

Haven or Hell?

The UK governs one third of the world's tax havens through its overseas territories and crown dependencies. Whether these are havens however, or territories of hellish activities is debatable given the revelations from the Panama Papers and the discussions at the Anti-Corruption Summit held in London in mid May.

Without tax governments are unable to fund public services for their citizens. That is why individuals and businesses operating in the UK are required to pay tax. In the last 50 years the world has become a smaller place as a result of the ever expanding global market. The expansion of global companies coupled with porous borders between countries means that these global companies and the world's super rich can arrange their affairs in tax efficient ways which are not open to the average person.

There is increased competition both within EU countries and other nations to attract global businesses through reduced tax rates. How does this approach differ to that of tax havens? By clamping down on tax havens there is a danger that what comes in their place could be more perilous as with tax havens there is at least a rule of law and accountable governance.

It may be better to try and bring the havens into the fold by requiring them to disclose records. However the risk you run is that these overseas territories and crown dependencies may object and seek independence from the UK in order to preserve their status. David Cameron has taken the first steps down this road by suggesting that all off shore companies provide information as to ownership if they are buying property in the UK. Since this has been proposed by the Prime Minister it has been suggested that this regime might be a deterrent to property sales within London to overseas buyers. Ultimately if London is a safe haven in terms of rule of law and a ready market for the sale of properties, then this deterrent may be more speculation than reality, especially when coupled with the fact that one of the main reasons for buying within London is the increased capital return rather than the income return. This could explain why so many of these properties are still empty.

What is unclear is how effective the proposed measures will be given that the BVI, Cayman Islands and Jersey all signalled that they will not sign the public registers scheme. What may be a faster solution, rather than waiting for leading world economies to sign up to new regulation, would be to use the court of public opinion to bring more pressure to bear on both tax havens and large multinationals, such as Google, who arrange their business affairs through complex overseas structures with a view to mitigating tax in jurisdictions such as the UK. More regulation would simply result in new innovative ways to continue to achieve similar tax savings. There is a fine line between what is corruption and what is perceived as legitimate tax saving. What is clear is that the government's battle against corruption will not be solved overnight.