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*Onyshko S. V., Noytskyi V. A.*

**EVALUATION OF OFFSHORE INFLUENCE ON THE ECONOMY:  
GENERAL APPROACHES AND GUIDELINES**

*In article it is described different approaches to evaluation of offshore influence. Listed main guidelines on offshore usage and its role in economy of company and country.*

**Key words:** *offshores, offshore influence, guidelines of evaluation, general approaches to offshore influence.*

**Problem.** In modern conditions offshore are objective phenomenon in the global economy. During its existence they influence functioning and economic development of specific compnies and their groups as well as individual countries. In general offshore is a country or territory of sovereign country that provide tax, administrative or informational benefits to specified number of companies [1].

For a company management offshores are almost always have positive economic effect, and the international community they are treated primarily as a negative phenomenon, which generates harmful tax competition and allows to hide returns from the national tax, and therefore requires decisive steps for their existence .

**Recent researches.** It should be noted that in the national scientific literature this subject is poorly studied. Some issues are reflected in the works of scientists as V. Geyets V. Andrushchenko, A. Meshcheryakov, M. Karlin, O. Manzyuk and others. Some of highlights are found also in the works of foreign scientists, including B. Heifets, N. Saxon, R. Murphy, A. Zorome, R. Palan and others.

Without doubts to the importance of critical relevance to offshores and to the elimination of their negative impact on the economy, it should be noted that in research the negative assessment of offshores in the structure of the world economy, in our opinion, requires further study in both – strategy ( that requires appropriate regulation of relations) and tactics (directed at solving of specific problems). As the accumulation of specific facts which indicate different motives and sides of impact on the economy by offshores, we need to rethink and adjust measures for solving this problem. Thus, in some cases, offhores help entities to stay functioning even in crisis situations. Sometimes due to certain political reasons, the use of offshores are forced by the need arises. We should not discard an existing relationship between offshore and investment. That is, by collecting the effects of various qualities we actualize the need of a comprehensive assessment of the impact on the economy by offshore within both the countries included in the list of offshore and those that are not recognized as offshores and taking into account the realities of a development period of each country. Equally, important issue is the consideration of the specifics of offshores, because, as will be shown

below, there are significant differences in the purposes and in the impact of some offshores on the economy. Only with a such approach we can achieve adequate solution of this complex, multifaceted problem.

**The purpose of this article** is to distinguish general guidance in evaluating the impact of offshores on the economy, given that they integrate a set of specific factors and are the basis of effective regulatory actions and management decisions in the line of the complex process of harmonizing the interests of society, the state and entities.

**Main text.** According to the theory of social influence the offshore effect on the economy is divided by areas of impact and mechanisms of realization of such influence. This impact can be divided into three key areas: political, economic and social. By the mechanism of implementation the offshore impact on the economies can be direct and indirect. Based on previous studies it is determined that offshores can not perform direct influence by objective reasons (slight economic weight, rigid adherence to the political strategies of developed countries, etc.), but offshores generating significant wave of indirect effects on the economy of non-offshore countries such as the use of offshore companies as a tool of political struggle, reducing budget revenue of non-offshore countries, reducing spending on social programs because of the general budget revenue reduction, etc. [2].

To analyze the offshore impact on the economy of non-offshore countries, in our opinion, the basic is a survey of functional structure of offshore sector in the world economy in order to identify specialization of offshores.

By functional characteristics offshore are divided into economic, financial, hedge, service, personal and mixed ones [3].

As economic are the offshores that allow the creation of companies such as "international business company» (IBC), which benefits from a low tax legislation and at the same time, if necessary, can engage in economic activities within the offshore sa offshore company with paying taxes on domestic national rates, which in general correspond to world average. These offshore, due to their operation principles, are used as intermediaries in international trade transactions: they may have their own stocks for short-term storage of the goods or their documentary one-stage processing (eg change of marking on the package by the addition or replacement of stickers) and from ordinary trading companies differ only tax preferences. An example is the British Virgin Islands, where the offshore legislation is focused on the economic component of business, and the rest offshore legislation is focused on creating and maintaining an appropriate management and financial infrastructure.

Financial offshores creating special conditions for the functioning of the banking system by creating offshore banks. The main preferences are minimal tax burden and the lack of state regulation of banking institutions. This allows you to open offshore bank accounts to simplify and reduce the cost of banking transactions. Overall financial offshore are used as a secure storage of capital (through an offshore company registered on nominee, but access to the account

only has real owner through international credit cards); as an intermediary in financial transactions, which is used by different companies, including the UN, IMF, etc; and as a financial intermediary in a transaction that accounts for the bulk of which are accumulated profits, output to offshore companies outside the national taxation. In financial offshores it is represented all major international banks (offshore copies which are governed by head office), that simplifies all banking and interbank transactions. However, offshore banks and offshore companies as, although it must have office in the offshore, but they are forbidden to conduct banking activities with legal entities that carry out its activities within the offshore and individuals that are residents of offshore. Examples are the Solomon Islands, which is a classic financial offshore and its offshore legislation is focused on providing comfortable conditions for financial institutions.

Hedging offshores are offering a mechanism of funds accumulation. As part of their offshore legislation a key role is devoted to hedge fund and various trusts, which are the way for rapid accumulation of capital through equity and investment funds. Also hedging offshores is the main source of speculative capital that is used in the short term investment and can move freely as within one sector of the world economy and in cross-sector dimension with one purpose - to maximize short-term profits, which are taxed at a loyal rate or not taxed at all (fixed offshore annual payment). Examples are the Cayman Islands, which give tax preferences only to hedge funds and trusts.

Service offshores allow the creation of offshore companies with offshore status, entitled to provide only those services that are identified by offshore legislation. For such services only paid a fixed tax, and state control is present only in the form of Supervision in certain range of services. An example is Panama which has offshore legislation and under it permits the registration of international companies which provide registration services for ships and aircraft with payment of a small fixed annual payment instead of the part of the freight value of vessel as in other countries.

Personality offshores are the highly respectable offshores that offer tax privileges to citizens on income earned outside offshore. That is all the profits that are received outside the offshore is not taxed, while earnings in offshore are subject to declaration and ordinary tax rates must be paid. An example is Monaco, where tax preferences provided in the form of a zero tax rates and general reporting on profits earned outside of Monaco.

Mixed offshores are special countries or territories where the tax preferences granted to all mentioned types of companies, but today it is more common combination of financial and hedging offshore. This is due to the fact that hedge funds need a well-developed financial system and its obvious that offshores granted special privileges to international financial sector of their economy. An example is the Strait Islander (o.Guernsey, o.Jersey) are both financial and hedging offshores while containing some signs of economic offshore.

According to their specialization, offshore can be used for different purposes, sulfur which:

- minimizing the tax burden;
- optimization of financial flows;
- legalization of previously withdrawn funds (investment flows);
- hedging of risks;
- preserve the value of financial assets;
- the protection of the financial resources and intangible assets;
- place for the secondary accumulation of capital;
- personal tax advantages.

Minimization of the tax burden is one of the main purposes of use of offshore companies in economic operations in non-offshore countries. It can be an optimization of tax burden (the use of offshore companies under legal methods to reduce tax payments) and aggressive tax planning (taking an advantage of widely intermediary companies to hide the fact of offshore companies in business transactions and provides additional benefits). In terms of enterprises using offshore companies to minimize the tax burden has positive economic result. In the corporate development strategy head office even apply internal incentives for managers at various levels for minimization of the tax burden, as this reduces the effective rate of corporate income tax (corporate tax) within the group of companies, but for fiscal authorities it is provided information that a group of companies working with minimum of income, whereas the real income derived to offshore out from national taxation. From the perspective of the state, the use of offshore companies to minimize the tax burden is a negative phenomenon, but the level of negativity such effects depends on the phase of the economic cycle. In the phase of growth and economic stability withdrawal to offshore remains relatively constant value - the amount of the economy is growing and therefore increasing the volume of funds overseas that remains non-critical for economy. In the phase of downturn the negative role of offshore operations through minimize tax payments leads to that not only profits are transferred offshore, but investment is also shorten from offshore companies that only deepens the crisis that accompany the decline phase of the economic cycle.

Optimization of financial flows related to the use of offshore financial and banking specialization. So some offshore companies create the maximum simplification and reduce operation costs on financial transactions. For example - the World Bank Group encourages recipient countries to use the offshore financial support to transfer funds that significantly reduce the processing of transactions and the value of its holding. That is, the offshore as financial intermediaries can be assessed as a positive phenomenon for individual companies and for the state both in the short term and in the long term.

However, this optimization has a negative side for individual companies and for the state - offshore, with financial specialization is a source of mobile speculative capital, which by its nature is short-term and can not hold capital under

sustainable projects, and encourages him permanent move according to changes in the profitability of some industries. Threats for individual enterprises and for the economy as a whole, are that short-term capital relatively easily can be removed if profits do not meet the stated size, which means a significant reduction in the competitiveness of enterprises or industries.

Using offshore in international investment flows allows offshore companies and use it as a tool for the legalization of funds previously withdrawn. For companies the option to use offshore companies is positive because it allows them to legally use their own funds that had been withdrawn to offshore earlier, in order to develop or to cover temporary gaps in financial activities. The result is to obtain additional income, which again can be easily removed to offshore companies. For state use of offshores in foreign direct investment in the short term is positive as it helps to broaden the tax base through the development of production. However, when analyzing the long-term perspective, foreign direct investment from offshore is an additional source of income withdrawal under the national tax as direct foreign investments are in the form: financial target or loan, lease, rent, etc; and these forms may have payments for the use of investment resources, which are transferred to offshore companies. Nevertheless, a generalized assessment still indicates that direct foreign investment, even from offshore companies is a positive factor for economic development for non-offshore countries.

Hedging risks in terms of the use of offshore companies linked to two key directions:

- 1) preserve the value of financial resources;
- 2) protection against the risks of non-offshore country.

As to the first direction, it is used in times of economic instability and crisis fluctuations on the internal market of non-offshore country. Part of the profits are derived outside the national taxation to avoid, for example, government regulations on mandatory sale of foreign currency earnings (all currency deposited in offshore accounts) or in terms of increasing the rate of NBU. Protection against the risks for non-offshore countries involved in commercial use of offshore operations to transfer key facilities or processes under the ownership of an offshore company, which minimizes the risk of capturing of national economic complexes or negative political influence within the country. For a country, shown reducing of the economic activity risks has positive reaction because it increases economic attractiveness and helps to attract more investment resources, but it may be obvious imbalance - the income received in the territory of the non-offshore country with using of hedging offshore benefits, are taxed under offshore legislation, not national one..

Hedging offshores used in business transactions in order to create space for the secondary accumulation of capital - profits derived to offshore accumulate on accounts of offshore trust or hedge fund for their multiplication. On the one hand, as a place of secondary accumulation of capital, offshores have a positive overview, because it allows in terms of hedging and tax optimization of the enterprise to

create a financial reserve, which can be used for development, modernization or support activities in time of crisis. On the other hand, the accumulated funds most likely will be converted to short-term speculative capital that will be used as part of an aggressive financial strategy for its multiplication.

Also, due to given functional specialization of offshores, some of them provide offshore services to the individuals. These offshore services outlines the range of issues to minimize tax on personal income. An example is Monaco, where providing possession of property in Monaco and the bank account with not less than EUR 1 million, a person may obtain citizenship and offshore advantage - all income earned abroad, are taxed at a zero rate. However, in addition to similar services provided by offshores, some non-offshore countries trying to offer such. An example is the situation with Gerard Depardieu, who changed nationality from French to Russian, because the tax rate on personal income in France on a progressive scale exceeded 70%, while in Russia it is 13% [4]. For non-offshore countries this practice has a negative effect, as the country loses tax revenues because of reducing tax base.

**Conclusion.** In summary, we can conclude that the offshore is ambiguous phenomenon in the global economy. According to their functional specialization, they almost always have a positive economic effect for individuals and entities that use offshore benefits in economic transactions. However, in terms of state, offshore is more negative development than positive. This is due to the fact that simplify aspects for international financial flows and the possibility of hedging does not always cover the negative economic effect of withdrawal of incomes outside the national taxation to offshores. Therefore, we believe that although offshore has positive aspects in terms of non-offshore country, the negative side offshore for national economies forced governments to develop and modernize state policies to minimize the impact of the offshores on the economy of non-offshore countries.

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***Онишко С. В., Новицький В. А.***

***Оцінка впливу офшорів на економіку: загальні підходи та орієнтири***

*У статті проаналізовано загальні підходи до виділення впливу офшорів на економіку країни та проведено оцінку офшорного впливу з точки зору окремого підприємства та держави в цілому. Також виділено основні напрямки використання офшорів у економічних операціях.*

**Ключові слова:** *офшори, вплив офшорів, загальні підходи до визначення впливу офшорів.*

**Онышко С. В., Новицкий В. А.**

**Оценка влияния оффшоров на экономику: общие подходы и ориентиры**

*В статье проанализированы общие подходы к выявлению влияния оффшоров на экономику страны и проведена оценка оффшорного влияния с точки зрения отдельного предприятия и государства в целом. Также выделены основные направления использования оффшоров в экономических операциях.*

**Ключевые слова:** *оффшоры, влияние оффшоров, общие подходы к определению влияния оффшоров.*

*Онышко Світлана Василівна – доктор економічних наук, професор кафедри фінансових ринків Національного університету ДПС України.*

*Новицький Віталій Андрійович – аспірант кафедри фінансових ринків Національного університету ДПС України.*