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Modern tax Havens: the Experience of European Countries

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ABSTRACT

This paper aims to assess the European tax havens in terms of corporate financial misconduct risks. The study relies on an index method developed by a group of economists belonging to the international non-governmental organization – the Tax Justice Network. The method allowed the authors to calculate the Corporate Tax Harbor Index (CTHI) and determine the role of a particular jurisdiction in global corporate financial misconduct risks. The study established a ranking of European tax havens and jurisdictions with features of tax havens and classified these tax havens based on corporate financial misconduct risks. The study found that European tax havens and tax haven jurisdictions accounted for nearly 40% of global corporate financial misuse risks in 2020. The classification of European tax havens according to corporate financial misconduct risks demonstrated that the Netherlands, Switzerland, the UK, Ireland, and Luxembourg accounted for more than half of the risks. The shares of Liechtenstein (1%), Monaco (1%), Andorra, and San Marino (less than 1%) did not exceed 3% of the European share of the global risk. The results show the need for adjustments to the regulatory policy of international organizations currently focused on fighting classic tax havens. Their real share of global misuse risks is very small compared to the share of 'gray cardinals' of the offshore market.

INTRODUCTION

The COVID-19 pandemic was a major test for humanity and a sensitive indicator, revealing the main contradictions and interdependencies of modern society. The most significant interdependencies for the member states of the European Union were the following:

- the dependence of personal and economic well-being of each citizen on the quality and availability of public services (for example, health care);
- the obvious danger of further aggravation of social inequality; and

– full exposure to weaknesses of other countries (both in terms of the health of the nation and in other socially significant areas) due to close political, economic, and social interconnection of EU countries (Cobham and Garcia-Bernardo, 2020).

Given the identified interdependencies, the financial misconduct by transnational corporations (TNCs) seeking to reduce taxes through low-tax jurisdictions do not look as cynical as the position of individual EU countries providing TNCs with opportunities for such misconduct. Meanwhile, the tax payments received by the states are used to finance the production of public goods, provide them free of charge to all citizens, and subsidize various firms (Chernov and Zakharova, 2021). Cobham and Garcia-Bernardo (2020) found that the Netherlands alone was responsible for the annual loss of more than $10 billion of corporate tax revenue by other EU members. In other words, the activity of European tax havens in a pandemic suggests that some EU members allow transnational corporations to steal $10 to $15 billion in corporate tax annually for a certain fee (experts estimate the fee to be several billion dollars (Cobham and Garcia-Bernardo, 2020)). This happens with the tacit consent of the European Union.

Given the economic and social consequences of the pandemic, which require significant expenditures, it is not surprising that the performance of European tax havens, those focused on the export of capital, are increasingly the subject of heated debate at the highest legislative and regulatory levels. Moreover, the negative socio-economic effect of the COVID-19 pandemic has intensified the economic chaos caused by the global economy's turbulence at the beginning of the century (Kotler and Caslione, 2009) and provoked considerable social tension. In such circumstances, certain market participants consider non-payment of taxes as one of the ways to survive in forced lockdowns announced by various countries. Some of the non-payers may include large enterprises that use double bookkeeping and business registration in offshore zones and smaller firms that justify the reduction of their taxable base with false documents and use of illegal migrant labor (Chernov and Zakharova, 2020; Urbański et al., 2021). As a result, some entrepreneurs are likely to develop a positive attitude towards shadow economy (Mishchuk et al., 2020; Navickas et al., 2020), concealment of proceeds, overstatement of costs in accounting documents, illegal use of tax benefits, and the emergence of one-day firms involved in shadow economic operations (Chernov and Zakharova, 2021). Therefore, the increased attention of politicians, economists, non-governmental organizations, mass media, and society as a whole to the problem of tax havens in the European Union is logical. It demonstrated the need for up-to-date reliable information on the issue existing in the real economy.

However, the problem of tax havens in the European Union remains one of the most disputable topics in modern economic science, despite the significant number of studies. The ambiguity of scientific discussion on tax havens can be traced at all levels of research: from the definition of the concept to the assessment of its socio-economic importance and impact on the economy of individual regions and the world in general.

The analysis of theoretical sources has shown a somewhat vague definition of 'tax haven' in modern science. For example, Soloviev and Vlasov (2014) use the terms 'offshore zone' and 'tax haven' as synonyms, while Kiose and Semenova (2012) analyze those two notions as separate economic categories. The researchers highlight several fundamental differences, most notably the availability of tax benefits to local companies (Kiose and Semenova, 2012; Skare and Kukurin, 2020).

The most popular definition was proposed by the International Finance Association (IFA) and the Organization for Economic Cooperation and Development (OECD) at the end of the last century. It defines tax havens as low tax jurisdictions, attracting foreign capital with preferential tax treatment not available to their residents and reliable protection of bank secrecy (OECD, 2021; Paramonova and Smirnov, 2020). Later, the OECD supplemented this definition with the following key characteristics allowing to define a jurisdiction as a tax haven:

– No or only nominal taxes;
– Lack of effective exchange of information;
– Lack of transparency;
– No substantial activities (OECD, 2021).

It should be noted that this definition has been repeatedly criticized for the lack of precision. The prominent American researcher of tax havens Jane G. Gravelle (2015) emphasizes that the lack of accurate definition complicates legislative initiatives of individual countries and international communities in the regulation of international taxation (Susanto, et al., 2019). For this study, tax havens should be understood as low-tax jurisdictions that attract foreign capital with favorable tax regimes not available to their residents, reliable protection of bank secrecy, and the absence of the need for substantial activity.

Researchers and financial market practitioners' views on the impact of tax havens on the development of regional and global economies are also unequivocal and often mutually exclusive. Paskar and Prikladova (2021) consider tax havens to be a highly effective tool for attracting significant flows of export capital to resource-deficient and subsidized regions to promote their sustainable development. Others, on the contrary, consider tax havens to be an undeniable evil, allowing a conspicuous minority to appropriate public wealth (Alstadsæter et al., 2018; Bălăşoiu, 2021; Cobham, 2019; Cobham and Garcia-Bernardo, 2020; Galaz et al., 2018; Potapov et al., 2019; Saez and Zucman, 2019; Shaxson, 2020; Tørsløv et al., 2021; Zucman, 2019). They demand that international organizations take immediate measures to stop these illicit activities (Saez and Zucman, 2019; Shaxson, 2012; Tørsløv et al., 2021; Zucman, 2019).

Tax havens classification is insufficient, fragmented, and often arbitrary. The reason for that is weak conceptual framework and the diversity of opinions about the significance of tax havens and their impact on the regional and global economy. Geographical classification is the most specific and the least controversial one. Shaxson (2020) distinguishes four primary geographical zones. The first one is the continental Europe (Switzerland and Luxembourg included). The second one is British zone with countries formally associated with Great Britain or those with historical ties to Britain (Jersey, Guernsey, Isle of Man, Bermuda, part of the West Indies and the Caribbean). The third zone is America (some US states, the Virgin Islands, the Marshall Islands, Liberia, and Panama). The final fourth zone encompasses unclassified jurisdictions (Shaxson, 2012).

Gravelle (2015) suggests eight geographical zones: Caribbean Islands/West Indies, Central America, Europe/Mediterranean, Indian Ocean, Middle East, North Atlantic, Pacific, and West Africa (Gravelle, 2015). According to this approach, the tax havens of Europe should include Andorra, the Channel Islands (Guernsey and Jersey), Cyprus, Gibraltar, the Isle of Man, Ireland, Liechtenstein, Luxembourg, Malta, Monaco, San Marino, and Switzerland. Furthermore, Gravelle includes jurisdictions that were not mentioned in the main OECD lists, such as the United States (the states of Delaware, Nevada, and Wyoming), the United Kingdom, the Netherlands, Denmark, Hungary, Iceland, Israel, Portugal, and Canada (Gravelle, 2015). Although Gravelle does not formulate clear characteristics of such jurisdictions, she identifies and describes their features in sufficient detail by looking at Netherlands as her example. Not being a *de jure* tax haven, the Netherlands allows corporations to significantly reduce taxes on dividends, capital, profits from subsidiaries, etc. This issue became the subject of increased attention of international regulators, public organizations, mass media, and the public more than once (Gravelle, 2015).

It should be recognized that the consequences of the COVID-19 pandemic have contributed greatly to exacerbating the contradictions of tax havens in today's economy and, not least, to the increased public interest in the issue. The economic consequences of the pandemic for most states are not limited to the additional costs of health care and anti-epidemic measures. Other costs include additional measures to maintain the economy (including compensatory and subsidy costs) which put a high burden on government budgets. In 2019, the IMF reported that more than 40% of foreign direct investment ($15 trillion) turned out to be "phantom investments in corporate shells with no substantial content and no real links to the local economy" (Damgaard et al., 2019), which is sufficient reason for the social interest in the problem of tax havens.

The literature review showed that the problem of tax havens, despite the significant social demand, has been insufficiently studied. A significant portion of studies were descriptive at their core, primary due to the limited access to information, a restriction determined by the very essence of tax havens. The lack of studies related to quantitative assessments of tax havens, which would provide measurable and comparable results, including the assessment of corporate and financial mismanagement risks, is particularly acute. Thus, it was the increasing social need to address the problem of tax havens that made the topic of this article relevant and defined its purpose and objectives.

The present article aims to assess European tax havens in terms of corporate tax mismanagement risk. For this, the following two objectives were set: (1) to produce a ranking of European tax havens in terms of corporate tax abuse risk; (2) to determine the share of each jurisdiction having the features of a tax haven in the European share of global corporate tax abuse risks. The authors considered the possibility of using the ranking approach in research focused on the regular monitoring of changes in corporate financial misconduct risks to minimize their negative impact on the global economy.

1. METHODS

Tax information, with rare exceptions, is a commercial secret. Many countries around the world made efforts to improve their legal regulation in the light of growing concerns about personal data protection. For example, the European Parliament and the Council of the Regulation adopted the General Data Protection Regulation (EU) 2016/679 on April 27, 2016 (GDPR). The act unified the requirements for the regulation of information relations in personal data protection for EU countries (Istok et al., 2020; Stepenko et al., 2021). At the same time, it failed to improve the exchange of information on corporate taxation in the EU. Therefore, the need for relevant and reliable information about the performance of tax havens in Europe continues to grow (Argilés-Bosch et al., 2020).

The literature review showed that tax havens research is complicated by the limited access to information on the activities in tax havens. Therefore, the present study relied on the index method of research developed by a group of economists from the international non-governmental organization Tax Justice Network: Andres Knobel, Leyla Ates, Lucas Millan-Narotsky, Markus Meinzer, Miroslav Palanský, Moran Harari, Rachel Etter-Phoya, and Shanna Lima. The said method allows one to conduct a reliable assessment of tax havens based on the Corporate Tax Harbor Index (CTHI) (Corporate Tax Haven Index, 2021).

The CTHI value for jurisdiction is calculated based on a jurisdiction's Haven Score (HS) and Global Scale Weight (GSW) according to the following formula (Corporate Tax Haven Index, 2021):

$$CTHI = \frac{HS^{3}\sqrt[3]{GSW}}{100}$$

The jurisdiction’s Haven Score (HS) is a measure of how much scope for corporate tax misuse the jurisdiction’s tax and financial systems allow. Tax and financial systems are assessed by experts against 20 indicators covering a range of laws, policies, and practices, including the jurisdiction’s corporate tax rates, reporting requirements, interest payment deduction limits, etc. (Corporate Tax Haven Index, 2021). The assessment covers 70 jurisdictions across the world (Corporate Tax Haven Index, 2021). The jurisdiction’s haven score is assessed by experts on a scale from 0 (no scope for corporate tax abuse) to 100 points (unrestricted corporate tax abuse opportunities). A jurisdiction’s total Haven Score (HS) is the average of the scores received by the jurisdiction in each category (Corporate Tax Haven Index, 2021).

In this study, the authors used expert scores provided by the British nongovernmental organization – the Tax Justice Network (Corporate Tax Haven Index, 2021). The experts were leading professionals in the field of corporate taxation from European and American universities and specialists employed in consulting and auditing companies. These estimates are ~~relevant~~ as of September 30, 2020 (the boundary point of the study) (Corporate Tax Haven Index, 2021).

Global Scale Weight (GSW) measures a particular jurisdiction’s share in the global financial activities of multinational corporations. It assesses the extent to which the legitimate opportunities for corporate tax abuse provided to multinational corporations by the tax and financial systems have been realized (Corporate Tax Haven Index, 2021). In this study, the GSW value was calculated based on foreign direct investment data provided by the International Monetary Fund (Corporate Tax Haven Index, 2021).

The weighting of the Haven Score (HS) by the Global Scale Weight (GSW) determines how much of the corporate financial activity conducted globally is at risk of corporate tax abuse by the jurisdiction (Corporate Tax Haven Index, 2021). The jurisdictions are then ranked according to their Corporate Tax Shelter Index (CTHI), which facilitates further analysis. In general, the use of the CTHI allows for a thorough evaluation of most aspects of the tax and financial system to identify abuses in corporate taxation and develop measures for their effective elimination.

The data for calculating the Corporate Tax Harbor Index was taken from official and public reports published by the OECD (OECD, 2021), the Global Forum on Transparency and Exchange of Information for Tax Purposes, IMF (International Monetary Fund, 2021) and the EU (OECD, 2013). Another data source was research conducted by Tax Justice Network using expert assessments, economic statistics, mathematical economics, and econometric approaches (Corporate Tax Haven Index, 2021).

To analyze and assess the impact of tax havens in Europe, the authors rely on the geographical classification as per Jane G. Gravelle (2015). According to this classification, the following tax havens and jurisdictions with the attributes of a tax haven were defined: Andorra, the Channel Islands (Guernsey and Jersey), Cyprus, Gibraltar, the Isle of Man, Ireland, Liechtenstein, Luxembourg, Malta, Monaco, San Marino, Switzerland, the UK, Netherlands, Denmark, Hungary, Iceland, and Portugal.

2. RESULTS

The results from the assessment of the impact of European tax havens and jurisdictions with tax haven attributes on transnational financial corporate activity are presented in Table 1.

Table 1. An assessment of the impact of European tax havens and jurisdictions with such features on transnational financial corporate activity.

#	*Jurisdiction*	*Place in the overall ranking*	*HS*	*GSW*	*CTHI*	*CTHI Share*
1	The Netherlands	4	79.90	11.000	2454.00	5.500
2	Switzerland	5	89.00	3.400	2261.00	5.100
3	Luxembourg	6	74.00	9.000	1815.00	4.100
4	Jersey	8	100.00	0.510	1724.00	3.900
5	Ireland	11	77.00	3.200	1459.00	3.300
6	Great Britain	13	69.20	7.300	1382.00	3.100
7	Cyprus	14	85.30	1.100	1379.00	3.100
8	Guernsey	17	98.00	0.100	954.00	2.200
9	The Isle of Man	20	100.00	0.061	850.00	1.900
10	Malta	21	79.00	0.370	763.00	1.700
11	Hungary	24	72.00	0.410	599.00	1.400
12	Gibraltar	30	66.00	0.170	349.00	0.790
13	Denmark	34	56.00	0.440	295.00	0.670
14	Liechtenstein	35	71.00	0.056	291.00	0.660
15	Monaco	44	67.00	0.030	206.00	0.460
16	Portugal	50	49.00	0.240	157.00	0.350
17	Andorra	62	61.00	0.002	67.00	0.150
18	San-Marino	67	61.00	0.001	41.00	0.093

Source: Adopted from Corporate Tax Haven Index (2021) and International Wealth (2020).

As can be seen from Table 1, Netherlands, a country that is a member of the EU and not legally recognized as a tax haven, has the most impact on transnational financial corporate activity. In 2021, the Netherlands ranked fourth on the Corporate Tax Haven Index as a player influencing the transnational financial corporate activity (Corporate Tax Haven Index, 2021).

According to the assessment, the Netherlands HS_{NL} was 79.9, indicating the potentially significant opportunities for corporate tax abuse. At the same time, the position of the Netherlands in the global economy means high GSW_{NL} (11). This indicates that the jurisdiction conducts at least 11% of the financial activities carried out by multinational corporations around the world. These data coincide with several other studies (Damgaard et al., 2019; Paskar and Prikladova, 2021).

According to the IMF analysis conducted in 2020, the Netherlands had the highest FDI inflows ($5 005 349 million) and outflows ($6 174 234 million). Thus, the country outpaced both the USA and China (International Monetary Fund, 2021). Undoubtedly, the major share of these contributions was, as defined by Damgaard et al. (2019), 'phantom' investments used by multinational corporations to reduce taxes. The Netherlands, which is not legally a tax haven, accounts for 5.54% of the global risks of corporate financial misconduct.

Switzerland ranks fifth in the Corporate Tax Haven Index (2021) and second among the studied European countries (CTHI Share = 5.1). According to the assessment, Switzerland's HS_{SW} is 89, indicating the potentially significant opportunities provided by the jurisdiction's tax and financial system for corporate tax abuse. Switzerland's established image as a traditional European financial and banking center and the high quality of its financial services translate into a high global scale weight (GSW_{SW}=3.4), indicating that the country is responsible for at least 3.4% of the global financial activity of multinational corporations. As a result, Switzerland accounts for 5.1% of the global risk of corporate financial misuse.

Luxembourg (CTHI Share = 4.1) ranks sixth in the Corporate Tax Haven Index (2021) and third among the surveyed European countries. The jurisdiction's HS_{LUX} = 74, indicating that Luxembourg's opportunities for corporate tax abuse are quite significant, but these opportunities are lower than those in Switzerland and the Netherlands. Meanwhile, the global weighting indicator for Luxembourg (GSW_{LUX}=9.0) is almost three times higher than for Switzerland, and only 20% lower than for the Netherlands. In 2020, Luxembourg accounted for at least 9.0% of TNCs' global financial activity, second only to the Netherlands in terms of FDI inflows ($3 987 835 million) and outflows ($4 812 170 million). According to the results of the assessment, Luxembourg accounted for at least 4.1% of the global risks of corporate financial misconduct.

The three Crown Estates of the British Crown – Jersey, Guernsey, and the Isle of Man – have the highest haven scores. These island nations are neither part of the UK nor part of the EU, which explains the specifics of their tax laws. The haven score for the Isle of Man and Jersey is the highest (HS = 100), and only slightly lower for Guernsey (HS = 98). The highest score (HS = 100) means that the laws of the country allow unlimited corporate tax abuses. At the same time, the legislative features allowing unlimited tax abuses to lead to greater scrutiny of regulatory organizations (International Monetary Fund, 2021), which explains the relatively low popularity of these jurisdictions GSW_{Jersey} = 0.51, $GSW_{Guernsey}$ = 0.1, $GSW_{Isle\ of\ Man}$ = 0.061. Thus, despite the unlimited opportunities afforded by law to multinational corporations, Jersey, Guernsey, and the Isle of Man account for 3.9%, 2.2%, and 1.9% of the total global risks of corporate financial misconduct.

Fifth place in the ranking of the European countries surveyed, and eleventh in the Corporate Tax Haven Index in 2021 (CTHI Share = 3.3) belongs to Ireland. The haven score for Ireland (HS_{IR} = 77) is lower than that of the Channel Islands or the Isle of Man, indicating the significant, but not endless, opportunities presented by Ireland's tax and financial system for corporate tax abuse. Meanwhile, Ireland's global scale weight (GSW_{IR}=3.2) significantly outweighs the values for the Channel Islands and the Isle of Man, taking 3.2% of the global risk of corporate financial misconduct.

Despite significant economic, political, and image differences, Cyprus and the United Kingdom each account for 3.1% of global corporate financial misconduct risks. The score for the UK (HS_{UK} = 69.2) is significantly lower than that for Cyprus (HS_{Cyprus} = 85.3), as the UK tax and financial system provide much less opportunity for corporate tax abuse than does Cyprus. At the same time, the UK global scale weight

(GSW_{UK}=7.3) is almost 7 times higher than the similar index for Cyprus (GSW_{Cyprus}=1.1) due to the historically formed traditions and strong reputation of the British financial market. It explains the identical values of the Corporate Tax Harbor Index (CTHI = 3.1) for Cyprus and the UK.

Malta's haven score (HS_{Malta} = 79) indicates significant opportunities for corporate tax abuse. Malta's global scale weight is higher than that of the Channel Islands and the Isle of Man but inferior to the ranking leaders (GSW_{Malta} = 0.370), resulting in Malta accounting for 1.7% of global corporate financial misconduct risks.

The haven score for Hungary (HS_{HU} = 72) indicates ample opportunities for corporate tax abuse. However, it is worth noting that of the countries previously analyzed only the United Kingdom had a lower haven score. The global scale weight indicator for Hungary (GSW_{HU}=0.410) means that the jurisdiction enables at least 0.41% of the global financial activity of multinational corporations. Hungary's share in the global risks of corporate financial misconduct is at least 1.4%.

The scores for Gibraltar, Denmark, Liechtenstein, Monaco, Portugal, Andorra, and San Marino range from 49 (HS_{Port}) to 67 (HS_{Monaco}), indicating much lower opportunities for corporate tax abuse. The global scale weight scores for these countries are also quite low. The global scale weights of Denmark ($GSW_{Denmark}$=0.440), Portugal (GSW_{Port}=0.240), and Gibraltar (GSW_{Gibr}=0.170) indicate that these countries together account for almost 1% of global financial activity of multinationals (Denmark - 0.44%, Portugal - 0.24%, and Gibraltar - 0.17%). The combined share of the other jurisdictions in the global financial activities of corporations does not reach even 0.1% (GSW_{Monaco}=0.030, $GSW_{Liechtenstein}$=0.056, $GSW_{Andorra}$=0.002, $GSW_{San\text{-}Marino}$ = 0.001).

Less than 1% of the world's corporate financial activity is put at risk of corporate tax abuse by these jurisdictions: $CTHI_{Gibr}$=0.790, $CTHI_{Denmark}$=0.670, $CTHI_{Liechtenstein}$=0.660, $CTHI_{Monaco}$=0.460, $CTHI_{Port}$=0.350, $CTHI_{Andorra}$=0.150, $CTHI_{San\text{-}Marino}$= 0.0093.

Each country's CTHI share is presented in Figure 1.

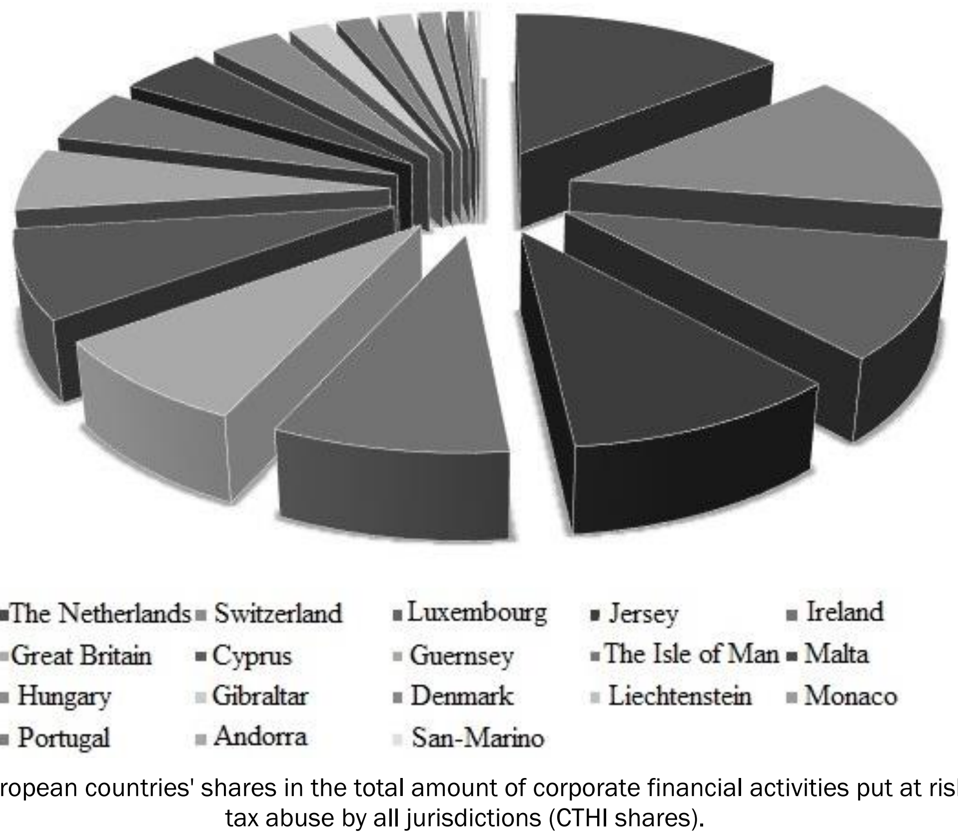

Figure 1. The European countries' shares in the total amount of corporate financial activities put at risk of corporate tax abuse by all jurisdictions (CTHI shares).

Source: Developed by the author.

Figure 1 shows that the Netherlands (14%), Switzerland (13%), Luxembourg (11%), Jersey City (11%), and Ireland (10%) have the largest share of corporate financial misconduct risks. The share of other countries does not exceed 15% (Guernsey – 6%, Isle of Man – 5%, and Malta – 4%), while the share of countries traditionally considered tax havens in Europe does not even reach a combined 5% (Liechtenstein – 1%, Monaco – 1%, Andorra and San Marino – less than 1% each).

It should be noted that despite the European Commission's calls to Ireland, Malta, Cyprus, Luxembourg, and the Netherlands in 2019 to "consider features of the tax system that may contribute to aggressive tax planning" (OECD, 2013) and the European Parliament proposal to recognize Cyprus, Ireland, Luxembourg, Malta, and the Netherlands as EU tax havens (European Parliament, 2021) no real action has been taken to regulate taxation either at the country or EU level. As the latest Council Conclusions on the Review of the EU List of Non-Cooperative Taxing Jurisdictions show, the EU's attention remains focused on the tax settlement of Anguilla, Vanuatu, Trinidad and Tobago, while none of the countries proposed by the European Parliament for recognition as EU tax havens has ever been included in the EU's restrictive lists (Council of the European Union, 2021). At the same time, European tax havens and jurisdictions with tax haven attributes take more than 1/3 of the world risks of corporate financial misconduct (38.47%), which in modern conditions, undoubtedly hinders the global economy stabilization and decrease of social tension. This study presented a ranking of European tax havens and low-tax jurisdictions according to their share of global corporate tax abuse risks and classified European tax havens according to the Corporate Tax Haven Index.

3. DISCUSSION

Given the limited access to tax information, particularly in tax havens, and the novelty of the method used, it should be noted that this study may be the first to rank and classify tax havens and jurisdictions with tax haven attributes by the risk of corporate financial misconduct. As it was mentioned earlier, a considerable part of earlier published articles has theoretical or descriptive character (Kiose and Semenova, 2012; Potapov et al., 2019). The publications analyzing the legislative base of the tax haven or the regulatory aspect of the problem are the most widespread (Orlov, 2004).

At the same time, the need for quantitative tax haven research has increased considerably in recent years, which explains the development of different approaches to evaluation recently. Some researchers have sought to assess corporate tax abuses in tax havens by analyzing publicly available information on multinational corporations (Bălăşoiu, 2021; Janský and Kokes, 2016; Potapov et al., 2019). An attempt at quantitative analysis at the country level was made by Paskar and Prikladova (2021). However, they only analyzed only data on direct investments, which did not allow the authors to obtain sound rankings that would connect changes in the indicator of direct investments to corporate tax risks (Paskar and Prikladova, 2021). The rating of global offshore zones was also developed by Mikhailin and Smirnov (2018). However, the financial secrecy index used for the rating allowed to analyze only the level of closeness of financial information and did not allow take into account the real volumes of 'phantom' investments in a particular jurisdiction (Mikhailin and Smirnov, 2018).

CONCLUSIONS

The result of the study is a ranking of European tax havens and jurisdictions with signs of tax havens, based on the combined CTHI index, which allows for an objective assessment of corporate financial misuse risks in each jurisdiction. The study also proposes a classification of European tax havens according to the criterion of participation in global corporate finance risks developed by the author. The findings question the effectiveness of current EU policy on the regulation of international corporate taxation.

The resulting ranking proves that the main share of corporate financial misuse risks comes not from small and insular states, which the EU actively fights against, but from the EU member states. European tax havens and jurisdictions with tax haven attributes enable 38.47% of the global corporate financial misconduct risks. The Netherlands, Switzerland, the UK, Ireland, and Luxembourg account for more than half of those risks (56%). At the same time, the shares of traditional European tax havens, including

Liechtenstein (1%), Monaco (1%), Andorra, and San Marino (less than 1% each), did not exceed 3% of the European part of the global risk at the time of the study.

The results of this study demonstrate the existing opportunities for corporate financial misconduct. It allows governments to develop measures to prevent the negative consequences of such risks and significantly improve the effectiveness of legislative and executive initiatives to ensure fair taxation. Moreover, the continuous monitoring of corporate financial misconduct risks will help to evaluate the effectiveness of regulatory policy at the European and global levels and to prevent individual EU countries from receiving tacit tax privileges.

The research results can be useful in the development and implementation of effective measures to limit corporate financial misconduct. They can also be the basis for further research of tax havens and the measures for reducing the negative impact of this phenomenon on the global economy.

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