LURING FISCAL REFUGEES: THE HIGHS AND LOWS OF TAX HAVENS

Larissa BĂTRÂNCEA, Assistant Professor PhD,
Department of Business, Faculty of Business, Babeş-Bolyai University Cluj-Napoca
lm.batrancea@tbs.ubbcluj.ro

Abstract**:** *Created mostly for tax purposes and boasting other financial services like asset protection or financial investments, tax havens have been often associated across time with tax incentives and tax noncompliance (either avoidance or evasion). On the grounds of double tax treatise, banking secrecy and lack of collaboration with international tax authorities, tax havens have succeeded to concentrate over 50% of the world's financial industry and to manage 32 billion dollars, fuelling unfair competition on global market. Lately, due to pressure exerted by international bodies like the OECD, Joint International Tax Shelter Information Center, Seven Country Working Group on Tax Havens, The Leeds Castle Group or the United Nations, many countries have renounced banking secrecy and started to share client details with tax authorities. Amid rapid changes, a new generation of tax havens emerges in the Southern hemisphere.*

Keywords: *tax haven, fiscal refugees, compliance behavior, tax avoidance, tax evasion, tax flight.*

JEL classification: G28; H26.

1. Introduction

The theory of tax compliance has always depicted taxpayers' decision-making between two antagonistic poles, i.e., fair share payment and evasion. As pertinently put by James and Alley's (2002) [13] "continuum" concept, taxpayers may slide from one pole defined by voluntary disclosure of taxable income to the other pole defined by illegal concealment of the same income. Citizens willing to live by the letter and the spirit of the law (James and Alley, 2002) [13] might find themselves in the words of honorable Oliver Wendell Holmes, a US Supreme Court Associate Justice, who stated "I like to pay taxes. With them I buy civilization". Others, wanting to enjoy the perks of civilization (almost) for free, turn to skilled tax advisors who confidently recommend highly sophisticated tax avoidance or tax evasion schemes. Here is where tax havens come at hand. Remote places like Antigua, Dominica, Isle of Man, Monserrat, Nauru, Saint Kitts and Nevis or Tonga may not be as familiar to the general public, but are well-known among some of the world's wealthiest people for an indisputable quality: keeping money safe and sound. Within the premises located in tax havens, wealth flourishes and, most importantly, it secures growth away from the scrutinizing eye of the taxman. The concocted recipe is plain, yet it yields high efficiency: a loosely regulated and opaque tax system; benevolent authorities towards taxpayers; low or no levies imposed; absolute banking secrecy. Until recently, tax havens have developed unimpeded, but things seem about to change. On the grounds of rising government deficits around the world, tax authorities and international organizations have set forth a campaign against tax havens aimed at putting an end to their citizens' noncompliant activities and shifting tax revenues from offshore accounts to governmental budgets. As a result of contriving both formal (i.e., legal prosecution, harsh fines) and informal (i.e., naming and shaming, peer pressure) strategies, some of the most notorious tax havens have vanished. But the lures of such financial centers are far from going extinct, since tax havens emerging in other parts of the world lure wealthy taxpayers with "one of a kind" financial opportunities and living facilities.

The present study aims to highlight the essence and nature of tax havens, the way and place they usually emerge, and to explain the current evolution of tax havens in the light of international trends. The remainder of the paper is as follows. Section 2 addresses various research studies and reports issued by international bodies that examine the topic of tax havens. Section 3 analyses in a comparative fashion past, current and future paths of tax havens. Section 4 draws concluding remarks.

2. Literature review on the definitions and characteristics of tax havens

The topic of "tax havens" has been extensively discussed and disputed among academics, economists, pundits, politicians and representatives of international organizations overseeing market policies. Following such debates, the concept has been termed in different ways, be it "tax shelters", "offshores", "secrecy jurisdictions", "offshore financial centers” or “international financial centers” [26]. Regardless of the ascribed name, it gathered around supporters, stating its economic benefits (Barber, 2007; DioGuardi and DioGuardi, 2008; Doulis, 2007a, 2007b; Eiteman, Stonehill & Moffett, 2009; Schmitt, 2008; Tyndale, 2009) [1]-[5]-[6]-[7]-[8]-[19]-[24], neutral observers (Gravelle, 2013; Palan, Murphy and Chavagneux, 2010) [10]-[17] or contesters, raising awareness concerning perils it poses on countries’ tax systems (Deneault, 2011; Henn, 2013; OECD, 1998; Shaxon, 2012; Tax Justice Network, 2013) [3]-[12]-[22]-[21]-[28].

On the account of the secrecy, mystery, myths and misconceptions colligated with it, the concept of “tax haven” lacks an accurate technical signification. As Keyes (2013) [14] aptly states, tax havens could be considered “the liger of the financial world: everyone knows they exist, but few among us have ever seen one”. The most referred definition captures the official voice of the OECD stating that tax havens are “countries that are able to finance their public services with no or nominal income taxes and that offer themselves as places to be used by non-residents to escape tax in their country of residence” (OECD, 1998: 20) [22] . In order to give a clearer perspective over the concept, the 1998 OECD report dissociates tax havens from jurisdictions “which raise significant revenues from their income tax but whose tax systems has features constituting harmful tax competition” (OECD, 1998: 20) [22]. Shaxon (2012) [21] gives a stern definition for tax havens, which in his opinion “aren’t just about tax. They are about escape – escape from criminal laws, escape from creditors, escape from tax, escape from prudent financial regulation – above all, escape from democratic scrutiny and accountability”.

According to other authors, the concept of “tax haven” bears a milder and simpler definition. For Goldstein (1995: 10, 17) [9], tax haven is “simply a country other than your own...with more lenient financial and banking laws or a more favorable economy”. In the same vein, Hadnum (2013: 1) [11] sees it as “simply a country that allows you to reduce the amount of tax you pay”.

In addition to defining the concept, tax literature also distinguishes key features of tax havens, extremely useful in the process of identifying such jurisdictions. Table 1 summarizes tax havens’ characteristics based on several sources.

Table 1. Key features shared by tax havens around the world

OECD (2008: 23)[i]	Henn (2013: 2)[ii]	Canada Revenue Agency (2010: 2)[iii]
1. No or only nominal taxes	**1.** No or low taxes, often granted to foreign residents	**1.** No tax, or very low rates of taxation
2. Lack of effective exchange of information	**2.** Strong secrecy is guaranteed	**2.** Lack of effective exchange of information with other countries
3. Lack of transparency	**3.** Low level of regulation regarding legal entities	**3.** Lack of transparency in the operation of its tax system
4. No substantial activities		**4.** Strict bank secrecy provisions

Sources:

[i] OECD, *Harmful Tax Competition: An Emerging Global Issue*, OECD Publications, Paris, 1998.

[ii] Henn, M., *Tax Havens and the Taxation of Transnational Companies*, Friedrich-Ebert-Stiftung (FES), 2013.

[iii] Canada Revenue Agency, *Using Tax Havens to Avoid Paying Taxes: Worth the Risk?*, 2010 (http://www.cra-arc.gc.ca/E/pub/tg/rc4507/rc4507-09e.pdf; referred on 11/12/13).

As displayed in table 1, the three common features of tax havens revolve around mitigated fiscal burden, information exchange shortage and banking secrecy. Jurisdictions pointed out as tax havens don’t necessarily have to exhibit simultaneously all criteria, but generally this is the case (Henn, 2013: 2) [12].

With respect to the taxonomy of havens from the standpoint of fiscal burden, the literature acknowledges three main types (Hadnum, 2013: 2-5) [11]:

1. **Nil-tax havens** – jurisdictions which do not levy any main direct taxes (i.e., income or corporate tax; capital gains tax; inheritance tax) and lack double tax treatises with the majority of developed countries. Locations like Anguilla, Monaco, Bermuda, Vanuatu, Turks and Caicos belong to this category.
2. **Foreign source exempt havens** – jurisdictions which do not levy taxes on income obtained from foreign sources if these sources do not entail any local activity. Costa Rica, Hong Kong, Seychelles, Singapore or Panama fit this type.
3. **Low-tax havens** – jurisdictions which levy taxes on residents’ worldwide income, providing tax advantages and opportunities to cleverly use double tax treatise in order to mitigate the fiscal burden. Countries such as Austria, Barbados, Switzerland or The Netherlands fall into this category.

As stated in the introduction, one of the particularities through which tax havens lure substantial foreign income is authorities’ benevolence towards possible investors. The latter are granted a variety of facilities (especially mitigated taxation), are encouraged to redirect future income and assets towards the same jurisdictions, thus ensuring their own prosperity and the thriving of the former. A great deal of tax compliance literature examines the interaction between taxpayers and tax authorities, which is said to vary between two climates, one antagonistic and one synergistic (Kirchler, Hoelzl and Wahl, 2008: 211) [15]. The first climate is defined by a "cops and robbers" stance: on one side, authorities suspect each taxpayer of noncompliance and audit her frequently; on the other side, taxpayers feel persecuted and have every right to hide in the shadow of the economy. The second climate is characterized by a "service and client" stance: authorities perceive taxpayers as clients and serve their needs, treating them with respect along the tax levying process; in turn, taxpayers pair their fair share. In the case of *nil-tax havens* and *foreign source exempt havens*, the interaction between the two parties is less perceived, because direct taxes (and sometimes indirect taxes) do not exist. Compared to a regular jurisdiction where one is exposed to the entire spectrum of levies, taxpayers from these two havens may be, at most, subject to annual license renewal (for businesses), indirect taxation, living costs. In the *low-tax havens*, authorities become more visible by favoring taxpayers. Presumably, a variation of the synergistic interaction climate – which could be called "tax haven climate" – would fit appropriately these jurisdictions. Trying to get away from the high taxation responsibility in their own countries, some people choose tax havens because they can commit the "sin" of noncompliance and still live in paradise.

Tax havens are set for multiple purposes, namely ensuring financial privacy, asset protection, international investing or noncompliance (Goldstein, 1995: 12) [9]. Palan et al. (2010: 2) [17] argue this by explaining the meaning of the concept in various languages. Hence, the French "paradis fiscaux" translates into financial paradise, referring to a variety of activities facilitated by tax havens, others than taxation. Spanish speaking countries call it "asilos de impuesto" (meaning asylums from fiscal levies) or "paradisos fiscales". The Italian "rifugio fiscale" is equal to fiscal shelter, the Russian variant literally means "special tax zones" (e.g., tax facilities for attracting investments), while the German "Steuerhafens" captures mostly the meaning of "tax havens". In addition to the observations of Palan and colleagues, one could add the Romanian "paradis fiscal", which follows the same logic path of the French one.

Aside from diminished tax burdens, the main ingredient which draws people towards tax havens is secrecy, flourished under the local authorities' protective wing. Due to it and the growing phenomenon of tax flight (i.e., relocating personal residence, business headquarters), tax havens are almost every time associated with tax noncompliance, i.e., tax avoidance and tax evasion. According to compliance theory, tax avoidance denotes taxpayers' actions of mitigating levies by favorably using loopholes of the tax code, it is legal but against the spirit of the law. Palan et al. (2010: 10) [17] give further details on tax avoiding techniques: 1) finding loopholes through a reasonable interpretation of the tax code; 2) paying taxes on profits disclosed in a country different from the location originally generating it; 3) delaying tax payment much later than profit registering. Tax evasion covers illegal actions of intentionally underreporting or misreporting income with the purpose of avoiding taxes and goes both against the letter and the spirit of the law. As both tax avoidance and evasion disregard the spirit of the law, one may assume these acts of noncompliance would trigger resentment among honest taxpayers. Nevertheless, many research studies in economic psychology prove the opposite, for tax avoiders are often considered very astute. For instance, Kirchler, Maciejovsky and Schneider (2003) [16] assessed everyday representations of tax evasion, tax avoidance and tax flight on a sample pool of 252 students and professionals through the scenario technique. Analyses revealed that the first concept was associated with negative feelings, the second with positive feelings and the third with neutral ones.

In tax havens, noncompliance opportunities are usually engendered by aggressive tax planning and creative accounting, accordingly the most popular strategies used are debt and earning stripping, evasion, transfer prices, patent and intellectual property licensing. Through an attempt to control and eventually lessen worldwide tax evasion, the United Nations (UN) Organization has started a discussion series to develop a "Code of Conduct on Cooperation in Combating International Tax Evasion and Avoidance". Although legal, tax avoidance acts are condemned and targeted by the UN. A first draft of the code states that tax evasion "could be understood as a wide concept, comprehensive of tax evasion, tax avoidance and tax abusive practices (aggressive tax planning), but not including normal tax planning. It might be understood by 'aggressive tax planning' tax planning that goes beyond the policy intent of the law and involves purposeful and deliberate approaches to avoid any type of tax" [25].

3. Tax heavens through the looking glass: Past versus Present

The mystery surrounding tax havens has spread also to the counting of such jurisdictions. Therefore, the number of countries deemed to be tax havens varies from 41 (OECD, 1998), 50 (Goldstein, 1995; Gravelle, 2013) to 82 (Tax Justice Network Financial Secrecy Report 2013) [22]-[9]-[10]-[28].

Gravelle (2013) [10] offers an overview on the geography of tax havens by synthetizing the country names included on various lists developed by the OECD, Tax Justice Network or academics (table 2).

Table 2. Word wide geography of tax havens

World Region	Tax Havens
Caribbean/West Indies	Anguilla, Antigua and Barbuda, Aruba, Bahamas, Barbados, British Virgin Islands, Cayman Islands, Dominica, Grenada, Monserrat, Netherlands Antilles, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Turks and Caicos, U.S. Virgin Islands
Central America	Belize, Costa Rica, Panama
Coast of East Asia	Hong Kong SAR, Macau SAR, Singapore
Europe/Mediterranean	Andorra, Channel Islands (Guernsey and Jersey), Cyprus, Gibraltar, Isle of Man, Ireland, Liechtenstein, Luxembourg, Malta, Monaco, San Marino
Indian Ocean	Maldives, Mauritius, Seychelles
Middle East	Bahrain, Jordan, Lebanon
North Atlantic	Bermuda
Pacific, South Pacific	Cook Islands, Marshall Islands, Samoa, Nauru, Niue, Tonga, Vanuatu
West Africa	Liberia

Source: Gravelle, J.C., Tax Havens: International Tax Avoidance and Evasion, *Congressional Research Service Report for Congress*, 2013.

The information in table 2 stresses that the realm of tax havens is not confined only to tiny nations, like some people would presume (Goldstein, 1995) [9]. It is extremely diverse, covering from tropical Caribbean isles, aristocratic European principalities and established democracies to remote places in the Pacific. Not only do tax havens differentiate in terms of geographic positioning (i.e., mainland, offshore), but also of areas covered. For that matter, tax havens can spread in whole countries (e.g., Costa Rica, Singapore, Malta), in certain areas within countries, or only in cities (e.g., Hong Kong SAR, Macau SAR). Moreover, tax havens develop under a manifold of political regimes: republic (e.g., Costa Rica, Malta), monarchy (e.g., Jordan, Bahrain, Overseas Crown Territories of the United Kingdom), special administrative regions (e.g., Hong Kong, Macau).

3.1. Tax heavens in the past

According to Sharman (2006: 22-23) [20], the oldest tax havens in the world (i.e., Switzerland) was established after World War I. Known also as the “grandfather of tax havens”, Switzerland has been providing banking secrecy for the world elite’s wealth since 1934. Other notable European tax havens going back to this period are: the Isle of Man, Gibraltar and the Channel Islands (affiliated with UK); Monaco (France); Andorra (France and Spain); San Marino (Italy); Liechtenstein (Switzerland). Goldstein (1995: 19-20) [9] notes that the UK has established the highest number of tax havens, starting in 1960s with its first in the Bahamas. During the 1970s and 1990s, a manifold of such jurisdictions appeared, as some of the following: Nauru (1972); Turks and Caicos (1981); Tonga (1984); Antigua and Barbuda (1982); Samoa (1988); Grenada (1990); Anguilla (1991); St. Kitts (1996); St. Lucia (1997) (Sharman, 2006: 20) [20].

OECD has been the first international body to start a global campaign against financial secrecy. It issued lists of worldwide tax havens (1998 – 41 countries; 2000 – 35 countries) and blacklisted countries as “uncooperative tax havens” (i.e., Andorra, Liberia, Liechtenstein, Monaco, Nauru, Marshall Islands, Vanuatu), convinced that naming and shaming strategies (more effective than financial sanctions) might afflict tax havens reputations in the eyes of possible investors and would determine tax havens to reconsider tax policies. In fact, several studies conclude that people generally avoid defectors in order not to be labeled themselves defectors and lose credibility (Posner, 2002) [18].

Along the years (1998-2002), the interaction between the OECD and tax havens has turned into a “cat and mouse” game, with charges being released on each side. While the OECD was labeling countries “tax havens”, these jurisdictions were accusing the OECD of exceeding its initial purpose (i.e., ensure market competition) and enforcing restrictions on non-member countries. As observed by Sharman (2006) [20], many jurisdictions have been extremely interested to discard the "tax haven" label which decreased their popularity, because of fortunes spent to brand themselves as safe, stable and secure financial centers.

Ultimately, OECD strategies have not remained without echo: some tax havens dropped banking secrecy and subsequently were removed from the official lists.

Palan et al. (2010: 237) [17] register the arguments through which tax havens have lobbied for their status across time: a) they are not tax havens; b) it is not their fault that taxpayers use them as shelters; c) they are making efforts to cooperate with tax authorities around the world and mitigate illegal activities; d) they have highly regulated economies.

3.2. Tax havens in the present. Is there any future?

The industry incentivized by tax havens is still thriving, managing funds between 21 to 32 trillion US dollars, according to Tax Justice Network estimations. Business is lucrative for both tax havens and fiscal refugees. For instance, in 2012, 60 US companies managed to hide 166 billion dollars; the giant Google paid a mere 74,000 dollars in Australia, notwithstanding profits of billions (Keyes, 2013) [14]. Research undertaken by Palan et al. (2010: 5-6) [17] suggests these jurisdictions house over two million international businesses, thousands of funds (i.e., trust, mutual, hedge) and captive insurance companies, attract 30% of the global foreign direct investments and 50% of the international banking lending. Not to mention that 52% of the global hedge fund industry is found on the Caribbean islands alone (i.e., the Bahamas, Bermuda, British Virgin Islands and Cayman Islands). These figures constitute one of the reasons for which tax havens are regarded as fuelling unfair competition with other countries. By using tax shelters, they increase foreign investments and labor force, indirectly putting pressure on other states to ease tax burdens and become eventually real menaces to economies, social and democratic states (Henn, 2013: 2) [12].

Taxpayers' willingness to avoid paying their fair share engenders ludicrous situations. On Cayman Islands, ranked fifth among the international financial centers, registered economic entities outnumber its residents. Rosenzweig (2010) [23] recalls the case singled out by an American TV show concerning the Ugland House, a five-floor edifice in George Town (Grand Cayman), headquartering neither more nor less than 18,857 companies, out of which 12,000 were allegedly American. In this respect, Barack Obama declared during his 2008 presidential campaign: "that's either the biggest building in the world or the biggest tax scam in the world" [32]. In a preposterous similar case, it was disclosed that a German dog called Günter had set up an anonymous offshore account managed by the Liechtenstein LGT Bank to avoid taxes along other 1,400 German citizens (Dinmore and Williamson, 2008) [4].

At global level, several international and regional organizations are trying to "identify and combat the abusive use of tax havens and other aggressive tax planning matters" (Canada Revenue Agency 2010: 11) [2]: OECD, Joint International Tax Shelter Information Center (JITSIC), Seven Country Working Group on Tax Havens, The Leeds Castle Group. Moreover, since 2009, the Tax Justice Network publishes every two years a Financial Secrecy Index Report, containing a world ranking classifying tax havens according to their secrecy and activities. The index scale goes from a range of 31-40 secrecy points meaning the jurisdiction is "moderately secretive" up to 91-100 secrecy points meaning the jurisdiction is "exceptionally secretive".

Table 3. **Top 10 most secretive jurisdictions in the world according to Financial Secrecy Index developed by Tax Justice Network (2009-2013)**

Rank	Secrecy Jurisdiction	Financial Secrecy Index 2009	Secrecy Score 2009
1	USA (Delaware)	1,503.08	92
2	Luxembourg	1,127.02	87
3	Switzerland	513.4	100
4	Cayman Islands	403.48	92
5	UK (London city)	347.79	42
6	Ireland	143.73	62
7	Bermuda	122.3	92
8	Singapore	109.34	79
9	Belgium	78.6	73
10	Hong Kong	76.34	62
Rank	**Secrecy Jurisdiction**	**Financial Secrecy Index 2011**	**Secrecy Score 2011**
1	Switzerland	1,879.2	78
2	Cayman Islands	1,646.7	77
3	Luxembourg	1,621.2	68

4	Hong Kong	1,370.7	73
5	USA	1,160.1	58
6	Singapore	1,118.0	71
7	Jersey Island	750.1	78
8	Japan	693.6	64
9	Germany	669.8	57
10	Bahrain	660.3	78

Rank	**Secrecy Jurisdiction**	**Financial Secrecy Index 2013**	**Secrecy Score 2013**
1	Switzerland	1,765.2	78
2	Luxembourg	1,454.4	67
3	Hong Kong	1,283.4	72
4	Cayman Islands	1,233.5	70
5	Singapore	1,216.8	70
6	USA	1,212.9	58
7	Lebanon	747.8	79
8	Germany	738.3	59
9	Jersey Island	591.7	75
10	Japan	513.1	61

Source: www.financialsecrecyindex.com

As can be observed in table 3, the six countries highlighted in grey ranked each year among the top ten most secretive jurisdictions, five out of six are among the most developed countries in the world (Luxembourg, Hong Kong, Singapore, Switzerland, USA) and one is a notorious financial hub for wealthy businessmen (i.e., Cayman Islands). Despite obvious high levels of economic development and quality of life, the financial secrecy ranking suggests that these countries have still much work to perform on their tax laws in order to ensure a fair economy and mitigate unfair competition.

Following the global trend, the European Commission is determined to scrutinize aggressive tax planning, cut loopholes on entities using letter-box subsidiaries and make taxpayers abide by the letter and the spirit of the tax law [27]. The commission favors the use of "naming and shaming" strategies on the account that it will determine noncompliant entities to pay more. In addition, some initiatives argue for the implementation of a "Common Consolidated Corporate Tax Base" with a standard formula to determine tax breaks.

The "naming and shaming" and peer pressure strategies used by international bodies during these last years have compelled many notable tax havens to drop banking secrecy and reveal the names of the foreign taxpayers who had benefitted from their fiscal incentives. The following table emphasizes the current status of some well-known tax shelters.

Table 4. Current status and incentives offered by some tax havens

World Region/Country	**Tax Havens**
Central America Belize[i]	In 2013, through radio commercials, US Americans were advised to open offshore accounts in the island, "one of world's top tax havens – a truly safe locale for your money".

Europe[ii] Isle of Man	It levies no main direct tax (capital gains, corporate, wealth, stamp duty of inheritance), except for income tax, which is 20%. In February 2013, it signed a disclosure agreement with the British government. As a result, taxpayers have three years to declare their accounts or incur penalties of even 200 times the unpaid tax.
Liechtenstein	The country renounced banking secrecy in 2009 and signed disclosure agreements with the British government. Currently, it tries to change it image from tax haven to "safe haven".
Luxembourg	The country ranks among the biggest European financial centers, with an economy 22 times smaller than its banking industry (GDP is 10 times smaller than bank deposits). From 2015, it will renounce banking secrecy, "following a global movement".
Switzerland	Renounced its famous banking secrecy code. Under pressure from the US government enforcing the FATCA law on American citizens, the country agreed in 2013 to warrant Swiss banks in providing client details to the Internal Revenue Service, incurring no international penalties.
Middle East Bahrain, Oman, United Arab Emirates	Oil-rich tax havens deem there is no need to tax people. Hence, they levy no income or VAT. A future oil shortage might change their view.

Source:
[i] Keyes, S., Investment Company Urges Americans to Stash Money in Belize, 'One of the World's Top Tax Havens', 2013 (http://thinkprogress.org/economy/2013/03/20/1749111/belize-tax-haven/; referred on 12/11/2013).
[ii] Europe's Vanishing Tax Havens (http://www.cnbc.com/id/100783858; referred on 23/11/2013).

The renowned scientist Alexander Graham Bell once said that "when one door closes, another door opens". This adage describes perfectly the current situation of tax havens. While some reference jurisdictions in Europe seem to vanish rapidly, others wait anxiously in line to shelter foreign wealth. The global trends indicate that capital might fly towards new destinations mainly from the Southern hemisphere [31]:

- *Africa*: The Gambia and Kenya (Nairobi) aspire to become tax havens; Nairobi is said to negotiate its privileged status with the British financial service industry;
- *Southeast Asia*: thriving Hong Kong and Singapore are expected to surpass Switzerland in 15 years;
- *Australia*: the country's Northern Territory aspires to a tax haven status by cutting 10% of its tax rate, below country level;
- *Chinese authorities* mitigate fiscal burden in Shannan Prefecture (or Lhoka Prefecture) in Tibet to incentivize investments coming from China;
- *Europe*: since the beginning of 2014, Latvia has lowered taxes considerably and has been labeled the "new tax haven of the Eurozone" or the "new Cyprus" by some EU members.

4. Conclusions

It is stated that a useful tip spreads among the most wealthy taxpayers, i.e., "Don't work for your money, let the money work for you". Tax havens have been, still are and probably will continue to be jurisdictions where such pieces of advice are worth gold. Insuring low taxation (or in many cases none), no information exchange with foreign tax authorities and guaranteed banking secrecy, tax havens have gained popularity across the globe especially starting with the 1960s and attracted huge amounts of capital from fiscal refugees interested in keeping their wealth outside the eyes of the taxman. By some estimations, transactions in tax havens are worth nearly 32 billion US dollars. Another trend the world registers is the ongoing tax flight phenomenon. For instance, Barber (2007) [1] estimates that yearly about 250,000 US citizens leave the country on the grounds of high tax burden.

Besides housing companies specialized in financial privacy insurance, asset protection or international investing (e.g., trust funds, mutual funds, hedge funds), tax havens are well-known for their tax incentives, established through aggressive tax planning and creative accounting. Taxpayers enjoying such incentives are usually scrutinized by authorities from their country of residence for *tax avoidance* and *tax evasion*, i.e., the former legal but against the spirit of the tax code, the latter illegal and against the letter and spirit of the tax law. Even though both types of acts disregard the spirit of the law, studies conclude that avoiders are perceived more positively than evaders, who are usually resented.

Along the years, the media has pointed out several cases in which tax noncompliance was more than obvious. Epic in this sense is the Ugland House (Grand Cayman Island) which was indicated as headquarter by 18,857 companies, granting it the possibility to run for the world's biggest building. In the same vein, the German dog called Günter is remembered as the proud owner of an offshore account by a bank from Liechtenstein.

In the years following 1998 and especially the 2008 financial meltdown, tax havens have emerged frequently on political agendas, often being accused of encouraging unfair competition and tax noncompliance. International and regional bodies as the OECD and the European Commission have begun combating such phenomena through various strategies, like naming and shaming, peer pressure or financial sanctions. As a result, several tax havens have discarded banking secrecy. For example, in 2009, like in the canonical Prisoner's Dilemma game, the Swiss bank UBS cooperated with the Internal Revenue Service, revealed details about 4,450 American clients and was fined 780 million US dollars.

Currently, while some secretive jurisdictions in Europe fade away, others in Africa (e.g.., the Gambia, Nairobi) and Southeast Asia (Hong Kong, Singapore) rise, proving that some taxpayers are able to quickly refocus.

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