

Bypassing Sanctions: Hide 'N Seek in Tax Havens?

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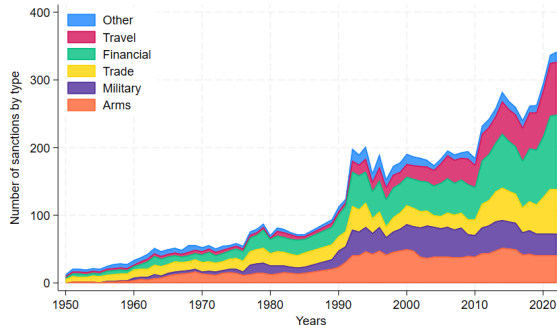
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Financial Sanctions

- Sanctions have become a central tool of U.S. and EU foreign policy.
 - Sharp increase in financial (and travel sanctions) targeting specific individuals and entities.
 - Whether these sanctions actually work is not fully understood.
 - Sanctions can only be effective if they are not circumvented.
- Do individuals use tax havens to circumvent sanctions?

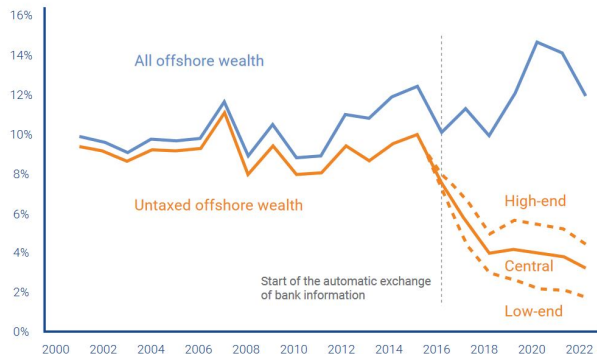


Note: This figure displays the evolution of the number of active sanctions depending on their type over the period 1950 -2022. The figure is based on the third release of the Global Sanctions Data Base (Syropoulos et al., 2024).

Offshore Wealth

- USD 12 trillion in offshore tax havens in 2022
 - But: 63-85% of this wealth is now taxed
 - Tax evasion is not (or no longer) the main reason to keep wealth offshore
- Is circumventing sanctions another reason?

Unreported offshore household financial wealth - 3 scenarios
(% of world GDP)



Notes: This figure reports the evolution of global household offshore wealth (expressed as fraction of world GDP), and three scenarios about the evolution of untaxed offshore wealth. In the low-end scenario, 15% of offshore wealth is untaxed in 2022, representing 1.8% of world GDP; in the central scenario 27% of offshore wealth is untaxed, representing 3.2% of world GDP; and in the high-end scenario 37% of offshore wealth is untaxed, representing 4.4% of world GDP. See text for the construction of the central, high-end and low-end scenario. Source: for global offshore wealth, Souleymane Faye, Sarah Godar, and Gabriel Zucman (2023), "Global Offshore Wealth 2001 – 2022", EU Tax Observatory working paper; for untaxed wealth: EU Tax Observatory computations.

Source: EU Tax Observatory (2023)

Research Question: Do individuals bypass sanctions by hiding money offshore?

Identification Strategy:

- Analyze impact of financial sanctions on offshore deposits (BIS data)
 - Staggered DiD analysis using the imposition of sanctions as a treatment
 - Case study of Russian sanctions in 2014 (synthetic control method)

Findings:

- Financial sanctions against individuals increase deposits held in tax havens by about 18%.
- Major financial sanctions decrease deposits held in tax havens by about 30%.
- Sanctions against Russian individuals in 2014: increase of deposits held by Russian residents in tax havens by 15% on average.

Staggered DiD

Case Study: Sanctions on Russia 2014

Potential Mechanisms

Conclusion

Staggered DiD

Bank for International Settlements' Locational Banking Statistics

- Aggregate, bilateral data on deposits held by “non-banks”
- 30 countries (incl. 10 tax havens) reporting on deposits owned by residents from 200 countries
- Quarterly data, 1996–2015

Reporting Country	Deposit Origin	Quarter	Deposits
Switzerland	Afghanistan	1996 Q3	2,025 million USD

EUSANCT (Weber & Schneider, 2020)

- Information on financial sanctions from 1989-2015 by the US and the EU
 - Exact date of sanction (→ fully utilize quarterly deposits data)
 - Information on type of financial sanctions (different goals):
- **Financial sanctions against individuals:** asset freezes and bans on financial transactions for explicitly specified individuals
- **Major financial sanctions:** partial or complete asset freezes of the target state's assets, investment bans, bans on financial transactions

Covariates

- Conditions that might influence capital flow (GDP, tax rates, tax agreements, capital account openness)
- Variables that might be related to the imposition of sanctions (indicators for human rights, political stability, conflicts)

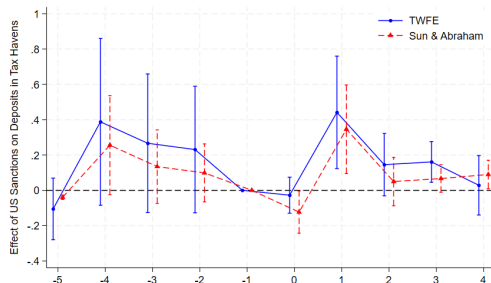
One might expect an overall increase in deposits held in tax havens...

- when individuals or firms want to shield their assets from sanctions.
- when an individual, who is not sanctioned, thinks she might be next.

Or there might be a drop in deposits held in tax havens...

- Individuals withdraw money from abroad to rescue their distressed companies at home.
- (Some) tax haven banks are forced to close the accounts from sanctioned countries (e.g., Swiss banks had to close Russian accounts in 2024).

Results: Event Study on Sanctions on Individuals



Note: Figure presents event study results for the imposition of financial sanctions against individuals by the U.S. (a) and the EU (b). The dependent variable is the natural logarithm of foreign deposits. The figures plot estimated coefficients for leads and lags relative to the quarter before the sanction, along with 90% confidence intervals. Standard errors are clustered at the partner-country level. Endpoints are binned. Tax havens include Guernsey, Hong Kong, Isle of Man, Jersey, Macao, Switzerland, and Chile. Sample period from 1996:Q1 to 2015:Q4.

Results: Financial Sanctions against Individuals

	All Havens	Switzerland	All Non-Havens
U.S. Sanctions	0.183*** (0.072)	0.230*** (0.084)	0.097 (0.128)
EU Sanctions	0.140 (0.370)	0.587*** (0.044)	-0.095 (0.176)
U.S. & EU Sanctions	-0.321 (0.312)	-0.647*** (0.048)	-0.326* (0.173)
Observations	14,525	7,446	37,783

Note: Table presents results from a difference-in-differences (DiD) analysis using the estimator proposed by Borusyak et al. The dependent variable is the natural logarithm of foreign deposits. All models include country-pair and year fixed effects and control for GDP per capita, GDP growth rate, capital account openness, tax policy, human rights indicators, and level of democracy. "All Havens" includes Hong Kong, Macao, Guernsey, Isle of Man, Jersey, Switzerland, and Chile. Sample period from 1996:Q1 to 2015:Q4. Robust standard errors clustered by origin country in parentheses. Significance levels: *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

Results: Major Financial Sanctions

	All Havens	Switzerland	All Non-Havens
U.S. Sanctions	-0.346*** (0.061)	-0.295*** (0.065)	-0.373* (0.193)
U.S. & EU Sanctions	-0.412*** (0.077)	-0.400*** (0.062)	-0.444*** (0.152)
Observations	14,164	7,302	36,467

Note: Table presents results from a difference-in-differences (DiD) analysis using the estimator proposed by Borusyak et al. The dependent variable is the natural logarithm of foreign deposits. All models include country-pair and year fixed effects and control for GDP per capita, GDP growth rate, capital account openness, tax policy, human rights indicators, and level of democracy. "All Havens" includes Hong Kong, Macao, Guernsey, Isle of Man, Jersey, Switzerland, and Chile. Sample period from 1996:Q1 to 2015:Q4. Robust standard errors clustered by origin country in parentheses. Significance levels: *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

Case Study: Sanctions on Russia 2014

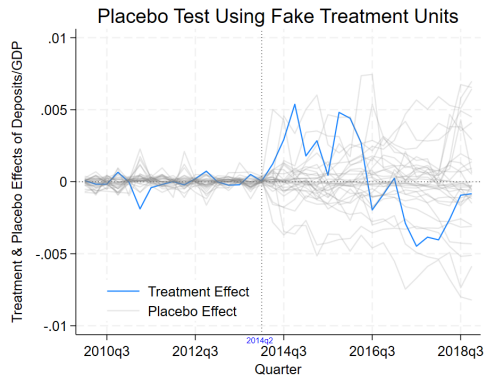
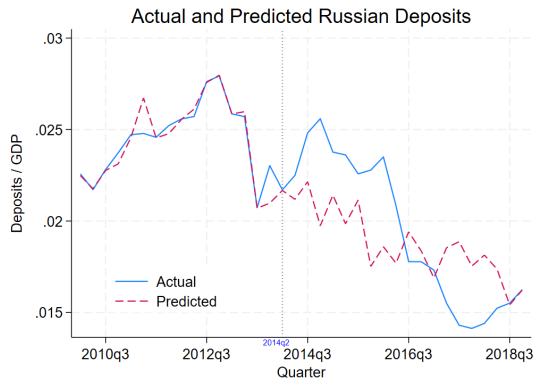
Sanctions:

- Imposed in March/April 2014
- Financial asset freezes on individuals and companies
- Ban on lending to Russian oil companies and some banks (mostly state-owned)

Idea:

- Create synthetic control for Russia (Abadie et al., 2010; Abadie et al., 2015)
- See how Russian deposits in tax havens develop after the imposition of sanctions

Results with Synthetic Control



Note: **Left:** The figure plots total offshore deposits (as a share of GDP) for Russia (solid blue) and its synthetic control (dashed red), estimated using synthetic control method over 2010–2018. The vertical line at 2014q2 marks the start of sanctions. **Right:** The treatment effect for Russia (blue) is compared to placebo effects for donor countries (gray). Countries with pre-treatment MSPEs more than twice Russia's are excluded from the placebo test. Sample period from 2010:Q1 to 2018:Q4.

- Control: Ethiopia (23%), Georgia (10%), Estonia (9%), Angola (8%), Azer. (4%)
- ATE: 15% with p-values under 10% for Q2 2014 to Q3 2016

Potential Mechanisms

Why Do Offshore Deposits Increase after Sanctions against Individuals?

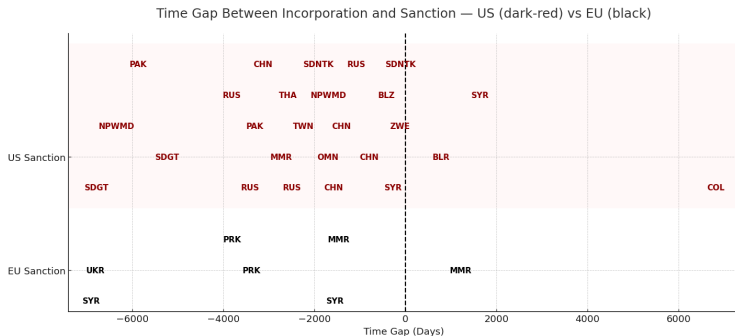
Two channels:

- **Reactive:** sanctioned individuals move funds offshore after being listed.
- **Anticipatory:** potential targets prepare in advance (own accounts or via associates).

Approach:

- Use leaked offshore data to time offshore incorporations relative to sanction dates.
- Compile names from the *U.S.* SDN list and the EU consolidated list ($\approx 33k$ names), match with Panama Papers (leak of data on 14k people from offshore service provider Mossack Fonseca in 2016)
- Final sample: 31 individuals sanctioned by the U.S. or EU
- Period: 1994-2015; outcome: days between incorporation and sanction (negative = before sanction).

Timing Evidence from Leaked Data



Note: Time differences (in days) between incorporation of shell companies and the date of sanctions for 31 individuals who appear in both the Panama Papers and the U.S. or EU sanctions lists. Some individuals do not have country; hence indicated with sanction type: NPWMD (weapons of mass destruction), SDGT (global terrorism), and SDNTK (narcotics trafficking). Negative values indicate that shell company incorporation before sanctions. The U.S. has significantly more sanctions than the EU. Sample period from 1994 to 2015.

Many targets had pre-existing offshore vehicles.

- After listing, sanctioned individuals move additional funds into already opened offshore accounts (consistent with post-sanction deposit increases).
- Havens largely compliant with sanctions regarding new structures.

Conclusion

- Individual financial sanctions lead to higher offshore deposits ($\approx 18\%$), especially in Switzerland. After the 2014 Crimea sanctions, Russian offshore deposits rose by $\approx 15\%$, confirming the panel results.
- Major sanctions reduce offshore deposits by about 35%.
- Leaked data show many sanctioned individuals had pre-existing offshore structures.
- **Policy implications:**
 - Individual sanctions remain porous—funds can still move via tax havens.
 - Major sanctions that restrict cross-border transfers are more effective.
 - Enforcement could improve through secondary sanctions and better use of CRS data.

Additional Material

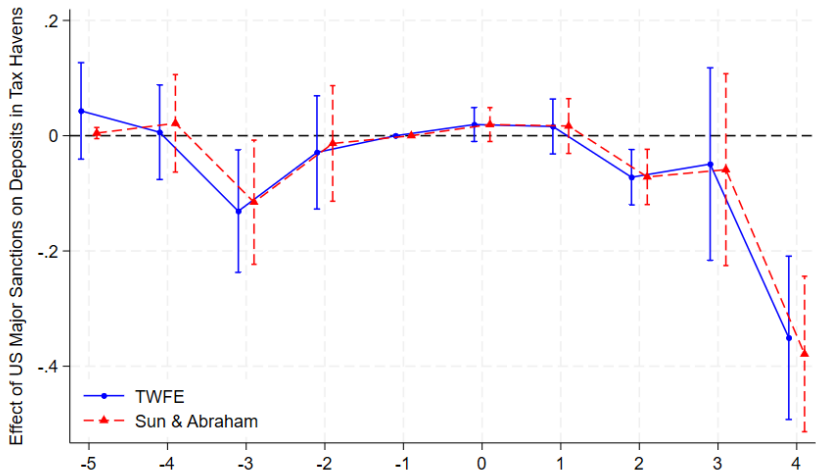
Literature

- Large literature on effect of sanctions
 - 1/3 achieve their political goals (Morgan et al., 2014)
 - Mixed evidence on the impact on trade & FDI (Shin et al., 2016; Mirkina, 2018; Gutmann et al., 2021)
- Small literature on sanction evasion
 - Trade diversion does not matter (Frank, 2017) or only very little (Fritz et al., 2017)
 - Dragomirescu-Gaina & Elia (2022) link misinvoicing in international trade (partly in response to sanctions) to offshore deposits.
 - Kavakli et al. (2023): if the whole world imposes financial sanctions, that country's deposits in tax havens increase by 31%
- The determinants of offshore deposits
 - Tax incentives matter (e.g. Menkhoff & Miethe 2019, Casi et al. 2020, Boas et al. 2023)
 - Andersen et al. (2017, 2022) suggest that parts of petroleum rents and WB aid from autocratic countries are moved to tax havens.

	Distance (GDP)	Distance (GDP+Wealth)	Weighted Distance (GDP)	Weighted Distance (GDP+Wealth)
U.S. Sanctions	0.320** (0.160)	0.322** (0.159)	0.316** (0.160)	0.318** (0.159)
EU Sanctions	0.617*** (0.117)	0.611*** (0.115)	0.614*** (0.118)	0.609*** (0.116)
U.S. & EU Sanctions	-0.461*** (0.167)	-0.461*** (0.165)	-0.450*** (0.162)	-0.454*** (0.161)
Observations	13,465	13,465	13,465	13,465

Notes: Table presents results from a difference-in-differences (DiD) analysis using a gravity style model using Poisson Estimation with High-Dimensional Fixed Effects. “Distance” refers to a simple distance measure between the most populated cities; “Weighted Distance” refers to a population-weighted distance between the most populated cities. The dependent variable are foreign deposits. All models include country-pair and year fixed effects and control for GDP growth rate, capital account openness, tax policy, human rights indicators, and level of democracy. “All Havens” includes Hong Kong, Macao, Guernsey, Isle of Man, Jersey, Switzerland, and Chile. Sample period from Q1:1996 to Q4:2015. Robust standard errors are clustered at the origin-country level. Significance levels: *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

Event Study: Major US Sanctions



► Results Table

Cyprus

