What is a tax haven?

There is no commonly agreed international definition of a tax haven, though typical characteristics include low or no tax on income from outside a territory's borders; lack of transparency and minimal regulation; laws or practices that prevent exchange of information for tax purposes; and self-promotion as an offshore financial centre.

Using tax havens is not illegal or proof of tax avoidance, but allows companies and individuals to minimise taxes and keep financial affairs opaque.

Facts and figures

- In 2009 the G20 tasked the Organisation for Economic Cooperation and Development (OECD) with publishing black and grey lists of tax havens, based on the number of tax information exchange agreements a territory had signed.
- Within days the black list was blank. As of May 2012 only two Pacific territories – Nauru and Nieu – appeared on the grey list.
- The US Treasury's financial crimes department lists the state of Delaware as a jurisdiction whose corporate laws "may be attractive to those persons seeking to hide illicit activity within the framework of shell companies."
- The top five secrecy jurisdictions in 2011, according to the Financial Secrecy Index, were: Switzerland, Cayman Islands, Luxembourg, Hong Kong, United States.
- G8 nations are responsible for about 40 per cent of tax havens.
- Several European Union states are considered secrecy jurisdictions or tax havens: Cyprus, Ireland, Latvia, Luxembourg, Malta and the Netherlands. Secrecy concerns have also been raised about Austria and Belgium.
- Several micro-states with close ties to EU members, such as Liechtenstein, Monaco, Andorra and San Marino, have traditionally been considered tax havens.
- Switzerland's national bank estimated in 2009 that the country held about $2.1 trillion in accounts owned by non-residents. Analysts estimate that 80 per cent of $900 billion in European assets were not declared to tax authorities.
- Since 2009 Switzerland has allowed screening of accounts on request by foreign authorities. In 2011 Switzerland signed tax deals with the UK and Germany granting account holders anonymity in return for an annual lump sum payment.
- In 2011, the islands of Barbados, Bermuda and the British Virgin Islands were the source of more investment into the rest of the global economy than Germany, and 118 times more than their own combined GDPs.

The costs

- Over half of all world trade passes through tax havens, even though these jurisdictions account for little more than two per cent of global GDP.
- Almost half of all money invested in developing countries is channelled through tax havens.
- The OECD estimates developing countries lose three times more money to tax havens than they receive in aid each year.
- A report by the Africa Progress Panel in May 2013 estimated that mining deals carried out through tax haven companies deprived DR Congo of an estimated $1.36 billion in state revenues; almost twice the country's combined education and health budgets.
- A 2010 study by the International Monetary Fund estimated that at least $18 trillion flowed through accounts in small island financial centres; about a third of global GDP.
- The IMF estimates that up to $1.5 trillion of criminal money is laundered every year via tax havens.
- The Tax Justice Network estimates that up to $32 trillion dollars of financial assets could be held in tax havens by super-rich individuals – a figure greater than the combined size of the economies of the US and Japan.
- Action Aid estimates that recovering tax on assets stashed in tax havens would raise government spending enough to reduce child deaths in the developing world by 230 children every day.

The British connection

- The UK is responsible for a fifth of tax havens worldwide, in the form of overseas territories and crown dependencies.
- Including Commonwealth states and others with traditional British links, the UK is connected to almost half of 73 jurisdictions listed on the 2011 Financial Secrecy Index.
- The UK network is estimated to account for about a third of the global market in offshore financial services.
- 98 out of 100 British companies on the benchmark FTSE 100 share index use tax havens.
- The UK's 'Big Four' banks – HSBC, Barclays, RBS and Lloyds – are responsible for 1,619 subsidiaries in tax havens.
- Collectively, the FTSE 100 has more companies registered in Jersey and the Cayman Islands than in China and India.
- UK investigators reported in 2011 that fraud was costing the country $59 billion annually.

"There are too many tax havens, too many places where people and businesses manage to avoid paying taxes."

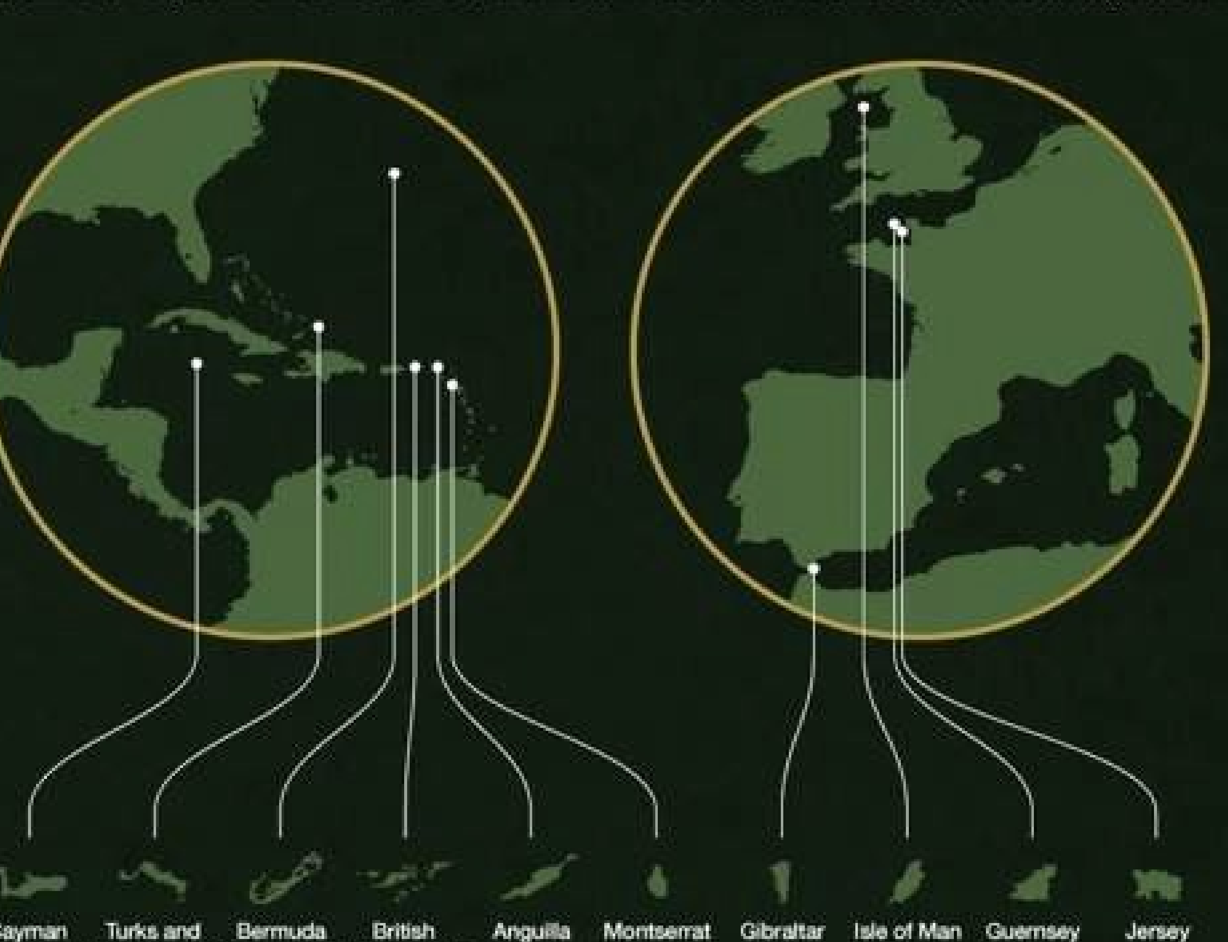
David Cameron, British prime minister, in 2012.

The City of London

The City of London Corporation enjoys rights and privileges predating the modern British state and uses these to protect, entrench and lobby on behalf of the financial sector. While keeping their activities at arm's distance, the City sucks in money and profits by providing services to and generating business for the UK's offshore network, as well lending them credibility by association. By some measures, the UK can be considered a tax haven in its own right, establishing much of the legal architecture that supports financial secrecy, and developing pioneering offshore practices. Legislation passed in 2011 exempts UK-based corporations from tax on overseas earnings.

The UK's tax haven network

British overseas territories and crown dependencies are key links in the UK's satellite network of tax havens and secrecy jurisdictions. Though they enjoy self-rule, the UK retains authority to block laws, suspend constitutions and dismiss governments. Many Commonwealth states and other territories with close ties to the UK are also deemed secrecy jurisdictions.



	Cayman Islands	Turks and Caicos Islands	Bermuda	British Virgin Islands	Anguilla	Montserrat	Gibraltar	Isle of Man	Guernsey	Jersey
Population	56,000	47,754	65,000	30,000	15,754	5,189	29,000	86,000	65,600	96,000
GDP per capita	$43,800	$29,100	$86,000	$42,300	$12,200	$8,500	$43,000	$53,800	$44,600	$57,000
Secrecy score	77%	90%	85%	81%	79%	86%	78%	65%	65%	78%

Cayman Islands

Status: British Overseas Territory, colonised by English settlers in sixteenth century

Tax: No personal or corporate income tax

Notes: World-leading domicile for hedge funds; host to over 90,000 companies, 10,000 mutual funds and 300 banks

Turks and Caicos Islands

Status: British Overseas Territory and former dependency of Jamaica

Tax: No personal or corporate income tax

Notes: Company formation, offshore insurance, banking and trusts, with more than 15,000 incorporated companies

Bermuda

Status: British Overseas Territory, held by English crown since 1612

Tax: No personal or corporate income tax

Notes: Insurance and reinsurance; Bermuda calls itself "the world's risk capital" with combined assets of more than $450billion

British Virgin Islands

Status: British Overseas Territory, annexed from Dutch in 1672

Tax: No personal or corporate income tax

Notes: Global leader in providing offshore entities; now home to more than one million companies

Anguilla

Status: British Overseas Territory, colonised by English settlers in 1650

Tax: No personal or corporate income tax

Notes: Home to a small but growing offshore financial sector

Montserrat

Status: British Overseas Territory under UK sovereignty since 1783

Tax: No corporate income tax, no capital gains tax

Notes: Offers range of offshore banking, insurance, trust and company formation services

Gibraltar

Status: British Overseas Territory, captured from Spain in 1704

Tax: Tax liability for wealthy limited to £30,000 a year. Corporate tax rate of 10 per cent introduced in 2011.

Notes: Offshore banking and an online gambling hub; estimates suggest industry employs one in eight Gibraltarians, and accounts for 15 per cent of government revenues

Isle of Man

Status: British Crown Dependency since 1765

Tax: No corporate, capital gains or inheritance tax

Notes: Established banking, company incorporation and other offshore services contribute 34 per cent of GDP; many listed companies from China and India

Guernsey

Status: British Crown Dependency, subject to monarchy since Norman invasion of England in 1066

Tax: Low income tax rates; No corporate, capital gains or value added tax

Notes: Major banking centre, holding £90bn in deposits and £277bn in funds; offshore services contribute 40 per cent to GDP

Jersey

Status: British Crown Dependency, subject to monarchy since Norman invasion of England in 1066

Tax: No corporate, capital gains or value added tax

Notes: Close links to City of London and home to many major banks, law firms and trust companies; Offshore financial services account for about 50 per cent of economy

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