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European Offshore Financial Centers (OFC): A Review in a Post-Industrial Paradigm

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Abstract: The article involve a study on the offshores, its qualities, brief analysis of the European offshore financial centers with conclusion on the wealth disproportion in a post-industrial world. Major offshore jurisdiction are described (City of London), main trends of the post-industrial changes (crisis of social state, crisis of national state, corporate structures enclavisation and offshore usage) are depicted.

Key words: Offshore financial center · Offshore jurisdiction · Asset protection · Tax evasion

INTRODUCTION

We contend that for a nation to try to tax itself into prosperity is like a man standing in a bucket and trying to lift himself up by the handle.

W. Churchill [1]: In communist society, where nobody has one exclusive sphere of activity but each can become accomplished in any branch he wishes, society regulates the general production.

K. Marx, German Ideology (1845) [2]: 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' [3].

The following main reasons for OFC formation exist; both legitimate and illegal. Previously we have reviewed the following offshore traits (Table 1, [4,5]):

The main qualities of the offshore financial center are at least one of 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.).

It should be noted, that often the main reason for the offshores usage is

As our goal is to depict main offshore financial centers in Europe, we enumerate them.

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.

United Kingdom (the City of London). It should be noted, however, that the United Kingdom effectively controls or maintain significant influence over the jurisdictions of:

North America: Anguilla, Antugua and Barbuda, Bahamas, Barbados, Belize, Bermuda, British Virgin Islands, Canada, Cayman Islands;

Europe: Cyprus, Isle of Man, Jersey, Guernsey, Gibraltar; and

Asia: India, Maldives, Seychelles, Singapore [7].

Also, 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 London real estate located at the geographical center 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 [8].

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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	

Table 2: European Offshore Financial Centers briefing

Country	Offshore qualities	Country's share in global offshore jurisdictions (est.) [6]
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

One of the most important rights that the City Corporation established and maintained 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 have the following traits:

- secrecy barriers, which are almost never registered on a public record;
- there is usually no requirement to publish 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 [9].

After the British Empire collapse 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. From this period, Britain moved from the world production center to the world financial center. So 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.

Luxembourg. Luxembourg's major characteristic are bank secrecy and the interest on savings exemption, which had been applied until 2004 when the money laundering initiatives came into the effect. Most banks are foreign-owned and have extensive foreign dealings, but Luxembourg has lost some of its advantages as a favorable tax location because of OECD and EU pressure.

Besides that, the growth of the Euromarkets and the Luxembourg Stock Exchange on which most Eurobonds are listed play an essential role. In 1969, the world's first international foreign currency bond was listed in Luxembourg, this improvement allowed the stock exchange to benefit from the increasing flow of Eurocurrencies into the country. They were then converted into Eurobonds and proposed to debtors around the world in the form collective loan. The stock exchange has led a growing international role as an important centre for the quotation of Eurobonds. Luxembourg's share of the offshore banking wealth is estimated around 6% to 13% which can be considered as a significant proportion [10].

Switzerland. Switzerland is a peaceful, prosperous and modern market economy with low unemployment, a highly skilled labor force and a per capita GDP among the highest in the world. During the recent years, Switzerland has come under increasing pressure from individual neighboring countries, the EU, the US and international institutions to reform its banking secrecy laws. Consequently, the government agreed to conform to OECD regulations on administrative assistance in tax matters, including tax evasion. The government has renegotiated its double taxation agreements with numerous countries, including the US, to incorporate the OECD standard and in 2011 it reached deals with Germany and the UK to resolve outstanding issues, particularly the possibility of imposing taxes on bank deposits held by foreigners. These steps will have a lasting impact on Switzerland's long history of bank secrecy. Nevertheless, Switzerland still holds up to 6% world offshore wealth [11].

CONCLUSION

Industrial-era economy is based on the global labour specialization and in the latest years has reached its peak within the global world market. In the current paradigm the economic growth is no longer available and as a result the economic growth of the top countries is made on the expense of other economies. But this model leads to the economic barriers and degradation of the labour system along with the system collapse risks.

These events are accompanied by the increasing avoidance of the uncollateralized currencies, as a result investment in the real assets, commodities and electronic currencies such as Bitcoin and lowered their effectiveness [12].

The offshore usage can also be linked with the technological progress; today's world is experiencing a transfer from an industrial to a post-industrial era.

For example, mass production was an economy cornerstone during the industrial phase; in a post-industrial world, via the fully-automated production facilities, mass production costs decline as every producer designs and makes product with a special need for the society. As a result, the share of product design costs has significantly increased over the share of the production costs. Basically this is in line with the Karl Marx's estimations on the material and technical communism basis; the only difference being is that the structure to be built on this basis would not have any communistic traits.

Fully-automated production facilities share has been dramatically increased in the last decades; it lowered the direct labour costs and its education, medical treatment and social security. In the last 20 years, the real worldwide budget income decreased by 2 (US) to 2.5 times (Europe), in the CIS – by 4 times compared with the USSR [13].

As a result, we can see the phenomena of the 'social state crisis' and 'national state crisis', which were breed in the industrial period and backed-up by needs in the mass work force. Now this era has ended and significant parts of the national state structure are degrading; post-industrial corporate structures use offshore jurisdictions to avoid the increasing taxation and pressure in their home markets. Many corporate structure create protected enclaves in these offshores, finance private armies for their protection, education and medical treatment for their specialists.

What we see in the last couple of years is the struggle attempt of the national bureaucracy against the offshore usage by corporations (Cyprus and overall European crisis in 2013).

Summary: 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 offshores 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 [14], 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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