INTERNATIONAL TAXATION

Large U.S. Corporations and Federal Contractors with Subsidiaries in Jurisdictions Listed as Tax Havens or Financial Privacy Jurisdictions

What GAO Found

Eighty-three of the 100 largest publicly traded U.S. corporations in terms of 2007 revenue reported having subsidiaries in jurisdictions listed as tax havens or financial privacy jurisdictions. Sixty-three of the 100 largest publicly traded U.S. federal contractors in terms of fiscal year 2007 federal contract obligations reported having subsidiaries in such jurisdictions. Since subsidiaries may be established in listed jurisdictions for a variety of nontax business reasons, the existence of a subsidiary in a jurisdiction listed as a tax haven or financial privacy jurisdiction does not signify that a corporation or federal contractor established that subsidiary for the purpose of reducing its tax burden. GAO did not attempt to determine if corporations or contractors with subsidiaries in such jurisdictions engaged in transactions with their subsidiaries to reduce their tax burden. In addition, the SEC only requires public corporations to report significant subsidiaries, so the number of subsidiaries in jurisdictions listed as tax havens or financial privacy jurisdictions for each corporation or federal contractor may be understated in this report.

There is no agreed-upon definition of a tax haven or agreed-upon list of jurisdictions that should be considered tax havens. However, various governmental, international, and academic sources used similar characteristics to define and identify tax havens. Some of the characteristics included no or nominal taxes; a lack of effective exchange of information with foreign tax authorities; and a lack of transparency in legislative, legal, or administrative provisions. A few sources used terms such as offshore financial centers or financial privacy jurisdictions to refer to jurisdictions with similar characteristics. Based on a review of a variety of sources, GAO identified three lists of tax havens or financial privacy jurisdictions. The three sources GAO used are (1) the Organization for Economic Co-operation and Development, (2) a National Bureau of Economic Research working paper, and (3) a U.S. District Court order granting leave for the Internal Revenue Service to serve a “John Doe” summons. GAO combined the three lists into one for the purposes of this report. GAO did not develop its own definition of tax haven or its own list of jurisdictions.

In commenting on a draft of this report, the Department of the Treasury expressed concerns about GAO using a list of tax havens or financial privacy jurisdictions because there is no agreed-upon definition of tax havens or list of jurisdictions. However, GAO noted that there is no agreed-upon definition or list and also noted that the jurisdictions on the three lists used have similar characteristics. Further, background for one list said that industry analysts recognize them as offshore tax haven or financial privacy jurisdictions and that they are promoted as such.