OECD countries have agreed on a number of modifications to the tax haven aspects of their efforts to eliminate harmful tax practices. These are set out in detail in a newly published Report, which provides an update on all aspects of the work and which is now available on the OECD’s website (www.oecd.org/daf/ctpa). The modifications relate to the commitments that the OECD is seeking from tax havens interested in cooperating with it to address harmful tax practices. The Report extends the time for making such commitments to 28 February 2002.

The Report describes progress made over the last year in identifying and addressing harmful tax practices within and outside the OECD. In addition to reporting on the work done in connection with tax havens, it also discusses the work related to Member countries and non-Member economies. It is a follow-up to the June 2000 Report and responds to the 1998 Ministerial Mandate to address harmful tax competition (1998 Report).

In developing this Report, the OECD seeks to establish a framework within which all countries – large and small, rich and poor, OECD and non-OECD – can work together constructively to eliminate harmful tax practices with respect to highly mobile activities such as in the financial and service areas. The OECD seeks to encourage an environment in which free and fair tax competition can take place in order to assist in achieving its overall aims to foster economic growth and development world-wide.

The focus of the Report is on progress made in connection with the tax haven work. There are now a total of 11 committed jurisdictions -- Aruba, Bahrain, Bermuda, Cayman Islands, Cyprus, Isle of Man, Malta, Mauritius, Netherlands Antilles, San Marino, Seychelles. In addition, Tonga has taken measures to eliminate its harmful tax practices and no longer meets the tax haven criteria.

In light of concerns raised regarding certain aspects of the harmful tax practices project, a number of modifications have been made to the tax haven work that are likely to facilitate future commitments by tax havens. These can be summarised as follows:

(1) **Commitments will be sought only with respect to the transparency and effective exchange of information criteria to determine which jurisdictions are considered uncooperative tax havens.** The “no substantial activities” criterion will no longer be used in determining whether a tax haven is considered an uncooperative jurisdiction. Jurisdictions that have made commitments prior to the issuance of the Report have been informed that they can choose to review their commitments in respect of the no substantial activity criterion. The Report also states that OECD Member countries would welcome the removal by tax havens of practices falling within the no substantial activities criterion insofar as they inhibit fair tax competition.

(2) **The potential framework of co-ordinated defensive measures would not apply to uncooperative tax havens any earlier than it would apply to OECD Member countries with harmful preferential regimes.**

(3) **The time for making commitments is extended to 28 February 2002.**

(4) **In order to ensure that committed jurisdictions have enough time to develop implementation plans, the time for making such plans has been extended from six months after the date of making a commitment to twelve months after that date.**

The Report makes no changes with respect to the transparency and effective exchange of information criteria. Thus, effective exchange of information will continue to be sought in both civil and criminal tax matters in specific cases. Further, the Report notes that the modifications to the tax haven work do not affect the work in relation to Member countries and non-Member economies and do not alter the factors used in the 1998 Report to identify tax havens.

The OECD recognises that some jurisdictions have concerns about their administrative capacity to meet these commitments. OECD Member countries are now in the process of setting up a programme to offer through the OECD and other international organisations specific assistance to strengthen and improve the design of the administrative capacity of those jurisdictions which require assistance. The OECD is in discussion with the IMF, World Bank and regional development banks on other forms of development assistance that may be appropriate to help committed jurisdictions further develop their economies as they move to eliminate harmful tax practices.

In light of the above developments and the constructive and co-operative contacts with the jurisdictions, the OECD Member countries look forward to advancing this work.

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