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Lucy Chernykh, Sergey Mityakov

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Offshore Schemes and Tax Evasion: the Role of Banks

Lucy Chernykh, Sergey Mityakov¹

Abstract

We use mandatory Russian banks' reports to the Central Bank to construct a novel

measure of offshore-banking. Individual bank involvement in offshore operations is

calculated as a fraction of total transactions with foreign countries that go through

offshore financial centers. We find that offshore-active banks perform less financial

intermediation and focus more on international wire transfers. We show a positive

relation between banks' offshore activities and tax evasion of companies doing business

through these banks. Finally, we show that the Central Bank eventually responds to this

behavior: offshore-active banks have higher likelihood of license revocation and criminal

investigation against top-management.

JEL codes: G21, G38, H26

Keywords: financial institutions, offshore banking, tax evasion

¹ Chernykh: College of Business, Clemson University, 324-C Sirrine Hall, Clemson, SC 29634,

USA, lcherny@clemson.edu; Mityákov (contact author): College of Business, Clemson University, 245

Sirrine Hall, Clemson, SC 29634, USA, smityak@clemson.edu, fax: +1-864-656-4192. We would like to

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