


**CONTENS**

*From the Managing Director's desk:*

**Tsunami in the world offshore market?**

Our leading article examines the likely effects of the new requirement for US-registered companies to report their foreign bank accounts

*Jurisdiction spotlight:*

**United Arab Emirates – RAK**

We would like to present the main points of the share company which can be registered in Ras Al Khaimah

*Short news and ideas:*

**UK LLP for holding purposes**

The English company for international investments, and as the ideal tool for trading outside the EU

**40 000 foundations in Panama**

The number of foundations for the protection of assets has hit the 40 000 mark

**Hong Kong: 28% more companies in 2010**

The rise in the number of companies formed in Hong Kong even outstripped the average growth in the Chinese economy

*Topic:*

**The Trust of Shares model in Cyprus**

The essence of the Cyprus Trust of Shares: the shares of another company form the assets of the trust

*Interesting:*

**The Bulgarian wine region**

To relax from the world of taxation, we take our readers on an adventure into the world of Bulgarian wines

*LAVECO life:*

**LAVECO Ltd. at MIPIM and the Intax-Expo in Malta**

LAVECO staff took part in the real estate exhibition in Cannes and the tax conference organised in Malta

*From the Managing Director's desk:*

**Tsunami in the world offshore market?**


I watched in disbelief in the hall of the hotel the destructive pictures of the tsunami which followed the earthquake in Japan. On the morning of March 11th my colleagues and I were about to set off for the MIPIM real estate exhibition in Cannes when we first heard the news of the terrible catastrophe, and to be honest I had never seen anything like it.

As I returned to Budapest, little did I know that very soon a similar tidal wave would begin to sweep over the world offshore market, with as yet unknown consequences. A report from our legal team on the recent changes in the laws in the USA, which will effect the fate of hundreds of thousands, if not millions, of companies was waiting on my desk. We have dealt with this topic in an earlier edition of the Newsletter, so it would be a waste of time to repeat the whole text here. The essence of the changes is as follows: every company existing in the USA in 2010 is required to report any foreign bank accounts it has opened, including brokerage accounts, to the US federal tax authorities, on a specifically designed form, by June 30th 2011 at the latest, if the turnover on the account exceeded 10 000 USD during 2010. Thereafter, the

report must be filed every year by every US company by the end of the first half of the year.

The technical details are perhaps less significant, as the report can be filed either on paper or electronically. According to provisional plans, the Internal Revenue Service (IRS), the US federal tax authority, are expecting some 400 000 reports. It is not clear from the commentaries just how they came up with this figure, as the number of companies registered and not "strictly" operating in the USA could be 10 times that number, that is 4 000 000! And it was exactly this point which led to the earlier arguments among the US legislators: who is classified as a US person? One of the biggest debating points was in the recognition as a US person of partnership type companies, and in particular Limited Liability Companies (LLCs) in which the members and managers are non-US resident.

It seems likely that there are two lobbies struggling for dominance within the IRS. One considers everything to be American on the basis of the place of registration without exception. The other lobby focuses on American residency, and doesn't consider those LLCs where no American residents are involved to be subject to tax in the USA. And based on this logic, the latter do not even consider it important to know about any turnover, assets or bank accounts outside the USA.

The argument of the liberals is crystal clear: if there are no Americans involved in the structure of the company, then the interests of the US tax-wise are unaffected, so why should we be interested in what the com-

pany is doing? On the contrary, the US can only win, as the few hundred dollars a year from tax, duties, agents' fees and services per company bring in tens of billions of dollars for certain states. Without all this, there is no income, and it would be silly to give up something which later other countries will gain from in our place. Even though many other countries pass judgement on the USA, and the state of Delaware in particular, on account of the low taxes and lack of transparency – areas which the USA and OECD constantly criticise when it comes to the tax havens – there is nothing illegal in this.

This lobby appears to have lost ground, and the "hardliners" are winning the battle. The consequences of this victory are uncertain: there isn't an expert today who can say exactly what effect this decision will have, and we will probably be talking about this subject for many years to come. Here are just a few stray thoughts:

1. How will the IRS react? Although the requirement to report bank accounts does not automatically mean the requirement to pay tax for certain companies (such as numerous non-resident LLCs), we can not be certain that they are not just laying the foundations. Tomorrow they may pass a law whereby every entity registered in the USA is subject to (federal) tax, purely because they are registered there. Heaven forbid, just not retrospectively! It could happen, who knows? Today, in the middle of the recession each state takes whatever income it can. Super-taxes and extraordinary taxation are no longer just science fiction.

2. How will the banks react? Probably not with too much understanding. That is, as far as clients are concerned. Why am I so categorical? Because I am under no illusions. I saw this in 2006 with the Latvian banks, who got rid of their US-registered clients in the blink of an eyelid in the face of American pressure. Following the UBS scandal, the Swiss banks are running scared not just from American citizens, but companies too. Unfortunately we have also felt the effects of this process in the banks in Hungary. Furthermore, it is impossible to convince the banks' compliance teams with common sense, as they are more like civil servants than businessmen. The problem is that all too often the bank management, through their own lack of understanding, put too much power in the hands of the compliance department.

3. And I wonder how clients will react? Should we maintain the company and declare its bank account to the IRS? Or close down the company and forget the whole thing, as if the entity no longer exists, what can they go after? Or close down the company, but make the declaration for 2010 and at the same time set up a new company "with a clean slate"? Or re-register the US company in a more attractive jurisdiction, and continue operations there? Life throws up question after question. Business life can be very complicated, as very often it is not easy simply to

remove a company from a corporate construction; just think, for example, of a court case which may drag on for years, where it is necessary to maintain the company to the very end.

There is no limit to the absurdity of the American legislators: it is even necessary to make the declaration, if the company doesn't have a foreign bank account, but is the holder of at least 50% of the shares of a foreign subsidiary. In this case, the foreign bank account of the subsidiary must be declared.

It is very difficult to remain calm when speaking about this. Having spent almost 20 years in the world of company formation, I have to make a particular effort to restrain myself, and concentrate on resolving the situation for my clients. Like an unqualified psychiatrist, all I can do is try to soothe the irate public opinion by focusing on the positive side of things. For the last 15 years or so US companies have been one of the most popular tools in international tax planning. The high level of prestige was coupled with a very good price. But it now looks like this period is over, and now, unless the law changes, we really have come to the end of an era. We should be grateful that we had 1, 2, 5 or even 15 good years. There is no point getting upset over what has passed. Now we must look for new ways forward, seeking secure solutions. As for what the future will bring, only those who survive this process will be around to see. I hope we will find the right corporate constructions, and LAVECO Ltd. definitely wants to continue to be a partner in the future. Whether you are an existing client, or a new enquirer reading our Newsletter, feel free to contact our staff for information. We are only too willing to help.

With kind regards,

László Váradi  
Managing Director  
LAVECO Ltd.



*Jurisdiction spotlight:*

## United Arab Emirates - RAK

Location:	Ras Al Khaimah (RAK), one of the 7 emirates making up the United Arab Emirates, is situated on the Gulf side of the Arabian Peninsula.
Type of government:	Federal monarchy
Population:	5 975 593 (2010)
Area:	67 340 km <sup>2</sup>
Capital:	Abu Dhabi
Currency:	United Arab Emirates Dirham, AED (1 USD=3.6 AED)
Official languages:	Arabic, English
Time zone:	GMT+4

1. <u>Company legal form</u> :	International Business Company (IBC)
2. <u>Method of Incorporation</u> :	The Memorandum and Articles of Association must be signed by the subscriber.
3. <u>Company name</u> :	Limited, Corporation, Incorporated, Societe Anonime, Sociedad Anonima
4. <u>Time required for incorporation</u> :	2-3 weeks
5. <u>Number of directors</u> :	Minimum 1 of any nationality, corporate directors are allowed.
6. <u>Number of shareholders</u> :	Minimum 1 of any nationality, corporate shareholders are allowed.
7. <u>Minimum capital</u> :	10 000 AED
8. <u>Accounting / reporting requirements</u> :	audited annual accounts are not required to be filed.
9. <u>Type of shares</u> :	Registered
10. <u>Annual tax and duties</u> :	645 USD (fixed)
11. <u>Annual meeting</u> :	must be held each calendar year. First meeting to be held within 18 months of incorporation.
12. <u>Disclosure of beneficiaries</u> :	Not required
13. <u>Registered office</u> :	Local registered office is required by law
14. <u>Registered secretary &amp; agent</u> :	Local registered agent is required by law
15. <u>Double tax treaty</u> :	The UAE have signed agreements for the avoidance of double taxation with the following countries: Algeria, China, Jordan, Kuwait, Egypt, Finland, France, Malta, Pakistan, Poland, Germany, India, Indonesia, Italy, Malaysia, Mauritius, Romania, Seychelles, Singapore, South Korea, Sudan, Syria, Turkey, Yemen



## Short news and ideas:

## UK LLP for holding purposes

The possibility to form partnership-type companies in the United Kingdom dates back over a hundred years. The establishment of a corporate entity between partners was first regulated by law at the beginning of the 20th century, with the primary purpose of uniting the economic activities of the partners behind the partnership, but the financial liability of the partners remained unlimited. The Limited Liability Partnership Act passed in the UK in 2000 simplified matters, as the liability of partners in a Limited Liability Partnership was limited, and the company was given corporate identity. The minimum of two



members are not required to be English residents, and may even be foreign-registered companies. The LLP follows the principle of flow-through taxation, similar to the US LLC, and only partners resident in the UK are subject to tax on their share of the partnership's income. The UK LLP, whose partners can also be offshore companies, offers an ideal tax planning vehicle for the performance of non-EU transactions. Due to the high level of prestige, the establishment of a UK company for holding purposes is also an option for those not wishing, for example, to pay 10 times as much for the running of a Swiss company.

## 40 000 foundations in Panama

The number of private foundations formed in Panama as asset protection vehicles has gone past the 40 000 mark. The Foundation Act 1995 provided for the possibility to form such structures in Panama, based on the Liechtenstein model. In addition to the large number of foundations formed, proof of the success can be found in the fact that over the last 15 years numerous offshore jurisdictions have "copied" the Panamanian laws and now offer the formation of foundations to international in-

vestors. The private foundation is one of the best vehicles for asset protection, as it can not carry out any economic activities other than the administration of assets. Naturally though any subsidiaries owned by the founda-

tion are authorised to carry on all types of commercial activity. The foundation has no owners, only beneficiaries, and as such it would be very difficult to sue them or implement enforced execution against them.



## Hong Kong: 28% more companies in 2010

The rise in the number of companies formed in Hong Kong even outstripped the average growth in the Chinese economy. The number of companies formed in 2010 exceeded the number for 2009 by some 27.5%, with the number of new companies for the year reaching almost 140 000. Neighbouring China, whose economic growth still remains unaffected in the aftermath of the recession, naturally played a part in this. At the same time, numerous businessmen see a very bright future for the city state,

whose laws are still based primarily on English law and whose tax system offers ideal opportunities for international tax planning, as company income of non-Hong Kong sources is not subject to tax. The city state's strong international position should not be ignored and neither should its stability, all of which contribute to the opinion of the experts at LAVECO Ltd., who can see Hong Kong becoming an even more attractive target in the future for clients wishing to establish new companies.



## Topic:

## The Trust of Shares model in Cyprus

**Settlor:** a Trust can be established by either a private individual or a company, who transfer their assets to a Trustee registered in Cyprus.

**Trustee:** the administrator of the assets is a company registered in Cyprus

**Assets:** the shares of a company registered in another jurisdiction, and which operates totally independently and whose bank account is managed by the beneficiary, who is also authorised to manage the company's affairs.

**Beneficiaries:** any individual or company not resident in Cyprus can be the beneficiary of a Cyprus International Trust.

**Advantages:** the assets of the Beneficiaries are secure, as they are separated from the private individual's assets, and beneficiary rights can not be removed by litigation. An additional advantage is the simplification of inheritance procedures in the unfortunate event of the death of a Beneficiary.

## Interesting

## The Bulgarian wine region

A true wine connoisseur knows only too well that to produce good wine you need good soil, a good climate, good varieties of grape and a rich wine culture. Bulgaria's excellent geographical position is not in doubt, but few people outside Bulgaria are aware that there exist a number of indigenous Bulgarian grape varieties whose history in what is now Bulgaria dates back more than 3000 years. Mavrud, Melnik, Pamid, Gamza, Red Misket, Dimyat – perhaps these were the grapes used to produce the famous Thracian wines, such as those of Dionysus and Orpheus, or the heavenly pure wine used by Homer's Odysseus to get the Cyclops drunk. These local grapes produce, to this day, excellent wines, and in addition, for several generations the Bulgarian soil has also offered a home to the cosmopolitan grape varieties, which also flourish here.

The deliberate development of the preserved tradition even led to the appearance in the first half of the last century of another Bulgarian speciality, the refined grape variety where, thanks to the work of the viticulturist, the "grape-child" inherits the best qualities of both "grape-parents". Wines like this include Rubin (a cross between Syrah and Nebbiolo), Ruen (Melnik and Cabernet Sauvignon), Buket (Mavrud and Pinot Noir). And this list is far from complete!

The wines we have selected are all very individual, though they do have a couple of things



in common: they are all excellent, and all give even the demanding taster something new, which they can't get anywhere else.

White Mavrud 2009: Dry white wine from black grapes. 100% Mavrud. From the Zagreus cellar's own ecological estate.

MEZZEK Rosé 2009: Dry, protected wine: 60% Merlot, 30% Malbec, 10% Syrah. From the Katarzyna vineyard's own estate on the hilly border between Bulgaria and Greece, which became famous as No man's land. The Mezzek Thracian domed tomb built in the 4th century BC can be found very close to the estate.

Single Barrel 2007: Mavrud, Syrah, Rubin, Cabernet Franc, Cabernet Sauvignon, Merlot. The proportions of the 6 types of grape are different in every barrel, which gives each barrel its own character, strength and appeal. From the Terra Tangra vineyard's own estate in the

Sakar Hills. Given the TROPHY award from "Les citadelles du vin 2009", one of the highest accolades awarded to red wine.

And what if you're looking for a suitable and still drinkable noble wine for a 20th anniversary? Or are curious about the taste of

the famous 1973 Bulgarian Merlot? Maybe the 1918 Gamza is missing from your collection?

Feel free to contact us. We speak the language fluidly!

Dr. Bormental  
www.bolgarborok.hu

## LAVECO life:

## LAVECO Ltd. at MIPIM

Our colleagues participated at MIPIM, one of the most significant real estate exhibitions in the world, for the third time. Some 18 000 visitors attended the real estate expo which was held in Cannes from March 7 – 11, 2011. Those enquiring at our stand about the services of LAVECO Ltd. were also able to taste Tokaj wines and Hungarian chocolates.

## Intax-Expo, Malta

Professional service providers from the world offshore market came together from March 23 – 24, 2011 for the international tax conference held at the Westin Dragonara Hotel in Malta. Some 350 lawyers, tax consultants, auditors and management consultants spent the two days discussing the latest developments in the profession and the world market. In addition to the informative presentations, the participants from LAVECO Ltd. also gleaned plenty of information from informal conversations in the corridors. The next similar event will be held in Moscow in the autumn.



## THE LAVECO GROUP

UNITED KINGDOM  
LAVECO LTD.

3rd 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 Street,  
1092 Budapest,  
Hungary  
Tel.: +36-1-456-72-00  
Fax: +36-1-456-72-01  
E-mail: hungary@laveco.com

CYPRUS  
LAVECO LIMITED

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

ROMANIA  
OPTITAX S.R.L.

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

BULGARIA  
LAVECO EOOD

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

SEYCHELLES  
LAVECO LTD.

Suite 2, Oliver Maradan Bld.  
Oliver Maradan Street, Victoria  
Mahé, Seychelles  
Tel.: +248-322-261  
Fax: +248-324-932  
E-mail: seychelles@laveco.com

WEB SITE: [www.laveco.com](http://www.laveco.com)