



Persatuan Pengguna Pulau Pinang Consumers Association of Penang

檳城消費人協會 பிளாங்கு பயனீட்டாளர் சங்கம்

10 Jalan Masjid Negeri, 11600 Pulau Pinang, Malaysia
Tel: 604-8299511 Fax: 604-8298109
email: consumerofpenang@gmail.com

Websites:
www.consumer.org.my

Letter to the Editor

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Set up RCI to investigate financial outflows to secret accounts in tax havens

The Consumers Association of Penang (CAP) welcomes the assurance given by the Prime Minister that the government will not interfere with the investigations by enforcement agencies into the secret accounts in tax havens operated by Malaysians, as revealed in the Pandora Papers.

We also reiterate our call made eight months ago that the government set up a Royal Commission of Inquiry (RCI) to investigate the outflow of financial assets from Malaysia to secret accounts in tax havens, which has adverse impacts on our economy. Therefore the Cabinet must take the decision to set up the RCI. Investigation by agencies is not enough to address the issue. The RCI must identify the weaknesses in our laws and institutions which enable illicit money outflows and make recommendations to strengthen our legal-institutional framework to tackle the problem.

Now, with the revelation by the Pandora Papers of Malaysians hiding their money in secret accounts in tax havens, it is imperative that the RCI be set up without any delay. Other countries like India, Spain, Ireland, Mexico, Germany, Pakistan, Bulgaria, Australia, Brazil, Sri Lanka, Paraguay and Panama whose citizens were named in the Pandora Papers have vowed to take action. Malaysia should not lag behind these nations. A thorough investigation of those named in the Pandora Papers and the earlier Panama Papers and Paradise Papers should be carried out and the report published.

For illicit capital flight, Malaysia ranks fifth in the world after China, Russia, India and Mexico. The Pandora Papers revealed that there was a RM900 billion outflow from Malaysia to tax havens. According to the 2015 Global Financial Integrity (GFI) report, Malaysia had lost an accumulated amount of RM1.67 trillion in the period 2004-2013, an average of RM167.4 billion per year. The illicit outflow of large sums of money has been going on for over a decade, depriving the nation of much-needed development funds. The development expenditure under the Twelfth Malaysia Plan (2021-2025) is RM400 billion, less than half the financial outflow revealed by the Pandora Papers.

In 2015, the Panama Papers revealed that 2,300 Malaysian individuals and entities were hiding money in offshore tax havens. In 2016, the Paradise Papers exposed how multinationals and super-rich individuals moved money to and from 19 tax havens to evade or avoid taxes. What is their reason for hiding the money and what is its source? The Papers reveal that many offshore companies are “sham” entities engaged in tax evasion/avoidance, manipulation of the market, money laundering, round tripping (taking untaxed money out of the country through inflated invoices and then bringing it back as investment), parking black money, bribery, etc.

These illicit funds come from transnational crimes, corruption, and tax evasion. Billions of ringgit are involved in illegal activities. The prostitution industry, which is linked to human trafficking, is estimated to be worth US\$963.8 million, or RM3.68 billion. Security officials estimate that illegal online gambling syndicates earn up to US\$2.4 billion (RM7.9 billion) a year from illegal gambling activities in Malaysia. Much of these ill-gotten gains is likely to end up in tax havens like Singapore, which is also a gateway to other tax havens.

In 2010, the government set up the High Level Multi-Agency Special Task Force to reduce illicit financial flows. Has the Task Force investigated the financial outflows from Malaysia to secret accounts in tax havens as disclosed in the Panama Papers and Paradise Papers? What were its findings and recommendations?

Outflow of funds to tax havens has become a major global problem, adversely affecting development in Third World countries. According to an International Monetary Fund (IMF) paper, tax havens collectively cost governments between US\$500 billion and US\$600 billion a year in lost corporate tax revenue through legal and not-so-legal means. Low-income economies lost around US\$200 billion, a higher percentage of their GDP compared to developed countries.

American Fortune 500 companies alone held an estimated \$2.6 trillion offshore in 2017, though a small portion of that has been repatriated following US tax reforms in 2018. Individuals have stashed in tax havens \$8.7 trillion by one estimate and, by another, \$36 trillion. Both, assuming very different rates of return, put global individual income tax losses at around \$200 billion a year, which must be added to the corporate total.

On the impact of capital outflows to tax havens, the IMF paper warns that “financial flows seeking secrecy or fleeing corporate taxes seem likely to be exactly the kind that exacerbate the finance curse, worsening inequality, increasing vulnerability to crises, and dealing unquantifiable political damage as secrecy-shrouded capital infiltrates Western political systems. And as financial capital flows from poorer countries to rich-world tax havens, labor migration will follow”.

Malaysia needs to strengthen its legal-institutional framework to eliminate tax avoidance and evasion, and curb the outflow of much-needed capital to tax havens. The European Union has placed Malaysia in its “grey list” of non-cooperative jurisdictions for tax purposes after the Pandora Papers revelations.

We call on the government to:

1. Set up a Royal Commission of Inquiry (RCI) to investigate the outflow of financial assets from Malaysia to secret accounts in tax havens and make recommendations
2. Work with other nations to put in place:
 - a) Automatic exchange of financial information across borders
 - b) Public disclosure of the ultimate human beneficiaries of companies, trusts and foundations
 - c) Country-by-country reporting for multinational corporations
 - d) Unitary tax with formula apportionment to prevent tax avoidance
 - e) A system to identify, contain and reduce transfer-mispricing by companies artificially inflating their costs and deflating profits through intra-company transactions.

Mohideen Abdul Kader
President
Consumers Association of Penang (CAP)