

# The End of Bank Secrecy? An Evaluation of the G20 Tax Haven Crackdown

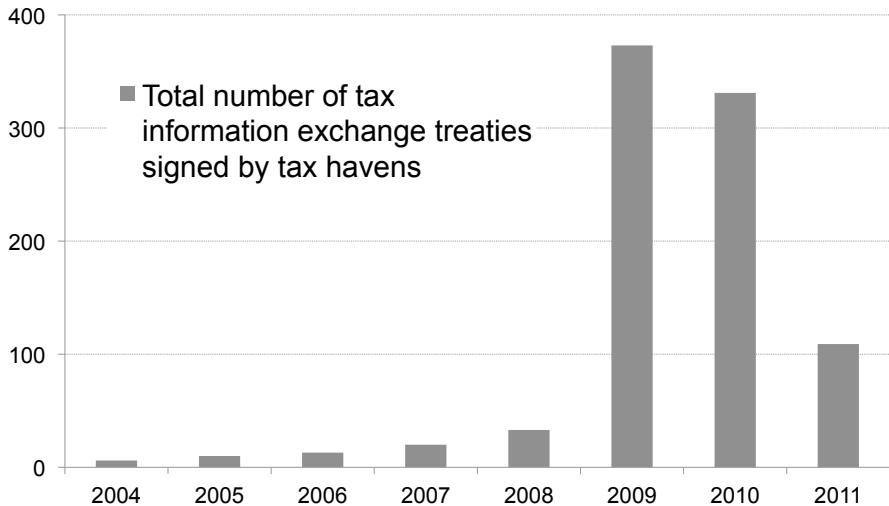
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# 2009-2010: Major Crackdown on Tax Evasion

- ▶ Financial crisis: offshore evasion high on policy agenda
- ▶ Main policy instrument: tax treaties
- ▶ Key development: G20 summit in April 2009

# Treaty Signature Surged During the Crisis



# Is it the End of Bank Secrecy?

Heated controversy:

- ▶ OECD and G20: “the era of bank secrecy is over”
- ▶ Critics: treaties are useless

Q: Which of the two views is closer to reality? Our A:

- ▶ Treaties not useless: they affect behavior
- ▶ But **major pitfall in current approach:** network of treaties incomplete so evaders shift funds

# We Have Access to an Exceptionally Rich Dataset on Bank Deposits

- ▶ Bank deposit data for 13 major tax havens (BIS)
- ▶ 2004-2011, quarterly, and at **bilateral level**
- ▶ Can learn a great deal from evolution of bank deposit
- ▶ But not everything: Compliance? Other assets?  
Non-evaders?

# Deposits $\approx$ 25% of Hhold Offshore Assets

(End of 2008 values in billions of current US\$)	World	Switzerland
Offshore securities	4,490	1,545
Bonds	37%	35%
Equities	63%	65%
<i>Mutual Fund Shares</i>	48%	50%
Offshore bank deposits	1,388	478
Total offshore financial wealth	5,878	2,022

# We Study What Happens When Havens Sign Treaties

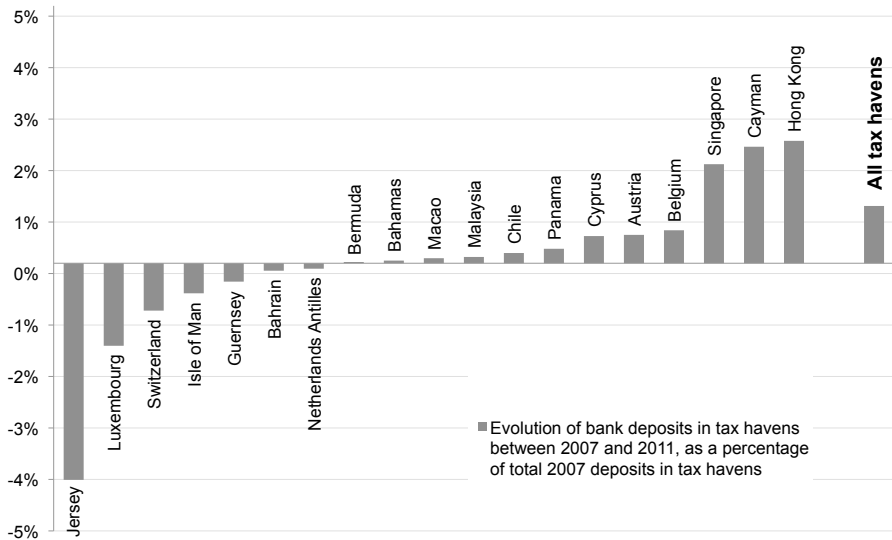
- ▶ Graphical analysis of trends in aggregate bank deposits
- ▶ Panel regressions on bilateral bank deposits (+ many robustness checks)
- ▶ Evolution of compliance in Switzerland

# Five Results

1. Tax evaders respond to treaties (a minority)
  2. **Shift deposits to non-compliant havens**
  3. No repatriation of funds
  4. Strong response of sham corporations
  5. Still very low level of compliance in Switzerland
- Celebrating end of bank secrecy is unwarranted



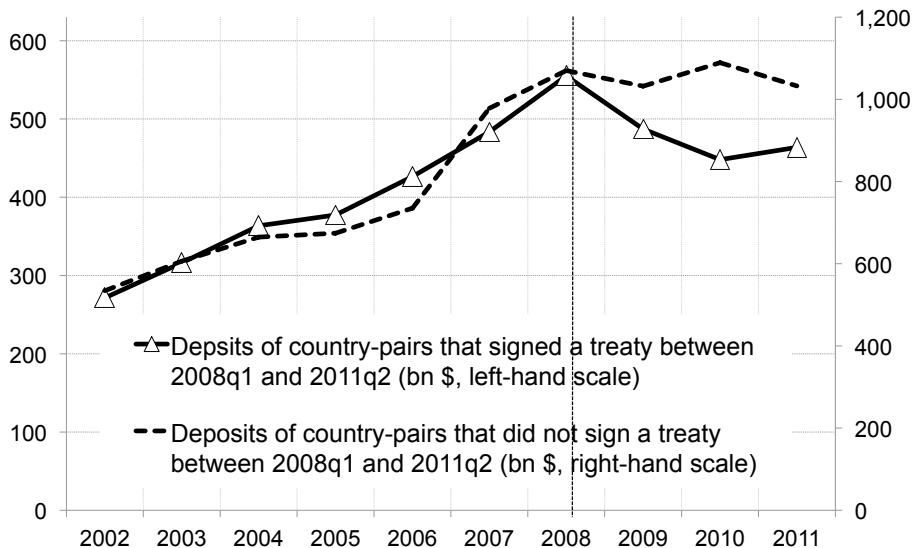
# The Result of the G20 Initiative Has Been a Relocation of Wealth Between Tax Havens



# Two Policy Lessons

1. “Big bang” multilateral approach should be preferred to current approach (Elsayyad and Konrad, 2011)
2. Make treaties more demanding: automatic exchange of information

# Result 1: Bank Deposits Responded Moderately to Treaties



# Effect of Treaties Confirmed by Panel Regressions

Fixed effects regressions:

$$\log(\text{Deposits}_{ijq}) = \alpha + \beta \text{Treaty}_{ijq} + \gamma_{ij} + \theta_q + \epsilon_{ijq}$$

If evaders own fraction  $s$  of deposits, causal effect of treaties on evaders' deposits  $\approx \beta/s$

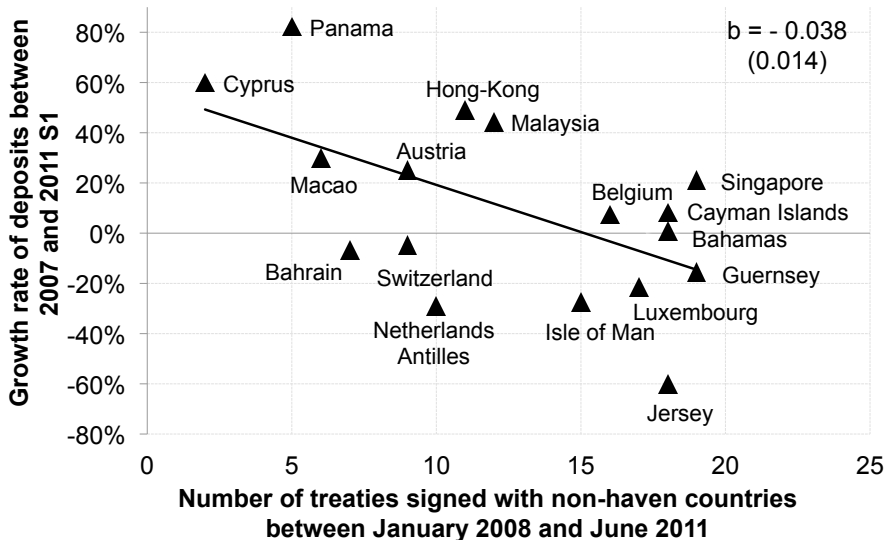
# R.1: Some Depositors Respond to Treaties

Dependent variable: deposits of savers of country  $i$  in banks of country  $j$

VARIABLES	BANK: havens SAVER: non-havens	BANK: havens SAVER: non-havens
Treaty between $i$ and $j$	<b>-0.1156**</b> (0.0349)	
Treaty (Contemp)		0.0223 (0.6331)
Treaty (+1 quarter)		-0.0927 (0.1300)
Treaty (+2 quarters)		-0.1306** (0.0449)
Treaty (+3 quarters)		<b>-0.1724***</b> (0.0057)
Treaty (>3 quarters)		<b>-0.1818**</b> (0.0137)
Observations	30,960	30,960
Countrypair FE	YES	YES
Time FE	YES	YES

Robust p-values in parentheses, clustered at the country-pair level

# Result 2: Deposits Go to the Least Compliant Havens



# Panel Regression Confirm Shifting to Least Compliant Havens

- ▶ Add a measure of the extent of country's  $i$  network of treaties to better explain  $Deposits_{ijq}$
- ▶ Ex: What impact of an additional treaty signed by France on France-Singapore deposits?

# Key Result: Depositors Shift their Deposits

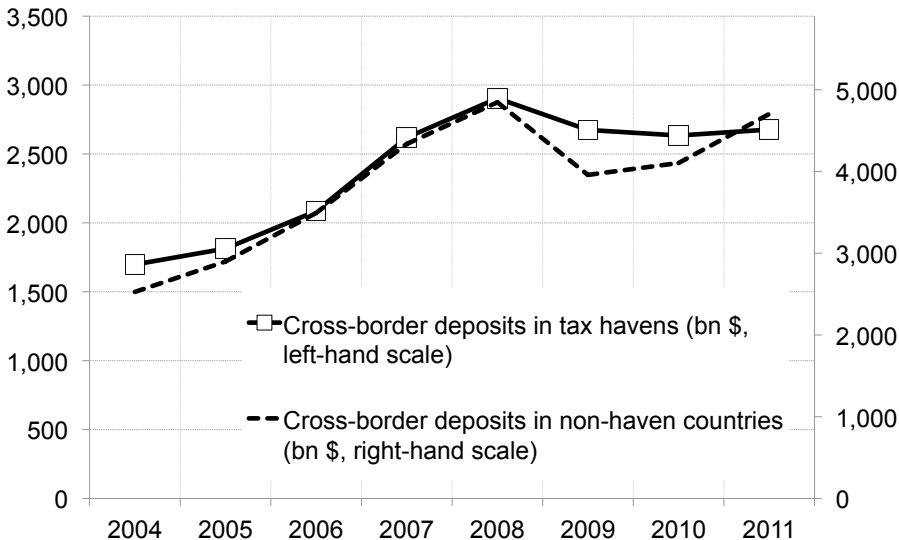
Dependent variable: deposits of savers of country  $i$  in banks of country  $j$

VARIABLES	BANK: havens SAVER: non-havens	BANK: havens SAVER: non-havens
Treaty between $i$ and $j$	-0.1659*** (0.0052)	-0.0498 (0.4286)
Saving tax directive (STD)	-0.2161*** (0.0004)	-0.2198*** (0.0003)
# of treaties signed by $i$ with havens other than $j$	<b>0.0059**</b> <b>(0.0402)</b>	
# of treaties signed by $i$ with havens other than $j \times \text{Treaty}_{ijq}$		0.0001 (0.9719)
# of treaties signed by $i$ with havens other than $j \times (1 - \text{Treaty}_{ijq})$		<b>0.0120***</b> <b>(0.0033)</b>
Observations	30,960	30,960
Countrypair fixed effects	YES	YES
Time fixed effects	YES	YES

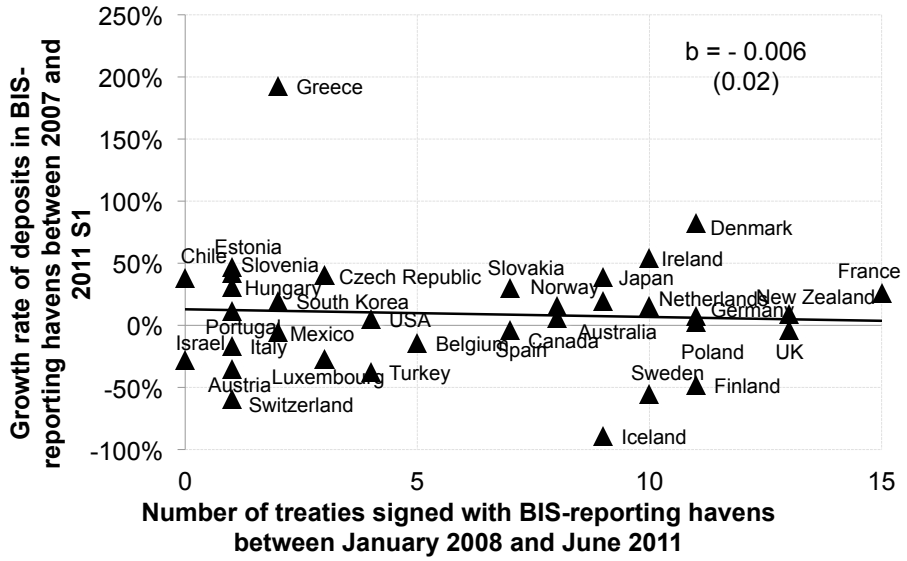
Robust p-values in parentheses, clustered at the country-pair level



# Result 3: Still as Much Money in Tax Havens...



# ... And Treaties do not Seem to Help Curb Tax Evasion



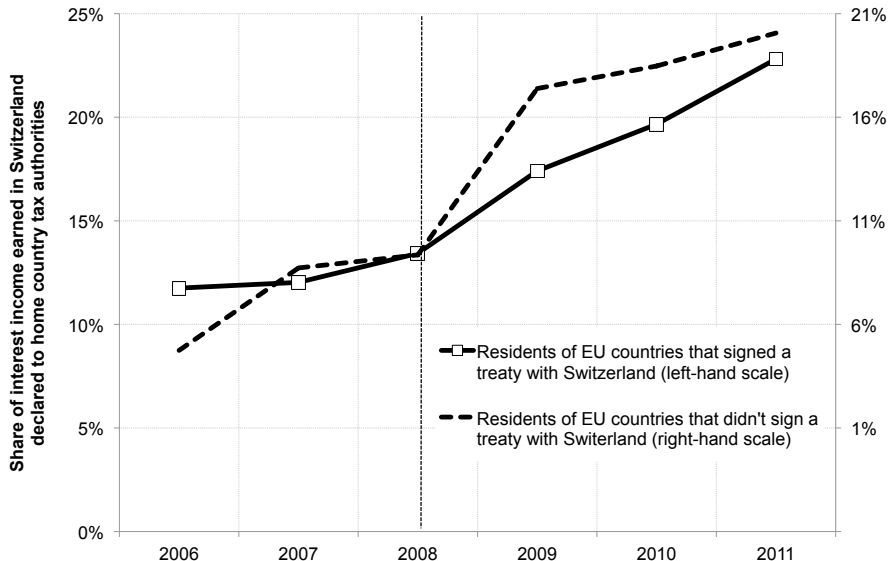
# Result 4: Deposits Held Through Sham Corporations May Have Responded Strongly

Dependent variable: deposits of savers of country  $i$  in banks of country  $j$

VARIABLES	BANK: havens SAVER: havens	BANK: havens SAVER: havens
# of treaties signed by banking haven $j$ with non-haven countries	-0.0067** (0.0188)	-0.0095*** (0.0015)
# of treaties signed by banking haven with other havens		0.0087 (0.3362)
Treaty between $i$ and $j$		0.0536 (0.6726)
Observations	8,798	8,798
Countrypair fixed effect	YES	YES
Time fixed effect	YES	YES

Robust p-values in parentheses, clustered at the country-pair level

# Result 5: Treaties do not Improve Compliance in Switzerland



# Conclusion: Not the End of Bank Secrecy

- ▶ Even weak threat of enforcement sometimes enough to affect behavior
- ▶ But shifting rather than repatriation
- ▶ Uncertainties remain on compliance and exact magnitude of effect

**But contrary to what policymakers say, era of bank secrecy clearly far from over**

# Will FATCA and similar laws change the situation?

- ▶ Comprehensive network of treaties providing for automatic exchange of information may become reality
- ▶ Key questions (i) Will all havens participate? (ii) Will banks correctly identify beneficial owners?
- ▶ Need for (i) sanctions and (ii) verification mechanisms