



European
Commission

Monitoring the amount of wealth hidden by individuals in international financial centres and impact of recent internationally agreed standards on tax transparency on the fight against tax evasion

Final report

Client: European Commission DG TAXUD
Rotterdam/Brussels, 26 February 2021

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Directorate-General for Taxation and Customs Union
Unit D2 — Direct Tax Policy & Cooperation

Contact: Reinhard Biebel
E-mail: TAXUD-UNIT-D2@ec.europa.eu

*European Commission
B-1049 Brussel*

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Abstract

This study advances research in the area of monitoring wealth hidden by individuals in international financial centres (IFCs) and on the effects of policy measures to tackle this, in particular tax transparency agreements Council Directive 2014/107/EU and the OECD Common Reporting Standard. The methodology of this study is based on literature review, stakeholder consultations and analysis of public statistics. The study focuses on the 'who' (individuals), 'what' (asset categories), 'how', 'how much' and why individuals hide wealth as well as the impact of tax transparency agreements. This study also provides estimations for offshore wealth held in cash, life insurance and real estate. Key findings are that global financial wealth amounted to USD 9.8 trillion (EUR 8.6 trillion) in 2018, down from USD 10.2 trillion (EUR 8.5 trillion) in 2017 and USD 7.7 trillion (EUR 7.3 trillion) in 2016. Tax loss for EU-27 is estimated at EUR 124 billion for 2018. The significant rise in numbers between 2016 and 2018 can be mainly explained by the increase in equity security prices between 2016 and 2017/18. Cross-border deposits held in IFCs decreased by 22% between 2014-2016, and specifically for the EU a decrease of 8% was observed over the period 1Q 2017–3Q 2019.

Keywords: hidden wealth, tax evasion, offshore wealth, financial assets.

Executive summary

Building upon a recent study conducted for the European Commission on ‘Estimating International Tax Evasion by Individuals¹’ (ECOPA/CASE study), the objective of this study is to advance research in the area of monitoring wealth hidden by individuals in international financial centres (IFCs) and on the effects of policy measures to tackle it. The study seeks to answer three research questions: 1) Who hides wealth and what type of wealth?; 2) How – which financial centres and which type of schemes / arrangements are used mainly by individuals of Member States?; and 3) How much wealth is hidden by individuals of Member States in offshore financial centres? Furthermore, the study explores the extent to which the Common Reporting Standard (CRS) and Directive 2014/107/EU (DAC2) impacted the amount of wealth held by EU residents in offshore financial centres. Research started in December 2019 and was concluded in October 2020. It covers the EU-27 and findings are based on desk research, stakeholder interviews with national authorities, academic experts, civil society actors, and a series of country-case studies. The methodology used for calculating offshore wealth is based on the ECOPA/CASE study.

Who and what

All taxpayers need to declare their income on tax returns and domestic source income is often known to the tax authorities due to national reporting obligations. Foreign income is not always known to the national tax authorities. For this, authorities depend on cross-border exchange of information agreements like DAC2 for the EU and the CRS as equivalent for Member States and third countries. This study finds that especially the wealthy have the means to access IFCs in order to conceal their financial assets and the related income for tax evasion purposes or concealment of hidden wealth. In particular Ultra High Net Worth Individuals (UHNWI) are more likely to use IFCs as they can afford to pay the intermediaries that set up structures and have income and assets for which IFCs are important locations, such as equities and bonds. The top countries in terms of numbers of UHNWIs are the large European economies (Germany, France, Italy and Spain). The top countries in terms of offshore wealth to GDP are the smaller countries (Cyprus, Malta, Greece and Portugal). In addition to UHNWIs, this study identified other groups that make use of IFCs to conceal wealth: middle- and upper-class citizens increasingly make use of cross-border tax evasion schemes due to reduced costs which have made these structures more accessible; criminals and other individuals with illegally earned income and wealth have a high preference to hide their money abroad; foreigners and (returning) expats can be engaged in cross-border tax evasion, by having bank accounts in their home-land or IFCs; and high-profile individuals make use of IFCs to hide their legally or illegally earned wealth (e.g. politicians and celebrities, prominent businesspeople, athletes).

With regard to the taxation system, capital incomes and inheritance taxes are fiscal drivers to move wealth abroad, rather than other personal income taxes. Several European governments abolished or reduced taxation related to capital in order to stop the exodus of capital. Other drivers and motivations to hide wealth via IFCs include the following: mitigating economic and political risks; low tax morale; limited trust in the government; weak enforcement by the government; personal safety and family reasons; and sometimes even social status.

HNWIs and UHNWIs have about 40 to 50% of their wealth invested in financial assets (equities and fixed income assets), followed by real estate then cash/cash equivalents, the latter of which are more likely to be used for proceeds of criminal activities and non-declaration of income derived from the shadow economy. High wealth individuals, however, prefer to invest in financial instruments, as opposed to cash, due to security reasons and in order to obtain a return on their investment. There are indications that cash equivalents, such as credit and pre-paid cards are used to access wealth in IFCs. These products would normally fall outside the scope of reporting for DAC2/CRS.

Collected feedback indicates that real estate is used as a vehicle to conceal wealth, normally through legal entities that hide the identity of the beneficial owner. Such investments held either directly or indirectly through legal entities are not subject to automatic exchange of information (AEOI) under DAC2/CRS, but are covered under DAC1 through automatic exchange of information on ownership and property if the information is available in the Member State where the property is located. However, beneficial ownership information is generally not collected for land/property registers, therefore ownership information of a company or arrangement that legally owns the real estate will not be exchanged under the DAC1 with the country of residence of the beneficial owner.

¹ Source: https://ec.europa.eu/taxation_customs/sites/taxation/files/2019-taxation-papers-76.pdf

The study confirms that loans and equity through interposed companies are used to hide wealth and also income from illicit purposes. If the company does not fall under the definition of a non-passive financial entity under DAC2/CRS, then information on the beneficial owner the company, for example on non-custodial dividends, will not be exchanged with the jurisdiction where the owner is resident. In such a way DAC2/CRS will be circumvented.

How and where

IFCs can be “wealth receiving” (so-called Type I jurisdictions) or play more of an intermediary role (so-called Type II) by providing shell companies and other screening means, resulting in international deposit statistics incorrectly being assigned to residents. Wealth hidden in IFCs can follow various structures through the interaction of different service providers and actors. This study finds that increasingly complex structures are used, involving both legal entities like companies and arrangements like trusts in multiple jurisdictions, in order to conceal the identity of the beneficial owner and therefore thwart the effective implementation of Anti-Money Laundering rules upon which DAC2/CRS are dependent. Given their complexity, intermediaries located in IFCs, such as lawyers or trust/company service providers, are used to create and maintain such structures. As a policy response Directive 2018/822/EU on automatic exchange of reportable cross border arrangements requires intermediaries to disclose schemes which could circumvent tax transparency agreements like DAC2/CRS and hide the related beneficial ownership information.

IFC jurisdictions are used by shell companies to attract wealth on the basis of different characteristics, predominantly tax-related. These jurisdictions have a tax system that exempts from tax income received by resident entities from abroad, or can have zero or next to no taxation at the level of the entity. Type II jurisdictions can also allow income to be distributed to non-resident beneficiaries that is not subject to withholding taxes. Furthermore, such jurisdictions have a lack of effective agreements on exchanging information for tax purposes, often associated with weak AML frameworks. In addition, in order to facilitate the investment opportunities, Type II jurisdictions have treaties with other IFC’s in order to avoid double taxation.

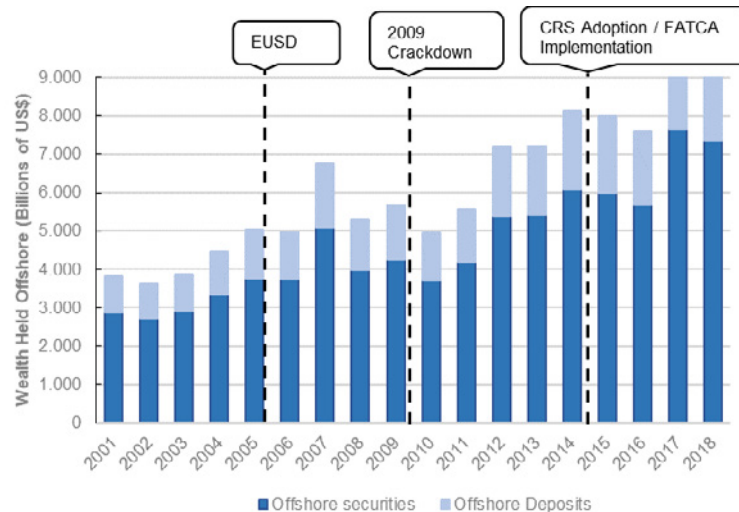
Among the factors to ensure the effectiveness of DAC2/CRS are robust AML rules in Type I and Type II jurisdictions, in particular for collecting information on the beneficial owners of legal persons and legal arrangements. International bodies like the Global Forum and the FATF have identified significant (in particular enforcement) weaknesses of identification rules for legal persons and arrangements. If the legislation provides exemptions to certain obliged entities for collecting information, or exempts certain entities/arrangements from being subject to AML provisions, then information on beneficial ownership may not be available. Apart from beneficial identification issues, jurisdictions may also have weak enforcement frameworks for example in the case of supervision, monitoring of obliged entities, and sanctions.

Furthermore, there are risks of circumvention of exchange of information that are inherent to arrangements like trusts and legal persons like private limited liability companies. In the case of trusts, the complexity of their structures may increase the risk of abuse. This study further points to the use of private limited liability companies as being the most prevalent vehicle for circumvention. Risk issues include: private limited companies are used for trading purposes, whereby the use of loans and equities can be used to circumvent DAC2/CRS; directors of limited liability companies have in general less onerous civil liability obligations compared to trustees of an arrangement; and the use of circumvention methods like nominee arrangements and bearer shares to conceal the real owner of the company.

How much

This study includes an update of the work presented in the ECOPA/CASE paper, which provides estimates for offshore wealth for the period from 2001 until 2016. Estimates for 2017 and 2018 have now been added. To ensure comparability, this study follows closely the methodological approach of the previous study, building on a comparison of international portfolio assets and liabilities. It finds that global offshore financial wealth amounted to USD 9.8 trillion (EUR 8.6 trillion) in 2018, down from USD 10.2 trillion (EUR 8.5 trillion) the year before, but increased from USD 7.7 trillion (EUR 7.3 trillion) in 2016, the last year reported on by the previous study.

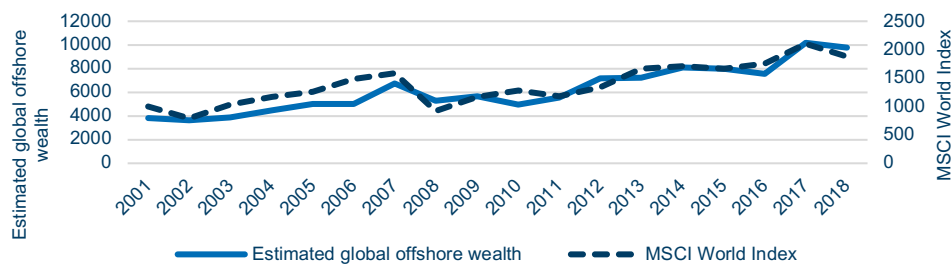
Global offshore wealth estimates per year



Source: Own computations following ECOPA/CASE study

Using the MSCI Index to account for security price volatility, the increase in offshore wealth identified by this study between 2016 and 2017 is mainly attributed to the increase in equity security prices reported by countries across the world rather than an increase in IFCs attracting offshore wealth.

Global offshore wealth and the MSCI index over time

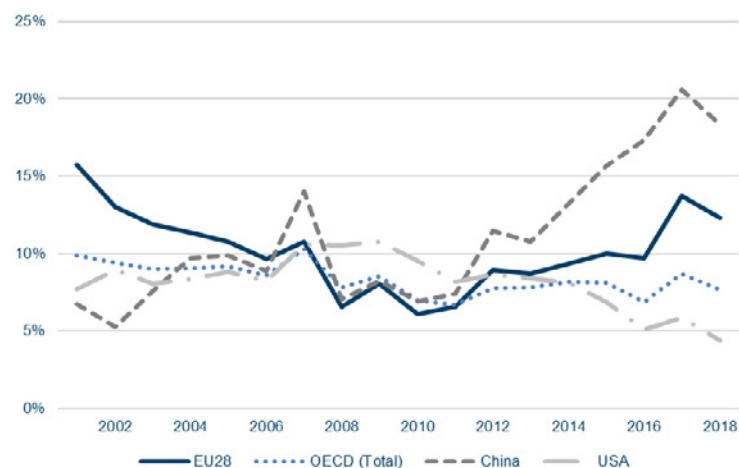


Source: Own computations

The data confirms the trend identified by the previous study that Hong Kong and Singapore continue to attract a greater proportion of global offshore wealth, while the relative share of offshore wealth held in Switzerland and the Cayman Islands is decreasing. While slightly decreasing between 2014 and 2016, wealth held offshore in Luxembourg increased again in 2017 and 2018.

Further, offshore wealth held by individuals across the EU in 2018 amounted to about 12% of GDP, up from 9.7% in 2016. This is above the OECD share of GDP, but below the share for China (18%). The share of total global offshore wealth attributable to residents from the EU-28 amounted to approximately 23% in 2018, up from 2016.

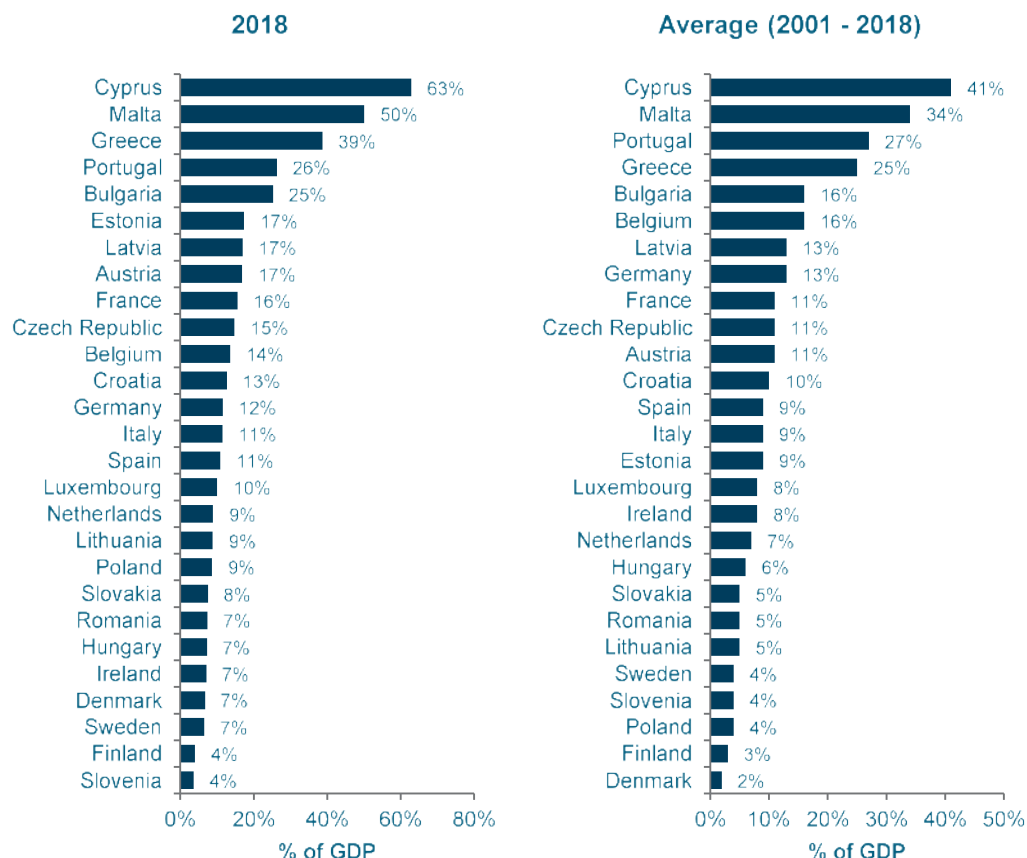
Offshore wealth as share of GDP for selected countries and country groups



Source: Own computations following ECOPA/CASE

In terms of absolute amounts, German, French and Italian residents account for the largest part of offshore wealth owned by EU residents. When expressed as a share of GDP, residents from Cyprus (41% average between 2001 and 2018), Malta (34%), and Portugal (27%) hold the largest shares of offshore wealth in the EU.

Offshore wealth as share of national GDP for the EU-27

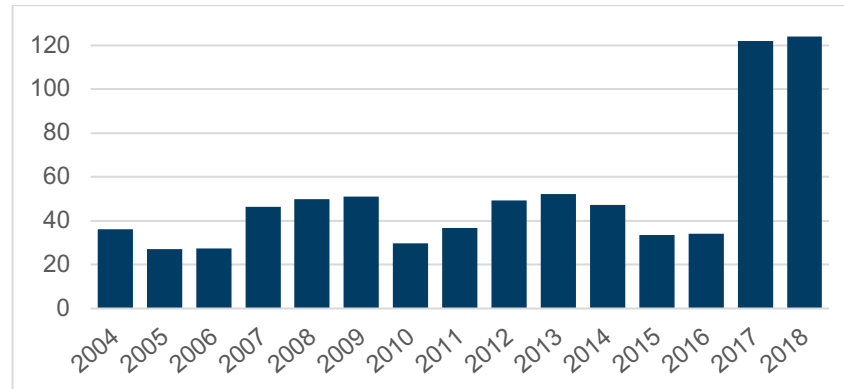


Source: Own computations following ECOPA/CASE

The average yearly revenue lost to international tax evasion for the EU-27 over the period 2004 -2018 is estimated at EUR 51 billion, or approximately 0.34% of GDP. The tax loss varies greatly overtime ranging from EUR 27 billion in 2005 to EUR 124 billion in 2018. The tax loss estimates assume a non-compliance rate of 75% and include three components of international tax evasion: tax evasion on capital income; evasion of inheritance and wealth tax; and evasion on original unreported income transferred offshore (i.e., evasion on personal income tax).

The stark difference between 2018 and 2019 is driven by the estimates of financial wealth held offshore, which are inflated in 2017 largely due to volatility in security prices.

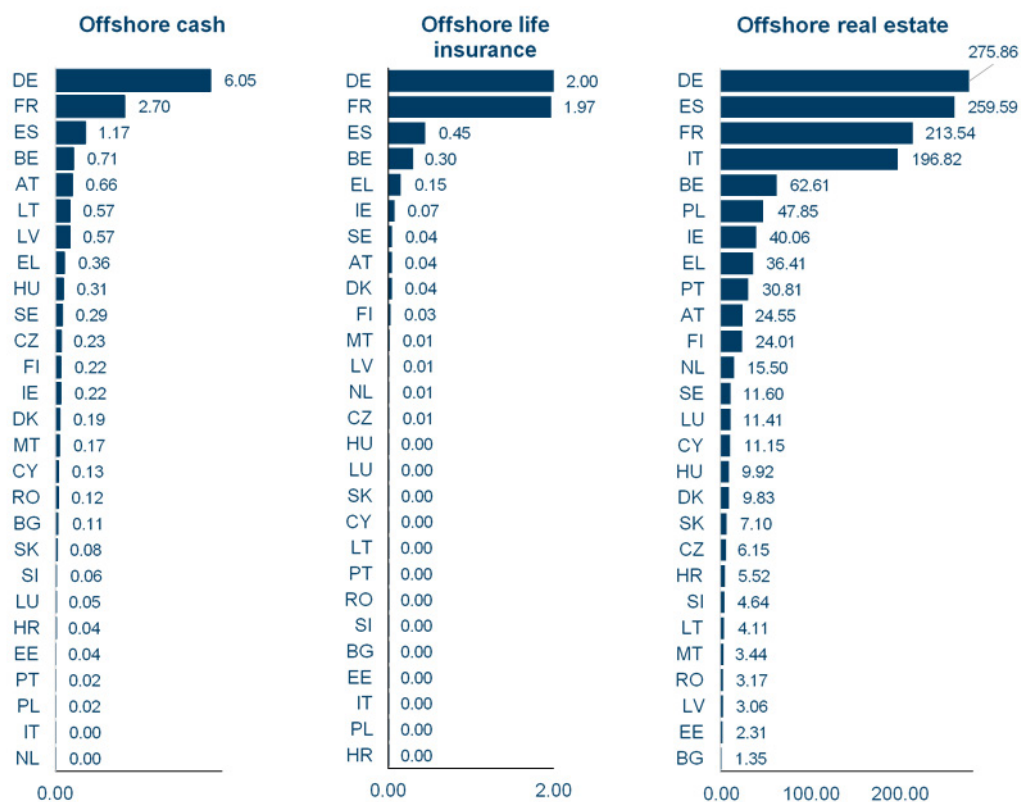
Revenue lost to international tax evasion for the EU-27 (EUR, in billions)



Source: Own computations following ECOPA/CASE

For the new wealth categories, the big economies are top of the list for offshore cash, life insurance and real estate (most notably Germany, France, and Spain) as presented in the figure below.

Estimates of offshore wealth held in new asset categories (2018, EUR billions)



Source: Own computations following ECOPA/CASE

Impact of the CRS and Directive 2014/107/EU

This study finds that cross-border bank deposits are deemed to provide good insight into trends in hiding wealth abroad and an overall decrease in deposits in IFCs could be considered as evidence that the AEOI has improved tax compliance. The main assumptions are that after the implementation of the AEOI, households now opt for licit investments outside IFCs and that former tax evaders decrease their investments offshore. However, new evasion vehicles like the use of investor residence schemes, should not be disregarded.

The study shows that the total cross-border bank deposits held in IFCs by non-banks counterparts significantly decreased during the period Q3 2014 – Q4 2016 (i.e. -22%). The decrease corresponds to the aftermath of the G20 announcement of the CRS, and subsequent approval by the OECD Council in 2014, and provides evidence for the positive effects of DAC2/CRS. The decrease continued in the years during the implementation of CRS and DAC2 by compliant jurisdictions, until the latest figures available for 3Q 2019. At the same time, cross-border bank deposits held by non-banks counterparts in non-IFCs experienced an opposite overall upward trend, recently surpassing pre-crisis levels. These results also suggest a potential impact of increased tax transparency requirements of DAC2/CRS as onshore jurisdictions attracted investment. Policy actions as a result of leaks like the Panama Papers, and Member State initiatives to counteract tax evasion, have been cited by stakeholders as having an impact on improving tax payer compliance in order to reduce tax evasion.

Specifically for the EU, bank deposits in IFCs held by EU non-banks have decreased significantly in recent years, dropping by 8% over 1Q 2017 – 3Q 2019, which can also be considered as evidence that DAC2/CRS has resulted in positive effects in terms of the fight against tax evasion in the EU.

All reviewed recent studies that aimed to quantify the impact of the CRS reach the same conclusion – the CRS, and related agreements like DAC2, contributed significantly to the reduction of non-bank deposits in IFC's. The quantification of the effects ranges between 11.9% and 67% (depending on the methodology, the data used, and specific metrics selected) reduction in the IFC bank deposits in comparison to what they would have been without the CRS.

This study notes that from a qualitative perspective, there is general agreement between diverse stakeholders (tax authorities, FIU, investigative journalists, and experts) that DAC2/CRS contributed to the reduction of wealth hidden by individuals offshore. This has been achieved in the following main ways: DAC2/CRS has provided information to Member States that was not available before on cross-border wealth held by their residents; encouragement to tax authorities to cooperate with each other; and the DAC2/CRS is creating significant obstacles to people wishing to hide wealth. There is no significant evidence that geographic circumvention is taking place, i.e. shifting financial investments to jurisdictions outside the AEOI network agreements.

Résumé exécutif

S'appuyant sur une étude récente menée pour la Commission européenne sur « l'Estimation de la fraude fiscale internationale par les particuliers » (étude ECOPA/CASE), l'objectif de cette étude est de faire progresser la recherche dans le domaine du suivi de la richesse dissimulée par les particuliers dans les centres financiers internationaux (CFI) et sur les effets des mesures politiques visant à y remédier. L'étude cherche à répondre à trois questions de recherche: 1) Qui dissimule la richesse et de quel type de richesse s'agit-il? 2) Quels CFI et quels types de mécanismes/dispositifs sont utilisés principalement par les particuliers de chaque État membre? 3) Quel est le montant de la richesse dissimulée par les particuliers des États membres dans les CFI? En outre, l'étude examine la mesure dans laquelle la Norme Commune de Déclaration (Common Reporting Standard, CRS en anglais) et la directive 2014/107/UE (DAC) ont eu une incidence sur le montant de la richesse détenue par les résidents de l'UE dans les CFI. L'étude a débuté en décembre 2019 et s'est achevée en octobre 2020. Elle couvre l'UE-27 et ses conclusions sont basées sur des recherches documentaires, des entretiens avec les autorités nationales, des experts universitaires, des acteurs de la société civile et une série d'études de cas par pays. La méthodologie utilisée pour le calcul de la richesse offshore est basée sur l'étude ECOPA/CASE.

Qui et quoi

Tous les contribuables doivent déclarer leurs revenus dans leurs déclarations fiscales et les revenus de source nationale sont souvent connus des autorités fiscales en raison des obligations de déclaration nationales. Les revenus de source étrangère ne sont pas toujours connus des autorités fiscales nationales. Pour cela, les autorités dépendent d'accords d'échange d'informations transfrontalières comme le DAC2 pour l'UE et le CRS comme équivalent pour les États membres et les pays tiers. Cette étude montre que les riches, en particulier, ont les moyens d'accéder aux CFI afin de dissimuler leurs actifs financiers et les revenus correspondants, à des fins d'évasion fiscale ou de dissimulation des richesses. En particulier, les personnes à valeur nette ultra élevée (UHNWI) sont plus susceptibles de recourir aux CFI car elles peuvent se permettre de payer des intermédiaires pour mettre en place des structures; de plus, ils ont des revenus et des actifs pour lesquels les CFI sont des lieux importants, telles que les actions et les obligations. Les principaux pays en termes de nombre d'UHNWI sont les grandes économies européennes (Allemagne, France, Italie et Espagne). Les principaux pays en termes de nombre d'UHNWI et de richesse offshore par rapport au PIB sont les petits pays (Chypre, Malte, Grèce et Portugal). Outre les UHNWI, cette étude a identifié d'autres groupes qui utilisent les CFI pour dissimuler leur richesse: les citoyens des classes moyennes et supérieures qui ont de plus en plus recours à des dispositifs d'évasion fiscale transfrontalière en raison de la réduction des coûts qui a rendu ces structures plus accessibles; les criminels et autres individus disposant de revenus et de richesses illégalement gagnés, qui préfèrent de loin cacher leur argent à l'étranger; les étrangers et les expatriés (de retour), qui peuvent se livrer à l'évasion fiscale transfrontalière, en ayant des comptes bancaires dans leur pays d'origine ou dans des CFI; les individus très en vue qui utilisent les CFI pour dissimuler leurs richesses acquises légalement ou illégalement (par exemple, des hommes politiques et des célébrités, des hommes d'affaires importants, des athlètes).

En ce qui concerne le système fiscal, les revenus du capital et les droits de succession sont des facteurs fiscaux qui incitent à transférer des richesses à l'étranger, ce par rapport à d'autres impôts sur le revenu des personnes. Afin de mettre un terme à l'exode des capitaux, plusieurs gouvernements européens ont supprimé ou réduit la fiscalité liée au capital. Les autres facteurs et motivations qui poussent à dissimuler les impôts par l'intermédiaire des CFI sont les suivants: le besoin de se protéger des risques économiques et politiques; le faible moral des contribuables; la confiance limitée dans le gouvernement; la faible application de la loi par le gouvernement; la sécurité personnelle et les raisons familiales; et parfois même le statut social.

Les HNWI et les UHNWI ont environ 40 à 50 % de leur richesse investie dans des actifs financiers (actions et actifs à revenu fixe), suivis par l'immobilier puis les liquidités, ces dernières étant plus susceptibles d'être utilisées pour le produit d'activités criminelles et la non-déclaration de revenus provenant de l'économie souterraine. Les personnes très fortunées préfèrent toutefois investir dans des instruments financiers plutôt que dans des liquidités, et ce pour des raisons de sécurité et afin d'obtenir un retour sur leur investissement. Certains éléments indiquent que des équivalents en espèces, tels que les cartes de crédit et les cartes prépayées, sont utilisés pour accéder à la richesse dans les CFI. Ces produits n'entrent normalement pas dans le champ d'application des rapports du DAC2/CRS.

Les informations recueillies indiquent que les biens immobiliers sont utilisés comme un moyen de dissimuler la richesse, normalement par le biais d'entités juridiques qui dissimulent le bénéficiaire effectif. Les investissements immobiliers ne font pas l'objet d'un échange automatique d'informations (AEOI en anglais) dans le cadre du DAC2/CRS, mais sont couverts par le DAC1 grâce à l'échange automatique d'informations sur la propriété et les biens immobiliers, si elles sont disponibles dans l'État membre où le bien immobilier est situé. Les informations relatives aux bénéficiaires effectifs ne sont généralement pas recueillies pour les registres fonciers ou immobiliers. Par conséquent, les informations sur la propriété effective d'une société ou d'un arrangement qui possède légalement le bien immobilier ne seront pas échangées dans le cadre du DAC1 avec le pays de résidence du bénéficiaire effectif.

Cette étude confirme que les prêts et les capitaux propres par le biais de sociétés de personnes interposées sont susceptibles d'être utilisés par dissimuler des richesses et également des revenus à des fins illicites. Si la société ne relève pas de la classification DAC2/CRS d'une entité financière non passive, les informations sur les revenus attribuables à un bénéficiaire effectif, tels que les paiements sous forme d'intérêts et de dividendes (« dividendes non privatifs ») ne sont pas échangées avec la juridiction où la personne physique est résidente. De cette manière, le DAC2/CRS sera contourné.

Comment et où

Les CFI peuvent être des CFI « réceptrices de richesse » (juridictions dites de type I) ou jouer davantage un rôle d'intermédiaire (dites de type II) en fournissant des sociétés écrans et d'autres moyens de contrôle, ce qui entraîne l'attribution incorrecte des statistiques sur les dépôts internationaux aux résidents de cette CFI. La richesse cachée dans les CFI peut suivre diverses structures grâce à l'interaction de différents prestataires de services et acteurs. Cette étude constate que des structures de plus en plus complexes sont utilisées, impliquant à la fois des entités juridiques comme les sociétés et des dispositifs comme les trusts dans plusieurs juridictions, afin de dissimuler le bénéficiaire effectif final et donc de contrecarrer la mise en œuvre effective des règles de lutte contre le blanchiment d'argent dont dépendent les DAC2/CRS. Des intermédiaires, tels que des avocats ou des prestataires de services aux sociétés et fiducies et qui sont situés dans les CFI, sont utilisés pour créer et administrer ce type de structures. En tant que réponse politique, la directive (UE) 2018/822 sur l'échange automatique d'informations dans le domaine fiscal en rapport avec les dispositifs transfrontières exige que les intermédiaires divulguent les dispositifs susceptibles de contourner les accords de transparence fiscale tels que DAC2/CRS et de dissimuler les informations relatives à la propriété effective correspondante.

Les juridictions des CFI sont utilisées par des sociétés fictives qui attirent la richesse sur la base de différentes caractéristiques, essentiellement fiscales. Ces juridictions ont un système fiscal qui exonère des impôts les revenus perçus par les entités résidentes à l'étranger, ou qui peut avoir une imposition nulle ou presque nulle au niveau de l'entité. Les juridictions de type II peuvent également permettre que les revenus soient distribués à des bénéficiaires non-résidents et ne sont pas soumis à une retenue à la source. En outre, ces juridictions manquent d'accords efficaces sur l'échange d'informations à des fins fiscales, souvent associés à des cadres de lutte contre le blanchiment d'argent peu efficaces. En outre, afin de faciliter les possibilités d'investissement, ces juridictions ont conclu des traités avec les CFI afin d'éviter la double imposition.

Parmi les facteurs permettant d'assurer l'efficacité du CRS/DAC figurent des règles anti-blanchiment solides dans les juridictions de type I et celles de type II, en particulier pour la collecte d'informations sur les bénéficiaires effectifs des personnes morales et des constructions juridiques. Des organismes internationaux tels que le Forum mondial et le GAFI ont identifié des faiblesses importantes (notamment en matière d'application) des règles d'identification des bénéficiaires pour les personnes morales et les constructions juridiques. Si la législation prévoit des exemptions pour certaines entités tenues de collecter des informations, ou exempte certaines entités ou constructions juridiques d'être soumises aux dispositions sur la lutte contre le blanchiment d'argent, il se peut que les informations sur les bénéficiaires effectifs ne soient pas disponibles. Outre les questions d'identification des bénéficiaires effectifs, les juridictions peuvent également avoir des cadres d'application faibles, par exemple dans le cas de la surveillance, du contrôle des entités tenues de collecter des informations, et des sanctions.

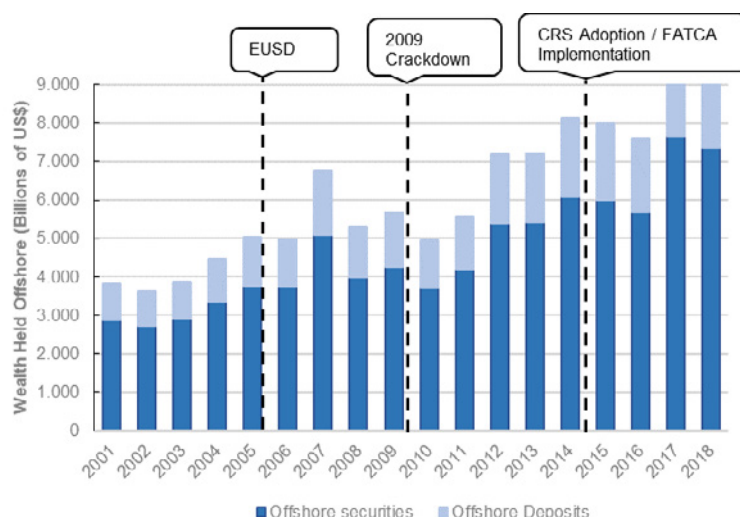
En outre, il existe des risques de contournement des règles de l'échange d'informations qui sont inhérents aux arrangements comme les trusts et les personnes morales comme les sociétés privées à responsabilité limitée. Dans le cas des trusts, la complexité de leurs structures peut accroître le risque d'abus. Cette étude souligne en outre que le recours à des sociétés privées à responsabilité limitée est le moyen le plus courant de contourner les règles. Les questions de risque comprennent les fait que les sociétés à responsabilité limitée soient utilisées

à des fins commerciales, ce qui permettrait d'utiliser des prêts et des actions pour contourner le DAC2/CRS; le fait que les administrateurs des sociétés à responsabilité limitée aient en général des obligations de responsabilité civile moins lourdes que les fiduciaires d'un arrangement; et l'utilisation de méthodes de contournement telles que les actionnariats intermédiaires et les actions au porteur pour dissimuler le véritable propriétaire de la société.

Combien

Cette étude comprend une mise à jour des travaux présentés dans le document ECOPA/CASE, qui fournit des estimations de la richesse offshore pour la période allant de 2001 à 2016. Les estimations pour 2017 et 2018 ont dorénavant été ajoutées. Pour assurer la comparabilité, cette étude suit de près l'approche méthodologique de l'étude précédente, en s'appuyant sur une comparaison des actifs et passifs des portefeuilles internationaux. L'étude révèle que la richesse financière offshore mondiale s'élevait à 9,8 trillions de dollars américains (8,6 trillions d'euros) en 2018, en baisse par rapport aux 10,2 trillions de dollars (8,5 trillions d'euros) de l'année précédente, mais en hausse par rapport aux 7,7 billions de dollars (7,3 billions d'euros) de 2016, la dernière année couverte par l'étude précédente.

Estimations annuelles de la richesse offshore



Source: Calculs propres selon l'étude ECOPA/CASE

En utilisant l'indice MSCI pour tenir compte de la volatilité des prix des titres, nous avons pu constater que l'augmentation de la richesse offshore identifiée par cette étude entre 2016 et 2017 peut être principalement attribuée à l'augmentation des prix des actions des titres de participation signalée par les pays du monde entier plutôt qu'à une augmentation des CFI attirant la richesse offshore.

Les actifs offshore mondiaux et l'indice MSCI au fil du temps

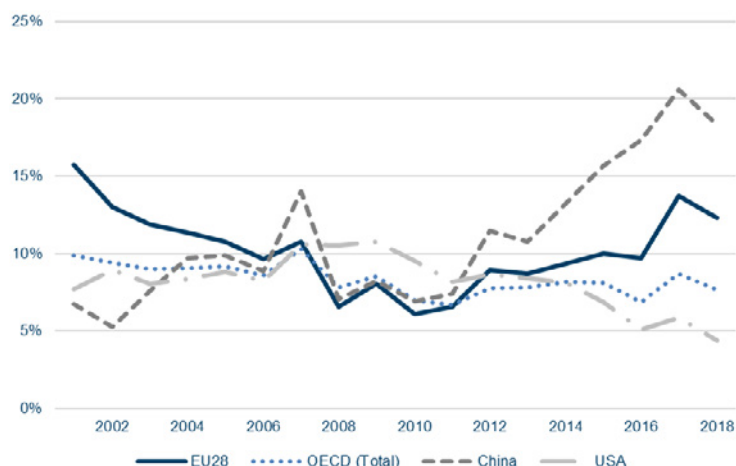


Source: Calculs propres

Les données confirment la tendance identifiée par l'étude précédente, à savoir que Hong Kong et Singapour continuent d'attirer une plus grande proportion de la richesse offshore mondiale, tandis que la part relative de la richesse offshore détenue en Suisse et aux îles Caimans diminue. Alors qu'elle a légèrement diminué entre 2014 et 2016, la richesse détenue offshore au Luxembourg a de nouveau augmenté en 2017 et 2018.

En outre, la richesse offshore détenue par les particuliers dans l'UE en 2018 s'élevait à environ 12 % du PIB, contre environ 10 % en 2016. Ce chiffre est supérieur à la part du PIB de l'OCDE, mais inférieur à celle de la Chine (18 %). La part de la richesse offshore mondiale totale attribuable aux résidents de l'UE-28 s'élevait à environ 23 % en 2018, une augmentation par rapport à 2016.

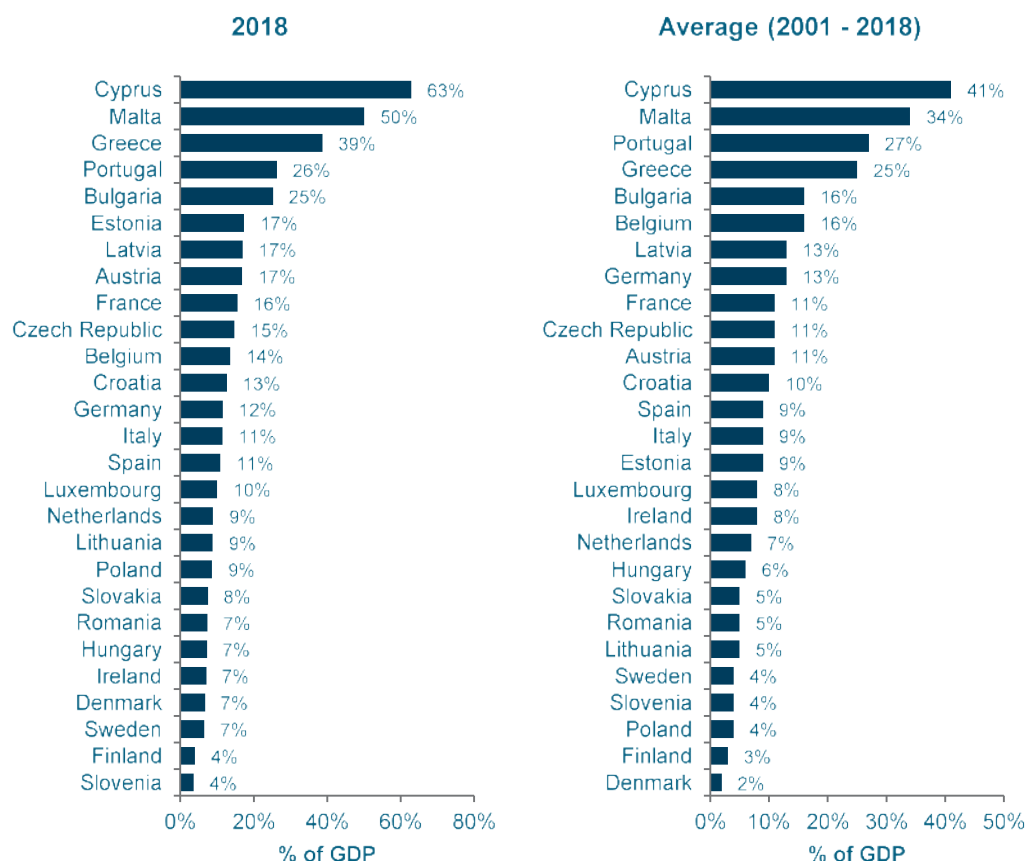
Richesse extraterritoriale en pourcentage du PIB pour une sélection de pays et groupes de pays



Source: Calculs propres selon ECOPA/CASE

En termes de montants absolus, les résidents allemands, français et italiens représentent la plus grande partie des richesses offshore détenues par les résidents de l'UE. En pourcentage du PIB, les résidents de Chypre (41 % en moyenne entre 2001 et 2018), de Malte (34 %) et du Portugal (27 %) détiennent les plus grandes parts de la richesse offshore dans l'UE.

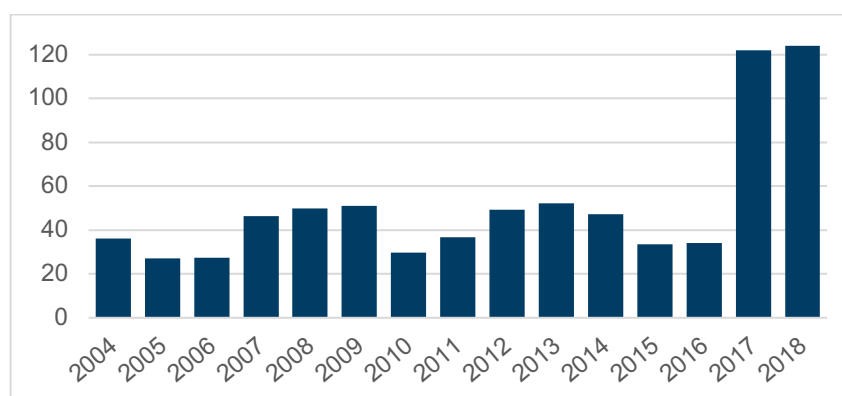
Richesse offshore en pourcentage du PIB national pour l'UE-27



Source: Calculs propres selon ECOPA/CASE

La perte annuelle moyenne de recettes due à l'évasion fiscale internationale pour l'UE-27 sur la période 2004-2018 est estimée à 51 milliards d'euros, soit environ 0,34 % du PIB. Ces estimations supposent un taux de non-conformité de 75 % et incluent trois composantes de la fraude fiscale internationale: l'évasion fiscale sur les revenus du capital; l'évasion des droits de succession et de l'impôt sur la fortune; l'évasion sur les revenus originaux non déclarés transférés à l'étranger (c'est-à-dire l'évasion de l'impôt sur le revenu des personnes physiques). La différence marquée entre 2018 et 2019 est due aux estimations de la richesse financière détenue à l'étranger, qui sont gonflées en 2017 en grande partie à cause de la volatilité des prix des titres.

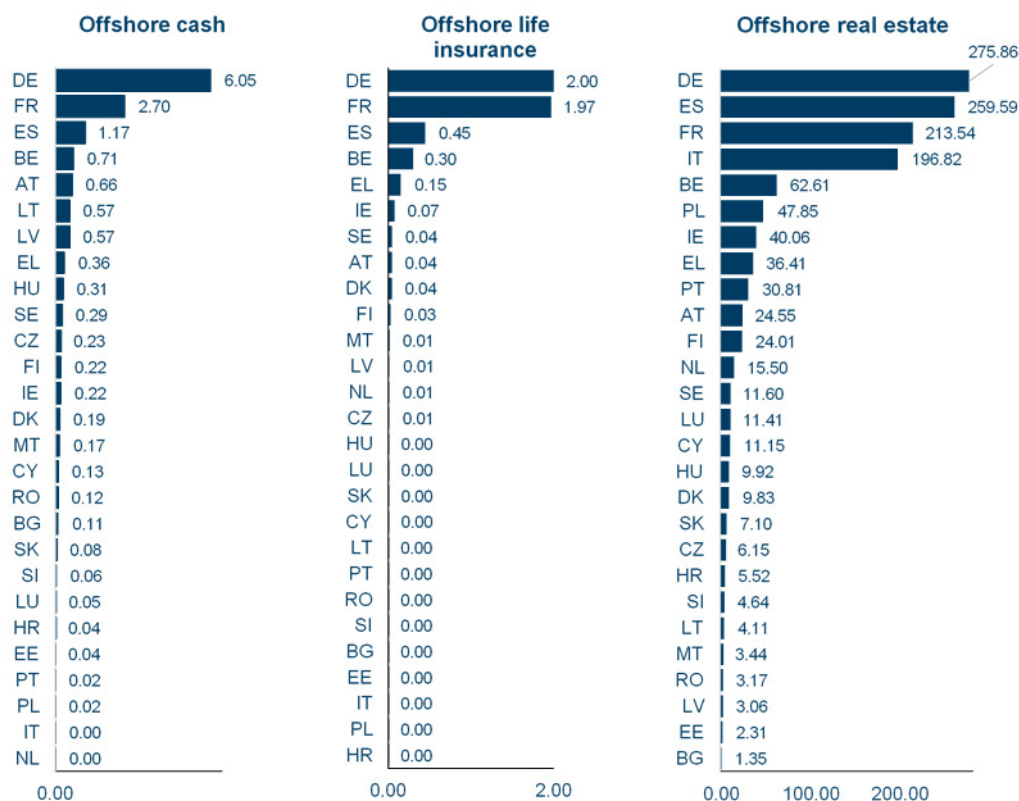
Perte annuelle moyenne de recettes due à l'évasion fiscale internationale pour l'UE-27 (EUR, milliards)



Source: Calculs propres selon ECOPA/CASE

Pour les nouvelles catégories d'actifs, les grandes économies sont en tête de liste les liquidités, l'assurance-vie et l'immobilier offshores (notamment l'Allemagne, la France et l'Espagne), comme le montre le graphique ci-dessous.

Estimations de la richesse offshore détenue dans les nouvelles catégories d'actifs



Source: Calculs propres selon ECOPA/CASE

En ce qui concerne les développements futurs, l'étude montre que la richesse offshore peut être affectée par une variété de facteurs. Une corrélation positive a été constatée entre la richesse offshore et les actifs financiers des ménages et le PIB, et l'introduction des CRS a été associée à une forte diminution de la richesse offshore,

d'environ 10 %, ce qui laisse présager un impact positif de ces normes dans la lutte contre la fraude fiscale. Des niveaux plus élevés d'imposition du capital semblent conduire à des volumes plus importants de richesse offshore, tandis que les variations de l'imposition du travail ne semblent pas avoir d'impact sur le phénomène.

Enfin, il convient de garder à l'esprit certaines limites, car le modèle utilisé dans cette étude ne permet pas de saisir tous les facteurs explicatifs du phénomène, en particulier le prix de la volatilité des actifs en valeurs mobilières, pour certains desquels la disponibilité de données comparables entre pays est limitée. Les résultats ne doivent donc être utilisés que comme une indication de l'ampleur des changements auxquels on peut s'attendre à court terme.

Impact du CRS et de la directive 2014/107/UE

Selon cette étude, les dépôts bancaires transfrontaliers sont censés donner un bon aperçu des tendances en matière de dissimulation de richesses à l'étranger et une diminution globale des dépôts dans les CFI pourrait être considérée comme une preuve que l'AEOL a amélioré la conformité fiscale. Les principales hypothèses sont qu'après la mise en œuvre de l'AEOL, les ménages optent désormais pour des investissements licites en dehors des CFI et que les anciens fraudeurs fiscaux diminuent leurs investissements à l'étranger. Toutefois, les nouveaux moyens d'évasion, comme le recours aux mécanismes liés à la résidence des investisseurs, ne doivent pas être négligés.

L'étude montre que le total des dépôts bancaires transfrontaliers détenus dans les CFI par des contreparties non bancaires a sensiblement diminué au cours de la période T3 2014 - T4 2016 (soit -22 %), ce qui correspond à la période qui a suivi l'annonce du CRS par le G20 et son approbation ultérieure par le Conseil de l'OCDE en 2014. Cette diminution témoigne des effets positifs du DAC2/CRS. La diminution s'est poursuivie au cours des années de mise en œuvre du CRS et du DAC2 par les juridictions conformes, jusqu'aux derniers chiffres disponibles pour le troisième trimestre de 2019. Dans le même temps, les dépôts bancaires transfrontaliers détenus par des contreparties non bancaires dans des pays qui ne sont pas des CFI ont connu une tendance générale inverse à la hausse, dépassant récemment les niveaux d'avant la crise. Ces résultats suggèrent également un impact potentiel de l'augmentation des exigences de transparence fiscale du DAC2/CRS, les juridictions onshore attirant les investissements. Les actions politiques à la suite de fuites comme l'affaire des Panama Papers, et les initiatives des États membres visant à contrer l'évasion fiscale, ont été citées par les diverses parties prenantes comme ayant un impact sur l'amélioration de la conformité des contribuables afin de réduire l'évasion fiscale.

En ce qui concerne plus particulièrement l'UE, les dépôts bancaires dans les CFI détenus par des entités non bancaires de l'UE ont considérablement diminué ces dernières années, chutant de 8 % entre le 1er trimestre 2017 et le 3ème trimestre 2019, ce qui peut également être considéré comme la preuve que le DAC2/CRS a eu des effets positifs en termes de lutte contre la fraude fiscale dans l'UE.

Toutes les études récentes examinées qui visaient à quantifier l'impact des CRS aboutissent à la même conclusion: les CRS et les accords connexes comme le DAC2 ont contribué de manière significative à la réduction des dépôts non bancaires dans les CFI. La quantification des effets varie entre 11,9 % et 67 % (selon la méthodologie, les données utilisées et les paramètres spécifiques choisis) de réduction des dépôts bancaires dans des CFI par rapport à ce qu'ils auraient été sans les CRS.

Cette étude note que, d'un point de vue qualitatif, les diverses parties prenantes (autorités fiscales, cellules de renseignement financier, journalistes d'investigation et experts) s'accordent généralement à dire que le CRS/DAC2 a contribué à la réduction de la richesse dissimulée par les particuliers à l'étranger. Cela a été réalisé principalement de la manière suivante: (1) le DAC2/CRS a fourni aux États membres des informations qui n'étaient pas disponibles auparavant sur le patrimoine transfrontalier détenu par leurs résidents; (2) l'encouragement aux autorités fiscales de coopérer entre elles; (3) le DAC2/CRS crée des obstacles importants pour les personnes qui souhaitent dissimuler leur richesse. Il n'y a pas de preuve significative d'un contournement géographique, c'est-à-dire d'un déplacement des investissements financiers vers des juridictions en dehors des accords du réseau AEOL.

Zusammenfassung

Das Ziel dieser Studie ist es auf der Grundlage einer kürzlich für die Europäische Kommission durchgeführten Studie zum Thema „Schätzung der internationalen Steuerhinterziehung durch natürliche Personen“ (ECOPA/CASE-Studie)², die Forschung im Bereich der Erfassung von Vermögen, das von natürlichen Personen in internationalen Finanzzentren (IFZ) verborgen wird, und der Auswirkungen politischer Maßnahmen zu dessen Bekämpfung voranzutreiben. Die Studie strebt die Beantwortung der folgenden drei Forschungsfragen an: 1) Wer verbirgt Vermögen und welche Art von Vermögen?; 2) Wie - welche Finanzzentren und welche Art von Gestaltungen / Konstruktionen werden im Wesentlichen von natürlichen Personen aus den Mitgliedstaaten verwendet?; und 3) Wie viel Vermögen wird von natürlichen Personen aus den Mitgliedstaaten in Offshore-Finanzzentren verborgen? Darüber hinaus untersucht die Studie, inwieweit sich die Common Reporting Standards (CRS) und die Richtlinie 2014/107/EU (DAC) auf die Höhe des von in der EU ansässigen Personen in Offshore-Finanzzentren gehaltenen Vermögens auswirken.

Die Studie begann im Dezember 2019 und wurde im Oktober 2020 abgeschlossen. Die Studie deckt die EU-27 ab und die Ergebnisse basieren auf Sekundärforschung, Stakeholder-Interviews mit nationalen Behörden, Wissenschaftler und Akteuren der Zivilgesellschaft sowie einer Reihe von Länder-Fallstudien. Die für die Berechnung des Offshore-Vermögens verwendete Methodik basiert auf der ECOPA/CASE-Studie.

Wer und was

Alle Steuerzahler müssen ihr Einkommen in der Steuererklärung angeben, und das Einkommen aus inländischen Quellen ist den Steuerbehörden aufgrund der nationalen Meldepflichten oft bekannt. Ausländische Einkünfte sind den nationalen Steuerbehörden nicht immer bekannt. Hierfür sind die Behörden auf Abkommen für den grenzüberschreitenden Informationsaustausch wie DAC2 für die EU und den CRS als Äquivalent für Mitgliedstaaten und Drittstaaten angewiesen. Diese Studie zeigt, dass vor allem Vermögende die Möglichkeit haben, auf IFZ zurückzugreifen, um ihr Finanzvermögen und die damit verbundenen Einkünfte zum Zwecke der Steuerhinterziehung oder zur Verschleierung von verstecktem Vermögen zu verbergen. Insbesondere Ultra High Net Worth Individuals (UHNWI, dt. Ultrahochvermögende) nutzen IFZ verstärkt, da sie es sich leisten können, die Intermediäre, die die Strukturen einrichten, zu bezahlen und über Einkommen und Vermögen verfügen, für die IFCs wichtige Anlageorte sind, wie z. B. Aktien und Anleihen. Die führenden Länder in Bezug auf die Anzahl der UHNWIs sind die großen europäischen Volkswirtschaften (Deutschland, Frankreich, Italien und Spanien). Die Spitzenreiter in Bezug auf das Offshore-Vermögen im Verhältnis zum BIP sind die kleineren Länder (Zypern, Malta, Griechenland und Portugal). Zusätzlich zu den UHNWIs wurden in dieser Studie weitere Gruppen identifiziert, die IFZ nutzen, um Vermögen zu verbergen: Bürger der Mittel- und Oberschicht machen zunehmend Gebrauch von grenzüberschreitenden Steuerhinterziehungsmodellen, da diese Strukturen aufgrund gesunkener Kosten leichter zugänglich geworden sind; Kriminelle und andere Personen mit illegal erzieltm Einkommen und Vermögen bevorzugen es sehr, ihr Geld im Ausland zu verbergen. In diesem Fall ist die Steuerhinterziehung nicht das primäre Motiv, sondern es besteht der Wunsch, die illegale Herkunft ihres Kapitals zu verschleiern; Ausländer und (zurückkehrende) Expatriates können an grenzüberschreitender Steuerhinterziehung beteiligt sein, indem sie Bankkonten in ihrem Heimatland oder in IFZ haben; hochrangige Personen nutzen IFZ, um ihren legal oder illegal erworbenen Reichtum zu verbergen (z.B. Politiker und Prominente, bekannte Geschäftsleute, Sportler).

Hinsichtlich des Steuersystems sind Kapitaleinkünfte und Erbschaftsteuern eher als andere persönliche Einkommensteuern steuerliche Beweggründe für die Verlagerung von Vermögen ins Ausland. Um die Abwanderung von Kapital zu stoppen, haben mehrere europäische Regierungen die Besteuerung von Kapital abgeschafft oder reduziert. Andere Beweggründe und Motivationen, Reichtum über IFZ zu verstecken, sind u.a.: die Minderung von wirtschaftlichen und politischen Risiken, eine niedrige Steuermoral, begrenztes Vertrauen in die Regierung, schwache Rechtsdurchsetzung durch die Regierung, persönliche Sicherheit und familiäre Gründe, und manchmal sogar der soziale Status.

Hochvermögende (HWIs) und UHNWIs haben etwa 40 bis 50 % ihres Vermögens in Finanzanlagen (Aktien und festverzinsliche Wertpapiere) investiert, gefolgt von Immobilien und anschließend Bargeld/Bargeldäquivalenten, wobei letztere eher für Erlöse aus kriminellen Aktivitäten und nicht deklarierte Einkommen aus der Schattenwirtschaft verwendet werden. Hochvermögende Personen ziehen es jedoch vor, aus Sicherheitsgründen und um eine Rendite zu erzielen, in Finanzinstrumente, statt in Bargeld zu investieren. Es gibt Hinweise darauf, dass

² Source: https://ec.europa.eu/taxation_customs/sites/taxation/files/2019-taxation-papers-76.pdf

Bargeldäquivalente wie Kredit- und Prepaid-Karten genutzt werden, um auf das Vermögen in den IFZ zurückzugreifen. Diese Produkte würden normalerweise nicht in den Berichtsumfang für DAC2/CRS fallen.

Die gesammelten Rückmeldungen deuten darauf hin, dass Immobilien als Vehikel genutzt werden, um Vermögen zu verbergen, normalerweise über juristische Personen, die die Identität des wirtschaftlichen Eigentümers verbergen. Solche Anlagen, die entweder direkt oder indirekt über juristische Personen gehalten werden, unterliegen nicht dem automatischen Informationsaustausch (AIA) unter DAC2/CRS, sind aber unter DAC1 durch den automatischen Austausch von Informationen über Eigentum und Besitz abgedeckt, wenn diese Informationen in dem Mitgliedstaat, in dem die Immobilie liegt, verfügbar sind. Informationen über das wirtschaftliche Eigentum werden in der Regel jedoch nicht für Grund-/Grundstücksregister erhoben, daher werden Informationen über das wirtschaftliche Eigentum einer Gesellschaft oder Gestaltung, die rechtlich Eigentümer der Immobilie ist, nicht im Rahmen des DAC1 mit dem Wohnsitzland des wirtschaftlichen Eigentümers ausgetauscht.

Die Studie bestätigt, dass Darlehen und Eigenkapital durch zwischengeschaltete Gesellschaften zur Verschleierung von Vermögen und von Einkommen aus illegalen Zwecken genutzt werden. Wenn die Gesellschaft nicht unter die Definition einer passiven NFE (non-financial entity / Nicht-Finanzseinheit) fällt, werden Informationen über den wirtschaftlichen Eigentümer der Gesellschaft, z.B. für die Zahlung von Dividenden ohne Depotbank („Non-Custodial Dividends“), nicht mit dem Staat, in dem die natürliche Person ansässig ist, ausgetauscht. Hierdurch werden DAC2/CRS umgangen.

Wie und wo

IFZ können „vermögensempfangende“ IFZ sein (so genannte Typ-I-Jurisdiktionen) oder eher eine Vermittlerrolle spielen (so genannter Typ II), indem sie Briefkastenfirmen und andere Abschirmungsmittel bereitstellen, was dazu führt, dass die internationale Einlagenstatistik fälschlicherweise Einwohnern dieser IFZ zugeordnet wird. Vermögen, das in IFZ versteckt wird, kann durch das Zusammenspiel verschiedener Dienstleister und Akteure vielfältige Strukturen annehmen. Diese Studie stellt fest, dass zunehmend komplexe Strukturen verwendet werden, die sowohl juristische Personen wie Unternehmen als auch Konstruktionen wie Trusts in mehreren Staaten einbeziehen, um den letztendlichen wirtschaftlichen Eigentümer zu verschleiern und damit die wirksame Umsetzung der AML-Regeln zu vereiteln, von denen DAC2/CRS abhängig sind. Aufgrund ihrer Komplexität werden in den IFZ ansässige Intermediäre, wie Rechtsanwälte oder Treuhänder-/Dienstleister für Trust und Gesellschaften, zur Schaffung und Aufrechterhaltung solcher Strukturen eingesetzt. Als politische Reaktion verlangt die Richtlinie 2018/822/EU über den automatischen Informationsaustausch von meldepflichtigen grenzüberschreitenden Gestaltungen, dass Intermediäre offenlegen, die Steuertransparenzvereinbarungen wie DAC2/CRS umgehen und die damit verbundenen Informationen über das wirtschaftliche Eigentum verbergen könnten.

IFZ-Staaten werden von Briefkastenfirmen genutzt, um auf der Grundlage verschiedener, vorwiegend steuerlicher Merkmale Vermögen anzuziehen. Diese Staaten haben ein Steuersystem, das ausländisches Einkommen von gebietsansässigen Unternehmen von der Steuer befreit, oder auf Unternehmensebene keine oder so gut wie keine Besteuerung vorliegt. Die Staaten des Typs II können auch die Ausschüttung von Einkünften an nicht ansässige Begünstigte zulassen und unterliegen keiner Quellensteuer. Darüber hinaus mangelt es in diesen Ländern an effektiven Vereinbarungen zum Informationsaustausch für Steuerzwecke, was oft mit schwachen gesetzlichen Regelungen zur Bekämpfung der Geldwäsche einhergeht. Zur Erleichterung der Investitionsmöglichkeiten haben diese Staaten außerdem Abkommen mit IFZ, um Doppelbesteuerung zu vermeiden.

Zu den Faktoren, die die Wirksamkeit des Informationsaustauschs zu Steuerzwecken sicherstellen, gehören robuste AML-Regelungen in Typ I- und Typ-II-Ländern, insbesondere bei der Erfassung von Informationen über die wirtschaftlichen Eigentümer von juristischen Personen und Rechtsvereinbarungen. Internationale Gremien wie das Global Forum und die FATF haben erhebliche Schwachstellen (insbesondere bei der Durchsetzung) bei den Vorschriften zur Feststellung der wirtschaftlichen Berechtigung von juristischen Personen und Rechtsvereinbarungen festgestellt. Wenn die Gesetzgebung für bestimmte Verpflichtete Ausnahmen für die Erfassung von Informationen vorsieht oder bestimmte Unternehmen/Rechtsvereinbarungen davon befreit, den AML-Bestimmungen zu unterliegen, dann sind möglicherweise keine Informationen über wirtschaftliche Eigentümer verfügbar. Abgesehen von den Problemen bei der Identifizierung des wirtschaftlichen Eigentums können die Rechtsordnungen auch schwache Durchsetzungsmechanismen haben, z. B. bei der Aufsicht, der Überwachung von Verpflichteten und bei Sanktionen.

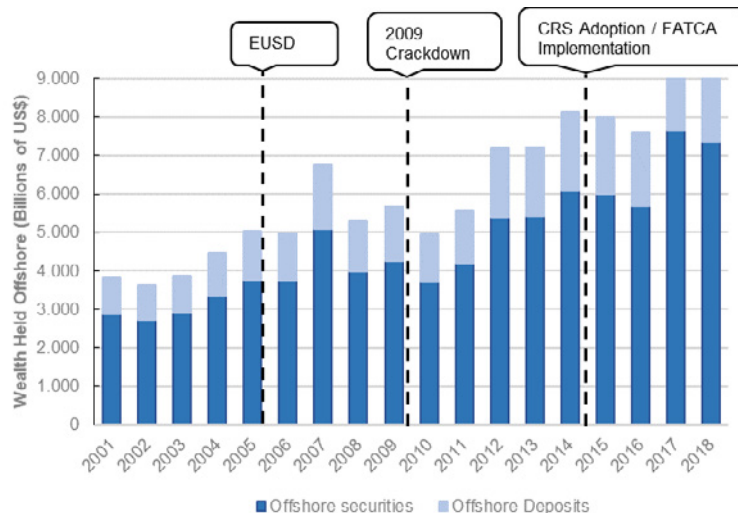
Darüber hinaus gibt es Risiken der Umgehung des Informationsaustauschs, die für Konstruktionen wie Trusts und juristische Personen wie Gesellschaften mit beschränkter Haftung typisch sind. Im Falle von Trusts kann die

Komplexität ihrer Strukturen das Risiko des Missbrauchs erhöhen. Die Studie weist außerdem darauf hin, dass Gesellschaften mit beschränkter Haftung das häufigste Vehikel für Umgehungen sind. Zu den Risikofaktoren gehören: Gesellschaften mit beschränkter Haftung werden für Handelszwecke verwendet, wobei die Verwendung von Darlehen und Aktien zur Umgehung von DAC2/CRS genutzt werden kann; Geschäftsführer von Gesellschaften mit beschränkter Haftung haben im Allgemeinen weniger belastende zivilrechtliche Haftungspflichten im Vergleich zu Treuhändern eines Arrangements; und die Verwendung von Umgehungsmethoden wie Nominee-Vereinbarungen und Inhaberaktien, um den tatsächlichen Eigentümer des Unternehmens zu verschleiern.

Wie viel

Diese Studie beinhaltet eine Aktualisierung der in der ECOPA/CASE-Studie vorgestellten Untersuchungen, die Schätzungen für Offshore-Vermögen für den Zeitraum von 2001 bis 2016 liefern. Die Schätzungen für 2017 und 2018 wurden nun ergänzt. Um die Vergleichbarkeit zu gewährleisten, folgt diese Studie eng dem methodischen Ansatz der vorherigen Studie und baut auf einem Vergleich der internationalen Portfolio-Aktiva und -Passiva auf. Sie kommt zu dem Ergebnis, dass sich das globale Offshore-Finanzvermögen im Jahr 2018 auf USD 9,8 Billionen (EUR 8,6 Billionen) belief, ein Rückgang gegenüber USD 10,2 Billionen (EUR 8,5 Billionen) im Vorjahr, aber ein Anstieg gegenüber USD 7,7 Billionen (EUR 7,3 Billionen) im Jahr 2016, dem letzten Jahr, über das die vorherige Studie berichtete.

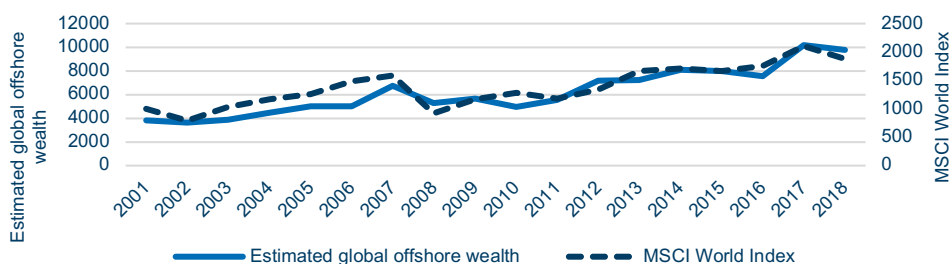
Schätzungen des globalen Offshore-Vermögens pro Jahr



Quelle: Eigene Berechnungen nach ECOPA/CASE-Studie

Unter Verwendung des MSCI-Index zur Berücksichtigung der Preisvolatilität von Aktienwerten ist der in dieser Studie ermittelte Anstieg des Offshore-Vermögens zwischen 2016 und 2017 hauptsächlich auf den Anstieg der Aktienkurse in den Ländern auf der ganzen Welt zurückzuführen und nicht auf einen Anstieg der IFZ, die Offshore-Vermögen anziehen.

Globales Offshore-Vermögen und der MSCI-Index im Zeitverlauf



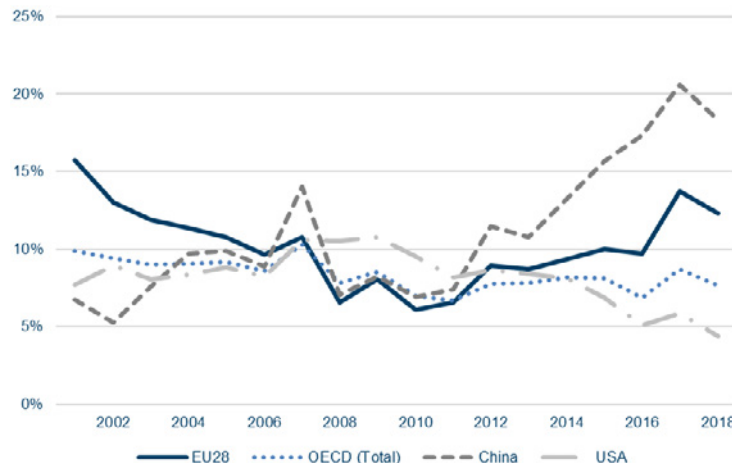
Quelle: Eigene Berechnungen

Die Daten bestätigen den in der vorangegangenen Studie festgestellten Trend, dass Hongkong und Singapur weiterhin einen größeren Anteil des globalen Offshore-Vermögens anziehen, während der relative Anteil des in der Schweiz und auf den Kaimaninseln gehaltenen Offshore-Vermögens abnimmt. Während zwischen 2014 und

2016 ein leichter Rückgang zu verzeichnen war, stieg das in Luxemburg offshore gehaltene Vermögen in den Jahren 2017 und 2018 wieder an.

Darüber hinaus belief sich das Offshore-Vermögen von natürlichen Personen in der EU im Jahr 2018 auf etwa 12 % des BIP, gegenüber etwa 9,7 % im Jahr 2016. Dies liegt über dem OECD-Anteil am BIP, aber unter dem Anteil für China (18 %). Der Anteil des gesamten globalen Offshore-Vermögens, der auf Einwohner der EU-28 entfällt, belief sich 2018 auf etwa 23 %, ein Anstieg gegenüber 2016.

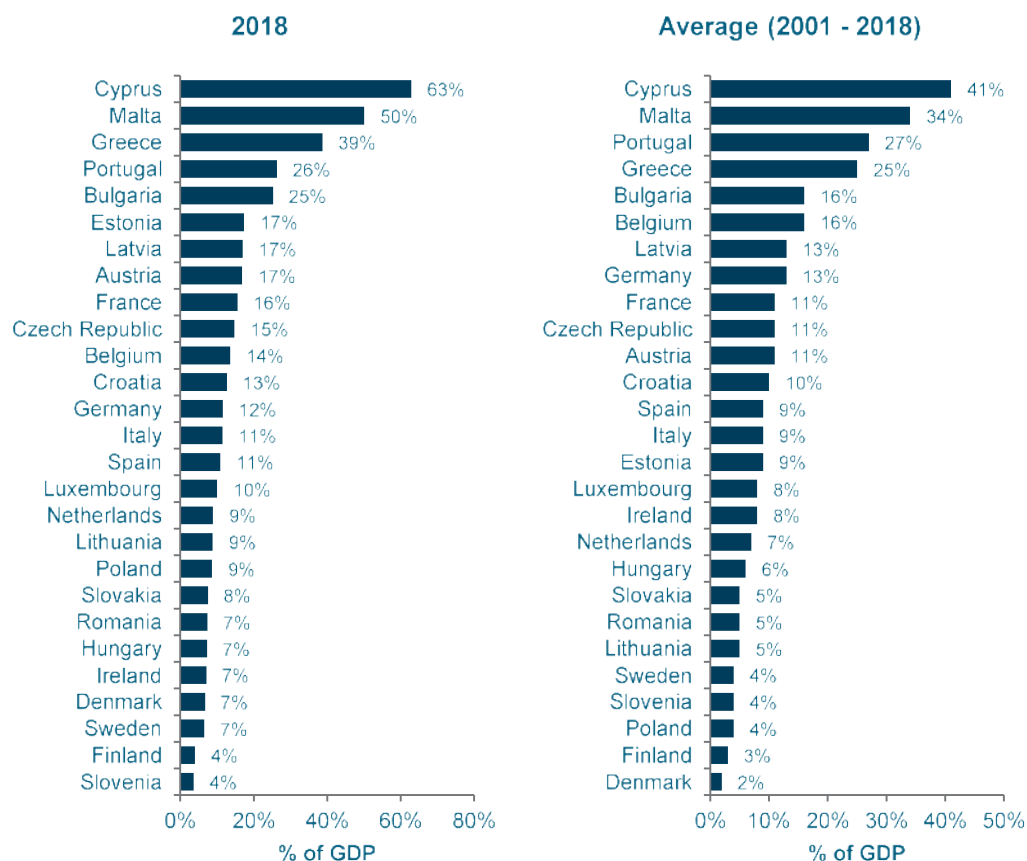
Offshore-Vermögen als Anteil am BIP für ausgewählte Länder und Ländergruppen



Quelle: Eigene Berechnungen nach ECOPA/CASE

Gemessen an den absoluten Beträgen entfällt der größte Teil des Offshore-Vermögens von EU-Einwohnern auf deutsche, französische und italienische Einwohner. Im Verhältnis zum BIP halten Einwohner aus Zypern (41 % im Durchschnitt zwischen 2001 und 2018), Malta (34 %) und Portugal (27 %) die größten Anteile am Offshore-Vermögen in der EU.

Offshore-Vermögen als Anteil des nationalen BIP für die EU-27

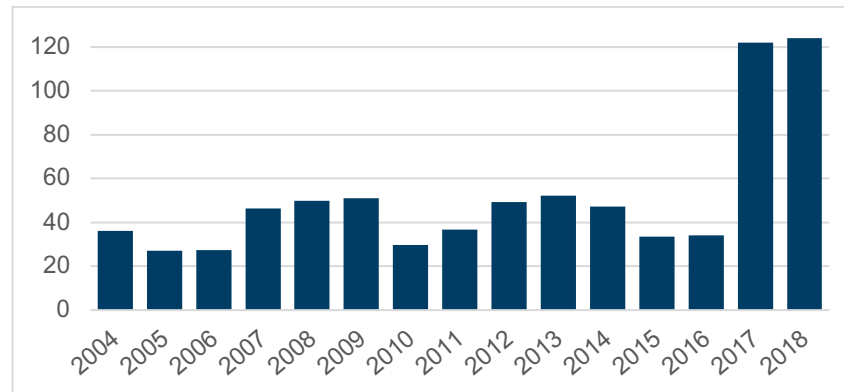


Quelle: Eigene Berechnungen nach ECOPA/CASE

Die durchschnittlichen jährlichen Einnahmeverluste durch internationale Steuerhinterziehung für die EU-28 im Zeitraum 2004-2018 werden auf 51 Mrd. EUR geschätzt, was etwa 0,34 % des BIP entspricht. Die Steuerausfälle variieren stark und reichen von 27 Mrd. EUR im Jahr 2005 bis 124 Mrd. EUR im Jahr 2018. Diese Schätzungen gehen von einer Nichteinhaltungsquote von 75 % aus und umfassen drei Komponenten der internationalen Steuerhinterziehung: Hinterziehung auf Kapitaleinkommen; Hinterziehung von Erbschafts- und Vermögenssteuer; Hinterziehung von ursprünglich nicht gemeldeten Einkünften, die ins Ausland transferiert wurden (d.h. Hinterziehung der persönlichen Einkommensteuer).

Der starke Unterschied zwischen 2018 und 2019 ist auf die Schätzungen des im Ausland gehaltenen Finanzvermögens zurückzuführen, die im Jahr 2017 vor allem aufgrund der Volatilität der Wertpapierkurse überhöht sind.

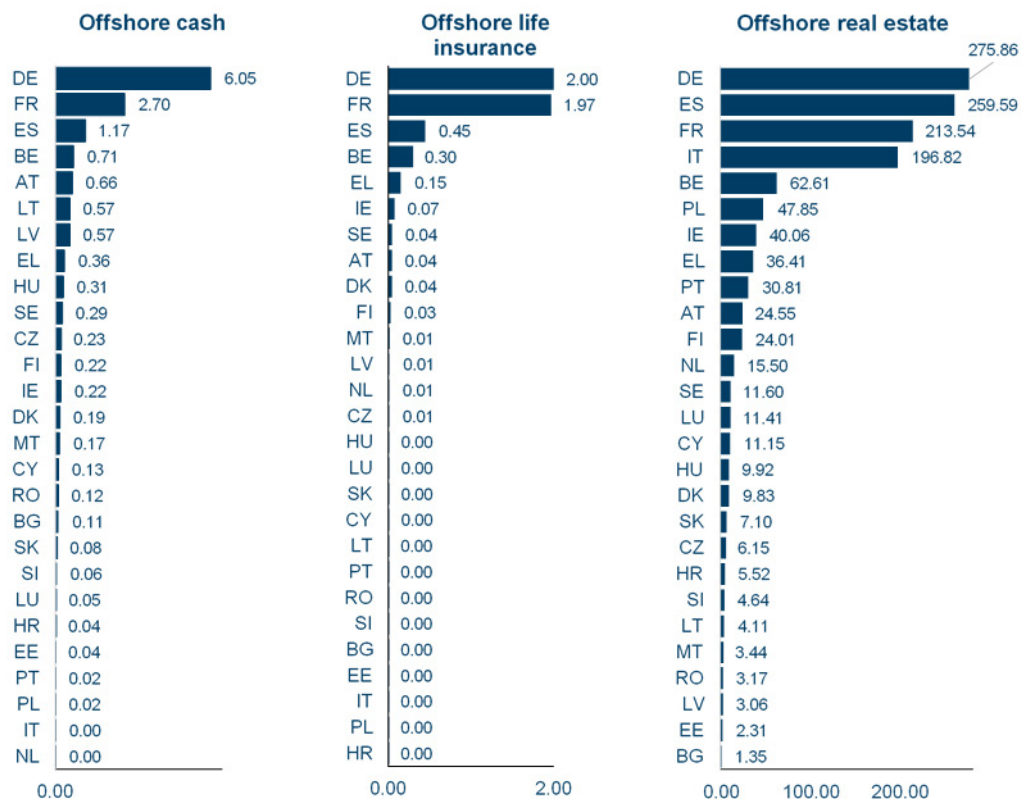
Einkommensverluste durch internationale Steuerhinterziehung für die EU-27 (EUR, Milliarden)



Quelle: Eigene Berechnungen nach ECOPA/CASE

Bei der Länderverteilung der neuen Vermögenskategorien stehen die großen Volkswirtschaften an der Spitze der Liste für Offshore-Bargeld, Lebensversicherungen und Immobilien (vor allem Deutschland, Frankreich und Spanien), wie die nachfolgende Abbildung zeigt.

Schätzungen des Offshore-Vermögens, das in neuen Vermögenskategorien gehalten wird (EUR, Milliarden)



Quelle: Eigene Berechnungen nach ECOPA/CASE

Auswirkungen des CRS und der Richtlinie 2014/107/EU

Diese Studie zeigt, dass die grenzüberschreitenden Bankeinlagen einen guten Eindruck von den Trends zur Verbergung von Vermögen im Ausland vermitteln und dass ein allgemeiner Rückgang der Einlagen in IFZ als Beweis dafür angesehen werden kann, dass der AIA die Einhaltung der Steuervorschriften verbessert hat. Die wichtigsten Annahmen sind, dass sich die Haushalte nach der Einführung des AIA nun für legale Investitionen außerhalb der IFZ entscheiden und dass ehemalige Steuerhinterzieher ihre Investitionen im Ausland verringern. Allerdings sollten neue Hinterziehungsmöglichkeiten, wie die Nutzung von Aufenthaltsregelungen für Investoren, nicht vernachlässigt werden.

Die Studie zeigt, dass die gesamten grenzüberschreitenden Bankeinlagen, die von Nichtbanken in IFZ gehalten werden, im Zeitraum vom dritten Quartal 2014 bis zum vierten Quartal 2016 deutlich zurückgegangen sind (d. h. -22 %), was der Zeit nach der Ankündigung des CRS durch die G20 und der anschließenden Genehmigung durch den OECD-Rat im Jahr 2014 entspricht. Dieser Rückgang ist ein Beleg für positive Auswirkungen des DAC2/CRS. Der Rückgang setzte sich in den Jahren der Umsetzung von CRS und DAC2 durch konforme Jurisdiktionen fort, bis zu den letzten verfügbaren Zahlen für das dritte Quartal 2019. Gleichzeitig verzeichneten grenzüberschreitende Bankeinlagen, die von Nichtbanken in Nicht-IFZ gehalten werden, einen entgegengesetzten allgemeinen Aufwärtstrend und übertrafen zuletzt das Vorkrisenniveau. Diese Ergebnisse deuten auch auf eine mögliche Auswirkung der erhöhten Steuertransparenzanforderungen von DAC2/CRS hin, da Onshore-Jurisdiktionen Investitionen anzogen. Politische Maßnahmen als Folge von Leaks wie den Panama Papers und Initiativen der Mitgliedstaaten zur Bekämpfung der Steuerhinterziehung wurden von den Beteiligten als Einfluss auf die Verbesserung der Befolgung der Vorschriften durch die Steuerzahler angeführt, um die Steuerhinterziehung zu verringern.

Insbesondere für die EU sind die Bankeinlagen in IFZ, die von Nicht-Banken in der EU gehalten werden, in den letzten Jahren deutlich zurückgegangen, und zwar um 8 % im Zeitraum 1Q 2017 - 3Q 2019, was ebenfalls als Beweis dafür angesehen werden kann, dass DAC2/CRS zu positiven Auswirkungen auf die Bekämpfung der Steuerhinterziehung in der EU geführt hat.

Alle überprüften neueren Studien, die darauf abzielten, die Auswirkungen des CRS zu quantifizieren, kommen zu demselben Ergebnis - der CRS und damit verbundene Abkommen wie DAC2 trugen signifikant zur Reduzierung von Nicht-Bankeinlagen in IFZ bei. Die Quantifizierung der Auswirkungen liegt zwischen 11,9% und 67% (abhängig von der Methodik, den verwendeten Daten und den gewählten spezifischen Messgrößen) Reduzierung der IFZ-Bankeinlagen im Vergleich zu dem, was sie ohne den CRS gewesen wären.

Diese Studie stellt fest, dass aus einer qualitativen Perspektive eine allgemeine Übereinstimmung zwischen verschiedenen Interessengruppen (Steuerbehörden, FIU, investigative Journalisten und Experten) besteht, dass das CRS/DAC2 zur Reduzierung des von Einzelpersonen im Ausland versteckten Vermögens beigetragen hat. Dies wurde im Wesentlichen auf folgende Weise erreicht: Der DAC2/CRS hat den Mitgliedstaaten Informationen über das grenzüberschreitende Vermögen ihrer Einwohner geliefert, die vorher nicht verfügbar waren; die Steuerbehörden wurden ermutigt, miteinander zu kooperieren; der DAC2/CRS schafft erhebliche Hindernisse für Personen, die Vermögen verbergen wollen. Es gibt jedoch keine signifikanten Hinweise darauf, dass eine geografische Umgehung des CRS stattfindet, d.h. eine Verlagerung von Finanzinvestitionen in Länder außerhalb der AIA-Abkommen.

List of abbreviations

ABS	Advanced Business Services
AEOI	Automatic Exchange of Information
AML	Anti-Money Laundering
AMLD	Anti-Money Laundering Directive
APT	Asset Protection Trust
ATM	Automated Teller Machine
ATP	Aggressive Tax Planning
BCG	Boston Consultancy Group
BIS	Bank for International Settlements
CFT	Combatting the Financing of Terrorism
CPIS	Coordinated Portfolio Investment Survey
CRA	Canada Revenue Agency
CSR	Common Reporting Standards
DAC	EU Directive on Administrative Cooperation in Direct Taxation
EC	European Commission
ECB	European Central Bank
OECD	Organisation for Economic Co-operation and Development
EOI	Exchange of Information
EOIR	Exchange of Information Request
EPRS	European Parliamentary Research Service
EU	European Union
EUR	Euro
EWN	Eyewitness News
FATCA	Foreign Account Tax Compliance Act (US)
FATF	Financial Action Task Force
FDI	Foreign Direct Investment
FIU	Financial Intelligence Unit
GDP	Gross Domestic Product
HFCS	Household Finance and Consumption Survey
HNW	High Net Worth
HNWI	High Net Worth Individuals
ICIJ	International Consortium of Investigative Journalists
IFC	International Financial Centre
LBS	Locational Banking Statistics
IMF	International Monetary Fund
OECD	Organisation for Economic Cooperation and Development

OFC	Offshore Financial Centre
RFC	Regional Financial Centre
SAR	Special Administrative Region
SPE	Special Purpose Entities
UBO	Ultimate Beneficial Owner
UHWNI	Ultra-High Net Worth Individuals
USD	United States Dollar
VAT	Value Added Tax

Country abbreviations

AT	Austria
BE	Belgium
BG	Bulgaria
BVI	British Virgin Islands
CY	Cyprus
CZ	Czech Republic
DE	Germany
DK	Denmark
EE	Estonia
EL	Greece
ES	Spain
FI	Finland
FR	France
HR	Croatia
HU	Hungary
IE	Ireland
IT	Italy
LT	Lithuania
LU	Luxemburg
LV	Latvia
MT	Malta
NL	The Netherlands
PL	Poland
PT	Portugal
RO	Romania
SE	Sweden
SI	Slovenia
SL	Slovakia
UK	United Kingdom

1 Introduction

1.1 Background of the study

Tax fraud, evasion and avoidance is a major concern for every European Member State. By taking away national revenues, tax abuse limits the capacity of governments to finance their economic and social policies. It also undermines the principle of fair burden sharing and may have a negative impact on the overall tax morale. Recent scandals, such as LuxLeaks, Panama Papers and the Cum-ex Files have led to public discontent on the issue of tax abuse by Multinational enterprises (MNEs) but also by wealthy individuals.

While international tax fraud, evasion or avoidance by (multinational) companies has been debated and investigated extensively over the past years, knowledge on individuals hiding their income and wealth by making use of foreign jurisdictions was rather scarce until recently. However, scandals such as the Swiss leaks case, the Panama Papers and the Cum-ex files have placed a spotlight on hidden private wealth and its modus operandi.

Swiss Leaks

An investigation conducted in 2015 by a multinational group of journalists exposed the workings of a massive tax evasion scheme conducted with the knowledge of the world's second largest bank, HSBC, via its Swiss subsidiary, HSBC Private Bank. Data was leaked by a former French staffer of HSBC turned whistle-blower who passed the information to the French authorities. HSBC Private Bank is said to have concealed over 5.7 billion euro in tax havens for its French clients alone.³

The Panama Papers

The 'Panama Papers' consist of 11.5 million documents of Panama-based law firm Mossack Fonseca which were leaked in 2015 by an anonymous source and which details the way wealthy individuals – including several current and former Heads of Government – exploit offshore tax regimes and tax havens to hide their wealth.⁴ The Papers detail how shell companies have been used to transfer funds between national jurisdictions for both legitimate and illegitimate reasons. The degree to which this took place was confirmed by the revelations, with wide-ranging implications for national authorities' tax revenues.

The Cum-ex Files

A joint investigation by 19 European media outlets exposed in 2017 a tax fraud scheme through which a network of bankers and lawyers had obtained billions from European treasuries through suspected fraud and speculation involving dividend taxes. Germany, as the hardest hit country and the origin of the investigation, suffered an estimated loss of 55.2 billion euro.⁵

The European Commission has made the fight against tax fraud, evasion and avoidance, as one of their priorities, in particular with the objective to contribute to a deeper and fairer Internal Market. While the economic relevance of wealth hidden by individuals is generally recognised, it is difficult to make reliable estimates of its magnitude due to the 'hidden' nature of the phenomenon, through non-reporting of income and transfers of assets to foreign jurisdictions.

In this context the European Commission, DG TAXUD, recently commissioned a study on 'Estimating International Tax Evasion by Individuals' with the objective to estimating offshore wealth held by EU residents and the tax

³ Le Monde (2016). « SwissLeaks »: the backstory of a worldwide investigation. Le Monde. Available from : https://www.lemonde.fr/evasion-fiscale/article/2016/11/07/swissleaks-the-backstory-of-a-worldwide-investigation_4572334_4862750.html (Accessed on 05/05/2020).

⁴ ICIJ (2019). What happened after the Panama Papers?. Available from: <https://www.icij.org/investigations/panama-papers/> (Accessed on 22/12/2020).

⁵ CORRECTIV (n.d.). The CUMEX Files: a cross-border investigation. Available from: <https://cumex-files.com/en/> (Accessed on 22/12/2020).

revenue loss for each EU country due to international tax evasion by individuals (from 2004 up until 2016) (hereafter referred to as the ECOPA/CASE study).⁶

This study builds on recent academic research in this area⁷ and public statistics published by international organisations. Key findings are the following: The global offshore wealth is estimated at USD 7.8 trillion in 2016 (EUR 7.5 trillion) or 10.4% of global GDP. The EU share in the global wealth that is held in foreign jurisdictions is valued at USD 1.6 trillion (1.5 trillion euro), or 9.7% of GDP. The corresponding tax revenues lost to European governments is estimated at EUR 46 billion, or 0.32% of GDP (2016 estimates). The study also found large differences among Member States in the estimated offshore wealth and corresponding tax evasion both in absolute amounts, and relative amounts as a percentage of GDP.

1.2 Research objectives

In 2019 the European Parliament requested the European Commission to conduct a follow-up study on ‘Monitoring the amount of wealth hidden by individuals in international financial centres and impact of recent internationally agreed standards on tax transparency on the fight against tax evasion’.

The overall objective of this current study is to advance research in the area of monitoring wealth hidden by individuals in international financial centres and on the effects of policy measures to tackle it. The specific research questions are:

- ◆ Question 1 is about the **‘WHO’** and the **‘WHAT’**. (1a) Who hides wealth? (1b) What type of wealth is hidden? The **‘WHAT’** effects question seeks to analyse to what extent assets are being invested in order to circumvent, in particular, Council Directive 2014/107/EU (referred to in this study as ‘DAC2’⁸) and the CRS⁹ on the automatic exchange of financial account information;
- ◆ Question 2 is about the **‘HOW’** and **‘WHERE’**. (2a) Which type of schemes / arrangements are used mainly by individuals in Member State X to hide wealth? (2b) Which offshore financial centres are used to hide wealth? The **‘HOW’** seeks to analyse to what extent vehicles like shell companies and legal arrangements like trusts are used to circumvent Council Directive 2014/107/EU (referred to in this study as ‘DAC2’) on the automatic exchange of financial account information;
- ◆ Question 3 is about the **‘HOW MUCH’**. (3a) How much wealth is hidden by individuals of Member State X in offshore financial centres, and therefore how much tax revenues can we estimate to be lost? (3b) What is the impact of CRS¹⁰ and DAC2, which is an amendment to the Council Directive 2011/16/EU on Administrative Cooperation in Direct Taxation (for the purposes of this study, the ‘DAC’)?

In order to answer the ‘who’ question, an additional question is being asked as to ‘why’ individuals hide wealth. This will be added to question 1.

The estimates on the amounts of hidden wealth (question 3a on ‘how much’) shall build upon the estimates over the period up until 2016 in the ECOPA/CASE study.

⁶ VELLUTINI, C., et al. (2019). Estimating International Tax Evasion by Individuals. Available from: https://ec.europa.eu/taxation_customs/sites/taxation/files/2019-taxation-papers-76.pdf (Accessed on 13/12/2020). To be referred to as: ECOPA/CASE study.

⁷ For example: Gravelle (2015), Zucman et al. (2017), Pellegrini et al. (2016) and Alsteadster, Johannesen and Zucman (2017).

⁸ Council Directive 2014/107/EU (DAC2) is an amendment on the Council Directive on administrative cooperation in the field of direct taxation 2011/16/EU (DAC) and expanded on the automatic exchange on financial account information (added are all relevant income (interest, dividends and other relevant income generated with respect to the assets held in the account) as well as account balances and sale proceeds from financial assets).

⁹ OECD (n.d.). What is the CRS?. Available from: <https://www.oecd.org/tax/automatic-exchange/common-reporting-standard/> (Accessed on 13/12/2020).

¹⁰ The CRS (July 2014) is a standardised set of detailed due diligence and reporting rules for financial institutions to apply to ensure consistency in the scope and quality of information exchanged. CRS calls on jurisdictions to obtain information from their financial institutions and automatically exchange that information with other jurisdictions on an annual basis. OECD (n.d.). What is the CRS?. Available from: <https://www.oecd.org/tax/automatic-exchange/common-reporting-standard/> (Accessed on 13/12/2020).

Table 1-1 Findings of the ECOPA/CASE study (2016)

Country	Estimated offshore wealth (billion EUR)	Estimated offshore wealth (% of GDP)	International tax evasion (billion EUR)	International tax evasion (% of GDP)
DE	331.1	10.0%	7.2	0.24%
FR	276.6	11.8%	0.1	0.48%
IT	142.2	8.1%	1.7	0.11%
EL	62.9	34.4%	1.0	0.57%
BE	62.7	14.1%	2.0	0.50%
NL	52.6	7.1%	2.0	0.30%
PT	46.6	23.9%	0.8	0.45%
AT	41.1	11.1%	1.3	0.38%
CZ	33.8	18.2%	0.6	0.36%
PO	32.2	7.2%	1.4	0.33%
IE	20.2	7.0%	1.0	0.39%
BG	14.5	28.8%	0.2	0.39%
ES	101.3	8.7%	3.2	0.30%
SE	16.1	3.3%	2.7	0.61%
CY	9.6	49.6%	0.1	0.72%
HU	7.7	6.4%	0.2	0.20%
FI	6.7	2.9%	0.3	0.13%
RO	10.3	5.8%	0.1	0.07%
LV	3.9	14.9%	0.2	0.68%
EE	2.9	13.3%	0.1	0.40%
LU	4.3	7.8%	0.2	0.43%
MT	5.2	48.3%	0.2	2.39%
DK	5.1	1.8%	0.3	0.10%
SK	4.2	5.0%	0.1	0.16%
SI	2.3	5.4%	0.0	0.26%
HR	4.0	8.1%	0.0	0.05%
LT	2.1	5.1%	0.0	0.03%

Source: ECOPA/CASE 2019.

The objective of the current study is to update the data (using the same methodology) with estimates for 2017 and 2018 and forecasts until 2025. Estimates are provided per Member State. In addition, the data shall be amended with estimates of hidden wealth in three wealth categories (not covered by the ECOPA/CASE study): life insurance contracts, cash money and real estate, for which an additional methodology has been developed.

Before presenting the methodology, an overview of the relevant legal framework will be presented as well as a closer definition of the scope and terminology of this study will be presented.

1.3 Legal framework

The legal framework targeting tax fraud, evasion and avoidance

At international level, work to combat tax evasion is spearheaded by the Organisation for Economic Cooperation and Development (OECD) and the Global Forum on Transparency and Exchange of Information for Tax Purposes, with 161 members, the leading international body working on the implementation of global transparency

and exchange of information standards around the world (operating under the auspices of both the OECD and the G20).¹¹

Several initiatives to increase the availability of information for tax administrations – in particular through increased information exchange between countries – are at the core of these international efforts to combat tax avoidance and tax evasion. The most notable ones include:

- ◆ the *Multilateral Convention on Mutual Administrative Assistance in Tax Matters*, covering all forms of co-operation to tackle tax evasion and avoidance (1998);
- ◆ the *Multilateral Competent Authority Agreement on Automatic Exchange of Financial Account Information* (CRS MCAA – 2014);
- ◆ the *Multilateral Competent Authority Agreement to Exchange Country by Country Reports* (CbC MCAA – 2016), developed to allow automatic exchange of country-by-country reports;¹²
- ◆ the *Base Erosion and Profit Shifting Project* (BEPS – 2012), to address and combat the use of tax planning strategies by internationally operating enterprises that exploit gaps and mismatches in tax rules to avoid paying taxes;¹³ and
- ◆ a *Beneficial Ownership Implementation Toolkit* (2019), providing policy considerations that Global Forum member jurisdictions can use to implement legal and supervisory frameworks to identify and collect beneficial ownership information.

In July 2020, the European Commission adopted a new Tax Package¹⁴ to reinforce the fight against tax abuse, help tax administrations keep pace with a constantly evolving economy and ease administrative burdens on citizens and companies. It also ensures improved cooperation with non-EU countries and strengthens the Commission's support to developing countries. The package includes a revision of the DAC ('DAC7') which will introduce automatic exchange of information between Member States' tax administrations on income generated by sellers via digital platforms, and will strengthen cooperation by clarifying existing rules.

The Tax Package includes the Tax Action Plan for fair and simple taxation supporting the recovery strategy ('2020 Action Plan'). The Plan also includes a proposal to update the DAC to incorporate alternative means of payment and investment –such as crypto-assets and e-money 2021 due to its increasing importance, and to strengthen the administrative cooperation framework.

The work of the European Commission was supported by the European Parliament, whose past mandate and current mandate in ECON considers the fight against tax fraud and evasion and money laundering as a policy priority, supported by the FISC committee. The Parliament's work and recommendations in this area was informed by several ad-hoc committees, including: the Committee on Tax Rulings and Other Measures Similar in Nature or Effect (TAXE); the TAXE 2 Committee; the Committee on Money Laundering, Tax Avoidance and Tax Evasion (PANA); the Committee on Financial Crimes, Tax Evasion and Tax Avoidance (TAXE 3). As part of the 2019 EU budget the European Parliament requested the European Commission to conduct a pilot project on 'Monitoring the amount of wealth hidden by individuals in international financial centres and impact of recently agreed standards on tax transparency on the fight against tax evasion'. This study is the outcome of this pilot project.

Key initiatives in the area of counteracting tax fraud, tax evasion and tax avoidance are included in the Directive on Administrative Cooperation in Direct Taxation¹⁵ ('DAC') and its later amendments. To increase transparency, the scope of the DAC has been extended to include international initiatives like the OECD BEPS project, for example the exchange of tax rulings/advance pricing agreements (APA's) and country-by-country reporting.

¹¹ OECD (n.d.). Putting an end to offshore tax evasion. Available from: <http://www.oecd.org/tax/transparency/> (Accessed on 21/07/2020).

¹² Excluding VAT, customs duties, excise duties and compulsory social contributions.

¹³ A 15 point action plan was published in 2015 and a "Multilateral Convention to Implement Tax Treaty Related Measures to Prevent BEPS" was signed in 2016 and entered into force in 2018.

¹⁴ COM (2020). An Action Plan for fair and simple taxation supporting the recovery strategy. Available from: https://eur-lex.europa.eu/resource.html?uri=cellar:e8467e73-c74b-11ea-adf7-01aa75ed71a1.0003.02/DOC_1&format=PDF (Accessed on 21/07/2020).

¹⁵ EUR-LEX (2011). Council Directive 2011/16/EU. Available from: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L_.2016.193.01.0001.01.ENG (Accessed on 11/12/2020).

Furthermore, key tax initiatives in the EU in the form of the anti-tax avoidance directives, ATAD1¹⁶ and ATAD2¹⁷, seek to counteract corporate tax avoidance in the EU.

Directive 2011/16/EU (DAC1)

The first Directive and Administrative Cooperation ('DAC1') laid the legal foundations to improve Member States' ability to assess and collect taxes. It covers taxes of any kind, applies to natural and legal persons as well as arrangements (such as trusts and foundations) residing in the EU, and includes the Automatic Exchange Of (tax) Information (AEOI) on a periodic basis in instances where tax payers are active in a country other than their Member State of tax residence. According to this Directive, information on five (non-financial) categories of income and assets has to be mandatorily exchanged between competent authorities of Member States: Income from employment, director's fees, and life insurance products not covered by other Union legal instruments on exchange of information and other similar measures, pensions, and ownership of and ownership and income from immovable property.¹⁸

Since 2011, the DAC has been amended five times, with new measures extending its scope of application (i.e. the categories of income/asset mandatorily exchanged).¹⁹ For the purposes of this study, the second amendment of this Directive, DAC2, and its provisions, which aim to "bring banking secrecy to an end" and is the most relevant scope of this study. DAC2 is outlined in more detail below and is particularly relevant, as we will seek to assess the impact of these recent transparency measures on the estimations of hidden wealth by individuals in international financial centres.

Common Reporting Standard (CRS)

The CRS, adopted by the OECD, entails countries obtaining financial account information from their financial institutions and automatically exchanging that information with other jurisdictions on an annual basis.²⁰

It is widely agreed that an increase in transparency and information exchange amongst nations worldwide is needed to effectively combat (cross-border) tax abuse. In an attempt to strengthen international transparency standards, the G20 filed in 2013 an official request to the OECD for the development of a common reporting standard for the AEOI. The Common Reporting Standard (CRS) was approved the following year.

The CRS calls on jurisdictions to obtain information from their financial institutions and automatically exchange that information with other jurisdictions on an annual basis. It sets out the financial account information to be exchanged, the financial institutions required to report, the different types of accounts and taxpayers covered, as well as common due diligence procedures to be followed by financial institutions. Following the adoption of the CRS, the EU moved to transpose these provisions into its own legal framework.

Directive 2014/107/EU (DAC2)

Directive 2014/107/EU, amending Directive 2011/16/EU as regards mandatory automatic exchange of information in the field of taxation ('DAC2') was applied since January 2016 with first exchanges taking place between Member States since 2017. DAC2 is based on the CRS, and is the legal instrument in the EU laying down rules on the automatic exchange of financial account information between Member States. This information includes

¹⁶ EUR-LEX (2011). Council Directive 2011/16/EU. Available from: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L_.2016.193.01.0001.01.ENG (Accessed on 14/12/2020).

¹⁷ EUR-LEX (2017). Council Directive 2017/952. Available from: <https://tpguidelines.com/wp-content/uploads/ATAD-II.pdf> (Accessed on 22/12/2020).

¹⁸ The term Financial Asset does not include real estate property. EUR-LEX (2014). Directive 2014/107/EU of 9 December 2014 amending Directive 2011/16/EU as regards mandatory automatic exchange of information in the field of taxation, SECTION VIII, DEFINED TERMS, Point 7. Available from: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32014L0107> (Accessed on 13/12/2020).

¹⁹ EUR-LEX (2014). Directive 2014/107/EU (DAC2) on automatic exchange of financial account information, and integrating the Common Reporting Standard. Available from: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32014L0107> (Accessed on 13/12/2020); EUR-LEX (2015). Directive 2015/2376/EU (DAC3) extending the automatic exchange of information to tax rulings. Available from: <https://eur-lex.europa.eu/legal-content/en/TXT/?uri=CELEX%3A32015L2376> (Accessed on 12/08/2020); EUR-LEX (2016). Directive 2016/881/EU (DAC4) includes an obligation for country-by-country reporting (CbCR) on key-tax relate information on multinational companies working in the EU. Available from: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32016L0881> (Accessed on 14/12/2020); EUR-LEX (2016). Directive 2016/2258/EU (DAC5) granting tax authorities access to anti-money laundering information in order to obtain information on beneficial ownership. Available from: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32016L2258> (Accessed on 14/12/2020); EUR-LEX (2018). Directive 2018/822/EU (DAC6) on automatic exchange of cross border arrangements. Available from: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32018L0822> (Accessed on 14/12/2020).

²⁰ *ibid*.p.48

(i) interest, dividends and other income generated by a financial account, on (ii) gross proceeds from sale or redemption on a financial account and on (iii) financial account balances.

DAC2 provisions were also the basis for the negotiations of similar transparency agreements between the EU and Switzerland, Andorra, San Marino, Monaco and Liechtenstein, with the aim of preventing tax evaders from hiding undeclared income and assets in financial accounts in these non-EU countries. Under these agreements, both parties will automatically exchange information on the financial accounts of each other's residents from 2018 onward.²¹

DAC3, DAC4, DAC5, DAC6

After DAC2, the Directive on Administrative Cooperation has been amended five times, with the aim of strengthening the administrative cooperation among Member States: Directive 2015/2376/EU on automatic exchange of tax rulings and advance pricing agreements (DAC3); Directive 2016/881/EU on automatic exchange of country by country reports (DAC4); and Directive 2016/2258/EU ensures tax authorities have access to beneficial ownership information collected pursuant to the anti-money laundering legislation (DAC5). Directive 2018/822/EU on automatic exchange of reportable cross border arrangements (DAC6) includes special measures to counteract schemes designed to circumvent DAC2/CRS.²² Under Hallmark D) intermediaries are required to disclose schemes that may result in the circumvention of automatic exchange of information of financial account agreements like DAC2/CRS and concealing the related beneficial ownership information. DAC6 has been operational since June 2020. As mentioned the Tax Package includes legislative proposals to expand the scope of the DAC to include digital platforms, and crypto-assets and e-money.

Figure 1-1 Directive on Administrative Cooperation (DAC)

Directive on Administrative Cooperation – DAC						
DAC1	DAC1	DAC2	DAC3	DAC4	DAC5	DAC6
2011/16/EU NON AEOI	2011/16/EU AEOI ITEMS	2014/107/EU AEOI ITEMS	2015/2376/EU AEOI ITEMS	2016/881/EU: AEOI ITEMS	2016/2258/EU NON AEOI	2018/822/EU AEOI ITEMS
Applies:1/2013	Applies:1/2015	Applies:1/2016	Applies:1/2017	Applies:6/2017	Applies:1/2018	Applies:7/2020
All exchanges of into except Art. 8	1 st exchanges on 2014 by: 30.6.2015	1 st exchanges on 2016 by: 30.9.2017	1 st exchanges by 30.9.2017	1 st exchanges on 2016 by: 30.6.2018	Art. 22, para 1a	1 st exchanges by: 31.8.2020
*Exchanges on request	Art. 8	Art. 8, para 3a	Art. 8a	Art. 8aa	Access by tax authorities to beneficial ownership information as collected under AML rules	Art. 8aaa and hallmarks in Annex 4
*Spontaneous exchanges	*Automatic exchange of information on 5 non-financial categories:	Automatic exchange on financial account information:	Automatic exchange of information (using a central directory as from 1.2018) of:	Automatic exchange of information on country-by- country reports		*Mandatory disclosure rules for intermediaries and
*Presence in adm. offices	<i>*Income from employment</i>	<i>*Interests, dividends or other income generated by financial account</i>	*Advance cross- border rulings	on certain financial information:		*Automatic exchange of information on tax planning cross-border arrangements
*Simultaneous controls	<i>*Directors fees</i>	<i>*Gross proceeds from sale or redemption</i>	*Advance pricing arrangements	<i>*Revenues</i>		
*Request for notification	<i>*Pensions</i>	<i>*account balances</i>		<i>*Profits</i>		
*Sharing best practices	<i>*Life insurance products</i>			<i>*Taxes paid and accrued</i>		
*Use of standard forms	<i>*Immovable property (income and ownership)</i>			<i>*Accumulated earnings</i>		
				<i>*Number of employees</i>		
				<i>*Certain assets</i>		

Source: DG TAXUD, https://ec.europa.eu/taxation_customs/business/tax-cooperation-control/administrative-cooperation/enhanced-administrative-cooperation-field-direct-taxation_en

²¹ For the most recent international developments: EUROPEAN COMMISSION (n.d.). EU co-operation with European third countries and with some dependent and associated territories of the Member States. Available from : https://ec.europa.eu/taxation_customs/individuals/personal-taxation/taxation-savings-income/international-developments_en (Accessed on 14/12/2020).

²² Ibid.

1.4 Scope and terminology

Tax abuse

The study focuses on all forms of tax abuse making use of international financial centres. In the study the term 'tax abuse' will be used as a general term to include tax fraud, tax evasion and tax avoidance. Following the definitions of the OECD the three forms of tax abuse may be distinguished as follows:

- ◆ *Tax fraud* is a form of deliberate evasion of tax which is generally punishable under criminal law. The term includes situations in which deliberately false statements are submitted, fake documents are produced, etcetera.²³
- ◆ *Tax evasion* is a term generally used to mean illegal arrangements where liability to tax is hidden, i.e. the taxpayer pays less tax than he is legally obliged to pay by hiding income or information from the tax authorities;
- ◆ *Tax avoidance* is a term generally used to describe the arrangement of a taxpayer's affairs that is intended to reduce his tax liability and that although the arrangement could be strictly legal it is usually in contradiction with the intent of the law it purports to follow.²⁴

All forms above result in lower tax incomes of national and local governments, because income, profits and wealth are hidden from the (tax) authorities.

International financial centres

The ECOPA/CASE study refers to International Financial Centres (IFCs) by defining offshore wealth as 'wealth held by individuals in IFCs.' In the explanatory footnote an even broader definition is given, by stating that off-shore wealth shall be defined as wealth held by non-residents 'in a given jurisdiction'. Following this line of thought wealth may be hidden in international financial centres as well as in any other foreign jurisdiction (for example neighbouring countries or countries with strong historical or cultural connections).

Definition of 'offshore wealth' in ECOPA/CASE study²⁵

Historically, 'offshore wealth' has been defined as the wealth held in offshore banks, i.e. banks operating under special international banking licences and accepting funds solely from non-residents. Following the literature and the current use of the term, this report defines offshore wealth more broadly as the wealth held by non-residents in a given jurisdiction.

The ECOPA/Case study further classifies IFCs as Type I IFCs and Type II IFCs. Type I IFCs are "wealth receiving" IFCs (which are countries in which a large number of non-residents own a bank account and hold offshore wealth which is then invested in a third country). Examples of Type I IFCs are jurisdictions like Bahrain, Luxembourg, Hong Kong or the Cayman Islands.

Type II IFCs have more of an intermediary role by providing shell companies and other screening means, resulting in international deposit statistics incorrectly assigned to residents of that IFC.²⁶ This distinction is especially useful for assessing the issue of 'indirect offshore wealth'. In order to calculate the indirect wealth of each jurisdiction in the world the ECOPA/CASE study calculated the shift between direct holding of deposits through shell companies to circumvent to automatic exchange of information on deposits as a result of the introduction of the European Union Savings Taxation Directive in 2003. Jurisdictions with a high weighting for shifts between direct and indirect wealth include Panama and the Bahamas.

This study not does assess whether an IFC can be used for abusive purposes like tax evasion. Rather Section 4 of this study provides risk characteristics of jurisdiction, for example their tax regime and Anti-Money Laundering system, which may make a jurisdiction vulnerable to tax abuse.

²³ It should be noted that every EU Member State has a different legal definition of what tax fraud consists of. This can account for the lack of a common EU definition.

²⁴ Taken together, tax evasion and tax avoidance make up the gross tax gap, i.e. the difference between what a government is meant to collect in tax and what it actually collects.

²⁵ VELLUTINI, C., et al. (2019). Estimating International Tax Evasion by Individuals. Available from: https://ec.europa.eu/taxation_customs/sites/taxation/files/2019-taxation-papers-76.pdf (Accessed on 13/12/2020). Footnote 5, p. 24.

²⁶ Ibid.

Indirect and direct financial wealth

Financial and non-financial assets can be either held directly or indirectly. When assets are held directly, it means that the asset is held in the individual's name. For instance, a house is registered with the name of the owner attached to it. When assets are held indirectly it means that a legal person like a limited liability company or an arrangement like a trust is used and the name of the natural person who owns the company or benefits from a trust is not linked directly to the assets. The ECOPA/CASE study refers to the use corporate vehicles (for example shell companies) as 'indirect' offshore wealth.

Focus on individuals, not on companies

The study will focus on individuals. Individuals, however, may use corporate vehicles (such as companies, trusts, foundations and partnerships) to hide wealth. The use of such corporate vehicles is not illegal per se. For instance, setting up a trust for a minor to safeguard wealth for this person, is legitimate as long as the tax duties are paid. The ECOPA/CASE study refers to the use corporate vehicles (for example companies) as 'indirect' offshore wealth.

High net worth individuals (HNWI)

High net worth individuals (HNWI) are defined as individuals on the top of the wealth and/or income scale.²⁷ Different authors use different definitions of HNWI, for example with assets above 30 million or 50 million USD (or EUR).

Asset categories

Asset categories may consist of financial assets and non-financial assets. Together they constitute a household's net wealth, which may be defined as assets over which households can enforce ownership rights and that provide economic benefits to their owners, net of any debts.²⁸

Financial assets are assets that arise from contractual relationships that have been entered when one institutional unit provides funds or other resources to another which leads to unconditional claims on economic resources of other institutional units based on the contracts.²⁹ Financial assets consist of all financial claims, including shares or other equity in corporations. In this study, the financial asset categories used are securities and deposits to calculate offshore wealth which builds upon the ECOPA/CASE. These categories are covered by CRS/DAC2. Non-financial assets are assets that are not traded on the financial markets and whose value is determined by its tangible characteristics and physical net worth which would include real estate, such as buildings, arts and antique, yachts, cars and planes.³⁰

Under DAC2 'financial assets' does not refer to all assets of every kind, but "it intends to encompass any assets that may be held in an account maintained by a Financial Institution with the exception of a non-debt, direct interest in real property". This paraphrase results in a wide coverage of financial assets which are subject to CRS/DAC2:

- ◆ Securities (as for example): share of stock in a corporation; partnership or beneficial ownership interest in a widely held or publicly traded partnership or fund; note, bond, debenture, or other evidence of indebtedness;
- ◆ Partnership interest;
- ◆ Commodities;
- ◆ Swaps (e.g. interest rate swaps, currency swaps, basis swaps, interest rate caps, interest rate floors, commodity swaps, equity swaps, equity index swaps and similar agreements);
- ◆ Insurance Contracts or Annuity Contracts;

²⁷ OECD (2009). Engaging with high net worth individuals on tax compliance. Available from: <https://www.oecd.org/publications/engaging-with-high-net-worth-individuals-on-tax-compliance-9789264068872-en.htm> (Accessed on 12/12/2020).

²⁸ ZUCMAN, G. (2019) Global wealth inequality. Annual Review of Economics 11. Available from: <https://gabrielzucman.eu/files/Zucman2019.pdf> (Accessed on 16/01/2020).

²⁹ CARTAS, J., HARATYUNYAN, A. (2017). Monetary and financial statistics manual and compilation guide. Classification of Financial Assets and Liabilities. Available from: <https://www.elibrary.imf.org/view/IMF069/22606-9781513579191/22606-9781513579191/ch04.xml?redirect=true&redirect=true> (Accessed on 17/01/2020).

³⁰ ZUCMAN, G. (2019) Global wealth inequality. Annual Review of Economics 11. Available from: <https://gabrielzucman.eu/files/Zucman2019.pdf> (Accessed on 16/01/2020).

- ◆ Any interest (including a futures or forward contract or option) in a: security; partnership interest; commodity; swap; insurance contract; annuity contract.³¹

This study builds upon the ECOPA/CASE study that focuses on two asset categories: international portfolio securities (covering a wide range of securities) and on foreign deposits. Not covered by the ECOPA/CASE study are life insurance contracts³², cash money and real estate, which are included in this study. Specifically, in section 5.3 we focus on estimating offshore wealth held in cash value life insurance contracts, which are subject to CRS/DAC 2 as mentioned previously. When it comes to real estate, the methodology employed to estimate offshore wealth held in real estate only covers immovable property assets (such as buildings, apartments, etc.), a category for which automatic exchange of information under the DAC has been in place since 1 January 2015³³ on ownership and income from property if the information is already available in the Member State where the property is located. It should be noted that funds such as REITs or other real estate funds are not within the scope of the methodology used for estimating offshore wealth held in real estate.

Table 1-2 Scope of the study: asset categories

ECOPA/CASE study (2019)	Ecorys study (2020)
<ul style="list-style-type: none"> ◆ International portfolio securities ◆ Foreign deposits 	<ul style="list-style-type: none"> ◆ International portfolio securities ◆ Foreign deposits ◆ Real estate ◆ Cash money ◆ Insurance contracts

³¹ EUR-LEX (2014). Directive 2014/107/EU (DAC2) on automatic exchange of financial account information, and integrating the Common Reporting Standard. Available from: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32014L0107> (Accessed on 13/12/2020).

³² In the context of the CRS (see OECD (2018), Standard for Automatic Exchange of Financial Information in Tax Matters - Implementation Handbook – Second Edition, OECD, Paris), by life insurance contracts it is meant 'Cash Value Insurance Contracts and Annuity Contracts', rather than Term Life Insurance Contracts (with payment solely by reason of the death of an individual insured under a life insurance contract).

³³ EUROPEAN COMMISSION (2019). Evaluation of Council Directive 2011/16/EU, SWD(2019) 327 final. Available from: https://ec.europa.eu/taxation_customs/sites/taxation/files/2019_staff_working_document_evaluation_on_dac.pdf (Accessed on 10/02/2020).

2 Methodology

This chapter presents a brief description of the methodology followed to answer the research questions. The chapter provides an overview of the research tasks undertaken as well as the related activities (section 2.1). In addition, the selection of case study Member States is presented as well as why these Member States were selected. (section 2.2).

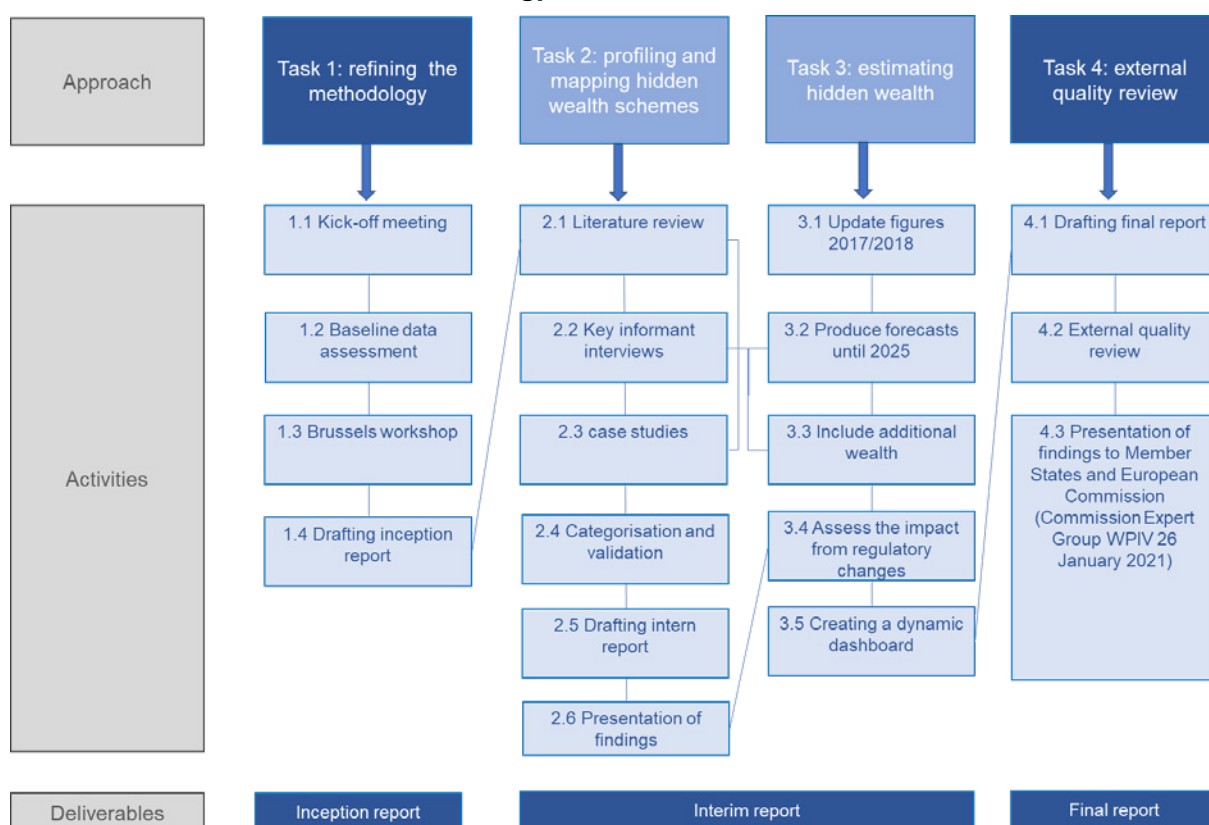
2.1 Research questions

In answering the research questions, the study team followed a mixed approach of qualitative and quantitative methods consisting of four research steps:

- ◆ Task 1: Refining the methodology
- ◆ Task 2: Profiling and mapping hidden wealth schemes
- ◆ Task 3: Estimating hidden wealth
- ◆ Task 4: Conducting an external quality review

The methodology can be summarised as follows:

Table 2-1 Overview of the methodology



2.2 Selection of case study countries

An important step in the methodology is the collection of information in across all 27 Member States. The collection of information in 27 Member States is intended to answer research questions 1 and 2 and to provide inputs for research question 3. The central questions in the country studies are WHICH residents of Member States hide wealth in foreign³⁴ jurisdictions, WHY do they hide wealth, HOW do they hide wealth in foreign jurisdiction, WHERE do they hide their wealth and HOW is this done. The HOW MUCH question is answered as part of question 3.

³⁴ Foreign includes both other Member States and third countries outside the EU.

There are two types of country studies. In 15 so called 'case-study countries', extensive information collection and detailed qualitative analyses was being done, to better understand which individuals are hiding wealth, how they are hiding their wealth and where wealth is hidden. For the remaining 12 Member States, data collection focused on some key aspects. An overview of the types of interviewees can be found in Annex IX.

The table below presents the selection of the case and non-case study countries and the differences in data collection:

Table 2-2 Data collection in 27 Member States

	Case study countries	Other countries
Which countries	15 Member States³⁵ <ul style="list-style-type: none"> ◆ Belgium ◆ Bulgaria ◆ Cyprus ◆ France ◆ Germany ◆ Ireland ◆ Italy ◆ Lithuania ◆ Luxembourg ◆ Netherlands ◆ Malta ◆ Portugal ◆ Romania ◆ Spain ◆ Sweden 	12 Member States <ul style="list-style-type: none"> ◆ Austria ◆ Croatia ◆ Czech Republic ◆ Denmark ◆ Estonia ◆ Finland ◆ Greece ◆ Hungary ◆ Latvia ◆ Poland ◆ Slovakia ◆ Slovenia
Collected data	Contextual questions <ul style="list-style-type: none"> ◆ Size of the problem ◆ Who and why ◆ How ◆ What ◆ Where ◆ How much ◆ Taxation in the country ◆ Impact of policy changes ◆ Changes in policies and practices 	Contextual questions <ul style="list-style-type: none"> ◆ Who ◆ How ◆ What ◆ Where
Research activities	<ul style="list-style-type: none"> ◆ Desk research ◆ 3 to 4 interviews with: ◆ Tax authorities ◆ FIU ◆ Law enforcement, prosecutors ◆ Investigative journalists ◆ Experts (NGO, Academics) 	<ul style="list-style-type: none"> ◆ Desk research ◆ 1 to 2 interviews, with: ◆ Tax authorities ◆ Experts (NGO, Academics)

The selected case study countries are: Belgium, Bulgaria, Cyprus, France, Germany, Ireland, Italy, Lithuania, Luxembourg, Malta, Netherlands, Portugal, Romania, Spain and Sweden. The reasoning behind the selection of these case countries is provided below.

Firstly, the publication of the ECOPA/CASE study provides insights in the countries' estimated offshore wealth in absolute and relative numbers. The ranking of countries from highest estimated absolute offshore wealth (in EUR billions) per 2016 are Germany, France, UK (non-EU), Italy, Spain, Greece, Belgium, Netherlands with Lithuania ranking lowest. The ECOPA/CASE study estimates for relative offshore wealth (in % of GDP) per 2016 are ranked highest for respectively Cyprus, Malta, Bulgaria and Portugal and lowest for Scandinavia. These countries are therefore included in the case-study.

³⁵ For the countries in bold the analysis conducted is twofold: (i) the country is analysed in a similar way as all other case study countries and (ii) the country is analysed as an international financial centre itself. For this latter part, the study team used a separate list of questions.

The distribution of wealth per adult for the case countries offers some background insight in the economies. The case countries represent countries with a relatively high average wealth per adult (starting with Luxembourg and the Netherlands) to, for EU standards, a relatively low average wealth per adult (Romania, Lithuania and Bulgaria).

Assuming that, in particular wealthy individuals hide wealth in foreign jurisdictions, the sample of case study countries represents several countries that are listed as having a high number of millionaires as well as a high number of UHNWIs (individuals with a wealth of more than EUR 30 million). Especially countries like France, Germany and Italy have many millionaires in absolute terms. Nevertheless, countries like Ireland, Luxembourg, the Netherlands and Sweden have a relatively high share of millionaires when compared to their total adult population.

Table 2-3 Wealth characteristics of the selected case study countries

	1. Average wealth per adult (2019, EUR)	2. Number of adults	3. % adult population with a wealth under USD 10.000 (< 8.906 EUR)	4. % adult population with a wealth of > USD 1 million (>890.600 EUR)	5. Number millionaires (> USD 1 million) (>890.600 EUR)	6. Number of UHNWI (> USD 30 million USD) ³⁶	7. Wealth taxes ³⁷	8. IFC?
Luxembourg	318,837	461,000	0.0%	4.9%	22,589	689		Yes
Netherlands	248,546	13,326,000	45.1%	6.2%	826,212	3.261	Selected assets	Yes
France	245,913	49,722,000	14.0%	4.2%	2,088,324	4.505		
Ireland	242,519	3,491,000	25.8%	4.5%	157,095	1.029		Yes
Sweden	236,241	7,723,000	35.8%	4.8%	370,704	3.824		
Belgium	219,208	8,913,000	0.0%	3.1%	276,303	1.598	Selected assets	
Italy	208,524	48,509,000	5.8%	3.1%	1,503,779	4.083	Selected assets	
Germany	192,952	67,668,000	40.6%	3.2%	2,165,376	14.047		
Spain	184,827	37,450,000	16.9%	2.6%	973,700	4.111	Net wealth tax	
Malta	127,860	349,000	14.0%	1.3%	4,537	n/a		Yes
Portugal	116,747	8,373,000	14.7%	1.4%	117,222	737		
Cyprus	103,494	918,000	24.0%	1.3%	11,934	205		Yes
Lithuania	44,756	2,296,000	28.0%	0.3%	6,888	n/a		
Romania	38,362	15,517,000	29.8%	0.2%	31,034	215		
Bulgaria	38,016	5,697,000	32.2%	0.2%	11,394	n/a		

Sources: Credit Suisse, Global Wealth Databook 2019: adaptation Ecorys (2020) (Column 1-6)³⁸, MGMresearch (2019)(column 6)³⁹, TaxFoundation (2019)(column 7)

As wealth taxes may be a driver for hiding wealth, some of the sample countries are among the (few) European countries that have these taxes. Spain is the only Member State with a net wealth tax, while Belgium, Italy and the Netherlands are the only Member States with a wealth tax on certain assets. None of the remaining 23 Member States has a wealth tax. Therefore, those four countries have been chosen as case study countries.

³⁶ Number of UHNWI's per Member State in 2018. No data on 2019 could be found.

³⁷ TAX FOUNDATION (2019). Wealth taxes in Europe. Available from: <https://taxfoundation.org/wealth-tax-europe/> (Accessed in 12/12/2020).

³⁸ Data for the first two columns are presented in Euro instead of USD. For the conversion an exchange rate of 1 USD = 0,9 08906 EUR / Conversion rate of 3 July 2020, 11.42. Available from : <https://www.xe.com/currencyconverter/convert/?Amount=358003&From=USD&To=EUR>.

³⁹ MGM RESEARCH (2019). Europe Ultra-Rich Population Analysis 2019. Available from: <https://mgmresearch.com/europe-ultra-rich-population-analysis-2019/> (Accessed on 20/01/2020).

In addition, some of the selected countries might also function as an IFC themselves. These countries have financial systems with external assets and liabilities out of proportion to domestic financial intermediation designed to finance domestic economies. Several countries stand out with particular high values of outward and inward Foreign Direct Investments stocks (FDI).

Out of the 27 Member States, five Member States could qualify as an IFC based on their inward and outward FDI, notably Cyprus (900% GDP), Ireland (300% GDP), Malta (1700% GDP inward, 700% GDP outward), the Netherlands (500% GDP) and Luxembourg. Luxembourg is one of the largest financial centres, second biggest worldwide after the United States⁴⁰, with both inward (5766%) and outward (6749%) FDI stocks as multiple of the GDP.⁴¹

The study team will analyse to extent possible the use of assets (the 'What') or vehicles (the 'How') for tax abuse purposes, for example to circumvent tax transparency agreements like DAC2, by their tax residents. In addition, the analysis will also apply to the use of such assets/vehicles within their jurisdiction by non-residents for tax abuse purposes.

Table 2.4 presents an overview of the revenues lost due to international tax evasion in the case study countries from the ECOPA/CASE study. As can be seen the sample of countries represent a variation of losses. In absolute terms, the countries with a large economy and large population tend to have very high estimated revenues lost (measured in absolute terms). Nevertheless, when considering the relative tax losses, expressed as percentage of the GDP, the picture can differ completely as smaller countries have a relatively high loss.

Table 2-4 Revenues lost due to international tax evasion in the case study countries⁴²

Case study countries	Estimated offshore wealth (billion EUR, 2016)	Estimated offshore wealth (% of GDP)	Revenue lost to international tax evasion (billion EUR, 2016)	Revenue lost to international tax evasion (% of GDP, 2016)	Average wealth per adult (EUR)
Average adult wealth > 300,000 euro					
Luxembourg	4.31	7.8%	0,22	0.43%	318,837
Average adult wealth > 200,000 euro					
France	276.60	11.8%	10.08	0.48%	245,913
Sweden	16.05	3.3%	2.71	0.61%	236,241
Belgium	62.65	14.1%	2.01	0.50%	219,208
Netherlands	52.61	7.1%	2.04	0.30%	248,546
Italy	142.20	8.1%	1.73	0.11%	208,524
Ireland	20.15	7.0%	1.02	0.39%	242,519
Average adult wealth > 100,000 euro					
Germany	331.10	10.0%	7.22	0.24%	192,952
Spain	101.58	8.7%	3.19	0.30%	184,827
Portugal	46.56	23.9%	0.79	0.45%	116,747
Malta	5.17	48.3%	0.23	2.39%	127,860
Cyprus	9.62	49.6%	0.13	0.72%	103,494
Average adult wealth < 100,000 euro					
Lithuania	2.07	5.1%	0.01	0.03%	44,756
Bulgaria	14.54	28.8%	0.18	0.50%	38,016
Romania	10.33	5.8%	0.11	0.07%	38,362

Source: ECOPA/CASE Study (2019)

⁴⁰ EUROPEAN COMMISSION (2020). Country report Luxembourg 2020 (2020 European Semester Country Report – Luxembourg). Available from: <https://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1584543810241&uri=CELEX%3A52020SC0515> (Accesses on 14/12/2020).

⁴¹ VELLUTINI, C., et al. (2019). Estimating International Tax Evasion by Individuals. Available from: https://ec.europa.eu/taxation_customs/sites/taxation/files/2019-taxation-papers-76.pdf (Accessed on 13/12/2020).

⁴² Ibid.

2.3 Limitations to the methodology

Due to data availability and the methodology, there are several limitations that need to be kept in mind when interpreting the findings presented.

Chapter 3-4

- ◆ Tax evasion-tax avoidance– general definitions of terms.
- ◆ Sensitive topic - Hiding wealth offshore in a successful manner is a black box and has a rather secretive touch. In order to successfully avoid taxes and benefit from the wealth positioned in IFCs, UHNWIs design complex financial structures. The nature of the research topic itself therefore brings caution to what extent data and findings are complete and adequate.
- ◆ Various authorities – various groups and authorities per Member State are working on the topic but knowledge appears to be fragmented with different experts having different content knowledge. As a result, combining all gathered knowledge does not guarantee to provide the complete dataset. Important to underline this limitation since this means that even to our best knowledge, it could be that facets of the topic are not covered.
- ◆ Less focus on individuals – more on companies. Most Member States focus on corporate tax avoidance. Individuals that hide wealth offshore are not always a priority on the agenda, which differs per Member State. The access to rich information and willingness for cooperation has therefore varied as well. National authorities have been more cooperative in the countries that are actively combatting tax evasion (by individuals) as IFCs are on the political agenda.

Chapter 5

Concerning section 5.2. As this study follows the approach of the previous ECOPA/CASE study closely, the same limitations discussed there apply to the updated results as well. In addition, some further limitations need to be reflected on:

- ◆ The allocation of offshore wealth to countries of ownership is based on data on cross-border deposits but applied to securities. The implicit assumption is that investment patterns are similar for deposits and securities. Yet, as our analysis in Chapter 6 below shows, there might indeed be different investment patterns for deposits and securities. While imperfect, applying the same pattern for deposits and securities can still be considered as realistic proxy, as data on cross-border securities liabilities is not available per category of beneficiary i.e. individuals subject to DAC2/CRS and other beneficiary categories not subject to DAC2/CRS.
- ◆ To compute global offshore wealth, this and the previous study assume that deposits account for 25% of overall offshore wealth. This value is held constant over time and is chosen on academic research that suggests such a share. Yet, as the study illustrates in Chapter 6, there has been a decrease in cross-border deposits over the last couple of years. This could mean that the share of deposits in global offshore wealth decreased as well, implying that the 25% ratio is an overestimation, at least for the most recent years. Therefore, the estimated values for the most recent years reported above could indeed present an overestimation.
- ◆ Data availability is limited. There are certain gaps in the data used, and for example BIS data, on which the methodology relies heavily, is not available for all offshore centres.
- ◆ The use of FDI data to distinguish cross-border deposits of companies from those of individuals is a proxy.
- ◆ The original methodology, for which the results are presented above, excludes several relevant elements of wealth, including life insurance, cash, and real estate. This updated study aims at including these wealth elements and develops estimates of hidden wealth stored in these forms of wealth. The results of this work are presented in the following section.
- ◆ Concerning section 5.3. The estimate of cash, life insurance and real estate as reported in this report should be treated with caution as there are several caveats to the methodology. Factors that influenced the estimation of hidden wealth in cash, life insurance and real estate include:

- ◆ Severe limitations of available data. The methodology to estimate offshore wealth hidden in cash, life insurance and real estate had to differ from the one used to calculate offshore wealth stored in other financial assets (e.g. equities, deposits). The shares of hidden wealth in cash, life insurance and real estate are therefore extrapolated based on the shares of reported wealth held in cash, life insurance and real estate with appropriate adjustments based on the estimated total offshore wealth by country of origin. As there are no exact estimates for shares in these asset categories for the wealthiest individuals (UHNWI) that are more likely to hide wealth offshore in those assets our estimations remain a conservative estimate.
- ◆ The behaviours of the ultra-wealthy individuals who might hold larger shares of assets offshore and their propensity to hide wealth in cash, life insurance and real estate might differ from the top 10% wealthiest individuals, but the data does not allow us to calibrate the estimations of ratios for this cohort of the population.
- ◆ The estimated total global offshore wealth is only part of the universe of hidden offshore wealth. In other words, the difference between liabilities and assets is conceptualised as part of the global offshore wealth. Limited information on ratio of shares for reported cash, life insurance and real estate gathered through case studies did not allow thorough calibration of the ratios.

Chapter 6

- ◆ The causality link and the extent to which the observed changes in cross-border bank deposits can be attributed to less tax evasion in response to increased tax transparency cannot be unambiguously established. Our analysis aims to assess the general trends observed before and after coming into force of agreed international standards on tax transparency (i.e. CRS and DAC2), thus complementing findings from already existing literature and providing further evidence resorting to latest and newly available statistics.
- ◆ BIS data on cross border bank deposits used for the analysis do not differentiate between households and other non-banks entities, such as non-bank financial institutions, non-corporate enterprises such as trusts, and non-financial institutions like charities and foundations. While the focus cannot be restricted solely to individuals, as per the scope of this study, this still allows to account also for some entities that may be used by individuals for tax evasion purposes.
- ◆ BIS data on cross-border bank-deposits used for the analysis include an ad-hoc aggregate group of 13 reporting IFCs, in line with the CASE/ECOPA study. While this is not an exhaustive list of IFCs, these jurisdictions represent some of the major IFCs and can be considered a representative sample.
- ◆ Data on securities used for the analysis (i.e. CPIS liabilities data) add important information on investment trends offshore, but cannot be compared with BIS data on cross border bank deposits, as different financial instruments are measured and data do not differentiate between bank and non-bank entities.
- ◆ Chapter 6 assesses geographic circumvention, however, other vehicles may be used, like investor residence schemes (see Section 4), to circumvent DAC2/CRS which would not be detected by the study's methodology.

3 Who, why and what

This chapter seeks to answer the sub questions to research question 1: Who is hiding wealth? Why do individuals hide their wealth? What type of wealth is hidden? The section is based on a literature review and our own data collection in the Member States. The discussion on the types of wealth that are hidden (asset categories) will be further elaborated in Chapter 4 (how and where) and Chapter 5 (how much).

3.1 Who hides wealth

Academic studies as well as the different leaks have exposed that tax evasion by making use of IFCs is highly concentrated among the so called ‘high net worth individuals’ (HNWI) and ‘ultra-high net worth individuals’ (UHNW). However, our investigations among experts in many Member States suggest that there are also specific groups that may be inclined to evade taxes or hide assets through IFCs, such as criminals, high-profile individuals, foreigners and (returning) expats. Section 3.1.1 concentrates on evidence about HNWIs and UHNWIs in relation to cross-border tax evasion. In section 3.1.2 numbers of HNWIs and UHNWIs are presented. In section 3.1.3 specific characteristics of other typologies of potential cross-border tax evaders are presented.

3.1.1 Tax evasion among the ultra-high net worth individuals (UHNWIs)

Several recent studies have provided evidence on the role of HNWIs and UHNWIs in cross-border tax evasion.

In an experimental study on tax evasion and its determinants, Giese and Hoffman (2000) showed that tax evasion is positively correlated to the level of income earned.⁴³ A range of other studies have provided individual characteristics of tax evaders, such as:⁴⁴

- ◆ Younger taxpayers underreport income more often than older taxpayers;
- ◆ Men underreport income more often than women;
- ◆ Tax evasion is higher in the case of married persons;
- ◆ Self-employed individuals tend to underreport earned income more often;
- ◆ Lower-wealth individuals tend to underreport income and undertake tax credit abuse;
- ◆ HNWI evade less often by underreporting labour income;
- ◆ HNWI keep unreported wealth in offshore.

Following a study by the OECD (2008) on the role of tax intermediaries, high net worth individuals (HNWI) are explicitly identified as the second principal market for aggressive tax planning, after large corporations.⁴⁵ The OECD ascertains that HNWIs represent a unique tax segment as they often have more choice about how they manage their income and assets than other taxpayers. They have more opportunity to engage in aggressive tax planning and to make use of tax incentives and reliefs. Their taxation affairs are generally characterised by a high degree of complexity and enhanced mobility across national borders, making use of different legal and fiscal systems. This complexity in taxation and international mobility of assets offers opportunities for tax evasion and tax avoidance.

⁴³ GIESE, S., HOFFMANN, A. (2000). Tax evasion and risky investments in an intertemporal context: An experimental study, SFB 373 Discussion Papers 2000,30, Humboldt University of Berlin, Interdisciplinary Research Project 373: Quantification and Simulation of Economic Processes. Available from: <https://www.econstor.eu/handle/10419/62187> (Accessed on 12/01/2020).

⁴⁴ Orviska and Hudson (2002), Hasseldine and Hite (2003), Torgler and Valev (2010), Engström and Holmlund (2009) and Alstadsæter et al. (2017), Kemme et al. (2020).

⁴⁵ OECD (2008). Study on the role of tax intermediaries. Available from: <https://www.oecd.org/tax/administration/studyintotheoleoftaxintermediaries.htm> (Accessed on 15/12/2020); OECD (2008). Society of Trust and Estate Practitioners (STEP) Response to the OECD Public, Discussion Paper issued on 30 October 2008. Available from: <https://www.oecd.org/ctp/administration/42380118.pdf> (Accessed on 15/12/2020).

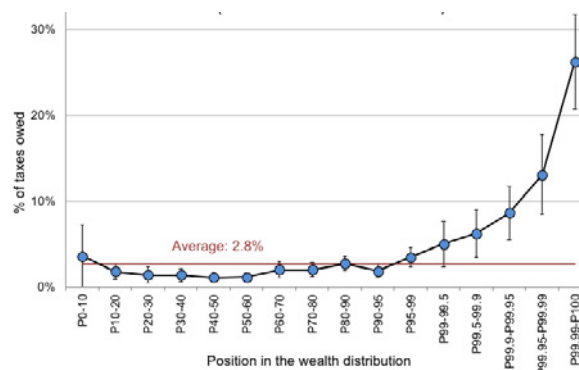
Findings from Alstadsæter, Johannesen, and Zucman

Zucman (2013) was the first to provide country-by-country estimates of offshore wealth in IFCs, while Alstadsæter, Johannesen, and Zucman (2017, 2018, and 2019)⁴⁶ provided the first statistical evidence on who is behind these large offshore holdings. The research by Alstadsæter, Johannesen, and Zucman, based on data from customer lists leaked from offshore financial institutions and administrative wealth tax records in three Scandinavian countries (Denmark, Sweden and Norway),⁴⁷ reveals that offshore tax evasion is highly concentrated among the rich.

In addition, policy changes have also shown change in behaviour of taxpayers. For example, Johannesen (2014) linked the implementation of the EU Savings Directive to individuals with Swiss bank deposits owned by EU residents who actively relocated (30–40% decline in Swiss deposits in two quarters) their deposit to destinations without an equivalent withholding tax, notably to companies in the British Virgin Islands (BVI), Panama or Jersey.⁴⁸ This active relocation shows that the people with high income, inherently using a foreign Swiss bank account to deposit money, and are very quick to react when a policy change happens that could impact their wealth in a negative way. This suggests that people that hide money offshore do pay good attention to and are aware of changes and consciously act to mitigate the risk of paying taxes. Many policies that try to fight offshore tax evasion are partial approaches which leave considerable scope for substitution of evasion strategies. The empirical analysis shows clear signs of behavioural responses to avoid the withholding tax.

It also appears that the wealthier individuals are, the more likely they are to hide assets abroad. The authors found that in Scandinavia on average about 2.8% of personal taxes are evaded in Scandinavia (see Figure 2.1). However, the richer individuals are, the higher their propensity to evade taxes. This figure rises to about 25% in the top 0.01% of the wealth distribution; here about 25% of the taxes are evaded.⁴⁹ In this category tax evasion mainly takes place via offshore accounts (the estimate only considers the wealth held offshore in order to evade taxes, and excludes properly declared offshore assets).

Figure 3-1 The ratio of taxes evaded to taxes owed, by wealth group



Source: Alstadsæter, Johannesen and Zucman, G. (2019).

Why do rich individuals evade taxes considerably more than the poor? The authors note that they do simply because they can. Down the income and wealth ladder, the majority of the population only earns wages, pension income and investment income earned domestically, which is difficult to hide as they are directly reported to the tax authority. In addition, the very wealthy have access to wealth concealment services:

‘Why do the rich evade so much? Because for them tax evasion is possible: there is an industry – in Switzerland, Panama, and other tax havens around the globe – that provides wealth concealment services to the world’s wealthiest individuals. (...) This industry typically only targets the very wealthy (people with more than USD 20 million or sometimes USD 50 million to invest), as serving too many would-be evaders would increase the risk for these banks and law firms that they would be discovered

⁴⁶ ALSTADSÆTER, A, JOHANNESSEN, N., and ZUCMAN, G. (2018). Tax evasion and inequality, NBER Working Paper 23772. Available from: <https://gabriel-zucman.eu/files/AJZ2017.pdf> (Accessed on 10/12/2020); ALSTADSÆTER, A, JOHANNESSEN, N., and ZUCMAN, G. (2019). Tax evasion and inequality, American Economic Review 2019, 109(6): 2073–2103. Available from: <https://pubs.aeaweb.org/doi/pdfplus/10.1257/aer.20172043> (Accessed on 10/12/2020).

⁴⁷ These data come from recent, massive leaks from offshore financial institutions—HSBC Switzerland (“Swiss Leaks”) and Mossack Fonseca (the “Panama Papers”)—and tax amnesties conducted in the aftermath of the financial crisis of 2008–2009.

⁴⁸ See also Zucman (2013), Johannesen (2014), Johannesen and Zucman (2014) and Roussille (2015)

⁴⁹ A group that includes households with more than USD 45 million in net wealth.

violating the law. Moderately wealthy individuals (below the top 0.1%) do not have access to these services and therefore do not evade as much tax.⁵⁰

Across the datasets and in all three Scandinavia countries, the probability of using offshore intermediaries and of owning wealth in tax havens rises sharply with wealth. The researcher's estimates indicate that 50% of offshore assets belong to the wealthiest 0.01% households and around 80% belong to the wealthiest 0.1%.⁵¹

It may be assumed that the patterns found in Scandinavia may be similar in other European countries. Scandinavian economies rank among the countries with the strongest respect for the rule of law, highest tax morale, and lowest amount of wealth held in tax havens.⁵² This could suggest that tax evasion among the wealthy may be even higher elsewhere.

Findings from the Member States

The conclusions from Alstadsæter, Johannesen and Zucman are substantiated by anecdotal evidence from our study. Experts in the majority of the Member States agree that predominantly UHNWIs – say the top 1% of the wealth or individuals with wealth starting from 10 million euro – make use of IFCs for hiding wealth. The main explanation for this is the high costs for setting up offshore schemes, making tax evasion via IFCs only profitable with high levels of wealth. This type of cross-border evasion requires a technical and financial legal infrastructure which only people with enough money can afford.

In France, among other countries, such costs have risen following the recent adoption of stricter policies and regulatory practices, which make the use of IFCs increasingly complex, often requiring the services of costly intermediaries.⁵³ The majority of interviewees noted that French individuals with large family fortunes and their heirs are among those who often make use of offshore schemes, largely to avoid paying inheritance taxes or to better control their inheritance, since French laws are relatively strict with regards to how inheritance is distributed among heirs.^{54,55}

However, exceptions to this rule have become increasingly apparent, as illustrated by information collected following the UBS scandal, which indicated that the profile of French individuals hiding wealth abroad varied greatly,⁵⁶ with some bank accounts holding a couple of hundred euros to more than 50 million euros.⁵⁷

In Spain, all respondents agreed that the increasingly popular and complex SICAV schemes⁵⁸ require a technical and financial legal infrastructure which only people with enough money can afford, namely UHNWIs who hold the top 1% of the country's wealth.

In the case of Portugal and Cyprus, respondents noted that following the dispersion of the middle class in the aftermath of the financial crisis (2008–2011), tax evaders are now almost exclusively the holders of great fortunes or professionals with very high personal incomes. Currently, the Portuguese Tax Authority closely monitors approximately 4523 individuals who fall under the category of 'grand taxpayers'⁵⁹, categorized as such by

⁵⁰ ALSTADSÆTER, A, JOHANNESSEN, N., and ZUCMAN, G. (2019). Tax evasion and inequality. Available from: <https://microeconomicinsights.org/tax-evasion-and-inequality-evidence-from-scandinavia/#:~:text=Why%20do%20the%20rich%20evade%20a%20lot%3F,to%20the%20world's%20wealthiest%20individuals> (Accessed on 10/12/2020).

⁵¹ Ibid.

⁵² Ibid.

⁵³ Official from the tax administration. Interview with author (15/05/2020).

Expert from the Institut des relations internationales et stratégiques (IRIS). Email exchange with author (12/05/2020).

⁵⁴ The interviewee gave the example of Johnny Halliday whose family has made the headlines after the singer's death because the children from his first marriage considered that they had been discriminated against (in favour of his new family) through a financial scheme placing Halliday's wealth outside of France to avoid having to follow French inheritance law.

⁵⁵ Therefore, such individuals are often men who have had several marriages and want to favour their most recent family. Official from the tax administration. Interview with author (15/05/2020).

⁵⁶ The data showed that the median amount was 340,000€ and the average 1.1 million€. 75% of the wealth held by French residents in the Swiss bank was the result of undeclared inheritance. 10% of the accounts were held by medical professionals, 8% by professionals from the financial sector and 8% by scientists, such as former employees of the CERN who moved back to France.

⁵⁷ LE MONDE (2016). UBS: le profil type des fraudeurs fiscaux. Available from: https://www.lemonde.fr/evasion-fiscale/article/2016/02/17/ubs-le-profil-type-des-fraudeurs-fiscaux_4866752_4862750.html (Accessed on 12/05/2020).

⁵⁸ INTERNATIONAL INVESTMENT (2019). Spanish Sicavs in the eye of the hurricane. Available from: <https://www.internationalinvestment.net/news/4001213/spanish-sicavs-eye-hurricane> (Accessed on 12/05/2020).

⁵⁹ DRE (2016). Ordinance No. 130/2016 – Official Gazette No. 90/2016, Series I of 2016-05-10: Defines the criteria for the selection of taxpayers whose tax situation must be monitored by the Major Taxpayers Unit and repeals Ordinance No. 107/2013, of 15 March, art. 1. Available from: https://dre.pt/web/guest/legislacao-consolidada/-/lc/115348909/201912011713/diploma?_LegislacaoConsolidada_WAR_drefrontofficeportlet_rp=indice (Accessed on 12/05/2020).

meeting the following criteria: (i) have an income above EUR 750 thousand, (ii) hold, directly or indirectly, or be effective beneficiaries of assets, including assets and rights, in an amount greater than EUR 5 million, (iii) display manifestations of wealth consistent with the income or assets of the previous situations.

Similarly, in order to navigate Germany's legally diverse and, as described by most respondents, highly complex tax system, access to offshore practices is only available to groups that can afford certain initial conditions, including legal expertise, the necessary initial investment and a business model that allows for tax and regulatory evasion. Thus, much like in France, employees in high positions from professional groups (for example auditors, lawyers, tax consultants, bankers) who require high fees to function as intermediaries are favoured in Germany.⁶⁰ German FIU figures show that especially wealthy investors, billionaires, financiers and businessmen store their financial investments abroad, often through collaborative networks aimed at establishing funds and shell corporations in IFCs.⁶¹

In contrast to most countries wealthy entrepreneurs were specifically mentioned as being frequent users of IFCs. For example, in Finland, the data suggests that this group largely consists of entrepreneurs who have already sold their companies,⁶² whilst in Hungary, most entrepreneurs who use IFCs to veil their wealth have had strong ties to authorities.

3.1.2 Numbers of HNWI and UHNWIs

As tax evasion making use of IFCs is primarily confined to very wealthy individuals, we may assume that in absolute terms more money will flow into IFCs from countries with relatively large numbers of rich and ultra-rich individuals. These rich individuals may have a nexus to a certain EU country, but this does not mean this person is a resident for taxation purposes. UHNWIs are linked to the respective country where they have their primary residence and/or the location of business operations.⁶³

Table 3.1 provides an overview of the number of rich people in each of the Member States, the mean wealth per adult and the size of the adult population. The data are derived from the Credit Suisse Global Wealth Databook (2019) and the Credit Suisse Global Wealth Report (2019). It should be noted that Credit Suisse defines a millionaire as an individual with 1 million US dollars overall net wealth, *including* primary residence and other fixed assets (like the primary car). A high net worth individual (HNWI) is defined as having net assets from USD 1 million to USD 50 million, and in the ultra-high net worth (UHNWI) range from USD 50 million upward, again including real estate and some other fixed assets.

The numbers of UHNWIs in a country depend on the size of the (adult) population, the size of the economy, the overall wealth (GDP per capita) and wealth inequality. The UHNWIs are mostly self-employed.

Capgemini distinguishes three categories of wealthy households: UHNWIs with more than 30 million USD assets (worldwide 0.9% of the total number of individuals having more than 1 million USD), 'mid-tier millionaires' with between 5 million and 30 million USD (worldwide 9% of the millionaire) and 'millionaires next door' with between 1 and 5 million USD (90.1% of the millionaires).

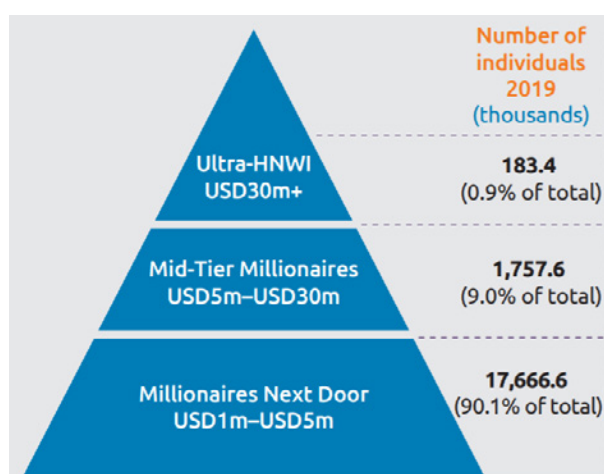
⁶⁰ BKA (2013). Financial Intelligence Unit (FIU) Germany – Annual Report 2013. Available from: <https://www.bka.de/SharedDocs/Downloads/EN/Publications/AnnualReportsAndSituationAssessments/FIU/> (Accessed on 15/05/2020).

⁶¹ Ibid.

⁶² KUORTTI, H. (2012). Veroparatiisit - veromuseoon kuuluvia luomuksia vai hyvinvointivaltioiden parasiitteja?. p. 426. Verotus-lehti. 4/2012. Available from: <https://www.edilex.fi/verotuslehti/10504> (Accessed on 20/05/2020). p. 414-426.

⁶³ KNIGHT FRANK (2019). The Wealth Report – 2019. Available from: <https://www.knightfrank.com/publications/the-wealth-report-2019-6214.aspx> (Accessed on 15/05/2020).

Figure 3-2 Global number of individuals per wealth band (2019)



Source: Capgemini 2020.

Following the Credit Suisse data,⁶⁴ more than 2 million individuals in France and in Germany have a capital of at least one million euro, followed by Italy (almost 1.5 million) and Spain (almost 1 million). Countries with less than say 100,000 millionaires are either countries with a small population (notably Luxembourg, which is one of the wealthiest Member States) and/or with relatively low median and mean wealth per adult (many eastern European countries for example).

Around 33,000 individuals in Europe (including non-EU countries) can be considered as ultra-rich, meaning that their individual wealth is USD 50 million or more. The numbers of UHNWIs per country largely correlate with the numbers of millionaires:⁶⁵ again Germany, France, Italy and Spain are Member States with the most 'ultra-rich' individuals. If we calculate the UHNWI per million of the adult population, five countries stand out: Switzerland (320), Sweden (220), Norway (188), Denmark (153) and Ireland (140).

Table 3-1 Basic wealth indicators for Member States (2018)

	Adult population (x1,000)	Mean** wealth per adult (USD)	Number of millionaires (x1,000)	UHNWI (> USD 50 million)	UHNWI per million of adult population
Germany	67,668	216,654	2,187	6,798	100
France	49,722	276,121	2,071	3,704	74
Italy	48,509	234,139	1,496	2,738	56
Spain	37,450	207,531	979	2,198	59
Netherlands	13,326	279,077	832	1,203	90
Sweden	7,723	265,260	374	1,698	220
Austria	7,092	274,919	313	663	93
Belgium	8,913	246,135	279	271	30
Denmark	4,475	284,022	237	685	153
Ireland	3,491	272,310	158	488	140

⁶⁴ CREDIT SUISSE (2019). Global Wealth Databook. Available from: <https://www.credit-suisse.com/about-us/en/reports-research/global-wealth-report.html> (Accessed on 25/05/2020).

⁶⁵ Although the top-4 countries are both the same when looking at the total number of millionaires and ultra-rich, the picture changes when the relative figures are considered. When the total number of millionaires is compared to the total number of adult populations in the respective Member States, the following top-4 emerges; in the Netherlands 6.2% of all adults can be considered a millionaire, followed by Denmark with 5.3%, Ireland with 4.5% and Austria with 4.4%. The same exercise could be done for the ultra-rich. When their number is compared to the total adult population in the respective Member States, the largest share of ultra-rich lives in Sweden (0.017%), followed by Denmark (0.015%), Ireland (0.014%) and Germany (0.010%).

	Adult population (x1,000)	Mean** wealth per adult (USD)	Number of millionaires (x1,000)	UHNWI (> USD 50 million)	UHNWI per million of adult population
Portugal	8,373	131,088	117	103	12
Poland	30,598	57,873	116	401	13
Finland	4,341	183,124	103	323	74
Greece	9,021	96,110	68	166	18
Czech Rep	8,509	64,663	46	334	39
Romania	15,517	43,074	32	71	5
Hungary	7,803	44,321	19	n/a	n/a
Slovakia	4,340	66,171	9	n/a	n/a
Bulgaria	5,697	42,686	n/a	n/a	n/a
Cyprus	918	116,207	n/a	n/a	n/a
Estonia	1,028	78,457	n/a	n/a	n/a
Croatia	3,329	62,804	n/a	n/a	n/a
Lithuania	2,296	50,254	n/a	n/a	n/a
Luxembourg	461	358,003	n/a	n/a	n/a
Latvia	1,536	60,347	n/a	n/a	n/a
Malta	349	143,566	n/a	n/a	n/a
Slovenia	1,675	122,508	n/a	n/a	n/a
Europe*	589,402	153,973	13,290	33,551	57
Switzerland	6,866	564,653	810	2,197	320
UK	51,209	280,049	2,460	4,643	91
Norway	4,100	267,348	163	769	188

Source: Credit Suisse, Global Wealth Databook 2019, Table 3-6 and Table 7.1.

* Europe also includes non-EU Member States; ** Average (mean) wealth per adult.

Data on wealthy individuals, that *exclude* real estate and other fixed assets, can be found in the Capgemini World Wealth Report.⁶⁶ Following the Cap Gemini definition, a high net worth individual is an individual with a net wealth of 1 million US dollars in liquid assets. This is excluding primary residence, collectibles, consumables and consumer durables. As a result of this stricter definition, the number of HNWIs is lower compared with the Credit Suisse data.

The Capgemini report does not provide information for all Member States: only for those that appear in the Top-25 of countries with HWN individuals. Following the Cap Gemini data, Germany has 1.3 million millionaires, France 635,000 and Italy 275,000:

⁶⁶ CAP GEMINI (2018). World Wealth Report 2018. Available from: <https://worldwealthreport.com/> (Accessed on 20/05/2020).

Table 3-2 Number of HNWI in 2018 for Member States in the World Top-25

Member State	Rank (world)	Number of HNWI (2018)
Germany	3	1,350,000
France	5	635,000
Italy	9	275,000
Netherlands	11	259,000
Spain	14	224,000
Austria	22	145,000
Sweden	25	129,000

Source: Capgemini World Wealth Report (2019)

The figures presented by Capgemini are considerably lower than those presented by Credit Suisse. However, the ranking of Member States according to the number of HNWI individuals remains largely similar.

Table 3-3 Number of HNWI (more than 1 million USD)

Member State	Cap Gemini (2018) Excluding fixed assets*	Credit Suisse (2019) Including fixed assets*	Capgemini as % of Credit Suisse
Germany	1,350,000	2,165,376	62%
France	635,000	2,088,324	30%
Italy	275,000	1,503,779	18%
Netherlands	259,000	826,212	31%
Spain	224,000	973,700	23%
Austria	145,000	312,048	46%
Sweden	129,000	370,704	35%

* Such as primary residence and primary car.

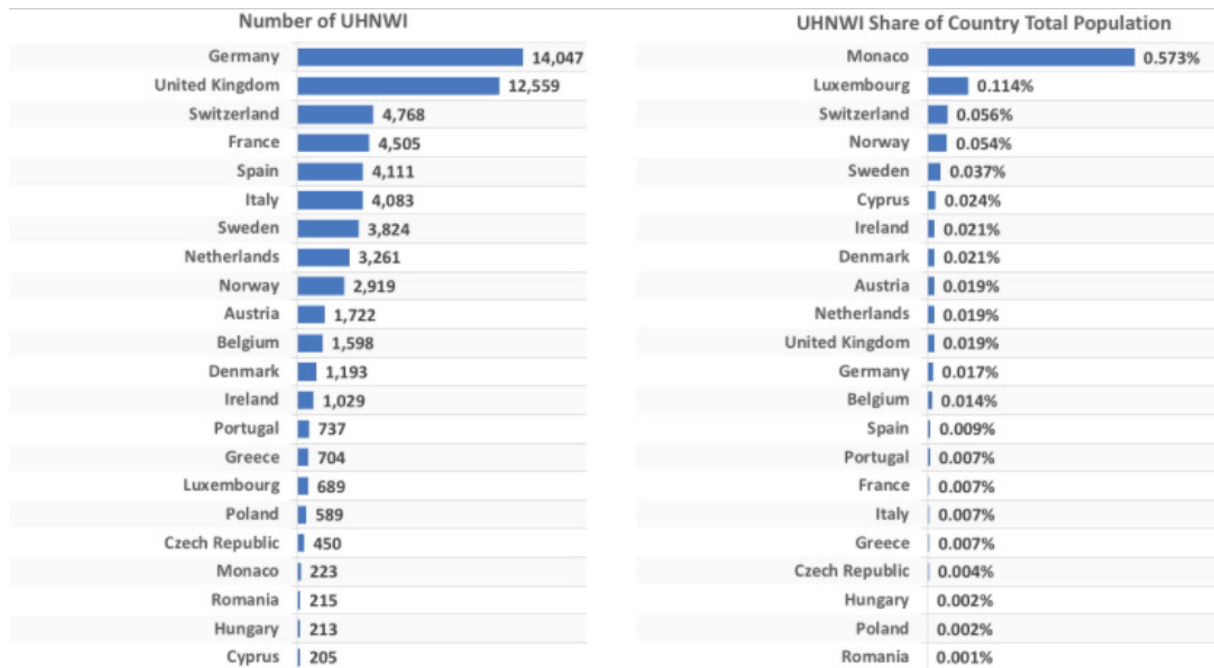
Source: Capgemini World Wealth Report (2019)

The Capgemini report does not provide figures on the number of UHNWIs in Member States. A report, using the same definitions of UHNWIs, is the Frank Knight report (excluding fixed assets).⁶⁷ This report provides an overview of the number of UHNWIs (having more than 30 million USD) per Member State in 2018 (Figure 3.3).

Following this definition Germany has 14,047 UHNWIs. This represents nearly 20% of the total of 70,627 UHNWIs in Europe. The United Kingdom ranks second with 12,559 UHNWIs (18% of the Europe total). Switzerland ranks third with 4,768 UHNWIs. France ranks fourth with 4,505 UHNWIs. Together, the top-4 countries account for over half of the Europe UHNWI population. If we look at the number of UHNWIs as a percentage of the total population, Monaco ranks first (0.67%), Luxembourg is second (0.1%) and Switzerland third (0.05%).

⁶⁷ MGM RESEARCH (2019). Europe Ultra-Rich Population Analysis 2019. Available from: <https://mgmresearch.com/europe-ultra-rich-population-analysis-2019/> (Accessed on 20/01/2020).

Figure 3-3 Number of UHNWIs per European country (2018)



Source: Frank Knight (2019)

As with the HNWI, also the ranking of the UHNWI is largely similar in the different datasets: Germany, France, Italy, Spain, the Netherlands and Sweden are countries with the highest numbers of UHNWIs (Figure 3.4). The Frank Knight data have less assets included (no fixed assets) but a lower threshold for defining UHNWIs (30 million USD instead of 50 million USD in the Credit Suisse Data). Due to the higher threshold in the Credit Suisse data, numbers in these data are lower than in the Frank Knight dataset.

Table 3-4 Number of ultra-high net worth individuals (more than 30 or 50 million USD)

Member State	Frank Knight (2019)	Credit Suisse (2019)	Credit Suisse as % of Frank Knight
	Net worth of over 30 million USD Excluding fixed assets*	Net worth of over 50 million USD Including fixed assets*	
Germany	14,047	6,798	48%
France	4,505	3,704	82%
Italy	4,083	2,738	67%
Netherlands	3,261	1,203	37%
Spain	4,111	2,198	53%
Austria	1,722	663	39%
Sweden	3,824	1,698	44%

* Such as primary residence and primary car.

Source: Data Frank Knight and Credit Suisse

Numbers of HNWIs and estimated offshore wealth

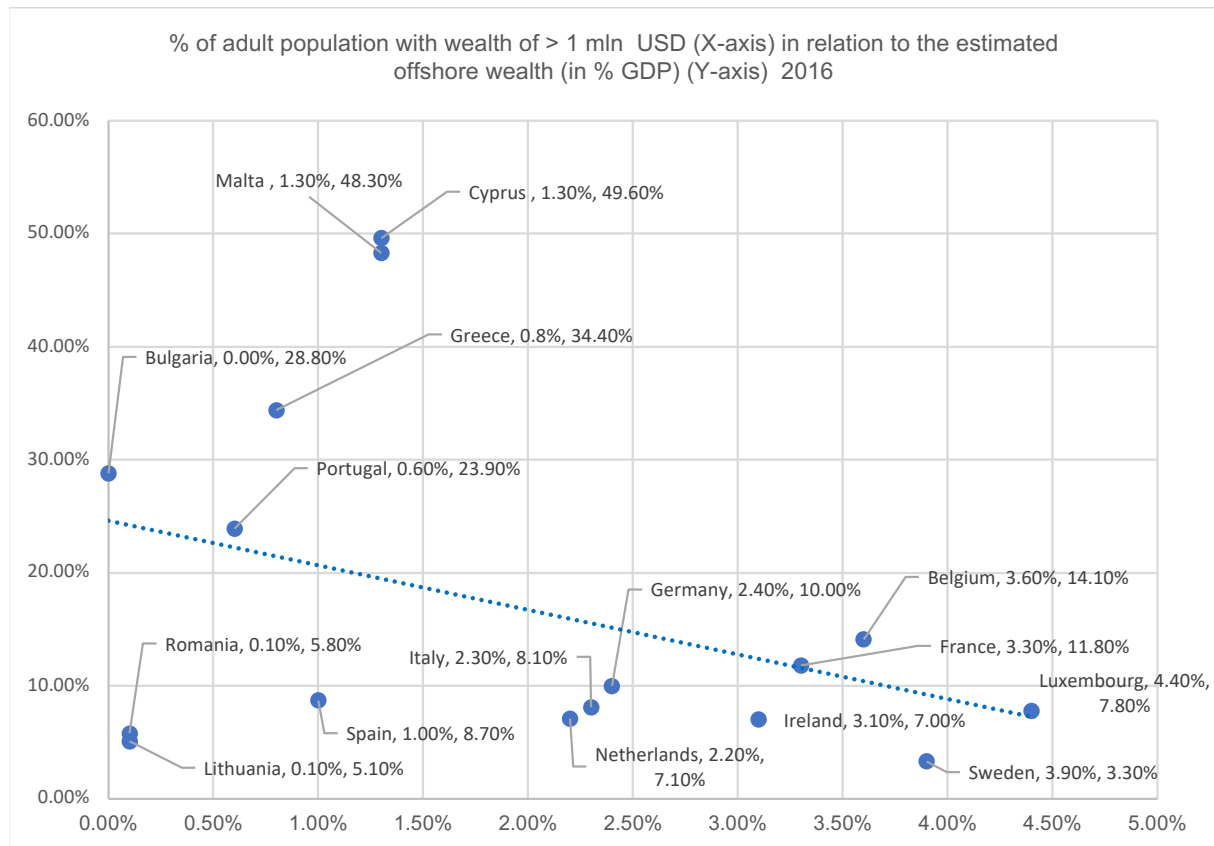
By plotting the relative number of estimated offshore wealth in % GDP on the vertical axis and the number of % of the adult population with wealth over 1 million USD (HNWI) on the horizontal axis, the graph in figure 3.4 below is created.

Plotting the correlation results in a negative correlation of -0.37 which would say that for every 1% extra HNWIs, the relative amount of offshore wealth expressed in % of GDP is decreased by 3.7%. One would expect that that relative offshore wealth would increase as the relative number of wealthy individuals increases, however, this is

not the case. This would suggest that there are other factors in a jurisdiction to explain the propensity of individuals in a jurisdiction to invest offshore.

The countries above the plotline have a high % of GDP in offshore wealth versus the amount of HNWIs which could be explained by specific characteristics of a jurisdiction for example investor residence schemes as discussed in Chapter 4.2. Cyprus and Malta are favourable for placing their investments outside the respective islands while having a resident scheme.

Figure 3-4 Plot % HNWI on % GDP offshore wealth per selected case country



Data: Global wealth Databook (2016) ECOPA/CASE (2016)

If tax evasion via IFCs is only feasible to the ultra-rich, one could expect that Member States with the largest numbers of UHNWIs⁶⁸ will also be among countries with the largest amounts of offshore hidden wealth. Table 3.5 compares the ranking of the number of UHNWIs (Credit Suisse data) with the ranking of the estimated offshore wealth per country (see Chapter 5). The top-4 countries of estimated offshore wealth correspond with the top-3 countries with the largest numbers of UHNWIs (and largest adult populations): Germany, France, Italy and Spain. Greece ranks 4th in terms of offshore financial wealth, but ranks only 14th in the list of UHNWIs per country.

Explanations for a country to rank (considerably) higher on having offshore wealth than on the numbers of UHNWIs, could be either that the UHNWIs are (considerably) richer in this country or that place a relatively larger proportion of their wealth in IFCs. The available data do not disclose an answer to this question.

⁶⁸ Whatever calculation method, as the ranking is more or less similar, irrespective calculation methods.

Table 3-5 Estimated offshore wealth compared to numbers of UHNWIs

Rank	Country	Estimated offshore wealth (billion EUR)	Country	UHNWI (> USD 50 million)
1	Germany	398	Germany	6,798
2	France	379	France	3,704
3	Italy	209	Italy	2,738
4	Spain	135	Spain	2,198
5	Greece	74	Netherlands	1,203
6	Netherlands	71	Sweden	1,698
7	Austria	67	Austria	663
8	Belgium	64	Belgium	271
9	Portugal	55	Denmark	685
10	Poland	44	Ireland	488
11	Sweden	32	Portugal	103
12	Czech Republic	31	Poland	401
13	Ireland	24	Finland	323
14	Denmark	21	Greece	166
15	Romania	16	Czech Rep	334
16	Bulgaria	15	Romania	71

Source: UHNWIs from the Credit Suisse, Global Wealth Databook 2019, Estimated offshore wealth: own calculations (2018)

3.1.3 Other individuals hiding wealth via IFCs

The different leaks exposed a wide variety of individuals using offshore structures, such as drug lords, oil sheiks, politicians, heads of state and politicians, as well as a range of investors in different asset categories.⁶⁹ This provides relevant anecdotal evidence on the motives to hide wealth making use of IFCs. According to Henry (2012), these high-net worth individuals shared similar needs such as: anonymity, the ability to minimise tax liability, investment management, access to wealth from anywhere around the globe, and financial security to protect assets against any threat.⁷⁰

In order to characterise European individuals that use IFCs to hide their wealth, the study team collected information during the interviews about types of individuals using the IFCs. The results show that the group of individuals hiding wealth offshore is very diverse. The main conclusions are presented below.⁷¹ It must be noted that in some countries' experts who were interviewed or answered the questions in writing, indicated that there is little known about the characteristics of individuals that are engaged in international tax evasion, and even indicated that there is no systematic evidence of a widespread occurrence of these forms of tax evasion.

Middle- and upper-class citizens

A few experts indicate that there is not sufficient evidence to ascertain that international tax evasion is *only* a matter of the very rich. For example, the collected data for Bulgaria⁷², suggests that the offshore instruments in question are, in addition to HNWIs and UHNWIs, increasingly being used by middle- and upper-middle class citizens and workers, opening bank accounts abroad.⁷³ The motivation behind this is that that many residents and

⁶⁹ ICIJ (2017). The Power Players. Available from: <https://www.icij.org/investigations/panama-papers/the-power-players/> (Accessed on 20/06/2020); THE GUARDIAN (2016). The Panama Papers: what's been revealed so far?. Available from: <https://www.theguardian.com/world/2016/apr/06/panama-papers-all-revelations-so-far-data-leak> (Accessed on 20/06/2020).

⁷⁰ TAX JUSTICE NETWORK (2012). The price of offshore revisited. Available from: http://www.taxjustice.net/cms/upload/pdf/Price_of_Offshore_Revisited_120722.pdf (Accessed on 20/06/2020).

⁷¹ The study team was not able to collect the information for all Member States. In addition, it should be noted that the information was collected via desk research and interviews and therefore might not cover all types of individuals that use the IFCs.

⁷² Investigative journalist. Interview with author (23/06/2020).

⁷³ (France) Public officials. Interview with author. (02/06/2020).

owners of legal businesses who have little trust in Bulgarian institutions or their ability to act in a predictable and balanced manner, especially when important business interests and policies are at stake.

One interviewee⁷⁴ confirmed that Bulgarians have been shown to hold a large amount of foreign accounts with relatively small sums in them. Often these accounts are simply forgotten and the banks deal with them based on their policies and national regulations. The same is true in Bulgaria where there are many forgotten accounts by foreign citizens who no longer reside in the country.

There were some indications from other countries that IFCs have become more accessible for individuals with a smaller wealth. Mid- to upper-middle class professionals, such as doctors and lawyers, were also mentioned in other Member States for using IFCs to store their wealth.

Foreigners and (returning) expats

A specific group consists of immigrant residents (foreigners) and (returning) expats. For example, in Spain, many foreign people enjoying their retirement do not share all information with the Spanish tax authorities, although being under the obligation to do so. Reason for this could be conflicting legal regimes between the Spanish tax authority and foreign tax authority.⁷⁵ As a result, the foreigner does not declare all income and / or wealth.

Another group of individuals that do not always declare all their wealth are *expats* returning home. Income earned in the country where they worked is not taken home to their home country and is not always declared. In some cases, companies (partly) pay their employees through bank accounts they open for them in tax havens to avoid social contributions, resulting in the employees (indirectly) hiding wealth abroad.

As for Romania, the citizenship of the persons involved differs, being both natural persons Romanian citizens, as well as foreign citizens but who either have residence in Romania, or use entities from Romania or the Romanian financial system, for doing their businesses. Also in Spain, foreigners who come to Spain to retire, may make use of different types of fiscal jurisdictions in each country (Spain and their home country).

Criminals

Although owners of legal businesses (with no suspicions of criminal sources) were found to be among those using IFCs, a common observation in for example Italy, Spain and many Eastern European countries surveyed is for criminals – and their associated networks – to make use of offshore schemes and tools. The main reason for those individuals to use IFCs is to hide their illegally earned income and wealth.

In Spain, a respondent noted that, although the scale is difficult to estimate, among those who make use of IFCs to hide their wealth are Spanish criminals who cannot declare ill-gotten gains. Similarly, in Italy, Romania and Bulgaria, such instruments are used by individual criminals as well as larger mafia-type criminal organizations, who channelled proceeds of illegal activities, into IFCs for money-laundering purposes.

Interestingly, in a 2016 annual report, SANS' Financial Intelligence Directorate (FID) noted an increase in the number of Bulgarian fraud cases related to cybercrime, cryptocurrencies, and financial derivatives.⁷⁶ Regarding options, FID reported that proceeds generated from fraud with these types of contracts were often “immediately transferred through accounts to various third countries and are usually forwarded to jurisdictions, which are significant [offshore] financial centres and which have a preferential tax regime.”⁷⁷

In Bulgaria and Romania, criminals using IFCs have been found to be prominent businessmen, many of whom are believed to have accrued their wealth during Eastern Europe's transition period in the 1990s. For example, as revealed in the leaked Panama Papers in 2016, one notorious Bulgarian businessman in gambling, who in the beginning of 2020 was charged with 18 offences, including running an organized criminal group, tax fraud, and money laundering, blackmail, murder and rape, owned more than one offshore company at least until 2015 in the British Virgin Islands.⁷⁸

⁷⁴ Investigative journalist. Interview with author (23/06/2020).

⁷⁵ For instance, the trust is an arrangement that is legally recognised in the UK, while it is not recognised in Spain. Therefore, when the English come to retire to Spain they might find themselves being part of an illegal use of funds. There can be problems of lack of fit between regulations. For this reason, many people choose not to declare themselves to be resident in Spain even though they are.

⁷⁶ FID-SANS (2016). Annual Report for the Activity of Specialized Administrative Directorate Financial Intelligence – SANS for 2016. Available from: <https://www.dans.bg/en/msip-091209-menu-en/fidannualreports30052012-mitem-en> (Accessed on 20/06/2020). p. 19.

⁷⁷ Ibid.

⁷⁸ ICIJ (n.d.). Offshore leaks database. Available from: <https://offshoreleaks.icij.org/nodes/12116558> (Accessed on 29/06/2020).

High-profile individuals

A third observation is about high-profile individuals making use of IFCs to hide their wealth. In Spain, this category largely involves politicians and celebrities, some of whom have illicit sources of money with which they cannot be associated. The same is the case in France, as illustrated by the Cahuzac scandal in 2016, where the former French minister in charge of combatting tax fraud, Jérôme Cahuzac, stepped down from his position in relation to being accused of committing fraud and holding a secret foreign bank account for more than 20 years.⁷⁹

In Bulgaria, over the last decade there has been a tendency for high-profile individuals with significant wealth gained in unclear circumstances to use offshore entities, especially offshore companies, to hide their wealth and (in) directly control their businesses in Bulgaria. One such example is that of the Dubai-based company, TGI Middle East FZE, which was in control of assets in excess of USD 750 million, of which USD 450 million was in companies that have directly or indirectly been linked to a prominent Bulgarian MP and media mogul. The remaining USD 300 million were marked as real estate assets meant to diversify the portfolio.⁸⁰

Similarly, as shown by the 2017 cum-ex files⁸¹ and Paradise Papers, besides numerous entrepreneurs and economic advisors, high-ranking politicians and members of the German Bundestag have also attempted to veil their wealth in order to avoid higher taxation. The two above-noted revelations indicated that almost 70 billion Euros were withdrawn from the German treasury through dividend arbitrage and the usage of IFCs.

Also in other countries, prominent businessmen, politicians, celebrities, and athletes are identified in cases of transferring wealth to IFCs. Interestingly, a respondent noted that Austrian athletes, like Thomas Muster, left Austria to settle in IFCs. However, the introduction of tax privileges for such a group in Austria has since 2000 had a deterrent effect on their use of such offshore jurisdictions to store wealth.

Sportsman decree (Austria)

Austria adopted a law which favours athletes in their tax regime. Athletes have enjoyed tax privileges in Austria since 2000. This can be traced back to the so-called “sportsman decree”.⁸² Section 2 of this decree implies that the share of the income from the activity as an athlete – including advertising activity that is taxable in Austria – amounts to 33%, if the athlete applies for this. This clearly puts Austrian top athletes in a better position than “regular” Austrian employees or entrepreneurs, whose income tax burden is comparatively higher.⁸³

3.2 Reasons for hiding wealth (why)

As indicated above tax evasion by making use of IFCs is primarily confined to very wealthy individuals. Not only do they have wealth to hide, they also can afford to hire experts and set-up expensive tax planning constructions.

There are different reasons why individuals seek to hide their wealth. Literature shows that **tax evasion and concealment of the illicit wealth are the main motives** for individuals making use of IFCs with the objective to conceal their assets. This is also confirmed by our findings. But individuals may wish to hide wealth from public agencies for other reasons than taxation. For example, IFCs offer anonymity and may serve a safe haven for wealth from individuals residing in countries with a weak rule of law. Protection against political and economic instability may be a reason to hide wealth.⁸⁴ Individuals may also wish to hide wealth from family members, business partners, competitors, creditors or friends.

⁷⁹ LE MONDE (2018). L’Affaire Cahuzac en 15 dates. Available from: https://www.lemonde.fr/politique/article/2018/02/12/l-affaire-cahuzac-en-15-dates_5255789_823448.html (Accessed on 29/06/2020).

⁸⁰ Bivol (April 2017).

⁸¹ CORRECTIV (n.d.). The CUMEX Files: a cross-border investigation. Available from: <https://cumex-files.com/en/> (Accessed on 22/12/2020).

⁸² RIS (2000). 418. Verordnung des Bundesministers für Finanzen betreffend die Ermittlung des Einkommens von Sportlern. Available from: https://www.ris.bka.gv.at/Dokumente/BgblPdf/2000_418_2/2000_418_2.pdf (Accessed 30/06/2020).

⁸³ OBEL, G. (2015). Ist Österreich ein Steuerparadies für Tennisprofis?, LawMeetsSports. Available from: <http://lawmeetssports.at/ist-oesterreich-ein-steuerparadies-fuer-tennisprofis/> (Accessed 30 June 2020)

⁸⁴ SAEZ, E., ZUCMAN, G. (2019). Progressive wealth taxation. Available from: <http://gabriel-zucman.eu/files/SaezZucman2019BPEA.pdf> (Accessed on 26/06/2020).

Before presenting an overview of the main drivers and motivations of hiding assets by making use of IFCs, two important remarks are to be made.

First, not all hidden wealth is concealed through IFCs. Wealth may also be hidden within the own country (for example stashes of cash money) and in neighbouring or other countries (for example real estate) who do not function as an IFC as such.

Second, one of the main advantages of using IFCs may be their stability from economic and political turmoil and the fact that IFCs open additional opportunities for their account holders to invest internationally, to obtain international investment management, and to access investment opportunities around the globe. Bank accounts in IFCs may also serve as a currency hedge against a possible collapse of the home currency. As such holding money in an offshore bank account is not illegal per se, unless it is done with the intention to evade taxes or launder proceeds of crime and corruption.

3.2.1 Tax evasion

The information collected in the framework of this report suggests that individuals' main motive is to avoid paying taxes.⁸⁵ A sensitivity to taxes is also confirmed by our findings in the Member States as well as through a regression analysis in section 5.4.

The main reason for private individuals to engage in tax evasion in Sweden as well as Denmark is to avoid capital income tax and personal income tax.⁸⁶ In Spain, tax evasion is aimed to avoid specifically paying the income tax (IRPF in Spanish), applicable to the general tax base (mainly employment and business income) can reach up to 50% depending on the taxpayer's region of residence. However, income and capital gains are taxed at lower rates. In addition, a minimum tax threshold applies for low-income taxpayers. Other taxes such as the inheritance tax also lead to the hiding of wealth.

In some countries, for instance in France⁸⁷ and Finland strict rules on dividing inheritances and the levels of taxation on inheritances incur tax evasion via IFCs. Parents move their wealth abroad before their children inherit. By doing these, families are able to divide their wealth in a way they prefer⁸⁸ and can ensure that their children can enjoy the inheritance, without having to pay a large amount of it to the tax authority.

In Portugal taxation of assets and inheritances is not particularly heavy. As for capital gains, sale of securities and real estate, and tax rates (25% to 28%) are higher than those practiced in other countries, and may become heavy, especially when there is an inclusion of income. There is, therefore, a tax motivated driver, either as a prevention against a change in the policy regarding the taxation of wealth and inheritances, or as a way to hide the income obtained from that wealth, such as the income from the application or transaction of physical and financial assets (income, capital gains, dividends, etc.). In Italy the primary objective is to avoid taxation on wealth, individual income, and sometimes even inheritance taxes. Furthermore, in some countries, there is the willingness to secure one's own money to avoid measures such as a forced levy on bank accounts.

The types and levels of taxation in a country may influence the 'appetite' to evade taxes and may impact the levels of personal wealth leaving a country in order to be hidden in or via a foreign jurisdiction. Forms of taxation that are most often evaded by using IFCs are taxes on capital gains, taxes on property and taxes on income and profits.

⁸⁵ Official from the tax administration. Email communication with author (03/07/2020).

⁸⁶ Expert from Swedish tax authorities. Interview with author (15/05/2020).

⁸⁷ During the French wealth repatriation, it became clear that approximately 60% of wealth hidden was wealth acquired through inheritance or donation.

⁸⁸ For instance, France has strict rules on the shares children can inherit. Especially, in cases of a second marriage, all children benefit equally, while some rich individuals might favour some family over the other.

As the model⁸⁹ in section 5.4 found, that higher levels of capital taxation are associated with higher volumes of offshore wealth and statistical significance is particularly high for this variable. This could suggest that taxation on capital seems to affect tax evasion behaviours from individuals.

Capital gain taxes

A capital gains tax is a tax on the positive difference between the sale price of the asset and its original purchase price. Capital gain taxes can be levied on for example stocks, bonds, precious metals, real estate, antiques and property (second homes). Not all European countries impose a capital gains tax and most have different rates of taxation for individuals and corporations. For private households, capital gain taxes are often taxed under the personal income tax.⁹⁰

Capital gains taxes are levied when a gain is realised, meaning capital gains taxes are only collected when assets are sold and there is a gain between the time they are purchased and sold. Unrealised capital gains are not taxed, as the tax is deferred until they are realised. Wealthy people tend to defer realising capital gains. This is one reason some argue that the wealthy do not pay enough in tax.⁹¹

In Europe, the average capital gains tax is 19.9 percent. At 42 percent, Denmark has the highest capital gains tax of all European countries, followed by Finland (34 percent) and Ireland (33 percent).⁹² The Czech Republic and Hungary have the lowest rates (15 percent each), whilst some countries, namely Belgium, Luxembourg, Slovakia, Slovenia and Switzerland do not levy this type of taxation.⁹³

⁸⁹ In this model, offshore wealth is included as dependent variable and among the independent variable also includes an indicator of Tax revenue from capital as proxy for this type of taxation EUROPEAN COMMISSION (n.d.). Data on taxation. Available from: https://ec.europa.eu/taxation_customs/business/economic-analysis-taxation/data-taxation_en (Accessed on 15/12/2020).

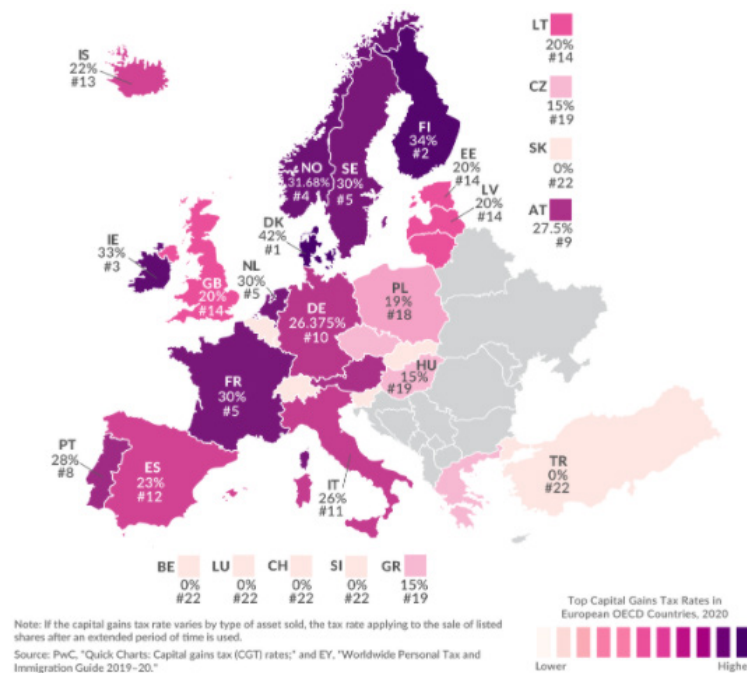
⁹⁰ EUROPEAN COMMISSION (2020). Taxation trends in the European Union. Available from: https://ec.europa.eu/taxation_customs/sites/taxation/files/taxation_trends_report_2020.pdf (Accessed on 15/12/2020).

⁹¹ TAX FOUNDATION (2019). Comparing wealth taxation and income taxes. Available from: <https://taxfoundation.org/comparing-wealth-taxes-and-income-taxes/#:~:text=More%20simply%2C%20wealth%20taxes%20are,as%20the%20wealth%20stock%20grows> (Accessed on 15/12/2020).

⁹² TAX FOUNDATION (2019). Capital gains taxes in Europe. Available from: <https://taxfoundation.org/capital-gains-taxes-in-europe/#:~:text=Denmark%20levies%20the%20highest%20capital,Slovenia%2C%20Switzerland%2C%20and%20Turkey> (Accessed on 15/12/2020).

⁹³ Taxation Trends in the European Union report presents data per Member State on the Implicit Tax Rate (ITR) on capital. Here the ITR on capital is defined as the ratio of taxes on capital to the aggregate of capital and savings income. This includes income earned from savings and investments by households **and** by corporations. Our study focuses only on households. In the data on households and corporations the ITR on capital is highest in France, followed by Belgium (40%), Denmark (33%), Germany (31%), Sweden and Italy (29%). The EU average can be calculated as 22%. The data do not discern ITR on capital for households and for corporations. EUROPEAN COMMISSION (2020). Taxation trends in the European Union. Available from: https://ec.europa.eu/taxation_customs/sites/taxation/files/taxation_trends_report_2020.pdf (Accessed on 15/12/2020).

Figure 3-5 Capital gain tax rates in Europe (2020)



Source: Tax Foundation 2019⁹⁴

Looking into tax evasion particularly concentrated among wealthy individuals, where shares of income stemming from capital tend to be relatively higher than for lower income individuals, it could be expected that taxation on capital has an impact on tax evasion behaviours greater than the one from taxation on labour. Such expectation is confirmed by our finding showing no statistical significance for the variable measuring labour taxation levels. Although contingent on a large number of factors, numerous studies have found a strong correlation between increases in capital gains taxes and tax evasion, with some reporting that 'a one percent increase in the marginal tax rate reduces voluntary compliance by between one half and one percent.'⁹⁵ IFCs may aid for example cross-border investors in avoiding such taxation by enabling the indirect sale of assets or changing the allocation of taxing rights between source and residence countries.⁹⁶

Net wealth taxes

Following the OECD classification (see box text), taxes on property consist of taxes on immovable property (recurrent and non-recurrent), taxes on net wealth (recurrent and non-recurrent) and taxes on estate, inheritance and gifts.

OECD classification of taxes on property⁹⁷

The OECD classification of taxes (2017) distinguishes six categories of property taxes: (1) recurrent taxes on immovable property; (2) recurrent taxes on net wealth; (3) estate, inheritance and gift taxes; (4) taxes on financial and capital transactions; (5) other non-recurrent taxes on property; and (6) other recurrent taxes on property.

In recent years, wealth taxation has received renewed interest as a way to raise revenue and address inequality. The global debate about wealth inequality has also revived the debate about the desirability of wealth taxes.

⁹⁴ TAX FOUNDATION (2019). Capital gains taxes in Europe. Available from: <https://taxfoundation.org/capital-gains-taxes-in-europe/#:~:text=Denmark%20levies%20the%20highest%20capital,Slovenia%2C%20Switzerland%2C%20and%20Turkey> (Accessed on 15/12/2020).

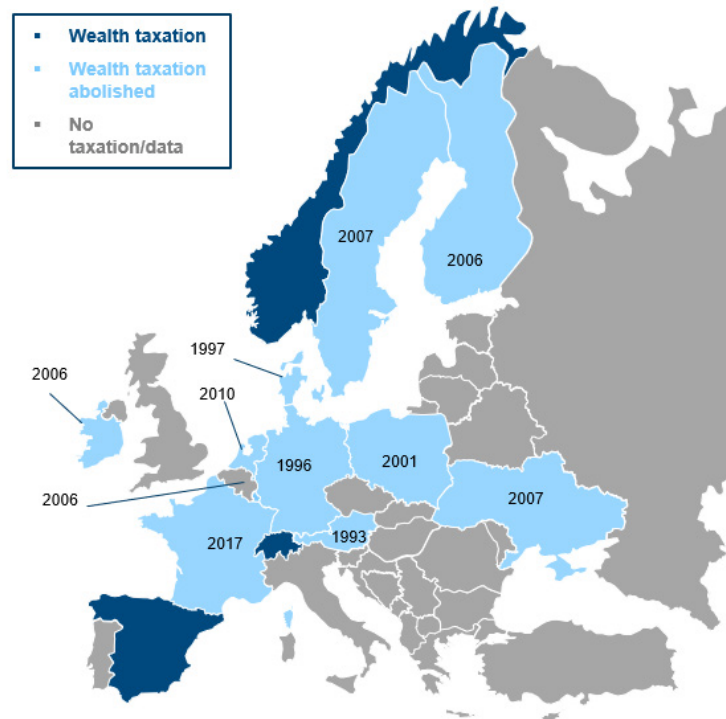
⁹⁵ POTERBA, J.M. (1987). Tax evasion and capital gain taxation, NBER, Working Paper No. 2119. Available from: <https://www.nber.org/papers/w2119.pdf> (Accessed on 15/12/2020).

⁹⁶ ODI (2019). International Financial Centres and development finance. Available from: <https://www.odi.org/sites/odi.org.uk/files/resource-documents/11832.pdf> (Accessed on 15/12/2020). p. 17.

⁹⁷ OECD (2018). OECD classification of taxes and interpretative guide revenue statistics 1965-2017. Available from: <https://www.oecd.org/tax/tax-policy/oecd-classification-taxes-interpretative-guide.pdf> (Accessed on 15/12/2020).

Taxes levied on an individual's net wealth are considered as a direct (additional) instrument to reduce wealth inequality.^{98 99} However, net wealth taxes are far less widespread than they used to be in the European Union. In 1990, twelve countries in Europe had a wealth tax. Today, there are only three countries left: Norway, Spain, and Switzerland.¹⁰⁰ France was the one of the latest countries to scrap its three-decades old wealth tax back in 2017 in an attempt to stop the exodus of millionaires.¹⁰¹ President Macron transformed the French wealth tax into a real estate property tax, arguing that real estate cannot move abroad while people or financial wealth can. Three countries – Belgium, Italy and the Netherlands – have wealth taxes, on selected assets.

Figure 3-6 Overview of Member States with a wealth tax



Source: Drometer et al. (2019)

Wealth taxes incur several problems.¹⁰² First, European wealth taxes were expensive to administer and easy to avoid. Taxpayers responded significantly to the wealth tax, through the adoption of avoidance and evasion strategies.¹⁰³ It even pushed the rich and their money out of the taxing countries to neighbouring countries or to IFCs with low tax rates. Wealth taxes can be undermined by tax limits, base erosion, and weak enforcement.¹⁰⁴ In addition, a constitutional court in Germany struck down the tax for its unequal treatment of different assets. Wealth

⁹⁸ OECD (2018). The Role and Design of Net Wealth Taxes in the OECD. Available from: <https://www.oecd.org/ctp/the-role-and-design-of-net-wealth-taxes-in-the-oecd-9789264290303-en.htm> (Accessed on 15/12/2020).

⁹⁹ In the US the wealth tax has been pushed to the forefront of tax policy debates to combat wealth inequality. Presidential candidates Senator Elizabeth Warren and Senator Bernie Sanders both released proposals to tax the rich as part of their 2020 platforms. Senator Warren's tax plan features a wealth tax rate of 2 percent each year on wealth over USD 50 million and 6 percent on wealth over USD 1 billion as part of her Medicare for All plan. Senator Sanders proposed a more progressive wealth tax of up to 8 percent on net wealth over USD 10 billion. TAX FOUNDATION (2019). Comparing wealth taxation and income taxes. Available from: <https://taxfoundation.org/comparing-wealth-taxes-and-income-taxes/#:~:text=More%20simply%2C%20wealth%20taxes%20are,as%20the%20wealth%20stock%20grows> (Accessed on 15/12/2020).

¹⁰⁰ For example, Germany abolished its wealth tax in 1996, Poland in 2001, Finland in 2006, Ireland in 2006, Sweden in 2007, Romania in 2007 and France in 2017. DROMETER, M., et al. (2019). Wealth and inheritance tax: an overview and country comparison.

¹⁰¹ France's wealth tax contributed to the exodus of an estimated 42,000 millionaires between 2000 and 2012, among other problems. For example, actor Gérard Depardieu moved to the Belgian town of Nechin straddling the French border in 2012 to avoid France's wealth tax. Over time, the tiny, tranquil village of just over 2,000 people further evolved into a magnet for scores of wealthy French citizens seeking to dodge Paris's high-tax regime.

¹⁰² OECD (2018). The Role and Design of Net Wealth Taxes in the OECD. Available from: <https://www.oecd.org/ctp/the-role-and-design-of-net-wealth-taxes-in-the-oecd-9789264290303-en.htm> (Accessed on 15/12/2020).

¹⁰³ Durán-Cabré, J.M., et al. (2019) IEB Working Paper 2019/0, Behavioural responses to the (re)introduction of wealth taxes. Evidence from Spain. Available from: <https://ideas.repec.org/p/ieb/wpaper/doc2019-04.html> (Accessed on 15/12/2020).

¹⁰⁴ SAEZ, E., ZUCMAN, G. (2019). Progressive wealth taxation. Available from: <http://gabriel-zucman.eu/files/SaezZucman2019BPEA.pdf> (Accessed on 26/06/2020).

taxes also distort saving and investment decisions – and they did not raise much revenue, mainly because of big exemptions for asset classes or they have been repealed.

Net wealth taxes

Taxes on net wealth are imposed on an individual's net wealth, or the market value of their total owned assets minus liabilities. A net (or progressive) wealth tax is an annual tax levied on the net wealth that a family (or an individual) owns above an exemption threshold. The tax can be levied at progressive marginal tax rates above the exemption threshold. Wealth taxes can be narrowly or widely defined, and depending on the definition of wealth, the base for a wealth tax can vary. Two types of wealth taxation can be identified: a general net wealth tax and a net wealth tax focused on specific assets (such as secondary residence or saving above a certain amount). Most of Europe wealth taxes were tied to residence, not citizenship.

Estate, inheritance, or gift taxes

The majority of the Member States currently levy estate, inheritance, or gift taxes Belgium, Bulgaria, the Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Lithuania, Luxembourg, the Netherlands, Poland, Portugal, Slovenia and Spain.

Estate, inheritance, or gift taxes

An estate tax is levied on the property of the deceased and is paid by the estate itself. Inheritance taxes, in contrast, are only levied on the value of assets transferred and are paid by the heirs. Gift taxes are levied when property is transferred by a living individual. Countries typically charge only estate or inheritance tax.¹⁰⁵

In contrast to the wealth tax, inheritance taxes are far more common in European countries. Twelve Member States do have an inheritance tax (Figure 3.6). Another four Member States (Austria, Czech Republic, Portugal and Sweden) used to have an inheritance tax, but abolished it in recent years.

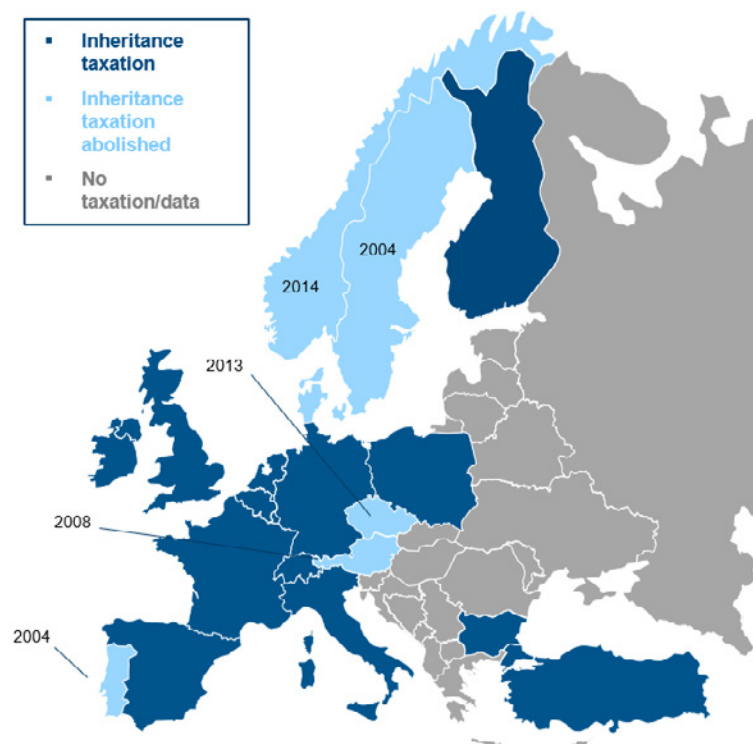
For example in the case of Sweden, the inheritance tax became triple taxation (first on income, then on savings and on inheritances). Administering the inheritance was extremely complex, for both taxpayers and the government. It was felt that the burden was distributed unfairly: wealthy taxpayers could legally avoid the taxes, while low- and middle-income taxpayers had no opportunities for tax planning. The most important reason was that the tax made it much more difficult to pass on a family business from one generation to the next, making tax planning to avoid the inheritance and gift tax a widespread phenomenon in the country.¹⁰⁶

However, inheritance, estate and gift taxes still play a role in hiding wealth in IFCs where these taxes levied (and with a relatively high percentages).

¹⁰⁵ However, estates can be double-taxed if they are taxed by two jurisdictions that apply different taxes. For this reason, Member States have installed mechanisms intended to prevent or relieve double-taxation if such a situation occurs. TAX FOUNDATION (2020). Estate, Inheritance, and Gift Taxes in Europe. Available from: <https://taxfoundation.org/estate-taxes-inheritance-taxes-in-europe-2020/> (Accessed on 15/12/2020).

¹⁰⁶ YDSTET, A., WOLLSTAD, A. (2015). Ten years without the Swedish inheritance tax. Available: https://www.svensktnaringsliv.se/bilder_och_dokument/inheritance-taxpdf_636574.html/BINARY/Inheritance%20tax.pdf (Accessed on 15/08/2020).

Figure 3-7 Overview of Member States with an inheritance tax



Source: Drometer et al.(2019)

The rates applied to estate, inheritance, and gift tax often depend on the level of familial closeness to the inheritor as well as the amount to be inherited. For example, in France, different rates are applied to transfers to ascendants and descendants, transfer between siblings, blood relatives up to the fourth degree, and everyone else. For transfers to ascendants and descendants as well as between siblings, higher rates are applied to larger sums of money. In some countries, such as Belgium, Spain and outside the EU Switzerland, estate, gift, and inheritance tax rates also vary by region.

Taxes on income

Taxes on income include taxes levied predominantly on income (or profits), but also taxes on property, which are levied on a presumed or estimated income as part of an income tax. In each Member State income taxes are charged and is an important contribution to the overall tax income of governments¹⁰⁷. Following the regression conclusions (Chapter 5), the PIT rates were not considered statistically significant.

3.2.2 Illegal activities

Hiding illicit origins of wealth and connections to said wealth was deemed to be a major reason behind the use of IFCs by all experts interviewed for this study. One interviewee from France suggested that the dissimulation of illegal funds was on the rise.¹⁰⁸ In Italy, tax evasion was aimed to hide the proceeds of illegal activities, and to conceal its origin. In these cases, the proceeds usually derived from corruption or mafia-type criminal activities.

In general, hiding wealth in foreign jurisdictions is widely prevalent among those seeking to hide their illegal activities.¹⁰⁹ As opposed to mafia-type practices, financial centres can also be utilised for stock market related crimes and as a destination of money derived from corruption. IFC bank accounts help such individuals safely maintain their property overseas and avoid losing it in case they end up in a court battle.¹¹⁰

¹⁰⁷ Overall labour taxes provide the largest share of revenues (49.7 % in 2017), followed by consumption taxes (28.3 %) and then capital taxes (21.9 %). EUROPEAN COMMISSION (2020). Taxation trends in the European Union. Available from: https://ec.europa.eu/taxation_customs/sites/taxation/files/taxation_trends_report_2020.pdf (Accessed on 15/12/2020).

¹⁰⁸ Expert from the Institut des relations internationales et stratégiques (IRIS). Email exchange with author (12/05/2020).

¹⁰⁹ Ibid.

¹¹⁰ Ibid.

3.2.3 Other drivers and motivations

The information collected in the Member States also shows additional (sometimes country-specific) drivers and motivations on why wealth is moved and hidden abroad. A quantitative assessment of the various drivers and motivations would require a series of separate studies, as for most elements found in our analysis cannot be quantified or are difficult to quality. Such an analysis would also need to look into possible relevant combinations of factors, and for example historical contexts. As part of our analysis we included a corruption index in the model (from the World Bank) (see section 5.4), but no statistical significance was shown for this variable in the model, therefore it was discarded.

Hiding from economic and political risks

A motivation reason mentioned several times is to spread the risks of a financial and / or economic crisis. For example, in Cyprus individuals mitigate such impacts by investing in the UK and Greece instead of spending the money in their own country. One of the reasons given is the impact the economic crisis of 1974 had on the economic position of many residents.

Tax morale

Tax evasion using IFCs may also be motivated by a low tax morale. Tax morale is the intrinsic motivation of an individual about paying taxes. Erzo and Singhal (2014) indicate that individuals may have intrinsic motivations to pay taxes or feel guilt or shame for failure to comply.¹¹¹ There may be 'reciprocal motivations' for a high tax morale, for example the notion that the state provides valuable benefits to them or society as a whole. Following research from the OECD, support for democracy and trust in government are important factors in fostering a high tax morale.¹¹² In general, tax morale depends on the social environment (peer behaviour) of an individual.¹¹³ The World Values Survey (WVS)¹¹⁴ proves a significant correlation between tax morale and tax compliance in both developing and developed countries, meaning that a strong tax morale leads to a higher tax compliance rate.¹¹⁵

Trust in the government

In some countries: individuals fear that the way they are taxed is not transparent and clear. As a result, those individuals tend to move assets abroad. Closely link to this trust issue, is the fact the individuals fear that taxes rates will increase substantially during times of economic crisis. This uncertainty provides a stimulus to hide part of the wealth in a country with either lower tax rates or a more stable taxation regime.

Enforcement

Erzo and Singhal (2014) argue that although tax morale is an important component of tax compliance enforcement is potentially a more important driver of tax compliance. In several countries, experts indicated that the changes of being caught for hiding assets via IFCs are low. Moving wealth abroad is often not detected and assets stored abroad are generally safe from the national tax authorities. The fact that the changes are low, encourages individuals to hide wealth in IFCs, and the benefits are much higher than the costs involved (including the costs of being found out). Tax authorities may not be very strong or pro-active. International judicial cooperation is cumbersome and convoluted, where mutual legal assistance requests take a long time to be implemented and, with certain jurisdictions, there are is no effective cooperation at all.

In this context, Alstadsæter, Johannesen and Zucman (2018) indicate that government policies have a critical role to play to reduce tax evasion. Instead of increasing penalties for tax evaders (which have not proved to be

¹¹¹ LUTTMER, E., Singhal, M. (2014). Tax Morale, *Journal of Economic Perspectives*, 28(4) pp. 149–168.

¹¹² OECD (2018). Trust and its determinants: Evidence from the Trustlab experiment. Available from: <https://www.oecd-ilibrary.org/docserver/869ef2ec-en.pdf?expires=1608662883&id=id&accname=guest&checksum=843925CF8566CEA1E857B82D51670B1A> (Accessed on 15/12/2020).

¹¹³ OECD (2013). What drives tax morale. Available from: <https://www.oecd.org/ctp/tax-global/what-drives-tax-morale.pdf> (Accessed on 15/12/2020).

¹¹⁴ WVS is an international database including worldwide investigation of sociocultural, sociodemographic and political change, having comparative data on values, personal attitudes and belief systems among people. In the respect of tax morale there is a question "do you justify cheating on taxes if you have the chance?". WVS (n.d.). WVS Database. Available from: <http://www.worldvaluessurvey.org/> (Accessed on 15/12/2020).

¹¹⁵ OECD Research 2013. Further, Luttmer and Singhal 2014 – state that based on the WVS, 80 % of respondents to the 2004 wave of the European Social Survey „agreed“ or „strong agreed“ with the statement that „citizens should not cheat on their taxes“, i.e. that tax evasion is wrong.

very effective), policy makers should target the supply side by addressing advisors and financial institutions who make a business out of facilitating evasion.¹¹⁶

Some countries report a relatively high tax compliance with regards to money stored in IFCs due to the high level of tax transparency. For example, Ireland has an extensive network of double tax agreements¹¹⁷ and Tax Information Exchange Agreements.¹¹⁸ These agreements have an important deterrent effect on the use of offshore banks in hiding wealth. Irish tax residents are taxed on their worldwide income each year. Ireland has significant anti-avoidance rules aimed at taxing money held offshore in an attempt to circumvent our worldwide system of taxation. The Offshore Funds regime¹¹⁹ was introduced in the 1990s. This regime's aim is to prevent Irish taxpayers from using offshore structures to accumulate income in a tax free manner.

In general, better enforcement helps recover tax on offshore wealth.¹²⁰ Governments around the world are increasingly targeting globally mobile wealth.¹²¹ Some are actively enticing wealthy individuals to relocate with favourable tax regimes, while others are introducing overseas buyer taxation on residential purchases. Italy, for example, has introduced a new fixed tax of €100,000 on global income for "non-domiciled" residents. In England and Northern Ireland, a consultation on an overseas buyer's taxation is scheduled to begin in 2019.

The ever-changing taxation landscape influences investor behaviour. When asked whether they had a plan for passing to their wealth to their heirs, 57% of UHNWI in Europe answered affirmatively.¹²² A record 26% of global UHNWIs planned for emigration, and to help them a record number of countries will offer citizenship and residency through investment schemes, with Moldova and Montenegro the latest to offer themselves as wealth havens.¹²³ Data from the Attitudes Survey¹²⁴ indicates that 36% of UHNWIs already hold a second passport in 2019, up from 34% in 2018, with 26% planning to emigrate permanently, up from 21%. This indicates that regional cross-border wealth patterns are changing. In 1999, for example, Western Europe represented almost 50% of all cross-border wealth globally. As of 2019, that share had declined to 24% and will drop slightly below 20% by 2024.¹²⁵

Personal safety and family reasons

Fear for the security of the private or business capital from criminals may be a motivation to move assets to IFCs. As one interviewee noted, 'It is much harder to steal and commit fraud in Switzerland than it is in Bulgaria.'¹²⁶ For instance in Bulgaria, rich families wish to appear less rich as Bulgaria has a history of organised kidnappers and blackmailers who targeted wealthy Bulgarians and their families as their primary criminal activity in recent

¹¹⁶ ALSTADSÆTER, A, JOHANNESSEN, N., and ZUCMAN, G. (2018). Tax evasion and inequality, NBER Working Paper 23772. Available from: <https://gabriel-zucman.eu/files/AJZ2017.pdf> (Accessed on 10/12/2020).

¹¹⁷ REVENUE (n.d.). Double Taxation Treaties. Available from: <https://www.revenue.ie/en/tax-professionals/tax-agreements/double-taxation-treaties/index.aspx> (Accessed on 15/06/2020).

¹¹⁸ REVENUE (n.d.). Tax Information Exchange Agreements (TIEAs). Available from: <https://www.revenue.ie/en/tax-professionals/tax-agreements/tiea/index.aspx> (Accessed on 15/06/2020).

¹¹⁹ Chapter 2 and Chapter 4 of Part 27 of the Taxes Consolidation Act 1997, with guidance in REVENUE (2020). Offshore Funds: Taxation of Income and Gains from EU, EEA and OECD member states. Available from: <https://www.revenue.ie/en/tax-professionals/tdm/income-tax-capital-gains-tax-corporation-tax/part-27/27-04-01.pdf> (Accessed on 15/12/2020).

¹²⁰ For example, a study by Londoño-Vélez and Ávila-Mahecha (2018) disclosed that a voluntary disclosure scheme taking place between 2015 and 2017 in Colombia encouraged evaders to disclose 1.7 percent of GDP in hidden wealth. Two-fifths of individuals in the wealthiest 0.01 percent disclosed under the scheme—disproportionately reporting concealed foreign assets—and, as a result, pay more taxes. Halfway through the scheme, the Panama Papers news story broke, shocking perceived detection probabilities and raising disclosures by more than 800 percent. This, possibly coupled with harsher noncompliance sanctions, contributed to improving wealth tax collection and enhancing tax progressivity at the top. LONDOÑO-VÉLEZ, J., ÁVILA-MAHECHA, J.(2018). Can Wealth Taxation Work in Developing Countries? Quasi-Experimental Evidence from Colombia, Job Market Paper, November 29, 2018. Available from : <https://eml.berkeley.edu/~saez/course/londono-wealth2018.pdf> (Accessed on 20/07/2020).

¹²¹ KNIGHT FRANK (2019). The Wealth Report – 2019. Available from: <https://www.knightfrank.com/publications/the-wealth-report-2019-6214.aspx> (Accessed on 15/05/2020).

¹²² The Attitudes Survey (2018), Frank Knight.

¹²³ KNIGHT FRANK (2019). The Wealth Report – 2019. Available from: <https://www.knightfrank.com/publications/the-wealth-report-2019-6214.aspx> (Accessed on 15/05/2020).

¹²⁴ KNIGHT FRANK (2018). The Attitudes Survey 2018. Available from: <https://www.knightfrank.com/wealthreport/article/2020-03-03-tracking-the-changing-attitudes-towards-wealth-around-the-world> (Accessed on 15/12/2020).

¹²⁵ BOSTON CONSULTING GROUP (2020). Global Wealth 2020: The Future of Wealth Management — A CEO Agenda. Available from: <https://www.bcg.com/publications/2020/global-wealth-future-of-wealth-management-ceo-agenda> (Accessed on 15/12/2020).

¹²⁶ Investigative journalist. Interview with author (26/03/2020).

years.¹²⁷ Wealthy Bulgarians today are still unwilling to divulge their worth due to fear for their personal security and that of their family. Whatever extra costs these individuals may incur abroad are a relatively small price to pay in this context.

An interviewee from the Netherlands highlighted one reason for tax evasion as protecting one's privacy. Another driver to move money to IFCs might be that individuals want to hide the amount from the family due to very strict laws on who gets money after a divorce.¹²⁸ To escape this, individuals often use trusts to hide assets before divorce and partition of property married couple. Similarly, when it comes to estate planning – an intention to favour one heir or exclude others may be a reason to hide assets in an IFC.¹²⁹

Social status

While avoiding taxes generally is the main motive for placing one's wealth abroad, an interviewee suggested that, from their experience, social norms played a significant role in explaining people's behaviour with regards to tax evasion. They indicated that certain individuals would not financially benefit from placing their wealth abroad, given that the costs involved can be higher than the taxes they evade, adding that, in certain socio-professional categories, having a bank account abroad is a status attribute more than anything else.¹³⁰

Final note

From the interviews it is not possible to deduct which drivers and motivations – in addition to the wish to avoid taxes and to hide ill-gotten money – are the main explaining variables for hidden wealth in IFCs. Member States still differ strongly in types and levels of taxation but also with respect to other factors such as enforcement of tax compliance, rule of law, political and economic stability and culture, to mention a few elements that might impact decisions of individuals to hide their wealth abroad.

3.3 Assets that are hidden (what)

When it comes to identifying the type of assets that are hidden by wealthy individuals in IFCs, there is little evidence-based information available. There are some reports that provide information on the types of assets held by wealthy individuals, however, the majority focuses on the declared wealth or overall wealth, without distinguishing the location of that wealth.

3.3.1 Asset allocation among the rich

A recent report published by Frank Knight (2020) provides a breakdown of the allocation of assets for UHNIs. Results are based on a survey held by the company amongst its wealthy clients. As Table 3.6 shows, the majority of wealth is stored in equities and bonds (40%), followed by property held as an investment (27%) and cash and cash equivalents. Although a recently upcoming financial instrument, UHNIs hold relatively little wealth in cryptocurrencies. Based on the data, UHNIs seem to hold wealth in the 'more traditional' asset categories, such as bonds and (foreign) currencies.

Capgemini did a similar exercise and also used own survey results to come to an understanding of asset allocation among HWNIs.¹³¹ European HWNIs also favour equities and bonds as asset category (46%). Cash and cash equivalents come second (28%) and real estate investments third (15%). As will be mentioned in more detail in Chapter 5.3, de Simeone et al. (2018) found an increase in the share of property assets held as a response to a newly introduced obligation of reporting, such as AEOI, when non-financial assets directly held are not subject to AEOI and resulted in a rise since 2010 in private investment in commercial real estate.

¹²⁷ NOVINITE SOFIA NEWS AGEN (2011). Victims of Bulgaria's Impudent Kidnappers Reveal Horrifying Details. Available from: <https://www.novinite.com/articles/123928/Victims+of+Bulgaria%27s+Impudent+Kidnappers+Reveal+Horrifying+Details> (Accessed on 30/06/2020).

¹²⁸ Interview Denmark.

¹²⁹ Interviews Finland and Latvia.

¹³⁰ Official from the tax administration. Interview with author (15/05/2020).

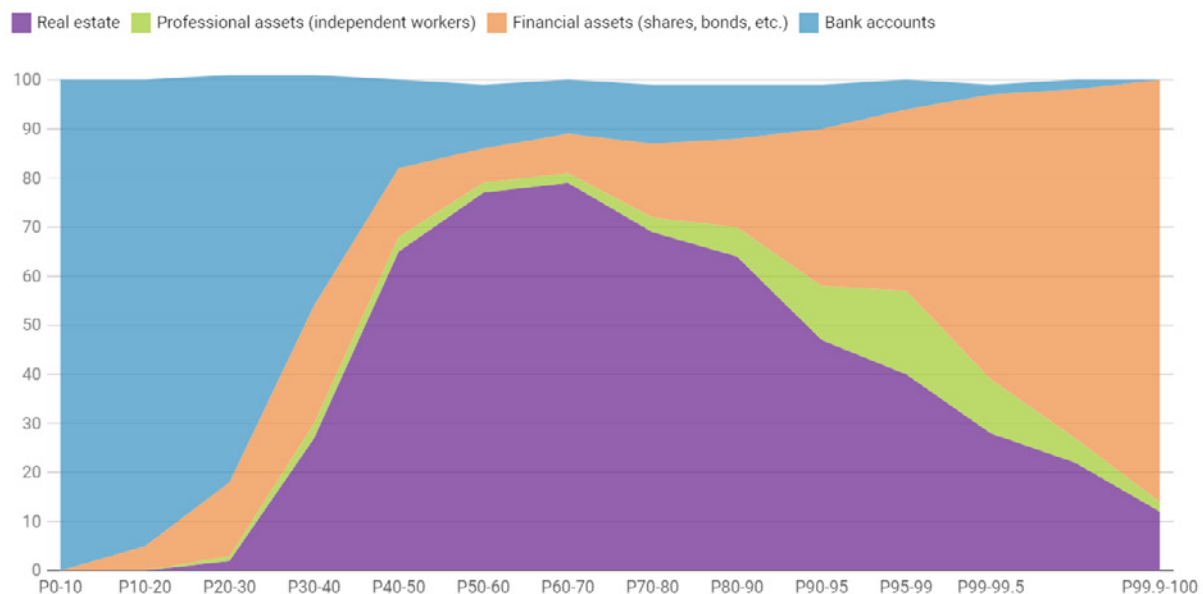
¹³¹ Other than Frank Knight, Capgemini broadened the scope of the survey and included all rich people with a net worth of more than USD 1 million into their results.

Table 3-6 Asset allocation of the HNWIs and UHNWIs

	Asset allocation of HNWIs Europe (Capgemini 2019)	UHNWI asset allocation World (Frank Knight 2020)
Financial assets	46	40
Equity	29	23
Fixed income	17	17
Cash and cash equivalents ¹³²	28	11
Real estate / property ¹³³	15	27
Alternative investments ¹³⁴	12	-
Private equity and other ¹³⁵	-	13
Total	100	100

Sources: Capgemini (2019) and Frank Knight (2020)

Data by Piketty, for example France, reveal that the higher the wealth of households, the more they tend to invest in financial assets (Figure 3.7). As described in 3.1.1, these asset categories are mainly held by the (U)HNWIs. For people at the bottom of the income and wealth ladder, the money they have is in their current domestic account. As mentioned in an interview, there are sporadic exceptions where the domestic households with lower amounts of wealth hold money in foreign accounts (Cypriots who reside and work in Cyprus) to mitigate imminent threats of an economic nature. When people have more wealth, property takes an increasing share of their assets, and then financial investments (equities, bonds, etcetera). Financial investments make up 86 per cent of the wealth for the top 0.1 per cent of most wealthy people.

Figure 3-8 Composition of wealth in France by income category, 2015

Source: The European Journalism Network, based on Piketty¹³⁶

¹³² Cash equivalents are investments securities that are meant for short-term investing; they have high credit quality and are highly liquid. Cash equivalents, also known as "cash and equivalents," are one of the three main asset classes in financial investing, along with stocks and bonds. These securities have a low-risk, low-return profile and include treasury bills, bank certificates of deposit, bankers' acceptances, corporate commercial paper, and other money market instruments. INVESTOPEDIA (2020). What are cash equivalents? Available from : <https://www.investopedia.com/terms/c/cashequivalents.asp> (Accessed on 15/12/2020).

¹³³ Excluding primary residence.

¹³⁴ This includes structured products, hedge funds, derivatives, foreign currency, commodities, and private equity.

¹³⁵ Collectables, gold, precious metals, crypto currencies, unknown.

¹³⁶ Retrieved from: <https://www.europeandatajournalism.eu/eng/News/Data-news/Inequality-according-to-Thomas-Piketty-in-10-graphs>

3.3.2 Asset allocation of hidden wealth (qualitative evidence)

The question is what asset categories are favoured in constructions to hide wealth? Our findings on international portfolio securities, foreign deposits, real estate, cash money and insurance contracts will be discussed in Chapter 5. In this section we will provide an overview of the current knowledge from the literature on favoured asset categories by cross-border tax evaders, supplemented by insights gathered through conversation with Member State experts. A quantitative analysis will be presented in Chapter 5.

There is little comprehensive information on the typology of assets used to hide wealth. This was confirmed through the interviews conducted for this study. Nonetheless, there is research highlighting that the popularity of different types of assets for hiding wealth likely relate to how they are covered by various transparency regulations. This includes, for example, automatic exchanges of information for tax purposes (AEOI) and transparency issues regarding the identification of the ultimate beneficial owner (UBO).¹³⁷ For example, Johannesen & Zucman (2014) use the data to document that in response to information exchange treaty, tax evaders shifted deposits to IFCs not covered by a treaty with their home country rather than repatriating funds. In a more recent paper Andersen et al. (2017) find that plausibly exogenous shocks to petroleum income are associated with significant increases in hidden wealth, but only when institutional checks and balances are weak. In a working paper with a similar methodology and data, Andersen et al. (2020) find that aid disbursements to highly aid-dependent countries coincide with sharp increases in bank deposits in offshore financial centres known for bank secrecy and private wealth management, but not in other financial centres.

The transparency regulations and measures mentioned above vary across international agreements, countries and time – for example, the DAC has been amended multiple times since its introduction in 2011, which affected the categories of income and asset mandatorily exchanged. Indeed, Saez & Zucman (2019) argue that offshore tax evasion can be fought more effectively today than in the past, also thanks to recent breakthroughs in cross-border information exchange.

Financial assets

Cash and cash equivalent

Several authors have discussed the use of cash and equivalents to hide wealth. For example, Pellegrini et al., (2016, p. 9) discuss the distribution of Italian 2009-10 voluntary disclosure by the type of assets. A majority of the disclosed assets were in bank deposits and equity and debt securities and other financial assets. Cash accounted for 5% and real estate and properties for 1%. Similarly, Zucman (2015) concluded that bank notes held in safety deposit boxes / vaults in Switzerland or the Cayman islands do not go beyond USD 400 billion, which is about 5% of offshore wealth.¹³⁸ Finally, Hanlon et al. (2015) empirically investigate one form of illegal investor-level tax evasion and its effect on foreign portfolio investment with a focus on one form of round-trip-ping tax evasion in which United States individuals hide funds in entities located in IFCs and then invest those funds in United States securities markets. They argue that individuals have devised a number of ways to access the offshore funds without declaring them, including access through credit cards and ATMs in the United States or abroad, gift cards, prepaid cards, smuggling the cash or assets into the United States, or simply spending the funds outside the United States.

The information gathered through the case studies shows that the transfer of cash for hiding wealth remains a widespread practice in several countries. In *France*, for example, several cases have involved transactions between individuals in different jurisdictions and the physical transfer of cash across borders. In these cases, hidden funds acquired legally often reportedly serve to fuel illicit activities such as prostitution or trafficking. It should also be noted that the use of cash seems to be preferred by less wealthy individuals in the country, whereas the wealthiest ones reportedly prefer to use bank accounts and investments through life insurance. In *Lithuania*, individuals reportedly often use cash and cash equivalent most often. However, to hide it, it is transformed in other forms of wealth; for example, in order to avoid possible checks by physically transferring cash, individuals may use it to buy cryptocurrency and later, once transferred into foreign jurisdictions, sell it there. In *Italy*, cash ostensibly remains the most viable option for those who evade taxes, although UHNWI prefer to take advantage of more complex financial instruments such as hedge funds, foundations, etc. Cash originated from criminal activities is physically transferred across borders (usually to Switzerland, Monaco, and Slovenia) to be

¹³⁷ Some literature is available on this topic such as Johannesen & Zucman (2014), Menkhoff & Miethe (2019), Janský et al. (2018).

¹³⁸ ZUCMAN, G. (2015) *The Hidden Wealth of Nations*. University of Chicago Press. p. 43.

deposited in bank accounts or directly integrated into the real economy with direct purchases of assets. Alternatively, when cash is the proceeds of small-scale tax evasion (small and medium entrepreneurs who generate off-the-books income from cash-intensive businesses), cash is generally invested directly in the purchase of movable assets (cars, jewellery). The use of physical transfer of cash across borders was also highlighted in *Portugal*¹³⁹, *Romania*, *Poland* and *Latvia*. *Hungary*, *Estonia* and *Denmark* also reported that cash is frequently hidden offshore.

Checking and saving accounts

Recent legislative developments such as FATCA, CRS and AEOI which specifically concern information on bank accounts have made it increasingly difficult to hide wealth using this type of financial asset. This was confirmed by several interviewees across Member States. For example, in *Bulgaria*, interviewees reported a tendency in recent years of individuals abandoning the idea of holding offshore accounts. This, as a result of, stricter AML/anti-tax fraud legislation as well as the Panama and Paradise Paper leaks and other national developments. Reportedly, banks in Bulgaria have slowly been losing interest in offering offshore financial services, while at the same time an increasing number of people are making use of voluntary disclosure arrangements that have allowed to bring back an increasing amount of wealth in the country. Interviewees from *Denmark* also reported that the lifting of bank secrecy and stricter AML legislation, together with high profile scandals in Baltic banks in recent years, have made hiding wealth through bank accounts more challenging. Nevertheless, they highlight that the possibility of using anonymous credit cards linked to offshore accounts in countries that fall outside the scope of legislation on AEOI remains. This was also echoed by interviewees in *Latvia*, who reported that individuals maintain accounts with foreign credit institutions and payment service institutions,¹⁴⁰ and *Hungary*, where reportedly money is often transferred via countries that do not disclose information on bank transactions. This has meant a shift from traditionally popular countries to 'newcomers' such as Gulf Countries (e.g. United Arab Emirates) but also China. Both *Slovakia* and *Romania* also reported the use of accounts in foreign banks kept for fictitious companies.

*Life insurance*¹⁴¹

With regard to insurance products, cash value life insurance products offer small returns and are in general not used to hide wealth. First because they are 'on the balance sheets of insurance companies, and ultimately in the balance sheets of the country where the insurers are domiciled.' As such they cannot cause any discrepancy in values. Secondly, Zucman observes that wealth entrusted to offshore insurers is still limited today. Unit-linked life insurance contracts may add an extra opacity layer, but are more expensive than shell corporations, trusts and foundations.¹⁴²

Under DAC1 AEOI, information on life insurance are covered cross-border under the following provision:

Life insurance products not covered by other Union legal instruments on exchange of information and other similar measures;

Therefore, if information on cash value life insurance contracts are exchanged under DAC2 then this information does not need to be exchanged under DAC1. However, information on other life insurance contracts with non-residents will only be exchanged if the information is already available in the Member State where the life insurance contract is registered. Furthermore, the availability of such information differs between Member States and depends on national definitions of 'life insurance'.

Nevertheless, the information collected through the case studies shows that in some cases, wealthy individuals do make use of life insurances (cash value insurance products) to hide their wealth offshore through. This is the case, for example and as already mentioned above, of *France*, or, to some extent, *Latvia* and *Romania*. In *Finland*, there has been a reported increase in the amount of assets transferred to life insurance contracts (mainly foreign) in the last decade. Such contracts can be used for tax planning, avoidance and evasion purposes. However, several of such contracts seem to have been annulled after a recent (January 2020) decision of the Finnish

¹³⁹ In particular with reference to the well-known tax fraud and money laundering investigation "Monte Branco". THE NEW YORK TIMES (2014). In Portugal, Ex-Chief of Bank is arrested. Available from : <https://www.nytimes.com/2014/07/25/business/in-portugal-ex-official-at-major-bank-is-investigated.html> (Accessed on 15/12/2020).

¹⁴⁰ Such as PayPal, PaySera, N26, etc.

¹⁴¹ For life insurance products, a distinction can be made between classic life insurance products outside the CRS/DAC2 and cash value insurance contracts within its scope which are within the scope of CRS/DAC2.

¹⁴² ZUCMAN, G. (2015) The Hidden Wealth of Nations. University of Chicago Press. p. 44.

Parliament to amend the Finnish Income Tax Act with the specific purpose of preventing so-called “artificial insurance structures”. Full impact of such measures remains to be seen.

Bonds, loans and other interest generating assets

The use of municipal bonds and loans in particular has been highly discussed as a means for avoiding taxes¹⁴³. As reported by the Tax Justice Network, ‘A simple way to extract money from a company tax free is for the owners of that company to loan money to it. In this case, instead of paying out a dividend after tax, a company pays out interest to a shareholder. The shareholder, who may be offshore, receives the profits tax free, and the company pays a lower amount of corporation tax than if it had not taken any loans’.

The use of such financial assets to hide wealth also emerged as a common practice in several Member States during our data collection. In *Latvia*, for example, there are reportedly instances of natural persons who use offshore companies from which they receive money on the basis of dubious loans, thus engaging in tax evasion and, potentially, money laundering. The use of loans and other interest generating assets is also reported in *Slovakia* and *Lithuania*. In the latter in particular, the use of fictitious or hybrid loans is common. According to interviewees, hybrid loans are complex mechanisms. Following the participation exemption rule, dividends received from an entity in which the entity receiving the dividends has been holding 10% or more shares for at least 12 subsequent months including the moment of dividend distribution, are not taxed. With cross-border payments, however, other EU countries may treat a certain payment as a loan deductible interest while Lithuania provides a participation exemption for what it considers to be a dividend. Such hybrid financial instruments produce multiple deductions and no taxes are paid in any country. In *Italy*, financial assets such as bonds but also derivatives, amongst others, are also exploited to hide wealth offshore. There are often managed opaquely via the Gulf countries.

Corporate equity, including shares and derivatives

Donohoe (2015) is a pioneering and one of the few existing studies examining the economic effects of financial derivatives on corporate tax avoidance focusing on the United States. He documents a 3.6 and 4.4 percentage point reduction in three-year current and cash effective tax rates, respectively, after a firm initiates a derivatives program. For Europe, Nesvetailova et al. (2018) provide a detailed discussion of tax evasion and avoidance through financial engineering.

Feedback from Member States has shown that shares in companies are one of the most frequent financial assets used to hide wealth. In *Finland*, shares of housing companies are reportedly relatively common assets for hiding wealth offshore. The motives behind transferring this kind of assets to the offshore company is usually the intention to artificially obtain status as a person with limited tax liability in Finland, the aim of concealment of assets from enforcement authorities, or the avoidance of capital gains tax or inheritance tax. In the *Czech Republic*, shares in non-listed companies are preferred as they are provided by the least publicly controlled operators. In *Poland*, although available sources are rarely as detailed as to allow such estimates, information shows that the preferred financial asset is also shares. This is also the case in *Estonia*, *Slovakia* and in *Romania*. In the latter, it reportedly usually takes the form of legal persons that have shareholders based offshore. Interestingly, in *Hungary*, it is relatively common to hold majority shares in sports club, especially football ones.

Interest payments and dividends (i.e. non -custodial dividends) when received directly by a beneficiary in another jurisdiction would not normally be subject to DAC2/CRS unless paid into a reportable financial account in the jurisdiction where a company or arrangement like a trust has been established.

Non-financial assets

Real estate and land

Zucman concludes that real estate for the ultra-rich in foreign countries (such as islands in the Seychelles, chalets in Gstaad) may be used to hide wealth. As mentioned in more detail in Chapter 5.3, de Simeone et al. (2018) tie the increase in the share of property assets as a response to a newly introduced obligation of reporting, such as AEOI, when non-financial assets directly held are not subject to AEOI and resulted in a continuous rise since 2010 in private investment in commercial real estate. For example, registry data show that a large chunk of the

¹⁴³ TAX POLICY CENTER (2020). The State of State (and Local) Tax Policy. Available from: <https://www.taxpolicycenter.org/briefing-book/what-are-municipal-bonds-and-how-are-they-used> (Accessed on 17/07/2020); TAX JUSTICE NETWORK (2017). Shifting profits and dodging taxes using debt. Available from: <https://www.taxjustice.net/wp-content/uploads/2017/11/Dodging-taxes-with-debt-TJN-Briefing.pdf> (Accessed on 17/07/2020).

London real estate is held through shell companies, largely dominated in the British Virgin Islands. There is no way to estimate the value of such real estate held abroad.¹⁴⁴

This statement is confirmed by the ICIJ journalists, Walker et al. (2016), who found that around 22,000 IFC clients from Hong Kong and mainland China hid wealth in real estate. For example, they stated that *'The confidential files include details of a real estate company co-owned by current President Xi Jinping's brother-in-law and British Virgin Islands companies set up by former Premier Wen Jiabao's son and also by his son-in-law.'*

Income from and ownership of immovable property

Under DAC1, cross-border AEOI on real estate is foreseen through *'ownership of and income from immovable property'*. Real estate is not subject to DAC2. Such information will only be exchanged on non-residents if the information is already available in the Member State where the real estate is registered/located. This information could come from property registers or rental contracts. However, the availability of such information differs between Member States and depends on national definitions. Taxation of property held directly by a company or an individual would take place where the property is located under a DTT. Although a public portal is available in many EU-28 states¹⁴⁵, it should be considered that property registers may not have data on beneficial ownership of legal persons and arrangements holding real estate and thus data would not be exchanged on such indirect holdings with Member States.

Real estate was confirmed to be a widely used non-financial asset for hiding wealth in several Member States. Real estate investments are reportedly the main non-financial assets used for hiding wealth in *Slovakia*, either offshore investments or indirect investments held via shell companies. This is also the case for *Italy*, where two alternative scenarios can be identified: in the south, organised crime groups invest into the real estate market to launder the proceeds of their illegal activities and reinforce their stronghold of the territory. In the north, investments seem to be more limited to specific urban areas and financed through the use of foundations and private equity funds that reinvest financial capital in the real estate sector. Reportedly recent investigations have highlighted the role of the Gulf countries as the origin of such investments.

In the criminal view of money laundering, perpetrators may invest, as non-resident, in a country (through visa systems) and develop ML/TF network (including via the complicit legal professionals). Perpetrators are laundering the proceeds of crime in the country by investing in the real estate sector. Assets are purchased at below market price, paying the difference to the seller under-the-table in cash. Back-to-back loans are created which may involve financial institutions or mortgage schemes. The real estate sector is, according to supranational evaluation on money laundering and terrorist financing affecting the internal market (2019)¹⁴⁶, not sufficiently organised to ensure raising a correct level of risk awareness. Involvement of different kinds of obliged entities in real-estate transactions/ business relationships tend to lead to a fragmented approach where the obliged entities are relying too much on the customer due diligence undertaken by other obliged entities.¹⁴⁷

In *Spain*, real estate and housing has also reportedly traditionally been a common way to hide wealth, with individuals hiding ultimate beneficial ownership by going through offshore companies. This is also considered to be the most traditional non-financial type of asset for hiding wealth in *Austria*. In *Lithuania*, investments in real estate through foreign jurisdictions have emerged as an area of vulnerabilities, with estimates that approximately 15% of wealth might be hidden in real estate and tax and oversight authorities improperly equipped to trace beneficial owners. Real estate is also particularly popular in *France*, although not necessarily for tax evasion but also for tax avoidance, as well as frequent in *Portugal, the Czech Republic, Denmark, Romania, Germany, Cyprus* and *Hungary*¹⁴⁸. Finally, *Luxembourg* interviewees have described the real estate market as a very dynamic one and at risk for opaque investments. The purchase of land itself as a means for hiding wealth was never mentioned by interviewees during the course of data collection.

¹⁴⁴ ZUCMAN, G. (2015) *The Hidden Wealth of Nations*. University of Chicago Press. p. 44-45.

¹⁴⁵ SPARKES, P, et al. (2016). Cross Border Acquisitions of Residential Property in the EU: Problems Encountered by Citizens. Available from: [https://www.europarl.europa.eu/thinktank/en/document.html?reference=IPOL_STU\(2016\)556936](https://www.europarl.europa.eu/thinktank/en/document.html?reference=IPOL_STU(2016)556936) (Accessed on 17/07/2020). p. 16.

¹⁴⁶ EUROPEAN COMMISSION (2019) SWD(2019)650 final. Available from: https://ec.europa.eu/info/sites/info/files/supranational_risk_assessment_of_the_money_laundering_and_terrorist_financing_risks_affecting_the_union.pdf

¹⁴⁷ EUROPEAN COMMISSION (2017). SWD(2017)241 final part 2/2. Available from: <https://eur-lex.europa.eu/TodayOJ/> (Accessed on 17/07/2020). p.140-142.

¹⁴⁸ In particular sports clubs.

Art, antiques, jewellery

It is known that art, jewellery and gold is stashed in freeports (warehouses that serve as repositories for valuables) in for example Geneva, Luxembourg and Singapore.¹⁴⁹ Trade can be conducted anonymously without customs duties or value added taxes.¹⁵⁰ However, the information collected through the case studies shows that the use of freeports is, to some extent, limited. For example, interviewees in *Luxembourg*, explained that tax officials and obliged anti-money laundering entities are at the freeport 24/7, which makes their use for hiding wealth unlikely.

Overall, although mentioned by interviewees in some countries such as *Denmark*, *Spain*¹⁵¹, *Cyprus*, *Latvia*, and the *Czech Republic*¹⁵², art, antiques and jewellery do not seem to be the preferred assets for hiding wealth abroad. An interesting exception to this is represented by *France*, where the feedback collected indicates that the wealthiest individuals often opt for hiding their wealth in modern and fine art (which allows for speculation), sometimes stashed in freeports, whereas illegal funds are hidden in gold and jewellery. The low propensity for investment of illegal funds in gold was also backed by interviewees from *Germany*, who attributed this to the fact that gold does not provide for investment returns, and from *Italy*, who argued it is difficult to preserve and store.

Yachts, cars, planes

As for arts and jewellery, wealth can also be hidden via investments in luxury items such as yachts, cars and planes. Such luxury items would often mean high expenses in sales taxes. However, recent leaks have shown that HNWI and UHNWI can rely on offshore networks of lawyers, accountants and advisors *‘to handle the tax issues and other challenges involved in owning luxury planes and boats’*¹⁵³. The practice of hiding wealth through the of such items was mentioned seldomly during data collection, and emerged as a (limited) concern in countries such as *Cyprus*, *the Czech Republic*,¹⁵⁴ *Poland* and *Bulgaria*¹⁵⁵. Other types of financial assets seem to be preferred, above all real estate, as outlined above.

3.3.3 Crypto currencies as means to hide wealth

Over the last ten years, the number and the weight of virtual assets have been growing explosively. Within the framework of FATF the term “Virtual assets” refers to any digital representation of value that can be digitally traded, transferred or used for payment.¹⁵⁶ One of the most well-known virtual assets are cryptocurrencies¹⁵⁷ which have emerged and settled on the global financial landscape as a new, completely digital, way of making transactions that can later be converted into a value corresponding to an amount of fiat currency. Little by little, their position on the markets has consolidated. In 2017, the market for crypto-currencies exploded, appreciating more than 1,200%.¹⁵⁸ As of 2018, there were almost 2,000 different types cryptocurrencies in existence,¹⁵⁹ the most famous examples including Bitcoin, Ethereum and Ripple. At their peak during that time, the total market capitalisation of all cryptocurrencies together reached USD 728 billion.¹⁶⁰ Bitcoin exchanges are located all over the world. Most are located in the U.S (San Francisco), Hong Kong, Tokyo and Singapore but also in Luxembourg and spread across the United Kingdom (London).

¹⁴⁹ HELGADÓTTIR, O. (2019). The art of offshore: tax avoidance in the new luxury freeports coffers. Available from: <http://coffers.eu/wp-content/uploads/2019/11/D4.7-Case-Study.pdf> (Accessed on 17/06/2020).

¹⁵⁰ ZUCMAN, G. (2015) The Hidden Wealth of Nations. University of Chicago Press. p. 44-45.

¹⁵¹ Added after review Spain Member State (26 January 2021)

¹⁵² In particular investment and holding of art abroad.

¹⁵³ ICIJ (2017). Offshore Gurus Help Rich Avoid Taxes on Jets and Yachts. Available from: <https://www.ijc.org/investigations/paradise-papers/offshore-gurus-help-rich-avoid-taxes-jets-yachts/> (Accessed on 16/06/2020).

¹⁵⁴ In particular with regard to foreign residents.

¹⁵⁵ In particular with reference to a case of money laundering which involved networks of shell companies in the purchase and sale of luxury vehicles.

¹⁵⁶ Virtual assets do not include digital representations of fiat currencies, securities and other financial assets that are already covered in the FATF Recommendations. FATF (2020). Glossary. Available from : <https://www.fatf-gafi.org/glossary/u-z/> (Accessed on 17/06/2020).

¹⁵⁷ Defined in Houben and Snyers (2018) as “a digital representation of value that (i) is intended to constitute a peer-to-peer (“P2P”) alternative to government-issued legal tender, (ii) is used as a general-purpose medium of exchange (independent of any central bank), (iii) is secured by a mechanism known as cryptography and (iv) can be converted into legal tender and vice versa”.

¹⁵⁸ HOUBEN, R., SNYERS, A. (2018). Cryptocurrencies and blockchain. Available from: <https://www.europarl.europa.eu/cmsdata/150761/TAX3%20Study%20on%20cryptocurrencies%20and%20blockchain.pdf> (Accessed on 15/12/2020).

¹⁵⁹ JAGTIANI, J., et al. (2019). Cryptocurrencies in the Global Economy. The Journal of Investing, 28(3), 7-12. Available from: <https://joi.pm-research.com/content/28/3/7> (Accessed on 17/06/2020).

¹⁶⁰ HOUBEN, R., SNYERS, A. (2018). Cryptocurrencies and blockchain. Available from: <https://www.europarl.europa.eu/cmsdata/150761/TAX3%20Study%20on%20cryptocurrencies%20and%20blockchain.pdf> (Accessed on 15/12/2020).

In recent years, financial regulators worldwide have expressed increased concern with regard to the risks tied to cryptocurrencies and their use for possible illicit financial activities, as well as on the impact of such currencies on the effectiveness of monetary policy and overall financial stability.¹⁶¹

The first success of tackling illicit financial activity was achieved in 2019 when a multi-million euro cryptocurrency laundering service was taken down by the Dutch Fiscal Information and Investigation Service (FIOD) in close cooperation with Europol and Luxembourg authorities.¹⁶² The cryptocurrency laundering service had achieved a turnover of 200 million USD in one year of operating, which demonstrated the magnitude of the possible illicit financial activities related to cryptocurrencies. Research has shown that while – similarly as with the concept of hidden wealth – the true scale of misuse and abuse of virtual currencies is not known, it is nonetheless substantial, reportedly exceeding EUR 7 billion worldwide.¹⁶³

There are three key characteristics at the basis of cryptocurrencies that increase their vulnerability to exploitation for money laundering purposes and increase the difficulties in regulating them through traditional anti-money laundering (AML) approaches and taxation. The first is the decentralisation of this type of currency, i.e. the fact that transactions performed through cryptocurrencies are independent from centralized institutions, such as banks, which are the main entities regulated and supervised through AML legislation and tax laws.

The second characteristic is the different levels of anonymity provided by the cryptographic mechanisms embedded in the technology at the basis of cryptocurrencies.¹⁶⁴ Anonymity is a key challenge not only for combatting money laundering but for tax purposes too: if tax authorities do not know who is behind a transaction – made via cryptocurrency but that could nonetheless potentially be taxed – because they are shielded by encryption, then what could effectively constitute tax evasion cannot be identified as such nor sanctioned.

In addition to issues related to anonymity, there are issues of whether information would be exchanged under tax transparency agreements like DAC2/CRS even if the identity of the investor was known. Reporting obligations currently depend on many factors and variables for cryptocurrency exchanges. A company that is offering a cryptocurrency on an exchange platform could be considered a financial institution for FATCA and potentially also under CRS. As a comparison OECD indirectly implies that an electric money provider is not excluded from the definition of a financial institutions¹⁶⁵. In order to be allowed to use some exchanges, it is necessary to have an account which requires the provision of the same personal information for due diligence purposes as a conventional financial institution would do. At this moment, there is uncertainty on whether information is or should be disclosed under FATF and CRS regimes.

Thirdly, transactions made with cryptocurrencies will in many cases occur cross-border. This makes the assessment of who, when and how to tax these movements difficult to make. Furthermore, the cross-border nature of these assets means that both exchange markets and other actors ‘can be located in jurisdictions that do not have effective money laundering and terrorist financing controls in place’¹⁶⁶, as well as non-transparent tax regulations.

Tax authorities worldwide have, *inter alia*, also been concerned about the difficulty of assessing the taxable consequences of transactions made through virtual assets and cryptocurrencies. In a review of national and international regulation of cryptocurrencies Girasa (2018) lists the tax-related issues highlighted in this regard by the IMF; that is whether cryptocurrencies should be treated as non-monetary property or as a form of currency; how to treat currencies newly created from mining; and VAT and sales tax treatment of transactions.¹⁶⁷ These are but a few of the issues surrounding cryptocurrencies and taxation that need to be taken into account.

¹⁶¹ JAGTIANI, J., et al. (2019). Cryptocurrencies in the Global Economy. The Journal of Investing, 28(3), 7-12. Available from: <https://joi.pm-research.com/content/28/3/7> (Accessed on 17/06/2020).

¹⁶² EUROPOL (2019). Multi-million Euro cryptocurrency laundering service bestmixer.io taken down. Available from: <https://www.europol.europa.eu/newsroom/news/multi-million-euro-cryptocurrency-laundering-service-bestmixer-io-taken-down> (Accessed on 15/12/2020).

¹⁶³ HOUBEN, R., SNYERS, A. (2018). Cryptocurrencies and blockchain. Available from: <https://www.europarl.europa.eu/cmsdata/150761/TAX3%20Study%20on%20cryptocurrencies%20and%20blockchain.pdf> (Accessed on 15/12/2020).

¹⁶⁴ IRIS (n.d.). Cryptocurrencies And Anti-Money Laundering Regulation In The G20. Institute for Research on Internet and Society. Available from: <https://irisbh.com.br/en/publicacoes/19906/> (Accessed on 17/07/2020).

¹⁶⁵ KENDRIS (2018) Cryptocurrency Taxes – CRS/FATCA: do you need to disclose your cryptocurrencies?. Available from: <https://www.kendris.com/en/blog/crs-fatca-do-you-need-disclose-your-cryptocurrencies> (Accessed on 15/12/2020).

¹⁶⁶ HOUBEN, R., SNYERS, A. (2018). Cryptocurrencies and blockchain. Available from: <https://www.europarl.europa.eu/cmsdata/150761/TAX3%20Study%20on%20cryptocurrencies%20and%20blockchain.pdf> (Accessed on 15/12/2020).

¹⁶⁷ GIRASA, R. (2018). Regulation of Cryptocurrencies and Blockchain Technologies: National and International Perspectives. Springer.

Within Member States, regulation of transactions through cryptocurrencies largely vary from country to country. For example, in *Bulgaria*, virtual currencies are treated as regular currencies for tax purposes and as such the income derived from such transactions can be taxed and is reportable on annual tax returns. *Cyprus* has welcomed cryptocurrencies and even launched its first Bitcoin ATM in 2017. In *France*, as a way to fight against the anonymity of cryptocurrencies, distributors are required ‘to identify and verify users subject to a capital gains tax with a threshold of margin tax of €5000, and institute a possible spending cap to protect users of and investors in the currency’. In *Germany*, cryptocurrencies that are used privately do not require government authorization. Commercial transactions through platforms as exchanges, however, are subject to taxation. Under *Slovenian* law individuals selling cryptocurrencies are not subject to capital gains or income tax. However, ‘miners’¹⁶⁸ accruing rewards and the like may be taxed like any other income from profits generated from trading and mining bitcoins’. In *Spain* ‘miners’ are considered to be performing a business activity according to the PIT legislation and, therefore capital gains are taxed as well. The problem is the lack of information on these capital gains. The purchase and sale of cryptocurrencies is regarded as a financial service and, as such, is VAT exempt.¹⁶⁹

European response

The examples listed above show how, even within the European Union, the approach to dealing with cryptocurrencies is highly fragmented. International financial regulators – such as the Bank for International Settlements (BIS) and the European Central Bank (ECB) – have issued several reports on the risks of cryptocurrencies and fragmented regulation, trying to set out possible regulatory mechanisms and advocating for more coordinated action at government level. For example, BIS recommended among other things specifically regulating exchanges, merchant acceptance facilities and digital wallet applications, and potentially broaden existing regulations to cover new currencies.¹⁷⁰

This last suggestion was taken up by the EU with the drafting of the fifth Anti-money laundering directive (AMLD) which introduces the following key elements with regard to the regulation of virtual currencies:

- ◆ A legal definition of virtual currencies as ‘a digital representation of value that is not issued or guaranteed by a central bank or a public authority, is not necessarily attached to a legally established currency and does not possess a legal status of currency or money, but is accepted by natural or legal persons as a means of exchange and which can be transferred, stored and traded electronically’.
- ◆ The inclusion of ‘providers engaged in exchange services between virtual currencies and fiat currencies as well as custodian wallet providers’ under the category of ‘obliged entities’ and as such obligated to perform customer due diligence controls and flag suspicious activities.
- ◆ The assignment of a mandate to FIUs to ‘obtain information allowing them to associate virtual currency addresses to the identity of the owner of virtual currency’. This in particular is a key step forward to combat the (pseudo)anonymity of virtual currencies and the issues associated with it, already discussed above.
- ◆ The obligation that ‘providers of exchange services between virtual currencies and fiat currencies, and custodian wallet providers, are registered’ with the competent domestic authorities.

Furthermore, Member States are invited to accompany their first compliance report (due 11 January 2022) with legislative proposals which might include the possibility to set up and maintain ‘a central database registering users’ identities and wallet addresses accessible to FIUs, as well as self-declaration forms for the use of virtual currency users’.¹⁷¹

¹⁶⁸ Miners of Bitcoin (or other cryptocurrency) are people that legitimize and monitor Bitcoin transactions, ensuring their validity through verifying ‘blocks’ (which is 1 megabyte of bitcoin transactions) which gives them a chance to earn Bitcoin. (2020). IVESTOPEDIA (2020). How does Bitcoin mining work?. Available from: <https://www.investopedia.com/tech/how-does-bitcoin-mining-work/#:~:text=By%20mining%2C%20you%20can%20earn,are%20added%20to%20the%20blockchain> (Accessed on 15/12/2020).

¹⁶⁹ These examples are outlined in detail in GIRASA, R. (2018). Regulation of Cryptocurrencies and Blockchain Technologies: National and International Perspectives. Springer.

¹⁷⁰ HOUBEN, R., SNYERS, A. (2018). Cryptocurrencies and blockchain. Available from: <https://www.europarl.europa.eu/cmsdata/150761/TAX3%20Study%20on%20cryptocurrencies%20and%20blockchain.pdf> (Accessed on 15/12/2020).

¹⁷¹ EUR-LEX (2018). Directive (EU) 2018/843 of the European Parliament and of the Council of 30 May 2018 amending Directive (EU) 2015/849 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing, and amending Directives 2009/138/EC and 2013/36/EU (Text with EEA relevance). Available from: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32018L0843> (Accessed on 15/12/2020).

The EU is planning its response to the emergence of crypto-assets such as bitcoin and the effect that these new technologies will have on how financial assets are issued, exchanged, shared and accessed. The EC has set up the European Digital Strategy of which one pillar focuses to keep a fair and competitive digital economy. Two legislative proposals on crypto-assets have been introduced: knowing the Regulation on Markets in Crypto-Assets (MICA) and the 'pilot regime' of Distributed Ledger Technology (DLT). MICA will cover all crypto assets not currently covered under existing financial services legislation. The pilot regime aims to enable market participants to operate a DLT market infrastructure by establishing clear and uniform operating requirements¹⁷². This includes mitigating the risks posed by crypto-assets (fraud, cyberattacks, and market manipulation).¹⁷³ The consultation period on an EU regulatory framework for crypto-assets concluded in March 2020. The Commission undertakes further evaluation of the proposed options by considering feedback provided by Member States' experts.

European Commission position

As briefly mentioned in the introduction section, the number of different types of virtual assets and their combined value has been growing explosively. This mainly holds for the cryptocurrencies since their steep rise since 2017 which underlines the impact of cryptocurrencies as well as the risks tied to cryptocurrencies and their use for possible illicit financial activities, as well as impact of such currencies on the effectiveness of the fiscal policy through tax evasion. The Commission's position on exchange of information for tax purposes regarding crypto assets is that these are not covered by DAC, hence the announced coming proposal to update the DAC to incorporate alternative means of payment and investment –such as crypto-assets.

Inputs from interviewees in the Member States

As discussed above, the characteristics of cryptocurrency, their mobility, their anonymity and vulnerability to exploitation for illegitimate uses make them also a good potential candidate for hiding wealth. Interviews with key stakeholders in several Member States have also highlighted the increasing risks for hiding wealth through cryptocurrencies. For example, a representative of the Luxembourg Financial Intelligence Unit reported that they are witnessing an increasing number of cases involving the use of virtual assets/cryptocurrencies.

'We often see cases of people selling goods through cryptocurrencies and never declaring the amount because they are using these types of assets. There was one case, for example, where one individual had more than 1 million EUR in Bitcoins and never declared it. With virtual assets, it is relatively easy to have them and not declare them if they are stored in a digital wallet. The challenging aspect is re-inserting them into the financial system. For these purposes you can deal with regulated and non-regulated asset providers. If you use one of the non-regulated ones it is easier to have Bitcoins converted into euros without people asking too many questions. If it is regulated they will ask questions about the origins of the funds and declaration of these assets – if these questions are not answered then the companies can file a Suspicious Transaction Report to the FIU because there is the suspicion of a tax offense'.

Similarly, Czech interviewees also confirmed that cryptocurrencies are frequently used as a means to hide wealth, in particular by foreign residents. The emergent use of cryptocurrencies for such purposes was also highlighted in Bulgaria, Lithuania, and France.

3.4 Main findings

Evidence from literature and stakeholder consultations indicates that the very rich use IFCs to conceal wealth. Using IFCs for tax evasion is mainly confined to the very rich. Alstadsæter, Johannesen and Zucman found in three Scandinavian countries (Denmark, Sweden and Norway), that on average about 3% of personal taxes are evaded. This figure rises to about 25% in the top 0.01% of the wealth distribution (all is cross-border tax evasion).

The general population earns and reports income and assets domestically, which is difficult to hide from the tax authorities. The very rich, and in particular UHNWIs, are more likely to use and can afford using IFCs. Income and assets held by wealthy individuals are, for example, invested in equities and bonds for which IFCs are important

¹⁷² EUROPEAN COMMISSION (2020). Questions and Answers: Digital Finance Strategy, legislative proposals on crypto-assets and digital operational resilience, Retail Payments Strategy. Available from: https://ec.europa.eu/commission/presscorner/detail/en/QANDA_20_1685 (Accessed on 12/12/2020).

¹⁷³ EUROPEAN COMMISSION (n.d.). Financial services – EU regulatory framework for crypto-assets. Available from : <https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/12089-Directive-regulation-establishing-a-European-framework-for-markets-in-crypto-assets> (Accessed on 12/12/2020).

locations. The top countries in terms of both numbers of UHNWIs and money hidden via IFCs are the large European economies: Germany, France, Italy and Spain. Relative offshore wealth as calculated in figure 3.4 is not positively correlated with % of wealthy individuals in the population which would suggest that there are other factors which indicate the propensity for individuals in a Member States to invest offshore.

In addition to UHNWIs there are other groups that evade taxes via IFCs:

- ◆ Some countries report (a rise in) other *middle- and upper-class citizens* making use of cross-border tax evasion schemes. Even though they are costly, IFCs have become more accessible for individuals with a relatively smaller wealth (for example professionals, such as medical doctors and lawyers). In other countries, a lack of trust in government institutions or fear of economic and political stability may stimulate households with more limited wealth to hide theirs abroad.
- ◆ *Criminals and other individuals with illegally earned income* and wealth have a high preference to hide their money abroad. In this case, tax evasion is not the primary motive, but there is a wish to hide the illicit origin of their capital.
- ◆ *Foreigners and (returning) expats* can get engaged in cross-border tax evasion, by having bank accounts in their home-land or IFCs.
- ◆ A specific group is formed by *high-profile individuals making* use of IFCs to hide their legally or illegally earned wealth (e.g. politicians and celebrities, prominent businesspeople, athletes).

Literature, as well as stakeholder consultations conducted for this study, suggest that tax evasion and concealment of the illicit wealth are the main motives for individuals to use IFCs. This is also confirmed by our findings. In particular capital incomes taxes and inheritance taxes, and sometimes even income taxes, can be the main fiscal drivers to move wealth abroad. In order to put a hold to this exodus of capital, several European governments abolished or changed taxation related to capital (e.g. abolishment of the inheritance tax in several European countries (Austria, Czech Republic, Portugal and Sweden)). Many European countries also abolished for this reason the taxes that were levied on net wealth.

Other drivers and motivations to hide taxes via IFCs are: mitigating economic and political risks; low tax morale; limited trust in the government; weak enforcement by the government; personal safety and family reasons; and sometimes even social status.

From the research it is not possible to deduct which drivers and motivations – in addition to the wish to avoid taxes and to hide ill-gotten money – are the main explaining variables for hidden wealth in IFCs. Member States differ strongly in types and levels of taxation, but also with respect to other factors such as enforcement of tax compliance, rule of law, political and economic stability and culture. These elements might impact decisions of individuals to hide their wealth abroad.

HNWIs and UHNWIs have about 40 to 50% of their wealth invested in financial assets (equities and fixed income). Property (other than primary residence, as in investment) and cash and cash equivalents (such as short term interest bearing instruments) are on the second or third place (depending on the source) with other types of investments in fourth place. It also suggests that wealthier people are (in particular at the very highest wealth groups) place more importance on financial assets.

Further:

- ◆ Feedback collected for this study suggests that *cash and cash equivalents* are more likely to be used for proceeds of criminal activities and non-declaration of income. High wealth individuals prefer to invest in normal financial instruments, as opposed to cash, due to security reasons. There are, however, indications that cash equivalents, such as credit and pre-paid cards are used to access wealth in IFCs. These would normally fall outside the scope of the DAC2/CRS.
- ◆ Although investment in virtual assets has increased strongly in recent years, feedback collected suggests that *crypto currencies* are a relatively minor asset type for wealthy individuals compared to traditional currencies. Crypto currencies and virtual financial assets are in theory subject to DAC2/CRS but due to lack of regulation, in particular in relation to national AML rules, it is unclear to which extent these assets are subject to AEOI. In addition, anonymity and mobility of these asset types present red flags for its use to hide wealth.

- ◆ Feedback collected suggests that *loans and equity* are more likely to be used by wealthy individuals compared to the general population. This poses a risk when a legal person or arrangement does not fall under the DAC2/CRS classification of a non-passive financial entity. In that case, income attributable to a beneficial owner is not subject to AEOI, such as payments made from the financial account of the legal person in the form of interest and dividends ('non-custodial dividends').
- ◆ Information collected suggests that *real estate* is used as a vehicle to conceal wealth, normally through legal entities that hide the identity of the beneficial owner. Investments in real estate are not subject to AEOI under DAC2/CRS, but are covered under DAC1 through automatic exchange of information on ownership and property if available in the Member State where the property is located. Such information sources include property registers where the beneficial ownership information is not normally recorded.
- ◆ *Arts, antiques and jewellery* are not frequently noted as concealed asset categories, possibly due to the fact that freeports are subject to AML rules in the EU and due to concerns related to storage and security. Also, there is a lack of return or income that can be directly derived from these assets. Nonetheless, it could be listed as a way of hiding wealth.
- ◆ *Yachts, cars and planes* are not flagged as effective sources to hide wealth. Also, it is unclear whether *life insurance products* are effective assets to conceal wealth.

4 How are individuals hiding wealth?

After having presented who is hiding wealth, and what types of assets, the following question is how these individuals are hiding their wealth. In order to understand how wealth is hidden in international financial centres, this chapter will first look at the service providers and actors that facilitate this process, followed by the type of structures used and steps involved.

4.1 Actors involved in hiding wealth

In order to hide wealth, intermediaries can offer the necessary specialized expertise and services. As briefly mentioned in the Chapter 3, IFCs are mainly used by rich individuals due to the expensive nature of setting up these schemes. These can involve different jurisdictions, as well as different types of intermediaries. For example, when an Irish citizen uses a Swiss bank to set up the structure, with an intermediary in Hong Kong, it would be a joint intermediary with the CH bank.

Under the DAC6¹⁷⁴ intermediaries are defined as *“being any person with EU-nexus¹⁷⁵ that ‘designs, markets, organises or makes available for implementation or manages the implementation of a reportable cross-border arrangement’*. The DAC rules apply to “intermediaries that have a sufficient nexus with the reporting jurisdiction”. This will include an intermediary operating through a branch located in that jurisdiction as well as those that are resident in, managed or controlled, incorporated or established under the laws of that jurisdiction.”¹⁷⁶ When an intermediary has no ‘nexus’ with the EU, reporting responsibilities fall under the relevant taxpayer and not the non-EU intermediary.

Examples of intermediaries are:

- ◆ Advisory: consultants, accountants, financial advisers, lawyers (including in-house counsel);
- ◆ Banks, trust and company service providers;
- ◆ Holding companies, group treasury functions.

Intermediaries use in-house and external expertise in various fields such as law, tax, accounting and investment, in order to create an offshore structure for the customer. Harrington (2016) reveals how wealth managers use offshore banks, corporations, foundations, trusts and combinations to hide wealth offshore.¹⁷⁷ Other research focuses on individual offshore destinations (e.g. Fichtner (2016) for Cayman Islands)¹⁷⁸ or on specific type of intermediaries (e.g. Murphy et al. (2019) for big accounting firms).¹⁷⁹

Intermediaries sometimes provide one, multiple or all services required, such as that of an advisor, a trustee, a financial institution, etc. The intermediary can advise on tax or investment related issues, create or buy off the shelf entities in offshore centres, set up company structures (i.e. statutes), open a bank account, manage the entity (i.e. admin, auditing and tax reporting), and even represent clients if needed in court. Before a high-net individual decides to use an offshore structure, this person needs to be aware of the possibilities and possess the capacity to set up such an entity. In addition, the individual might need to weigh potential benefits against financial, legal, and/or reputational costs as well as personal ethics. After this, advice might be needed on how to maintain the offshore structure.

¹⁷⁴ EUR-LEX (2018). Directive 2018/822/EU (DAC6) on automatic exchange of cross border arrangements. Available from: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32018L0822> (Accessed on 14/12/2020)..

¹⁷⁵ “In order to be an intermediary, a person shall meet at least one of the following additional conditions: (a) be resident for tax purposes in a Member State; b) have a permanent establishment in a Member State through which the services with respect to the arrangement are provided; (c) be incorporated in, or governed by the laws of a EU Member State or (d) be registered with a professional association related to legal, taxation or consultancy service in a EU Member State.” (Article 3 (21) [COM \(2020\) 49 Final](#)).

¹⁷⁶ OECD (2018). Model Mandatory Disclosure Rules for CRS Avoidance Arrangements and Opaque Offshore Structures, OECD, Paris. Available from: <https://www.oecd.org/tax/exchange-of-tax-information/model-mandatory-disclosure-rules-for-crs-avoidance-arrangements-and-opaque-offshore-structures.pdf> (Accessed on 12/12/2020). p. 13.

¹⁷⁷ HARRINGTON, B. (2016). Capital without Borders. Wealth Managers and the One Percent. Harvard University Press.

¹⁷⁸ FICHTNER, J. (2016). The anatomy of the Cayman Islands offshore financial center: Anglo-America, Japan, and the role of hedge funds. *Review of International Political Economy*, 23(6), 1034–1063.

¹⁷⁹ MURPHY, R., SEABROOKE, L., STAUSHOLM, S. (2019). A Tax Map of Global Professional Service Firms: Where Expert Services are Located and Why [Working Paper]. COFFERS. Available from: <https://doi.org/10.5281/zenodo.2580527> (Accessed on 15/12/2020).

There are three broad categories of professionals: tax; legal and business administrative. These work in different structures, e.g. in law firms, accountancy firms, trust and fiduciary companies, and banks as depicted in Table 4.1 below.

Table 4-1 Categories of professionals

Category	Types	Role
Tax	<ul style="list-style-type: none"> ◆ Non-auditor tax preparers (internal and external) ◆ Auditor tax preparers (internal and external) ◆ Accountants (internal and external) ◆ Mix of the above 	<ul style="list-style-type: none"> ◆ To advise on tax planning and compliance in (offshore) jurisdictions ◆ To prepare tax returns
Legal	<ul style="list-style-type: none"> ◆ Lawyers ◆ Notaries ◆ Non-registered legal experts 	<ul style="list-style-type: none"> ◆ To advise on setting up (offshore) structures ◆ To deliver court defence
Business	<ul style="list-style-type: none"> ◆ Accountants (internal and external) ◆ Auditor tax preparers (internal and external) ◆ Investment experts ◆ TCSP's Trust and Companies service providers 	<ul style="list-style-type: none"> ◆ To advise on tax planning and compliance in (offshore) jurisdictions ◆ To prepare tax returns ◆ To advise on setting up and maintain (offshore) structures

The following section discusses briefly the main intermediary expert categories linked to the set up and maintenance of offshore structures. In addition, two additional sections are dedicated specifically to two key types of organisations, namely banks and trust companies.

4.1.1 Advisory

Tax professionals

Tax professionals are key advisors on tax planning and compliance (i.e. preparing tax returns). In addition, together with lawyers, tax experts can play a critical role in advising UBOs when needing to defend themselves in courts.¹⁸⁰ UBOs can rely on internal and external tax professionals, accountants and auditors. The type of tax professionals, as well as the money spent on advice, seem both to be factors contributing to the degree of aggressiveness in planning. Klassen et al. (2015) show that internal tax preparers or non-auditor tax preparers adopt more aggressive tax behaviour, as opposed to auditors preparing tax returns.¹⁸¹ In addition, this research links the Big 4 accounting firms¹⁸² to lower levels of tax aggressiveness when they are also the auditor. In other words, wealthy individuals that opt for non-auditor tax preparers could adopt more aggressive methods to avoid or evade tax.

Most jurisdictions do not require licences for tax professionals or legislate tax advice. This does not mean that tax experts are not subject to any regulations, which is particularly the case for lawyers, trust companies, banks and accounting firms. In particular, AML/CFT standards ask for customer due diligence, as well as the reporting of suspicious transactions to FIUs. Furthermore, tax preparers are subject to civil and criminal penalties in case of improper or impermissible conduct. Penalties could result in monetary fines, as well as imprisonment, depending on the jurisdiction and the severity of their actions. Serious non-compliant actions of tax experts could include, for example, the understatement of a taxpayers' liability or providing fraudulent returns or other documents to tax authorities. Less serious infringements could be the failure to be diligent in determining earned income tax or to sign and provide copies of tax returns.

Legal professionals

Legal professionals are needed to have a sound understanding of how to set up an offshore structure. This is needed first and foremost to understand the jurisdiction that can best address the needs of the taxpayer, given

¹⁸⁰ KLASSEN, K., et al. (2016). The role of auditors, non-auditors, and internal tax departments in corporate tax aggressiveness. Available from: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2152538 (Accessed on 12/12/2020).

¹⁸¹ A tax preparer is a person whose job it is to prepare tax returns for people or businesses. This function can be internal (as part of the company) or external (in case an outside consultant is contracted). Tax preparers can perform non-auditing functions or auditing functions. The latter means the tax preparer can be asked to form an opinion on financial statements and compliance with legislation or financial reporting standards.

¹⁸² This usually refers to Deloitte, KPMG, Ernst & Young, and PricewaterhouseCoopers.

that different IFCs specialise in different structures.¹⁸³ Secondly, legal professionals should understand how to incorporate and register entities in addition to how to keep these secrets, protected and under control.

UBOs do not necessarily need to rely on licenced or registered professionals for legal advice, but will most likely look to lawyers (especially for court defence). In addition, some activities, such as registering offshore entities, can only be performed by lawyers at licensed trust companies or fiduciaries. Lawyers can play a key role in all the phases of offshore activities, from setting up offshore entities, maintaining these and defending clients in court. National legislation defines the duties of the lawyer which is often restricted to providing legal services that act in the best interest of the client. Confidentiality here is key as it protects the client (and indirectly the assets) in most jurisdictions as long as the lawyer is not involved in criminal activity. Another key legal expert is the notary, who performs public services. For example, notaries are required to ensure legality of payments made for certain transactions. Documents drawn up by notaries get a public status with legal veracity. If misused this can add an additional layer of complexity to detection and investigation of fraud.

Business administrative professionals

Business administrative professionals, such as accountants and auditors, are important to maintain the offshore structures. For example, accountants prepare financial accounts and tax returns, and have good insight into the financial situation of clients. Auditors play an important role by examining company financial accounts. They are responsible for verifying the financial accounts of entities that have audit requirements, which often is not the case for IFCs. Nonetheless, when offshore entities are linked to parent enterprises, they can be audited. Also, banks might be required by supervisory authorities to audit processes, such as AML requirements on independence and responsibility of auditors are different across jurisdictions.¹⁸⁴ A particularly useful tool used by UBOs and intermediaries are so-called 'opinion letters' which can be issued by auditors providing opinion on whether offshore structures are compliant with the law. These can then if needed be used by stakeholders to whitewash knowledge of possible irregularities.

The professionals as mentioned above are responsible to organise and/or maintain offshore structures. To substantiate the structures, different actors are necessary as well to initiate the proper constructions.

4.1.2 Banks

The Panama Papers exposed different types of banks in different jurisdictions offering services to rich individuals. Also EU bank subsidiaries were identified. The data from the papers shows a steep decline of offshore entities intermediated by banks since 2008,¹⁸⁵ which could be attributed to fear of reputational damage in the aftermath of the economic crisis, as well as stricter AML/CFT standards and exchange of information. A key service of banks is the provision of bank accounts needed for offshore entities to make international financial transactions. In particular, this service has increasingly come under scrutiny due to AML/CFT standards which require banks to check risks. Suspicious transactions need to be reported to national FIUs. This is important given that if an individual wants to use banks to hide wealth offshore, the person needs to rely on the bank's discretion to not reveal its name for example by holding the account indirectly through a legal person like a limited liability company or an arrangement like a trust.

¹⁸³ ICIJ (2020). What is a tax haven? Offshore finance, explained. Available from: <https://www.icij.org/investigations/panama-papers/what-is-a-tax-haven-offshore-finance-explained/> (Accessed on 15/05/2020).

¹⁸⁴ DE GROEN, W.P., et al. (2017). Rules on independence and responsibility regarding auditing, tax advice, accountancy, account certification services and legal services. Available from: <https://www.ceps.eu/ceps-publications/rules-independence-and-responsibility-regarding-auditing-tax-advice-accountancy-account/> (Accessed on 15/12/2020).

¹⁸⁵ DE GROEN, W.P. (2017). Role of advisors and intermediaries in the schemes revealed in the Panama Papers. Available from: [https://www.europarl.europa.eu/RegData/etudes/STUD/2017/602030/IPOL_STU\(2017\)602030_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/STUD/2017/602030/IPOL_STU(2017)602030_EN.pdf) (Accessed on 15/07/2020).

Bank accounts

Intermediaries offer clients services that allow for the setup of corporations, together with bank accounts in offshore jurisdictions. To illustrate, this service provider offers support with opening bank accounts in offshore banks.¹⁸⁶ They arrange the paperwork and introduce the client to a representative of the selected bank. The provider warns that certain banks require an official meeting with the business owner, either before or after the account is activated. They note that while rules are stringent and there are requirements for background checks, all private banking information remains under maximum protection and is not disclosed to third parties or foreign officials. Online, a list of banks is provided detailing the name, deposit requirements, time needed, and costs of the activity. In addition, the client is informed whether there is a possibility of remote account opening.

Table 4-2 Example offer bank accounts

The website contains a list of banks for familiarization.

To get the full list of the banks that we assist in opening accounts with please contact us by [Quick contact form](#) or by phone +44 207 822 8592.

Andorra 🇦🇩

Name of bank	Deposit	Account opening period	Cost	Possibility of remote account opening
Morabanc (Available currencies: USD, EUR, other)	300 000 EUR	4 weeks pre-approval available but full list of documents required for pre-approval	500 USD	yes

Belize 🇧🇿

Name of bank	Deposit	Account opening period	Cost	Possibility of remote account opening
Caye Bank International Limited (Available currencies: USD, GBP, EUR and other currencies)	1100 USD	4-6 weeks pre-approval available but full list of documents required for pre-approval	500 USD	yes

BVI 🇧🇻

Name of bank	Deposit	Account opening period	Cost	Possibility of remote account opening
Bank of Asia (BVI) (Available currencies: ...)	1450 USD	3-4 weeks pre-approval available	500 USD	yes

Source: https://www.offshorecompanyregister.com/offshore_account.php

Beaverstock et al. (2013) discuss developments in the area of private wealth management and how services offered ranges from asset protection to tax and estate planning, trust services, insurance and private annuities. Based on the UK market the main types of banks identified in the High Net Worth (HNW) market are:

- ◆ Private banks targeting HNWI;
- ◆ Trust banks (US private banks) targeting UHNWIs;
- ◆ Universal and retail banks that target affluent individuals (worth between USD 100k to 1 million) and HNWI from their existing clientele;
- ◆ Investment banks targeting the UHNWIs;
- ◆ Family offices serving top-tier billionaires in the US and Europe (respectively 4000 and 500);
- ◆ Financial advisors serving HNWI and the MA;
- ◆ Stock brokers;

¹⁸⁶ IG (n.d.). Open offshore account in banks of various jurisdictions. Available from: https://www.offshorecompanyregister.com/offshore_account.php (Accessed on 15/12/2020).

- ◆ Asset managers;
- ◆ Product specialists (e.g. hedge fund providers);
- ◆ Insurance and other professionals.

Beaverstock and Hall (2016) explain the role of the specialist banking and advanced business services (ABSs) sector in managing private wealth, including offshore. They cite research results of Scorpio Partnership, the London-based private wealth management research strategy consultancy, who find that the global top ten ‘mega-wealth managers’ are dominated by universal and wholesale banks’ global wealth management and private banking subsidiaries or divisions, all having significant office representation in offshore financial centres across Europe, Caribbean and Panama, Hong Kong and Singapore, and Switzerland. Table 9 shows these global top ten mega-wealth managers.

Table 4-3 Global top ten mega-wealth managers by asset under management (2012)

Institution	Assets under management (billion USD)	Reporting currency	Headquarter
UBS	1,705	CHF	Zurich, Basel
Bank of America	1,674	USD	Charlotte, North Carolina, USA
Wells Fargo	1,400	USD	San Francisco, USA
Morgan Stanley	1,308	USD	New York City, USA
Credit Suisse	855	CHF	Zurich
Royal Bank of Canada	629	CAD	Toronto
HSBC	398	USD	London, Hong Kong
Deutsche Bank	387	EUR	Frankfurt
BNP Paribas	347	EUR	Paris
Pictet	322	CHF	Geneva

Source: Adapted from Beaverstock & Hall (2016, p. 406), who adapted from Scorpio Partnership.

4.1.3 Trust and Company Service Providers (TCSPs)

Trust companies and Service Providers (TCSPs) are the main stakeholder in the creation and maintenance of offshore structures. Their clients can be UBOs, but often are intermediaries such as lawyers, banks and accountants. They offer a range of administrative and management services, work with different clients and can cover different jurisdictions. In these jurisdictions they often possess a licence to offer fiduciary services. This includes for example domiciliation services where the company can offer a postal address to companies and take care of registrations with local authorities. Another important service which guarantees a degree of anonymity for the UBO is the provision of nominee shareholders and directors. In addition to providing services for offshore companies, fiduciary service providers could also help registering other types of assets, such as yachts.

After having the actors identified that are necessary to involve in the services, the structures used to hide wealth are discussed next.

4.2 Structures used to hide wealth

Research on offshore structures has provided more insight into the scale of wealth held abroad, where the wealth comes from and where it is held.¹⁸⁷ More precise estimates are likely to come from future research as better data will become available, although the existing body of research answers the questions of scale and countries affected systematically and sufficiently well to sharpen policy responses to the challenges of offshore wealth. However, some more granular questions still lack systemic answers, one of which is the understanding of types

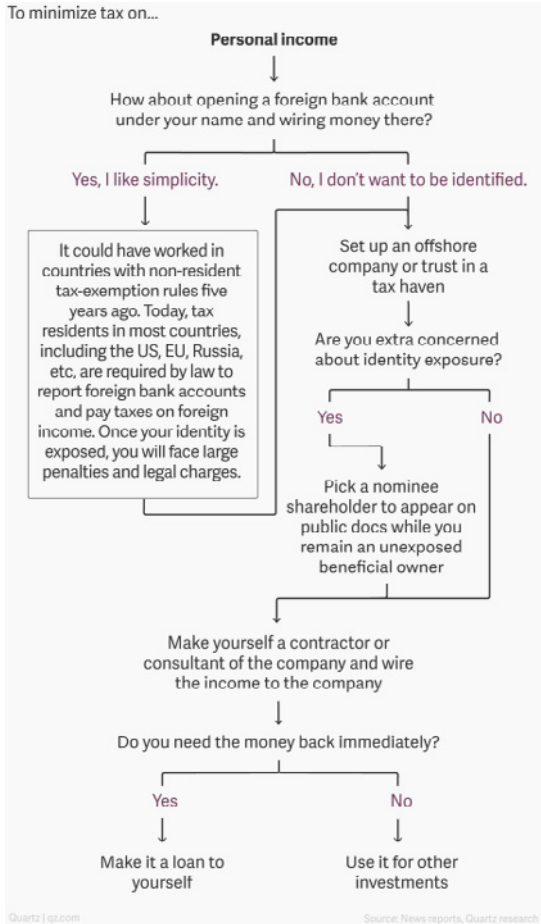
¹⁸⁷ ZUCMAN, G. (2013). The Missing Wealth of Nations: Are Europe and the US net Debtors or net Creditors? *The Quarterly Journal of Economics*, 128(3), 1321–1364. PELLEGRINI, V., et al. (2016). What do external statistics tell us about undeclared assets held abroad and tax evasion? *Bank of Italy Occasional Paper*, 367. ALSTADSAETER, A., et al. (2018a). Who Owns the Wealth in Tax Havens? Macro Evidence and Implications for Global Inequality. *Journal of Public Economics*, 162, 89–100. Available from: <https://doi.org/10.1016/j.jpubeco.2018.01.008> (Accessed on 15/12/2020).

of schemes and arrangements used and which assets are used by individuals to hide wealth offshore. A particular weak spot is an understanding of non-financial assets, and more specifically real estate.

The literature review conducted for this study shows that the absence of systemic evidence on the types of schemes and assets used, requires information to be collected from research looking into the practicalities of hiding wealth offshore, in other words the modus operandi of individuals and intermediaries in setting up schemes. Harrington (2016) looks into how wealth managers use offshore banks, shell corporations, foundations, trusts and combinations to hide wealth offshore. She shows how wealth managers are the key actors in both capital flows and public policies affecting taxation. Another example is Bruner (2016), who classifies tax havens based on the sectors in which they specialise. Bruner sets out the ideal types of the different Market-Dominant Small Jurisdictions (MDSJ) in different havens and identifies the central consequential features that have given rise to the competitive strengths and dominance in cross-border finance. For example, Bermuda is a dominant player in global insurance markets whereas Hong Kong has exemplified the “bridging” function to the domestic market and production capabilities of the Chinese Mainland.

Other information can be found in less academic work, such as blog posts or news articles, as well as information provided on websites of intermediaries assisting in the creation of offshore structures. While these sources of course need to be consulted with care, they do provide insight into common characteristics of schemes used to hide wealth offshore. One such example is the illustration of schemes provides by the news site QUARTZ by Zhou (2017).¹⁸⁸ While lacking details or supporting evidence, Zhou explains in a simplified way the decision process and options for individuals to minimize taxation on different items such as personal income (see the example below), purchase of valuable products, real estate or capital gains. For each category, decisions are made by clients and intermediaries at the start (e.g. open a bank account, set up an offshore company and loan or wire money) and at the end of the scheme (e.g. issue a loan to oneself or use the money for other investments).

Table 4-4 Simplified flow charts of how to hide money



Source: Quartz, 2017

¹⁸⁸ ZHOU, Y. (2017, 11). How rich people avoid taxes by parking money offshore (legally). Quartz. Available from: <https://qz.com/1126274/how-the-super-wealthy-avoid-taxes-by-parking-money-offshore-legally/> (Accessed on 15/12/2020).

The outcomes of the schemes vary from either reduced tax burden to increased value of wealth. The complexity of structures lies in the different layers (e.g. using nominee shareholders) and use of different jurisdictions (e.g. buy UK real estate through a Luxembourg subsidiary). These serve a purpose of reducing identity exposure or generating favourable tax conditions. The use of nominee shareholders and bearer share are not the sole means for concealing wealth.

In addition, schemes are characterised by the different types of vehicles (e.g. trusts or companies) used in order to achieve the objectives of the structure, as well as the different asset types it seeks to store (e.g. real estate or a luxury product).

The competition between vehicles and jurisdictions used in schemes is visible when looking at services provided by intermediaries. For example, numerous companies offer individuals services directed at setting up offshore structures. Companies, inter alia, offer “classical offshore services” such as: opening a bank account; setting up and maintaining offshore companies for clients; offering ready-made shelf companies with the click of a button; delivering nominee director or shareholders; etc. Other more tailored services that can also be linked to certain asset categories could include: telephone answering and mail management (virtual office); registering yachts; Schengen area residency schemes; citizenship by investment schemes (see figure 4.5); corporate prepaid cards; cryptocurrency exchange licenses; etc.

Residency in the Schengen area and Citizenship by Investment

To illustrate, this service provider offers access to citizenship by investment (CBI) schemes in a series of countries, including Malta and Cyprus.¹⁸⁹ The Commission has recently launched infringements against Cyprus and Malta for these schemes.¹⁹⁰

Cyprus is in consultation with the OECD in order to deal with concerns relating to the citizenship and residency scheme¹⁹¹. CBI allows individuals to obtain citizenship or residence rights through local investments or against a flat fee for perfect legitimate reasons but which could be misused to escape reporting obligations under CRS. With no withholding taxes, interests and royalties from Cypriot companies to non-EU jurisdictions could result in little or no taxation in the recipient jurisdiction. Furthermore, Cyprus does not provide information on the country destination of dividends (90% of total dividend payments from Cyprus were sent to non-EU countries 2013–2017).¹⁹² The country has announced an introduction of a withholding tax on dividends, interest, and royalty payments to countries in Annex I of the EU list of Non-cooperative jurisdictions on tax matters.¹⁹³

Malta’s investor citizenship and residence schemes have a potentially high risk of being misused to circumvent the automatic exchange of financial account information since such schemes could be used to facilitate the concealment of the real jurisdiction of residence of the investor. Assets held abroad could then be hidden by investor to evade tax. Offshore wealth held by Maltese citizens is estimated to have reached 48% of GDP (2016). After the introduction of the Individual Investor Programme, deposits of Maltese citizens held in low-tax jurisdictions reporting to the Bank of International Settlements increased by about 60%.¹⁹⁴

The importance of such services for individuals that hide wealth offshore cannot be underestimated, especially when considering that citizenship to an EU MS provides visa-free access to hundreds of countries across the world. The provider also offers Schengen Area residency services, for example in Latvia, arguing that the preferred scheme is via a subordinated loan or via real estate investment. According to the service provider, a subordinated equity investment in Latvia of EUR 300,000 can result in a return of 3% per annum and an immediate

¹⁸⁹ SFM (n.d.). Citizenship by investment. Available from: <https://www.sfm.com/citizenship-by-investment> (Accessed on 15/12/2020).

¹⁹⁰ CY and MT infringements: https://ec.europa.eu/cyprus/news_20201020_2_en

¹⁹¹ Cyprus abolished citizenship through investment programme as per 1 November 2020 as a result of the Al Jazeera investigation. More information available at: <https://www.aljazeera.com/news/2020/10/13/cyprus-abolishes-citizenship-through-investment-programme> (accessed on 20/02/2021)


¹⁹² EUROPEAN COMMISSION (2020). Country report Cyprus 2020. Available from: <https://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1584543810241&uri=CELEX%3A52020SC0512> (Accessed on 15/12/2020). ch. 4.1.

¹⁹³ EUROPEAN COUNCIL (n.d.). Taxation: EU list of non-cooperative jurisdictions. Available from: <https://www.consilium.europa.eu/en/policies/eu-list-of-non-cooperative-jurisdictions/> (Accessed on 15/12/2020).

¹⁹⁴ EUROPEAN COMMISSION (2020). Country report Malta 2020. Available from: <https://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1584545686025&uri=CELEX%3A52020SC0517> (Accessed on 15/12/2020). ch. 3.3.1.

EU Residence permit for 5 years. A real estate investment of more than EUR 250,000 would grant a client and its family an unlimited EU residence permit.

Table 4-5 Snapshot from a service provider

 SFM HOME COUNTRIES PRICES SERVICES ORDER YOUR COMPANY FAQ ABOUT US CONTACT US							
Home > Services > Citizenship by Investment							
<h2>Citizenship by Investment</h2>							
SFM is glad to offer access to citizenship by investment schemes to its clients around the world. We have partnered up with a top tier law firm specialized in citizenship schemes, offering the service in 7 different countries.							
We take great care to listen to you and to understand your vision for yourself and for your family, in the knowledge that each individual's needs, aspirations, and desires are unique. Citizenship by investment has been very sought after by our clients, whether to have access to growing markets, to travel without having to wait for a visa, or simply for added stability in their everyday life.							
Please find below a matrix of the different plans available. You are welcome to contact us should you wish any additional information on any of these schemes. We shall be glad to send you detailed information upon request.							
COUNTRY	MALTA	CYPRUS	DOMINICA	GRENADA	ANTIGUA & BARBUDA	SAINT KITTS & NEVIS	SAINT LUCIA
Programme	Citizenship by Investment	Citizenship by Investment	Citizenship by Investment	Citizenship by Investment	Citizenship by Investment	Citizenship by Investment	Citizenship by Investment
COUNTRY HIGHLIGHTS							
CAPITAL CITY	Valletta	Nicosia	Roseau	St. George's	St John's	Basseterre	Castries
TIME ZONE	Central European Time Zone (UTC+01:00)	Eastern European Time Zone (UTC+02:00)	Eastern Caribbean Time Zone (UTC-04:00)	Eastern Caribbean Time Zone (UTC-04:00)	Eastern Caribbean Time Zone (UTC-04:00)	Eastern Caribbean Time Zone (UTC-04:00)	Eastern Caribbean Time Zone (UTC-04:00)
TOTAL AREA	316 km ²	9,251 km ²	750 km ²	348.5 km ²	440 km ²	261 km ²	617 km ²
NEAREST COUNTRY	Italy, 255 km	Lebanon, 264 km	Martinique	Saint Vincent & the Grenadines	St Kitts & Nevis	Montserrat & Guadeloupe	Martinique
LANGUAGES	Maltese, English	Greek, Turkish whilst English is widely spoken	English, French	English, French	English, French	English	English, French
CURRENCY	Euro €	Euro €	East Caribbean Dollar \$	East Caribbean Dollar \$	East Caribbean Dollar \$	East Caribbean Dollar \$	East Caribbean Dollar \$
POPULATION	417,432	1,205,575	72,003	109,590	91,295	52,329	164,464
SCHENGEN/EU	Full Member	EU travel - No restrictions	EU travel - No restrictions	EU travel - No restrictions	EU travel - No restrictions	EU travel - No restrictions	EU travel - No restrictions
ELIGIBILITY CRITERIA							
EU/Non-EU	EU & Non-EU	EU & Non-EU	EU & Non-EU	EU & Non-EU	EU & Non-EU	EU & Non-EU	EU & Non-EU
INELIGIBLE NATIONALITIES	Iran, North Korea, Sudan, Afghanistan	N/A	N/A	N/A	N/A	Iran, North Korea, Sudan, Afghanistan	N/A

Source : <https://www.sfm.com/citizenship-by-investment>

How do CBIPs work?

Individuals have to disclose all their jurisdictions of tax residence by self-certification to their financial institutes when opening a financial account or when they are required to a residence address test for pre-existing accounts. Individuals can misuse documents (ID-cards or passports) obtained under a country's CBIP to present tax residency exclusively, even if they not (only) reside there. The information collected under the CRS will then incorrectly be sent to the CBI country (mostly offering low personal income tax rates); or, if the CBI country has chosen to send, but not to receive information (voluntary secrecy) or has not adopted the CRS, account information will not be reported at all.

Langenmayr and Zyska (2019) note that more and more countries have (re-)introduced Citizenship-by-Investment programs (CBIPs), which offer a path to citizenship in return for financial transfers; and which can be misused to escape tax information reporting. Langenmayr and Zyska (2019) model the tax evasion and CBI decisions of individuals facing the risk of insecure detection probabilities due to information exchange and provide empirical evidence suggesting that CBI schemes are misused for tax evasion. Knobel (2018) analyses loopholes in the EU's automatic exchange of information, while Knobel and Heitmüller (2018) focus on citizenship and residency by investment schemes.

The European Commission confirm that investor citizenship ("golden passports") and investor residence ("golden visa") schemes are a growing trend and are accompanied inter alia, money laundering and tax evasion risks.¹⁹⁵

¹⁹⁵ EUROPEAN COMMISSION (n.d.). Investor citizenship schemes. Available from: https://ec.europa.eu/info/investor-citizenship-schemes_en (Accessed on 15/12/2020).

Concerning the former,¹⁹⁶ the 5th AMLD designated as high risk and requires enhanced due diligence for those third-country nationals that apply for residence rights or citizenship in the Member State in exchange of capital transfers, purchase of bonds or investment in corporate entities. A weakness is the fact that these obligations only apply to economic operators and not to government entities which means that authorities responsible for these schemes are not covered. Other identified weaknesses concern the variety of practices by Member States to check the origin of funds. Further, European AML legislation does not cover cases where payments are made in cash directly to governmental organisations.

Concerning the latter,¹⁹⁷ the Commission emphasises that the use of the schemes in itself does not equate to tax evasion, but it most certainly enables individuals to benefit from existing privileged tax rules. The schemes may impact the automatic exchange of financial account information between tax authorities (DAC and CRS). In particular, the documentation issues under these schemes might complicate the task of financial institutions to identify tax residence. The Commission in particular highlights the fact that schemes in countries that do not or at a low rate tax income, might be at risk of account holders hiding evidence of the real place of residence. This scenario is tackled through the DAC reporting obligation for intermediaries on marketed schemes to avoid tax. The Directive obliges reporting on target schemes that undermine the due diligence procedures used by financial institutions to report information to the authorities, such as the identification of the jurisdiction of residence of the account holder.

Also the OECD looked into the effect of the schemes on the CRS. The organisation noted that in particular identity cards and other documentation from these schemes could be misused to misrepresent an individual's jurisdiction of tax residence. A series of countries are identified that could through these schemes potentially undermine the CRS due diligence procedures.¹⁹⁸ This includes Cyprus and Malta.

The range of services immediately shows that the structures used are dynamic and complex, serving different goals. Service providers brand them as facilitating structures to conduct international business and trade. The structures are used in a variety of schemes e.g. minimizing taxes, help with offshore banking, fiscal planning etc. For individuals, particularly relevant in offshore schemes is the possibility to protect assets and do so in a confidential manner. The main vehicles often mentioned in schemes are legal arrangements such as trusts and foundations, and legal persons such as corporations.

4.2.1 Legal arrangements

A key aspect to emphasise concerning arrangements like trusts is their complexity, in particular who is entitled to the income/assets from the arrangement and when. For example, discretionary trusts where the beneficiary group is mentioned according to criteria but not individual beneficiaries. Furthermore, many jurisdictions in the world are neither familiar with nor recognise arrangements like trusts, for example under the Hague Trust Convention, and may tend to disregard them in practice. Harrington (2017)¹⁹⁹ highlights trusts as a key legal structure associated with the global spread of financialization²⁰⁰. Originally, trusts were created for minors who inherited large sums of money. Trusts are structures for holding and managing assets but are not legal entities in their own right (or so called private relationships); which means they cannot be sued or go bankrupt. Harrington notes that they are often lightly regulated and not registered, taxed and subject to any public accounting or reporting requirements which incurs much lower compliance costs. However, although the trust cannot be sued in its own right in many jurisdictions the trustee would face both onerous civil and criminal liabilities for the mismanagement of a trust.

To create a trust, the person creating the entity (the 'settlor') transfers the legal ownership of assets (e.g. money or tangible assets) to another person or a corporate entity (the 'trustee'). The trustee has special responsibility and is responsible for holding and managing the assets on behalf of the beneficiary (as a 'fiduciary'). The beneficiary is the person enjoying the assets (e.g. the money or tangible assets). The actual beneficiary is laid down

¹⁹⁶ EUROPEAN COMMISSION (2019). Investor citizenship and residence schemes in the European Union. Available from: https://ec.europa.eu/info/sites/info/files/com_2019_12_final_report.pdf (Accessed on 15/12/2020).

¹⁹⁷ Ibid.

¹⁹⁸ OECD (n.d.). Residence/Citizenship by investment schemes. Available from: <http://www.oecd.org/tax/automatic-exchange/crs-implementation-and-assistance/residence-citizenship-by-investment/> (Accessed on 15/12/2020).

¹⁹⁹ HARRINGTON, B. (2017). Trusts and financialization. *Socio-Economic Review*, 15(1), 31–63.

²⁰⁰ Meaning the increase in size and importance of a country's financial sector relative to its overall economy. INVESTOPEDIA (2019). What is financialization?. Available from: <https://www.investopedia.com/terms/f/financialization.asp> (Accessed on 15/12/2020).

in the trust deed, which sets out the provisions of the trust, e.g. under which conditions the money can be used, by whom and when. Trustees cannot be removed easily from the trust. Only with legal action, can a trustee be released from his/her duties. Often, the trust has a limited duration, e.g. until the minor becomes of age or fulfils certain requirements, e.g. finishing an education.

Harrington (2017) offers a reproduced figure below with a simple typology of trust structures to illustrate their primary uses in both corporate and private contexts. Trusts, according to Harrington, are the organisational basis of many mutual funds, bond issues and asset securitization projects. Trusts are therefore explained in more depth but this is applicable to all arrangements depending on the jurisdiction.

Table 4-6 Trusts and financialization

Trust Users	Trust subtypes	Applications	Distinctive features
Individuals	Private express trusts	<ul style="list-style-type: none"> • Estate planning • Tax avoidance 	<ul style="list-style-type: none"> • Division of ownership into two parts (legal and beneficial), unique to the Common Law tradition. • Not a legal entity, but a relationship among three parties: I) the settlor, II) the trustee, and III) the beneficiary
	Purpose trusts	<ul style="list-style-type: none"> • Avoidance of debts, regulations, disgruntled heirs, etc. (type known generally as "Asset Protection Trusts") • Charity • Family business protections 	<ul style="list-style-type: none"> • Any trust can be used for asset protection but the entities specifically labelled an Asset Protection Trusts (such as those in the Cook Islands) are generally only available offshore, because onshore laws protecting the rights of creditors. • Unlike private express trusts, purpose trusts need to have human beneficiaries (either specific persons or a class of persons); instead, purpose trusts are designed to benefit a purpose such as charitable giving. • Offshore, trust law has been modified so that purpose trusts can also be formed for non-charitable purposes – Cayman STAR trusts are a notable example; most commonly, individuals create such trusts to hold shares of a family business, thereby preventing sale of shares by the business-owner's heirs.
Firms		<ul style="list-style-type: none"> • Collective investment 	<ul style="list-style-type: none"> • Many fixtures of modern finance – including securitization, bond issues, pension funds, and mutual funds – are organised through purpose trusts. • These trusts are located offshore so as to get around the rule in traditional onshore law that the beneficiaries of a trust must be specified (the so-called "certainty of objects" rule).

Source: Model of Harrington (2017, p. 36)

Harrington shows with this figure that IFCs play an important role in linking trusts to financialization. Trusts are often used in common law jurisdictions, such as the Cayman Islands and the Cook Islands. Laws have been tailored to maximise financial benefits from trusts to firms and individuals and are used for tax planning purposes. In particular the split-ownership concept underlying trusts is important, meaning the separation of legal ownership and beneficial ownership. This entails that the one enjoying the benefits of the trust is another individual person than the individual who legally owns (owned) the assets. Profits are maximised by minimising transaction and compliance costs. Legal ownership of assets is given to trustees based in offshore locations where tax and regulatory expenses are low or non-existent. Tax rules for non-resident trusts are complicated and vary widely between jurisdictions where a trust can be established. Tax benefits using legal arrangements can include: change ownership of income and assets; suspend economic ownership; change source and character of income; change timing of income or assets; and change income into capital.

Harrington (2017) describes that international law makes trusts only subject to regulation and taxation in the jurisdiction where the legal owner lives (trustee). Trustees thus base themselves in countries that offer a favourable tax regime with limited exchange of information provisions, and low transaction costs. In this arrangement, legal ownership shifts from settlor to trustee but the use and enjoyment of the assets go to the beneficiaries.

In most jurisdictions, income from a foreign trust distributed to a non-resident beneficiary would be taxable in their state of residence, depending on the taxpayer and the character of the income received. However, often jurisdictions are chosen where foreign income received is not taxed at the level of the trust and distributions to non-resident beneficiaries are exempt (see Jersey example below). The beneficiaries are liable to pay tax on the distributions they receive, although in most countries this is exempt or distributions are 'turned' tax free – for example by re-characterizing them 'loan repayments' (Harrington, 2016, p7). In addition, if the information on the distribution is not exchanged to the state of residency of the beneficiary, concealment and tax evasion is possible.

Jersey as an example of a traditional IFC

“Beneficiaries are that resident outside Jersey, a Jersey trust will be exempt from assessment both in respect of Jersey income tax on income arising from outside the Island and income on bank deposit interest arising inside Jersey. For practical purposes, therefore, the trustee may make distributions out of a trust fund established in Jersey without any withholding or deduction for income tax. There are no inheritance, wealth, gift or capital gains taxes levied in Jersey nor is there any stamp duty, value added tax or equivalent forms of indirect taxation charged on the creation or transfer of assets to a trust”.²⁰¹

For reasons like succession planning, a trust offers an efficient vehicle for the transfer of beneficial ownership on the death of a settlor – given that the interest of a beneficiary under a trust does not constitute a separate asset, which assists in avoidance of stamp duty or inheritance tax. Furthermore, the privacy of trusts undermined the rule of law; when the true beneficial owners of assets cannot be identified, they cannot be taxed or regulated.²⁰²

Since three actors (i.e. the settlor, the trustee and the beneficiary) are involved, it is harder for authorities to track down who actually owns the assets.²⁰³ Trusts have a high nature of privacy, which enables the settlor to be fenced off. In many countries, the identity of both the settlor and the beneficiary do not have to be publicly disclosed in a register (though under FATF 2012, transparency and beneficial ownership of legal arrangements, as well as EU AMLD, and DAC2/CRS countries should ensure this data is collected).²⁰⁴ In some foreign offshore centres, the rules on trusts have been further softened. Even in the trust deed, the names of the settlor and beneficiary are not required to be included. It is sometimes also possible to establish an asset protection trust (APT) in which assets are protected from creditors. Trusts have also obtained unlimited durations and in some cases the settlor and beneficiary can be the same person.

A foundation is the civil law equivalent of the trust. Similar to the trust, the foundation holds and manages certain assets. Often the asset is money and the foundation can manage to a lesser extent the tangible assets, such as real estate. Foundations can be engaged in commercial activities²⁰⁵ and therefore can have personnel and an office. Management of the foundation is done by a board of directors. As the foundation can be engaged in commercial activities, the foundation in this case would normally be subject to wider legislation. The foundation, for instance, has obligations to report annually on the financial status and is subject to governmental inspections. In the law, safeguards are also laid down to ensure that the foundation is independent of its founder.

Despite legislation, foundations are also used to hide wealth, especially in jurisdictions with weaker regulations. In some countries, for example, it is not obligatory to fill the name of the beneficiary when registering a foundation. In such a case, it is not clear who owned the assets and therefore it is difficult to establish who benefits from the foundation.

Under DAC2 and the CRS a trust can be classified as (i) a reporting financial institution in its own right or (ii) as a passive non-financial entity (NFE). If classified as a reporting financial institution then it collects and exchanges information on the Reportable Persons of a trust. If it is defined as (ii) NFE, then information is collected and exchanged on the Reportable Persons of a trust by the Financial Institution who holds of the Reportable account on behalf of the trust.

With regard to DAC2/CRS, for legal arrangements it is key to consider whether a financial account is reportable and where the relevant taxpayer is resident for tax purposes. Concerning the former, if it is classified as a reportable financial account and the account holder is an arrangement (like a trust), one would need to determine whether this arrangement would be defined as a ‘passive non-financial entity’ (NFE) and therefore be reportable or not.

²⁰¹ OGIER (2016). The use of trusts in Jersey. Available from: <https://www.ogier.com/publications/the-use-of-trusts-in-jersey> (Accessed on 15/12/2020).

²⁰² SHAXSON, N. (2011). *Treasure Islands: Tax Havens and the Men Who Stole the World*, London, Random House.

²⁰³ ICIJ (2020). What is a tax haven? Offshore finance, explained. Available from: <https://www.icij.org/investigations/panama-papers/what-is-a-tax-haven-offshore-finance-explained/> (Accessed on 15/05/2020).

²⁰⁴ “Countries should ensure that there is adequate, accurate and timely information on express trusts, including information on the settlor, trustee and beneficiaries, that can be obtained or accessed in a timely fashion by competent authorities (FATF recommendations update 2019, recommendation 25)”.

²⁰⁵ In general, the national statutes of foundations allow certain limited commercial activities in line with their cause, but most arrangements like trusts cannot engage in financial activities.

According to section VIII of DAC2 on Defined Terms, D. Reportable accounts, the term “Passive NFE” means any: *‘(i) NFE that is not an Active NFE; or (ii) an Investment Entity described in subparagraph A(6)(b) that is not a Participating Jurisdiction Financial Institution.’*

The term “Active NFE” means any NFE that meets any of the following criteria:

‘8.(a) less than 50 % of the NFE’s gross income for the preceding calendar year or other appropriate reporting period is passive income and less than 50 % of the assets held by the NFE during the preceding calendar year or other appropriate reporting period are assets that produce or are held for the production of passive income;

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(b) the stock of the NFE is regularly traded on an established securities market or the NFE is a Related Entity of an Entity the stock of which is regularly traded on an established securities market;

(c) the NFE is a Governmental Entity, an International Organisation, a Central Bank, or an Entity wholly owned by one or more of the foregoing’.

Concerning a reportable person, one would need to ‘look-through’ the legal arrangement which is an NFE to identify the natural person(s) controlling the entity in order to determine whether they are residents of a reportable jurisdiction. With regards to the controlling person of a reportable arrangement, Sections V and VI of DAC2 state that these persons are defined by the AML rules in a jurisdiction:

‘Determining the Controlling Persons of an Account Holder. For the purposes of determining the Controlling Persons of an Account Holder, a Reporting Financial Institution may rely on information collected and maintained pursuant to AML/KYC Procedures’.

The rules for Controlling persons under the 4th and 5th AMLD provide the following definition for beneficial ownership²⁰⁶ under Article 3 (6) (b) of the AMLD:

‘In the case of trusts:

(i) the settlor;

(ii) the trustee(s);

(iii) the protector, if any;

(iv) the beneficiaries, or where the individuals benefiting from the legal arrangement or entity have yet to be determined, the class of persons in whose main interest the legal arrangement or entity is set up or operates;

(v) any other natural person exercising ultimate control over the trust by means of direct or indirect ownership or by other means.’

In terms of arrangements similar to trusts it has this provision under Article 3 (6) (c):

‘(c) in the case of legal entities such as foundations, and legal arrangements similar to trusts, the natural person(s) holding equivalent or similar positions to those referred to in point (b);’

As described above, reporting on arrangements includes all reportable financial information collected under DAC2/CRS and applies this to all parties under the arrangement, irrespective of whether they have an equity interest in the arrangement or indeed are a beneficiary of the trust. In this way, reporting for arrangements is more extensive than that for legal persons where a minimum threshold is applied.

On the basis of these rules, the question is to which extent information can be circumvented for these arrangements. A useful public source for this is the OECD Mandatory Disclosure Framework for reporting circumvention of the CRS. This framework is also reflected in Hallmark D of DAC6 on reportable border tax arrangements. Further, also the FATF beneficial ownership toolkit (described below) provides some useful indicators. Data collected for this study points to the following relevant considerations:

- ◆ The trustee usually has civil liability for the actions of the trust whilst in the case of legal persons, the directors have a much more limited liability.

²⁰⁶ Under Article 3 (6) defined as the following: ‘beneficial owner’ means any natural person(s) who ultimately owns or controls the customer and/or the natural person(s) on whose behalf a transaction or activity is being conducted.

- ◆ Complexity of arrangements like trusts and wide differences between jurisdictions on reporting obligations and the taxation of trusts. Furthermore, identifying non-trust arrangements that should be reported on in a jurisdiction may be challenging²⁰⁷.
- ◆ Complexity makes the identification of beneficial owners difficult with risks of misusing trusts increase when several participants to the trust coincide with the same natural or legal person, or when trusts are set up in foreign jurisdictions²⁰⁸.
- ◆ Normally trusts should be investment entities and therefore would normally fall under the definition of a passive NFE, unlike legal persons like limited liability companies that would have commercial/trading activities and may not fall under the definition of a passive NFE.
- ◆ However, like legal persons, ascertaining ultimate control may be particularly challenging especially if the parties to the arrangement are located in multiple jurisdictions.

4.2.2 Legal persons

Corporations are a common vehicle to hide wealth in an offshore financial centre, especially by using a limited liability company. The main advantage of a corporation is that the entity issues shares which can be bought by shareholders. In case the corporation goes bankrupt, the shareholders only lose their investment in the company, while their personal assets remain intact (limited liability protection).

In addition, the shares can often be traded easily and the corporation can long survive the original shareholders. The fact that the corporation enjoys unlimited duration and offers limited liability protection, make corporations popular vehicles to ensure economic activity. The downside of the set-up is that owners can change quickly and in many cases are not known. It can be hard to identify the real owners of a corporation, as often they are not registered (OECD, 2001).

Corporations can either have public shares, which can be purchased by everyone who is interested and are often available on the stock market (public limited companies), or they have private shares (private limited companies). In the latter case, stocks can only be sold under certain conditions and to a known shareholder group. In many jurisdictions, the corporations selling public shares are much more regulated than the ones having private shares. The private limited companies have to fulfil less stringent requirements and therefore could be used more easily to hide wealth as less details have to be recorded. The OECD emphasises that especially the limited liability corporations run the risk to be used in offshore financial centres.

A corporation used to conceal assets is more likely created in a home jurisdiction which is not subject to any form of tax (e.g. Belize or the United Arab Emirates) or low actual tax rates (e.g. Cyprus²⁰⁹ or Malta²¹⁰). Usually, taxable offshore companies are eligible to claim double tax treaty benefits. In case of being a resident under a Double Taxation Treaty (DTT), relief is normally provided by the residence country (tax credit or tax exemption) in the applicable DTT bilateral tax treaties between the residence country of the company and the IFC where the investment takes place. In general, there are two ways to avoid double taxation: either exempting foreign income from domestic taxation; or granting a credit for foreign taxes. Hence, being taxed in one country results in being relieved from paying tax in the residence country.

²⁰⁷ EUROPEAN COMMISSION (2020). Commission Report on assessing whether Member States have duly identified and made subject to the obligations of Directive (EU) 2015/849 all trusts and similar legal arrangements governed under their laws. Available from: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52020DC0560> (Accessed on 15/12/2020).

²⁰⁸ Ibid.

²⁰⁹ 12,5% corporate tax on worldwide income + dividends paid to non-resident shareholders are not subject to withholding tax.

²¹⁰ 35% Corporate tax but with foreign shareholders one is eligible to receive 30% refund, effective tax of 5% + dividends paid to non-resident shareholders not subject to withholding tax in Malta ([offshorecompany.com/solutions](https://www.offshorecompany.com/solutions), 2020).

Company packages and readymade shell companies

To illustrate, this service provider offers clients an extensive inventory of “readymade and shelf-aged companies”²¹¹ as well as complete company packages. Concerning the former, the provider argues that shelf companies provide market credibility or allow you to bid on a contract that requires companies to have a certain age. Also, according to the service provider, having an established corporation allows you to obtain a bank loan, corporate credit cards and leases more easily. Therefore, more than 500 worldwide aged companies are offered off the shelf. The online shop allows the buyer to select and pay within seconds for a readymade company in a jurisdiction of choice. This also includes readymade companies in EU MS such as: Bulgarian EOODs; Irish Limited Partnerships or Private Limited Companies; Dutch Foundations; Spanish Sociedades Limitadas; Swedish KBs (Limited Partnerships).

Clients are offered a standard package which consists of a formed company with all relevant documents in a digital format. Optional services include certified, notarised and/or apostilled documents. The business package consists of a company, plus a fully functioning bank account (including Internet banking, standing order/direct debit, cheque books, credit cards or debit cards, etc.) in a local currency or of course EUR, USD, CHF or GBP. A premium package adds also a nominee director or shareholder. The benefits explained by the company are that beneficial owner’s identity remains private and that the benefits of the offshore jurisdiction’s tax system apply. ‘For example, in order to gain the benefits of the Cyprus tax system the company must be a tax resident requiring the company to be controlled and managed from the country’.²¹² Finally, the global package provides all of the above, plus a full serviced virtual office.

Table 4-7 Example list of shelf companies

List of Shelf Companies

Belize IBC				
CODE ▲	COMPANY NAME ▲	INCORPORATION DATE ▲	PRICE ▲	BUY NOW
BZ-01	Finanze Immobiliaria SA	10-04-2007	US\$9,480	BUY
BZ-02	Imofinanza Inversiones SA	10-04-2007	US\$9,480	BUY
BZ-03	Martech Technologies Ltd	25-07-2008	US\$8,780	BUY
BZ-04	Intech Financial Ltd	17-02-2009	US\$7,990	BUY
BZ-05	Business Digital Services Ltd	17-09-2010	US\$7,380	BUY
BZ-06	Advanced Investment Consultancy Ltd	17-09-2010	US\$7,380	BUY
BZ-07	Interbrand Consultants Ltd	17-09-2010	US\$7,380	BUY
BZ-08	Prime Advisors Ltd	27-07-2011	US\$6,680	BUY
BZ-09	Metro Capital Investment Ltd	27-07-2011	US\$6,680	BUY
BZ-10	Great Spread Development Ltd	27-07-2011	US\$6,680	BUY
BZ-11	Art Best Holdings Ltd	27-07-2011	US\$6,680	BUY
BZ-12	Premium Strategies Ltd	21-12-2012	US\$5,980	BUY
BZ-13	Business Growth Associates Ltd	21-12-2012	US\$5,980	BUY
BZ-14	Lusac Holdings Ltd	21-12-2012	US\$5,980	BUY
BZ-15	WhiteSide Capital Group Ltd	11-11-2016	US\$3,080	BUY

Bulgaria EOOD				
CODE ▲	COMPANY NAME ▲	INCORPORATION DATE ▲	PRICE ▲	BUY NOW
BL-001	Lesno Zhelanie EOOD (*) (**)	25-08-2008	€10,880	BUY
BL-002	TRBT EOOD – Green Service (*)	21-09-2017	€3,680	BUY
BL-003	Social Media Technologies EOOD (*)	15-12-2017	€3,680	BUY
BL-004	Clean Resources EOOD (*)	15-12-2017	€3,680	BUY
BL-005	Absolute Business Designs EOOD (*)	15-12-2017	€3,680	BUY

Source: <https://www.atrium-associates.com/list-of-shelf-companies/>

Seychelles
Vanuatu

International Trade
and Tax Planning
The Onshore
Alternative New
“Offshore” Solutions!



Canada LP, British Columbia
Canada LP, New Brunswick
Canada LP, Nova Scotia
Canada LP, Ontario
Cyprus
Denmark (K/S)
Ireland Republic
Scotland LLP
United Kingdom (LLP)
USA (LLC) Colorado
USA (LLC), Delaware
USA (LLC), Florida
USA (LLC), Hawaii

Belize
Why Register Your
Business Company in
Belize?



²¹¹ ATRIUM (n.d.). Ready-made and shelf aged companies. Available from: <https://www.atrium-associates.com/shelf-aged-companies/> (Accessed on 15/12/2020).

²¹² SFM (n.d.). Citizenship by investment. Available from: <https://www.sfm.com/citizenship-by-investment> (Accessed on 15/12/2020).

As discussed in Section 4.2.1 on legal arrangements, the provisions in DAC2/CRS relating to a reportable financial account, a reportable person, and the definition of a passive non-financial entity are also applicable to legal persons. However, in terms of the identification of the beneficial owner, the definition of controlling persons under the 4th and 5th AMLD are different between legal persons and arrangements. Under the 4th and 5th AMLD, Article 3 (6) (a) defines beneficial owners for legal persons as follows:

'(i) the natural person(s) who ultimately owns or controls a legal entity through direct or indirect ownership of a sufficient percentage of the shares or voting rights or ownership interest in that entity, including through bearer shareholdings, or through control via other means, other than a company listed on a regulated market that is subject to disclosure requirements consistent with Union law or subject to equivalent international standards which ensure adequate transparency of ownership information.

A shareholding of 25 % plus one share or an ownership interest of more than 25 % in the customer held by a natural person shall be an indication of direct ownership. A shareholding of 25 % plus one share or an ownership interest of more than 25 % in the customer held by a corporate entity, which is under the control of a natural person(s), or by multiple corporate entities, which are under the control of the same natural person(s), shall be an indication of indirect ownership. This applies without prejudice to the right of Member States to decide that a lower percentage may be an indication of ownership or control. Control through other means may be determined, inter alia, in accordance with the criteria in Article 22(1) to (5) of Directive 2013/34/EU of the European Parliament and of the Council (3);

(ii) if, after having exhausted all possible means and provided there are no grounds for suspicion, no person under point (i) is identified, or if there is any doubt that the person(s) identified are the beneficial owner(s), the natural person(s) who hold the position of senior managing official(s), the obliged entities shall keep records of the actions taken in order to identify the beneficial ownership under point (i) and this point;'

This definition reduces the scope of reporting due to filters such as the threshold. This is different in the case of legal arrangements where all parties are required to be reported on. As discussed above for legal arrangements, for corporations also various considerations are of interest in light of the need to understand to which extent information exchange can be circumvented:

- ◆ The use of thresholds may mean that beneficial owners can reduce their ownership in order to circumvent reporting – dilution of ownership.
- ◆ The notion of 'indirect' ownership may be difficult to determine, especially given that there may be multiple layers in various jurisdictions that may be required to be looked through to identify indirect control or ownership.
- ◆ Unlike arrangements which would primarily deal with passive investments and would therefore automatically fall under the definition of passive NFE, legal persons like limited liability companies mostly used for trading and commercial purposes, therefore would not be classified as 'passive' under the definition although could well be used for concealment purposes. As explained in chapter 3, interest and non-custodial dividends are used for tax evasion purposes, therefore the opportunity for legal persons to abuse the definition of a passive entity may be higher.
- ◆ Instruments like nominee arrangements and the use of bearer shares cited in the study are used by legal persons, rather than for arrangements.
- ◆ Civil liability provisions for directors of companies are normally less onerous than trustee civil liability provisions for arrangements.
- ◆ As will be discussed in Section 4.4. the FATF AML Mutual Evaluation compliance ratings for legal persons like companies are lower than for arrangements.

4.3 Steps taken to hide wealth

Information concerning the way in which wealth is hidden in offshore centres is scattered and therefore it is difficult to provide a description on how wealth is hidden. Nevertheless, several steps are identified:²¹³

1. Choosing the advisor or intermediary
2. Choosing the financial centre
3. Setting up an entity
4. Creating a (secret) identity
5. Opening a bank account
6. Moving the money or other assets
7. Spending the money or enjoying the assets

Step 1 consists of selecting the advisor or intermediary. As described above, a HNWI requires advice and the expertise of intermediaries to help manage wealth. The 2019 World Wealth Report by Capgemini provides interesting insights into key criteria for selection wealth management firms.²¹⁴ Service quality is most valued (selected by 91,2% of respondents²¹⁵), followed by risk diversification (85,5%). Another key criterion is the discretionary management of the firm (80,5%). Less valued by HNWI's is the access of firms to preferable geographical locations (55,3%).

Step 2 consists of selecting the actual financial centre. Research shows that each of the offshore financial centres have their own specialisation, which is influenced by their applicable legal framework. In some centres, the creation of a trust is far easier than in others. Based on the Panama Papers, this specialisation of certain offshore financial centres become more apparent. For instance, corporations are often found in Delaware (USA), the BVI, Bahamas and Niue, while trusts are found in Jersey and foundations in Panama.²¹⁶

The EU country analysis conducted for this study showed certain trends in terms of selecting financial centres. For example, the use of trusts and foundations were often linked to structures involving Dutch and Luxembourgish structures. In the Netherlands, the tax authorities established a dedicated team looking at HNWI's (*Programme Zeer Vermogende Personen*).²¹⁷ The team showed that a common denominator was the creation of a corporation or some form of cooperation with a foreign address in order to avoid taxes. In particular the use of so-called *Afgezonderde Particuliere Vermogens* (APVs) is recorded, which is a type of trust.²¹⁸ This vehicle includes also Stiftungen, Anstalten and other types of foundations and private funds. The country analysis also mentioned Cyprus and Ireland in relation to the setup of offshore corporations. This is also illustrated when looking at services offered by intermediaries, which suggests for example that setting up a corporation in Cyprus is particularly efficient in terms of low costs as well as the time needed.²¹⁹

Step 3 is setting up the preferred entities. The extent to which multiple entities are set up and linked to each other, depends on the amount of wealth the individual wishes to hide and the extent to which the beneficial owner wishes to be removed from the asset. It seems that the ultra-wealthy often have more complex structures entailing multiple entities, while the less wealthy only create one entity.

Despite there being different types of entities, what they have in common is that they are shell structures or companies, which do not deploy significant economic activities, hardly employ personnel and often do not have an office (e.g. only a postal address). Shell companies are an umbrella term for different types of entities. The

²¹³ CBC (2016). Tax havens explained: How the rich hide money offshore. Available from: <https://www.cbc.ca/news/world/offshore-tax-havens-1.3520086> (Accessed on 15/12/2020).

²¹⁴ CAPGEMINI (2019). World Wealth Report 2019. Available from: <https://worldwealthreport.com/wp-content/uploads/sites/7/2019/07/World-Wealth-Report-2019-1.pdf> (Accessed on 15/12/2020).

²¹⁵ Over 2,500 HNWI's were surveyed, out of which 537 in Europe (Belgium, France, Germany, Netherlands, Spain, Switzerland, and United Kingdom).

²¹⁶ ICIJ (2020). What is a tax haven? Offshore finance, explained. Available from: <https://www.icij.org/investigations/panama-papers/what-is-a-tax-haven-offshore-finance-explained/> (Accessed on 15/05/2020).

²¹⁷ BELASTINGDIENST (n.d.). Verhuld vermogen. Available from : <https://over-ons.belastingdienst.nl/category/verhuld-vermogen/> (Accessed on 15/12/2020).

²¹⁸ Ibid.

²¹⁹ IG (n.d.). Cyprus company incorporation package. Available from : https://www.offshorecompanyregister.com/jur_cyprus.php (Accessed on 15/12/2020).

selection of the type of entity can depend on the chosen jurisdiction, the type of asset that needs to be hidden, or degree of anonymity requested by the UBO. Entities can be newly created or instead a pre-existing structure can be used. The latter are referred to as “shelf companies”.²²⁰ The main entities are corporations, trusts and foundations.

Company formation in multiple-jurisdictions

This service provider explains how “the strongest offshore structure is one that takes advantage of a multi-jurisdictional approach, or an International Fiduciary Structure, which combines some professional management services, designed specifically to meet the changing circumstance of global business and banking needs while offering the best security and asset protection available”. Such a structure, according to the service provider, “enables the individual starting the multi-tiered structure to remain discreet and well-insulated as there are two different and separate sets of corporate laws that protect each offshore entity. Consequently, any court order, suit or claim must navigate two separate legal systems, many of which do not recognize foreign court-ordered civil suits, or if they do, they have lengthy and very costly legal processes which almost guarantees the assets invulnerability. Without a clear indication of criminal activity, there would be virtually no way to break the iron clad asset protection structure”.²²¹

The setting-up of a shell company is an easy process, relatively cheap and fast. Costs for setting up the company are limited, ranging from a few hundred to a few thousand dollars per company.²²² The different leaks (e.g. the Panama Papers and the Paradise Papers) showed that few questions were asked in many offshore financial centres about potential owners and the origin of the money. Regulatory weaknesses meant that the shell companies were created without properly verifying the actual owner. Although IFCs are well known for the ease with which a shell company can be set up, the requirements for doing so have become stricter. Recent research showed that currently it is easier to establish a shell company in a well-developed country, for instance the USA, than in a tropical offshore centre, as the number of checks carried out are far less.²²³ The researchers were able to set up a shell company between 10 and 40 minutes for about USD 200 per company.

²²⁰ BERNSTEIN (2017). *Secrecy World: Inside the Panama Papers, Illicit Money Networks and the Global Elite*. New York: Henry Hold and Company.

²²¹ Ibid.

²²² ICIJ (2020). What is a tax haven? Offshore finance, explained. Available from: <https://www.icij.org/investigations/panama-papers/what-is-a-tax-haven-offshore-finance-explained/> (Accessed on 15/05/2020).

²²³ NEW YORK TIMES (2019). How to set up a shell company. Available from : <https://www.nytimes.com/2019/11/07/magazine/how-to-set-up-a-shell-company.html> (Accessed on 15/12/2020).

Table 4-8 Example shelf aged companies list



Shelf aged companies list

The Netherlands Foundations

CODE	COMPANY NAME	INCORPORATION DATE	PRICE
NL-ST1001	Stichting Bedrijfszorg (Foundation)	25-10-2016	€4,310
NL-ST1002	Stichting Care2Care (Foundation)	25-10-2016	€4,310

Annual Services

To keep your Company Full Compliant & in
Good Standing

Only applicable next January 2021
To cover Period Jan/Dec 2021

Provision of registered office	€1,800
Provision of Local Registered Agent	€ 600
Management and Compliance service fees as required under Dutch Laws	€1,800
Management and Compliance service fees as required under UK Laws	€ 600
Annual Customer due diligence (CDD) requirements under the Final CDD Rule, including collecting, maintaining and reporting of members, Directors and beneficial ownership information (as legally required for Corporate Service Providers, HMRC and FINCEN - Financial Crimes Enforcement Network)	€ 175

Source: <https://www.bsc-shelf-companies.com/netherlands-foundation/>

Step 4 is the process of adding a layer of secrecy to the structure. All the aforementioned vehicles are legal instruments. Many of the corporations, trusts and foundations are bona fide and are used for the purposes for which they have been created, e.g. ensuring that a minor obtains his/her inheritance when coming of age. However, as mentioned, all of these vehicles used as shell companies can also be used to hide wealth. These shell companies have very limited economic activity and personnel. The corporations only provide a structure in which assets can be stored for the UBO.

To create a shell company, an individual can ask different intermediaries that are specialised in creating shell companies. Often they have offices in the IFCs. To give shell companies an appearance of a 'normal' business, a 'nominee director' can be appointed. This can either be a natural person or a business entity that on behalf of the shell company manages the company. The name of the director appears on meeting minutes and on other documentation. In practice, this director does not have any decision or legal power and is only a manager on paper. The reason for using such a 'dummy' is to hide the UBO from authorities or other stakeholders. In some cases, the companies not only have a nominee director, but also use nominee arrangements like 'nominee shareholders' that manage the shares on behalf of the beneficiary. Once a dividend payment is made, the money is transferred via the nominee shareholders to the UBO. Often the nominee shareholders receive a small payment for services rendered.

Nominee services mostly ensure privacy of UBOs. Some jurisdictions require the directors or shareholders to be registered by a company registry which can be accessible in the public domain. Once appointed, nominee directors would sign a power of attorney ensuring the person can act on behalf of the corporation, sign documents,

contracts and open bank accounts. Nominee shareholders are appointed to hold shares on behalf of the owner, and to shield the latter from being associated to the entity. Shares are held under a declaration of trust which ensures that the nominee fulfils all instructions of the real owner.

In other cases, the company can have so called 'bearer shares'. The person who holds the physical share is the legal owner and not the beneficial owner. On the share, no name is included, which makes the share easy transferable. It can be handed down to someone else who becomes the new owner of the company. In many jurisdictions, bearer shares are prohibited, as they were often used by criminals, or have introduced mitigating measures to counteract abuse.

A shell company can contain all kinds of assets. It can hide money, but also real estate, art and jewellery that are subject to DAC2/CRS.

Table 4-9 Example declaration of trust

DECLARATION OF TRUST

I, XXXX (name of the nominee shareholder), born on (date of birth), holder of passport N (number of passport), hereby acknowledge and declare that I hold XXXXXX shares in the company XXXXXXXX (name of the company) [incorporated in XXXXXX on the (date of incorporation), registration number No (company's number), and having its registered office at XXXXXXXX registered in my name as Nominee of and Trustee for XXXXXXXXXXXX (name of the beneficial owner), born on (date of birth), holder of passport N (number of passport), (hereinafter called "the Owner") and I undertake and agree not to transfer, deal with or dispose of the said shares or any of them save as the Owner may from time to time direct. And further to give full effect to the trust hereby declared I hereby deposit with the Owners the Certificate for the said shares together with a transfer thereof executed by me and I hereby expressly authorize and empower the Owner at any time to complete such transfer in inserting the date of the transfer and to complete the same in any other necessary particular.

And I declare that this authority is irrevocable by me. And I further undertake and agree to account to the Owners for all dividends and profits which may be paid to me from time to time upon the said shares and for all other money or profit which may be payable to me in respect thereof. And I further undertake and agree to exercise my voting power as holder of the said shares in such a manner and for such purposes as the Owners may from time to time direct or determine.

Dated this (date)

.....
XX (name of the nominee Shareholder)

Source: <https://www.icoservices.com/upload/declaration-of-trust-icoservices.pdf>

Step 5 is to open a bank account which ensures that money goes to the established new entity. This bank account can be located in another jurisdiction to ensure that the links between the entity, the bank account(s) and the UBO are difficult to make.

Step 6 concerns moving the money or other assets. There are numerous ways to do this:

- ◆ In case of foundations, one could make regular donations, which would then transfer the assets to an IFC company as share capital.
- ◆ In case of a corporation, one could enter into a speculative, long term investment with this entity, the latter of which would then invest with another entity owned by the UBO. The first investment could be structured in a way that return on investments would be long term, thus no explanation on the short term needs to be given and, in addition, the assets are offshore and thus not easily visible. Assets could

also be converted into cryptocurrency and transferred to an offshore corporation who could then convert this back to hard currency and invest this somewhere else. The latter would be hidden from authorities.

- ◆ An UBO could also gift assets to family members oversea and ask this person to transfer the gift to the offshore company.

Step 7 is spending the money or enjoying the assets. There are numerous ways to do this:

- ◆ A common way is to spend money through credit cards issued in the name of the offshore company.
- ◆ Another common approach is the use of back-to-back loans where offshore profits are put into an offshore branch of an onshore bank. Subsequently a loan for the same amount is taken out with the onshore branch back home.

4.4 Locations to hide wealth

Poon et al. identify three types of directional links or network ties between stakeholders involved in offshore structures. The first type is owner-offshore, which links the UBO to the offshore entities or secrecy jurisdictions. The presence of intermediaries acting on behalf of the owners, allows Poon et al. (2019) to break down the owner-offshore relationship further into two constituent linkages: owner-intermediary connections, where clients engage advanced business services firms (such as banks, law and accounting firms) to manage their offshore financial affairs; and intermediary-offshore connections, which pinpoint the offshore jurisdiction chosen by the advance business services firm to manage the client's assets. Poon et al. (2019) show this way that the most important countries in terms of hosting advanced business services are Hong Kong, the UK and Switzerland

Table 4-10 Distribution of intermediaries: top ten jurisdictions.

	Jurisdiction	Number of intermediaries	Percentage of total (%)
1	Hong Kong	2,212	17.6
2	United Kingdom	1,906	15.2
3	Switzerland	1,217	9.7
4	United States	615	4.9
5	Panama	555	4.4
6	Guatemala	439	3.5
7	Luxembourg	404	3.2
8	Brazil	399	3.2
9	Ecuador	324	2.6
10	Uruguay	298	2.4

Source: Table 3 from Poon et al. (2019, p. 59) on the basis of Offshore Leaks Database – Panama Papers (<https://offshoreleaks.icij.org/pages/database>)

A schematic look by Poon et al. (2019) into the combined network of owner-intermediary and intermediary-offshore relations shows that in particular the British Virgin Islands (BVI) stand out and are linked to ties in Hong Kong, UK and Switzerland.

relation to beneficial ownership. International policies are reflected in the European anti-money laundering Directives. Table 4.11 presents a short overview of policy milestones in the area of ownership transparency.

Table 4-11 Development of international ownership transparency policies

Year	Milestone
2003	First FATF recommendations on beneficial ownership
2012	Revision of the FATF recommendations revision
2013	FATF introduces immediate outcome assessments
2014	G20 High-Level Principles on Beneficial Ownership Transparency
2014	Beneficial ownership information in EOIR standards ²²⁶
2014	FATF guidance on beneficial ownership
2015	4 th AML Directive adopted
2016	UK Register of Persons with Significant Control
2016	Panama Papers
2017	Paradise Papers
2018	5 th AML Directive adopted
2019	FATF best practices on beneficial ownership
2020	EU MSs should have UBO registers
2019	EU Communication on implementation of the EU's AML/CFT framework
2020	EU Action Plan on preventing money laundering and terrorism financing
2020	Member States have set-up UBO registers with differences in organisation, design, functions and accessibility

Source: Ecorys.

In 2003, the FATF, the global standard-setting body for measures to fight money laundering and terrorist financing, became the first international body to set global standards on beneficial ownership.²²⁷ Following the revised FATF recommendations, countries were required to ensure that their authorities have up-to-date and accurate information about the person(s) behind companies and foundations and other legal persons. The FATF further strengthened and clarified its beneficial ownership requirements in 2012.²²⁸

Four FATF recommendations are specifically of relevance with regard to beneficial ownership. Recommendations 10 and 22 state that financial institutions and so-called designated non-financial businesses and professions (for example lawyers, notaries, corporate service providers) are required to collect beneficial ownership information from their clients as part of customer due diligence procedures. Recommendations 24 and 25 request countries to ensure beneficial ownership transparency by either setting up a beneficial ownership register (registry approach); by requiring legal persons to collect beneficial ownership data and to make it available to authorities on request (company approach); or by creating access to beneficial ownership information available in banks, corporate service providers, tax authorities, land registries, etcetera (existing information approach).

For its 4th round of mutual evaluations, the FATF has adopted in 2013 a complementary approach for assessing whether and how the AML/CFT system is effective, in addition to the 'old' evaluation method that focused only on technical compliance.²²⁹ In particular immediate outcome 5 (IO5) is of relevance in the context of beneficial owner verifications. It says: 'Legal persons and arrangements are prevented from misuse for money laundering or terrorist financing, and information on their beneficial ownership is available to competent authorities without impediments.'

²²⁶ Of the Global Forum on Transparency and Exchange of Information for Tax Purposes.

²²⁷ FATF (2003). The forty recommendation. Available from: <https://www.fatf-gafi.org/media/fatf/documents/recommendations/pdfs/FATF%20Recommendations%202003.pdf> (Accessed on 15/12/2020).

²²⁸ FATF (2012). The FATF recommendations 2012. Available from: <http://www.fatf-gafi.org/publications/fatfrecommendations/documents/fatf-recommendations.html> (Accessed on 15/12/2020).

²²⁹ FATF (2013). Methodology For Assessing Technical Compliance With The FATF Recommendations And The Effectiveness Of AML/CTF Systems. Available from: <http://www.fatf-gafi.org/media/fatf/documents/methodology/fatf%20methodology%2022%20feb%202013.pdf> (Accessed on 12/12/2020).

The 2014 FATF Guidance on transparency and beneficial ownership and the 2019 FATF report on ‘Best practices on beneficial ownership for legal persons’ recognised some of the benefits of beneficial ownership registries. Although the Guidelines do not specifically promote the ‘registry approach’ as the best mechanism to comply with Recommendations 24 and 25, the 2019 report notes that ‘the trend of openly accessible information on beneficial ownership is on the rise among countries.’²³⁰

In 2014, the leaders of the G20 adopted the High-Level Principles on Beneficial Ownership Transparency which boosted political commitment to tackle ownership secrecy.²³¹ The principles are based on the FATF 2012 Recommendations and allowed for implementation flexibility in terms of country-specific legal frameworks.²³² The FATF monitors the implementation and effectiveness of its standards through its peer review assessments (‘MER’s’).

FATF compliance

The levels of compliance to the FATF requirements specifically related to the identification of beneficial ownership information differs between jurisdictions. On 12 September 2019 the FATF published its mutual evaluation reports of 83 countries.²³³ The table below presents the results with regard to Member States and a series of relevant IFCs.

Table 4-12 FATF ratings on beneficial ownership effectiveness and legal compliance

Jurisdiction	Type report	Date	Assessment body	IO 5	R 24	R 25
Austria	MER + FUR	NOV 18	FATF	ME	LC	LC
Belgium	MER + FUR	SEP 18	FATF	ME	PC	LC
Cyprus	MER	DEC 19	MONEYVAL	ME	LC	LC
Czechia	MER	FEB 19	MONEYVAL	ME	LC	LC
Denmark	MER + FUR	NOV 19	FATF	ME	LC	PC
Finland	MER	APR 19	FATF	ME	PC	LC
Greece	MER	SEP 19	FATF	ME	LC	LC
Hungary	MER	DEC 18	MONEYVAL	LE	PC	LC
Ireland	MER + FUR	NOV 19	FATF	ME	LC	LC
Italy	MER + FUR	MAR 19	IMF / MONEYVAL	SE	LC	LC
Latvia	MER	JUL 18	MONEYVAL	LE	LC	LC
Lithuania	MER	FEB 19	MONEYVAL	ME	PC	LC
Slovenia	MER + FUR	DEC 18	MONEYVAL	ME	LC	LC
Spain	MER + FUR	JUN 19	FATF	SE	LC	LC
Sweden	MER + FUR	JUL 18	FATF	ME	LC	LC
Other						
Hong Kong	MER	SEPT 19	FATF	ME	LC	PC
Switzerland	MER + FUR	JAN 20	FATF	ME	LC	LC

²³⁰ FATF (2019). Best Practices on Beneficial Ownership for Legal Persons, Paris. Available from: www.fatf-gafi.org/publications/documents/beneficial-ownership-legal-persons.htm (Accessed on 12/12/2020). See also: FATF Guidance on Transparency and Beneficial Ownership (October 2014), The Joint FATF and Egmont Group Report on Concealment of Beneficial Ownership (July 2018), The FATF Horizontal Study: Enforcement and Supervision of Beneficial Ownership Obligations

²³¹ G20 (2014). G20 High-level principles on beneficial ownership transparency. Available from: http://www.g20.utoronto.ca/2014/g20_high-level_principles_beneficial_ownership_transparency.pdf (Accessed on 15/12/2020).

²³² Key recommendations included to: Define beneficial ownership in a way that captures the natural person ultimately owning or controlling the legal person or arrangement; Conduct a risk assessment on different types of legal persons and arrangements, share this with competent authorities and take mitigation measures; Maintain BOI onshore and ensure that it is adequate, accurate and current; Ensure timely access to competent authorities through for example central registers; Ensure BOI on trustees of express trusts and other similar legal arrangements; Require financial institutions and other relevant service providers to conduct risk assessment and verify beneficial owners; Ensure effective national and international cooperation and support exchange of data; Address misuse of legal persons and arrangements that obstructs transparency.

²³³ FATF (2019). Consolidated assessment ratings. Available from: <https://www.fatf-gafi.org/publications/mutualevaluations/documents/assessment-ratings.html#:~:text=Through%20its%20online%20FATF%2DStyle,to%20implementing%20the%20FATF%20Recommendations>. (Accessed on 15/12/2020).

Jurisdiction	Type report	Date	Assessment body	IO 5	R 24	R 25
Singapore	MER+FUR	NOV 19	FATF/APG	ME	LC	C
Cayman Islands	MER	MAR 19	CFATF	ME	PC	PC
Bahrein	MER	SEP 18	FATF/MENAFATF	ME	LC	LC
Bahamas	MER+FUR	DEC 18	CFATF	ME	PC	LC
Macao	MER+FUR	OCT 19	APG	SE	LC	LC
Isle of man	MER+FUR	JUL 18	MONEYVAL	ME	LC	C
Panama	MER+FUR	AUG 19	GAFILAT	LE	PC	PC

Immediate outcome 5:	Recommendation 24:
HE = High level effectiveness	C = Compliant
SE = Substantial level effectiveness	LC = Largely compliant
ME = Moderate level effectiveness	PC = Partially compliant
LE = Low level effectiveness	NC = Non-compliant

Source: FATF, Consolidated assessment ratings, September 2019
MER = Mutual Evaluation Report, FUR = Follow-Up Report

If we consider the most relevant FATF assessment criteria on a transparent beneficial ownership information – immediate outcome 5²³⁴ (IO5), recommendation 24²³⁵ (R24), and recommendation 25²³⁶ – we can see that none of the countries have a ‘high level of effectiveness’ on IO5 or is fully ‘compliant’ on R24. Among Member States, only 12% scored ‘substantial effectiveness’ on IO5; 73% scored ‘moderate effectiveness’ and another 13% scored ‘low level effectiveness’. 73% of the assessed Member States was considered to be ‘largely compliant’ on R24, while 27% was only ‘partially compliant’. Almost all Member States are largely compliant with R25. An analysis of the same dataset of 83 countries by made Transparency International²³⁷ concludes that, worldwide, only one country fully complies with Recommendation 24.

There are a wide range of reasons behind non-compliance. At a technical level one of the main issues that often arise in compliance with the FATF recommendations, is that not all legal entities within a jurisdiction are subject to the Recommendation 24 requirements as the national AML frameworks provide for exemptions. In addition, in some jurisdictions only obliged or registered entities are required to apply the FATF recommendations to the creation of legal persons and arrangements within their jurisdiction, rather than the rules applying to all legal entities irrespective of who is performing the customer due diligence.

Furthermore, non-compliance can arise from poor enforcement of AML rules within a jurisdiction. Certain countries lack the supervision or an efficient system of monitoring compliance with ownership and identity information for international businesses, or apply no sanctions, or ones that are not dissuasive, for violations of record-keeping obligations (Barbados²³⁸). In Switzerland, the AML legal framework contains some deficiencies with respect to the identification, verification or updating of the beneficial owners of legal entities and arrangements that may result in AML obliged professional not always maintaining beneficial ownership information in line with the standard. Similarly, the obligation for companies and their shareholders to identify some beneficial

²³⁴ “Legal persons and arrangements are prevented from misuse for money laundering or terrorist financing, and information on their beneficial owners is available to authorities without impediment”.

²³⁵ Recommendation 24 of the FATF standards requires countries to ensure competent authorities – such as law enforcement, financial intelligence units and tax agencies – have access to or an ability to obtain adequate, accurate and up-to-date information on beneficial ownership and control of companies and other legal persons, in a timely fashion.

²³⁶ Recommendation 25 of the FATF standards requires countries to ensure that there is adequate, accurate and timely information on express trusts, including information on the settlor, trustee and beneficiaries that can be obtained or accessed in a timely fashion by competent authorities.

²³⁷ TRANSPARENCY INTERNATIONAL (2019). Who is Behind the Wheel? Fixing the Global Standards on Company Ownership. Available from: https://images.transparencycdn.org/images/2019_Who_is_behind_the_wheel_EN.pdf (Accessed on 15/12/2020).

²³⁸ OECD (2020). Barbados Peer review report on the exchange of information on request. Available from: https://read.oecd-ilibrary.org/taxation/global-forum-on-transparency-and-exchange-of-information-for-tax-purposes-barbados-2020-second-round_fbb6cecf-en#page30 (Accessed on 15/12/2020). p. 30.

owners do not allow the full identification of all beneficial owners according to the standard²³⁹. Through these peer reviews, both at EU and at an international level, the scale of the challenge is highlighted and is work in progress to address this.

OECD Global Forum

Peer reviews of the OECD Global Forum have been crucial in matters of invoking changes in transparency and exchange of information for tax purposes. Almost 70 jurisdictions have made changes to their regulatory regimes and practices since 2009 to eliminate bank secrecy towards authorities. In addition, since 2017 with the initiation of the AEOI on financial accounts of non-residents, the era of bank secrecy is over. Global Forum members, which have undergone the EOIR peer reviews, do not allow the issue of bearer shares, or have taken measures to identify the owners. Realising this result, since 2009 over 40 jurisdictions have either abolished bearer shares or introduced appropriate measures, including, or excluding imprisonment, to identify their owners. The Global Forum reviews the availability and accessibility of beneficial ownership information since 2017, as required by both the EOIR and AEOI standards. Furthermore, many Global Forum members had shortcomings in the availability of accounting records, with 30 jurisdictions that have received unsatisfactory evaluations between 2010 and 2016. The gaps in the regulatory framework have been tackled across the board and attention has now turned to securing effective enforcement and monitoring of these provisions.

The OECD Global Forum peer reviews on transparency and exchange of information are focussing on three components: availability of information; appropriate access to the information of tax authorities; and the existence of exchange of information mechanisms. For the purposes of AEOI (CRS/DAC2), there are three criteria of importance for the ratings system that are important for beneficial ownership purposes:

- ◆ A1. Jurisdictions should ensure that ownership and identity information, including information on legal and beneficial owners, is available for all relevant entities and arrangements, to the competent authorities;
- ◆ A3. Banking information and beneficial ownership information should be available for all account holders;
- ◆ B1. Competent authorities should have the power to obtain and provide information that is subject of a request under an exchange of information arrangement from any person within their territorial jurisdiction who is in possession or control of such information (irrespective of any legal obligation on such person to maintain the secrecy of such the information).

The review is divided into two phases: Phase 1 deals with a jurisdiction's legal framework; and Phase 2 is concerned with the practical implementation of that framework. Accordingly, the report of the Phase 1 review will contain a detailed information on the jurisdictions' legal and administrative framework for transparency and exchange of information. This will be presented under three headings pertaining to the three key components mentioned above. Phase 2 of the peer review is devoted to the effectiveness of information exchange. The reviews will assess the quality of the information exchanged, regarding the views of the requesting parties. Many potential shortcomings exist ranging from insufficient willingness to act to practical obstacles, such as insufficient resources to identify and exchange the necessary information or procedural requirements, which hinder effective information exchange. There are also potential shortfalls in the quality of the requests made. In order to assess the effectiveness of the exchange of information, quantitative data are necessary, such as statistics allowing a meaningful review of the treatment of requests and the time elapsed between request and reply, and qualitative data reflecting the reliability and relevance of the information exchanged to the requesting parties. The peer review should gather information from various sources, including, in some instances, on-site visits, on the adequacy of the resources used for effective information exchange.

4.5.2 EU AML framework

At European level, a major development with regard to beneficial ownership information was the approval of Directive 2015/849 in May 2015, also known as the 4th AML, and the subsequent 5th AMLD Directive. The Directives require public registers to be set up at Member State level for beneficial ownership information. This

²³⁹ OECD (2020). Switzerland Peer review report on the exchange of information on request. Available from: https://read.oecd-ilibrary.org/taxation/global-forum-on-transparency-and-exchange-of-information-for-tax-purposes-switzerland-2020-second-round_fcfc6d7-en#page19 (Accessed on 15/12/2020). p.18.

represents a significant breakthrough in the field of transparency given that public registers of beneficial ownership information are not available in a large majority of jurisdictions in the world. Furthermore, this goes beyond the FATF 2012 standard which does not require public registers of beneficial ownership information.

In terms of implementation, as of October 2020, all Member States are required to have transposed the 5th AML Directive in their own legislation. Member States differ in how they have organised the functioning of their registers, including in their basic design, functions and accessibility. A report by Global Witness in March 2020 has assessed the establishment of the registers across the EU and has noted several deficiencies in their implementation and accessibility.²⁴⁰

After the Panama Papers in 2016 and Paradise Papers in 2017, more countries started to implement beneficial ownership registration laws, realising that this is essential for ensuring that the proceeds of corruption, tax evasion and other financial crimes are not hidden and laundered through anonymous shell companies, trusts and other legal structures. These scandals – and the public pressure that followed – have helped stimulate countries to become more transparent more quickly. It was also widely felt that greater scrutiny by civil society organizations and investigative journalists would help to prevent the abuse of anonymous companies by the criminal and the corrupt.

The Directives hold Member States responsible for ensuring that legal persons and legal arrangements, within their territory hold adequate, accurate and current information on beneficial ownership in public registers. The AMLD goes beyond the FATF recommendations by requiring inclusion of beneficial owners of legal persons like companies in public registers of the Member State of incorporation. In the case of legal arrangements like trusts beneficial ownership information is recorded in the public registers in the Member State where the trustee or equivalent is established or resides.

To foster EU-wide implementation of the 4th and 5th AML Directive, the European Commission issued a Communication in July 2019 entitled ‘Towards better implementation of the EU’s anti-money laundering and countering the financing of terrorism framework’²⁴¹ and an Action Plan for a comprehensive Union policy on preventing money laundering and terrorism financing in May 2020.²⁴² The Communication emphasises the continuous task to ensure the effectiveness of the EU regulatory framework and to update it to keep pace with new developments, and states that “there are major divergences in the application of the framework, presenting a structural problem in the Union’s capacity to prevent that the financial system is used for illegitimate purposes”.²⁴³ The Action Plan is centred around the six pillars, which also emphasise actions planned in the area of beneficial ownership information transparency. For example: infringement procedures against non-compliant Member States, close monitoring of the setting up of registers and population of it with high-quality data, start of the work on interconnectivity of the registers, and the intention of the Commission to support a stronger role for the EU to set and reinforce global standards, including the transparency of beneficial ownership.

²⁴⁰ The data only refer to company registers. Registers of the beneficial owners of trusts were not investigated. Global Witness, Patch process in setting up beneficial ownership registers in the Member States must speed up money laundering reforms, March 2020, retrieved from: <https://www.globalwitness.org/en/campaigns/corruption-and-money-laundering/anonymous-company-owners/5aml-d-patchy-progress/>

²⁴¹ Identification of beneficial owners was in the communication referred to as one of the remaining ‘horizontal vulnerabilities’. EUROPEAN COMMISSION (2019). Towards better implementation of the EU’s anti-money laundering and countering the financing of terrorism framework. COM(2019) 360 final. Available from : https://ec.europa.eu/info/sites/info/files/communication_from_the_commission_to_the_european_parliament_towards_better_implementation_of_the_eus_anti-money_laundering_and_countering_the_financing_of_terrorism_framework.pdf (Accessed on 15/12/2020).

²⁴² In the action plan, the Commission announced that it will closely monitor the setting up of the central bank account mechanisms and the beneficial ownership registers by Member States in order to ensure that they are populated with high-quality data. It also informs that work on interconnecting the beneficial ownership registers has already started and the interconnection will be operational in 2021. The action plan was subject to a public consultation which was open until 26 August 2020. EUROPEAN COMMISSION (2020). Action plan for a comprehensive Union policy on preventing money laundering and terrorist financing. COM(2020) 2800 final. Available from: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=PI_COM%3AC%282020%292800 (Accessed on 12/12/2020).

²⁴³ EUROPEAN COMMISSION (2019). Towards better implementation of the EU’s anti-money laundering and countering the financing of terrorism framework. COM(2019) 360 final. Available from : https://ec.europa.eu/info/sites/info/files/communication_from_the_commission_to_the_european_parliament_towards_better_implementation_of_the_eus_anti-money_laundering_and_countering_the_financing_of_terrorism_framework.pdf (Accessed on 15/12/2020).

4.5.3 EU list of non-cooperative tax jurisdictions

Finally, the EU list of non-cooperative jurisdictions for tax purposes focuses on third country threats to the Member States' tax bases. Through the listing exercise, the EU aims to promote tax good governance internationally and has contributed to fighting tax avoidance and tax evasion worldwide through reforms, including legislative reforms, enacted by third country jurisdictions in scope.

The following criteria are used in the assessment: (i) Tax transparency (ii) Fair taxation (iii) Implementation of anti-BEPS measures.²⁴⁴ The EU list of non-cooperative tax jurisdiction is composed of countries that either failed to deliver on their commitments to comply with tax good governance criteria within a specific timeline or have not committed to do so at all.²⁴⁵

In terms of automatic exchange of information, under the (i) Tax transparency criterion, jurisdictions should have committed to and started the legislative process to implement effectively the CRS, with first exchanges in 2018 (with respect to the year 2017) at the latest and have arrangements in place to be able to exchange information with all Member States, by the end of 2017, either by signing the Multilateral Competent Authority Agreement (MCAA) or through bilateral agreements. Furthermore, with respect to the CRS as from 2018: the jurisdiction, should possess at least a "Largely Compliant" rating by the Global Forum with respect to the CRS. In terms of exchange of information upon request, the jurisdiction should possess at least a "Largely Compliant" rating by the Global Forum with respect to the OECD Exchange of Information on Request (EOIR) standard. In addition, the jurisdiction should have an adequate network of treaty partners for EOI purposes covering all Member States, condition met if the jurisdiction is part to the OECD Multilateral Convention on Mutual Administrative Assistance (MCMAA) in Tax Matters.

Countries listed as non-cooperative at October 2020 are: American Samoa; Anguilla; Barbados; Fiji; Guam; Palau; Panama; Samoa; Trinidad and Tobago; US Virgin Islands; Vanuatu; and the Seychelles.

4.6 Main findings

Wealth hidden in IFCs, either for financial or privacy reasons, can follow various structures through the interaction of different service providers and actors. Feedback collected for this study suggests that complex structures, involving legal entities in multiple jurisdictions, are a risk as the ultimate beneficial owner can be hidden. In addition, both for legal entities and arrangements, the notion of 'indirect' ownership may be difficult to determine, especially given that there may be multiple layers in various jurisdictions that may be required to be looked through to identify indirect control or ownership.

Due to the complexity of creating and administering these structures, intermediaries such as lawyers or trust or company service providers are required. The Panama papers and related leaks have shown that these intermediaries are located in major financial centres and use tax havens to set up company structures.

Services of these providers are accessible for wealthy individuals that use the expertise of intermediaries in order to set up different structures through the use of various vehicles. Intermediaries, either being a natural person or a legal entity, design, market and organise the implementation of reportable cross-border schemes. Companies offer various services to exploit IFCs for hiding wealth, e.g. banks that open non-residency bank accounts or trust and company service providers.

IFC's share a number of characteristics which attract wealth. First, these IFC's have a tax system which exempts from tax income received by legal persons like private limited liability companies and arrangements like trusts from abroad. In addition, there is zero or next to zero tax at the level of the legal person or arrangement. The tax system also allows income to be distributed to non-resident beneficiaries that is not subject to withholding tax. Type II IFC's, that is jurisdictions where shell companies can easily be established, have double taxation treaties with Type I jurisdictions which are major investment centres. These treaties prevent double taxation of income received from Type I IFCs.

The effectiveness of the exchange of information for tax purposes depends on the robustness of the anti-AML legislation in IFC's, in particular for collecting information on the beneficial owners of legal persons and

²⁴⁴ 14166/16: FISC 187/ECOFIN 1014 Council conclusions 8 November 2016 (accessible via <https://www.consilium.europa.eu/media/24230/08-ecofin-non-coop-juris-st14166en16.pdf>)

²⁴⁵ https://ec.europa.eu/taxation_customs/sites/taxation/files/eu-list-faq.pdf

arrangements. Although data on beneficial ownership of legal instruments should be collected by countries under AML rules, outside the EU this data does not normally have to be publicly disclosed, for example in a beneficial ownership register. If the legislation provides exemptions to certain obliged entities for collecting information, or exempts certain entities/arrangements from being subject to AML provisions, then information on beneficial ownership may not be available. Furthermore, weak AML enforcement provisions, for example in monitoring and sanctions, may also mean that a jurisdiction is vulnerable to AML abuses and for predicate offences like tax evasion. A notable feature for both Type I and II IFC's is that they are both politically and economically stable as wealth needs to be protected.

Investor residence schemes may be abused for tax purposes when information is sent to the jurisdiction of the investor residence scheme, rather than the jurisdiction where the investor is actually a tax resident. Through investment in Member States, citizenship and residency by Investment schemes can grant visa-free access to hundreds of countries around the world. Tax abuse can take place with these schemes, for example when information to be exchanged under DAC2/CRS is sent to the jurisdiction of the investor scheme rather the country where the investor is actually resident for tax purposes.

With regard to DAC2/CRS, reporting on legal arrangements includes all reportable financial information collected and applies to all parties under the arrangement, irrespective of whether they have an equity interest in the arrangement or whether they are a beneficiary of the trust. In this way, reporting for arrangements is more extensive than that for legal persons where a minimum threshold is applied. The extent to which information can be circumvented differs and this chapter has summed up a series of considerations. For legal arrangements such as trust the complexity of arrangements and wide differences between jurisdictions on reporting obligations and the taxation of trusts is a risk factor. The complexity makes the identification of beneficial owners difficult with risks of misusing trusts, or when trusts are set up in foreign jurisdictions. Further, unlike legal persons like limited liability companies that would have commercial/trading activities, trusts should normally be investment entities and therefore would fall under the definition of a passive NFE as described in 4.2.1.

For legal persons, the use of thresholds may mean that beneficial owners can reduce their ownership in order to circumvent reporting. As a result, the notion of indirect ownership may be difficult to determine due to multiple layers in various jurisdictions. Additionally, legal persons (e.g. limited companies) are most likely used for trading and commercial purposes and would not be classified as passive NFEs although could well be used for concealment purposes. Furthermore, the existence of vehicles like nominee arrangements and bearer shares in IFC's means that information is not collected on the beneficial owner and exchanged with their country of residence.

Peer reviews of the OECD Global Forum and FATF have been essential and remain essential for transparency and exchange of information for tax purposes as they are useful evaluations for risk assessment purposes. The FATF publication (of September 2019) of mutual evaluation reports of 83 countries on transparent beneficial ownership show that almost no Member States meet the assessment criteria yet on a satisfactory compliant level. Various reasons are behind this non-compliance, on a technical level as well as a result of ineffective enforcement of AML rules within a jurisdiction. The OECD Global Forum peer reviews have been reviewing the availability and accessibility of beneficial ownership since 2017. Many Global Forum members have been tackling their unsatisfactory evaluations across the board and attention has now turned to securing effective enforcement and monitoring of these provisions.

5 How much wealth is hidden?

Based on the previous chapters, it is possible to highlight which individuals hide wealth, why they hide their wealth and what they are hiding (Chapter 3). In addition, information is presented on how wealth is hidden and a first indication is given on where the wealth is hidden (chapter 4). An unanswered question is how much is hidden, which is addressed in this chapter. First, this chapter explores what is known based on previous work. Then an update on the previous ECOPA/CASE study is provided and new assets categories are added to the estimation on the amount of wealth hidden. In the last section an outlook for the near future is given.

5.1 Estimates based on earlier work

5.1.1 How much wealth is hidden?

There have been many attempts at estimating the scale of offshore wealth. Most of the earlier ones were made by experts at various non-governmental organisations such as Oxfam (2000) and Transparency International (2004). The estimations were based on limited data availability at the time and varied considerably. Tax Justice Network (2005) estimated the value of assets held offshore at USD 11 - 12 trillion, while Cobham (2005), using the Tax Justice Network (2005) and Schneider's (2005) shadow economy estimates, derived that developing countries lose around USD 100 billion a year. Henry (2012), building on his earlier estimates for Oxfam (2009), estimated that the global rich had at least USD 21 trillion hidden offshore in 2010.

The so far most promising stream of literature has been started by Zucman²⁴⁶, who estimated the scale of undeclared wealth hidden in offshore financial centres on the basis of data on financial wealth managed by Swiss banks on behalf of foreigners. Zucman used a 'novel method'²⁴⁷ to estimate the amount of wealth held by individuals through all the world's IFCs. The methods exploit the anomalies that the personal wealth management activities of IFCs cause in the portfolio data of countries: personal wealth management activities of IFCs fundamentally create anomalies in the portfolio stock data of countries. Anomalies are that 1) more cross-border portfolio liabilities than assets will be recorded at the global level, 2) more cross-border dividends and interest will be paid than being recorded as being received globally and 3) when offshore account holders are net purchasers of securities, more securities are sold than purchased globally and 4)²⁴⁸ in individual countries' statistics, some transfers of funds to IFCs cause net errors and omissions and flow-stock discrepancies.

The example Zucman provides are French residents who own Luxembourg fund shares through their Swiss accounts. In this scenario, the portfolio asset is not recorded by France as they are unaware that the French individual owns the asset as it is held in Switzerland. However, the portfolio liability is recorded in the statistics of Luxembourg, resulting in the fact that portfolio assets and liabilities will not balance.

These aggregate estimates of Zucman were disaggregated to a country-by-country level by Alstadsaeter, Johannesen, & Zucman (2018) with the help of the bilateral data from the Bank for International Settlements on deposits by foreigners and other data sources that they also use in another related paper.²⁴⁹ Since Alstadsaeter, Johannesen, & Zucman (2018) use data and methods that likely provide the currently most reliable estimates of offshore wealth, in this study their results are extensively used below.

5.1.2 Preferred locations to hide wealth

Although some literature is published estimating the overall size of wealth hidden in international financial centres, literature on how much wealth is hidden on a country by country basis is scarcer. Two studies are worth mentioning; the study carried out by Alstadsaeter et al. (2018) and the ECOPA/CASE study (2019).

²⁴⁶ For instance, the studies published in 2013, 2014 and 2015.

²⁴⁷ For a detailed description of the methodology and explanation of the underlying assumption, Zucman, 2013, pp.1335-1339.

²⁴⁸ When entrusting onshore securities purchases to offshore banks for custody, flow data will be accurate but the positions will be negative.

²⁴⁹ ALSTADSÆTER, A, JOHANNESSEN, N., and ZUCMAN, G. (2019). Tax evasion and inequality, American Economic Review 2019, 109(6): 2073–2103. Available from: <https://pubs.aeaweb.org/doi/pdfplus/10.1257/aer.20172043> (Accessed on 10/12/2020).

Country by country estimates made by Alstadsaeter

Some of the best country-level estimates of offshore wealth are provided in an academic paper by Alstadsaeter et al. (2018). The study presents estimates for the world and focuses on estimates for European countries. Data is presented for all years between 2001 and 2015, but other estimates are only for some years. Alstadsaeter et al. argue that results for the years from 2007 onwards are more difficult to interpret, as the increased use of shell companies makes it more difficult to present a clear country-by-country calculation.²⁵⁰ Nonetheless, there is obviously scope for detailing the development in recent years, which might be important, as the authors acknowledge, for example in the case of China. Below the results are presented by their most recent year, 2015. The following two tables focus on Europe, using the year 2007 as that is the year for which the researchers provide estimates.

Table 5.1 lists foreign jurisdictions that are most popular to store wealth. Switzerland is the most popular jurisdiction, holding an estimated 26% of the world's offshore wealth in 2015. Hong Kong and Singapore have both a share above 10%, while four other jurisdictions all have a share between 7 and 9%: the United Kingdom, Luxembourg, the Cayman Islands and the United States. The top-10 countries jointly cover 92,1% of all offshore wealth hidden by individuals. This represents more than 7,919 billion USD.

Table 5-1 The most popular jurisdictions to store offshore wealth (2015)

	Jurisdiction	Share of world's offshore wealth (%)	Offshore wealth (billions of USD)
1	Switzerland	26	2,217
2	Hong Kong	16.5	1,425
3	Singapore	10.0	863
4	United Kingdom	8.9	765
5	Luxembourg	8.3	715
6	Cayman Islands	7.9	685
7	United States	7.5	644
8	Bahrain	2.5	219
9	Jersey	2.4	208
10	Bahamas	2.1	178
	Total top-10	92,1%	7,919

Source: Table A2b in the Appendix of Alstadsaeter et al. (2018)

Table 5.2 lists the foreign jurisdictions that are most popular to store wealth for 33 European countries with available data as a whole and individually. Switzerland is the top financial centre for offshore wealth both on a world-wide basis (42% of offshore wealth) and, even more so, on a European basis (44%). For Europe, most offshore wealth in the centres other than Switzerland is located in European offshore financial centres (more than 60%) rather than Caribbean or Asian ones (less than 20% each). The distribution differs across European countries with, for example, Switzerland being much more popular with Italian and French residents than with Germans. Alstadsaeter et al. (2018) do not provide estimates at the country by country basis with the exception of Switzerland.

²⁵⁰ Because shell companies are used, it is more difficult to define who the real UBO is. As a result, not all wealth can be assigned to a specific country as the identify and nationality of the UBO cannot be determined.

Table 5-2 The most popular offshore financial centres and regions to store wealth for Europe

2007	Share held by EU citizens	Offshore wealth (billion USD)
Total offshore wealth	41.63%	2,341
Offshore wealth held in Switzerland	43.91%	1,171
Caribbean offshore financial centres	6.82%	109
Asian offshore financial centres	6.92%	143
European offshore financial centres	24.16%	918
Other % of offshore wealth not held in Switzerland or abovementioned financial centres	16.51%	x ²⁵¹

Source: Table A3 in the Appendix of Alstadsaeter et al. (2018)

Notes: Europe in this table covers 33 European countries, from Albania to the United Kingdom

Country by country estimates by the ECOPA/CASE study

The ECOPA/CASE study provides estimates of offshore wealth held by individuals (for the world's main economies) and corresponding estimates of international tax evasion (for the EU and Member States). Methodologically, they build on Zucman (2013) and Alstadsaeter et al. (2018), as well as Pellegrini et al. (2016). Vellutini et al. (2019). The methodology is based on the following three steps:

Step 1. Estimation of global offshore financial wealth.

This is possible because at the global level, international portfolio liabilities and assets are not balanced despite the fact that they should in theory. Equities, bonds, and mutual fund shares owned by individuals in foreign accounts are duly recorded on the liability side of international investment position of countries (stock equivalent of the balance of payments), but this is not recorded as an asset international investment position in the jurisdiction where the individual is resident. This gap is interpreted as the basis for an estimate of global offshore wealth.

Step 2. Breakdown by country of ownership and by IFC.

Next, data on offshore deposits is used to allocate estimated global offshore wealth to each individual country of ownership. This step is implemented for all major economies. A breakdown of offshore wealth held in each individual IFC is also provided.

Step 3. Estimation of international tax evasion per Member State.

Based on the estimated offshore wealth by country of ownership, revenue lost to tax evasion is estimated for, respectively, taxation of the stock of offshore wealth itself, taxation of the related capital income and taxation of the original income (transferred offshore in the first place). This is provided for the EU and the Member States (former 28).

In addition to this methodology, the ECOPA/CASE study implemented two main changes:

- ◆ (i) it estimates offshore wealth held indirectly through shell companies by identifying "Type II" international financial centres, defined as jurisdictions providing shell companies and similar arrangements;
- ◆ (ii) it uses foreign direct investment data (FDI) to improve on available statistics for cross-border deposits. As the BIS deposit data contains both deposits held by individuals and deposits held by companies, FDI data is used to separate out deposits held by individuals, which are within the scope of this study, and deposits held by companies which are outside the scope of this study.

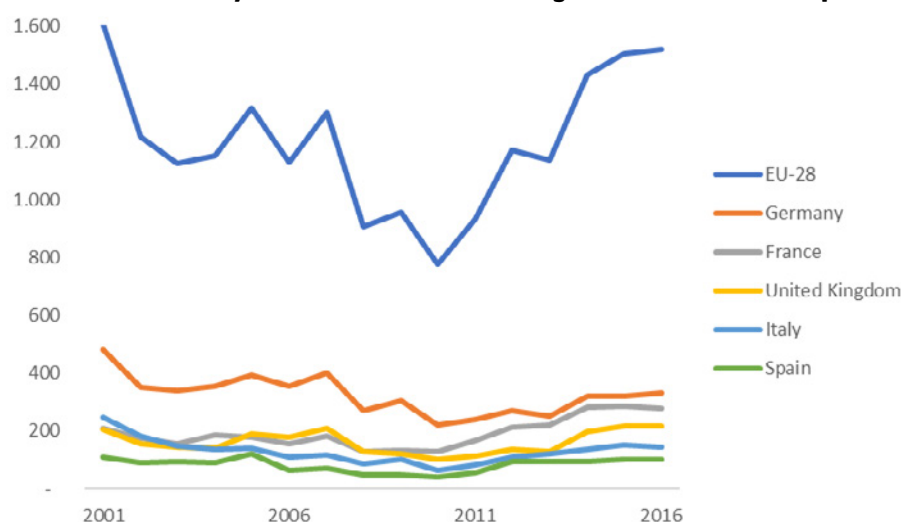
The ECOPA/CASE study estimates the global offshore wealth at USD 7.8 trillion in 2016. At the country level, the study estimates offshore wealth for the EU to be at USD 1.6 trillion (EUR 1.5 trillion) and they further estimate the corresponding EU estimated revenue lost to international tax evasion at EUR 46 billion in 2016 (0.32% of GDP).

Figure 5.1 displays the estimates of the ECOPA/CASE study of offshore wealth by Member States. The largest EU economies accounted for much of the total EUR 1.5 trillion in 2016: Germany (EUR 331 billion), France (EUR 277 billion), United Kingdom (EUR 218 billion), Italy (EUR 142 billion) and Spain (EUR 102 billion), equalling 70% of

²⁵¹ Only distinguish between Switzerland and non-Switzerland Caribbean, Asian and Europe which leaves an unaccounted percentage for e.g. UAE but cannot be retraced to amounts due to the data set.

all EU wealth hidden. Nevertheless, it should be noted that the figures presented are the absolute figures. When considering in relative terms, based on the wealth hidden in relation to GDP, the picture changes and Member States such as Malta and Bulgaria top the list.

Figure 5-1 Wealth hidden by resident from the five largest economies in Europe²⁵²



Source: ECOPA/CASE study (2019)

Over time, the estimated offshore wealth went from EUR 1.6 trillion in 2001 to a low of 775 billion euro in 2010 during the global financial crisis. Germany's or Italy's estimated offshore wealth went down by more than EUR 100 billion, while for some other big economies the estimates fluctuated over time, but stayed at about the same levels in 2001 and 2016 (France, United Kingdom, Spain). For some of the medium-sized Member States, there are substantial changes over time: for example, the estimates for the Czech Republic and Poland fluctuated from, respectively, EUR 14 and EUR 13 billion in 2001 to EUR 16 and EUR 12 billion in 2013 and then more than doubled over the period of three years to EUR 34 and EUR 32 billion in 2016. This coincided with a period of rapid economic growth in both countries.

Furthermore, the ECOPA/CASE study includes estimates of countries, in which offshore wealth is held. They include estimated offshore wealth held in each of the 14 Type I IFCs. In Figure 5.2 the share of each offshore centre is presented. In contrast, with Alstadsaeter et al. (2018), they neither provide a breakdown of these estimates by countries nor regions. Therefore, it is not possible, based on those data, to indicate in which offshore centres specific EU nationals hide their wealth. Throughout the period 2001-2016, Switzerland has clearly been the most popular destination for offshore wealth, except for recent years when Hong Kong became more popular. The two countries jointly hold about USD 2 trillion. The importance of both Cayman Islands and Singapore increased over time and they each held more than USD 1 trillion in 2016. From the remaining Type I countries, only Luxembourg and Jersey held more than USD 200 billion in 2016. A detailed table can be found in the annex.

Table 5-3 Share of the each Type I offshore financial centre (2016)

Type I IFC	Share
Hong Kong	28%
Switzerland	25%
Singapore	14%
Cayman Islands	13%
Luxembourg	5%
Jersey	4%
Bahrein, Bahamas, Macao, Guernsey, Isle of man, Cyprus, Netherlands Antilles, Panama	11%

Source: ECOPA/CASE study (2019)

²⁵² The UK left the EU on 31 January 2020.

5.2 Update of the ECOPA/CASE study

After briefly introducing the methodology employed, the following section provides updated estimates for the volume of offshore wealth overall. The section further reports on the shares of offshore wealth in IFCs and on offshore wealth by country of origin, with a focus on the EU-27 and the UK.²⁵³

5.2.1 Methodology

The results reported in this section are an update of the study by ECOPA/CASE, which provides estimates for offshore wealth for the period from 2001 until 2016. Due to the availability of more recent data, estimates for 2017 and 2018 have now been added. To ensure comparability, this study follows closely the methodological approach and individual steps of estimation of the previous study. A detailed description of the methodology can be found in the report of the previous study.²⁵⁴ However, to help the reader of this report to understand the logic and individual steps of the estimation, the methodology is briefly explained below.

The methodology is based on a comparison of international portfolio assets and liabilities. International portfolio assets are understood as assets that are held by a resident from country A in country B. The estimation is broken down into two steps.

In a *first step*, the value of global offshore wealth is estimated. As mentioned in section 5.2, the estimation builds on the idea that theoretically, the overall values of reported international portfolio assets and international portfolio liabilities should be balanced. However, this is not the case. Rather, the values of reported international portfolio liabilities exceed the values of reported international portfolio assets by about 11% annually. This difference between liabilities and assets is conceptualised as part of the global offshore wealth. The estimation is based on three main datasets: IIP and CPIS data from the IMF, as well as the External Wealth of Nations (EWN) database.²⁵⁵ Based on findings from literature, it is therefore assumed that deposits account for a fourth of overall offshore wealth (the databases used do not report on international deposits).

In the *second step*, bilateral financial data are used to gain an understanding of the distribution of global wealth across countries. In particular, BIS locational banking statistics data on cross-border deposits are used as a proxy for cross-border assets as well. The underlying assumption is that the risk behaviour of people is similar for deposits as for other assets. Using this information, it is possible to determine the share of global offshore wealth attributable to each country. First, offshore wealth is estimated for IFCs. The analysis differentiates between Type I IFCs (wealth defining IFCs) and Type II IFCs (IFCs providing shell companies and other screening means). Following this, the offshore wealth attributable to other countries is calculated. However, the data used (notably the BIS locational banking statistics) does not differentiate between cross-border wealth of individuals and non-financial companies. To account for this and gain an understanding of the cross-border wealth of individuals, data on outgoing foreign direct investment (FDI) is used to estimate the share of cross-border deposits attributable to individuals (rather than companies). The estimates are further adjusted for shell companies used by individuals to take indirect offshore wealth into account. To estimate indirect wealth, a certain share of cross-border deposits in Type II IFCs is assumed to be attributable to residents of other countries. The analysis yields estimates for shares of offshore wealth in each IFC. The same approach is also used to estimate the share of global offshore wealth attributable to residents of a given country, Member States in particular.

5.2.2 Global offshore wealth

The updated estimates done for this study suggest that global offshore wealth amounted to USD 9.8 trillion in 2018, equivalent to about EUR 8.6 trillion. This suggests that wealth equivalent to about 11.4% of world GDP is stored abroad.²⁵⁶ The estimates suggest that offshore wealth peaked in 2017, at almost USD 10.2 trillion (EUR 8.5 trillion), equivalent to 12.6% of world GDP. The revised estimates are presented per year, in USD and EUR, from 2010 onwards in the table below.

²⁵³ To facilitate the comparability of this study's results with the results of the previous study, we report on estimates for the EU-27, including the UK.

²⁵⁴ VELLUTINI, C., et al. (2019). Estimating International Tax Evasion by Individuals. Available from: https://ec.europa.eu/taxation_customs/sites/taxation/files/2019-taxation-papers-76.pdf (Accessed on 13/12/2020).

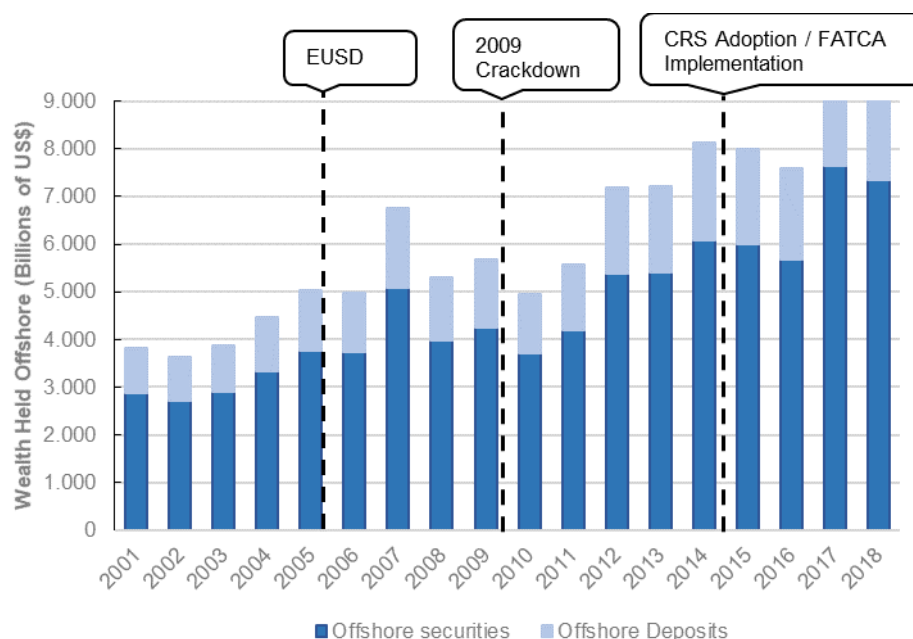
²⁵⁵ Note that the three databases cited before do not contain information on deposits.

²⁵⁶ Data on GDP retrieved from World Bank.

Table 5-4 Estimates for global offshore wealth per year²⁵⁷

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018
USD (trillion)	4.9	5.6	7.2	7.3	8.3	8.1	7.7	10.2	9.8
EUR (trillion)	3.7	4.3	5.4	5.3	6.8	7.5	7.3	8.5	8.6

The figure below reports on global offshore wealth in billion USD per year, broken down by securities and deposits. Note that due to the methodology employed, deposits held offshore could not be measured directly. Therefore, it is assumed (in line with the assumption made in the previous study) that they amount to 25% of overall offshore wealth.

Figure 5-2 Global offshore wealth estimates per year

Source: Ecorys following ECOPA/CASE

The decrease of global offshore wealth in 2015 and 2016 suggests that the adoption of CRS and implementation of FATCA have had an impact. Yet, in 2017/18 offshore wealth increased starkly again.

Methodologically speaking, the increase in offshore wealth in 2017 can be attributed to an increase in the liabilities and assets reported by individual countries in the Coordinated Portfolio Investment Survey (CPIS), one of the key databases used for the analysis. The increase can be traced back to the equity assets and liabilities individual countries report to the IMF via the CPIS. For the CPIS database, countries report information on portfolio investment securities to the IMF twice a year on a voluntary basis. Information from this CPIS database is a key component for the computation of the estimates on assets and liabilities, the difference of which is considered as three quarters of offshore wealth in our methodology. An assessment of trends between 2016 and 2017 at country level revealed that most countries reported considerably higher values for 2017 than for 2016. At the same time, the number of countries reporting to the IMF remained almost constant, which means that the increase is due to the increase in country-reported values, rather than due to the inclusion of additional observations.²⁵⁸ There is no indication that a change in reporting requirements or other methodological adjustments could explain this stark increase. On the contrary, tracing the dynamics back for the last 15 to 20 years reveals similarly large year-on-year changes in previous years due to the volatility of mainly equity security prices.

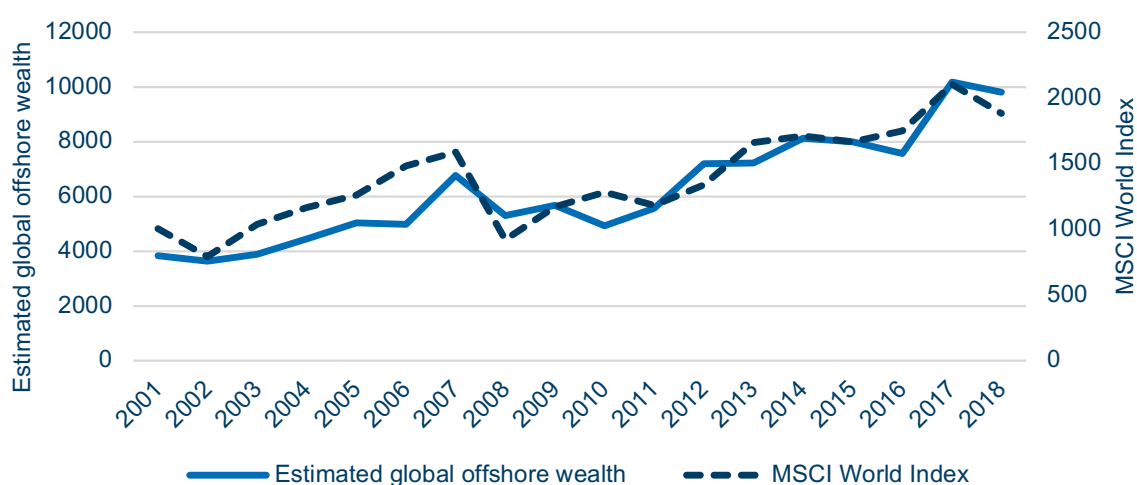
A potential explanation for this stark increase could be a rebound effect. For example, Zucman (2014) suggests that after an initial decrease in offshore wealth following a policy intervention, offshore wealth increases quickly again as individuals were able to identify new (and unregulated) channels through which they can store (and hide) wealth abroad. In chapter 6.2.1, this study discusses evidence that cross-border bank deposits decreased

²⁵⁷ Changing exchange rates explain the different dynamics of global offshore wealth expressed in USD and EUR.

²⁵⁸ IMF (n.d.). Coordinated Portfolio Investment Survey (CPIS). Available from: <https://data.imf.org/?sk=B981B4E3-4E58-467E-9B90-9DE0C3367363> (Accessed on 08/08/2020).

between 2014 and the end of 2016, correlating with the announcement of the CRS. These funds could have been shifted, e.g. into equity, which could explain the increase observed in 2017. As the methodology employed does not measure deposits directly, but rather assumes them to account for a constant share, this could be an underlying driver for the stark increase. Yet, a more likely explanation for the increase is the volatility in equity security prices. The value of reported equity securities increased for both assets and liabilities by about a quarter between 2016 and 2017, which in turn lead to an increase of the difference between the two values, as well (a more detailed overview is presented in Annex VII). This suggests that price volatility for equity securities is a driver of the overall dynamics of estimated global offshore wealth. Indeed, the patterns presented in Figure 5-4 below supports this finding. When adjusting global offshore wealth for the MSCI index, a proxy for the price volatility of securities,²⁵⁹ the pattern shifts and the year-on-year increase in offshore wealth between 2016 and 2017 is much smaller. The development of estimated global offshore wealth and the development of the MSCI index are closely linked, as the figure below visualises. A very high correlation coefficient between estimated global offshore wealth and the MSCI index of approx. 0.92 further suggests that equity security prices are a key driver of the volatility in global offshore wealth.

Figure 5-3 Global offshore wealth and the MSCI index over time



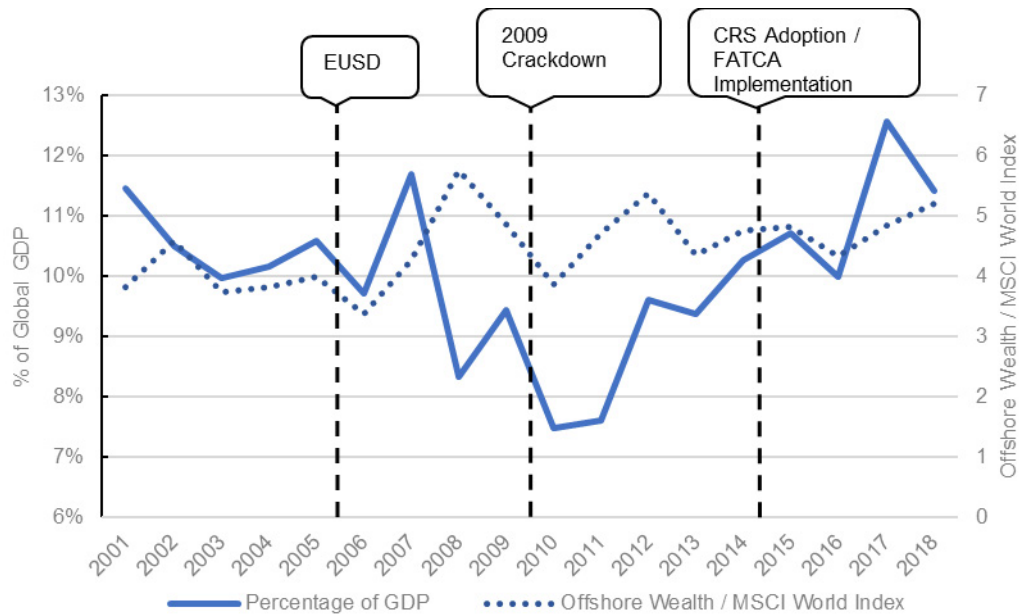
Source: Ecorys

To test this relationship further, a regression model is used for the forecasting in Section 5.4 and this included the MSCI index as independent variable. The results of this analysis are presented in Annex VII. In the model, the MSCI index appears to be highly statistically significant, further supporting the interpretation that year on year changes – and especially the large increase between 2016 and 2017 – are partly driven by the price volatility of equity securities. The regression analysis suggests a positive relationship between the MSCI index and offshore wealth, which is in line with expectations.

Global offshore wealth increased not only in absolute terms in 2017 and 2018, but also when expressed in relation to GDP. The figure below expresses offshore wealth as share of global GDP and adjusted for the MSCI Index. The data suggests that offshore wealth is back at pre-crisis levels in 2017 and 2018. The average offshore wealth/GDP ratio is 10.1% for the period between 2001 and 2018.

²⁵⁹ The MSCI index represents the performance of a set of large- and mid-cap stocks across 23 developed and 26 emerging markets (<https://www.msci.com/acwi>). As it covers approximately 85% of the free float-adjusted market capitalization in each market and takes into account variations reflecting conditions across regions, market cap sizes, sectors, style segments and combinations, it is deemed as a relative compensating mechanism for price volatility. Granted, a share of offshore wealth is stored in assets with low price volatility. Nevertheless, the MSCI index provides a proxy to control for the price of volatile underlying security-level data.

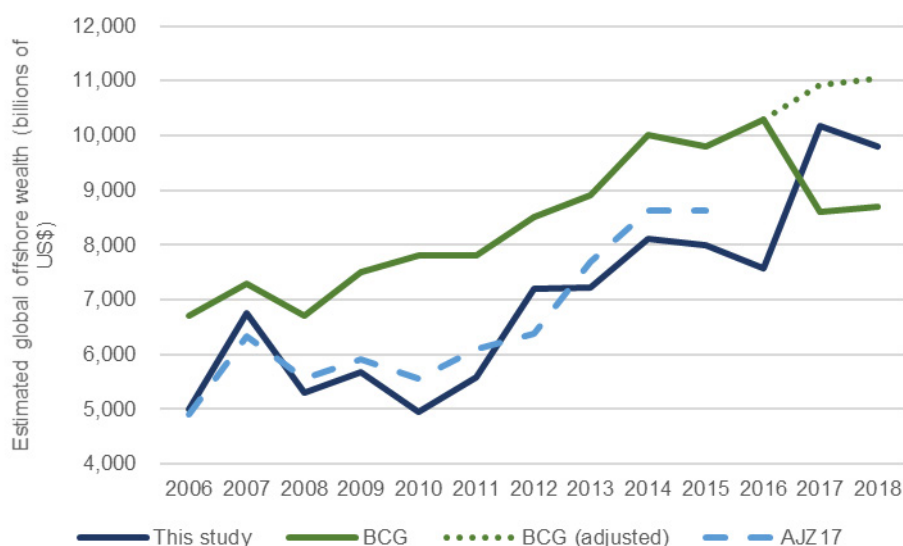
Figure 5-4 Global offshore wealth as share of world GDP



Source: Ecorys following ECOPA/CASE

The figure below provides a comparison of the estimates with assessments from other sources, notably the study by Alstadsaeter et al. (2018) and the estimates for BCG's annual global wealth reports. While estimates from the former are only available until 2015, data from BCG is also available for more recent years. Interestingly, our estimates for the years 2017 and 2018 are above the estimates provided by BCG, while BCG estimates were the highest for all previous years where data are available. Note, however, that there might have been a break in the methodology BCG employed between 2016 and 2017, which might explain the change.²⁶⁰ If adjusting the BCG estimates to align them with the methodology of previous years, the estimates of this study remain below BCG's estimates also for 2017 and 2018.

Figure 5-5 Comparison of global offshore wealth estimates

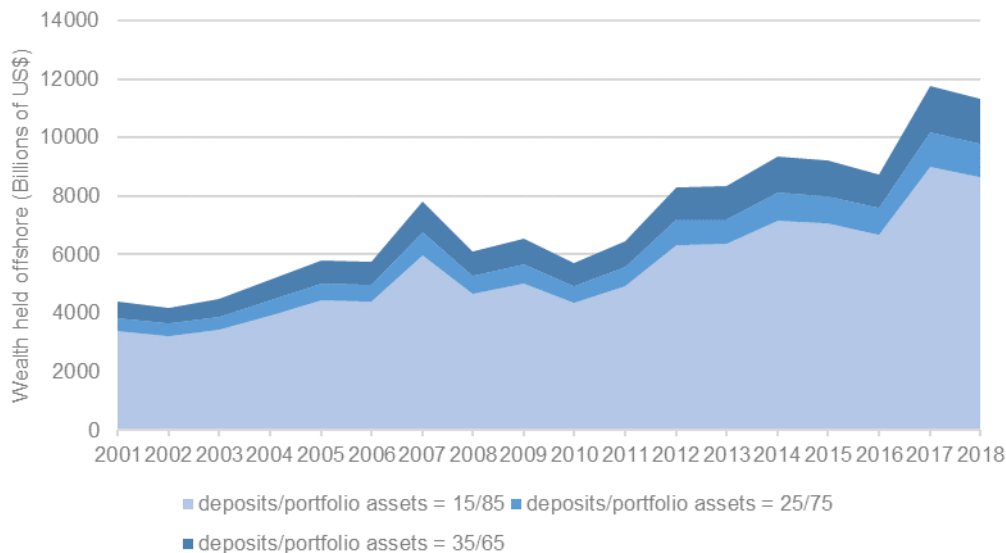


Source: Ecorys following ECOPA/CASE

²⁶⁰ The report does not specify whether there has been a break in data. Yet, instead of reporting per world region, the BCG reports provide a breakdown of offshore wealth for the eight most important countries for the years 2017 onwards. The total amount of estimate offshore wealth exceeds the sum of the estimates for these eight jurisdictions, suggesting that the total amount is extrapolated based on these eight data points. Yet, the report from 2018, reporting on the estimates for 2017 notes that the year-on-year change in offshore wealth between 2016 and 2017 has increased by 6%, while the reported estimates suggest a decrease. Therefore, it is not unlikely that there has been an adjustment in the methodology, affecting the overall estimates.

As in the previous study, it is assumed that the share between portfolio assets and deposits is 75% / 25%. The data used to derive global offshore wealth does not contain information on deposits and the estimate derived is therefore too low. To correct this, the volume of deposits is expressed as a share of global offshore wealth. The share is derived from findings in the literature. Figure 5.6 below visualises two other scenarios as well, where the share of deposits is either higher or lower. In a scenario where deposits account for 15%, global offshore wealth is estimated to amount to close to USD 8 trillion in 2018. If instead deposits account for 35% of the overall value, offshore wealth is estimated at about USD 11 trillion.

Figure 5-6 Estimated offshore wealth under alternative ratios



Source: Ecorys following ECOPA/CASE

5.2.3 Offshore wealth by IFC

For the time period considered, 14 jurisdictions can be classified as Type I IFCs, i.e. IFCs where the ratio between GDP and incoming foreign deposits is particularly high. The table below reports on the jurisdictions that can be classified as IFC of Type I and the number of years they qualify as such.

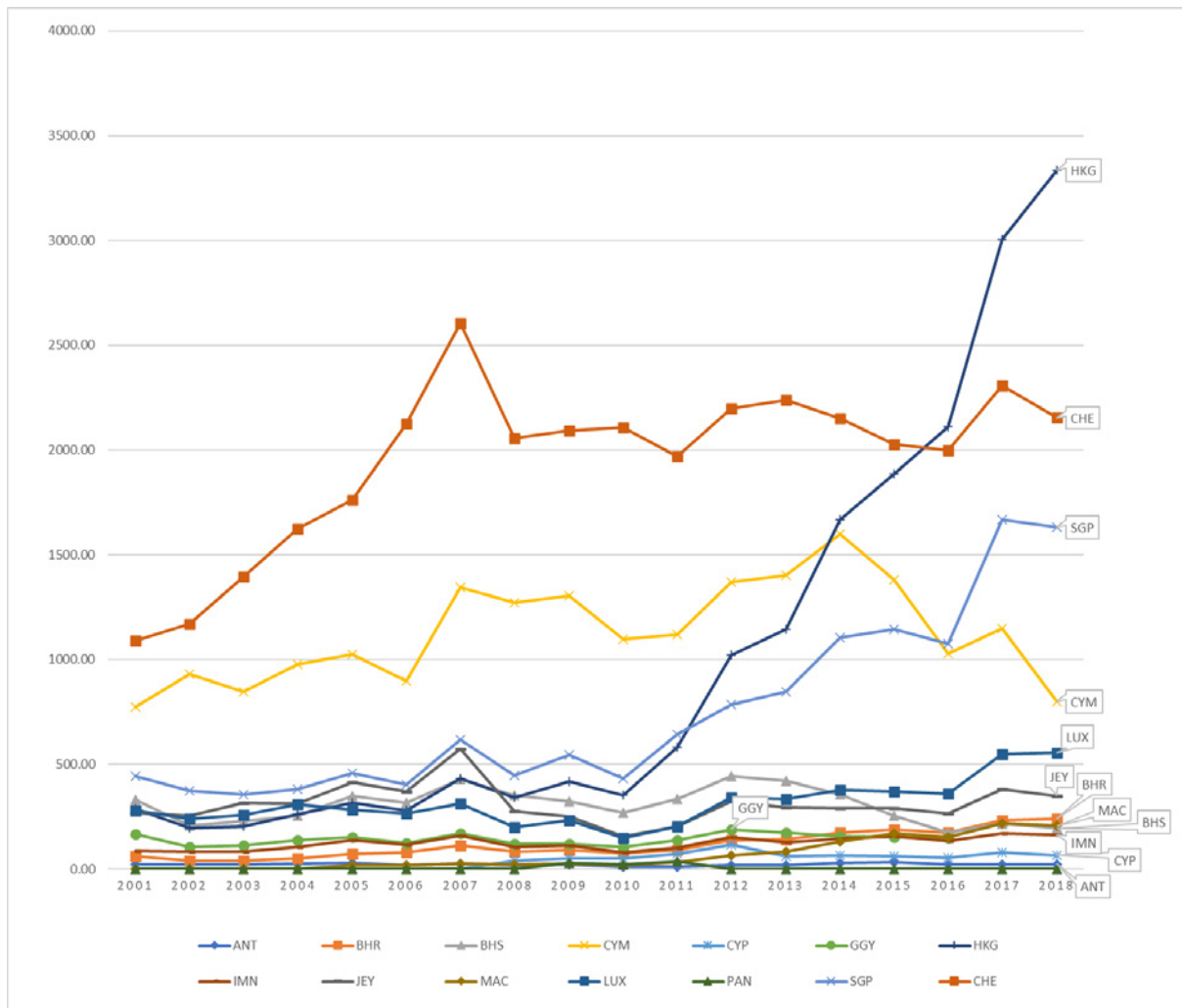
Table 5-5 Overview of Type I IFCs and number of year jurisdictions qualify as such

Jurisdiction	Number of years as Type I IFC	Comments
Bahamas	18	
Bahrain	18	
Cayman Islands	18	
Cyprus	11	No data before 2008
Guernsey	18	
Hong Kong	18	Classified as IFC I in 2002 for continuity
Isle of Man	18	
Jersey	18	
Luxembourg	18	
Macao	12	No data available for 2001/02, Classified as IFC I in 2010/11 for continuity
Netherlands Antilles/ Curacao (after 2010)	18	
Panama	3	No data Available for 2001
Singapore	18	
Switzerland	18	

Source: Ecorys building on ECOPA/CASE

Over the last eight years, the distribution of offshore wealth across IFCs shifted considerably. Between 2010 and 2018, the amount of offshore wealth held in Hong Kong increased almost tenfold. The wealth held offshore in Singapore increased by the factor four. At the same time, the amount of offshore wealth remained more or less constant in Switzerland and decreased from about USD 1 trillion to USD 800 billion for the Cayman Islands. While slightly decreasing between 2014 and 2016, wealth held offshore in Luxembourg increased again in 2017 and 2018. The observed patterns reflect a general shift towards financial centres in East Asia. As the previous study already noted, Hong Kong benefited as a financial centre from increased deposits held by Chinese citizens. As first financial market that was able to perform renminbi transactions and business offshore from 2004, the city gained grounds in the following years.²⁶¹ This has most likely been propelled by the continuous and strong economic growth in China.

Figure 5-7 Breakdown of offshore wealth by IFC over time (USD billions)

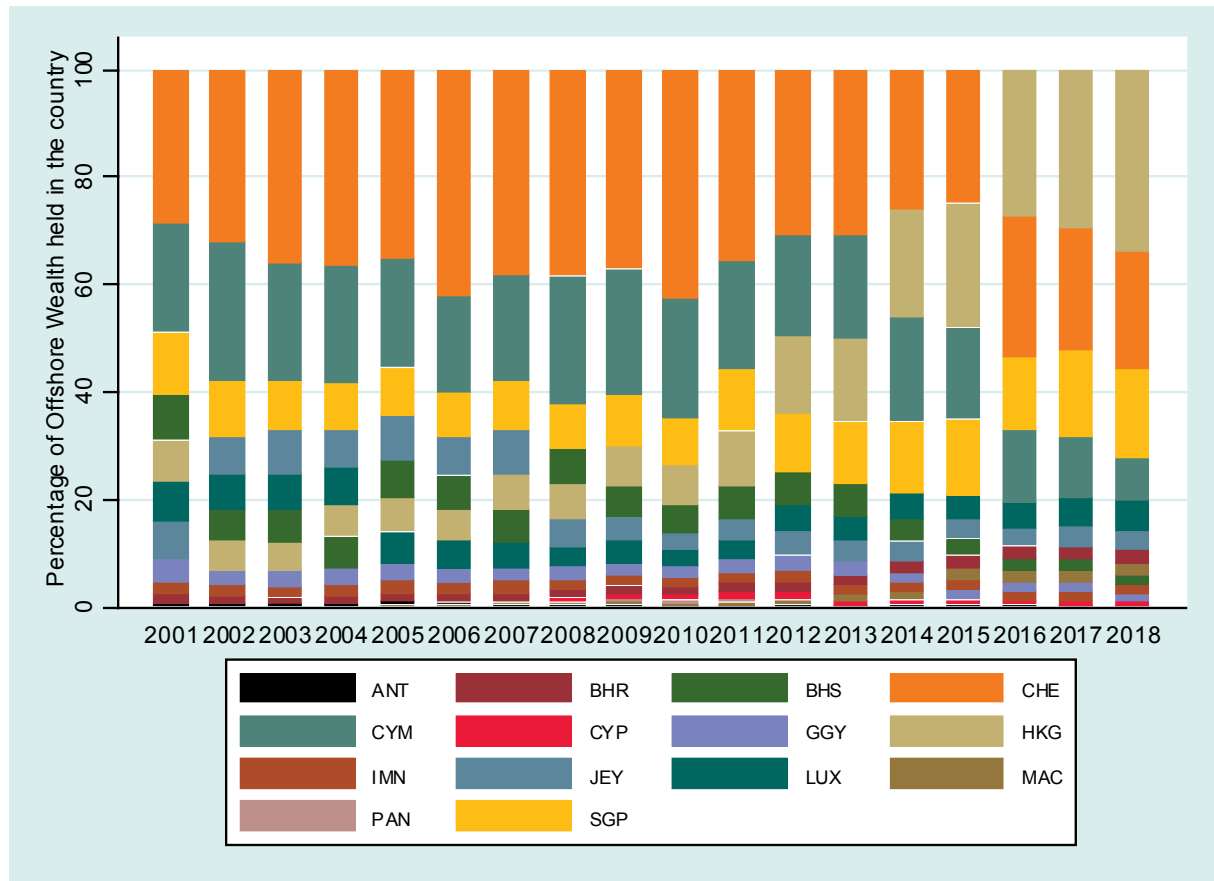


Source: Ecorys following ECOPA/CASE

While the figure above presents absolute values of offshore wealth per IFC, the figure below illustrates the dynamics in relative terms. It clearly illustrates how Singapore and Hong Kong have emerged as key IFCs in recent years, whereas Switzerland and the Cayman Islands become slightly less relevant. If these trends continue in future, Singapore might replace Switzerland as second most important IFC soon.

²⁶¹ VELLUTINI, C., et al. (2019). Estimating International Tax Evasion by Individuals. Available from: https://ec.europa.eu/taxation_customs/sites/taxation/files/2019-taxation-papers-76.pdf (Accessed on 13/12/2020). p. 65.

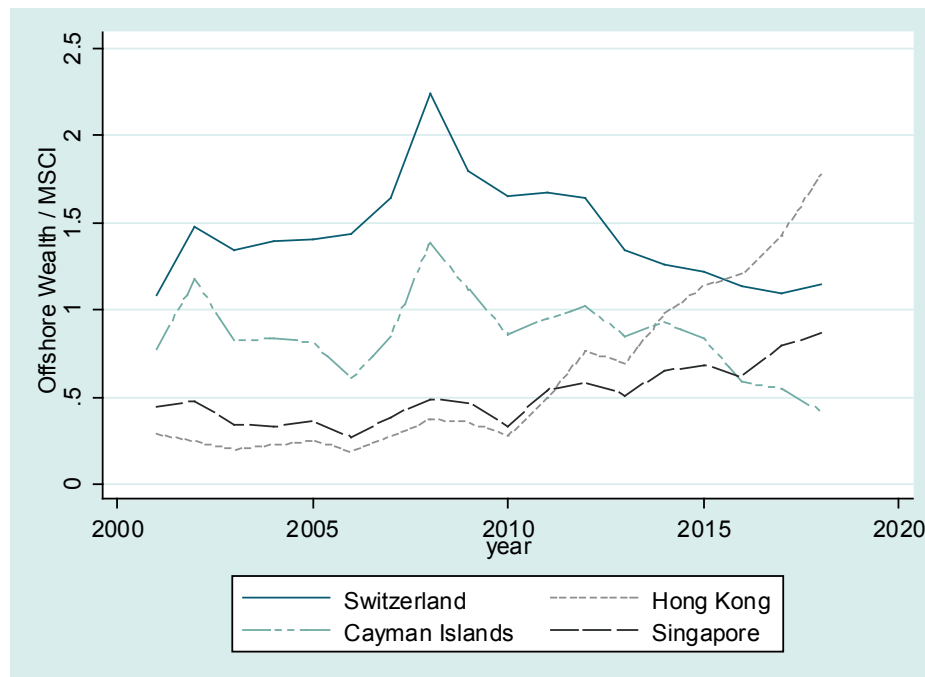
Figure 5-8 Breakdown of offshore wealth by IFC over time (shares of total)



Source: Ecorys following ECOPA/CASE

Also when adjusting offshore wealth to the MSCI index, data confirms the patterns observed above: the relative share of offshore wealth in Switzerland and the Cayman Islands is decreasing, while the relative importance of Singapore and especially of Hong Kong increases. Especially for Singapore, the trend is more pronounced when taking the years 2017 and 2018 into account compared to the previous study which relied on estimates for up to 2016.

Figure 5-9 Relative share of offshore wealth in MSCI index

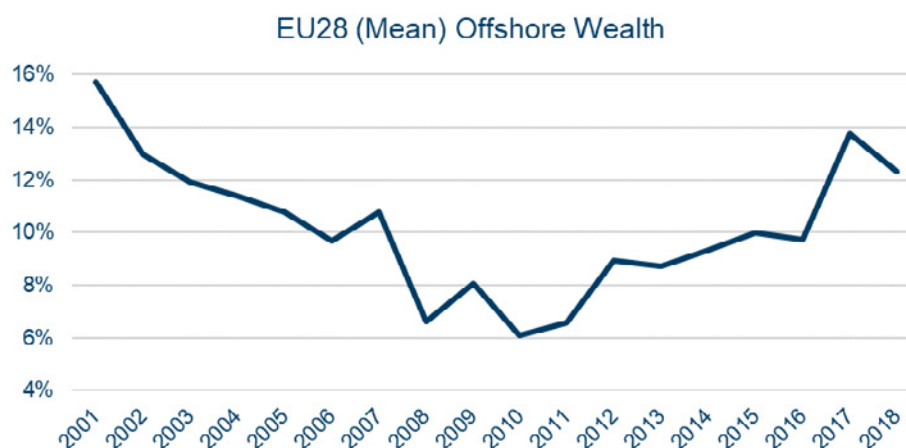


Source: Ecorys following ECOPA/CASE

5.2.4 Offshore wealth by country of ownership

The offshore wealth expressed as share of GDP held by residents of the EU-27 and the UK has decreased since 2000 (see figure below), from about 16% in 2001 to about 12.5% in 2018. As the previous report notes, it is not possible to draw a direct link between the introduction of stricter policy measures and the observed reduction in offshore wealth (as share of GDP). In fact, after the introduction of the EUSD in 2005, offshore wealth as share of GDP increased, before it decreased in the context of the financial crisis. Also, the development in the time period after the introduction of the CRS in 2014/15 does not necessarily show an impact of these new rules, as offshore wealth as share of GDP increased in the following years.

Figure 5-10 Development of offshore wealth held by EU residents as share of GDP



Source: Ecorys following ECOPA/CASE

Overall, the offshore wealth held by individuals from the EU-27 amounted to USD 1.95 trillion in 2018 (EUR 1.71 trillion), down from USD 2.04 trillion (EUR 1.70 trillion) in 2017. If the UK is included in the statistics, offshore wealth held by individuals in the EU-27 and the UK remained almost constant at USD 2.39 trillion (EUR 1.99 trillion) in 2017 and 2.32 trillion (EUR 2.02 trillion) in 2018, which is about USD 500 billion up when compared to 2016. More details are presented in the table on the following page, where we report on estimates per year and Member State, as well as estimates for a number of additional countries. The share of offshore wealth held by residents of the EU-27 and the UK increased from about 20% to 21.5% in the time period between 2010 and 2016 to approx. 23% in 2017 and 2018.

Table 5-6 Offshore wealth by country of origin (USD billions)

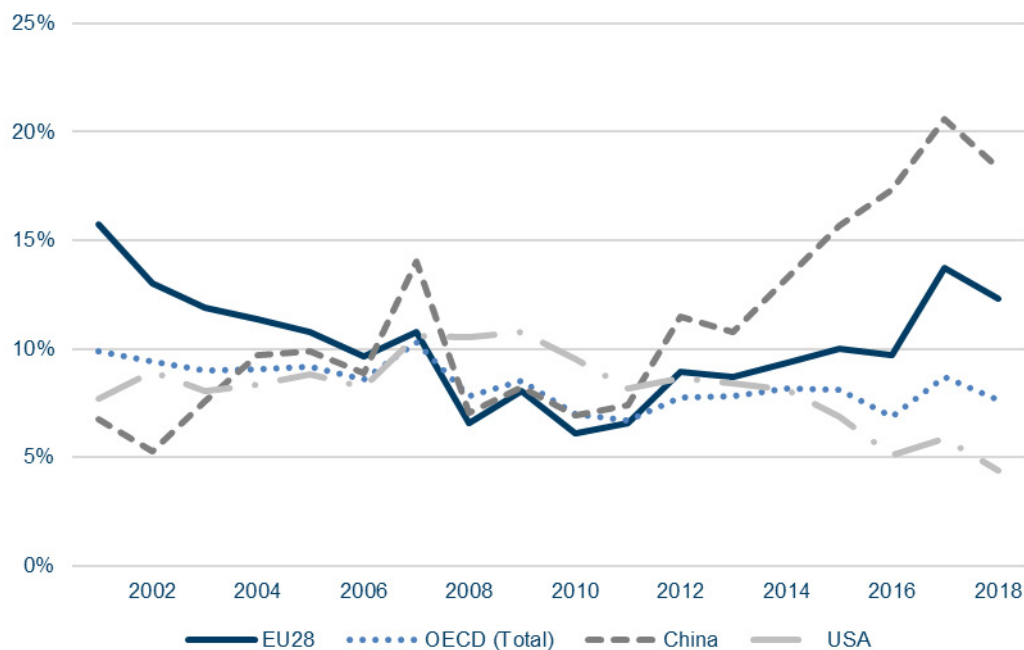
Entity	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
EU28 (Total)	1416.2	1275.4	1421.9	1571.3	1554.4	1488.1	1916.9	1262.4	1380.2	1034.9	1205.8	1545.3	1568.3	1740	1638	1602.9	2393.5	2317.4
EU27 (Total)	1234.9	1113.9	1238.7	1383.5	1329.6	1253.1	1608.6	1084.9	1205.5	898	1057.5	1368.2	1390.4	1500.6	1401.9	1372.8	2044.5	1957.5
OECD (Total)	2683.1	2665.1	2855	3190.5	3427.3	3389.5	4444.4	3560.2	3646.4	3110.1	3204.4	3725.6	3784.7	4058.6	3794.1	3273.3	4338.2	4047.3
Non-OECD (Total)	1148.4	978.8	1033.6	1280.9	1607	1649.7	2374.2	1791.4	1993.5	1854.2	2369.7	3483.2	3585.7	4311.5	4635.8	4597.3	5856	5817.6
Member States																		
Austria	30	27.6	28	29.1	32.4	40.1	44.7	27.5	37.7	32	31	37.9	41.2	49.2	48.5	43.3	71.2	76.6
Belgium	65.7	68.5	77.4	81.4	78.9	55.3	85.9	57.6	69.7	40.5	47	75.5	65.3	60.1	52.1	66	78.8	73.7
Bulgaria	2.3	1.9	1.8	2.1	3.8	4	6.7	4.9	6.3	7.3	7.2	12.4	9.4	9.1	10.3	15.3	17.8	16.7
Croatia	3.3	3	2.8	3.1	4	4	5	6.1	6.2	5.2	8.5	9.2	5.9	5.6	5.2	4.2	6.1	7.7
Cyprus	3.9	3.9	3.7	5.5	7	8.5	14	8.2	9.5	7.4	8.5	10.9	8.9	9.2	9.4	10.1	15.2	15.7
Czech Republic	12.5	7.2	9.1	9.7	12.1	19.5	19.1	14.6	15.7	14.1	15.8	22.9	22.7	27.7	25.2	35.6	40.8	36
Denmark	2.6	2.6	3.6	4.6	4.8	5.6	6.2	3.8	4.1	3	5.1	6.6	7.8	9.3	7.7	5.4	8	24.1
Estonia	0.7	0.8	0.9	0.9	1.1	1.2	1.2	0.9	1.4	0.9	1.4	1.8	1.8	2.5	3.1	3.1	4.6	5.3
Finland	3.9	3.4	3.8	4.4	4.5	4.4	6.8	22	5.4	3.1	6	7.4	8.5	8.9	5.5	7	6.9	11
France	183.7	181.9	196.1	251.2	212.4	202.4	269.6	179.9	192.9	169	215.5	280	301.6	342.8	310.3	291.6	437.6	434.3
Germany	422.3	368.3	429.2	483.3	464.4	469	589.3	377.5	437.3	293	309.1	357.9	344.6	390	348.5	349	564.5	455.6
Greece	44.9	36.4	42.2	48.9	39.3	39.9	63.2	40.2	43.8	50	57.8	68.8	62.4	69.7	67.7	66.3	86.1	84.5
Hungary	3.4	4.5	5.3	4.9	5	7.6	7	5.3	6.3	6.1	7.9	11.7	8	12.1	7.2	8.1	12.2	11.5
Ireland	11.3	10.6	16.7	19	24.9	22.7	16	15.5	13.2	11.2	12.1	15.2	13	16.3	18.7	21.2	28.8	27.1
Italy	216.9	190.1	184.8	187.5	163.8	145.2	172.2	121.4	145	85	104.2	144.5	167.1	166.1	163.4	149.9	206	239.1
Latvia	2.3	1.6	1.5	1.4	2	2.1	2	2.4	3.3	2.4	2.8	4	3.1	3.6	5.8	4.1	5.5	5.8
Lithuania	1	1	0.9	0.9	0.8	1.5	2	1.7	1.7	1.2	1.9	2.6	2.4	2.5	2.3	2.2	4.5	4.7
Luxembourg	1.8	2.2	1.3	1.9	3	3.8	6.8	3.4	4	4.1	4.1	3.7	3.4	3.5	5.2	4.5	6.3	7.1
Malta	1.6	1.6	1.9	1.6	1.6	3.4	1.9	0.8	1.5	1.4	2.4	3	3.1	4.8	4.7	5.4	8.4	7.3
Netherlands	48.8	34.6	31.6	34.1	31	31.3	52.8	43.8	50.3	35.9	58.5	54	63.4	52	64.3	55.5	89	81.3

Entity	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Poland	11.2	98	91	92	118	116	16	107	105	82	98	18.7	17	202	243	33.9	45.9	50.7
Portugal	46	408	489	518	532	534	654	466	449	412	456	61.1	66.5	699	61.1	49.1	72.7	63.4
Romania	2.7	2.5	2.4	2.9	5	4	5.1	5.3	5.7	4.9	6.1	8.2	9.7	9.1	9.3	10.9	17.7	17.9
Slovakia	2.1	2.1	2.1	2.1	2.4	2.3	3.8	2.3	2.4	2.2	2.8	3.6	5.8	7.4	5.6	4.4	8.6	8
Slovenia	1.3	1	1.1	1.3	1.3	1.4	1.9	1.7	1.6	1.6	2	2.6	2.2	1.7	1.9	2.4	2.1	1.9
Spain	97.6	92.8	117.3	121.6	142.8	838	102.3	66	709	558	699	125.7	128.6	111.6	112.3	107.1	172.3	154.2
Sweden	11	13.2	15.1	19.2	16.4	25.1	41.7	14.9	14.2	11.3	14.6	18.5	16.9	35.6	22.2	16.9	26.7	36.3
Other entities of interest																		
United Kingdom	181.3	161.4	183.2	187.8	224.9	235	308.3	177.5	174.7	136.9	148.3	177.1	178	239.4	236.2	230.2	349	359.9
Australia	27	28.7	31.9	38.2	46.2	47.9	52.1	41.1	66.5	44.2	55.2	72.2	75.3	89.4	81.1	83.1	125.7	115.7
Brazil	132.1	103.8	95.4	96.1	107.1	99.7	120.3	102.4	73.4	87.8	119.5	134.4	134.8	144.4	146.7	101.1	43.3	38.4
Canada	30.7	27.8	28.1	28.1	37.5	39.4	47.4	41.9	40.5	38.8	41.5	61.3	58.1	80.3	55.7	45.4	51.8	48.7
China	90.5	77.8	125.8	190	226	244.7	498.2	323	422.1	422.5	559.8	985.1	1036.9	1391.2	1737.6	1938.6	2537.9	2545.3
India	39.5	29.1	25.9	30.4	44	50.8	95.8	59	72.1	50.3	55.6	35.9	35.9	36.1	41.1	33.7	33.1	18.3
Japan	52.4	47.7	44.9	119.4	111.9	107.7	147.2	131.5	127.6	139.4	183.8	90.2	81.7	88.3	97.6	82.7	114	112.1
Russia	55.2	46.7	44.9	50.3	72	82.2	117.8	127.1	138.3	116.5	158.6	240.8	219.5	295.8	267.4	193.1	348.7	393.9
South Korea	10.6	12.3	20.6	19.9	15.2	20.3	40.1	24.5	25.2	26.4	38.6	35.9	50.1	94.1	110.4	71.9	42.5	43.9
United States of America	818.2	984.4	929	1024.4	1159	1138.2	1530.4	1550.9	1554.5	1427.5	1267.1	1399.7	1407.5	1411.1	1246.5	950.3	1147.9	907.8

Source: Ecnrys based on ECOPA/CASE

The figure below visualises the shares of offshore wealth of GDP for the EU-27 and the UK, the OECD, the USA and China between 2001 and 2018. As the figure visualises, the share for the EU-27 and the UK decreased over time, from about 16% in 2001 to approximately 13% in 2018. It appears that most of the decrease occurred before the financial crisis in 2008, while the average share remained relatively stable afterwards. The previous study already identified a strong increase in offshore wealth as share of GDP for China. This trend is confirmed by the more recent data for 2017 and 2018, although the ratio between offshore wealth and GDP decreased in 2018 again, after peaking at some 20%. As the previous study noted, this increase can most likely be attributed to deposits held by Chinese residents in Hong Kong.

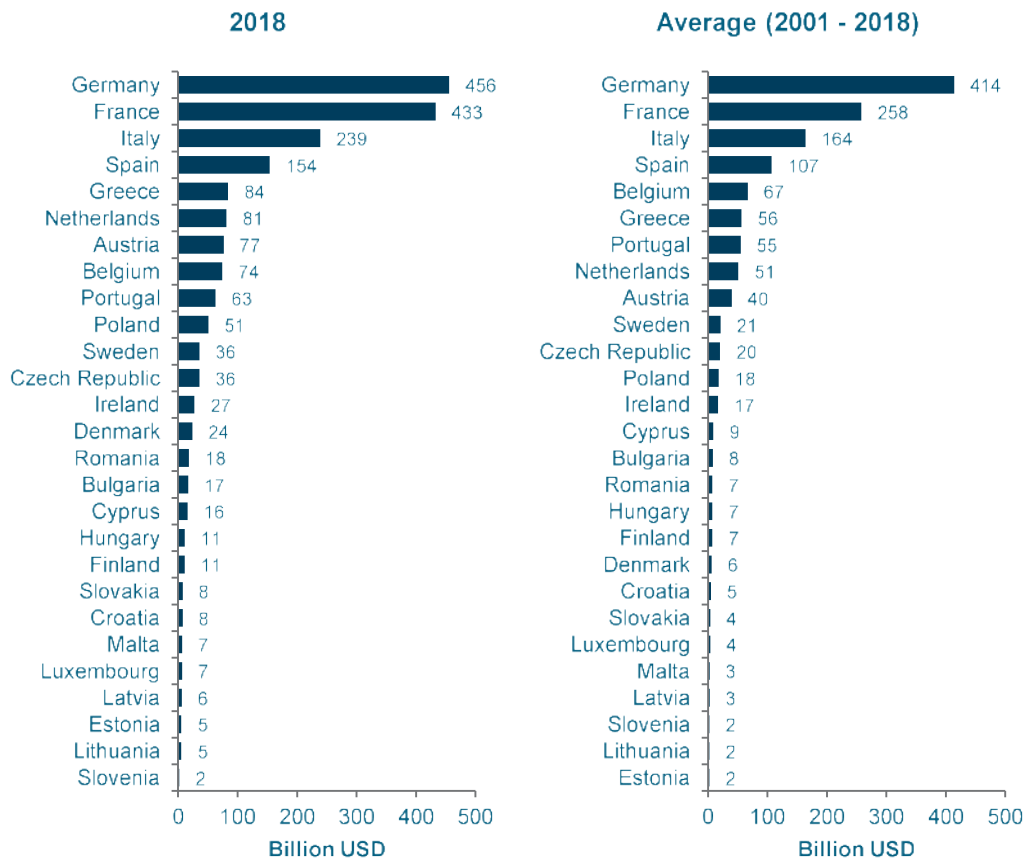
Figure 5-11 Offshore wealth as share of GDP for selected countries and country groups



Source: Ecorys following ECOPA/CASE

The figure below provides further details on how the USD 2.3 trillion of offshore wealth held by individuals in the EU-27 in 2018 were distributed between the individual Member States. Not surprisingly (given that they are the Union's largest economies), Germany and France account for the largest share of offshore wealth. In 2018, residents from five countries held more than USD 100 billion in wealth offshore. In addition to the two aforementioned countries, these were residents from the Italy, and Spain. Below this study reports on the average value of offshore wealth per Member States over the period from 2001 until 2018. While some differences are noticeable (especially for Germany), the estimates suggest that the distribution of offshore wealth across Member States has remained more or less stable over this period.

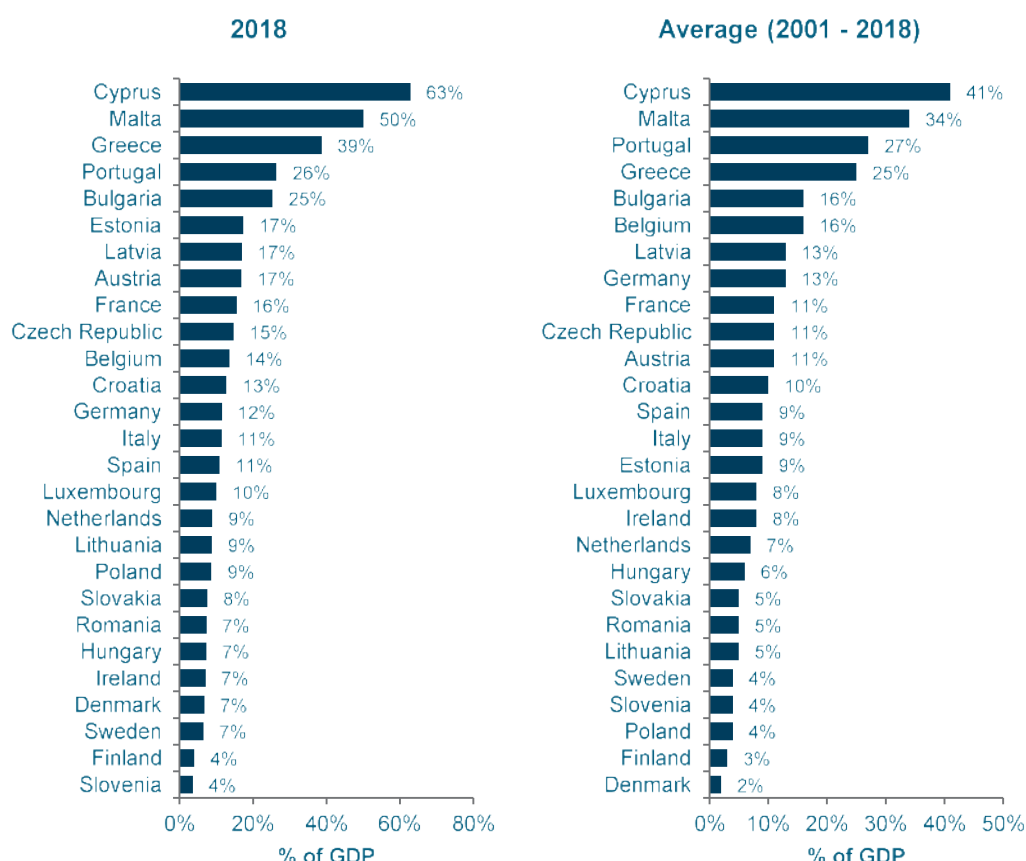
Figure 5-12 Offshore wealth (in USD billion) per Member State



Source: Ecorys following ECOPA/CASE

When expressed as share of national GDP, offshore wealth is the highest in Cyprus, followed by Malta and Greece, with offshore wealth in 2018 equivalent to 63%, 50%, and 39% respectively. For France and Germany, which show the highest absolute values of offshore wealth, shares are at 18% (France) and 12% (Germany). Again, the estimates observed for 2018 appear to be similar to average estimates for the full time period (2001-2018).

Figure 5-13 Offshore wealth as share of national GDP for the EU-27



Source: Ecorys following ECOPA/CASE

5.3 New wealth categories

While the ECOPA/CASE study focused on providing estimates for a selection of wealth categories, this study aims to provide a first estimation as to the magnitude of offshore wealth individuals store in cash, life insurance and real estate. Given that offshore wealth in life insurance and real estate is difficult to estimate,²⁶² here the study departs from the standard methodology used by studies that estimate hidden wealth of individuals, which start from the discrepancy in total global assets and liabilities.

It starts from the reported wealth individuals hold in cash, life insurance and real estate and use the shares of wealth that individuals hold in these assets in relation to the total wealth individuals hold as proxies for estimating the offshore wealth held in these asset categories for the most recent year for which data permits. The estimated total offshore wealth and total reported financial wealth are used to derive a factor by which reported wealth of new asset categories is adjusted to reach an estimate of how much cash, life insurance and real estate is stored offshore for each Member State and the UK.

5.3.1 Cash, life insurance and real estate as means of storing and hiding wealth

As wealth moves more freely and rapidly around the world, investors become flexible with their investment strategies. Due to data limitations, there are still no conclusive answers to questions as to which types of schemes and arrangements are used by individuals to hide wealth offshore or which financial and non-financial assets they prefer to use.²⁶³ This has consequences on the efforts put into estimating the amount of hidden wealth and

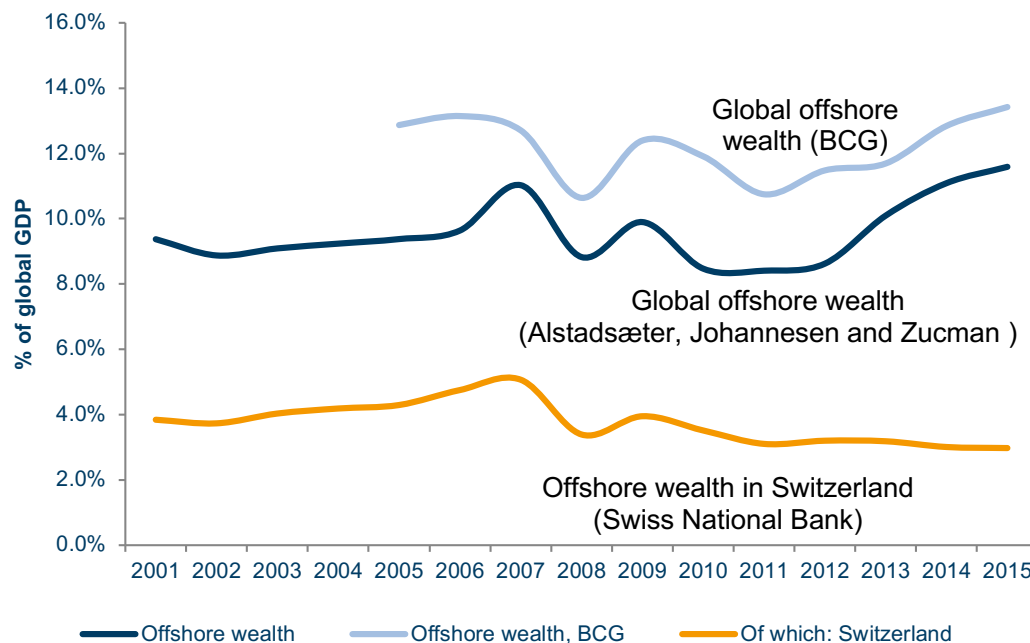
²⁶² ALSTADSÆTER, A, JOHANNESSEN, N., and ZUCMAN, G. (2018). Tax evasion and inequality, NBER Working Paper 23772. Available from: <https://gabriel-zucman.eu/files/AJZ2017.pdf> (Accessed on 10/12/2020).

²⁶³ As Alstadsaeter et al. (2018, p. 91) note: "Because no systematic information exists on offshore real estate and other non-financial assets."

is illustrated by different estimates of offshore hidden wealth such as, for instance, those calculated by the Boston Consulting Group (BCG)²⁶⁴ and Zucman.²⁶⁵

The total amount of offshore wealth estimated by the BCG²⁶⁶ in 2016 was USD 10.3 trillion, with this amount of estimated offshore private wealth including cash and life insurance. While Zucman's estimates are significantly below those of the BCG, quite remarkably, the two sets of estimates follow close variations across time (see figure below).²⁶⁷ At least part of the difference between these two estimates comes from the fact that, cash holdings as well as life insurance are included in the BCG's measurement of financial wealth. It is therefore of interest to explore how relevant these assets are for individual's wealth management.

Figure 5-14 Comparison of estimated global offshore wealth as % of global GDP



Source: Alstadsæter, Johannesen and Zucman (2018), data available at <http://gabriel-zucman.eu/offshore/>

Trends in European assets allocation of individuals

Before estimating the ratios of reported wealth in cash, life insurance and real estate, it is important to look into the propensity of individuals to store wealth in these asset categories. Starting from the household financial asset structure, which includes bank deposits, securities, insurance and pensions as well as other receivables, the noticeable trend is that the structure in Europe has been changing for the past twenty years. The distribution of financial assets in the early 2000s was slightly heavier on the securities and stocks, with a 37% share of the portfolio, while insurance represented 32%, and cash savings made up 28%.²⁶⁸ The financial asset structure in Western Europe in 2018 was quite balanced: 29% of the gross financial assets are in the form of bank deposits or cash savings (EUR 11.2 trillion), securities comprise about 31% of the average European household portfolio (EUR 9.8 trillion), and insurance and pension receivables represent almost 40% of financial assets (EUR 14.3 trillion).²⁶⁹

²⁶⁴ BOSTON CONSULTING GROUP (2017) Global Wealth - Transforming the client experience. Available from: <https://www.bcg.com/publications/2017/asset-wealth-management-financial-institutions-global-wealth-2017-transforming-client-experience> (Accessed on 15/12/2020).

²⁶⁵ ZUCMAN (2013). The Missing Wealth of Nation: Are Europe and the U.S. net Debtors or net Creditors?, The Quarterly Journal of Economics, Volume 128, Issue 3, pg. 1321-1364. Available from: <https://doi.org/10.1093/qje/qjt012> (Accessed on 12/12/2020).

²⁶⁶ BOSTON CONSULTING GROUP (2017) Global Wealth - Transforming the client experience. Available from: <https://www.bcg.com/publications/2017/asset-wealth-management-financial-institutions-global-wealth-2017-transforming-client-experience> (Accessed on 15/12/2020).

²⁶⁷ ALSTADSÆTER, A, JOHANNESSEN, N., and ZUCMAN, G. (2018). Tax evasion and inequality, NBER Working Paper 23772. Available from: <https://gabriel-zucman.eu/files/AJZ2017.pdf> (Accessed on 10/12/2020).

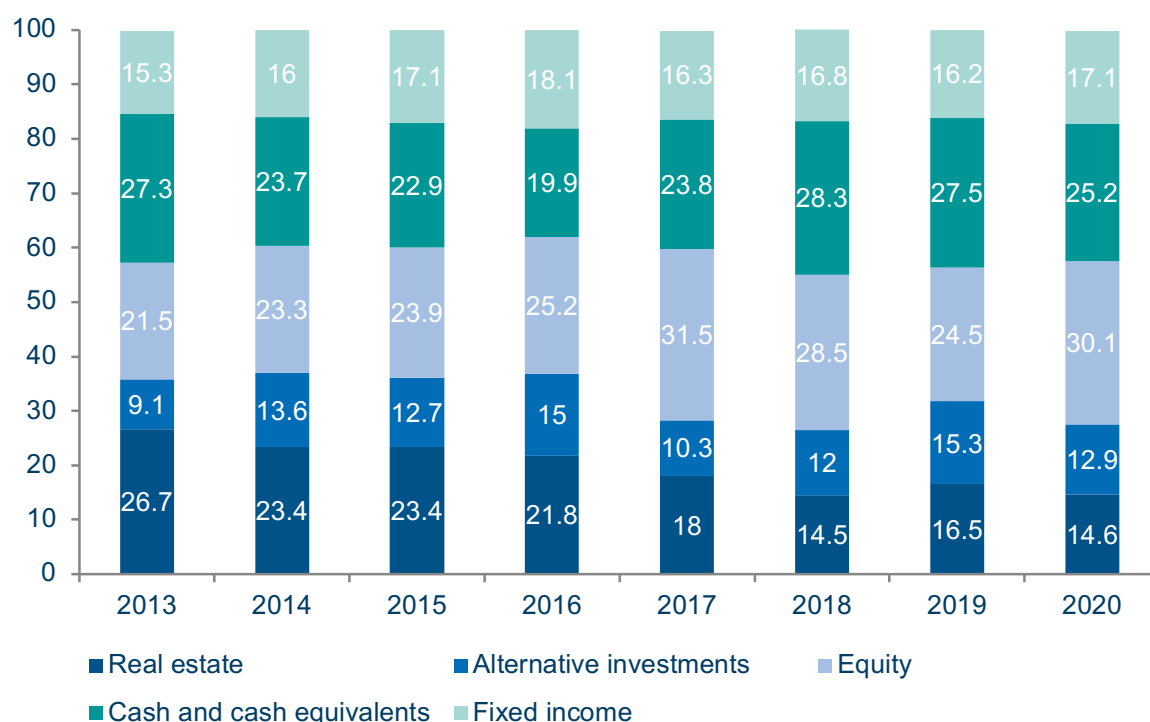
²⁶⁸ ALLIANZ (2019). Global Wealth Report 2019. Available from: https://www.allianz.com/en/economic_research/publications/specials_fm/GWR2019_18092019.html (Accessed on 12/08/2020).

²⁶⁹ Ibid.

Compared to this, the portfolios of high net worth and ultra-high net worth individuals exhibited a much higher share of equities than other wealth bands (more than 50% are invested in equities and investment fund shares, on average).²⁷⁰ Equity markets, real estate markets and luxury investments of these individuals had a stellar year in 2017, with continued steady growth in 2018 in some cases.²⁷¹ Individuals with assets of less than USD 250,000 on the other hand invested, on average, only about 9% of their assets in equities and investment funds, with more than 80% going instead into cash and deposits and life insurance and pensions.²⁷²

When looking at the allocation of assets of the high net worth individuals over the years 2013 – 2019²⁷³, there are two trends that can be observed. Firstly, the ratio of real estate has been declining over time and went from 26.7% in 2013 to 16.5% in 2019. On the other hand, the share of wealth that high net worth individuals hold in cash and cash equivalents²⁷⁴ has been rising steadily until 2018 when it reached its apex (28.3%), only to decline slightly in 2019 (27.5%). The equity asset category continues to dominate the market. Nevertheless, a drop in wealth growth in 2018 motivated investors to move to safer assets such as cash and cash equivalents (note that in this example cash equivalents include deposits as well).²⁷⁵ The most recent data for January and February 2020 indicates a recovery of equity allocations (up to more than 30%).²⁷⁶ While the real estate allocation slowly declines (14.6%), cash and cash equivalents see a slight drop as well (25.2%) but remain the second most attractive asset for HNWI.

Figure 5-15 European HNWI Asset allocation (%), 2013 – 2020



Source: Capgemini, World Wealth Report 2020, Note: Asset classes include: cash/deposits; equities; real estate excluding primary residence; fixed income; and alternative investments which include structured products, hedge funds, derivatives, foreign currency, commodities, and private equity; Allocations for 2020 are based on data from January and February.

²⁷⁰ BOSTON CONSULTING GROUP (2020). Global Wealth 2020: The Future of Wealth Management — A CEO Agenda. Available from: <https://www.bcg.com/publications/2020/global-wealth-future-of-wealth-management-ceo-agenda> (Accessed on 15/12/2020).

²⁷¹ KNIGHT FRANK (2019). The Wealth Report – 2019. Available from: <https://www.knightfrank.com/publications/the-wealth-report-2019-6214.aspx> (Accessed on 15/05/2020).

²⁷² BOSTON CONSULTING GROUP (2020). Global Wealth 2020: The Future of Wealth Management — A CEO Agenda. Available from: <https://www.bcg.com/publications/2020/global-wealth-future-of-wealth-management-ceo-agenda> (Accessed on 15/12/2020).

²⁷³ CAPGEMINI (2020). World Wealth Report 2020. Available from: <https://worldwealthreport.com/wp-content/uploads/sites/7/2019/07/World-Wealth-Report-2019-1.pdf> (Accessed on 15/12/2020).

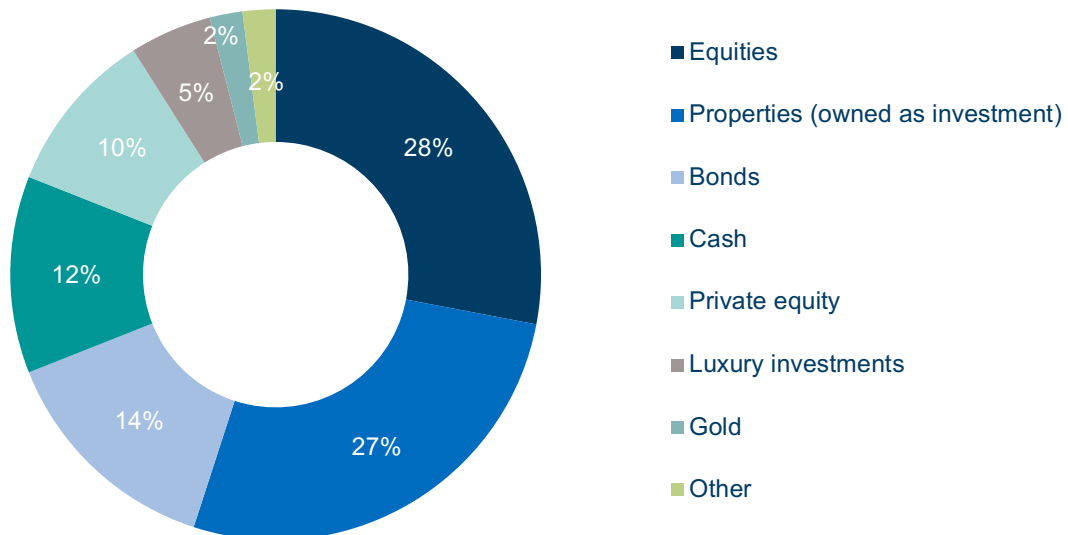
²⁷⁴ Cash and cash equivalents consist of short-term investments (e.g. money market holdings, short-term government bonds, marketable securities and commercial papers, etc.) and cash less bank overdrafts.

²⁷⁵ CAPGEMINI (2020). World Wealth Report 2020. Available from: <https://worldwealthreport.com/wp-content/uploads/sites/7/2019/07/World-Wealth-Report-2019-1.pdf> (Accessed on 15/12/2020).

²⁷⁶ Ibid.

The Attitudes Survey²⁷⁷, which is based on responses from 600 private bankers and wealth advisers managing over USD 3 trillion of wealth for UHNWI clients, confirms that equity is the most interesting asset for ultra-wealthy individuals (28%). Properties that are owned as investment (not as main residence) amount to 27% of total wealth. Notably, with 12%, cash presents a significant proportion of individual's wealth. Cash and real estate properties were the two categories that grew most in 2018 (39% and 19%, respectively), with bonds recording the highest decline (23%). The expectation for 2019 was that cash and real estate properties allocation would continue growing.²⁷⁸

Figure 5-16 Asset allocation of UHNWI, 2018



Source: The Attitudes Survey, Frank Knight (2019)

Investors looking to diversify their investments are attracted by the secure income plus the ability to actively manage the asset to drive further performance. According to de Simone et al. (2018) the increase in the share of property assets was indicated as a response to a newly introduced obligation of reporting, such as AEOI, when non-financial assets directly held are not subject to AEOI.²⁷⁹ Private investment in commercial real estate has been rising since 2010, with the volume of private capital investments reaching USD 289 billion in 2018. The majority (35%) of this investment is allocated to apartments followed by investment in offices (29%) and retail (15%). When focusing on the top cross-border and domestic investment locations in Europe, the UK tops the list as the top location for private capital invested (USD 13 billion) followed by Germany with USD 11 billion²⁸⁰.

According to the Attitudes Survey²⁸¹, 23% of UHNWI plan to invest in property in their home country in 2019, while 27% plan to invest in another country (with France, Spain, the US, the UK and Switzerland being the top 5 destinations). In 2018, 49% of European UHNWI owned a second home outside of their main country of residence. The percentage of those holding property (other than their first and second home) outside of their country of residence was smaller, 34% and when asked where they would invest in the future, the US, France, the UK, Spain and Italy emerged as the top choices.

Financial assets can be held either directly or indirectly through mutual funds, pension funds, insurance companies, and trusts. Nowadays life insurances (specifically, policies with death benefits in excess of USD 10 million) are purchased exclusively by customers with more than USD 1 million in investable assets (HNWIs)²⁸² and have become a key component of wealth planning strategy for HNWIs. A primary reason why HNWIs buy life insurance

²⁷⁷ KNIGHT FRANK (2018). The Attitudes Survey 2018. Available from: <https://www.knightfrank.com/wealthreport/article/2020-03-03-tracking-the-changing-attitudes-towards-wealth-around-the-world> (Accessed on 15/12/2020).

²⁷⁸ Ibid.

²⁷⁹ SIMONE, L., et al. (2018). Transparency and Tax Evasion: Evidence from the Foreign Account Tax Compliance Act (FATCA). Available from: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3037426 (Accessed on 15/06/2020).

²⁸⁰ KNIGHT FRANK (2019). The Wealth Report – 2019. Available from: <https://www.knightfrank.com/publications/the-wealth-report-2019-6214.aspx> (Accessed on 15/05/2020).

²⁸¹ KNIGHT FRANK (2018). The Attitudes Survey 2018. Available from: <https://www.knightfrank.com/wealthreport/article/2020-03-03-tracking-the-changing-attitudes-towards-wealth-around-the-world> (Accessed on 15/12/2020).

²⁸² RGA INTERNATIONAL CORPORATION (2015). Selling Life Insurance Successfully to the HNWI Market. Available from: https://www.rgare.com/docs/default-source/default-document-library/selling-life-insurance-to-hnwi.pdf?sfvrsn=33efd888_0 (Accessed on 15/12/2020).

is to finance costs associated with death, without liquidating assets.²⁸³ This refers to using death benefit proceeds from life insurance to meet financial objectives such as generating liquidity for illiquid assets (e.g. real estate), or removing the burden of inheritance tax by setting up a fund to pay the tax upon death²⁸⁴. While data on life insurance products (specifically life insurance products not covered by other Union legal instruments on exchange of information and other similar measures) is exchanged under the DAC1 directive, it is notable that the share of taxpayer's data automatically exchanged under DAC1 which was identified and successfully matched with national databases averaged 59% for life insurance products in 2018²⁸⁵. Such low matching can be attributed to the lack of resources of tax authorities and the administrative burden that the automatic exchange imposed on economic operators.

The main product serving the HNWI market is single premium universal life, with premiums financed by private banks. The role of life insurers has evolved from a pure product underwriter/provider to one that also incorporates sales support to the specialized brokers and marketing support to the private bankers.²⁸⁶ Depending on the type of life insurance, it can have a cash value and be sold off as a life settlement,²⁸⁷ which means that an existing insurance policy can be sold to a third party for a one-time cash payment. Upon the sale, the party that purchased the policy is the beneficiary entitled to payment of its premiums. These sales are tax-free for most policy owners as long as there is no investment return in the policy²⁸⁸.

HNWI assets under management have been growing rapidly on every continent.²⁸⁹ Assets of ultra-high-net-worth individuals (UHNWI), grew 12% from 2012 to 2013 and totalled more than one third of the available assets, making this an essential segment for insurance executives to monitor.²⁹⁰ UHNWIs and mid-tier millionaires (USD 5 to 30 million) are the main buyers of high-face-amount universal life policies.

There are several forms of wealth-related tax evasion by wealthy individuals in offshore destinations:

- ◆ Unreported capital flow and stocks of offshore wealth (via evasion on capital income);
- ◆ Unreported stock of offshore wealth (via evasion of inheritance and/or wealth tax);
- ◆ Unreported income transferred offshore (via evasion on original income i.e. on personal income tax) through:
 - Physical transfer of cash across national borders;
 - Fictitious transactions of services or royalties;
 - Mis-invoicing of services and goods; and
 - Payments to offshore bank accounts made by international clients for cross-border provisions of goods and services.²⁹¹

Cash is an asset not directly taxed in any country. Cash payments that constitute income must be reported and will be subject to income tax. Thus, hiding wealth in cash is limited to the extent that an individual will receive a payment via cash that was not registered by authorities ("grey economy"). Cash differs from other assets in

²⁸³ LIFE INSURANCE (2017). Stages in high-net-worth individuals' (HNWIs) insurance needs. Available from : <https://www.verdict.co.uk/life-insurance-international/analysis/stages-in-high-net-worth-individuals-insurance-needs-4895988/> (Accessed on 12/12/2020).

²⁸⁴ RADIANT INSIGHTS (2016). Insurance for High Net Worth Individual (HNWIs) Market Emerging Trends and Opportunities to 2020. Available from: <https://www.radiantinsights.com/research/insight-report-insurance-for-hnwis> (Accessed on 15/12/2020).

²⁸⁵ EUROPEAN COMMISSION (2018). Report from the Commission to the European Parliament and the Council on overview and assessment of the statistics and information on the automatic exchanges in the field of direct taxation. COM (2018) 844 final. Available from: <https://eur-lex.europa.eu/legal-content/en/ALL/?uri=CELEX%3A52018DC0844> (Accessed on 15/12/2020).

²⁸⁶ RGA INTERNATIONAL CORPORATION (2015). Selling Life Insurance Successfully to the HNWI Market. Available from: https://www.rgare.com/docs/default-source/default-document-library/selling-life-insurance-to-hnwi.pdf?sfvrsn=33efd888_0 (Accessed on 15/12/2020).

²⁸⁷ INVESTOPEDIA (2019). Why the wealthy should but lots of life insurance. Available from: <https://www.investopedia.com/articles/financial-advisors/111215/why-wealthy-should-buy-lots-life-insurance.asp> (Accessed on 15/12/2020).

²⁸⁸ INESTOPEDIA (2019). What is a life settlement??. Available from: https://www.investopedia.com/terms/l/life_settlement.asp (Accessed on 12/12/2020).

²⁸⁹ RGA INTERNATIONAL CORPORATION (2015). Selling Life Insurance Successfully to the HNWI Market. Available from: https://www.rgare.com/docs/default-source/default-document-library/selling-life-insurance-to-hnwi.pdf?sfvrsn=33efd888_0 (Accessed on 15/12/2020).

²⁹⁰ CAPGEMINI (2015). World Wealth Report 2015. Available from: <https://www.capgemini.com/resources/world-wealth-report-2015/> (Accessed on 15/12/2020).

²⁹¹ VELLUTINI, C., et al. (2019). Estimating International Tax Evasion by Individuals. Available from: https://ec.europa.eu/taxation_customs/sites/taxation/files/2019-taxation-papers-76.pdf (Accessed on 13/12/2020).

that it does not yield interest, thus storing wealth in cash might not be as attractive to individuals as other assets and they should thus have less incentives to evade taxes using cash.

Cash can be used as a temporary means of storing wealth. For instance, if an individual evades capital or inheritance income in country A and transfers it to country B, where it can be invested in other assets thus yielding income for the individual. The transfer of cash would have to occur by physical transferring across national borders, without the cash being reported to the authorities. Regulation (EU) 2018/1672²⁹² purports that any person entering or leaving the EU and carrying cash of a value of €10.000 or more has to declare it to the customs authorities. The declaration will be required irrespective of whether travellers are carrying the cash in person, in their luggage or means of transport. While this section reiterated the importance of cash and cash equivalents for wealthy individuals, our efforts to estimate the amount of financial offshore wealth held by such individuals focuses purely on cash and excludes cash equivalents.

5.3.2 Estimates for reported wealth of reported cash, life insurance and real estate

Non-bequeathable forms of wealth are invisible in estate tax returns, including annuitized pensions and life insurance and therefore to capture these forms of wealth, one has to rely on surveys.²⁹³ Also for this study, survey data has been used to calculate estimations of offshore cash, life insurance and real estate. The starting point of the used methodology is the idea that offshore real estate, cash, and life insurance values can be expressed as ratios of the offshore assets covered by the study. Based on the data of reported wealth stored in cash, life insurance and real estate, first the reported ratios of these asset categories in total wealth of individuals have been calculated. These ratios of reported wealth held in cash, life insurance and real estate are then adjusted for a factor by which estimated total offshore wealth per member state exceeds reported wealth. This factor is calculated based on estimates of offshore hidden wealth presented in section 5.3.

Two main databases are used to estimate the share of cash, life insurance and real estate that individuals hold. The main database that we rely on for our estimations is the Household Finance and Consumption Survey (HFCS) of the European Central Bank (ECB), as it provides information on households' assets and income according to reported wealth (providing information also for the top 10% of wealthiest households). Since the ECB HFCS (2017) only covers 22 Member States we use the Eurostat database on financial reported wealth to complement for missing data for the missing Member States²⁹⁴ and the UK. The detailed methodology and calculations of the primary estimates that are presented in the table below can be found in Annex VI.

As demonstrated in the table below, data reflecting shares for total household population are overall higher than those for the top percentile of wealthiest individuals. Real estate is the asset type exhibiting the highest ratio, followed by cash and life insurance. Life insurance does not seem to be the most attractive asset for storing wealth, particularly for the top 10% wealthiest individuals. The difference between total and top 10% household population is observable for real estate as well. For all countries, the share of real estate is higher for the total household population rather than the top 10%, with Central and Eastern European countries leading the list. Considering this and the findings presented in section 3.1, this study focuses on the top 10% wealthiest individuals in the estimations of offshore wealth in new asset categories.

²⁹² EUR-LEX (2018). Regulation (EU) 2018/1672 of the European Parliament and of the Council of 23 October 2018 on controls on cash entering or leaving the Union and repealing Regulation (EC) No 1889/2005. Available from: <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32018R1672> (Accessed on 18/06/2020).

²⁹³ ZUCMAN (2019). Global Wealth Inequality", Annual Review of Economics, 11:109–38. Available from: <https://doi.org/10.1146/annurev-economics-080218-025852> (Accessed on 18/16/2020).

²⁹⁴ Bulgaria, Czech Republic, Denmark, Romania, Sweden.

Table 5-7 Shares of reported new asset categories (2018)

2018	Cash Eurostat	Life insurance ECB	Life insurance ECB (top 10%)	Real estate ECB	Real estate ECB (top 10%)
AT	0.74%	1.1%	0.07%	63.8%	56.9%
BE	1.99%	2.9%	0.47%	65.1%	49.3%
BG	4.03%	0.8%	0.01%	#N/A	#N/A
CY	0.46%	1.5%	0.03%	65.6%	63.3%
CZ	2.01%	0.8%	0.03%	#N/A	#N/A
DE	0.97%	5.5%	0.51%	64.3%	53.0%
DK	3.25%	1.7%	0.20%	#N/A	#N/A
EE	4.73%	0.9%	0.01%	63.2%	56.9%
EL	1.67%	2.6%	0.35%	80.0%	73.4%
ES	0.79%	2.8%	0.34%	70.2%	52.7%
FI	5.55%	3.3%	0.46%	70.4%	50.7%
FR	2.28%	7.7%	0.90%	64.3%	49.1%
HR	1.94%	0.3%	0.00%	83.9%	81.0%
HU	3.40%	0.5%	0.04%	71.3%	60.4%
IE	2.14%	5.1%	0.55%	74.8%	58.6%
IT	2.27%	0.9%	0.11%	77.0%	64.6%
LT	4.75%	1.0%	0.01%	81.7%	79.3%
LU	3.06%	0.8%	0.05%	70.9%	61.9%
LV	0.25%	0.9%	0.00%	84.9%	79.9%
MT	1.92%	1.6%	0.09%	67.3%	59.9%
NL	6.86%	7.6%	0.29%	61.0%	34.4%
PL	1.02%	0.7%	0.02%	76.2%	70.6%
PT	4.01%	0.8%	0.05%	66.7%	58.1%
RO	4.29%	0.8%	0.01%	#N/A	#N/A
SE	0.27%	2.6%	0.14%	#N/A	#N/A
SI	4.07%	1.0%	0.04%	75.5%	70.2%
SK	1.34%	0.9%	0.02%	75.8%	70.1%
UK	0.71%	1.7%	0.1%	#N/A	#N/A

Source: Ecorys based on Eurostat and ECB data

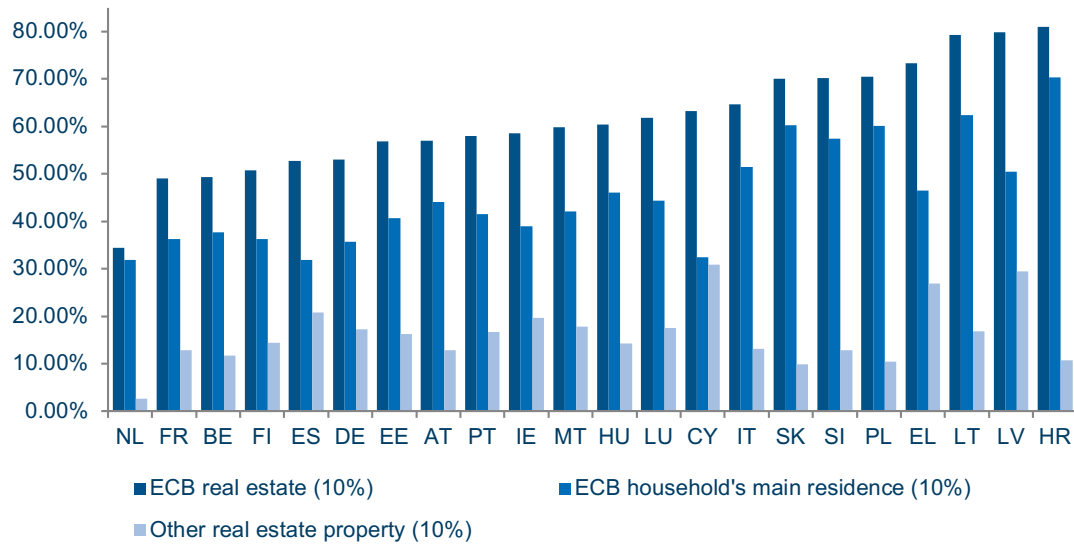
However, for what concerns real estate, it is interesting to distinguish whether real estate assets held by households correspond to main residence or secondary real estate properties. This is important as it can be assumed that a large part of wealth held offshore in real estate refers to properties that are not the individual's main residence. The evaluation of the DAC²⁹⁵ showed that large EU countries such as France, Germany, Italy, and the UK are among both the top senders and the top receivers of information. When looking at specific income categories for which information was exchanged, France, Italy, Spain and Portugal had sent a large share of the information concerning immovable property.

In this regard one can make use of the ECB database, which provides the ratios of real estate assets distinguishing between households' main residence and investment in other real estate properties. For some countries, the ratio of other real estate property is close to the share of main residence such as in the case of Cyprus and Latvia, while in others the difference is much starker (e.g. Netherlands). Overall, the ratio of investments in other real

²⁹⁵ EUROPEAN COMMISSION (2018). Report from the Commission to the European Parliament and the Council on overview and assessment of the statistics and information on the automatic exchanges in the field of direct taxation. COM (2018) 844 final. Available from: <https://eur-lex.europa.eu/legal-content/en/ALL/?uri=CELEX%3A52018DC0844> (Accessed on 15/12/2020).

estate property referring to the 10% wealthiest population are smaller than ratios for main residence and will provide a more accurate estimate for investments in offshore real estate. Therefore, the estimation of offshore wealth held in real estate is based on the ratio of investment held in other real estate properties.

Figure 5-17 Real estate asset allocation (2017)



Source: Ecorys based on ECB data

The table below shows the final estimates of reported wealth stored in cash, life insurance and real estate as a proportion of total household assets after several adjustments and calibration was conducted based on the two databases (for further information on methodology and calibration see annex VI). These represent primary estimates for the share of reported assets held in cash, life insurance and real estate. The cash ratios remain rather low, ranging from 0.49% in Greece to 2.25% in Finland. The share of life insurance is the lowest of all three categories, averaging below 1% for all Member States and the UK. The primary estimate of real estate wealth is based on the estimate of investment in other real estate property as a proportion of total household assets held by the top 10% wealthiest individuals. It is highest for Latvia with almost 30%, while the lowest ratio is attributed to the Netherlands (2.6%).

Table 5-8 Primary estimates of reported wealth (2018)

	Cash	Life insurance	Real estate
AT	1.01%	0.07%	12.8%
BE	1.13%	0.47%	11.7%
BG	0.76%	0.01%	16.5%
CY	0.98%	0.02%	30.8%
CZ	0.76%	0.02%	16.5%
DE	1.55%	0.51%	17.3%
DK	0.93%	0.20%	15.5%
EE	0.82%	0.01%	16.2%
EL	0.49%	0.20%	26.9%
ES	0.89%	0.34%	20.8%
FI	2.25%	0.27%	14.4%
FR	0.73%	0.53%	12.8%
HR	0.58%	0.002%	10.7%
HU	1.66%	0.02%	14.3%
IE	0.96%	0.32%	19.7%
IT	0.92%	0.11%	13.1%

	Cash	Life insurance	Real estate
LT	2.57%	0.01%	16.8%
LU	0.95%	0.07%	17.5%
LV	0.32%	0.00%	29.4%
MT	0.63%	0.05%	17.8%
NL	0.12%	0.29%	2.6%
PL	0.70%	0.02%	10.4%
PT	0.47%	0.03%	16.6%
RO	0.76%	0.01%	16.5%
SE	0.93%	0.14%	16.5%
SI	1.48%	0.02%	12.8%
SK	0.70%	0.02%	9.8%
UK	0.93%	0.06%	15.5%

Source: Ecorys based on Eurostat and ECB data

Case study findings

According to information gathered from interviews and desk research conducted for this study²⁹⁶, overall, the use of physical transfer of cash across borders was highlighted in *Portugal, Romania, Poland*, and *Latvia. Hungary, Portugal, Estonia* and *Denmark* also reported that cash is frequently hidden offshore. In the case of *Italy*, cash was highlighted as a means for wealth storing of income originating from criminal activities, which is physically transferred across borders to be deposited in bank accounts, while among the non-financial assets real estate is the most used instrument to hide wealth. The popularity of real estate as a channel to hide wealth is also confirmed by the *German* case study, where a large part of the income earned illegally or used to evade taxes is invested into real estate sectors. This is particularly true for IFCs while within the country individuals prefer to use financial assets such as shares and bonds for evading taxes.

Cash was not judged to be among the most popular financial assets in *Spain*, where tax evaders prefer to make use of investment funds to make investments in countries where profits from investments are not taxed (e. g. Bermuda). Real estate was mentioned as being largely used for hiding wealth, mainly because it is considered easy to hide the identity of UBOs. In the case of Spain, the estimated value of hidden wealth for cash was judged to be higher than the share of reported wealth, while it should be slightly lower for real estate of total household population (52%) as a consequence of the last economic crisis and the housing bubble.

In *France*, the use of bank accounts and investments through life insurance was reported as the most used financial assets to hide wealth even though life insurances are decreasing²⁹⁷. Cash is also largely used, but mainly by less wealthy individuals and usually in cases when the money has been generated by illegal sources and needs to be physically transferred abroad. Real estate is also a popular way of hiding wealth although to a much lesser extent than bank accounts. The ratio of hidden wealth for cash was judged to exceed the estimated share of reported wealth (1%).

In *Lithuania*, the two most popular ways to hide wealth are real estate and cash or cash equivalent (which are usually transformed in other financial assets such as fictitious or hybrid loans). Real estate plays a major role in hiding wealth as it is often used to hide the identity of the property owners. Based on tentative calculations by the tax inspectorate, about 15 % of wealth might be hidden in real estate.

Life insurance (regular life insurance products) and real estate have been identified as two of the most used ways to hide wealth in *Romania*. In particular, investments in immovable properties, shell companies, and ships are estimated to be around 35% of the identified tax evasion. However, the practice of fictitious payments and the physical moving of cash to IFCs is observed.

²⁹⁶ Tax authorities, financial investigation units and public prosecutors (depending on the country). The full list of interviewed bodies can be found in annex IX.

²⁹⁷ As reported by experts from the Institut des relations internationales et stratégiques (IRIS), the decrease is most likely linked to the automatic exchange of information.

In the cases of other case studies for this study, information on cash, life insurance and real estate is more limited, and interviewees were more reluctant to pass judgement as to the ratios of these asset categories. As *Sweden* does not tax wealth or property, the Swedish authorities do not monitor this wealth category. Wealth that is hidden is however assumed to be typically held in ways that is easily and readily accessible, such as cash held in foreign bank accounts. The *Cypriot* authorities confirmed that the primary ratios for cash and life insurance seem to reflect reality, although it should be noted that individuals might be more prone to store wealth in cash given the institutional uncertainty that was reflected during times of economic volatility. In the *Netherlands*, rather than cash and real estate (as the most liquid and illiquid assets), other asset categories were judged to be used more frequently.

While the case studies provide some insight on the preferences of using new asset categories to store wealth, they cannot serve for calibration purposes as they do not provide information as to the magnitude by which the shares of new asset categories should be adjusted. To our primary estimates for this study, the authors had to rely on a different adjustment mechanism that is explained in the following section.

5.3.3 Extrapolation of hidden wealth ratios per asset category and Member State

Due to data limitations in obtaining the exact ratios on reported cash, life insurance and real estate²⁹⁸, there are limited possibilities for adjustments of the primary estimated ratios of reported cash, life insurance and real estate to reflect those applying to offshore wealth. Because of this, the primary ratios as exhibited in Table 5-8 are used and adjusted these for the share of estimated total offshore wealth per country (as estimated in section 5.3) over total reported financial wealth per country. The figure below showcases the difference between reported total financial assets held by individuals based on the ECB database and offshore wealth as estimated in section 5.2. More specifically, it shows the share of estimated offshore wealth in total reported financial assets for the selected countries.

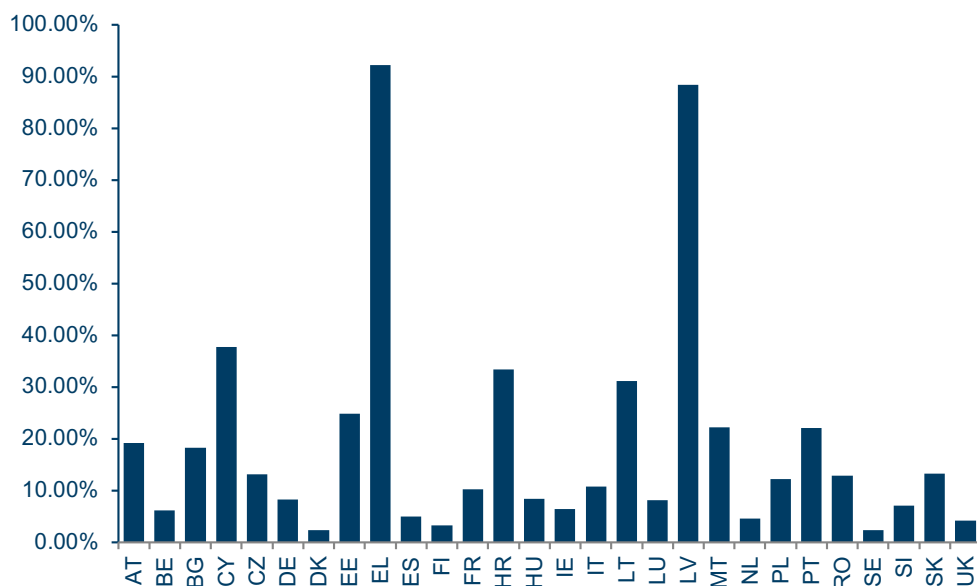
As an alternative to comparing to GDP, the offshore financial wealth calculations were compared to the financial wealth reported annually by households in the ECB survey. For some countries (Denmark, Sweden and Finland), the proportion of offshore wealth to reported financial wealth was low while for other countries it was high (as is the case for Greece, Latvia, and Cyprus). While such stark differences are not easily explained, high proportions of offshore financial wealth to reported financial wealth may indicate the propensity of individuals in a country to place their financial wealth offshore. Furthermore, the existence of investor resident schemes in a jurisdiction, as discussed in Section 4, may also explain such high proportions as investors prefer to place their investments offshore rather than invest in the jurisdiction directly.

Furthermore, the levels of automated exchanges for the five categories of income and capital covered in DAC1 have changed since the DAC1 came into force. It should be noted that for some countries, there was limited tax information available in national databases making the exchange of information challenging (e.g. in 2017 Cyprus only reported on one income category – pensions)²⁹⁹ making these countries potentially more attractive for offshoring wealth. As showcased in section 5.4 on forecasts, the regression model found that higher levels of capital taxation are associated with higher volumes of offshore wealth, providing another possible reason for high shares of offshore wealth over reported financial wealth (taking for instance the example of Greece). Lastly, the stark differences may result from institutional and socio-demographic differences among countries that influence the compilation of the ECB statistics and the reliability of the information sources. Nevertheless, these indicators may provide an alternative to the figures in Section 5.2 for measuring offshore wealth relative to GDP.

²⁹⁸ Extrapolation of ratios for a selected set of countries and no available data on shares of cash, life insurance and real estate in total wealth of UHNWI.

²⁹⁹ EUROPEAN COMMISSION (2018). Report from the Commission to the European Parliament and the Council on overview and assessment of the statistics and information on the automatic exchanges in the field of direct taxation. COM (2018) 844 final. Available from: <https://eur-lex.europa.eu/legal-content/en/ALL/?uri=CELEX%3A52018DC0844> (Accessed on 15/12/2020).

Figure 5-18 Share of estimated offshore wealth and reported financial assets per country



Source: Ecorys based on CPIS, BIS and ECB data

Making use of the data on estimated offshore wealth and total reported financial assets, for each Member State and the UK we derived a factor of offshore wealth per country over total reported financial wealth (see Annex VI for factor data at country level). For instance, if one takes the example of Germany, it is shown that the estimated offshore wealth equals EUR 389.9 billion (USD 455.6 billion) (see Table 5-6 in section 5.2.4). This is put in relation to the total reported financial assets of German citizens, which equals EUR 4.7 trillion to arrive to the adjustment factor, which in case of Germany is 0.082. This factor will serve as an adjustment of the primary estimated presented in Table 5-8. Using these primary estimates, one can calculate the amount of cash and life insurance held by the top 10% of wealthiest individuals and apply the factor of offshore wealth/ total reported financial wealth. Thus, following the example of Germany by applying this factor to the amount of cash held by the top 10% wealthiest Germans, this study arrives to an estimate of offshore cash of 6.04 billion euro.

Given that the offshore wealth does not account for non-financial assets, one can only employ the above-mentioned methodology to derive estimates of offshore cash and life insurance. For estimations of offshore wealth in real estate, a different methodology is employed. The start is from the ECB data on total assets held by households, which are then multiplied by the share that the top 10% of households hold in other property investments for each country. Given the fact that 18% of European UHNWI³⁰⁰ invested in property offshore³⁰¹, one can calculate the amount of household investment in property offshore. While this estimation does not account for different investment behaviours per country, it gives an initial estimate of the total amount of offshore real estate investment held by Europeans. Thus, this study estimates that the amount of total household capital that European individuals hold offshore in real estate equals EUR 1.3 trillion (USD 1.5 trillion).

As mentioned, to attribute the estimated offshore wealth in real estate to each Member State and the UK, this study makes use of the primary ratio estimates presented in Table 5-8. These ratios report on the ratio per Member State of wealth that the top 10% of wealthiest individuals hold in real estate property other than their main residence. By applying the estimated primary ratios to total household assets and then multiplying by the share of property UHNWI individuals hold offshore in real estate (18%), the estimated offshore wealth held in real estate per Member State and the UK is derived. To provide again the example of Germany, we start from the total amount of estimated household assets (EUR 8.8 trillion) and apply the 17.3% ratio which shows the share of top 10% wealthiest residents holding investments in other real estate property, followed by an estimated 18% of these held offshore. This leads to an estimated 275 billion euros of investments held in offshore real estate by German wealthiest individuals. The same logic is applied to attribute the total investments European UHNWI hold in real estate to specific Member State and the UK. While calculated for the wealthiest individuals, these estimates are used as approximations of wealth held offshore for the entire population of a country.

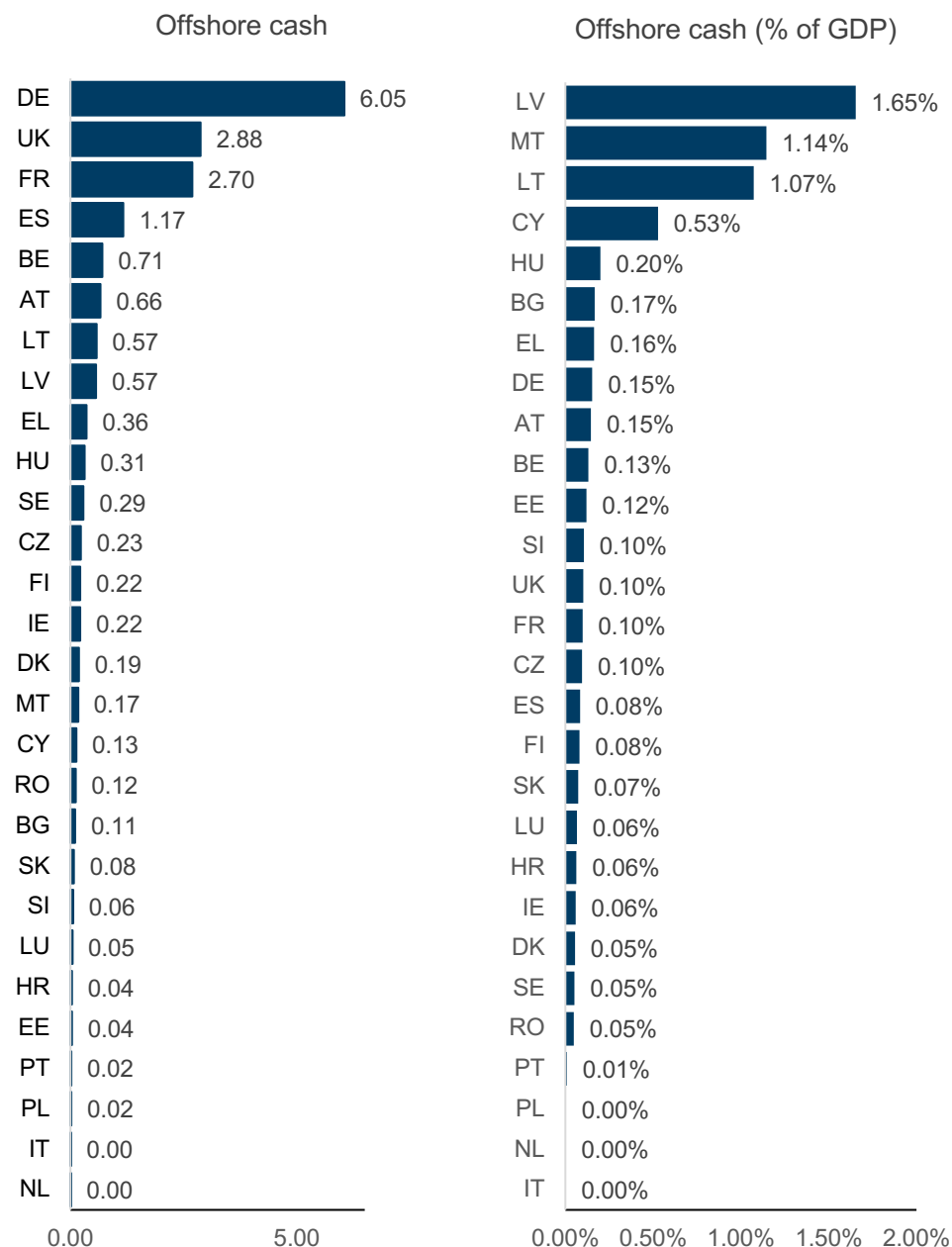
³⁰⁰ UHNWI that are residents in Europe.

³⁰¹ Ibid.

The figures below provide an overview of offshore wealth held by individuals in cash, life insurance and real estate per Member State and the UK. Similarly as for total offshore wealth, Germany, France and the United Kingdom topped the list for offshore wealth in cash, while in the case of life insurance Spain comes third. In 2018, residents from these three countries held more offshore wealth in cash (EUR 11.6 billion) than the other Member States combined (EUR 6.3 billion). The same holds for offshore wealth in life insurance where Germany, France and Spain hold more (EUR 4.4 billion) than the other Member States and the UK combined (EUR 0.9 billion). The asset category of real estate shows a different picture with smaller economies leading the list when expressing wealth as % of GDP. In absolute terms, Germany (EUR 275 billion), Spain (EUR 259 billion) and France (EUR 213 billion) are the top three countries when it comes to offshore real estate wealth, although they hold half of total estimated offshore real estate (23% of offshore real estate held by all Member States and the UK).

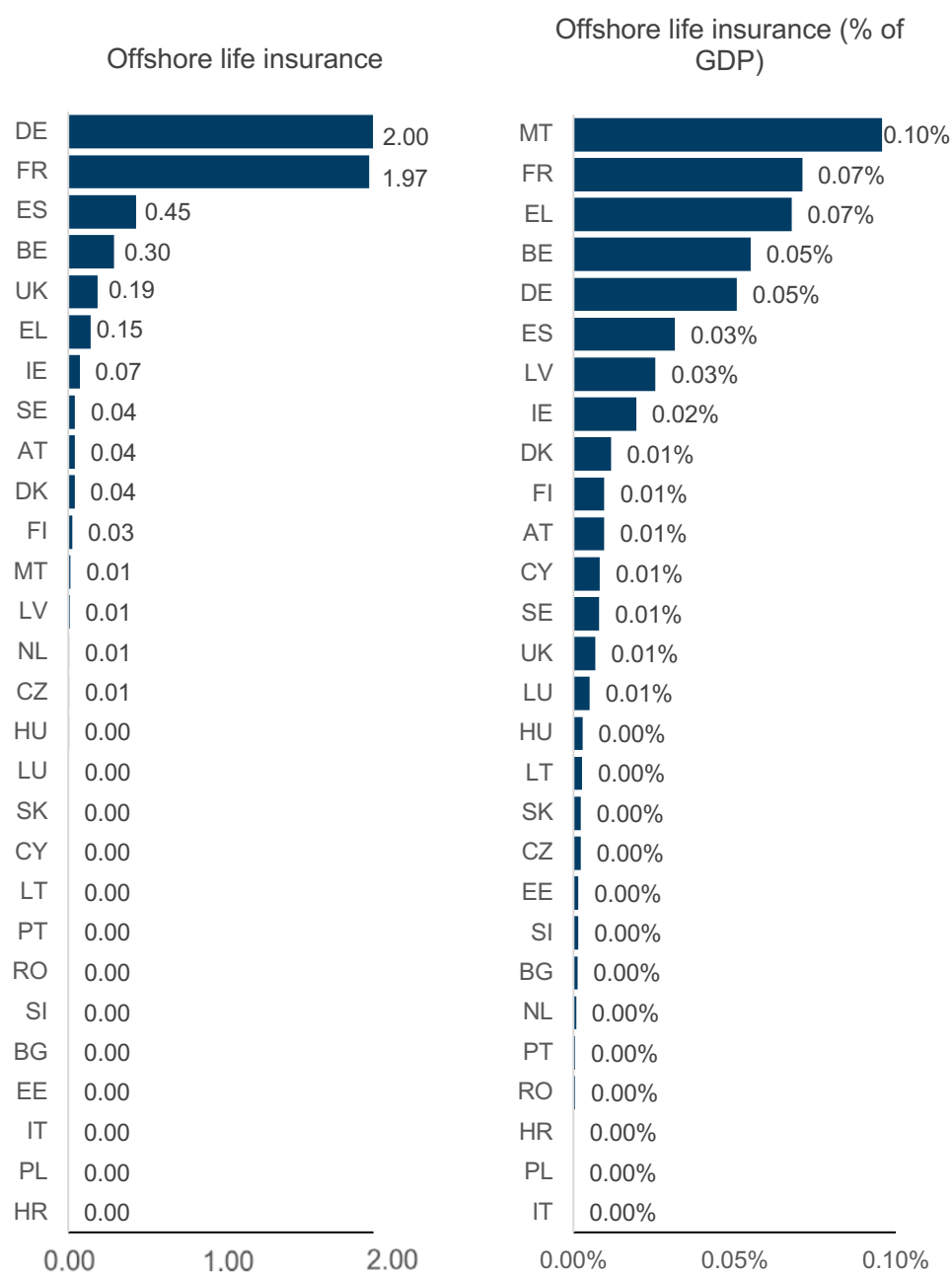
When expressed as a share of national GDP, offshore wealth stored in cash is highest for Latvia, followed by Malta and Lithuania. These are the only countries where the share of offshore wealth is higher than 1% of GDP. Italy, the Netherlands, and Poland on the other hand exhibit significantly smaller shares of offshore wealth stored in cash barely over 0% of their GDP. The shares of offshore life insurance expressed relative to GDP remain rather low (below 1% for all member states and the UK). Malta tops the list when it comes to offshore life insurance (0.10%), followed by France (0.07%) and Greece (0.0069%). Cyprus exhibits the highest share of offshore wealth in real estate expressed as % of national GDP (45%), followed by Malta (24%) and Spain (18%).

Figure 5-19 Estimated offshore wealth held in cash (2018, EUR billion)



Source: Ecorys

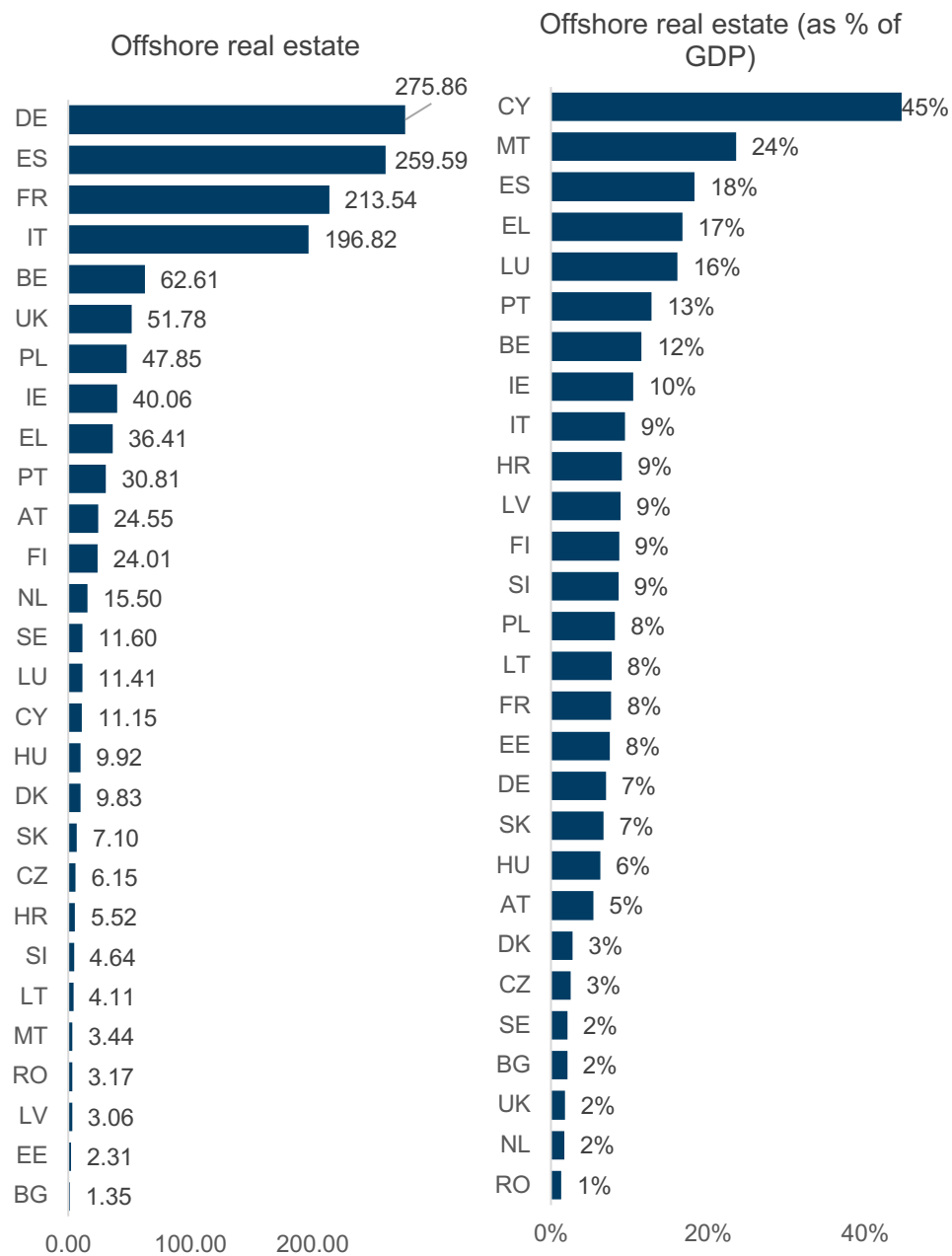
Figure 5-20 Estimated offshore wealth held in life insurance (2018, EUR billion)³⁰²



Source: Ecorys

³⁰² Offshore Life Insurance in millions EUR: MT=13.99, LV=8.76, NL=7.26, CZ=5.53, HU=4.40, LU=3.57, SK=2.45, CY=2004, LT=1.42, PT=1.34, RO=1.32, SI=0.83, BG=0.80, EE=0.48, IT=0.44, PL=0.42 and HR=0.10.

Figure 5-21 Estimated offshore wealth held in real estate (2018, EUR billion)



Source: Ecorys

Combining the estimated offshore wealth in section 5.2 (which include offshore wealth in equities and deposits) with the estimations of offshore wealth held in cash, life insurance and real estate, the findings can show the overall estimated offshore wealth for Member States and the UK, which are presented in the table below. Overall, the total offshore wealth combining all five asset categories held by individuals of Member States and the UK amounted to EUR 3.4 trillion in 2018. The bigger European economies tended to exhibit higher volumes of estimated offshore wealth.

Table 5-9 Overview of estimated offshore wealth in different asset categories (2018)

Country	Equities and deposits	Cash	Life insurance	Real estate	Total
AT	66.88	0.66	0.04	24.55	92.13
BE	64.26	0.71	0.30	62.61	127.88
BG	14.60	0.11	0.00	1.35	16.06
CY	13.71	0.13	0.00	11.15	24.99
CZ	31.43	0.23	0.01	6.15	37.82
DE	397.84	6.05	2.00	275.86	681.75
DK	21.04	0.19	0.04	9.83	31.1
EE	4.66	0.04	0.00	2.31	7.01
EL	73.79	0.36	0.15	36.41	110.71
ES	134.72	1.17	0.45	259.59	395.93
FI	9.64	0.22	0.03	24.01	33.9
FR	378.52	2.70	1.97	213.54	596.73
HR	6.76	0.04	0.00	5.52	12.32
HU	10.04	0.31	0.00	9.92	20.27
IE	23.62	0.22	0.07	40.06	63.97
IT	208.82	0.00	0.00	196.82	405.64
LT	4.10	0.57	0.00	4.11	8.78
LU	6.19	0.05	0.00	11.41	17.65
LV	5.08	0.57	0.01	3.06	8.72
MT	6.38	0.17	0.01	3.44	10
NL	70.98	0.00	0.01	15.50	86.49
PL	44.24	0.02	0.00	47.85	92.11
PT	55.41	0.02	0.00	30.81	86.24
RO	15.66	0.12	0.00	3.17	18.95
SE	31.71	0.29	0.04	11.60	43.64
SI	1.70	0.06	0.00	4.64	6.4
SK	6.95	0.08	0.00	7.10	14.13
UK	314.32	2.88	0.19	51.78	369.17
Total	2,023.05	17.97	5.32	1,374.15	3420.49

Source: Ecorys based on ECOPA/CASE, ECB, Eurostat and Knight Frank (EUR billions)

5.4 Forecasts until 2025

The following section provides forecasts for the volume of offshore wealth overall for the EU-27 over the period 2019-2025³⁰³.

Following the updating of the figures carried out under section 5.3, the available time series 2001-2018 lay the foundation to estimate how offshore wealth may evolve over the next years. Relying on the available figures for each Member State, this study employed a panel data econometric analysis to investigate and quantify the relationship between offshore wealth and a set of potential variables affecting the phenomenon, and used the estimated coefficients as predictive factors to develop forecasts for the years 2019-2025. In doing so, there is an assumption that the economic data on hidden offshore wealth for the 2019-2025 period will be driven to a large extent by the same variables as during the 2001-2018 period, or at least that these variables will represent a sufficient proxy. However, the current Covid crisis and its current and future impact on the EU economy

³⁰³ 2019 will constitute a forecast due the existence of a data gap. The current methodology allows to estimate the amount of offshore wealth until 2018, which is the latest year for which some of the data in key databases are available.

poses some challenges in this respect. To the extent possible, the impact of the crisis is accounted for by resorting to the latest projections available for some of the key variables employed in the analysis (e.g. GDP, for which latest EC forecasts were employed).

In order to identify the potential variables for the econometric model, the authors have first conducted an extensive desk research on available literature in order to develop a catalogue of factors that have been found by previous studies as potentially influencing tax evasion by individuals and that could be used to populate our model. Subsequently, a database was designed and populated it with available quantitative information on these variables for each Members States over the period 2001-2018, resorting to different authoritative and reliable sources including: Eurostat, the OECD and the World Bank. Specifically, information was gathered on variables for which robust and comparable quantitative data were available for each Member State and over the period under examination. Variables considered include: GDP, GDP growth, total financial assets owned by households (in absolute value and as % of GDP), total tax revenues, total tax revenues from labour, total tax revenues from capital, adoption of CRS, short-term interest rates and long-term interest rates, and a corruption index³⁰⁴.

Different models were tested featuring various combination of these variables by running linear regressions. The existence of a statistically significant relationship between the (independent) variables and offshore hidden wealth (dependent variable) was analysed and quantified over the available timeframe, by employing the following econometric model:

Panel linear model formula (fixed effects)
$Y_{it} = \alpha_i + \beta X_{it} + u_{it}$

Whereas:

- ◆ Y: dependent variable, i.e. offshore wealth;
- ◆ α : intercept for each country;
- ◆ β : the coefficient estimated for a specific independent variable;
- ◆ X: is a vector of independent variables;
- ◆ u: is the error term;

In particular, $i=1...n$ is the country index and $t=1...T$ is the time index.

As hidden offshore wealth and subsequent tax evasion may be affected by a variety of other unobservable factors that cannot be captured in the analysis (e.g. non-quantifiable variables), by design this model has the advantage of providing a mean for controlling for omitted variables bias.

Among the model specifications explored and displayed in the table below, the model specification (4) was selected, which provided the best fit in terms of statistical significance and allowed to include important influencing variables.

³⁰⁴ Transparency International Index did not prove to be a suitable candidate as there is an important data break in 2012 due to a change in methodology, which limit the usability of such indicator to a narrow timespan (i.e. 2012-2018). An alternative index on control of corruption from the World Bank was tested, but no statistical significance was shown for this variable in the model, therefore it was discarded.

Table 5-10 Model specifications - Results

	Dependent variable: Log of Offshore Wealth				
	(1)	(2)	(3)	(4)	(5)
LogAssetsHousehold	.804***	.334	.309	.066	
	(.038)	(.206)	(.273)	(.288)	
LogAssetsHousehold _{t-1}	.029	.480***	.518**	.425*	
	(.020)	(.181)	(.223)	(.224)	
LogGDP				.903**	.134
				(.371)	(.610)
LogGDPbn _{t-1}					1.231**
					(.555)
CRS	-.110***	-.118***	-.101***	-.101***	-.078***
	(.015)	(.019)	(.024)	(.023)	(.023)
TaxRevCapital		.020*	.038***	.041***	.046***
		(.010)	(.012)	(.011)	(.010)
TaxRevLabour		.005	-.002	.003	.011
		(.009)	(.010)	(.010)	(.009)
Interest rate short			-.009	-.016**	-.014***
			(.006)	(.006)	(.005)
Interest rate long			.014***	.017***	.009*
			(.005)	(.005)	(.005)
Observations	455	336	250	250	278
R ²	.550	.203	.222	.242	.173
Adjusted R ²	.518	.119	.123	.142	.080
F Statistic	172.943*** (df = 3; 424)	15.431*** (df = 5; 303)	8.997*** (df = 7; 221)	8.787*** (df = 8; 220)	7.453*** (df = 7; 249)
Note:	*p<0.1; **p<0.05; ***p<0.01				

Source: Ecorys

Whereas:

- ◆ LogAssetsHousehold: Logarithm of financial assets³⁰⁵ owned by households;
- ◆ LogAssetsHousehold_{t-1}: Logarithm of financial assets owned by households in t-1;
- ◆ LogGDP: Logarithm of GDP³⁰⁶;
- ◆ LogGDPbn_{t-1}: Logarithm of GDP in t-1;
- ◆ CRS: Common Reporting Standard - Binary variable: 0 was assigned before coming into force of CRS, 1 afterwards;
- ◆ TaxRevCapital: Tax revenues from capital³⁰⁷, as % of GDP;
- ◆ TaxRevLabour: Tax revenues from labour³⁰⁸, as % of GDP;
- ◆ Interest rate short: Short-term interest rates³⁰⁹;
- ◆ Interest rate long: Long-term interest rates³¹⁰.

³⁰⁵ Data from Eurostat³⁰⁶ Data from the World Bank³⁰⁷ Data from the European Commission³⁰⁸ Data from the European Commission³⁰⁹ Data from the OECD³¹⁰ Data from the OECD

In the first specification (1) households' financial assets are regressed against offshore wealth with the inclusion of the CRS variable. Results showed a positive correlation between offshore wealth and households' financial assets, meaning that higher volumes of wealth owned by households tend to correspond to higher amounts of wealth located offshore. Moreover, the introduction of CRS was found to be associated to a sharp decline of offshore wealth, by roughly 10%, suggesting a positive impact of these standards in countering tax evasion (further analysis on the CRS impact is provided in Section 6). It is worth noticing that such effect stays statistically significant across all model specifications. Specification (2) brings in the taxation dimension, through the addition of tax on revenues from capital and labour. Adding these variables shortened the timeframe for the panel analysis, as tax revenues data were available only as of 2006, but allowed to consider important driving factors. Tax revenues were used as a proxy for the level of taxation on capital gains and labour. The model found that higher levels of capital taxation are associated with higher volumes of offshore wealth, as people may decide to move their capitals abroad to benefit from more favourable tax systems or to pose as foreign investors when re-investing their money into the domestic market (i.e. round-tripping practice, described further in section 6.2.1).

It is worth mentioning that, as also found in the present study, we are arguably looking into a form of tax evasion particularly concentrated among wealthy individuals³¹¹, for which shares of income stemming from capital tend to be relatively higher. As a result, these individuals may be more sensitive to changes of capital income taxes. Further backing this assumption, no statistically significant relationship was found with tax revenues from labour. In this specification we also notice a time delay related to households' financial assets, a one-year lag showing that any increases in wealth in Year t , is associated to higher offshore wealth starting from Year $t+1$, as the effect is not immediate.

Specifications (3) and (4) introduce short and long-term interest rates, and the GDP. Short-term interest rates are the rates at which short-term borrowings are carried out between financial institutions. This variable was used as a proxy for the general investment conditions in the domestic market. Long-term interest rates refer to government bonds maturing in ten years. Specification (4) shows that reductions of short-term interest rates are found to be associated with increased offshore wealth, while long-term interest rates are positively correlated with offshore wealth, suggesting that higher rates for government bonds may translate into higher perceived risks and less financial stability in the country, potentially leading individuals to transfer wealth abroad (e.g. offshore).

To develop forecasts over 2019-2025, coefficient stemming from model specification (4) were plugged into the panel linear model formula presented above. Specification (4) was selected for its number of significant coefficients that allow for a more granular shaping of scenario. However, the relatively low R squared (.142) of the regression indicates that a number of relevant factors are still not captured by the model. Forecasts were obtained from the model through a series of assumptions on the likely evolution of the drivers of offshore wealth over the next years. For this study, different scenarios were developed on the evolution of these variables to analyse how different expected changes may affect offshore wealth. Notably, a central, a low, and a high scenario were developed whose specifications and assumptions are detailed in the table below.

³¹¹ ALSTADSÆTER, A, JOHANNESSEN, N., and ZUCMAN, G. (2019). Tax evasion and inequality, *American Economic Review* 2019, 109(6): 2073–2103. Available from: <https://pubs.aeaweb.org/doi/pdfplus/10.1257/aer.20172043> (Accessed on 10/12/2020).

Table 5-11 Scenarios assumptions

Variable	Central	Low	High
GDP	Estimates until 2021 are based on European Economic Forecast – Spring 2020 ³¹² . As of 2022, the compound annual growth rate (CAGR) ³¹³ of the 2010-2018 period is used.	Estimates until 2021 are based on European Economic Forecast – Spring 2020. As of 2022, the compound annual growth rate 2010-2018 is used.	Estimates until 2021 are based on European Economic Forecast – Spring 2020. As of 2022, we assumed more favourable macroeconomic conditions and higher GDP growth.
Households financial assets	Estimates until 2021 follow the same growth trend forecasted for the GDP, given the high correlation encountered for these variables. As of 2022, the compound annual growth rate 2012-2018 is used.	Estimates until 2021 follow the same growth trend forecasted for the GDP, given the high correlation encountered for these variables. As of 2022, the compound annual growth rate 2012-2018 is used.	Estimates until 2021 follow the same growth trend forecasted for the GDP, given the high correlation encountered for these variables. As of 2022, we assumed higher wealth growth.
Tax revenues from capital	Assumed to be constant over time	Assumed a slight decrease of 1% every year	CAGR 2012-2018
Tax revenues from labour	Constant	Constant	Constant
Short-term interest rates	Constant	Constant	Constant
Long-term interest rates	CAGR 2012-2018	CAGR 2012-2018	CAGR 2012-2018
New policy variable	Not used	This variable was added based on what observed for CRS, in order to account for any future policy interventions targeted to counter offshore tax evasion. We assume a constant positive effect of policy intervention in reducing offshore wealth. This include also potential further expansion and adoption of CRS.	Not used

Source: Ecorys

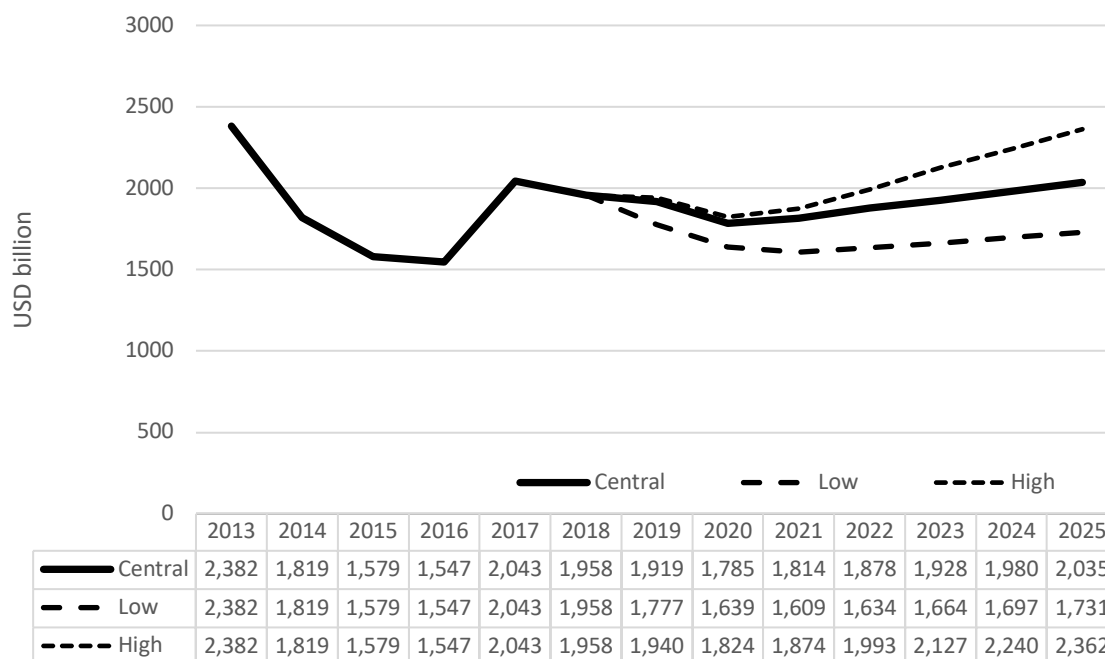
Based on these assumptions, the figure below displays how offshore wealth for the EU-27 is forecasted to evolve over 2019-2025 under the three different scenarios. In the low scenario, it is assumed that current measures to counter tax evasion will keep positively affecting tax compliance (e.g. reduced levels of offshore wealth observed following introduction of CRS will continue, new countries will adopt the standards etc.) and that further policy developments will take place against offshore tax evasion. Therefore, combined with the available economic outlooks, forecasts display a substantial decrease of offshore wealth under this scenario.

In the high scenario, a significant increase is expected, driven mostly by the consistent GDP and wealth growth, along with the assumed slight increase in capital taxation. Moreover, no effects of additional policy interventions are envisioned, as we assume that taxpayers may keep evading taxes by shifting undeclared income/assets into alternative tax evasion channels, as reported by some interviewees, available literature and partially some of the findings of the present study.

³¹² EUROPEAN COMMISSION (2020). Statistical Annex – European economic forecast – Spring 2020. Available from: https://ec.europa.eu/info/sites/info/files/economy-finance/ecfin_forecast_spring_2020_statist_annex_en.pdf (Accessed on 12/12/2020).

³¹³ The CAGR is the average annual rate of change over a certain period, calculated with the start and end values only.

Figure 5-22 Offshore wealth forecasts – EU-27



Source: Ecorys

However, some limitations must be kept in mind when using the results of the forecast model. An important driving factor identified in section 5.3 of this report is the evolution of the equity market. To produce a national level forecast estimate, this factor is proxied by the national GDP³¹⁴. In addition, the number of drivers of offshore wealth included in the analysis remain limited. The model only includes first order effects and does not account for potential second order effects and endogeneity (e.g. lower taxes could lead to increased GDP in the next year). The results should therefore be used only as an indication of the magnitude of the changes that might be expected in the short-run. Moreover, as anticipated, the Covid crisis adds a strong layer of uncertainty on how economies will respond in the short and long term, possibly affecting the forecasts.

5.5 Estimation of revenues lost to international tax evasion

To estimate the revenue lost to international tax evasion, the methodology used in the ECOPA/CASE study is used. For each Member State, the estimated time series of offshore wealth is used to derive tax evasion on, respectively:

- ◆ Taxes on concealed offshore wealth, which can be decomposed as:
- ◆ Taxes on capital income, which are taxes on the revenue produced by the offshore investment (interest income, dividends, capital gains). Such capital income is calculated using rates of return based on average rates of return in mutual funds.
- ◆ Taxes on wealth and wealth transfer, which cover inheritance taxes.
- ◆ Personal income tax on the original concealed income that was initially transferred offshore to form the hidden wealth. Assuming that the interest and dividends generated by offshore investments are withdrawn every year, these capital inflows are simply estimated as the increment in offshore wealth from year to year.

All tax evasion estimates are computed and reported on a yearly basis. Top tax rates in each Member State are used to compute revenue losses to tax evasion. As in the ECOPA/CASE study, it is assumed that legal mechanisms for tax reliefs and allowances are not implemented. In that sense, revenue losses to tax evasion estimates should be viewed as maxima.

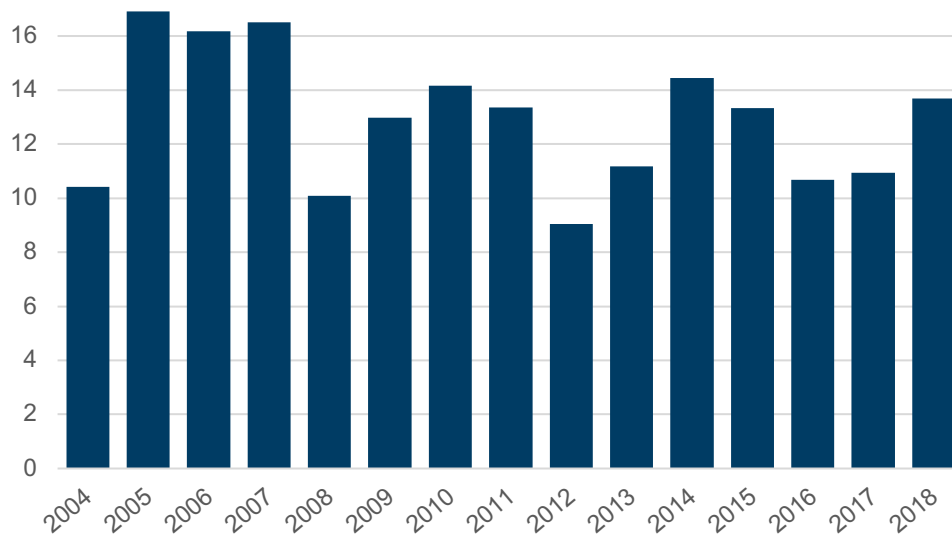
The estimates exhibit volatility across time that can be tracked to the volatile rates of return on capital over the years, as well as differences in the estimated original income transferred offshore. To account for this volatility

³¹⁴ Overall for the EU, a strong correlation was estimated with GDP.

and following the ECOPA/CASE methodology, we smooth the series by applying a simple backward moving average over three years. The estimates are calculated for Member States only and are thus expressed in EUR. In order to show robust estimates, also estimates expressed as percentages of GDP are provided, which account for the volatility of the EUR-USD exchange rate.

The evolution of revenue lost to tax evasion on capital income for the EU-27 is reported in Figure 5-23. On average over the period, an estimated EUR 12 billion per year, or 25% of total revenue is lost to international tax evasion as estimated in this study. Revenue lost to tax evasion on capital income reached a EUR 9 billion minimum in 2012 and an almost EUR 17 billion maximum in 2005. It is estimated at EUR 13 billion in 2018, the last year covered by the study.

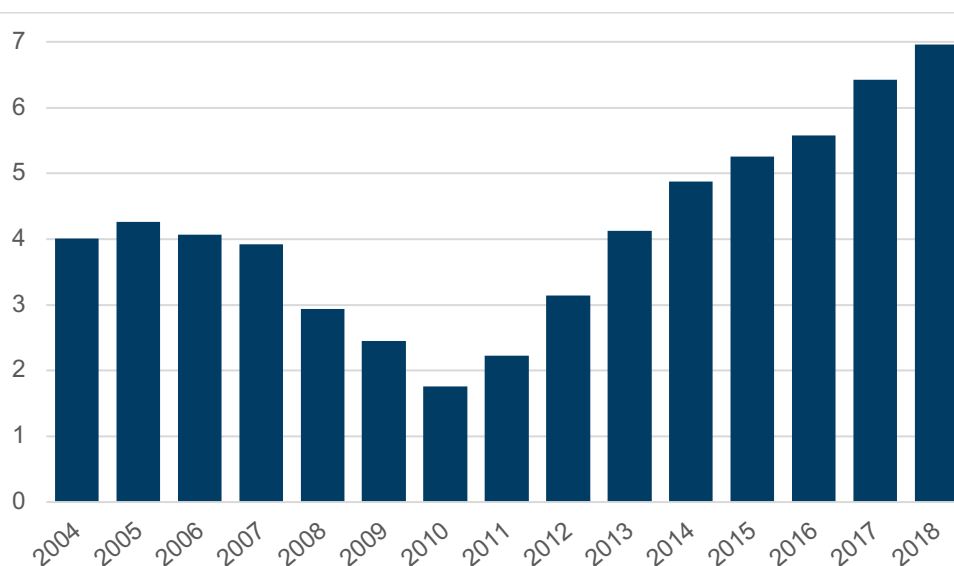
Figure 5-23 EU-27 international tax evasion on capital income (EUR billions)



Source: Ecorys

Wealth and inheritance tax evasion is the remainder of total estimated revenue lost to international tax evasion by EU-27 residents and is estimated at 0.02% of GDP on average over the 2004-2018 period, or EUR 4 billion per year. In 2018, it represented almost EUR 7 billion (0.04% of GDP). Its evolution over time, with an increase starting in year 2010 as shown in the figure below, is correlated with the evolution of EU offshore wealth (see section 5.2).

Figure 5-24 EU-27 international tax evasion on wealth, inheritance taxes (EUR billions)

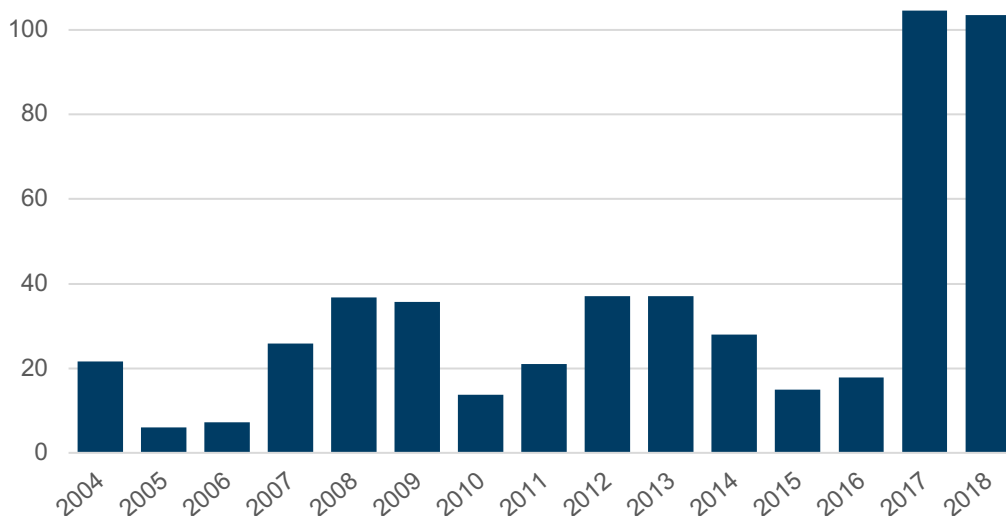


Source: Ecorys

The evolution of the revenue lost to tax evasion on original income for the EU-27 over the years 2004-2018 is shown in the figure below. As mentioned above, these estimates capture the tax revenue lost on the incremental wealth moved offshore, which is interpreted as the estimated original income. On average over the period, an estimate for EU-27 revenue lost to tax evasion on the original income is 66% (EUR 34 billion per year) of estimated total revenue lost to international tax evasion. In 2018, it amounts to EUR 103 billion (0.60% of GDP).

The original income tax gap exhibits the most volatility, with a significant jump in 2017 and 2018 compared to previous years. The stark difference in original income tax is driven by the estimates of financial wealth held offshore, which are inflated in 2017 largely due to volatility in security prices. The larger increase in tax loss on the original as compared to the other categories like capital, and wealth and inheritance also comes from the differences in the methodology. If security prices increase, the tax loss on the personal income tax (PIT) automatically increases due to the original income hidden in tax havens. Following the ECOPA/CASE study, the PIT loss is estimated by applying the PIT rate for each Member State on the difference of wealth hidden offshore between year N and year N -1. Following the hypothesis that capital income gain is not accumulated but used by taxpayers, the difference between the wealth in year N and N-1 is the new income invested by the taxpayers in the tax haven on year N).

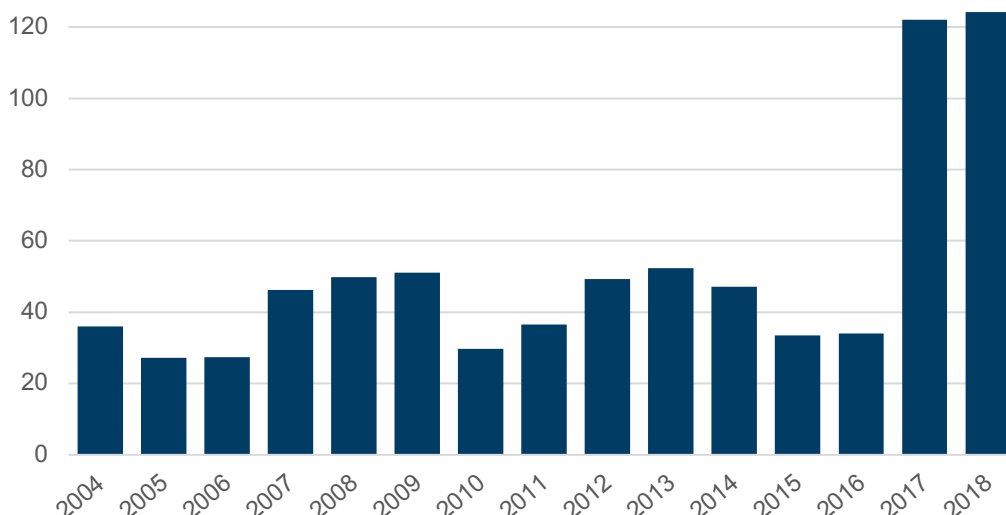
Figure 5-25 EU-27 international tax evasion on original income (EUR billions)



Source: Ecorys

The average yearly revenue lost to international tax evasion for the EU-27 over the period 2004 -2018 is estimated at EUR 51 billion, or approximately 0.34% of GDP. As shown in the figure below, this estimate varies across time, ranging from a minimum of EUR 27 billion in 2005 to a maximum of EUR 124 billion in 2018. In 2018, the last year covered by the analysis, total revenue lost to tax evasion represents 0.66 % of GDP. The last two years (2017 and 2018) show a significant increase with respect to the 2012-2016 period.

Figure 5-26 EU-27 total revenue lost to international tax evasion (EUR billions)



Source: Ecorys

Country-by country estimates

The table below provides estimations of international tax evasion by Member State. These are presented expressed in EUR and as a percentage of GDP. It should be noted that these results reflect the heterogeneity of the estimates reported above on offshore wealth.

In EUR terms, the revenue lost to tax evasion on average over the period was highest in France, with an average of EUR 13 billion per year. This is approximately 25% of total estimated revenue loss in EU-27 over the period and 0.5% of France's GDP. Overall, three Member States (France, Germany and Spain) account for more than 55% of total EU-27 estimated revenue lost to tax evasion. In 2018, the top estimates for revenue loss in euro terms are in Germany (EUR 33.9 billion), France (EUR 29.7 billion) and Spain (EUR 11.9 billion). On average over the period, the 14 Member States with the lowest estimated lost revenue account for less than 5% of the EU-27 and the UK total (Lithuania, Estonia, Slovenia, Latvia, Slovakia, Bulgaria, Romania, Malta, Luxembourg, Hungary, Croatia, Cyprus, Denmark and the Czech Republic).

As shares of GDP, the ranking is different and also displays strong heterogeneity, with the highest average of revenue loss estimates over the 2004-2018 period in Malta (1.58% of GDP), Cyprus (1.21% of GDP) and Portugal (0.79% of GDP). In 2018, the most recent year, countries with the largest ratios of level of revenue lost to tax evasion to GDP were Malta (2.94%), Cyprus (2.58%) and Portugal (1.96%).

These estimates are not perfectly correlated with estimates of offshore wealth reported earlier, both in EUR and as shares of GDP. This can be explained by differences in the national tax systems but also by the dynamics of offshore wealth through time for each country.

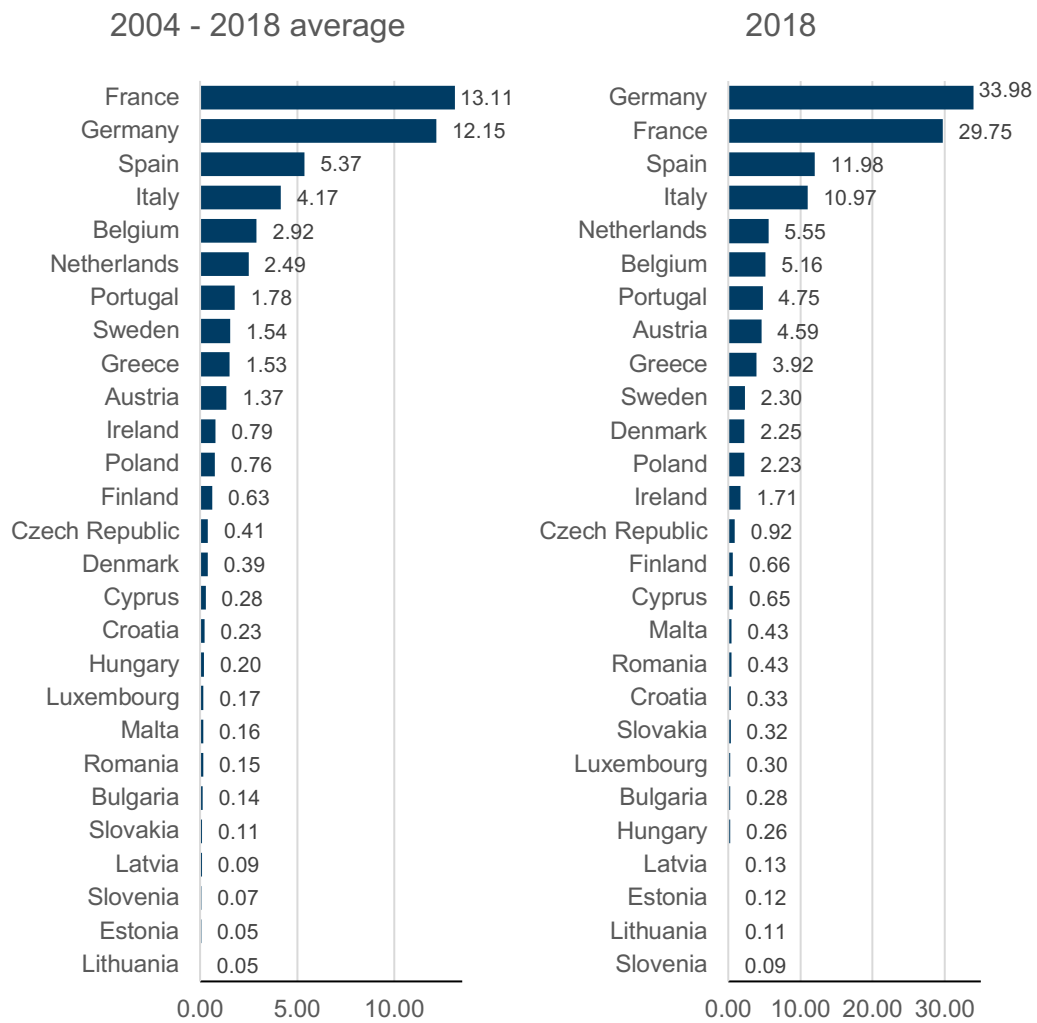
Take the example of Germany, where the estimated offshore wealth places it second in the EU-27 but with an estimated level of revenue loss to tax evasion - 0.35% of GDP - it is however close to the EU-mean, 0.34% of GDP. This contrast is caused by the fact that the German offshore wealth was volatile over the 2004-2018 period, exhibiting declines over several years, implying a low estimated level of revenue lost to tax evasion on the original income transferred offshore. The same kind of argument can be made when comparing offshore wealth and the level of revenue loss in 2018. For example, while the estimated offshore wealth held by Portugal's residents is 26% of GDP in 2018, almost twice as much as France, the level of revenue lost to tax evasion in those two countries is fairly close as a share of GDP (1.96% and 1.07% respectively). This can be explained by the fact that the offshore wealth of Portugal has declined in 2018 and therefore that little income is estimated to have been transferred offshore, which translates into relatively low estimates of revenue lost to tax evasion in 2018.

Table 5-12 International tax evasion by Member State

	2004-2018 (average, EUR billion)	% of EU - 27	% of GDP	2018 (EUR billion)	% of EU - 27	% of GDP
Austria	1.37	2.67%	0.34%	4.59	3.70%	1.01%
Belgium	2.92	5.71%	0.61%	5.16	4.16%	0.95%
Bulgaria	0.14	0.26%	0.27%	0.28	0.23%	0.43%
Cyprus	0.28	0.55%	1.21%	0.65	0.53%	2.58%
Czech Republic	0.41	0.81%	0.21%	0.92	0.74%	0.37%
Germany	12.15	23.78%	0.35%	33.98	27.35%	0.86%
Denmark	0.39	0.77%	0.12%	2.25	1.81%	0.63%
Estonia	0.05	0.10%	0.22%	0.12	0.10%	0.39%
Spain	5.37	10.51%	0.40%	11.98	9.65%	0.84%
Finland	0.63	1.23%	0.25%	0.66	0.53%	0.24%
France	13.11	25.65%	0.50%	29.75	23.95%	1.07%
Greece	1.53	3.00%	0.60%	3.92	3.16%	1.85%
Croatia	0.23	0.45%	0.41%	0.33	0.27%	0.54%
Hungary	0.20	0.40%	0.15%	0.26	0.21%	0.16%
Ireland	0.79	1.54%	0.29%	1.71	1.38%	0.44%
Italy	4.17	8.15%	0.20%	10.97	8.83%	0.52%
Lithuania	0.05	0.09%	0.11%	0.11	0.09%	0.21%
Luxembourg	0.17	0.34%	0.31%	0.30	0.24%	0.42%
Latvia	0.09	0.18%	0.33%	0.13	0.11%	0.38%
Malta	0.16	0.31%	1.58%	0.43	0.35%	2.94%
Netherlands	2.49	4.88%	0.30%	5.55	4.47%	0.61%
Poland	0.76	1.49%	0.16%	2.23	1.80%	0.38%
Portugal	1.78	3.49%	0.79%	4.75	3.83%	1.96%
Romania	0.15	0.29%	0.08%	0.43	0.35%	0.18%
Sweden	1.54	3.01%	0.31%	2.30	1.85%	0.41%
Slovenia	0.07	0.13%	0.14%	0.09	0.07%	0.17%
Slovakia	0.11	0.22%	0.13%	0.32	0.26%	0.30%
TOTAL	51.12	100.00%	0.30%	124.21	100.00%	0.66%
<i>Capital Income tax gap</i>	12.96	25.23%	0.08%	13.681	11.01%	0.08%
<i>Inheritance tax gap</i>	0.43	0.84%	0.00%	0.682	0.55%	0.00%
<i>Wealth tax gap</i>	3.71	7.25%	0.02%	6.275	5.05%	0.04%
<i>Original income tax gap</i>	34.06	66.62%	0.20%	103.572	83.39%	0.60%

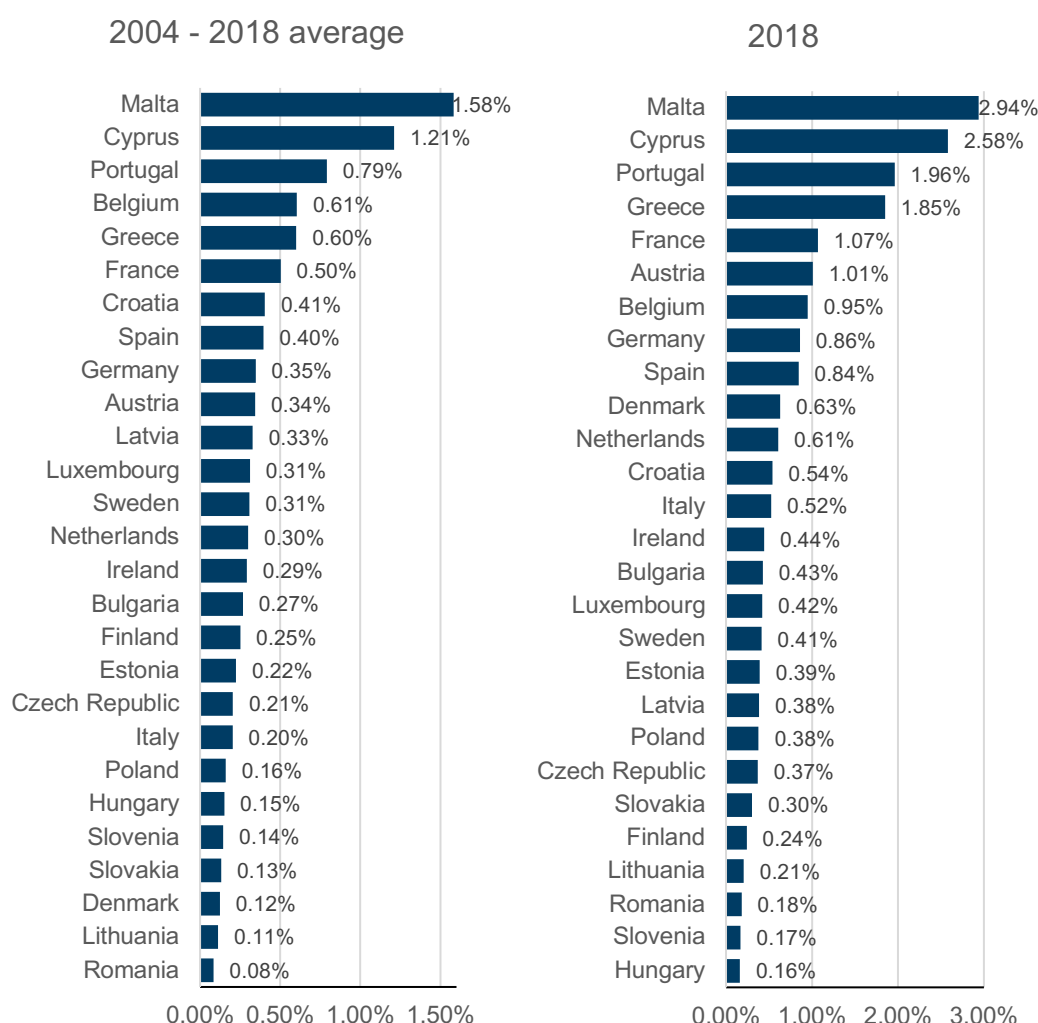
Sources: Ecorys computations and Eurostat for GDP

Figure 5-27 Revenue lost to international tax evasion by Member State (EUR billions)



Sources: Ecorys computations and Eurostat for GDP.

Figure 5-28 International tax evasion by Member State (% of GDP)



Sources: Ecorys computations and Eurostat for GDP.

5.6 Main findings

Global financial wealth amounted to USD 9.8 trillion (EUR 8.6 trillion) in 2018, down from USD 10.2 trillion (EUR 8.5 trillion) the year before, but increased from USD 7.7 trillion (EUR 7.3 trillion) in 2016, the last year reported on by the previous study. The increase in offshore wealth between 2016 and 2017 can be mainly attributed to the increase in equity security prices reported by countries across the world. The regression analysis demonstrated that the introduction of the CRS resulted in a 10% decrease in offshore wealth pointing towards a positive impact of the standard.

A main trend identified by the previous study on where offshore wealth is confirmed: Hong Kong and Singapore continue to attract a greater proportion of global offshore wealth, while the relative shares of offshore wealth held in Switzerland and the Cayman Islands are decreasing.

In 2018, offshore wealth held by individuals across the EU amounted to about 12% of GDP, up from approximately 10% in 2016. This is above the OECD share, but below the share for China (18%). The share of offshore wealth attributable to residents from the EU-28 amounted to approximately 23% in 2018, up from about 20% to 21.5% in the years of 2010 to 2016. In terms of absolute amounts, residents from Germany, France, and Italy account for the largest part of offshore wealth owned by residents of the EU. When expressed as a share of GDP, residents from Cyprus (41% average between 2001 and 2018), Malta (34%), and Portugal (27%) hold the largest shares of offshore wealth in the EU.

As an alternative to comparing to GDP, the offshore financial wealth calculations were compared to the financial wealth reported annually by households in the ECB survey. For some countries (Denmark, Sweden and Finland),

the proportion of offshore wealth to reported financial wealth was low while for other countries it was high (as is the case for Greece, Latvia, and Cyprus). While such stark differences are not easily explained, high proportions of offshore financial wealth to reported financial wealth may indicate the propensity of individuals in a country to place their financial wealth offshore. Furthermore, the existence of investor resident schemes in a jurisdiction may also explain such high proportions as investors prefer to place their investments offshore rather than invest in the jurisdiction directly.

Available time series on offshore wealth lay the foundation to estimate how this may evolve over the next years. Notably, econometric analysis showed that offshore wealth may be affected by a variety of factors. A positive correlation was found between offshore wealth and both households' financial assets and the GDP, and the introduction of CRS was found to be associated with a sharp decline of offshore wealth, by roughly 10%, pointing towards a positive impact of these standards in countering tax evasion. Higher levels of capital taxation seem to lead to higher volumes of offshore wealth, while variations of labour taxation are not found to have an impact on the phenomenon.

However, some limitations have to be kept in mind as the model does not capture all the explanatory drivers behind the phenomenon (e.g. tax morale), for some of which there is limited availability of cross-country comparable data. The results should therefore be used only as an indication of the magnitude of the changes that might be expected in the short-run.

While challenging to estimate due to lack of data, cash, life insurance and real estate cannot be fully disregarded as asset categories that might be of interest for hiding wealth. While cash and real estate seem to be more established means used for hiding wealth, life insurance is not yet a frequently used asset for storing and consequently hiding wealth. This study estimated that the amount of total household capital that European individuals hold offshore in real estate equals EUR 1.3 trillion (USD 1.5 trillion). Estimated offshore wealth held by individuals in life insurance accounted to EUR 5.3 billion, while for cash it was EUR 17.9 billion in 2018. Overall, the total offshore wealth when combining these to the securities and deposit estimates held by individuals of European Member States and the UK amounted to EUR 3.4 trillion in 2018.

In terms of country allocation – and much like in the case of estimated total offshore hidden wealth per EU 27 Member States and the UK – the big economies are at the forefront of the list for offshore cash, life insurance and real estate (most notably Germany, France, and Spain). When expressed as a share of national GDP, the allocation of offshore assets per country changes, with smaller countries coming to the top of the list. Thus, for offshore wealth in cash and life insurance estimated as percentage of GDP, Latvia, Malta, Lithuania and Greece emerge, with France being the only big economy in the top three group. The relative offshore wealth held in real estate exhibits a similar picture with the highest shares for Cyprus, followed by Malta and Spain.

This study estimates that the average yearly revenue lost to international tax evasion for the EU-27 and the UK over the period 2004–2018 amounts to EUR 58 billion, or approximately 0.34% of GDP. The tax loss varies widely over time ranging from EUR 31 billion in 2010 to EUR 143 billion in 2018. Revenue lost to tax evasion on capital income reached a EUR 10 billion minimum in 2012 and a EUR 22 billion maximum in 2005. It is estimated at EUR 16 billion in 2018, the last year covered by the study. Tax evasion on wealth and inheritance tax exhibits more volatility, being lowest in 2010 and reaching EUR 7 billion (0.04% of GDP) in 2017. Estimates capturing the tax revenue lost on the incremental wealth moved offshore are subject to high volatility in security prices that is reflected in the big jump in offshore wealth in 2017.

6 Impact of the Common Reporting Standards (CRS) and Directive 2014/107/EU

This section presents the results of the quantitative and qualitative analysis on the effects of the CRS and Directive 2014/107/EU on the fight against tax evasion. It starts with an introduction to the CRS and the Directive and explore their effects in quantitative and qualitative terms.

6.1 Introduction and intervention logic

The objective of this chapter is to assess the impact of the international standard on automatic exchange of financial account information (Common Reporting Standard - CRS)³¹⁵ and Council Directive 2014/107/EU on the estimated hidden wealth.

The CRS calls on jurisdictions to obtain information from their financial institutions and automatically exchange that information with other jurisdictions on an annual basis.³¹⁶ It describes the financial account information to be exchanged, sets out the financial institutions required to report, the different types of accounts and taxpayers covered, as well as common due diligence procedures to be followed by financial institutions. The financial institutions covered by the Standard include custodial institutions, depository institutions, investment entities and insurance companies (unless exempted from reporting). The key financial information to be reported includes: interest, dividends, account balance or value, and income from certain insurance products. The objective of the Standard is to equip tax authorities with a tool to tackle offshore tax evasion by providing a greater level of information on their residents' wealth held abroad, building on the automated and standardised solutions that jurisdictions previously developed for the purposes of the intergovernmental operationalisation of United States laws (FATCA).³¹⁷ As of May 2020, the status of commitments under the automatic exchange of information are as follows:³¹⁸

- ◆ Jurisdictions undertaking first exchanges in 2017 (49) – most EU countries, excluding Austria,³¹⁹
- ◆ Jurisdictions undertaking first exchanges by 2018 (51);
- ◆ Jurisdictions undertaking first exchanges by 2019 (Ghana and Kuwait);
- ◆ Jurisdictions undertaking first exchanges in the period 2020-2023 (10);
- ◆ Developing countries having not yet set the date for first automatic exchange (45).

Thus, potential effects of the CRS may already be noticed in the figures for 2016, which were to be reported with the first exchanges that were undertaken in 2017. The different years of commitment for the countries (or the lack of commitment) allow for comparisons between countries (to the extent there is available data for the specific countries). It should be noted that potential effects could also be expected earlier (i.e. in 2015) due to the endorsement of the CRS in 2014.

Potential ways of circumventing the CRS should also be considered, including the following.³²⁰

- ◆ The possibility for jurisdictions to allow financial institutions to apply a threshold such that pre-existing entity accounts below USD 250 000 (or local currency equivalent) are not subject to review. This allows tax evasion through fragmentation to multiple entity accounts;
- ◆ The possibility to dilute ownership in a given passive entity between related individuals;

³¹⁵ As endorsed by the G20 in September 2014.

³¹⁶ OECD (2017). Standard for Automatic Exchange of Financial Account Information in Tax Matters, Second Edition, OECD publishing, Paris. Available from: <https://www.oecd.org/ctp/exchange-of-tax-information/standard-for-automatic-exchange-of-financial-account-information-for-tax-matters-9789264216525-en.htm> (Accessed on 05/02/2020).

³¹⁷ Ibid.

³¹⁸ See the latest list of commitments: OECD (2020). Automatic exchange of information (AEOI): status of commitments. Available from: <https://www.oecd.org/tax/transparency/AEOI-commitments.pdf> (Accessed 10/07/2020).

³¹⁹ Austria committed to first AEOI exchanges in 2018.

³²⁰ BEER, S., et al. (2019). Hidden treasure: The impact of Automatic Exchanges of Information on cross-border tax evasion. Available from: <https://www.imf.org/en/Publications/WP/Issues/2019/12/20/Hidden-Treasure-The-Impact-of-Automatic-Exchange-of-Information-on-Cross-Border-Tax-Evasion-48781> (Accessed on 12/12/2020).

- ◆ The possibility to access citizenship/residence by investment schemes;
- ◆ The possibility to shift assets to non-compliant jurisdictions³²¹;
- ◆ The possibility to use shell companies and other corporate identities to hide their investments.

Closely based on the CRS, and building on DAC1 (described in section 1.1.1) Council Directive 2014/107/EU (referred to as DAC2) requires Member States to obtain information from their financial institutions and to exchange it with the Member States of residence of the taxpayer on an annual basis. More specifically, it sets out the financial account information to be exchanged, the financial institutions required to report, the different types of accounts and taxpayers covered, as well as the procedures to be followed by financial institutions.³²² The Directive extended the cooperation between tax authorities in the EU to include automatic exchange of financial information, namely dividends, interest income, other capital incomes, gross proceeds as well as financial account balances (information on accounts held in banks). Automatic exchange of information of financial account data under DAC2 was started in September 2017 (on information as from 1 January 2016) with the exception of Austria.³²³ Thus, in terms of temporal scope, similarly to the CRS, effects of the Directive can be expected in the data on hidden wealth for 2016-2018. The previous study on estimating international tax evasion by individuals concluded that the reported decrease in offshore wealth in 2016 is consistent with a possible impact from the latest measures to fight tax evasion (the EU DAC2, implementation of FATCA, and the endorsement of the CRS by the G20), but it did not quantify the effect.³²⁴

It is important to note that the EU has signed agreements with five European non-EU countries (i.e. Andorra, Liechtenstein, Monaco, San Marino and Switzerland) similar to Directive 2014/107/EU on automatic exchange of financial account information³²⁵.

The intervention logic below presents an overview of the intended impacts of the CRS, DAC2, and ensuing bilateral agreements with non-EU countries.

³²¹ See for example Ahrens and Bothner 2019.

³²² Key objectives of the Directive: EUROPEAN COMMISSION (2014). Directive 2014/107/EU. Available from: https://ec.europa.eu/taxation_customs/sites/taxation/files/directive_2014_107_eu_en.pdf (Accessed 24/01/2020).

³²³ Austria applies the provisions of DAC2 from 1 January 2017.

³²⁴ VELLUTINI, C., et al. (2019). Estimating International Tax Evasion by Individuals. Available from: https://ec.europa.eu/taxation_customs/sites/taxation/files/2019-taxation-papers-76.pdf (Accessed on 13/12/2020).

³²⁵ See most recent international developments, Supra 22.

Table 6-1 Draft intervention logic of the CRS and DAC2

Overall objective	Specific objectives	Measures	Expected outputs ³²⁶	Expected positive effects	Possible negative effects
Reduce the amount of unreported and untaxed income (in offshore financial centres) as it is considerably reducing national tax revenues	<ul style="list-style-type: none"> ◆ Promote the automatic exchange of information ◆ Ensure level playing field between financial institutions in European third countries and financial institutions in the EU which are required to implement Directive 2014/107/EU 	<ul style="list-style-type: none"> ◆ CRS ◆ Council Directive 2014/107/EU ◆ Bilateral agreements 	<p>Exchange on financial account information, i.e. end-of-year account balance on a reportable account, as well as dividends, interests, gross proceeds and other investment income paid to that account during a year (DAC2):</p> <ul style="list-style-type: none"> ◆ between EU countries ◆ with countries that signed agreements with the EU ◆ with countries that committed to AEOI under the CRS 	<p>Decrease of overall hidden wealth in countries that provide AEOI under the CRS and DAC2;</p> <p>Potential indicators³²⁷:</p> <ul style="list-style-type: none"> ◆ Cross-border bank deposits held in IFCs by non-banks counterparts in all reporting jurisdictions ◆ Cross-border bank deposits held in non-IFCs by non-banks counterparts in all reporting jurisdictions ◆ Cross-border bank deposits held in IFCs by non-banks counterparts in the EU ◆ Cross-border bank deposits held in non-IFCs by non-bank counterparts in the EU 	<ul style="list-style-type: none"> ◆ Transferred assets to countries that have not yet set the date for first automatic exchange, or set a date in the years between 2019-2023 (e.g. Cape Verde, Dominican Republic or Papua New Guinea) ◆ Transferred assets to countries with which the EU has not signed agreements similar to Directive 2014/107/EU on automatic exchange of financial account information ◆ Circumvention of the CRS/DAC2 via assets not covered by AEOI.

6.2 Impact of the CRS and Directive 2014/107/EU

6.2.1 Quantitative analysis

The 2019 OECD AEOI Implementation Report³²⁸ notes that there were around 6,100 bilateral exchanges in 2019, with each exchange containing detailed information on the financial accounts held in the sending jurisdiction by tax residents of the receiving jurisdictions. This is up 36% as compared to 2018 and the report claims the established system represents ‘a step change in the international community’s ability to improve tax compliance and to fight against tax evasion through individuals and entities holding undeclared financial accounts abroad’³²⁹. Naturally, this is only a quantitative indicator and the report does not provide an assessment of the quality of the information exchanged. This will be part of the Global Forum’s reviews of the effectiveness of the implementation of the AEOI Standard in practice.

As outlined in the intervention logic presented in the previous section, cross-border bank deposits provide good insights into trends in hiding wealth abroad. Bank deposits have been used repeatedly over other types of instruments to study the impact of AEOI. They represent a key component of cross-border investment activities (Zucman estimates that bank deposits may form approximately 25% of global household offshore wealth³³⁰) and are

³²⁶ EUROPEAN COMMISSION (2018). Report from the Commission to the European Parliament and the Council on overview and assessment of the statistics and information on the automatic exchanges in the field of direct taxation. COM (2018) 844 final. Available from: <https://eur-lex.europa.eu/legal-content/en/ALL/?uri=CELEX%3A52018DC0844> (Accessed on 15/12/2020).

³²⁷ Bank liabilities in IFCs inclusive of securities could also be an indicator, but they were not included in previous studies as the data were not considered reliable. Furthermore, this study also gathered data on other assets (e.g. life insurance, real estate) gathered as a part of Activity 3.3, but we do not expect it will have sufficient granularity (i.e. data per country across borders) to allow assessing the impact quantitatively.

³²⁸ OECD (2019). The 2019 AEOI Implementation Report. Available from: <https://www.oecd.org/tax/transparency/AEOI-implementation-report-2019.pdf> (Accessed 05/02/2020).

³²⁹ Ibid, p. 17.

³³⁰ ZUCMAN, G. (2015) The Hidden Wealth of Nations. University of Chicago Press.

considered among the best-quality data available on international financial activity.³³¹ Thus, the granularity and high quality of information allows for relatively more robust cross-country comparisons. Furthermore, as opposed to securities data, bank deposits have the great advantage of not having to take into account price volatility, which might be an important driving factor for the fluctuation in offshore wealth. Moreover, information on bank deposits held abroad is among the information categories covered by the AEOI Standard, i.e. they are one of the assets most directly affected in the eventuality of changes in cross-border investment activity due to AEOI and they offer an adequate proxy of the taxpayer activity that AEOI intends to address.

Although the shifts in deposits held in IFCs may be due to reasons other than tax evasion, the conclusions of all the reviewed studies on the effects of CRS, is that the overall decrease in deposits in IFCs is evidence that AEOI has improved tax compliance, because secrecy is one of the features attracting wealth to IFC jurisdictions. The assumptions are that after AEOI: (a) households who would have evaded taxes now opt for licit investments outside offshore financial centres, and (b) former tax evaders decrease their investments in IFCs.³³² After an EOI agreement, tax authorities can obtain access to banking information, which increases the likelihood of detecting tax evasion. Thus, a drop in offshore holdings in the aftermath of EOI agreements would suggest that EOI is successful in reducing bank deposits that were otherwise concealed from tax authorities in IFCs.

Review of the trends in cross-border non-bank deposits in financial centres

In this section the general trends in cross-border bank deposits are reviewed, using as a specific data source the Locational Banking Statistics (LBS) dataset available from the Bank for International Settlements (BIS), which provides bilateral data on bank deposits for up to 47 jurisdictions from 2000 to 2019 and allows for consistency and comparability with the ECOPA/CASE study and other studies conducted on the topic³³³. More specifically, this study presents trends in cross-border bank deposits before and after enforcement of CRS and Council Directive 2014/107/EU, to observe changes potentially associated to commitments under AEOI. It is not intended to provide a conclusive judgement on the effect of such measures on the amount of IFCs wealth held by individuals, as the causality link and the extent to which the observed changes can be attributed to less tax evasion in response to increased tax transparency cannot be established with precision. Our analysis aims to complement findings from already existing literature by providing further evidence resorting to latest and newly available statistics.

The analysis focuses on bank deposits of non-banks, which is a broad category consisting of non-bank financial institutions, non-corporate enterprises such as trusts, general governments, households, non-financial institutions such as charities and foundations, hence allowing to account also for some entities that may be used by individuals for tax evasion purposes. The data are recorded as end-of-quarter observations (until 3Q 2019) and as such constitute stocks providing a snapshot of deposits at a given point in time. A summary of the variables in the BIS database that have been selected and used in our analysis is provided in the table below (in bold).

Table 6-2 Variables used in the BIS locational banking statistics dataset

BIS Category	Variables (in bold: used)
Measure	Amount outstanding/stocks Break adjusted changes
Balance Sheet position	Claims Liabilities
Type of instrument	All instruments Debt securities Debt securities, short term Loans and deposits Other instruments

³³¹ O'Reilly, P., K. Parra Ramirez and M. A. Stemmer, 2019.

³³² AHRENS, L., BOTHNER, F. (2019). The Big Bang: Tax Evasion after Automatic Exchange of Information under FATCA and CRS", New Political Economy, Vol. 24, pp. 605-622.

³³³ BEER, S., et al. (2019). Hidden treasure: The impact of Automatic Exchanges of Information on cross-border tax evasion. Available from: <https://www.imf.org/en/Publications/WP/Issues/2019/12/20/Hidden-Treasure-The-Impact-of-Automatic-Exchange-of-Information-on-Cross-Border-Tax-Evasion-48781> (Accessed on 12/12/2020).

BIS Category	Variables (in bold: used)
Currency denomination	All currencies Euro Japanese Yen Pound Sterling Swiss Franc US Dollar
Currency type of reporting country	All currencies Domestic currencies Foreign currencies
Parent country	All countries
Type of reporting institutions	All reporting banks/institutions (domestic, foreign, consortium and unclassified) Domestic banks Foreign branches Foreign subsidiaries
Counterparty sector	All sectors Banks, total ³³⁴ Non-banks, total ³³⁵
Position type	Cross-border Local

Source: Ecorys based on BIS

For the purposes of this study, the BIS has provided additional data on cross-border bilateral deposits for an ad-hoc aggregate group of 13 reporting IFCs, in line with the CASE/ECOPA study, including: Hong Kong SAR, Macao SAR, Singapore, Bahamas, Bermuda, Cayman Islands, Curacao/Netherlands Antilles, Panama, Guernsey, Isle of Man, Jersey, and Bahrain. While this is not an exhaustive list of IFCs, these jurisdictions represent some of the major IFCs and can be considered a representative sample. Notably, the sample includes 6 out of 10 of the most popular jurisdictions to store offshore wealth, accounting for above 41% of world's offshore wealth³³⁶ (see section 5.2.2). Switzerland, accounting for additional 26% and not included in the IFC group provided by the BIS, is presented in a separate analysis below.

All the jurisdictions considered in our sample have undertaken first exchanges in 2017 and 2018.³³⁷ Therefore, potential effects of the CRS could already be noticed in the figures for 2016, but as mentioned before, could also be expected earlier (i.e. in 2015) due to the very announcement of the CRS in 2014.

Due to confidentiality reasons, this study only presents aggregated figures, namely total cross-border bank deposits in the 13 IFCs, provided by the BIS and listed above, held by non-banks counterparts in all reporting jurisdictions over the period 2005 – 2019.³³⁸ As shown in the figure below, IFCs deposits rose remarkably in the period immediately before the global financial crisis, reaching a peak in 2008. Since then, deposits started to decline steadily in IFCs. In the immediate aftermath of the crisis, bank deposits in IFCs have sharply dropped, especially in Q1 2009, when they decreased by 11% and over the period Q4 2010 – Q2 2012, when they

³³⁴ Further breakdown is provided as follow: Banks, Central Banks; Banks, related offices.

³³⁵ Further breakdown is provided as follows: General Government; Households and NPISHs; Non-bank financial institutions; Non-financial corporations; Non-financial sectors.

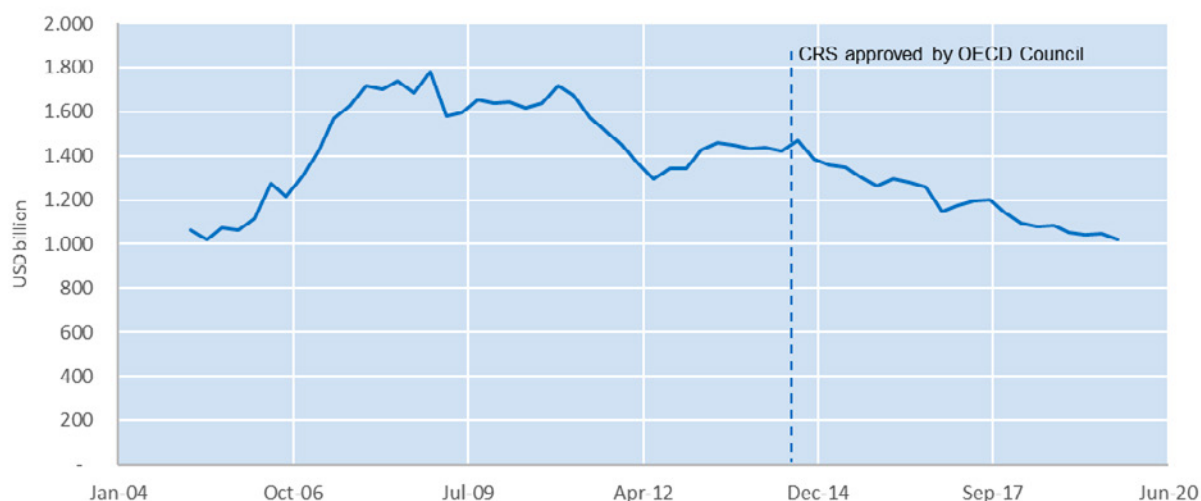
³³⁶ ALSTADSAETER, A., et al. (2018). Who Owns the Wealth in Tax Havens? Macro Evidence and Implications for Global Inequality. *Journal of Public Economics*, 162, 89–100.

³³⁷ See the latest list of commitments: OECD (2020). Automatic exchange of information (AEOI): status of commitments. Available from: <https://www.oecd.org/tax/transparency/AEOI-commitments.pdf> (Accessed 10/07/2020).

³³⁸ Latest figures available are up to 3Q 2019.

plummeted by 25%. After a mild recovery over Q2 2012 – Q3 2014, the downward trend resumed until more recent years. Notably, it can be observed that a significant drop occurred over Q3 2014–Q4 2016 (i.e. -22%), which corresponds to the aftermath of the G20 announcement of the CRS and subsequent approval by the OECD Council (i.e. July 2014³³⁹), and continued the years after during the implementation of CRS and DAC2 by compliant jurisdictions, until the latest figures available for 3Q 2019.

Figure 6-1 Cross-border bank deposits in IFCs by non-banks counterparts in all reporting jurisdictions



Source: Ecorys calculation based on BIS

In order to analyse further the potential impact of CRS and DAC2 on IFCs' bank deposits and put the above findings into perspective, this study also looks at changes in cross-border bank deposits in non-IFCs over the same period, as a control group. Notably, it considers bank deposits held in the group of 22 non-IFC jurisdictions³⁴⁰ that continuously reported financial information to BIS over 2005 – 2019 (figure below). Likewise, the reporting IFCs, all these reporting jurisdictions undertook first exchanges under CRS between 2017 and 2018. The only exception is represented by the United States, which have undertaken automatic information exchanges pursuant to FATCA from 2015.³⁴¹

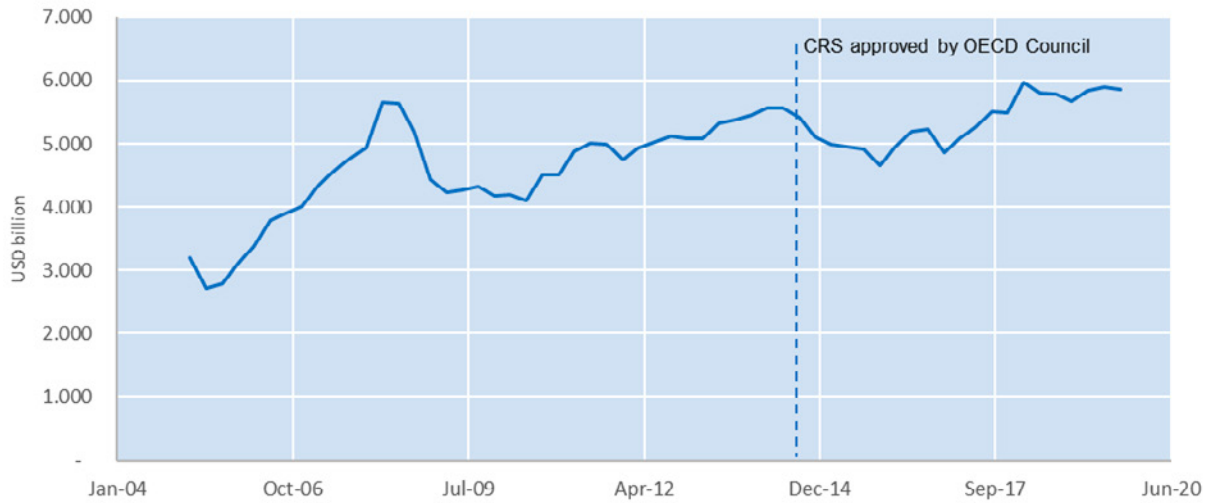
As shown in the figure below, bank deposits suffered from a similar sharp drop during the global financial crisis. However, while both IFCs and non-IFCs deposits declined in the years after the crisis, they experienced opposite trends starting from the end of 2010. In fact, deposits in non-IFCs experienced an overall upward trend, recently surpassing pre-crisis levels, while IFCs overall dropped over the same period, especially until Q2 2012 and again starting from Q3 2014. Hence, while the contraction in both IFCs and non-IFCs deposits in the aftermath of the global financial crisis could be attributed to the crisis itself, the contraction in more recent year in IFCs could suggest a potential impact of the increased tax transparency due to AEOL, especially in light of a corresponding expansion of bank deposits in non-IFCs.

³³⁹ OECD (n.d.). What is the CRS?. Available from: <https://www.oecd.org/tax/automatic-exchange/common-reporting-standard/> (Accessed on 13/12/2020).

³⁴⁰ The group includes the following countries: Austria, Australia, Belgium, Brazil, Canada, Chile, Germany, Denmark, Spain, Finland, France, United Kingdom, Greece, Ireland, Italy, Japan, South Korea, Luxembourg, Mexico, Netherlands, Sweden, and United States.

³⁴¹ OECD (2020). Automatic exchange of information (AEOL): status of commitments. Available from: <https://www.oecd.org/tax/transparency/AEOL-commitments.pdf> (Accessed 10/07/2020).

Figure 6-2 Cross-border bank deposits in non-IFCs by non-banks counterparts in all reporting jurisdictions

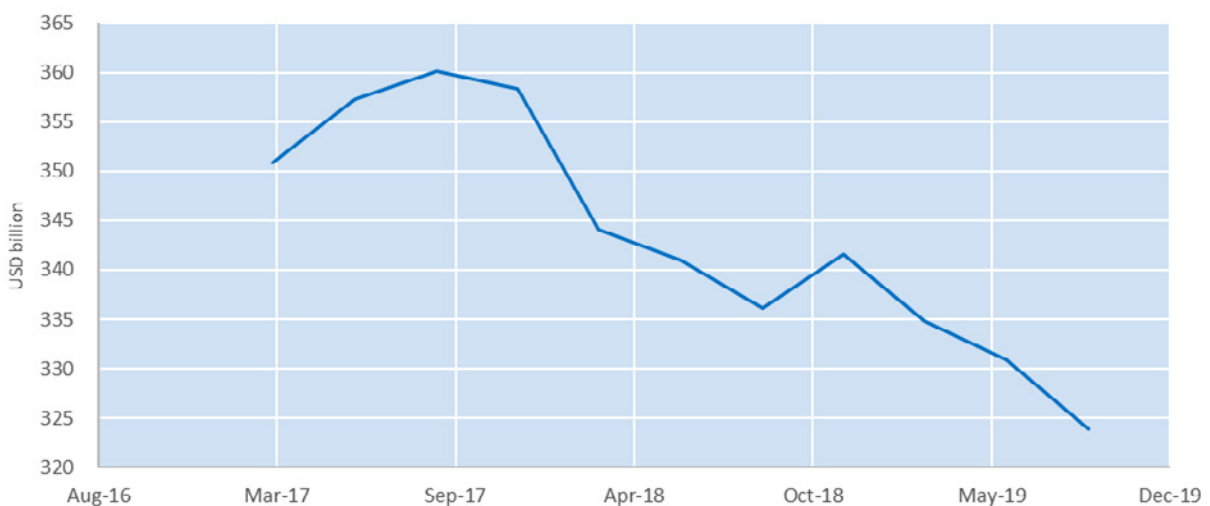


Source: Ecorys calculation based on BIS

Shifting the focus particularly to EU countries and resorting to the recent data made available by the BIS, this study looks more in detail at bilateral cross-border bank deposits held in IFCs³⁴² by non-banks resident³⁴³ in the EU.³⁴⁴ Bilateral data are available starting from 1Q 2017, which allows us to analyse recent trends after first implementations under the automatic exchange of information undertaken by EU countries in 2017. Due to confidentiality, we only present aggregated figures, namely total cross-border bank deposits held in IFCs by non-banks counterparts in EU countries. As shown in the figure below, bank deposits in IFCs held by EU non-banks have decreased significantly in recent years, dropping by 8% over 1Q 2017 - 3Q 2019.

It should be pointed out that a decrease in deposits held in IFC's may be due to different factors, such as also new evasion vehicles like the use of investor residence schemes (see Section 4), for which IFC's are less needed. Nevertheless, although a conclusive judgement cannot be drawn, findings point towards potential positive effects of commitments under AEOI on tax transparency for EU countries, as observed more broadly for all reporting jurisdictions.

Figure 6-3 Cross-border bank deposits in IFCs by non-banks counterparts in the EU



Source: Ecorys calculation based on BIS

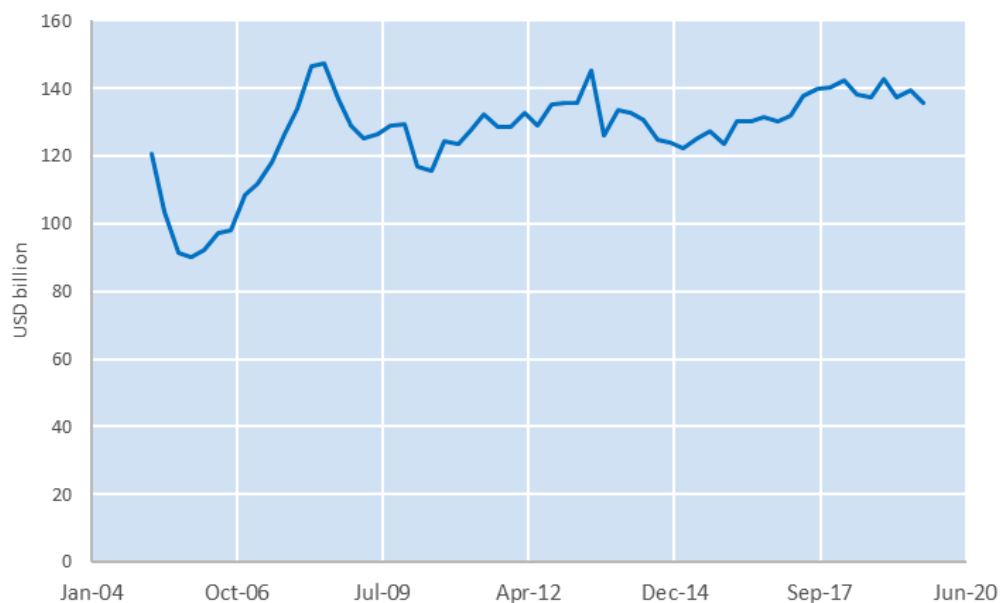
³⁴² The list of IFCs is the same as above, namely: Hong Kong SAR, Macao SAR, Singapore, Bahamas, Bermuda, Cayman Islands, Curacao/ Netherlands Antilles, Panama, Guernsey, Isle of Man, Jersey and Bahrain.

³⁴³ Residence of individuals is defined in terms of their center of predominant economic interest.

³⁴⁴ Non-bank residents in Czech Republic, Hungary and Poland are not accounted for, due to unavailability of data.

For the scope of this study, it is interesting to analyse also the potential impact of other agreements similar to Directive 2014/107/EU on automatic exchange of financial account information that the EU has signed with five some European non-EU countries (i.e. Andorra, Liechtenstein, Monaco, San Marino and Switzerland). Among these, BIS data are only available for Switzerland, shown in the figure below. The emerging trend is less clear-cut compared to the other IFCs analysed. While bank deposits in the country seem to follow the same pattern as all other jurisdictions immediately before and after the global financial crisis, more recent trends are more ambiguous. As of 2Q 2013, deposits have started to drop up until 4Q 2015 and then experienced an upward trend again. In contrast, more recent years (i.e. as of 1Q 2018) returned to show again a mild decreasing trend. Given the nature of the observed trend, it is not possible to draw meaningful conclusions in this case on the possible effects of AEOI on bank deposits held in Switzerland held by EU non-banks counterparts.

Figure 6-4 Cross-border bank deposits in Switzerland by non-banks counterparts in the EU



Source: Ecorys calculation based on BIS

Contribution of the CRS to reduction of non-bank deposits in financial centres

The effects of the CRS have been explored by a number of recent studies, which used the same database (BIS locational statistics) and followed a very similar approach (difference-in-differences). The reviewed studies use different sample lengths - the longest sample is used by Beer et al. 2019 (from Q1 1995 to Q2 2018), while the most up-to-date sample is used by O'Reilly et al. 2019 (up to Q1 2019). Furthermore, the IFC sample differs - Beer et al. (2019) use a sample of 20 IFCs (including Belgium, the Netherlands, Luxembourg, Cyprus, China, the Isle of Man, Switzerland), while O'Reilly et al. (2019) cover approximately 50 jurisdictions. Nevertheless, all studies reach the same conclusion - CRS contributed significantly to the reduction of non-bank deposits in IFC's. In this section, the findings of these studies are presented on the contribution of the CRS to the observed reduction of non-bank deposits in IFCs, which has been confirmed by the data provided for this project.

Last year, a paper by O'Reilly, P., K. Parra Ramirez and M. A. Stemmer (2019)³⁴⁵ concluded that AEOI is having a substantial impact on bank deposits held in international financial centres - a reduction in bank deposits of 22%, over and above the reduction associated with exchange of information on request (EOIR). The results of the study confirm this hypothesis and show that when an IFC jurisdiction signs or commits to an EOI agreement with a non-IFC jurisdiction, the stock of bank deposits in that IFC with respect to counterparties in non-IFC jurisdictions decreases. Furthermore, the results of the study suggest that AEOI commitments had a positive impact on non-IFC deposits between each other (i.e. AEOI commitments have spurred banking activity between non-IFC jurisdictions, which points to an increasing shift in cross-border banking activity away from IFCs). Of course, as the study notes, the extent to which the observed decline of bank deposits in IFCs (held by non-bank counterparties) can be

³⁴⁵ O'REILLY, P., et al. (2019), "Exchange of Information and Bank Deposits in International Financial Centres", OECD Taxation Working Papers, No. 46, OECD Publishing, Paris. Available from: <https://doi.org/10.1787/025bfebe-en> (Accessed on 17/07/2020).

attributed to decreased tax evasion in response to tax transparency and EOI, reduction in base erosion and profit shifting (BEPS) activity, or other (potentially also non-tax) factors, cannot be established with precision.

A study by Menkhoff and Miethe (2019)³⁴⁶ concludes that the automatic exchange of bank information leads to a significant reduction of bank deposits in offshore financial centres. It finds that bilateral activations of automatic information exchange relationships under the CRS lead to a 43% reduction of outbound deposits to offshore financial centres. According to the study, bank deposits from non-IFC countries to international financial centres went down significantly when AEOI relationships between these countries were activated in the form of the CRS, while the falsification samples were unaffected. However, the study also notes that tax evaders may have adapted to established information exchange treaties by using new means to hide their income, e.g. acquiring dual citizenship and tax residence in an international financial centre; diverting deposits into non-complying international financial centres. Menkhoff and Miethe (2019) looked into agreements signed prior to the CRS and conclude that it is the activation of the bilateral CRS exchange for AEOI and not the earlier signature of the multilateral agreement which provides for information on request (EOIR) that drives the decline in bank deposits in offshore financial centres. They also tested for interaction effects with previous treaties on exchange of information upon request and found none.

A study performed by Casi, Spengel and Stage (2018)³⁴⁷ focused on AEOI and assessed whether and to what extent CRS implementation had an impact on cross-border deposits in offshore countries. To do so, the study also used data from BIS Locational Banking Statistics (LBS). The approach used for the estimation relies on difference-in-difference design that compares the change in the deposits in IFC countries to those held in non-IFC countries after the CRS implementation. The same approach was adopted to estimate the wealth relocation to the United States comparing the changes in the deposits in the United States to deposits in non-IFC countries. Following a difference-in-differences analysis, it was observed that the amount of cross-border deposits in IFC countries decreased by 11.9% compared to non-IFC countries after the introduction of CRS. The estimations also show that excluding Member States that were already affected by the introduction of European Saving Directive, the decrease is even bigger (27.9%). At the same time the analysis on the potential relocation of cross-border deposits to the United States suggested that cross-border deposits from Member States and OECD countries in the United States increased by 10.9% after the CRS implementation. This could be related to the fact that the US did not sign up to the CRS and the lack of reciprocity provision of FATCA. While over the years the FATCA position on data reciprocity has become more generous,³⁴⁸ the United States are still not obliged to share information on cash accounts held by entities,³⁴⁹ non-cash accounts, whether held by individuals or entities, and “controlling persons” of any entities that have accounts in the United States’ financial institutions.³⁵⁰

Another recent study for the IMF³⁵¹ confirms that automatic (and not upon request) exchange of information impacts significantly cross-border deposits in IFC jurisdictions. More specifically, according to the study, the automatic exchange of information frameworks reduced foreign-owned deposits in IFC jurisdictions by an average of 25%. Unlike other studies, it uses a triple differenced estimator in an attempt to avoid using IFC jurisdictions as both the treatment and control group. Also from a methodological perspective, recognizing the subjectivity involved in classifying countries as offshore jurisdictions, the study tests the sensitivity of the findings to the choice of offshore list (as the selection affects the estimations on the effects of AEOI). The characteristics of IFCs highlighted by the study are: low income tax rates (both personal and corporate), high financial secrecy, English as an official language, large foreign direct investment stocks and small trade flows (both relative to GDP).

³⁴⁶ MENKHOFF, L., MIETHE, J. (2019). Tax Evasion in New Disguise? Examining Tax Havens’ International Bank Deposits. DIW Berlin Discussion Paper No. 1711. Available from: <https://ssrn.com/abstract=3100117> or <http://dx.doi.org/10.2139/ssrn.3100117> (Accessed on 17/07/2020).

³⁴⁷ CASI, E., et al. (2018). Cross-Border Tax Evasion After the Common Reporting Standard: Game Over?, ZEW Discussion Paper, Vol. 18-036. Available from: <https://www.zew.de/en/publikationen/cross-border-tax-evasion-after-the-common-reportingstandard-game-over?cHash=773b48dcbc608e57114d1b98755f5c3c> (Accessed on 10/02/2020).

³⁴⁸ The list of Jurisdiction Status Intergovernmental Agreements (IGA) is available here: US DEPARTMENT OF THE TREASURY (n.d.). Foreign Account Tax Compliance Act. Available from: <https://home.treasury.gov/about/offices/tax-policy/foreign-account-tax-compliance-act> (Accessed on 10/02/2020).

³⁴⁹ Including those that are resident in the FATCA partner jurisdiction.

³⁵⁰ Regardless of whether those entities are from the partnering country, even if those entities are owned and controlled by residents of the partner jurisdiction.

³⁵¹ BEER, S., et al. (2019). Hidden treasure: The impact of Automatic Exchanges of Information on cross-border tax evasion. Available from: <https://www.imf.org/en/Publications/WP/Issues/2019/12/20/Hidden-Treasure-The-Impact-of-Automatic-Exchange-of-Information-on-Cross-Border-Tax-Evasion-48781> (Accessed on 12/12/2020).

Interestingly, the study confirms the conclusions of Menkhoff and Miethe (2019) that the effects of EOIR may have weakened over time. Moreover, the study does not observe a consistent reduction in IFC jurisdiction deposits following the introduction of exchange of information upon request.

A study by Ahrens and Bothner (2019)³⁵² under the Coffers project (EU Horizon 2020 project) finds that household assets in IFCs that are not hidden behind corporate identities are estimated to be 67% lower than they would have been without automatic exchange of information. According to the study, there is a negative effect of AEOI on assets in IFCs because they begin to lag behind assets in non-IFCs (also observed by the analysis performed above). Following the running of regressions (based on BIS and IMF data), the study concludes that this reduction is not offset by an increase in treaty circumvention using identity concealment through shell corporations or asset shifting to non-compliant IFCs³⁵³ or the United States. The study maintains that the endorsement of FATCA and CRS caused a shift towards tax compliance years before information about foreign accounts would be collected and exchanged. The authors attribute this behaviour to the significant uncertainty introduced by the recent AEOI agreements – tax evaders could not be sure after the initial announcement and subsequent international endorsement exactly which countries would join the agreements and exchange information. The research is clear in its limitation (e.g. no information about assets hidden behind a corporate veil) mentioning that its findings do not imply that cross-border tax evasion overall is 67 per cent below its counter-factual level.

Table 6-3 Observed effects of AEOI on bank deposits in IFCs

Study	Effect of AEOI on bank deposits in IFCs	Data used	Method
O'Reilly, P., K. Parra Ramirez and M. A. Stemmer (2019)	22% reduction effect after commencement of AEOI in 2017-2018 17% reduction effect when also accounting for the Foreign Account Tax Compliance Act (FATCA)	A dataset from the Bank for International Settlements (BIS), which provides bilateral data on bank deposits for up to 47 jurisdictions from 2000 to 2019 (first quarter)	Regression analysis / difference-in-differences estimations
Menkhoff and Miethe (2019)	43% decline in outbound deposits in offshore financial centres from activation of AEOI agreements under the Common Reporting Standard (CRS)	BIS bilateral bank data for 1,397 country pairs in a balanced quarterly panel from 2003:1 – 2017:IV	Regression analysis / difference-in-differences estimations
Casi, Spengel and Stage (2018)	11.9% reduction after implementation of Common Reporting Standard	BIS Locational Banking Statistics (LBS), which provides quarterly data on deposits held by individual and entities that are not residents where the reporting bank is located (more than 200 jurisdictions)	Regression analysis / difference-in-differences estimations

³⁵² AHRENS, L., Bothner, F. (2019). The Big Bang: Tax Evasion after Automatic Exchange of Information under FATCA and CRS", New Political Economy, Vol. 24, pp. 605-622.

³⁵³ The authors rely on Johannesen and Zucman (2014) who provide a list of 52 tax havens. In particular, 'the list classifies countries as havens when they fail to meet one of the following criteria: regulation must ensure that banks keep records of the information that can be requested under treaties, domestic legislation must allow domestic tax authorities to access bank information and there must be a legal basis for the exchange of information with foreign tax authorities' (p.6).

Study	Effect of AEOI on bank deposits in IFCs	Data used	Method
Sebastian Beer, Maria Coelho, and Sébastien Leduc (2019)	Average effect of 25% reduction of foreign-owned deposits in offshore jurisdictions (after robustness checks). In 95% of the observed cases, the bank deposits held in offshore jurisdictions by non-offshore residents declined by between 13 and 37 percent Before performing robustness checks, the measured effect implies that cross-border deposits in offshore jurisdictions decreased by between 35 percent (for the CRS) to 50 percent (for the EU Savings Directive -EUSD ³⁵⁴) following the introduction of agreements to undertake AEOI. At 45 percent, the measured effect of FATCA is sizeable but not statistically significant.	BIS bilateral deposit data for 39 reporting countries and more than 200 counterparty jurisdictions in the period 1995-2018	A triple differenced estimator (more complex than the simple difference-in-differences)
Ahrens, L. and F. Bothner (2019)	67% decrease of cross-border assets in IFCs by households with residency in AEOI compliant jurisdictions relative to their counterfactual level.	Datasets on international investments between 2009 and 2018: BIS data from 2009:I to 2017:IV; Coordinated Portfolio Investment Survey (CPIS) ³⁵⁵ by the International Monetary Fund (IMF), which contains yearly data on cross-border equity and debt securities by 83 saver countries in 234 bank countries, restricted to 2009-2018.	Regression analysis / difference-in-differences estimations

Source: Ecorys

Reconciliation of findings

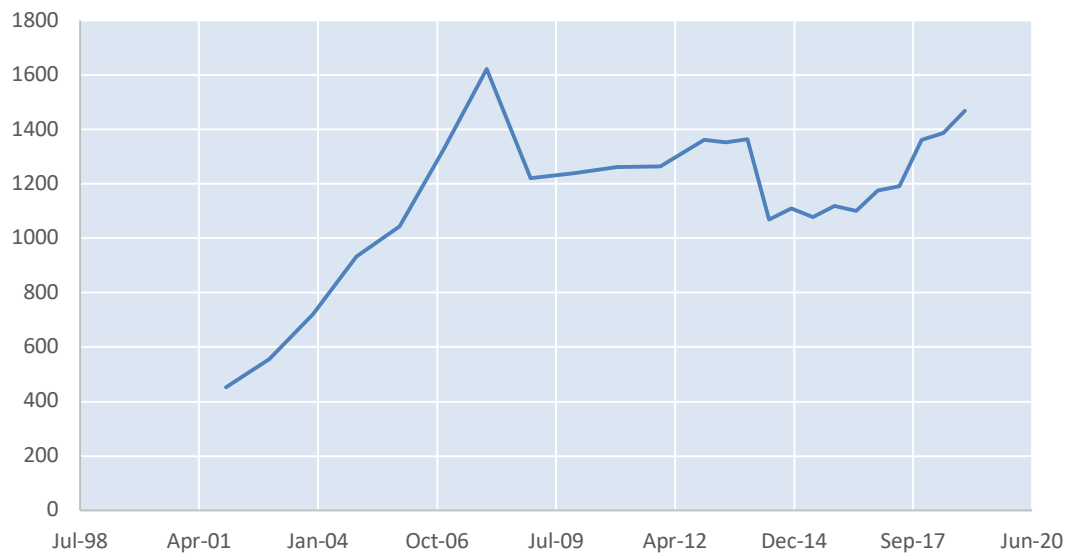
Overall, it is challenging to establish with precision the extent to which the observed changes in cross-border non-bank deposits in the IFCs analysed can be unambiguously attributed to responses to increased tax transparency. Nevertheless, available data show that commitments to AEOI under CRS and DAC2 tend to be associated with decreasing trends in cross-border deposits in IFCs and overall offshore wealth (see Quantitative analysis), suggesting a positive effect of increased tax transparency under these standards on potential tax evasion by individuals storing wealth in offshore bank accounts. In line with the findings from the literature review (see the next section), this seems to be ensured through the standards' multilateral approach, broad scope and extensive country coverage, which make these standards different from previous information exchange agreements, such as bilateral treaties.

However, these findings need to be reconciled with our estimates on the increase in offshore global wealth from 2016 to 2017. As shown in section 5.3, the increase in global offshore wealth is primarily driven and inflated by a parallel increase in the value of equity securities, rather than by increasing investments in IFCs. On the contrary, the deposit data does show a decrease, which is not inflated by asset value increases, therefore making cross-border bank deposits a suitable indicator to use when investigating this topic. Although deposit data for IFCs does show a decrease in recent years, the opposite effect has been observed for debt securities. Looking at portfolio data for the group of IFCs analysed, we see a rather different pattern as opposed to bank deposits. In fact, liabilities data on debt securities show an increasing trend in these jurisdictions over the most recent years, as shown in the figure below. However, we should be aware of the limitations of such a comparison, as CPIS liabilities data on debt securities are not limited to non-banks counterparts as the data for bank deposits from BIS, and should therefore be looked at as a broad indication of the trend in these jurisdictions.

³⁵⁴ Council Directive 2003/48/EC of 3 June 2003 on taxation of savings income in the form of interest payments. Date of end of validity: 31/12/2015.

³⁵⁵ A disadvantage of the CPIS database is that it is not possible to restrict data coverage to liabilities vis-à-vis non-bank entities.

Figure 6-5 Derived Portfolio Investment Liabilities: Total Debt Securities in IFCs (billions of USD)



Source: Ecorys calculation based on BIS

A rather different pattern as opposed to bank deposits can be observed also when looking at CPIS's data on *Reported Portfolio Investment Asset*. Particularly, we looked at the total portfolio investment, including equity and debt securities, claimed by IFCs residents against all other reporting jurisdictions, in order to investigate any changes in the dynamics following coming into force of CRS. For the sake of consistency with the analysis carried out on the trends in cross-border non-bank deposits, we analyse data from the same group of IFCs³⁵⁶, with the only exception of Curacao/Netherlands Antilles, for which data are either very scattered or not available after 2009.

The graph below shows reported portfolio investment assets: Total Portfolio Investment (USD, Millions) – IFCs residents' claims vs all reporting jurisdictions.³⁵⁷ As shown, while portfolio investments claimed by IFCs' residents experienced an increasing trend since the beginning of the reporting period (i.e. 2001), in the immediate aftermath of CRS approval by the OECD Council (i.e. July 2014) a sharp and sudden increase can be observed, which remained sustained until most recent periods (i.e. June 2019).

Figure 6-6 Reported Portfolio Investment Assets



Source: Ecorys calculation based on IMF's CPIS

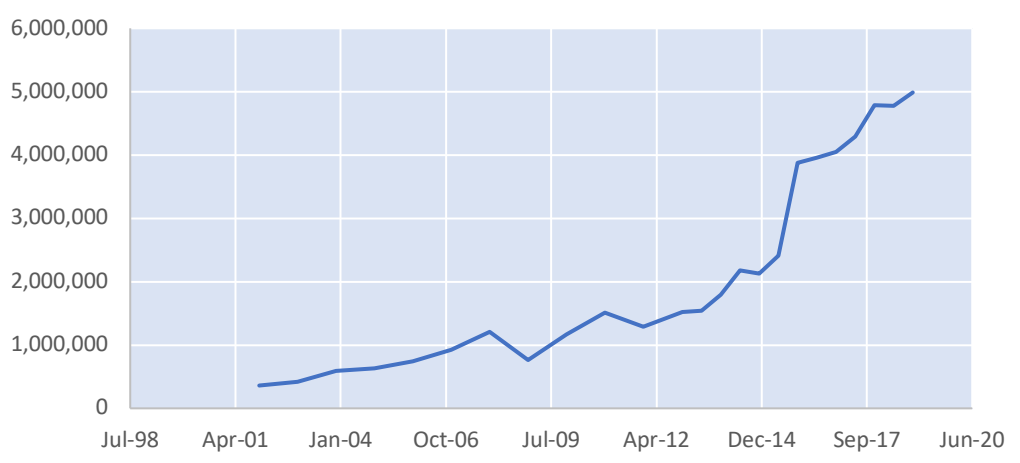
³⁵⁶ These include: Hong Kong SAR, Macao SAR, Singapore, Bahamas, Bermuda, Cayman Islands, Panama, Guernsey, Isle of Man, Jersey, and Bahrain.

³⁵⁷ A limited number of IFCs jurisdictions presented scattered data gaps for some years over the reporting period. These gaps have been filled by assuming for the missing years a steady value as for the year before, e.g. if data for 2015 were missing, values from 2014 were used to fill the gap.

The vast majority of IFCs in the sample witnessed an upward trend³⁵⁸ in funds invested by their residents in foreign equity and debt securities, with few exceptions found for Guernsey, Isle of Man and Jersey, for which this trend has been less pronounced and clear-cut, despite an increase observed in most recent years. It is worth noticing that these three jurisdictions have committed to AEOI and are not on the list of non-cooperative jurisdictions for tax purposes³⁵⁹ (as of 27 February 2020). The Council adopted the first EU list on 5 December 2017 and it is based on the following key criteria: (1) tax transparency criteria (including AEOI); (2) fair taxation (including not facilitating offshore structures or arrangements aimed at attracting profits which do not reflect real economic activity in the jurisdiction); and (3) Implementation of anti-Base Erosion and Profit Shifting (BEPS) measures³⁶⁰.

The graph below shows the difference between portfolio assets and derived liabilities (USD, Millions) – IFCs residents' vs all reporting jurisdictions. As shown, a similar pattern can be observed when looking at the difference between reported portfolio assets and derived liabilities for the same group of IFCs' residents. The evolution of this measure shows how in the immediate aftermath of CRS's approval a stark increase can still be observed.

Figure 6-7 CPIS – Difference between portfolio assets and derived liabilities (millions of USD)



Source: Ecorys calculation

It has to be acknowledged that such phenomenon may also be driven by a parallel increase in the value of equity securities (see section 5). Also, even where foreign investment travels through IFCs, in many cases it could be for non-evasion reasons, including regulatory reasons and tax planning. More fundamentally no direct conclusions can be drawn as because you cannot separate out from the CPIS data derived liabilities attributable to the bank and non-bank sectors to assess shifts of investment patterns of companies and individuals for securities.

Nevertheless, while this study's analysis suggests a positive impact of CRS/DAC2 on the fight against cross-border tax evasion as shown by the decrease in cross-border non-bank deposits, this arguably does not seem to put a definitive end to the phenomenon, but it may rather change its dynamics, as analysed in the section hereafter. This could be attributed to different factors, such as the resort to new schemes and instruments harder to trace or circumventing CRS provisions (see sections 4 and 5.4), and/or shift of hidden wealth to other offshore locations³⁶¹ which may have become attractive places of relocation.

Shifting of wealth to new offshore locations

A possible shift occurring in the dynamics of cross-border tax evasion relate to other non-offshore locations becoming attractive places of relocation after CRS introduction in traditional offshore locations. This is a possible negative and indirect effect induced by CRS, where assets are transferred from collaborative offshore countries,

³⁵⁸ It has to be noted that, over the period of time analysed, a large increase in reported assets took place in the Cayman Islands, which in June 2019 accounted for 35% of the total portfolio investment claimed in the sample of IFCs considered. The Cayman Islands are included in the EU list of non-cooperative jurisdictions.

³⁵⁹ The list is available at: EUROPEAN COUNCIL (n.d.). Taxation: EU list of non-cooperative jurisdictions. Available from: <https://www.consilium.europa.eu/en/policies/eu-list-of-non-cooperative-jurisdictions/> (Accessed on 15/12/2020).

³⁶⁰ COUNCIL OF THE EUROPEAN UNION (2016). Criteria and process leading to the establishment of the EU list of non-cooperative jurisdictions for tax purposes – Council conclusions. Available from: <https://data.consilium.europa.eu/doc/document/ST-14166-2016-INIT/en/pdf> (Accessed on 17/08/2020).

³⁶¹ A full overview of the current state of implementation of all committed jurisdictions can be accessed through the OECD website, available at: OECD (n.d.). CRS by jurisdiction. Available from : <http://www.oecd.org/tax/automatic-exchange/crs-implementation-and-assistance/crs-by-jurisdiction/#d.en.345489> (Accessed on 12/12/2020).

i.e. those who committed already to first exchanges of information, to non-collaborative ones that have yet to set the date for first automatic exchange or that are not participating.

Addressing this aspect from a quantitative perspective still presents some challenges related to the unavailability of cross-country consistent and comparable data. For instance, bank deposit data provided by the BIS are limited to a number of jurisdictions and do not include countries not yet participating to AEOI under CRS. Thus, a meaningful comparison cannot be drawn with the trends already described for cross-border bank deposits held in the available sample of IFCs by foreign non-banks counterparts.

Nevertheless, looking at BIS counterparty jurisdictions for the deposit data for non-banks may show such an evolution, as all counterparty jurisdictions are reported in such data irrespective of the jurisdiction being reporting to BIS or not. Notably, we looked into the deposits owned by non-banks of BIS reporting jurisdiction in non-BIS reporting jurisdictions, focusing on jurisdictions undertaking first exchanges from 2020 onwards or that are not participating (e.g. Cape Verde, Dominican Republic or Papua New Guinea), according to the OECD's automatic status of commitments on AEOI. Such exercise brings the caveat that data are not immediately comparable with the analysis carried out for deposits in IFCs reporting to BIS. However, this might give an indication of deposit trends in jurisdictions not participating in AEOI, shedding some further light on potential relocation of wealth towards new locations. The figure below shows cross-border bank deposits claimed in jurisdictions not committed to AEOI by non-banks counterparts in all BIS reporting jurisdictions. As shown, while deposits in these locations display a general upward trend over the period considered, a pronounced increase can be noted in the aftermath of CRS, which continues in more recent years.

Figure 6-8 Cross-border bank deposits claimed in jurisdictions not committed to AEOI



Source: Ecorys calculation

Moreover, it is worth consulting recent literature works on the topic. Casi, Spengel, and Stage (2018)³⁶² recently provided evidence suggesting that tax evaders deem convenient to relocate their wealth from offshore jurisdictions complying with CRS to new non-complying offshore destinations appearing as more attractive for deposits.

While their results show that CRS induced a reduction of 14% in cross-border deposits parked in traditional offshore countries for tax evasion purposes, they also shed light on other potentially attractive locations such as the United States, which so far implemented FATCA but did not commit to the CRS. This claim may seem surprising at first, because the United States does not offer a tax system as attractive as that of traditional offshore countries. However, testing relocation behaviours, the authors found that after CRS implementation cross-border deposits held in the United States were on average 9% higher compared to the ones in other non-offshore countries and the increase of cross-border deposits in the United States is both immediate and persistent over the whole period following CRS effectiveness. Likewise, Hanlon, Maydew, and Thornock³⁶³ found that every 1% increase in the top

³⁶² CASI, E, et al. (2018). Cross-Border Tax Evasion After the Common Reporting Standard: Game Over?. Available from: https://www.researchgate.net/publication/327714355_Cross-Border_Tax_Evasion_after_the_Common_Reporting_Standard_Game_Over (Accessed on 10/02/2020).

³⁶³ HANLON, et al. (2013). Taking the Long Way Home: U.S. Tax Evasion and Offshore Investments in U.S. Equity and Debt Markets", The Journal of Finance Volume 70, Issue1, February 2015, Pages 257-287.

United States tax rate led to an increase of 2.1 percent to 2.8 percent in foreign portfolio investment (FPI) from offshore locations, pointing towards the so-called “round tripping” practices for tax evasion.

Recent literature has shed further lights on the round-tripping concept, i.e. when residents of a certain jurisdiction set up ad-hoc offshore shell companies, funnel money through offshore accounts opened in the name of these companies, and subsequently reinvest back into their home country’s capital market posing as foreign investors. Thus, incoming funds are now recorded in the domestic market as foreign capital and, sometimes, taxed at a more favourable tax rate resulting into tax savings. Earnings on these investments appear to the home country’s tax authorities as earnings of a foreign corporation, which owes no taxes to their jurisdiction. As a result, these individuals typically pay lower or no local taxes on the income attributable to the accounts, as they benefit from the IFC’s more favourable tax systems. The money is said to have made a “round trip”, since it originates in the home country, and returns back to the country’s capital market.

Typical vehicles used for round tripping could be trusts and foundations, for which it might be very difficult to trace back the ultimate beneficiary/owner. This practice does not show up under the IFC financial account’s liabilities, as it is the case for cross-border bank deposits held in IFCs by non-banks counterparts in other reporting jurisdictions, but rather as claims of IFCs’ residents, or presumed so, vis-a-vis other jurisdictions. While Beer et al. (IMF, 2019)³⁶⁴ show results which tend to confirm the effectiveness of AEOI in countering possible round-tripping schemes, no evidence was found in their research that FATCA has reduced round-tripping to the US. In contrast, deposits from offshore centres into the US witnessed an increase following the introduction of FATCA. These findings were associated to different potential factors, including lack of information exchange reciprocity by the US, in terms of equivalent due diligence procedures and reporting obligations as those imposed on other jurisdictions, and the non-imposition of tax on certain US sourced portfolio interest received by non-residents.

However, a conclusive judgment cannot be drawn, as conflicting evidence emerge from further literature. While Hakelberg and Schaub (2018)³⁶⁵ contend that the US and its financial sector may exploit the lack of reciprocity and attract foreign capital as a secrecy jurisdiction, Ahrens and Bothner (2019) found that assets of non-IFCs in the US did not increase relative to assets of non-IFCs held in non-IFCs other than the US. Their research shows foreign assets in the US to have increased substantially after AEI, but in line with assets in other non-IFC, hence suggesting that an asset shifting to the US cannot be unambiguously observed.

6.2.2 Qualitative analysis

In addition to the quantitative analysis presented above, this study also gathered information on the effects of the CRS and the Directive through case studies and interviews in order to provide a qualitative assessment of the impact of the CRS/DAC2. The qualitative analysis focused on three key issues: (1) effects of the CRS/DAC2; (2) new schemes/ways of hiding wealth offshore; and (3) other factors influencing the effects of the CRS/DAC2. The findings along these three issues are presented below.

Effects of the CRS/DAC2

There is general agreement between diverse stakeholders (tax authorities, FIU, investigative journalists, and experts) that the CRS/DAC2 contributed to the reduction of wealth hidden by individuals offshore. Even though some interviewees claimed that it might be too early to fully judge on the effects of the AEOI, stakeholders in the following countries (i.e. all case study countries and results from interviews with stakeholders in other Member States) identified positive effects of the CRS/DAC2: Spain, Luxembourg, Denmark, France, Bulgaria, Sweden, Germany, Portugal, Lithuania, Romania, Cyprus, Latvia, and Finland.

Based on the input from stakeholders, the following concrete ways in which the AEOI has contributed to the reduction of hidden wealth can be identified:

- ◆ The AEOI has allowed the fiscal administrations to receive information on millions of bank accounts held by nationals in a multitude of foreign jurisdictions, which empowered public authorities to have a more

³⁶⁴ BEER, S., et al. (2019). Hidden treasure: The impact of Automatic Exchanges of Information on cross-border tax evasion. Available from: <https://www.imf.org/en/Publications/WP/Issues/2019/12/20/Hidden-Treasure-The-Impact-of-Automatic-Exchange-of-Information-on-Cross-Border-Tax-Evasion-48781> (Accessed on 12/12/2020).

³⁶⁵ HAKELBERG, L., SHAUB, M. (2019). The redistributive impact of hypocrisy in international taxation: Hypocrisy and redistribution. Available from: https://www.researchgate.net/publication/318175885_The_redistributive_impact_of_hypocrisy_in_international_taxation_Hypocrisy_and_redistribution (Accessed on 10/02/2020).

targeted approach to tax evasion and fiscal fraud. The detailed data allowed tax authorities to perform analyses, which identified discrepancies in taxpayer statements.

- ◆ Due to the CRS, some financial investigation units were able to produce lists of nationals holding offshore accounts along with the amounts stored offshore.
- ◆ A general observation is that the AEOI has significantly improved the possibilities and preconditions for tracing and identifying tax evasion.
- ◆ It provides encouragement to tax authorities to cooperate with each other.
- ◆ The AEOI is creating significant challenges to people willing to hide wealth (particularly those individuals who cannot hire good tax lawyers). This is due to the fact that concealment of income and assets from the tax authorities has become more difficult during the past five years as individuals cannot utilise bank secrecy anymore.
- ◆ Earlier some tax authorities had problems to get information regarding wealth hidden by using insurance contracts. Therefore, the fact that AEOI covers also insurance contracts has had preventive effect in this respect.

The above findings are illustrated by the Lithuanian case study, presented shortly in the textbox below.

Effects of the AEOI in Lithuania

AEOI, together with CRS, EOIR, SEOI, FATCA and other international documents for cooperation, are seen as a major driving force that helps countries curb tax evasion. According to the interviewees, it is hardly possible to pick out a single document and evaluate its impact, however having all of them enables tax authorities to work more effectively in reducing cross-border deposits in foreign jurisdictions and helps them carry tax investigations.

The AEOI motivated tax authorities to approach foreign tax authorities more actively. Comparing with previous years, the annual volume of the State Tax Inspectorate's (STI) requests increased by 30% in 2019. Additionally, STI observes a growing trend of corporate restructuring and a reduction of bank deposits held in foreign jurisdictions. All of this has led to an increasing number of companies coming back to Lithuania, especially from the Netherlands, Malta, and Cyprus. Although no concrete numbers are available, around a dozen of major companies have returned and registered in Lithuania.

It should be mentioned that for many interviewees, it was not possible to disentangle the effects of CRS/DAC2 on one side, and FATCA on another side. As noted by the ECOPA/CASE study as well as interviewees in the current study, FATCA itself is one of the key mechanisms to curb tax evasion. In respect of FATCA, the mandatory automatic reporting by a third party significantly reduces the United States' offshore tax evasion³⁶⁶, and moreover it significantly reduces tax planning through offshore entities.³⁶⁷ A decline of USD 56.6 - USD 78.0 billion of investments out of financial accounts in IFCs was identified after the introduction of FATCA.³⁶⁸

Other factors influencing the effects of the CRS/DAC2

Going beyond the CRS/DAC2, the Anti-money laundering (AML) Directive³⁶⁹ increased the reporting requirements of banks and made it riskier to hide wealth offshore. Among others, the 2018 amendments to the Directive introduced measures aiming to: enhance the powers of FIUs; broaden the criteria for the assessment of high-risk third countries and improve the safeguards for financial transactions to and from such countries; set up central bank account registries or retrieval systems in all Member States; improve the cooperation and enhance of information

³⁶⁶ DHARMAPALA, D. (2016). Cross-border tax evasion under a unilateral FATCA regime. *Journal of Public Economics*, 141, 29-37.

³⁶⁷ OMARTIAN, J. (2017). Offshore Entities, Banks, and Cooperation with the Tax Authorities: Evidence from the Panama Papers. Working Paper.

³⁶⁸ SIMONE, L., et al. (2018). Transparency and Tax Evasion: Evidence from the Foreign Account Tax Compliance Act (FATCA). Available from: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3037426 (Accessed on 15/06/2020).

³⁶⁹ EUR-LEX (2018). Directive (EU) 2018/843 of the European Parliament and of the Council of 30 May 2018 amending Directive (EU) 2015/849 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing, and amending Directives 2009/138/EC and 2013/36/EU (Text with EEA relevance). Available from: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32018L0843> (Accessed on 15/12/2020).

between Member States; and enhance transparency overall. Thus, some interviewees (e.g. from Italy) highlighted that the AML Directive contributed to reducing the amount of wealth hidden offshore as it provides new obligations regarding the transparency of the beneficial owner and it makes it more difficult to hide identities and criminal proceeds. The link between the AEOI and the AML Directive is illustrated in the textbox below.

The link between AEOI and money laundering in Luxembourg

Bank accounts were known to be the traditional way of hiding money and the CRS made it more difficult to hide money in bank accounts in Luxembourg. According to interviewees, the exchange of information on bank accounts has led to a significant beneficial impact on counteracting hiding wealth. For example, some bank accounts were closed because their owners would not have been able to prove that they were filing taxes properly. Furthermore, the regulations changed and a suspicious transaction could be qualified easier as money laundering. Thus, if a bank knowingly has a client who does not pay taxes at all, that is considered as money laundering, which has significantly increased the risk for banks.

Source: interview

Measures at national level have also been complementary to the CRS/DAC2 and have likely reduced the amount of wealth hidden offshore, although these effects cannot be quantified. Examples of such measures are presented in the table below.

Table 6-4 Examples of national measures

Country	Examples of national measures likely to influence the amount of wealth hidden offshore
Italy	Introduction of a special tax regime intended to attract Italian and foreign nationals who have been resident outside the country for at least nine of the previous ten years. It allows the transfer of the tax residence to Italy and pay a fixed amount of €100,000 in lieu of the Italian regular income tax on their foreign source income.
Spain	Two regulatory changes that are worth noting are the Fiscal Amnesty ³⁷⁰ , which took place in 2012 and the introduction of Model 720 by the Spanish tax Authority, which makes it mandatory for all Spanish taxpayers to report three categories of assets located in a foreign country that they own. These categories are bank accounts, securities (and collective investment schemes, life insurance and annuities) and real estate (or interest in real estate). Particularly this last one has definitely had an impact on who hides wealth and the reasons behind it. As a result, it is now much costlier, in terms of money but also in reputational terms, to hold wealth abroad. Therefore, it is mostly the very rich that can afford to do so and, specifically, those who have obtained their money in an illicit way. In Model 720, no vehicles, gold/precious metal, art, antiques, or jewellery must be reported, making these means profitable to hold and could be seen as a mean of hiding wealth.
France	<p>In the last years, the French government has reformed and strengthened its policy against tax fraud. It is still too early to know whether these changes have an impact of the level and form that tax evasion takes, but they are nevertheless worth mentioning. France has strengthened sanctions for individuals and companies who commit tax fraud, through increased transparency and a “name and shame” approach and new sanctions targeting intermediaries and accomplices. A new “fiscal police” (the service d’enquêtes judiciaires des finances (SEJF) was created within the Ministry of economy and finance by Law n°2018-898 on the fight against fraud. It is made up of officials from the police, the tax administration, and the customs administration.</p> <p>Law n°2018-898 on the fight against fraud provides ministries with discretionary power to transmit information regarding individuals suspected of tax fraud to the judiciary (known as the “verrou de Bercy”). The tax administration will now have the obligation to transfer information regarding serious cases of fraud (over 100,000€) to the judiciary.</p> <p>The sources of information regarding tax fraud have been diversified with increased use of online data and social media platforms, and data collection techniques, integrating data mining and artificial intelligence in the arsenal of anti-fraud agencies.</p>

³⁷⁰ It has to be acknowledged that the use of amnesties should not be at the expense of long-term tax compliance – see best practices in tax amnesty: TRANSPARENCY INTERNATIONAL (2017). Best practices in tax amnesty and asset repatriation programmes. Available from: https://knowledgehub.transparency.org/assets/uploads/helpdesk/Best_practices_in_tax_amnesty_and_asset_repatriation_programmes_2017.pdf (Accessed on 10/02/2020).

Country	Examples of national measures likely to influence the amount of wealth hidden offshore
Bulgaria	The primary piece of Bulgarian legislation that regulates the use of IFCs is the Offshore Companies Act of 2014. The act was officially introduced as the Bulgarian answer to the global and EU push for making offshore ownership more transparent and to restrict offshore ownership in sectors important for the national security. The law has since been repeatedly amended. Changes made in 2015 and 2016 cut down the list of strategic economic sectors in which offshore entities are not allowed to own shares from 28 sectors (in the original law) to 13 after the amendments. The Act provides the legal basis for requesting ownership information from representatives, which they are obliged to provide truthfully.
Finland	The Parliament approved amendments to the Finnish Income Tax Act (ITA), which will change the taxation of life insurance and capitalisation contracts with effect from 1 January 2020. One of the amendments was the new article 35 b of the ITA, which was targeted to prevent so-called “artificial insurance structures”.

Source: case studies

According to interviewees, the leaks (Panama Papers, Offshore Leaks, Paradise Papers, and Swiss Leaks) had an impact on the way tax investigations are carried out, but did not necessarily play a role in policy changes or in the ways individuals hide wealth. The leaks and the risk of such leaks to the media and NGOs makes the reputational cost of evading taxes much higher, but this effect is very hard to gauge. Overall, the results of international forward-looking initiatives as the CRS/DAC2 are considered by stakeholders as more positive as compared to backward-looking exposure through leaks. This is illustrated by the examples, provided by the Finnish case study.

Effects of Leaks in Finland

Swiss Leaks: Accounts of Finnish individuals contained approximately 20 million euros. Significant part of the accounts had been closed for a long time before the leak emerged. The assets were usually invested on the stock market. A couple of tax audits were accomplished based on the data.

Panama papers: Approximately 300 Finnish individuals were mentioned in the documents. The Finnish Tax administration did not receive the materials, so investigations were based on the names and company-relations found from the International Consortium of Investigative Journalists (ICIJ) webpage. A significant part of the persons had moved abroad years ago and many of the companies were liquidated. Dozens of investigations led to tax audits and the tax consequences were 1-2 million euros, consisting of e.g. capital income tax and inheritance tax. However, some of the audited companies/individuals were already under investigation in tax auditing unit before the Panama papers leak.

Offshore Leaks: Background researches were made based on the data. However, they did not lead to significant results.

Paradise papers: The materials were used as background information in risk analysis, but there are no results worth mentioning yet. In general, despite of the huge media attention of the latest leak cases, the leaked data from LGT bank roughly ten years ago caused much higher results (10 million in taxes and tax increase) in Finland than any other leak case ever since.

Source: case study

New schemes/ways of hiding wealth offshore

Notwithstanding the overall positive view on the effects of the AEOI, the literature review shows that due to the implementation of AEOI, taxpayers may evade taxes by re-shifting undeclared income/assets into alternative tax evasion channels³⁷¹. It is done via the direct ownership of assets not subject to AEOI, such as real estate, gold and other precious metals, artwork and collectibles and cryptocurrencies. Besides real estate, all of them are moveable across jurisdictions, easily stored and difficult to detect by tax authorities. Less liquid and non-banking assets such as real estate have become more interesting for investors since the last financial crisis.³⁷² More

³⁷¹ SIMONE, L., et al. (2018). Transparency and Tax Evasion: Evidence from the Foreign Account Tax Compliance Act (FATCA). Available from: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3037426 (Accessed on 15/06/2020).

³⁷² DELOITTE (2018). The Deloitte International Wealth Management Centre Ranking 2018: The winding road to future value creation. Available from: https://www2.deloitte.com/content/dam/Deloitte/ch/Documents/financial-services/ch-fs-1800914_Deloitte-wealth-managemnet-Ranking-2018.pdf (Accessed on 18/05/2020). p. 14.

information on these schemes is presented in Chapter 3 and section 5.3 (on the new asset categories), which were not covered by the previous study by ECOPA/CASE), while interviewees have identified the following unintended effects of the CRS/DAC2:

- ◆ As discussed in sections 3 and 4, according to interviewees, the most significant change is that *the AEOI rendered tax evasion schemes more complex and sophisticated*. In turn, due to the increased costs linked to intermediaries, this has an effect on the type of individuals/households who can hide wealth abroad. Much like the “fiscal sobering-up cell”, most policies effectively target small and medium-size wealth, whose owner cannot afford the more sophisticated schemes offered by banks and counsellors. Thus, according to interviewees, the decrease in bank deposits abroad linked to the automatic exchange of information (described above) has modified the type of assets used to hide wealth abroad (decrease in bank accounts, life insurance; increase in complex schemes involving corporate vehicles).
- ◆ *According to interviewees, the AEOI has changed the destination countries, with assets flowing towards financial centres in Asia, the Gulf States, and African countries*. Assets are also moved to other jurisdictions that do not (yet) cooperate in the automatic exchange of information, but not massively as there is limited trust in the financial sector of these countries. For example, the Portuguese Tax Authority has registered financial transfers to countries that have not yet set the date for first automatic exchange or have not implemented it yet, as the table below shows.

Table 6-5 Financial transfers reported to the Portuguese Tax Authority by residents

Destination of Transfers	Number of operations (2018)	Value (2018)
Cape Verde	2 865	EUR 45 636 358.99
Egypt	993	EUR 42 959 458.70
Honduras	241	EUR 26 915 793.49
Ukraine	2 513	EUR 24 698 340.65
Nigeria	682	EUR 6 920 413.11
Kuwait	158	EUR 5 868 511.53
Oman	126	EUR 1 889 607.91
Jordan	208	EUR 1 680 076.60
Liberia	17	EUR 112 931.68

Source: case study (data from 2018)

Unfortunately, no panel data (beyond the analysis in section 6.2.1) is available to put the above information into context, i.e. for different years and in comparison with other countries. For this reason, the above information only serves illustration purposes. However, as mentioned, the recent increase of assets towards some of these financial centres can also be observed overall in available financial statistics, as found for instance for debt securities reported in the IMF's CPIS.

6.3 Main findings

Cross-border bank deposits are deemed to provide good insight into trends in hiding wealth abroad and an overall decrease in deposits in IFCs could be considered as evidence that the automatic exchange of information (AEOI) has improved tax compliance. The quantitative results of the present study, which are confirmed by other studies, show that the total cross-border bank deposits held in IFCs by non-banks counterparts had a significant decrease during the period Q3 2014 - Q4 2016 (i.e. -22%), which corresponds to the aftermath of the G20 announcement of the CRS and subsequent approval by the OECD Council (i.e. July 2014³⁷³). This decrease provides evidence for the positive effects of the AEOI. The decrease continued in the years during the implementation of CRS and DAC2 by compliant jurisdictions, until the latest figures available for 3Q 2019.

At the same time, deposits in non-IFCs experienced an overall upward trend, recently surpassing pre-crisis levels, while IFCs overall dropped over the same period, especially until Q2 2012 and again starting from Q3 2014.

³⁷³ OECD (n.d.). What is the CRS?. Available from: <https://www.oecd.org/tax/automatic-exchange/common-reporting-standard/> (Accessed on 13/12/2020).

These results also suggest a potential impact of the increased tax transparency induced by commitments under AEOI. Finally, bank deposits in IFCs held by EU non-banks have decreased significantly in recent years, dropping by 8% over 1Q 2017 – 3Q 2019, which can also be considered as evidence that the AEOI has resulted in positive effects in terms of the fight against tax evasion.

All reviewed recent studies that aimed to quantify the impact of the CRS, reach the same conclusion – CRS contributed significantly to the reduction of non-bank deposits in financial centres. The quantification of the effects range between 11.9% and 67% (depending on the methodology, data used, and specific metrics selected) reduction in the IFC bank deposits in comparison to what they would have been without the automatic exchange of information.

From a qualitative perspective, there is general agreement between diverse stakeholders (tax authorities, FIU, investigative journalists, and experts) that the CRS/DAC2 contributed to the reduction of wealth hidden by individuals offshore. This has been achieved in the following main ways (1) Information on income received from and assets held in another jurisdiction, by their residents; (2) the AEOI has empowered public authorities to have a more targeted approach to tax evasion and fiscal fraud; (3) encouragement to tax authorities to cooperate with each other; (4) the AEOI is creating significant challenges to people willing to hide wealth; and (5) allowing tax authorities to get information regarding wealth hidden by using insurance contracts.

Beyond the CRS/DAC2, which introduced enhanced customer due diligence requirements on financial institutions, there are two key factors that had an influence on the effects of CRS/DAC2: (1) *the Anti-money laundering (AML) Directive*³⁷⁴ increased the reporting requirements of banks and made it riskier for individuals to hide wealth offshore; and (2) *measures at national level have also been complementary to the CRS/DAC2 and have likely reduced the amount of wealth hidden offshore*, although these effects cannot be quantified. According to interviewees, the leaks (including Panama Papers, Offshore Leaks, Paradise Papers, and Swiss Leaks) had an impact on the way tax investigations are carried out, but did not necessarily play a role in policy changes or in the ways individuals hide wealth.

Despite the overall positive view on the effects of the AEOI (both from a quantitative and from a qualitative perspective), the literature review, the interviews, and the overall analysis of this study shows that due to the implementation of AEOI, taxpayers may evade taxes by re-shifting undeclared income/assets into alternative tax evasion channels (e.g. the “round-tripping” scheme, real estate, gold and other precious metals, artwork and collectibles and cryptocurrencies). Furthermore, the analysis on cross-border bank deposits claimed in jurisdictions not committed to AEOI by non-banks counterparts in all BIS reporting jurisdictions suggests that there is also shifting to new offshore locations. The most significant change is that the AEOI made tax evasion schemes more complex and sophisticated. Thus, according to interviewees, the CRS/DAC2 have been most effective with small and medium-size wealth, whose owners cannot afford the more sophisticated schemes offered by banks and intermediaries.

As mentioned above, cross-border bank deposits provide good insight into trends in hiding wealth abroad, but using deposit data rather than securities data also is a limitation of the methodology. Derived liability data from the CPIS portfolio security survey indicates that IFCs have attracted significant amounts of security investments during the introduction of the transparency agreements. Furthermore, differences between reported portfolio security assets and liabilities have increased significantly more in IFCs compared to non-IFC in recent years. Due to the limitations of CPIS derived security data not having sectoral information, it is not possible to assess shifts in investment due to DAC2/CRS, i.e. not possible to determine whether liabilities are due to individuals subject to DAC2/CRS and sectors not subject to DAC2/CRS like financial institutions.

³⁷⁴ EUR-LEX (2018). Directive (EU) 2018/843 of the European Parliament and of the Council of 30 May 2018 amending Directive (EU) 2015/849 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing, and amending Directives 2009/138/EC and 2013/36/EU (Text with EEA relevance). Available from: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32018L0843> (Accessed on 15/12/2020).

7 Conclusions

The following chapter presents the main findings of this study.

Who, why, and what

Using IFCs for tax evasion is mainly confined to the very rich. The general population earns and reports income and assets domestically, which is difficult to hide from the tax authorities. The very rich have the means to access IFCs, but also their income and assets are invested in asset categories (such as equities and bonds) for which IFCs are important locations. The top countries in terms of both numbers of UHNWIs and money hidden via IFCs are Germany, France, Italy and Spain.

Not only UHNWIs are identified:

- ◆ Some countries report (a rise in) other middle- and upper-class citizens making use of cross-border tax evasion schemes. Even though they are costly, IFCs have become more accessible for individuals with a relatively smaller wealth (for example professionals, such as doctors and lawyers). In other countries, a lack of trust in government institutions or fear of economic and political stability may stimulate households with more limited wealth to hide their abroad.
- ◆ Criminals and other individuals with illegally earned income and wealth have a high preference to hide their money abroad. In this case tax evasion is not the primary motive, but there is a wish to hide the illicit origin of their capital.
- ◆ Foreigners and (returning) expats can get engaged in cross-border tax evasion, by having bank accounts in their home-land or IFCs.
- ◆ A specific group is formed by high-profile individuals making use of IFCs to hide their legally or illegally earned wealth (politicians and celebrities, prominent businesspeople, athletes).

Tax evasion and concealment of the illicit wealth are the main motives for individuals to use IFCs to conceal assets. In particular capital income tax and inheritance taxes are fiscal drivers to move wealth abroad. To stop the exodus of capital, several European governments abolished or changed taxation. For example, several European countries (Austria, Czech Republic, Portugal, and Sweden) abolished inheritance tax. Many European countries also abolished for this reason the taxes that were levied on net wealth. Uncertainty in the future tax rates provides a stimulus to hide part of the wealth in a country with either lower tax rates or a more stable taxation regime.

Other drivers and motivations to evade taxes via IFCs include: mitigating economic and political risks, having a low tax morale, limited trust in the government and its transparency, weak enforcement by the government, and personal safety. It is not possible to deduce which drivers and motivations are the leading ones as Member States still differ strongly in types and levels of taxation but also with respect to these other factors.

The study finds that amongst financial assets, corporate equity, shares, and derivatives, as well as bonds, loans and other assets generating interests are the preferred choice by UHNWIs. Such individuals often rely on intermediaries and on the setting up of complex mechanisms and structures (including shell companies) to take full advantage of the potential of these assets to hide wealth.

Cash also remains a popular choice, often through physical cross-border transfers. However, this is generally an option chosen by less wealthy individuals, as UHNWIs seem to prefer to rely on the more complex instruments (hedge funds, foundations, bonds, etc) described above. It should also be noted that interviewees have often mentioned that cash that is physically transferred is often tied to illegal purposes. There are indications that cash equivalents, such as credit and pre-paid cards are used to access wealth in IFCs. These would normally fall outside the scope of DAC2/CRS.

Although this can vary considerably from country to country, interviews with key stakeholders in several Member States have also highlighted increasing risks for hiding wealth through cryptocurrencies. However, it is not yet considered a main vehicle for tax evasion as crypto currencies also have risks for detection (still needs to be converted to fiat currencies at some point). Crypto currencies and virtual financial assets are in theory subject to DAC2/CRS but due to lack of regulation, in particular in relation to national AML rules, it is unclear to which extent

these assets are subject to AEOI. In addition, anonymity and mobility of these asset types present red flags for its use to hide wealth which underlines the development of DAC8.

Loans and equity are more likely to be used by wealthy individuals compared to the general population. This poses a risk when a legal person or arrangement do not fall under the DAC2/CRS classification of a non-passive financial entity. In that case, income attributable to a beneficial owner is not subject to AEOI, such as payments made from the financial account of the legal person in the form of interest and dividends ('non-custodial dividends').

When it comes to non-financial assets, real estate takes the lead, with the majority of interviewees across Member States mentioning it as a key market for investors seeking to hide their wealth. The use of intermediary shell companies for such investments is also reported as widely common. Amongst luxury items, art and antiquities seem to be preferred to gold and jewellery, although the choice to hide wealth through these assets in general is much less common than investment in real estate. Similarly, the purchase and sale of yachts, cars and planes was only mentioned sporadically during the data collection.

How

Wealth hidden in IFCs, either for financial or privacy reasons, can follow various structures through the interaction of different service providers and actors. The complex structures, involving legal entities in different jurisdictions, are a risk as the ultimate beneficial owner can be hidden.

Due to the complexity of creating and administering these structures, intermediaries such as lawyers or trust or company service providers can be used. The Panama Papers have shown that these intermediaries are located in major financial centres and use tax havens to set up company structures.

Wealthy individuals have the means to access the expertise of intermediaries in order to set up different structures through the use of various vehicles. Either being a natural person or a legal entity, intermediaries design, market and organise the implementation of reportable cross-border arrangements. Companies offer the various means to exploit IFCs for hiding wealth, e.g. banks that open non-residency bank accounts or trust and company service providers.

IFCs can have a tax system that exempts from tax income received by resident entities from abroad, or can have zero or next to no taxation at the level of the entity. The ICF can also allow income to be distributed to non-resident beneficiaries and is not subject to withholding tax. Treaties with jurisdictions where investment funds are located prevents double taxation of investment income received from abroad. In addition, IFCs can also have double tax treaties with jurisdictions where shell companies can be easily established and that have features of their tax system like a lack of exchange of information.

The effectiveness of the exchange of information for tax purposes depends on the robustness of the anti-AML legislation in IFC's, in particular for collecting information on the beneficial owners of legal persons and legal arrangements. If the legislation provides exemptions to certain obliged entities for collecting information, or exempts certain entities/arrangements from being subject to AML provisions, then information on beneficial ownership may not be available. Furthermore, the existence of vehicles like nominee arrangements and bearer shares in IFC's means that information is not collected on the beneficial owner and exchanged with their country of residence.

Investor residence schemes may be abused for tax purposes when information is sent to the jurisdiction of the investor residence scheme, rather than the jurisdiction where the investor is actually a tax resident. Schemes in Member States can grant visa-free access to hundreds of countries around the world and offer the opportunity to misuse documents (ID-cards or passports) obtained in order to present tax residency exclusively, which is then incorrectly sent to the citizenship by investment country (mostly offering low personal income tax rates).

A number of vehicles are identified that can be used to circumvent the effective exchange of information for tax purposes. The use of trusts and other legal arrangements place the legal ownership of assets with trustees that reside in countries that (often) have a favourable tax regime i.e. low or no taxes and where regulatory expenses are low. By putting assets in a trust, assets are well protected from creditors and offer relative anonymity due to the trust's high nature of privacy. Although data on beneficial ownership of legal instruments should be collected by countries under AML rules, this data is not normally publicly disclosed. The distributions to non-resident beneficiaries are often exempt of taxation in the IFC/jurisdiction and the distributions received by the

beneficiaries are not always taxed as foreign income or can be turned tax free by re-characterisation. As a civil law equivalent, foundations can help hiding wealth since these can be used for commercial activities..

Reporting for legal persons can be circumvented by the reduction of ownership by the beneficial owners to keep the ownership underneath the respective thresholds for reporting. As a result, the notion of indirect ownership may be difficult to determine due to multiple layers in various jurisdictions. Additionally, legal persons (e.g. limited companies) are most likely used for trading and commercial purposes and would not be classified as passive NFEs although could well be used for concealment purposes. Directors of limited liability companies have in general less onerous civil liability obligations compared to trustees of an arrangement. Furthermore, the existence of vehicles like nominee arrangements and bearer shares in IFC's means that information is not collected on the beneficial owner and exchanged with their country of residence.

The EU list of non-cooperative jurisdictions for tax purposes is assessed through the listing exercise to promote good governance on tax internationally and has contributed to fighting tax avoidance and tax evasion worldwide. Of the three criteria used for the assessment, the Tax Transparency criterion is most relevant with respect to the OECD AEOI standard and checks whether jurisdictions have committed to or started the process of implementing the CSR effectively.

How much

Global financial wealth amounted to USD 9.8 trillion (EUR 8.6 trillion) in 2018, down from USD 10.2 trillion (EUR 8.5 trillion) the year before, but increased from USD 7.7 trillion (EUR 7.3 trillion) in 2016, the last year reported on by the previous study. The increase in offshore wealth between 2016 and 2017 can be mainly attributed to the increase in equity security prices reported by countries across the world. The regression analysis demonstrated that the introduction of the CRS resulted in a 10% decrease in offshore wealth pointing towards a positive impact of the standard.

A main trend identified by the previous study on where offshore wealth is confirmed: Hong Kong and Singapore continue to attract a greater proportion of global offshore wealth, while the relative shares of offshore wealth held in Switzerland and the Cayman Islands are decreasing.

In 2018, offshore wealth held by individuals across the EU amounted to about 12% of GDP, up from approx. 10% in 2016. This is above the OECD share, but below the share for China (18%). The share of offshore wealth attributable to residents from the EU-28 amounted to approx. 23% in 2018, up from about 20% to 21.5% in the years of 2010 to 2016. In terms of absolute amounts, residents from Germany, France, and Italy account for the largest part of offshore wealth owned by residents of the EU. When expressed as a share of GDP, residents from Cyprus (41% average between 2001 and 2018), Malta (34%), and Portugal (27%) hold the largest shares of offshore wealth in the EU.

If we consider the share of estimated offshore wealth in total reported financial assets for the selected countries for some countries the differences are high (Denmark, Sweden and Finland), while for others, mostly smaller economies, the differences are small (as is the case for Greece, Latvia, and Cyprus). While such stark differences are not easily explained, this might relate to the fact that the countries are considered as important financial centres in the EU which have large financial inflows and outflows compared to their GDP's (as is the case for Cyprus and Malta), and may have residents with significant offshore wealth as related to investor residence schemes.

Cash, life insurance and real estate are asset categories that continue to be of interest for storing wealth offshore. While cash seems to be a more established means used for storing offshore wealth, life insurance is not yet a frequently used asset for storing and consequently hiding wealth. Similar to the estimated total offshore hidden wealth per EU 27 Member States and the UK, the big economies are at the forefront of the list for offshore cash, life insurance and real estate. For offshore wealth in cash and life insurance estimated as percentage of GDP, Latvia, Malta, Lithuania, and Greece lead the list, with France being the only big economy in the top three group. The relative offshore wealth held in real estate exhibits a similar picture to the absolute rankings.

The performed econometric analysis shows a positive correlation between offshore wealth and both households' financial assets and the GDP, suggesting that favourable macroeconomic conditions and higher volumes of wealth tend to be associated with higher amounts of wealth kept offshore.

Looking at policy intervention, the introduction of CRS was found to be associated with a sharp decline of offshore wealth, by roughly 10%, pointing towards a positive impact of these standards in countering tax evasion. While the number of drivers of offshore wealth is most likely wider than those included in the analysis, different

assumptions on these variables can provide an indication of the magnitude of offshore wealth's changes that might be expected in the short-run. Notably, under a scenario where measures to counter tax evasion will keep positively affecting tax compliance and further policy developments will take place against offshore tax evasion, we estimated a substantial decrease of offshore wealth over the next years. In contrast, under a scenario in which the positive effects of policy interventions are offset by taxpayers continuing to evade taxes by shifting undeclared income/assets into alternative tax evasion channels, combined with the projected economic expansion, we expect offshore wealth to increase in the coming years.

Impact of CRS and Council Directive 2014/107/EU

The G-20 announcement of the CRS and the subsequent approval by the OECD Council (July 2014) was followed by a decrease in cross-border bank accounts held by individuals in IFCs (worldwide as well as Europeans). At the same time, deposits in non-IFC countries experienced an overall upward trend since 2014. These trends suggest a positive impact of the AEIOI, which has been observed also in a number of other studies. The quantification of the effects of the AEIOI in different studies ranges between 11.9% and 67% reduction in the IFC bank deposits in comparison to what they would have been without the automatic exchange of information.

The positive effects of the CRS and DAC2 have been confirmed also qualitatively as there is general agreement between diverse stakeholders (tax authorities, FIU, investigative journalists, and experts) that DAC2/CRS contributed to the reduction of wealth hidden by individuals offshore. It should be considered that there are other factors that also had an influence on behaviour related to hiding wealth: (1) enhanced reporting requirements for banks as a result of the implementation of the fifth Anti-money laundering (AML) Directive; (2) complementing measures at national level; and (3) revelations via the different leaks (Panama Papers etc.).

Despite the overall positive view on the effects of the AEIOI, the literature review, the interviews, and the overall analysis of this study show that due to the implementation of AEIOI, taxpayers may evade taxes by re-shifting undeclared income/assets into more complex alternative tax evasion channels (e.g. the "round-tripping" scheme, real estate, gold and other precious metals, artwork and collectibles and cryptocurrencies) and new offshore locations, i.e. in jurisdictions not committed to AEIOI. This finding links back to the findings on the 'Who' question that hiding wealth using IFCs is costly and attractive mostly for individuals with a large wealth.

Annex I – Glossary

Arrangements are a trust or similar arrangement like a foundation whereby the division between the legal and equitable estates (ownership) whereby legal title to the arrangement property is vested in the trustee, while equitable title belongs to the beneficiaries. Depending on the tax laws of the jurisdiction where the arrangement is resident, tax may be levied on the arrangement and/or on the beneficiaries. See below for the definition of a trust.

Assets held directly means that the name of the individual owning the assets is attached to the asset. For instance, a house is registered with the name of its owner (an individual).

Assets held indirectly means that a (corporate) vehicle is used and that the name of the real owner is not revealed. For instance, in the real estate registers the name of a company is attached to the house instead of the owner's real name.

Cash is defined as notes and coins that are issued by resident monetary authorities as national currency in circulation as well as those issued by non-resident monetary authorities circulating as foreign currencies. For the purpose of this study we use the term cash when referring to the variable currency.

Common reporting standards are adopted by the OECD and calls on jurisdictions to obtain information from their financial institutions and automatically exchange that information with other jurisdictions on an annual basis. It sets out the financial account information to be exchanged, the financial institutions required to report, the different types of accounts and taxpayers covered, as well as common due diligence procedures to be followed by financial institutions.

Corporate vehicles. A broad concept that refers to all forms of legal entities and legal arrangements through which a wide variety of commercial activities are conducted and assets are held (for example, corporations, trusts, partnerships, foundations, and others).

Crypto currencies are digital means of payment, often decentralized and intended as an alternative to existing currencies such as the euro and dollar. Cryptocurrencies have predefined rules around the maximum number of coins (coins) that can exist within the specific currency. Security is guaranteed thanks to the use of cryptography.

Foundation. A foundation is a legal arrangement that consists of a property that has been transferred into it to serve a particular purpose and has no owners or shareholders. Foundations are ordinarily managed by a board of directors, according to the terms of a foundation document or constitution. Some jurisdictions restrict foundations to public purposes (public foundations); other jurisdictions allow foundations to be established to fulfil private purposes (private foundations).

Normally it is defined as a legal arrangement and not a legal entity – refer to the countries that use foundations like Austria/Germany and Liechtenstein for their status – OECD GF reports would help to confirm their legal form status.

Intermediaries: based on Council Directive 2018/822/EU an intermediary is defined as any person that designs, markets, organises or makes available for implementation or manages the implementation of a reportable cross-border arrangement. An intermediary can be both a natural person as well as a company.

Legal person is a body having legal existence separate from its owners or participants (i.e. separate legal personality), such that it is capable of having its own rights and incurring its own liabilities. In most countries there tends to be a correlation between legal entities and taxable subjects: a legal entity is typically treated as a separate taxpayer, distinct from its owners or participants³⁷⁵.

Life insurance includes all financial assets representing policy and annuity holders' claims against the technical reserves of corporations providing life insurance. For the scope of this study we only consider cash value life insurance that consists of a contract with both insurance (1) and investment components (2): (1) It pays off a stated amount upon the death of the insured, and (2) it accumulates a cash value that the policyholder can redeem or borrow against.

Tax compliance is the degree to which a taxpayer complies (or fails to comply) with the tax rules of his or her country, for example by declaring income, filing a return, and paying the tax due in a timely manner.

³⁷⁵ Source: https://research.ibfd.org/collections/itg/html/itg_company.html#itg_company

Tax preparer is a person whose job it is to prepare tax returns for people or businesses. This function can be internal (as part of the company) or external (in case an outside consultant is contracted). Tax preparers can perform non-auditing functions or auditing functions. The latter means the tax preparer can be asked to form an opinion on financial statements and compliance with legislation or financial reporting standards.

Tax morale is the intrinsic motivation of an individual about paying taxes. When the individual's tax morale is high, he or she is willing to pay the taxes required. When the individual's tax morale is low, he or she is far less willing to pay taxes and probably will try to reduce, by what every means, to reduce the taxes to be paid.

High-net worth individuals (HWNl) are individuals with a net-worth of more than 1 million USD.

Real estate includes household main residence (HMR) and other real estate properties. HMR is defined as the dwelling where the members of the household usually live, typically a house or an apartment and any associated structures, such as garages. A household can only have one main residence at any given time, although they may share the residence with people not belonging to the household. Other real estate properties consist of all properties which are not the household main residence and include houses, apartments, garages, offices, hotels, other commercial buildings, farms, etc.

Tax avoidance is a term generally used to describe the arrangement of a taxpayer's affairs that is intended to reduce his tax liability and that although the arrangement could be strictly legal it is usually in contradiction with the intent of the law it purports to follow.

Tax evasion is a term generally used to mean illegal arrangements where liability to tax is hidden or ignored, i.e. the taxpayer pays less tax than he is legally obligated to pay by hiding income or information from the tax authorities;

Tax fraud is a form of deliberate evasion of tax which is generally punishable under criminal law. The term includes situations in which deliberately false statements are submitted, fake documents are produced, etc.

Trust (also an "express trust") is a corporate vehicle provides for the separation of legal ownership from beneficial ownership. It is a legal arrangement whereby property (including real, tangible, and intangible assets) is managed by one person (a 'trustee') for the benefit of others. A trust is created by one or more settlors who entrust property to the trustee or trustees. The trustees hold legal title to the trust property but are obliged to hold the property for the benefit of the beneficiaries (usually specified by the settlors who hold what is termed equitable title). The trustees owe a fiduciary duty to the beneficiaries, who are the beneficial owners of the trust property.

Trust and Company Service Providers (TCSPs) are any person or business that provides any of the following services to third parties: acting as a formation agent of legal persons; acting as (or arranging for another person to act as) a director or secretary of a company, a partner of a partnership, or a similar position in relation to other legal persons; providing a registered office, business address or accommodation, or correspondence or administrative address for a company, a partnership, or any other legal person or arrangements; acting as (or arranging for another person to act as) a trustee of an express trust; or acting as (or arranging for another person to act as) a nominee shareholder for another person.

Ultimate beneficial owner (UBO) refers to the natural person(s) who ultimately owns or controls a customer and/or the natural person on whose behalf a transaction is being conducted. It also includes those persons who exercise ultimate effective control over a legal person or arrangement. Reference to "ultimately owns or controls" and "ultimate effective control" refer to situations in which ownership/control is exercised through a chain of ownership or by means of control other than direct control. This definition should also apply to beneficial owner or a beneficiary under a life or other investment-linked insurance policy.

Ultra-high net worth individuals (UHWNI) are individuals with a net worth of more than 30 million USD.

Wealth manager is a person whose job it is to provide a range of financial services, such as investment advice, estate planning, accounting, tax services and retirement planning, in order to manage the wealth of affluent clients.

Wealth tax (capital or equity tax) is a tax on the total value of personal assets, including cash, bank deposits, and real estate assets.

Annex II – Literature list

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Annex III – Extended methodology

Data collection in Member States

A data collection file, as presented in Annex VIII, structured the data collection in the Member States and provided the basis for the analysis per country.

The data collection fiche is aimed to collect data and information on the following topics:

Contextual data

Contextual data are needed for the understanding analysis of the findings, for example:

- ◆ Size of the adult population and GDP per adult
- ◆ Wealth indicators
- ◆ Taxation indicators (capital income, wealth and inheritance taxation)
- ◆ Behavioural indicators (tax compliance, Financial Secrecy Index, Corruption Perception Index)
- ◆ Implementation of policies (AEOI and CRS)
- ◆ AML/CFT framework (FATF assessment) and implementation of UBO registry
- ◆ Main ECOPA/CASE study findings (2019)

Findings of this contextual data collection can be found in Annex IV.

Size of the problem

In this section the team collected expert opinions on the size of the problem. The team asked experts to reflect on the findings of the ECOPA/CASE study, and to provide some generic observations on the size and nature of the problem.

Who

In this section the team asked experts to reflect on typologies of individuals hiding wealth in foreign jurisdictions. Characteristics may be related to the following:

- ◆ Magnitude of their private capital (ultra-high net worth individuals with more than 30 million euros private wealth, high net worth individuals or millionaires with more than 1 million euros net financial private wealth, and households with less than one million euros net financial private wealth)³⁷⁶
- ◆ Sources of wealth (for example inherited private wealth or self-made individuals, legally obtained wealth, wealth from undeclared (but legal) activities, money from corruption and/or money from other illegal activities)
- ◆ Nationality of the residents (Nationals and/or foreigner residing in the country)
- ◆ Other characteristics

When looking at individuals, the team looked both at *citizens* of Member States as well as citizens from other countries living in Member States. In addition, we reckon that a citizen can be either classified as a resident citizen and a non-resident citizen. For the purpose of mapping who hides wealth, we will take a broad approach. However, if possible, we make a distinction if this is of relevance when describing the schemes used to hide wealth.

Why

The WHY question is not a core question for this study but could shed light on the typologies of individuals hiding wealth in foreign jurisdictions. The study team investigated what the main motives are for individuals using offshore financial centres to hide wealth, for example to:

³⁷⁶ INVESTOPEDIA (2020). How Offshore Banking Works. Available from: <https://www.investopedia.com/articles/managing-wealth/042916/offshore-banking-isnt-illegal-hiding-it.asp> (Accessed on 10/05/2020). According to this article, offshore banking is not just for the wealthy. Some foreign banks will take as little as USD 300 and start an account. Like banks everywhere, they set their own account minimums and other terms related to their customers' accounts.

- ◆ Avoid taxes on capital income
- ◆ Avoid taxes on wealth
- ◆ Avoid inheritance taxes
- ◆ Avoid other taxes
- ◆ General lack of tax compliance in the country or among certain groups
- ◆ Lack of trust in government services
- ◆ Low probability of being caught
- ◆ To hide origin of wealth or wealth from undeclared labour
- ◆ Other motives

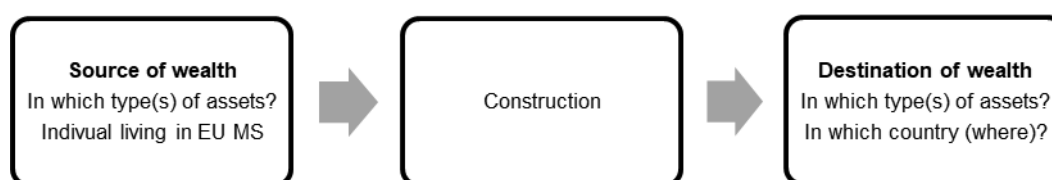
There is a wide plethora of factors that influence why individuals seek to hide their wealth. Some might conceal proceeds of crime and corruption, while others might hide wealth from business associates or family members, and of course from public authorities. To better understand the profile of individuals that hide wealth, we propose to look into the area of tax compliance which discusses both *economic and non-economic factors*. Our study will aim to present information from both angles.

How

The HOW question (question 2) seeks to find which *constructions or modus operandi* are being used to hide wealth in foreign jurisdictions and how popular these constructions are. These constructions will later in the study, if possible, be linked to the tax policy changes.³⁷⁷

This may consist of a wide variety of modus operandi, such as the use of opaque legal arrangements like partnerships, trusts and foundations, the use of opaque legal persons like shell companies, golden passports and investor residence schemes, physical transfer of cash across national borders (mostly through financial centres near the taxpayer's home jurisdiction), mis-invoicing of services and goods, through invoicing of fictitious services or royalties by anonymous shell companies, and any other constructions or combinations of constructions.

Figure III-1 Link between source, construction and foreign destination of hidden wealth



Another question is *in which type of assets* is wealth hidden and how popular these assets are.

Here we may distinguish *financial assets* such as:

- ◆ Coded bank accounts³⁷⁸ in other countries (forbidden by AML regulations)
- ◆ Bank notes (held example in vaults of foreign banks)
- ◆ Directly held offshore accounts on own name
- ◆ Direct investments in investment funds (mutual funds) residing in other countries
- ◆ Virtual currencies
- ◆ Use of unit-linked life insurance contracts linked to investment income ('cash value')
- ◆ Use of life insurance products not linked to investment income

³⁷⁷ For example, classic life insurance products are outside the scope of DAC2/CRS while cash value life insurance contracts are within their scope.

³⁷⁸ Such bank accounts are not registered. No name of a (natural) person is registered with the bank account. The bank account only has a code. As a result, it is not clear who owns the wealth stored in the account.

- ◆ Other assets or combinations of assets

And *non-financial assets* such as:

- ◆ Art, jewellery, gold or other valuables stashed in (and traded via) free ports
- ◆ Direct real estate investments in other countries and other foreign jurisdictions
- ◆ Indirect real estate investments held via shell companies or other IFC constructions
- ◆ Other assets

Taxation

With regards to taxation, it is important to know per country, how wealth is being taxed. These taxes may be 'push-factors' that stimulate individuals to hide wealth in foreign jurisdictions. In particular of relevance are:

- ◆ Wealth taxes
- ◆ Capital income taxation (dividends, interest, capital gains, rents)
- ◆ Inheritance taxation

Relevant questions are for example: What is subject to taxes and what are the tax rates? How many taxpayers are affected by these taxes? Is this kind of tax a relevant driver behind wealth hidden by individuals using off-shore financial centres?

Impact of policy changes

The data collection fiche further contains questions on the impact of policy changes (effects of AEOI as introduced by DAC1, DAC2 and the CRS) and other changes in policies and practices to fight and prevent international tax evasions.

Collection the information

In order to collect the information, the study team conducted a desk research in which information from publicly available resources, literature and reports were studied. In addition, the study team conducted several interviews per country. The organisation of the interviews was difficult due to COVID-19. The following actions were taken to organise the interviews:

Investigative journalists with explicit experience and knowledge of the topic for all Member States were identified through the International Consortium of Investigative Journalists (ICIJ). A total of 74 journalists were identified, and contact information was available for a total of 41 journalists, who have all been invited for an interview at the beginning of April. For 12 member states no journalists or contact details could be retrieved (Austria, Croatia, Estonia, Greece, Hungary, Ireland, Latvia, Lithuania, Luxembourg, Poland, Slovakia and Slovenia).

Out of 41 contacted *journalists*, 15 journalists responded and six interviews were arranged. Reasons to not participate in the interviews were mainly COVID-19 related or due to time constraints. From the 26 remaining journalists, no answer was received after the initial e-mail at the beginning of April or following reminders at the end of April and in June.

Thirteen *Financial Investigative Units* (FIUs) have been approached for interviews (Austria, Croatia, Czech Republic, Denmark, Estonia, Finland, Hungary, Ireland, Latvia, Malta, Poland, Slovenia and Slovakia). Out of these FIUs, eight responded and three responses were received (Estonia, Latvia and Slovakia). Due to time constraints and COVID-19, two FIUs could not participate in an interview (Austria and Czech Republic). Initial contact was made with two FIUs, but did not lead to an interview (Malta and Slovenia). Other FIUs did not respond after the initial e-mail in the beginning of April or the reminder in June.

Twelve *tax authorities* were approached for interviews (Austria, Croatia, Czech Republic, Denmark, Estonia, Finland, Hungary, Latvia, Malta, Poland, Slovenia and Slovakia). Tax authority of Denmark could not be reached via e-mail or telephone. Two tax authorities have not responded to the invitation per e-mail or phone after multiple reminders (Croatia and Poland). Three tax authorities have responded, but could not participate due to time constraints (Austria, Czech Republic and Hungary). Five tax authorities have participated and either send information via e-mail or agreed to an interview (Estonia, Finland, Latvia, Slovakia and Slovenia).

Annex IV – Contextual data Member States

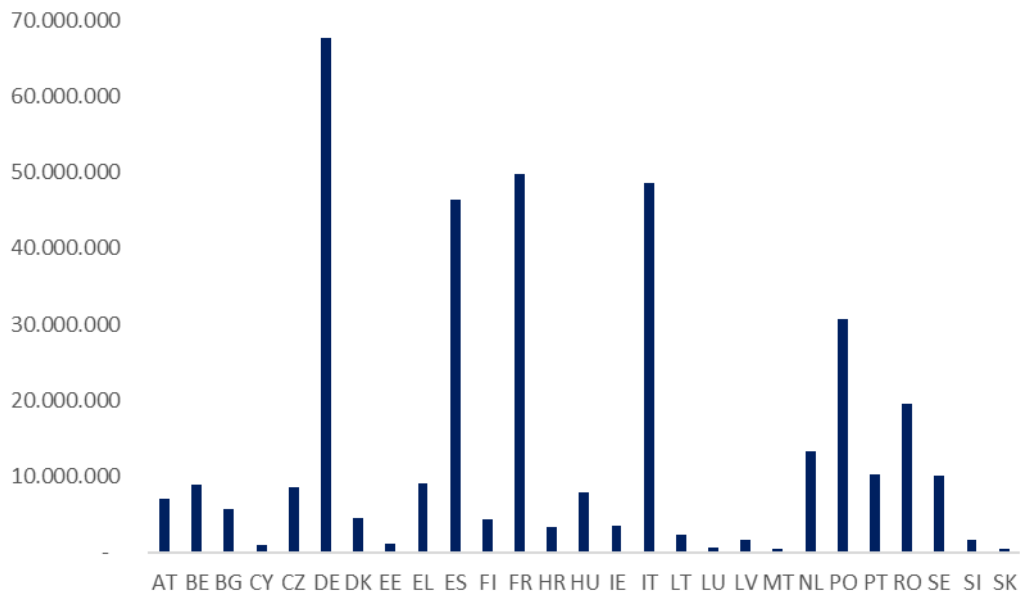
The tables and graphs below summarise the outcomes of the data collection on contextual data for all 27 Member States. The contextual data for taxation refers to 2017 as these numbers were used in the preparation of the country case study interviews per early 2020.

Table IV-1 General and wealth related indicators (2018)

	Adult population (in million)	GDP per adult (EUR)	Total wealth (Billion EUR)	Net wealth per adult (EUR)	Financial wealth per adult (EUR)	Non-financial wealth per adult (EUR)	Debt per adult (EUR)
AT	7.1	€ 64,664	€ 1,789	€ 252,211	€ 99,653	€ 181,087	€ 28,528
BE	8.9	€ 59,741	€ 2,013	€ 225,804	€ 153,527	€ 106,770	€ 34,491
BG	5.7	€ 11,584	€ 223	€ 39,160	€ 23,919	€ 18,242	€ 3,003
CY	0.9	€ 26,746	€ 98	€ 106,608	€ 53,040	€ 81,437	€ 27,868
CZ	8.5	€ 28,687	€ 505	€ 59,322	€ 31,701	€ 36,678	€ 9,057
DE	67.7	€ 58,848	€ 13,449	€ 198,758	€ 95,612	€ 131,371	€ 28,224
DK	4.5	€ 78,266	€ 1,166	€ 260,562	€ 215,222	€ 139,250	€ 93,911
EE	1.0	€ 29,825	€ 74	€ 71,977	€ 32,045	€ 50,707	€ 10,775
EL	9.0	€ 24,325	€ 795	€ 88,162	€ 30,948	€ 69,451	€ 12,228
ES	46.4	€ 38,118	€ 7,130	€ 190,389	€ 61,200	€ 151,077	€ 21,887
FI	4.3	€ 63,568	€ 729	€ 167,998	€ 75,436	€ 134,458	€ 41,896
FR	49.7	€ 55,678	€ 12,595	€ 253,313	€ 116,551	€ 172,370	€ 35,608
HR	3.3	€ 18,316	€ 192	€ 57,616	€ 20,433	€ 43,114	€ 5,931
HU	7.8	€ 20,776	€ 317	€ 40,660	€ 22,489	€ 22,012	€ 3,841
IE	3.5	€ 108,016	€ 872	€ 249,817	€ 115,383	€ 178,921	€ 44,487
IT	48.5	€ 42,237	€ 10,420	€ 214,799	€ 92,487	€ 142,691	€ 20,379
LT	2.3	€ 23,426	€ 106	€ 46,103	€ 5,894	€ 41,965	€ 1,757
LU	0.6	€ 150,076	€ 151	€ 328,432	€ 228,876	€ 191,120	€ 91,656
LV	1.6	€ 22,982	€ 85	€ 55,362	€ 22,619	€ 37,324	€ 4,581
MT	0.3	€ 42,514	€ 46	€ 131,707	€ 83,404	€ 70,638	€ 22,334
NL	13.3	€ 68,545	€ 3,412	€ 256,025	€ 204,666	€ 117,690	€ 66,330
PO	30.6	€ 19,271	€ 1,625	€ 53,093	€ 17,040	€ 42,301	€ 6,249
PT	10.3	€ 28,542	€ 1,007	€ 120,253	€ 50,959	€ 90,757	€ 21,455
RO	19.5	€ 15,596	€ 613	€ 39,516	€ 9,142	€ 32,797	€ 2,423
SE	10.0	€ 71,100	€ 1,880	€ 243,350	€ 186,003	€ 114,481	€ 57,139
SI	1.7	€ 32,641	€ 188	€ 112,389	€ 29,955	€ 91,431	€ 8,970
SK	0.4	€ 24,932	€ 263	€ 60,705	€ 18,018	€ 52,616	€ 9,928

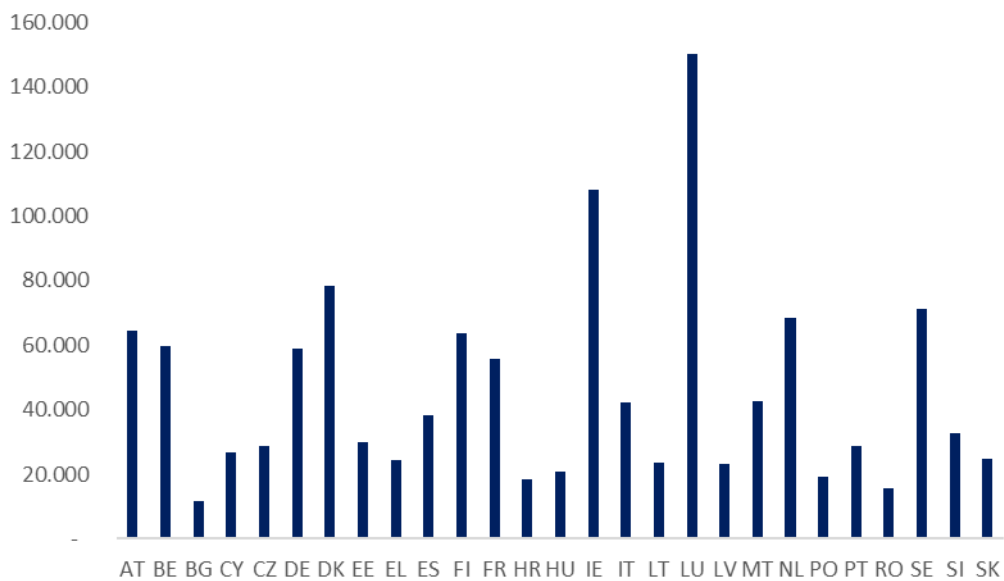
Source: Global Wealth Databook, 2019

Figure IV-1 Adult population (2018)



Source: Global Wealth Databook, 2019

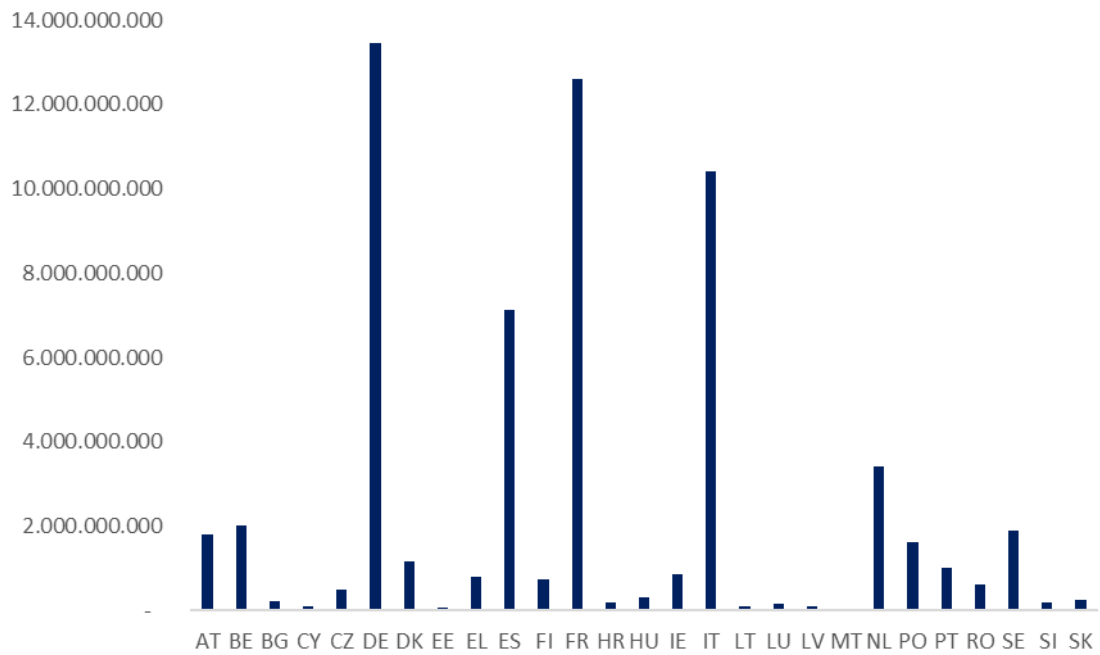
Figure IV-2 GDP per adult (EUR, 2018)



Source: Global Wealth Databook, 2019

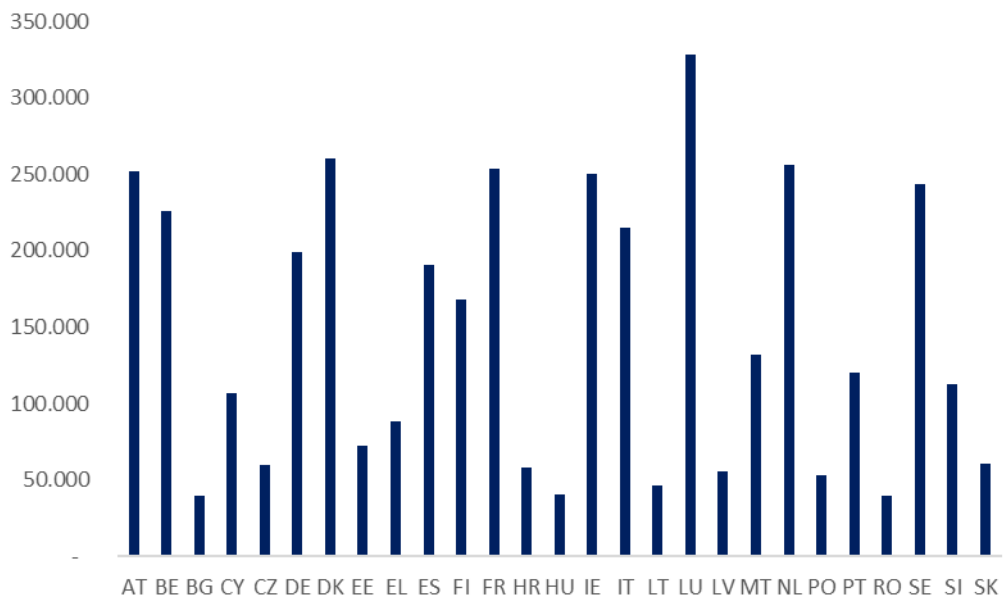
Wealth indicators

Figure IV-3 Total wealth (EUR, 2018)



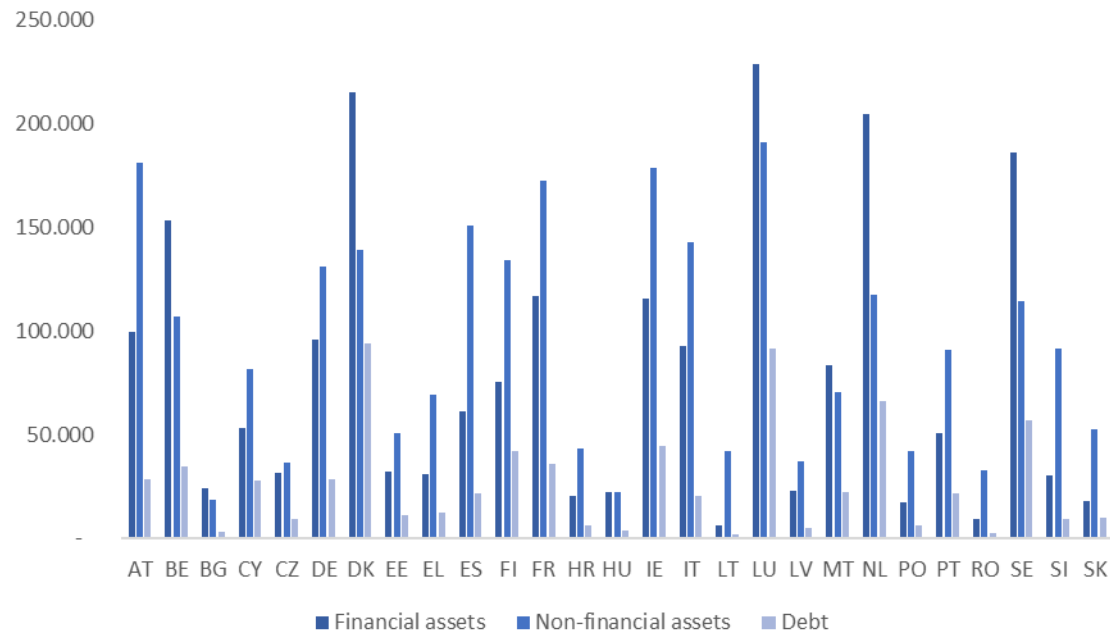
Source: Global Wealth Databook, 2019

Figure IV-4 Net wealth per adult (EUR, 2018)



Source: Global Wealth Databook, 2019

Figure IV-5 Net wealth per adult (EUR, 2018) – per category



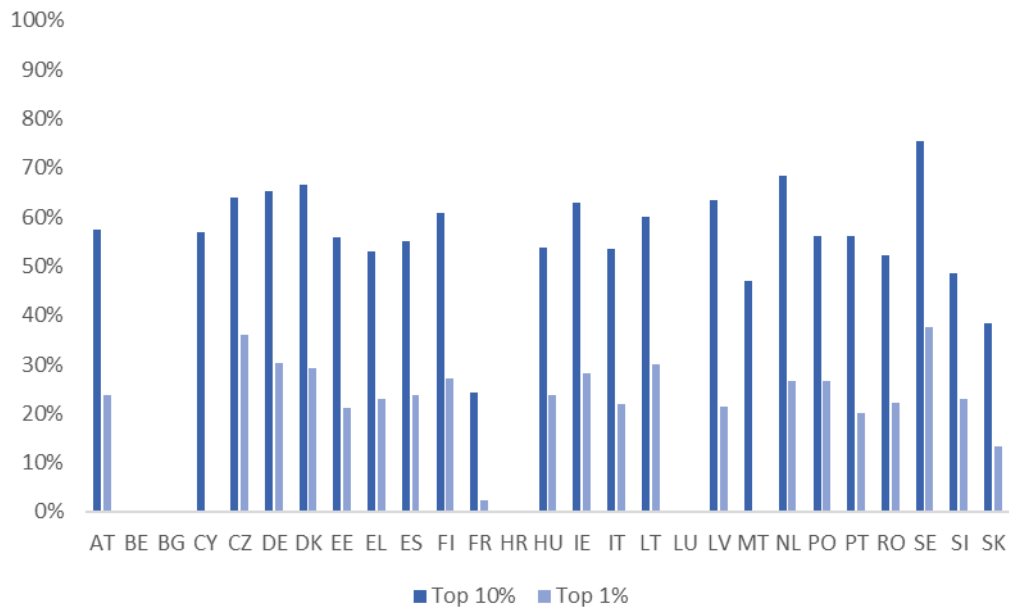
Source: Global Wealth Databook, 2019

Table IV-2 Indicators on wealth division and number of rich people (2018)

	Wealth share of top 10%	Wealth share of top 1%	Number of millionaires	UHNWI (> USD 30 million)
AT	57.3%	23.8%	31,048	1,722
BE	42.5%	12.1%	276,303	1,598
BG	n/a	n/a	11,394	n/a
CY	56.8%	-	11,934	205
CZ	64.0%	36.1%	42,545	450
DE	65.1%	30.2%	2,165,376	14,047
DK	66.6%	29.3%	237,175	1,193
EE	55.7%	21.2%	7,196	n/a
EL	53.0%	23.0%	72,168	704
ES	55.0%	23.8%	973,700	4,111
FI	60.7%	27.2%	104,184	n/a
FR	24.1%	2.3%	2,088,324	4,505
HR	n/a	n/a	13,316	n/a
HU	53.8%	23.8%	15,606	213
IE	62.9%	28.1%	157,095	1,029
IT	53.6%	22.0%	1,503,779	4,083
LT	60.0%	30.0%	6,888	n/a
LU	48.7%	18.8%	22,589	689
LV	63.4%	21.0%	13,770	n/a
MT	46.9%		4,537	v
NL	68.3%	26.6%	826,212	3,261
PO	56.2%	26.6%	122,392	589
PT	56.1%	20%	117,222	737
RO	52.1%	22.1%	31,034	215
SE	75.3%	37.5%	370,704	3,824
SI	48.6%	23.0%	15,075	n/a
SK	38.4%	13.2%	868	n/a

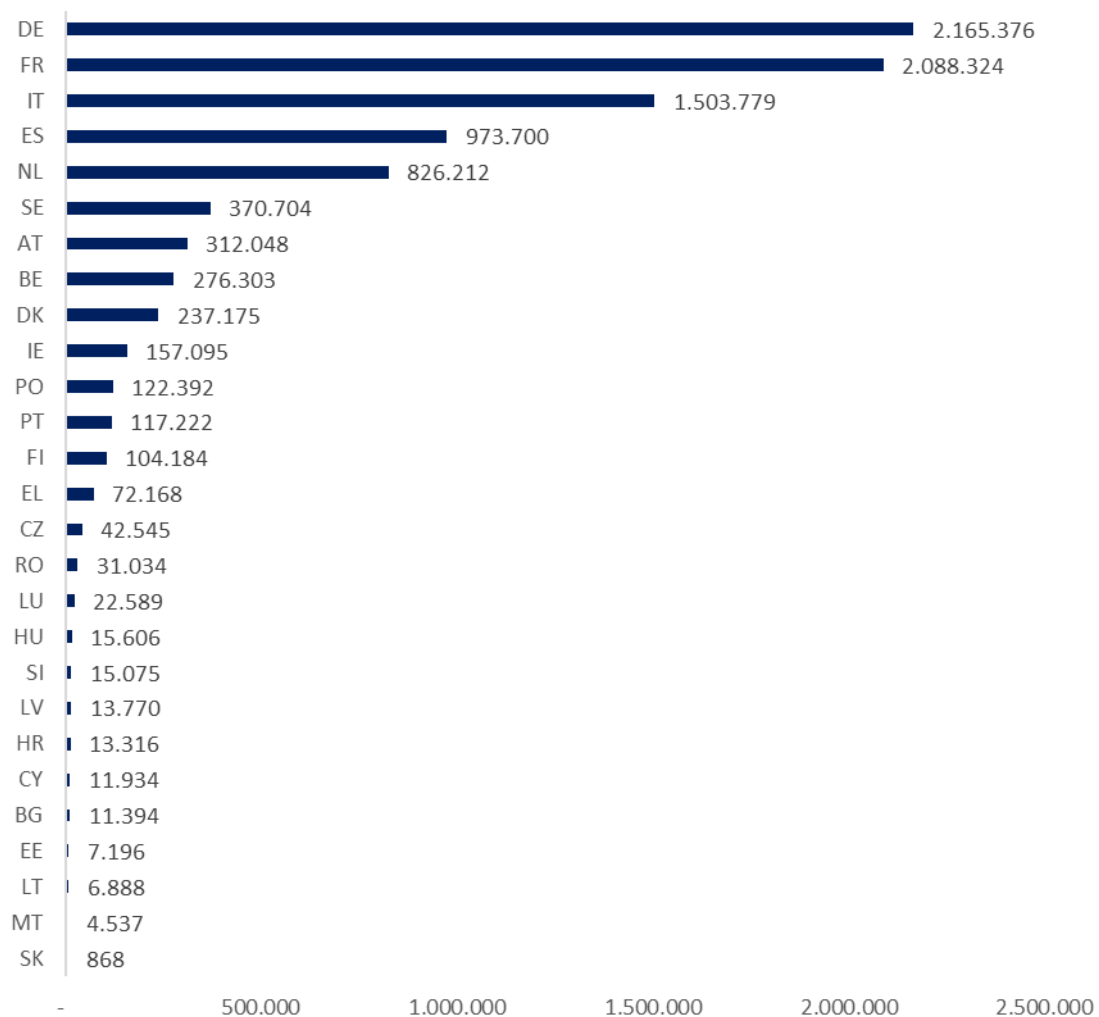
Source: Global Wealth Databook, 2019 and Frank Knight (2019)

Figure IV-6 Wealth share of top 10% and top 1% (2018)



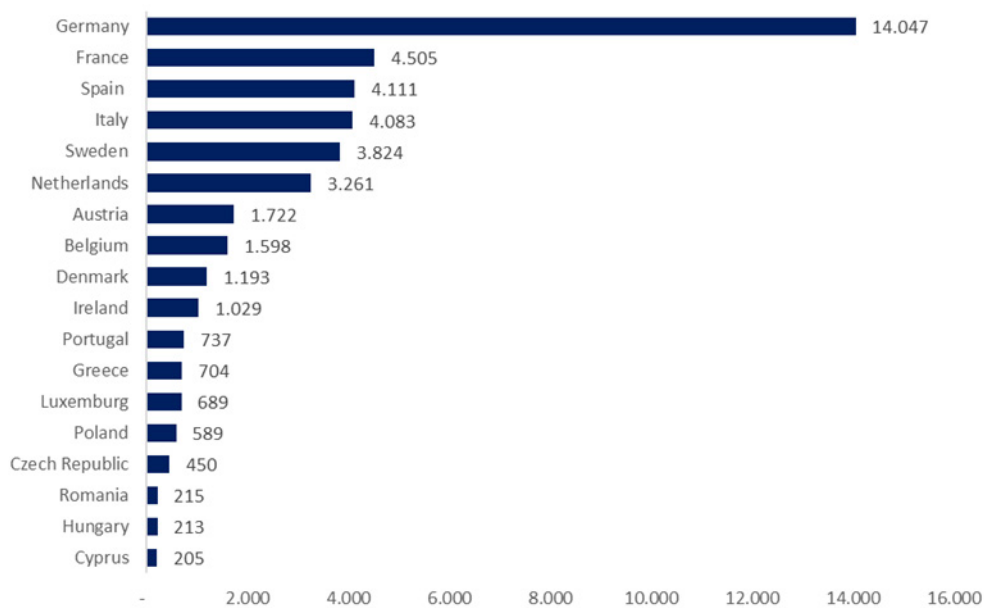
Source: Global Wealth Databook, 2019

Figure IV-7 Number of millionaires (2018)



Source: Global Wealth Databook, 2019

Figure IV-8 Number ultra-high net worth (UHNWI) (2018)



Source: Frank Knight (2019)

Taxation

All data are based on the OECD - Revenue Statistics 2019

Table IV-3 Taxation in EU Member States

Austria

Number	Category	2017	% in total taxation
1220	On capital gains	€ -	0,0%
4100	Recurrent taxes on immovable property	€ 805	0,5%
4310	Estate and inheritance	€ -	0,0%
4320	Gifts	€ -	0,0%
4400	Stamp duties	€ 1.110	0,7%
4500	Non-recurrent taxes (incl. net wealth)	€ 27	0,0%
Total tax revenue		€ 154.611	100%

Belgium

Number	Category	2017	% in total taxation
1220	On capital gains	€ -	0,0%
4100	Recurrent taxes on immovable property	€ 5.754	2,9%
4310	Estate and inheritance	€ 2.526	1,3%
4320	Gifts	€ 604	0,3%
4400	Stamp duties	€ 40	0,0%
4500	Non-recurrent taxes (incl. net wealth)	€ 487	0,2%
Total tax revenue		€ 195.270	100%

Bulgaria

For Bulgaria no data were available within the Statistical book of the OECD.

Croatia

For Croatia no data were available within the Statistical book of the OECD.

Cyprus

Number	Category	2017 % in total taxation	
1220	On capital gains		0,0%
4100	Recurrent taxes on immovable property		0,0%
4310	Estate and inheritance		0,0%
4320	Gifts		0,0%
4400	Stamp duties		0,0%
4500	Non-recurrent taxes (incl. net wealth)		0,0%
Total tax revenue			100%

Czech Republic

Number	Category	2017 % in total taxation	
1220	On capital gains	€ -	0,0%
4100	Recurrent taxes on immovable property	€ 10.783	0,6%
4310	Estate and inheritance	€ 3	0,0%
4320	Gifts	€ 9	0,0%
4400	Stamp duties		0,0%
4500	Non-recurrent taxes (incl. net wealth)	€ -	0,0%
Total tax revenue		€ 1.760.047	100%

Denmark

Number	Category	2017 % in total taxation	
1220	On capital gains	€ 294	0,0%
4100	Recurrent taxes on immovable property	€ 28.465	2,8%
4310	Estate and inheritance		0,0%
4320	Gifts		0,0%
4400	Stamp duties	€ 6.386	0,6%
4500	Non-recurrent taxes (incl. net wealth)	€ -	0,0%
Total tax revenue		€ 1.004.418	100%

Estonia

Number	Category	2017 % in total taxation	
1220	On capital gains	€ 325	4,2%
4100	Recurrent taxes on immovable property	€ 58	0,7%
4310	Estate and inheritance	€ -	0,0%
4320	Gifts	€ -	0,0%
4400	Stamp duties	€ -	0,0%
4500	Non-recurrent taxes (incl. net wealth)	€ -	0,0%
Total tax revenue		€ 7.738	100%

Finland

Number	Category	2017 % in total taxation	
1220	On capital gains	€ -	0,0%
4100	Recurrent taxes on immovable property	€ 1.774	1,8%
4310	Estate and inheritance	€ 761	0,8%
4320	Gifts	€ 148	0,2%
4400	Stamp duties	€ 776	0,8%
4500	Non-recurrent taxes (incl. net wealth)	€ -	0,0%
Total tax revenue		€ 96.985	100%

France

Number	Category	2017 % in total taxation	
1220	On capital gains	€ -	0,0%
4100	Recurrent taxes on immovable property	€ 64.152	6,0%
4310	Estate and inheritance	€ 11.898	1,1%
4320	Gifts	€ 2.446	0,2%
4400	Stamp duties	€ 17.425	1,6%
4500	Non-recurrent taxes (incl. net wealth)	€ -	0,0%
Total tax revenue		€ 1.065.242	100%

Germany

Number	Category	2017 % in total taxation	
1220	On capital gains	€ -	0,0%
4100	Recurrent taxes on immovable property	€ 13.965	1,1%
4310	Estate and inheritance	€ 5.380	0,4%
4320	Gifts	€ 734	0,1%
4400	Stamp duties	€ 13.139	1,1%
4500	Non-recurrent taxes (incl. net wealth)	€ -	0,0%
Total tax revenue		€ 1.231.275	100%

Greece

Number	Category	2017 % in total taxation	
1220	On capital gains	€ -	0,0%
4100	Recurrent taxes on immovable property	€ 3.653	5,2%
4310	Estate and inheritance	€ -	0,0%
4320	Gifts	€ -	0,0%
4400	Stamp duties	€ 577	0,8%
4500	Non-recurrent taxes (incl. net wealth)	€ -	0,0%
Total tax revenue		€ 70.162	100%

Hungary

Number	Category	2017 % in total taxation	
1220	On capital gains	€ -	0,0%
4100	Recurrent taxes on immovable property	€ 218.058	1,5%
4310	Estate and inheritance	€ 8.164	0,1%
4320	Gifts	€ 1.229	0,0%
4400	Stamp duties	€ 129.831	0,9%
4500	Non-recurrent taxes (incl. net wealth)	€ -	0,0%
Total tax revenue		€ 14.642.332	100%

Ireland

Number	Category	2017 % in total taxation	
1220	On capital gains	€ 826	1,2%
4100	Recurrent taxes on immovable property	€ 1.826	2,7%
4310	Estate and inheritance	€ 417	0,6%
4320	Gifts	€ 31	0,0%
4400	Stamp duties	€ 1.547	2,3%
4500	Non-recurrent taxes (incl. net wealth)	€ -	0,0%
Total tax revenue		€ 66.916	100%

Italy

Number	Category	2017 % in total taxation	
1220	On capital gains	€ 3	0,0%
4100	Recurrent taxes on immovable property	€ 22.069	3,0%
4310	Estate and inheritance	€ -	0,0%
4320	Gifts	€ -	0,0%
4400	Stamp duties	€ 17.690	2,4%
4500	Non-recurrent taxes (incl. net wealth)	€ 1.148	0,2%
Total tax revenue		€ 727.790	100%

Latvia

Number	Category	2017 % in total taxation	
1220	On capital gains	€ -	0,0%
4100	Recurrent taxes on immovable property	€ 228	2,7%
4310	Estate and inheritance	€ 9	0,1%
4320	Gifts	€ -	0,0%
4400	Stamp duties	€ 41	0,5%
4500	Non-recurrent taxes (incl. net wealth)	€ -	0,0%
Total tax revenue		€ 8.412	100%

Lithuania

Number	Category	2017 % in total taxation	
1220	On capital gains	€ -	0,0%
4100	Recurrent taxes on immovable property	€ 127	1,0%
4310	Estate and inheritance	€ 2	0,0%
4320	Gifts	€ -	0,0%
4400	Stamp duties	€ -	0,0%
4500	Non-recurrent taxes (incl. net wealth)	€ -	0,0%
Total tax revenue		€ 12.461	100%

Luxembourg

Number	Category	2017 % in total taxation	
1220	On capital gains	€ -	0,0%
4100	Recurrent taxes on immovable property	€ 38	0,2%
4310	Estate and inheritance	€ 111	0,5%
4320	Gifts	€ -	0,0%
4400	Stamp duties	€ 8	0,0%
4500	Non-recurrent taxes (incl. net wealth)	€ -	0,0%
Total tax revenue		€ 21.405	100%

Malta

For Malta no data were available within the Statistical book of the OECD.

The Netherlands

Number	Category	2017 % in total taxation	
1220	On capital gains	€ -	0,0%
4100	Recurrent taxes on immovable property	€ 6.919	2,4%
4310	Estate and inheritance	€ 1.841	0,6%
4320	Gifts	€ -	0,0%
4400	Stamp duties	€ -	0,0%
4500	Non-recurrent taxes (incl. net wealth)	€ -	0,0%
Total tax revenue		€ 285.670	100%

Poland

Number	Category	2017 % in total taxation	
1220	On capital gains	€ -	0,0%
4100	Recurrent taxes on immovable property	€ 23.783	3,5%
4310	Estate and inheritance	€ -	0,0%
4320	Gifts	€ -	0,0%
4400	Stamp duties	€ 3.023	0,4%
4500	Non-recurrent taxes (incl. net wealth)	€ -	0,0%
Total tax revenue		€ 679.086	100%

Romania

Number	Category	2017 % in total taxation	
1220	On capital gains		0,0%
4100	Recurrent taxes on immovable property		0,0%
4310	Estate and inheritance		0,0%
4320	Gifts		0,0%
4400	Stamp duties		0,0%
4500	Non-recurrent taxes (incl. net wealth)		0,0%
Total tax revenue			100%

Slovakia

Number	Category	2017 % in total taxation	
1220	On capital gains	€ -	0,0%
4100	Recurrent taxes on immovable property	€ 221	0,8%
4310	Estate and inheritance	€ -	0,0%
4320	Gifts	€ -	0,0%
4400	Stamp duties	€ 41	0,1%
4500	Non-recurrent taxes (incl. net wealth)	€ 3	0,0%
Total tax revenue		€ 28.089	100%

Slovenia

Number	Category	2017 % in total taxation	
1220	On capital gains	€ -	0,0%
4100	Recurrent taxes on immovable property	€ 221	1,4%
4310	Estate and inheritance	€ -	0,0%
4320	Gifts	€ -	0,0%
4400	Stamp duties	€ 41	0,3%
4500	Non-recurrent taxes (incl. net wealth)	€ 3	0,0%
Total tax revenue		€ 15.598	100%

Spain

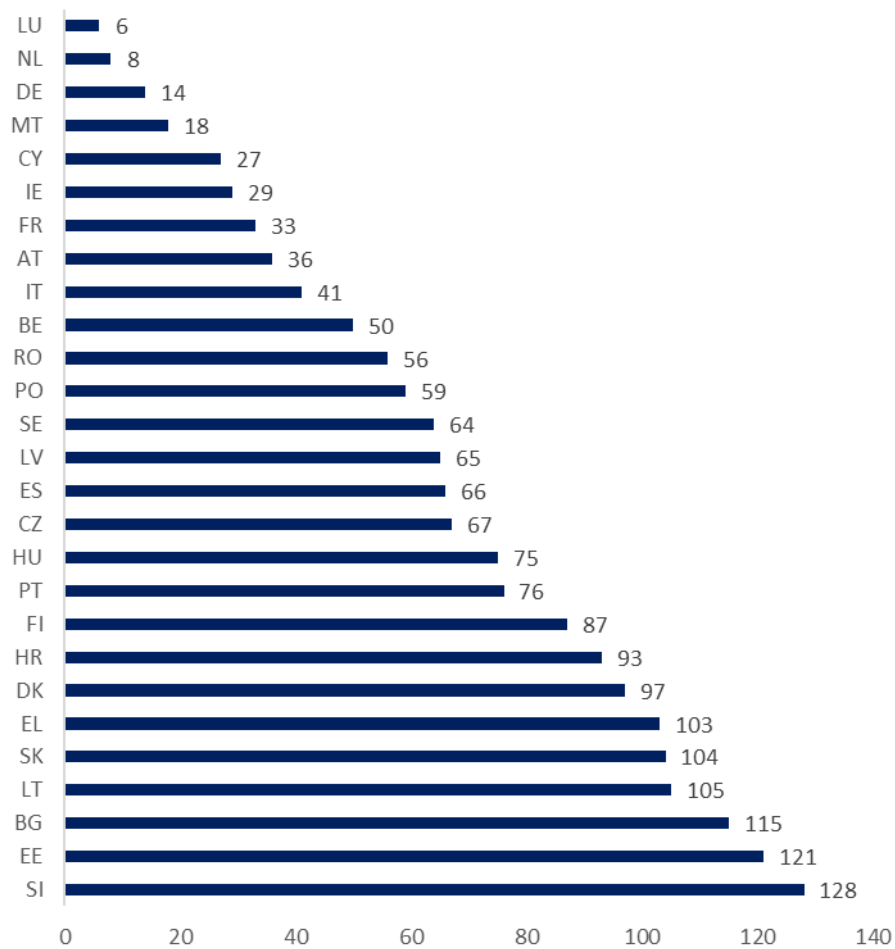
Number	Category	2017 % in total taxation	
1220	On capital gains	€ -	0,0%
4100	Recurrent taxes on immovable property	€ 13.161	3,3%
4310	Estate and inheritance	€ -	0,0%
4320	Gifts	€ -	0,0%
4400	Stamp duties	€ 8.585	2,2%
4500	Non-recurrent taxes (incl. net wealth)	€ 3.033	0,8%
Total tax revenue		€ 396.059	100%

Sweden

Number	Category		2017 % in total taxation
1220	On capital gains	€ -	0,0%
4100	Recurrent taxes on immovable property	€ 32.879	1,6%
4310	Estate and inheritance	€ -	0,0%
4320	Gifts	€ -	0,0%
4400	Stamp duties	€ 12.596	0,6%
4500	Non-recurrent taxes (incl. net wealth)	€ -	0,0%
Total tax revenue		€ 2.032.324	100%

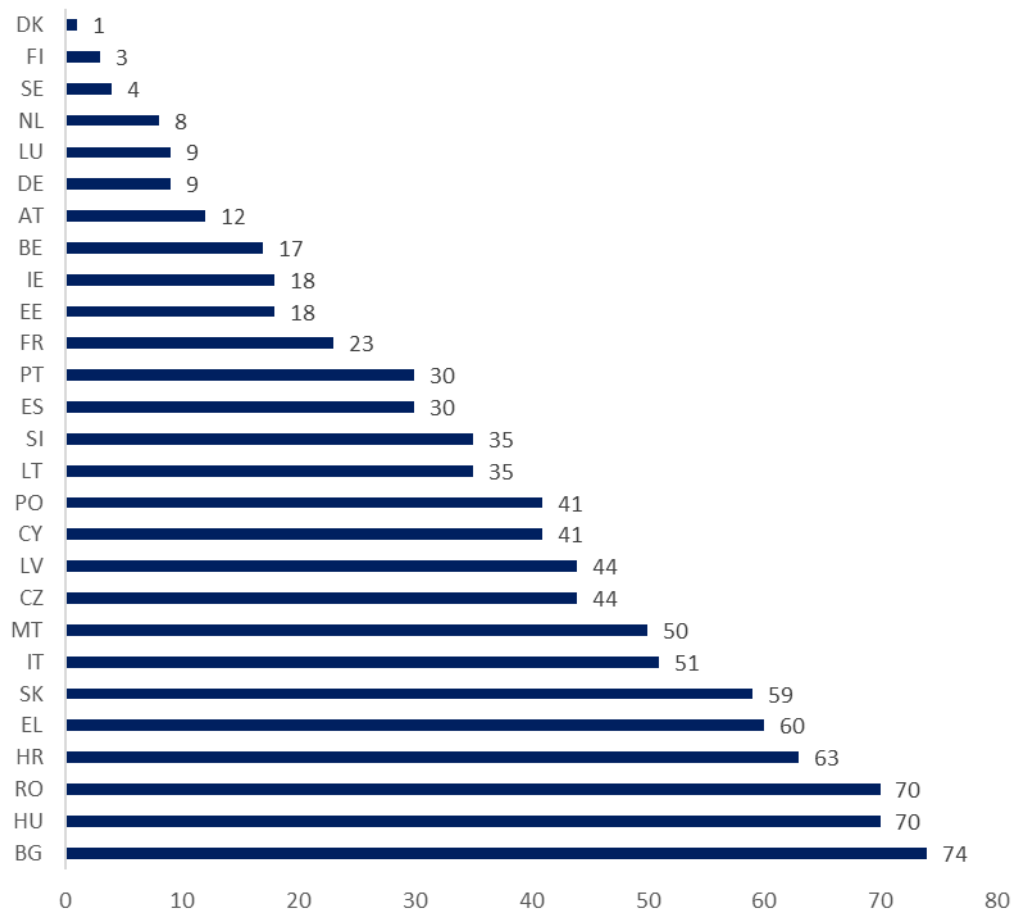
Finance

Figure IV-9 Financial Secrecy Index (rank) (2019)



Source: Tax Justice Network, 2020

Figure IV-10 Corruption Perception Index (rank) (2019)

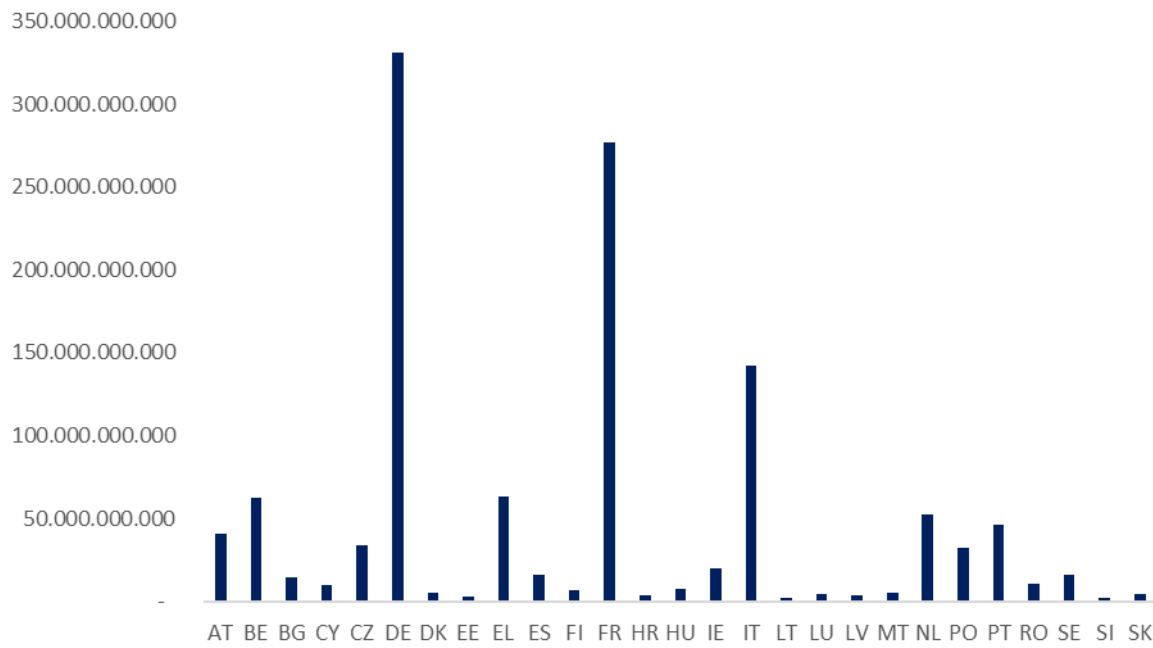


ECOPA/CASE study findings (2016)

Table IV-4 Findings of the ECOPA/CASE study (2016)

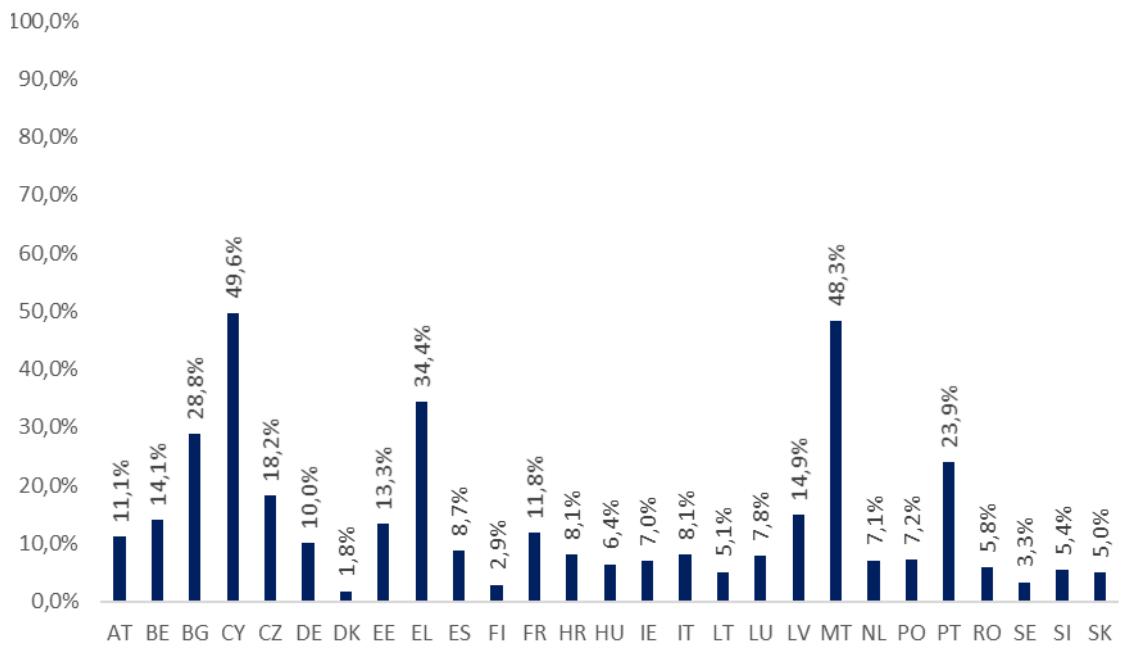
Country	Estimated offshore wealth (billion EUR)	Estimated offshore wealth (% of GDP)	International tax evasion (billion EUR)	International tax evasion (% of GDP)
AT	41.1	11.1%	1.3	0.38%
BE	62.7	14.1%	2.0	0.50%
BG	14.5	28.8%	0.2	0.39%
CY	9.6	49.6%	0.1	0.72%
CZ	33.8	18.2%	0.6	0.36%
DE	331.1	10.0%	7.2	0.24%
DK	5.1	1.8%	0.3	0.10%
EE	2.9	13.3%	0.1	0.40%
EL	62.9	34.4%	1.0	0.57%
ES	16.1	8.7%	3.2	0.30%
FI	6.7	2.9%	0.3	0.13%
FR	276.6	11.8%	0.1	0.48%
HR	4.0	8.1%	0.0	0.05%
HU	7.7	6.4%	0.2	0.20%
IE	20.2	7.0%	1.0	0.39%
IT	142.2	8.1%	1.7	0.11%
LT	2.1	5.1%	0.0	0.03%
LU	4.3	7.8%	0.2	0.43%
LV	3.9	14.9%	0.2	0.68%
MT	5.2	48.3%	0.2	2.39%
NL	52.6	7.1%	2.0	0.30%
PO	32.2	7.2%	1.4	0.33%
PT	46.6	23.9%	0.8	0.45%
RO	10.3	5.8%	0.1	0.07%
SE	16.1	3.3%	2.7	0.61%
SI	2.3	5.4%	0.0	0.26%
SK	4.2	5.0%	0.1	0.16%

Figure IV-11 Estimated offshore wealth (EUR, 2016)



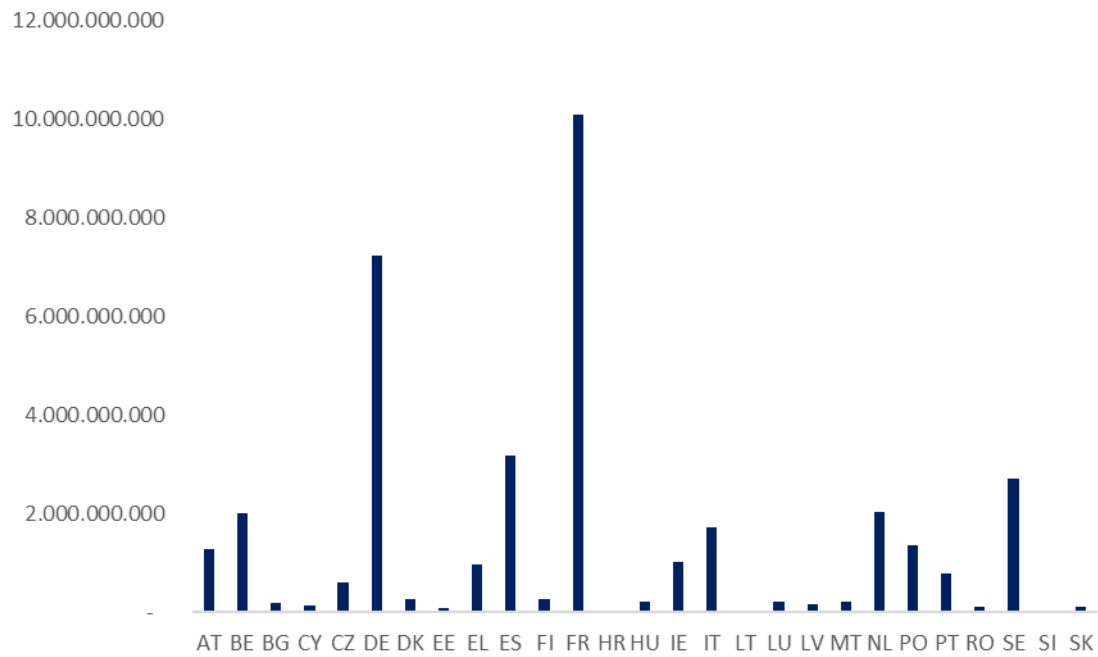
Source: ECOPA/CASE, 2016

Figure IV-12 Estimated offshore wealth (% of GDP) (2016)



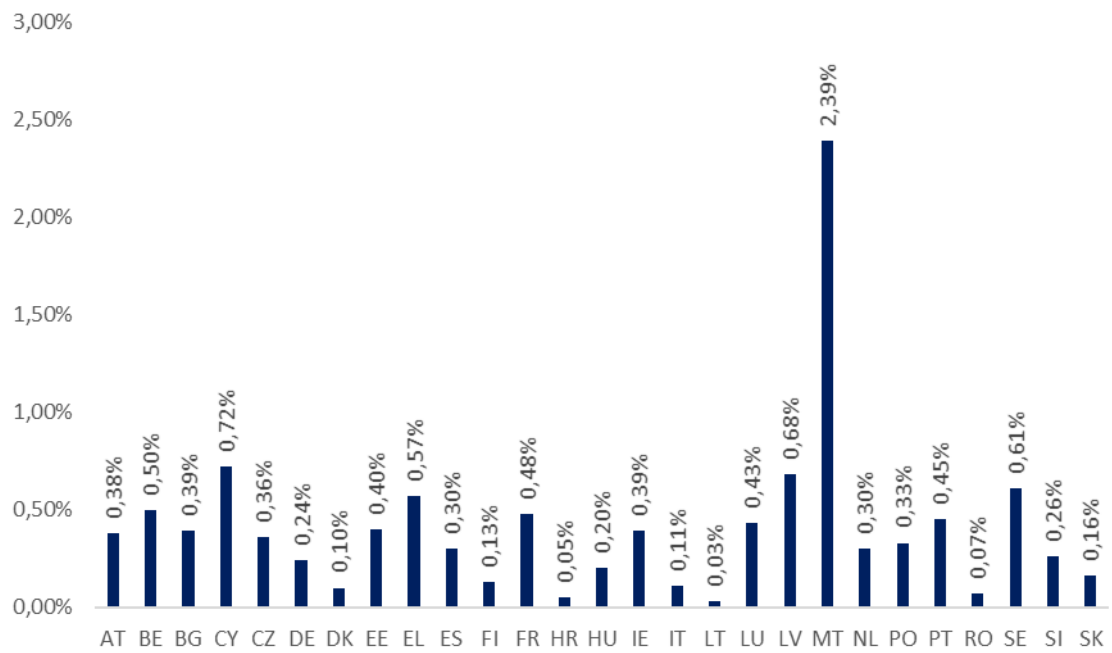
Source: ECOPA/CASE, 2016

Figure IV-13 International tax evasion (EUR, 2016)



Source: ECOPA/CASE, 2016

Figure IV-14 International tax evasion (% of GDP) (2016)



Source: ECOPA/CASE, 2016

Annex V – Tables from the ECOPA/CASE study supporting Chapter 5

Table V-1 Estimated offshore wealth by Member States (billions of EUR)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
AT	34.03	26.28	22.18	21.35	27.43	30.42	30.36	19.73	26.15	23.95	23.92	28.76	29.89	40.53	44.53	41.09
BE	74.5	65.34	61.26	59.77	66.87	42.01	58.36	41.42	48.39	30.32	36.29	57.24	47.32	49.54	47.84	62.65
BG	2.65	1.8	1.42	1.52	3.24	3.02	4.58	3.53	4.39	5.5	5.55	9.43	6.85	7.53	9.46	14.54
CZ	14.2	6.89	7.22	7.15	10.26	14.77	12.97	10.5	10.88	10.54	12.22	17.34	16.47	22.85	23.15	33.75
CY	4.38	3.67	2.96	4.01	5.91	6.48	9.52	5.9	6.62	5.56	6.58	8.25	6.42	7.55	8.67	9.62
DE	479.16	351.16	339.82	354.81	393.62	356.13	400.32	271.26	303.55	219.25	238.89	271.24	249.85	321.26	320.13	331.1
DK	2.91	2.48	2.84	3.35	4.07	4.25	4.19	2.73	2.81	2.24	3.98	5.01	5.67	7.63	7.11	5.1
EE	0.85	0.78	0.68	0.65	0.95	0.9	0.8	0.67	0.97	0.67	1.09	1.37	1.29	2.02	2.87	2.94
EL	50.97	34.7	33.41	35.9	33.28	30.26	42.95	28.88	30.38	37.42	44.68	52.12	45.23	57.38	62.15	62.94
ES	110.8	88.52	92.86	89.28	121.03	63.64	69.48	47.42	49.25	41.73	54.05	95.29	93.26	91.9	103.13	101.58
FI	4.44	3.28	3.04	3.2	3.78	3.3	4.62	15.8	3.72	2.31	4.64	5.58	6.15	7.32	5.01	6.66
FR	208.41	173.44	155.29	184.39	180.05	153.67	183.15	129.28	133.88	126.5	166.53	212.2	218.7	282.38	285.03	276.6
HR	3.79	2.86	2.23	2.26	3.35	3.03	3.37	4.37	4.32	3.87	6.6	6.99	4.25	4.61	4.74	3.99
HU	3.9	4.29	4.23	3.57	4.22	5.74	4.75	3.82	4.37	4.54	6.09	8.86	5.82	10	6.65	7.68
IE	12.81	10.14	13.24	13.98	21.12	17.25	10.87	11.14	9.19	8.4	9.39	11.49	9.46	13.45	17.18	20.15
IT	246.14	181.26	146.34	137.65	138.87	110.29	117	87.25	100.62	63.62	80.56	109.49	121.17	136.85	150.13	142.2
LV	2.58	1.51	1.15	1.04	1.68	1.58	1.35	1.7	2.3	1.79	2.18	3	2.25	2.97	5.36	3.91
LT	1.19	0.96	0.69	0.66	0.69	1.14	1.39	1.19	1.18	0.92	1.45	1.94	1.75	2.04	2.1	2.07
LU	1.99	2.12	1.05	1.4	2.51	2.91	4.6	2.44	2.78	3.08	3.17	2.77	2.49	2.86	4.77	4.31
MT	1.85	1.51	1.52	1.2	1.39	2.58	1.28	0.54	1.03	1.08	1.82	2.24	2.24	3.92	4.35	5.17
NL	55.32	32.99	25.02	25.06	26.24	23.74	35.87	31.44	34.94	26.88	45.18	40.91	46	42.86	59.1	52.61
PL	12.75	9.38	7.19	6.78	10.01	8.84	10.86	7.69	7.27	6.14	7.55	14.19	12.33	16.66	22.3	32.16
PT	52.22	38.87	38.76	38.01	45.13	40.57	44.42	33.46	31.17	30.83	35.27	46.34	48.2	57.59	56.11	46.56

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
RO	3.06	2.37	1.92	2.16	4.22	3.05	3.47	3.81	3.99	3.63	4.7	6.24	7.04	7.52	8.54	10.33
SE	12.44	12.59	11.93	14.07	13.93	19.09	28.31	10.72	9.86	8.45	11.26	14.02	12.23	29.31	20.37	16.05
SI	1.43	1	0.86	0.92	1.11	1.03	1.29	1.21	1.14	1.16	1.51	1.97	1.61	1.37	1.74	2.31
SK	2.43	2	1.65	1.58	2.07	1.78	2.59	1.67	1.68	1.62	2.13	2.7	4.22	6.06	5.12	4.22
UK	205.7	153.94	145.06	137.89	190.61	178.44	209.43	127.51	121.27	102.46	114.64	134.25	129.06	197.2	216.93	218.35

Table V-2 Estimated offshore wealth held in each type I international financial centre

Year	Total	Switzer-land	Other:	Of which:												
				NL' Antilles	Bahrain	Bahamas	Cayman Islands	Cyprus	Guernsey	Hong Kong	Isle of Man	Jersey	Luxem-bourg	Macao	Panama	Singa-pore
2001	3831.48	1091.67	2739.8	22.73	62.58	318.53	782.03		166.14	291.49	90.14	270.54	286.11		0	449.51
2002	3643.9	1170.25	2473.65	21.12	42.46	199.65	940.94		104.36	198.11	84.36	255.71	245.92		0	381.01
2003	3888.56	1394.88	2493.69	20.95	39.4	220.79	858.92		113.4	208.81	85.47	318.21	264.38	0	0	363.35
2004	4471.39	1623.03	2848.36	26.29	52.94	248.75	989.41		137.24	266.44	107.33	313.81	316.14	0	0	390.01
2005	5034.22	1763.88	3270.34	28.41	73.23	336.02	1032.19		151.59	320.21	138.55	415.91	291.4	20.37	0	462.45
2006	5039.19	2123.94	2915.25	18.14	81.28	306.35	906.96		125.12	282.91	116.83	374.27	273.58	18.66	0	411.15
2007	6818.61	2603.19	4215.42	24.72	114.31	412.87	1352.46		168.78	436.66	160.96	575.28	318.13	27.52	0	623.73
2008	5351.64	2056.82	3294.81	18.21	84.5	339.81	1281.39	41.77	120.26	344.57	107.03	276.55	204.85	22.15	0	453.73
2009	5639.89	2091.61	3548.28	21.14	91.56	312.51	1314.94	50.77	121.1	422.93	115.68	249.62	238.46	27.39	28.53	553.65
2010	4964.25	2108.17	2856.08	12.32	79.01	260.01	1111.85	52.35	106.64	359.33	80.81	157.35	154.01	20.29	23.62	438.48
2011	5574.15	1970.56	3603.59	12.15	92.76	323.53	1131.39	75.27	138.81	590.67	102.57	205.65	208.7	33.36	36.89	651.84
2012	7208.87	2197.36	5011.51	19.77	139.6	429.02	1383.15	117.01	189.54	1037.72	153.47	326.18	352.15	66.85	0	797.05
2013	7370.4	2238.25	5132.15	17.2	145.85	412	1423.44	62.7	176.71	1169.44	128.21	298.13	346.38	86.87	0	865.2
2014	8370.16	2149.41	6220.75	30.33	177.54	348.92	1628.15	68.35	156.47	1708.05	149.85	292.77	392.17	136.21	0	1131.93
2015	8429.86	2025.97	6403.89	33.97	199.06	256.66	1449.63	64.7	158.93	1990.22	163.41	301.93	396.63	183.16	0	1205.58
2016	7870.62	1997.94	5872.68	23.69	180.7	171.06	1056.59	57.99	151.92	2176.81	140.16	270.38	373.06	160.58	0	1109.76

Source: Table 28 of ECOPA/CASE study (2019, p. 175) (billions of EUR).

Notes: Netherlands Antilles until 2010, Curaçao from 2010.

Annex VI – Tables on additional asset categories supporting section 5.3

This Annex presents the methodology used to calculate the ratios of reported wealth for the additional assets categories as presented in section 5.23.

For the estimation we use two different sources, Eurostat which has the broadest geographical and time coverage and the ECB's Household Finance and Consumption Survey (HFCS), as it provides information on households' assets and income according to reported wealth (provides information on top 10% of wealthiest households). Even though the HFCS does not give most recent data (latest 2017), we assume that ratios of assets held will not drastically change over time and so it gives us some insight over the differences in ratios for the richer households.

Table VI-1 Databases to estimate reported wealth

	Eurostat ³⁷⁹	Eurostat ³⁸⁰	ECB ³⁸¹
Covers assets explored by ECOPA/CASE	✓		✓
Covers real estate		✓	✓
Covers life insurance	✓		✓
Covers cash	✓		✓
Covers EU-28	✓	✓	
Most recent year	2018	2018 ³⁸²	2017
Currency	EUR	EUR	EUR
Data available for households	✓	(✓)	✓
Comments	Covers financial assets only	Covers non-financial assets and provides information for household and non-profits serving households	Reports on EU-22

Furthermore, the ECB survey focuses on the provision of distributional information rather than provision of aggregates for wealth, assets and liabilities. Figures on household wealth from the survey are therefore not fully comparable with the figures from national accounts. Nevertheless, they can serve for calibrating the ratios of specific asset categories in total household wealth, specifically so for the wealthier households.

To ensure coherence with the data used in the ECOPA/CASE study, we looked at the same portfolio investment assets (equity and investment fund shares, debt securities and deposits) when considering the total financial assets held by individuals. In addition to these, we add cash and life insurance. As our goal is to obtain the ratios of these assets in total household wealth, we firstly sum the total financial and total non-financial assets³⁸³ held by households. Subsequently, the amount of each specific asset category is divided by the amount of total financial and non-financial assets held by households.

Two Eurostat datasets are used to report on financial assets and non-financial assets, one presenting the financial flows and stocks³⁸⁴ and balance sheets for non-financial assets³⁸⁵. Financial flows and stocks (ESA 2010) [nasa_10_f] present annual data on financial transactions, revaluations, other changes in volume, and balance sheets as well as counterpart information by sector. The specific dataset of interest for our analysis is the financial balance sheets [nasa_10_f_bs] dataset, which contains total financial assets for households. We use this dataset to obtain the amount of wealth households store in equity and investment fund shares, debt securities, deposits, currency, and life

³⁷⁹ [nasa_1-f_bs].

³⁸⁰ [nama_10_nfa_bs].

³⁸¹ EUROPEAN CENTRAL BANK (n.d.). The Household Finance and Consumption Survey. Available from : https://www.ecb.europa.eu/stats/ecb_surveys/hfcs/html/index.en.html (Accessed 16/01/2020).

³⁸² Data for 2018 available only for a selection of countries.

³⁸³ Total fixed assets in Eurostat dataset.

³⁸⁴ Eurostat, nasa_10_f

³⁸⁵ Eurostat, nama_10_nfa_bs

insurance. While the balance sheets for non-financial assets reports [nama_10_nfa_bs] on a number of asset categories, we extracted data for dwellings³⁸⁶, which we use as an estimator of wealth held in real estate³⁸⁷.

According to the European System of Accounts (ESA 2010),³⁸⁸ cash is defined as notes and coins that are issued by resident monetary authorities as national currency in circulation as well as those issued by non-resident monetary authorities circulating as foreign currencies. For the purpose of this study we use the term cash when referring to the variable currency. Life insurances include all financial assets representing policy and annuity holders' claims against the technical reserves of corporations providing life insurance.

Furthermore, according to ESA 2010 real estate includes buildings that are used entirely or primarily as residences, including any associated structures, such as garages, and all permanent fixtures customarily installed in residences are classified as dwellings. Houseboats, barges, mobile homes and caravans used as principal residences of households are also included, as are public monuments identified primarily as dwellings.³⁸⁹

As mentioned above we also use the ECB's Household Finance and Consumption Survey (HFSC) to calibrate and estimate the ratios. This database published in March 2020, provides information on the composition of assets held by individuals across the Eurozone for the years up to 2017. In the system of national accounts, the balance sheet of the household sector provides the aggregate value, at a particular point in time, of all assets and liabilities that are held or incurred by the surveyed households, including assets and liabilities abroad. The survey provides estimates for the shares of financial and non-financial assets on total assets held by households and provides a further breakdown of asset categories for each of the two asset types. Total net wealth of the household sector can be obtained as the sum of all financial and non-financial household assets from which then liabilities are subtracted.³⁹⁰ Based on these data, it is possible to compute the share of individual asset categories on total assets.

According to the ECB HFCS total household assets consist of non-financial and financial household assets. Non-financial household assets include: i) value of household main residence, ii) other real estate property, iii) value of vehicles, iv) value of valuables, v) value of self-employment businesses of household members.

Among non-financial household assets, the household main residence (HMR) is defined as the dwelling where the members of the household usually live, typically a house or an apartment. A household can only have one main residence at any given time, although they may share the residence with people not belonging to the household. Other real estate properties consist of all properties which are not the household main residence and include houses, apartments, garages, offices, hotels, other commercial buildings, farms, etc.

Financial household assets include: i) deposits (sight accounts, saving accounts); ii) investments in mutual funds; iii) bonds; iv) investments held in non-self-employment private businesses; v) publicly traded shares; vi) managed investment accounts; vii) money owed to households as private loans; viii) other financial assets: options, futures, index certificates, precious metals, oil and gas leases, future proceeds from a lawsuit or estate that is being settled, royalties or any other; ix) private pension plans and cash value life insurance policies.

Almost all the financial household assets listed above are normally subject to CRS/DAC2 with the only exception of index certificates, precious metals, oil and gas leases, future proceeds from a lawsuit or estate that is being settled and royalties.

The ECB database also reports information on voluntary pensions and life insurance which we use to estimate the ratios of reported wealth for life insurance. Voluntary pension is defined as a plan which is not linked to an employment relationship. Individuals independently purchase and select material aspects of the arrangements without intervention of their employers. Participation in these plans is in general voluntary for individuals, i.e. by law individuals are not obliged to participate in these pension plans. The plans are established and administered by a pension fund or financial institution (including insurance companies) acting as a pension provider. Individuals

³⁸⁶ Dwellings (AN.111): Buildings that are used entirely or primarily as residences, including any associated structures, such as garages, and all permanent fixtures customarily installed in residences. Houseboats, barges, mobile homes and caravans used as principal residences of households are also included, as are public monuments (see AN.1121) identified primarily as dwellings.

³⁸⁷ As per ESA (2010), which includes definitions of Eurostat data categories: The value of dwellings is net of the value of land underlying dwellings, which is included in land (AN.211) if separately classified.

³⁸⁸ The European System of Accounts is the system of national accounts and regional accounts used by members of the European Union, which was last updated in 2010. Available from <https://ec.europa.eu/eurostat/web/products-manuals-and-guidelines/-/KS-02-13-269> (Accessed on 01/04/2020)

³⁸⁹ See AN.1121 definition of ESA (2010). The value of dwellings is net of the value of land underlying dwellings, which is included in land (AN.211) if separately classified.

³⁹⁰ ECB Working Paper 1907, May 2016

independently purchase and select material aspects of the arrangements. Cash value life insurance consists of a contract with both insurance and investment components: (1) It pays off a stated amount upon the death of the insured, and (2) it accumulates a cash value that the policyholder can redeem or borrow against.

Data from the ECB database suggests that the shares of financial household assets on total household assets are different for the mean reported for total household population and for the wealthiest 10% of the population. Given that the rate of tax evasion increases significantly with income levels and asset holdings, we focus on assessing the share of these assets for the wealthier population³⁹¹. When comparing this data to the Eurostat data on shares of financial and non-financial assets on total assets held by households, the difference can also be observed. Cash is not included as a separate category in the ECB HFCS, we therefore calibrate the share of deposits held by the top 10% wealthiest individuals based on the ECB HFCS and use this share to adjust the cash ratio. The table below presents shares for cash, deposits, life insurance and real estate for the total and top 10% wealthiest households. These were calculated to present shares in total household wealth (total financial and non-financial household assets).

We adjust the ratios of the data calculated based on Eurostat's database according to data obtained from the second and third wave of ECB's HFCS. The table below presents the data for the asset categories of interest. Given that the ECB database does not provide information on cash, we focus on adjusting the deposit ratio and use this adjustment to adjust the cash ratio (for more information see the section on cash in this annex). Namely, the Eurostat database provides values for deposits and cash as a joint category. We use the data presented in the table below to calculate the adjustment scale that should be applied to the Eurostat data.

Table VI-2 Share of assets per wealth category

MS	Eurostat 2018			ECB top 10% 2017			ECB top 10% 2014		
	Deposits (%)	Life insurance (%)	Real estate (%)	Deposits (%)	Life insurance (%)	Real estate (%)	Deposits (%)	Life insurance (%)	Real estate (%)
BE	20	10	30	11	1	63	12	4	62
DE	20	9	42	8	1	68	9	4	65
EE	14	1	40	7	0	64	6	1	68
IE	35	10	NA	7	1	70	8	3	76
GR	25	2	60	7	missing	78	7	0	81
ES	24	5	36	9	1	65	8	4	69
FR	15	20	41	9	2	61	8	9	59
HR	47	4	NA	2	0	84	Not covered in second wave		
IT	17	10	37	8	0	74	1	0	86
CY	34	2	43	2	0	67	4	2	69
LV	10	1	55	4	0	84	5	1	72
LT	18	1	38	2	0	83	Not covered in second wave		
LU	29	9	24	6	0	70	8	3	76
HU	10	2	39	10	0	69	10	3	66
MT	46	8	NA	6	0	69	5	1	65
NL	12	4	22	17	3	50	12	11	65
AT	21	6	37	8	0	67	7	1	67
PL	29	2	23	6	0	77	2	1	78
PT	25	6	37	10	0	66	7	1	71
SI	21	3	40	4	0	75	4	1	68
SK	19	2	49	5	0	76	6	1	80
FI	14	6	48	11	1	64	11	2	69

Values reported in *percentages*

Source: Own calculation based on Eurostat and ECB databases

³⁹¹ According to Alstadsæter, Johannesen and Zucman (2018), 25 per cent in the top centesimal (0,01 per cent) wealth bracket, with more than USD40 million in assets, evade taxes through international arrangements.

Real estate

To estimate the ratios of reported wealth for real estate we used the ECB HFCS database which contains data on the shares of real estate (including household main residence (HMR) and other real estate properties) over the total non-financial household assets.

As the ECB database also includes the exact share of non-financial household assets in total household assets it was possible to estimate the exact share of each asset category over the total household assets as follows:

$$MR \text{ (in total household assets)} = \text{Share of HMR (in non-financial household assets)} * \text{Share of non-financial household assets (in share of total household assets)}$$

$$\text{Other real estate (in total household assets)} = \text{Share of Other real estate (in non-financial household assets)} * \text{Share of non-financial household assets (in total household assets)}$$

For example, for Belgium the ratio of reported wealth in other real estate properties (15%) was estimated by multiplying the share of other real estate property in non-financial household assets (20%) by the share of in non-financial household assets in total household assets (79%).

The estimated shares of real estate assets are reported in the table below.

Table VI-3 Estimates shares of real estate* categories on total household assets

Country	Total non-financial household assets	Total financial household assets	HMR	Other real estate property	HMR	Other real estate property	Total real estate
	Share of total household assets		Share of non-financial household		Share of total household assets		
BE	79%	21%	63%	20%	50%	15%	65%
DE	79%	22%	55%	27%	43%	21%	64%
EE	89%	11%	51%	20%	45%	18%	63%
IE	84%	17%	60%	30%	50%	25%	75%
EL	94%	7%	54%	31%	51%	29%	80%
ES	81%	19%	53%	34%	43%	28%	70%
FR	80%	20%	59%	21%	48%	17%	64%
HR	97%	4%	75%	12%	73%	11%	84%
IT	87%	13%	71%	18%	61%	16%	77%
CY	94%	6%	36%	34%	34%	32%	66%
LV	95%	5%	57%	33%	54%	31%	85%
LT	95%	5%	68%	18%	64%	17%	82%
LU	88%	12%	58%	23%	51%	20%	71%
HU	87%	13%	63%	19%	54%	17%	71%
MT	86%	14%	55%	23%	47%	20%	67%
NL	69%	32%	82%	7%	56%	5%	61%
AT	86%	14%	58%	17%	49%	14%	64%
PL	92%	8%	71%	12%	65%	11%	76%
PT	88%	12%	54%	22%	48%	19%	67%
SI	93%	7%	66%	15%	62%	14%	76%
SK	92%	8%	71%	12%	65%	11%	76%
FI	79%	21%	64%	25%	50%	20%	70%

Source: Authors based on ECB database; * Real estate including HMR and other real estate properties

Data from ECB database also includes the shares non-financial household assets on total household assets for the 10% wealthiest population. Therefore, we used the ratios referring to the whole population (see table above) to estimate the shares of different asset categories by multiplying the share of asset categories (whole population) by the share of non-financial and financial household assets (10% wealthiest population).

Following the previous example of Belgium, the ratio of wealth in other real estate property for the 10% wealthiest population (12%) was estimated multiplying the ratio of other real estate property for the whole population (15%) by the share of wealth in non-financial household asset held by the 10% wealthiest population (24%).

Table VI-4 Shares of real estate categories on total household assets

Country	Financial household assets (10%)	Non-financial household assets (10%)	HMR (10%)	Other real estate property (10%)
	Share of total household assets			
BE	24.2%	75.8%	37.7%	11.7%
DE	17.5%	82.5%	35.7%	17.3%
EE	10.0%	90.0%	40.7%	16.2%
IE	21.7%	78.3%	38.9%	19.7%
EL	8.3%	91.7%	46.5%	26.9%
ES	24.9%	75.1%	31.9%	20.8%
FR	23.7%	76.3%	36.3%	12.8%
HR	3.4%	96.6%	70.3%	10.7%
IT	16.1%	83.9%	51.5%	13.1%
CY	3.5%	96.5%	32.5%	30.8%
LV	5.9%	94.1%	50.5%	29.4%
LT	2.9%	97.1%	62.5%	16.8%
LU	12.8%	87.2%	44.4%	17.5%
HU	15.3%	84.7%	46.1%	14.3%
MT	11.0%	89.0%	42.1%	17.8%
NL	43.5%	56.5%	31.8%	2.6%
AT	10.7%	89.3%	44.1%	12.8%
PL	7.4%	92.6%	60.2%	10.4%
PT	12.9%	87.1%	41.5%	16.6%
SI	7.1%	92.9%	57.4%	12.8%
SK	7.5%	92.5%	60.3%	9.8%
FI	28.0%	72.0%	36.2%	14.4%

Source: Ecorys based on ECB database (10% wealthiest population)

Please note that as the ECB Household Finance and Consumption Survey (2017) only covers 22 Member States. Since there is no data for Bulgaria, Czech Republic, Denmark, Romania, Sweden and, United Kingdom we cannot calculate the exact ratios of real estate assets (including household's main residence and other real estate properties) for those countries. We, therefore, computed the estimates ratios for the missing countries using the available data for 22 countries covered by the survey. In particular, we divided the EU 27 and UK into four groups according to their median wealth per adult³⁹² (table below) which gives an idea of the wealth distribution.

³⁹² According to the Credit Suisse Global Wealth Databook, this is defined as the total assets (financial and non-financial assets) minus debts.

Table VI-5 Median wealth per adult by country (USD), 2019

Group 1	Median wealth by adult (USD) < 25000	Group 2	Median wealth by adult (USD) > 25000	Group 3	Median wealth by adult (USD) > 50000	Group 4	Median wealth by adult (USD) > 100000
BG	18,948	CY	28,803	AT	94,070	BE	117,093
CZ	20,854	DE	35,313	DK	58,784	FR	101,942
EE	24,915	EL	40,000	ES	95,360	IE	104,842
HU	17,666	HR	29,183	FI	55,532	LU	139,789
LT	22,261	NL	31,057	IT	91,889		
LV	13,348	PT	44,025	MT	76,016		
PL	22,600	SE	41,582	SI	50,380		
RO	19,582	SK	40,432	UK	97,452		

Source: Credit Suisse, Global Wealth Databook, 2019

After dividing the countries into four groups we calculated for each group the weighted average ratios for total real estate, household's main residence and other real estate properties in total household assets. Those values have been used as a proxy to fill the gaps for the six countries not covered by the ECB survey.

Table VI-6 Weighted averages for life insurance and real estate asset categories

	Weighted average total real estate	Weighted average HMR	Weighted average other real estate properties	Weighted average real estate (top 10%)	Weighted average HMR (top 10%)	Weighted average other real estate properties (top 10%)
Group 1	74.51	56.61	17.90	68.58	52.12	16.46
Group 2	71.14	52.77	18.37	62.12	45.66	16.47
Group 3	70.37	51.47	18.91	58.77	43.23	15.53
Group 4	68.88	49.59	19.29	55.14	39.67	15.47

Source: Ecorys elaboration based on ECB data

The shares for the EU 27 Member States and UK are included in the table below.

Table VI-7 Estimates of shares for real estate and voluntary pension/life insurance

Country	Real estate	HMR	Other real estate property	Real estate (10%)	HMR (10%)	Other real estate property (10%)
AT	64%	49%	14%	57%	44%	12.8%
BE	65%	50%	15%	49%	38%	11.7%
BG	75%	57%	18%	69%	52%	16.5%
CY	66%	34%	32%	63%	32%	30.8%
CZ	75%	57%	18%	69%	52%	16.5%
DE	64%	43%	21%	53%	36%	17.3%
DK	70%	51%	19%	59%	43%	15.5%
EE	63%	45%	18%	57%	41%	16.2%
EL	80%	51%	29%	73%	46%	26.9%
ES	70%	43%	28%	53%	32%	20.8%
FI	70%	50%	20%	51%	36%	14.4%
FR	64%	48%	17%	49%	36%	12.8%

Country	Real estate	HMR	Other real estate property	Real estate (10%)	HMR (10%)	Other real estate property (10%)
HR	84%	73%	11%	81%	70%	10.7%
HU	71%	54%	17%	60%	46%	14.3%
IE	75%	50%	25%	59%	39%	19.7%
IT	77%	61%	16%	65%	51%	13.1%
LT	82%	64%	17%	79%	62%	16.8%
LU	71%	51%	20%	62%	44%	17.5%
LV	85%	54%	31%	80%	51%	29.4%
MT	67%	47%	20%	60%	42%	17.8%
NL	61%	56%	5%	34%	32%	2.6%
PL	76%	65%	11%	71%	60%	10.4%
PT	67%	48%	19%	58%	41%	16.6%
RO	75%	57%	18%	69%	52%	16.5%
SE	71%	53%	18%	62%	46%	16.5%
SI	76%	62%	14%	70%	57%	12.8%
SK	76%	65%	11%	70%	60%	9.8%
UK	70%	51%	19%	59%	43%	15.5%

Source: Ecorys

Once the ratios are estimated, we calculate the values of offshore wealth held in other real estate properties by the 10% wealthiest population. For this we used the following formula:

$$\text{Real estate} = \text{Total household assets} * \text{Other real estate properties (10\%)} * 18\%$$

Where 18% represents the amount of wealth held offshore in real estate property as reported in the Knight Frank report (2019). Following the previous example, for Belgium the value of real estate properties held offshore is around 39 EUR billion (EUR 1,870,798,600,000 (Total household assets) * 11.7% * 18%).

Life insurance

We use the methodology described in the previous section to estimate also the ratios of reported wealth in life insurance. For this we used the share of voluntary pensions and cash value life insurance as presented in the ECB database. The ratios of reported wealth in voluntary pensions and life insurance were calculated by multiplying the share of voluntary pensions and life insurance in financial household assets by the share of financial household assets in total household assets (see table below).

Table VI-8 Estimates shares on total household assets

Country	Financial household assets	Voluntary pension/cash value life insurance	Voluntary pension/cash value life insurance	Voluntary pension/cash value life insurance (10%)
	Share of total household assets	Share of financial household assets	Share of total household assets	
BE	21%	14%	2.9%	0.70%
DE	22%	25%	5.5%	0.96%
EE	11%	8%	0.9%	0.09%
IE	17%	31%	5.1%	1.10%
EL	7%	N/A	N/A	N/A

Country	Financial household assets	Voluntary pension/cash value life insurance	Voluntary pension/cash value life insurance	Voluntary pension/cash value life insurance (10%)
	Share of total household assets	Share of financial household assets	Share of total household assets	
ES	19%	15%	2.8%	0.69%
FR	20%	39%	7.7%	1.82%
HR	4%	8%	0.3%	0.01%
IT	13%	7%	0.9%	0.15%
CY	6%	25%	1.5%	0.05%
LV	5%	18%	0.9%	0.06%
LT	5%	21%	1.0%	0.03%
LU	12%	6%	0.8%	0.10%
HU	13%	4%	0.5%	0.08%
MT	14%	12%	1.6%	0.18%
NL	32%	24%	7.6%	3.32%
AT	14%	7%	1.1%	0.11%
PL	8%	9%	0.7%	0.05%
PT	12%	6%	0.8%	0.10%
SI	7%	15%	1.0%	0.07%
SK	8%	11%	0.9%	0.07%
FI	21%	16%	3.3%	0.92%

Source: Ecorys based on ECB database (whole population and 10% wealthiest population)

The table also reports the ratios for the wealthiest 10% wealthiest population which were estimated, as for real estate, by multiplying the share of asset categories (whole population) by the share of financial household assets held by 10% wealthiest population. As for real estate, the ECB dataset only report data on voluntary pensions and life insurance for 22 countries. Therefore, we had to estimate the ratios for 6 missing countries using the weighted average ratios according to the grouping as reported in the previous section of this annex (on real estate). The values used as a proxy to fill the gaps for the six countries not covered by the ECB survey are presented in the following table.

Table VI-9 Weighted averages for voluntary pension and cash value life insurance

	Weighted average voluntary pension/cash value life insurance	Weighted average voluntary pension/cash value life insurance (10%)
Group 1	0.8	0.1
Group 2	2.6	0.7
Group 3	1.7	0.3
Group 4	4.1	0.9

Source: Ecorys elaboration based on ECB data

The ratios of reported wealth in voluntary pension and whole life insurance schemes for the EU 27 Member States and UK are included in the table below.

Table VI-10 Shares for voluntary pension/life insurance

Country	Voluntary pension/cash value life insurance	Voluntary pension/cash value life insurance (10%)
AT	1.1%	0.11%
BE	2.9%	0.70%
BG	0.8%	0.06%
CY	1.5%	0.05%
CZ	0.8%	0.06%
DE	5.5%	0.96%
DK	1.7%	0.34%
EE	0.9%	0.09%
EL	2.6%	0.70%
ES	2.8%	0.69%
FI	3.3%	0.92%
FR	7.7%	1.82%
HR	0.3%	0.01%
HU	0.5%	0.08%
IE	5.1%	1.10%
IT	0.9%	0.15%
LT	1.0%	0.03%
LU	0.8%	0.10%
LV	0.9%	0.06%
MT	1.6%	0.18%
NL	7.6%	3.32%
PL	0.7%	0.05%
PT	0.8%	0.10%
RO	0.8%	0.06%
SE	2.6%	0.70%
SI	1.0%	0.07%
SK	0.9%	0.07%
UK	1.7%	0.34%

Source: Ecorys

As the ECB database only reports the aggregated shares of voluntary pension and life insurance, additional calculations were needed to extrapolate the exact share of reported wealth in life insurance.

For this, we combined data from Eurostat, Financial balance sheets [nasa_10_f_bs], and a Better Finance report³⁹³ on the real return of pension saving. The combination of multiple sources of data was necessary because of the limited availability of Eurostat data (information of pensions entitlements is available for only 3 countries).

The Better Finance report provides data on the net equity of households in pension funds and life insurance, it has been used to calculate the share of life insurance over the total amount of voluntary pension and life insurance as presented in the following table.

Table VI-11 Life insurance shares

Country	Net equity of households in pension funds reserves (EUR billion)	Net equity of households in life insurance reserves (EUR billion)	Total	% of net equity of households in life insurance	Voluntary pension/cash value life insurance (10%)	Life insurance (10%)
AT	55	79	134	59.0%	0.11%	0.07%
BE	95	195	290	67.2%	0.70%	0.47%
BG	7	0.7	7.7	9.1%	0.06%	0.01%
CY	#N/A	#N/A	#N/A	29.3%	0.05%	0.02%
CZ	#N/A	#N/A	#N/A	29.3%	0.06%	0.02%
DE	846	979.8	1825.8	53.7%	0.96%	0.51%
DK	187	263	450	58.4%	0.34%	0.20%
EE	3.6	0.5	4.1	12.2%	0.09%	0.01%
EL	#N/A	#N/A	#N/A	29.3%	0.70%	0.20%
ES	169	161	330	48.8%	0.69%	0.34%
FI	#N/A	#N/A	#N/A	29.3%	0.92%	0.27%
FR	#N/A	1932	#N/A	29.3%	1.82%	0.53%
HR*	#N/A	#N/A	#N/A	15.6%	0.01%	0.002%
HU	#N/A	#N/A	#N/A	29.3%	0.08%	0.02%
IE	#N/A	#N/A	#N/A	29.3%	1.10%	0.32%
IT	212	714	926	77.1%	0.15%	0.11%
LT	3.01	0.84	3.85	21.8%	0.03%	0.01%
LU*	#N/A	#N/A	#N/A	76.3%	0.10%	0.07%
LV	4	0.39	4.39	8.9%	0.06%	0.00%
MT	#N/A	#N/A	#N/A	29.3%	0.18%	0.05%
NL	1498	144	1642	8.8%	3.32%	0.29%
PL	42	16.5	58.5	28.2%	0.05%	0.02%
PT	#N/A	#N/A	#N/A	29.3%	0.10%	0.03%
RO	11	1.8	12.8	14.1%	0.06%	0.01%
SE	397	102.5	499.5	20.5%	0.70%	0.14%
SI	#N/A	#N/A	#N/A	29.3%	0.07%	0.02%
SK	9.5	4.8	14.3	33.6%	0.07%	0.02%
UK	3421	764	4185	18.26%	0.34%	0.06%
EU average	13.3	5.5	18.8	29.3%		

*The share of life insurance for HR and LU has been calculated based on Eurostat data

Source: Ecorys based on Pension Savings: The Real Return (2019) and Eurostat

Please note for the ten³⁹⁴ countries for which data were not available nor in Eurostat nor the Better Finance report we used the EU average value of the share of life insurance. In addition, the share of life insurance for Croatia and Luxembourg (table below) was estimated using Eurostat data as they were not covered by the Better Finance report.

Table VI-12 Share of life insurance

Country	Life insurance and annuity entitlements (EUR million)	Pension entitlements (EUR million)	Total (EUR million)	% life insurance
HR	2,443.7	12,965.9	15409.6	15.6%
LU	10,551.7	3,280.4	13832.1	76.3%

Source: Authors based on Eurostat data

³⁹⁴ The countries not included in the Better Finance report are: Cyprus, Czech Republic, Greece, Finland, France, Hungary, Ireland, Malta, Portugal and Slovenia.

Cash

To calculate the share of cash we combine the Eurostat and ECB HFCS databases. The ECB database does not report on cash, but it does provide shares of deposits in total household financial assets as well as the share of financial household assets for the wealthiest 10% of individuals based on which we calculate the share of deposits for the top 10% wealthiest individuals. We assume that the ratios between cash and deposits for the top 10% is the same as for the total population. This allows us to make use of the Eurostat database, which provides information on both cash and deposits, and allows us to estimate the share of cash in total cash and deposits. We can then multiply the share of cash with the share of deposits held by the top 10% wealthiest individuals to obtain an estimation for the share of wealth held in cash.

$$\text{Deposits} = \text{Share of deposits (in financial household assets)} * \text{Share of net wealth (in financial household assets)}$$

$$\text{Cash} = \text{Share of cash (in total cash and deposits)} * \text{Deposits}$$

Table VI-13 Share of cash and deposits

2018	Deposits ECB top 10%	Cash Eurostat 2018	Deposits Eurostat	Share of cash in cash and deposits (Eurostat)	Estimated cash top 10%
AT	11.96%	1.93%	20.24%	8.47%	1.01%
BE	12.48%	1.80%	18.83%	9.01%	1.13%
BG	NA	0.72%	37.19%	2.16%	0.76%
CY	18.24%	1.84%	37.07%	5.36%	0.98%
CZ	NA	3.45%	22.50%	14.45%	0.76%
DE	16.84%	1.32%	19.41%	9.21%	1.55%
DK	NA	0.47%	11.09%	3.96%	0.93%
EE	12.25%	1.20%	12.26%	6.67%	0.82%
EL	3.07%	4.58%	25.07%	16.11%	0.49%
ES	13.46%	2.65%	23.77%	6.61%	0.89%
FI	26.41%	1.09%	14.32%	8.53%	2.25%
FR	14.82%	0.69%	14.66%	4.91%	0.73%
HR	5.24%	4.13%	50.04%	11.06%	0.58%
HU	5.03%	3.81%	9.72%	33.01%	1.66%
IE	11.27%	2.98%	33.56%	8.51%	0.96%
IT	7.76%	2.05%	15.77%	11.84%	0.92%
LT	23.86%	1.15%	16.70%	10.77%	2.57%
LU	13.08%	2.04%	26.99%	7.26%	0.95%
LV	1.23%	5.53%	8.91%	26.03%	0.32%
MT	10.10%	3.14%	43.67%	6.26%	0.63%
NL	6.08%	0.38%	12.64%	2.04%	0.12%
PL	3.61%	5.31%	25.77%	19.27%	0.70%
PT	12.14%	0.93%	24.94%	3.85%	0.47%
RO	NA	2.81%	15.14%	17.68%	0.76%
SE	NA	0.46%	10.09%	2.45%	0.93%
SI	8.72%	3.62%	19.60%	16.94%	1.48%
SK	3.95%	3.85%	17.21%	17.77%	0.70%
UK	NA	0.71%	18.63%	3.56%	0.93%

Source: Ecorys based on Eurostat and ECB database

As mentioned previously, the ECB database does not cover all EU 27 countries and the UK. Therefore, we need to extract the data for Bulgaria, Denmark, the Czech Republic, Romania, Sweden and the United Kingdom. To be able to adjust the shares of reported wealth held in cash we apply a typology which allows us to group countries based on specific behavioural characteristics related to these assets. Based on the allocation of financial wealth, the Boston Consulting Group³⁹⁵ groups countries into equity heavy, balanced and cash heavy. In Eastern European countries, the highest share of wealth in 2016 remained invested in cash and deposits (61%), while for the Western European countries it is more balanced (37%)³⁹⁶. Thus, we follow a division of countries in two categories: cash-heavy and balanced countries. The cash heavy group of countries included Bulgaria, the Czech Republic, and Romania, while Denmark, Sweden and the United Kingdom fall in the category of balanced countries. We can then calculate the median share of cash per group and apply this estimate for the share of cash for the missing countries (see table below).

Table VI-14 Share of cash for cash heavy and balanced countries

2018	Cash top 10%	Cash heavy	Balanced
AT	1.01%		1.01%
BE	1.13%		1.13%
BG	0.76%		
CY	0.98%		0.98%
CZ	0.76%		
DE	1.55%		1.55%
DK	0.93%		
EE	0.82%	0.82%	
EL	0.49%		0.49%
ES	0.89%		0.89%
FI	2.25%		2.25%
FR	0.73%		0.73%
HR	0.58%	0.58%	
HU	1.66%	1.66%	
IE	0.96%		0.96%
IT	0.92%		0.92%
LT	2.57%	2.57%	
LU	0.95%		0.95%
LV	0.32%	0.32%	
MT	0.63%		0.63%
NL	0.12%		0.12%
PL	0.70%	0.70%	
PT	0.47%		0.47%
RO	0.76%		
SE	0.93%		
SI	1.48%	1.48%	
SK	0.70%	0.70%	
UK	0.93%		
Median	0.90%	0.76%	0.93%

Source: Ecorys based on Eurostat and ECB data

³⁹⁵ BOSTON CONSULTING GROUP (2017) Global Wealth – Transforming the client experience. Available from: <https://www.bcg.com/publications/2017/asset-wealth-management-financial-institutions-global-wealth-2017-transforming-client-experience> (Accessed on 15/12/2020).

³⁹⁶ Ibid.

Tables supporting the estimation of offshore wealth in cash, life insurance and real estate.

Table VI-15 Factor of offshore wealth in relation to reported wealth (2018)

2018	Offshore wealth/Total reported financial wealth
AT	19.19%
BE	6.13%
BG	18.32%
CY	37.72%
CZ	13.10%
DE	8.29%
DK	2.37%
EE	24.91%
EL	92.19%
ES	5.03%
FI	3.23%
FR	10.26%
HR	33.43%
HU	8.38%
IE	6.39%
IT	10.74%
LT	31.12%
LU	8.09%
LV	88.45%
MT	22.21%
NL	4.58%
PL	12.28%
PT	22.14%
RO	12.88%
SE	2.32%
SI	7.08%
SK	13.24%
UK	4.23%

Annex VII – Consistency checks between estimates from this and the previous study.

Global offshore wealth

Consistency of estimates for 2001 until 2016

The updated estimates for global offshore wealth are consistent with the estimates of the previous study for the years until 2016. The table below reports on our estimates in comparison to the estimates provided by the previous study, as well as the difference between the two estimates per year in percentages.

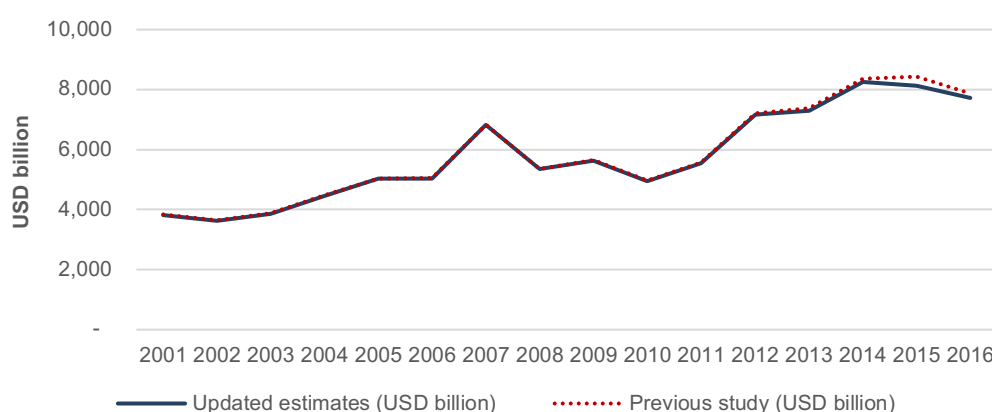
Table VII-1 Comparison of estimated global offshore wealth

Year	Updated estimates (USD billion) (Ecorys study)	Previous study (USD billion) (ECOPA/CASE study)	% Difference
2001	3,816	3,831	-0.4%
2002	3,627	3,644	-0.5%
2003	3,865	3,890	-0.6%
2004	4,448	4,476	-0.6%
2005	5,027	5,041	-0.3%
2006	5,028	5,049	-0.4%
2007	6,823	6,837	-0.2%
2008	5,348	5,359	-0.2%
2009	5,634	5,649	-0.2%
2010	4,941	4,964	-0.5%
2011	5,547	5,574	-0.5%
2012	7,167	7,209	-0.6%
2013	7,300	7,371	-1.0%
2014	8,255	8,370	-1.4%
2015	8,125	8,432	-3.6%
2016	7,718	7,876	-2.0%

Source: Ecorys based on ECOPA/CASE

For almost all years, updated estimates deviate less than 1% from the previous estimates. Updated estimates are consistently lower than previous estimates. For the most recent years, differences are more pronounced. This can be explained by changes in the underlying data for more recent years. When the previous study was performed, data especially for the most recent years 2015 and 2016 might have still been preliminary. The figure below provides a visual comparison of the previous and our estimates. The illustration emphasizes again that the estimates of this and the previous study are almost identical.

Figure VII-1 Visual comparison of estimates of global offshore wealth



Source: Ecorys

Consistency of estimates for 2017 and 2018 with estimates for previous years

According to our analysis, the value of global offshore wealth increased markedly in 2017 compared to 2016 and decreased slightly in the following year. The table below reports on estimates from 2010 onwards. New estimates for 2017 and 2018 are highlighted in grey. As 2017 and 2018 are the years that were not yet included in the previous study it is important to understand the dynamic behind this increase.

Table VII-2 Estimated global offshore wealth in USD billion from 2010 until 2018

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018
USD (trillion)	4.9	5.6	7.2	7.3	8.3	8.1	7.7	10.2	9.8

Source: Ecorys based on ECOPA/CASE

The increase can be traced back to the equity assets and liabilities individual countries report to the IMF via the CPIS. For the CPIS database, countries report information on portfolio investment securities to the IMF twice a year on a voluntary basis. Information from this CPIS database is a key component for the computation of the estimates on assets and liabilities, the difference of which is considered as three quarters of offshore wealth in our methodology. An assessment of trends between 2016 and 2017 at country level revealed that most countries reported considerably higher values for 2017 than for 2016 due to higher equity security prices. At the same time, the number of countries reporting to the IMF remained almost constant, which means that the increase is due to the increase in country-reported data, rather than due to the inclusion of additional observations.³⁹⁷

Portfolio assets

Assets are calculated as the sum of equities and debt. Key driver of the increase of estimated portfolio assets is an increase of the value of equities by more than a quarter between 2016 and 2017. It is noteworthy that this increase – while large – is not unusual, especially when looking at the years prior to 2010. In several instances, year-on-year changes in the value of equities have been similar or even larger.

³⁹⁷ IMF (n.d.). Coordinated Portfolio Investment Survey (CPIS). Available from: <https://data.imf.org/?sk=B981B4E3-4E58-467E-9B90-9DE0C3367363> (Accessed on 15/06/2020).

Table VII-3 Assets reported annually in value and in year-on-year change

Year	Equities		Debt	
	Value	Y-o-y change	Value	Y-o-y change
2001	5420	---	8193.5	---
2002	5051.4	-6.8%	10200.8	24.5%
2003	7412.2	46.7%	13307	30.5%
2004	9272.1	25.1%	16297.8	22.5%
2005	11195.4	20.7%	17363.7	6.5%
2006	15093.1	34.8%	21662.3	24.8%
2007	18400.3	21.9%	25655.6	18.4%
2008	10692.1	-41.9%	25209.1	-1.7%
2009	14825.5	38.7%	28108.3	11.5%
2010	17126.3	15.5%	29826.2	6.1%
2011	16300.7	-4.8%	30164.7	1.1%
2012	19281.8	18.3%	32124.9	6.5%
2013	23514.1	21.9%	33227.9	3.4%
2014	25271.4	7.5%	32632.6	-1.8%
2015	25134.2	-0.5%	31702.8	-2.8%
2016	26384.3	5.0%	32218.9	1.6%
2017	33523.8	27.1%	34922.9	8.4%
2018	29885.8	-10.9%	34726.4	-0.6%

Source: Ecorys computation based on CPIS

The estimate for equities, in turn, is mostly derived from CPIS data available from the IMF. As presented in the table below, the data from CPIS accounts for more than 90% of the equities estimate, and a stark increase in reported equities in 2017 drives the increase in the value of equities, assets, and thus the estimate for offshore wealth.

Table VII-4 Breakdown of equities by estimate

Year	Estimated total equities	...of which: CPIS estimates	Share of estimated total equities	Year-on-year change	...of which: Other sources	Share of estimated total equities	Year-on-year change
2015	25134.2	23022.5	92%	---	2111.7	8%	---
2016	26384.3	24353.3	92%	6%	2031.0	8%	-4%
2017	33523.8	31267.5	93%	28%	2256.3	7%	11%
2018	29885.8	27793.2	93%	-11%	2092.6	7%	-7%

Source: Ecorys computation

Portfolio liabilities

Similar to the assessment of the estimates for portfolio assets, we also analysed the drivers of the increase in portfolio liabilities. There, patterns are similar to the ones identified for assets. The increase of portfolio liabilities by about 18% between 2016 and 2017 can be mostly linked to an increase in equity liabilities, which increased by approx. 27% year-on-year.

Table VII-5 Liabilities reported annually in value and in year-on-year change

Year	Equities		Debt	
	Value	Year-on-year change	Value	Year-on-year change
---	---	---	---	---
2015	28688.1	---	34175.1	---
2016	30064.7	5%	34241.8	0%
2017	38117.2	27%	37974	11%
2018	34306.8	-10%	37665.2	-1%

Source: Ecorys computation

Again, a 27% increase in equity liabilities reported in CPIS data (which accounts for about 80% of the overall equity liability estimate) explains the stark increase.

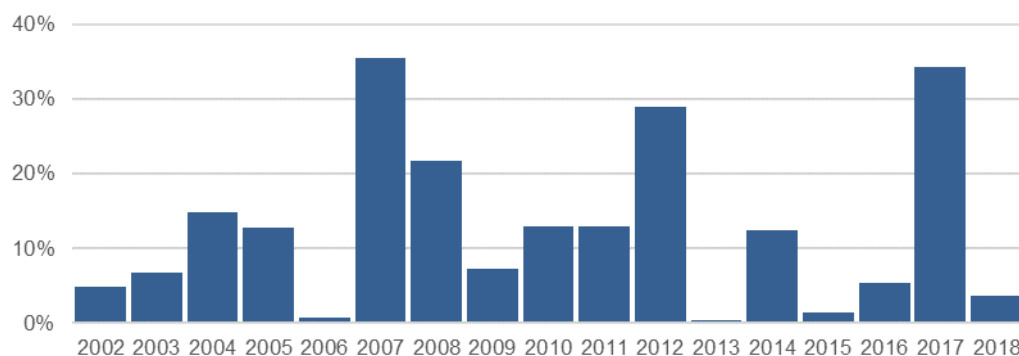
Table VII-6 Breakdown of equities by estimate

Year	Estimated total equities	...of which: CPIS estimates	Share of estimated total equities	Year-on-year change	...of which: Other sources	Share of estimated total equities	Year-on-year change
2015	28688.1	23902.4	83%	---	4785.7	17%	---
2016	30064.7	24494.4	81%	2%	5570.3	19%	16%
2017	38117.2	30683.7	80%	25%	7433.5	20%	33%
2018	34306.8	27415.1	80%	-11%	6891.7	20%	-7%

Source: Ecorys computation

Comparison to previous dynamics

There is no indication that a change in reporting requirements or other methodological adjustments could explain this stark increase. On the contrary, tracing the dynamics back for the last 15 to 20 years reveals similarly large year-on-year changes in previous years, although increases have been less pronounced since 2013. Indeed, there are two instances, in 2007 and in 2012, where the change of estimated wealth is similar. Yet, the increase in 2017 remains the second largest change of estimates. Note the almost cyclical peaks in year-on-year changes in 2007, 2012, and 2017.

Figure VII-2 Year-on-year change of estimated global offshore wealth

Source: Ecorys

Statistical significance of equity security price volatility

The assessment above suggests that the dynamics of estimated global offshore wealth could be driven by the price volatility of equity prices. To test this hypothesis, we re-ran the regression analysis used for the forecasting in Section 5.4, including the MSCI World Index as control variable. The results are presented below and show that the index appears to be highly significant.

Figure VII-3 Output table of regression analysis

Dependent variable:	

	LogOW

LogAssetsHouseholdBn	-.515*
	(.284)
lag(LogAssetsHouseholdBn)	.815***
	(.218)
LogGDPbn	.894**
	(.345)
CRS1	-.154***
	(.024)
TaxRevCapital_GDP	.020*
	(.011)
TaxRevLabour_GDP	.004
	(.009)
IRShort	-.008
	(.006)
IRLong	.018***
	(.004)
MSCI	.0002***
	(.00004)

Observations	250
R2	.349
Adjusted R2	.260
F Statistic	13.048*** (df = 9; 219)
=====	
Note:	*p<0.1; **p<0.05; ***p<0.01

Source: Ecorys

The result thus supports our hypothesis that the volatility of estimates global offshore wealth – including the increase in estimated values between 2016 and 2017, is at least partly driven by the volatility in equity security prices.

Annex VIII – Data collection templates

In this Annex, the following data collection templates are included:

- ◆ Data collection template for case study countries;
- ◆ The additional questionnaire for countries that also function as an international financial centre;
- ◆ Data collection template for non-case study countries.

Data collection template for case study countries

Size of the problem

1. Do individuals residing in your country use offshore financial centres to hide wealth? How prevalent is this problem? To what extent is it a topic of discussion in politics, the media (investigative journalism), academic and other research?
2. The previous study published in 2019³⁹⁸ presented the following findings on international tax evasion:

Your country		European average
Estimated offshore wealth (billion USD)	..	tbd
Estimated offshore wealth (% of GDP)	..%	tbd
International tax evasion (billion EUR)	..	tbd
International tax evasion (% of GDP)	..%	tbd

Could you please reflect on the figures? Do you have any information on whether the problem is increasing or decreasing over the last 5 or 10 years?

3. Are you aware of any impacts of tax evasion by [name of the country] residents?

Who?

4. What kind of individuals use offshore financial centres in hiding their wealth? And to what extent?

For example:

- ◆ Ultra-high net worth individuals (more than 50 million euro private wealth)
- ◆ Millionaires (more than 1 million euro net financial private wealth)?
- ◆ Households with less than one million euro net financial private wealth?
- ◆ Individuals with inherited private wealth? Self-made individuals?
- ◆ Nationals and/or foreigner residing in your country?
- ◆ Athletes?
- ◆ Legally obtained wealth, wealth from undeclared (but legal) activities, money from corruption and/or money from other illegal activities?
- ◆ Other characteristics?

Why?

5. What are the main motives for individuals using offshore financial centres to hide wealth?

For example:

- ◆ Avoid taxes on capital income? Please explain? Which taxes and tax rates?
- ◆ Avoid taxes on wealth? Please explain? Which taxes and tax rates?
- ◆ Avoid inheritance taxes? Please explain? Which taxes and tax rates?

³⁹⁸ https://ec.europa.eu/taxation_customs/sites/taxation/files/2019-taxation-papers-76.pdf

- ◆ Avoid other taxes? Please explain? Which taxes and tax rates?
- ◆ General lack of tax compliance in the country or among certain groups?
- ◆ Lack of trust in government services?
- ◆ Low probability of being caught? (opportunities)
- ◆ To hide the illicit origin of wealth or wealth from undeclared labour?
- ◆ Other motives?

How?

6. Questions on how corporate vehicles are used:
 - a. Which corporate vehicles (modus operandi) are being used to hide wealth in offshore financial centres?
 - b. Which of those corporate vehicles are used most?
 - c. Which of those specific corporate vehicles make it easier to hide wealth? Are difficult vehicles used to hide wealth of 1 million compared to hiding wealth of 50 million?

For example:

- ◆ Use of trusts? (which jurisdiction?)
- ◆ Use of foundations? (which jurisdiction?)
- ◆ Use of companies? (which jurisdiction?)
- ◆ Use of life insurance products
- ◆ Use of golden passport (which jurisdiction?)
- ◆ Other constructions or combinations (art, gold, etc)

7. Questions on financial assets used to hide wealth:
 - a. In which type of financial assets is wealth hidden?
 - b. Which type of these financial assets are used most?
 - c. Which type of these assets make it easier to hide wealth?

See Annex A for a list of asset categories.

For example:

- ◆ Use of numbered accounts in other countries? (forbidden by AML regulations)
- ◆ Bank notes held, e.g. in safe deposit box/ vaults of banks
- ◆ Direct investments in investment funds (mutual funds) residing in other countries
- ◆ Directly held offshore accounts on own name
- ◆ Other modus operandi or combinations

8. Questions on non-financial assets used to hide wealth:
 - a. In which type of non-financial assets is wealth hidden?
 - b. Which type of these non-financial assets are used most?
 - c. Which type of these assets make it easier to hide wealth?

For example:

- ◆ Art, jewellery, gold or other valuables stashed in (and traded via) free ports
- ◆ Onshore and offshore real estate investments, which is held in the individual's own name?
- ◆ Onshore and offshore real estate investments, which is held via a company?

- ◆ Another modus operandi
- ◆ Combinations of modus operandi

9. We have calculated the shares of reported wealth categories (cash, deposits, real estate, etc.).

Data on reported wealth held by individuals in cash, life insurance and real estate show the following percentages: respectively x%, x %, and x %. Do you think that for hidden wealth the share is the same, higher or lower?

Answer: higher (+), the same (0), or lower (-), I do not know.

	Share reported wealth	Share hidden wealth)	Please explain:
Cash	...%		
Life insurance	...%		
Real Estate	...%		

If possible please explore the reasons why the shares of hidden wealth might be different than those of reported wealth.

Where?

10. Which foreign jurisdictions are most popular to store wealth? Please provide a Top-5?

1.
2.
3.
4.
5.

Please provide explanation/evidence to your ranking.

11. Which (combinations of) foreign jurisdiction(s) is/are used as an intermediary step to transfer (hidden) wealth? Please provide a Top-5?

1.
2.
3.
4.
5.

Please provide explanation/evidence to your ranking.

Taxation

12. Are individuals in your country subject to wealth taxes? Which types of wealth taxes and tax rates? What is the definition(s) for the wealth subject to these taxes? How many taxpayers are affected by these taxes? Is this kind of tax a relevant driver behind wealth hidden by individuals using offshore financial centres?

13. Are individuals in your country subject to capital income taxation (dividends, interest, capital gains, and rents)? Which types of capital income and tax rates? What is the definition(s) for the capital income subject to these taxes? How many taxpayers are affected by these taxes? Is this kind of tax a relevant driver behind wealth hidden by individuals using offshore financial centres?

14. Are individuals in your country subject to inheritance taxation? Which tax rates? How many taxpayers are affected by these taxes? Is this kind of tax a relevant driver behind wealth hidden by individuals using offshore financial centres?

15. What is the tax compliance behaviour and rate in the country? Has there been a trend over the last years? What are the (economic and non-economic) reasons explaining tax compliance in the country? If available, what explains the tax compliance trend in the country?

16. Any recent changes in the taxation of wealth, capital income and/or inheritance that might have affected the amounts of wealth hidden via IFCs?

Impact of policy changes

17. What have been the general effects of AEOI (as introduced DAC1) in the last three years on the ways individuals hide wealth in offshore financial centres?
18. According to some estimates, the AEOI is having a substantial impact on bank deposits held in international financial centres (e.g. a reduction in bank deposits). Do you observe such trends? If so, would you link them to the automatic exchange of information?
19. In case you observe patterns as concerns bank deposits in international financial centres, what do you think are the underlying reasons beyond the Common Reporting Standards (CRS) and DAC2 (Automatic exchange of information)? For example, do you observe any of the following factors, please elaborate:
- Exchange of information upon request (EOIR) requirements and implementation;
 - Spontaneous exchange of information (SEOI);
 - Foreign Account Tax Compliance Act (FATCA) requirements and implementation;
 - Domestic regulatory changes in specific countries;
 - Regulations on specific assets in specific countries.
20. Do you observe transfer of assets to countries that have not yet set the date for first automatic exchange, or set a date in the years between 2019 and 2023 (e.g. Dominican Republic or Papua New Guinea)?
21. Do you observe transfer of assets to countries with which the EU has not signed agreements similar to Directive 2014/107/EU on automatic exchange of financial account information (currently the EU has agreements with Andorra, Liechtenstein, Monaco, San Marino and Switzerland)? Do you observe specific effects of these agreements on the relevant countries in the past years?
22. Do you observe a decrease in the patterns of hiding wealth in categories of income/asset, which are covered by DAC1/2, such as:
- life insurance products
 - real estate
23. Do you observe any changes in the hiding of wealth in categories that are not covered by DAC1 and DAC2?

Changes in policies and practices

24. Are there in your country recent changes in policies and/or practices to fight and prevent international tax evasions? Please reflect on it.
25. Have you used the Panama Papers, Offshore Leaks, Paradise Papers, and Swiss Leaks, to initiate tax investigations? What was the outcome and are any tax investigations still ongoing? What is the estimated value and type of assets included in these investigations?

List of asset categories³⁹⁹

Financial assets

Cash or cash equivalent

Checking and saving accounts

Bonds, loans and other interest generating assets

Corporate equity, including shares, derivatives etc.

Crypto currencies

³⁹⁹ The categorisation is derived from: Saez and Zucman (2019), 'Progressive Wealth Taxation', page 4. We have added cash or cash equivalent and crypto currencies.

Non-financial assets

Real estate (onshore or offshore)

Land

Art, antiques, jewellery

Yachts, cars, planes

Other

Additional questionnaire for countries that also function as IFC

Country:

Organisation:

Name of interviewee:

Date and time:

Interviewers:

Who?

1. What kind of individuals use your country to hide their wealth? And to what extent?

Where?

2. From which foreign jurisdictions does your country receive most wealth with the aim to hide in your country? Please provide a Top-5?

How?

3. Questions on how corporate vehicles are used:
 - a. Which corporate vehicles (modus operandi) are being used to hide wealth in your country?
 - b. Which of those corporate vehicles are used most?
 - c. Which of those specific corporate vehicles make it easier to hide wealth?

What?

4. Questions on *financial assets* used to hide wealth:
 - a. In which type of financial assets is wealth hidden in your country?
 - b. Which type of these financial assets are used most?
 - c. Which type of these assets make it easier to hide wealth?
5. Questions on *non-financial assets* used to hide wealth:
 - a. In which type of non-financial assets is wealth hidden in your country?
 - b. Which type of these non-financial assets are used most?
 - c. Which type of these assets make it easier to hide wealth?

Questions for non-case study countries

Country:

Organisation:

Name of interviewee:

Date and time:

Interviewers:

Please note that the study focuses on **individuals** hiding wealth. Companies trying to minimise taxes, do not fall within the scope of this study.

Who?

1. What kind of individuals (e.g. entrepreneurs, politicians, film stars, sports people,) use offshore financial centres in hiding their wealth? And to what extent (i.e. how much)?

For an overview of IFCs included in the research, please see next page.

How?

2. Questions on how corporate vehicles (e.g. companies, trusts, foundations, ...) are used:
 - a. Which corporate vehicles (modus operandi) are being used to hide wealth in offshore financial centres?
 - b. Which of those corporate vehicles are used most?
 - c. Which of those specific corporate vehicles make it easier to hide wealth?

What?

3. Questions on *financial assets* (such as money, shares, bonds, life insurance, etc.) used to hide wealth:
 - a. In which type of financial assets is wealth hidden?
 - b. Which type of these financial assets are used most?
 - c. Which type of these assets make it easier to hide wealth?
4. Questions on *non-financial assets* (such as real estate, arts, yachts, cars,) used to hide wealth:
 - a. In which type of non-financial assets is wealth hidden?
 - b. Which type of these non-financial assets are used most?
 - c. Which type of these assets make it easier to hide wealth?

Where?

5. Which foreign jurisdictions are most popular to store wealth? Please provide a Top-5?
6. Which (combinations of) foreign jurisdiction(s) is/are used as an intermediary step to transfer (hidden) wealth? Please provide a Top-5?

In the research we use the OECD list of OFC's, which includes:

Andorra;
Anguilla;
Antigua and Barbuda;
Aruba;
Bahamas;
Bahrain;
Barbados;
Belize;
Bermuda;
British Virgin Islands;
Cayman Islands;
Cook Islands;
Costa Rica;
Netherlands Antilles/Curaçao;
Cyprus;
Dominica;

Gibraltar;
Grenada;
Guatemala;
Guernsey;
Hong Kong,
China;
Isle of Man;
Jersey;
Lebanon;
Liechtenstein;
Luxembourg;
Macau, China;
Malaysia;
Malta;
Marshall Islands;
Mauritius;
Monaco;
Montserrat;
Nauru;
Niue;
Palau;
Panama;
Saint Kitts and Nevis;
Saint Lucia;
Saint Vincent and the Grenadines;
American Samoa;
San Marino;
Seychelles;
Singapore;
Switzerland;
Turks and Caicos Islands;
United Arab Emirates;
Uruguay;
Vanuatu.

Annex IX – Data collection interviewee overview

Table IX-1 Case-countries

Country	Institution/ authority	Type	Position/ function	Date of interview	Note
Belgium					
	BBi Belgian	Tax authority	(ex) director	18/05 2020	
	BBi Belgian	Tax authority	Coordinator	6/07/2020	
	Law firm	Private sector	Academic fiscal expert/ Lawyer	3/08/2020	
Bulgaria					
	Popular weekly newspaper	Journalism	Investigative journalist	23/06/2020	
	NRA (National Revenue Agency)	Tax authority	Department of Methodology and International activities	23/06/2020	
	Private sector	Private sector	Bank audit/security specialist	23/06/2020	
	FID-SANS (financial intelligence directorate – State Agency for National Security)	FIU	Director FIU	19/06/2020	
Cyprus					
	Cyprus Tax department	Tax authority	Tax Commissioner	19/05/2020	
France					
	Employee of CCFD Terre Solidaire	NGO	Representative	18/05/2020	
	Institut des relations internationales et stratégiques (IRIS)	Think tank	Expert	12/05/2020	Written feedback
	Tax administration	Tax authority	Former official	16/05/2020	Written feedback
	Tax administration	Tax authority	Official	15/05/2020 03/07/2020	Also written feedback
		Policy maker	Public officials	2/06/2020	
Germany					
	Netzwerk Steuergerechtigkeit (Tax Justice Network Germany)	NGO	Policy analyst	16/06/2020	
	University of Freiburg	Academic	Professor	23/06/2020	
Ireland					
	Revenue Commission	Tax authority	Representative	15/07/2020	
Italy					
	Transcrime	Research centre	Senior researcher	05/2020	
	Public Prosecutors Milano	Public prosecutor	Judicial expert and technical consultant	n/a	

Country	Institution/ authority	Type	Position/ function	Date of interview	Note
Lithuania					
	Financial Crime Investigation Service	FIU	Representative	21/04/2020	
	State Tax Inspectorate	Tax authority	Representative	17/04/2020	
	Investigative journalist	Journalism	Investigative journalist	17/04/2020	
	The Prosecutor General Office	Public Prosecutor	Prosecutor	22/04/2020	Written feedback
Luxembourg					
	Tax department, Ministry of Finance	Policy maker	representative	21/04/2020	
	Investigative journalist on financial crime and tax avoidance	Journalism	Investigative journalist	09/04/2020	
	Director research public company tax avoidance	Tax authority	researcher	06/04/2020	
	Luxembourg Financial Intelligence Unit	FIU	Director	09/04/2020	
Malta					
	Commissioner for Revenue	Tax authority	Representative	07/08/2020	
	Executive Malta Institute accountants (MIA)	Network organisations	Representative	n/a	
Netherlands					
	Financial Supervision Office	Tax authority	Representatives	04/06/2020	
	Public Prosecutors Office	Public Prosecutor	Public Prosecutor	21/04/2020	
	Public Prosecutors Office	Public Prosecutor	Researchers	25/05/2020	
	Offshore Knowledge Centre	Research Centre	Independent researcher	01/04/2020	
	Ministry of Finance	Policy Maker	Strategic advisor international	14/05/2020	Also written feedback on 08/07/2020
	Office Financial Oversight	Executive agency	n/a	04/06/2020	Written feedback
	Dutch Financial Investigation Unit	FIU	Team chef	07/04/2020	
Portugal					
	Anonymous 1	-	-	-	
	Anonymous 2	-	-	-	
	Anonymous 3	-	-	-	
Romania					
	Investigative journalist	Journalism	Investigative journalist	9/04/2020	
	Prosecutor	Public Prosecutor	Prosecutor	23/04/2020	
Spain					

Country	Institution/ authority	Type	Position/ function	Date of interview	Note
	Anonymous 1	-	-	n/a	
	Anonymous 2	-	-	n/a	
	Anonymous 3	-	-	n/a	
Sweden					
	Swedish Tax Authorities	Tax authority	Economic Crime Expert	15/04/2020	
	Swedish Tax Authorities	Tax authority	National Coordinator Overseas Transactions + Area Coordinator Tax-driven events	24/04/2020	
	Swedish Tax Authorities	Tax authority	Section chief analysis department	n/a	
	WebJournal on International Taxation in Sweden	Journalism	Investigative journalist	n/a	
	School of Economics and Business Norwegian University of Life Sciences (Annette Altstadsaeter)	Academia	Professor	23/04/2020	Written feedback
	SVT	Journalism	Investigative journalist	07/04/2020	

Table IX-2 Non-case countries

Country	Institution/ authority		Position/ function	Date of interview
Austria	Researcher	Academia	Author	n/a
Croatia	-	-	-	-
Czech Republic	European Commission	Policymaker	Legal and Policy officer	16/07/2020
	Investigative Journalist	Journalist	Investigative Journalist	09/04/2020
Denmark	Investigative journalist		Investigative journalist	15/04/2020
Estonia	Tax Audit Unit – Tax and Customs Board	Tax authority	Head of Tax unit	n/a
Finland	Erkki Laukkanen		Author	n/a
	Grey Economy Information Unit	FIU	Senior inspector	n/a
Greece	University of Athens	Academia	Professor	n/a
Hungary	Hungary Academy of Sciences	Academia	Senior Researcher	30/06/2020
	Corruption Research Centre Budapest		Senior researcher	30/06/2020
Latvia	Tax Administration	Tax authority	Analyst	28/05/2020
Poland	instytut filozofii i socjologii polskiej akademii nauk	Academia	Professor	n/a
Slovakia	Financial Investigation Unit Slovak Republic	FIU	Director	28/05/2020
Slovenia	Researcher	Academia	Professor	n/a

Annex X – Country overview – EU27

Table X-1 Austria

Austria		
General	Impact of tax evasion	<ul style="list-style-type: none"> ◆ Tax revenue lost relative to GDP in 2018 is estimated at 1, 01%. This share is in the upper half of percentages relative to GDP among EU27 countries (ranked 6th out of 27).
	Capital tax system	<ul style="list-style-type: none"> ◆ No wealth tax exists. ◆ There are no inheritance, estate or gift taxes. ◆ The capital gains tax rate is at 27.5%. It is in the upper half among EU27 countries (ranked 7th out of 16). ◆ Austria has a residency by investment scheme (golden visa), through which either at least €10m have to be invested directly into a business or at least €3m have to be invested into the government development fund. ◆ Austria also offers tax privileges to athletes, who only have to pay 33% rather than 55% tax on their income. The introduction of tax privileges to athletes has had a deterrent effect of athletes using offshore jurisdictions to store wealth.
Main findings	Qualitative findings	<ul style="list-style-type: none"> ◆ Financial products or schemes used to hide wealth include offshore companies and trusts. ◆ Real estate is the most traditional non-financial type of asset for hiding wealth, but art forms such as paintings are also used.
	Who	◆ Entrepreneurs, doctors, lawyers, bankers, and former politicians.
	Why	◆ High taxation on capital gains, sale of securities and real estate can be seen as motivating factor.
	National policy initiatives	<ul style="list-style-type: none"> ◆ Austria only committed to the first automatic exchanges of information of financial account data under DAC2 in 2018, while most EU countries already undertook the first exchanges in 2017. ◆ New law established an electronic system through which obliged entities can red-flag a legal entity in the company register, if the beneficial owner who is recorded is different from the one identified by the obliged entity. The red-flagged legal entity will be notified automatically and has to submit a new report to correct the information or provide evidence on the accuracy of the data. The entity that set the remark is not identified in this process. (Global Transparency Report) ◆ The beneficial ownership register is aligned with other registers in the country. This allows for real-time checks. (Global Transparency Report) ◆ If a report on public beneficial ownership information is not filed, incomplete or incorrect, the following fines can be imposed: €100.000 for gross negligence, or €200.000 in case of this having been done intentionally. (Global Transparency Report)
Destination countries		<ul style="list-style-type: none"> ◆ Bermuda ◆ British Virgin Islands ◆ Cayman Islands ◆ Panama ◆ Malta

Table X-2 Belgium

Belgium		
General	Impact of tax evasion	<ul style="list-style-type: none"> ◆ Tax revenue lost relative to GDP in 2018 is estimated at 0,95%. This share is in the upper half of percentages relative to GDP among EU27 countries (ranked 7th out of 27).
	Capital tax system	<ul style="list-style-type: none"> ◆ A wealth tax on selected assets exists. Financial instruments worth more than €500.000 are taxed at 0,15%. ◆ Inheritance tax rates vary depending on the region in which the deceased resided, the value of the inherited assets, and the relationship between the deceased and the beneficiary. ◆ No capital gains tax exists for private individuals, when capital gains are not realized as part of a business activity. ◆ Belgium has a residency by investment scheme (golden visa). Here, the eligibility requirement is that a company has to be created, and €350.000-500.000 have to be invested for a period of 5 years.
Main findings	Qualitative findings	<ul style="list-style-type: none"> ◆ To hide assets, offshore schemes with varying structures are used (e.g. offshore companies) depending on the size of hidden assets, as well as life insurances (e.g. in Luxembourg). This is seen as a big problem for tax authorities. Another method to hide wealth is to avoid being a fiscal resident in Belgium, by conducting a fictitious 'on paper' move to another country. ◆ Belgium is a recipient country for wealthy individuals from different countries in Europe.
	Who	<ul style="list-style-type: none"> ◆ HNWI and UHNWI. Tax experts estimate around 100.000-200.000 persons in Belgium have hidden assets between €100-200bio.
	Why	<ul style="list-style-type: none"> ◆ Avoiding to pay taxes is seen as the main motive. ◆ Another motive includes hiding illegal assets which arise from the evasion of profit or corporate tax.
	National policy initiatives	<ul style="list-style-type: none"> ◆ Information on hidden wealth was received from other countries (e.g. Luxembourg, Switzerland) for Belgian authorities to process. ◆ Affiliation with the Common Reporting Standards. ◆ 'Cayman tax' since 2015: revenue perceived by low taxed entities such as foreign trusts, offshore companies and foreign foundations is taxed as if the founder had received the income directly.
Destination countries		<ul style="list-style-type: none"> ◆ Luxembourg ◆ Switzerland ◆ Hong Kong ◆ Liechtenstein ◆ Monaco ◆ Dubai ◆ Dutch Antilles ◆ Seychelles ◆ Panama ◆ Mauritius

Table X-3 Bulgaria

Bulgaria		
General	Impact of tax evasion	<ul style="list-style-type: none"> ◆ Tax revenue lost relative to GDP in 2018 is estimated at 0,43%. This share is in the lower half of percentages relative to GDP among EU27 countries (ranked 15th out of 27).
	Capital tax system	<ul style="list-style-type: none"> ◆ No wealth tax exists. ◆ Spouses, parents, other remote ancestors, and direct descendants are not subject to inheritance tax. Brothers, sisters, and their children pay between 0,4-0,8%, and other heirs between 3,3-3,6% for an inheritance share higher than BGN250.000. ◆ The capital gains tax rate is at 10%. It is the lowest among EU27 countries, if countries without capital gains tax are not counted (ranked 15th out of 16). ◆ Bulgaria also offers a citizenship and residence by investment scheme (golden passport/ golden visa). To obtain a 'golden passport' or 'golden visa', a minimum investment of BGN1m into Eurobonds or other investment products. Once the purchase is made, permanent residency can be applied for immediately. Once this is obtained, two options are available: under the semi-fast-track option, Bulgarian citizenship can be obtained after a waiting period of 5 years, during which no residency or language requirements apply. Under the fast-track option, the applicant can double their investment to BGN1m, and obtain Bulgarian citizenship within 12 months of having been granted permanent residency status.
Main findings	Qualitative findings	<ul style="list-style-type: none"> ◆ Taxes are among the lowest in Europe. Taxes are not the chief determinant for tax evasion or using offshore financial centres to hide wealth. ◆ Offshore instruments, such as opening of bank accounts abroad are used across sections of Bulgarian citizens, even increasingly including the middle class. Many foreign accounts are known to exist, which hold relatively small sums. Some of these might also be 'forgotten' accounts by Bulgarians who used to reside in those countries. ◆ Criminals, larger mafia-type criminal organisations channel proceeds of illegal activities into IFCs for money laundering purposes. ◆ High-profile individuals whose wealth was gained in unclear circumstances particularly use offshore companies to hide their wealth, but still (in) directly controlling their business in Bulgaria. Offshore shell companies are also used to invest in real estate, other businesses, or for the purchase and sale of luxury vehicles. ◆ An increase was noted in fraud cases related to cybercrime, cryptocurrencies, and financial derivatives.
	Who	<ul style="list-style-type: none"> ◆ HNWI, UHNWI, but also increasingly middle- and upper-middle class citizens and workers. Also, criminals, mafia-type criminal organisations, and prominent businessmen who accrued their wealth in the 1990s transition period of Eastern Europe.
	Why	<ul style="list-style-type: none"> ◆ Many residents and owners of legal businesses who have little trust in Bulgarian institutions or their ability to act in a predictable and balanced manner, especially when important business interests and policies are at stake.
	National policy initiatives	<ul style="list-style-type: none"> ◆ Bulgaria is one of five EU MS which managed to transpose the 5th AMLD on time by establishing centralized, publicly accessible registers for companies by January 2020. ◆ The Offshore Companies Act of 2014, as amended in 2016, has the objective to prohibit participation (direct or indirect) of companies registered in an offshore zone or the so called "tax haven" (i.e. "offshore companies") in the most important public sectors in Bulgaria – banking, insurance, pension funds, undertakings for collective investment, telecommunications, energy and others.
Destination countries		<ul style="list-style-type: none"> ◆ EEA members ◆ Member States ◆ Some Arab countries (e.g. UAE) ◆ Some soft offshore zones in Asia (Singapore, Hong Kong)

Table X-4 Croatia

Croatia		
General	Impact of tax evasion	<ul style="list-style-type: none"> ◆ Tax revenue lost relative to GDP in 2018 is estimated at 0,54%. This share is in the upper half of percentages relative to GDP among EU27 countries (ranked 12th out of 27).
	Capital tax system	<ul style="list-style-type: none"> ◆ No wealth tax exists. ◆ Inheritance and gift taxes of 4% apply. ◆ The capital gains tax rate is at 12%. It is the second lowest among EU27 countries, if countries without capital gains tax are not counted (ranked 14th out of 16).
Main findings	Qualitative findings	<ul style="list-style-type: none"> ◆ In 2018, Croatia was among the top ten EU countries with the lowest money laundering risk. In 2020, it moved to 15th place. (Basel AML Index) ◆ Schemes include conducting underground work and being paid in cash, payment via other schemes which are taxed at lower rates (e.g. via a student labour centre or as author's fees or subsistence payments), or via payment of profit shares or free stock entitlements at the expense of wages from employment. Also, non-reporting or over-reporting of the value of imported goods and services, and imports making use of preferential customs rates. ◆ Also, customs privileges are sold for moveable goods, and through returning fictitious exports to domestic black markets.
	Who	◆ Workers in official and unofficial (grey economy) sectors, wealthy individuals.
	Why	◆ The greater the difference between gross and net wages, the greater is the motivation to avoid or evade taxes. Also, to retain purchasing power in times of recession.
	National policy initiatives	<ul style="list-style-type: none"> ◆ Various interventions in the tax statutes have been made to curb some recognised tax avoidance techniques. ◆ Croatia's register of beneficial ownership is private, i.e. not accessible to the general public.
Destination countries		◆ <i>No information available.</i>

Table X-5 Cyprus

Cyprus		
General	Impact of tax evasion	<ul style="list-style-type: none"> ◆ Tax revenue lost relative to GDP in 2018 is estimated at 2,58%. This share is the second highest percentage relative to GDP among EU27 countries (ranked 2nd out of 27).
	Capital tax system	<ul style="list-style-type: none"> ◆ No wealth tax exists. ◆ No inheritance tax exists. ◆ The capital gains tax rate is at 20%. It is in the lower half among EU27 countries (ranked 11th out of 16). ◆ Cyprus offers a residence by investment scheme (golden visa), whereby a visa is granted to third country nationals who purchase real estate property for at least €300.000 into real estate. Family members, including children up to 25 years of age, of the golden visa holders benefit from visa-free travel into and within the Schengen area. ◆ Cyprus also used to offer a citizenship by investment scheme (golden passport) called Cyprus Investment Programme. This was suspended in November 2020 after Cypriot officials were filmed assisting a fictional Chinese businessman with a criminal record to use the scheme. To obtain a 'golden passport', a minimum investment of €2m is required, as well as donations of €75.000 each to the Cypriot Research and Development fund and the Land Development Organisation. Naturalisation procedures take up to 6 months and are said to receive less scrutiny than standard naturalisation procedures.

Cyprus		
Main findings	Qualitative findings	<ul style="list-style-type: none"> ◆ Tax evasion is often addressed in political discussions and by the media. ◆ Cyprus is also a recipient country for tax planning purposes by HNWI. ◆ Manually filed tax returns are assessed late – currently, files from 2014 are still being assessed. Hence, more time is available to hide wealth if income was under-declared in a tax return, e.g. through mainly legal but undeclared activities ◆ Financial products include receiving commissions or other forms of payment abroad and saving them (and interest on these) in bank accounts there, making payments abroad to own entities while declaring them as expenses; setting up companies and moving funds from one to the other through complicated structures (not necessarily shell companies), and using shares, bonds, or investment funds.
	Who	◆ Individuals who are already engaged in activities and transactions with parties based abroad (incl. UHNWI who made their wealth abroad and gained Cypriot citizenship)
	Why	<ul style="list-style-type: none"> ◆ Following the Turkish invasion in 1974, many Cypriots lost their property. Due to on-going threats of another invasion, individuals may choose to place their savings abroad to prevent potential further loss of property. ◆ Similar insecurity is felt due to the financial crisis of 2008, which led to the closure of two major banking institutions.
	National policy initiatives	◆ Cyprus' register of beneficial ownership is private, i.e. not accessible to the general public.
Destination countries		<ul style="list-style-type: none"> ◆ Greece ◆ UK ◆ UK jurisdictions (BVI, Seychelles) ◆ Luxembourg ◆ Panama

Table X-6 Czech Republic

Czech Republic		
General	Impact of tax evasion	◆ Tax revenue lost relative to GDP in 2018 is estimated at 0,37%. This share is in the lower half of percentages relative to GDP among EU27 countries (ranked 20 th out of 27).
	Capital tax system	<ul style="list-style-type: none"> ◆ No wealth tax exists. ◆ No inheritance tax exists. However, inheritance and gift taxes are incorporated in the income tax. ◆ The capital gains tax rate is at 15%. It is the third lowest among EU27 countries, if countries without capital gains tax are not counted (ranked 13th out of 16).
Main findings	Qualitative findings	<ul style="list-style-type: none"> ◆ 1/3rd of people with lower income tended to avoid tax, while only 5.6% of richer individuals would evade tax. This may have been due to generally low average income at that time, which meant that evading taxation on low incomes meant a significant increase of income. (Salih, 2010) ◆ In 2014, the fight against tax evasion was declared by the then-government. ◆ Panama Paper research showed that more than a quarter million documents in the Mossack Fonseca trove had a Czech connection, and nearly 300 Czech clients and shareholders appeared in the Panama Papers. ◆ Schemes used include the following: Underreporting income or not reporting it at all, if derived from the shadow economy, stating higher deduction rights, holding assets and related income offshore (both to launder money and to evade taxes), via banks who do not follow AML regulations, and via proxy directors, who hold companies on behalf of clients.
	Who	<ul style="list-style-type: none"> ◆ Workers (incl. shadow economy). ◆ Wealthy individuals and businessmen.
	Why	◆ -
	National policy initiatives	◆ The Czech Republic's register of beneficial ownership is private, i.e. not accessible to the general public.
Destination countries		◆ <i>No information available.</i>

Table X-7 Denmark

Denmark		
General	Impact of tax evasion	<ul style="list-style-type: none"> ◆ Tax revenue lost relative to GDP in 2018 is estimated at 0,63%. This share is in the upper half of percentages relative to GDP among EU27 countries (ranked 10th out of 27).
	Capital tax system	<ul style="list-style-type: none"> ◆ No wealth tax exists. ◆ An inheritance tax of 15% applies if the net value is higher than DKK295.300. Spouses are exempted from inheritance tax. ◆ The capital gains tax rate is at 42%. It is the highest among EU27 countries (ranked 1st out of 16).
Main findings	Qualitative findings	<ul style="list-style-type: none"> ◆ Deliberate tax evasion is estimated to be done by 3% of the Danish population. This figure rises to about 25% in the top 0.01% of the wealth distribution. ◆ Recent scandals, such as the cum ex case involving fraudulent tax return claims which resulted in a loss of €1.7 bio, and the case of Danske Bank facilitating suspicious transactions in its Estonian branch are also said to have had a deterrent effect on the phenomena. ◆ Many different types of schemes are used, including saving cash, however due to stricter cash controls in line with AML rules, this has become more difficult. ◆ Other schemes include real estate investments, investments into art, anonymous credit cards and use of internet payment services.
	Who	<ul style="list-style-type: none"> ◆ It is much more prevalent among companies, than individuals. However, HNWIs and UHNWIs are among the most common individuals.
	Why	<ul style="list-style-type: none"> ◆ The main reason for private individuals to engage in tax evasion is to avoid capital income tax and personal income tax. ◆ Some proceeds from illegal activities have also been noted as has the incentive to hide wealth from relatives.
	National policy initiatives	<ul style="list-style-type: none"> ◆ Denmark is one of five EU MS which managed to transpose the 5th AMLD on time by establishing centralized, publicly accessible registers for companies by January 2020. ◆ Sanctions for impartial compliance or failure to comply with rules relating to beneficial ownership registers include the possibility of dissolving companies. It is estimated that 7500 companies which had failed to register beneficial ownership information in the register by 2018 were dissolved by the Danish Business Authority. It is also estimated that by 2019, 99.8% of entities covered by the applicable company laws had registered their beneficial ownership information. (Global Transparency Report) ◆ The business address provided in the beneficial ownership register is automatically cross-checked against another government database, i.e. the Danish Address Register, to check whether the address exists. (Global Transparency Report)
Destination countries		<ul style="list-style-type: none"> ◆ Bahamas ◆ BVI ◆ Seychelles ◆ Malta

Table X-8 Estonia

Estonia		
General	Impact of tax evasion	<ul style="list-style-type: none"> ◆ Tax revenue lost relative to GDP in 2018 is estimated at 0,39%. This share is in the lower half of percentages relative to GDP among EU27 countries (ranked 18th out of 27).
	Capital tax system	<ul style="list-style-type: none"> ◆ No wealth tax exists. ◆ No inheritance tax exists. ◆ The capital gains tax rate is subject to the standard flat income tax rate of 20%, and is triggered only when securities or assets are sold at profit. This rate is in the lower half among EU27 countries (ranked 11th out of 16).

Estonia		
Main findings	Qualitative findings	◆ Schemes used to hide wealth include the creation of (a series of) offshore companies, each in a different country (most common), and family funds.
	Who	◆ Entrepreneurs and, as shown by frequent cases, wealthy Russian individuals using Estonia in their constructions to hide their wealth.
	Why	◆ In Estonia, not many taxes are in place. As a result, there does not seem much reason for Estonians to hide their wealth due to tax reasons. Estonians that do hide their wealth, often have wealth originating from illegal / criminal activities.
	National policy initiatives	◆ <i>No information available.</i>
Destination countries		<ul style="list-style-type: none"> ◆ Cyprus ◆ British Virgin Islands ◆ Cayman Islands ◆ some Arab countries (<i>not further disclosed which</i>)

Table X-9 Finland

Finland		
General	Impact of tax evasion	◆ Tax revenue lost relative to GDP in 2018 is estimated at 0,24%. This share is in the lower half of percentages relative to GDP among EU27 countries (ranked 22 nd out of 27).
	Capital tax system	<ul style="list-style-type: none"> ◆ No wealth tax exists. ◆ An inheritance tax of up to 33% applies, depending on categories of relations and the amounts inherited. ◆ The capital gains tax rate is at 34%, if the realized capital income is over €30.000. It is the third highest among EU27 countries (ranked 3rd out of 16). ◆ Expatriates can elect to be taxed on their salary at 35% for up to 4 years, instead of at the normal progressive income rate.
Main findings	Qualitative findings	<ul style="list-style-type: none"> ◆ Tax evasion is estimated to be decreasing as concealment of wealth is increasingly scrutinized ◆ The main financial project used is life insurance products. ◆ Investments are also made into real estate.
	Who	<ul style="list-style-type: none"> ◆ Wealthy individuals from well-known families ◆ Individuals benefitting from incentive schemes of MNEs ◆ Former entrepreneurs who have sold their companies
	Why	◆ Offshore financial centre and related arrangements have been often created in order to avoid capital income tax and inheritance tax. Another common reason is to hide wealth from relatives or diminish apparent net worth.
	National policy initiatives	◆ Finland's register of beneficial ownership is private, i.e. not accessible to the general public.
Destination countries		◆ Cayman Islands

Table X-10 France

France		
General	Impact of tax evasion	◆ Tax revenue lost relative to GDP in 2018 is estimated at 1,07%. This share is in the upper half of percentages relative to GDP among EU27 countries (ranked 5 th out of 27).
	Capital tax system	<ul style="list-style-type: none"> ◆ No wealth tax exists. ◆ An inheritance tax applies with varying rates depending on the value of the deceased's property and the relationship to the deceased. These rates vary from 0-60%. Strict rules apply with relation to portions reserved of each inheritance to various types of relations. Only the remaining portions of the inheritance can be freely distributed. ◆ The capital gains tax rate is at 30%. It is in the upper half among EU27 countries (ranked 5th out of 16).

France		
Main findings	Qualitative findings	<ul style="list-style-type: none"> ◆ Hidden amounts range from several hundred euros to more than 50 million euros. ◆ The Yellow Vests movement and the CumEx Files scandal politicised the evaluation of the problem of tax evasion, with the government committing to create an observatory and provide the public with clearer estimates of the problem. ◆ Financial products or schemes used to hide wealth include trusts, foundations, shell companies, life insurances, foreign bank accounts, new means of payments such as cryptocurrencies, transfer of cash, and foreign investment funds. ◆ Other forms of investment objects include real estate, gold, art (sometimes hidden freeports), jewellery, and luxury vehicles.
	Who	<ul style="list-style-type: none"> ◆ Wealthy French households ◆ Workers opening bank accounts abroad when dealing with foreign companies ◆ Heirs ◆ Expats keeping accounts from home countries without declaring them
	Why	<ul style="list-style-type: none"> ◆ To avoid wealth and inheritance taxes (and the strict inheritance law more broadly). Individuals wish to 'protect their heirs' or want to have the freedom to distribute their inheritance as they wish.
	National policy initiatives	<ul style="list-style-type: none"> ◆ Automatic exchange of information, DAC2/CRS, seen as game-changer, however, destination countries of assets have started to shift to countries not included in these transparency agreements. There is also an increased use of diverse sources of information, including increasingly online data and social media platforms, and integrating modern data techniques into arsenal of anti-fraud agencies (data mining, AI). ◆ Further, reform and strengthening of own policies against tax fraud, via Law n° 2013-1117 on tax fraud and economic crime and Law n°2018-898 on the fight against fraud (created a new fiscal police – SEJF, and allows information on individuals suspected to have committed tax fraud to be transmitted to the judiciary) ◆ France's register of beneficial ownership is private, i.e. not accessible to the general public. ◆ In cases where reports are intentionally, or as the result of gross negligence, not filed, or only incomplete or incorrect, penalties include a fine of €7500 and a six month prison sentence. (Global Transparency Report)
Destination countries		<ul style="list-style-type: none"> ◆ Luxemburg ◆ Belgium ◆ Hong Kong ◆ Singapore ◆ British Virgin Islands ◆ Financial centres in Asia ◆ Gulf states ◆ Dominican Republic ◆ Papua New Guinea

Table X-11 Germany

Germany		
General	Impact of tax evasion	<ul style="list-style-type: none"> ◆ Tax revenue lost relative to GDP in 2018 is estimated at 0,86%. This share is in the upper half of percentages relative to GDP among EU27 countries (ranked 8th out of 27).
	Capital tax system	<ul style="list-style-type: none"> ◆ No wealth tax exists. ◆ An inheritance tax applies with varying rates depending on the value of the deceased's property and the relationship to the deceased. These rates vary from 7-50%. However, depending on the relationship, tax free allowances between €20.000-500.000 also exist. ◆ The capital gains tax rate is at 26,375%. It is in the lower half among EU27 countries (ranked 9th out of 16).

Germany		
Main findings	Qualitative findings	<ul style="list-style-type: none"> ◆ Tax evasion is seen as a growing phenomenon. ◆ Financial products used to hide wealth include storing wealth offshore through shells, such as through funds, shell corporations, trusts, partnerships, etc. Further, means involve using companies to make incorrect profit calculations, and sham transactions. Further, loopholes in tax law are made use of. ◆ Direct or indirect purchase of and investments into real estate are also made, e.g. via an offshore company, or via a German company owned by an offshore company. Here, mainly foreign accounts are used, which is a grey area in the law.
	Who	<ul style="list-style-type: none"> ◆ Wealthy investors ◆ Millionaires ◆ billionaires/ UHNWIs ◆ Financiers ◆ Businessmen ◆ Entrepreneurs
	Why	<ul style="list-style-type: none"> ◆ High taxation of legal transfers within families (e.g. inheritance), hence there is an incentive to hide the assets to avoid the taxation burden.
	National policy initiatives	<ul style="list-style-type: none"> ◆ Preparations are underway to make anonymous country-specific data available to researchers.
Destination countries		<ul style="list-style-type: none"> ◆ Neighbouring countries (Switzerland) ◆ Great Britain (including Cayman Island, Virgin Island, Jersey) ◆ Singapore ◆ Panama ◆ Hong Kong

Table X-12 Greece

Greece		
General	Impact of tax evasion	<ul style="list-style-type: none"> ◆ Tax revenue lost relative to GDP in 2018 is estimated at 1,85%. This share is in the upper half of percentages relative to GDP among EU27 countries (ranked 4th out of 27).
	Capital tax system	<ul style="list-style-type: none"> ◆ No wealth tax exists. ◆ Varying inheritance tax rates apply depending on the category of relationship to the deceased and the value of the inheritance. The rates range between 0-40%. ◆ The capital gains tax rate is at 15%. It is the third lowest among EU27 countries, if countries without capital gains tax are not counted (ranked 13th out of 16). ◆ Greece offers a residence by investment scheme (golden visa), whereby a visa is granted to third country nationals who invest at least €250.000 into real estate, or invest shares of a Spanish company or bank deposits of at least €1m, or invest at least €400.000 in Greek government bonds, a Greek company or bank deposits in Greece. No minimum stay requirement applies, and family members including the spouse, children up to 21 years of age and parents of the golden visa holders benefit from visa-free travel into and within the Schengen area.

Greece		
Main findings	Qualitative findings	<ul style="list-style-type: none"> ◆ Financial schemes used include using foreign bank accounts, storing cash in safe-deposit boxes and home safes. ◆ Investments are also made into foreign real estate. ◆ Until recently, tax rates were considered to be too high and too little enforced. Tax compliance is still considered weak, given traditions around cash usage by elderly and rural-based persons, and the granting of discounts to cash-payers by self-employed. In the past. Tax collection efforts also recently eased in the period before elections took place.
	Who	<ul style="list-style-type: none"> ◆ Self-employed ◆ HNWI ◆ Companies
	Why	<ul style="list-style-type: none"> ◆ Motivation stems partly from a tradition of avoiding taxes, but also to lessen the tax burden (with 30% of the workforce being self-employed and often avoiding taxes, the burden of taxation is on easy to tax salaried employees and pensioners, rather than on (wealthier) self-employed). ◆ Also, to ensure access to funds in the event of further budgetary restrictions
	National policy initiatives	<ul style="list-style-type: none"> ◆ Since 2017, an Independent Agency for Public Revenue is in place, which has the aim to insulate revenue administration from political pressure and to navigate through bureaucracy rules. Tax officials now have better access to third party information (incl. bank accounts). Random inspections are centrally organised, with a special unit focusing on investigations of big businesses, small firms and self-employed, and HNWI. ◆ Capital controls were introduced in 2015, which boosted the use of debit cards, which increased the value-added tax revenue due to automatic collection. ◆ Greece's register of beneficial ownership is private, i.e. not accessible to the general public.
Destination countries		<ul style="list-style-type: none"> ◆ Switzerland

Table X-13 Hungary

Hungary		
General	Impact of tax evasion	<ul style="list-style-type: none"> ◆ Tax revenue lost relative to GDP in 2018 is estimated at 0,16%. This share is the lowest percentage relative to GDP among EU27 countries (ranked 26th out of 27).
	Capital tax system	<ul style="list-style-type: none"> ◆ No wealth tax exists. ◆ An inheritance tax of 18% applies, unless the heirs are the surviving spouse and/or close relatives. Also, a preferential 9% rate applies to residential property. ◆ The capital gains tax rate is at 15%. It is the third lowest among EU27 countries, if countries without capital gains tax are not counted (ranked 13th out of 16).
Main findings	Qualitative findings	<ul style="list-style-type: none"> ◆ Recent efforts to reduce tax fraud through an increase of tax transparency have brought good results. ◆ Financial schemes are primarily linked to company activities, through fictitious invoicing, fictitious transportation of goods, and in particular also carousel fraud. ◆ Investment is also made into real estate and sports clubs.
	Who	<ul style="list-style-type: none"> ◆ Politicians, MPs and entrepreneurs linked to the Hungarian administration.
	Why	<ul style="list-style-type: none"> ◆ <i>No information available beyond general tax avoidance and hiding of wealth obtained through illicit practices.</i>
	National policy initiatives	<ul style="list-style-type: none"> ◆ Hungary's register of beneficial ownership is private, i.e. not accessible to the general public.
Destination countries		<ul style="list-style-type: none"> ◆ Romania (for non-financial assets)

Table X-14 Ireland

Ireland		
General	Impact of tax evasion	<ul style="list-style-type: none"> ◆ Tax revenue lost relative to GDP in 2018 is estimated at 0,44%. This share is in the lower half of percentages relative to GDP among EU27 countries (ranked 14th out of 27).
	Capital tax system	<ul style="list-style-type: none"> ◆ No wealth tax exists. ◆ An inheritance tax rate of 33% applies. ◆ The capital gains tax rate is at 33%. It is in the upper half among EU27 countries (ranked 4th out of 16).
Main findings	Qualitative findings	<ul style="list-style-type: none"> ◆ The tax and customs administration has a long and successful record of tackling non-compliance in relation to offshore assets. Ireland received the highest compliance rating in Rounds 1 and 2 of the OECD peer reviews on Exchange of Information. ◆ The use offshore accounts, structures, or assets to evade or avoid tax obligations occur in particular cases but there is no evidence of its widespread occurrence. ◆ The majority of disclosures of values as part of a mandatory disclosure initiative (FIAD) which existed prior to DAC6 and related to pensions, bank accounts, shares and property. The remainder included offshore funds, foreign earned income, foreign trusts, and foreign inheritance.
	Who	<ul style="list-style-type: none"> ◆ Professionals and high wealth individuals with legally obtained wealth.
	Why	<ul style="list-style-type: none"> ◆ Mainly to avoid taxes on capital income taxes on income and inheritance tax. However, there is no evidence that wealthy individuals are more likely to be non-tax compliant.
	National policy initiatives	<ul style="list-style-type: none"> ◆ Early adopter of automatic exchange of information and other data sharing processes, e.g. via FATCA, DAC, CRS. ◆ 2017: Successful Foreign Income and Assets Disclosure (FIAD) initiative: disclosures carried interest and penalties, albeit at a discount if disclosed prior to the deadline. ◆ 2019: Initiated programmes to review information received under DAC 1 and DAC 2.
Destination countries		<ul style="list-style-type: none"> ◆ UK ◆ USA ◆ France ◆ Spain ◆ Germany

Table X-15 Italy

Italy		
General	Impact of tax evasion	<ul style="list-style-type: none"> ◆ Tax revenue lost relative to GDP in 2018 is estimated at 0,52%. This share is in the upper half of percentages relative to GDP among EU27 countries (ranked 13th out of 27).
	Capital tax system	<ul style="list-style-type: none"> ◆ A wealth tax on selected assets exists. Real estate properties outside of Italy are taxed at 0.76%, and investments owned outside of Italy are taxed at 0,2%. ◆ An inheritance tax of 4-8% applies depending on the relationship between the beneficiary and the deceased and depending on the value of assets. A tax rate of 4% is applicable to surviving spouses, children and parents if assets are worth more than €1m. For siblings, cousins, nieces, etc. 6% apply when assets are higher than €100.000. Unrelated beneficiaries do not benefit from allowances and a rate of 8% applies. ◆ The capital gains tax rate is at 26%. It is in placed in the middle among EU27 countries (ranked 8th out of 16). ◆ A special tax regime was introduced which is intended to attract Italian and foreign nationals who have been resident outside the country for at least 9 out of 10 previous years, allowing them to transfer tax residence to Italy for a fixed payment of €100.000 in lieu of Italian regular income tax on foreign source income. ◆ Italy offers a residence by investment scheme (golden visa), whereby a visa is granted to third country nationals who invest in a government bond issued by Italy, or invest at least €500.000 into a company incorporated and operating in Italy, or invest at least €250.000 in an innovative start-up, or make a philanthropic donation in the fields of culture, education, immigration management, scientific research, or preservation of cultural and natural heritage Physical presence is mandatory to become a new tax resident in Italy. If the investment is maintained, the visa can be renewed every 2 years. All family members of the golden visa holders benefit from visa-free travel into and within the Schengen area.
Main findings	Qualitative findings	<ul style="list-style-type: none"> ◆ It is perceived that the issue of hiding wealth is widespread. Vehicles for hiding wealth include corporate vehicles, such as international business corporations based abroad, which are used through subsidiaries to own and operate other businesses, issue false invoices, issue shares or bonds, or raise capital. Further, foundations and trusts are used to protect individuals' assets by exploiting their tax-exempt status for personal gain. Also, moving cash originated from criminal activities across the border (physically) to be either deposited in bank accounts or to purchase assets, and the use of other financial products in offshore financial centres (Pension funds, insurance policies, equities, bonds, derivatives, hedge funds). This is often done via networks of professionals who facilitate the transfer of assets. ◆ Other investment objects include real estate, cars, jewellery, art, and gold.
	Who	<ul style="list-style-type: none"> ◆ UHNWI ◆ Mafia-type criminal organisations ◆ Other individuals with own financial resources
	Why	<ul style="list-style-type: none"> ◆ UHNWI seek to maximise their profits. ◆ Mafia organisations channel proceeds of illegal activities into offshore countries for money-laundering purposes and to conceal the origin of the wealth. ◆ Individuals take their wealth abroad to protect their capital from taxation (especially when taxation rates increase, e.g. during economic crises), including wealth tax, capital gains tax, income tax, and inheritance tax. Also, to avoid forced levy on bank accounts (as in 1992)
	National policy initiatives	<ul style="list-style-type: none"> ◆ Voluntary disclosure scheme led to return of more than 15 billion euros in 2015 via nearly 130.000 applications. ◆ Law 648 of the Penal Code introduced in 2015 (self-laundering dispositions) worked as a deterrent, in particular for "small" fraudsters
Destination countries		<ul style="list-style-type: none"> ◆ Luxembourg ◆ Netherlands ◆ Switzerland ◆ Central and Eastern European countries (Poland, Hungary) ◆ Arabian Peninsula (Qatar) ◆ Monaco ◆ Slovenia

Table X-16 Latvia

Latvia		
General	Impact of tax evasion	<ul style="list-style-type: none"> ◆ Tax revenue lost relative to GDP in 2018 is estimated at 0,38%. This share is in the lower half of percentages relative to GDP among EU27 countries (ranked 19th out of 27).
	Capital tax system	<ul style="list-style-type: none"> ◆ No wealth tax exists. ◆ No inheritance tax exists. However, gifts above €1425 are taxed as personal income, if they are received from non-relatives. Also, duties may be imposed on the value of inheritances between 0.125-7.5%. ◆ The capital gains tax rate is at 20%. It is in the lower half among EU27 countries (ranked 11th out of 16). ◆ Latvia offers a residence by investment scheme (golden visa), whereby a visa is granted to third country nationals who either purchase real estate worth €250.000 plus a one-time payment of 5% of the purchase price to the state budget, or invest €280.000 in the subordinated capital of a Latvian bank for 5 years plus a one-time payment of €25.000 to the state budget, or invest €50.000 in the equity capital of a Latvian company plus a one-time payment of €10.000 to the state budget, or purchase special-purpose interest-free bonds at a nominal value of €250.000, plus a one-time payment of €38.000 to the state budget.
Main findings	Qualitative findings	<ul style="list-style-type: none"> ◆ Tax evasion is seen as a common practice, with interviewees estimating that it may have increased over the past 10 years. Recent criminal prosecutions indicate that consequences of tax evasions are actually enforced, and that tax debtors may face prison time and the right to conduct business operations for a certain period of time. ◆ Financial products or schemes used to hide wealth include life insurances, shell companies, trusts in offshore jurisdictions (to avoid inheritance tax provisions for obligatory heirs), and not declaring income stemming from entrepreneurial activity.
	Who	<ul style="list-style-type: none"> ◆ It is mostly an issue of legal entities / companies in Latvia, rather than individuals. As for the latter, mainly extremely wealthy individuals do so.
	Why	<ul style="list-style-type: none"> ◆ General tax avoidance, e.g. of inheritance tax, but also to fully assign assets on heirs.
	National policy initiatives	<ul style="list-style-type: none"> ◆ Latvia is one of five EU MS which managed to transpose the 5th AMLD on time by establishing centralized, publicly accessible registers for companies by January 2020.
Destination countries		<ul style="list-style-type: none"> ◆ Belize ◆ Cayman Islands ◆ Guernsey ◆ Marshall Islands ◆ Isle of Man ◆ Seychelles ◆ British Virgin Islands ◆ Dominican Republic ◆ Panama ◆ Hong Kong ◆ Cyprus ◆ Malta ◆ Switzerland ◆ Monaco ◆ United Kingdom ◆ Spain ◆ Greece

Table X-17 Lithuania

Lithuania		
General	Impact of tax evasion	<ul style="list-style-type: none"> ◆ Tax revenue lost relative to GDP in 2018 is estimated at 0,21%. This share is in the lower half of percentages relative to GDP among EU27 countries (ranked 23rd out of 27).
	Capital tax system	<ul style="list-style-type: none"> ◆ No wealth tax exists. ◆ An inheritance tax of 10% applies. ◆ The capital gains tax rate is at 20%. It is in the lower half among EU27 countries (ranked 11th out of 16).
Main findings	Qualitative findings	<ul style="list-style-type: none"> ◆ Methods to hide wealth include the use of offshore financial centres, the physical transfer of cash, cryptocurrency exchanges (episodically), and loans and other interest generating assets. ◆ Investments are also made into domestic real estate, sometimes via foreign jurisdictions.
	Who	<ul style="list-style-type: none"> ◆ UHNWI ◆ Millionaires
	Why	<ul style="list-style-type: none"> ◆ To avoid taxes on profit, income and dividends.
	National policy initiatives	<ul style="list-style-type: none"> ◆ 2014-2018: 'Amnesty' campaign to allow people to pay back their taxes without fines. ◆ 2019: amended law on Tax Administration (high penalties for tax violations). ◆ In the process of adopting a civil asset forfeiture law. ◆ Lithuania's register of beneficial ownership is private, i.e. not accessible to the general public.
Destination countries		<ul style="list-style-type: none"> ◆ Virgin Islands (both in UK and USA) ◆ Cayman Islands ◆ The Bahamas ◆ Curacao ◆ Cook Islands

Table X-18 Luxembourg

Luxembourg		
General	Impact of tax evasion	<ul style="list-style-type: none"> ◆ Tax revenue lost relative to GDP in 2018 is estimated at 0,42%. This share is in the lower half of percentages relative to GDP among EU27 countries (ranked 16th out of 27).
	Capital tax system	<ul style="list-style-type: none"> ◆ No wealth tax exists. There is also no requirement to declare wealth in an annual tax return, only income generated by assets. ◆ Inheritance tax rates vary between reserved and unreserved portions, and also depend on the value of assets and the relationship between the deceased and beneficiary. Rates of between 0-15% apply, whereby no inheritance applies between spouses and direct lines of descendants. ◆ No capital gains tax exists. ◆ Specialized Investment Funds exist, whereby their main purpose is to avoid double taxation on goods that are already taxed abroad. However, these funds are also used by some Luxembourg residents and foreign investors in the real estate sector. Assets held in such a fund are only taxed at 0,01%. Further, if a share of the fund is sold, no tax is due, depending on the setup of the fund. ◆ A beneficial income tax regime exists for expatriate highly skilled employees, whereby tax relief is provided for certain costs linked to expatriation for a maximum period of 5 years.

Luxembourg		
Main findings	Qualitative findings	<ul style="list-style-type: none"> ◆ Residents do not have issues related to hiding wealth but to under-reporting income. The scope is broader for non-residents: under-reporting, evading inheritance tax, wealth tax and other taxes. ◆ Holding and maintaining assets offshore is not seen as a problem <i>per se</i>, only when these assets are not declared. ◆ With the introduction of recent legislation, it is not as easy to hide wealth anymore, but the country is still a large financial centre and as such attracts foreign funds which might not be declared in the country of residence of foreign individuals. ◆ Financial schemes include investment funds via intermediaries, listing fake transactions in company books, whereby companies use bank accounts in other jurisdictions, life insurances, and virtual assets/ cryptocurrencies. ◆ Other assets primarily include real estate, often in combination with specialised investment funds (see tax system above).
	Who	◆ Various backgrounds, mainly wealthy foreign investors (primarily Russians, Germans, French, Belgians)
	Why	<ul style="list-style-type: none"> ◆ Opportunity: When setting up companies or investment funds, controls on where money is coming from and whether taxes were declared in a home country are not as strong. ◆ Real estate transactions not always checked properly: companies doing transactions do not always check its legitimacy, as they assume the bank transferring it does so, although this is not always the case.
	National policy initiatives	<ul style="list-style-type: none"> ◆ Banking secrecy was lifted in 2015. ◆ Luxembourg is one of five EU MS which managed to transpose the 5th AMLD on time by establishing centralized, publicly accessible registers for companies by January 2020. However, Luxembourg delayed the deadline for companies to register beneficial ownership details by three months. Only 47% relevant entities had completed the registration on time. (Global Transparency Report)
Destination countries		◆ <i>No information available.</i>

Table X-19 Malta

Malta		
General	Impact of tax evasion	<ul style="list-style-type: none"> ◆ Tax revenue lost relative to GDP in 2018 is estimated at 2,94%. This share is the highest percentage relative to GDP among EU27 countries (ranked 1st out of 27).
	Capital tax system	<ul style="list-style-type: none"> ◆ No wealth tax exists. ◆ No inheritance tax exists; however, duty is imposed upon inheritance of immovable property at 5% and for shares at 2%. ◆ Capital gains are reported together with other income. The sum of other income and capital gains is taxed at progressive tax rates between 0-35%. When taking the highest of these, i.e. 35%, this tax rate is the second highest among EU27 countries (ranked 2nd out of 16). ◆ Tax schemes for HNWI exist, whereby HNWI from the EU, EEA or Switzerland may benefit from a special tax status. Such individuals pay 15% tax rate on income and capital gains from MT source income which is significantly lower than the equivalent tax rates for residents' or other non- residents whose income is taxed at 0-35%. ◆ Foreign owned companies benefit from low taxes, whereby international corporations can pay a corporate tax rate of 5% (compared to the EU average of 22%), as 6/7th of tax paid in Malta can be returned via a tax refund. Local businesses must pay 35% on profits. ◆ Malta offers a residence by investment scheme (golden visa), whereby a visa is granted to third country nationals who invest at least €250.000 in government bonds or shares for a minimum of 5 years, and invest at least €30.000 in the State Fund of Malta, and purchase or rent a property in Malta. ◆ Malta also offers a citizenship by investment scheme (golden passport). To obtain a 'golden passport', a minimum investment of €650.000 to the national development fund is required, as well as €150.000 in government-approved bonds or shares. Further, a property worth at least €350.000 has to be purchased in Malta, along with a commitment to live there for at least 5 years. Via this programme, investors are eligible for citizenship after one year.
Main findings	Qualitative findings	<ul style="list-style-type: none"> ◆ Malta was labelled to be one of the countries in the EU with characteristics of a tax haven. As such, it attracts wealthy individuals who wish to limit their tax burden and to hide wealth in general and who can profit from favourable tax laws. ◆ Financial products used include offshore holdings, shell structures, and family offices. ◆ Non-financial assets include yachts and airplanes.
	Who	<ul style="list-style-type: none"> ◆ UHNWI ◆ HNWI ◆ Foreign companies ◆ Mafia ◆ Third country oligarchs and loan sharks ◆ Politicians ◆ Third country nationals who participate in the citizenship by investment programmes
	Why	<ul style="list-style-type: none"> ◆ Malta's tax regime attracts foreign investors who intend to limit tax burdens, conceal illegitimately gained wealth, or wish to decide on the distribution of their wealth beyond national rules regulating inheritances, etc.
	National policy initiatives	<ul style="list-style-type: none"> ◆ Malta's register of beneficial ownership is private, i.e. not accessible to the general public. Fees for access are imposed, and information on trusts is accessible only to those who use it to carry out customer due diligence, such as banks and lawyers.
Destination countries		<ul style="list-style-type: none"> ◆ <i>No information available.</i>

Table X-20 The Netherlands

The Netherlands		
General	Impact of tax evasion	<ul style="list-style-type: none"> ◆ Tax revenue lost relative to GDP in 2018 is estimated at 0,61%. This share is in the upper half of percentages relative to GDP among EU27 countries (ranked 11th out of 27).
	Capital tax system	<ul style="list-style-type: none"> ◆ No wealth tax exists. However, a tax on a fixed return on wealth exists. The headline effective tax rate is 1,6% on the net worth of a person's savings and investments. ◆ Inheritance tax rates depend on the value of the assets and the relationship between the deceased and the beneficiary. Rates range from 10-40%. Some tax-free allowances exist. ◆ The capital gains tax rate is at 30%. It is in the upper half among EU27 countries (ranked 5th out of 16).
Main findings	Qualitative findings	<ul style="list-style-type: none"> ◆ Tens of thousands of taxpayers are estimated to use offshore accounts to hide wealth. Also, hundreds of cases are known where wealth has been put in insurance products or was hidden using shell companies/ intermediaries which attempt to shield owners from the rules on beneficial ownership identification. However, if certain criteria are met, such structures may fall under reportable cross-border arrangements to the Dutch tax authorities. ◆ Different constructions are used to hide wealth. In most cases, a company incorporated under foreign law or agreement/ partnership with a foreign address is used to avoid taxation of assets. In particular, the use of limited liability companies and other forms has been shown in thousands of cases. This also includes the use of foundations, trusts and private funds. Other schemes include loan-back constructions, the practice of invoicing fictitious services (trade-based money laundering), the use of cryptocurrencies to transfer cash across borders, foreign bank accounts to conceal funds, and insurance products. ◆ Other forms of investment objects include real estate, land, art, antiques, jewellery, expensive vehicles, horses, expensive clothes, precious metals, whisky, rum, and investments in start-ups, scale ups, and crowd-funding initiatives.
	Who	<ul style="list-style-type: none"> ◆ Multinational companies ◆ UHNWI ◆ Millionaires ◆ Households with less than 1 million euro net financial private wealth ◆ Individuals with inherited private wealth ◆ Nationals and foreign residents
	Why	<ul style="list-style-type: none"> ◆ To hide criminally acquired wealth/its illicit origin. ◆ To exploit the very low probability of being caught. ◆ To protect one's privacy. ◆ To hide assets from family members due to very strict laws dividing who gets money after a divorce. ◆ To favour one heir or exclude others despite strict inheritance laws.
	National policy initiatives	<ul style="list-style-type: none"> ◆ A voluntary disclosure scheme was abolished in 2018. Since the start of the scheme in 2002, approximately 33.000 persons registered, The average invested capital amounted to approximately €300.000 per person, and the scheme generated an average one-off tax revenue of approximately €65.000 per person. ◆ Improvement of exchange of information with other countries via agreements (TIEA's). ◆ Use of CRS and FATCA data to pre-complete income tax returns. ◆ Programma Verhuld Vermogen (Hidden Wealth Programme): ~20 projects for cooperation between relevant stakeholders and use of various detection methods of wealth hidden abroad. Among others, a new team was formed to intensify the approach to detect concealed assets. ◆ It is planned to intensify public private dialogue with regard to tackling tax constructions. ◆ The Netherlands' register of beneficial ownership is private, i.e. not accessible to the general public.

The Netherlands	
Destination countries	<ul style="list-style-type: none"> ◆ Switzerland ◆ Luxembourg ◆ Belgium ◆ Germany ◆ UK ◆ Cyprus ◆ France ◆ Poland ◆ Spain

Table X-21 Poland

Poland		
General	Impact of tax evasion	<ul style="list-style-type: none"> ◆ Tax revenue lost relative to GDP in 2018 is estimated at 0,38%. This share is in the lower half of percentages relative to GDP among EU27 countries (ranked 19th out of 27).
	Capital tax system	<ul style="list-style-type: none"> ◆ No wealth tax exists. ◆ Inheritance tax vary between categories of relationship with the deceased and on the value of the assets. Rates vary between 3-20% in addition to specified amounts depending on the value of the assets. A solidarity tax of 4% is imposed on individuals obtaining total income exceeding PLN1m in a given tax year. ◆ The capital gains tax rate is at 19%. It is in the lower half among EU27 countries (ranked 12th out of 16). ◆ Poland also applies an exit tax rate of 3% or 19%, if residents plan to move their tax residence to another country.
Main findings	Qualitative findings	<ul style="list-style-type: none"> ◆ Physical transfer of cash across borders is used. ◆ The preferred financial asset is shares. ◆ To a limited extent, wealth is hidden in the real economy through the purchase of items such as luxury planes and boats.
	Who	<ul style="list-style-type: none"> ◆ Workers in the shadow economy ◆ Wealthy individuals
	Why	<ul style="list-style-type: none"> ◆ <i>No information available beyond general tax avoidance.</i>
	National policy initiatives	<ul style="list-style-type: none"> ◆ Poland's beneficial ownership register is only accessible with a company's identification number. (Global Transparency Report)
Destination countries		<ul style="list-style-type: none"> ◆ <i>No information available.</i>

Table X-22 Portugal

Portugal		
General	Impact of tax evasion	<ul style="list-style-type: none"> ◆ Tax revenue lost relative to GDP in 2018 is estimated at 1,96%. This share is the third highest percentage relative to GDP among EU27 countries (ranked 3rd out of 27).
	Capital tax system	<ul style="list-style-type: none"> ◆ No wealth tax exists. ◆ No inheritance tax exists, only a limited form of stamp duty (10%). ◆ The capital gains tax rate is at 28%. It is in the upper half among EU27 countries (ranked 6th out of 16). ◆ Portugal offers a residence by investment scheme (golden visa), whereby a visa is granted to third country nationals who invest at least €500.000 into real estate, or purchase at least 30 year old real estate in an urban regeneration area for at least €350.000, or make a capital transfer of at least €1m, or create at least 10 jobs, or invest between €250.000-5000 into either arts, research, or SME. A minimum stay requirement of two weeks per year applies, and all family members of the golden visa holders benefit from visa-free travel into and within the Schengen area.

Portugal		
Main findings	Qualitative findings	<ul style="list-style-type: none"> ◆ Financial products or schemes used to hide wealth include the physical transfer of cash across borders, the use of shell companies, moving wealth to offshore financial centres, and life insurance products. ◆ Other schemes include investments into real estate.
	Who	<ul style="list-style-type: none"> ◆ Insufficient information available. It is suggested that tax evaders are essentially holders of great fortunes or professionals with very high personal incomes. Further, individuals gaining wealth by illicit means.
	Why	<ul style="list-style-type: none"> ◆ A motivation to hide wealth is to protect assets against change in policy regarding the taxation of wealth and inheritances. ◆ Tax rates on capital gains, sale of securities and real estate (25% to 28%) are higher than those practiced in other countries, and may become heavy, especially when there is an inclusion of income. There is, therefore, a tax motivated driver, either as a prevention against a change in the policy regarding the taxation of wealth and inheritances, or as a way to hide the income obtained from that wealth, such as the income from the application or transaction of physical and financial assets. ◆ Another motivation is to hide wealth derived from illicit origins.
	National policy initiatives	<ul style="list-style-type: none"> ◆ Automatic exchange of information via DAC1, DAC2, CRS and FACTA is in place (<i>unable to assess its effectiveness</i>). ◆ Not possible to assess whether AEOI is actually having a substantial impact on bank deposits held in international financial centres. ◆ In 2005, 2010 and 2012, three Special Tax Regularization Regimes were launched, i.e. amnesties allowing illegally invested money to regularise their situation for a fee. In 7 years, this led to the legalisation of €6bio. abroad. ◆ Portugal's register of beneficial ownership is private, i.e. not accessible to the general public.
Destination countries		<ul style="list-style-type: none"> ◆ Switzerland ◆ Hong Kong ◆ UAE ◆ Bahamas/ Panama ◆ Singapore/ Macau

Table X-23 Romania

Romania		
General	Impact of tax evasion	<ul style="list-style-type: none"> ◆ Tax revenue lost relative to GDP in 2018 is estimated at 0,18%. This share is the third lowest percentage relative to GDP among EU27 countries (ranked 24th out of 27).
	Capital tax system	<ul style="list-style-type: none"> ◆ No wealth tax exists. ◆ No inheritance tax exists. ◆ The capital gains tax rate is at 10%. It is the lowest among EU27 countries, if countries without capital gains tax are not counted (ranked 15th out of 16). ◆ There are multiple possibilities of fiscal optimization that do not fall within the strict incrimination provisions of law 241/2005 on prevention and combat of tax evasion.

Romania		
Main findings	Qualitative findings	<ul style="list-style-type: none"> ◆ The tax system does not provide an incentive for relocating assets offshore. ◆ Criminals and larger mafia-type organisations channel proceeds of illegal activities into IFCs for money laundering purposes. ◆ More convictions for tax evasion are issued every year. Topics of assets recovery, in particular when the assets are hidden in offshore centres has been frequently present in political and legal debates and featured highly in the media. Approximately 10%-15% of known economic crimes and tax evasion cases also include a component of ill-gotten wealth hiding. ◆ A shift of destination countries can be observed towards jurisdictions where the automatic exchange does not function (well). ◆ Financial products or schemes used include phantom payments, whereby transfers are made to offshore accounts via legal persons, referring to fictitious activities. Also, trusts, foundations, life insurance products, and where still available, bearer shares are used. Further, physical transfers of cash are made across borders. There are also cases of corrupt insolvency procedures where third parties demand the payment of unsubstantiated debts thus depleting the company of its assets and moving them offshore. ◆ The main non-financial assets include immovable property, gold and ships.
	Who	<ul style="list-style-type: none"> ◆ UHNWI ◆ HNWI ◆ Criminals, mafia-type criminal organisations ◆ The citizenship of the persons involved differs, being both natural persons Romanian citizens, as well as foreign citizens but who either have residence in Romania, or use entities from Romania or the Romanian financial system, for doing their businesses.
	Why	<ul style="list-style-type: none"> ◆ Reasons include efforts to avoid being caught for ill-gotten wealth, a low probability of being caught, and a general lack of tax compliance among certain groups.
	National policy initiatives	<ul style="list-style-type: none"> ◆ Improvements were made to Romanian legislation to reduce tax evasion.
Destination countries		<ul style="list-style-type: none"> ◆ Hungary ◆ Bulgaria ◆ Cyprus ◆ Caribbean Islands ◆ Cayman Islands ◆ British Virgin Islands ◆ Panama ◆ Syria/Lebanon ◆ Liechtenstein ◆ Curacao/ Vanuatu ◆ Hong Kong

Table X-24 Slovakia

Slovakia		
General	Impact of tax evasion	<ul style="list-style-type: none"> ◆ Tax revenue lost relative to GDP in 2018 is estimated at 0,30%. This share is in the lower half of percentages relative to GDP among EU27 countries (ranked 21st out of 27).
	Capital tax system	<ul style="list-style-type: none"> ◆ No wealth tax exists. ◆ No inheritance tax exists. ◆ No capital gains tax exists. Capital gains are taxed as ordinary income at the regular income tax rate.

Slovakia		
Main findings	Qualitative findings	<ul style="list-style-type: none"> ◆ Methods to hide wealth include holding shares in companies. Further, foreign bank accounts are used, also for fictitious companies. Loans and other interest generating assets are also reported. ◆ The main non-financial asset used to hide wealth is real estate. These are conducted either via offshore investments or via indirect investments through shell companies.
	Who	◆ <i>No information available.</i>
	Why	◆ The main motives for the use of offshore centres are a reduced tax rates.
	National policy initiatives	◆ Slovakia's register of beneficial ownership is private, i.e. not accessible to the general public. However, it was already established in 2015 for companies participating in public procurement processes, to allow public scrutiny into the ownership of companies participating in public procurement. Sanctions for non-compliance include companies' exclusion from public procurement processes for 3 years and fines of up to €1m. (Global Transparency Report)
Destination countries		<ul style="list-style-type: none"> ◆ Cyprus ◆ Switzerland ◆ Liechtenstein ◆ USA ◆ Netherlands ◆ United Arab Emirates ◆ Luxembourg ◆ British Virgin Islands ◆ Belize

Table X-25 Slovenia

Slovenia		
General	Impact of tax evasion	◆ Tax revenue lost relative to GDP in 2018 is estimated at 0,17%. This share is the second lowest percentage relative to GDP among EU27 countries (ranked 25 th out of 27).
	Capital tax system	<ul style="list-style-type: none"> ◆ No wealth tax exists. ◆ Inheritance tax rates depend on the value of the asset and the relationship between the deceased and beneficiary. Rates vary from 0-40%. ◆ Capital gains are taxed at 27.5%. ◆ Slovenia has a relatively narrow tax treaty network, with 59 countries. ◆ Individuals selling cryptocurrencies are not subject to capital gains or income tax.
Main findings	Qualitative findings	<ul style="list-style-type: none"> ◆ Slovenia is a recipient country of cash originating from criminal activities which is physically transferred across borders to be deposited in bank accounts or integrated into the real economy through direct purchase of assets. ◆ Companies are most used by Slovenian residents to hide wealth. To a far lesser extent, trusts and foundations are used.
	Who	<ul style="list-style-type: none"> ◆ Entrepreneurs ◆ Sportsmen ◆ HNWI
	Why	◆ <i>No information available.</i>
	National policy initiatives	◆ Slovenia is one of five EU MS which managed to transpose the 5 th AMLD on time by establishing centralized, publicly accessible registers for companies by January 2020.
Destination countries		<ul style="list-style-type: none"> ◆ Switzerland ◆ Liechtenstein ◆ Cyprus ◆ Luxembourg ◆ Jersey ◆ Malta

Table X-26 Spain

Spain		
General	Impact of tax evasion	<ul style="list-style-type: none"> ◆ Tax revenue lost relative to GDP in 2018 is estimated at 0,84%. This share is in the upper half of percentages relative to GDP among EU27 countries (ranked 9th out of 27).
	Capital tax system	<ul style="list-style-type: none"> ◆ A wealth tax of 2.5% exists, which is applicable if an autonomous community has not approved their own tax scale. This is the only general wealth tax that applies in EU27 countries which is not limited on selected assets. ◆ An inheritance tax of 34% exists according to the state scale. It is applicable if an autonomous community has not approved its own tax scale in this regard. Thus, different inheritance taxes apply across the regions. ◆ The capital gains tax rate is at 23%. It is in the lower half among EU27 countries (ranked 10th out of 16). ◆ Spain offers a residence by investment scheme (golden visa), whereby a visa is granted to third country nationals who invest at least €500.000 into real estate, or invest shares of a Spanish company or bank deposits of at least €1m, or by investing at least €2m into Spanish public debt. No minimum stay requirement applies, and all family members of the golden visa holders benefit from visa-free travel into and within the Schengen area.
Main findings	Qualitative findings	<ul style="list-style-type: none"> ◆ Fiscal allusion and evasion are quite present in the media in Spain. Some scandals occurred in the past years. Others include football players and famous actors. Annually, around 26.000 taxpayers are under investigation, with a descending trend. ◆ Various financial products and schemes are used to hide wealth, including investment funds, shell companies, bank accounts abroad, foundations, trusts, and the use of variable capital investment companies. ◆ Other forms of investment include real estate.
	Who	<ul style="list-style-type: none"> ◆ UHNWI ◆ Criminals ◆ Famous people ◆ Foreigners retiring in Spain
	Why	<ul style="list-style-type: none"> ◆ <i>No specific information available beyond general tax avoidance and hiding the origin of wealth stemming from illicit activities.</i>
	National policy initiatives	<ul style="list-style-type: none"> ◆ CRS and automatic exchange of information has played a key role in reducing the amount of wealth that Spanish people hide. ◆ Since 2012: The Fiscal Authority has the Model 720, which is mandatory to be filled in by all citizens who have assets abroad, obliging them to declare assets abroad. ◆ Since 2015: annual publication of a publicly accessible list of biggest (fiscal) debtors to the government/ the treasury.
Destination countries		<ul style="list-style-type: none"> ◆ Malta ◆ Liechtenstein ◆ Luxembourg ◆ Netherlands ◆ Ireland ◆ Switzerland ◆ Panama ◆ countries in the Caribbean ◆ Cayman ◆ Bermuda ◆ Bahamas ◆ Delaware (USA) ◆ Hong Kong ◆ Singapore ◆ UAE ◆ Dubai ◆ Abu Dhabi

Table X-27 Sweden

Sweden		
General	Impact of tax evasion	<ul style="list-style-type: none"> ◆ Tax revenue lost relative to GDP in 2018 is estimated at 0,41%. This share is in the lower half of percentages relative to GDP among EU27 countries (ranked 17th out of 27).
	Capital tax system	<ul style="list-style-type: none"> ◆ No wealth tax exists. ◆ No inheritance tax exists. ◆ The capital gains tax rate is at 30%. It is in the upper half among EU27 countries (ranked 5th out of 16). ◆ It is possible to transfer funds to foundations and trusts without taxation.
Main findings	Qualitative findings	<ul style="list-style-type: none"> ◆ Deliberate tax evasion is estimated to be done by 3% of the Swedish population, and tax compliance is generally judged to be high. A quarter of the wealthiest 0,01% of the Swedish population is estimated to evade taxes through international arrangements. ◆ Only anecdotal information is available on products or schemes used to hide wealth. These are: trusts, foundations, shell companies, life insurance products, physical transfers of cash, use of foreign bank accounts, and others.
	Who	◆ Dependence on income levels and asset holdings: primarily wealthy individuals.
	Why	◆ The main reason for private individuals to engage in tax evasion is to avoid capital income tax and personal income tax.
	National policy initiatives	◆ <i>No information available.</i>
Destination countries		<ul style="list-style-type: none"> ◆ Switzerland ◆ Luxemburg ◆ Lichtenstein

Annex XI – Quality review draft final report

Dr William Vlcek

Senior lecturer at University of St. Andrews – School of International Relations

Completed a PhD in International Relations at the London School of Economics and Political Science in 2006. Research areas of Dr Vlcek: Offshore finance and international taxation, the intersections of finance and security found with money laundering, terrorist finance and sovereign debt.

St Andrews, Scotland, 17 December 2020

Review of the methodology

Please note, all page references in this review are to the document *without* mark-up, which is a different pagination from the document with the very extensive mark-up displayed.

My overall impression of the draft final report is that it provides a very good compilation and analysis of the most recent work on the size and scale of global wealth and the size of international tax evasion. It then extends the existing literature with its update to the ECOPA/CASE study and includes three additional categories of wealth that may be used to facilitate tax evasion. I have several observations and questions about specific points touched on in the study.

First, an observation about the ownership of fine art and collectibles (pp. 12, 76). While it may be that a work of art does not directly provide a form of income, as stated here, the work of art can be used to achieve a return on the investment. Works of art are increasingly used as collateral for loans, which may in turn be invested via an IFC, see, 'Cash in on your Picasso', Economist, 6 July 2019, <https://www.economist.com/finance-and-economics/2019/07/06/borrowing-against-art-is-growing-at-a-stunning-rate>. Thus I am not sure that art should be completely dismissed as it may still provide a path to generate further concealed wealth.

The points raised in the comments of the mark-up version that accompany Section 3.2.1 about capital gains taxation are accurate and quite relevant. Within the past few weeks here in the UK a report reviewing the UK capital gains tax regime was released, and it recommended that the tax should be increased to match personal income tax rates. An article in the Financial Times quoted tax advisors as saying that wealthy individuals had already approached them with questions about liquidating their assets in advance of any potential tax increase. The increase, if implemented as proposed, would be from a 20% rate to 40% or 45%. If the public reaction to a recommendation to increase this tax immediately led to these inquiries, it is reasonable to expect a similar reaction among individuals engaged in tax evasion. See, Daniel Thomas, Emma Agyemang and Naomi Rovnick, 'UK bosses rush to sell stakes over capital gains tax fears', Financial Times, 24 November 2020, <https://www.ft.com/content/0129ca54-bb8e-4b06-8afd-0ff7ccb2233d>.

I recommend caution when using CPIS data as the measurement for determining unaccounted (hidden) portfolio wealth. The problem of assigning a national identity to a particular investment is distorted by the use of IFCs to mask the nationality of the ultimate beneficial owner (UBO). This in turn distorts the data reported to the IMF and included in the CPIS database. The problem was raised in a network analysis of the CPIS conducted by Nick Coates and Mike Rafferty, and published as 'Offshore Financial Centres, Hot Money and Hedge Funds: A Network Analysis of International Capital Flows', in Libby Assassi, Anastasia Nesvetailova & Duncan Wigan, eds., *Global Finance in the New Century: Beyond Deregulation* (Basingstoke: Palgrave Macmillan, 2007): 38 - 54. I do not know if the IMF has adjusted its reporting methods to address the problem. One mechanism to correct the issue would be to 'look through' these corporate entities in order to identify the UBO, but this task would need to be performed by every national reporting authority. It represents yet another reason for states to establish company registries containing UBO information. Beyond the issue of national identification, there is also the potential for double-counting due to the use and ownership of derivatives by investors, which also may distort the data reported to the IMF.

The discussion for measuring global offshore wealth in section 6.2.2 (p. 119ff) finds a correlation between the MSCI index and the estimated size of global offshore wealth. I may have misunderstood the explanation here, because it seems to me that this correlation is to be expected when they are measuring the same thing. Global wealth consisting in large part of portfolio (equity) assets will move in line with the change in value of the

underlying assets, which will be reflected in any number of stock indices. The discussion at this point may want to make a stronger case that even though we may not be able to know with precision how much wealth is hidden offshore, we can have confidence that when the MSCI and other major indices show a year-on-year increase in the value of stocks, that hidden offshore wealth will have increased in a similar manner.

Expressing offshore wealth as a percentage of GDP may be useful for comparing between states, since GDP calculations are often used in this manner, but I don't find any explanatory benefit from calculating this percentage (p. 124). Considering the subsequent chart at p. 130 (figure 6.13), what is the chart intended to tell the reader? Is it telling them that the citizens of these Member States possess these quantities of offshore wealth as a percentage of national GDP? Or is it indicating that the national economy is home to a large quantity of non-resident wealth? The latter would be one interpretation for why Cyprus and Malta are at the top of the chart, because of their status as an IFC. Similarly with figures 6.19 (p. 143), 6.20 (p. 144) and 6.21 (p. 145), are they telling the reader that this is domestic or non-resident wealth for the cases of Latvia, Lithuania and Malta? The answer to these questions seems to be present on p. 190 in section 8, Conclusions, but it may be helpful for the reader also to have this assessment and conclusion alongside the figures.

Finally, when considering the estimated lost tax revenue due to offshore wealth (section 6.6, p. 158), have these figures been compared to any similar estimates produced by national tax authorities? For example, HMRC in the UK releases its estimates of the UK tax gap annually, available online at <https://www.gov.uk/government/statistics/measuring-tax-gaps-tables>. I think it would be helpful for the reader to have a sense for how the estimates produced in this report compare to the estimates produced 'in-house' by different governments.

Review of the findings

As with the report's methodology, I feel the findings are logically developed from the analysis conducted of the literature and existing data. The figures derived for offshore wealth, across its multiple forms, seem reasonable as long as we accept the unknowability of the underlying data. Consistently applying the model across years can offer a sense of the change in quantity of offshore wealth from year to year. At the same time, it is important to keep in mind that the quantity of hidden offshore wealth may be larger or smaller due to the assumptions and estimates made when deriving the figures. It may be useful to remind the reader of this point at relevant places when presenting the findings on the size of global offshore wealth.

The story of the CRS (p. 30) has its origins in the OECD efforts to address international tax competition at the end of the 20th century. Prior to the 2008 financial crisis the process was voluntary and arranged through a series of bilateral 'tax information exchange agreements' to provide tax payer data upon request. The financial crisis provided the political will in the US to legislate FATCA and to then impose it on foreign financial institutions, forcing them to provide financial account data for all accounts held by a US citizen to the US government. The common reporting standard mimics the data collected for FATFA reporting to the US, with the data automatically exchanged among all states party to the OECD's AEOI programme. As noted at page 171, the US is not a party to the OECD programme because its national interests are satisfied by FATCA. This long preamble is to explain my concern with Table 6.6 (p. 127) which includes data on the US. Presumably the data for the US was calculated in the same manner as for all other states, however, I am not sure that the later figures (2014 – 2018) for offshore wealth held by US citizens are reflective of the impact of FATCA. The US government, through the Department of the Treasury and the Internal Revenue Service have been very aggressive in forcing FATCA compliance on foreign financial institutions and taking legal action against US citizens possessing offshore accounts with undeclared income. In addition to the information accessible through the IRS webpage for FATCA (<https://www.irs.gov/businesses/corporations/foreign-account-tax-compliance-act-fatca>), they provide an overview of their accomplishments, including convictions for tax crimes, in the Criminal Division's annual report, available at <https://www.irs.gov/compliance/criminal-investigation/irs-criminal-investigation-annual-reports>. Perhaps the data used for these figures reflect the issues with data reported to the IMF for use in CPIS? The larger point is the fact that the US is not providing data back to its partners in these IGAs. Until US financial institutions are required to report non-citizen account data to the federal government for AEOI with other countries, the US represents a potential location for hidden offshore wealth.

Review of the conclusions

The interim conclusions are echoed in Section 8, Conclusions. However, after providing a summary of the preceding sections' conclusions, it just stopped when I was expecting an overall concluding paragraph putting the study as a whole into context. What is the take-away for the reader after going through 191 pages of material?

I think this concluding paragraph may be something along the lines of:

There are national differences among the Member States in the practices used by HNWI to conceal their wealth offshore, yet overall there has been progress in the prevention of offshore tax evasion via the CRS and DAC2. Efforts should be made by the European Commission to encourage the United States to fully implement reciprocity in AEOI under the remit of FATCA (if not fully endorsing and implementing CRS and AEOI through the OECD). Such a move would help to prevent the US serving as an IFC for EU citizens.

General observations

In addition to the preceding comments, categorised by the sections of the template provided, I have several additional observations that did not quite fit these categories. They concern specifically the version reviewed, dated 8 November 2020, and therefore may no longer be relevant to a later version of the report.

- ◆ The first comment in the mark-ups for this version referred to the need to be consistent with changing offshore financial centre to international financial centre throughout the document, and that task had not yet been completed. And there were still a number of other typos scattered throughout the report suggesting that a final copyedit and proofreading of it remained to be performed.
- ◆ Alongside the final copyedit tasks, the references included in the footnotes for section 7 need to be included in Annex II – Literature List, and the formatting of these footnotes should be adjusted for consistency with the preceding sections of the report.
- ◆ The impact of Covid-19 on the production of the report was mentioned on page 147, and later regarding its potential impact for the EU economy. I feel it should also be noted in the Executive Summary, in part because readers will expect it to be a consideration for both the challenges with producing the report as much as the challenges facing the world economy to recover from the pandemic.
- ◆ The phrase “visa-free access to hundreds of countries” is present several times in the report, which seems a little excessive when the United Nations recognises a total of 193 member countries, along with two observer countries. When I read ‘hundreds’ I expect it to be referring to more than just two hundreds.
- ◆ Update to footnote 348, the Cayman Islands was removed from the EU’s non-cooperative jurisdictions list on 6 October 2020, <https://www.consilium.europa.eu/en/press/press-releases/2020/10/06/eu-list-of-non-cooperative-jurisdictions-for-tax-purposes-anguilla-and-barbados-added-cayman-islands-and-oman-removed/>.
- ◆ Annex I could be improved for reference purposes if it also contained the definitions used in the report for automatic exchange of information, global offshore wealth, and international financial centre.

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P.O. Box 4175
3006 AD Rotterdam
The Netherlands

Watermanweg 44
3067 GG Rotterdam
The Netherlands

T +31 (0)10 453 88 00
F +31 (0)10 453 07 68
E netherlands@ecorys.com
Registration no. 24316726

www.ecorys.nl

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