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## THE DEVELOPMENT OF ACCOUNTING PROCEDURES FOR FOREIGN BUSINESS TRANSACTIONS IN FREE ECONOMIC ZONES

Prokopishyna O. V.

Simon Kuznets Kharkiv National University of Economics / accounting department, Kharkiv, Ukraine

**Abstract** — The paper discusses advantages and disadvantages of classic and developed offshore areas, proposes and grounds special accounting procedures to reveal and manage foreign cash exchange risks and non favorable changes.

**Key Terms** — Accounting, accounting procedures, foreign business transactions, free economic zones.

With significant tax burden in most countries, businesses even more often trying to force finding of ways to reduce tax spending. One of the most popular ways to minimize taxes is to register transactions under offshore jurisdiction. Nowadays, the question about usage in external economic activity such tool as offshore area is especially actual for Ukraine. Various aspects of control under counterparties which have offshore status are in the field of international organizations as: OECD, FATF and in each country's legislation.

The term "offshore" has economy-geographical origin and basically means the area outside the coast. Such terms as "offshore area", "offshore jurisdictions", "offshore centers" or "offshore territory" are used as synonymous [3] in order to describe the state or its part, within which non-resident companies established a special system for registration and activities. Cambridge Dictionary defines offshore as territory with a special tax regime that allows companies registered on it (the bank) to save their money.

All offshore areas by their investment attractiveness may be defend into two main types: classic offshore and developed offshore.

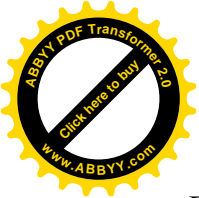
The advantages of each type of offshore areas are summarized in table 1.

Table 1

The Advantages of Classic and Developed Offshore Areas”

The type of offshore area	The Advantages of doing business
Classic offshore areas	simple procedures for incorporation and ongoing maintenance of companies; possibility to buy shelf companies; no requirement for crediting or freezing all or part of the share capital specified in the constituent documents in the account; the reduced costs of preparing financial statements. Non-interference by the state itability
Developed offshore areas	High level of prestige- offshore from this sector are more respected in the international business area Perspectives for international market become more accessible Improving competitiveness. Reducing costs related to taxation has positive impact on all aspects of doing business and investment. A high level of banking security.

Classic offshore is the one without taxation in the country of incorporation. Typically, in these jurisdictions, there is no taxation at all or the territorial principle of taxation is applied in that income earned outside the jurisdiction is not taxable. Instead of taxation of income only a fixed annual fee is charged. This sector is mainly represented by small states often insular type for example: British Virgin Islands, Bahamas, Ireland, Panama, Liechtenstein, Belize. Moreover, these jurisdictions have loyal business conditions for non-residents.



Developed offshore include states that levy offshore companies registered in their territory by a small tax. This sector includes prestigious countries with highly developed economies (UK, Gibraltar, Luxembourg). As for developed offshore areas, the companies registered in this territories are required to submit annual financial statement, the director or company's founder must be a resident of the country of registration, companies can take advantages of bilateral agreements on avoidance of double taxation. One of the most popular Ukrainian offshore jurisdictions that offer tax breaks, until recently, was Cyprus, which related to the classical offshore areas. Favorable tax conditions made this area very attractive for business.

Of all the applied methods of tax optimization by our compatriots using the simplest and most common form of tax planning schemes, which is the use of the organization in trade transactions between related parties, when in offshore conducted transactions for import or export of goods, while the owner of the company may deliberately vary the contract price transactions with the company, and consequently, to adjust the amount of paid taxes and duties, Moreover, there is a tax agreement between Ukraine and Cyprus, according to which the tax on dividends at source in Ukraine with payments in Cyprus is quite low. This, together with low tax rates on the Cyprus makes the island attractive for creating offshore companies, used as holding companies. Also, the agreement offers the possibility of using offshore companies to optimize tax planning through the transfer of the trade and procurement, production and marketing activities on a commission basis. In other words, the foreign company instructs independent agents to carry out certain activities for a small fee. Thus, business has an opportunity to fully act on its own behalf, but to pay taxes only an insignificant fee.

Considering the fact that offshore area is a kind of free economic zones, it is possible to analyze the goal of creating free economic zones and offshore zones difference from other species.

Free - economic zone is a part of the state, in which for investors established tax, customs, financial incentives to attract additional investment funds to enhance the production, trade, foreign trade and other activities. The purposes of creation of free economic zones are: activation of foreign trade; stimulation of foreign investment; usage zones for deepen connection between the domestic economy and the world market; attracting and free exchange of achievements in science and technology; Accelerating the growth of certain economic areas; achieving quality new innovation economy, expanding the export base and production development replacing import goods; formation of certain structures that can accelerate the pace of market reforms.

As previously was mentioned some information about classic offshore and presentable offshore jurisdiction, it is better to describe another concepts dealing by tax level.

Low-tax jurisdiction is jurisdiction whose law is without tax exemptions, but may provide certain benefits for companies after fulfillment certain conditions. Registered companies are residents in country of registration, they must stand on taxation, submit report and pay local taxes. his type of jurisdiction is "transparent" for banks and partners, and can take advantage of the agreements on avoidance of double taxation. Examples of low-tax jurisdictions: Bulgaria, Ireland, Cyprus, Labuan, Switzerland.

The administrative-territorial entities, which operates offshore regime - mostly typical for countries with federal system. These offshore jurisdictions characterized by the fact that they can serve as a tax haven where international business and at the same time provide the possibility of offshore financial and business transactions, without going beyond national borders of one country.

Depending upon reporting requirements offshore areas can be divided into areas that do not involve an obligation to provide financial statements - this group includes countries that make up the classic offshore, and areas, where business are required to keep accounting records and submit financial reports to regulatory



agencies - this group includes low tax and respectable offshore jurisdiction.

By law model offshore areas should be divided into areas of the Anglo-American model and areas of the Continental model.

The basic idea of the Anglo-American model [2] is focus on the accounting information that is in necessity for investors and creditors. This is because of the industrial revolution in the United States and Britain have led to the fact that business owners (investors) withdrew from operational management, transferring its professional managers. In this situation, the financial accounting information is an important source of data on the situation of the company. There was a practice management shareholders submitting financial reports to monitor resource efficiency. This circumstance determined the focus of financial reporting information needs of investors and creditors. For this model is characterized by: a stable political system; a developed economy; all the rules are accepted by professional organizations; high professional level accounting markets, users, certification of professional staff; financial reporting designed to meet the needs of investors and creditors.

Continental model is followed in most of Europe and in Japan. It provides a close link businesses with banks, which mainly meet the needs and financial companies. Accounting regulated by law, is the considerable conservatism. Focusing on management requests creditors has the priority. Instead, the accounting policy is aimed, primarily to meet the requirements of government, including the tax under national macroeconomic plan. In addition, the governments of these countries need to publish some information about the company, so the latter have to prepare financial statements, but in a less detailed than necessary to protect the interests of creditors. Consequently, the continental model used in countries with stable political system [1], developed economy, the accounting practice focused on the needs of government, including macroeconomic performance level.

Offshores are often used by banks and financial institutions. The funds are accumulated through investing offshore company, may be

deposited anywhere in the world and thus be subject to minimum tax. Also offshore can act as a means for accumulating the portfolio -. Bonds, equities, cash, etc. In this case, the cash placed in such a company, enable us to obtain interest on the deposit, which is not taxed. Often, trusts and corporations registered in offshore zones, taking part in the translation of investments in subsidiaries, transactions, private or public companies. Capital gains, accumulated in result of disposal of investments, taxes are not levied. The payment of dividends reduces tax payments.

Investigated of offshore zones, we can conclude that it is type of free economic zones, which essentially has common features such as the establishment of preferential treatment for capital raising. A special feature that differentiates from other offshore is that these territories involved only foreign capital, and owners of enterprises registered in offshore zones are required to operate just outside the offshore zones. The creation of an offshore company or interaction with foreign contractors with offshore status should thoroughly analyze all possible factors and goals that the company intends to obtain from such activities and cooperation.

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Author

**Prokopishyna O. V.** associated professor of accounting department post, Simon Kuznets Kharkiv National University of Economics (elena\_prokopishin@ukr.net).

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