

2.2 Measuring the United Kingdom's 'offshore game'

George Turner¹

For many years the Tax Justice Network (TJN) has set out to research the effects of the offshore financial industry on the world's economic activity. The TJN's view is that the secrecy and tax avoidance services offered by what are commonly termed 'tax havens' are damaging to the global economy. Secret financial flows create opportunities for money-laundering, undermine democracy, weaken the nation state and distort economic activity.

One particular strand of the TJN's work has been to quantify the size of the offshore industry. In 2005 TJN published its first report, 'The Price of Offshore',² which estimated that some US\$11.5 trillion was held offshore by high-net-worth individuals.

In 2012 the TJN revisited³ that study and found that between US\$21 and 32 billion was held offshore. This was a conservative estimate, as it did not take into account real estate, yachts and other high-value luxuries. To put the figure into some perspective, the entire world produces around US\$74 billion in goods and services every year.

Offshore in sport

Offshore financial flows are pervasive, and are found in every part of economic life. In the United Kingdom, for instance, even tax inspectors offshored their own office space.⁴ Sport is no different. For years high-earning sports stars have based themselves in tax havens such as Monaco or Switzerland. Despite proudly displaying their national flag when competing, they seem reluctant to share their wealth with their nation.

In the British professional football leagues, a total of 34 clubs are now owned by offshore companies⁵ – no fewer than 25 per cent of the country's professional football clubs. The TJN decided to try to quantify the amount of offshore finance in professional football, and ranked UK clubs in a league table that looked at both the amount of finance flowing into clubs from offshore and the secrecy of the jurisdiction from which that finance came. Our study found that, in total, around £3 billion (about US\$4.8 billion) in finance is held by companies based offshore,⁶ the vast majority in secrecy jurisdictions and tax havens such as the Cayman Islands and the British Virgin Islands.⁷

It is important to be clear about what the Tax Justice Network sets out to do. The project is not about looking at foreign ownership or foreign people; the sole concern is with loans and shares held by companies based in offshore financial centres. Almost always these companies were found to be shell companies that had no other purpose than to control the club. The ultimate owners of these companies could be anywhere, including the United Kingdom.

A tale of two cities

Take, for example, Bolton Wanderers F.C. The club, currently in the bottom half of England's second tier, has a history going back to 1874, when Bolton was a booming industrial town. It was one of the 12 founding members of the Football League in 1888. Today the club is controlled by Eddie Davies OBE, a local boy who found riches in the thermostat industry. His children still live in Bolton, although Davies lives in the Isle of Man.

Davies does not actually own the club directly, however. Instead, ownership and finance is routed through a series of tax havens. Burnden Leisure PLC, the UK holding company is owned by the

Fildraw Trust in Bermuda. Most of the money comes in the form of loans from a company called Moonshift Investments Ltd, which is rumoured to be in the British Virgin Islands.⁸ The TJN could find no public record of the company registration. Although Davies has a beneficial interest in Moonshift,⁹ the TJN could not establish whether or not he actually owns or controls that company. This is something that should be of concern to fans, as the club is entirely dependent on these offshore loans.

On the other hand, take Southampton F.C., which is owned by Swiss industrial heiress Katharina Liebherr. Liebherr owns the shares in her own name, and not through some offshore finance company, as can be seen by the annual return of St Mary's Football Group Limited.¹⁰ It is an interesting quirk of the offshore game that a woman from a notorious tax haven, Switzerland, owns shares in a UK football club in her own name but, for whatever reason, the owner of Bolton Wanderers, who actually comes from Bolton, owns the club through a trust registered thousands of miles away in a Caribbean tax haven. One might well ask what possible reason there could be for such an arrangement.

Only the Bolton case represents a risk in terms of financial secrecy, as somebody owning shares in a UK company in his or her own name is as transparent a set-up as the TJN could ask for.

What value in measuring the offshore game?

Although, of course, anyone could set up an anonymous offshore company in the British Virgin Islands just for the fun of it, and simply owning an offshore company does not mean in itself that anything illegal is going on, the TJN's experience is that these companies have a considerably higher risk of engaging in tax avoidance, money-laundering and other illicit financial activity.

In sport there have been several high-profile cases. For example, in 2009 Birmingham City F.C. was bought by Carson Yeung Ka Sing, a self-styled hairdresser turned businessman. Yeung said that he had accumulated his vast wealth from some clever property investments and stock market plays he had made using the profits from cutting the hair of the rich and famous and playing baccarat in Macau.¹¹ The company that he used to complete the transaction, Grandtop International Holdings, was incorporated in the Cayman Islands, and later changed its name to Birmingham International Holdings.

The Hong Kong police were sceptical, however, and started investigating the source of his funds. In 2014 Yeung was given a six-year prison sentence for money laundering.¹² It was found that he was dealing in criminal proceeds on behalf of third parties. It is more than possible that the money that was used to pay for Birmingham City also came from these sources.

Harmless financial fun?

When club directors get involved with dubious or, as some might say, 'exotic' financial transactions it is not a victimless crime. Every week millions of people go to support their club as a means of escaping from the grind of daily life. They pour their heart, soul and dreams into their club. As the experience of Scottish club Rangers F.C. demonstrates, however, the use of offshore structures can also place the entire existence of the club at risk.

The Glasgow-based club was advised that it could make significant savings on income tax payments if it set up Jersey trusts on behalf of its players.¹³ The author of the scheme was tax adviser Paul Baxendale-Walker (who would later leave the tax profession to star in adult films).¹⁴ In order for the scheme to work, financial secrecy was key. The trusts had to be independent of the club, and they did not report payments made to players to the football league. Rangers'

management signed a number of private agreements, however, guaranteeing that the trusts would make payments to the players. This allowed the club to pay the players more, as they would not have to make tax payments.

Was this a good thing for the fans, who would see their club attract better players and more success? No. HM Revenue and Customs (HMRC) found out about the side letters and challenged Baxendale-Walker's tax structure, concluding that the Jersey trusts were simply another way of paying a salary to the players, and therefore should be taxed as such. HMRC landed the club with a large tax bill for back taxes – a tax bill that, because of the club's precarious finances, it could not pay. The club was put into administration and eventually liquidated. The tax case still rolls on, and so far the company has won every stage, but HMRC continues to appeal to higher courts.¹⁵ A new company was set up to continue the Rangers tradition, but it had to enter at the bottom of the Scottish professional football league.

A risky business

Sport is big business. According to Deloitte, the 20 highest-earning clubs in the world earned, between them, over €6 billion (approximately US\$6.7 billion) in 2013/14.¹⁶ The global betting industry, including the unregulated Asian markets, is said to be worth over US\$1 trillion.¹⁷ With these vast financial flows surrounding the game, there are huge opportunities for a wide range of illicit financial transactions, from tax avoidance to bribery and corruption.

Whatever the reason a club or an owner may use offshore structure, it is undoubtedly the case that, on a structural level, running large amounts of money through lightly regulated, secretive financial centres and tax havens increases the risk that things may go wrong. The Tax Justice Network's report on the 'offshore game' provides just one indicator of the level of risk in sports finance: the

amount of offshore finance in club ownership. The disconcerting finding was that, in the United Kingdom at least, the practice is widespread.

The well-documented problems with the offshore economy pose a real risk to the financial health of clubs. In the interests of the game and the fans, isn't it now time for football and sporting authorities to take the issue of financial secrecy seriously?

Notes

¹ George Turner is a writer and researcher for the Tax Justice Network, which is based in Chesham, United Kingdom.

² Tax Justice Network, 'The Price of Offshore', briefing paper (Chesham, UK: TJN, 2005), www.taxjustice.net/cms/upload/pdf/Price_of_Offshore.pdf.

³ Tax Justice Network, *The Price of Offshore Revisited* (Chesham, UK: TJN, 2012), www.taxjustice.net/cms/upload/pdf/Price_of_Offshore_Revisited_120722.pdf.

⁴ Accountancy Age (UK), 'MPs slam HMRC "business acumen" over offshore company deal', 14 April 2010, www.accountancyage.com/aa/news/1808456/mps-slam-hmrc-business-acumen-offshore-company-deal.

⁵ See The Offshore Game (UK), 'The Offshore League', www.theoffshoregame.net/the-offshore-league.

⁶ The Offshore Game (UK), '£3bn in the UK's offshore football league', 14 April 2015, www.theoffshoregame.net/3bn-in-the-uks-offshore-football-league.

⁷ Tax Justice Network, *The Offshore Game* (Chesham, UK: TJN, 2015), www.theoffshoregame.net/wp-content/uploads/2015/04/Final-Offshore-Game-Report.pdf.

⁸ *Ibid.*, p. 25: 'Online forums state that Moonshift is registered in the British Virgin Islands, but the Offshore game team could not find any official record confirming this.'

⁹ *Daily Telegraph* (UK), 'Bolton Wanderers must avoid Premier League relegation to tackle £110m debt', 13 January 2012, www.telegraph.co.uk/sport/football/teams/bolton-wanderers/9014275/Bolton-Wanderers-must-avoid-Premier-League-relegation-to-tackle-110m-debt.html.

¹⁰ See Company Check (UK), 'St Mary's Football Group Limited', <http://companycheck.co.uk/company/06951765/ST-MARYS-FOOTBALL-GROUP-LIMITED/group-structure#shareholders>.

¹¹ *Financial Times* (UK), 'Carson Yeung, club owner who reeled from rags to riches to rags', 7 March 2014, www.ft.com/cms/s/0/0654a212-a5ed-11e3-9818-00144feab7de.html#axzz3YuisjEIW.

¹² See the Legal Reference System website of the Hong Kong government: http://legalref.judiciary.gov.hk/lrs/common/search/search_result.jsp?isadvsearch=0&txtSearch=dccc860%2F2011&vm=GO%21&txtselectopt=4&stem=1&selDatabase=JU&selDatabase=RS&selDatabase=RV&selDatabase=PD&selall=1&order=1&SHC=&page=1.

¹³ *The Scotsman* (UK), 'The unravelling of Rangers', 16 April 2011, www.scotsman.com/sport/the-unravelling-of-rangers-1-1587442.

¹⁴ See Wikipedia: http://en.wikipedia.org/wiki/Paul_Baxendale-Walker.

¹⁵ BBC (UK), 'HMRC granted leave to appeal Rangers tax case decision', 27 August 2014, www.bbc.com/news/uk-scotland-scotland-business-28957732.

¹⁶ Deloitte Football Money League 2015 Commercial breaks, January 2015, <http://www2.deloitte.com/uk/en/pages/sports-business-group/articles/deloitte-football-money-league.html>.

¹⁷ *Telegraph* (UK), 'Football's authorities fighting \$1trillion crime wave powered by illegal betting markets in Asia', 4 February 2013, <http://www.telegraph.co.uk/sport/football/international/9848868/Footballs-authorities-fighting-1trillion-crime-wave-powered-by-illegal-betting-markets-in-Asia.html>