A STUDY ON EUROPEAN OFFSHORE FINANCIAL CENTERS

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Summary: *The article involve a study on the off shores, its qualities, brief analysis of the European offshore financial centers with conclusion on the wealth disproportion in a post-industrial world.*

Keywords: *Offshore financial center, offshore jurisdiction, asset protection, tax evasion*

Every man is entitled, if he can, to order his affairs so as that the tax attaching under the appropriate acts is less than it otherwise would be. If he succeeds in ordering them so as to secure this result, then, however unappreciative the Commissioners of Inland Revenue or his fellow taxpayers may be of his ingenuity, he cannot be compelled to pay an increased tax.
Lord Tomlin, Duke of Westminster's Case (1936)

1. INTRODUCTION

International Monetary Fund defines offshore financial center (OFC) as 'a country or jurisdiction that provides financial services to nonresidents on a scale that is incommensurate with the size and the financing of its domestic economy'[1].

2. ANALYSIS OF EUROPEAN OFFSHORE FINANCIAL CENTERS

The following main reasons for OFC formation exist, both legitimate and illegal (Table 1):

Table 1: Reasons for offshore financial centers formation

Legitimate reasons	Illegal reasons
Asset holding vehicles	Creditor avoidance
Asset protection	Market manipulation
Avoidance of forced heirship provisions	Tax evasion
Collective investment vehicles	Money laundering
Derivatives trading	Drug, human, illegal arms trafficking
Exchange control trading vehicles	Fleeing of bankruptcy orders
Joint venture vehicles	Other types of fraud
Stock market listing vehicles	
Trade finance vehicles	

The main qualities of the offshore financial center are at least on the following:
low taxation on income, property, capital gains, inheritance;
anonymity of the owners, beneficiaries, management, or trusts foundations, both to the government bodies and to the public;
low requirements to the financial reporting and statutory audit;
bank secrecy;
other benefits (geographical location, political stability, etc.).
As our goal is to depict main offshore financial centers in Europe, we shall list them.

Table 2: European Offshore Financial Centers briefing

Country	Offshore qualities	Country's share in global offshore jurisdictions (est.) [2]
Andorra	Trusts anonymity, anonymity of beneficiaries and accounts to the public.	Very low (<1%)
Austria	Anonymity of beneficiaries; exemption of worldwide income taxation for non-residents	Very low (<1%)
Belgium	Anonymity of trusts and company ownership to the public	Low (1-5%)
Cyprus	Trusts anonymity, anonymity of beneficiaries and accounts to the public.	Very low (<1%)
Gibraltar	Trusts anonymity, anonymity of beneficiaries and accounts to the public.	Very low (<1%)
Guernsey	Trusts anonymity, anonymity of beneficiaries and accounts to the public.	Very low (<1%)
Hungary	Trusts anonymity, anonymity of beneficiaries and accounts to the public.	Very low (<1%)
Isle of Man	Trusts anonymity, partial anonymity of beneficiaries, and anonymity of accounts to the public.	Very low (<1%)
Ireland	Low corporate income tax, absence of transfer pricing rules, EU membership, trusts anonymity, anonymity of beneficiaries	Low (1-5%)
Italy	Trusts anonymity, anonymity of beneficiaries and accounts to the public.	Very low (<1%)
Jersey	Non-taxation of corporate profits and capital gains; trusts anonymity, anonymity of beneficiaries and accounts to the public	Very low (<1%)
Latvia	Trusts anonymity, anonymity of beneficiaries and accounts to the public	Very low (<1%)
Liechtenstein	Trusts anonymity, anonymity of beneficiaries and accounts to the public	Very low (<1%)
Luxembourg	Low taxation, EU membership, partial bank secrecy, trusts anonymity, anonymity of beneficiaries and accounts to the public	Very large (>10%)
Malta	Trusts anonymity	Very low (<1%)
Monaco	Trusts anonymity, anonymity of beneficiaries and accounts to the public	Very low (<1%)
Netherlands	Double taxation treaties resulting in a low taxation, trusts anonymity, anonymity of beneficiaries and accounts to the public	Very low (<1%)
Portugal (Madeira)	Trusts anonymity, anonymity of beneficiaries and accounts to the public	Very low (<1%)

San Marino	Trusts anonymity, anonymity of beneficiaries and accounts to the public	Very low (<1%)
Spain	Trusts anonymity, anonymity of beneficiaries and accounts to the public	Low (1-5%)
Switzerland	Partial bank secrecy, low taxation, trusts anonymity, anonymity of beneficiaries and accounts to the public	Large (5-10%)
United Kingdom(the City of London)	Head of the Commonwealth – being a network of the satellite offshore states; domicile tax rules (income abroad UK is not taxed); partial bank secrecy; trusts anonymity, anonymity of beneficiaries to the public	Very large (>10%)
Vatican City	Trusts anonymity, anonymity of beneficiaries and accounts to the public	No data

We can outline that the United Kingdom (the City of London jurisdiction), Luxembourg and Switzerland constitute 20%, 13% and 6%, respectively of the global market for offshore financial services. It should be noted, however, that the United Kingdom effectively influences on the major jurisdictions such as Anguilla, Antugua and Barbuda, Bahamas, Barbados, Belize, Bermuda, British Virgin Islands, Canada, Cayman Islands in North America, and already listed Cyprus, Isle of Man, Jersey, Guernsey, Gibraltar in Europe, and India, Maldives, Seychelles, Singapore in Asia, making its share even larger.

First of all, we should not mix the City of London and the UK. The City Corporation, as it is known, is today the municipal authority for the City of London, a roughly 2.9 sq. km of prime London real estate located at the geographical heart of London. The City of London Corporation enjoys special privileges and rights– which are different in some ways from regular UK governance – since the Medieval ages – which makes the City as an offshore. [3] One of the most important rights that the City Corporation sought to protect was the freedom to trade relatively unrestricted from the national government presuming various forms of freedom from taxation. In the 20th Century, and particularly in its second half, the City Corporation has become increasingly focused on defending the freedoms of finance.

Also, another legal development rising from British common law is the trust concept, whereby ownership of an asset can be separated out from its control. Trust schemes can be used to create almost opaque secrecy barriers, they are almost never registered or on public record; there is usually no requirement to disclose financial statements; in many offshore jurisdictions there are no requirements for trustees or other trust agents to collect tax or even inform authorities of disbursements, and so on.

Consequent to the dissolution of the British Empire in the middle of the 20th century, an effectively unregulated financial space (Euromarkets) appeared in the City of London with the Bank of England's approval. This started the beginning of a new business model for London, which was not longer dependent on the Empire to sustain its position, and had to seek its 'competitive' advantage in financial regulation, offering escape routes and safe havens for financial interests worldwide.

This was particularly attractive to Wall Street Banks and European and notably Russian capitals, which were constrained by the local laws. The Euromarkets – essentially a stateless, sparsely regulated financial market – grew spectacularly (and spread quickly to other financial centers) and was soon the cornerstone for the growth of London as a financial centre.

We outline therefore, that the abovesaid information makes the United Kingdom (the City of London jurisdiction) the top European offshore financial center.

3. CONCLUSION

As we also can note, an offshore jurisdiction can not possess the minimum tax rate possible, but instead most of them offer the high degree of confidentiality and business privacy. Therefore, the information on the funds engaged in the OFC is limited to the indirect research and is never accurate.

Another character of the modern economy, to which off shores also apply, is the growing wealth disproportion, not only between the Western and Eastern countries, but also within the developed countries (e.g., capital outflow from Spain and Greece, disproportion between the City of London and the rest of the UK) and even within the top of the developed countries.

In this situation, the top rich strata tend to move their wealth to the enclave offshore jurisdictions with private army and central government. If we remember that in the mid 2012, Apple capitalization exceeded Spain, Portugal and Greece companies combined [4], we can make a historical recurrence in this case which is connected with the medieval Crusades and the foundation of the crusader states, chivalric orders, which are unattached to the home territory and are globalized.

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