



THE ROLE OF OFFSHORE TAX HAVENS IN THE INTERNATIONAL TAX SYSTEM

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ABSTRACT

The purpose of this paper is to provide a clear and critical overview of the function and role of offshore tax havens in the current tax system. The paper uses a deductive approach and starts from a basic level to gradually work up to deeper insights on the topic. These have been formed by the examination of literature written on tax havens and through research on tax data. On the basis of this research it is argued that offshore tax havens play a contradictory role in the international tax system. The offshore industry is a product of the current tax system and makes up an integrated component of the economy. Yet simultaneously tax havens counteract against the basic principles and aims of the tax system.

Keywords: Offshore tax havens, international tax system, tax evasion, economy, multinational corporations.

RESUMO

O papel dos paraísos fiscais offshore no sistema fiscal internacional. O objetivo deste artigo é fornecer uma visão clara e crítica da função e do papel dos paraísos fiscais *offshore* no sistema fiscal atual. O artigo usa uma abordagem dedutiva e começa a partir de um nível básico para, gradualmente, desenvolver visões aprofundadas sobre o tema. Estas foram formadas pela análise da literatura sobre os paraísos fiscais e através da investigação sobre dados fiscais. Com base nessa pesquisa, argumenta-se que os paraísos fiscais *offshore* desempenham um papel contraditório no sistema fiscal internacional. A indústria *offshore* é um produto do sistema fiscal atual e constitui um componente integrado da economia. Contudo, os paraísos fiscais contrapõem, simultaneamente, os princípios e objetivos básicos do sistema fiscal.

Palavras-chave: Paraísos fiscais *offshore*, sistema fiscal internacional, evasão fiscal, economia, empresas multinacionais

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1. INTRODUCTION

On April 3rd this year the first news articles on the Mossack Fonseca papers, also dubbed the Panama papers, were published. This was more than a year after “John Doe” leaked the papers to the German newspaper *Süddeutsche Zeitung*. Since then the documents had been thoroughly analysed by journalists from 80 different countries, assembled by the International Consortium of Investigative Journalists (ICIJ). They found the documents contained attorney-client information on more than 214,488 offshore entities, information that had been registered by the Panamanian corporate service provider and law firm Mossack Fonseca (The International Consortium of Investigative Journalists, 2016).

Offshore entities are corporations, or other kinds of legal entities, that are registered outside of the country where it has its main offices, investors and operations. Instead they are registered in a tax haven. Tax havens in their most basic sense imply countries or zones which offer little to no tax liability, a high level of client confidentiality and flexible corporate legislation to foreign individuals or businesses that are registered there (Murphy, 2011, p. 21).

As a result of the investigation many rich figures and multinational companies (MNC's), were linked to offshore entities mentioned in the Panama papers. This triggered a wave of indignation and critique and the panama papers were a major item in the media for weeks. Politicians mentioned in the documents were demanded an explanation, which resulted in many defensive answers and tense interviews. Another consequence was the increased scrutiny by the media of offshore activities by MNC's (multinational corporation) since several major international companies were linked to the documents.

The general reaction of the big public shows that tax havens have a questionable image and are perceived as dubious gateways for the rich to avoid taxes. But opinions differ on the matter and there are many economists that argue that offshore accounts aren't as dodgy as the public generally assumes. Instead they claim that offshore companies can be useful economic structures, which can be used in the

wrong way from time to time. Still one cannot deny there is a suspicious amount of money and secrecy involved in offshore tax havens.

So how direct is the link between offshore tax havens and illegal activities such as tax avoidance and money laundering? Why do they exist? How exactly do offshore tax havens function? And what effect do they really have upon the international tax system? Through the study of literature, the subsequent findings and events following the Panama papers and insightful critiques by theorists on tax havens this paper will define what role offshore tax havens exactly play within the international tax system.

There exists a broad array of conflicting perspectives on the subject of offshore tax havens. With the intention to develop a clear understanding of the topic, this paper will start from a very basic level. In that way readers unacquainted with the topic get the option to first develop a relatively neutral comprehension of offshore tax havens. However, it is hardly possible to give an objective explanation of offshore tax havens. It will be noticeable that a more normative stance on the topic will be taken near the end of this paper.

A basic idea of the international system of tax legislation will first be established. Subsequently a detailed definition of the concept of tax havens will be given. Afterwards will be explained how tax havens logically spring forth from the current tax system. Next the functioning of offshore tax havens and their companies will be described. Lastly the effect of off shore funds will be analysed through the use of different perspectives. The descriptions and analysis will be supported and clarified through the examples of several tax havens and the use of these zones by international companies such as Apple Inc. In the end the main points of the paper will be summed up, after which a tentative answer will be given to the question of what role tax havens play within the international tax system.

2. THE BASIC PRINCIPLES OF THE TAX SYSTEM

In order to understand the international tax system, it is important to get a clear definition of tax itself. According to the Business Dictionary (2016) tax is "compulsory

monetary contribution to the state's revenue, assessed and imposed by a government on the activities, enjoyment, expenditure, income, occupation, privilege, property, etc., of individuals and organisations." So as a citizen or organization you are expected to pay a certain amount of money to the government.

This amount is determined by percentages taken from income, property and the other various activities listed in the definition given above. In that way the government earns a certain amount of money, called the state's revenue. The state's revenue enables the government to pay for public goods and expenditures, services and goods which should be accessible to every citizen of the state. These public goods answer to the collective necessities of the state, especially those necessities of which is assumed that the free market alone is not able take care of. Very basic examples of these collective necessities are infrastructure or street lightning.

In short, a well-functioning tax system should take care that the collective necessities of the population in a state are answered by letting each citizen pay its share. Since this share is determined by the amount that each citizen is able to pay, taxes also aim to some extent to redistribute of the wealth within a state. It targets to decrease inequality by making a certain life standard available for everyone and everyone should contribute within their capacity.

When corporations or individuals participate in activities that are "unfavourable to a state's tax system", this is recognized as tax non-compliance. Tax non-compliance is closely related to the "informal economy", meaning the system of trade or economic exchange used outside state controlled or money based transactions. As a result of tax noncompliance the "tax gap" exists. This is the calculated difference in the amount of money that a government is supposed to receive through taxation and the amount it receives in reality (Dubin, 2012, p. 5).

Tax evasion is one of the forms of tax non-compliance. Tax evasion implies the intentional attempt to avoid paying taxes through fraudulent means, as distinguished from late payment, using legal "loopholes" or errors. This is not to be confused with tax avoidance, which implies the use of different methods and strategies to lower the amount of taxes owed by individuals or corporations. Both activities can be defined as

tax non-compliance, but contrary to tax evasion, tax avoidance is still practiced within legal boundaries. Although on ethical grounds tax evasion can be as elegant as tax avoidance, the former is seen more as a manner of bending the rules instead of breaking them. A clear example of legal tax avoidance is the Individual Savings Account (ISA) in the United Kingdom. This is a class of retail investments accessible to British citizens which has a convenient tax status. The ISA is excluded from income tax and capital gain tax and money which is withdrawn from the account is free of tax as well. This construction was set up by the UK government in order to stimulate citizens to save their money. Therefore using an ISA to avoid taxes is perfectly legal behaviour that the government itself intended for (Murphy, 2011, p. 21).

On paper the distinction between tax avoidance and tax evasion might seem clear but in reality the line between the two forms of tax non-compliance can be very thin. As John Christensen, director and co-founder of the UK-based Tax Justice Network stated: "The vast majority of tax avoidance schemes are written into loopholes which essentially undermine the rule of law and democracy. Legal, maybe, but it is a very grey, murky area and it contributes massively to the unequal economic reality of what is happening" (Clarke-Billings, 2016). Sometimes tax is avoided to such an extent that a state's tax agent might classify it as unintended tax avoidance. As a result the case can end up in court, to potentially be classified as tax evasion in the end (Murphy, 2011, p. 21). As Denis Healey, former UK Chancellor of the Exchequer once famously remarked: "The difference between tax avoidance and tax evasion is the thickness of a prison wall" (Eliffe, 2011, p. 442).

When evaluating tax evasion and avoidance from an ethical perspective it is even harder to decipher the difference between the two forms of tax-noncompliance. Both tax avoidance and evasion may be used to dodge taxes to the highest extent possible. The main difference is that a careful accountant will make sure to stay within the legal boundaries and sidestep or bend legal casualties instead of intentionally breaking rules. Basically there is no ethical border between the two acts. Practicing lawful tax avoidance is by bankers and accountants themselves often defined as "amoral" behaviour. They do not see themselves as acting immoral because they

choose to ignore moral guidelines, instead they just use “the law as their ethical framework” (Luyendijk, 2016).

This makes tax legislation appear dubious and contradictory to the principles of the tax system. On a basic level it counteracts with the main aim of the tax system, namely to help the government finance the states collective necessities through an equal input. But tax avoidance is a legal activity that is widely practiced. In fact, one of the main goals of accountants is to decrease the tax liability of a company as much as possible through carefully schemed tax avoidance while staying between legal boundaries.

3. DEFINING TAX HAVENS

There exists no single, unambiguous definition of tax havens. Several international bodies and studies have defined offshore entities, but their definitions are based on different indicators and methods (Murphy, 2011, p. 21). This is partially caused by the complexity of the international tax system itself, which presents many jurisdictions² of states as a possible tax haven from the tax imposed by another. This paper will explain tax papers through the clear definition set out by the Organisation for Economic Co-operation and Development (OECD) in 1998 which is globally applied by major international organisations such as the International Monetary Fund (IMF) and the OECD itself. This definition will be compared with the more open concept of tax havens by political economist Richard Murphy while using The Netherlands as an example of a tax haven.

The definition of the OECD of tax havens was based on a list of qualifications. These list calls as follows (Oxfam Novib, 2016):

- 1) There is no or nominal tax on the relevant income;
- 2) There is no effective exchange of information with respect to the regime;

² The term jurisdiction is here used to refer to a region with its own legal system, regardless whether it is a state or internal zone.

- 3) The jurisdiction's regimes lack transparency e.g. the details of the regime or its application are not apparent, or there is inadequate regulatory supervision or financial disclosure;
- 4) The jurisdiction facilitates the establishment of foreign owned entities without the need for a local substantive presence or prohibits these entities from having any commercial impact on the local economy.

This definition is very clear yet at the same time restrictive, excluding certain offshore zones that might be qualified as tax havens in the end. An illustrative example is the exclusion of 37 of the 40 identified tax havens off the list, not long after they were identified in 2000. The formerly branded tax havens reacted to the accusation with commitments to be more transparent or exchange information more effectively, effectively eliminating themselves of the list and cleaning their names (OECD, 2009).

Considering this it seems that a strictly demarcated definition has its faults in being perfunctory and superficial. Therefore a more open definition of tax havens is here proposed. Because tax havens generally lack transparency and abide complex jurisdictions they can easily disguise the qualifications that are set in such a list. A more open concept, with the guidance of qualitative and critical research may prove more helpful.

Richard Murphy, political economist and founder of the Tax Justice Network, developed a different definition that is indeed more openly applicable. He focused on what tax havens are used for instead of what they themselves imply to aim to achieve. This can be a more effective way of defining tax havens. Especially since numerous states can be employed as tax havens for companies, depending on how their jurisdiction is applied.

Murphy defined the four primary usages of havens as follows. Firstly, tax havens are used to avoid or evade tax liability. Secondly, they are used to keep criminal activities off the radar. These criminal activities could be tax evasion as well as money laundering or other crimes that bring in money such as fraud, bribery, drug trafficking or corruption, to name a few. Thirdly, clients use tax havens to keep their activities

completely anonymous. This does not need to be for illegitimate reasons, someone might for example be active in trade but want to keep this private for reputational reasons. Fourthly, and lastly, tax havens can be used for people who want to do their business cheaply as they can avoid the costly regulations that apply at home (Murphy, 2011, p. 21).

The Netherlands are a clear example of a tax haven that illustrates how the definition by the OECD is lacking because of its restrictive nature. Generally when people think of offshore tax havens The Netherlands would not be the first place that would come to their mind. Tax havens are generally assumed to be located closer to the equator in the region of developing countries, somewhere where the ideal of good governance with transparency and effective democracy is not fully realised. But is the Netherlands really a tax haven? The country itself denies this, although they do agree that the jurisdiction offers an attractive fiscal climate.

When the Netherlands were tested by the definition of the OECD of a tax haven they officially were only found guilty of the last qualification, caused by the great amount of letterbox companies³ present in the country (Oxfam Novib, 2016). However, when the four primary usages listed by Murphy are applied to the Dutch jurisdiction, it is easily recognized as a full-functioning tax haven. It applies for the first function as it can be used by companies to reduce their tax liability over interest, royalties, dividends and capital gains income. In addition, the Netherlands are non-transparent about who actually own the companies registered in the country and therefore the second and third usage of tax havens apply as well. Lastly the Dutch letterbox companies make up a very easy method to register a company in the Netherlands without any costs, making the fourth possible usage of tax havens applicable as well (Van Dijk et al., 2006, p. 61).

The Netherlands has been detected by the IMF as one of the largest tax havens in Europe because of the disproportionate foreign direct investments to the country compared to its Gross Domestic Product. Still, the country appears to be free of charge of three of the four nominators by the OECD on the surface. This case shows that a very

³ A letterbox company is a business that is registered offshore with just a mailing address while conducting its commercial activities in other jurisdictions for the purpose of minimizing tax liability (Business Dictionary, 2016).

clear, normative definition of a tax haven can exclude jurisdictions that are actually effective tax havens. Instead a more open concept of tax havens can be helpful, when combined with thorough, qualitative research.

4. TAX HAVENS AS THE PRODUCT OF INTERNATIONAL TAX LEGISLATION

Tax havens were originally created as an economic solution to the problem of double taxation. As businesses and trade globalized, international companies were confronted with the dilemma of paying taxes to each of the countries they were registered in. In order to avoid the doubling up of taxes special jurisdictions were created where international companies could operate without extra tax liability (The tax free tour, 2013).

Currently tax havens are one of the main methods for international businesses and wealthy individuals to avoid, or evade, taxes. As business intelligence investigator William Brittain-Catlin claims, the offshore tax havens are a completely integrated component of the mainstream economic system (The tax free tour, 2013). Several factors contribute to the existence and preservation of tax havens. This chapter will demonstrate how a lack of coherent, global tax legislation is a beneficial factor for the existence of tax havens. Subsequently other contributing factors of the global system will be named, such as free movement of financial capital and our globalized free trade. Afterwards the reasons why a country would transform into a tax haven will be analysed.

One of the most important aspects of the international tax system is that there exists no such thing. Tax legislation is state determined and therefore each country has different tax legislation and tax rates may differ greatly. An example is the effective corporate tax rate in Ireland, the Netherlands and the United States. In Ireland this is 12.5%, in the Netherlands 25% while in the United States it amounts to 39.5%. Besides basic corporate tax rates a jurisdiction might also offer specific advantageous tax rates or arrangements to businesses. This could be extra high client confidentiality, or high investor protection and personal freedom such as is the case in Ireland. An example is

the tax rate on intellectual property in the Netherlands which at the effective rate only counts 5% (Evers et al., 2016, p. 506).

The differentiating tax levels between states result in intense competition, which is spurred on by globalization and the ever increasing mobility of financial capital. In addition, states themselves want to attract international businesses. It is assumed that international businesses contribute to a states' economic growth. Firstly because they will provide an inflow of human and financial capital, jobs and technology. Besides that they would open doors for local companies to the international market and thereby establish and maintain a position for states in the global trade. Governments are afraid that if their jurisdictions are unattractive to international businesses, international companies will leave their country and they would miss out on the advantages mentioned above. Ultimately governments fear losing, or failing to establish, their role in the international trade and suffer of economic recession as a result (The tax free tour, 2013).

Extreme examples of this are often found in developing countries⁴. In many states in Africa special economic export zones have been created by the government that offer extremely favourable tax regulation to foreign companies. In economic export zones in Kenya foreign businesses do not need to pay taxes during the first 10 years of their settlement. The government believes they need such regulations in order to attract international businesses and hopes to profit from the positive effects listed above as well as a stable contribution to the state's revenue after ten years (The tax free tour, 2013).

From a more critical perspective it is also noted that governments are under pressure from the international businesses to lower their taxes. Richard Murphy points out that political parties claiming they will raise their taxes, often face pressure of multinational companies saying they will move their business elsewhere (The tax free tour, 2013). In addition, William Brittain-Catlin argues that accountants, professionalized in the minimization of taxes, are often closely linked to bodies that

⁴ Whether the term developing country is a proper term to use is a highly debated topic. For lack of a better term however, it is here used to refer to a state with a population with lower life expectancy, less education and generally lower incomes.

design and regulate the legislation on corporate taxes. This results in a legislation that in certain ways is beneficial to accountants who aim to avoid taxes (The tax free tour, 2013).

As a result of the differentiating tax legislation, liberal trade, globalization and expected effects, pressure and influence of international companies, governments are constantly in a competition to be the most attractive for businesses to settle. They fight this battle through tax legislation. Some countries maintain low tax rates while others offer advantageous offers such as high levels of secrecy or extremely lenient corporate regulation. This has resulted in a corporate tax "race to the bottom" creating new, as well as maintaining old, tax havens which are the most attractive zones for international businesses.

5. THE FUNCTIONING OF TAX HAVENS

No jurisdiction is the same and therefore all havens function differently. Nonetheless there are some basic principles to how each tax haven functions and is used. The most common approaches, actors and tools that are important to tax havens will be explained here and exemplified through the case of the multinational Apple Inc.

Apple earned in 2012 a gross income of 6 billion dollars, over which they only paid a total effective tax of 1.9% to the United States. While, as has been mentioned earlier, the effective tax rate of the United States is 35%. They achieved this low tax rate through a carefully created corporate structure which entails a hierarchy of subsidiary companies registered in various tax havens. These structures, also called tax strategies, are nothing new and are employed by all international businesses which use tax havens to minimize their tax liability. In reality firms do not register in one singular tax haven but instead register their assets through multiple subsidiary companies in various tax havens to minimize taxes as much as possible (The tax free tour, 2013).

Apple is considered a pioneer in the specific tax route called "Double Irish with a Dutch Sandwich". Instead of sending their foreign profit straight to the United States, Apple sends it first to a subsidiary company in Ireland where the effective rate is only

12.5 percent. But because of a gap in the Irish law a company with managers situated outside of Ireland can send the profits through Europe tax free. From Ireland they first send the money to the Netherlands, where they only need to pay an effective tax of 1.5% for their intellectual property. Then they return the money to another subsidiary company in Ireland before they move it to the British Virgin Islands where the effective corporate tax rate is 0% (The tax free tour, 2013; Duhigg & Kocieniewski, 2012, p. 8).

To orchestrate such complex systems several different actors come in to help. First are the accounting firms. Accountants help companies decide what will be the most advantageous locations for their company to register, or more correctly which structure of geographically spread out companies is most advantageous. Additionally there exist Corporate Service Providers, such as Mossack Fonseca, which can incorporate companies and function as their registered agent. As registered agent they can carry out management tasks on behalf of the company (The tax free tour, 2013).

Furthermore, there are means which help companies to relocate their assets and to hide the connections to the origins. First of all companies can register assets offshore through subsidiary companies. These companies generally are not actively managing themselves but are instead fully controlled by their parent company. Often they carry a completely different name and relations to their parent company can be camouflaged as much as possible. Terms such as shell companies or letterbox companies are usually applied for these offshore entities, implying that the companies are actually empty, as a shell, or just a post-box address in an offshore jurisdiction, instead of a fully functioning company. To strengthen the disguise of the origins of money, such subsidiary companies are often anonymous, meaning that the identity of the director is concealed. This is mainly achieved through confidentiality agreements (The tax free tour, 2013).

This results in complex, non-transparent flows of money through numerous places of which no benefits are experienced locally. An example of this is the annual FDI flowing through the Netherlands which amounts to 11 trillion. That is twenty times the GDP of the country, but it is barely noticeable in the Dutch economy. Another result is that money is stored away in tax havens. The reason for this is that when shareholders

would collect the money, it needs to pass through the parent company, obliging the owner to pay the initial amount of income tax over it. Therefore a major share of the money in offshore tax havens sits still there.

6. THE EFFECT OF OFFSHORE TAX HAVENS

This leads us to the last question of this paper: what effect do offshore tax havens actually have? As has been described in the fourth chapter of this paper, tax havens are perceived as means for governments to acquire economic growth and improve their role in the global trade. However, in reality attractive tax rates and compliant corporate regulation do not necessarily bring these positive effects. In the economic zones in Kenya for example, companies move after ten years or change their director because this allows them another tax-free period of ten years. Consequently these arrangements result in exploitation, instead of causing economic growth and creating a stable contribution to the state's revenue after the first ten years.

Meanwhile the Kenyan government does need its collection of taxes to fund the states revenue. As a consequence they have to look for the money elsewhere and often, especially in the African continent, governments focus on VAT. Consequentially, consumers are mainly paying for the state's revenue (The tax free tour, 2013). Instead of distributing the costs evenly, and letting the wealthier carry greater tax liability, it is the poorer layer of society that has to finance the state's revenue.

This is one specific example but these tax free zones are a reality in more than half of the African countries (The tax free tour, 2013). A critique on this assessment can be that the negative outcomes of the economic zones in Kenya is to blame on the economic and political situation of the state. Of course Kenya's situation cannot be understood detached from its economic and political context. However, undesired outcomes are not only to be found in offshore zones situated in developing countries. Another example of undesired outcomes of being a tax haven is The Netherlands. Their system of innovation box offices appears not be effective in its fundamental objective

of stimulating innovation. Still the Netherlands maintain this system because of the fear that companies right now registered there will otherwise leave (Oxfam Novib, 2016).

So it appears that tax havens contradict the basic principles and aims of the tax system. The costs for public necessities are not equally divided over the population, with a larger burden on the citizens which have the wealth to carry it. Instead tax havens allow the wealthy to avoid paying their share while leaving the burden to the poorer layers of the population, effectively increasing inequality.

In an extremer sense, tax havens also allow for criminal activities through secrecy and non-transparency. The high levels of confidentiality offered by tax havens combined with the complex tax routes that companies create a non-transparent system. This opens up possibilities to illegal activities such as money laundering and illegal evasion of taxes (The tax free tour, 2013). This does not mean that every company registered in offshore havens is guilty of such activities. However, tax havens and the current tax system offer the option because the lack of transparency leaves tax agents and the law incapable to entirely control offshore account holders.

It is hard, or rather impossible, to determine an exact amount of taxes that governments annually miss out on. Especially since the exact numbers on the money parked in offshore havens are unknown. However, economist, lawyer and investigative journalist James S. Henry has been the first to try and quantify the size of the offshore industry. After in-depth research he made the careful conclusion that in 2010 offshore financial assets amount to 22 to 31 trillion dollars (Henry, 2012, p. 36). This means that this amount of money is stored away in offshore havens, instead of circulating in the public economy.

Economist Richard Murphy adds that this results in shares that are valued in their offshore, non-taxed form. Shareholders believe they own assets of a certain value while actually when they would collect that value, and taxes are payed over it, the share price would decrease substantially. This results in severe market distortions as well as a loss of government revenue (The tax free tour, 2013).

Ironically, offshore tax centres actually lend money to governments to pay for their deficits. Deficits caused by the inability of governments to collect taxes from

companies, as they are hiding their money in offshore tax havens, which in return gives offshore tax havens the ability to actually lend the money to those governments. As a result companies are lending governments the money which they should actually pay to them (The tax free tour, 2013).

7. CONCLUSION

Offshore tax havens are a logical product of the current international tax system. The lack of a universal, coherent tax legislation led to diverse tax jurisdictions and a competition between states to be the most attractive for international businesses resulted in a "tax race to the bottom". This process has been creating, and maintaining, tax havens.

Tax havens enable large companies and wealthy individuals to avoid taxes and thereby cause a loss in governmental revenue. As a result the poorer layers of the population carry a greater burden of tax liability and governments suffer deficits. In this sense tax havens counteract the basic principles of the taxation system.

This effect is increased due to the fact that money harboured in tax havens often sits still instead of being paid in taxes and circulating in the public economy. Ironically entities in offshore havens now function as money granters to governments that are suffering deficits because of unpaid taxes. The function of offshore entities as money granters, combined with the fear of losing them, makes governments more inclined to create lenient jurisdictions and function as a tax haven.

The high levels of confidentiality that the offshore industry offers results in a lack of power of tax agents and bodies of the law to control companies. This enables international businesses to go possibly further than legal tax avoidance and take part in criminal activities such as money laundering or tax evasion without being checked. In this way, tax havens further enable companies to move outside the restrictions of the tax law and the government.

This process is reinforced by the vague legal line that is drawn between tax avoidance and evasion. Since tax avoidance is legal, there stands nothing in the way of

companies to create complex tax routes through different tax havens to minimize their taxes as much as possible. Ethically this is no different from tax evasion and in the end it is hard to distinguish between legal and illegal tax non-compliance, making it harder to catch companies when they are active in tax evasion.

Thus, offshore tax havens exist as a logical result of the incoherence of tax jurisdictions and the dubious laws concerning tax-noncompliance. Meanwhile they have become a conventional way for international businesses to trade and store money. As such the offshore industry has become a completely integrated component of mainstream economy. At the same time the offshore industry counteracts to the aims and basic principles of the international tax system. Therefore the exact role that the offshore industry plays within the international tax system is extremely contradictory.

Whether the situation regarding tax havens will improve in the future is unclear. However, the current lawsuit against Apple Inc. and Ireland gives confidence. Furthermore, the amount of research on the topic has been growing and awareness of tax havens is increasing. Hopefully this paper fulfils its purpose of providing a clear but critical overview of the topic and will thereby be a useful addition to the already existent literature.

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