THE HISTORY, EVOLUTION AND FUTURE OF TAX HAVENS

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INDEX:

1. SUMMARY

Since the very early 20th century tax havens have played a very important role in global economy. Corporations and individuals have always seeked their services in order to avoid tax. Tax havens as such have always existed but it has been in the last century when they have developed a more financial approach to the services they provide. Offshore banking, secrecy, neutral taxation and ease of investment is amongst them.

The purpose of this paper is to analyse and focus on the history of tax havens, its characteristics and how they have been able to become so powerful and influential in today's world. As much as there have been efforts to eradicate them, external support and backing has allowed them to keep expanding and keep performing their services. Lobbying, government support and economic influence are factors that will be explored to understand the resistance of tax havens.

KEY WORDS:

- Evasion
- Opacity
- Tax havens
- Territory
- Banking Secrecy
- Fiscal

2. INTRODUCTION

The term tax haven can be defined as those places where individuals and corporations divert their capital to get a reduction of their taxes which are sometimes legal and sometimes not. According to Holtzblatt, its fiscal and financial legislation has as main objective to attract funds of foreign countries; achieving through them a pure financial security. Entities try to minimize taxes in the most appropriate way taking into account and ensuring compliance with tax laws. (Mark Holtzblatt and E.K. Jermakowicz, et al. 2015)

It should be noted that these territories have a certain freedom in transmitting information on the use of income, whether declared or not by natural or legal persons; so when information about the ownership of the accounts is requested, the origin or other data are reluctant to deliver it.

Tax havens bring a new tool, offshore banking, to minimize tax expenditures and maximize profits in tax havens. The term itself does not connote illegal activity, it has readily been confused by the illegal actions that some companies and individuals has carried out, such as not declaring the income earned in such refuges to their corresponding tax authorities. (Hotzblatt and Jermakowicz, et al. 2015)

This very study has the objective to explore in depth the nature of tax havens, analyse their history and expansion and comprehend why they have become what they are now. More specifically, the aim of this paper is to scrutinize the characteristics that make tax havens unique and those that make them different from the rest of countries that are not tax havens. Moreover, the differences between tax havens will be examined. With this, the added intention of this paper is to review the upcoming of tax havens and what events have allowed them to expand and grow. Furthermore, another supplementary purpose of this very paper is to discern the reasons and notions for tax havens to resist eradication and persist in time.

The reasons for which I have chosen the topic of tax havens are 2: firstly, it is a very current topic and has significant importance within the context of the economic crisis;

tax havens compose one of the main institutions chosen by individuals and corporations in order to avoid paying their corresponding taxes. According to the International Monetary Fund (IMF), the funds that have been laundered amount to 2% of the world's GDP; it is through tax havens where more than half of the international money flow takes place. (El Público, et al. 11 / 05 / 2016)

The other reason for which this topic has been chosen is the will to learn and get to know better this part of finance which is related to tax and financial law. These topics are barely touched upon in lectures at universities for which it would be desirable to learn more about it. News about tax havens usually come up in the news or in the papers and the true knowledge on this topic is in fact very limited. Being able to go in depth and explore the world of tax havens will allow me to comprehend and understand the ongoing and future events related to tax havens.

In this way there are issues that need to be answered in order to understand the scope of tax havens. They are the following:

- Where and how did tax havens appear?
- Why did they appear?
- Why do they still exist and don't disappear?

On the other hand, tax havens are a topical issue, we must remember what happened with the famous papers of Panama and the media impact that this caused, arousing in people a certain interest in extraterritorial banking and countries with neutral taxation.
The methodology used for the present work has been structured into four sections. Firstly, the origin and reasons for the creation of such tax havens, as well as their problems, will be analysed. Secondly, the concept of tax haven is defined and its classification according to the personality type, whether physical or legal. Following this, the special characteristics and factors that they must possess in order to provide a more flexible taxation are described, in order to encourage foreign investments; as well as the role they play in the global economy. Finally, the measures that have been adopted to try to combat the use of tax havens and their failed attempts to make them disappear are discussed. Finally, the conclusions and bibliography used in the present work are presented.

3. HISTORIC EVOLUTION

3.1. Why did they appear?

The history of tax havens is packed with myths and fables.(Christian Chavagneux and Ronen Palan, et al. 2007).The history of tax havens is not linear and continuous. It is made up of ruptures and mutations in time, and depending on the places and times these financial centres have played different economic and political functions. Chavagneux, Palan and Arespacochaga agree that their origin and development takes place in the late nineteenth and early twentieth centuries. It happened in different places simultaneously, but with a very similar concept, which began to develop in the decade of the eighties. Its boom is due to the industrial and economic development of the postwar years as well as to the process of decolonization of some European powers. (Joaquín Arespacochaga, et al. 1996) In this way, motivated by very diverse circumstances, some territories designed tax systems capable of attracting foreign capital, using therefore the most varied legal-fiscal structures. (Nuria Badenes Pla, et al. 1994)

In order to answer the question of why tax havens appeared, tax must be taken into account. Basically this is the main reason, since the appearance of tax; of whatever type are those that have led to the formation of tax havens. So it could be argued that tax havens seem to avoid taxes. On the other hand, there are also tax havens which provide services that make money laundering to be plausible. However, tax havens can also provide financial security and secrecy, especially in difficult times, economic instability or wars. The clearest example of this is the interwar period between World War I and World War II.

After the First World War, participant countries decided to increase staggeringly their tax rates in order to pay for reconstruction costs. For instance, France tripled the tax levels from 4% to 12%. Moreover, tax was introduced on both income and wealth; individuals were looking for methods to avoid paying this tax. Switzerland became a location for people to relocate their assets and money to escape being seized by tax. Most rich and very wealthy European individuals were relocating their assets in Switzerland, which already back then was offering banking secrecy, discouraging governments to investigate whether tax evasion was taking place and by whom. The origin of most relocated wealth was indeed two adjacent countries: France and Germany. In the second half of the 1930s, French capital alone would attain between 4 and 8 billion CHF—German capital would be situated at between

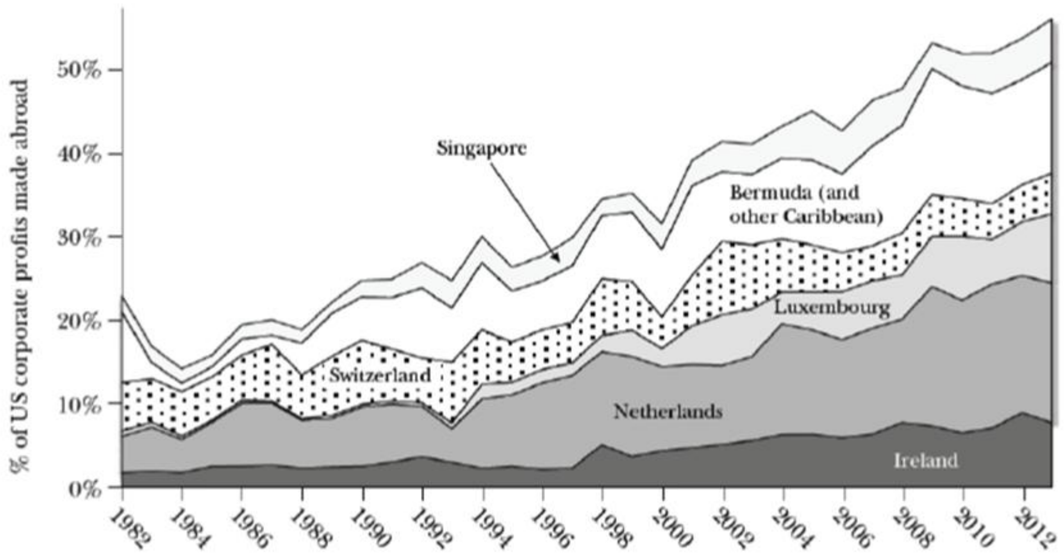
3 and 5 billion CHF at the beginning of the 1930s. (Farquet, et al. 2012) Other countries such as Italy and United Kingdom also had individuals relocating their wealth but not in the magnitude that France and Germany were.

3.2. Problems with tax havens

Tax havens play a very important role in finance, globally. They have, since the 1970s, experimented a process of financial reconversion. This is defined as: *"a systemic transformation of mature capitalist economies that comprise three fundamental elements: first, large non-financial corporations have reduced their reliance on bank loans and have acquired financial capacities; second, banks have expanded their mediating activities in financial markets as well as lending to households; third, households have become increasingly involved in the realm of finance both as debtors and as asset holders. The crisis of 2007-2009 is directly related to these developments".* (Costas Lapavitsas, et al. 2011)

This triple transformation matches the development of tax havens. Firstly, corporations have found their ability to locate their income results in territories where there is a lower tax rate. This could be the example of Google, Amazon or Starbucks. This is achieved through profit shifting: a process by which income is delocalised. Treaty shopping is also used by these businesses to avoid tax: bilateral tax laws are exploited and prices are modified in order to be able to perform intrafirm transfers or loans. These tax avoidance techniques have allowed offshore benefits to have risen significantly since the 1980s. The graph below, groups the magnitudes of the share of tax havens in US corporate profits made abroad. Countries from very different geographical locations have been graphed to cover all geographical variables. (Kimberly A. Clausing, 2009; A. G. Karikari, 2014 and Oxfam Intermon, et al. 2015)

Graph 1: The Share of Tax Havens in US Corporate Profits Made Abroad



Source: Gabriel Zucman, 2014:128

On the other hand, the large private banking sector has specialized in the activities of tax havens opening branches in these territories, providing investment advisory services as well as onshore banks (Juan Carlos Peramo, et al. 2013). From the graph presented above, it can be observed how countries like Bermuda, Netherlands and Luxembourg have increased notoriously their share percentage of US corporate profit made abroad. Bermuda has achieved a 15% in 2012, with Luxembourg being just shy of 10% and Netherlands being over 20%. As a whole all the countries in the table above only had a 25% share in 1990 whilst achieving over 50% in 2012.This can be explained by one of the most important activities carried out by global private banks, hedge funds, taking advantage of the opacity of tax havens. In 2010, more than 60% of hedge funds were found to be in tax havens (27% in Delaware and 37% in the Cayman Islands). Excessive leverage and lack of regulation make them an instrument directly related to the gestation of financial crises (Alberto Garzón, et al. 2011). Bank secrecy is a key element in the opacity and deregulation that gives discretion and professional reserve to banks and their employees not to reveal the true owner of the accounts or material assets which allows companies and individuals to use tax havens without legal reprisals. (Peramo, et al. 2013)

Moreover, individuals with more assets have improved and increased their ability to move their capital to tax havens to hide and / or evade taxes: *"The system of globalised finance exploiting offshore centres has essentially functioned as a* *means of low-cost financial intermediation for those fortunate enough to have acces to it."* (Salomone Picciotto, et al. 2007).

Collection crisis in developed economies

The existence of these territories has a direct impact on inequality both internationally between different geographical areas and within countries. With respect to the domestic level of a country, tax havens have contributed to a widening of income inequality and its state redistribution mechanisms are no longer effective; which has great importance in terms of the quality and standard of living of today's societies (Garzón, et al. 2011). Since financial deregulation, the free movement of capital makes it difficult for States to increase capital appreciation because of the potential massive leakage of their territory. Vigueras states that in this way, tax havens *"undermine democracies by exerting strong pressure on states by conditioning fiscal and economic policies".* (Juan Vigueras, et al. 2005)

Inequality and development

As for inequality at an international level, tax evasion when dealing with prosecutors is a major problem for developing countries: *"Tax havens […] may play an even greater role in shaping the lives of those who live in developing countries."* (Palan, et al. 2013).

For example, Zucman makes reference to "The Missing Wealth of Nations: Europe and the US net Debtors or net Creditors?", The assets that the residents of Africa possess in Switzerland would amount to about 120,000 million euros, more than those would own US residents, when its Gross Domestic Product (GDP) is seven times larger than the African continent (Zucman, et al. 2013). Therefore, offshore wealth and the problem of tax havens are very important elements in development studies: *"This early research led us to notice that – contrary to the basic assumptions of development economics – there were very large gross and net flows from the developing world to Organisation for Economic Co-operation and Development (OECD) countries: not only in the form of demand for reserve assets like currency and gold, but also for ordinary financial assets."* (J. Henry, et al. 2012)

As for the developing countries, capital flight is the main source of their problems. This is a fundamental problem for the collection of public coffers, it is a greater inconvenience than for those countries that are already developed: *"Such losses of tax revenues are far from limited to rich OECD countries. Indeed, developing* *countries suffer far more due to capital flight which is facilitated and encouraged by the offshore system.*” (Picciotto, et al. 2007).

Alex Cobham estimates the tax collection losses of $ 385 billion per year for developing countries as a whole. Thus, tax havens have a direct impact on developing countries, exacerbating the problems of debt sustainability, deteriorating terms of trade and development aid (Oxfam, et al. 2000; Cobham, et al. 2005).

4. CONCEPTS AND DEFINITIONS

The concept of tax haven comes from the term TAX HEAVEN whose pronunciation is similar to "TAX HAVEN" which comes from English and whose meaning in Spanish is tax shelter. Some authors point out this failure in the translation to influence that it is: *"A translation error that is not accidental or irrelevant" since it gives "a very important semantic difference. It is not the same as a refuge, the consequence of a confiscatory attack, than a paradise. It is important, because this translation error occurs, not by chance either, in the countries where the most interventionist policies triumph"* (D. Lacalle, et al. 2013).

The term "tax haven" can be defined as that country, territory or jurisdiction that lacks taxes and financial controls, making it attractive to those capital owners who are not willing to attest to the provenance of their assets as well as to tax for them in Your country of origin; due to the fact that information is not administered to the public bodies of the country of origin, regardless of their origin, whether legal or illicit, and this is due to the opacity that exists in these havens. (Peramo, et al. 2016)

On the other hand, the government has two forms of application for the identification, hunting and capture of such tax havens. The first is what is known as a blacklist and the second alternative is to prepare and assemble in a document the requirements and defining characteristics to be able to grant the title of tax haven; so if the requirements established in said writing are met, it will be worthy to be a country or territory of such recognition.

Characteristics and advantages of tax havens

The following table groups the features that different tax havens have and what tax havens have which features. It is important to outline that not all tax havens are the same and not all of the tax havens fall into the same categories. Moreover, it would be interesting to point out that not all tax havens are on the same level and that ones can significantly differ from others; others share vast similarities with one another. (S. Botis, et al. 2014)

	Features	State
1	The income and capital gains are not taxed. They are known as ”zero havens” or ”pure havens’.	The islands of Bermude, Bahamas, Bahrain, Nauru, Cayman,Turks, Caicos, Saint Vincent, The Republic of Vanuatu and Monaco;
2	The tax rates have a low value as they are approved by the state or as a result of the application of the quota reductions, due to the implementation of tax agreements between different states concerning double taxation;	The British Virgin Islands, Liechtenstein, Switzerland, Neterlands Antilles, Man Islands, Guernesey and Jersey Islands, The Republic of Ireland;
3	The taxation of income or benefits is determined locally base. The taxpayers from these states are exempt from taxation of profits made by trading across borders;	Liberia, Costa Rica, The Philippines, Venezuela, Malaysia, Panama;
4	Countries with preferential treatment for offshore and holding companies;	Hungary, Austria, Netherlands, Luxemburg, Thailand, Singapore;
5	Offers tax exemptions for industries that have been made for the development of exports;	Ireland for the companies created before 1 January 1981, Madeira;
6	Provides financial benefits for international business companies, that are focused on	The Islands of Bahamas, Antigua, Bermude, The British

	investment or not, but instead are classified as offshore finance companies with certain privileges;	Virgin Islands, Montserrat and Nevis Islands in the Caraibbean;
7	Provides specific tax advantages to other banking companies or other financial institutions with offshore activities;	Antigua, Island-British territory in the Caraibbean, Anguilla, Grenada, Barbados Islands and Jamaica;

Source: Botis, S. (2014). FEATURES AND ADVANTAGES OF USING TAX HAVENS.

4.1. User classification

Tax havens with preference for physical people:

Tax havens that are aimed at people and personal wealth are those that look for users to establish their fiscal residence in them, irrespective of whether they are living there or not. These tax havens demand a certain frequency of transfers, characteristic that does not exist in other tax havens where it is not compulsory to be an active user in order to benefit from them. (Mario Alva, et al. 2010) These tax havens are centred in attracting personal wealth and relocation of personal assets. Examples of these are Andorra and Monaco. It is widely known in Spain, that individuals that have non-declared sources of income, usually relocate and stash these away in these tax havens.

Tax havens with preference for corporations:

With respect to those described above, tax havens which aim to provide financial services to corporations are more abundant. It is not necessary for users to visit the tax havens for services to remain active. In some legislations it is usually a norm for a person to be named as a directing manager with full representing powers. Another fact to take into account is that in these territories, large networks of bankers, lawyers and consultants exist. These are connected with international organisations that supervise their correct management of the operations and structures created. Moreover, certain tax havens develop their own economies by attracting numerous corporations, without the existence of intermediaries, in order to allow national agents benefit with the negotiations (Alva, et al. 2010). Examples of these kind of tax havens are the Virgin Islands and Amsterdam, which attract most of the British and American corporations.

Mixed tax havens:

Mixed tax havens are those that would be beneficial for both individuals and corporations; they attract both type of customers. These, as many others offer banking secrecy together with very low or neutral tax rates. Their political and economic base is set upon these principals. Examples of these are the Bahamas and the Cayman Islands.

5. TAX HAVENS' BASIC CHARACTERISTICS

5.1. Characteristics

- Null or very low taxation for non-residents. However, a high quantity of taxes apply for those that live there, which is surprising since people not living there are not subjected to these. (José M. Martinez, et al. 2005). Because of this, it is believed to exist a dual model. This model does not grant the same legislation for nationals with respect to those who are not but have their assets there relocated; a different fiscal, banking regime will exist for them. (Maria A. Ferrer, et al. 2009)
- Secrecy, both in the administration and banking departments. These make transactions, transfers and ownership of corporations which shares are resident in these tax havens, to be protected and confidential and remain anonymous to outsiders. This is compulsory by law. These are the examples of the Cayman Islands. (Ferrer, et al. 2009)

- The procedure for corporations to list themselves or be created in tax havens is very lax, there is no basic information that needs to be given. In fact, in some territories, the identity of the owners is concealed and so are the ownership of the shares of any given corporation. (Martinez, et al. 2005; Ferrer, et al. 2009)

- These territories are very likely to pose themselves as privileged locations for tax avoidance-, they are not willing to negotiate any kind of law or agreement that will force them to give up traits such as secrecy, therefore avoiding any change in their jurisdictions. (Ferrer, et al. 2009)

- Even if there were clauses that forced tax havens to put into practice actions against their culture, they would probably find limits to which apply these clauses or find legal loopholes in order to void these clauses. Applying these clauses would mean tax havens would have to resign to banking secrecy. Delaying periods of applied clauses would also be a common practice here. (Martinez, et al. 2005; Ferrer, et al. 2009)

- The absence of rules and the restrictive character to which banking control applies, allows these financial entities use their structure as a mean of funnel to attract and relocate funds, in order to “recycle” them. These is possible because of the lack of control that exist on capital movement that have tax havens as either origin or destination. (Ferrer, et al. 2009)

5.2. Factors to consider when choosing a tax haven

The criteria that is taken into account when choosing a tax haven are several. In this decision making more than one factor influences decision-making. These can be the amount of funds to be invested, geographical location, political stability and the information exchange channels. On the other hand, the cost of choosing each tax haven would also be taken into account; financial advantages must be obtained when choosing a tax haven. For instance, Panama offers facilities and very low business constitution and management costs. Moreover, this country offers both political and economic stability since the currency they operate in is the US dollar.

It would be worth mentioning that different factors also condition the decision making depending on the type of investment to be made. There are 3 factors that would be taken into account are the following (Eduard Chambost, et al. 1982):

1. General factors
2. Individual factors
3. Specific factors

1. GENERAL FACTORS

General factors refer to those that belong to the general characteristics of tax havens, independently of whether physical or legal persons are to be considered. These factors refer to the tax haven itself rather than to the problems of their use. (Chambost, et al. 1982)

- They must be geographically referenceable.
- Political and economic stability.
- Well-developed communications and transport networks.
- Use of strong, stable currencies.
- Existence of social structures.

2. INDIVIDUAL FACTORS

These refer to the personality and character of the user of tax havens. These are more difficult to classify due to the different motivations and objectives they have. In fact, these differences are usually very wide in comparison to those of tax havens.

Individual factors are not easy to explain, however they can be summarised with the following sentence: "*Tax havens are tailor-made*". (Chambost, et al. 1982)

3. SPECIFIC FACTORS

Specific factors make reference to legislations, here belong:

- Specialisation in different financial services: selecting a tax havens that is specialised in a very particular service.
- Methodology in the risk management: choosing a tax haven that is both suitable for the user and its wealth, avoiding using always the same tax haven in order to minimise both economic and political risks.

In both cases, it is of prime importance to not forget that general factor and individual factors still exist. (Chambost, et al. 1982)

5.3. Role in global economy

Having commented on why the tax havens appeared, it is easy to understand that the expansion and growth of them, as well as the appearance of new territories is absolutely inevitable. This expansion has been driven by the implementation and application of tax laws, both new and existing ones, and by the growth of capitalism of the twentieth century; individuals, corporations and corporations have sought financial refuge. This is not quite right; the increase in taxes was not the main cause of the expansion of tax havens, but probably the emergence of the Euromarket or the extraterritorial financial market because of a Bank of England decision in the late 1950s. The activities of the said Euromarket were not regulated by the Bank of England and, bearing in mind that much of the transactions were done from London, resulted in no authority regulating this market. (Ronen Palan, Richard Murphy and Christian Chavagneux, et al. 2010)

Observing the figures of the World Bank indicators, one can see how Table 1 shows the comparison between economic growth during an annual period, of tax havens compared to the rest of countries that are not, during the last years of the twentieth century. As for the first set of columns, those referring to the GDP, it can be seen how the annual GDP and GNP growth of tax havens doubled with respect to the percentages of the world total. Obviously, tax havens benefit from both illegal and legal clientele, to call it somehow; so that the growth of these territories is maintained with money obtained from activities of both licit and illicit activities. This reproduces an image of the reason for the expansion of tax havens. The most conservative option is the global development indicators, although the difference in annual per capita growth can be seen.

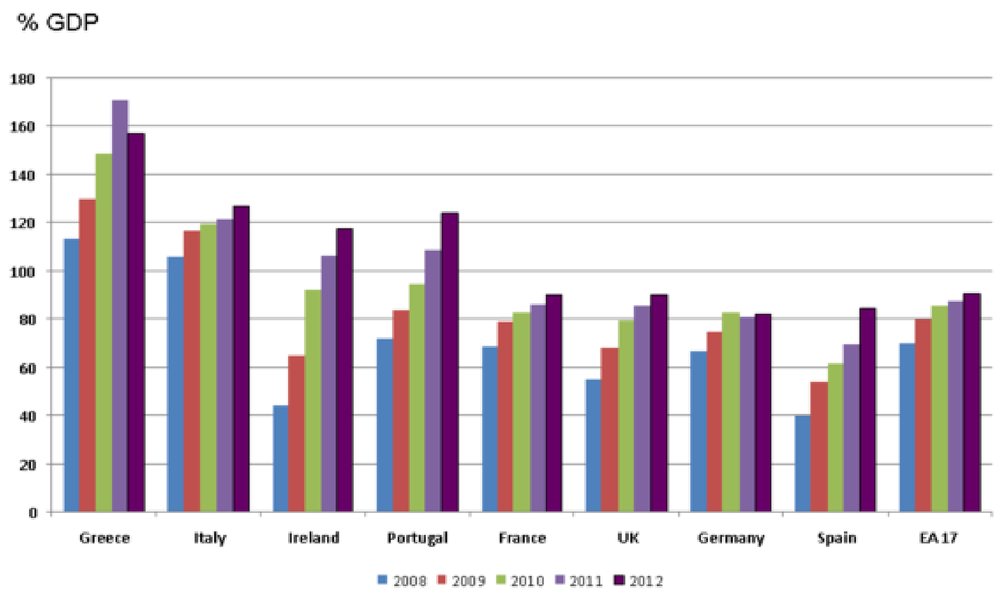
Table 1: World Total and all Tax Havens

	GDP		GNP
	Penn World Table	World Development Indicators	Penn World Table
World Total	1.4%	1.7%	1.4%
All Tax Havens	3.3%	2.6%	3.0%

Source: World Bank, World Development Indicators.

If we explore what the impact of tax havens and their role in the economy of the world, there are 2 scopes that would need to be described. It is believed that tax havens play both a negative and positive role in the global economy. Firstly, tax havens deprive governments from non-tax haven countries from large sums of money in form of tax collection. This deprives the country form reinvesting these funds to develop the country or to repay public debt: this could be the case of southern European countries and the US. It has been estimated that 8% of the private financial wealth (about $5.8 trillion) of wealthy individuals is being stashed away in tax havens, leading to an annual tax loss of €130 billion". (Silke Otsch, et al. 2015) (Zucman, et al. 2013). Since tax havens are collecting all this money, they are contributing towards their own development and wealth, in detriment of non-tax havens. The state loses revenue of approximately 2% GDP in the United States and 2% to 2.5% in the EU due to corporate tax avoidance (Palan, et al. 2010). On the other hand however, it is believed that tax havens allow companies to grow and expand since the lower tax expense allows them to reinvest more readily in creating growth and development within the company. Reducing the tax bias against capital formation will improve growth by increasing saving and investment (Mitchell, et al. 2016). Lower tax rates also allow corporations to pay higher salaries to their workers and are able to pay higher dividends since their revenue income remains untouched. For this, it is believed that tax havens create more competitive and stronger companies and corporations. Lower tax rates also improve and enhance entrepreneurship since companies fin less obstacles in the process of formation and consolidation.

Graph 2: Debt to GDP Ratio for Selected European Countries



Source: Eurostat

From this table, we can observe how the public debt of different European countries has soared since the start of the economic crisis. Considering that tax havens have deprived these countries from many funds, it could be imaginable that public debt would not have increased or would not have increased as much if governments would have been able to collect all these billions in tax. For this, countries like Greece, Italy or Portugal have been economically damaged by not being able to collect tax and be dispossessed of the ability to reduce public tax or even increase public spending without having to loan out funds in form of bonds or loans from the European Central Bank. A Washington based international organization that works to curtail illicit financial flows, "*estimates the total amount deposited by non-residents in offshore financial centres and tax havens at about US$10 trillion (for the sake of comparison, annual worldwide GDP in 2010 was $74 trillion). The study also states that these deposits are growing by an average of 9 per cent a year, substantially more than the rate of increase of worldwide wealth in the last decade"* (Alepin, B. et al. 2012)

Table 2: The Ten Most Obvious Corporate Tax Havens

10 Countries with Highest Reported Profits as a Share of GDP in 2012 from Subsidiaries of American Corporatios (dollars in billions)

	Reported Profits of US-Controlled Subsidiaries	Gross Domestic Product	Subsidiary Profits as % of GDP	Foreign Income Taxes Paid by Subs*	Foreign Taxes Paid by Subs/ Profits of Subs
Bermuda	$ 104	$ 6	1884%	$ 12	12%
Cayman Islands	46	3	1313%	9	20%
British Virgin Islands	7	1	746%	1	9%
Bahamas	23	8	282%	1	6%
Luxembourg	68	56	121%	5	8%
Ireland	135	225	60%	3	2%
Netherlands	165	829	20%	14	8%
Singapore	23	290	8%	1	6%
Switzerland	44	665	7%	4	8%
Hong Kong	10	263	4%	1	10%
Total for Ten Most Obvious Tax Havens	**$ 625**	**$ 2,346**	**27%**	**$ 52**	**8%**
Total for All Other Countries in IRS Data	**$ 428**	**$ 45,616**	**1%**	**$ 76**	**18%**

**Foreign taxes paid to any foreign countries, not just to countries listed.*

Source for Profit and Tax Figures: IRS, Statistics of Income Division, April 2016

Source for GDP Figures: World Bank http://data.worldbank.org/indicator/NY.GDP.MKTP.CD, United Nations Statistics Division http://unstats.un.org

From this table, it can be seen how lucrative the business of being a tax haven is. These countries have unbelievably high tax havens for what their economies represent, compared to those who are similar but are not a tax haven themselves. For instance, Switzerland has a GDP of 665 billion dollars, which is amongst the highest if not the highest in Europe. If we then take into account subsidiary profits, those tax havens located in the Caribbean have 4 figure profits as % of GDP. If we were to compare this to the top performing companies, none would match this profit percentage with respect of their total net worth.

6. EFFORTS TO ERADICATE THEM AND WHY DO THEY STILL EXIST?

Anti-tax haven measures can be described as strategies, norms and rules that empower States affected by the employment of tax havens, to a certain extent, by not recognizing or admitting investments made in said territories by their residents. In this way, many organizations worldwide, the OECD, governments and other institutions, have tried unceasingly to propose a series of measures aimed at preventing unfair competition between States, the cover-up of certain illegal operations linked to the economic and financial spheres. (OECD, et al. 2017)

As a result, there is a wide range of anti-haven measures that reduce the use of tax havens either through an ex ante phase, discouraging investment in these jurisdictions through these measures; or through an ex post phase, a process that applies these measures when operations in tax havens have already taken place.

Such measures arise as a result of the concern of states in the face of a growing decline in tax revenues, adding to the laundering of current assets and, consequently, to alleged criminal organizations. However, although the aim is to combat the related criminal aspects, but not necessarily those inherent in them; an objective which is frustrated due to the existence of the banking secrecy that the great majority guard with zeal and the sovereignty of states.

Thus, the sovereignty of states is established as a perfect argument to avoid access to the information that protects the jurisdictions of tax havens, which is a key link in order to trace the flow of wealth. Therefore, we would face fundamental rights of democratic individuals and states, and there are no legal bases in international law to intervene when invoking the principles of sovereignty and banking secrecy.

The elaboration of the rules is really complicated and difficult, which have been elaborated on the basis of two essential writings for more than 50 years. The first is the Charter of Human Rights and the second document is the Charter of the United Nations; to which they have been added resolutions, conventions, and letters of principles among other documents related to diverse sectors like terrorism or the environment. (OECD, et al. 2017)

In this regard, there are positions that suggest that the creation of specialized agencies, the signing and ratification of international conventions on the repression of corruption in international markets, studies, permanent judicial and police cooperation, the creation of commissions of inquiry should be encouraged. These should be done under the guardianship of important international organizations such as the International Monetary Fund, the World Bank and the Organization for Economic Cooperation and Development.

Likewise, several countries agree that the greater the level of knowledge that exists on the procedures that are used in Tax Havens the greater the possibility of implementing controls on such capital movements and transnational judicial investigations will be. Thus achieving eradication at an international level of harmful tax practices, following the trend that proclaims the exchange of information as the criterion of identification of tax havens.

The data provided by the OECD shows how to strengthen existing measures in order to harass harmful tax practices. Between 1998 and 2000 a program was initiated in order to recognize and study tax havens. In 1998, the first report was published, which details the criteria for the identification of tax havens for the first time, including: lack of taxes, lack of reciprocal information, lack of transparency and lack of real economic activity. Taking this scheme as a tax haven definition, the OECD published a first list in the mid-2000, which included 31 countries. In the following 17 years, this list has been updated several times, Niué (2002) y Naurú (2003). (OECD, et al. 2017)

The G-20 summit in April 2009 marked the end of the era of banking secrecy. According to the OECD and its new list, tax havens would disappear in the face of the threat of heavy penalties. But everything was in vain. The new list that emerged from that summit only refers to those jurisdictions that do not exchange information, "non-cooperative jurisdictions". (EFE New Service, et al. 2009). And to be able to be ticked off this blacklist only, the corresponding territories had to write a series of bilateral agreements of information exchange, as for example, with other tax havens. This resulted in 0 countries remaining on the official OECD list. The Tax Affairs Commission decided at the end of 2009 to remove Liechtenstein and Andorra from the list of non-cooperative havens, owing to the commitment they made to the OECD to apply the rules of transparency and exchange of information. (EFE New Service, et al. 2010)

However, tax havens have continued to operate. In contrast to those in the 1970s, 25, in the year 2015, the coalition of governmental organizations "Tax Justice Network" has classified 102 opaque territories, according to their degree of financial secrecy, as can be seen in table 1. Such as Switzerland, Austria and Luxembourg, which stand out for their banking confidentiality, and small islands or enclaves recognized for their status as offshore centres. Thus, several countries of the European Union are placed in prominent positions on the list. (Tax Justice, et al. 2015)

Table 3: Banking secrecy index

RANK	Secrecy Jurisdiction	RANK	Secrecy Jurisdiction	RANK	Secrecy Jurisdiction
1	Switzerland	36	Liechtenstein	71	Iceland
2	Hong Kong	37	Ireland	72	Seychelles
3	USA	38	Belgium	73	Slovakia
4	Singapore	39	Guatemala	74	Macedonia
5	Cayman Islands	40	Israel	75	Poland
6	Luxembourg	41	Netherlands	76	Monaco
7	Lebanon	42	Chile	77	Estonia
8	Germany	43	Saudi Arabia	78	Portugal (Madeira)
9	Bahrain	44	Australia	79	St Lucia

10	United Arab Emirates (Dubai)	45	India	80	Brunei Darussalam
11	Macao	46	Philippines	81	Czech Republic
12	Japan	47	Vanuatu	82	Grenada
13	Panama	48	Ghana	83	Denmark
14	Marshall Islands	49	Korea	84	Hungary
15	United Kingdom	50	US Virgin Islands	85	Greece
16	Jersey	51	Samoa	86	San Marino
17	Guernsey	52	Mexico	87	Andorra
18	Malaysia (Labuan)	53	Norway	88	Slovenia
19	Turkey	54	New Zealand	89	Dominica
20	China	55	Gibraltar	90	Finland
21	British Virgin Islands	56	Sweden	91	Cook Islands
22	Barbados	57	Aruba	92	Montserrat
23	Mauritius	58	Italy	93	Nauru
24	Austria	59	Latvia	94	Bolivia
25	Bahamas	60	Belize	95	Dominican Republic
26	Brazil	61	South Africa	96	Gambia
27	Malta	62	Botswana	97	Maldives
28	Uruguay	63	Anguilla	98	Montenegro
29	Canada	64	St Vincent & the Grenadines	99	Paraguay
30	Russia	65	Antigua & Barbuda	100	Taiwan
31	France	66	Spain	101	Tanzania
32	Isle of Man	67	Costa Rica	102	Venezuela
33	Liberia	68	Turks & Caicos Islands		
34	Bermuda	69	St Kitts & Nevis		
35	Cyprus	70	Curacao		

Source: Financial secrecy

This explains why there is a lack of political will to end tax havens, despite meetings and reports by the G20. The free movement of capital is pre-empted and a huge tax avoidance is allowed, allowing banks, law firms and accounting firms to provide legal and financial opacity to their clients.

As Nicholas Shaxson points out in his book The Treasure Islands: *"The extraterritorial world surrounds us everywhere. More than half of the international trade passes, at least in theory through tax havens. More than half of all banking assets and one-third of foreign direct investments made by multinational corporations are channelled through the extraterritorial system*". (Nicholas Shaxson, et al. 2014)

According to the Spanish Royal Academy of Language, money laundering can be defined as "Any offense consisting of acquiring or trading goods, particularly money, from the commission of a serious crime." (Spanish Royal Academy of Language, et al. 2017)

Studies on how money laundering occurs are multiple, but the most honest and firm is the process of three phases: placement, stratification, and integration; Which is carried out by the International Financial Action Task Force.

The first phase, "placement" is based on the insertion of black money into the system. This process can be done in different ways such as: making small income in different accounts, so that as the amount is derisory will not be detected in any case by banks, acquire financial instruments in cash, or use of business as cover In which large amounts of cash are handled. (Stefan Mihu, et al. 2012)

The second phase, "stratification" also known as "blurring". This phase consists of making large transfers to bank accounts residing in tax havens, whose identities are safeguarded. Once the cash is in the tax havens, it is invested in innumerable societies in order that its control is impossible.

And finally, the third phase "integration" occurs when illicit funds spread over a whole range of societies, return to their owner transformed into investments in objects of great value. (Stefan Mihu, et al. 2012)

7. CONCLUSION

This project has reviewed the history of tax havens, its evolution and its strength in the face of the efforts to eradicate them. After carrying out this work, we could arrive at a series of considerations in which we reflect on the importance that tax havens currently have. Due to the existence of tax, the emergence of tax havens was inevitable. Since many years ago, citizens have always tried to find ways to avoid paying taxes and keep their capital intact. With the constant growth of taxes, it was to be hoped that tax havens would grow and develop in the same way. As for the present paper, it can be pointed out that taxes and tax havens are directly related, because when there have been periods of high tax growth, it has been when tax havens have grown and spread. Due to taxes such as corporate income tax, new tax havens appeared, offering new financial services very different from those that already existed until now. By which it can be affirmed that the appearance of the taxes caused that the tax havens appeared.

Tax havens are not only directly related to taxes, but also to financing. Due to the fact that the financial sector has been developing and expanding, so have tax havens. As this sector has become increasingly global, tax havens have been able to participate in this development that has allowed them to expand and evolve with it. So that in the second half of the twentieth century the paradises have become a fundamental piece of international financial trade. With this, another asset tax havens possess that makes them even more attractive to individuals and corporations is the banking secrecy that exists. The opacity that characterises tax havens is very attractive to individuals and corporations since it allows them to remain anonymous against governments and foreign institutions.

The expansion of tax havens has also been strengthened by the creation of new financial services offered by banking and financial institutions. As for example in the Cayman Islands, where corporate taxes are zero percent. It is absolutely inevitable that with the appearance of new and more modern financial services, tax havens not only continue to operate but also continue to develop and grow. It has been discovered that a tool that keeps capitalism alive is tax havens; allowing almost instantaneous investment and international transfers. So while capitalism exists, tax havens will probably continue to exist.

However, not only economic growth and capitalism have sustained the existence of these territories. Tax havens have been protected over time by lobbies, which influence governments not only to protect tax havens, but to passively behave in the face of intentions to make them disappear. In addition, tax havens can exert considerable pressure to protect their situation through the formation of coalitions. The tenacity of tax havens is also reached as a result of the aid that corporations, politicians and individuals with power can offer. So it is in their own interest that tax havens should not disappear, as many of these institutions and individuals benefit greatly from the existence and services of tax havens; since they use them in order to escape their personal obligation to contribute to high taxation systems.

Taking stock of the characteristics that these territories possess, it can be deduced that another conditioning factor is banking secrecy, and until its eradication is achieved, one will not have taken a step forward in the fight against tax havens. Although there are measures that attempt to solve the problem of opacity of information in these territories, all measures are incomplete. On the other hand, another pillar for fiscal havens to continue to exist is the lack of fiscal homogeneity, since if there were the same tax rate in all countries there would be no reason to take capital to foreign countries because they would not benefit.

There are solutions for the eradication of the paradises, but it is quite clear that the financial system has enough power so that some of these measures are not carried out or are incomplete due to the pressure exerted by the governments of the countries that try to solve this serious world problem.

It can be drawn from all of the above and conclude that tax havens have a marked detriment to the level of social welfare and the economy of all countries, particularly those in the process of development and, therefore, countries that have more influence should make an effort to make it possible to remedy this situation. As long as the current fiscal and financial situation does not change, the chances of tax havens disappearing are very slim.

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- Table 1: Source: World Bank, World Development Indicators.

- Table 2: The Ten Most Obvious Corporate Tax Havens

  Source for Profit and Tax Figures: IRS, Statistics of Income Division, April 2016

  Source for GDP Figures: World Bank <http://data.worldbank.org/indicator/NY.GDP.MKTP.CD>, United Nations Statistics Division <http://unstats.un.org > [Accessed on 1 june 2017]

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