THE SCALE OF ACTIVITIES OF OFFSHORE COMPANIES IN LITHUANIA AS MEMBER OF THE EUROPEAN UNION

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Abstract

The activity of offshore centers in the economical area of the European Union also the place taken by them in international trade are analysed in the article. The activity of offshore centers is analyzed considering to the activity of the offshore companies incorporated in the former colonies of the European Union. The alterations in the activity of the offshore companies, incorporated in the area of the European Union and outside it, which took place after the new members had joined are also analysed. The potentials for Lithuanian business subjects to perform international trade using offshore centers are also researched. The authors review the extent of international trade with offshore centers till the 1-st of May 2004, i.e. the period when Lithuania had not become the member of the EU yet, and during the period when Lithuania had already been the member of the European Union, i.e. till the end of 2010.

Keywords: offshore centers, European Union.

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Introduction

The potentials for international business to use especially beneficial taxing conditions offered by offshore centers are analysed in the article as well as the potentials for the companies performing the international trade to avoid the corporation taxes of a corporate person. It is necessary to remark that new members of the EU such as Cyprus, Malta, Hungary and others had to restrict the potentials of the activity of the offshore centers established in their countries. It is noticeable that the offshore center in Cyprus was especially popular among Russian businessmen until it became the member of the EU. In spite of it, the possibilities of using the offshore centers, which are established outside the EU territory, still have been taking place for some members of the EU. The offshore centers incorporated in the USA, the states of Delaware, Wyoming, Kentucky and others, are very popular in Lithuania and Latvia. The instruments of the law, enacted in Lithuania, would not treat these offshore centers as territories, where taxies are lower than in Lithuania.

Nevertheless, the intensively developing international trade enables offshore centers to be built and prosper. The nearby Eastern countries, where available business conditions make international business companies use the service provided by the offshore companies incorporated in offshore centers, can be given as an example. It is enabled by the model of currency control used in those countries. So almost all business subjects performing in the local market are made to perform export and import procedures through the offshore companies incorporated in offshore centers. It is necessary to remark that while performing the international trade with the neighbors from the East it is considered to be meaningless which side possesses the offshore company; the most important is that while making the bargain the offshore company would act as a moderator.

Comparing with the requirements in some countries of the European Union the requirements for offshore companies work are mild, accordingly it directly rebounds on the economy of the countries of the EU. The problems are connected with the difference of the amount of the taxes in the EU comparing with the taxes paid in offshore centers, and, what is more exactly, with their amount or not existing at all. The problems of taxes in the European Union were analysed by many authors, who also paid attention to the systems of taxes used in offshore centers. Other authors maintain that the countries of the Western Europe have already had the tools which help to protect their concerns. One of such tools is that the tax institutions are obliged to inspect the contracts of the residents in their country (in the most European countries), which are made with the companies, incorporated in offshore centers. If more than one contract take place such resident is inspected more carefully. Besides, in some countries all the commissions to offshore companies are extra taxed. This tool was used in Lithuania till 2002, i.e. till the new act of corporation tax inured. Although using such tools might impact on the economy of the European Union negatively and, first of all, it can cause the capital leaving the country.
The topic of the article: the international trade performed through offshore companies incorporated in offshore centers directly affects collecting corporation tax of corporate persons in Lithuania.

The article aims: to assess the impact of offshore centers on Lithuanian international trade.

The research methods used were as follows: a systematic comparative and structural analysis of scientific literature on economics, logical analysis, qualitative and quantitative analysis.

Problems raised by offshore companies in the European Union

Although the Republic of Lithuania is a full member of the EU since 1 of May, 2004, the problem of offshore companies operating between the European Union and other countries outside the European Union member states still remains relevant. This applies not only to Lithuania, but in this case the entire international trade of the European Union, particularly trade with Russian Federation. As observed by V. Snieška, predominant opinion is that in order to identify the operators of „money laundering” process two obstacles are faced – firstly, the presentation of information, the disclosure of which could result in major losses for company's finances as well as its ongoing strategy; secondly – efficiency of the supervisory authorities in the fight against negative phenomena such as tax evasion, „money laundering“, etc. (Snieška, 2001). Confidentiality received by the owners of companies registered in offshore centers facilitate the corporate tax reduction as well as “money laundering”.

A number of authors dealt with questions of the legitimacy of offshore companies, scope of problems caused by legalization of illegally obtained money (in other words "money laundering"). However, problems relating to the confidentiality of offshore companies has remained ever since. Lack of control over offshore centers was the issue in the international conference in year 2001. One of the participants L. Komisar said in his statement that, in order to control the activities of offshore centers, appropriate legislation for off-shore centers is necessary (Komisar, 2001). Therefore sometimes individual organization or country Express their initiatives and press the offshore centers in order to promote their own strategic interests. The European Union showed such an initiative in respect to Luxembourg as early as 1973. This initiative affected the operating holding companies in Luxembourg, with a high demand in the market of offshore companies trading. However, the Commission of the European Union after specifically examining the issue has identified the need to investigate not only in Luxembourg but also activities in Jersey, the Bailiwick of Guernsey, Isle of Man and other islands. The Commission also concluded that the restrictions on offshore activities of these countries would only lead to capital outflow from the European Communities (Апель and others, 2002). Here we are dealing with another problem – capital outflow from countries of the European Union and it is not only the question of offshore companies, but the global question of capital outflow from Old Europe. This includes the relocation of production from Europe to Asia and particularly to China. And then low-priced goods import to the European Union (Boguslauskas, 2009).

Problems associated with the difference in tax rates of the European Union in comparison with tax rates paid in offshore centers, to be more precise – with their size or total absence, tax issues in the European Union, were examined by C. Radaelli (1999). He also draw attention to the tax systems of offshore centers. Other authors argue that Western European countries already have arrangements under which the state protects their interests. One of these measures – the mandatory inspection by tax authorities of the contracts of residents of the home country (in many European countries), awarded to companies registered in offshore centers. If such contracts are not sporadic, the resident is to checked with particular care. In addition, all bank transfers for offshore companies in some countries are subject to additional tax (Апель and others, 2002). However, as mentioned above, such actions may have negative consequences for the economy of European Union, in particular the capital outflow from the country.

While a variety of criminal structures as well as the terrorists have access to services of the offshore centers, however, some authors argue that European countries have achieved remarkable results in controlling its citizens' use services of offshore structures (Апель and others., 2002).

Offshore centers are a technical instrument, which is essential to the free movement of capital in the world, as well as to speculative capital. It is very difficult or even impossible to trace the movement of capital while using offshore centers. Offshore centers is an instrumento making the activity of international corporations more efficient.

It is argued that off-shore centers are very harmful for the state, which has a big capital outflow, but there is nothing to do with them because they are an integral part of the global economy. Important role in the scheme of capital outflow from Russian federation is played by local offshore centers (Делягин, 2001).
After joining the European Union (hereafter the EU), Lithuania participates in the implementation of the EU regional policy, the base of which is financial support of Structural Funds. As Lithuania has already become a full member of the EU, the evaluation of regional development is the relevant issue for our country (Simanaviciene, 2010).

**Volumes of the import and export between Lithuania and offshore centers**

After conducting analysis of international trade between Lithuania and offshore centers in 2001-2003, conclusion was identified that taking into account the decision No. 888 of August 4, 1997 of The Government of the Republic of Lithuania. "On the list of target territories where taxes are lower than in Lithuania" and the order No. 115 as of April 26, 2001 of Minister of Finance „Regarding approvement of the list of the countries or zones (territories where taxes are lower than in Lithuania)“ the trends could be observed that international trade is organised between Lithuania and countries that are not listed in above mentioned list. The earlier mentioned legal acts by The Government and the Minister of finance that set additional 29 percent tax rate was the background for this trend. In this case, good conditions were created to use other offshore centers that were not listed in the legislation in force in Lithuania. In this way, the volume of international trade using as agent the offshore centre registered offshore companies has increased significantly. It is to bear in mind that companies registered in offshore centers are simplest way in to reduce the corporate income tax without prejudice to the existing laws. So about 33 percent of Lithuania's import and export procedures have been performed through the agency of companies registered in offshore centers, which means that companies could evade paying about 14 percent of potentially earned profit to the State of Lithuania.

One of the main objectives of this article is to review developments of situation in the international trade of Lithuania after Lithuania's accession to the European Union. We have selected the offshore centers and countries and conducted a comparative analysis of ongoing international trade. The following countries and unions were selected for analysis:

![Figure 1. Volumes of exports and imports between Lithuania and foreign countries in 2004](image1)

![Figure 2. Volumes of exports and imports between Lithuania and foreign countries in 2005](image2)
Figure 3. Volumes of exports and imports between Lithuania and foreign countries in 2006

Figure 4. Volumes of exports and imports between Lithuania and foreign countries in 2007

Figure 5. Volumes of exports and imports between Lithuania and foreign countries in 2008
The assumptions for international trade between Lithuania and its partners

Countries and unions were selected on the basis of results of survey of Lithuanian and international trade volume in 2003. It was noted that in 2004 volume of international trade was significantly lower with all countries and unions. This could be influenced by a transition period after in May 1, 2004 when Lithuania entered the European Union. During all the analysed period in question volume of international trade with Latvia was still quite high and still fall within the top five. Based on a study conducted in 2003 it was identified that due to very liberal banking system in Latvia, Lithuanian businessmen often buy already established and operating offshore companies in this country, and Latvia is often chosen as intermediate state between Lithuania and eastern neighbors. Being one of the smallest between the European Union member states, Latvia competes with major world nations such as the USA or Russian Federation in terms of the volume of international trade with Lithuania. Before becoming a member of the European Union, Latvia was incorporated in the list of countries with very liberal tax legislation of Central Bank of Russia for this very liberal state of the banking system. Latvia has been regarded as the state having offshore center features. It is noted that exports to Latvia and Russia is very similar over the whole analysed period. It is necessary to take into account the fact that after Lithuania's accession to the European Union, the Lithuanian businessmen having established good relations with Russia make direct deals with other European Union countries by making use of offshore center registered offshore companies as an agent. Currency exchange control models in Eastern countries (e.g., Russia) can create conditions leading local businesses to use services of offshore company, which are registered in offshore centers, in both export and import procedures.

It may be noted that the volume of international trade with the United States fell sharply compared to the year 2001-2003, and is one of the lowest between the countries in question.
The conclusion

1. The extent of international trade between Lithuania and Latvia during all the analyzed periods is still one of the greatest at the level of the countries;
2. The extent of international trade with the USA declined markedly and is the lowest comparing with all the analyzed countries;
3. After Lithuania has become the member of the European Union Lithuanian businessmen, having steady good relations with Russia, deal directly with other countries of the EU using offshore companies incorporated in offshore centers as moderators;
4. The model of currency control used in Russia makes local businessmen to perform export and import procedures using the service provided by the offshore centers, where offshore companies are incorporated.

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