



NEWSLETTER

Tendencies in the offshore world in 2008

I recently read an article by a highly esteemed colleague, who wrote in the introduction that the possibilities for the use of offshore solutions is also very limited there in England. If the beneficial owners of a company want to operate totally within the law, they have to take into account numerous legal directives in order to avoid disputes and legal conflicts with the local authorities. Although offshore tax-planning techniques can be used legally in many cases to reduce increasing worldwide tax burdens, they can not be considered as miracle workers, magically resolving everything. In this article I am going to try and outline the tendencies which can typically be expected in the offshore financial “playground” in 2008.

From the point of view of demand, we can state quite categorically that there is no sign of any decline, and in fact, the opposite is true, with the need, or dare I say, necessity, for offshore solutions probably continuing to grow. The reason behind the increase in demand is the growing and expanding world economy itself, which is producing ever-increasing concentrated fortunes. Within the globalising world economy, new regions join the world economic circulatory system, with numerous small and medium-sized companies appearing from almost nowhere in the halos surrounding the multinationals. These medium-sized businesses represent a continuously regenerating demand in the market for offshore solutions, as nowadays the costs involved in offshore vehicles mean they are now within the reach of companies of this size, and there is no need to produce an annual profit of several million euros.

The “fertilising” effect of the multinationals is also

very interesting. In the everyday practice of multinational companies, every dollar or euro which is paid out is counted as an expense. In this way, tax is also treated as an expense. Once the tax has been transferred, that amount can no longer be a part of the net profit, so profits are reduced and the company’s competitiveness is reduced; in short, the company may become less competitive than its competitors, who, by choosing more advantageous tax solutions/jurisdictions can re-

invest more in development, and pay their shareholders a bigger dividend. From the management point of view, such solutions can be necessary in order to keep the major shareholders happy. In the case of a medium-sized company, where it is also necessary to struggle against the competition, this viewpoint can even become all-prevailing; the one who can best minimise their tax burden, maximise profit and the money which can be used for development is the most efficient.

And what about the supply side; are such companies readily available? The answer is a very definite “Yes!” There

has never been such a wide choice of offshore service providers waiting to supply their clients. And there is also a wide variety of offshore vehicles to choose from, ranging from the simplest offshore company to the most complicated asset protection foundations and hybrid companies. Today we can satisfy the needs of every sector, finding the most suitable legal format for every given situation.

So, can we just boldly embark on this new adventure, free of all restrictions? The answer, of course, is “No!” Referring back to my esteemed colleague, the possibilities are limited. The reason for this is that the tax laws of individual countries attempt to defend against tax migration by the implementation of legal directives which reduce the transferable tax burden to a



minimum. Typically, for example, in the case of services, they will only allow expenses which arise in connection with the company's activities to be included in the accounts, while in the buying and selling of goods, trade is only allowed at market rates, with sanctions imposed against anyone infringing the rules.

We can not count on any liberalisation in 2008 either; it would be stupid to expect the tax authorities or Treasury of any nation to do that, thus renouncing income from taxation. If anything, we can expect things to become even stricter, as the authorities are better equipped, both from the personnel and technical points of view. Although tax inspections raise numerous questions regarding legal and human rights the world over, not least in the area of data protection, nobody should kid themselves that it would be easy to win a case against the authorities based on procedural mistakes. The authorities are becoming more powerful; within the EU, for example, the individual national tax authorities exchange numerous data with their foreign counterparts, particularly in the case of VAT, thus making it possible to keep precise checks on the activities of a group of companies.

Restrictions on entry into the offshore "playground" are also increasing. There are many factors which point to this change, of which perhaps the most significant, in accordance with the above, will be the reduction this year in the role of companies actively trading and operating in the provision of services; increasing pressure will be placed on these companies. At the same time, the role of companies established for holding purposes, primarily in the field of asset protection, will grow. This will undoubtedly mean a restriction based on size. From the banking point of view, the financial service providers, banks and brokerage companies are becoming more reluctant to accept business from companies only able to make modest deposits.

Similarly, the increased costs will also place a restriction on entry. Although I wrote in an earlier issue that over the last 20 years offshore solutions have ceased to be the privilege of the rich, this does not mean that the

prices will always be this low. One factor which affects this, particularly in Europe, is the weakening dollar. If a service provider receives his income based on dollar prices, but pays his expenses in euros, sooner or later he will be facing a loss. And to have his clients served by a well-prepared team, he must employ highly qualified staff. This means more and more money. At the end of the day, it will be the end user who has to pay the higher bill.

Is the time coming when the banks will rule over offshore companies? The simple answer is "Yes". The banks will become more and more important

in the equation. The position of the bankers is not an easy one. The anti-money laundering laws introduced at the instigation and suggestion of international bodies place requirements on the banks which quite often seem to be delegating the duties of the police. The spectre of the fight against money laundering is present in the corridors of every bank. Even though



they themselves often do not know what they are fighting against, the bank official has to struggle through a battlefield of bureaucracy to meet the requirements dictated by the management. Also, compliance officers are making the opening of bank accounts more difficult, particularly within the EU, with the introduction of more and more complicated regulations. The number of banks offering their clients commercial services is also on the decline, while more and more banks are hunting for rich clients for their private banking departments. The EU regulations are providing the banks in Switzerland, Liechtenstein, Singapore and other non-EU countries with the perfect opportunity to make money from the process. It is a very simple equation: what one side loses, the other side wins.

So we can see that there will still be "offshore" in 2008 as well, though it will be slightly different from in previous years. More and more complicated structures have to be developed to ensure success, and this means using the knowledge of serious professionals. This in turn means that only enterprises of a certain size will become involved, as there will be increased costs. It is

not possible for us to detach ourselves from the banks, as the financial transactions of the offshore companies can not be performed without them, so the wrong choice of bank can cause a real headache, not to mention considerable extra cost.

However, there is no need for concern. For the last 17 years we at LAVECO Ltd. have been helping our cli-

ents overcome all of these difficulties. You can contact us safe in the knowledge that we have the expertise to contribute to the continued success of your business in 2008, be it offshore or onshore.

László Váradi
Managing Director
LAVECO Ltd.

The Marshall Islands: a competitor for the Seychelles?

Over the last few years, the Seychelles has been one of the most popular jurisdictions for the incorporation of offshore companies. The reasons behind this popularity can be summarised by two characteristics: simplicity and a good price. International Business Companies (IBCs) in the Seychelles can be formed with one owner and director, the companies do not have to file annual financial results or audited accounts with the local authorities, and the fixed annual tax, if the authorised capital does not exceed 100 000 USD, is only 100 USD. Therefore, the owners or beneficiaries of such companies do not have to spend time on administration or nurturing a relationship with the local authorities.

In addition, the Seychelles do have one other advantage which should not be overlooked: it is still possible, even today, for the company to issue shares for the bearer. This means that the name of the owner does not appear on the share certificate(s), but the

person who is in possession of the share certificate(s) is considered to be the owner of the company. Very few countries in which offshore companies can be formed still offer this possibility.

Another of these rare jurisdictions is the Marshall Islands, or as they are officially known, the Republic of the Marshall Islands, a small group of islands situated in the western Pacific. In 1986 the islands gained total independence from the USA. 20 years ago the leaders of the republic saw possibilities for the development of offshore services as a boost to the existing tourism and fishing industries. Thanks to their

systematic development, the Marshall Islands are now the 4th largest offshore jurisdiction for the registration of ships, from simple private yachts to ocean-going tankers.

As regards the offshore company format, they selected a tried and tested path: the legislation of the US state of Delaware was copied. Companies incorporated here can also be registered with one owner and director,

and they are not required to file annual tax returns or balance sheets. The Marshall Islands are a member



of the Apostille Convention, so documents can be provided with international certification. But perhaps the most important factor, in addition to the issuing

of bearer shares, is the fact that the incorporation of a company can, for a small supplement, be arranged in just 48 hours.

New banking partners: Hellenic Bank, Credit Suisse

LAVECO Ltd. recently signed an agreement for cooperation with Hellenic Bank, one of the most significant financial institutions in Cyprus. The bank offers our clients a full range of banking services, from current accounts to private banking. It is not necessary to visit the bank in person to open an account, as the application form can be completed in any of LAVECO's customer services offices, and signatures can be certified by notary public or a Cypriot consulate.

It is not necessary to deposit a large sum with the bank, either at the time of opening the account, or while the account is active, and the account can be managed either by fax or via the Internet. There is no daily limit on the number of transactions, so any number of transfers can either be made or received. At the same time, it is also possible to apply for various types of debit card. In this case, the card deposit is typically an amount equal to the monthly limit, which must be deposited in the sub-account for the card.

Hellenic Bank is one of the few European banks with a relatively liberal policy, allowing them to open

accounts for offshore companies quite freely. There are, however, one or two points which should be taken into consideration when opening an account. One of these is that the bank reserves the right to judge each application on an individual basis. The bank officials decide whether or not to open an account on the basis of the business plan which must be submitted with each application. In this sense, then, the opening of accounts is by no means automatic.

Our other new banking partner, Credit Suisse, represents a completely different category. The Swiss banking giant specialises exclusively in the provision of

private banking services, so commercial banking activities and daily transactions are not possible. The bank focuses primarily on clients who have already reached a certain level, and offers them investment possibilities for the income they have already amassed. The strict requirements are coupled with professional investment management, and a

personally managed relationship from the very opening of the account.

We are delighted to recommend both banks to our clients, and if you would like further information please contact our staff who will be happy to help and discuss the matter with you in detail.



THE LAVECO GROUP

UNITED KINGDOM LAVECO LTD.

Third Floor, Blackwell House,
Guildhall Yard, London
EC2V 5AE United Kingdom
Tel.: +44-207-556-0900
Fax: +44-207-556-0910
E-mail: london@laveco.com

HUNGARY LAVECO KFT.

33/a Raday Str.,
Budapest
Hungary 1092
Tel.: +36-1-217-96-81
Fax: +36-1-217-44-14
E-mail: hungary@laveco.com

CYPRUS LAVECO LIMITED

Despina Sofia Complex
Apartment 202, United Nations 8
Drosia 6042, Larnaca, Cyprus
Tel.: +357-24-636-919
Fax: +357-24-636-920
E-mail: cyprus@laveco.com

WEB SITE: www.laveco.com

BULGARIA LAVECO OOD

"Porto Lagos" No.1, Ent.2, Floor 5,
Ap.42, 1463 Sofia, Bulgaria
Tel.: +359-2-953-2989
Mob.: +359-888-126-013
Fax: +359-2-953-3502
E-mail: bulgaria@laveco.com

ROMANIA OPTITAX CONSULT S.R.L.

59 Buzesti Str., A5 Block
1st Scale, 1st Floor, 62nd Flat
1st District, Bucharest, Romania
T: +40-21-311-61-76, Mob: +40-747-595-132
Fax: +40-21-311-61-82
E-mail: office@optitax.ro