

Statement of Theresa Neef (EU Tax Observatory, World Inequality Lab) in the public hearing on “The use of special tax regimes in the EU by high-net-worth individuals: the case of Russian oligarchs”

Thank you for this invitation. It is a privilege to address the members of this committee. I would like to summarise the key points of a research note that I wrote jointly with Panos Nicolaides, Lucas Chancel, Thomas Piketty and Gabriel Zucman titled “[Effective sanctions against oligarchs and the role of a European Asset Registry](#)”. We address the issue of Russia’s high wealth inequality and its large share of offshore wealth. Specifically, we discuss how Russian high-net-worth individuals can hide their wealth and avoid sanctions. To ensure the effectiveness of sanctions against Russian individuals, we propose the establishment of a European asset registry, which will record comprehensively and systematically the amount of wealth held by EU nationals and non-EU nationals in EU countries. This will provide a solution to the problem the task forces implementing EU sanctions currently face: they first have to gather dispersed information before they can freeze the assets of sanctioned individuals. At the same time, it will provide a solution to more longstanding issues such as money laundering and tax evasion.

Let me first summarise what we know about Russian inequality: Russia has the highest wealth concentration in Europe. According to our estimates at the World Inequality Database, the wealthiest 1% of Russian residents own about half of Russian household wealth. This concentration of wealth among the richest 1% is much higher than in many other countries. In France, the wealthiest 1% own about 27% of total household wealth; in the U.S., this number amounts to about 35%.

Another crucial aspect for the debate about effective sanctions on Russian individuals is that a significant share of rich Russians’ wealth is held abroad. [Novokmet, Piketty and Zucman \(2018\)](#) estimate that about half of total Russian household wealth is held abroad, often in tax havens. They underline that “[t]here is as much financial wealth held by rich Russians abroad—in the United Kingdom, Switzerland, Cyprus, and similar offshore centres—than held by the entire Russian population in Russia itself”. This phenomenon is particularly pronounced among the very rich. [Alstadsæter, Johannesen and Zucman \(2018\)](#) estimate that the wealthiest 0.01% of Russian nationals, about 10,000 individuals, owned more than 12% of the total Russian household wealth and held about 60% of their wealth in offshore tax havens. However, holding or hiding wealth in offshore centres is by no means a Russian-specific phenomenon. It is an international phenomenon. The same authors estimate that the equivalent of 10% of global GDP is held as offshore wealth. A substantial share of this is unrecorded by tax authorities. Leaked data back this observation. The users and beneficiaries of shell companies to hold, channel and hide funds come from all over the world.

That is why the phenomenon of offshore wealth must be tackled much more systematically. We endorse a structural, long-term solution: the establishment of a European asset registry. Crucial is that it fulfils three criteria of comprehensiveness. First, it must be comprehensive across all relevant asset types. These include bank accounts, securities - like bonds and stocks - as well as company shareholding and business assets, real estate, and hard assets like yachts and other valuables. Second, it must be comprehensive across all jurisdictions, i.e. not only companies incorporated in the EU, but also companies incorporated in non-EU jurisdictions must disclose their beneficial owner if the company holds assets in the EU. Last, it must be comprehensive across all relevant legal forms including listed and unlisted companies, trusts, foundations, partnerships etc.

The EU and its Member States do not have to start from zero to construct a comprehensive asset registry. Information is available, also due to work done at the EU and OECD level. Let me name the most important building blocks for this European asset registry:

First, the Anti-money Laundering Directive (AMLD) is a great building block. The 5th AMLD required Member States to establish beneficial ownership registries for companies and trusts as well as bank accounts. However, the implementation until now is unsatisfactory. For example, when we look at Luxembourg's transparency register, only about half of the observations show the beneficial owner, i.e. the person who ultimately owns the company. For the rest of the registered companies, we can only retrieve information on the legal owners, which might be a shell company to disguise the beneficial owner, or no information. Many owners and shareholders are still not obliged to be registered. This is, for example, the case for non-EU trusts that acquired real estate in the EU before March 2020. Also, shareholders that hold 25% or less of the company's shares do not have to be registered. A 25% share can in many cases already amount to a substantial value. The AMLD requires Member States to make information on the *legal* owner of real estate available for competent authorities. But Member States are not obliged to establish centralised registers showing the *beneficial* owners of real estate. Thus, real estate is the major blindspot. Information on real estate ownership remains of varying quality and format and is difficult to exchange cross-border. This means that we hardly know who owns real estate in the EU, particularly when it is held through a non-EU shell company. The 6th AMLD could close those apparent blind spots and bring additional transparency on asset classes not covered yet.

Second, national tax authorities exchange financial account information under the Directive on Administrative Cooperation (DAC), the implementation of the international Common Reporting Standard in the EU. In addition to the Common Reporting Standard, the DAC also includes the automatic exchange of real estate ownership information and other sources of income. However, *only* if the Member State already collects this information – which is not often the case. Here also, real estate remains a blindspot and this is a major shortcoming: Research shows increased investments into real estate after transparency measures for financial assets tightened, particularly after the announcement of the Common Reporting

Standard. This means that individuals who want to stay hidden can remain hidden if the EU does not close blind spots and comprehensively records assets.

Third, listed companies and financial authorities often do not know who holds shares in which company. Here, the central security depositories, like Clearstream and Euroclear, could provide data. To make this work, central security depositories would be required to collect beneficial ownership for each transaction. This is currently practised only in Estonia, Finland and Greece. But only with this information, we can monitor and potentially freeze shares and the resulting dividends of sanctioned individuals.

To summarise, most information on who owns what exists in the EU. But it is dispersed across institutions and often not linked between Member States. The EU has the organisational capacity to put in place an infrastructure to, first, interconnect the existing data, second, verify the ownership information and, third, improve accessibility for competent authorities across Member States. The European co-legislators should make use of the ongoing revision of the European anti-money laundering legislation, and close the named blindspots; they should bring additional transparency on asset classes not covered yet, particularly real estate.

Financial secrecy is the main special tax regime high-net-worth individuals, such as Russian oligarchs, use to hide their wealth, forego sanctions and lower their tax burden. Establishing financial transparency in the EU would not only make sanctions against oligarchs finally effective, but it would also tackle more longstanding issues linked to money laundering and tax evasion.