The Hidden Wealth of Nations
The Scourge of Tax Havens

Gabriel Zucman
(UC Berkeley)

September 2015
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


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

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

Accounts held through sham corporations

Accounts directly held by Europeans

EU Saving Tax Directive
The case for a world financial register

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.
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.

Nominal and effective corporate tax rates on US corporate profits

- Nominal U.S. federal rate
- Effective rate paid to US government
- Effective rate paid to US and foreign gov.

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)