Comments for Folketinget Fiscal Committee Consultation on Tax Havens

Adam Hofri-Winogradow, Hebrew University of Jerusalem
How Wealth Managers can be made to contribute to closing Legal and Regulatory Loopholes: a case study from Israel

• trusts are formalized relationships concerned with the transfer or holding of property by some person, the trustee, for another, the beneficiary

• They create great opportunities for tax planning, because the property seems to be owned by no-one

• Until 2006, Israel had no tax regime in place for bona fide trusts, so they were widely used for tax minimization

• In 2002 a public sector committee was appointed to propose a trusts taxation regime. Because there were no civil servants with the understanding of trusts necessary to formulate such a regime, three private wealth managers were appointed to the committee.
How and Why did the Wealth Managers involved agree to create a Tax Regime which eliminated Planning Opportunities?

• Some goodwill: many wealth managers are far from immoral and will assist the public sector if asked to do so. Their pride in their expertise can be usefully exploited.

• The new regime created a heavy compliance burden, which ensured that wealth managers expert in trusts will continue to have remunerative employment: instead of profiting from planning/avoidance, they now profit from compliance

• The regime included a quid pro quo in the form of a purposely-designed loophole (much smaller than the pre-existing one)
The 2013 Endgame

- By 2013, tax authority personnel developed sufficient expertise in trusts and trusts taxation to draft and pass an amendment closing the loophole created in 2005
- Private wealth managers complained and threatened, but to no avail
Generalizable Lessons

• Wealth managers can be swung from facilitating avoidance to facilitating compliance, so long as their own interests in being employed are safeguarded.

• Public sector capacity is all-important.

• Bait and switch: private wealth managers can be recruited into jump-starting public sector capacity. Once this capacity develops, the services of private wealth managers are no longer necessary (at least to the government).
Practical Suggestions

• Wealth managers should be invited to contribute to relevant legislative and regulatory processes

• The compliance burden resulting from the existence of legal or regulatory requirements can be used to tempt wealth managers into cooperation with public authorities

• Protecting wealth managers’ income stream by creating heavy compliance burdens can be seen as a strategy for wealth redistribution

• Governments can use the wealth management profession as a means for encouraging the wealthy to behave in ways which are deemed desirable