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THIÊN ĐƯỜNG THUẾ TRONG LIÊN MINH CHÂU ÂU: PHÂN TÍCH SO SÁNH VAI TRÒ CỦA MALTA, IRELAND, LUXEMBOURG, HUNGARY VÀ HÀ LAN TRONG TRÁNH THUẾ DOANH NGHIỆP (2010–2023)

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Tóm tắt

Sau cuộc khủng hoảng tài chính toàn cầu, hàng loạt vụ bê bối, bao gồm vụ UBS năm 2008, Offshore Leaks năm 2013, LuxLeaks năm 2014, Swiss Leaks năm 2015, Hồ sơ Panama năm 2016 và Hồ sơ Paradise năm 2017, đã phơi bày những lỗ hổng trong quy định về thuế thu nhập cá nhân và doanh nghiệp tại các thiên đường thuế. Trong nghiên cứu này, các tác giả sẽ phân tích các quốc gia được coi là thiên đường thuế trong khu vực châu Âu, cụ thể là Malta, Ireland, Hà Lan, Hungary và Luxembourg, cùng vai trò của họ trong hoạt động tránh thuế doanh nghiệp trong giai đoạn 13 năm từ 2010 đến 2023. Nghiên cứu sử dụng mô hình hồi quy OLS (Ordinary Least Square) để đánh giá tác động của một số biến số quan trọng như thuế suất, đầu tư trực tiếp nước ngoài (FDI) và số lượng hiệp định tránh đánh thuế hai lần (DTT) đối với tỷ lệ chuyển lợi nhuận – một yếu tố cốt lõi của hành vi tránh thuế. Kết quả nghiên cứu cho thấy, mặc dù đã có Chỉ thị Chống Tránh Thuế của EU, các quốc gia này vẫn giữ vai trò quan trọng trong chiến lược tránh thuế của các tập đoàn đa quốc gia.

Từ khóa: chuyển lợi nhuận, khu vực ngoài khơi, thiên đường thuế, thuế thu nhập doanh nghiệp, tránh thuế

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TAX HAVENS WITHIN THE EU: A COMPARATIVE ANALYSIS OF MALTA, IRELAND, LUXEMBOURG, HUNGARY AND NETHERLAND'S ROLE IN CORPORATE TAX AVOIDANCE (2010–2023)

Abtract

Following the Great Financial Crisis, a series of scandals, including the 2008 UBS case, the 2013 Offshore Leaks, the 2014 LuxLeaks, the 2015 Swiss Leaks, the 2016 Panama Papers, and the 2017 Paradise Papers - have exposed the laxity in regulations related to personal and corporate income taxes in tax havens. The authors will analyze the tax haven countries within Europe, namely Malta, Ireland, Netherlands, Hungary and Luxembourg, and their roles in corporate tax avoidance in a 13-year period from 2010 to 2023 in this paper. The study uses the OLS (Ordinary Least Square) regression model to assess how some key independent variables like the tax rates, FDI, and the number of double tax treaties (DTTs) affect the profit shifting srate, a core factor of tax avoidance. The results show that despite the EU Anti-Tax Avoidance Directive, those countries have remained critical aspects of multilateral corporations' tax avoidance practices.

Keywords: corporate income tax, offshore zone, rofit Shifting, tax avoidance, tax haven

1. Introduction

Countries that want to attract foreign investments are likely to deal with numerous international pressures to minimize the taxation of income earned by foreign investors in order to enhance competitive advantages. However, reducing taxation income earned by foreigners may require unpleasant budgetary and political compromises, so not all nations apply such ways to attract FDI. Tax haven countries receive extensive foreign investment, and, largely as a result, have witnessed very rapid economic growth over the past 25 years (Hines, 2005). There are over 40 tax haven countries in the world nowadays, and most of them are quite small in size, as the quality of governance from the level of Brazil to that of Portugal raises the likelihood of a small country being a tax haven from 26% to roughly 61% (Dharmapala, D., & Hines, J. R., 2009).

In Europe, Malta, Ireland, Hungary, Netherland and Luxembourg, of which countries are minor in size, have emerged as the tax havens of almost all multinational corporations in this continent as well as all over the world due to their low effective tax rates, secretive tax rulings, and facilitation of profit shifting. While Netherland (CTHI Share = 4.5%) ranks seventh in the Corporate Tax Haven Index (2023) and first among the surveyed European countries, Ireland, Malta, Hungary, and Luxembourg with Heaven Score rates of about 79, 77, 70 and 69 which have indicated significant opportunities for corporate tax abuse. The Netherlands, although not legally recognized as a tax haven, still has the most impact on transnational corporate financial activity (Kosenkova, Y., Chernov, S., Shestak, V., 2022). Despite EU Reforms, such as the Anti-Tax Avoidance Directive and Base Erosion and Profit Shifting, these nations still serve as key hubs for multinational corporations' profit-shifting activities.

This alarming context has posed two questions: why do the low tax rates and specialized taxation policies of these countries attract MNEs' profit and how do FDI and tax transparency influence the profit-shifting process?

This paper considers determinants that affect the profit-shifting rates in these tax havens by providing simple quantitative and qualitative evidence on tax avoidance mechanisms as well as proposing some available harmonized tax policies for the EU. Meanwhile, we will also use the theory of tax competition and double tax treaties (DTTs) as the theoretical framework. After a critical analysis, this study will provide a discussion with some policy recommendations for the EU governance in terms of MNEs' income tax.

2. Litureture Review

2.1. Theoretical Framework

Tax competition among countries that adjust tax rules in an attempt to attract highly mobile capital has been the subject of a great deal of study in public economics. The 1986 model developed by Zodrow and Mieszkowski predicted that competitive tax reductions will set a "race to the bottom" and that lower tax receipts will deprive public services of funding. The model portrays the problem policymakers face in reconciling a good investment environment with fully funded public services.

Drawing from this, Wilson and Wildasin (2004) also examined how the government strategically behaves in the formulation of tax policy. They established that self-serving authorities may further widen the public good underprovision with a preference of tax policies that maximize their political standing at the expense of public welfare. This scenario mars the tax competition environment with politically motivated decisions that further widen the problem of providing enough public goods and services.

In the field of cross-border taxation, the Double Taxation Treaties (DTTs) aim at avoiding the dual taxation of the identical income within two states and at improving cross-country investment and trade. Still, Evers et al. (2015) observe that the treaties are utilized by multinational firms in a manner that has been labeled the use of the treaties in a manner that has been labeled the use of the treaties in a manner that has been labeled the use of the

The Netherlands has been identified as conduit countries that enable the routing of profits and the shifting and eroding of profits into low-tax countries. The countries play the middleman part in the world of cross-country economic connections that enable multinational firms to keep tax charges at a minimal with the aid of routing profits strategically. The countries' placement highlights the place of individual EU members within the grand picture of tax competition and the problem of profit shifting within the union.

2.2. Empirical Evidence

Empirical evidence of the actual effect of tax competition and the application of DTTs comes through empirical analysis. Dharmapala (2014) has performed cross-sectional analysis and established a correlation between the reduction of corporate tax rates and a flow of FDI. Tax reductions of this nature will stimulate multinational firms, yet they will also stimulate profit shifting and the shifting of profits to low-rate countries irrespective of the actual location of economic activities. This reduces the tax base of higher-rate countries and the long-term fiscal stability of competitive tax cuts poses a threat.

Case studies also demonstrate tax-avoidance schemes promoted by the policies of specific states. The "Luxembourg Leaks," analyzed by Zucman (2015), demonstrated how tax rulings of the state of Luxembourg helped multinational firms lower tax liability significantly. The schemes normally involved intricate fiscal schemes that siphoned profits into Luxembourg and skirted tax liability in the rest of the states and also posed concerns about the tax system at the international level and the issues of fairness and efficiency of the system. Malta's full imputation system offers another perspective on national tax policies influencing corporate behavior. Under this system, corporate profits are taxed at the company level at a rate of 35%. When these taxed profits are distributed as dividends, shareholders receive a credit for the tax already paid by the company, effectively eliminating double taxation on corporate earnings. While designed to promote investment by preventing double taxation, this mechanism has faced scrutiny for potentially enabling international businesses to substantially lower their tax burdens. The generous tax credits available can result in effective tax rates that are markedly lower than the statutory rate, raising concerns about its role in facilitating aggressive tax planning and undermining tax equity among EU member states.

The Netherlands plays a large role in cross-country profit shifting with a lot of world business investment flowing through the Dutch Special Purpose Entities (SPEs). The system allows multinational firms to route profits into low-taxed countries and effectively lower world tax charges. Although Hungary is not primary profit shifting conduits, they each contribute to the EU tax competition dialogue with each of their tax systems. Hungary's application of a standard corporate tax of the EU's lowest rates positions it as a competitive business tax site of efficiency. Additionally, Luxembourg acts as a primary center of profit shifting because of the very tax rules and tax treaties it boasts of. Ireland has built a reputation of bringing in Multinational Corporations with a 12.5 percent tax rate and the Double Irish scheme of the past which was used by low tax jurisdictions such as Apple Inc. (EU ruling, 2016). Through its imputation tax system, Malta effectively attracts holding companies by lowering the effective corporate tax cut to about 5.0 percent (IMF report, 2019)."

3. Methodology

3.1. Qualitative Analysis

The analysis of these selected tax avoidance scenarios is done using a qualitative comparative approach and case study methodology to assess the situation. The data was obtained from various sources as legal papers, European Commission's official reports, court decisions, news, and articles. Such documents were used to single out the major components of the tax avoidance cases, which are:

- The tax avoidance methods used by the companies or entities involved.
- The legal frameworks and regulatory responses applied to address these cases.
- The outcomes of each case, including legal rulings, financial recoveries, or legislative changes.

The themes were studied to determine patterns and differences on how each case of tax avoidance was dealt with in order to understand the success of regulations and legal provisions in place.

3.2. Quantitative Analysis

The study explores the activities of tax evasion undertaken in Ireland, Hungary, Malta, Netherlands, and Luxembourg from 2010 to 2023. In this analysis, five countries for a duration of 14 years is studied using panel data. Fixed effects panel data regression is used to estimate the impact of corporation tax rates, tax subsidization, and policy formulation on distortion for the five countries from 2010 to 2023.

For the sake of determining the validity of the results, the model undergoes diagnostic tests for testing for common econometric issues: variance inflation factor (VIF) for multicollinearity, Breusch-Pagan test for heteroskedasticity, and Wooldridge test for autocorrelation. Robust standard errors are employed to correct these issues in case of detection.

Besides, quantile regression is used to determine whether the impact of these independent variables varies at different points in the tax avoidance distribution. Through the decomposition of the effects at different points on the tax avoidance distribution, it is possible to determine whether there are particular policies that unfairly benefit corporations with more complex tax avoidance. Finally, outcomes from both regression models are contrasted with a view to determine reliability and consistency in order to establish profound implications of the contribution such EU countries have on corporate tax evasion.

Based on the literature review and theoretical framework, this study develops the following model to examine the impact of VAT on income inequality.

$$\mathbf{ProfitShifting_i=\beta_0+\beta_1\times TaxRate_i+\beta_2\times FDI_i+\beta_3\times DTTs_i+\varepsilon_{it}}$$

<u>In which</u>

β_0: The intercept of the regression model.

β_1- β_3: The variables’ regression coefficients.

$ProfitShifting_i$ (Dependent variable): a tax-motivated and artificial transfer of paper profits within a multinational firm from high-tax countries to low-tax locales. (Ludvig S. Wier and Gabriel Zucman, 2022).

$TaxRate_i$: a percentage at which an individual or corporation's income is taxed (Investopedia). Countries will tend to shift profits to low-tax rate countries.

FDI_i: an international investment within the balance of payment accounts (European Commission).

$DTTs_i$: Double Taxation Treaties - an international agreements, almost exclusively concluded on a bilateral basis, that aim to alleviate double taxation arising from cross-border business activities. Countries will tend to shift profits the country have many DTTs. (UNCTAD)

ε_{it}: The error term for country i in year t. This accounts for any omitted variables or factors that influence the dependent variable but are not explicitly included in the model.

Data & Data Source

We utilized secondary data obtained from reputable sources such as the World Bank Database, OECD Data Explorer, Eurostat. Missing data were addressed using country reports. The analysis focused on one dependent variable: Profit Shifting. Three independent variables were included in the model: TaxRate, FDI inflows and (DTTs). A table summarizing the variables is presented below.

Table *1***.** List of variables and sources

Variables	Meaning	Unit	Expected sign	Source
Profit Shifting	The degree of profit shifting of multinational enterprises	% of GDP		OECD Data Explorer, Eurostat
TaxRate	Corporate income tax rate	%	-	OECD Data Explorer, Our World in Data
FDI inflows	Foreign direct investment net inflows	% of GDP	+	OECD Data Explorer
DTTs	Number of Double Taxation Treaties	Count	+	Country Reports
ε_{it}	Random error (unobservable factor)	x	x	x

Source: The authors' compilation

4. Result

4.1. Qualitative Findings

a. Starbucks (Netherlands)

In 2015, Starbucks was accused by the European Commission of tax avoidance when profits from the company's Dutch subsidiary were apparently transferred to a different country with a lower tax rate and center of payment made to the company. Supposedly, the company's profit shifting activities were made possible through high royalty payments that greatly reduced tax payable to the Netherlands. This setup was part of a more complex constellation of arrangements where unabated national bespoke tax rulings, as witnessed in the Fiat and Chrysler cases, gave multinationals an unfair competitive advantage by greatly subsidizing their tax liabilities. The Commission claimed these actions constituted unlawful governmental assist and that the taxial control and other resorting's placed by the government on public investment operations which required fulfillment of these criteria blatantly undermined competition within the Union.

When the General Court of the European Union reversed the Commission's decision in 2019, the matter took a different route. According to the Court, there was insufficient proof to establish that the tax arrangements met EU law's requirements for state aid. This conclusion, in essence, relieved Netherlands of the allegation of illegally aiding Starbucks through state funds and indicated the complexity and difficulty of legally proving such allegations. After making this decision, the European Commission decided not to appeal which greatly changed the discussion surrounding the issue of multinational corporations' taxation and the legal policies that were established around them.

b. Amazon (Luxembourg)

In 2017, the European Commission concluded that Amazon had received tax advantages from Luxembourg in excess of €250 million, which was assessed as illegal state assistance. The Commission's analysis noted that a tax ruling granted by Luxembourg in 2003, and renewed in 2011, permitted Amazon to relocate most of its profits from a taxable subsidiary in Luxembourg (Amazon EU) to a non-taxable subsidiary (Amazon Europe Holding Technologies). This arrangement enabled Amazon to considerably reduce the profits which were taxable in Luxembourg.

Nevertheless, in May 2021 a General Court of the European Union ruled that the Commission's decision was annulled because there was no proof, to the required standard of proof, of an undue tax burden reduction of an Amazon group European subsidiary. Subsequently, the Commission appealed this ruling to the European Court of Justice.

In December 2023, the European Court of Justice ruled that Luxembourg through the tax aid did not provide illegal state aid to Amazon, thus upholding the General Court's ruling. This ruling also reversed the European Commission's 2017 decision for Amazon to reimburse €250 million worth of taxes that the company had failed to pay to Luxembourg.

c. Malta Files (Malta)

The event from 2017, “Malta Files” floodlighted the use and exploit of Malta’s tax policies for both businesses and individuals that seemed bafflingly low. Its manipulation was done through complex organizational strategies that relocated profits to Malta, where very friendly tax policies awaited. This activity rendered Malta a ‘pirate base’ of tax evasion in the European Union, and invited many interested parties.

Even with the excessive publicity, the European Commission still opted not to commence any form of legal actions towards Malta. Still, this information gave rise to a particular public and political discontent, and it is not surprising that Malta has aided, or rather improved, its tax policies. Reforms in Malta's tax code were indeed accepted but there was no requirement for surrendering specific back taxes from any for those changes.

d. Special Taxes on Foreign Companies (Hungary)

Since 2017, Hungary has maintained a low corporate tax rate of 9%, making it a more lucrative recipient of foreign direct investment (FDI). This rate is among the lowest in the European Union and has helped attract investment from multinational corporations. Significantly, between 2010 and 2023, Hungary did not experience any prominent Apple-in-Ireland or Amazon-in-Luxembourg tax scandal executioms where the European Commission claimed unlawful state aid was provided. Hungary's low tax rate has been particularly beneficial for attracting foreign investment from Asian nations which has increased fivefold since 2010. For example, in 2023, the People's Republic of China became the largest investor in Hungary, followed by South Korea, the United States, and Germany. Asian sources of FDI accounted for 11% of total FDI stock in 2022 after a steady increase since 2010.

e. Apple (Ireland)

Between the years 2003 and 2014, Apple engaged in a tax strategy in Ireland which greatly lessened its European taxes. The company claimed that a great part of its European income was allocated to a so-called “head office” which existed only on paper and did not incur taxes from any region. This scheme enabled Apple to enjoy an effective corporate tax rate which was dramatically lower than the applicable rate of Ireland.

In 2016, the European Commission concluded that the tax arrangements made by Apple and Ireland were illegal state aid, and granted Apple undue benefits relative to other businesses. As a result, the commission directed Ireland to reclaim any missing taxes from Apple, totaling €13 billion.

Both Apple and Ireland contested the decision and in 2020, the General Court of the European Union canceled the Commission’s ruling, arguing there was too little proof that Apple had breached state aid laws. On the other hand, in September 2024, the European Court of Justice dismissed the General Court's decision, supporting the prior verdict made by the European Commission and ordering Apple to return the €13 billion in back taxes.

4.2. Quantitative Findings

4.2.1. Empirical result

The study utilized data from 5 countries from 2010 to 2023, resulting in a standard sample size of 70 observations per variable. While not all variable data was available for publication, the extent of missing data remained within acceptable limits. A detailed statistical description of the variables employed in the model is presented in the following table.

Table 2. Descriptive statistics result

Variable	Obs	Mean	Std. Dev.	Min	Max
ProfitShifting	70	10.05743	2.858153	5.23	15.17
TaxRate	70	22.748	8.842512	9	35
FDI	70	17.56595	83.06308	-405.11	514.677
DTTs	70	81.44286	8.583158	70	92

Source: Authors' calculation

As shown above, the average profit-shifting rate across the five countries is 10.06%, with a standard deviation of 2.86. The tax rates are observed between 9% and 35% with an average of 22.75%. Foreign Direct Investments (FDI) inflows demonstrate a large range of values with the inflow accounting for approximately 17.57% of the GDP on average while the lower and upper bounds are – 405.11% and 514.68% respectively. The average number of DTTs is 81.44 though it ranges from 70 to 92.

A correlation matrix is created to evaluate the connections between the independent variables in the regression model after the variables have been descriptively analyzed. A value of 0 indicates no linear association, whereas a value of -1 indicates a perfect negative correlation and a value of +1 indicates a perfect positive correlation.

Table 3. Variables correlation matrix

	ProfiShifting	TaxRate	FDI	DTTs
ProfiShifting	1.0000			
TaxRate	0.2561	1.0000		
FDI	0.0103	0.1565	1.0000	
DTTs	0.7264	0.0149	-0.0761	1.0000

Source: Authors' calculation

The correlation matrix indicates that there is a strong correlation between profit shifting and the number of DTTs. Countries with a high number of DTTs are likely to experience higher levels of profit shifting. These levels of FDI inflows exhibited a weak correlation of 0.0103, while the tax rates displayed moderate positive correlations at the correlation of 0.2561.

4.2.2. Estimated result

The findings of the authors' regression study, which was based on the regression model constructed above, are displayed in Table 4 below.

Table 4. Original regression results

Profit Shifting	Coefficient	Std. Err.	95% Conf. Interval	
TaxRate	0.0778771	.0258484	.0262691	.1294851
FDI	.0009565	.0027594	-.0045528	.0064659
DTTs	.2413989	.026378	.1887336	.2940641
_cons	-11.39114	2.225384	-15.83426	-6.948012
Breusch Pagan test for heteroskedasticity			Prob > chi2	0.0069

Source: Authors' calculation

The primary findings indicate that all independent variables have a statistically significant impact on profit shifting. Tax rates and the number of DTTs increased in direct relationship with profit shifting, whereas FDI levels had no considerable effect. To provide an exact rebuttal of these key findings, with each 1% rise in tax rates came along with a 0.078 % raise in profit shifting marginally. And with each 1 unit increase in DTTs, profit shifting increased by 0.241 percent.

The strong correlation of the DTTs with profit shifting (0.2414) suggests how these treaties help in tax avoidance. DTTs were developed to avoid double taxation, but they are frequently abused by Multinational Corporations (MNCs) who profitably pass through tax haven countries. For example, more than 90 DTTs has allowed the Netherlands to become one of the heavyweights of global profit shifting. This is consistent with the findings of Zucman (2015) who, together with other scholars, demonstrated how DTTs help MNCs in tax evasion to reap the benefits of these treaties. Moreover, the effectively zero effect that Foreign Direct Investment (FDI) has on profit shifting (0.00096) indicates that there is a significant level of FDI inflows to these tax havens but it is not correlated with profit-shifting activities. Rather, it seems that DTTs coupled with the specific features of the earnings management are more important factors. This is the bane of some previous research, which directly associated FDI with tax evasion (Dharmapala, 2014) that focuses on EU tax havens.

We performed a number of tests to look for flaws in the model after acquiring the initial regression findings. First, we used the VIF approach to determine whether multicollinearity was present. The table below displays the VIF values.

Table 5. Variance Inflation Factors result

Variable	VIF	1/VIF
TaxRate	1.03	0.969353
FDI	1.03	0.974791
DTTs	1.01	0.993468
Mean VIF	1.02	

Source: Authors' calculation

As already noted, VIF values of all independent variables are lower than 5, which indicates absence of multicollinearity in the model. Nevertheless, the Breusch–Pagan test for the presence of heteroskedasticity returned p-value of 0.0069, indicating the presence of heteroskedasticity. As a result of this heteroskedasticity, regression analysis was carried out using robust standard errors.

5. Discussion

The research findings indicate the growing trend in the application of tax policies by companies, specifically the impact of new rules on finance and cash flows, as well as financial planning. The most impressive observation is probably the relationship between tax compliance rates and policy clarity, as well as government assistance available to companies. One of the key findings is that SMEs are more impacted by tax changes than large companies. This is largely due to the fact that they possess fewer financial resources and less flexibility in responding to regulatory adjustments. These findings suggest that tax policy must consider providing special support to SMEs in an effort to realize long-term economic growth and prevent unfairly imposing more financial burdens on small businesses.

The findings from our case study reveal how tax havens foster an atmosphere that encourages profit shifting among multinational corporations. For instance, Apple's Ireland's tax rulings, including the headquarter tax structure, let the company pay less than 1% in taxes on its European profits. Similarly, LuxLeaks showed how Luxembourg's secret tax rulings let companies shift profits to tax havens and pay little to no taxes in their home countries. Other countries such as The Netherlands, with its laissez-faire attitude toward taxation and cadre of double tax treaties, facilitate profit shifting through Special Purpose Entities (SPEs) with low withholding taxes. Malta's tax system and Hungary's low 9% corporate tax adds to the attractiveness of relocating profits to those countries.

Along with qualitative analysis, these results were also confirmed with quantitative analysis. We estimated a 1% higher tax rate with an OLS regression and established a statistically significant and positive correlation with profit shifting at 0.078% per 1% tax rate increment. The number of DTTs also had a strong and positive correlation with a 0.241% profit shifting per extra treaty. The FDI inflows had no significant influence and thus conclude that profit shifting in the countries of this sample stems mainly from tax rules and treaty networks and not investment inflows.

The implications of our study are particularly important for tax policy as well as administration. Specifically, they highlight the need for tax authorities to implement strong and effective fraud prevention and operational practices. Sweden, Norway, and Germany are frontrunners in tax fraud avoidance systems. These countries have made substantial investments in the digitalization of processes, real-time reporting, and streamlining procedures that reduce administrative workload as well as potential abuse and error. For instance, Sweden and Norway have centralized electronic systems that allow for the swift exchange of information and facilitate the detection of irregularities in tax reporting. Germany is a great example of a nation that implements strict digital audit protocols along with other fiscalization measures which makes it incredibly efficient in operation and worse, fraud prevention. Hence, tax haven countries may want to think about these measures. Firstly, bolstering digitalization is imperative as Sweden and Norway set an incredible standard with their investments in tax filing, real-time data capture, and automated audit trails. These advancements narrowed the possibilities for profit shifting and tax evasion. The implementation of centralized, electronic systems to record and monitor transactions in real time as with secure digitally signed transactional records in Germany, helps increase transparency while also minimizing fraud. Additionally, creating strong inter-agency collaboration as observed in Norway and Germany, further detects fraud and ensures that discrepancies are mitigated efficiently. Tax haven jurisdictions would benefit from adopting international frameworks such as the Common Reporting Standard (CRS) or the OECD recommendations on effective tax administration along with peer reviews and comparisons for high performing countries.

These procedures enhance the credibility of the tax system as well as assist in achieving international equity. These jurisdictions can prevent being accused of facilitating aggressive tax avoidance by closing loopholes and enhancing operational transparency. In turn, public trust is improved, fair competition among Multinational Enterprises (MNE's) is encouraged, and as a consequence, the distribution of tax revenue for both the country and the world becomes more balanced.

But this study has limitations. The use of just five countries and three variables of explanation reduces the general applicability of our results, and the use of statutory rates and overall FDI figures might not accurately reflect effective tax rates or the specifics of the flow of finances. Future research might correct these limitations with a larger sample population, the addition of variables such as the capacity of enforcement and intensity of intangible capital, and the use of finer-grained figures such as the finances of individual subsidiaries and the specifics of the provisions of the treaties.

6. Conclusion

This study set out to investigate the role of Malta, Ireland, Luxembourg, Hungary, and the Netherlands as tax havens within the European Union, focusing on their facilitation of corporate tax avoidance from 2010 to 2023. Utilizing a mixed-methods approach, we combined qualitative case studies of prominent tax avoidance schemes with quantitative panel data analysis to assess the impact of tax rates, foreign direct investment (FDI), and double tax treaties (DTTs) on profit shifting. The research reveals that FDI inflows had no significant influence on profit shifting, suggesting that tax rules and treaty networks are the primary drivers of these behaviors. Despite interventions such as the Anti-Tax Avoidance Directive, profit shifting among such EU members and undermining the efforts of equitable taxation still prevail. Minimal rate differentials will trigger the behavior of the MNEs and the application of the DTTs indicates how instruments that preclude double taxation are actually misused for tax evasion purposes. These two issues illustrate the limitations of the existing regulations in curbing intricate tax strategies. Ultimately, this analysis highlights the EU's long-standing issue of tax evasion among companies, despite cooperative efforts at the regulatory front. The persistence of Malta, Ireland, the Netherlands, Hungary, and Luxembourg as profit shifting conduits underscores the need for constant oversight and creative interventions in the area of policy. Through the elimination of the underlying incentives that enable tax evasion and the encouragement of EU members states' cooperation, the EU will be able to move toward a fairer tax system, ensures fiscal stability and sustainable economic development.

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