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M. Mandl

6 Things You Should Know About the \$21 Trillion the World's Richest People Are Hiding In Tax Shelters

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A new report from the Tax Justice Network found trillions of untaxed wealth that the world's richest people are hiding. Here's what you need to know.
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\$21 trillion. That's how much the world's richest people are hiding in offshore tax havens worldwide. Or it may be more, as much as \$32 trillion—the real amount is, of course, almost impossible to track.

While governments slash spending and lay off workers, citing a need for “austerity” because of the slow economy, the ultra-rich—fewer than 10 million people—have stashed an amount equal to the US and Japanese economies *combined* away from the tax man. This is according to a new report by the Tax Justice Network, and their findings are shocking. The lost tax revenue from offshore tax shelters, they note, “is large enough to make a significant difference to all of our conventional measures of inequality. Since most of the missing financial wealth belongs to a tiny elite, the impact is staggering.”

James S. Henry, who was former Chief Economist for McKinsey & Co. and is the author of the book *The Blood Bankers* as well as articles for publications including *The Nation* and *The New York Times*, dug into information from the Bank for International Settlements, the International Monetary Fund, the World Bank, the United Nations, central banks, and private sector analysts and found the outlines of the giant pool of cash floating in that nebulous location known as “offshore”. (And this is just money—the report leaves out things like real estate, yachts, art, and other forms of wealth the super-rich are hiding, untaxed, in offshore tax havens.) Henry refers to it as a “black hole” in the world economy and notes that, “despite taking pains to err on the conservative side, the results are astonishing.”

There's a lot of information to wade through in this report, so we've broken out 6 things you should know about the money the world's richest are keeping from the rest of us.

1. Meet The Top .001%

“By our estimates, at least a third of all private financial wealth, and nearly half of all offshore wealth, is now owned by world’s richest 91,000 people— just 0.001% of the world’s population,” the report says. Those top 91,000 have about \$9.8 trillion of the total estimated in this report—and fewer than ten million people account for the whole pile of cash.

Who are those people? We know they're the richest, but what else do we know about them? The report mentions “30-year-old Chinese real estate speculators and Silicon Valley software tycoons,” and those whose wealth comes from oil and the drug trade. It doesn't mention, but could, US presidential candidates—Mitt Romney's famously taken flak for having money stashed in a Swiss bank account and in investments located in the Cayman Islands. (Politifact rated these statements in a recent Obama ad “true.”)

Drug lords, of course, need to hide their ill-gotten gains, but plenty of the other ultra-rich are simply avoiding paying taxes, constructing complicated trusts and other investments just to shave a few more points off the bill they pay to their home country. And it's all adding up.

2. Where's the Cash? It's Complicated

“Offshore,” according to Henry, isn't a physical location anymore—though plenty of places like Singapore and Switzerland, he notes, still specialize in providing “secure, low-tax physical residences” to the world's rich.

But these days, “offshore” wealth is virtual—Henry describes “nominal, hyper-portable, multi-jurisdictional, often quite temporary locations of networks of legal and quasi-legal entities and arrangements.” A company may be located in one jurisdiction, but it is owned by a trust located elsewhere, and administered by trustees in a third location. “Ultimately, then, the term 'offshore' refers to a set of capabilities,” rather than to a place or multiple places.

It's also important, the report notes, to distinguish between the “intermediary havens”--the places most people think of when they think of tax havens, like Romney's Cayman Islands, Bermuda, or Switzerland—and the “destination havens,” which include the US, the UK, and even Germany. Those destinations are desirable because they provide “relatively efficient, regulated securities markets, banks backstopped by large populations of taxpayers, and insurance companies; well-developed legal codes, competent attorneys, independent judiciaries, and the rule of law.”

So the same folks avoiding paying taxes by shuffling their money around, in other words, are taking advantage of taxpayer-funded services to do so. And here in the US, certain states have begun, since the 1990s, to offer inexpensive legal entities “whose levels of secrecy, protection against creditors, and tax advantages rival those of the world's traditional secretive offshore havens.” Combine that with the declining share of US taxes paid by the rich and corporations, and we're starting to look awfully appealing to those looking to squirrel away money.

3. Big Bailed-Out Banks Run This Business

Just who is facilitating this process? Some familiar names surface quickly when you dig into the data: Goldman Sachs, UBS, and Credit Suisse are the top three, with Bank of America, Wells Fargo, and JP Morgan Chase all in the top ten. “We can now add this to their list of distinctions: they are key players in many havens around the globe, and key enablers of the global tax injustice system,” the report notes.

By the end of 2010, the top 50 private banks alone were managing some \$12.1 trillion in “cross-border invested” assets for their clients. That's more than twice what it was in 2005, representing an average annual growth rate of over 16 percent.

“From banks to accountancy firms and corporate lawyers, some of the biggest businesses in the world are part of the fabric of global tax avoidance,” writes financial researcher (and former Goldman Sachs trader) Lydia Prieg in *The Guardian*. “These companies are not moral entities that we can shame into paying their fair share; they exist to maximize their profits and those of their clients.”

“Until the late 2000s,” Henry notes, “the conventional wisdom among flight capitalists was ‘What could be safer than ‘too big to fail’ US, Swiss and UK banks?’” Without the bailouts that came along with the 2008 financial crisis, he adds, many of the banks that are stashing cash for the ultra-rich wouldn't exist anymore. The assumption of government backing is the very reason why those uber-rich are banking with the big guys to begin with.

4. Inequality Is Worse Than We Thought

With all this wealth hidden around the world, impossible to count as well as to tax, the Tax Justice Network points out, it's certain that we're underestimating the amount of income and wealth inequality we have. Stewart Lansley, author of *The Cost of Inequality*, told Heather Stewart at the Guardian: "There is absolutely no doubt at all that the statistics on income and wealth at the top understate the problem."

When calculating the Gini coefficient, a measure of inequality in a society, he said, "You don't pick up the multimillionaires and billionaires, and even if you do, you can't pick it up properly."

This is such an important issue that the Tax Justice Network included a second report alongside Henry's, titled "Inequality: You Don't Know the Half Of It." The report details all the problems with the way we calculate inequality now, which often seem to boil down to the fact that we have no accurate measure of the true wealth of the super-rich. Income tax data is available, but if there are really trillions stashed around the world in tax havens, how do we calculate the true incomes of the world's wealthiest?

Inequality has already been skyrocketing around the world, by the measures we currently use. If the top 1 percent in the US don't own just 35.6 percent of the wealth, for instance, but a much larger chunk that's hidden away somewhere, what does it mean for us? Don't forget, as the report notes, that "inequality is a political choice"--that we determine what to do as a society based on the amount of inequality we think is tolerable or just. If that number is far greater than we think, how is that skewing our priorities? Many Americans are already misinformed about our level of inequality—but this report confirms that even supposed experts were wildly underestimating the problem.

5. "Indebted" Countries Aren't in Debt After All

Henry's report breaks out a subgroup of 139 countries, mostly lower or middle-income ones, for further study, noting that by most calculations, those 139 countries had a combined debt of over \$4 trillion at the end of 2010. But if you took into account all that money being held offshore, those countries actually had negative \$10 trillion in debt—or as Henry writes, "[O]nce we take these hidden offshore assets and the earnings they produce into account, many erstwhile 'debtor' countries are in fact revealed to be wealthy. But the problem is, their wealth is now offshore, in the hands of their own elites and their private bankers."

Henry further notes that the developing world as a whole turns out to be a creditor of the developed world, rather than a borrower, and has been so for more than a decade. "That means this is really a tax justice problem, not simply a 'debt' problem."

But those debts, as we've noted, fall on the shoulders of the everyday working people of those countries, those who can't take advantage of sophisticated tax shelters.

And this, of course, isn't only a developing world problem. These days, Henry notes, the developed world has its own debt crisis (witness the ongoing troubles of the Eurozone). The French economist Thomas Piketty notes, "the wealth held in tax havens is probably sufficiently substantial to turn Europe into a very large net creditor with respect to the rest of the world."

6. How Much are We Losing?

That's the bottom line, isn't it? It's impossible to say for sure, of course, because these numbers are all just estimates, but Henry guesses that if this unreported \$21 trillion earned a rate of return of 3 percent, and that income was taxed at 30 percent, that alone would generate income tax revenues of around \$190 billion. If the total amount of money in tax havens is closer to his higher estimate, \$32 trillion, it'd bring in closer to \$280 billion—which is about twice the amount OECD countries spend on development assistance. In other words, a lot of money. And 3 percent returns are about as conservative as you can get.

That's just income taxes. Capital gains taxes, inheritance taxes, and other taxes would bring in even more.

That's why, at the end of the day, Henry says that we could look at this as good news. “The world has just located a huge pile of financial wealth that might be called upon to contribute to the solution of our most pressing global problems,” he writes. “We have an opportunity to think not only about how to prevent some of the abuses that have led to it, but also to think about how best to make use of the untaxed earnings that it generates.”