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Investment in tax haven jurisdiction by Indian MNCs: a conceptual study

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Abstract

Purpose – This study aims to understand the investments made by Indian MNCs in different tax havens to optimize their tax liabilities. The study also aims to provide insights into the conceptual framework of such practices, highlighting potential benefits and risks and providing policy recommendations that promote transparency, fairness and sustainable economic practices.

Design/methodology/approach – The study involves a combination of quantitative and qualitative approaches. The quantitative aspect analyzes investments made by Nifty 50 companies in tax haven jurisdictions from the financial data of the parent company from 2019 to 2023. The qualitative aspect involves a conceptual framework developed from previous studies and examining the role of various organizations in combating tax avoidance. This mixed-method approach enables a comprehensive understanding of the motivations, impacts and regulatory responses related to the use of tax havens.

Findings – The paper provides conceptual and descriptive insights on investments made by Indian MNCs in tax havens during 2019–21 to save tax. The study suggests that while investing in tax havens, businesses give more priority to ease of doing business and other considerations such as a lower tax rate.

Research limitations/implications – The present study suggests policymakers about the effectiveness of current tax laws and their enforcement, highlighting loopholes and potential avenues for modification.

Originality/value – This paper assesses the reasons for Indian MNCs starting subsidiaries and making investments in different tax haven jurisdictions and suggests appropriate measures to avoid the menace of tax havens.

Keywords Tax haven jurisdiction, Tax haven investments, Indian MNC and economy

Paper type Conceptual paper

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1. Introduction

The concepts of tax haven emerged in the early 20th century when Liechtenstein, Luxembourg, and Channel Islands were marked as the first tax haven jurisdictions in 1920. Bermuda and the Bahamas were added later, in 1930 (OGLE, 2017). However, it became popular after the Second World War, when some nations raised their tax rates and several small, isolated jurisdictions started offering low or zero-tax regimes and guaranteed financial secrecy to attract foreign investment. So, individuals and companies from higher tax regimes approached tax havens to reduce their overall burden. Another important aspect that contributed to the rise of tax havens was globalization. As globalization increases, multinational companies have expanded operations globally and businesses have taken advantage of disparities in tax rates, tax rules, and transfer pricing to reduce their overall tax burden.

Tax haven jurisdictions are territories, countries, or states where certain types of taxes are either not imposed at all or are only imposed nominally. To avoid paying taxes in their home countries, foreign nationals who reside in or operate businesses in countries with higher tax rates look for attractive investment opportunities by taking advantage of the tax laws of those territories, states, or nations. According to (Ahmed *et al.*, 2020), tax havens use administrative laws and secrecy policies to protect investors' assets and financial information from tax authorities (Wilson, 2009). When an investor invests in such a jurisdiction, they are the only ones with central authority over their financial information, and in some countries, the release of such information carries severe penalties. According to the manual for US and IRS agents, a tax haven is "a term that generally connotes any foreign country that has either a very low tax or no tax at all on certain categories of income." By taking advantage of different loopholes and other legal tax considerations, tax havens enable corporate investors and wealthy people to save money, minimize their tax liabilities, and maintain their anonymity when interacting with other governments and institutions (Gomez, 2017). Thus, tax havens offer tax planning opportunities to their residents to avoid higher taxes by attracting fresh investments from overseas developed countries.

1.1 Criteria for being a tax haven

The Organization for Economic Cooperation and Development (OECD) in 1998, came forward with criteria of being tax havens. These criteria differ from organization to organization and the Paris-based consortium of 38 member nations (OECD), provided a set of shared criteria for identifying tax havens. These include no or nominal taxes on relevant incomes, minimum information sharing, absence of transparency, and absence of substantial activity (OECD, 1998).

1.2 Structure and the benefits of being a tax haven

By imposing minimal tax, Tax Haven draws multinational companies and foreign investors, generating more income than it would have otherwise earned. According to (Vineeth and Nidheesh, 2019), this jurisdiction primarily attracts foreign revenue from investments in order to avoid paying higher taxes. This also helps to raise capital so that its banks and other financial institutions can expand their financial resources. Secondly, as illustrated in Figure 1, by means of money received by a tax haven firm from a non-tax haven firm for services rendered (Desai *et al.*, 2006). Such funds are claimed as a deduction for non-tax haven jurisdiction rather than being added to taxes in tax havens or the home country (Congressional Research Service, 2022). This boosts tax haven jurisdiction's financial resources even in the absence of offering investors physical existence, properties, trade, commerce, or manufacturing concerns in that locality (Ahmed *et al.*, 2020).

Tax havens raise import or customs duties to offset the losses of the minimum tax rate [1]. Usually, new companies incorporated in tax havens must pay registration costs that need to be renewed annually. Newly established companies also provide employment opportunities to its residents. Furthermore, license fees also help tax havens to generate income [2]. Through these, tax havens attract international businesses to boost their self-esteem (Gravelle, 2009), since they have minimal legal criteria for incorporating businesses or companies, lower registration costs, fewer requirements of operation or reporting, and no exchange restrictions [3].

1.3 Framework of tax haven operation

Researcher's conceptual framework of tax haven operation is demonstrated in Figure 2. From the previous studies in tax haven operations, common means of entering into tax haven operations are transfer pricing (Richardson and Taylor, 2015; Eden, 2009), thin capitalization (Nurhidayati and Fuadillah, 2018; Richardson and Taylor, 2015), treaty shopping (Eden and

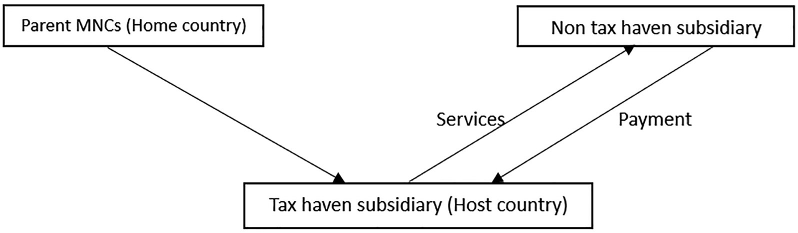

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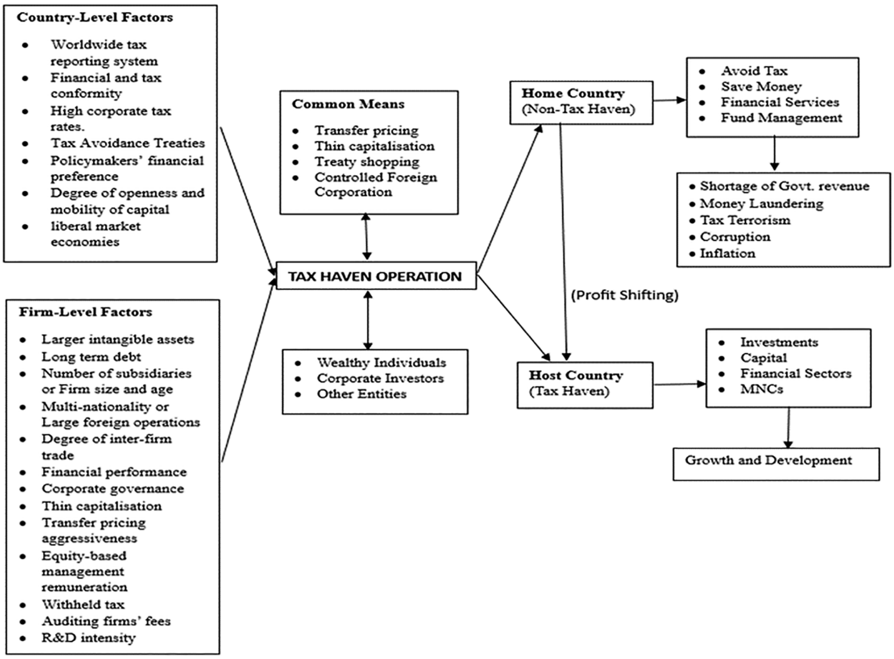
Figure 1.
Tax haven structure



Source(s): Authors' contribution

Figure 2.
Conceptual Framework of tax haven operation

Kudrle, 2005) and controlled foreign corporation (Kuźniacki, 2017). The factors leading to tax haven operations can be country-level factors and firm-level factors. Country-level factors include Worldwide tax reporting system, financial and tax conformity and high corporate tax rates (Jaafar and Thornton, 2015; Jones and Temouri, 2014), Tax Avoidance Treaties (Hearson, 2018; Markle and Robinson, 2012), Policymakers' financial preference (Nebus, 2019), Degree of openness and mobility of capital (Dharmapala and Hines, 2009), and liberal market economies (Jones and Temouri, 2014). Firm level factors identified includes larger intangible assets (Nurhidayati and Fuadillah, 2018; Richardson and Taylor, 2015; Jones and Temouri, 2014; Makni *et al.*, 2020), long term debt (Vineeth and Nidheesh, 2021), number of subsidiaries (Vineeth and Nidheesh, 2021), multinationality (Nurhidayati and Fuadillah, 2018; Richardson and Taylor, 2015; Makni *et al.*, 2020), degree of inter firm trade (Hebous and Johannesen, 2021), financial performance (Richardson and Lanis, 2007), firm size and age (Rego, 2003), corporate governance (Armstrong *et al.*, 2015), thin capitalization (Nurhidayati and Fuadillah, 2018; Richardson and Taylor, 2015; Makni *et al.*, 2020), Transfer pricing aggressiveness (Richardson and Taylor, 2015) large foreign operations (Desai *et al.*, 2006), equity-based management remuneration, withheld tax, auditing firms' fees, and R&D intensity (Makni *et al.*, 2020).

2. Related study

Mukundhan *et al.* (2019) focused on Indian outward foreign direct investment into tax havens during 2007–2017 and concluded that the top tax haven destination for Indian multinational corporations is Mauritius followed by British Virgin Islands, Cayman Islands, and Cyprus. It is noted that during this period, Indian outward foreign direct investment to tax haven has been comparatively constant.

3. Research problem

Tax havens usually offer reduced tax rates to attract foreign investment, which increases the flow of money into the economy. It encourages multinational companies and enterprises to establish operations in these jurisdictions, hence fostering the overall expansion and advancement of the economy. Scholars argue that the biggest multinational companies in the world are responsible for 98% of tax haven operations, and 40% of their profits are invested in tax havens, resulting in an annual loss of $200 billion a year [4].

Tax havens serve as the main destination for foreign investment of Indian companies (Das and Banik, 2015), and MNCs with tax havens link invest in such jurisdictions to evade and avoid taxes. This incurs tax revenue loss to the Government of India which can otherwise be invested in growth and development activities. Thus, the emergence of tax havens has become a significant concern for governments and international organizations seeking to ensure fair taxation and combat tax avoidance. Efforts to address these issues include initiatives by the USA, Organization for Economic Cooperation and Development (OECD) and the European Union (EU) to enhance transparency, exchange of information, and to reduce aggressive tax planning practices and countries' transfer pricing rules. In spite of these initiatives, there is no clear clarity on abolishing tax havens. Hence, there is a need to assess the tax haven investments of various Indian Multinational Companies in different jurisdictions to suggest appropriate measures to avoid the tax haven menace.

4. Objectives

(1) To identify the number of tax haven subsidiaries and their investment made by selected Indian multinational companies.

(2) To identify the top investing companies and countries that contribute to higher tax haven investment.

5. Methodology

For the present study, the researcher used Oxfam's list of tax havens, which is based on the criteria of transparency, fair taxation, and implementation of anti-BEPS measures (Vržina, 2021). Table 1 displays the tax haven jurisdictions listed according to Oxfam. The study considers the data from the annual reports of chosen multinational companies covering the financial year 2019–2023. The scope of the study is restricted to NSE nifty 50 companies and take into account, the parent company's financial information regarding their investments in its subsidiaries located in tax haven jurisdiction.

5.1 Inclusion criteria

Companies that do not have a foreign subsidiary are first eliminated from the list of the fifty selected companies. In the second stage, companies that do not have a tax haven subsidiary are excluded. The net result is 33 NSE listed nifty fifty companies which is taken up for the study. Refer to Table 2 for more details on companies mentioned above (having subsidiaries in tax haven jurisdiction), among these 26 companies have both investment and subsidiaries of selected companies. Further, the investment made by these companies in the tax haven jurisdiction has been assessed in order to calculate the maximum contribution and the use of tax havens.

6. Data analysis

Data Analysis is provided as supplementary information.

S.no	Country	S.no	Country
1	Albania	2	Anguilla
3	Antigua and Barbuda	4	Aruba
5	Bahamas	6	Bahrain
7	Bermuda	8	Bosnia and Herzegovina
9	British Virgin Islands	10	Canada
11	Cayman Islands	12	Cook Islands
13	Curacao	14	Faroe Islands
15	Gibraltar	16	Greenland
17	Guam	18	Hong Kong
19	Ireland	20	Jersey
21	Luxembourg	22	Malta
23	Marshall Islands	24	Mauritius
25	Montenegro	26	Nauru
27	Netherlands	28	Niue
29	Oman	30	Palau
31	Serbia	32	Singapore
33	Switzerland	34	Taiwan
35	Trinidad and Tobago	36	United Arab Emirates
37	Vanuatu	38	Virgin Islands

Source(s): https://www.worlddata.info/tax-havens.php

Table 1. The tax haven jurisdiction as per oxfam list

S.No	Total companies selected (NIFTY 50)	NIFTY 50 companies with tax haven subsidiaries	NIFTY 50 companies with tax haven investments or companies with both subsidiaries and investment
1	Adani Enterprises Ltd.	Adani Enterprises Ltd.	Adani Enterprises Ltd.
2	Adani Ports & Special Economic Zone Ltd.	Adani Ports & Special Economic Zone Ltd.	Adani Ports & Special Economic Zone Ltd.
3	Apollo Hospitals Enterprise Ltd.	Apollo Hospitals Enterprise Ltd.	Apollo Hospitals Enterprise Ltd.
4	Asian Paints Ltd.	Asian Paints Ltd.	Bajaj Auto Ltd.
5	Axis Bank Ltd.	Bajaj Auto Ltd.	Bharti Airtel Ltd.
6	Bajaj Auto Ltd.	Bharti Airtel Ltd.	Britannia Industries Ltd.
7	Bajaj Finance Ltd.	Britannia Industries Ltd.	Cipla Ltd.
8	Bajaj Finserv Ltd.	Cipla Ltd.	Divi'S Laboratories Ltd.
9	Bharat Petroleum Corpn. Ltd.	Divi'S Laboratories Ltd.	Dr Reddy'S Laboratories Ltd.
10	Bharti Airtel Ltd.	Dr Reddy'S Laboratories Ltd.	Grasim Industries Ltd.
11	Britannia Industries Ltd.	Eicher Motors Ltd.	Hero Motocorp Ltd.
12	Cipla Ltd.	Grasim Industries Ltd.	Hindalco Industries Ltd.
13	Coal India Ltd.	Hero Motocorp Ltd.	I C I C I Bank Ltd.
14	Divi'S Laboratories Ltd.	Hindalco Industries Ltd.	Infosys Ltd.
15	Dr Reddy'S Laboratories Ltd.	I C I C I Bank Ltd.	J S W Steel Ltd.
16	Eicher Motors Ltd.	I T C Ltd.	Larsen & Toubro Ltd.
17	Grasim Industries Ltd.	Infosys Ltd.	Ltimindtree Ltd.
18	H C L Technologies Ltd.	J S W Steel Ltd.	Reliance Industries Ltd.
19	H D F C Bank Ltd.	Kotak Mahindra Bank Ltd.	Sun Pharmaceutical Inds. Ltd.
20	H D F C Life Insurance Co. Ltd.	Larsen & Toubro Ltd.	Tata Consultancy Services Ltd.
21	Hero Motocorp Ltd.	Ltimindtree Ltd.	Tata Motors Ltd.
22	Hindalco Industries Ltd.	Mahindra & Mahindra Ltd.	Tata Steel Ltd.
23	Hindustan Unilever Ltd.	Reliance Industries Ltd.	Tech Mahindra Ltd.
24	I C I C I Bank Ltd.	State Bank Of India	U P L Ltd.
25	I T C Ltd.	Sun Pharmaceutical Inds. Ltd.	Ultratech Cement Ltd.
26	Indusind Bank Ltd.	Tata Consultancy Services Ltd.	Wipro Ltd.
27	Infosys Ltd.	Tata Motors Ltd.	
28	J S W Steel Ltd.	Tata Steel Ltd.	
29	Kotak Mahindra Bank Ltd.	Tech Mahindra Ltd.	
30	Larsen & Toubro Ltd.	Titan Company Ltd.	
31	Ltimindtree Ltd.	U P L Ltd.	
32	Mahindra & Mahindra Ltd.	Ultratech Cement Ltd.	
33	Maruti Suzuki India Ltd.	Wipro Ltd.	
34	N T P C Ltd.		
35	Nestle India Ltd.		
36	Oil & Natural Gas Corpn. Ltd.		
37	Power Grid Corpn. Of India Ltd.		
38	Reliance Industries Ltd.		

(*continued*)

Table 2. Supporting table for company profile

S.No	Total companies selected (NIFTY 50)	NIFTY 50 companies with tax haven subsidiaries	NIFTY 50 companies with tax haven investments or companies with both subsidiaries and investment
39	S B I Life Insurance Co. Ltd.		
40	State Bank of India		
41	Sun Pharmaceutical Inds. Ltd.		
42	Tata Consultancy Services Ltd.		
43	Tata Consumer Products Ltd.		
44	Tata Motors Ltd.		
45	Tata Steel Ltd.		
46	Tech Mahindra Ltd.		
47	Titan Company Ltd.		
48	U P L Ltd.		
49	Ultratech Cement Ltd.		
50	Wipro Ltd.		

Source(s): Compiled by the Authors based on the annual report of the companies

Table 2.

7. Consequences of tax haven and measures to control its impact

7.1 Tax haven practices and its consequences on the Indian and global economy

Tax haven countries have traditionally been utilized for tax avoidance and evasion, which has significant consequences for the national and international economies. The main issue is that it limits the government's mobilization efforts and reduces the tax base resulting in a shortage of government funds. This causes alteration of government plans for economic growth and development leading to a significant negative influence on the growth rate.

According to (Hong and Smart, 2010), tax haven operations indirectly raise tax rates at domestic and international levels to generate tax revenue. Ultimately, honest taxpayers bear the brunt of these higher tax rates. Therefore, to lower the extra burden of the increased tax rate, the truthful taxpayer engages in tax evasion.

The higher section's tax haven activities cause a shortage of government funds which is then imposed on the lower section, making them poorer. The primary goal of taxation is to redistribute wealth. However, the usage of Tax Havens hinders the implementation of such regulations and harms society. Furthermore, a lack of funding limits the government's infrastructure plans in rural areas worsens the rural living conditions, and offers a substantial hurdle to the development or execution of economic policies.

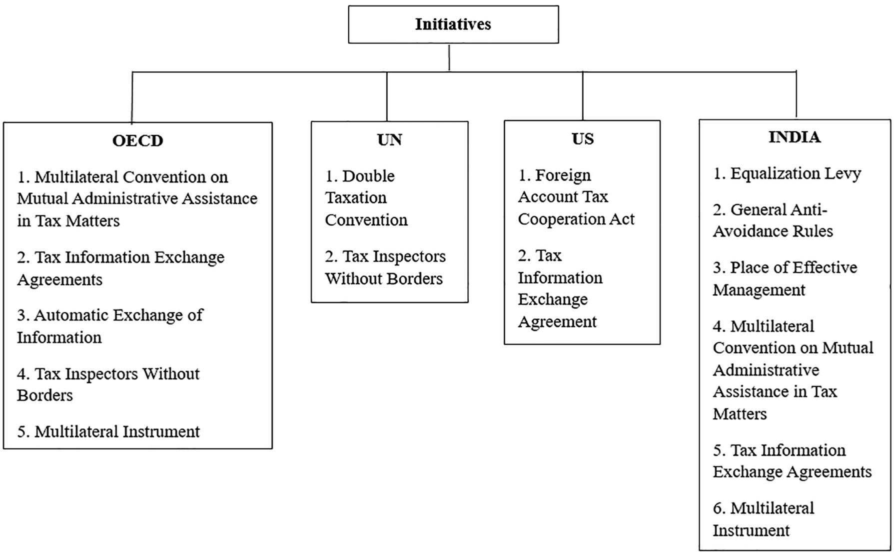
The activities of tax havens give rise to illegal, immoral, and unsociable acts like as money laundering, corruption, terrorism, falsified documentation, and manipulation of official records. These activities have a major impact on the social and ethical values of Indian society.

Finally, tax havens provide an increased money supply in an economy, which causes demand to exceed supply causing inflation (Crane and Nourzad, 1986). Inflation makes it difficult for the weaker sections of society to access their basic requirements of existence. A significant increase in prices makes it difficult for people to afford housing in cities, causing skilled professionals to migrate from the metropolitan region back to their rural base. This ultimately leads to homelessness, unemployment, and poverty. Thus, tax havens restrict not just India's growth and development, but also hurt the global economy as a whole.

7.2 OECD, UN, US, and India's initiatives on controlling tax haven practices

Figure 3 exhibits several initiatives undertaken by OECD, UN, United States, and India to tackle tax haven practices. After 1980s, significant actions taken to fight against tax havens practices includes Multilateral Convention on Mutual Administrative Assistance in Tax Matters developed by OECD in 1988 and Double Taxation Convention of UN in 1980 to prevent international double taxation and ensures investment flow. As part of these conventions, many bilateral treaties were entered between developed and developing countries avoiding double taxation and ensuring international co-operation. However, these measures were unable to combat tax haven practices, particularly with regards to eliminating tax evasion and fraud. The twenty-first century has seen the introduction of impressive initiatives to fight against tax avoidance. In 2009, as a means to address these issues Tax transparency standards was developed OECD, which came forwards with Exchange of Information on request known as Tax information exchange agreements (TIEA), and Automatic Exchange of Information for which nearly 115 member countries joined hands to exchange information to ensure tax transparency. Amendment was also made to the Multilateral Convention on Mutual Administrative Assistance in Tax Matters developed by OECD to tackle avoidance and evasion of tax. The US has been implementing the Foreign Account Tax Compliance Act since 2010 to enable automatic information sharing between foreign banks and the IRS. Due to its limitations, the Organization for Economic Cooperation and Development (OECD) developed the Global Automatic Exchange of Information in 2013 to guarantee the immediate exchange of information, and it is expected to be implemented globally by 2020.

The basic model of Double Taxation Convention of UN was modified in 2001 and later on in 2011 according to the changes in tax policies and practices. In July 2015, Tax Inspectors Without Borders was developed by OECD and the UN as an initiative to strengthen co-operation on tax matters and build tax audit. Their participation was guaranteed by a major tax haven jurisdiction. However, the Automatic Exchange of Information system is only used by a small number of taxpayers, and the tax authority has no control or verification



Source(s): Authors' contribution

Figure 3. Initiatives on controlling tax haven practices

over it. In order to combat tax haven practices, the G20 called on the Organization for Economic Co-operation and Development (OECD) to develop an action plan. In November 2016, the OECD implemented 15 action plans, which were accepted by 141 countries, including all of the G20 members, to improve transparency, reduce profit shifting and base erosion, and bring consistency to international tax rules [5]. The following are OECD action plans or initiatives to address Base Erosion and Profit Shifting practices:

(1) Digital Economy: It recognizes and handles the issues that result from the economy's digitization with regard to current tax laws and regulations.

(2) Hybrids: By changing the model tax convention, it mitigates the impact of cross-mismatch arrangements and offers suggestions for changing current domestic tax laws and regulations.

(3) Controlled Foreign Companies: It makes suggestions for strengthening national and international laws or regulations pertaining to Controlled Foreign Companies. It also identifies and resolves problems with resident companies using foreign affiliates to evade paying taxes (Dharmapala, 2008).

(4) Interest Deductions: In order to solve issues with the domestic tax laws of different countries, the OECD introduced interest deductions in addition to other monetary payments, which manage the erosion of the corporate tax base.

(5) Harmful Tax Practices: It uncovers and criticizes harmful tax practices in both OECD member and non-member countries (Dharmapala and Hines, 2009).

(6) Prevention of Treaty Abuse: It keeps treaties from being manipulated by directing countries on how to reorganize their own domestic laws or regulations to prevent providing treaty benefits to parties under improper circumstances.

(7) Permanent Establishment: It reorganizes and redefines the boundary to show Permanent Establishment in order to stop profit-shifting and base erosion practices.

(8) Transfer Pricing: It guarantees that the result of transfer pricing relates to how economic activity creates value in goods and services.

(9) Data Collection: For redressal reasons, it guarantees accurate data collection and analysis of profit shifting and base erosion.

(10) Aggressive Tax Planning Disclosure Rules: It creates mandatory disclosure guidelines for situations in which parties are involved in aggressive tax planning.

(11) Transfer Pricing Documentation: To increase transparency, it reorganizes and re-analyses procedures related to the documentation of transfer pricing agreements.

(12) Conflict Settlement: It establishes procedures for efficient and organized conflict settlement processes. This discourages countries from participating in mutual agreement to settle treaty issues.

(13) Multilateral Instruments: It addresses the modification of bilateral treaty agreements to address Base Erosion and Profit Shifting-related concerns.

In addition to action plans, the OECD adopted a Multilateral Instrument to amend bilateral double taxation treaties to improve, combat, and quickly tackle the unfair tax planning activities of multinational companies (Lénártová, 2020). Furthermore, the European Commission introduced notable measures like ATAP and ATAD to combat tax evasion. They also focused on measures to ensure transparency regulations, automatic information sharing, guidance for tax intermediaries, Fifth Anti-Money Laundering guidelines, and the creation of a black list of tax havens that differs from the OECD list. Measures of the EU like automatic exchange of information and Money laundering have brought remarkable changes in the tax system.

7.3 Government of India's measures to reduce base erosion and profit shifting (BEPS)

India imposed the Equalization Levy in 2006 for all commercial transactions, irrespective of the Permanent Establishment status of the parties involved. Consequently, any company that regularly transacts with Indian firms and is registered in a tax haven jurisdiction is subject to the Equalization Levy. Additionally, digital taxes are levied for businesses that operate in India.

In order to combat tax evasion and guarantee that people in various tax bands are accurately taxed, India implemented General Anti-Avoidance Rules, or GAAR in 2010. Apart from this, Place of Effective Management (POEM) was also introduced in 2015. According to POEM if a foreign company's key management and commercial decisions of the business as a whole are made in India, then it is treated as Indian resident and is liable to be taxed in India.

Further, India has signed Multilateral Convention on Mutual Administrative Assistance in Tax Matters to enhance the efficiency of information exchange and international cooperation in tax assessment and collection with the view to combat tax avoidance and evasion. Tax Information Exchange Agreements have been signed by the US and India with several tax havens. Through this arrangement, India can obtain information from tax havens upon request for criminal or civil tax investigations, thereby overcoming the secrecy regulations of numerous tax havens that facilitated the storage of Black Money. India has ratified multilateral instruments with tax havens in order to combat tax evasion and guarantee the substance, uniformity, and openness of international tax laws.

8. Implications and limitations

An important issue that India has encountered over the years is profit shifting by multinational corporations to their subsidiaries situated in tax haven jurisdictions, which lowers the parent company's tax liability and results in revenue loss to the home countries. Rather than diminishing their tax haven operations for the prosperity of the home country, companies are moving abroad and investing in tax havens to lower their taxes. The current study had made an attempt among the selected multinational companies to identify the number of tax haven subsidiaries, average investment made in tax havens, top investing companies and countries which contributes to higher tax haven investment. The findings of this study are useful in developing appropriate tax laws, particularly with regards to strict tax treaties that prevent the use of tax havens.

The sample may not provide an accurate picture of profit shifted to these jurisdictions since the study is limited to the financial data of 50 parent multinational companies' investments in their subsidiaries located in tax haven jurisdiction. Furthermore, the financial information from these subsidiaries is needed to reach a final judgment.

9. Results and discussions

The study had identified Singapore as the tax haven jurisdiction where the highest amount of Indian MNC investments is going every year. The highest investment in tax havens was made by Reliance Industries Ltd. which was Rs. 45,256 crores in 2019 and the average investment made by the selected Indian multinational companies from 2019–2021 ranges from Rs. 1.5 to Rs. 18,000 crores and the highest tax haven subsidiaries were made in the financial year 2019–2020 ie, 36.

The study shows among 38 tax haven countries as per Oxfam list, subsidiaries and investments were only made in 10 tax havens jurisdictions restricting the others even if the tax rates were zero. The tax haven countries like Canada, Bahrain, Luxembourg, Ireland, Netherlands, Mauritius, Singapore, Oman, United Arab Emirates, and Switzerland have both subsidiaries and investments of selected multinational companies. These countries had entered treaties with India for promoting trade and investments and it is noted that these countries have the highest ease of doing business [6]. This could be one of the main reasons for investing in and maintaining tax haven subsidiaries. It is also the primary factor that makes Singapore the tax haven jurisdiction with the highest amount of Indian MNC investments.

10. Conclusion

Tax havens are believed to be the safest place to rank investments that support the expansion and development of multinational corporations. Due to tax regulations and secrecy rules, the majority of the world's leading multinational corporations choose tax havens as a rational and legal means of hiding their money. This eventually ends up in a lack of government funds for further development and enhancement of the home country. The results of the study contradict the traditional definition of Tax havens as a jurisdiction that attracts foreign residents, companies, or entities to reduce their tax rate to a nominal level. The study says that irrespective of the tax rates, tax haven subsidiaries and investments in tax havens were made based on factors like ease of doing business and the treaties entered between countries in promoting trade and investments.

The efforts to mitigate the adverse effects of multinational companies' preference for tax havens and to strengthen the Indian economy, the Indian government and tax officials have implemented several measures that have somewhat decreased the evasion of taxes and other illegal activities. The equalization levy, digital taxes, tax information exchange agreements, and OECD's BEPS action plans have already had a favorable impact on India's economy and increased the tax revenue available to the government for the country's growth and development. However, it is evident from data that large multinational companies are using tax haven strategies. Thus, to mitigate the effects of tax havens, at least concerning India, government officials and policymakers have to focus on examining tax haven investments to guarantee a healthy Indian economy.

Notes

1. Available at https://corporatefinanceinstitute.com/resources/knowledge/other/what-is-tax-haven/
2. Available at https://corporatefinanceinstitute.com/resources/knowledge/other/what-is-tax-haven/
3. Available at https://sklawyers.com.au/blog/offshore-tax-havens/
4. Available in the official site of The World Economic Forum at https://www.weforum.org/agenda/2020/02/how-do-corporate-tax-havens-work/
5. Available at https://www.oecd.org/tax/beps/beps-actions/
6. Data on Treaties entered between India and tax haven jurisdiction will be available on the official site of UNCTAD and Ease of doing business will be available on the official site of World Bank.

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Supplementary material
Data analysis

Table A1 presents an overview of 38 tax haven countries based on subsidiaries and investments of the selected companies, as listed by Oxfam. Out of these countries, countries like Bahamas, Bahrain, British Virgin Islands, Canada, Cayman Islands, Gibraltar, Hong Kong, Ireland, Luxembourg, Mauritius, Netherlands, Oman, Singapore, Switzerland, Taiwan and United Arab Emirates have subsidiaries of selected companies, while twenty-two do not. Regarding the investments made by these companies in

Table A1. Tax haven country profile

Particulars		Investment Yes	Investment No	Total
Subsidiary	Yes	10	6	16
	No	0	22	22
	Total	10	28	38

Source(s): Authors' contribution

tax havens, countries like Bahrain, Canada, Ireland, Luxembourg, Mauritius, Netherlands, Oman, Singapore, Switzerland and United Arab Emirates have such investments, while 28 countries do not. Furthermore, only ten countries namely Bahrain, Canada, Ireland, Luxembourg, Mauritius, Netherlands, Oman, Singapore, Switzerland and United Arab Emirates have both subsidiaries and investments of selected companies in tax haven jurisdictions. There are 22 countries without subsidiaries or investments, and countries like Bahamas, British Virgin Islands, Cayman Islands, Gibraltar, Hong Kong and Taiwan have subsidiaries without investments. Refer to Table A2 for more details about the countries mentioned above.

Table A3 displays the descriptive statistics of the subsidiaries and investments made in tax haven jurisdiction by selected Indian Multinational Companies during 2019–23. The highest investment of the company taken up for the study was made by Reliance Industries Ltd (average investment was Rs 9,500 Crores) which amounts to Rs 45,300 Crore, followed by Tata Steel Ltd (average investment was Rs 18,000 Crores) and Sun Pharmaceutical Inds Ltd (average investment was Rs 10,300 Crores). Whereas the minimum investment in tax havens were made by Asian Paints Ltd, Eicher Motors Ltd, Grasim Industries Ltd, Hindalco Industries Ltd, ITC Ltd, Kotak Mahindra Bank Ltd, Mahindra Mahindra Ltd, State Bank of India, Titan Company Ltd, UPL Ltd and Ultratech Cement Ltd. Further the highest subsidiaries in tax haven jurisdiction were made by UPL Ltd (36) followed by Tech Mahindra Ltd (34) and Reliance Industries Ltd (18). Whereas companies like Hero Motocorp Ltd, Apollo Hospitals Enterprise Ltd, Asian Paints Ltd, Eicher Motors Ltd, ITC Ltd, Divis Laboratories Ltd and Bajaj Auto Ltd have the least subsidiary. The highest variation in investment was shown by Reliance Industries Ltd (20000) and subsidiaries was shown by Tech Mahindra Ltd (3.83). The top 10 selected Indian Multinational Companies with their respective investments in different tax haven jurisdictions from 2019 to 2023 are shown in table A4. The highest investment was made by Tata Steel Ltd from 2020 to 2023 amounting to more than Rs. 20,000 Crore except in 2019 where Reliance Industries Limited stood first with an investment of Rs. 45,256 Crores. Tata Motors Ltd. stood in second position in 2019, 2020, and 2023 and third position in 2021 and 2022 with an investment of Rs. 10,199.1 Crore. Further Sun Pharmaceutical Inds. Ltd. was in the second position in 2021 and 2022, third position in 2023, and fourth in 2019 and 2020 and soon.

Figure A1 shows the total number of subsidiaries and investment made by selected 33 Indian Multinational Companies having subsidiaries in tax haven jurisdictions from 2019 to 2023. The trend of the subsidiaries shows that 30% of the companies, i.e. Adani Enterprises ltd, Adani Ports & Special Economic Zone ltd, Bharti Airtel ltd, Britannia Industries ltd, Grasim Industries ltd, Hindalco Industries ltd, JSW Steel ltd, Reliance Industries ltd, Tata Consultancy Services ltd and Titan Company ltd are reducing their tax burden by increasing its tax haven subsidiaries over the years. Further the trend of the investment shows 24% of the companies, i.e. Adani ports and special economic zone ltd, Apollo Hospitals enterprise ltd, Dr Reddy's Laboratories ltd, Hero Motocorp ltd, Infosys ltd, Tata Consultancy Services ltd, UPL ltd and Wipro ltd. are increasing their investment in tax haven jurisdiction to reduce their tax burden.

Figure A2 indicates that among the different Tax Haven Jurisdictions as per Oxfam list that has investments of selected NIFTY 50 listed Multinational companies, Singapore has the highest investment by Indian MNCs, amounting to Rs. 56,347.18 crores in 2019 and around Rs. 34,000 crores from 2020 to 2023 followed by the Netherlands and Mauritius. The countries like Bahrain, Ireland, Oman, Luxembourg has the least investments of selected Indian MNCs from NIFTY 50.

S.No	Countries which have NIFTY 50 companies' subsidiaries	Countries in which NIFTY 50 companies' subsidiaries do not have investments	Countries which do not have NIFTY 50 companies' subsidiaries	Countries which have NIFTY 50 companies' investment or both subsidiaries and investments	Countries which do not have NIFTY 50 companies' investments	Countries that neither have NIFTY 50 companies' subsidiaries nor investments
1	Bahamas	Bahamas	Albania	Bahrain	Albania	Albania
2	Bahrain	British Virgin Islands	Anguilla	Canada	Anguilla	Anguilla
3	British Virgin Islands	Cayman Islands	Antigua and Barbuda	Ireland	Antigua and Barbuda	Antigua and Barbuda
4	Canada	Gibraltar	Aruba	Luxembourg	Aruba	Aruba
5	Cayman Islands	Hong Kong	Bermuda	Mauritius	Bahamas	Bermuda
6	Gibraltar	Taiwan	Bosnia and Herzegovina	Netherlands	Bermuda	Bosnia and Herzegovina
7	Hong Kong		Cook Islands	Oman	Bosnia and Herzegovina	Cook Islands
8	Ireland		Curacao	Singapore	British Virgin Islands	Curacao
9	Luxembourg		Faroe Islands	Switzerland	Cayman Islands	Faroe Islands
10	Mauritius		Greenland	United Arab Emirates	Cook Islands	Greenland
11	Netherlands		Guam		Curacao	Guam
12	Oman		Jersey		Faroe Islands	Jersey
13	Singapore		Malta		Gibraltar	Malta
14	Switzerland		Marshall Islands		Greenland	Marshall Islands
15	Taiwan		Montenegro		Guam	Montenegro
16	United Arab Emirates		Nauru		Hong Kong	Nauru
17			Niue		Jersey	Niue
18			Palau		Malta	Palau
19			Serbia		Marshall Islands	Serbia
20			Trinidad and Tobago		Montenegro	Trinidad and Tobago
21			Vanuatu		Nauru	Vanuatu
22			Virgin Islands		Niue	Virgin Islands
23					Palau	
24					Serbia	
25					Taiwan	
26					Trinidad and Tobago	
27					Vanuatu	
28					Virgin Islands	

Source(s): Compiled by the Authors based on the annual report of the companies

Table A2.
Supporting table for tax haven country profile

Table A3. Descriptive statistics of tax haven subsidiaries and investment made by selected Indian multinational companies during 2019–2023 (in Rs. Crore)

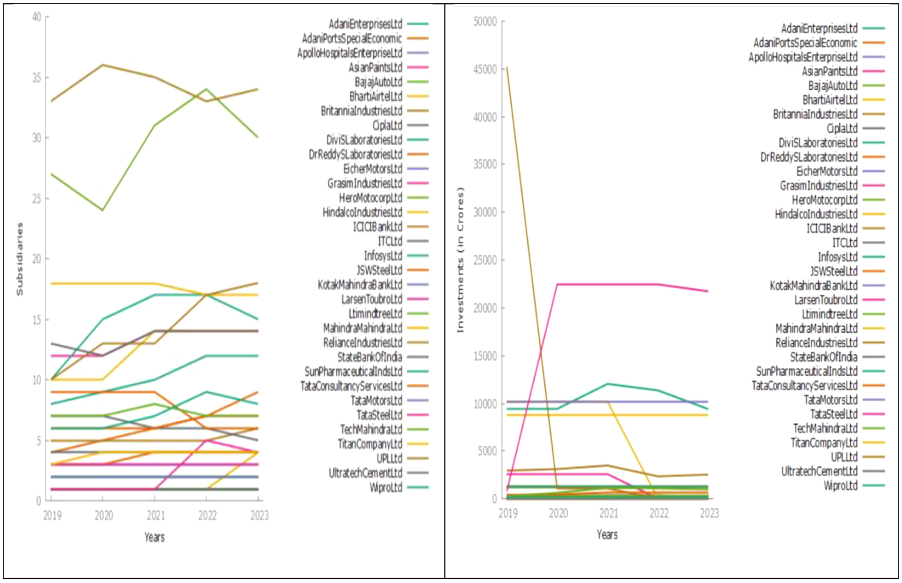
Companies	Investment					Subsidiary				
	Mean	Median	S.D.	Min	Max	Mean	Median	S.D.	Min	Max
Adani Enterprises Ltd.	30.9	30.9	0	30.9	30.9	10.2	10	1.79	8	12
Adani Ports Special Economic	23	6.8	43.9	0.04	101	6.2	6	1.92	4	9
Apollo Hospitals Enterprise Ltd.	10.6	0.145	14.4	0.1	28.2	1	1	0	1	1
Asian Paints Ltd.	0	0	0	0	0	1	1	0	1	1
Bajaj Auto Ltd.	1,220	1,220	0	1,220	1,220	1	1	0	1	1
Bharti Airtel Ltd.	8,790	8,790	0	8,790	8,790	1.75	1	1.5	1	4
Britannia Industries Ltd.	157	192	49.5	86.7	192	5.2	5	0.447	5	6
Cipla Ltd.	293	311	102	125	405	6.2	6	0.837	5	7
Divis Laboratories Ltd.	4.04	4.04	0	4.04	4.04	1	1	0	1	1
Dr Reddys Laboratories Ltd.	1,350	1,350	0.0548	1,350	1,350	7.8	9	1.64	6	9
Eicher Motors Ltd.	0	0	0	0	0	1	1	0	1	1
Grasim Industries Ltd.	1,580	2,640	1,440	0	2,640	13.2	14	1.1	12	14
Hero Motocorp Ltd.	287	296	14.8	262	296	1	1	0	1	1
Hindalco Industries Ltd.	6,100	10,200	5,570	0	10,200	12.4	14	2.19	10	14
ICICI Bank Ltd.	2,890	2,960	454	2,350	3,490	2	2	0	2	2
ITC Ltd.	0	0	0	0	0	1	1	0	1	1
Infosys Ltd.	1,340	1,350	7.12	1,340	1,350	14.8	15	2.86	10	17
JSW Steel Ltd.	8.44	8.74	0.405	8	8.74	6.4	6	0.548	6	7
Kotak Mahindra Bank Ltd.	0	0	0	0	0	3	3	0	3	3
Larsen Toubro Ltd.	53.2	53.2	0.13	53.2	53.5	2.4	1	1.95	1	5
Ltimindtree Ltd.	149	169	29.4	117	173	7.2	7	0.447	7	8
Mahindra Mahindra Ltd.	0	0	0	0	0	17.6	18	0.548	17	18
Reliance Industries Ltd.	9,500	1,060	20,000	65	45,300	14.2	13	3.27	10	18
State Bank of India	0	0	0	0	0	4	4	0	4	4
Sun Pharmaceutical Inds Ltd.	10,300	9,390	1,280	9,390	12,000	2	2	0	2	2
Tata Consultancy Services Ltd.	581	677	132	422	677	3.6	4	0.548	3	4
Tata Motors Ltd.	10,200	10,200	0	10,200	10,200	2	2	0	2	2
Tata Steel Ltd.	18,000	22,500	9,630	775	22,500	3	3	0	3	3
Tech Mahindra Ltd.	829	990	368	279	1,150	29.2	30	3.83	24	34
Titan Company Ltd.	0	0	0	0	0	3.8	4	0.447	3	4
UPL Ltd.	68.4	0	93.7	0	171	34.2	34	1.3	33	36
Ultratech Cement Ltd.	1.5	0	3.36	0	7.51	13.4	14	0.894	12	14
Wipro Ltd.	136	134	5.5	134	146	7.2	7	1.3	6	9

Source(s): Gretl output based on the annual report of the companies

Table A4.
Highest investing companies in tax havens (in Rs. Crore)

S.No	Company name	2019	Company name	2020	Company name	2021	Company name	2022	Company name	2023
1	Reliance Industries Ltd.	45256	Tata Steel Ltd.	22489.8	Tata Steel Ltd.	22489.8	Tata Steel Ltd.	22489.8	Tata Steel Ltd.	21716
2	Tata Motors Ltd.	10199.1	Tata Motors Ltd.	10199.1	Sun Pharmaceutical Inds. Ltd.	12028.8	Sun Pharmaceutical Inds. Ltd.	11352	Tata Motors Ltd.	10199.1
3	Hindalco Industries Ltd.	10159.4	Hindalco Industries Ltd.	10174	Tata Motors Ltd.	10199.1	Tata Motors Ltd.	10199.1	Sun Pharmaceutical Inds. Ltd.	9390.88
4	Sun Pharmaceutical Inds. Ltd.	9390.88	Sun Pharmaceutical Inds. Ltd.	9390.88	Hindalco Industries Ltd.	10175	Bharti Airtel Ltd.	8790.9	Bharti Airtel Ltd.	8790.9
5	Bharti Airtel Ltd.	8790.9	Bharti Airtel Ltd.	8790.9	Bharti Airtel Ltd.	8790.9	I C I C I Bank Ltd.	2354.1	I C I C I Bank Ltd.	2537.82
6	I C I C I Bank Ltd.	2955.18	I C I C I Bank Ltd.	3116.69	I C I C I Bank Ltd.	3489.46	Dr Reddy'S Laboratories Ltd.	1351.6	Dr Reddy'S Laboratories Ltd.	1351.6
7	Grasim Industries Ltd.	2636.25	Grasim Industries Ltd.	2636.25	Grasim Industries Ltd.	2636.25	Infosys Ltd.	1350	Infosys Ltd.	1350
8	Dr Reddy'S Laboratories Ltd.	1351.5	Dr Reddy'S Laboratories Ltd.	1351.5	Dr Reddy'S Laboratories Ltd.	1351.5	Bajaj Auto Ltd.	1218.72	Bajaj Auto Ltd.	1218.72
9	Infosys Ltd.	1337	Infosys Ltd.	1337	Infosys Ltd.	1350	Tech Mahindra Ltd.	1094.7	Tech Mahindra Ltd.	989.9
10	Bajaj Auto Ltd.	1218.72	Bajaj Auto Ltd.	1218.72	Bajaj Auto Ltd.	1218.72	Tata Consultancy Services Ltd.	677	Tata Consultancy Services Ltd.	677

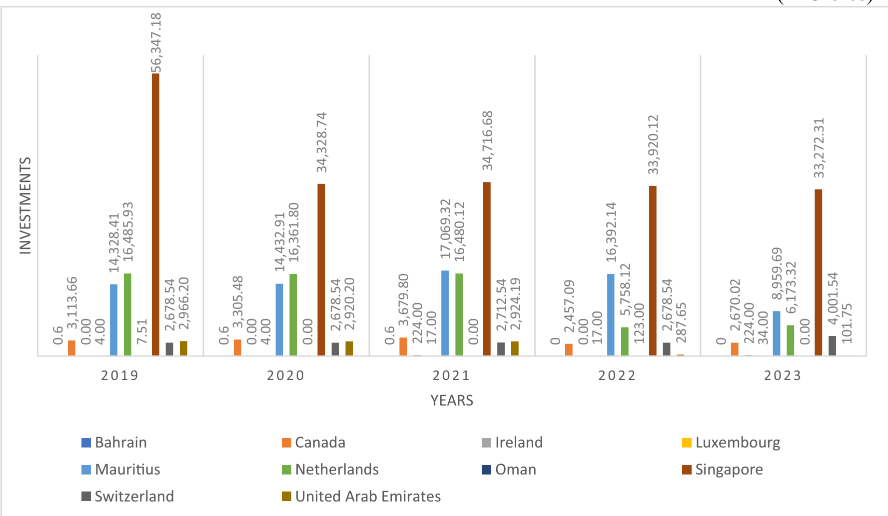
Source(s): Authors' computation based on the annual report of the companies



Source(s): Authors' computation based on the annual report of the companies

Figure A1.
Total subsidiaries and investment made by the selected 33 Indian multinational companies having subsidiaries in tax haven jurisdictions from 2019 to 2023

(in Crores)



Source(s): Authors' computation based on the annual report of the companies

Figure A2.
Countries where highest tax haven investment is made by selected Indian MNCs from 2019 to 2023

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