Getting to know tax havens

Tax havens or secrecy jurisdictions are places that do not just offer an escape from tax, but they also provide secrecy, an escape from financial regulation, and the opportunity to shrug off laws and rules of other jurisdictions, the countries inhabited by the majority of the world’s population. Tax havens now lie at the very heart of the global economy. Over half of world trade and most international lending are processed through them. Tax havens have been instrumental in nearly every major economic event, in every big financial scandal and in every financial crisis since the 1970s, including the latest global economic downturn.

Tax havens offer not one thing but three: low or zero taxes, secrecy, and lax regulation. In doing so they "compete" against reputable countries, with each jurisdiction trying to out-do the others on ever lower corporate taxes and laxer regulation. It is always secrecy that is the issue. So, having banking secrecy, or refusing to put data on public record, or refusing to exchange information under arrangements that signal abuse is all to do with secrecy. And all of this secrecy is designed to achieve four things:

1. To promote tax evasion, which is illegal.
2. To promote tax avoidance which, although not illegal, is not necessarily legitimate. The question is not one of legitimacy when it comes to this issue — we all know tax avoidance is as legitimate as slavery was perceived to be once upon a time - it is one of ethics, inequality and the appropriateness of creating structures that do not reflect the economic reality of a transaction.
3. To permit crime. No government provides this secrecy without realizing that criminals will be attracted to its domain.
4. To promote living off the proceeds of crime, whether by the bankers, lawyers or accountants who process these transactions, or on the part of the governments and communities they represent.

The inescapable fact is that there are only four reasons for banking 'offshore': to avoid tax, to evade tax, to function in secret and to sidestep regulations controlling financial services or monopolistic practices. In each scenario, the pursuit of profit outweighs all other considerations, including good citizenship and social responsibility.

Tax havens: facts and figures

1. Personal wealth totaling over US$21 trillion has been shifted to tax havens by the super-rich which means that over US$450 billion is being lost in taxes each year by governments worldwide. But how much more is lost due to corporate profits dispatched to tax havens?
2. Much of the money that winds up in tax havens is tied into the illegal international trade in drugs, corruption and embezzlement – and terror. Tax havens launder money, much to the annoyance of other governments, and grant terrorists current account facilities. Michel Camdessus, a former managing director of the IMF, put the amount of cash laundered globally per year at about 2 per cent of its GDP, or about US$2.1 trillion.
3. The World Bank has endorsed estimates by Washington-based Global Financial Integrity (GFI) that illicit cross-border flows range between US$1 and US$1.6 trillion per year.
4. In 2009, GFI calculated illicit cross-border flows out of developing countries alone at approximately US$850 billion - US$1 trillion. With global foreign aid currently averaging US$100 billion per year the result is that for every dollar Western governments have been handing across the top of the table, crooked western banks, businesses and middle men of various descriptions have been taken back up to ten dollars of illicit proceeds under the table.
5. Over 50 percent of global trade is routed on paper via tax havens even though these havens only account for some 3 percent of world GDP.
6. Over half of all international bank lending and approximately one-third of foreign direct investment is routed via tax havens.
7. Over two million international business corporations and hundreds of thousands, possibly millions, of secretive trusts and foundations have been created in secrecy jurisdictions.
8. Christian Aid, a leading British charity, estimates that governments in the poorest countries are being cheated out of at least US$2.8 trillion per year in tax revenues.

9. Kleptomaniac dictators such as Mobutu, Mugabe, Mubarak, Gadafi and others, have known where to stash the cash, as does al-Qa’ida. Those involved in such activities would be unlikely to declare their earnings to their home tax authorities even if they were zero-rated.

Definitions used for “billion” and “trillion” as follows: 1 billion = 1000 million and 1 trillion = 1000 billion

The link between tax havens and the financial crisis

Offshore = related to tax havens  Onshore = related to the real economy

There is a link between the chaos on the global financial markets and tax havens - or secrecy jurisdictions as they are often called nowadays. These secrecy jurisdictions are not just used for tax evasion and tax avoidance, but have also played a key role in creating turmoil as corrupting agents, operating in a clandestine fashion at the core of the global financial markets. They have played a wholly destructive role in allowing economic players to circumvent onshore regulation and evade financial oversight. By providing what academics call “secrecy space” they multiply market risks by facilitating the creation of complex and opaque corporate structures, for example “Special Investment Vehicles used to hold assets off-balance sheet”.

It was in the 1970s that multinationals and banks began as a matter of course to expand and grow through tax havens. Over the next three decades, offshore finance (and corporations that depended on it in order to expand) asserted its dominance over national economies. Once assured of a stream of finance offshore, corporations worked out how to use tax havens to retain profits and so expand even further. As profits grew, the amount of tax paid by corporations into the public exchequer decreased. There is no let-up in this aspect of offshore capitalism today.