

If you want to crack down on tax avoidance, go after the banks

Written by The Conversation

Tax is back in the news with the [release of information](#) of the taxes paid (or rather not paid) by some of the [biggest companies operating in Australia](#).

After much hand wringing (and a break for Christmas) politicians will return in the New Year to attempt to get back some of the lost tax revenue, which, even though the country does not have a [revenue problem](#), would nevertheless be very useful in treating a deficit that is [galloping away](#) faster than Makybe Diva.

When the United States wanted to catch its citizens who were, shall we say, less than totally transparent about their tax affairs, they hit a brick wall until they realised that the best way to catch the ne'er-do-wells was to cut off the flow of funds. They went after the banks.

The Feds and other prosecutors have in the last few years hit a number of large European banks with humongous fines for aiding and abetting tax avoiders through banks in Switzerland and Luxembourg: [Credit Suisse](#) (US\$2.8 billion); [UBS](#) (US\$1.1 billion), [HSBC](#) (US\$58 million) and [Deutsche](#) (US\$42 million). [D](#)

Apparently the Australian Tax Office (ATO) has also been [interested in local celebrities holding money in Switzerland](#), but no prosecutions appear to be on the horizon.

And it's not only tax that has caused authorities to fine the banks behind "inappropriate" [move ments of money](#)

: Standard Chartered (US\$460 million); ING (US\$840 million); [BNP Paribas](#) (a monstrous US\$12 billion); [HSBC](#)

,
again
(US\$2.6 billion),

[Barclays](#)

(US\$400 million),

[Barclays](#)

again

(US\$147 million) and lots of minnows. In total, more than A\$30 billion in fines for aiding and abetting tax evasion and money laundering

[have been handed out](#)

by authorities around the world.

And it works. Large banks have been crawling over one another to leave the sinking ship that is

[Swiss banking](#)

, to evade future fines.

Closing down tax avoidance is not easy as the benefits are so huge it pays corporations to hire very expensive [tax consultants](#) to stay one step ahead of the good guys, who happen to be slowed down by niceties such as [parliamentary oversight](#).

The tools for tracking possible tax abuse are available. Just this week the head of Austrac, which collects data on all financial payments made in Australia, [revealed](#) the agency had increased its tracking of terrorist payments. Mr Jevtovic said the agency can now create “financial DNA” profiles of people that may be sending money overseas potentially to support terrorism. He pointed out that the banks were at the forefront of detecting and stopping such dangerous activities.

Earlier this year the new ambassador to the United States, Joe Hockey, announced the creation of a new [Serious Financial Crime Taskforce](#) (SFCT) to crack down on white collar crime. The new task force includes the ATO, Australian Federal Police, ASIC, Commonwealth Director of Public Prosecutions and AUSTRAC.

With its skill in tracking financial transactions, Austrac and the ATO should be able to get together to follow the money trail and Australian banks would then be able to detect and (if the government was serious) stem the flow of dodgy money being sent abroad.

Of course, the smarter operators no longer use filthy lucre but instead employ [modern financial](#)

[devices](#)

such as

Interest Rate Swaps (IRS) and Total Return Swaps (TRS) to evade tax.

But who creates these swaps transactions? It's the largest banks. They are on the other side, or in the middle, of all such transactions. And from 2016, banks will, courtesy of ASIC, be required to [report all such transactions](#) so that they can be tracked. Hopefully, Austrac will already be planning to incorporate this new data into its "DNA" for analysis.

So a little bit of extra due diligence in politely asking whether a particular swap might end up being part of an attempt to avoid tax would put both the buyer of the swap and importantly the bank in the position of being responsible if the swap later turns out to be for nefarious purposes. The banks then could be in line for hefty fines, causing them to turn off that particular tap and use swaps for business purposes rather than financial shenanigans.

The banks themselves have experience in being fined for financial [jiggerypokery](#) in attempting to reduce taxes so they should be able to put in place the barriers to others doing it.

Roll on 2016, it really will be the most exciting year for tax avoidance.

Read more <http://theconversation.com/if-you-want-to-crack-down-on-tax-avoidance-go-after-the-banks-52489>