An international comparative study of transparency and exchange of information measures

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Mini-dissertation accepted in partial fulfilment of the requirements for the degree Master of Commerce in Taxation the North-West University

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Graduation: August 2021

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ABSTRACT

In recent decades, globalisation and the ease of moving capital in-between countries gave individuals the opportunity to shift their assets to countries that offer low tax rates. The inflow of assets to these countries may have valid motives, but may also be motivated by the prospects of shifting income to a place where the tax burden would be lower than in the country of residence.

The Organisation for Economic Cooperation and Development (OECD), in the interest of decreasing tax evasion, conceded that enhanced tax transparency would be a deterrent for aggressive tax practices. A measure to increase tax transparency is developed in the form of the international exchange of tax and related information. This lead to the introduction of legislation and standards that enable international cooperation facilitated through the effective sharing of tax information. Tax transparency then evolved by countries signing tax information exchange agreements, disclosure of information was emphasised through the implementation of country-by-country reports and the CRS was developed, a robust multilateral agreement on the exchange of information.

In this study, the implemented exchange of information measures between South Africa, the Cayman Islands and Australia is analysed to identify similarities and differences for comparison. The study found that the measures implemented and approaches towards legislation to facilitate the disclosure of information by South Africa, and Australia are reasonably similar. The Cayman Islands followed suit by either amending existing legislation or enacting new laws that would facilitate transparency. The three countries all committed to CBCR, with only the Cayman Islands being a non- reciprocal participant. Recommendations for further studies include examining the effect that the implementation of the CRS has had on international deposits.

KEYWORDS

Base erosion and profit shifting

Country-by-country

Exchange of information

Multinational entities

Tax agreement

Tax avoidance

Tax evasion

Tax transparency

LIST OF ABBREVIATIONS

AEOI	Automatic Exchange of Tax Information
ATO	Australian Tax Office
BEPS	Base Erosion and Profit Shifting
CbC MCAA	Country-by-Country Multilateral Competent Authority Agreements
CBC	Country-by-country
CbCR	Country-by-country reporting
CIMA	Cayman Islands Monetary Authority
DCI	Department of Commerce and Investment
DTA	Double Taxation Agreement
EITI	Extractive Industries Transparency Initiative
G20	Global 20
GAAR	General Anti-avoidance rules
ITAA	Australian Income Tax Assessment Act No. 38 of 1997
ITCA	International Tax Co-operation (Economic substance) Act
LCCL	Local Companies Control Law
MCAA	Multilateral Competent Authority Agreements
OECD	Organisation for Economic Cooperation and Development
SARS	South African Revenue Service
TAA	Tax Administration Act No. 28 of 2011
TBLL	Trade and Business Licensing Law
The Act	The South African Income Tax Act, no.58 of 1962
TIEA	Tax Information Exchange Agreements
TTC	Tax Transparency Code

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CHAPTER 1

INTRODUCTION

1.1 BACKGROUND

Oats and Tuck (2019:565) state that corporate tax avoidance has gained significant public awareness especially since the 2008 world-wide economic collapse. The financial crises prompted renewed attempts to enhance international tax transparency and address tax havens (Eccleston, 2013). Globalisation and rapid technological advances have led to the collapse of conventional hurdles, such as remoteness and communication. The digital economy and increased investment and operational opportunities abroad have made international legal and fiscal arrangements more complicated, resulting in significant offshore deposits (Gupta, 2019:656). In recent years there has been notable emphasis on tax transparency that is evident by the different global initiatives implemented by intra-governmental structures and countries (Thiart, 2019:44).

Tax transparency has evolved globally since 2009 when the Organisation for Economic Cooperation and Development (OECD) focussed its resources on effective exchanges of information. Transparency used to be limited to the disclosure of government payments in the mineral rich economies. This was facilitated under the Extractive Industries Transparency Initiative (EITI) (Papyrakis *et al*., 2017:295). This initiative caused a global movement towards signing legislation into law that is intended to address tax transparency. Countries such as, Australia and South Africa were part of the global initiative and proceeded to enact such legislation.

According to Holland *et al.* (2016), several initiatives concerning statutory progress on tax transparency have been implemented. The most well-known of the two initiatives is that of the Organisation for Economic Cooperation and Development (OECD). The OECD is a cross-jurisdictional economic structure with various countries as members. It was established in 1961 for economic advancement and to stimulate global trading (OECD, 2019b). The OECD started a project, entitled the OECD/Global 20 (G20) "Base Erosion and Profit Shifting" (BEPS), in 2013 to establish a global substructure or framework with the objective to prevent tax avoidance on a multinational level. BEPS refers to the shifting of profits from the country of origin to a country with a lower or no tax obligation. This is facilitated by taking advantage of gaps that exist between the tax legislation of the involved countries (OECD, 2019b). The aim of the project is to limit tax evasion globally by creating standard tax rules that can be applied internationally. According to Thiart (2019), “these international tax rules will provide tax officials and taxpayers better certainty and confidence with regards to tax compliance.”

The project largely centres on the broader law of a country to obviate erosion of the tax base and offshore deposits; therefore, according to Thiart (2019), these isolated substantive rules are insufficient to preserve the available taxable assets of a country. Consequently, the availability of quality information is one of the three focus areas of the OECD/G20 BEPS project, and several actions were implemented to facilitate reporting of certain tax information with, or between, international tax authorities (Holland, Lindop & Zainudin, 2016).

South Africa is a notable partner in the BEPS project and participates, along with other countries, to ensure the continued success of the project (OECD, 2019c). South Africa’s re-entry into the world economy, which occurred after the 1994 democratic elections, lead to increased international interest in investment opportunities in South Africa.

The global competition encouraged South African residents to make offshore investments and look for avenues that minimise tax exposure globally (Godi & Sibindi, 2014). The authors also identified the notable decrease in earnings being declared by multinational entities. This decline is an indication of South Africa’s susceptibility to BEPS. This decline in revenue collected is a possible indication that South African entities are shifting their profits offshore for potential tax benefits.

According to Urinov (2015:4) tax authorities seek support from one another in their fight to prevent tax losses that are caused by offshore deposits. Tax authorities therefore collaborated by sharing information hoping that this would illuminate any illicit tax practices by multinationals. The sharing or exchange of financial and tax information is a key method that facilitates this collaboration (OECD, 2017:11). According to SARS (2019a), the sharing of relevant information between tax authorities can be facilitated in three forms. These exchanges can take place either spontaneously, on a request basis (EOIR) or automatically (AEOI).

Information exchanges between tax administrators have become a new international standard and is a breakthrough countering international tax evasion (SARS, 2019a). As more countries join the movement for automatic exchange of tax information, tax administrators are optimistic that sharing this information will aid in exposing assets that are moved abroad in order to limit any possible tax obligation. This tax transparency initiative could result in a global prevention and limitation of tax evasion (National Treasury, 2013:1). Large MNEs strategically shift their profits in order to limit their tax liabilities. These shifts are usually made to countries that are known to offer lower or no tax rates. A consequence of this movement, referred to as moving assets to tax havens, is tax revenue losses for the countries in which the economic activity took place. Developing countries are more vulnerable to such income diversions. Tax havens, also referred to as offshore financial centres, are countries that have low tax rates, low transparency and local laws that deter exchange of information (Weyzig & Van Dijk, 2009:1261).

Tax transparency has motivated jurisdictions like the United Kingdom, Australia and China to implement tax control frameworks (Botha, 2016). During the first quarter of 2020, the Cayman Islands were added to the European Union's tax haven blacklist (list of non-cooperative tax jurisdictions), due to its perceived lack of appropriate measures to deter and prevent tax abuse (BBC, 2020). However, in the last quarter of 2020, the Cayman Islands was removed as a non-cooperative tax jurisdiction due to the legislation of new laws and rules that increase tax transparency (Deloitte, 2020). These laws include the Private Funds Law, that was enacted during February 2020 and enables the regulation of private funds. Additionally, the Cayman Islands introduced economic substance rules during 2019 that prescribes reporting obligations for selected corporations.

Over the past few years, Australia has been eminent in enhancing and promoting tax transparency. The Australian government, in 2013, exchanged views on publicising the data contained in tax returns. Officials in support of this view were of the opinion that this transparency measure would deter the contravention of tax and improve accountability (Bradbury, 2013). In 2014 Australia implemented a novel tax law that enabled the tax administrator to publicly report specific tax information for selected multinationals (Owens, 2014). In 2015, Australia took its transparency measures further and, under new legislation; the Australian Tax Office revealed the "Corporate Tax Transparency Report" disclosing entity-specific taxation related information (Hoopes *et al.,* 2018:145). Australia has increased its tax transparency initiatives exponentially, and according to PWC (2018), Australia is named as one of the international leaders in transparency, particularly pertaining to taxes.

The OECD "Standard for Automatic Exchange of Financial Account Information in Tax Matters" was adopted early by South Africa. To improve transparency, South Africa has made amendments to the Tax Administration Act No. 28 of 2011 (TAA). Amendments were made to section 26 of the TAA, which addresses third party returns. The amendments were made to enable financial institutions' compliance with international tax standards, like those mentioned above. Section 46 of the TAA was amended and authorised the South African Revenue Services (SARS) to solicit any relevant information from a South African resident that is held or kept by an affiliated company located outside South Africa (Lavinia *et al*., 2015:4). Additionally, South Africa has legislated tax provisions regarding reportable arrangements, and in order to align the rules from a BEPS point of view, it extended the boundaries of reportable arrangements by issuing the Government Gazette No. 39650 (Davis Tax Committee, 2016).

In 2014, the OECD developed a Common Reporting Standard (CRS). Information exchanges can be facilitated automatically, through the implementation of this universal model. The CRS was developed as a reaction to a call from the G20 and subsequently, on 15 July 2014, sanctioned by the OECD Council (OECD, 2020b). The CRS directs the automatic information exchange between tax jurisdictions. The required data is collected from financial institutions and shared annually between relevant tax authorities (OECD, 2020b; Casi *et al*., 2020; Ahrens & Bothner, 2019). In order to commence exchanging information under the CRS, there are three specific processes to follow.

Participating countries firstly have to convey their intention to introduce the CRS into national law. This intention is communicated through participating in the multilateral competent authority agreement (MCAA). In 2014, the first cohort of countries signed the MCAA. As of 3 September 2020, 109 countries had signed the agreement. After approbating the MCAA, the domestic law launching the CRS should be drafted and eventually officially gazetted.

Lastly, since 2017, information obtained in accordance with the CRS is exchanged, automatically, among participating countries. This exchange takes place in September each year (OECD, 2020d; Casi *et al.*, 2020:2). The Common Reporting Standard (CRS) is the first international multilateral model for the automatic exchange of information. A study done by Casi *et al.* (2020) found that the CRS prompted a decrease of 11.5% in assets that are transferred to tax havens.

The authors also note that the multilateral application, wide scope and large international coverage, considerably sets the CRS apart from all other measures in information exchange. The authors noted further that the CRS differs from bilateral approaches, such as the TIEA because the requirement to negotiate tax treaties per country is eliminated. With the CRS, every cooperating country signs a single MCAA.

Due to its broad scope, the CRS does not leave much room for entities to avoid reporting. It also outlines the reporting of information including the accounts and taxpayers covered, details of financial institutions for which reporting is mandatory and the financial account information that has to be exchanged (OECD, 2020b).

1.2 MOTIVATION FOR THE STUDY

In the last few years, multiple taxation related scandals have been exposed. An example of one of these scandals is the Panama Papers situation that was caused by taxpayers who participated in schemes to evade tax (Harding, 2016). In Ireland, an investigation into Apple Inc.'s taxation affairs led to Apple Inc. having outstanding taxes worth €13 billion (Centre of Research on Globalisation, 2016). The realisation that highly profitable multinational entities such as Google, Amazon and Starbucks do not pay taxes have caused an acute awareness on opaque tax practises. Regardless of the fact that the tax strategies that these organisations implemented may have been legal, the media attention it raised caused decreases in sales and the public demanded action (Barford & Holt, 2013). Consequently, this motivates global authorities to move towards less opaque disclosure requirements, particularly with regards to tax (Botha, 2016).

Multinationals can engage in a multitude of tax structures and planning strategies that, though not representing evasion, nonetheless include a form of tax avoidance that should not be permitted (Ring, 2017:175). Developing countries are incredibly hard hit by international tax evasion and cannot often tackle it effectively (OECD, 2019a). Tax crimes and other illicit financial flows are a threat to the strategic, economic and political interests of all countries. Illicit financial flows are of particular concern to developing countries, as they strip resources that could have been used to finance their long-term development (OECD, 2019a). Tax evasion is an internationally observed phenomenon, and international partnerships and exchanges of superior standard, uniform data between tax administrators will assist to ensure compliance with local tax laws (ATO, 2019a).

The international transparency tax laws and measures that will be analysed include Australia, a developed nation and a OECD member (Macro Business, 2019). Australia has made vast improvements to transparency over the past few years which include disclosure developments that make documents publicly available (Stiglingh *et al.,* 2017:159). In 2016, as another transparency initiative, Australia released a discretionary Tax Transparency Code (TTC), which recommends a minimum standard of tax information that should be published. Both South Africa and Australia adopted the OECD model tax information agreement.

The second country considered is the Cayman Islands, a developing country and a member of the Global Forum, similar to South Africa (United Nations, 2020:170). Although the Cayman Islands is highly ranked in terms of secrecy, they have shown commitment towards increased transparency through the enacting of new laws and regulations that facilitate transparency. According to the Financial Secrecy Index, which announces the progress on transparency on an international scale, the Cayman Islands was rated first in the secrecy index, compared to Australia and South Africa being placed 48th and 58th (Tax Justice Network, 2020).

The available literature on the intricacies of the exchange of information is limited. This study will supplement current South African literature on tax evasion, the exchange of tax information and tax avoidance. The research could result in meaningful findings comparing South Africa to Australia as a developed country with a progressive outlook on transparency and a developing country such as the Cayman Islands that is ranked highly in terms of secrecy, but has demonstrated a commitment to transparency through the enacting of new laws and regulations that facilitate disclosure and transparency.

1.3 PROBLEM STATEMENT

The research problem supporting this project results from the various regulations and practices implemented since the inception of transparency and the exchange of information for tax purposes. Developed countries, such as Australia, have enacted various new legislations and taken additional measures to increase tax transparency and stop tax evasion. Developing countries are increasingly susceptible to tax avoidance. Increased tax transparency and related transparency measures should increase the detection of tax evasion. There is uncertainty whether the South African tax transparency measures, in its current form, is commensurate to that of a developed country such as Australia and that of the Cayman Islands, a developing country that is displaying commitment towards increasing its overall transparency.

1.3.1 Research Question

Based on the problem above, the following research questions can be formulated. How does South Africa's information exchange measures compare to Australia and the Cayman Islands' equivalent standards?

1.4 RESEARCH OBJECTIVES

1.4.1 Main Objective

The study aims to identify and compare the methods for the exchange of tax and financial information adopted by South Africa, Australia and the Cayman Islands. This research objective will be achieved by outlining any differences or common characteristics in the approaches implemented in South Africa, Australia and the Cayman Islands.

1.4.2 Secondary Objective

These secondary research objectives support the main research objective:

i. To briefly provide an overview of tax transparency.

ii. To identify the key legislation steering compliance with required information exchanges and to provide an analysis of agreements that support the exchange of tax and financial account information.
iii. To compare the methods used by the Cayman Islands, Australia and South Africa with regards to the exchange of information.

1.5 RESEARCH METHODOLOGY

The research methodology subsection provides a layout of the tools and designs used to perform this study. It is essential to demonstrate the reliability and integrity of the research technique used. Considering that an opaque method can reduce the integrity of the research, it is important that the researcher clearly expresses the research methods that are used (Cutcliffe & McKenna, 1999:374-380).

The research model directing the research strategy for this study are; methodology, ontology and epistemology. They are considered to be “paradigms that guide discipline inquiry” (Guba, 1990:18). Ontology is described as the “knowable” facts. The connection of the inquiry and the “knowable” and could either be unbias or bias is called epistemology. The methodology describes the approach taken to obtain the understanding of the factual findings (Crotty, 1998:5-11; Guba, 1990).

Qualitative research strategies generally incorporate a philosophical paradigm; in this instance, it is necessary to distinguish between positivism and interpretivism (Pham, 2018). When considering positivism, this entails an unbias epistemological outlook, in that, in the pursuit to obtain knowledge about any situation, this should be backed by accurate data (Crotty, 1998; Pham, 2018). Examples of these include tests, verified measurements, human senses and sampling. The researcher should remain independent of the information sources during the interpretation of the collected data (Pham, 2018).

In contrast, an interpretivism philosophy is based on the fact that the analysis of data is connected to what interests the individual and is therefore personally related to the intention it was collected for (Crotty, 1998). Additionally, there are several ways to collect information (Pham, 2018; Crotty, 1998). Interpretivism allows a researcher access to a deep comprehension of a specific topic and its complexity within the circumstances of the topic instead of taking a generic outlook (Pham, 2018). The research will follow a qualitative methodological approach. The qualitative methodology will be conducted within an in interpretivism paradigm and a deductive method of reasoning.

This study will focus on analysing the different approaches and agreements implemented by the selected countries for the exchange of information and follows an interpretivism philosophy. The legislative rules and information exchange agreements implemented in each country will be considered as the facts to the study.

This study seeks to compare practices that have been implemented by the Cayman Islands, Australia and South Africa to allow the exchanges of tax data. In order to conclude, the epistemology will take the form of a theoretical outlook. It will incorporate all the insights and factual data obtained through the considered techniques (Crotty, 1998:8) and this will be the foundation of the comparative analysis on the exchange of information measures in South Africa and comparable countries.

The advantage of using data that already exists is speed and economy (Clark, 2005:2). Existing data about the research topic will be obtained from reviewing legislation, journal articles, relevant books, dissertations and legal publications from the selected countries. Thematic data analysis, an analysis method that identifies specific themes relating to a research question, will be used to analyse any secondary data obtained. (Vosloo, 2014:365).

1.6 CHAPTER OVERVIEW

This study consists of the following chapters:

i. **Chapter 1: Introduction**
   Chapter one furnishes some background to the study as well as the motivation for pursuing the study. It proceeds to outline the research objective, problem statement and the research design and methodology. This chapter also outlines the proposed structure of the study.

ii. **Chapter 2: An overview of tax transparency**

Chapter two provides a brief overview of what comprises tax transparency. The concept of "tax transparency" is analysed to evaluate the meaning of tax transparency sufficiently. This chapter will address the second research objective, contained in paragraphs 4.2 (i).

iii. **Chapter 3: An overview of the exchange of information**

This chapter identifies the notion of "exchange of information" and an outline of various procedures used to support tax transparency will be performed. The procedures that will be outlined include bilateral and multilateral agreements, automatic exchange of information (AEOI) and country-by-country reporting that facilitates information exchanged. This chapter will form the framework against which the international comparison will be made. This chapter addresses the second research objective, contained in paragraphs 4.2 (ii).

iv. **Chapter 4: An international comparative review of methods utilised to exchange information.**

In this chapter any identified similarities and differences between South Africa, Australia and the Cayman Islands will be analysed and compared. The comparison will include country-specific legislation implemented, agreements signed between various countries and country-by-country reporting requirements. This chapter addresses the third research objective, contained in paragraph 4.2 (iii).

v. **Chapter 5: Summary and Conclusion**

This closing chapter provides a summary of the findings and conclusions reached. This chapter will outline the limitations of this study and offer possible recommendations for future research.

CHAPTER 2

A REVIEW OF TAX EVASION, TAX AVOIDANCE AND TRANSPARENCY

2.1 INTRODUCTION

The primary purpose of this study is to identify and compare the various procedures for the exchange of tax information that are adopted by South Africa, Australia and the Cayman Islands.

Global efforts towards digitisation have increased in recent years. In conjunction with the transformation of the digital era, the availability of information has steadily increased. Companies, such as Google, can use their programs and data collection methods to create an in depth knowledge base of the customers. This caused the need for individuals requiring data retention methods and usage to be disclosed. In all domains of modern life, transparency is being demanded, including from a tax perspective.

The debate on the taxation of multinational entities has led to high demand for increased transparency, particularly of tax-related matters. There is an increase in public scrutiny on large corporations suspected of paying less tax than they are supposed to. It is fuelled by the pursuit of complex tax strategies that have the primary objective to avoid tax (Casi *et al.,* 2020:2).

Owens (2014:509) writes that tax transparency is aimed at creating a culture of transparent and free information exchange between taxpayers and tax administrators. The DTC (2016:14) noted that when tax policy is created, tax procedures and rules must be applied consistently and must be transparent. By implication, this means that tax transparency is not one-directional and only applicable to the taxpayer. Tax authorities also have a responsibility in tax transparency when setting and applying legislation.

The focus of this study is on the tax information exchanges that resulted from tax transparency. The purpose of this chapter is to gain insight into tax transparency. This chapter aims to achieve that objective by firstly providing an overview of both tax avoidance and tax evasion, which, as eluded to above, is the indirect driving force behind the quest for increased transparency in the taxation related affairs of corporations. The chapter will then proceed to provide an overview of tax transparency and conclude with summarised findings.

2.2 TAX AVOIDANCE IN GENERAL

Tax evasion and tax avoidance are contentious subjects and have, for years, been the cause of much controversy globally. In England, in the 17th century, taxes were raised on individuals for the mere fact that they were horse owners. In order to avoid this burden people opted to ride cows, which remained free of tax (Matsheru, 1991). According to De Koker (2011), a taxpayer has the right to enter into a transaction, that is legitimate, and has a potential tax benefit.

This statement was emphasised in the case of Inland Revenue Commissioners v. Duke of Westminster where it was stated; “Every man is entitled if he can to order his affairs so as that the tax attaching under the appropriate Acts is less than it otherwise would be. If he succeeds in ordering them so as to secure this result, then, however unappreciative the Commissioners of Inland Revenue or his fellow taxpayers may be of his ingenuity, he cannot be compelled to pay an increased tax”.

Likewise, in Commissioner for Inland Revenue v Sunnyside Centre (Pty) Ltd, the Court held that “a taxpayer is entitled to order his affairs to pay the minimum of tax.” Furthermore, the Court, In CIR v Conhage (Pty) (Ltd), said that; “within the bounds of any anti-avoidance provisions in the relevant legislation, a taxpayer may minimise his tax liability by appropriately arranging his affairs.”

To escape, reduce or delay their tax liability, taxpayers pursue various tax planning structures. Tax planning arrangements of multinationals such as Google, Apple or Amazon have been associated with meagre effective tax rates on profits, mainly offshore profits. This has been the cause of intense public debate and scrutiny. According to Evers *et al.* (2016), these companies pay low effective tax rates, because of aggressive tax planning structures that allow them to declare their group income in countries with low or no taxes. According to Kanamugire (2013:351) taxpayers are operating within their legal rights when they structure their taxes in a way that minimises their potential tax obligation.

Tax liabilities are determined by the tax laws of each particular country. The content and effect of these tax laws are different for each country. The corporate income tax legislation of each country determines how its profits are to be taxed. Whether a tax liability will be incurred is therefore driven by local legislation. Each business transaction has a different tax outcome and this outcome might lead to a tax obligation being incurred or even completely avoided (Hasseldine & Morris, 2018:437).

It is therefore fair to conclude that the local or international tax legislation can influence the decisions that are made by corporations. Based on these choices or decisions, their potential tax liability can increase or decrease. According to Oats & Tuck (2019:566) a tax strategy is made before any tax obligation arises. Hasseldine and Morris (2018) state that if a decision is made and this results in a positive tax outcome, this would entail tax avoidance.

Prebble and Prebble (2010:703) concluded that, when a taxpayer uses the boundaries of the tax legislation to his benefit, to lower a tax obligation, such strategies are tax avoiding strategies. Tax avoidance is legally permitted as the transactions and structures used are done within the boundaries of the legislation. Olivier and Honiball (2008) compared the theory regarding avoiding tax to a straightforward process and concluded that structures undertaken to avoid tax is within the bounds of the law. Fuest and Riedel (2009:5) also agree that, indeed, tax avoidance can be viewed as actions that make use of gaps in the tax legislation but are not in contravention of any laws. The taxpayer takes full advantage of any identified loopholes in the relevant tax legislation.

When transactions are initiated in order to avoid tax, and all processes related to these transactions are found to be legal, then the taxpayer is acting within their rights to plan their tax affairs (Sandmo, 2005:4). Museka (2011) referred to tax avoidance activities as taxpayers chosing to arrange their income earning activities in such a way as to limit the amount of taxes that will have to be paid. There are multiple understandings of the term tax avoidance. A broad and straightforward explanation for the avoidance of tax is the selection of an array of transactions that has a lower tax consequence compared to any other array of transactions (Oats & Tuck, 2019:566).

2.2.1 Tax Avoidance: Analysing South Africa

In order to collect income and regulate compliance with tax legislation, the revenue service was established in South Africa. The South African Revenue Service (SARS) is dedicated to protecting the taxable assets of the country and identifying any tax avoidance practices. Over the years, there have been numerous amendments to the Act to discourage tax avoidance strategies. In the early 1900's the anti-avoidance rules were legislated. These were contained in the then Income Tax Act 31 and found in section 90. The intention of this section was to ensure that any taxpayer that became a participant in a scheme that has the primary purpose of avoiding tax, will still be held liable for any tax that relates to the scheme.

Due to the complexity of section 90, in CIR v King it was found that: "The fundamental difficulty, in dealing with section 90 is to avoid, on the one hand, giving it a meaning which, because of its absurdity, and indeed revolutionary, consequences, the legislature could not have intended. Furthermore, on the other hand, giving it no effect at all, given the already existing power of the Court to strip disguises from transactions and declare what the real Act was. A sphere of operation, reasonable and at the same time effective, must, if possible, be discovered for the section" (Museka, 2011).

Subsequently section 103(1) of the Income Tax Act 58 of 1962 was legislated. This section has however been withdrawn, as "it has proven to be an inconsistent and at times, ineffective deterrent to the increasingly sophisticated forms of impermissible tax avoidance and because it has not kept up with international developments" (SARS ,2006).

Section 103(1) contained the anti-avoidance provisions. However, it was found to be open to different interpretations and the legislature proceeded to amend the Act. The provisions on "impermissible tax avoidance arrangements" were subsequently drafted. Section 80A to 80L of the Act contains these arrangements and has been effective since 2006 (Museka, 2011).

The Act has no definition for the term tax avoidance but does however provide a definition for the "impermissible tax avoidance arrangement". The Act permits the charging of taxation under the General Anti Avoidance Rule (GAAR) that is available in section 80A - 80G of the Act. According to section 80A of the Act, an "impermissible tax avoidance arrangement" is an arrangement whose primary motive is some form of tax relief. Loof

(2013) concluded that in terms of the Act, the terms legal and permissible are not interchangeable in relation to tax avoidance arrangements. Museka (2011), stated that all tax avoiding transactions that are within the boundaries of the GAAR should be assessed. If the assessment concludes that there are grounds for applying the GAAR, the taxpayer has to be held liable for the related taxation.

Based on the above, it is clear that taxpayers act rightfully when they arrange their business matters in a way that would lead to a reduced tax burden. Irrespective of the aforementioned, a taxpayer will not be able to avoid the tax liability if an arrangement is found to comply with the GAAR provisions.

2.3 TAX EVASION

The obligation to pay taxes and the accompanying strategies developed to avoid paying these taxes, are an unavoidable occurrence in all communities (Oberholzer & Stack, 2009:739). Tax avoidance is essentially different from tax evasion. The concepts differ in two ways. Firstly, how it relates to legislation and secondly when it occurs. Gribnau (2015) stated that when considering the first difference, tax evasion is a contravention of the law. This contravention may contain an element of deliberate fraudulent activity. When considering the second difference, it is noticeable that tax evasion strategies are implemented after the tax liability has accrued, whereas tax avoidance strategies are implemented before the accrual of the tax liability (Oats & Tuck, 2019).

Most of the transactions entered into by taxpayers have tax implications. Some transactions are strategically arranged to lead to deductible tax expenses, which would classify those transactions as tax avoidance transactions. Transactions or arrangements deliberately entered into to escape any tax liabilities are classified as tax evasion transactions and would be illegal (Salome, 2015). Gcabo and Robinson (2007:361) concluded that the basic elements to tax evasion are the lengths that are taken to conceal relevant information from tax authorities. The details of transactions that are wilfully being withheld, is done in order to avoid paying taxes.

Olivier and Honiball (2008:381) went further. They wrote that practices of tax evasion have straightforward intentions or motives, and that those intended actions and relating outcomes are illegal. The Act of evading tax is done with purpose and is an intentional and deliberate act. Fuest and Riedel (2009:5) concluded that separating avoidance and evasion strategies is a complex matter and that tax evasion could be seen as a transaction that has elements of concealing information.

Prebble and Prebble (2010:702-703) concluded that in order to identify tax evasion, transactions or strategies where legislation has been contravened play an important role. Furthermore, the authors stated that tax evasion would be regarded as criminal and illegal. Strategies that are implemented to evade tax is criminal and void of integrity as it is usually linked to elements of fraud and the non-disclosure of relevant information. Tax evasion is a criminal activity and tends to be in the form of fraudulently under-declaring or omitting a tax obligation (Tax Justice Network, 2020).

It is clear that any transaction that has the pre-meditated motive to decrease a tax liability and contains some form of deceit or lack of transparency can be classified as tax evasion and is an unlawful act.

2.4 TAX TRANSPARENCY

2.4.1 The Evolution Of The Role Of The Corporate Tax Function

With increased globalisation and technological advances, companies, especially large multinationals, have moved away from simply focusing on their bottom line and have evolved to focusing on a broader, more societal view. As a result, the tax strategies of large corporations, in particular, have evolved into complex proposals (Mgammal & Ismail, 2015). Tax planning efforts of companies use loopholes in international taxation law to their benefit. These planning efforts could potentially result in illegal activities. The social and ethical considerations of these activities are discussed widely, and according to Evers *et al.* (2016), aggressive tax planning is quite similar to standard tax planning practices and separating the two is a complex exercise.

Corporations use advanced tax strategies to decrease the tax bill on either business profit or personal income (Mgammal & Ismail, 2015). Top management is incentivised based on potential savings in tax, and these savings have become key performance areas for

CFO's. Organisation with advanced tax planning processes' shares trade at high prices (Desai & Dharmapala, 2009) and they are offered lower interest rates as a result (Lisowsky *et al.,* 2010). The corporate tax process is no longer an isolated function and has become an integral part within the firms' activities. Taxes have evolved to being variables in numerous business processes, such as, valuations, operational plans and remuneration packages. The tax function appears to have evolved from being viewed simply as a cost, to being considered in determining profits, and in conjunction with the effects of globalisation, this has led more focus on international tax planning (Alexander, 2013: 543).

Garbarino (2011) states that tax obligations are in control of organisations and can be managed to deliver positive outcomes. Consequently, tax executives are focused on decreasing the tax bill, and this behavior or sense of duty has become customary and generally accepted. This task is performed diligently and with care as they believe their strategies are to the benefit of their employer (Keinan, 2003).

The increased focus on tax strategy in an attempt to increase organisations' financial profile has led to increased premeditated international tax planning. These tax planning strategies include tax avoidance schemes that erode the taxation revenue collections. In order to curtail this, the focus on tax transparency has increased.

2.4.2 Tax Transparency

The second maxim of tax policy, by Adam Smith (1776), mentions that tax should be "certain and not arbitrary…clear and plain to the contributor and every other person". In addition, the author states: "The uncertainty of taxation encourages the insolence and favours the corruption of an order of men who are naturally unpopular, even where they are neither insolent nor corrupt."

The Merriam-Webster dictionary (2020) defines the term transparent as "a state of being free from pretence or deceit, readily understood and characterised by the accessibility of information".

An interpretation of transparency by Woods (2018:1) eluded to the term meaning to be plainly visible. Organisations use transparency to share their tax strategy and the amount of tax being paid. Transparency can also entail explaining difficult tax matters and may result in increased investor confidence. Tax transparency stimulates cooperative relationships between countries through the sharing of relevant information about a shared taxpayer. Transparency also plays a factor in creating an equal competitive arena for counties. (Papyrakis *et al*,. 2017:297; EY, 2013).

Pursuing equality, the Netherlands introduced transparency legislation and practices in 1750 (Meijer, 2015:4). In their study, Nielson and Madson (2009) identify two ways to deploy transparency.

Firstly, with the view that transparency entails disclosing as much information as possible and secondly that views transparency as classified information and management has control over which information can be shared decides which information is appropriate for disclosure. Under the notion of generic disclosure, there is no clear framework detailing the information that should be disclosed. Thus it entails the disclosure of large unstructured volumes of information that might not take the specific circumstances of a corporation into account.

The authors additionally state the generic supply of excess data could be costly and due to its size, the relevant data might not be accessed. Thus, disclosing large amounts of detailed information could potentially become a hurdle to transparency.

Some authors view transparency as disclosing non-financial information and information about a company's value creation. It is argued that transparency can be achieved by disclosing comparable and relevant information (Nielson & Madson, 2009). The authors continued to conclude that transparency will be achieved if the information that is disclosed assists stakeholders to measure the performance of the corporation.

The three identified features of transparency are "information disclosure, clarity and accuracy" (Schnackenberg & Tomlinson, 2016). The authors proceed to identify an equal amount of critical areas: "the meaning of information quality, the effects of transparency on the organisation – stakeholder relationships and mechanisms that influence transparency perceptions". The authors additionally identified a relationship between entity specific transparency and investor reliance. Transparency is essential when creating a tax planning strategy (Hildreth, 2005:1).

Tax transparency appears to highlight trust and disclosure. If we consider this notion then the contrast to transparency will be deceit and dishonesty. The recent recession contributed to the global attention on tax evasion. Taxation authorities continually amend their taxation laws to limit, to an acceptable level, tax avoidance. On an international scale, tax authorities deploy all their resources in attempts to prevent the effects of tax avoidance and tax evasion on the respective countries' tax base. The high levels of debt in many countries, induces pressure to generate tax revenue (Fuest *et al*., 2013:308).

There is an unprecedented demand for more information, with the expectation that this would deter future tax revenue losses. This increased demand for disclosure ranges from generic to specific requests in order to achieve increased transparency (Oats & Tuck, 2019:566). In the last twenty years, if a country had acceptable governance and a good democratic system it was perceived as having achieved transparency (Hood, 2007; Hansen *et al*., 2015; Neyland, 2007). The longing for more transparency is unlimited.

In 1998, the economic collapse of Russia demonstrated the dire effects of poor transparency legislation (Hansen, 2001:1). The author goes on to state that the collapse in the markets taught companies that in order to retain investor confidence, transparency is crucial. According to Haines (2017:1) if there is more transparency, the abuse of tax legislation and profit shifting will become less prevalent.

The implementation of transparency policies and laws will assist developing countries, in particular, to curb tax evasion and fraud and eventually attain sustainable growth. (Owens & Moore, 2013:1). The media is calling on governments to legislate the public disclosure of taxation related information. This is intended to draw the public's attention to the pervasive tax evasion of multinationals, in particular. Tax transparency advancements challenges tax policy norms. According to Christians (2012), tax transparency has developed into an international movement.

2.5 SUMMARY

A Tanzanian research project found, that upon hearing about the launch of a tax campaign, taxpayers ran and hid in the bushes to avoid the campaign (Fjeldstad & Semboja, 2001:2066). Taxpayers are of the opinion that by paying taxes they are surrendering their money without receiving anything in return (Oberholzer, 2008a:46). This perception could have an impact on the choices that are made by taxpayers and could possibly lead to less taxes being collected (Oberholzer, 2008a:65).

The global recession and the evolution of the corporate tax function have shone the spotlight on corporate tax planning. Aggressive tax planning initiatives could lead to a loss in the tax revenue base, either due to tax evasion or tax avoidance (Desai & Dharmapala, 2009; Koester, 2011; Casi *et al., 2020*).

The recent media attention on large corporations that effectively pay no or very little tax has led to an increased call for more information or more transparency being made available, in order to ensure that unlawful tax planning initiatives are not undertaken.

An increase in tax transparency is often directly linked to the demand for more information to be made available. Having information readily at hand does not lead to a spontaneous understanding of tax matters or a change in decision making strategies (Oats & Tuck, 2019). The information that is shared has to be appropriate in order to be understood and appropriately analysed by stakeholders.

Nielson and Madson (2009) concluded that transparency is when pertinent information that could have a potential monetary impact is disclosed. This disclosure gives the relevant stakeholders access to the necessary information which they can use to evaluate the social and operational performance of a business. Based on the various literature, it can be determined that tax transparency, in a broad sense, means the sharing and disclosure of relevant information.

The secondary objective of this study has been achieved by obtaining a better understanding of transparency. The focus can be turned to the exchange of information and various methods that have been adopted to enable the effective exchange of information in order to enhance tax transparency.

CHAPTER 3

FRAMEWORK OF THE EXCHANGE OF INFORMATION

3.1 INTRODUCTION

In Chapter 2, it was found that organisations pursue different tax planning structures in order to delay or decrease their tax liability. These structures can take the form of tax evasion, which is unlawful, or tax avoidance. Taxpayers have full authority to strategically arrange their income generating activities in ways that will decrease its tax burden. In order to expose and curtail the various tax planning strategies and structures that lead to loss of tax revenue, a global call for disclosure and transparency, in particular taxation related information, is rising.

This chapter will analyse the concept of exchange of information and outline the different regulations that facilitates and enables the international exchanges of tax and financial information. International tax-related collaboration takes on various forms, ranging from the adoption of similar tax systems to more limited cooperation efforts such as the enforcement of tax systems that may be present in some tax treaties. According to Rose (2007), tax administrators providing tax information to each other is viewed to fall within the sphere of “international cooperation in the enforcement of tax systems”.

The notion of “exchange of information” is explored in this chapter, and an outline of various procedures used to support tax transparency will be performed. The procedures that will be outlined include automatic information exchanges, bilateral and multilateral agreements, the country-by-country concept for reporting information and the common reporting standard. This chapter will form the framework against which the international comparison will be made in a later chapter.

3.2 EXCHANGE OF INFORMATION

3.2.1 Introduction

The cross-border movement of capital and income and the movement of assets to tax havens cause a contraction in the tax base of a country. Attempting to address those mentioned above, during 2016, the Ministers of the European Union Council called upon the OECD to conduct a probe into harmful tax competition. The OECD released a report in 1998 that includes attributes of harmful tax practices. The report also contained suggestions for correcting and detecting these practices (Barreix *et al*., 2016:3-4; OECD, 1998:3-12).

Lead by the findings in the report, the OECD engaged with several countries labelled as tax beneficial countries. This was done to establish a transparency framework as well as a framework for future exchanges of information. Together they formed the "Global Forum Working Group on Effective Exchange of Information". The Cayman Islands was a member of this five country working group. After the inclusion of additional jurisdictions, they compiled the "2002 Model for Tax Information Exchange Agreement" (TIEA). The Model TIEA facilitated exchanges of information as and when it was requested between two jurisdictions (Spencer, 2017:92; Meinzer, 2017).

Similarly, the European Union explored measures to discourage harmful tax practices. Subsequently, in 1997, the European Union developed a "Code of Conduct to avoid harmful tax competition". Even though the Code was not legally binding, it represented a allegiance by member states to reconsider and erode potential and existing harmful tax policies (OECD, 2002:125). Subsequently, in 2003, the European Savings Directive was adopted. This is a multinational form of automatic exchange of information (OECD, 2018).

Neubig (2018) stated that due to globalisation and the increase in technological advances, countries realised that they could not administer their local tax systems in isolation. Additionally, the author determined that sharing mutual tax payers' data, provides tax authorities with a comprehensive understanding of the international operations of each taxpayer. Large multinationals are deterred from implementing aggressive tax strategies if they are aware that they have to report or disclose tax information (Neubig, 2018:1138). Ahrens & Bothner (2019) stated that in order to enforce international tax compliance, complex international agreements were developed to curtail the concealment of capital.

According to the OECD (2020a) "exchange of information is about achieving global tax cooperation through the implementation of international tax standards and other instruments to put an end to bank secrecy and tackle tax evasion". Dramatic changes to the role and level of importance of the sharing of tax payer-specific information between tax authorities took place. Initially, information exchanges, between tax authorities, was used to complete administrative tasks. The scope was limited to particular classes of assets and transactions that fell within the boundaries of a tax agreement (Rose, 2007).

The exchange of tax information is a primary policy tool that assists countries to prevent international tax evasion by enforcing the worldwide taxation of their residents. Exchange of information frameworks differ in their scope and modality, but the concept of providing access to information that would otherwise have been inaccessible is similar (Beer *et al*., 2019).

3.2.2 Tax Information Exchange Procedures

Rose (2007) identified three standard methods that are found in international tax agreements. The first is exchanging information in terms of a formal request. As suggested by the name of this method, a formal request for tax-related information is submitted by one foreign tax authority to another. Ordinarily, income tax treaties and tax information exchange agreements (TIEAs) only contained information exchanges on request as a requirement. According to Spencer (2017:92), this method is effective if the submitted request is comprehensive and specific and if the requested authority can obtain the information.

The second common form of tax information exchange is termed “spontaneous exchange of information”. Under international arrangements with spontaneous sharing of information within its scope, any relevant information that is identified by a tax authority is shared with its foreign counterpart without the need for a formal information request. Tax authorities will then use their judgement whether to request any further information based on the spontaneous information they received (Rose, 2007). According to Spencer (2017:92), this form of information exchange may not be very successful in preventing tax evasion, as it is nonspecific and limited. The final form of tax information exchange is the “automatic exchange of information” (AEOI). Under this type of exchange, tax authorities are required to share all taxpayer related information that is within the scope of the AEOI agreement, with its international counterpart.

Automatic exchange of information makes use of a standard method of collating and presenting the required information. According to Rose (2007), the standardisation streamlines the matching of the transmitted information to the relevant taxpayer. Spencer (2017) wrote that automatic exchange of information generally includes international payments, for example, royalties and dividends. Spencer (2017:92) further states that, although the automatic exchange of information could be the most functional type of exchange, it is the more challenging one to implement successfully.

The author identified three barriers to the effective implementation of AEOI, namely:

I. specific agreements being in place between tax authorities,
II. challenges with the gathering and aggregation of these large volumes of data and lastly,
III. the level of cooperation from the resident of the country that is exchanging information.

Notwithstanding the aforementioned, Beer *et al.* (2019:4) found that automatic exchange agreements are significantly more effective than other forms of exchange agreements. The authors found that with automatic exchange agreements in place, offshore investments were reduced by approximately 25 percent.

3.2.3 The Exchange of Information Automatically

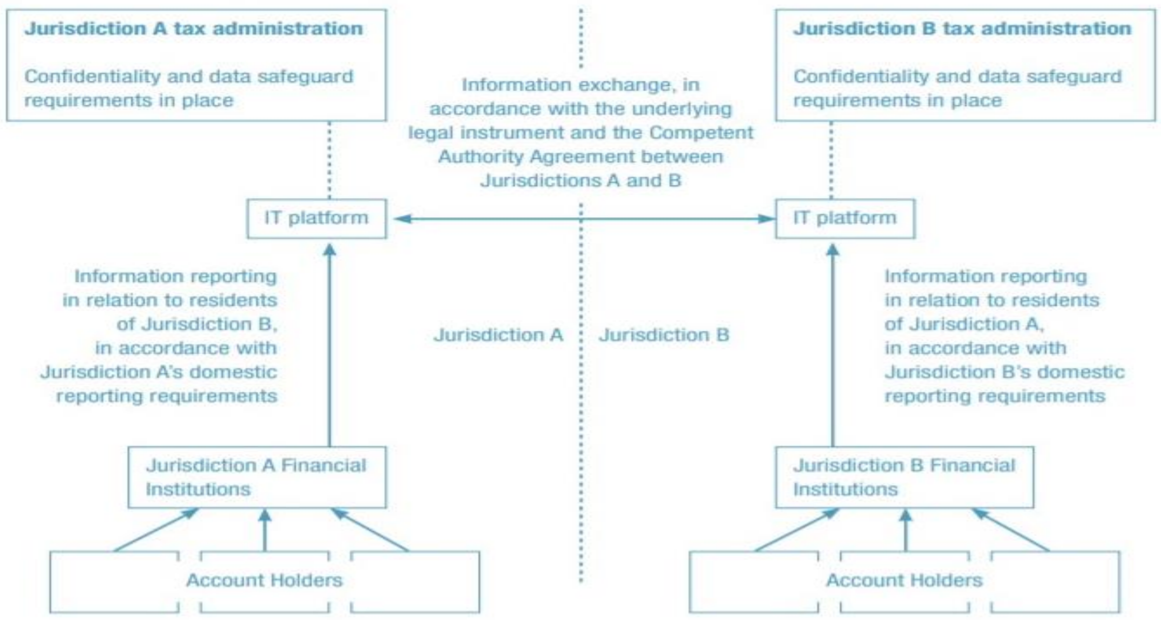
Following the financial crisis in 2009, The OECD and the G20 were intent on urging jurisdictions to enter into agreements for exchanges of tax data. The 2002 Model TIEA, which during that time was the recommended process, was scrutinised for being ineffective due to the “upon request” requirement. In order to streamline the process of information sharing, a multilateral exchange process was developed in 2013 (Meinzer, 2017:8-11; Woodward, 2016). In response to a call for greater tax transparency and efficient sharing of relevant information, the OECD, G20 countries and other cooperative parties, conceptualised the “Standard for Automatic Exchange of Financial Account Information in Tax Matters” in 2014.

The primary intention for developing and advocating the exchanges of tax related data is to identify the source of selected taxpayers' revenue and the location (s) of their assets (OECD, 2018b). Automatic exchanges of taxation related data consists of the standardised and recurrent transfer of substantial volumes of taxpayer related data from the originating country to the resident country (OECD, 2018b).

AEOI supports various jurisdictions to exchange the required information in a standardised manner (Kyamulesire, 2017). Automatic exchange does not have to be limited to information on revenue and assets, but can also be used to transmit other relevant information. Where applicable, the exchange of information regarding changes in residence, acquisitions or disposals of immovable property and value-added tax refunds, amongst others, may be transmitted. The resident tax authority may then use this information to corroborate the foreign income that taxpayers have declared (OECD, 2018b).

In September 2017, the initial automatic exchanges of data occurred. Many jurisdictions have since committed to implementing the required global regulatory frameworks to enable cross-country exchanges. The "Global Forum on Transparency and Exchange of Information for Tax Purposes" has the task of monitoring these commitments. Figure 1 illustrates the automatic exchange of information framework. Broadly summarised, financial organisations provide relevant information about non-residents to their tax authority whom then exchanges this data with the foreign tax administrator (OECD, 2018b).

Figure 1: The reciprocal automatic exchange framework



Source: OECD, 2018b:8

3.2.4 Bilateral And Multilateral Agreements

Without signed tax agreements, tax authorities are not obligated to provide or exchange tax-related information with each other (Rose, 2007). The exchange of tax information is typically made in accordance to provisions contained in both bilateral and multilateral tax conventions or agreements for the exchange of tax information (Rose, 2007; Saint-Amans & Pross, 2016:3; Neubig, 2018:1141).

According to SARS (2019b) bilateral tax information exchange agreements (TIEA) facilitate the exchanges on a request basis, which differs from multilateral agreements, which facilitates all forms of information exchange, between multiple countries' tax authorities.

Double taxation agreements (DTA) and tax information exchange agreements (TIEA) are standard forms of bilateral agreements. The structure and content of the TIEA and DTA is modelled in terms of the guidance of Article 26 of the OECD Model Tax Convention. These DTA are agreements between two countries that prevents double taxation. This occurs when two different jurisdictions charge tax on the same income (Investopedia, 2020). The tax information exchange agreement is a concept that was introduced in 2002. The TIEA facilitates exchanges of specified information on an individual request basis (OECD, 2020b; Meinzer, 2017).

As stated above, multilateral agreements or multilateral competent authority agreements (MCAA) are signed between one or more jurisdictions and parties to a MCAA can exchange information with any other country if it is within the boundaries of that particular MCAA. When compared to bilateral agreements, multilateral agreements are deemed more efficient and effective in preventing profit-shifting (Saint-Amans & Pross, 2016:4; Neubig, 2018:1149).

3.2.5 Country-By-Country Reporting

During September 2014, the OECD introduced the BEPS action plans as a development towards enhanced transparency. This triggered essential requirements relating to disclosure and affects organisations in various industries. BEPS Action plans 11- 13, mainly addresses the gathering of entity-level information on base erosion and profit shifting and the specific disclosure of any aggressive tax strategies used. In addition, the action plan prescribes the disclosure of tax-related data per country to be included in transfer pricing documentation (Evers *et al.,* 2016).

Furthermore, BEPS Action 13 presents a country-by-country template that supplies a "snapshot" of the financial position of multinationals and their globally related entities (van Wyk, 2016). The various tax authorities use the CbC reports to perform risk assessments on selected transfer pricing and BEPS. There had been international standards of reporting developed for specific industries. These standards were developed for multinationals operating in, for example, finance, the extractive industries and banking. In the United States and the European Union, for example, these international standards have been introduced into domestic legal systems. These international standards were not developed solely for tax-related purposes, but also with a broader intention to increase transparency and prevent illegal practices (Evers *et al.,* 2016; van Wyk, 2016).

Country-by-country (CbC) reports is a global information-sharing minimum standard requirement. Multinationals supply the CbC reports to their tax authorities, and they will then, in turn, share what was acquired with the tax authorities in the jurisdictions that the multinationals operate in (Neubig, 2018). According to Brown *et al.* (2019:107), CbC reporting is foreseen to lead to companies paying corporate taxes that is a reflection of their economic presence in each country. The information disclosed in the CbC reports is not available for public viewing. The matter of the public being able to acces the CbC reports is a contentious matter and will be considered in the 2020 OECD review of CbC reporting.

In terms of the BEPS Action 13, CbCR is compulsory for multinationals with reporting years that commence on or after 1 January 2016. The first exchanges of CbC reports between tax administrators were scheduled for June 2018, and during 2017 an estimated nine thousand large multinationals began filing the CbC reports with their tax administrators (Neubig, 2018: 1140). As at March 2020, 90 tax jurisdictions introduced laws which make CbC reporting obligatory and more than 2400 arrangements for exchanges of CbC reports were active. CbC reporting is widely adopted, and there is a demand to make the reports publicly available in order to increase its effectiveness (Koppel & Stauner, 2020).

3.3 SUMMARY

This chapter set the background to the concept of the exchange of tax information and the measures available that facilitate this exchange. Various protocols for the exchange of information were reported on. In an endeavour to prevent harmful tax practices, greater transparency was sought, to illuminate and erode potential harmful practices. Hoping to achieve greater transparency, the sharing or exchange of information was introduced.

Since the 2002 Model TIEA, numerous other measures were developed to support tax transparency. These measures include automatic exchanges of tax and financial information and multilateral agreements. Through the exchange of information, governments expect a higher level of compliance amongst countries that are signatories to the various bilateral or multilateral agreements.

To ensure that the information exchanges are beneficial, as intended, a common reporting standard should be implemented by countries. The common reporting standard ensures that the information being shared is comparable and can be used effectively (OECD, 2020b).

Ahrens & Bothner (2019) state that in order to achieve tax compliance, international collaboration and participation is necessary to identify and penalise tax evaders. Similar to the findings by Casi *et al.* (2020), Ahrens & Bothner (2019) noted that automatic exchange of information are useful in limiting cross-country tax evasion and identified an approximate 67 percent decrease in assets held in tax havens since the introduction of automatic exchanges of information.

The secondary objective of this study has been achieved by obtaining insight into the exchange of information and the various identified methods that enable effectively exchanging relevant data in order to increase tax transparency. The following chapter will outline any similarities and differences in legislation and agreements that identifies with sharing of information in the selected countries.

CHAPTER 4

AN INTERNATIONAL COMPARATIVE REVIEW OF EXCHANGE OF INFORMATION METHODS

4.1 INTRODUCTION

Globalisation and technological advances indirectly brought on the realisation that jurisdictions cannot administer their domestic tax systems in isolation. Greater transparency was sought to eradicate isolation and decrease tax evasion. It has led to the exchange of tax and other data amongst tax jurisdictions. The OECD developed a framework for tax transparency that includes the exchange of financial and tax data and country-by-country reporting.

In chapter 3, the literature indicated that in the absence of a signed tax treaty, different jurisdictions are not obliged to share the tax or financial account information of companies headquartered in their jurisdictions. The exchange of tax information is done by provisions contained in bilateral and/or multilateral agreements. A review of the literature identified three different modalities for tax information exchanges. The three forms of information exchange are exchange automatic exchanges, spontaneous exchanges and per request exchanges.

Multilateral agreements are comprehensive and provide for all three modes of information exchanges in comparison to bilateral agreements that are solely applicable to exchanging information that has been formally requested. Automatic exchanges of tax data allows specific information to be shared in a standardised format at an agreed-upon time, and the process is efficient and modernised. Figure 1 in the previous chapter illustrates the framework for automatic information exchanges.

The previous chapter also provided background and detail on the Common Reporting Standard (CRS), which sets the standard for the automatic exchange of information. The exchange of financial information is done by provisions contained in the CRS. The literature on the country-by-country reporting requirement indicated that it commenced in June 2018. This reporting requirement obligates specific MNEs to lodge a CbC report annually. The CbC report consists of top-tier information on the country-wide distribution of the MNEs revenue, specific measures of global operations and taxes. Country-by-country reporting is contained in BEPS Action 13, and the various tax authorities use this information for high-level risk assessments. The objective of country-by-country reporting is to give tax administrators access to comprehensive data on multinational corporations that are operational in their jurisdictions.

Agreements between different jurisdictions need to be implemented to facilitate successful information exchanges. These agreements outline the scope of the information to be exchanged and the procedures that have to be followed. Agreements, like the "Qualifying Competent Authority Agreement" facilitates CbC report exchanges (SARS, 2020a).

Historically, gathering information about the cross-border practices of taxpayers has been challenging. Introducing the tax information exchange agreement was in response to seeking measures that will minimise the tax information gap between countries. The number of signed tax information exchange agreements have increased drastically since its introduction (Neslund, 2009). Exchanges of information between tax jurisdictions are done through use of either multilateral or bilateral agreements. Double tax agreements are classified as bilateral agreements as they are signed between only two jurisdictions.

Another example of a bilateral agreement is the tax information exchange agreement (TIEA) that specifies the nature of the information that will be shared between the two participating jurisdictions. The TIEA makes provision for the exchanging information based on a request that refers to an identified illegal activity inquiry. The exchange of information on request, was expanded during 2014 with the introduction of an automatic process of exchange that is based on the Common Reporting Standard (Meinzer, 2017:8-11; Woodward, 2016:108-110; Beer *et al*., 2019).

The TIEA has a limited scope but is detailed regarding the nature of the data requested. TIEA is based on the Model TIEA that was developed by the "OECD Global Forum Working Group on Effective Exchange of Information" (Meinzer, 2017:8-12; Beer *et al*., 2019).

Multilateral agreements involve the tax authorities of two or more countries. Multilateral agreements are supported by the "Multilateral Convention on Mutual Administrative Assistance in Tax Matters", which forms the foundation for multilateral exchange agreements. The Convention “provides for all possible forms of administrative co-operation between parties in the assessment and collection of taxes, in particular intending to combat tax avoidance and evasion” (OECD, 2019d).

There were 15 reform measures developed in the OECD/G20 BEPS project. These measures were created in order that revenue is declared in its source country, where the operations occurred. Multinational corporations are obligated, in terms of Action 13 of this project, to prepare a country-by-country report and supply the relevant governments with data that indicates, on an international scale, where their revenue, operations and taxation paid were disclosed.

The BEPS Action 13 report contains the detail required for transfer pricing documentation and country-by-country reporting. MNEs are required to supply the report per annum for every individual country in which they earned revenue (Thiart & Nel, 2018:1-2).

The OECD endorsed a standardised process for the completion of transfer pricing documentation. This standardised process entails the submission of a local and master file as well as a country-by-country report. The master file supplies a synopsis of the entity and is available to all tax administrators in order to assess transfer pricing risk. The local file, in contrast, provides comprehensive transaction-specific data that would assist in identifying related party transactions.

Successive to those mentioned above, the CbCR provides comprehensive and thorough documentation of all taxes and economic activity for each jurisdiction that the MNE conducted business in. The report includes a listing of all entities in the MNE group.

Action 13 requires the reporting entity in the MNE group to gather and lodge the required CbCR data with the tax administrators in its country of residence (Thiart & Nel, 2018:2: OECD, 2020f).

This chapter will analyse country-specific legislation implemented with regards to the exchange of information, agreements signed between various countries and country-by-country reporting requirements for the selected countries. This was achieved by reviewing the available literature and identifying particular legislation per country that effects transparency either through local disclosure requirements or exchange of information requirements.

In instances where the legislation is similar between the countries, the study will highlight differences, if any, between any identified monetary thresholds for disclosure. The study will also document specific information disclosure requirements in order to identify differences and similarities. This chapter will provide the basis from which the comparative summary and conclusion will be made in the closing chapter. The various measures used for exchange of tax information in South Africa, Australia and the Cayman Islands will be compared.

4.2 SOUTH AFRICAN EXCHANGE OF INFORMATION METHODS

The following sections will outline the methods adopted in South Africa that enable the compliance with international exchange of information requests.

4.2.1 South African legislation enabling exchange of information

4.2.1.1 The Tax Administration Act (TAA)

The South African Tax Administration Act (No. 28 of 2011) has been effective since 1 October 2012. During 2014 the TAA was amended, and the definition of an international tax agreement was modified to specifically include agreements between tax authorities to exchange relevant data (Tax Administration Act, No. 28 of 2011).

During 2015, the definition of “international tax standard” was included in the TAA. It incorporates the OECD “Standard for Automatic Exchange of Financial Account Information in Tax Matters”, which incorporates the CRS. It also includes the country-by-country reporting standard for multinational entities and any other international standards for the international exchange of tax information (Tax Administration Act No. 28 of 2011).

During 2016 the CRS regulations were issued under the TAA. The aforementioned amendments and inclusions elude to South Africa’s commitment to solidify tax transparency practices (SARS, 2020a). A review of South African tax laws and related academic writings was done to identify laws that facilitate information exchanges and disclosures. Key word searches such as international agreements, international tax and disclosure were additionally used to identify the necessary laws. These are considered hereafter.

4.2.1.1.1 Section 25 of the TAA

Section 25 of the TAA contains provisions for the submission of returns. In May 2018 Notice 480 GG 41621 was issued and related to the Government Gazette that was issued on 20 October 2017. This notice requires reporting entities, resident in South Africa, to prepare the country-by-country report and local and master files as prescribed by section 25 of the TAA.

4.2.1.1.2 Section 26 of the TAA

Section 26 (1) of the TAA reads as follows: "The Commissioner may by public notice, at the time and place and by the due date specified, require a person who employs, pays amounts to, receives amounts on behalf of or otherwise transacts with another person, or has control over assets of another person, to submit a return by the date specified in the notice."

In 2014, subsection two was included in section 26 of the TAA. Subsection 2 prescribes the manner and form for the submission of the required return. In 2015 subsection 2 (c) was inserted and makes particular reference to the compliance with the provision of information that is required in tax returns, the international tax standard or international tax agreements.

4.2.1.1.3 Section 35 of the TAA

The TAA prescribes that, persons who enter into certain types of arrangements have to report the details of those arrangements to SARS. These arrangements are called "reportable arrangements". Section 35 of the TAA is used to identify transactions that do not have commercial substance and is intended to gain a tax benefit or avoid a tax liability.

On 3 February 2016 Government Gazette Volume 608, No. 39650 was issued containing a list of reportable arrangements. The listed arrangements are comprehensive in order to identify any possible transactions that could lack commercial substance and possibly lead to tax avoidance.

4.2.1.1.4 Section 36 of the TAA

Section 36 of the TAA contains excluded arrangements. These are arrangements that are exempt of the obligation to comply with the reporting requirements contained in the TAA. Participants that are involved in reportable arrangements, as per the definition that is in section 35 of the TAA, have to report the necessary data that relates to the arrangement to SARS. A participant to an arrangement is only excluded from having to make the necessary disclosure to SARS, if a co-participant to the arrangement informs them that they have already made the necessary disclosure to SARS. Severe penalties may be faced if the co-participant fails to make the necessary disclosure (SAICA, 2015).

4.2.1.1.5 Section 46 of the TAA

Section 46(1) of the Tax Administration Act, No. 28 of 2011, contains provisions that authorise SARS to request the submission of relevant material. The definition of "relevant material" is found in section 1 of the TAA and translates as follows: "…any information, document or thing that in the opinion of SARS is foreseeably relevant for the administration of a tax Act …" Section 46 grants SARS authority to request any relevant data from the taxpayer, a connected foreign person or a third party (PwC, 2016).

South Africa has amended and continues to amend its existing legislation with the addition of subsections in order to enhance tax transparency and limit tax avoidance. South Africa uses the TAA to achieve this. It is evident when looking at section 26 that instructs financial institutions to adhere to international standards and section 46 that gives authorisation to tax administration officials to engage with non-resident connected persons in order to obtain the necessary information for administrative purposes.

4.2.1.2 Common Reporting Standard (CRS)

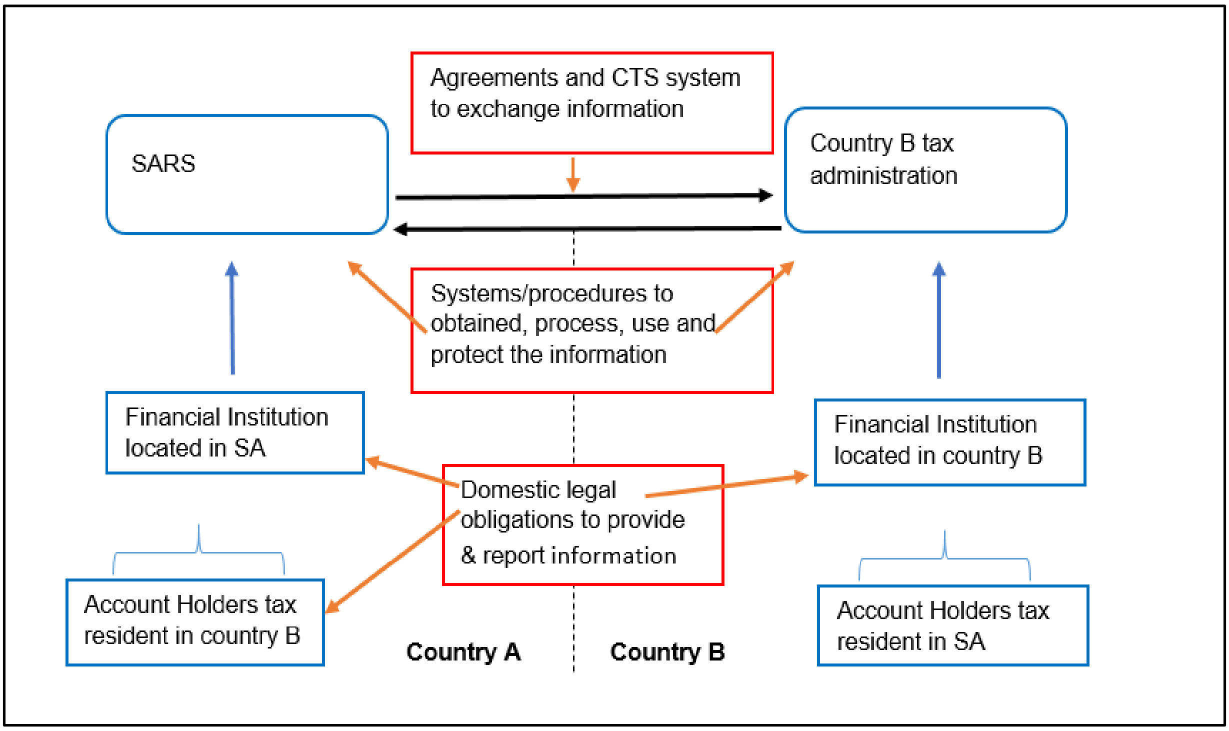
The CRS was created by the OECD and sets out reporting requirements for financial institutions. In terms of the CRS, these financial institutions have to disclose relevant data to local tax administrators (SARS, 2018). South Africa was an early adopter of the CRS, and it has been effective in South Africa since 1 March 2016 (KPMG, 2016). Financial institutions in South Africa have to oblige by the requirements as set out in the Common Reporting Standards (SARS, 2018).

Financial institutions that are located in South Africa are required to identify account holders that are not residents in terms of South African tax legislation (countries other than the U.S.). The financial institution subsequently shares this information with the SARS, which in turn exchanges the relevant information with the tax administrators of the foreign country where the account holder is resident (SARS, 2018).

Figure 2 below illustrates how the exchange agreements signed by South Africa allows for the exchange of the required information using the CRS as the standard for reporting. South African financial institutions have to scrutinise their accounts for ownership by non-residents or connected persons to non-residents. Accounts identified as such, then have to be reported to SARS. SARS then proceeds to report these accounts and related account holders to the relevant foreign tax administration. In a similar manner, foreign financial institutions follow the same process for South African tax residents.

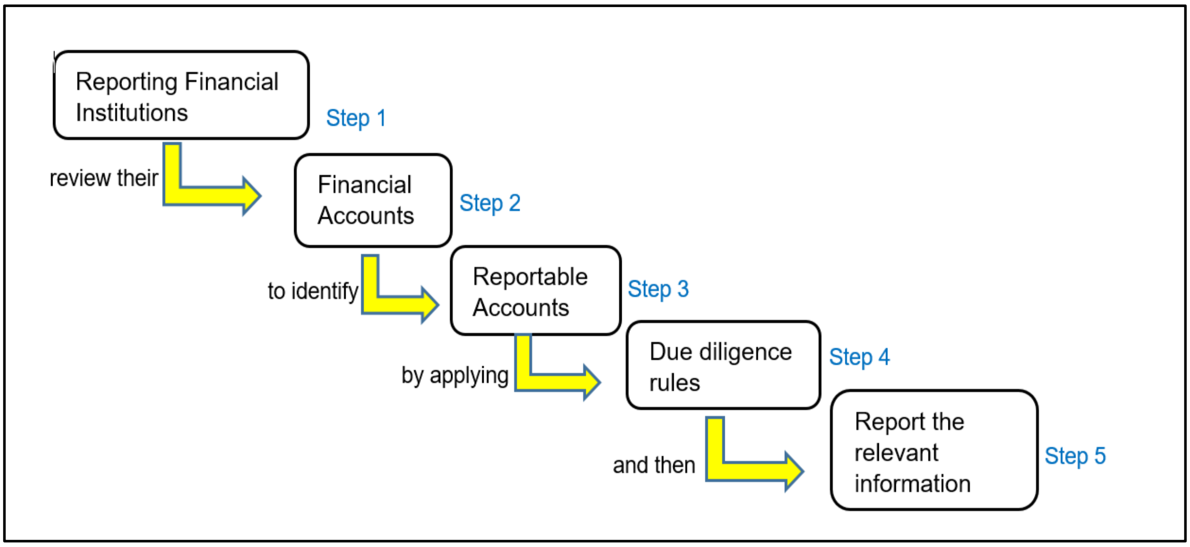
In figure 3 below the CRS steps are illustrated. The illustration shows that reporting institutions are required to review and identify their reportable accounts and then report the required information.

Figure 2: Basic Framework of the CRS in South Africa



Source: SARS, 2018

Figure 3: An overview of the steps of the CRS



Source: SARS, 2018

In terms of the CRS, there are reporting obligations imposed on South African financial institutions. In terms of the reporting obligations, there are specific information requirements for identified reportable foreign accounts and for controlling owners of passive NFFEs.

Below is a list of the information that is required for a reportable foreign account and for controlling owners of passive NFFEs. The required information is similar except for the reporting for controlling owners of passive NFFEs where selected information is required for both the controlling owner and the related entity.

Financial institutions have to report detailed information for each identified reportable foreign account. This information includes names, addresses, country of residence, account number, tax identification number, account value and gross account movements (OECD, 2014a).

Countries that agree to AEOI need to legislate the CRS into their domestic laws. In South Africa the CRS Regulations were issued under the TAA. In terms of the CRS regulations, SARS is required to enforce compliance of CRS reporting. SARS may impose sanctions for non-compliance with the CRS reporting (SARS, 2017).

The CRS enables the automatic exchange of information and is facilitated by using a multilateral agreement model. As of April 2019, South Africa formed part of 105 countries who indicated their intention to implement the CRS as a transparency measure (OECD, 2019d). The sharing of financial account information through the use of the CRS is intended to limit tax evasion that is facilitated through the use of aggressive tax planning arrangements.

4.2.2 South African multi-national exchange of information agreements

4.2.2.1 Multilateral competent authority agreements (multilateral agreements)

On the 27 January 2016, the Competent Authority of South Africa signed the MCAA on the exchange of country-by-country reports along with the MCAA on the automatic exchange of financial account information (Thiart & Nel, 2018:2).

The MCAA is the agreement that facilitates the automatic exchanges of information between SA and the other signatories of the multilateral agreement. Agreements relating to the automatic exchanges of information fall under the Common Reporting Standard (Thiart & Nel, 2018:2).

As at 29 September 2020 there were 109 signatories to the MCAA for the automatic exchange of information (OECD, 2020d).

4.2.2.2 Bilateral Agreements

South Africa has signed numerous bilateral tax information exchange agreements with various jurisdictions. Table 1 below provides a list of the various jurisdictions that have signed TIEA with South Africa.

Table 1: TIEA's signed with South Africa

Jurisdiction	Entry into force
Argentina	28 November 2014
Bahamas	25 May 2012
Barbados	19 January 2015
Belize	23 May 2015
Bermuda	8 February 2012
Cayman Islands	23 February 2012
Cook Islands	8 January 2015
Costa Rica	8 February 2017
Dominica	17 September 2015
Gibraltar	21 July 2013
Grenada	10 March 2017
Guernsey	26 February 2012
Jersey	29 February 2012
Liberia	7 July 2013
Liechtenstein	23 May 2015
Monaco	6 December 2014
Somoa	28 May 2017
San Marino	28 January 2012
Saint Christopher (Saint Kitts) & Nevis	18 February 2017
Turks and Caicos Islands	21 September 2018
Uruguay	6 October 2017

Source: SARS, 2020b

4.2.3 South African country-by-country reporting

On 23 December 2016, the South African government issued the final CbC reporting regulations implementing CbCR for MNEs. In terms of these regulations, CbCR will be required by MNEs with an aggregate income of R10 billion (approximately $610 million & AUD860 million) or more during the financial year that precedes the reporting year. MNEs with financial years that commence on or after 1 January 2016, are obligated to report in accordance with the CbC regulations. South Africa signed the CbC MCAA on 27 January 2016. This agreement implemented the automatic exchange of CbC reports between South Africa and other signatories (Thiart & Nel, 2018:2; OECD, 2020e).

The ultimate resident parent entity that meets the group revenue requirement as stated above is required to file a CbCR (CbC01), master file and/or local file with SARS. The CbC report has to be lodged with SARS within a year from the previous financial year (SARS, 2020a).

4.2.3.1 CbC01 country-by-country report

The CbC01 report has to be completed for every jurisdiction in which the ultimate parent entity of the MNE has operations. The report contains the following information:

- Income;
- Gains/Losses prior to income tax;
- Stated capital;
- Income taxes paid;
- Accumulated earnings;
- Accrued income taxes;
- Asset value and
- A number of employees (SARS, 2020c).

4.2.3.2 Penalties for non-compliance with the CbCR requirements

Administrative penalties are imposed in terms of section 210(1), read with section 211 of the Tax Administration Act (28 of 2011). These penalties will be imposed when non-compliance with the CbCR regulations occurs. The administrative penalty ranges between R250 and R16 000 and is determined on the preceding year's taxable income of the resident MNE.

4.2.3.3 International exchange of CbC reports and confidentiality

When submitted to SARS, the CbC01 CbC report will be available to SARS for transfer pricing risk assessment and for exchange with other tax jurisdictions following multilateral and bilateral agreements. Upon the request from other tax jurisdictions, SARS may exchange select data from the master and local files with said jurisdictions in accordance with a tax treaty. CbCR maintains similar standards of confidentiality as multilateral agreements (SARS, 2020a; SARS, 2020c).

4.3 AUSTRALIAN EXCHANGE OF INFORMATION MEASURES

The following sections will outline the methods adopted in Australia that enable the compliance with international exchange of information requests.

4.3.1 Australian legislation enabling exchange of information

4.3.1.1 Income Tax Assessment Act No. 38 of 1997

The Australian Income Tax Assessment Act No. 38 of 1997 (ITAA) is an Act that provides for the charging, collection and calculation of income taxes and the administration of the Australian income tax regime by the Australian Tax Office (Australian Government, 2020c).

4.3.1.1.1 Reporting obligations for significant global entities (Subdivision 815-E)

Amending legislation implementing CbC reporting was passed on December 2015. The legislation is contained in Subdivision 815-E and takes effect from financial years that start on or after 1 January 2016 (ATO, 2020c).

In terms of subdivision 815-E, significant global entities (this is comparable to MNEs) are legally obligated to lodge the necessary CbC reporting information to the Australian Tax Office.

CbC reporting requirements are limited to entities with a consolidated earnings of AUD1 billion or more (ITAA, 1997).

4.3.1.2 Taxation Administration Act 1953

4.3.1.2.1 Public transparency reporting (Section 3C)

The Australian Tax Office should report information about corporate entities in the Report on entity tax information. This reporting is a legislative requirement under section 3C of the Australian Taxation Administration Act (1953).

Section 3C provides the detail of the type of income and the tax information that the Australian Tax Office is required to make available publicly each year (Australian Government, 2020d).

The following information has to be published annually:

- name;
- Australian registration number;
- aggregate annual earnings;
- annual taxable earnings and
- annual income tax payable (PwC, 2019:2).

The required information per Section 3C for the following population will be reported on an entity level:

- Public Australian entities and foreign-owned entities with total earnings of AUD 100 million or more;
- Resident Australian-owned private entities with an aggregate income of AUD 200 million or more and

- Entities liable for petroleum resource rent tax [1](PRRT) (ATO, 2020d)

The tax and related information for groups with a turnover of AUD 250 million or more will be reported on a consolidated level.

4.3.1.3 Tax Laws Amendment Bill

The Tax Laws Amendment (Combating Multinational Tax Avoidance) Bill was enacted by the Australian government in December 2015. The law was effective from 1 July 2016. The Bill calls for multinationals with world-wide revenue equal to or more than AUD 1 billion to file general purpose annual financial statements with the Australian Tax Office. The Australian Tax Office is then required to submit this information to the Australian Securities and Investments Commission.

Documents that are filed with the Australian Securities and Investments Commission are available for public inspection (PWC, 2019:3; Stiglingh *et al*., 2017:160).

4.3.1.4 Common Reporting Standard (CRS)

The CRS is the single international standard for the gathering, reporting and exchange of financial account information. Australia introduced the CRS on 1 March 2016 with an effective date of 1 July 2017. The first exchanges of information in terms of the MCAA on the automatic exchange of information took place during September 2018 (ATO, 2020c).

The information that has to be exchanged is similar to the requirements mentioned under section 4.2.1.2 above.

[1] PRRT is a "tax on profits generated from the sale of offshore marketable petroleum commodities" (ATO, 2020e).

4.3.2 Australian multi-national exchange of information agreements

4.3.2.1 Multilateral competent authority agreements (multilateral agreements)

Australia signed the MCAA on automatic exchange of financial account information during November 2017 with the first exchange of information planned for September 2018. Australia made its first automatic exchanges of tax information during September 2018 (Australian Government, 2020a; OECD, 2020d).

In terms of the above literature, Australia signed the MCAA on the exchange of country-by-country reports during November 2017. At the date that this study was performed 88 jurisdictions were signatories to the CBC MCAA (OECD, 2020e).

4.3.2.2 Bilateral Agreements

Tax information exchange agreements have the objective to create harmonious exchanges of information and improve transparency. The key provisions of Australia's TIEAs detail the objective and scope of the TIEA. It also provides details of the different taxed covered, the obligation to provide information upon request, tax examinations, the conditions for declining an information request and the duty of Australia and the signing jurisdiction not to impose counterproductive measures (ATO, 2019b).

Table 2 below provides a list of jurisdictions with signed TIEAs with Australia.

Table 2: TIEA's with Australia

Jurisdiction	**Entry into force**
Andorra	03 December 2012
Anguilla	17 February 2011
Antigua & Barbuda	14 December 2009
Aruba	17 August 2011
The Bahamas	11 January 2011
Bahrain	15 December 2012
Belize	11 January 2011
Bermuda	06 August 2007
British Virgin Islands	12 April 2010
Brunei	25 February 2016
The Cayman Islands	14 February 2011
Cook Islands	02 September 2011
Costa Rica	04 February 2013

Jurisdiction	Entry into force
Dominica	08 December 2011
Gibraltar	26 July 2010
Grenada	09 January 2012
Guatemala	21 January 2018
Guernsey	27 July 2010
Isle of Man	05 January 2010
Jersey	05 January 2010
Liberia	23 May 2012
Liechtenstein	21 June 2012
Macao	18 May 2012
Marshall Islands	25 November 2011
Mauritius	25 November 2011
Monaco	13 January 2011
Montserrat	25 November 2011
Netherlands Antilles	04 April 2008
Samoa	24 February 2012
San Marino	11 January 2011
St Kitts and Nevis	11 January 2011
St Lucia	10 February 2011
St Vincent & the Grenadines	11 January 2011
Turks and Caicos Islands	25 January 2011
Uruguay	01 July 2014
Vanuatu	01 September 2011

Source: Australian Government, 2020b

4.3.3 Australian country-by-country reporting

4.3.3.1 Country-by-country reporting statements

On 27 January 2016, Australia became a signatory of the MCAA on the exchange of country-by-country reports. This agreement facilitates the exchanges of CbC reports. The reporting measure is effective for reporting years commencing on or after 1 January 2016. The reporting requirement is applicable to multinational entities with annual consolidated group income equal to or exceeding AUD 1 billion in the preceding year. The regulations are also applicable to any subsidiaries.

The applicable MNE groups have to file the CbC reporting statements, which include the CbC report and local and master files, with the Australian Taxation Office (ATO). These CbC reporting statements have to be lodged within 12 months after the last day of the reporting year of the Australian entity (ATO, 2020a; KPMG, 2020' OECD, 2020g).

Australia has adopted the information requirements as set out by the OECD guidance on BEPS Action 13. The information required to be reported in the CbC report includes, amongst others, revenues, tax, names, jurisdiction, primary business activity and tax identification numbers (OECD, 2014b; ATO, 2020a).

4.3.3.2 Penalties for non-compliance with the CbCR requirements

Non-compliance with CbCR requirements have several implications. There are several types of penalties that non-compliant entities can be faced with. Administrative statement penalties are charged for significant global entities that fail to take reasonable care and provide documents when the Commissioner requires them of Taxation. In instances where a significant global entity is found to have entered into tax avoidance schemes, the maximum administrative penalty could be raised. If a significant global entity does not comply with filing deadlines, a failure to lodge on time penalty is charged.

The maximum administrative penalty that can be charged is up to 150% of the tax-related liability. A maximum amount of up to AUD555 000 can be charged for instances where filing is not done on time (ATO, 2020b).

4.3.3.3 International exchange of CbC reports and confidentiality

Australian CbC reports can only be exchanged between signatories when they have activated exchanges with each other. Australia has all the necessary processes secured for effective and confidential exchange of information. The MCAA does not precipitate the exchange of local and master files, but if the MNE is operational in a country that is not a signatory to the MCAA, exchanges are possible with the concluding of bilateral agreements such as the TIEA (ATO, 2020a).

4.4 CAYMAN ISLANDS' EXCHANGE OF INFORMATION MEASURES

The following sections will outline the methods adopted in the Cayman Islands that enable the compliance with international exchange of information requests.

4.4.1 Legislation facilitating the exchange of information in the Cayman Islands

The section below provides an understanding of the identified local legislation enacted in the Cayman Islands. Additionally, it provides a summarised introduction to the tax system used in the Cayman Islands in order to broadly comprehend their tax administration.

4.4.1.1 Cayman Islands tax system

The taxation legislation in the Cayman Islands does not provide for the levy of any direct taxes or corporation taxes. This means that the Cayman Islands does not levy any capital gains tax, income tax, employee cost tax and withholding tax. There are no compliance requirements to submit tax returns or any other forms. The Tax Information Authority is the competent authority over the taxation matters in the Cayman Islands. The Cayman Islands is seen to be tax neutral (PwC, 2020). As the Cayman Islands is tax neutral, the consideration of tax residency is not relevant for this country's taxation.

Due to this neutral tax system, the Cayman Islands is considered to be a very large offshore financial center (OFC) and has foreign assets that are more than 1500 times its GDP (Fichtner, 2016:1035). The author further states that the fact that the Cayman Islands is a British overseas territory plays an important role in its status as a OFC as it adds some perception of political stability.

4.4.1.2 Trade and Business Licensing Law (2019 Revision)

In terms of the Trade and Business Licensing Law (2019 Revision) individuals or companies that intend to operate a business in the Cayman Islands, has to obtain a trade and business license to be operational. Schedule 1 of the Trade and Business Licensing

Law (TBLL), contains a list of all trades that fall within the ambit of this law and will require the specified license in order to operate.

The Law contains specific exemptions and does not apply to the following:

a) a trade that is registered under another Law that does not refer to the TBLL;
b) Caymanians producing and selling agricultural products and artistic works;
c) employed artisans and craftsmen;
d) Caymanian fishermen who are self-employed or
e) any entity that is formed for the sole purpose of social or public welfare, reinvests its profits into the intended cause and does not declare dividends (DCI, 2020).

4.4.1.3 Local Companies Control Law (LCCL)

The LCCL is applied to entities that do not have a majority Caymanian ownership. If a company has less than 60% local (Caymanian) shareholding, this company will require a local companies control license in order to be legally operational (DCI, 2020).

Based on section 11(4) of the LCCL these listed factors are considered when a license is issued:

a) the economics performance of the Islands and the impact on persons already conducting similar operations;
b) the reputation and conduct of the company and the individuals controlling the company;
c) benefits to the Islands in the granting of the license;
d) benefits and allure of retaining the resources in the hands of locals;
e) actions taken by the company to obtain Caymanian ownership;
f) if foreign individuals would be required to reside in the Islands;
g) whether the company stakeholders have a continuity plan to ensure operations remain active;
h) financial stability of the company and feasibility of the planned operations;
i) if true ownership of the company has been verified and
j) the environmental and social impact of the planned operations.

4.4.1.4 Tax Concessions Law

In terms of section 6 of the Tax Concessions Law, resident companies with foreign operations are entitled to apply for exemption. This undertaking will exempt the Caymanian resident company from being taxed on foreign source profits or gains for a period of no more than thirty years from the date the exemption is granted.

4.4.1.5 Private Funds Bill

On 7 February 2020, the Private Funds Bill came into effect in the Cayman Islands. In terms of clause 5 of the law, private equity and private closed-ended funds are required to register with the Cayman Islands Monetary Authority (CIMA). In addition to the registration requirement, the law also contains compliance and operational changes which enhances transparency (Malde & Pattelaro, 2020).

The compliance requirements include the following:

a) registration of existing private funds with CIMA by 7 August 2020;
b) registration within 21 days of accepting investor funds by new private funds;
c) payment of annual fees for each investment vehicle utilised for disposal or depositing of investments;
d) notification to CIMA of any material changes to the fund within 21 days;
e) the financial statements of the fund have to audited and
f) audited financial statements have to filed with CIMA within 6 months after year end (Malde & Pattelaro, 2020; EY, 2020).

4.4.1.6 International Tax Co-operation (Economic substance) Act (ITCA)

The economic substance law was introduced in the Cayman Islands in 2018 and became effective from 1 January 2019. Companies that meet the requirements of the ITCA, referred to as “relevant entities”, have to display and conduct core operations that are commensurate to their income generating activities.

A “relevant entity” has to comply with the economic substance requirements if it conducts business that is classified as “relevant activities” in terms of the ITCA.

In terms of the schedule to the ITCA the following companies are “relevant entities” and have to ensure compliance with ITCA:

a) foreign companies registered under the Caymanian Companies Act or Limited Liability Companies Act;
b) limited liability partnerships;
c) foreign incorporated companies that are registered under the Caymanian Companies Act, excluding investments funds or entities that have foreign tax residence.

In order to be compliant, the relevant entities have to file an annual return with the Cayman Islands Tax Information Authority. This return will be evaluated by the Tax Information Authority to confirm whether the company has in fact been carrying out operations that are aligned with its revenue streams. The information that has to be disclosed in the return includes the following:

- revenue earned;
- details of expenses;
- details of management structure;
- details of employees and assets and
- details regarding physical presence.

Based on section 10 of the ITCA, if the substance test is failed, the Caymanian Tax Information Authority is obliged to share the information that it receives under this Act with the relevant foreign tax authorities. In addition to the sharing of information, the ITCA also lists penalties that will be charged for any non-compliance.

4.4.1.7 Common Reporting Standard

The CRS is the single international standard for the gathering, reporting and exchange of financial account information. The Cayman Islands introduced the CRS with the first exchanges of information in terms of the MCAA on the automatic exchange of information took place during 2017 (OECD, 2020d).

The information that has to be exchanged is similar to the requirements mentioned under section 4.2.1.2 above.

4.4.2 Multi-national exchange of information agreements in the Cayman Islands

4.4.2.1 Multilateral competent authority agreements (multilateral agreements)

The Cayman Islands signed the MCAA on automatic exchange of financial account information with the first exchange of information planned for September 2017. Australia made its first automatic exchanges of tax information during September 2017 (OECD, 2020d).

In terms of the above literature, the Cayman Islands signed the MCAA on the exchange of country-by-country reports during June 2017. At the date that this study was performed 88 jurisdictions were signatories to the CBC MCAA (OECD, 2020e).

4.4.2.2 Bilateral Agreements

The Cayman Islands has signed many bilateral tax information exchange agreements with various countries. Table 3 below provides a list of the latest various jurisdictions with signed TIEA's with the Cayman Islands.

Table 3: TIEA's signed with the Cayman Islands

Country	Country
Argentina	Aruba
Australia	Belgium
Brazil	Canada
China	Curacao
Czech Republic	Denmark
Faroes	Finland
France	Germany
Greenland	Guernsey
Iceland	India
Ireland	Isle of Man
Italy	Japan
Malta	Mexico
Netherlands	New Zealand
Norway	Poland
Portugal	Qatar
Seychelles	Sint Maarten
South Africa	Sweden
United Kingdom	United States

Source: DITC, 2020

4.4.3 Country-by-country reporting in the Cayman Islands

In order to deter base erosion and profit shifting, the OECD recommended the implementation of country-by-country reporting (CbCR) requirements.

During 2017 the Cayman Islands Tax Information Authority issued CbCR regulations. These regulations, issued in terms of the Tax Information Authority Law, contain the reporting obligations of Caymanian constituents. The first CbC report filing obligation commenced for Caymanian MNE groups with a financial year beginning on or after 1 January 2016 in order to align with the OECD's CbCR effective date (DITC, 2017; OECD, 2018c).

Holding companies of Caymanian MNEs that declared revenue of $850 million or more in a prior financial period, are obliged to lodge a CbC report. The CbC report has to be lodged within 12 months of the financial year end of the MNE (DITC, 2017; OECD, 2018c).

4.4.3.1 Caymanian Country-by-Country Reporting

The Cayman Islands has developed a standard form for the electronic filing of CbCR information. The form is used to report a Caymanian MNE group's income, accumulated earnings, indicators of economic activity and taxes paid per jurisdiction that the MNE operates in. Paper filing is accepted, but electronic submissions are encouraged to ensure timeous reporting.

The CBC regulations issued by the Tax Authority contains the standard template for the CBCR. The country-by-country report contains two distinct parts, namely, identification of the filer and additional information related to the MNE group. In addition, a separate table has to be completed for every country operated in and its related constituents. Each business entity that has to consolidate its accounts with the accounts of the ultimate parent entity, is treated as a constituent of an MNE group.

The standard template for CBCR has three distinct sections, namely tax jurisdiction information, constituent entity information and any additional information. The ultimate holding entity has to complete the standard template for every member in the MNE group and provides detailed information including, amongst other, tax jurisdictions of each constituent, income tax paid, number of employees, revenue from related parties and resident countries of constituents (DITC, 2017).

4.4.3.2 Penalties for non-compliance with the CbCR requirements

The CbC Regulations are issued under the authority of the Tax Information Authority Law. Penalties may therefore be applicable if an MNE fails to file the CbC report or files and incomplete report (DITC, 2017).

In terms of the Regulations, any person that breaches the Regulations is liable to 6 months' imprisonments, a fine of $10 000 or both. An administrative penalty of $5 000 is also payable upon the submission of inaccurate information (DITC, 2017).

4.4.3.3 International exchange of CbC reports and confidentiality

In accordance with the CBC Regulations, the automatic exchange of CbC reports will take place between the Cayman Islands and jurisdictions with which they have a signed bilateral competent authority arrangement. The Cayman Islands is a non-reciprocal participant in CbCR which means they automatically send information, but does not automatically receive information. Section 7 of the CBC Regulations state that the Authority will keep the information confidential similar to terms as set out in the Multilateral Convention on Mutual Administrative Assistance in Tax Matters (DITC, 2017; DITC, 2018). Section 20A of the Tax Information Authority Law (2017 Revision) prescribes the confidentiality of any information received by the Authority.

4.5 SUMMARY

Various methods enabling the exchange of tax and financial information were adopted by the countries selected for this study and it is apparent that these countries have their own strategies to achieve greater tax transparency. It was noted that Australia and South Africa have various local legislation enacted that enable compliance with the CRS (to ensure the exchange of information) and other transparency initiatives. During 2019 and

2020 the Cayman Islands improved their local legislation to enable increased transparency and enacted the Private Funds Law and the economic substance rules.

The Common Reporting Standard (CRS) is the introductory international multilateral standard for the automatic exchange of information and is developed to limit tax evasion, for MNES in particular. With its introduction, South Africa and Australia indicated that they were committed to implementing the CRS into their primary legislation. The Cayman Islands became a signatory to the CRS with the first exchanges taking place in 2017. To date, all the identified countries have made amendments to their primary legislation in order to implement both the requirements of the CRS as well as to facilitate the necessary reporting in terms of CbC reporting (OECD, 2020d; Casi *et al.*, 2020:2).

All three countries signed the MCAA on CbCR exchanges and are participants to various bilateral agreements (OECD, 2020e). Unlike the Cayman Islands, Australia and South Africa both require that in addition to the CbC report, master and local files have to be filed with their tax authority. The local file provides comprehensive information about the reporting entity's intercompany transactions and management structure. The master file contains high-level data about the reporting entity's international operations and transfers pricing policy (SARS, 2020a; DITC, 2018).

The concluding chapter summarises the matters addressed in the previous chapters.

CHAPTER 5

SUMMARY AND CONCLUSION

5.1 INTRODUCTION

In chapter one, it was established that the 2008 global financial crises raised considerable awareness of corporate tax avoidance. Due to their nature, multinational entities are capable of adopting complicated tax strategies to limit their tax liability. This might not constitute tax evasion but does represent a form of tax avoidance that should be limited or at the very least, exposed. Developing countries often lack the resources to detect and prevent tax evasion activities timeously and are therefore significantly affected by international tax evasion. International collaboration and tax transparency, achieved through the sharing of high-quality information, intends to aid compliance with local tax laws.

Through reviewing literature sources, the study identified various tax transparency measures and tax laws that were implemented internationally. These measures were made to enhance tax transparency as well as reduce the opportunities for tax evasion. Developed nations such as Australia implemented measures and regulations that were developed to increase tax transparency and limit tax evasion. As developing countries, South Africa and the Cayman Islands are susceptible to profit shifting and tax base erosion. The problem statement in this study was thus derived from the uncertainty whether South Africa, as a developing country, has tax measures and regulations in place to support tax transparency that are comparable to those of other countries.

The research question drawn from this was, how does South Africa's information exchange measures compare to Australia and the Cayman Islands' equivalent measures? The primary objective of this study was to identify and compare methods for the exchange of information that are adopted by South Africa, Australia and the Cayman Islands. The secondary objectives were addressed as follows in the various chapters:

i. This study focuses on tax and financial account data exchanges, that is a result of the recent global emphasis on tax transparency. The study proceeded by reviewing literature in order to provide background on tax avoidance and tax evasion; the basis was formed to obtain an understanding of tax transparency through reviewing various literature resources. The literature reviewed in chapter two, addressed this research objective.

ii. The research then identified legislation facilitating the tax compliance in relation to exchange of information. International tax agreements and country-by-country reporting that supports the exchange of information was analysed. The literature provided in chapter three, addressed this research objective.

iii. The exchange of information measures and legislation identified in chapter 3 were then used to compare the approaches taken by the Cayman Islands, Australia and South Africa that is associated with information exchanges. This research objective was addressed in chapter four.

This chapter summarises the findings and conclusions made in the previous chapters.

5.2 SECONDARY RESEARCH OBJECTIVE ONE (i)

This objective was addressed through an analysis of tax avoidance, tax evasion and then providing an overview of tax transparency. Tax avoidance entails strategically planning your tax affairs in a manner that reduces any relating tax liability. Tax avoidance is legally permitted. In the South African context, it was found that taxpayers can arrange their business matters as such, that the result is a reduced tax burden or tax avoidance, however in terms of the Act, if the arrangement is found to be within the GAAR provisions, the obligation to pay tax accrues to the taxpayer.

The available literature revealed that tax evasion is primarily based on concealing information in a preconceived strategy to reduce the tax burden. Tax evasion thus contains an element of deceit.

In terms of tax transparency, it was found that it relates to the reciprocal sharing of useful information that deters practices of tax evasion. The required disclosure of tax strategies and taxes paid by certain countries is another measure that assists in achieving tax transparency.

5.3 SECONDARY RESEARCH OBJECTIVE TWO (ii)

The secondary research objective in chapter 3 was addressed by identifying the different protocols used for tax information exchange as well as identifying the various agreements that are used to facilitate the exchange of information.

Table 4: Summary of information exchange protocols

Protocol for the exchange of information	**How is information shared under this protocol?**
Exchange of information upon request	A formal request for tax-related information is submitted by one foreign competent (tax) authority to its counterpart
Spontaneous exchange of information	The competent authority in one country identifies relevant information and shares/transmits this information with its relevant foreign counterpart without the need for a formal information request.
Automatic exchange of information	Tax authorities are required to share all taxpayer related information that is covered by the relevant agreement with the relevant foreign tax authorities.

Source: Rose, 2007

5.4 SECONDARY RESEARCH OBJECTIVE THREE (iii)

The secondary research objective in chapter 4 was addressed by identifying the differences and similarities between the Cayman Islands, Australia and South Africa that relate to the research topic. The findings can be arranged between legislation, agreements and CbC reporting.

5.4.1 Summary of Legislative Findings

The objectives in the exchange of information is similar for the three countries. The approaches that they use to this effect differs. In order to facilitate the sharing of tax information between competent authorities, countries can either issue new primary legislation that enforces this transparency measure, make amendments to their existing legislation or choose to participate in global set standards.

Legislation is a variety of legally binding rules that contain instructions to ensure compliance with the enacted rules. If a country chooses to subscribe to a global set standard, such as the CRS, the standard will contain standardised rules that are customary for participants. The study found that the Cayman Islands enacted legislation that is intended to facilitate information exchanges and encourage tax transparency. In contrast, SA and Australia issued amendments to existing legislation that is intended to promote transparency. SA also issued legal notices to be read together with the law in the Government Gazette.

SA and Australia similarly focus on foreign accounts and transactions of entities/individuals that are residents, for tax purposes, in their jurisdictions. In contrast, the Cayman Islands places more emphasis on foreign incorporated companies that declare revenue locally. In terms of reporting structures, all three countries similarly require financial institutions to disclose information about foreign tax resident account holders, directly to their local tax administrator who, in turn, exchanges the information with the relevant foreign tax administrator.

5.4.2 Summary of Findings Regarding the Exchange of Information Agreements

During this study, the various modalities for the exchange of information were identified. The study focused on multilateral and bilateral agreements that were in place for the various countries. The extent of the agreements that the different countries have implemented was identified by listing the multilateral and bilateral agreements each country has signed.

The study found that all three countries have made amendments to their primary legislation in order to implement both the requirements of the CRS as well as to facilitate the necessary reporting in terms of CbC reporting (OECD, 2020d; Casi *et al.*, 2020:2). The three countries have various multilateral and bilateral agreements in effect. These countries have signed the MCAA for CRS and the CbC MCAA. SA and Australia both have bilateral agreements in place with the Cayman Islands as well as numerous other countries.

5.4.3 Summary of Findings On CbC Reporting

The following table provides a summary of the reporting required in terms of CbCR for each selected country.

Table 5: Summary of CbC reporting requirements per selected country

Country	**Reporting requirements**			**Filing requirements**
	CbC report	**Master file**	**Local File**	
South Africa	✔	✔	✔	• Applicable to MNEs with consolidated revenue ≥ R10 billion • Subsidiaries also have to comply with the regulations • Applicable to financial years starting on or after 1 January 2016 • Filing to take place within 12 months after the last day of the group financial year • Penalties charged for late filing in terms of the TAA
Australia	✔	✔	✔	• Applicable to MNEs with consolidated revenue ≥ AUD1 billion • Regulations extend to subsidiaries • Applicable to financial years that start on or after 1 January 2016. (Exemptions exist)

				• Filing to take place within 12 months after the last day of the financial year of the Australian entity or the replacement reporting period • Penalties charged for late filing
Cayman Islands	✔	Not applicable	Not applicable	• Applicable to local MNEs with annual consolidated group earnings ≥ $850 million in the prior year • Applicable to fiscal years beginning in 2016. Deadlines: 31 March 2018- financial years which began from 1 January to 31 March 2016; within 12 months of the end of any financial years that start after those dates • Penalty rules are issued under the Tax Information Authority Law

Source : Author's compilation per legislation

The information that each country has to disclose in the CbC report is similar apart from a few minor differences. In contrast to South Africa and Australia, the Cayman Islands is a non-reciprocal participant to the CbCR.

5.5 CONCLUSION

In order to effectively limit cross-border tax evasion, the exchange of tax and financial account data between countries was standardised, and the OECD issued the most effective multilateral agreement on information exchange. The CRS is a universal model for the automatic exchange of information. SA, Australia and the Cayman Islands are signatories to the CRS MCAA indicating its commitment to transparency.

The implementation of the CRS led to substantial decreases in cross-border deposits, particularly in countries that are labelled as tax havens (Casi *et al*., 2020). In support of the aforementioned, it was found that the CRS demarcates a new atmosphere of global tax collaboration due to its wide scope and the fact that it does not allow much room to avoid reporting (OECD, 2020b).

South Africa adopted the OECD “Standard for Automatic Exchange of Financial Account Information in Tax Matters” early, and in order to enhance transparency South Africa has made amendments to various sections of the TAA. These amendments ensure that the relevant entities are held accountable for providing the necessary information in order to comply with the CRS and CbCR.

Australia is pro-active in their transparency initiatives and has made public disclosure of tax-related amounts compulsory for MNEs that meet the criteria. It is a major stride in the quest for transparency. Australia has also made various amendments to current legislation in order to promote international tax transparency. Tax transparency measures are intended to ensure equality and fairness in the context of multinational operational revenue declaration and the related tax liability. The sharing of information is intended to be beneficial to both developing and developed countries.

Although the Cayman Islands is highly ranked in terms of secrecy, they have shown commitment towards increased transparency through the enacting of new laws and regulations that facilitate transparency.

When comparing the exchange of information measures implemented by South Africa to similar measures in the Cayman Islands and Australia, the South African measures and commitment to transparency appear to be comparable in terms of amendments made to legislation that encourages compliance with the CRS and CbCR requirements as well as their participatory efforts evidenced by the various international bilateral and multilateral agreements that are in place.

All three countries are in a position to benefit from the additional transparency that has been created by these exchange of information measures. The sharing of tax and financial data is intended to benefit authoritative countries such as Australia and developing countries like South Africa and the Cayman Islands.

Australia is in a beneficial position based on its wide array of information exchange agreements that are in effect. The foreign exchange controls in South Africa are rigorous pertaining to the in- or outflow of currency. South Africa has the ability to investigate the potential use of currency that SA residents intend to take out of the country. The combination of the exchange regulations with the exchange of information agreements may hold many benefits from a South African tax base perspective. The recent exchange control relaxation in off-shore structures (loop structures) may also potentially impact the South African tax base. The wider South Africa's and the Cayman Islands' international network gets, in particular through exchange of information agreements, the more benefits it may hold.

5.6 FUTURE RESEARCH RECOMMENDATIONS

The researcher recommends exploring the following areas further:

- comparing the impact that the CRS has had on tax evasion/revenue declaration for signatories and non-signatories of the CRS MCAA; and
- investigating the impact the CRS has had on international deposits held by residents of countries that are signatories to the CRS MCAA.

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