

Offshore Deposits and Tax Policies



Varun Chotia, Prashant Sharma

Abstract: *The study aims to empirically analyze the relationship between Taxes and Offshore Deposits. A major issue in the present-day economic world has been the use of tax havens or formally called 'Offshore Deposits' by wealthy individuals and companies to evade tax. The prospect of the following study is to analyze what factors really lead to these deposits and whether reducing top income tax rate would be an effective mean to combat these tax evasions. In this paper, it is argued that in fact, tax rates alone are not a reason and when various countries divided in groups lead so several other significant determinants of tax evasion.*

Keywords: *Claims, Liabilities, Offshore deposits, Tax evasion*

I. INTRODUCTION

From a long time, discussions pertaining foreign and offshore deposits and their implications have been a burning topic in economic terms. The use of offshore deposits as tax havens by rich and wealthy individuals as well as firms and companies as a mean to tax evasion has been a matter of great concern. While tax evasion and offshore deposits have been researched and studies in great depth, the topic pertaining to reasons of these tax havens is what we hope to understand. Mainly the focus of this study sits on the evasion of personal and corporate tax through use of tax haven countries. Although the relationship between tax rates and tax evasion has been studied before, the dependency of one on another remains very ambiguous especially when seen from a country point of view with it being a developed or developing one. While some authors have found out that there is a positive association between the two [3], there are others who say that there might be a negative relation between the two.

In this study, the aim is to analyze the claims and liabilities offshore of various countries by first examining the nations individually and then grouping them into two major categories on the basis of their developing status. For developed category, the countries chosen are Switzerland, Germany, USA and Australia. For developing category, the countries chosen are India, China and South Africa.

It was found out that the average tax rate has very little negative and rather insignificant results for developing

countries and for developed and advanced economics it is insignificantly positive. In this analysis, an attempt has been done to provide some logical and conceptual work onto offshore deposits and tax havens and then the results and conclusions follow. The main aim of this paper is to suggest and formulate policies that could lead to getting the offshore deposits back to India which significantly includes the black money involved in humungous amounts and have no limit to. The current analysis has been done by the data provided by various countries pertaining to their claims and liabilities in offshore deposits collected by various banks.

There are various factors such as GDP, population, lending rates, deposit rates, exchange rates, Stock market indices etc. which come into play at par with the tax rates and will be discussed in further sections.

Data on the activities that take place in offshore financial centres are quite sparse, and mostly available only for the activities pertaining to banking. A few offshore centres report to the Bank for International Settlements (BIS) about their balance sheet positions. In particular, in this study, the interest point is to examine the non-bank liabilities reported by the banks in tax haven countries to the BIS, and then, using this data, the question that is being asked is—Are high tax rates responsible for the flow of funds to offshore centres?

The objectives of the study are as follows:

- Firstly, to implicate whether or not taxes lead to offshore deposits.
- If not taxes then which variables are most importantly to implying offshore deposits?
- Suggest policy measures to reduce tax evasion if any and bring back the unaccounted black money in offshore deposits.

There have been a lot of discussions about reducing the top marginal income tax rates. However, such a policy would not impact the flow of funds out of the country into offshore accounts, and would only end up increasing the divide between the rich and the poor. Thus, to combat tax evasion by wealthy individuals, there is a need for policy initiatives that do not focus solely on income tax rates, but also on other determinants of deposits in tax havens.

II. LITERATURE REVIEW

Tax evasion has been a topic of discussion several times in the past. From the level of individual tax evasion to companies trying to save money for taxes on a whole everything has been studied, but what we are interested is in cross border flows and deposits arising because of what generally is proclaimed tax benefits or rather tax evasion. There have been several papers that have discussed tax evasion.

Manuscript published on 30 September 2019

* Correspondence Author

Varun Chotia*, Assistant Professor, Economics, Jaipuria Institute of Management, Jaipur campus, Jaipur, Rajasthan, India. Email: varun.chotia@jaipuria.ac.in

Prashant Sharma, Assistant Professor, Finance, Jaipuria Institute of Management, Jaipur campus, Jaipur, Rajasthan, India. Email: prashant.sharma@jaipuria.ac.in

© The Authors. Published by Blue Eyes Intelligence Engineering and Sciences Publication (BEIESP). This is an [open access](https://creativecommons.org/licenses/by-nc-nd/4.0/) article under the CC-BY-NC-ND license <http://creativecommons.org/licenses/by-nc-nd/4.0/>

On an individual level, [1] have theoretically discussed by discussing the trade-off between reporting his actual income and declaring less than it. If he chooses to declare lesser, his payoff is dependent on whether the authorities investigate the case properly or not.

If he is not been looked into by the authorities then he is better off but in the latter case he is worse off. There is negative income effect and a positive substitution effect at counter to each other and thus the net impact of taxes stands ambiguous.

[4] have discussed the impact of tax policy on internationals deposits. Mainly non-bank international deposits are correlated to interest income and wealth taxes. The major impact of taxes was in 1999 after which only a part of the international flows is implicated due to taxes.

[8] gives a jetton to the Allingham model saying that the penalty is not on the undisclosed income but on the tax saved or tax evaded. Thus, there is no substitution effect mentioned and the tax rate has a clear negative relationship with income.

[7] in their paper on Competition and Tax Evasion empirically stated that the determinants of tax evasion are mainly Competition. Using data from the survey activities of World Bank, the authors stated that the business obstacles such as tax administration and unfair practices are mainly a reason for tax evasion through international or offshore deposits. They carried out the empirical analysis for industry and country-level effects focusing mainly quality of legal environment.

[3] said that the elasticity of not reported income with respect to the tax rates are positive and generally significant indicating a positive relationship between tax evasion and foreign deposits. But their model was far too simple to cater into the various factors that could lead to such deposits.

[9] studied the impact of institutions on cross-border bank lending, and finds a strong and robust relationship between institutions and foreign bank flows. They combined bank flows to up to 140 countries from the mid-eighties until 2002 with institutional proxies to study the impact of institutions on cross border bank lending. The authors employed both panels' fixed and cross-sectional models to do so.

[12] employ firm level data on tax reforms in 14 countries and find that tax reforms have an impact on investment patterns. The authors measured the effects of tax reforms on business investment using an extension of the tax adjusted model. They argued that tax reforms are natural experiments for measuring the responsiveness for investment to fundamentals affecting the net return to investing, since they represent discrete events with a large and discernible effect on the return to investment.

There has been a lot of discussion revolving around tax evasion by firms. [6] discuss the responsiveness of the treaty signed by the G20 for exchange of bank information and they make use of a BIS dataset on bilateral deposits. It was discovered by them that first of all, treaties have a statistically significant, but a relatively small, impact on bank deposits in tax havens. Secondly, they find that the treaties signed by tax havens lead to a relocation of deposits between tax havens. Empirically, they use a fixed effects regression, with country-pair fixed effects, and find a statistically significant impact of treaties on deposits in tax haven countries. We will be making the use of a similar dataset from BIS and several

other factors to make discussions on our topic of study.

A. Research Gaps

Most of the models discussed above are either too simple or do not take the necessary variables into consideration. In common a large number of studies discuss about the amount and level of deposit in the offshore countries but a more important discussion that pertains to this issue, is the determinants of those flows. Also, when discussing about determinants and variables, it has been observed that the same variables are used for all nations and accordingly the analysis is carried out. A better approach would be to divide the economies into emerging and developed and then carry out the proposed analysis for a better understanding. Further the bank secrecy also reduces the analysis of the discussed and including the portfolio and saving and expenditure decisions might yield better results.

B. Methodology & Data

The focus of this study is to analyze the role that top income rates in a country have to play in determining the flow of deposits to offshore financial centres.

C. Rationale for the Research

The main rationale for this research is to cater to the needs of an economy to obtain improved funds through taxes and to bring back all foreign deposits and more importantly black money deposits back to the respective economies so that they can be used for improving the economic and financial situation of a country. The rationale also involved bringing out and suggesting policy formulations so that the individuals and firms involved with the current day offshore transactions can benefit from investing this money in the resident countries. On a broader scale the aim also stands out to reduce tax evasion if any by the wealthy individuals so that respective governments have a better flow of funds through the taxes.

D. Research Objectives

The objectives of the study are as follows

- Firstly, to implicate whether or not taxes lead to offshore deposits.
- If not taxes, then which variables are most importantly to implying offshore deposits?
- Suggest policy measures to reduce tax evasion if any and bring back the unaccounted black money in offshore deposits.

There has been a lot of discussion about reducing the top marginal income tax rates. However, such a policy would not impact the flow of funds out of the country into offshore accounts, and would only end up increasing the divide between the rich and the poor. Thus, to combat tax evasion by wealthy individuals, there is a need for policy initiatives that do not focus solely on income tax rates, but also on other determinants of deposits in tax havens.

III. DATA SOURCES AND RESEARCH HYPOTHESIS

This study mainly revolves around offshore deposits and tax rates. The hypothesis of this research states that when studied on an individual level income tax rates would not be a significant factor in determining offshore deposits.

But on grouping the countries into the developing and developed category, the results would be different stating dependency in the latter.

A. Research Variables

The variables used in this paper are Liabilities/ Claims of a country against GDP per capita, Lending rates, Deposit rates, exchange rates and income/corporate tax rates. The data for the past 37 years i.e. from 1980-2017 for the variables specified below was collected and analyzed upon.

Liabilities/Claims

Liabilities are the deposits held by other countries in the Bank Country and are used in the analysis to discuss upon the impact of the Tax Haven Countries and act as a variable for them. Claims are the deposits the country in question as deposited in other Tax Haven countries.

GDP per Capita

GDP is one of the most important measures of standard of living. It can say a lot about the economy’s success. GDP per capita has been used as it is more useful when studying the economic situation of individuals.

Lending Rate

This is the rate charged for lending money by a financial institution. Lending rate has been used in this analysis because it plays an important role in determining the flow of currency through an economy. As increasing or decreasing the lending rates can further lead to several other economic variables being affected it is an important variable to include in the analysis and accounted for.

Deposit Rate

It is the rate paid by financial institutions to deposit account holders. This is one of the most important variables in this study against the tax rates as they play an important role in determining one’s future returns if all money kept aside with the banks.

Exchange Rate

To determine the purchasing power the use of exchange rate as a variable seems a must. Moreover, it also tells about the parity between countries and trade relations between boundaries as well.

Tax Rate

This is the most important variable of this as the whole analysis revolves around it. We are determined to study that tax rates play not a major but a minor role in determine the offshore deposits in so called tax haven countries and that other variables are well responsible for it too.

The data was collected from the secondary sources like World Bank, Organization for Economic Cooperation and Development (OECD), BIS Statistics explorer, trading economics, Economic Research Federal Reserve Bank of St. Louis.

IV. RESULTS AND DISCUSSION

A. Pooled Regression Analysis

In order to assess the impact of independent factors GDP per capita, lending rate, deposit rate, income tax rate and exchange rate on claims, the following pooled regression equation (1) is formed and tested.

$$Claims_{i,t} = \alpha_1 + \beta_1 GDPPC_{i,t} + \beta_2 LR_{i,t} + \beta_3 DR_{i,t} + \beta_4 ITR_{i,t} + \beta_5 ER_{i,t} + e_{i,t} \quad (1)$$

Where $GDPPC_{i,t}$ is GDP per capita measured in US\$ for 7 sample countries for 37 years, $LR_{i,t}$ is lending rate in percentage for 7 sample countries for 37 years, $DR_{i,t}$ is the deposit rate in percentage for 7 sample countries for 37 years, $ITR_{i,t}$ is income tax rate in percentage for 7 sample countries for 37 years and $ER_{i,t}$ is the exchange rate 7 sample countries for 37 years.

The results of the regression equation 1 are given in following table 1.

Parameter	Coefficients	t	Sig
(Constant)	-2.344**	-2.628	0.009
GDPPC	.505**	7.131	0.000
LR	-.182*	-2.327	0.021
DR	-0.142	-1.949	0.052
ITR	.258**	3.871	0.000
ER	.136*	2.352	0.019
Adjusted R-Square	0.642		
F-Statistics	28.551		
P-Value	0.000		

Not e: The sam ple is ann ual data fro m 198 0 to 201 7. *

shows the significance at 5% level of significance while ** shows the significance level at 1%.

From the table 1, it is evident that the value of measure of goodness of fit of the regression model (adjusted R^2) is 0.642. This suggests that the four independent variables (GDP per capita, lending rate, deposit rate, income tax rate and exchange rate) can explain 64.2% variation in the dependent variable (Claims). The table 1 also shows the value of ANOVA statistics (F-statistics) as 28.551 along with its significance value of 0.000. This suggests that the F-statistics is significant and the results are sufficient enough to reject the null hypothesis of $\beta_1 = \beta_2 = \beta_3 = \beta_4 = \beta_5 = 0$. This confirms that the model is good fit and correctly specified in its linear functional form.

After assessing the goodness of fit of the model, the estimated results of the model are also presented in table 1. From the results, it is evident that coefficients of five independent variables such as GDP per capita, lending rate, deposit rate, income tax rate and exchange rate are 0.505, -0.182, -0.142, 0.258 and 0.136 respectively. The respective p-values of these coefficients are 0.000, 0.021, 0.052, 0.000 and 0.019. These results suggest that the coefficients of GDP per capita and income tax rate are significant at 1% level of significance while the coefficients of lending rate and exchange rate are significant at 5% level of significance. Further, these significant coefficients are directing that with 1% change in the value of independent variables, the dependent variable (claims) is going to change by the percentage equals to its coefficient value and the direction of relationship will be defined with the sign of the independent significant coefficients of four variables GDP per capita, income tax rate, lending rate and exchange rate.



Thus in case of seven sample countries considered in pooled form, from the results, it can be concluded that variables such as GDP per capita, income tax rate, and exchange rate are having significant positive impact on the claims while the impact of lending rate is negative on the claims.

B. Analysis of Individual Sample Countries

The analysis of claims with respect to 7 individual countries USA, Australia (AUS), China, South Africa (SA), Germany (GM), Switzerland (Swiss) and India is presented below:

Analysis for USA

To assess the status of claims in USA, the following time series regression equation (2) is formed and tested. The results of same are reported in following table 2;

$$\text{Claims (USA)}_t = \alpha_1 + \beta_1 \text{GDPPC(USA)}_t + \beta_2 \text{LR(USA)}_t + \beta_3 \text{DR (USA)}_t + \beta_4 \text{ITR(USA)}_t + \beta_5 \text{ER(USA)}_t + e_t \quad (2)$$

From table 2, the results are suggesting that the coefficients of GDP per capita and lending rate are 1.102 and -0.355 with p-value of 0.000 and 0.001. This shows that the two coefficients are significant and having significant impact on the claims in USA. The variable GDP per capita is having significant positive impact on the claims while the variable leading rate is having significant positive impact on the claims. These results are consistent with the results of pooled analysis (as reported above). On the contrary to the pooled results, In USA, the variables exchange rate and income rates are not having significant impact on the claims.

Analysis for Australia

Further, the following time series regression equation 3 is formed and tested to assess the status of claims in Australia. The results of same are reported in following table 2;

$$\text{Claims (AUS)}_t = \alpha_1 + \beta_1 \text{GDPPC(AUS)}_t + \beta_2 \text{LR(AUS)}_t + \beta_3 \text{DR (AUS)}_t + \beta_4 \text{ITR(AUS)}_t + \beta_5 \text{ER(AUS)}_t + e_t \quad (3)$$

The results reported in table 2 are suggesting that the coefficients of GDP per capita, exchange rate and income tax rate are 1.133, 0.245 and -0.151 with respective p-values of 0.000, 0.003 and 0.000. This shows that the three coefficients are significant at 1% level of significance and having significant impact on the claims in Australia. The variables GDP per capita and income tax rate are having significant positive impact on the claims while the exchange rate is having significant negative impact on the claims. These results are consistent with the results of pooled analysis. The results related to GDP per capita and exchange rates are aligned with pooled regression results while the exchange rate is having significant negative impact on Claims in Australia.

Analysis for China

Additionally, in case of China, the following time series regression equation 4 is formed and tested. The results of same are reported in following table;

$$\text{Claims (CHINA)}_t = \alpha_1 + \beta_1 \text{GDPPC(CHINA)}_t + \beta_2 \text{LR(CHINA)}_t + \beta_3 \text{DR (CHINA)}_t + \beta_4 \text{ITR(CHINA)}_t + \beta_5 \text{ER(CHINA)}_t + e_t \quad (4)$$

The results (as reported in table 2) are clearly indicating that in case of China, the results are consistent as they were in case of Australia. The three variables GDP per capita,

exchange rate and income tax rate are having significant impact on the Claims. The only deviation is observed in case of exchange rate as the impact was negative in case of Australia while it is positive in case of China.

Analysis for South Africa

With respect to South Africa, the status of claims is assessed using following time series regression equation 5:

$$\text{Claims (SA)}_t = \alpha_1 + \beta_1 \text{GDPPC(SA)}_t + \beta_2 \text{LR(SA)}_t + \beta_3 \text{DR (SA)}_t + \beta_4 \text{ITR(SA)}_t + \beta_5 \text{ER(SA)}_t + e_t \quad (5)$$

The results of the same are reported in following table 2. The results are indicating that the variables GDP per capita, deposit rate and income tax rate are having significant impact on claims. The coefficients of these variables are 0.895, 0.418 and -0.216 with respective p-values of 0.000, 0.024 and 0.000. The impact of GDP per capita and deposit rate is significant on the claims while the same is negative in case of income tax rate in South Africa.

Analysis for Germany

In case of Germany, the following time series regression equation 6 is formed and tested to assess the status of claims.

$$\text{Claims (GM)}_t = \alpha_1 + \beta_1 \text{GDPPC(GM)}_t + \beta_2 \text{LR(GM)}_t + \beta_3 \text{DR (GM)}_t + \beta_4 \text{ITR(GM)}_t + \beta_5 \text{ER(GM)}_t + e_t \quad (6)$$

The results are suggesting (as reported in table 2), the variable GDP per capita and deposit rate in Germany are having significant impact on the claims in Germany. The coefficients of GDP per capita and deposit rate (1.123 and 0.328 with respective p-values of 0.000 and 0.000) are significant and positive at 1% level of significance. This confirms that there is significant positive impact of GDP per capita and deposit rate on claims in Germany.

Analysis for Switzerland

To assess the status of claims in Switzerland, the following time series regression equation is formed and tested. The results of same are reported in following table;

$$\text{Claims (SWISS)}_t = \alpha_1 + \beta_1 \text{GDPPC(SWISS)}_t + \beta_2 \text{LR(SWISS)}_t + \beta_3 \text{DR (SWISS)}_t + \beta_4 \text{ITR(SWISS)}_t + \beta_5 \text{ER(SWISS)}_t + e_t \quad (7)$$

The results (as reported in following table 2) are showing that the coefficients of two variables such as GDP per capita and lending rate are significant as these are having coefficients of 0.597 and -0.408 with respective p-value of 0.000 and 0.028. This clearly indicates that there is significant positive impact of GDP per capital on claims in Switzerland while the impact is negative in case of lending rates.

Analysis for India

$$\text{Claims (INDIA)}_t = \alpha_1 + \beta_1 \text{GDPPC(INDIA)}_t + \beta_2 \text{LR(INDIA)}_t + \beta_3 \text{DR (INDIA)}_t + \beta_4 \text{ITR(INDIA)}_t + \beta_5 \text{ER(INDIA)}_t + e_t \quad (8)$$

In case of India, the results of regression equation 8 are revealing that the GDP per capita and income tax rate is having significant impact on claims. The coefficient of GDP per capital is 0.932 with the p-value of 0.000 while the same for income tax rate is -0.111 with respective p-value of 0.006.

This shows that both the coefficients are significant at 1% level of significance and directs that there is significant positive impact of GDP per capital on claims in India while the impact in negative in case of income tax rates

Table 2: Results of Individual Countries

	Model	Coefficient	t	Sig
USA	(Constant)	-1.211**	-2.847	0.008
	GDP/capita (\$)	1.102**	13.683	0.000
	Lending Rate (%)	-.355**	-3.258	0.001
	Deposit Rate (%)	0.47	1.581	0.123
	Income tax (%)	0.074	1.086	0.285
	Adjusted R-Square	0.93		
	F-Statistics	123.496		
	p-value of F-Statistics	0.000		
Australia	(Constant)	-3.765**	-2.998	0.005
	GDP/capita (\$)	1.133**	13.050	0.000
	Lending Rate (%)	-0.044	-0.546	0.589
	Deposit Rate (%)	-0.01	-0.169	0.867
	Income tax (%)	.245**	3.260	0.003
	Exchange Rate/\$	-.151***	-4.021	0.000
	Adjusted R-Square	0.962		
	F-Statistics	190.283		
p-value of F-Statistics	0.000			
China	(Constant)	-1.989**	-3.442	0.002
	GDP/capita (\$)	1.518**	10.449	0.000
	Lending Rate (%)	0.074	0.322	0.750
	Deposit Rate (%)	0.137	0.553	0.584
	Income tax (%)	0.424**	3.316	0.002
	Exchange Rate/\$	-0.218*	-2.366	0.024
	Adjusted R-Square	0.913		
	F-Statistics	78.68		
p-value of F-Statistics	0.000			
South Africa	(Constant)	-0.075	1.900	0.066
	GDP/capita (\$)	0.895**	6.653	0.000
	Lending Rate (%)	-0.274	-1.533	0.135
	Deposit Rate (%)	0.418*	2.367	0.024
	Income tax (%)	-0.216**	-4.010	0.000
	Exchange Rate/\$	0.081	0.708	0.484
	Adjusted R-Square	0.909		
	F-Statistics	74.621		
p-value of F-Statistics	0.000			
Germany	(Constant)	-0.045	-1.548	0.131
	GDP/capita (\$)	1.123**	6.744	0.000
	Lending Rate (%)	-0.040	-0.633	0.532
	Deposit Rate (%)	0.328**	4.636	0.000
	Income tax (%)	-0.065	-0.439	0.663
	Exchange Rate/\$	-0.011	-0.244	0.809

Offshore Deposits and Tax Policies

	Adjusted R-Square	0.946		
	F-Statistics	129.418		
	p-value of F-Statistics	0.000		
Swiss	(Constant)	0.054	0.289	0.774
	GDP/capita (\$)	0.597**	3.903	0.000
	Lending Rate (%)	-0.408*	-2.298	0.028
	Deposit Rate (%)	0.054	0.340	0.736
	Income tax (%)	0.045	0.193	0.848
	Exchange Rate/\$	-0.034	-0.242	0.810
	Adjusted R-Square	0.784		
	F-Statistics	27.859		
	p-value of F-Statistics	0.000		
India	(Constant)	-0.033*	2.183	0.036
	GDP/capita (\$)	0.932**	13.554	0.000
	Lending Rate (%)	-0.019	-0.231	0.819
	Deposit Rate (%)	0.015	0.325	0.747
	Income tax (%)	-0.111**	-2.919	0.006
	Exchange Rate/\$	-0.010	-0.138	0.891
	Adjusted R-Square	0.975		
	F-Statistics	284.179		
	p-value of F-Statistics	0.000		

Note: The sample is annual data from 1980 to 2017. * shows the significance at 5% level of significance while ** shows the significance level at 1%.

V. CONCLUSIONS AND POLICY IMPLICATIONS

The study has been divided into several parts and the pooled regression leads us to positive results. The variables that have been taken into this study seem to completely identify the model. Firstly, analysis is carried out on the individual level of the countries separately for both the Claims and Liabilities. In case of Claims it is observed that for developing countries especially for India, it is clearly visible that GDP and deposit rate play a very important role in determining that claims. Secondly when we analyzed the data by the pooled analysis in Claims we can see for the advanced economies there is evidence that income tax rates in the years determine the deposits offshore and also the deposit rates playing a key role in the same but in the case of developing economies it is noticed that lending rates play an key role in emerging economies. When the similar study was carried out with the Liabilities, firstly several variables were removed due to stepwise backward elimination and the emerging variables in the case of most critically analyzed country i.e. Switzerland was their exchange rate stability and lending rates. As to greater profits are earned with better lending rates and greater stability of exchange rates, more and more deposits are tending towards Swiss banks. This insignificant relationship between income tax rates and international deposits to offshore countries has several policy implications. From the results which are obtained from this study, it is clear that reducing marginal income tax rates is not going to result in a decline in the outflow of funds to offshore financial centres, especially for developing countries. One other factor that plays a decisive role in developing nation like India, is the deposit rate and return on investments which is low as compared to other countries.

Indian markets also play a declaiming role in the support of deposits as several conditions are imposed onto trading in

India. Perhaps deposits to offshore countries are simply a way to move funds out of the country in order to be able to invest them in other financial instruments, and perhaps tax evasion is not the goal after all. In recent times, discussion about reducing the top marginal income tax rates are being discussed at the Fiscal Policy meetings. However, such a policy would not impact the flow of funds out of the country into offshore accounts, and would only end up increasing the divide between the rich and the poor. Thus, to combat tax evasion by wealthy individuals, there is a need for policy initiatives that do not focus solely on income tax rates, but also on other determinants of deposits in tax havens. Certain policy implications could be to give better return on Investments to deposits or investments above a particular level, so that the money can be used for future development of the nation.

REFERENCES

1. Allingham, M. G., & Sandmo, A. (1972). Income tax evasion: A theoretical analysis. *Journal of public economics*, 1(3-4), 323-338.
2. Bank for International Settlements. 1980–2017. Locational Banking Statistics: 3 External loans and deposits of banks in individual reporting countries. <http://www.bis.org/statistics/bankstats.html>
3. Clotfelter, C. T. (1983). Tax evasion and tax rates: An analysis of individual returns. *The review of economics and statistics*, 363-373.
4. Huizinga, H., & Nicodeme, G. (2001). Are international deposits tax-driven? (No. 152). Directorate-General for Economic and Financial Affairs, European Commission.
5. KPMG International. Individual Income Tax Rates Table. <https://home.kpmg.com/xx/en/home/services/tax/taxtools-and-resources/tax-rates-online/individual-income-tax-rates-table.html>
6. Johannesen, N., & Zucman, G. (2014). The end of bank secrecy? An evaluation of the G20 tax haven crackdown. *American Economic Journal: Economic Policy*, 6(1), 65-91.

7. McGuire, S. T., Omer, T. C., & Wang, D. (2012). Tax avoidance: Does tax-specific industry expertise make a difference?. *The Accounting Review*, 87(3), 975-1003.
8. Yitzhaki, S. (1974). Income tax evasion: A theoretical analysis. *Journal of public economics*, 3(2), 201-202.
9. Papaioannou, E. (2004, September). International Bank Flows: Determinants and Institutional Role. In *Money Macro and Finance (MMF) Research Group Conference 2004 (No. 28)*. Money Macro and Finance Research Group.
10. Organization for Economic Co-operation and Development (2010), OECD. Stat, <http://www.oecd.org/tax/taxpolicy/tax-database.htm>
11. Organization for Economic Co-operation and Development (2010), OECD. Stat. Table I.7. Top Statutory personal income tax rate and top marginal tax rates for employees”
12. Cummins, J. G., Hassett, K. A., & Hubbard, R. G. (1996). Tax reforms and investment: A cross-country comparison. *Journal of Public Economics*, 62(1), 237-273.
13. St Fred Economic Reserve <https://fred.stlouisfed.org/>

AUTHORS PROFILE



Varun Chotia is presently working as an Assistant Professor of Economics at the Jaipuria Institute of Management, Jaipur Campus, Jaipur, Rajasthan, India. Prior to this, he has worked at the LM Thapar School of Management, Thapar Institute of Engineering and Technology (Deemed to be a University). He has completed

his PhD in Economics from the Department of Economics and Finance, Birla Institute of Technology and Science, Pilani. Before coming into research, he has almost two years of corporate experience working as a business analyst in corporate firms like the IMS Health and Accenture Management Consulting. He has passed out from the BITS Pilani with a specialisation in MSc (hons.) in Economics. His principal research interests lie in the field of public infrastructure investment and its impact upon the economic growth of Indian economy taking into account the issue of fiscal sustainability. He is very much active in research and has authored a number of research papers in international and national journals. His other research interests include public finance, applied econometrics, public economics, development economics, macroeconomics, etc.



Prashant Sharma is currently working as Assistant Professor (Finance and Accounts) at Jaipuria Institute of Management Jaipur. Prior joining to Jaipuria Jaipur, he was associated with National Institute of Financial Management (An institute of Ministry of Finance, Government of India) as fulltime research fellow. He is a passionate researcher

and dedicated teacher having keen interest and expertise in the field of data analytics. He also has expertise on various computational tools such as R, SPSS, STATA, E-Views etc. Apart from data analytics, his grip is tight on asset pricing dynamics, corporate finance, capital markets and financial econometrics.