

Tamper with tax havens at your peril

Global financial centres facilitate trade, investment and economic growth, writes
Richard Hay

Revelations in the Panama Papers have caused concern that so-called tax havens lie at the centre of a web of criminal conduct. Jeremy Corbyn, the leader of the Labour party, has demanded that British finance centres be “shut down”. Yet David Cameron has said that the transparency offered by Britain’s offshore centres would be ‘far in advance of most other countries’. The uproar invites examination of the role these centres perform in the global economy.

Allegations of wrongdoing are easy to make and readily understood. The workings of the international financial system, by contrast, are complex and not easily grasped. Many of those who benefit from offshore centres – including millions receiving workplace pensions – are not aware of the key role they play in their financial affairs.

Such financial centres facilitate trade, investment and economic growth. Globalisation has contributed to a doubling of world gross domestic product over the past two decades. Much of the benefit has accrued to developing countries, where dramatic declines in poverty have resulted from connecting local workforces to world consumers.

The economic emancipation of China

The world is politically segmented but economically integrated. International financial centres provide the links required to bridge the gap.

has lifted more than 500m people out of grinding poverty. China’s remarkable success in global investment and trade relies on access to Hong Kong, Singapore and similar finance centres. Ironically, while the UK authorities lectured China on the need to protect Hong Kong’s finance industry in 1997, it was the Chinese who defended such centres when Gordon Brown attempted to shut them down at the 2009 G20 summit of leading industrialised nations.



Peer reviews conducted by the Financial Action Task Force and the OECD, the Paris-based club of mostly rich nations, show that British offshore centres have robust transparency standards. Although detractors say secrecy is the reason for UK offshore centres’ success, Jersey and Guernsey clock the highest scores globally for compliance with FATF transparency requirements. PM Cameron said in Parliament yesterday that ‘we ought to praise British offshore centres and thank them for what they have done’ to lead such standards.

The true appeal of the UK offshore centres lies in their widely trusted British-inspired laws, courts, and professionals. The predictability and security offered by British institutions make such jurisdictions magnets for investors seeking reliable structures for international investment. Britain derives considerable soft power from the world transacting business on the basis of its admired legal institutions.

UK offshore centres support British jobs, increase financing available for investment in the country and elevate the rate of return for savings. A 2013 study conducted by Capital Economics, a research consultancy, found that Jersey supports more than 140,000 British jobs – six times as many as the entire UK steel industry. The study found that Jersey’s

contribution generates £2.5bn a year in tax for the exchequer, as much as the UK loses through all tax avoidance, onshore and offshore, combined.

International investment is pooled in funds in tax-neutral countries like the Cayman Islands. Cost-efficient facilities afforded by such centres boost saving and pension returns, improving the lives of ordinary workers in retirement and easing the welfare burden on cash-strapped governments. Such pooled funds are liable to tax in the countries where their income and gains are earned, and again when received by the ultimate investors. Are these arrangements suspect simply because there is not a third layer of tax where the funds are pooled?

So, what would the world look like if Mr Corbyn got his way and shut down the British offshore centres? Expect a loss of jobs, lower pension returns and a slowdown in international trade. There would be millions of losers from shutting down these hubs of global commerce. Politicians have to ask themselves: is that a price worth paying?

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