

FATHOMING TAX HAVENS CLIMATE THROUGH A CONSEQUENTIALIST VERSUS A DEONTOLOGICAL MORAL LENS

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***Abstract:** By means of an extensive methodological apparatus including analysis of chain base indexes, comparisons, syntheses and case studies, literature review of scientific articles, books or official documents released by international organizations and national agencies, viz. World Bank, OECD, Tax Justice Network, U.S. Internal Revenue Service, U.S. Government Accountability Office, UK HM Revenue & Customs, Christian Aid, the present paper assesses tax havens climate through a consequentialist vs. a deontological moral lens, approach which to our knowledge has not been tackled before. Thus, it offers a variety of consequentialist and deontological judgments on naysayers and yea-sayers to tax havens climates. Adding a philosopher's eye to an economist's view regarding the morality of tax havens and appraising main aspects based on unprejudiced multidisciplinary evaluation, this article tries to umpire all voices, making the case that the morality of international financial centers is not a resolute one. Therefore, it should be discussed, analyzed and understood according to different perspectives of morality and parties involved: international bodies, non-tax haven countries and their citizens, tax havens, foreign investors in offshore businesses.*

***Keywords:** tax havens, tax compliance, evasion, avoidance, consequentialism, deontology, morality.*

***JEL classification:** G28; H26.*

1. Introduction

Man has an innate desire to reach Heaven, but also to experience a heavenly life starting from Earth. One of the evidences underlying this propensity is the plethora of worldwide tax havens endorsed by developed polities. For how can one enjoy such life in nowadays fickle global market than artfully dodging taxation and ending up spending wads of money on earthly whims? In these jurisdictions, located either on remote islands or mainland realms, many taxpayers' concerns revolve around fiscal obligations, tax advisors, tax preparers, thus being no strangers to concepts like "deduction", "exemption", "write-off", "double taxation", "transfer prices", "banking secrecy", "trust fund", "hedge fund" or "mutual fund". The fast proliferation of tax havens and their highly lucrative financial sectors often competing with established economies - despite the small number of residents - have triggered lively debates on their morality. Hence, over time many have positioned themselves either on one side of the barricade or the other, uttering a spate of trenchant judgments. Some observers have befriended the concept of "tax havens", advocating for the benefits they yield, e.g., capital allocation and accumulation, promotion of jurisdictional competition, protection of human rights. Others' viewpoints have run counter to the former arguments, stressing that jurisdictions like these hinder social responsibility of corporate taxpayers who are ensnared by advantageous tax cuts. In the same vein, international bodies have unleashed quite unbridled points by singling out countries which favor harmful tax competition and which threaten the very fairness of tax systems around the world.

In an endeavor to analyze these contrary opinions, one might question what sort of message tax havens convey to outer entities. Is the flight towards tax havens a "sin" of nonpaying fair shares or a virtue of those who knowledgeably speculate opportunities in the most advantageous way? What sort of principles are guiding international bodies in their quest for mitigating the number of tax havens and, provided organizations ground their actions on moral principles, are these principles universally deemed and accepted as moral by all parties concerned?

What are the moral boundaries in which an external party can demand changes to a particular tax system, given the state sovereignty? How moral are capital flows towards tax havens, judging from the standpoint of the citizens in non-tax havens which lose considerable funds? What do foreign investors reckon when choosing tax havens as destinations for their wealth? Last but not least, should tax havens activities be assessed on their underlying character *per se* or on the consequences they generate at a local and regional scale? The present study aims to answer all these queries, analyzing tax havens climate through a consequentialist versus a deontological moral lens, approach which to our knowledge has not been tackled before. By adding a philosopher’s eye to an economist’s view regarding the morality of tax havens and appraising main aspects based on unprejudiced multidisciplinary evaluation, this article tries to umpire all voices, making the case that the topic of tax havens morality is not a resolute one. Therefore, it should be discussed, analyzed and understood according to different perspectives of the morality concept and the parties involved.

The paper is structured as follows: section 2 sets forth briefly the matter of tax havens within the framework of tax behavior; section 3 outlines the main attributes discerning consequentialism from deontology. Section 4 encloses a terse analysis of tax havens’ interaction climate between taxpayers and authorities, by means of consequentialist and deontological moral concerns; section 5 comprises a rundown of the chief arguments concerning the morality of tax havens.

2. Tax Havens - Apparently Remote Islands in the Tax Compliance Ocean

Enjoying the perks of modern societies, afforded as public goods by dint of government spending, comes with a price, i.e., taxation. Since the early days of tax compliance research (Allingham and Sandmo, 1972; Schmolders, 1959, 1960; Spicer and Lundstedt, 1976; Song and Yarbrough, 1974; Srinivasan, 1973; Vogel, 1974; Yitzhaki, 1974) [3-31-32-37-38-39-41-42], social scientists have concluded that some dwellers of nowadays communities pay the respective price, whereas others fail to do so. Put differently, taxation deals with a Janus-faced phenomenon entailing compliance and noncompliance. On the one hand, tax compliance behaviors follow the law both in spirit and letter, therefore including voluntary compliance, i.e., willingness to pay taxes out of a moral obligation towards a trusted state, and enforced compliance, i.e., paying taxes out of a conviction that authorities hold the power to detect and sanction tax dodging (Kirchler, Hoelzl and Wahl, 2008) [21]. On the other hand, noncompliance behaviors stem from disobeying the letter and/or spirit of the law, thus resulting into tax evasion, i.e., illegal mitigation of fiscal liabilities by breaking the letter and spirit of tax precepts, or tax avoidance, i.e., legal mitigation of fiscal liabilities by breaking the spirit of tax precepts.

While tax evasion acts are somewhat easier to classify, tax avoidance cases pose more difficulties and require extensive analyses. Authorities around the world recognize a taxpayer’s right to use tax reliefs as stated by the law, but are opposed to aggressive tax planning via rule bending. Consequently, they might even develop lineups of warning signs lest taxpayers fall into the trap of avoidance schemes. The following table captures such list released by the British tax authority HM Revenue & Customs:

Table 1. Twelve red flags to ease spotting tax avoidance schemes

HM Revenue and Customs, UK

1. They sound too good to be true. E.g., Schemes allege to cut tax liabilities with little or no real cost, after paying the promoter and signing paperwork.
 2. Tax gains or returns exceed any advantages granted by real economic activities, expenses or investment risks.
 3. Schemes imply arrangements much too complicated for the purpose of diminishing fiscal burden.
 4. Schemes imply artificial or concocted arrangements.
 5. Schemes imply money circling back to where they started.
 6. Scheme promoters either support arrangements with financial resources or involve other parties able to do so.
 7. Offshore companies or trusts are involved despite the lack of any solid commercial reason.
 8. Tax havens or countries approving banking secrecy are involved.
 9. Schemes comprise exit arrangements aimed at dodging tax consequences.
 10. Schemes require confidentiality or secrecy.
 11. In some cases upfront fees must be disbursed, while in other cases arrangements stipulate a no win/no fee condition.
 12. Schemes have been labeled through a Scheme Reference Number (SRN) by the HMRC, based on the Disclosure of Tax Avoidance Schemes (DOTAS) regime.
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Source:

Adapted after HM Revenue & Customs, *Tempted by Tax Avoidance? A Warning for People Thinking about Avoidance Schemes* (<http://www.hmrc.gov.uk/avoidance/overview.htm>; referred on 23/02/2014) [52].

Albeit the distinction between tax avoidance and tax evasion seems clear in theory, practice has unearthed several inconsistencies (Slemrod, Blumenthal and Christian, 2001: 459) [36]. This is because the increasing level of tax law complexity around the world has opened a manifold of loopholes, has given tax practitioners large room for interpretations and has blurred boundaries which once looked steady. One might even claim that tax law complexity is a fuel which fires noncompliance. As a consequence, what could be framed as avoidance under a particular tax law article might be perceived as evasion under a different section of the same law. Considering the thin line between legality and illegality in taxation matters, Franklin Delano Roosevelt, the only US president elected to serve four consecutive terms, distinguished the two concepts in a most original manner: “Tax avoidance means that you hire a \$250,000-fee lawyer, and he changes the word ‘evasion’ into the word ‘avoidance’” [60].

If the aforementioned arguments evince uncertainty regarding the legal status of tax affairs, things appear similar when tackling moral concerns. Both tax avoidance and tax evasion acts generate the same result, viz. mitigation of taxes. Hence, taxpayers generally equate avoidance with evasion, because as scholars like Sandmo (2003: 5) [30] assert “the borderline between what seems morally right and wrong does not always coincide with the border between what is legal and illegal”. In the same vein, Prebble and Prebble (2012: 744) [29] opine that: “Judges are correct when they note that there is a legal dissimilarity between evasion and avoidance, but the factual similarities between the two are of much greater moral significance than the legal difference; from the perspective of morality we should look at the two phenomena as being just one phenomenon. Public opinion appears to reach the same conclusion”.

Supporters who defend multinational corporations and public figures pilloried by the media for aggressive tax avoidance schemes justify noncompliance behavior based on notable representatives of the legal system. In this respect, the famous statement pronounced by American Justice Learned Hand during the 1934 “*Helvering v. Gregory*” case proves to be extremely advantageous: “Any one may arrange his affairs so that his taxes shall be as low as possible; he is not bound to choose that pattern which best pays the treasury. There is not even a patriotic duty to increase one’s taxes” (Ordover, 2010: 47) [26-59-46]. Another assertion from the same judge Hand dating back to 1935 (i.e., “*Commissionaire v. Newman*”) is equally appreciated: “Over and over again courts have said that there is nothing sinister in so arranging one’s affairs as to keep taxes as low as possible. Everyone does so, rich or poor; and all do right, for nobody owes any public duty to pay more than the law demands: taxes are enforced extractions, not voluntary contributions. To demand more in the name of morals is mere cant” (Chirelstein, 1968: 456) [8]. Not to mention that Scottish judge Lord Clyde (James, 2012: 23) [18] follows a similar rationale: “No man in this country is under the smallest obligation, moral or other, so to arrange his legal relations to his business or to his property so as to enable the Inland Revenue to put the largest shovel into his stores”.

Acknowledging the often unclear contours of tax avoidance and evasion, compliance literature has welcomed the new concept of “tax avoision” (Seldon, 1979) [34] as a portmanteau derived from “avoidance” and “evasion”, which characterizes deportment aiming to curtail fiscal liabilities under a vague tax law (James, 2012: 24) [18].

While interacting with taxpayers, tax authorities come across the four behavioral subtypes (i.e., voluntary tax compliance, enforced tax compliance, tax avoidance, tax evasion). Depending on the prevalence of such behaviors among the vast majority of taxpayers - which ultimately determines the level of budgetary resources - the interaction climate may be defined by synergism or antagonism (Kirchler, Hoelzl and Wahl, 2008) [21]. Voluntary and enforced compliance are likely to prevail in a synergistic climate, where the “service and client” approach is the golden rule: tax authorities provide high quality services for their clients, whom they treat with respect; taxpayers value the respect and reciprocate by complying. Tax avoidance and tax evasion are expected to override compliance in an antagonistic climate, where players act according to the “cops and robbers” approach: tax authorities suspect all taxpayers of noncompliance, thus favoring high probabilities of audit and harsh penalties; taxpayers search for noncompliance opportunities out of discontent, thereby upholding the informal sector. As regulators and first-movers within the game of tax compliance, authorities have the ability to choose a particular approach and predispose the nature of the interaction climate. In turn, taxpayers possess the capacity to grasp authorities’ intentions and shape the climate, because the interaction between the two parties is a dynamic one.

Talking about messages sent by authorities, while delving into issues related to fiscal liabilities Barber (2007: 4) [5] records Jean Baptiste Colbert’s assertion with respect to the optimum taxation strategy, which he applied in XVIIth century France as controller general of finance appointed by King Louis XIV: “The art of taxation consists of so plucking the goose as to obtain the largest possible amount of feathers with the least possible amount of hissing” [45]. Tax compulsion based on heavy-handed strategies might have worked thoroughly four centuries ago, but it is less likely to function properly in a globalized market [48]. Nowadays the goose can fly to other jurisdictions if it loses too many feathers in one place, and most of the times these jurisdictions are represented by tax havens.

With reference to the construct of “tax havens”, despite the extensive literature examining it, various questions remain unanswered. Furthermore, uncertainties seem to augment rather than clarify, whence the high number of

labels used to describe them, e.g., “international financial centers”, “offshores”, “offshore financial centers” (Hampton and Abbott, 1999) [15], “secrecy jurisdictions”, “tax shelters”. The notion itself is extremely relative, “very subjective in nature, as ‘one man’s tax haven is another man’s tax system’” (Eicke, 2009: 87) [11].

As Orlov (2004: 97) [27] mentions, the syntagm “tax haven” apparently dates from 1959. Its original positive connotation (i.e., getaway from harsh fiscal pressures of developed countries) has been deteriorating along the years and has attained a negative connotation, being associated most often with unjust tax competition, support for tax avoiders and evaders, illegal economic activities and ill-gotten revenues.

The phenomenon is nondescript, consequently there is no standard definition clearly explaining it. The most cited attempt belongs to the Organisation for Economic Co-operation and Economic Development (OECD), which through its 1998 *Harmful Tax Competition: An Emerging Global Issue* report (OECD, 1998: 20) [25] indicates as tax havens “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”. Among the characteristics of a tax haven, the literature acknowledges the following: the low (or no) nominal taxes, banking secrecy, shortage of transparency and information exchange, no considerable economic activities (Henn, 2013; OECD, 1998) [16-25]. Moreover, they also implement “ring-fenced” legal and tax systems, meaning that foreign investors are granted preferential treatment compared to local investors (NOU, 2009: 9) [24].

Since the modern boom period of 1960s-1980s, tax havens have come to know all shapes and sizes, levels of economic development, geographic positions or political regimes (Bătrâncea, 2014) [6]. Nevertheless, the tax havens story dates back more than 2,200 years. In a comprehensive hindsight on the history of taxation (Adams, 2001: 88-90; 2011) [1-2], “one of the most fascinating tax stories of antiquity” is singled out. The isle of Rhodes was home to the Rhodian Empire and to the most important trade point in the Aegean Sea. On the account that all commercial roads passed through it, the empire levied a two percent tax on the value of each vessel’s cargo and used the money to hinder pirates from roaming their seas. Although being allies of the powerful Rome, Rhodians made the strategic mistake of maintaining a neutral position during the war between Rome and Macedonia. By favoring tax competition instead of war, Romans took revenge on Rhodians and established a tax-free zone on the isle of Delos, which caused a plunging decrease of 85 percent for the Rhodian tax revenues and ultimately brought their defeat. Thus, the island of Delos has come to be remembered as the starting point in the history of tax havens.

Nowadays, tax havens enjoy a happier fate than ancient Rhodes, since estimates indicate that “half of the world trade flows through” them [53]. In the following, we show the evolution of the GDP per capita during 1960-2012 for several tax havens and the growth rates per decades, in support of the aforementioned estimates. Among the world’s extant tax havens, we considered 36 jurisdictions according to Gravelle (2013) [14], which centralizes lists from different reports and scientific articles, e.g., OECD, Tax Justice Network, U.S. Government Accountability Office. The tax havens took into account were: Antigua and Barbuda, Bahamas, Dominica, Grenada, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, U.S. Virgin Islands (Caribbean/West Indies), Belize, Costa Rica, Panama (Central America), Hong Kong SAR, Macau SAR, Singapore (Coast of East Asia), Andorra, Channel Islands Guernsey and Jersey, Cyprus, Isle of Man, Ireland, Liechtenstein, Luxembourg, Malta, Monaco, San Marino (Europe/Mediterranean), Maldives, Mauritius, Seychelles (Indian Ocean), Bahrain, Jordan, Lebanon (Middle East), Bermuda (North Atlantic), Marshall Islands, Samoa, Tonga, Vanuatu (Pacific, South Pacific), Liberia (West Africa). For each decade and the three-year period, we computed the Average GDP per capita in Tax Havens (THAGDP) and the World Average GDP per capita (WAGDP).

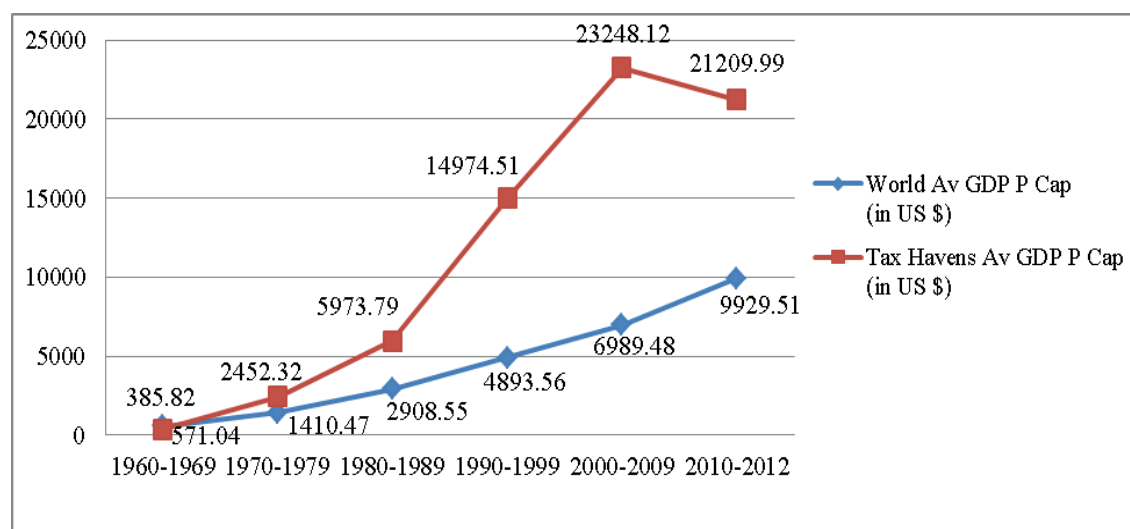


Figure 1. The evolution of Tax Havens Average GDP per capita with respect to World Average GDP per capita, 1960-2012

Source: Authors’ computation based on World Bank Data (1960-2012).

One can notice that, starting with the second decade, THAGDP has exceeded WAGDP, peaking during the fifth decade. Computing chain base indexes for the considered period, we obtained the following tandems of growth rates (WAGDP & THAGDP): 147% & 535.61%, 106.21% & 143.60%, 68.25% & 150.67%, 42.83% & 55.25%, 42.06% & -8.77%. Analyzing the dynamics of the growth rates, it can be seen that both indicators have registered a positive trend, spiking during the second decade, with gaps of 388.61%, 37.39%, 82.42%, 12.42% and -33.29% respectively. The outlier is the slight decrease of THAGDP in the period 2010-2012, due to missing data (i.e., GDP per capita) for certain tax havens. In a nutshell, these figures bear witness to tax havens’ upsurge and the rapid conversion of some jurisdictions from wretchedness to thriving economic environments.

3. Consequentialists and Deontologists Debating Morality: An Overview

According to different scholars, the system of principles about rightness and wrongness of a demeanor, established within a society or group in order to assure a good, correct and happy life, is regarded as morality. Morality emanates from the Latin *moralitas* which derives from the Latin *mores* denoting habits of conduct, mores. Along the historical tides of philosophical ideas, two main paradigms related to morality have been delineated, i.e., consequentialism and deontology. The thrust of consequentialism is the morality of good, whereas the thrust of deontology is the morality of duty. In terms of consequentialism, assessing the morality of an action is based on the value of its consequences: if the overall consequences are positive, the action is considered moral; if they are negative, the action is deemed immoral. Put another way, it resembles the English adage “The ends justify the means”, according to which as long as an aim engenders morally desired outcomes, any means of attaining it are allowed. In terms of deontology, assessing the morality of an action is based on whether the action follows a set of values, principles, norms and rules. Unlike consequentialism, deontological morality does not take into account the consequences brought about by the action in question. Under the arch of consequentialist morality stand a panoply of exponents, whose theories differ according to the type of consequences which matter most: happiness obtained through self-control, mental and emotional strength (stoicism: Zeno of Citium, Epictetus, Seneca, Marcus Aurelius), personal pleasure (hedonism: Aristippus, Democritus), stillness and freedom from fear (epicureanism: Epicurus, Lucretius), general happiness or utility (utilitarianism: Hobbes, Helvétius, Bentham, Stuart Mill, Sidgwick). Deontology hosts exponents whose grassroots vision regarding morality relies on the concept of duty and justice: for Kant any kind of behavior embedding respect towards duty and law is moral; Adam Smith considers moral a behavior which generates sympathy; Bergson and Fichte opine that an action is moral when it is inspired by our human nature (Didier, 1991) [10].

Based on information retrieved from different sources (Blackburn, 1994; Clément, Demonque, Hansen-Løve and Kahn, 1994; Didier, 1991) [7-9-10] we designed the following figure to serve as a compass for the ideas presented in the subsequent parts of the paper. The end of the present material is far from entering into philosophical debates about the appropriateness of one paradigm or another. In the following, we resort to the frames of consequentialism and deontology as tools for questioning the morality of tax havens.

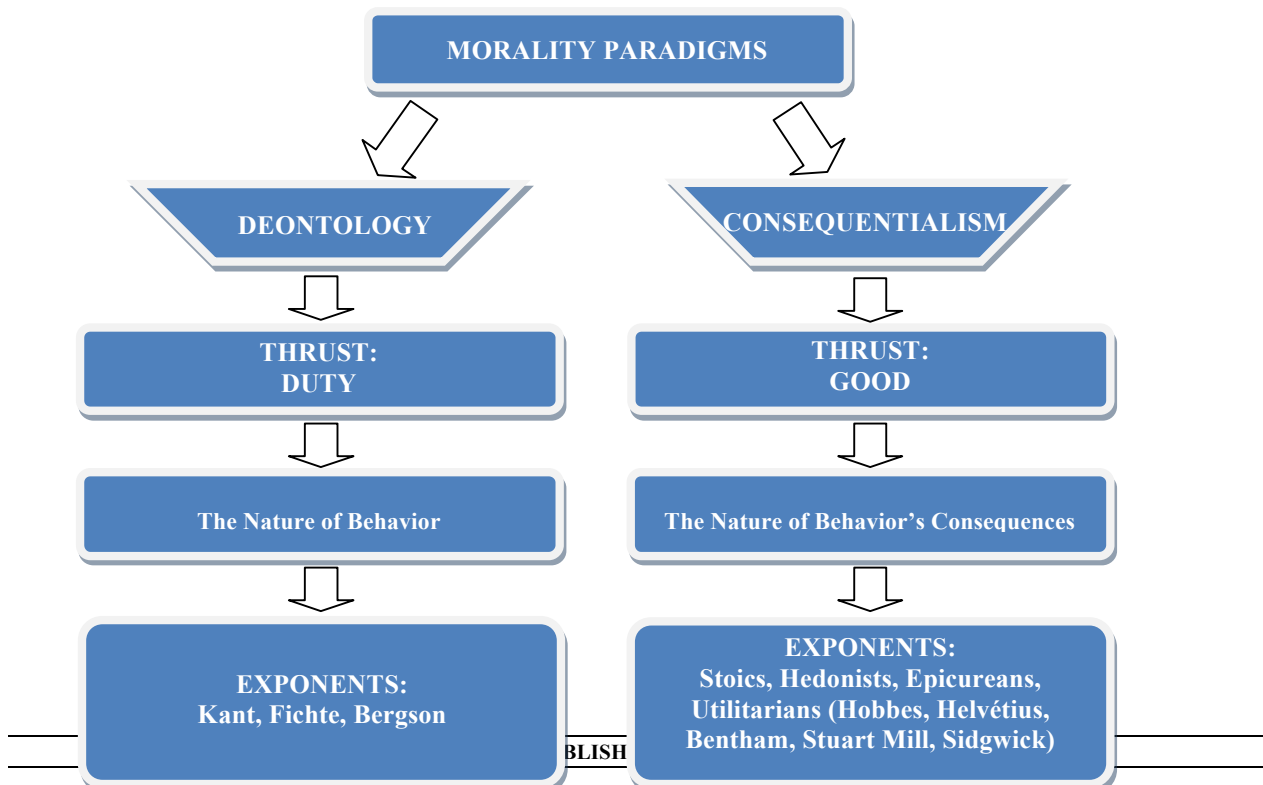


Figure 2. Features of the Deontological and Consequentialist Paradigms

Source: Authors' perspective.

For a more comprehensive approach, it is expedient to give a couple of examples. Sacrificing two peoples' lives for the sake of rescuing other five is immoral from a deontological standpoint, as the act of killing is deemed wrong; from consequentialist viewpoint it is moral, as the positive consequence, i.e., five lives saved outweighs the negative one, i.e., two lives lost. A similar line of reasoning applies to what is defined in game theory as the volunteer's dilemma: someone is called to sacrifice her payoffs in order to save other players' payoffs. Likewise, in the realm of finance, levying taxes from ill-gotten revenues is seen immoral from a deontological perspective because it encourages knavery and fuels underground economy; from a consequentialist outlook this action is considered moral because it increases public funds.

4. Consequentialist and Deontological Judgments on Naysayers and Yea-sayers to Tax Havens

“The government can't collect legal taxes from illegal money”, reportedly said the notorious gangster Alphonse Gabriel “Al” Capone who built most of his wealth by running a huge illegal network of speakeasies during the American Prohibition era [43-51]. As evidence that he was wrong, the U.S. Supreme Court convicted him in 1931 on three counts of tax evasion (i.e., committed during 1925-1929) and one count of not filing a tax return (i.e., committed in 1924) [57]. The tax law can thus be applied irrespective of the legal status of the income source. For that matter, in today's USA, the same as in the 1930s, taxpayers are required by the Internal Revenue Service (IRS) to declare all income, obtained either by following or breaking the law: “Income from illegal activities, such as money from dealing drugs, must be included in your income on Form 1040, line 21, or on Schedule C or Schedule C-EZ (Form 1040) if from self-employment activity” [55-58]. Analyzing the aforementioned requirements, the next query arises: How moral is for a government to levy taxes on incomes obtained by taxpayers breaking the letter of the law?

The following section covers similar rationales, giving voice to both supporters and opponents of tax havens through the lens of consequentialist and deontological morality.

4.1. Naysayers: International Organizations, Non-Tax Havens and Their Citizens

A particular reason for which tax havens have landed on international agendas is their active role in easily registering offshore entities (e.g., special purpose vehicles or SPVs) which are said to have caused several economic downturns, i.e., East Asia crisis, dot com bubble, the 2008 financial meltdown (Palan, Murphy and Chavagneux, 2010: 163) [28]. One of the harshest opponents of tax havens is the OECD, which “seeks to safeguard and promote an open, multilateral trading system and to encourage adjustments to that system to take into account the changing nature of international trade, including the interface between trade, investment and taxation” (OECD, 1998: 9) [25]. From a deontological standpoint, the organization targets such jurisdictions because they undermine fair tax competition at global level. Consequentialist morality also calls for action against tax havens because they impose negative externalities on foreign tax systems. Having these two paradigms in mind, through strategies of “naming and shaming” (e.g., blacklisting countries as “tax havens” and “uncooperative tax havens”) and “peer pressure”, OECD determined several tax havens to renounce banking secrecy and implement more transparent financial regulations.

Tax noncompliance situations often bring to discussion the question of government accountability. Whether we are talking about moral accountability (i.e., stemming from education) or procedural accountability (i.e., grounded on mechanisms restricting power through fundamental principles stated in constitutions), the concept denotes the idea according to which “the rulers believe that they are responsible to the people they govern and put the people's interests above their own” (Fukuyama, 2011: 321) [13]. As main providers of public goods and services financed through taxation, governments of non-tax haven countries are thus responsible for closing loopholes and detecting taxpayers who bend or break the tax law.

From the consequentialist perspective, offshore centers are considered immoral by the non-tax haven governments since offshores impose negative consequences on their tax systems (NOU, 2009; OECD, 1998) [24-25]. Drawn by very low (or none) fiscal burdens and other financial incentives, several taxpayers from non-tax haven countries end up changing residence or even citizenship. This happens usually in developed countries, which finance public goods via high taxation levels and have few options to counterbalance tax competition. A first option is lowering taxation levels. Although desirable, a significant decrease in taxation is not a viable solution for it seriously affects the quality of public goods to which citizens got accustomed. Hence, when facing diminishing budgetary revenues, these governments often levy taxes which are more difficult to avoid/evade (e.g., consumption

taxes, sales taxes) and design strategies to deter noncompliance. A second option in the attempt to lessen high fiscal pressure is the enactment of double taxation treaties. As third option, governments may decree tax holidays or amnesties, though the latter were showed to have startling negative implications on long-term levels of tax morale (Torgler, Schaltegger and Schaffner, 2003) [40]. In the case of developing countries, the problem is even more serious: the loss of revenues shifting towards tax havens hinders economic development and increases the gap between them and industrialized countries.

There is also the question of tax morality *per se* implied by deontology, which governments from non-tax havens try to tackle. British Prime Minister David Cameron called tax avoidance schemes as “morally wrong” [54], sustaining the campaign initiated by HM Revenue & Customs against such financial plots (see section 2). Being the only industrialized country to levy taxes on worldwide income (i.e., “citizenship-based taxation”) [50], the U.S. follows the international trend of mitigating noncompliance involving tax havens. Through provisions of the Foreign Account Tax Compliance Act (FATCA) enacted on March 18, 2010, the U.S. government aims to clamp down on noncompliance acts carried out by U.S. taxpayers holding foreign accounts. As stated on the IRS website, FATCA provisions concentrate on reporting: 1) “by U.S. taxpayers about certain foreign financial accounts and offshore assets; 2) by foreign financial institutions about financial accounts held by U.S. taxpayers or foreign entities in which U.S. taxpayers hold a substantial ownership interest” [56]. Namely, foreign financial institutions are requested to collaborate with the IRS in disclosing information on income and interest accrued by accounts of their American clients. In case of non-reporting, these institutions are subject to a 30% withholding applied to particular “dividends, interest, or proceeds from the sale of assets they or their customers receive from the U.S. sources” [44].

Having seen where international bodies and governments stand on the question of tax havens morality, one cannot help wondering what the “vox populi” says with respect to tax noncompliance. The majority of non-tax haven citizens are against tax avoidance and tax evasion, which are perceived as immoral in terms of deontology. For example, a 2012 survey commissioned by Christian Aid organization revealed that 56% of British taxpayers deemed tax avoidance to be “morally wrong” and half demanded to be declared illegal by the tax law [49-61]. Citizens often urge governments to close loopholes, implement transparent tax laws, demand social responsibility from multinational companies frequently exposed in the media for accomplishing tax purposes by using offshores. On various occasions when the media signals flagrant cases of tax avoidance schemes, citizens express discontent by boycotting products and services of certain multinationals [63]. In terms of consequentialism, citizens oppose tax havens on the ground that they facilitate noncompliance schemes which deprive state budgets of important revenues, lessen the quality of public goods and trigger huge fiscal burdens via indirect taxation.

4.2. Yea-sayers: Tax Havens and Foreign Investors

Tax haven governments endorse strategies of attracting foreign capital flows via low taxation because, from a deontological standpoint, they are morally responsible for their citizens’ wellbeing. Numerous jurisdictions located in remote areas, often away from mainland, benefit from scarce natural and human resources, thus need to identify efficient ways of boosting local economy. Granting tax reliefs generates positive consequences and a win-win situation for all parties involved: governments use international exposure to sustain local economic growth and attract more foreign investors, citizens benefit from job creation and business opportunities, foreign investors reach targeted profit, neighboring countries benefit from the economic activity in the region. Moreover, consequentialist supporters of tax havens often argue offshores play a key role on the global market by exercising pressure on foreign governments to mitigate taxation and heavy bureaucracy, by protecting human rights and fostering economic growth (Johns and Le Marchant, 1993; Mitchell, 2006) [19-22]. Over time, tax havens have proven the efficiency of their strategies by concentrating 30% of the global foreign direct investments, 50% of international banking lending and 52% of global hedge fund industry (Palan et al., 2010: 5-6) [28]. Furthermore, since the 1960s tax haven industry boom, their average GDP per capita skyrocketed compared to the world average (see section 2). Another deontological argument for the existence of tax havens is state sovereignty, which theoretically is indisputable and should be respected accordingly. Any jurisdiction, including tax havens, has the right to design and implement its own fiscal strategies, which best suit country goals. Tax havens often accuse foreign countries of peer-pressure, discrimination and preferential treatment of developed countries on their expense, because as Orwell’s famous quote states “all animals are equal, but some animals are more equal than others”. In this respect, the OECD is often blamed by tax havens of exceeding its original mission and imposing regulations on non-members with no moral or legal right (Mitchell, 2006) [22]. Due to the extensive negative exposure through media coverage and blacklisting which ultimately affected their credibility, such jurisdictions discard the “tax haven” moniker, perceiving it as discriminatory and requesting to be named “international financial centers”.

Taking advantage of the opportunities created by the globalized economy, many foreign investors in tax havens seem to have followed ad litteram five golden rules given by Warren Buffett, the “Wizard of Omaha”. Hence: 1) if focused on *success*, “you do things when the opportunities come along”; 2) in terms of *savings*, “do not save what is left after spending, but spend what is left after saving”; 3) when deciding about a new *investment*, “do not put all your eggs in one basket”; 4) balance when developing an efficient *spending* strategy, because “if you buy things you do not need, soon you will have to sell things you need”; 5) in leveraging *risk*, “never test the depth of river with

both the feet” (Schroeder, 2009) [33]. Concerning the first two Buffett precepts, when opportunities arise and adequate funds are available, investors usually have two options: swim against the tide and benefit from the opportunity; go with the majority flow and miss once-in-a-lifetime-chance. According to estimates (Palan et al., 2010: 5-6) [28], two million international investors (e.g., businesses, captive insurance companies, various types of funds) enjoy tax havens fiscal incentives. Regarding the last three precepts, there is an extensive industry of tax advisors, tax consultants, tax preparers, chartered tax accountants willing to give advice for certain fees. With professional assistance, investors spread their activities in different jurisdictions based on thoroughly developed leverage strategies.

From a deontological standpoint, foreign investors believe they act morally on the grounds that freedom of movement and capital is a basic human right, if exercised within the boundaries of the law. They are fully entitled to choose a market for their investments and to protect the interests of their shareholders, especially when tax havens offer more fiscal reliefs than the country of origin. Not to mention that investors can safeguard capital if targeted by authoritarian regimes (Mitchell, 2006: 19) [22]. From a consequentialist perspective, investing in tax havens yields positive effects for the local markets, translated into economic growth, job creation, development of the real estate and service sectors.

5. Rundown on the Morality of Tax Havens

Predicated on various methodological procedures, e.g., analysis of chain base indexes, comparisons, syntheses and case studies, literature review of scientific articles, books or official documents released by international organizations and national agencies, namely World Bank, OECD, Tax Justice Network, U.S. Government Accountability Office, U.S. Internal Revenue Service, UK HM Revenue & Customs, Christian Aid, this study assesses the morality of tax havens climates based on a consequentialist versus a deontological outlook. Thus, it offers an array of consequentialist and deontological judgments on naysayers and yea-sayers to tax havens climates.

On the naysayer side, international organizations, non-tax haven countries and their citizens perceive offshore centers as immoral on grounds of yielding several financial crises, imposing negative externalities on foreign tax systems, undermining fair global tax competition, hindering economic growth for developing countries, encouraging social irresponsibility. On the yea-sayer side, tax havens and foreign investors argue their cause based on responsibility towards citizens, willingness to boost economic growth and citizen wellbeing, human rights protection, state sovereignty, freedom of movement and capital.

Being as much a philosophical query as it is an economic one, evaluating the morality of tax havens leaves room for financial analyses and evidence-based conclusions. Using country data spanning 1960-2012 provided by the World Bank, we examined the evolution of the GDP per capita for 36 tax havens (as indicated by Gravelle, 2013) [14] through chain base indexes. After computing average GDP values and growth rates, it could be noticed that the evolution of average GDP per capita in tax havens compared to world average GDP per capita avers the upsurge of tax haven businesses and the swift turn of some jurisdictions from serious socio-economic straits to highly developed financial centers.

In a time when the rightness or wrongness of tax havens activities is hard to resolutely establish and when the consequences of such activities for local/regional socio-economic environments have never been so ticklish to evaluate, the risk of positioning oneself on either side of the morality barricade must be avoided. A birds’ eye view on all the pros and cons regarding tax havens morality, through the consequentialist and deontological paradigms, is not only “a should” but also “a must”, lest one fall into the trap of being too accusative or too permissive, thus adopt too harsh measures of punishment or too incongruous policies of support.

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