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Combating tax evasion through tax havens: A comparative analysis between Romania, Switzerland and Cyprus

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Abstract

Tax evasion through tax havens poses a significant and multifaceted challenge, impacting economies, fairness, and governance on a global scale. However, this research offers a glimmer of hope, as it scrutinises the phenomenon focusing on Romania, Switzerland, and Cyprus to understand the implications and strategies to mitigate such practices. The study employs a mixed methodology, incorporating a comprehensive literature review, comparative legal and tax analysis, and case studies to explore the intricate dynamics of tax evasion through tax havens. It delves into the economic effects, competitiveness, and state budget impacts, offering a nuanced understanding of these countries' roles within international finance and taxation. Results indicate that differences in tax policies, privacy regulations, and financial secrecy significantly influence the attractiveness of these jurisdictions for tax evasion purposes. The study concludes with actionable strategies to combat tax evasion, emphasising the importance of international cooperation, transparency, and policy reform. This research sheds light on the complex interplay between tax havens and economic policies and provides a foundation for future efforts to enhance fiscal fairness and global financial integrity.

1. Introduction

The issue of tax evasion through tax havens is not just a matter of concern but a pressing issue that significantly impacts academia, business, and state institutions. Its effects are far-reaching and profoundly damaging, from undermining the credibility of taxation research and education to distorting economic outcomes and hindering the development of robust fiscal policies. The urgency to address this issue is underscored by its potential to erode the foundations of our economic and social systems (Grgic & Terzić, 2014; Morosan-Danila & Grigoras-Ichim, 2023).

In the business environment, tax havens create an uneven playing field, favouring companies that resort to tax evasion over those that comply with tax legislation. This erodes the tax base and leads to unfair competition. In addition, the practice can lead to significant loss of tax revenues, affecting the potential for economic growth and regulatory effectiveness (Dharmapala, 2008; Morosan-Danila & Bordeianu, 2021).

State institutions are also profoundly affected by the decrease in budget revenues, which leads to decreased public spending and challenges in governance, as the funds available for public works and social policies are considerably reduced (Morosan-Danila & Bordeianu, 2020; Rios & Mozo, 2021). Tax evasion through tax havens hampers efforts to effectively redistribute resources, thus limiting the state's ability to finance the necessary infrastructure, health, education and other essential services for citizens' well-being (Castro Ramírez et al., 2008).

The issue of tax evasion through tax havens is not just a problem; it is a complex phenomenon that presents significant challenges in various sectors. It requires not just measures but also globally coordinated measures to combat it. The importance of the theme is not just underscored but magnified by its far-reaching consequences, directly affecting economic development, social equity and fiscal stability. Addressing this problem does not just require collaboration; it demands it. It demands collaboration between academia, business, and state institutions to develop strategies and practical strategies to combat tax evasion and promote tax compliance.

Tax evasion is estimated at approximately 200 billion euros annually in the European Union. The causes of this evasion are diverse and can be divided into two main categories. On the one hand, there are causes related to the behaviour of taxpayers, such as avoiding the registration of income, setting up offshore companies (to avoid tax controls), the benefits offered by Offshore Leaks or the fraudulent accumulation of tax credits. On the other hand, tax evasion can also be favoured by external causes, such as the lack of convergence of tax systems, confusing provisions of normative acts, too favourable tax regimes and the lack of collaboration between member states in sharing tax information.

Also, the changes generated by the transition to the digital economy and the development of the underground economy have contributed to this critical area's progress (Klevtsova et al., 2019). These are not the necessary and direct consequences of the COVID-19 crisis, but some authors have expressed concern that they will increase as global changes occur (Bordeianu et al., 2021).

The paper aims to address a topical issue in the current economic context, which consists of researching the phenomenon of tax evasion and tax havens. The work is based on a broad consultation of the specialised literature in the reference field and the approach to some criminal and tax law aspects. Foreign or Romanian authors studied courses, treatises, articles and specialised studies. At the same time, the internal legislation of the European Union and international, internal and international jurisprudence, as well as websites of some prestigious institutions and organisations, were studied.

The general objectives of this research paper are:

1. Assessing the impact of tax evasion through tax havens: The research analyses how tax evasion affects the economy, business environment, and state institutions. It aims to assess the loss of tax revenues, its effects on business competitiveness, and the impact on state budgets and their ability to finance essential public services.
2. Comparative analysis between Romania, Switzerland and Cyprus: The paper aims to analyse the legal and tax approaches in Romania, Switzerland and Cyprus in the context of tax evasion through tax havens. It is desired to identify the factors favouring the choice of one country over another for offshore operations and to evaluate the attractiveness criteria of these jurisdictions for investors and companies resorting to tax evasion.
3. Identifying effective strategies to combat tax evasion: The research aims to propose strategies and solutions to combat tax evasion through tax havens, emphasising the need for collaboration between the academic, business, and state environments. Emphasis is placed on developing effective tax policies, improving transparency, and international cooperation in the tax field.

2. Literature Review and Development Hypothesis

The study of tax evasion started at the level of specialised literature and required a look at the economic evolution and global tax systems. It can be argued that academic interest in tax evasion grew with the formalisation of modern tax systems and the need for states to collect revenues to finance public services, dating back to the 19th and early 20th centuries when national economies began to develop and interconnect significantly.

However, special attention to tax havens and tax evasion through them became more evident in academic literature and policy debates in the second half of the 20th century, as the globalisation of economies facilitated the movement of profits and capital across borders with ease. This phenomenon has been accelerated in recent decades due to advances in technology and global finance, which has made the problems of tax evasion even more pressing.

A turning point in the formal and systematic study of tax evasion at the international level can be identified in the 1980s and 1990s, when institutions such as the Organization for Economic Cooperation and Development (OECD) actively addressed tax transparency and exchange issues. Information between jurisdictions. These efforts have intensified in the 21st century, especially after the global financial crisis in 2008, which further stimulated interest in combating tax evasion and base erosion.

Tax evasion through tax havens is a critical national and international taxation topic. The phenomenon is highly debated and discussed in the specialised literature. In addition, there is no exact estimate of the extent of this phenomenon because it is challenging to draw an exact demarcation between illegal tax evasion and legal tax evasion. Various authors and studies presented the topic's importance, and Table 1 presents some examples.

Table 1. The importance of tax evasion through tax havens

Authors	The importance of the issue	Exemplification of the current situation
Vasilopoulou & Thomakos, 2017	The impact of tax evasion and tax havens on economic growth	High tax evasion and high tax rates harm the tax system and economic growth, representing a regulatory failure to combat tax evasion with higher tax rates or application costs.
Nicodème, 2009	Recent developments in the fight against harmful tax practices	Impressive progress in adopting international standards for exchanging information has reinvigorated the fight against harmful tax practices and tax havens, highlighting their scale and consequences.
Adekoya et al., 2020	Application of forensic accounting techniques in reducing tax fraud and evasion:	Forensic accounting techniques can expose, control, and deter fraudulent practices regarding tax revenues, highlighting the need for transparency and accountability.
Mansour et al., 2023	The importance of education in understanding and combating tax evasion	The growing body of research on tax evasion points to the crucial role of education in developing a deep understanding of the issue and practical strategies to mitigate its adverse effects
Mugarura, 2017	The connection between banking secrecy laws and the growth of financial crimes	Banking secrecy laws in offshore financial centres are fuelling the growth of financial crimes such as tax evasion and money laundering, suggesting the need for measures to mitigate the effect of tax evasion on economic development.

Source: The authors' synthesis based on the specialised literature studied.

Low or no taxation attractiveness is a significant asset for tax havens. Nevertheless, the following represent advantages when we talk about these territories:

• Freedom of trade - which is accompanied by a liquid and solid currency;

• Commercial secrecy and bank secrecy - which are unbreakable;

• Financial secrecy - which is highly developed;

• The weak or non-existent network of tax treaties; and

• Good communication and transport infrastructure,

No tax haven is considered the best or perfect because, in such a situation, all investors would give up the other territories for that tax haven. Taken separately, tax havens may seem small and unimportant, but together, they play a fundamental role in the global economy. First, they undermine small countries' tax and regulatory processes, enabling banks, multinationals, and wealthy individuals to circumvent them. Second, they skew the distribution of globalisation's costs and benefits in favour of a global elite at the expense of most of the population.

Vasilopoulou and Thomakos (2017) found that a combination of high tax rates and widespread tax evasion harms economic growth. They highlight the failure of current regulations to combat these problems effectively. They suggest that the solution may lie in motivating taxpayers to pay their taxes through a fairer and more efficient tax policy.

Nicodème (2009) noted impressive progress in combating harmful tax practices, mainly through adopting international standards for exchanging information. This led to a deeper understanding of the size and consequences of tax havens.

Adekoya et al. (2020) point out that applying forensic accounting techniques could significantly reduce tax evasion and fraud in Nigeria by providing more effective control and deterring fraudulent practices.

Mansoor et al. (2023) presented a continuous increase in the number of research papers published on tax evasion, showing the importance of education in forming an understanding and strategies to combat tax evasion.

Mugarura (2017) discusses how banking secrecy laws in tax havens and offshore financial centres fuel the growth of financial crimes, including tax evasion and money laundering, and suggests measures to mitigate these effects.

Al-taie et al. (2017) identified a significant impact of tax havens on the development of tax revenues and public revenues in Iraq between 2004 and 2014, demonstrating the importance of analysing the structure of public revenues in the context of tax havens.

Slemrod (2018) reviews recent tax compliance and enforcement research, highlighting methods and data that have facilitated these contributions and discussing tax policy enforcement interventions such as audits, information reporting and remittance regimes.

These results underline the complexity of the problem of tax evasion through tax havens and the need for multidisciplinary and multilateral approaches to address this global challenge. A deep understanding of the mechanisms by which tax havens affect the economies and budgets of states is essential for developing effective strategies to combat this phenomenon.

Concerning our research theme, the perception of Cyprus and Switzerland as tax havens is a topic of interest for researchers and politicians in the global effort to combat tax evasion and ensure financial transparency. We can mention some interesting studies.

Popa and Dica (2012) address tax havens in the context of the financial crisis. They highlight the increased interest in updating the "blocklist of tax havens" in Europe, with proposals to include Switzerland. Tax havens use quickly convertible national currency and only dedicate fiscal and financial control to residents.

Kosenkova (2022) analyses European tax havens from the perspective of corporate financial misconduct risks. The classification of these havens, including Switzerland, indicates a significant responsibility for almost 40% of the global risks of corporate financial abuse.

Roussakis and Bisha (2006) explore the development of the international (offshore) banking sector in Cyprus, focusing on the effects of the corporate tax regime in the context of accession to the European Union. The study provides important insights into how management perceives the new tax regime and its impact on the country's attractiveness as an international banking centre.

Guex (2021) aims to explain the emergence of the Swiss tax haven by analysing the processes and factors that led to its emergence. The study improves the general understanding of the genesis of tax havens at the international level. It shows that the Swiss Confederation possessed the necessary characteristics to be considered a tax haven on the eve of the First World War.

Kirchgässner & Pommerehne (1996) present empirical evidence on individual tax competition in Switzerland, showing that it influences the distribution of high earners between cantons and is partly capitalised in rents. The study suggests that if tax competition works well in Switzerland, there is no reason to have disastrous effects on the future of the European Union.

The analysis of specialised literature reveals that Romania is not frequently characterised or perceived as a tax haven. Instead, the available studies focus on the evolution of the tax system in Romania, tax reforms, and the comparison of the tax burden in Romania with that of other countries, especially in Europe. Spengel et al. (2012b) trace Romania's development as a low-tax country among the European Union member states, analysing the significant changes in the fiscal legislation of corporate taxation since 1992. The study finds that the significant reduction of the corporate income tax rate from 45% in 1992 to 16% in 2005 was not accompanied by a comprehensive broadening of the corporate income tax base.

In a similar study, Spengel et al. (2012a) make comparisons between the practical tax burdens of a European model company at different points in time in the development of corporate taxation in Romania, finding that the average tax burden of the model company has decreased significantly by almost 65% since 1992.

Ristea and Trandafir (2010) discuss the possible implementation of the wealth tax in Romania, considering the existing tax practices in Europe. They examine the idea of increasing the tax base by taxing wealth as an essential topic of debate.

Niminet and Bucur (2018) analyse the evolution of the Romanian tax system, emphasising its importance for economic development and political efficiency. The study examines the main components of the tax system, including personal income tax, corporate income tax, VAT, social contributions, excise duties and the changes they have undergone in recent years.

Dumitriu and Stefanescu (2005) explore the essential aspects of corporate income tax in Romania compared to corporate income taxes in other Eastern European countries that compete with Romania in attracting foreign direct investment. It concludes that Romania's current corporate income tax offers solid arguments for multinational companies to invest in the country.

These studies emphasise Romania's tendency to develop as a low-tax country but do not explicitly characterise it as a tax haven. Instead, they focus on fiscal reforms and compare Romania's fiscal framework with other countries, highlighting its fiscal system's developments and challenges.

Based on the literature review, we formulated the following hypothesis of the research:

Hypothesis 1: Differences in tax policies and regulations between Romania, Switzerland, and Cyprus influence the choice of investors and companies to use these jurisdictions as tax havens. A more favourable tax system and stricter privacy rules are assumed to be decisive factors in favouring a country as a destination for offshore operations, thus contributing to increasing its attractiveness as a tax haven.

Hypothesis 2: Tax transparency measures and international information sharing can significantly reduce the attractiveness of tax havens and, thus, the volume of tax evasion through these jurisdictions. This hypothesis starts from the premise that improved cooperation between states in the tax field and the adoption of international reporting and transparency standards will limit the ability of companies and individuals to hide income and avoid tax obligations.

3. Research Methodology

To address the complexity of tax evasion through tax havens and test the proposed hypotheses, this research adopts a mixed methodology, combining qualitative and quantitative analysis to understand the subject comprehensively.

3.1 Research Design

The research is carried out in three main stages:

- Literature Review: An exhaustive literature review is conducted to identify the main theories, models and previous findings related to tax evasion through tax havens. This stage allows the definition of critical concepts and the outline of the study's theoretical framework.
- Comparative Analysis: Romania, Switzerland, and Cyprus are compared, examining tax legislation, privacy regulations, and tax practices. Data is collected from various sources, including government

reports, case studies, and sector analyses, to assess the factors contributing to these jurisdictions' attractiveness as tax havens.

- Case Studies: Specific cases of companies or transactions involving tax havens are selected and analysed. These case studies allow the observation of actual practices and their impact on national and international tax systems.

3.2 Data Collection

Data are collected from secondary sources, including academic databases, reports of international organisations (e.g. OECD, EU, Tax Justice Network), national and international tax documents and legislation. For the comparative analysis and case studies, particular attention is paid to data on tax evasion, tax regimes and the level of financial secrecy in the three countries studied.

3.3 Data Analysis

Qualitative analysis is used to interpret legislation, tax policies and case studies to identify common themes and patterns. Quantitative analysis, including descriptive statistics and comparative analyses, is applied to measure the extent and impact of tax evasion through tax havens.

3.4 Validity and Reliability

To ensure the validity and reliability of the research, a rigorous approach is adopted when selecting data sources, and strict criteria are applied to assess the quality and relevance of the information collected. Triangulation of sources and methodologies is used to check the consistency and credibility of the findings.

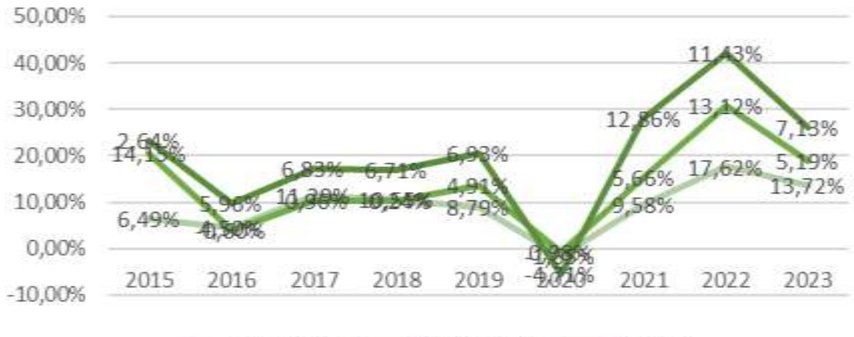
3.5 Limitations of the Study

The study recognises the inherent limitations of using secondary data, including possible lack of timeliness and completeness. Also, the complexity and hidden nature of tax evasion through tax havens can limit access to detailed information about the specific practices of companies.

4. Findings and Discussion

The problem of tax evasion is not unknown or surprising. However, it has gained momentum in the growth of offshore wealth, which, despite the pandemic, has grown by 32% in the last five years. This is alarming. Almost half of international trade already occurs within multinational corporations, and more than half of world trade flows through tax havens.

The paper presents a comparative study between Romania, Switzerland, and Cyprus, developed countries, from an economic point of view. It seeks to present some legal and fiscal considerations that justify favouring one country over the other. The study started with an analysis of the country context to understand the selection of investors for the countries targeted in the study.



Graph 1. The evolution of the change in Gross domestic product at market prices

Source: Authors’ adaptation according to the data published by Eurostat

Romania’s GDP growth was impressive in 2021 and 2023, with a notable decline in 2020, which could reflect the impact of the COVID-19 pandemic. Switzerland shows a different pattern, with a dramatic decline in 2016 followed by a robust recovery and stable growth from 2020. On the other hand, Cyprus maintains steady growth, except for 2020, when it experienced a significant decline, probably for the same reasons related to the pandemic.

Graph 1 highlights regional variations in adapting to external and internal economic shocks and the importance of national economic policies in managing GDP growth. Although Romania and Cyprus show trends of rapid recovery after the declines of 2020, Switzerland demonstrates remarkable stability and adaptability in the face of economic adversities. These differences emphasise the complexity and dynamics of national economies in a changing global context. However, they also offer opportunities for entrepreneurs and investors and the mediation of transactions.

We also analysed the tax haven index for the three countries. This index, also known as the Financial Secrecy Index, is a tool developed to evaluate and classify global jurisdictions (countries or territories) according to their degree of financial secrecy and the size of financial services offered to international actors. The results of the latest study of global financial secrecy reveal that Romania and Switzerland have shown a slight increase in their contribution. Specifically, Romania’s score increased from 4.59 in 2019 to 5.59 in 2021, while Switzerland’s score increased from 4.92 in 2019 to 5.09 in 2021 (Tax Justice Network, 2024). While these values suggest modest participation in tax havens, it is crucial to note the upward trend, which could require attention and possible adjustments in fiscal and financial transparency policies.

Of particular interest is Cyprus, which significantly increased from 1.83 in 2019 to 3.10 in 2021, indicating that the country is becoming more attractive as a jurisdiction for corporate financial secrecy. This trend may be due to favourable tax policies and regulations facilitating financial discretion. However, it could also attract the attention of international regulatory and tax supervisory bodies.

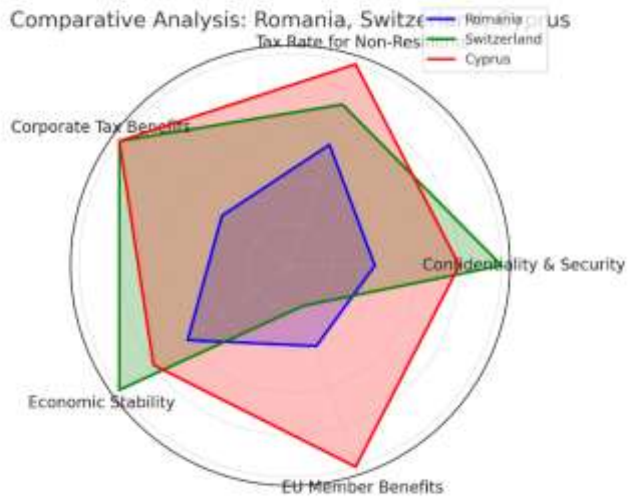
The choice of these countries is based on the considerations that Romania is not considered a 100% tax haven, Switzerland is considered more of a financial paradise than a tax haven, and Cyprus is considered a 100% tax haven. However, it is considered a 100% tax haven; not many people think about Cyprus when they want to carry out transactions through an offshore company or do not want to do their activity in Cyprus.

Switzerland is distinguished by its security and privacy and is recognised as a financial centre and a haven for financial assets. Benefiting from an advantageous tax system with low taxation at the level of households instead of individuals, Switzerland attracts individuals and companies looking for a stable and safe jurisdiction. The Swiss franc, a symbol of economic stability, supports the strength and independence of the national economy. Switzerland enjoys remarkable economic and political stability with no budget deficit and comparatively low taxes. This country, known for its high-quality offshore banking services, avoids joining the European Union and retains its autonomy in many areas. Banking secrecy strengthens its role in the offshore world, with over 60% of the assets invested here belonging to EU citizens. With these aspects in mind, Switzerland asserts itself as one of the most critical tax havens worldwide, providing a safe and tax-advantaged haven for investors and companies worldwide.

Cyprus is an attractive destination for international companies, offering a semi-tropical climate, rich culture and a strategic geographical position. One of the main advantages of Cyprus as a tax haven is the possibility of anonymity for shareholders and directors, which, although registered, are not made public. The jurisdiction is distinguished by applying taxation only to companies fiscally resident in Cyprus and effectively conducting their administration in its territory. Companies owned by non-residents who do not carry out commercial activities in Cyprus benefit from significant tax advantages, including the absence of tax on profits, capital gains, dividends, and other direct taxes. In 2008, Cyprus joined the Eurozone, strengthening its position as an attractive financial centre. The country’s economy is dominated by tourism and services, with the agricultural and government sectors contributing significantly to GDP. With its unique combination of tax benefits, stability and access to European markets, Cyprus remains a privileged option for structuring international business operations.

Romania, although not considered a tax haven in the complete sense of the term, attracts attention with low taxes and tax facilities, making it an attractive destination for companies, including offshore ones. In 2021, offshore operations in tax havens generated significant fiscal losses globally, with a value between three and four billion euros for Romania, equivalent to 2-3% of GDP. The tax rules in Romania offer favourable treatment to non-residents, with taxes applied depending on the existence or absence of a double taxation agreement with the country of origin (Fiscal Code of Romania). In the case of an agreement, the tax on income obtained from Romania is 16% if residency is not proven. Otherwise, the most favourable rate between Romania and the country of origin is applied. Without such an agreement, income is taxed at 50%.

The data indicate a preponderance of Romanian offshore companies that relate to EU states (74%), as opposed to non-EU ones (26%). From the point of view of the distribution of share capital from tax havens, the Netherlands Antilles have the largest share in Romania (32%). In comparison, companies from the Marshall Islands have the lowest (1%). Most offshore companies in Romania are limited liability companies. This structure reflects the increased interest in Romanian tax facilities in the global context of tax evasion and the management of the income of multinational companies through tax havens.



Graph 2. Comparative analysis Romania, Switzerland and Cyprus

Source: Authors' processing from the studied literature

Graph 1 highlights the critical differences between the jurisdictions of Romania, Switzerland and Cyprus, based on selected criteria: privacy and security, the tax rate for non-residents, corporate tax benefits, economic stability and the benefits of European Union membership. The assigned scores reflect a comparative assessment of the advantages that each country offers in these areas:

- Switzerland stands out for its high level of privacy and security.
- Cyprus offers more advantageous conditions for non-residents, followed by Switzerland and Romania.
- Both Cyprus and Switzerland offer significant corporate tax benefits, surpassing Romania in this regard.
- Switzerland is perceived as having the most significant economic stability, followed by Cyprus and Romania.
- Cyprus and Romania, being a member of the EU, offer specific advantages associated with this status.

Tax havens have helped strengthen tax competition by offering secrecy rules and shell positions combined with "zero tax" regimes. Although Romania is not yet considered a tax haven, many offshore companies have foreign participation in the capital. Moreover, most shareholders reside in tax havens and financial centres. The low tax rates make us consider Romania a future fiscal paradise. Thus, table 2 presents the necessary aspects for establishing an offshore company. Presently, foreign shareholders should participate in the capital from tax havens because it is an advantage of not being residents to pay the most favourable rate between 16% and the tax rate of another country. However, being a resident is also an advantage for many countries with high tax rates.

Table 2. The importance of tax evasion through tax havens

Jurisdiction	**Romania**	**Switzerland**	**Cyprus**
Company Type	Limited Liability Company and Joint Stock Company	AG/SA (Public Limited Company) GMBH (Limited Liability Company- LLC)	International Business Company (IBC) LLC (SRL)
Name restriction	Yes	Yes (add 'AG' or 'GMBH' to name)	Yes (it must not contain words such as "Bank", "Insurance", "Trust Company", "Royal", "Building Society", "Europe", "International", or "Trust Company", as well as other words that are not wanted by the

Jurisdiction	Romania	Switzerland	Cyprus
			Registry or are offensive).
Minimum number of shareholders	1	1	1
Minimum number of directors and managers	1	1	1
Local manager	No	Yes	No
Secretary	No	No	Yes
Bearer shares	No	No	No
Tax	16%	8-35%	0%-12,5%
Minimum capital	No	20.000-100.000 CHF	No
Local requirements	No	At least one director to be a resident	No
Registration fee	200 EUR 3.000EUR	-First-year companies CHF 1,000-CHF 5,000 For the second year CHF 500-2,000	1.500-3.000 USD
Registration period	Maximum week	11-2 weeks	Maximum 4 weeks

Source: Authors' processing from the studied literature

Switzerland is considered a tax haven because it has stringent banking secrecy laws. It occupies a substantial share of the GDP. In addition to this tax haven, it offers many other advantages. Foreigners can own all shares; only one shareholder is needed to form a company. GMBH members receive limited liability. AG/ SA is the most famous Swiss company formation.

LLC is the most suitable company for those who live outside of Cyprus and want a private company in a non-residential state. Cyprus can access the European Union's many legislative, economic, and trade agreements in one offshore centre. Any nationality or resident of any country (except Cyprus) can form a non-resident LLC.

To exemplify how companies work for different international transactions, we present in Figure 2 the stages and documents of a sale of goods between Romania and Italy, with the mediation of the transaction in Cyprus.

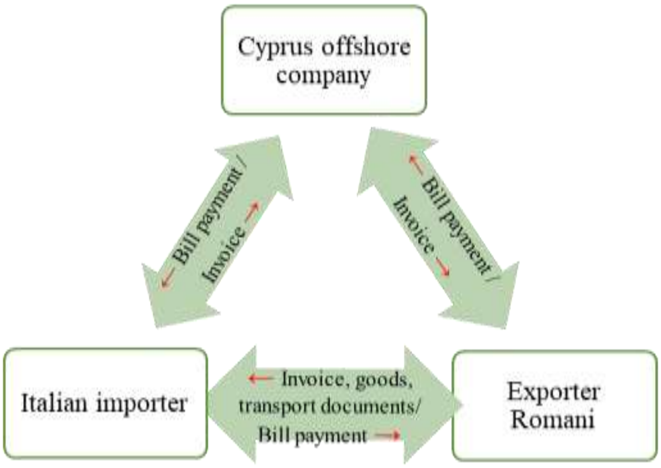


Figure 1. The circuit of the sale of goods through the offshore company

Source: Authors' processing from the studied literature

Company "X", in the field of activity 5141 ("Wholesale of textile products") from Romania, owns goods worth 14,000 EUR. These goods are sold to a company in Italy for 22,000 EUR. In order to reduce the tax payment to the Italian state, the company from Romania introduced as an intermediary an offshore company from Cyprus, which purchases the goods at the price of 16,000 EUR, then resells them to the company in Italy at the value of 22,000 EUR. The sale of goods between Romania and Cyprus is fictitious; the sale was made only from the point of view of the documents.

Applying the specific tax legislation of the countries involved, we find that, in the case of carrying out the operations through the offshore company in Cyprus, the Romanian company pays a profit tax of 960 EUR lower than if it had carried out the operations without the offshore company (the tax is 320 EUR without 1,280 EUR. I presented a Cyprus offshore company as if the intermediary was non-resident and did not carry on business in Cyprus, thus having a 0% corporate tax; if the intermediary were resident and carried on business in Cyprus, the tax on profit would have been 12.5% and a total profit of 1,070 would have resulted. The company in Romania would have paid a tax of 210 EUR less. As we presented above, the offshore company in Cyprus only deals with the documents of the transactions, the goods not being sold physically.

The Italian importer uses an offshore company in Cyprus to avoid paying taxes on the difference between the purchase price of goods and the selling prices in his country. Cyprus is also known as a tax haven because it has adequate communications jurisdictions, thus allowing for the accessible flow of shipping documents.

We will continue with an example of money laundering with the help of an offshore company. In the first stage, a foundation is established in Switzerland, the beneficiary is a tax evader, and the name of the person who provided the money does not appear in any document of the foundation, only the names of the trustees (notary and lawyer), who carry out all the transactions. Thus, the founder remains unknown. The foundation runs a furniture production company; the placement is closed. A furniture manufacturing company operates a fictitious business with a furniture manufacturing company in Cyprus and funnels money into this tax haven through fictitious invoices. The owner of the money gets the wealth transported to an offshore centre in Cyprus through an interim finance company as a loan. The complete integration phase is when the loan arrives in the beneficiary's country of residence.

Figure 2 presents a money laundering scheme involving three countries: Romania, Cyprus and Switzerland.

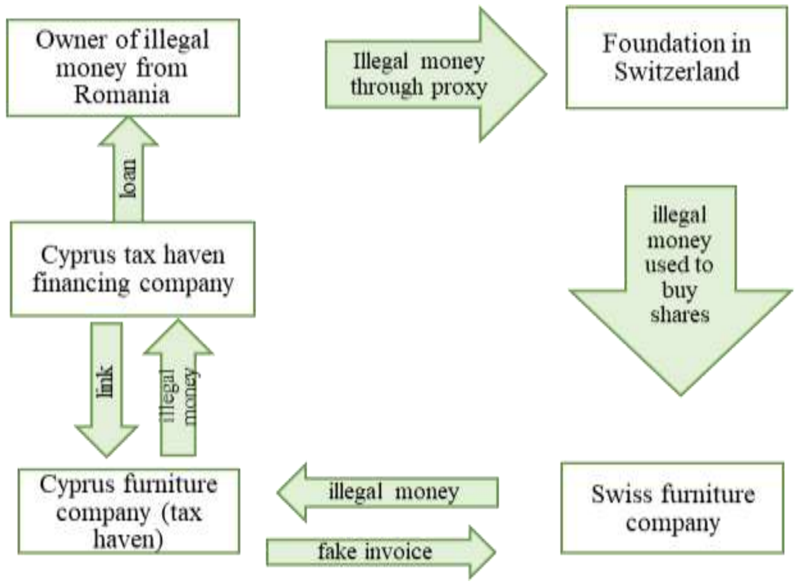


Figure 2. The circuit of money laundering through an offshore company

Source: Authors' processing from the studied literature

Based on the data in Figure 2, we can briefly describe how the illegal money was "laundered". Money received through tax evasion or other illegal activities is transferred to a foundation through a trustee. It uses them to buy shares in a furniture manufacturing company in Switzerland. This company does fictitious business with another furniture manufacturing company based in Cyprus (tax haven). The illegal money is then used to buy shares from a finance company. This company gives a loan to the owner in Romania, and the illegal money is turned into an investment.

In all tax havens, there is banking or commercial protection. If there are legal inquiries, tax havens refuse to disclose the bank secrecy offered, even if this means violating a country's law. They have come under increasing international political pressure to cooperate with investigations into foreign tax fraud. The deposit is legal as long as the depositor pays the fees imposed by the home jurisdiction. The purpose of using tax havens is simple: "To pay less and earn more" (Aniței & Lazăr, 2013). There are about 70 tax havens in the world, which are in perpetual motion; some of them are on the verge of extinction (we can give an example of Switzerland), and others have disappeared (Hong Kong) or are reborn (Lebanon).

There are also several consequences when discussing tax havens that directly or indirectly impact the region, as shown in Figure 3.

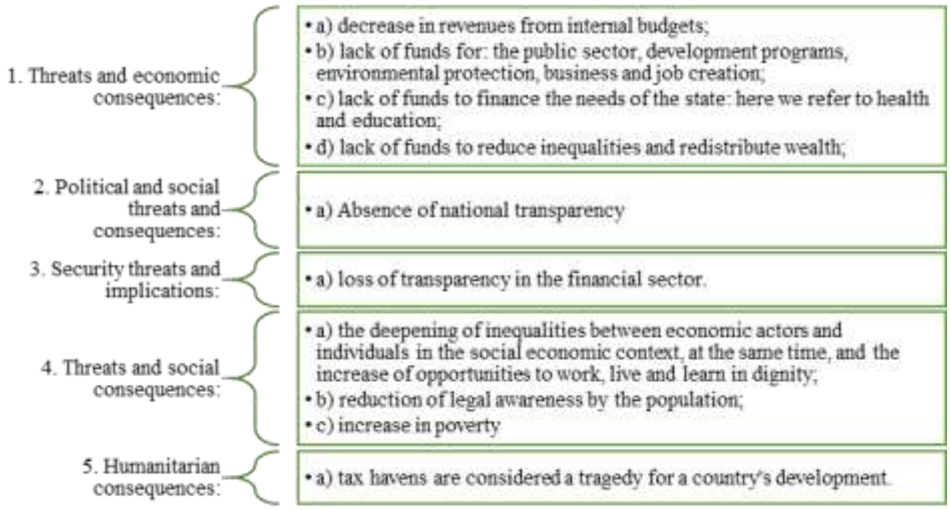


Figure 3. Consequences of tax havens

Source: Authors' processing from the studied literature

As a result of the multiple advantages that tax havens present, there are specialised companies that offer services for starting and legalising offshore businesses, such as the company Evedex, which aims to register I.B.C offshore companies in the following jurisdictions: Seychelles, St. Vincent Belize, Panama, Costa Rica, intra-community companies registered for VAT purposes in Cyprus, Malta or Latvia, as well as L.L.C or L.L.P limited liability companies established in Delaware U.S. An I.B.C type company registered in a tax haven like Seychelles, St. Vincent Belize, Panama, Costa Rica presents several features, which are seen as advantages for potential investors.

5. Conclusions

The research is a detailed paper examining the phenomenon of tax evasion through tax havens, focusing on the comparison between Romania, Switzerland, and Cyprus. The paper highlights how tax havens contribute to tax evasion, leading to significant economic disparities and unfair competition. Tax evasion is estimated to cost the European Union approximately 200 billion euros annually, affecting economic growth and regulatory effectiveness.

The research provides a comparative legal and tax analysis among Romania, Switzerland, and Cyprus. It identifies the factors that make these jurisdictions attractive for investors and companies seeking tax evasion opportunities, such as privacy laws, tax rates, and financial secrecy.

The study proposes strategies for combating tax evasion, emphasising the need for global cooperation and developing effective tax policies to improve transparency and international cooperation in the tax domain.

In order to improve the practices in the field of taxation and commercial relations in respect of tax havens, we recommend:

- Global Coordination and Collaboration: Addressing tax evasion through tax havens demands a globally coordinated approach that involves academia, business, and state institutions. Enhanced cooperation and information sharing at the international level are crucial to combating tax evasion effectively.
- Policy Recommendations: Adopt more robust tax policies and regulations that minimise the attractiveness of tax havens. These include closing legal loopholes, harmonising tax rates, and implementing stricter financial secrecy laws to deter tax evasion.
- Promotion of Transparency and Accountability: Strengthening transparency and accountability in the financial and tax systems is essential. This can be achieved by adopting international standards for information exchange and enhancing the scrutiny of financial transactions that involve tax havens.
- Further Research Directions: The study underscores the need for ongoing research into the evolving nature of tax havens and tax evasion strategies. Future research should focus on emerging trends in digital economy taxation, the role of cryptocurrencies, and the impact of global economic shifts on tax evasion practices.
- Practical Implementation of Results: The insights gained from this research should inform the development of policy and regulatory frameworks at both national and international levels. Practical applications include formulating targeted tax policies, designing compliance enforcement mechanisms, and initiating educational programs to raise awareness about the implications of tax evasion.

In summary, the paper advocates for a multifaceted approach to tax evasion, emphasising the importance of international collaboration, policy reform, and continuous research to address the challenges tax havens pose effectively.

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