73-449: Social, Economic, and Information Networks — Final Project Report

Anderson, Section A
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A tax haven is a jurisdiction where a given individual or company can get a more favorable tax rate on the exchange of goods and capital than another jurisdiction. Typically, a tax haven is represented as a country with a favorable tax regime, although it can often be a territory embeded within a country. Individuals and companies often want to set up entities within tax havens for two reasons. The first reason is that the favorable tax regime within a tax haven is often helpful for retaining a large amount of financial assets within a company. The second reason is that tax havens typically have looser laws on financial transparency when compared to other jurisdiction, and so companies and individuals can use entities and tax havens to perform transactions in a less regulated environment than their typical jurisdiction.

Tax havens have been a source of controversy in developed and middle-income countries in recent years. Governments have been worried by the many large private institutions that choose to set up entities within tax havens such as Switzerland, the Bahamas, and Panama. This worry comes from two reasons. The first reason is that when companies set up entities within these tax havens, a lot of tax revenue that would come from domestic financial transactions is lost due to the offshoring of certain parts of the business; this is often looked at by government as a form of tax evasion. The other reason is that the lack of financial transparency in these tax havens allows certain informal economies to develop around the world, such as the financial backing of the drug trade.
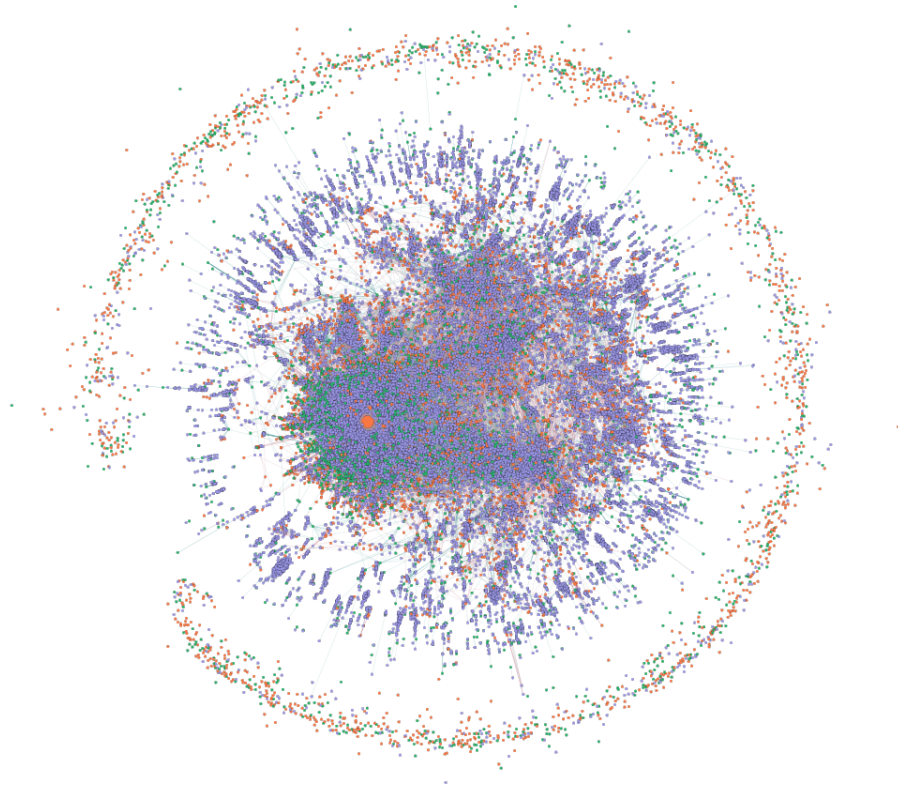
When I first looked at this problem, I saw that

Figure 1: A visualization of our final dataset with the removal of nodes with a degree of less than 5. Nodes are sized by degree and nodes are colored by agent type, where entities are purple, officers are orange, and intermediaries are green.