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FINANCE

Looking for Hidden Black Money? London Might be the Place to Start

BY KANNAN SRINIVASAN ON 04/03/2017 • 8 COMMENTS

Black money may be funnelled away in tax havens, but it is all controlled out of London, where Indian and other billionaires are happy to be based.

London skyline. Credit: Pixabay

Narendra Modi had campaigned on a promise (https://www.youtube.com/watch?v=i1Lw53W_AkM) that he would bring black money home from abroad and give each poor Indian Rs 15 lakhs.

Taking the World Bank's rosy projection (http://povertydata.worldbank.org/poverty/country/IND) of how Indian poverty has declined under liberalisation , that would mean giving Rs 417 trillion to 278 million people. That was an absurd promise. Since the Prime Minister is an intelligent man, he must have had known that and perhaps had no intention of keeping it. Instead his Government has chosen to inflict untold misery on the poor by withdrawing from circulation the denominations in which they hold most of their wealth.

Were Modi were to honour his original promise, if only in spirit, his Government would search for Indian black money. Where might that be? A few years ago I had interviewed a scion of a Maratha princely family related by marriage to many important Rajputs who described to me how he used to help organise such transfers abroad by Indian princes for a long time, going back to 1947. Global Financial Integrity, led by Raymond Baker had once published (http://gfintegrity.org/wp-content/uploads/2014/02/GFI-India-Final.pdf)a study — which remains the most authoritative one on the subject — that estimated that, "tax evasion, crime, and corruption had removed gross illicit assets from India worth US$462 billion." That was a few years ago, and the numbers must have surely grown.

It is not possible to estimate reliably what proportion of Indian money is kept in any specific location. Yet we should consider the fact that rich Indians have a special affection for London. For those without French or German, it takes some effort to move, say, to Switzerland. London's hotels, restaurants and entertainment are familiar to and beloved by the Indian rich. Houses they have bought there have appreciated handsomely. And the offshore component of many Indian business deals has made London especially attractive. Liquor baron Vijay Mallya, the arms dealers Sanjay Bhandari, Sudhir Choudhrie, Ravi Shankaran and Abhishek Varma have all found safety and comfort there. A good deal of the Nanda family arms dealing was done through London.

Even the funds recycled back to India through Mauritius are connected to the UK. As India shows net inflows from Mauritius, the UK consistently shows (http://C3.2 http://www.bankofengland.co.uk/statistics/Pages/ebb/2016/mar.aspx) net outflows to it. The UK Government, official agencies, and the City all see flows of returning flight to India from and through jurisdictions such as Cyprus, Mauritius or Jersey as essentially an extension of the City of London itself.

International deposits in banks in the UK and investment in securities there exceeded (http://www.bis.org/statistics/a2_1.pdf) those of any other country including Switzerland and the United States . A good deal of such investment goes to important financial markets located in London, including the Eurodollar market. London's role as a financial centre makes any dealings with banks and trusts there seem all the more innocuous. Because it is the premier financial centre it also offers competitive returns on investment which Mauritius, say, or Cyprus, cannot match.

The important "private bankers" as they are called, who solicit such secret funds may travel to Lagos and Moscow and Mumbai, but they are based in London, and that is where I have met several. The important private banks are in discreet mansions furnished like gentlemen's clubs. Trusts may be incorporated in Guernsey or the British Virgin Islands, but, again, they are managed from London. Secret wealth-holders may move their funds in and out of Jersey or Panama or the Caymans, but rarely, if ever, live there; but their transactions are postmarked to tax havens even if actually managed from London.

For the UK controls some tax havens and is closely connected to many others. These are the premier destinations for international secret money. In such havens, trusts conceal the identities of beneficiaries. It is in the *second* round that such money often lands up in the UK. Deposits in three UK-controlled tax havens, the Dependencies of Guernsey, the Isle of Man and Jersey are directly "upstreamed" to the United Kingdom. That means they are actually treated as a part of the UK balance of payments.

Just these three tax havens accounted (http://www.bankofengland.co.uk/statistics/Pages/ebb/2016/sep.aspx) (table C3.2) for $141.991 billion of $157.669 billion of total outstanding net inflows into the UK as of September 30, 2016.

Though a good deal of investment in these three havens is by corporates and financial firms seeking legally to minimise taxation, it is also true that much of it is by international persons who wish to conceal their funds because they are evading taxes in the countries where they make their money. I shall describe a little of this.

In all three of these tax havens, a company may be set up without even a physical residence. Businesses pay no tax, and trusts just 10 percent. The identity of the true beneficial owners of these firms is kept entirely secret. Absurdly enough, an official report about 10 years ago had shown that in the village of Sark, in Guernsey, for instance, 575 people held (https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/265705/4109.pdf) 15,000 corporate directorships. Three Sark residents alone "appeared to hold between 1600 and 3000 Directorships each." They are straw owners, holding paper title to assets for fees ranging from 100 to 750 pounds a year per directorship on behalf of owners who prefer to keep their ownership secret. The same pattern of locals holding trust for secretive foreigners is common throughout these havens.

And a small number of closely knit clans regulate billions of pounds. In Jersey, a legislator became a judge (Jurat), his own father having also been a legislator. His elder son has been a legislator, Solicitor General, Attorney General, Deputy Bailiff and Bailiff (the Bailiff is Chief Judge of the Royal Court as well as the Court of Appeal and concurrently President of the States or Speaker), then External Relations Minister, responsible for dealing with the UK as well as foreign countries. The Bailiff's brother followed him as Attorney General when he became Bailiff (so prosecuted cases at the *very* time his brother presided over Court), and thereafter also became Deputy Bailiff, acting for the Bailiff.

Lord Carswell, Chairman of the Committee to look into the States of Jersey, asked whether the fact of the Bailiff or Deputy Bailiff acting as both President of the States as well as Chief Judge constituted a conflict of interest. He was reassured (https://www.gov.je/Government/HowGovernmentWorks/ReviewCrownOfficers/Pages/PublicHearings.aspx) that there was none.

The OECD-promoted Financial Action Task Force has made no attempt to address such issues. Nor has the United States, which led a long campaign to investigate and limit the activities of private banks headquartered in Switzerland. This might be explained by the fact that about a third of overseas investment in securities and about 70 percent of deposits from overseas in the US is from the UK and its related tax havens, much of it by persons unknown. In six Overseas Territories (Anguilla, Bermuda, British Virgin Islands, the Caymans, Gibraltar, and the Turks and Caicos), the Governor is appointed by and entirely accountable to the UK Government. Pretty much the same sort of business goes on there as in the Dependencies. The law firm of Maples and Calder had 18,857 companies at its office in Ugland House, Georgetown, the Caymans.

Baker of Global Financial Integrity points out an important reason anonymous and secret money from any haven can so be easily funnelled into Britain. UK law turns a blind eye to whether inward investment *originates* in overseas tax evasion, following Lord Mansfield's famous 18th century dictum that "no country ever takes notice of the revenue laws of another."

An additional incentive to transferring funds, whether secret or otherwise, from overseas is that wealthy foreigners living in the UK may be free from paying income tax there. The law allows "non-doms" as they are called, to declare an official, even *aspirational* residence in another country. Such a person may have assets of £1 billion earning a return of at least 4% (most conservatively), £40 million. Yet she or he might be eligible to a flat levy of £50,000 on all remitted foreign income and capital gains. So that income could be taxed less than one per cent. This is a painless fee for a Russian oligarch or Indian billionaire.

Footloose plutocrats from overseas have found their London houses have appreciated most handsomely. Property is often marketed to overseas buyers as the best place to keep money in flight. And that overseas market is highly specialised: Middle Eastern, North African (some reacting to the Arab Spring) and South Asian buyers are interested (http://www.telegraph.co.uk/finance/property/cities/8818195/Londons-property-market-is-a-safe-haven.html) in Hampstead, Islington and Westminster. For all these reasons it might be said that London is the veritable mother of tax havens. Should Narendra Modi be serious about his promise to bring black money home, he might well begin by looking here.

Kannan Srinivasan, who is working on a book on money laundering, wrote this article at the Wertheim Study, New York Public Library.

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