Tax Havens, Economic Growth and Development – The Mirage

Yashodhan P Mahajan
Head, Department of Accountancy
Brihan Maharashtra College of Commerce
Pune (Maharashtra)

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ABSTRACT Tax heavens were project as a tool for sustainable, holistic economic growth and or development. Recently global taxation in particularly through Panama Papers is a reason to rethink for all counties of the world around. There is bounty of reasons to understand about it. There is unavailing fact that the international tax system can be mystifying. Tax havens fascinated mounting consideration through policy-makers in recent time. This research paper provides a critical review that studies the emanation and matter of subsistence of tax-haven countries. Current evidences focused that tax havens be inclined to boast forceful supremacy establishment as compared to non-tax haven countries. Prominently it is contented that, tax havens corrode the tax base of big - tax countries by captivating corporate commotion.

Key words: Tax Heavens, Economic Growth, Economic Development, FDI,

Introduction:

Often it has believed that, for boosting the economic growth or development it is very much essential to commercialize the corporate establishment by offering them some tax benefits directly or indirectly. On one hand country is boosting its economic activity at international level and on the other it will indirectly give rise to the economic development of its own country. To achieve economic growth every country strives hard to enter into international tax treaty by signing a bilateral or sometimes unilateral agreement between them. For short term period both the countries may enjoy the benefits, but in the long run it is always harmful either of the way. Such international taxation system gives rise to many unfolded questions in future. If it is not tackled at requisite time then economic state of the country may collapsed.

Globalization its impact on developing Countries:

This research paper analyzed the globalization progression from 'top down' process of transnational corporations exploitation and dominance of developing economies, but also as 'bottom up' global initiatives and interconnections between the local capitalist and transnational capitalist (Hall, 2006), both having drastic consequences on the economic development of most developing countries. For the last decagon Bharat has witnessed foremost developmental transformation where prominence was focused on financing medium-term public utility activities. Nevertheless, the achievement of such activities was not consistent. In recent times there was some movement away from such activities as it was affected by global business cycle.

Volume of goods, services and investments is transferring the national borders very rapidly. Now a day approximately \$1.5 billion foreign exchange transactions are taking place daily. Statistics show that approximately \$8.9 trillion of goods are transacted across borders and \$2.10 trillion of services are provided across the borders. As far as the definition of Globalization is concerned, it is still a controversial topic. So far there is no consensus on a single definition of Globalization between all disciplines of life. Economics focuses on transfer of goods, services and funds in overall world. Political Science focuses on the role of UNO, WTO, GATT and similar kind of International Institutions. Some other disciplines such as anthropology and sociology concentrate on the interconnectivity of different cultures. In nut shell we can say globalization can be applied is a movement, a phenomenon and a force. And the scope of the globalization is increasing as the time is passing.

Literature Review:

In countries where alternative investments have been immensely successful, a clear and consistent policy framework has been a significant enabler, and this includes a stable tax regime. These criteria clarity, certainty and consistency in policy impact the growth of the venture capital and private equity ecosystem, and the funds' ability to attract capital and provide efficient, tax adjusted returns. For example, funds are pooling vehicles for their investors, and the universally applicable principle is of a single-level of taxation in the hands of investors, also known as limited partners (LPs). In a globalized world, where countries compete for capital, the success of alternative investments in the medium to long-term depends on India's tax policy for alternative investments being globally competitive.

However, the home countries of the multinational corporations who preach good political and corporate governance in developing countries such as Nigeria are sometimes also confronted with contradictions on how to control the unethical behavior of their multinational corporations operating in Nigeria. This is because, these corporations perform the vital role of capital inflow into their respective developed economies and as a result some of the developed countries have only see their roles in supporting the predatory enterprises culture of their multinationals abroad and not tarnishing their image which could disrupt the flow of capital into their respective developed economies. Thus, suggesting that developing countries are caught up in the web of internal exploitation in the hand of their own rulers who prefer the protection of their personal capitalistic interest over any public interest and external exploitation in the hands of multinational corporations and their respective home governments who prefer to continue to reproduce capitalistic relations at home and not in Nigeria. This is the dilemma of the developing countries in the so called global economic system that has the tendencies to continue to undermine the economic growth and development of most developing countries, creating hunger and poverty.

Conventional wisdom among policymakers is that the G20 tax haven crackdown is a success. It suggests that, so far, treaties have led to a relocation of bank deposits between tax havens but have not triggered significant repatriations of funds. The least compliant havens have attracted new clients, while the most compliant ones have lost some, leaving roughly unchanged the total amount of wealth managed offshore. Although this is disappointing, some tax evaders have responded to the wave of tax treaties. Many experts were skeptical that upon request information sharing could achieve anything at all. Our results belie the most pessimistic views on the efficacy of treaties: even a weak threat of enforcement is sometimes enough to affect behavior. Further, uncertainties remain on the extent to which treaties have induced tax evaders to comply more with tax laws while keeping their funds offshore.

Tax havens are small countries, they are affluent countries, and they have high-quality governance institutions. While all of these characteristics are to some extent associated with each other, it is noteworthy that poorly governed countries, of which the world has many, virtually never appear as tax havens. Their absence cannot easily be attributed to the desire on the part of poorly governed countries to conform to international tax norms, since these countries are not otherwise known for their conformity, and international tax norms are in any case not very well established. Instead, the most likely explanation is that tax havens are unsuccessful in the absence of high quality governance, and anticipating that, poorly run governments does not even attempt to become tax havens. Whether the absence of more tax havens is a good or a bad thing for the world as a whole is a fascinating question that lies beyond the scope of this paper, but from the standpoint of individual countries, the inability to tailor tax policies to maximum national advantage simply adds to the many woeful costs of poor governance.

It is common knowledge that trillions of dollars of Indian money is in various tax heavens like Antigua, Switzerland, Bahamas, Liechtenstein, Isle of Man, and St. Kitts etc. Throughout the Nehruvian socialistic period under invoicing of exports and over invoicing of imports was very common and the funds were siphoned off to these tax heavens. In a socialistic way all leaders be they business, political, film, sports or bureaucratic participated in creating what we may call Secular ill gotten Wealth that is cutting across any type of caste or creed distinctions.

Data Analysis

Table - 1 - List Tax Havens

The Caribbean & Americas	Africa	Middle East & Asia	Europe	India & Pacific Oceans
Anquilla	*Liberia*	*Bahrain*	*Alderney*	*The Cook Islands*
Antiqua and Barbuda	*Mauritius*	*Dubai*	*Andorra*	*The Maldives*
Aruba	*Melilla*	*Hong Kong*	*Belgium*	*The Marianas*
The Bahamas	*The Seychelles*	*Labuan*	*Campione d`Italia*	*Marshall Islands*
Barbados	*Sao Tome e Principe*	*Lebanon*	*City of London*	*Nauru*
Belize	*Somalia*	*Macau*	*Cyprus*	*Niue*
Bermuda	*South Africa*	*Singapore*	*Frankfurt*	*Samoa*
British Virgin Islands		*Tel Aviv*	*Gibraltar*	*Tonga*
Cayman Islands		*Taipei*	*Guernsey*	*Vanuatu*
Costa Rica			*Hungary*	
Dominica			*Iceland*	
Grenada			*Ireland (Dublin)*	
Montserrat			*Ingushetia*	
Netherlands Antilles			*Isle of Man*	
New York			*Jersey*	
Panama			*Liechtenstein*	
St. Kitts &Nevis			*Luxembourg*	
St. Lucia			*Madeira*	
St. Vincent& The Grenadines			*Malta*	
Turks and Caicos Islands			*Monaco*	
Uruguay			*Netherlands*	
US Virgin Islands			*Sark*	
			Switzerland	
			Trieste	
			Turkish Republic & Northern Cyprus	

Source: TJN, "Tax Havens by Region

Above table reveals that 23 tax havens are situated in The Caribbean & Americas, 7 tax heavens are in Africa, 9 are in Middle East & Asia, 26 are in Europe and 9 are in India & Pacific Oceans

Table - 2 – List of tax havens holds % world's financial wealth

Tax havens	Offshore wealth ($ bn)	Share of financial wealth held offshore	Tax revenue loss ($ bn)
Europe	2600	10%	75
USA	1200	4%	36
Asia	1300	4%	35
Latin America	700	22%	21
Africa	500	30%	15
Canada	300	9%	6
Russia	200	50%	1
Gulf countries	800	57%	0
Total	7600	8%	190

Source: The Hidden Wealth of Nations- The Scourge of Tax Havens by Gabriel Zucman (UC Berkeley)

It shows that 8% of the world's financial wealth is held offshore (tax havens), which cost a revenue loss up to $200bn.

Table - 3 – List of US companies reported offshore profit arising out of tax havens

Company Name	Unrepatriated income $ Millions	Estimated tax bill $ Millions	Implied tax rate
FMC Technologies	1949	717	37%
Owens Corning	1600	581	36%
Safeway	180	65	36%
Qualcomm	28800	10,200	35%
AK Steel Holding	38	13	35%
Amgen	32600	11,400	35%
Netflix	65	23	35%
Advanced Micro Devices	307	107	35%
Gilead Sciences	28500	9,700	34%
Western Digital	9400	3,100	33%
Nike	8300	2,700	33%
Microsoft	108300	34,500	32%
Oracle	38000	11,800	31%
PNC Financial Services Group	110	34	31%
Apple	200100	60,884	30%
NetApp	3300	1,000	30%
American Express	9900	3,000	30%
Biogen Idec	6000	1,750	29%
Leucadia National	205	59	28%
Baxter International	8500	2,400	28%
Citigroup	45200	12,700	28%
Wells Fargo	2000	557	28%

Symantec	3600	1,000	28%
Bank of America Corp.	18000	5,000	28%
Levi Strauss	100	27	27%
Clorox	204	54	26%
Air Products & Chemicals	6361	1,593	25%

Source: Citizen for Tax Justice

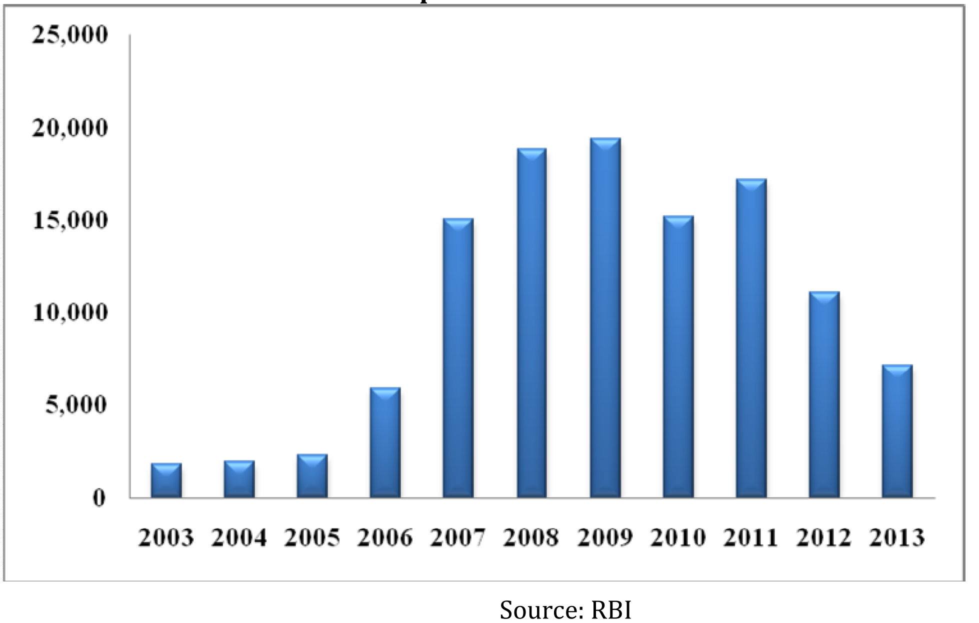
Above companies reported that they would have to pay averagely 31% tax by U.S. if they not repatriated their profits. Ethically they are doing best by disclosing their repatriated profit in their books of accounts**.** On the other hand there are many companies working in US deliberately shift their profit to tax havens. Statistics said that 248 out of 303 companies decline to disclose the U.S. tax rate they would pay if these offshore profits were repatriated.

Table - 4 – India's out ward FDI

Year	Outward FDI ($ Millions)
2003	1,819
2004	1,934
2005	2,274
2006	5,867
2007	15,046
2008	18,835
2009	19,365
2010	15,144
2011	17,195
2012	11,097
2013	7,134

Source: RBI.

Graph - 1 - India's out ward FDI



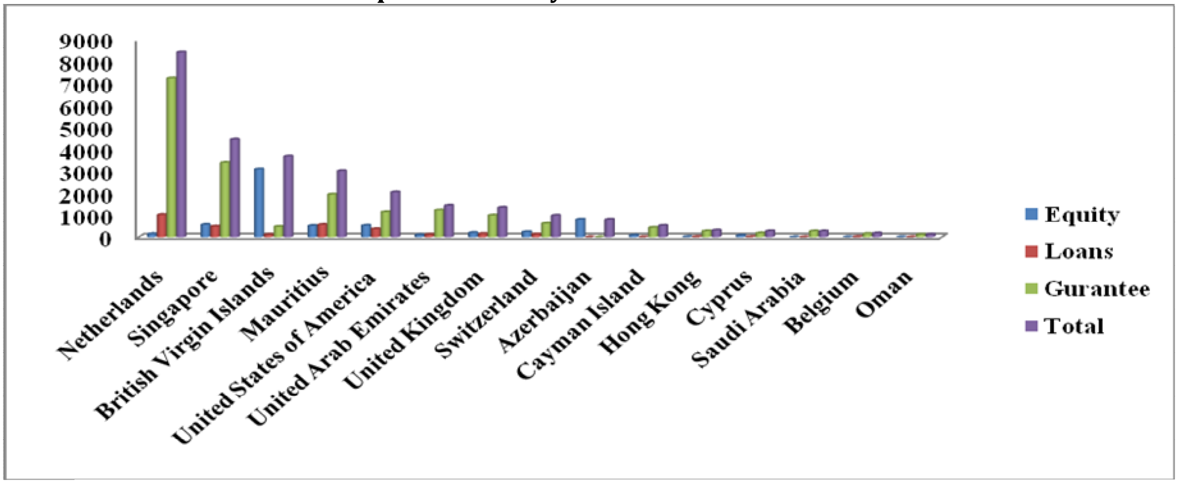
Source: RBI

It can be seen that, since financial year 2006 there is a gradual rise in FDI investment because of the relaxations to overseas investment made by the companies. It also push the foreign exchange reserve.

Table - 5 – Countrywide list of India's out ward FDI

Country	Equity	Loans	Guarantee	Total	% of share in total
Netherlands	144	1,029	7,254	8,427	29.8
Singapore	566	486	3,402	4,454	15.2
British Virgin Islands	3,101	113	474	3687	13.6
Mauritius	518	563	1,948	3,029	11.4
United States of America	527	372	1,153	2,052	8.6
United Arab Emirates	97	116	1,233	1,446	4.9
United Kingdom	198	155	1,003	1,356	4.6
Switzerland	240	130	624	994	3.4
Azerbaijan	814	0	0	814	2.8
Cayman Island	83	8	433	523	1.8
Hong Kong	14	19	275	309	1.1
Cyprus	78	16	181	275	0.9
Saudi Arabia	0	0	269	269	0.9
Belgium	6	18	155	180	0.6
Oman	5	0	116	121	0.4
Total	**6391**	**3025**	**18520**	**27936**	**100**

Graph - 2 - Countrywide list of India's out ward FDI



Source: RBI

Most of the investments made abroad are to the Caribbean & Americas areas and that too are in the form of guarantees issued. Eventually minor amount would be conjuring.

Initiations carried out to resolve the issues pertaining to tax haven

The G20 has long been a strong proponent of the Global Forum's work. In 2008 and 2009, in the wake of the global financial crisis, the G20 Leaders called on the Global Forum to help secure the integrity of the financial system through the uniform implementation of high standards of transparency.

Mandatory following of FATF (Financial Action Task Force) standards is an initiative from G20 and G8

The G8 Deauville Partnership with Arab Countries, includes a number of the Arab Spring countries has an ambitious agenda for recovering stolen assets, including the Arab Forum on Asset Recovery (AFAR). AFAR was launched in Doha, Qatar in September 2012 to speed up efforts to identify and repatriate stolen assets to Middle East and North African (MENA) countries as well as implementation of Double taxation conventions (DTCs).

Summary & Conclusion

Existence of tax havens is coupled with illegitimate money laundering mechanism, sprouting to a variety of unlawful forms, and presently, operating under protecting shade of advantageous sway to few opinionated confined States around the globe. No doubt tax exemptions are given to under specified conditions to create a center of attention to investors. Under the implied assumption that such investment will certainly help a notified political/geographical area to get economically developed. Therefore heavy number of tax commitment forced on taxpayers. Consequently it results into tax avoidance or illicit money handling. So the businesses to mitigate their some business functions to tax havens (notified area) to compensate the loss arising from high.

However, world's foreign direct investment (FDI) arising out of tax havens did not contribute towards the shoddier for high-tax countries. If administration of tax havens is done on ethical and systemic manner will surely help the economy to grow, develop for sustainable and holistic manner.

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My great concern is not whether you have failed, but whether you are content with your failure.

~ Abraham Lincoln