The US as Tax Haven

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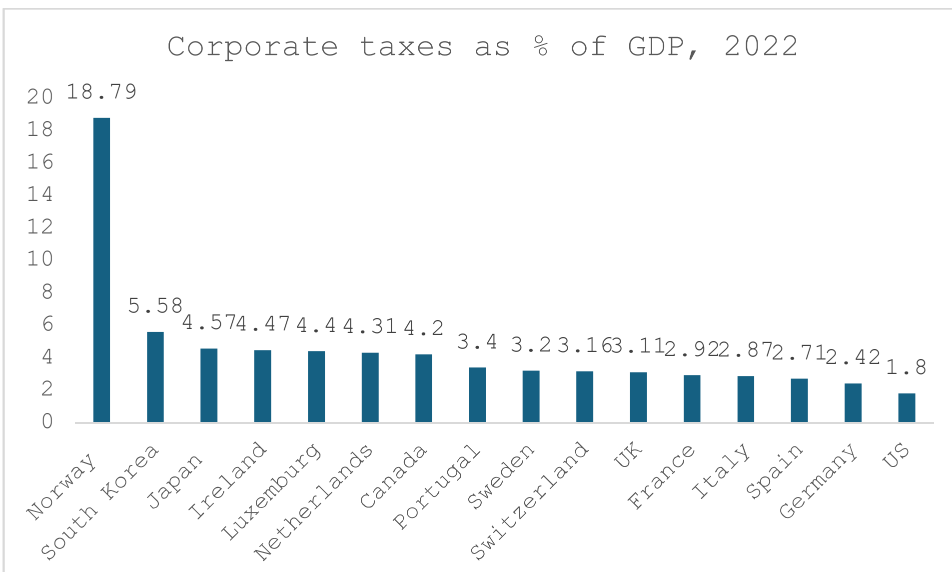
Now that US President Donald Trump's "Big, Beautiful" tax bill is going through the US Congress, it is worth looking how the US tax system actually works in terms of allowing people and companies to pay different rates of tax.

Let's consider corporate tax in particular. The 2017 Tax Cut and Jobs Act (TCJA) introduced by Trump 1 reduced the top US corporate tax rate from 35 to 21 per cent, which in turn meant that the average combined federal and state corporate tax rate declined from 38.9 to 25.8 per cent. By 2023, the top US corporate tax rate, was lower than that of all other leading economies in the G7 except the United Kingdom and slightly below the average rate for the 37 other OECD member countries.

As a result, by 2022, corporate taxes as a share of total income were the lowest in the US among comparator OECD high income countries, at only 1.8 per cent of GDP. (Figure 1)

Figure 1

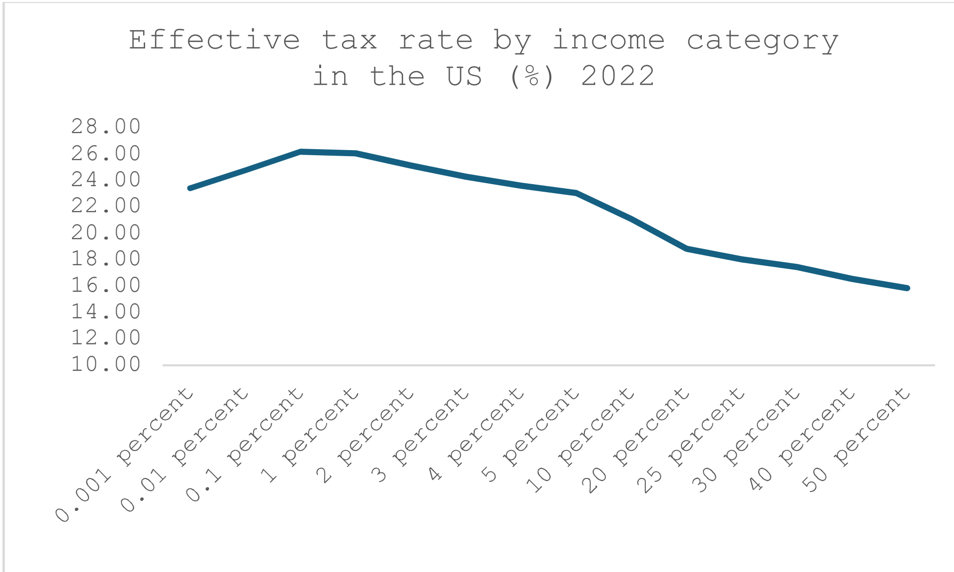


Source: https://www.irs.gov/statistics/soi-tax-stats-individual-statistical-tables-by-tax-rate-and-income-percentile

This is part of the reason that the richest people in the US end up paying lower effective tax rates than people in some of the lower income categories, because capital gains and dividends are either not taxed at all or taxed at a much lower rate. Figure 2 shows how this played out in 2022.

This is not just important for people in the US – it affects the rest of the world as well, because both companies and very rich people are able to shift their incomes and assets to jurisdictions that will allow them to pay much lower taxes (and in some cases no taxes at all).

Figure 2



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Most people think that tax havens are individual countries, typically small islands like Panama and Mauritius or city states like Dubai and Singapore, and indeed these do definitely rank among major tax havens. But some rich countries, including those loudly advocating the "rules-based global economic order", are either open tax havens (like Switzerland and Luxembourg, and to a lesser extent The Netherlands and Ireland (in Europe) or they indirectly control or directly contain tax havens.

The United Kingdom is in fact the worst offender among global tax havens, with its Crown Dependencies (Jersey, Guernsey and the Isle of Man) and seven of its still-extant 14 Overseas Territories (mostly in the Caribbean, including the British Virgin Islands, Cayman, Bermuda and Turks & Caicos.) The Corporate Tax Haven Index brought out by Tax Justice Network puts Great Britain at the very top of the list, because this combination of the laws and regulations in these jurisdictions that it controls, along with their position in the global economy and the direction of financial flows, combine to enable the greatest extent of corporate tax abuse by multinational corporations.

But the United States is not that far behind. One important reason for this is secrecy, which enables illicit financial flows to persist and even increase. The US is a major secrecy haven, offering banking secrecy at the federal level since it has refused to sign on to the Common Reporting Standards for the Automatic Exchange of Financial Account Information in Tax Matters of the OECD, which has been joined by 126 countries. Since the US Foreign Account Tax Compliance Act (FATCA) requires US citizens and permanent residents to declare all assets held abroad, this means the US government receives tax and asset information for such assets and income held abroad, but does not divulge information to other countries about assets and incomes held in the US by foreign residents.

But because the US has a federal tax system, which allows each state to levy its own taxes with associated rules, there are even tighter secrecy laws enabling secretive shell companies and opaque trusts in several states. Nevada, Delaware, South Dakota and Wyoming are typically cited as the most significant of these secrecy jurisdictions, which effectively enable money laundering and tax evasion by both corporations and individuals.

The state of Delaware (home of former US President and long-time Delaware Senator Joe Biden) is particularly attractive due to the combination of secrecy laws and low/no tax regime. In 2012, the journalist Leslie Waynejeune found that that a single address (1209 North Orange Street, Wilmington, Delaware) was listed as the headquarters of 285,000 separate businesses. Unsurprisingly, MNCs based in the US display a strong predilection for Delaware. For example, of the 8 major US subsidiaries of Walmart (currently the largest global MNC in terms of revenue), 6 are incorporated in Delaware. The other two are in Arkansas, which unlike many other states, does not aggregate the profits from a company's subsidiaries for state tax purposes, but only has a relatively low tax rate on corporate profits declared in that state. Similarly, the major subsidiaries of Amazon are in Delaware or Nevada in the US, or in Luxemburg and some jurisdictions in the UK.

This combination of federal and state laws and regulations has attracted wealth from all over the world, by corporations and individuals, for all sorts of reasons. As a result, the US is host to an estimated $5.6 trillion in trust and estate assets, which can evade detection by both domestic and foreign tax authorities. (Tax Justice Network 2025). In addition to secrecy jurisdictions, there are states in the US that levy no state income tax (Alaska, Florida, Nevada, South Dakota, Tennessee, Texas, Washington and Wyoming)

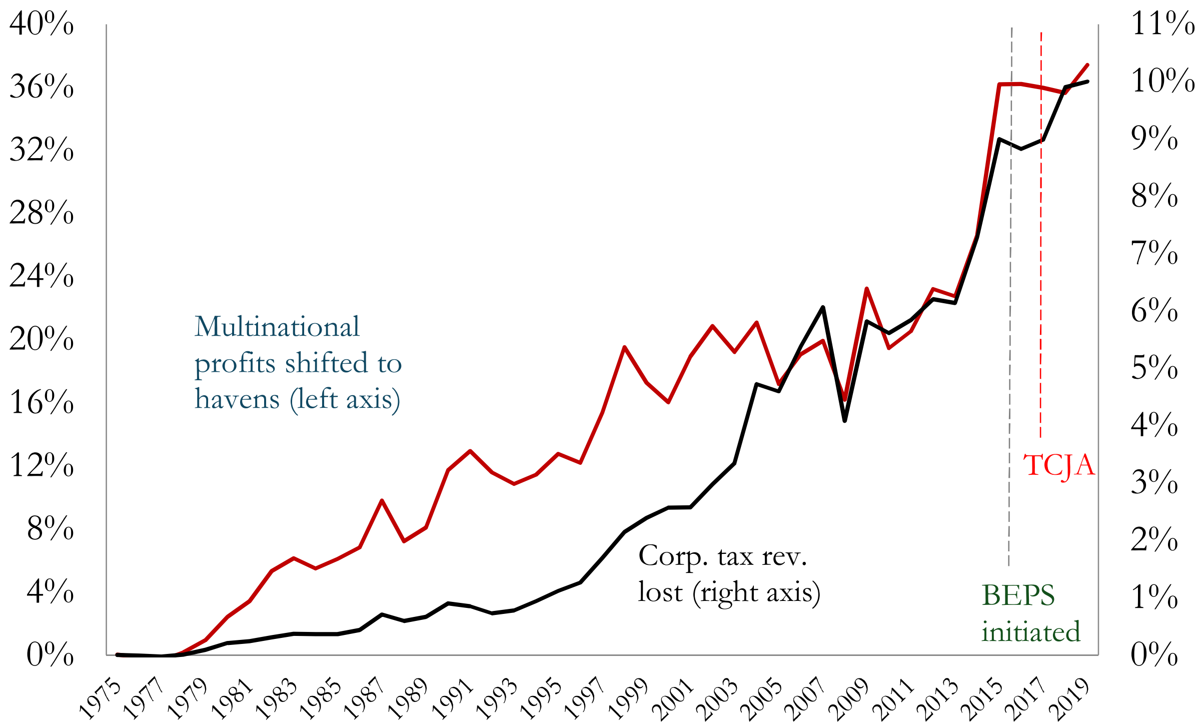
Since international taxation rules are still based on the archaic framework created a century ago, in which both multinational corporations and fragmented production resulting in value chains were less common, corporate taxation is still based on the arms-length principle, whereby each subsidiary of an MNC is treated as a separate entity for tax purposes. So multinational enterprises can reduce their tax burden by shifting their recorded profits to low tax or no tax jurisdictions.

Earlier, the standard means of doing this was the manipulation of transfer prices (at which goods and services are exchanged across subsidiaries). But the growing importance of intangible trade has enabled newer forms of such profit shifting, such as payments for the use of intellectual property rights, interest on inter-subsidiary loans, digital delivery of various services, etc.

This plays out through quite significant loss of potential corporate tax revenues for states—as Figure 3 indicates. The increase in such shifting has been dramatic, especially in the last decade, going up to around $1 trillion, more than one-third of corporate profits, in 2022 (Alstadsæter et al

2024). Correspondingly, tax losses as shares of all corporate tax revenues have also gone up with a marked increase since 2002, amounting to around one-tenth in the most recent year.

Figure 3: Multinational profits in tax havens and corporate tax lost



Source: https://www.taxobservatory.eu/publication/global-tax-evasion-report-2024/

The increasing trend towards aggressive "tax planning" by MNCs (most of which now have dedicated desks devoted to this) also affects cross-border trade and financial flows across subsidiaries of MNCs. Since around two-thirds of global trade in goods and services now involves MNCs, and around half of this is between MNCs, this in turn affects our knowledge and understanding of trade patterns as well.

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