

Fiscal Paradise: Foreign Tax Havens and American Business

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James R. Hines, Jr., Eric M. Rice

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Abstract

The tax haven affiliates of American corporations account for more than 20 percent of U. S. foreign direct investment, and nearly a third of the foreign profits of U. S. firms. American companies report extraordinarily high profit rates on their tax haven investments in 1982. This behavior implies that the revenue-maximizing tax rate for a typical haven is around 5–8 percent. American (and foreign) investment in tax havens has an uncertain effect on U. S. tax revenue, but since low tax rates encourage American companies to shift profits out of high-tax foreign countries, it is possible that low foreign tax rates ultimately enhance U. S. tax collections.

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