TAX HAVENS AND THE AGE OF UNENLIGHTENED SELF-INTEREST

John Christensen
Association for Accountancy & Business Affairs
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"taxes, after all, are the dues that we pay for the privilege of membership of an organized society."

Franklin D Roosevelt
Speech, Worcs. Mass., 1936

"Enron and other big companies have escaped taxes in recent years through financial maneuvers so complex that the Internal Revenue Service has been unable to understand them."

Expert witness to Senate Finance Committee
13 February 2003 (reported in New York Times)
Corporate Social Irresponsibility - I

At the 35 percent tax rate, Enron’s tax on profits in the past five years would have been $625 million, but the company was able to use tax benefits from stock options and other loopholes to reduce its five-year tax total to substantially less than zero. Among the loopholes used to reduce the company's tax liability was the creation of more than 800 subsidiaries in “tax havens” such as the Cayman Islands.

Corporate social irresponsibility of such magnitude is only possible with the active connivance of a ‘pinstripe infrastructure’ of tax accountants and lawyers who create the “offshore interface” that enables this type of aggressive corporate behaviour. Until last year Enron - now widely condemned as a corporate delinquent - was upheld as a leading practitioner of the new economy.

Tax Havens: why are they allowed to persist?

- The OECD initiative against harmful tax competition
- UK Home Office - the Edwards enquiry
- The FATF review of global financial architecture
- The UN ODCCP money laundering initiative
- EU / Ecofin - information exchange agreement comes into effect 1 January 2004
- US IRS - Controlled Foreign Corps. & Patriot Acts
Corporate Social Irresponsibility -II

"...at a conservative estimate, tax havens have contributed to revenue losses for developing countries of at least US$50 billion a year...roughly equivalent to annual aid flows to developing countries...this estimate takes no account of outright tax evasion, transfer pricing, or the use of tax havens to under-report profits"

Briefing Paper June 2000

Oxfam

Tax Havens: our concerns

- Tax competition and tax escape: tax havens are used to lower tax yields in mainstream economies, and reduce the rates of capital accumulation and long-term investment
- Tax avoidance causes market distortions - enabling transnational businesses to act as economic free-riders and putting locally based businesses at an unfair disadvantage
- Tax avoidance undermines the ethos of social equity
- Tax havens provide safe conduits for the proceeds of political and economic corruption, illicit arms dealing, tax evasion, capital flight, etc
- Tax havens contribute to global financial instability, advantaging portfolio capital over fixed investment
HNWIs and multinational companies should have the right to establish ‘tax efficient’ arrangements to protect the value of their assets, and to minimise their tax liabilities.

- no justification for free-loading
- negates the social contract at the heart of democracy
- distorts global markets by creating an uneven basis for competition between multinational and local businesses
- distorts investment patterns - lowering the real cost of capital and (by switching tax burden) increasing the cost of labour and land.

Tax havens protect citizens from tyranny and corruption

Q. What do Marcos, Mobutu, Moi, and Mugabe have in common?
A. Offshore accounts

And that’s just the Ms.
A conduit for investment flows

- There are no benefits to directing long-term investment through a tax haven other than where the investor is seeking to obtain an unfair tax or regulatory advantage, or wants to avoid disclosure of the origins of the investment.
- The secrecy space provided by tax havens creates an ideal environment for money-laundering and tax evasion.

A useful deterrent to high tax & spend governments

That's the role of democracy!
Tax Havens: Offshore Pariahs

- Contribute to fiscal and regulatory degradation;
- Serve the purposes of global 'free-riders' whose actions harm international markets;
- Reduce government revenues available for essential public services;
- Reduce the rate of accumulation of investment capital;
- Encourage and facilitate criminality;
- Undermine the ethos of fiscal equity;
- Tackling tax havens requires global initiatives, with the UK government having particular responsibility for its overseas territories and crown dependencies.

Commonwealth countries and territories with offshore financial centres/tax haven facilities:
Alderney - Antigua - Anguilla - Bahamas - Barbados British Virgin Islands - Bermuda - Belize - Cayman Islands - City of London - Cook Islands - Cyprus - Dominica - Gibraltar - Grenada - Guernsey - Isle of Man - Jersey - Labuan - Mauritius - Monserrat - Nauru - Nieu - St Kitts and Nevis - St Lucia - St Vincent & Grenadines - Samoa - Sark - Seychelles - Singapore - Turks and Caicos Islands - Vanuatu