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NEWSLETTER



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IS THE WORLDWIDE RECESSION OVER?

It is now more than two years since the start of the financial recession which began with the collapse of Lehman Brothers bank in the USA and spread just about all over the world, and the effects of which can still be felt today. Naturally, the recession was not restricted to the realms of the financial service providers, but the players in the real sphere also suffered following the outbreak.

Several months ago certain politicians started to issue statements claiming that the recession was over and the first signs of recovery could now be seen.



According to the more conservative analysts, on the other hand, it is still far too early to claim that we have seen the last of the

recession, and there is still a need for caution in analysis and predictions. There are also those who say that a new wave is just around the corner, that the governments' handling of the recession was not particularly successful and that the money used to rescue the banks was not well spent, as this did not really help with the recovery and did not create economic growth.



So what is the truth? In this topsy-turvy world, where everything is relative, it is difficult to make unambiguous declarations. Here at LAVECO we can only view the actions of the world economy from a safe distance, and we have no overview of the global picture. If I had to sum up the attitude of our clients, then I would have to say that "careful expectation" would be the best way to describe the approach to the current economic situation. Numerous businessmen see no hope of reaching the heights achieved before the recession, and the current aim is to try to maintain market positions. Liquidity is an



extremely important point of view. As the banks significantly reduced the funds available for lending in the early days of the recession, this restriction on sources had an immediate effect on the players in the market. The go-round debt process intensified, leading, unfortunately, to increased uncertainty and risk of bankruptcy. Certain branches of the economy came to an almost complete standstill, or are vegetating at a minimal level worldwide. Development in the real estate sector is only a fraction of what it was just a few short years ago, with residential and commercial properties lying unsold from Cyprus to Bulgaria and on to North America.

Naturally, the statements of the politicians mentioned earlier pulled no punches when it came to exposing the reasons for the recession. The irresponsible lending policies of the banks were blamed just as much as the tax havens, which attracted capital to their own shores and cut the amount of tax being paid in countries with high rates of tax to a minimum. Despite the fact that the market has its own self-adjusting mechanisms, they want to end the recession through artificial and administrative means, and to exercise control over the processes, service providers and market players which they don't like. In earlier editions, I have dealt on a number of occasions with the decisions of the G20, such as the wish to close down all of the tax havens by

2015. The situation is far from rosy, as they are able to achieve their aims and collect and store information primarily through the banks. Today no serious financial institution anywhere in the world will open an account without identifying the ultimate beneficial owner. And the situation is exactly the same for brokers, and even for lawyers dealing with a simple company formation: the anti-money laundering regulations prescribe ever stricter client identification and monitoring obligations for the service providers. Domestic tax laws have also restricted certain types of earlier techniques in the field of international tax planning, with the developed nations paying more attention to the sums lost to tax migration, and placing sanctions on those concerned.

One of the unstated goals of the stricter conditions is to scare clients. Although this is never declared openly, it can be felt in the intentions of the legislators. The stricter the requirements at the time of establishing a certain structure, the less likely clients are to choose that option and take advantage of the tax and other benefits it offers. And there is a knock on effect, as the small fish always fall by the wayside. Either the additional investment required to maintain the earlier level is not worth it financially, or



they simply become fed up with the constantly changing terms which place newer and newer obstacles in their path.

So what is the advice of the expert who is involved in company formation worldwide on a daily basis? I, who have spent all my working

hours over the last 20 years or so forming companies, still think the same as I did 15 years ago: the client is able to evaluate precisely his own business interests and decide accordingly. There would be no point in trying to force something on



him or make him buy a new company if he doesn't actually need it. The task of the professional in this situation is to offer information and guide the client; to inform the client in good time, so that he in turn can decide in time, if he needs our services. If the economy is not performing, then it stands to reason that the "company industry" can also only be ticking over. And what about existing companies? What should be done with them? Keep them, or close them down? What are the dangers? These are the questions which we are facing almost daily from our clients.

Although there is very little to make us optimistic at the moment, my view is that sooner or later the recession will come to an end. It will come to an end before I place offshore companies as one of the primary reasons behind it. Sooner or later it will be necessary to see sense and face up to the real reasons, which will not be found in the field of international tax competition. If the money circulating on the bank accounts of offshore companies disappeared from the world economic system from one day to the next, then the whole system would fall apart instantly. More than 50% of the turnover today goes through offshore companies. And the legislators are perfectly aware of this too. Just as they are aware that these companies, the majority of which were established as independent legal entities within a given tax system, can not be closed down by administrative means. Such a step would mean the end of international law and investments

would not be safe in any form anywhere. So we're left with the tug-of-war, the tightening of regulations, and in some places psychological warfare. It appears that even in the business world it is not always money that talks. Sometimes nerves of steel can be worth more than millions of dollars. The persistent will win through, while those with

weaker nerves will fall by the wayside, making way for those who accept the challenge. I am naturally very optimistic – I don't believe in any of the theories about the end of the world, even though there are more than enough of them these days. Just over ten years ago there was the infamous Y2K, which set down January 1st 2000 as D day. Now, apparently the end is coming again in 2012, and this time it really is the "real one". Probably, however, there will still be something after the end of the world. My advice: let's see it through together ☺

With warm regards:

László Váradi
Managing Director
LAVECO Ltd.

SEYCHELLES: PRIVATE FOUNDATION FOR ASSET PROTECTION PURPOSES

In December 2009 the Seychelles passed an act allowing for the formation of private foundations (Foundations Act of 2009). Other offshore jurisdictions, such as Liechtenstein, the Bahamas, Panama, St. Kitts and Jersey have had the necessary legislation for decades, and, particularly in the cases of Liechtenstein and Panama, foundations have become very successful in international business practice.



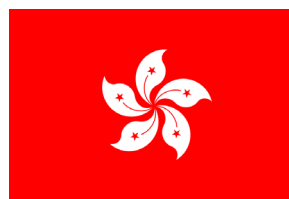


The foundations which can be formed in the Seychelles can be used for charitable or private asset protection purposes – or both – according to the intentions of the people forming it. The foundation comes into being when it is registered and the “Foundation Charter” is deposited with the Seychelles International Business Authority. Such foundations have separate legal entity, similar to companies limited by shares or limited liability companies. The main difference is that companies have owners or shareholders, whereas foundations do not. A foundation has no owners that can be named as such. Anybody can establish a foundation simply by signing, either as a private individual or as a corporate entity, the Foundation Charter. The operational management of the foundation is carried out by the Counsellors. Their role can best be described as being similar to that of a board of directors. They personally deal with the foundation’s affairs, or, where necessary, issue power of attorney to third parties in regards to certain tasks or groups of tasks. It is also possible to appoint so-called “Protector(s)” alongside the Counsellors. Their role can be described as supervisory coordinators, appointed to ensure that the wishes of the Founder are being adhered to. A family lawyer is typically suitable for this position, as he is aware of the family’s business affairs and the family relationships, and can intervene in time.

The most common reason for establishing private foundations in the Seychelles is asset protection. The assets of the foundation can include any movable or immovable property, except real estate in the Seychelles. The initial assets and subsequent donations during the lifetime of the Foundation may come from any source, not just the Founder. The Beneficiaries of the Foundation participate in the Foundations assets and growth in assets as set down in the Foundation’s internal – non-public – regulations.

Private foundations registered in the Seychelles are an ideal vehicle in international asset protection. The legislation allows them to be registered as legal entities. During their existence they are subject to a fixed annual tax of 200 USD. The records of the Foundation must be kept in accordance with the instructions of the Counsellors, and there is no legal requirement concerning the publication of audited reports. With the exception of the Foundation Charter, there are no publicly available documents, so the identities of the Beneficiaries, Counsellors, Protectors, and Attorneys are only revealed in private documents. At the same time, the Foundation has the right to open bank accounts in its own name anywhere in the world. Its assets can include any movable property or real estate, and it can be a member of other companies, or even other foundations or organisations.

HONG KONG:
1 500 000 COMPANIES REGISTERED



The number of companies registered in Hong Kong reached the one and a half million mark in August this year.

The first company was established in Hong Kong in 1865, and by 1994 there were still fewer than

half a million companies. The millionth company was formed 5 years ago, and it has only taken 5 years to reach the current milestone.

Hong Kong's popularity can be put down to several factors. A significant number of the foreign companies investing in China do so by establishing a Chinese subsidiary through a parent company registered in Hong Kong. One of the reasons for this is that the bureaucratic Chinese company formation process is somewhat easier this way. The other main reason can be found in the beneficial terms of the agreement for the avoidance of double taxation which exists between Hong Kong and China, and which is definitely worth taking advantage of. China's significance in the world economy and the Asian region is now rock solid, and Hong Kong plays a very active part in this.



Another key factor when deciding where to establish a company is the tax system of the given country. Hong Kong is also very attractive from this point of view: tax on profits gained from local activities are subject to tax at the rate of 16.5%, whereas profits derived from outside Hong Kong are exempted from taxation. The economy of Hong Kong is stable, and the city state's legislation is based on English law – communist China has made no attempt to alter the successful economic model established by the British, and which is still in force today.

THE CD PURCHASED BY THE GERMAN TAX AUTHORITIES IS A FAKE



The CD purchased by the Federal German government and the cabinet of the state of Lower Saxony has turned out to be a fake. According to the "sellers", the CD contained the details of 20 000 German taxpayers and the 800 million euros worth of tax fraud they had committed. The disc was originally offered to the government of Baden-Württemberg by a man claiming that the authorities would find information pertaining to companies operating in the fields of real estate and information technology. According to his claims, the Germans named on the disc carried out the fraud primarily through Swiss banks. According to the Financial Times Deutschland, the conservative-liberal government of Baden-Württemberg were not prepared to purchase the CD because of the illegality of the way the information would be obtained. The federal cabinet on the other hand – buoyed, no doubt, by the success of the CD obtained earlier from a former employee of the LGT Bank in Liechtenstein – was prepared to "do the deal", and paid up. It is not known, however, how much of the taxpayers' money the German government paid for the fake details.

HUNGARIAN-SPEAKING STAFF IN LAVECO'S OFFICE IN CYPRUS

From October 1st, 3 members of staff from the Budapest office have been "resettled" in the Group's office in Cyprus. Gizella Kozma, Dr. Eszter Juhász

and Melinda Kapás are well established members of the team, with several years of experience behind them. The resettlement was motivated by those market and legislative conditions which, primarily in Europe, regulate the operation of companies like ours. LAVECO Ltd.'s office in Cyprus has been operating for 11 years, since 1999, and is very stable with very good and stable contacts. Local lawyers, banks, accountants, auditors and other professionals are all on hand to help LAVECO's clients. Our resettled colleagues are able to offer their help in coordinating matters, primarily organising the daily affairs of our Hungarian clients. If you have any questions or requests, you can contact them as follows:

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LAVECO HUNGARY CELEBRATES ITS 19TH BIRTHDAY

On September 16th the Hungarian branch of the LAVECO Group celebrated its 19th birthday. The members of the Hungarian team enjoyed lunch together, while reflecting on the formation of the company and the events of the last 19 years. László Váradi, managing director, presented certificates to 3 members of staff,



Mónika Hrabovszky-Machál, Ágnes Mészáros Mártonné and Gréta Ecsegi, who have been with the company for 10 years, and thanked them for all their hard work.

INTAX EXPO – MOSCOW: THE OFFSHORE SERVICES PROVIDERS SHOW

On September 29th and 30th, the IN-TAX Expo, where service providers from the offshore world meet up every year, was held in Moscow. Several hundred professionals participate in the event, discussing the current situation and questions related to the industry. The staff of LAVECO Ltd. took part in numerous discussions during the exhibition, and gathered useful information and contacts which they would like to pass on for the benefit of the company's clients.



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