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NEWSLETTER



Bank of the year?

How many offshore companies are there in the world?

Complications regarding the EU VAT number in Cyprus

Private assets versus corporate assets

Bank of the year?

To tell the truth, I had no intention of writing the main article of the LAVECO Newsletter on this topic. My plans were to use the recently published statistics to analyse how many offshore companies there are in the world, and how many were registered last year. Always an interesting subject. However, events sometimes override our plans, and this is one of those cases.

Regular readers of the Newsletter may recall my article from the previous edition entitled "The power of the banks over offshore companies" (which can be found on our website at www.laveco.com). At the time, I myself didn't realise just how true what I was writing would turn out to be, and believe me I had no intention then, and still don't now, of being a prophet.

In the 17 years since LAVECO was first formed we have seen many strange things in the banking world, but we can not just sit back and let the way in which one of the leading banks in Hungary and probably the market leader in accounts for offshore companies has been behaving, pass without comment. I also feel I have to do this because we have cooperated with this bank for 14 years, with numerous satisfied customers. Now, however, the bank's policy has changed: they no longer open accounts for foreign companies, and moreover, are systematically closing – or forcing clients to close – existing accounts. The case is very enlightening, but also somewhat chilling.

When clients started asking us what was happening with this bank back in January of this year, we reacted straightaway, and, using my personal

contacts, I arranged a meeting with the heads of the bank's compliance team. This is the team within the bank which defines the conditions for the opening of accounts, and constantly monitors transactions to filter out any cases in which money-laundering is suspected. In the course of the meeting they reassured us that although the situation had, unfortunately, changed, they would still open new accounts, albeit only for companies registered in the EU, but they had absolutely no intention of closing the accounts of existing clients.

There was nothing to be done – the owner is the owner, and the owner dictates the bank's policy. We went back to the office, began pacifying our clients, and concentrated on improving our relationship with other banks. If they don't need us here, then let's look elsewhere! And that's exactly what happened. Then came April – always changeable – and more and more clients informed us that they had received a questionnaire in which they were again asked for their mothers' names, company names, registered numbers etc.

Another call to the compliance team. Another personal meeting; discussion and agreement; conclusion: yes, they had compiled a questionnaire to help them assess client-risk, and the accounts of anybody performing suspicious transactions would be closed. But this would not be "en masse": careful and transparent offshore companies would have no cause for concern. So be it, we thought, let the devil take the hindmost! But I still didn't understand what risk they could assess from my mother's name and the name of the company! And, as I pointed out to the bankers at the time, they can see from the transfers where the



money comes from and where it goes – what better way than that is there to monitor sources?

So again we went back to the office. We helped our clients fill out the questionnaire using our professional knowledge and experience. Our professional knowledge and experience, it turned out, wasn't up to much! No matter how we filled out the form, the result was always the same: sorry, the account will be closed. Clients, understandably, were not just dissatisfied, they were up in arms! They went personally to the bank to try and resolve the matter. Why do they have to remove their funds within 10 days, how can they perform the financial transactions set down in existing contracts if they haven't even got a bank account, and how can they notify their partners in the middle of summer when most of them are away on holiday?

Matters came to a head when the umpteenth client complained to us that nobody at the bank had informed them of the change of policy, but their outgoing payment orders were not being executed. There was even a case of a bank employee demanding an IBAN number from the client for an internal transfer. If anybody dared to protest, the bank employees swiftly replied that the account could be closed immediately at the request of the client, and the bank would transfer remaining funds straightaway. This is about where we stand today, in the autumn of 2008, but I would still like to add one or two observations regarding the whole affair.

1. It is the absolute right of the owners of any bank to change the policy of the bank within the legal parameters in accordance with their own business considerations. There is nothing that we, the clients, can do about this – at best we can just help the process along. However, the way the bank has simply discarded clients who for many years have generated serious profit for the bank is completely outrageous and humiliating. It is unreasonable to give someone 10 days to reorganise their business activities and financial arrangements.

2. If I, as a banker, know that I am not going to transfer a client's money, then I should inform the client. Common sense and the unwritten rules of

business etiquette dictate this. At this time, where are the bank's communication experts, who sit there open-mouthed, with three university degrees in their pockets, watching the whole process?

3. Why should I, who have taken so many foreign clients to the bank, now be ashamed because I too am Hungarian? These foreigners, who, in many cases, have been treated so unfairly, will never want to deal with us again, because of a bad experience with one major player. So what can they expect from smaller suppliers? The way the bank carried out this mass "slaughter" will cause Hungary a massive loss of prestige. And you can't blame these clients: I myself hate that feeling when in a foreign country a taxi driver takes you on a much longer route to the hotel than is necessary, or they overcharge you in a restaurant, or the hotel management deliberately don't inform you that there will only be hot water when the sun is shining!

But there is a choice – there are plenty more banks out there. One of my favourite sayings is: Life goes on. And so it will with us too: at LAVECO Ltd., with our 17 years of experience, we will continue to serve you, with no change in our business policy, even if you are forced to change banks.

László Váradi
LAVECO Ltd.

How many offshore companies are there in the world?

Just as we did a year ago (Newsletter 2007/3), we have tried to calculate just how many offshore companies were incorporated last year. If we compare the charts, we can see that there has been no change in the "leading pack." The three leaders are still Hong Kong, Panama and the British Virgin Islands. On the basis of the published statistics, Cyprus is still in 4th place. Although Hong Kong did not make public the number of new companies formed in 2007, we can assume that it was no less than in 2006.

The number of companies formed in the USA remains somewhat unclear, at least as far as the ones which operate as foreign "offshore" companies is concerned. Here it is primarily the number of Limited Liability Companies (LLC) which is worth taking into consideration. If we go by the leap in the registration numbers of newly formed companies in the State of Delaware alone, then some 225 000 new companies were formed in just one year.

At the same time, more and more "small" offshore jurisdictions, such as Samoa and Liechtenstein, did not make their details public. However, the number of new companies formed in these jurisdictions is probably rather insignificant.

1. List according to number of companies incorporated

Position	Jurisdiction	Companies formed in 2006	Companies formed in 2007
1	Hong Kong	73 359 (2005)	N/A
2	Panama	36 627 *	71 178 *
3	BVI	51 101	59 509
4	Cyprus	20 280	29 016
5	Cayman Isl	10 000 **	14 238 **
6	Belize	9 500	10 834
7	Seychelles	8 281	10 295
8	Samoa	N/A	6 073
9	Bahamas	6 121 ***	5 310 ***
10	Gibraltar	N/A	N/A
11	Isle of Man	3 400	4 682
12	Jersey	3 479	4 050
13	Anguilla	3 200	2 600
14	Malta	2 979	N/A
15	Mauritius	2 881	N/A
16	Guernsey	1 977	N/A
17	Brunei	1 500**(2005)	N/A
18	St. Vincent	1 381	N/A
19	Bermuda	1 200 **	N/A
20	Barbados	565	477
21	Labuan	526	N/A
22	St. Lucia	N/A	N/A
23	Madeira	N/A	N/A

* + 4 688 Private foundations (2006)

* + 5 359 Private foundations (2007)

2. List of jurisdictions in alphabetical order

Position	Jurisdiction	Companies formed in 2006	Companies formed in 2007
1	Anguilla	3 200	2 600
2	Bahamas	6 121 ***	5 310 ***
3	Barbados	565	477
4	Belize	9 500	10 834
5	Bermuda	1 200 **	N/A
6	BVI	51 101	59 509
7	Brunei	1500**(2005)	N/A
8	Cayman Isl	10 000 **	14 238 **
9	Cyprus	20 280	29 016
10	Gibraltar	N/A	N/A
11	Guernsey	1 977	N/A
12	Hong Kong	73 359 (2005)	N/A
13	Isle of Man	3 400	4 682
14	Jersey	3 479	4 050
15	Labuan	526	N/A
16	Madeira	N/A	N/A
17	Malta	2 979	N/A
18	Mauritius	2 881	N/A
19	Panama	36 627 *	71 178 *
20	St. Lucia	N/A	N/A
21	St. Vincent	1 381	N/A
22	Samoa	N/A	6 073
23	Seychelles	8 281	10 295

** Approximate figure

*** Offshore + local

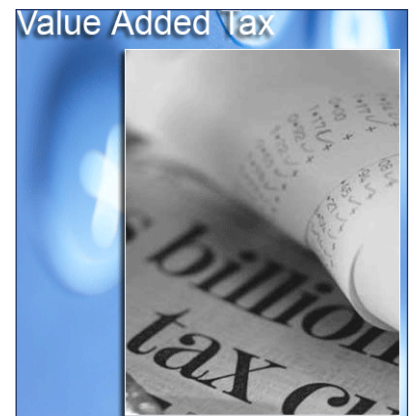


Complications regarding the EU VAT number in Cyprus

It is becoming more and more difficult to obtain EU VAT numbers for companies registered in Cyprus. Such a number is required primarily when a company registered in Cyprus issues or receives invoices in connection with trade or services with other EU companies.

The VAT Office of the Cyprus Tax Authorities now investigates the background of such companies much more thoroughly than before. On the one hand, they now ask the representatives of the company about the actual performance of the transaction. A pre-signed contract, pro-forma invoice or declaration of intent are acceptable forms of proof. At the same time, they also ask for the partner company's EU number, and check the activities of the company.

The other important factor in regard to EU VAT numbers, is that the authorities now only issue such numbers to companies whose management and administration takes place in Cyprus. This typically means that the majority of the directors must be resident in Cyprus for tax purposes, major decisions of the company must be taken in Cyprus, company contracts should be signed in Cyprus, the original company documents and deeds should be kept in Cyprus, the bank account of the company should be held in Cyprus and any invoices should be issued in and forwarded from Cyprus.



Private assets versus corporate assets

My colleagues and I are often asked what offshore companies are good for, and under what circumstances they can be used advantageously. I could write a very lengthy book, if I listed them all here.

There is one thing, however, which even the best authors tend to forget. In most cases, the assets of an offshore company are completely detached from the assets of the private individual. The vast majority of offshore companies are formed as companies limited by shares or limited liability companies, where the financial liability of the owners is limited; generally, the amount is limited to the paying up of the authorised capital of the company. Once this has happened,

new assets, totally separate from the assets of the private individual, come into being. These assets can be disposed of very simply by, for example, selling the company's shares, and thus can not be subject to distraint.

Another important factor is that a private individual, as the owner of an offshore company – even if that ownership is completely “blatant” – can not be forced to take all of the profit out of the company in the form of salary or dividend. If a company has a profit of 100 units, the owners have the right to choose to pay just 10 units as a dividend to the shareholders in the given year, leaving the remaining 90 units as a reserve in the company. The difference is that the private individual will have to pay tax on the 10 units in the country in which he is resident for tax purposes, whereas the 90 units will be company assets, not subject to personal income tax provided that the company is registered in a jurisdiction in which the tax is a fixed amount each year. In this way, the offshore company can work as a sort of buffer to the benefit of the private individual.

We would also like to inform our readers that a Special Edition of the LAVECO Newsletter (2008/2), which deals with the benefits offered by the tax system in Cyprus, is now available. If you would like to receive a copy, please send an email to the following address:

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