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France steps up assault on tax havens

By Vanessa Houlder in London and Hugh Carnegy in Paris

Shine a light: Corbiere lighthouse on Jersey, whose transparency rules have been criticised by France

France has stepped up its assault on tax havens by blacklisting Bermuda, British Virgin Islands and Jersey, in a sudden move set to impose heavy penalties on thousands of French individuals and businesses.

The three offshore centres have been added to a list of "non-co-operative jurisdictions", triggering withholding taxes of up to 75 per cent on payments from France.

The decision was greeted with surprise by the offshore centres which have already bowed to international pressure to become more transparent and exchange tax information with other governments.

The finance ministry in Paris said the three territories had been added to the blacklist for not complying with a new criterion enforced by the government, of unsatisfactory compliance with an existing convention with France.

It said, in the case of Jersey, this concerned an individual who owed tax to France who had refused to supply information. It was up to Jersey to elicit the information, an official said. He added that the terms of the blacklist would not enter into force for the three territories until January 1 2014, allowing them time to be removed from the list if they fulfilled their obligations by the end of the year.

Both the socialist government of President François Hollande and his centre-right predecessor Nicolas Sarkozy have campaigned loudly against what are called in France "paradis fiscaux", anxious to undermine what they see as unfair tax competition and clamp down on companies and individuals seeking to avoid France's heavy tax regime.

Mr Sarkozy established the French blacklist in 2010 and Mr Hollande intensified the tone earlier this year after his former budget minister was revealed to have lied about having held a Swiss bank account hidden from the French taxman for years.

The president was diplomatic when David Cameron made the issue a focus of the G8 meeting in Northern Ireland in June, but French officials have privately made clear their frustration over what they see as British hypocrisy over the regimes in British overseas territories.

The Jersey government's reaction was "one of amazement", it said. It added that it had contacted the French government seeking an explanation. It is thought to concern a delay in responding to information requests following an appeal by a French taxpayer who has sought a judicial review of the decision to hand over his tax information. The government said: "We are confident that we will be able to resolve this issue with the French authorities."

Peter Harris, a Jersey-based barrister, described the French decision as arbitrary and possibly illegal. He said the impact on some taxpayers was "monumental".

He said: "The abrupt increase to non-compliant withholding tax rates – in most cases a phenomenally expropriative 75 per cent will double, if not triple the tax charge on payments of professional income, salaries, dividends, interest, royalties and capital gains from France. It will impact one French financial institution with branches in Jersey which will face even tighter fiscal supervision as well as increased withholding taxes. It is also likely to result in increased double taxation for hundreds of French nationals working in Jersey who are also resident in France."

However, Geoff Cook, chief executive of Jersey Finance, the island's industry lobby, said he doubted the decision would have a big impact because Jersey had few French clients.

Bermuda's finance ministry said it was surprised by reports about the French decision and had contacted French officials to seek clarification. It expected to complete its internal processes for automatic exchange of information by the end of September 2013, adding that it "envisages any entry on France's list will therefore be very shortlived or never happen if in fact that list is to be effective later than 2013".

Elise Donovan, Executive Director of the BVI International Financial Centre, said: "The

British Virgin Islands implements the highest standards of transparency, accountability and information exchange, as set out by global organisations such as the OECD and the IMF. The BVI has had a tax information exchange agreement with France since 2009 and continues to co-operate in sharing tax information.

"The BVI has committed to signing the EU G-5 pilot for the multilateral automatic tax information exchange. France is a party to the pilot, along with the United Kingdom, Germany, Spain and Italy."

The three centres join seven smaller financial centres that were already on the list: Botswana, Brunei, Guatemala, Marshall Islands, Montserrat, Nauru and Niue. The Philippines was removed from the list.

A recent assessment by the Paris-based Organisation for Economic Co-operation and Development found that the BVI "experienced some difficulties obtaining and exchanging information for tax purposes". Both Jersey and Bermuda were described as having a responsive approach.