



The Rise of Tax Havens and Conduit Countries from the Early 2000s

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One of the oldest examples of a tax haven is Switzerland, which was so classed even before the First World War (Guex 2021). Since that time, more and more countries have been labelled as tax havens because it is possible to hide (or to store if you prefer) personal wealth in these countries. Zucman (2015) estimates that about 7800 billion US dollars is hidden in tax havens, totalling 8% of all financial wealth.

The role of tax havens in corporate income tax avoidance is more recent. In academic literature, Hines and Rice (1994) were the first to

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quantitatively assess the role of tax havens by measuring the size of the overseas profits of American multinationals. These authors also identified countries as tax havens, and since then, various tax havens lists have been published. The emerging literature on tax havens focuses on the motives of countries to become either a tax haven or a conduit (Mintz 2004; Dharmapala and Hines 2009), the role of tax havens in corporate tax avoidance (Hines 2010; Zucman 2014), and the effects on global and national welfare (Suarez Serrato 2019; Dharmapala 2020). Another strand of the literature discusses the policies that are available to combat the use of tax havens. Examples of these include the effectiveness of information exchange agreements (Kemne et al. 2017), the effects of the common reporting standard (Casi et al. 2020), and the proposal for worldwide property registers (Zucman 2015).

In this chapter I focus on the development of corporate tax havens in the first two decades of the twenty-first century. There are three reasons to do so. First, the academic literature and media stories suggest that corporate income tax avoidance has become more important in recent decades, and I want to verify whether this is indeed the case. The second reason is that I want to illustrate this possible development with data, and most of these data are not available for earlier years. Third, nowadays there is an intense debate on measures against corporate income tax avoidance. The developments identified in this chapter could be useful factual information, assisting in this debate.

The main question is whether the role of corporate tax havens has increased recently. Lane and Milesi-Ferretti (2018) conclude that the role of offshore financial centres (OFCs) in the network of international portfolio flows has become larger. OFCs are quite often tax havens, but the larger OFCs, like Hong Kong, Luxembourg, and Singapore, are not traditional small island economies. These are larger economies and are well-integrated into the world economy.

Due to the heterogeneity of OFCs and tax havens, it makes sense to discriminate between both groups. Following my earlier research (Lejour 2021) I distinguish between traditional tax havens and conduit countries. Conduit countries facilitate the passthrough of financial flows composed of foreign direct investment in one direction and the taxable returns on these investments in the other direction. Multinationals often motivate

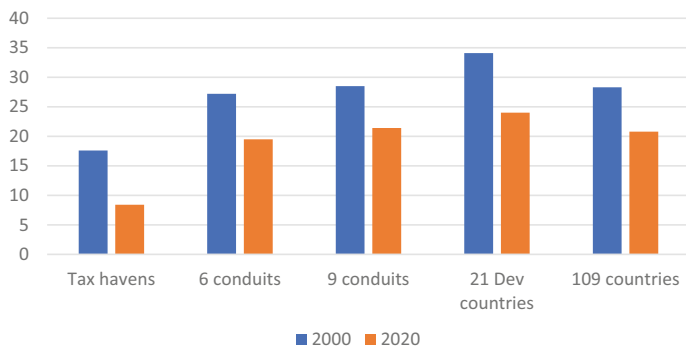


Fig. 7.1 Average statutory tax rates for selected country groups in 2000 and 2020 (*Source* OECD tax database. Averages are unweighted)

this passthrough by the tax savings they can obtain.¹ Section “[Characteristics of Corporate Tax Havens and Conduit Countries](#)” provides more details on the different characteristics.

In answering the main research question, I check the development of corporate income taxes over time. Statutory tax rates have decreased by about eight percentage points between 2000 and 2020. This figure is an average of the rates of 109 countries, as can be seen in Fig. 7.1. However, there are no systematic differences between developed countries, conduit countries, and tax havens. Withholding taxes has been barely reduced at the national level, but in some new bilateral tax treaties, countries have agreed on lower tax rates. On the other hand, more countries have implemented controlled foreign company (CFC) rules such that the profits of a multinational in low-tax countries can be taxed in the residence country. Taking all these developments together, the tax burden on incoming and outgoing dividends decreased somewhat between 2009 and 2017, but this decrease is not substantive (Lejour et al. 2021).

I identify other different developments that affect the attractiveness of tax havens. First, various large countries have changed their corporate

¹ Bolwijn et al. (2018), Garcia-Bernardo et al. (2017), and Van ‘t Riet and Lejour (2018) have recently identified the most important conduit countries. These are countries with high, relatively large inward and outward foreign direct investment (FDI) positions compared to GDP. IMF and the United Nations Conference on Trade and Development (UNCTAD) also label most of these countries as investment hubs.

income tax system from a residential to a territorial system. Examples of these are Japan, the UK, and the US. In a territorial system it is more beneficial for multinationals to locate profits in low-tax countries. This development could stimulate corporate tax avoidance. Second, tax havens seem to cooperate better when information requests are made by other countries for taxpayer information. Many information exchange agreements have been negotiated. Also, bank secrecy rules have been lifted in various countries, quite often because of outside pressure. These developments could reduce the attractiveness of tax havens. On the other hand, globalisation and digitalisation facilitate the shifting of profits to tax havens. Due to digitalisation, the link between production and location is less identifiable/visible.

The proof of the pudding is in the eating. Ideally, one would analyse taxable international income flows. There are global databases containing information on the international remunerations for intellectual property rights between countries, but not for international dividend and interest flows. However, dividends and interest are the remunerations of invested equity and debt, that is to say foreign direct investment (FDI). Because it is reasonable to assume that the size of FDI and their returns are positively correlated, I track the international FDI positions over time as proxy for intrafirm dividends and interest. FDI has grown much faster than GDP, and the role of conduit countries and tax havens in these FDI positions has increased. This points to a more extended use of tax planning strategies by multinationals through the international restructuring of FDI flows. This confirms the conclusions of Lane and Milesi-Ferreti (2018) on portfolio flows.

Although we miss some direct indicators to conclude whether instances of corporate income tax avoidance have risen through the increased use of tax havens, the available indicators point to this being indeed the case. This does not imply that existing anti-tax avoidance measures are ineffective. We must be aware that many proposed measures in the base erosion and profit shifting (BEPS) reports have only been implemented recently in law. In the autumn of 2021, 137 members of the OECD and the Inclusive Framework agreed on a minimum tax of 15% on profits in every country, and to allocate a share of the excessive profits of big multinationals to market jurisdictions (OECD 2021). Even many tax havens have agreed on these outcomes, although some of them only agreed after certain concessions. This could have a substantial impact on the position of various tax havens in the global network of international financial flows, and could

reduce their role in corporate income tax avoidance. The impact will also depend on the non-tax characteristics that make countries attractive as tax havens.

Section “[Characteristics of Corporate Tax Havens and Conduit Countries](#)” presents the different characteristics of tax havens and conduit countries. Section “[Recent Developments](#)” identifies the development of tax policies over the last two decades. Because these outcomes are inconclusive with respect to the role of tax havens and conduit countries, Section “[The Proof of the Pudding is in the Eating Conclusions](#)” tracks the development of international capital flows. Section “[Conclusions](#)” concludes and discusses various policy options.

CHARACTERISTICS OF CORPORATE TAX HAVENS AND CONDUIT COUNTRIES

The phrase tax haven covers various notions, and various classifications of tax havens (Palan et al. 2010). Despite these differences, three characteristics seem to stand out (OECD 1998). First, the jurisdiction levies no, or effectively low, taxes on income. A high or normal statutory rate is of little consequence when the tax code contains all sorts of tax-reducing exceptions. Second, the tax code of the jurisdiction may lack transparency, or could even guarantee secrecy of the ultimate owner. Third, the jurisdiction is normally not cooperative in supplying information on foreign taxpayers, even at the request of other tax authorities. Consequently, individuals and firms may deliberately keep income and wealth hidden in these jurisdictions.

The academic literature is quite pragmatic in using definitions and country lists of tax havens (Dharmapala 2020). Most lists are based on the original list of Hines and Rice (1994) and its update in the work of Dharmapala and Hines (2009).² From the US statistics, it appears that American multinationals have large overseas profits in Bermuda, Caribbean tax havens (including the British Virgin Islands and the Cayman Islands), Ireland, Luxembourg, the Netherlands, Singapore, and Switzerland. This is an argument to classify these countries as the largest

² See also the overview of Gravelle (2015).

tax havens in this literature. These countries are also often labelled as offshore financial centres (Lane and Milesi-Ferretti 2018).³

Some of the largest OFCs, such as Ireland, Luxembourg, the Netherlands, and Switzerland, have higher corporate income tax rates than those of typical low-tax jurisdictions, but are characterised so because of the large financial flows passing through their jurisdictions. The large OFCs also differ from traditional tax havens because the latter are often small and do not have diversified economies. Being a tax haven is thus a way to develop an economy with a large financial sector (Dharmapala and Hines 2009).

Lejour (2021) labels these large OFCs as conduit countries, based on earlier literature. Garcia-Bernardo et al. (2017) define conduit OFCs as countries that facilitate the movement of capital between other OFCs and other countries. Using firm-level data, Garcia-Bernardo et al. (2017) classify Ireland, the Netherlands, Singapore, Switzerland, and the UK as conduit OFCs. Using a less strict definition, Cyprus, Hong Kong, and Luxembourg also fall into this category. Van 't Riet and Lejour (2018) classify the UK, Luxembourg, and the Netherlands as the most important conduit countries in a network analysis of international corporate taxation.

It is important to distinguish conduit countries from traditional tax havens, because the jurisdictions in both groups have different economic, institutional, and tax characteristics. Due to these differences, anti-BEPS measures also have to be different. Section “Conclusions” discusses this in more detail. This does not imply that conduit countries should not be labelled as tax havens, but that we should be aware of the differences. In this paper I follow my earlier classifications (Lejour 2021). The strictest one consists of Hong Kong, Ireland, Luxembourg, the Netherlands, Singapore, and Switzerland as conduit countries. A less strict definition also includes Cyprus, Malta, and the UK.⁴

³ See Blouin and Robinson (2019), Clausing (2016), Dharmapala (2020), Tørsløv et al. (2020), and Zucman (2014).

⁴ Lejour (2021) also defines a broader category that includes Austria, Belgium, and Hungary. However, this has hardly any impact on the outcomes compared to the less strict definition, and will be ignored here.

As tax havens, conduit countries have highly developed legal systems that facilitate the needs of multinational corporations (Mintz 2004; Garcia-Bernardo et al. 2017). Sometimes these countries also have bank secrecy rules, like Switzerland. Different from traditional tax havens, conduits play a key role in the global corporate ownership network by allowing the transfer of capital without taxation (Garcia-Bernardo et al. 2017). According to Mintz (2004), these countries have equally large incoming and outgoing FDI flows. International FDI statistics show that to be indeed the case.

RECENT DEVELOPMENTS

This section analyses whether ‘tax haven’ characteristics have changed over time. Because I answer this question quantitatively, the period is limited to the years 2000 to 2020. The reason for this is that much more data have become available in this period. Moreover, this also seems the age when corporate tax avoidance has increased a lot. Still, it is hard to compare some of the tax haven characteristics mentioned in Sect. 7.2 over this period. Recently, Tax Justice (2019) has developed a corporate tax haven indicator, but this exists only for 2019 and 2021. It has also constructed a financial secrecy indicator. This indicator has existed since 2009, and Tax Justice has recently noted that this indicator shows big reforms in automatic exchange of information and beneficial ownership registration, but not in country-by-country reporting in 2020.

Since the OECD (1998) publication about harmful tax practices, various policy initiatives have been undertaken to stimulate the cooperative behaviour of tax havens. One is the promotion of bilateral exchange treaties (TIEAs) between developed countries and tax havens. In these treaties, arrangements are made for a cooperative exchange of taxpayer information. If tax havens sign a certain number of treaties, these jurisdictions would be removed from a blacklist. Hundreds of these TIEAs have been signed. Although these treaties seem to have had some effect, secrecy and uncooperative behaviour of tax havens are mainly relevant in regard to private wealth and tax evasion, and less so for corporate tax avoidance (Dharmapala 2020).

To a large extent, the tax burden determines the degree of corporate income tax avoidance. I try to measure this in various ways. I start with the development of statutory tax rates. Figure 7.1 shows that all country

groups show a clear decline in their statutory tax rates between 2000 and 2020. For the whole group of 109 countries this decline is 7.5 percentage points, the same as for the group of conduit countries. For 21 developed countries it is somewhat larger, 10.1 percentage points, and for the group of tax havens it is 9.2 percentage points. All averages are unweighted. Although at the country level the reduction of the tax rates could be larger or smaller, for the country groups I do not notice any systematic differences. I cannot conclude that tax havens and conduit countries have become more attractive based on the development of statutory corporate income tax rates.

Ideally, I want to analyse the development of effective tax rates. With the emergence of country-by-country reporting data on profits and paid taxes by country, we could expect that time series of these tax rates will be developed in the coming years. However, data have been gathered from 2016, and many of these data are not public, although they are not anonymous. So far, we only have data from 2015 to 2018, calculated by Tørsløv et al. (2020), using macroeconomic and balance of payments data. The effective rates over these few years vary substantially at the country level, but I do not find a clear pattern, including for the country groups.

Van 't Riet and Lejour (2018) have gathered details of the corporate and dividend tax systems of about one hundred countries, covering more than 95% of World GDP in 2013. Later, they have also gathered these data for 2009 and 2017. Although this is not a very long period, the outcomes in Table 7.1 show a clear pattern. Moreover, some of their indicators are quite rough, ignoring details on tax treaties, CFC rules, and double tax relief methods.

Having these caveats in mind, the use of more generous exemption methods for double taxation have increased somewhat between 2009 and 2017, suggesting less taxation in the residence country. This corresponds to the move towards territorial tax systems, as Japan, the UK, and the US have done. In these eight years, about 10 countries implemented CFC rules, such that profit income in low-tax countries would be taxed more often. Many other countries have also implemented stricter CFC rules (Dharmapala 2020), but this is not reflected in the CFC dummy in Table 7.1. Third, the average number of double tax treaties within the group of 108 countries has increased, with two treaties on average. More treaties suggest lower bilateral withholding taxes, but this outcome does not materialise in the average bilateral withholding tax on dividends. It remains constant and is about six percentage points lower than

Table 7.1 Changes in tax characteristics between 2009 and 2017 (averages for 108 countries)

	2007	2013	2017
Double tax relief method	3.17	3.22	3.29
CFC-rule dummy	0.27	0.31	0.37
Standard dividend tax	12.8%	12.7%	12.7%
Number of double tax treaties	31.4	31.8	33.2
Bilateral dividend tax	6.9%	6.9%	6.9%
CIT rate	23.5%	22.4%	22.1%
Average tax on outgoing dividend	13.3%	13.1%	12.8%
Average tax on incoming dividend	17.2%	16.6%	15.9%

Notes All numbers are unweighted averages over 108 countries used by Van 't Riet and Lejour (2018). This publication specifies the definitions and data sources of the variables. Double tax relief methods are categorised: a 4 indicates exemption, 3 tax credit, 2 deductions, and 0 no relief at all. The CFC dummy is 1, as there is a CFC rule (irrespective of its strength) and 0 otherwise. The number of double tax treaties reflects the number of treaties with the other 107 countries in the sample

the standard withholding tax rate. The sixth row in Table 7.1 confirms the decrease in statutory corporate income tax (CIT) rates. This is less pronounced than in Fig. 7.1, because the main decrease took place before the economic crisis of 2009.

As a result of all these changes in corporate income tax laws over time, the combined tax of dividend and corporate income on outgoing dividends decreases from 13.3 to 12.8%, and decreases by 1.3 percentage points on incoming dividends between 2009 and 2017. These are modest decreases in the taxation of international dividend income, but not negligible.

THE PROOF OF THE PUDDING IS IN THE EATING

Tax havens have become more transparent and more cooperative in exchanging information over time. Although this development is probably more important in regard to storing private wealth, one could expect that tax havens are also less used by multinational firms for corporate tax avoidance. This would result in less income flows (dividend, interest, and royalties) to and from these countries, and correspondingly less direct foreign investment. I will check the development of these investment

flows mainly by analysing FDI positions. Thereafter I will use statistics on international charges for intellectual property rights in order to highlight the development of international royalty flows.

I start with the FDI positions, including special purpose entities (SPEs) from the IMF CDIS database.⁵ Figure 7.2 presents the results for the twenty largest positions. It might be expected that the US, as the biggest economy in the world, has the largest outward investment positions. What is surprising are the large positions of the Netherlands, Luxembourg, Hong Kong, Switzerland, and British Virgin Islands, which all feature in the top 10. Compared to GDP, the results are even more astonishing. Lejour (2021) estimates that the global ratio of FDI positions to GDP is 41%. For Luxembourg, the British Virgin Islands, Bermuda, the Cayman Islands, and Jersey it is even more than 1000%. These large ratios imply that the amount of FDI cannot be absorbed in the economies of these tax havens and are passed through these countries. A comparison of outward and inward FDI positions suggests that to be indeed the case.⁶

Between 2009 and 2019 the ratio of global FDI positions to global GDP increased from 34 to 42%. This increase probably reflects further globalisation developments, but it could also point to increasing international tax avoidance. Figure 7.3 shows that the positions of tax havens and conduit countries increased over time (except in the UK) as a share of the total FDI stock. The British Virgin Islands and the Cayman Islands have become more important, and this is also the case for the conduit countries of Hong Kong, Ireland, and Singapore. This shift suggests a further restructuring of foreign direct investment and investment income flows to low-tax countries. Lane and Milesi-Ferretti (2018) point to a similar development with respect to portfolio investment.

The IMF statistics are based on the national accounts of their members. So, if the investment of a US multinational in Germany is structured via the Netherlands, it is reported as outward investment in the US and in the Netherlands, and as inward investment in the Netherlands and in Germany. Damgaard et al. (2019) label this as phantom investment. They

⁵ I analyse here the outward positions. The tables of top 20 countries with outward and inward positions show only minor differences between both positions (Lejour 2021).

⁶ Lejour et al. (2021) use firm-level data of SPEs in the Netherlands and conclude that large dividends and interest are royalty flows that pass these SPEs from one country to another.

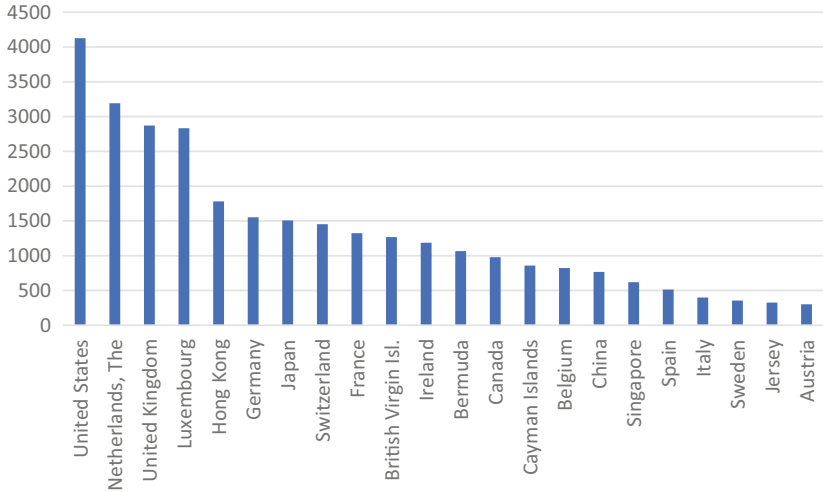


Fig. 7.2 The size of outward FDI positions in 2018 (billion US dollars) (*Source* IMF CDIS database)

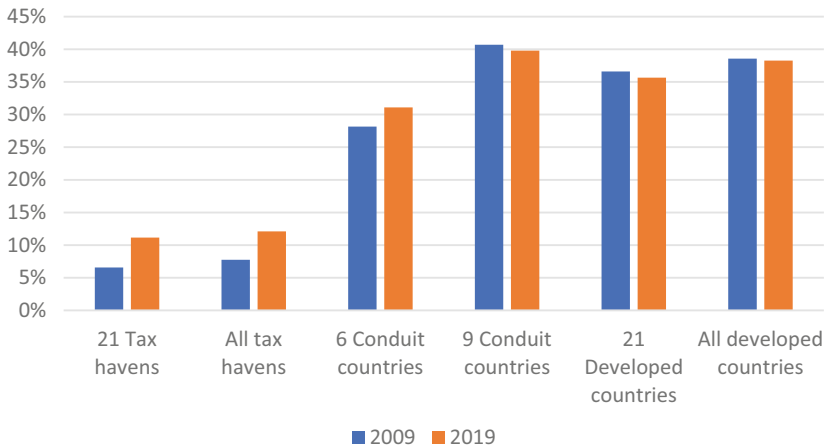


Fig. 7.3 The shares of country groups in foreign direct investment positions, 2009 and 2019 (*Source* IMF CDIS database)

conclude that about 38% of global FDI is phantom (or double counted) in 2017, rising from 30% in 2009. This estimate shows that a large share of the rise in FDI in the last decade is not real, but phantom FDI.

Comparing the numbers of Damgaard et al. (2019) to the self-reported numbers of Luxembourg and the Netherlands on SPE shares suggests that the percentage of 38% phantom FDI in 2017 is probably even a lower bound. Bolwijn et al. (2018) conclude that half to even two-thirds of the global FDI stock is related to conduit countries and tax havens. This is not all double counted, but for a large share it will be the case. As regards what the exact number might be, the numbers show that conduit countries and several tax havens play a crucial role in the global FDI network, and that this role has increased over the last decade.

A related fact is the rise of international payments for the use of intellectual property (IP) rights. The numbers in Fig. 7.4 include intra and interfirm payments and receipts, aggregated over all countries. Intrafirm payments could indicate tax avoidance because intellectual property rights are shifted to low-tax countries. Figure 7.4 shows that these payments have increased substantially in recent decades, by about 10% per year on average. Only in 2020 the numbers did not rise, which could imply that this trend has come to an end, at least temporarily. The annual increases in these payments outpaced the annual increases in global GDP by far. This is closely related to the rise of the big tech firms, with all their intangibles, and the digitalisation of the economy, and we know that many of these big tech firms have located their IP rights in tax havens.

There is also other evidence that points towards increased corporate income tax avoidance. Profit shifting has become more sensitive to differences in corporate tax rates. Beer et al. (2020) suggest that, on average, a one percentage point lower corporate tax rate will raise before-tax profit income by 1%, based on a meta-analysis of the empirical literature on profit shifting. They also conclude that this elasticity has increased over time: from 0.60 in 1990 to 1.5 in 2015. Although these calculations are mechanically derived by adding the coefficient of the year times the number of years to the overall elasticity, it still suggests a substantial increase.

In recent decades, international capital flows seem to have been more and more structured, in such a way that corporate income taxes could be avoided to some extent. This raises the net profits of multinationals, but national governments lose tax revenues. These are serious amounts. The

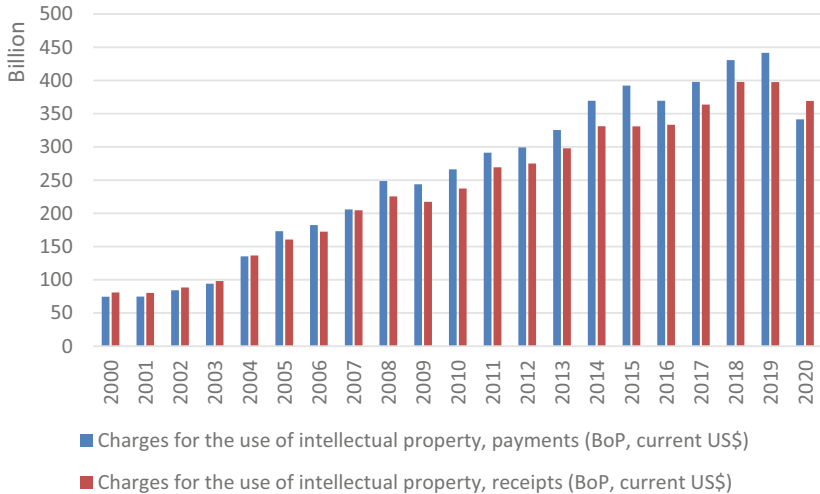


Fig. 7.4 International payments for the use of intellectual property (IP) rights (Source World Development Indicators from the World Bank)

estimates on the global revenue losses of corporate tax income avoidance range from 50 to 280 billion US dollars each year. 150 billion is about the average of these estimates (Lejour 2021). These estimates are mainly based on quantifying the missed corporate tax revenues from two tax avoidance mechanisms: transfer pricing and debt shifting. These are not the only strategies used to avoid corporate taxation (Beer et al. 2020). Lejour (2021) also adds the tax revenues losses due to treaty shopping, which avoids paying withholding taxes. Then the total revenue losses amount to 188 billion US dollars.

The large, developed countries are the main losers in absolute terms. Taking account of both their large share in the world economy of 64% and the average CIT rate, these countries seem to lose about 138 billion dollars (see Column (3) of Table 7.2). The main loser is the US, which is also confirmed by other studies (Clausing 2016; Tørsløv et al. 2020). The possible revenue losses for tax havens are negligible. Columns (4) to (7) of Table 7.2 try to estimate the role of tax havens and conduit countries in treaty shopping and profit shifting (transfer pricing and debt shifting). Treaty shopping is closely related to the FDI positions of special purpose entities (SPEs). These holdings are mainly established to enable

the passthrough of financial flows, and are most prevalent in conduit countries, and thus these countries are mostly involved in treaty shopping. However, treaty shopping also occurs between other developed countries. The developed countries and tax havens are more involved in other profit shifting techniques. In conclusion, a large share of profit shifting revenue losses can be linked to conduit countries, but to other developed countries as well.

Tørsløv et al. (2020) calculate the missing profits and the corresponding corporate tax revenues by country for 2015. They mainly use national accounts, foreign affiliate statistics, and balance of payments data to estimate profit shifting for about 80 countries in the world, covering more than 90% of GDP. Tørsløv et al. (2021) compare the outcomes from 2015 to 2018. According to their figures, corporate profit shifting increased from about 616 to 946 billion dollars in 2018. 36% of all foreign profits is in tax havens, mainly from royalty payments, management fees, and interest payments. According to Fig. 7.4, international royalty payments have indeed increased by 50 billion US dollars in these three years. The tax revenue losses also increased, but are still about 9% of total corporate income tax revenues.

These outcomes suggest that the amount of profit shifting and tax avoidance has increased between 2015 and 2018. To a large extent this is due to the rising profitability of multinationals in these years. The share of shifted foreign profits has hardly increased. From this perspective, the

Table 7.2 Impact of tax havens and conduit countries on tax avoidance

	<i>GDP</i>	<i>CIT</i>	<i>National</i>	<i>FDI-SPE</i>	<i>Treaty</i>	<i>FDI</i>	<i>Profit</i>
		<i>rate</i>	<i>revenue</i>	<i>stock</i>	<i>shopping</i>	<i>non-SPE</i>	<i>shifting</i>
			<i>loss</i>			<i>stock</i>	
Column	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Allocation			(1)*(2) ² 188		(4)*38		(6)*150
Unit	%	%	Bln \$	%	Bln \$	%	Bln \$
21 tax havens	0.30	8.48	0.20	5.46	2.08	11.04	16.56
6 conduits	3.33	20.22	2.80	48.39	18.39	18.94	28.41
9 conduits	6.76	21.31	6.34	57.07	21.69	31.75	47.62
21 developed	64.39	25.92	138.41	25.27	9.60	39.51	59.27

Source Lejour (2021)

effects of corporate tax avoidance strategies seem not to have accelerated over the last few years.

CONCLUSIONS

Despite a rising awareness by the public and policy makers on corporate income tax avoidance strategies, the role of tax havens and conduit countries seems to have increased over recent decades, at least as measured by their share in global FDI positions. Lane and Milesi-Ferretti (2018) conclude that this is also the case for portfolio investment, and the steep rise of international payments on intellectual property rights points in the same direction. Damgaard et al. (2019) conclude that the double counting of FDI positions is increasing, suggesting that FDI passes through, on average, more (conduit) countries before it is finally invested in the host country. Although statutory tax rates have been lowered substantially since 2000 and bilateral withholding taxes have decreased somewhat, the lower tax rates and the changes in other tax rules do not seem to be the main drivers for the larger role of tax havens in the world economy. This role has probably been increased by the further rise of globalisation and digitalisation, making it easier to shift profits between countries. In particular, the new and large tech companies seem to use quite aggressive tax planning strategies. These multinationals earn large monopoly profits, and a large part of these profits is shifted to tax havens.

Dharmapala (2020) concludes that more countries have used CFC rules and thin capitalisation rules over recent decades, and illustrates that these anti-tax avoidance rules are to some extent effective. However, the effects seem to be meagre from a global perspective. There are various reasons for this. First, many countries still do not use CFC rules or have relatively lax rules. Second, CFC rules are mainly directed towards traditional tax havens and not to conduit countries, because the latter have relatively high statutory CIT rates. These conduit countries are the ones that play a major role in the structuring of international capital flows.

In recent years, countries have implemented more anti-BEPS measures following the BEPS-action points from 2015 (OECD 2015). One example is the anti-tax avoidance directive of the EU. This is an earning stripping measure, such that the deduction of interest costs from firm profits is limited. Also, the anti-abuse measures in double tax treaties are strengthened by principal purpose tests and the multilateral instrument.

However, it is still too early to conclude whether these measures are effective, because they have only recently been implemented, and the relevant data only became public after a few years.

Even if these measures are effective, they will not eliminate corporate tax avoidance, probably not even reduce it to a large extent. This suggests that new measures are necessary, such as the minimum taxation proposed in the BEPS 2.0 negotiations. This measure could be powerful, because it also includes a mechanism whereby other countries can tax profits in low-tax countries. That should guarantee a minimum level of corporate income taxation worldwide, even if not all tax havens will levy a corporate income tax themselves.

Although international cooperation is the preferred option, countries could also take more stringent measures themselves. The question is whether countries have the incentive to do so. Dharmapala (2020) signals a collective action problem for imposing national anti-BEPS measures, and notices that certain countries benefit from tax havens such that they are not always willing to implement these measures. A lower corporate tax burden for multinational firms could stimulate investment and even employment at home. Suarez Serrato (2019) shows that measures against the use of Puerto Rico as a tax haven reduced the investment and employment of multinationals in the US.

If countries take unilateral actions, one could think of a stricter use of participation exemption and stricter CFC rules, minimum rates on withholding taxes (dividend, interest, royalties), and a stricter limitation of benefits in tax treaties. Countries should target their measures to conduit countries, because their role in restructuring international financial flows is still increasing.

Another road is more transparency. The publication of country-by-country reporting of profits and tax payments should be stimulated further, so that it becomes clear where multinationals earn their income, and what amount of taxes they pay in these countries. An increasing number of multinationals publish these data already, but many still have not. More public information on tax planning strategies could also help, such that public opinion could steer multinationals towards less aggressive tax planning strategies.

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