

Corporate tax havens at the heart of the global economy

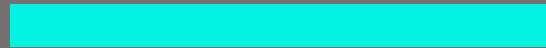


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SOMO Conference:
Financialization in the Global
South - Buenos Aires, CCC

26 November 2019

1.Context



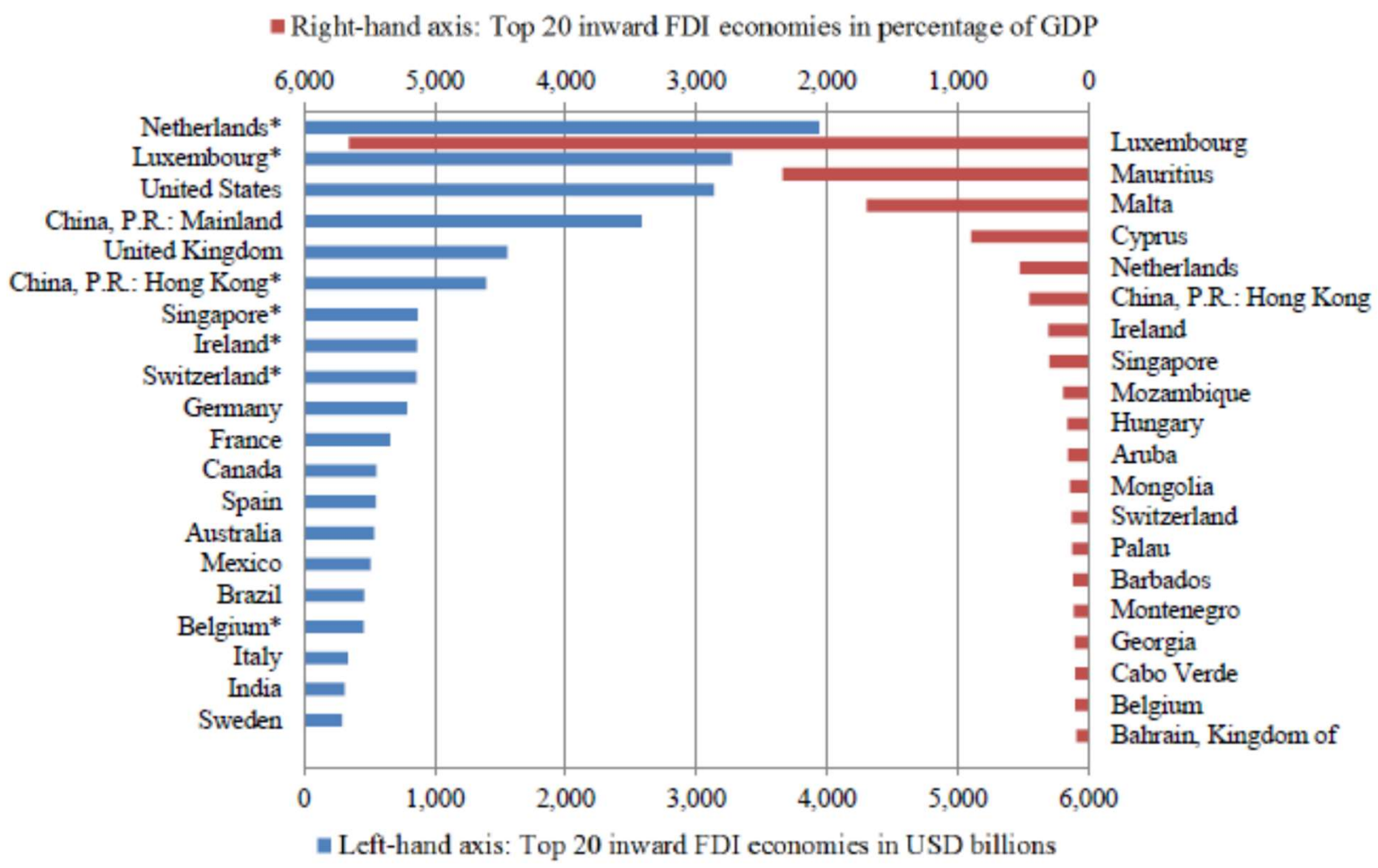
Tax havens in financialization studies



- Dependency literature suggests losses through outward payments (royalties, interest on debt, dividends) outweigh benefits of FDI, e.g.
 - Amin (1973: 224)
 - Sunkel (1972: 73)
 - Ruy Mauro Marini (1977: 9)
- Studies on financialization have incorporated the role of tax havens, but only timidly...
 - Chesnais, F (2002) mentions the movement of dirty money from off-shore financial centers and tax havens to the USA in the last years
 - Palley (2007: 18, 20) mentions the use of debt for tax reasons, but he does not mention the role of tax havens
 - Shaxson (2018) does link financialization and the use of corporate tax havens
- The role of tax havens has been under represented in the literature of economic development.



Top 20 Inward FDI economies



Source: Damgaard, Elkjaer (2017)

The size of corporate tax dodging in 2013




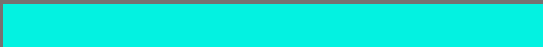
“Global tax losses are estimated at around \$500 billion annually”

Source: Cobham and Jansky, 2017.

Country	Estimated Tax Loss (\$bn)	Estimated Tax Loss (percent GDP)
Chad	0.9477	6.97
Guiana	0.2107	6.97
Malta	0.4273	4.59
Argentina	21.4059	4.42
Comoros	0.0291	4.42
Guinea	0.2891	4.42
Pakistan	10.4476	4.42
Zambia	0.9823	4.42
Eritrea	0.1363	3.96
Namibia	0.4874	3.96
St. Lucia	0.0525	3.81
St. Kitts and Nevis	0.0281	3.66
St. Vincent and the Grenadines	0.0256	3.45
Mozambique	0.4568	3.11
...		



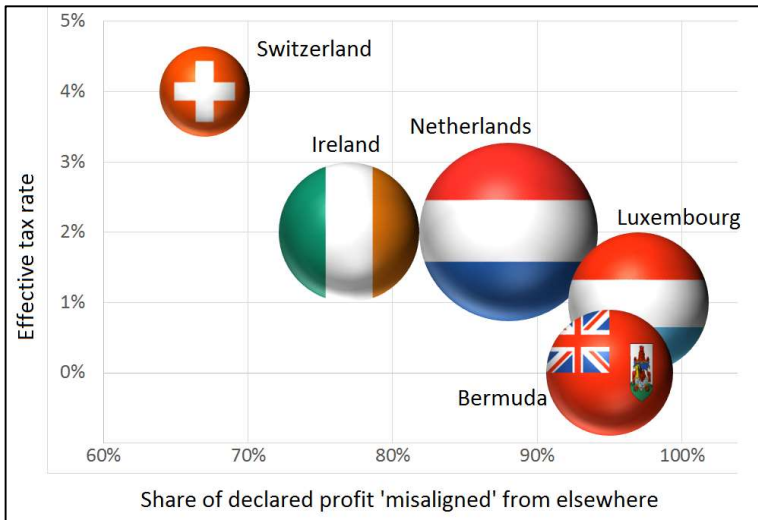
2. Corporate Tax Haven Index (CTHI): Methodology



Why the CTHI?



Major profit shifting hubs (US MNEs, 2012)



Source: Cobham and Janský (2015)

FSI RANKING 2018

Rank	Jurisdiction	FSI - Value ⁶	FSI Share ⁷	Secrecy Score ²	Global Scale Weight ⁵
1	Switzerland ²	1,589.57	5.01%	78	4.50%
2	USA ²	1,298.47	4.09%	60	22.30%
3	Cayman Islands ²	1,297.68	3.99%	72	3.78%
4	Hong Kong ²	1,243.67	3.92%	71	4.16%
5	Singapore ²	1,081.98	3.41%	67	4.57%
6	Luxembourg ²	975.91	3.07%	58	12.13%
7	Germany ²	788.95	2.42%	59	5.18%
8	Taiwan ²	743.37	2.34%	76	0.50%
9	United Arab Emirates (Dubai) ²	661.14	2.05%	84	0.14%
10	Guernsey ²	658.91	2.07%	72	0.52%
11	Lebanon ²	644.41	2.03%	72	0.51%
12	Panama ²	625.84	1.97%	77	0.28%
13	Japan	623.91	1.96%	60	2.23%
14	Netherlands ²	588.80	1.88%	66	0.90%
15	Thailand	550.69	1.73%	80	0.12%
16	British Virgin Islands	502.75	1.58%	68	0.37%
17	Bahrain ²	480.70	1.54%	78	0.11%
18	Jersey ²	438.21	1.38%	65	0.38%
19	Bahamas	429.00	1.35%	84	0.09%
20	Malta	428.31	1.34%	81	0.71%
21	Canada ²	425.84	1.34%	55	1.74%
22	Macao	424.91	1.34%	68	0.23%
23	United Kingdom ²	423.76	1.33%	42	17.38%
24	Cyprus ²	404.44	1.27%	61	0.54%
25	France	404.17	1.27%	52	2.52%
26	Ireland ²	387.84	1.22%	51	2.86%
27	Kenya ²	378.34	1.19%	80	0.04%
28	China	372.67	1.17%	60	0.50%
29	Russia	361.15	1.13%	64	0.26%
30	Turkey ²	353.88	1.11%	68	0.14%
31	Malaysia (Labuan) ²	335.10	1.05%	72	0.07%
32	India ²	316.92	0.99%	52	1.18%
33	South Korea	314.05	0.99%	59	0.35%
34	Israel ²	313.55	0.98%	63	0.19%
35	Austria ²	310.41	0.97%	58	0.58%
36	Bermuda	281.82	0.88%	73	0.03%
37	Saudi Arabia	278.57	0.87%	70	0.05%
38	Liberia ²	277.28	0.87%	80	0.01%
39	Marshall Islands	275.28	0.86%	73	0.03%
40	Philippines	269.81	0.85%	65	0.09%
41	Italy ²	254.14	0.80%	49	0.92%
42	Isle of Man	248.68	0.78%	64	0.08%
43	Ukraine	248.24	0.77%	69	0.04%
44	Australia ²	244.35	0.77%	51	0.80%
45	Norway ²	242.84	0.76%	52	0.55%
46	Liechtenstein	240.88	0.76%	78	0.01%
47	Romania ²	232.30	0.73%	68	0.05%
48	Barbados	230.95	0.72%	74	0.01%
49	Mauritius ²	223.47	0.70%	72	0.02%
50	South Africa ²	216.43	0.66%	58	0.18%

14° - Netherlands: SS = 66

16° - BVI: SS = 69

26° - Ireland: SS = 51

36° - Bermuda: SS = 73



Index Structure Overview – 2 components



Qualitative Component: Haven Score (HS)

Table : The 20 Haven Indicators

Haven Indicat or #	Haven Indicator Short Code	Haven Indicator	OECD BEPS	OECD AP 5	IMF Spillover	EU / State Aid
1	LACIT	Lowest Available Corporate Income Tax			X	X
2	Loopholes and gaps	Foreign Investment Income Treatment			X	
3		Loss Utilisation				
4		Capital Gains Taxation			X	
5		Sectoral Exemptions	X	X		
6		Tax Holidays and Economic Zones	X	X		
7		Patent Boxes	X	X		
8		Fictional Interest Deduction				
9		Transparency	Public Company Accounts			
10	Country by Country Reporting					X
11	Local Filing of Country by Country Reporting		X			
12	Tax Rulings and Extractive Contracts		X	X		X
13	Reporting of Tax Avoidance Schemes					X
14	Tax Court Secrecy					
15	Anti-avoidance	Deduction Limitation for Interest	X		X	X
16		Deduction Limitation for Royalties				
17		Deduction Limitation for Service Payments			X	
18		Dividend Withholding Taxes				
19		Controlled Foreign Company Rules	X		X	X
20	Double Tax Treaty Aggressiveness	Double Tax Treaty Aggressiveness			X	

Quantitative Component: Global Scale Weight (GSW)



Bilateral Data on FDI from IMF Coordinated Direct Investment Survey (CDIS)
<http://data.imf.org/CDIS>

Final CTHI Index Ranking

$$CTHI_i$$

$$= (HS_i^3 * \sqrt[3]{GSW_i}) / 100$$

Index Structure: Global Scale Weights



Data: IMF Coordinated Direct Investment Survey (CDIS) data: reported and derived positions; final dataset covers US\$ 38 trillion FDI out of US\$ 45 trillion (85%)

Steps from data to GSW (simplified):

(1) Determining inward and outward FDI positions (max of both directly reported and derived values)

inward FDI position_{ij}

= max (reported inward FDI_{ij}, derived inward FDI_{ij}, 0)

outward FDI position_{ij}

= max (reported outward FDI_{ij}, derived outward FDI_{ij}, 0)

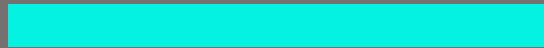
(2) Averaging inward and outward positions

average FDI position_i =
$$\frac{\text{inward FDI position}_i + \text{outward FDI position}_i}{2}$$

(3) Deriving a share of a jurisdiction of global total

$$GSW_i = \frac{\text{average FDI position}_i}{\sum_{i=1}^M \text{average FDI position}_i}$$

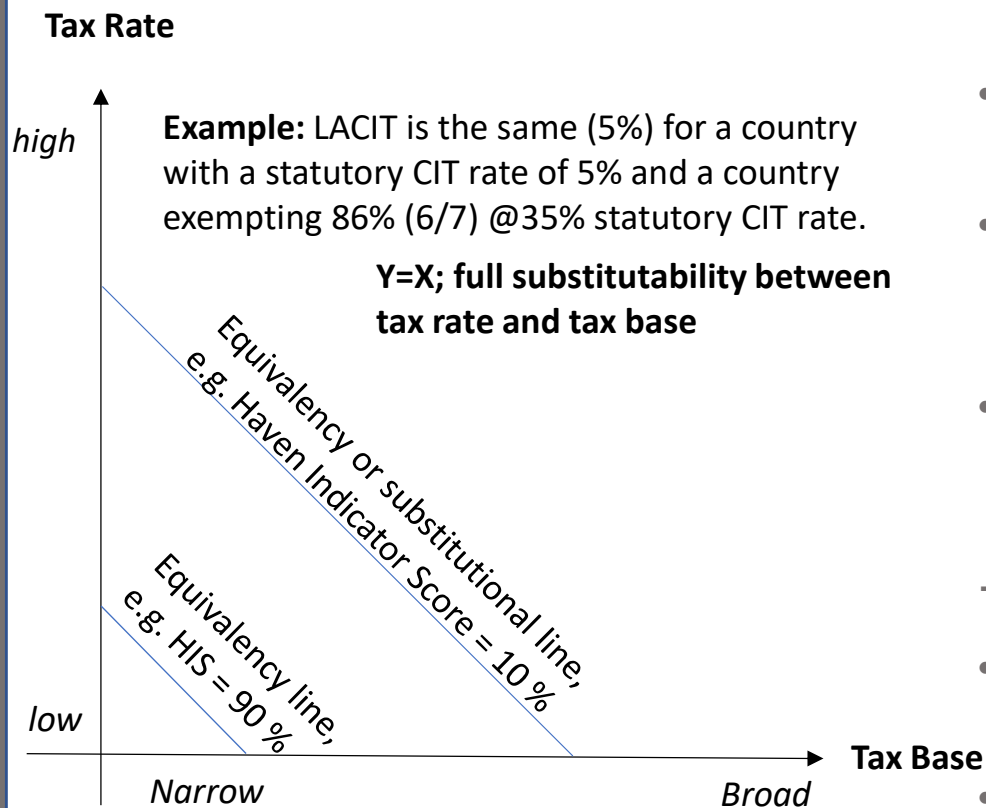
3. Results



Ranking: The top 20 most corrosive corporate tax havens in the world

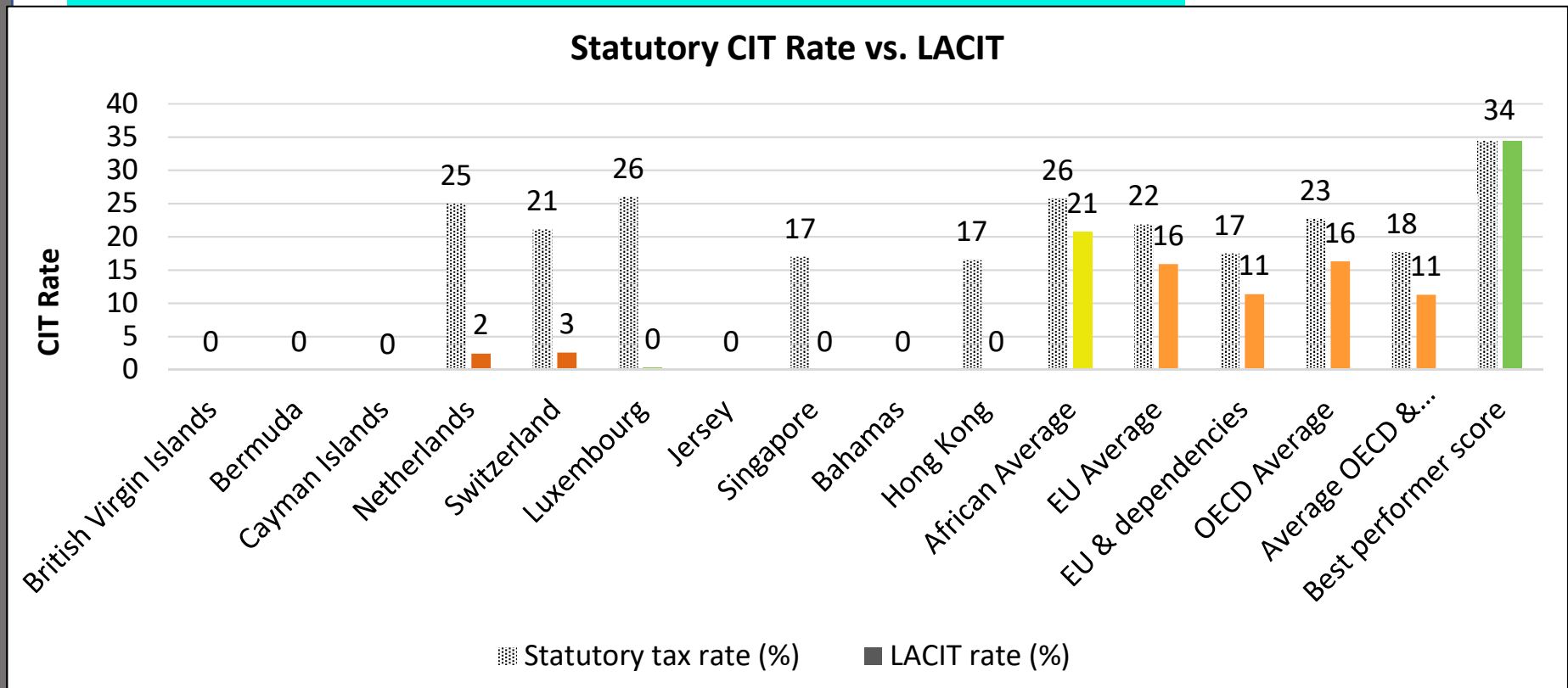
Rank	Jurisdiction	CTHI Value ⁴	CTHI Share ⁵	Haven Score ²	Global Scale Weight ³
1	British Virgin Islands	2769	7,29%	100	2,12%
2	Bermuda	2653	6,98%	100	1,87%
3	Cayman Islands	2534	6,67%	100	1,63%
4	Netherlands	2391	6,29%	78	12,77%
5	Switzerland	1875	4,94%	83	3,41%
6	Luxembourg	1795	4,73%	72	10,53%
7	Jersey	1541	4,06%	98	0,43%
8	Singapore	1489	3,92%	81	2,12%
9	Bahamas	1378	3,63%	100	0,26%
10	Hong Kong	1372	3,61%	73	4,38%
11	Ireland	1363	3,59%	76	3,12%
12	United Arab Emirates	1245	3,28%	98	0,22%
13	United Kingdom	1068	2,81%	63	7,30%
14	Mauritius	950	2,50%	80	0,65%
15	Guernsey	891	2,35%	98	0,09%
16	Belgium	822	2,17%	68	1,83%
17	Isle of Man	804	2,12%	100	0,05%
18	Cyprus	698	1,84%	71	0,73%
19	China	659	1,73%	58	3,67%
20	Hungary	561	1,48%	69	0,49%

HI 1: Lowest Available Corporate Income Tax Rate (LACIT)



- Tax spillovers/BEPS is driven by tax rate differentials
 - Much research and tax policy advice relies on (flawed) datasets on top statutory CIT rates (IMF 2018)
 - Effective tax rates used by researchers of limited value as independent variables (ibid.; Jansky 2019)
- LACIT:
- Lowest available tax rate derived through legal analyses
 - Tax Base and Tax Rate are treated as substitutes and as analytically equivalent in LACIT determination

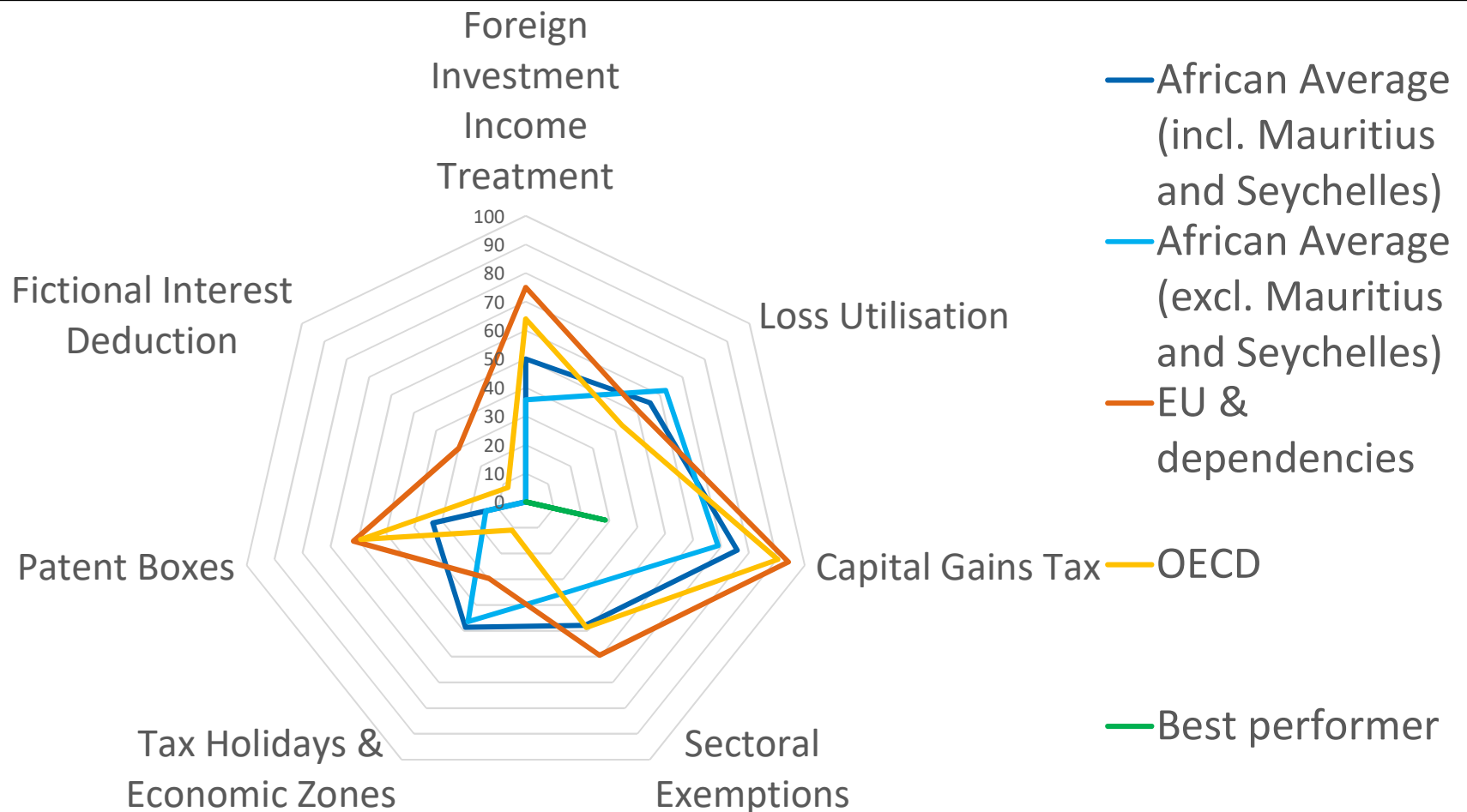
HI1 LACIT: and discrepancy to statutory datasets for top 10 CTHI countries and regions



Maximum Risk LACIT 0%	LACIT Rate between 0 and 8.8%	LACIT Rate between 8.9 and 17.4%	LACIT Rate between 17.5 and 26.2%	LACIT Rate between 26.3 and 34.9%	Minimum Risk LACIT Rate 35%
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Category 2: Loopholes and Gaps (7 Haven Indicators)

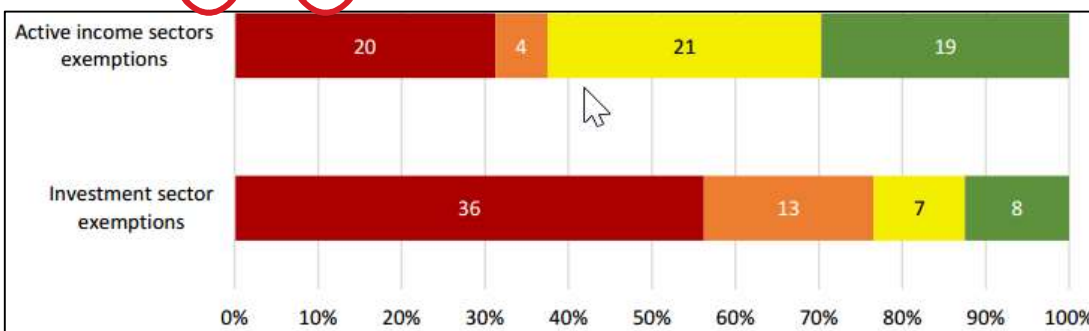


Haven Indicator 5 – Sectoral Exemptions

→ Financial and banking sectors are biggest receivers of tax incentives across the world



Country Name	Sectoral Exemptions														
	ACTIVE INCOME														
	1. INVESTMENT	2	3	4	5	6	7	8	9	10	11	12	13	14	
Andorra	2	-2	0	0	0	0	0	0	0	1	0	0	0	0	1
Anguilla	-3	-3	-3	-3	-3	-3	-3	-3	-3	-3	-3	-3	-3	-3	-3
Aruba	2	0	1	1	0	0	1	1	0	1	0	0	2	0	2
Austria	1	-2	0	0	0	0	0	0	0	0	0	0	0	0	0
Bahamas	-3	-3	-3	-3	-3	-3	-3	-3	-3	-3	-3	-3	-3	-3	-3
Belgium	1	2	0	0	0	0	0	0	1	0	0	0	1	0	0
Bermuda	-3	-3	-3	-3	-3	-3	-3	-3	-3	-3	-3	-3	-3	-3	-3
Botswana	2	2	0	0	1	0	0	0	0	0	0	0	1	1	1
United Kingdom	1	2	0	0	0	0	0	0	0	0	0	0	0	0	0
USA	2	2	0	0	0	0	0	0	0	0	0	0	0	0	0
# partial exemption	15	4	3	2	2	1	1	2	6	5	0	1	10	3	12
# full exemption	27	17	3	8	4	2	3	9	5	6	2	4	10	5	8

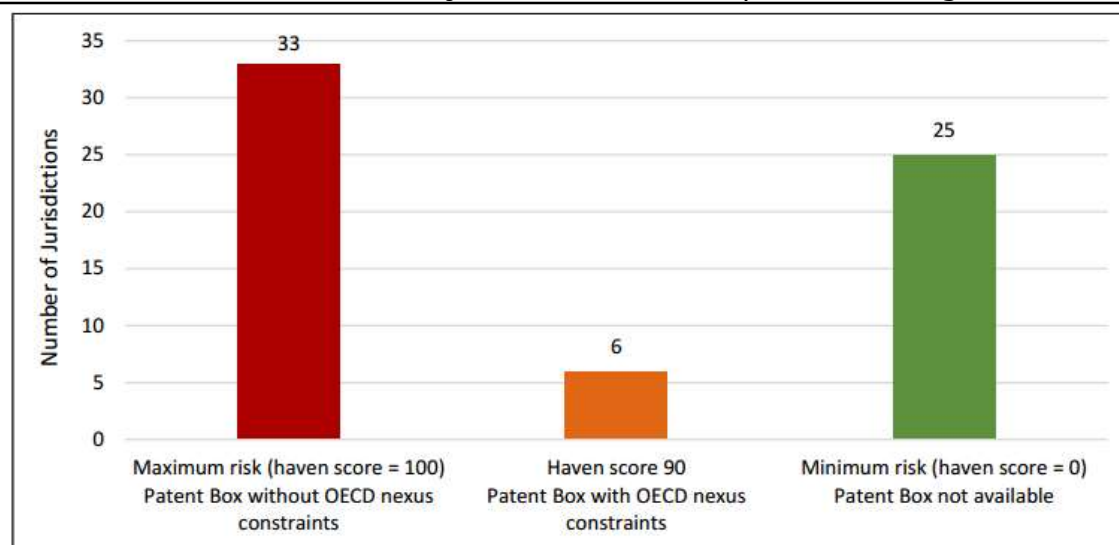


Source: <https://www.corporatetaxhavenindex.org/PDF/5-Sectoral-Exemptions.pdf>; own elaboration based on CTHI data; 22.11.2019.

Haven Indicator 7: Patent Boxes



Regulation	Haven Score [100 = maximum risk; 0 = minimum risk]
<p><u>Patent box regime is available without OECD nexus constraints</u></p> <p>The jurisdiction offers a patent box regime without the OECD nexus approach.</p> <p>Or</p> <p>The patent box regime is not applicable for the jurisdiction given it imposes no corporate income tax or a zero statutory corporate tax rate.</p>	100
<p><u>Patent box regime is available with OECD nexus constraints</u></p> <p>The jurisdiction offers a patent box regime which is in line with the OECD nexus approach.</p>	90
<p><u>Patent box regime is not available</u></p> <p>There is no evidence that the jurisdiction offers a patent box regime.</p>	0



Source:
<https://www.corporatetaxhavenindex.org/PDF/7-Patent-Boxes.pdf>; 22.11.2019.

What does the CTHI offer?



Rank	Jurisdiction	CTHI Value	CTIS Score	Transp. Score	Global Weight
1	British Virgin Islands	99.25	9.92%	100	99.25
2	Bermuda	98.53	9.85%	100	98.53
3	Cayman Islands	98.25	9.82%	100	98.25
4	Netherlands	93.90	9.39%	79	93.76%
5	Guernsey	93.25	9.32%	93	93.41%
6	Luxembourg	92.50	9.25%	73	92.23%
7	Spain	92.00	9.20%	98	92.00%
8	Singapore	89.88	8.99%	61	89.71%
9	San Marino	89.25	8.92%	100	89.25%
10	Hong Kong	87.50	8.75%	73	87.25%
11	Trinidad	86.50	8.65%	79	86.25%
12	United Arab Emirates	82.25	8.23%	68	82.03%
13	Malaysia	81.50	8.15%	68	81.50%
14	Costa Rica	80.50	8.05%	68	80.50%
15	Vanuatu	80.00	8.00%	68	80.00%
16	Maldives	80.00	8.00%	68	80.00%
17	UAE	80.00	8.00%	68	80.00%
18	UAE	80.00	8.00%	68	80.00%
19	UAE	80.00	8.00%	68	80.00%
20	UAE	80.00	8.00%	68	80.00%



Andorra

Lowest Available Corporate Income Tax

1. LACT 100%
 2. (S20) Company-CIT-Rate: What is the statutory CIT rate imposed by the GCC or alternatively by ISD or ISD(I)?
 3. (S20) CIT-Rate-Correction-Dist: What is the deviating CIT rate, if any, applicable to the lowest corporate tax in the jurisdiction?
 4. (S20) CIT-Rate-Correction-Case: What is the lowest deviating CIT rate, if any, applicable to companies in the jurisdiction?
 5. (S20) CIT-Rate-Correction-Case: What is the lowest deviating CIT rate, if any, applicable to companies in the jurisdiction?
 6. (S20) CIT-Rate-Correction-Case: What is the lowest deviating CIT rate, if any, applicable to companies in the jurisdiction?
 7. (S20) CIT-Rate-Correction-Case: What is the lowest deviating CIT rate, if any, applicable to companies in the jurisdiction?

Loopholes and Gaps

1. (S20) Foreign Investment Income
 2. (S20) Legal Person, Resident, Related Party Dividends
 3. (S20) Legal Person, Resident, Royalties
 4. (S20) Legal Person, Resident, Interest
 5. (S20) Legal Person, Resident, Independent Party Dividends
 6. (S20) Loss Carry Forward: Does the jurisdiction allow loss carry forward?
 7. (S20) Loss Carry Forward: Does the jurisdiction restrict loss carry forward independent of change of ownership?
 8. (S20) Capital Gains Taxation: Does the jurisdiction impose capital gains tax arising from disposal of domestic securities applicable for large 'top-growth' companies which are tax residents in the jurisdiction?
 9. (S20) Foreign Income Capital Gains Taxation: What is the lowest available capital gains tax rate arising from disposal of foreign securities applicable for large 'top-growth' companies which are tax residents in the jurisdiction?

Info ID	Info Nur Group	Category	Question	Country	Country Data	Data	Te Data	Del Data	Ty	Notes	Supplement and Sources
572	LACT	LACT	18 AD	Andorra	0	2018	NumPC	*SRC: D	*WWW: https://tax.justice.gov.gu/		
506	20 LACT	LACT	18 AD	Andorra	10	2018	NumPC	*SRC: D	*WWW: https://tax.justice.gov.gu/		
507	30 LACT	LACT	18 AD	Andorra	2	2018	NumPC	*SRC: D	*WWW: https://tax.justice.gov.gu/		
541	40 LACT	LACT	18 AD	Andorra	Not applicable	NumPC					
542	50 LACT	LACT	18 AD	Andorra	Not applicable	NumPC					
543	60 LACT	LACT	18 AD	Andorra	Not applicable	NumPC					
544	70 LACT	LACT	18 AD	Andorra	Not applicable	NumPC					
545	80 LACT	LACT	18 AD	Andorra	Not applicable	NumPC					
555	90 LACT	LACT	18 AD	Andorra	3	2018	NumPC	*SRC: D	*WWW: https://tax.justice.gov.gu/		
554	100 LACT	LACT	18 AD	Andorra	3	2018	NumPC	*SRC: D	*WWW: https://tax.justice.gov.gu/		
553	110 LACT	LACT	18 AD	Andorra	2	2018	NumPC	*SRC: D	*WWW: https://tax.justice.gov.gu/		
552	120 LACT	LACT	18 AD	Andorra	2	2018	NumPC	*SRC: D	*WWW: https://tax.justice.gov.gu/		
509	130 LACT	LACT	18 AD	Andorra	1	2018	NumPC	*SRC: D	*WWW: https://tax.justice.gov.gu/		
510	140 LACT	LACT	18 AD	Andorra	1	2018	NumPC	*SRC: D	*WWW: https://tax.justice.gov.gu/		
510	150 LACT	LACT	18 AD	Andorra	0	2018	NumPC	*SRC: D	*WWW: https://tax.justice.gov.gu/		
514	160 LACT	LACT	18 AD	Andorra	0	2018	NumPC	*SRC: D	*WWW: https://tax.justice.gov.gu/		
524	170 LACT	LACT	18 AD	Andorra	2	2018	NumPC	*SRC: D	*WWW: https://tax.justice.gov.gu/		
525	180 LACT	LACT	18 AD	Andorra	2	2018	NumPC	*SRC: D	*WWW: https://tax.justice.gov.gu/		
526	190 LACT	LACT	18 AD	Andorra	0	2018	NumPC	*SRC: D	*WWW: https://tax.justice.gov.gu/		
527	200 LACT	LACT	18 AD	Andorra	0	2018	NumPC	*SRC: D	*WWW: https://tax.justice.gov.gu/		
528	210 LACT	LACT	18 AD	Andorra	0	2018	NumPC	*SRC: D	*WWW: https://tax.justice.gov.gu/		
529	220 LACT	LACT	18 AD	Andorra	0	2018	NumPC	*SRC: D	*WWW: https://tax.justice.gov.gu/		

Ranking

<https://corporatetaxhavenindex.org/introduction/cthi-2019-results>

Summary Reports

<https://corporatetaxhavenindex.org/explore/countryreports>

Technical Reports

<https://corporatetaxhavenindex.org/database/Andorra.xml>

Open Corporate Tax Dataset

<https://www.financialsecrecyindex.com/explore/excel>

... and detailed methodology, including coding codebook; plus soon: API data interface.



Thank you!

For further details please join our seminar on Friday in Buenos Aires, or visit:

- <https://www.corporatetaxhavenindex.org/>
- www.taxjustice.net
- www.financialsecrecyindex.com
- www.coffers.eu

Seminario

EL ÍNDICE DE **G**UARDIAS **F**ISCALES **C**ORPORATIVAS

Un análisis de los paraísos fiscales más relacionados a las multinacionales y la elusión fiscal

&

BENEFICIARIOS FINALES EN LA INDUSTRIA DE INVERSIÓN

Propuestas sobre transparencia para los fondos de inversión

VIERNES 29/11, @10 -13 HS
Centro Cultural de la Cooperación

Av. Corrientes 1543, Ciudad de Buenos Aires
Sala Agosti (2do piso)

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tax justice
network

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INSCRIPCIÓN:

andres@taxjustice.net

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