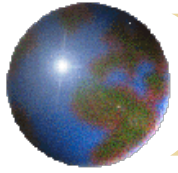


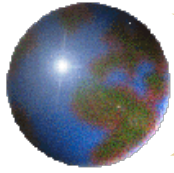
*Tax Havens Are a  
Blessing: How Low-Tax  
Jurisdictions Make the  
World a Better Place*

Presentation to the Nassau Institute, The Bahamas, November 6, 2008



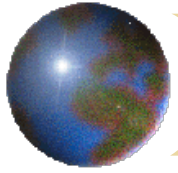
## *International Threats*

- ✚ OECD's "harmful tax competition" initiative, as well as "corporate governance" and "flags-of-convenience" campaigns.
- ✚ EU's numerous tax harmonization proposals such as the savings tax directive (part 2) and corporate tax base/rate.
- ✚ UN's proposed International Tax Organization and so-called Committee of Experts, both augmented by global tax schemes.



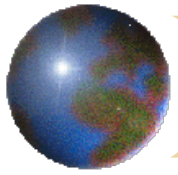
## *Threats from the United States*

- ❖ A change in White House policy, leading to a rejuvenated OECD anti-tax competition campaign.
- ❖ American support for expanded savings tax directive.
- ❖ Anti-tax haven legislation in the US, such as the Levin/Obama proposal and Dorgan/Obama proposal.



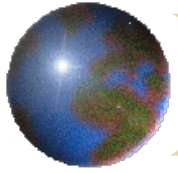
## *Role of the Financial Crisis*

- ❖ A wild card in the battle is what will happen at the Nov. 15 international economic summit.
- ❖ Sarkozy and other Europeans are pushing for global regulation and are targeting so-called tax havens.
- ❖ The IMF would like to be a global regulator.



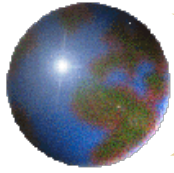
## *Why Does this Battle Exist?*

- ✚ Globalization has reduced barriers to cross-border transactions, facilitating the flow of jobs and capital to low-tax jurisdictions.
- ✚ The resulting tax competition has forced dramatic tax rate reductions and tax reforms.
- ✚ High-tax nations are trying to thwart these developments by using international bureaucracies to persecute low-tax jurisdictions.

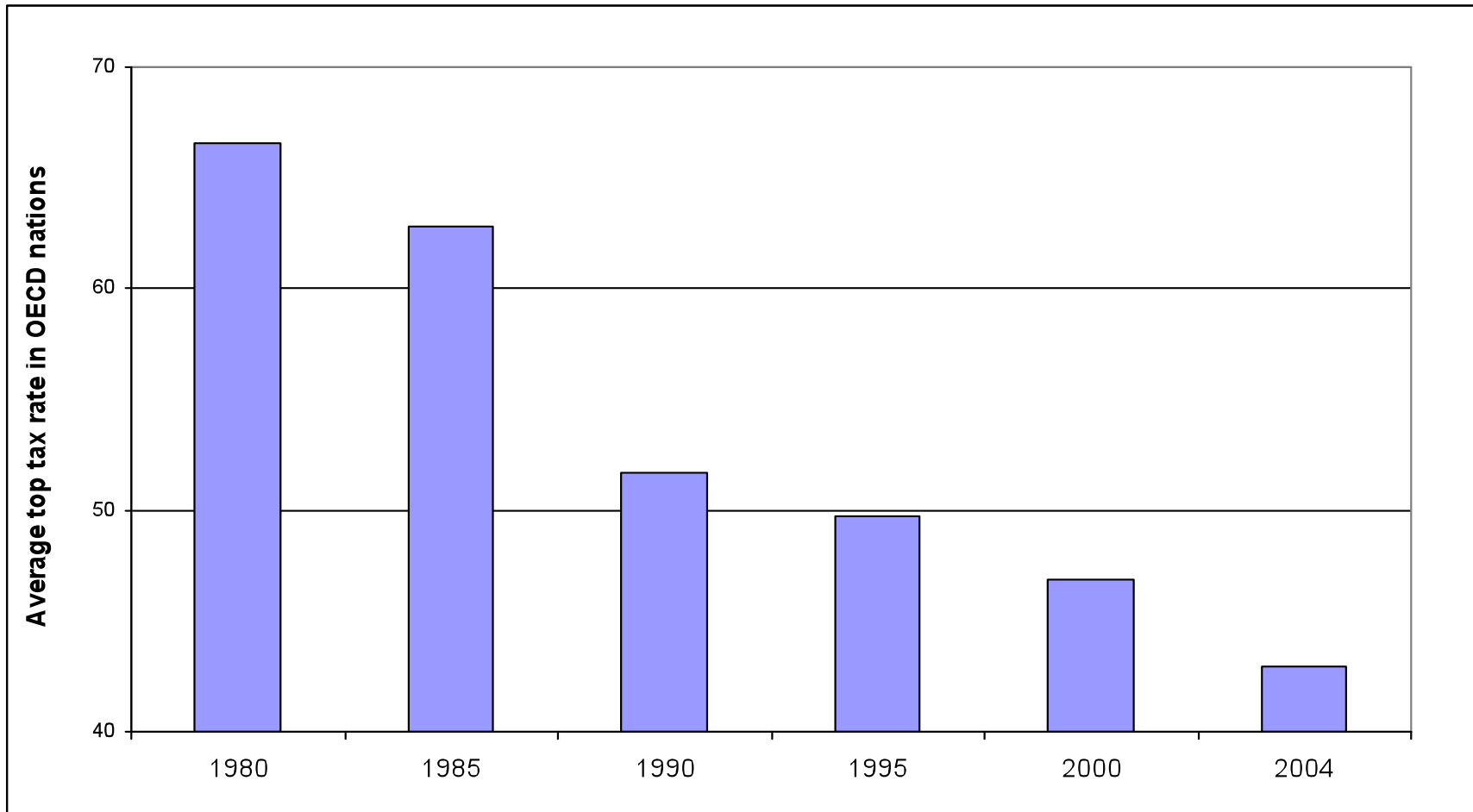


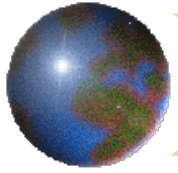
## *Tax Competition Promotes Good Policy*

- ✚ Since 1980, there has been a 26-percentage point reduction in average top personal tax rates in developed nations.
- ✚ In the same period, there has been a 21-percentage point reduction in the average corporate tax rate.
- ✚ There are now 25 flat-tax jurisdictions, up from three in 1980.



# *Average OECD Top Tax Rates*

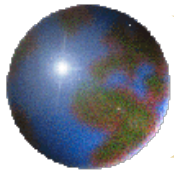




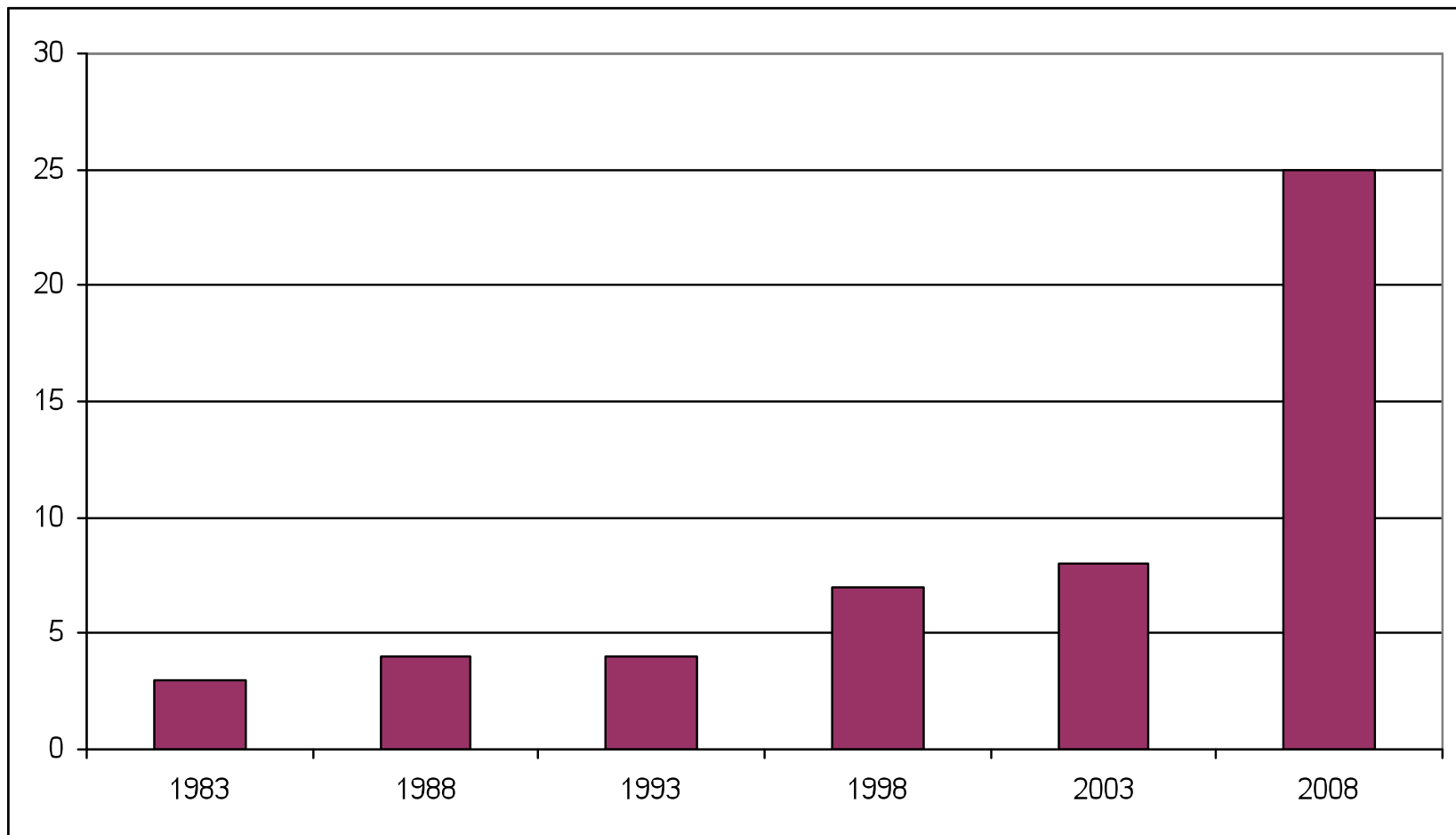
## *Falling Corporate Tax Rates*

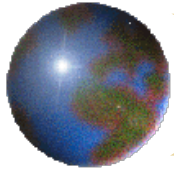
- ⊕ Average corporate tax rate in 1980 = 48 percent.
- ⊕ Average corporate tax rate in 1990 = 42 percent.
- ⊕ Average corporate tax rate in 2000 = 34 percent.
- ⊕ Average corporate tax rate today = 28 percent.
- ⊕ America is now an outlier on corporate tax.



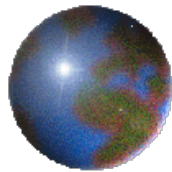


## *Growing List of Flat Tax Nations*

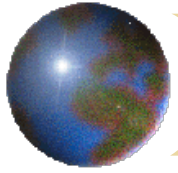




<b>Jersey</b>	<b>1940</b>	<b>20 percent</b>
<b>Hong Kong</b>	<b>1947</b>	<b>16 percent</b>
<b>Guernsey</b>	<b>1960</b>	<b>20 percent</b>
<b>Jamaica</b>	<b>1986</b>	<b>25 percent</b>
<b>Estonia</b>	<b>1994</b>	<b>22 percent</b>
<b>Latvia</b>	<b>1995</b>	<b>25 percent</b>
<b>Lithuania</b>	<b>1996</b>	<b>27 percent</b>
<b>Russia</b>	<b>2001</b>	<b>13 percent</b>
<b>Slovakia</b>	<b>2004</b>	<b>19 percent</b>
<b>Ukraine</b>	<b>2004</b>	<b>15 percent</b>
<b>Iraq</b>	<b>2004</b>	<b>15 percent</b>
<b>Romania</b>	<b>2005</b>	<b>16 percent</b>
<b>Georgia</b>	<b>2005</b>	<b>12 percent</b>
<b>Trinidad &amp; Tobago</b>	<b>2006</b>	<b>25 percent</b>
<b>Pridnestrovie</b>	<b>2006</b>	<b>10 percent</b>
<b>Iceland</b>	<b>2007</b>	<b>35.7 percent</b>
<b>Mongolia</b>	<b>2007</b>	<b>10 percent</b>
<b>Kyrgyzstan</b>	<b>2007</b>	<b>10 percent</b>
<b>Kazakhstan</b>	<b>2007</b>	<b>10 percent</b>
<b>Macedonia</b>	<b>2007</b>	<b>12 percent</b>
<b>Montenegro</b>	<b>2007</b>	<b>15 percent</b>
<b>Albania</b>	<b>2007</b>	<b>10 percent</b>
<b>Czech Republic</b>	<b>2008</b>	<b>15 percent</b>
<b>Bulgaria</b>	<b>2008</b>	<b>10 percent</b>
<b>Mauritius</b>	<b>2008</b>	<b>15 percent</b>

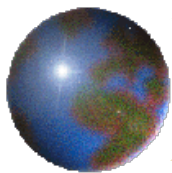


Form 1 <b>ARMEY-SHELBY FLAT TAX FORM</b> 1999			
Your first name and initial		Last name	
Your Social Security number			
Present home address		Spouse's Social Security number	
City, Town or Post Office Box, State and ZIP Code		Your occupation	
Spouse's occupation		Spouse's occupation	
1. Wages, Salary, and Pensions .....		1	
2. Personal Allowance .....			
a. \$23,200 for married filing jointly .....		2(a)	
b. \$11,600 for single .....		2(b)	
c. \$14,850 for single head of household .....		2(c)	
3. Number of dependents, not including spouse .....		3	_ _ _ _
4. Personal allowances for dependents (line 3 multiplied by \$5,300) ..		4	
5. Total personal allowances (line 2 plus line 4) .....		5	
6. Taxable wages (line 1 less line 5, if positive, otherwise zero) .....		6	
7. Tax (17 percent of line 6) .....		7	
8. Tax already paid .....		8	
9. Tax due (line 7 less line 8, if positive) .....		9	
10. Refund due (line 8 less line 7, if positive) .....		10	_ _ _ _

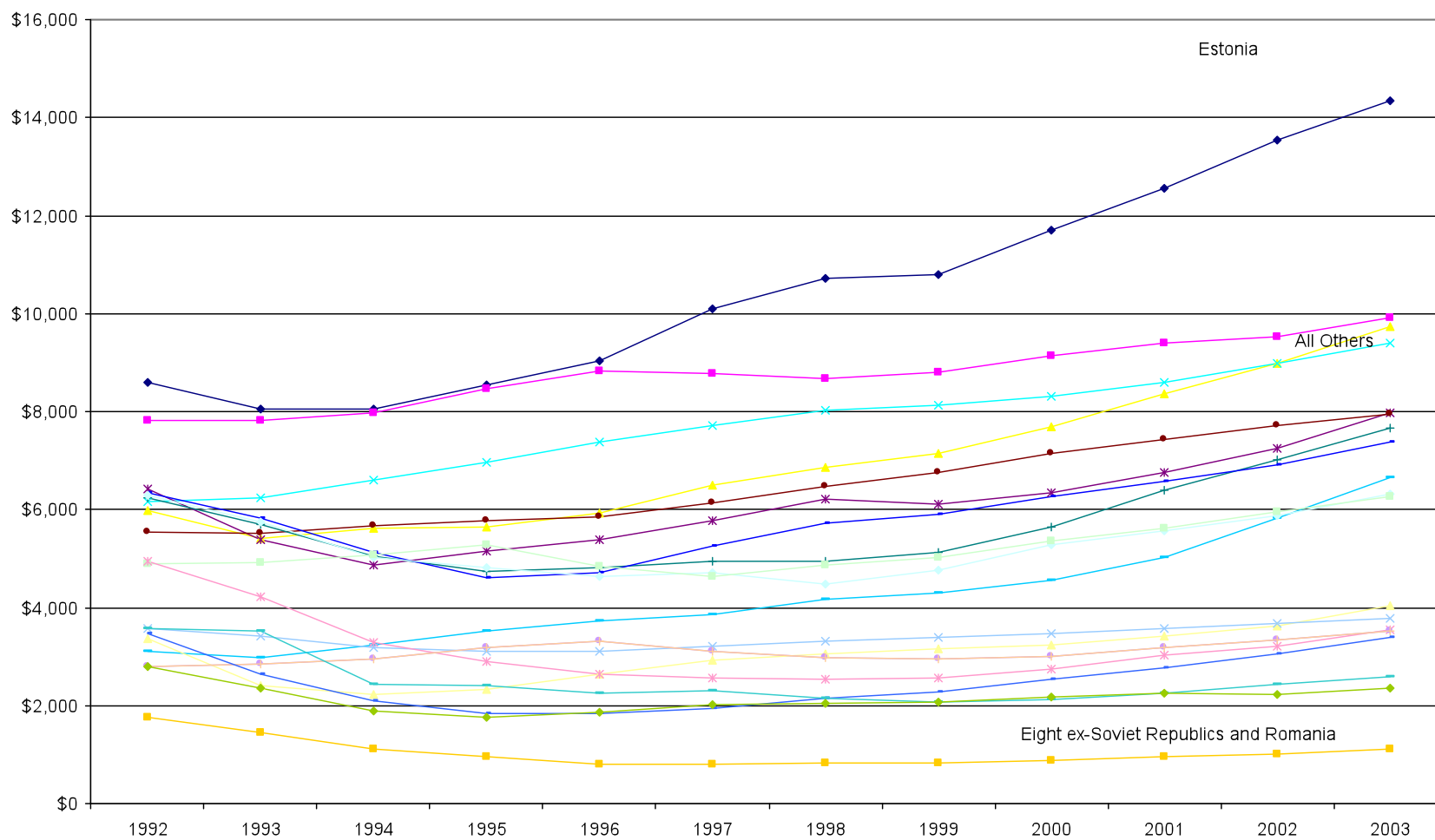


## *Good Policy Matters*

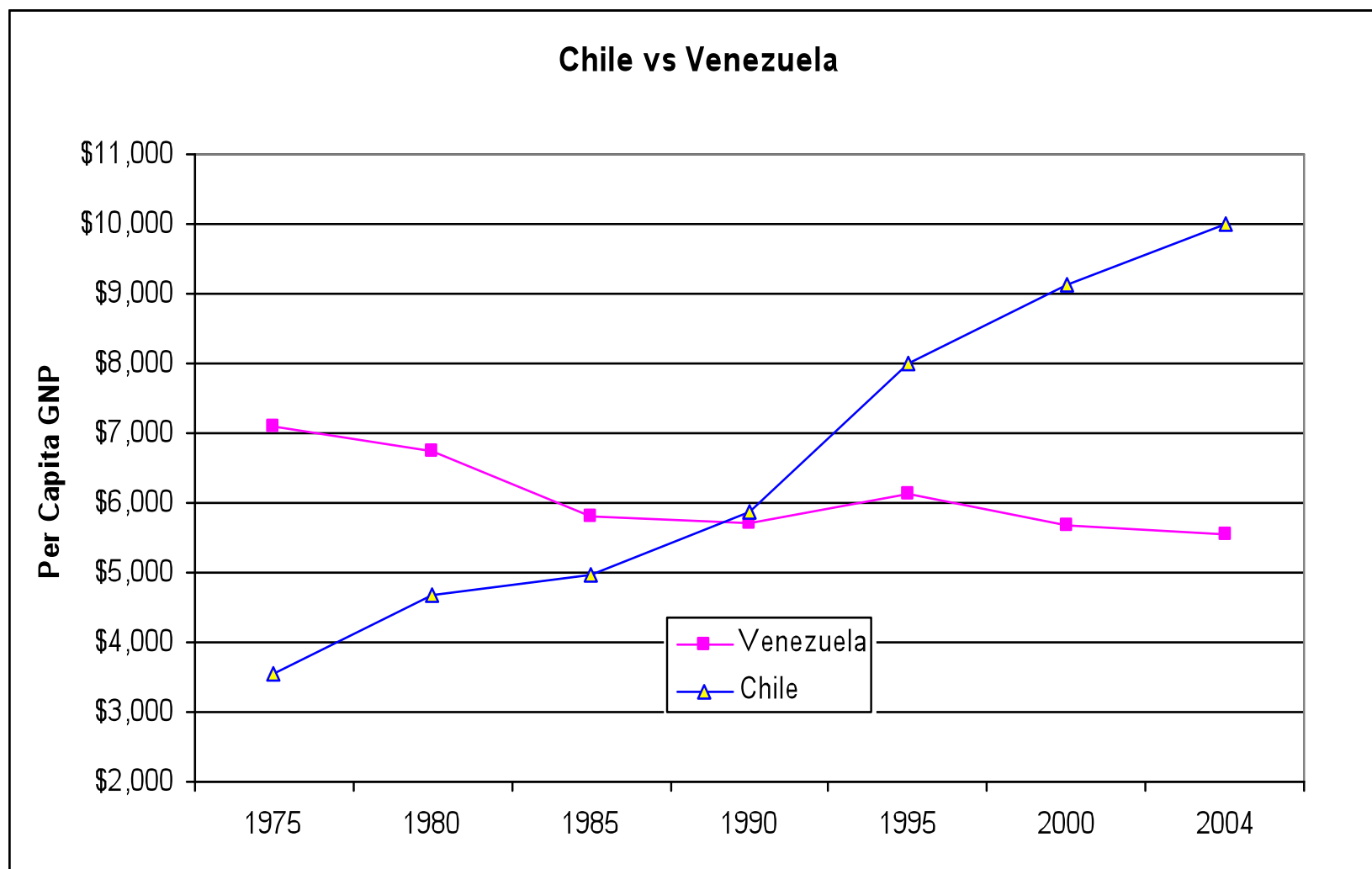
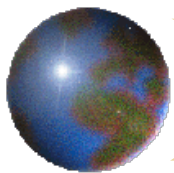
- ✚ The global economy is much stronger today – even with turmoil in financial markets – than it was in the 1960s and 1970s, when tax rates were higher and governments had more power.
- ✚ The world is a laboratory. Nations that adopt pro-market policies prosper.
- ✚ Living standards depend on growth.

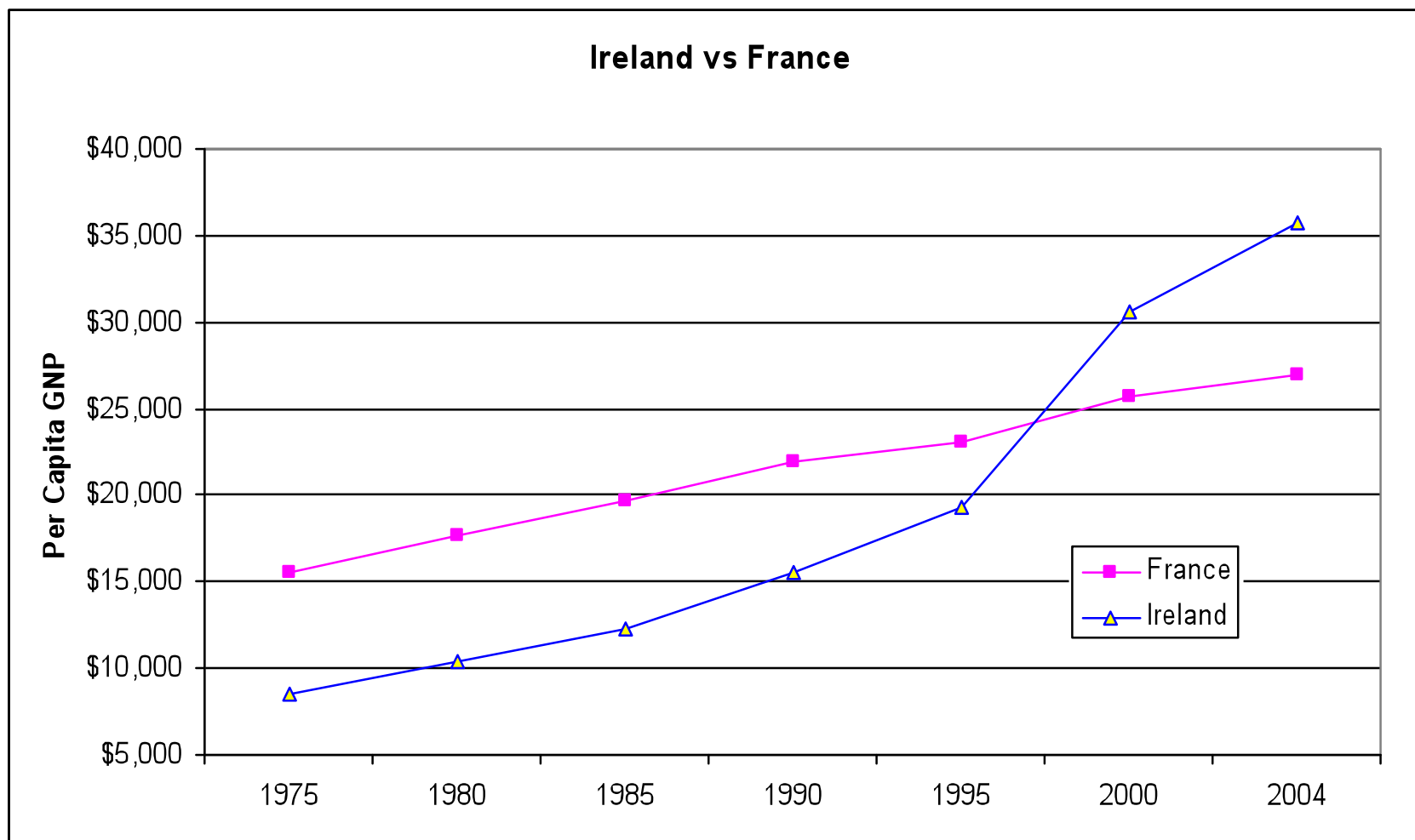
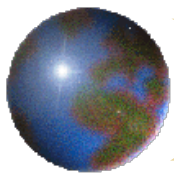


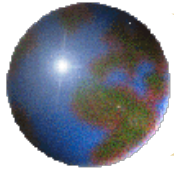
## Per Capita GDP in Former Communist Nations



Source: Angus Maddison, Historical Statistics for the World Economy



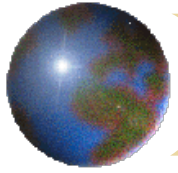




## *So Where's the Harmful Part?*

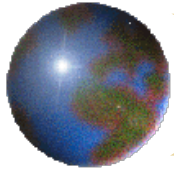
- ❖ The OECD, European Commission, UN, and allies are motivated by greed for more tax revenue – meaning more power, which is why they want an OPEC for politicians.
- ❖ This is unseemly, so they claim their real interest is stopping “harmful” tax competition – but have never offered any evidence.
- ❖ Empirical and theoretical data supports tax competition.





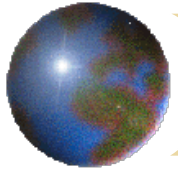
## *George Stigler and Gary Becker*

- ✿ Stigler: "Competition among communities offers not obstacles but opportunities to various communities to choose the type and scale of government functions they wish."
- ✿ Gary Becker: "...competition among nations tends to produce a race to the top rather than to the bottom by limiting the ability of powerful and voracious groups and politicians in each nation to impose their will at the expense of the interests of the vast majority of their populations."



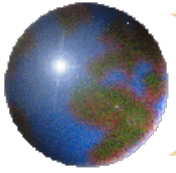
## *James Buchanan and Milton Friedman*

- ✪ James Buchanan: "...tax competition among separate units...is an objective to be sought in its own right."
- ✪ Milton Friedman: "Competition among national governments in the public services they provide and in the taxes they impose is every bit as productive as competition among individuals or enterprises in the goods and services they offer for sale and the prices at which they offer them."



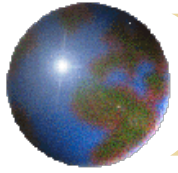
## *Vernon Smith*

- “[Tax competition] is a very good thing. ... Competition in all forms of government policy is important. That is really the great strength of globalization ...tending to force change on the part of the countries that have higher tax and also regulatory and other policies than some of the more innovative countries. ...The way to get revenue is doing all you can to encourage growth and wealth creation and then that gives you more income to tax at the lower rate down the road.”



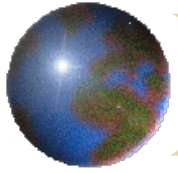
## *Edward Prescott*

- ✪ “With apologies to Adam Smith, it’s fair to say that politicians of like mind seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise taxes. This is why international bureaucracies should not be allowed to create tax cartels, which benefit governments at the expense of the people.”



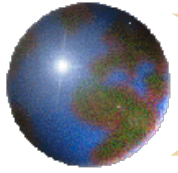
## *Edmund Phelps*

- ✪ “[I]t’s kind of a shame that there seems to be developing a kind of tendency for Western Europe to envelope Eastern Europe and require of Eastern Europe that they adopt the same economic institutions and regulations and everything. ...We want to have some role models... If all these countries to the East are brought in and homogenized with the Western European members then that opportunity will be lost.



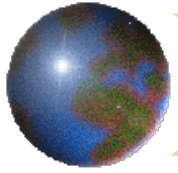
## *Even OECD Economists Admit...*

- ✚ OECD economists have written that “the ability to choose the location of economic activity offsets shortcomings in government budgeting processes, limiting a tendency to spend and tax excessively.”
- ✚ OECD economists note that “legal tax avoidance can be reduced by closing loopholes and illegal tax evasion can be contained by better enforcement of tax codes. But the root of the problem appears in many cases to be high tax rates.”



## *The Moral Case for Tax Havens*

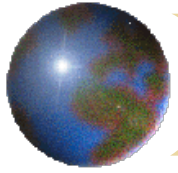
- ✚ The majority of the world's nations do not fully respect human rights.
- ✚ There is widespread persecution and discrimination against political minorities, ethnic minorities, religious minorities, and sexual minorities.
- ✚ There are many nations where corruption, crime, and expropriation are endemic.
- ✚ Political instability and economic mismanagement plague other nations.



## *Tax Havens are a Refuge*

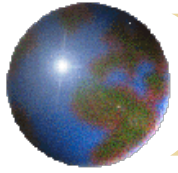
- ✚ Financial privacy helps individuals protect their human rights and civil liberties.
- ✚ Corrupt governments are less likely to steal and expropriate if they know that most assets are protected offshore.
- ✚ Unlike most of the world's governments, all the major tax havens have excellent records of honest governance.





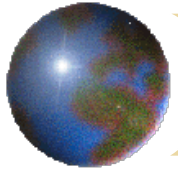
## *Even Critics Agree...*

- ✿ Jeffrey Owens, leader of the OECD's anti-tax competition campaign, recognized the role of tax havens as a bulwark for the protection of human rights. As reported by the U.K.-based *Observer*, "Owens...stressed that tax havens are essential for individuals who live in unstable regimes."



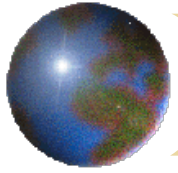
## *Even Critics Agree...*

- ✚ Joe Guttentag, International Tax Counsel at the Treasury Department during the Clinton years, admitted, "How far do we want to go with this information exchange, and the secrecy issues, the privacy issues, and so forth, which relates to the problems of corrupt governments, of danger to your children and to individuals?"



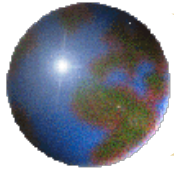
## *Even Critics Agree...*

- ✿ The United Nations acknowledged in its 1998 report that, “For much of the twentieth century, Governments around the world spied on their citizens to maintain political control. Political freedom can depend on the ability to hide purely personal information from a Government.”



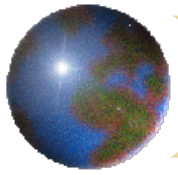
## *Reasons for Optimism*

- ✚ The terms of the debate have improved. Tax competition is widely seen as a positive force. Even the OECD has changed its rhetoric.
- ✚ The moral argument – that so-called tax havens provide refuge for victims of oppression – is powerful to journalists.
- ✚ Likewise, the media sympathizes with the role of low-tax jurisdictions as a way for people to guard against crime and corruption.
- ✚ More governments now have a self-interest in preserving tax competition.



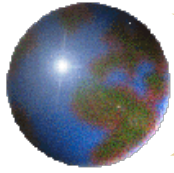
## *Reasons for Pessimism*

- ❖ Expanded Democrat control of Congress increases risk of bad legislation – loss of deferral, Section 911, anti-inversion laws, etc.
- ❖ President Obama in the White House almost certainly is going to result in the United States siding with high-tax nations, as happened during the Clinton years.
- ❖ Demographic pressures in OECD nations will lead politicians to be more aggressive in their search for more tax revenue to redistribute.



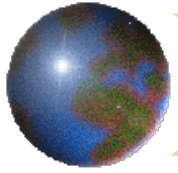
## *Status of Anti-Tax Competition Schemes*

- ✚ The OECD “harmful tax competition” project was stalemated earlier this decade, but it was not killed.
- ✚ Most low-tax jurisdictions sent “commitment letters” to the OECD, but they were not binding since they required a “level-playing field”.
- ✚ But now the OECD is preparing new blacklists based on number of TIEAs implemented.



## *Status of Anti-Tax Competition Schemes*

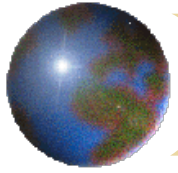
- ✚ The European Commission also was stalemated earlier this decade thanks to US refusal to participate and Swiss demands for big loopholes.
- ✚ But the Commission now wants the EUSTD, Part II, which would cover a wider range of financial instruments – and seek participation from more jurisdictions.



## *A Strategy for the Bahamas?*

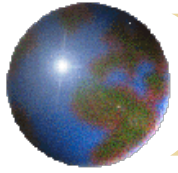
- ✚ Low-tax jurisdictions should unite behind a common strategy, presumably one based on benefits of tax competition, financial privacy, and fiscal sovereignty.
- ✚ The level-playing-field approach is still important, but may not be enough.
- ✚ Delay, delay, and further delay may be the best approach.





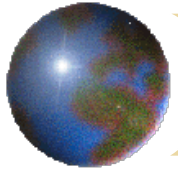
## *Conclusion*

- ✚ In 2000, the international bureaucracies appeared unstoppable.
- ✚ After Bush's election, tax harmonization efforts were thwarted and tax competition flourished.
- ✚ The 2006 elections and 2008 elections have resuscitated anti-tax competition forces.
- ✚ You must fight since the other side will never be satisfied.



## *What Does Adam Smith Say?*

- ✪ An inquisition into every man's private circumstances, and an inquisition which, in order to accommodate the tax to them, watched over all the fluctuations of his fortunes, would be a source of such continual and endless vexation as no people could support.... The proprietor of stock is properly a citizen of the world, and is not necessarily attached to any particular country. He would be apt to abandon the country in which he was exposed to a vexatious inquisition, in order to be assessed to a burdensome tax, and would remove his stock to some other country where he could...



## *Adam Smith...Continued*

- ✪ ...either carry on his business, or enjoy his fortune more at his ease. By removing his stock he would put an end to all the industry which it had maintained in the country which he left. Stock cultivates land; stock employs labour. A tax which tended to drive away stock from any particular country would so far tend to dry up every source of revenue both to the sovereign and to the society. Not only the profits of stock, but the rent of land and the wages of labour would necessarily be more or less diminished by its removal. —Adam Smith, *An Inquiry into the Nature & Causes of the Wealth of Nations*, 1776.