Key Takeaways From
“The Hidden Wealth of Nations: The Scourge of Tax Havens” By Gabriel Zucman

- From London to Delaware, from Hong Kong to Zurich, offshore banking centers are essential cogs in the financial machine of capitalism, used by the rich and powerful throughout the world.
- some countries will always impose less tax and fewer rules than their neighbors.
- The main conclusion of my investigation is that, despite some progress in curtailing it in recent years, tax evasion is doing just fine. There has, in fact, never been as much wealth in tax havens as today. On a global scale, 8% of the financial wealth of households is held in tax havens.
- Fifty-five percent of all the foreign profits of US firms are now kept in such havens. Since multinationals usually try to operate within the letter—if not the spirit—of the law, this profit shifting is better described as “tax avoidance” rather than outright fraud. But its cost is enormous—$ 130 billion a year for US firms alone—and since equity ownership is very concentrated, it essentially benefits only the wealthiest among us.
- The first is to create a worldwide register of financial wealth, recording who owns which stocks and bonds.
- The second dimension of the plan of action I propose is to levy sanctions proportional to the costs that tax havens impose on other countries.
- creates an anonymous shell company incorporated, for example, in the Cayman Islands, where regulations on disclosure of company owners are very limited.
- opens an account in Geneva under the shell company’s name, which takes all of a few hours. Finally, Michael & Co. buys fictitious services from the Cayman shell company (consulting, for example), and, to pay for these services, sends money to the shell company’s Swiss account.
- Because companies carry out millions of transfers to Switzerland and other large offshore centers every day—and it is impossible to identify in

real time those that are legal (for example, sums paid to true exporters) and those that are not (money evading taxes)—

- If Michael wants to use the money, he has two possibilities. For small amounts, he can simply go to an ATM. But for large amounts, he has to be more clever. The most popular technique is what's called "Lombard credit": Michael takes out a loan with the US branch of his Swiss bank, using the money held in Geneva as collateral. So the money stays in Switzerland, still invested in stocks and bonds, while it is also spent in the United States, to buy, for example, a painting by a famous artist or a condominium in Florida
- In the mid-1970s, according to my estimates, close to 5% of the financial holdings of Europeans was hidden in Swiss bank vaults.
- Switzerland, a country that has scarcely more than 0.1% of the world's population, "held" almost a third of all American stocks that belonged to non-Americans, far more than the United Kingdom (15%), Canada (15%), France (7%), or Germany (3%)!
- Thus the US Treasury surveys reveal not who possesses the world's wealth, but where it is being managed—the geography of tax havens more than that of the actual wealth.
- Zurich offered the advantage of anonymity.
- In the 1970s the inflow of capital was such that it began to destabilize the Swiss economy.
- To avoid this scenario, in the 1970s the central bank on several occasions imposed negative nominal interest rates on deposits in francs held by nonresidents.
- The message was clear: foreigners were welcome in Geneva, but only if they were content to buy American or German stocks—not Swiss assets.
- New centers of wealth management emerged: Hong Kong, Singapore, Jersey, Luxembourg, and the Bahamas.

- they hold stock and bond portfolios for their foreign customers, collect dividends and interest, provide investment advice as well as other services, such as the possibility of having a current account that earns little or nothing. And, thanks to the limited forms of cooperation with foreign tax authorities, they all offer the same service that is in high demand: the possibility of not paying any taxes on dividends, interest, capital gains, wealth, or inheritances.
- According to the latest official statistics, in the spring of 2015 foreign wealth in Switzerland will have reached $ 2.3 trillion. Around $ 1.3 trillion belongs to Europeans, or the equivalent of 6% of the financial holdings of EU households. According to my calculations, this is the highest level in history. The death knoll of Swiss banks is thus premature: they have never been as healthy as they are today.
- In the past, Swiss bankers provided all services: carrying out the investment strategy, keeping securities under custody, hiding the true identity of owners by way of the famous numbered accounts.
- Today only securities custody really remains in their purview.
- The classic type of funds, sometimes known as UCITS (Undertakings for Collective Investment in Transferable Securities), has been massively implanted in Luxembourg in the past twenty years.
- Hedge funds—funds that carry out all sorts of more-or-less acrobatic investments—are for the most part sheltered in the Cayman Islands, because regulations covering their speculative positions are particularly soft there. As for Ireland, outside of UCITS and hedge funds, it is the chosen land of monetary funds.
- Take the example of a Luxembourg fund that invests in American stocks. By virtue of the tax treaty between the two countries, the United States collects no tax on the dividends that are paid into the fund. In the Grand Duchy, neither the dividends that the fund earns nor those that it distributes to investors are taxed. The situation is identical in Ireland and in the Cayman Islands. Add to this the fact that it costs very little to

create funds there, and the success of these three offshore sites is completely explained. In Switzerland, on the contrary, dividends distributed by funds are subjected to a tax of 35%. What is the consequence of this tax, which is intended to discourage tax fraud? Swiss funds have migrated to the Grand Duchy, and from their accounts in Geneva, investors now essentially buy Luxembourg funds.

- Today numbered accounts are forbidden by anti-money-laundering legislation. They have been replaced by trusts, foundations, and shell corporations.
- Today more than 60% of accounts in Switzerland are thus held through the intermediary of shell companies headquartered in the British Virgin Islands, trusts registered in the Cayman Islands, or foundations domiciled in Liechtenstein.
- although formally domiciled in the Virgin Islands, the shell corporations are for the most part created in Geneva; and it is Swiss bankers who advise their customers which investment funds to put their money into.
- Switzerland is still to this day the number-one place for offshore private banking.
- Switzerland has agreed to cooperate with the United States to identify some American customers who haven't declared income, and that cooperation should extend to a number of other developed countries by the end of this decade.
- the wealth held through shell companies belongs to American, British, or German citizens in the same proportion as the directly held wealth does,
- Their favorite investment is in Luxembourg funds, on which they pay absolutely no tax.
- Wealthy individuals increasingly use shell companies, trusts, holdings, and foundations as nominal owners of their assets.
- "assets are moving to legal structures such as family wealth-holding companies."

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- In most countries, there are no annual wealth taxes: only the dividends, interest, rents, and capital gains that wealth generates are taxable.
- According to my calculations, about $ 2.6 trillion, or 10% of European wealth, is held offshore, translating into government revenue loss of about $ 78 billion in 2014.
- In the United States, according to my estimate, offshore evasion costs about $ 35 billion annually. For comparison, the top 0.1% highest income earners paid about $ 200 billion in federal income taxes in 2014. Assuming that all unrecorded offshore wealth belongs to the top 0.1%, eradicating offshore evasion would thus raise as much revenue as increasing the top 0.1%’ s federal income tax bill by close to 18%.
- multinational groups exploit the loopholes of current legislation.
- The reason for the current failure is that the corporate tax is based on a fiction, the idea that one can establish the profits earned by each multinational subsidiary by subsidiary.
- multinational groups, advised by great auditing and consulting firms, are in practice free to move their profits wherever they want, which is usually wherever it is taxed the least; and large countries have themselves mostly given up taxing the profits booked outside of their territory.
- intragroup loans, consists of loading with debt branches located in countries that tax profits heavily, such as France and the United States. The goal is to reduce the profits where they are taxed and have them appear in Luxembourg or in Bermuda, where they are taxed very little or not at all.
- Transfer prices are the prices at which branches of a given group buy their own products from one another. Within a single company, the branches in Bermuda sell services at a high price to entities located in the United States. Profits thus appear again in the tax havens and losses in the United States, in the large economies of continental Europe, and in Japan.

Taken directly out of the book

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- There is nothing less risky, by contrast, than manipulating the prices of patents, logos, labels, or algorithms, because the value of these assets is intrinsically difficult to establish.