

**LAVECO**® since 1991.

## special NEWSLETTER

### The offshore real estate business



The real estate industry has been a common and constant topic for discussions lately. From the credit crisis in the USA and many other countries to the real estate boom in Dubai and the increased demand for coastal properties in Bulgaria; these and many other related topics are always in the news.

The market, like most other markets, is sometimes up and sometimes down. One thing, however is certain: we always have to live somewhere, businesses will always need offices, and land will always be required for industrial purposes. In short, one way or another, there will always be demand for real estate. As the population of the world grows, and consumer demand increases accordingly, so demand grows in the real estate market, whether it be for housing purposes or for trade or industry.

The real estate market, which is possibly the largest global market, is never still. Property is constantly being bought, sold, exchanged, built or renovated. In this newsletter, we would like to outline how offshore companies can be used for real estate-related transactions, and highlight the financial benefits which are to be gained through the use of such structures.

We will be providing a general overview, explaining models which can be employed or adopted in many countries throughout the world. Therefore, we would strongly advise anyone considering such an option to check the possibilities with a real estate specialist in the country in which the property is situated before entering into a concrete transaction using the models described following pages.

In my opinion the significance of this topic is enormous. In countries with high rates of tax, a considerable part of the profit made through the sale of a property can be lost

to taxation. Other more direct taxes, such as inheritance tax, however, can be even more dangerous; in some countries this can be as high as 40%! Not to mention the fact that there are some countries where women are not allowed to inherit, so in the event of the husband's death, a woman has no right to inherit any real estate. There are also cases where discretion plays an important role, and it is not expedient for an individual to appear on the openly available real estate records. Anyone could have access to such information – such as an inquisitive journalist, or conscientious tax inspector, who may then be only too happy to raise the question: where did the money for this or that property come from?

A well devised legal tax structure, centred around an offshore company, can provide an ideal solution in all of these cases. The aim of this newsletter is to offer some help in forming a suitable structure, and we hope it will give you food for thought and have you reaching for your calculator to check those possible savings.

With kind regards,

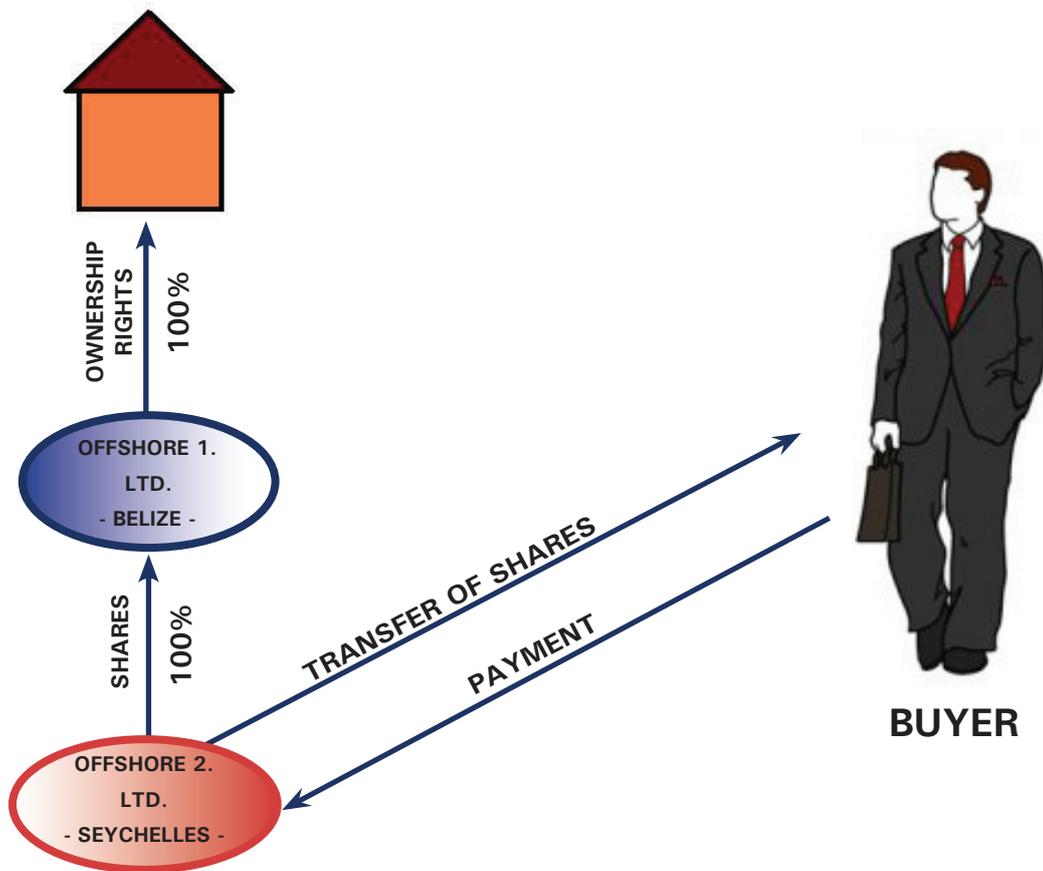
László Váradi  
Managing Director  
LAVECO Ltd.

### Is the profit from the sale of real estate subject to taxation?

If the seller of the real estate is an offshore company which does not pay tax –or pays a fixed amount annually– in the country of registration, then generally no tax will be payable in that country on income or profit from the sale of real estate. Nine times out of ten, however, the country in which the property is situated will tax the income made from the sale of such property, even if the seller is a foreign individual or company. In numerous cases, the agreements signed for the avoidance of double taxation also allow the country in which the property is situated to tax income made from the profitable exploitation or sale of the real estate situated within their boundaries.

***BUT IT MAY NOT BE NECESSARY TO SELL THE REAL ESTATE ITSELF. WHY NOT? THE TWO MODELS BELOW ATTEMPT TO OUTLINE THE REASONS.***

## The purchase and sale of real estate using an offshore company



**Description:** In the above diagram, the ownership rights of the real estate are acquired by an offshore company, OFFSHORE 1 Ltd. The owner (100% shareholder) of OFFSHORE 1 Ltd. (Belize) is another offshore company, OFFSHORE 2 Ltd. (Seychelles). The sole activity of OFFSHORE 1 Ltd. is the acquisition, development and exploitation of the real estate. In this model, when the real estate is to be sold on, it is not the property itself which is sold, but the shares in OFFSHORE 1 Ltd., the company owning the property. Accordingly, OFFSHORE 2 Ltd. transfers the shares of OFFSHORE 1 Ltd. to the buyer, and the buyer transfers the purchase price to the bank account of OFFSHORE 2 Ltd. By purchasing OFFSHORE 1 Ltd., the buyer also acquires the real estate owned by the company.

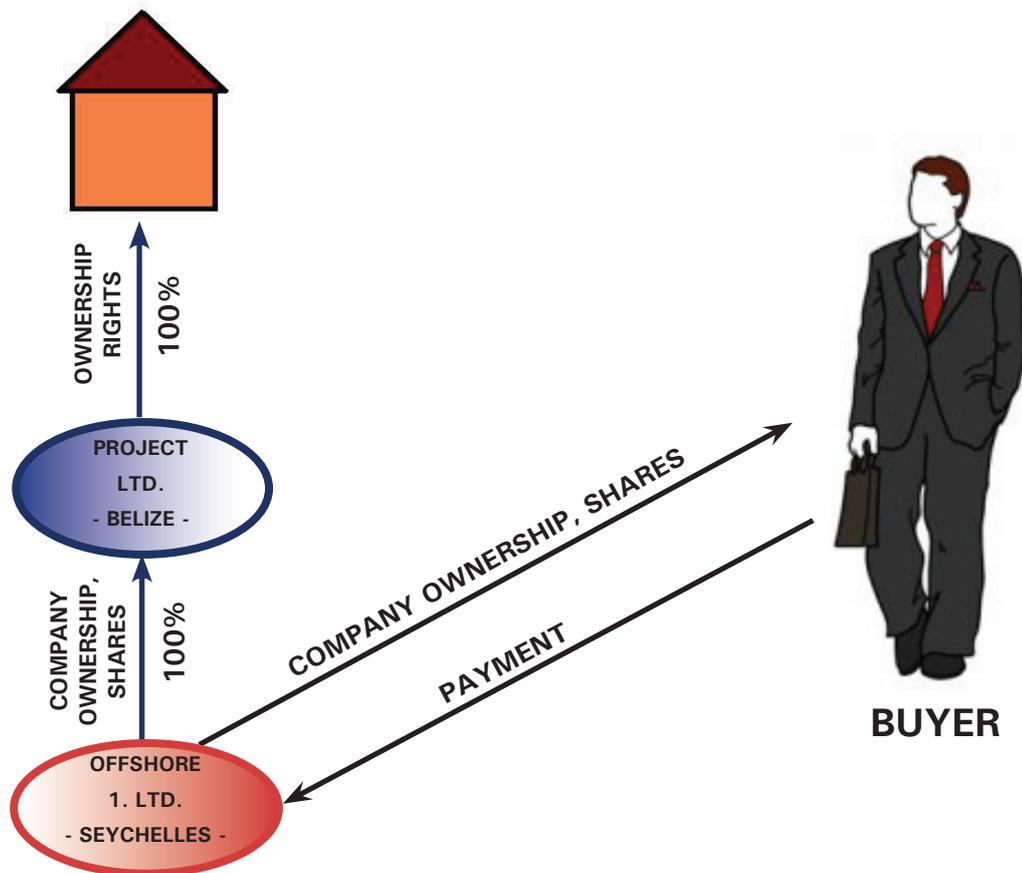
**Advantages:** The seller, OFFSHORE 2 Ltd., still makes a profit, but not from the sale of real estate, but the sale of shares, and this profit is not generally subject to taxation in the country in which the real estate is situated. In the jurisdiction in which OFFSHORE 2 Ltd. is registered, the annual tax is a fixed amount of 100 USD, an insignificant figure in comparison with the amount of profit to be made.

The property itself has not changed hands, as OFFSHORE 1 Ltd. is still the owner. The buyer, therefore, does not have to pay stamp duty.

**Disadvantages:** The model may not be practical in the case of less expensive properties, as there are costs involved in the formation and maintenance of the offshore companies. This structure is also not advisable in the case of newly developed residential buildings and apartment houses where the owners will be private individuals.



## The purchase and sale of real estate using a project company



**Description:** In this model, the ownership rights of the real estate are acquired by PROJECT Ltd. a company registered in the country in which the real estate is situated. The owner of this company is an offshore company, OFFSHORE 1 Ltd. (Seychelles). The shareholder of OFFSHORE 1 Ltd. is, albeit indirectly, the owner of the real estate concerned. The sole activity of the companies in question is the acquisition, development and exploitation of the real estate. When the real estate is to be sold on, as in the first model, again it is not the property itself which is sold, but instead OFFSHORE 1 Ltd. sells the shares or rights it owns in PROJECT Ltd., while the buyer transfers the purchase price to the bank account of OFFSHORE 1 Ltd.

**Advantages:** The property has not been sold and has not changed hands. As a result, no conveyance duty is due. As long as the sale of shares or stakes in a local company by foreigners is not subject to taxation in the country in which PROJECT Ltd. is registered, then the only tax payable will be in the country of registration of OFFSHORE 1 Ltd., and as we saw earlier, in the case of the Seychelles this is a fixed annual amount of 100 USD, irrespective of the

turnover of the company.

**Disadvantages:** The model may not be practical in the case of less expensive properties, as there are costs involved in the formation and maintenance of both the project company and the offshore company. This structure is also not advisable in the case of newly developed residential buildings and apartment houses where the owners will be private individuals.

**p.s.**

1. The possibility of applying such models always depends on the specific conditions in force in the country in which the real estate is situated.

2. Naturally, it is also possible for the offshore company to acquire the real estate, even though it has no intention of selling it on, preferring to keep it, in the expectation of a larger increase in value in the future.

3. The project company mentioned in the second example may prefer to exploit the real estate for profit, rather than selling it, particularly if the purchase of the real estate was financed by a loan from the capital of the offshore company.

### **What do we mean today by the term offshore company?**

There are numerous countries and jurisdictions throughout the world which have developed advantageous tax laws for companies which are registered in these countries. To be eligible for such exemptions, the company can not actually carry out any activities, and/or do not generate any income in the country of registration. Today, countries falling into this category are known as tax havens, and companies registered there, but not carrying out activities there, are known as offshore companies.

### **Which are the most well-known tax havens and offshore jurisdictions?**

Today, the most well-known jurisdictions are the British Virgin Islands, Panama, Hong Kong, the Seychelles, Belize, Gibraltar, and the Cayman Islands. Although not typical offshore jurisdictions, England, Cyprus and certain states in the USA can also be added to the list thanks to various special company types.

### **What rates of tax are applied in these countries?**

In the countries listed above, there is either no tax at all on the profits of a company, or the tax rate is extremely low. In the case of the Seychelles and Belize, for example, the rate is generally a fixed 100 USD per year, while in the British Virgin Islands this figure is 350 USD, irrespective of a company's annual turnover. Resident companies in Cyprus are subject to 10% tax on profits, which by global standards can be considered extremely favourable.

### **Who can be the owner or director of an offshore company?**

In all of the above countries, anyone can be the owner or director of a company. There are also jurisdictions where it is possible to issue so-called "bearer" shares; in this case, the names of the company's shareholders do not appear on the share certificates.

### **Can real estate be owned by an offshore company?**

The by-laws of just about every offshore company allow for the company to buy and own real estate in any country in the world. It is also necessary, however, to take into consideration the laws of the country in which the real estate is situated, as these may vary considerably from country to country.

1. There are countries where foreign companies can not buy property, even with special permission.
2. In some countries, certain types of real estate (e.g. agricultural land, listed buildings etc.) can not be owned by foreigners, while the ownership by foreigners of other types is subject to special permits.
3. In other countries, if owning a property also means owning the land it is built on, then this may only be achieved through the formation of a local company, and in this case, it may not be advisable to have the building itself owned by a foreign company.
4. In the most liberal countries, there are no restrictions on the acquisition of real estate by foreigners, and so foreign companies can own property without having to obtain special permission.

### **Is it necessary to use the services of a consultant or specialist to register a company?**

The simple answer is no, as today internet sites can cater for queries of every nature. However, a good specialist will be able to save his clients a good deal of time and money. A serious consultant, with decades of experience to call upon, is able to provide clients with such constructive advice and expertise as can only be acquired over many years and with the support of an established office.

### **What services can LAVECO Ltd. offer you?**

LAVECO Ltd. has been dealing with the formation of low tax companies in more than 40 jurisdictions around the world since 1991. We have ready-made companies, which can be purchased immediately, in 11 jurisdictions. We also undertake the opening of bank accounts through our extensive banking contacts for companies incorporated through our services. In countries where it is necessary for companies to file accounts, we can provide accounting and auditing services through our partners. Our professional company directors can offer a comprehensive company administration package, including the management of bank accounts, signing of contracts, and issuing of invoices. Clients who take advantage of our secretarial services are able to benefit from the receiving and forwarding of mail and telephone, fax and email messages. Please feel free to contact us at the addresses listed below, and we will be happy to contribute to the success of your enterprise.

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