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Progress report

Financial Geography I: Geographies of Tax

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Abstract

Taxation in general and tax evasion in particular are inherently geographical in nature but only a small number of geographers have focused on them. In this progress report I present geographers' research on offshore financial centres alongside the work of researchers from other disciplines to present an overview of what we know about the geographies of tax evasion and avoidance. It is argued that not only much regulatory work but also much research remains to be done on tax havens.

Keywords

offshore financial centre, taxation, tax avoidance, tax evasion, tax haven, economic geography, political geography

I Introduction

Since 1995 this journal has printed three series of *progress reports* on the geographies of money and finance. My progress reports will focus less on the geographies of money and finance and more on financial geographies of other themes. This denotes a shift from money and finance as an object of geographical analysis to finance as a lens through which one can look at other issues. This shift is embedded in an understanding of financial geography not merely as a sub-sub-discipline of economic geography, but as an approach couched in and relevant to virtually all sub-disciplines of human geography: economic, political, urban, historical, social and cultural, and related to other intersectional lenses such as development, global and legal geographies. In particular, it acknowledges the roots of financial geography in not only economic but also political and urban geography (Aalbers, 2015). Furthermore, in these progress reports I have and will include references to work from non-geographers that I consider relevant to that of (financial) geographers. To put it differently, rather than highlighting geographers' work on the financial industry, one of my goals here is to explore the boundaries/frontiers of financial geography.

Classical social science texts such as *The Communist Manifesto* (Marx and Engels, 1848) and *Wirtschaft und Gesellschaft* (Weber, 1922) describe taxation "as one of the most important factors that can impede capitalist economic development and the reproduction of class inequality" (Martin and Prasad, 2014: 332). Schumpeter, Elias, Bourdieu and Simmel, among others, also reflected on the significance of taxation. Yet, one cannot say that taxation is central to contemporary social science. In human geography, issues around taxation "tend to

recede into the background behind debates of more immediate practical concern such as geographies of welfare, poverty, cities, economies, regionalism, money, law and so on” (Cameron, 2006, 239).

The interest of geographers in taxation is of recent date and is embedded not only in a wider geographical perspective but also in the larger political economy literature on taxes. Wainwright and Rodgers (2013: 1009) describe the spaces of tax as a surprising research gap “as analyses of tax systems are integral to contemporary academic debates regarding economic growth, income inequality, and social justice.” Wójcik and Boote (2011: 756) call upon “Economic geographers [to] play a role in the struggle to further the insights into tax havens and secrecy jurisdictions.” Roberts (1994, 1995, 1999) and Hudson (1998a, 1998b, 2000) were ‘early’ exceptions by demonstrating how tax havens were redefining the meanings of citizenship, place and politics as well as how tax havens are constructed through ‘reputation work’ that enable them to regulate flows of money outside traditional territorial, sovereign boundaries. Cameron (2008: 147) has argued that “contrary to the rhetoric of ‘fiscal sovereignty’ ... fiscal states are continuously displaced.” Van Hulten (2012: 235), on the other hand, suggests that “global capitalism is not an exogenous force that ‘happens’ to nation-states” and that powerful states can develop strategies to put pressure on tax havens.

There are many times and places that are central to the history and geography of both finance and taxes. One crucial insight from these studies is the co-development of coins and taxes in the Axial Age (800-200BC). Graeber (2011) speaks of a ‘military–coinage–slave complex’, enforced by mercenary armies that plundered cities and took people as slaves to work in the Mediterranean. But it also led to the rise of coins to pay soldiers and the obligation to pay taxes with these coins. The inability to pay taxes resulted in debt and possibly in slavery. In a way, material money was invented as a means of exchange to facilitate taxes, which were invented to facilitate statehood and state expansion. Indeed, the origins of the state monopoly on violence (or, on the legitimate use of physical force) are tied directly to the origins of the state’s fiscal and legal capacities.

Fiscal capacity is the state's investment in "state structures—including monitoring, administration, and compliance through such things as training tax inspectors and running the revenue service efficiently" (Besley and Persson, 2013). The fiscal capacity allows the state to collect taxes to provide public (and in some cases also private) goods. But the state needs forms of coercion to enable to collection of taxes and this is where both the legal capacities and the monopoly on violence matter. In other words, taxation is needed to enable the monopoly on violence, which in return is supposed to guarantee the collection of taxes: “war leaders were also tax collectors” (Roitman, 2005: 123). Where state capacities are poorly developed, there typically are competing agents who try to establish legitimacy by enforcing taxes and exerting violence. These could be poorly developed state agents but also criminal organizations like the Sicilian Mafia who originated as protection rackets in the 19th century black markets that lacked trust between counter-parties. In this sense, the original Mafiosi were as much tax collectors as market makers. Tax is an essential tool to ensure demand for a currency (cf. Graeber, 2011). In this way, taxes are not merely levied to finance the state, but rather taxes are levied to get money accepted in the first place. Ultimately, tax issues are questions of not only sovereignty but also legitimacy and legal capabilities. Or, to put it differently, tax provides value to money, which has no intrinsic value beyond the value of the materials that are used construct material money.

Roitman (2005) speaks of fiscal relationships between the state and its citizens that redefine citizens through a renegotiation of the rights and obligations inherent in such economic relationships. This redefinition takes place in “a field of regulatory intervention based on a set of presumptions about the nature of economic life and economic objects” (p. 3) and results in the naturalization of certain forms of economic extraction as part of fiscal relationships. It also results in the emergence of a fiscal subject, now framed as the consumer-taxpayer. Some subjects question the legitimacy of the state or the intelligibility of the state’s fiscal authority. Roitman (2005: 206) concludes that fiscal relationships are about the “struggle over the nature of the social, the political, and the national.”

Tax evasion is a central practice in questioning state legitimacy. This first progress report focuses on geographies of tax evasion. I have collected studies that place tax evasion central in their analysis rather than studies that mention tax at some point. Although the border between the two is fluid and more studies could have been included, I chose to focus on those publications in which tax evasion is the object of analysis rather than a small part of a larger story. Therefore, I have excluded studies that deal with national, regional or local state finance in which taxes play second fiddle.

I have also excluded studies that focus on the role of tax in local government as I plan to dedicate my second progress report to finance *in* and *of* the city. Tax havens are examples of such struggles. They illustrate not so much the fiscal relationships between the state and its citizens but rather the relationships between states and corporations as well as between different jurisdictions. In the next section I look into the different categories and basic concepts that are central to an understanding of tax havens: tax evasion, tax avoidance, the tax gap, offshore financial centres, secrecy jurisdictions, state-corporate crimes and crimes of globalization. Section III looks at taxation taxonomies of states and presents different classifications and networks of tax havens. In the last two sections, I discuss the different techniques used in tax evasion, the rankings of tax havens and the regulations regarding tax evasion. It is argued that not only much regulatory work but also much research remains to be executed.

II Different categories

Two ideal-typical approaches to taxing cross-border flows can be distinguished (Genschel and Schwartz, 2011; Griffith et al., 2010; Keen, 1993; Sinn, 1990). In the first approach taxing takes place at the point of *origination* of employment or production, known as the ‘source principle’ in income taxation and the ‘origin principle’ in consumption taxation: “The consistent application of the source/origin approach implies that tax burdens depend on where taxpayers work, invest and make their purchases” (Genschel and Schwartz, 2011: 343). The second approach, known as the ‘residence principle’ in income taxation and the ‘destination principle’ in commodity taxation, is to tax cross-border flows in the final or *receiving* country. Not only do these approaches exist side-by-side, hybrids models are also common. Although systematic application of the second approach would enable deep economic integration without tax evasion, it is difficult to implement because it requires country-by-country reporting for the activities of both corporations and individuals.

The literature on taxation distinguishes between tax evasion and tax avoidance. Typically the former is considered illegal and the latter legal, but in reality this is not always that clear-cut (e.g. Braithwaite, 2009; Maurer, 2008); it often merely means these practices have not been discovered or tested in a court of law yet (Sayer, 2015), i.e. ‘criminogenic’ (Christensen et al., 2016) or not-yet-criminalized tax evasion. Morally and politically speaking, the distinction

between tax evasion and avoidance is problematic and unproductive as it suggests it can be legal to avoid paying taxes where they should be paid. The language of tax avoidance naturalizes the practice and suggests that if you are smart enough, you do not need to pay taxes. Palan et al (2010: 10) argue that “much avoidance relies on the existence of doubt.” Whether one follows the origination or receiving principle, a great deal of so-called ‘legal’ tax avoidance could be considered illegal. Of course, it is not always clear what share of profits or consumption is realized in which jurisdiction, but regarding so-called tax avoidance the question is often not of the kind ‘where were profits realized and should they be taxed in A or B?’ but rather ‘profits were realized in A and/or B but were taxed in C’. Those that defend tax avoidance often frame this as ‘avoiding double taxation’, but a typical tax avoidance practice often results in ‘double non-taxation’ (Shaxson, 2011) through the use of tax havens:

places or countries (not all of them are sovereign states) that have sufficient autonomy to write their own tax, finance, and other laws and regulations. They all take advantage of this autonomy *to create legislation designed to assist nonresident persons or corporations* to avoid the regulatory obligations imposed on them in the places where those nonresident people undertake the substance of their economic transactions. (Palan et al., 2010: 8, emphasis added)

Another concept to reflect on the problematic nature of the often-made distinction between the two is the ‘tax gap’, which is “the difference between the taxes that were actually paid to the government in a particular reporting period and what should have been paid according to the rules determined by the Tax Agency controls” (Ceccato and Benson, 2016: 217). In the UK, US, but also in Sweden and other Scandinavian countries, for example, the tax gap is estimated to be 8-10% as a share of total annual taxes (O’Donnell, 2004; Skatteverket, 2013; Slemrod, 2007; Tsakumis et al., 2007) although Buehn and Schneider (2012) come to significantly lower tax gaps in their comparison of 38 OECD countries. Notwithstanding the fact that some of these sources report somewhat lower tax gaps in the early 2000s compared to the 1990s, Ceccato and Benson (2016: 229) warn that “recent changes in tax policy will lead to less compliance over time.”

Some authors prefer to use the concepts of secrecy jurisdictions (Cobham et al., 2015; Tax Justice Network, 2013), secrecy spaces (Christensen and Hampton, 1999) or offshore financial centres over that of tax havens. An offshore financial centre is “a country or jurisdiction that provides financial services to non-residents on a scale that is incommensurate with the size and financing of its domestic economy” (Zoromé, 2007) and hosts a highly specialized services industry that offers tailor-made solutions to a range of corporations (Bassens and Van Meeteren, 2015), thereby enabling shadow banking activities (Fernandez and Wigger, 2016). Offshore finance (Cobb, 1998; Hampton, 1996; Hudson, 1998a, 2000; Johns, 1983; Roberts, 1994, 1995; Sidaway, 2007; Warf, 2002) is a broader category than tax haven: “Investors also use offshore jurisdictions for other forms of institutional arbitrage such as ease of raising funds, speed and lower costs of company formation, and access to reliable legal jurisdictions” (Clark et al, 2015, 238). Ötsch (2016) speaks of an ‘offshore coalition’. “Far from being a marginal or exotic backwater of the global economy, offshore in many ways, *is* the global economy” (Maurer, 2008: 160, emphasis in original).

Tax havens, offshore finance and shadow banking were not only at the heart of the global financial crisis of 2007-2009 but also of a range of corporate scandals, including those of Amazon, Apple, Google, Lehman Brothers, Starbucks and HSBC (Clark et al., 2015; Fernandez and Wigger, 2016; Palan et al., 2010; Palan and Nesvetailova, 2014; Rixen, 2013; Sharman, 2012; Seabrooke and Wigan, 2014; Shaxson, 2011; Wójcik, 2013). Fernandez and Wigger (2017: 3) argue that shadow banking should not be understood as one of the root

causes of the global financial crisis but rather as “a temporary solution that provides new opportunities for profitability on the absence of sufficient outlets for surplus capital in the real economy.”

Offshore financial centres and tax havens are used to set up trusts and special purpose entities (SPEs) and vehicles (SPVs), complex legal entities that function as the placeholders for moving ownership, money and profits around and typically have little or no physical presence in their host countries (Fernandez and Wigger, 2016; Maurer, 2008; Palan, 2003; Palan et al., 2010; Rixen, 2011; Sayer, 2015; Wójcik, 2013). Shaxson (2011: 101) describes them as “secretive and semi-fictional way stations on a path through accountants’ workbooks.” Some SPEs are owned by banks, often as subsidiaries, but others are ‘sponsored’ by banks that use them for structured finance, one important component of shadow banking (Nesvetailova, 2015), that includes many of the acronyms that became household names in the global financial crisis, such as ABS, RMBS, CDS, CDOs, CMOs.

Citigroup, for example, had 427 subsidiaries in tax havens in 2008, of which 91 in Luxemburg and 90 in the Cayman Islands (GAO, 2008). Enron had some 3,000 SPEs, 800 of which were registered in tax havens (Palan et al, 2010). Fernandez and Wigger (2017) have looked into the SPEs that were behind now-defunct Lehman Brothers and found over 70 of such shell companies, many of them registered in Delaware and the British Virgin Islands (BVI), but also smaller numbers in Hong Kong, Singapore, Switzerland, the Netherlands Antilles, Luxemburg, Ireland and the Netherlands. They continue to show how many of these SPEs are mere shell or mailbox companies that are not supervised where they are domiciled, but since they are not supervised in the US or elsewhere either, such entities could escape the regulator’s attention, which is one of the reasons for their existence in the first place.

Critical criminology scholars have started framing tax evasion and avoidance as crimes of globalization (Friedrichs and Friedrichs, 2002) that may or may not be formally illegal but that do social harm and are therefore considered criminal:

The prevailing tax-evasive practices deepen wealth inequality as well as weaken consumer buying power. These tax-avoiding schemes also skew economic statistics, hamper public and private sectors from managing the economy or making social policy, erode respect for the law, discourage job creation, foster corruption, and accumulate private capital by rewarding individuals and corporation for sheltering money overseas rather than investing it domestically in infrastructure and economic development. (Barak, 2015: 2)

Such conceptualizations of crime as harmful open up a great deal of corporate and state practices to the lens of criminology and allow us to think in terms of the harm done by tax evasion/avoidance rather than illegality of some forms but not others. In the remainder of this progress report I will therefore speak of evasion rather than avoidance.

Tax evasion and shadow banking do not exist in a legal vacuum outside the reach of the state but at the intersection of different state regulations (Fernandez and Wigger, 2016; Pistor, 2013; van Hulten, 2012). The tax authorities of countries like Luxemburg and the Netherlands go one step further by offering tailored tax rulings for individual corporations. Here, taxing becomes a matter of negotiation; yet, such negotiations are not open to everyone but only to a range of large corporations, typically multinational corporations (MNCs), thereby adding to unfair competition in the marketplace. Palan et al. (2010: 7) argue that tax havens are “at the heart of a particular type of globalization—globalization that is characterized by a growing gap between the very rich and everyone else.”

Crimes of globalization typically involve both corporations and the state. Here, the state is considered to have acted as the facilitator or initiator of tax evasion. Tax evasion, therefore, should not be framed as the result of deregulation but rather as the direct result of state intervention in favour of the powerful: “sovereign states have created a parallel market exclusively for the powerful where tax rules are written for the benefit of a few” (Evertsson, 2016: 206). Central to tax havens is their ab/use of sovereignty, which some of them appearing to commodify to attract money from MNCs and rich individuals (Palan et al, 2010); in other words, ‘commercialized sovereignty’ (Palan, 2003).

Crimes of globalization are a specific type of state-corporate crimes (Rothe and Friedrichs, 2015). State-corporate crimes should not be viewed as isolated cases but as interactions aided by ideological processes in which the state facilitates capital accumulation by private corporations through deviant and criminal behaviour (Green and Ward, 2004; Matthews and Kauzlarich, 2000; Michalowski and Kramer, 2006). The concept of crimes of globalization takes state-corporate crimes to another level by focusing on how globalization has promoted—or can be characterized by—institutions and practices in which social harm emerges from the interaction between states and corporations (Friedrichs and Friedrichs, 2002; Rothe and Friedrichs, 2015). Evertsson (2016: 203) provides an overview of some of the examples provided by the crimes of globalization literature:

Friedrichs and Friedrichs (2002) introduced the study on crimes of globalization by examining the culture of loans approval at the World Bank (WB) that endorsed (initiated) the construction of the Pak Mumn Dam in Thailand. The dam demanded more economic resources than budgeted but produced less electricity than forecasted, created irreversible environmental damages, and destroyed local communities that were forced to resettle. Other studies on the crimes of globalization have, for example, examined the imposition of Structural Adjustment Programs (SAPs) by the International Monetary Fund (IMF) and the WB that led to budget cuts that facilitated the collapse of the Le Joola ferry in Senegal (Rothe et al, 2006); the insensitive SAPs in the health sector imposed by the IMF, the WB, and the World Trade Organization (WTO) that facilitated the spreading of the HIV/AIDS pandemic in sub-Saharan Africa (Ezeonu, 2008); the unwillingness of the IMF, the WB, and the WTO to address governmental corruption that facilitated the illegal expropriation of gold and diamonds in the Democratic Republic of Congo (Rothe, 2010); and the reluctance of the WB to scrutinize aid funds granted to the Suharto regime in Indonesia that facilitated the use of such funds in the campaign that terrorized civilians from Timor-Leste who were seeking their independence (Stanley, 2009).

III Different taxonomies

On paper, more than half of world trade and international bank lending passes through tax havens; also more than half of all banking assets and a third of foreign direct investment (FDI) by MNCs pass through tax havens that only account for 3% of world GDP; and at least 80 of the largest 100 publicly-traded US corporations and 98 of those in the UK have subsidiaries in tax havens (ActionAid, 2011; Christensen, 2011; Palan et al., 2010; Palan and Nesvetailova, 2014; Shaxson, 2011; The Economist, 2013; U.S. Government Accountability Office, 2008). Furthermore, in 2010 and 2008 developing countries are estimated to have lost respectively \$859 billion to \$1.2 trillion in tax evasion and other illicit practices (Kar and Curcio, 2011; Kar and Freitas, 2012), 8 to 12 times as much as total annual foreign aid. Baker (2005) argues that bribes to and theft by government officials make up only about 3% of the roughly \$1 trillion that moves out of developing countries; proceeds from criminal activities make up a much larger share, but are also trumped by the funds that flow out through fraudulent transfer pricing techniques.

There are different taxation taxonomies of states. One way to think of these is through several parallel and overlapping networks with a clear centre and several rings around the centre. There is a hierarchy to these networks as money is typically handled in global financial centres such as London and New York rather than in, say Guernsey or the BVI. The network allows the registration of certain practices to be moved to other jurisdictions where they are taxed less or not at all, or where they are not illegal. In a study that is now 35 years old, Park distinguished between four types of OFCs: 1) primary OFCs such as London and New York that are textbook financial centres with deep financial markets; 2) booking centres such as the Bahamas and the Cayman Islands that have not matured into capital market centres; 3) funding centres such as Singapore and Panama which channel offshore funds from outside their markets towards local or regional users; 4) collection centres such as Bahrain that engage primarily in outward financial intermediation (Park, 1982).

London and New York are the supercentres of the two dominant networks of tax havens and OFCs. These centres offer advanced producer services (APS) that facilitate tax evasion. But the City of London, where companies have voting rights based on their number of employees, is not only at the centre of a network of tax havens, it is itself also a tax haven (Shaxson, 2011; Wainwright, 2011). The inner ring around the supercentres fit the classic image of tax havens: small and tiny islands with very small populations, located in the British Channel and the Caribbean. But others are EU and OECD member states and some are states within larger federal states.

Shaxson (2011) describes London as a spider in the web that is surrounded by two inner rings: Britain's crown dependencies (Bailiwick of Jersey, Bailiwick of Guernsey and the Isle of Man) and Britain's overseas territories (including Cayman Islands, Bermuda, the BVI, Gibraltar, and the Turks and Caicos Islands), all with populations well under 100,000 inhabitants and with a combined population of roughly 250,000 people. The crown dependencies are actively controlled by the UK. Although they are formally independent jurisdictions they are possessions of 'the Crown' and internationally they are considered "territories for which the United Kingdom is responsible", rather than sovereign states (Ministry of Justice, no date). In just a three-month period in 2009, the UK received £215 billion through its crown dependencies. Jersey even advertises itself as "an extension of the City of London" (Shaxson, 2011: 16).

Except for Gibraltar, the 14 British Overseas Territories are not formally part of the UK but are under the jurisdiction and sovereignty of the UK. They are typically self-governed, except for matters of defence and foreign relations which are controlled by the UK. In terms of portfolio investment assets, the Cayman Islands could be considered the second largest financial centre. The islands host 800,000 companies and 11,000 mutual funds, 200 banks, 150 trusts and 750 insurance companies on a population of 56,000, is home to roughly three-quarters of the world's hedge funds and almost \$2 trillion in bank deposits, which is four times as much as the combined New York City banks. The small five-story office building Uglan House in Cayman's George Town, occupied by law firm Maples and Calder, is the registered office address of nearly 19,000 companies.

The outer rings around the supercentres include former British territories, such as Hong Kong, Singapore, the Bahamas, Ireland and Dubai, that are fully independent, outside of the UK's control but still maintain strong links to the UK in general and the City of London in particular, and typically have 'inherited' part of their legal system from the UK. They also include EU and OECD member states, and some are states within larger federal states, such as

Delaware. What they have in common is that more money flows through these jurisdictions than is justified or logical based on their real economic activity. To provide one simple example: landlocked Luxemburg is one of the world's largest shipping jurisdictions. Shaxson (2011) describes how the Bahamas and the Cayman Island, among others, became tax havens in the 1930s and 1960s respectively. Their existence appears to be a balancing act between sovereignty and dependency, between being controlled by the UK and the City of London on the one hand and being self-ruling on the other.

Clark et al (2015, 238) refer to financial centres such as Hong Kong and Singapore as 'midshore financial centres' that "combine offshore advantages (low taxes, secrecy) with onshore traits (strong legal systems, double taxation treaties, sophisticated financial markets)." Under this definition, tax havens like the Netherlands, Belgium, Luxemburg, Switzerland and Ireland also could be included as midshore financial centres. Palan et al (2010) refer to roughly the same group of countries as 'intermediate havens'.

Palan et al. (2010) identify seven types of tax havens: 1) incorporation centres with very low effective regulation, which are not OFCs, such as Montserrat and Anguilla; 2) registration centres such as the British Virgin Islands (BVI), Panama, the Bailiwick of Jersey and Vanuatu, that have developed local expertise to service customers; 3) secrecy locations such as Liechtenstein, the Turks and Caicos Islands, Singapore and Dubai, where secrecy is heavily protected; 4) specialist service providers that attract specific industries, such as Bermuda and Guernsey for the reinsurance market, the Cayman islands for hedge funds and the Isle of Man for the UK's 'Alternative Investment Market'; 5) market entry conduits, such as Malta, Cyprus, Mauritius, the Netherlands, Belgium and Luxemburg, that earn a margin from money flows that are rerouted through their low-tax jurisdictions; 6) high net worth providers, such as Switzerland, New York and London—and to some extent also Luxemburg and Singapore as centres of wealth management (Dörry, 2015)—that manage the funds of the super-rich; 7) tax raiders such as Ireland that "seek the relocation of profits to their domains, where they are taxed at a lower rate than elsewhere" (Palan et al., 2010: 36–38).

Haberly & Wójcik (2015a, 2015b) operationalize offshore FDI as disproportionately high in relation to the size of the interacting economies. The main sources of FDI are the BVI, Luxemburg, Cayman Islands, the Netherlands, Switzerland and the UK. In addition, there are two sub-networks in operation: 1) the Eastern Bloc centred on Russia, Cyprus and the BVI, with extensions into Gibraltar and Liechtenstein; and 2) the Anglo-Alliance which consists of two components, the Greater British Empire and Pax Americana, the former encompassing southern and eastern Asia (including India and China), former British colonies in Africa but also the BVI and the Cayman Islands, and the latter concentrated in the Americas and Japan (Haberly & Wójcik, 2015a). Other jurisdictions in the US sphere of influence include Panama, the Marshall Islands, the American Virgin Islands and of course the US states of Delaware, Wyoming and Nevada (Shaxson, 2011).

Ledyaeva et al. (2015) look deeper into the Eastern Bloc, demonstrating that respectively 61% and 67% of Russian outward and inward FDI went through offshore jurisdictions, primarily through Cyprus, but also through the BVI, Switzerland and the Netherlands. Several of these tax havens, including the Netherlands (for EU and US), Cyprus (for Russia) and Mauritius (for India) are used for so-called 'round tripping', where the origin and destination of FDI that goes through a tax haven are the same (Vlcek, 2010; Sharman, 2012; Shaxson, 2011). Perhaps unsurprisingly, KPMG (2007) considered Cyprus, followed by Ireland and Switzerland, to have the best corporate tax regime in Europe.

Another type of tax havens are the freeports, special economic, tax-free, export-processing, duty-free and business opportunity zones that many countries have established. Native American reservations in the US could also be included (Cameron, 2008) in these spaces of exception. The Tierra del Fuego province on the southern tip of Argentina, for example, has exempted both firms and residents from most taxes since 1972 (although this is possibly ending in 2023). Similarly, the Brazilian Amazon city of Manaus became part of a free economic area in 1967. Both areas became bases for consumer electronics, and both also mix tax breaks with protectionism as there are thresholds for the use of domestically produced parts (The Economist, 2016).

Individuals, typically very rich individuals, also use tax havens, often for the combined reasons of tax evasion and secrecy, supported by specialist financial-legal networks (Beaverstock et al., 2013; Harrington, 2016; Zucman, 2015) and sometimes resulting in investments in London and New York ‘super-prime real estate’ through shell companies located in places like the BVI (Fernandez et al., 2016). \$7.6 trillion, or 8% of global household wealth, is estimated to be hidden by the super-rich in tax havens, \$2.3 trillion of it in Switzerland alone, resulting in estimated annual tax losses of \$200–250 billion globally (Murphy and Christensen, 2014; Zucman, 2015). In the UK so-called ‘non-domiciled residents’, even those who have been living in the UK for a longer time, are able to pay an annual fee of £30,000–90,000 to opt out of taxes, which at least 47,000 out of 111,000 non-doms do, and that *The Economist* (2015) refers to as a “golden hello for the rich and mobile” who do not simply avoid double taxation but are “taxed nowhere” (ibid: 14).

IV Different techniques and rankings

Different tax havens rely on different techniques and practices. One popular technique for which tax havens are used is a range of practices variously known as transfer pricing, profit shifting or mispricing (Bartelsman and Beetsma, 2003; Botzem and Dobusch, 2017; Dharmapala and Riedel, 2013; Grubert, 2003; Palan et al., 2010; Sayer, 2015; Schwartz, 2009). This technique is used to establish subsidiaries in low tax rate countries to which profits can be shifted. In this way, Starbucks, to select one prominent example, was able to shift away 99.4% of profits to low- and no-tax jurisdictions (Kleinbard, 2013). In 2012, Starbucks realized sales revenues of \$398 in the UK but paid no corporation tax as its UK subsidiary was paying royalties to its Dutch subsidiary, which completely erased any profits made in the UK (Neville and Treanor, 2012).

Other techniques include, but are not limited to: thin capitalization and inter-company loans, in which subsidiaries abroad can be used to create a system of loans and debt that allow parent companies to deduct interest payments if the subsidiary is located in a country, like the Netherlands, where such interest payments to the subsidiary are not taxed (Evertsson, 2016a; Nedham, 2013; Palan et al., 2010; Taylor and Richardson, 2012; Walsh and Ryan, 1997); paying for intangibles (Evertsson, 2016a; Nedham, 2013), including the shifting of royalties between countries to avoid taxation (Dharmapala and Hines, 2009); hybrid entities for investment (Evertsson, 2016a; Nedham, 2013); no reporting of country-specific revenues, known as country-by-country reporting (Hope et al., 2013; Palan et al., 2010; Seabrooke and Wigan, 2016; Wójcik, 2015) and patent boxes (Evers et al., 2015; Miller and Pope, 2015), which reduce the effective average tax rate on investments that qualify to be included in such a box. The latter technique can result in *negative* effective tax rates in countries such as Belgium, France, Spain and Hungary. Typically, corporations combine different techniques (Evertsson, 2016a; Taylor and Richardson, 2012).

Accounting and auditing firms not only advise corporations but sometimes design elaborate tax evasion schemes, often euphemistically known as ‘tax planning’ (Armstrong et al., 2011; Dörry, 2015; Evertsson, 2016b; Gleason and Mills, 2011; Hasseldine et al., 2011; Palan et al., 2010; Shaxson, 2011; Sikka and Willmott, 2013; Webb, 2004). All of the so-called ‘big four’—KPMG, Ernst & Young, PriceWaterhouseCoopers and Deloitte & Touche—engage in such activities. Accountancy firm Ernst & Young, for example, has 900 people working on making transfer-pricing deals for corporations (Sikka, 2009). Hampton and Christensen (1999) have argued that several tax havens, such as the Bailiwick of Jersey, have effectively been captured by the big four (back then, still the ‘big five’, including Arthur Andersen) and international financial capital. KPMG, for example, advised General Electric to adopt “a series of complex transactions and accounting gimmicks to make its tax liability disappear”, resulting in zero paid taxes in the US, despite global profits of \$14.2 billion, including \$5.1 billion from its US operations (Sikka and Willmott, 2013, 427; in Evertsson, 2016b: 279). KPMG has made at least \$180 million from the advice given on how to avoid taxation and this cost the US Treasury roughly \$85 billion in lost revenue (Murphy and Christensen, 2014). Some of the practices of the big four are now considered illegal in the US and the UK. In 2012 PWC was fined £1.4 million for ‘very serious’ misconduct over its audit of JP Morgan Securities (White, 2012).

To name, list and rank tax havens is a political act. It is just as interesting to see who is on the list as it is to see who produced the list based on which conditions, variables and choices. Not only the geography on tax is highly uneven, the construction of rankings of tax havens is too. Even if one takes a position that eschews dichotomies, it is not easy to agree which jurisdictions are the most and least like an ideal-typical tax haven, secrecy jurisdiction or OFC. Since different tax havens also fulfil different functions, it is not easy to compare such functions on the same scale.

A tax haven listing by *The Economist* (2013) included 50-60 tax havens that harbour more than 2 million ‘paper companies’, thousands of banks, funds and insurers. The IMF lists 46, the OCED 70 and the Tax Justice Network (TJN) 82 tax havens or offshore jurisdictions. Palan et al. (2010: Table 1.4) have pooled 11 different tax haven rankings that include a combined number of 91 possible tax havens. Forty-six to sixty of them are considered tax havens by Palan and colleagues. Cobham et al. (2015) have constructed a Financial Secrecy Index (FSI) by multiplying the secrecy score of a jurisdiction by how much money flows through it. This way, the most secretive jurisdictions—Samoa, Vanuatu, Seychelles and St. Lucia—do not take up high positions in the FSI because they are not significant in terms of flows of money. The top positions of the FSI go to Switzerland, Luxemburg, Hong Kong, Cayman Islands and the US. National categories, however, can be deceiving. If London were included as a separate jurisdiction, it would have topped the list (Cobham et al., 2015; TJN, 2013).

The European Parliament (2015: footnotes 44–46) has created its own list (rather than a ranking) of corporate tax avoiders, including several banks and well-known MNCs like Airbus, Amazon, Coca-Cola, Facebook, Fiat Chrysler, Google, Ikea, McDonalds, Philip Morris, Walmart and Walt Disney. Furthermore, the European Commission has looked into several corporations. In October 2015 it claimed that “Luxemburg and the Netherlands have granted selective tax advantages to Fiat Finance and Starbucks, respectively” (European Commission, 2015). In order to understand how the distinction between tax evasion and avoidance is problematic, it helps to quote the explanation of the EC at length here:

Tax rulings as such are perfectly legal. They are comfort letters issued by tax authorities to give a company clarity on how its corporate tax will be calculated or on the use of special tax provisions. However, the two tax rulings under investigation endorsed **artificial and complex methods** to establish taxable profits for the companies. They do not reflect **economic reality**. This is done, in particular, by setting prices for goods and services sold between companies of the Fiat and Starbucks groups (so-called "transfer prices") that do not correspond to market conditions. As a result, most of the profits of Starbucks' coffee roasting company are shifted abroad, where they are also not taxed, and Fiat's financing company only paid taxes on underestimated profits. This is illegal under EU state aid rules: Tax rulings cannot use methodologies, no matter how complex, to establish transfer prices with no economic justification and which unduly shift profits to reduce the taxes paid by the company. It would give that company an unfair competitive advantage over other companies (typically SMEs) that are taxed on their actual profits because they pay market prices for the goods and services they use. (emphasis in original)

The Netherlands is a key jurisdiction for tax conduits with, first, a “specific legal framework consisting of tax exemption laws, a liberal withholding regime for royalties and interest income; second, [an] extensive network of bilateral double taxation and investment treaties; and third, [a] highly competitive professional-services industry specialized in tax and regulatory arbitrage” (Fernandez and Wigger, 2016: 420; see also Engelen, 2015; SEO, 2013). Weyzig (2013) refers to the Netherlands as a tax treaty-shopping jurisdiction for OECD firms. By 2005, more than 42,000 financial holding companies were registered in the Netherlands, many of which are shell companies which are owned by a parent company that is registered in another tax haven (Van Dijk et al., 2006). The Dutch ‘offshore coalition’ (Ötsch, 2016) is made up of the City of Amsterdam, the Ministry of Finance, the Amsterdam Stock Exchange, the Dutch National Bank and the finance lobby, who together set up a tax haven with loose incorporation requirements (Fernandez, 2011). In 2008 roughly \$18 trillion flowed through Dutch offshore entities, equivalent to twenty times Dutch GDP (estimates by the Dutch National Bank).

Yet, the Netherlands does not show up on many lists and rankings and when it does it is rarely among the most tax haven-like jurisdictions. So even though the Netherlands is arguably at the centre of corporate tax evasion, it does not deliver a range of other tax advantages and is not considered a key secrecy jurisdiction as a great deal of corporate tax avoidance through the Netherlands is recorded. Moreover, the Netherlands, despite its small size, generally is considered an important member of both the EU and NATO. It could be argued that the international political importance of the Netherlands as a prominent EU and NATO member makes it less likely to be called out as being a key facilitator of corporate tax evasion or faced with embargos and boycotting campaigns.

V Conclusion

By way of conclusion, I look at the attempts to regulate tax havens. Regulators, governments and non-governmental organizations have a complex relationship to tax havens. While the dominant discourse is increasingly critical of the activities of tax havens and calls for a major crackdown on these jurisdictions, the regulatory responses are much more ambiguous. This is in part the result of competing political and administrative frames, but it is also a result of the situation in which many jurisdictions are simultaneously tax havens and the victims of other tax havens. It is of course also related to the question what a tax haven is. This is not merely a semantic or conceptual issue, but it is, fundamentally, a political matter.

Some authors are afraid that tax havens are locked into a regulatory race to the bottom (Sayer, 2015). But regulation is needed to protect investors (Martin and Prasad, 2014; Palan et al., 2010), implying that completely laissez-faire tax havens, such as some Pacific atoll states, have failed to establish themselves in tax haven networks. Yet, tax evasion takes place in a competitive environment in which tax havens compete with each-other in several leagues, as they tend to specialize in different things. That does not imply that money always flows to the least regulated jurisdictions, but rather that money flows to and through those jurisdictions that have the most favourable regulation for specific practices.

Tax harmonization remains partial and has only been executed in very limited realms within the EU (Genschel and Schwartz, 2011). Tax cooperation is more widespread: information is increasingly exchanged between tax agencies and OECD's 1998 'Project on Harmful Tax Competition' has spread to the more inclusive 'Global Forum on Transparency and Exchange of Information for Tax Purposes' in 2010. Palan et al. (2010) and Genschel and Schwartz (2011) provide overviews of unilateral, bilateral and multilateral approaches against tax evasion. The US and the OECD are dominant initiators and sponsors in the former two; the EU and to some extent again the OECD are dominant players in the latter. Seabrooke and Wigan (2016) also studied the role of other NGOs such as the Tax Justice Network. Most authors discuss some of the progress made but also point out that the flows of money to, through and from tax havens in recent years have increased rather than decreased. LuxLeaks, SwissLeaks and PanamaLeaks have put tax evasion on the global agenda, but have not yet resulted in a complete shutdown of or backlash towards tax havens.

Much regulatory work remains to be done. Likewise, much research work remains to be done. This progress report is a call to centre taxation in general and tax evasion in particular into human geography. Debates on globalization, financialization, development, austerity and inequality—among others—could and should be enriched by including the financial geographies of taxation. The literature on crimes of globalization offers a new perspective to which geographers could contribute greatly. Our understanding of the historical geography and contemporary use of tax havens remains unfinished; for many tax haven jurisdictions we lack studies on their genesis and development. Tax havens have mostly been approached from an economic angle, but since fiscal relationships are about the “struggle over the nature of the social, the political, and the national” (Roitman, 2005: 206) we need economic as well as social and political geographers to research and theorize these struggles.

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