

First Statement

Good morning, my name is Lucia Rossel and I am a political scientist and currently a PhD candidate of economics at Utrecht University School of Economics under the supervision of prof.dr. Brigitte Unger, the leader of the EU Horizon 2020 project COFFERS (Combating Fiscal Fraud and Empowering Regulators). The main focus of my research is tax evasion, tax avoidance and money laundering, as well as the wealth and gender inequality that stem from it. My part in the COFFERS project focuses particularly on the legal and the policy aspect of tax evasion and money laundering.

Over the last six years the European Union has confronted expanded inequalities across a range of areas from gender, to generational, wealth, mobility and opportunity. One underlying factor common to these expanded inequalities is the contribution of deficiencies in fiscal systems. Income inequality can be traced to 'effectively' regressive tax systems that tax labor and consumption more than capital. A major reason for this is the international mobility of capital paired with financial secrecy in tax havens. Conditioned by the twin financial and fiscal crisis the EU and Member States have not been slow to react with accelerated policy innovations at the national, regional and international levels. These innovations constitute a sea change in tax policy and the EU fiscal regime. A host of novel regulatory instruments are now hitting the ground. The **'Combating Fiscal Fraud and Empowering Regulators' (COFFERS)** project provides a novel framework to contribute to a better understanding of the current state of affairs, by looking both at the side of the regulators and of the regulated. We gauge the traction of regulatory innovation, identify the trajectory of system change and provide remedies for deficiencies in the EU fiscal regime going forward. We will identify deficiencies and opportunities for upgrading in tax law, tax policy development, tax administration and enforcement at the EU level and across Member States

COFFERS as a project aims to evaluate the utility and problem-solving capability of new instruments to combat tax evasion and tax avoidance, such as Automatic Exchange of Information and Country by Country Reporting, the OECD's Base Erosion and Profit Shifting Actions and Legal Entity Identifiers. We aim to do this by adding substantial empirical knowledge to a polarized debate. Instead of backward looking approaches we want to understand errors of the past and provide a springboard into the present and future. To assess and intervene COFFERS takes a forward looking approach of Europe's fiscal regime, which includes: a) EU level and Member State policy adaptation b) EU level and Member State legal adaptation c) adaptation in taxpayer behaviour d) adaptation within expert networks e) adaptations to administrative capacity. We use innovative approaches such as professional surveys, sociolegal analysis, econometrics and agent based modeling in order to better predict the outcomes of

policy interventions and to suggest better policies. We look at the tax system as a tax-ecosystem in which different actors (corporations, regulators, tax experts, accountants, lawyers etc) will try to survive under the new regulatory regime by finding new niches. We will study their responses to policy and the subsequent effect of these responses on the overall system. We are convinced that the new regulatory instruments which have been developed largely in parallel will not all be compatible and will allow for new loopholes which will need adjustment of the regulations.

Regarding the Paradise Papers, I believe that they provide invaluable empirical evidence of an issue that was already known by academics and researchers alike, I will delve more on this later. However there is no doubt that theory becomes more valuable in the presence of evidence. The great value of the Panama and the Paradise papers lays in putting the topic of offshore investments and harmful tax planning under the scrutiny of the public eye, this sheds light on an issue that had for long been in the dark. Furthermore the Paradise papers revealed that offshore investment was not only an issue of corporations but also of individuals, thus increasing the level of scrutiny our public figures.

For COFFERS the Paradise papers provide valuable information that can be used in order to enhance the substantial empirical knowledge we wish to contribute with our research. Members of our project and other academics and activists have long said that transparency is the only way to combat fiscal fraud, the Paradise paper provide information that increases the level of transparency. But it is not enough, in order to really combat fiscal fraud and empower the regulators we need to enforce transparency through policy, we need to know where the missing money is and who owns it.

Questions sent by committee

- Some researchers at the project “Combating Fiscal Fraud and Empowering Regulators (COFFERS) have developed and/or referred to the concept of “global wealth chains”. Could you please explain to us the basics of this concept and its relation to the phenomenon of tax avoidance/tax evasion? Could you also explain to us the COFFERS project?

‘Global Wealth Chains’. Global Wealth Chains (GWCs) are defined as transacted forms of capital operating multi-jurisdictionally for the purposes of wealth creation and protection.

“Global Wealth Chains provide an analytical tool to track how distributional outcomes from global economic activity are determined by law, accounting and finance. They represent in many ways the inverse, or the ‘yin to the yang’, of global value chains. Whereas global value chains follow the journey of the commodity from field to shop shelf and beyond, global wealth chains follow the money. One necessary part of following the money, and a central determinant of who gets what from global economic activity, is taxation and much work within the global wealth chain framework has focused on taxation issues.

The framework provides a typology of chains starting with market (e.g. shell companies) and working through modular (e.g. ex-patriot banking services), relational (the wealth management industry), captive (e.g. the ‘big four’ professional services firms) and hierarchy (e.g. structured capital or large MNEs). Complexity and information asymmetries increase as we progress up through the types. The purpose of the typology is to break down what is a multifaceted and densely populated institutional environment to allow researchers and policy makers to specify particular activities and make this specification in terms of various relations between client, suppliers and regulators. These relationships are characterised by various degrees of information asymmetries. For instance in modular wealth chains the information asymmetry between regulators, clients and suppliers is low, and a lack of regulatory intervention can only be explained by a lack of political will, whereas in hierarchy chains information asymmetries are low or non-existent between client and supplier, but extremely high for the regulator. Regulatory intervention is therefore difficult to make. We can think of the relationships between hedge funds, investment banks and tax authorities in the structured finance space here. The important point is that the typology and the triptych of regulator supplier and client allows researchers and policy makers to specify different chains and how they are constituted by varying relations between suppliers, clients and regulators, then track how these chains and relations evolve over time. Tracking and tracing global wealth chains is important for understanding the production of, and redressing increasing inequalities.

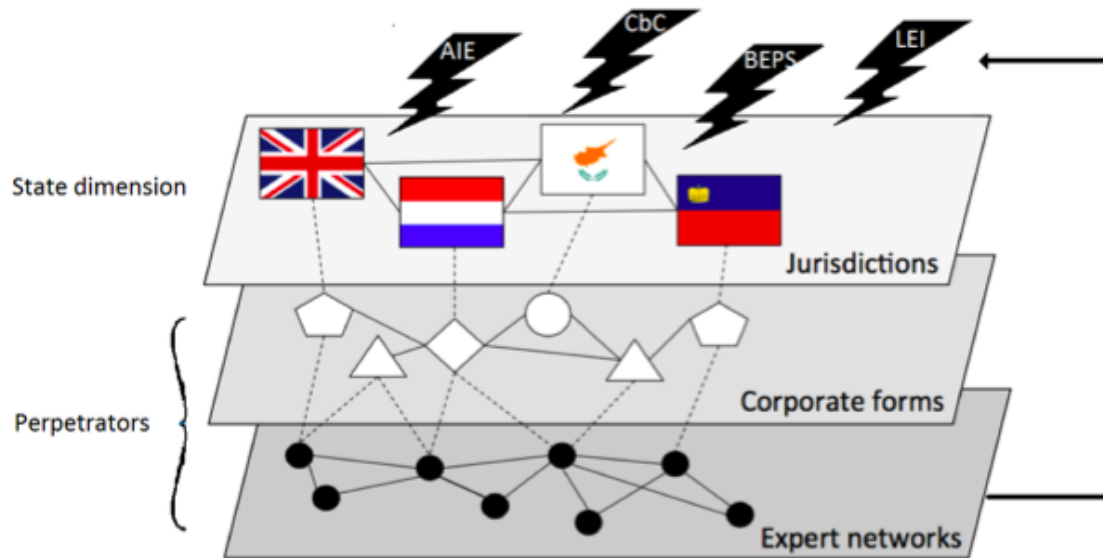
Work within the GWC framework has included analysis of intangible capital, derivatives, structured finance, expert networks in the private, public and civil society spheres, the journeys of various assets through wealth chains and how chains evolve according the interventions of regulators, civil society actors and private sector practitioners.

-For more information please see:

Seabrooke, L., & Wigan, D. (2017). **The governance of global wealth chains.** *Review of International Political Economy*, 24(1), 1-29.

Oxford University Press book edited by Seabrooke and Wigan ‘**Global Wealth Chains: Managing Assets in the world Economy**’. Publishing time: early 2019

Description of the six working packages of the COFFERS project using slides.



- How long before the Paradise Papers revelations was the academia aware of the schemes revealed by the Paradise Papers and used by companies or individuals to drastically reduce their tax base? Has the academia in some way contributed to the development of these schemes?

The danger of offshore structures has been studied by academia long before the Panama or Paradise Papers. Prof Sol Picciotto, who is part of our advisory committee, in his 1992 book *“International Business Taxation”* already mentioned the use of offshore structures. Ronen Palan, also part of our project, published the book *The Offshore World* in 2003. Furthermore Richard Murphy and Ronen Palan co-authored the book *How Globalization Really Works* in 2010 which addressed many of the issues that were illustrated by the Panama Papers.

Furthermore, organization such as the Tax Justice Network, also our collaborator, were fully aware of harmful tax arrangements. In 2005 when the manifesto of TJN was written by John Christensen and Richard Murphy there was already an awareness of the existence of Tax Havens. This publication already tackled measures to tackle offshore such as: country-by-country reporting, full disclosure of accounting information, full beneficial ownership disclosure, registration of trusts, automatic information exchange.

The theoretical understanding and explanations of many academics were somewhat ahead of what the evidence ended up showing through the Panama and Paradise papers. Hence it can be

said that academia foresaw the Panama and Paradise Papers and has already advanced in producing the measures that were required to tackle the abuses in question.

On the other side academia has long debated on the appropriateness of corporate taxation. It has not contributed directly to offshore centers but has indirectly legitimized their existence, when by arguing that corporations should not be taxed. A seminar article on this is by Mieszkowski and Zodrow suggests that corporate tax is a partial factor tax on capital and therefore has an excess burden/deadweight loss and is bad for the economy (MIESZKOWSKI, P., & ZODROW, G. (1985). THE INCIDENCE OF A PARTIAL STATE CORPORATE INCOME TAX. *National Tax Journal*, 38(4), 489-496. Retrieved from <http://www.jstor.org/stable/41792109>)

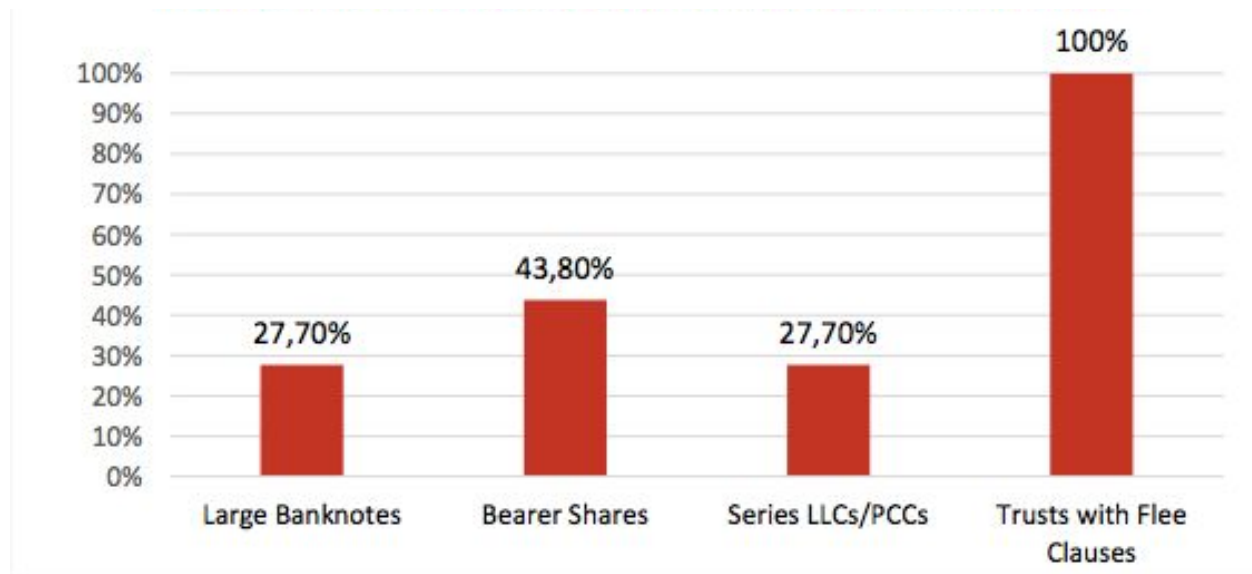
On the other other side economists such as Joseph Stiglitz argue that corporation tax is a tax on profits and therefore taxing them would not influence relative prices between labour and capital, nor would it create deadweight losses/ excess burden to the economy or influence investors' decisions.

Finally , to the best of my knowledge academia has not contributed to the explicit development of the schemes. As part of the COFFERS project there is research being done on who has contributed to the development of such schemes, hence there are researchers looking at the behaviour of the Big Four and also research on the role of professionals such as accountants and lawyers. would not influence relative prices between labour and capital, nor would it create deadweight losses/ excess burden to the economy or influence investors' decisions.

- How many countries still have bearer shares?

As part of our project the Tax Justice Network does research on this in their latest FSI 2018. The indicator regarding t assesses whether companies are available with unregistered bearer shares. Either bearer shares **a)** should not be available in the jurisdiction or, if available, there should be mechanisms to ensure that all existing bearer shares are **b)** immobilised or registered (for instance, by a custodian) and that updated information on holders of bearer shares is filed with a government authority. (TJN, 2018)

This report suggest 43,8 jurisdictions facilitate the use of bearer shares. <https://www.financialsecrecyindex.com/PDF/15-Harmful-Structures.pdf>



- Czech Republic had bearer shares until a few years ago and have now substituted them with shared, bearer shares have been eliminated since then, but we have introduced trusts instead. For more information on Bearer shares in Czech republic
BEARER SHARES IN PAPER FORM AND PUBLIC PROCUREMENT *Jana Chvalkovská, Petr Janský, Jiří Skuhrovec*, Institute of Economic Studies, Faculty of Social Sciences, Charles University, Prague, Opletalova 26, CZ – 110 00 Praha 1 (jana.chvalkovska@zindex.cz; jansky@fsv.cuni.cz; jiri.skuhrovec@fsv.cuni.cz)
 - Romania still has bearer shares but has announced at the beginning of 2018 that they will eliminate them in order to enter the OECD
 - An additional report by the Tax Justice Network has been submitted to the committee, information on bearer shares starts on page 19.
- Could you describe any case study on which you might have worked related to the phenomena of tax avoidance/tax evasion?

As part of our research with COFFERS work package 6 we are investigating the differences between law in the books and the law in practice. For our law in practice research we got inspiration from the case of the German Uli Hoeness. ‘The former Germany international and president of Bayern München was sentenced 13.3.2014 to three and a half years in jail for tax fraud calculated to have cost the state more than 28.5 million Euros’(The Guardian 13.3.2014).

Former football star Hoeness, who won the World Cup with West [Germany](#) in 1974, admitted to squirrelling large profits made on the stock market into a Swiss bank account, during his trial in

Munich, it not only emerged that the sums Hoeness evaded were almost 10 times higher than previously assumed, but also that he failed to disclose his accounts within the rules.

We rewrote this case and hope to get answers from our target respondents who are public prosecutors and legal professionals from countries across the European Union and three additional countries: Panama, United States and Australia.

Through this case we want to relate the concept of tax crimes as predicate crimes for money laundering.

Our second case was constructed to test how corporate tax avoidance is interpreted in action through different jurisdictions. We want to see how different jurisdictions would prosecute the same case.

- In the Paradise Papers, the role of one specific intermediary, Appleby, in assisting clients was highlighted by journalists. Appleby has declined the committee's invitation to participate at this hearing. Baker McKenzie, another intermediary, has also declined our invitation. Do you think that the argument of confidentiality privilege invoked by Appleby and Baker Makenzie justifies their refusal to attend this hearing?

Although, all professional people have a duty to their clients by protecting their affairs. And breaking this compromise could have legal repercussions, this does not impede them from talking in a general manner regarding the nature of their job and practice. They are legally allowed to explain their jobs as long as they do not disclose particular information of their clients. For example discussing the use of offshore structures, trusts, and other similar arrangements is not penalized and could provide information that is needed to further understand what firms like these do.

- You are kindly invited to share with the committee any additional information or suggestion you might consider relevant and that has not been raised in our questions.

An important aspect to take into consideration in the discussion is what definition each jurisdiction gives to tax crime, tax evasion, tax avoidance. We are currently doing research on how definitions across jurisdictions defer, this is important as in order to treat these acts homogeneously across member states.