Creating Value: The BVI's Global Contribution

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A report by Capital Economics for BVI Finance Limited

BVI Finance
your international business partner

CAPITAL ECONOMICS

Creating Value:
The BVI's Global Contribution

An evaluation of the economic, financial and fiscal impact of the territory and its investment vehicles on the world economy.

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FOREWORD

No man is an island.

This phrase is as true today as it was when it was written hundreds of years ago.

We live in a truly connected world in which the global economy is powered by cross border activity whether that be travel or investment. The British Virgin Islands is at the heart of this intersection with an economy dependent on and driven by both.

We acknowledge that globalisation raises a complex set of questions for every region and country. However, it has enabled economic growth around the world and also at home. From our perspective, we know that we have been net positive recipients and there is much in this report which proves this.

Over the last three decades, we have carefully and systematically played an increasingly critical role in the global financial system.

We recognise that, with this role, come responsibilities which we take incredibly seriously. It is very much in our interests that the integrity of this system is protected and preserved.

For the British Virgin Islands this report, *Creating Value: BVI's Global Contribution* represents a line in the sand. Commissioned by BVI Finance and undertaken by leading international economic consultancy, Capital Economics, the report ensures that for the first time, we can demonstrate the significant contribution we make to the global economy. It provides us with evidence based insights which will enable us to determine a clear path forward as we chart our continuing role as a trusted and active participant in the global financial system.

The British Virgin Islands' twin economic pillars of tourism and financial services have developed successfully. However, we are always looking at how our offer in these areas can be further improved. As an independent organisation and by undertaking a thorough and detailed investigation of our economy, Capital Economics has highlighted our successes but also the issues we still must address.

As a business and finance centre there have obviously been challenges over the last few years as uninformed individuals and organisations have questioned our integrity and approach. However, we stand firm in the belief that international finance centres like ours service very specific business needs, bringing together a network of skilled professionals with deep technical knowledge and a specialist financial services infrastructure.

The British Virgin Islands has a track record of innovating and evolving its legislative framework to reflect the changes in the global landscape and so, as a jurisdiction at the heart of international business and trade, we adhere to all relevant regulatory standards.

The British Virgin Islands is listed as 'largely compliant' along with the UK and the US by the OECD Global Forum on Tax Transparency and Exchange of Information. We were an early adopter of the OECD's Common Reporting Standard (CRS) for the automatic exchange of tax information, and will exchange information under the CRS in advance of a number of G20 countries. The BVI has also joined the UK in making a political commitment to support development of a new global system for the systematic exchange of beneficial ownership information on a reciprocal basis which is secure, respects confidentiality, is in a searchable format, minimises additional burdens and achieves a level playing field.

We are a respected and active participant in international bodies including the OECD's Global Forum on Tax Transparency and Exchange of Information, the FATF and Financial Stability Board regional bodies, the global standard setter for the securities sector (IOSCO), and the Egmont Group of Financial Intelligence Units.

The findings contained within this report are fascinating and while it will of great interest to our international friends, I recommend that all BVI Islanders take the time to study it in detail. As a cornerstone of our economic development it will do much to inform our future deliberations.

Lorna Smith, OBE
Interim Executive Director
BVI Finance Limited

KEY FINDINGS

Capital Economics has been commissioned by BVI Finance Limited to research and report upon the contribution made by the British Virgin Islands to the global economy.

This report combines new analysis of existing information, statistics and research with the results from a major quantitative and qualitative research exercise among a large and representative sample of financial and professional services firms operating in the territory.

There are five key findings.

First, despite its relatively small size, the BVI is a real, balanced and sustainable economy.

- With gross domestic product of roughly US$32,500 per capita, the BVI's levels of prosperity are among the higher performers in the Caribbean and Latin America region.
- It is a remarkably balanced economy: tourism accounts for one in four jobs, while the international business and finance centre accounts for one in ten. Half of the BVI's economic output derives from these two key sectors.
- The BVI has maintained a sound fiscal position despite the impact of the global financial crisis, while it runs a surplus of around US$45 million on its trade account.

Second, the BVI is home to a unique cluster of financial and professional services firms that form an 'international business and finance centre'.

- The BVI is one of the world's largest centres for the incorporation of companies – especially those created to facilitate cross-border trade and investment, and is home to a cluster of associated specialist financial, legal and accounting firms with clients from across the globe.
- The international business and finance centre employs 2,200 people directly and supports a further 3,000 jobs – and generates US$330 million of gross value added and accounts for three-fifths of government revenues.
- Over two-thirds of all jobs in the centre are held by BVIslanders and Belongers.

Third, the 'BVI Business Company' is a widely used and dependable vehicle to facilitate cross-border trade, investment and business.

- There are currently just under 417,000 active BVI Business Companies. Roughly two-fifths originate from Asia while use by clients from 'G7' countries is less common, accounting for less than one-fifth. The assets held by these vehicles have an estimated worldwide value of US$1½ trillion.
- Major respected companies worldwide use BVI Business Companies to manage their cross-border activities. The BVI is home to part of the group structure of over 140 major businesses listed on the London, New York or Hong Kong main stock exchanges.
- The important role of BVI Business Companies in international investment flows is evident from data on foreign direct investment. According to the United Nations, the BVI was the ninth largest recipient of foreign direct investment, and the seventh largest source of outward flows in 2015.

Fourth, the BVI is a sound and reliable centre which has worked harder than many bigger nations to meet international standards, and not some supposed tax haven.

- The BVI is not a tax haven. It has no banking secrecy rules and compares well against many other jurisdictions on international standards for transparency, tax information exchange, anti-money laundering and measures to combat the financing of terrorism.
- The BVI is 'tax neutral' and is not a centre for corporate profit shifting. Just because a company is incorporated in the BVI does not stop it being liable for full taxation in other jurisdictions.
- The territory has responded quickly and constructively to international developments seeking to improve transparency and clamp down on criminality, including tax evasion.

Fifth, through its direct employment, trade and, most importantly, facilitation of cross-border business, the BVI supports jobs, prosperity and government revenues worldwide.

- The BVI provides jobs and incomes to 5,500 people from most countries in the wider-Caribbean region – as well as supporting around 12,000 jobs in the United States through its imports.
- The investment mediated by the BVI supports around 2.2 million jobs worldwide, with China (including Hong Kong) accounting for nearly two-fifths of them – and one-fifth in Europe.
- The scale of the BVI's global contribution to investment and jobs sheds a new light on the debate around its impact on the tax receipts of other nations. The BVI is a substantial net benefit to governments worldwide.

CONTENTS

1 INTRODUCTION AND SUMMARY

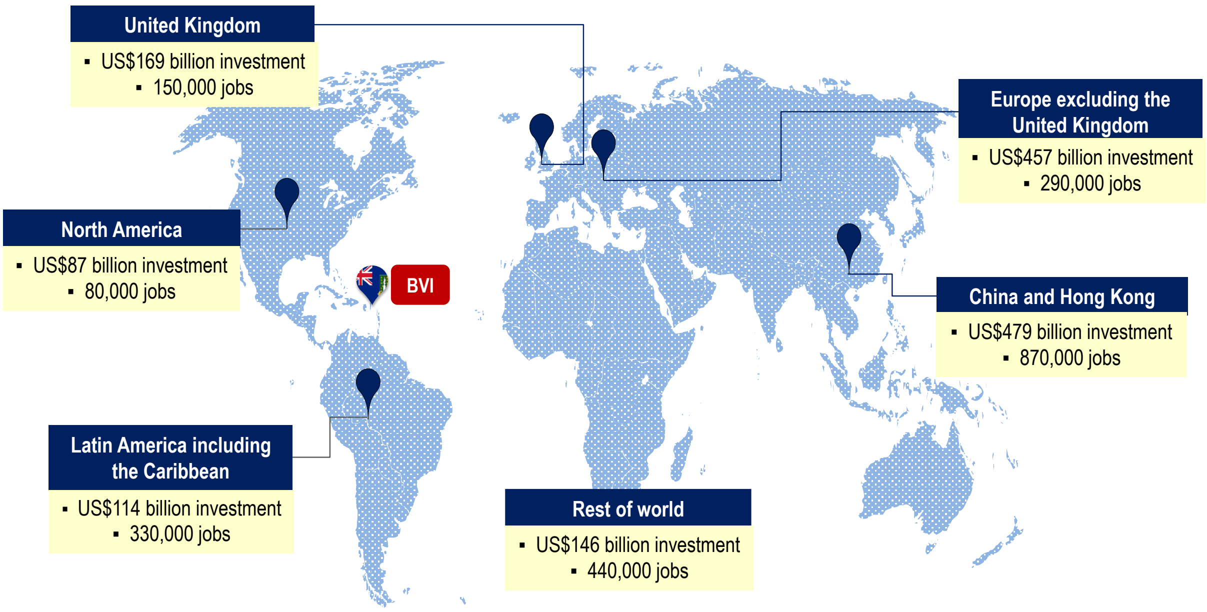
Capital Economics has been commissioned by BVI Finance Limited to research and report upon the contribution made by the British Virgin Islands to the global economy.

This report combines new analysis of existing information, statistics and research with the results from a major quantitative and qualitative research exercise among a large and representative sample of financial and professional services firms operating in the territory.

In research of this nature, there is room for debate over the methodologies deployed and approaches taken, while there are, of course, margins of error associated with any survey results and consequent quantitative analysis. However, we have deliberately taken a cautious approach – and sought to make only conservative estimates of the likely benefits of the BVI and never to underplay the potential for any detriment.

Figure 1: The BVI's global contribution

Outward investment stock mediated through the BVI, and jobs supported by inward investment mediated through the BVI (Indicative estimates by region)



See report for sources and methodology.

1.1 Objective

The United Kingdom Overseas Territory of the 'Virgin Islands' (commonly known as the 'British Virgin Islands') comprises over 60 islands, islets and cays in the eastern Caribbean. Located just under 100 kilometres east of Puerto Rico, it covers a geographical area of 152 square kilometres and is home to around 30,000 people – plus a major international business and finance centre hosting 417,000 active incorporated business companies.

The scale of financial activity carried out on the islands may appear incongruous in a small jurisdiction with a population no greater than an English market town – while some campaigners and journalists have branded it a 'tax haven'. But these perceptions are based on a misunderstanding of what international finance centres are and what the BVI is.

This report seeks to explain the role of international finance centres, especially the BVI's, and to illustrate (and, wherever possible, quantify) the impact that the territory has on the global economy.

1.2 Global trade, investment and prosperity

In section 2, we set out the broad context – of international trade, cross-border investment and globalisation – within which international financial centres, like the BVI, have developed and operate.

The globalisation of trade and capital is central to the role played by the BVI and similar jurisdictions.

Trade is a mutually beneficial process that has enriched almost every nation on Earth. Countries that have embraced trade have typically become more prosperous, suffered less from hunger and have been more open to investment than those that offer less freedom to trade internationally. Economies across the globe have experienced improved rates of growth as trade across sovereign borders has become more widespread and increasingly free of tariffs and other barriers.

Globalisation isn't restricted to goods, services or people. Capital markets are increasingly global – with investors seeking returns from beyond their domestic markets, and investees accessing wider sources of finance. What appears to be the surreal and remote world of international finance provides the funds that helps to deliver the 'real world investment' that matters to the lives of employees, voters, families and businesspeople. Globalisation of capital brings material advantages to investors, firms and national economies.

In a world where national boundaries have ever decreasing significance to people and to businesses, it should come as no surprise that there is demand for services that facilitate efficient and secure cross-border transactions. 'International finance centres', like the BVI, have evolved to meet the needs of global businesses and investors, and internationally mobile individuals.

International financial centres are not without their detractors. Some campaigners allege their complicity in tax evasion and economic crime across the globe – including the illicit asset stripping of the world's already poorest nations. But their headline grabbing numbers do not bear scrutiny – and their claims of secrecy and poor regulation are ill-founded.

The pressures placed on international finance centres need to be seen in the context of the challenges faced by the larger nations following the financial crisis of 2008. The dimensions of the crisis were extraordinary, and the major 'Western' economies and their governments are still feeling the aftershocks. Increasing debt burdens have put pressure on government finances, and while globalisation has increased prosperity across the world, not everyone has benefitted equally. Government strategies to address these challenges have been focused on intensifying the campaign against tax evasion, avoidance and mitigation to help increase tax revenues. Yet these are predominantly issues for domestic policies of big countries, rather than issues related to offshore finance and small jurisdictions.

1.3 The BVI's economy

In section 3, we summarise the key characteristics of the BVI's economy.

With levels of prosperity among the higher performers in the Caribbean and Latin America region, the territory has a remarkably balanced and sustainable economy underpinned by a thriving tourism sector as well as an innovative international business and finance centre. With over one million visitors in 2016, tourism accounts for one in every four jobs in the BVI, and the international business and finance centre one in ten. Half of all economic output derives from these two key sectors. The workforce is truly international, with roughly two-fifths employed on a work permit. A large majority of work permit employees are from the neighbouring region, thus providing employment opportunities for those coming from nations with higher unemployment.

As a small economy, the BVI imports almost all the goods it consumes and many of its services. Spending on imports totalled roughly US$750 million in 2014. The majority of which were brought from the United States – supporting around 12,000 jobs there. But, with strong services exports, it ran an overall trade surplus in the order of US$45 million in the same year.

The BVI has maintained a sound fiscal position despite the impact of the global financial crisis. It is not a jurisdiction without taxes or with artificial taxes: it levies taxes on residents, visitors and locally operating companies in order to fund public services. It is, though, a tax neutral territory with a zero rate of tax on corporate profits. In addition to its general attractiveness for global investors, this ensures that any cross-border transactions mediated via the BVI are not at risk of double taxation.

With its tax neutrality, a framework of common law, a highly regarded commercial court and ultimate right of appeal to the Judicial Committee of the Privy Council in London, the BVI has become a leading centre specialising in the incorporation of vehicles for cross-border business and accompanying company law and legal services.

1.4 Global role of BVI Business Companies

In section 4, we consider how the BVI facilitates cross-border trade and investment. In particular, we examine the 'BVI Business Company', its uses and those that use it.

The BVI is one of the world's largest centres for the incorporation of companies – especially those created to facilitate cross-border trade, investment and business. It is an attractive tax neutral domicile in which to incorporate a business. The jurisdiction has modern, flexible and efficient company legislation which has been tailored to the needs of global business; it has a sound and stable government, and respected financial regulation; and it is cost effective among other advantages.

BVI Business Companies are much more than just a piece of paper – even those which hold assets without active operations have substance and are vital to the efficient operation of an increasingly globalised business world. Companies, institutions and private individuals use them for, for example: holding companies for various assets such as real estate; family, trust and succession planning; investment business, joint ventures, listings and vessel or aircraft registration; and corporate group structuring.

The important role of BVI Business Companies in international investment flows is evident from data on foreign direct investment. According to the United Nations, the BVI was the ninth largest recipient of foreign direct investment, and the seventh largest source of outward flows in 2015.

Major respected companies worldwide use BVI Business Companies to manage their cross-border activities. The BVI is home to part of the group structure of over 140 major businesses listed on the London, New York or Hong Kong main stock exchanges. In addition, BVI Business Companies are used by major international development banks, including the World Bank's International Finance Corporation and the European Bank for Reconstruction and Development, to help fund projects around the world.

There are currently just under 417,000 active BVI Business Companies. Roughly two-fifths originate from Asia; use by clients in 'G7' countries accounts for less than one-fifth. The assets held by these vehicles have an estimated worldwide value of US$1½ trillion.

There is little to be gained by those seeking to evade or avoid taxes through the use of BVI Business Companies. The jurisdiction is not some supposed tax haven, but it is a sound and reliable centre which has worked harder than many bigger nations to meet international standards. It has a transparent and straightforward tax system and has responded quickly and constructively to international developments seeking to improve transparency and clamp down on any potential criminality.

1.5 The BVI's international business and finance centre

In section 5, we review the activities of the BVI's international business and finance centre and measure the economic impact of the centre on the territory.

The BVI provides legal structures through which companies, institutions and individuals across the world carry out cross-border trade and investment. In Road Town, a cluster of specialist and expert firms has developed to help service the needs of those looking to carry out cross-border trade and investment and want the comfort of the jurisdiction's well-regarded company law.

This cluster of corporate service providers, professional services firms – especially legal, insolvency and accountancy practices, banks and insurers, plus specialist government and regulatory authorities, comprise the BVI's 'international business and finance centre'. Services are provided to clients across corporate business, trust and estate planning, captive insurance, investment funds and ship and aircraft registration.

The international business and finance centre employs 2,200 people directly and supports a further 3,000 jobs in the territory. Over two-thirds of all jobs in the centre are held by BVIslanders and Belongers.

Corporate service providers and legal firms dominate activity both in terms of employment and output. The work of these practices focuses primarily around the BVI Business Company, supported by specialist insurance, insolvency and accountancy businesses. Unlike other international finance centres such as Switzerland or Jersey, the BVI has a relatively small banking sector, with assets of only US$2.4 billion, which is focused primarily on domestic customers.

Although the BVI is a small territory, it is part of larger global enterprises. Businesses operating within the jurisdiction's centre are part of a diverse web of multinational groups and networks with offices around the world. The bulk of incorporations are carried out by corporate service providers that are local subsidiaries or partners of much larger international businesses. The BVI's corporate service providers are part of groups or networks which, combined, have roughly 200 offices outside the territory and employ over 5,000 people globally. Similarly the legal, accounting and insolvency practices located in Road Town are predominantly part of much larger multinational groups or networks. Together, they are part of groups or networks with over 1,000 offices outside the territory, which employ over 30,000 people globally.

The BVI's strong reputation as an international business and finance centre is reinforced by its first class regulator. The sector is further supported by dedicated government and quasi-government departments responsible for promoting the territory's local industry in line with international regulations and standards.

Overall, the cluster accounts for roughly one-third of the islands' economic output and over three-fifths of government revenues. It benefits tax revenues by far more than it increases public spending. If the centre did not exist, some expatriate employees would not live in the BVI, and the government would not receive fees from the centre. Without the centre government revenues would fall from US$330 million to US$105 million, a drop of 68 per cent. Yet government expenditure would remain relatively unaffected, as public services need to be provided regardless for the rest of the territory's community. Government spending on the international business and finance centre is small, at US$20 million, therefore the government would have a shortfall of roughly US$210 million without the international business and finance centre.

1.6 The BVI's global impact

In section 6, we pull together the analysis in this report and consider the overall impact of the BVI on global prosperity.

BVI businesses directly employ people from less affluent countries in the region – as well as supporting around 12,000 jobs in the United States through its imports. Additionally, the cross-border investment mediated through BVI Business Companies and other BVI vehicles supports further economic growth and jobs across the world.

It is all too easy to assume that what appears to be the surreal and remote world of international finance makes no difference to the real lives of employees, voters, families and businesspeople. But these substantial cross-border investments provide the underlying finance that enables real world economic investment in homes, factories, hospitals, railways, broadband, machinery, entrepreneurs, etc. – or they provide the essential liquidity for the secondary markets that underpin and provide confidence in these primary real world investments.

We estimate conservatively that BVI Business Companies hold US$1½ trillion of assets. These holdings reflect cross-border investment in the widest variety of physical, corporate and financial assets.

To provide context, the US$1½ trillion is equivalent to:

- Six per cent of all sectors' total cross-border liabilities as reported by the Bank of International Settlements
- Two per cent of global gross domestic product
- Two per cent of global portfolio and direct investment

This scale of investment supports material levels of employment across the globe.

It is, of course, impossible to know with any certainty how many jobs result from any specific dollar of investment – but we can make reasonable and cautious estimates of the orders of magnitude involved.

Our indicative analysis indicates that the US$1½ trillion of investment mediated by the BVI supports around 2.2 million jobs worldwide, with China (including Hong Kong) accounting for nearly two-fifths of them – and one-fifth in Europe.

The scale of the BVI's global contribution to investment and jobs sheds a new light on the debate around its impact on the tax receipts of other nations. The economic activity and incomes generated by 2.2 million jobs worldwide will likely contribute over US$15 billion annually to government coffers worldwide. Even taking into account the maximum tax leakage theoretically achievable through the use of its corporate vehicles, the BVI is a substantial net benefit to governments worldwide.

If the BVI's international business and finance centre did not exist, some (if not much) of the investment mediated through it would likely happen anyway. The BVI is not the only tax neutral jurisdiction with sound government, respected law and a well-developed cluster of financial and professional service providers. The three Crown Dependencies, for example, also offer a common law framework and access to the British legal system, including the right of appeal to the Judicial Committee of the Privy Council. But costs in Jersey, Guernsey and the Isle of Man are higher than in the Caribbean – and only certain categories of activity conducted in the BVI would be able to bear them. Alternatively, without the BVI, its business may route through jurisdictions with poorer track records on transparency, tax information exchange, anti-money laundering and combatting the financing of terrorism.

Through its direct employment, trade and, most importantly, facilitation of cross-border business, the BVI support jobs, prosperity and government revenues worldwide.

2 GLOBAL TRADE, INVESTMENT AND PROSPERITY

In this section, we set out the broad context – of international trade, cross-border investment and globalisation – within which international financial centres, like the BVI, have developed and operate.

The globalisation of trade and capital is central to the role played by these jurisdictions.

Trade is a mutually beneficial process that has enriched almost every nation on Earth. Countries that have embraced trade have typically become more prosperous, suffered less from hunger and have been more open to investment than those that offer less freedom to trade internationally. Economies across the globe have experienced improved rates of growth as trade across sovereign borders has become more widespread and increasingly free of tariffs and other barriers – although, of course, not everyone has benefitted equally.

Globalisation isn't restricted to goods, services or people. Capital markets are increasingly global – with investors seeking returns from beyond their domestic markets, and investees accessing wider sources of finance. What appears to be the remote world of international finance provides the funds that helps to deliver the 'real world investment' that matters to the lives of employees, voters, families and businesspeople. Capital mobility brings material advantages to investors, firms and national economies.

In a world where national boundaries have ever decreasing significance to people and to businesses, it should come as no surprise that there is demand for services that facilitate efficient and secure cross-border transactions. 'International finance centres' have evolved to meet the needs of global businesses and investors, and internationally mobile individuals.

International financial centres are not without their detractors. Some campaigners allege their complicity in tax evasion and economic crime across the globe – including the illicit asset stripping of the world's already poorest nations. But their headline grabbing numbers do not bear scrutiny – and their claims of secrecy and poor regulation are ill-founded.

The pressures placed on international finance centres need to be seen in the context of the challenges faced by the larger nations following the financial crisis of 2008. The dimensions of the crisis were extraordinary, and the major 'Western' economies and their governments are still feeling the aftershocks. Increasing debt burdens have put pressure on government finances, and while globalisation has increased prosperity across the world, not everyone has benefitted equally. Government strategies to address these challenges have been focused on intensifying the campaign against tax evasion and avoidance to help increase tax revenues. Yet these are predominantly issues for domestic policies of big countries, rather than issues related to offshore finance and small jurisdictions.

2.1 Global trade

The BVI is part of a global financial system that facilitates efficient trade in goods and services between nations.

Trade is a mutually beneficial process that has enriched almost every nation on Earth over past decades, and, for many, centuries and even millennia.

Figure 2: Stylised gains from specialisation and trade

		Without specialisation and trade		With specialisation and trade		
		Production	Consumption	Production	Consumption	Gains
	Cars	20	20	↓ 0	↑ 25	+5
	Smartphones	20	20	↑ 40	↑ 23	+3
	Cars	90	90	↑ 120	↑ 95	+5
	Smartphones	15	15	↓ 0	↑ 17	+2

Source: Capital Economics

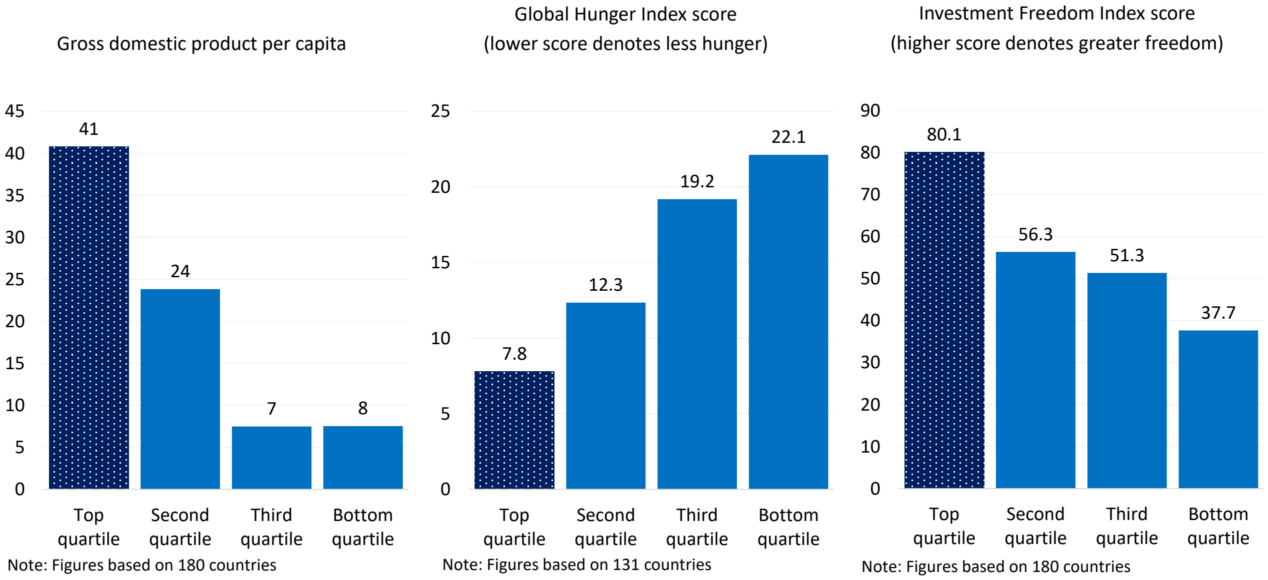
By allowing individuals and businesses to buy and sell across national borders, firms have been able to specialise and grow to a much greater extent than would have been achievable on the basis of their local markets alone. They can service much wider audiences with fewer facilities and lower overheads – and can develop production processes that take full advantage of any economies of scale. This focus allows for greater efficiency and productivity, and less waste.

At a national scale, this ability for firms to specialise and trade means that economies have focussed on producing goods and services where they have a comparative strength. These are then traded with other countries to generate the income to purchase and import from elsewhere those goods and services that are demanded domestically but would be relatively difficult or costly to produce locally. In this way, productive capacity is increased in nations on either side of the trades, so levels of consumption (and prosperity) can also be higher; it's a win-win. (See Figure 2.)

Trade is a positive sum game – and its benefits are evident. Nations that have embraced trade have typically become more prosperous, suffered less from hunger and have been more open to investment than those that offer less openness to international trade. (See Figure 3.)

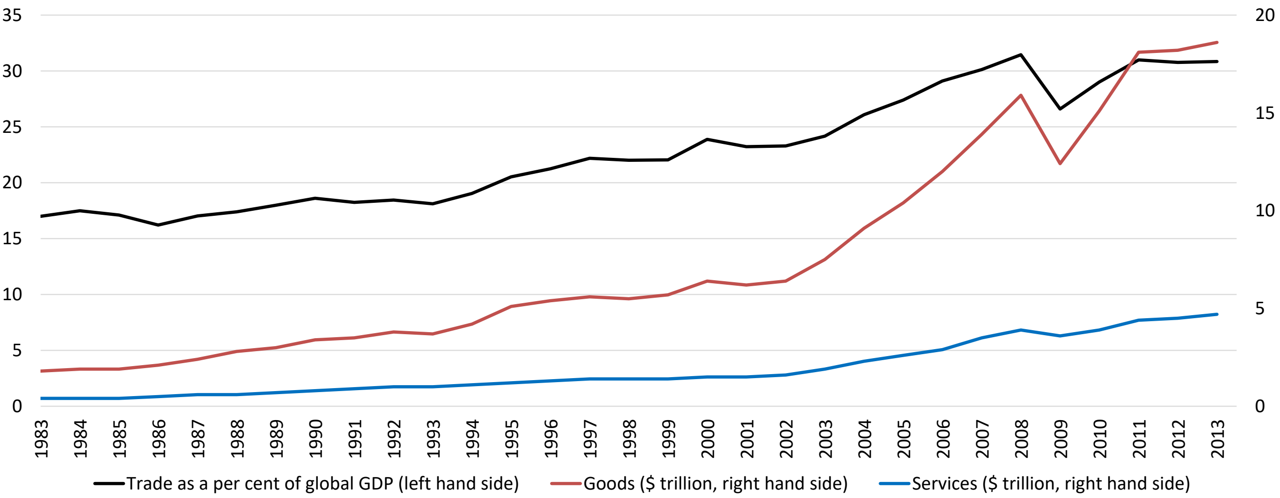
Figure 3: Measures of economic progress for 180 countries against their openness to trade

Average gross domestic product per capita by quartile of trade freedom score, (2013 PPP adjusted US$ thousands), average Global Hunger Index score by quartile of trade freedom score, 2016 index, and average Investment Freedom Index score by quartile of trade freedom score, 2016



Sources: Capital Economics, Heritage Foundation and the International Food Policy Research Institute

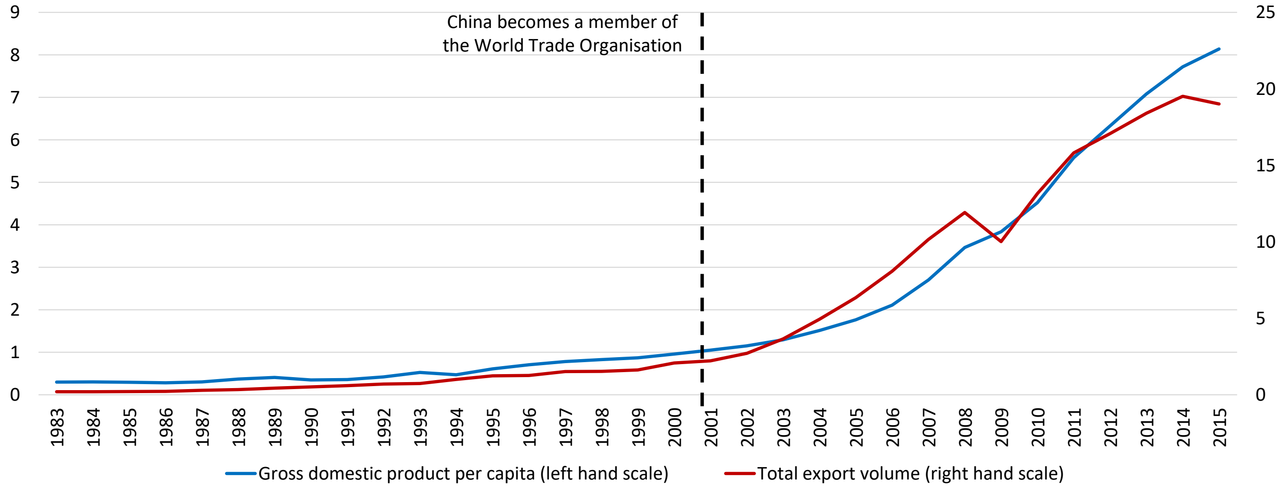
Figure 4: Comparison of global gross domestic product and trade volumes, US$ 2013 prices



Sources: Capital Economics and United Nations Conference on Trade and Development

In recent decades through to the financial crash of 2007/8, global trade in both goods and services grew consistently – both in terms of its monetary value, and in comparison to world economic output. By 2008, the value of world trade was estimated to be equivalent to around a third (31 per cent) of the planet's total gross domestic product. In the aftermath of the crash, with much of Europe and North America in recession, the amount of cross-border trade fell but, by as early as 2013 (latest available data), it had more than recovered its pre-crisis value – and has returned to an upward trend. (See Figure 4.)

Figure 5: China real gross domestic product per capita (US$ thousand) and total volume of Chinese exports (US$ billion US$)

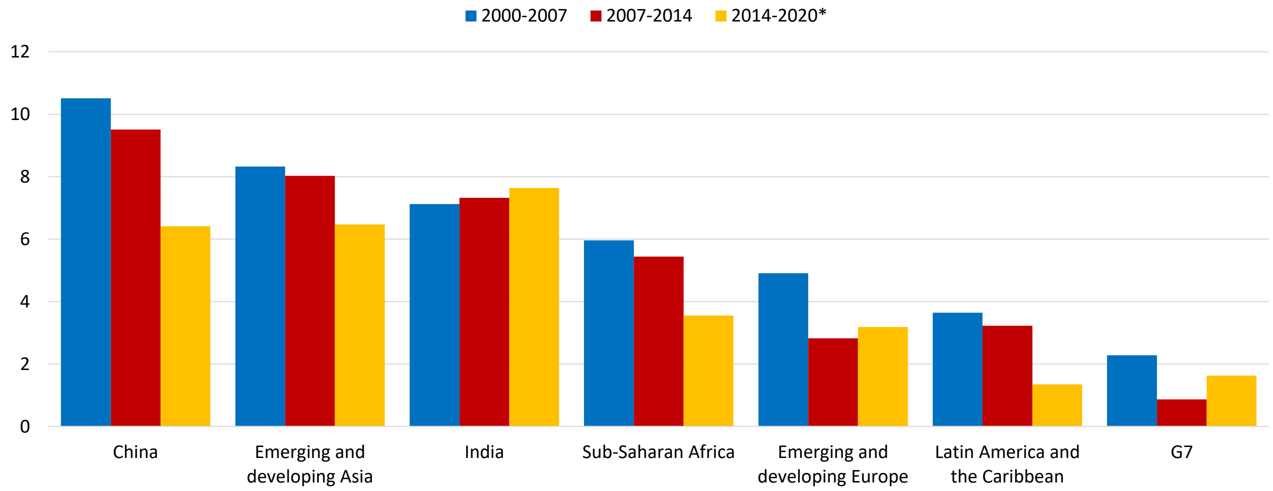


Sources: Capital Economics, World Bank and Datastream

The rapid economic development and growth of China has both fuelled global trade in the 2000s and been fuelled by it. Since admittance to the World Trade Organisation in 2001, Chinese export volumes have increased eight-fold, while the headline metric of prosperity, real gross domestic product per capita, has risen from US$1,100 per annum to US$8,100 over the same period. This, in part, has been facilitated by corporate vehicles incorporated in the BVI. Similarly, China's share of global trade has increased from 4.3 per cent in 2001 to 13.8 per cent of total world exports in 2015.[1] (See Figure 5.)

[1] World Trade Organisation, *Statistics database (SDB)* (WTO, Geneva) http://stat.wto.org/Home/WSDBHome.aspx?Language=E (accessed on 16 February 2017)

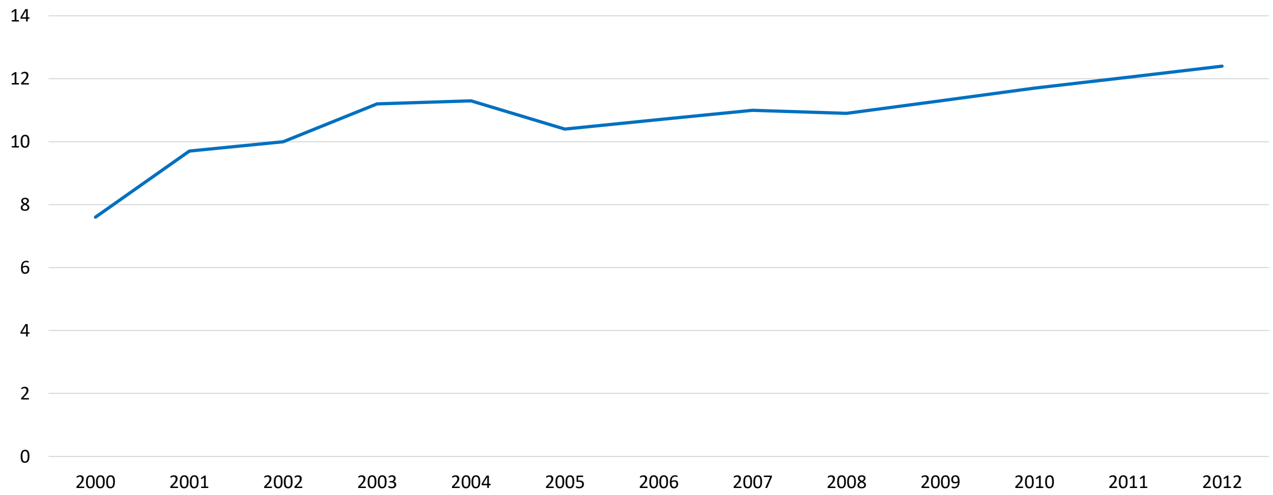
Figure 6: Comparison of real average annual rates of economic growth, per cent



Source: Capital Economics and International Monetary Fund, World Economic Outlook. Note: * International Monetary Fund forecast

China is not alone in its combined economic and trading success. Economies across the globe have experienced improved rates of growth as trade across borders has become more widespread and increasingly free of tariffs and other barriers. Indeed, the era of 'globalisation' has seen a marked rebalancing of economic performance – with growth in the established industrialised nations of Europe and North America, including the group of seven (or 'G7') major advanced economies, being outpaced by so-called 'emerging' nations. (See Figure 6.)

Figure 7: Share of Organisation for Economic Co-operation and Development population born outside of resident country, per cent



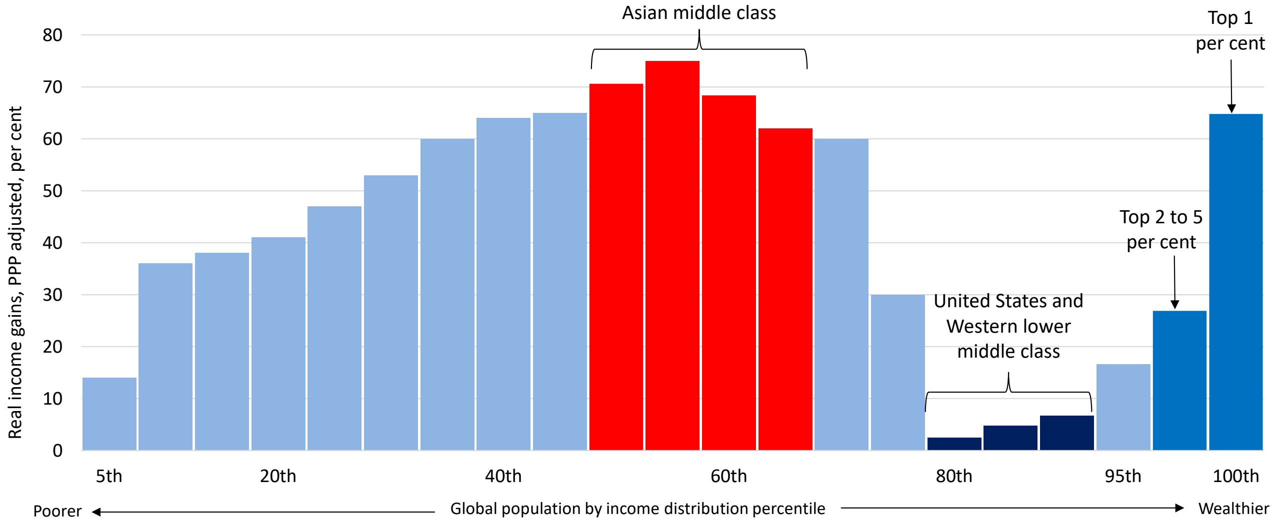
Source: Capital Economics and Organisation for Economic Co-operation and Development

Growth in the international trade in goods and services has been mirrored by increasing mobility of people, families and workers. In 2012 (latest available data), around 12½ per cent of the population of the Organisation of Economic Co-operation and Development nations had not been born in their country of residence; this was up from around 7½ per cent just twelve years earlier. (See Figure 7.)

Globalisation has increased prosperity across the world, but not everyone has benefitted equally.

Research published by the World Bank reveals that in the twenty years leading up to the financial crisis, the lower middle classes of the United States and Western Europe have seen little or no real income growth, while the middle of the global income distribution as well as the global elite have seen their incomes soar.[2] The Asian middle class and the richest one per cent have seen their real incomes rise by over 60 per cent between 1988 and 2008. This is in stark contrast to the meagre, or almost non-existent, gains of the Western middle class. (See Figure 8.)

Figure 8: Global growth in average per capita household income by income distribution percentile, 1988 to 2008, (2005 PPP adjusted US$), per cent



Sources: Christoph Lakner and Branko Milanovic and The World Bank

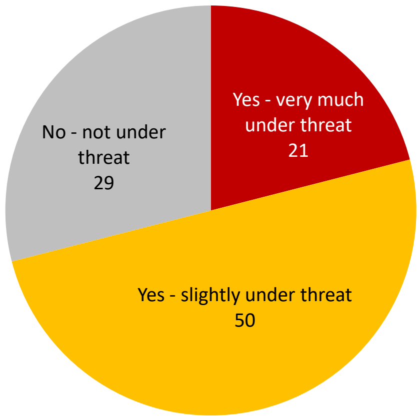
This development can help explain the surging anti-trade and protectionist political rhetoric in Western economies. The largest economies in the world have introduced new protectionist trade measures at the fastest pace since the 2008 financial crisis, at rates not previously seen since the 1930s.

2 Christoph Lakner and Branko Milanovic, *Global Income Distribution: From the fall of the Berlin Wall to the Great Recession* (World Bank, Washington D.C) Policy Research Working Paper 6719, December 2013

In addition, policy-makers in the United States and Europe have introduced measures geared towards the demographic group of those 'just about managing', who have felt left behind by globalisation. Those in the Western lower and middle class have seen their cost of living increase, their real wages fall, their benefits decrease and house prices becoming more and more unaffordable. They do not feel that they are sharing in the prosperity that economic growth brings.

These real political and social challenges result from each countries' domestic distribution of wealth and incomes, and governments looking to solve them will have to look to domestic policies for their cures. Nevertheless, globalisation is easily blamed and, with it, those that facilitate globalisation, such as international financial centres, too. A recent survey of nearly 600 corporate service industry executives from around the world reveals roughly three quarters of them believe that globalisation is under threat to some degree.[3] (See Figure 9.)

Figure 9: Vistra survey results for question asking 593 corporate service industry executives their opinion on the degree that globalisation is under threat, per cent, 2017



Source: Vistra

2.2 Global investment

Globalisation isn't restricted to goods, services or people. Capital markets are increasingly global – with investors seeking returns from beyond their own national borders, and investees accessing wider sources of finance. The BVI plays a vital role in helping these global investment flows.

3 Vistra, *Vistra 2020 The Uncertainty Principle: The State of the Trust, Fund and Corporate Services Industry 2017: Transformative Factors, Adaption, and Growth* (Vistra, Hong Kong), 2017. The Vistra 2020 survey had 593 respondents.

Substantial investments by businesses and governments in the likes of new office blocks, shops, factories, warehouses, houses, bridges, roads, airports, computers, broadband infrastructure, telecommunications kit, machinery, and vehicles, as well as softer intangibles like marketing, research and product development, are increasingly financed internationally. Meanwhile, the local banks and financial services firms that offer the credit cards, overdrafts, mortgages and lease agreements to support consumers' purchases of their cars, furniture, electronic goods and homes increasingly depend upon international capital markets to provide liquidity and keep costs down.

Figure 10: A typology of 'investment'

A typology of 'invesment'	PRIMARY INVESTMENT	SECONDARY INVESTMENT
FINANCIAL INVESTMENT	***Definition: the creation of financial assets*** Examples: • Initial public offerings • Bond issuance	***Definition: the resale of financial assets*** Examples: • Transactions in equities markets (e.g. London Stock Exchange) • Trading of mortgage-backed securities
ECONOMIC INVESTMENT	***Definition: the creation of economic assets*** Examples: • Gross domestic fixed capital formation (e.g. creation of machinery and equipment, construction of roads, railways and schools) • New home construction	***Definition: the resale of economic assets*** Examples: • Resale of property

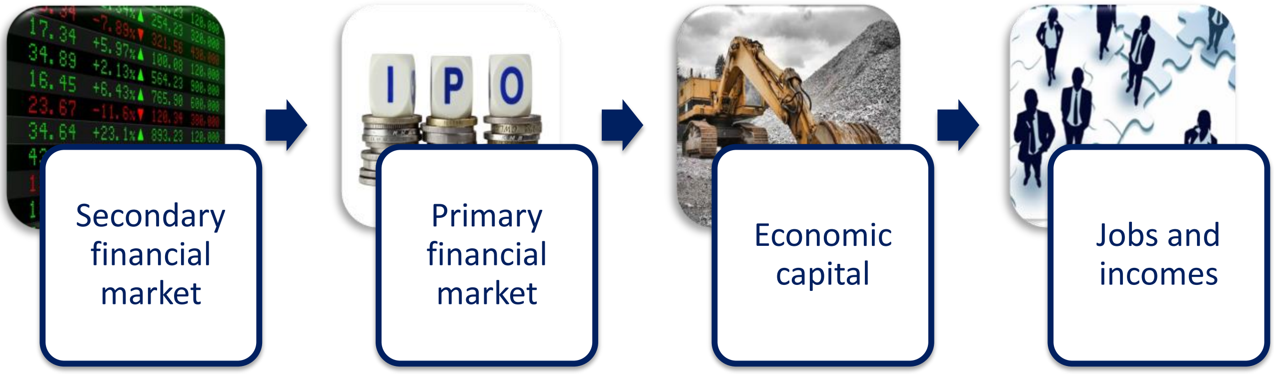
Source: Capital Economics

In this way, what appears to be the surreal and remote world of international finance provides the 'financial investment' that helps to deliver the 'economic investment' that matters to the real lives of employees, voters, families and businesspeople. (See Figure 10.)

Of course, just like domestic capital markets, not all cross-border financial flows are directly related to funding 'primary' economic investment. Some are funding what we call 'secondary investment': the repurchase of extant economic or financial assets – which include corporate stocks, bonds and financial derivatives as well as real estate purchases, corporate mergers and acquisitions, and the transfer of ownership of aeroplanes, ships and vessels.

There is an important real world impact here. Although too-often mischaracterised as simply 'speculation', these secondary markets are necessary to stimulate primary investment. The secondary market is where the primary investor accesses his or her returns. Without the secondary market, there would be limited economic incentive for primary investors to create new assets in the first place. (See Figure 11.)

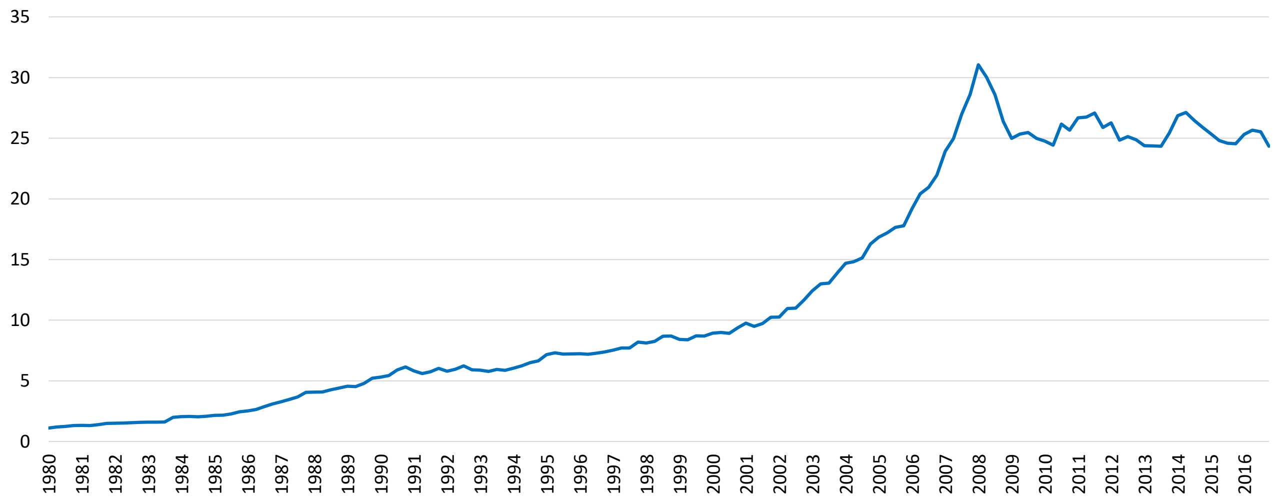
Figure 11: Relationship between economic growth, economic investment, financial investment and foreign investment



Source: Capital Economics

Two factors have facilitated the globalisation of capital. Advances in information technology, especially the growth of international communications technology and advances in data processing capabilities, have permitted 24-hour-a-day trading with near instantaneous execution of transaction, regardless of location. Meanwhile, deregulation by governments – initially in the United States and Europe, but now across the globe – has rolled back limits on foreign investment in domestic companies and on the amount of foreign investment citizens can make, while many countries have dismantled capital controls making it easier for both inward and outward investment to occur.

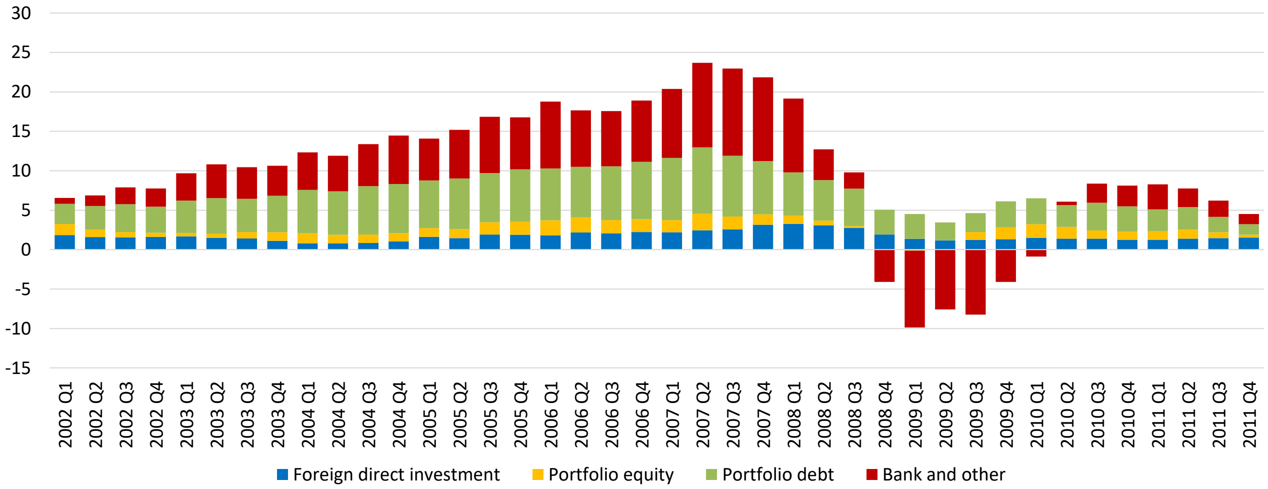
Figure 12: Global external liabilities, March 1980 to December 2016, US$ trillion



Sources: Capital Economics and Bank for International Settlements

The growth is evident, for example, in statistics reporting on the cross-border liabilities of the banking sector – although, most recently, that growth has so far been arrested by the financial crisis. But banks account for only a fraction of cross-border funding – with tradable debt instruments, equity and direct investments all extensively deployed across national borders and in globalised markets. (See Figure 12 and Figure 13.)

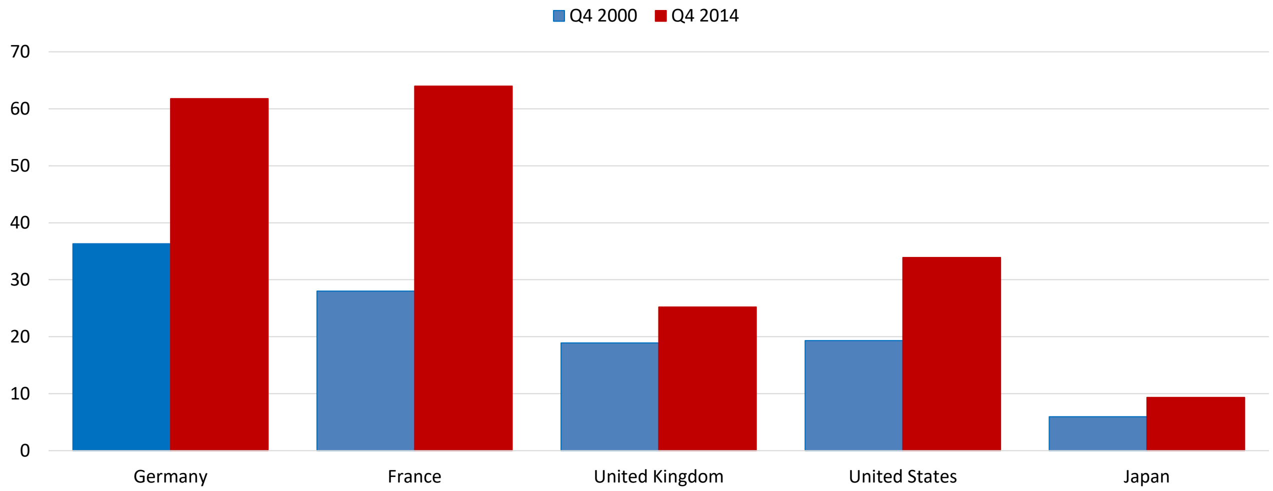
Figure 13: Gross inflows to advanced economies as a share of group gross domestic product, four quarter moving average, per cent



Sources: Capital Economics and International Monetary Fund

Ownership of foreign instruments such as government bonds, sovereign debt, property and equity in stock markets have been an increasingly attractive way for investors to diversify their holdings and manage their risk. This trend can be seen through the increase of foreign ownership of the sovereign bonds for major advanced economies. (See Figure 14.)

Figure 14: Share of total government bond holdings by non-residents for selected developed countries



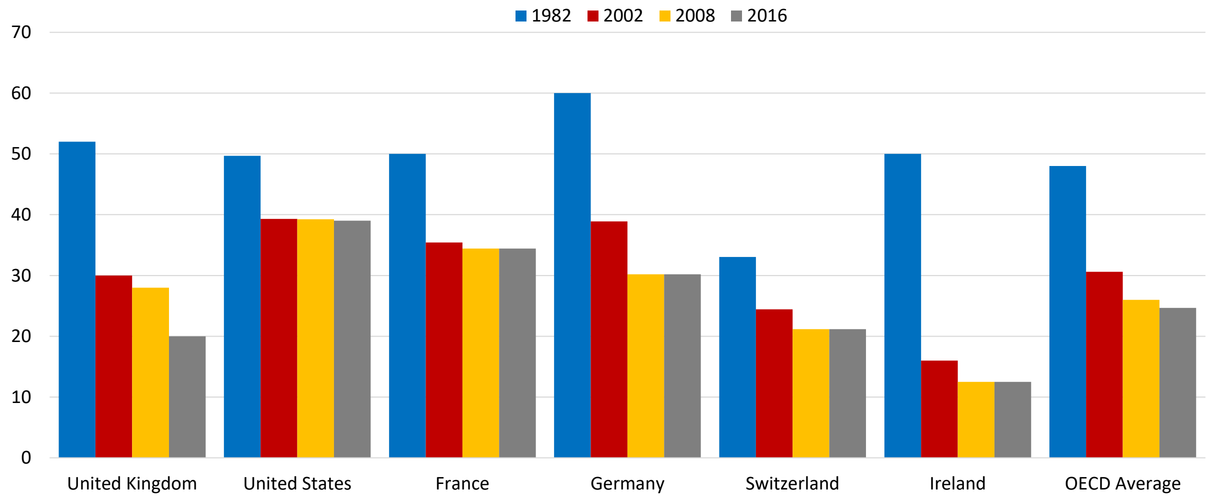
Source: Silvia Merler and Jean Pisani-Perry, Bruegel database of sovereign bond holding developed in Merler and Pisani-Perry (Bruegel, Belgium) November 2016. Note: Data for the United States shown in Q4 2000 is for Q4 2002

Globalisation of capital brings material advantages to investors, firms and national economies. These include:

- Increasing competition among providers of capital to ensure that, for example, firms wanting to borrow to invest can do so at lower cost
- Providing investors with greater opportunities to match their portfolios of investments to their desired profiles of risks and expected returns
- Allowing residents of different countries to pool various risks in order to achieve more effective insurance than purely domestic arrangements would allow
- Giving the sponsors of riskier or more marginal investments the potential to market them to a wider and deeper pool of investors
- Offering a country suffering a temporary recession or natural disaster respite and potential recovery through borrowing from abroad
- Helping developing countries with little capital borrow to finance investment, thereby promoting economic growth without sharp increases in saving rates

At the global level, international capital markets channel the world's savings to their most productive uses – irrespective of location.

Figure 15: Overall corporate tax rates including national and sub-national headline corporate taxes, per cent



Sources: Capital Economics and Organisation for Economic Co-operation and Development

With greater freedom for investors, businesses and individuals to carry out their business in the locations of their choice, governments have had to become more competitive to encourage investment, retain and grow businesses, and employ their residents. Tax has been one of the areas of competition between (the largest) nations. The major industrial nations have brought down their rates of tax on profits as globalisation has grown. (See Figure 15.)

Whilst globalisation has opened new opportunities for trade and investment, these have come with new risks. So-called 'emerging market' countries vary in the development of their institutions and practices. Many operate with a sophistication and reliability on a par or even better than the longer-established large industrialised 'Western' economies – so foreign investors and traders can conduct their business there with confidence. However, some nations do not provide the same comfort – with, for example, investors poorly protected and traders subject to costly and frustrating bureaucracy. (See Figure 16.)

Figure 16: Selected results from the World Bank's 'Doing Business' report, 2017

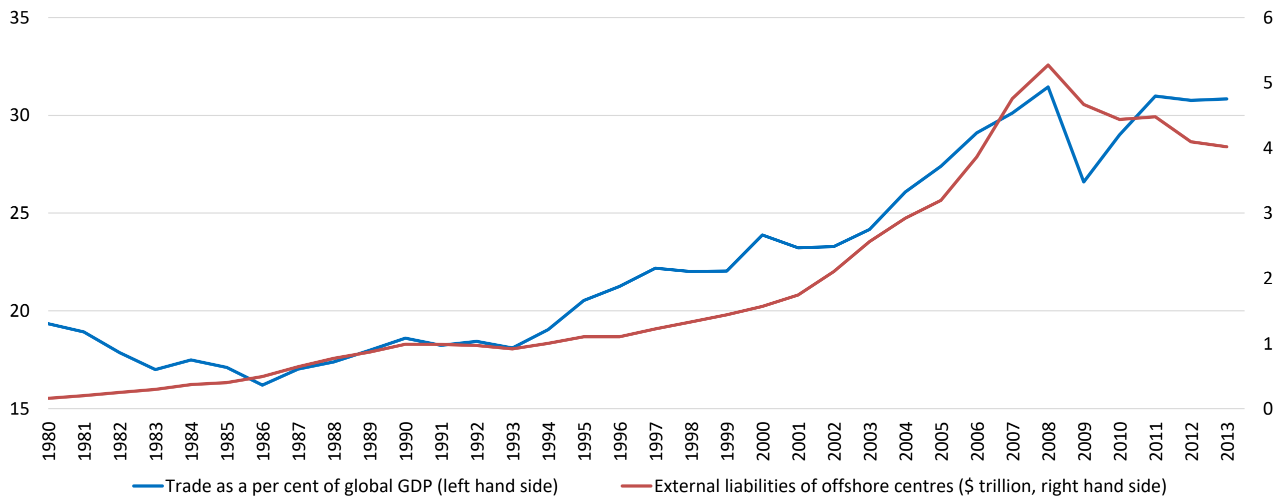
	Ease of doing business ranking	Investor protection	Getting credit
	Ranking of selected countries (1=top, 190=bottom)	Investor protection index (0=lowest, 10=highest)	Ranking of selected countries (1=top, 190=bottom)
New Zealand	1	8.3	1
Singapore	2	8.3	20
United Kingdom	7	7.8	20
United States	8	6.5	2
Australia	15	5.8	5
Japan	34	6.0	82
Russian Federation	40	6.0	44
South Africa	74	7.0	62
China	78	4.5	62
Brazil	123	6.5	101
India	130	7.3	44
Somalia	190	0.0	185

Sources: Capital Economics and International Finance Corporation, World Bank Group

2.3 Facilitating global growth

In a world where national boundaries have ever decreasing significance to people and to businesses, it should come as no surprise that there is demand for services that facilitate efficient and secure cross-border transactions. The BVI's international business and finance centre has developed to help these demands.

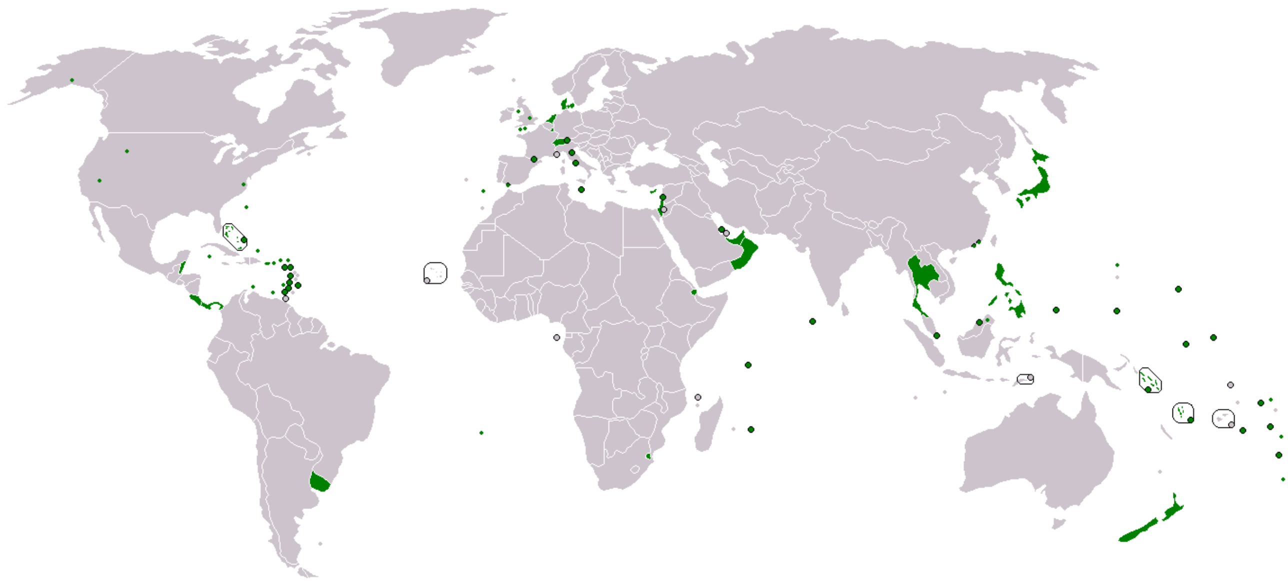
Figure 17: Comparison of global trade and offshore finance



Sources: Capital Economics and Bank of International Settlements

Across the globe, clusters of specialist financial and professional services businesses have developed to service the demand for this 'offshore' (i.e. cross-border or non-domestic) activity. These 'international finance centres' have evolved to meet the needs of global businesses and investors, and internationally mobile individuals. The growth of these centres has tracked the growth of international trade. (See Figure 17.)

Figure 18: Offshore financial centres around the world



Source: Alinor. Note: Map shows locations that have been identified by one or more of the following: International Monetary Fund, Financial Secrecy Index, Organisation for Economic Cooperation and Development and others

Although the term 'offshore' conjures images of small islands, international finance centres are not limited to the Caribbean, English Channel or Irish Sea – or, for that matter, the Mediterranean or Atlantic, Indian and Pacific oceans. Plenty of offshore activity is conducted inland, and in large nations, too. For example, Liechtenstein, Luxembourg and Switzerland carry out disproportionate levels of offshore commercial and financial activity – while Ireland, the Netherlands, the United Kingdom, the United States and many other large industrialised nations host substantial international finance centres. (See Figure 18.)

International financial centres vary substantially in their size, scope, areas of specialisation, geographical coverage and services offered. (See Figure 19.)

Figure 19: Profile of global financial centres based on measures of specialty, connectivity and diversity

	DIVERSE AND SPECIALISED	RELATIVELY DIVERSE	RELATIVELY SPECIALISED	EMERGING
	Global leaders	Global diversified	Global specialists	Global contenders
GLOBAL	Amsterdam, Paris Dublin, Singapore Frankfurt, Toronto Geneva, Zurich Hong Kong London New York	Brussels Shanghai	Beijing Dubai Luxembourg Moscow	Jersey
	Established transnational	Transnational diversified	Transnational specialists	Transnational contenders
TRANSNATIONAL	Boston, Seoul Chicago, Stockholm Istanbul, Sydney Madrid, Tokyo Montreal, Vancouver Munich, Washington DC San Francisco	Copenhagen Edinburgh Kuala Lumpur Lisbon Los Angeles Prague	**British Virgin Islands** Casablanca Cayman Islands Doha Guernsey Mauritius Shenzhen	Abu Dhabi Almaty Bangkok Bahamas Dalian Gibraltar
	Established players	Local diversified	Local specialists	Evolving centres
LOCAL	Tel Aviv Warsaw	Budapest, Mexico City Busan, Milan Calgary, Osaka Glasgow, Roslo Helsinki, Rome Melbourne, Vienna	Panama Quingdao Riga Rio de Janeiro Sao Paulo Taipei Tallinn	Athens, Malta Bahrain, Manila Cyprus, Monaco Bermuda, Mumbai Isle of Man, Reykjavik Jakarta, Riyadh Johannesburg, St Petersburg Liechtenstein, Trinidad & Tobago

Source: Z/Yen Global Financial Centres Index 20, September 2016

Larger international finance centres, like London, New York and Amsterdam, offer a wide range of services – for example from investment banking through equity, bonds, commodities and derivatives exchanges to asset management and corporate legal service – to a global client-base. Typically, these have developed in large industrialised sovereign nations often with a mercantile history. They benefit from the international status, and diplomatic clout, of their host nations – including any 'double taxation agreements' negotiated with other countries. These bilateral or multilateral international treaties ensure that the same income, profit or capital gain is taxed only once in only one jurisdiction – which reduce some of the costs and risks of cross-border business.

In contrast, international financial centres in smaller jurisdictions are typically more specialist – focussing on specific service areas and/or geographies; for example:

- The Cayman Islands – for funds
- Bermuda – for insurance
- The BVI – for company incorporations
- Jersey – for trusts and private wealth

- Mauritius – for African corporate business

Typically self-governing and self-legislating jurisdictions, many of the smaller offshore centres (especially those with constitutional links to the United Kingdom), like the BVI, have developed consistent tax codes, legislation and financial regulations (and fostered appropriate expertise within local businesses) to deliver:

- **Jurisdictional neutrality.** A location that is independent of the home jurisdictions of the various counterparties where transactions can be conducted, whilst adding little or no additional cost. This can be important, for example, when forming joint venture vehicles between organisations from different countries
- **Tax neutrality**. Assets/investment funds can be pooled, grown and/or distributed across borders without imposing any additional taxation. This is important, for example, when developing fund structures to attract international investors and/or to invest in a portfolio of assets across borders. It ensures that investors are not exposed to double taxation, and only pay taxes due to the authorities in their domicile and/or where funds are invested
- **Administrative convenience**. A neutral location for administrative tasks ensuring that the business or individual can remain mobile without risk of additional tax or other costs
- **Regulatory specialisation**. Bespoke regulation that allows specific sectors locating in offshore centres to avoid the unintended inefficiencies of 'catch-all' regulation of larger jurisdictions. Offshore centres may be able to concentrate resources on regulating specific types of financial sector activity effectively, while larger countries have to spread regulatory resources across a wider range of activities
- **Country risk mitigation**. Keeping assets protected from potential loss, damage or sequestration resulting from socio-political instability or delinquent legal, regulatory or enforcement institutions in a particular country
- **Specialist and expert services**. Many offshore centres offer particular niche services, such as private banking, asset management and reinsurance. These centres often focus in a particular niche, providing a high degree of specialisation and expertise attractive to clients

Without the scale or negotiating power of larger countries, these rarely have many (or any) tax treaties in place – and are, therefore, unable to guarantee that activity carried out there will not be taxed again in larger countries. To avoid the potential for double taxation of their clients, many of these smaller jurisdictions offer 'tax neutrality' and do not levy taxes on international business transacted through them. Such arrangements ensure that incomes or profit are not taxed twice, but do not limit in any way the liability for them to be taxed in other jurisdictions.

Tax neutrality in small jurisdictions does not reduce the tax receipts in larger nations; indeed, it may increase them. Investors in offshore vehicles, in the likes of the BVI, are not hidden from the authorities. Assuming they are not tax exempt in their home jurisdictions, the investors will pay tax on their income and gains in the usual way. But there is a further benefit to onshore economies. If a tax were imposed on an offshore vehicle by the small jurisdiction, this would for most investors be an additional charge on their investment - albeit one that may be offset to some extent by a reduction in their domestic tax liability. The effect would be to transfer part of the investor's tax liability from the onshore jurisdiction to the offshore jurisdiction while increasing the overall burden of taxation for the investor.

Some small jurisdictions with international financial centres offer a relatively low tax environment for their residents and the businesses operating there. Low rates of tax on domestic incomes, profits and sales are achievable because of the levels of prosperity locally, which are supported by employment in higher value finance and related jobs. Although the BVI doesn't offer such incentives, some also offer favourable tax rates to high net wealth immigrants – much the same as the United Kingdom and many other countries in the European Union and Organisation for Economic Co-operation and Development do.

International financial centres are not without their detractors. Some campaigners (incorrectly) characterise them as secretive and poorly regulated, and allege their complicity in tax evasion and economic crime across the globe – including the illicit asset stripping of the world's already poorest nations.

They have argued that international financial centres permit the proceeds of such illicit activity to be transmitted or stored in their financial institutions often under a veil of banking secrecy, and have reported large sums being illicitly removed from developing countries (such as Christian Aid's US$1.1 trillion), and even more being held offshore in secrecy (such as Tax Justice Network's US$21 trillion).[4]

These headline grabbing numbers do not bear scrutiny.[5] Their analyses commonly fail to distinguish between legitimate trade between countries and illicit capital flows. Some rely on unattributed and unverifiable hearsay, while others are based on the assumption that all errors within individual government's economic statistics and surveys, and the inconsistencies between different governments' statistics, can be attributed to illegal offshore activity. They deploy vast computing power to crunch thousands-upon-thousands of statistics, but their data are imperfect and the assumptions underlying the calculations are neither justifiable nor unbiased. All are based

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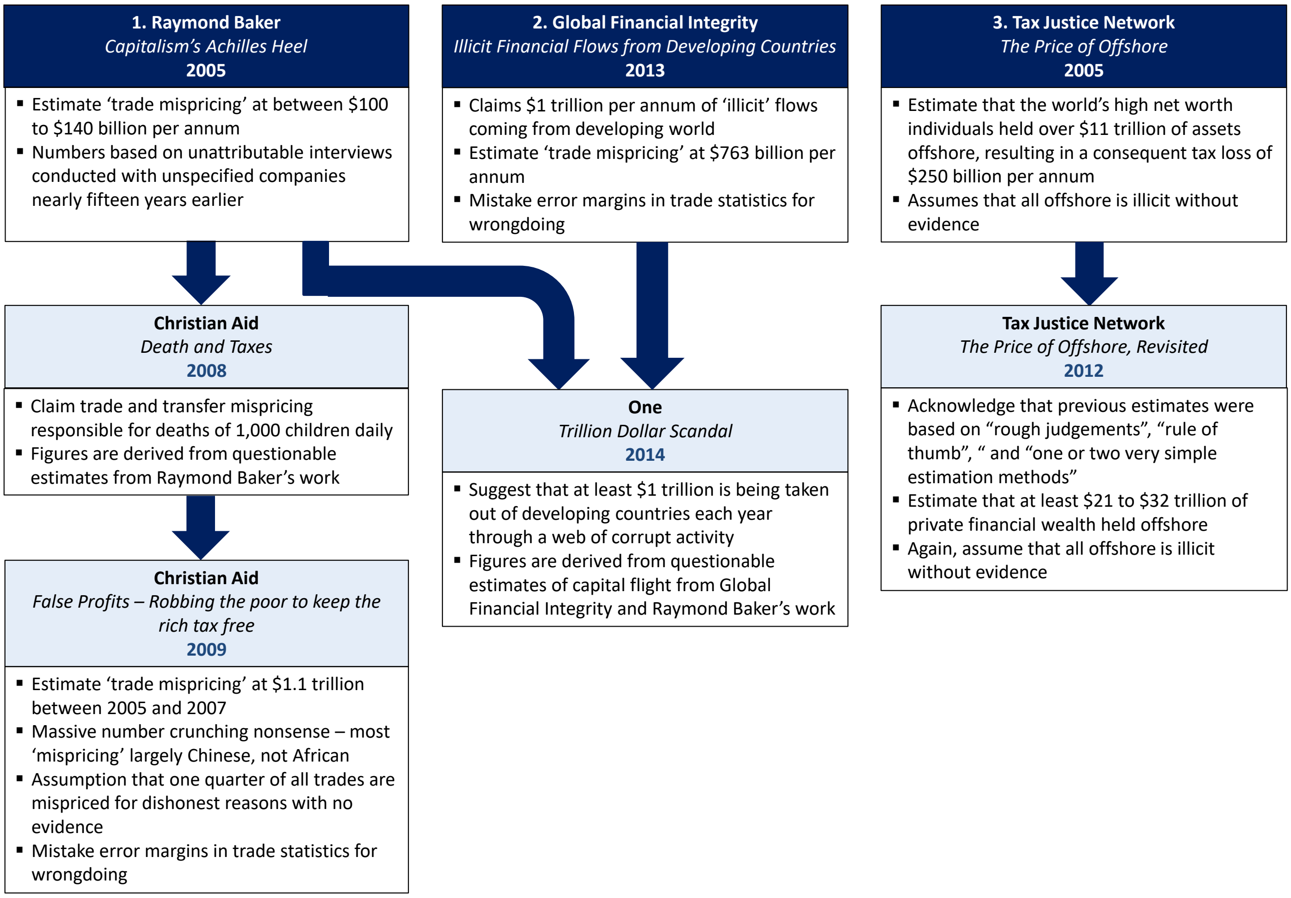
4 David McNair and Andrew Hogg, *False Profits: robbing the poor to keep the rich tax-free* (Christian Aid, London), March 2009 and James S. Henry, *The Price of Offshore Revisited* (Tax Justice Network, Chesham), July 2012.

5 We provide fuller explanation in a previous report. See Justin Chaloner *et al*, *Jersey's value to Africa* (Jersey Finance, St Helier), November 2014. pp 76-119

on data sources that are unsuitable for the task and incapable of supporting the conclusions that the authors draw. (See Figure 20.)

Figure 20: Timeline and links between critiques of international financial centres



Sources: Capital Economics; Raymond Baker, *Capitalism's Achilles Heel* – Dirty Money and How to Renew the Free-Market System (Wiley, Hoboken), 2005; Joseph Spanjers and Dev Kar, *Illicit Financial Flows from Developing Countries: 2004 to 2013* (Global Financial Integrity, Washington D.C.) 2013; Tax Justice Network, *The Price of Offshore* (Tax Justice Network, Chesham), March 2005; James S. Henry, *The Price of Offshore Revisited* (Tax Justice Network, Chesham), July 2012; One, *Trillion Dollar Scandal* (One, London), September 2014; Andrew Hogg *et all, Death and taxes: The true toll of tax dodging* (Christian Aid, London), May 2008; David McNair and Andrew Hogg, *False Profits: robbing the poor to keep the rich tax-free* (Christian Aid, London), March 2009; and Capital Economics*, Jersey's Value to Africa: the role for international financial centres in delivering sustainable growth in developing countries,* (Jersey Finance, St. Helier), November 2014.

Moreover, the claims of secrecy and poor regulation are ill-founded. Although Switzerland's 1934 banking legislation until recently prohibited their banks from disclosing any customer information to third parties including foreign authorities, most other jurisdictions have no such secrecy requirements – and, indeed, many (including the BVI) willingly share data on the individuals and businesses that use their offshore services with competent authorities in other relevant nations. Equally, small offshore centres (including the BVI) are regularly being scored by the likes of the

Organisation for Economic Co-operation and Development as equal, if not better, than the biggest industrialised nations for the quality of their financial and company regulation and enforcement.

In addition to the (poorly evidenced) accusations of facilitating tax evasion and other criminality, campaigners allege the offshore centres' complicity in tax avoidance by residents of and businesses in larger jurisdictions. Of course, there is nothing illicit or illegal about tax avoidance – and, if a country's tax code is susceptible to people and businesses gaming the rules to pay less tax than the authorities' intended, the most sensible and effective approach is for that nation's government to review, revise and improve their own legislation and systems to reduce any unwanted 'tax leakage'. Nevertheless, international financial centres in small jurisdiction get blamed – and broadly on two counts.

First, their supposed secrecy and lack of transparency is believed by some campaigners to encourage tax avoidance by often wealthy residents / tax payers of larger countries. Indeed, politicians in some of these countries believe the same. But, as we have explained, claims of secrecy and poor regulation are ill-founded – especially in relation to centres such as the BVI.

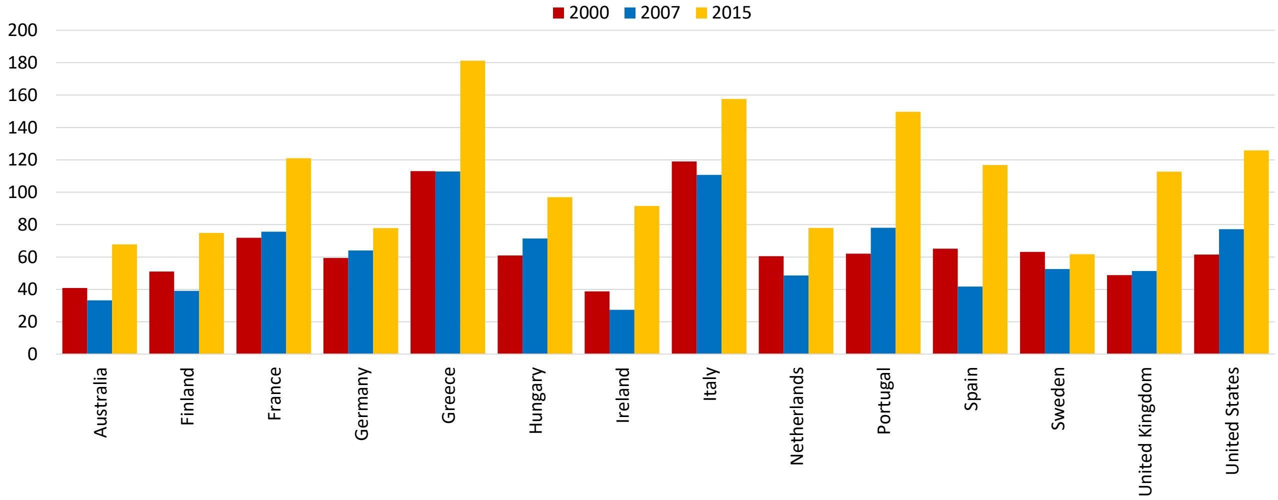
Second, campaigners (incorrectly) implicate small offshore centres in 'profit shifting' by multinational companies – where firms artificially manipulate the reporting of their internal cross-border activities in order to have profits booked to locations where they receive low or favourable tax treatment. The cases of Amazon, Starbucks and Fiat have made the headlines and the Organisation of Economic Co-operation and Development has responded with its *Base Erosion Profit Shifting Programme* (or 'BEPS'), which aims to tighten up global fiscal and accounting practices. But these cases demonstrate the lack of culpability of small offshore centres, and especially those that are tax neutral, like the BVI. To reliably minimise tax, profit shifting requires firms to book their surpluses into low tax jurisdictions that have double taxation agreements with the other nations in which they operate. Profit shifting occurs through so-called 'treaty jurisdictions', like Ireland, Luxembourg and the Netherlands, that provide legal protection to companies from being taxed twice – and not through smaller tax neutral centres.

2.4 The unresolved challenge of public debt since the financial crisis

The pressures placed on international finance centres need to be seen in the context of the challenges faced by the larger nations following the financial crisis of 2008. The dimensions of the crisis were extraordinary, and the major 'Western' economies and their governments are still feeling the aftershocks.

Increasing debt has put pressure on government finances across the developed world. Gross government debt averaged 66 per cent of gross domestic product across all major advanced countries in 2000. By 2015, the share had risen to 84 per cent. As a result, policy makers across the globe implemented policies focused on reducing public debt. Jurisdictions have pursued a combination of fiscal austerity – such as cutting public spending to reduce government budget deficits – and quantitative easing – an unconventional form of monetary policy aimed at stimulating the economy. (See Figure 21.)

Figure 21: Gross debt of general government as a share of gross domestic product for selected economies, per cent

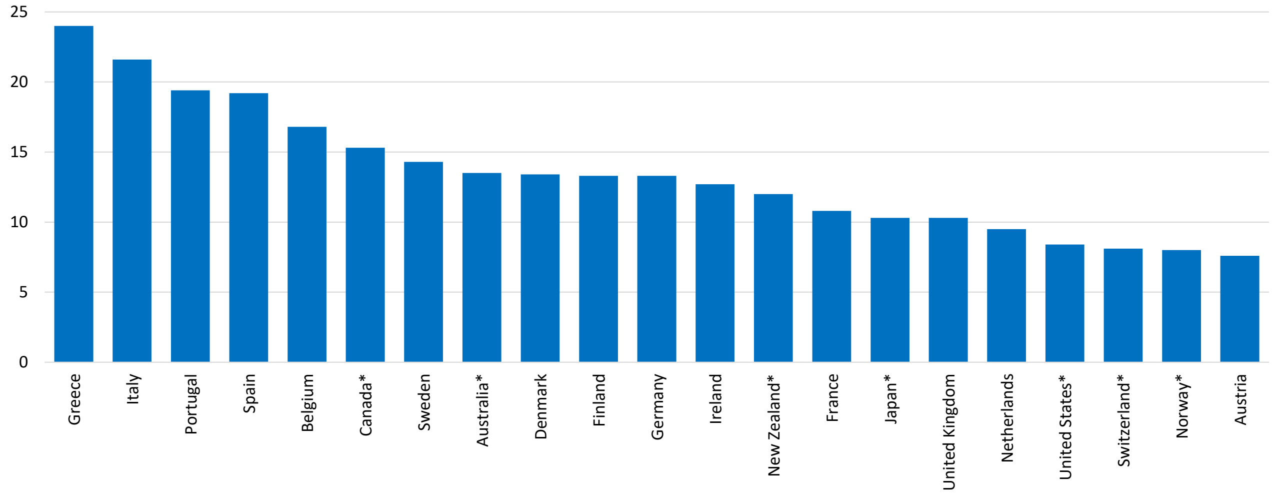


Sources: Capital Economics and Organisation for Economic Co-operation and Development

In the context of tighter government budgets, there has been increasing political and journalist focus on the potential for tax evasion and avoidance. These are predominantly issues for domestic policy. Analysis on 'shadow economies' reveals the extent to which tax is not reported or recorded in larger economies themselves. Estimates on the size of unregistered economic activity range from seven per cent to 24 per cent of a large country's gross domestic product. In addition, official analysis by the United Kingdom's HM Revenue and Customs finds that most of Britain's 'tax gap' arises from plain errors, failure to take reasonable care and pure non-payment rather than from outright evasion or avoidance. (See Figure 22 and Figure 23.)

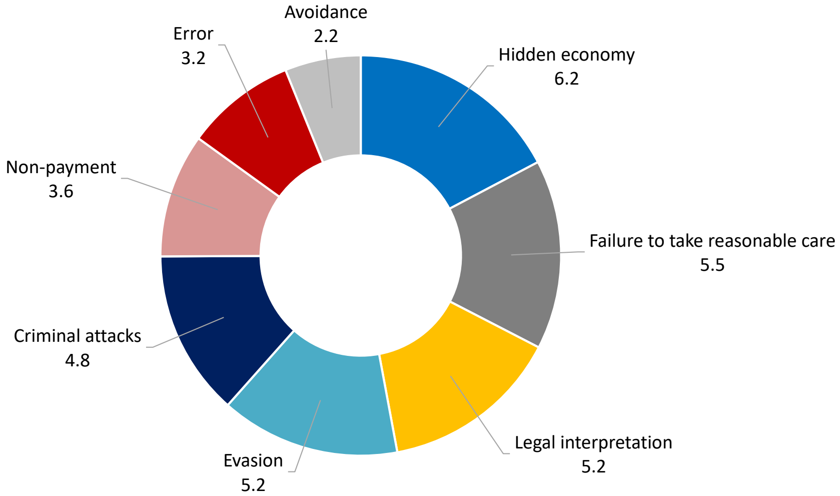
Nevertheless, there has been much effort expended at attempting to minimise the potential tax evasion and avoidance facilitated through offshore centres. Over the last decade, major nations, and their membership groups, have developed a number of initiatives to address the supposed problem of offshore tax evasion and avoidance. (See Figure 24.)

Figure 22: Size of shadow economy as a share of gross domestic product in selected countries, 2012 if not otherwise noted, per cent



Sources: Capital Economics and the Institute of Economic Affairs. *Note: Data for these countries refers to 2007.

Figure 23: Value of the United Kingdom tax gap by behaviour, 2014/15, £ billion



Sources: Capital Economics and HM Revenue and Customs

It would, of course, be naive to assert that offshore jurisdictions were and are always only used for the legitimate motives above. Some 'tax havens' have combined their sovereign or quasi-sovereign status with banking secrecy laws and weak anti-money laundering regulations. They have sometimes left open doors to individuals and organisations evading rightfully owed tax in their home or other countries, as well as those aggressively avoiding tax or hiding the proceeds of crime. But these are a declining minority.

The BVI has responded quickly and constructively to international developments to improve transparency and clamp down on criminality, including tax evasion. The territory is ahead of many big name international financial centres on this measure of transparency, was an early adopter of the Organisation for Economic Co-operation and Development's 'Common Reporting Standard', has committed to a large number of tax information exchange agreements and has signed up to follow the United States 'Foreign Account Tax Compliance Act'. (See Section 4.9.)

Figure 24: Major global initiatives and reports addressing tax evasion, 1998 to present

Initiative/Report	Body	Date of agreement	Description
Harmful Tax Competition: An Emerging Global Issue	OECD	April 1998	Report recommends that countries sign tax information exchange agreements with one another as a way of facilitating international cooperation on tax matters.
International Convention for the Suppression of the Financing of Terrorism	United Nations	December 1999	Treaty designed to criminalise acts of the financing of terrorism. As of July 2015, the treaty has been ratified by 187 states.
United Nations Convention against Corruption	United Nations	October 2003	Multilateral treaty negotiated by United Nations member states. Requires state parties to implement several anti-corruption measures that focus on five main areas: prevention; law enforcement; international cooperation; asset recovery; and technical assistance and information exchange.
Pledge to repair and strengthen the financial system	G20	April 2009	G20 leaders' meeting to discuss ways to strengthen the financial system. There was agreement to take action against non-cooperative jurisdictions, including tax havens.
Foreign Account Tax Compliance Act	United States	March 2010	Requires American citizens holding financial assets outside of the United States to report those to the Internal Revenue Service. In addition, foreign financial institutions must report information about accounts held by American taxpayers to the United States government.
Alternative Investment Fund Managers Directive	European Parliament and Council of the European Union	June 2011	A directive that requires all alternative investment fund managers to gain authorisation to operate from the member state's regulator first if the assets under its management are of a value above a certain threshold. It also requires them to regularly disclose certain information to investors and places them under certain governance, capital and organisational obligations.
Action Plan on Base Erosion and Profit Shifting (BEPS)	OECD	July 2013	Fifteen action items that tackle tax planning strategies that exploit gaps and mismatches in tax rules artificially to shift profits to low or no-tax locations where there is little or no economic activity, resulting in little or no tax being paid.
Common Reporting Standard	OECD	May 2014	Calls on governments to obtain detailed account information from their financial institutions and exchange that information automatically with other jurisdictions on an annual basis.
Directive of Administrative Cooperation (replaced Savings Directive of 2005)	European Council	Dec. 2014	Requires member states to automatically exchange information in line with the OECD / G20 global standard for automatic exchange of information between jurisdictions.
Committee on tax ruling (TAXE 1)	European Parliament	Feb. 2015	Special 45-member committee on tax rulings set up to look into allegations that some member states are using special tax regimes that favour large corporations. At the end of its mandate in November 2015, another committee TAXE 2 was set up to continue its work for six months starting 2 December 2015.
Action Plan for Fair and Efficient Corporate Taxation in the European Union	European Commission	June 2015	Report sets out proposals aimed at making corporate taxation in the European Union more efficient, fair and transparent. Includes five broad areas of action, including the re-launch of the Common Consolidated Corporate Tax Base.
4th Anti-Money Laundering Directive	European Commission	June 2015	Calls for European countries to set up central registers to record the ultimate beneficial owners of all companies and trusts. Scheduled to come into force by mid-2017.

Source: Capital Economics

3 THE BVI'S ECONOMY

In this section, we summarise the key characteristics of the BVI's economy.

A United Kingdom Overseas Territory, the British Virgin Islands is located just under 100 kilometres east of Puerto Rico, covers a geographical area of 152 square kilometres and is home to around 30,000 people. It has levels of prosperity among the higher performers in the Caribbean and Latin America region.

The territory has a remarkably balanced economy underpinned by a thriving tourism sector as well as an innovative international business and finance centre. Tourism accounts for one in every four jobs in the BVI, and the international business and finance centre accounts for one in ten. Half of all economic output derives from these two key sectors. The workforce is truly international, with roughly two-fifths employed on a work permit. A large majority of work permit employees are from the neighbouring region, thus providing employment opportunities for those coming from nations with higher unemployment.

As a small economy, the BVI imports almost all the goods it consumes and many of its services. Spending on imports totalled roughly US$750 million in 2014. The majority of which were brought from the United States – supporting around 12,000 jobs there. But, with strong services exports, it ran an overall trade surplus in the order of US$45 million in the same year.

The BVI has maintained a sound fiscal position despite the impact of the global financial crisis. It is not a jurisdiction without taxes or with artificial taxes: it levies taxes on residents, visitors and locally operating companies in order to fund public services. It is, though, a tax neutral territory with a zero rate of tax on corporate profits. In addition to its general attractiveness for investors, this ensures that any cross-border transactions mediated via the BVI are not at risk of double taxation.

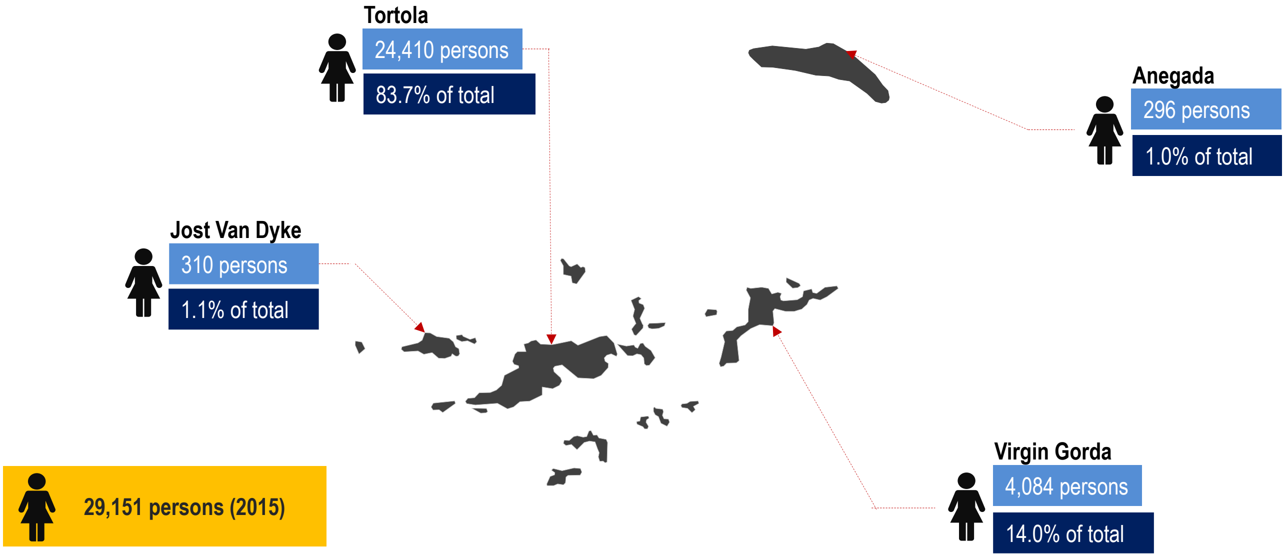
With its tax neutrality, a framework of common law, a highly regarded commercial court and ultimate right of appeal to the Judicial Committee of the Privy Council in London, the BVI has become a leading centre specialising in the incorporation of vehicles for cross-border business and accompanying company law and legal services.

3.1 An introduction to the BVI

The United Kingdom Overseas Territory of the 'Virgin Islands' (commonly known as the 'British Virgin Islands') comprises over 60 islands, islets and cays in the eastern Caribbean. Located just under 100 kilometres east of Puerto Rico, it covers a geographical area of 152 square kilometres and is home to around 30,000 people.

The majority of the population, over 24,000 people, live on the largest island, Tortola. The capital, Road Town, is the centre for most of the territory's financial and professional services activity – as well as being its administrative and judicial hub, and home to the islands' largest cruise liner, passenger and cargo maritime port facilities. (See Figure 25.)

Figure 25: Population of the BVI, by main island, 2015



Sources: Capital Economics and BVI Central Statistics Office

Regular ferry services connect the inhabited islands of the archipelago together, as well as providing links to its neighbouring jurisdictions including the US Virgin Islands. Terrance B. Lettsome International Airport on Beef Island (which is connected by road bridge to Tortola) provides international air connections, with regular flights to:

- Antigua
- San Juan, Puerto Rico
- Saint Thomas, US Virgin Islands
- Sint Maarten/Satin Martin
- Miami (forthcoming new service)

In addition, there are smaller airports on the islands of Virgin Gorda and Anegada, which offer direct flights to San Juan and Saint Thomas, seaplane services, private charter flights, as well as regular ferry services.

The territory is served by fixed line and three mobile telephony providers, with services using VDSL and 4G technologies. Tortola is home to an internet exchange and is a landing point for three submarine telecommunications cables providing global voice and data connectivity:[6]

- 'Caribbean-Bermuda US', which is a 1,600 kilometres link between Tortola and Bermuda
- 'Eastern Caribbean Fiber [*sic*.] System', a 1,730 kilometre cable linking the BVI with Saint Kitts and Nevis, Barbados, Saint Lucia, Trinidad and Tobago, Saint Vincent and the Grenadines, Martinique, Montserrat, Guadeloupe, Dominica, Sint Maarten, Grenada, Antigua and Barbuda, and Anguilla
- 'Pacific Caribbean Cable System', a 6,000 kilometre cable linking the BVI to Jacksonville in Florida, as well as locations in Panama, Colombia, Aruba, Ecuador, Panama, Puerto Rico and Curaçao

State-owned British Virgin Islands Electricity Corporation is the monopoly generator, transmitter and distributor of electricity on the larger islands. Serving over 15,000 customers, its eleven diesel fired generators have installed capacity of approximately 44 megawatts – against estimated peak demand of around 32 megawatts. Residents of outer islands are able to produce their own electricity subject to regulation by the BVI government.

The jurisdiction's constitution provides for a Cabinet comprising the Premier, four other Ministers and one ex-officio member, the Attorney General. Cabinet is responsible for the formulation and implementation of policy, though the Governor has responsibility for external affairs, defence, internal security, aspects of the public service and the administration of the courts. The House of Assembly comprises thirteen elected members, nine representing individual districts and four elected by a territory-wide vote. The Attorney General, an appointed official, is also an ex-officio member of the House of Assembly. Elections are held at least every four years.

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[6] TeleGeography, *Submarine Cable Map*, www.submarinecablemap.com (Accessed 5 January 2017).

3.2 An overview of the BVI's economy

The territory has a remarkably balanced economy, underpinned by a thriving tourism sector as well as an innovative international business and finance centre.

The BVI's gross domestic product stood at an estimated US$934 million in 2014.[7] The global financial crisis has had an impact on the territory, with its economy experiencing limited growth since 2007. In nominal terms, the BVI's economy has experienced average annual growth of 1.3 per cent between 2009 and 2014. Adjusting for inflation levels, the economy has contracted in real terms by an average of 0.8 per cent each year over the same period.[8] (See Figure 26.)

The BVI has levels of prosperity among the higher performers in the Caribbean and Latin America region. Its gross domestic product per capita stood at roughly US$32,000 per person in 2014, making it relatively prosperous in the Caribbean and other small states around the world. Compared to large nations it falls slightly behind. (See Figure 27.)

The territory has maintained a low and relatively stable inflation rate since 2008. In 2014, average overall prices grew by 0.9 per cent from the previous year. This low rate of inflation for 2015 can be attributed to the substantial decline in transportation costs, which accounts for a meaningful share of the BVI's consumer price index. With its economy heavily dependent on imports, the BVI is a price taker and subject to inflationary pressures predominantly from the United States, which is the source of the bulk of imports, as well as movements in global oil prices. (See Figure 28.)

The BVI is one of ten countries aside from the United States that uses the American dollar as its legal tender and official currency. Through dollarizing their economy, authorities in the territory have given up the ability to control monetary policy independently. The use of the dollar serves the BVI well, due to the territory's proximity to the United States as well as the use of the dollar as the world's foremost reserve currency. As a leading international business and finance centre, the use of the dollar helps the BVI minimise transaction and exchange rate costs, and helps make the territory an attractive destination for the global community to conduct business. It also facilitates trade with the United States, it most significant trading partner.

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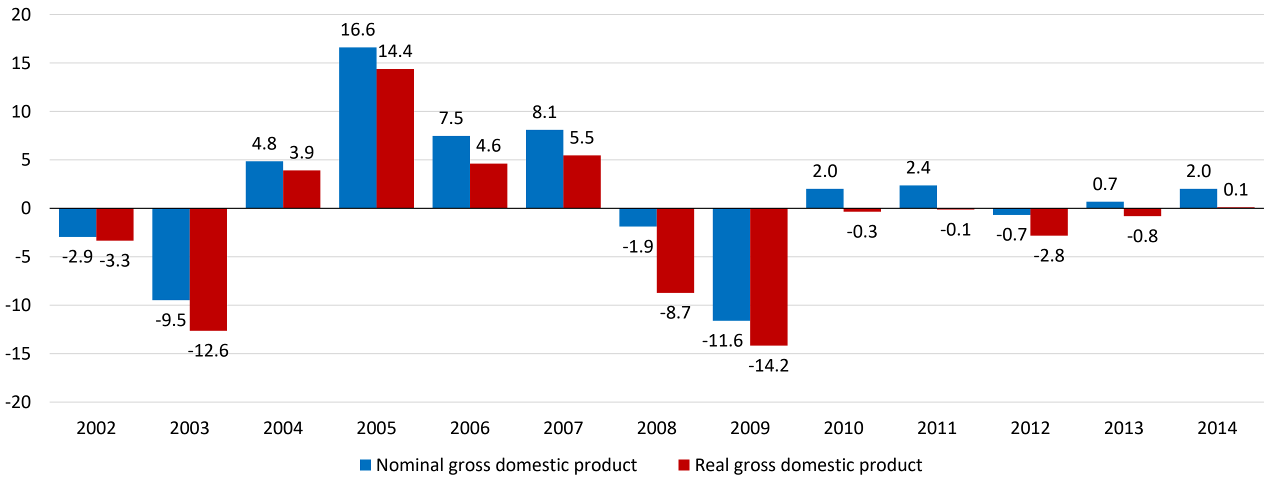
7 BVI Central Statistics Office, *National Accounts Statistics 2014, Section II: Economic Summary, Tables and Charts* (CSO, Road Town) 26 October 2016

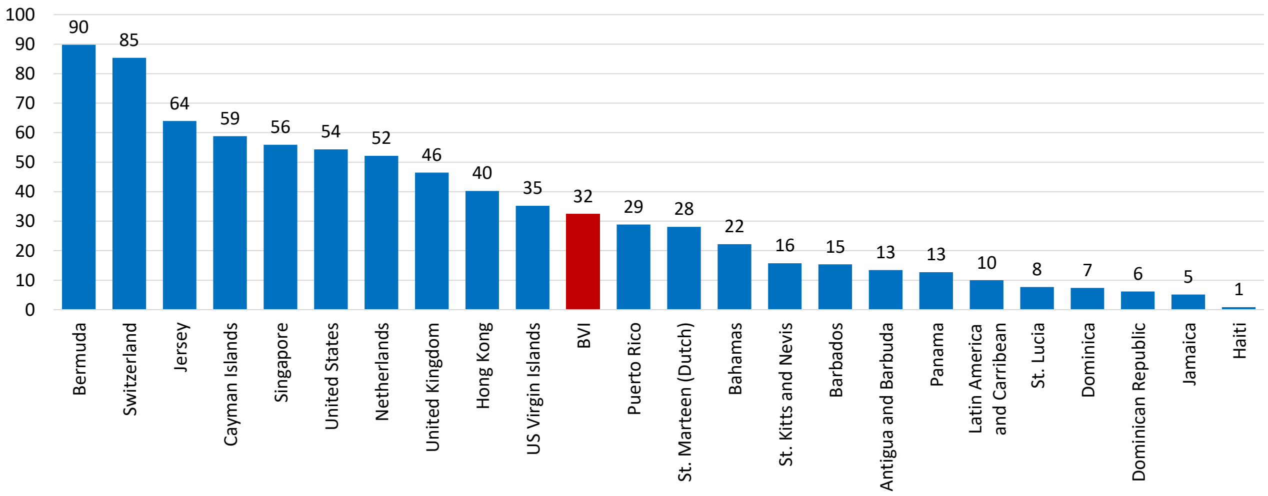
8 These real gross domestic product annual rates of change differ from official estimates. These estimates have been calculated by adjusting official BVI nominal gross domestic product values by the BVI's consumer price index. While adjusting by a nation's consumer price index is not a typical or ideal approach, given the lack of publicly available information on a gross domestic product deflator for the BVI, as well as the territory's high dependence on imports, we believe this approach is suitable.

Figure 26: Annual change in gross domestic product for the BVI, expenditure approach, per cent



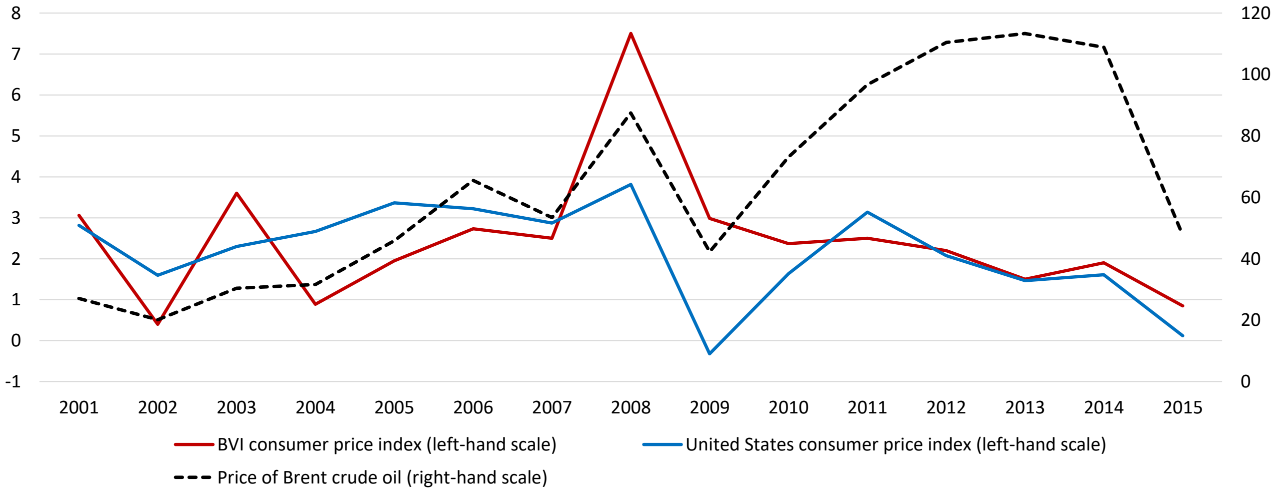
Sources: Capital Economics, BVI Central Statistics Office, and BVI Ministry of Finance. Note: These real gross domestic product figures are based on internal Capital Economics analysis of official data from the BVI Government, and differ from official estimates. These estimates have been calculated by adjusting official BVI nominal gross domestic product values by the BVI's consumer price index.

Figure 27: Gross domestic product per capita, 2014, US$ thousands, 2014 prices



Sources: Capital Economics, BVI Central Statistics Office, US Bureau of Economic Analysis and the United Nations

Figure 28: Annual change in consumer prices for the BVI and the United States (per cent) and annual average spot price for Brent crude oil (US$ per barrel)



Sources: Capital Economics, BVI Central Statistics Office and the International Monetary Fund

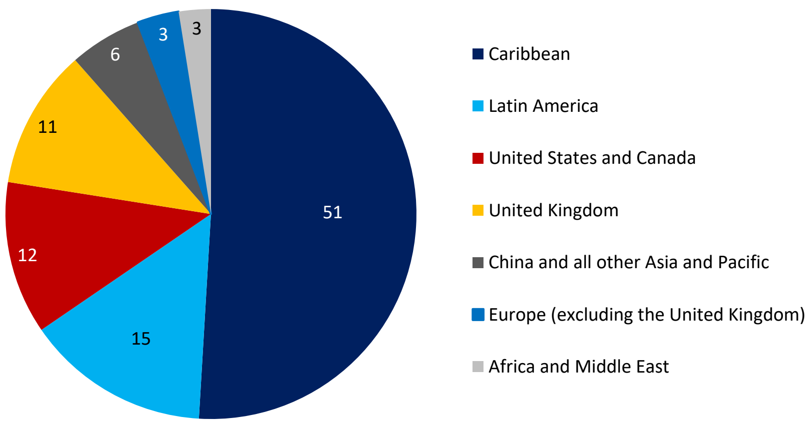
BVI banks do not have direct access to United States clearing systems. As a result, it is commonplace for banks in the territory to use correspondent banking provisions to make cross-border payments and to access the global financial system. Correspondent banking is a system through which smaller – respondent – banks set up relationships with larger, typically international – correspondent – banks, to provide their customers with banking services that would otherwise be difficult to perform on their own. Internationally, correspondent banking provides access to the global financial system for populations in underserved regions. In the BVI, correspondent banking serves much the same purpose, with local branches in the BVI working with their correspondent institutions in the United States and Canada to facilitate the transfer of funds.

The BVI benefits from a strong labour market. As of 2010, the unemployment rate was a low 2.8 per cent.[9] The BVI has a labour force of just over 20,000 people. Immigration to the territory has been vital in helping to meet the shortage in the local labour supply with one third of the BVI's total population on work permits.

Its workforce is truly international – 8,344 work permits were issued in 2014, rendering roughly two of every five people employed in the territory an expatriate. The large majority of work permit employees are from the wider-Caribbean region. (See Figure 29.)

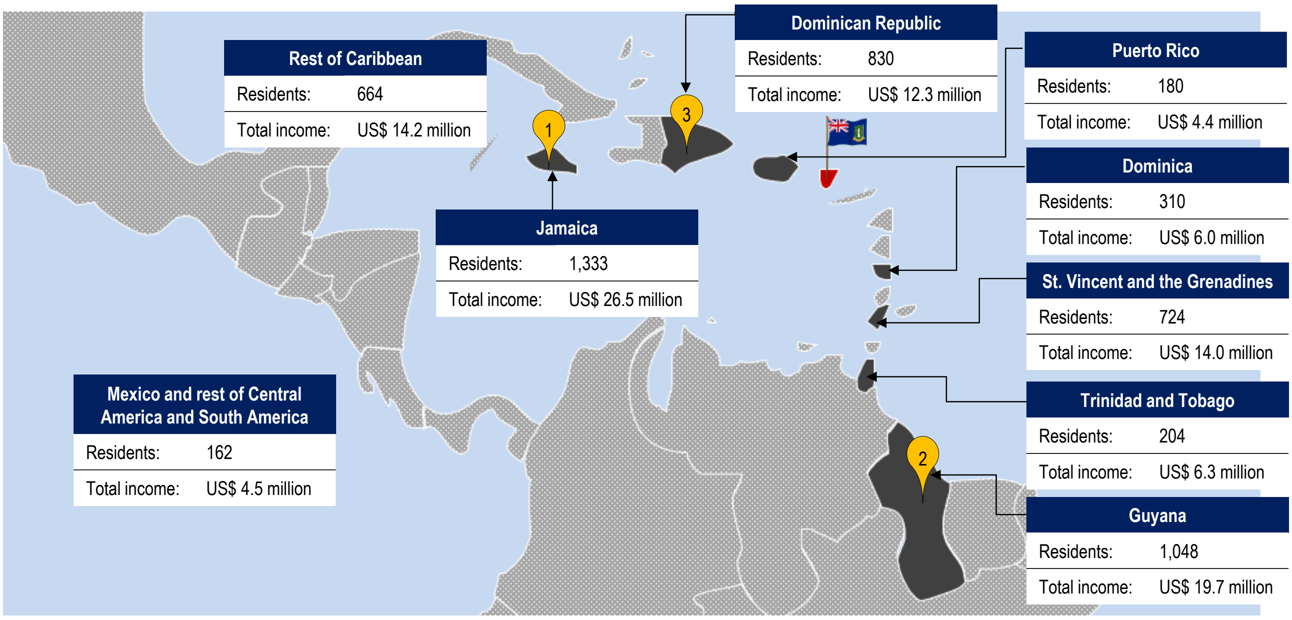
[9] Latest data available. Data provided by the BVI Central Statistics Office on 28 June 2016.

Figure 29: Share of BVI work permits issued by nationality of worker, 2014, per cent



Sources: Capital Economics and BVI Financial Services Implementation Unit

Figure 30: Total number of residents from the wider-Caribbean region on work permits in the BVI and their total annual incomes in the BVI by country of origin, 2014



Sources: Capital Economics and BVI Financial Services Implementation Unit

With roughly 65 per cent of expatriates coming from the wider-Caribbean region, the BVI provides employment opportunities for those coming from nations with higher unemployment. Jamaica, Guyana and the Dominican Republic were the top three countries of work permit issuances in the BVI in 2014. Unemployment rates in these three nations are high at thirteen per cent, eleven per cent and fifteen per cent respectively.[10] Additionally, average incomes in the BVI are higher than those in its neighbouring economies. Expatriates working in the territory commonly send a share of their salaries back to family in their native country. With average earnings of US$20,000 per year for employees from the wider-Caribbean region working in the BVI, this translates to total earnings of US$100 million per year. While much of these earnings will be spent in the local economy, a considerable share may also be sent as remittances to the territory's neighbours. (See Figure 30.)

Box 1: Capital Economics classification of the BVI's 'international business and finance centre'

Official government statistics do not categorise the international business and finance centre in the BVI as a separate sector.

We define the BVI's 'international business and finance centre' sector as including all activities directly related to the following businesses registered and operating in the territory:

- Corporate service providers[11]
- Banks
- Legal firms
- Accountancy firms
- Insolvency practitioners
- Insurance and reinsurance providers

The BVI's Central Statistics Office classifies 'financial intermediation' as activities relating to financial services and insurance, reinsurance and pension funding. In the BVI, this sector relates directly to the banking and insurance industries.

The Central Statistics Office's official sector 'real estate, renting and business activity' can be broken down into three sub-sectors; 'real estate activities'; 'professional, scientific and technical activities'; and 'administrative and support service activities'. Specifically, the sub-sector 'professional, scientific and technical activities' includes 'legal and accounting activities', 'activities of head offices', 'architectural and engineering activities', 'scientific research and development', 'advertising and market research', 'other professional, scientific and technical activities' and 'veterinary activities'.

The new 'international business and finance centre' sector comprises the entirety of the Central Statistics Office's financial intermediation' sector, as well as a share of 'professional, scientific and technical activities', specifically those activities relating to legal, accounting and insolvency work.

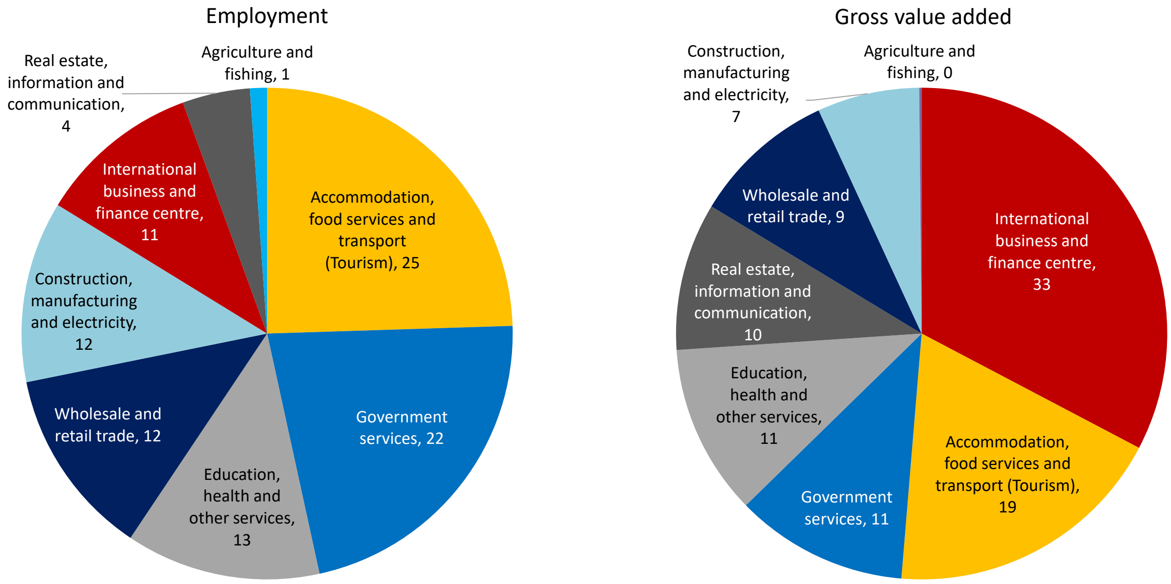
Tourism and the international business and finance centre are the two mainstays of the BVI's economy. (See Box 1.) This focus is reflected in its labour market and economic activity statistics. Tourism accounts for one in every four jobs in the BVI, while the international business and

10 Statistics Institute of Jamaica, *Labour Force 2016* (STATIN, Kingston), July 2016 and World Bank Key Indicators of the Labour market database, *Unemployment, total, per cent of total labour force – modelled ILO estimate* (World Bank, Washington D.C.), 2014.

11 Corporate service providers are also commonly known in BVI as 'trust companies', 'trust and company services providers' as well as 'company incorporation providers'.

finance centre accounts for one in ten. Half of output derives from these two key sectors. (See Figure 31.)

Figure 31: BVI employment and gross value added by sector, 2014, per cent



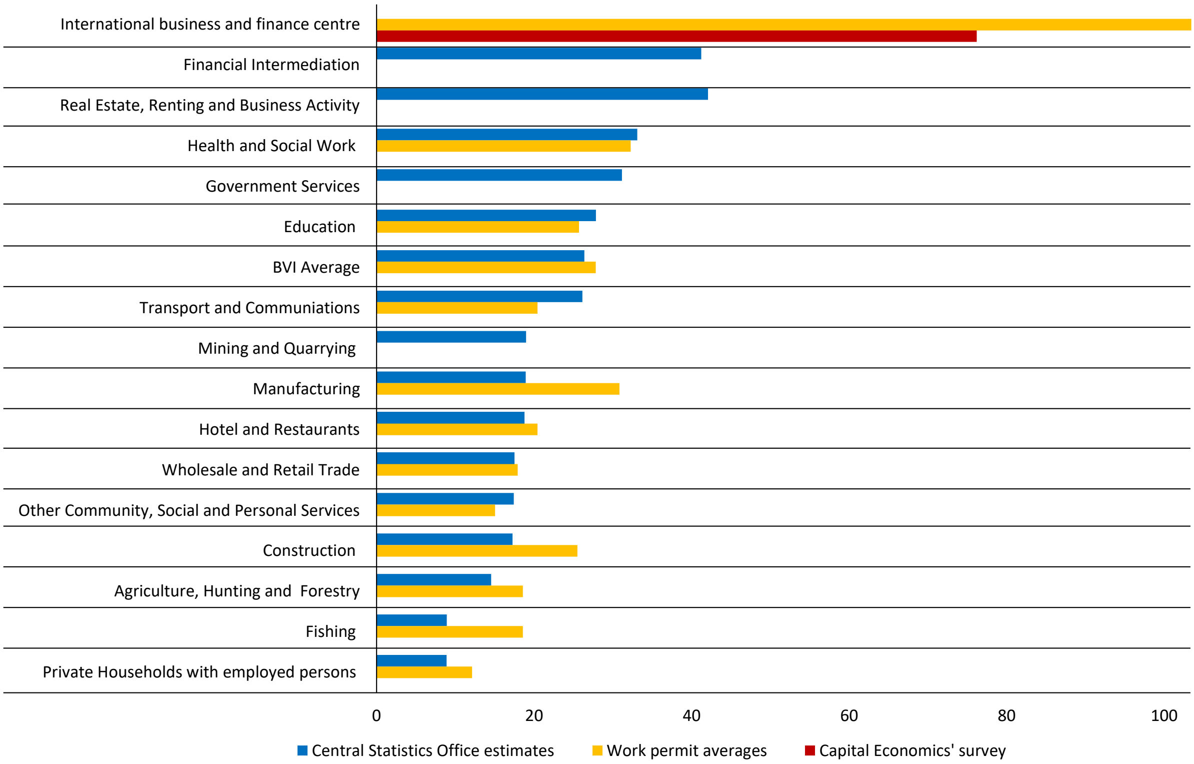
Sources: Capital Economics and BVI Central Statistics Office. Note: This breakdown is based on Capital Economics analysis of official data from the BVI Central Statistics Office

Activity from the international business and finance centre helps push up average earnings. Average annual earnings for employees across all sectors in the BVI averaged just over US$26,000 in 2014, according to the BVI's Central Statistics Office. This is roughly one third of the average earnings made by employees in the international business and finance centre, whose annual earnings averaged just over US$76,000 in 2014. Earnings for work permit holders are six per cent higher on average than the earnings for the working population as a whole. (See Figure 32.)

While employment in the international business and finance centre accounts for a smaller share of employment, over one quarter of the territory's total wages go to its employees. The larger profits that they generate, particularly from the local law firms, further increases its share of gross value added. (See Figure 33.)

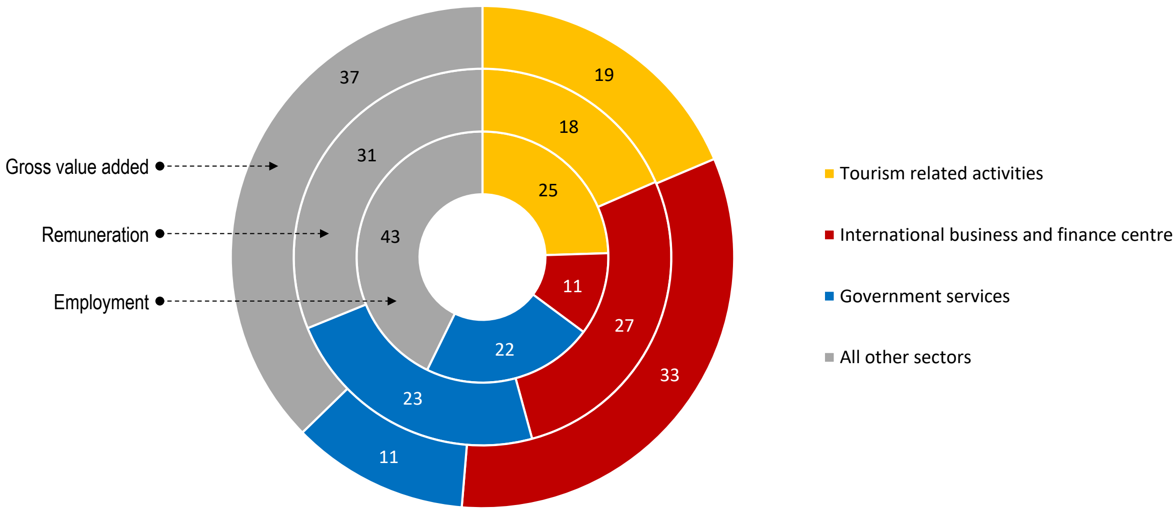
The BVI's economy is remarkably balanced for its size. It is common for jurisdictions of the BVI's size – both in physical and economic terms – to have significant exposure to a single sector. The economies of many small Caribbean states are heavily reliant on tourism, while many small-state international financial centres are dominated by financial services. The BVI has balanced both. (See Figure 34.)

Figure 32: Average annual earnings by sector in the BVI, 2014, US$ thousand per year per employee



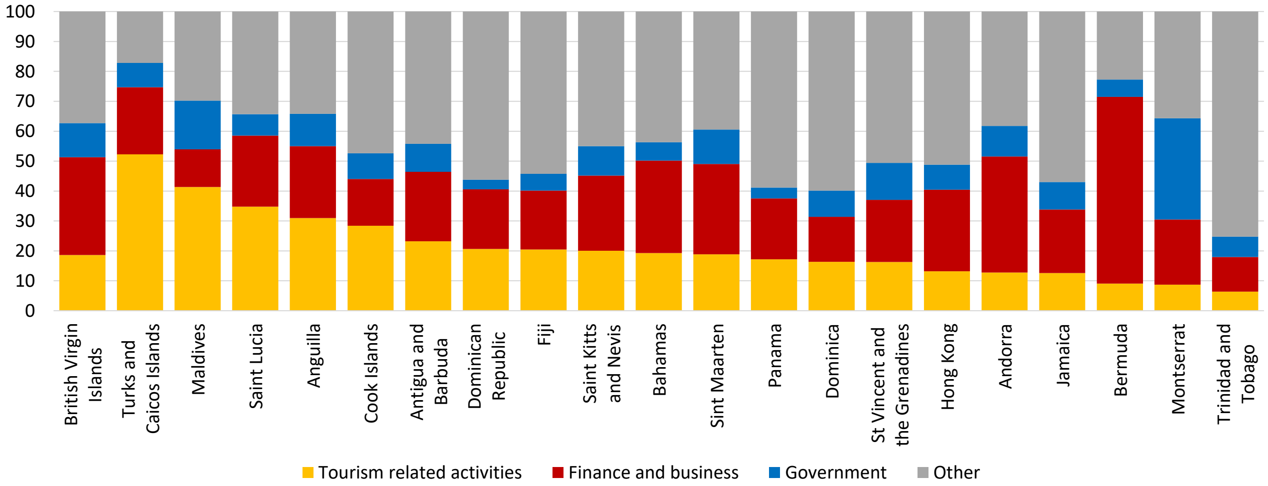
Sources: Capital Economics, BVI Financial Services Implementation Unit and BVI Central Statistics Office

Figure 33: The BVI's share of employment by sector (inner circle), employee remuneration by sector (middle circle) and gross value added by sector (outer circle), 2014, per cent



Sources: Capital Economics and BVI Central Statistics Office. Note: This breakdown is based on internal Capital Economics analysis of official data from the BVI Central Statistics office

Figure 34: Share of tourism, finance and business, government and other sectors of total gross value added for selected jurisdictions, per cent



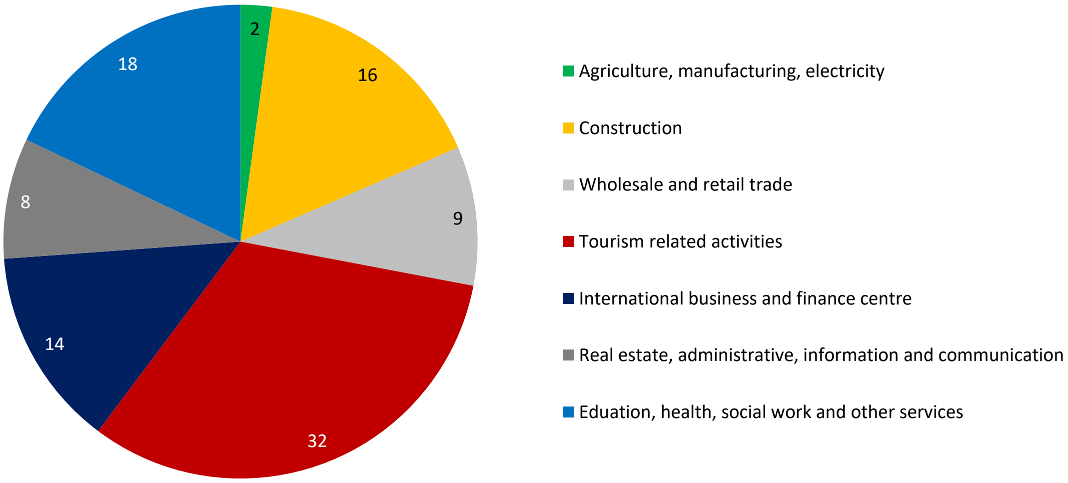
Sources: Capital Economics and the United Nations. Note: Tourism in this context is a measure of the contribution of hotels, restaurants, transport, storage and communications

3.3 A destination for international tourism

The BVI is a major destination for tourists from across the world.

Tourism is one of the territory's largest employers, directly accounting for one in every four jobs. One third of all work permits issued in 2014 were for tourism related activities. (See Figure 35.)

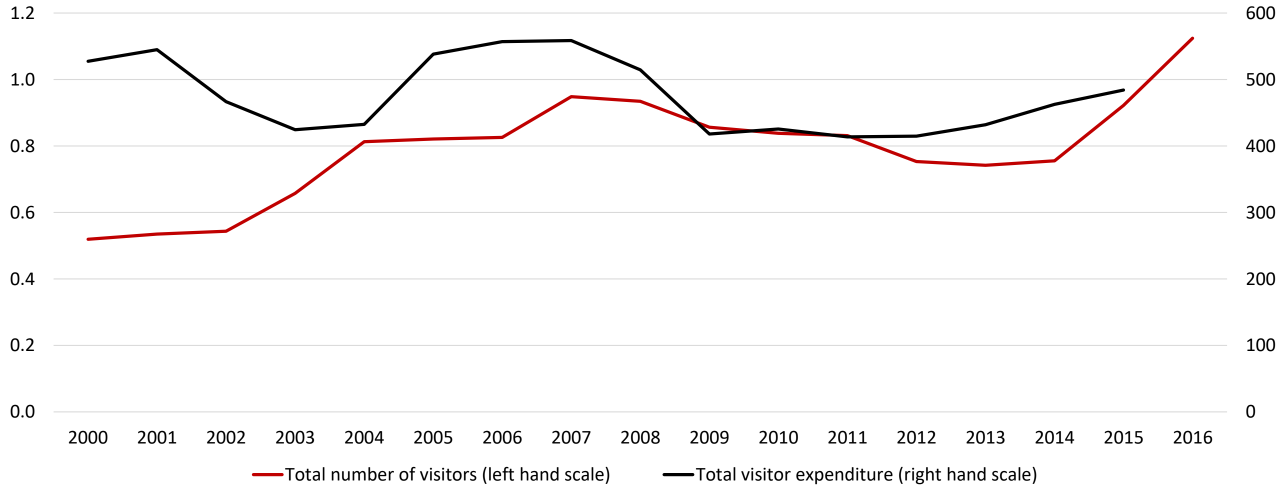
Figure 35: Share of total BVI work permits issued by industry, 2014, per cent



Sources: Capital Economics and BVI Financial Services Implementation Unit

In 2016, over 1.1 million visitors travelled to the BVI, a 22 per cent increase from the previous year. The number of visitors to the BVI has been increasing at an average annual rate of 4.9 per cent per year between 2000 and 2016, while total visitor expenditure has remained relatively stable over roughly the same period. These visitors spent an estimated US$484 million in the territory in 2015, which is equivalent to 52 per cent of the BVI's gross domestic product. (See Figure 36.)

Figure 36: Total number of annual visitors to the BVI (million persons) and total on-island visitor real expenditure (US$ million, 2015 prices)



Sources: Capital Economics and BVI Central Statistics Office. Visitor expenditure data for 2016 was unavailable at the time of publication.

The majority of visitors to the BVI come and go by sea. In 2016, 62 per cent of visitors were cruise ship passengers, mainly from the United States. These tourists typically do not stay in the territory overnight. Overnight visitors accounted for just over one third of all visitors to the BVI. In 2016, just over 406,000 overnight visitors were recorded, marking the first time in history that the territory has topped the 400,000 overnight visitor mark. For these visitors, charter boats are the most popular option. In 2015, visitors who stayed one night or more spent over twelve times that of excursionists. (See Figure 37 and Figure 38.)

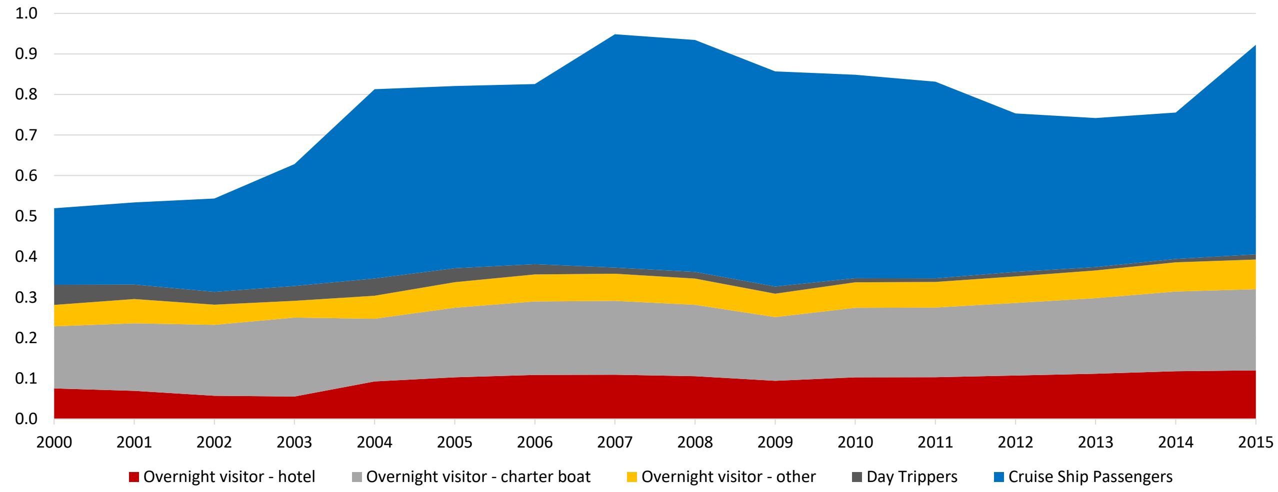
With restructuring within the Caribbean cruise industry resulting in the withdrawal of smaller vessels and more of a focus on larger ships, the BVI authorities have built new facilities to accommodate mega-vessels. Tortola Pier Park opened in February 2016, and includes an enhanced cruise pier and a five acre shopping facility. The new 60 foot-wide, 1,312 foot long pier can berth ships up to a maximum tonnage of 180,000 gross register tonnage.[12]

Over half of visitors to the BVI in 2014 were aged over 50 years, while four-fifths were residents of the United States. (See Figure 39.)

The appeal of the islands to holidaymakers is evident in their keenness to return. Two-thirds of visitors say they would 'definitely' return to the jurisdiction – and a further quarter say they would 'probably' do so. (See Figure 40.)

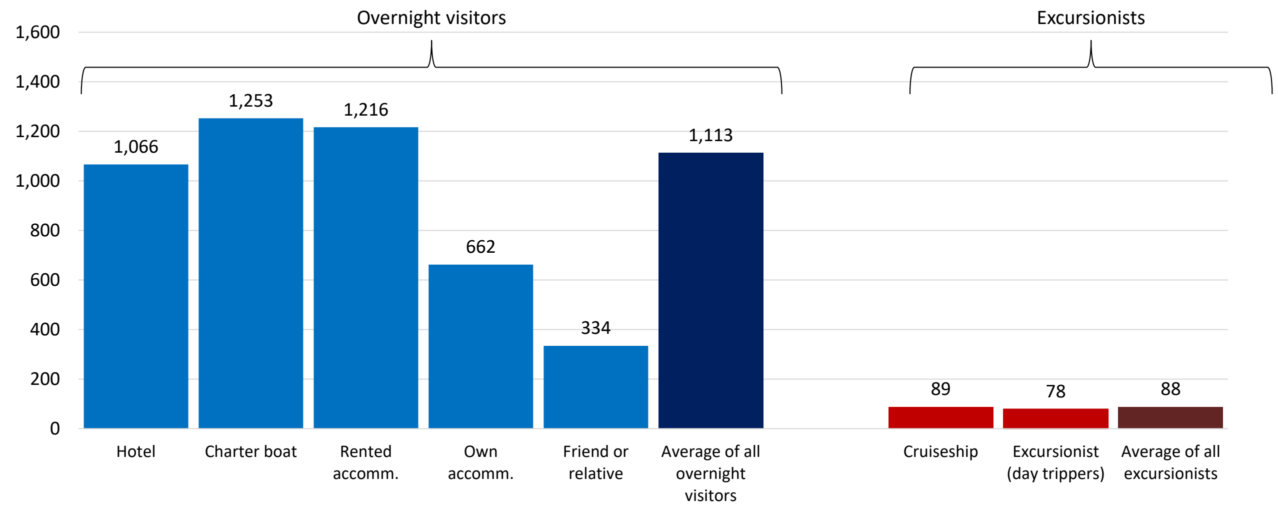
[12] Meslyn Allan, *BVI Amongst the World's Top 50 Cruise Ports of call for 2015* (BVI Ports Authority, Road Town) 24 September 2016

Figure 37: Total visitors to the BVI by type of visit, million persons



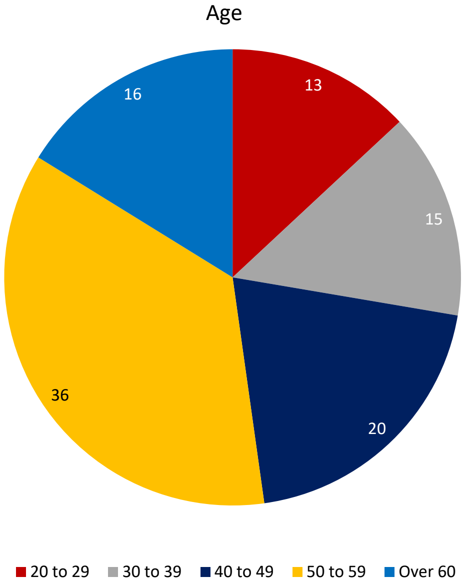
Sources: Capital Economics and BVI Central Statistics Office

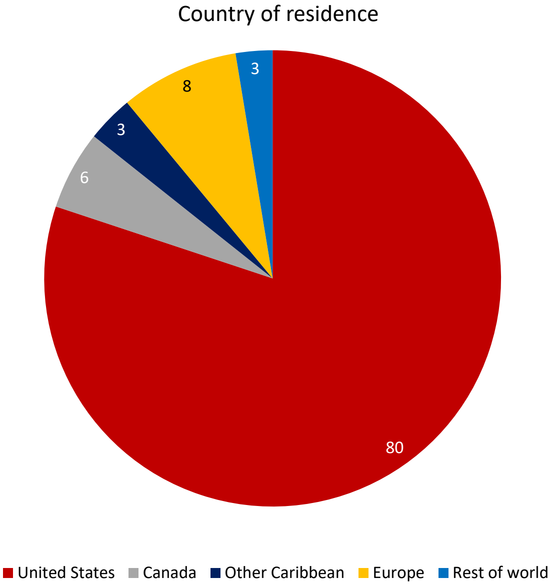
Figure 38: BVI average visitor expenditure by type of visitor, 2015, US$ per visitor



Sources: Capital Economics and BVI Central Statistics Office

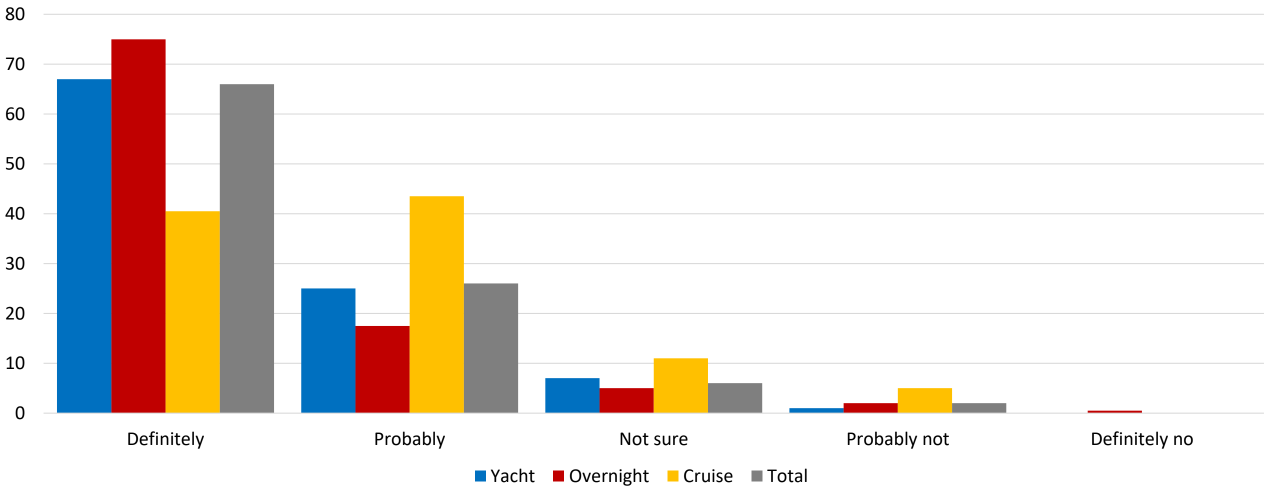
Figure 39: Share of visitors to the BVI by age and by country of residence, 2014, per cent





Source: Gala Sipos *et al, The Tourism value of Nature in the British Virgin Islands* (IVM Institute for Environmental Studies, Amsterdam) 7 May 2014

Figure 40: Likelihood of visitors to the BVI returning to the territory, 2014, percentage of visitors



Source: Gala Sipos *et al, The Tourism value of Nature in the British Virgin Islands (BVI)* (IVM Institute for Environmental Studies, Amsterdam) 7 May 2014

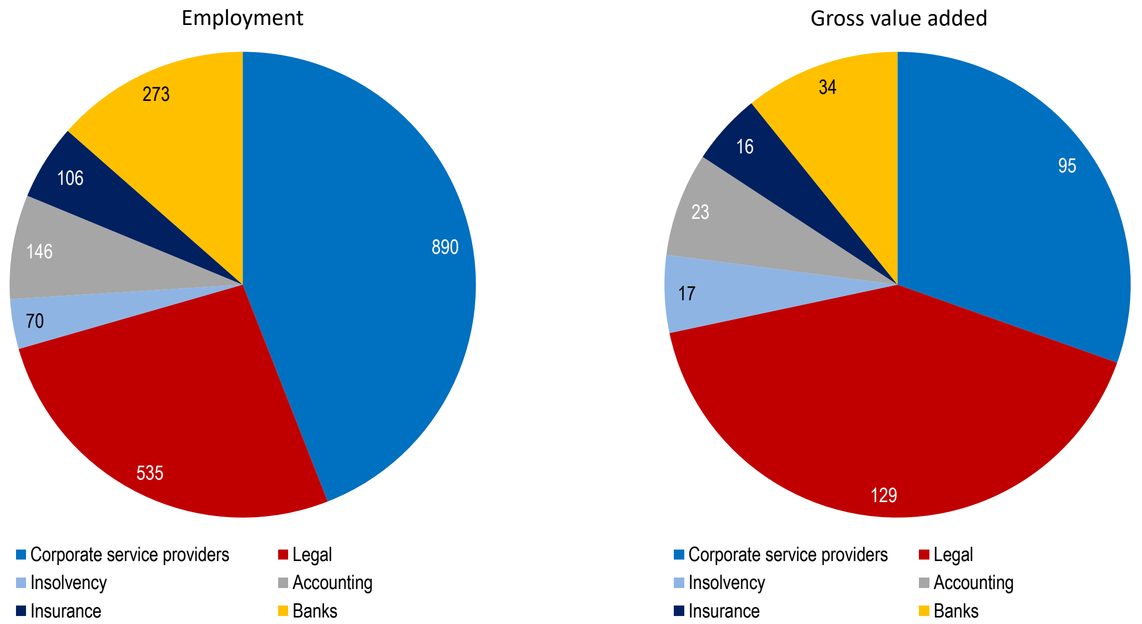
3.4 An international business and finance centre

The BVI is a leading centre for international business and finance.

While a limited degree of international financial activity took place in the territory during the 1970s, the BVI's international business and finance centre garnered official footing in 1984 with the enactment of the *International Business Companies Act (1984)*. This act not only gave rise to the BVI's business and financial services industry, but created a successful model which has been emulated in jurisdictions around the world. In these last 30 years, the territory has worked hard to become a significant player in the global international marketplace, specialising in the incorporation of vehicles for cross-border business and accompanying company law and legal services.

The BVI's international business and finance centre employs over 2,000 people, accounting for just over one in every ten workers in the territory. Corporate service providers and legal firms dominate activity both in terms of employment and output. Corporate service providers employ 890 people in the BVI and contribute over US$90 million in gross value added directly to the local economy. Legal firms employ 535 people, and contribute US$129 million in output to the territory. (See Figure 41.)

Figure 41: Employment in the BVI's international business and finance centre, 2016, number of persons and gross value added of the BVI's international business and finance centre, 2016, US$ million



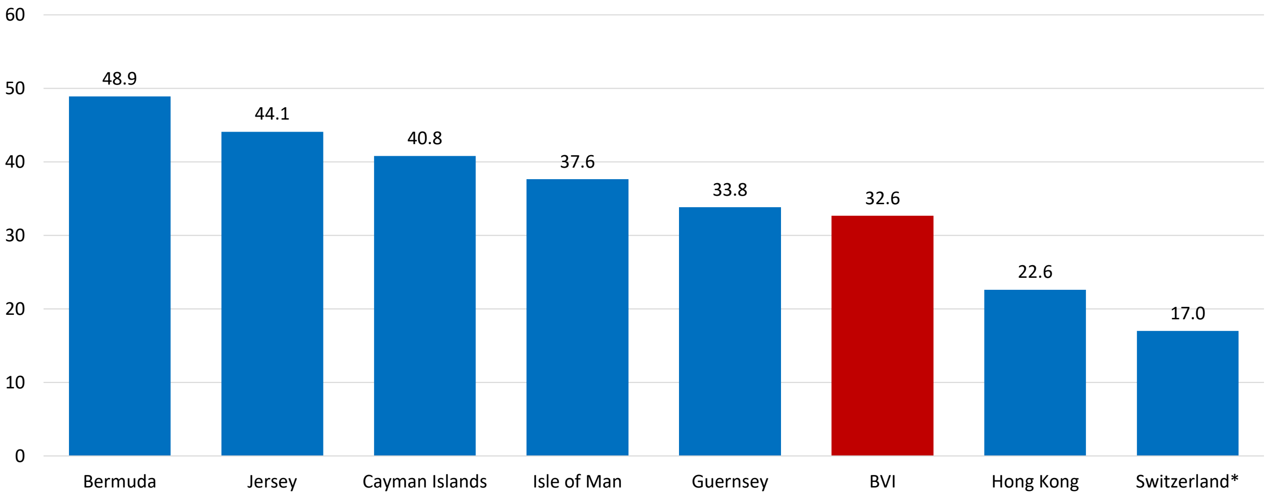
Sources: Capital Economics and BVI Central Statistics Office. Note: This breakdown is based on internal Capital Economics analysis of official data from the BVI Central Statistics office

Figure 42: Share of employment in finance sector for the BVI and selected jurisdictions

Country	Total employment (thousand people)	Employment in finance sector (thousand people)	Share of employment to total employment (per cent)
Finance sector only			
BVI	*19*	*0.4*	*2.1*
Luxembourg	258	26	10.1
Cayman Islands	38	3.8	10.0
Jersey	57	4.7	8.2
Bermuda	34	2.6	7.6
Switzerland	4,480	257	5.7
Cyprus	363	20	5.5
Ireland	1,974	90	4.6
United Kingdom	28,356	1,012	3.6
Business and finance sector			
BVI	*19*	*2.0*	*10.5*
Jersey	57	13	22.8
Bermuda	34	6.1	17.9
Cayman Islands	38	6.8	17.9
Luxembourg	258	46	17.8
Switzerland	4,480	635	14.2
United Kingdom	28,356	3,387	11.9
Cyprus	363	43	11.8
Ireland	1,974	212	10.7

Source: Capital Economics' analysis of Office for National Statistics, Eurostat, BVI Central Statistics Office, Government of Bermuda and Economics and Statistics Office of Cayman

Figure 43: Business and financial services contribution to total gross domestic product by selected offshore jurisdiction, 2014, per cent



Sources: Capital Economics and individual country national accounts data *Share of gross value added

In comparison to many international finance jurisdictions around the world, the BVI is underweight in financial services employment. This can be seen in Figure 42 which shows employment in both the traditional finance sector and the broader business and finance sector as a share of total employment for selected international finance centres. The BVI's employment in the traditional finance sector is 2.1 per cent of total national employment, compared to ten per cent in Luxembourg and the Cayman Islands. When including business and professional services, such as legal, insolvency and accounting, the BVI's employment share rises to eleven per cent which is still below the share of other jurisdictions.

In terms of gross domestic product, the BVI is also less exposed to business and finance than many other international financial sectors. (See Figure 43.)

This is not to say that the BVI is not a significant player in the international financial community. The BVI provides 'legal and contractual substance' to cross-border and international business activity. The BVI boasts legal expertise rooted in English law. There is high value of incorporating under almost-English law, as it is comes with quality, confidence and stability. Businesses gain material comfort that commercial decisions as to the allocation of risk can be implemented, disputes can be resolved fairly and asset ownership is properly articulated and respected. These services are a substantive requirement for business and investment, especially cross-border.

Box 2: The BVI's International Arbitration Centre case study: An innovative company law jurisdiction

Along with the presence of its commercial court, the BVI's International Arbitration Centre is a testament to the territory's standing as a leading and innovative international business and finance centre.

The BVI International Arbitration Centre opened in January 2017. It is an independent not-for-profit institution, and provides a bipartisan, neutral and impartial third-party for dispute resolution, as well as support services in international arbitrations involving various combinations of states, state entities, international organizations and private parties.

The centre's missions is to "become the go-to institution for International Arbitration and all other forms of dispute resolution in the Caribbean, Latin America and beyond. It will be a nerve centre for dispute resolution, thought leadership, seminars and trainings as well as various other initiatives that contribute to the expansion of Arbitration worldwide."[13]

Clients who bring their disputes to the centre are able to nominate their own arbitrators or choose from a roster of arbitrators maintained by the BVI Arbitration Centre themselves. Their roster includes more than 190 highly regarded international arbitration and dispute resolution practitioners, who will be able to conduct arbitrations in a multitude of languages.

The centre provides administrative and concierge services to parties and arbitrators using its facilities, as well as financial administration, logistical and technical support for meetings and hearings, travel arrangements, and general secretarial and linguistic support.

The BVI has a sophisticated and highly regarded commercial court. The highest court of appeal within the territory is the Eastern Caribbean Supreme Court, which is a superior court of record for

13 BVI International Arbitration Centre, *Our vision, mission and core values* (BVI IAC, Road Town) http://www.bviiac.org/About-Us/Our-Vision-Mission-Core-Values (accessed 15 February 2017).

the Organisation of Eastern Caribbean States. The commercial division of the Supreme Court was established in May 2009 and sits in Road Town. This court, with established judges and processes, has adjudicated on a large number of disputes of significant size. The minimum value for a claim to be brought to the commercial court is US$500,000, although most cases are considerably larger. All appeals lie in the first instance to the Eastern Caribbean Court of Appeals, with a final right of appeal to the Judicial Committee of the Privy Council in London. These courts are well-versed in dealing with international disputes.

Building on the physical presence of the commercial court in Road Town and the BVI's strong reputation as a high quality legal community, the territory established the innovative BVI International Arbitration Centre in January 2017. (See Box 2.)

3.5 A trading territory

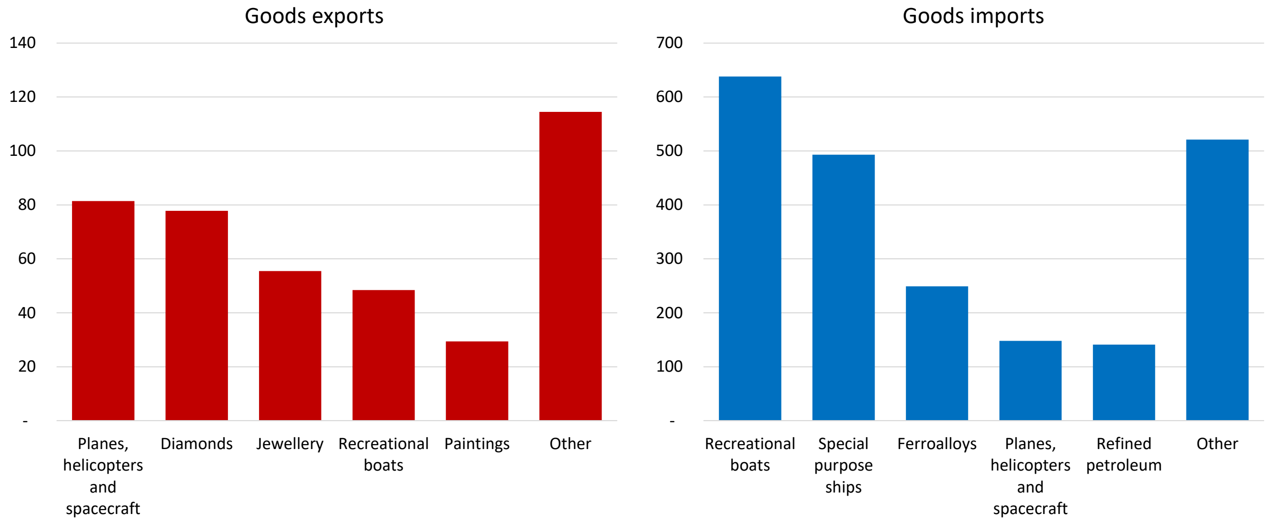
The BVI is a trading economy.

Economic linkages between countries are typically explained and summarised in 'balance of trade accounts'. There are currently no such official accounts for the BVI, so we have constructed indicative accounts based on a variety of sources.[14]

Publically available estimates from various sources on the BVI's trade account tend to conflate the territory's trade with the activities undertaken overseas but through BVI Business Companies and associated corporate and legal structures, or with the activities of a handful of ultra-high net worth individuals resident in the islands. Data from the United Nations, and collated by the Observatory of Economic Complexity, list the BVI's primary exports as planes, helicopters and spacecraft, followed by diamonds, jewellery, recreational boats and paintings. These figures do not represent the reality of what actually happens in the BVI. (See Figure 44.)

[14] We have built our indicative trade account using a stylized 'input-output' approach. We have used official BVI data wherever possible. Where estimates were needed, we used data from similar economies and rescaled them to apply to BVI; we have used the sectoral breakdown of intermediate consumption, 'input-output' tables and trade ratios from Aruba. We do not attempt to calculate a capital account or the full balance of payments. As such, we do not take into account the foreign investment earnings of BVI residents – but focus only on domestically generated incomes.

Figure 44: Observatory of Economic Complexity's estimates of goods exports from the BVI (left-hand figure) and imports to the BVI (right-hand figure), 2014, US$ million



Source: Observatory of Economic Complexity using BACI International Trade Database based on United Nations Statistical Division (COMTRADE) data

We have made our own (indicative) estimates of the BVI's trade account – but we focus on that which derives from economic activity occurring in the territory, or incomes earned there.

First we consider trade in goods.

The BVI must import almost all goods consumed in the territory.

The bulk of larger freight goods are shipped from the mainland United States. For smaller items, shopping trips to neighbouring US Virgin Islands are common, as the island hub is just an hour's ferry ride from Road Town, and less from West End. People in the BVI use mail courier services in Saint Thomas, and purchase much of their sundry items here. Imports from Sint Maarten and Puerto Rico are also common, yet the language barrier makes trade slightly less common than with the US Virgin Islands.

Although running a trade surplus overall, we estimate that, for 2014, the BVI was a net importer of goods to the value of US$487 million. This is unsurprising as there is little by way of manufacturing on the island, and much of the food and drink that is consumed has to be imported. There are also some goods that are exported from the island. Tourists are estimated to have spent US$13 million on goods during 2014 (although many of these will have themselves been imports). (See Figure 45.)

Second, we estimate trade in services.

The picture for trade in services is somewhat different. We estimate the BVI ran in the order of a US$532 million trade surplus with the rest of the world in 2014.

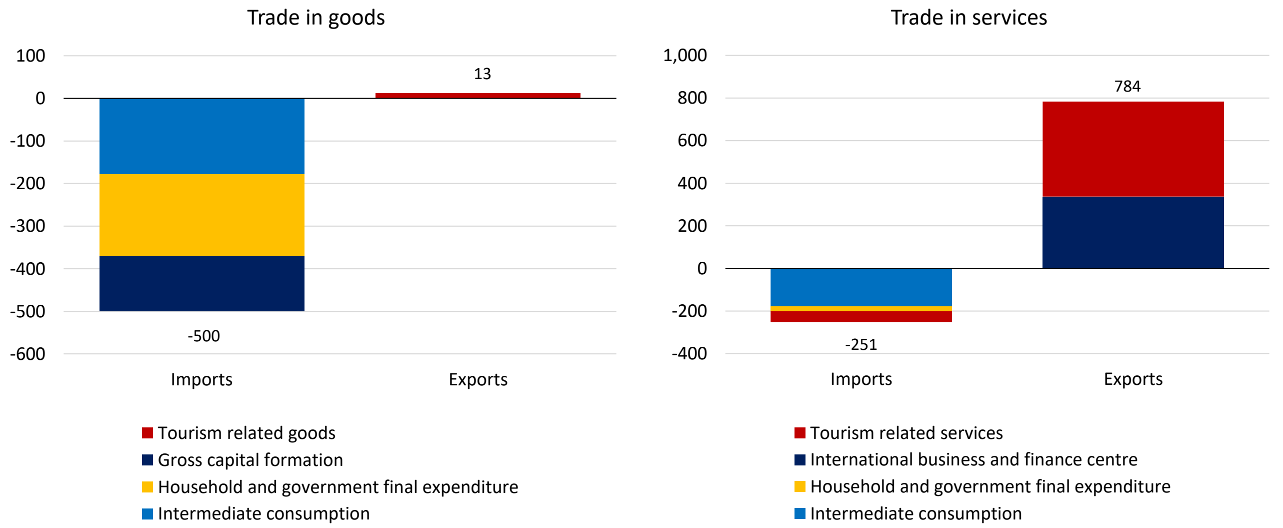
There are two key exports from the BVI: tourism and the services of the international business and finance centre. The BVI attracted over 755,000 visitors in 2014 who spent an estimated US$460 million in the territory. This spending helps to make tourism a substantial export for the BVI, with net exports totalling roughly US$395 million.

Turning to business and financial services, with over 2,000 people employed on the island in the international business and financial centre, the sector generated an estimated US$447 million in turnover in 2014.[15] Removing local demand by BVI residents and local businesses for financial services, implies total exports of the financial service sector of US$337 million.

These surpluses in tourism and financial services underpin and dominate the island's overall trade balance – and, accordingly, the trade position likely varies with the fortunes of these key sectors from one year to the next. (See Figure 45.)

With a deficit in trade in goods and a slightly larger surplus in trade in services, we estimate that the BVI ran an overall trade surplus in the order of US$45 million in 2014. (See Figure 46.)

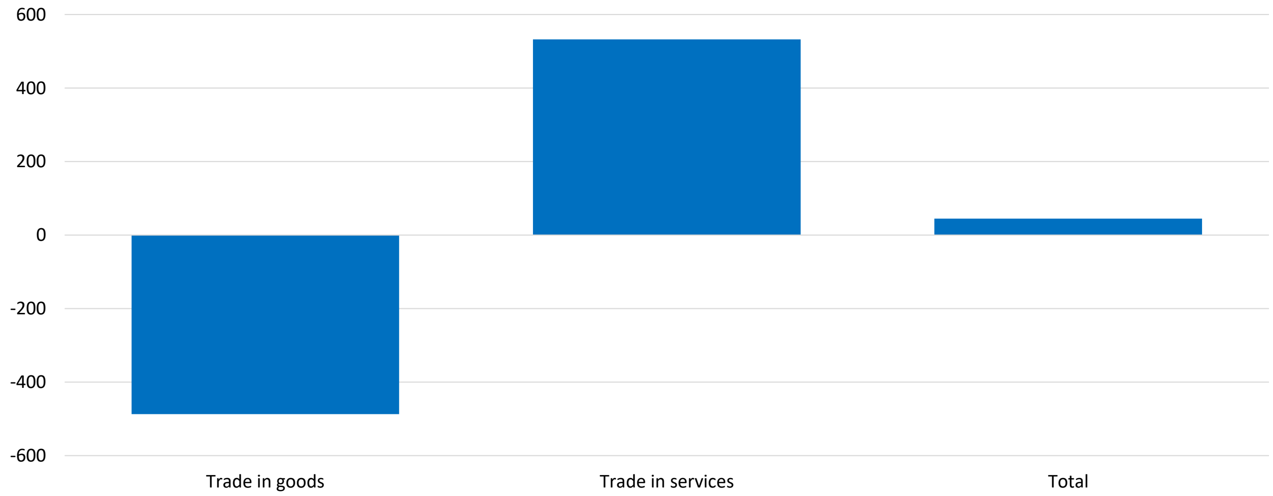
Figure 45: Indicative estimates of the BVI's trade in goods (left-hand figure) and trade in services (right-hand figure), 2014, US$ million current prices



Sources: Capital Economics' indicative estimates calculated using data from the BVI Central Statistics Office

[15] Capital Economics' estimates based on official government data.

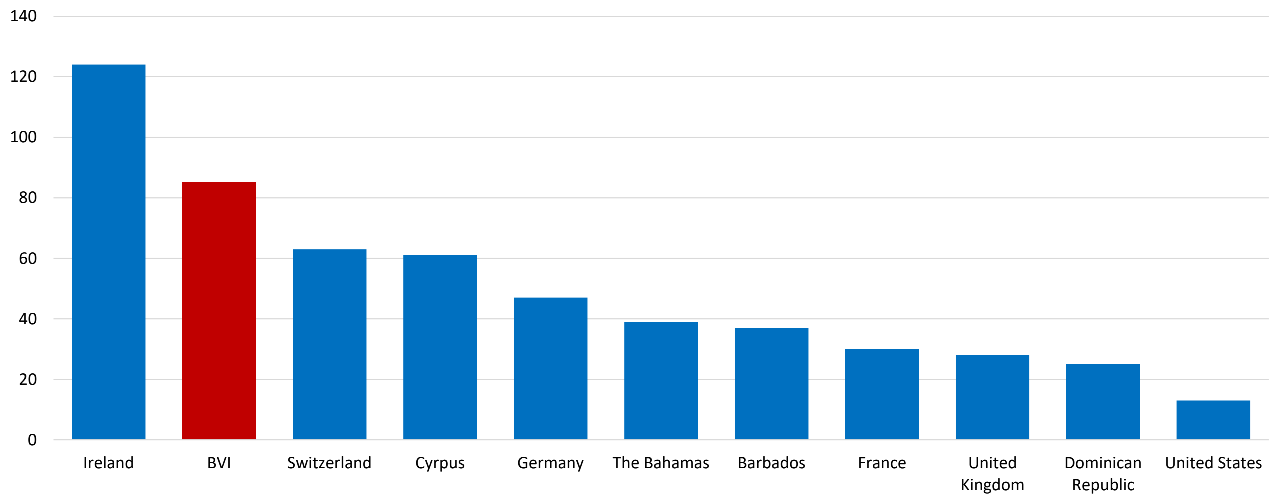
Figure 46: Indicative estimate of the BVI's balance of trade, 2014, US$ million current prices



Source: Capital Economics' indicative estimates calculated using data from the BVI Central Statistics Office

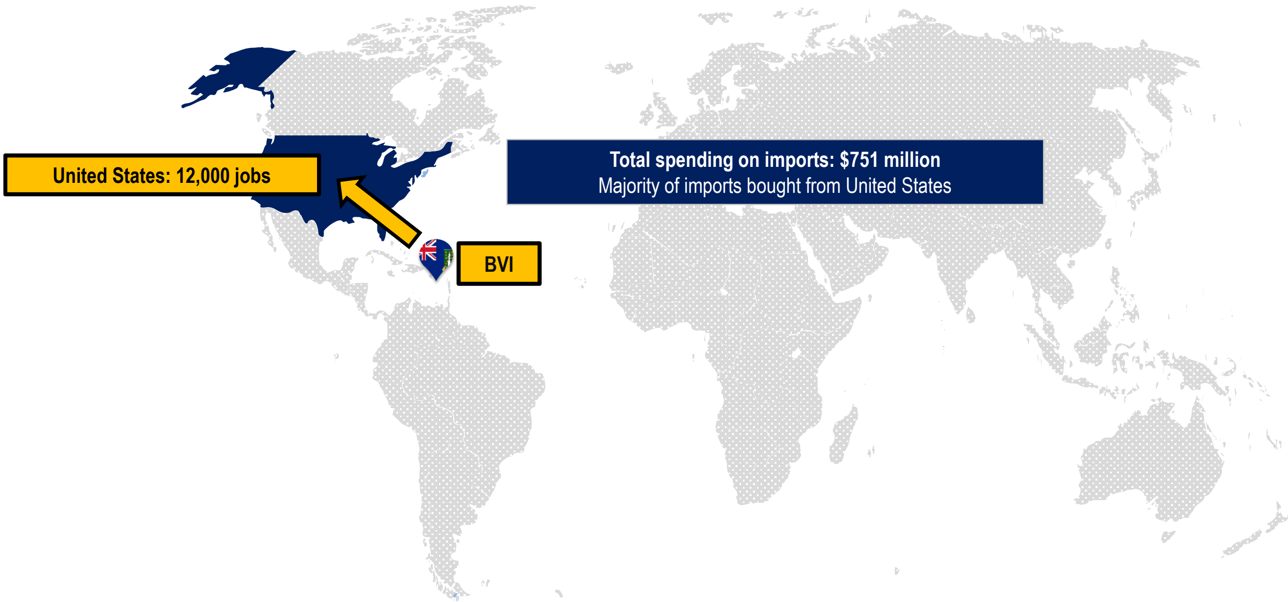
The BVI's export performance compares favourably with many other nations. The total value of exported goods and services is equivalent to 85 per cent of the territory's total gross domestic product; for the United Kingdom, for example, the comparable statistic is roughly 28 per cent. (See Figure 47.)

Figure 47: Total value of exports of goods and services as a share of gross domestic product for selected jurisdictions, 2014, per cent



Sources: Capital Economics and the World Bank

Figure 48: Estimate of United States jobs supported by the BVI's imports from the United States



Sources: Capital Economics, U.S. Bureau of Labor [*sic.*] Statistics and U.S. Bureau of Economic Analysis

The BVI's imports help support jobs elsewhere. The BVI's spending on imports totalled roughly US$750 million in 2014, the majority of which were brought from the United States. At this scale, the BVI's imports sustain around 12,000 jobs across the United States.[16] (See Figure 48.)

3.6 A sound public sector

The BVI is not a jurisdiction without taxes or with artificial taxes. It levies taxes on residents, visitors and locally operating companies in order to fund public services.

As a United Kingdom Overseas Territory, the BVI has a formal relationship with the United Kingdom. Like most overseas territories, it is self-governing with its own government which enacts local laws. Britain's fundamental responsibility is to ensure the security and good governance of the territory and its people. Along with defence and security, the government in London provides support through diplomatic resources – the jurisdiction relies on the United Kingdom to represent their case in international assemblies such as the United Nations and the Commonwealth. In fiscal terms, the British government does not directly provide funding to the territory. However, the government in the BVI can apply for funding from the Overseas Territories Programme Fund, which was developed to support a wide range of projects across the overseas territories. This funding is allocated by the Department for International Development, and is

16 United States Bureau of Economic Analysis, *Input-Output Tables, 2014* (Bureau of Economic Analysis, Washington D.C.), January 2017. Indicative estimates calculated using official United States data known as the 'input-output' tables, which quantify how different sectors of the economy, as well as imports and exports, fit together.

allocated on an application basis.[17] In addition, the Government of the Virgin Islands and the United Kingdom government signed the *Protocols for Effective Financial Management* in April 2012, which reaffirms the territory's commitment to prudent financial management.[18]

The territory provides tax neutrality through a zero rate of tax on corporate profits. In additional to its general attractiveness for global investors, this ensures that any cross-border transactions mediated via the BVI are not at risk of double taxation. Similarly, there is no capital gains tax, sales tax or value added tax, branch profits tax or inheritance tax.

The BVI levies a variety of taxes including a payroll tax on all incomes in the territory, social security contributions, customs duties and a property tax and stamp duty on real estate purchases.

All BVI Business Companies that incorporate through the territory must pay a one-off registration fee as well as an annual renewal license fee. In addition, many business in the territory undertaking activity regulated by the BVI Financial Services Commission, including banks, insurance providers and trust businesses, are mandated to pay fees, the amounts of which are based on the work they engage in. The revenues generated from these taxes are sufficient in providing public services for BVI residents. (See Figure 49.)

Figure 49: Taxes and fees payable in the BVI, 2016

Tax	Tax rate	Frequency
BVI Business Company registration fee	$350 or $1,100 depending on shares issued	One-off
Annual licence fees:		
BVI Business Company	$350 or $1,100 depending on shares issued	Annual
Banking licence	$32,000 to $50,000	Annual
Insurance company licence	Up to $10,000	Annual
Trust licence	$500 to $16,000	Annual
Stamp duty on transfer of real estate and the transfer of shares in a BVI company owning real estate in BVI	4.0 per cent for BVIslanders and Belongers and 12.0 per cent for non-BVIslanders and non-Belongers	One-off
Customs duties	Variable depending on type of product imported	One-off
Property tax	Variable depending on status as BVIslander, expatriate or BVI Company	Annual
Payroll tax	10.0 per cent to 14.0 per cent	Annual
National health insurance	7.5 per cent of insurable earnings split between employer and employee	Annual
Social security	8.5 per cent total; 4.5 per cent by employers and 4.0 per cent by employees	Annual

Source: Government of the Virgin Islands

17 Foreign and Commonwealth Office, *2010 to 2015 government policy: UK Overseas Territories* (UK Foreign and Commonwealth Office, London), 8 May 2015

18 Dr D. Orlando Smith, Boyd McLeary and Henry Bellingham, *Government of the Virgin Islands: Protocols for effective financial management* (Government of the Virgin Island, Road Town), 23 April 2012. Under the *Protocol* the BVI government is committed to assessing the impact assessing the impact of policy decisions made on expenditure, revenues and borrowing over a three year horizon; ensuring that public funds are managed effectively and efficiently and allocated to their most productive uses; and planning strategically to quantify and minimise fiscal risks and promote transparency and accountability in the execution of plans and policies.

The BVI has maintained a relatively sound fiscal position despite the impact of the global financial crisis.

It enjoys minimal debt, with its annual public sector net debt reaching US$117 million in 2015.[19] This is equivalent to just 11.5 per cent of gross domestic product, or US$3,700 per person.

The territory's debt consists largely of borrowing for infrastructure projects from large institutional banks in Europe and the Caribbean. Debt interest payments are estimated to have totalled US$4.7 million in 2016 and are expected to total US$4.3 million and $3.6 million in 2017 and 2018 respectively. (See Figure 50.)

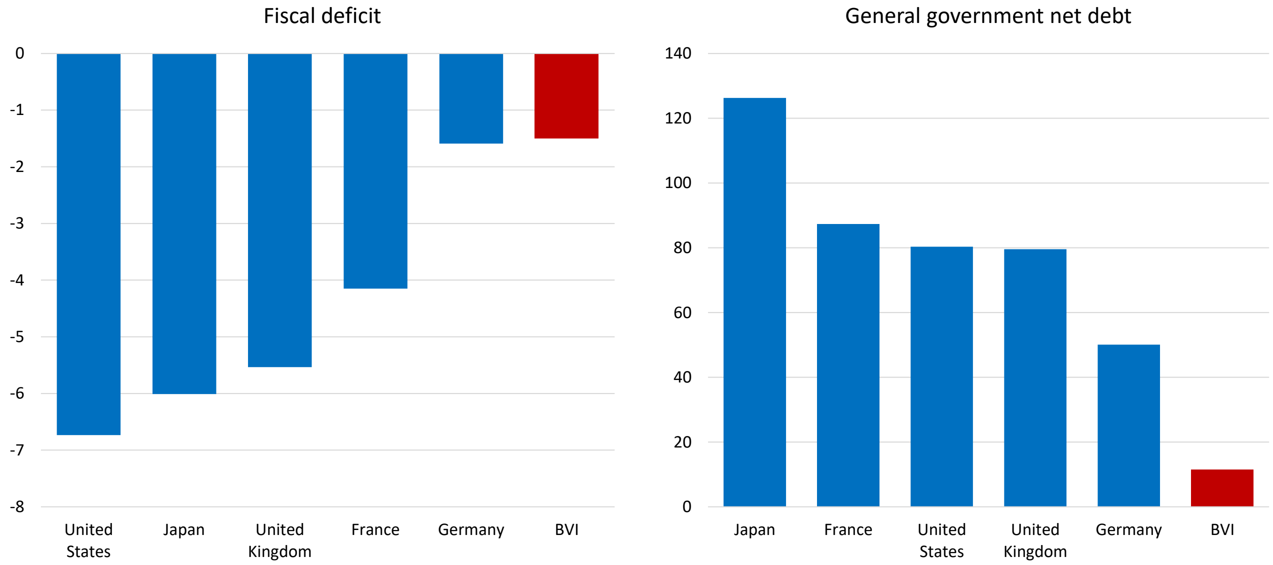
Figure 50: The BVI's public debt by lender, 2016

Institution	Amount (US$ thousand)	Year began	Reason for loan
International Financial Institutions			
European Investment Bank	393	1990	Fort Hill water project
European Investment Bank	862	1993	East End/ Water supply
Caribbean Development Bank	1,677	1996	Hurricane rehabilitation
European Investment Bank	2,622	2001	Virgin Gorda/Tortola - Water supply
Caribbean Development Bank	24,788	2005	Beef Island International Airport
Caribbean Development Bank	5,000	2008	Student Loan
Caribbean Development Bank	15,672	2012	Natural Management Disaster
Commercial Banks			
Banco Popolar	45,000	2009	New Peebles Hospital
Deutsche Bank	2,155	2010	Supply of greenhouses
First Caribbean International Bank	22,000	2014	New Peebles Hospital/National

Source: Government of the Virgin Islands

19 BVI Central Statistics Office, *Fiscal Data* (Macro Fiscal Unit - Ministry of Finance, Road Town) 28 June 2016

Figure 51: Annual government fiscal deficit as share of gross domestic product, 2003 to 2014 average, per cent, and general government net debt as a share of gross domestic product, 2014, per cent, for selected jurisdictions



Sources: Capital Economics, BVI Macro Fiscal Unit, Ministry of Finance, Organisation for Economic Co-operation and Development and the International Monetary Fund

The territory has a moderate fiscal deficit of US$7.6 million as of 2015.[20] While running a steady deficit for most of the last twelve years, it has averaged a low and stable 1.5 per cent of output during this period.

Policy makers around the world would be envious of the BVI's fiscal position. While other countries, including the United Kingdom, the United States and Germany have also run fiscal deficits for the last decade, theirs have averaged a larger share of gross domestic product over this period. The BVI enjoys minimal debt in stark contrast to other nations. For example, Britain owes more than US$2.5 trillion to its creditors, equivalent to 84.0 per cent of its gross domestic product, or US$37,600 per person.[21] (See Figure 51.)

The taxes relating to the international business and finance centre make up the most substantial share of government revenues. In 2015, total revenues accrued from fees paid to the Registry of Corporate Affairs, banks and fiduciary business, insolvency, insurance and investment business and ship registration amounted to just over US$199 million. The central government retains 89 per cent of these fees, while the remainder stays with the BVI Financial Services Commission as part of their income stream. The US$177 million in fees remitted to the government from the business and financial centre accounts for 56 per cent of total government revenue. (See Figure 52 and Figure 53.)

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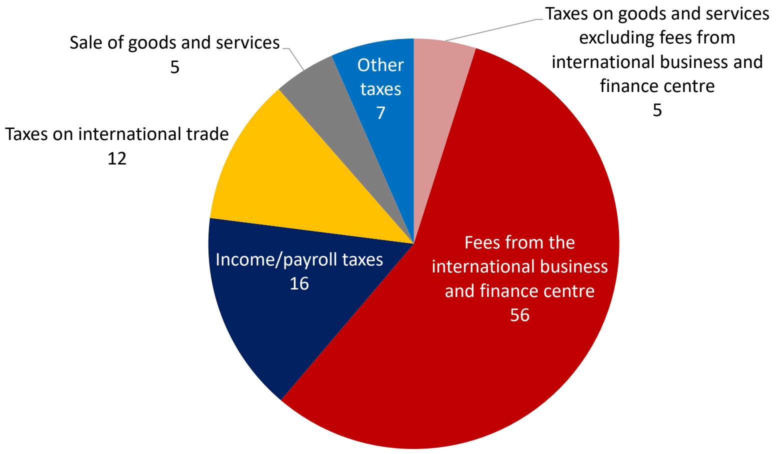
20 BVI Central Statistics Office, *Fiscal Data* (Macro Fiscal Unit - Ministry of Finance, Road Town) 28 June 2016

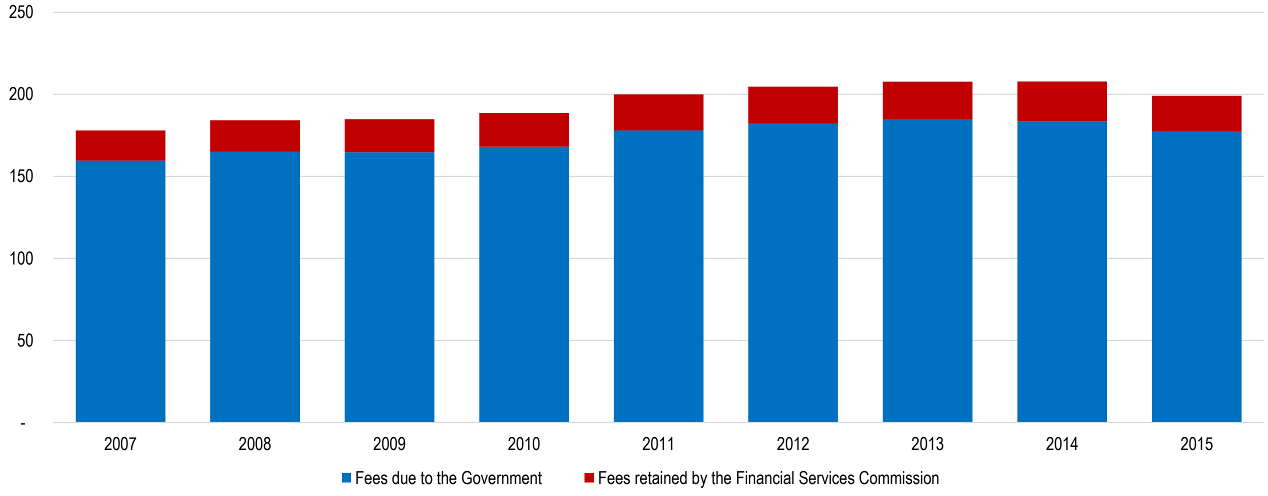
21 Office for Budget Responsibility, *Economic and fiscal outlook – November 2016* (OBR, London) 23 November 2016. Exchange rate used was 1.0000 GBP equals 1.5285 USD.

Figure 52: The BVI's total government revenue by category, 2015, per cent



Sources: Capital Economics and BVI Ministry of Finance

Figure 53: Total fees collected by BVI Financial Services Commission on behalf of the government from the international business and finance centre, US$ million



Sources: Capital Economics and BVI Ministry of Finance

4 GLOBAL ROLE OF BVI BUSINESS COMPANIES

In this section, we consider how the BVI facilitates cross-border trade and investment. In particular, we examine the 'BVI Business Company', its uses and those that use it.

The BVI is one of the world's largest centres for the incorporation of businesses – especially those created to facilitate cross-border trade and investment. It is an attractive tax neutral domicile in which to incorporate a business. The jurisdiction has modern, flexible and efficient company legislation which has been tailored to the needs of global business; it has a sound and stable government, and respected financial regulation; and it is cost effective among other advantages.

BVI Business Companies are much more than just a piece of paper – even those which hold assets without active operations have substance and are vital to the efficient operation of an increasingly globalised business world. Companies, institutions and private individuals use them for, for example: holding companies for various assets such as real estate; family, trust and succession planning; investment business, joint ventures, listings and vessel or aircraft registration; and corporate group structuring.

The important role of BVI Business Companies in international investment flows is evident from data on foreign direct investment. According to the United Nations, the BVI was the ninth largest recipient of foreign direct investment, and the seventh largest source of outward flows in 2015.

Major respected companies worldwide use BVI Business Companies to manage their cross-border activities. The BVI is home to part of the group structure of over 140 major businesses listed on the London, New York or Hong Kong main stock exchanges. In addition, BVI Business Companies are used by major international development banks, including the World Bank's International Finance Corporation and the European Bank for Reconstruction and Development, to help fund projects around the world.

There are currently just under 417,000 active BVI Business Companies. Roughly two-fifths originate from Asia; use by clients in 'G7'countries accounts for less than one-fifth. The assets held by these vehicles have an estimated worldwide value of US$1½ trillion.

There is little to be gained by those seeking to evade or avoid taxes through the use of BVI Business Companies. The territory has a transparent and straight forward tax system and has responded quickly and constructively to international developments seeking to improve transparency and clamp down on criminality, including tax evasion.

4.1 An introduction to the BVI Business Company

The development of the BVI as a global centre for company incorporations can be traced back to 1984 with the enactment of the *International Business Companies Act (1984)*.

Based on Delaware company law, the *International Business Companies Act (1984)* introduced a number of new concepts into the BVI's statutes which included[22]:

- An efficient incorporation system, including use of registered agents
- Ability of firms to purchase their own shares
- Simple capital maintenance rules
- Mergers, consolidations and continuations
- A framework to allow investors to reflect their commercial agreements

The new legislation removed antiquated systems such as financial assistance, *ultra vires* and corporate benefit.

The new statute proved remarkably successful, and the BVI model was later emulated by other international financial centres. Over time, as corporate structures became more sophisticated and as progressively more international regulations began to take effect, the BVI decided to overhaul and innovate its company law.[23]

The *BVI Business Companies Act (2004)* came into effect on 1 January 2005 and introduced a single class of company. The 'BVI Business Company' is a tax-neutral corporate vehicle with its own separate legal identity incorporated within the laws of the territory, and can take one of five forms:

(i) A company limited by shares;
(ii) A company limited by guarantee that is not authorised to issue shares;
(iii) A company limited by guarantee that is authorised to issue shares;
(iv) An unlimited company that is not authorised to issue shares; or
(v) An unlimited company that is authorised to issue shares.

Apart from setting out the forms or types of companies an investor can incorporate in the BVI, the act outlines how to, and what is needed for, incorporation as well as what is required by the government from the company once it is registered. The act highlights directors' and members' responsibilities and what is to be done in the case of dissolution, unless this latter is for an insolvent company; the liquidation of an insolvent company is covered by the *Insolvency Act*

[22] Smith-Hughes, Raworth & McKenzie, *The International Business Companies Act (CAP. 291)* (Smith-Hughes, Raworth & McKenzie, Road Town) January 2002.

[23] One such regulation was the European Union Code of Conduct in Business Taxation which was introduced in the late 1990s, which required that foreign and local firms be taxed equally.

(2003). The act has been amended a number of times since its inception, including amendments reinforcing the BVI's commitment to fighting the financing of terrorism and financial crime.

All companies are required to have a registered agent. The registered agent is a professional service provider licenced by the BVI Financial Services Commission. The requirement was introduced long before modern concepts of compliance and anti-money laundering existed but has proved a highly effective nexus for implementing such concepts. Since most onshore companies do not have an equivalent, one consequence has been that international standards and regulators tend to treat them as the equivalent of financial institution gatekeepers such as banks when the nature of their interaction with a company is wholly different. However, they have adapted to this and can best be seen as an additional layer of defence against money-laundering activities which only has an equivalent in countries which have modelled their legislation on the BVI.

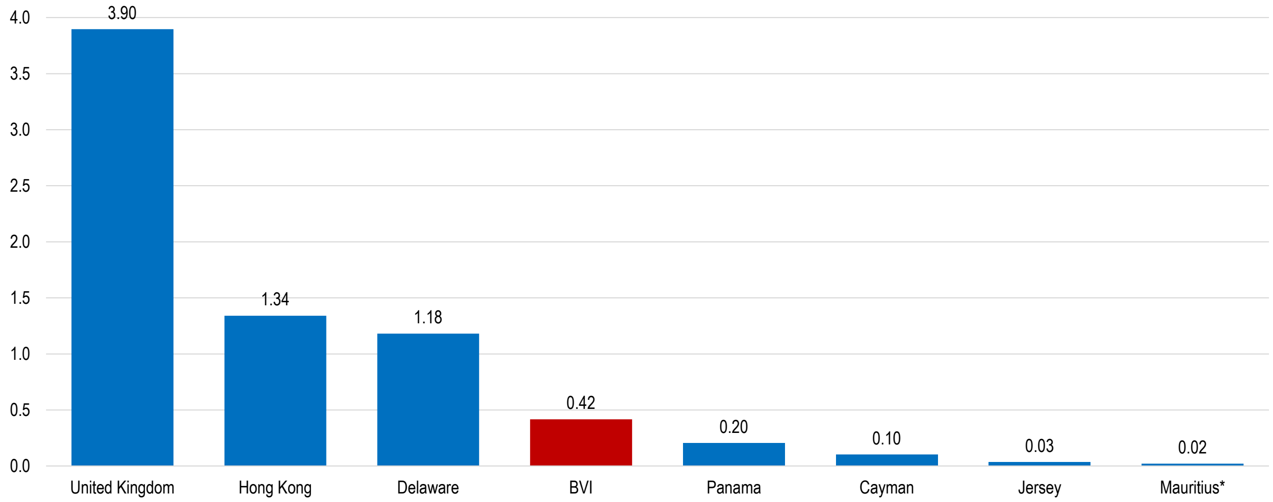
An incorporation in the BVI should not be confused with tax residence in the territory. Tax authorities across the world will generally look for the location of 'central management and control' to determine residence and tax liability, and not where the entity is registered. Incorporation in the BVI is not a mechanism for avoiding onshore taxes.

From the foundation of the *International Business Companies Act (1984)*, the BVI has grown to become one of the world's largest corporate domiciles. Since 1984, hundreds of thousands of companies have incorporated in the territory. As of December 2016, there were 416,784 active BVI Business Companies in existence.[24]

The United Kingdom, Hong Kong and Delaware are larger incorporators. Yet compared to its population, the BVI has the highest concentration of incorporations worldwide. (See Figure 54 and Figure 55.)

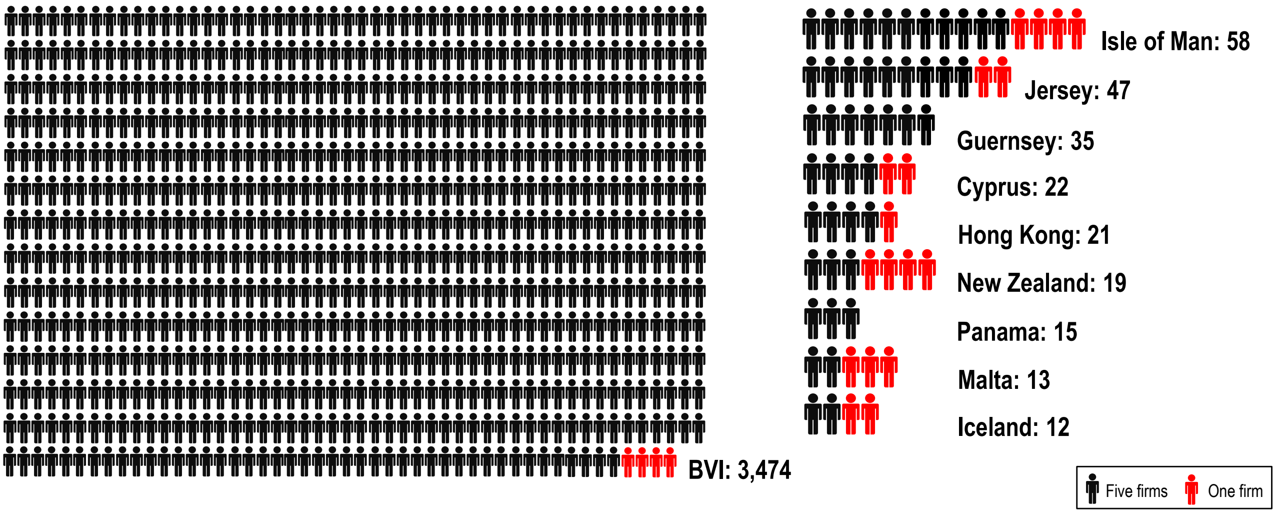
[24] BVI Financial Services Commission, *Statistical Bulletin – Q4 2016* (BVI FSC, Road Town) 17 March 2017.

Figure 54: Total number of active registered companies by jurisdiction, millions of companies



Sources: BVI FSC Statistical Bulletin, Cayman Islands Registry, Delaware Division of Corporations Annual Report 2015, Mauritius FSC 2016 Bulletin, Hong Kong Companies Registry, Jersey Finance and Organisation for Economic Co-operation and Development. *Not clear if all still active.

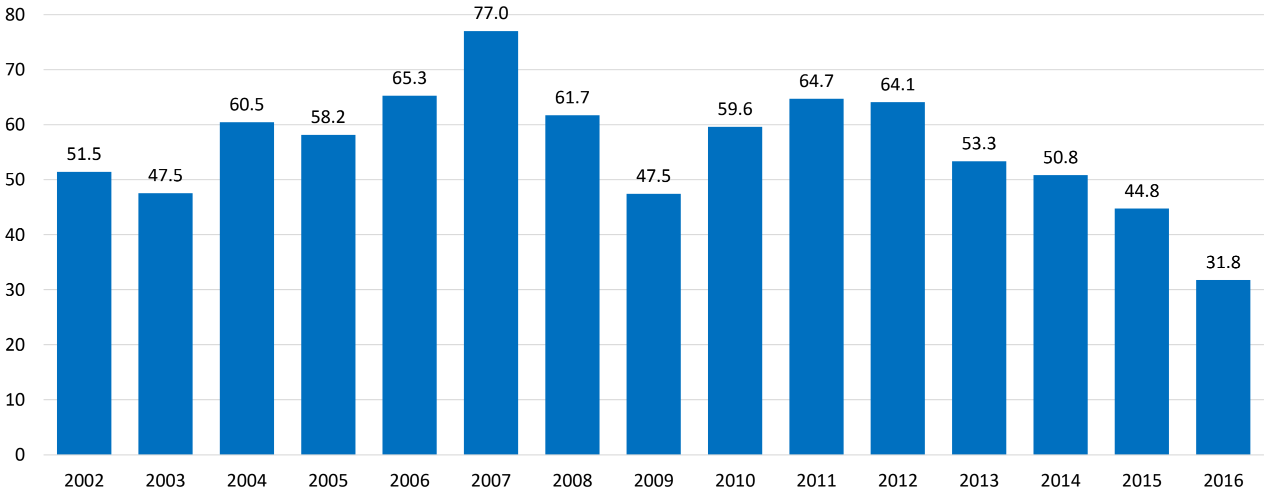
Figure 55: The World Bank's estimates of business entry density rate (number of newly registered firms with limited liability per 1,000 working-age people (ages 15-64) per calendar year), top ten jurisdictions, average 2002 to 2014



Sources: Capital Economics and the *World Bank Doing Business Survey.* Note: This database does not include information for Delaware.

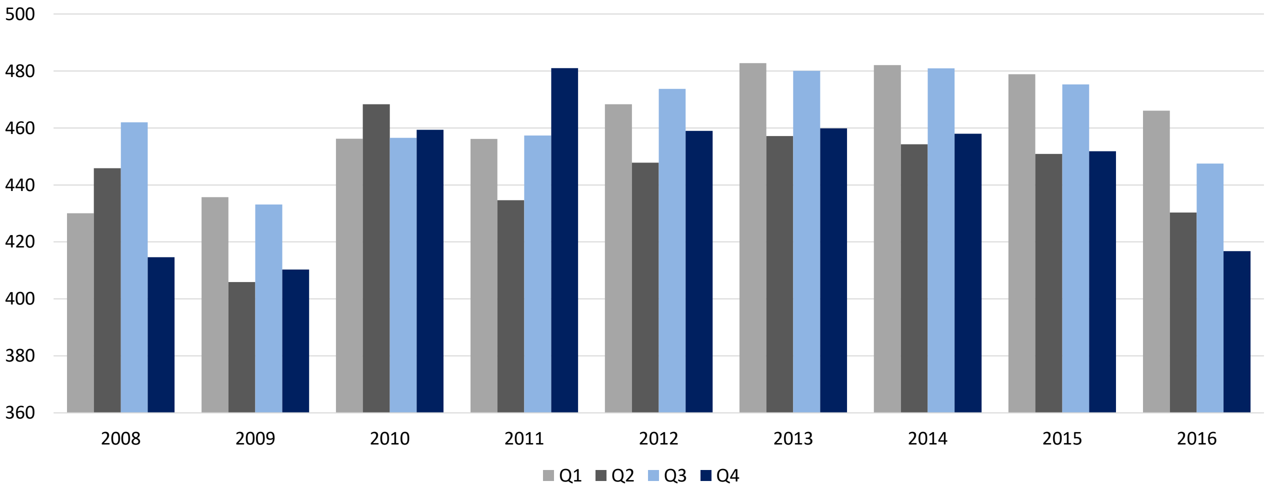
New incorporations of BVI Business Companies have slowed since the global financial crisis, from a peak of 77,000 total incorporations in 2007 to 31,800 in 2016. While the annual number of new incorporations has declined steadily each year since 2011, the total cumulative stock of active BVI Business Companies has remained relatively stable over this same period. This reveals that BVI vehicles are being used for longer periods of time. In 2011, the implied lifespan of an average BVI Business Companies was 7.8 years compared to an average lifespan of 8.9 years in 2016. Similarly, the implied de-activation rate of these companies has decreased from 12.9 per cent to 11.3 per cent over the corresponding time period. Companies which are only set up for less than a year, usually for a single purpose, are less common. (See Figure 56, Figure 57 and Figure 58.)

Figure 56: Total annual number of new business company incorporations in the BVI, thousand companies*



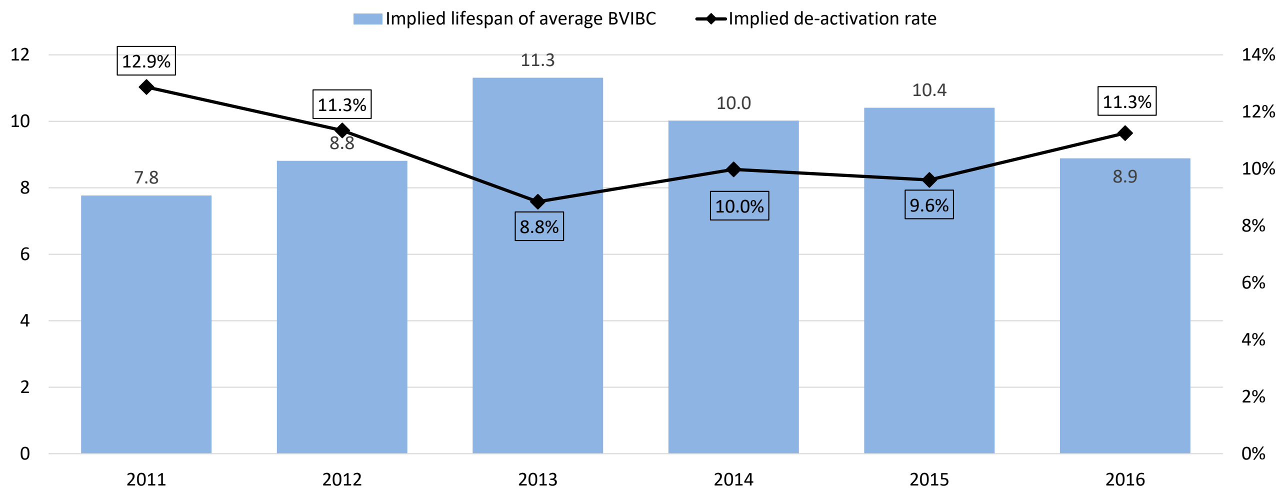
Sources: Capital Economics and BVI Financial Services Commission ** Note: Prior to 2006, new business company incorporations are comprised of BVI International Business Companies*

Figure 57: Cumulative total of all active business companies in the BVI in the Registry of Corporate Affairs at end-of-quarter, thousand companies



Sources: Capital Economics and BVI Financial Services Commission

Figure 58: Implied average lifespan of a BVI Business Company, number of years, and de-activation rate of BVI Business Companies, per cent



Sources: Capital Economics and BVI Financial Services Commission

4.2 Rationale for using BVI Business Companies

The BVI is an attractive domicile in which to incorporate a business.

A BVI Business Company requires few steps to incorporate, can be set up in less than a week and the financial reporting burden is low. But similar is true for setting up a company in Delaware, the United Kingdom, Seychelles and the Bahamas among others, and the costs in some of these other jurisdictions are lower. But the BVI remains attractive.

Investors take the decision to incorporate in a specific jurisdiction based on the attractiveness of the country and the characteristics of the product itself. The BVI as a jurisdiction offers a number of advantages for investors, including:

- **Simple company law** – Since 2007, only one act, the *BVI Business Company Act (2004)*, governs and regulates companies
- **Legal expertise rooted in English law** – The BVI operates under an anglicised version of Delaware law which is business friendly. There is high value of incorporating under 'almost-English law', as it comes with quality, confidence and stability. The BVI also has a sophisticated and high quality commercial court and international arbitration centre, with a final right of appeal to the Judicial Committee of the Privy Council in London
- **The BVI is tax neutral** – The BVI government does not charge corporate tax or capital gains tax whether or not the company is tax resident and it does not charge tax on transactions that relate to economic activity elsewhere. This does not reduce or eliminate

any tax liability in other jurisdictions. However, it means that when funds are pooled across borders they are not subject to additional taxation than that which the investors pay in their domicile

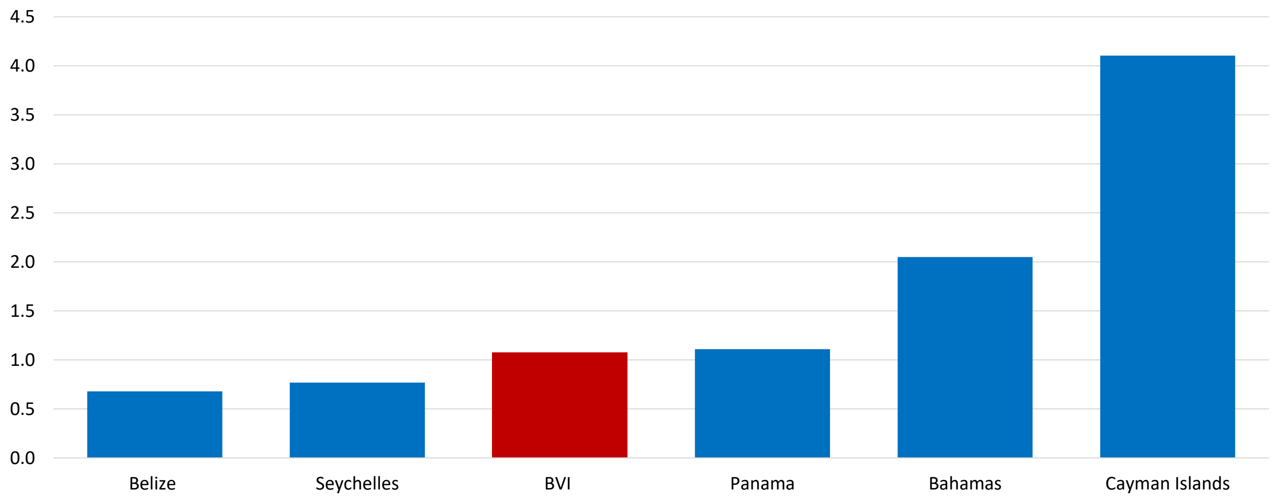
- **The country is politically stable** – The BVI provides security, where assets can be kept protected from potential loss, damage or sequestration resulting from socio-political instability or delinquent legal, regulatory or enforcement institutions in a particular country. The territory's links with the United Kingdom increases investors' confidence
- **Client confidentiality is protected by law** – The BVI rules on confidentiality fall back on English common law principles. In terms of transparency, the BVI has entered into tax information exchange agreements with 28 jurisdictions and will provide other jurisdictions with relevant information if requested. The BVI is a signatory to the *Common Reporting Standard* which provides for the automatic exchange of information between more than 80 signatory countries relating to financial incomes in keeping with an agreed standard
- **The United States dollar is the jurisdiction's only tender** – Other international financial centres have their own currency, may suffer currency volatility and can invoke currency controls. Such controls are not possible in the BVI given that its only tender is the United States dollar

The BVI Business Company offers a number of advantages that further distinguish it from models offered in other jurisdictions, including:

- **Incorporations are cost effective** – Government incorporation fees and annual renewal fees to keep a BVI Business Company active are among the lowest compared with other international financial centres. In addition, local corporate service providers in the territory charge less on average for their services than for similar services in some other jurisdictions (See Figure 59.)
- **Different types of incorporations are possible** – BVI Business Companies can be limited or unlimited companies, restricted purpose companies or segregated portfolio companies (whether or not with restricted purposes)
- **Efficient financial reporting requirements** – BVI Business Companies need to keep records that allow for its financial position to be estimated with reasonable accuracy but are not required to file audited or annual returns unnecessarily
- **Register of securities** – BVI Business Companies must provide security over their assets for financing either as part of a group structure or as a stand-alone company. This is an advantage for creditors, as it provides them with greater security and visibility over their assets

Some of these benefits are also characteristics of business models in other jurisdictions. However, the combination of all of these aspects together makes the BVI Business Company an attractive instrument for investors. (See Figure 60.)

Figure 59: Average fees of corporate service providers for most similar 'basic' incorporation in different jurisdictions, US$ thousand



Sources: Corporate Service Providers. Note: The corporate service providers included were not the same five for all countries. The 'basic' services include drafting of Memorandum and Articles of Association, registered office address and agent for one year, all government registration and filing fees, share certificate and where applicable, the price of compulsory certificates.

Figure 60: Characteristics of the most popular business models in various international financial centres

Jurisdiction (Business model in brackets)	Minimum price of incorporation (US$)	Annual licence / renewal fees (US$)	Capital gains tax	Corporate tax	Minimum number of directors	Minimum capital requirement	Local agent/address needed?	Directors public?
BVI (BC)	350	350	No	No	1	No	✓	No
Cayman (Foreign)	854	854	No	No	1	No	✓	No
Bahamas (IBC)	350	350	No	No	1	No	✓	✓
Bermuda (Exempt Company)	395	696	No	No	1	$1	✓	✓
Delaware (LLC)	139	300 [1]	No	✓	1	No	✓	No
Mauritius (GBC2)	300	300	No	No	1	$1	✓	No
Seychelles (IBC)	100	100	No	No	1	No	✓	No
Luxembourg (SARL)	3,074	1,696	✓	✓	2 [2]	$13,144	✓	✓
Ireland company	400	64	✓	✓	2	$1.06	unknown	✓
Panama (IBC)	50	150	No	No	3	No	✓	No
Jersey (Ltd)	242	182	No	No	1	No	✓	No
Cyprus (Private limited company)	163 [3]	392 [4]	✓	✓	1	No	✓	✓
Netherlands (BV)	unknown	unknown	No (if participation exemption applies)	✓	1	No	✓	unknown
Malta (Ltd)	371	106	No (if foreign shareholders)	✓	1	$1,590	✓	✓
Guernsey (Ltd)	121	605	No	No (for non-resident corporations)	1	unknown	✓	✓
Isle of Man (Ltd)	121	460	No	No	1	No	✓	✓
France (SARL)	unknown	unknown	✓	✓	1	No	✓	unknown
U.K. (Ltd)	15	15	✓	✓	1 [5]	No	✓	✓
Switzerland (GmbH)	4,790	6,687	✓	✓	1 [6]	$19,960	No	✓
Germany (GmbH)	795 [7]	unknown	✓	✓	1	$26,500	✓	unknown

Sources: Capital Economics and various countries' government department websites and corporate service providers. Note: UK, Isle of Man and Guernsey values converted using exchange rate on 16 January 2017 (£1 = $1.21), Germany, France, Netherlands and Malta values converted using exchange rate on 13 January 2017 (€1 = $1.06), Switzerland values converted using 1CHF = $0.998 on 18/01/2017. 1: Franchise tax for Delaware. 2: These are shareholders, not directors for Luxembourg. 3: In addition to the US$163 fee there is also a 0.6% of the company's nominated authorised share capital. 4: Includes levy and annual return fee for Cyprus. 5: The director must be a natural person. 6: The director must be a Swiss national. 7: Price includes foundation, registration and Fed Gazette fee. Note: The BVI Registry of Corporate Affairs has announced that from 1 July 2017, the incorporation fee for a standard BVI Business Company will increase from US$350 to US$450.

4.3 Incorporations with substance

BVI Business Companies are much more than just a piece of paper.

There is a general misunderstanding of the business models of offshore company incorporations. Many BVI companies are dynamic and active companies, trading and doing business in the same manner as their onshore counterparts. BVI Business companies include some of the largest and most valuable holding companies, multinational companies and joint venture companies in the world. And even those which hold assets without active operations have substance – and are vital to the efficient operation of an increasingly globalised business world.

The users of BVI Business Companies include both private and corporate investors, from all corners of the world, who use them for a wide array of various cross-border purposes. These uses can be grouped as:

(i) Holding companies for various assets such as real estate;
(ii) Family, trust and succession planning;
(iii) Investment business, joint ventures, listings and vessel or aircraft registration; and
(iv) Corporate group structuring (e.g. intermediate holding companies)

Sections 4.5, 4.6 and 4.7 expand on the use of BVI Business Companies for building corporate structures, for establishing investment funds and to hold property, whilst section 4.8 highlights the distribution of the different uses of BVI Business Companies among clients of BVI firms that took part in our survey.

Aside from the underlying activity of the BVI Business Companies themselves, the actual mechanics and governance of these vehicles is innately complex. The lawyers, insolvency practitioners, and corporate service providers in the territory, as well as those employees living and working outside of the BVI whose work deals directly with BVI structures, provide invaluable substance.

The 'substance' exhibited by BVI Business Companies extends to the heart of the services that the BVI as an international business and financial centre provides. It is commonplace for substance to be seen in terms of the harmonisation of value creation and the location of profits.[25] But this alone does not take full account of the impact of globalisation and the growing digital economy, where labour and capital are increasingly mobile.

Substance increasingly goes beyond the physical.

[25] Organisation for Economic Co-operation and Development, O*ECD/G20 Base Erosion and Profit Shifting Project: Explanatory Statement, 2015 Final reports* (Organisation for Economic Co-operation and Development , Paris), 2015

The activities the territory engages in create an invaluable contribution to the global economy. As discussed in section 2, increasing globalisation of capital, labour, business and tax is the context within which international financial centres like the BVI operate. International financial flows are a vital component of a robust, vibrant and growing world economy and centres like the BVI are central to facilitating these flows. The BVI has substance in that it offers jurisdictional and tax neutrality to clients from all over the world, helping to create investment opportunities to meet the needs of global businesses and internationally mobile individuals.

The BVI provides 'legal and contractual substance'. Along with tax and jurisdictional neutrality, administrative convenience and country risk mitigation, the BVI offers legal expertise rooted in English law. There is high value of incorporating in a United Kingdom Overseas Territory, as it comes with a legal framework renowned for quality, confidence and stability. Businesses gain material comfort that disputes can be resolved fairly and asset ownership is properly articulated and respected; this is neither physical nor intellectual, but it is a material and substantive requirement for business and investment, especially cross-border.

Indeed, there is physical substance in the BVI with its high quality commercial court, a branch of the Eastern Caribbean Supreme Court, its new state-of-the-art International Arbitration Centre and its Registry of Corporate Affairs. This element of substance becomes increasingly relevant when companies are seen in their role as mechanisms for allocating risk and reward.

4.4 Evidence from foreign direct investment data

The important role of BVI Business Companies in international investment flows is evident from data on foreign direct investment.

The United Nations publish statistics on the flows and stocks of foreign direct investment around the world.[26] Global flows of foreign direct investment totalled US$1.8 trillion in 2015, their highest level since the financial crisis of 2008, with the total stock at just under US$26 trillion.[27]

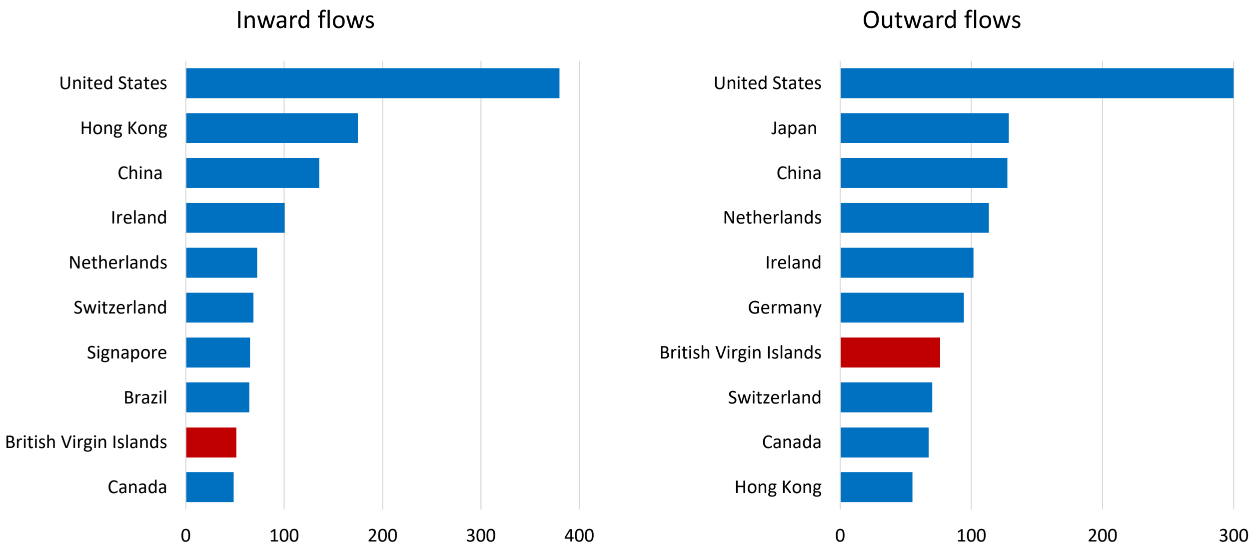
The BVI ranks high in the United Nations' global foreign direct investment statistics, both in terms of inward and outward flows. This is unsurprising given its role as a mediator of cross-border investment. In 2015, the BVI was the ninth largest recipient of foreign direct investment, and the seventh largest source of outward flows. (See Figure 61.)

[26] United Nations Conference on Trade and Development, *UNCTADSTAT database: Foreign direct investment flows and stock* (United Nations, Geneva), http://unctadstat.unctad.org/wds/ReportFolders/reportFolders.aspx, accessed December 2016. The United Nations define foreign direct investment by two criteria: an investment made by a resident of one economy in another economy and it is of a long-term nature or of "lasting interest"; and an investment whereby the investor has a controlling interest in a business or asset, the threshold of which is typically set at ten per cent.

[27] United Nations Conference on Trade and Development, *World Investment Report 2016* (United Nations, Geneva), 2016

Hong Kong is responsible for the largest share of foreign direct investment to and from the BVI, accounting for 58 per cent of the territory's total outward stock, and 40 per cent of its total outward flows in 2012. (See Figure 62.)

Figure 61: United Nations foreign direct investment inward and outward flows, 2015, US$ billion



Sources: Capital Economics and United Nations Conference on Trade and Development. Note: The United Nations data is incomplete, as it does not include information for all countries, such as Russia.

Figure 62: The BVI's flows and stock of foreign direct investment, 2012, US$ million

Foreign direct investment flows					Foreign direct investment stock				
	To the BVI		From the BVI[1]			In the BVI		From the BVI[1]	
1	Hong Kong	35,506	Hong Kong	24,741	1	Hong Kong	504,677	Hong Kong	407,045
2	United States	23,025	Luxembourg	10,039	2	United States	219,851	China	129,402
3	Russia[2]	7,395	China	7,831	3	Russia[2]	32,690	United States	58,584
4	Japan	2,247	United States	7,689	4	China	30,851	Singapore	46,772
5	China	2,239	Chile	3,024	5	Singapore	25,963	Australia	19,959
6	Belgium	840	Nigeria	2,853	6	Brazil	22,502	Chile	14,676
7	Malaysia	706	Russia[2]	2,474	7	Malaysia	7,471	Russia[2]	9,793
8	Chile	483	Macao	1,487	8	Chile	3,125	Malaysia	6,413
9	Luxembourg	442	Brazil	928	9	Belgium	2,565	Thailand	5,602
10	India	425	Australia	911	10	Thailand	1,618	Macao	3,783

Sources: Capital Economics and the United Nations Conference on Trade and Development Statistics. Notes: [1]Outward flow and stock data are more comprehensive than inward data and hence contain countries not included in the inward data [2]Russian data from The Central Bank of Russian Federation - flow data is 2012 and stock relates to 2016.

Foreign direct investment flows through offshore financial centres are often associated with intrafirm financial operations, including holding activities as well as the raising of capital in international markets.[28] As international financial centres such as the BVI offer tax and jurisdictional neutrality, administrative convenience, and country risk mitigation, among other benefits, it makes sense that companies use these hubs to facilitate their business transactions.

There is a belief that a share of the foreign direct investment that flows through offshore centres is engaged in 'round-tripping'. While there is no agreed definition – and as such the extent of it around the world is difficult to calculate – in its simplest form, round-tripping involves an entity mediating an investment offshore which will then be brought back onshore to its country of origin.

Round-tripping is seen by some commentators and campaigners as engaging in manipulative behaviour. They say this type of activity creates no value added but facilitates the private sector's efforts to get around legal or administrative barriers to trade and taxes. However, round-tripping activities have more complex purposes than for just gaining a tax advantage. Round-tripping is a more value-adding behaviour.

The literature identifies four motives for round-tripping.[29] First, firms can use round-tripping to gain a tax and fiscal advantage. Certain countries have policies attracting foreign direct investment (e.g. lower taxation, convenient administrative support etc.). As such local firms may channel capital abroad and disguise it as foreign capital for local investment to take advantage of foreign preferential treatment. Second, round-tripping may be used for flexible exchange rate management, in order to anticipate changes in exchange rate controls. Third, round-tripping may be used as a mechanism for the protection of property rights. Property rights protection in some instances may be stronger for foreign companies than local companies while other times foreign countries may provide greater property rights protection. As a result firms may decide to park their wealth elsewhere. This can allow individuals to protect their identity by investing in international financial centres. Capital is then brought back into the country when there are profitable opportunities. Fourth, round-tripping can also be used by individuals and businesses to access better-developed financial services and markets around the world, for example utilising the foreign vehicle's ability to list on a stock exchange outside of one's home country.

In addition, round-tripping can be used as a mechanism to leverage domestic investment with foreign investment. When pooling cross-border investment from two or more entities, an offshore vehicle is an ideal place to settle and hold these transactions. For example, Country A would like foreign investment to match its current financing for a domestic project. Country B would like to match this investment, but in a safe, neutral jurisdiction. Country A and Country B put their investments in an offshore vehicle. Then, this pooled investment is then brought back to use in Country A. (See Figure 63.)

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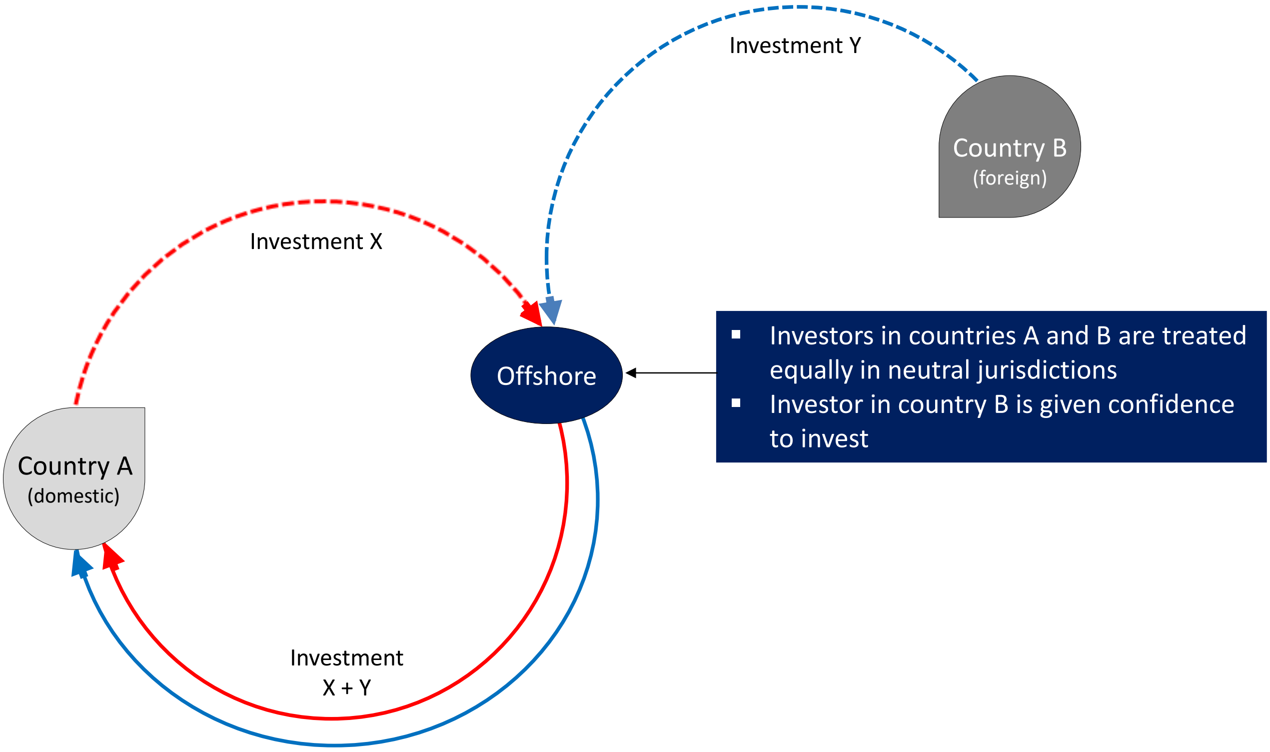
[28] United Nations Conference on Trade and Development, *World Investment Report 2016* (United Nations, Geneva), 2016

[29] Xiao Geng, *Round-Tripping Foreign Direct Investment and the People's Republic of China* (Asian Development Bank Institute, Tokyo), 2004

Figure 63: Stylised example of investment pooling leading to so-called 'round-tripping'



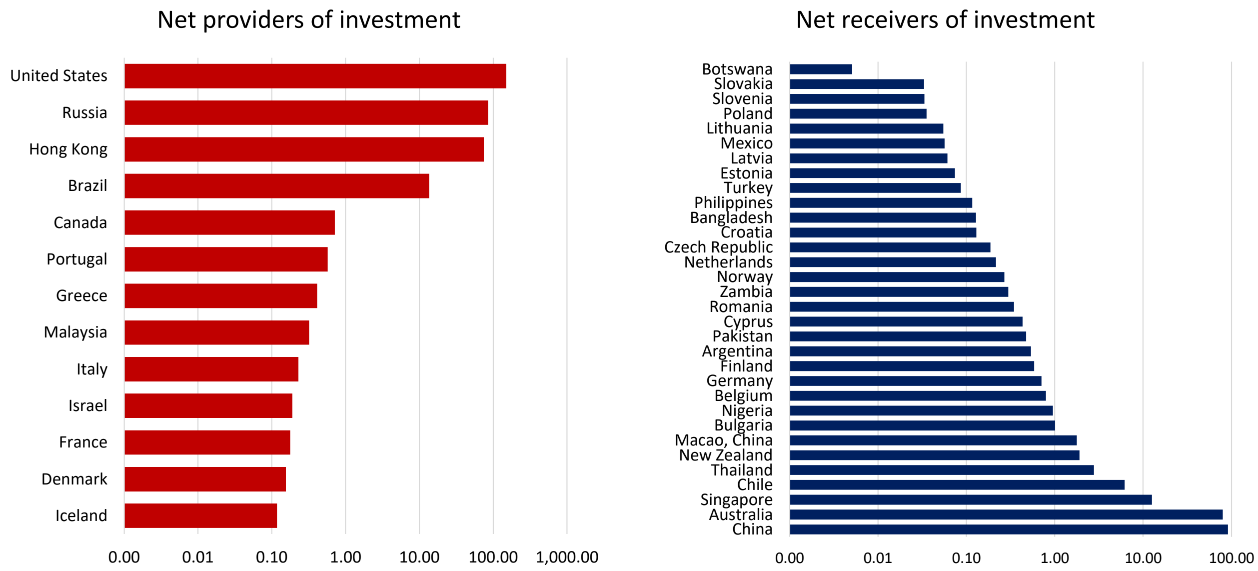
Source: Capital Economics

Regardless of round-tripping, there are still substantial net investment flows between the BVI and the rest of the world. If so called round-tripping is removed, the BVI is still a net provider of investment to largely developing countries, and is a net receiver of investment from larger developed countries. (See Figure 64.)

The BVI mediates considerable foreign direct investment into developing countries, including many African nations. The United Nations provides information on 52 out of the 54 countries in Africa. Out of these 52 states, the BVI is listed as having a direct investment relationship with six: Nigeria; Mozambique; Kenya; Tanzania; Zambia; and Botswana.[30] Nigeria has by far the largest foreign direct investment stock from the BVI, standing at US$2.9 billion as of 2012. The data for the remaining five countries is intermittent. For Zambia, foreign direct investment stock from the BVI ranged from US$586 million in 2010 to US$8 million in 2012, while Botswana's stock from the BVI stood at US$5 million 2012. For Kenya and Tanzania, stock from the BVI was last reported in 2008 at US$43 million and US$45 million respectively. The United Nations data does not list a stock figure for Mozambique, however they list inflows from the BVI in 2012 of US$21 million.

30 United Nations Conference on Trade and Development, UNCTADSTAT database: Foreign direct investment flows and stock (United Nations, Geneva), http://unctadstat.unctad.org/wds/ReportFolders/reportFolders.aspx, accessed February 2017.

Figure 64: United Nations data on the net stock of BVI-mediated foreign direct investment, 2009 to 2012 average, US$ million log scale



Sources: Capital Economics and the United Nations Conference on Trade and Development Statistics. Note Russian data from The Central Bank of Russian Federation and relates to 2016.

4.5 Use by major listed companies

Further evidence of the use and value of BVI Business Companies come from the financial reporting of the world's largest businesses. Major respected companies worldwide use BVI Business Companies to manage their cross-border activities.

Multinational companies listed on the world's major stock exchanges have utilised BVI Business Companies in their corporate structures. We looked at the presence of BVI subsidiaries in the United Kingdom's FTSE 350, the United States' S&P 500 and Hong Kong's Hang Seng Index. For each stock exchange, we identified the total number of companies listed that had an entity registered in the BVI, as well as the total number of BVI subsidiaries or joint ventures used within these companies.

The BVI is home to just under 1,600 vehicles which are part of the group structure of over 140 major businesses with listings on one of the four major stock exchanges cited above. Roughly 75 per cent of Hong Kong's Hang Seng Index is made up of companies with direct linkages to the BVI, while just under one-quarter of all FTSE 100 companies have BVI relationships. These 140 companies have used BVI Business Companies for over 1,500 subsidiaries, joint ventures or acquisitions related to their business, the majority of which related to Hong Kong. This implies that every company listed on the Hang Seng Index with ties to the BVI has on average 35 BVI Business Companies attached to it. (See Figure 65.)

Figure 65: Number of listed firms with subsidiaries incorporated in the BVI by stock exchange index

Market	Total number of companies where information was available	Number of companies listed with links incorporated in the BVI	Share of companies listed with links incorporated in the BVI (per cent)	Total number of subsidiaries/joint ventures/acquisitions in the BVI	Average number of links incorporated in the BVI
FTSE 100	98	18	18	74	4
FTSE 250	201	28	14	80	3
S&P 500	488	61	13	157	3
Hang Seng Index	48	36	75	1,270	35

Sources: Companies House, Companies' annual reports, London Stock Exchange, US Securities and Exchange Commission, Cyber Search Centre of the Integrated Companies Registry Information System (ICRIS) of Hong Kong. Note: FTSE and S&P numbers above are based on firms' latest returns to Companies House, latest filings to US Securities and Exchange Commission and their latest annual reports as at 11 January 2017. Hang Seng numbers are based on firms' latest returns to Companies Registry and their latest annual reports as at 27 January 2017

The BVI Business Company has wider appeal; it has been chosen by a number of tomorrow's large firms, helping them list today. For example, 30 firms on London's 'small cap' AIM stock exchange in the United Kingdom have been incorporated in the BVI. (See Figure 66.)

Figure 66: Number of listed firms incorporated in the BVI on London's alternative investment market stock exchange

Market	Total number of companies where information was available	Number of companies listed with links incorporated in the BVI
AIM	982	30

Source: London Stock Exchange as at 11 January 2017

In addition to the use of BVI vehicles by major listed companies, BVI Business Companies are used by major international development banks to help fund projects around the world. The European Bank for Reconstruction and Development and the World Bank's International Finance Corporation for example have both used BVI Business Companies to help facilitate investment projects from Latin America to Asia, ranging in value from US$7.5 million all the way up to US$550 million. These are major financial institutions helping to deliver development, transformation and growth in low income countries, funded and directed by the world's major governments, choosing to use BVI Business Companies. (See Figure 67.)

Figure 67: Examples of investments by development banks in BVI vehicles

	Institution/ Bank	Project Name	Country	Year	Amount	Short description	Status
1	EBRD	Project Bluebird	Russia	2013	$550 million	Borets International Ltd, a holding company registered in BVI	Disbursing
2	EBRD	Chirag Early Oil	Azerbaijan	1998	$100 million	Loan to five companies including LUKoil Overseas BVI Limited.	Completed
3	IFC	Sphinx Fund	Egypt	2008	$17million investment into a $100 million fund	Sphinx Fund to be managed by Sphinx Capital Corp, a BVI company.	Active
4	IFC	Daewoo Intercity	Pakistan	2013	$20.01 million	Daewoo Pakistan Express Bus Service Ltd owned by a firm owned by Greentown Holdings BVI.	Pending disbursement
5	IFC	All Asia Growth Ventures	Philippines	1995	Lowest of $7.5 million or 15% of the fund amount	All-Asia Capital and Trust Corporation (AACTC) established a fund as an offshore venture capital company in BVI for foreign investors.	Completed
6	IFC	Kappa	Colombia	2007	$20 million debt facility	Kappa Energy Colombia Ltd is a subsidiary of Kappa Energy Holdings (BVI).	-
7	IFC	Favorita Fruit Company Ltd	Ecuador	1999	$15 million	Favorita Fruit Company Ltd is a British Virgin Islands holding company of the Wong Group.	-
8	IFC	Promasidor Nigeria Limited	Nigeria	2016	$25 million	Loan to finance expansion of food processing company which is a subsidiary of Promasidor Holdings Limited BVI.	Pending disbursement
9	IFC	Canvest Waste-to-Energy	China	2016	$104 million	The major shareholders of Canvest include Best Approach (BVI) which has a 65.1% share.	Active
10	IFC	ESIP Souq	MENA Region	2015	$30 million	Investment to aid Souq Group Ltd. (BVI) – the largest e-commerce website in the Middle East – expand into emerging markets.	Active
11	IFC	MHV II	Bhutan	2015	$3 million	Mountain Hazelnut Venture Private Limited (MHV) is a subsidiary of a holding company which is owned by a BVI-domiciled entity.	Active
12	IFC	Credence	Egypt	2015	$20.5 million	Credence Hospitality Limited (BVI).	Pending disbursement
13	IFC	Sphinx Glass SAE	Egypt	2015	$33.3 million	An equity investment of up to 20% in Sphinx Glass Ltd, a BVI entity.	Active
14	IFC	Labnet CIS	Central Asia	2014	$12.5 million	A project which is majority owned by a Labnet CIS Ltd (BVI).	Hold
15	IFC	CEI Water	China	2014	$70 million	CEI has a subsidiary, China Everbright Water Investments Limited which was incorporated in the BVI.	Active
16	IFC	ENN Energy	China	2013	$75 million	ENN co-founder owns it through ownership of ENN Group International Investment Limited, a BVI-domiciled company.	Completed
17	IFC	Zhaoheng Hydropower Holdings Ltd.	China	2013	$75 million	One of the company's shareholders is a Zhaoheng (BVI) Limited which is owned by another BVI business company, Zhaoheng Hydropower Ltd.	Completed
18	IFC	InterEnergy Holdings Inc.	Caribbean Region	2012	$50 million	IEH is owned by an investment vehicle managed by InterEnergy Partners Ltd who is a minority shareholder is InterBolsa Investments Ltd. (BVI). Also, IEH owns operating companies. One it owns via an indirect interest in Haina Investment Company Ltd. (BVI).	Active
19	IFC	ISC-Ibtikar Fund	West Bank and Gaza	2017	$1 million maximum	Ibtikar will be a limited partnership registered in BVI	Active
20	IFC	DCGCapitalMarket	Vietnam	2016	$50 million	DCGC is licensed in BVI	Active
21	IFC	Sonker Bunkering Company SAE	Egypt	2015	$97 million	The Sponsor of the project, who owns 63% of Sonker, was established in BVI.	Pending disbursement
22	IFC	Pan African	Tanzania	2015	$100 million	The sponsor of the project, a Canadian listed company, has a registered office in BVI.	Active
23	IFC	Muamalat SME	Indonesia	2014	$60 million maximum	Two of the shareholders of Bank Mumalat are investment companies domiciled in BVI.	Hold
24	IFC	Multibank Climate Smart and SME	Panama	2014	$40 million	Multibank Inc operates a subsidiary in BVI.	Active
25	IFC	Tobene	Senegal	2013	$46.22 million	The sponsor and co-developer is an international company incorporated in BVI.	Active

Sources: Capital Economics, European Bank for Reconstruction and Development and the International Finance Corporation

4.6 Use by collective funds and investment businesses

The BVI is an attractive domicile for the incorporation and structuring of investment funds. As of December 2015, there were just over 2,000 registered and recognised BVI funds, making the territory one of the largest jurisdictions for regulated investment funds in the world.[31]

The legislation governing all mutual funds and open-ended funds in the BVI is the *Securities and Investment Business Regulations Act, 2010* which modernised the regulation of mutual funds and investment activities in the territory, and is in line with global regulatory standards and best practices.

A fund may be open-ended or closed. All open-ended fund vehicles are subject to the *Securities and Investment Business Regulations Act, 2010* and are regulated by the BVI Financial Services Commission.[32] Closed-ended fund vehicles fall outside the scope of BVI legislation and are not regulated. As such, it is difficult to gauge how many close-ended funds are domiciled in the BVI.

There are six categories of regulated investment funds in the BVI:

- Professional mutual funds
- Private mutual funds
- Public mutual funds
- Foreign funds
- Incubator funds
- Approved funds

Professional, private, public and foreign funds must be registered or recognised by the BVI Financial Services Commission before they carry on business. Incubator and approved funds were created as of June 2015 with the publication of the *Securities and Investment Business (incubator and Approved Funds) Regulations, 2015.*

The BVI offers flexibility in terms of deciding the underlying structure of the investment fund. Investment funds in the territory can be structured as one of the following:

- BVI Business Company
- Segregated portfolio company
- Limited partnership
- Unit trust

31 BVI Financial Services Commission, Statistical Bulletin – Q4 2015 (BVI FSC, Road Town) 01 April 2016.

32 With the exception of funds set up for investment by (i) one or more members of the same family or (ii) a single investor.

The majority of open-ended funds are established as BVI Business Companies limited by shares. Limited Partnerships are the second most popular, while unit trusts are less common.[33]

The principal investment business activities undertaken in the BVI are the incorporation and authorisation of mutual funds, with 1,614 total active mutual funds registered and recognised by the regulatory authority at the end of 2016. Professional funds make up the largest share, with just over 1,100 active at the end of 2016. While information on the total net asset value of the BVI's regulated funds is not publicly available, we estimate that its value is roughly US$250 billion.[34]

The BVI Financial Services Commission also licenses mutual fund administrators and managers operating in or from the jurisdiction. As of the end of 2016, 457 licenses had been granted. Mutual funds authorized by the regulator are not required to have managers or administrators that are licensed in the jurisdiction – indeed few of the licensed managers or administrators are physically located in the BVI. (See Figure 68.)

Figure 68: Number of active mutual funds and active fund manager and administrator licences in the BVI by category, as at December 31 each year

Category	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Mutual Funds											
Professional Mutual Funds	1,530	1,694	1,894	1,905	1,759	1,700	1,590	1,558	1,511	1,453	1,114
Private Mutual Funds	832	815	831	816	741	712	577	550	539	480	386
Public Mutual Funds	209	222	228	216	206	178	151	125	87	77	52
Foreign Funds	-	-	-	-	-	-	-	5	5	5	6
Incubator Funds	-	-	-	-	-	-	-	-	-	9	23
Approved Funds	-	-	-	-	-	-	-	-	-	9	33
Total	**2,571**	**2,731**	**2,953**	**2,937**	**2,706**	**2,590**	**2,318**	**2,238**	**2,142**	**2,033**	**1,614**
Investment Business licences	**541**	**549**	**581**	**573**	**527**	**525**	**526**	**529**	**529**	**476**	**457**

Sources: BVI Financial Services Commission and Capital Economics

33 Harneys Fiduciary, *BVI Funds* (Harneys, Road Town) http://www.harneysfid.com/jurisdictions/british-virgin-islands/product/bvi-funds, accessed on 17 March 2017 and Circle Partners *Guide to Investment Funds in the British Virgin Islands* (Circle Partners, Road Town), http://www.circlepartners.com/files/2814/4774/8757/CIRCLE5018_Brochure_New_BVI-WEB-Download.pdf, accessed on 17 March 2017.

34 Based on estimates inferred from the net asset value of Jersey's regulated funds. The net asset value of Jersey's 1,200 regulated funds under administration stood at US$319 billion in 2016. (Based on end-2016 exchange rate of 0.8128 GBP to 1.0000 USD). Jersey funds are heavily comprised of alternative assets, including private equity and hedge funds. Therefore, we would expect the average minimum investment into these funds to be larger than that of an average investment into a BVI mutual fund. We assume that the average investment per BVI fund is 1.7 times lower than that of the average investment of a Jersey fund.

4.7 Holding real estate assets

A common reason for setting up a BVI Business Company is to hold real estate assets. We estimate that roughly eighteen per cent of all active BVI Business Companies are used as real estate holding vehicles worldwide. (See Section 4.8.)

Used by both individuals and corporates, BVI Business Companies hold any type of real estate asset, ranging from residential property all the way through to major global commercial development. It is, though, important to distinguish between the reasons for holding a property asset in a company or other vehicle and those for having the vehicle resident offshore.

It is common for land and buildings to be owned by companies whose purpose appears to be only ownership of properties – or even just one property. Such structures can be onshore as well as offshore – such as the government-encouraged real estate investment trusts. There are good reasons for holding property in such structures, including but not limited to tax efficiency. It is easier and cheaper to change and manage the ownership of a company than a property title. When dealing with multiple investors, and especially if individual investors may enter or exit at different times, it is more efficient to handle them as shareholders of a company than as one of many names listed on a property register. And, of course, there is the benefit of shareholders' limited liability.

For larger asset holdings, the shares in the owning vehicles may be listed on public exchanges providing access to deeper, more liquid and potentially cheaper capital.

In many cases, there is no single owner behind an offshore company or vehicle. Instead, offshore companies are used to bring multiple investors and owners together in a joint ownership structure. Offshore vehicles are particularly helpful when trying to pool investors from multiple countries, because this allows the investment to take place in a jurisdiction with a single agreed legal structure and where the proceeds of the investment can be shared in an agreed fashion. Locating the investment offshore provides a base that is independent of the home jurisdictions of the various counterparties where transactions can be conducted, while adding little or no additional cost – and can provide tax neutrality across a multinational investor base.

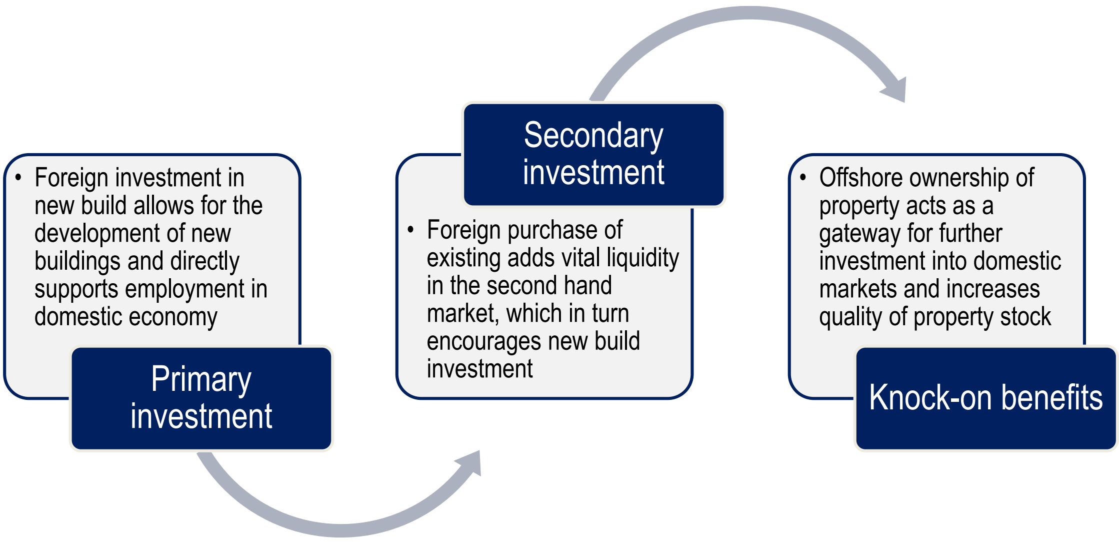
Buyers and investors around the world aspire to own property as it is seen as a safe investment that generates a reasonable rate of return, especially in an economic climate where interest rates are low – although many high net worth individuals may be less interested in the returns than they are in preservation of income and access to a safe, stable and accepting place to live.

Foreign investment has bearings in both the primary and secondary property markets. Offshore investment is used to acquire the site for, and fund the construction of, new commercial and residential buildings worldwide. This funding of new build not only provides incentive to start new projects but it also supports employment in the domestic economy.

Foreign investment in the second hand property market also brings important benefits to domestic economies. Without a resale market, there would be much less new build investment. Most investors in new build are looking to make their return by selling the asset in the second hand market. Moreover, with greater liquidity in the second hand market comes more opportunity for investors in new build to sell their assets and make their desired return at a time of their choosing, which in turn encourages new build investment.

Furthermore, offshore ownership of property can act as a gateway for further investment into domestic economies. Investors in property may begin by purchasing one residential property, and once familiar with the market they may then expand their investment into further properties. Offshore ownership also increases the quality of the property stock in domestic markets, as the owner seeks to improve the property in order to obtain the maximum value from the asset. In addition, many offshore property owners spend money on goods and services in the domestic economy, such as shopping, eating out and using local services such as taxis. For high net worth individuals, the amount of their spending can be significant. Many wealthy property owners also employ staff which creates local jobs. The staff employed in turn spend in the local economy, creating a multiplier effect for the benefits. (See Figure 69.)

Figure 69: Value of offshore ownership of property

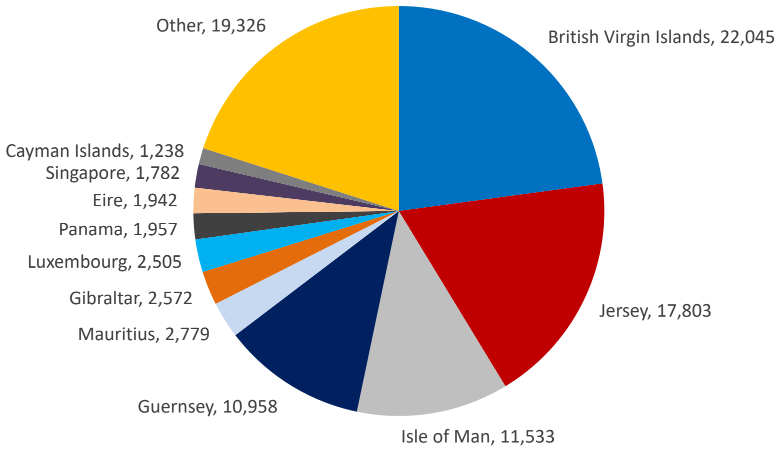


Source: Capital Economics

The use of BVI vehicles to hold real estate is most prevalent in Asia, and especially China and Hong Kong. However, there are no publically available data to confirm this. There are, though, information for the United Kingdom; of the circa 76,000 BVI Business Companies used for real estate purposes, we estimate that just over a quarter hold property there.[35]

Between 1999 and 2014, sales of property to offshore buyers accounted for 0.6 per cent of all transactions over the period.[36] We estimate that just under ten per cent of the total value of property in England and Wales is foreign-owned, with the BVI accounting for just under two percentage points of the total value.[37] Land Registry data show that there were 96,440 offshore owned properties in England and Wales in 2014 that were acquired between 1999 and 2014. Companies and other corporate structures resident in the BVI are the largest offshore owner of property purchased between 1999 and 2014 in England and Wales, with just over 22,000 properties, accounting for 23 per cent of the total. This is followed by the British Crown Dependencies of Jersey, Isle of Man and Guernsey, which together represent 42 per cent of offshore properties in England and Wales combined. (See Figure 70.)

Figure 70: Number of offshore-owned properties in England and Wales by jurisdiction of ownership



Sources: Capital Economics and the United Kingdom Land Registry. Note: Data relate only to properties that were in foreign ownership in 2015, and had been purchased by the foreign owner no earlier than 1999.

The BVI is disproportionately used for commercial property – where cross-border investment pooling will be needed. Commercial property accounts for just five per cent of all transactions in

35 Publically available data are limited on ownership of property for most countries. However, the United Kingdom publishes offshore property ownership information for all leasehold and freehold properties in England and Wales. We estimate the size and scale of the underlying property assets held there through BVI Business Companies using these data.

36 There were a total of 15.8 million property transactions in England and Wales between 1999 and 2014, of which 96,440 were to an offshore buyer. Source: United Kingdom Land Registry.

37 To estimate the total value of offshore property, based on interviews with industry experts, we have assumed that 65 per cent of offshore property transactions have been transacted since 2000 and we have grossed up the offshore value for 2000-2014 according to this proportion. The total value of United Kingdom dwellings, buildings and other structures was an estimated US$10 trillion in 2015 according to the *National Balance Sheet* published by the Office for National Statistics.

England and Wales, but 27 per cent of the total property value[38] – whereas for real estate held in BVI vehicles, commercial property similarly accounts for five per cent of the number of transactions but 42 per cent of the value of transactions. Across all BVI-owned properties, large commercial buildings located in central London account for the majority of the top ten property deals by value.[39] The largest transaction value by a BVI entity was US$822 million for a handful of commercial properties in a large shopping, office and cultural district in London. (See Figure 71.)

Figure 71: Top ten BVI-owned property transactions in England and Wales since 1999 by value

	Property	Location	Year of transaction	Transaction value (US$ million)
1	Commercial properties in W1, London	Westminster	2006	822
2	Commercial properties in W1, London	Westminster	2005	510
3	Commercial skyscraper in EC1, London	City of London	2011	462
4	Commercial offices in EC4A, London	City of London	2013	440
5	Commercial and residential properties in SW, London	Westminster	2007	400
6	Commercial building in WC1V, London	Camden	2005	391
7	Commercial properties in W1, London	Westminster	2014	310
8	Residential properties in W8, London	Kensington and Chelsea	2008	297
9	Residential properties in SW1, London	Westminster	2012	238
10	Commercial and residential building in EC4, London	City of London	2010	223

Sources: Capital Economics and United Kingdom Land Registry

38 Land Registry data in the public domain do not distinguish between commercial and residential property. We have estimated the scale of commercial property by assuming that all transactions in excess of US$14 million are for commercial, except those in the London Borough of Kensington and Chelsea which are assumed to be all residential; all transactions under US$14 million in England and Wales are assumed to be residential. These are crude assumptions but are likely to yield a reasonable first order estimate. We likely understate the scale of commercial property value and activity.

39 The Land Registry does not record the value of all transactions while some transactions that have their contracted values recorded are not conducted at market rates. Our analysis here covers only those transactions where Land Registry record a meaningful value.

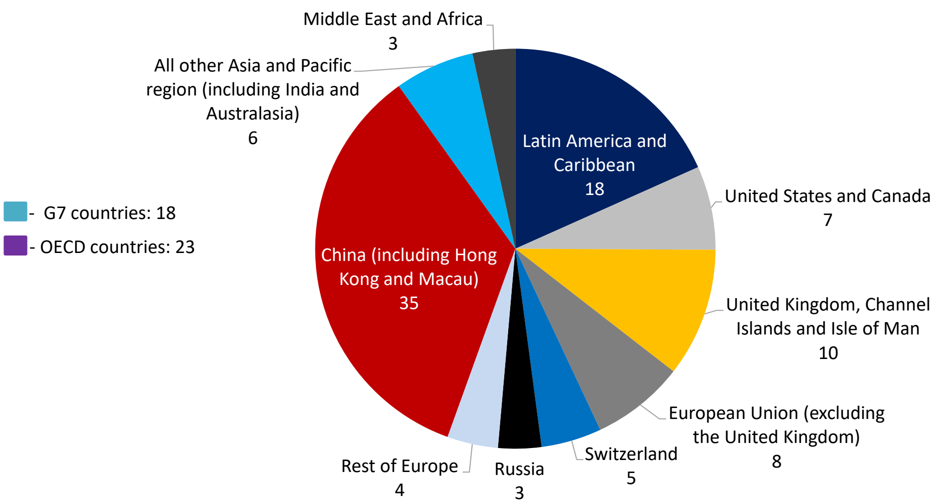
4.8 Assessing the scale, scope and geography of BVI Business Companies

To paint a more comprehensive picture of the utilisation of BVI Business Companies, we carried out a major survey of financial and business services firms in the territory. (See Appendix.)

The sources of the BVI's business are far and wide.

As of December 2016, regulatory submissions indicate that there are 416,784 active BVI Business Companies in existence.[40] We estimate that roughly two-fifths of this entire stock originate from ultimate beneficial owners in Asia.[41] (See Figure 72.)

Figure 72: Estimated share of active BVI Business Companies by location of ultimate beneficial owner, 2016, per cent



Source: Capital Economics' survey 2016/17

An estimated eighteen per cent of all active BVI Business Companies have ultimate beneficial owners in Latin America and the Caribbean, while one in every ten companies has its origin in the United Kingdom.

The use of BVI Business Companies by ultimate clients based in the group of seven major advanced nations (or 'G7') is less common, with this block accounting for less than one-fifth of the total stock.

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40 BVI Financial Services Commission, *Statistical Bulletin – Q4 2016* (BVI FSC, Road Town) 17 March 2017.

41 Asia includes China and all other Asia and Pacific region, including India, Australia and New Zealand. China includes Hong Kong and Macau.

We categorise the purpose of using a BVI Business Company into four types:

(i) Real estate holding;

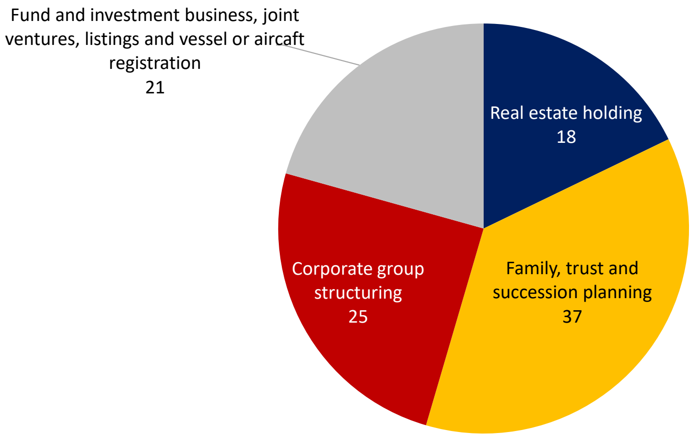
(ii) Family, trust and succession planning;

(iii) Corporate group structuring; and

(iv) Investment business, joint ventures, listing and vessel or aircraft registration

In terms of usage, we see a generally even split of commercial and private purposes for using a BVI Business Company.[42] Roughly one-fifth of BVI Business Companies were incorporated for the purpose of holding a real estate asset, which range from residential property all the way through to large commercial developments. Just under two-fifths of incorporations were for the purpose of structuring individual's or family's personal wealth and/or assets. The remaining 45 per cent of total active incorporations were for the purpose of facilitating corporate and investment business transactions. (See Figure 73.)

Figure 73: Estimated share of active BVI Business Companies by primary purpose, 2016, per cent



Source: Capital Economics' survey 2016/17

We conservatively estimate that the assets held by all active BVI Business Companies worldwide have an underlying value of US$1½ trillion.[43] This value represents the business activities taking place at the root of each company. For example, the value of a BVI Business Company used as a

[42] There is some degree of overlap between the uses of BVI Business Companies identified above; however we believe the split is representative of the overall stock of companies.

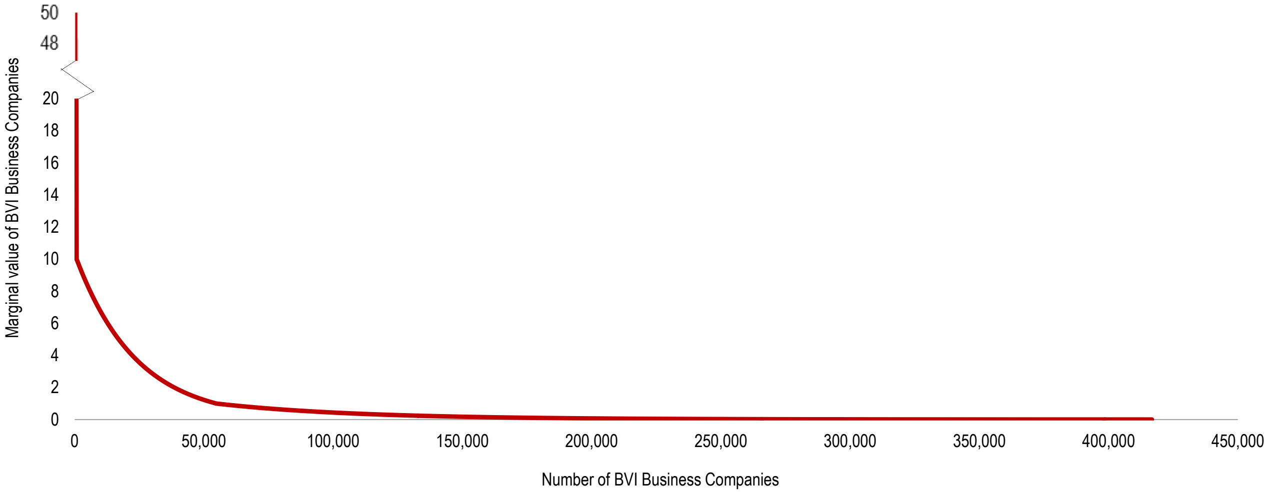
[43] The only other publicly available estimate of the value of BVI incorporated companies of which we are aware was made by the International Monetary Fund in 2010. They estimated that the asset holding of BVI Business Companies was US$615 billion in 2010, which translates to US$690 billion in 2016 prices.

holding vehicle for real estate would be the value of the property itself, while the value of a vehicle used as an intermediated holding company for a corporate group structuring deal would be the asset value of the total investment into this deal. Of the global stock of 417,000 active BVI Business Companies, there is a large number of low value companies, with a smaller number of high value companies. (See Figure 74.)

Roughly 43 per cent of the total value of all active BVI Business Companies are located with ultimate beneficial owners in Europe.[44] In terms of where the actual assets are located, China and Hong Kong account for two-fifths of the total value. (See Figure 75.)

By primary purpose, BVI Business Companies used for corporate group structuring account for the largest share of underlying value, at 65 per cent. (See Figure 76.)

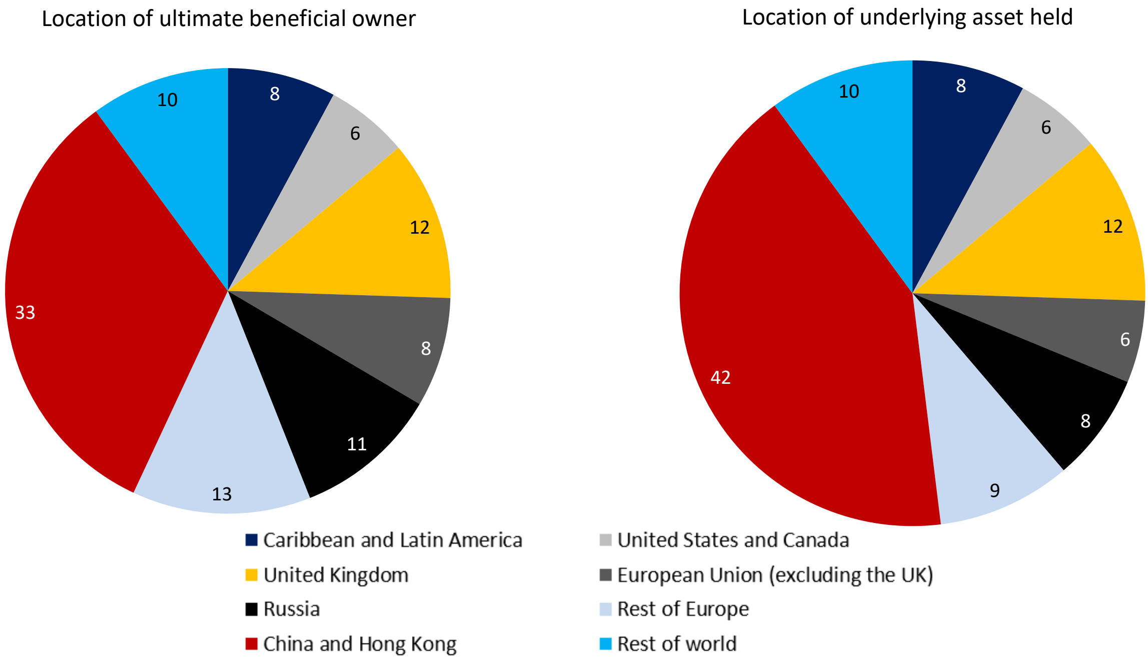
Figure 74: Estimated incremental value of active BVI Business Companies, December 2016, US$ billion



Source: Capital Economics' survey 2016/17

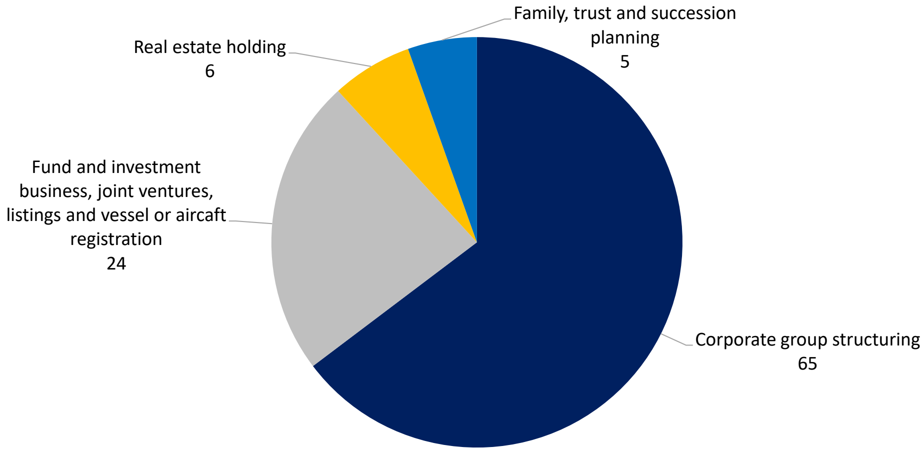
[44] Europe includes the United Kingdom, the European Union, Russia and the remainder of mainland Europe.

Figure 75: Estimated underlying value of active BVI Business Companies by location of ultimate beneficial owner and by location of underlying asset held, 2016, per cent



Source: Capital Economics' survey 2016/17

Figure 76: Estimated underlying value of active BVI Business Companies by primary purpose, 2016, per cent



Source: Capital Economics' survey 2016/17

4.9 Potential for tax abuse and money laundering

The BVI is not a tax haven.

The territory has a transparent and straight forward tax system and has responded quickly and constructively to international developments seeking to improve transparency and clamp down on criminality, including tax evasion.

The BVI is tax neutral. While there are income, property and other taxes on residents and domestic business, authorities do not charge local taxes on transactions conducted or assets held in the BVI that relate to economic activity elsewhere. This does not reduce or eliminate any tax liability in other jurisdictions. For example, investors in funds located in the BVI will pay relevant taxes where they are domiciled and the funds themselves will pay relevant taxes where the assets are located; but the BVI charges no additional tax on the fund. Tax neutrality should be distinguished from low tax regimes, like Luxembourg and Ireland – where low rates of taxes or tax reliefs may be offered on specific categories of income, such as intra-group interest payments or royalties from intellectual property.

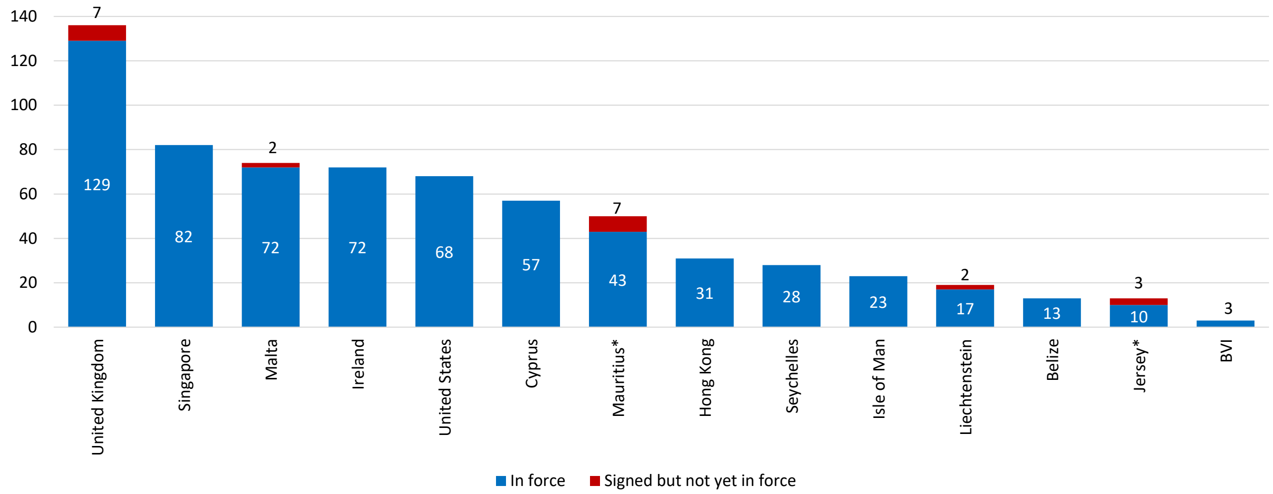
The BVI is not a material centre for corporate profit shifting. Multinational companies seeking to optimise their tax position would presumably look to conduct any 'profit shifting' through jurisdictions that gave them protection from double taxation, and where they would be exempt from withholding charges. For example, although by no means a channel for transfer mispricing, i.e. shifting profits to avoid paying the appropriate amount of tax, the Netherlands offers companies a long list of incentives to engage in transfer pricing, as it charges no withholding tax on outgoing interest and royalty payments. It also has a tax treaty network which reduces withholding taxes for other income such as dividends, interest and royalties.[45]

The BVI offers little protection to businesses from so-called 'double taxation' in another jurisdiction or from 'withholding taxes' elsewhere. Multinational companies that use their transfer pricing arrangements to shift profits into the jurisdiction will not be sheltered from taxes due elsewhere. The territory has few double taxation agreements and where it does have such agreements it still does not provide any sort of blanket for withholding tax mitigation. To date, the BVI has only signed three double taxation agreements – one with the United Kingdom and with Japan and Switzerland through extension with Britain.[46] This number is small in comparison to other international financial centres. (See Figure 77.)

[45] Blomeyer and Sanz, *European initiatives on eliminating tax havens and offshore financial transactions and the impact of these constructions on the Union's own resources and budget* (European Parliament, Brussels), April 2013.

[46] The United Kingdom's double tax treaties with Japan and Switzerland have been extended to BVI, although these treaties are not used in practice.

Figure 77: Number of double taxation agreements with individual countries by selected jurisdictions, 2017



Sources: Capital Economics and various government websites. *Denotes full double taxation agreements only. As at May 2017.

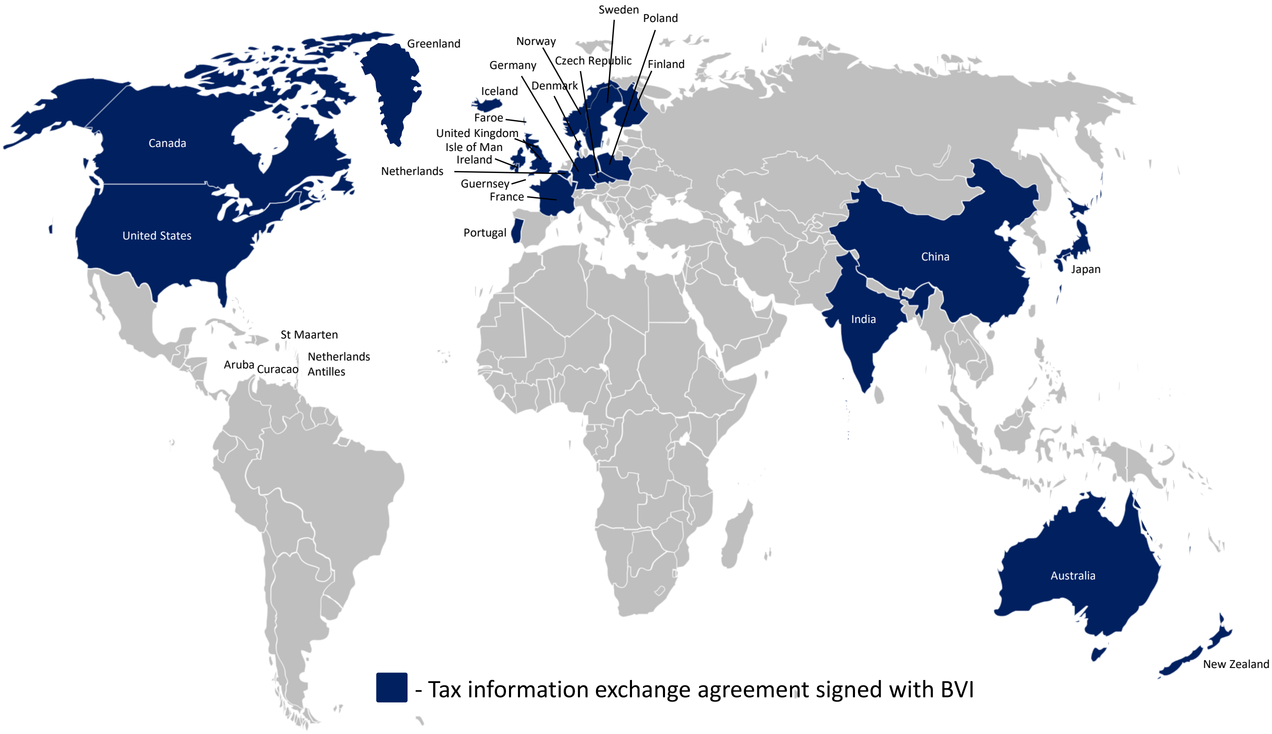
BVI policymakers have entered into tax information exchange agreements with a number of jurisdictions, enforcing its commitment to tax transparency. The Organisation for Economic Co-Operation and Development put forward formats for these kinds of agreements in 2002. The exchange of tax information calls on government to exchange information on accounts from their financial institutions with other jurisdictions on an annual basis.

The BVI has signed these agreements with 28 jurisdictions as of the start of 2017. It signed its first tax information exchange agreement in 2002 with the United States and by the end of 2009 had already signed nineteen agreements. Other countries the BVI has agreements with include Japan, Canada, China and over fifteen European countries.[47] The territory is ahead of many big name international financial centres on this measure of transparency. (See Figure 78 and Figure 79.)

Indeed, the BVI is as transparent on tax issues as the United States and the United Kingdom. (See Figure 80.)

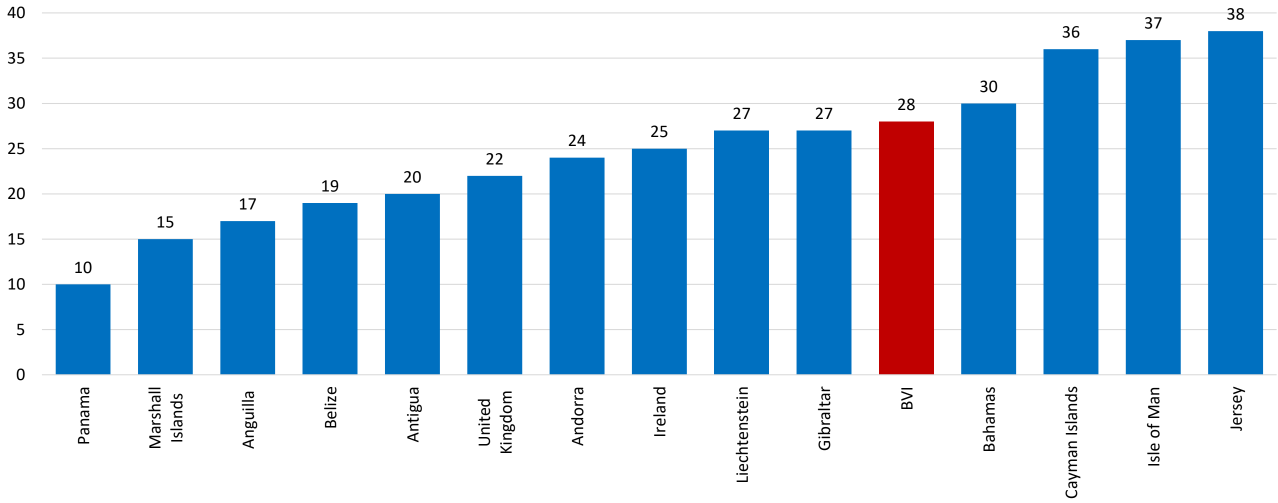
[47] The BVI has entered into tax information exchange agreements with the following jurisdictions: Aruba, Australia, Canada, China, Curacao, Czech Republic, Denmark, Faroe Islands, Finland, France, Germany, Greenland, Guernsey, Iceland, India, Ireland, Isle of Man, Japan, Netherlands Antilles, New Zealand, Norway, Poland, Portugal, St Maarten, Sweden, United Kingdom and the United States.

Figure 78: Jurisdictions that have signed tax information exchange agreements with the BVI, 2017



Source: Government of the Virgin Islands. As at May 2017.

Figure 79: Total number of signed tax information exchange agreements by selected jurisdictions, 2017



Sources: Capital Economics, Organisation for Economic Co-operation and Development and various government websites. As at May 2017.

Figure 80: Organisation for Economic Co-operation and Development's tax transparency ratings for 113 jurisdictions that have undergone Phase 2 review, 2017

	OECD Tax Transparency Rating
Australia, Belgium, Canada, China (People's Republic of), Colombia, Denmark, Finland, France, Iceland, India, Ireland, Isle of Man, Japan, Korea, Lithuania, Mexico, New Zealand, Norway, Slovenia, South Africa, Spain, Sweden	Compliant
Albania, Argentina, Aruba, Austria, Azerbaijan, Bahamas, Bahrain, Barbados, Belize, Bermuda, Botswana, Brazil, **British Virgin Islands**, Brunei Darussalam, Bulgaria, Burkina Faso, Cameroon, Cayman Islands, Chile, Cook Islands, Cyprus, Czech Republic, El Salvador, Estonia, Former Yugoslav Republic of Macedonia, Gabon, Georgia, Germany, Ghana, Gibraltar, Greece, Grenada, Guernsey, Hong Kong (China), Hungary, Israel, Italy, Jamaica, Jersey, Kenya, Latvia, Lesotho, Liechtenstein, Luxembourg, Macao (China), Malaysia, Malta, Mauritania, Mauritius, Monaco, Montserrat, Morocco, Netherlands, Nigeria, Niue, Pakistan, Philippines, Poland, Portugal, Qatar, Romania, Russia, San Marino, Senegal, Singapore, Slovak Republic, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Saudi Arabia, Seychelles, Switzerland, Turks and Caicos Islands, Uganda, **United Kingdom**, **United States**, Uruguay	Largely Compliant
Andorra, Anguilla, Antigua and Barbuda, Costa Rica, Curaçao, Dominica, Dominican Republic, Indonesia, Samoa, Sint Maarten, Turkey, United Arab Emirates	Partially Compliant
Marshall Islands, Panama, Federated States of Micronesia, Guatemala, Trinidad and Tobago	Non-Compliant

Source: Organisation for Economic Co-operation and Development. As at May 2017.

In comparison to many other international financial centres, the BVI measures up favourably on a variety of measures. (See Figure 81.)

The BVI was an early adopter of the Organisation for Economic Co-operation and Development's '*Common Reporting Standard*', has committed to a large number of tax information exchange agreements and has signed up to follow the United States '*Foreign Account Tax Compliance Act*'. The territory is an official member of the inclusive framework on base erosion and profit shifting, and has hosted conferences to promote understanding of the issues.

With regards to anti-money laundering, the territory is ahead of most in terms of complying with procedures set out by the Financial Action Task Force. The task force calls upon all countries to implement effective measures to bring their national systems into compliance with 49 recommendations related to combating money laundering, terrorist financing and the financing of proliferation.[48] The BVI has met 40 of the 49 requirements, far more than many of its peers. In terms of performing necessary due diligence on clients, The Financial Action Task Force has two recommendations specifically targeted at 'knowing your customer', which requires one to ascertain and verify the identity of their clients. The first is to apply the proper customer due diligence to all new clients, and the second is a requirement to take reasonable measures to

[48] Financial Action Task Force, *International standards on combating money laundering and the financing of terrorism and proliferation: The FATF Recommendations* (FATF, Paris), October 2016.

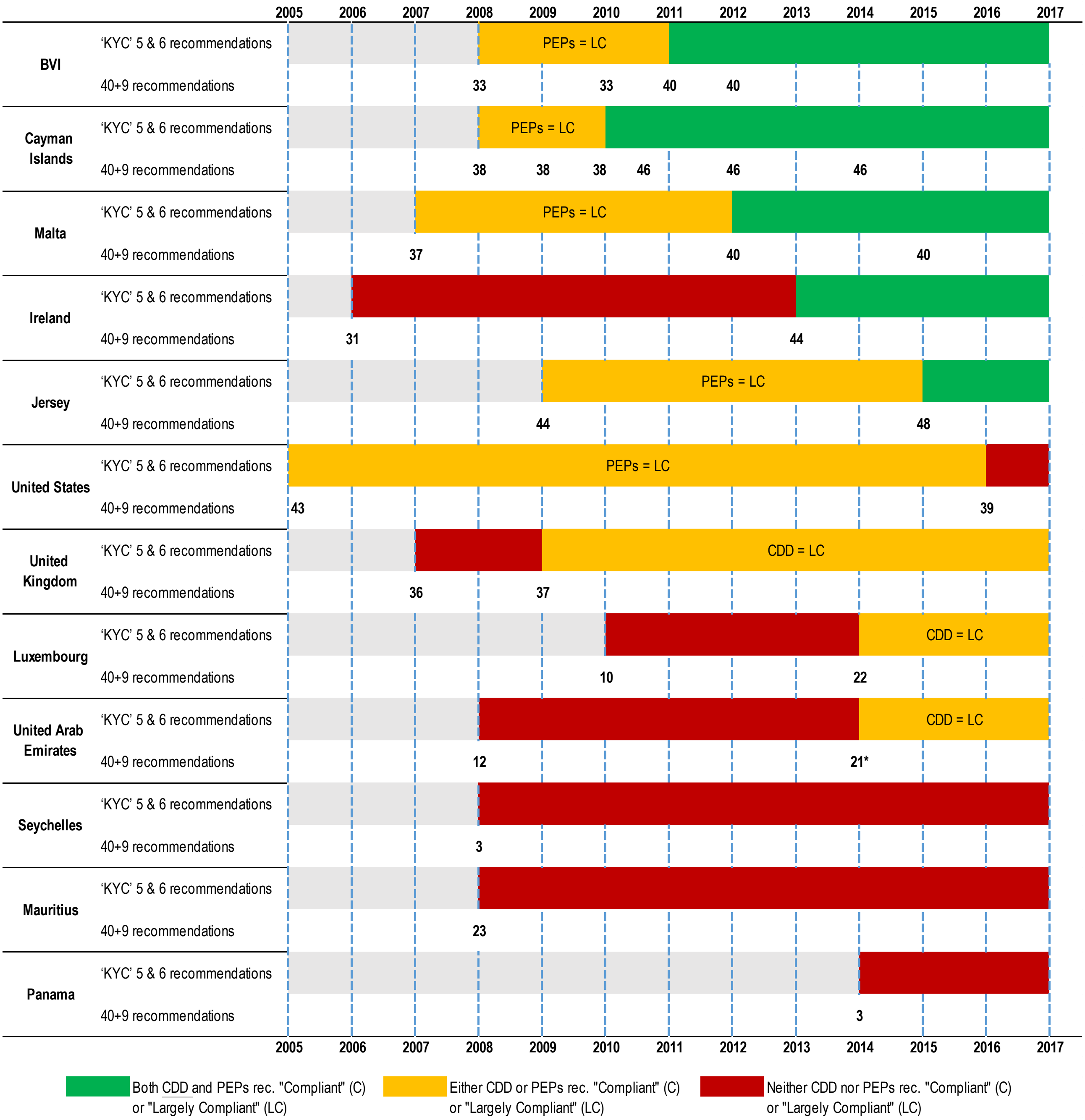
determine whether a customer or beneficial owner is a politically exposed person. The BVI was an early adopter of both requirements. (See Figure 82.)

Figure 81: Adherence to international initiatives on automatic exchange of information and tax avoidance for selected jurisdictions, 2017

	Automatic exchange of information initiatives			Tax avoidance initiatives
Jurisdiction	Part of Early Adopters Group of OECD Common Reporting Standard (CRS)	OECD Convention on Mutual Administrative Assistance in Tax Matters (Automatic exchange of information)	US Foreign Account Tax Compliance Act Intergovernmental Agreement (FATCA)	Member of inclusive framework on Base Erosion and Profit Shifting (BEPS)
BVI	✓	✓	✓	✓
Bahamas	✗	✗	✓	✗
Bermuda	✓	✓	✓	✓
Cayman Islands	✓	✓	✓	✓
Cook Islands	✗	●	✗	✗
Dominican Republic	✗	●	●	✗
El Salvador	✗	●	✗	✗
Ghana	✗	✓	✗	✗
Gibraltar	✓	✓	✓	✗
Ireland	✓	✓	✓	✓
Jersey	✓	✓	✓	✓
Luxembourg	✗	✓	✓	✓
Malta	✓	✓	✓	✓
Mauritius	✓	✓	✓	✓
Montserrat	✓	✓	✓	✗
Nauru	✗	✓	✗	✗
Netherlands	✓	✓	✓	✓
Niue	✗	✓	✗	✗
Panama	✗	✓	✓	✓
Philippines	✗	●	●	✗
Seychelles	✓	✓	●	✓
St Kitts and Nevis	✗	✓	✓	✗
United Arab Emirates	✗	●	✓	✗
United Kingdom	✓	✓	✓	✓
United States	✗	✓ *	N/A	✓

Sources: Capital Economics, United States Treasury and Organisation for Economic Co-operation and Development. Note: A black circle indicates that the protocols or amended conventions have been signed, but are not yet in force. By signing a treaty, a state expresses the intention to comply with the treaty. However, this expression of intent in itself is not binding. Once the treaty has been signed, each state will deal with it according to its own national procedures. The ratification, acceptance and approval process undertaken between signature and entry in force often takes years. Regarding FATCA, those countries which have signed an agreement but are not yet in force are at risk of being removed from the FATCA list. Seychelles has an agreement in substance in place, meaning there has been no signature. As at May 2017.
*New protocols for the United States have been signed but are not yet in force. Original protocols are in force.

Figure 82: Progress with FATF customer due diligence (CDD) and politically exposed persons (PEPs) recommendations and number of "largely compliant" and "compliant" 40+9 recommendations since 2005



Sources: Capital Economics and Financial Action task Force (FATF). *Last United Arab Emirates follow up report only updates compliance of core and key recommendations. Unclear if other "Largely Compliant" recommendations. Note: The FATF recommendations were revised in 2012 and so the recommendations were renumbered. The CDD recommendation which was previously number 5 is now number 10 and the recommendation on PEPs which was previously number 6 is now number 12. Here we track the original number of recommendations for simplicity. As at May 2017.

It is in this context that the publication of leaked confidential client records from Panamanian law firm and corporate service provider Mossack Fonseca needs to be seen.

The release of the 'Panama Papers' in April 2016 brought offshore structures, including BVI Business Companies, into the headlines – but there was little there to identify or prove wrongdoing, while much of the underlying data related to historical business that has long since been closed.

The Panama Papers identified over 210,000 companies in 21 offshore jurisdictions, including the BVI. Since the leak, much has been written in the press vilifying particular high-net-worth and public individuals whose names have been associated with the revelations. But these leaks have found little evidence of wrongdoing.

The Panama Papers database solely lists the names of companies registered with Mossack Fonseca, any persons and addresses linked with that company, the date that the company was incorporated and became inactive, and any intermediaries linked with the company. There is nothing there to identify or prove illegal or illicit activities – either in the BVI or the other twenty jurisdictions cited.

Moreover, the database put together by the International Consortium of Investigative Journalists contains largely outdated information. The consortium identified roughly 114,000 BVI Business Companies incorporated by Mossack Fonseca since 1977. Of these 114,000, only 30,000 are identified as 'active' with Mossack Fonseca as of 2015. The majority of BVI Business Companies listed in the Panama Papers have been identified as either 'inactive', 'discontinued', 'dissolved' or 'defaulted'. According to the International Consortium of Investigative Journalists, between 1985 and 1999, 90 per cent of all BVI Business Companies found to be incorporated by Mossack Fonseca were not active. (See Figure 83 and Figure 84.)

The world has changed radically since 1977 and the BVI has transformed, improved and innovated with it. Given the stringent rules and systems now in place in the territory to stop money laundering, financial crime and abuse of other jurisdictions' tax codes, there is every reason to believe that the 30,000 active BVI Business Companies identified in the Panama Papers are legal and legitimate vehicles being used to facilitate cross-border trade and investment. Indeed, the incidence of wrongdoing in the BVI is likely to be (much) lower than in larger nations.

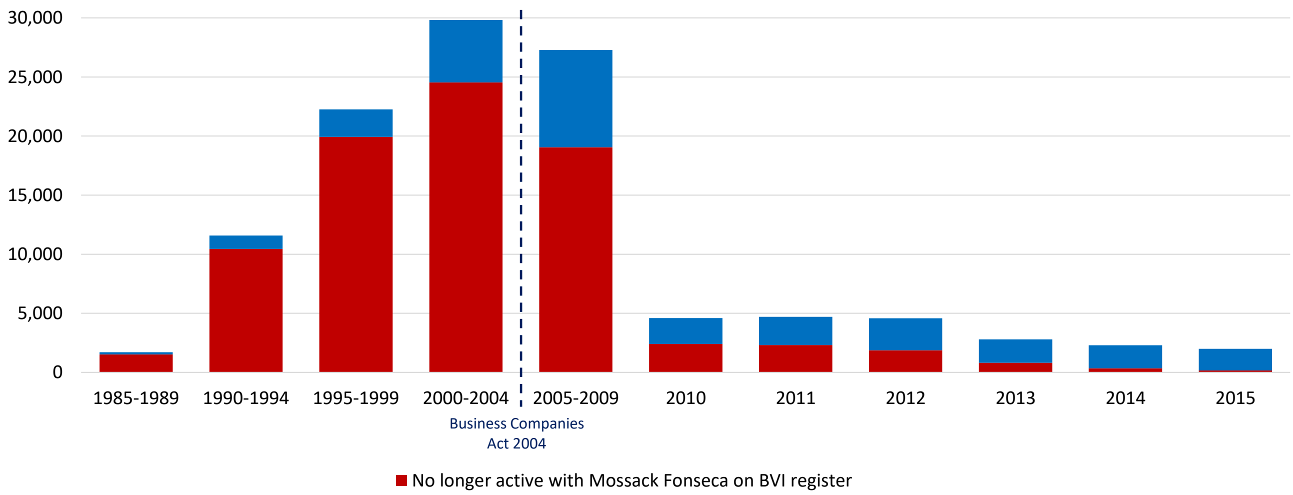
Looking further at these 30,000, we are able to ascertain the 'country of association' of each vehicle. Roughly one in three BVI entities listed in the leak is associated with Hong Kong. This is unsurprising, given the well-known use of BVI structures in Asia. (See Figure 85.)

Figure 83: Status allocated to companies incorporated in the BVI by Mossack Fonseca as provided by the International Consortium of Investigative Journalists

Status	Number of BVI Business Companies recorded in the 'Panama Papers'
"Active"	30,207
"Changed agent" (could be active, but not known)	10,968
"Defaulted", "inactivated" or "discontinued"	59,078
"Dissolved" or "dissolved shelf company"	10,190
"Resigned as agent"	1,327
"Shelf company" or "Shelf company not possible to sell"	683
Other*	1,195
Total	**113,648**

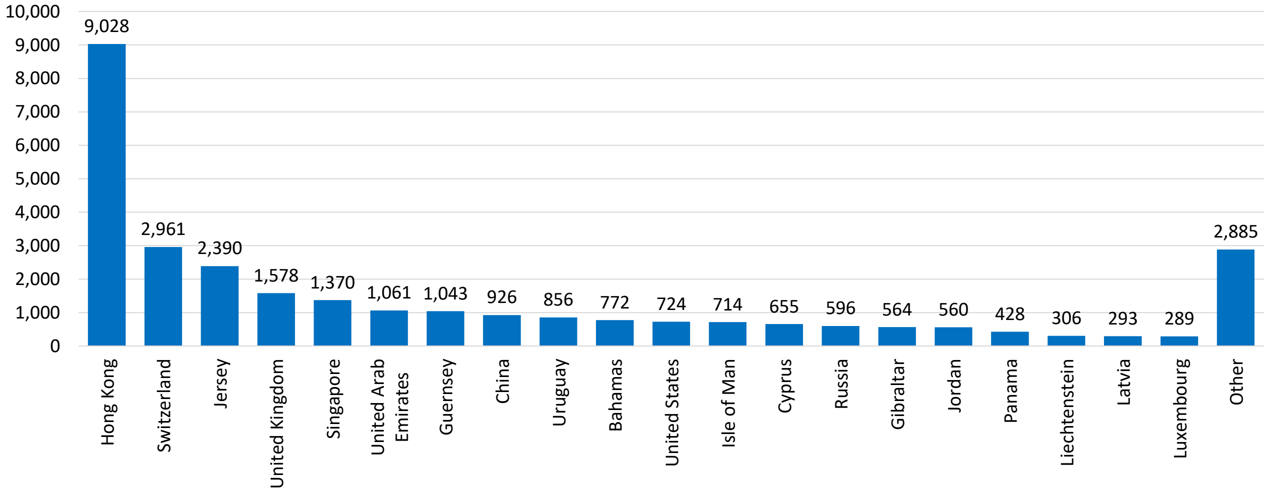
Sources: International Consortium of Investigative Journalists, ICIJ Offshore leaks database. *Note: Other includes one company which was not allocated a status and companies who were given the following statuses: "in transition", "bad debt account", "change in administration pending", "in liquidation", "relocated in new jurisdiction", or "trash company".

Figure 84: Number of entities in Panama Papers database which were registered in the BVI by year of incorporation



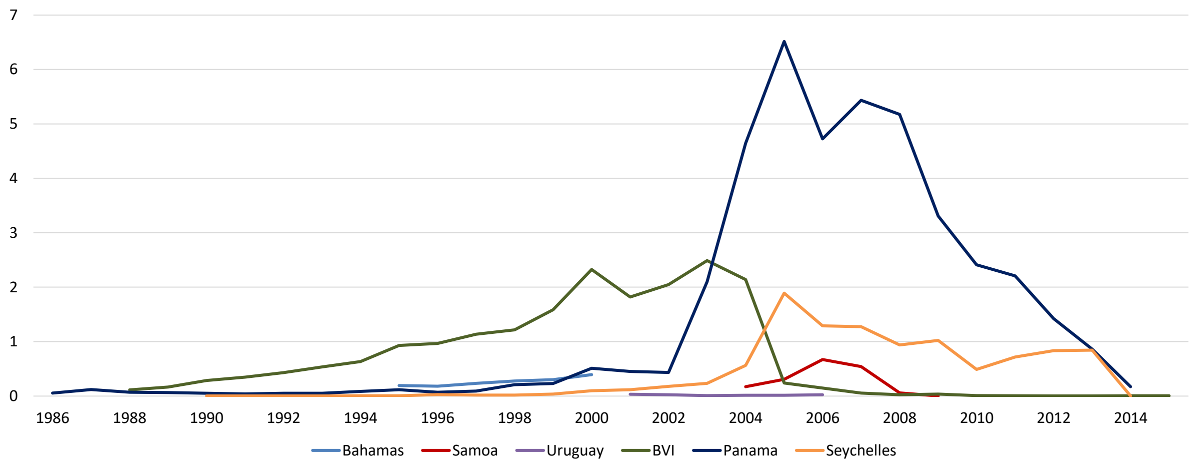
Sources: Capital Economics and International Consortium of Investigative Journalists

Figure 85: Total number of active entities in Panama Papers database registered in the BVI by country of association



Sources: Capital Economics and International Consortium of Investigative Journalists. Note: There were an additional 207 firms registered in BVI but not associated with a country.

Figure 86: Companies in Panama Papers database identified to have bearer shares by International Consortium of Investigative Journalists by country and over time, thousands



Source: International Consortium of Investigative Journalists. Note: The International Consortium of Investigative Journalists present these data in an interactive tool. We present data that were visible through their tool. The International Consortium of Investigative Journalists chart Niue, British Anguilla and Belize in its rendition of this chart. We do not as the underlying data was not visible using the interactive tool for these countries. Their chart is available here: https://panamapapers.icij.org/graphs/ , accessed 17 March 2017.

The Panama Papers do, though, shine some light on one area where BVI company law has received (unjustified) criticism. The BVI allows for bearer shares albeit under strict criteria and only if they are held by a licenced custodian which is approved by the BVI Financial Services Commission. The bearer share is only valid if the custodian has information on the name of the beneficial owner and any other persons with an interest in the share such as by virtue of a charge on the share. There were twelve such licensed custodians by the end of the third quarter of 2016. Publicly available data on the number of companies left with bearer shares is limited. The International Consortium of Investigative Journalists found that, among the companies in the Panama Papers leak, only four companies in the BVI had bearer shares in 2015 – a sharp fall from the peak of around 2,500 companies in the early 2000s. (See Figure 86.)

The world has changed radically over the past two decades and so has the BVI. Those who apply the tax haven label to the territory fail to understand the essential and positive role of tax neutral jurisdictions in the modern globalised economy and are blind to the substantial efforts made by the BVI's authorities (in excess of many large nations) to strike out criminality and ensure transparency.

5 THE BVI'S INTERNATIONAL BUSINESS AND FINANCE CENTRE

In this section, we review the activities of the BVI's international business and finance centre and measure the economic impact of the centre on the territory.

The BVI is home to a unique cluster of financial and professional services firms that form an 'international business and finance centre'. This cluster includes corporate service providers, professional services firms – especially legal, insolvency and accountancy practices, banks, insurance and reinsurance providers, and specialist government and regulatory authorities.

Corporate service providers and legal firms dominate activity both in terms of employment and output. The work of these practices focuses primarily around the BVI Business Company, supported by specialist insurance, insolvency and accountancy businesses, and a predominantly domestic banking sector.

The BVI's strong reputation as an international business and finance centre is reinforced by its first class regulator. The sector is further supported by dedicated government and quasi-government departments responsible for promoting the territory's' local industry in line with international regulations and standards.

The centre directly employs 2,200 people and supports a further 3,000 jobs. It accounts for roughly one-third of its output and over three-fifths of government revenues. Over two-thirds of all jobs in the centre are held by BVIslanders and Belongers.

Although the BVI is a small territory, it is part of larger global networks. Many businesses operating within the jurisdiction's centre are part of multinational groups and networks with offices around the world.

5.1 An 'international business and finance centre'

The BVI provides legal structures through which companies, institutions and individuals across the world carry out cross-border trade and investment. In Road Town, a cluster of firms – local, regional and global – has developed to help service the needs of those looking to carry out cross-border trade and investment and want the comfort of the jurisdiction's well-regarded company law.

Combined with various government and quasi-government departments, this cluster is the BVI's 'international business and finance centre'.

Figure 87: The BVI's international business and finance centre key figures by sub-sector, 2016

BVI international business and finance centre key figures by sector	Employment (persons)	Gross value added (US$ million)	Tax paid (US$ million)
Corporate service providers	890	95	190
Professional services			
Legal	535	129	10
Insolvency	70	17	1
Accounting	146	23	2
Insurance	106	16	2
Banks	273	34	5
Regulation and support	205	13	2
Total	**2,225**	**326**	**211**

Sources: Capital Economics' survey 2016/17, BVI Central Statistics Office, BVI Financial Services Implementation Unit and BVI Ministry of Finance

Figure 88: Breakdown of the BVI's international business and finance centre jobs by nationality, 2016

	Number of jobs			Share	
	Total jobs	BVIslander and Belonger	Work Permit	BVIslander	Work Permit
Total	**2,225**	**1,523**	**701**	**68%**	**32%**
Corporate service providers	890	674	216	76%	24%
Professional services					
Legal	535	257	277	48%	52%
Insolvency	70	23	47	32%	68%
Accounting	146	58	88	39%	61%
Insurance	106	63	43	59%	41%
Banks	273	255	18	93%	7%
Regulation and support	205	195	10	95%	5%

Sources: Capital Economics' survey 2016/17 and BVI Financial Services Implementation Unit

The cluster includes:

- Corporate service providers
- Professional services firms, especially legal, insolvency and accountancy practices
- Banks
- Insurance and reinsurance providers
- Specialist government and regulatory authorities

The BVI's international business and finance centre directly employs over 2,000 people; over two-thirds of these jobs are held by BVIslanders and Belongers. It contributes more than US$300 million in gross value added and over US$200 million in taxes paid. (See Figure 87 and Figure 88.)

Given the focus on incorporations and company law, the types of firm and the services provided by the BVI cluster is different to those found in many other international finance centres.

5.2 Corporate service providers

Corporate service providers establish and administer BVI Business Companies and trusts on behalf of clients from around the globe, and offer associated services.[49] With 110 authorised firms or 'registered agents', the sector employed 890 people, contributed US$95 million in gross value added, and paid US$190 million in taxes in 2016.[50]

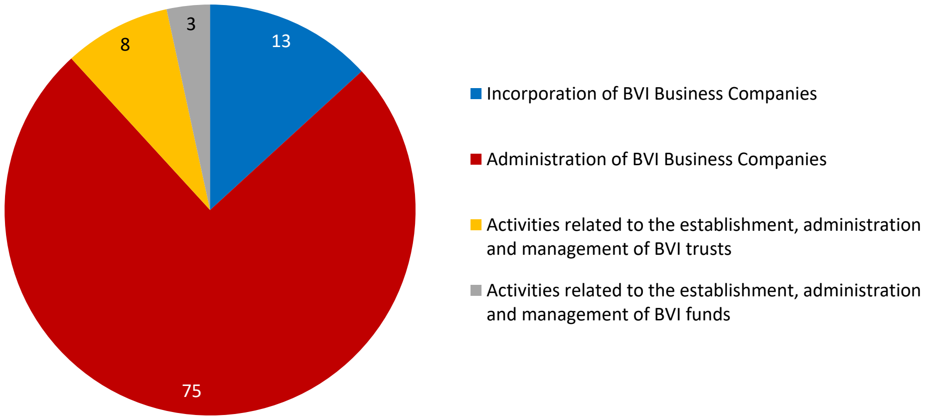
They deliver a wide array of services, including:

- **Corporate services,** including the incorporation and administration of BVI Business Companies
- **Directorships** and related services to ensure good governance of BVI Business Companies
- **Fiduciary services,** including the establishment, administration and management of trusts
- **Fund services,** including the establishment, administration and management of funds
- **Ship and aircraft services**, including the registration of vessels under the Virgin Islands Shipping Registry

In 2016, 88 per cent of their revenues came from work directly related to the incorporation and administration of BVI Business Companies. (See Figure 89.)

[49] Corporate service providers may be known as 'registered agents', 'trust companies, 'company service providers', 'company incorporation providers' and 'trust or company service providers' – although the various terms are not completely interchangeable.
[50] BVI Financial Services Commission, *List of regulated entities: registered agents* (BVI FSC, Road Town), as at 17 January 2017.

Figure 89: Share of BVI corporate service provider revenues derived from various services, 2016, per cent



Source: Capital Economics' survey 2016/17

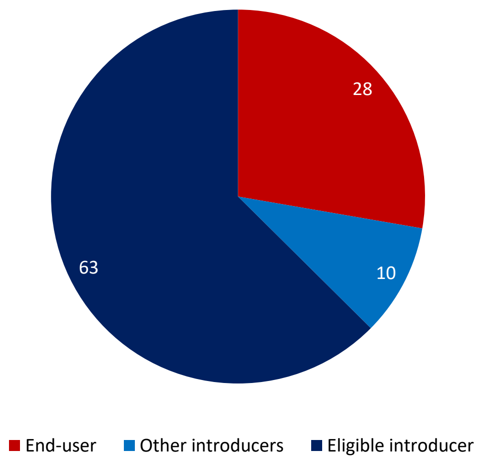
Corporate service providers may be engaged directly by a client wanting to incorporate a vehicle in the BVI – so-called 'end-users'. Alternatively, they can be engaged by intermediaries and agents for the end-users; over 70 per cent of business has come via these 'introducers'. (See Figure 90.)

Introducers range from the major corporate 'magic-circle' law firms and large multinational accountancy groups through financial advisors and private wealth managers to smaller independent legal firms and practices. Some may be firms in the same group or global network as the BVI corporate service provider itself.

Incorporations can only be carried out by a corporate service provider authorised by the BVI Financial Services Commission and present in the islands. These 'registered agents' have a legal obligation to uphold the islands' anti-money laundering, transparency and other governance rules – and to capture accurate information relating to ultimate beneficial ownership. In many cases, the 'due diligence' work on clients will be conducted by the registered agents themselves. In addition, to streamline the application process, while maintaining good standards of oversight, they may accept business from 'eligible introducers' abroad who have already carried out the due diligence work to an agreed equivalent standard. Recent enhancements to the anti-money laundering regime require beneficial ownership information to be held in the BVI and kept up to date by registered agents in the BVI regardless of whether referred from an eligible introducer.

The eligible introducer model is especially helpful to the large multinational professional services groups – who are able to concentrate their due diligence activities in one global centre in order to deliver higher standards of research, scrutiny and risk management. Five global corporate service providers, with operations in the BVI, account for around three-quarters of all BVI Business Companies established after referral from an eligible introducer.[51]

Figure 90: Breakdown of source of business for corporate service providers, 2016, per cent



Source: Capital Economics' survey 2016/17

In addition to services related to the incorporation and administration of BVI Business Companies, corporate service providers offer services for the BVI funds industry. These services cover a wide array of functions, including:

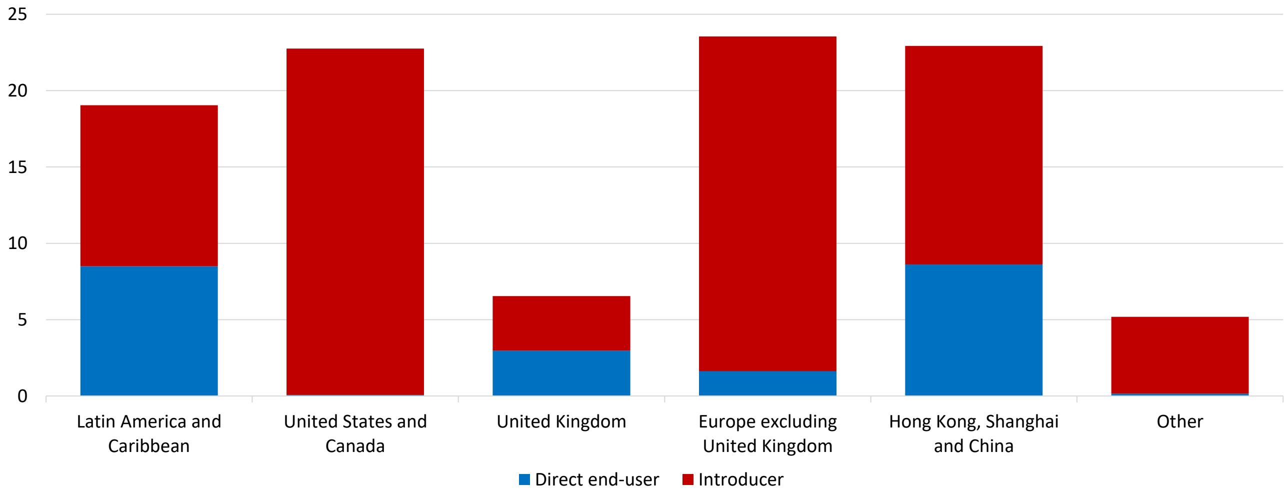
- Investment management
- Fund administration
- Fund custodian
- Fund auditor
- Authorised representative
- Fund directorship

Corporate services providers can fill these positions and functions for their clients based on the specific requirements of the fund.

Direct end-user clients and introducers are spread across the globe, with BVI corporate service providers' business coming from large centres such as New York, Miami, Switzerland and Hong Kong. (See Figure 91.)

[51] Source: Capital Economics' survey 2016/17.

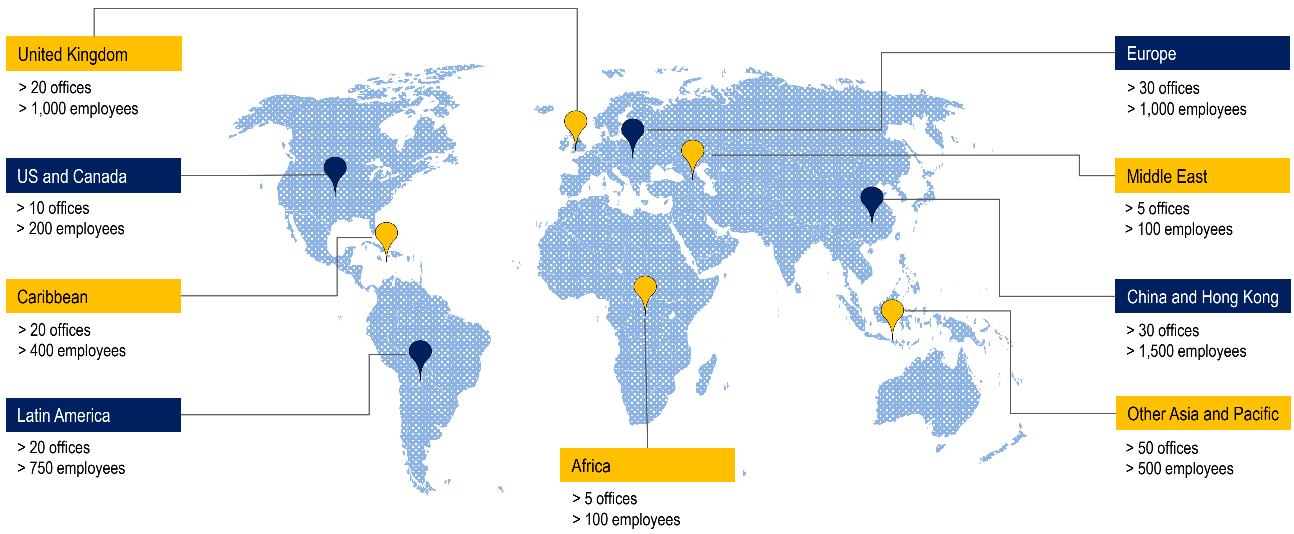
Figure 91: Share of gross revenue from corporate service providers' clients by location and type of client, 2016, per cent



Source: Capital Economics' survey 2016/17

The bulk of incorporations are carried out by corporate service providers that are local subsidiaries or partners of much larger international businesses. BVI corporate service providers are part of groups or networks which, combined, have roughly 200 offices outside the territory and employ over 5,000 people globally. (See Figure 92.)

Figure 92: Global network of corporate service providers located and operating in the BVI



Source: Individual company survey responses and websites

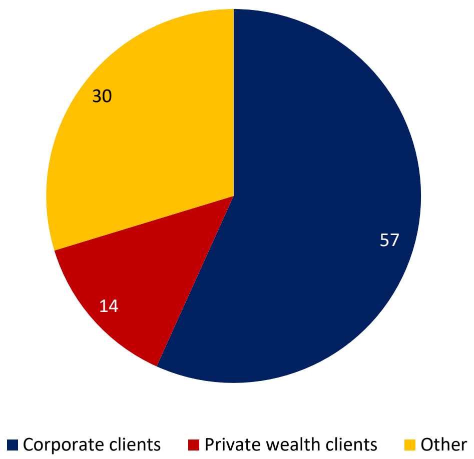
5.3 Professional services

Professional services in the international business and finance centre include:

- Legal
- Insolvency
- Accounting

There are 35 legal firms operating in the territory, along with fourteen companies with regulated insolvency practitioners and eleven accounting firms. In 2016, these businesses employed over 750 people, contributed US$168 million in gross value added and paid US$13 million in taxes.

Figure 93: Share of revenue for BVI professional services sector by type of client, 2016, per cent



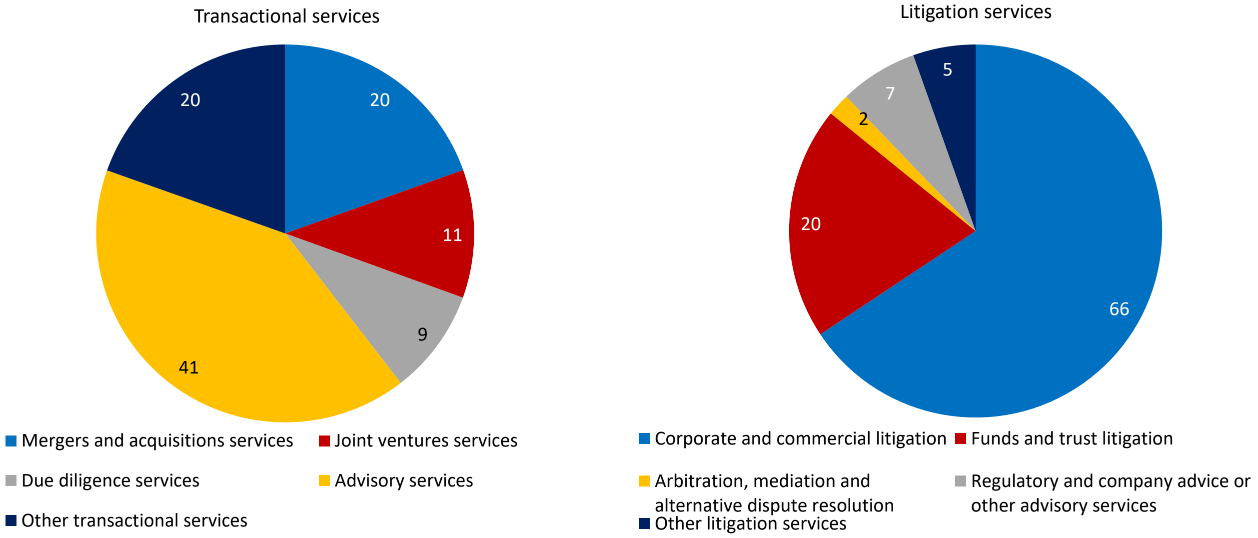
Source: Capital Economics' survey 2016/17

Legal, insolvency and accounting service providers in the BVI derive the majority of their revenues from corporate clients. (See Figure 93.)

Legal services firms employed 535 people and contributed US$129 million in gross value added. Around two-thirds of their revenues derived from litigation and dispute resolution, and a third from legal support to typically cross-border commercial transactions and activity. (See Figure 94.)

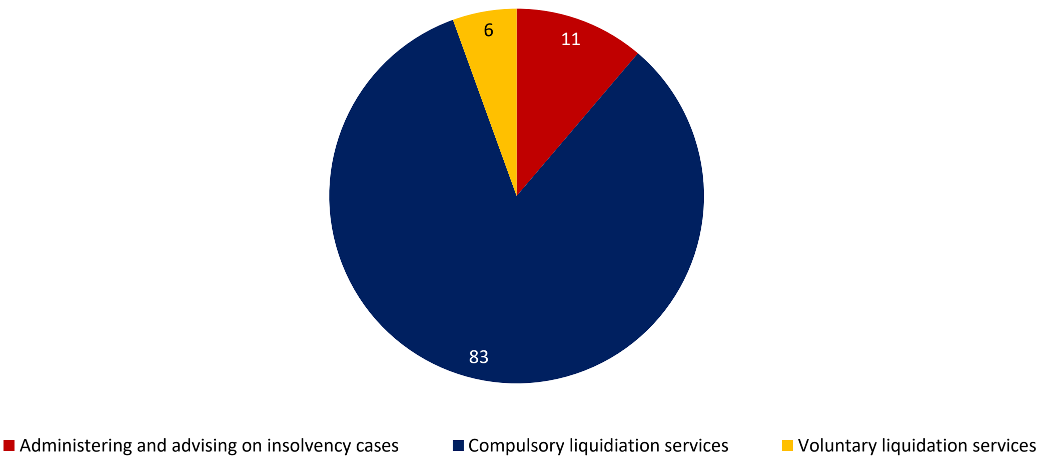
The activities of both specialist insolvency firms and multidisciplinary practices provided 70 jobs and gross value added of US$17 million. Insolvency services are provided by licensed individuals, who are authorised and regulated by the BVI Financial Services Commission under the *Insolvency Act, 2003.* These 'insolvency practitioners', who may act in relation to an insolvent individual, partnership or company, are mostly accountants or insolvency specialists working in firms of accountants.

Figure 94: Share of revenue derived by type of transactional and legal and dispute resolution services in the BVI, 2016, per cent



Source: Capital Economics' survey 2016/17

Figure 95: Share of revenue derived by type of insolvency service, 2016, per cent



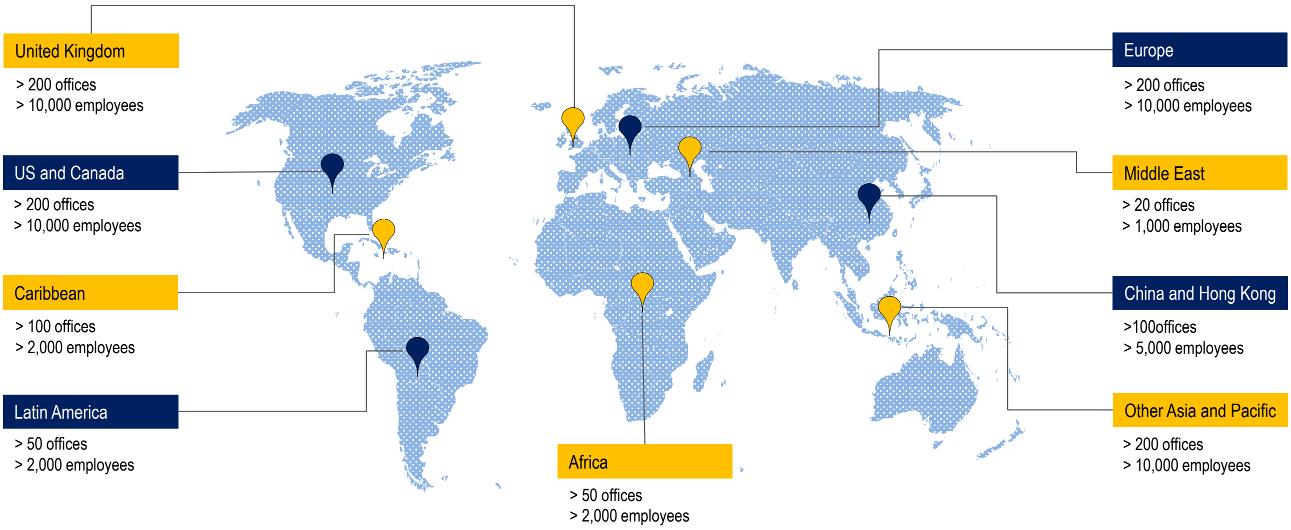
Source: Capital Economics' survey 2016/17

Insolvency practitioners in the BVI undertake a variety of services, including administering and advising on insolvency cases, compulsory liquidation services, voluntary liquidation services and company dissolution services. The largest share of revenues for these practitioners originates from work related to compulsory liquidation. (See Figure 95.)

Accounting and bookkeeping practices employed 146 people and contributed US$23 million (excluding any contribution from insolvency services) in gross value added. Accounting businesses in the territory offer services ranging from audit and book keeping services to advisory services on issues such as mergers and acquisitions, private equity and public company, and debt and capital. Over half of revenue of accountancy firms in the BVI comes from audit services. Accountancy firms in the BVI provide services for the corporate service providers and other businesses in the territory, including the government. Nearly two-thirds of accountancy firms' revenue comes from corporate service providers and fund companies located in Latin America and the Caribbean.

Professional services firms in the BVI are predominantly part of much larger multinational groups or networks. Together, they are part of groups or networks with over 1,000 offices outside the territory, which employ over 30,000 people globally. (See Figure 96.)

Figure 96: Global network of professional service providers located and operating in the BVI



Source: Individual company survey responses and websites

5.4 Banking

Unlike other international finance centres such as Switzerland or Jersey, the BVI has a relatively small banking sector which is focused primarily on domestic customers (although these include the corporate service providers and professional services businesses located there).

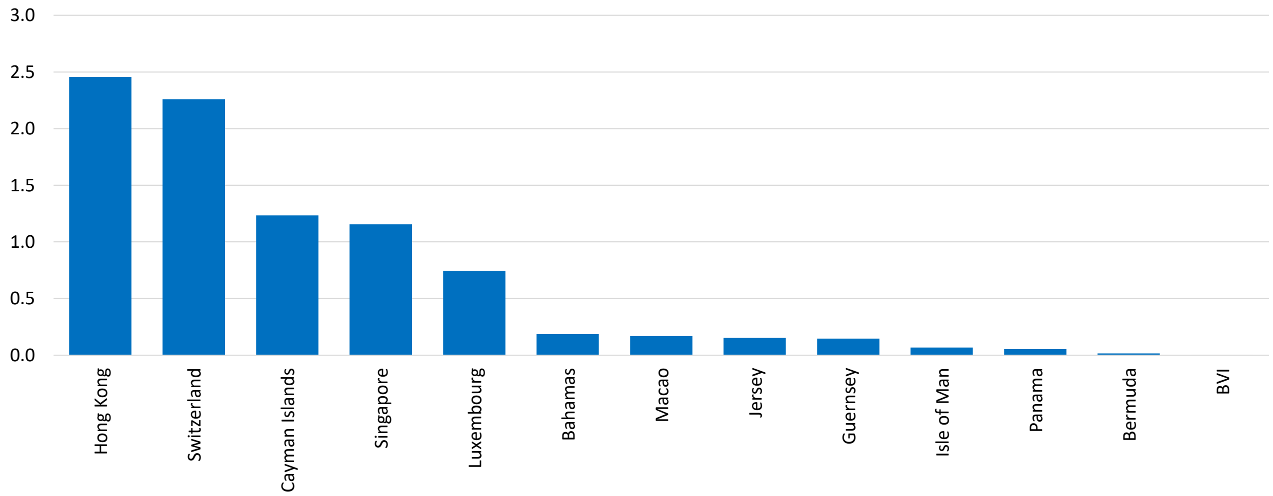
The banking sector in the BVI employs 270 people, contributed US$34 million in gross value added, and paid US$5 million in taxes in 2016. The six deposit-taking licences currently issued by the regulatory authority, the BVI Financial Services Commission, are majority held by branches and subsidiaries of foreign banks.[52]

The size of the banking sector is demonstrated by data produced by the Bank for International Settlements revealing the BVI's external position is significantly smaller than those of other international financial centres. (See Figure 97.)

The BVI banking system has US$2.4 billion in assets as of September 2015. Banking services are largely limited to deposit taking and direct lending.

According to regulatory submissions, US$1.8 billion of deposits were held by BVI regulated banks as of September 2015; roughly 65 per cent of these deposits were from domestic sources.[53]

Figure 97: Total liabilities outstanding of selected international financial centre jurisdictions, December 2015, US$ trillion



Sources: Capital Economics, BVI Financial Services Commission and Bank for International Settlements. Note: BVI data as of September 2015

[52] Of the six banks, five offer retail banking services while one provides financial and private banking only.
[53] BVI Financial Services Commission, *Commercial Banks Banking Indicators* (BVI Central Statistics Office, Road Town), September 2015

Figure 98: Capital Economics' estimate of the consolidated liabilities of BVI banks allocated to the country of residence of the underlying economic interest, 2015, US$ million

US$ million, 2015	Liabilities					
	Customer deposits	As a share	Interbank deposits, debt and other liabilities	As a share	Total liabilities	As a share
BVI	1,503	94.0%	577	71.1%	2,081	86.3%
Caribbean and Latin America	16	1.0%	197	24.2%	213	8.8%
United States and Canada	9	0.5%	-	0.0%	9	0.4%
Europe (including United Kingdom, Switzerland and Russia)	-	0.0%	-	0.0%	-	0.0%
China and all other Asia and Pacific	-	0.0%	-	0.0%	-	0.0%
Rest of world	72	4.5%	38	4.7%	110	4.6%
Total	**1,600**	**100.0%**	**812**	**100.0%**	**2,412**	**100.0%**

Source: Capital Economics' survey 2016/17

We have used our survey and interviews to try and disentangle this further, and determine the country of residence of the underlying economic interest in the deposits in BVI banks. We find that the sources of deposits in the BVI are predominantly domestic. Roughly 94 per cent of banks' customer deposits are likely to have derived from the local population. A further 1½ per cent of deposits have ultimate beneficial owners in the Caribbean, Latin America, the United States and Canada. The remaining US$72 million are deposits from the customers from the rest of the world. BVI banks are not home to foreign cash.

Customer deposits are not the only source of funding for banks. They accounted for around 66 per cent of the funding of the BVI's banking balance sheet in 2015. The remaining US$812 million of other liabilities include around US$189 million of interbank deposits and US$623 million of issued debt, shareholder's equity and other instruments. (See Figure 98.)

BVI banks' assets include US$919 million of outstanding loans to customers, of which 97 per cent were for domestic customers. In addition to banks' domestic lending, much of the funding collected by banks is 'up-streamed' to their parents' operations – the majority of which are in the Caribbean and Latin America. Roughly US$1.6 billion, or one quarter of BVI liquidity, is utilised by parent banks to support their balance sheets. The BVI is not only providing liquidity to its neighbouring economies, but it is providing this liquidity in United States dollars. (See Figure 99.)

Figure 99: Capital Economics' estimate of the consolidated assets of BVI banks allocated to the country of residence of the underlying economic interest, 2015, US$ million

US$ million, 2015	Assets						
	Customer loans	As a share	Up-streaming	As a share	Other assets	Total	As a share
BVI	888	96.6%	44	7.1%	866	1,798	74.6%
Caribbean and Latin America	1	0.1%	577	92.9%	5	583	24.2%
United States and Canada	25	2.7%	-	0.0%	-	25	1.0%
Europe (including United Kingdom, Switzerland and Russia)	-	0.0%	-	0.0%	-	-	0.0%
China and all other Asia and Pacific	-	0.0%	-	0.0%	-	-	0.0%
Rest of world	5	0.6%	-	0.0%	0	6	0.2%
Total	919	100.0%	621	100.0%	872	2,412	100.0%

Source: Capital Economics' survey 2016/17

5.5 Insurance

The BVI is home to a number of insurance companies. In 2016, the insurance sector in the BVI employed 106 people, contributed US$16 million in gross value added, and paid US$2 million in taxes.

The territory's regulator reported that there are over 170 entities licensed to carry on insurance business in or from within the BVI.[54] These businesses provides a variety of service including insurance, reinsurance, advisory and insurance management.

The majority of insurers' licences in the BVI are provided for captives. The captive insurance industry is supported by 40 insurance functionaries, including insurance agents, brokers, managers and loss adjusters. Captive insurance services dominate the sector, in terms of the number of firms as well as in revenues generated by the insurance sector in the territory. (See Figure 100 and Figure 101.)

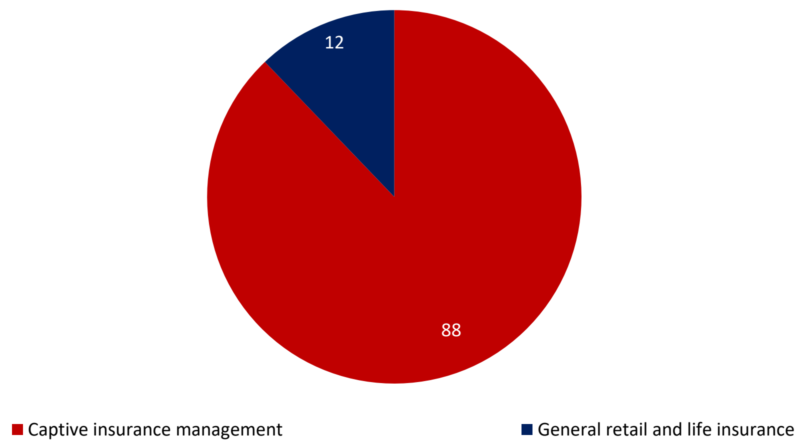
[54] BVI Financial Services Commission, *Statistical Bulletin – Q3 2016* (BVI FSC, Road Town) 18 January 2017.

Figure 100: Insurance companies and intermediaries licenses granted, cumulative as at 31 December 2016

Insurers	Number of licenses
Captives	137
Domestic	39
Total	**176**
Functionaries	Number of licenses
Agents	18
Brokers	4
Managers	14
Loss adjusters	4
Total	**40**

Source: BVI Financial Services Commission

Figure 101: Share of BVI insurance services' revenue derived by type of insurance service, 2016, per cent

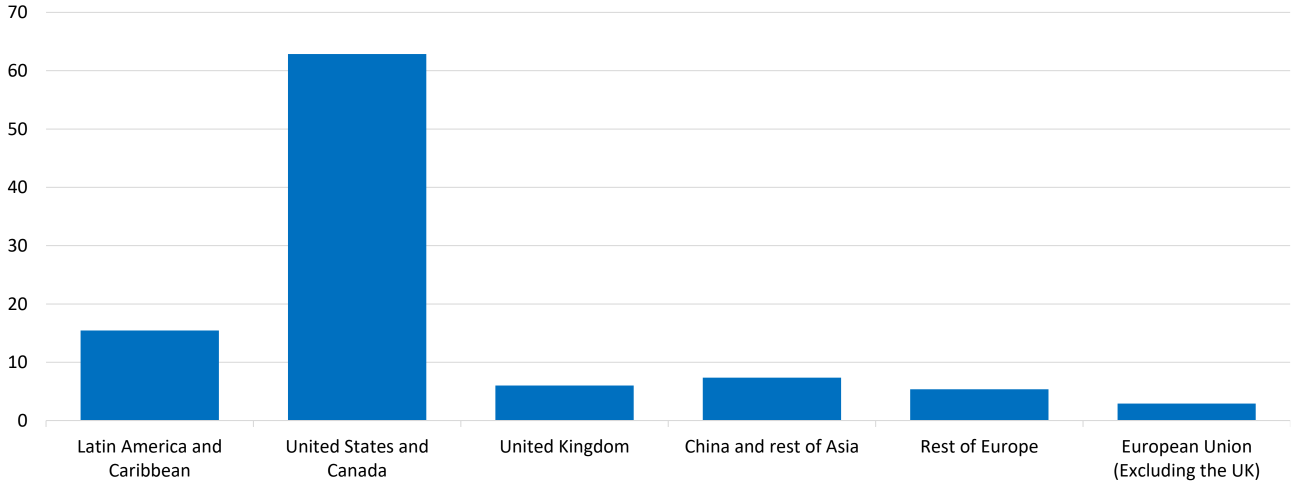


Source: Capital Economics' survey 2016/17

The BVI overhauled its insurance regime in 2010 in order to modernise its regulatory framework and ensure that the jurisdiction continued to meet the core principles of the international insurance regulatory community. The primary legislation for the insurance market in the BVI are the *Financial Services Commission Act, 2001*, the *Insurance Act, 2008* the *Insurance Regulations, 2009* and the *Regulatory code, 2009*. Further amendments have been introduced in 2016 with the *Insurance (Amendment) Act, 2015* and the *Insurance (Amendment) Regulations* which introduced new business features and enhanced regulation of the industry. There are various categories of insurance licence available under the legislations, with clear distinctions drawn between domestic and non-domestic business.

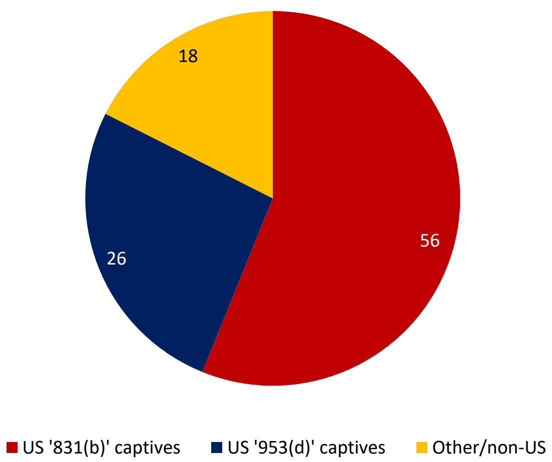
A captive insurance company is created and wholly owned by one or more non-insurance companies to insure the risks of its owner or owners. Roughly two-thirds of all clients of insurance service providers in the BVI are located in the United States and Canada. As such, much of the legislation surrounding these captives relates to American codes. The United States Internal Revenue Service specifies two categories of captives: 831(b) captive; and 953(d) captive. The 831(b) captives can hold up to US$1.2 million annual premium while 953(d) captives must hold over US$1.2 million annual premium. The majority of BVI captives are of lower value, with an average underlying value of US$500,000. (See Figure 102 and Figure 103.)

Figure 102: Share of all clients using insurance services in the BVI by location of client, 2016, per cent



Source: Capital Economics' survey 2016/17

Figure 103: Share of registered captives managed in the BVI by type of captive, 2016, per cent



Source: Capital Economics' survey 2016/17

5.6 BVI Financial Services Commission and other regulatory and support agencies

In addition to the firms providing services to global clients, the success of the international business and finance centre depends on solid and robust regulation and support from the public sector.

The activities of the BVI's international business and finance centre are regulated by the BVI Financial Services Commission. The BVI Financial Services Commission was established in December 2001, pursuant to the *Financial Services Commission Act, 2001*. It is an autonomous regulatory authority responsible for the regulation, supervision and inspection of all financial services in and from within the BVI. Its reach covers the following services: insurance; banking; fiduciary services; company management; mutual funds and registration of companies; and limited partnerships. The commission implements international standards as they evolve and actively shares information with overseas regulatory authorities to keep the BVI at the forefront of international regulation and standards. They have implemented a wide array of anti-money laundering and terrorist financing legislation, responding efficiently and constructively to international developments seeking to improve transparency and clamp down on criminality, including tax evasion.

There are four other organisations in the territory that focus solely on the international business and finance centre of the BVI. These include:

- **BVI Finance Limited.** Established in 2002 and originally named BVI International Finance, BVI Finance Limited is the voice of the territory's international business and finance centre. It is a marketing organisation funded by the BVI government and members of the local industry. As well as working with industry to assist product development and innovation, BVI Finance Limited helps to promote and project the territory's international business and finance centre through attendance at conferences and trade events, and by partnering with local and international practitioners, media outlets and investors in emerging and traditional markets.[55]
- **BVI Financial Services Implementation Unit (BVI FSIU).** The Financial Services Implementation United comprises a dedicated team of professionals who work with relevant ministries and agencies to deliver a variety of initiatives aimed at building a stronger and more sustainable industry. These initiatives were proposed based on a large scale industry assessment with consultation by McKinsey & Company.[56]
- **BVI International Tax Authority (BVI ITA).** The BVI International Tax Authority is a government organisation established to take a proactive stance in relation to all cross-

[55] BVI Finance Limited, *About us*, http://bvifinance.vg/language/en-GB/About-Us/Who-We-Are (accessed 6 February 2017).

[56] McKinsey & Company, Building on a thriving & sustainable Financial Services sector in the British Virgin Islands (McKinsey & Company, London) December 2014.

border tax matters potentially involving the territory. It is dedicated to ensuring international co-operation on tax matters, including the negotiation of tax information exchange agreements. Initially established within the BVI Ministry of Finance, a bill has been introduced in January 2017 to establish the organisational as an independent statutory body.[57]

- **BVI Financial Investigation Agency (BVI FIA).** The BVI Financial Investigation Agency was established through the *Financial Investigation Agency Act, 2003*, which came into force on 1 April 2004. It is an autonomous law enforcement agency responsible for the investigation of white collar and other serious financial crimes taking place from within the territory. The aim of the agency is to combat money laundering, terrorist financing and other financial and financial-related crimes as well as ensuring international co-operation in the investigation and prosecution of such crimes.[58]

The regulator and support services sector in the BVI employ 205 people, contributed US$13 million in gross value added, and paid US$2 million in taxes in 2016.

5.7 Economic impact on the BVI

The BVI's international business and finance centre is an integral part of the territory's economy, and the benefits of the centre reach far beyond its direct footprint.

The sector has further tangible impacts on the BVI's economy, effecting the livelihood of the territory through so-called 'indirect' and 'induced' economy activity.

Indirect impacts derive from financial services businesses' spending their revenues on local suppliers in the territory. Induced impacts derive from employees in the sector spending their wages in the local economy. Average earnings for employees in the international business and finance centre are higher than that of other sectors in the territory. These employees help to fuel the economy through their consumption of local goods, including significant rental income for property owners in the jurisdiction.[59]

Including the indirect and induced effects of the BVI's international business and finance centre, the sector supports over 5,000 jobs, equivalent to 27 per cent of all employment in the territory. The centre is responsible for nearly three-fifths of total output in the territory. (See Figure 104 and Figure 105.)

57 Ayana Hull, *BVI Government Introduces Bill to Establish the ITA as a Statutory Body* (Harneys, Road Town), 13 January 2017
58 British Virgin Islands Financial Investigation Agency, *About us*, http://fiabvi.vg/About-Us, 6 February 2017.
59 McKinsey & Company, *Building on a thriving & sustainable Financial Services sector in the British Virgin Islands* (McKinsey & Company, London) December 2014

Figure 104: The BVI's international business and finance centre employment total impact, 2016, persons

BVI international business and finance centre employment impact, total persons				
	Direct employment	Indirect employment	Induced employment	Total employment
Corporate service providers	890	342	939	2,171
Legal	535	213	374	1,121
Insolvency	70	28	49	147
Accounting	146	57	164	367
Insurance	106	38	104	248
Banks	273	100	197	569
BVI Financial Services Commission	163	61	121	344
Other regulation and support	42	16	31	89
Total	**2,225**	**853**	**1,979**	**5,056**
Share of total employment	**11.7%**	**4.5%**	**10.4%**	**26.7%**

Sources: Capital Economics' survey 2016/17, BVI Financial Services Commission and BVI Financial Services Implementation Unit

Figure 105: The BVI's international business and finance centre gross value added impact, 2016, US$ million

BVI international business and finance centre gross value added impact, US$ million				
	Direct GVA	Indirect GVA	Induced GVA	Total GVA
Corporate service providers	95	17	47	159
Legal	129	35	61	225
Insolvency	17	5	8	29
Accounting	23	3	8	33
Insurance	16	2	5	22
Banks	34	6	11	51
BVI Financial Services Commission	12	2	4	18
Other regulation and support	1	0	0	2
Total	**326**	**69**	**144**	**539**
Share of total gross value added	**34.0%**	**7.2%**	**15.1%**	**56.3%**

Sources: Capital Economics' survey 2016/17, BVI Financial Services Commission and BVI Central Statistics Office

At 56 per cent of all government revenues, the fees paid by the international business and finance centre, and its clients, are significant. The largest contribution, 90 per cent, comes from fees from corporate service providers. Including employment taxes and social security contributions, the centre contributed US$211 million to the territory's public coffers. Together with the indirect and induced effects of this tax take, the centre provides US$296 million, equivalent to 31 per cent of the BVI's gross value added and 89 per cent of all government revenue collected in 2016. (See Figure 106 and Figure 107.)

Figure 106: Breakdown of total tax contribution by the BVI's international business and finance centre by sub-sector, 2016, US$ million

	Government fees	Employment taxes	Social Security Contributions	Total tax	Share of total tax contribution
Corporate service providers	181.1	6.1	2.5	189.7	90%
Legal	0.0	8.2	1.8	10.0	5%
Insolvency	0.1	0.9	0.2	1.2	1%
Accounting	0.0	1.4	0.5	1.9	1%
Insurance	0.6	0.8	0.3	1.7	1%
Banks	2.0	1.8	0.7	4.5	2%
BVI Financial Services Commission	0.0	1.4	0.5	2.0	1%
Other regulation and support	0.0	0.1	0.1	0.2	0%
Total paid to the government	**183.8**	**20.7**	**6.6**	**211.2**	**100%**

Sources: Capital Economics' survey 2016/17, BVI Financial Services Commission, BVI Central Statistics Office and BVI Ministry of Finance
Note: Numbers exclude the amount of fees retained by the BVI Financial Services Commission to cover their operating costs.

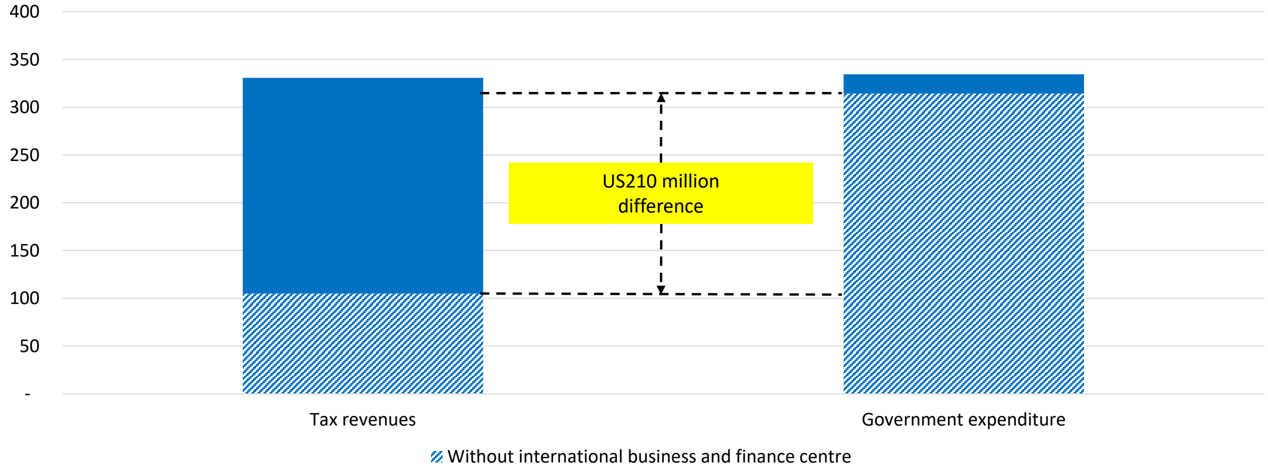
Figure 107: The BVI's international business and finance centre total fiscal impact, 2016, US$ million

BVI international business and finance centre fiscal impact, US$ million			
	Tax take	Economic impact	Total fiscal impact
Corporate services	190	76	266
Legal	10	4	14
Insolvency	1	0	2
Accounting	2	1	3
Insurance	2	1	2
Banks	5	2	6
BVI Financial Services Commission	2	1	3
Other regulation and support	0	0	0
Total	**211**	**84**	**296**
Share of total government revenue	**63.8%**	**25.5%**	**89.4%**
Share of total gross value added	**22.0%**	**8.8%**	**30.9%**

Sources: Capital Economics' survey 2016/17, BVI Financial Services Commission, BVI Central Statistics Office and BVI Ministry of Finance

The international business and finance centre in the BVI benefits tax revenues by far more than it increases public spending. If the centre did not exist, some expatriate employees would not live in the BVI, and the government would not receive fees from the centre. Without the centre government revenues would fall from US$330 million to US$105 million, a drop of 68 per cent. Yet government expenditure would remain relatively unaffected, as public services need to be provided regardless for the rest of the territory's community. Government spending on the international business and finance centre is small, at US$20 million, therefore the government would have a shortfall of roughly US$210 million without the international business and finance centre. (See Figure 108.)

Figure 108: Total BVI government revenue and expenditure, including and excluding the contribution from the international business and financial centre community, 2016, US$ million



Sources: Capital Economics and BVI Ministry of Finance

6 THE BVI'S GLOBAL IMPACT

In this section, we pull together the analysis in this report and consider the overall impact of the BVI on global prosperity.

BVI businesses directly employ people from most countries in the region – as well as supporting around 12,000 jobs in the United States through its imports.

Our indicative analysis indicates that the US$1½ trillion of investment mediated by the BVI supports around 2.2 million jobs worldwide, with China (including Hong Kong) accounting for nearly two-fifths of them – and one-fifth in Europe.

The scale of the BVI's global contribution to investment and jobs sheds a new light on the debate around its impact on the tax receipts of other nations. The economic activity and incomes generated by 2.2 million jobs worldwide will likely contribute over US$15 billion annually to government coffers worldwide. Even taking into account the maximum tax leakage theoretically achievable through the use of its corporate vehicles, the BVI is a substantial net benefit to governments worldwide.

If the BVI's international business and finance centre did not exist, some (if not much) of the investment mediated through it would likely happen anyway – but either at a higher cost or through jurisdictions with poorer track records on transparency, tax information exchange, anti-money laundering and combating the financing of terrorism.

6.1 The BVI's impact on its neighbours through trade and employment

The businesses operating in and residents of the BVI directly support jobs and incomes across the Caribbean and further afield.

The BVI provides jobs and incomes to people from most countries in the region. Businesses in the islands employ staff from beyond the territory as well as from the local population. (See Section 3.) Most foreign employees are from other countries and territories in the wider-Caribbean region: there were 5,500 such workers in 2014 earning a total of US$100 million, including:

- 1,300 workers from Jamaica
- 1,100 workers from Guyana
- 800 workers from the Dominican Republic
- 700 workers from Saint Vincent and the Grenadines

In addition, 2,900 were employed from nations beyond the region.

Moreover, the BVI's residents and businesses import around US$¾ trillion of goods and services each year. With the bulk sourced from the United States, these imports are likely to be supporting around 12,000 jobs there.

6.2 Impact of investment mediated via BVI Business Companies

The cross-border investment mediated through BVI Business Companies and other BVI vehicles supports economic growth and jobs across the world.

As reported in section 4, we estimate conservatively that BVI Business Companies hold US$1½ trillion of assets. These holdings reflect cross-border investment in the widest variety of physical, corporate and financial assets.

It is all too easy to assume that what appears to be the surreal and remote world of international finance makes no difference to the real lives of employees, voters, families and businesspeople. But these substantial cross-border investments provide the underlying finance that enables real world economic investment in homes, factories, hospitals, railways, broadband, machinery, entrepreneurs, etc. – or they provide the essential liquidity for the secondary markets that underpin and provide confidence in these primary real world investments. (See Section 2.)

To provide context, the US$1½ trillion is equivalent to:

- Six per cent of all sectors' total cross-border liabilities as reported by the Bank of International Settlements[60]
- Two per cent of global gross domestic product[61]
- Two per cent of global portfolio and direct investment[62]

This scale of investment supports material levels of employment across the globe.

It is, of course, impossible to know with any certainty how many jobs result from any specific dollar of investment – but we can make reasonable and cautious estimates of the orders of magnitude involved. By examining official macroeconomic statistics for various economies, we have estimated for different regions of the globe the mathematical relationship between total net wealth and employment, and hence the number of additional jobs associated with each extra

[60] Bank for International Settlements, *Table A2.1 - Cross-border positions, by location of reporting bank and sector of counterparty*(BIS, Switzerland)

[61] World Bank, *World Bank national accounts data* (World Bank, Washington DC). Estimate is for 2015 in current US$

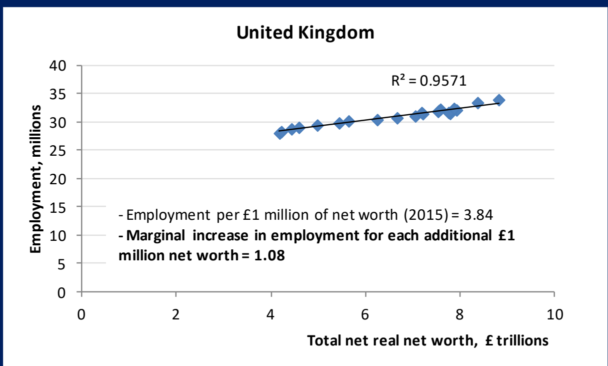
[62] Organisation for Economic Cooperation and Development, *Coordinated Portfolio Investment Survey and Coordinated Direct Investment Survey* (Organisation for Economic Cooperation and Development, Paris). Estimate is for 2015 in current US$

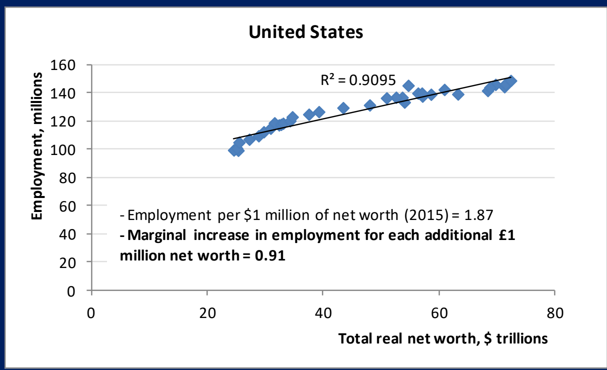
dollar of investment. We then apply these ratios to our estimates for the scale of investment mediated by BVI Business Companies by location of asset to assess jobs supported in each region. (See Box 3.)

Box 3: Estimating jobs related to investment mediated by BVI Business Companies

The investment mediated through BVI Business Companies supports economic activity and employment across the globe. Estimating the number of jobs related to a given value of investment is not an exact science and there are a number of approaches and methodologies that could be deployed to do this. We take what we believe to be a reasonable and cautious approach by basing our jobs estimates on the relationship between total net wealth and employment.

First, we examined the relationship between total net wealth and employment in five major economies where good data are available: the United Kingdom, United States, Euro area, France and Germany. From these relationships we estimated both the average number of jobs per dollar of net wealth (investment) and the marginal impact of an extra dollar of investment, as shown in the charts below. In order to be conservative we use the marginal rate of employment for additional investment rather than the average rate.





Second, we estimated the marginal impact of investment for China and Mexico, where robust data on total wealth are not available. To adjust for the higher rates of investment to employment in the developing world we applied the ratio of gross fixed capital formation per employee between the given country and the average of the United Kingdom, United States, France and Germany to the average marginal impact in the countries for which we do have data.

Third, we applied the relevant marginal impact to the total stock of investment mediated by BVI Business Companies by location of underlying asset from our survey. We use our estimates of the marginal impact of an extra US$1 million in the United States for North America (0.91), the United Kingdom for the United Kingdom (0.88), the Euro area for the rest of Europe (0.87), Mexico for Latin America and the Caribbean (2.87) and China for Hong Kong and China (2.51). For the rest of the world we use a marginal impact of three jobs per US$1 million of investment.

Source: Capital Economics

Overall, our indicative analysis indicates that US$1½ trillion of investment supports around 2.2 million jobs worldwide, with China (including Hong Kong) accounting for nearly two-fifths of them – and one-fifth in Europe. (See Figure 109.)

Figure 109: Investment mediated by BVI Business Companies and employment related to investment, 2015

	Investment mediated by BVI Business Companies by location of underlying asset (US$ billion)	Employment related to investment mediated by BVI Business Companies (thousands)
United Kingdom	169	148
Rest of Europe	327	286
North America	87	79
LATAM including Caribbean	114	328
China and Hong Kong	608	874
Rest of the world	146	439
Total	**1,452**	**2,154**

Source: Capital Economics. Note: In the absence of robust data on the location of underlying assets we have used the location of ultimate beneficial owner as a proxy and adjusted using data on foreign direct investment from the United Nations.

6.3 Impact on global tax receipts

The scale of the BVI's global contribution to investment and jobs sheds new light on the debate around its impact on the tax receipts of other nations.

Figure 110: Economic and fiscal contribution related to investment mediated by BVI Business Companies

	Employment related to investment mediated by BVI Business Companies (thousands)	**Total tax** (US$ billions)	**Income tax** (US$ billions)	**Corporate tax** (US$ billions)
United Kingdom	148	3.9	1.2	0.3
European Union (excluding the UK)	150	4.2	1.3	0.3
Rest of Europe	136	1.9	0.6	0.2
North America	79	1.8	0.9	0.2
LATAM including Caribbean	328	0.9	0.5	0.1
China and Hong Kong	874	2.1	0.6	0.2
Rest of the world	439	1.0	0.3	0.1
Total	**2,154**	**15.7**	**5.5**	**1.5**

Source: Capital Economics

The economic activity and incomes generated by 2.2 million jobs worldwide will likely contribute over US$15 billion annually to government coffers worldwide. The governments of the European Union (including the United Kingdom) are estimated to benefit to the tune of over US$8 billion each year. (See Figure 110.)

It would be churlish to suggest that there is no tax lost from larger nations through the use of offshore vehicles such as those incorporated in the BVI. We have sought to evaluate the potential scale of such 'tax leakage'.

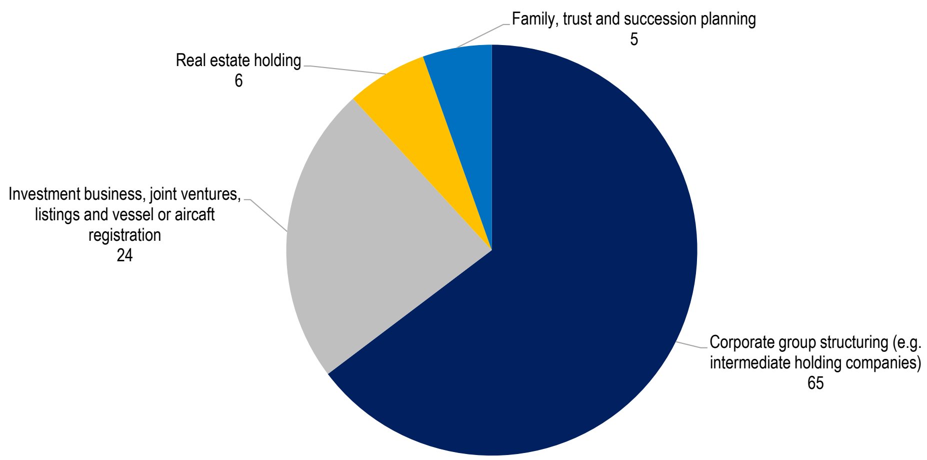
Given the number of tax information exchange agreements already in place, and the deployment of 'know your customer' and 'anti-money laundering' measures that match or exceed those executed among the large nations, there is no reason to believe that the BVI will offer any greater options for the evasion of 'onshore taxes' than are available in the onshore jurisdictions themselves. Indeed, there is every chance that the levels of tax evasion are lower in the BVI.

Moreover, the bulk of the underlying value in BVI Business Companies relates to corporate activity and not private wealth; the levels of transparency, scrutiny and external audit in the modern business environment makes tax evasion increasingly unlikely. (See Figure 111.)

There may be options for tax avoidance through the BVI:

- **Asset transfer taxes.** Some taxes, such as the United Kingdom's property registration tax ('Stamp Duty'), are levied on the transfer of registered ownership of the taxed asset. By placing the asset in a BVI Business Company and selling shares in the vehicles, rather than selling title over the asset, offshore may avoid these taxes
- **Deferment of taxes paid on interest income.** Interest income accruing to capital pooled offshore may not be subject to tax until it is repatriated to the investors' home domiciles. Although tax will be paid then, the user of the offshore vehicle gains some advantage by paying the tax later than would have otherwise been the case onshore

Figure 111: Estimated underlying value of active BVI Business Companies by primary purpose, 2016, per cent



Source: Capital Economics' survey 2016/17

In total, we estimate that the theoretical maximum amount of tax that could be avoided globally each year through these routes is US$¾ billion. To put this in context, the United Kingdom tax authorities estimate their annual 'tax gap' at US$59 billion alone – so any leakage through the BVI is immaterial against other sources of tax loss.[63]

Moreover, our estimate of the theoretical maximum amount of tax avoided assumes that the only and every use of a BVI Business Company is tax avoidance. In reality, we believe the actual number will be a small fraction of this. And, given the number of tax information exchange agreements already in place, and the deployment of 'know your customer' measures that match or exceed those executed among the large nations, 'onshore' governments can review their own tax codes – and remove the potential for any of these potential tax leakages through the BVI, if they were concerned about them. (See Box 4.)

Box 4: Estimating potential tax leakage

We consider two possible routes of tax leakage through the use of BVI Business Companies.

Deferment of taxes paid on interest income. We use the total value of assets held in BVI Business Companies and cautiously assume that all of these will benefit from the deferment of tax payments. Based on our survey we assume that, on average, a BVI Business Company's duration is seven years. Assuming capital growth of one per cent annually and an interest rate of three per cent, we calculate the amount of interest these assets would accrue every year. We also calculate how much tax a company would pay on these earnings every year if they invest their money onshore using a gross domestic product weighted global corporate tax rate of 29.5 per cent. We then find the difference between this annual tax contribution and that which a company or individual would pay on the same assets if they only paid tax when the investment was dispersed. Having done this, we calculate the net present value of the difference in tax payments using an average discount rate of two per cent and divide by the number of years the BVI Business Company would have been active for to come to an estimate of the annual amount of tax lost through such activities.

Asset transfer taxes. We cautiously assume that all real estate holding BVI Business Companies avoid paying a property transaction tax. We estimate the total tax avoided by applying a tax rate of four per cent to the total value of these assets and dividing by the average lifespan of a BVI Business company.

Source: Capital Economics

Bringing together our theoretical maximum estimate of tax avoidance with our conservative calculation of tax benefits provides a clear conclusion: the BVI is a substantial net benefit to governments worldwide. (See Figure 112.)

63 Tax gap estimate for 2014/15 converted into United States dollars. Source: Heather Whicker and Andrea White, *Measuring tax gaps 106 edition: Tax gap estimates for 2014-15* (HM Revenue and Customs, London), 20 October 2016.

Figure 112: Net fiscal impact of activity related to BVI Business Companies, US$ billion

	Tax revenue
Potential tax loss from deferment of tax payments and avoidance of property transaction taxes	-0.75
Tax supported by employment related to investment mediated by BVI Business Companies	15.7
Net impact	**15.0**

Source: Capital Economics

6.4 The impact of a world without the BVI

If the BVI's international business and finance centre did not exist, some (if not much) of the investment mediated through it would likely happen anyway – but there would be adverse consequences.

The US$1½ trillion would divide between investments that, in a world without the BVI, would otherwise:

(i) be mediated through jurisdictions with higher costs than the BVI;
(ii) be mediated through jurisdictions with lower costs than the BVI; or
(iii) not happen at all.

We do not know what shares of the total investment mediated through the BVI fall into each of these three categories – but we can explore the implications.

The BVI is not the only tax neutral jurisdiction with sound government, respected law and a well-developed cluster of financial and professional service providers. The three Crown Dependencies, for example, also offer a common law framework and access to the British legal system, including the right of appeal to the Judicial Committee of the Privy Council. But costs in Jersey, Guernsey and the Isle of Man are higher than in the Caribbean – and only certain categories of activity conducted in the BVI would be able to bear them.

Alternatively, investors could use an offshore jurisdiction which has lower costs. The BVI is cost effective but it is not the cheapest centre; there are a number of locations where international businesses can be incorporated and run at lower cost. Typically, these jurisdictions have one or more characteristics that may differentiate them from the BVI in the minds of investors, including:

- No access to the British legal system
- Limited track record of high value dispute resolution and/or predictable jurisprudence
- Short history of sound government and financial regulation

- Idiosyncratic or unwieldy company law
- Limited expertise and capacity in local service providers

Meanwhile, those who campaign against so-called 'tax havens' should be wary of business being pushed away from the BVI. Many of the lower cost centres have not kept pace with the Government of the Virgin Islands in the adoption of international standards for transparency, tax information exchange, anti-money laundering and combatting the financing of terrorism. And some, like Delaware, have wide networks of double taxation agreements that may facilitate corporate profit shifting. (See Figure 113.)

Figure 113: Table of international standards signed up to by low cost international finance centres jurisdictions, 2017

	Minimum price of incorporation (US$)	Annual licence/ renewal fees (US$)	Part of Early Adopters Group of OECD Common Reporting Standard (CRS)	Compliance with FATF 40 + 9 recommendations on AML and CFT (Number of "Compliant" and "Largely Compliant")	Number of Double tax agreements
Panama (IBC)	50	150	✘	3	14
Seychelles (IBC)	100	100	✓	3	28
Delaware (LLC)*	139	300 [1]	✘	39	68
Mauritius (GBC2)	300	300	✓	23	50
BVI (BC)	350	350	✓	40	3

Sources: Organisation for Economic Co-operation and Development, United States Treasury, Financial Action Task Force (FATF). *United States for compliance with international standards. 1: This denotes a franchise tax for Delaware. As at May 2017.

Finally, some cross-border business would not occur at all without the BVI. For some investors, its combination of cost effectiveness, sound common law and local specialist expertise will not be matched in other jurisdictions. Here, investors will opt instead for domestic opportunities with, presumably, lower returns – while the recipients of the investment, often in developing countries, will either go without or have to pay more.

APPENDIX: SURVEY

In order to better understand and more fully quantify the underlying size and shape of the BVI's international business and finance centre, as well as the value, nature and ownership of BVI Business Companies, we conducted a survey of businesses in the territory between 23 August 2016 and 4 January 2017.

Questionnaires were issued to firms in the BVI's international business and finance centre, with 42 institutions completing responses. Interviews were conducted with senior managers in the firms responding to the fully survey before, during and after completion in order to address any difficulties and to clarify and validate results.

Survey results represent the full breadth of activities conducted by the territory's international business and finance centre, as well as a wide range of companies of different sizes, business models and nationalities.

Overall, the respondents to the survey reported that the organisations for which they were supplying information employed just over 1,000 full time equivalents, which is just over half of the total number of jobs in the entire centre. Corporate service providers who responded accounted for the incorporation of over 330,000 active BVI Business Companies, or four-fifths of the entire global active stock, while professional service providers provided us with case studies on the activities of their clients. (See Figure 114 and 115.)

Survey results have been scaled up in line with the characteristics of the client bases of those corporate service providers who accounted for the outstanding 87,000 BVI Business Companies. Our final estimations are comparable to the geographic distribution of the companies incorporated in the BVI by Mossack Fonseca, released through the Panama Papers. (See Figure 116.)

Figure 114: Metrics to assess employment coverage of the Capital Economics' survey

	Total in sample	Total employment in BVI [1]	Survey penetration
Corporate service providers	449	890	50%
Legal	268	535	50%
Insolvency	37	70	53%
Insurance	39	106	37%
Banks	223	273	82%
Accounting	33	146	23%
Total	**1,049**	**2,020**	**52%**

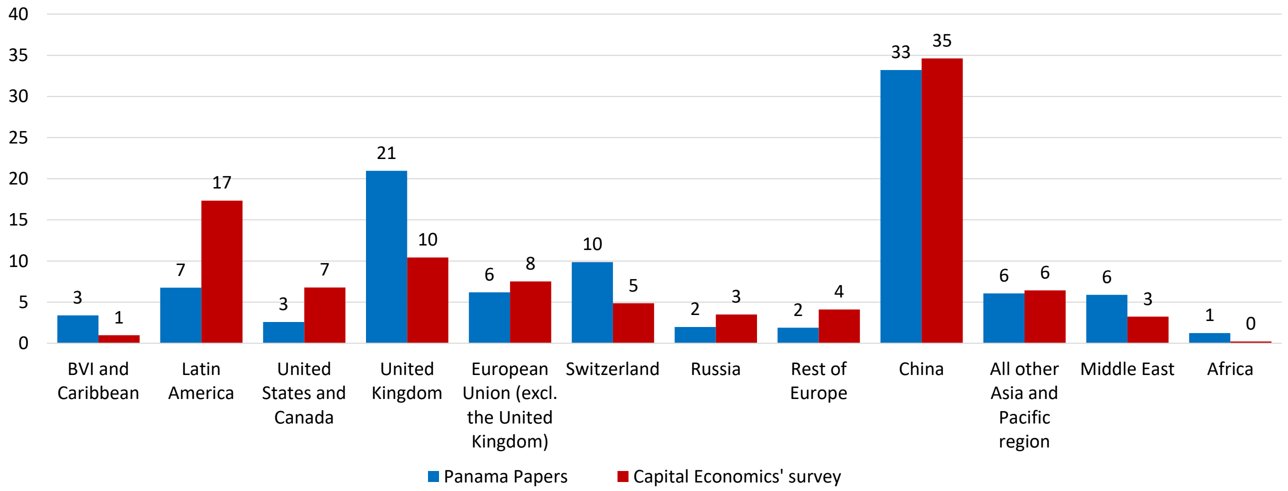
Source: Capital Economics' survey 2016/17. Note 1: 'Total employment in BVI' is based on work permit data provided by the BVI Financial Services Implementation Unit, and adjusted to reflect the share of work permits to total employment in each sub-sector.

Figure 115: Coverage of active BVI Business Companies by location and purpose, Q4 2016

	Total	Share of total active stock
Total number of active BVI Business Companies	**416,784**	**100.0%**
Total number of BVI Business Companies captured in survey	330,085	79.2%
Total number of BVI Business Companies of which location was listed	297,155	71.3%
Total number of BVI Business Companies of which purpose was listed	132,101	31.7%

Source: Capital Economics' survey 2016/17

Figure 116: Share of active entities registered in the BVI by country of association, per cent



Sources: Capital Economics' survey 2016/17 and International Consortium of Investigative Journalists

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