher under non-discriminatory withholding.

7.4 Conclusion

The automatic exchange of information has been a topic of debate in international taxation for many years. With the recent implementation of the CRS it is clear that automatic exchange of information will be the new standard for the years to come. However, as was shown in this chapter, the current OECD model may not be the optimal solution, especially for countries that have a lot to lose in terms of revenues or additional costs. While the incentive of a country to exchange information may depend on its tax system and its size, it would be beneficial to implement a system in which the additional tax revenues collected from the residence country is shared among both countries. Even though the size of the country could lead to a conflict of interest between the two countries, implementing such system will induce smaller countries to voluntarily exchange information. This in turn can lead to a more optimal level of global welfare.

8. Conclusion

The new OECD approach will, without a doubt, aid in combating tax avoidance and tax evasion. Having countries automatically exchange information with one another allows the tax authorities of each jurisdiction to have the right information at their disposal so as to be able to levy the right amount of taxes. This also sets a sort of level playing field as people who are able to "hide" their capital will be taxed equally as much as those who are unable or unwilling to "hide" their capital. Yet the question remains whether the new model will be sustainable in the long run. While it has many benefits, one cannot simply ignore the fact that providing the information can be a costly task. These costs can range from operational expenses for the financial institutions to a loss of revenue for the country as less foreign investors will be investing or depositing their capital in that country. Even though the tax authorities will be able to collect more taxes from residents with capital abroad, it is easy to see that not every country will benefit from it. If a country has more foreign investments than residents, the costs of providing the information may exceed the tax revenues. Similarly, if a country does not impose capital gains or income taxes it may not have any benefits at all. The OECD has tried to mitigate some of the costs by introducing some variants to the Model, such as the multilateral version and the non-reciprocal version. While this will indeed reduce some of the costs associated with exchanging information, it does not take away all the costs. One can also expect many changes around the globe with respect to banking secrecy, similar to the effect of FATCA in Switzerland. Banks around the world will now shift their policies towards being more transparent. This may have an impact on the economies of some countries, especially if bank secrecy was what made them attractive. It could force some governments to focus on different things such as tourism, which can be a good thing. Even though the OECD's Model was introduced quite recently, there have been many attempts at establishing a system in order to be able to exchange information on an automatic basis. One good example of this is the EU with their EU Savings Directive. Even though one of the weak points of this Directive was the fact that it only applied to the EU, it was a step in the right direction. In 2011 the EU introduced a new Directive

(Council Directive 2011/16/EU), which further established the automatic exchange of information.[21] However, the OECD Model will have a much broader impact, as it will now define the new standard for many countries around the world. As was stated before, many countries will be affected by this change in standard as they may experience a loss in foreign investors. Especially for countries such as the Cayman Islands, Curaçao, and Bermuda, who's GDP is heavily dependent on the banking sector. However, even though it is evident that the operating costs of many of the island's banks have been increasing in the past years, many of the banks have managed to retain their profitability. Still, the available data does not account for the loss of potential clients due to the new CRS, which can put a heavy burden on the profitability and subsequently on the island's economy. Furthermore, if these costs continuously exceed the benefits, some banks or even governments might be inclined to find a way to circumvent the whole system. One way of preventing such thing happening would be to introduce a revenue-sharing system. This would give losing countries an incentive to continue providing the information. Even though it might be difficult to convince the "winning" country to give up a portion of its revenue, in the long run even the "winning" countries will lose if the others stop providing the information. This could motivate the "winning" country to share a certain amount of its revenue, and could even lead to a more optimal level of global welfare. Even though there is no available data on the effects of CRS[22], it is easy to see that it will definitely have an impact, either be it on the way banks conduct business, the economy of the countries around the globe or the amount of tax evasion. It is the author's opinion that, while it is not perfect, the OECD Model sets the right standard for combating tax evasion. It allows the countries to cooperate on the same objective. However, it should be done in such a way that even the countries that have nothing to gain are incentivized to cooperate. This allows the system to remain sustainable. Nevertheless, this is a change that will have huge implications for the years to come.

[21] On May 25, 2016 the Council Directive 2011/16/EU was amended with the Council Directive 2016/881, which brought it more in line with the OECD Model.

[22] It is stated in the Council Directive 2011/16/EU that the Commission shall submit a report that provides an overview and an assessment of the statistics and information received by the Member States, on issues such as the administrative and other relevant costs and benefits of the automatic exchange of information before 1 July 2017.

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List of Figures and Tables

Appendix A

(As at 26 July 2016)

JURISDICTIONS UNDERTAKING FIRST EXCHANGES BY 2017 (54)
Anguilla, Argentina, Barbados, Belgium, Bermuda, British Virging Islands, Bulgaria, Cayman Islands, Colombia, Croatia, Curaçao, Cyprus, Czech Republic, Denmark, Estonia, Faroe Islands, Finland, France, Germany, Gibraltar, Greece, Greenland, Guernsey, Hungary, Iceland, India, Ireland, Isle of Man, Italy, Jersey, Korea, Latvia, Liechtenstein, Lithuania, Luxembourg, Malta, Mexico, Montserrat, Netherlands, Niue, Norway, Poland, Portugal, Romania, San Marino, Seychelles, Slovak Republic, Slovenia, South Africa, Spain, Sweden, Trinidad and Tobago, Turks and Caicos Islands, United Kingdom

JURISDICTIONS UNDERTAKING FIRST EXCHANGES BY 2018 (47)
Albania, Andorra, Antigua and Barbuda, Aruba, Australia, Austria, The Bahamas, Bahrain, Belize, Brazil, Brunei Darussalam, Canada, Chile, China, Cook Islands, Costa Rica, Dominica, Ghana, Grenada, Hong Kong (China), Indonesia, Israel, Japan, Kuwait, Lebanon, Marshall Islands, Macao (China), Malaysia, Mauritius, Monaco, Nauru, New Zealand, Panama, Qatar, Russia, Saint Kits and Nevis, Samoa, Saint Lucia, Saint Vincent and the Grenadines, Saudi Arabia, Singapore, Sint Maarten, Switzerland, Turkey, United Arab Emirates, Uruguay, Vanuatu

Appendix B

(As at 8 September 2016)

Jurisdiction	IGA Model	Status
Algeria	Model 1	Signed
Angola	Model 1	Signed
Anguilla	Model 1	Agreement in Substance
Antigua and Barbuda	Model 1	Agreement in Substance
Armenia	Model 2	Agreement in Substance
Australia	Model 1	In Force
Austria	Model 2	In Force
Azerbaijan	Model 1	In Force
Bahamas	Model 1	In Force
Bahrain	Model 1	Agreement in Substance
Barbados	Model 1	In Force
Belarus	Model 1	In Force
Belgium	Model 1	Signed
Bermuda	Model 2	In Force
Brazil	Model 1	In Force
British Virgin Islands	Model 1	In Force
Bulgaria	Model 1	In Force
Cabo Verde	Model 1	Agreement in Substance
Cambodia	Model 1	Signed
Canada	Model 1	In Force
Cayman Islands	Model 1	In Force
Chile	Model 2	Signed
China	Model 1	Agreement in Substance
Colombia	Model 1	In Force
Costa Rica	Model 1	Signed
Croatia	Model 1	Signed
Curaçao	Model 1	In Fore
Cyprus	Model 1	In Force
Czech Republic	Model 1	In Force
Denmark	Model 1	In Force
Dominica	Model 1	Agreement in Substance
Dominican Republic	Model 1	Agreement in Substance
Estonia	Model 1	In Force
Finland	Model 1	In Force
France	Model 1	In Force
Georgia	Model 1	Signed
Germany	Model 1	In Force

Gibraltar	Model 1	In Force
Greece	Model 1	Agreement in Substance
Greenland	Model 1	Agreement in Substance
Grenada	Model 1	Agreement in Substance
Guernsey	Model 1	In Force
Guyana	Model 1	Agreement in Substance
Haiti	Model 1	Agreement in Substance
Holy See	Model 1	In Force
Honduras	Model 1	In Force
Hong Kong	Model 2	In Force
Hungary	Model 1	In Force
Iceland	Model 1	In Force
India	Model 1	In Force
Indonesia	Model 1	Agreement in Substance
Iraq	Model 2	Agreement in Substance
Ireland	Model 1	In Force
Isle of Man	Model 1	In Force
Israel	Model 1	Signed
Italy	Model 1	In Force
Jamaica	Model 1	In Force
Japan	Model 2	In Effect
Jersey	Model 1	In Force
Kazakhstan	Model 1	Agreement in Substance
Kosovo	Model 1	In Force
Kuwait	Model 1	In Force
Latvia	Model 1	In Force
Liechtenstein	Model 1	In Force
Lithuania	Model 1	In Force
Luxembourg	Model 1	In Force
Macao	Model 2	Agreement in Substance
Malaysia	Model 1	Agreement in Substance
Malta	Model 1	In Force
Mauritius	Model 1	In Force
Mexico	Model 1	In Force
Moldova	Model 1	In Force
Montenegro	Model 1	Agreement in Substance
Montserrat	Model 1	Signed
Netherlands	Model 1	In Force
New Zealand	Model 1	In Force
Nicaragua	Model 2	Agreement in Substance
Norway	Model 1	In Force
Panama	Model 1	Signed
Paraguay	Model 2	Agreement in Substance

Peru	Model 1	Agreement in Substance
Philippines	Model 1	Signed
Poland	Model 1	In Force
Portugal	Model 1	Signed
Qatar	Model 1	In Force
Romania	Model 1	In Force
San Marino	Model 2	In Force
Saudi Arabia	Model 1	Agreement in Substance
Serbia	Model 1	Agreement in Substance
Seychelles	Model 1	Agreement in Substance
Singapore	Model 1	In Force
Slovak Republic	Model 1	In Force
Slovenia	Model 1	In Force
South Africa	Model 1	In Force
South Korea	Model 1	In Force
Spain	Model 1	In Force
St. Kitts and Nevis	Model 1	In Force
St. Lucia	Model 1	Signed
St. Vincent and the Grenadines	Model 1	In Force
Sweden	Model 1	In Force
Switzerland	Model 2	In Force
Taiwan	Model 2	Agreement in Substance
Thailand	Model 1	Signed
Trinidad and Tobago	Model 1	Signed
Tunisia	Model 1	Agreement in Substance
Turkey	Model 1	Signed
Turkmenistan	Model 1	Agreement in Substance
Turks and Caicos Islands	Model 1	In Force
Ukraine	Model 1	Agreement in Substance
United Arab Emirates	Model 1	Signed
United Kingdom	Model 1	In Force
Uzbekistan	Model 1	Signed
Vietnam	Model 1	In Force