

British deal with Swiss banks yields few riches

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Tax authorities now hope to collect just a third of the original estimate

BY STEPHEN CASTLE AND DOREEN CARVAJAL

When the British tax authorities struck a landmark deal with the Swiss to crack down on tax evasion, they sat back and waited for the cash to flow in. Almost three years later, they are still waiting.

So far, only about \$1.7 billion of the \$8.4 billion windfall they once expected has materialized, and the sheepish tax authorities now hope to eventually collect just a third of their original estimate.

Instead, the deal struck by Britain, which once seemed a pioneer in combating tax evasion, is emerging as a cautionary tale for a growing number of nations that are feeling the pinch of Europe's flat economy and are desperate to reap revenues from secret accounts held by the wealthy. The amounts at stake are enormous. In 2012, the British government estimated that Britons had amassed more than 40 billion pounds, or \$67.3 billion at the current exchange rate, in Swiss banks. Some conservative estimates of the amount of money tucked away in tax havens and out of reach of governments worldwide range as high as \$21 trillion — more than the gross domestic product of the United States.

The British tax authorities are now facing increasing pressure to act more aggressively. But as the British deal has shown, the efforts to reduce tax avoidance by striking deals with individual havens are akin to plugging one hole in a colander.

Asked by lawmakers in July about the missing billions, Jim Harra, the director general for business taxes at Britain's tax collection authority, said it was "a concern that we have had all along that as the Swiss agreement began to bite, that people would then move their money elsewhere." In short, he con-

ceded, they took the money and ran.

The lesson is that "you cannot rely on a black hole to get income," according to Pascal Saint-Amans, a tax expert with the Organization for Economic Cooperation and Development, which is based in Paris. The organization is currently developing standards for a broader international deal. So far 60 jurisdictions and nations, including Switzerland, have committed themselves. But that agreement is not expected to take effect until 2017, and critics are already pointing out loopholes.

Britain's deal with Switzerland had plenty of its own. For those who wanted to evade the British tax authorities, the agreement gave ample warning — 16 months — to shift money to other offshore havens or put it into gold, bearer funds, artwork, insurance or safe deposit boxes.

The 16-month warning was "almost absurd," said Ian Swales, a Liberal Democrat and member of Britain's parliamentary Public Accounts Committee. "If you had £100 in your pocket and I told you that in a few weeks I would take a portion of it, then you wouldn't really keep £100 in your pocket, would you?" he said.

Other money is hidden in ever more elaborate mazes of offshore trusts and foundations often managed by trustees, usually foreign lawyers, allowing the real beneficiaries to remain secret.

In July, The Times of London published leaked data about a strategy called Liberty deployed by 1,600 people, including celebrities like George Michael and the band Arctic Monkeys. The newspaper reported that they had sheltered money through a company in Leeds, England, that created offshore companies to generate paper losses.

Another example is the bribery trial in Germany of Bernie Ecclestone, 83, a billionaire and Formula One tycoon considered one of the richest men in Britain. Mr. Ecclestone is accused of bribing a German banker, Gerhard Gribkowsky, with \$44 million, for a favorable business deal. His defense is that he lavished the money to prevent the banker from alerting the British tax authorities that it was he, and not his former wife, Slavica, who controlled a family trust set up in Liechtenstein, another famous tax haven.

Mr. Ecclestone denies that he controlled the trust, and says the \$44 mil-

lion was extorted by the banker, to keep him from making false claims.

The finances of the trust are so complicated, according to a document filed in the trial, that, under a 2009 divorce agreement, Mr. Ecclestone's former wife agreed to pay him about \$100 million a year. In effect, the authorities say, it is a kind of alimony "inversion." Mr. Ecclestone keeps a home in Gstaad, Switzerland, which offers a shield because the Swiss authorities do not disclose any account information about legal residents. And his ex-wife is a Croatian who is not a British resident, which has also allowed Mr. Ecclestone to keep the money out of the reach of the British tax authorities.

"This kind of multi-jurisdictional trust shows how difficult it is to break open these structures," said Markus Meinzer, a senior analyst based in Germany for the Tax Justice Network which lobbies for transparency on tax issues. "They are basically impossible to penetrate without a whole array of lawyers and public prosecutors."

The British-Swiss deal was always contentious, with critics arguing that it amounted to an amnesty to tax evaders. The German government abandoned efforts to sign a similar agreement with Switzerland.

Under the deal with Switzerland about 18,000 Britons disclosed their names to the British authorities. Those who did not want to be identified paid a one-time levy of up to 34 percent to settle past taxes. Then last year, the Swiss started deducting a regular "withholding tax" on the interest on behalf of the British authorities.

But recently, the Swiss sent the British a list of the international jurisdictions that had received money from accounts held by Britons in Switzerland before the deductions could be made. Jason Collins, a tax lawyer with Pinsent Masons in London, said that the likely locations included Singapore and Dubai, United Arab Emirates. Other experts see money shifting to Mauritius, Seychelles and Hong Kong.

L'accordo inglese con le banche svizzere frutta con pochi ricchi



The British tax authorities still insist they did the right thing by striking the agreement, even as they quietly lower expectations of its likely value. Supporters of the government argue that essentially it came down to this deal or nothing. But Mr. Swales, the lawmaker, said that he wanted to see more naming and shaming. The Swiss, he said, were aware of many cases involving “people that they know are engaged in some form of criminal activity like tax evasion.”