U.S. Firms on Foreign (tax) Holidays

Travis Chow
Singapore Management University

Jeffrey Hoopes
University of North Carolina at Chapel Hill

Edward Maydew
University of North Carolina at Chapel Hill

ABFER Annual Conference 2018

Tax havens get a lot of press

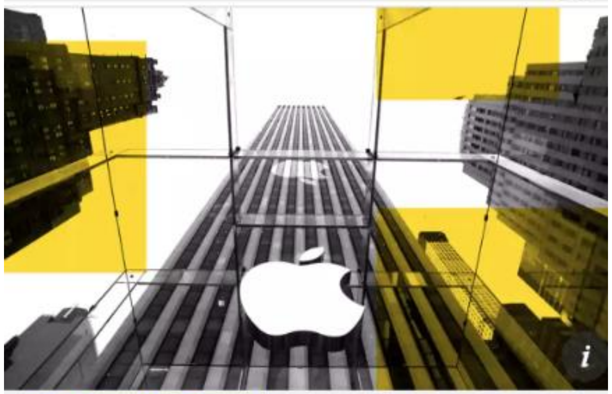
Forbes / Taxes / #TaxTime

How Google Saved $3.6 Billion Taxes From Paper 'Dutch Sandwich'

Support The Guardian

The Guardian

News | Opinion | Sport | Culture | Lifestyle



Paradise Papers

Apple secretly moved parts of empire to Jersey after row over tax affairs

Rearrangement allowed tech firm to keep paying ultra-low tax rate when Ireland tightened rules, Paradise Papers reveal

CRAIN'S CHICAGO BUSINESS

style & Dining | Real Estate | Special Reports | This Week's Crain's | Academy & Events | Advertise | People on the Move | Custom Features

Retail bankruptcies mean big business for this company

July 31, 2013

Abbott, Caterpillar among companies with most offshore tax-haven subsidiaries

THE AUSTRALIAN BUSINESS REV

NEWS | OPINION | BUSINESS REVIEW | NATIONAL AFFAIRS | SPORT | LIFE | TECH | ARTS

S&P ASX 200 -0.19% 5772.70 | AUD/USD +0.10% 0.76 | S&P 500 +0.23% 2429.01 | NIKKEI 225 +0.07% 20046.16 | FT -0.

FINANCIAL SERVICES

Big four accounting firms accused of secrecy over tax haven staffing

The English Channel tax haven of Jersey.

BUSINESSREPORT | COMPANIES | ECONOMY | ENERGY | MARKETS | ENTREPRENEU

EU Tax Law: No more Panama Tax Haven for EU

Business Report | 5 July 2017, 09:37am
Reuters

Tell a friend

European Union flags fly at half staff in front of EU headquarters in Brussels on Monday, June 19, 2017. The flags were lowered on Monday to show solidarity for the victims of deadly forest fires in Portugal. (AP Photo/Geert Vanden Wijngaert)

The European parliament on tuesday passed a directive requiring big multinationals to report tax and financial data separately in all countries where they operate, a measure aimed at tackling tax avoidance and profit shifting to countries with lower taxes. The new rules are part of a wider overhaul of tax regulation spurred by the so-called Panama Papers and other revelations of widespread tax avoidance by companies and wealthy individuals.

Academics hardly ignore them…

Journal of Public Economics

Volume 90, Issue 3, February 2006, Pages 513-531

ELSEVIER

The demand for tax haven operations ☆

Mihir A. Desai [a, d], C. Fritz Foley [b, d], James R. Hines Jr. [c, d]

Journal of Financial Economics

Volume 108, Issue 3, June 2013, Pages 751-772

ELSEVIER

Exploring the role Delaware plays as a domestic tax haven ☆

Scott D. Dyreng [a], Bradley P. Lindsey [b], Jacob R. Thornock [c]

Journal of Public Economics

Volume 93, Issues 9–10, October 2009, Pages 1058-1068

ELSEVIER

Which countries become tax havens? ☆

Dhammika Dharmapala [a, 1], James R. Hines Jr. [b]

Journal of Public Economics

Volume 93, Issues 11–12, December 2009, Pages 1261-1270

ELSEVIER

Tax competition with parasitic tax havens

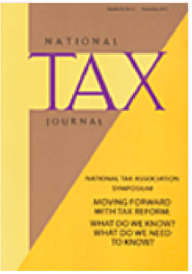
Joel Slemrod [a], John D. Wilson [b]

THE QUARTERLY JOURNAL OF ECONOMICS

Issues | JEL ▼ | More Content ▼ | Publish ▼ | Purchase | About ▼ | All The

Fiscal Paradise: Foreign Tax Havens and American Business*

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



JOURNAL ARTICLE

Tax Havens: International Tax Avoidance and Evasion

Jane G. Gravelle

National Tax Journal

Vol. 62, No. 4 (December, 2009), pp. 727-753

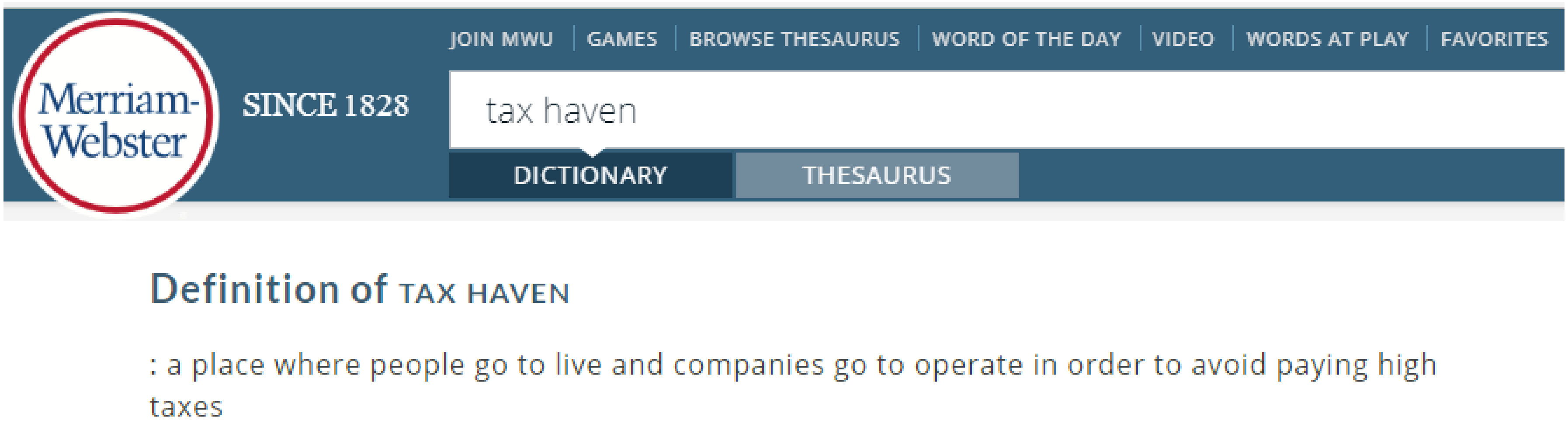
Journal of Accounting Research

Explore this journal >

Using Financial Accounting Data to Examine the Effect of Foreign Operations Located in Tax Havens and Other Countries on U.S. Multinational Firms' Tax Rates

SCOTT D. DYRENG, BRADLEY P. LINDSEY

Tax Haven


Merriam-Webster
SINCE 1828
JOIN MWU
GAMES
BROWSE THESAURUS
WORD OF THE DAY
VIDEO
WORDS AT PLAY
FAVORITES
tax haven
DICTIONARY
THESAURUS
Definition of TAX HAVEN
: a place where people go to live and companies go to operate in order to avoid paying high taxes

Tax Haven?

0% rate in Korea in 2013, 2014, 2015

Tax Holiday

Merriam-Webster SINCE 1828

JOIN MWU | GAMES | BROWSE THESAURUS | WORD OF THE DAY | VIDEO | WORDS AT PLAY | FAVORITES

tax holiday

DICTIONARY | THESAURUS

"tax holiday"

The word you've entered isn't in the dictionary. Click on a spelling suggestion below or try again using the search bar above.

Tax Holiday

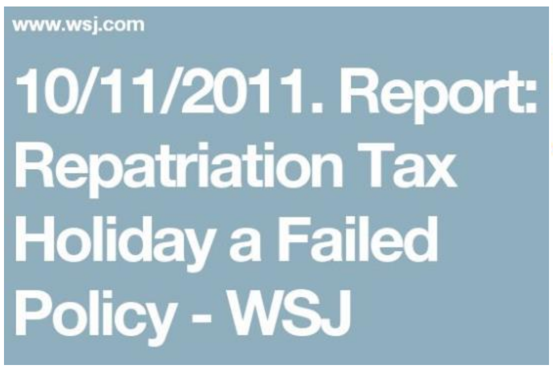
Tax holiday

From Wikipedia, the free encyclopedia

A **tax holiday** is a temporary reduction or elimination of a tax.

Tax Holidays

- There are many things referred to as “tax holidays”
  - Sales tax holidays (back to school, second amendment, etc.)
  - Property tax holidays offered by municipalities and states
  - Repatriation tax holiday offered by US in 2004



Tax holidays in this paper

- Special corporate tax rates, depreciation schedules, etc., used by governments to incent foreign companies to invest
- Can target specific types of investment, specific geographic regions of the country
- Are generally of limited duration (sometimes with a phase-out), and, in some instances, firms can reapply
- Prior literature mostly focuses on FDI, user cost of capital, economic growth, etc., as a result of these holidays
  - Some of this literature is analytical, some uses country-level data
  - None (that we know of) use the population of public firm-level data

Examples - India

Tax incentives for undertakings other than infrastructure development undertakings

New industrial undertakings located in 'backward' states and districts notified as such are entitled to full tax exemption of profits for the first three or five years of operation, followed by a partial tax exemption of 30% of profits for the next five years. The list of 'backward' districts has been categorised into category A and category B districts, depending upon the current level of infrastructure development in those areas. The initial tax holiday period is five years in the case of category A districts and three years in the case of category B districts. A similar incentive is also applicable for hotels satisfying prescribed conditions.

Example - Malaysia

Pioneer status (PS) and investment tax allowance (ITA)
Companies in the manufacturing, agricultural, hotel, and tourism sectors, or any other industrial or commercial sector, that participate in a promoted activity or produce a promoted product may be eligible for either PS or an ITA.

PS is given by way of exemption from CIT on 70% of the statutory income for five years and the remaining 30% is taxed at the prevailing CIT rate. An ITA is granted on 60% qualifying capital expenditure incurred for a period of five years to be utilised against 70% of the statutory income, while the 30% balance is taxed at the prevailing CIT rate.

A company that intends to undertake reinvestment before expiration of its PS or ITA status may opt for reinvestment allowance, provided it surrenders its PS or ITA status.

Example - Singapore

Singapore Economic Development Board ("EDB")
www.edb.gov.sg

PIONEER CERTIFICATE INCENTIVE AND DEVELOPMENT AND EXPANSION INCENTIVE

The Pioneer Certificate Incentive (PC) and the Development and Expansion Incentive (DEI) are aimed at encouraging companies to grow capabilities and conduct new or expanded activities in Singapore.

Companies that carry out global or regional headquarters (HQ) activities of managing, coordinating and controlling business activities for a group of companies may also apply for the PC or DEI for the HQ activities.

1. Overview of the Incentive

1.1 An approved company under the PC or DEI is eligible for a corporate tax exemption or a concessionary tax rate of 5% or 10%, respectively, on income derived from qualifying activities.

1.2 The incentive period is limited to five years. Extension of the incentive may be considered, subject to the company's commitment to undertake further expansion plans.

1.3 The company is required to maintain a separate account in respect of any non-qualifying activity undertaken during the incentive period. The income from the non-qualifying activity is not eligible for the incentive.

Primary Research Objectives

- Introduce to the literature the first large-sample evidence on foreign tax holiday participation by U.S. companies
- What kind of countries offer tax holidays
- The use of tax holidays by U.S. firms over time
  - Has tax holiday use increased since AJCA 2004?
  - What kind of firms use tax holidays?
- Provide estimates that quantify the effect of foreign tax holiday participation on U.S. firms' cash tax savings and financial reporting of tax expense.
  - the share of foreign tax relief that eventually flows back to the U.S. Treasury under the worldwide tax system

Data

- We use a perl script to extract thousands of instances of possible firm disclosure about tax holidays and hired RAs to help sort through the disclosures

- We find over 1,700 firm-year observations disclosing tax holidays from the population of US multinationals between 1995-2013

Examples of Disclosures

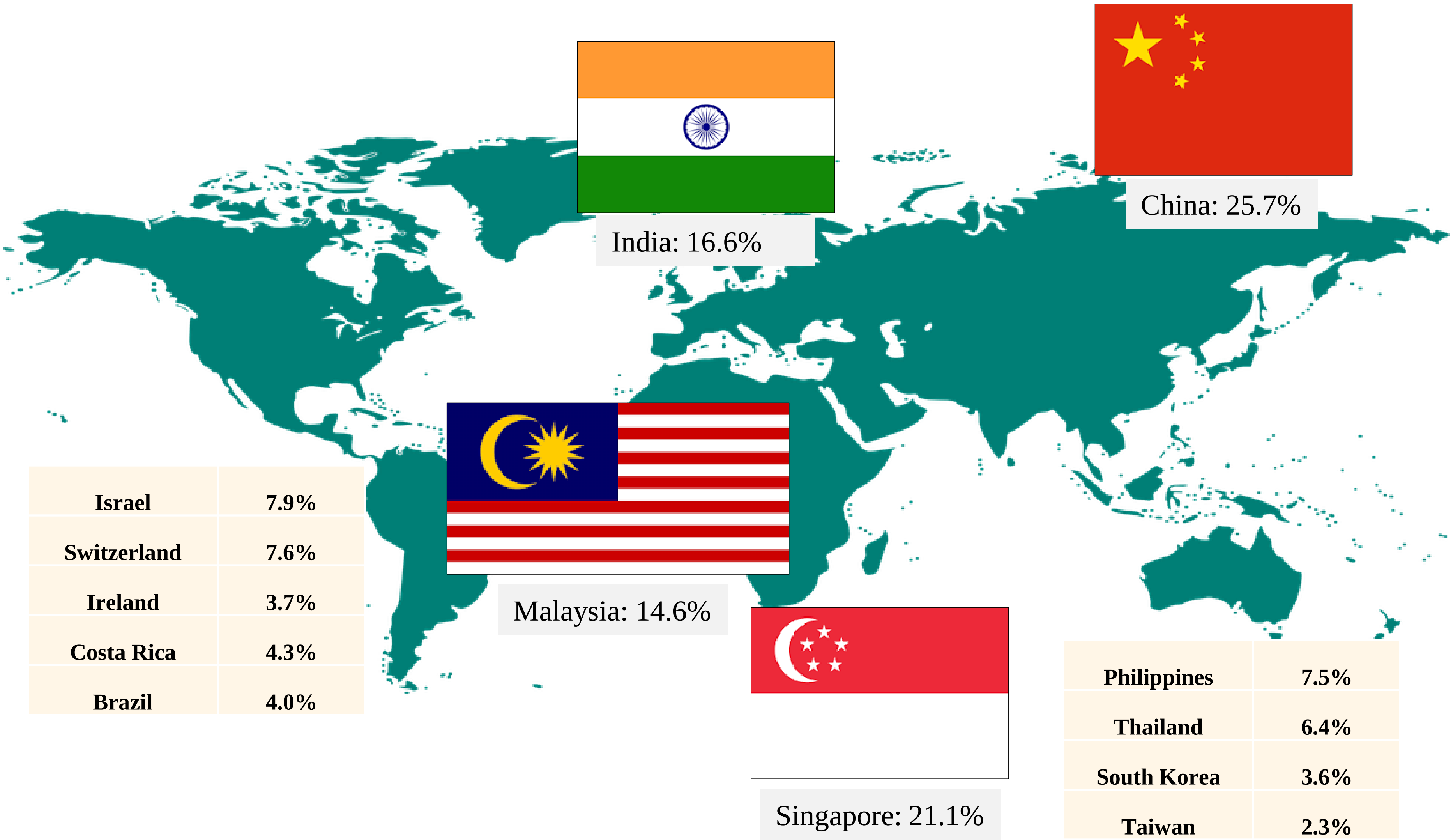
- The earnings from our foreign operations in India are subject to a tax holiday from a grant effective through March 31, 2009. The tax holiday provides for **zero percent** taxation on certain classes of income and requires certain conditions to be met. We are in compliance with these conditions as of December 31, 2007

- The 2005 effective tax rate reflected a benefit of approximately .5% attributable to the Domestic Production Activities Deduction and a **one-time benefit for a China tax holiday** of approximately 1.0%.

- We currently benefit from income tax holiday incentives in the Philippines in accordance with our subsidiary's registrations with the Board of Investments and Philippine Economic Zone Authority, which provide that we pay no income tax in the Philippines for four years under our Board of Investments non-pioneer status and Philippine Economic Zone Authority registrations, and six years under our Board of Investments pioneer status registration. Our current income tax holidays **expire in 2010**, and we intend to apply for extensions. **However, these tax holidays may or may not be extended**.

- The Company has been granted tax holidays **in several jurisdictions including China, Thailand and Bangladesh**. The tax holidays expire between 2008 and 2015. These tax holidays reduced the Company's consolidated effective tax rate on continuing operations **by less than 1% in both 2007 and 2006**.

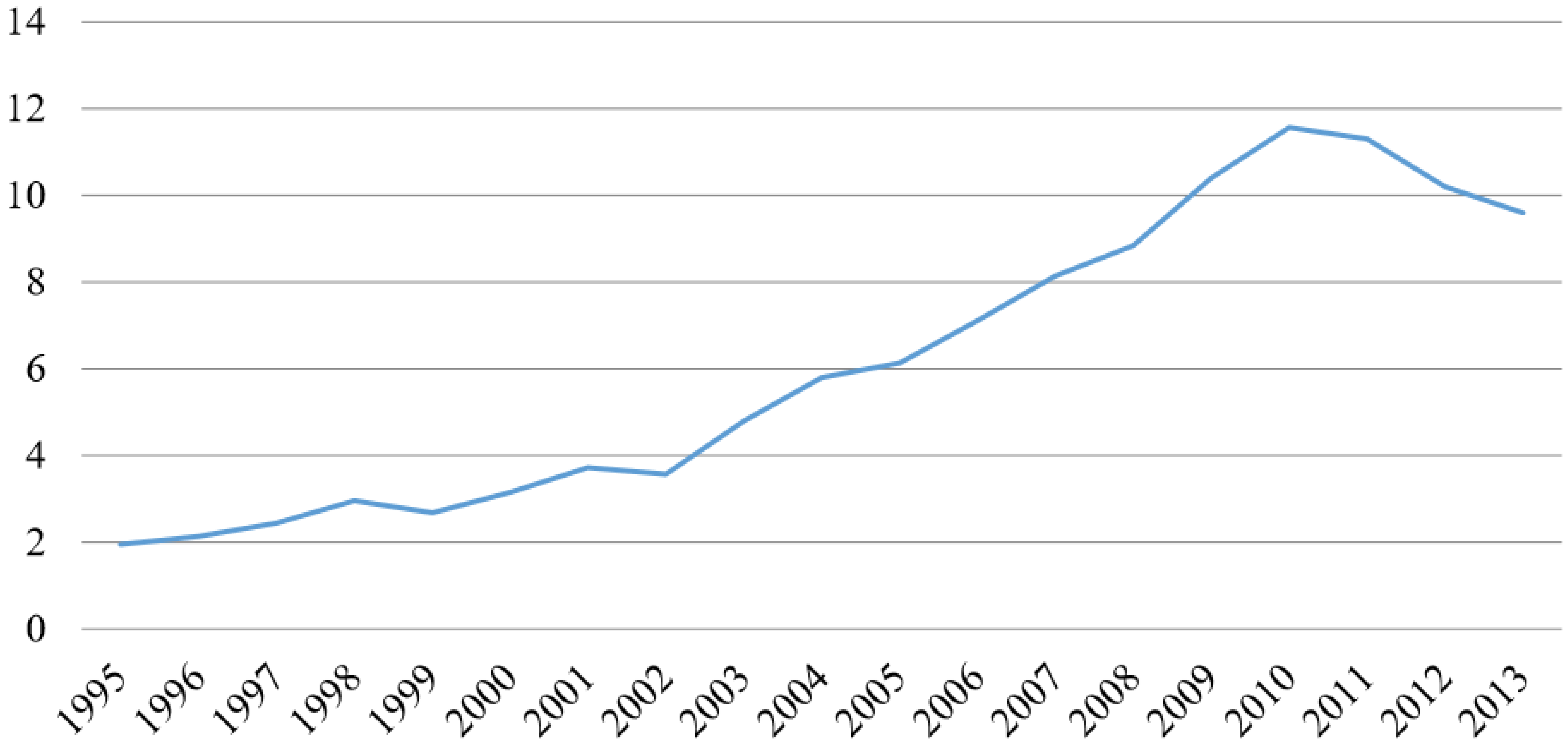
Distribution of holiday firm-years: major players



Israel	**7.9%**
Switzerland	**7.6%**
Ireland	**3.7%**
Costa Rica	**4.3%**
Brazil	**4.0%**

Philippines	**7.5%**
Thailand	**6.4%**
South Korea	**3.6%**
Taiwan	**2.3%**
Vietnam	**1.7%**

Percentage of Firms with Foreign Tax Holidays over Time, 1995-2013



What kind of countries offer tax holidays?

Variables:	*TAX HOLIDAY*
TAX HAVEN	0.004
	(0.098)
CORP TAX RATE	-0.235
	(0.152)
ISLAND	-0.001
	(0.075)
UK LEGAL ORIGIN	-0.004
	(0.082)
LANDLOCKED	0.034
	(0.057)
ENGLISH	0.046
	0.090)
UN MEMBER STATE	0.040
	(0.120)
LN_AREA	-0.040***
	(0.015)
LN_POPULATION	0.103***
	(0.028)
LN_GDP_PER_CAPITA	0.019
	(0.023)
POLITICAL STABILITY	0.001
	(0.002)
REGULATORY QUALITY	0.003
	(0.002)
CORRUPTION	-0.002
	(0.002)
N	177
Adjusted R^2	0.197

Has tax holiday use increased since 2004?

- In a worldwide tax system, tax holidays provide no economic benefit to firms under certain assumptions (Hartman 1985)
  - Constant repatriation costs
  - Eventual repatriation

- AJCA 2004 decreased the repatriation cost substantially, violating one of the Hartman assumptions (constant tax rates)

- If firms anticipate another repatriation tax holiday, they should be even more eager to engage in foreign income tax holidays

Firm-level Characteristics and Foreign Tax Holiday

Variables:	(1) *HOLIDAYYEAR*	(2) *HOLIDAYYEAR*
POST2004	-0.011	-0.007
	(0.015)	(0.015)
TREND	0.003***	0.003***
	(0.001)	(0.001)
POST2004×TREND	0.003**	0.002*
	(0.001)	(0.001)
HAVENYEAR		0.033***
		(0.003)
LNAT		0.011***
		(0.001)
ROA_PIDOM		-0.035***
		(0.010)
ROA_PIFO		0.323***
		(0.034)
XRD		-0.062**
		(0.024)
INTAN		-0.062***
		(0.007)
PPENT		0.017**
		(0.007)
WORDCOUNT10K		0.001
		(0.002)

How do tax holidays affect ETRs?

- We care about magnitudes
  - Especially relative to other factors

ETR effect under the US Worldwide System

Firm earns $100 in Singapore, with 5% tax provided by a holiday, and has 35% US tax rate

Example	**Singapore cash tax**	**US cash tax**	**Tax expense**
Pure worldwide system	$5	$35	$40
US Worldwide (foreign tax credit)	$5	$30	$35

ETR effect under the US Worldwide System

Firm earns $100 in Singapore, with 5% tax provided by a holiday, and has 35% US tax rate

Example	Singapore cash tax	US cash tax	Tax expense
~~Pure worldwide system~~	~~$5~~	~~$35~~	~~$40~~
US Worldwide (foreign tax credit)	$5	$30	$35
US Worldwide (foreign tax credit and no repatriation)	$5	$0 (this year) $30 (upon repatriation)	$35
US Worldwide (foreign tax credit, no repatriation, PRE designation)	$5	$0 (this year) $30 (upon repatriation)	$5 (this year)

Large, medium

INCOME TAX RATE RECONCILIATION

	Fiscal Years Ended the Last Day of February,		
	2017	**2016**	**2015**
Effective income tax rate at the U.S. statutory rate	**35.0 %**	35.0 %	35.0 %
Impact of U.S. state income taxes	**0.3 %**	0.5 %	0.6 %
Effect of zero tax rate in Macau	**(20.9)%**	(19.3)%	(12.4)%
Effect of statutory tax rate in Barbados	**(7.6)%**	(6.8)%	(11.7)%
Effect of statutory tax rate in Switzerland	**(3.8)%**	(5.7)%	(2.9)%
Effect of income from other non-U.S. operations subject to varying rates	**2.2 %**	4.1 %	0.9 %
Effect of foreign exchange fluctuations	**0.5 %**	3.3 %	0.4 %
Effect of asset impairment charges	**0.4 %**	1.1 %	1.6 %
Other Items	**0.0 %**	3.3 %	(0.6)%
Effective income tax rate	**6.1 %**	15.5 %	10.9 %

	Years ended December 31,		
	2011	2012	2013
PRC statutory enterprise income tax rate	25.0%	25.0%	25.0%
Different tax rates in other jurisdictions	1.2%	(0.5)%	(3.3)%
Other non-deductible expense for tax purposes	(0.1)%	(0.2)%	(5.3)%
Effect of tax holiday	(4.9)%	(5.2)%	(5.5)%
Effect of future tax rate change	(1.6)%	7.8%	8.3%
50% additional deduction of R&D expense	0.8%	0.7%	1.2%
Change in valuation allowance	(3.4)%	(41.1)%	(23.5)%
Others	(0.9)%	(0.4)%	0.9%
	16.1%	(13.9)%	(2.2)%

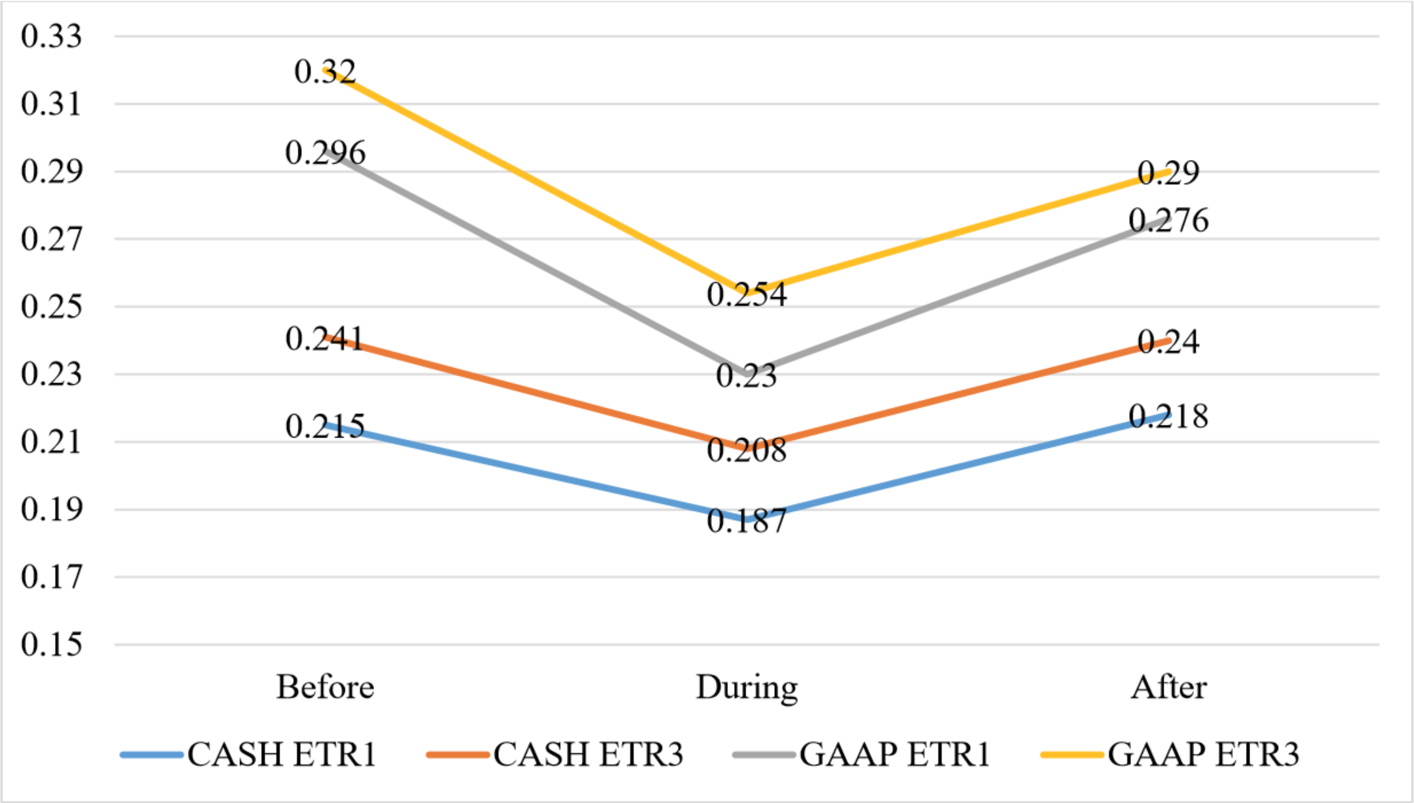
The Association between Foreign Tax Holidays and Tax Rates for U.S. Firms

Variables:	(1) *CASH ETR*	(2) *GAAP ETR*	(3) *CASH ETR*	(4) *GAAP ETR*
HOLIDAYYEAR	-0.024***	-0.045***	-0.022***	-0.024***
	(0.006)	(0.004)	(0.008)	(0.008)
HOLIDAYFIRM	-0.013***	-0.020***		
	(0.004)	(0.003)		
HAVENYEAR	0.001	-0.011***	-0.002	-0.009**
	(0.003)	(0.002)	(0.005)	(0.004)
HAVENFIRM	0.015***	0.001		
	(0.004)	(0.003)		
Fixed Effects	Industry + Year	Industry + Year	Firm + Year	Firm + Year
N	17,213	17,821	16,689	17,293
Adj. R^2	0.119	0.257	0.237	0.266

What happens after a holiday?

- Do tax rates come back up to baseline after a holiday?
  - If the investment of the firm has shifted, we might see post-holiday changes in tax rates, as the holiday induced an investment shift

- Mean Effective Tax Rates Before, During, and After Foreign Tax Holidays



How do tax holidays changes taxes over the long run?

- If firms eventually repatriate earnings from holiday countries, it is unclear how taxes (on foreign income) will be affected
  - As long as holidays are material, we expect to see foreign taxes on foreign income to decrease
  - Domestic taxes on foreign income may increase if not all income is PRE, and as repatriations are eventually made, we expect domestic taxes on foreign income to increase
  - Total taxes on foreign income over the long term depends on how large the magnitudes of the two previous effects

- Over the very long run, in theory, all earnings have to be repatriated (the firm must liquidate)

Foreign Tax Holidays and ***Foreign*** Taxes in the Short and Long Run

Variables:	(1) *TXFO*	(2) *ΣTXFO*	(3) *ΣTXFO*
Summation window:	*Annual*	*Over 5 years*	*Throughout the firm's sample period*
ΣPIDOM	0.005***	0.002	0.003
	(0.001)	(0.002)	(0.002)
ΣPIFO	0.247***	0.231***	0.247***
	(0.002)	(0.002)	(0.003)
Σ(*PIDOM×HOLIDAYYEAR*)	0.009***	0.009	0.005
	(0.002)	(0.007)	(0.005)
Σ(*PIFO×HOLIDAYYEAR*)	-0.076***	-0.041***	-0.111***
	(0.003)	(0.006)	(0.007)
Σ(*PIDOM×HOLIDAYFIRM*)	0.001	0.001	0.005
	(0.001)	(0.002)	(0.003)
Σ(*PIFO×HOLIDAYFIRM*)	-0.024***	-0.047***	0.026***
	(0.002)	(0.005)	(0.005)
PI×CONTROLS	Included	Included	Included
Fixed Effects	Industry + Year	Industry + Year	Industry + Year
N	14,178	2,886	2,341
Adjusted R^2	0.846	0.923	0.952

Foreign Tax Holidays and U.S. Taxes in the Short and Long Run

Variables:	(1) *TXFED*	(2) *ΣTXFED*	(3) *ΣTXFED*
Summation window:	*Annual*	*Over 5 years*	*Throughout the firm's sample period*
ΣPIDOM	0.333***	0.375***	0.356***
	(0.003)	(0.004)	(0.005)
ΣPIFO	0.053***	0.050***	0.046***
	(0.004)	(0.006)	(0.006)
Σ(*PIDOM×HOLIDAYYEAR*)	-0.035***	-0.013	-0.011
	(0.008)	(0.009)	(0.012)
Σ(*PIFO×HOLIDAYYEAR*)	0.016**	0.028*	0.059***
	(0.007)	(0.016)	(0.015)
Σ(*PIDOM×HOLIDAYFIRM*)	-0.003	-0.005	0.007
	(0.003)	(0.006)	(0.007)
Σ(*PIFO×HOLIDAYFIRM*)	-0.001	-0.012	-0.027**
	(0.005)	(0.013)	(0.011)
PI×CONTROLS	Included	Included	Included
Fixed Effects	Industry + Year	Industry + Year	Industry + Year
N	14,177	2,886	2,341
Adjusted R^2	0.839	0.930	0.941

Foreign Tax Holidays and ***Worldwide*** Taxes in the Short and Long Run

Variables:	(1) *TXWW*	(2) Σ*TXWW*	(3) Σ*TXWW*
Summation window:	*Annual*	*Over 5 years*	*Throughout the firm's sample period*
Σ*PIDOM*	0.399***	0.382***	0.368***
	(0.003)	(0.005)	(0.005)
Σ*PIFO*	0.322***	0.282***	0.266***
	(0.004)	(0.007)	(0.007)
Σ(*PIDOM*×*HOLIDAYYEAR*)	0.009	0.008	-0.021
	(0.006)	(0.010)	(0.014)
Σ(*PIFO*×*HOLIDAYYEAR*)	-0.070***	-0.120***	-0.038**
	(0.008)	(0.017)	(0.018)
Σ(*PIDOM*×*HOLIDAYFIRM*)	-0.011**	-0.009	0.004
	(0.004)	(0.007)	(0.008)
Σ(*PIFO*×*HOLIDAYFIRM*)	-0.013*	0.025*	0.009
	(0.007)	(0.014)	(0.013)
PI×*CONTROLS*	Included	Included	Included
Fixed Effects	Industry + Year	Industry + Year	Industry + Year
N	14,370	2,887	2,341
Adjusted R^2	0.845	0.941	0.947

Indefinitely Reinvested Earnings

- For total tax expense to decrease, firms must be designating some of the earnings as PRE.

  - While it would be strange for PRE not to increase in tax holiday situations, given our previous evidence, we nevertheless verify that it does

Changes in Permanently Reinvested Earnings and Tax Holidays

Variables	(1) ΔPRE	(2) ΔPRE
PIFO	0.461***	0.528***
	(0.007)	(0.026)
PIFO×HOLIDAYYEAR	0.095***	0.098***
	(0.036)	(0.035)
PIFO×HOLIDAYFIRM	0.110***	0.105***
	(0.023)	(0.024)
HOLIDAYYEAR	-0.001	-0.001
	(0.002)	(0.002)
HOLIDAYFIRM	-0.001	-0.001
	(0.002)	(0.002)
PIFO×HAVENYEAR		0.144***
		(0.024)
PIFO×HAVENFIRM		-0.198***
		(0.036)
HAVENYEAR		-0.000
		(0.001)
HAVENFIRM		0.003*

Conclusion

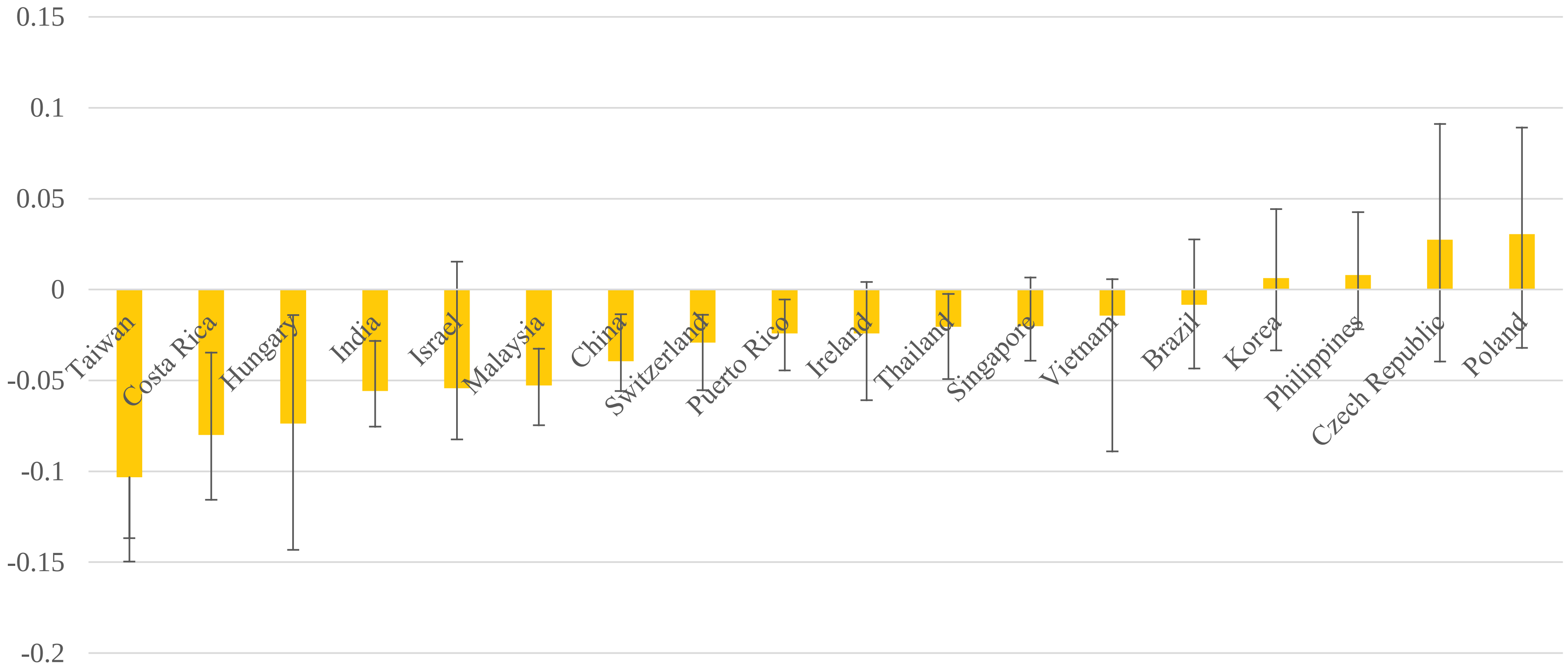
- Tax holiday use has been increasing, especially since 2004
- Tax holidays are associated with substantial reductions in ETRs (even more so than having a tax haven subsidiary)
  - Very large effect for something hitherto ignored in the literature
- Tax holidays are associated with additional federal taxes being paid on foreign income in the future over all time spans, decreased foreign taxes on foreign income over all time spans, and these two net to a reduction in tax expense over all time spans
- Tax holidays are associated increases in PRE

Thanks!

Example – Singapore and Malaysia

…we have obtained several tax incentives from the Singapore Economic Development Board, an agency of the Government of **Singapore**, which provide that certain classes of income we earn in Singapore are subject to tax holidays or reduced rates of Singapore income tax. In order to retain these tax benefits in Singapore, we must meet certain operating conditions specific to each incentive relating to, among other things, **maintenance of a treasury function, a corporate headquarters function, specified IP activities and specified manufacturing activities in Singapore**. Some of these operating conditions are subject to phase-in periods through 2015. The Singapore tax incentives are **presently scheduled to expire** at various dates generally between **2015 and 2025**. **Renewals and extensions** of such tax incentives are in the discretion of the Singapore government, and we may not be able to extend these tax incentive arrangements after their expiration on similar terms or at all. We may also elect not to seek to renew or extend certain tax incentive arrangements. In February 2010, the **Malaysian** government granted us a tax holiday on our qualifying Malaysian income, which is effective for **10 years** beginning with our fiscal year 2009. The tax incentives that we have negotiated in Malaysia **and other jurisdictions** are also subject to our compliance with various operating and other conditions. If we cannot, or elect not to, comply with the operating conditions included in any particular tax incentive, we will lose the related tax benefits…. **For fiscal years 2014, 2013 and 2012, the effect of all these tax incentives, in the aggregate, was to reduce the overall provision for income taxes by approximately $99 million, $77 million, and $81 million, respectively, and increase diluted net income per share by $0.37, $0.31 and $0.33, respectively.**

Effects on ETR by holiday countries



Which countries become tax havens?

Journal of Public Economics 93 (2009) 1058–1068

Contents lists available at ScienceDirect

Journal of Public Economics

journal homepage: www.elsevier.com/locate/jpube

Which countries become tax havens?☆

Dhammika Dharmapala [a,1], James R. Hines Jr. [b,*]

[a] Department of Economics, University of Connecticut, 341 Mansfield Rd., U-1063, Storrs, CT 06269-1063, United States
[b] Department of Economics, University of Michigan, 343 Lorch Hall, 611 Tappan Street, Ann Arbor, MI 48109-1220, United States

Table 2
Determinants of tax haven status — probit estimates.

	(1) All countries and territories	(2) UN members	(3) Non-African countries and territories	(4) Countries and territories with GDP per capita ≥ $1000	(5) Small countries and territories
	Dependent variable: indicator for tax haven status (=1 for tax havens)				
Governance index	0.668 (0.275)**	0.667 (0.303)**	0.746 (0.325)**	0.716 (0.283)**	0.908 (0.513)*
Log of GDP per capita	0.186 (0.174)	0.178 (0.186)	0.105 (0.233)	0.119 (0.194)	0.156 (0.217)
Log of population	−0.354 (0.064)***	−0.389 (0.069)***	−0.358 (0.067)***	−0.353 (0.064)***	−0.114 (0.158)
UN member (=1)	0.482 (0.455)		0.484 (0.445)	0.473 (0.458)	0.809 (0.506)
Landlocked (=1)	0.159 (0.396)	0.182 (0.425)	0.306 (0.460)	0.147 (0.395)	−0.007 (0.777)
Distance by air	−0.190 (0.077)**	−0.215 (0.087)**	−0.146 (0.075)*	−0.194 (0.076)**	−0.050 (0.117)
Regional dummies?	Y	Y	Y	Y	Y
Observations	208	190	163	191	56
Maximized log pseudo likelihood	−50.92	−39.63	−48.54	−50.45	−28.70
Pseudo R^2	0.43	0.46	0.40	0.42	0.25

Note: This table reports estimated coefficients from probit models, in which the dependent variable equals one for tax havens, and zero otherwise. The sample of countries used in the regression reported in column five consists of countries with populations below one million in 2004. The governance index is the mean of 5 governance measures constructed by Kaufmann et al. (2005), taking values roughly in the (−2.5, 2.5) interval, with a zero mean and unit variance in the whole sample, higher values corresponding to better governance. GDP per capita is measured in thousands of U.S. $, in purchasing power parity terms, for 2004. Population is thousands of residents in 2004. UN member is a dummy variable equal to one for UN members and zero otherwise. Landlocked is a dummy variable taking the value one for landlocked countries and zero otherwise. Distance by air is the distance (in km) from a country's capital city to the nearest of New York, Rotterdam, or Tokyo. The regression includes regional dummy variables for Europe and Central Asia, Asia/Pacific, the Americas, and the Middle East and Africa. Robust standard errors are in parentheses; *significant at 10%; **significant at 5%; ***significant at 1%.