

# The origins of Tax Havens

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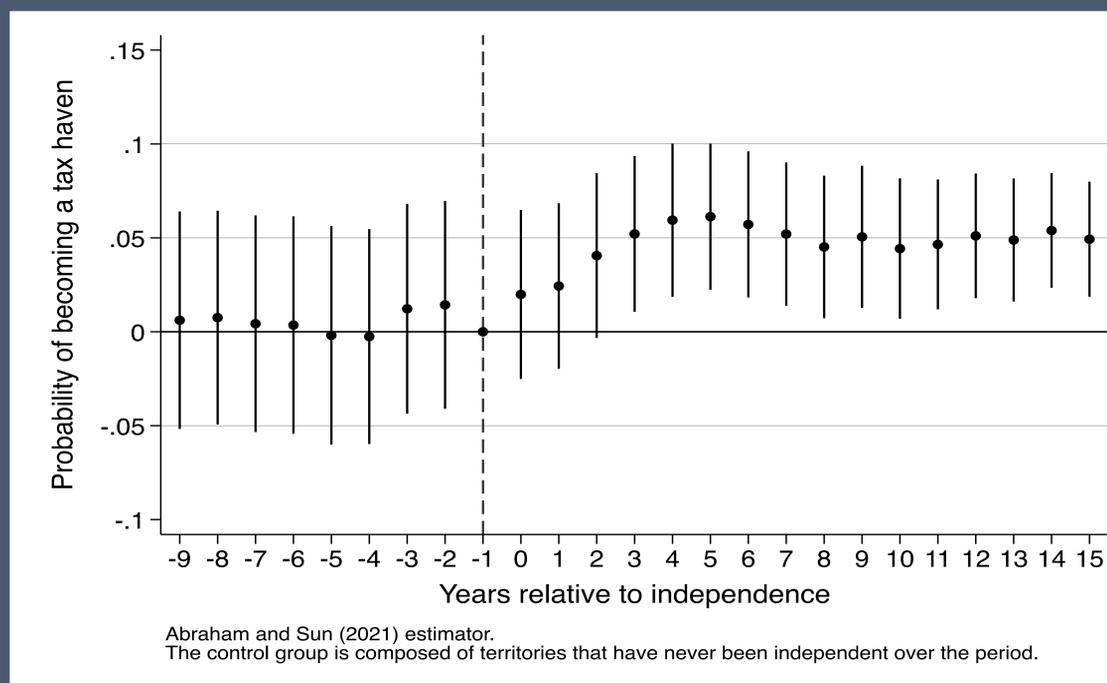
# Tax havens result from large demand and supply shocks along the 20<sup>th</sup> century.

## Demand shocks (tax introduction, rise in taxes, increased tax progressivity)

- Demand is captured by the introduction (or increase) of direct taxes in surrounding countries.
- Before WW2, 10 new introductions of direct taxes around (<1000km) increase the probability of becoming a TH by 4% in the sample of tax havens.

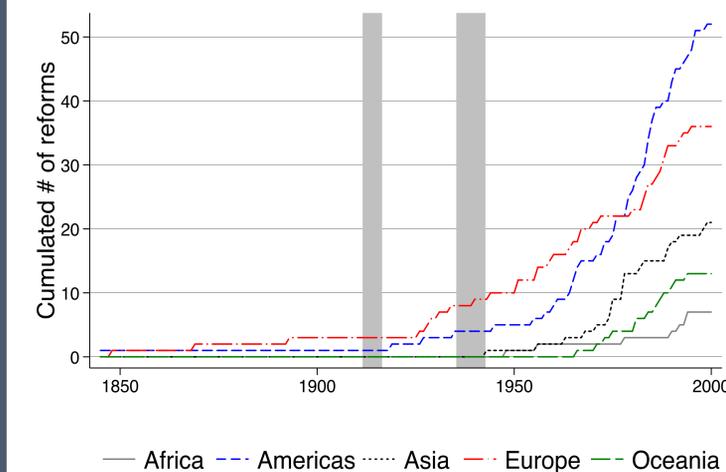
	$\mathbb{P}(Reform = 1)$					
# Direct < 1000km	0.00828** (0.00412)	-0.00145 (0.00826)	0.0149* (0.00780)	0.000837 (0.0149)	0.0433* (0.0222)	0.0108 (0.0575)
Sample Period	Whole Pre-45	Whole Post-45	Small Pre-45	Small Post-45	Ever Havens Pre-45	Ever Havens Post-45
Observations	10,954	12,906	5,428	6,372	2,208	2,592

## Supply shocks (independence following decolonization)

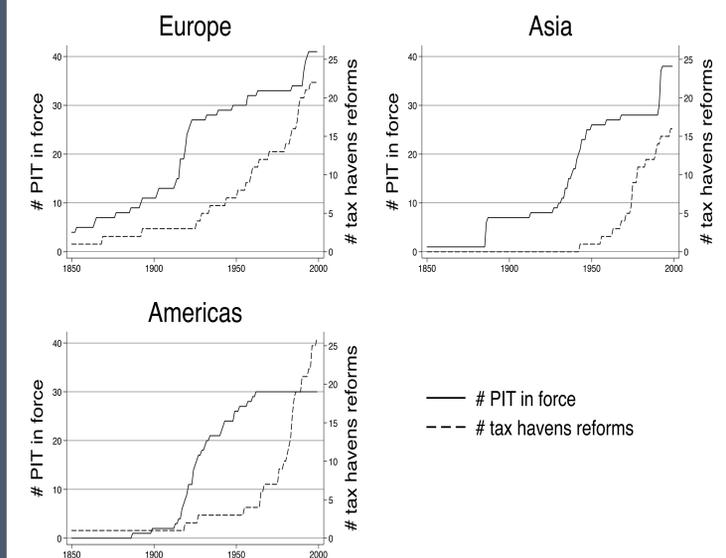


## DESCRIPTIVE

- Tax havens in the 20<sup>th</sup> century.



- Supply (new tax havens) and demand (new tax introductions).



## ADDITIONAL RESULTS

- Tax havens compete against each other: more tax havens around cause more reforms.
- Identification thanks to the exogenous increase of tax havens following decolonization.
- Becoming a tax haven affects own:
  - GDP (+),
  - development aid (-), colonizer's aid (- relative to others).
  - legal capacity (depends on the metric). Hypothesis: extractive institutions.
  - tax revenues (sign depends).

## MOTIVATION

- Large effects of tax havens on tax revenues, inequality, welfare, etc.
- What are the historical roots of tax havens?
- Tax havens: countries that set up a specific fiscal, legal and administrative environment (low tax rate, secrecy, special procedures, offshore structures, etc.) to attract assets and revenues that have been generated in other countries.
- To become tax havens, countries have to build a legal architecture (≠ small tax rates).

## DATA

- Track legal reforms that make countries tax havens or reinforce this status (1900-2000).
- Data collected from tax lawyers books advising on which tax havens to choose.
- 48 countries. Big (e.g. Switzerland, Ireland) and small (e.g. Caribbean islands) countries.

## CONCEPTUAL FRAMEWORK

- Legal and fiscal capacity model.
- Becoming a tax haven depends on own characteristics and on the demand for tax haven operations. Only one tax rate for taxing domestic and offshore revenues.
- Results: i) TH are more likely to be small countries, ii) TH invest in tax evaders' legal capacity iii) tax rate rise in close countries increases the probability of becoming a TH → the role of demand.