Chapter 9

Measuring Aggressive Tax Planning in the V4 Countries and Recommendations for Ukraine

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9.1. Introduction

According to Lanis and Richardson (2012), tax aggressiveness is an act taken to reduce taxable income through tax planning activities, whereas for Suyanto and Supramono (2012) it is an act of artificially created taxable income (tax base) that is created through tax planning activities. They argued that companies tend to use aggressive tax planning when they are assessed a large tax burden. On the other hand, Lanis and Richardson (2012) consider tax aggressiveness to be socially irresponsible, emphasizing that companies deliberately avoid paying taxes and reducing revenues to the government budget that would be used for community prosperity. Ratmono and Sagala (2015) also supported the authors' assertion and stated that society's actions in minimising tax payments are not in line with real community views and expectations, due to the fact that taxes paid by firms have important implications for the public in terms of financing public goods. In terms of stakeholder theory, tax aggressiveness is an act that benefits only the firm itself and is of no interest to other stakeholders such as the government or society.

The use of double tax treaties (DTTs) in relations with international tax planning and tax havens is mostly associated with two main areas in scientific analyses. In the past, these treaties were mainly associated with the benefits and promotion of foreign direct investment (FDI) and the elimination of economic double taxation. Since from the onset of the last financial crisis, international corporate income tax optimisation (CIT) has also increasingly received attention,

particularly in relation to the shifting of profits to jurisdictions with a low or without CIT tax burden. The methods and techniques of taxable profit shifting (profit-shifting methods and techniques) vary, but the methods used and their substance are the same for all sources and authors, regardless of the classification. With regard to this, the European Commission's analyses refer to studies by Ramboll Management Consulting and Corit Advisory (2015) and ZEW (2016), which divide aggressive tax channels into three groups:

1) interest costs (use of debt, e.g. interests and loans),
2) royalties or use of intellectual property,
3) transfer pricing.

Strategic transfer pricing in its essence covers all methods and techniques of transferring taxable profit as it requires compliance with the arm's length principle. Thus, scientific studies are most often devoted to transfer pricing, followed by the use of debt, and the least attention is paid to intellectual property, currently considered to be one of the biggest challenges along with the digital economy.

9.2. Routine Aggressive Tax Planning Arrangements

The application of the selected method or technique of taxable profit shifting (or a combination thereof) depends on a number of assumptions, and among the common basic assumptions for their use is the establishment a foreign corporate (ownership, most often holding) structure. This setup can be at the various ownership levels in the form of either direct or indirect capital linkages.

A direct capital link or the fulfilment of the conditions relating to the possibility of applying the relevant double taxation treaties or the relevant European directives (the Merger Directive, the Interest and Royalties Directive, and the Parent-Subsidiary Directive) is an essential prerequisite for the use of methods and techniques of shifting taxable profits, especially for passive income. The passive income most commonly used in the international tax optimisation process are dividends, interest and royalties. Weyzig (2012) pointed out that many multinationals disperse foreign direct investments (FDI) through conduit (or pass-through) entities with dense and tax-friendly networks of double tax treaties in order to avoid paying withholding taxes in host countries. The use of dense networks of double tax treaties for the purpose of tax optimisation is referred to as tax treaty shopping.

Companies choose jurisdictions and types of companies at different ownership levels not only according to the availability of relevant European directives and double taxation treaties, but also to take into account the business sector, geographical market orientation, cost intensity or the chosen main activity of the parent and subsidiaries within the international holding structure (financing company, company holding licenses or business interests, etc.).

The following figures show the frequently used international holding structures with two ownership levels. In the case of tax optimisation in the home jurisdiction, this is an increase in tax deductible expenses that will reduce the tax base or increase the tax loss. Importantly, the subsequent transfer of profits to another entity (in another jurisdiction – pass-through entity) must be made without withholding tax (or with a low withholding tax). The above-mentioned double tax treaties or selected European directives are used for this exemption. From a pass-through entity, taxable profits are often moved on to a jurisdiction with low or no taxation

(a so-called tax haven), most often through an offshore company, but using a trust or foundation. Figure 9.1 illustrates this technique of shifting taxable profits by using debt financing.

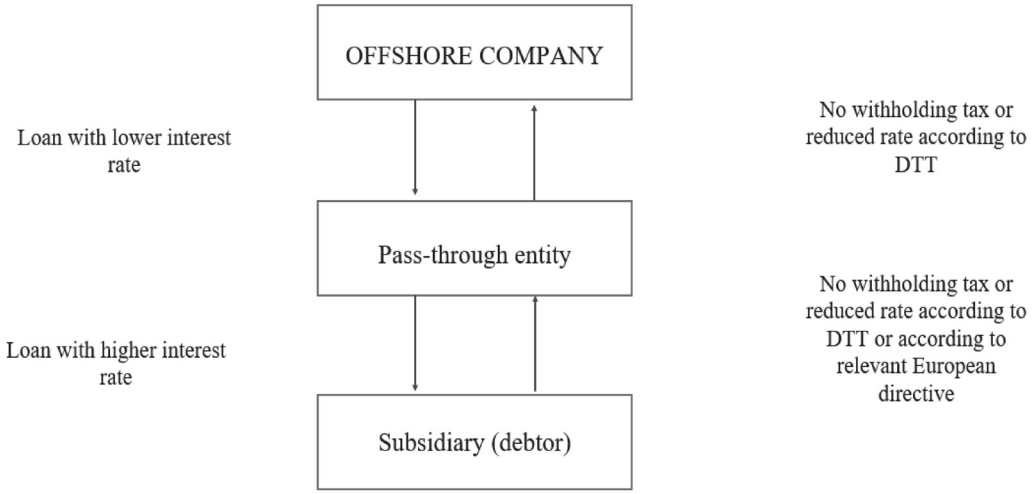

Fig. 9.1. General holding structure model (use of debt)

Source: (Vallaste, 2017).

As already mentioned, the setup of the holding structure depends on several parameters, the key assumption (requirement) includes the possibility of eliminating withholding tax. Thus, it is necessary to consider what legal form of entity and what jurisdiction will be used at each ownership level. Figure 9.2 shows a frequently used holding structure involving an Estonian company as a pass-through entity, and an offshore company based in Belize is used on the top tier (existence of a double tax treaty in force between Estonia and Belize).

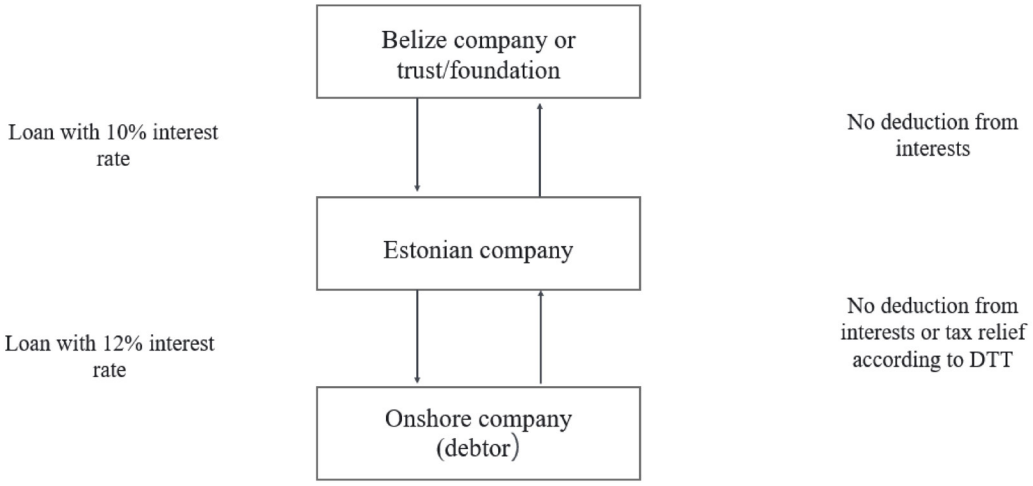

Fig. 9.2. An example of a holding structure (use of debt)

Source: (Vallaste, 2017).

It is important to note that international corporate holding structures are also often used to ensure the anonymity of the ultimate beneficial owner (UBO), as some (mostly offshore jurisdictions) still do not provide publicly available information on the owners of the companies.

9.3. Indicators for Measuring Aggressive Tax Planning

When measuring aggressive tax planning, several authors (Dewi & Cynthia, 2018; Martinez & Ferreira, 2019) often constructed their own models using many tax as well as non-tax indicators. Most of them, however, took the effective tax rate (ETR) or book-tax difference (BDT) as the basis of their models. These basic indicators were then supplemented by other indicators using value added, return on assets (ROA), as well as business size, liquidity, financial leverage and so on. For this reason, some of these indicators should be presented here, and their use and limits characterized as well. Special attention was also paid to debt financing as one of the most important channels of taxable profit shifting (evidence for conditions in the Czech and Slovakia was provided by, among others, Janský and Kokeš (2015, 2016) and Ištok and Kanderová (2019a, 2019b).

9.3.1. General Indicators for Aggressive Tax Planning

Effective tax rate (ETR)

The effective tax rate is a measure that shows the degree of tax aggressiveness through dividing tax expenditures recorded in the financial statements by pre-tax accounting income or cash receipts (Hanlon & Heitzman, 2010). The resulting effective tax rate (hereafter ETR) can be grouped into average ETRs and marginal ETRs. According to Gupta and Newberry (1997), average ETR, which is mostly used by scholars as well as policymakers in tax debates as well as in reforms, is better used for measuring "the distribution of the tax burden across firms or industries, while marginal ETRs are better suited for analysing incentives for new investment".

The scientific literature recognises four basic specific types of ETR: accounting, current, cash and long-term ones. The main difference between these measures is how their ratio is determined.

Accounting ETR

This is based on the ratio of tax expense divided by pre-tax profit (Hanlon & Heitzman, 2010). The accounting ETR is usually compared to the statutory tax rate to determine the extent of tax aggressiveness, i.e. the larger the difference, the more tax-planning (tax aggressive) the company (it behaves more tax aggressively), and thus this difference reflects the difference between book and taxable income (Lee et al., 2015). The numerator is usually reported in the income statement and reflects both current and deferred taxes, which is one of the limitations of accounting ETR. The current tax is the tax expense derived by applying the current tax rate to income (profit) for the year, while deferred tax is that portion of the tax expense that arises because of temporary differences. A temporary difference is the one between the carrying amount of an asset or liability and the tax base of the same asset or liability, which may result in a deferred tax liability. The tax expense in the income statement is usually a combination of tax payable and deferred tax. Therefore, on a numerator basis, the accounting ETR does not show a firm's attempts to engage in tax deferral strategies, usually at management's discretion and policy choice, because deferred tax is included and increases (decreases) current tax expense offset by a corresponding decrease (increase) in deferred tax expense. Similarly, non--tax planning strategies, such as changes in valuation allowances, can affect accounting ETR (Gebhart, 2017).

Current ETR

The indicator is expressed as the tax expense payable for the year divided by the pre-tax result from the financial statements. The basic difference between current and accounting ETR is in the numerator. According to Salihu et al. (2013), Oyeleke et al. (2016) and Gebhart (2017), this provides a rationale for the superiority of current ETR over accounting ETR in the case of showing tax planning strategies. However, Dunbar et al. (2010) noted that the current ETR indicator may understate the extent of a firm's tax aggressiveness if contingencies associated with uncertain tax benefits are embedded in taxable income. In general this means that if taxable income (the denominator) includes benefits that the firm is not certain will be accepted by the tax authorities under a tax audit, the resulting ETR will be lower due to the larger denominator versus a situation where these benefits are not included.

Cash ETR

The accrual concept in accounting allows revenue (expense) to be recognised when it is earned (incurred) rather than when it is received (paid). This creates a problem in both accounting and current ETR because the impact of accruals, such as changes in valuation allowances, affects the numerator and does not measure the actual tax paid per unit of income earned (Lee et al., 2015). This uploads cash ETR and brings it to the forefront as it is derived by dividing the tax paid (found in the cash flow statement) by the accounting income before tax, however it also has shortcomings as pointed out by Salihu et al. (2013). They noted here the mismatch that is created between numerator and denominator, while the numerator is 'cured' of the temporal distinction, the denominator is not, which creates considerable ambiguity. The authors also observed the problem of time consistency ambiguity in cash ETR, as it is possible that the tax paid in cash may relate to different years, since the cash basis deals with the recognition of cash movements in accounting when it is received or used, regardless of the period of origination (Hanlon & Heitzman, 2010). The use of operating cash flows instead of pre-tax accounting income has been proposed to address this problem (Hanlon & Heitzman, 2010; Salihu et al., 2013). Despite several limitations, the authors argued that this indicator is suitable for indicating the degree of tax planning or tax aggressiveness.

Long-term ETR

This indicator was proposed by Dyreng et al. (2008). While all of the above ETR-based measures are calculated annually, long-term ETR is not. As the name implies, this ETR is calculated over a longer period (usually 3 to 10 years) and can be either a long-term accounting ETR or a long-term cash ETR (although the latter is mentioned very little in the literature). The difference between the long-term and the short-term period is that the long--term period is able to cope with the issue of volatility. According to Zeng (2010), long-term ETR is measured as the cumulative tax expenditure over a period of years divided by the pre-tax accounting profit for the same number of years. Its importance, as pointed out by Hanlon and Heitzman (2010), is justified by its ability to cope with annual volatility in ETR. Table 9.1 provides an overview of selected ETR indicators along with information on their calculation.

Table 9.1. Overview of ETR-based indicators

Number	Indicator	Calculation	Relevant studies
1	Accounting ETR	Total tax expenditure/book revenue before tax	Badertscher et al. (2013); Belz et al. (2016); Dunbar et al. (2010); Dyreng et al. (2010); McGuire et al. (2012)
2	Current ETR	Current tax expenditure/pre-tax accounting income	Chen et al. (2016); Dunbar et al. (2010); Gupta & Newberry (1997); Oyeleke et al. (2016)
3	Cash ETR	Cash tax paid/pre-tax accounting income	Badertscher et al. (2013); Dyreng et al. (2010); Dunbar et al. (2010); Gallemore & Labro (2015); McGuire et al. (2012)
4	Long-term ETR	Amount of tax paid in cash for *n* years/book income before tax for *n* years	Dyreng et al. (2008); Dunbar et al. (2010); Salihu et al. (2015); Taylor & Richardson (2012)

Source: based on (Aronmwan & Okafor, 2019).

Book-Tax Difference (BTD)

Another group of indicators used in the literature are book-tax difference based indicators. Firms typically report two measures of income (book income and taxable income – differences arising from discrepancies between accounting and tax systems or records) to different authorities, generated through different rules and principles, which are basically are the fundamental factors of their inconsistency (Comprix et al., 2011).

BTD-based indicators seek to show tax planning activities by comparing the tax paid based on accounting revenues with the tax paid based on taxable income. However, due to the confidential nature of a firm's tax return, taxable income is generated by calculating tax expenditures that are recorded in the financial statements through the statutory tax rate (Lee et al., 2015), and is therefore an estimate of the actual value. Hanlon and Heitzman (2010) define an accounting tax difference as a reporting difference related to the same transaction, but for different purposes (accounting and tax). This is a discrepancy between what is disclosed in the transaction in the books and what is reported to the tax authorities for tax purposes. The discrepancy between the two, according to Salihu et al. (2013), may be due to a number of factors, which can be either tax planning factors or earnings management factors (Gebhart, 2017) that show individual BTD. Some of these are listed further.

Total BTD

Total BTD is the least preferred indicator based on the distorting effects of revenue management and tax planning strategies, since it shows elements of revenue and tax management. However, it is not a depreciation measure, as Dridi and Boubaker (2015) pointed out that tax management cannot be separated from revenue management, as managers may manipulate accounting rather than taxable income to avoid the costs that may be incurred in doing so. To overcome the shortcomings in the use of total BTD, other variants of this indicator, such as temporary BTD or BTD showing the tax effect, were constructed.

Temporary BTD

The temporal difference, which is the basis for this indicator that affects it, is derived by dividing the deferred tax expense by the statutory tax rate (Hanlon & Heitzman, 2010). Comprix et al. (2010) observed that temporary BTD exists when there is a temporal difference in revenue recognition (expenses, respectively) for accounting and tax purposes. Although they believe that this difference could be a direct result of differences in accounting and tax rules, they assumed that temporary BTD may also be affected by management´s powers in the accrual process, and hence their relation to earnings management as well. Lee et al. (2015) agreed with Comprix et al. (2010) and argued that deferral strategies, although they may be aimed at tax avoidance, depend to a large extent on manager discretion in revenue management or tax planning.

BTD with tax-effect

While all of the BTD indicators above take the income effect of BTD into consideration, Tang and Firth (2011) developed an option that indicates the tax effect. Based on their observation, they suggested that derivation of taxable income requires calculating tax expenditures through the statutory rate, which results in estimation problems, and these can be solved if the BTD tax effect is used. Accordingly, the tax effect of BTD is achieved by deducting the tax expense payable from the sum of accounting income and statutory tax. Alternatively, it can be derived from "the sum of multiplying the statutory tax rate by permanent differences and multiplying the statutory tax rate by temporary differences" (Tang & Firth, 2011). In addition to solving the estimation problem associated with calculation, the BTD tax effect is useful for examining firms that are subject to different tax rates (Salihu et al., 2013) and firms that engage in taxable income shifting strategies (Tang & Firth, 2011).

Table 9.2. Overview of BTD-based indicators

Number	Indicator	Calculation	Relevant studies
1	Total BTD	Pre-tax profit minus taxable income (Taxable income is the tax expenditure payable divided by the statutory tax rate)	Dunbar et al. (2010); Kim and Im (2017); McGuire et al. (2012); Taylor and Richardson (2012)
2	Temporary BTD	Deferred tax expense divided by the statutory tax rate	Hanlon and Heitzman (2010); Lee et al. (2015)
3.	BTD with tax-effect	Accounting income multiplied by the statutory tax rate adjusted for current tax expenditures	Tang and Firth (2011)

Source: compiled based on (Aronmwan & Okafor, 2019).

This clearly shows that BTD with a tax effect solves the estimation problem associated with calculation, so it appears to be an appropriate indicator rather than other BTD variants. Table 9.2 provides an overview of the selected BTD indicators together with information on their calculation.

Use of the value-added tax

This is an indicator that takes total tax burden and value-added into consideration while calculating tax planning in a broader context. This approach has been used to measure tax aggressiveness in the countries such as Brazil. Some authors (Martinez, 2017; Motta & Mar-

tinez, 2015) stated that it is also important to consider value added tax (VAT) in the analysis, as one can perceive a relationship between tax burden and wealth. The indicator using value-added reporting is based on VAR (value-added reporting) data, which can capture tax aggressiveness in a broader way, in contrast to ETR, which is only measured through the company's profits.

Return on assets (ROA)

Return on assets (ROA) is one of the key indicators for measuring aggressive tax planning and is very often used as a complementary indicator to ETR. Potin et al. (2016) identified a relationship between tax planning and ROA. Their research suggest that aggressive tax planning is associated with low ROA values and it is true that the more tax aggressive companies are, the lower ROA values they exhibit. Khouri et al. (2019) analysed the tax aggressiveness of Slovak companies between 2014 and 2016 with a link to jurisdictions with preferential tax regimes (the so-called tax havens), and in addition to ETR and ROA, the research also used return on equity (ROE), return on sales (ROS) and taxes paid to total assets.

Size of enterprise

This is determined by the size of the assets owned by the company. According to Ardyansah and Zulaikha (2014), the larger the amount of assets owned, the higher the productivity and profit generated by the company, but including the tax burden borne by the company. According to Anita (2015), the size of the company reflects the greater oversight by the tax authorities and this greater oversight makes companies more careful in corporate tax planning, hence the size of the company has an impact on the level of tax aggressiveness. Previous studies suggested that large differences in tax aggressiveness also arise across industries, which is often directly related to the use of different methods and techniques of shifting taxable profits. The functions performed or the position of companies, typologies of business models, etc. (e.g. different types of distributors and manufacturers) also have a significant impact.

Liquidity

According to Tiaras and Wijay (2015), liquidity is the ability of a firm to meet the short-term obligations of the firm. One of the short-term obligations of a company is the payment of taxes. Suyanto and Supramon (2012) stated that companies with high levels of liquidity show that they have good cash flows and are financially sound, therefore should not have a problem paying all their obligations/liabilities, including taxes. In line with this approach, it should be the case that higher levels of liquidity entail lower tax aggressiveness.

Various modifications of these indicators are used to identify and measure aggressive tax planning. In another section of this paper attention is further devoted to debt financing abuses.

9.3.2. General Indicators for Debt Financing

According to Ištok and Kanderová (2019a, 2019b), Slovak companies with links to tax havens report median value of interest expenses per assets ratio higher by 41% (an increase of 75% after the transfer of the registered office). From the debtor's point of view, debt financing primarily refers to tax deductibility of interest costs that reduce the tax base or increase the tax loss. The tax deductibility of interest expense is limited by a number of tests. The debt per

assets or per revenues ratio can be used to identify whether debt financing is being misused for tax optimisation.

First and foremost, a rigorous assessment of the transaction is important, i.e. whether the purported loan is really loan or contribution to equity (related to debt capacity). Income tax acts outline the substance (substance over form) and benefit test (an assessment of whether the transaction is relevant to the taxpayer's needs – the transaction has an economic rationale). The associated enterprises[1] must follow the arm's length principle (the prices negotiated and invoiced between associated enterprises must be similar to those negotiated between independent parties under the same or similar terms and conditions). Another important test of the tax deductibility are the thin-capitalization rules, which set the maximum limit of interest expenses (e.g. 30% of tax EBITDA).

Given that most transactions are between related parties, attention is paid to debt capacity analysis and important lending ratios. Key indicators in the area of debt capacity analysis include in particular the leverage ratio, interest cover ratio and debt service cover ratio. Leverage ratio puts in the ratio debt and EBITDA. Interest cover ratio is calculated as EBITDA divided by interest expenses. Debt service cover ratio is a modification of interest cover ratio where in the denominator principal, a repayment is added to interest expenses. Other relevant indicators include debt to equity ratio, debt to enterprise value and loan to value (LTV) or loan to costs (LTC) (Androrfer et al., 2023).

9.4. Measures Tackling Aggressive Tax Planning

With regard to identifying channels of taxable profit shifting and measuring the aggressiveness of tax planning, it should be taken into account that individual optimisation schemes change over time, primarily in response to measures taken either at the level of individual states (e.g. the already mentioned tests or limits of tax deductibility of expenses as outlined by an income tax act) or groups of states (e.g. at OECD level). Among the major projects in this area is clearly the Base Erosion and Profit Shifting (BEPS) project, which was initiated and officially introduced by the OECD and the G20 in 2015 to combat aggressive tax optimisation with a focus on shifting profits to tax havens. The project introduced 15 action points, hence 2015 is considered a significant milestone in the field of international tax planning.

In the fight against aggressive tax planning, the availability of information and data is paramount. Some of the information and data entering into risk analyses is available mainly from company accounts and public sources (registers). Often key information from tax returns is not publicly available due to tax secrecy, but the information available under the Tax Information Exchange Agreements (TIEAs) tool is gradually starting to play a key role (in terms of risk analysis and subsequent tax audits). Ištok and Taušová (2021) confirmed that the automatic exchange of tax and banking information has a significant impact on the setup of international holding (ownership structures) used by Slovak companies. Table 9.3 contains an overview of individual DAC directives and their characteristics.

[1] Participation in management, control or capital (at least 25% in share capital).

Table 9.3. Overview of DAC directives

Legal framework	Exchange content	Data/information (categories)
Directive DAC 1 2011/16/EU	Income and expenditure	Royalties, pensions, life insurance, real estate, and dependent activities
Directive DAC 2 CRS + FATCA 2014/107/EU	Financial accounts	Residence, account holder, account balances and turnovers
Directive DAC 3 2015/2376/EU	Transfer pricing opinions	Transfer pricing opinions, advance pricing agreements and methods
Directive DAC 4 (CbCR) 2016/881/EU	Multinational enterprise groups	Group members by country, main activities, revenues, profits
Directive DAC 6 2018/822/EU	Cross-border tax planning arrangements	Value of cross-border arrangement, involved parties, measure description
Directive DAC 7 2021/514/EU	Income in digital area	Information about sellers provided by digital platforms: rental of immoveable property, provision of personal services, sale of goods and rental of any mode of transport
Directive DAC 8 2023/2226/EU	Crypto-assets and e-money, taxation of wealthy individuals	Information about crypto-assets, the exchange of cross-border binding opinions regarding wealthy natural persons, as well as provisions on the automatic exchange of information on non-management dividends and similar income

Source: (Financial Administration of the Slovak Republic, 2020) and own addition.

In relation to double taxation treaties, it is important to note that the use of provisions (benefits) is not automatic and basic requirements must be met, in particular the tax residency of the company. Some double taxation treaties (e.g. USA) contain separate anti-abuse clauses: LOB – Limitations on benefits. The abuse of double tax treaties is also addressed in Article 6 (Prevention of tax treaty abuse) of the BEPS programme.

9.5. Recommendations for Ukraine

Recognising the possibilities and current schemes/trends of taxable profit shifting from the taxpayers' perspective is important in identifying and quantifying taxable profit shifting. For this reason, attention was paid to the Ukrainian network of signed and valid double taxation treaties and possible alternatives (combinations) of using different jurisdictions at the first and second ownership levels were evaluated. Primarily, the choice of the first ownership level was inspired by previous research in the Czech and Slovak Republics (Ištok & Kanderová, 2019a; Janský & Kokeš, 2015, 2016). Given that Ukraine is not a member of the European Union, it is necessary to use the currently valid double taxation treaties to eliminate withholding taxes. Figures 9.3 and 9.4 present alternatives for the use of international holding structures for debt financing and license fees (intellectual property).

In addition to withholding tax rates, it is also necessary to analyse the agreed method of eliminating double taxation in the relevant treaties (the method of credit or exemption). The United Kingdom is among the jurisdictions with the densest network of double taxation treaties. In September 2024 it had more than 150 signed and in force (HM Revenue & Customs, 2024). Table 9.5 presents the taxation of selected passive income according to the relevant double tax treaties.

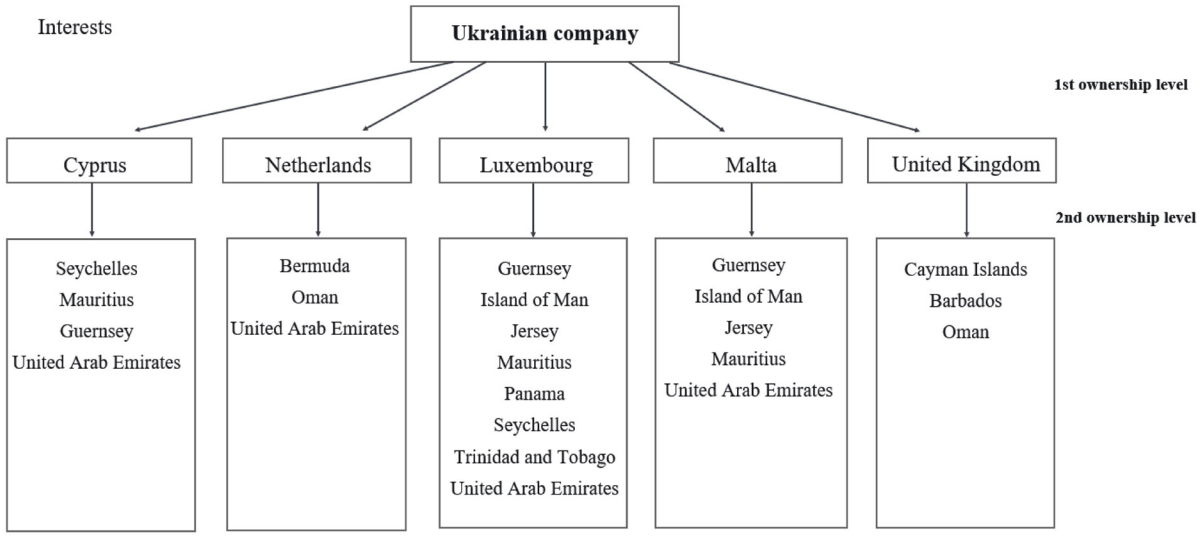

Fig. 9.3. Possibilities for transferring interest from a Ukrainian company

Source: compiled based on (Ministry of Finance of Ukraine, 2024).

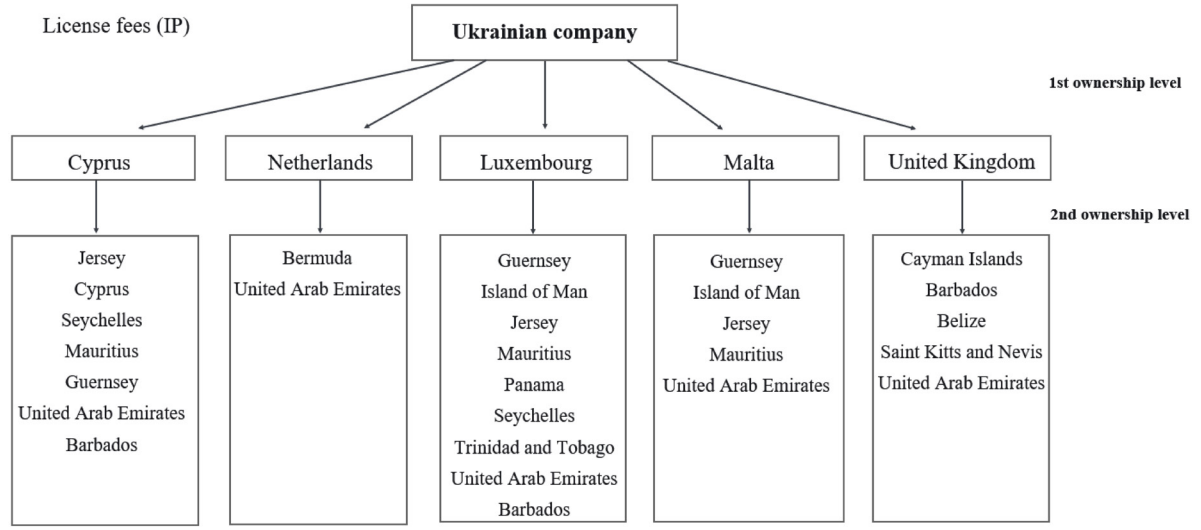

Fig. 9.4. Possibilities for transferring royalties from a Ukrainian company

Source: compiled based on (Ministry of Finance of Ukraine, 2024).

Table 9.5. Tax rates agreed in double tax treaties between Great Britain and selected offshore jurisdictions

Offshore jurisdiction	Date of validity	Withholding tax (%)		
		Dividends	Interests	License fees
Belize	1.08.2011	15	20	0
British Virgin Islands	12.04.2010	0	20	20
Cayman Islands	20.12.2010	–	–	–
Gibraltar	15.10.2019	0	0/20	0/20
Guernsey	7.01.2019	0	0/20	0/20
Isle of Man	19.12.2018	0	0/20	0/20
Jersey	19.12.2018	0	0/20	0/20
Mauritius	13.07.2018	10/15	20	15

Panama	12.12.2013	0/15	0/	5
Saint Kitts and Nevis	28.01.1948	0	20	0
Barbados	1.01.2013	0	0	0
Fiji	27.08.1976	0	10	0/15
Oman	9.11.1998	0/15	0	8
Trinidad and Tobago	22.12.1983	10	5	0/10
United Arab Emirates	25.12.2016	0/15	0/20	0

Source: based on (HM Revenue & Customs, 2024).

This chapter focuses on the tax optimization of passive income. When identifying aggressive tax planning, it is also necessary to focus on active income, especially income flowing through a permanent establishment (OECD, 2019, Art. 5).

9.6. Conclusions

The article provides only an overview and brief description of the indicators and approaches most commonly used to identify and measure tax aggressiveness in the area of direct corporate taxation. When measuring, analysing, and evaluating tax aggressiveness, the differences between jurisdictions must be taken into account. These differences arise in the area of accounting, but mainly in the setting of domestic tax laws (income tax laws) and 'activities' in the area of international taxation. These activities are reflected, for example, in the density of networks of double taxation treaties or the involvement and access to automatic exchange of tax and banking information. In addition to identifying aggressive tax behaviour itself, it is probably even more important to identify the channels used to transfer taxable profit (often to the aforementioned tax havens). Depending on the methods and techniques used, selected indicators are then used. The three basic channels of transfer of taxable profit according to professional and scientific literature include the use of debt, intangible assets and transfer pricing. Transfer pricing itself is referred to as the basic/superior channel of transfer of profit, because the principle of market distance between related parties in controlled transactions must be observed equally for goods and services (including loans/interest, royalties, etc.). The Financial Administration of the Slovak Republic has previously published selected indicators that serve to identify risky tax entities. These indicators, in addition to those mentioned in this article, also include transactions with related parties in jurisdictions with preferential tax regimes, corporate restructurings, transfers of intangible assets, selected types of payments, adverse financial results (e.g. with respect to the industry), such as long-term losses or excessive debt. International holding companies are often used to shift taxable profits, which can benefit from relevant European directives or double taxation treaties. Measuring the aggressive use of debt in international tax planning is one of the most researched areas to date, and several studies include several modifications of indicators that can also be used in Ukrainian conditions. This chapter also includes combinations of jurisdictions that can be used to shift taxable profits from Ukraine to tax havens, primarily by using the currently valid network of double taxation treaties.

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