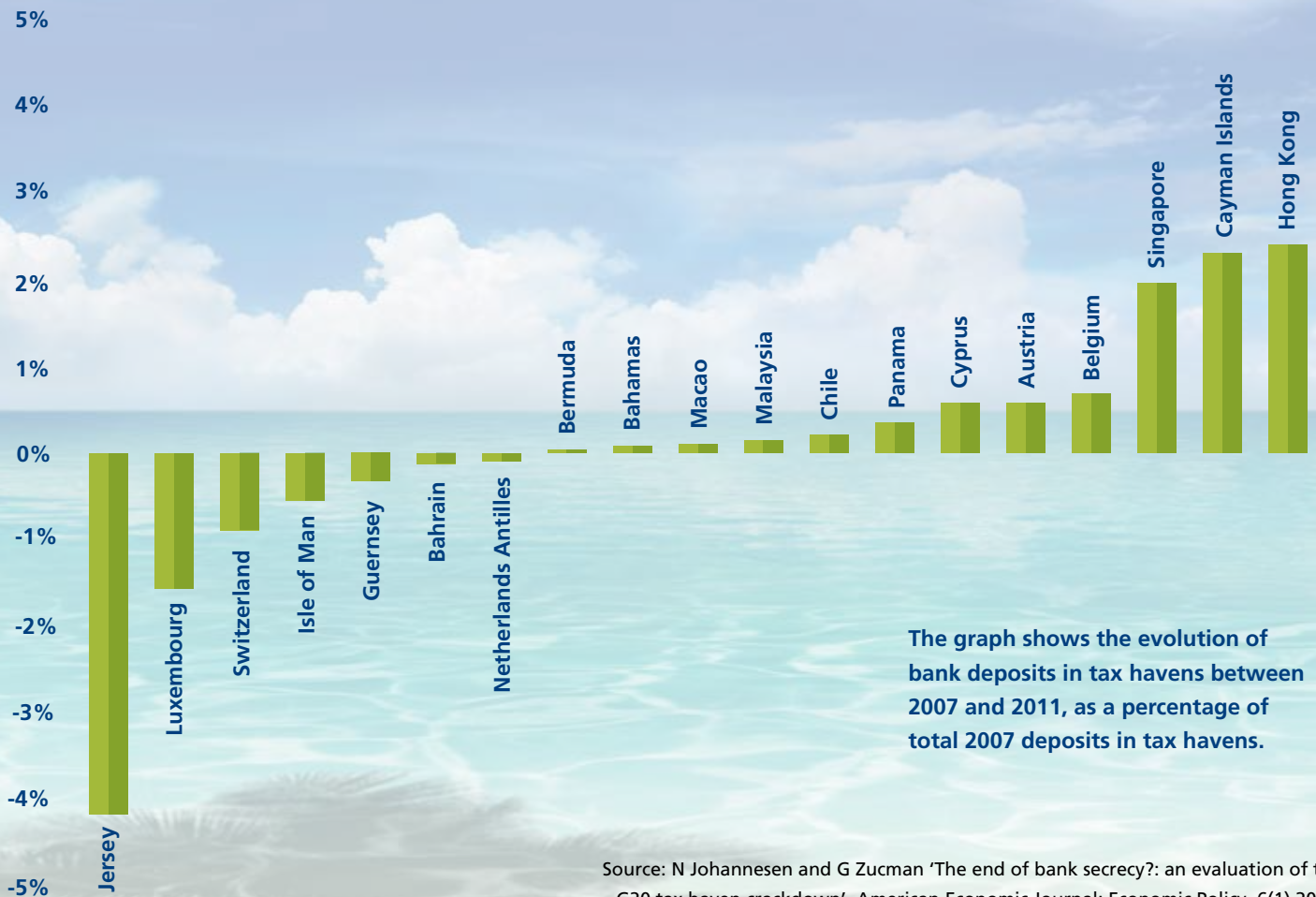


Knocking on haven's door



Source: N Johannesen and G Zucman 'The end of bank secrecy?: an evaluation of the G20 tax haven crackdown', American Economic Journal: Economic Policy, 6(1) 2014.

The G20 has declared its crackdown on tax evasion a global success and an end to bank secrecy, but is this really the case? The evidence suggests that £4.7 trillion is stashed in havens and it is time for stronger action, writes LSE economist **Gabriel Zucman**.

In August 2009, one of France's richest citizens and her wealth manager were taped discussing what to do with undeclared bank accounts worth £100 million. The conversation took place in the aftermath of the G20 crackdown on tax havens, compelling countries to sign at least 12 information exchange treaties under the threat of economic sanctions. The world was still reeling from the global financial crisis and the fight against tax evasion was becoming a political priority

in rich countries trying to claw back debt wherever they could. France and Switzerland were among the signatories to 300 new treaties where countries agreed to exchange information.

The conversation, recorded secretly as part of a separate financial dispute, revealed the wealth manager advising his client both against keeping her funds in a Swiss bank account and against bringing them back to France. Both options were

too risky given the G20 crackdown. What was his solution? Park the funds in Hong Kong, Singapore or Uruguay, three tax havens which had not committed to exchanging information. Not surprisingly the tapes were made public, receiving extensive newspaper coverage, and eventually the funds were repatriated to France.

This particular woman was caught red-handed, but the incident reveals just how easy it has been for

“To get an idea of the scale of tax evasion, however, we only have to look at Switzerland, still the most important tax haven in the world despite recent shifts in deposits, where total offshore wealth (deposits, plus equities, bonds and mutual fund shares) amounts to about £1,500 billion. ”

countries to get around the G20 directive. On paper, policymakers have hailed the bilateral treaties as a success, but in reality it has been a little like shuffling deckchairs on the Titanic. Evaders have simply shifted billions of dollars to other countries not covered by treaties with their home country.

Despite the wave of treaties signed in 2009-10, deposits in tax havens remained stable between 2007 and 2011. The era of bank secrecy is certainly not over. Tax havens that have signed many treaties have lost deposits at the expense of those that have signed just a few. Moreover, tax havens have signed many treaties with each other, which defeat the purpose because haven-haven treaties do not help non-haven countries curb tax evasion in any way.

To analyse the effects of the G20 tax haven crackdown, my co-author Niels Johannesen and I used unique data from the Bank for International Settlements (BIS) (see graph). A total of 18 tax havens report to the BIS: Austria, Belgium, the Cayman Islands, Chile, Cyprus, Guernsey, the Isle of Man, Jersey, Luxembourg, Macao, Malaysia, Panama, Switzerland, the Bahamas, Bahrain, Hong Kong, the Netherlands Antilles and Singapore.

We have bilateral data for the first 13 havens, which host about 75 per cent of all offshore deposits. As with any empirical study, particularly in the area of tax evasion, there are a number of practical difficulties. It is difficult to know what fraction of the deposits in tax havens belong to households evading taxes because some of these deposits belong to multinational corporations that stash cash offshore and are not affected by bank information-sharing. However, it would be fair to say that tax evaders own about 50 per cent of these deposits. Certainly, in Switzerland, one of the largest tax havens, 80 to 90 per cent of the deposits seem to belong to households. In the Isle of Man and the Channel Islands, the comparative figure is 70 to 75 per cent.

Putting this into perspective, around 8 per cent of households' global financial wealth is held in tax havens, implying substantial tax-revenue losses due to outright fraud. For the European Union, the percentage is even higher – closer to 12 per cent.

The second complicating factor is that many of these deposits are held by sham corporations, registered as belonging to other tax havens.

Lastly, the BIS does not tell us which fraction of the offshore deposits is duly declared on tax returns, and which is not.

To get an idea of the scale of tax evasion, however, we only have to look at Switzerland, still the most important tax haven in the world despite recent shifts in deposits, where total offshore wealth (deposits, plus equities, bonds and mutual fund shares) amounts to about £1,500 billion. According to official Swiss statistics, in 2011 French residents earned CHF324 million Swiss francs in interest on Swiss bank deposits and chose to declare just 10 per cent (CHF33 million).

Between 2009 and 2011, the OECD reported an increase of almost £11.5 billion in taxes paid in rich countries. This is far from negligible, but assuming that evaders paid in taxes and penalties an amount equivalent to 5 per cent of their assets, then the OECD figure implies that about £210 billion in offshore assets may have been disclosed to tax authorities. This figure falls short of the £4.7 trillion or so likely to be held by households in tax havens.

Taken at face value, the OECD's findings do not support the view that compliance has considerably improved – far from it. But it is not too late for action. Tax evasion can be stopped if we tackle the problem at three levels.

First, it is imperative that we create a global registry of wealth similar to land registries, which countries have had for centuries. By recording who owns the world's equities and bonds, it will make tax evasion impossible.

Second, the exchange of bank information should be automatic, not by request based on well-documented suspicions of individual tax avoidance, as is currently the case. Too many evaders are slipping through the cracks this way.

Lastly, governments must form coalitions against tax evasion and not be afraid to enforce economic sanctions where countries bend the rules.

Without threats and sanctions, a global registry of wealth and automatic exchange of information between banks, it is going to be very, very hard to stop tax evasion. To accept the status quo is irresponsible. Tax havens have been at the heart of the financial, fiscal and democratic crisis worldwide and it is time we took action. ■



Gabriel Zucman is an Assistant Professor of Economics at LSE. The English version of Dr Zucman's book, *La Richesse Cachée des Nations*, analysing the missing wealth of nations, will be published in 2015 by the University of Chicago Press.

