

Is There a Correlation Between the Ease of Doing Business Index and the Haven Score?

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Abstract

The importance of FDI is increasing in the last period, due to their impact on economic growth and development, creating new jobs, increasing productivity. So, many countries are trying to implement economic, financial and fiscal rules and procedures to attract as many foreign investors as possible. Gaps and mismatches between different tax systems are followed by multinational companies, in the spirit of erosion of the tax base and the existence of a lower tax burden. By analyzing the rankings regarding taxation and doing business published periodically by international bodies, a series of correlations can be identified between the indicators considered in order to make these rankings to detect shortcomings in certain jurisdictions. For this reason, through this article we will try to identify what kind of correlation exists between the Ease of Doing Business Index and the Haven Score, taking into account the values registered by the EU Member States.

Key words: ease of doing business, Haven score, paying taxes, multinational companies

J.E.L. classification: M20, H32, H26

1. Introduction

Taking into account the fact that an important feature of the contemporary business environment is the internationalization of business, the studies and research undertaken highlight the advantages and disadvantages of this process. Thus, the following appraisals are noted: even if the performance of a company does not improve substantially in the initial stage of international expansion, internationalization accumulates positive net benefits (Contractor, 2007); the advantages and disadvantages of internationalization for the affiliated companies put their mark on the whole group of companies (Colpan and Cuervo-Cazurra, 2018); the degree of internationalization of a company is positively associated with the intensity of the R&D activity (Purkayastha, Manolova and Edelman, 2018); companies in emerging economies choose their competitive advantages in foreign markets rather than innovation in internal markets (Roelfsema and Zhang, 2018). All these appreciation, and not only have a common element, respectively the objective of the multinational companies to maximize the profit.

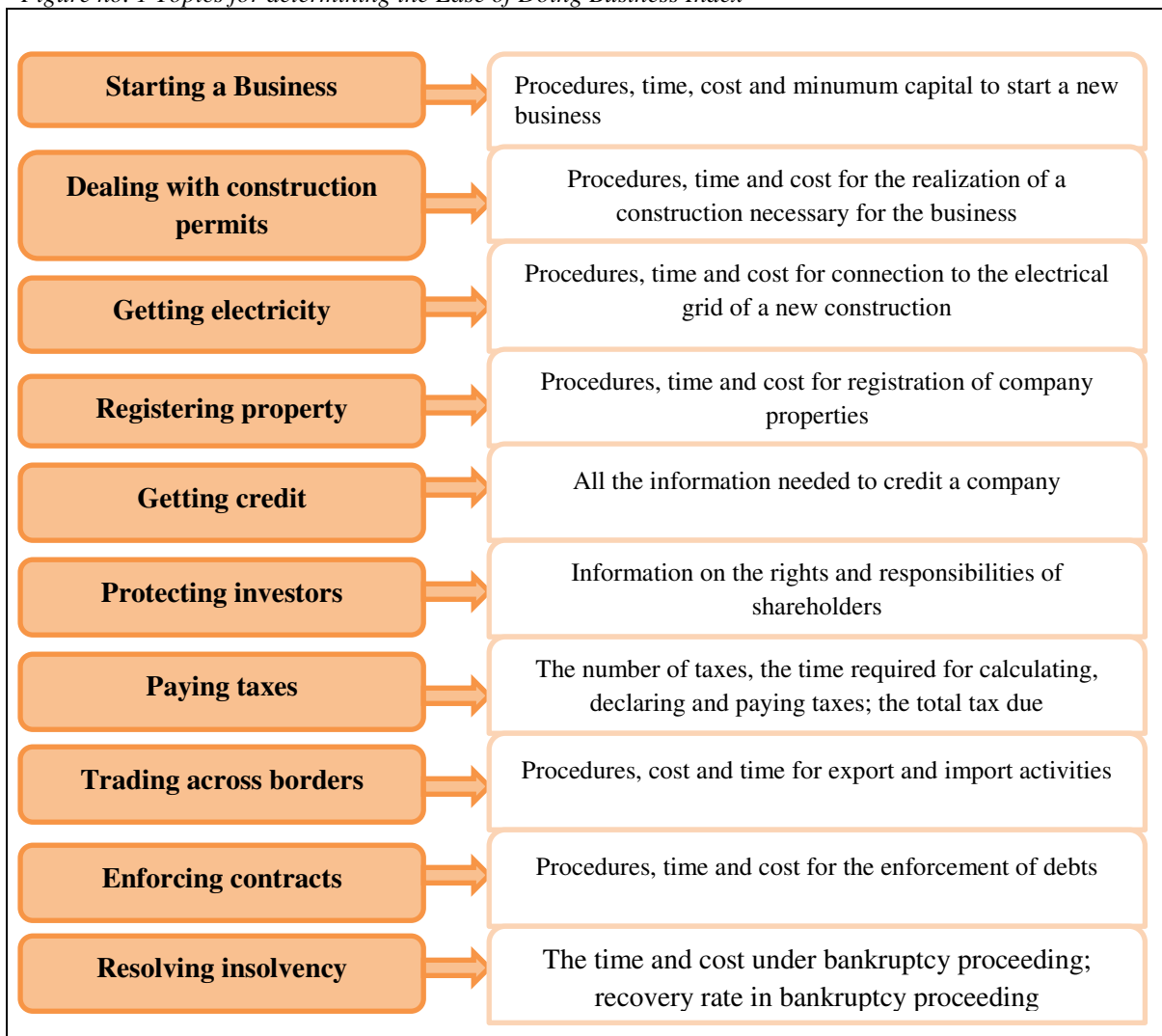
Rules and procedures for the activity, and the level of taxation of profit sometimes radically change a company's behavior. For this reason, in the last period the number of multinational companies that are looking for ways to erode the tax base has increased significantly, the damages brought to the national budgets being substantial. According to data published by the OECD, the use of domestic tax base erosion and profit shifting practices it brings losses to the countries of 100-240 billion USD, representing 4-10% of the global corporate income tax revenue (OECD, 2019).

All these aspects and international rankings that include business and taxation indicators are the main elements for this article. In this context, we have selected from the international rankings the indicators for the EU Member States and based on the statistical tool we offer the answer the question Is there a correlation between the Ease of Doing Business Index and the Haven Score?

2. Literature review

Through analyzes conducted since 2002 by The Doing Business project, the regulations applied to small and medium-sized enterprises throughout their life cycle are measured worldwide. Thus, based on the data and information from May 2019, the ranking for 190 economies was made for their ease of doing business, taking into account 10 topics: Starting a Business; Dealing with Construction Permits; Getting Electricity; Registering Property; Getting Credit; Protecting Minority Investors; Paying Taxes; Trading across Borders; Enforcing Contracts; Resolving Insolvency. The Ease of Doing Business Index is determined based on 10 topics with their structure, as shown in Figure no. 1, and measures the way in which the legal regulations improve or limit the business activity (The World Bank, 2019).

Figure no. 1 Topics for determining the Ease of Doing Business Index



Source: (The World Bank, Doing Business 2019)

World rankings made over time regarding the ease of doing business have allowed specialists to identify a number of relationships/correlations. In this regard, the following studies and research are worth noting: the decisions of multinational companies regarding the placement of investments taking into account The Ease of Doing Business Index (Pinheiro-Alves and Zambujal-Oliveira, 2012); the effect of business regulations on the level of foreign direct investment (Corcoran and Gillanders, 2015); the correlation between the level of corruption and the behavior of the business environment (Mongay and Filipescu, 2012); identifying business opportunities in different areas according to The Ease of Doing Business Index Index (Amankwah-Amoah, Osabutey and

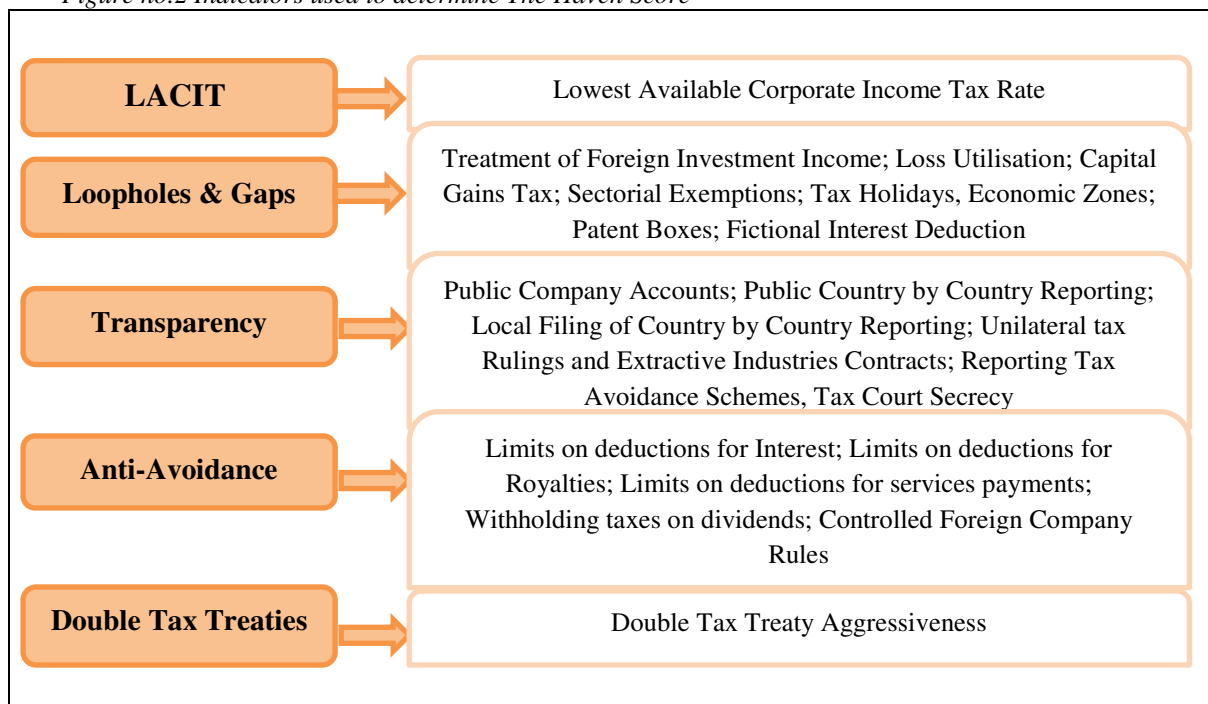
Egbetokun, 2018); the relationship between the business environment and the level of development or poverty of a jurisdiction (Djankov, Georgieva, Ramalho, 2019); the decision to relocate the capital according to The Ease of Doing Business Index (Dehghan Shabani and Parang, 2019); the impact of tax regulations on the business environment (Braunerhjelm, Eklund and Thulin, 2019).

The business environment is inevitably related to the fiscal field. Taxation has been, is and will be an essential factor in making decisions regarding the field of activity, place of activity, capital, investments, management of material, financial, human and informational resources. No one smiles when paying taxes ... So there are many taxpayers who are trying, both through legal and illegal forms, to evade taxation. In this sense, the advantages offered by tax havens are increasingly sought by legal entities.

In the last period, analyze the legislative provisions of many states highlights the aid offered by these to multinational companies to escape the tax.

On May 28, 2019, The Tax Justice Network published its first ranking on tax havens for multinational corporations, taking into account the 64 most important jurisdictions that offer a help to multinational companies to get rid of the tax. By combining two basic measures, on the one hand, 20 fiscal indicators that evaluate the aggressiveness and loopholes of the legislation regarding the taxation of multinational companies, and on the other hand, the size of the corporate investment activity, a politically neutral ranking was obtained, respectively The Corporate Tax Haven Index. The 20 indicators, grouped into 5 categories, (Lowest Available Corporate Income Tax Rate; Loopholes & Gaps; Transparency; Anti-Avoidance; Double Tax Treaties), as shown in Figure no. 2, provides the qualitative component for The Corporate Tax Haven Index, respectively Haven Scores, which measures according to the tax legislation and practice in one jurisdiction its potential risk of eroding the tax base in other jurisdictions (Tax Justice Network, Corporate Tax Haven Index 2019).

Figure no.2 Indicators used to determine The Haven Score



Source: (Tax Justice Network, Corporate Tax Haven Index 2019)

Studies and research of international bodies and specialists offer a series of analyzes on tax havens, starting from the definition of tax havens (Orlov, 2004), specifying the advantages and disadvantages of tax havens (Dharmapala, 2008), identifying the determinants of tax havens (Jones and Temouri, 2016), until the establishment of correlations, such as: corporate social responsibility - tax avoidance (Col and Patel, 2019); accounting firms - refuge in tax havens (Jones, Temouri and Cobham, 2018); manager diversion - tax avoidance (Atwood and Lewellen, 2019); tax avoidance -

tax uncertainty (Dyreg, Hanlon and Maydew, 2018); tax haven utilization - the implied cost of equity capital (Taylor, Richardson, Al-Hadi and Obaydin, 2018); tax havens - the global environmental degradation (Galaz et all, 2018); tax evasion - ethics and equity (Alstadsæter, Johannesen and Zucman, 2019).

3. Research methodology

Based on the general-particular, induction-deduction, analysis-synthesis, through this article we want to highlight the correlations between the Ease of Doing Business Index (The World Bank, 2019) and the qualitative component for The Corporate Tax Haven Index, respectively Haven Scores (Tax Justice Network, Corporate Tax Haven Index 2019) at EU Member State level. The data and information processed refer to the latest rankings published by international bodies.

Without having to claim a comprehensive approach, based on the title of this article and using empirical analysis (descriptive statistics, regression analysis, case studies) we will highlight the best practices in the fiscal field among EU Member States.

4. Ease of Doing Business Index and Tax Haven Score in EU member states

From the ranking published by the World Bank at the level of 2019 for 190 jurisdictions and based on the data in Table no. 1 it is noted that the EU Member States have a fairly high level of ease of doing business.

Table no. 1 Ease of Doing Business rankings in 2019, in EU member states

Economy	Global Rank	Ranks for topics:									
		I1	I2	I3	I4	I5	I6	I7	I8	I9	I10
Denmark	4	45	4	21	11	48	28	8	1	14	6
United Kingdom	8	18	23	8	41	37	7	27	33	34	14
Sweden	10	39	31	10	9	80	28	31	18	39	17
Lithuania	11	34	10	15	4	48	37	18	19	7	89
Estonia	18	14	19	53	6	48	79	12	17	8	54
Latvia	19	26	56	61	25	15	45	16	28	15	55
Finland	20	31	42	24	34	80	61	10	37	45	1
Germany	22	125	30	5	76	48	61	46	42	13	4
Ireland	24	23	36	47	60	48	13	4	52	91	19
Austria	27	127	49	29	31	94	37	44	1	10	22
Spain	30	97	79	55	59	80	28	35	1	26	18
France	32	37	52	17	99	104	45	61	1	16	26
Slovenia	37	41	119	23	54	119	18	45	1	112	8
Portugal	39	63	60	52	35	119	61	43	1	38	15
Poland	40	128	39	60	92	37	51	77	1	55	25
Czech Republic	41	134	157	11	32	48	61	53	1	103	16
Netherlands	42	24	88	58	30	119	79	22	1	78	7
Slovak Republic	45	118	146	54	8	48	88	55	1	46	46
Belgium	46	48	45	108	139	67	45	63	1	56	9
Croatia	51	114	150	37	38	104	37	49	1	27	63
Hungary	52	87	108	125	29	37	97	56	1	25	66
Cyprus	54	50	125	75	71	80	21	29	50	142	31
Romania	55	91	147	157	46	25	61	32	1	19	56
Italy	58	98	97	38	26	119	51	128	1	122	21

Bulgaria	61	113	43	151	66	67	25	97	21	42	61
Luxembourg	72	76	14	45	93	176	97	23	1	18	93
Greece	79	11	86	40	156	119	37	72	34	146	72
Malta	88	86	57	73	152	144	51	78	48	41	121

Classification	Rank
Very Easy	1-53
Easy	54-97
Medium	98-147
Below Average	148-190

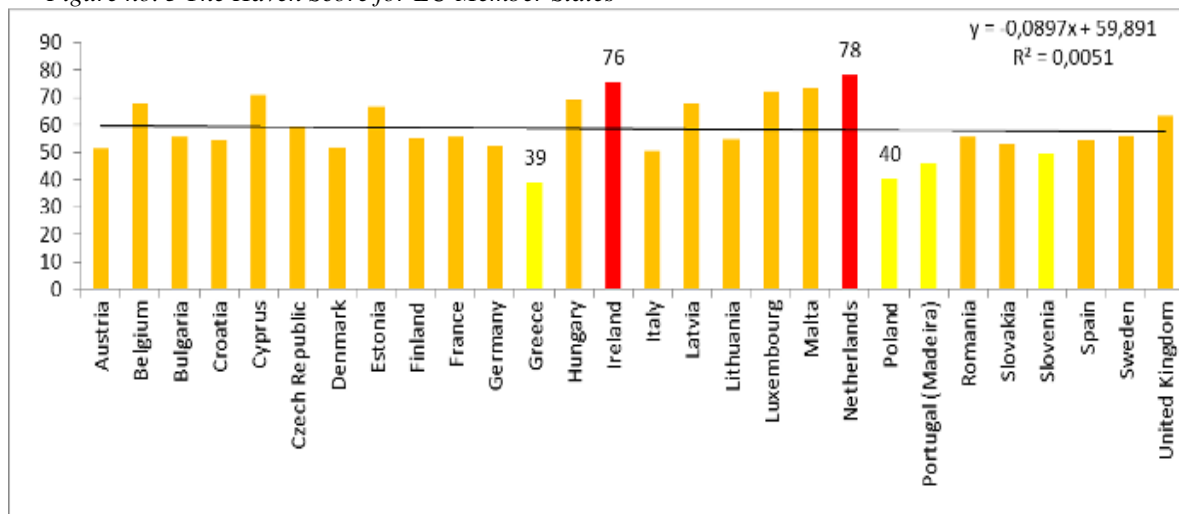
Topics
I1 = Starting a Business; I2 = Dealing with Construction Permits; I3 = Getting Electricity; I4 = Registering Property; I5 = Getting Credit; I6 = Protecting Minority Investors; I7 = Paying Taxes; I8 = Trading across Borders; I9 = Enforcing Contracts; I10 = Resolving Insolvency

Source: (The World Bank, Ease of Doing Business rankings, 2019)

Even if in the global ranking an EU Member State occupies an honorable place, the components of the index should not be neglected, as the values of each component indicate the measures that should be taken by the authorities in order to improve the business activity. In this regard, we consider that measures are required regarding: procedures, time and cost for the realization of a construction necessary for the business in Croatia and Czech Republic; procedures, time and cost for connection to the electrical grid of a new construction in Romania; procedures, time and cost for registration of company properties in Greece and Malta; the information needed to credit a company in Luxembourg.

In the ranking provided by Tax Justice Network, the 28 EU member states are also found, the highest potential risk potential to become a profit shifting destination being found in the Netherlands and Ireland, and the lowest in Greece and Poland, as shown in Figure no. 3 (Tax Justice Network, Corporate Tax Haven Index 2019)

Figure no. 3 The Haven Score for EU Member States

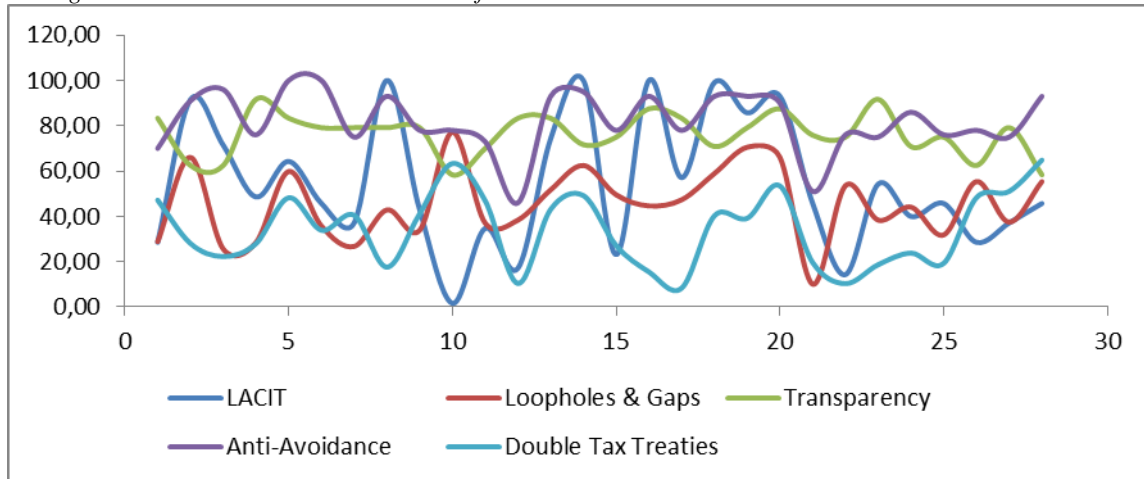


Source: (author processing based on data published by Tax Justice Network, 2019)

Considering the five levels of the potential risk of erosion of the tax base (1 - lowest potential risk and 5 - highest potential risk), with an average of 58.59, most EU Member States have values between 51 and 75 for the Haven score, corresponding to the third level.

The Haven Score structure for EU Member States, as shown in Figure no. 4, highlights the need for immediate action in all states to reduce the contribution to the so-called global "race to the bottom" on corporate taxes.

Figure no. 4 The Haven Score structure for EU Member States



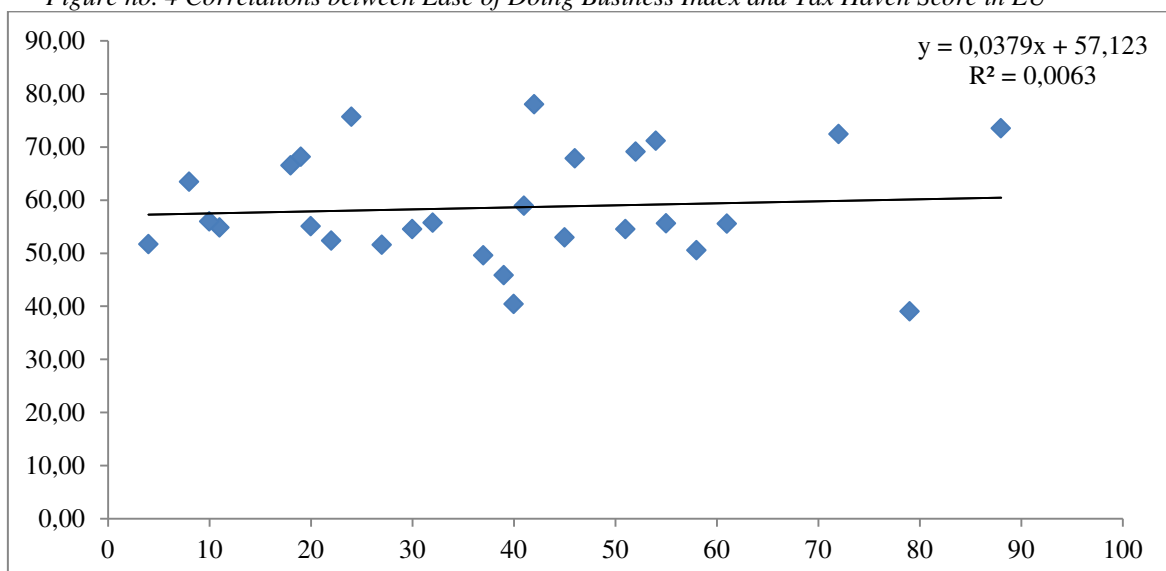
Source: (author processing based on data published by Tax Justice Network, 2019)

The average values recorded by the Member States are alarming for 8 of the 20 indicators taken into account when calculating the Haven Score, respectively: Capital gains tax (average=92); Local Filing of Country by Country Reporting (average=89); Unilateral Tax Rulings and Extractive Industries Contracts (average=85); Reporting Tax Avoidance Schemes (average=95); Limits on deductions for Interest (average=86); Limits on deductions for Royalties (average=95); Limits on deductions for services payments (average=93); Withholding taxes on dividends (average=100).

5. Establishing the correlations between Ease of Doing Business Index and Tax Haven Score in EU member states

Taking into account the values recorded by the EU Member States for the Ease of Doing Business Index and the Tax Haven Score and calculating the Pearson coefficient, it is found that there is a weak correlation between these two variables (see Figure no. 5), with $r = 0,07937$.

Figure no. 4 Correlations between Ease of Doing Business Index and Tax Haven Score in EU



Source: (author processing based on data published by the World Bank and Tax Justice Network, 2019)

If Germany and Spain are in the two rankings in the same position, there is a large gap for 12 Member States, respectively: Greece, Ireland, Italy, United Kingdom, Latvia, Estonia, Sweden, Poland, Bulgaria, Portugal, Netherlands and Croatia.

Even if there is no close correlation between the two indicators analyzed, based on the data presented in Table no. 2, we consider that in the effort made by the EU Member States to reduce the level of the Haven Score, attention must also be paid to components that at first sight are not related to this score, namely: procedures, time, cost and minimum capital to start a new business; the number of taxes; the time required for calculating, declaring and paying taxes; the total tax due; procedures, cost and time for export and import activities.

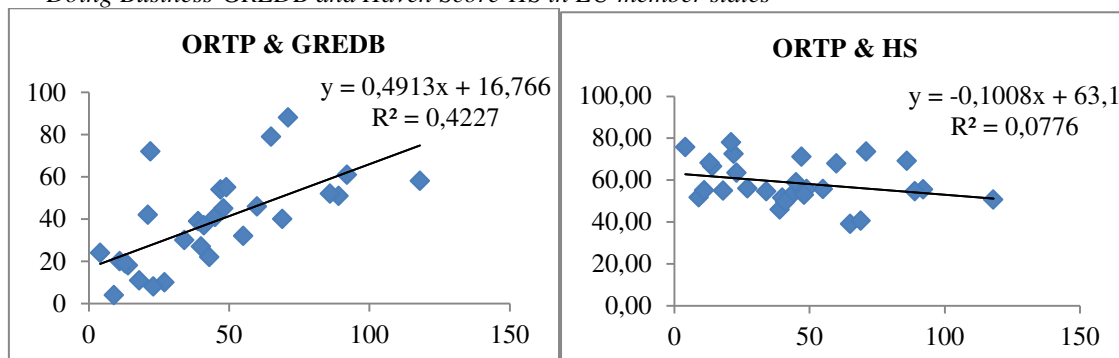
Table no. 4 Correlations between Haven Score and components of the Ease of Doing Business Index in EU

Correlation	y	r ²	r	Observation
Haven Score & Starting a Business	$y=-1,1725x+136,48$	0,0883	0,2971	an acceptable degree of association
Haven score & Dealing with Construction Permits	$y=-0,3358x+87,958$	0,0056	0,0748	correlation close to zero
Haven Score & Getting Electricity	$y=-09314x-2,7161$	0,0566	0,2379	weak correlation
Haven Score & Registering Property	$y=0,1011x+48,434$	0,0006	0,0245	correlation close to zero
Haven Score & Getting Credit	$y=0,1197x+70,057$	0,001	0,0316	correlation close to zero
Haven Score & Protecting Minority Investors	$y=0,4353x+22,673$	0,0343	0,1852	weak correlation
Haven Score & Paying taxes	$y= -1,0124x + 103,39$	0,1331	0,3648	an acceptable degree of association
Haven score & Trading across Borders	$y=0,5271x-16,059$	0,0898	0,2997	an acceptable degree of association
Haven Score & Enforcing Contracts	$y=-0,232x+63,165$	0,0033	0,0574	correlation close to zero
Haven Score & Resolving Insolvency	$y=0,6343x-0,1979$	0,044	0,2098	weak correlation

Source: (author processing based on data published by the World Bank and Tax Justice Network, 2019)

Since the strongest correlation identified is between the Haven Score and the Paying Taxes, we consider that analyzes should be extended. Thus, according to the data presented by PwC regarding the Paying Taxes 2019 Ranking (PwC, 2019), taking into account the value of the fiscal obligations of an entity in the second year of operation as a percentage of the net profit before tax, the number of hours required annually to a company for calculating, declaring and paying taxes, the number of fiscal obligations that fall to the company in the second year of operation, the modalities and frequency of payment for all taxes, the number of public bodies involved in paying taxes, the time for the VAT refund, the time required for the corrections to the income tax, can be identified the correlations between Overall Ranking for Paying Taxes - ORPT, Global Rank for Ease of Doing Business-GREDB and Haven Score-HS (as shown in Figure no. 5) .

Figure no. 5 Correlations between Overall Ranking for Paying Taxes - ORPT, Global Rank for Ease of Doing Business-GREDB and Haven Score-HS in EU member states



Source: (author processing based on data published by the PwC, World Bank and Tax Justice Network, 2019)

As can be seen, for the EU Member States there is a moderate to good correlation between Overall Ranking for Paying Taxes and Global Ranking for Ease of Doing Business ($r = 0.6502$) and an acceptable degree of association between Overall Ranking for Paying Taxes and Haven Score ($r = 0.2786$).

6. Conclusions

The purpose of this article was to identify the correlation between the Ease of Doing Business Index and the Haven Score at EU Member State level. Because a weak correlation was identified between these two indexes, we extended the analysis and identified correlations with other indicators in the fiscal field, respectively with Overall Ranking for Paying Taxes. Thus, the fiscal aspects are the ones that greatly influence the behavior of multinational companies and their desire to erode the profit tax base.

Worldwide, over 130 jurisdictions have implemented the actions established by the OECD to combat tax avoidance, in order to ensure an international tax environment as transparent as possible and with the most consistent fiscal regulations. The full or even partial implementation of these recommendations has brought substantial benefits. For example, EU Member States that have implemented the OECD recommended measures on Cross-border B2C supply of digital services and intangibles have received revenues of EUR 10.2 billion over a three-year period (OECD, 2019).

Only a real international collaboration will allow EU member states fiscal consolidation environment. The actions taken by Denmark, the United Kingdom and Sweden are worthy of consideration in terms of the Ease of Doing Business, and those taken by Greece, Poland, Portugal and Slovenia in terms of the Haven score.

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