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Coordination and the fight against tax havens*

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Abstract

The success or failure of the fight against tax havens is the outcome of a many player coordination game between a tax haven and its potential investors. Key determinants are the costly international pressure and the size of the haven country's revenue pool. The latter is determined endogenously by the decisions of many individual investors. Our analysis suggests a non-standard market model that explains why haven countries would ever comply with international standards of transparency despite the large empirically observable returns in the tax haven business. It also alludes to why service fees in tax havens can be positive despite a competitive financial market with multiple tax havens. Furthermore, we identify a trade-off between the fight against tax havens and high tax rates. Finally, low fines for disclosed offshore tax evasion, e.g. in special programs for tax evaders who voluntarily report their offshore wealth, strengthen haven countries against international pressure.

Keywords: tax havens, offshore tax evasion, international standards of transparency

JEL codes: G20, H26, H87

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