

Britain | The Akrotiri loophole

Looking to stash a few million away? Try a British military base

Really out-of-the-way places can slip through the financial-reporting cracks

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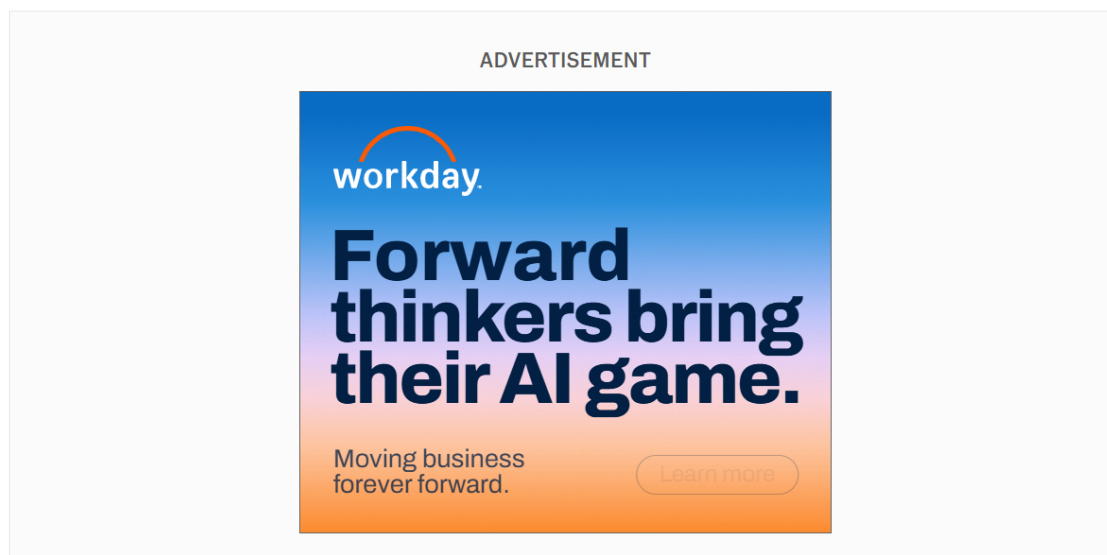
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Jul 18th 2025 | 3 min read

IT HAS LONG been assumed that the best way to hide money is to move it offshore. But opportunities for concealment in palm-fringed tax havens have narrowed over the past decade as international financial-

transparency agreements have kicked in—including the Common Reporting Standard, a pact involving more than 120 countries to automatically share information on financial accounts. Of the remaining possibilities for shielding assets from prying eyes, one of the most alluring, it turns out, involves using vehicles not in Bermuda or the Bahamas, but Britain.

The vehicles are so-called non-resident trusts, established under English law by someone who resides elsewhere, and with trustees in out-of-the-way places. The trick is to pick a *really* out-of-the-way place.



Mark Morris, a consultant based in Zurich with a passion for reading the fine print in tax documents, noticed that some territories are so far-flung and insignificant that they fall through the cracks of tax treaties and information-exchange accords. Among them are several British territories, including the Falkland Islands, St Helena and Ascension Island (combined population: around 9,000). Another is Svalbard, a Norwegian archipelago in the Arctic that, thanks to having its own tax laws, is excluded from data-exchange deals signed by Norway.

The resulting lack of reporting—or even registration—requirements means British trusts with trustees in such places have much stronger walls than trusts elsewhere, even those in familiar tax havens. “The Cook Islands and Nevis have nothing on this lot,” says Mr Morris. “They offer exceptional asset protection.”

Perhaps the most intriguing of the territories on his list is in Cyprus: the “Sovereign Base Area” of Akrotiri, a British territory that houses a military base. Akrotiri’s population (around 18,000, including the nearby base of Dhekelia) is a mix of service personnel, their families and civilians. Mr

Dnekenia) is a mix of service personnel, their families and civilians. Mr Morris's keen reading of the relevant tax tomes revealed that although both the base's military inhabitants and its civilians are caught in the information-exchange net, military spouses are not. They are financial ghosts, tax-resident nowhere.

Mr Morris has gone the extra mile—indeed, several thousand miles—to exploit these loopholes. He has travelled to each of the territories to meet officials and find residents willing to act as trustees. In Akrotiri he signed up the owner of the bed-and-breakfast he was staying in.



PHOTOGRAPH: GETTY IMAGES

This is not yet asset protection on a grand scale. In every jurisdiction apart from Svalbard, Mr Morris's operation is just months old. Reassuringly discreet, he will not be drawn on the level of client interest. And there is, he says, no sign of anyone else doing the same. An 18-hour flight to the Falklands from the Brize Norton air-force base in Oxfordshire is not every wealth manager's idea of fun.

The British nexus may strike some as ironic. Ever since, as prime minister, David Cameron announced a focus on the "three Ts" (tax, trade and transparency) and made Britain's register of companies public to curb abuse by shell companies, British officials have preached the financial-transparency gospel globally. The reality, however, is that British trusts, companies and partnerships continue to be popular with financial ne'er-do-wells.



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An obvious concern about trusts like Mr Morris's is that they potentially enable shady dealing, including tax-dodging. He stresses that exploiting such loopholes is legal, and that there are legitimate reasons to shield assets, for instance from vexatious creditors or spouses. Clients may also worry about data security. Tax authorities can be leaky: Britain's HMRC admitted recently that it had lost £47m (\$63m) after a phishing attack breached 100,000 tax accounts.

"I'm happy to point out these loopholes," says Mr Morris when asked about his motives. "And to help clients use them, until someone bothers to close them." ■

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