



Council of the
European Union

Brussels, 25 September 2020
(OR. en)

15323/1/17
REV 1 DCL 1

FISC 332
ECOFIN 1075

DECLASSIFICATION

of document: 15323/1/17 REV 1 RESTREINT UE/EU RESTRICTED
dated: 4 December 2017
new status: Public

Subject: Council conclusions on "The EU list of non-cooperative jurisdictions for tax purposes"
• Adoption

Delegations will find attached the declassified version of the above document.

The text of this document is identical to the previous version.

Brussels, 4 December 2017
(OR. en)15323/1/17
REV 1

RESTREINT UE/EU RESTRICTED

FISC 332
ECOFIN 1075**NOTE**

From: Presidency

To: Council

Subject: Council conclusions on "The EU list of non-cooperative jurisdictions for tax purposes"

- Adoption

I. INTRODUCTION

1. The ECOFIN Council, in its Conclusions of 25 May 2016 on an "External Strategy for Effective Taxation and Commission Recommendation on the implementation of measures against tax treaty abuse" invited "*the Code of Conduct Group to start work [...], with a view to establishing an EU list of non-cooperative jurisdictions and exploring defensive measures at EU level to be endorsed by the Council in 2017. Those defensive measures could be considered to be implemented in the tax as well as in the non-tax area.*"¹.

¹ Doc. 9452/16 FISC 85 ECOFIN 502, point 10.

RESTREINT UE/EU RESTRICTED

2. In its 8 November 2016 Conclusions² the Council set out the criteria on tax transparency, fair taxation and implementation of anti-BEPS standards, as well as the guidelines for the process of screening jurisdictions with a view to establishing an EU list of non-cooperative jurisdictions for tax purposes.
3. Since then, the Code of Conduct Group (Business Taxation) (COCG) and Council Presidency, chairing the COCG subgroup on third countries³, have worked intensely on this dossier. This work, as requested by the Council, was carried out in co-ordination with the High level Working Party on tax Questions⁴.
4. This work by the COCG, aimed at promoting the standards in the areas of tax transparency, fair taxation and implementation of anti-Base Erosion and Profit Shifting (anti-BEPS) measures is being done in co-ordination with the work of the Global Forum on Transparency and Exchange of Information for tax Purposes, and the OECD Inclusive Framework on Base Erosion and Profit Shifting, in particular the Forum on Harmful tax Practices.

II. SCREENING PROCESS

5. The COCG, in line with the mandate by the Council (the Guidelines⁵), finalised the preparatory work, launched an assessment ("screening") exercise on a number of jurisdictions on the basis of the Commission's Scoreboard, and invited these jurisdictions to engage in the process of analysis of their tax systems against the criteria, set out in the Council conclusions of 8 November 2016, concerning the areas of tax transparency, fair taxation and implementation of anti-BEPS measures.
6. The technical analysis was conducted by experts appointed by the COCG, on the basis of the publically available sources as well as information provided by the jurisdictions concerned, as most of the jurisdictions chose to engage in this process.

² The official publication of these Council Conclusions can be found in the *Official Journal of the European Union*: OJ C 461, 10.12.2016, page 2.

³ Doc. 6674/16 FISC 33 ECOFIN 189.

⁴ Doc. 10397/17 FISC 141 ECOFIN 551 CO EUR-PREP 32, paragraph 91.

⁵ See doc. 14166/16, point 7 of the "Guidelines for the process of screening of jurisdictions with a view to establishing an EU list of non-cooperative jurisdictions for tax purposes" (as endorsed by ECOFIN of 8 November 2017)

RESTREINT UE/EU RESTRICTED

7. At its meeting of 17 October 2017 the COCG considered the outcome of this analysis⁶ and agreed that letters, drafted on the basis of the templates agreed by the COCG and signed by the Chair of the COCG, should be sent to all jurisdictions concerned, informing them of the results of this work and, where relevant, seeking high level political commitment from the jurisdictions to address all issues (deficiencies) determined by the COCG, within the timeline provided in the screening criteria⁷. A number of updates to the technical analysis were considered at the COCG meeting of 22 November 2017⁸.
8. Notably, an important part of the work of COCG evolved around the screening criterion 2.2 (*"the jurisdiction should not facilitate offshore structures or arrangements aimed at attracting profits which do not reflect real economic activity in the jurisdiction."*). The scope of this criterion was further specified by the COCG, as mandated by the Council, specifically on how the absence of a corporate tax or applying a nominal corporate tax rate equal to zero or almost zero by a jurisdiction should be assessed, while the Council has also agreed that the absence of a corporate tax or applying a nominal corporate tax rate equal to zero or almost zero cannot alone be a reason for concluding that a jurisdiction does not meet the requirements of criterion 2.2.
9. Jurisdictions where concerns with regard to criterion 2.2 were determined, were invited to discuss with the COCG what further steps could be taken to address the concerns that were identified and in particular to ensure that businesses have sufficient economic substance.
10. The COCG agreed to put on hold the screening process to the jurisdictions that were affected by natural disasters. Nevertheless, these jurisdictions will be asked to address the concerns identified as soon as the situation improves, with the view to resolving these concerns by the end of 2018. By February 2018, the COCG will therefore contact these jurisdictions to prepare the next steps of co-operation.

⁶ Doc. 12831/17 EU RESTRICTED; doc. 12939/17 EU RESTRICTED; doc. 13015/17 EU RESTRICTED; doc. 13182/17 EU RESTRICTED; doc. 13235/17 EU RESTRICTED.

⁷ The relevant parts of these letters sent out to jurisdictions, setting out the commitments sought by the Code of Conduct Group are reproduced in the Annex I to doc. 13890/17 EU RESTRICTED and doc. 14451/17 EU RESTRICTED.

⁸ Doc. 14715/17 EU RESTRICTED.

III. DRAFT COUNCIL CONCLUSIONS AND FURTHER PROCESS (NEW COMMITMENTS)

11. The COCG took as a basis the work carried out by the Presidency, chairing the COCG Subgroup on third countries, on the draft of the Council conclusions on the EU list of non-cooperative jurisdictions for tax purposes.
12. The draft Council conclusions set out in the Annex to this note reflect the outcome of the discussions at the COCG meeting of 22 November 2017. These draft Council conclusions were submitted to the High Level Working Party on Tax Questions and approved by consensus on 23 November 2017.
13. The draft Council conclusions contain the following key annexes, covering:
 - i) the framework for setting out the EU list of non-cooperative tax jurisdictions (Annex I);
 - ii) the overview of the state of play with the EU concerning the commitments that jurisdictions undertook to implement (Annex II);
 - iii) the defensive measures in tax and non-tax area (Annex III);
 - iv) guidelines for the further process concerning the future modifications of the EU list of non-cooperative jurisdictions for tax purposes (incl. de-listing) (Annex IV).
14. The Committee of Permanent Representatives, at its meeting of 1 December 2017 mandated the Fiscal Attachés' Working Party to assess, as appropriate, the commitments made by the jurisdictions concerned in time for the upcoming ECOFIN Council meeting of 5 December and, if necessary, update the Annex I and Annex II of the draft Council conclusions accordingly, in order to allow Ministers to take an informed decision.

RESTREINT UE/EU RESTRICTED

15. In the light of the discussions at the meeting of the Fiscal Attaches' of 4 December 2017, all delegations agreed that the recent commitments made by Aruba, Armenia, Cayman Islands, Fiji, Jordan, Qatar, Swaziland and Vietnam are deemed sufficient and that Annex I and Annex II of the draft Council Conclusions should therefore be revised to reflect that.
16. To be noted, that delegations of Member States could not reach consensus on the assessment and/or responses by Cabo Verde and Morocco.

IV. CO-OPERATION WITH THE EU ON TAX GOOD GOVERNANCE (*Annex II to the draft Council conclusions*)

17. Most of the jurisdictions concerned have chosen to participate in the screening process and dialogue and have taken or undertaken to take active steps towards resolving the issues that the COCG has identified in the areas of tax transparency, fair taxation and implementation of anti-BEPS standards.
18. These jurisdictions have submitted letters certifying their firm commitment at a high political level to address all issues (deficiencies) determined by the COCG, within the timeline provided in the screening criteria.
19. The responses of these jurisdictions are considered to be a major success of the incentive-based EU policy to promote tax good governance standards worldwide in an inclusive manner. These achievements should be set out in the “State of play of the cooperation with the EU with respect to commitments taken to implement tax good governance principles” (Annex II to the draft Council conclusions).

V. NON-COOPERATIVE JURISDICTIONS AND DEFENSIVE MEASURES (*Annex I and Annex III to the draft Council conclusions*)

20. However, a number of jurisdictions have taken no meaningful action to effectively address the deficiencies determined by the COCG and did not engage in a meaningful dialogue on the basis of the Criteria that could lead to such commitments.
21. Therefore, as requested by the Council⁹, the COCG reported also on those jurisdictions that, by 30 November 2017 did not comply with the screening criteria and have not committed at a high political level to address all issues (deficiencies) determined by the COCG¹⁰.
22. The Council will decide by consensus whether to include these jurisdictions in the EU list of non-cooperative jurisdictions, should they provide no firm commitment at a high political level to address all issues (deficiencies) determined by the COCG, in time for consideration of the ECOFIN Council of 5 December.
23. The tax legislation, policies and administrative practices of these jurisdictions result or may result in a loss of tax revenues for Member States and such jurisdictions should therefore be strongly encouraged to make the changes needed to remedy this situation. It is of crucial importance to provide efficient protection mechanisms to fight against the erosion of Member States' tax bases. Consequently, effective and proportionate defensive measures, in both non-tax and tax areas could be applied by the EU and Member States vis-à-vis the non-cooperative jurisdictions, as long as they are part of such a list, as set out Annex III to the draft Council conclusions.

⁹ Doc. 10397/17 FISC 141 ECOFIN 551 CO EUR-PREP 32, paragraph 90.

¹⁰ Doc. 14844/17 FISC 306 REV 1.

VI. THE WAY FORWARD

24. On the basis of the exchange of views held at the Fiscal Attaché's meeting, as mandated by the Committee of the Permanent Representatives, the Presidency is of the view that the compromise text attached to this report should be acceptable to all delegations, save for the cases of Cabo Verde and Morocco. In both of these cases, the commitment was not sufficiently clear for all the aspects.
25. The exchange of views at the meeting of Fiscal Attaché's of 4 December was held on the basis of the letters received from jurisdictions from 29 November, 2017 (15:00) till 4 December 2017 (11:00), as well as on the preliminary assessment of these letters¹¹. The delegations also took into consideration the letters that reached them till the closure of the meeting¹². Delegations agreed to suggest to the Ministers that any new letters that might reach the Council Secretariat after the end of the Fiscal Attaché's meeting of 4 December 2017 would not be taken into consideration by the Ministers, should new information require substantial analysis.
26. On the basis of this work, these draft Council conclusions now include:
- i) the most updated version of the list of non-cooperative jurisdictions for tax purposes (Annex I to the draft Conclusions), and
 - ii) the most updated version of the state of play of the cooperation with the EU with respect to commitments taken to implement tax good governance principles (Annex II to the draft Council conclusions)

¹¹ Doc. 15414/17 FISC 341 EU RESTRICTED.

¹² Doc. 15369/17 FISC 338 EU RESTRICTED and doc. 15373/17 FISC 339 EU RESTRICTED.

RESTREINT UE/EU RESTRICTED

27. Against this background, it is recommended that the Council:

- confirm that any new letters by jurisdictions received after 4 December 2017, 17:00 (UTC +01:00) are not to be taken into account at this stage;
- reach agreement on the contents of Annex I and Annex II to the draft Council conclusions (including Cabo Verde and Morocco (currently in [] brackets)); and
- endorse the draft Council conclusions on the EU list of non-cooperative jurisdictions for tax purposes, as set out in the Annex to this note, and agree to publish the adopted text in the Official Journal.

DECLASSIFIED

COUNCIL CONCLUSIONS

on the EU list of non-cooperative jurisdictions for tax purposes (*)

(*) The Council agreed to publish these conclusions for information purposes in the Official Journal.

The Council:

1. RECALLS the Council Conclusions on an external taxation strategy and measures against tax treaty abuse of 25 May 2016, in particular points 6 to 10 thereof, and the Council Conclusions of 8 November 2016 on the criteria for and process leading to the establishment of the EU list of non-cooperative jurisdictions for tax purposes;
2. EMPHASISES the importance of promoting globally the criteria on tax transparency, fair taxation and implementation of anti-BEPS standards, which were endorsed by the Council Conclusions of 8 November 2016 ("the Criteria"), as set out in Annex V hereto, and as further specified in Annexes VI and VII;
3. TAKES STOCK of the work achieved by the Global Forum on Transparency and Exchange of Information for Tax Purposes, the OECD Inclusive Framework for Tackling Base Erosion and Profit Shifting (BEPS), and the Forum on Harmful Tax Practices;
4. WELCOMES the work that the Code of Conduct Group on Business Taxation ("Code of Conduct Group") has carried out, in co-ordination with the High-Level Working Party on Tax Questions ("the HLWP"), in selecting the relevant jurisdictions and analysing and assessing the facts pertaining to their tax legislation and policies in the context of the Criteria;
5. WELCOMES the fact that most of these jurisdictions have chosen to participate in this process and dialogue, and have taken or undertaken to take active steps towards resolving the issues that the Code of Conduct Group has identified in the areas of tax transparency, fair taxation and implementation of anti-BEPS standards;

RESTREINT UE/EU RESTRICTED

6. NOTES, nonetheless, that a number of jurisdictions have taken no meaningful action to effectively address the deficiencies and do not engage in a meaningful dialogue on the basis of the Criteria that could lead to such commitments;
7. IS CONVINCED that, in such a case, the tax legislation, policies and administrative practices of these jurisdictions result or may result in a loss of tax revenues for Member States and that such jurisdictions should therefore be strongly encouraged to make the changes needed to remedy this situation;
8. REITERATES that it is of crucial importance to provide efficient protection mechanisms to fight against the erosion of Member States' tax bases through tax fraud, evasion and avoidance;
9. ENDORSES, accordingly, the EU list of non-cooperative jurisdictions for tax purposes, as set out in Annex I, and CONFIRMS that jurisdictions will remain on this list until they meet the Criteria, for example, by fulfilling the recommendations on the steps to take in order to be de-listed;
10. DEEMS IT APPROPRIATE for the Code of Conduct Group to engage in discussions with the listed jurisdictions, with a view to agreeing and monitoring the steps that jurisdictions are expected to take in order to be removed from the list and ENCOURAGES these jurisdictions to swiftly take the action needed to meet the Criteria;

RESTREINT UE/EU RESTRICTED

11. NOTES WITH SATISFACTION that while the tax legislation, policies and administrative practices of some jurisdictions present concerns in the areas of tax transparency, fair taxation and implementation of anti-BEPS standards, a number of these jurisdictions have nevertheless made meaningful commitments at high political level to take the necessary steps to solve the outstanding issues by the agreed deadlines and so should not, at this stage, be placed on the list of non-cooperative jurisdictions. The Code of Conduct Group should continue dialogue and monitoring the actual implementation of the commitments made by these jurisdictions and should recommend at any time to update the list of non-cooperative jurisdictions for tax purposes based on the implementation of these commitments. The state of play of the cooperation with the EU with respect to commitments taken to implement tax good governance principles is set out in Annex II;
12. EXPRESSES its sympathy and support to the jurisdictions in the Caribbean region that were severely struck by devastating storms in September 2017, causing casualties and major damage to key infrastructure, and HOLDS THE VIEW that the screening process should be put on hold for these jurisdictions (Anguilla, Antigua and Barbuda, Bahamas, British Virgin Islands, Dominica, Saint Kitts and Nevis, Turks and Caicos Islands, US Virgin Islands). Nevertheless, the Code of Conduct Group should, by February 2018, pursue further contacts with these jurisdictions, with the view to resolving these concerns by the end of 2018;

DECLASSIFIED

RESTREINT UE/EU RESTRICTED

13. ASKS, in particular, that the Code of Conduct Group **continues the dialogue and** starts the monitoring process of the commitments made by jurisdictions without delay, as of the beginning of 2018, to ensure their effective implementation **according to the agreed timeline.**
14. ~~in due time and~~ CALLS UPON the Code of Conduct Group to **agree on procedures to carry out the monitoring process and to** prepare a progress report on this matter **before** by **summer** ~~the end of~~ 2018.
15. INSTRUCTS the Code of Conduct Group accordingly to engage in or continue discussions with relevant jurisdictions, to seek the necessary commitments to monitor whether these commitments are being met, and regularly to report back to the Council, as appropriate, with suggestions concerning modifications to the list of non-cooperative jurisdictions;
16. TAKES THE VIEW, as set out in Annex III, that effective and proportionate defensive measures, in both non-tax and tax areas could be applied by the EU and Member States vis-à-vis the non-cooperative jurisdictions, as long as they are part of such list;
17. RECOMMENDS that Member States take certain co-ordinated defensive measures in the tax area as set out in Annex III hereto, in accordance with their national law and in accordance with the obligations under EU and international law;
18. CALLS UPON the Code of Conduct Group to continue exploring further co-ordinated measures in tax area and INVITES the Member States to inform the Code of Conduct Group on whether and how they apply defensive measures vis-à-vis the non-cooperative jurisdictions, as long as they are part of such list;

RESTREINT UE/EU RESTRICTED

19. INVITES the EU institutions and Member States, as appropriate, to take the EU list of non-cooperative jurisdictions for tax purposes into account in foreign policy, economic relations and development cooperation with the relevant third countries, to strive for a comprehensive approach as regards to the issue of compliance with the Criteria, without prejudice to the respective spheres of competence of the Member States and of the Union as resulting from the Treaties;
20. BELIEVES that the list of non-cooperative jurisdictions and the defensive measures, when applicable, will have the effect of sending a strong signal to the jurisdictions concerned, thus encouraging a positive change leading to the removal of jurisdictions from the list;
21. CONFIRMS that these actions collectively taken by the EU Member States are in line with the agenda promoted by the G20, the OECD and other international fora;
22. RECALLS the agreement of the Council on the approach to the absence of a corporate tax system or applying a nominal corporate tax rate equal to zero or almost zero in the context of the criterion that requires a jurisdiction not to facilitate offshore structures or arrangements aimed at attracting profits which do not reflect real economic activity in the jurisdiction, as set out in Annex VII;
23. RECALLS that, in line with the Council Conclusions of 8 November 2016, these actions are without prejudice to the respective spheres of competence of the Member States, such as the competence to negotiate and agree bilateral tax treaties, apply additional measures or maintain lists of non-cooperative jurisdictions at national level with a broader scope;
24. CONFIRMS that a decision on modification of the list will be taken by the Council, on the basis of the relevant factual information made available to the Council by the Code of Conduct Group;

RESTREINT UE/EU RESTRICTED

25. NOTES that the list of non-cooperative jurisdictions should be updated at least once per calendar year, and the situation should be continuously monitored in the listed jurisdictions, as well as in other jurisdictions covered by the 2017 screening exercise. On the basis of criteria agreed by the Council, monitoring could be extended, by the Code of Conduct Group, to other jurisdictions;
26. INVITES the Code of Conduct Group to continue dialogue with relevant jurisdictions to promote tax transparency, fair taxation and implementation of anti-BEPS standards; and to continue the work on analysis of defensive measures that could be further defined and applied to non-cooperative jurisdictions in a co-ordinated manner, without prejudice to Member States' obligations under EU and international law;
27. REITERATES that the Code of Conduct Group, supported by the General Secretariat of the Council, should continue to conduct and oversee this process, in co-ordination with the HLWP. The Commission will assist the Code of Conduct Group by carrying out the necessary preparatory work for the screening process in accordance with the roles as currently defined under the Code of Conduct for Business Taxation, with particular reference to previous and ongoing dialogues with third countries;
28. DEEMS IT APPROPRIATE, in this context, to determine the Guidelines for further work in this area, as set out in Annex IV;
29. CONFIRMS that the Criteria will be regularly updated, by the Council, as necessary, taking into account international developments and having regard to the evolution of international standards and TAKES THE VIEW that future assessment and dialogue with the jurisdictions concerned should be based on those standards bearing in mind the importance of continued and rapid progress by all relevant jurisdictions in these areas.

The EU list of non-cooperative jurisdictions for tax purposes¹³

I. The EU list of non-cooperative jurisdictions for tax purposes

I. The EU list of non-cooperative jurisdictions for tax purposes

1. American Samoa

American Samoa does not apply any automatic exchange of financial information, has not signed and ratified, including through the jurisdiction they are dependent on, the OECD Multilateral Convention on Mutual Administrative Assistance as amended, does not apply the BEPS minimum standards and did not commit to addressing these issues by 31 December 2018.

2. Bahrain

Bahrain does not cover all EU Member States for the purpose of automatic exchange of information, has not signed and ratified the OECD Multilateral Convention on Mutual Administrative Assistance as amended, facilitates offshore structures and arrangements aimed at attracting profits without real economic substance, does not apply the BEPS minimum standards and did not commit to addressing these issues by 31 December 2018.

3. Barbados

Barbados has a harmful preferential tax regime and did not clearly commit to amending or abolishing it as requested by 31 December 2018.

Barbados' commitment to amend or abolish other harmful tax regimes in line with criterion 2.1 will be monitored.

¹³ On the basis of the responses received by 4 December 2017; 17:00 (UTC +01:00).

[4. Cabo Verde

Cabo Verde has not signed and ratified the OECD Multilateral Convention on Mutual Administrative Assistance as amended and did not clearly commit to addressing these issues by 31 December 2019. Furthermore, Cabo Verde has a harmful preferential tax regime and did not clearly commit to amending or abolishing it by 31 December 2018.

Cabo Verde's commitment to comply with criteria 1.2 and 3 will be monitored.]

5. Grenada

Grenada has not signed and ratified the OECD Multilateral Convention on Mutual Administrative Assistance as amended and did not clearly commit to addressing these issues by 31 December 2018.

Grenada's commitment to comply with criteria 1.1, 2.1 and 3 will be monitored.

6. Guam

Guam does not apply any automatic exchange of financial information, has not signed and ratified, including through the jurisdiction they are dependent on, the OECD Multilateral Convention on Mutual Administrative Assistance as amended, does not apply the BEPS minimum standards and did not commit to addressing these issues by 31 December 2018.

7. Korea (Republic of)

Korea has harmful preferential tax regimes and did not commit to amending or abolishing them by 31 December 2018.

8. Macao SAR

Macao SAR has not signed and ratified, including through the jurisdiction they are dependent on, the OECD Multilateral Convention on Mutual Administrative Assistance as amended and did not commit to addressing these issues by 31 December 2018.

Macao SAR's commitment to comply with criteria 1.1 and 2.1 will be monitored.

9. Marshall Islands

Marshall Islands facilitates offshore structures and arrangements aimed at attracting profits without real economic substance, does not apply the BEPS minimum standards and did not commit to addressing these issues by 31 December 2018.

Marshall Islands' commitment to comply with criteria 1.1 and 1.2 will be monitored.

10. Mongolia

Mongolia is not a member of the Global Forum on Transparency and Exchange of Information for Tax Purposes, has not signed and ratified the OECD Multilateral Convention on Mutual Administrative Assistance as amended, does not apply the BEPS minimum standards and did not commit to addressing these issues by 31 December 2019.

[11. Morocco

Morocco has harmful preferential tax regimes and did not commit to amending or abolishing them by 31 December 2018.

Morocco's commitment to comply with criteria 1.3 and 3 will be monitored.]

12. Namibia

Namibia is not a Member of the Global Forum on Transparency and Exchange of Information for Tax Purposes, has not signed and ratified the OECD Multilateral Convention on Mutual Administrative Assistance as amended, does not apply the BEPS minimum standards and did not commit to addressing these issues by 31 December 2019. Furthermore, Namibia has harmful preferential tax regimes and did not commit to amending or abolishing them by 31 December 2018.

13. Palau

Palau facilitates offshore structures and arrangements aimed at attracting profits without real economic substance and refused to engage in a meaningful dialogue to ascertain its compliance of with criterion 2.2.

Palau's commitment to comply with criteria 1.1, 1.2, 1.3 and 3 will be monitored.

14. Panama

Panama has a harmful preferential tax regime and did not clearly commit to amending or abolishing it as requested by 31 December 2018.

Panama's commitment to amend or abolish other harmful tax regimes in line with criterion 2.1 will be monitored.

15. Saint Lucia

Saint Lucia has harmful preferential tax regimes, does not apply the BEPS minimum standards and did not clearly commit to addressing these issues by 31 December 2018.

DECLASSIFIED

16. Samoa

Samoa has harmful preferential tax regimes, does not apply the BEPS minimum standards and did not commit to addressing these issues by 31 December 2018.

17. Trinidad and Tobago

Trinidad and Tobago has been attributed a rating of “Non Compliant” by the Global Forum on Transparency and Exchange of Information for Tax Purposes, has not signed and ratified the OECD Multilateral Convention on Mutual Administrative Assistance in Tax Matters as amended, has a harmful preferential tax regime and did not commit to addressing these issues by 31 December 2018.

Trinidad and Tobago's commitment to comply with criteria 1.1 and 3 will be monitored.

18. Tunisia

Tunisia has harmful preferential tax regimes and did not commit to amending or abolishing them by 31 December 2018.

Tunisia's commitment to comply with criterion 3 will be monitored.

19. United Arab Emirates

The United Arab Emirates does not apply the BEPS minimum standards and did not commit to addressing these issues by 31 December 2018.

United Arab Emirates' commitment to comply with criteria 1.1 and 1.3 will be monitored.

II. Recommendations to jurisdictions on steps to take in order to get de-listed:

All listed jurisdictions are invited to effectively address the deficiencies set out in this Annex.

State of play of the cooperation with the EU with respect to commitments taken to implement tax good governance principles¹⁴

In the context of the screening process, the Code of Conduct Group invited each jurisdiction where concerns were identified to commit to address such concerns. The large majority of jurisdictions have decided to introduce the relevant changes in their tax legislation in order to comply with the EU screening criteria.

The outcome of this process demonstrates the extent to which all these jurisdictions are engaged in a constructive dialogue with the EU, how they are committed to complying with EU and international tax standards and finally highlight the positive relationship that the EU has built with all these jurisdictions. These jurisdictions have therefore been determined as co-operative, subject to the successful delivery of their commitments.

The Code of Conduct Group will monitor that these commitments are implemented in practice and will therefore continue the constructive dialogue established with these jurisdictions.

The implementation of the commitments is expected to be completed by the end of 2018 for most jurisdictions; developing countries however have until the end of 2019 to fulfil their commitments as regards the transparency criteria and the anti-BEPS measures.

The following “**State of play of the cooperation with the EU with respect to commitments taken to implement tax good governance principles**” records the commitments taken by the screened jurisdiction to address issues identified with respect to the criteria agreed by the November 2016 Ecofin Council, grouped under the headings of transparency, fair taxation and anti-BEPS measures.

¹⁴ On the basis of the responses received by 4 December 2017; 17:00 (UTC +01:00).

1. Transparency

1.1 Commitment to implement the automatic exchange of information, either by signing the Multilateral Competent Authority Agreement or through bilateral agreements

The following jurisdictions are committed to implement automatic exchange of information by 2018:

Curaçao, Hong Kong SAR, New Caledonia, Oman, Qatar and Taiwan

The following jurisdictions are committed to implement automatic exchange of information by 2019:

Turkey

1.2 Membership of the Global Forum on transparency and exchange of information for tax purposes and satisfactory rating

The following jurisdictions are committed to become member of the Global Forum and/or have a satisfactory rating by 2018:

Curaçao, New Caledonia and Oman

The following jurisdictions are committed to become member of the Global Forum and/or have a sufficient rating by 2019:

Bosnia and Herzegovina, Fiji, Jordan, Montenegro, Serbia, Swaziland, Turkey and Vietnam

1.3 Signatory and ratification of the OECD Multilateral Convention on Mutual Administrative Assistance or network of agreements covering all EU Member States

The following jurisdictions are committed to sign and ratify the MAC or to have in place a network of agreements covering all EU Member States by 2018:

Hong Kong SAR, New Caledonia, Oman, Qatar and Taiwan

The following jurisdictions are committed to sign and ratify the MAC or to have in place a network of agreements covering all EU Member States by 2019:

Armenia, Bosnia and Herzegovina, Botswana, Fiji, Former Yugoslav Republic of Macedonia, Jamaica, Jordan, Maldives, Montenegro, Peru, Serbia, Swaziland, Thailand, Turkey and Vietnam

2. Fair Taxation

2.1 Existence of harmful tax regimes

The following jurisdictions are committed to amend or abolish the identified regimes by 2018:

Andorra, Armenia, Aruba, Belize, Botswana, Cook Islands, Curacao, Fiji, Hong Kong SAR, Jordan, Liechtenstein, Maldives, Mauritius, Saint Vincent and the Grenadines, San Marino, Seychelles, Switzerland, Taiwan, Thailand, Turkey, Uruguay and Vietnam

The following jurisdictions have not explicitly reiterated the commitment taken at the FHTP to amend or abolish the identified regimes by 2018:

Malaysia and Labuan Island

2.2 Existence of tax regimes that facilitate offshore structures which attract profits without real economic activity

The following jurisdictions are committed to addressing the concerns relating to economic substance by 2018:

Bermuda, Cayman Islands, Guernsey, Isle of Man, Jersey and Vanuatu

3. Anti-BEPS Measures

3.1 Membership of the Inclusive Framework on BEPS or implementation of BEPS minimum standards

The following jurisdictions are committed to become member of the Inclusive Framework or implement BEPS minimum standard by 2018:

Aruba, Cook Islands, Faroe Islands, Greenland, New Caledonia, Saint Vincent and the Grenadines, Taiwan and Vanuatu

The following jurisdictions are committed to become member of the Inclusive Framework or implement BEPS minimum standard by 2019:

Albania, Armenia, Bosnia and Herzegovina, Fiji, Former Yugoslav Republic of Macedonia, Jordan, Maldives, Montenegro, Serbia and Swaziland

The following jurisdictions are committed to become member of the Inclusive Framework or implement BEPS minimum standard if and when such commitment will become relevant:

Nauru, Niue

Defensive Measures

1. Placement of a jurisdiction on the list of non-cooperative jurisdictions for the tax purposes is expected to have a dissuasive effect that encourages jurisdictions to comply with the Criteria, as set out in Annex IV hereto, and as further specified in Annexes V and VI, as well as other relevant international standards.
2. It is important to provide efficient protection mechanisms to fight against the erosion of Member States' tax bases through tax fraud, evasion and avoidance, and consequently, to apply effective and proportionate defensive measures, at the EU and national level, to the jurisdictions in the EU list of non-cooperative jurisdictions for tax purposes.
3. A number of defensive measures in non-tax area at EU level are linked to the EU list of non-cooperative jurisdictions for tax purposes and set out in Part A of this Annex.
4. Moreover, certain defensive measures in tax area could be taken by the Member States, in accordance with their national law, in addition to the non-tax measures taken by the EU, to effectively discourage non-cooperative practices in the jurisdictions placed on the list.
5. A list of such measures in tax area is set out in Part B of this Annex. As these measures should be compatible with the national tax systems of the EU Member States, the implementation of these measures is left to the competence of the Member States.
6. It is to be noted that any defensive measures should be without prejudice to the respective spheres of competence of the Member States to apply additional measures or maintain lists of non-cooperative jurisdictions at national level with a broader scope.

A. DEFENSIVE MEASURES IN NON-TAX AREA

Article 22 of Regulation (EU) 2017/1601 of the European Parliament and of the Council of 26 September 2017 establishing the European Fund for Sustainable Development (EFSD), the EFSD Guarantee and the EFSD Guarantee Fund contains a link to the EU list of non-cooperative jurisdictions.

Furthermore, should a link with the EU list of non-cooperative jurisdictions for tax purposes be designed in other EU legislative acts in non-tax area in the future, it would be considered as a part of the defensive measures in the context of these Council conclusions.

Overall effects on the compliance by the jurisdictions with the Criteria as a result of such measures should be monitored by the Code of Conduct Group, as well as by the HLWP in the context of implementation of the EU external strategy on taxation.

B. DEFENSIVE MEASURES IN TAX AREA*

B.1. To ensure co-ordinated action, Member States should apply at least one of the following administrative measures in tax area:

- a) Reinforced monitoring of certain transactions;
- b) Increased audit risks for taxpayers benefiting from the regimes at stake;
- c) Increased audit risks for taxpayers using structures or arrangements involving these jurisdictions.

B.2. Without prejudice to the respective spheres of competence of the Member States to apply additional measures, defensive measures of legislative nature in tax area that **could** be applied by the Member States are:

- a) Non-deductibility of costs;
- b) Controlled Foreign Company (CFC) rules;
- c) Withholding tax measures;
- d) Limitation of participation exemption;
- e) Switch-over rule;
- f) Reversal of the burden of proof;
- g) Special documentation requirements;
- h) Mandatory disclosure by tax intermediaries of specific tax schemes with respect to cross-border arrangements;

B.3. Member States could consider using the EU list of non-cooperative jurisdictions for tax purposes as a tool to facilitate the operation of relevant anti-abuse provisions, when implementing Council Directive (EU) 2016/1164 of 12 July 2016 laying down rules against tax avoidance practices that directly affect the functioning of the internal market. For example, where, in accordance with that Directive, Member States, in transposing CFC rules into their national law, use "black" lists of third countries, such lists could cover at least the jurisdictions listed in the EU list of non-cooperative jurisdictions for tax purposes.

DECLASSIFIED

Guidelines for further process concerning the EU list of non-cooperative jurisdictions for tax purposes

1. REVISION OF THE LIST AND DE-LISTING PROCESS

- 1.1. The list of non-cooperative jurisdictions for tax purposes set out in Annex I shall be revised by the Council at least once a year and endorsed on the basis of the report from the Code of Conduct Group on Business Taxation to the Council, indicating the starting date of application of that modification.
- 1.2. This list may be amended or its duration may be modified under the same procedural rules as it has been endorsed. In this process, European Commission should provide the necessary technical assistance.
- 1.3. The decision of the Council will be based on a report of the Code of Conduct Group, in coordination with the HLWP, and prepared by the Committee of Permanent Representatives.
- 1.4. As soon as a jurisdiction is placed on the list, it will be informed by a letter signed by the Chair of the Code of Conduct Group, clearly stating:
 - a) the reasons for its inclusion in the list, and
 - b) which steps from a jurisdiction concerned are expected in order to be de-listed.
- 1.5. As soon as a jurisdiction is removed from the list, it will be swiftly informed of its removal by the letter signed by the Chair of the Code of Conduct Group, with the indication of the starting date of the application of such modification.
- 1.6. Decisions on listing or de-listing a jurisdiction should clearly specify the dates when the defensive measures in tax area should start or cease to apply depending on the nature of the measure, without prejudice to the respective spheres of competence of the Member States, such as adjustment of national legislation on application of defensive measures taken at national level.

2. COMMITMENTS BY JURISDICTIONS, MONITORING, DIALOGUE AND WAY FORWARD

- 2.1. Commitments officially taken by jurisdictions to implement recommendations requested by the Council in order to address the issues identified should be carefully monitored by the Code of Conduct Group, supported by the General Secretariat of the Council, with technical assistance of the European Commission, in order to evaluate their effective implementation.
- 2.2. Should these jurisdictions fail to address commitments by the established timeframe, the Council will revisit the issue of potential inclusion of the jurisdictions concerned into a list set out in Annex I.
- 2.3. For jurisdictions that present concerns by not fulfilling the requirements of the Criteria, the Code of Conduct Group should continue to seek their high level political commitment, with a concrete timeframe, and effectively address the concerns identified in screening process.
- 2.4. In particular, bilateral discussions should aim at:
- a) exploring and determining solutions to identified concerns with the tax systems and policies of these jurisdictions, as well as
 - b) obtaining the appropriate and necessary commitments to remedy the situation.
- 2.5. In monitoring commitments, stock should continue to be taken of the work achieved by the Global Forum on Transparency and Exchange of Information for Tax Purposes, the OECD Inclusive Framework for Tackling Base Erosion and Profit Shifting, and of the Forum on Harmful Tax Practices.
- 2.6. The Code of Conduct Group should continue promoting globally the Criteria in coordination with the work of the Global Forum on Transparency and Exchange of Information for tax Purposes, the OECD Inclusive Framework for Tackling Base Erosion and Profit Shifting, and of the Forum on Harmful tax Practices.

- 2.7. Where relevant, if decided by the Code of Conduct Group on the basis of criteria agreed by the Council, monitoring could extend to jurisdictions that were outside the scope of the 2017 screening exercise.
- 2.8. The Code of Conduct Group, supported by the General Secretariat of the Council will continue to conduct and oversee this process, in co-ordination with the HLWP. The Commission services will assist the Code of Conduct Group by carrying out the necessary preparatory work for the screening process in accordance with the roles as currently defined under the Code of Conduct for Business Taxation, with particular reference to previous and ongoing dialogues with third countries.
- 2.9. The Code of Conduct Group should continue developing appropriate practical arrangements on implementing of these Guidelines.
- 2.10. The EU list of non-cooperative jurisdictions shall be updated by the Council, along these Guidelines, on the basis of information that will be made available to the Code of Conduct Group. The Code of Conduct group will work on the basis of information provided to it, inter alia, by the jurisdiction concerned, the Commission or the Member State(s).
- 2.11. Following a balanced review of all collected information, the Code of Conduct Group shall report to the Council at least once a year, on the list of non-cooperative jurisdictions to enable the Council to decide, as appropriate, to include jurisdictions in the list of non-cooperative jurisdictions if they do not comply with the screening criteria, or swiftly remove them from such list, if they fulfil the conditions.
- 2.12. General Secretariat of the Council will continue to serve as a focal point in order to facilitate the process described in this document.
-

Criteria on tax transparency, fair taxation and implementation of anti-BEPS measures that EU Member States undertake to promote

The following tax good governance criteria should be used to screen jurisdictions, with a view to establishing the EU list of non-cooperative jurisdictions for tax purposes, in line with the guidelines for the screening. The compliance of jurisdictions on tax transparency, fair taxation and the implementation of BEPS measures will be assessed cumulatively in the screening process.

1. Tax transparency

Criteria that a jurisdiction should fulfil in order to be considered compliant on tax transparency:

- 1.1. Initial criterion with respect to the OECD Automatic Exchange of Information (AEOI) standard (the Common Reporting Standard – CRS): the jurisdiction, should have committed to and started the legislative process to implement effectively the CRS, with first exchanges in 2018 (with respect to the year 2017) at the latest and have arrangements in place to be able to exchange information with all Member States, by the end of 2017, either by signing the Multilateral Competent Authority Agreement (MCAA) or through bilateral agreements;

Future criterion with respect to the CRS as from 2018: the jurisdiction, should possess at least a “Largely Compliant” rating by the Global Forum with respect to the AEOI CRS, and
- 1.2. the jurisdiction should possess at least a “Largely Compliant” rating by the Global Forum with respect to the OECD Exchange of Information on Request (EOIR) standard, with due regard to the fast track procedure, and

1.3. (for sovereign states) the jurisdiction should have either:

- i) ratified, agreed to ratify, be in the process of ratifying, or committed to the entry into force, within a reasonable time frame, of the OECD Multilateral Convention on Mutual Administrative Assistance (MCMAA) in Tax Matters, as amended, or
- ii) a network of exchange arrangements in force by 31 December 2018 which is sufficiently broad to cover all Member States, effectively allowing both EOIR and AEOI;

(for non-sovereign jurisdictions) the jurisdiction should either:

- i) participate in the MCMAA, as amended, which is either already in force or expected to enter into force for them within a reasonable timeframe, or
- ii) have a network of exchange arrangements in force, or have taken the necessary steps to bring such exchange agreements into force within a reasonable timeframe, which is sufficiently broad to cover all Member States, allowing both EOIR and AEOI.

1.4. Future criterion: in view of the initiative for future global exchange of beneficial ownership information, the aspect of beneficial ownership will be incorporated at a later stage as a fourth transparency criterion for screening.

Until 30 June 2019, the following exception should apply:

- A jurisdiction could be regarded as compliant on tax transparency, if it fulfils at least two of the criteria 1.1, 1.2 or 1.3.

This exception does not apply to the jurisdictions which are rated "Non Compliant" on criterion 1.2 or which have not obtained at least "Largely Compliant" rating on that criterion by 30 June 2018.

Countries and jurisdictions which will feature in the list of non-cooperative jurisdictions currently being prepared by the OECD and G20 members will be considered for inclusion in the EU list, regardless of whether they have been selected for the screening exercise.

2. Fair taxation

Criteria that a jurisdiction should fulfil in order to be considered compliant on fair taxation:

- 2.1. the jurisdiction should have no preferential tax measures that could be regarded as harmful according to the criteria set out in the Resolution of the Council and the Representatives of the Governments of the Member States, meeting within the Council of 1 December 1997 on a code of conduct for business taxation¹⁵, and
- 2.2. The jurisdiction should not facilitate offshore structures or arrangements aimed at attracting profits which do not reflect real economic activity in the jurisdiction.

3. Implementation of anti-BEPS measures

3.1. Initial criterion that a jurisdiction should fulfil in order to be considered compliant as regards the implementation of anti-BEPS measures:

- the jurisdiction, should commit, by the end of 2017, to the agreed OECD anti-BEPS minimum standards and their consistent implementation.

3.2. Future criterion that a jurisdiction should fulfil in order to be considered compliant as regards the implementation of anti-BEPS measures (to be applied once the reviews by the Inclusive Framework of the agreed minimum standards are completed):

- the jurisdiction should receive a positive assessment¹⁶ for the effective implementation of the agreed OECD anti-BEPS minimum standards.

¹⁵ OJ C 2, 6 January 1998, p. 2.

¹⁶ Once the methodology is agreed, the wording of the criterion will be revised by the Council accordingly.

Criterion 1.3 (the duration of the reasonable timeframe)

1. In line with point 13 of the Guidelines for the process of screening of jurisdictions annexed to the Council Conclusions, the Code of Conduct Group should define, based on objective criteria the duration of the reasonable timeframe, referred to in criterion 1.3.
2. For the purposes of application of criterion 1.3, the duration of the reasonable timeframe, referred to in criterion 1.3, will be construed as follows:
3. With respect to criterion 1.3(i) (sub-point relating to sovereign states), “within a reasonable timeframe” refers to the entry into force of the OECD Multilateral Convention on Mutual Administrative Assistance (MCMAA), as amended, for a given jurisdiction and not to the commitment.
4. With respect to criteria 1.3(i) and 1.3(ii) (sub-points relating to non-sovereign jurisdictions), “within a reasonable timeframe” refers, respectively, to the entry into force of the MCMAA, as amended, for the jurisdiction, and to the entry into force for the jurisdiction of a network of exchange agreements sufficiently broad to cover all Member States.
5. The duration of the reasonable timeframe, for these three points will be identical to the deadline applied in criterion 1.3(ii) in relation to sovereign states: 31 December 2018 (i.e. the same deadline which applies to the entry into force for a sovereign third jurisdiction of a network of exchange arrangements, which is sufficiently broad to cover all Member States).

6. Without prejudice to the deadline of 31 December 2018, the reasonable timeframe should not extend beyond the time required for:
- a) the completion of the procedural steps according to national law,
 - b) adoption and entry into force of any required amendments to national law; and
 - c) any other objective deadlines that formal commitment could entail (for example: for a jurisdiction which expresses its consent to be bound by the MCMAA, it enters into force on the first day of the month following the expiration of a period of three months after the date of the deposit of the instrument of ratification, acceptance or approval).
7. The duration of the reasonable timeframe can only be extended by a consensus of a Code of Conduct Group for a specific non-sovereign jurisdiction, only in duly justified cases.
-

DECLASSIFIED

Scope of criterion 2.2

1. For the purposes of application of criterion 2.2, the absence of a corporate tax or applying a nominal corporate tax rate equal to zero or almost zero by a jurisdiction should be regarded as within the scope of Paragraph A of the Code of Conduct for Business Taxation of 1 December 1997 (Code of Conduct).¹⁷
2. In this respect, where criterion 2.1 is inapplicable solely due to the fact that the jurisdiction concerned does not meet the gateway criterion under Paragraph B of the Code of Conduct ¹⁸, because of the "absence of a corporate tax system or applying a nominal corporate tax rate equal to zero or almost zero"¹⁹, then the five factors identified in paragraph B of the Code of Conduct should be applied by analogy to assess whether the criterion 2.2²⁰ has been met.
3. In the context of criterion 2.2 the fact of absence of a corporate tax or applying a nominal corporate tax rate equal to zero or almost zero can not alone be a reason for concluding that a jurisdiction does not meet the requirements of criterion 2.2.
4. A jurisdiction should be deemed as non-compliant with criterion 2.2 if it refuses to engage in a meaningful dialogue or does not provide the information or explanations that the Code of Conduct Group may reasonably require or otherwise does not cooperate with the Code of Conduct Group where it needs to ascertain compliance of that jurisdiction with criterion 2.2 in the conduct of the screening process.

¹⁷ "Without prejudice to the respective spheres of competence of the Member States and the Community, this code of conduct, which covers business taxation, concerns those measures which affect, or may affect, in a significant way the location of business activity in the Community." (OJ C 2, 06.01.1998, p. 3)

¹⁸ "Within the scope specified in paragraph A, tax measures which provide for a significantly lower effective level of taxation, including zero taxation, than those levels which generally apply in the Member State in question are to be regarded as potentially harmful and therefore covered by this code. Such a level of taxation may operate by virtue of the nominal tax rate, the tax base or any other relevant factor." (OJ C 2, 06.01.1998, p. 3)

¹⁹ This may operate by virtue of the nominal tax rate, the tax base or any other relevant factor.

²⁰ Criterion 2.2 reads as follows: "*The jurisdiction should not facilitate offshore structures or arrangements aimed at attracting profits which do not reflect real economic activity in the jurisdiction.*"

Terms of reference for the application of the Code test by analogy

A. General framework

1. Criterion from ECOFIN Council Conclusion on 8th November 2016

The jurisdiction should not facilitate offshore structures or arrangements aimed at attracting profits which do not reflect real economic activity in the jurisdiction.

2. Scope of Criterion 2.2 (ECOFIN February 2017)

1. *For the purposes of application of criterion 2.2, the absence of a corporate tax or applying a nominal corporate tax rate equal to zero or almost zero by a jurisdiction should be regarded as within the scope of Paragraph A of the Code of Conduct for Business Taxation of 1 December 1997 (Code of Conduct).²¹*

2. *In this respect, where criterion 2.1 is inapplicable solely due to the fact that the jurisdiction concerned does not meet the gateway criterion under Paragraph B of the Code of Conduct²², because of the "absence of a corporate tax system or applying a nominal corporate tax rate equal to zero or almost zero"²³, then the five factors identified in paragraph B of the Code of Conduct should be applied by analogy to assess whether the criterion 2.2²⁴ has been met.*

²¹ *"Without prejudice to the respective spheres of competence of the Member States and the Community, this code of conduct, which covers business taxation, concerns those measures which affect, or may affect, in a significant way the location of business activity in the Community." (OJ C 2, 06.01.1998, p. 3)*

²² *"Within the scope specified in paragraph A, tax measures which provide for a significantly lower effective level of taxation, including zero taxation, than those levels which generally apply in the Member State in question are to be regarded as potentially harmful and therefore covered by this code. Such a level of taxation may operate by virtue of the nominal tax rate, the tax base or any other relevant factor." (OJ C 2, 06.01.1998, p. 3)*

²³ *This may operate by virtue of the nominal tax rate, the tax base or any other relevant factor.*

²⁴ *Criterion 2.2 reads as follows: "The jurisdiction should not facilitate offshore structures or arrangements aimed at attracting profits which do not reflect real economic activity in the jurisdiction."*

3. *In the context of criterion 2.2 the fact of absence of a corporate tax or applying a nominal corporate tax rate equal to zero or almost zero cannot alone be a reason for concluding that a jurisdiction does not meet the requirements of criterion 2.2.*

4. *A jurisdiction should be deemed as non-compliant with criterion 2.2 if it refuses to engage in a meaningful dialogue or does not provide the information or explanations that the Code of Conduct Group may reasonably require or otherwise does not cooperate with the Code of Conduct Group where it needs to ascertain compliance of that jurisdiction with criterion 2.2 in the conduct of the screening process.*

3. General remarks

- Scope of Criterion 2.2 as defined by ECOFIN considers the absence of a corporate tax rate or a nominal tax rate equal to zero or almost zero in a jurisdiction as a "measure" significantly affecting the location of business activities (Paragraph A of the Code of Conduct).
- To this extent, Criterion 2.2 is aimed at verifying whether this "measure" facilitates offshore structures or arrangements aimed at attracting profits which do not reflect real economic activity in the jurisdiction.
- Criterion 2.2 applies only when the standard code assessment (i.e. criterion 2.1) cannot be applied because of the absence in a third country jurisdiction of a corporate tax system or because the jurisdiction applies a nominal corporate tax rate equal to zero or almost zero.
- Criterion 2.2 assesses the legal framework and certain economic evidences of a jurisdiction with regard to the five criteria established under paragraph B of the Code of Conduct to be interpreted by analogy.
- Advantages granted by a third country jurisdictions influencing in a significant way the location of business activities have to be seen in connection with a nominal corporate tax rate equal to zero or almost zero as well as in connection with the absence of corporate taxation, to the extent in both cases the standard Code of Conduct test could not be applied. These latter features have in fact to be considered *per se* as advantages to be assessed under this code test.

RESTREINT UE/EU RESTRICTED

- In general terms, any guidance developed by the COCG over the years for assessing tax measures within the scope of the 1998 Code of Conduct should be applied consistently and by analogy for the purpose of this test²⁵.
- A jurisdiction can only be deemed to have failed the assessment under this criterion when 'offshore structures and arrangements attracting profits which do not reflect real economic activity in the jurisdiction' are due to rules or practices, including outside the taxation area, which a jurisdiction can reasonably be asked to amend, or are due to a lack of those rules and requirements needed to be compliant with this test that a jurisdiction can reasonably be asked to introduce.
- The introduction of a CIT system or a positive CIT rate is not amongst the actions that a third country jurisdiction can be asked to take in order to be in line with the requirements under this test, since the absence of a corporate tax base or a zero or almost zero level tax rate cannot by itself be deemed as criterion for evaluating a jurisdiction as non-compliant.
- Nonetheless, criterion 2.2 implies automatic non-compliance for those jurisdictions that refuse to cooperate with the EU for the assessment of their legal framework.

B. Gateway test

1. Gateway criterion as it reads now in the Code of Conduct

"Within the scope specified in paragraph A, tax measures which provide for a significantly lower effective level of taxation, including zero taxation, than those levels which generally apply in the Member State in question are to be regarded as potentially harmful and therefore covered by this Code."

2. Guidelines for application by analogy

- The functioning of the Gateway test seems rather clear from the definition of scope of Criterion 2.2 as agreed by Ecofin in February this year.

²⁵ See doc. 14039/98 of 11 December 1998 "Code of Conduct (Business Taxation) – Interpretation of Criteria" and its further updates.

RESTREINT UE/EU RESTRICTED

- In particular, this test is satisfied when *"criterion 2.1 is inapplicable solely due to the fact that the jurisdiction concerned does not meet the gateway criterion under Paragraph B of the Code of Conduct, because of the "absence of a corporate tax system or applying a nominal corporate tax rate equal to zero or almost zero"*

C. Criteria 1 and 2

1. Criterion 1 of the current Code Criteria as it is now

"Whether advantages are accorded only to non-residents or in respect of transactions carried out with non-residents"

2. Criterion 2 of the current Code Criteria as it is now

"Whether advantages are ring-fenced from domestic market, so they do not affect the national tax base"

3. Guidelines for application by analogy

- For the purpose of applying criterion 2.2., "advantages" should be understood as the existence of zero or almost zero taxation or the absence of CIT.
- Factor 1 as well as factor 2 of the current code criteria contain two main elements: (a) legal ring-fencing and (b) de-facto ring-fencing.
- De jure ring-fencing occurs when advantages are only granted to non-residents by the laws and regulations governing the establishment and operations of businesses in a given jurisdiction.
- Where there is no an effective CIT-system in place, it should be then assessed whether aspects of the legal framework, including non-CIT aspects, effectively provide for a ring-fenced scenario.
- An example of that would be non-tax requirements for companies to allow for the residence or for the access to the domestic market of the tested jurisdiction.

RESTREINT UE/EU RESTRICTED

- For this purpose, any measure leading to a different treatment between domestic companies and companies held by non-residents or whose activities are disconnected from the domestic market shall be assessed.
- If for instance a jurisdiction grants "advantages" to a company only if it abstains from activities in the local economy (criterion 2) or only to the extent such activities are dependent on a specific business license (criterion 1 and 2) or only to the extent the activities are undertaken by non-residents (criterion 1), this could be assessed as a possible feature of a ring fencing system in place. By analogy this could also be relevant for other taxes (i.e. other than CIT).
- De-facto ring-fencing usually refers to a situation whereby the advantage is not explicitly granted by a country only to non-residents although, in fact, it is enjoyed only or almost only by non-residents.
- As to the de-facto ring-fencing, it is usually considered how many of the taxpayers benefitting from the advantage are in fact non-residents. If, for instance all or nearly all of the subjects benefitting from zero taxation are non-residents (including domestic companies with foreign shareholding), sub-criteria 1 (b) as well as 2 (b) would be considered as met (i.e. the jurisdiction would be deemed to be non-compliant under this step of the Code test).

DECLASSIFIED

D. Criterion 3

1. Criterion 3 of the current Code Criteria as it is now

"Whether advantages are granted even without any real economic activity and substantial economic presence with the Member State offering such tax advantages"

2. Guidelines for application by analogy

In order to evaluate whether advantages are granted even without any real economic activity and substantial economic presence, it has to be ascertained:

- whether a jurisdiction does require a company or any other undertaking (e.g. for its incorporation and/or its operations) the carrying out of real economic activities and a substantial economic presence:
 - "Real economic activity" relates to the nature of the activity that benefits from the non-taxation at issue.
 - "Substantial economic presence" relates to the factual manifestations of the activity that benefits from the non-taxation at issue.
 - By way of example and under the assumption that, in general, elements considered in the past by the COCG are relevant also for this analysis, the current assessment should consider the following elements taking into account the features of the industry/sector in question: adequate level of employees, adequate level of annual expenditure to be incurred; physical offices and premises, investments or relevant types of activities to be undertaken.
- whether there is an adequate de jure and de facto link between real economic activity carried on in the jurisdiction and the profits which are not subject to taxation;

RESTREINT UE/EU RESTRICTED

- whether governmental authorities, including tax authorities of a jurisdiction, are capable of (and are actually doing) investigations on the carrying out of real economic activities and a substantial economic presence on its territory, and exchanges of relevant information with other tax authorities;
- whether there are any sanctions for failing to meet substantial activities requirements.

E. Criterion 4

1. Criterion 4 of the current Code Criteria as it is now

“Whether the rules for profit determination in respect of activities within a multinational group of companies depart from internationally accepted principles, notably the rules agreed upon within the OECD”

2. Guidelines for application by analogy

- In assessing the adherence of profit determination rules to internationally agreed standards (e.g. OECD TP Guidelines or other similar accounting standards) first of all it should be verified if and to what extent this analysis is relevant for jurisdictions not applying a CIT system.
- To this aim it seems relevant to consider that a jurisdiction not applying a CIT system should not negatively affect a proper allocation of profits departing from internationally agreed standards. Jurisdictions should take appropriate steps in ensuring taxing countries are able to exercise their taxing rights i.e. via CBCR, transparency and other modes of information sharing.
- Where relevant, it should be ascertained if OECD’s agreed principles or similar accounting standards for the determination of profits have been endorsed in a given jurisdiction.

- To this regard, it is critical to ascertain how these rules are implemented and consolidated in the jurisdictions concerned. In the absence of corporate income taxation in a given jurisdiction, also alternative transfer pricing rules can be taken into account, verifying whether they are comparable and compatible with internationally agreed principles (for instance a fair market value approach under international accounting principles).
- This Criterion shall prevent from allowing multinational companies to use transfer pricing rules departing from the OECD Transfer Pricing Guidelines in order to allocate their profits to zero tax jurisdictions.
- Answers to questions from 2.9 to 2.12 should give sufficient information on how profits are determined highlighting any important departure from internationally agreed standards.

F. Criterion 5

1. Criterion 5 of the current Code Criteria as it is now

"Whether the tax measures lack transparency, including where legal provisions are relaxed at administrative level in a non-transparent way"

2. Guidelines for application by analogy

- Criterion 5 shall evaluate whether certain features of a legal system, including the establishment of a business on its territory, lack sufficient level of transparency.
- More specifically, it has to be assessed whether any elements of the legal system, including the granting of tax residence or the setting up of companies can be granted on a discretionary basis or whether it is bound by the law, verifying whether any legal provision, including non-tax provisions, can be deemed to be discretionary in matters related to the setting up of a company in that jurisdiction.

RESTREINT UE/EU RESTRICTED

- This factor shall prevent a jurisdiction from having an insufficient level of transparency within its regulatory framework, considering that advantages as considered in this Code test stem from the registration of a company in a jurisdiction.
- Answers to questions from 2.13 to 2.16 should give sufficient information on how transparency is ensured in a jurisdiction on certain steps to be undertaken by companies in order to benefit from the advantages provided therein.

DECLASSIFIED