

УДК 339.9 =111

## TAX EVASION BY USING EUROPEAN OFFSHORES

Yushynova O., 11 МБ ОО

e-mail:72484a@gmail.com

Zagoreieva O.Yu., scientific supervisor

Karaieva T.V., language adviser

e-mail:tkarayeva2011@gmail.com

Tavria State Agrotechnological University

*У статті розглянуто причини сучасної тенденції до ухилення від сплати податків за допомогою Європейських офшорів. Аналізуються та порівнюються переваги і недоліки таких Європейських офшорів, як Гібралтар, Естонія та Великобританія.*

*Current trends in tax evasion by using European off shores have been considered in the article. Advantages and disadvantages of such European off shores as Gibraltar, Estonia and UK are being analyzed and compared.*

**Introduction:** Many successful people want the benefits of minimal taxation. That's where low tax countries come in. In this case, the minimization of taxes is not the only reason why the activities are offshore companies. As practice shows, offshore companies are registered primarily in countries with a stable political and economic situation.

If, however, they return to the issue of preferential taxation, it should be noted that the main advantage for business is exemption from taxes and additional fees. The only condition for obtaining tax preferences is the receipt of income from business activities outside the country where the offshore company was registered.

**Article relevance:** In connection with the increased tax burden and the reduction of deregulation in the Ukrainian business, many entrepreneurs seriously began to think about registering a company abroad in countries with low or no taxation, or in countries that have a simplified and loyal to the legal framework of business, and accordingly, and optimal taxation.

### **Content:**

In the mid-1990s issues related to offshore business were virtually unknown in Ukraine: there was no market economy, the state in its hands concentrated monopoly on foreign economic activity, the free conversion of foreign currency assets was almost impossible. With the development of market relations, more and more entrepreneurs began to seek help with offshore business. Today, most entrepreneurs hold their assets behind the facade of foreign companies, because they are better protected there from any external encroachments.

The use of offshore schemes to a large extent is positive for small and medium-sized businesses, can protect it from the unhealthy economy of Ukraine, which suffers from corruption and imperfect legislation. Therefore, it is necessary to analyze the positive aspects of the use of offshore for the economy as a whole and resident companies that use them:

- promoting the activation of diverse international financial flows and accelerating the circulation of financial assets on a global scale;
- ensuring the development of financial markets;
- creation of conditions for diversification of investments;
- expansion of access to loans and better capital allocation;
- a general reduction in the tax burden in the world and thereby stimulating economic activity and global economic processes;
- offshore is an activator of the economic growth of the states in whose territory they are located and factors influencing their economic development, including the potential of human capital, which contributes to the harmonization of the development of the economy as a whole;

- increase the ability of companies to compete in the national and global economy, enterprises are able to implement more flexible strategies for development, especially in the struggle for the markets for the products with which they came to the economic space[1].

Tax havens have attracted large companies along with wealthy private investors who seek refuge from taxation policies in their home countries. Tax havens have been known to greatly reduce and eliminate taxes that would have otherwise been due by domestic tax authorities if not for their placement in offshore accounts. Offshore zones of Europe, in contrast to offshore companies of other countries, are still an attractive activity for businessmen from all over the world, since the reputation of a company registered here is much higher than the reputation of any other offshore company registered outside Europe [2].

European jurisdictions are much inferior to the island states, as well as the Asian financial market on the issue of tax optimization. Some experts say that business in Europe will not be able to avoid paying taxes, maintaining accounting records, auditing and displaying statements on the owners of commercial structures. This practically makes it impossible to carry out entrepreneurial activities incognito. At the same time, European financial centers continue to enjoy popularity and attract large business representatives [3].

Currently existing European offshore:

1. Gibraltar - no income tax, auditing and reporting - is.
2. Estonia - no income tax, auditing and reporting - is.
3. United Kingdom - for the LLP (Limited Liability Partnership) income tax there, auditing and reporting — is [4].

Let's take a closer look at these offshore countries:

Gibraltar

Gibraltar has long been a popular tax residence for British citizens, but Gibraltar's benefits as a low-tax residence are available to anyone. Nestled at the southern tip of Spain, Gibraltar is a British Overseas Territory and not a sovereign country, but is able to set its own tax policy [5].

Favorable conditions have been created in the country both for offshore companies and for onshore companies. Non-resident companies do not pay taxes and when calculating with European companies, a zero VAT (value-added tax) rate is applied value-added tax. Some companies are exempted from the obligation to perform an audit. Legislation provides for the right to use a nominal service, appointing corporate directors and shareholders. For onshore companies, there are minimum taxes on wages.

Advantages of offshore in Gibraltar: high reputation, political stability, no exchange control, non-resident companies do not pay taxes, there are no bilateral international documents on cooperation in the exchange of information between Ukraine and Gibraltar, Gibraltar company LTD is not included in the Ukrainian list of organizational and legal forms of non-residents who do not pay income tax (Resolution of the CMU(Cabinet of Ministers of Ukraine) in 2017), fast registration procedure, absence of inspections by the tax authorities. Companies need only keep records on a simplified scheme, impeccable reputation of jurisdiction, opportunity to open accounts in banks of any zones.

Disadvantages of offshore in Gibraltar: reporting required, large and medium-sized companies must be audited, the company must necessarily have a Resident Secretary of Gibraltar, Gibraltar is included in the lists of offshore zones in many countries, included in the Ukrainian list of offshore zones (Order of CMU 2011), included in the Ukrainian list of jurisdictions that fall under the rules on transfer pricing (Resolution of CMU 2017), there are no agreements on elimination of double taxation[6].

All things considered despite its diminutive size, Gibraltar deserves a close look for anyone looking to take their finances international.

Estonia

There is no tax on undistributed profits - if an Estonian company makes a profit from doing business, then the profit tax is paid only when the company decided to distribute dividends to its

owners. If dividends are not distributed, and profits remain at the disposal of the company (stored on accounts or reinvested), then the profit tax is not paid.

Advantages of offshore in Estonia: the profit tax is zero, absence of transport tax, absence of "hidden" taxes, low rates of banks for international transfers of funds; the possibility of using marking on goods "made in the EU", adequate prices for the acquisition and support of business, Russian-language and English-language operational support, state bodies work with Russian-speaking representatives, most banks have support in Russian and English, advanced Internet banking and the ability to manage the company's accounts in Estonia from any place where there is Internet, obtaining temporary residence permit in Estonia; there is an opportunity to open the European branches of the company, registration of business visas for long stay in the Schengen countries, the possibility to operate the company remotely without visiting Estonia, the company's ability to exist without the staff of employees and pay salaries[7].

#### United Kingdom

There is no classical offshore zone in the UK, but subject to a number of conditions, companies can receive tax incentives. The rate varies from 26% to 0%. Companies compulsorily keep records and conduct audits (if the annual turnover exceeds 6 million GBP). For the registration of LTD, at least one shareholder is required without the requirements for status and residency. Size Y - 1.000 GBP, at the time of registration, it is enough to pay 2 GBP. Legislation allows the issue of preferred and common shares.

Registration of a company entails obligations to maintain records and submit annual declarations and reports to authorized bodies. In the first year of existence, companies receive a grace period (9 months) for reporting.

Firms are exempted from auditing if:

- 1) staff - no more than 50 people;
- 2) annual turnover - no more than 6.5 million GBP;
- 3) book value of assets - no more than 3.26 million British GBP.

Despite the fact that it is not possible to buy offshore in the UK in the classic interpretation of this concept, the country remains attractive to non-residents. This is due to a number of advantages that they receive when registering a company here. Among the main: prestige of the country, high business authority in the international market, stability of the banking system, tax incentives, high investment attractiveness, affordable cost of registration and maintenance, protection of the interests of shareholders (liability is limited to the amount of the contribution), absence of state currency monitoring.

The UK legislation provides for flexible conditions for the registration of foreign companies in the form of LLP. Offshore companies in the UK that operate outside its borders are taxed at a zero rate. For registration it is necessary to provide a package of documents (memorandum of association, certificate of registration, application, etc.) and make an advance payment (30%).

Entrepreneurs who choose to buy offshore in the UK need to report annually, have an office and a registration agent within the jurisdiction [8].

Disadvantages of offshore in UK: the LLP Partnership must report, large and medium-sized LLPs must be audited, LLP, whose partners are non-residents of the UK, cannot use double taxation treaties, the tax-free status of the LLP partnership is easily determined from publicly available sources of information, there is a Memorandum between the Ukrainian Government and the British Agency for Combating Organized Crime on cooperation in the exchange of information, the British LLP partnership is part of the Ukrainian list of legal entities of non-residents who do not pay income tax (Resolution of the Cabinet of Ministers of Ukraine in 2017).

It can be concluded that the UK offshore area gives a lot of benefits to entrepreneurs in the registration of companies, has a high prestige prestigious jurisdiction.

To summarize, for Ukraine in such conditions, the overriding task is to transform the use of offshore, not as a zone of holding profits, capital and ownership rights to assets, but to transfer them to Ukrainian jurisdiction, using the offshore as affiliates, or as a springboard on the conquest of highly competitive foreign markets. With this approach, Ukrainian business structures fully inte-

grate into a globalized competitive environment, and Ukraine, as the state will receive significant financial and investment flows, will improve the socio-economic situation, accelerate its growth and approach the standards of EU countries

*Conclusions:* Offshore countries are needed for minimize taxation, namely: reducing the tax base by using as an intermediary in the trade of a non-resident company; the withdrawal of profits from countries with high taxes to tax-free territories; acquisition of property on behalf of a non-resident company, which can significantly save on income and capital tax.

Offshore countries such as Gibraltar, Estonia or the United Kingdom are used to protect your Ukrainian business by participating in a non-resident company as an intermediary between your local company and an international partner in order to minimize taxes, simplify paperwork, accelerate financial flows and protect against arbitrariness of supervisory bodies; import of fixed assets, for example, if you need to purchase equipment abroad and do not want to pay excessive customs duties and VAT, you can purchase this equipment for a non-resident company and make this equipment as a statutory fund in a joint venture.

## **References**

1. Налоговая оптимизация: принципы, методы, рекомендации, арбитражная практика / под ред. к. ю. н. А.В. Брызгалина. – 3-е изд., перераб. и доп. – М. : Юрайт-Издат, 2006. – 304 с.
2. The Top 10 European Tax Havens [Електронний ресурс]. - Режим доступу: <https://www.investopedia.com/articles/wealth-management/121515/top-10-european-tax-havens.asp>
3. Офшоры в Европе [Електронний ресурс]. - Режим доступу: <http://ipopen.ru/registracija/offshory/offshornye-zony/offshory-v-evrope.html>
4. Офшорные зоны Европы. [Електронний ресурс]. - Режим доступу: <http://zabugrom.com.ua/work/offshore/49-evropaoffshores>
5. 11 Low Tax Countries for Living in Europe [Електронний ресурс]. - Режим доступу: <http://nomadcapitalist.com/2017/07/26/low-tax-countries-living-europe>
6. Регистрация офшора в Гибралтаре [Електронний ресурс]. - Режим доступу: <https://www.nexus.ua/gibraltar>
7. Наиболее выгодные с точки зрения налогов страны Европы [Електронний ресурс]. - Режим доступу: <https://uteka.ua/publication/Naibolee-vygodnye-s-tochki-zreniya-nalogov-strany-Evropy>
8. Регистрация оффшорных компаний и низконалоговых фирм: Офшор в Великобритании [Електронний ресурс]. - Режим доступу: [https://prifinance.com/registration-offshornye-kompanii/great\\_britain\\_ltd](https://prifinance.com/registration-offshornye-kompanii/great_britain_ltd)