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## THE INFLUENCE OF OFFSHORE ZONES ON THE GLOBAL ECONOMY

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The article reveals the concept of offshore zones (offshores), considers the modern mechanism of state (administrative and legal) regulation of their activities, as the steady growth of market relations causes a dynamic growth of entrepreneurial activity, which, in turn, results in a significant complication of financial and economic relations between the subjects of business turnover. The goal of any entrepreneur is, of course, to minimize costs, so he strives to carry out his commercial activities in those regions and countries with the most favorable tax and legal regime. All this resulted in the emergence of such an economic phenomenon as the "offshore zone". Attention is drawn to the fact that the offshore zone refers to the country or territories that register companies, which will be subject to preferential taxation. The company itself, from the moment of registration, falls under the jurisdiction of the host country and from then on shall strictly comply with the rules and regulations of local legislation. The reasons for the emergence of offshores and their modern territorial and functional dislocation are being analyzed. In particular, it was found that services provided in offshore areas are often driven by demand and financial instability. Innovation and necessity are thus important conditions for their emergence. Nevertheless, these elements are of no importance without the consent of legislative bodies to introduce laws for forward-thinking offshore companies. The special administrative and legal regime applied in their territory, the main benefits granted to investors in offshore zones are considered. The reasons for the underdevelopment of offshore business in Ukraine were studied and a solution to the problem of improving the activity of offshore zones in the territory of our country was proposed.

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## ВПЛИВ ОФШОРНИХ ЗОН НА СВІТОВУ ЕКОНОМІКУ

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### **Ключові слова:**

офшорні зони (юрисдикції),  
вільно-економічні зони,  
податки, міжнародний бізнес,  
банківська система

У статті розкривається поняття офшорних зон (офшорів), розглядається сучасний механізм державного (адміністративно-правового) регулювання їхньої діяльності, оскільки неухильне зростання ринкових відносин спричиняє динамічне зростання підприємницької діяльності, що, у свою чергу, призводить до значного ускладнення фінансово-економічних взаємин між суб'єктами ділового обороту. Метою будь-якого підприємця, безумовно, є мінімізація витрат, тому він прагне здійснювати свою комерційну діяльність у тих регіонах та країнах, що відрізняються найбільш сприятливим податковим та правовим режимом. Все це в результаті і спричинило виникнення такого економічного явища як «офшорна зона». Акцентується увага на тому, що під офшорною зоною мають на увазі країну або території, що реєструють фірми, на які поширюватиметься пільговий режим оподаткування. Сама компанія з моменту реєстрації підпадає під юрисдикцію країни перебування і з цього часу має суворо дотримуватись норм і правил місцевого законодавства. Аналізуються причини виникнення офшорів та їхньої сучасної територіально-функціональної дислокації. Зокрема, виявлено, що послуги, які надаються в офшорних зонах, часто обумовлюються попитом на них та фінансовою нестабільністю. Інновації та необхідність таким чином є важливими умовами їх виникнення. Але ці елементи не мають жодного значення без згоди законодавчих органів запровадження законів для

інноваційних офшорних компаній. Розглянуто особливий адміністративно-правовий режим, що застосовується на їх території, основні пільги, надані інвесторам в офшорних зонах. Вивчено причини нерозвиненості офшорного бізнесу в Україні та запропоновано вирішення проблеми вдосконалення діяльності офшорних зон на території нашої країни.

### Problem statement

Due to large tax payments in most countries, various businesses are increasingly forced to look for ways to reduce the tax burden. Tax mitigation by means of transferring capital to so-called offshore zones is a popular way in the world. An offshore company is a great way to do business with significant tax savings.

Not only the owner of a large business, but also an ordinary freelancer is able to register a company in an offshore zone. The preferential tax treatment and the wide geography of offshore jurisdictions provide ample opportunity for efficient business management. Any part of the world can be chosen for registration or re-legalization of a limited liability company offshore.

It is only important to realize special aspects of offshore zones of different types. The issue of the use of offshore zones in foreign economic activity has become particularly urgent for Ukraine at present.

### Recent research and publications analysis

The problems of offshore zones are highlighted in the works of many domestic and foreign scientists, such as V.A. Vergun [4], O.I. Stupnytskyi, N. Shakson [1], B. Harrington [3] and others. Although the contribution of these scientists to the study of offshore zones is very important, however with the development of the economy, certain changes and improvements constantly appear, which determines the relevance of the study.

**The purpose of the article** is the analysis, generalization and improvement of theoretical provisions regarding the essence and content of the use of offshore zones.

### Basic material statement

The word «offshore» has its roots in the history of Great Britain and comes from the English expression «off-shore», which literally means «outside the coast», i. e. not on the territory of the metropolis. An offshore zone is a state or part of its territory where non-resident companies have special conditions for registration, activity licensing and taxation. The offshore zone receives its benefits in the form of fees for registration and re-legalization of companies, tax revenues, development of construction and telecommunications networks. In exchange, it offers:

- simple and inexpensive process of registration of non-resident companies;
- non-availability or low rates of income tax and profit;
- exemption from state currency control;
- business confidentiality;
- non-availability of duties on machinery, materials and equipment imported for the company's needs.

According to various estimates, there are 50 to 80 offshore zones in the world. There is no exact number, as there is still no single definition of offshore and the

legislation of different countries uses different criteria for assigning jurisdictions to such territories. These are mostly small third world countries, administrative units of the United Kingdom or the USA, and even island states, in which the offshore services sector is a significant and sometimes the basic source of revenue.

Offshore zone registration and annual company maintenance costs will mostly be only a few hundred dollars. A special aspect of the offshore zone is the forbiddance on conducting business activities on its territory for a non-resident company registered here, which is carried out for the purpose of protecting national business.

Some offshore zones are not politically independent. For example, the Cayman Islands is an overseas territory of Great Britain and is governed by a governor appointed by the constitutional monarch – King Charles III – for a four-year term.

Types of offshore zones. Conventionally, offshore jurisdictions are divided into three groups: classic offshore, also called island offshore; European offshore territories with low taxation; administrative-territorial offshores with a special tax treatment.

Classic offshore areas. According to the scheme used here, a non-resident company pays a certain fee to the fiscal authorities annually, while no taxes are collected from it and no accounting reports are required from it. Such zones are characterized by the highest possible level of confidentiality that beneficiaries of non-resident companies can expect. A disadvantage is the lack of trust of reputable companies and banks in a business with a similar registration.

The most popular representatives of this are: Belize; Seychelles; Isle of Man, Guernsey, Jersey; Dominican Republic. These territories cannot display a high level of economic development, however, like all offshore zones, they are characterized by political stability. But in many offshore companies, it is mandatory for registered companies to employ local residents in the secretarial office of the company: in this way, the state contributes to solving the problem of employment on its territory.

Offshore zones with low taxation. These are jurisdictions where income tax exists but it is paid at a much lower rate than in neighboring states. An example can be Cyprus, in which since its entry into the EU, the corporate income tax is 10%.

Some territories provide tax advantages concessions. They cannot be called offshore in the literal sense: the state of Delaware in the USA, Ireland, Great Britain and others. Companies registered in these jurisdictions are exempt from local taxes in the absence of operations, and therefore of income received in the country of registration.

Offshore zones are scattered all over the world, which allows entrepreneurs to choose not only the best conditions for doing business, but also the most convenient

geographical location. Popular global offshore zones have distinctive features. Let's consider some of them.

**Belize.** This is a classic type offshore zone included in the List of states (territories) that do not provide exchange of information for taxation purposes with Ukraine, and is a recognized offshore center in the world, where conditions of heightened confidentiality have been created for business. Taxation is a fixed annual fee. Belize is a politically stable country that is part of the British Commonwealth and the United Nations. It is located on the Caribbean coast of Central America, on the Yucatan Peninsula, a two-hour flight from Miami. Based on British law, the legislation of Belize has been specially developed to protect investors. Buying offshore in Belize means acquiring the right to conduct any activity that is not related to the ownership of real estate in the country or agreements with residents. The prohibition does not apply to the ownership of vessels registered in Belize.

**Seychelles Islands.** This is also a classic type offshore. A stable jurisdiction with a high reputation. The islands are located in the Indian Ocean, south of Madagascar, and are conveniently located at the crossroads of major sea trade routes and air routes. Seychelles is included in the list of countries that do not provide information exchange for tax purposes with Ukraine, this is a jurisdiction whose main priority is the confidentiality of client information. Taxation is presented in the form of a fixed annual duty. The opportunity to buy offshore in the Seychelles is considered by thousands of businessmen every month. Only the passport of the company owner is required for registration. There are no requirements for minimum authorized capital. A company registered in the Seychelles has the right to issue registered shares, but it cannot issue registered shares. You can own planes and ships registered here although you are not allowed to own real estate. The property of Seychelles companies is protected from confiscation and seizure by foreign countries.

**Hong Kong.** Hong Kong is an island in Southeast Asia located not far from Taiwan, which is an administrative region of China. It is one of the world's most important financial centers. Hong Kong is not included in the FNP blacklist, which indicates the existence of an exchange of information between this jurisdiction and Ukrainian tax administration. Companies registered in Hong Kong have the right to carry out any activity that does not require a special license. In the case of receiving profits from sources in Hong Kong, the company pays a corporate tax of 16.5%. A company registered in Hong Kong that receives income from sources outside the territory of the island do not subject to tax. However, it shall have a secretary who lives or conducts business in Hong Kong itself. His or her responsibilities include preparing annual reports and keeping records of the company's directors and shareholders. It is mandatory to keep accounting records for seven years in paper or electronic form. The company name shall be registered in English and Chinese.

**Cyprus.** This offshore is the Greek part of the island in the Mediterranean Sea west of Syria and south of Turkey. Cyprus is a member of the European Union, a well-known financial center in the world. It has an agreement with

Ukraine in the field of avoidance of double taxation. In 2013, Cyprus experienced a financial crisis during which unprecedented events took place: funds were withdrawn from the accounts of Bank of Cyprus (BoC) and Cyprus Popular Bank (Laiki) depositors in an amount that exceeded the insured part of the deposit (deposits up to €100,000). Despite the fact that in the course of this reform part of the large depositors were transferred to the shareholders of the bank, this did not provide full compensation for their losses.

Cyprus is not included in the list of offshore jurisdictions; accordingly, it exchanges information with the tax administration of Ukraine. Buying offshore in Cyprus is buying a fully-featured European company with the lowest taxation in Europe.

Offshore in Cyprus can be used as a resident or non-resident company. Companies without an operational office in Cyprus are allowed to have a minimum authorized capital of 1,700 euros. If there is an operational office, this amount increases tenfold. A special permit is issued for conducting banking, financial, and insurance activities. There are a number of restrictions on choosing a company name.

**British Virgin Islands (BVI).** An archipelago in the Caribbean Sea under the control of the British Crown located not far from Puerto Rico. A politically stable area with a high standard of living, one of the first and most prestigious classic offshore zones in the world. In 2018, the British Virgin Islands were excluded from the list of the Tax Office of Ukraine, which indicates an established exchange of information between tax services. In the same year, a law providing for the creation of a register of beneficial owners of companies entered into force in BVI. About 41% of all offshore companies are registered in BVI. Only one shareholder and one director, which can be the same person, are sufficient for registration. The registers of shareholders and directors shall be kept at the registered office of the company. There are no obligations to submit accounting statements, they just shall exist and can be stored in any country. Taxation is a fixed annual fee. There are some requirements for company names: they shall not evoke associations with the British Crown, government, ministries and departments.

A company that conducts banking, trust, insurance or reinsurance activities is required to have a license.

### Conclusions

Having studied the origin of offshore zones, we can conclude that this is one of the types of free economic zones. Which, in fact, has common features, for example, the establishment of a preferential treatment for attracting capital.

A feature that distinguishes offshore zones from others is that only foreign capital is attracted to these territories, and the owners of companies registered in offshore zones shall operate only outside the offshore zone. The choice of an offshore zone can be made according to a number of classification criteria, therefore, when creating an offshore company or communicating with foreign counterparties with offshore status, it is necessary to analyze in detail all possible factors and goals that the company intends to achieve and derive a benefit from such activities and cooperation.

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