

Designing Global Tax Strategies: Offshore Jurisdictions, Double Tax Treaty Use, and Corporate Value

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Abstract. As businesses increasingly expand across borders, navigating international tax systems has become both a challenge and an opportunity. Many companies overlook or underutilise legally available tax planning mechanisms – such as Double Taxation Avoidance Agreements (DTAAs) and offshore jurisdictions – that could help reduce tax burdens and generate long-term value. This study explores whether and how multinational enterprises (MNEs), particularly those operating from Georgia, can lawfully use such tools to enhance their financial performance without breaching regulatory boundaries.

The research employs a qualitative methodology based on five comparative scenarios drawn from actual business cases. These cases examine different cross-border structures involving permanent establishments, treaty and non-treaty jurisdictions, and low-tax regimes. The methodology uses secondary sources, including national legislation, international tax conventions, and OECD guidelines. Financial outcomes are evaluated based on tax savings allowed by using different legal options. Cash flows from savings are discounted to calculate the Net Present Value (NPV) of the impact of various tax strategies.

The findings demonstrate that a strategic and legally compliant approach to tax planning can create substantial value. The research validates that offshore jurisdictions offer a legitimate avenue for significant tax savings, provided they are structured with proper economic substance and adhere to the arm's length principle. Furthermore, the study confirms the critical role of DTAAs in mitigating the risk of double taxation, thereby reducing financial burdens and fostering international business expansion. The analysis of the permanent establishment concept reinforces this, highlighting how DTAAs can be leveraged to optimise tax outcomes. The research provides practical guidance for businesses and policymakers aiming to create a more efficient and stable fiscal environment.

Keywords: Taxation strategies; tax saving value creation; double tax treaties; offshore jurisdictions; multinational enterprises; benefits of permanent establishment.

INTRODUCTION

Nowadays, the global economy is becoming increasingly global. Most business units in developed and developing countries, as part of the global economy, are obliged to keep pace with this economic trend. It would be said that the pursuit of globalisation represents a step forward for developing countries in terms of fostering domestic economic development. The mod-

ern business environment and the internationalisation of the economy have created significant gaps in tax regulation, particularly for multinational enterprises (MNEs). Media, political leaders, and society are increasingly interested in how tax reporting and planning should be conducted fairly, to prevent the artificial reduction of tax liabilities in one country and their increase in another, typically one with a more favourable tax regime [1].

When discussing globalisation, it is essential to note that the primary goal of the business, from its inception, should be to grow profitability and create value. They may set their objective to shift manufacturing bases from high-cost to low-cost locations or jurisdictions. For example, they may choose to operate the business in countries where low-paid labour is available. However, the most important aspect is that a business expanding globally must conduct operations across multiple countries [2].

First and foremost, economic changes primarily affect the state and subsequently impact business entities. The existence of different tax systems and varying tax rates presents a major challenge for governments, as companies and individuals are often tempted to reduce their tax liabilities. However, this behaviour frequently crosses into illegality. Sometimes, such actions are indirectly encouraged by the state itself, by offering certain instruments or mechanisms that taxpayers later exploit unlawfully [3].

Each business division is registered under the jurisdiction of a particular country and has been granted residency under this jurisdiction. When a company expands into international markets, several scenarios may arise depending on its operational activity. It may establish a permanent establishment in the country where it continues its business, operates in a low-tax jurisdiction, or conducts transactions with countries with which its country of residence either has or does not have a double tax avoidance agreement. Given that the modern world is moving increasingly toward internationalisation and globalisation, the likelihood of these scenarios occurring is very high, especially in the case of multinational enterprises (MNEs). Each of these scenarios entails unique tax implications, which often become the subject of significant debate among the public and governmental authorities. For example, smaller and more open countries impose less on personal income and corporate income taxes, and more on expenditure and trade taxes, which, on the other hand, reflect the political and economic aspects of the country [3].

On the other hand, since different countries operate under different tax systems – meaning that in some jurisdictions the corporate income tax rate may be 15%, in others 10% or 30%, or even progressive- a company may, deliberately or unintentionally, attempt to avoid the tax obligations imposed by the country. The governments of

OECD member countries have made significant efforts to establish domestic legal and administrative systems that incorporate all necessary principles and mechanisms to set standards, eliminating double taxation. This ensures that companies across different jurisdictions have equal obligations toward the government budget [3]. Besides all the above, due to various factors, companies may overlook the benefits and tax advantages of transactions across different tax jurisdictions.

Problem Background. Nowadays, numerous tax disputes arise in which states challenge taxpayers for allegedly making unlawful tax payments. A significant portion of these disputes stems from the fact that cross-border transactions carried out in the international market do not align with applicable legislation. In some cases, taxpayers are uncertain about which country they are obligated to pay taxes in or whether they are liable to pay tax at all, particularly in situations involving the creation of a permanent establishment. Conversely, there are also cases where taxpayers fail to realise the potential tax benefits they could obtain through properly structured and well-planned tax strategies. Also, when discussing multinational enterprises, we should consider that they operate all over the world. It is challenging to consistently control the risks that may be established due to the PE. Every country has its jurisdiction, and every country has established certain best practices concerning this matter [1].

Several decades ago, there were no established taxation principles and anti-tax avoidance rules to regulate potential risks associated with PE. As companies expand their global operations and engage in transactions across different countries, issues related to intentional or unintentional tax avoidance have come to the forefront of the agenda, closely linked to the concept of the permanent establishment.

Problem Formulation and Research Question. The increasing interdependencies, cooperation, and international trade between countries have created a need for guidance related to international taxation. The Model Tax Convention on Income and Capital was created to address the problems arising from international trade. The Model Tax Convention aimed to eliminate double taxation or reduce it to less than the single taxation of business units. Nowadays, as of 2025, there are more than 3,000 double taxation avoidance treat-

ties (DTA's). Those treaties play a significant role in regulating tax avoidance by companies and in preventing economic/juridical double taxation [4].

Besides, nowadays, around the world, there exist several low-tax jurisdiction countries, offshore, which are also known as tax havens. However, operations carried out in offshore jurisdictions are generally considered to be high-risk.

Today, many Georgian companies are entering international markets and actively conducting operations across various countries worldwide, or they are becoming part of multinational enterprise groups. These companies often operate in countries with which Georgia has signed Double Taxation Avoidance Agreements (DTAAs), or they are engaged in trade with countries where such agreements are not in place.

Accordingly, for Georgian companies operating in international markets, a key question arises: to what extent can they create business value through well-structured tax strategies by leveraging low-tax jurisdictions and cooperating with countries that have signed Double Taxation Avoidance Agreements (DTAAs) with Georgia.

Currently, many companies operating in the Georgian market with international activities do not utilise or misapply the tax planning tools available under the legal framework provided by the authorities. This represents a significant challenge for international businesses established in Georgia. A considerable number of companies perceive Double Taxation Avoidance Agreements (DTAAs) as overly complex, difficult to apply, and potentially more costly. In some cases, businesses are entirely unaware of the existence or function of such agreements.

A similar misconception applies to offshore jurisdictions. Many companies believe that engaging in operations through such jurisdictions carries a high level of risk and therefore avoid structuring their activities accordingly. These jurisdictions are often mistakenly associated with tax sanctions and penalties, which companies fear may be imposed by tax authorities.

The relevance of this problem became particularly clear through work experience, while collaborating with various international companies operating in Georgia. These interactions revealed a widespread lack of awareness and understanding of the benefits and correct application of tax treaties and offshore structuring.

It is increasingly common to encounter Georgian businesses that have either parent or subsidiary companies registered in offshore jurisdictions, through which they are required to carry out their operational activities. This raises the question: are there legal mechanisms and strategies that allow transactions conducted in offshore countries to generate tax benefits that would, in turn, compensate for the risks and procedural complexities that may accompany such transactions?

Considering all of the above, the research question is primarily intended to understand: To what extent can multinational entities reduce tax burdens and create value through offshore jurisdictions and double tax treaty networks?

The theoretical and practical value of the research lies in the fact that existing businesses can, based on the findings of this study, plan their future operational activities and design their tax structures in a way that will enable them to legally reduce their tax liabilities and create long-term value for the company. This, in turn, will help them avoid unnecessary and unreasonable expenses.

The research is highly relevant, as today many companies strive to expand into international markets. However, this often involves several challenges, both procedural and financial. Many companies that are already operating internationally face significant obstacles, since each country imposes its own tax system and regulatory barriers. Therefore, businesses need to understand how to strategically plan their tax structures in a way that aligns with international operations. Doing so not only allows them to reduce tax liabilities legally but also enables them to generate tangible tax benefits and create long-term value.

Literature Review

Concept of Tax Optimisation in International Business. From early history, taxation has been an integral part of human society. As time progresses, taxes become increasingly embedded in our daily lives. For their working lives, individuals pay thousands of dollars in taxes before reaching retirement age. Companies, on the other hand, contribute millions to the state budget [5].

Taxation has two opposing sides. On one side is the government, seeking to collect what it con-

siders its fair share. On the other hand, there is the final recipient of income or the ultimate consumer, who naturally aims to minimise their tax burden. Accordingly, the concept of tax optimisation takes on different meanings depending on the perspective – whether from that of the state or the taxpayer [6].

Saving taxes through tax optimisation does not imply engaging in illegal activity. Based on numerous studies, it can be argued that tax planning and optimisation occur when one follows the applicable laws systematically and possesses in-depth knowledge of tax regulations.

Tax planning and optimisation have existed since ancient times, when individuals sought to reduce the amount of taxes they had to pay to kings and rulers. Even then, the desire to minimise tax liabilities – legally – was a driving force behind many financial and structural decisions [6].

For instance, tax planning often relies on various international agreements and conventions aimed at eliminating double taxation or preventing the non-taxation of the same income.

Tax avoidance refers to a legally permitted activity through which a business or an individual seeks to minimise their tax liability. This often involves a high degree of ingenuity and creativity in interpreting and applying tax laws [7].

On the other hand, tax evasion refers to an illegal act whereby the taxpayer deliberately seeks to evade taxes through fraudulent means. In most jurisdictions, tax evasion constitutes a criminal offence subject to legal prosecution.

Tax Planning and Corporate Strategy. For every successful company, a crucial factor in its success is how it implements its strategy. Why do companies hire tax managers? Because they want to enhance their strategy as much as possible. A well-planned and well-implemented tax structure is also, among others, one key ingredient for the successful implementation of the company's corporate and business strategy. When there are several competing businesses in the market, from an investor's perspective, the company with a well-structured and optimised tax system will naturally be more attractive than others. In this way, the company creates greater value for its owners. Moreover, when a company benefits from favourable tax advantages, it becomes desirable both for investors and for its owners [8].

Therefore, every company, whether local or international, must have a well-developed corporate and business strategy, one essential component of which is tax planning and optimisation.

Aggressive vs. Legitimate Tax Planning. Corporate Social Responsibility (CSR) is a significant field in today's world. It is particularly discussed within the spheres of economics and business and is increasingly becoming a global topic [9].

Why can taxes be viewed as part of CSR? Because, to a certain extent, paying taxes represents a moral obligation of a company or an individual. The degree to which a taxpayer is honest and compliant is closely linked to the company's reputation. First and foremost, a company's corporate structure is derived from its owners, who establish the ethical standards within the organisation, including the proper and honest payment of taxes. Multinational enterprises may have tax obligations in several countries' budgets, particularly when their supply chains span multiple jurisdictions and production, delivery, and value creation occur across different territories. The fundamental principle of international taxation is based on the idea that tax should be paid in the country where value is created. In simple terms, taxes should be paid where the economic activity takes place. For multinational companies, tracking and complying with this principle can be quite complex [9].

Therefore, when a company has a well-developed tax planning and optimisation strategy, it simultaneously contributes to building a strong and responsible CSR profile.

Georgian Tax Legislation. Tax Legislation of Georgia comprises the Constitution of Georgia, international treaties and agreements (such as the Double Taxation Avoidance Treaty), the Tax Code of Georgia, and subordinate normative acts adopted in compliance with them. In Georgia, there are six types of taxes: Personal Income Tax, Corporate Income Tax, Value Added Tax (VAT), Property Tax, Import Tax, and Excise Tax. According to the Georgian tax legislation, these taxes are classified into direct and indirect taxes. Direct taxes include Corporate Income Tax, Personal Income Tax, and Property Tax. Indirect taxes include Value Added Tax, Excise Tax, and Import Tax [10].

Under Georgian legislation, indirect taxes are defined as taxes that are imposed as a markup on the price of supplied goods and/or rendered ser-

vices. They are ultimately borne by the consumer, who pays the increased price when purchasing the goods and/or services. The obligation to transfer the indirect tax to the budget rests with the supplier of goods and/or the provider of services [10].

According to the Tax Code, taxes are defined as mandatory, unconditional monetary contributions to the budget, paid by the taxpayer due to their obligatory, non-equivalent, and gratuitous nature. Out of the six types of taxes, five are classified as state (national) taxes: personal income tax, corporate profit tax, value-added tax (VAT), excise tax, and import tax. The sixth, property tax, is classified as a local tax. State taxes are fixed and uniform across the entire country. In contrast, the local tax, property tax, is imposed by a normative act of the representative body of the municipality (Sakrebulo) [10].

In the Georgian Tax Code, the term "Permanent Establishment" is highly relevant and carries significant implications from a tax perspective. Therefore, if this concept is misinterpreted, either by the taxpayer or the state, it may lead to substantial tax liabilities before the state budget. The existence of a permanent establishment is based on the principle that when non-resident individuals or legal entities carry out economic activities in Georgia, they should be treated under the same conditions as resident entities. The main distinction, however, is that a permanent establishment of a non-resident is taxed only on income derived from sources within Georgia [11].

Since this study focuses on tax optimisation and value creation, including scenario analyses where the existence of a permanent establishment is evident, it is relevant to explain how Georgian tax legislation approaches the concept of a permanent establishment.

Article 29 of the Georgian Tax Code regulates the concept of a permanent establishment and provides a definition thereof.

To initiate discussions with local legislation, Article 29 of the Tax Code of Georgia regulates the existence of permanent establishments. Suppose a non-resident company doing its economic activity partially or fully in Georgia and has a fixed place of business through which the business is carried on. In that case, a non-resident company may have a risk of establishment PE. Fixed place of business may mean: a construction site, instal-

lation, place of management of a non-resident company, branch, office, department, bureau, agency, workshop and so on [10].

So, suppose the activities carried out by a non-resident company fall within the list defined by the TCG. In that case, it implies that the non-resident will be deemed to have a permanent establishment in Georgia. This, in turn, implies that the non-resident entity shall be regarded as a Georgian enterprise for tax purposes. Permanent establishment of a non-resident enterprise bears the same tax responsibilities toward the Georgian state budget as a domestic Georgian enterprise [10].

As mentioned above, nowadays Georgian tax legislation includes Double Taxation Avoidance Agreements (DTAAs). Currently, Georgia has signed such agreements with 58 countries. The main purpose of these agreements is to promote deeper economic cooperation between countries and attract foreign investment. The texts of the agreements signed by Georgia are based on the OECD Model Tax Convention and define the principles of taxation between countries. Specifically, income earned by legal or natural persons from activities carried out in another country shall be taxed either in the country where the income was generated or in the country of residence. These agreements are highly relevant today, as many businesses operate not only within Georgia but also beyond its borders. Accordingly, DTAAs provide companies with equal conditions and eliminate the risk of the same income being taxed in two different countries [12].

As previously mentioned, these treaties form part of Georgia's tax legislation and take precedence over the domestic provisions of the Georgian Tax Code in cases of conflict.

Accordingly, due to the existence of the double taxation treaty, the taxing rights have been lawfully allocated between the two contracting states.

Transfer Pricing Regulations. MNEs encounter difficulties in overseeing their transfer pricing operations. Although some MNEs might use transfer pricing for management control, they are still obligated to adhere to transfer pricing regulations for taxation in the nations where they function. The setting of the transfer price influences how taxable income is distributed among the affiliated businesses of a multinational enterprise [13].

Entities within an MNE engage in international commerce, creating opportunities to enhance the value chain of products or services, and as a result, they seek synergies. A difficulty encountered by an MNE engaged in international business with affiliated entities is whether the transfer pricing approach employed for internal transactions is deemed acceptable by the tax authorities in the nations where the MNE functions. The challenge of transfer pricing intensifies when the MNE operates various global businesses with distinct business models and numerous cost centres [14].

The essence of transfer pricing lies in determining an arm's length price for goods or services in transactions between related entities that are members of the same multinational group, or in transactions carried out with an entity located in a low-tax jurisdiction. The main objective of transfer pricing is to establish fair market value for intra-group transactions and services provided through offshore jurisdictions. This helps to prevent companies from artificially shifting profits or manipulating prices in a way that would benefit them in a specific jurisdiction by reducing or inflating taxable income [15].

The regulatory framework for transfer pricing analysis is based on OECD Transfer Pricing Guidelines.

So, TP regulations are imposed on controlled transactions, which are defined as two types of transactions. First, when a transaction is undertaken between associated enterprises that are members of MNE groups, and second, the transaction is made with an offshore jurisdiction [13].

The term "associate enterprises" for TP purposes is defined as follows:

"Where

a) an enterprise of a Contracting State participates directly or indirectly in the management, control or capital of an enterprise of the other Contracting State, or

b) the same persons participate directly or indirectly in the management, control or capital of an enterprise of a Contracting State and an enterprise of the other Contracting State, and in either case conditions are made or imposed between the two enterprises in their commercial or financial relations which differ from those which would be made between independent enterprises, then any profits which would, but for those conditions, have ac-

crued to one of the enterprises, but, because of those conditions, have not so accrued, may be included in the profits of that enterprise and taxed accordingly." [4, p. 34–35].

Under Georgian tax legislation, two persons shall be considered as associated persons/related persons if one person directly or indirectly participates in the management, control and capital of the other person; and the same person directly or indirectly participates in the management, control and capital of two persons. On the other hand, for taxation purposes, a person directly or indirectly participates in the management, control, and capital of an enterprise if they directly or indirectly own over 50% of an enterprise and control the business decisions of the enterprise [10].

Also, under Georgian tax legislation, A country shall be considered as having preferential tax treatment if, under the tax legislation of the country, a legal person is exempt from profit tax or the profit tax rate does not exceed 1/3 of the profit tax rate existing in Georgia [10].

Transfer pricing plays a significant role in the economies of various countries around the world. In today's globalised world, where economies are becoming increasingly interconnected and companies are building extensive value chains across multiple jurisdictions, it would be nearly impossible to ensure fair pricing principles without transfer pricing rules. Over time, transfer pricing regulations have become increasingly stringent, which in some cases may lead to a decline in investment activity. The simple implementation of transfer pricing rules led to a decrease in investment by multinationals of over 11 %, with more stringent methods having a greater adverse effect on investment. Concurrently, an excessively permissive transfer pricing system might create avenues for corporate tax evasion [16].

The main laws governing transfer pricing in Georgia are as follows:

- Tax Code of Georgia – articles 126-129¹;
- Order No. 423 of the Minister of Finance of Georgia "on the Approval of the Instruction on the Assessment of International Controlled Transactions";
- Adoption of OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Admin-

istrations through a direct reference in the Order No. 423;

- The Methodological Guideline on the Assessment of International Controlled Transactions, Approved by the Revenue Service - The document outlines the methods and procedures for evaluating international controlled transactions, as set by the Georgian Revenue Service.

Application of the Arm's Length Principle. In the 20th century, due to increasing globalisation, the Arm's Length Principle emerged. The main reason the arm's length principle was established was to determine how profits should be distributed between MNEs, thereby preventing tax evasion and ensuring equitable taxation across countries with varying taxation systems [17].

OECD member countries set the standard, which follows the arm's length principle, if the transaction has been qualified as a controlled transaction [13].

When ALP is used to determine the transfer price in controlled transactions, it employs the arm's length range, a set of figures acceptable for establishing arm's length conditions in such transactions [13].

Georgian legislation requires companies to ensure that transactions they conduct are in compliance with the arm's length principle and transfer pricing regulations, if such transactions are carried out with related parties or with residents of low-tax jurisdictions [10].

Compliance with the arm's length principle is demonstrated through transfer pricing documentation. While resident entities are not obliged to submit this documentation proactively, they must provide it within 30 calendar days upon request from the Revenue Service. Failure to do so entitles the tax authority to conduct its own assessment and determine whether the transaction between related entities aligns with market pricing principles [18]

The market price of a transaction between related parties must correspond to the price established for an identical transaction between independent parties under comparable conditions. To determine the arm's length price of a transaction between related parties, the OECD recognises five methods in total; three of these are Traditional Transactional Methods, and two are Transactional Profit Split Methods [19].

Traditional Transactional Methods: Comparable Uncontrolled Price [13, p. 20]; Cost Plus Method [13, p. 22]; Resale Price Method [13, p. 25].

Transactional Profit Split Methods: Profit Split Method [13, p. 24]; Transactional Net Margin Method [13, p. 26].

The selection of a transfer pricing method depends on the specific case, the parties involved in the transaction, and the nature of the transaction itself. The method that best fits the particular case should be chosen.

Value Creation in Business. Creating and maximising value are essential objectives for every company, as a company's value is ultimately based on its capacity to produce free cash flows (FCF) both currently and in the future. These cash flows signify the resources accessible to all investors, both creditors and shareholders, once operating expenses, taxes, and essential capital reinvestments are accounted for. A business can boost its value by increasing its anticipated cash flow, accelerating its arrival, and reducing the associated risks. Each department in a company plays a role in this goal: marketing can boost sales, human resources can enhance productivity, and operations can cut costs and increase efficiency. Crucially, financial managers are essential in directing all departments towards initiatives that enhance cash flow production, thereby raising the company's inherent value.

Additionally, the company's capital structure choices, like the proportion of debt to equity, together with external elements such as interest rates and investor risk appetites, affect its cost of capital (WACC). The cost of capital indicates the return needed by investors, and a company maximises value by achieving returns on its investments that surpass this cost. Consequently, effectively managing cash flows and financing is essential for sustainable value enhancement and enduring success [20].

Offshore Jurisdiction, Tax Planning and Value Creation. According to the Tax Code of Georgia, a jurisdiction is considered to be a preferential tax jurisdiction if the corporate income tax rate in that country is less than one-third of Georgia's applicable rate (15%) or is equal to zero [10].

Following the Georgian Tax Code, any transaction carried out with an entity registered in an offshore jurisdiction must comply with the arm's length principle and reflect market-based pricing. For transactions involving parties from offshore

jurisdictions, the Georgian resident company is required to maintain appropriate transfer pricing documentation confirming that the transaction is in line with the arm's length principle [10].

As of today, Georgian tax legislation recognises 48 jurisdictions as preferential tax jurisdictions and provides an official list. Consequently, any transaction between a Georgian resident company and an entity in one of these jurisdictions qualifies as a controlled transaction and must strictly comply with the arm's length principle and market price requirements [21].

On a multinational level, MNEs pursuing internationalisation use offshore jurisdictions as part of their tax strategy, deriving future tax benefits, and train their leadership and managerial staff to deploy tax havens as a good tax strategy for the MNE [22].

Conducting business through offshore jurisdictions often constitutes a core component of the overall strategy of multinational enterprises (MNEs), particularly in terms of taxation and global operations. Based on the conducted research, it became clear that inbound and outbound operations in offshore jurisdictions are closely linked to tax planning strategies. The study indicates that the long-term tax structuring of MNEs is frequently tied to the use of offshore countries for conducting operational activities. On the other hand, alongside the potential tax benefits, companies may face uncertainty due to sunk costs, entry risks, and macroeconomic shocks, which can reduce the tax and global advantages offered by offshore jurisdictions. According to the research findings, such uncertainty may lead multinational enterprises to adopt more aggressive tax strategies. Therefore, the positive tax value that MNEs may generate through offshore structures can, in some cases, be diminished by the costs and limitations on tax planning caused by external risks [23]. The examined article partially endorses the main suggestion of this study, while also providing a significant nuance. It specifically states that it is indeed feasible to create value through offshore strategies; however, this value generation depends on a company's capacity to effectively evaluate and handle economic and political risks, along with predicting future taxable income. The results highlight that uncertainty concerning sunk costs, market fluctuations, and operational challenges can diminish the efficacy of assertive tax approaches. Consequently, the article rein-

forces the hypothesis by emphasising that well-organised and risk-conscious offshore strategies have a higher likelihood of success and yield significant tax benefits.

The primary objective of companies, when operating in low-tax jurisdictions, is and should be to minimise tax liabilities, optimise their tax structure, and maximise income. Offshore jurisdictions allow companies to create value through legal means. Operations conducted in offshore countries are lawful, and all tax benefits offered by such jurisdictions are established by legislation. Today, the world's leading international banks, investment firms, and multinational enterprises successfully utilise offshore financial centres to benefit from preferential tax regimes, which are fully compliant with the law and do not constitute illegal activity [24]. The article highlights the tax advantages offered by offshore jurisdictions, which generate significant tax benefits and value for companies. This directly supports the study proposition.

Tax havens draw considerable foreign investment because of their low tax rates and advantageous policies. Companies legally utilise tax havens to shift taxable income and evade elevated taxes in their domestic markets (e.g., via intragroup loans, transfer pricing, and royalty payments). When structured correctly, these tax strategies adhere to international regulations, aligning with your focus on compliant tax planning. Operations in tax havens enhance MNE value, as the study indicates that MNEs benefit from significant tax reductions and that the economic development of tax havens has surpassed the global average. Companies generate value lawfully by designing frameworks, and the authors assert that this offers considerable macroeconomic advantages for both organisations and well-managed tax havens [25].

The articles highlight the fact that while various risks may be associated with offshore jurisdictions, companies can, through well-structured and effective tax strategies, create substantial value, particularly for multinational enterprises, for whom value creation remains a primary objective.

Evaluating the Effectiveness of Double Taxation Avoidance Agreements and Value Creation. Since 1963, the OECD Model Tax Convention on Income and Capital has served as a fundamental reference document for negotiating, interpreting, and applying tax treaties. Currently, it serves as

the foundation for a network exceeding 3,000 tax treaties worldwide, lowering tax obstacles to international trade and investment, enhancing certainty and predictability, and helping to deter tax avoidance and evasion. Through the continuous maintenance and periodic updates of its Model Tax Convention, the OECD offers nations a robust foundation for establishing and executing agreements aimed at reducing international double taxation while avoiding chances for unintended non-taxation. Nearly 70 nations, encompassing all OECD members, have outlined their stances on the provisions of the Model Tax Convention [26].

The Double Tax Avoidance Agreements are a pact established between two nations. It is designed to render a nation a desirable place to visit. DTAA does not imply that the nation can entirely evade taxes, but it does indicate that the countries can prevent paying elevated taxes in both nations. DTAA also reduces the incidence of tax evasion. The DTAA agreements encompass various types of income, including earnings from employment, business profits, dividends, interest, royalties, capital gains, and more. These agreements outline rules regarding which nation has the authority to levy taxes on specific categories of income. Usually, the nation where the income is produced holds the main authority to tax it, while the country of residence might also tax it, but at a reduced rate [27].

The primary objective of "Agreements for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion" is to promote deeper economic cooperation between countries and attract foreign investment. The agreements signed by Georgia are based on the OECD Model Tax Convention and establish clear principles for the allocation of taxing rights between jurisdictions. As of today, Georgia has concluded double tax treaties with 58 countries. These agreements facilitate international operations for companies established in the signatory states by eliminating the risk of double taxation, which can otherwise impose a significant tax burden on businesses. Georgia's tax treaties are predominantly based on the OECD Model Tax Convention 2017 and, in some cases, the UN Model Tax Convention. The core principle of these treaties is for countries to mutually agree on the allocation of taxing rights in a way that prevents both double taxation and non-taxation, ensuring that resident companies of each jurisdiction are not subject to conflicting or excessive tax obligations [12].

Table 1 – Mechanism of Double Taxation Avoidance Treaties

Step	Explanation	Purpose/Result
Identification Country of Residency	It should be identified which country's resident is a taxpayer.	Understand which country has the primary right for taxation purposes.
Identification Source of Income	It should be determined which country is a source of income and where the income is generated.	This country may apply a withholding tax at source.
Identification of a Treaty Between the Countries if it Exists	Review of the treaty between the residence country and the source country.	Treaties will limit or eliminate double taxation.
Application for Reduced Tax Rates	In most cases, if a treaty exists, the source country reduces withholding tax rates on dividends, interest, and royalties.	The overall tax burden is reduced on cross-border payments.
Claim for Exemption of Tax Credit	The country of residence either exempts the income or allows foreign tax credits for taxes that have already been paid in the source country.	The income is taxed only once, and double taxation is prevented.
Avoiding Double Taxation	The taxpayer benefits from legal relief from double taxation through the agreed-upon methods.	Encourages international trade and investment.

Since value creation is the primary driving force for companies, it has become increasingly clear that in today's globalised world, international tax agreements are gaining ever greater significance. These treaties reduce the tax burden on companies, and the larger the enterprise, the greater the potential tax liability. Accordingly, such agreements serve to ease this burden for multinational enterprises. Double tax treaties also provide a degree of fiscal stability and certainty for investor companies, enabling them to expand their business operations without facing additional tax pressure. Moreover, they enable both residence and source country companies to plan and conduct cross-border activities more efficiently, reduce tax costs, and ultimately create value. These agreements serve as a legal framework that lowers the risk of double taxation and enables cost optimisation, an important factor in

driving value creation for multinational enterprises. However, in some cases, tax treaties may shift taxing rights away from developing (source) countries, leading to revenue losses for those states. While this may pose a policy challenge, from the company's perspective, such treaties can still be highly beneficial. Overall, tax treaties represent a powerful tool for multinational businesses to generate substantial value and should be used strategically and intelligently to optimise tax outcomes within legal boundaries [28].

In addition to the tax-related value that multinational enterprises can achieve and the value they can create through the use of tax treaties, the existence of such agreements holds significant importance for developing countries as well. These treaties enhance the investment climate by offering legal and fiscal certainty, which in turn helps developing countries attract more foreign investors. The increased investor confidence directly contributes to a rise in foreign direct investment (FDI), ultimately supporting economic growth and development in the host country. Double taxation agreements are crucial for eliminating the adverse effects of double taxation and for drawing foreign direct investments (FDI) into developing nations. Nonetheless, carrying out a double taxation treaty doesn't occur suddenly. In reality, developing nations have invested time, efforts, and limited resources in negotiating, executing, and completing double taxation treaties (DTTs) with advanced countries. Moreover, they miss out on possible tax income since these agreements usually prioritise residence-based taxation over source-based taxation. The lost tax revenues and the funds spent on negotiations with developed countries, alongside other execution expenses, can only be justified if the anticipated advantages in terms of FDI surpass these expenses. Numerous studies have shown that there is a beneficial effect of putting into practice treaties to avoid double taxation and drawing in foreign direct investment to emerging nations [29].

Multinational enterprises typically operate through subsidiary companies located across various countries and are engaged in daily business activities on a global scale. To remain competitive and fully realise their potential, these companies must actively participate in international markets. Double Taxation Avoidance Agreements (DTAAs) play a crucial role in facilitating such global operations. These agreements open the door for businesses to confidently ex-

pand into new markets by providing stable and predictable tax rates across jurisdictions. They help companies avoid the burden of double taxation. This issue would likely arise in the absence of such treaties and ultimately support the creation of long-term business value [30].

Conclusion Based on Literature Review. The literature examined in this study emphasises that value creation is central to the strategic and financial choices of every multinational corporation. Academic and policy-oriented resources consistently highlight that a company's capacity to optimise its free cash flows, lower tax liabilities, and enhance capital efficiency directly impacts its total value. In this context, the utilisation of offshore jurisdictions and the system of international tax treaties, especially Double Taxation Avoidance Agreements (DTAAs), becomes an essential element of contemporary tax strategies.

Offshore locales provide legally recognised tax benefits, featuring reduced corporate income tax rates, advantageous withholding tax systems, and regulatory leniency. By strategically utilising these advantages while adhering to relevant laws and transfer pricing rules, multinational corporations can lawfully lower their effective tax rates and enhance their post-tax profits. Numerous studies indicate that optimising tax obligations via offshore structures enables companies to reinvest a larger portion of profits into expansion and shareholder returns, thus creating enduring corporate value.

Simultaneously, DTAAs are crucial for offering legal clarity and reducing the possibility of income being subject to dual taxation in different jurisdictions. These agreements encourage international economic interaction by providing lower withholding tax rates, foreign tax credits, and shared pacts on dividing taxing rights. The analysed literature highlights that DTAAs enhance tax efficiency and investment predictability for multinational companies, while also aiding developing nations in drawing foreign direct investment by providing a more stable and transparent tax framework.

In summary, the theoretical framework validates that the combination of strategically utilising offshore jurisdictions with the implementation of international tax treaties acts as a valid and efficient means for generating value. When properly aligned with business objectives and compliance standards, these tools assist multinational corporations in boosting competitiveness, reducing

costs, and growing internationally in a financially responsible way.

METHODOLOGY

Research Approach and Design. This research utilises a qualitative approach enriched by quantitative components. The main objective is to evaluate how multinational companies (MNEs) can generate value and minimise tax obligations by utilising offshore jurisdictions and networks of double tax treaties. The study is exploratory, focusing on examining the real-world implementation of global tax planning techniques and their capacity to create lasting value for businesses. The approach relies on scenario analysis and the assessment of secondary data. This method facilitates a comprehensive grasp of tax optimisation strategies within a practical and realistic context.

As the primary objective of the corporation is value maximisation, it is directly engaged with the company's high free cash flow, which requires high levels of sales revenues, low levels of operating costs and operating taxes. It requires investment in new operating capital [20].

In the context of internationalisation, multinational enterprises have the autonomy to restructure their group companies, reorganise their structures, centralise or decentralise management, and relocate operational staff between groups due to heightened competition at the international level [13].

Data Collection: Secondary Sources. The study depends solely on secondary data obtained from these sources:

- Georgian tax laws and regulations, orders of the Ministry of Finance, and methodological guidelines that encompass transfer pricing guidelines;
- Bilateral Double Taxation Avoidance Agreements (DTAAs) established by Georgia;
- Tax structures and incentive programs of specific offshore regions, OECD Transfer Pricing Guidelines, and various international regulatory documents have been studied; work experience has provided practical knowledge and documentation.

These sources offer a dependable basis for creating plausible scenarios and performing analysis rooted in evidence.

Scenario-Based Analysis

Five practical scenarios were created, based on actual business situations encountered during the author's professional experience. Two of them are related to the restructuring of Georgian companies in offshore jurisdictions. Another two are based on operations carried out by Georgian companies in Switzerland and the United States, which resulted in the creation of permanent establishments in those countries. The fifth scenario involves the establishment of a permanent establishment in Georgia by a French resident company as a result of its operations in the Georgian market. All five cases examine the tax burden arising from profit distribution in each respective scenario. Every scenario demonstrates a distinct international tax planning framework that a Georgian firm could encounter when broadening its activities internationally. These comprise:

- Functioning in a nation that does not have a DTAA with Georgia;
- Setting up a permanent establishment (PE) in a foreign region; Engaging in commerce in a low-tax or offshore location;
- Employing DTAA rules for optimising withholding tax;
- Organising internal transactions within the group by the arm's length principle.

Every scenario was evaluated in terms of its tax consequences, risk exposure, and potential for value creation.

The purpose of the scenarios discussed below is to demonstrate the specific tax risks and benefits. It challenges the company faces, and whether it is worth taking on high risk to optimise its tax expenses and create value.

It should also be noted that the examples provided below focus on taxes imposed on income and capital, as the scenarios refer to Double Taxation Avoidance Agreements, which apply exclusively to income and capital taxes [4].

The scenarios used in the research are based on real-life examples derived from the researcher's professional experience. The examples provided in the outlined scenarios are based on specific tax cases from the researcher's personal working experience in the field of international taxation, taxation of Georgian-based income; however, the company names are not revealed because of commercial sensitivity.

The numerical data presented in the scenarios are approximations of real-world figures; however, they do not reflect exact amounts.

Analytical Techniques. The financial effect of possible tax savings in each scenario was assessed using the Net Present Value (NPV) approach. The future tax benefits' present value (PV) was determined by assuming annuity cash flows for 10 years and a risk-adjusted discount rate of 15% [31].

This method enables the comparison of long-term financial advantages across different tax planning strategies.

Limitations. Although scenario analysis provides valuable insights, its methodology is constrained by the accessibility and dependability of secondary data. Moreover, the speculative characteristics of scenarios might not completely reflect all legal, political, or economic elements that could impact actual decision-making processes. Ultimately, the analysis omits indirect taxes like VAT and concentrates exclusively on profit and corporate income tax elements.

All five scenarios discussed below examine the taxation principles related to dividend distribution. Accordingly, the scenarios focus on corporate income tax and dividend withholding tax. However, it is worth noting that, in addition to various other tax benefits, operations conducted in low-tax jurisdictions (such as Bermuda and the United Arab Emirates) also result in VAT advantages, as these countries typically apply a 0% VAT rate or a very low rate [32]. Since our research focuses on corporate income tax and profit taxation, value-added tax (VAT) will not be covered in this study. However, the operations carried out in low-tax jurisdictions often create tax benefits for companies due to the lower applicable tax rates.

RESULTS AND DISCUSSION

The following scenarios were used for analysis:

Scenario 1: Taxation of Dividend Distribution in Georgia vs Taxation of Dividend Distribution in an Offshore Jurisdiction with 0 Tax Rate on Dividend Distribution.

Scenario 2: Taxation of Dividend Distribution in Georgia vs Taxation of Dividend Distribution in an Offshore Jurisdiction with 9% Tax Rate on Dividend Distribution.

Scenario 3: Taxation of Dividend Distribution attributed to PE in Switzerland with DTAA vs Taxation of Dividend Distribution in Georgia without PE in Switzerland. Taxation of Dividend Distribution attributed to PE in Switzerland with DTAA vs Taxation of Dividend Distribution attributed to PE in Switzerland if DTAA does not exist.

Scenario 4: Taxation of Dividend Distribution in a Country with No DTAA with Georgia vs Taxation of Dividend Distribution if a DTAA Exists.

Scenario 5: Taxation of Dividend Distribution in France by a French Company VS Taxation of Dividend Distribution Attributed to a Permanent Establishment of a French Company in Georgia.

All amounts are presented in a million GEL, unless otherwise stated.

SCENARIO 1. Company A is a Georgian-registered enterprise subject to the so-called Estonian model of corporate profit taxation. In the 2023 reporting period, the company recorded a net profit of 20,000,000 GEL. Throughout 2023, the company operated exclusively within the Georgian market, and its employees were physically present in Georgia. No profit distributions were made during the year.

In 2024, Company A's director, a resident of Georgia, decided to establish a subsidiary in Bermuda, a low-tax jurisdiction, and relocate its entire operational team to that country. Through this Bermuda-registered subsidiary, Company A intended to continue providing services to its clients via the subsidiary located in Bermuda. In return, the offshore subsidiary would charge its parent company a service fee for the operational support provided.

During 2024 and the first five months of 2025, Company A operated under this structure. Its financial records indicate that it transferred 35,000,000 GEL to the offshore subsidiary as service payments. After deducting all expenses, the Bermuda-registered entity reported a sufficient volume of net profit. Subsequently, the Bermuda-based subsidiary decided to distribute its accumulated net profit to an individual director who is both a Georgian tax resident and the director of Company A. The distributed dividend amounted to approximately 35,000,000 GEL as of May 2025.

Assessment. Bermuda historically imposed no taxes on profits, income, dividends, or capital gains, has no limit on the accumulation of profit,

and has no requirement to distribute dividends [33]. The Government of Bermuda has established several tax regulations. As of 2025, it has imposed Corporate Income Tax on MNEs with total revenue of EUR 750M or more. Bermuda stands out globally for having no income tax system. It is essentially a tax haven with no Personal Income Tax, no Corporate Income Tax, no Capital Gain Tax, and no Withholding tax [34].

Georgian tax legislation establishes specific rules that apply when a transaction occurs between a Georgian enterprise and a country with preferential tax treatment. So, a transaction between a Georgian resident company A and its subsidiary in an offshore jurisdiction is considered a controlled transaction for tax purposes [18].

On the other hand, there are international Transfer Pricing Guidelines that regulate the rules applicable to transactions between related parties and entities registered in offshore jurisdictions, which are referred to as "Controlled Transactions". So, when business units carry out a controlled transaction, the company must adhere to the arm's length principle and the principles of market pricing [4].

Since the company conducts economic activities with a low-tax jurisdiction where the corporate income tax on distributed profits is effectively zero [5], the Georgian resident company is required to maintain transfer pricing documentation [13].

This documentation must demonstrate that the transactions carried out between the related parties comply with the arm's length principle, meaning that, under comparable circumstances, an independent enterprise would have charged the same amount for the provision of services to another independent entity.

The preparation of such transfer pricing documentation must be carried out by a qualified and competent firm, which will determine the appropriate arm's length margin, in line with acceptable market ranges. Furthermore, the preparation of this documentation involves additional costs for the company, which on average may range between 7,000 and 10,000 USD.

In addition, there is a possibility that the remuneration paid by Company A to the Bermuda-based subsidiary does not reflect the market value. In such a case, the Georgian tax authorities may require that the difference between the paid and the market price be subject to corporate in-

come tax. This would create an additional tax liability of 15% on the excess amount.

For instance, if Company A paid USD 750,000 to its subsidiary as consideration for the provision of services, while the competent authority determined that the arm's length price should have been USD 900,000, the difference of USD 150,000 would be considered underpaid. Consequently, Company A would be required to recognise this difference as taxable profit in Georgia and apply the 15% corporate income tax rate on the amount, resulting in an additional tax liability.

Furthermore, transactions carried out within the jurisdiction of an offshore state are always subject to scrutiny by the tax authorities. Therefore, at any time, the tax authority may decide to investigate such transactions, which presents an additional risk for the company. Suppose the authority concludes that the transfer price does not correspond to the arm's length principle. In that case, it may impose the applicable tax liabilities along with penalties and fines as stipulated by the Tax Code.

If a tax audit is conducted on a specific matter and the tax authority determines that the company has reduced its tax liability to the state budget through such actions, then, according to the Tax Code of Georgia, if the amount of the underpaid tax does not exceed 5% of the tax declared in return, the penalty will be 10% of the reduced tax amount. If the underpaid tax exceeds 5% but does not exceed 20%, the penalty will be 25% of the reduced tax amount. And if the underpaid tax exceeds 20%, the penalty will amount to 50% of the reduced tax.

As for the late payment interest, it will be charged for each overdue day. Specifically, the interest will be calculated on the overdue tax amount at the rate of 0.05% for each day of delay.

In addition to financial repercussions, should the company decide to challenge the tax authority's assessment following an audit, it would incur further legal and administrative costs associated with the appeal process. Moreover, if the dispute is resolved unfavourably by the company, it may suffer reputational damage, which could negatively affect its future operations and stakeholder trust.

On the other hand, based on tax legislation, it can be argued that such a tax strategy may generate significant value and benefits for the company. Primarily, if the service fees paid by the company

fall within the arm's length range, the profits distributed by the offshore subsidiary will not be subject to corporate income tax. As a result, the company saves one level of taxation: first, the 15% corporate income tax on distributed profits will be exempted, and second, the natural resident will pay the 5% personal income tax on dividends.

In that context, if an MNE carries out its operations through an offshore jurisdiction, it does not necessarily mean that it is attempting to evade taxes, which is illegal. Care should be taken between "Tax avoidance" and "Tax evasion". Tax Avoidance is not illegal; it somehow creates value for the company. However, it is essential to consider that the absence of corporate income tax on dividend distributions in Bermuda introduces additional financial resources and risks, which are contingent upon the company's good faith and intention to create value through tax avoidance rather than tax evasion [5].

Furthermore, it is worth noting that in this country, personal income tax on salaries either does not exist or is significantly low, which provides the company with an additional opportunity to reduce tax expenses in this area.

The difference between taxes amounted to GEL 6.5 million.

Table 2 – Comparison Table of Scenario 1, in million GEL

Before Tax Optimisation		After Tax Optimisation	
Net Amount of Distributed Profit	GEL 35	Net Amount of Distributed Profit	GEL 35
Corporate Income Tax Based on Dividend	GEL 43.3	Corporate Income Tax Based on Dividend	GEL 35
Corporate Income Tax on Dividends	GEL 6.5	Corporate Income Tax on Dividends	GEL 0
Personal Income Tax Based on Dividend	GEL 36.8	Personal Income Tax Based on Dividend	GEL 36.8
Personal Income Tax on Dividend	GEL 1.8	Personal Income Tax on Dividend	GEL 1.8
Sum of Taxes	GEL 8.3	Sum of Taxes	GEL 1.8

Based on the analysis of the given scenario, we can conclude that the company managed to save GEL 6.5 M through this approach. Accordingly, the company maximises shareholders' value through tax optimisation.

Estimating the Present Value of Long-Term Tax Optimisation. We have already seen that, as a re-

sult of such tax restructuring, the company saved approximately 6.5 million GEL in a single year. Let us assume that the company will continue this activity over the next 10 years (n), and the annual tax savings will amount to at least 6.5 million GEL (C). Additionally, let us assume a discount rate of 15%. As a result, we can calculate the present value of the annual tax savings of 6.5 million GEL over this period.

The Present Value of Annuity formula was used in the calculation, and we can see that the value today of the annually saved 6.5 million GEL over 10 years amounts to approximately 32.6 million GEL.

SCENARIO 2. As in the first scenario, all circumstances remain the same, except that Company B's director, a natural person resident of Georgia, instead of establishing a subsidiary in Bermuda, founded a subsidiary in another offshore jurisdiction, the United Arab Emirates. The company's entire operational team was relocated to the UAE and is now providing services to clients from there. Payments are initially received by Company B, which is a Georgian tax resident, and then the UAE-registered company is reimbursed for the value of the services.

For the year 2024, Company A reported a net profit of 35,000,000 GEL. As of May 2025, the profit of the UAE-registered subsidiary, generated through the intermediation of the parent company, amounted to a relatively high level of net profit. The company in the UAE decided to distribute 35,000,000 GEL as a dividend to its sole director.

Assessment. As in the first scenario, the transaction conducted between a company registered in an offshore jurisdiction and the Georgian tax-resident Company B qualifies as a controlled transaction.

Controlled transactions must comply with the arm's length principle and reflect market-based pricing.

In addition to all the expenses the company will incur - including the preparation of a transfer pricing report - any discrepancy between the agreed price and the arm's length price will be subject to corporate income tax in Georgia.

Moreover, suppose the Revenue Service conducts a tax audit and identifies such discrepancies. In that case, the company may face a tax dispute

with the state, which could lead to not only financial penalties but also reputational damage.

Additionally, the profit distributed by the UAE-registered company is subject to a 9% corporate tax rate [35].

Considering the above scenario, the mere fact that a company is registered in an offshore jurisdiction does not automatically guarantee a tax advantage. When factoring in all related costs that the group must incur to comply with transfer pricing documentation requirements and mitigate potential tax risks, the overall benefit may be negligible or even detrimental if tax authorities challenge the arrangement. Therefore, without proper economic substance and adherence to arm's length principles, such a structure may result in higher financial and reputational risks rather than actual tax savings.

The difference between taxes amounted to GEL 2.8 million.

Table 3 – Comparison Table of Scenario 2 (in a million GEL)

Before Tax Optimisation		After Tax Optimisation	
Net Amount of Distributed Profit	GEL 35	Net Amount of Distributed Profit	GEL 35
Corporate Income Tax Based on Dividend	GEL 43.3	Corporate Income Tax Based on Dividend	GEL 40.4
Corporate Income Tax on Dividends	GEL 6.5	Corporate Income Tax on Dividends	GEL 3.6
Personal Income Tax Based on Dividend	GEL 36.8	Personal Income Tax Based on Dividend	GEL 36.8
Personal Income Tax on Dividend	GEL 1.8	Personal Income Tax on Dividend	GEL 1.8
Sum of Taxes	GEL 8.3	Sum of Taxes	GEL 5.4

Estimating the Present Value of Long-Term Tax Optimisation. In this case, the amount of tax saved by the company on an annual basis reaches approximately GEL 2.8 million. Over a 10-year forecast period, we can state that the present value of the saved taxes amounts to approximately GEL 14.3 million.

In the given case, the discount rate was assumed to be 15%, and the period – 10 years.

Although the scenarios discussed primarily focus on taxes related to income and capital, it is important to note that jurisdictions with preferential tax regimes often offer relief in other areas of taxation as well. For example, in the first scenario, the Value Added Tax (VAT) rate is 0%. In the

United Arab Emirates (UAE), the VAT rate is 5%, which provides an additional tax advantage for companies operating there.

Moreover, corporate income tax in such jurisdictions is either significantly low or, in many cases, completely absent (i.e., 0%).

SCENARIO 3. A Georgian resident company, Company C, operates on the Georgian market and generates income from sources within Georgia. It is part of a multinational enterprise group. Due to the nature of its economic activity, Company A relocates its operational team to Switzerland for a period exceeding 12 months, which leads to the creation of a Permanent Establishment (PE) in Switzerland. Through this PE, the company provides services in the Swiss market (Agreement between the Swiss Confederation and Georgia, n.d.).

For attribution of profit, the company used an authorised OECD approach, considering factual and functional analysis, including attribution of risks, assets, and free capital, and identified dealings between them. So, as of May 2025, the PE has generated a profit of CHF 10,000,000. The company intends to distribute this profit to a Georgian resident individual, who is also the director of the parent company C [37].

Assessment. The distribution of profit attributed to a permanent establishment (PE) of a Georgian LLC in Switzerland to a Georgian resident individual is taxed as follows:

The Swiss federal corporate income tax on dividends ranges between 12% and 21%. In addition, profit distribution to an individual is subject to a 35% withholding tax at the source.

However, Switzerland and Georgia have a Double Taxation Avoidance Agreement (DTAA) in place, which stipulates that the maximum withholding tax at source on dividends shall not exceed 10%, provided the recipient proves to be the beneficial owner of the dividends. On the other hand, under the same DTAA, the Georgian resident individual has the right to claim a tax credit in Georgia for the tax withheld in Switzerland (i.e., 10%)

Since in Georgia, dividend income received by a resident individual is taxed at 5%, and this income has already been taxed at 10% in Switzerland, no additional tax is due in Georgia.

Based on the above, first, the distributed profit from the permanent establishment will be subject to Swiss corporate income tax (approximate-

ly 12–21%) and then an additional 10% withholding tax at the source (as per the DTAA limit).

Secondly, this transaction is not expected to create additional tax risks, and unlike in the case of transactions involving jurisdictions with prefer-

ential tax regimes (offshore jurisdictions), it does not require additional transfer pricing or substance analysis, thereby minimising compliance risks and costs.

Table 4 – Comparison Table of Scenario 3 (in a million GEL)

Taxation of Dividend Distribution attributed to PE in Switzerland with DTAA		Taxation of Dividend Distribution in Georgia without PE in Switzerland		Taxation of Dividend Distribution attributed to PE in Switzerland if DTAA does not Exist	
Net Amount of Distributed Profit	GEL 35	Net Amount of Distributed Profit	GEL 35	Net Amount of Distributed Profit	GEL 35
Corporate Income Tax Based on Dividend	GEL 43.8	Corporate Income Tax Based on Dividend	GEL 43.3	Corporate Income Tax Based on Dividend	GEL 43.8
Corporate Income Tax on Dividends in Switzerland	GEL 7	Corporate Income Tax on Dividends in Georgia	GEL 6.5	Corporate Income Tax on Dividends in Switzerland	GEL 7
Personal Income Tax Based on Dividend	GEL 36.8	Personal Income Tax Based on Dividend	GEL 36.8	Personal Income Tax Based on Dividend	36.8
Personal Income Tax on Dividends in Georgia	GEL 1.8	Personal Income Tax on Dividends in Georgia	GEL 1.8	Personal Income Tax on Dividends in Georgia	GEL 1.8
		Personal Income Tax on Service Performed by Non-resident Entity	GEL 0	Personal Income Tax on Dividends in Switzerland	GEL 0
Sum of Taxes	GEL 8.8	Sum of Taxes	GEL 8.3	Sum of Taxes	GEL 27.7

Based on this scenario, if the company were to continue its operations without establishing a permanent establishment, the amount of tax saved on dividend distributions would be approximately 0.5 million GEL. However, assuming that a Georgian resident enterprise operates through a permanent establishment in Switzerland and considering that no Double Taxation Avoidance Agreement (DTAA) exists between the two countries, the resulting tax burden could reach a difference of 18.9 million GEL. This significant disparity is because the same transaction would be subject to taxation in both jurisdictions.

Estimating the Present Value of Long-Term Tax Optimisation. In this case, if Georgia did not have a double taxation avoidance agreement with Switzerland, it would face a significant tax burden resulting from the need to pay taxes in both countries. As previously mentioned, this tax cost would amount to approximately 16 million GEL annually. Over 10 years, considering a 15% discount rate, the present value of this tax burden for the company would be approximately 94.5 million GEL.

In the same scenario, a comparison was made with an alternative case where the company continued its operations from Georgia without establishing a permanent establishment, but instead

outsourced the service to a Swiss resident company. In this case, the company would be subject to a 10% withholding tax on the service fee; however, the existence of a double taxation treaty eliminated the additional 10% tax, resulting in a tax saving of approximately 0.5 million GEL. When this benefit is discounted over 10 years at a 15% discount rate, the present value amounts to approximately 2.5 million GEL.

SCENARIO 4. In 2024, Company D, a Georgian tax resident, conducted its economic activities from Georgia. However, due to its status as a member of a multinational enterprise group, it relocated its operational team to the United States of America, where it began operating through a permanent establishment (PE). The operational team remained in the U.S. for a period exceeding 12 months, resulting in the creation of a PE under U.S. tax rules.

As of May 2025, the permanent establishment had generated a net profit amounting to USD 12,000,000, which it decided to distribute to the founding individual, who is a Georgian tax resident.

Assessment. Since there is no Double Taxation Avoidance Agreement (DTAA) in force between the United States and Georgia, the distribution of profit by the company may be subject to taxation

in both jurisdictions in the U.S. at the time of distribution, and in Georgia upon receipt by the Georgian resident individual.

In the absence of a DTAA, there is no mutual agreement on tax administration and credit mechanisms, which typically prevent double taxation or the untaxed outflow of profits from one jurisdiction to another. Consequently, the distributed income may be taxed twice, unless domestic legislation in either country allows for unilateral tax relief.

Using percentage rates makes the situation more illustrative. Since the profit is attributed to a permanent establishment, its distribution will be taxed in the United States according to domestic legislation, which sets a fixed corporate tax rate of 21%.

In addition, the distribution of profit to an individual is subject to withholding tax at source, which in the case of the United States is 30%.

Due to the absence of a double taxation avoidance agreement, the resident individual in Georgia will also be required to pay 5% income tax in Georgia under Georgian tax legislation, since the tax withheld at source in the U.S. cannot be credited against the tax liability in Georgia.

Difference between taxes - GEL 18.4 million.

Table 5 – Comparison Table of Scenario 4 (in a million GEL)

Taxation of Dividend Distribution attributed to PE without DTAA		Taxation of Dividend Distribution attributed to PE if DTAA exists	
Net Amount of Distributed Profit	GEL 35	Net Amount of Distributed Profit	GEL 35
Corporate Income Tax Based on Dividend	GEL 63.2	Corporate Income Tax Based on Dividend	GEL 46.6
Corporate Income Tax on Dividends	GEL 13.2	Corporate Income Tax on Dividends	GEL 9.7
Personal Income Tax Based on Dividend	GEL 50	Personal Income Tax Based on Dividend	GEL 36.8
Personal Income Tax on Dividends in the USA	GEL 15	Personal Income Tax on Dividends in the USA	GEL 0
Personal Income Tax on Dividends in Georgia	GEL 1.8	Personal Income Tax on Dividends in Georgia	GEL 1.8
Sum of Taxes	GEL 30.1	Sum of Taxes	GEL 11.6

Estimating the Present Value of Long-Term Tax Optimisation. In the fourth scenario, a case was analysed in which a company operates in a country with which Georgia does not have a double taxation avoidance agreement. As a result, the company faces the risk of the same income being taxed in both jurisdictions, leading to an additional tax burden of approximately 18.4 million GEL within a single fiscal year. If this amount is discounted over 10 years at a 15% discount rate, we can assess the present value of the potential tax costs resulting from the absence of such an agreement. The discounted value of this amount today is approximately 92.8 million GEL.

SCENARIO 5. Let us now consider a case where a foreign resident company enters the Georgian market to operate. A French resident company, which was previously fully providing services in France, relocates its operational team to Georgia, and as a result, serves clients through its Georgian subsidiary. The company's director and 100% shareholder is a French resident individual.

Assessment. After one year of operating in the Georgian market, the company generated a net profit of 10,000,000 GEL and decided to distribute it to the director in the form of dividends.

Even though Georgia has a Double Taxation Avoidance Agreement (DTAA) with France, the profit distributed by the Georgian resident legal entity in the form of dividends will be subject to taxation in Georgia: 15% corporate profit tax on the distributed profit and 5% personal income tax on the dividend.

If the French resident legal entity had not decided to relocate its operational team to Georgia and had continued operating from France, meaning that it would serve its clients from France, then, under French tax legislation, the distributed profit would be subject to a corporate dividend tax of 17.2%, and additionally, a personal dividend income tax of 12.8% would apply in France.

Accordingly, the total tax burden on dividends distributed to the resident individual would amount to 30%, which is 10% higher compared to the total tax rates applicable in Georgia.

The difference between taxes GEL 23.3 million.

**Table 6 – Comparison Table of Scenario 5
(in million GEL)**

Taxation of Dividend Distribution attributed to PE in Georgia		Taxation of Dividend Distribution in France	
Net Amount of Distributed Profit	GEL 35	Net Amount of Distributed Profit	GEL 35
Corporate Income Tax Based on Dividend	GEL 43.3	Corporate Income Tax Based on Dividends in France	GEL 66.6
Corporate Income Tax on Dividend	GEL 6.5	Corporate Income Tax on Dividends in France	GEL 16.6
Personal Income Tax Based on Dividend	GEL 36.8	Personal Income Tax Based on Dividend	GEL 50
Personal Income Tax on Dividend	GEL 1.8	Personal Income Tax on Dividend	GEL 15
Sum of Taxes	GEL 8.3	Sum of Taxes	GEL 31.6

Estimating the Present Value of Long-Term Tax Optimisation. In the fifth scenario, a case was analysed in which a company operates in France and then moved its operational activities to Georgia. Due to its operational activities performed in Georgia PE has been established. As a result, the company achieves tax savings of approximately 31.6 million GEL within a single fiscal year. If this amount is discounted over 10 years at a 15% discount rate, we can assess the present value of the potential tax costs resulting from the absence of such an agreement. The discounted value of this amount today is approximately 117 million GEL.

In the table below are listed the summary results of scenario analysis.

In all five scenarios discussed above, the company can achieve substantial tax savings that are not associated with artificial profit reduction or tax evasion. These tax savings create a form of value that the company would not have been able to generate in the absence of such optimisation.

Table 7 – Summary of Scenario Results

	Value Created Through Tax Savings	PV of Potential Tax Saving For 10 Years
Scenario 1: Taxation of Dividend Distribution in Georgia Vs Taxation of Dividend Distribution in an Offshore Jurisdiction with 0 Tax Rate on Dividend Distribution	GEL 6.5 million	GEL 32.6 million
Scenario 2: Taxation of Dividend Distribution in Georgia Vs	GEL 2.8 million	GEL 14.3 million

	Value Created Through Tax Savings	PV of Potential Tax Saving For 10 Years
Taxation of Dividend Distribution in an Offshore Jurisdiction with 9% Tax Rate on Dividend Distribution		
Scenario 3: a. Taxation of Dividend Distribution attributed to PE in Switzerland with DTAA Vs. Taxation of Dividend Distribution in Georgia without PE in Switzerland	GEL 0.5 million	GEL 2.5 million
Scenario 3: b. Taxation of Dividend Distribution attributed to PE in Switzerland with DTAA Vs. Taxation of Dividend Distribution attributed to PE in Switzerland if DTAA does not Exist	GEL 18.9 million	GEL 94.5 million
Scenario 4: Taxation of Dividend Distribution in a Country with No DTAA with Georgia VS Taxation of Dividend Distribution if a DTAA Exists	GEL 18.4 million	GEL 92.8 million
Scenario 5: Taxation of Dividend Distribution in France by a French Company VS Taxation of Dividend Distribution Attributed to a Permanent Establishment of a French Company in Georgia	GEL 23.3 million	GEL 117 million

The analysis of the first and second scenarios demonstrates the significant value that a company can create when it strategically and lawfully utilises low-tax jurisdictions. A company can create significant value and legally reduce its tax burden. All of this looks even more beneficial for the company in the long term. Therefore, based on the analysis of the first and second scenarios, we can conclude that by utilising offshore jurisdictions, and if the company structures its operations well and in an organised manner, it is possible to create substantial value.

In the third scenario, we observe the tax-related value a company can generate when it faces two options: first, operating through a permanent establishment, and second, conducting operational activities via a resident company located in Switzerland. In both cases, double tax treaties play a substantial role in determining the final tax burden.

The fourth scenario clearly illustrates that when a company conducts transactions with countries

that do not have a double tax avoidance agreement in place, it is likely to face double taxation on the same income, leading to significantly higher tax costs. This highlights the need for countries to actively pursue and conclude more tax treaties to foster international business expansion and, consequently, enable higher value creation.

The fifth scenario outlines the tax implications for a company that chooses to operate in the Georgian market, which offers a relatively favourable and efficient tax environment. Compared to many European jurisdictions, Georgia appears to be more attractive and cost-effective from an investor's perspective.

CONCLUSIONS

The findings of this study conclusively demonstrate that both Georgian and foreign companies can create substantial value through strategic operational planning. Smart tax optimisation, achieved through legal frameworks, provides access to a broad spectrum of tax-efficient strategies. This research underscores that value creation in a globalised economy is intrinsically linked to a company's ability to manage its tax liabilities effectively and legally.

One finding of this research is the role of offshore jurisdictions in contemporary tax planning.

These jurisdictions provide a legitimate way for businesses to design tax-efficient structures that deliver meaningful financial benefits. As shown by scenarios 1 and 2, a well-structured and legally compliant approach can lead to considerable tax savings.

Another key finding is the indispensable role of Double Taxation Avoidance Agreements (DTAAs) in supporting international business. The study's findings, particularly from scenario 4, make it clear that companies engaged in transactions with entities from jurisdictions that lack a DTAA face a significant reduction in value due to double taxation. The analysis of the permanent establishment (PE) concept further reinforces the importance of DTAAs. Scenario 3 demonstrated how a DTAA could limit the withholding tax on dividends and allow a tax credit, resulting in a significant reduction in the overall tax burden, showing that DTAAs are a powerful tool for multinational businesses to generate substantial value.

In conclusion, the research validates the hypothesis that the strategic utilisation of tax legislation acts as a valid and efficient means for value creation. When these tools are properly aligned with business objectives and compliance standards, they can assist multinational corporations in reducing tax costs and, thus, creating value for companies and investors.

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