

## Globalisation: In the twilight zone

The twilight zone is the area beyond common legal and ethical limits. It hints at the challenges raised by shadow transactions, which are not transparent and possibly not in line with applicable requirements either. The question is how far openness and transparency should go to remedy opaque or hidden activities. Although this topical issue is not limited to matters of taxation, it is of particular importance in this field.

### Chasing the twilight zone

The [globalisation](#) and [digitalisation](#) of the economy have substantially increased the geographical mobility of capital. In a globalised economy, where the use of information and communication technology-based tools (digitalisation, big data, cloud computing resources, etc.) can turn transactions into a fleeting or even opaque matter, opportunities for choosing a business location on the basis of the regulatory framework in place have boomed. Such opportunities use the interplay between national and international tax provisions, and networks of treaties. This is especially true of taxation and when operators are large enough to design a tax-oriented organisation and use 'treaty shopping' and aggressive tax planning to minimise tax obligations to a low or zero level, by shifting profits from high- to low-tax jurisdictions, and using tools such as the financial structure of a group or the location of intangible assets. Tax competition can then turn into a 'race to the bottom', affecting national budgets and government policies based on public spending.

Assessing the scope of the '[non-observed economy](#)' (NOE) is challenging as it means describing and quantifying situations that by definition are not reliably reported (if they are reported at all). An assessment is made by taking distinct flows of economic activities and comparing them. The result shows the missing, or non-observed, portion of economic activity and gives an idea of the scale of the phenomenon. The NOE includes underground (shadow, black or moonlight), informal and illegal activities as well as other activities that have escaped data collection owing to deficiencies in the data collection system (the [tax gap](#)).

### Addressing the twilight zone: reducing opacity

Reasons for tackling the twilight zone include the need to address the unfair competitive advantage for those who escape tax obligations and therefore sap taxpayers' confidence and undermine the internal market. There is now a consensus on the need to fight opaque (or hidden) transactions and the schemes that rely on them (not only aggressive tax planning and tax evasion, but also money laundering and terrorist financing). Revelations by journalists and NGOs (such as the [Panama papers](#) and [paradise papers](#) leaks) have contributed to this consensus. Information and communication technology provides the means to reduce the opacity of transactions by means of the digital trail left behind. Analysing big data can help with piecing together information in order to audit the operations being carried out and detect behaviour that most probably constitutes tax evasion.

[Transparency](#) regarding financial flows and tax obligations is about matching the activity or physical presence of a business with multinational reach with a specific country, with a view to remedying non-transparent practices such as tax avoidance and aggressive tax-planning. The transparency spectrum ranges from supplying limited information to a single tax administration, to wider dissemination through the exchange of information mechanisms, and making information available to the public at large. This covers identification of the taxpayer (including beneficial owners), financial, non-financial and [diversity information](#), and country-by-country reporting.

*This note has been prepared for the [European Youth Event](#), taking place in Strasbourg in June 2018.*

