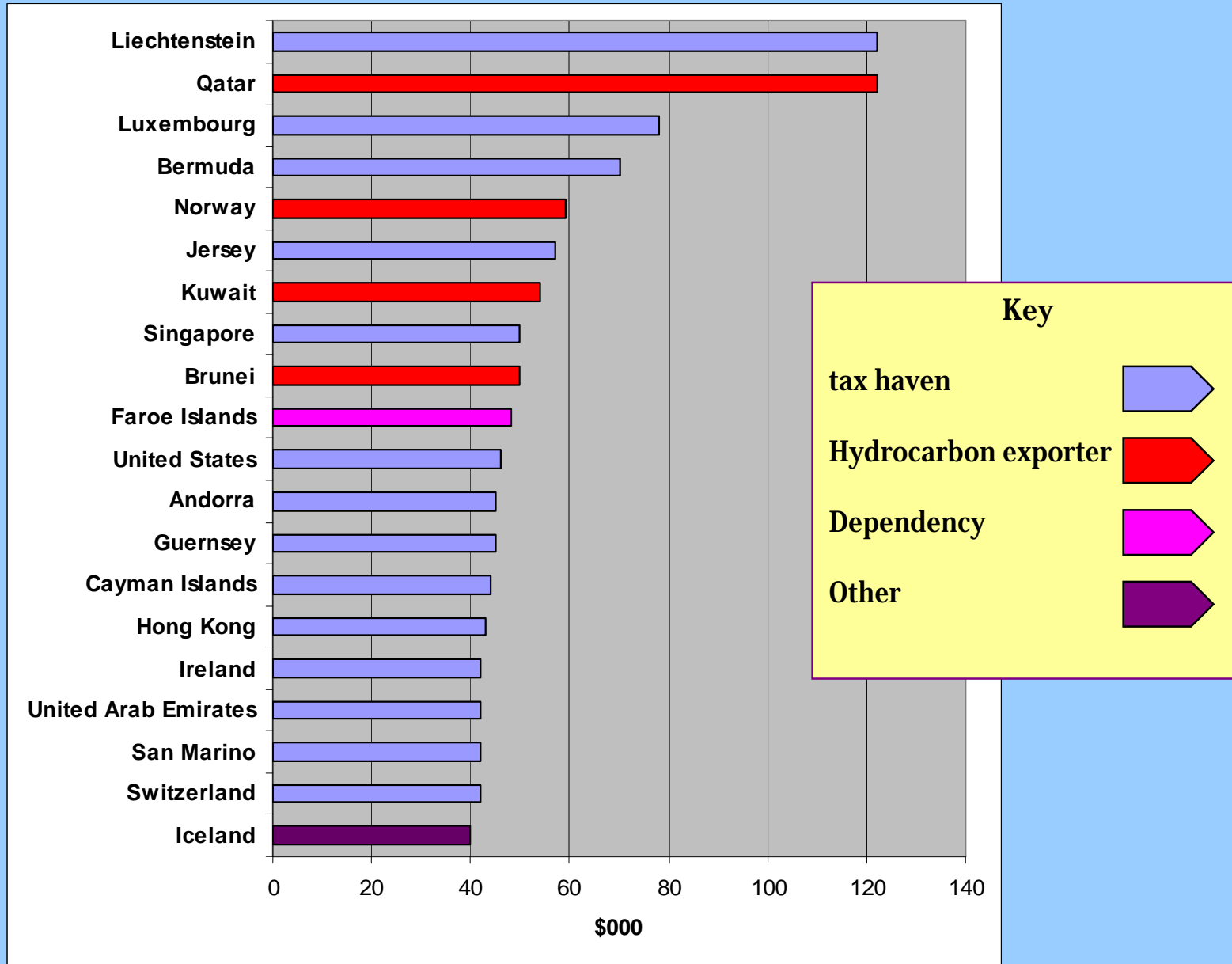


29th September 2010, Centre for the Study of International Governance, Loughborough
BRITISH GOVERNMENT ATTITUDES TO BRITISH TAX HAVENS
An Examination of Whitehall Responses to the Growth of Tax Havens in British Dependent Territories from 1967 to 1975

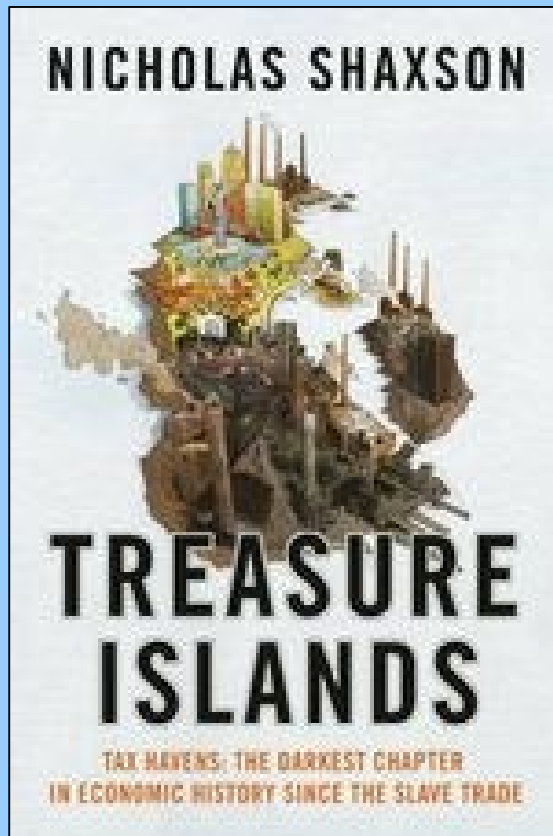


Paul Sagar, John Christensen, Nicholas Shaxson

Global top-20 by GDP per capita



Source: Central Intelligence Agency, 2010



“The modern offshore system did not start its explosive growth on scandal-tainted islands in the Caribbean, or in the Alpine foothills of Zurich. It all began in London, as Britain’s formal empire gave way to something more subtle... [the Eurodollar].





























































In fact, the formal empire did not quite disappear.

Fourteen small island states decided not to become independent, and they became Britain’s Overseas Territories, with Britain’s Queen as their head of state.”

Bodley Head, January 2011, forthcoming

Mapping the Faultlines

The sun never sets on the British Empire of secrecy jurisdictions

Andorra		Costa Rica		Liechtenstein		Madeira (Portugal)	
Anguilla		Cyprus		Luxembourg		Samoa	
Antigua & Barbuda		Dominica		Macao		Seychelles	
Aruba		Gibraltar		Labuan		Singapore	
Austria		Grenada		Maldives		St Kitts & Nevis	
Bahamas		Guernsey		Malta		St Lucia	
Bahrain		Hong Kong		Marshall Islands		St Vincent & Grenadine	
Barbados		Hungary		Mauritius		Switzerland	
Belgium		Ireland		Monaco		Turks & Caicos Islands	
Belize		Isle of Man		Montserrat		Dubai (UAE)	
Bermuda		Israel		Nauru		City of London (UK)	
British Virgin Isles		Jersey		Netherlands		Uruguay	
Brunei		Latvia		Nether Antilles		US Virgin Islands	
Cayman Islands		Lebanon		Panama		Delaware (USA)	
Cook Islands		Liberia		Philippines		Vanuatu	

MEMORANDUM

From: W.G. Hulland, Colonial Office

To: B.E. Bennett, Bank of England

Date: 3rd November 1961

Subject: Financial regulation in the Bahamas

“ “ *We feel that this (lack of provision of an effective regulatory system) might be a grave omission, since it is notorious that this particular territory, in common with Bermuda, attracts all sorts of financial wizards, some of whose activities we can well believe should be controlled in the public interest.* **” ”**

BANK OF ENGLAND

Code

RECEIVED IN
REGISTRY No. 41
14 SEP 1970
H.V. 6/11

TOP COPY

PRIORITY BRITISH VIRGIN ISLANDS TO FOREIGN AND COMMONWEALTH OFFICE
TELNO 157 11 SEPTEMBER 1970

Dr. Osborne intends to move at next sitting of Legislative Council as follows.

Begins.

- (i) That in the opinion of this Council banking legislation which provides for guaranteed secrecy of accounts and exemption from income tax on all personal and corporate saving accounts for a period of not less than twenty years would give considerable impetus towards growth of banking system and to Territory becoming a centre for international finance;
- (ii) That this Council requests the Government to consider early introduction of legislation along these lines.

2. Government will agree to consider and I would be grateful for your early advice in the matter after reference to all parties concerned including Bank of England.

Mr. Thomson

FILES
W.I.D.
F.P.A.D.
SIR L. MONSON
MR. SCOTT

ADDITIONAL DISTRIBUTION
U.N.D. (4)

"That in the opinion of this Council (*British Virgin Islands Legislative Council*) banking legislation which provides for guaranteed secrecy of accounts and exemption from income tax on all personal and corporate savings accounts for a period of not less than twenty years would give considerable impetus towards growth of banking system and to Territory becoming a centre for international finance;"

OV121/23
WEST INDIES

R.

CONFIDENTIAL

36. The haven which exploits a double taxation agreement. In principle these agreements are, and in the administrations of developed countries should continue for preventing a double charge on income. It is an attempt to enable individuals or companies to avoid paying tax in their home country. The fact that this exploitation has taken place through double taxation agreements is not an argument for allowing them to continue to negotiate others on terms which would allow them to develop. There is a difference between actually negotiating an agreement which leads to loss of tax and operating an agreement which leads to loss of tax and reluctantly, in a tax loss about which we can do nothing. A distinction has been noted by some O.E.C.D. member countries including the U.S.A. which deplores the United Kingdom's 'encouragement' of tax havens, and France, which has animadverted on the prevalence of 'paradis fiscaux' as yet another undesirable feature of the Sterling Area.

37. The tax haven with a double taxation agreement allows companies and individuals resident in the tax haven to derive certain income from the United Kingdom subject to reduced rates of withholding tax or even - under some agreements - free of withholding tax. If income, e.g. dividends, is routed through a tax haven of this kind it may, having benefited from...

"...the USA...deplores the United Kingdom's 'encouragement' of tax havens, and France, which has animadverted on the prevalence of 'paradis fiscaux' as yet another undesirable feature of the Sterling Area."

From: 'British Dependent Territories and Tax Haven Business'
Joint Paper by FCO, IR and Treasury
Issued July 1971

- 1. Did the British Government have an overarching strategy for developing London as a tax haven?**
- 2. Alternately, was the development of Britain's tax haven empire largely a spontaneous private sector response to capital controls and high tax/ high spend governments?**
- 3. Or did different Whitehall departments have conflicting views on the development of Britain's tax haven empire in the 60s and early 70s?**

What could the archives tell us?

TREASURY PRESS CUTTING SECTION

ROOM 50/1 Tel: Ext. 413

23 FEB 1969

Extract from:—

Dated:—

Why not turn the City into a tax haven?

THE SUNDAY TIMES

BERNIE CORNFELD'S Investors Overseas Services, the Geneva-based mutual fund group, has done wonders for the US balance of payments by pumping the world's savings into American shares. Save & Prosper, the UK's largest unit trust group, would like to do the same for the UK balance of payments through its new Bermuda-based fund.

Why does S & P have to go to the trouble of using Bermuda which inevitably puts up administrative costs? Because a London-based fund would have to pay capital gains tax on its switching operations and so become unattractive to foreigners. However as Bermuda is in the sterling area UK residents can also take advantage of the deferment of capital gains tax, an advantage the Inland Revenue specifically denied to UK unit trusts when they tried to get concessions on the introduction of the tax.



BY CHARLES RAW,
Financial Editor

booming stock market was having on the balance of payments. But why not go a step further and turn the City into a tax-haven for foreigners by allowing investment managers to start exempted funds in London itself for people living

apparently after sitting on the although no pre-paid in the first which have bou on loans will be patriate all app value of those sh above the amou repay the loan the premium rate get a double dollar of growth portfolio is au creased by the premium, or at per cent.

Although the element would if the securities were sold it can be taken into account in valuing the assets of these trusts. At present practice among investment managers seems to vary: some take no account of the premium, others take full account; some take credit for only half, some for three-quarters. The latter practice seems the most logical

“But why not go a step further and turn the City into a tax haven for foreigners by allowing investment managers to start exempted funds in London itself for people living abroad?”

S. 2303/67



THE BOARD ROOM
INLAND REVENUE
SOMERSET HOUSE

18th October, 1967

Dear Sam, many

I do not suppose that the Treasury will be able to help us in this, but we feel we must leave no stone unturned.

We are increasingly concerned about avoidance of tax through the use of "tax havens". A tax haven is a territory which itself imposes little or no direct taxes: if income or a capital gain which really belongs to a U.K. resident can in form be made to arise to a resident of that country (whether an individual, a company or trust) no tax is payable. It is naturally very difficult for us to extract any information from those we suspect, or even to know who is engaged in the traffic. A variety of sophisticated and elaborate services are no doubt employed. If we had complete information our existing anti-avoidance measures would probably catch some cases; others might well escape, but until we know more about what goes on we cannot tell. Death duties may be involved as well as taxes on income.

Tax havens are mostly within the sterling area. Press reports suggest that in Bermuda and the Bahamas in particular the provision of avoidance facilities is one of the major industries and that members of the local governments are involved in the business.

We should welcome any information about funds transferred by U.K. residents to residents of the other country. Even a piece of gossip that Mr. X was thought to have made such a transfer would be some help, because we may not hitherto have suspected Mr. X, and we can then at any rate launch an attack on him by requesting information.

I presume that, at any rate so far as countries in the sterling area are concerned, there is no information available or obtainable through the operation of Exchange Control or otherwise.

But if I am too pessimistic about this, perhaps you would let me know and I could arrange for discussions at working level.

*Yours
Roy Brooks*

Dear Sam

I do not suppose that the Treasury will be able to help us in this, but we feel we must leave no stone unturned.

We are increasingly concerned about the avoidance of tax through the use of "tax havens".



HM TREASURY

“in some cases it might be appropriate to increase development aid in order to deter territories from setting themselves up as tax havens...[the level of aid] could be used either as a stick or a carrot in negotiations with the territories concerned”

"We may be in danger of looking at this too much from the point of view of the British Government and not sufficiently from the point of view of the interests of the dependent territories themselves. I do not think that it would be wise to dismiss out of hand the possible indirect benefits which 'brass plate' companies may bring to the dependent territories in the form of commercial entrepreneurship that might not otherwise be attracted to the area. It can be argued that tax havens which are mainly aimed at North American companies may have little adverse effect on the United Kingdom and could even benefit sterling area reserves."

Ministry of Overseas Development

SECRET

BANK OF ENGLAND

11th April 1969.

Mr Lither
for review from
Ady
Dear Neale,

West Indies - Tax Havens

You will recall that Fenton sent you a copy of his letter of the 14th March to O'Brien at the Foreign and Commonwealth Office reporting briefly on a trip which Howes of Exchange Control had recently made to the Caribbean. Fenton concluded that there should be another visit before the end of the year to check up on developments in

Even
feeling now is
can no longer
less sophisticated
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to resist tempt
Islands to tax
or the absence,
U.K. residents

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need, therefore, to be quite sure that the possible proliferation of
trust companies, banks, etc., which in most cases would be no more
than brass plates manipulating assets outside the Islands, does not
there is of course no objection to their providing

(on 2/10/69 323/27/69)
"We need, therefore, to be quite sure that the possible proliferation of trust companies, banks etc, which in most cases would be no more than brass plates manipulating assets outside the islands, does not get out of hand. **There is, of course, no objection to their providing boltholes for non-residents . . .**"



THE BOARD ROOM
INLAND REVENUE
SOMERSET HOUSE

“Most, if not all, of the territories to which this document will be sent are receiving significant budgetary aid and in addition, no doubt, large amounts of development aid”

Some of the activities of “the smaller developing countries in the tax haven field are inimical to the interests of the UK Revenue, and where this is so we are bound to take action to protect ourselves”, especially from the Cayman Islands, which has introduced legislation which “blatantly seeks to frustrate our own law for dealing with our own taxpayers”.



THE BOARD ROOM
INLAND REVENUE
SOMERSET HOUSE

“A brass plate company can have literally no more connection with the territory in which it is ‘resident’ than the brass plate indicating its place of registration and the services for a few minutes a year of a local bank manager, accountant or solicitor. All the financial transactions of the company can take place outside the island”.



“experience elsewhere has shown that the ability to establish a tax free company generates activity and employment – particularly in the development of tourism. All of this would look pretty attractive to some of the undeveloped islands around the world”

“Islanders say they are prepared to accept this; and indeed we see no alternative but a continuation of the present state of stagnation, impoverishment and dependence on British dole”.

The Jakeway Report



Mr Dun: "Mr Gent of the Bank of England [spoke] giving advice on how to avoid paying UK taxes".

[Mr Gent] suggests that the Bank of England will not be prepared to pass on information required by the Inland Revenue...does the UK Treasury have no control over the Bank of England in matters such as these – surely Bank employees should not be working against government policy? and just what sort of arrangements and deals are made at these events 'behind the scenes'? – it really is just a bit too sordid to be true".



Comments welcome

British Government Attitudes to British Tax
Havens: 1967 to 1975

Contact author: Paul Sagar

paulrichardsagar@gmail.com