Which countries are tax havens?

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There are tax havens, secrecy jurisdictions, offshore centres and other similar countries. And there are various ways of classifying them and that is the focus of this section.

We use the term tax havens in most of this research, but we recognize that there are at least two other frequently used terms, offshore financial centres and secrecy jurisdictions, and that academic research and public policy debate around these concepts typically suffer from a lack of definitional consistency. Therefore there is little agreement about which jurisdictions ought to be considered as tax havens, or treated as such for policy purposes.

We use a number of approaches:

1. Tax haven – consensual approach (lists of tax havens)
2. Secrecy Jurisdiction – Secrecy Scores of the Financial Secrecy Index
3. Offshore financial centres – Global Scale Weights of the Financial Secrecy Index
4. Tax haven – average effective corporate income tax rates of US multinationals

First, in defining a tax haven we follow a "consensual approach", originally pioneered by Palan, Murphy, & Chavagneux (2009) and later relabelled "expert agreement" Haberly & Wojcik (2013). This approach relies on a meta-list of tax havens fed by a review of numbers of "hits" by a number of lists of tax havens compiled by different international organisations and researchers. This approach considers a jurisdiction a tax haven if it is considered as such in at least 5 of the 11 lists explored.[1] This is partly because any individual tax haven lists, such as the OECD lists, kept changing over the time and also because we want to have a more complex view of tax havens, not using one specific list but rather a meta-analysis of a number of lists.[2] We include the results of this approach in the main text. This list-based approach has some disadvantages, discussed in detail by Cobham (2012). In the light of them and to distinguish between the two roles of tax havens discussed above, we supplement this approach in the empirical analysis with an alternative one using the concept of secrecy jurisdiction.

Second, we define a secrecy jurisdiction in line with Murphy (2008) and according to Meinzer (2012) as a jurisdiction which "provides facilities that enable people or entities escape or

[1] There is no internationally recognised definition of tax havens and therefore we opt to define a tax haven by being listed by a majority of these 11 tax haven lists. The source of the 11 lists used is the following and they come directly from (Murphy, 2009), which lists them as (we reference these as in (Murphy, 2009)): (International Bureau of Fiscal Documentation, 1977), (Irish, 1982), (Hines Jr & Rice, 1994), (Financial Stability Forum, 2000), (International Monetary Fund, 2000), (OECD, 2000), (Financial Action Task Force, 2000) and (Financial Action Task Force, 2002), (Hampton & Christensen, 2005), (Lowtax.Net, 2008), (Zoromé, 2007), (Levin, 2007).

[2] Also, there are two alternatives for tax haven lists. Fuest & Riedel (2012) define tax havens according to the OECD's tax haven list, OECD (2013b). Another is a list compiled by NGOs for their IF campaign in 2013, (The IF Coalition 2013).

undermine the laws, rules and regulations of other jurisdictions elsewhere, using secrecy as a prime tool". We operationalise the definition above by using the 2013 values of secrecy scores of the Financial Secrecy Index, a policy index organised by the Tax Justice Network and explained in Cobham et al. (2014). Values above 60 indicate a secrecy jurisdiction, where we choose to use 60 in line with suggestions in Meinzer (2012).

Third, the global scale weights of the Financial Secrecy Index, an estimate of jurisdictions' share of global exports of financial services, might be used to proxy offshore financial activities and therefore offshore financial centres.

Finally, we identify tax havens as low-tax jurisdictions according to the low taxes that companies pay. Specifically we focus on the average effective corporate income tax rates of US multinationals. We focus on the income taxes and use the average effective corporate income tax rate as the most useful measure of actual tax burdens. (United States Government Accountability Office, 2008) defines the average effective tax rate as the amount of income taxes a business pays divided by its pretax net income (when the data are not available, we impute the regional averages instead). We use the international data from the United States government's Bureau of Economic Analysis (BEA) on direct investment and multinational companies. Generally, the U.S. direct investment abroad (USDIA) include ownership by a U.S. investor of at least 10 percent of a foreign business. Financial and operating data for U.S. multinational companies cover the activities of foreign affiliates and, for some information and years, also their U.S. parent companies. The survey-based data cover the period between 1983 and 2011 with a number of differences across the variables and other information collected. Importantly, data up to 2008 include all nonbank foreign affiliates, whereas data for 2009 and forward include all foreign affiliates. Despite these inconsistencies, we merge the data series of majority owned affiliates to create the longest possible time series from 1983 to 2011. We combine this with data on the United States parent companies, which are available in varying detail for all years under consideration. Although the data is gathered through surveys from individual firms, the publicly available data are only at aggregate level and we use the country-level aggregation since we have no access to the confidential firm-level data.

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