



# Leveraging information about beneficial ownership networks to improve taxation

## Key considerations and use cases

### The tax gap

The tax gap is the difference between tax that *should* be paid, and what is *actually* paid.

Different factors contribute to the tax gap, including tax avoidance and evasion as well as criminal attacks on the tax system. The line between them can be blurred, and all may give rise to illicit financial flows. They can be collectively termed as tax abuse.

**492 billion USD**

lost per year by governments due to tax abuse

Tax Justice Network, 2024

**88.6 billion USD**

siphoned from Africa annually as illicit financial flows due to tax abuse

UNCTAD, 2020

**40 billion GBP**

estimated tax gap in the United Kingdom, only in 2024

UK Government, 2024

**19 billion EUR**

estimated to be lost in tax revenue in Latin America

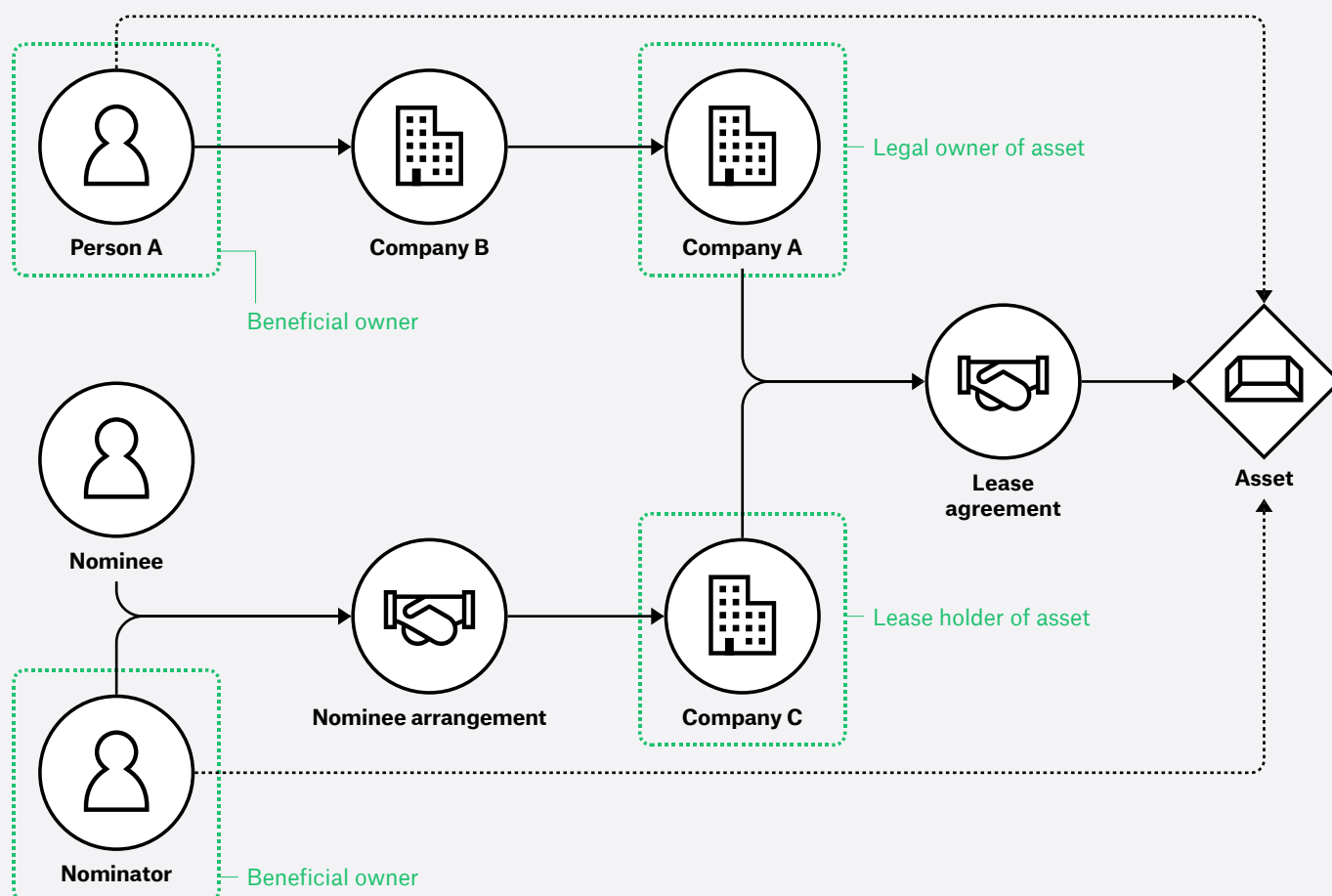
Network for Fiscal Justice for Latin America and the Caribbean, 2023

# The relationships between assets, legal entities, and individuals form **beneficial ownership networks**.

Information from central beneficial ownership registers for legal entities, together with other relevant information, helps tax authorities understand the networks behind assets and legal entities, which can help them tackle various forms of abuse and make better policies.

Beneficial ownership refers to **the party that ultimately owns, controls, or benefits from something** (e.g. legal entities,

assets, income, profits, or cash flows). The most common definition is used in anti-money laundering and central registers of beneficial ownership of companies and other legal vehicles, referring to natural persons. The concept also has other definitions and applications in other areas relevant to tax, including in double taxation agreements and domestic legislation relating to taxation and assets.



# Information about beneficial ownership networks helps tax authorities to...



## Close the tax gap

by collecting taxes as well as detecting and investigating cases where insufficient tax has been paid.

### By...

- **Uncovering hidden assets.** The taxation of assets, including wealth taxes, helps make tax systems more progressive.
- **Countering criminal attacks.** Legal vehicles can be used for coordinated and systematic attacks on the tax system, including fraudulently claiming tax refunds (e.g. VAT fraud) or smuggling. Information about the ownership and control of legal vehicles can help detect where they are being established with a criminal intent, and help find those responsible.
- **Revealing the source or type of income.** Legal vehicles can be used to disguise or alter the source and type of income when these are taxed differently.
- **Understanding relationships in the transfer of assets.** Transactions or the transfer of assets often have tax implications, and if parties are connected, that can affect the amount of tax due. Related parties may conceal or feign a relationship in order to pay less tax.

### Through...

- **Assessing risk** by raising red flags and establishing risk-based approaches.
- **Conducting audits and investigations** to link the perpetrator with the tax crime, identify new taxpayers, and create legal liability in the case of false statements.
- **Encouraging compliance and behavioural change** where insufficient tax has been paid or there has been a failure to take reasonable care.
- **Collecting tax debts**, for instance, from non-resident companies.



## Inform tax policy

by developing policy reforms underpinned by better insight and analysis.

- **Evaluate existing policies** by analysing the ownership and control networks behind legal vehicles.
- **Inform new evidence-based tax policy**, as it provides insights into the concentration and distribution of taxable wealth and assets, contributing to understanding the real and potential tax base of an economy.

## Policy considerations

Governments should:

- Seek to better **understand the relationships and networks between individuals, legal vehicles, and assets**, by:
  - exploring how other sources of information about shareholders, nominees, and assets can be leveraged and combined with beneficial ownership information for legal vehicles;
  - registering and collecting beneficial ownership information from legal arrangements such as trusts, as these can be used to obfuscate relationships between individuals and assets;
  - defining a common set of information to be collected by asset registers to allow information about direct interests in assets to be connected with information in beneficial ownership registers for legal vehicles at scale.
- Take a **whole-of-government approach** to establishing central beneficial ownership registers for legal vehicles, ensuring a multi-agency approach to a broad range of policy objectives.
- Work towards technical and legal reforms to enable **tax authorities to directly access relevant information** about the relationships between legal vehicles, individuals, and assets, within and across borders.



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