

Loophole capitalism and tax havens: why practice matters more than place

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The leakage of the Panama, Paradise and Pandora papers have highlighted the prevalence of tax minimisation by wealthy individuals and corporations. The language used to describe this is rooted in island/maritime terminology: ‘tax havens’, ‘offshore financial centres’, ‘archipelago capitalism’, and ‘treasure islands’ (see Palan et al, 2010; Ogle, 2017; Shaxson, 2011). Yet this confuses the practices of evasion with the place where it occurs, and suggests the problems associated with taxation are mainly in exotic locations far away. In fact, the world’s biggest tax avoiding places are not island tax havens, but financial centres such as the City of London, Amsterdam, and Singapore, and avoidance and evasion practices are widely used by business and individuals beyond these centres (Garcia-Bernardo, Janský & Tørsløv, 2021). We call this ‘loophole capitalism’: seeking to accumulate capital by exploiting processual and/or regulatory loopholes in taxation systems. These include using accounting techniques to evade and avoid taxation, undertaking regulatory arbitrage—and, of course, hiding wealth in tax havens. Because loophole capitalism only exists in the interstices of extant tax systems, it is inherently parasitical. Therefore, the places of avoidance are a consequence of the wider practices of loophole capitalism, not the other way round. Clamping down on tax havens therefore only addresses a symptom, and not the cause.

References

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