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TAX HAVENS IN THE FIRING LINE

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Why so timid?

In April the G-20 committed itself to tackling tax havens. In the intervening months the Organisation for Economic Cooperation and Development claims to have made more progress in the battle against banking secrecy and tax evasion than in the entire preceding decade. This is good news. But in the run-up to the Pittsburgh Summit next month we need a much more ambitious agenda for tackling tax havens. The attack on banking secrecy must be widened to include trusts and offshore companies and trusts, both of which are used extensively for tax evasion, and also the G-20 leaders must recognise that tax havens have played a major part in creating the conditions that have led to the current crisis. At this stage we see no evidence of political will to combat either of these threats posed by tax havens.

For this reason, in advance of the G-20 summit being held in Pittsburgh next month, we must urgently push for a far more ambitious agenda for the fight against tax havens.

Over the past fifty years a shadow economy has been created that works in parallel to the mainstream economy. The following figures might give you some idea of the scale of this parallel economy:

- In March 2009 the value of bank deposits held on accounts in the Cayman Islands, Jersey and Guernsey totalled US$2.3 trillion.

Banking deposits in France at that time totalled US$2.4 trillion. The combined populations of these islands is smaller than the population of Chalon sur Saone.

- The total value of personal wealth held offshore by high net worth individuals is US$11.5 trillion. Tax losses from this offshore wealth amount to around US$250 billion a year; more than enough revenue to pay for UN efforts to tackle global poverty.
- More than 90 per cent of hedge funds are established in tax havens: the majority in the Cayman Islands, Jersey, Luxembourg and London. To my knowledge, all of the structured investment vehicles used in the shadow banking system operate from tax havens.
- And guess what. When we look at which organisations make the most use of tax havens its always the banks that head the list. BNP Paribas, for example, has 189 subsidiaries registered in tax havens, 22 in the Cayman Islands and 77 in London. What the heck are they doing there? The most obvious answer to this question is that banks create these opaque and complex structures for the principal purposes of avoiding tax and escaping regulation. And its us, ordinary people, who pay for these abuses.

This explains why tax havens have been a major contributory factor to the current crisis. The trend for financiers to structure complex financial instruments through tax havens is largely a response to favourable tax treatment of capital gains and profits-shifting to low tax areas.

Much of what journalists call financial innovation is driven by nothing more than opportunities for tax avoidance. The need to hide this tax avoidance behind complex structures has put huge obstacles in the way of regulators, auditors, credit rating agency analysts, financial journalists and others with a legitimate interest in analysing financial market risk.

The International Monetary Fund has finally recognised that tax biases have encouraged the excessive leveraging of debt and other distortions at the root of the crisis. The IMF agrees with us that these distortions have had damaging macroeconomic consequences, leading to over-reliance on debt rather than equity financing, and subsidising borrowing. This issue must now be explored more thoroughly and we recommend that both the IMF and the European Parliament's Economic and Monetary Affairs Committee should give priority to research into how the tax and judicial regimes of tax havens impact on other countries and on the global financial markets.

Have we allowed the financial crisis to go to waste?

Writing in the *Wall Street Journal* immediately after last year's elections, Rahm Emmanuel, a key adviser on the Obama administration, said *"you never want a serious crisis to go to waste."* The current crisis is serious. Very serious indeed. But judging by the tone of politicians, bankers, businesspeople and journalists in recent weeks, many seem to think that stock market growth signals recovery in the real economy. In reality unemployment is rising at rates faster than the 1930s. The delusion of recovery is cause for real anxiety, since there is an appalling prospect that the opportunities for change will in fact be wasted.

We cannot allow this to happen. Fundamental reforms are needed at many different levels: institutions that have failed the test of the market must have root and branch reform to ensure that the culture of greed and short-termism for the few is replaced by one of fairness and prosperity for the many.

After years of relying on the financial markets to set their own rules, and then to self-regulate within a framework of rules which favour the interests only of wealthy elites, we now require a financial architecture that emphasises international cooperation, democratic accountability and operational transparency.

As a starting point we must restore the ability of elected governments to tax capital and to tax on a progressive basis. To do this, we need enhanced international cooperation to combat tax evasion and the abusive activities of tax havens.

In April the G-20 called for measures to tackle tax havens, and asked the OECD (Organisation for Economic Cooperation & Development) to take steps in that direction. But the OECD's standards for tackling tax evasion rely on complex, time-consuming and ineffective bilateral treaties for tax information by request. G-20 leaders must seize the current political opportunity to push for a more ambitious multilateral treaty process based on automatic information exchange on the model currently being used within the European Union.

Some will complain that automatic information exchange is too complex and detailed to provide the basis for a global standard for information exchange. We disagree. The OECD standard based on a 'by request' approach, which they would like to have considered as the global standard, is weak and ineffective. One statistic alone demonstrates how weak they are: in the past three years the British Crown Dependencies of Guernsey, Isle of Man and Jersey have cooperated with only 17 exchanges of information across their entire network of treaty partners. That's fewer than two exchanges a year for each jurisdiction. No wonder the tax evasion industry prefers the OECD exchange model to the European standard.

If anyone doubts the effectiveness of the European model they should note that a prominent British lawyer - an adviser to tax havens, no less - has urged these jurisdictions to cooperate with the OECD processes in order to resist pressure for the alternative automatic exchange process. The tax avoidance industry knows that automatic exchange works. It is what the tax avoidance industry is afraid of, and with good reason.

The need to tackle the tax havens is urgent. They lie at the root of massive wealth inequalities in, and between, most countries. They shift the tax burden from capital to labour and consumers, which causes huge macroeconomic distortions and fundamentally alters the balance of power within societies. They reduce job creation, encourage speculation, and facilitate corruption. They make the world of finance a more risky and dangerous place, and threaten all our economic livelihoods in the process.

That is why we must tackle tax havens, and why we must tackle them now. Let's not let this crisis go to waste. The message we must send to President Obama and his colleagues when they meet in Pittsburgh in September is simple: your strategies for tackling tax havens are far too timid. If you are serious about wanting to put an end to the offshore tax evasion industry you must work towards the adoption of a multilateral treaty for tax information exchange on an automatic basis. You know it makes sense.

Thank you.