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Offshore Wealth Reconsidered – Tax havens are doing better than might you think

A new report from our Tax Justice Campaign

There are plenty of tax havens around the world, but probably not as many as there have been promises to shut them down. We have looked into whether the amount of wealth hidden in these countries has decreased over the past few years, either as a result of the financial crisis or because of international actions against tax havens. Spoiler alert: the answer is no!

Tax havens are used by companies (usually large ones) and individuals (usually wealthy ones) to hide their money offshore and reduce their tax contributions. While corporate tax avoidance has been especially under the spotlight in recent years, tax evasion by private individuals has been on politicians' radars for a lot longer. As far back as 2009, the twenty richest countries on the planet (forming the G20) decided to "end tax havens" and promised change.

They mandated the Organisation for European Cooperation and Development (OECD) to find some solutions. Their first measure - creating a blacklist of tax havens - was a disaster as they were not nearly ambitious enough in defining what a tax haven is. Within a matter of days, all the countries included had taken modest measures to remove themselves, leaving an empty list. Since then, they have worked on other options, including the most recent proposal to make automatic exchange of tax information the new international standard.

Automatic exchange of tax information means that tax administrations of different countries will now exchange information about people living in one country but having ties with another. Let's take for example a British citizen living in Germany: Germany and the UK will exchange information on the tax situation of this citizen to ensure he/she pays all the taxes requested and in the right countries. No more hiding! Or at least that's the theory...

The Greens have looked at whether the actions taken against tax havens since 2009 have had any effect on the amount of money hidden offshore. Our objective wasn't to calculate how much is hidden offshore; others, such as Gabriel Zucman, have done that already. Our objective was more to look at the trend: is the amount of money hidden in tax havens decreasing? Are we winning the fight against tax havens?

The conclusion of the report is crystal clear: there is no general decline in the funds being channelled through tax havens. Looking more closely at the different types of funds, we can say that

cross-border debt and equity securities (portfolio investments) hidden in the most prominent offshore centres seem to have increased while cross-border deposits held in offshore centres have declined. This suggests a reorganization in the offshore world as a reaction to increasing financial transparency (automatic information exchange) but no decrease in the amount hidden in these offshore centres.

The report also analyses the countries where these funds are channelled to and we find ourselves with the usual suspects. Regarding portfolio investments - where we have seen an increase in funds - the United States and Ireland, as well as the Cayman Islands and Luxembourg are key countries. The most important offshore financial centres in terms of cross-border deposits - those in decline - are Switzerland, the Cayman Islands, Hong Kong, Singapore and, again, Luxembourg.

Our conclusion based on the data is that the offshore world is adapting to new international standards. Offshore business seems to be increasingly concentrating on portfolio investment while offshore deposits decline on average. These results are consistent with predictions that the current global initiatives would principally deter small-scale tax evaders, while leaving wealthy clients, who are able to use more sophisticated methods of tax dodging and are more likely to invest in securities, untouched. Hong Kong is stabilizing its position as a leading offshore centre and has increasingly attracted all categories of offshore financial wealth.

As the new standards for automatic exchange of tax information will only enter into force in 2017 and 2018, it is too soon to say if this new measure will be a game-changer or if tax evaders will either simply find new loopholes, or shift their wealth to non-compliant jurisdictions. But our conclusion is that offshore financial centres seem to be doing just fine, despite the financial crisis and the international efforts to increase financial transparency. That means our leaders need to do more if they are serious about fighting tax evasion.

You can read our full report [here](#).

You can also find a one page summary [here](#).

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