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TAX HAVENS

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Introduction

Tax havens or “secrecy jurisdictions” as such have always existed, meaning that they do not consist a recent phenomenon. It is a fact, though, that especially during the last century several wealthy corporations and individuals originated from the business -and not only- world are observed to turn their businesses’ “eyes” and capital towards that direction while trying at first instance to avoid taxes imposed by high-tax countries of their residence for their providing services. In this frame of time, tax havens have managed to develop their financial system services, such as offshore banking, secrecy, neutral taxation and significant incentives for investments, in order to attract the capital of the non-residents. Thus, they gradually achieved to culminate, create a form of dependency on the business world and generally play a major role in the evolution of the capitalist system on a global scale. It becomes clear, therefore, that they consist the center of interest not only for the global economy but also for the legal order, the governments, the competent institutions, the society, politics and inherently any factor affecting the free movement of capital and the public financial management.

Some reasons for their remaining at the center of discussions could indicatively be either the occasional financial scandals [Panama papers, Paradise papers, Pandora papers etc] which became known through the press and media about the so called “offshore” businesses, which are directly connected with tax havens, or, moreover, the activity and the tactics of many multinational companies and individuals to transfer -legally or not- their capitals or their headquarters in tax havens in order to avoid the possible high taxation of their residence country. Issues related to the problematic of the tax havens’ legal status, operation and the companies established there have also troubled the case law of the Court of Justice of the European Union [e.g. «Marks and Spencer», «Cadbury Schweppes and Cadbury Schweppes overseas» and «Test Claimants in the thin Gap Group Litigation» etc]. Nevertheless, it is crucial to underline here that the term of tax havens itself does not connect with illegal activities but, due to illegal actions followed by some companies or individuals who transfer their assets there, such as not declaring the income earned in such refuges to their corresponding and residence tax authorities, the term has become an object of confusion.

The strength of capital flows in the tax havens and the results that this mobility has for many investors and citizens worldwide appear, though, either as a benefit or as a loss for the other governments; this fact raises reactions and debates from several institutions such as the European Union and the OECD, flourishing an attempt to search for a way to control and restrict somehow these activities. 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 purpose of this paper is to focus on the origins and the history of tax havens, their peculiarities, their inherent function, the main reasons and events around which they managed to flourish and adapt in the global happening but also the principal efficient methods available in order to regulate their legal status.

Origins

History

Ancient times

The historical origin of tax havens is difficult to be determined precisely, since initially their strategy was developed piece by piece, in different locations and for several reasons unrelated to their ultimate use. However, their rationale does not consist a current innovation, since it comes from the ancient times. It is of no doubt, though, that they were generally invented in order to foster trade, increase capital mobility and secure personal gains.

One characteristic example of an initial historical trade center functioning as a tax haven is noted at the beginning of the Christian era [its epoch is on 753 BC (from the foundation of the city of Rome)], when the city of Marseille was an independent republic with a free port that attracted ships and products throughout the Mediterranean Sea mainly until 1481.

Later, researchers state that during the second century BC, and more specifically during the 166 BC and lasting for a century afterwards, the first form of tax haven was met in the eastern Mediterranean and more specifically at the Greek island Delos, which was then under Roman domination. Romans launched a practice of commerce that was free of taxes and custom duties in order not only to strengthen the local transactions and trade but also to attract ship owners to the island competing the port of Rhodes which imposed 2% tax to the passing ships. In this way and due to Delo's strategic geographical position, the island became a commercial and trade center producing ivory, textiles, wine, wheat and spices.

During the 19th century

It is noticed that, in general, two basic historical facts mainly affected the tax havens' development and these are 1) the expansion of capitalism during this century and 2) the creation of the Euromarket in the Cold War Period of the 1950s where London was its major center. The euromarket consisted a system for foreign currency negotiations around the world and is defined as "the over-the-counter market for interbank deposits, loans, debt, equity and derivative instruments denominated in a currency foreign to the bank, debtor or issuer of the instrument". In this context, the City and the Banks of England agreed that any foreign currency exchange between two non-tax resident London parties would receive exemptions and releases from the restrictive regulatory frameworks.

The U.S. states of new Jersey and Delaware, during this century, appear as significant examples of tax havens. These jurisdictions may not consist a stricto sensu tax haven, but it was there that about the 1880s the concept of "easy incorporation" was firstly originated and developed and is met in every contemporary tax haven today. Historically speaking, New Jersey was in urgent need of funds, so the states' Governor, Leon Abbet, managed to attract investment capitals by imposing a franchise tax to all companies which had their corporate headquarters in NJ, providing thus a more liberal corporate legislation than the applicable one of the Anglo-Saxon Countries and a relatively low rate of corporate taxation. This successful technique was later emulated by Delaware too (General Incorporation Act in 1898).

The logic between “easy incorporation” has the meaning that one can buy a “shelf” or “off-the-shelf” company and begin trading into less than 24 hours, which is a significant aspect of the tax havens’ strategy. A “shelf” or “off-the-shelf” company is a legal company that was registered with the sole purpose of being sold, has no assets or liabilities and has never conducted business before. Buying such a company allows the buyer to get the Registration Number needed [as required by most Tenders, RFQs and Contracts] almost immediately.

During the 20th century

Especially at the end of World War I and onwards, the concept of New Jersey’s legal practice was steadily expanded in Europe, when some countries, like Switzerland and Liechtenstein, begun to develop for the first time a comprehensive policy of becoming a tax haven. More specifically, it is written that some Swiss cantons during the 1920s copied the practice of NJ and brought it in Europe. Before these, though, it is crucial that in 1848, the Swiss Confederation was founded. It was perhaps then the first time when a mostly organized tax haven appears in history, although in Geneva, for example, many bankers and wealthy people had deposited their assets under a system of secrecy since many years ago. At the same time, some “offshore activity” had also been developed mainly in the Caribbean and the English Chanel.

Post-colonial or post-empire era [middle of 20th century] and its consequences played their role too. After the declaration of independence from the colonial countries, colonial officers and businesspeople took their assets from these countries and tried to discover places where they could transfer and deposit them and ideally somewhere where they would be untaxed. This fact triggered the appearance of offshores into the global economy. Therefore, it becomes clear that tax haven countries have accommodated the most of the offshore companies which have essentially become a tax shelter for the majority of the business world, which tries to avoid high taxation from its residence country.

Another reason for this NJ model expansion might also was the collapse of the Bretton Woods System, which led to an increased movement of capital towards Europe. Switzerland, Liechtenstein, Bahamas, Monaco and Luxemburg begun to adopt a favorable corporate tax system and some of them legally fortifying the banking secrecy. The result was the establishment of many offshore companies in these countries held by natural or legal persons of the business world, who transferred their capital in order to avoid the high taxation of their residence country.

The growth of tax havens is also affected by the end of the World War II. During this period the European states tried to cure the implications of the war to their economies, so, they decided to turn towards the offshore activity in order to find some income. Finally, during the 1970s small states around the world are observed to attract small investment capitals via providing tax reductions and tax exemptions.

Concluding, especially during the latest 30 years tax havens grew and expanded radically not only in number but also in importance and this is because of the "liberalization and deregulation of the financial sphere that began in the early 1980s". The governments of the US, UK, France and Germany have pointed out that tax havens that share the same element of secrecy and opacity led to the failure of the financial system in 2008!

Why did tax havens appear?

The appearance of tax havens, first of all, is rationally connected with the appearance of tax of any type and especially with the intention to avoid it. On the other hand, some tax havens accommodate money laundering. Nevertheless, tax havens provide financial security and secrecy, which is crucial during economic instabilities or wars (e.g. interwar period between WWI and WWII). After the WWI, in the context of a reconstruction period, the countries which took part in the War started increasing their tax rates with the characteristic example of France, which launched the tax basis from 4% to 12%, while additional tax for the income and the wealth was introduced. Especially the rich Germans and the French tried to dodge from these taxes via transferring their assets to Switzerland in order to avoid possible seizures and enjoy the banking secrecy that was already available there. The governments were persuaded and discouraged by the wealthy social class to investigate the possible tax evasion.

Myths for tax havens' origins

Some of the best-known myths regarding the origin of tax havens have as follows:

I. The first one states that Swiss bankers invented secret bank accounts to protect Jewish assets from the Nazis. In reality, secret bank accounts were invented to protect Swiss bankers from prosecution by other states.
II. Liberal economists as well as the IMF (Cassard 1994) and the OECD (1998) believe that tax havens emerged in response to rising tax burdens during the 1960s. Nevertheless, this cannot be true because, for example, Switzerland was known as a tax haven in the 1920s, Liechtenstein introduced the Anstalt in 1926, Luxembourg established its holding company rules in 1929 and Bermuda was known as a tax haven since around 1935.
III. The third myth, introduced by the tax haven countries themselves, is that they were "innocent bystanders exploited by mobile capital".

Conceptual approach, tax shelters and definitions

A tax haven is a place where companies and/or wealthy individuals pay very low taxes (or no taxes at all). In most languages, such a place is literally called a "tax paradise", e.g.:

- Steuerparadies (German) or Steueroase ("Tax Oasis"),
- Paradis fiscal (French),
- Paraíso fiscal (Spanish),
- Φορολογικός παράδεισος (Greek), etc.

Haven means "a safe place; a shelter". It is a relatively uncommon word comparing with the word "heaven", and the only difference between them is the letter "e". Since paradise and heaven are closely related concepts, non-native English speakers, who are not familiar with the word "haven", often simply don't notice the spelling difference and automatically assume that a "tax haven" is actually a "tax heaven". However, the only standard form in English is *tax haven*. "Tax heaven" is an incorrect back-formation from the equivalent expressions in other languages and is avoided in academic writing. It is to be pointed out here, though, that the word tax haven in Spanish ("Paraiso fiscal") at the same time has the meaning of a tax shelter, which is something different from tax havens. One of the problems with the term "tax haven" is that it underemphasizes the integral "secrecy" component of tax havens and overemphasizes the importance of low tax rates.

Tax shelters consist legal tax reduction methods that taxpayers of all income groups can use in order to reduce their tax liability by investing, for example, in stocks, equity funds, bonds, retirement funds, mutual funds for the long-term etc.. In the same context are the credits on a return, which are also legally used for the same aim at the time of filing. Investment strategies in the frame of tax shelters help in the growth of money and the limitation of taxes in the field of a financial planning, where assets and investments can be managed in order to provide a maximum tax benefit.

In view of what exactly constitutes a tax haven, one finds that it has to deal with a controversial issue, since there is no commonly and concretely accepted definition at an international level. On the contrary, several definitions are found, which are based, though, on certain fundamental pillars, which are generally found in tax havens. Some of these definitions are listed below:

- *"There is no universal definition, but tax havens, or offshore financial centers, are generally countries or places* ***with low or no corporate taxes*** *that allow* ***outsiders*** *to easily set up businesses there. Tax havens also typically* ***limit public disclosure about companies and their owners****. Because* ***information can be hard to extract****, tax havens are sometimes also called* ***secrecy jurisdictions****. Tax havens nearly always deny being tax havens."*
- *"A tax haven is a country in which* ***the taxation of foreigners or foreign companies is exploited on advantageous terms to reduce the tax burden in the actual home country****. The term "tax haven" is not clearly defined. There is no absolute measure as to when a country is a tax haven or not. Basically, <u>any country can be a tax haven if the conditions</u>*

<u>are right for a person or company</u>. In some cases, even Germany and the USA are considered tax havens."

- *"A tax haven generally refers to a country **or jurisdiction** that enables multinational corporations and individuals to **escape the rule of law in the countries** where they operate and live, and to **pay less tax than they should** in those countries. The term "**secrecy jurisdiction**" is sometimes used instead of "tax haven" to refer to jurisdictions that specialize in enabling individuals to **hide their wealth and financial affairs from the rule of law,** more than in enabling multinational corporations to shift tax out of the countries where they operate in order to pay less tax."*
- *"A tax haven is a country that offers foreign businesses and individuals **minimal or no tax liability for their bank deposits** in a **politically and economically stable environment**. They have **tax advantages** for corporations and for the very wealthy, and obvious potential for misuse in illegal tax avoidance schemes."*
- *"… the term denotes a jurisdiction that has intentionally enacted policies which enable it to **tax individuals' or businesses' income or wealth at lower rates than other jurisdictions**."*
- *"A tax haven, or **offshore financial center**, is any country or jurisdiction that offers **minimal tax liability to foreign** individuals and businesses. Tax havens **do not require businesses to operate out of their country** or the individuals to reside in their country to receive tax benefits."*
- *"Tax havens are places where **super-wealthy individuals** keep money in **offshore accounts** for **reasons** that include, among others, **tax avoidance**."*
- *"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."*
- *«A tax haven is a jurisdiction with **very low "effective" rates of taxation for foreign investors** ("headline" rates may be higher)».*
- *"Any country or jurisdiction that offers **minimal tax liability**."*
- *"A tax haven is a country, state or region that **charges substantially low or negligible taxes to corporations and individuals**. Mostly used by the **wealthy and large corporations**, tax havens **reduce the tax liability** of a person or a business **in the country in which they reside or operate**."*
- *"Tax haven in the "classical" sense refers to a country which imposes a low or no tax, and is used by corporations to avoid tax which otherwise would be payable in a high-tax country." [OECD definition]*
- *"Simply stated, a tax haven is any country whose laws, regulations, traditions, and, in some cases, treaty arrangements make it possible for one to reduce his overall tax burden."*

Characteristics

Given the above definitions, it is crucial to analyze the characteristics of tax havens. In 1998 the OECD set out a number of factors for identifying tax havens in general. The four key factors were:

1. **<u>No or nominal tax on the relevant income (tax incentives)</u>**

First and foremost, tax havens impose no or only nominal taxes. The tax structure varies from country to country, but all tax havens function as places where non-residents can escape high taxes imposed on their assets or businesses by their residence high-tax country. However, the locals of the tax havens are submitted to a high quantity of taxes, which is surprising taking into account the contrary with the non-locals. Because of this, it is believed to exist a dual model, which is not set on the same legislation with nationals but on incentives and privileges analyzed into a different fiscal, banking regime for the non-residents who have their assets there relocated!

Each tax haven may be popular for rebates on different kinds of taxes. This favorable tax regime includes the dividend tax, i.e. that which is imposed on the shareholders during the distribution of the profits of the legal entity, as well as the tax concerning the profits from the sale of assets. Facilitations are also provided for the share transfer tax, the capital accumulation tax etc.. In many tax havens we find exemptions and reduced rates also in the tax of gifts, inheritances and parental benefits. Of course, in addition to tax reliefs, others are also observed regarding employer and insurance obligations, as well as those related to duties and fees.

However, this attribute alone is insufficient to identify a tax haven. Many well-regulated countries offer tax incentives for attracting outside investment but are not classified as tax havens.

2. **<u>Lack of effective exchange of information</u>**

Tax havens protect personal financial information. Most tax havens have formal law or administrative practices that prevent scrutiny by foreign tax authorities. There is no or minimal sharing of information with foreign tax authorities, which enables taxpayers to evade audits and profit through maneuvers and tricks.

3. **<u>Lack of transparency</u>**

Transparency includes the access and proper disclosure of financial information, clarity with investment firms and funds surrounding the various fees that will be charged to clients and improves certainty and stability in stock prices. In a tax haven, though, the legislative, legal, banking and administrative system is opaque. The behind-closed-doors secret rulings or negotiated tax rates out of transparency are too often phenomena. Thus, transactions, transfers and ownership of corporations, the shares of which are resident in these tax havens, are protected and remain anonymous and confidential to outsiders. This is compulsory by law. These are the examples of the Cayman Islands. This system can, also, facilitate activities and actions aimed at tax evasion and money laundering.

Additionally, because users of tax havens typically don't live (in the case of an individual) or operate (in the case of a business) in this jurisdiction, tax havens must provide secrecy to hide non-residents' incoming wealth from other governments. In other words, tax havens offer regulatory environments that ensure secrecy for non-residents allowing them to geographically relocate profits and income-generating assets without creating a publicly-accessible paper trail. This secrecy, which is usually provided by legal and quasi-legal structures available in tax havens (like trusts, anonymous companies, or opaque banks) makes it impossible for tax officials at home to track untaxed wealth in tax havens abroad or "offshore".

These territories essentially are not willing to negotiate for any kind of law or agreement that will force them to give up traits, such as secrecy, avoiding thus any change in their jurisdictions; delaying periods of applied clauses would also be a common practice here. Even if there were clauses that forced them to impose actions against their culture, they would probably find limits to which these clauses or legal loopholes apply in order to cancel these clauses. But, applying these clauses would alienate tax havens from banking secrecy.

➔ *Clarifications regarding the elements 2 and 3*

In this point, it is crucial to make some clarifications for the elements 2 and 3 based on the implementation of the internationally agreed tax standard on exchange of information as developed by the OECD and endorsed by the UN and the conclusion of the G20's London Summit of 2009:

-How the procedure of exchange of information on request typically work according to the implementation of the internationally agreed tax standard on exchange of information:

One country's competent authority asks for particular information from another competent authority and usually the requested information relate to an examination of a taxpayer's tax liability for specific tax years. The implementation of an internationally agreed tax standard on exchange of information "prohibits fishing expeditions." Before the written request, the requesting country should -to the extend possible- use all means available in its own territory to obtain the information. Requests should be as detailed as possible and contain all the relevant facts, so that the competent authority that receives the request is properly informed about its content and substance in terms of the needs of the applicant contracting party and thus can deal with it in efficiently. The form of the request is analyzed in the guidance 8 of the OECD.

-What is meant by high standards of transparency and exchange of information according to OECD:

The main principles of transparency and exchange of information for tax purposes can be summarized as follows:

- "Exchange of information on request where it is "foreseeably relevant" to the administration and enforcement of the domestic laws of a treaty partner.
- No restrictions on exchange caused by bank secrecy or domestic tax interest requirements.
- Availability of reliable information, particularly accounting, bank and ownership information and powers to obtain it.
- Respect for taxpayers' rights.
- Strict confidentiality of information exchanged."

-The exchange of information on companies and trusts and their owners and beneficiaries according to the standards:

According to the standards all types of information, such as on companies and trusts and their owners and beneficiaries, which are "foreseeably relevant" to the requesting country's domestic tax laws, must be exchanged. Additionally, a state cannot decline to provide information responding to a request solely for exchange of information, because it is held by a person acting in an agency or fiduciary capacity, such as a trustee.

-Compatibility of the bank secrecy with this standard:

There is no compatibility with the bank secrecy. All countries have some kind of bank secrecy. However, it can be recalled in specific circumstances in order to enable countries to impose their domestic tax laws and to respond to requests for information compatible with TIEAs or tax treaties so that treaty partners can administer their own laws.

4. No substantial activities

The establishment of companies in tax havens and their licensing are not subject to strict rules, on the contrary, flexibility, speed and low costs provided aim to found the establishment and the continuation of the company. The supervision exercised is discretionary and does not restrict or suffocate the companies. Tax havens typically do not require outside entities to have a substantial local presence meaning that these entities are essentially established so that only their formal operating framework is formed and their employment activities are virtual; an element that suggests that offshore financial centers are aimed at non-resident clients who mainly wish to protect their interests and not to operate.

These facts have interesting results. For example, a 2008 Government Accountability Office report found that one building in the Cayman Islands housed 18,857 mostly international companies, which practically means that someone can claim tax benefits by merely hanging their nameplate in a tax haven! There is no need for actually producing goods or services or conducting trade or commerce within the boundaries of the country. For all practical purposes, tax evaders may continue their business in Florida while claiming to be residents of the Bahamas when it comes to paying taxes.

The procedure for corporations to list themselves or to 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 hidden and so is the ownership of the shares of any given corporation.

Marketing Tax Havens

Apart from the aforesaid attributes, the United States Government Accountability Office (GAO) has added this one to the four above mentioned of the OECD. In the end, tax havens are all about marketing. They promote themselves as offshore financial centers meaning that they accommodate any business activity that takes place outside an entity's home base. Many are also considered to be important international financial centers.

Other characteristics of tax havens are the following:

5. **Absence of exchange controls**

The key reason Hong Kong is among the world’s largest financial centers is that it doesn’t have any currency controls. This means that any business or individual can freely send money to and from Hong Kong and there are no limits. The lack of exchange controls provides investors with confidence that their money is secure and safe and can be quickly accessed as needed. In contrast, investing in countries with exchange controls constitutes risk and complexity. South Africa Exchange Control regulations, for instance, “control” the flow of money both in and out of South Africa. They affect every transaction no matter what amount of rand gets transferred and who the sender or recipient of the money is.

Permissible reasons for transfers abroad are limited to:

- Monetary gifts and loans.
- Donations to missionaries.
- Maintenance transfers.
- Travel allowance.
- Study allowance.
- R 1 million foreign capital allowance.
- R 10 million individual capital allowance.

6. **Provision of offshore banking facilities**

An offshore bank is a bank regulated under international banking license (often called “offshore license”), which usually prohibits the bank from establishing any business activities in the jurisdiction of establishment. Due to less regulation and transparency, accounts with offshore banks were often used to hide undeclared income. Since the 1980s, jurisdictions that provide financial services to non-residents on a big scale can be referred to as offshore financial centers.

With worldwide and steadily increasing measures on CTF (combatting the financing of terrorism) and AML (anti-money laundering) compliance, the offshore banking sector in most jurisdictions was subject to changing regulations. Since 2002, the Financial Action Task Force issues the so-called FATF blacklist of "Non-Cooperative Countries or Territories" (NCCTs), which it perceived to be non-cooperative in the global fight against money laundering and terrorist financing.

An account held in a foreign offshore bank is often described as an “offshore account”. Typically, an individual or company will maintain an offshore account for the financial and legal advantages it provides, including indicatively:

- Strong privacy, including bank secrecy.
- Little or no corporate taxation via tax havens.
- Protection against local, political, or financial instability.

While the term originates from the Channel Islands being "offshore" from the United Kingdom and while most offshore banks are located in island nations to this day, the term is used figuratively to refer to any bank used for these advantages regardless of location. Thus, some banks in landlocked Andorra, Luxembourg, and Switzerland may be described as "offshore banks".

Offshore banking has previously been associated with the underground economy and organized crime, tax evasion and money laundering; however, it must be clear that legally offshore banking does not prevent assets from being subject to personal income tax on interest. Apart from certain people who meet fairly complex requirements, the personal income tax laws of many countries (e.g., France, and the United States) make no distinction between interest earned in local banks and that earned abroad. Persons subject to US income tax, for example, are required to declare (on penalty of perjury) any foreign bank accounts they may have. Offshore banks are now required to report income to many other tax authorities, although Switzerland and certain other jurisdictions retain bank secrecy regimes. This does not make the non-declaration of the income by the taxpayer or the evasion of the tax on that income legal and many OFCs have recently cooperated with onshore tax authorities and law enforcement against the so called “wrongdoers”.

The most popular offshore financial centers are in jurisdictions with a history of political and economic stability. A few of the most well-known countries for offshore banking are tax havens such as Switzerland, Panama and the Cayman Islands. Other popular places for offshore banking include Hong Kong, Belize, Bermuda, Singapore and Germany. In terms of offshore banking centers and in terms of total deposits, the global market is dominated, though, by the USA, Switzerland and the Cayman Islands. “A letter by the District Attorney of New York, Robert M. Morgenthau, published by The New York Times, states that the Cayman Islands has US$1.9 trillion on deposit in 281 banks, including 40 of the world's top 50 banks, although official statistics published by the Cayman Islands Monetary Authority suggest the amounts held on deposit are actually around US$1.5 trillion.” Numerous other offshore jurisdictions also provide offshore banking to a greater or lesser degree. In particular, Jersey, Guernsey and the Isle of Man are also known for their well-regulated banking infrastructure.

Offshore banking constitutes a sizable portion of the international financial system. Some experts believe that as much as half of the world's capital flows through offshore centers. OFCs are said to have 1.2% of the world's population and hold 26% of the world's wealth, including 31% of the net profits of United States multinationals! A group of activists state that £13-20 trillion is held in offshore accounts, yet the real figure could be much higher when taking into account Chinese, Russian and US deployment of capital internationally.

Regulation and initiatives

In the 21st century, regulation of offshore banking has increased exponentially but not evenly. The quality of the regulation is monitored by supra-national bodies such as the International Monetary Fund (IMF). Banks are generally required to maintain capital adequacy in accordance with international standards. They must report at least quarterly to the regulator on the current state of the business.

Since the late 1990s, there have been a number of initiatives to increase the transparency of offshore banking, although critics, such as this of the Association for the Taxation of Financial Transactions for the Aid of Citizens (ATTAC) [a non-governmental organization (NGO)], maintain that they have been insufficient. A few examples of these initiatives are:

I. The tightening of anti-money laundering regulations in many countries including most popular offshore banking locations meaning that bankers and other service providers are required by law to report suspicion of money laundering to the local police authority, regardless of banking secrecy rules, since there is more international cooperation between police authorities.
II. In the US, the Internal Revenue Service (IRS) introduced Qualifying Intermediary requirements, which means that the names of the recipients of US-source investment income are passed to the IRS.
III. Following 9/11 the US introduced the USA PATRIOT Act of 2001, which authorizes the US authorities to seize the assets of a bank, where it is believed that the bank holds assets for a suspected criminal. Similar measures have been introduced in some other countries.
IV. The European Union has introduced sharing of information between certain jurisdictions and enforced this in respect of certain controlled centers, such as

the UK Offshore Islands, so that tax information is able to be shared in respect of interest.

V. The Bank Secrecy Act (BSA) of 1970, also known as Currency and Foreign Transactions Reporting Act, requires that Taxpayers (a United States person that has a financial interest in or signature authority over foreign financial accounts) file an FBAR for accounts outside of the United States that have balances in excess of $10,000. The foreign bank account report exists to combat tax evasion, specifically by having U.S. citizens report money and assets in non-U.S. banks.

VI. FATCA (the Foreign Account Tax Compliance Act) became law in 2010 and "targets tax non-compliance by US taxpayers with foreign accounts [and] focuses on reporting by US taxpayers about certain foreign financial accounts and offshore assets [and] foreign financial institutions about financial accounts held by U.S. taxpayers or foreign entities in which U.S. taxpayers hold a substantial ownership interest.

Opening an offshore bank account

It may be more challenging to open an offshore bank account than a domestic bank account because it needs to be proven that the applicant has a minimum amount of money or a business relationship with the bank's country. Offshore banking isn't illegal, but having an offshore account can raise questions, because these accounts are connected with the practice of storage of money in tax havens in order to avoid paying taxes or hide funds obtained through illegal activity. The Panama Papers, documents that were leaked to the public in 2016, for example, revealed ways that many rich and powerful people were using offshore banking to launder money, commit fraud and evade taxes. Some offshore banking beneficiaries utilize their accounts to help manage their overseas businesses and investments while others might just spend long time in a foreign country throughout the year. Offshore accounts can allow someone to save, hold and invest money in multiple currencies as well.

Offshore Banking Unit (OBU)

An offshore banking unit is a bank shell branch located in another international financial center, for instance, a London-based bank with a branch located in Delhi, handling transactions made in foreign currency (known generically as "eurocurrency"). OBUs make it easier for individuals and businesses to bank internationally and establish offshore accounts.

Individuals may choose to keep their money offshore if there is instability in their own country and they fear losing their investments. Offshore bank accounts must be declared to the holder's home country for tax reasons; however, some countries allow foreigners to earn capital gains tax-free. Offshore banking units make loans in the Eurocurrency market when they accept deposits from foreign banks and other OBUs.

10 Best Countries for Offshore Bank Accounts [2022]:

a) Hong Kong
b) Switzerland
c) Belize
d) Germany
e) The Cayman Islands
f) Singapore
g) Panama
h) The Republic of Seychelles
i) Nevis
j) Mauritius

7. **Political stability**

Tax havens consist countries that invariably can provide a legal entity with a smooth financial life. This means that tax legislation is generally stable and not easily influenced by external factors, which can lead to sudden changes. In this way, the entrepreneur-investor is given the opportunity to carry out long-term planning, without worrying about the risk of reversals.

8. **Availability of professional advisers**
9. **Convenient location:**
10. **Non-cooperation with OECD** (typical criterion regarding the OECD list of 2009 including the "non-cooperative states" which do not comply with the principle of effective exchange of information on tax matters)
11. **Modern and flexible legislation**

For many entrepreneurs, the flexibility of the jurisdiction in which they will set up their company is also a selection criterion. And this is because they wish to operate in states whose legislation does not contain complex mechanisms and demanding establishment procedures, but instead they are looking for the least restrictions and the most relaxed state control, which will not create obstacles to the formation and operation of the offshore company.

12. **Double Taxation Avoidance Agreements (DTAA)**

The Double Tax Avoidance Agreement (DTAA) is a tax treaty signed between two or more countries to help taxpayers avoid paying double taxes on the same income. A DTAA becomes applicable in cases where an individual is a resident of one nation, but earns income in another. DTAAs can either be comprehensive, encapsulating all income sources, or limited to certain areas, which means taxing of income from shipping, inheritance, air transport, etc.

India, for example, presently has DTAA with 80+ countries, with plans to sign such treaties with more countries soon. Some of the countries with which it has comprehensive agreements include Australia, Canada, the United Arab Emirates, Germany, Mauritius, Singapore, the United Kingdom and the United States of America.

Under DTAA, NRIs (non-residents of India) do not have to pay tax twice on the income earned from:

Services that are provided in India,

Salary that is received in India,

Fixed deposits held in India,

House property situated in India,

Capital gains following transfer of assets in India,

Savings bank account held in India.

Double taxation treaties often favor offshore centers through the tax planning followed. Usually, the states with zero tax rates have not entered into double taxation agreements, however, a number of offshore centers have entered into bilateral agreements and thus enable, with the right planning, capital to be exported and repatriated with little or no tax burdens. Of course, there are also states which, because of their not concluding in bilateral agreements, have the option of not imposing any taxes at all on companies based in their jurisdiction.

There are two modes by which DTAA can be used:

- Tax credit -> Under this method, tax relief can be claimed in the country of residence.
- Exemption -> Under this method, tax relief can be claimed in any one of the two nations.

The following types of taxes are covered under DTAA:

- Income tax is generally covered under DTAA,
- Wealth tax is also covered under certain treaties,
- Taxes that are substantially similar are covered (e.g. surcharge and education cess),
- Taxes that are levied in substitution of existing taxes are also covered.

Types

As it becomes clear, the different definitions for tax havens are general and cover different types of them. Therefore, the point is to locate the differences between them in order to understand better their function and purpose. A list of their main categorization is presented as follows:

- **No-Tax Havens**: Countries that have no income, capital gains, or wealth (capital) taxes, and in which someone can incorporate and/or form trust. The governments of these countries do earn some revenue from corporations while "no-tax" means that there is independence of income derived through a company. These states may also impose small fees on documents of incorporation, a small charge on the value of corporate shares, annual registration fees, etc. Primary examples are Bermuda, Bahamas, and Cayman Islands.
- **No-Tax-on-Foreign-Income Havens**: Countries that impose income taxes, both on individuals and corporations, but only on locally derived income. They mainly exempt from tax any income earned from foreign sources that involve no local business activities. For example, in such a haven there is often no tax on income derived from export or local manufactured goods.

The no-tax-on-foreign income havens break down into the two following groups:

- those that allow a corporation to do business both internally and externally, taxing only the income coming from internal sources, and
- those that require a company to decide at the time of incorporation whether it will be one allowed to do local business, with the consequent tax liabilities, or one permitted to do only foreign business and thus to be exempted from taxation.

Primary examples in these two sub-categories are Panama, Jersey, Guernsey, Isle of Man and Gibraltar.

- **Low-Tax Havens**: Countries that impose some taxes on all corporate income, wherever earned. However, most have double-taxation agreements with many high-tax countries that may reduce the withholding tax imposed on income derived from the high-tax countries by local corporations. Cyprus is a primary example. The British Virgin Islands is another, but no longer has a tax treaty with the U.S..
- **Special Tax Havens**: Countries that impose all or most of the usual taxes, but either allow special concessions to special types of companies (such as a total exemption from tax on shipping companies, or movie production companies) or allow very special flexible corporate arrangements offered by Liechtenstein.

To understand the precise role of tax havens, it is important to distinguish **two basic sorts of income:**

(1) <u>return on labor</u> -> This first kind of return is what someone gets from their work: salary, wages, fees for professional services, and the like.

(2) return on capital -> This second kind of return relates, basically, to the return from investments: dividends on shares of stock; interest on bank deposits, loans and bonds; rental income; royalties on patents. It is this kind of income, which tax havens are useful for. Forming a corporation trust in a tax haven can make this form of income totally tax free, or taxed so low that you will hardly notice.

Certain types of businesses can be more effectively based in a specific tax haven. If you publish a newsletter, for example, you might be able to set up the entire operation in a totally tax-free country such as the Bahamas or the Cayman Islands. If your income comes from copyright royalties, perhaps on the computer program you invented, the Netherlands is famed as a base for sheltering royalty income.

Factors considered when choosing a tax haven

Several criteria are taken into consideration when choosing a tax haven. Some of them are the political stability, the amount of funds which is to be invested, the geographical position of the haven, the information exchange system and, of course, the financial advantages of opting for a specific 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. Nevertheless, the criteria above are evaluated according to different factors at a time regarding the type of the purposeful investment. Thus, these factors are:

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

- **Individual factors:** They refer to the personality and character of the user of tax havens and are more difficult to classify due to the different motivations and objectives they have.
- **Specific factors:** They make reference to legislations and here belong the following ones:
  - Specialization in different financial services: selecting a tax haven that is specialized 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 minimize both economic and political risks.

Methods used for avoiding tax liability

There are numerous different ways that businesses and individuals use in order to avoid taxes via using tax havens. The most important of them are the following:

- **Corporate tax avoidance or "corporate profit shifting":** the most usual way through which organizations utilize tax havens. A business registers its headquarters in another country which has a lower rate of corporate tax than its native country. For example, the UK corporate tax rate is 19%. Thus, if a UK business moves its headquarters in Switzerland, it will be able to pay the lower 8.5% tax rate instead. The difference would be even bigger if the headquarters were moved at the Caymen Islands, where a 0% corporate tax rate is imposed. Doing this, the company collects profits in a tax haven and only has to pay the lower tax rate instead of paying the country where the sales actually took place allowing the company substantially reduce its tax bill. And this is not a rare phenomenon. In 2016 the 2/3 of the profits made by American multinational companies were stored in the following six low or zero tax countries: Luxemburg, Bermuda, Netherlands, Ireland, Singapore and Switzerland.
- **Movement of the patent, code, formula or algorithms to outposts in lower tax countries**: very valuable assets reside in low tax countries. The benefit is that the valuable asset then belongs to the branch of the company existing in the low tax area. For example, a US business (21%-33% tax depending on the state tax levels) could move its patents to Ireland (low tax country_12,5% tax) and then the patents would belong to the Irish branch of the company. So, the Irish subsidiary could charge (fees) the US company to access the patents making easy to profits made in the US to Ireland just passing them off as payments for the patents. Once the money is moved into Ireland, it can be taxed in a much lower rate, again saving a big tax bill.
- **Trusts**: Individuals can do a simple thing. Becoming resident of a country of a low tax rate allows people to pay less income tax than they would have done previously. However, there are also other methods allowing people live in one (high tax) country while paying taxes in another (low tax country). This is done using trusts. This allows a person to move their assets into a trust which is managed by trustees. These trustees are in charge of the trust and they manage the assets for the account of the beneficiaries. With the trustee's permission, assets into the trusts can be given to beneficiaries almost any time. The trustees are just paid by the person who owes the assets in order to put their name on the trust and thus have control in this all. Using this technique, a British person could put his car into a trust in a tax haven. They can then make themselves a beneficiary, thus giving themselves full access to the car. The individuals would still own the vehicle and they could still use it how they wished. But because it technically belongs to the trust, almost under the protection of trustees, it will be out of the UK government's audit as it will be registered to the tax haven as subject to its lower tax laws.

Some existing tax haven lists

International organizations

In the early 2000s, the OECD drew up a list of uncooperative tax havens, which was updated on the basis of commitments by countries placed on the list with regard to the specific criteria concerned. Following the intervention of the G20 (2010 Toronto), the 'black list' was complemented by a 'grey list' and a 'white list', according to the commitments made and their level of implementation in the late 2000s. The IMF offshore list assessment in 2014 was established on the basis of predefined standards from several international bodies. Among the organizations setting lists of countries which are relevant to tax matters, the Global Forum on Transparency and exchange of information for tax purposes (often referred as the Global Forum) has a particular role on tax transparency, as it is the multilateral framework gathering together OECD and non-OECD economies since 2000. Regarding the assessment of the implementation of the standard exchange of information on request (EOIR) the Global Forum on Transparency regularly reviews the commitments to join the multilateral Convention on Mutual Administrative Assistance in Tax Matters.

NGOs

Secrecy jurisdictions are determined on the basis of an assessment made by the Tax Justice Network (TJN), which applies a secrecy score measuring banking secrecy, the capacity to create shell companies or offshore structures, and barriers to cooperation and information exchange. On this basis, every two years since 2009, TJN has published a list – the Financial Secrecy Index (FSI) – which ranks a hundred jurisdictions according to their secrecy and the scale of their offshore financial activities. On 28 November 2017, Oxfam published a study containing a list of tax havens assessed with regard to the criteria of transparency, fair taxation and participation in international fora on tax, as defined for the establishment of an EU list by the Council.

OECD actions

At an international level, the OECD has generally tried to regulate the issue of tax havens and fight against unfair or illegal competition, as well as to form a uniform framework for the companies. An important element is the publication of the revised Standard Agreement for the avoidance of double taxation in 2005. With the addition of paragraph 5 to article 26 of the M.S. a significant change was introduced in terms of <u>bank secrecy and non-administrative assistance</u> between states. More specifically, in paragraph 5 it is defined that "*under no circumstances is a contracting state allowed to refuse the provision of information*, *solely* because this information is in the possession of a bank, other financial institution, authorized representative or a person acting in an agent or custodian capacity, or because the information relates to a person's proprietary interests. Following the above, *a Bank may refuse* to grant the requested information for its customers' accounts *only if the information requested*, by the Authority of a contracting state, *is simultaneously covered by banking and commercial or business secrecy*...".

Using this new addition as a basis, the OECD categorized states into three lists: black, grey and white, and created a list of non-cooperative states, which have not implemented the principles of effective "exchange of information on tax matters". In addition to the above criteria, the standard criterion to qualify a tax haven is non-cooperation with the OECD. From the list of tax havens, states are deleted and added from time to time depending on whether they comply or refuse to comply, respectively, with its regulations. In particular, the blacklist includes states that did not choose to comply with international taxation standards and did not cooperate with national tax authorities, or that may have promised to cooperate, but did not. As for Greece, it is on the whitelist, as it has satisfactorily implemented international tax standards and has proven willing to contribute to the international effort to eliminate the phenomenon.

Despite the OECD's involvement in the issue of tax havens, there are frequent frictions between the organization and other states or even the European Union regarding blacklisted states. In 2015 the EU issued its own blacklist of 30 tax haven countries which, in contrary to the OECD's opinion, had largely committed to the automatic exchange of information.

Scandals and crisis

Events of 2008-2009 put an end to a tense relationship between the OECD membership and tax havens. Tax scandals concerning financial institutions in Liechtenstein and Switzerland made the governments of France, Germany and the US very frustrated, since citizens of US had invested millions of dollars in these countries without paying due taxes to their home country. The election of Barack Obama (known supporter of tougher action against tax havens) was another factor that triggered this race. On top of this came the global financial crisis, which enhanced a multiple pressure on the tax havens. Tax havens were depicted as at least permissive causes of the crisis. Their weak regulation had facilitated the development and worldwide dispersion of opaque and risky financial products and made it difficult to assess the financial health of financial institutions having activities and assets in these centers. As Western governments' fiscal difficulties mounted, a willing to recover lost tax revenue from tax havens grew.

Moreover, governments found it no longer acceptable that certain banks helped their clients to re-route money to tax havens or even operated through tax havens themselves. In fact, the current intensification of the international fight against tax havens started with an ad hoc meeting in Paris convened by the French and German governments in October 2008. 17 countries were represented, including several ministers. They stated that the OECD process was going too slowly, as tax havens grew rapidly. The OECD was called upon to publish new lists with those countries and jurisdictions that fully implemented the OECD standards and those that did not. In the margin of this meeting Germany stated that Switzerland should be put on the blacklist (Kubosova 2008). The issue of tax havens got a less mention at the first G20 summit at the level of heads of state and government in Washington, still under the presidency of George Bush (G20 2008).

EU list of third country non–cooperative jurisdictions for tax purposes, updated October 2022

Since the establishment of the first EU list in 2017, it was regularly updated in the following years and revised as a result of dynamic monitoring of the measures implemented by jurisdictions to comply with their commitments. This is a continuous process, which includes:

- updating criteria in line with international tax standards,
- screening countries against these criteria,
- engaging with countries that do not comply,
- listing and de-listing countries as they undertake (or not) reforms,
- monitoring developments to ensure that jurisdictions do not backtrack on previous reforms.

On 4th of October 2022 the ECOFIN (Economic and Financial Affairs) Council (the 'Council') released its conclusions on the EU list of noncooperative jurisdictions for tax purposes (EU 'blacklist'). The Council decided to add Anguilla, Bahamas and Turks and Caicos Islands on the EU 'blacklist'. The Council also updated the EU list of third country 'cooperative jurisdictions for tax purposes subject to the successful delivery of their commitments' (commonly referred to as the EU 'greylist') by removing Bermuda and Tunisia from the EU 'greylist' whereas at the same time Armenia and Eswatini were added on it.

Consequences

Regulatory reactions

3.2.1. **Unilateral measures** [involvement of a single state]:

a) Lifting of banking secrecy: This measure helps the fight against money laundering and prevents the internationalization of money from parallel illegal economies, such as crimes or human or drug trafficking.

b) Fiscal transparency of outland societies: This measure is intended to tax the non-returned profits of companies that are established in tax havens. It is about the willingness to report and supply accounts and records for any commercial transaction conducted by a legal entity registered abroad.

c) Adjustment of transfer prices: The adjustment of transfer prices refers to the rectification of the VAT tax 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 audit of pricing for transactions of the same type between non related entities.

d) <u>Prevalence of substance over form</u>: it refers to the provision of binding more legal significance to the economic or any type of activity itself than the legal contract that founds it. This unilateral measure gives the tax authorities the power to reject acts or structures that are simulated or artificial. For example, an 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.

e) <u>Reversed onus of proof</u>: a legal rule stating that the accuser is not responsible for proving the actions of the accused.

f) <u>Declaration requirements</u>: forces taxpayers to declare periodically any amounts paid or due to foreign entities to the tax authorities.

g) <u>Additional unilateral measures (Plateforme Paradis Fiscaux et Judiciaires, 2007):</u> Refusal of conventions with tax havens dependent on an authority, 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, Refusal of access to the judicial system for certain entities such as tax havens, Criminalization of certain types of fraud involving the use of tax havens.

3.2.2. **Multilateral measures** [involvement of various states and the cooperation of multiple parties]:

- <u>Tax harmonization</u>: the practice of seeking to align direct taxation rates closer to all judicial spaces with the aim of preventing capital storage to offshore financial centers.

- <u>Request for information:</u> providing or being willing to provide information. As mentioned above, this was the measure that the OECD asked of the various tax havens in order to obtain more transparency (approved by the UN and the G20). More recently, information exchange provisions are established by article 26 of the OECD Model Convention and in the Agreement on tax Information Exchange (April 2002).

- <u>Control of interbank electronic messaging:</u> there should also be a Supervisory Authority that could control and identify every operation including exchanges with offshore financial centers, which would then be subject to investigation whenever fraud or tax avoidance was suspected.

o 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). (....)

Multiple consequences in national and international level

Many world economists from more than 30 countries around the world have declared that tax havens distort the functioning of the world economy. However, the negative consequences of their existence are much wider. These are not only economic, but also social and security implications in a national and international context, which overlap, interact, multiply their effects in a negative effect.

As a result of study of tax havens across the world the following consequences are to be mentioned:

1. **Economic consequences or threats**: decrease in revenues to the domestic budgets; the lack of funds to finance the needs of the state – for education, health, (hospitals, prevention of diseases and epidemics, fight against pandemics); the lack of funds for the public sector, environmental protection, development programs, support for science, research and development, business support and job creation etc.; the lack of funds to redistribute wealth and mitigate inequalities. Tax havens distort the functioning of the world and the national economy and cause economic and financial instability.
2. **Social consequences or threats**: deepen inequalities between individuals and economic actors in the economic and social context, as well as increasing inequalities in opportunities to learn, live and work in dignity; the increase in poverty and the resulting consequences of low levels of education and disease prevention, increased frustration of the population, growth in crime in society; decrease of legal awareness of the population.
3. **Security implications or threats**: the loss of transparency in the financial sector increases the risk of using funds for crime with negative social consequences, for terrorism and for threats to human security.
4. **Political and social consequences or threats:** the lack of transparency of national and national public finances makes it possible to link business and investment funds with funds from crime (money laundering), linking with world politics threatens the democratic foundations of states in the world, linking financial power and political power and non-transparency allow to misuse and threaten the foundations of democracy and human civilization.

5. **Humanitarian consequences or threats**: according to the world's leading economists, the existence of tax havens is literally a tragedy for developing countries. "ActionAid estimates that developing countries will lose about € 160 billion in tax havens. The Australian mining company has saved so much money on taxes in Malawi, that would be enough to pay 39,000 teachers or 8,500 doctors a year. According to the UN, the Democratic Republic of Congo is one of the least developed countries in the world, with nearly half of the children suffering from malnutrition, but Glencore (copper mines) and Gentler invested more than half a billion dollars in Gertler's offshore companies. Its profit is estimated at 67 mil. Dollars!" All these negative consequences mean a serious threat to our society. This is the main reason why action needs to be taken against them.

Problems

Another problem with the term is that it advances the idea of a **world divided in tax havens and non-tax havens.** As scholars have pointed out "this dichotomous portrait is not reflective of reality: most countries, including countries not conventionally considered to be tax havens, contain varying levels of financial secrecy. Jurisdictions, then, vary in their degree of tax haven-ness in quantifiable ways. The world is full of different kinds of tax havens that operate under different levels of financial secrecy, and because of its broadness, the term "tax haven" fails to capture effective complexity."

Tax havens are hostile to the global financial system because they **facilitate both tax avoidance and tax evasion**. These terms appear prima facie similar, but they have legally important differences. Tax avoidance is commonly described as a "legal reduction in taxes," whereas tax evasion implies using illegal means to reduce taxes. When individuals use tax haven secrecy to reduce taxes on assets and income, they are typically engaging in "tax evasion," since most countries require citizens to report any interest-generating assets held abroad. If individuals don't report this form of income, they are illegally dodging taxation. When corporations use tax havens to reduce taxable income, however, the legal status of their actions are less clear. Some experts argue that profit shifting–a practice whereby corporations shift taxable profits from high-tax jurisdictions to low-tax jurisdictions and costs from low-tax jurisdictions to high-tax jurisdictions–is a form of tax evasion, while others argue that it is a form of legal avoidance.

In addition to threatening the stability of the international financial system, **tax evasion exacerbates poverty and inequality on a global scale**. Using a methodology of Gabriel Zucman [French economist] it is noticed that "wealthy individuals are stashing over US$8.7 trillion in tax havens around the world–a number tantamount to 11.5 percent of 2017 global GDP. Loftier estimates put the figure around US$36 trillion." According to Zucman's calculation, individuals using tax havens to evade income taxation account for US$200 billion in government revenue losses annually and also in capital gains tax revenue. If this loss of individual income tax revenue is combined with **losses due to corporate tax avoidance,** the number quadruples. Over US$600 billion in "would-be" corporate income tax is siphoned away from governments and into tax havens annually and this massive tax drain disproportionately affects low-income countries.

In addition to sheltering massive amounts of tax-evading cash, **tax havens maintain and "recycle" corruption and illicit wealth**. Funds accrued through criminal means are routinely wired through tax havens, whose opaque financial structures (offshore banks, shell companies, trusts, law firms) decouple illicit wealth from its owners. By wiring illicit wealth through offshore entities [a process called '*layering*,' which often involves multiple financial structures in multiple tax havens] criminals make it impossible for authorities and journalists to connect the proceeds of criminal enterprise to actual persons behind them. After illicit funds are "scrubbed clean", they can be reinvested in legitimate global financial markets.

Conclusion

The existence of tax havens is not current. They originate from the ancient years and survive until today. Parallel to the historical development they have flourished and nowadays consist an integral and crucial part of the global economy. Their global role, as it is launched usually through the media, creates the impression that their function and governance is oriented by illegal scopes and factors solely, which herewith was proven wrong. The intention of this paper was to approach the issue mainly from tax perspective; this fact, though, oriented the research in multiple types of results and thoughts.

It becomes clear that tax havens are governed by specific features that come through advantages and disadvantages which affect not only their own substance but also the global tax system and our everyday life inherently. Their survival over the years has led to several breaches between the European or international institutions and the high tax countries around the world, while the interests they serve are becoming more and more powerful. The several attempts of regulating their status and their external relations remains significant, but many miles are to be crossed until the ship anchors at the right port!

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