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# Title: Tax avoidance and the OFC's: a review of literature and suggestions for a future research agenda


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## Tax avoidance and the OFC's: a review of literature and suggestions for a future research agenda

**Abstract:** The use of THOFC's by the multinational enterprise (MNE), to reduce the tax liabilities and bills weather in a legal or illegal method is an interest research question especially since the 2008 global crises and the financial scandals that brought tax havens to the spotlights, aiming to analyse scholars work about this specific subject it was necessary to conduct a critical literature review.

In this paper we contemplate literature reviews on tax havens and fields related to it to set a disciplined and systematic review. In order to assess the extent of knowledge within this topic and hopes to highlight untouched areas within this subject by scholars for further research, our survey was made by examining 158 articles in 90 scholarly journals published during the period 2008-2020. we tried to defined THOFC's and all their characteristics in addition of its mechanisms and all the variables related to it, we also suggested a research agenda that can be a great contributions for this topic.

**Keywords:** Tax havens; Offshore financial centers; Tax avoidance; Tax Planning; Profit shifting.

**Classification JEL**: H26; H87.

# I. Introduction:

In order to satisfy their needs every individual wishes to obtain a very high income, but they can't achieve their object knowing that a part of their income or revenue will be taken as taxes by the authorities, knowing that tax affects every business, for many companies, including multinational enterprises (MNEs) (cooper & Quyen,2020). Individuals developed methods in order to minimise their liabilities, the scholars used the term tax evasion or tax avoidance others uses the term tax planning, MNEs began to plan their tax affairs, tax evading is motivated by several factors and have a wide range of different mechanisms (Mo, 2003; Otusanya,2011).

One of the main methods used to evade paying taxes is tax havens or the offshore financial centres; we can defined TH as jurisdictions with low or zero tax rate, allowing MNEs to locate their firms and thus reduce overall tax payments (Rugman & Collinson, 2012). while OFC's are the intermediate destination of the capital transferred between countries (Weyzig, 2013).

The role that THOFC played in the MNEs networks is taking part in the researches topic, especially since the 2008 global crisis and the exposing of many financial scandals related to tax evasion in tax havens to the word reviling making the THOFC a hotly debated topic. Because of the crisis (fiscal tightening) and the scandals governments and global organisation started to review the revenue received and started a fight against the low tax jurisdictions, knowing that Their emergence as a component of corporate operations is not new, but their role as key actors shaping global financial flows has risen dramatically (Martinus, K et al.,2018).

According to Damgaard et al. (2018) tax havens and offshores holds $7,6 trillion in 2007 of the individual wealth, almost 40% of global foreign direct investment (FDI). In addition of the gross domestic product (GDP) held in the TH which is approximately 10% of the global GDP (Alstadsæter et al. ,2018). Wójcik (2013) see it as a governance failure while Aalbers (2018).

The fact that most of the world's largest corporations pursue tax minimization strategies in some form through THOFCs, and the development of the literature has accelerated to a point that calls for a disciplined and systematic review. Thus, in this paper, we aim to contribute to the knowledge of the research about tax havens and as an answer to the call made in Hanlon and Heitzman about more research within the tax havens subject, we made an empirical research of papers dealing with the THOFC subject between the years 2008 and 2020 as a literature review on tax heavens, and the main fields related to it.

The remainder of this paper is structured as follows: Section 2 provides the methodology followed to accomplish this paper; Section 3 introduces the literature review of tax havens and fields related to it based on the papers in the Scopus search, the final section is Section 4 contain briefly concludes.

## Il. Methodology:

### 1- Definition of key terms:

To help the reader to understand the content of this paper, few terms need to be defined, starting with the relation between tax avoidance and tax evasion a blurred line exist between the two (Oats, 2005; Palan et al., 2010; Sikka and Willmott, 2010; Sikka, 2010).

Both of them are considered by most governments to be serious threats to the integrity of tax systems in a democratic society (Otusanya, 2011). According to Otusanya Tax avoidance involves the use of non-criminal modes of conduct by taxpayers to minimize or avoid tax liability, but which they are prepared to disclose fully to the authorities, however when it comes to tax evasion or tax fraud Janet Berry-Johnson stated that Tax evasion is an illegal activity in which a person or entity deliberately avoids paying a true tax liability (2020). The traditional economic analysis has expanded greatly over the past decades (Otusanya,2011). The link between the two practises is Tax planning: which is largely about managing or reducing tax liabilities. Although some forms of tax planning are acceptable, the distinction between what is and what is not acceptable is often unclear (Duff, 2009).

In order to dodge the tax payment, tax payer use tax havens, tax havens is a synonym or an alternative to the term offshore financial centres the definition of those two terms has proved troublesome in the past, the condition of 'offshore' may be very much in the eye of the beholder (Doggart, 2002; Orlov, 2004).

According to Larudee a tax haven, or OFC, is a jurisdiction that offers two things:

(1) zero or near-zero taxes on business activities; (2) secrecy regarding financial assets (2009) Sharman adds to this definition the light regulation stating that n OFC or tax haven is a jurisdiction that has designed its financial regime to offer international financial services to non-resident firms and individuals (2010). Offshore countries also can have an approximate definition to TH, countries that do not require residency or business presence, also offer little or no tax liability, and don't share financial information with tax authorities to protect the wealthy people and corporations using theme (Mehrene Larudee,2009).

Profit and income shifting refer to the ability of MNEs to shift profits or income from higher to lower tax jurisdictions in other words from high tax jurisdictions to tax havens, thus eroding the tax base of the higher tax jurisdictions as outlined in the OECD's Base Erosion and Profit Shifting (BEPS) work (OECD, 2019).

Multinational firms have saved tax by failing to repatriate income earned overseas, Countries reacted to those acts as an example the US tax rate was at 35%, as a way to keep the tax cash in the US and prevented the stockpile in the foreign subsidiaries the US government reduce the corporate tax rate to 21% in 2017, recent statistics stated that the new president of the US is planning to raise it again to 28 %... (Financial Times, 2019).

**2 - Selection of database, journals, texts:**

In order to resolve the research issue, a literature search was executed-adapting methodology used by previous researchers (Jormanainen & Koveshnikov, 2012; Nguyen, 2017; cooper & Quyen, 2020).

The search was made using the Scopus database, which is the largest abstract, and citation database covering peer-reviewed academic literature. We used several search terms but the key term was “TAX HAVENS” The results of the first search were sizeable, with 589 articles, for the next screening step, We then refined our search by restricting only on articles published from 2008 to 2020 we went from 589 to 490, only two subject (Economics, Econometrics and Finance; Business, Management and Accounting) number of papers in our result was 336, then we choose article as the only type of documents 261,as a finale step a number of terms was selected to capture all relevant article, the terms were as follow:

"Tax Haven" or "Tax Competition" or "Tax Evasion" or "Profit Shifting" or "Tax Planning" or "Multinational Firms" or "Transfer Pricing" or "Income Shifting" or "Multinational Enterprises" or "BEPS" or "Offshore Financial Centers" or "Corporate Income Tax" or "Multinational Companies" or "Offshore Finance" or "Offshore Finance Centres" and "Panama Papers".

In addition, we reviewed carefully the titles, abstracts, key words, introductions, conclusions and journal outlets of the papers. We included empirical and literature review papers. The papers that were directly and related to our research focus on tax havens were selected, we removed papers that were less relevant, the result of our search is 158 paper well selected published in 90 journals between 2008 and 2020.

Table 1 reports the names of the publications included and the number of papers from each publication.

Distribution of articles in publication outlets. Publication outlets Number of studies

| No. | Publication outlets | Number of studie2 |
|---|---|---|
| 1 | Review Of International Political Economy. | 9 |
| 2 | Journal Of Public Economics | 9 |
| 3 | International Tax And Public Finance. | 9 |
| 4 | Accounting Review. | 4 |
| 5 | Journal Of International Economics. | 4 |
| 6 | Review Of Accounting Studies. | 3 |
| 7 | Post Communist Economies. | 3 |
| 8 | Journal Of World Business. | 3 |
| 9 | Journal Of Money Laundering Control. | 3 |
| 10 | Journal Of Business Ethics. | 3 |
| 11 | International Journal Of Accounting. | 3 |
| 12 | Critical Perspectives On International Business | 3 |
| 13 | Transnational Corporations | 2 |
| 14 | Management Science. | 2 |
| 15 | Journal Of International Accounting Research. | 2 |
| 16 | Journal Of International Accounting Auditing And Tawation. | 2 |
| 17 | Journal Of Financial Economics. | 2 |
| 18 | Journal Of Economic Geography | 2 |
| 19 | Journal Of Corporate Finance | 2 |
| 20 | Journal Of Business Research | 2 |
| 21 | Journal Of Accounting Research | 2 |
| 22 | Issues In Accounting Education | 2 |

| | | |
|---|---|---|
| 23 | International Trade Journa | 2 |
| 24 | International Review Of Law And Economics | 2 |
| 25 | International Journal Of Law And Management | 2 |
| 26 | Global Economy Journal | 2 |
| 27 | Finanzarchiv | 2 |
| 28 | Eurasian Geography And Economics | 2 |
| 29 | Economic Modelling | 2 |
| 30 | Economic Geography | 2 |
| 31 | Critical Perspectives On Accounting | 2 |
| 32 | Asian Business And Management | 2 |
| 33 | Asia And The Pacific Policy Studies | 2 |
| 34 | Applied Economics Letters | 2 |
| 35 | Applied Economics | 2 |
| 36 | Accounting Forum | 2 |
| 37 | World Development. | 1 |
| 38 | Transformations In Business And Economics | 1 |
| 39 | Thunderbird International Business Review. | 1 |
| 40 | Technological And Economic Development Of Economy | 1 |
| 41 | Strategic Management Journal | 1 |
| 42 | Russian Journal Of Economics | 1 |
| 43 | Review Of Radical Political Economics | 1 |
| 44 | Review Of Political Economy | 1 |
| 45 | Quality Access To Success | 1 |
| 46 | Public Finance Review | 1 |
| 47 | Pertanika Journal Of Social Sciences And Humanities | 1 |
| 48 | Oxford Review Of Economic Policy | 1 |
| 49 | Ntu Management Review | 1 |
| 50 | Managerial Finance | 1 |
| 51 | Management International Review | 1 |
| 52 | Journal Of International Business Studies | 1 |
| 53 | Journal Of Financial Regulation And Compliance | 1 |
| 54 | Journal Of Financial Crime | 1 |
| 55 | Journal Of Environmental Economics And Management | 1 |
| 56 | Journal Of Economics Zeitschrift Fur Nationalokonomie | 1 |
| 57 | Journal Of Economic Behavior And Organization | 1 |
| 58 | Journal Of Comparative Economics | 1 |
| 59 | Journal Of Applied Accounting Research | 1 |
| 60 | Journal Of Accounting Education | 1 |
| 61 | Journal Of Accounting And Public Policy | 1 |
| 62 | Journal Of Accounting And Economics | 1 |
| 63 | International Journal Of Trade And Global Markets | 1 |
| 64 | International Journal Of Scientific And Technology Research | 1 |
| 65 | International Journal Of Recent Technology And Engineering | 1 |
| 66 | International Journal Of Monetary Economics And Finance | 1 |
| 67 | International Journal Of Management And Business Research | 1 |
| 68 | International Journal Of Management | 1 |
| 69 | International Journal Of Auditing | 1 |
| 70 | International Business Management | 1 |
| 71 | Global Business And Economics Review | 1 |
| 72 | European Financial Management | 1 |
| 73 | European Economic Review | 1 |
| 74 | Emerging Markets Finance And Trade | 1 |
| 75 | Economy Of Region | 1 |
| 76 | Economic And Social Review | 1 |
| 77 | Ecological Economics | 1 |
| 78 | EC Tax Review | 1 |
| 79 | Corporate Ownership And Control | 1 |
| 80 | Corporate Governance An International Review | 1 |
| 81 | Corporate Governance | 1 |
| 82 | Comparative Economic Research | 1 |
| 83 | Cambridge Journal Of Economics | 1 |
| 84 | ATA Journal Of Legal Tax Research | 1 |
| 85 | Asia Pacific Journal Of Accounting And Economics | 1 |
| 86 | Advanced Series In Management | 1 |
| 87 | Accounting Auditing And Accountability Journal | 1 |
| 88 | Accounting And The Public Interest | 1 |
| 89 | Accounting And Finance | 1 |
| 90 | Academy Of Accounting And Financial Studies Journal | 1 |

## 2-3 Analytical approach:

To analyse these papers, we follow the qualitative approach outlined in Welch, Piekkari, Plakoyiannaki, and Paavilainen-Maentymaeki (2011). First, we focus on the content of the paper (Suddaby & Greenwood, 2005). all the necessary information were documented after a careful read to all the 158 paper. We summarize research gaps, variables and measurements, statistical techniques and findings of key mechanisms and characteristics are related to tax heavens.

Second, we analysed the contents of those papers (Suddaby & Greenwood, 2005) which are expected to make a detailed contribution to our literature. As our final 32 steps, we summarize the results of our analysis about all the fields related to tax heavens each one of theme will be dealt with and explained separately

(Fig1).

# Tax Heaven

## Offshores and the global organizations

1-OFC
2- Tax heavens
3-blacklistes
4-globel organisations

-Not every text Heaven Is an offshore, but every offshore is a tax Haven.

- Tax heavens and offshores are harmful to the economy; they are the first influencing factor in the decrease of the countries income from taxes.

-Blacklisting is one of the methods used to prevent the harm presented by the OFC's and tax Havens countries.

## The Financial Mafia

1-criminal money
2-money laundering
3-corruption

-money from criminal activities is a source of income for countries named tax heavens.

- The competition over this money leads to money laundering, Corruption, and more criminal activities (terrorism, drug dealing...)

## Dodging mechanises used by multinationales

### Lawful methods of escaping tax paying

1-tax planning
2-tax avoidance
3- tax compition

-a variety of Tax Strategies is adopted by the MNC's name tax planning which creating a Lawful tax competition

- Tax avoidance involves the use of non-criminal techniques by taxpayers, those acts result in the loss of tax revenue from non-tax Haven countries.

-Those methods are possible because tax legalization is open to various creative interpretations.

### Illicit methods of escaping tax paying

1-Tax Fraud
2-tax evasion

-Some companies are using illicit methods to escape paying taxes.

-Under-reporting income, inflating deduction without proof, hiding or not reporting cash transactions, or hiding money in offshore accounts are the main methods for tax fraud.

-The OECD and EU and FATF deal with the evasion cases.

### Tax Dodging techniques

1-sacrcy.
2-profit shifting.
3- Trusts

-the method of dodging used to evade tax liabilities depends on what the tax heavens offer and the company aim.

- The fight against those techniques has been rising since 2009. However, this trip is only at the beginning for the International organizations

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1- Interest in the tax havens issue has appeared in the last two decades, with the appearance of the 2008 crisis.
2- The majority of previous studies from the fields of economics, finance, business and accounting are empirically driven.
3- The confidentiality of data led to their unavailability, which made it difficult for researches to accomplish an empirical research.
4- Empirical results about the Estimates of tax evasion by the MNC's are not accuratedue to the use of micro data
5- The looting continues thought the effort made by the international organisations
6- The lack of comparative surveys and the focus on the same geographic area caused a methodological issue

## III. Funding and discussion:

### 1-State of research within tax heavens.

Low or zero taxes seem to be historically rooted in efforts to attract firms, whereas the protection of bank secrecy and other related information by law seems to be historically connected with the wealth of individuals. According to Palan et al. (2010) in the U.S. states of New Jersey and Delaware, appeared the first act of offering lax regulations that were in the late 19th century, then was imitated in Switzerland, Liechtenstein, which makes the tax havens approximately 100 years old the legal origins of various tax heavens are either British or Swiss or Benelux.[1]

As shown above, the term tax haven was introduced, in the mid-20th century. This term is meant to refer to entities that effectively impose (almost) no taxes on foreign income and scarcely exchange information about the foreign income with source countries according to Hebous, S (2014). The US Government Accountability Office (GAO, 2008) conducts a review and finds no agreed definition of a tax haven. However, they found that the OECD definition to be representative (Gary Tobin&Keith Walsh, 2013). OECD hence came up with four key factors that identify a territory as a tax haven (OECD, 1998, p.23):

1. No or only nominal taxes
2. Lack of effective exchange of information
3. Lack of transparency
4. No substantial corporate activities required

As a consequence of the lack of an agreed upon definition of the term tax haven, it is not surprising that lists of tax haven countries also differ quite widely. The two main lists are the list of the Bank for International Settlements and the Organization for Economic Cooperation and Development (OECD).

[1] A quick background on tax havens. The reader is referred to Palan et al. (2010) for a comprehensive historical treatment. Dyreng et al. (2013) examine the role of Delaware as a tax haven for firms in the U.S.

Table 2: Jurisdictions that have substantially implemented the Global Forum Tax Standard

| | | | | |
|---|---|---|---|---|
| Andorra | Chile | Iceland | Netherlands | South Africa |
| Anguilla | China | India | New Zealand | Spain |
| Antigua & | Cook Islands | Indonesia | Norway | Sweden |
| Barbuda | Costa Rica | Ireland | Panama | Switzerland |
| Argentina | Curacao | Isle of Man | Philippines | Turkey |
| Aruba | Cyprus | Israel | Poland | Turks & |
| Australia | Czech Republic | Italy | Portugal | Caicos Islands |
| Austria | Denmark | Japan | Qatar | United Arab |
| The Bahamas | Dominica | Jersey | Russian | Emirates |
| Bahrain | Estonia | Korea | Federation | United |
| Barbados | Finland | Liberia | St Kitts & Nevis | Kingdom |
| Belgium | France | Liechtenstein | St Lucia | United States |
| Belize | Germany | Luxembourg | St Vincent & | Uruguay |
| Bermuda | Gibraltar | Macau, China | the Grenadines | US Virgin |
| Brazil | Greece | Malaysia | Samoa | Islands |
| British Virgin | Grenada | Malta | San Marino | Vanuatu |
| Islands | Guatemala | Marshall Islands | Seychelles | |
| Brunei | Guernsey | Mauritius | Singapore | |
| Canada | Hong Kong, | Mexico | Sint Maarten | |
| Cayman | China | Monaco | Slovak Republic | |
| Islands | Hungary | Montserrat | Slovenia | |

Source: OECD (2012).

Yet, in addition to low taxes and confidentiality of information, several tax havens have some similar characteristics, According to Dhammika Dharmapala, James R. Hines Jr tax havens characteristics are, Islands with natural resource and small number of populations that lives close to coasts and uses English as an official language due to their British legal origins and parliamentary systems.

We can also conclude from his paper that tax heavens are countries physically close to major capital exporters with open economies, Well-governed countries that have low tax rates and high-quality governance institutions. His findings were Supported also by J. Slemrod and J. Wilson (2009).

According to Hebous, attracting money is the main benefits for a country to become a tax haven (2014). From our literature review, we concluded that there are actually two reasons, the first one is low taxes in the tax heavens and the lack of regulation that allow individuals and companies to shift income or revenues from high to low jurisdictions. The second reason is the secrecy or the lack of tax information exchange among jurisdictions, which allows them to attract foreign capital, and taxpayers that wants to escape paying liabilities to the tax authorities.

In recent years, tax havens have been put under increasing political pressure to cooperate with high tax countries in efforts to reduce tax evasion and tax avoidance since the 2008 scandal where a former employee of a Liechtenstein trust company provided tax authorities around the world with account data on about 1,400 clients of the company. Followed by several similar cases (GARY TOBIN & Dublin KEITH WALSH, 2013) the Luxleaks case in 2014, in which one of the Big 4 accountant firms helped multinational firms with legal tax decisions in order to avoid tax payments and the Panama Papers in 2016, where details of thousands of companies held anonymously were exposed (Ana Miranda &Paulo Dias, 2020). Those acts led to an increase in the investigations by the government and none governmental organization.

the G7's initiatives to bring Offshore Financial Centers (OFCs) under global governance in the early 2000s through the Organisation for Economic Co-operation and Development (OECD) and the Financial Action Task Force (FATF) (Eggenberger, K, 2018). In 2009, the OECD published a black list of countries that refused that did not conform to the standards. According to Eggenberger This blacklist was an exercise in 'naming, shaming and punishing' (2018).

A statement made by the G20 at its London summit in April 2009:

We call on countries to adopt the international standard for information exchange . . . We stand ready to take agreed action against those jurisdictions which do not meet international standards in relation to tax transparency. G20 (2009)

A paper named TIEAs followed this statement to increase transparency (M. Hampton and J. Christensen, 2011), that tax havens countries were forced to signed it to be removed from the blacklist. The European Court of Justice has also taken a lead in tackling harmful tax practices, and its landmark judgment of April 2005 (Hampton, M. P., & Christensen, J., (2011).

However, it does not mean that the OECD established agreements with all the important partner countries, In January 2010 the OECD announced that tax havens had signed more than 300 tax information exchange agreements in the preceding 12 months, signalling what they described as 'one of the big success stories of the G20' (Houlder, 2010a, p. 1). This shows that there is still a long way to go.

## 2- State of research within other fields related to tax heavens.

### 2-1. offshores and the global organizations:

As pointed out earlier, tax havens are jurisdictions which design their legislation in a manner so as to assist individuals to escape the regulatory requirements imposed by their countries, there are several characteristics or distinguishing features of tax havens and these, in fact, run into large numbers. However, we summarise some of theme:

Dharmapala (2008) and Keen and Konrad (2013), Dharmapala and Hines (2009) and Slemrod (2008) provide empirical support that tax havens tend to be small, wealthy island with American or British colonial, They concluded that statistically, countries with high-quality governance are more likely to become tax havens, As tax havens typically attract large amounts of investments relative to the size of their economy and population, earnings from or taxes on the haven industry account for a major share of their public revenues. Slemrod and Wilson (2009) argue that small countries have a comparative advantage in becoming tax havens. Those studies identify some countries that act or have acted as tax havens in the past and may continue in the future.

Tax havens and OFCs together comprise the 'offshore' world, however OFC's aren't exactly the same as tax heavens According to Jalan and Vaidyanathan (2017) OFC's refers to those commercial communities set up within tax havens to exploit the structures facilitated by its law to enable global taxpayers to circumvent their home country regulations. The wealth hidden in offshore entities in tax havens has become a hotly debated topic although most of the tax haven literature focuses on the favourable flows of financial capital to tax havens. Because the majority of financial capital inflows to tax haven countries flow back out to industrialized countries (Rose and Spiegel, 2006), the literature focus goes also on the importance of strategic tax 'optimization' has been raisin and in particular, transactions involving THOFC, which total approximately 15% of all nations (Dharmapala and Hines 2009) and mediate at least 30% of global FDI stock (Haberly and Wójcik 2015). Given the recent proliferation of papers on the topic (Haberly and Wójcik 2015; Janský and Prats 2015; Jones and Temouri 2016; Wójcik et al. 2018), THOFC are increasingly recognized as key actors in global financial flows, processes of globalization, as well as the greater mobility of goods and services (Hong and Smart 2010).

The profit shifting to low tax jurisdictions (THOFC) by multinational enterprises, led to a decrease in transparency in order to disguise their tax avoidance activities, and to a loss of tax revenue for the countries with high tax rate, in addition to the major role they played in the financial crises of the last two decades (Larudee, 2009), those issues caused by the THOFC create a misbalance in the global market Which required intervention of the international organisations in a fight against the devil, the G7's initiatives to bring Offshore Financial Centres (OFCs) under global governance in the early 2000s through the Organisation for Economic Co-operation and Development (OECD) and the Financial Action Task Force (FATF) was massive .

Various measures have been taken in this fight by developing various actions plans to combat tax-Base Erosion and Profit Shifting, starting on 22nd June 2000 a list of non-cooperative countries was made public by the Financial Action Task Force (FATF) ,the problems of the FATF was associated with practices which impede international cooperation as follow "jurisdictions offering financial services without appropriate control or regulation and protected by strict banking secrecy" (J.Sharman,2012). The final set was of 15 non-cooperative countries that failed to meet the required standard.

The acts of the FATF was followed by the OECD acts ,According to Sharman (2009) and (OECD 1998, 2000) The Organization for Economic Cooperation and Development (OECD) has sought to tackle 'harmful tax competition', as practised by member states but especially by a group of 41 non-member tax havens, this was intended to discourage the use of preferential tax regimes for foreign investors and to encourage effective information exchange among the tax authorities of different countries (Elsayyad & Konrad, 2012) as a result a second blacklist was created, in 2017 the European Union (EU) finance ministers followed the previous steps by blacklisting 17 countries for refusing to cooperate with the EU's decade-long crackdown on tax havens.

According to Eggenberger (2018) The OECD's blacklist was an exercise in 'naming and shaming' in that it highlighted states for their harmful tax practices. Yet, despite the OECD's threats of 'defense measures' such as imposing withhold taxes on transactions with tax havens, their blacklist did not actually impose sanctions. The idea was to create spill over costs for blacklisted states that replicate sanctions through damaging reputation. By contrast, the FATF's blacklist was an exercise in 'naming, shaming and punishing' in that it highlighted states for facilitating money laundering, which is a criminal offense under international law, but also came with the likelihood of FATF 'counter measures'

Sharman (2009) argues that public blacklisting by international organizations was an effective means of bringing about compliance, since it damages countries' reputations among investors and produces pressure to comply. In addition, the blacklist made it more costly for a country or jurisdiction to offer tax-sheltering opportunities. This process has partially succeeded. Some countries chose to become compliant and have abandoned their tax sheltering practices, while others have resisted and remain active as tax havens.

The countries that choses to become compliant banned the use of anonymous bank accounts because of the coercive effect of FATF. Eventually enacted a law that prohibited its use. It was FATF's threat to suspend the country from its membership, which by extension will mean automatic expulsion from the OECD membership that made it conform (Nanyun, & Nasiri, 2020)

As a summary, we can conclude that the debate about the fight of international organisations with the THOFC will remain open for future researches because the welfare impacts of tax havens on global market have not been conclusive in the theoretical literature. Some studies show that the existence of tax havens is harmful to the global market (e.g., Slemrod and Wilson 2009; Krautheim and Schmidt-Eisenlohr 2011; Haufler and Runkel 2012), while other papers argue that the opposite could happen (e.g., Hong and Smart 2010; Johannesen 2010).

### 2-2. the financial mafia:

Internationalisation and globalisation increased in the last decade leading countries to try hard to attract foreign capital. Countries started competing for the location of foreign firms and capital with low taxes, good infrastructure and high subsidies for firms, with low labour standards and declining welfare benefits to guarantee low wage side payments, with low ecological standards. (Unger, B., & Rawlings, G. 2008, Hebous, S. 2014). Therefore, they had to lower their standards in order to attract international firms and capital.

To evade the enigma caused by this competition they began competing over criminal money introducing ring-fenced financial regimes that allows to foreign criminals to place their money undiscovered in a safe and non-corrupt country (Unger, B., & Rawlings, G. 2008), leading to a race to the bottom and Making tax havens the first in this race, a criminogenic atmosphere was created in which illicit financial flows are easily disguised and hidden amongst legitimate commercial transactions (Christensen, J. 2011).

We take Seychelles as an example; an island in the Indian Ocean off the coast of Africa from the first countries that enter the criminal money competition, according to its preamble was to

"…provide for the granting of incentives and concessions to qualified individuals desirous of investing in the *Seychelles* for the purpose of ensuring a high level of sustainable economic growth in the Seychelles" (Republic of Seychelles, 1995).

This economic development act gave immunity to such investors, in another term the criminal can deal in drugs or use terrorism, bribery … then invest that money in a safe place …''.[2]

Because of this competition over criminal money, most of tax heavens countries become factories of money laundering by welcoming criminal capital to their shores. (Buchanan, 2004).

Money laundering by definition is the act of channelling illicit funds through outside financial channels in order to make the funds appeared legitimate, the overall scheme of this process returns the "clean" money to the launderer in an obscure and indirect way (McDowell, 2001; Antonello B, 2008; Albrecht, C., Duffin, K. M. and al, 2019; van Duyne, 2003; Reuter and Truman, 2005; Levi and Reuter, 2006; Harvey, 2005; Harvey and Lau, 2008). Multipal schemes are employed by corrupt officials. On the other front, in the words of Slemrod (2010) Tax havens are often cited as components of sophisticated to those schemes but is money laundering a crime?

A look back in the history of Money laundering we find that it was not criminalized Intel 1986 (Sharman,2008). Before this law, banks were only required to report large financial transactions through the Bank Secrecy Act of 1970. It is considered a problem for the world because the actions of criminal individuals, as well as illicit businesses and organizations, receive their funds

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[2] A quick background on *Seychelles that summaries their inciative to take over the criminal money crime*. The reader is referred to Unger, B., & Rawlings, G. 2008

from illegal and unethical sources as a result; money laundering undermines the wellbeing and performance of the global economy (Buchanan, 2004).

The main objective of the money laundering process is to assimilate the funds from illegitimate sources into the mainstream financial system and to make the funds appear 'clean and usable' for investments and other business ventures that support and protect criminal organizations (Levi 2002).

Furthermore, the money laundering process enables criminals that generate illicit revenue to increase their lifestyle. The money laundering process itself has been broken down into three basic steps: placement, layering, and integration (Gilmour, 2016).

- Placement puts the "dirty money" into the legitimate financial system. (Isa, 2015).

- Layering conceals the source of the money through a series of transactions and bookkeeping tricks. (Compin, 2008).

- In the final step, integration, the now-laundered money is withdrawn from the legitimate account to be used for whatever purposes the criminals have in mind for it. (Barbot, 1995)

There are several ways to launder money; one of the most common techniques is to use a legitimate, cash-based business. For example, if the organization owns a restaurant, it might inflate the daily cash receipts to funnel illegal cash through the restaurant and into the restaurant's bank account. After that, the funds can be withdrawn as needed. These types of businesses are often referred to as "fronts.

Those criminal acts leads to corruption, which is According to Transparency International (TI, 2006, p. 119), a universal problem it affects all sectors of society. We can defined corruption

… ] An individual or a group is guilty of corruption if they accept money or money's worth for doing something that he is under a duty to do anyway, that he is under a duty not to do, or to exercise a legitimate discretion for improper reason (McCullen, 1961, pp. 183-4, cited in Seyf, 2000, p. 2, cited in Ksenia, 2008, p.1).

The debates around, corruption and tax heavens is undergoing a major shift. Eva Joly refers to tax havens as the principal target in the emerging phase of the anti-corruption debate, arguing that:

"There is nothing more important for those who want to tackle poverty in the world than to make it possible to trace dirty money flows and impose sanctions on those territories which don't cooperate with this process "(La Tribune, 2007).

The fight against corruption money laundering and criminal money in tax heavens is increasing According to Young, M. A and Woodiwiss, M there have been lots of soft and hard policy documents over the past few years, those policymaking efforts completely embrace the notion that the implementation of international AML frameworks, is all that is required to rid the world of a myriad of high-profit generating organized crimes, including drug trafficking, human trafficking, corruption, and terrorist financing. However, there will exist no effective AML regime, as long as lax regulations in offshore financial centres, coupled with low or no tax regimes and strong financial secrecy policies remain in place The AML regime has made little impact on the extent of money laundering at the global level and the use of tax havens around the world to hide riches (2020).

### 3-3 tax dodging mechanise used by multinationals.

We can divide this section into 3 part the lawful immoral methods, the illicit methods and finally the tax dodging techniques:

#### 3-3-1 lawful methods of escaping tax paying:

represent an important aspect in several managerial decisions such as capital structure (Huang and Song, 2006; Delcoure, 2007; Fan et al., 2012), firm geographical location (Buettner and Ruf, 2007; Devereux et al., 2007; Dyreng and Lindsey, 2009) and dividend policies (Brown et al., 2007; Al-Malkawi, 2007; Pattenden and Twite, 2008) but also a liability that firms need to deal with, so they tend to devise elaborate tax avoidance schemes to minimize taxes. While debate exists on the definition of tax avoidance, it is broadly defined as the reduction of explicit taxes (Slemrod 2004). However, terms such as tax shelter (Desai and Dharmapala 2009), tax noncompliance, and aggressive tax strategy (Frank, Lynch, and Rego 2009; Frischmann, Shevlin, and Wilson 2008; Rego and Wilson 2012) are also used to describe explicit tax reduction behaviors.

The tax avoidance case brings up several ethical dilemmas, as described by Oxfam Ireland’s Chief Executive, Jim Clarken, stated, “Tax dodging has a real human cost. When a company gets away without paying the tax it should, that has a direct impact on the lives of people around the world” (Cogley and Doyle 2016).

In order to evade paying taxes companies use some tax planning methods Cen et al. (2018) present evidence that tax planning strategies propagate along supply chains.

Various Previous works on tax avoidance or planning, such as Scholes, Wilson, and Wolfson (1990) and Scholes and Wolfson (1992), dealing with theory and empirical techniques from economics, finance, and accounting to comprehend corporate tax avoidance. Many researchers were made about methods and tax avoidance techniques, For example, shifting income across countries and states method (Gupta and Mills 2002; Dyreng and Lindsey 2009; Dyreng, Lindsey, and Thornock 2013), holding municipal bonds (Erickson, Goolsbee, and Maydew 2003), engaging in tax shelters (Graham and Tucker

2006; Wilson 2009; Lisowsky 2010), increasing net operating losses (Erickson, Heitzman, and Zhang 2013), and engaging in complex financial arrangements (Engel, Erickson, and Maydew 1999). Studies firm size and its relationship with tax avoidance (Rego 2003), political sensitivity (Mills, Nutter, and Schwab 2013), unionization (Chyz, Leung, Li, and Rui 2013), ownership structure (S. Chen, X. Chen, Cheng, and Shevlin 2010; Badertscher, Katz, and Rego 2013), institutional holdings (Khan, Srinivasan, and Tan 2017; Chen, Huang, Li, and Shevlin 2018), and managerial effects and incentives (Desai and Dharmapala 2006; Dyreng, Hanlon, and Maydew 2010; Robinson, Sikes, and Weaver 2010; Armstrong, Blouin, and Larcker 2012; Rego and Wilson 2012). Other studies evaluate consequences of tax avoidance, such as loss of reputation (Hanlon and Slemrod 2009; Gallemore, Maydew, and Thornock 2014; Graham, Hanlon, Shevlin, and Shroff 2014), increased borrowing costs (Kim, O. Li, and Y. Li 2010; Hasan, Hoi, Wu, and Zhang 2014; Shevlin, Urcan, and Vasvari 2013), and its association with aggressive financial accounting and fraud (Frank, Lynch, and Rego 2009; Lennox, Lisowsky, and Pittman 2013). for detailed reviews of the tax literature in accounting Shackelford and Shevlin (2001) and Hanlon and Heitzman (2010) are recommended, and Scholes et al. (2015) for examples of tax avoidance strategies. Cited in Dyreng et al. (2018)

Tax avoidance also can be facilitated if a member of the corporate group is resident in a jurisdiction with tax haven status that offers advantageous financial, legal and taxation treatment (ATO, 2004a; OECD, 2006).

Those methods used by firms create a competition among countries triggers a ‘race to the bottom’ in taxation as each country tries to attract capital from the other (Genschel, P and al.,2016).

According to Działo, J The issue of international tax competition refers to two main aspects:

• the situation whereby, by not taxing the interests of their residents, individual countries seek to make the investment of funds at home more attractive;

• attempts to obtain external capital through low tax rates and other tax preferences.

And also has its own Pros and Cons Some economists argue that tax competition is beneficial in raising total tax in take due to low corporate tax rates stimulating economic growth (Hines, James R,2005; Brill, Alex; Hassett, Kevin,31 July 2007). Others argue that tax competition is generally harmful because it distorts investment decisions and thus reduces the efficiency of capital allocation, redistributes the national burden of taxation away from capital and onto less mobile factors such as labour, and undermines democracy by forcing governments into modifying tax systems in ways that voters do not want. (see also Działo, J, 2015).

As a sum-up for the lawful ways of escaping tax paying by evading taxes by tax planning and according to Slemrod, J and Wilson, J. D Unless territorial capital income taxes are dominated by other taxes, it is optimal for countries to devote resources to defend this revenue base. Tax haven jurisdictions make this more difficult by, in return for some compensation, facilitating tax avoidance in the formof income shifting (2015).

**3-3-2. illicit methods of escaping tax paying**:

With an estimated USD 190 billion per year in lost revenues, tax evasion via offshore tax havens challenges tax authorities of many nations (Griffith,2015; Palan et al., 2010; Palan and Nesvetailova, 2013; Henry, 2012). cited in Kemme et al. (2017)

"Tax evasion or tax fraud" is a subject regularly discussed in the media. it is an unlawful and illegal activity which violates the law of the state, and which is therefore also subject to punishment according to the relevant regulatory framework of an economy (Slemrod & Yitzaki, 2002, Slemrod 2007; Alleyne and Harris, 2017), tax evasion involves hiding the real value of a legal contract or transaction to avoid or reduce fiscal liabilities (Tsakumis, Curatola and Porcano, 2007).

Unlike tax avoidance, tax evasion is considered by some scholars to be an unlawful activity (Brown, 1983; Flesch, 1968; Sommers, 1998). However, there is a thin line can separate the two practices, what constitutes lawful or morally acceptable behaviour may be problematic (McBarnet, 1991; Slemrod, 2007).

this phenomenon can be caused by several factors including rule of law, tax rates, and tax morale (Bame-Aldred, Cullen, Martin, & Parboteeah, 2013; Pickhardt & Prinz, 2014; Riahi-Belkaoui, 2004; Richardson, 2006, 2008; Shafiq, 2015; Slemrod, 1990), Weak tax enforcement strategies (Marhuenda and Ortuño-Ortín, 1997), Inaccurate tax data/records or the non-transparency of the tax data s (Hay, 2017), Corruption (Chander and Wilde, 1992) … so on

Firms are using a range of tax evasion schemes such tax havens, shell companies and inter-group structures to avoid taxes to increase profits and capital (Bakre, 2007; Palan et al., 2010; Sikka and Hampton, 2005; Sikka, 2003, 2007, 2008a; Tax Justice Network, 2007; US Government Accountability Office, 2004, 2005; US Senate Sub-Committee on Investigations, 2006). Which leads to a loss of tax revenues that undermines government legitimacy and prevents economic development (Cobham, 2005; Richardson, 2006; Sikka, 2008a). Cited in Otusanya (2011)

However, the use of those schemes create some effects According to Slemrod (2007); Pirttila (1999) and Ghosh (1995) Tax evasion leaves the government with financial and a hard time to fund the government's budget, it also redistributes the tax burden (Yamamura, 2014), and affects the costs of raising taxes. Cited in P.K. Ozili (2018).

Many attempts took place worldwide by international organisation (OECD, EU, and FATF) to defeat the disease named tax evasion but it is difficult to deal with the problem due to the absence of sources of information capturing all of it, so in order to obtain information on tax evasion, tax authorities must rely on some methods of measuring

Several methods have been developed since the 1950s by various researchers to calculate the size of the extent of tax evasion, such as Cagan (1958), Allingham and Sandmo (1972) and Tanzi (1980) Matthews (1982); Klovland (1984); Bajada (1999); Giles (1999a, 1999b); Koyame (1996); Schneider (2002); Giles and Tedds (2002); Ariyo and Bekoe (2012); Asante (2012); Bekoe (2012); Cebula and Feige (2011). There are three methods classified in those categories: namely, direct, indirect and modelling approaches which uses structural econometric model pertaining to the particular economic phenomenon under study.cited by John Kwaku and Babonyire (2019)

If this problem is not solved and closed, then the rule of law and the effective administration of tax will not be strengthened and the countries will continue to lose billions of dollars due to the activities of the taxpayers.

### 3-3-3. tax dodging techniques:

Indicators of base erosion and profit shifting there are various ways multinational companies can leverage tax differentials in the countries where their subsidiaries operate.

#### 3-3-3-1 secrecy:

Define secrecy is defined according to Hines and Rice (1994) as legislation that supports banking and business secrecy, as for the U.S. Government Accountability Office (2008) similarly describes it as a lack of effective exchange of tax information with foreign tax authorities and a lack of transparency in the operation of legislative, legal or administrative provisions. The OECD (1998) characterizes secrecy as the existence of laws or administrative practices that prevent the distribution of effective information for tax purposes with other governments.

Murphy (2008) argues, because it is this that allows non-residents to take advantage of favourable features in the jurisdiction's legal framework with the confidence that they will not run afoul of the legal system in the places where they reside. Thus, two key characteristics define a secrecy jurisdiction:

- "The secrecy jurisdiction creates regulation that they know is primarily of benefit and use to those not resident in their geographical domain"

-“The creation of a deliberate, and legally backed, veil of secrecy that ensures that those from outside the jurisdiction making use of its regulation cannot be identified to be doing so.” (Murphy 2008, 6)

According to Schjelderup (2015):

-Secrecy jurisdictions or Tax haven legislation prevents the disclosure of information to third parties; this lowers the costs of tax evasion and presents an income opportunity for individuals.

- Hidden bank accounts increase the excess burden of taxation and leads to higher compliance cost in non-haven countries

-The secrecy and anonymity that tax havens offer make it harder to repatriate stolen funds thereby lowering the costs of economic crime and theft from society (NOU,2009).

Another aspect of secrecy is the use of untraceable (anonymous) shell companies, companies that can be set up without proof of identity, which can then be used to avoid responsibility for both non-criminal and criminal activity.

The international organisations reacted to those harmful acts. the OECD published a list of criteria to defined the cooperative jurisdictions , Out of the 25 criteria developed, seven can be viewed as specific to the regulation of the banking industry in NCCTs; Shahin (2006) stated that 23 countries and territories governed by bank and financial secrecy laws were classified as Non-Cooperative Countries and Territories (NCCTs), as for the OECD a blacklist was published, however in order to avoid being blacklisted secrecy jurisdictions were forced to sign tax information exchange tax treaties (TIEAs).

Under TIEAs, jurisdictions were obliged to provide accurate information in the letter of request to identify a specific person, transaction, account, trust or company linked to the suspicion in question, and the tax purpose for seeking this information. It must also provide evidence of why it believes the requested jurisdiction holds the information in question and demonstrate that it has exhausted all other means of information (Schjelderup, 2015)

Despite the effort of international organisations, the business mode of THOFC wasn’t effected, Information exchange treaties, which is the most severe step taken against theme, only allow the exchange of information once a culprit is identified and linked to a specific tax haven.

#### 3-3-3-2 profit shifting:

Base erosion through profit shifting is considered a serious problem since it potentially reduces tax revenue in onshore economies (Clausing 2003, Bartelsman and Beetsma 2003, Huizinga and Laeven 2008, Buettner and Wamser 2007, Karkinsky and Riedel 2012). in 2013, the OECD launched an initiative against base erosion and profit shifting (BEPS - OECD, 2013a; b, 2014, 2015), Janský and Kokeš stated that the OECD makes a comprehensive analysis of the underlying causes and main consequences of the problem of base erosion and profit shifting (2015).

Shifting of pre-tax profit can be done through inter-company trade or sharing of debt and, since there is usually no account of these activities, one has to analyse available financial data to see whether there are indications of such practices.

Tax havens have been incorporated into the analysis as one of the fundamental elements of the systems and strategies associated with profit shifting, the role of third jurisdictions in profit shifting may not be limited to low tax rates and financial secrecy, however, and, for example, some might be part of tax treaty networks. If countries create strong incentives for other countries to enter into bilateral tax treaties, this opens new doors for tax avoidance by profit shifting and increases secrecy through complexity in international taxation (Picciotto 1992, Rixen 2008, Weyzig 2012, McGauran 2013).

Profit shifting have several Mechanisms we mention some of them as a sum up for the most important techniques:

**a. The transfer pricing:**

Transfer pricing is one of the most important issues in the strategic and operational management practices of large business organisations. According to Seed (1970, p. 10), A number of empirical surveys have been carried out on transfer pricing practices (Emmanuel, 1976; Tang, 1981, 1982, 1993; Mostafa et al., 1984; Mehafdi, 1990, Rugman & Eden, 1985; Eden, 1998, 2003; Eden & Kudrle, 2005; Eden, Valdez, & Li, 2005; Eden, 2016 for example). These studies sought to establish the methods used for pricing transfers in the manufacturing industry. Transfer pricing is sometimes inaccurately presented by commentators as a tax avoidance practice or technique (sikka, 2009; taibi, 2011; rice et al., 2016)

According to Alicia tuovila (2020) Transfer price is the price at which related parties transact with each other, such as during the trade of supplies or labour between departments. Transfer prices are used when individual entities of a larger multi-entity firm are treated and measured as separately run entities.as for OECD (2010) and cooper et al. (2016) transfer pricing refers to the rules and methods for pricing transactions within and between enterprises under common ownership or control. Because of the potential for cross-border controlled transactions to distort taxable income, tax authorities in many countries can adjust intragroup transfer prices that differ from what would have been charged by unrelated enterprises dealing at arm's length[3].

[3] The arm's length price is the price that exists or would exist on the sale of a given product or service between unrelated firms.

Transfer pricing is used to allocate credit to net lending units and charge costs to net borrowers, thus establishing interest income and expenses for performance measurement purposes (Kimball, 1997), Milgrom and Roberts (1992, p. 78) view transfer pricing systems as means by which executives co-ordinate activities both to achieve overall corporate goals and to motivate desired behaviour. While it is sometimes difficult to draw a clear line of demarcation between transfer pricing and discretionary cost allocation (Emmanuel and Mehafdi, 1994), but the main use for transfer pricing by Multinational companies is to shift profits to low tax regions.

As a result, transfer pricing is an important mechanism for profit shifting and for the establishment of a multinational company, according to cooper the use of transfer pricing is therefore synonymous with the establishment of an MNE.

**b. Thin capitalization:**

debt compared to equity is how we can refer to thin capitalization (Richardson et al., 1998; Taylor & Tower, 2009; Taylor, Tower, & Van der Zahn, 2010).according to several scholars thin capitalization is considered an important way of tax avoidance (Shackelford & Shevlin, 2001; Shackelford, Slemrod, & Sallee, 2007), Taylor& Richardson (2013) stated in their paper that Slemrod (2001) and Rego (2003) finds that highly leveraged firms have lower effective tax rates due to the use of debt deductions in order to reduce taxable income.in addition to researches by Beuselinck, Buysschaert, and Deloof (2005), Graham and Tucker (2006) and Dyreng, Hanlon, and Maydew (2008) that argued that successful long-run tax-avoidant firms have significantly higher leverage in their capital structures. Evidence from papers dealing with income or profit shifting suggests that corporations may shift their income from high-tax jurisdictions to low-tax jurisdictions by intra-firm debt (Desai and Hines, 2002; Richardson and Taylor, 2015; Makni et al.,2019).When a MNF have an affiliate situated in a low-tax country extends loans to finance an investment in high-tax countries, the subsidiary in a high-tax country can make deductible interests to reduce taxable income (Makni et al.,2019),a large loss in tax revenue appear due to the excessive use of debt finance, leading developed countries to create thin-capitalization rules that restrict the ability of firms to deduct interest on debt when the capital structure is deemed to be excessively leveraged(Haufler and Runker, 2012; Makni et al., 2019).

**c. Intangible assets:**

In recent years the transfer of intangible assets between group entities such as (intellectual property, trademarks, brands, R&D expenditure),is becoming a concern for tax authorities (Grubert, 2003; Grubert and Mutti, 2006; Gravelle, 2009), the main problem caused by the intangible assets is the valuation of their price, according to the US Treasury Department the transfer of high value intangible assets led to risk of tax revenue erosion between firms situated in high/low-tax jurisdictions (Department of the Treasury, 2007). Hence, there is substantial scope to engage in tax avoidance through the transfer of intangible assets to low-tax jurisdictions, such as tax havens (Taylor et al., 2014).

**d. Trusts:**

Taxpayer may also evade tax paying by using trusts in tax havens (Gravelle,2013), the trust can be described as an asset given away for someone else under a trust deed in order to give the appearance that the tax payer in no longer in control of his business or assets Once transferred to the domestic trust, the income and expenses are passed to one or more foreign trusts, typically in tax haven countries (Schjelderup,2015).

## IV. Suggestions for future research agenda

Several new lines open in the terms of research whiting the subject of tax havens in the global market and the international business, however the secrecy imposed upon theme which is one of the key basis of THOFC's, and the lack of effective information prevent scholars to fulfil their researches.

A good understanding of the role and the use of THOFC's helps to understand the mechanisms used by theme, which can gives a step ahead in the fight against theme, it can also help clarify the definition of THOFC's (benefits for organisations and, in the other hand extending research within this area gives the chance to scholars to speak with the executives of the MNE's and identify their views about those activities and how do they respond to the policies and measures set by the makers of rules in this fight.

## V. Conclusions

Our study was a systematic literature review compiling information found on the empirical research made about tax havens and offshores financial centres that continue to attract investors from all part of the global with their unique combination of low tax rates and commercial secrecy, creating an unfair playing field for non-haven countries and a huge burden of tax base erosion. The fact that the MNEs represent the biggest users of THOFC allow them to keep their presence in high taxed jurisdictions and use several methods to shift profits to low or nil tax jurisdictions.

The growing use of THOFC and the global economic crisis (2008) were a turning point for tax havens, resulting in a never-seen-before loss of faith in the civic system as well as in the corporate form of organisation (Jalan& Vaidyanathan, 2017). What required intervention of governmental and non-governmental organizations to impose Measures to step ahead with the fight against THOFC's, the efforts made need to be unified since the problem is global. Though international tax policies and sanctions for non-compliance with the standards were introduced, there is still work to be done.

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