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OFFSHORE SOCIETIES IN “PANAMA PAPERS” ERA. LATIN AMERICAN DILEMMAS ABOUT TAX EVASION AND FOREIGN INVESTMENT INCENTIVE

Abstract:

In 2016 Latin American, European, African and Asian countries, were shaken for the called “Panama Papers” scandal. Colombia was affected as well for this situation, worsen to be a neighbouring country with serious problems of tax evasion, corruption and money laundering. The country has a traditional societal and fiscal, that has forced the governments in charge to implement rules that make it more flexible trying to increase foreign investment and boost the development of the local economy. This presentation will study the offshore societies and their relationship with tax havens including tax evasion, evaluating the effects of the restriction of capital inflows and foreign investments through offshore companies.

The International Consortium of Investigative Journalists and Süddeutsche Zeitung, revealed in the first six months in 2016 a report brought to light the creation of about 200.000 companies that would have been used to evade taxes. Among them are 1,854 offshore companies with a record of more than 1,000 Colombian clients. Globally, those involved in offshore companies include 12 heads of state (6 in office), 128 political leaders and senior officials and 29 of the 500 richest people in the world.

The research problem is: Should the Colombian State restrict the inflow of capital through the use of offshore companies and avoid tax evasion in this way? This problem contemplate two current scenes: Firstly, Colombian State should prevent the inflow of foreign investment based on offshore companies established in tax havens, because these are used as a strategy to avoid paying taxes. Secondly, Colombian State should not restrict access of foreign investment by means of offshore companies. However, to guarantee due taxation cooperation agreements with those countries considered by the OECD as tax havens, should be signed in order to achieve greater control and monitoring of financial movements.

The presentation defines the legal nature of offshore companies, assessing their advantages and the relationship they have with tax havens. It describes the effect of Colombian law on the issue and the impact that these societies have on the system of taxation and the financing of social policies. It identifies the criminal consequences that arise when these types of societies are used as a mechanism of money laundering or tax avoidance and will analyze the implications for a developing country such as Colombia, to restrict or prevent their entry into the country.

Keywords:

Offshore society, tax evasion, corruption, Panama Papers

JEL Classification: K20