Funding the Future

There is nothing in a tax haven

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In this morning's video I address the topic that, long ago, really got this blog going, which is tax havens.

I note that I keep hearing people say that we need to get the money back from tax havens. That, though, is not necessary. There is no money in tax havens. All they do is record the ownership of money and other funds that are always actually deposited elsewhere, like the City of London. Instead, what we want back from them is the tax not paid on income recorded there as a consequence of this.

The video is here. And please accept my apologies, it will not embed in the post, for some reason.

This is the audio version:

https://www.podbean.com/player-v2/?i=sdfv7-16a4591-pb&from=pb6admin&share=1&download=1&rtl=0&fonts=Arial&skin=3267a3&font

-color=&logo_link=episode_page&btn-skin=ff6d00

The transcript is here:

There is nothing in a tax haven.

It's something I've said for a long time, and I have written a few books about tax havens and am considered to be, well, a bit of an expert on the subject, not least by many in tax havens themselves. And as a consequence, I can say with confidence, there is nothing in a tax haven.

What do I mean? Well, whenever I talk to people about tax havens, what they say to me is that we need to get the money back that is hidden in tax havens. And I have to tell them, there is no money there.

The money that is in a tax haven is actually not really a physical thing. It's actually just a record of a transaction and that no money is actually located in a tax haven, whichever tax haven you care to think of. Jersey, Guernsey, the Isle of Man, the Cayman Islands, the British Virgin Islands, Gibraltar. I'm just naming a few British ones there, but we could keep on going around the world. The point is, all of these places only exist to book transactions, the economic consequences of which do not happen in that place.

Let me explain that. I'm going to use some data conveniently provided by the government of Jersey because, quite surprisingly, in some respects, Jersey is quite transparent. It likes to boast about how much money there is supposedly held in the island when in fact there's none there at all.

In 2023, the government of Jersey liked to claim that there was, and I'm going to check the figure, £157 billion in the island in bank accounts at 19 different banks.

There were 103,200 people supposedly resident in the island in that year.

Think about that. How many towns in the UK with a population of 103,000 have 19 banks? The answer is, it's precisely none. Jersey is heavily over-banked.

But also think about it: if that £157 billion was split equally between every Jersey resident, from those just born to those in great old age, each of them would have near enough £1.5 million each in the bank, on top of anything else they had.

Well, that's not true. Children in Jersey are not that rich. People who are working in Jersey are, by and large, not that rich at all. In fact, there's a real problem with poverty in the island, because the cost of living is so high, and wages aren't actually that exceptional for most working people. So, people haven't got £1.5 million each in the bank.

And in fact, when we look at something that Jersey likes to promote even more, which is the value of investments in what they call funds in the island - these are by and large stock exchange-based funds by the way - of which there are no less than 624 in 2023, or one for every 165 people in the island, there are £452 billion in those funds, or £4.4 million per person, bringing the total average sum saved in Jersey to more than £5.9 million per person, which is of course totally ludicrous.

That's because this money is owned by people outside Jersey. That's why it's a tax haven.

Tax havens, or secrecy jurisdictions, as I prefer to call them, create legislation that is intended to undermine that of other jurisdictions - places like the UK, for example - and to provide a certain degree of secrecy for those who use those places so that they can get away with using these places without being known about by their domestic jurisdiction.

That's very hard now for Jersey to do with regard to people who live in the UK. When I started my tax justice campaigning 20 years ago, the secrecy around places like Jersey was almost totally complete. It's been shattered now as a consequence of the activities of tax justice campaigners of whom I was most definitely one, and I'm proud to notch that up as an achievement on my life scale of things that I've done.

But, it's still true that Jersey can do this for other jurisdictions, many of which will now be developing countries. And people in those places use Jersey to record the ownership of cash and funds that they do not want the rest of the world to know about.

The consequence is that Jersey records that ownership there. But the funds never stay there.

The 624 funds that operate in Jersey don't invest in the local economy. There isn't that much to invest in, in Jersey, I promise you. And I know the place. I've been there fairly recently. Instead, of course, these monies are invested through the stock exchanges in New York, and London, and Frankfurt, and Paris, and so on. There's no money in those funds actually located in Jersey. The ownership is simply recorded there.

And it's exactly the same with regard to that £157 billion in the bank. A little bit might be owned by people in Jersey, but the vast majority is owned by people outside Jersey. And given that the figure in question is recorded in sterling, if those deposits are in sterling, the money in question will move instantly it is deposited from Jersey to the central treasury of the bank with which it's been deposited.

So, for example, if the funds are deposited with Barclays in St. Helier in Jersey, the money will be appearing very, very soon thereafter in a central bank account in Barclays in London. There is no money in Jersey as a result.

All there is is an accounting entry.

Remember that most of the financial services industry is only about keeping accounts to record who has a claim on what asset and who owes somebody else for that ownership. That's true of bank accounts but it's also true of shares and funds. And, therefore, the whole of a tax haven is just a giant double bookkeeping entry.

X from country Y placed money with us, which in turn we placed in country Z to buy asset B.

That's what a tax haven does. There's nothing that actually adds value there, nothing that justifies a low tax there, nothing of any literal contribution to the well-being of the world as a whole, unless you count avoiding tax as a contribution to well-being, which I don't.

But let's also be clear that when we talk about getting money back from tax havens that is not something that's going to happen because the money isn't there to be claimed back.

What is there are income and capital gains which could be taxed somewhere else.

So, when we talk about taxing the world's wealth, we aren't trying to get money back from these places. What we're trying to do is get our hands on the income and wealth that is recorded in these places that should be recorded somewhere else. And understanding that is really key if you're going to talk about how to tackle tax havens. And it's the basis on which I worked when I was focusing much of my attention on this and working with and alongside organizations like the OECD to achieve this goal.

If we can get hold of the income that is recorded in these places and ensure that it is properly taxed elsewhere, we will have achieved our goal because the wealth is never actually in a tax haven. But the income is recorded there to avoid tax and that's what we have to change.