# Automatic for the (tax) people: information sharing and cross-border investment in tax havens

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BIS workshop on the use of BIS international banking and financial statistics, 15 December 2023

* Views expressed are those of the discussant and do not necessarily reflect those of the Bank for International Settlements.

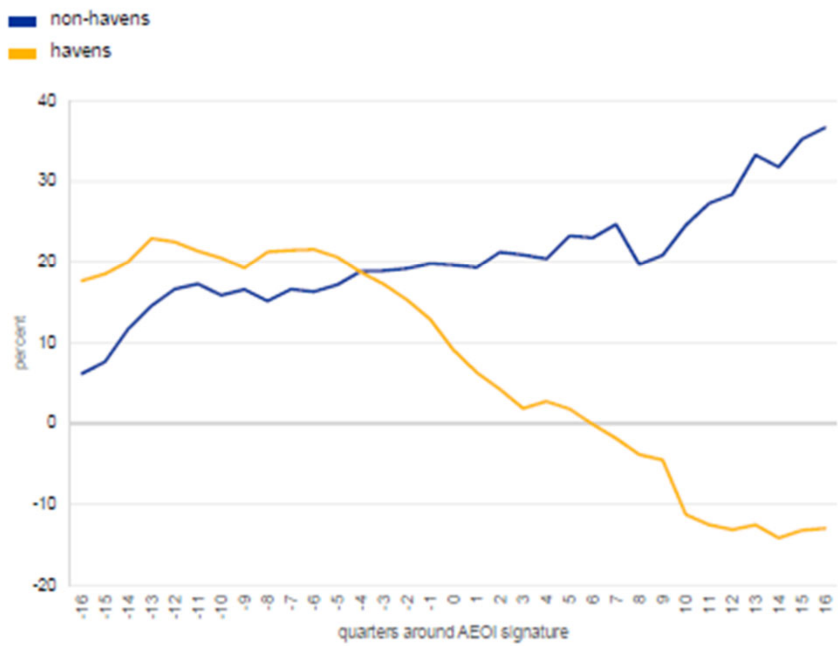
# Overview

- policy question
  - has the automatic exchange of tax information deterred tax evasion via tax havens?
- hypothesis
  - outstanding deposits, portfolio investment and foreign direct investment decline after signing a bilateral automatic exchange treaty
- estimation
  - panel regression with a dummy for the quarter when the treaty was signed and multiple fixed effects (country pair, reporting country, saver (source) country time)
  - 2014 Q1 – 2019 Q4
  - battery of robustness tests

# Findings

- treaties significantly reduced deposits by non-haven non-banks in tax havens, driven by households
- impact is persistent, in contrast to the temporary impact of earlier tax information exchange initiatives
- also reduced portfolio investment and FDI
- evidence of circumvention, eg shifting deposits to tax havens without treaties or into financial entities (shell companies)

**Figure 3:** Non-haven deposits in haven and non-haven countries around joining the AEOI



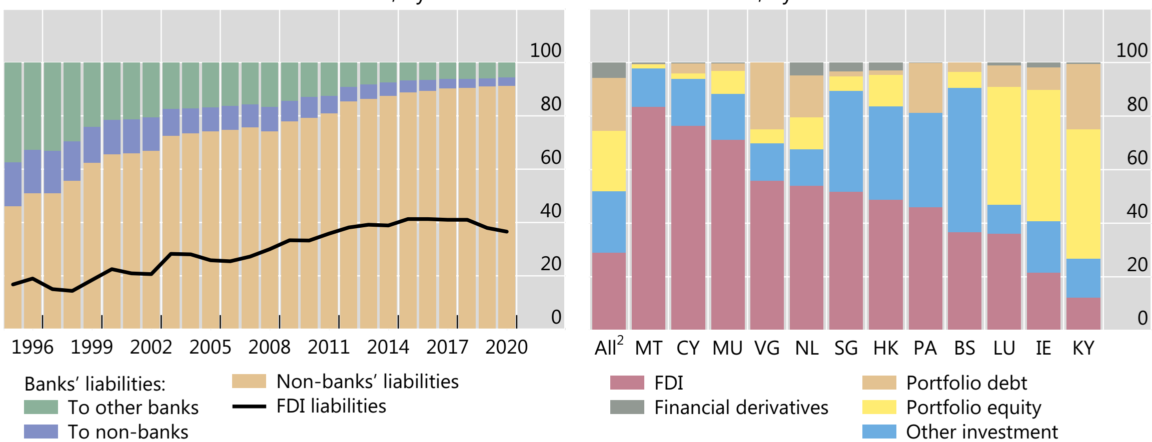
# Contribution

- analyse a more granular breakdown of the non-bank sector than previous studies
  - NBFIs, non-financial corporations, governments, households (enhanced LBS)
- consider other financial instruments in addition to deposits
  - international investment is increasingly complex and opaque
  - channels through which household activity might affect other instruments

Activity in cross-border centres has shifted towards non-banks and FDI

As a share of external liabilities, in per cent — Graph 7

Cross-border centres' external liabilities, by sector — External liabilities, by instrument[1]



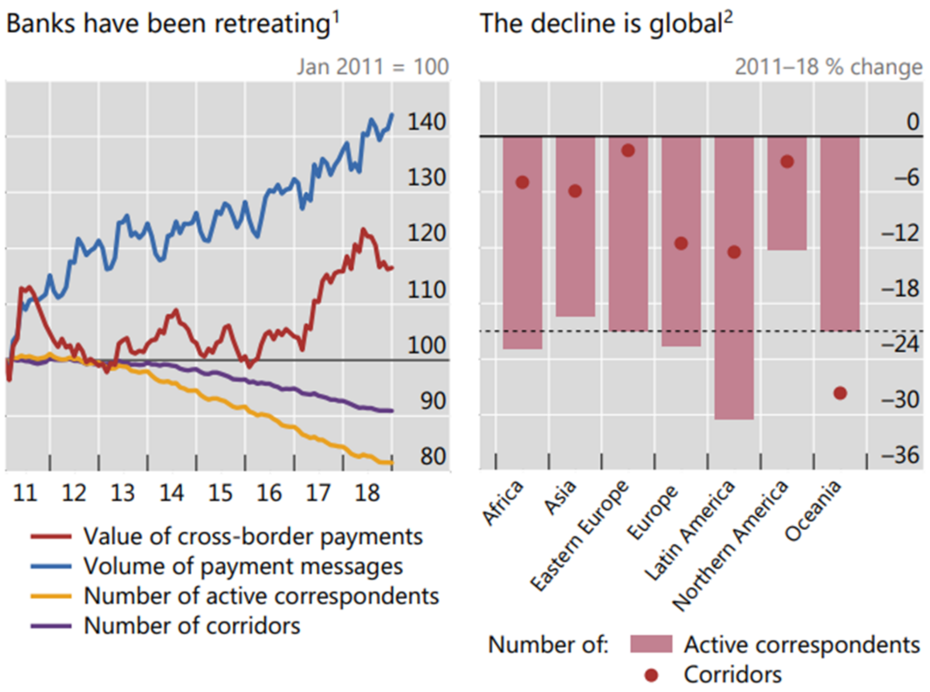

[1] At end-2020. [2] Weighted average of all economies.

Source: P Pogliani, G von Peter and P Wooldridge, "The outsized role of cross-border financial centres", *BIS Quarterly Review*, June 2022.

# Comments: impact of compliance costs

- assumption that changes reflect either tax avoidance or tax evasion
  - "deposits and other forms of investment driven by transparent and legal tax avoidance strategies … should not react to the threat of information exchange …"
- what about the supply of intermediation services?
  - information exchange imposes compliance costs on financial institutions
  - banks have exited relationships as a result

Correspondent banking landscape




Source: T Rice, G von Peter and C Boar, "On the global retreat of correspondent banks", *BIS Quarterly Review*, March 2020.

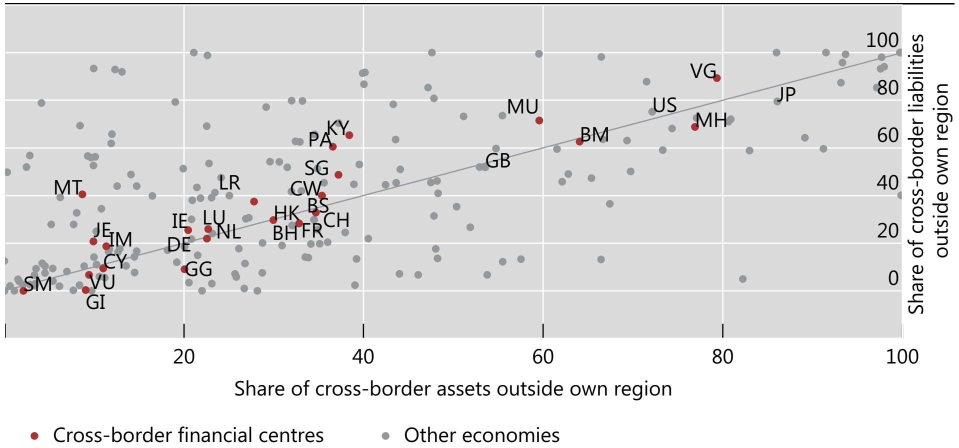
# Comments: source vs destination of portfolio investment

- test impact of a treaty on <u>outward</u> portfolio investment from havens to non-havens
- assumption that funds are round tripped to and from the same country
- financial centres often channel funds from one country to another
  - analyse derived liabilities of tax havens rather than reported assets?

Most cross-border financial centres have a regional focus

Share of cross-border banking business with counterparties in other regions, at end-2021

Graph 5




Countries are allocated to one of three regions: North and South America; Europe and Africa; or Asia and Oceania.

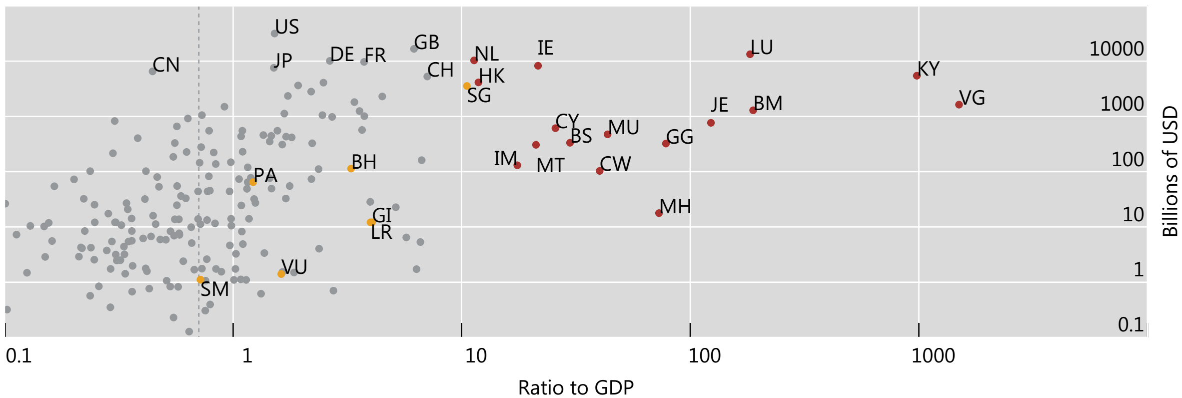
Source: P Pogliani, G von Peter and P Wooldridge, "The outsized role of cross-border financial centres", *BIS Quarterly Review*, June 2022.

# Other comments

- estimations for portfolio investment focus on equity assets
  - what about portfolio debt?
- robustness tests
  - exchange rate effects?
- list of tax havens
  - criteria used by Johannesen and Zucman (2014) : strict bank secrecy laws, legal provisions restricting foreign tax authorities' access to bank information, or no legally binding treaties for information exchange (secrecy jurisdictions)

Distinguishing among financial centres

Cross-border financial intermediation at end-2020[1] Graph 2




Cross-border financial centres: • In 2020 • In earlier years • Other economies

BH=Bahrain; BM=Bermuda; BS=Bahamas; CH=Switzerland; CN=China; CW=Curaçao; CY=Cyprus; DE=Germany; FR=France; GB=United Kingdom; GG=Guernsey; GI=Gibraltar; HK=Hong Kong SAR; IE=Ireland; IM=Isle of Man; JE=Jersey; JP=Japan; KY=Cayman Islands; LR=Liberia; LU=Luxembourg; MH=Marshall Islands; MT=Malta; MU=Mauritius; NL=Netherlands; PA=Panama; SG=Singapore; SM=San Marino; US=United States; VG=British Virgin Islands; VU=Vanuatu. The vertical dotted line indicates the median ratio for all economies. [1] Measured as the minimum of an economy's external assets and liabilities. $\text{Log}_{10}$ scale, with axis labels in natural units.

Source: P Pogliani, G von Peter and P Wooldridge, "The outsized role of cross-border financial centres", *BIS Quarterly Review*, June 2022.