Programme document
for the activity
"Tax havens, capital flows and the developing countries"
(TaxCapDev)
2011-2015

1 Introduction

The Norwegian Government, through the Ministry of Foreign Affairs has committed funding to a five-year multidisciplinary research programme on the challenges posed by tax havens in relation to financial flows from developing countries. The Norwegian Government has a stated objective in its development policy to strengthen poor countries capacity to mobilize resources through tax reform. They also work to increase the transparency of international financial flows and to limit the adverse effects of tax havens. The research programme is part of the follow up of the recommendations of the Independent Government Commission Report "Development and Tax Havens" (NOU 2009:19). The programme is administered by the Research Council of Norway under the Norglobal programme. A tentative budget for the programme is NOK 50 million over 5 years (2011-2015).

2 Programme goals

The goal of the programme is to create new knowledge on the challenges that tax havens and capital flows represent for developing countries, and strengthen the multidisciplinary competence in this field. In particular in relation to 1) tax avoidance, tax evasion, and money laundering; 2) secrecy jurisdictions and illicit and unrecorded financial flows; and 3) international entities use of tax havens. The programme goals are to contribute to capacity building in Norway and in developing countries, as well as to stimulate closer cooperation and exchange of knowledge between authorities and researchers in Norway and in the South.

3 Research goals

The research goal of the programme is to stimulate high quality research into issues of financial flows to and from developing countries via tax havens. The main emphasis should be on how the existence of tax havens affects the developing countries and how problems that tax havens represent may be mitigated. The research projects may contain surveys, individual country case studies, studies of particular phenomena, comparative studies, or quantitative cross country studies. Tax havens are particularly important in relation to tax issues and in relation to money laundering. The term "tax haven" applies to a country with the following characteristics:

1. very low or no tax on capital income,
2. a special tax regime for shell companies (ring-fencing),
3. a lack of transparency concerning ownership and/or lack of effective supervision, and
4. no effective exchange of information on tax issues with other countries and jurisdictions.[1]

The research programme wants to stimulate research with the following goal:

Understanding how tax havens affect developing countries, particularly in relation to money laundering and taxation.

The programme invites research projects with focus on the following issues and topics:

a) quantifying the financial flows going out of developing countries via tax havens.
b) describing how foreign entities use tax havens for investments in developing countries
c) understanding the impact tax havens have on the developing nations' ability to generate tax revenues.
d) discussing the role of national and international institutions in mitigating the problems that tax havens represent.

These main research topics cover several disciplines, and in particular, law, economics, and political science. As an integral part of the research ambitions, the programme aims at strengthening the multidisciplinary competence on tax havens and their consequences for developing countries. The ambition is to strengthen this multidisciplinary competence within public authorities and research communities both in Norway and in developing countries with participating research institutions. A particular goal is to strengthen the exchange of knowledge and ideas between Norwegian public authorities and research institutions.

In what follows are the core groups of research topics and issues. The list of questions and issues

[1]The list of characteristics is taken from the OECD report *Harmful Tax Competition: An Emerging Global Issue* from 1998.

are meant to be suggestive and are no means considered to be exhaustive. One common sub goal is to get an overview of the already accumulated research literature. Hence, production of review papers, in addition to efforts to clarify the use of essential terms, and efforts to establish consistent concepts and definitions can be part of the research projects. Examples of such essential terms could be tax havens, capital flow and capital flight. Many of the questions could be equally relevant as starting points for individual country case studies or for comparative studies, for quantitative cross country studies, as for studies of particular phenomena.

3.a Quantitative assessments of outflows

Tax havens make it easy and profitable for private subjects to ship funds out of a country rather than invest funds productively in the country. In the case of money laundering the outflow is related to the size of the illegal economy. When the outflow is a result of a desire to avoid (or evade) taxes on current income, the tax base is channelled out and the outflow will generally be much larger than the saved tax bill. When the outflow to tax havens is a result of a desire to shift financial assets to a more profitable environment, the outflow is in principle only limited by the total amount of financial assets at present kept within the developing country. Thus the many forms of outflows attracted by tax havens may add up to substantial amounts. The first research objective is to get better estimates of the various financial flows that leave developing countries via tax havens.

Some important issues and questions:

- Identification of the main sources of financial flows from developing countries into tax havens. What sectors do they come from? What activities do they stem from?
- Quantitative assessments of the amounts of financial flows by source. This includes pointing to and systematizing information about existing sources. For the many important illicit flows where data are not directly available, arriving at estimates will require ingenious indirect methods.
- Assessments of the implications of the money outflow for the developing country - in the aggregate and in relation to important illicit flows in particular (corruption money, stolen resource rents etc.).

3.b Tax havens, foreign investments, and transnational companies

A large fraction of foreign investments into developing countries is channelled via tax havens. When working from a shell company in a tax haven a foreign company can enjoy secrecy and tax privileges. Transnational companies in particular have a large flexibility in how they are organized. The transnational companies are in their nature opaque and have substantial sums of money flow across country borders. If they also work via tax havens they can in many cases legally avoid taxes of a developing country. If they also abuse transfer pricing and similar techniques they can evade taxes. Also development finance institutions find it convenient to work through tax havens.

Some important issues and questions:

- How do foreign companies use tax havens in tax avoidance and tax evasion?
- How do transnational companies structure themselves and how do they use internal accounting in order to use tax havens in tax avoidance and tax evasion?
- Quantitative assessments of the tax evasion /avoidance by foreign companies made possible by tax havens.
- On so called “treaty shopping”: Are tax havens essential for transnational companies' tax avoidance?
- To what extent do development finance institutions work through tax havens and what are their rationales for doing it?

3.c Tax havens and national taxation

Tax havens may undermine the developing country's ability to generate tax revenues. They invite tax avoidance and they make it easy to get away with tax evasion. The existence of tax havens therefore has implications for the capacity to tax and thus have implications for the government ability to deliver essential services for the people.

Some important issues and questions:

- The importance of tax havens in explaining the amount of tax income lost due to tax evasion and due to tax avoidance.
- How could national legal reform and tax reform be used to limit the transnational company’s possibility of avoiding taxes?
- What are the techniques through which tax avoidance and evasion, as well as other forms of illicit financial flows happen via tax havens?
- What are the economic, social, and political consequences of having a limited tax base?
- What design of national tax systems is robust to the existence of tax havens?
- What kind of accounting regulations work in preventing the misuse of tax havens?
- How do tax havens affect private entrepreneurs' investment decisions?
- What is the importance of tax havens for domestic and foreign investments in developing countries, relative to investments made directly through domestic financial markets?

3.d Tax havens and national and international institutions

National and international institutions in a broad sense define the framework within which the tax havens operate. Tax havens make use of the limited reach of national regulations and of deficiencies in international regulations. Tax havens pose a challenge to the developing countries' ability to efficiently govern their own country. First, tax havens limit sovereignty, as they limit the scope for national governments in controlling, taxing and regulating private companies. Second, tax havens may foster institutional decay as they make it easier to get away with large scale corruption and theft of resource rents. These challenges to the capacity and authority of the nation states are shared by many countries, rich and poor. There should therefore be some scope for international initiatives to mitigate some of the problems. Thus, institutions not only affect tax havens but tax havens affect institutions.

Some important issues and questions:

- How do tax havens affect institution-building within developing countries?
- What is the status on international initiatives to limit the adverse effects of tax havens?
- What kind of international institutions could work in limiting the adverse effects of tax havens?
- What kind of legal code could work in limiting the adverse effects of tax havens?
- How does the legal code of tax havens affect the attractiveness of setting up shell companies?
- How should the issues related to tax havens be addressed in international anti-corruption initiatives?

4 Organization

The programme encourages international cooperation and multidisciplinary approaches. In order to contribute to the knowledge base on these themes in the South, Norwegian scholars are encouraged to establish cooperation with research institutions in the South, including non- governmental organisations (NGOs). Partners from the South can be funded from the programme and a letter of intent shall be attached to the application. The research projects can also include PhDs and post-doctoral fellows from institutions in the South.

The total budget of each proposal should be maximum NOK 5 million.

All proposals are required to attach a detailed budget. Since the programme aims at an allocation of approximately 25% of the budget to the South, the institutions are asked to specify the North-South allocations.

Communication and dissemination of results from the activity are important. The project partners must participate in the process of reporting from the project. The programme will organize seminars and workshops with participation from researchers in addition to policy makers, embassy personnel, the private sector and non-governmental organizations.

5 Publications and research output

The Research Council emphasizes that one important goal of the research is that the projects generate publications in internationally recognized journals. The output of the projects is not only limited to the publishable findings of particular studies. The increased general knowledge, competence, and awareness with regard to tax havens are also an important part of the output. This general competence should, in addition to the particular results, be disseminated to a wider audience, including government and international authorities concerned with tax havens.