



# Tax havens or tax hells? A discussion of the historical roots and present consequences of tax havens

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**Abstract**

*Tax havens are not recent phenomena. However, in contrast to historical precedents, tax havens in the age of mobile capital allow for non-consensual transfers and are not profitable for every citizen. We discuss the four main groups of tax havens (former Western possessions, sovereign nations, countries controlled by cartels, and emerging economies). This article also synthesizes the history of tax havens and describes their current heterogeneity, discussing the main methods available to regulate tax haven flows. Some of the most efficient methods involve unilateral measures (such as the Fiscal Transparency of Outland Societies) but also encompass multilateral measures (such as Tax Harmonization and the Request for Information).*

*Keywords: tax havens, regulation, transparency*

**1 INTRODUCTION**

Tax havens are a relevant issue in public financial management. Whereas some governments benefit from the existence of tax havens, others experience losses. Because of the critical importance of the emergence of bankruptcy systems in the Western world and the recent growth of large financial flows into tax havens, this paper addresses the issues presented by this new reality, which has revolutionized the financial organization paradigms of states.

This article intends to synthesize the main points of the important discussion on tax havens. As we will show, tax havens are not recent innovations – we can easily find historical examples indicating that tax havens are instruments that were developed to foster trade, increase capital mobility, and secure personal gains. However, most of these gains occur as the direct results of the losses experienced by other investors.

Currently, various attempts have been made to control tax haven activities and flows. In this article, we condense this list of controls to compare clearly the efficacy of these measures.

It is estimated that about half of all international lending and deposits originate in Offshore Financial Centers (OFCs), approximately half of which are located in OFCs that double as tax havens. The statistics of the Bank for International Settlements (BIS) on international assets and liabilities rank the Cayman Islands as the fourth largest international financial center in the world; other well-known tax havens/OFCs include Switzerland (7<sup>th</sup>), the Netherlands (8<sup>th</sup>), Ireland (9<sup>th</sup>), Singapore (10<sup>th</sup>), Luxembourg (11<sup>th</sup>), the Bahamas (15<sup>th</sup>) and Jersey (19<sup>th</sup>). In addition, these centers are recipients of approximately 30% of world's share of FDI, and, in turn, are the originators of similar amounts of FDI (Palan, Murphy and Chava-gneux, 2010).

Given the strength of actual capital flows and the serious consequences that this mobility has for many investors and citizens around the globe, we have attempted to synthesize the main points of the current debate on tax havens.

The structure of this paper is as follows: in section two, we will discuss the origins of tax havens and their current diversity of forms; in section three, we will focus on the macroeconomic and financial consequences of tax havens and discuss the reactions of institutions from around the world; we will conclude in section four by presenting the main implications of our work.

## 2 ORIGINS OF TAX HAVENS

Because tax havens are controversial, international institutions have several definitions for them. Although these definitions share many features, no consensus has been reached on a dominant definition. This difficulty is demonstrated in the variety of names attributed to this phenomenon, including “tax haven” (OECD), “offshore financial center” (FMI), and “states without taxation” or “states with low taxation” (KPMG).

These types of territories are currently characterized by the fact that they allow companies of unknown origins to be founded within their boundaries, protecting the owner’s identity through a guarantee of absolute secrecy. This ability to operate outside national and international control is what makes these offshore financial centers, or tax havens, so special.

### 2.1 THE HISTORY OF TAX HAVENS

The sources of the rationale behind tax havens are tax-resistant behaviors that date back to early civilizations and assume forms as varied as allowed by the human imagination.

It is difficult to determine the precise origins of the tax haven. Some researchers suggest that the second century BC saw the first official instances of these zones in the eastern Mediterranean (Plate-forme Paradis Fiscaux et Judiciaires, 2007:9, 10). Beginning in 166 BC and lasting for nearly a century thereafter, the island of Delos practiced a form of commerce that was free of taxes and customs duties. Due to its geographical position, the island became a very important center of commerce and trade for ivory, textiles, wine, wheat and spices. The same principle was implemented in certain cities (“free towns”) as well as ports and fairs during the Middle Ages. The practice was limited by the geographical boundaries of cities and the duration of fairs. The first of this type of fair was the Lendit Fair, which took place near Saint-Denis in the seventh century and was founded by King Dagobert. Between the 12<sup>th</sup> and 14<sup>th</sup> centuries, the great fairs of Lyons, Brie, Champagne and Beaucaire benefited from the same treatment. From the beginning of the Christian era, the city of Marseille was an independent republic with a free port that attracted ships and products throughout the Mediterranean. Marseille

was a free port until 1481, when the King of France seized the city and the port's status was challenged. Nevertheless, Marseille would retain some of its privileges until 1817.

In America during the 1910s, the term “tax haven” was used to describe a money laundering practice in which bandits invested in “wash salons” or laundries with machines that allowed them to clean silver. In the 1920s, a new generation of tax havens appeared in areas such as the Bahamas, Switzerland and Luxembourg that allowed foreigners to deposit capital and escape taxation.

The recent history of tax havens is neither continuous nor linear but rather built on ruptures and mutations in different places and times. Great developments occurred during two important moments of economic globalization: the first in the 19<sup>th</sup> century, with the expansion of capitalism, and then in the post-war 20<sup>th</sup> century, with the creation of the euro-dollar market in the 1950s (Palan and Chavagneux, 2007: 28). Only over the last thirty years, however, have tax havens grown exponentially in numbers and importance. This growth was caused by the liberalization and deregulation of the financial sphere that began in the early 1980s (Palan and Chavagneux, 2007: 43).

The euro-dollar market emerged during a time when the monetary market was no longer under North American control. It has since expanded and is now called the euromarket; this is the market where foreign currency negotiations take place. These currency-backed securities can be negotiated around the world, with London serving as a major center. The commercialization of these securities takes place through a compensation system (Burn, 2006).

The term tax haven currently evokes images of tropical islands located at the end of the world, where there are palm trees and sun and multimillionaires can get rich while relaxing. This notion can be deceptive and harmful because the capital that is forwarded to tax havens is growing in importance (apud Mota, Antunes and Lopes, 2009: 7). According to the Bank for International Settlements, about half of international financial flows from increasingly diverse origins pass through tax havens, leading to dramatic consequences from various perspectives.

## 2.2 TYPES OF TAX HAVENS

We can group the various forms of tax havens into four main groups: historically Western possessions, sovereign nations, countries controlled by cartels, and emerging states (for an extended list of countries currently labeled as tax havens/of-shore centers, see table A1 in the appendix).

The main reasons countries may be labeled tax havens can also vary. As Smith (2005) argues, these countries often suffer from a case of “mercantilist reminiscence” – their governments believe that it is better to have large amounts of cash

deposits in local banks; therefore, these governments start a competitive tax race that can generate “negative” tax rates, which, in practice, translate into a propensity to pay to receive investments.

Although this approach is more often expressed in the first two varieties of tax shelters (historically Western possessions and sovereign nations), the other varieties may also exhibit pro-mercantilist tendencies. In sovereign nations, in addition to mercantilist reminiscence, the need to fund financial systems or requirements for financial resources also appears to influence decisions to lower taxes on capital to attract monies from agents abroad.

The third variety of tax haven, countries controlled by cartels, exists to serve a different function. As suggested by Killebrew and Bernal (2010), these countries tend to be used for money laundering. The processes through which this occurs are very complex and difficult to systematize. However, in their simplest form, these types of tax havens receive printed currency from black markets or parallel economies (drug, arms, prostitution, etc.) and inject that money into the international financial system using local deposits.

Finally, members of the fourth group, developing economies, benefit from different advantages related to being characterized as tax havens. The monies they receive tend to be diverted by incumbents in the form of political rents, but there are also positive externalities for the general population. Maurer (1997) observed that tax havens do, in fact, create local jobs and increase public revenues. The financial systems of tax haven economies tend to be more solid. Rikowski (2002) even suggests that the tax haven option leads to positive effects on local education.

### 3 CONSEQUENCES OF AND REACTIONS TO TAX HAVENS

#### 3.1 CONSEQUENCES

The first major consequence of tax havens is the increasing inequality of income redistribution (Torvik, 2009). Typically, the highest incomes are the most mobile. Consequently, tax havens do not shelter the lowest income earners in a population but rather the highest. While these rich taxpayers receive higher net incomes (because they can use tax havens to diminish their taxation bases), the poorest taxpayers tend to pay increasingly higher taxes because they can more reliably be called upon to pay their aliquots than their wealthy counterparts.

The second negative consequence of tax havens is growth in inequality related to the distribution of social rights (Torvik, 2009). Because small and medium producers face increased taxation on their income, they have to work more and accept poorer working conditions.

The third consequence is the accumulation of imbalances in the balance of payments, especially in the capital account. Time after time, national production

diverges from national income and deficits accumulate in the capital account. These deficits generate an increased risk of indebtedness, which is essentially paid for by those who cannot move their incomes to tax havens.

### 3.2 REGULATORY REACTIONS TO TAX HAVENS

In our framework, control reactions may be divided into unilateral and multilateral measures. The unilateral measures available to a state actor include the following: the lifting of banking secrecy, the imposition of fiscal transparency on outland societies, the adjustment of transfer prices, the regulatory prevalence of substance over form, the reversal of the onus of proof, the declaration of requirements, and an assortment of additional measures. Multilateral measures include tax harmonization, information requests, and the control of interbank electronic messaging. Descriptions of these options are provided below.

#### 3.2.1 Unilateral measures

Unilateral measures imply the involvement of a single state; implementation is thus relatively less complex than the implementation of multilateral measures. For tax havens, and following some of the literature (Murphy, 2008; Ginevicius and Tvaronavičienė, 2010; Plate-forme Paradis Fiscaux et Judiciaires, 2007), the most important unilateral measures are the lifting of banking secrecy, the management of the fiscal transparency of outland societies, the adjustment of transfer prices, and the prevalence of substance over form. We will now describe these measures in more detail.

##### 3.2.1.1 Lifting of banking secrecy

The lifting of banking secrecy is a major breakthrough in terms of transparency but fails to solve the broader systemic inconsistencies that account for great disparities in the distribution of wealth. This measure helps the fight against money laundering. Additionally, it prevents the internationalization of money from parallel economies, such as crimes or human or drug trafficking.

##### 3.2.1.2 Fiscal transparency of outland societies

Fiscal transparency from companies abroad refers to the demonstration of willingness to report and supply accounts and records for any commercial transaction conducted by a legal entity registered abroad (Dumludag, 2011). This measure is intended to tax the non-returned profits of companies that are established in tax havens.

In Portugal, for instance, tax savings of above €100,000.00 must be reported to the tax authorities. This obligation is included in decree-law n. 29/2008, which was passed on October 29, 2008, and attempts to prevent abusive tax planning. However, this measure relies on self-reporting.

In 2010, the Portuguese government extended an amnesty to those who repatriated capital invested in tax havens during 2010 such that amnesty recipients would have to pay only 5% of taxes on such repatriated capital. So far, the results of this measure are unknown, and there are still many questions about its effectiveness.

As companies use the law of these autonomous jurisdictions (tax havens and offshore centers), the request for more transparency of a company by the government of another jurisdiction is very difficult. Hence, the OECD adopted cooperative signing agreements for the provision of information as a criterion for the recognition of a tax haven.

### 3.2.1.3 Adjustment of transfer prices

The adjustment of transfer prices refers to a fiscal authority's capacity to rectify its VAT base by adjusting prices in transactions between entities that have special relations with one another when those prices differ from expected prices in conditions of full competition. The full competition price is determined through the examination of pricing for transactions of the same type between non-related entities. If no similar transactions are available for examination, the price adjustment is calculated using the resale price minus a margin that may represent a profit. There are, however, numerous situations in which the method of applying full competition pricing encounters large obstacles. Consider, for example, cases in which a certain technology is developed solely by one company, when prices include the costs of guarantees, or when prices are reduced with the goal of penetrating new markets.

In a study carried out by Boyrie, Pak and Zdanowicz (2004), a model for the determination of optimum prices was analyzed to detect abnormal prices in international transactions. The foundation of this model is based, however, on data from a commodity that is harmonized between the involved entities. Although it is a fairly reasonable idea and a good starting point, it is in itself a limited model and can even bias results because the task of harmonizing commodities and prices on an international scale is a difficult one. Furthermore, in some intrinsically monopolistic areas, the word harmonization has no meaning and it is impossible to identify a comparison point.

### 3.2.1.4 Prevalence of substance over form

The prevalence of substance over form refers to the provision of binding legal significance and heavier weight to the composition of an economic or other type of activity, or the structure of an income-generating activity, than its form, i.e. the legal contract that governs it.

This unilateral measure gives the tax authorities the power to reject acts or structures that are simulated or artificial and that conceal the substance of their activities with the sole purpose of obtaining fiscal advantages. For example, in the case

of an athlete or artist whose income originated in a certain state and was then placed in a tax haven by a structure created for that purpose, the tax authority could extract revenue from such a taxpayer by proving that the structure created by that citizen was an artificial structure, developed no substantial activity and existed solely to pursue a tax minimization strategy (Burn, 2006).

### 3.2.1.5 Reversed onus of proof

The reversed onus of proof is a legal rule stating that the accuser is not responsible for proving the actions of the accused. For example, in the case of a suspected tax leak, if the Treasury began an investigation against a taxpayer based on suspicions of tax evasion, it would be up to the taxpayer to prove his innocence. This measure could possibly yield useful results because it would be the taxpayer's responsibility to prove that no tax avoidance scheme was pursued. However, this approach invites a great deal of political controversy because in this pursuit of greater justice, the innocent are made to suffer as well as transgressors (Plateforme Paradis Fiscaux et Judiciaires, 2007).

### 3.2.1.6 Declaration requirements

Declaration requirements force taxpayers to declare periodically any amounts paid or due to foreign entities to the tax authorities. An obligation of this type only makes sense if the reversed onus of proof is safeguarded. It should be noted, in the light of what has already been noted above with regard to the recent decree-law n. 29/2008, which defines the requirement of communicating fiscal savings above €100,000 to the Tax Authorities, that the adoption of fiscal transparency by outland societies will have few practical implications if the periodic declaration requirement is not safeguarded along with the reversed onus of proof. As we have noted, the declaration becomes dependent on the taxpayer's initiative.

### 3.2.1.7 Additional unilateral measures

In addition to the measures mentioned above, the following measures could fit within the scope of unilateral action (Plateforme Paradis Fiscaux et Judiciaires, 2007):

- 1) Refusal of conventions with tax havens dependent on an authority, such as the overseas regions belonging to some Kingdoms/States;
- 2) Introduction of a withholding tax or the abandonment of favorable fiscal treatment for income paid to or placed at the disposal of entities that reside in tax havens (this type of tax – withholding taxes – mean that an outflow from a country to a certain tax haven would generate a given amount of revenues to that country, allowing only a net value that is smaller than the initial outflow to be sent to the tax haven);
- 3) Refusal of access to the judicial system for certain entities typical of tax havens; and
- 4) Criminalization of certain types of fraud involving the use of tax havens.



The U.S. Senate has played a prominent role in this matter. In August 2006, it issued a report entitled “Tax Haven Abuses: The Enablers, The Tools and Secrecy”. An investigation was conducted by senators Norm Coleman and Carl Levin over the course of a year, during which over 74 summonses led to more than 80 hearings. The report describes 6 real cases, going into the offshore universe in each one of them, analyzing in detail all the mechanisms employed, enumerating the havens’ promoters and users, and assessing the impact that these operations had on U.S. tax revenues. The report also references security issues and the definition of anti-laundering laws. One of the investigated cases was the Anderson case, in which the Cook Islands were actually pressured to supply information.

Ginevicius and Tvaronavičienė (2010) provided an important insight into the discussion on offshore activities, emphasising that “Any attempts of government to restrict offshore activities of local firms could not be effective enough if, like in Lithuanian case, the other jurisdictions, such as e.g. Russia, leaves opportunity to use ‘tax havens’ legally. Therefore, improvement of business climate in own country should be emphasized due to restrict lure of offshore companies.”

### 3.2.2 Multilateral measures

Multilateral measures imply the involvement of various states and the cooperation of multiple parties, so their implementation is complex. Below, we present a summary of these measures.

#### 3.2.2.1 Tax harmonization

In practice, tax harmonization involves the practice of seeking to align direct taxation rates more closely in all judicial spaces (Torvik, 2009) with the aim of preventing capital flight to offshore financial centers.

In discussing tax harmonization, we will reference the report published in July 2004 by the workgroup of the President of the French Republic, led by Jean-Pierre Landau<sup>1</sup>, concerning new international financial regulations. This report summarizes the reflections and conclusions of a multidisciplinary group informed by diverse horizons and sensitivities.

The report is divided into three parts: the first analyzes and offers a status report on development funding; in the second, a scenario for international taxation is proposed on the basis of economic rationality, justice and equity; in the third and final section, the most prominent international taxation proposals are examined, including environment-driven taxation, taxation on financial transactions, and the use of special drawing rights.

The report concludes that, technically, there are available solutions that are inspired by a spirit of political will and concerned with economic effectiveness. The

<sup>1</sup> Tax inspector and financial advisor to the French Embassy in London.

group neither declares support for any of the solutions nor formulates privileged recommendations. However, it enumerates some principles that may serve as guidelines. If the international community decides to commit itself to this report, it will be necessary to find justifications and garner broad support for these principles.

According to Bernard Bouzon (Economics Faculty of the University of Coimbra, FEUC, Integrated Cinema Cycle, Debates and Colloquia at the FEUC 2008-2009, “Global Economy, Commoditization and Collective Interests: People, Commodities, Environment and Tax Havens”, (DOC TAGV / FEUC, 2009)), taxation is the main tool available to states to compensate for disparities in income distribution.

In its latest report, ATTAC, 2013 (Association pour la Taxation des Transactions pour l’Aide aux Citoyens) analyzed fiscal and judicial responsibilities, financial opacity and instability, the creation of speculative capital, the massive deregulation of funding, and international institutions and government intentions, identifying several international-level fiscal options. It concluded that the feasibility of either a declaration of the invalidity of transactions or the creation of worldwide taxation would depend mainly on political will.

The best known example in the field of tax harmonization, an example limited to the scope of indirect taxation, was the definition of the common VAT system in the European Union.

### 3.2.2.2 Request for information

This multilateral measure essentially consists of providing or being willing to provide information. This was the measure that the OECD asked of the various tax havens in order to obtain more transparency. The internationally accorded information exchange norms developed by the OECD and approved by the UN and the G20 foresee the complete exchange of information, when solicited, regarding fiscal questions that relate to national interests or the lifting of bank secrecy for fiscal purposes. Presently, information exchange norms are established by article 26 of the OECD Model Convention and in the Agreement on Information Exchange (2002 Model). In Attachment II, the report presents a summary of the events that took place on April 21, 2009, namely the signing of TIEAs by members of the OECD, as well as the regulations that have been implemented since 2000. (Table A1 in the appendix presents the different international reactions to the signing of TIEAs.)

A questionnaire conducted in over 30 countries by the Financial Action Task Force (FATF), which examined their capacities to detect suspicious activities that could be hidden in commercial transactions, produced noteworthy results. The FATF focused its investigation on the financial system, paying less attention to flows made through the physical movement of capital and disregarding movements

that result from the manipulation of the international trade system. This system clearly embodies a range of hazards and vulnerabilities that can be explored by criminal and terrorist organizations.

### 3.2.2.3 Control of interbank electronic messaging

We shall now discuss the control of interbank electronic messaging, which is similar to multilateral supervision.

Just as there is a Society for Worldwide Interbank Financial Telecommunication (SWIFT Worldwide) whose aim is to facilitate the automatic processing of electronically communicated messages between banks, there should also be a Supervisory Authority that could control and filter all these messages to identify every operation including exchanges with offshore financial centers, which would then be subjected to investigation whenever fraud or tax avoidance was suspected. However, the implementation of this measure, like that of the previously mentioned measures, would involve enormous complexity due to the lack of consensus among states.

### 3.2.2.4 G20 and the European Union

The Global Forum on Taxation (GFT), guided by the work of the OECD's Committee on Fiscal Affairs, has also developed a norm that has been approved by the G20 and United Nations Expert Committee on International Co-operation in Fiscal Matters and now serves as the basis for the majority of bilateral Fiscal Agreements and as an internationally agreed upon information exchange norm (Palan and Chavagneux, 2007).

The appropriate method to distinguish among jurisdictions that apply the norm from those that do not has been assessed in several countries. Although not a strict measure of progress, the signing of the 12 information-exchange agreements has been taken to be an indicator of progress by a jurisdiction.

It should be noted that the removal of all 70 members from the black list of tax havens can be attributed only to a change in criteria, which now include bilateral agreements between states.

Tax evasion is such a serious problem for the European Union that the member states began experiencing revenue and additional complications because the Stability Pact limits the use of fiscal instruments. Along these lines, the so-called Saving Directive was established in 2005; according to this initiative, all countries in the Union are obligated to supply information on the capital incomes of non-residents to their respective countries.

This joint decision by the EU members is, however, challenged by the fact that three of them, Belgium, Austria and Luxemburg, still maintain bank secrecy. They

withhold taxes, transferring most of them anonymously to the country of origin of the taxed person. Laszlo Kovacs, the EU's Commissioner for Fiscal Affairs, predicts that this situation will end soon because it is expected to be temporary and come to an end when the other 5 Western European countries that are not members of the EU (Switzerland, Liechtenstein, San Marino, Monaco and Andorra) agree to supply information about their banks' customers. Switzerland is the country with which negotiations are the most difficult because it intends to negotiate individually with each country to preserve bank secrecy at any cost instead of agreeing on a general pact with the block.

The European policy group has adopted a directive that intends to harmonize taxation within the European perimeter. However, exceptions granted to Belgium, Austria and Luxemburg to enable them to compete with Switzerland allow for situations that adulterate the system.

The World Bank and the IMF have also developed their own anti-corruption agendas, but none of them significantly addresses the opacity of the offshore banking system, with the exception of restrictive programs related to money laundering.

The Financial Action Task Force (FATF), formed by the Heads of State of the G7 in 1989 to lead a global anti-laundering program, published a report on Money Laundering Trade Transactions in June 2006 in which it identified three main methods through which financial terrorists evade the authorities by concealing the origins of their money and integrating it into the formal economy. These methods include the use of the financial system, the physical movement of money, and the movement of assets and services through the international trade system.

The FATF composed a text with forty recommendations intended to be introduced within the legislative frameworks of each country. However, this had little impact. The FATF appears to have become more aware of the potential for manipulation; it has legitimized opaque jurisdictions that commit themselves to co-operation in the investigation of income from drug trafficking and funding for terrorism.

At a meeting in April 2009, the G20 also sent the message to non-collaborative tax havens and jurisdictions<sup>2</sup> that it is essential to protect public finances from the risks generated by non-collaborative jurisdictions, appealing to these jurisdictions to adhere to the international prudence norms related to the anti-money laundering and counter-terrorist financing (AML/CFT) areas. With this goal, it is suggested that each country's regulatory body implement and reinforce these supervisory procedures based on existing processes, namely through the Financial Services Action Plan (FSAP)<sup>3</sup>, and adopt the international standard for information

<sup>2</sup> G20-Declaration on strengthening the financial system – London, April 2, 2009.

<sup>3</sup> The Financial Services Action Plan (FSAP) is a key element in the EU in the attempt to create a single market for financial services. It was created in 1999 for a forecasted period of six years and contained 42 articles related to the harmonization of the financial service market in the EU.

exchange approved by the G20 in 2004<sup>4</sup>, as reflected in the UN's fiscal convention model. It is the IMF's duty, in co-operation with the Financial Stability Board (FSB), to assess the implementation of the relevant regulations.

However, in addition to suffering from weak participation, with only 8 countries represented by their Finance Ministers, this G20 meeting did not lead to consensus. Is this proof of conflicts of interests on the part of the member states?

Despite all efforts, it is most likely less effective to focus on tax havens than to place attention on the legislative dispositions that protect them. States, in coordination, may refuse to recognize the legality of the present statutes of such entities.

The most visible measures so far have come from American President Barack Obama, who, as a result of his own political will and despite the lack of cooperation, worked to lift bank secrecy for approximately 300 Union Bank of Switzerland (UBS) bank accounts.

#### 4 DISCUSSION AND IMPLICATIONS

Having discussed the main reasons for the appearance and ultimate consequences of tax havens, it can only be concluded that tax havens should be more strongly controlled by international regulators such as the International Monetary Fund or the World Bank. However, the apparent healthy and wealthy state of many tax havens<sup>5</sup> and the increasing number of countries developing new forms of tax havens lead us to conclude this discussion by pointing out the three main reasons for the increasing interest in tax havens.

First, the development of tax havens results from the relatively free circulation of money around the world. Investors are interested in choosing the best places for their investments; therefore, they support the ability to move their money freely, without restrictions related to distance, amount, or type of investment product.

Second, the current regulations (despite Basel I and II) are sufficiently elastic. Consequently, international money circulation cannot be significantly decreased in terms of volume or speed.

Finally, the creation of tax havens is used as a rapid method to boost small economies in accordance with the underlying spirit of the law that creates this type of jurisdiction. These small, highly open and deregulated economies usually take advantage of tax havens as strong sources of foreign direct investment and

<sup>4</sup>Group of 20 (G20): created in 1999, this group was formed by the financial ministers and heads of the central banks of the 19 major economies of the world plus the European Union.

<sup>5</sup>The situation of Cyprus (publicly discussed in the final weeks of March 2013) raised serious concerns related to the fundamentals of this apparent wealth of some tax havens. With its particular characteristics as an economy whose bank flows are eight times more significant than its real GDP, Cyprus had to be funded by a "troika" constituted by the European Commission, the European Central Bank, and the International Monetary Fund.

robustness for their banking systems. Therefore, even though tax havens can diminish the amounts of available money and taxable income in some medium or large countries, they can ultimately stimulate the economic growth of small countries.

Freedoms often come at a cost. The cost of being able to freely circulate money around the world is the growth of tax havens. To counteract this growth, however, tax havens cannot simply be eliminated. If a currency is prohibited, other currencies (even unofficial ones) will appear to help all traders in the market. If current tax havens disappear, other types of tax havens, probably with new and attractive characteristics, will appear as substitutes almost instantaneously.

The general solution is to increase the transparency of the official reports of tax havens (from their governments and financial entities) to collaborate against fiscal crimes and money laundering around the world. As is commonly understood, if you and your State know where your neighbor hides his money, your fiscal authorities can diminish his benefits when he does not contribute to common expenses. Tax havens may not receive as much money from some taxpayers if the transparency of official reports increases, but there will be an overall improvement when local taxes decrease. Financial balance and stability will improve. The local banks will also benefit, as will consulting and auditing firms. Furthermore, tax havens will no longer be social purgatories for many of their citizens.

## APPENDIX

TABLE A1

*Regulatory measures on tax havens*

Countries, territories, jurisdictions	Preferential tax regimes and potentially harmful Offshore Financial Centers (OFC) / Tax Havens (TA)				Institution		
	OECD (2000)	IMF (2008)	Senate USA	TJN (2007)	OECD		EU
					Signing of 12 TIEAs <sup>(1)</sup>	Jurisdictions that have com- mitted to signing the 12 TIEAs	Savings Directive / Exception (Exp)
American Samoa							
Andorra	TA	TA		TA	x		Exp
Anguilla	TA	TA	TA	TA	x		x <sup>(2)</sup>
Antigua and Barbuda	TA	TA	TA	TA	x		
Arab Republic of Yemen							
Argentina					x		
Aruba	TA	TA	TA	TA	x		x <sup>(2)</sup>
Ascension							
Australia	OFC				x		
Austria	OFC				x		
Bahamas	TA	TA	TA	TA	x		
Bahrain	TA	TA		TA	x		
Barbados	TA	TA	TA	TA	x		
Belgium	TA			TA	x		x
Belize	TA	TA	TA	TA		x	
Bermuda Islands		TA	TA	TA	x		
Bolivia							
Brazil					x		
British Virgin Islands (B.V.I.)	TA	TA	TA	TA	x		Exp <sup>(2)</sup>
Brunei						x	
Canada	OFC				x		
Cayman Islands	TA	TA	TA	TA	x		x <sup>(2)</sup>
Channel Islands (Alderney)	TA		TA	TA			
Channel Islands (Brechou)							
Channel Islands (Greater Sark and Little Sark)	TA		TA	TA			
Channel Islands (Guernsey)	TA	TA	TA	TA	x		
Channel Islands (Herm)							
Channel Islands (Jersey)	TA	TA	TA	TA	x		
Channel Islands (Jethou)							
Channel Islands (Lihou)							
Chile					x		
China					x		
Christmas Island							
Cook Islands	TA	TA		TA		x	
Costa Rica		TA	TA	TA	x		
Cyprus	TA	TA	TA	TA	x		
Czech Republic					x		x
Denmark					x		
Djibouti							

Countries, territories, jurisdictions	Preferential tax regimes and potentially harmful Offshore Financial Centers (OFC) / Tax Havens (TA)				Institution		
	OECD (2000)	IMF (2008)	Senate USA	TJN (2007)	OECD		EU
					Signing of 12 TIEAs <sup>(1)</sup>	Jurisdictions that have com- mitted to signing the 12 TIEAs	Savings Directive / Exception (Exp)
Dominica	TA	TA	TA	TA	x		
Dubai				TA	x		
England (London)				TA	x		x
Estonia					x		
Falkland Islands or Malvinas							
Fiji Islands							
Finland (Åland)	OFC				x		
France	OFC				x		
French Polynesia							
Gambia							
Germany (Frankfurt)	OFC			TA	x		x
Gibraltar	TA	TA	TA	TA	x		x
Greece	OFC				x		
Grenade	TA	TA	TA	TA	x		
Guatemala							x
Guernsey							Exp
Guyana							
Honduras							
Hong Kong		TA	TA	TA			
Hungary	OFC			TA		x	
Iceland	OFC			TA	x		
India					x		
Ireland	OFC	TA		TA	x		x
Island of Guam							
Island of Niue	TA	TA		TA			x
Island of Saints Peter and Miquelon							
Island of St. Helena							
Island of Tuvalu							
Qeshm Island							
Isle of Man	TA	TA	TA	TA		x	Exp
Israel (Tel Aviv)				TA	x		
Italy (Campione d'Italia e Trieste)	OFC			TA	x		x
Jamaica							
Japan					x		
Jersey							Exp
Jordan							
Kelling to Cocos Islands							
Kiribati Island							
Korea	OFC			TA	x		
Kuwait							
Latvia			TA				
Lebanon		TA		TA			
Liberia	TA			TA	x		



Countries, territories, jurisdictions	Preferential tax regimes and potentially harmful Offshore Financial Centers (OFC) / Tax Havens (TA)				Institution		
	OECD (2000)	IMF (2008)	Senate USA	TJN (2007)	OECD		EU
					Signing of 12 TIEAs <sup>(1)</sup>	Jurisdictions that have com- mitted to signing the 12 TIEAs	Savings Directive / Exception (Exp)
Lichtenstein	TA	TA	TA	TA	x		Exp
Luxembourg (holdings)	OFC	TA	TA	TA	x		x
Macao		TA		TA			
Malaysia (Labuán)		TA		TA	x		
Maldive Islands				TA			
Malta	TA	TA	TA	TA	x		
Marshall Islands	TA	TA		TA		x	
Mauritius	TA	TA		TA	x		
Mexico					x		
Monaco	TA	TA		TA	x		Exp
Monserrate	TA	TA		TA		x	x <sup>(2)</sup>
Nauru	TA	TA	TA	TA		x	
Netherlands	OFC			TA		x	
Netherlands Antilles	TA	TA	TA	TA	x		x
New Zealand					x		
Norfolk Island							
Northern Mariana Islands				TA			
Norway					x		x
Pacific Islands							
Palau Islands		TA					
Panama	TA	TA	TA	TA		x	
Philippines						x	
Pitcairn Island							
Poland					x		x
Portugal (Madeira)	OFC			TA	x		x
Portugal (Santa Maria – Azores)	OFC				x		x
Puerto Rico							
Qatar							
Republic of Vanuatu	TA	TA	TA	TA		x	
Russia (Ingushetia)				TA	x		
Saint Kitts and Nevis	TA	TA	TA	TA	x		
Saint Vincent and Grenadines	TA	TA	TA	TA	x		
Samoa	TA	TA	TA	TA	x		
San Marino	TA				x		Exp
Sao Tome and Principe				TA			
Seychelles	TA	TA		TA	x		
Singapore		TA	TA	TA	x		
Slovak Republic					x		
Slovenia					x		
Solomon Islands							
Somalia				TA			
South Africa				TA	x		
Spain (Melilha)	OFC			TA	x		
St. Lucia	TA	TA	TA	TA	x		

Countries, territories, jurisdictions	Preferential tax regimes and potentially harmful Offshore Financial Centers (OFC) / Tax Havens (TA)				Institution		
	OECD (2000)	IMF (2008)	Senate USA	TJN (2007)	OECD		EU
					Signing of 12 TIEAs <sup>(1)</sup>	Jurisdictions that have com- mitted to signing the 12 TIEAs	Savings Directive / Exception (Exp)
Sultanate of Oman							
Svalbard Islands (Spitsbergen archipelago and the island Bjornoya)							
Swaziland							
Sweden	OFC				x		x
Switzerland	OFC	TA	TA	TA	x		Exp
Taiwan (Taipei)				TA			
Tokelau							
Tonga	TA			TA			
Trinidad and Tobago							
Tristan da Cunha Island							
Turkey (Istanbul)	OFC				x		
Turkish Republic of Northern Cyprus				TA			
Turks and Caicos Islands	TA	TA	TA	TA	x		Exp <sup>(2)</sup>
United Arab Emirates					x		
Uruguay				TA		x	
USA (NY)	OFC			TA	x		
Virgin Islands of the United States of America	TA			TA	x		
Total tax havens	41	46	35	71			

(1) TIEAs: Tax Information Exchange Agreements.

(2) Outside Eurozone.

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