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OFFSHORE ECONOMY TENDENCIES AND CHALLENGES:**CASE STUDY OF UKRAINE**

Abstract. The paper aims at disclosing the nature of offshore tools used for the withdrawal of capital from Ukraine, as well as suggesting measures to be undertaken by Ukrainian authorities to improve the current situation. The authors apply comparative analysis to find the data discrepancy between State Statistics Service of Ukraine and Eurostat on export-import operations between Ukraine and the EU to determine the volumes of tax evasion and avoidance in Ukraine.

The article states that dynamic internationalization of financial and economic operations of Ukrainian business entities in recent decades had negative effects on national welfare due to their maneuvering of capital between affiliated units via transfer pricing and intensifying their offshorization using transborder movement of commodities, services, and factors of production resulting in the reduction of budget tax revenues, increasing the scale of cross-border outflow of capital, strengthening the strategic control of foreign countries over the production facilities of Ukraine, as well as significantly undermining national tax security, macroeconomic and social balance.

Thus, Ukrainian regulatory bodies must take measures aimed at deoffshorization of business activities, structural modernization of the national economy, dynamization of macroeconomic growth, regulation of inflation and increasing the volume of foreign direct investments in Ukraine.

Keywords: multinational companies, offshore, offshore financial centers, offshorization, tax avoidance, tax evasion, tax haven, Ukraine.

JEL Classification H26, H31, H32

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ТЕНДЕНЦІ ТА ВИКЛИКИ ОФШОРНОЇ ЕКОНОМІКИ: ТЕМАТИЧНЕ ДОСЛІДЖЕННЯ УКРАЇНИ

Анотація. Мета статті полягає в розкритті сутності офшорних інструментів, що використовуються для виведення капіталу з України, а також пропонуванні заходів, які повинні бути вжиті українською владою для поліпшення поточної ситуації. Застосовано порівняльний аналіз, щоб виявити розбіжності в даних Державної служби статистики України та Євростату стосовно експортно-імпортних операцій між Україною та ЄС, для визначення обсягів ухилення та уникнення сплати податків в Україні.

Зазначається, що динамічна інтернаціоналізація фінансово-економічних операцій суб'єктів господарювання України протягом останніх десятиліть мала негативні наслідки для національного добробуту через маневрування капіталом між пов'язаними підрозділами за допомогою трансфертного ціноутворення і посилення їхньої офшоризації за допомогою транскордонного руху товарів, послуг і факторів виробництва, що призводить до зменшення податкових надходжень, збільшення масштабів транскордонного відпливу капіталу, посилення стратегічного контролю зарубіжних країн над виробничими потужностями України, а також суттєвого підриву національної податкової безпеки, макроекономічної та соціальної рівноваги.

Таким чином, українські регуляторні органи повинні вживати заходів, спрямованих на деофшоризацію підприємницької діяльності, структурну модернізацію національної економіки, динамізацію макроекономічного зростання, регулювання інфляції та збільшення обсягів прямих іноземних інвестицій в Україну.

Ключові слова: транснаціональні компанії, офшори, офшорні фінансові центри, офшоризація, уникнення сплати податків, ухилення від сплати податків, податковий притулок, Україна.

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The problem statement. The growing concentration of capital and profits in the hands of global corporations is increasingly motivating them to implement diversified corporate business offshoring strategies. One tenth of the global gross domestic product (GGDP) is kept in tax havens, but national relative indicators differ significantly, for instance, Scandinavian countries — several percent of GDP, Continental Europe — about 15 percent, Persian Gulf and some Latin American countries — up to 60 percent [1]. Offshoring of business operations, as one of the leading global trends in world economic development, has an extremely negative impact on the dynamics of macroeconomic growth of countries and entire regions due to the implementation of aggressive

schemes of «tax optimization» and tax base «erosion». Offshore jurisdictions have accumulated unregistered investment capital totaling from \$21 to \$32 trillion [25], that is approximately one third of the global gross domestic product (GGDP), and registered real estate worth \$70 trillion, or 30—45 percent of GGDP.

Each year about \$420 billion move to offshore jurisdictions [12], while, for instance, in 2016, the share of corporate income tax in global tax revenues did not exceed 13.3% in 88 jurisdictions, and corporate income tax revenues averaged 3% of GGDP [43]. There were significant regional differences in the share of corporate taxes in general tax revenues and GDP in 2016: 9 percent and 2.9 percent for OECD countries, 15.3 percent (in 21 tax jurisdictions) and 2.8 percent in Africa, and 3.4 percent (in 25 jurisdictions) and 3.4 percent respectively in Latin America and the Caribbean region [18]. It is quite natural that this situation significantly intensifies interstate competition for the provision of technological ways to circumvent the system of taxation, disclosure and financial regulation, as well as the right to collect taxes from business entities engaged in international transactions. In this case, such a «race of concessions» is traditionally qualified in the global regulatory system as a problem of collective action [24], which requires jointly developed and implemented in business practice multilateral solutions.

Thus, companies and organizations, using offshore operations, gain a few significant competitive advantages related to the optimization of production processes, the acquisition of new market segments, expanding access to a highly skilled segment of the workforce, leveling institutional barriers to cross-border movement of goods, services, and factors of production, improving customer service, and streamlining financial accounting, as well as business operations.

The issue of widespread offshoring business activities of large and medium-sized enterprises has arisen dramatically in recent decades in Ukraine caused by their intention to diversify mechanisms of aggressive tax planning, transfer of domestic companies' profits abroad, avoid return of foreign exchange earnings of exporters and stipulate manipulation of transfer prices. This has already significantly reduced the fiscal efficiency of the national tax system requiring the implementation of effective tools for deoffshoring of business activities and liquidation of tax minimization schemes of the business structures. Based on this, comprehensive research of offshore economy tendencies and challenges is extremely important, both theoretically and practically, to further develop proposals to increase the fiscal and regulatory efficiency of the domestic tax system and achieve strategic goals of economic development.

Analysis of the last research and publications. An extensive body of literature exists on offshore centers and regulations, offshoring schemes, offshoring, and tax evasion used by corporations and individuals. For example, Otusanya [20] implies that offshore financial centers and tax havens, national business elite and professionals are the key elements of anti-social tax practices, namely tax evasion and avoidance resulting in underfinancing infrastructure, social and educative programs. Bayer et al. [3] consider the fear of expropriation to be the main driver for individuals to keep their wealth in offshore centers, thus, the volume of transferred income from illegal business tends to increase when well-functioning authorities introduce severe measures against money laundering.

Schwarz [23] stresses the coincidence of tax haven and money laundering within the same regions and countries. Radu [21] states that tax havens negatively impact on budget income of countries with comparably high tax rates inspiring tax avoidance and resulting in financial instability. López [16] suggests that tax evasion and informality are common features for developing countries. Casi, Spengel, and Stage [4] claim that the Common Reporting Standard (CRS) representing the intensification of information exchange between countries serves as the key measure decreasing cross-border tax evasion. At the same time, Menkhoff and Miethé [17] assert that tax evaders, mainly corporations, constantly develop new countermeasures adapting to information exchange treaties with tax havens questioning the efficiency of the existing international policy aimed at tackling tax evasion problem. Kemme, Parikh, and Steigner [14] prove there is a link between cross-border equity flows and evasion of taxes via roundtripping through tax havens in countries with low tax morale.

Chernykh and Mityakov [5] discovered the positive interplay between offshore banking activities and tax evasion of companies being clients of these offshore-active banks with high probability of losing banking licenses and criminal prosecution of top-management. Konrad and Stolper [15] argued that low penalties for tax evaders reporting their offshore assets encourage them and tax haven countries to cooperate; the latter ones consider balancing observable returns from tax evaders and complying with international standards of transparency due to the international financial and regulatory pressure. Jones, Temouri, and Cobham [13] point out that there is a strong correlation between the size of MNCs' tax haven network and their cooperation with Big 4 accountancy corporations, thus, auditors make a difference influencing the tax behavior of MNCs.

Omar and Zolkafli [19] declare that borderless trade creates the necessary environment for multinational companies (MNCs) to use tax avoidance and tax evasion schemes, especially for ones with subsidiaries in tax havens tending to shift profits there. Richardson, Taylor, and Obaydin [22] emphasize the positive connection between tax haven intensity of US MNCs and the cost of bank loans, namely, offshore activity results in increasing interest rates and substituting borrowing from the bond market by bank loans. Applying network modeling Dominguez et al. [7] maintains that major offshore regions receiving are the American Antilles, Eastern Asia, Oceania, and South East Asia; while the key jurisdictions include the British Virgin Islands (as the hub in the offshoring network), the Cook Islands, Hong Kong, Indonesia, Samoa, and Singapore.

The reasons for offshorization in Ukraine and possible measures to tackle this problem are revealed in numerous articles. For instance, Malynka and Polishchuk [37] relying on theoretical fundamentals of functioning of multinational corporations discovered that the most popular method of transfer pricing aimed at withdrawing income from Ukraine is the resale price method. Sardak and Sytnik [44] shedding light on definition of the essence of offshore zones suggested that in order to reduce the capital outflow from Ukraine, the state authorities must harmonize and coordinate the state fiscal policy and monitoring. Slozko and Hlazova [45] based on international experience argued that tax amnesty in Ukraine has the potential for improving the status quo of using offshore scheme and shadow economy to hide real revenues both by corporations and individuals. Even though Ukraine has applied this instrument in the form of tax compromise in 2014, there is still a need for additional tax amnesties.

The selection of methods for assessing the level of offshorization and elaborating recommendations to tackle problems connected with corruption and tax evasion involved in offshore activities is due to the existing practice and limited access to reliable information. For instance, Menkhoff and Miethe [17] used bilateral bank data for country pairs in a balanced quarterly panel to investigate the influence of information exchange on tax evasion activities by estimating bank deposits in tax havens.

Richardson, Taylor, and Obaydin [22] applied cross-sectional analysis to find out that low managerial ability, high CEO pay-for-performance, poor corporate governance, and weak information environment serve as the key channels for establishing positive connection between using tax havens and bank loans costs for MNCs. Besides, using regression estimation they demonstrated that a one standard deviation growth of tax haven intensity increases the bank loan spread by 4.65 basis points.

López [16] has developed an equilibrium model to demonstrate the logics of choosing tax evasion, compliance, or informality status by companies. The main finding based on Mexico data is that reducing formal tax evasion by authorities capable to increase tax revenues by up to 68 percent from the starting point.

Hebous and Lipatov [11] have developed the model of tax havens for corporate income generated in corrupted countries. They argue that tax havens have the ambivalent impact on welfare, namely, negative effect via facilitating bribes for officials and positive one through attracting investments from companies escaping expropriations and bribes. Moreover, investments in corrupted countries have the positive correlation with establishment of subsidiaries in tax havens.

Gunn, Koch, and Weyzig [10] use the case study approach to evaluate tax avoidance and aggressive tax planning. These researchers have developed the set of ten indicators to overcome

possible shortcomings of case study as a method, including access and quality of data; transparency of methodology; expert peer reviewing; explanation of selection of cases, etc.

In general, the abovementioned methods form the solid basis for assessing different aspects of offshore economy, besides, we apply comparative analysis to find the data discrepancy between State Statistics Service of Ukraine and Eurostat on export-import operations between Ukraine and the EU to determine the volumes of tax evasion and avoidance in Ukraine. The range of considered problems in literature enabled authors to determine the aim and most effective tools for overcoming challenges caused by extensive offshore activities of Ukrainian business entities and individuals.

Purpose of the article. The paper aims at disclosing the nature of offshore tools used for the withdrawal of capital from Ukraine, as well as suggesting measures to be undertaken by Ukrainian authorities to improve the current situation.

Results of research. Unfortunately, Ukraine also does not fall out of the general «clamp» of global offshore business processes. It suffers from the colossal scale of the transfer of domestic companies' profits abroad, non-return of foreign exchange earnings of exporters and manipulation of transfer prices, purchases of products from producers and the population for cash without proper reflection of transactions in accounting and tax reports, schemes of export operations by economic entities not registered as value added taxpayers, etc.

It is worth mentioning that all currently used offshore tools for the withdrawal of capital from Ukraine have a clear threefold nature and are implemented through the three most common channels. Firstly, the actual withdrawal of capital by foreign investors (and in most cases by Ukrainian beneficiaries — individuals and legal entities) in the form of profit repatriation; secondly, investing in affiliated companies and firms registered in offshore jurisdictions; thirdly, the cross-border movement of capital assets by individuals and legal entities to offshore jurisdictions for the purpose of tax evasion or regulatory actions by means of transfer pricing and remittances. As we can see, the above-mentioned business offshoring channels in Ukraine reflect a kind of «symbiosis» of shadow economic transactions in the field of purchase and sale of goods and services, as well as cross-border cash flows. For example, at the beginning of 2019 only from the export of agricultural products the amount of foreign exchange earnings non-returned to Ukraine reached \$103 million [33].

Due to the widespread offshoring schemes including transfer pricing, the budget of Ukraine loses \$5-6 billion in tax revenues annually [31]. Almost 60 percent of Ukrainian merchandise exports is sold using indirect contracts resulting in uncontrolled profits exceeding one third of total exports volume in money terms [30] posing significant threats to national economic security in general, as well as endangering socio-economic stability and social balance in Ukrainian society.

Despite some positive changes in recent years, indirect contracts still account for about 30 percent of the annual foreign trade value of Ukraine, or \$35—40 billion [31]. For example, total merchandise exports from Ukraine to offshore jurisdictions and countries with tax-free corporate tax regimes equaled \$24 billion, exports of services — \$5.6 billion, in other words, 67 and 56 percent of total exports of goods and services in 2016. The biggest countries-partners for indirect contracts were Switzerland (\$10 billion), the United Kingdom (\$3 billion), the United Arab Emirates (\$2 billion), Cyprus (\$1.2 billion), and the British Virgin Islands (\$1 billion). At the same time, the value of direct goods supplies to these countries equaled only slightly exceeded \$ 1.7 billion [31].

Ukrainian corporations minimize taxes manipulating commodity transfer prices between headquarters and affiliated firms registered in offshore jurisdictions. Other popular covert methods of transferring profits abroad are fictitious import and export contracts (so-called pseudo-imports, pseudo-exports, and atypical exports); carrying out export operations at artificially low invoice prices, and import — at artificially inflated prices [41] including the involvement of fictitious companies; as well as the use of resale prices, «costs plus» and net profit [37].

Table 1 indicates that artificial understatement of prices in Ukraine's foreign trade was more than \$147.6 billion (or almost 20 percent of average foreign trade) in 2008—2017. The eloquent confirmation of the widespread use of offshore schemes in foreign trade operations is significant

differences in export-import indicators between the EU member-states and Ukraine submitted by Eurostat and the State Statistics Service of Ukraine.

Table 1

The total amount of price understatement in Ukraine's foreign trade in 2008—2017

Period	The total volume of artificial price understatement in Ukraine's foreign trade with 135 developing countries and 36 developed ones		The total volume of artificial price understatement in Ukraine's foreign trade with all trade partners	
	\$ billion	Share of foreign trade, %	\$ billion	Share of foreign trade, %
2008	6.911	20.66	22.615	19.58
2009	3.526	21.40	12.202	19.78
2010	4.599	21.29	14.239	17.55
2011	5.962	19.52	18.650	16.32
2012	5.705	19.82	18.037	17.16
2013	5.635	19.47	17.277	16.90
2014	4.358	18.07	13.708	16.30
2015	2.513	18.46	9.350	16.98
2016	3.651	19.03	10.135	17.10
2017	4.148	17.38	11.412	16.31
Total	47.008	X	147.625	X
Average	4.701	19.51	14.763	19.96

Source: developed by the authors based on the source [9].

Table 2 shows that the average annual difference between data on Ukrainian merchandise exports to the EU member-states in 2005—2007 provided by the Eurostat and State Statistics Service of Ukraine was 3—14 percent, and imports — 4—18 percent. These discrepancies cannot be explained by accounting methodology inaccuracies, goods-in-transit, or resales to third countries [30]. Therefore, there were huge volumes of unpaid corporate income tax on exports to the EU, customs duties and value added tax on imports from the EU.

Table 2

Commodity export-import operations between Ukraine and the European Union in 2005—2017

Period	State Statistics Service of Ukraine		Eurostat		Deviation of export operations from Ukraine to the EU		Deviation of import operations From the EU to Ukraine	
	Export from Ukraine, billion euros	Import from the EU, billion euros	Import from Ukraine to the EU, billion euros	Export from the EU to Ukraine, billion euros	billion euros	%	billion euros	%
2005	8.025	93.92	8.277	9.814	0.252	3.1	0.422	4.5
2010	10040	14.693	9.878	14.445	-0.162	-1.6	-0.248	-1.7
2012	13.184	20.194	14.643	23.865	1.459	11.1	3.671	18.2
2013	12.569	20.278	13.882	23.899	1.313	10.4	3.621	17.8
2014	13.092	16.223	13.734	16.988	0.642	4.9	0.765	4.7
2015	11.941	14.064	12.844	14.033	0.903	7.6	-0.031	-0.3
2016	11.944	15.169	13.159	16.497	1.215	10.2	1.328	8.8
2017	14.610	17.333	16.700	20.200	2.090	14.3	2.867	16.5

Source: calculated and developed by the authors based on the sources [8; 34].

In addition, Ukrainian business foreign trade transactions often involve schemes to obtain unjustified tax credits and tax benefits, illegal reimbursement of value added tax and evasion of its payment [32].

The biggest importers of Ukrainian goods using offshore jurisdictions and onshore companies in 2016 were Egypt (\$2.1 billion), Turkey (\$1.8 billion), China and Italy (\$1.7 billion each), India (\$1.6 billion), as well as Iran, Spain, the Netherlands, and the Russian Federation (\$0.5—1 billion) [31] indicating the large-scale transfer of tax payments from Ukraine to offshore or «hybrid» tax jurisdictions, where the corporate income tax rates were 5 or more percent lower compared to Ukraine and did not exceed 13 percent.

Since 1991 Ukraine lost \$150—170 billion withdrawn to offshore jurisdictions with the share of Cyprus equaling 90 percent. According to the current agreement between this country and Ukraine on the avoidance of double taxation, domestic companies do not pay taxes on withdrawn dividends, interest, and royalties [2] resulting in more than \$30 billion taken to Cyprus and belonging to Ukrainian companies and oligarchic structures [36].

The favorable tax regime, common law and wide range of offshore services provide Ukrainian corporations with unlimited opportunities for tax manipulations using offshore accounts in Cyprus, the biggest investor in Ukraine in 2010—2020 (\$10.4 billion of 30 percent of total FDI). From *Table 3* we can see that other five countries, namely the Netherlands (\$8.3 billion), the UK (\$2.1 billion), Germany (\$1.8 billion), Austria (\$1.2 billion), and the British Virgin Islands (\$1.1 billion) account for more than 40 percent of total FDI, which can be explained by the fact that these countries, on the one hand, concentrate headquarters of European multinational corporations, and, on the other hands, European offshore jurisdictions.

Table 3

**Foreign direct investment in Ukraine (equity capital) by countries of origin
in 2010—2020 (as of January 1), \$ billion**

Period	Austria	Netherlands	Germany	Russian Federation	United Kingdom	France	Cyprus	British Virgin Islands	USA	Total
2010	1.675	7.461	6.010	1.900	2.234	1.381	8.603	1.284	1.260	38.992
2011	1.799	11.390	5.001	2.693	2.230	2.105	9.621	1.385	1.108	45.370
2012	2.318	9.324	5.330	2.876	2.536	1.993	12.701	1.580	0.967	48.198
2013	2.477	8.728	4.496	3.041	2.497	1.510	15.908	1.888	0.977	51.705
2014	2.314	9.008	2.908	3.526	2.768	2.146	17.726	2.276	0.935	53.704
2015	1.352	6.887	2.111	1.621	2.146	1.342	11.972	1.988	0.789	38.357
2016	1.153	6.090	1.605	0.344	1.785	1.299	9.895	1.715	0.717	32.123
2017	1.100	6.028	1.564	0.814	1.947	0.616	8.786	1.682	0.585	31.230
2018	1.039	6.395	1.683	0.797	1.944	0.723	8.933	1.358	0.517	31.606
2019	1.150	7.119	1.701	0.598	2.131	0.744	9.545	1.040	0.543	32.905
2020	1.249	8.301	1.843	0.783	2.061	0.846	10.369	1.062	0.638	35.810

Source: developed by the authors based on the source [34].

Thus, FDI in Ukraine are mainly offshore in nature represented by the previously withdrawn via offshore operations capital of Ukrainian companies. The value of foreign direct investment in Ukraine, in which the final controlling investors were residents of Ukraine (round tripping) did not exceed \$9.4 billion or 22.8% of the cumulative FDI inflows [40]. Despite the gradual increase in the net capital assets inflow via round tripping, their value did not exceed \$1 billion or 34 percent of total FDI in Ukraine in 2019 [40]. In other words, a significant share of foreign direct investment from offshore jurisdictions is controlled by foreign companies established by domestic corporations aimed at withdrawing profits from Ukraine avoiding taxation [42].

There is also the widespread practice of registration and resale property through offshore companies by domestic legal entities and individuals to minimize taxes [36]. For example, Ukrainian officials declared 1,065 apartments, 383 garden houses, 129 land plots, 24 garages and parking lots, 87 other real estate objects owned by foreign companies and citizens [46]. Moreover, offshore companies have obtained the well-established status of owners of personal assets of Ukrainian oligarchs and officials. These assets (yachts, planes, foreign real estate, etc.) do not

generate any income, but provide only the structuring of property aimed at avoiding taxation in Ukraine and implementing movable and immovable property management.

Ukrainian banking system indirectly reflects the scale of offshore business operations; connections between individuals, legal entities, and offshore firms; the size of Ukrainian shadow economy; and the volume of official and illegal capital outflows. The circulation of capital assets through banking channels transforms domestic banking institutions into direct participants in various types of shadow schemes for servicing business offshoring operations. The share of offshore banking operations constitutes 3 percent and 12 percent according to Ukrainian and OECD roasters of offshore companies respectively [49], and exceeds 22 percent if banks registered in global financial centers from the IMF and OECD roasters are added to the sample of banking institutions [48]. The legal inflow of bank capital into Ukraine remains the powerful driver of macroeconomic growth. *Table 4* shines the light on the questions surrounding geographic structure of offshore capital in Ukrainian banking system and provides additional evidence that only a very small proportion of banks operating in Ukraine totally belong to local owners.

Table 4

**The geographical structure of offshore capital in the banking system of Ukraine
in 2007—2017**

Offshore center	Banks with state share in the authorized capital	Banks of foreign banking groups	Banks with private capital	Total
Number of banks in the group	1	15	74	90
including banks with foreign capital	0	15	36	51
British Virgin Islands	0	1	25	26
Belize	0	0	11	11
Seychelles	0	0	9	9
Cayman Islands	0	3	2	5
Dominica	0	0	4	4
Bermuda	0	1	0	1
Saint Vincent and the Grenadines	0	0	1	1
Saint Kitts and Nevis	0	0	1	1
Cyprus	1	5	56	62
Austria	0	4	7	11
Panama	0	0	9	9
Luxembourg	0	4	5	9
Switzerland	0	1	6	7
Latvia	0	0	5	5
Hungary	0	1	2	3
Poland	0	3	1	4
Liechtenstein	0	0	2	2
Hong Kong	0	0	2	2
Malaysia	0	0	1	1
Estonia	0	0	1	1
Ireland	0	0	2	2
India	0	0	1	1

Note: Data are presented according to roasters of financial centers of the OECD and the International Monetary Fund, as well as the official roster of Ukraine for offshore zones.

Source: Шумська С. «Диференціал» довіри та рівень офшоризації банківського капіталу в Україні. *Економічна теорія*. 2017. Вип. 3. С. 39—63 [48].

A significant number of Ukrainian bank owners focus on offshoring their own business to protect it from raider seizures, expand the possibilities of judicial protection of their economic interests and the implementation of aggressive tax planning schemes. As for the withdrawal of illegal capital obtained because of corrupt (and partly openly criminal) transactions, after circulation in global offshore centers, it enters the Ukrainian market completely «laundered» with unlimited investment opportunities in any investment object.

Meanwhile, we should emphasize that up to a quarter of the total volume of loans provided in Ukraine and about 20 percent of customer resources concentrated in banks with offshore capital are eloquent evidence of high confidence in them and their highly competitive positions in Ukrainian banking system. The relatively high level of financial stability of banks with offshore equity capital determines their broad opportunities to cover the return of deposits, formation of reserves for prompt repayment of own debts, unforeseen losses, and fluctuations of the banking services market.

The most popular offshore schemes in the Ukrainian banking system are financial transactions between commercial banks and companies registered in offshore jurisdictions, when owners have significant share in equity capital of banks and companies; unrealized income from foreign exchange operations; loss of revenues from deposits of legal entities and individuals [32]. Such situation endangers the financial security of Ukraine's banking system due to potential imposing of economic sanctions against banks, including cancellation of banking licenses, and Ukraine in general by international regulatory and monitoring authorities.

The Global Alliance of Tax Justice developed the system of indicators for estimating the national level of offshoring. *Table 5* shows that Ukraine had the following values of indicators in 2019: unpaid corporate income tax — \$621.3 million; annual tax losses caused to other countries through channels of underpayment of corporate income tax — \$17.9 million; annual losses from unreceived tax revenues — \$650.1 million; annual tax losses of the economy due to «tax erosion» using offshore jurisdictions — \$28.7 million; the share of tax losses caused by misconduct — 0.73 percent; tax losses in financing health care — 13.9 percent of total expenditures on national health care [26].

Table 5

Key offshorization indicators of Ukraine in 2019

Indicator	Unit of measurement	Value
Annual amount of unpaid corporate income tax	\$ million	621.3
Effective income tax rate	%	10.4
Annual tax losses of other countries caused by underpayment of corporate income tax	\$ million	17.9
Share of tax losses from violation of corporate income tax regulations	%	0.73
Annual losses from unearned tax revenues	\$ million	650.1
Annual income tax losses	%	1.9
Annual tax losses in health care financing	% of total expenditures	13.9
Channels of foreign economic activity most vulnerable to tax losses	X	Portfolio investments inflows
National vulnerability to tax losses	%	60
Average regional vulnerability to tax losses	%	56
Trade countries-partners, with which the largest tax losses occur via corporate income tax channels	%	USA (47.5), Luxembourg (20.1), Cayman Islands (9.9)
Annual national tax losses due to «tax erosion» via offshore jurisdictions	\$ million	28.7
Share of global tax losses inflicted on other countries	%	> 0.01

Source: Tax Justice Network The State of Tax Justice 2020: Tax Justice in the time of COVID-19. 2020. Retrieved from https://www.taxjustice.net/wp-content/uploads/2020/11/The_State_of_Tax_Justice_2020_ENGLISH.pdf [26].

In addition, due to the use of value added tax minimization schemes by domestic business structures, the Ukrainian state budget loses almost 26 percent of annual potential tax revenues, approximately 30 billion UAH [47], or \$1.07 billion. The total average annual volume of offshore schemes in Ukraine is 120—200 billion UAH (\$4.286—7.143 billion). Only transferring of corporate profits abroad causes 22—36 billion UAH (\$0.786—1.286 billion) state budget losses each year [27]. Moreover, the illegal refund of VAT to economic entities has already created well-established conditions for the special type of criminal business in Ukraine, and, therefore, this structural problem is further exacerbated by their shadow operations.

The main reasons for the widespread use of offshoring schemes by Ukrainian business entities are, on the one hand, their strategic orientation to ensure maximum confidentiality of assets and maximum protection of property rights, and, on the other hand, deep institutional defects, and structural problems of Ukrainian economy. The latter ones include the total distrust of Ukrainian corporations and individual in the judicial system of Ukraine; the absence of real reforms of the tax and economic systems; extremely limited opportunities for companies to finance corporate investments using bank loans; as well as the significant lack of legal protection of Ukrainian business entities from raider captures.

Thus, Ukrainian business suffers from the excessively high level of interest rates on bank loans. Even though the discount rate of the National Bank of Ukraine decreased from 22 to 6 percent in 2015—2020 [39], but the level of commercial interest rates on borrowings in UAH (Ukrainian hryvnias) fluctuated from a minimum of 14.4 percent in 2007 to a maximum of 21.8 percent in 2015 during 2005—2020 [38], which is too high in terms of attracting the required amount of debt financing of capital investments.

According to Doing Business Index, Ukraine took the 64th place among 190 countries in general, and 65th one if to consider the sub-index «Taxation» in particular (for comparison: Ukraine was the 54th in 2019). *Table 6* shows that the biggest problems of Ukrainian tax system are time spent by taxpayers to calculate and pay taxes (328 hours, while Europe and Central Asia has the average value of 213 hours) and additional procedures after filing tax returns — 86th place in 2020 (68th place in 2019).

Table 6

Key indicators of the tax burden on business in 2019

Indicator	Ukraine	Europe and Central Asia	OECD countries with high income	The highest rating among all countries
Number of payments per year	5	14.4	10.3	3 (in 2 countries)
Number of hours per year	328	213.1	158.8	49 (in 3 countries)
Total tax rate,% of profit before	45.2	31.7	39.9	26.1 (in 33 countries)
Postfilling index (0-100)	86	68.2	86.7	...

Note: The Postfilling Index is calculated as an estimate of time required to calculate VAT refunding, receive this refunding, correct parcels, and adjust tax returns, and conduct all necessary tax audit procedures (tax audit).

Source: Doing Business «Economy profile «Ukraine». Comparing business regulation in 190 economies. 2020. Retrieved from <https://www.doingbusiness.org/content/dam/doingBusiness/country/u/ukraine/UKR.pdf> [6].

Ukrainian small and medium business entities are under enormous tax burden accounting for 45.2 percent of profit, while in Europe and Central Asia it equals 31 percent [29]. There are also significant structural problems concerning functioning of Ukrainian tax authorities, namely rivalry caused by functions' overlapping between the State Tax Service of Ukraine and the State Customs Service of Ukraine created instead of the State Fiscal Service of Ukraine in 2018 [35]. Despite the clear logic and substantiation of «dilution» of internal and external taxation of business transactions, unfortunately, so far, no proper convergence has been achieved between these institutions, which significantly complicates the process of monitoring, timely detection, and counteraction to numerous violations of tax regulations, especially concerning VAT, and export transactions with signs of fictitiousness. Therefore, the state regulatory authorities of Ukraine still do not have a holistic mechanism for timely monitoring and prevention of violations by business entities, including avoiding VAT and customs in full payments, as well as untimely return of earnings in foreign currencies [28].

Conclusions. We may summarize the findings in a few words: the dynamic internationalization of financial and economic operations of Ukrainian business entities in recent decades had negative effects on national welfare due to their maneuvering of capital between affiliated units via transfer pricing and intensifying their offshorization using transborder movement of commodities, services, and factors of production resulting in the reduction of budget tax revenues, increasing the scale of cross-border outflow of capital, strengthening the strategic control of foreign countries over the production facilities of Ukraine, as well as significantly undermining national tax security, macroeconomic and social balance.

Thus, we consider that Ukrainian regulatory bodies must take measures aimed at deoffshorization of business activities, structural modernization of the national economy, dynamization of macroeconomic growth, regulation of inflation and increasing the volume of foreign direct investments in Ukraine.

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