1 Recent Developments

1.1 Functionality of Tax Havens

1.1.1 Definition

The starting point of this thesis and the chosen research question is the existence of so-called tax havens. The term "tax haven" is imprecise and has no clear segregation. In order to handle "tax havens" and to address some countries with this term, a few common definitions are available. Tax havens are often split into two categories.[6] For the tight definition, tax havens are countries with low or no-taxes on income and/or earnings, with banking secrecy, lack of transparency and lack of information sharing. Furthermore, the incorporation of legal entities is simple and requires no or only little economic activity. This definition is supported by the Organisation for Economic Co-operation and Development (OECD).[7] The second, wider definition, which is mainly supported by economists, characterises tax havens as low-tax countries or no-tax countries with the aim of attracting capital.[8]

The legal reduction of taxes with the help of tax havens is called tax avoidance, whereas the reduction of taxes in an "illegal"[9] way is called tax evasion. The activities of a UK citizen who has a bank account in Panama and generates interest income which is not reported in his annual tax declaration would be deemed as tax evasion. In contrast, the relocation of a factory to a tax haven to take advantage of lower corporate tax rates would be deemed as tax avoidance and is legal.[10] The costs for the US of offshore tax abuses, avoidance and evasion are roughly estimated at USD 100 billion per year.[11] Another source mentions that the total of international tax evasion by individuals is between USD 40 billion and about USD 70 billion per year.[12]

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[6] Gravelle, 2013, p. 1.

[7] OECD, 1998, p. 23.

[8] Gravelle, 2013, p. 1.

[9] Depending on that country's law

[10] Gravelle, 2013, p. 1.

[11] Levin, 2008.

[12] Sawicky, 2005, p. 99-110.