

Beneficial Role of Low-Tax Jurisdictions in the Global Economy

~ CF&P Foundation Debunks Tax Haven Myths ~

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**To the Senate Finance Committee Hearing on
“Offshore Tax Evasion: Stashing Cash Overseas”**

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Thank you for the opportunity to share my views with you. My name is Andrew F. Quinlan, President of the Center for Freedom and Prosperity Foundation, an Alexandria, Virginia-based, 501(c)(3) citizen organization that educates Congress and the Administration on tax competition, financial privacy and fiscal sovereignty (www.freedomandprosperity.org).

I also coordinate the activities of the Coalition for Tax Competition, which is made up of more than three-dozen free-market public policy organizations, including taxpayer groups, senior citizen and family organizations, civil liberties activists, and industry and business advocates.

The Committee today is holding a hearing on offshore tax evasion. The hearing, including a witness list that does not include a single person representing the interests of taxpayers, is designed to blame so-called tax havens for the tax gap. This is empty political theatre. Offshore jurisdictions are routinely vilified, largely because they are perceived as a threat by politicians, leftist organizations, and other advocates of bigger government and high tax rates. In almost all cases, however, attacks on these low-tax jurisdictions are either baseless or distorted.

Today's one-sided Finance Committee hearing is designed for all intents and purposes to create momentum for policies that will harm American competitiveness. If lawmakers genuinely wanted to reduce tax evasion they would lower tax rates.

To bring balance, I would like to share with the committee the findings of a study released by the Center for Freedom and Prosperity Foundation. The new study punctures some of the myths surrounding tax havens and their role in the global economy. The CF&P Foundation Prosperitas study entitled "Tax Havens: Myth Versus Reality," is designed to be a user-friendly resource for taxpayers, lawmakers, policy makers and journalists seeking an accurate assessment and description of these low-tax jurisdictions. The CF&P Foundation study was written by Dan Mitchell who currently serves as a senior fellow with the Cato Institute.

Tax Havens: Myth Versus Reality

Executive Summary

So-called tax havens are routinely vilified, largely because they are perceived as a threat by politicians, leftist organizations, and other advocates of bigger government and high tax rates. In almost all cases, however, attacks on these low-tax jurisdictions are either baseless or distorted.

Surprisingly, anti-tax haven demagogues generally are unable to even correctly identify the characteristics that make a jurisdiction a “haven.” Is it low taxes? Zero taxes? Financial privacy laws? Incorporation laws that do not require ownership information? The existence of bearer shares? And even the critics that use a more carefully tailored definition – i.e., a jurisdiction that exercises its sovereign right to not enforce the tax laws of another nation – often engage in discrimination when listing the world’s tax havens.

The United States, for instance, is a tax haven. Foreigners can – and do – put money in the U.S. and earn interest and capital gains without any obligation to pay tax to the IRS and without being reported to their governments. Many states allow foreigners to set up corporations without disclosing ownership information. Some even allow bearer shares. These policies have helped attract trillions of dollars to the U.S. economy, yet critics of tax havens fail – perhaps deliberately – to note how any campaign against tax havens unambiguously can boomerang against America’s self interest.

Critics also ignore how tax havens provide confidentiality to ethnic, religious, racial, sexual, and political minorities, a critical role since the majority of the world’s population lives in nations have less-than-stellar attitudes toward human rights. Likewise, tax havens also are a refuge for people in nations suffering from crime, extortion, and corruption.

Tax haven opponents routinely rely on shoddy numbers, ignore academic evidence, and engage in smear campaigns. Public policy, however, should not be based in mistruths and stereotypes fostered in novels and movies. And public policy certainly should not be based on politicians in high-tax nations persecuting nations trying to prop up their inefficient welfare states by engaging in anti-globalization policies.

Introduction

While there are alternative definitions, a tax haven is probably best defined as a jurisdiction that meets at least two criteria: First, it will have at least some tax and/or regulatory policies that are market-friendly and those policies will be perceived to attract economic activity from other jurisdictions. Second, it chooses, in at least some cases and within its right as a sovereign entity, not to help foreign governments tax economic activity inside its borders.

So-called tax havens now are being persecuted. Politicians in high-tax nations resent these jurisdictions because globalization has made it much more difficult to impose confiscatory tax rates. Indeed, tax rates have dropped dramatically since 1980, in part because havens have

facilitated greater tax competition among nations. To fight against the liberalizing impact of globalization, politicians from high-tax nations have are working through international bureaucracies such as the Organization for Economic Cooperation and Development in a campaign against tax competition.

In other cases, politicians in national capitals are advocating legislation that would penalize tax havens even though the policies often are self-destructive, based on discriminatory blacklists, and completely incompatible with international trade agreements. In all cases, the anti-tax haven efforts are based on an oftentimes-deliberate misunderstanding of the issues.

The following section addresses some of the myths being propagated by opponents of low-tax jurisdictions. Each point is then briefly discussed and one or more links are provided for those seeking background information:

- 1. There is not a significant “offshore evasion” problem.**
- 2. Financial privacy plays a key role in protecting human rights.**
- 3. OECD hypocrisy.**
- 4. The US benefits from tax competition.**
- 5. International bureaucracies have no moral authority to interfere with national tax laws.**
- 6. Fiscal sovereignty is at stake.**
- 7. We should mimic tax havens, not persecute them.**
- 8. The problem is high tax rates.**
- 9. The OECD tax agenda is completely inconsistent with tax reform.**
- 10. Tax competition should be celebrated, not persecuted.**
- 11. So-called tax havens are less likely to engage in money laundering according to international experts and U.S. government agencies.**

1) There is not a significant “offshore evasion” problem. According to IRS tax gap estimates, there is no number for “offshore.” To be sure, there doubtlessly is some evasion, and it probably is assumed in one or more of the other categories in the IRS estimates, but the supposed problem is relatively trivial. A former Democratic staffer named Jack Blum concocted an estimate of \$70 billion. When former House Majority Leader Dick Armey asked CRS to get the methodology for the number, Blum confessed, for all intents and purposes, that he made it up.

March 2007, *Cato Institute*, by Daniel Mitchell, The Tax Gap Mirage
http://www.cato.org/pubs/tbb/tbb_0306-44.pdf

Internal Revenue Service, The Tax Gap
http://www.irs.ustreas.gov/pub/irs-utl/tax_gap_facts-figures.pdf
[Note: Focus especially on pages 8 and 11]

July 23, 2001, CRS letter: Blum’s Make-Believe Number

<http://www.freedomandprosperity.org/Papers/blum-crs-ltr.pdf>

2) Financial privacy plays a key role in protecting human rights. A huge share of the world's population does not live in civilized nations that respect the rule of law and property rights. Most people are subject to discrimination if they are religious, racial, ethnic, political, or sexual minorities. Others are victimized by corruption, expropriation, or crime. Tax havens provide a refuge to people who need protection. Even the OECD's Jeffrey Owens admitted that "tax havens are essential for individuals who live in unstable regimes." President Clinton's former International tax Counsel acknowledged "the problems of corrupt governments, or danger to your children and to individuals."

December 2005, *The Liberal Institute of the Friedrich Naumann Foundation*,
by Daniel J. Mitchell, The Moral Case for Tax Havens
<http://admin.fnst.org/uploads/1044/24-OP-pdf.pdf>

October 2, 2003, *Cato Policy Analysis No. 491*, "Threats to Financial Privacy and Tax Competition," by Richard W. Rahn and Veronique de Rugy
<http://www.cato.org/pubs/pas/pa-491es.html>

November 2001, *CF&P Papers*, By Terence Dwyer & Deborah Dwyer, Transparency Versus Privacy: Reflections On OECD Concepts of Unfair Tax Competition
<http://www.freedomandprosperity.org/Papers/Dwyer/dwyer.shtml>

3) OECD hypocrisy. Many nations belonging to the OECD are tax havens according to the definition concocted by the Paris-based bureaucracy. Moreover, a just-released IMF study identified the UK as a tax haven. Austria, Belgium, and the Netherlands also are tax havens since they have bank secrecy and/or other provisions that make them a magnet for financial capital. And, as discussed below, the United States is perhaps the world's foremost tax haven. In an exercise of gross hypocrisy, the OECD does not blacklist its own member nations.

May 1, 2007 *Financial Times*, Tax haven London
<http://www.ft.com/cms/s/86c3040c-f780-11db-86b0-000b5df10621.html>

April 23, 2007, *CF&P's Market Center Blog*, An IMF Study Says the UK is a Tax Haven
<http://www.freedomandprosperity.org/blog/2007-04/2007-04.shtml#232>

April 2007, *IMF Working Paper*, by Ahmed Zoromé, Concept of Offshore Financial Centers: In Search of an Operational Definition
<http://www.imf.org/external/pubs/ft/wp/2007/wp0787.pdf>

December 8, 2000, *Tax Notes International*, by Marshall J. Langer, Who Are the Real Tax Havens?
<http://www.freedomandprosperity.org/Articles/tni12-18-00.pdf>

4) The US benefits from tax competition. Whether it is because foreigners don't pay tax on US-source interest and capital gains, or whether it is because Delaware, Nevada, and Florida

companies are among the world's best offshore vehicles, favorable rules for non-resident aliens have attracted trillions of dollars of foreign capital to the US economy. In other words, the US is a tax haven according to the OECD's definition. America should not have to surrender its fiscal sovereignty and give away its competitive position in the way that the left seeks for other "offshore" jurisdictions. This would destroy jobs and weaken financial markets as money flees the US economy.

November 2001, *CF&P Foundation Prosperitas*, The Adverse Impact of Tax Harmonization and Information Exchange on the U.S. Economy, by Daniel Mitchell (Volume I, Issue IV)

<http://www.freedomandprosperity.org/press/p11-27-01/p11-27-01.shtml>

Treasury data on the immense amounts of capital funneled into the US economy via Caribbean banking centers

<http://www.treas.gov/tic/exhibitsa-d.pdf>

Commerce Department data on total foreign capital in the US

http://www.bea.gov/scb/pdf/2006/07July/0706_IIP.pdf

[Note: Focus especially on lines 35-43 on pages 18 and 19 of publication.]

5) International bureaucracies have no moral authority to interfere with national tax laws.

The OECD was just exposed in *The Economist* for corruption. A few years ago, the Paris-based bureaucracy was exposed for its lack of transparency and failure to follow proper accounting. The bureaucrats at the OECD get tax-free salaries, and taxpayer-financed pensions that would make a member of Congress blush (not to mention that the OECD even has its own wine cellar). It surely is ironic that people completely insulated from taxation are persecuting nations for free-market tax systems.

April 19, 2007, *The Economist*, An angel flies into some flak: A think-tank's Mexican boss steers his staid agency into turbulent waters

<http://www.freedomandprosperity.org/Articles/economist-oecd-04-2007.pdf>

September 18, 2000, *The Heritage Foundation: Backgrounder #1395*, by Daniel J. Mitchell, An OECD Proposal To Eliminate Tax Competition Would Mean Higher Taxes and Less Privacy

<http://www.heritage.org/Research/Taxes/BG1395.cfm>

December 8, 2000, *The Washington Times*, By Daniel J. Mitchell, OECD's glass house (Second of two parts)

<http://www.freedomandprosperity.org/Articles/twt12-08-00/twt12-08-00.shtml>

January 2006, *CF&P Foundation Prosperitas*, The Paris-Based Organization for Economic Cooperation and Development: Pushing Anti-U.S. Policies with American Tax Dollars (Vol. VI, Issue I)

<http://www.freedomandprosperity.org/Papers/oecd-funding/oecd-funding.shtml>

6) Fiscal sovereignty is at stake. Ultimately, the issue is whether any international bureaucracy should have a veto right over any jurisdiction's tax policy, including America's. The OECD has self-appointed itself as a global standard setter, but this anti-democratic action is especially dangerous because the OECD's views are contrary to good tax policy. The OECD is not the only bureaucracy seeking to curtail tax competition. The United Nations also is involved. It seeks the creation of an International Tax Organization (UN bureaucrats also get tax-free salaries).

Fall 2000, *Chicago Journal of International Law*, by John R. Bolton, Should We Take Global Governance Seriously?

<http://cjl.uchicago.edu/past-issues/v1n2/bolton.html> (Abstract)

<http://www.westlaw.com/find/default.wl?rs=CLIE3.0&vr=2.0&cite=1+Chi.+J.+Int%27+L.+205>

Fall 2000, *Chicago Journal of International Law*, by John O. McGinnis, The Political Economy of Global Multilateralism

<http://cjl.uchicago.edu/past-issues/v1n2/mcginnis.html> (Abstract)

<http://www.westlaw.com/find/default.wl?rs=CLIE3.0&vr=2.0&cite=1+Chi.+J.+Int%27+L.+381>

November 2005, *CF&P Foundation Prosperitas*, The OECD's Anti-Tax Competition Campaign: An Update on the Paris-Based Bureaucracy's Hypocritical Effort to Prop Up Big Government (Vol. V, Issue II)

<http://www.freedomandprosperity.org/Papers/oecd-hypocrisy/oecd-hypocrisy.shtml>

January 4, 2004, *CF&P E-mail Update*, Kofi Annan, UN's Secretary General, Endorses International Tax Organization

<http://www.freedomandprosperity.org/update/u01-06-04/u01-06-04.shtml#4>

February 7, 2002, *Washington Times*, by Daniel Mitchell, U.N. tax police potential

<http://www.freedomandprosperity.org/Articles/twt02-07-02/twt02-07-02.shtml>

August 2001, *CF&P Foundation Prosperitas*, United Nations Seeks Global Tax Authority, by Daniel J. Mitchell (Volume I, Issue II)

<http://www.freedomandprosperity.org/press/p08-02-01/p08-02-01.shtml>

7) We should mimic tax havens, not persecute them. Academics have found that tax havens increase growth in non-tax haven jurisdictions. Academics have found that tax havens score better on global governance indicators. Academics have found that tax havens enjoy faster growth than other nations..

June 2006, *CF&P Foundation Prosperitas*, "Tax Havens, Tax Competition and Economic Performance," by Yesim Yilmaz (Volume VI, Issue III)

<http://www.freedomandprosperity.org/Papers/taxhavens/taxhavens.shtml>

8) The problem is high tax rates. Experts, including those at the IMF, have discovered that tax evasion unambiguously is a function of tax rates. When tax rates are high, taxpayers find ways to

avoid and evade. Jurisdictions that have good tax law should not be held responsible when politicians in other nations impose bad tax policy and cause capital flight.

September 2006, *Paper presented at the 8th INFER Annual Conference, University College Cork, Cork, Ireland*, By Friedrich Schneider, Shadow Economies and Corruption all over the World: What do we really know?

http://www.econ.jku.at/Schneider/ShadEconomyCorruption_2006_Pickhardt.pdf

July 30, 2004, *CF&P's Market Center Blog*, High tax rates lead to tax evasion.

<http://www.freedomandprosperity.org/blog/2004-07/2004-07.shtml#301>

February 28, 2001, *Wall Street Journal Europe*, By James Sproule, International Commentary: Why Are Your Neighbors Paying in Cash?

<http://www.freedomandprosperity.org/Articles/wsje02-28-01/wsje02-28-01.shtml>

9) The OECD tax agenda is completely inconsistent with tax reform. The OECD seeks to help governments double-tax income that is saved and invested, and to help them enforce this bad tax law on an extra-territorial basis. This means that the OECD, for all intents and purposes, feels compelled to target and penalize jurisdictions that have tax systems (such as the flat tax or the sales tax) that tax income only one time and only tax income inside national borders. This is both because pro-growth tax systems attract jobs and capital from nations with bad tax law and because nations with good law have no reason to collect the information that high-tax nations need to track - and tax - flight capital. If the OECD and other international bureaucracies succeed in becoming self-appointed global tax police, this will at the very least complicate the fight for fundamental tax reform.

February 7, 2002, *IPI Policy Report - # 171*, by Dan Mitchell, Tax Reform: The Key to Preserving Privacy and Competition in a Global Economy

<http://www.ipi.org/ipi/IPIPublications.nsf/PublicationLookupFullText/C9BD6A1A962A316D06256B590025A9A9>

October 5, 2006, *CF&P Press Release*, As OECD Lobbies for More U.S. Tax Dollars, Senators Ask Paris-Based Bureaucracy to Clarify Misleading Claim About Taxes

<http://www.freedomandprosperity.org/press/p10-05-06/p10-05-06.shtml>

November 2005, *CF&P Foundation Prosperitas*, The OECD's Anti-Tax Competition Campaign: An Update on the Paris-Based Bureaucracy's Hypocritical Effort to Prop Up Big Government (Vol. V, Issue II)

<http://www.freedomandprosperity.org/Papers/oecd-hypocrisy/oecd-hypocrisy.shtml>

10) Tax competition should be celebrated, not persecuted. Tax havens play a vital role in constraining the greed of politicians. So-called tax havens have helped encourage high tax nations to reduce personal income tax rates (by about 25 percentage points since 1980) and corporate income tax rates (by about 20 percentage points since 1980). These tax rate reductions, often adopted with great reluctance by politicians in OECD nations, help explain why the global economy is performing so much better than it did in the 1960s and 1970s when tax rates were much more punitive.

The Heritage Foundations 2004 Index of Economic Freedom, by Daniel J. Mitchell, Chapter 2: The Economics of Tax Competition: Harmonization vs. Liberalization

http://www.heritage.org/research/features/index/chapters/pdfs/Index2004_Chap2.pdf

Links to more than 50 letters from current and past Senators and Congressmen praising Tax Competition

<http://www.freedomandprosperity.org/congress/congress.shtml>

11) So-called tax havens are less likely to engage in money laundering according to international experts and U.S. government agencies. Dirty money generally is laundered where it is obtained, and criminals avoid taking it offshore since that creates a trail for investigators. Tax havens also fully participate in the war against terror and cooperate in the fight against those who violate the commonly shared laws of civilized nations.

January 2002, *CF&P Foundation Prosperitas*, U.S. Government Agencies Confirm That Low-Tax Jurisdictions Are Not Money Laundering Havens, By Daniel J. Mitchell (Volume II, Issue I)

<http://www.freedomandprosperity.org/Papers/blacklist/blacklist.shtml>

December 3, 2004, *Pace Law Review*, By Daniel J. Mitchell, Fighting Terror and Defending Freedom: The Role of Cost-Benefit Analysis

<http://www.library.law.pace.edu/PLR/25-2/Mitchell.pdf>

Please visit CF&P Foundation's web page for more information on tax competition, financial privacy and fiscal sovereignty (www.freedomandprosperity.org).

Thank you.

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