Funding the Future

A note to Jeremy Hunt: being a tax haven is not necessa...

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Jeremey Hunt is suggesting the UK's future after Brexit should be modelled on the tax haven of Singapore.

There are some especially odd things about this suggestion. Hunt ignores that more than 80% of housing in Singapore is state owned. And that all its largest companies are also government controlled. The Tory model and Singapore do not mix too well in that case.

He also ignores the minor issue of geography that has favoured Singapore. It's as if he has not noticed there are ports in Europe outside the UK.

But there are broader issues on being a tax haven too, which I wrote about in the Guardian a while ago. I thought them worth sharing again:

1 Tax havens don't like democracy

Most of us take democracy for granted, but you would have to think again if you lived in a tax haven. Singapore has had the same party in power since 1959. Jersey, meanwhile, has never had a general election, the members of its parliament (the States) being subject to re-election at varying times. But at least Jersey has a political party — called Reform Jersey — even if it only holds three seats in the States. All the remaining elected politicians claim to be independents, although they seem to have a decidedly pro-finance approach in common. Neighbouring Guernsey has no parties at all.

2 … or dissent

In Jersey there is a saying they use to make clear their feelings towards anyone who questions the political establishment: "There's a boat in the morning." The implication is clear: if you don't like it, go. Things are slightly more extreme in Singapore. There, most criticism of the government is illegal. One recent contempt of court law introduced penalties of three years in prison or fines of $100,000 (£80,000). And don't presume that questioning tax-haven practices is popular anywhere else. In Ireland, 12.5% (its corporation tax rate, compared to 20% in the UK) might as well be the symbol of the state, so universal is cross-party allegiance to it.

3 You can have any job you like in a tax haven as long as it's in finance

To give some idea of how important finance is in tax havens, 42% of the national income of Jersey comes from the sector. Tourism contributes just 4%, and Jersey Royal potatoes and those famous cows a paltry 1%. The Cayman Islands had 234 banks for 52,000 people in 2011 (the UK had 370). Meanwhile the Bahamas, Cayman Islands, Jersey, Guernsey, Bermuda and Aruba all had a branch of each of the big four firms of accountants — as did the British Virgin Islands, despite being home to just 28,000 people.

4 They aren't havens of prosperity for everyone

While GDP per head in, say, Luxembourg is at least twice that of the UK, this is mostly down to corporate profits flowing through the place, and not to income that anyone earns locally. In fact, there is poverty in tax havens, just as there is anywhere else. The Cayman Islands, for example, depend on charities to provide free school meals to those children who would otherwise go without. The simple fact is that wealth does not trickle down, even in tax havens.

5 People living in tax havens still pay tax

Almost without exception these places have no taxes on wealth, so inheritance taxes and capital gains taxes are absent. Some tax havens, such as Singapore, Jersey and Guernsey, have income taxes, even if top rates rarely exceed 20%. More commonly, they are keen on indirect taxes: that is, taxes on consumption. Jersey has what it calls a Goods and Services Tax (GST), which is remarkably similar to VAT except it is charged on many things, such as food, that are VAT-free in the UK. Since the proportion of food in the total spending of people on lower incomes is higher than that of people with larger incomes, such taxes tend to be regressive: proportionately the poorest pay more. The net result is obvious: the tax systems in tax havens tend to reinforce inequality rather than tackle it.

6 ... and face eye-watering house prices

It's not all palm-lined beaches: Lichtenstein and Luxembourg are both landlocked states, after all. And the realities of life crowd in even on small island locations. The average three-bedroom house in Jersey costs £527,000, compared with £209,000 in Torquay. On average, houses in the Isle of Man cost twice as much as those in the north-west of England. The fact is that if those with wealth pay less tax they push house prices out the reach of most people. No wonder 82% of all Singaporeans live in state-owned housing, most of which is flats.

7 The money held there isn't really there at all

Jersey has more than £350bn in funds under management at any one time. That's near enough £3.5m per person on the island. Except that the money is not owned locally: it belongs to people who don't live in Jersey and who simply use the island to avoid taxes where they really live. And the money is not even there: it is really in London, either on bank deposit or invested in the stock exchange. The claim that the money is in Jersey is a game of make-believe: a charade to let people get round their tax responsibilities to the democratically elected governments from whom they no doubt demand a full range of services. Estimates vary, but the most recent from the Tax Justice Network suggested $21tn of assets may be notionally held offshore: that's some £17tn.

8 Many tax havens have a staggering debt problem

Running a tax haven is expensive. Local people have to be kept happy and that costs money, which these places don't have. Singapore has national debt of more than 100% of GDP, which is much more than the UK. Jersey is struggling to fill a black hole in its public finances. The Cayman Islands had to appeal for loan funds from the UK to survive in 2009, and still operates under strict UK supervision because of the scale of its debt. And Bermuda is growing its national debt at a rate of more than 10% a year — which makes UK borrowing look positively restrained. The tax haven model simply does not pay.

9 None of them admit to being tax havens anyway

The weirdest thing about life in a tax haven is that you have to get used to lying. You have to deny that you help tax avoiders and evaders, even though you do. You claim to be well regulated, but forget to ask where the companies registered in your location actually trade, so you have no idea whether or not that's really true. Scandals like the Panama Papers happen, but you always suggest they merely involve "a few rotten apples" in other locations. Most of all you have to remember to say you don't live in a tax haven. You may claim to be "offshore"; you prefer to be called "an international finance centre". Best of all is the claim that you are "tax neutral" (which means: "We don't charge tax, but don't want to admit it"). But nothing gets round the truth that what tax havens really do is help to abuse the world's tax systems and in the process mount a challenge to market-based capitalism and even democracy itself.

10. Brexit is bad news for the UK's tax havens

As the chief economic adviser to the Jersey government has said, one possible response to Brexit is that the EU may list Jersey as a tax haven now that it will no longer have UK protection. No doubt it would do the same for Guernsey, the Isle of Man, the Cayman Islands and all the other British tax havens. A tax-haven list, with economic sanctions to be attached, is already being prepared by Brussels. The sanctions might require European companies making payments to these places to take off tax at source before the payment is made — completely cancelling their tax-haven advantages. And that's exactly what they might do to the UK if it became a tax haven. We might get all the downsides and none of the supposed gains if that's the route we're going to travel post-Brexit. So much for Theresa May and her chancellor’s brilliant plan.

- Dirty Secrets: How Tax Havens Undermine the Economy by Richard Murphy is published by Verso. To order a copy for £9.74 (RRP £12.99) go to bookshop.theguardian.com or call 0330 333 6846. Free UK p&p over £10, online orders only. Phone orders min p&p of £1.99.