Tax Havens - a Compromise between Legality and Morality

Viorica Puscaciu[1], Rose-Marie Puscaciu[2]

Abstract: The aim of this paper is to point out the main consequences of the tax havens upon the economy, and to attire the attention upon this matter in order to think about measures of limiting it. The paper related to other research in this topic area is an attempt circumscribed to those before it, in order to attire the attention on this pernicious matter. The main methods employed to capture the research evidence are: observation, survey, case study. Collected data were analysed descriptively and inferentially. The results of the study are meant to focus the interest towards this less discussed matter, which avoids regulations and favour the developing of evil phenomena affecting peoples live, finally. So, the implications of this study meaning: tax avoidance, and thus reducing the share of GDP allocated to welfare, the enormous consequences on the pour countries especially, all these and others could interested not only the researchers, but also all people and their governments. This value of the subject is obvious, and thus any attempt like this paper will be a small contribution to the awareness of conscience - "to whom it may be concerned of".

Keywords: fiscal paradise; international tax evasion; money; off-shore

JEL Classification: G39; G40; G19

Motto
"Any truth passes through the stages: it is ridiculed first, then it is met with violence, eventually accepted as obvious."
A. Schopenhauer

1. Introduction

The tax paradise is a place to "relax" those who want to bypass the payment of taxes and duties. The offer is represented by offshore companies, companies registered in these tax havens, companies that do not ask for much information about account owners, offer anonymity, and often promise protection against the

[1] Professor, PhD, Danubius University of Galati, Department of Economics, Romania, Address: 3 Galati Blvd., Galati 800654, Romania, Tel.: +40372361102, Corresponding author viorica puscaciu@univ-danubius.ro.

[2] Senior Lecturer, PhD, Danubius University of Galati, Department of Economics, Galati, Romania, Address: 3 Galati Blvd., Galati 800654, Romania, Tel.: +40372361102, E-mail: rosemarie.puscaciu@univ-danubius.ro.

actions of authorities related to the origin of money. Demand comes from business people, politicians, actors, athletes, etc. who want to bypass the payment of taxes and fees. Intermediaries who facilitate money travel in tax havens are tax consultancy firms, law firms and banks. The big tax advisory companies are preparing their juniors by turning them through countries to learn and use all the gates for so-called tax optimization - to use all legal (but immoral) opportunities to lower taxes and fees paid.

The tax haven is the state that makes favorable legislation available and the offshore financial center which is made up of the economic agents that take advantage of this legislation. The existence of "tax havens" on the globe benefiting people seeking more favorable tax treatment is a form of international tax evasion. These "tax oases" are legal entities that grant tax advantages to companies that establish their registered office or to natural persons residing in their territory. Examples of such areas are: Liechtenstein, Andorra, the Bahamas, Bermuda, Cyprus, Panama, Macao, Switzerland, Cayman Islands etc.

1.1. Statement of Problem

In a tax haven, companies driven by people who do not live on the island and do not generate income are tax-exempt. In fact, any money that was not produced on the territory of the state is not charged. The pressure exerted by budget problems, the inequity of austerity measures, increasing inequalities, reducing the share of GDP allocated to labor remuneration and the explosion of material deprivation rates, especially among young people, will be enormous. Authorities will respond by disposing of these practices and addressing the lack of solutions to these issues. A simple solution to be applied is that companies (especially multinationals) pay taxes and duties to the state in which they invest and earn income. They are entities that most likely think they pay too much to the state and who, on the other hand, prefer to hide their adversity from the principles of the European social model - a model that currently affects all the pillars of operation. We know that these mechanisms are fleeing to flee through offshore mechanisms. A simple solution to be applied is that companies (especially multinationals) pay taxes and duties to the state in which they invest and earn income.

The international forums react to this economic phenomena: so, the Organization for Economic Cooperation and Development (OECD) stated the following criteria as necessary to define a tax haven; these are: insignificant or non-existent charges, the lack of transparency of the tax system, and the absence of exchange of tax information with other states.

According to the International Monetary Fund, 50% of international transactions "flow" through tax havens. These accounted for approximately 4,000 banks, two thirds of the hedge funds and 2 million fictitious/firewall companies. There would be about 7,000 billion euros in assets in these accounts, which is more than three times the GDP of France and more than 35 times the GDP of Romania.

The existence of tax havens raises several distinct types of problems: tax competition, economic competition between companies from different countries, the fight against money laundering and the financing of criminal organizations, and the stability of the international financial system. Moreover, tax havens also generate a share of assets that can not be quantified, intended to launder dirty money from corruption or drug trafficking.

1.2. Objective of the Study

In line with the forgoing, the main objective of this study is to investigate the interplay between fiscal paradises and economy, and the specific objectives are as follows:

i. To determine the relationship between GDP of countries and those money going abroad to tax havens.

ii. To determine the link between the policy of offering investors very low tax rates (in the off-shore zones) and their flourishing development in a short time with effects on the long run.

iii. To examine the influence of tax havens towards world economy.

1.3. Short Historical Incursion

Looking back in time, someone could say that international tax evasion has existed since ancient times. So, at that period in Greece, the islands in the vicinity of Athens were used by traders to store goods. This avoids a 2% tax levied by the city on imports and exports. In the sixteenth and seventeenth centuries, Flanders became a tax haven, since trade made through its ports was subject to tax obligations and minor restrictions. Tax havens exist in the modern sense of the term after the First World War. It is hard to tell now whether the initiative came from business people who have always wanted to “protect” their money from the eyes of curious people, or from those entities - states or areas in a particular country - who simply offered a preferential tax treatment in the desire to attract business. But the modern concept of tax haven emerged in 1926, when the small state of Liechtenstein adopted an authorization law to attract foreign capital. The moment that marks the rise in the importance of tax havens is the end of the Second World War, when there is a multiplication of the number of subsidiaries of a parent company. Initially used to expand parent companies abroad, foreign affiliates began to be used later as a means of tax evasion, by implanting them into stable currency countries that did not control trade, had a more permissive system.

2. Literature Review

Many attempts underpinning have been made in this matter, different viewing angles, and more different conclusions. In this section, past studies on the subject matter were reviewed conceptually, theoretically and empirically.

The first specialized paper on this subject emerged in 1983, the Gordon Report, at the request of the French Ministry of Finance. According to this report, "the tax haven is any country that is considered as that is what it is like". Another definition, appearing to Roger Brunet (1980), finds that it's called a fiscal paradise. The actual term of tax havens is taken from English, from the word tax-haven, which means a haven, a tax port. The picture is good. The business man is compared to a seaman seeking his refuge; he crosses the great tax laws, as well as his storms, which are the controls and taxes on the external signs of wealth, then reaching the tax paradise, which is the port.

Avi-Yonah, Reuven (2000) presents the different reasons of which they appeared the fiscal heaven zones, and propose some interesting possible solutions; the author analyses the supply jurisdictions and production tax heavens both with corporate residence jurisdictions and headquarters tax heavens.

Hansen and Kessler (2001) explain the existence and the characteristics of tax havens through the interplay of political and geographical factors. In a system of independent democratic jurisdictions among which individuals are mobile, equilibrium tax regimes depend on the relative geographical size of the jurisdictions. In equilibrium, small jurisdictions are inhabited by wealthy households and conduct low tax policies (tax heavens) while poor households live in large jurisdictions where taxes are high (tax hells).

Desai et al., (2004) analyses what types of firms establish tax haven operations, and what purposes do these operations serve; they notice that firms with sizeable foreign operations benefit the most from using tax havens, an effect that can be evaluated by using foreign economic growth rates as instruments for firm-level growth of foreign investment outside of tax havens. One percent greater sales and investment growth in nearby non-haven countries is associated with a 1.5 to 2% greater likelihood of establishing a tax haven operation.

James R., Hines Jr. (2004) review the use of tax havens by international businesses, and to evaluate the effect of their tax systems on economic outcomes in tax haven countries and elsewhere. The policy of offering investors very low tax rates is potentially costly to tax haven governments, if doing so reduces tax collections that might otherwise have been used to fund worthwhile government expenditures.

Lorraine Eden and Robert T. Kudrle (2005) classified these zones into: Havens can be separated into four groups (Palan, 2002, p. 154) countries with no income tax where firms pay only license fees (e.g., Anguilla, Bermuda), countries with low taxation (e.g., Switzerland, the Channel Islands), countries that practice so-called "ring fencing" by taxing domestic but not foreign income (e.g., Liberia, Hong Kong), and countries that grant special tax privileges to certain types of firms or operations (e.g., Luxembourg, Monaco). Further, they have focused on the policy actions of national governments and international organizations vis-à-vis tax havens. However, the analysis clearly points to the roles played by actors within these countries, in particular, to multinational enterprises, international tax and accounting firms, and other elites that are their primary beneficiaries – an area to which future research attention should be directed.

Dharmapala and Hines, (2006) analyzes the factors influencing whether countries become tax havens. Using a variety of empirical approaches, and controlling for other relevant factors, governance quality has a statistically significant and quantitatively large impact on the probability of being a tax haven. The effect of governance on tax haven status persists when the origin of a country's legal system is used as an instrument for its quality of its governance. Low tax rates offer much more powerful inducements to foreign investment in well-governed countries than elsewhere, which may explain why poorly governed countries do not generally attempt to become tax havens and suggests that the range of sensible tax policy options is constrained by the quality of governance.

Andrew K. Rose, Mark Spiegel (2006) analyze the causes and consequences of offshore financial centers (OFCs). Since OFCs are likely to be tax havens and money launderers, they encourage bad behavior in source countries. Nevertheless, OFCs may also have unintended positive consequences for their neighbors, since they act as a competitive fringe for the domestic banking sector. The authors derive and simulate a model of a home country monopoly bank facing a representative competitive OFC which offers tax advantages attained by moving assets offshore at a cost that is increasing in distance between the OFC and the source. Their model predicts that proximity to an OFC is likely to have pro-competitive implications for the domestic banking sector, although the overall effect on welfare is ambiguous. The authors test and confirm the predictions empirically. OFC proximity is associated with a more competitive domestic banking system and greater overall financial depth.

Joel Slemrod and John D.Wilson (2009) demonstrate that the full or partial elimination of tax havens would improve welfare in non-haven countries. We also demonstrate that the smaller countries choose to become tax havens, and we show that the abolition of a sufficiently small number of the relatively large havens leaves all countries better off, including the remaining havens. We argue that these results extend to the case where there are also taxes on wage income that involve administrative and compliance costs.

Ronen Palan et al, (2010) provide an up-to-date evaluation of the role and function of tax havens in the global financial system—their history, inner workings, impact, extent, and enforcement. They make clear that while, individually, tax havens may appear insignificant, together they have a major impact on the global economy. Holding up to $13 trillion of personal wealth—the equivalent of the annual U.S. Gross National Product—and serving as the legal home of two million corporate entities and half of all international lending banks, tax havens also skew the distribution of globalization's costs and benefits to the detriment of developing economies. The first comprehensive account of these entities, this book challenges much of the conventional wisdom about tax havens. The authors reveal that, rather than operating at the margins of the world economy, tax havens are integral to it. More than simple conduits for tax avoidance and evasion, tax havens actually belong to the broad world of finance, to the business of managing the monetary resources of individuals, organizations, and countries. They have become among the most powerful instruments of globalization, one of the principal causes of global financial instability, and one of the large political issues of our times.

T.C. Halliday, Gregory Shaffer (2015) set out an analytic framework for building theory and studying transnational legal orders (TLOs)[1]; the authors create a conceptual framework for studying, both the institutionalization of legal orders across national boundaries, and the ensuing implications for law and social ordering more generally.

Eugenia Ramona Mara (2015) identifies the major determinants of tax havens in the actual economic context, The main finding of this approach is that low taxation is not enough for a country to be a tax haven. Despite the fact that the corporate tax rate is indeed significant according to the model, the percentage of services in GDP proves to be the most prominent variable, and only the countries which have an important part of their GDP made up of services are likely to acquire tax haven status.

Gabriel Zucman (2015) after concluding that 8% of the world’s financial wealth is held offshore, costing at least $200bn, synthesizes: “A growing policy concern, yet hard to quantify: for some observers, considerable tax revenue losses, for others, most of the activities in tax havens are legitimate; on both sides, generally limited empirical evidence”.

3. Research Methodology

The starting point of the research process relates to the definition of research problem. The precisely defined problem is necessary condition for the proper

[1] TLOs = Transnational Legal Orders.

setting goals and tasks for research. The basic problems of the concrete empirical research are the following:

- Are these fiscal paradises moral or legal?? The subject of research is announced in the title of the paper — "Tax Havens - a Compromise between Legality and Morality" and is in direct correlation with the objectives of the research.

- Based on a defined problem and the subject of research, emanates the following basic aim of this research effort:

- Identify the extend of which these tax havens affect not only the economy, but also the income of populations.

Proceeding from the basic goal of the research, the following partial list of research objectives is performed:

- Execute the measurement of the phenomenon of avoiding taxes towards economies;

- Determine the degree of affecting GDP (and welfare included) of "donating" states, and comparatively with those of the "receiving" money states.

- Identify the means of reducing these practices of avoiding taxes, and to emphasize the necessity of paying them in the country which made possible to obtain profit.

The necessary data for resolving the defined problem were used both the primary and secondary data sources, the latter were prevailing. Realization of the research process began in collecting data from secondary sources, such as: the publication of statistical data, reports, market research reports, economic analysis, web data.

In conducting the survey the limits has been encountered reflecting on the unfair reporting of all the sources, both those leaving the countries, and also those entering into the fiscal paradise. But this inconvenient becomes a challenge for next research.

4. Morality or Legality?

The rationale for which some of their business people and firms establish their residence in tax havens, although it is within the limits of legality (somewhat at its limit), but it is certainly a matter of morality. Such mechanisms are immoral, not necessarily illegal.

From the point of view of the authorities in tax havens, the existence of this system is usually explained by the "poverty" in resources and the need to raise funds to the budget. Companies and wealthy people would have no interest in residing in the Cayman Islands, Panama, the Virgin Islands, or other such places. Instead, by adopting a very “relaxed” tax system, tax havens have attracted important investments, assured the locals and even the relocation of specialists (lawyers, bankers, accountants). Some of them simply do not want to pay big taxes in their home countries. Can we accuse him of anything? Generally, if they do not have official positions in government or do business with the state, no. It is a personal and perfectly legal decision to pay as little taxes as possible (called tax optimization). This is the legal and even moral part of the story.

Two major motivations are “civil” when a businessman conceals part of his family wealth. Divorce lawsuits are the main cause of this type of action, but there are other forms of divorce, company dissolution, and other specific situations. Here we talk both of the morality and the legality of the process of dissimulation of wealth, and it is based on the second characteristic of the existence of tax havens: the secret (or elegantly said, the confidentiality) on the final beneficiary of wealth or shares in the established firms. Technically, confidentiality is ensured either by actions on the bearer or by indirect holding of amounts (in the official documents a law firm or other specialized entity appears). Even if in some cases the concealment of money by life partners can have relevant motivations and explanations, at least for people who use the property to hide their fortunes, they are certainly both immoral and illegal for their life partners - from the point of view of Civil Code, at least. About 20% of the cases of placement of wealth in tax havens have this motivation. But the economy does not operate with such notions. It operates with legally-illegal concepts. Who legitimizes these mechanisms and why do the great powers and the condominiums tolerate them, not to say they protect them? Offshore mechanisms are immoral, not necessarily illegal. The origin of the money deposited there is not always legal. They have been encouraged, in recent years they are endangered.

If we consider some examples: as for Romania, they are much money coming out of here, as statistics precises: so, according to the Global Financial Integrity report, only in 2009 the country has left more than $ 12 billion non-taxed. This is repeated annually. What are the mechanisms for removing this money and where do they come from? The money-making mechanisms are related to tax optimization. Registration of companies in tax havens, transfer pricing mechanism, moose systems, VAT fraud, money laundering. We can look at where the money comes from - in 2015, the average share of the underground economy in GDP in EU countries was 18% , the underground economy accounting for 30.6% of GDP in Bulgaria, 28.6% of GDP in Romania, 27.8% of GDP in Turkey, 27.7% in Croatia, Estonia 26.2% of GDP, Lithuania 25, 8% of GDP, and Poland and Latvia as much as 23.3% of GDP each (note that the poorest and most inequalities in the EU are here!) Or we can look into the Fiscal Council Reports where we see how evasion total tax and levy amounts to ROL 100 billion a year (€ 23 billion) of which three quarters comes from VAT fraud. Capital has an aggressive lobby, often formed by professional, well-trained people. Where are the money going? We know about tax havens and "customer-friendly" banks. But if we look at where these "friendly" banks are, we have big surprises. Top 5 of these dubious Swiss banks/countries: Switzerland, Hong Kong, USA, Singapore, Cayman, UK. In the top 10 May and Luxembourg and Germany. Panama is only 12th place ranked.

The moral problem in this area goes to a question: is not there a lot of hypocrisy in this game? Of course there is a lot of hypocrisy, and especially in developing countries, where the budget, pensioners, young people, the unemployed are blamed while the mind is thinking about new ways of avoiding taxes and taxes. But even if these tax havens/offshore mechanisms are to be narrowed, other ways to extract capital will be innovated: soft regulation, capture of regulatory agencies and rent seeking, creative accounting. Capital has an aggressive lobby, often formed by well-trained, professional people. At the same time, the syndication rate is decreasing, the labor market is becoming more flexible, globalization and trade integration with low-cost countries reduce the negotiating power and thus the prospects for rising labor payments. These attempts at removing hidden money could be signs of balancing the income paid to labor and capital, as we are in developed countries. So, the question remains: is there morality, or legality?

4.1. Characteristics of the Fiscal Heavens

There are about 73 tax havens around the world, but there is no precise data on the amounts of money that arrive here. The main features of tax havens and offshore financial centers for the sake of understanding as easy as possible. For example, in the Report of Expert Richard Gordon (1983) for the Treasury of the United States of America, recalled in the paper 2, these characteristics are stated as follows: a reduced tax rate compared to the investor's country of residence; secret banking and commercial; the lack of currency control or at least the lack of its applicability in relations with non-residents; bank facilities; communication and transport facilities; opportunities for implementing fiscal strategies that minimize tax burden; economic and political stability; opening up foreign capital; the availability of qualified personnel; appropriate geographic location etc.

A truth is that there is no fiscal paradise to please everyone. Some areas have specialized in banking activities, others serve the interests of multinationals, while others gather under their umbrella the wealthy to the world. In addition, about this world of "offshore" finances - countries or jurisdictions with tax laws, either tax-free or with very low taxes - not all is well.

Violation of privacy is punished with imprisonment. Countries as Panama, Liechtenstein, Switzerland, and all the other ministries of the economy have strict laws on black money laundering to ensure that financial institutions based there are not used for illicit purposes. And there are special departments investigating any possible violation of these regulations. In addition, "offshore" banks have strict “customer knowledge” procedures so that anonymous “numbered” accounts have just become a story.

As long as businesses are legal, financial secrets are defended with holiness. In tax havens it is forbidden to disclose any aspect of financial transactions, including information on private banking accounts, without a court order. Many of the offshore jurisdictions impose huge fines or even imprisonment for employees of banks who violate the privacy of an account holder.

4.2. One in Five Accounts, Registered in a Tax Haven

Data on the size of the “offshore” preserved wealth is difficult to obtain since neither government nor financial institutions are interested in gaining an overview of these financial havens.

The Bank for International Deposits (BDI), which records country-specific cash deposits, estimates that there was a total of 14,000 billion of such deposits worldwide in 2004, of which $ 2,700 billion were retained in the countries “offshore”. That means that one in five deposits is registered in a fiscal paradise. Instead, research firm Merrill Lynch/Cap Gemini estimated in 1998 that one third of the wealth of those with more than one million dollars was kept “offshore”.

In the area of taxation, residence, not citizenship, is important.

According to the latest report, between 2002 and 2003, their fortunes amounted to a total of 27,000 billion, of which 8.500 billion (31%) were registered in a tax haven. Merrill Lynch estimates an increase of these offshore assets by 600 billion a year. Which would mean that the figure now reached 9.7 trillion dollars. Most “offshore” countries are charging taxes based on residence, not citizenship. So, for example, Europeans everywhere can come to Switzerland to get rid of state payments. The bankrupt American company, once an energy giant, said profits of $ 2.3 billion between 1996 and 1999 but did not pay a US government fee. This required a network of 3,500 companies, of which 440 were registered in the Cayman Islands tax haven. In the world, there are no fewer than 73 such tax evasion refusals, according to data from the Tax Justice Network, which fights against these paradises for the rich. The reason invoked is that they fuel poverty in the world.

4.3. Data Analysis and Results

Case studies

Netherlands Antilles

Authorities governing the four islands of the Netherlands Antilles have adopted “offshore” legislation to cut the tax for some passive income derived by competent local companies by 90 percent. Since 1940, the Dutch Antilles government has created a favorable climate for offshore companies. Each year, approximately 3,600 billion of foreign companies' money flows through banks in the Netherlands Antilles and the Netherlands. The Netherlands Antilles are also the new Quantum Fund home owned by the Hungarian-based investor George Soros, as well as branches of more than 50 international banks including ABN AMRO and Deutsche Bank.

Hong-Kong

No tax on salary, no fees for profits made from the sale of capital investments and many deductions from payments to the state for individuals. In Hong Kong, however, there is a standard income tax of 16% and a corporate tax of 17.5%. The Government of the Hong Kong Administrative Region has pledged to develop both tax and finance legislation so that this area becomes the most important Asian tax haven. To this end, authorities have eliminated property and inheritance taxes. And it is a big step forward considering that the Hong Kong government has so far earned nearly $ 200 million annually from its inheritance taxes. The rest of the taxes are so small that the city can be considered a genuine tax haven.

Switzerland

Aliens who become residents of this country can find here the tax paradise they wanted. That, after having previously negotiated the income that will be charged in the administrative canton where they will live. Generally, the revenue to be charged is equal to five times the amount paid for the rent of a dwelling. The European Commission has been fighting for some time against the Swiss tax regime, arguing that the tax exemptions granted to companies setting up their headquarters here are in fact illegal state aid that must be eliminated. According to Swiss officials, this fiscal policy applied to foreign companies annually brings the economy about $ 2.39 billion.

Liechtenstein

The little prince has been defending all banking secrets since 1926. Liechtenstein is one of the most “old” tax havens in the world. The royal families of Great Britain, Belgium and Luxembourg are among those who appreciate the professionalism and discretion offered by the financial institutions in the principality. Liechtenstein is governed by the same aristocratic family for 800 years and the small country is recognized for the best private banking services in the world. So the principality is a magnet for those with fat accounts. Officials here do not charge taxes for most of the companies or properties owned by foreigners.

Cayman Islands

Do you snorkeling and scuba diving as long as you can? Where else than in the Cayman Islands, UK-dependent territory, one of the most famous tax havens. Here is heaven indeed on earth. Zero taxes for foreign companies or residents. Here are 40 of the world's largest banks. In June 2000, the multilateral organizations officially classified the Cayman Islands as a tax haven, but also as a non-cooperative territory in the fight against black money laundering. The authorities' response here was to limit the confidentiality of bank information. The move has helped Cayman Islands be removed from the list of non-cooperative territories.

Singapore

Strategically located, Singapore is reputed to be an attractive financial center for offshore funds. However, this "Switzerland of Asia" is not sought for very low taxes because in most countries in this area taxes are insignificant. Singapore is attracting Asian riches for banking policies that protect information about the financial situation of customers. Legislation on the confidentiality of banking information entered into force in 2001 and since then the tiny republic has been recognized by the strictness with which this law is enforced. And Singapore does not give up on these rules because of the pressures from foreign governments.

Bahamas

A paradise for golf lovers and one for those who want to get rid of large taxes to be paid to the state. There are no personal income taxes in the Bahamas and no profits from the sale of capital investments. And those who have rich relatives can sleep peacefully. The state will not half their inheritance. However, temporary residents have to pay a percentage of the value of the property they own. But dolphin swimmer makes all the money. Bahamas are among the tax havens that quickly turn into prominent financial centers that can always compete with industrial cities like Los Angeles, Chicago, London, Tokyo and New York.

Panama

Some call it "Switzerland of Latin America", but the people of the republic strongly affirm that their country lives much better than there. Panama offers a solid financial infrastructure, and foreign residents and corporations are exempt from tax. In addition, living and administrative costs are minimal. But as the country is growing, it tends to become inconclusive for the large number of foreigners who are going to "retire" here. The cost of a property on the beach reaches $ 140,000. Celebrities bought apartments in the area for $ 10 million, also left themselves seduced the mirage of Panama.

Gibraltar

To become a permanent resident of Gibraltar, you need two letters of recommendation by which the government characterizes you as worthy of the new status. Individuals pay taxes only for the first 90,000 dollars of total income, which is a maximum of $ 56,000, regardless of the amount in your account. In Gibraltar, companies are virtually exempt from paying state contributions as long as they do not work here. They contribute to the local budget with $ 200 a year. There are, however, stamp duties for property and import taxes. Although Gibraltar is practically located in Spain, the region is actually an independent British tax haven.

The Isle of Man

The nation with the oldest parliamentary structure, dating back 1000 years ago - enjoys a successful national economy with well-regulated financial, banking and insurance sectors. The region has its own government, but is still dependent on the UK. However, Isle of Man officials administer as much as important things like taxes. This jurisdiction has for many years been considered a tax haven, but also one of the safest and most attractive such offshore areas. There are no fees for profits made from the sale of capital investments or taxes for capital transfers or stamp duties. There is a VAT and an income tax, but not more than 18%. In addition, the government has steadily reduced this percentage to 10%. The authorities are rushing that in the next four years corporations will no longer be taxed with any profit tax.

About 33,000 offshore companies are registered in the island. In addition, there are about 2,500 companies coming from other jurisdictions that are present in different forms. It is estimated that in Jersey only 600 billion euros, money that has escaped taxes, hidden in the accounts and in the funds of some fifty international banks. More than half of the 98,000 inhabitants are bankers, accountants, lawyers and financial advisers. For example, ads at St. Helier airport promotes tax advice and property management, not fast-food restaurants.

It's like a big country club, where you have to have at least 11 years of residence, goods of over 8 million and to buy a home of at least 2 million euros.

The financial sector is the fourth part of the island's economy, because corporate tax is very advantageous, and the maximum tax is 20%, with a cap of 125,000 euros per year, whatever the volume of revenue. There are no inheritance or surplus levy. For millionaires it’s a real bargain.

The per capita income is 22,000 euros, bigger than the English one, but the peasants (that's what they call the local jargon for those who are not millionaires and do not work in the finance sector) are fire and seem to grow by 3% of VAT to offset the drop in revenues due to the growing pressure on tax havens.

Ranked by the World Bank as the 5th richest nation in the world by GDP per capita, the largest sectors are insurance and e-Gaming with 17% of GNP each, followed by ICT and banking with 9% each.

Cyprus

Cyprus accounts for about 2% of the EU's gross domestic product, and yet its problems are seen as a threat to the euro-zone. Further, the incident sent shock-waves on US markets.

Over the years, Cyprus has built an extensive infrastructure of lawyers, accountants and other tax specialists, a system that has helped to attract Russian magnates. Currently, 320,000 companies are registered in Cyprus, with only 860,000 people. Most are ghost companies that cover foreign companies and wealthy people who want to avoid paying tax liabilities.

Such actions from potential “potential” countries in Cyprus can bring serious economic problems for the small island country, which is making great efforts to keep the vital financial industry on the line with a tens of thousands of jobs people.

The unemployment rate in Cyprus, already at 15%, could rise in this context.

5. Conclusions

Tax havens play a very useful role. Tax havens offer protection against excessive taxation. They work like a safe in the case of someone who has cash, offering security against thieves. When the tax burden exceeds a certain level, it becomes profitable to relocate or keep your capital in a more permissive jurisdiction.

The tax paradigm allows the continued accumulation of capital and investments, otherwise asphyxiated by tribulations and taxes. If tax havens were an economic aberration, then governments everywhere would not have invented “free zones”, tax exemptions and other differentiated treatments on their own territory, precisely in order to attract foreign investment. Moreover, tax exemptions are not a privilege. Tax harmonization must not always be done by increasing tax, not by reducing it! That is why people always try to escape these taxes.

Anyhow, the negative impact and effects of the tax avoidance upon the budgets of the countries have to be taken into consideration, and to attire new and better regulations. Thus, the governments should adopt and implement trade and fiscal policies that are capable of sustaining the economy and the ever human desire of avoiding rules.

6. Bibliography

Dharmapala, D. & Hines, H.R. (2006). Which countries become tax havens? *National Bureau of Economic Research, NBER Working Papers,* 12802.

Desai, M.A.; Foley, F.C. & Hines, J.R. Jr. (2004). The Demand for Tax Haven Operations. *Journal of Public Economics Elsevier*, 90(3) (2006), pp. 513-531.

Lorraine, E. & Kudrle, R.T. (2005). 4 Tax Havens: Renegade States in the International Tax Regime? *LAW & POLICY*, Vol. 27, No. 1, January, ISSN 0265–8240 © 2005 UB Foundation Activities Inc., for and on behalf of the Baldy Center for Law and Social Policy and Blackwell Publishing Ltd.

Gordon, R.A. (1983). *The Gordon Report, 1981*. Available at: http://www.inspiredlifecenter.org. Accessed: 11-01-2018. Gordon, R.A., (1981), Tax havens and their use by United States taxpayers-An overview, available http://www.archive.org/stream/taxhavenstheirus01gord/taxhavenstheirus01gord_djvu.txt.

Halliday, T.C. & Shaffer, G. (2015). Transnational Legal Orders Chapter 1. Transnational Legal Orders. Cambridge University Press, *UC Irvine School of Law Research Paper,* No. 2015-56.

Hansen, N.S. & Kessler, A.S. (2001). The Political Geography of Tax H(e)avens and Tax Hells. *American Economic Review*, 91(4), pp. 1103-1115.

Hines, J.R. Jr. (2004). Do Tax Havens Flourish? *NBER Working Paper,* No. 10936, Issued in November 2004.

Mara, E.R. (2015). Determinants of Tax Havens. *Procedia Economics and Finance,* Volume 32, 2015, pp. 1638-1646.

Palan, R.; Murphy, R. & Chavagneux, C. (2010). *Tax Havens: How Globalization Really Works*. Cornell Studies in Money. New York: Cornell University Press.

Reuven, A.Y. (2000). Globalization, Tax Competition, and the Fiscal Crisis of the Welfare State. *Harvard Law Review,* 113, pp. 1573–1676.

Rose, A.K. & Spiegel, M. (2006). Offshore Financial Centers: Parasites or Symbionts? *NBER Working Paper,* No. 12044, Issued in February 2006.

Slemrod, J. & Wilson, J.D. (2009). Tax competition with parasitic tax havens. *Journal of Public Economics,* Volume 93, Issues 11–12, December 2009, pp. 1261-1270.

Zucman, G. (2015). *The Hidden Wealth of Nations: The Scourge of Tax Havens.* UC Berkeley, University of Chicago Press.

Deloitte (2011). *Corporate tax rates*. available at: http://www.deloitte.com/assets/.

*** http://worldwideoffshore.com/taxe /british-virgin-islands-7. Accessed: 28-09-2017.