

# The Hidden Wealth of Nations

## The Scourge of Tax Havens

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# How big are offshore tax avoidance and evasion & what can be done about them?

## **A growing policy concern, yet hard to quantify:**

For some observers, considerable tax revenue losses

For others, most of the activities in tax havens are legitimate

On both sides, generally limited empirical evidence

## **A number of initiatives in recent years:**

FATCA, automatic exchange of bank information, BEPS

What can we expect from these policies?



In the book I try to explain how published macro statistics can be used to shed light on these issues

# The book is based on a number of recent research papers

1. “The Missing Wealth of Nations: Are Europe and the US net Debtors or net Creditors?”, *QJE* 2013
2. “The End of Bank Secrecy?” (with Niels Johannesen), *AEJ* 2014
3. “Taxing Across Borders: Tracking Personal Wealth and Corporate Profits”, *JEP* 2014

Extended, improved, updated, and better explained in the book...

...But much more research needed to offer definitive answers

All figures and data available online at

<http://gabriel-zucman.eu/hidden-wealth>

I- Tax evasion by wealthy individuals

# 8% of the world's financial wealth is held offshore, costing at least \$200bn

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	Offshore wealth (\$ bn)	Share of financial wealth held offshore	Tax revenue loss (\$ bn)
Europe	2,600	10%	75
USA	1,200	4%	36
Asia	1,300	4%	35
Latin America	700	22%	21
Africa	500	30%	15
Canada	300	9%	6
Russia	200	50%	1
Gulf countries	800	57%	0
<b>Total</b>	<b>7,600</b>	<b>8.0%</b>	<b>190</b>

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# Despite recent policy initiatives, much remains to be done

Automatic exchange of bank information will become global standard by end of 2010s: big progress.

Three obstacles:

Incentives of offshore bankers

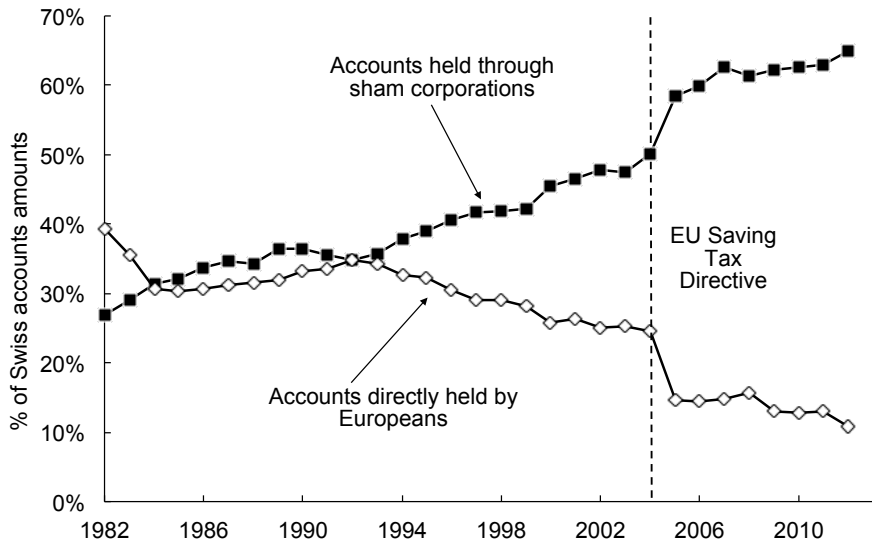
Financial opacity

Incentives of tax havens



**What is missing: well defined sanctions (FATCA) and a world financial registry**

# How Swiss bankers torpedoed previous attempts at curbing tax evasion



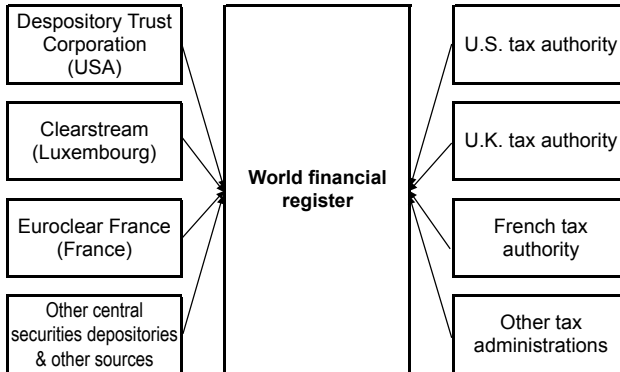
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## The case for a world financial register

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The companies Clearstream, Euroclear, etc. feed the world financial register.  
Tax authorities can verify that tax-payers indeed declare all the financial securities included in the register

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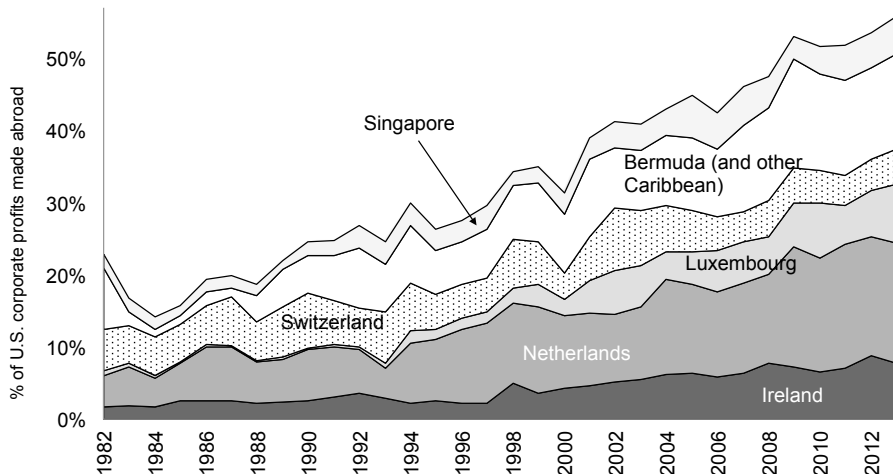




## II- Multinational corporations tax avoidance

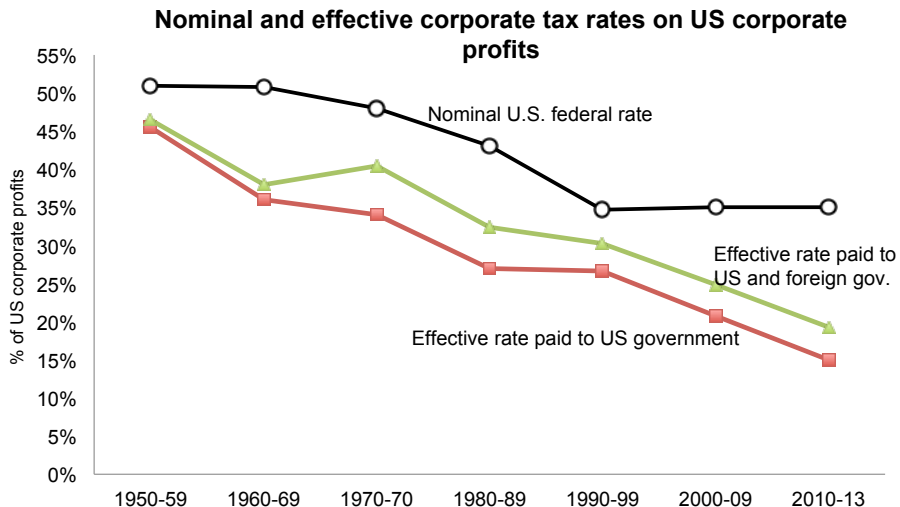
# More than half of the foreign profits of US firms are booked in tax havens

The share of tax havens in U.S. corporate profits made abroad



Notes: This figure charts the share of income on U.S. direct investment abroad made in the main tax havens. In 2013, total income on U.S. DI abroad was about \$500bn. 17% came from the Netherlands, 8% from Luxembourg, etc. Source: author's computations using balance of payments data, see Online Appendix.

# The effective rate paid by US corporations has been reduced by 1/3 since late 1990s



Notes: The figure reports decennial averages (e.g., 1970-79 is the average of 1970, 1971, ..., 1979). In 2013, over \$100 of corporate profits earned by US residents, on average \$16 is paid in corporate taxes to the U.S. government (federal and States) and \$4 to foreign governments. Source: author's computations using NIPA data, see Online Appendix.

# Reforming the US corporate tax

## **Formula apportionment**

Works reasonably well for US States

Based on final sales to remove incentives to move real activity

It's the best way to levy taxes efficiently and fairly

## **Integration with the personal income tax**

Removes incentive to dodge corporate tax

Existed in Europe for a very long time

Can work internationally: reciprocal crediting Europe/US as part of transatlantic free trade agreement (TTIP)