

There is no pot of gold for the UK to tap in tax havens

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Once upon a time, tax havens hid billions from the view of the world's tax authorities. Then they caused massive disruption. But now, their opacity has been shattered as far as tax authorities are concerned. They are no longer a pot of gold for a government to find.

https://www.youtube.com/watch?v=9_KaosyvfwU&si=n962-zVyPaU3DIxU

This is the audio version:

https://www.podbean.com/player-v2/?i=nj2by-186fd8c-pb&from=pb6admin&share=1&download=1&rtl=0&fonts=Arial&skin=f6f6f6&font-color=&logo_link=episode_page&btn-skin=c73a3a

This is the transcript.

There is no money in tax havens.

For most people, that's a shocking revelation, but I did write one of the best-read books on tax havens in the world in 2010, and it is still widely taught and academically referenced. And one of the things that I and my co-authors suggested was that there is no money in a tax haven.

And as a matter of fact, that's true.

Remember what money is. It's just a number on a bank statement. There is nothing more to money when it comes down to it. It is simply a computer entry, and the computer entries that are made in tax havens do not represent any real wealth at all, nor is the computer in question even, most likely, offshore in the sense of being outside the UK.

In fact, in a great many cases, if people in the UK use a tax haven, they will use somewhere like Jersey Guernsey, the Isle of Man, or maybe the branch of Lloyd's or Barclays or whatever else it might be in places like the Cayman Islands and the British Virgin Islands or Bermuda or whatever. And the systems that those banks will operate will, in fact, all be backed up in the UK, and the money that leaves the UK to go to a tax haven is merely a movement in the balances on the computer systems of a bank.

There's nothing physical that is picked up in a suitcase and put on a plane and taken to St. Helier, or St. Peter Port, or Georgetown in Cayman, or wherever else. That did used to happen, but not anymore. Money just moves electronically. And the moment it gets to a bank account in one of those places, there is nothing for that bank balance to do.

There is no reason why the branch of Barclays in St. Helier or Lloyd's in St. Peter Port in Guernsey, or the Royal Bank of Scotland, if it's got one in Douglas, in the Isle of Man, needs vast deposits of money in its accounts to fund local loans. That's for two reasons.

First of all, deposits do not fund the loan-making of banks, as a matter of fact, but that's the subject for another video.

And anyway, there is no local demand for the amount of money that is being placed on deposit in places like this. In Jersey, there's something like, on average, around £400 billion on deposit in banks. There's only a hundred thousand people on the island. They do not need access to those sorts of funds to fund whatever it is that they might want to undertake in the island.

So, what does happen to that money? It actually comes straight back to the UK. The branch that is technically offshore simply sends it back to its head office in London via a loan between the branch in Jersey and the branch in London, which then uses the funds as part of the routine banking operation of the bank in question, which of course therefore means that if the person who sent the funds to Jersey did so from London, they will go straight back from Jersey to London, and the net change of funding in London is precisely zero.

So why do people put money in tax havens? They record their money in tax havens for a number of reasons.

First of all, because they may not pay tax on the income derived from it. That is

obviously possible.

Secondly, they may not want the world to know they've got this money and there is a greater degree of banking secrecy, at least with regard to the rest of the world, instead of to tax authorities, in places like Jersey Guernsey, and the Isle of Man than there is in the UK, overall.

Thirdly, they might be trying to hide their money from their creditors or, just as likely, their spouse, so that in the event of a divorce or a claim from creditors, they do not have to pay because they claim the money is no longer theirs.

People do not put money in tax havens in most situations because they are actually trying to cheat the tax system, per se. What they're trying to do is create secrecy so that what they're doing cannot be traced.

That might result in some cheating the tax system, but it's just as likely that they're cheating somebody else.

And that is why long ago, around the time I wrote that book in 2010, I renamed tax havens as secrecy jurisdictions, a term which is now widely in use in academic literature, but also in the world of people like the OECD - the Organization for Economic Cooperation and Development - who are dedicated to removing the abusive use of tax havens from the world economy because a secrecy jurisdiction is what these places are.

They don't sell tax abuse, now.

They sell secrecy.

So, let's stop pretending that there is some massive pile of money in tax havens.

First of all, entries in computer ledgers are not in themselves of any use whatsoever as a means of funding the government or anybody else.

Secondly, the money actually doesn't stay in the tax haven. When it arrives there, it normally comes straight back to somewhere like London.

Thirdly, that money could still be taxed in the UK because we do have something called automatic information exchange of the balances held by UK resident people in such places, and I can claim quite a lot of personal credit for the fact that such a system was put into place. I was told in 2009 by the UK Treasury that such a thing would not happen in my lifetime. I campaigned for it. And it started in 2017. So, if you think you can hide your money in tax havens now you can't, because I did quite a lot to prevent you doing so. And as a result, there's no hidden pot of gold in the world's tax havens.

Now, I'm not saying they're no longer a problem.

There is still obviously abuse going on of spouses, of creditors and hidden trade and all sorts of things which abuse competition law, environmental law, and many other things as well, including quite possibly employment law in some cases, most especially around shipping and others such industries.

But my point is this. If you think that tax havens are the pot of gold that will provide the money to somehow resolve the funding of governments, forget it. Most of the money that was once upon a time hidden completely from view in tax havens is now available for governments to identify and collect.

That's the fact with regard to a country like the UK. It may not be with regard to all countries in the south of the globe, but it is in most of the advanced economies where the states are members of the OECD. So, this is not somewhere where we can go to look for a solution to any problem of funding the government. Those who suggest it is, are wrong.

The problem of tax havens has not been entirely solved, but it has been very largely solved as a result of the work that I and others undertook between about 2003 and 2015.

We can find the money. We can locate it. It is probably already in reality, really in London. We can claim tax on it.

So, tax havens do not provide the source of money that many people claim that they do for solving the problems of the world. They are now a problem to the commercial world rather than the tax world. That still requires to be addressed, but no, but they are not a solution to the funding problems of states who are now looking for money.