

## FinancialQuotient

# What is a tax haven?

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**Lim Cher Hui**

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### WHAT DOES IT MEAN?

There is no formal agreed definition or list of tax havens, and the criteria applied to evaluate a country or jurisdiction as such vary depending on the agenda of the person or

group using the term.

There are, however, a few attributes that are consistently agreed upon, the first being very low or zero tax rates offered to wealthy foreign individuals or businesses. They may also offer generous tax incentives and exemptions to foreign investors.

Another common feature is providing secrecy to non-residents who deposit funds in their jurisdiction, and an avoidance of exchanging information on these funds or cooperating with foreign tax authorities. Tax havens are therefore said to be opaque or lack transparency regarding the funds deposited and who owns them.

Tax havens also tend to lack substantive economic activity of their own since their primary goal is to entice “clients” who have purely tax-driven agendas to their shores. They benefit by drawing capital into their banks and building a fi-

nancial services sector well above the means of their domestic economy alone.

Funds deposited by non-residents in tax havens are often said to be held “offshore”, indicating the money is deposited in a different territory to where it was earned or owned. The term “offshoring”, sometimes used interchangeably with tax havens, gives rise to the misperception that tax havens are always physical islands, but this is not always the case.

### WHY IS IT IMPORTANT?

Being labelled a “haven” generally

sounds like a positive thing, but in the case of “tax haven” it is a term much more often used to condemn than as a badge of honour.

Mostly it is used by governments or other agencies which complain that due to a lack of tax transparency, billions of dollars in legitimate tax revenue are lost because of funds held in tax havens. They say tax havens unfairly allow companies to artificially shift profits across borders to avoid paying corporate tax where it should be paid.

Moreover, regulators and the law enforcement authorities also complain that, because of their secrecy,

tax havens can be used to hide or launder money or conceal illegal activities.

### IF YOU WANT TO USE THE TERM...

“Tax havens are used to facilitate the tax-driven strategies of multinational enterprises and wealthy individuals, both for abusive and benevolent causes. As such, there are varying shades of grey in the classification of what a tax haven is.”

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• The writer is a senior lecturer with the Department of Accounting at the National University of Singapore Business School.