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Impact of tax havens on the global economy

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Abstract— **The paper addresses the issues of related to the functioning of tax havens and its impact on the social environment. The author draws attention to the sources of creation and reasons for maintaining tax havens, indicating the key factors conditioning their creation and provides examples of countries that apply tax haven policies. As a result of the analysis, a new examinations and conclusion was identified related to tax haven issues. The author draws attention to the sources of creation and reasons for maintaining tax havens, indicating the key factors determining their creation.**

Keywords— tax benefits, economy, CIT, tax haven, taxation, offshore, financial center tax planning

I. INTRODUCTION

Tax havens, also known as low or zero tax jurisdictions, have attracted the attention of economists, politicians and the entire society for years. These places are characterized by favourable tax and financial conditions, a good investment climate and have therefore become a destination for many corporations and wealthy individuals looking for ways to minimize their tax liabilities. This phenomenon causes numerous controversies, arousing both admiration and criticism among the public.

The aim of the article is to analyse the impact of tax haven countries on the global economy and to indicate examples of such countries. The basic thesis is that tax haven countries have a harmful effect on the global economy. Even becoming a threat to it.

Through an analysis of the literature, the author defined the term tax haven and determined the characteristics of a country that, through tax strategy, encourages investors to invest capital there. In this way, she answered the question:

1) What country can be named as a tax haven?
   The source literature presents many definitions of a tax haven, which may mainly indicate the complexity of the problem. The most well-known definitions of this term in English include concepts such as tax haven, offshore financial center and tax planning. Then the history and evolution of tax havens was presented and the next question was answered:
2) How do tax havens function and what practices are used there?
   Although some researchers believe that the beginnings of tax havens are not so distant and date back to the period after World War II. At that time, most countries had signed the Bretton Woods Agreement (1944), however, there were some loopholes that allowed capital to be transferred to other countries. The rapid growth of this phenomenon occurred in the 1960s and 1970s, when territories dependent on Great Britain, which had not previously had an income tax, were able to introduce regulations on offshore activities, which allowed the creation of financial centers operating outside their borders. The author has shown that the history of tax havens is much more distant.

Traditionally, tax havens distinguished between residents and non-residents (citizens and foreigners). It happened that tax havens sometimes taxed their citizens and local companies heavily, while offering low taxes to foreigners bringing foreign capital into their country. This was put to an end by the EU directive that all EU countries, as well as EU dependent countries, should treat citizens and foreigners equally in tax matters. Tax havens have created systems and regulations that allow the true ownership of assets deposited in a given haven to be concealed. As long as secrecy is maintained, potential tax evaders and money launderers will likely try to use tax havens to hide their assets. The key issue for countries opposing tax havens is therefore how bank secrecy is used, and the lack of transparency that is common in tax havens.

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II. Sources and essence for tax havens

Tax havens, also known as low or zero tax jurisdictions, have attracted the attention of economists, politicians and the entire society for years. These places are characterized by favourable tax and financial conditions, a good investment climate and have therefore become a destination for many corporations and wealthy individuals looking for ways to minimize their tax liabilities. This phenomenon causes a lot of controversy, arousing both admiration and criticism among the public.

The aim of the article is to analyse the impact of tax haven countries on the global economy and to indicate examples of such countries. The basic thesis is that tax haven countries have a harmful effect on the global economy.

The beginnings of tax havens date back to the period after World War II. At that time, most countries signed the Bretton Woods Agreement (1944), however, there were some loopholes that allowed capital to be transferred to other countries (Rawlings, 2017, p. 656). The phenomenon experienced a rapid growth in the 1960s and 1970s, when British dependent territories that had not previously had an income tax were able to introduce regulations on offshore activities, which enabled the creation of financial centres operating outside their borders (Toborek-Mazur, 2010, p. 13). The literature on the subject presents many definitions of a tax haven, which may mainly indicate the complexity of the problem. The most well-known terms for this term in English include concepts such as tax haven, offshore financial centre and tax planning (Burżucka, 2011, p. 19).

A tax haven, also known as a tax haven, is a country that offers favorable tax conditions for people who are not related to the territory in any way by origin. It is characterized by a low level of taxation or, in some cases, even its absolute absence, taking into account certain types of income. These are most often territories of a small area, for example small islands or separate states. Well-managed, they attract potential investors mainly through friendly tax policy. This term is used in reference to areas and countries, such as separate individual states in the United States, where fiscal policy is shaped individually. This means that each of them creates its own fiscal policy, independent of the other. Therefore, the fiscal policy applicable in California, for example, will not apply in the state of Colorado (Shaxson, 2011).

The regulations in tax havens are exceptionally lenient for foreigners and incoming foreign capital. This means that taking advantage of tax relief or avoiding high taxation is only possible for people who do not reside in a country considered a tax haven. Tax havens usually offer relief in the form of tax refunds or low taxation. In this way, they encourage investors to invest in their territory.

Despite so many years of existence and the rich history of the enterprise, there is no general definition describing a tax haven. The Organization for Economic Co-operation and Development (OECD) has formulated a commonly used definition of a tax haven, which refers only to the tax system, according to which a tax haven is considered to be "an area in which the existing legal system allows foreign entities to reduce the tax burden in their home country" (Obszyńska-Krasnodębska, Krasnodębski, 2012, p. 48).

The encyclopedic definition of tax havens states that a tax haven is an area where "taxes do not exist under the applicable regulations or do exist but are only internal in nature and do not burden the income of foreigners and their companies, or burden them to a minimal extent, as well as where special fiscal privileges are granted, which are used by specific taxpayers or which concern a given type of activity" (Kuchciak, p. 48).

According to J. Głuchowski, "in the common sense, an oasis offers favorable conditions of existence against the background of an unfriendly external environment. In a situation of universal fiscal burdens, an oasis is a place where these taxes do not exist or their amount is insignificant" (Głuchowski, 2001, p. 3).

In economic literature, tax havens are also defined by T. Lipowski. In his opinion, it is "a country or territory with a number of characteristic features, the most important of which are relatively lower tax rates compared to other countries, which in practice means no taxation or other significant tax privileges in both the source country and the country of residence" (Lipowski, 2004, p. 137).

Mark Hampton believes that it is a "jurisdiction that is characterized by either a complete lack of or low direct and indirect taxation compared to other jurisdictions" (Kuchciak, 2012, p. 48). According to F. Weyzig and M. van Dijk, the concept of a haven includes "any state or territory whose law can be used to avoid or evade taxation due to another state in accordance with its domestic law" (Kudła, 2013, p. 249). In the traditional approach, according to the definition by A. Beauchamp, a tax haven is a state or area that guarantees individuals and legal entities a favorable level of income or inheritance tax, i.e. allows paying a relatively lower tax there and also gives the opportunity to avoid tax burdens in the taxpayer's country of residence (Kudła, 2013, p. 249). On the other hand, a tax haven according to Starchild, who referred in his definition only to the activities of enterprises, calls a foreign country that is characterized by favorable tax legislation, a country that encourages parent companies based in highly developed countries to create branches and branches. According to N. Hansen and A. Kessler, tax havens are usually small countries in terms of area.

The OECD uses three key factors to determine whether a jurisdiction is considered a tax haven. These factors are:

- very low or zero tax rates – individuals and businesses benefit from lower taxation in tax havens, compared to the rates in their countries of origin.
- lack of effective information exchange – tax havens are very zealous and careful in protecting the financial information of investors using their services.
- lack of transparency in tax havens.

Analyzing the first factor, it can be stated that the tax structure of individual countries usually differs from each other, but the common feature of all tax havens is that they are areas where you can invest your capital in order to avoid high taxes. However, the appearance of this factor is not enough to define a tax haven. Many countries with a well-regulated tax structure

offer tax incentives in the form of, for example, reliefs, in order to attract external capital, but they are not classified as tax havens. This leads to the next point according to which the OECD defines tax havens:

In most tax havens, there are formal legal regulations or administrative practices that prevent control by foreign tax authorities. There is absolutely no exchange of information with foreign tax authorities, or if it does occur, it is minimal. These practices also effectively help avoid tax prosecution, thanks to which investors or individuals who have invested their capital in a tax haven feel safe (Toborek-Mazur, Partacz, 2022b).

The third factor results from the lack of free exchange of financial information and protection of confidential data. It affects the restrictions on obtaining information by foreign entities that do not invest their capital there.

The legislative, legal and administrative mechanism of tax havens is most often non-transparent. There is always a risk of secret rulings being issued behind closed doors or negotiating tax rates that in practice do not pass the transparency test.

Therefore, on the basis of these three discussed points, the Organization for Economic Co-operation and Development defines tax havens. The US Congress's oversight body – the Government Accountability Office (GAO), has decided to add two additional, equally important factors to define a tax haven:

1) Tax havens do not require external entities to operate on their territory. It means that you can benefit from the benefits of tax havens by simply registering your business in a tax haven. There is no need to actually produce goods or provide services within the borders of a given tax haven. People who want to avoid high taxation in their home country can continue their business in the country they reside in, by only claiming to be a resident of the tax haven where they registered their business, at the time of paying tax. Often, this amount is much lower or they are completely exempt from this payment.
2) The most popular tax havens are countries that value privacy. As a result, they are countries with the best possible legal regulations regarding privacy. This is partly related to the feature recognized by the OECD, which refers to the protection of financial information. Here, however, it is primarily about discretion and secrecy of all data that the user provides to the tax haven.

The above five points allow for the classification of a given country as a tax haven. This is a set of common features that makes their identification easier. It is worth remembering that these are classification factors proposed by an intergovernmental organization and a government institution of the United States, which have observed common connotations between individual tax havens in many cases.

When analyzing this topic, it is also worth referring to the socio-economic factors that characterize a tax haven, such as:

- lack of foreign exchange controls,
- signed agreements with other countries
- location, position of a given country.

Many tax havens (e.g. Mauritius) have gained their popularity due to loopholes in many tax avoidance agreements signed with various jurisdictions and, conversely, many have lost their popularity due to various information exchange agreements signed with some governments. The second is an important factor in the context of the popularity of a tax haven. For example, the Bahamas have always been a popular haven for companies from the United States, due to the island's proximity to Florida (Owczarczyk-Szpakowska). In turn, placing assets in a country subject to exchange controls could be dangerous for external investors.

In the context of tax havens, it is worth mentioning the economic and political situation. Stability in the sphere of conducting business is very important (Owczarczyk-Szpakowska). There are many countries in which the prevailing political situation means that investors do not decide to invest capital and, on the contrary, choose countries with stable government policies and not threatened by armed conflict. In practice, you can use indicators and methods that allow you to assess the risk associated with the economic and political situation. One of them is BERI - created at the University of Delaware in the United States. This indicator indexes countries based on 15 criteria and assigns them individual weights. The criteria listed are (weights in brackets):

- political stability (3.0)
- attitude towards foreign investors (1.5)
- threat of nationalization (1.5)
- inflation rate (1.5)
- balance of payments (1.5)
- bureaucratic barriers (1)
- level of economic growth (2.5)
- currency convertibility (2.5)
- implementation of concluded contracts (1.5)
- professional services (0.5)
- telecommunications (1)
- labor costs and productivity (2)
- authorities (1)
- long-term loans (2)
- short-term loans (2)

A given country can score a maximum of 100 points. Countries with a score above 80 points are considered highly developed economically and have an investor-friendly investment climate. Countries with a score of 70 to 79 points are still considered countries in which it is worth investing capital. All countries with a score below 40 points are considered dangerous for investors due to the high risk of losing funds.

The purpose of the BERI indicator is to illustrate what barriers an investor can expect when investing their capital in a given country. Of course, its use does not mean answering the question: will an investment in the territory of a specific tax haven be successful or not? Therefore, it should be treated only as an indicator of the general investment situation of the entire country.

Most often, tax havens are basically legal, because they are sovereign jurisdictions with their own regulations and laws. The legality of individuals and companies using tax havens depends on the specific legal regulations of both the country of origin of the beneficiary and the tax haven. There are cases where a tax

haven is used to use the regulations to one's advantage, then we are dealing with a human factor that is difficult to predict due to human nature. However, it does not negate the legality of tax havens. To sum up, to define a tax haven we need information on:

- tax rates of a given country,
- level of protection of financial data,
- transparency,
- level of privacy of transferred data,
- socio-economic factors in a given country.

According to the PWN dictionary, a tax haven is a country in which very low or even symbolic income taxes apply, or no taxes are collected from companies at all. This definition is not unambiguous. A tax haven can be identified much more precisely using the features proposed by the OECD and GAO. They take into account many additional factors such as social and legal norms.

According to the author, the most useful definition is that a tax haven is a jurisdiction with low direct taxes or no direct taxes, strict regulations on confidentiality, anonymity, privacy regulating transactions, flexible rules for setting up companies and other mild regulations (Burżucka, 2011, p. 19). According to other sources, tax havens are not illegal, because all procedures are provided for in local law. Their main idea is to attract foreign entrepreneurs, as well as entities such as companies, trusts and capital investment in order to ensure economic and social balance (Constantin, 2016, p. 487). Polish law does not provide a definition of this term. As already mentioned in the regulation of the Minister of Finance, the first provisions regarding the discussed problem can be found and they are a list of countries applying harmful tax competition (Owczarczyk-Szpakowska, 2015, p. 75). The position of the European Commission is similar, which does not define a uniform tax system for Member States, and therefore the term tax havens. However, the EC recommends the use of so-called "good practices" in relation to the tax systems of European Union countries (Wiśniowski, 2012, p. 183). It is worth mention to data presented in Table 1, which contains an excerpt from the Regulation of the Minister of Finance of 28 March 2019, which lists countries applying harmful tax competition in the field of corporate income tax.

TABLE 1. LIST OF COUNTRIES WITH HARMFUL TAX COMPETITION IN THE AREA OF CORPORATE INCOME TAX (IN POLISH)

List of countries with harmful tax competition in the area of corporate income tax
Księstwo Andorry
Anguilla– Terytorium Zamorskie Zjednoczonego Królestwa Wielkiej Brytanii i Irlandii Północnej
Antigua i Barbuda
Sint-Maarten, Curaçao – kraje wchodzące w skład Królestwa Niderlandów
Królestwo Bahrajnu
Brytyjskie Wyspy Dziewicze – Terytorium Zamorskie Zjednoczonego Królestwa Wielkiej Brytanii i Irlandii Północnej
Wyspy Cooka – Samorządne Terytorium Stowarzyszone z Nową Zelandią
Wspólnota Dominiki
Grenada
Sark – Terytorium Zależne Korony Brytyjskiej
Hongkong – Specjalny Region Administracyjny Chińskiej Republiki Ludowej
Republika Liberii
Makau – Specjalny Region Administracyjny Chińskiej Republiki Ludowej
Republika Malediwów
Republika Wysp Marshalla
Republika Mauritiusu
Księstwo Monako
Republika Nauru
Niue – Samorządne Terytorium Stowarzyszone z Nową Zelandią
Republika Panamy
Niezależne Państwo Samoa
Republika Seszeli
Saint Lucia
Królestwo Tonga
Wyspy Dziewicze Stanów Zjednoczonych – Terytorium Nieinkorporowane Stanów Zjednoczonych
Republika Vanuatu

Source: Rozporządzenie Ministra Finansów z dnia 28 marca 2019 r. w sprawie określenia krajów i terytoriów stosujących szkodliwą konkurencję podatkową w zakresie podatku dochodowego od osób prawnych.(2019,600)

III. HISTORY OF TAX HAVENS

The history of tax havens dates back to ancient times. Some historians even mention their existence in the form of isolated islands in ancient Greece, where a specific type of state organization called a polis prevailed - from the ancient Greek language - a fortified place. However, the PWN Polish language dictionary translates it as a city-state. In practice, this meant that each of the Polis, independently of the other, exercised power in a given area, had an independent community, which allowed them to govern in their own way, also with tools such as tax law. Other sources claim that the creation of tax havens is justified by the behavior of society at that time, striving to avoid paying taxes. They date back to early civilizations and take forms as diverse as the human imagination allows us. It is difficult to say when tax havens were created. Several researchers suggest that the first signs of the existence of certain areas in the type of a tax haven in the Mediterranean appeared in the 2nd century BC.

In 166 BC, the Greek island of Delos practiced a form of trade free of any taxes and duties. Thanks to its strategic geographical location, the island became a very important center of trade and exchange at that time. Exclusive goods from all over the world reached there, such as: ivory, fabrics, wine, grain and spices. The same method of operation taken from ancient Greece was used in the Middle Ages in some cities, also in ports and at fairs. These cities were then called "free cities". This custom was limited only due to geographically marked borders, and the time for which the fairs were open. The first recorded market place, which was open for only two weeks, was

the "Lendit Fair", which took place near Saint-Denis (currently belonging to the Paris agglomeration) in the 7th century AD and was established by King Dagobert I - then king of the Franks, historical descendants of the modern French. Between the 12th and 14th centuries AD, the Great Fairs of Brie, Champagne, and Beaucaire benefited from trade and commerce in the same way. From the beginning, Marseille was an independent republic with a free port that attracted ships and products from all over the Mediterranean. Marseille was a city with free port rights until 1481, when King Louis XI conquered the city, and thus Marseille's port status was undermined. Nevertheless, Marseille retained some of its privileges until 1817.

In America, around 1910, the term "tax haven" was used to describe the then common practice of money laundering among criminals. The criminals invested in so-called "laundries" equipped with machines that allowed them to purify silver. Around 1920, a new generation of tax havens emerged in areas such as the Bahamas, Switzerland, and Luxembourg, which operated much like the tax havens we know today - allowing foreigners to deposit their capital in order to avoid taxation.

The history of tax havens is one of myth and legend. Their goal, of course, is tax avoidance, which is as old as tax collection itself, as far as can be determined. Tax havens are seen by some as the latest incarnation of a centuries-old system, and in many cases, this is indeed the case. However, modern tax havens are sovereign states (or sovereign entities, such as the Channel Islands in the English Channel, which have considerable autonomy) that exercise their sovereignty to create laws that attract investors to their country. They should be seen as a distinct state development strategy that could only evolve in the context of a robust international system of statehood, while respecting the sovereign right of states to create and shape their own laws. One of the most fascinating aspects of the development of tax haven strategies is that they have evolved in different locations, often for reasons that have little to do with how they ultimately work. Only in the second phase of their development, i.e. from the end of World War I forward, there were indications that several countries, led by Switzerland and Liechtenstein, were considering developing a comprehensive policy that would allow them to become tax havens in the future.

Probably one of the first cases of a tax haven that was closest to the tax haven we know today developed in the United States, more precisely in New Jersey and Delaware in the late 19th century. Neither were and still are not tax havens, but they can be considered the initiators or originators of the "easy company registration" technique currently used in all modern tax havens.

The “easy incorporation” principle means that you can buy a company and start operating in twenty-four hours. This is one of the key aspects of any tax haven strategy. This idea became popular around 1880, when New Jersey was in dire need of money. A New York corporate lawyer named Mr. Dill convinced New Jersey Governor Leon Abbet to support a plan to raise revenue by imposing a franchise tax on all corporations domiciled in New Jersey. The laws governing incorporation in the English-speaking countries at that time were very restrictive. New Jersey headquarters were established primarily because of its liberal incorporation laws and its relatively low corporate tax rate. When the Delaware legislature debated a new business organization bill in 1898, it sought to emulate the success that New Jersey had achieved in previous years. Again, a group of New York lawyers played a significant role in drafting the bill. It was obvious that Delaware was introducing liberal regulations to attract companies. While the American states of New Jersey and Delaware had invented the technique of attracting non-resident corporations by offering them a favorable regulatory environment, as early as 1920 some Swiss cantons (federal states with a high degree of autonomy) – led by the then impoverished canton of Zug, near Zurich – were inspired by the idea from across the Atlantic Ocean and brought it to Europe in order to improve their financial situation.

Referring to that period, it is also worth mentioning Great Britain. British courts used their own technique of "virtual" residences. It allowed companies to register in Great Britain without paying tax - a phenomenon that, according to some, is the basis of the entire enterprise of tax havens. Many people trace the beginnings of this practice to a series of judgments issued by British courts. The most important was the case of the Egyptian company Delta Land and Investment Co. Ltd. V. Todd from 1929. It was then shown that although the company was registered in London, it did not conduct any business in Great Britain and was therefore not subject to taxation on the British side. This case created a legal "loophole" that, in a sense, made Great Britain a tax haven. At that time, companies could register their activities on the islands and also avoid paying British tax. The courts’ ruling proved pivotal as it established rules not only for the UK but also for the entire British Empire (all the colonies under British rule), which was later used by jurisdictions such as Bermuda and the Bahamas and refined in the 1970s in the Cayman Islands.

Threatened by the economic crisis of 1929 and, in particular, by a series of bankruptcies in Austria and Germany in the early 1930s, the Swiss Assembly began to debate an amendment to the Banking Act, which was intended to protect the Swiss banking system. Contrary to its original intentions, the Banking Act of 1934, in Article 47, strengthened the principle of bank secrecy by providing it with protection under criminal law. The new Swiss law required “absolute silence with regard to professional secrecy,” which meant absolute silence about any accounts opened in Swiss banks—where “absolute” in this case meant protection from any government, including the Swiss government. The law criminalized the investigation or examination of “trade secrets” of banks and other organizations. It is no wonder that very few scientists or journalists were willing to risk their freedom to investigate the subject. The law also ensured that once capital crossed borders, it found its way into an inviolable legal “sanctuary,” guaranteed by the penal code and backed by the power of the Swiss state. Along with US state law and virtual residences in the UK, Swiss banking secrecy may be the third pillar of the world of tax havens, thanks to which modern jurisdictions could take their cues from the pioneers of ideas still in use today (Toborek-Mazur, Partacz, 2022a).

In the 1920s and 1930s, many smaller countries also sought

to build their reputation as tax havens. Liechtenstein, a small principality located between Switzerland and Austria, adopted the Swiss franc as its currency in 1924 and simultaneously adopted its own civil code. Liechtenstein synthesized and codified Swiss and Austrian practices into an entirely new corporate form. The infamous "Anstalt" based on the Austrian concept of a foundation. The new corporate law did not impose any requirements or restrictions on the nationality of shareholders in Liechtenstein companies. According to the author, the Zurich-Zug-Liechtenstein triangle became the first real center of tax havens in the 1920s. Before World War I, there were several "offshore holdings" in Switzerland, and after 1920 their number steadily increased. The canton of Zurich offered no tax privileges to holding companies, but the city's financial elite took advantage of the more open and much poorer rural cantons of Glarus and Zug, which, on the advice of lawyers and bankers from Zurich's Bannhofstrasse, rewrote their laws. The same lawyers and bankers advised Lichtenstein. With these advantages, Zurich became a center for attracting Swiss companies, eclipsing Basel by the late 1920s.

The next country to introduce the holding concept was Luxembourg. Under the Act of 31 July 1929, these companies were exempted from income tax. There is also evidence that the Bahamas, Bermuda and Jersey, as well as Panama, were used to a limited extent as tax havens in the interwar years.

The development of modern tax havens is usually associated with the rising taxes of the 1960s. This is somewhat misleading for two reasons. First, tax havens were established much earlier than the 1960s. Second, the 1960s were particularly important not only because of the tax increases in advanced, industrialised countries that did occur, but probably more so because of the Bank of England ruling in 1957 and the emergence of the "Euromarket", an offshore financial market in the late 1950s. In September 1957, the Bank of England accepted a proposal that transactions conducted through UK markets on behalf of lender and borrower by parties who were not themselves located in the UK should not be officially recognised as taking place in the UK for regulatory purposes, even though such transactions were recorded as taking place in London. The "Euromarket" was an interbank or "wholesale" financial market which, because of an implicit agreement between the Bank of England and the commercial banks, was not regulated by the Central Bank. But because transactions took place in London, no other body regulated the market, and so it became effectively unregulated or offshore. The development of the Euromarket in the British capital proved to be a major driving force in an integrated offshore economy centred on London and encompassing the remnants of the British Empire. British banks began to expand into European markets, including Jersey, Guernsey and the Isle of Man, in the early 1960s. In 1964, they were joined by three major American banks – Citibank, Chase Manhattan and Bank of America.

In 1966, the Cayman Islands passed a set of laws, including the Banking and Trust Company Act, the Exchange Control Regulation Act, and the Companies Act, all adopting the classic tax haven model. These efforts have proven to be an astonishing success story. According to BIS statistics from 2008, the Cayman Islands was the fourth largest financial centre in the world.

In the late 1960s, Singapore also became a tax haven. As the French Indochina War escalated into the Vietnam War, the region saw a rise in foreign exchange spending by the mid-1960s, but in 1967 and 1968, credit tightened, which helped to raise interest rates in the Eurodollar market. As a result, dollar balances in the Asia-Pacific region became attractive to many banks. Singapore responded by creating incentives for international bank branches to relocate to Singapore. A Bank of America branch was the first to set up a special international division to handle transactions for foreigners in the so-called Asian Currency Unit (ACU). As with all other operations in the European market, the ACU set up a separate set of accounts in which all transactions with foreigners were recorded. Although the ACU was not subject to exchange controls, banks were required to file detailed monthly reports of their transactions with the Singapore Exchange Control Authority. Singapore emerged in 2005-2008 as the fastest growing private banking sector in the world. Indeed, the main problem that Singapore faced at that time, wanting to become the world's largest private banking centre, was what is called a "talent shortage", i.e. a lack of specialist, professional staff, despite the fact that the financial centre employed around 130,000 people. However, the growth of assets in Singapore is impressive - from $150 billion in 1998 to as much as $1.173 trillion by the end of 2007.

The relative success of tax havens in Europe and the Caribbean attracted more investors. The first tax haven in the Pacific was established in 1966 on Norfolk Island - a self-governing, external territory of Australia. The Australian federal government has consistently tried to block the development of the oasis in Norfolk.

As Jason Sharman has observed, "After Norfolk Island set the precedent in 1966, Vanuatu (1970-71), Nauru (1972), the Cook Islands (1981), Tonga (1984), Samoa (1988) and the Marshall Islands (1994) increasingly adopted the standard path of being inspired by the legislation of the pioneers and leaders in the tax haven business and then engaging in fierce competition for the businesses that often generated the smallest margins." All of these countries adopted the familiar tax laws of the successful havens, with zero or near-zero taxation for exempt companies and non-resident companies bringing foreign capital into the tax haven. Swiss-style bank secrecy laws, trust laws, offshore insurance laws, flags of convenience for shipping and aircraft leasing all contributed to the development of these areas. Recent regulations aimed at facilitating e-commerce and online gambling have further encouraged investment (Palan, 2009).

Another important centre that developed later was the Irish Financial Services Centre based in Dublin. Following the success of the Shannon duty-free zone established in 1959, Ireland established the Irish Financial Services Centre in 1987, characterised by a favourable tax regime for certain types of financial activities and a low corporate tax rate (currently 12.5%).

In October 1975, Bahrain initiated a policy of licensing offshore banking units (OBUs), soon followed by Dubai. The

1980s and 1990s saw a significant increase in the number of tax havens in other regions of the world, such as the Indian Ocean, Africa and now the republics of the former Union of Soviet Socialist Republics.

By the early 1990s, there were between sixty and one hundred tax havens worldwide, depending on the definition of the phenomenon. Even more worryingly, BIS statistics showed that around half of international credit flowed through these tax havens, moreover, at least a third of all international foreign direct investment also flowed through them, and they became a major tool for tax avoidance around the world (Toborek-Mazur, 2010). They constitute the single largest drain on developing economies.

IV. Harmful tax competition and the methods to limit in tax havens

Continuing the discussion, it is worth noting that most tax haven countries are located on islands. The small size of such countries makes it possible to achieve greater homogeneity of residents and also makes it easier to achieve political consensus by establishing low income taxation. One of the main reasons for offering preferential tax rates to legal entities is geographical justification (Toborek-Mazur, 2005, p. 18). Tax havens are characterized by very low endowment of natural resources and the lack of neighbors with a common land border. All these factors favor the high openness of economies in international exchange, which encourage the development of financial flows.

With such a large-scale activity, it turned out that it was impossible to stand idly by. The astonishing statistics about tax havens show that they played a key role in limiting the development of the world economy. Leading industrialized countries allowed smaller jurisdictions to develop and flourish, apparently at the expense of their financial situation. In fact, countries such as the United States, Great Britain, France and Germany have occasionally tried to pick up loopholes in the law, thereby putting pressure on individual tax havens to change some of their rules. Attempts have also been made to develop a coordinated international response to tax havens. However, they have not been successful. Indeed, these same countries, with the possible exception of France and Germany after World War II, played a key role in the development of the phenomenon in question.

It is worth noting, however, that the mood in developed countries began to change in the late 1990s. The harmful activities of tax havens began to be noticed. As a result, many initiatives regarding harmful tax competition began to gain popularity. In practice, Jason Sherman has exposed these activities, arguing largely that tax havens were able to exploit the contradictions that the OECD demonstrated in its campaign against tax havens. For example, the preferential special treatment it provided to members of the organization, such as Switzerland and Luxembourg.

While the OECD campaign stagnated, the European Union proved to be a more effective leader in addressing the issue of tax havens and the economic consequences they caused. The Clinton and George W. Bush administrations were alarmed by the issue of tax havens. Clinton and his administration became one of the driving forces behind the multilateral effort to combat tax havens. However, one of the first actions of the Bush administration was to withdraw support for efforts to combat harmful competition.

President Obama had been raising concerns about tax havens since he was a senator for Illinois. Some predicted that bank secrecy would not survive in its current form in the future. Despite the growing pressure on tax havens in the 21st century, BIS statistics from around 2009-10 did not show that the total volume of money flowing through tax havens was going to decline.

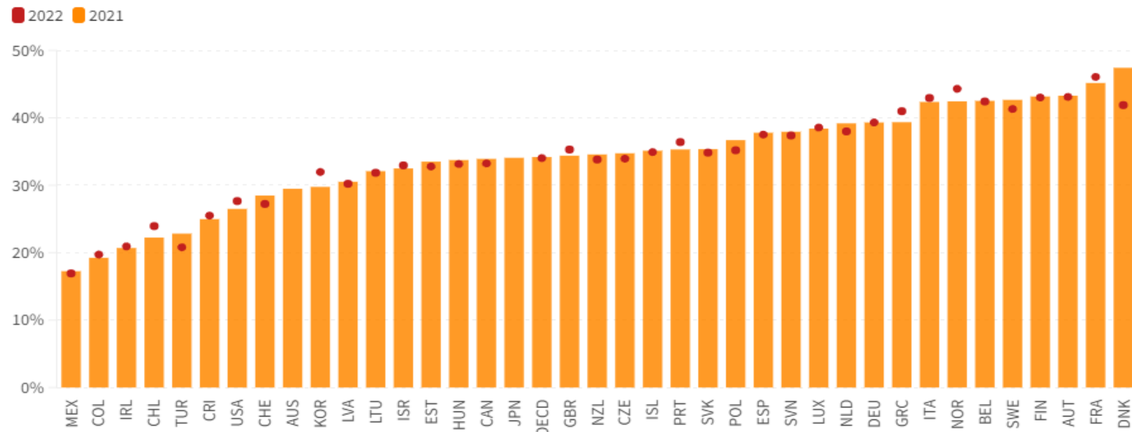
Tax havens now operate all over the world, serving major financial and trading centers. Modern tax havens still fall into three groups to some extent. The first, and still by far the largest, group is the tax havens based in the former British colonial Empire. This includes the Crown Dependencies, the overseas territories, the Pacific atolls, and Singapore. The second consists of European havens, more specialised as financial subsidiaries or private banking. The third consists of a separate group such as Panama, Uruguay, Dubai or the more recent transition economies and Africa. The UK is critical of any future international efforts to combat tax havens, especially as half a dozen major havens are dependent on the UK. The EU has been harshly critical of the Belgian coordination centres and other special arrangements of this kind.

According to the author, if the European Union, the United States and China reach an agreement on tax havens, there is a high probability that Singapore will also apply anti-haven practices. Meanwhile, the Gulf states, through their involvement in Islamic banking, are clearly targeting a specialist regional market, not the non-Muslim majority of tax haven users. In this way, strengthening the region.

Globalization in the world causes trade barriers to disappear, and at the same time we are dealing with an increase in the flow of capital between countries. This is to increase international economic efficiency. Some countries are adjusting to this process, taking advantage of the situation in the world, regulating tax rates so that they are favorable in order to attract investors from abroad. Figure 1 shows total tax revenues as a share of GDP in 2021-2022, by selected countries. As can be seen from the above figure, there is a significant disproportion between the selected countries in terms of tax revenue collection. The highest share is noticeable in Denmark, France and Austria. The lowest in Mexico, Colombia and Ireland.

The next table shows us the disproportion in the scope of taxation of various countries, in this case belonging to the OECD. As we can conclude, the interest of entrepreneurs in the matter of investing their capital in countries such as Denmark, France or Austria is rather negligible. This results from the relatively high tax burden. This is related to the CIT tax rates, the differentiation of which is shown in Table 2.

FIGURE 1. TOTAL TAX REVENUES AS A SHARE OF GDP IN OECD COUNTRIES, 2021 AND 2022



Source: Total tax revenues as a share of GDP in OECD countries, 2021 and 2022 https://www.oecd.org/tax/revenue-statistics-2522770x.htm

TABLE 2. TOTAL CIT RATES IN EUROPE (IN POLISH)

Country	Total CIT tax rate in 2000	Total CIT tax rate in 2023	Dynamics of changes in the relation between 2000 and 2023
Austria (AT)	34,00%	24,00%	-10,00%
Belgia (BE)	40,17%	25,00%	-15,17%
Bułgaria (BG)	32,50%	10,00%	-22,50%
Cypr (CY)	29,00%	12,50%	-16,5%
Czechy (CZ)	31,00%	19,00%	-12,00%
Dania (DK)	32,00%	22,00%	-10,00%
Estonia (EE)	26,00%	20,00%	-6,00%
Finlandia (FI)	29,00%	20,00%	-9,00%
Francja (FR)	37,77%	25,83%	-11,94%
Grecja (GR)	40,00%	22,00%	-18,00%
Hiszpania (ES)	35,00%	25,00%	-10,00%
Holandia (NL)	35,00%	25,80%	-9,20%
Irlandia (IE)	24,00%	12,50%	-11,50%
Islandia (IS)	30,00%	20,00%	-10,00%
Litwa (LT)	24,00%	15,00%	-9,00%
Luksemburg (LU)	37,45%	24,94%	-12,51%
Łotwa (LV)	25,00%	20,00%	-5,00%
Malta (MT)	35,00%	35,00%	0,00%
Niemcy (DE)	51.61%	29,94%	-21,67%
Norwegia (NO)	28,00%	22,00%	-6,00%
Polska (PL)	30,00%	19,00%	-11,00%
Portugalia (PT)	35,20%	31,50%	-3,70%
Rumunia (RO)	25,00%	16,00%	-9,00%
Słowacja (SK)	29,00%	21,00%	-8,00%
Słowenia (SI)	25,00%	19,00%	-6,00%
Szwajcaria (CH)	24,93%	19,65%	-5,28%
Szwecja (SE)	28,00%	20,60%	-7,40%
Turcja (TR)	33,00%	25,00%	-8,00%
Węgry (HU)	18,00%	9,00%	-9,00%
Wielka Brytania (GB)	30,00%	25,00%	-5,00%
Włochy (IT)	41,25%	27,81%	-13,44%

Source: „Statutory corporate income tax rate OECD.Stat" stats.oecd.org/index.aspx, „Corporate Income Tax Rates in Europe" taxfoundation.org/data/all/eu/corporate-tax-rates-europe-2023/

The global recession has caused people to express the need for effective cost reduction. It is therefore not surprising that they have been looking for ways to pay less taxes for years. Polish law has regulated the issue of tax havens since 2000. The current regulation of the Minister of Finance of March 28, 2019 on the determination of countries and territories applying harmful tax competition in the field of personal income tax lists the following countries:

TABLE 3. LIST OF COUNTRIES WITH HARMFUL TAX COMPETITION (IN POLISH)

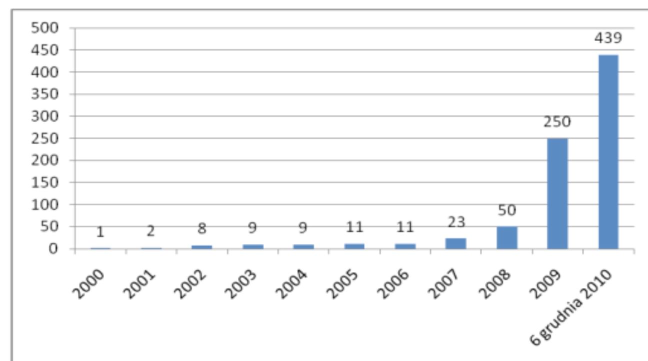
No.	Country
1.	Księstwo Andory
2.	Anguilla - Terytorium Zamorskie Zjednoczonego Królestwa Wielkiej Brytanii i Irlandii Północnej
3.	Antigua i Barbuda
4.	Sint-Maarten, Curaçao - kraje wchodzące w skład Królestwa Niderlandów
5.	Królestwo Bahrajnu
6.	Brytyjskie Wyspy Dziewicze - Terytorium Zamorskie Zjednoczonego Królestwa Wielkiej Brytanii i Irlandii Północnej
7.	Wyspy Cooka - Samorządne Terytorium Stowarzyszone z Nową Zelandią
8.	Wspólnota Dominiki
9.	Grenada
10.	Sark – Terytorium Zależne Korony Brytyjskiej
11.	Hongkong – Specjalny Region Administracyjny Chińskiej Republiki Ludowej
12.	Republika Liberii
13.	Makau – Specjalny Region Administracyjny Chińskiej Republiki Ludowej
14.	Republika Malediwów
15.	Republika Wysp Marshalla
16.	Republika Mauritiusu
17.	Księstwo Monako
18.	Republika Nauru
19.	Niue – Samorządne Terytorium Stowarzyszone z Nową Zelandią
20.	Republika Panamy
21.	Niezależne Państwo Samoa
22.	Republika Seszeli
23.	Saint Lucia
24.	Królestwo Tonga
25.	Wyspy Dziewicze Stanów Zjednoczonych – Terytorium Nieinkorporowane Stanów Zjednoczonych
26.	Republika Vanuatu

Source: Rozporządzenie Ministra Finansów z dnia 28 marca 2019 r. w sprawie określenia krajów i terytoriów stosujących szkodliwą konkurencję

podatkową w zakresie podatku dochodowego od osób fizycznych, Dz.U.2019.599.

In 2006, entrepreneurs were particularly interested in the Virgin Islands, Cayman Islands and Bermuda. The number of companies registered in these three countries in that year was 17,917, 1,815 and 213 respectively. It must be admitted that the number of companies registered there is impressive (especially in the Virgin Islands). This also indicates an extremely friendly investment climate and very favorable conditions for conducting one's own business activity in these countries. France also has its own list of tax havens, but it differs slightly from the Polish one, first of all the French take much more dynamic actions towards tax havens. The very fact of creating their own list is a basis for imposing sanctions on companies using tax havens, including increasing from 35% to 50% the tax on so-called passive income, i.e. dividends, interest or license fees from countries that have been placed on the "blacklist" and failure to take advantage of the 95% relief on the repayment of dividends by subsidiaries based in tax havens. The list of tax havens published by France is regularly updated whenever one of the countries on it decides to cooperate with the French government in the exchange of tax information. Many years of work on reaching agreements between the individual countries on the list have led to the fact that the current list from France currently includes only 13 countries that are considered uncooperative. These are: Anguilla, the Bahamas, Fiji, Guam, the US Virgin Islands, the British Virgin Islands, Oman, Panama, American Samoa, the Samoan Islands, the Seychelles, Trinidad and Tobago and Vanuatu. As we can see, there are no European countries on the list. Luxembourg is not on it, because EU law does not allow for the imposition of increased taxes on Community countries, including Switzerland, which France accused some time ago of a lack of cooperation in the exchange of tax information (Toborek-Mazur, Kuchmacz, 2003). The French government decided not to include Switzerland on the list due to threats from the Swiss, which clearly indicated a break in talks on avoiding double taxation. The list of tax havens changes from year to year. The trend indicates that there are fewer and fewer tax havens. Pressure from the powers and the desire to combat this phenomenon meant that by 2010 tax havens had signed many agreements on the exchange of tax information with individual countries, as shown in the figure 2.

FIGURE 2. NUMBER OF SIGNED AGREEMENTS ON THE EXCHANGE OF TAX INFORMATION (2000-2010)



Source: Monika Burżacka. Raje podatkowe sposobem na legalną …. 2011" p. .29

V. Conclusions

The phenomenon of tax havens has definitely affected the global economy, additionally assuming considerable dimensions and leading to an unnatural allocation of capital in particular areas of the world. A good example of such action is the Cayman Islands - small islands dependent on the British Crown in the Caribbean Sea - where the value of bank assets in 2006 amounted to 1,671,922 billion dollars. At that time, this amounted to 724% of GDP, and all this thanks to the status of a tax haven. It is therefore not surprising that numerous discussions on this topic were raised and appropriate actions were taken to curb the procedure of harmful tax competition. Tax avoidance is a threat to the state budget. Fewer budget revenues mean fewer funds for development, and as a result, ultimately a lower standard of living in developed and developing economies. It should be noted that the consequences of falling tax revenues are much greater for developing countries than for rich countries. This is due to the fact that tax revenues in developing countries are generally low, which leads to escalating problems in the sphere of public finances. In 2011, the OECD estimated during the G20 summit that the losses assessed by the United States government amounted to 100 billion dollars per year. Moreover, these estimates do not differ significantly from other countries, where the amounts of losses are also counted in billions of euros. At that time, it was estimated that from 3 to even 4 billion dollars per year were irretrievably lost from the Polish tax system to the enterprise of tax avoidance or investing capital abroad. This state of affairs confirms the belief that the problem occurs on a huge scale not only in Poland, but also abroad, and in order to combat the enterprise of tax havens, coordinated actions on a large scale should be carried out. However, it seems impossible to change for the better as long as international institutions conduct campaigns aimed at exerting pressure and forcing the disclosure of tax secrets, only in territories of their choice, and not all those that apply harmful tax competition.

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