FINAL PROJECT

Bachelor's degree in International Business

Title: What effect are having the current EU policies in the fight against tax havens?

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Academic year: 2022-2023

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RESUMEN

¿Qué efecto están teniendo las actuales políticas de la UE en la lucha contra los paraísos fiscales?

Los paraísos fiscales son un grave problema para los ingresos fiscales de los países europeos, ya que causan importantes pérdidas y dificultan la aplicación de políticas públicas para mejorar la calidad de vida de los ciudadanos en la Unión Europea. Se calcula que sólo en Europa la cantidad supera los 180.000 millones de dólares. Mejorar esta situación cambiaría el escenario internacional en el que trabajan los gobiernos. La Unión Europea es una institución con poder para cambiar esta tendencia, por lo que las políticas aplicadas por ellos serán un aspecto diferencial en este tema.

El objetivo de esta tesis es explicar las políticas desarrolladas por la Unión Europea al respecto e intentar medir el impacto que han tenido.

El trabajo comienza con una breve introducción del tema, y continúa con una explicación más profunda de las distintas políticas relacionadas con este tema, centrándose en la que tiene un efecto más directo sobre los paraísos fiscales: la lista de la UE publicada para apuntar a jurisdicciones específicas que cumplen con los criterios para ser considerados paraísos fiscales. Se mencionan y resumen los países incluidos en la lista, así como sus acuerdos fiscales con los Estados miembros de la UE y las causas de su inclusión en la lista. El marco práctico estudia los efectos de las políticas sobre gobernanza fiscal e Inversión Extranjera Directa (IED) en los paraísos fiscales, además de analizar los efectos de las políticas en los paraísos fiscales, concluyendo que se ha producido un aumento de las medidas de buena gobernanza fiscal en todo el mundo, pero también ha aumentado la IED en los paraísos fiscales. Las medidas aplicadas por la UE van por el camino correcto y tienen potencial para ser eficaces, pero requieren paciencia y constancia para lograr un impacto más amplio.

Palabras clave: Paraísos fiscales, Lista de jurisdicciones no cooperativas de la UE, IED, Gobernanza fiscal, Tratados fiscales.

ABSTRACT

What effect are having the current EU policies in the fight against tax havens?

Tax havens are a serious issue for tax revenues of European countries, causing significant losses and hindering the application of public policies to improve the quality of life of the citizens of the European Union. It has been estimated that only in Europe the amount is more than $180 billion. Improving this situation would change the international scenario in which governments work. The European Union is an institution with the power to change this trend, so the policies applied by them will be a differential aspect on this topic.

The objective of this thesis is to explain the policies developed by the European Union on this area and try to measure the impact that they have had.

The work starts with a brief introduction of the topic, and continues with a deeper explanation of the various policies affecting this topic, with a focus on the one with the most direct effect on tax havens, the list of the EU published to target specific jurisdictions that comply with the criteria to be considered tax havens. The countries on the list are mentioned and summarized, as well as their tax agreements with EU Member States and the causes for their inclusion on the list. The practical framework studies the effects of the policies on tax governance and Foreign Direct Investment (FDI) in tax havens, concluding that there has been an increase in tax good governance measures all around the world, but FDI in tax havens has been on the rise as well. The measures applied by the EU are on the right path and have the potential to be effective, but they require patience and constancy to achieve a broader impact.

Key words: Tax Havens, EU list of non-cooperative jurisdictions, FDI, Tax Governance, Tax Agreements.

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1) Introduction

Justification: The use of tax havens has been a recurrent issue for all countries in the European Union since they have been used by several taxpayers to benefit from the lower tax rates available in these jurisdictions reduces the state tax collection by great amounts, since they are mostly used by potential taxpayers who should pay higher tax rates in their own countries. To change this situation, the European Union is a key part of an improvement, since this organization can have a significant influence with its policies and take things further to discourage those who want to try these practices and sanction those who are proven of using them.

Hypothesis: The policies implemented by the European Union against tax havens have had a positive impact on tax transparency worldwide, engaging Member States and third countries in a more collaborative tax framework. They have also limited tax evasion and tax avoidance in the EU.

Objectives: My main objective with this work is to be able to present in a precise and concise way the current policies of the EU, and what causes and implications have to combat the use of tax havens. Secondly, to present statistics that can show clearly the evolution of tax-related matters, such as the evolution of investment in countries considered tax havens and the effect of tax agreements and tax good practices impulse by the European Union.

Methods: Develop a theoretical framework defining the basic concepts treated in the thesis and then proceed to explain the most important initiatives on this topic developed by the European Union and a practical framework connecting the measures of the first part with the data observed.

Parts: The thesis is divided into two major parts, the theoretical framework, which includes a section explaining the basic concepts of the thesis, tax havens, their origins, and the main International Tax Laws. After that, there is a section divided into six parts, with the main policies implemented by the European Union against tax havens. The second major part is the practical framework, which measures the effect of the EU policies on tax havens, as well as on tax good governance worldwide. This part also has an analytical part with a study developed previously measuring the relationship between Foreign Direct Investment and different variables, especially tax treaties and tax information exchange agreements, two types of agreements between countries that the EU has been trying to impulse. Finally, there are the conclusions of the thesis.

Acknowledgements

I want to give special thanks to my tutor Roger Albinyana i Saigi, for his dedication, guidance, and support during the realization of this thesis.

I would also like to express my most sincere acknowledgments to my classmates, and especially to my family for all their support during these months.

THEORETICAL FRAMEWORK

2) Introductory concepts

2.1) Brief Introduction to Tax Havens

A tax haven is generally defined as a country or jurisdiction that favors non-resident multinational corporations and individuals, allowing them to pay less taxes than what they would have to in the countries where they develop their economic activity.

Tax havens are specialized in enabling individuals to hide their wealth and financial affairs from the rule of law. They also allow multinationals to report earnings that were obtained in other countries to benefit from the lower tax rates.

Jurisdictions referred to as tax havens comply at least with one of these conditions:

- Low tax rates or even 0% in some cases.
- Tax advantages provided to non-residents, both individuals and companies, independently of their level of economic activity
- They avoid collaborating with other countries for the exchange of information for tax purposes.
- They offer secrecy about the ownership of financial assets or the legal structures established in the jurisdiction to those interested in being taxed there.

The objective of using tax havens is to pay less taxes than what is obliged, through the techniques of tax avoidance and tax evasion.

Tax avoidance is defined as an action realized to reduce the tax liability of an individual corporation, therefore increasing the after-tax income of the actor. In some cases, it cannot be considered illegal since tax avoiders try to profit from grey areas of the tax law. Meanwhile, tax evasion is a criminal conduct in which a person or organization willfully avoids paying their genuine tax obligations. Tax evaders are typically faced with serious penalties and criminal prosecution.

Proceeding with the introduction of tax havens, these are the origins of tax evasion techniques:

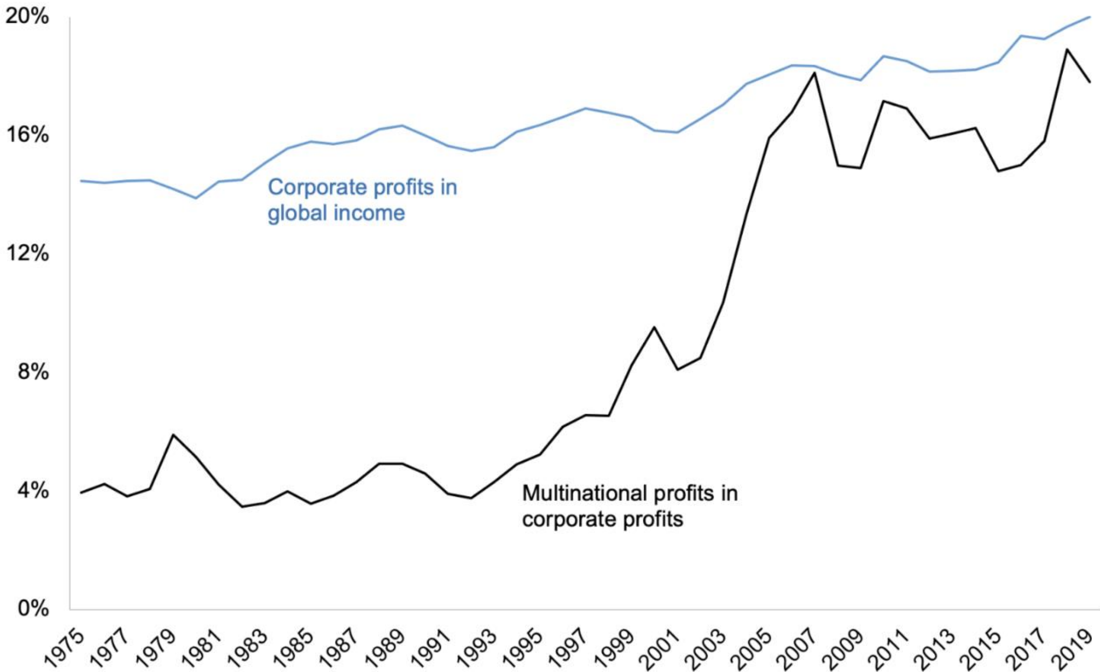
Tax evasion techniques are identified to have been used already in the Greek and Roman empires, but the first organized and identifiable tax haven ever is believed to be the Swiss Confederation in 1848, in which bankers from Berna and Geneva created secret bank accounts for the European élites to preserve the secrecy of their wealth (Tax Justice Network, n.d).

The appearance of globalization in the 1960s onwards pushed the economy towards a phase in which offshore taxing as a method of tax evasion kept increasing, when a new and more aggressive approach of tax havens appeared in the Caribbean and Britain's nearby Crown Dependencies, alongside Luxembourg and other European havens.

In the 1970s, the United States began to use jurisdictions to put into place secrecy facilities. In Europe, different countries began to get into the game. As for Asia, Hong Kong and Singapore are the most identifiable jurisdictions that facilitate these kinds of practices, and nowadays are believed to be the fastest-growing segment of the offshore game today.

There are various ways in which individuals and corporations can hide their wealth in tax havens to allow them to hide the real value of their wealth and pay less taxes than they should. The most common way used by individuals is by creating corporations or trusts, which gives them privacy since the owner's identity and wealth are secret information. Corporations use these jurisdictions by establishing headquarters in them and shifting their profits made somewhere else to these tax havens. These profits are then reported there to benefit from the lower tax rates compared to the countries where the profits were obtained.

Why is the use of tax havens a problem for society? In the following graph, there is the evolution of the profits shifted by multinational companies to tax havens between the years 1975 and 2019.

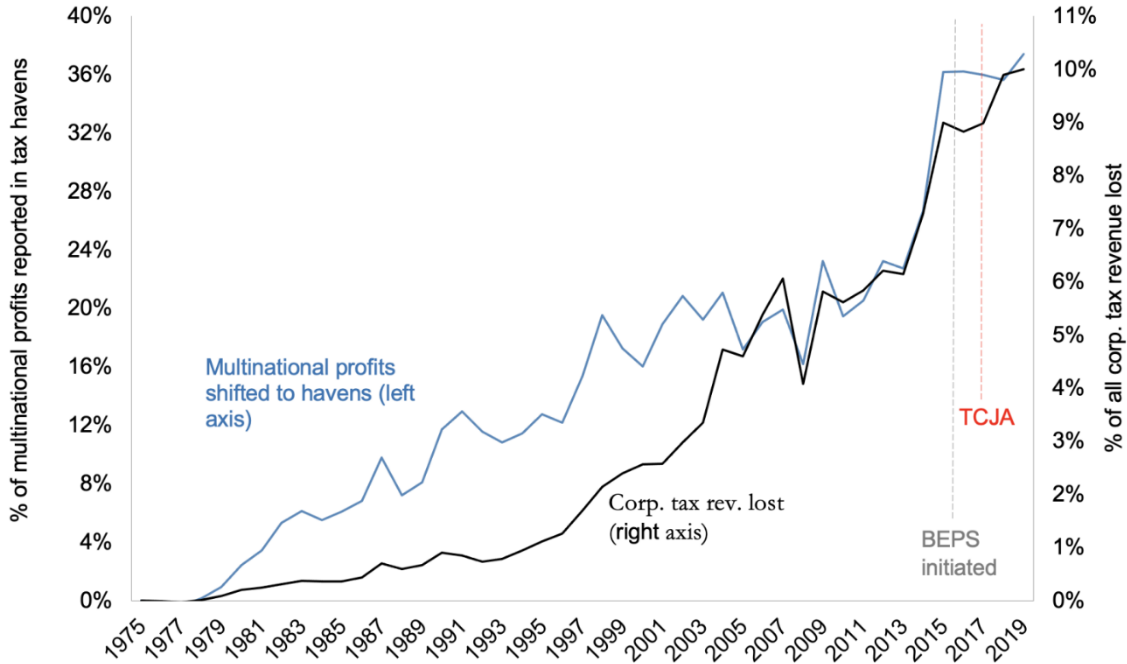


Source: Wier, L and G Zucman (2022), "Global profit shifting, 1975–2019" [Graph], UNU-WIDER Working Paper No. wp-2022-121.

The previous figure shows the evolution in the percentage of profits made by multinational companies that has been shifted to tax havens between the years 1975 and 2019. As can be seen, the trends of both "Corporate profits in global income" and "Multinational profits in

corporate profits" variables are increasing. The rise is visible in the second variable, especially after the year 2000. The source also mentions how based on their estimates, the difference in the rise of multinational profits compared to global profits, has caused the fraction of global profits (multinational and non-multinational) shifted to tax havens to rise from 0.1% to about 7%. It is not shown in this graph the effect of the 2020 pandemic on this stat, but it was like the one that the crisis of 2008 had, and as in the past, in 2022 the variables have recovered their growing tendency.

In the next graph, it is shown how the percentage of multinational profits reported in tax havens affects the loss of corporate tax income in their home countries.



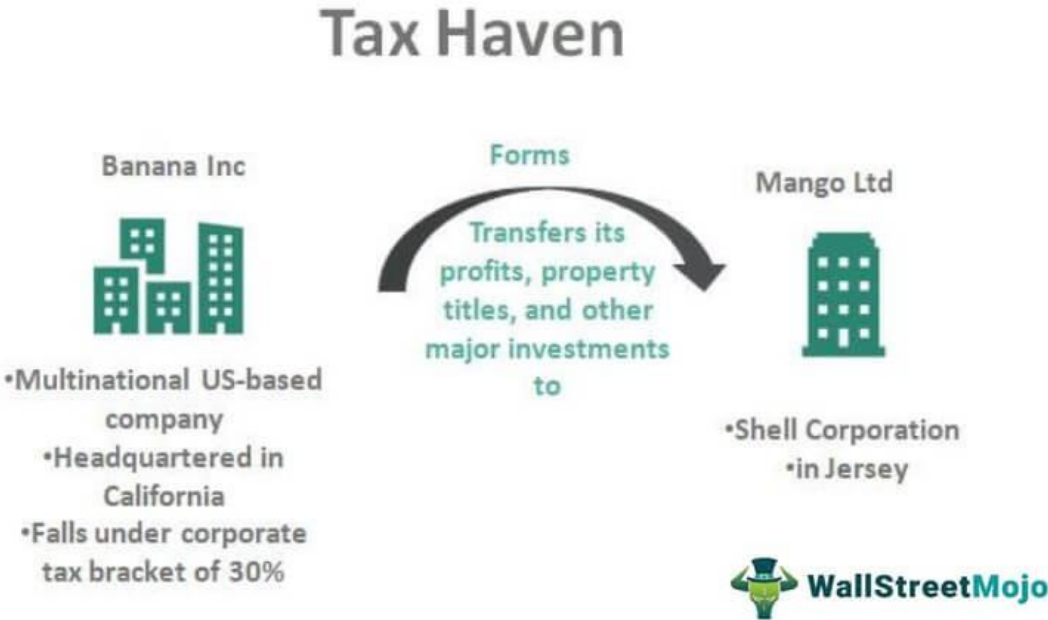
Source: Wier, L and G Zucman (2022), "Global profit shifting, 1975–2019" [Graph], UNU-WIDER Working Paper No. wp-2022-121.

Similar to what was observed in the previous statistic, both variables show a tendency on the rise, as they have a direct correlation. In this case, the black line represents the evolution of the percentage of corporate tax revenue lost, and the trend is worrying. The blue line, also showing an increasing tendency, represents the profits from multinationals that are shifted to tax havens every year. Both were about 0% in 1975, when the data of the graph starts and have been constantly growing at a rapid rate. It also can be appreciated how since around the year 2007, both have had an almost equal trajectory, which shows a concerning panorama for those states that are losing their corporate tax revenues, since finding a way to reverse the tendency is crucial thinking in the future.

A conclusion that can be extracted from these figures is how when foreign profits accounted for a smaller amount of profits, the effects in tax revenue losses of taxing these profits offshore were not so damaging as the current revenue implications related to the increase in profits.

Finally, from a social standpoint of view, the increase without control in the use of tax havens increases economic inequality and creates the risk of creating societies socially more unstable. It leads to a weaker and poorer State, increases the tax burden that must be held up by citizens and small companies, and breaks the trust of the citizens towards the State. Tax havens end up causing damage to everyone who does not use them. The use and abuse of these jurisdictions to reduce the tax costs by great fortunes as well as big companies, clearly affects the capacity of our societies to correct inequalities, breaking the progressivity of the fiscal design, subtracting vital resources from the public funds, and creating a situation of unfair competition.

In the following picture, it can be seen the system in which tax havens work nowadays for companies:



Source: Agarwal, T. (2023). “Tax Haven” [Image], *Wall Street Mojo*, https://www.wallstreetmojo.com/tax-haven/

Companies create a subsidiary company in a jurisdiction with a lower tax rate and transfer property titles, profits and investments to the company created there to benefit from the lower tax rate from the jurisdiction where it is located.

2.2) International Tax Laws

International Tax Laws are a set of laws created to regulate the tax issues of companies that gain income from operations in different countries. These rules determine where is taxed the foreign income of a company, to minimize double taxation and prevent companies from being taxed in a country with fiscal benefits if it does not apply.

International Tax Laws are defined and implemented with the creation of tax treaties between countries. These treaties specify how every case of possible double taxation or taxation conflict at all would be handled by the different countries and how would the tax income be allocated between them. There are different sets of rules discussed in tax treaties such as Global Intangible Low Tax Income (GILTI), taxes on dividends, or transfer pricing rules.

<u>Global Intangible Low Tax Income (GILTI):</u> According to the Tax Foundation it "is a special way to calculate a U.S. multinational company's foreign earnings to ensure it pays a minimum level of tax" (Tax Foundation, n.d.). This tax was implemented in 2017 by the United States of America, and the European Union is implementing as well its own GILTI regulation beginning in the year 2024. The objective of this measure is to reduce the effect of offshore taxation committed by local companies. This measure can also have disadvantages for companies that operate abroad, causing the tax rates on their foreign earnings to be significantly high.

<u>Taxes on dividends:</u> It is a tax on the dividends obtained by investors from their shares of companies that have their residence in a different country. The rate of this tax varies based on the regulation of every country. The agreements for the Avoidance of International Double Taxation determine how this amount is taxed in the country where it was obtained and in the country of residence of the investor. When there is no DTA between the two countries, investors are taxed in their home country except if they were taxed before in the other country, when they can apply the corresponding articles of their country to avoid double taxation.

<u>Transfer pricing rules:</u> They have the objective to determine the price that related parties from different countries that have completed a deal would have agreed to if they had done business between them as unrelated parties. For cases related to this matter, the EU recommends the OECD guidelines regarding Transfer Pricing.

The OECD published its Transfer Pricing Guidelines for the first time in 1995. This publication had the goal to become a pivotal instrument in finding easier resolutions for problems with foreign taxes, such as transfer pricing. Since then, the OECD has regularly updated and supplemented the recommendations.

The most recent version of the guidelines went into effect in 2018. The main theory employed by the OECD in this matter is the arm's length principle because as the OECD explained, the arm's length principle "provides broad parity of tax treatment for members of [multinational

enterprise] groups and independent enterprises"[1] (OECD, 2022), preventing the appearance of tax differences between companies.

Tax treaties represent another key aspect of international tax regulation worldwide. There are more than 3,000 bilateral income tax treaties in effect, and the number is growing. Most of these treaties are based on the “United Nations Model Double Taxation Convention between Developed and Developing Countries”[2] (United Nations Model Convention) and the “Organization for Economic Co-operation and Development Model Tax Convention on Income and Capital.”[3]

The OECD Model Tax Convention is the basic model used by countries to establish bilateral tax conventions to facilitate investment and avoid trade barriers between them. It serves as the ground for the negotiation and implementation of bilateral tax treaties between nations, which are intended to support commerce while assisting in the fight against tax avoidance and evasion. The OECD Model also provides a specific method of resolution for the most frequent issues that come up in the area of international double taxation.

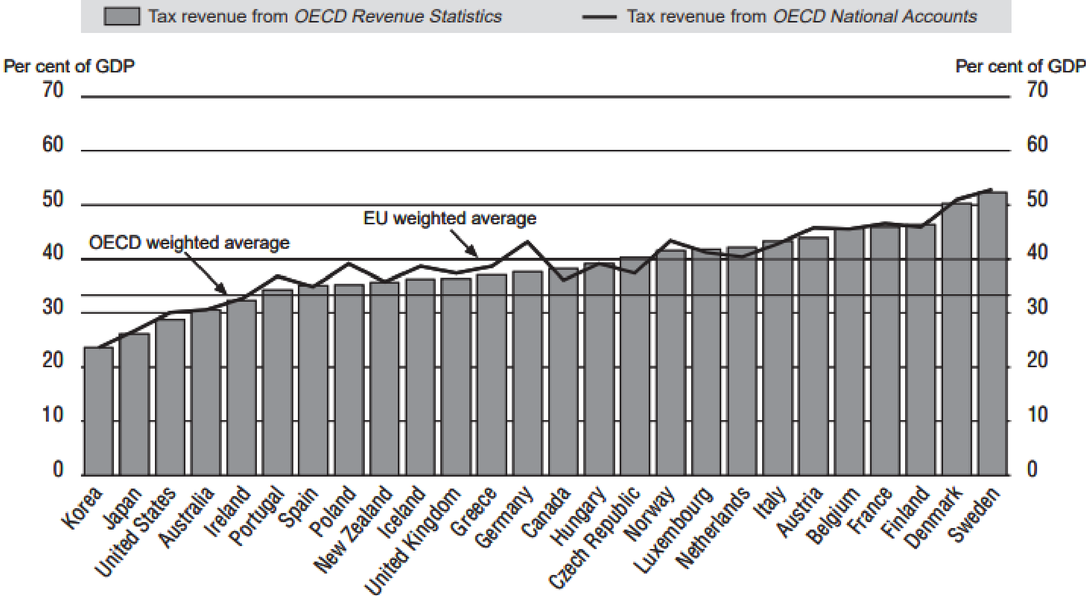
The last version of the OECD Model Tax Convention was published in 2017 and primarily represents and solidifies the last measures discussed in treaties by the OECD and the G20.

[1] OECD (2022), *OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations 2022*, OECD Publishing, Paris, https://doi.org/10.1787/0e655865-en.
[2] United Nations Economic and Social Affairs (2017), *Model Double Taxation Convention between Developed and Developing Countries.* United Nations
[3] OECD (2017), *Model Tax Convention on Income and on Capital: Condensed Version 2017,* OECD Publishing, Paris, https://doi.org/10.1787/mtc_cond-2017-en.

3) European Union’s fight against Tax Havens

3.1) Beginning of EU policies against Tax Havens

During the years 1970 and 1990, governments from EU member countries tried to increase the spending on public services to reduce unemployment, and their strategy was mainly based on increasing tax rates to increase the tax revenue and accommodate public spending. This led to a significant increase in the tax-to GDP-ratio, which can be seen in the following figure:



Source: OECD National Accounts (2002) *OECD Revenue Statistics, 1965-2000*. [Graph], OECD. (https://www.oecd.org/tax/public-finance/2968128.pdf).

This graph shows the Tax to GDP ratio in countries from the EU and other countries from the OECD in the year 1999. In the year 1970, most countries were at the same level as the US, but 29 years later it can be observed in the black line how the weighted average of the EU countries was around 8 points higher than the weighted average of OECD countries. This effect was caused due to the “inflation tax” promoted by many European countries that needed it to raise public expenditure (Joumard, I., 2002).

The use of tax havens for tax evasion and tax avoidance started to be heavily challenged by the EU during the decade of the 1990s when it started to develop policies and rules against business taxation conditions that were considered unfair concerning those tax conditions applied by member states. Many EU countries were able to develop and implement fiscal reforms thanks to the “1992 Maastricht Treaty” and later the “Stability and Growth Pacts”.

The ”1992 Maastricht Treaty” was an agreement signed by the 12 Member States at that time and progressively by every new member that has been added after the year 1992, to increase

the cooperation between those countries and lay the foundation for the current European Union, allowing citizens to move freely between the Member States and establishing the creation of a European Central Bank (ECB) to ease the posterior creation of a common currency. This treaty also was a key point to increase the integration and togetherness between countries and through these bases were signed the 1997 “Stability and Growth Pacts”, with the goals to apply budgetary policies to some of the countries from the EU with higher deficit-based policies.

The consequences of these treaties were the stoppage of public spending policies in many EU countries and with that the reduction of public expenditure as well. But these measures did not stop the growth of the Tax to GDP ratio. The appearance of new taxation issues such as cross-border investment, e-commerce, and the opening of barriers between countries facilitating the free movement of goods, people, and capital, required a redesign of tax laws in Europe.

Another instrument published by the EU to promote fair competition between countries in business taxation is the 1997 EU Code of Conduct. This was a non-binding agreement between the ministers of finance of the member states at the time, in which it was specified which tax measures could be defined as harmful to other countries. After this publication, the EU established the Code of Conduct Group (CoCG), “to assess tax measures that may fall within the scope of the Code of Conduct” (European Council, 2023). It is formed by the European Commission and representatives of the Member States, usually high-profile political individuals. The EU Code of Conduct is applied for preferential tax measures and has a concrete criterion on it.

A specific criterion is applied for these kinds of measures. The Code covers those measures that establish tax rates at significantly lower rates than the usual applied.

The four-point criteria used by the EU Code of Conduct to decide whether a preferential tax measure is significantly harmful are the following: are focused on whether the advantages affect the national tax base, if the advantage is given without even having economic activities or presence in the country, if the rule is in order with the OECD tax principles and if there is guaranteed transparency behind the measure.

The EU Code of Conduct also has a criterion for tax measures of general application. In this case, it studies if such measures “lead to a lower tax liability than the nominal tax rate (or no tax liability at all), or deferred taxation as a feature of a distribution tax system.” (Simmons & Simmons, 2022). The Code develops a research process to analyze if the concrete tax feature of general application leads to double non-taxation or if it allows profiting from different tax benefits from the same expenses, and if it affects the decision of the business of whether being placed in the UE or not (European Council, 2023).

But it is also worth mentioning how the EU's business tax policy was a component of a larger integration goal known as "market-making" in the 1990s and 2000s. This policy wanted to promote trade and investment and increase the EU's economic competitiveness. To achieve that, much focus was placed on enhancing the efficiency of corporate tax systems and

removing cross-border barriers. Nowadays the European Union (EU) has taken a significant shift in corporate tax policy, as well as improved coordination between countries.

The EU also worked with the OECD to develop the 2002 OECD minimum standard, an agreement that had the main of avoiding the abuse of tax treaties by giving 4 BEPS provisions and recommendations to the member states of the OECD, which gained a minimum level of legal protection for them in the event of a tax treaty shopping situation.

The abuse of tax treaties is commonly known as “treaty shopping” and it is the action of an individual to try and profit from the benefits of a tax treaty between two jurisdictions, while not having his residence in neither of those. A person who is not a resident of a country that is a party to a tax agreement may try to receive benefits that a tax agreement offers to a resident of that jurisdiction through a variety of methods.

These tactics to try and take advantage of tax treaties while not being a resident of either of those jurisdictions harm the governments’ possibilities of increasing their tax revenue (OECD. n.d).

During the 2008 crisis, the European Union also developed a more advanced legal framework known as "good governance in the tax area" to combat tax avoidance and evasion. EU's good governance strategy helped increase the cooperation between countries on administrative measures such as recovery and assessment help. On the external side, good governance comprised many initiatives relating to EU export criteria on transparency and fair tax competition, including through agreements with third parties on tax-saving measures and anti-fraud measures (Van Thiel, S., 2012). This became a key objective due to the rise in the need for public funds for European economies during the crisis.

The Commission also proposed a Directive that was accepted by the Council in January 2010 (applicable from 1 January 2012), to broaden the scope of tax matters and to ease the recovery assistance on tax evasion issues for the damaged country, the assessment assistance that was given to that state.

The recovery assistance was provided by the transmission of information upon request by the 2002 OECD norm, hindering taxpayers when trying to hide behind banking secrecy. It also allowed a state the possibility of adopting preventive steps and actions against a taxpayer based on an original document, in case it could be of service (Van Thiel, S., 2012). The directive also allowed the use of information and documents obtained through recovery assistance for a variety of purposes, including tax, social security and other purposes, as well as by all judicial and other authorities. The information obtained could even be shared with other Member States. The new directive also made it easier to implement new changes in the future.

The assessment assistance had as its headlining objective, to introduce shortly the transfer of automatic exchange of information on tax matters of non-residents of a state between countries

while trying to reach all possible taxes and reducing red tape in these transfers of information and collaboration protocols. The EU also had the goal to implement a tax on savings with the help of non-member states, but it was not possible to reach a final agreement.

Finally, the EU recommended in this framework applying the main OECD documents on these issues to apply good tax governance and transparency in the Member States.

In May 2013, the EU was required by the European Council to increase its commitments and actions to reduce tax fraud, tax evasion, and aggressive tax planning at the national, EU, and global levels (CoEU 2016). The Economic and Financial Affairs Council (ECOFIN) ministers agreed on the creation of the "EU list of noncooperative jurisdictions" as well as the application of defensive measures to protect tax systems from EU member countries, to adapt to that request.

On the 28th of January 2016, the EU announced a new process for listing third countries that refuse to play fair on tax matters, intending to provide a basis for the EU to take on a coordinated wide response in dealing with global corporate tax avoidance and enhance fair tax competition. The name of this list was "EU list of high-risk third countries" and had the goal to identify those countries that could offer money-laundering possibilities for companies or the possibility of financing terrorism.

This list has been constantly updated twice every year since then and the criteria to make it has been revised as well. The current methodology applied to determine which jurisdictions make it to the list can be resumed in the following 4 points: First, the consultation with third nations regarding first findings; Secondly, the formulation of nation-specific "EU benchmarks" to meet each nation's concerns (preliminarily recognized) on the requirements set forth by the Anti-Money Laundering Directive; Third, the implementation of the demand of corrective steps to third nations before putting them on the list and finally a period of 12 months of margin for countries to comply with UE demands and make any concern disappear (European Commission- Finance, 2023).

The "EU list of high-risk third countries" was published to reduce the dangers of money laundering and terrorist funding, and on top of that safeguard the EU financial system. The measures adopted were to increase due diligence checks on financial operations involving clients and financial institutions from these high-risk third countries as a result of the listing to better identify any suspicious money flows (EU Business, 2019).

The European Commission prepared three criteria major rules, and if a country did meet at least one of them, it had to be included on the list. Jurisdictions had to be relevant in the EU economy, evaluated by the International Monetary Fund as international offshore financial centers, or have a substantial impact on the financial state of the EU.

The countries currently listed on it are Afghanistan, Barbados, Burkina Faso, Cambodia, Cayman Islands, Democratic Republic of the Congo, Gibraltar, Haiti, Jamaica, Jordan, Mali,

Morocco, Mozambique, Myanmar, Panama, Philippines, Senegal, South Sudan, Syria, Tanzania, Trinidad and Tobago, Uganda, United Arab Emirates, Vanuatu, Yemen.

Democratic People's Republic of Korea (DPRK) and Iran are also identified as countries that could be included soon on the list.

During the same year, the Anti-Tax Avoidance Directive (ATAD), was adopted by the Council of the European Union. All Member States had to incorporate the five legally-binding anti-abuse elements in ATAD into their domestic legislation to combat prevalent types of aggressive tax planning. The measures were the following: enforceable agreements to stop the most popular strategies used by businesses to evade taxes; advice to Member States on how to stop tax treaty abuse; a suggestion that Member States share tax-related data on corporations operating in the EU; initiatives to advance global tax good governance; and a new EU procedure for identifying uncooperative third parties (Taxation and Customs Union, 2016).

According to EU Law Live, this directive applied "an earnings stripping rule, a general anti-avoidance rule (GAAR), a controlled foreign company rule (CFC), an exit tax, and regulations on hybrid mismatches" (Pina Montaner, V., 2021), all of which started to be officially applied by the start of 2019 and 2020, respectively.

Finally, on the 5th of December 2017, the list of non-cooperative jurisdictions on tax matters was published for the first time by the European Council, applying the OECD principles of tax transparency. This list, which will be explained in more detail in the next sections, was also a way to complement the previously released "EU list of high-risk third countries."

3.2) "EU list of non-cooperative jurisdictions for tax purposes" and Tax Haven Criteria:

The "EU list of non-cooperative jurisdictions for tax purposes" was first published on the 5th of December 2017 by the Council of the European Union and included 17 non-EU countries or territories. The jurisdictions listed on it were expected to act effectively and increase their commitments to dispel the EU's concerns to avoid their permanence on the list. The list was used as a threat by the EU so those jurisdictions would stop offering low tax rates to corporations. This document is revised and updated two times every year to ensure that those that are not on it comply with their commitments and to check if those on it can be finally removed from it (European Council, 2019).

The objective of this list was to promote global tax transparency and reduce tax practices used by big companies located in the EU to profit from third countries' tax systems to commit tax evasion and tax avoidance while leaving a tax framework useful for developing countries.

The list has also increased the cooperation between some countries and the EU, as there have been cases of countries that were first listed on the blacklist and progressively moved up to the grey list and finally to the white list, but for other jurisdictions, this list has slowed down their growth by reducing their tax revenues.

The list was created trying to follow the same criteria applied by the OECD to publish its list, to make sure that there were no discordances between the two institutions.

The process to revise the list includes: updating the criteria according to international tax standards, analyzing whether countries complied with the criteria, communicating with countries that did not comply with it, and listing depending on their situation and commitments. Judge the reforms made over time, and monitor developments to ensure that jurisdictions do not backtrack on previous reforms.

The European Commission is responsible for the first part of it, preparing a classification with points for the Code of Conduct Group with all countries outside of the EU. The second step, is done by evaluating jurisdictions for additional screening based on factors such as transparency and information exchange, the presence of favorable tax regimes, and no corporate income tax or a zero corporate tax rate. Further criteria used are the economic linkages between the jurisdiction and the EU, the stability of its institutions, and the health of its financial sector, respectively, which serve as complementary risk indicators to the economic, financial, and stability objectives. Together, they assess the extent of risk that the jurisdiction's tax governance poses to the continent's internal markets. The Code of Conduct Group is advised by the results of the scoring approach as to which jurisdictions to consider for additional screening (European Council, 2019).

Then those countries are contacted by the EU to try to find solutions to those issues found during the screening. After the contacts are made, European Council elaborates the list based

on the talks and commitments done by the third countries. Countries selected receive letters with information about the reasons for their selections and how can they make it out of the list.

The European Union, on the same day as the list was published, released as well another document in which it mentioned the actions that had to be done by the EU member states for the list to be effective. This document concluded that EU member states must develop and apply effective defensive measures in tax and non-tax areas to preserve and protect their tax revenues and fight against tax fraud, evasion, and abuse.

As non-tax defensive measures, they were related to foreign policy, development cooperation, and economic relation with third countries. The tax defensive measures were divided into two categories, those related to complying with and following the most recent EU Law and fiscal transparency, and those related to the National measures that had to be taken by the member countries. The latter ones were separated between administrative measures, which included reinforced monitoring of transactions, increased risk audits for taxpayers who benefit from listed regimes, and legislative measures, including non-deductibility of costs incurred in a listed jurisdiction, and limitation of the participation exemption on shareholder dividends among others. Each country agreed to apply at least one administrative and one legislative measure (European Council, 2019).

The criteria applied by the EU were adopted by the European Council on the 8th of November 2016 with three main points: Tax transparency criteria, Fair taxation, and the Implementation of anti-BEPS measures (European Commission, 2019).

- Tax transparency criteria: Jurisdictions should participate with the EU member states in the required systems of exchange of tax data, using the common reporting system defined by the OECD or other methods acceptable. Jurisdictions should be present in the OECD Multilateral Convention on Mutual Administrative Assistance in Tax Matters, or have a network of exchange arrangements in place that covers all EU member states. Beneficial ownership is a factor that the EU wants to add as well soon.
- Fair taxation: Jurisdictions should not implement tax systems to obtain revenues from taxpayers with no real economic activity in the country.
- Implementation of anti-BEPS measures: Jurisdictions should commit to implementing the OECD anti-BEPS minimum standards, which concern harmful tax measures, treaty shopping, country-by-country reporting, and dispute resolution, also jurisdictions should receive positive reviews in the reports written by other countries about their BEPS measures implemented.

3.3) Which countries are on the “EU's Tax Haven Blacklist”

The territories that can be found on the “EU list of non-cooperative jurisdictions for tax purposes” are American Samoa, Anguilla, Bahamas, British Virgin Islands, Costa Rica, Fiji, Guam, Marshall Islands, Palau, Panama, Russia, Samoa, Trinidad and Tobago, Turks and Caicos Islands, US Virgin Islands and Vanuatu.

These territories are classified by the European Council as tax havens since it is considered that they are not complying with the criteria previously shown in the last section.

Costa Rica, Marshall Islands and Russia were added to this list on the 14th of February of 2023, being the last to be added from the jurisdictions currently included in the list.

As one may have realized, some of the most traditional tax havens in the world such as the Caiman Islands or the Seychelles are not present in the list mentioned. This happens due to the existence of a “grey list.” In this list, some countries have given their commitment to making the changes required by the EU, but some of them such as Turkey have been failing in doing so repeatedly. Most of the countries in this list are commonly considered tax havens, but since the criteria to be on the “EU list of non-cooperative jurisdictions for tax purposes” are not strong as they should be, there are territories that offer a close to 0% tax rate for corporations can be found on the “grey list” (Peter Hansen, K., and Urtasun. E., 2022)

All delisted countries from the “EU list of non-cooperative jurisdictions for tax purposes” are first moved to a “grey list”, which includes jurisdictions that are not in line with EU standards on tax legislation but have made a formal commitment to change their tax rules. If they can adapt their tax regulations to the demands of the European Council, they can be removed from that list as well.

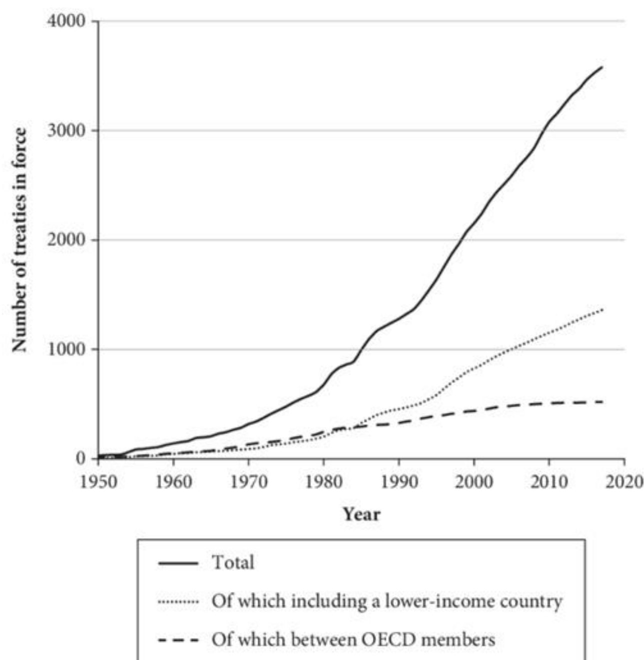
The consequences suffered by those countries on the list can be a loss of international reputation, heightened financial transaction monitoring and the potential loss of EU financial aid.

Compared with the previous list, “EU list of high-risk third countries”, three countries can be found in both lists, Panama, Trinidad and Tobago, and Vanuatu, being these two significant warnings given by the EU to these jurisdictions that some reforms must be undertaken by them.

3.4) *List of tax treaties of countries of the EU with countries on the list*

Tax treaties are redacted to reduce and facilitate the distribution of tax revenues in the sense that they clarify who gets taxed and in which country. It is a basic tool to establish collaboration in tax matters between countries, easing commercial deals or other types of transactions by specifying where the movement of currency is taxed, whether in the country of origin, in the country of delivery, or both (but at a lower rate). Treaties define the categories of businesses that are subject to which taxes.

Tax treaties have been a growing phenomenon in the world since they started to be redacted, as it can be seen in the following figure:



Source: IBFD Tax Research Platform. (2020). *Growth in the number of tax treaties* [Graph], IBFD. (http://researchibfd.org/).

The graph shows the constant growth in the number of tax treaties signed between the years 1950 and 2020. One of the lines is for the total of tax treaties signed, another one is for treaties that include a lower-income income country and the other one is for the number of treaties between countries that are members of the OECD. The graph shows a growing evolution throughout almost all the years and a clear increase from a bit more than 1000 tax treaties in force to 3000 between the years 1990 and 2010, motivated by the publication of the “OECD Model for Tax Convention on Income and Capital” in the year 1992.

In this next point, there is a summary of the DTA (Double Tax Agreements) that exist between countries belonging to the EU and countries that can be found in the list of tax havens published by the European Union:

- **American Samoa:** This jurisdiction does not have any DTA with any member country of the EU.

- **Anguilla:** This jurisdiction does not have any DTA with any member country of the EU. It does have signed TIEAs (Tax Information Exchange Agreements) with the following countries from the EU: Belgium, Denmark, France, Finland, Germany, Ireland, The Netherlands, and Sweden.

- **Bahamas:** This jurisdiction does not have any DTA with any member country of the EU. It does have signed TIEAs with the following members countries: Czech Republic, France, Ireland, Belgium, Denmark, Spain, Finland, Netherlands, Poland and Malta.

- **British Virgin Islands:** This jurisdiction does have Double Taxation Agreements with Denmark, Sweden*, and Finland. It does have TIEAs with France, Germany, Ireland Netherlands, Poland and Portugal. This jurisdiction does also participate in the MAAC (Convention on Mutual Administrative Assistance in Tax Matters) with all the member states of the EU.

- **Costa Rica:** This jurisdiction has a DTA signed on withholding taxes with Germany and Spain.

- **Fiji:** This jurisdiction does not have any DTA with any member country of the EU.

- **Guam:** This jurisdiction does not have any DTA with any member country of the EU.

- **Marshall Islands:** The Marshall Islands have TIEAs signed with the following EU member states: Denmark, Finland, Ireland, Netherlands and Sweden.

- **Palau:** This jurisdiction does not have any DTA with any member country of the EU.

- **Panama:** This jurisdiction does have DTA with the following EU members: Spain, France, Ireland, Luxembourg, Netherlands, Czech Republic, Italy and Portugal.

- **Russia:** Russia used to have DTA agreements with all countries from the European Union except Estonia, Slovakia, and Slovenia. All those treaties were suspended during the year 2023 by Russia when they announced that all those countries were since then considered “unfriendly”.

- **Samoa:** This jurisdiction does not have any DTA with any member country of the EU.

- **Trinidad and Tobago:** This jurisdiction does have DTA with the following EU members: Spain, Denmark, France, Luxembourg, Sweden, Italy and Germany.

- **Turks and Caicos Islands:** This jurisdiction does not have any DTA with any member country of the EU, but it does have TIEA agreements with the following EU members: Cyprus, Denmark, Finland, France, Germany, Ireland, The Netherlands, Portugal and Sweden.

- **US Virgin Islands:** The government of this jurisdiction cannot enter tax treaties with foreign countries since it is not legally authorized by the U.S. government. On the other hand, this jurisdiction belongs to the geographical area within which most U.S. Tax Exchange of Information Agreements apply, so many of the provisions contained in U.S. Tax Exchange of Information Agreements with foreign countries are also present in US Virgin Islands TIEAs. There are a few exceptions such as the exclusion of the U.S. Virgin Islands from the geographic definition of the United States the agreement between the United States and Bermuda, but none in agreements with members of the EU.

- **Vanuatu:** This jurisdiction does not have any DTA with any member country of the EU, but it does have TIEA agreements with the following EU members: Denmark, Finland, France, Ireland and Sweden.

A type of agreement mentioned in this summary is the Tax Information Exchange Agreement (TIEA).

The tax relief provisions that are covered by a tax treaty are not included in these agreements. The main goal of these agreements is to facilitate the transfer of information between countries. They offer advantages not only to reduce tax evasion or tax avoidance practices since the transfer of information makes developing them even more challenging, but also agreements of this kind between governments facilitate the situation for those companies developing their business in both nations to benefit from tax-offsetting measures like international tax credits and "exempt surplus" (revenue that has already been taxed once and is not subject to future taxation) (OECD, 2023).

Double Tax Agreements also offer articles in them about the exchange of information (EOI) between jurisdictions, intending to stop income and capital tax evasion. This agreement also addresses double non-taxation of income, which results from the interaction of the domestic tax laws of two or more contracting states. The personal scope (Article 1) and taxes covered (Article 2) as stated in the OECD Model Tax Convention are specifically overridden by the EOI article.

Finally, there are also countries on the list that participate in the MAAC (Convention on Mutual Administrative Assistance in Tax Matters) as well. There are currently 147 countries in the Convention. Its objective is to promote worldwide cooperation for improved compliance with national tax legislation while upholding taxpayers' fundamental rights. It allows for the full range of administrative cooperation between governments for tax assessment and collection. This collaboration includes automatic information exchanges as well as the recovery of unpaid foreign taxes (OECD, 2023).

3.5) *EU's Tax Haven Blacklist Members Summary*

As mentioned previously, there are currently 16 jurisdictions in the “EU list of non-cooperative jurisdictions for tax purposes”. All the 16 jurisdictions that can be found on the list appear with the following information: “Does not cooperate with the EU or has not fully met its commitments”.

In this point, it will be summarized when was each one of the 16 territories included on the list and what was the reaction of each government to their inclusion:

The interest of knowing the reactions of the different jurisdictions when being included is to know if they show commitment to changing the situation of their territory and to see whether that commitment transformed into a removal of the list in the case of those jurisdictions that have been added more than once.

- **American Samoa:** Added on the 5th of December 2017.
  - The government of American Samoa considered their inclusion "unreasonable" because almost all the banks in the jurisdiction were regulated by the USA. They also expressed their hope that the Federal Reserve Bank of the USA would help them to change this decision taken by the European Commission (RNZ, 2019), but 6 years later, there has not been progress on that front. They have not applied the BEPS minimum standards; they do not participate in the OECD Multinational Convention for tax issues and do not provide automatic transfer of information.

- **Anguilla:** Added on the 6th of October 2020, removed on the 5th of October 2021, added again on the 4th of October 2022
  - Anguilla did not make any official statements after being included on the EU Tax Haven list, but later they committed to adapt to the tax transparency principles demanded by the EU (AP News, 2021). Due to the lack of progress in that field, in 2022 they were included again, making no official statements this time as well. They are considered non-compliant jurisdiction of the Global Forum for Tax Transparency.

- **Bahamas:** Added on the 8th of March 2018, removed on the 25th of May 2018, and added again on the 4th of October 2022.
  - The Bahamas government reacted by stating that it was a surprise for them to be added to the list, and a disappointment for them, since they considered that they had been working closely with the OECD through the whole screening process developed by the European Council. They also mentioned how they were taking immediate steps to solve this situation and be excluded from the list (Jamaica Observer, 2018). They managed to be removed, but as the progress promised was not reached, in 2022 they were included again.

- **British Virgin Islands:** Added on the 14th of February 2023.
  - The reaction of the government of the British Virgin Islands to their inclusion was stating that their jurisdiction "is committed to complying with evolving international standards on transparency and the fight against financial crime" (Newton Media, 2023) They were previously on the grey list and under in the last overview, the European Council determined that their actions had not been enough and finally included them. The government also complained that the European Council had not considered their last tax reforms, "such as the BVI Business Companies Amendment Act 2022 and BVI Business Amendment Regulations 2022 which are meant to meet requirements set out by the OECD" (Newton Media, 2023). Since the OECD still considers that they do not comply with the minimum standards of information exchange, the EU has added them again.

- **Costa Rica:** Added on the 14th of February 2023.
  - The reaction of the President of Costa Rica, Rodrigo Chaves, was to blame the former administration of the country, led by former president Carlos Alvarado, mentioning that their actions were not in favor of the country. The government also sent a letter to the European Union to show its commitment and promise a reform of tax legislation in the country (I. Fernández, 2023). The EU wants them to modify the damaging elements of its foreign source income exemption regime.

- **Fiji:** Added on the 12th of March 2019.
  - The Economic Minister of Fiji accused the European Union of being bullies for including the jurisdiction on the list, as he believed that the objective of this inclusion had the goal of reducing Fiji's economic policy, oriented towards growth. He also claimed that the policies applied by Fiji had been modeled after policies established by other countries that were not included on the list, such as Singapore, denouncing unfair treatment compared to other territories (The Economist Intelligence Unit, 2019). Since 2019, the jurisdiction has remained on the list and there are no updates on whether Fiji will adapt to the demands required. They have not applied the BEPS minimum standards; they do not participate in the OECD Multinational Convention for tax issues and are considered a non-compliant jurisdiction of the Global Forum for Tax Transparency.

- **Guam:** Added on the 5th of December 2017.
  - The Guam Department of Revenue and Taxation showed their surprise at their inclusion on the list, stating that they did not know where did that come from. It is worth mentioning how the Guam tax system is identical to the IRS-enforced U.S. tax code. They claimed that it was a mistake, and highlighted how Guam cannot sign direct tax agreements with the EU due to its condition as a U.S. territory, but transfer Tax Information with the U.S. Treasury. Guam also said

that the EU had not approached them for any international agreement of any type, while the EU stated that the territories added to the list had refused to cooperate and implement changes after a year of negotiations (Kerrigan, K., 2017). They have not applied the BEPS minimum standards; they do not participate in the OECD Multinational Convention for tax issues and do not provide automatic transfer of information.

- **Marshall Islands:** Added on the 5th of December 2017, removed on the 13th of March 2018, added again on the 12th of March 2019, removed again on the 10th of October 2019, and finally added again on the 14th of February 2023.
  - The Marshall Islands have been added three times already, but the first two times the government was committed to an open dialogue with the European Union to fix the situation and be delisted. Both previously they were removed from the list in the following update after their inclusion, so during the year 2023, it will be seen if this trend continues (RNZ, 2023). They were included since the EU considered that they offer an almost 0% nominal tax rate, making competence unfair for the Member States.

- **Palau:** Added on the 5th of December 2017, removed on the 2nd of October 2018, and added again on the 18th of February 2020.
  - Palau was added to the list in the first publication. They were removed in the year 2018 after committing to applying the EU demands, but in 2020 they were reinstated after the EU considered that they had not progressed enough. On the 29th of September 2021, Palau made effective its new tax reform, which was supposed to be positively viewed by the EU, but in 2023 Palau is still on the list (Cagurangan, M., 2021) The EU has kept arguing that they do not participate in the OECD Multinational Convention for tax issues and do not provide automatic transfer of information.

- **Panama:** Added on the 5th of December 2017, removed on the 23rd of January 2018, and added again on the 18th of February 2020.
  - Panama considers that they have applied all the tax requirements demanded by the OECD since the OECD is making a review of its list of tax havens in the fall of 2023, but for the European Union it has not been enough, since they have said that they will not remove Panama from the list if the Financial Action Task Force (FATF) does not do it as well (Newsroom Panama, 2023). They are considered non-compliant jurisdiction of the Global Forum for Tax Transparency.

- **Russia:** 14th of February 2023.
  - Russia was recently added to the list, but the EU explained that it was not due to political reasons but as a result of the “grandfathering provisions” of the country, that allow companies to follow old tax rules instead of the newer ones (Liboreiro, J., 2023). It is considered that although Russia had been investigated

for some time, the fallout in the relationship due to the war with Ukraine made the process accelerate.

- **Samoa:** 5th of December 2017.
  - Samoa's Prime Minister considered the inclusion of the jurisdiction as "shameful." In an official statement, Samoa also showed commitment to meet the demands of the European Union, and it also mentioned that the Ministers of Finance and Revenue had signed a letter committing to ensure that the actions of Samoa's commitment were taken before the end of 2018 (Samoa Observer, 2017). The EU does not consider that enough progress has been done and believes that their tax regime contains harmful elements.

- **Trinidad and Tobago**: 5th of December 2017.
  - Trinidad and Tobago deemed the publication of the "EU list of non-cooperative jurisdictions for tax purposes" as a threat to regional countries of the Caribbean Sea that had been included, despite they believed that enough steps had been taken by them to avoid the listing. According to the official statement, regional leaders felt that was unfair the loss of reputation suffered by those jurisdictions included on the list published by the European Union Council in December 2017 added to other measures taken against territories considered tax havens (Doodnath, A., 2017).

- **Turks and Caicos Islands:** 4th of October 2022.
  - The European Union concluded that there had not been any progress by Turks and Caicos in changing their regulation and establishing relationships with the Member States of the European Union. There were no official statements released by Turks and Caicos after the breaking of this news (Hearst, E., 2022)

- **US Virgin Islands:** 8th of March 2018
  - There were no official statements released by Turks and Caicos after the breaking of this news (Hearst, E., 2022). The EU considers that have not applied the BEPS minimum standards; they do not participate in the OECD Multinational Convention for tax issues and do not provide automatic transfer of information.

- **Vanuatu:** 12th of March 2019.
  - Vanuatu released a statement in which it explained how they were a former colony and that led to its economy being more vulnerable than most countries, also being classified as a least developed country until the end of 2020. They believed that including them on the list was a way of penalizing them for the previous colonization suffered by the country. Vanuatu also explained how the inclusion was unfair to them since neither the OECD nor the Tax Justice Network considered its tax jurisdiction harmful, but they are not considered largely-compliant jurisdiction of the Global Forum for Tax Transparency.

Vanuatu asked for a revision of the criteria applied by the EU, considering that it was damaging for poorer countries (The Economist Intelligence Unit, 2019).

In the following graph, it can be observed the evolution in the number of jurisdictions included on the list at the beginning of every year since January 2018.

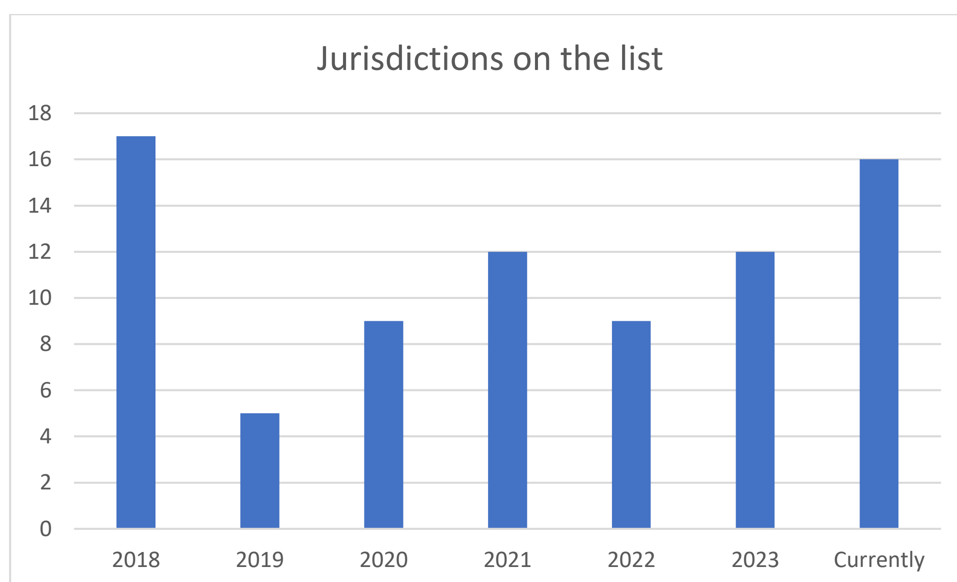


Figure 1, (2023). *Number of jurisdictions on the EU list of tax havens 2018-2023* [Chart].

The graph showed a big reduction between 2018 and 2019, having the list its lowest number of territories at the beginning of 2019, with only 5. Since then, the increase of jurisdictions has been increasing constantly except for 2022, when there were 9, compared to the 12 listed at the beginning of 2021. In 2023, before the second update of the year that will be published during the fall, there are already 16 jurisdictions, so if the number increased in the next publication, it would tie or overcome the previous record of countries listed at the beginning of a year, which happened in 2018, when there were 17 territories.

It is worth mentioning how before the publication of the 5th of December of 2017, the Council had previously decided to stop the screening process for some jurisdictions that had been affected by devastating hurricanes in September 2017, those included: Anguilla, the Bahamas, the British Virgin Islands, the Turks and Caicos Islands and the US Virgin Islands. This means that the number of jurisdictions listed in the first publication could have been even higher than 17 if any of these territories had been added. All in all, all these jurisdictions are currently on the list, so the chance of them being added already in 2017 was high.

The objective for the next years for the EU is to be able to receive the necessary commitments from the jurisdictions on the list, and then ensure that these commitments are followed by the required actions.

3.6) EU's Tax Haven Grey List

The jurisdictions removed from the "EU list of non-cooperative jurisdictions for tax purposes" are transferred to the Annex II of the EU list, also called the grey list. The jurisdictions placed here are working together with the EU to carry out their high-level promises in a predetermined amount of time. If they comply with all their responsibilities, they may be promoted to the "whitelist" by the EU, which periodically checks their statuses. When jurisdictions are moved to the whitelist, they are officially considered delisted.

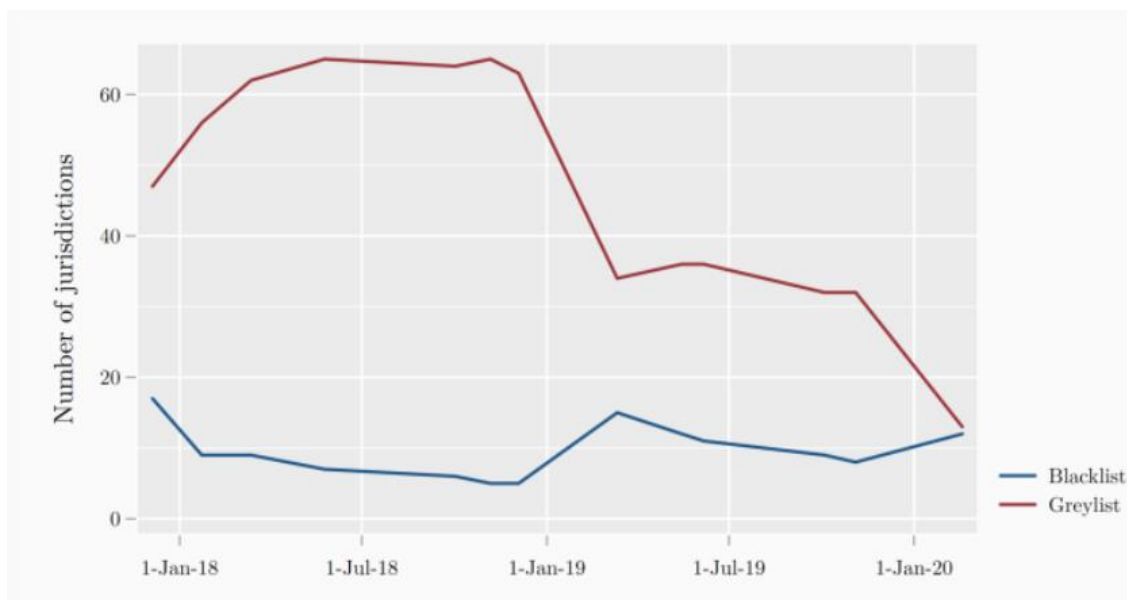
Jurisdictions included on the grey list are classified as cooperative, but still pending on whether the delivery of their commitments is successful. The EU Code of Conduct Group is responsible for following the progress done by territories on the grey list and deciding whether it is enough to enter the white list, remain on the same list, or be downgraded to the black list.

The original intention of the EU in creating the grey list was that most of the jurisdictions would have successfully complied with their commitments by the end of 2018, giving an extra year to developing countries, until the end of 2019. These deadlines were extended with the appearance of the Covid-19 pandemic forcing the EU to keep extending them, so right now there are still some jurisdictions on the list (Ahairwe, P. E. et al, 2021).

The grey list currently has 18 jurisdictions on it, those are Albania, Armenia, Aruba, Belize, Botswana, Curaçao, Dominica, Eswatini, Hong Kong, Israel, Jordan, Malaysia, Montserrat, Qatar, Seychelles, Thailand, Turkey, and Vietnam.

Some of these jurisdictions have already been on the blacklist. This is the case for Aruba, Belize, Dominica, and Seychelles. All of them were moved to the grey list between 2019 and 2021, but since then their efforts to comply with their commitments have not been enough, and face the risk of entering the list again.

In the following graph, it can be seen the evolution in the number of territories on both the blacklist and the grey list between 2018 and 2020:



Source: Collin, M., (2020, June 25th). *Did the EU's attempt to name and shame tax havens into behaving better work?* Brookings (https://www.brookings.edu/blog/up-front/2020/06/25/did-the-eus-attempt-to-name-and-shame-tax-havens-into-behaving-better-work/).

In the figure, it can be seen a red line that shows the trend of the number of countries placed in the grey list and a blue line that shows the number of territories on the blacklist during every semester of those years.

The number of countries on the grey list shows a very significant decrease, since there were over 60 countries on it during the year 2018, and at the beginning of 2020, there were already less than 20 jurisdictions on it. The blacklist follows a more constant trend as observed during the previous section, moving always between five and seven jurisdictions listed on it.

On the last update of the grey list, published on the same day as the last update of the "EU list of non-cooperative jurisdictions for tax purposes;" on the 14th of February of 2023, there were 3 jurisdictions added to the grey list, Albania, Aruba and Curaçao, and four were removed of it, Barbados, Jamaica, North Macedonia, and Uruguay, that were upgraded the white list. It must be kept in mind the four others that were added to the blacklist on that last update.

PRACTICAL FRAMEWORK

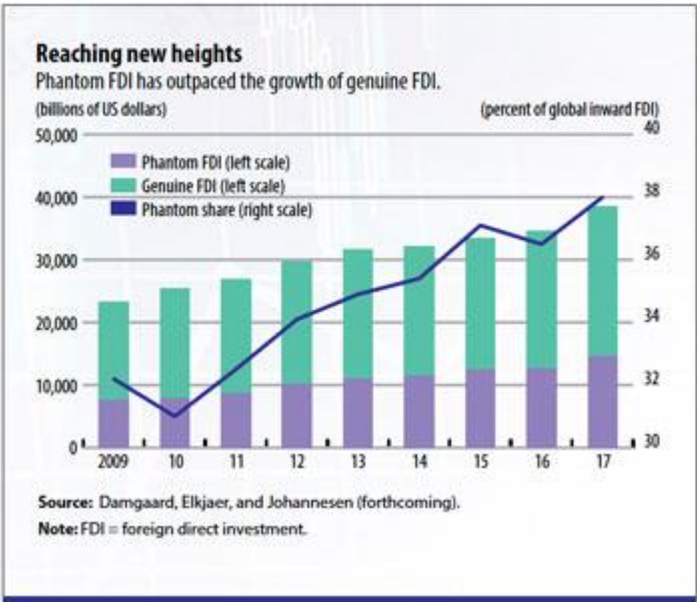
4) Impact of EU Measures against Tax Havens

4.1) Impact on Tax Havens

The objective of this section is to observe the effect of the policies developed by the European Union on tax havens. The global average corporate tax rate was reduced from around 40 percent at the beginning of the 1990s to about 25 percent in 2017. This trend indicates a competition between states to try to guarantee and increase investments in their countries, even if in some cases these jurisdictions are used as a tool for tax evasion and avoidance.

Phantom FDI is the process of investing through which a company invests in its subsidiary located in a jurisdiction that allows them to apply tax optimization techniques, while the investment has no links to the economy of the country.

In the following graph, it can be seen the evolution of Phantom FDI between 1990 and 2017 in territories considered tax havens.



Source: Damgaard, J., Elkjaer, T., Johannesen, N., (2019). *What Is Real and What Is Not in the Global FDI Network?* IMF Working Paper, International Monetary Fund, Washington, DC.

Although the European Union has been developing tax measures to avoid offshore taxation since the 1990s, Phantom FDI has only shown a growing trend, showing no signs of slowing down despite the global crisis of the year 2008. This statistic does not cover the years after the "EU list of non-cooperative jurisdictions for tax purposes" was first published, but previous guidelines such as the BEPS principles had already been given by the European Union, having

no success in reducing this stat. Although statistic does indeed not only cover the EU; the trend of increase of Phantom FDI seems to be growing as a global phenomenon.

The countries included on the list have faced several consequences; firstly, their international reputation has been damaged, as being on the list has highlighted and exposed those jurisdictions as tax havens, leaving doubt on investors of those countries.

They also were not candidates anymore to receive funding from the EU such as "the European Fund for Sustainable Development Plus (EFSD+), and the external lending mandate (CoEU 2019)."

European entities located in these countries cannot receive funds from the following EU initiatives: The European Fund for Sustainable Development (EFSD), the European Fund for Strategic Investment (EFSI), and the External Lending Mandate (ELM), so although these do not directly affect the jurisdiction, it decreases the chances and incentives of companies to enter that market (Ahairwe, P. E. et al, 2021).

They will be sanctioned by the EU Member States with measures that include more audits and monitoring, withholding taxes, unique documentation needs and anti-abuse clauses.

But some countries have decided that the increase in FDI that provide their tax legislation is worth receiving the sanctions. After the Covid-19 pandemic, a new scenario was opened since many companies need the economic relief provided by their states to hold on and stay afloat, and some states threatened not to provide these reliefs to those companies with subsidiaries in countries classified as tax havens, putting in jeopardy the system through which tax havens obtain a large amount of foreign investment.

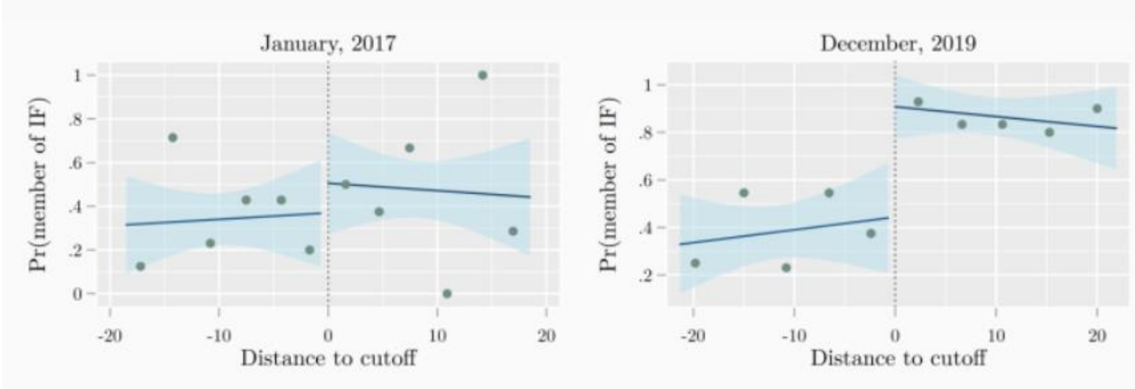
4.2) Impact on Tax Good Governance

The measures taken by the EU in the last decades against offshore taxation, especially in tax havens, have been directed towards boosting Tax Good Governance policies.

The most oriented policy towards accomplishing that goal was the publication of an EU list of tax havens since it pointed directly to those countries that the EU considered had to do more on that matter, but previous policies applied already had the objective of increasing collaboration between states on tax affairs, which is thought to be the main tool to solve or reduce the effect of this issue on member states.

The EU initiatives have participated in "eliminating more than 120 harmful tax regimes globally" (Ahairwe, P. E. et al, 2021) and encouraged other regimes to establish tax transparency standards and join worldwide conventions on tax matters "such as the OECD Global Forum on Transparency and Exchange of Information for Tax Purposes and OECD/G20 Inclusive Framework for Tackling Base Erosion and Profit Shifting (EC2020)" (Ahairwe, P. E. et al, 2021).

In the following graph, it can be observed the increase in the selected jurisdictions that were listed, and how the ones that were placed on the "EU list of non-cooperative jurisdictions for tax purposes" were more likely to join the OECD's Inclusive Framework:



Source: Collin, M., (2020, June 25th). *Did the EU's attempt to name and shame tax havens into behaving better work?* Brookings (https://www.brookings.edu/blog/up-front/2020/06/25/did-the-eus-attempt-to-name-and-shame-tax-havens-into-behaving-better-work/).

The graph covers from January 2017, right after the first publication of the list until the end of 2019, but the effect is significant. Jurisdictions listed are the ones on the right, while the distance to cut-off is the distance that they were from not being included, based on the points system used to screen countries during the process of listing. The jurisdictions on the left were those that were screened but finally were not included in the list. As the trend shows, the jurisdictions listed were at around 50% likely to join the OECD's Inclusive Framework, but after almost three years of the list, the percentage was over 80%, being this number around 90% for those countries that were closer to the cutoff point, so closer to being off the list.

The collaboration established between member states of the EU and countries applying new policies to avoid being included on the blacklist or the grey list of the EU, making easier to achieve progress together soon.

It must be mentioned that there is no official evidence that the EU policies were the main reason for countries who accepted the demands to make them since the OECD and the G20 were also demanding changes of this kind in terms of tax transparency and cooperation, but it cannot be ignored that the EU put its part of the action and since its measures regarding these topics were tightened, an improvement on overall tax practices and legislations all around the world was observed (Ahairwe, P. E. et al, 2021).

5) Analysis of the regression of an international organization fighting Tax Havens

The following tables created for an academic article, use data based on Foreign Portfolio Investment (FPI), to establish relationships between the variables of higher tax burden and OECD residents' tax evasion, especially via tax havens. The sample used to elaborate the data consisted of 18,279 foreign portfolio investment flow (FPI) observations from 160 source countries in 34 OECD host countries between 2002 and 2013. The objective is to analyze the effect of different variables on the dependent variable, FPI, to determine which of them are statistically significant in increasing or reducing Foreign Portfolio Investment while fighting multiple tax havens at the same time (Kemme, D. M. et al, 2017).

Since the European Union is also fighting multiple tax havens, the results will be interpreted and translated to the institution.

The basic regression models used to establish the calculations are the following:

Source: Kemme, D. M., Parikh, B., Steigner, T., (2017, May 18th). *Tax Havens, Tax Evasion and Tax Information Exchange Agreements in the OECD.* European Financial Management. (https://onlinelibrary.wiley.com/doi/full/10.1111/eufm.12118)

$$\begin{aligned} Log(FPI)_{ij,t} = {} & \beta_1 TIEAS_{ij,t} + \beta_2 Source\ TaxHavens_{j,t} * TIEAS_{ij,t} + \beta_3 DTAA_{ij,t} \\ & + \beta_2 Source\ TaxHavens_{j,t} * DTAA_{ij,t} + \beta_K X_{i,j,t} + \beta_5 \Delta Tax\,Savings_{i,t} \\ & + \beta_6 Source\ TaxHavens_{j,t} * TIEAS_{ij,t} * Tax\,Savings_{i,t} \\ & + Source\ Country\ Effects_j + Year\ Fixed\ Effects_t + \epsilon_{i,j,t} \end{aligned}$$

$$\begin{aligned} Log(FPI)_{ij,t} = {} & \beta_1 TIEAS_{ij,t} + \beta_2 Source\ TaxHavens_{j,t} * TIEAS_{ij,t} + \beta_3 DTAA_{ij,t} \\ & + \beta_2 Source\ TaxHavens_{j,t} * DTAA_{ij,t} + \beta_K X_{i,j,t} + \beta_5 \Delta Tax\,Savings_{i,t} \\ & + \beta_6 Source\ TaxHavens_{j,t} * TIEAS_{ij,t} * Tax\,Savings_{i,t} \\ & + Source\ Country\ Effects_j + Year\ Fixed\ Effects_t + \epsilon_{i,j,t} \end{aligned}$$

Source: Kemme, D. M., Parikh, B., Steigner, T., (2017, May 18th). *Tax Havens, Tax Evasion and Tax Information Exchange Agreements in the OECD.* European Financial Management. (https://onlinelibrary.wiley.com/doi/full/10.1111/eufm.12118)

The first regression studies the more determinant variables affecting investment flows, and the second equation examines if bilateral agreements influence FPI.

The model carries out six tables. In this thesis, the focus will be on the first four. The dependent variable is always Foreign Portfolio Investment (FPI), measuring whether the other variables have a direct relationship with it in each case. A correlation is established if the variables are statistically significant in the regression, and depending on if the coefficient of the variable is positive or negative, it will be a positive or negative relationship, determining if the variable increases or decreases the FPI.

The first table is focused on round-tripping and the movement of money, to prove an increase in tax savings in money that has been previously transferred to a tax haven. A positive sign of the coefficient of the variable "Δ Tax Savings" would mean that a higher level of tax savings would increase the dependent variable FPI:

Variables	I	II	III
Δ Tax Savings	0.0001**	0.0001***	0.0001***
	(0.000)	(0.000)	(0.000)
*Source Tax Haven * Δ Tax Savings*	0.0091**	0.0095***	0.0092***
	(0.004)	(0.003)	(0.003)

Source: Kemme, D. M., Parikh, B., Steigner, T., (2017, May 18th). *Tax Havens, Tax Evasion and Tax Information Exchange Agreements in the OECD.* European Financial Management. (https://onlinelibrary.wiley.com/doi/full/10.1111/eufm.12118)

In this table, the variables "Δ Tax Savings" and "Source Tax Haven * Δ Tax Savings" are statistically significant at all levels, proving that countries that offer higher tax savings have higher values of FPI, and this same effect is observed in tax havens that offer higher tax savings than the home country.

The second table studies if FPI in jurisdictions considered tax havens is reduced when TIEAs or DTA agreements are signed between countries. The hypothesis of the study mentions how there should be a positive relationship between the variable of "DTAA" and FDI since they facilitate investments in other countries, but there should be a negative relationship in FDI related to the variables "Source Tax Haven * TIEAS" and "Source Tax Haven * DTAA." If there is no significant negative relationship between FDI and these variables, it means that these agreements are not reducing offshore taxation in these jurisdictions:

Variables	I	II	III
TIEAS	1.5568***	–0.1687	–0.1700
	(0.135)	(0.121)	(0.120)
*Source Tax Haven * TIEAS*	–1.0172***	–0.2410	–0.2642
	(0.182)	(0.171)	(0.171)
DTAA	0.4414***	0.4349***	0.4671***
	(0.154)	(0.0498)	(0.135)
*Source Tax Haven * DTAA*	–0.0007	–0.0123	0.0009

Source: Kemme, D. M., Parikh, B., Steigner, T., (2017, May 18th). *Tax Havens, Tax Evasion and Tax Information Exchange Agreements in the OECD*. European Financial Management. (https://onlinelibrary.wiley.com/doi/full/10.1111/eufm.12118)

Analyzing the results obtained, TIEAs and DTAAs do increase FPI in a foreign country. But for the same variables in territories considered tax havens, DTAA is not a significant variable, meaning that it does not affect FDI in tax havens, so the objective of DTAs is not achieved. TIEAs do reduce FDI in tax havens, as the transfer of information between countries increases the risk for those planning, but only for the first level of specification, meaning that if other

significant variables are removed from the equation, TIEAs are not significant anymore, not affecting whether tax evasion practices are done.

The third table was done in the same way as the first one, but without including the part of the sample that had the U.S. as host country, since there had been previous studies proving the use of tax havens by US investors.

Variables	I	II	III
Δ Tax Savings	0.0001**	0.0001***	0.0001***
	(0.000)	(0.000)	(0.000)
*Source Tax Haven * Δ Tax Savings*	0.0058*	0.0043	0.0040
	(0.003)	(0.003)	(0.003)

Source: Kemme, D. M., Parikh, B., Steigner, T., (2017, May 18th). *Tax Havens, Tax Evasion and Tax Information Exchange Agreements in the OECD.* European Financial Management. (https://onlinelibrary.wiley.com/doi/full/10.1111/eufm.12118)

The most relevant information here was the fact that although FDI also grew in countries that offered higher tax savings in all three levels of specification, it was not as significant if the source country was a tax haven, as it is only significant on the first level specification. This table concludes that the results of the first table were influenced by US investors, which is relevant keeping in mind that the current table used the part of the sample that EU investors.

The fourth table analyzes the same variables as the second table, but as in Table 3, the part of the sample that has the U.S. as the host country is not considered.

Variables	I	II	III
TIEAS	2.0160***	0.1516	0.1509
	(0.157)	(0.125)	(0.125)
*Source Tax Haven * TIEAS*	–1.3824***	–0.3035*	–0.3134*
	(0.206)	(0.175)	(0.176)
DTAA	0.3333***	0.3109***	0.3108***
	(0.058)	(0.050)	(0.050)
*Source Tax Haven * DTT*	0.0771	0.0768	0.0764
	(0.135)	(0.115)	(0.116)

Source: Kemme, D. M., Parikh, B., Steigner, T., (2017, May 18th). *Tax Havens, Tax Evasion and Tax Information Exchange Agreements in the OECD.* European Financial Management. (https://onlinelibrary.wiley.com/doi/full/10.1111/eufm.12118)

The results for the variables “TIEAS” and “DTAA” provide the same results as in Table 2, increasing FDI in countries that have these agreements with the host country of the investor,

showing a positive effect of these policies, as they are designed to facilitate investments abroad.

The presence of a double taxation agreement with a territory considered a tax haven gives the same results as obtained in Table 2, with this variable being not significant towards an increase or FDI. The variable that offers a bigger difference is if the tax haven does have a TIEA agreement with the host country, since in this case the variable is statistically significant at all three levels of specification. The negative coefficient means that TIEA causes a decrease in FDI on tax havens, showing a positive effect of those agreements.

6) Conclusions

The measures taken during the last years by the European Union against the use of tax havens have been directed towards increasing cooperation between countries and making it harder for those who develop these practices.

The hypothesis developed during the beginning of the thesis was "The policies implemented by the European Union against tax havens have had a positive impact on tax transparency worldwide, engaging Member States and third countries in a more collaborative tax framework and they have also limited tax evasion and tax avoidance in the EU."

There have been a few different measures implemented, some directed towards protecting the Member States of the European Union, such as the BEPS provisions, meanwhile, others were more oriented to protecting these Member States more indirectly, focusing on marking, and separating those countries that were considered to present a higher risk to the European Union and in this case its tax systems.

The main initiative in this field was the development of a list that has had significant success in pressuring countries to implement measures and policies oriented to boost their tax transparency and the transfer of information between jurisdictions. The increase in the implementation of these measures was observed in section 4.2), showing a notable improvement in this category. So, the first part of the hypothesis, related to the positive impact on tax transparency worldwide, was proven to be accepted.

But there are still countries that have not accepted to develop the demands from the European Union, and the answer for these challenges seems to be tightening the pressure with direct actions such as sanctions or the inaccessibility to European funds and indirect actions such as threatening those companies that use these territories for aggressive tax planning without the option to obtain funds as well.

This would be the easier solution, but the European Union also must keep in mind that most of these countries are still developing, and hard hits to their economies could be very hurtful

and leave very serious consequences in the long run. Some jurisdictions such as Vanuatu showed their concern and complaints about this in section 3.5).

The situation is complex, since on the other side, there are complaints from non-profit organizations that consider that for some countries with tax rates near 0%, avoiding being blacklisted is just a game, and there has been criticism against the European Union demanding a stronger criterion for countries to be blacklisted.

Closing access to tax havens is one of the most challenging aspects of this issue, and for the European Union, it does not seem like there are many better alternatives than cooperating with countries used for illegal tax practices and trusting that they will respect the commitments made. Besides that, the last statistics on that have shown an increase in Foreign Direct Investment in tax havens, as well as a rise in the last decades of the Corporate Tax Revenue, lost due to these territories. The second hypothesis was refuted since although the data was not strictly about tax evasion and tax avoidance practices, the increase in the use of tax havens and the loss of tax revenue due to the use of these jurisdictions are negative statistics towards the hypothesis formulated.

The plan of the European Union will not have an immediate effect, but the progress must be achieved step by step, and a solid basis should be consolidated first to see the results later shown in the stats. The improvements in the tax systems of non-Members of the EU have the potential to become improvements in these statistics in a few years from now, but patience and continuity will be required.

It was observed during the last section of the work, how tax treaties and agreements for the exchange of tax information have not been as relevant as it could be expected in discouraging investors from transferring their currencies to tax havens to profit from the lower tax rates offered compared to their home countries. They are still useful tools in the fight against tax havens, but soon tightener clauses may be added to reach a more automatized system of tax information exchange. It will probably never be possible to stop someone from trying to use these territories to commit tax crimes but increasing the risks and consequences faced by those who are legally declared as committers of tax crimes could be a way to discourage the rest to develop these kinds of practices.

Another issue that must be faced by the European Union is the fact that some of the member states are used for aggressive tax planning tactics developed by companies, especially Ireland and the Netherlands. This is a dangerous tendency that can be damaging as well for countries with the necessity of developing policies based on increasing taxes. Although these territories will not be classified as tax havens by the EU since they are Member States, a revision of their legal tax frame could be beneficial in the future to increase tax revenues in the EU. Another way to improve this issue would be to increase the harmonization of tax regulations and cooperation between the EU members because in this thesis, it was mostly seen from the

perspective of the EU and its Member States and how they perceived the external tax havens, but there are discordances as well inside the European Union on tax policies, and establishing a more common environment of cooperation and togetherness would surely have positive consequences.

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8) Annexes

Table 1: Regression analysis for round-tripping

Variables	I	II	III
Δ Tax Savings	0.0001**	0.0001***	0.0001***
	(0.000)	(0.000)	(0.000)
*Source Tax Haven * Δ Tax Savings*	0.0091**	0.0095***	0.0092***
	(0.004)	(0.003)	(0.003)
Relative Exchange Rate	–0.0002***	–0.0002**	–0.0002***
	(0.000)	(0.000)	(0.000)
Share of GDP	11.4239***	12.9199***	13.0141***
	(0.172)	(0.179)	(0.178)
Relative GDP per Capita	0.0190***	0.0096***	0.0102***
	(0.001)	(0.001)	(0.001)
Distance (KM)		–0.0120***	–0.0125**
		(0.000)	(0.000)
Common Language		0.7763***	0.8267***

		(0.000)	(0.137)
Identical Law System		0.4936***	0.5882***
		(0.033)	(0.035)
Corruption		1.4606***	1.5061***
		(0.024)	(0.026)
*Source Tax Haven * Distance*			0.0025**
			(0.001)
*Source Tax Haven * Common Language*			0.0232
			(0.103)
*Source Tax Haven * Identical Law System*			–0.6151***
			(0.098)
*Source Tax Haven * Corruption*			–0.2243***
			(0.056)
Source Fixed Effects	Yes	Yes	Yes
Year Fixed Effects	Yes	Yes	Yes
No. of Observations	18,279	18,279	18,279
Adjusted R Square	0.9887	0.9915	0.9915

Source: Kemme, D. M., Parikh, B., Steigner, T., (2017, May 18th). *Tax Havens, Tax Evasion and Tax Information Exchange Agreements in the OECD.* European Financial Management. (https://onlinelibrary.wiley.com/doi/full/10.1111/eufm.12118)

Table 2. Regression Analysis for Tax Information Exchange Agreement (TIEAS) and Double Taxation Avoidance Agreements (DTAA)

Variables	I	II	III
TIEAS	1.5568***	–0.1687	–0.1700
	(0.135)	(0.121)	(0.120)
*Source Tax Haven * TIEAS*	–1.0172***	–0.2410	–0.2642
	(0.182)	(0.171)	(0.171)
DTAA	0.4414***	0.4349***	0.4671***
	(0.154)	(0.0498)	(0.135)
*Source Tax Haven * DTAA*	–0.0007	–0.0123	0.0009
	(0.129)	(0.111)	(0.233)
Relative Exchange Rate	–0.0016***	–0.0001***	–0.0009***
	(0.000)	(0.000)	(0.000)
Share of GDP	11.2577***	13.0347***	13.0347***
	(0.170)	(0.177)	(0.177)
Relative GDP per Capita	0.0195***	0.0099***	0.0098**
	(0.001)	(0.000)	(0.001)

Distance		–0.0119***	–0.0119***
		(0.000)	(0.000)
Common Language		0.7499***	0.7505***
		(0.436)	(0.043)
Identical Law System		0.5107***	0.5117***
		(0.114)	(0.033)
Corruption		1.4923***	1.4926***
		(0.023)	(0.023)
*TIEAS * Source Tax Haven * Δ Tax Savings*			0.0238***
			(0.008)
Δ Tax Savings			0.0001***
			(0.000)
*Source Tax Haven * Δ Tax Savings*			0.0037
			(0.005)
Source Fixed Effects	Yes	Yes	Yes
Year Fixed Effects	Yes	Yes	Yes
No. of Observations	18,276	18,276	18,276

Source: Kemme, D. M., Parikh, B., Steigner, T., (2017, May 18th). Tax Havens, Tax Evasion and Tax Information Exchange Agreements in the OECD. European Financial Management. (https://onlinelibrary.wiley.com/doi/full/10.1111/eufm.12118)

Table 3. Regression analysis for round tripping without US host country observations

Variables	I	II	III
Δ Tax Savings	0.0001**	0.0001***	0.0001***
	(0.000)	(0.000)	(0.000)
*Source Tax Haven * Δ Tax Savings*	0.0058*	0.0043	0.0040
	(0.003)	(0.003)	(0.003)
Relative Exchange Rate	–0.0016***	–0.0001	–0.0001
	(0.000)	(0.000)	(0.000)
Share of GDP	14.5662***	18.2560***	18.2972***
	(0.338)	(0.302)	(0.302)
Relative GDP per Capita	0.0214***	0.0126***	0.0131***
	(0.001)	(0.001)	(0.001)
Distance		–0.0132**	–0.0133**
		(0.000)	(0.000)
Common Language		0.9924***	1.0894***
		(0.044)	(0.048)
Identical Law System		0.4918***	0.5678***
		(0.033)	(0.036)
Corruption		1.5178***	1.5588***
		(0.022)	(0.025)
*Source Tax Haven * Distance*			0.0006
			(0.001)
*Source Tax Haven * Common Language*			–0.16380

			(0.107)
*Source Tax Haven * Identical Law System*			–0.5079***
			(0.099)
*Source Tax Haven * Corruption*			–0.2121***
			(0.054)
Source Fixed Effects	Yes	Yes	Yes
Year Fixed Effects	Yes	Yes	Yes
No. of Observations	17,215	17,215	17,215
Adjusted R Square	0.9887	0.9920	0.9920

Source: Kemme, D. M., Parikh, B., Steigner, T., (2017, May 18th). Tax Havens, Tax Evasion and Tax Information Exchange Agreements in the OECD. European Financial Management. (https://onlinelibrary.wiley.com/doi/full/10.1111/eufm.12118)

Table 4. Regression analysis for Tax Information Exchange Agreement (TIEAS) and Double Taxation Avoidance Agreements (DTAA) without US host country observations

Variables	I	II	III
TIEAS	2.0160***	0.1516	0.1509
	(0.157)	(0.125)	(0.125)
*Source Tax Haven * TIEAS*	–1.3824***	–0.3035*	–0.3134*
	(0.206)	(0.175)	(0.176)
DTAA	0.3333***	0.3109***	0.3108***
	(0.058)	(0.050)	(0.050)
*Source Tax Haven * DTT*	0.0771	0.0768	0.0764
	(0.135)	(0.115)	(0.116)
Relative Exchange Rate	–0.0016***	–0.0001	–0.0001
	(0.000)	(0.000)	(0.000)
Share of GDP	14.9496***	18.1415***	18.1346***
	(0.337)	(0.461)	(0.301)
Relative GDP per Capita	0.0222***	0.0129***	0.0129***

	(0.001)	(0.001)	(0.000)
Distance		–0.0130***	–0.0129***
		(0.000)	(0.000)
Common Language		0.9648***	0.9645***
		(0.044)	(0.044)
Identical Law System		0.4900***	0.4906***
		(0.034)	(0.034)
Corruption		1.5325***	1.5326***
		(0.023)	(0.023)
*TIEAS * Source Tax Haven * Δ Tax Savings*			0.0087
			(0.008)
Δ Tax Savings			0.0001***
			(0.000)
*Source Tax Haven * Δ Tax Savings*			0.0014
			(0.005)
Source Fixed Effects	Yes	Yes	Yes
Year Fixed Effects	Yes	Yes	Yes
No. of Observations	17,212	17,212	17,212
Adjusted R Square	0.9889	0.9920	0.9920

Source: Kemme, D. M., Parikh, B., Steigner, T., (2017, May 18th). Tax Havens, Tax Evasion and Tax Information Exchange Agreements in the OECD. European Financial Management. (https://onlinelibrary.wiley.com/doi/full/10.1111/eufm.12118)