

Comments for Folketinget Fiscal Committee Consultation on Tax Havens

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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