

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

Anderson, Section A

Michael Rosenberg

mmrosenb@andrew.cmu.edu

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 embedded 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 the relationships formed by domestic companies and individuals and offshore entities to be graphical in nature, and so I found that the questions facing the use of tax havens to be network analysis questions. My first question is, what aspects of the tax haven network give legal and financial intermediaries social capital in the network? If we are able to identify these aspects of the network, we would be able to identify the responsibility that domestic intermediaries have in holding up the connections of offshore entities. My second question is, what are some policy interventions we can do to reduce the strength of this network? If we begin to build some of these policy interventions, we may be able to find mechanisms to reduce global tax evasion and fight illicit economies.

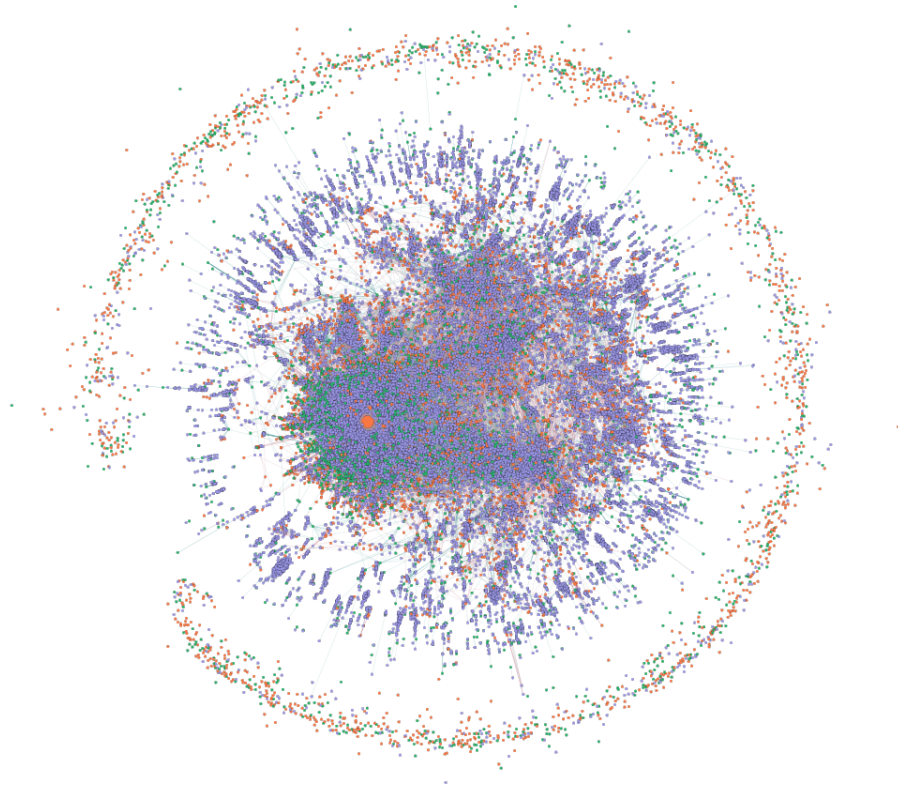


Figure 1: A visualization of our final dataset with the removal of nodes with a degree of less than 5. Nodes are sized by degree and nodes are colored by agent type, where entities are purple, officers are orange, and intermediaries are green.