Offshore Wealth Reconsidered –Summary

The Greens / EFA group commissioned Sarah Godar and Hannes Fauser, German academics, to look at the amount of wealth hidden by individuals in tax havens and whether we observe a decreasing trend since the G20 started to adopt measures to fight tax evasion and tax avoidance in 2009.

The outcome of this research can be stated as follows: with data from the IMF, the Bank for International Settlements, the European Commission and from economist Gabriel Zucman, **the report concludes that there is no general decline in the funds channelling through tax havens at least until 2014**. Instead, cross-border debt and equity securities hidden in the most prominent offshore centres seem to have increased further. However, the average amount of cross-border deposits held in offshore centres has declined. This may reflect patterns of reorganization in the offshore world as a reaction to increasing financial transparency but is of minor quantitative importance. Offshore financial centres seem to be doing fine, despite the financial crisis and the international efforts to increase financial transparency.

The report starts by recalling that the so-called « end of tax havens » proclaimed after a supposedly ground-breaking G20 meeting in 2009 has not been effective in curbing tax evasion. Urging tax havens to sign at least 12 information exchange treaties (to not be considered tax haven anymore) has been easily circumvented. Funds were re-allocated between tax havens but were not repatriated.

The report looks at two categories of cross-border transactions involving personal wealth (and therefore potentially relevant for tax evasion by individuals):

- Portfolio investments (equity or debt securities, differing from direct investment, which requires a sizeable stake in a company)
- Loans and deposits

According to Zucman, Portfolio investment accounts for about 80 percent of global financial offshore wealth held by individuals in 2014. Deposits account for about 20 percent, so that portfolio investment can be regarded as the most relevant component of financial offshore wealth.

Rich people continuously stash money offshore

Estimating the amount of securities hidden offshore is restricted by data quality, because havens often report too little or no useful statistics at all: Depending on whether a more or less conservative assumption is made for Cayman Islands, the global gap is estimated at $6.5 to $8.4 trillion in 2014. This would constitute a further rise of 27-46 percent with respect to 2010. Tentative results indicate a further increase for 2015.

In contrast, cross-border deposits held in offshore centres have on average declined by about 13 percent between 2010 and 2015. However, with approximately $1 trillion in 2015, reported offshore deposits only account for a minor share of financial offshore wealth.

Who is an offshore financial centre: the usual suspects...

Regarding portfolio investments, the United States and Ireland, as well as the Cayman Islands and Luxembourg are the key countries. They represent the bulk of the global gap between debtor-reported and creditor-derived liabilities, which arises in balance of payment statistics due to offshore secrecy. The most important offshore financial centres in terms of cross-border deposits are Switzerland, the Cayman Islands, Hong Kong, Singapore, and Luxembourg.

Signs of reorganization in the offshore world emerge…

Offshore business seems to be increasingly concentrated on portfolio investment while offshore deposits decline on average. These results are consistent with predictions that the current initiatives will principally deter small-scale tax evaders, while leaving high-net worth clients untouched, who are able to use more sophisticated methods of tax dodging and are more likely to invest in securities. Hong Kong is stabilizing its position as a leading offshore centre and has increasingly attracted all categories of offshore financial wealth.

Too soon to say if automatic information exchange will be a game-changer

In October 2014, 51 countries signed the multilateral competent authority agreement (MCAA) to automatically exchange information under the Common Reporting Standard, developed by the OECD. The number of signatories is growing every month. The European Union has committed to start exchanging information by 1 January 2017. Among others, the important offshore centres Switzerland and Hong Kong have committed to start exchanging in 2018. As the exchange of information is not effective, yet, it is too soon to say whether this new measure will be effective in curbing tax evasion as tax evaders may find new loopholes or shift their wealth to non-compliant jurisdictions.