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OECD Announces Further Progress in Eliminating Harmful Tax Practices

OECD countries have made major progress in their efforts to eliminate harmful tax practices in their economies, modifying or abolishing more than 30 of the preferential tax regimes identified in 2000 as potentially harmful.

According to a report issued by the OECD's Committee on Fiscal Affairs today, out of a total 47 preferential tax regimes cited in 2000, 18 regimes have been abolished or are in the process of being abolished, 14 have been amended so that any potentially harmful features have been removed, and 13 have been found on further examination not to be actually harmful.

Two regimes, Switzerland's so-called 50/50 practice (previously referred to as the Administrative Company regime) and Luxembourg's 1929 Holding Company regime, on which proposals for modification are currently before the Luxembourg Parliament, are to be the subject of further discussion later this year. The full list of preferential tax regimes reviewed by the Committee can be found in the publication *"The OECD's Project on Harmful Tax Practices: The 2004 Progress Report."*

Bill McCloskey, Chairman of the OECD's Committee on Fiscal Affairs which is leading the drive against harmful tax practices, hailed the positive results of the OECD's work on harmful tax practices. "The work has resulted in real change," he said in a statement. "OECD countries have shown that they will take action to ensure that tax competition is fair."

The report provides an update on efforts to combat practices, such as lack of transparency and lack of information exchange for tax purposes, that undercut the ability of OECD countries to enforce their own tax laws. Such practices undermine public confidence in the fairness of tax systems and create obstacles to the potential gains, such as lower tax rates, that can arise from fair tax competition.

In parallel, OECD countries are continuing to work with non-OECD countries and jurisdictions that have made commitments to improve transparency and information exchange in tax matters. A total of 33 non-OECD countries and jurisdictions are Participating Partners in the OECD project on harmful tax practices. Five jurisdictions – Andorra, Liberia, Liechtenstein, the Marshall Islands, and Monaco – remain on the OECD's List of Unco-operative Tax Havens, but the OECD continues to seek their cooperation.

Mr. McCloskey emphasised the importance of fair and open competition on taxes for economic growth and prosperity. But he also stressed the importance of integrity of tax systems for democratic, open economies.

"We're pleased with the progress that OECD countries have made in eliminating harmful tax practices as they relate to their preferential tax regimes and with the progress that we are making in establishing a co-operative working relationship with non-OECD countries and jurisdictions," he said. "We will continue to promote the kind of tax competition that is based on high standards and leads to real and lasting benefits. Tax competition provides a useful discipline for governments, but it should not lead to an abuse of tax measures since this would undercut the faith of honest taxpayers in their countries' tax systems."

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