

IMPLICATIONS OF TAX HAVENS. ECONOMIC EFFECTS

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***Abstract.** The purpose of our paper is to highlight the main negative economic implications of the existence of tax havens, namely the increase in harmful tax competition, the erosion of the tax base and implicitly the reduction of tax revenues; all these negatively affect the economic development of a country, negatively affecting direct investments, or effects on the structure of tax revenues. However, it should be mentioned that in addition to the negative ones, there are also positive effects/implications on the economy, respectively, they can contribute to the reduction of taxes in other jurisdictions, or even the economic development of tax havens. The methodology used is descriptive and empirical, by calling on various bibliographic sources, with a preponderance of foreign specialized literature, as well as a quantitative methodology, for the processing and analysis of data taken from international databases.*

***Keywords:** tax haven, tax competition, tax revenues, erosion of the tax base, investments*

***JEL:** F23, F63, H26*

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Introduction. The existence of tax havens implies negative as well as positive effects for an economy. Among the negative ones, we refer to the erosion of the national tax bases of other countries; changing the structure of taxation by moving part of the tax burden from mobile economic sectors to relatively immobile economic sectors and from income to consumption; discouraging compliance by taxpayers or increasing administrative costs of execution, inefficient allocation of investments.

Also, the harmful fiscal competition represents another negative effect, through the prism of the low level of taxes to attract capital, or the competition between companies; in the same field of activity, a company that transfers profits to a tax haven where they are subject to minimal taxation has a definite competitive advantage over a competing company whose profits remain taxed at a higher level in the jurisdiction in which it operates economically. Thus, the company with a subsidiary in a tax haven, even reducing the price of the goods and services it trades, ultimately obtains higher profits, reaching the point of eliminating from the market the company that does not use the opportunities offered by the tax havens.

There are also some positive effects of tax havens on the economy, globally; they can help reduce taxes in other jurisdictions because they would lose

part of their tax base in tax havens if they set tax levels that are too high. Thus, tax havens can induce politicians not to raise taxes excessively.

Another positive effect is the economic development of tax havens. These jurisdictions usually have an insular character, small population, insignificant natural deposits, the main income coming from tourism in the past. Promoting this strategy of attracting capital, they developed, over time, functional legal systems, democratic forms of government, with low level corruption, minimal bureaucracy and political stability. The low level of taxes in tax havens is not the only factor in attracting capital. The safety of investments and financial transactions as well as predictable legislation are also important. In the conditions in which the competition for attracting capital is increasingly fierce, the requirements for institutional and political efficiency also increase.

In response to the growing concerns of many countries about profit shifting, the OECD, since 2013, has taken action to combat tax evasion: the Base Erosion and Profit Shifting Plan (BEPS), measures against tax evasion, such as Controlled Foreign Corporation (CFC) rules, patent rules, capitalization rules, transfer pricing regulations and Country-by-Country Reporting. These efforts, especially the automatic exchange of information, have resulted in the reduction of bank deposits in tax havens by 20 to 25% over the past decade.

Next, we refer to three economic (fiscal) implications of the existence of tax havens, namely the increase in tax competition, the reduction of tax revenues of states and implicitly of total revenues, the increase of tax evasion and effects on investments.

Harmful tax competition. We refer here to preferential tax regimes and recent trends in corporate and individual income tax competition, targeting different types of corporate tax exemptions implemented in the EU that contribute to the observed gap between statutory tax rates and taxes actually paid by large multinationals. While some tax incentives are more convincingly justifiable from an economic point of view than others, all contribute to the erosion of the corporate tax base (Flamant, E., Godar, S., Richard, G., 2021).

One of the most significant developments in global tax policy since the 1980s has been the decline in corporate income tax rates. Between 1985 and 2018, the average statutory corporate tax rate fell by about half, from 49% to 24%, one reason for this decline being international tax competition (Flamant, E., Godar, S., Richard, G./ EU Tax Observatory 2021). By lowering tax rates, countries can attract profits and capital from abroad.

Harmful new forms of tax competition have also emerged in the EU, namely special regimes that offer reduced rates to mobile people, often with high incomes or high wealth. The number of preferential regimes for individuals increased from 5 in 1995 to 28 in 2021. These regimes cause revenue losses to other countries and undermine the progressivity of domestic income tax systems.

In principle, corporate and personal income tax target different taxpayers, but there are important overlaps. First, entrepreneurs can choose the legal form of their business and thus switch from personal income tax to corporate tax if they consider it more advantageous. Second, the after-tax profits of corporations are

ultimately distributed to shareholders, who can benefit from corporate tax cuts in the form of higher dividends.

Another definition of fiscal competition can be "the non-cooperative fiscal setting by independent governments, on the basis of which the policy choices of each government influence the allocation of a mobile fiscal base among the 'regions' represented by these governments" (Wilson, Wildasin, 2004). This can be harmful/ aggressive tax competition and non-harmful tax competition, the non-harmful having, according to the European Commission, beneficial effects: "In this context, it is important to recognize that while harmful tax competition needs to be addressed both at EU level and at a wider international level, especially within the OECD and the provisions of the State Aid Treaty must be respected, a certain degree of fiscal competition within the EU may be inevitable and may contribute to reducing fiscal pressure.» (European Commission, 2001).

Governments can try to attract capital, workers or consumers from other countries by lowering general tax rates or by offering special regimes that target a specific part of the tax base or the taxpayer pool. Liberalization of international capital flows and advances in transportation and communications technology have generally increased the mobility of corporations and individuals, especially for large corporations and high-income individuals. International tax competition on increasingly mobile factors provides a plausible explanation for falling corporate tax rates, the rise of double income taxation or special capital gains tax regimes in Europe (Eggert, Genser 2005), and falling tax rates on personal income.

Economic models of fiscal competition, in which countries compete for investment in mobile businesses by lowering corporate tax rates, typically result in low levels of public services (Zodrow, 2003). International tax revenue statistics suggest, however, that tax competition in the European Union and the OECD has not coincided with a general decline in taxation as a percentage of GDP, but rather a tendency to shift the tax burden from more mobile to less mobile capital income tax bases, such as consumption, with important distributional implications.

In our analysis, regarding tax competition, we use data that show the situation mainly at the level of the European Union states, from the period 2000-2021 (according to the EU TaxObservatory report, 2021). Also, to create an overall picture, the analysis also uses data from 1985, regarding tax revenues at the OECD level. (referring to the context that generated, in time, harmful competition).

Table 1. Structure of fiscal revenues at OECD level, % GDP, in the period 1965-2019

	1965	1990	2000	2007	2010	2015	2017	2018	2019
Tax revenues from personal income tax	6,8	9	8,3	7,8	7,2	7,9	7,9	7,9	8
tax revenues from profit tax	2,1	2,3	3,1	3,6	2,7	2,8	3	3,1	3
social security contributions	4,5	7,1	8,4	8,2	8,6	8,8	8,9	9	8,9
property	1,9	1,7	1,7	1,7	1,6	1,8	1,9	1,8	1,8
goods and services	9,4	9,9	10,8	10,6	10,5	10,8	10,9	10,8	10,8
VAT	0,7	5,1	6,3	6,5	6,4	6,6	6,7	6,7	6,7

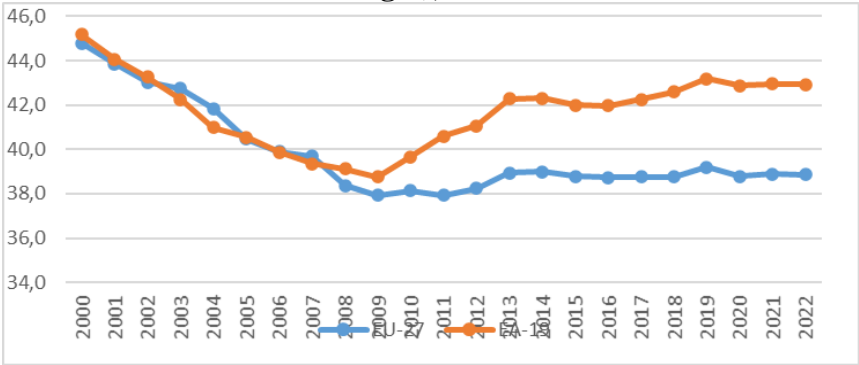
Source: OECD, Global revenue statistics database

According to the data, we observe a global increase in tax revenues in the period 1965-2019, significant being in those related to VAT and social insurance (for tax revenues from VAT, from 0,7% of GDP in 1965, to 6,7% GDP, and for social security contributions, from 4,5% GDP in 1965 to 8,9% GDP in 2019). For the other tax categories, the level of increases was much lower.

In the EU, both forms of tax competition, downward pressure on general tax rates and the spread of preferential regimes, have the potential to undermine the vertical equity of tax systems due to the exceptional mobility enjoyed by taxpayers within the common market. As cross-border tax optimization involves relatively high fixed costs, the tax benefits of this increased mobility are likely to be greater for high-net-worth individuals, high-income earners as well as large businesses. For example, from an individual's perspective, the financial benefits of a change of tax residence must outweigh the costs, including either a complete change in social environment or, more likely, the maintenance of two residences, frequent travel, bureaucratic costs, and legal advice. Similarly, it is the privilege of multinational companies to strategically locate economic activities in member states in order to benefit from low taxation without giving up the benefits of public infrastructure in countries with high taxes and duties, which creates a competitive advantage compared to smaller or domestic enterprises (Eu Tax Observatory Report, 2021).

Tax competition at the level of personal tax .The European Union experienced a period of falling statutory maximum personal income tax rates between 1995 and the financial crisis of 2008. During this 15-year period, the average top statutory rate in EU countries fell from almost 48% to less than 40%. This decrease occurred in the 1990s and 2000s in a context of moderate economic growth and under the impetus of the European Commission's idea of a certain economic competition between the countries of the European Union.

Figure 1. Evolution of statutory personal income tax rates (including surcharges), 2000-2022



source: European Commission, DG Taxation and Customs Union, Taxes in Europe Database and PWC and Norwegian Tax administration

The 2004 enlargement and the introduction of tax systems with relatively low rates have contributed to the continued decline of the European personal income tax rate (upper limit). However, the observed reduction in tax rates was not only the result of new and more fiscally competitive entry into the European Union, a trend of decreasing tax rates being visible in the EU-15 countries since the mid-1990s.

A number of EU Member States have introduced preferential tax regimes to attract personal income tax payers. The establishment of such specific regimes has become increasingly profitable with the global increase in the mobility of both companies and individuals; In addition, the establishment of the EU has considerably reduced the costs associated with changing tax domicile. These schemes target high net worth individuals (HNWIs), selected professionals or retirees. A provisional ranking suggests that the Italian and Greek HNWI regimes, the high-income Cypriot regime, as well as the Cypriot, Greek and Portuguese pension schemes are among the most damaging. Over 200,000 taxpayers currently benefit from these schemes. Overall, preferential schemes generate a revenue loss of over €4.5 billion per year for the EU as a whole.

Preferential schemes are all the more problematic as they target the highest income taxpayers, either by defining minimum amounts of income to be obtained or by reducing tax rates. Exemptions thus directly undermine the progressivity of tax systems and create favorable regimes for people with already extremely high incomes.

The principle of a specific tax regime applicable to the income of new tax residents as well as to the large assets of newly domiciled taxpayers is not new. For example, at the end of World War II, the Netherlands established a scheme that allowed new residents to exempt part of their income from taxation. However, it was only in the 1990s that these schemes began to become more well-developed, increasingly aggressive and profitable. In 1994, there were only five such schemes (UK and Irish remittance-based systems; the Dutch, Belgian and Danish schemes); in 2020 there were 28.

Corporate tax competition. The significant decline in statutory corporate income tax rates that has taken place in the EU in recent decades has only been partly offset by measures to broaden the tax base. Estimated effective tax rates paid by large EU multinationals suggest that actual tax burdens may have been significantly lower in most Member States than the values suggested by their statutory rates. In addition to measurement errors, this may stem from various base-narrowing measures such as research and development incentives, intellectual property regimes, corporate equity compensation regimes and tax regulations, enforced by an increasing number of member states. It appears that, similar to the trends observed in personal income tax competition, profit tax competition has also been driven by special regimes.

From a methodological point of view, we use the study carried out by Tørsløv, Wier and Zucman, (2022), *The Missing Profits of Nations*, which refers to the period 2003-2018, in order to analyze the factors that led to corporate tax competition (low rates of global profit taxation).

As MNEs are able to more easily exploit differences between member states' tax systems, they tend to pay lower effective tax rates on average than national/local companies (Bilicka, 2019). Retrospective effective tax rates (ETRs) based on aggregated data from the country-by-country report (CbCR) suggest that affiliates of large multinationals paid, on average, less than 20% of their profits in corporate tax in most Member States in years 2016 and 2017. In 8 Member States, the average ETR for affiliates of large multinationals was even estimated to be below 10% for the years 2016 and 2017.

In recent years, member countries have implemented numerous changes in both the tax rate and the profit tax base (EU Tax Observatory, 2021). Nine of the member countries have reduced their statutory corporate tax rates, the most significant being adopted in Hungary, Belgium and France and more restricted in countries such as Croatia, Greece, Italy, Luxembourg, Slovakia and Sweden. The only countries that increased their statutory corporate tax rates were Latvia, Portugal and Slovenia.

The tax reforms adopted by some of the member countries during the last five years include a combination of broadening and narrowing of the tax base. Many countries have increased their tax bases by adopting anti-avoidance/anti-evasion measures and by reducing tax exemptions and deductions, such as limiting the deductibility of losses (Latvia, the Netherlands, Sweden) or the use of company cars (Poland), reducing the exemption for dividend income (Spain and Belgium) or capital gains (Spain).

However, many new exemptions and deductions have been introduced, such as tax relief for reinvested profits (Latvia, Portugal), increased deductibility of municipal taxes (Italy), more generous tax brackets in progressive schemes (Netherlands), extending a tax exemption previously limited to special economic zones to the whole country (Poland). Investment incentives such as more generous capital allowances/allowances, accelerated depreciation and R&D incentives are encouraged. In addition, some Member States have introduced preferential tax regimes for intellectual property income and the deduction of national interest.

At the EU 27 level, we note the tendency to reduce these shares in the analyzed interval and their heterogeneity among the member countries, from the highest (Germany, 33%) to the lowest (Hungary, 9%), there being a difference of 24 pp. However, the limits of fiscal competitiveness are gradually coming back into focus: only Greece has reduced the corporate tax rate (by 1 pp) since 2019. Poland has introduced a reduced preferential rate of 9% for small taxpayers. The average corporate tax rate in the region is around 17%, while the statutory corporate tax rate in countries in the region is between 15-20%. In Romania, this is 16%.

Measures have been implemented in the EU to limit fiscal competition and combat tax evasion techniques. The objective of the EU is to establish a common framework for corporate taxation or, at least, to prevent the application of the most harmful tax avoidance techniques in member countries. An important tool in this effort is the Tax Avoidance Practices Directive (ATAD, Directive 2016/1164 EC), which is mandatory for member countries from 1 January 2019. Also, the offshore (controlled foreign company - CFC) standardization represents one of ATAD's

important concerns, and the introduction of the global minimum tax will fundamentally change the future of corporate taxation and the state of fiscal competition between countries.

EU countries (and at regional level) that apply traditional corporate taxation allow the carry-forward of losses acquired in previous years and the possibility of offsetting them against the positive tax base in subsequent years. This option can only be used for a certain period of time, usually between 5 and 7 years, and in some places, only between 3 and 4 years.

It should be added that states in the region still tend to impose withholding taxes on interest, dividend and royalty payments (at the rate of 15% or 19-20%). Lithuania, Estonia and Hungary continue to not impose withholding tax on capital gains. Starting from 2019, group taxation began to be applied in Hungary as well, previously existing only in Austria and Poland. In most countries the tax system encourages research and development (R&D) activities, Slovakia and Poland have recently taken measures in this regard, while in Romania, various tax facilities specific to these activities have been implemented previously. In terms of international taxation, efforts to protect the tax bases of profits against corporate tax avoidance continued with the adoption of significant reforms in line with the OECD / G20 project on tax erosion and profit shifting (BEPS). Tax challenges arising from the growing digitization of the economy are another major concern for many countries that have announced or implemented provisional measures to tax certain income from digital services.

The OECD's BEPS ("base erosion and profit shifting") initiative drew attention to cross-border intra-group transactions; The transfer pricing rules have already been introduced in the tax systems of almost all the countries involved (in Bulgaria, transfer pricing documentation can be drawn up at the specific request of the tax authority). The obligations regarding the related documentation have recently undergone changes.

The fundamental objective of country-by-country reporting mandated by the OECD is to promote transparency by providing local tax authorities with the information they need to assess tax risks. Over the last year, taxpayers in the CEE region had to actively participate in the launch of the Country Reporting System (CbCR).

In conclusion, the share of income from profit taxation in GDP remained relatively constant in 2020, at 2,4% of GDP (EU 27 average). After the sharp downturn in 2009, corporate earnings have gradually increased but have not returned to pre-crisis levels. However, it should be noted that in 2020, compared to 2019, a slight reduction in income was recorded in most of the EU 27 countries.

Erosion of the tax base. Losses of tax revenue. Globally, there are fiscal losses, including both personal and corporate tax revenues, due to the transfer of profits and income to low-tax countries. These revenue losses are difficult to estimate, but according to studies, the annual cost of offshore tax abuse can be over \$100 billion per year (The Tax Justice Network, 2021). International tax evasion can occur from wealthy individual investors and large multinational corporations; it can reflect both legal and illegal actions.

Tax avoidance is used in the context of legal tax reduction, while tax evasion refers to illegal tax reductions. Most of the international tax reduction of individuals reflects evasion, and this amount has been estimated at approximately \$40 billion (The State of Tax Justice 2021). If we refer to the USA, this evasion was also possible because it does not withhold tax on many types of passive income (such as interest) paid to foreign entities; if US individuals can channel their investments through a foreign entity and do not report the holdings of these assets on their tax returns, they evade a tax they are legally required to pay. In addition, individuals who invest in foreign assets cannot report income from these assets. In 2010, Congress passed the Foreign Account Tax Compliance Act (FATCA) which went into effect and requires foreign financial institutions to report asset holder information or be subject to a 30% withholding rate.

Income tax cuts resulting from profit shifting were also estimated, although most of these estimates were based on data before the major change in the US international regime as part of the Tax Cuts and Jobs Act (TCJA; P.L. 115-97). Estimates of revenue losses from corporate profit shifting have varied substantially, from about \$50 billion to over \$100 billion. This activity seems to have increased substantially in recent years. Only one estimate of the loss of profit-shifting revenue after passage of the TCJA was found, indicating a loss of \$77 billion (The State of Tax Justice 2020).

According to the State of Tax Justice Report (Tax Justice Network, 2021), countries lose \$483 billion in revenue per year, \$312 billion due to cross-border corporate tax abuse and \$171 billion due to the practices of wealthy individuals. Global tax abuse continues to affect lower-income countries to a greater extent than higher-income countries.

Below we present the tax revenue losses at the regional level, according to the above-mentioned Report.

Table 2. Tax revenue losses at the regional level, 2021

Country	Annual fiscal losses (thousand dollars)	Annual fiscal loss (% of GDP)	Of which: corporate tax abuse (thousand dollars)	Of which: offshore assets (thousand dollars)
Africa	17.117,5	0,7%	14.796,79	2.320,7
Asia	76.946,7	0,3%	52.391,9	24.554,8
Caribbean Islands and American Islands	1.605,7	0,6%	943,5	662,2
Europe	225.221,0	1,1%	126.012,7	99.208,3
Latin America	35.583,1	0,6%	32.247,1	3.336,0
North America	118.795,8	0,6%	80.390,6	38.405,2
Oceania	7.641,1	0,5%	5.404,5	2.236,6

Source: Tax Justice Network, 2021, The State of Tax Justice Report

According to the table above, the biggest fiscal losses are recorded in Europe (1,1% of GDP), followed by Africa; losses due to illicit corporate practices are highest in Europe and North America, and those caused by wealth concealment are predominantly recorded in Europe and North America.

Also, according to the latest study carried out by Wier L. and Zucman G. (2022), Global profit shifting, 1975–2019, the profits transferred in the period 2015-2019, increased by 57%, respectively from 616 billion dollars in 2015 , to 969 billion dollars in 2019; expressed as a share of multinational profits, they increased by 1.2 pp in the 5 years, and the fiscal loss recorded was 55 billion dollars (from 188 billion in 2015, to 247 billion in 2019).

Table 3. Evolution of transferred profits at the global level in the period 2015-2019, billion dollars, estimates

	2015	2016	2017	2018	2019	Difference (,19 -,15)
Global GDP	75.179	76.466	81.404	86.413	87.653	17%
Corporate profits	11.515	12.275	13.022	14.068	14.472	26%
MNEs profits	1.703	1.841	2.061	2.655	2.590	52%
Profit shifting	616	667	741	946	969	57%
Profit shifting (% of MNE s profits)	36,20%	36,20%	36,00%	35,60%	37,40%	1.2 pp
Tax loss	188	195	212	243	247	31%
Tax loss (% of corporate tax revenues)	9,00%	8,80%	9,00%	9,90%	10,00%	1.0 p.p.

Source: Zucman, G., Wier, L., 2022, global profit shifting 1975- 2019, updated estimates: Tables, <https://missingprofits.world/>

We note that the \$969 billion in profits that were transferred to tax havens globally in 2019 is equivalent to 37% of global multinational profits; they did not decrease in the 2015-2019 interval, the value of transferred profits being almost constant as a share of multinational profits, increasing very slightly from 36 to 37%, respectively they increased at the same rate as multinational profits.

As multinational profits grew by 52% in nominal terms (compared to 17% for global GDP), the absolute value of profits shifted to tax havens increased by just over 52%, from US\$ 616 billion in 2015 to nearly \$1 trillion in 2019.

Growth in multinational profits also outpaced growth in global corporate profits, and as a result the share of multinational profits in corporate profits rose from 15 to 18 %.

The stability of global profit shifting (relative to multinational profits) is somewhat surprising as 2019 was the fourth year of implementation for the BEPS project, which may suggest that this initiative has not been sufficient to date to reduce profit shifting.

Also, the tax loss from profit shifting increased slightly, from 9% to 10% of global corporate tax receipts. This growth was driven by the growing share of multinational profits in global profits. Although there are some national differences in the estimated tax loss, countries have generally seen a moderate increase in this loss.

We mention the USA, where, despite the reduction of the corporate tax rate (from 35% to 21%) and the introduction of specific provisions aimed at reducing the transfer outside them (for example, the Anti-Erosion of the Tax Base and the Anti-Abuse Tax, the Tax Cuts and Jobs regulation), did not result in a decrease in the cost of profit shifting for the United States, but a small increase in the tax loss, from 14% of corporate tax collections in 2015 to 16% in 2019.

It is also worth noting that there are only a few states that recorded tax gains from the transfer of profit in the years 2015-2019, namely Austria, Italy, Spain (OECD member states), and among the tax havens, significant values were in Malta (the transferred profit decreased from 90% in 2015 to 29% in 2019), Singapore, the Netherlands or Ireland.

4. Effects on investments. According to the study *The Missing Profits of Nations* (Tørsløv, T., Wier, L., Zucman, G., 2022), tax havens' domestic investment data is updated to match the foreign data of the counterpart countries. Specifically, the real value of the profit made by US multinationals in European tax havens is assumed to be given by data on US foreign investment, not data on EU havens. Specifically, to investigate the relative reliability of US-reported data, US foreign investment in non-tax haven countries (as reported by the US) is compared to US domestic investment in non-tax haven countries (as reported by these countries).

If the statistics of the foreign branches were perfect, the internal ones (statistics) of the host countries (where the affiliated branches are located) would be consistent with the external statistics of the partner countries (parent headquarters). A systematic comparison of available data was carried out to assess the consistency of existing FATS (foreign branch statistics). Although internal and external data are generally consistent, there is one notable discrepancy. In the inner FATS of European tax havens – most notably Ireland, the Netherlands and Luxembourg – less profit is found by US affiliates than in the outer US FATS "mirror". A comparable gap is seen in bilateral balance of payments data, where direct investment income is paid to the US by affiliates located in Ireland, the Netherlands and Luxembourg compared to what the US receives from these havens.

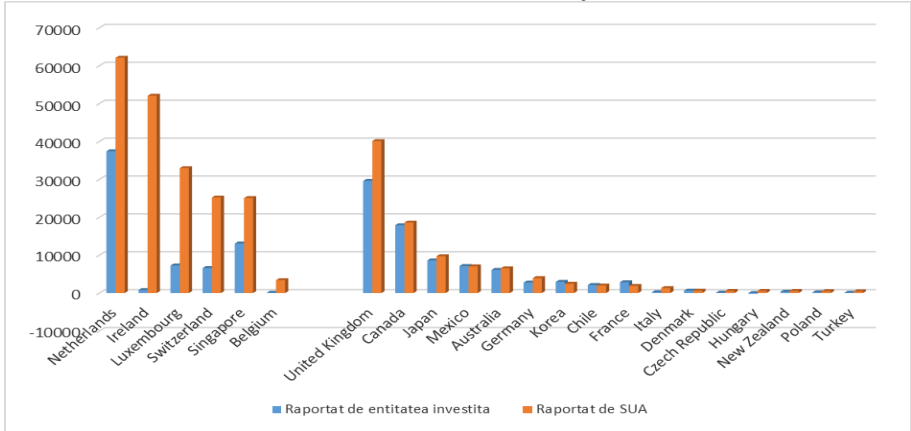
One reason could be the fact that European tax havens may underestimate the profits that affiliates of American companies register in their territory. These countries may lose some of the profits recorded in the special purpose entities due to the lack of sufficiently comprehensive corporate registers, non-response to surveys or other data problems (Damgaard and Elkjaer, 2017). Alternatively, the US could overestimate the profits made by its multinationals in European tax havens.

To further investigate the hypothesis that US statistical practices deviate from those of other countries, the study authors conducted a systematic comparison of global bilateral direct investment income data involving the US. Accordingly, direct investment income received by the US, as recorded in the US balance of payments, was compared with direct investment paid out to the US, as recorded in the balance of payments of countries publishing bilateral statistics on direct investment income.

The figure below shows that, for non-tax haven countries, the US data generally matches the data of the partner countries. For example, Canada reports \$17,9 billion in direct investment income paid to the US in 2015, while the US reports \$18,5 billion in direct investment income received from Canada. Japan reports \$8,6 billion in direct investment income paid to the US in 2015, while the US reports \$9,7 billion in direct investment income received from Japan. Australia reports \$6,1 billion in direct investment income paid to the US in 2015, while the US reports \$6,5 billion in direct investment income received from Australia. For most countries, direct investment received by the US (as reported in US data) matches direct investment paid out to the US (as reported in partner country data).

The only quantitatively notable discrepancies involve the tax havens of Ireland, Luxembourg and the Netherlands. Ireland reports \$ 0,8 billion in direct investment income paid to the US in 2015, while the US reports \$52 billion in direct investment income received from Ireland. Luxembourg reports \$7,3 billion in revenue paid to the US in 2015, while the US reports \$33 billion in revenue received from Luxembourg. The Netherlands reports \$37 billion in FDI income paid to the US in 2015, while the US reports \$62 billion in FDI income received from the Netherlands. Significant gaps are also present for Switzerland, Singapore and Belgium.

Figure 2. Direct investment income received by the US vs income reported by the invested country



source: Tørsløv, T., Wier, L., Zucman, G., 2022, *The Missing Profits of Nations*, pe baza datelor din Anexele studiului

If we refer to direct investments paid vs. received in OECD countries, in 2015 (billion dollars), there are significant discrepancies for most countries (USA, Netherlands, Poland, Switzerland, Japan, Chile, France, Germany).

The likely explanation for this lies in the data problems in the statistics of these tax havens, namely some of the profits recorded in the special purpose entities may be missed due to the lack of sufficiently comprehensive corporate registers, non-response to surveys or other problems of data.

What is important is reflected in two questions:

- The US does correctly estimate its total foreign direct investment earnings from the rest of the world?
- The US correctly estimates its direct investment income from non-paradise countries?

Conclusion. Multinational companies shift profits to tax havens, a phenomenon that has attracted considerable attention from economists and policymakers. In 2015, the OECD launched the Anti-Base Erosion and Profit Shifting Plan to reduce the possibilities of tax avoidance arising from mismatches between different countries' tax systems. In 2017, the United States reduced its corporate tax rate from 35% to 21% and introduced measures to reduce profit shifting by US multinationals. In 2021, more than 130 countries and territories agreed on a minimum tax of 15% on the profits of multinational companies, with implementation scheduled to begin in 2024 in some countries.

In the paper we highlighted the main negative economic implications of the existence of tax havens, namely the increase in harmful tax competition, the erosion of the tax base and implicitly the reduction of tax revenues, which negatively affects the economic development of a country, the negative impact of direct investments, or effects on the structure of fiscal revenues. In addition to the negative ones, there are also positive effects/implications on the economy, respectively, they can contribute to reducing taxes in other jurisdictions because they would lose part of their tax base in tax havens if they set tax levels that are too high; or, another positive effect is the economic development of tax havens.

In terms of profit shifting, \$143 billion was transferred from the US in 2015 (23% of the global total), \$216 billion was transferred from the European Union (36% of the global total), 76 billion dollars from other OECD countries (12% of the total), and the rest (29%) from non-OECD countries. More than 70% of the profit losses come from high-income countries.

If we express profit losses as a share of GDP, the European Union appears as the region most affected by profit shifting, with profit losses reaching 1,5% of GDP, as opposed to 0,8% in the US, 0,7% in other high-income countries and 0,7% in developing countries.

Overall, profit shifting reduces corporate tax revenues by 18% in the European Union, 14% in the US, 5% in other OECD countries and 5% in developing countries. In the European Union, countries with higher taxes (France, Germany) have larger losses relative to collected revenues than countries with lower taxes (such as Eastern European countries), consistent with the idea that higher tax rates on profit offers more incentives to transfer.

Regarding the evolution of the tax revenue structure, in recent decades, the size of profit shifting has increased, despite numerous unilateral and multilateral efforts by governments to reduce the ability of multinationals to transfer profits from countries with high tax rates; the share of income from corporate tax in total tax revenue has decreased accordingly, while the share of tax revenue from indirect taxes on goods and services has increased.

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