Technical Appendix Glossary

Term	Definition
Aggressive tax avoidance	The use of complex schemes of uncertain legality to exploit taxation loopholes for the benefit of taxpayers who can afford the fees charged by professional advisers who create such arrangements.
Arms length pricing	See transfer pricing
Capital gains tax	A tax on the profits from the sale of capital assets such as stocks and shares, land and buildings, businesses and valuable assets such as works of art.
Charitable trust	A trust established for purposes accepted by law as charitable.
Company or corporation	An entity treated as a separate legal person from those who set it up, established under the rules of the country in which it is registered.
Coordination centres	A special form of company with taxation advantages, often used to attract corporate headquarters to a country. Most notably found in Belgium, the Netherlands and Ireland.
Corporation tax	A tax on the profits made by limited liability companies and other similar entities in some countries, but otherwise usually being similar in application to income tax.
Deferred tax	A fictional tax which only exists in company accounts and is never paid. Deferred tax does not, as such, exist. But the rules of accountancy generally require that income be matched with expenses. If an expense is recognised for tax purposes more quickly than it is for accounting purposes (which is common with much plant and equipment) this means that the tax cost for the years when this happens are understated. Conversely, when all the tax allowances have been used on the assets there might still be accounting charges to make and the tax cost would then be overstated. To balance this equation a notional tax charge called deferred tax is charged to the profit and loss account in the earlier years and put on the company's balance sheet as a liability. The liability is released as a credit to profit and loss account in the later years and supposedly over the life of the asset all should balance out.
Discretionary trusts	Most offshore trusts permit payments to be made at the discretion of the trustees, which means that the identity of beneficiaries can remain a secret. In practice, trustees normally follow a "letter of wishes", provided by the settlor, instructing them whom they are to pay money to, when and how.
Domicile	The country identified as a person's natural home, even if that person has not been resident there for extensive periods of time. This concept, which is almost uniquely British and

	unknown in the tax law of other countries bar Ireland, says that a person acquires their father's domicile on birth if their parent's were married and their mother's if not. This means a person born in the UK can have a natural home in another country even if they have never lived there so long as they, or their parents before they reached the age of 18 took no steps to prove that they intended to live in the UK forever and that they had severed all contact with their previous natural home. Because the UK does not wish its citizens to lose their UK domicile, which does, for example, theoretically mean that their estates remain subject to Inheritance Tax even if they left the UK for some time before dying, the government also makes it quite hard for a person to acquire UK domicile. Harder, in fact, than becoming a citizen in most cases, a concept to which it has no relationship.
Double tax relief	Tax relief given by the country in which the tax payer resides for tax paid in another country on a source of income arising in that other country.
Double tax treaty	An agreement between two sovereign states or territories to ensure, as far as possible, that income arising in one and received in the other is taxed only once. Includes rules to define Residence and Source, and limits on Withholding Taxes. Also usually includes provisions for cooperation to prevent avoidance, especially information exchange.
Effective tax rate	The percentage of tax actually paid in relation to the total income of the person paying the tax.
Flat tax	A tax system in which as income increases above an agreed tax free sum the amount of tax paid remains constant in proportion to total income. Compare with progressive taxes.
General anti-avoidance principle	A law that seeks to prevent a tax payer from obtaining the taxation benefit arising from any transaction if they undertook it solely or mainly to obtain a tax benefit. If they did they lose that benefit. Interpretation of intention is the key to the effectiveness of this principle. As a result it does not need to be updated for changes in other tax laws, making it enduring and effective.
General anti-avoidance rule	A general anti-avoidance rule seeks to tackle those who try to break the rules of taxation through the use of further rules. Rather than considering intention, it lays downs ways of interpreting a series of events to determine whether the benefit of tax legislation can be given to the tax payer. Because rules are invariably open to interpretation a general anti-avoidance rule runs the risk of increasing the opportunity for abuse.
Holding companies	A company that either wholly owns or owns more than 50 percent of another company, the latter being called a subsidiary. An intermediate holding company is a holding

	company which has one or more subsidiaries but is itself owned by another company. The term ‘ultimate holding company’ refers to the one that is finally not controlled by another company.
Horizontal equity	One of the two measures of the inherent justice within a tax system. Horizontal equity requires that those with similar income pay similar tax. The second measure is that of vertical equity (see below). These equitable principles are considered paramount in a just tax system. When tax planning interacts with them it too has to be the subject of consideration.
Income tax	A tax charged upon the income of individuals. It can also be extended to companies, but is not in the UK. The tax is usually charged upon both earned income from employment and self employment and unearned income e.g. from investments and property.
Inheritance tax	A form of gift tax charged upon the estates of people upon their death.
Limited liability partnerships (LLP)	A partnership that provides its members with limited liability.
Loophole	A technicality that allows a person or business to avoid the scope of a law without directly violating that law.
National insurance contributions	See social security contributions. Often called NIC.
Offshore	Offshore relates to any jurisdiction (regardless of whether they are islands) which provides tax and regulatory privileges or advantages, generally to companies, trusts and bank account holders on condition that they do not conduct active business affairs within that jurisdiction. The term “offshore” is very broad and normally includes “onshore” tax havens such as Andorra, Lichtenstein, etc. The IMF considers the UK to be a tax haven.
Offshore financial centre	Although most tax havens are Offshore Finance Centres (OFCs) the terms are not synonymous. Tax havens are defined by their offering low or minimal rates of tax to non-residents but may or may not host a range of financial services providers. An OFC actually hosts a functional financial services centre, including branches or subsidiaries of major international banks. States and microstates that host tax havens and OFCs dislike both terms, preferring to use the term International Finance Centres.
Partnerships	Any arrangement where two or more people agree to work together and share the resulting profits or losses.
Payroll taxes	See social security contributions.
Private company	A company not quoted on a stock exchange. Shares cannot usually be sold without the consent of the company or its owners; in many countries little or no information need be

	disclosed on the activities of such companies even though their members enjoy the benefit of limited liability.
Progressive taxes	A tax system in which as income rises the amount of tax paid increases in proportion to the income as well as in absolute amount i.e. the percentage tax rate increases as the income rises. Also referred to as Graduation. Compare with flat and regressive taxes.
Public company	A company whose shares are quoted on a recognised stock exchange and are available to be bought and sold by anyone who wishes without consent being required from the company itself. Generally required to be more transparent than private companies.
Quoted company	See public company.
Regressive taxes	A tax system in which as a person's income from all sources increases the amount of tax they pay reduces in proportion to their income even if it increases in absolute amount i.e. their percentage tax rate falls as their income goes up. Compare with progressive taxes and flat taxes.
Residence	For an individual, the person's settled or usual home; for simplicity a presumption may be applied based on a rule-of-thumb, such as presence within the country for six months or 183 days in any tax year. It may be possible to be resident in more than one country at one time (though double tax treaties aim to prevent this). Some individuals may also try to avoid being resident anywhere. For companies, residence is usually based on the place of incorporation but can also be where the central management and control of the company is located, if they are different. Tax haven companies formed for non resident owners are usually defined not to be resident in their country of incorporation.
Social security contributions	Payments made towards a fund maintained by government usually used to pay pension and unemployment benefits. Health benefits are sometimes covered as well. Social security contributions are generally considered to be taxes.
Stamp duty	A tax on the value of contracts. Usually charged on contractual dealings on shares and other stocks and securities and on dealings in land and property.
Subsidiary company	A company 50% or more owned by another company which is its parent company.
Tax avoidance	The term given to the practice of seeking to minimise a tax bill without deliberate deception (which would be tax evasion or fraud). The term is sometimes used to describe the practice of claiming allowances and reliefs clearly provided for in national tax law. It is, however, now generally agreed that this is not tax avoidance. If the law provides that no tax is due on a transaction then no tax can have been avoided by undertaking it. As such this practice is now generally seen as

	tax planning. So what the term tax avoidance now usually refers to is the practice of seeking to not pay tax contrary to the spirit of the law. This is also called aggressive tax avoidance. Aggressive tax avoidance is the practice of seeking to minimise a tax bill whilst attempting to comply with the letter of the law while avoiding its purpose or spirit. It usually entails setting up artificial transactions or entities to recharacterise the nature, recipient or timing of payments. Where the entity is located or the transaction routed through another country, it is international avoidance. Special, complex schemes are often created purely for this purpose. An avoidance scheme which is found to be invalid entails repayment of the taxes due plus penalties for lateness.
Tax base	The range of transactions that a country chooses to tax. A broad base includes a wide range of transactions. A narrow base includes relatively few transactions.
Tax competition	This is the pressure on governments to reduce taxes usually to attract investment, either by way of reduction in declared tax rates, or through the granting of special allowances and reliefs such as tax holidays or the use of export processing zones. Applies mainly to mobile activities or business, but the competition to attract investment may result in an overall decline of corporation tax rates and in the amounts of corporation tax paid, often resulting in an increased burden on individuals.
Tax compliance	A term that is acquiring a new use. It can mean payment of tax due without engaging in tax avoidance or evasion. It is also now being used in contrast to the terms tax avoidance and tax evasion. Tax compliance in this context is used as a test of a person's intention before they undertake a transaction. It asks whether the person is seeking to comply with the spirit of the legislation concerning the transaction into which they are entering. If they are, then it should be presumed their intent was to be legal. If they are seeking to comply with the letter but not the spirit of the law (and it is usually possible to determine this from the form the transaction takes) then it should be presumed their intent was to break that law, the onus of proof otherwise falling upon them. This test is then used in connection with a general anti avoidance principle to determine whether that principle should be applied to a transaction, or not. A person who has used an appropriate motive is "tax compliant".
Tax evasion	The illegal non payment or under-payment of taxes, usually by making a false declaration or no declaration to tax authorities; it entails criminal or civil legal penalties.

Tax haven	Any country or territory whose laws may be used to avoid or evade taxes which may be due in another country under that country's laws. The Organisation for Economic Cooperation and Development defines tax havens as jurisdictions where: - non-residents undertaking activities pay little or no tax; - there is no effective exchange of information with other countries; - a lack of transparency is legally guaranteed to the organisations based there; - there is no requirement that local corporations owned by non-residents carry out any substantial domestic (local) activity. Indeed, such corporations may be prohibited from doing business in the jurisdiction in which they are incorporated. Not all of these criteria need to apply for a territory to be a haven but a majority must.
Tax non-compliant	A person who is not seeking to be tax compliant.
Tax planning	A term used in two ways. It can be used as another term for tax compliance. When, however, tax legislation allows more than one possible treatment of a proposed transaction the term might legitimately be used for comparing various means of complying with taxation law.
Tax shelter	An arrangement protecting part or all of a person's income from taxation. May result from pressures on government or a desire to encourage some types of behaviour or activity, or may be a commercial or legal ruse, often artificial in nature, used to assist tax avoidance.
Transfer-pricing	A transfer pricing arrangement occurs whenever two or more businesses (whether corporations or not) which are owned or controlled directly or indirectly by the same people trade with each other. The term transfer pricing is used because if the entities are owned in common they might not fix prices at a market rate (or what is called an arms-length price) but might instead fix them at a rate which achieves another purpose, such as tax saving. If a transfer price can be shown to be the same as the market price then it is always acceptable for tax. What are not acceptable for tax purposes are transfer prices which increase the cost or reduce the sales value in states which charge higher tax rates and increase the sales value or reduce the costs in states with lower tax rates. The difficulty for many corporations at a time when over 50% of world trade is within rather than between corporations is that there is no market price for many of the goods or services that they trade across national boundaries because they are never sold to

	third parties in the state in which they are transferred across national boundaries within the corporation. This gives rise to complex models in which attempts are made to allocate value to various stages within the supply chain within a company, which process is open to potential abuse. For this reason it is argued that such firms should be taxed on a unitary basis.
Transnational corporations (TNCs)	A corporation with subsidiaries or divisions in two or more nations. Also known as multinational corporation (MNC).
Trusts	A trust is formed whenever a person (the settlor) gives legal ownership of an asset (the trust property) to another person (the trustee) on condition that they apply the income and gains arising from that asset for the benefit of a third person (the beneficiary). Trusts can be established verbally but typically take written form. Trustees are frequently professional people or firms charging fees. Trusts are usually of one of three types: • discretionary trust • charitable trust • interest in possession trust.
Trustees	The people who hold the legal title to assets held in a trust and administer it.
Trust beneficiary	Anyone who may obtain a benefit from a trust. A person who has the right to a benefit has an 'interest in possession'; a discretionary beneficiary can get income or benefits only when and if the trustees decide to pay it to them.
Trust settlor	The person who establishes a trust by gifting assets to it.
Unitary basis	Treating the income of related entities within a single firm or corporate group on a combined or consolidated basis, and applying a formula to apportion it for taxation by the different countries or territories from which it derives. Each may apply the rate of tax it wishes. It has been used in federal countries such as the USA, applying an allocation formula based on a ratio of sales, employment costs and assets employed within each state. It has been opposed by tax authorities (and TNCs) because they consider that it would be too difficult to reach international agreement especially on the formula. However, taxation of highly integrated TNCs may in practice entail a formula-based allocation of profits, due to the difficulty of finding appropriate arm's length transfer prices.
Value Added Tax	Known as VAT. A value added tax is charged by businesses on their sales and the supply of services. It allows those same businesses to claim credit from the government for any tax they are charged by other businesses incurred by them in the course of their trade. The burden of VAT therefore falls almost entirely on the ultimate consumers. VAT is a regressive tax since lower income households always spend a higher

	proportion of their income on consumption and therefore invariably spend a greater proportion of their income on this tax than do the better off. Because of the role of VAT in the economy, income and other taxes have to be progressive to ensure that the tax system as a whole is equitable.
Vertical equity	One of the two measures of the inherent justice within a tax system. Vertical equity requires that those with higher income pay proportionately more tax. The second measure is that of horizontal equity (see above). These equitable principles are considered paramount in a just tax system. When tax planning interacts with them it too has to be the subject of consideration.
Wealth tax	A tax on a person's declared wealth, typically imposed annually at a very low rate. Once commonplace in Europe these are now little used since they are thought to encourage people to hide assets offshore.
Withholding tax	Tax deducted from a payment made to a person outside the country. Generally applied to investment income, such as interest, dividends, royalties and licence fees.