

Tax havens in the EU – why does the BBC miss them out?

I noticed in all the BBC allegations about use of tax havens they of course made no mention of why it is that most UK collective investment fund investments are now made through Dublin or Luxembourg.

The EU invented the passported investment fund that can be easily used throughout the EU called UCITs – Undertakings for collective investments in transferable securities. These have replaced many of the domestic UK unit trusts that savers used to use. 88% of these vehicles are established in either Dublin or Luxembourg rather than in London which remains the principal centre for investment expertise.

One of the reasons behind this dominance by two of the smaller world centres is the favourable tax regime. In Ireland overseas investors in the funds pay no Income tax, CGT, Subscription tax, Corporation Tax or Redemption tax to the Irish authorities. Obviously holders of the units do pay income tax on the dividends and CGT on the gains in their country where they are registered to pay taxes. UK investors large or small pay Income tax on dividends and CGT on gains in any offshore fund they hold anywhere in the world, unless their gain is below the taxable threshold or unless they hold the investment in a pension fund or ISA which are tax exempt. Ironically given the coverage it is the smaller savers who can more easily use sensible tax avoidance schemes like pensions and ISAs to avoid tax on their holdings.

In Luxembourg too there is a very favourable tax regime to encourage the establishment of UCITs. Dublin has proved more attractive because it also offers a very low Corporation Tax rate of 12.5% if the sponsor company for the UCIT also wishes to move there.

It is curious how Labour and the BBC concentrate on favourable tax regimes in UK offshore centres but not in these two larger EU locations. I see nothing wrong with the approach of the Irish or Luxembourg authorities who have successfully competed with a tax and services offer which has attracted a lot of business away from London and other large centres. I do detect bias in the recent treatment of tax avoidance stories. They have been unwilling to point out up front that offshore funds do not allow UK citizens to avoid tax on their investments, and do not point out the huge volume of offshore funds generated by EU policy favouring places other than London within the EU.