The origins of Tax Havens
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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.

Demand shocks (tax introduction, rise in taxes, increased tax progressivity)
- Demand is captured by the introduction (or increase) of direct taxes in surrounding countries.
  \[ P(Haven_{it} = 1) = \beta \times (\# Direct Tax Introduction < 1000 km \mu_{it}) + X' \gamma + \mu_i + \mu_t + \epsilon_{it} \]
- 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.

Supply shocks (independence following decolonization)
- Tax havens result from large demand and supply shocks along the 20th century.

Results
- Tax havens in the 20th 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).