The Observer
Economics

Super-rich hide trillions offshore

· Study reveals assets 10 times larger than UK GDP
· Exchequers deprived of hundreds of billions in tax

Nick Mathiason
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The world's richest individuals have placed $11.5 trillion of assets in offshore havens, mainly as a tax avoidance measure. The shock new figure - 10 times Britain's GDP - is contained in the most authoritative study of the wealth held in offshore accounts ever conducted.

The study, by Tax Justice Network, a group of accountants and economists concerned at the escalating wealth held in offshore locations, shows that the world's high-net-worth individuals earn $860 billion each year from their assets.

But there is growing alarm among regulators and campaigners because exchequers worldwide are missing out on at least $255bn of tax each year. Governments appear unable, or unwilling, to prevent the rich employing aggressive strategies to minimise their tax liabilities.

The OECD this weekend confirmed that international tax avoidance is a growing problem that troubles governments not just of rich countries, but middle-income ones as well.

'This is one of the defining crises of our times,' said John Christensen, co-ordinator of the Tax Justice Network and a former economic adviser to the Jersey government. 'One of the most fundamental changes in our society in recent years is how money and the rich have become more mobile. This has resul ted in the wealthy becoming less inclined to associate with normal society and feeling no obligation to pay taxes.'

James Jones, Anglican Bishop of Liverpool, said: 'In this country, we have created a culture of tax avoidance. The current debate is pandering to a culture of consumption and avoidance. We need a much better debate than the political parties are currently giving us.'

Individuals such as Rupert Murdoch, Philip Green, Lakshmi Mittal and Hans Rausing - among the world's richest men - all make extensive use of tax havens.

There is nothing illegal about placing assets and cash offshore, but campaigners are promising to attack tax avoidance by the world's richest people in much the same way that they currently target environment and trade issues.

The $11.5trn does not include the vast amount of money stashed in tax havens by multinational corporations, which are using increasingly sophisticated techniques to run rings round the authorities.

The Tax Justice Network study has drawn from data supplied by the Bank of International Settlements, Merrill Lynch and McKinsey. Richard Murphy of Tax Research, who co-authored the report, said: 'No one has tried to calculate a number like this before. To ensure the credibility of our data, we have only used information already in the public domain and produced by some of the most authoritative sources in the world.

'In addition, we tested our conclusions against three independent sources of information, and all seem to substantially agree, giving us a high degree of confidence in the conclusions.'

'Gordon Brown and the British government are ideally placed to act on offshore tax avoidance, since so many of the banks and tax havens that facilitate these processes have British links,' said Charles Abugre, Christian Aid's head of policy.

'Only last week, the Commission for Africa called for an immediate doubling of aid to Africa to help it meet the Millennium Development Goals. And yet here is a potential source of revenue that even the most responsible governments are doing little to tap into.'

Where the rich stash their cash

Nick Mathiason on a new study that reveals the amazing wealth the super-rich hold in offshore tax havens - depriving governments of hundreds of billions of dollars - and the looming crackdown by the world's tax collectors

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Rupert Murdoch last week floated his family's £3.8 billion personal investment company in Bermuda - saving himself £522 million in taxes.

Bermuda was chosen because the media tycoon, who chairs News Corporation, wanted to avoid the taxman after his firm changed domicile from Australia to the United States recently. Just prior to the Bermuda float, Murdoch bought a 20-room, three-floor residence opposite Central Park in Manhattan for £22m. Days later he bought a house in Beijing.

Lakshmi Mittal, the Indian-born, Labour-donor industrial magnate, is the world's third richest man, according to Forbes. Worth £13bn, he spent £57m on a 12-bedroom London home next to Kensington Palace and could afford to spend £31m on his daughter's wedding in Paris, which included a sparkling performance by Kylie Minogue. Under UK tax laws, he remains exempt from paying a heavy tax bill by saying his primary residence is overseas. Capital gains tax on UK assets can also be also avoided by holding them in a foreign company or trust.

The business empire of retail billionaire Philip Green is mostly held in the name of his wife, Tina, who is resident in Monaco. Taveta Investments, the vehicle used to acquire Arcadia in 2002, paid out a hefty £460m to its owner last year. Green, who spends much of his time in Britain, would have been landed with a £150m tax bill if he owned Taveta; as it is held by his wife, a minuscule amount of tax is due.

These three examples demonstrate one essential fact: the rich can afford to minimise their tax bills, while the rest of us have to stump up. This weekend The Observer can exclusively reveal that the world's richest people are hiding an astonishing $11.5 trillion in tax havens.

For the first time, research has pieced together the amount of wealth held in low-tax environments. The annual income that these assets earn totals $860bn. But what is sure to concern government treasuries the world over is that the taxable income on $11.5tn could exceed $255bn.

There is nothing illegal in stashing cash in secretive tax havens. Minimising tax obligations is a way of life for many people in all income brackets. But these shock figures - established by campaign group Tax

Justice Network, a collection of tax experts and economists - will sound alarm bells that the social contract between sovereign states and the wealthy is being torn up.

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The Irish government has said it is losing significant revenue through the rich stashing their cash in tax havens, while the US believes it could be losing out on at least $35bn a year.

Jeffrey Owens, director of the Organisation for Economic Co-operation and Development's centre for tax policy and administration, says: 'High net worth individuals are enjoying the joys of being offshore, and that has implications for tax bases not just in OECD countries but in China, Brazil, South Africa and India. All these countries are saying they want to join us in our drive to persuade offshore locations to improve transparency and co-operate with authorities seeking information.'

Owens adds that the trend for wealthy individuals to place their wealth offshore is increasing, but stressed that tax havens are essential for individuals who live in unstable regimes.

But aid organisations are alarmed that money that should be used for building the infrastructure of the poorest countries is being hidden in havens by corrupt politicians and multinationals exploiting tax loopholes. Offshore companies are being formed at the rate of about 150,000 a year. Whereas in the Seventies there were just 25 tax havens, now there are at least 63, about half of them British protectorates or former colonies. Tax avoidance in Britain alone is estimated to cost the Treasury between £25bn and £85bn a year.

Christensen says: 'For decades, special interests have lobbied governments to prevent a coherent crackdown. Now civil society is acting globally and demanding governments put this on the international agenda.'

George Gelber, head of public policy at Catholic aid agency Cafod, says: 'The people who use tax havens are free-riders on the taxes paid by working people round the world. They pay little or nothing for public goods such as the rule of law and security, which have to be paid for by the taxes of much less well-off people.

'If only a fraction of the taxes due on the trillions of dollars held in tax havens became available for international development, it would enable most rich countries to allocate 0.7 per cent of their national income to development assistance [double what Britain, for example, currently spends], and put the Millennium Development Goals [on alleviating poverty] within reach of even the poorest countries.'

While the Inland Revenue has had more success in chasing up wealthy offshore fraudsters, a National Audit Office report last year highlighted the growing number of people - not just the wealthy - using tax haven credit cards and bank accounts.

The report says: 'The Revenue do not know how many people have tax haven bank accounts and credit card accounts... probably all of the major banks in this country offer offshore accounts, but they have not had to tell the Revenue about clients with an offshore account.'

Investigations in the US showed that one credit company alone had 230,000 offshore accounts covering 1.7 million transactions.

'The issues of tax havens and tax competition are symptomatic of a much wider malaise at the heart of the international financial system,' says David Woodward, director of the Global Economies Programme at the New Economics Foundation. 'This is a critical time for development, and particularly for the achievement of the Millennium Development Goals. If we are serious about reducing poverty, one of the first things we need to tackle is an international financial system run by the rich, for the rich, at the expense of the poor. It is time to rethink what the system is for - and dealing with tax havens and tax competition could be an important first step. $255bn of lost public revenues is just part of the price we pay for our failure."

Meanwhile, multinational companies are increasingly looking at using offshore havens to avoid or minimise tax payments in a bid to maintain their profits and to add shareholder value. Multinationals now see tax departments as profit centres and, given the risk of detection, the gains to be made through sophisticated techniques are irresistible.

This may have been why KPMG, the accountant and consultancy firm, cold-called an amusement arcade firm to sell it a tax-shelter scheme it knew would be considered unacceptable by Customs & Excise, as revealed earlier this year in The Observer. The VAT-avoidance scheme, KPMG said, would save the company more than £4.2m per year. Last January, the European Court of Justice described it as 'unacceptable'.

KPMG's prospectus to gaming company RAL Holdings said: 'In our view, HM Customs & Excise will regard these planning arrangements as "unacceptable tax avoidance" and will seek to challenge the arrangements. However a similar concept for telecommunications ran for nearly four years... before the EU amended primary legislation and stopped the concept.'

It is thought such practices are far from unusual. It may seem that the wealthy and big business are running rings round tax authorities. But there are signs that civil society will soon be demanding a crackdown.