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Offshore Financial Centers.
Objective Economic Reasons of Existing,
Mechanisms of Functioning and Future of OFCs+

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Introduction

At the beginning of writing my diploma paper it was rather alluring for me to investigate the topic that has been never discussed at the university, is completely veiled behind the mystery as a harbor for drug money and shadowed financial schemes, but not as a real working instrument, that is widely used by every more or less globally present company.

And as usual there should have been two completely different points of view, concerning our topic of investigation: from the institutions, that make a huge profit out of this phenomenon, and from the organizations that . logically . suffer losses.

Some quotations could perhaps make more effect on the mind of the reader than my personal reflections:

*"No man in the country is under the smallest obligation, moral or other, so to arrange his legal relations to his business or property as to enable the Inland Revenue to put the largest possible shovel in his stores. The Inland Revenue is not slow - and quite rightly - to take every advantage which is open to it under the Taxing Statutes for the purposes of depleting the taxpayer's pocket. And the taxpayer is in like manner entitled to be astute to prevent, so far as he honestly can, the depletion of his means by the Inland Revenue."*¹

*"There is nothing sinister in so arranging one's affairs as to keep taxes as low as possible. Everybody does so, rich or poor; all do right. Nobody owes any public duty to pay more than the law demands; taxes are enforced exactions not voluntary contributions!"*²

*"Any one may so arrange his affairs that his taxes shall be as low as possible; he is not bound to choose that pattern which will best pay the Treasury; there is not even a patriotic duty to increase one's taxes"*³.

*"Few people are enthusiastic about paying taxes. However, most people understand that taxes provide the funds required for the delivery of essential community services and the infrastructure that households and firms rely on, in research, healthcare, education, security and more. Non-compliance with tax laws reduces the funds available to government for such services. Also, it is blatantly unfair to the majority of law-abiding taxpayers who must, as a result, bear more than their fair share of the tax bill. National revenue bodies, meanwhile, have found themselves stranded at the border, as the rise in international tax non-compliance has made it more difficult for them to apply the law in an efficient and fair manner".*⁴

1 http://www.offshoresimple.com/offshore_companies.htm Law Lord Clyde, (Ayrshire Pullman Motor Services v Inland Revenue Comrs [1929] 14 Tax Cas 754, at 763,764).

2 http://www.offshoresimple.com/offshore_companies.htm

3 Helvering v. Gregory, 69 F.2d 809, 13 A.F.T.R. 806 (2d Cir. 1934), aff'd, 293 U.S. 465 (1935).

4 http://www.oecdobserver.org/news/printpage.php/aid/1945/Tax_in_a_borderless_world.html Tax in a borderless world Jeffrey Owens, Oct 2006

In reality, there are many facts, numbers, points of view, concerning the world of offshore. But my target has always been to find *objective* factors of a formation, extremely fast growing and actual global existing of such economic ~~wonder~~ as an offshore world. As a practical assistance in order to come to the truth at the beginning let's point out the following questions that should be finally answered:

- What scale has the offshore economy already got? Is it possible to stop the growth with the help of economic levers but not with political sanctions?
- Why did the phenomenon of the offshore economy arise at all?
- Are tax havens really a disaster for a whole world economy or are they only an objective answer to the economy of the highly developed heavy-taxed countries?
- In what kind of business activity are the offshore centers mainly involved?
- Are they really suitable for money laundering?

So, the paper is divided in 8 parts. The first part focuses on the scale of the offshore economy in order to give the reader a chance without any prejudice to figure out the importance of the topic being discussed.

The second chapter dwells upon the definition of the offshore financial centers (OFCs).

In the third part of the paper we will try to prove the fact, that the offshore economy is nowadays an objective answer to the economy of the highly developed heavy-taxed countries, using the facts and macroeconomic arguments.

The forth chapter is devoted to a detailed description of their main characteristics and as a result . an attempt of their classification according to the common features of the OFCs.

The fifth part covers more practical aspects . the usage of the OFCs in existing global economy in order to make this paper a sort of manual for young economists, dealing with relevant problems in their professional life.

The sixth part is dedicated to the history of the offshore economy with an attempt to concentrate on the objective factors of formation of this sphere of economy.

The seventh chapter will lead the reader finally to the practical information, latest news in the field of offshore world in connection with the latest reaction of the Governments of highly developed countries and further to the vast appendix with links about the *European* OFCs.

The final part of our survey is devoted to considerations regarding the further prospects of the formation of Russian own offshore centers as an objective future answer to the actual political and economic situation in the country.

In this paper different sources of information were compiled and used, including publications of the International Monetary Fund and other statistical institutions, reports and various articles in the magazines, journals, newspapers, books, devoted to the offshore economy. A wide internet search for information was performed in order to present the latest figures in relevance to the offshore world.

Section 1: Offshore Financial Centers

Part 1: The Real Growth Scale of the Offshore Centers

What of the size of the tax haven business? And how does it affect the taxing and regulating powers of the state? Due to the opacity of tax havens, with their bank secrecy laws and other measures to preserve the anonymity of those who do business there, no one truly knows the size of the phenomenon or its precise impact on taxation. Just at the beginning a curious but well-known fact can astonish a common person: the CIA has recently updated its list of countries ranked by Gross Domestic Product, using figures from 2006, 2005 and 2004, with Luxembourg in the lead, and no fewer than thirteen out of the top twenty countries being low-tax jurisdictions. Here are the top 20:

Table 1: List of the Top 20 - Countries ranked by GDP per capita.

1	Luxembourg	\$ 71,400
2	Bermuda	\$ 69,900
3	Jersey	\$ 57,000
4	Equatorial Guinea	\$ 50,200
5	United Arab Emirates	\$ 49,700
6	Norway	\$ 46,300
7	Guernsey	\$ 44,600
8	Ireland	\$ 44,500
9	United States	\$ 44,000
10	Cayman Islands	\$ 43,800
11	Andorra	\$ 38,800
12	British Virgin Islands	\$ 38,500
13	Iceland	\$ 38,000
14	Hong Kong	\$ 37,300
15	Denmark	\$ 37,000
16	Canada	\$ 35,600
17	Isle of Man	\$ 35,000
18	Austria	\$ 34,600
19	San Marino	\$ 34,100
20	Switzerland	\$ 34,000

A critic might point out that the populations of the 13 leading tax havens all added together wouldn't fill up New York City; but that doesn't dilute the message.

And where are the 19th century's leading nations: Great Britain, France and Germany? Japan is also a surprise exclusion.⁵

The Number of Offshore Entities

It is very difficult to estimate the number of offshore entities, such as banks, financial institutions, companies, and special purpose vehicles, located in tax havens. A number of tax havens have begun to publish annual accounts of the aggregate number of such entities in their territories. In 1999, the Cayman Islands, for example, claimed to have posted a 51% increase in the number of offshore entities registered in its territory, to a staggering figure of 57.900 (Cana 2000). In 2001 Mauritius had over 14.000 offshore entities registered in its territory. In 1999 Bahrain announced an increase of approximately 10% in operating assets of its offshore banking units. In 2001, the Bahamas had 106.000 IBCs in its territory, and 16.000 were being added every year. In the same year, the British Virgin Islands posted a 19% increase in the number of its IBCs, up to 368.000 (British Virgin Islands Sun 2001).

British Virgin Islands

population	19.100
capital controls	none
savings in banks	about 7 Bill. US-Dollar
investments in funds	about 40 Bill. US-Dollar
Government's receipts	127,3 Mil. US\$
fees of the financial industry	63 Mil. US\$

No membership in international organizations working on economic issues.⁶

In 1997 some 70,000 or so offshore companies were incorporated in the various Caribbean centers.

The most popular jurisdictions are Delaware and the BVI whose registrar has incorporated approximately 300,000 IBC companies in the last ten years. Some 40,000 IBC's were incorporated there in 2001.

It is estimated that 15,000 companies a year are incorporated in Hong Kong for offshore purposes and another 50,000 or so in the other Asian offshore jurisdictions. This means that the total number of companies formed for offshore purposes exceeds 140,000 per annum.

Estimates indicate that by the turn of the century a minimum of another half a million offshore

⁵ Tax-News.com, Low-Tax Countries Lead The World, by Jeremy Hetherington-Gore, London Thursday, September 06, 2007

⁶ www.attac.de Attac presentation sGlobalisation%by Sven Giegold / Harald Klimenta

companies were incorporated world-wide.

Recently, the U.S. Internal Revenue Service estimated that between 1 and 2 million Americans use offshore credit and debit accounts. The IRS reached its conclusion from records that it had compelled MasterCard to provide about 230,000 bank accounts in 3 tax haven countries. (Johnston 2002).

Volume of assets

Another way of estimating the size of the tax haven phenomenon is by studying the volume of cross border assets (i.e. assets traveling through tax havens and through tax haven financial subsidiaries). This was estimated by the IMF by the end of 1997 at \$4.8 trillion, and reached total cross-border bank claims in the world (Errino and Musalem 1999, 10; Financial Stability Forum 2000; Diamond and Diamond 1998). This ratio is confirmed by other studies (Cassard 1994; Oxfam 2000). Staff calculations based on BIS data suggest that for *selected* OFCs, on balance sheet OFC cross-border assets reached a level of US\$4.6 trillion at end-June 1999 (about 50 percent of total cross-border assets), of which US\$0.9 trillion in the Caribbean, US\$1 trillion in Asia, and most of the remaining US\$2.7 trillion accounted for by the IFCs, namely London, the U.S. IBFs, and the Japanese Offshore Market (JOM)⁷. But this reporting is confined to the major OFCs (IMF 2000).⁸ In any case, these figures gave rise to the popular, though somewhat misleading, notion that *half of the global stock of money goes through tax havens*+ (Ginsburg 1991).

Another source of information puts the amount held in offshore centers at between US\$6 and US\$7 trillion, which is approximately equivalent to the annual world trade in goods and services or about one third of total global GDP. Much of this, perhaps between US\$3 and US\$4 trillion, consists of savings held abroad by wealthy individuals. In terms of flows of funds passing through tax havens, financial and non-financial companies are thought to be the most significant players. A recent IMF survey of portfolio investment attributes a discrepancy of US\$1.7 trillion between global assets and liabilities to the portfolio investment that is channeled through offshore centers.⁹ In addition to this is the use of offshore banking facilities by international firms.

While the exact sums involved remain something of a mystery, it is clear that financial havens attract capital far disproportionate to the size of their levels of economic activity. Tax havens

7 <http://www.imf.org/external/np/mae/oshore/2000/eng/back.htm#I>, Offshore Financial Centers. IMF Background Paper. Prepared by the Monetary and Exchange Affairs Department, June 23, 2000

8 Reporting centers to the BIS are Hong Kong, Singapore, Bahamas, Bahrain, Cayman Islands, and the Netherlands Antilles.

9 'IMF Publishing Global Portfolio Investment Survey', News Brief 00/8, January 2000 (IMF website). To give an indication of the scale of offshore holdings, Bermuda, which was the only offshore financial centre to participate in the IMF's survey, accounted for US\$133 billion in portfolio investment holdings.

account for only 1.2 per cent of world population and three per cent of world GDP, but a staggering 26 per cent of assets and 31 per cent of profits of American multinationals.¹⁰

A further method of estimating the size of the tax haven phenomenon is through private banking. Not so long ago, this kind of banking activity, most of which is conducted offshore, was the preserve of the superrich, and not many banks would have considered managing a portfolio of less than \$ 1 million . indeed, many insisted on at least \$5 million. But offshore accounts can now be opened on the mainland with deposits as low as \$500, and if investors fear reprisal from tax authorities, they can subscribe to a system of offshore credit and debit card accounts to avoid being traced.¹¹

Switzerland is the heavyweight in this business, and it uses its bank secrecy code to great effect. Swiss banks manage an estimated 35 to 40% of all foreign-managed assets, or Swfr 2.000 billion to 2.500 billion (Euromoney 1996). According to another estimate, the sector manages some \$2.1 trillion in asserts, and business is growing at up to 15% a year. (Stewart 1996).

After having taken in mind all these huge numbers no one dares to underestimate the size and impact of actual OFCs on the world economy. If we only could figure out: in the middle of the 90^s there were about 3 billions of offshore companies. More of that: according to some informational sources, up to the beginning of the 90^s the amount of the offshore companies was increasing at 20% annually, but in the middle of the same 90th the worldwide increase was calculated at 40-50% per annum (the boom of offshore business).

What do these figures tell us? Firstly, that nowadays there are probably between three to four million offshore entities located in the 70 or so tax havens in the world. In addition, despite the well-publicized assault on offshore jurisdictions conducted by the OECD, tax havens are posting an unprecedented rise in the number of offshore entities located in their territories. An actual average increase of 15% a year is probably a low estimate. Each of these entities costs a small fortune to set up. In addition to set up fees, there are lawyers' and accountants' fees, yearly license fees, the rental of brass plate locations, if nothing grander, and the remuneration of local dummy directors. Are all the costs covered by the advantages, offered by IFCs?

10 'Fiscal Paradise: Foreign tax havens and American Business' by J Hines and E Rice. Quarterly Journal of Economics, 1994.

11 The Offshore World

Part 2: Definition of the Offshore Centers

When asked to define or explain ~~what~~ what is an offshore tax haven people often describe some form of island nation, probably in the Caribbean or some similar far flung and exotic place that is keen to launder the multimillions of wealthy business moguls as a means to support the local economy but this is far from an accurate description!

The IMF and the Bank for International Settlements (BIS) have added to the confusion by characterizing tax havens as jurisdictions in which transactions with non-residents far outweigh transactions related to the domestic economy (Dixon 2001).

Another term used to describe an offshore tax haven is an offshore financial centre, and the term offshore in this context means moving funds or capital outside the jurisdiction of the taxpayer's residence for international taxation planning purposes but are tax havens and offshore financial centers one and the same?

Actually one can prefer Adam Starchild's view, according to which tax havens are countries that have enacted tax legislation especially designed to attract the formation of branches and subsidiaries of parent companies based in heavily taxed industrial nations (Starchild 1993; Banoff and Burton 1994).

All of these definitions are based upon the thought that the main idea of an Offshore Financial Center is to avoid the taxes. Perhaps, they are correct... but only to some extent, because according to the point of view of the author of the actual paper there is also another equally valuable feature of the OFCs. namely, the OFCs grant final freedom to the revenue from all the political power of domestic countries, from all the instability, constant changes in the legal regulations and tax laws. And that is really an important pro-argument, indeed, for not only tax reduction but also for secure money keeping in the offshore world. According to these reflections let us try to formulate the shortest but maybe the most complete definition of the Offshore Financial Centers:

Í Countries that have enacted political and economic systems especially suitable for attracting financial capital that has no profitable usage in the place of origin.Î

Part 3: Objective Reasons of Existing OFCs

What is an economy? The simplest definition could be: it is labor + capital. The main target of the economy is to receive the maximum profit in the limited period of time with limited resources.

What is profit? It is the result of the business activity less the costs of acquisition + depreciation and taxes. According to the view of Economic Dynamics the faster we can earn the profit, the stronger we are. More of that: we have to be *the first* with the largest profit in some certain branch in order to win the market. So, earning the maximal profit as soon as possible after the beginning is the core target of any business. How can we maximize the profit?

- 1) Either minimize the costs of production - minimize the costs of every produced unit, e.g.
 - a) decrease the number of employees, what in most cases is impossible, or apply the know how . technical progress;
 - b) decrease loans . practically go to the labor offshore;
- 2) Or minimize the taxes:
 - a) minimize the taxable base . the percentage of taxes is not changeable;
 - b) go to the capital offshore.

The first case demands additional investments, perhaps some really revolutionary steps in business process reorganization, and more of that - is not possible in every case. The second point doesn't cost anything, apart from the cost of enterprise, in comparison with the first variant.

We should take also into account the fact, that we are living in a time, when the economy has become global but the states do have different economic systems and tax regulations. So, theoretically for every country but one on this planet there is some other country (local offshore) with better tax conditions and as a result a possibility to shift business activity there. With time there arose the group of countries that had tax advantages and served as offshore for a great number of other countries (analogically to the previous definition . global offshore countries). So, some separation (theoretically) has taken place: onshore and offshore worlds.

The result of our chain of investigation is: the existence of a global economy on the one hand and the existence of the politically independent countries with different tax systems with the freedom to move the business to that state, where one can receive the maximum profit on the other hand has caused the offshore economy (either labor or capital offshore economy).

Next question is: what is the target of any country? The answer could be: to maintain and improve the living conditions of its citizens. How can the state reach this target? - While receiving the maximum taxes in the limited period of time with ∞ actually unlimited resources because of absolute power of the state. *With the development of offshore economy the power*

of the onshore state has become limited . in case the taxes are too high, the business entity has a possibility to flea from the heavy-taxed country and organize its business overseas

How is it possible to avoid taxes? In order to understand it we need to dwell briefly upon the nature of business and personal taxation. Currently, there are two favored jurisdictional standards for assertion of business income liability. The first is the source standard, whereby countries assert tax jurisdiction over income earned within their territories. The source standard does not distinguish between resident and nonresident income. The residence standard, on the other hand, taxes on the principle of residency rather than source income. Due to difficulties in establishing source income, residency has become the standard principle of tax collecting. That's why nowadays most countries tax their residents (individuals and companies) on all their worldwide income: taxation can not be avoided by simply transferring assets abroad. One way a person or company may take advantage of tax havens is by moving to, and becoming resident for tax purposes in a low tax country. The United States is unlike almost all other countries in that its citizens are subject to U.S. tax on their worldwide income even if they reside permanently outside the USA. U.S. citizens therefore cannot avoid U.S. taxes by emigrating. According to Forbes magazine some nationals choose to give up their United States citizenship rather than be subject to the U.S. tax system¹². However, U.S. citizens who reside (or spend long periods of time) outside the U.S. may be able to exclude some salaried income earned overseas (but not other types of income) from U.S. tax. The 1995 limit on the amount which can be excluded was US\$80,000.

So, on the one hand, an offshore country doesn't possess any economy of its own to collect taxes from its own real production. But on the other hand (we have previously said) taxes are subtracted from capital. If a country doesn't have any production and as a result any own capital, the only possible thing that can be done, is:

- 1) either to organize the production;
- 2) or to invite the foreign capital using such economical instrument as residence of the company

The first case is difficult and needs long-term considerable state effort. More of that, if the country doesn't possess either starting capital, or labor forces, or natural resources but only a status of an independent state, the only way out is to make profit of the second case. That is quite easy, if only suitably advantageous conditions for foreign capital are provided by the government. Nowadays this certain set of conditions is sometimes termed as offshore infrastructure. In other words, any offshore country is pursuing the same object as any onshore state . to maximize the taxes. But the method to reach this target differs: they collect charges

¹² The new refugees. (Americans who give up citizenship to save on taxes). Forbes (1994-11-21). Retrieved on 2006-12-23.

for keeping the foreign capital on its territory . the smaller charges and the better infrastructure the more companies are willing to get residence there and keep there their *free* capital. An independent state has a legislative right to do it! That's why there are tax havens that charge virtually no tax at all or which just charge annual administrative sums of money for companies using its shores as a base for their operations, and one can find nations that simply charge a lower rate of taxation than competitor havens - they ~~under cut~~ similarly attractive countries. The principle is to find a break-even point, at which the state budget would be the highest.

Apparently, if the offshore economy is an objective factor of the global economy (which has been proven previously) we cannot ~~switch~~ it off+ without a further chain reaction in the world economy. Let's try now to clarify the fact: is an offshore economy an evil for the global economy or not?

There can evidently be 3 variants:

- 1) either the offshore economy is a disaster for the rest of the world;
- 2) or it is a neutral phenomenon;
- 3) or it is a favorable factor in an actual world situation.

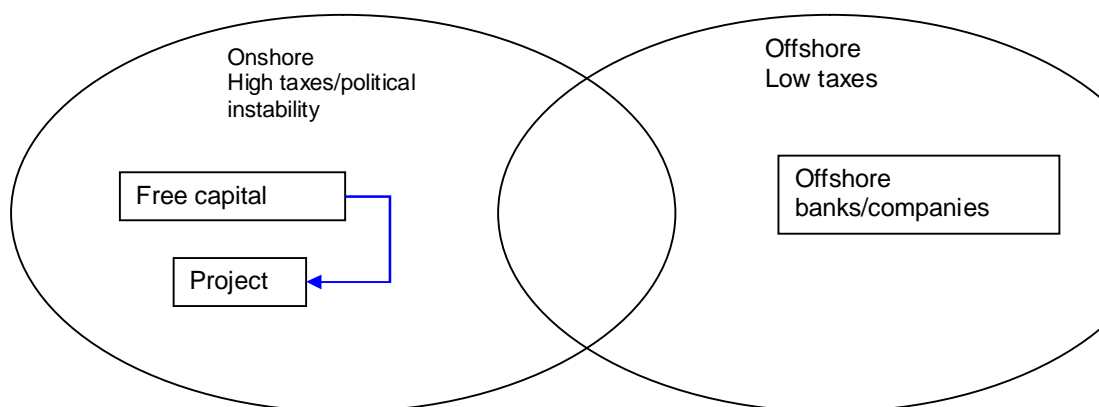
Let's start from the first point and suggest that offshore economy is a real disaster. The fact, for example, that only two countries - Luxembourg and Cyprus - together accounted for about one-third of foreign investment inflows in 2005 into Russia suggests that much of it is Russian capital operating from offshore¹³. If it were really an impossible and unbearable situation for the Russian economy, the Russian Government would simply prohibit operating such companies, which are registered in offshore countries, on its territory. Just the same with highly developed states . a measure is not so difficult, if one could realize the damage from the offshore countries, described in many reports of OECD. Indeed, the years 2000 to 2004 saw a series of attacks on the 'lowtax' world of offshore jurisdictions by high-tax countries and their associations, such as the OECD and the FATF, loosely termed the 'multilaterals'. By 2006, it seemed that, broadly speaking, 'offshore' has survived these attacks surprisingly well, although the standard of offshore legislation has risen while the level of offshore confidentiality has dropped¹⁴.

So, the phenomenon of OFC can be either neutral or \bar{o} positive. If we can find only one situation in connection with offshore world, that is positive, the assumption 3 is proven and the assumption 2 is false! And the examples could be the following:

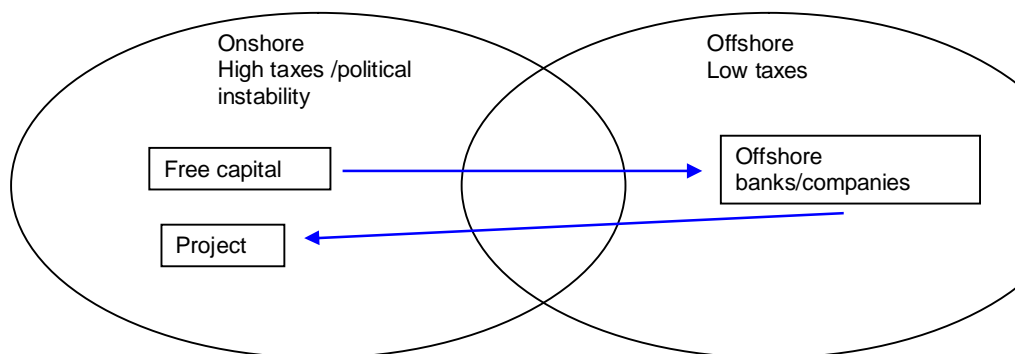
13 http://www.oecd.org/document/1/0,2340,en_2649_201185_37782145_1_1_1_1,00.html

14 http://www.lowtaxlibrary.com/asp/description_report1.asp

- It has been already assumed, that there are two economics . offshore and onshore ones. If the business entity has an excess capital, it will invest it in the best profitable project and won't pay an income tax.



(In order to make the capital free from the state despotism a company can do an investment through a chain of steps: transfer the capital to the offshore firm and let this offshore firm make an investment on its own behalf (see the next picture). For example, the capital inflow into Russia is mostly the Russian capital operating from offshore . a fact that underlines the problems that still afflict the investment environment and point to the unsure and unstable political environment of the country¹⁵). But if the company doesn't find a suitable project to invest, it will try to save the free capital in its fullest amount without paying taxes. How? In the onshore world a company has to pay an income tax in the case of not investing¹⁶ . So the best step is to go offshore! At this level we have to realize the following: if a business entity has free money but no suitable project that can be profitable enough at this period of time, the money is in access. It is a favor for the onshore economy to transfer this money out of its borders in order to prevent inflation and onshore crisis. So, an offshore world is nothing more than a penny-bank for the onshore one: if a company finds a project that is worth of investment, it takes the money back from the offshore and put it in the active economy.



15 http://www.oecd.org/document/1/0,2340,en_2649_201185_37782145_1_1_1_1,00.html

- It is not a mystery that the USA has printed too much paper banknotes without them being covered by goods produced. No one except the USA themselves knows, how much money ~~the~~ excess+was printed. Many experts have offered different numbers. For example, the deputy of the Russian State Duma Sergey Glazyev thinks that in 3-4 years the dollar will lose the status of dominating world currency and will sharply depreciate. The policy of Washington is that the USA prints daily \$2 billion cash. Because the whole world is tied with US\$ (think only about the stabilization funds of China, Japan, Russia), the global financial crisis is unfortunately more than predictable¹⁶. The countries will lose everything, which they have saved in the last 10 years. Up to the latest time in spite of the excess printing, the US\$ was more or less stable, letting the rest of the world function in a more or less sound way. The solution of this remarkable stability lies perhaps in the existence of the OFCs and large passive state savings with their function as *bottomless* money reservoirs! In October 2007 Russia's Stabilization Fund counted at R3.141,5 billion, but *was being kept mostly* in US\$ (\$58,98 billion)!¹⁷ According to the information, offered by UNO nearly 8 billion US\$ are invested in offshore companies and offshore bank accounts all over the world.¹⁸ According to the estimations of the English Financial Group the offshore centers have received the assets of about 6-7 billion US\$; property and other assets, kept in the offshore centers, are estimated at 3-4 billion US\$. The result is: the USA can print so much paper money as they want without any damage to the world economy, only if excess money is transferred out of active onshore world and kept offshore. In order to reach such a status quo, the USA must only let the rest of the world *believe* in the power of the dollar! Exactly this step is being permanently attempted by the US government. According to Mr.Glazyev, the recent war with Iraq was initiated only because of the refusal of the Iraq government to sell the oil for US\$.¹⁹

The offshore world plays the role of the rival to the high-developed countries and influences their policy. in order to invite capital back, the high-developed states have to do the best concerning the business infrastructure, tax decrease, incentives for the firms to invest into the new projects, spending the budget in a more efficient way, knowing for sure that if a state raises taxes to fill the budget, the capital will flee the country. As a confirmation to these reflections please read Part 7 ~~the~~ Government Policy of High-developed Countries concerning OFCs+and Part 8 ~~s~~Example of Usage of OFCs in Modern Russian Economy+of the actual paper.

16 <http://top.rbc.ru/economics/01/10/2007/120968.shtml> 01.10.2007: in last years almost all the natural resources were sold for US\$. According to the investigations of American Investment Bank Lehman Brothers, the savings in Persian Gulf Region reach US\$ 3,5 trillion. But in the latest time the investments into US\$ from the sales of oil have drastically reduced . the free capital is being invested either in the developing countries with huge planned projects or in euros, said the Director of Energy Fund ABN AMRO Mr. Badung Tariono. Qatar is a good example in this aspect: the Government has invested US\$ 21 billion not in the American currency but in British retail trade network J Sainsbury Plc. The next planned investment is the purchase of the Scandinavian stock exchange OMX.

17 <http://top.rbc.ru/economics/01/10/2007/121005.shtml>

18 Jack Blum Criminal Money Laundering and Illegal Flight Capital, Brooking Press Briefings, Washington, DC, September 29, 1999

19 www.mail.ru , News, September 2007

Part 4: Classification of OFCs

There can be found numerous various approaches in the literature to classify the OFCs.

1) One of those is a **geographical** one. There are about 90 tax havens in the world.²⁰ The number of countries who offer taxation incentives to those who bring money or employment to their nation has increased substantially in the last thirty years. As the demand for tax havens has increased so has the number of nations who recognize the benefits of the setting themselves up as an offshore centre can bring.

The reasons different nations chose the offshore path are diverse. Certain smaller islands and nations have low national budgetary requirements and require far less financial throughput in their economy therefore they can afford to become offshore tax havens by not charging income tax for example and instead welcome a regular supply of money from those who pay to incorporate their companies in such an offshore centre.

Other countries may use low taxes as incentives to attract large companies to their country which bring employment and skills and such countries seek ultimately to encourage investment and commercial development.²¹

Table 2: Geographical Classification of OFCs

Africa	Asia und Pacific	Middle East	Western Hemisphere	Europe
Djibouti Liberia Mauritius Seychelles Tangier	Cook Islands Brunei Guam Hong Kong Japan Labuan Malaysia Macao Marianas Marshall Islands Micronesia	Bahrain Israel Jordan Lebanon Oman United Arab Republic	Anguilla Antigua Aruba Bahamas Barbados Belize Bermuda BVI Cayman Islands Costa Rica	Andorra Austria ²² Campione ²³ Cyprus Dublin, Ireland Gibraltar Greece Guernsey Hungary Isle of Man

²⁰ Michael Sesit sU.N. Targets Offshore Centers; Plan Aims for Minimum Standards%The Wall Street Journal, January 25, 2000

²¹ http://www.shelteroffshore.com/index.php/offshore/more/what_is_an_offshore_tax_haven

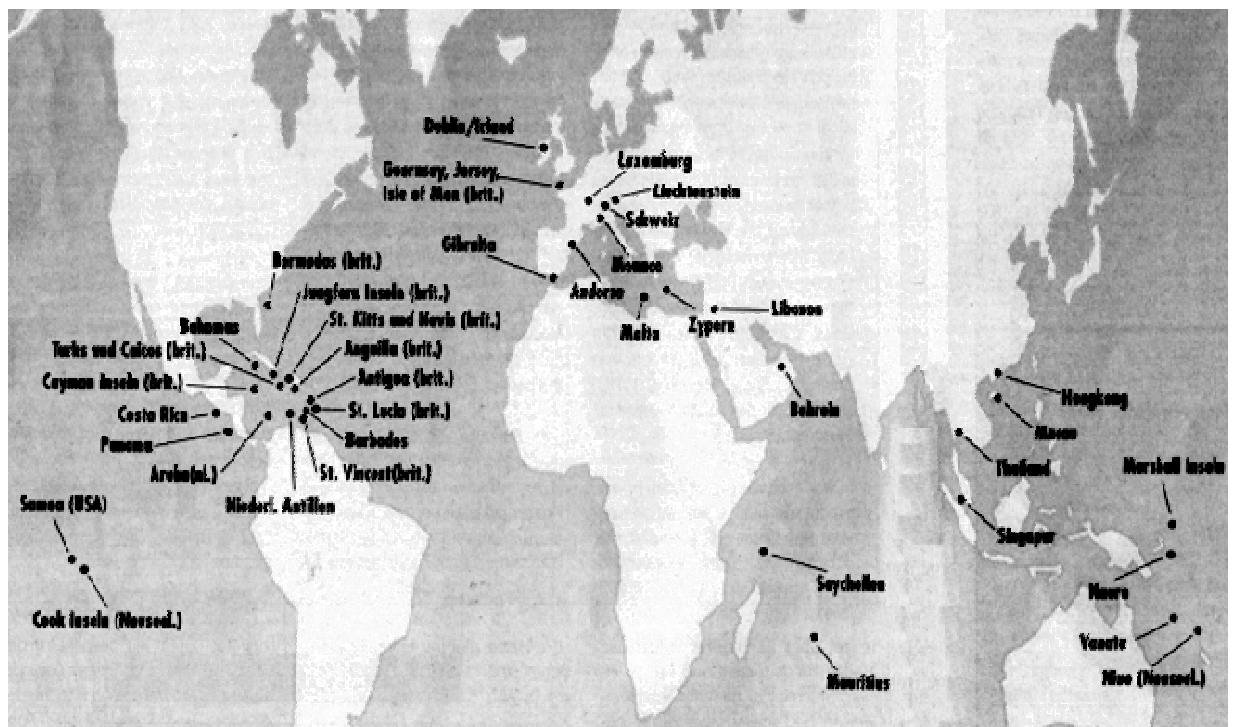
²² Austria is not considered a tax haven, but has strict bank secrecy laws. (Diamond and Diamond 1998)

www.rawstory.com : "Europe's rich and famous have found in Austria a convenient place to park their fortunes. The country of eight million now hosts more than 3,300 super-rich individuals, and private assets in Austria are estimated around 580 billion euro...%Since 2008 no inheritance tax. For more information see the attachment.

²³ Enclave in Switzerland, belongs politically to Italy.

	Nauru		Dominica	Jersey
	Niue		Grenada	Liechtenstein
	Philippines		Montserrat	London, U.K.
	Singapore		Netherlands	Luxembourg
	Tahiti		Antilles	Madeira
	Thailand		Panama	Malta
	Vanatu		Puerto Rico	Monaco
	Western Samoa		St. Kitts and Nevis	Netherlands
			St. Lucia	San Marino
			St. Vincent and Grenadines	Switzerland
			Turks and Caicos Islands	
			United States	
			Uruguay	

Figure 1: OFCs, identified by Financial Stability Forum, Mai 2000



2) One more **classification** is reasonably **made on the base of the financial power, scale and common image of the tax haven**. In international trade and investment the selection of an offshore jurisdiction requires very careful consideration. It is important to select a jurisdiction that is well suited to specific corporate and personal needs. Most offshore jurisdictions are free from foreign exchange controls and have introduced company legislation to cater for a diverse range of international business requirements.²⁴ The tax havens while competing with each other have come to see the need of developing the whole infrastructure which specially maintains so-called offshore economy.

So, in this respect the defining factors that all tax havens or offshore financial centers have in common could be:

- 1) **Low taxation.** First and foremost; they boast minimal or no personal or corporate taxation. The reason for this may be historical: some of the European microstates such as Monaco and Andorra have maintained their nineteenth-century low tax regimes throughout the 20th century, rendering them attractive to foreign capital. Alternatively, it may be international, as with most of the small states of the Caribbean, which have adopted low tax regimes as a developmental strategy. We need to bear in mind, however, that there is a great variety among tax havens. Only a few of them have no income from selling corporate license fees. Most tax havens display a more complex tax regime: they may be characterized either by low taxation, by taxation levied only on internal taxable events, or by low or nonexistent taxation on profits from foreign sources. In addition, some countries have enacted tax privileges for certain types of companies or operations.
- 2) **Effective bank and state secrecy.** Quite often bank or government officials are barred by law from disclosing the origins, character, and names of holders of funds. That is the case in Switzerland, Austria, and Luxembourg among others. Professional or commercial secrecy obligations prevent lawyers, accountants, or company employees from revealing confidential information about clients, including violations of other countries laws.
- 3) Company and trust laws with very loose disclosure requirements, for example rules allowing **shares issued to a bearer**, so that the true owner is concealed.
- 4) Few, and preferably **no restrictions** or regulations concerning financial transactions.
- 5) **Nominal ownership.** Ease of establishment of new companies. Companies may be required to hire local residents to serve as dummy directors for an appropriate fee, but the true identity of the owners may be protected by legislation. Companies are normally required to pay a yearly license fee, ranging from about 150 UK pound to 1000 pound.

²⁴ The main common facts about the European offshore Countries was taken from the site: <http://www.com-exp.com> and is available in the attachment.

- 6) The pre-requisites for establishing business or private interests offshore are certainty, confidence and corporate security. In order to satisfy these requirements it is important to select a jurisdiction that provides **political and economic stability** - hence, preferred jurisdictions are dependencies of large, prosperous, and stable states. The tax haven should be either supported by a large international financial market, or equipped with sophisticated information-exchange facilities and/or be within easy reach of a major financial center. Gibraltar; for instance, has invested heavily in communications infrastructure.
- 7) **International contracts concerning money laundering.** The territory's name should not be tainted by scandals, money laundering or drug money.
- 8) **Legal obligation of opening a physical office** on the territory of registration can cause considerable expenses.
- 9) Some OFCs **allow leading a business activity on their territories**, but with different tax charges.
- 10) It is desirable that such havens have agreements with major countries for **avoidance of double taxation**.
- 11) **Banking.** Though offshore companies can open corporate accounts anywhere in the world, it is preferable for many clients to bank in the jurisdiction where their offshore company is domiciled. The banks should be able to meet important requirements, i.e. that a comprehensive range of banking services and access to international banking facilities are available.
- 12) **Communications.** Since business must be run in an efficient manner, it is important for a jurisdiction to possess modern telecommunication facilities.

Although it can be hard to draw the dividing line in the classification taking into account all the factors noticed above, the following taxonomy can be proposed:

- 1) Classical OFCs
- 2) International Financial Centers (IFCs)
- 3) Regional Financial Centers (RFCs)

1) **Classical OFCs** can be defined as a first category which are mainly small and provide more limited specialist services. As noted above, OFCs as defined here, still range from centers which provide specialist and skilled activities, attractive to major financial institutions, and more lightly regulated centers that provide services that are almost entirely tax driven, and have very limited resources to support financial intermediation. Many of the financial institutions registered in such OFCs have little or no physical presence, the transactions are initiated elsewhere, and the majority of the institutions involved are controlled by non-residents. In most cases there is no income tax . only annual registration fees are charged.

Classical OFCs don't ask for strict bookkeeping, or even financial reports are not required at all. The most considerable advantage of such OFCs is the highly supported confidentiality concerning the business activity. The amount of company information in the trade register is minimal or absent, nominal directors and secretaries are widely used, no requirements for shareholders and directors' assemblies, shares can be issued to the bearer. But the classical OFCs have more requirements for non-residency of the company. They don't allow the presence of the Company on their territory, the Companies are not allowed to purchase property and have no right to be admitted to working allowances for their employees in the tax haven.

The classical OFCs have very few double taxation agreements with other countries, but they also don't sign international contracts for combating money laundering and tracing dubious bank transactions. They don't give any information to other countries in despite of demand of high official ranks and as a rule, don't have any membership in powerful international organizations. In most cases such OFCs are used as a starting point of further complicated financial schemes for those wealthy individuals, who seek confidentiality first of all. Doubtless, the main disadvantage of such OFCs is the fact, that their reputation among the fiscal authorities of other countries is rather questionable: many respectable banks are not willing to open accounts for the companies, whose registration place is connected with these tax havens.

2) **International Financial Centers (IFCs)** - such as London, New York, and Tokyo - are large international full-service centers with advanced settlement and payment systems, where a considerable amount of value is added to transactions undertaken for non-residents, supporting large domestic economies, with deep and liquid markets where both the sources and uses of funds are diverse, and where legal and regulatory frameworks are adequate to safeguard the integrity of principal-agent relationships and supervisory functions. IFCs generally borrow short-term from non-residents and lend long-term to non-residents. In terms of assets, London is the largest and most established such center, followed by New York, the difference being that the proportion of international to domestic business is much greater in the former.

As a typical OFC such a jurisdiction offers tax advantages. But in comparison to classical OFCs a Company has to pay an income tax. Though the income tax burden is not high (usually 3-8%), it means automatically, that all the bookkeeping and financial statements are under a strict fiscal control. The Company is fully registered in the state trade register, no nominal directors are allowed, shareholders and Boards' meetings are obligatory. But a high level of confidentiality is a must for such countries. The reputation of the IFCs is spotless, banking and financial infrastructure is the best in the world and usually all the largest TNCs have here their headquarters or at least representative offices. The IFCs have numerous double taxation agreements with other countries. The interesting fact is that in the IFCs the meaning of

offshore/onshore covers not the Company but the activity of the Company. That means: if the Company receives revenue from the offshore activity, it will be levied with a moderate tax according to the tax rulings, negotiated between the company and the government of the IFC, but if the revenue is obtained from the onshore activities, the Company will pay a standard income tax like all other onshore companies do.

3) **Regional Financial Centers (RFCs)** are highly developed countries, and at the first sight have nothing in common with the offshore centers. The specification lies, that the tax minimizing is offered for some kind of companies or some certain sort of business activity. These countries don't differentiate offshore and onshore companies, offshore and onshore activities. The tax level is the same for all the residents and non-residents. The taxes are normally high but for some sorts of companies the tax burden is very low. Usually these are holding and license companies, investment funds and insurance firms. There are no strict requirements concerning the number of shareholders and management staff, trade register and shares to the bearer. But it is obligatory to have a registered office on its territory as well as Shareholders' and Board's meetings at the seat of the registration. The costs of maintaining the office are rather high, but they are usually compensated by the advantages, taken from it. Such centers have developed very sufficient financial market and infrastructure, but have relatively small domestic economy. Traditional RFCs include Hong Kong, Singapore (where most offshore business is handled through separate Asian Currency Units ACUs) and Luxembourg.

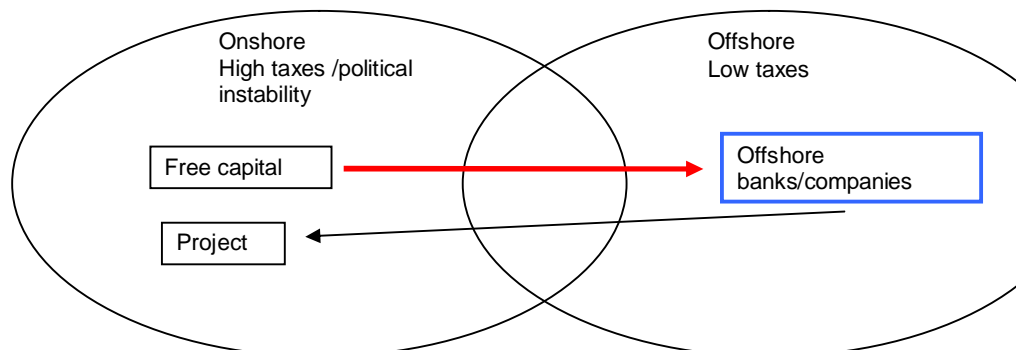
Table 3: Comparative Characteristics of the Types of Offshore Jurisdictions

	Parameters	Classical OFCs	International Financial Centers	Regional Financial Centers
1	Taxation level	0%	3-8 %	0,1 . 3%
2	Bank and state secrecy	yes	yes	yes
3	Availability of bearer shares	yes	no	yes
4	Types of activity	any	any	holding and licensing, investment funds, insurance
5	Nominal ownership	yes	no	yes
6	State image in the world	negative	Respectable OFC	Highly respectable state
7	International agreements concerning money laundering	no	yes	yes
8	Legal obligation of opening a physical office	no	yes	yes
9	Allowance of leading a business activity in the OFC	no	yes (with other tax level)	no
10	double taxation agreements	no	many	many
11	Access to International banking	weak	yes	yes
12	Communication systems	yes	yes	yes

Part 5: The Main Fields of Business Activity of the Offshore Companies.

In addition to banking activities, other services provided by offshore centers include fund management, insurance, trust business, tax planning, and IBC activity. Statistics are sparse but impressions are of rapid growth in many of these areas in recent years, in contrast to some decline in banking²⁵.

So, the main scheme remains the same:



But the problem is in what way (the red line in our picture) the company can transfer the free capital without paying the onshore income tax? Evidently, one should create such a scheme, as if an offshore company had all the right to receive the money – for example, because it has earned it, or because the money belongs to the offshore company (second stage). In order to create such a mechanism one should found a suitable business entity in the offshore world (blue rectangle)

Below we provide examples of different types of offshore activities.

1. Offshore Banking Licenses

A multinational corporation sets up an offshore bank to handle its foreign exchange operations or to facilitate financing of an international joint venture. An onshore bank establishes a wholly owned subsidiary in an OFC to provide offshore fund administration services (e.g., fully integrated global custody, fund accounting, fund administration, and transfer agent services). The owner of a regulated onshore bank establishes a sister "parallel" bank in an OFC. The attractions of the OFC may include no capital tax, no withholding tax on dividends or interest, no tax on transfers, no corporation tax, no capital gains tax, no exchange controls, light regulation and supervision, less stringent reporting requirements, and less stringent trading restrictions.

²⁵ Financial Stability Forum's Working Group on Offshore Financial Centers Report (April 2000).

2. Intermediate Offshore Corporations or International Business Corporations (IBCs)

IBCs are limited liability vehicles registered in an OFC. They may be used to own and operate businesses, issue shares, bonds, or raise capital in other ways. They can be used to create complex financial structures. IBCs may be set up with one director only. In some cases, residents of the OFC host country may act as nominee directors to conceal the identity of the true company directors. In some OFCs, bearer share certificates may be used. In other OFCs, registered share certificates are used, but no public registry of shareholders is maintained. In many OFCs, the costs of setting up IBCs are minimal and they are generally exempt from all taxes. IBCs are a popular vehicle for managing investment funds. Funds accumulated through investment companies set up in offshore areas can be invested or deposited throughout the world and whilst generally returns or interest payable in respect of these funds will be subject to local taxation, there are a number of offshore areas in which funds may be placed either in tax free bonds or as bank deposits where interest is paid gross. Similarly, in many offshore areas no capital gains taxes are applicable. Use of an offshore company incorporated in a suitable country allows the possibility of investing tax efficiently in a high tax country where there is a concessionary tax treaty in respect of investments made by companies incorporated in the offshore country.

Offshore finance companies are set up for the purpose of inter-group treasury management. Interest payments from group companies may be subject to withholding tax, but these taxes differ from the usual corporation taxes. The interest paid can be a deductible charge for taxation purposes, thus consolidating interest payments in an offshore finance company provides a tax saving. Many large companies establish their own offshore companies for the purpose of mixing dividends of subsidiaries and deriving maximum advantage from tax credits²⁶.

In certain countries, foreign exchange losses are not deductible for tax purposes. For example, if an offshore finance subsidiary that has been set up suffers a foreign exchange loss and that subsidiary company is then liquidated, the investment should be a tax-deductible item for the parent company.

Another area where offshore finance companies are used is leasing, particularly where an offshore structure is rich in funds which, if they are not invested, may be repatriated or subject to high levels of corporate taxation.

Offshore companies are often utilized for the purpose of acquiring foreign entities, international restructuring of corporations, real estate and other investments, and other corporate finance-related projects.

²⁶ To learn about the regulation in Austria concerning this aspect please read the attachment.

Since some countries suffer from political and economic uncertainty, many large corporations reduce the risk by moving their base of operations and ownership of assets offshore. For example, Luxembourg and Bermuda are host to many companies that have re-domiciled their operations.

Offshore companies are regularly employed to raise money through loan or bond issues. Such an arrangement may serve to reduce withholding tax on interest payments. For example, countries such as the UK levy a withholding tax on interest paid to non-residents on non-quoted bonds, thus it is vital to avoid double taxation in such cases.²⁷

Intermediate Group Holding Company²⁸

Telco Ltd., a company incorporated and managed in South Africa and engaged in telecommunication services, is going to invest in China. Its Chinese operations will be both manufacturing and providing services. Telco intends to penetrate the Chinese market for telecommunication, and according to some market research carried out before, the operations will be highly profitable within a couple of years.

How to structure Telco's investment in a tax effective manner?

Suggested solution:

Dividends paid by the Chinese subsidiary to the South African parent will not trigger Chinese withholding tax if the South African investor qualifies as a "foreign investment enterprise" under Chinese law. This is the case, among others, if the Chinese company is wholly foreign-owned. Upon receipt of the dividends by the parent in South Africa, additional South African corporate tax may be due.

The channeling of the dividends to a group holding company, and subsequently to the South African investor in such a way that South African tax due on the dividend received, could be an interesting solution.

This could be achieved by structuring the investment through a Seychelles²⁹ group holding company established as a CSL (special license company) under Seychelles law. The dividends received by this company are only subject to 1.5% tax in the Seychelles.

Due to special provision in the treaty between the Seychelles and South Africa, no further tax is payable in South Africa upon redistribution of the dividends to the parent, if any. Therefore, the maximum tax burden is limited to 1.5%.

If this would be preferred, the dividends received in the Seychelles can, of course, also be accumulated in the Seychelles.



²⁷ <http://www.com-exp.com/a/en/4/>

²⁸ http://www.ocra.com/case_studies/cs_01.asp?LeftFrameName=18&UseReferer=1&referer=case

²⁹ Here and further Austria could also play a role of offshore country, in this example according to the actual double taxation regulation the dividends received by the company are subject to 5% in Austria. In other examples there are quite dubious schemes to say for sure if they are permitted by other countries. In any case to find a practical solution the tax advisers from all the countries, mentioned in the scheme should decide whether this would be permitted or not.

3. Insurance Companies

A commercial corporation establishes a captive insurance company in an OFC to manage risk and minimize taxes. An onshore insurance company establishes a subsidiary in an OFC to reinsure certain risks underwritten by the parent and reduce overall reserve and capital requirements. An onshore reinsurance company incorporates a subsidiary in an OFC to reinsure catastrophic risks. The attractions of an OFC in these circumstances include favorable income/withholding/capital tax regime and low or weakly enforced actuarial reserve requirements and capital standards. Over 4000 captive insurance companies have been established in tax havens (Diamond and Diamond 1998, 59).

According to the Internet search 2001, Bermuda has about 1400 Leading Capital Insurance Centers, Caymans . 535, Vermont . 527, Guernsey . 300, British Virgin Islands . 129 (1997).

4. Special Purpose Vehicles

One of the most rapidly growing uses of OFCs is the use of special purpose vehicles (SPV) to engage in financial activities in a more favorable tax environment. An onshore corporation establishes an IBC in an offshore center to engage in a specific activity. The issuance of asset-backed securities is the most frequently cited activity of SPVs. The onshore corporation may assign a set of assets to the offshore SPV (e.g., a portfolio of mortgages, loans credit card receivables). The SPV then offers a variety of securities to investors based on the underlying assets. The SPV, and hence the onshore parent, benefit from the favorable tax treatment in the OFC. Financial institutions also make use of SPVs to take advantage of less restrictive regulations on their activities. Banks, in particular, use them to raise capital in the lower tax environments of OFCs. SPVs are also set up by non-bank financial institutions to take advantage of more liberal netting rules than faced in home countries, reducing their capital requirements.

5. Tax Planning

Wealthy individuals make use of favorable tax environments in, and tax treaties with, OFCs, often involving holdings, foundations, and trusts. There is also a range of schemes that, while legally defensible, rely on complexity and ambiguity, often involving types of trusts not available in the client's country of residence. Multinational companies route activities through low tax OFCs to minimize their total tax bill through transfer pricing, i.e., goods may be made onshore but invoices are issued offshore by an IBC owned by the multinational, moving onshore profits to low tax regimes (in other words, profits arising out of transactions involving purchasing goods

in one country and selling them in another accumulate in the offshore company free from taxation.)

It is important to choose an offshore area, or at least an operational base, which has good communications because the fast transferring of shipping and other documentation may be critical to the scheme.

Use may be made of an offshore holding company which would fund the operation of subsidiaries in various countries so that the subsidiaries obtain the benefit of tax deductions on interest paid.

If the holding company is situated in an offshore area where there are no income or corporation taxes and no requirement that dividends must be paid, then the profits which are accumulated in the tax free climate can be used to fund the requirement of subsidiaries or reinvested as business convenience suggests.

For European Union transactions, for example, the Isle of Man, Madeira, Cyprus etc. have become very popular locations for low tax trading activities. VAT registration is compulsory within the EU. In this connection the question of minimization of this tax arises. The use of Caribbean companies does not grant this opportunity. That is why the most popular jurisdictions for this purpose are the Isle of Man, Madeira and Cyprus.

As an example, if an Isle of Man company wished to source products from France for sale to Germany, the Isle of Man company would inform the French company of its VAT number so that it could zero rate its sales invoice. The French company would not have to charge VAT to the Isle of Man company. The Isle of Man company would then obtain the German company's VAT number so that it could zero rate its sales invoice.

This type of transaction would not normally be possible through other jurisdictions without the requirement of either establishing a branch office or appointing a tax agent within the European Union which can be a complicated exercise and may give rise to taxation implications. Factoring trading debts of a company resident in a high tax jurisdiction through a company established in low tax jurisdiction may assist in transferring funds to the low tax jurisdiction.

Offshore structures may be very useful in the case of bulk purchasing: a group of associated companies can benefit from reduced administrative costs, and an offshore structure is more tax efficient than an onshore entity.³⁰

³⁰ <http://www.com-exp.com/a/en/4/>

International trading companies³¹

Yuri Ivanov lives in Russia. He is purchasing and selling shoes. He buys the shoes from Italy and sells them to department stores in France, Germany and Spain.

Mr. Ivanov wonders whether he can structure his business in a tax-effective manner, for example by using an offshore company.

Suggested solution:

Mr. Ivanov can set up a trading company in a low tax country, thus ensuring that his trading profits will not be taxed in Russia (his country of residence), nor in France, Germany or Spain (because the tax authorities argue that he has a taxable presence in these countries).

As all the transactions concerned are European Union transactions, Mr. Ivanov must obtain a VAT registration. A good location for conducting trading activities where one can obtain such a registration is the Isle of Man. Thus, if such an Isle of Man company intends to ship the shoes from Italy to Spain, the Isle of Man company would inform the Italian company of its VAT number, so that it could zero rate its sales invoice. The Italian company does not have to charge VAT to the Isle of Man company. The Isle of Man company would then obtain the Spanish company's VAT number and subsequently issue a zero rate invoice to the Spanish company.

For setting-up the Isle of Man company, there are a couple of possibilities: an LLC (taxed as a transparent entity, so effectively no tax in the Isle of Man on the profits obtained) or a tax exempt company. None of these companies are required to withhold tax on dividends.

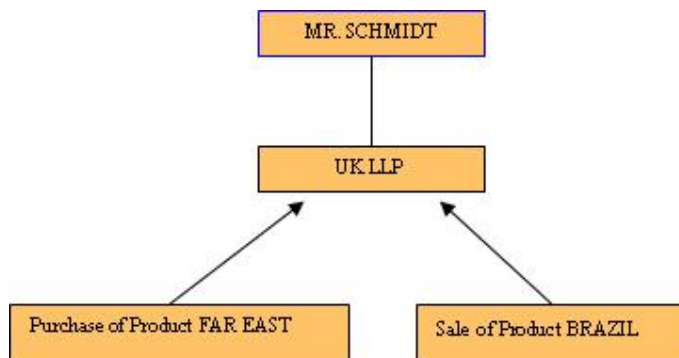


Wolfgang Schmidt is a High Net-Worth individual and lives in Monaco. He wants to source products from the Far East for sale to one of his business associates in Brazil and wants to do this in a tax efficient manner.

Suggested solution:

Mr Schmidt can establish a United Kingdom Limited Liability Partnership whereby he and his wife are the members. The LLP can then source the products from the Far East and sell them on to the Brazilian buyer.

Payment for the transaction would be received into a UK bank account because the UK LLP is treated for taxation as a Partnership. The profits derived from the trade (s) would be attributable to the Members and taxed accordingly in Monaco.



31 http://www.ocra.com/case_studies/cs_05.asp?LeftFrameName=18&UseReferer=1&referer=case

An Israeli investor is investing in the Czech Republic. A substantial part of the investment will be financed with debt. As the Czech withholding tax on interest paid to Israel is 10%, he wonders whether this withholding tax can be avoided by structuring the loan through a third country.

Suggested solution:

Interest paid by a debtor in the Czech Republic to Israel is subject to a 10% interest withholding tax (as reduced by the tax treaty between the two countries). Interest received in Israel is subject to 36% income tax.

A back-to-back loan via a Luxembourg intermediate company could be a tax-effective solution. The tax treaty between the Czech Republic and Luxembourg provides for a 0% withholding tax rate. In Luxembourg, a ruling can be obtained from the tax authorities, thus minimising exposure to Luxembourg tax. According to Luxembourg domestic law, there is no withholding tax on interest paid abroad.

Therefore, the interest can be paid to any country (including offshore financial centres) without attracting any further tax.



6. Holding Companies

Offshore corporations often hold investments in subsidiaries and/or associated companies, publicly quoted and private companies, as well as joint venture projects. Capital gains arising from the disposal of particular investments can be made without taxation. In the case of dividend payments, reduced levels of tax on income can be achieved by utilizing a company incorporated in a zero or low tax jurisdiction that has double tax agreements with the contracting state.

Many large corporations are interested in investing in countries where no double tax agreement exists between the country of the investor and the country in which they are investing. In this case, an intermediary company is established in a jurisdiction with a suitable treaty. For example, the Madeira SGPS Company has been used for investments in the European Union, since corporate entities registered there can avail themselves of the EU Parent/Subsidiary Directive. Cyprus has an extensive double tax treaty network with many Eastern European

³² http://www.ocra.com/case_studies/cs_02.asp?LeftFrameName=18&UseReferer=1&referer=case

countries and countries of the former Soviet Union, and the use of Cypriot companies for inward investment into these countries provides a tax efficient conduit.³³

7. Asset Management and Protection

Wealthy individuals and enterprises in countries with weak economies and fragile banking systems may want to keep assets overseas to protect them against the collapse of their domestic currencies and domestic banks, and outside the reach of existing or potential exchange controls. If these individuals also seek confidentiality, then an account in an OFC is often the vehicle of choice. In some cases, fear of wholesale seizures of legitimately acquired assets is also a motive for going offshore. In this case, confidentiality is very important. Also, many individuals facing unlimited liability in their home jurisdictions seek to restructure ownership of their assets through offshore trusts to protect those assets from onshore lawsuits. Some offshore jurisdictions have legislation in place that protects those who transfer property to a personal trust from forced inheritance provisions in the home countries. So, advantages of offshore property ownership include avoidance of inheritance tax, avoidance of capital gains tax, ease of sale which is achieved by transferring the shares in the company rather than transferring the property owned by the company and reduction of property purchase costs to the onward purchasers.

This point is significant. The Diamonds believe that the single most important factor leading to the rise of offshore entities in the past decade has been the growing litigation, inheritance tax, and divorce settlements in advanced industrial countries (Diamond and Diamond 1998).

Real property companies³⁴

Ferenc Kiss, a Hungarian high net-worth individual living in Budapest, is investing substantial amounts of his wealth in real property, both in Hungary and in other Central and Eastern European countries.

Mr. Kiss wonders how the return on his investment can be arranged for in a tax-effective manner. The same question arises in case he sells the property in these countries and he realises a gain.

Suggested solution:

Assuming that Mr. Kiss is not engaged in developing real property, the nature of his income is rental income or, in the case of sale, a capital gain. In many countries, this is considered "passive income" for tax purposes.

The acquisition of the real property in the countries concerned can be made through local companies directly or indirectly controlled by Mr. Kiss. These local companies can be wholly owned by a holding company in a country with a favourable holding company regime. Any dividends distributed by the companies in the countries where the real property is situated should:

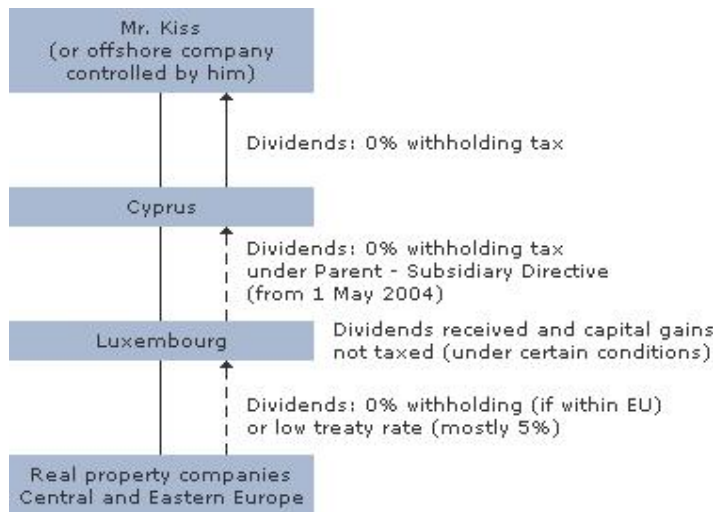
- Not be subject to withholding tax on dividends (or only at a low rate)
- Not be subject to corporate income tax upon receipt by the holding company
- Not be subject to withholding tax on dividends paid by the holding company

Moreover, if the holding company sells the shares in the real property companies, any capital gains resulting therefrom should not be subject to corporate tax.

³³ <http://www.com-exp.com/a/en/4/>

³⁴ http://www.ocra.com/case_studies/cs_06.asp?LeftFrameName=18&UseReferer=1&referer=case

A country meeting the above conditions for the holding company regime is Luxembourg. A Cyprus company holding the Luxembourg company and directly or indirectly owned by Mr. Kiss would be a tax-effective solution. See the diagram below.



Holding Company³⁵

Oscar Valdez, a Mexican high net-worth individual is planning to invest in new recreational and tourist facilities (spa resort, golf links, holiday cottages, restaurant, etc.) in Portugal. Part of the investment will be wholly-owned by Mr. Valdez, part of the investments will be made together with local Portugal investors. The development of the various sites may take several years after the acquisition of land and property and hence, the business operations are expected to commence after the development of the sites has been completed (depending on the type of facility, after one to five years).

Mr. Valdez is interested in structuring his investment in such a manner that:

the assets wholly or partly owned by him in Portugal are well protected against various business, economic or political risks; and
the return of his investment after the commencement of the business operations is tax effective.

Suggested solution:

Mr. Valdez could split the business operations and the real property by setting-up separate companies for the various business operations and for the real property. The real property companies are then renting out the property to the operational companies.

The rental income will be subject to corporate tax in Portugal at a rate of 28%, regardless as to whether the real property company is resident in Portugal or not. Additional taxes will be due if the real property companies are established in "black-listed" offshore jurisdictions. During the development phase, the operational companies will have accumulated losses. If the real property companies are resident in Portugal, both the real property companies and the operational companies can be held by a Portuguese holding company. In this way, the entire group can claim group relief under Portuguese law, as a result of which the profits of the real property companies can be offset against the initial losses of the operational companies, thus minimizing exposure to Portuguese tax.

If the Portuguese holding company is owned by a foreign holding company under such conditions that dividends will

Not be subject to withholding tax on dividends

Not be subject to corporate income tax upon receipt by the holding company (or are qualifying for a credit for Portuguese underlying taxes)

Not be subject to withholding tax on dividends paid by the holding company

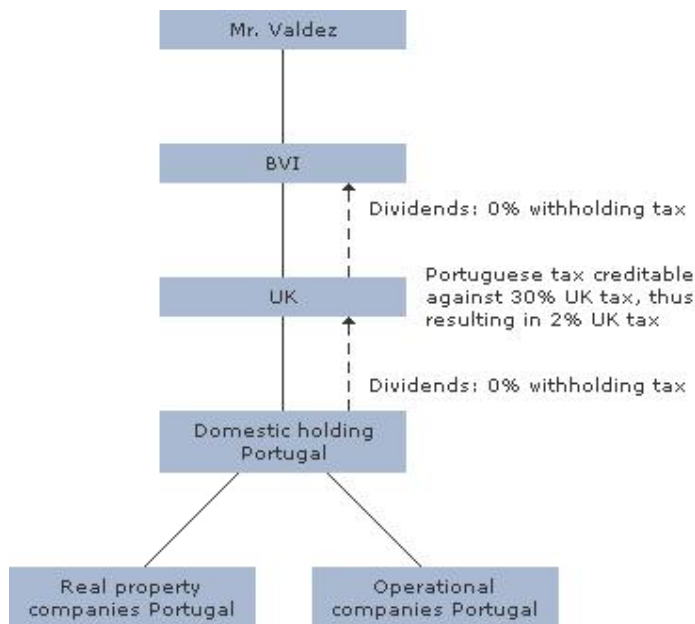
then this would result in an effective tax planning solution. The effectiveness is further increased if the international holding company is owned by an IBC or a tax-exempt company in an offshore jurisdiction.

These conditions would be met if the Portuguese company is owned by a UK holding company, the latter being

³⁵ http://www.ocra.com/case_studies/cs_07.asp?LeftFrameName=18&UseReferer=1&referer=case

owned by a company on the British Virgin Islands, as illustrated by the diagram below.

Note: A holding company in, for example, Cyprus, would not work as long as Cyprus is black-listed under Portuguese law.



Inheritance tax planning³⁶

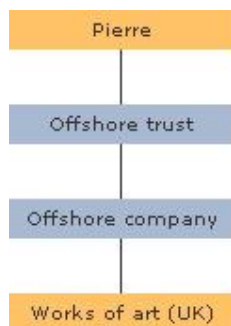
Pierre Dubois, a French citizen and resident, owns valuable works of art situated in several galleries and museums in the UK. The value of these works of art would certainly exceed the inheritance tax threshold for UK inheritance tax purposes, if Pierre would die in the very near future.

Pierre wonders how he can avoid exposure to UK inheritance tax.

Suggested solution:

If Pierre would die whilst owning these works of art in the UK, then UK inheritance tax liability will certainly arise.

One way to avoid this is to create an offshore trust, for example in Jersey or Guernsey. The offshore trustees can then set up an offshore company to hold the works of art. If this two-tier structure is established, then the articles concerned can be brought into and enjoyed in the UK without any exposure to UK inheritance tax as the trust property will consist of the shares in the offshore company. For UK tax purposes, these shares are exempt property, as they are situated outside the UK.

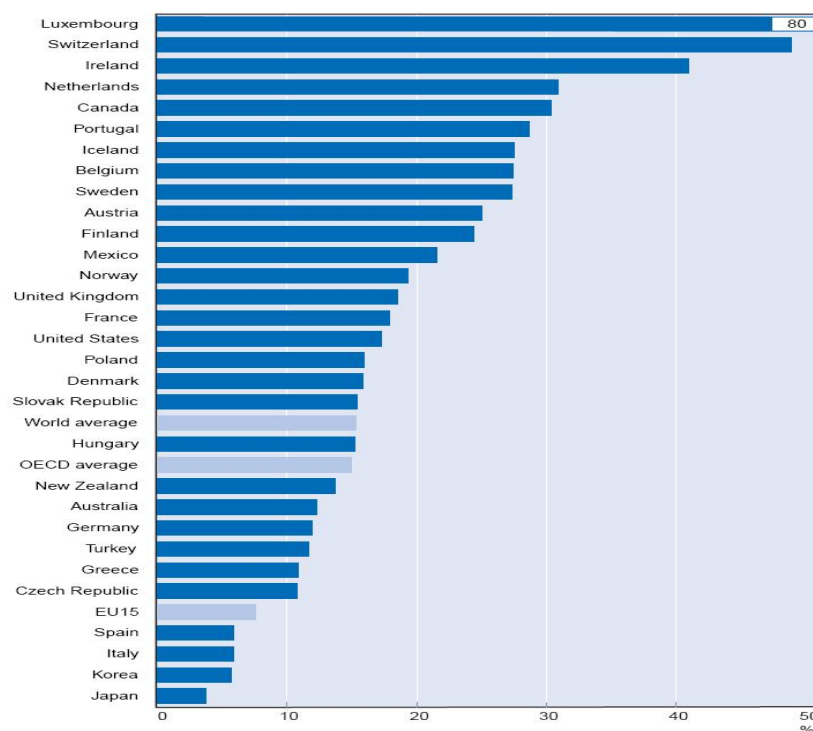


³⁶ http://www.ocra.com/case_studies/cs_11.asp?LeftFrameName=18&UseReferer=1&referer=case

8. Patent, Copyright and Royalty Companies

Intellectual property, including patents, certificates for computer software, trademarks and copyrights can be owned by or assigned to an offshore company. Upon acquisition of the rights, the offshore company can enter into license or franchise agreements with companies interested in using those rights. The income can be accumulated offshore (on careful selection of an appropriate jurisdiction), and taxation on royalties can be reduced by the commercial application of double tax treaties. Countries such as the Netherlands, the UK, Madeira, Cyprus and Mauritius are good examples of jurisdictions used for holding intellectual property.³⁷

Picture 2: Domestic ownership of inventions made abroad³⁸, 1999 - 2001³⁹



It is thought preferable to acquire, for example, a patent at the patent pending stage before it becomes very valuable so that the capital payment for the acquisition of the patent can be set at a lower amount. Often royalties paid out of a high tax area attract withholding taxes at source. In many cases an interposing holding company may allow a reduction in the rate of tax withheld at source.

³⁷ <http://www.com-exp.com/a/en/4/>

³⁸ The EU is treated as one country; intra EU cooperation is excluded. Share of patent applications to the EPO invented abroad in total patents owned by country resident

³⁹ OECD Economic Globalisation Indicators (2005)

Licensing company⁴⁰

Zoomcopter Ltd., a company established in Taiwan, has developed a new widget which is used as a spare part in the assembly of helicopters. By using this widget when producing the helicopters, the operational costs of the helicopters can be substantially reduced.

Zoomcopter holds the worldwide patents on this invention and it wonders how the exploitation of the patents can be arranged in a tax-effective manner.

Suggested solution:

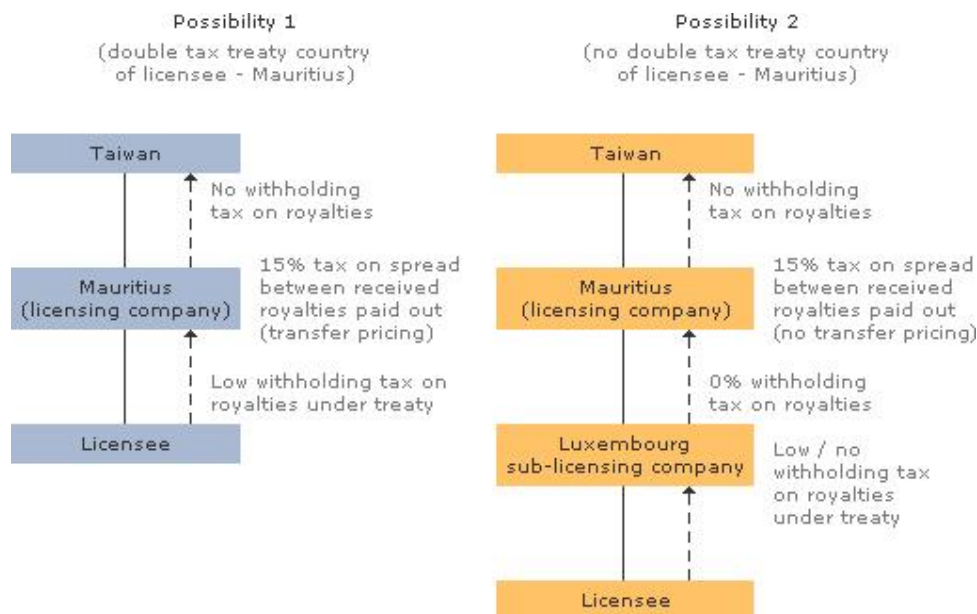
The patent should be transferred to a company in a low tax country from which the patents are licensed to one or more licensing companies in countries with a dense tax treaty network and which does not levy a withholding tax on royalties paid abroad.

The set-up of a licensing company in Mauritius could meet these objectives. Mauritius has an expanding network of double taxation treaties, thus substantially reducing the withholding taxes on royalties paid to the Mauritius company.

Although the Mauritius company is subject to tax in Mauritius at a rate of 15%, the spread between royalties received and royalties paid to the offshore patent-holder can be minimised (Mauritius has not adopted any transfer pricing regulations which could have an impact on the amount of the spread).

Royalties paid by the Mauritius company are not subject to a withholding tax in Mauritius.

Note: If there is no double tax treaty between Mauritius and the country from which the royalties are paid, the set-up of a sub-licensing company in a third country might be considered, e.g. Luxembourg. Luxembourg has a good tax treaty with Mauritius.



9. Professional Services

Many individuals engaged in the provision of professional services in the professions and in the construction, engineering, aviation, finance, computer, film and entertainment industries can achieve considerable tax saving benefits through the establishment of a personal service

⁴⁰ http://www.ocra.com/case_studies/cs_03.asp?LeftFrameName=18&UseReferer=1&referer=case

company, based offshore. The offshore employment company may not have to pay tax on its profits which can be reinvested in a tax free climate to generate further income from the offshore company. The offshore company can contract to supply the services of the individual outside the country in which he/she is normally resident and the fees earned can accumulate offshore, free from taxation in the offshore centre. Payments to the individual can then be structured in such a way to minimize income tax.

Personal service company⁴¹

Albert Smith is currently working in Luxembourg as an independent IT consultant through a Luxembourg management company. Therefore, he is currently paying Luxembourg taxes (rates up to 38%).

Mr. Smith is going to conclude a new service contract to work in Italy for a US-company. The US company has a European office in the UK. It is contract work and the US company is using Albert's services by sub-contracting him out to one of its clients in Italy.

Mr. Smith wonders whether he can reduce his Italian income tax exposure (rates up to 45%), for example, by using an offshore company which is directly or indirectly controlled by him.

Suggested solution:

Mr. Smith could set up a new personal service company in country which has a good tax treaty with Italy, thus ensuring - with some proper structuring - that any fees paid for Albert's work in Italy are taxed in the country of residence of the service company. The company makes Albert available for working in Italy.

The personal service company is fully owned by a personal service company set up by Albert in an offshore jurisdiction. Thus, it is necessary that the service company is established in a country which does not levy a withholding tax on dividends paid abroad.

A country meeting these conditions is Malta. Although the Italian-source fees received by the Maltese company are subject to tax at a rate of 35%, two-thirds of the Maltese tax will be refunded upon the distribution of the dividends offshore, thus reducing the tax burden in Malta to 11.67%. Malta does not levy a withholding tax on dividends.



10. Shipping Companies

The use of offshore shipping companies can eliminate direct or indirect taxation on shipping. Shipping companies may own or charter ships, the profits from which activities can be accumulated tax free. A study by the Center for Freedom and Prosperity Foundation released in August, 2004, analyzed the impact of open registries on the global shipping market. These

⁴¹ http://www.ocra.com/case_studies/cs_04.asp?LeftFrameName=18&UseReferer=1&referer=case

registries, maintained by about 30 countries, are open to ship-owners from all nations and the study finds that they have boosted international trade and the world economy by reducing shipping costs and increasing efficiency in the industry. The study was written by Heritage Foundation Senior Fellow Daniel Mitchell. Commenting on his study, Mitchell stated, "Unlike monopolistic national registries, open registries use a market-based model. And since they compete with each other to attract ships, this has led to better service for ship-owners and more rational tax and regulatory systems."⁴² Tax and legal requirements generally dictate that the offshore company owning a shipping vessel should be incorporated in the jurisdiction whose flag the ship flies. The historic havens for these purposes have been Panama and Liberia. Latterly, the registries of other nations have expanded and consideration might be given to registrations at British Ports of Registry such as those in the BVI, Delaware USA, Isle of Man and Gibraltar. A certain prestige attaches to the registration of a ship or indeed a yacht at a British port of registry and the vessel can be surveyed at most ports throughout the world by a surveyor recognized by the UK Department of Trade and Industry. The British flag has always been regarded as one of the world's most dependable.

Nowadays also such important offshore jurisdictions as Madeira, Jersey, Cyprus, the Bahamas, Belize and Mauritius have modern ship and pleasure craft registration facilities for the purpose of providing low cost registration fees and exemption from tax on income derived from shipping and chartering activities. The owners of pleasure craft operating within EU waters for extended periods require specialist advice with regard to VAT.⁴³

11. Money Laundering

Money laundering through offshore financial institutions is one of the biggest concerns of offshore banking. Many people view money laundering as a shady enterprise, which is an image most probably derived from movies and the popular media. But in reality, before 1986 money laundering wasn't even illegal. But what exactly is money laundering? According to the Money Laundering Control Act that was passed in 1986 in the United States, in which money laundering was made into a federal crime for the first time, it is a financial transaction carried out with proceeds from any illegal activity. According to the Act of 1986, the legal definition of money laundering states that it is illegal to make any transaction with the proceeds of specified unlawful activity with the intent to promote that activity. Also, you cannot make a transaction knowing that the transaction is designed in whole or in part to conceal or disguise the nature, the location, the source, the ownership, or the control of the proceeds of specified unlawful activity, or to avoid a transaction reporting requirement under state or federal law.

⁴² http://www.bfsb-bahamas.com/special_report_detail.lasso?id=34116

⁴³ <http://www.com-exp.com/a/en/4/>

But what this means for the regular, non-criminal citizen is that you cannot deposit or use your money if taxes have not been paid on it, as this is considered money laundering. This makes it difficult to open a foreign bank account and start a nest egg without informing the government of your intentions. In addition, the government's anti-money laundering legislation tends to prosecute those who are simply doing business, while the real money launderers have found ways around the government's new laws.

Because of money laundering all financial institutions and many offshore service providers have implemented KYC or "Know Your Customers" to be sure of the source of funds you want to deposit with them.

In Canada the anti-laundering law defines money laundering in a similar fashion. For example, it states that money laundering involves concealing or converting property or money, or knowing or believing that they were derived from the commission of specified offenses such as drug trafficking, bribery, child pornography, prostitution, theft, extortion, fraud, illegal gambling, murder, robbery and counterfeiting. The fines for conducting such activity can run up to US \$1.3 million, with five years in prison and the forfeiture of all laundered property.

Opening offshore accounts and having an offshore company in one of the many tax havens shouldn't be akin to money laundering . it is a legitimate way to do business that has only recently become "illegal" in the eyes of the governments of onshore world.

Recent years saw the crucial role that money laundering has played in the cleaning of drug syndicate funds, organized crime groups and financing terror groups. As a result, much has been done in the last few years to combat this growing transnational crime.

Money laundering is the process of concealing money obtained from illegal means (crimes) by making its source appear to be from legitimate and legal transactions.

Article 1 of the European Communities (EC) Directive of March 1990 defined it as: "the conversion or transfer of property, knowing that such property is derived from serious crime, for the purpose of concealing or disguising the illicit origin of the property or of assisting any person who is involved in committing such an offence or offences to evade the legal consequences of his action, and the concealment or disguise of the true nature, source, location, disposition, movement, rights with respect to, or ownership of property, knowing that such property is derived from serious crime."

Although the process of money laundering has only come to the attention of the international community in recent years, the practice has long ago been present, dating back to the time of

the pirates in European seas. But it was only in the 1920s that the term money laundering was used to refer to these kinds of activities.

According to historians, the term was first coined in the United States, referring to criminal gangs who used business establishments such as car washes and laundry shops to mask their illegal activities. Payments in laundry shops as well as vending machines in general are coins. The coins put into the machines are the only proof of how the business is going. Seeing that there will be no paper trail to point out the ~~the~~ additional earnings that came from their illegal activities, crime groups intentionally add coins to the daily business income, making it appear that the coins were put there by paying customers. Some however, place the origin of the term money laundering to mean ~~the~~ the act of washing clean dirty money.

Money laundering involves three stages, placement, layering and integration. The placement stage refers to the way money launderers will put the ~~hot~~ money in banks or invest them in legitimate business transactions. Others will use the money to buy goods, services and properties, which they can later resell to other people.

The next stage, is layering. Money launderers will try to disguise the origin of the funds by leaving a complicated paper trail. Often times, the money once deposited in a bank will be wired or transferred to different offshore accounts that will be very hard to trace. Some choose to deposit the money in foreign banks in jurisdictions that limit foreign legal intervention and have strict bank secrecy laws.

The final stage is integration. The funds have been transferred into the mainstream economy and it is now difficult to differentiate if the source is legal or not.

Money laundering used to be applied only to financial transactions related to criminal acts and criminal activities. But now as money laundering schemes and techniques evolve, so does its definition. Now, it encompasses any financial transaction that generates income as the result of an illegal act such as tax evasion and false accounting.

Banks are often the first-line financial institutions that are used by money launderers. This is especially true with offshore and international banks. To combat this growing problem, some countries have already adopted policies that task bank officials to disclose key information should the need arise. This is a far cry from laws before that put value on confidentiality. Swiss banks, for instance, have already made the giving of information to authorities not only a right, but an obligation.

In this light, money laundering has become one of the major international issues that countries all over the world need to address. Regardless of how big or small the laundered money is,

money laundering is still a boiling pot of schemes that anti-money laundering authorities should keep a lid on.

12. Tax Evasion and Tax Avoidance

In order to speak professionally about the tax evasion we should briefly define this term and compare it with tax avoidance. In the literature we can find the following description:

Tax avoidance is the legal utilization of the tax regime to one's own advantage, in order to reduce the amount of tax that is payable by means that are within the law. Examples of tax avoidance involve using tax deductions, changing one's tax status through incorporation, or setting up a charitable trust or foundation. Alternatively, individuals may choose to establish an offshore company, trust or foundation in a tax haven. Depending on citizenship, it may be possible to reduce personal tax liability by moving to a low tax jurisdiction, such as Monaco or Switzerland for six months or over, or by becoming a perpetual traveler.

By contrast tax evasion is the general term for efforts by individuals, firms, trusts and other entities to evade taxes by illegal means. Tax evasion usually entails taxpayers deliberately misrepresenting or concealing the true state of their affairs to the tax authorities to reduce their tax liability, and includes, in particular, dishonest tax reporting (such as declaring less income, profits or gains than actually earned; or overstating deductions).

Tax evasion is a crime in almost all countries and subjects the guilty party to fines or imprisonment.

Switzerland is a partial exception. Many acts that would amount to criminal tax evasion in other countries are treated as civil matters in Switzerland. Even dishonestly misreporting income in a tax return is not necessarily considered a crime. Such matters are dealt with in the Swiss tax courts, not the criminal courts. However even in Switzerland, some fraudulent tax conduct is criminal, for example, deliberate falsification of records. Moreover civil tax transgressions may give rise to penalties. So the difference between Switzerland and other countries, while significant, is limited.

Illegal Income and Tax Evasion

In the United States, persons subject to the Internal Revenue Code who earn income by illegal means (gambling, theft, drug trafficking etc.) are required to report unlawful gains as income when filing annual tax returns (see e.g., *James v. United States*⁴⁴), but they often do not do so, because doing so could serve as an admission of guilt. Suspected lawbreakers, most famously

44 U.S. (1961), overruling *Commissioner v. Wilcox*, 327 U.S. 404 (1946).

Al Capone, have been charged with tax evasion when there is insufficient evidence to try them for their non-tax related crimes. By contrast: In the UK law enforcement agencies do not generally have access to tax returns and so illegal earnings can supposedly be safely declared but in practice those carrying on criminal activities generally prefer not to do so, and so can sometimes be prosecuted for tax evasion rather than for other crimes.

The Distinction in Various Jurisdictions

The use of the terms tax avoidance and tax evasion can vary depending on the jurisdiction. In general, the term "evasion" applies to illegal actions and "avoidance" to actions within the law. The term "mitigation" is also used in some jurisdictions to further distinguish actions within the original purpose of the relevant provision from those actions that are within the letter of the law, but do not achieve its purpose.

The Distinction in the United States

In the United States, the term "tax evasion" (or, more precisely, "attempted tax evasion") generally consists of criminal conduct, the purpose of which is to avoid the assessment or payment of a tax that is already legally owed at the time of the criminal conduct. Tax evasion involves breaking the law, and has no effect on the amount of tax actually owed, although it may give rise to substantial monetary penalties.

By contrast, the term "tax avoidance" describes lawful conduct, the purpose of which is to avoid the creation of a tax liability in the first place. Whereas an evaded tax remains a tax legally owed, an avoided tax is a tax liability that has never existed.

For example, consider two businesses, each of which have a particular asset that is worth far more than its purchase price. In the first case, the business sells the property and underreports its gain. The second consults with a tax advisor and discovers that it can structure the sale as an exchange for other property that it can use. In the first instance, tax is legally due, and the conduct is criminal. In the second instance no tax is due, because legally no sale took place, and the conduct is both lawful and aboveboard.

In the above example, tax may eventually be due when the second property is sold. Whether and how much tax will be due will depend on circumstances and the state of the law at the time. This is true of many tax avoidance strategies.

The Distinction in the United Kingdom

The United Kingdom and jurisdictions following the UK approach (such as New Zealand) have recently adopted the evasion/avoidance terminology as used in the United States: evasion is a

criminal attempt to avoid paying tax owed while avoidance is an attempt to use the law to reduce taxes owed. There is, however, a further distinction drawn between tax avoidance and tax mitigation. Tax avoidance is a course of action designed to conflict with or defeat the evident intention of Parliament: *IRC v Willoughby*. Tax mitigation is conduct which reduces tax liabilities without ~~tax avoidance~~ (not contrary to the intention of Parliament), for instance, by gifts to charity or investments in certain assets which qualify for tax relief. This is important for tax provisions which apply in cases of ~~avoidance~~; they are held not to apply in cases of mitigation.

The clear articulation of the concept of an avoidance/mitigation distinction goes back only to the 1970s. The concept originated from economists, not lawyers.⁴⁵ The use of the terminology avoidance/mitigation to express this distinction was an innovation in 1986: *IRC v Challenge*.

In practice the distinction is sometimes clear, but often difficult to draw. Relevant factors to decide whether conduct is avoidance or mitigation include: whether there is a specific tax regime applicable; whether transactions have economic consequences; confidentiality; tax linked fees. Important indicia are familiarity and use. Once a tax avoidance arrangement becomes common, it is almost always stopped by legislation within a few years. If something commonly done is contrary to the intention of Parliament, it is only to be expected that Parliament will stop it. So that which is commonly done and not stopped is not likely to be contrary to the intention of Parliament. It follows that tax reduction arrangements which have been carried on for a long time are unlikely to constitute tax avoidance. Judges have a strong intuitive sense that that which everyone does, and has long done, should not be stigmatized with the pejorative term of ~~avoidance~~. Thus UK courts refused to regard sales and repurchases (known as bed-and-breakfast transactions) or back-to-back loans as tax avoidance.

Other approaches in distinguishing tax avoidance and tax mitigation are to seek to identify ~~the~~ spirit of the statute+or ~~misusing~~+a provision. But this is the same as the ~~evident~~ intention of Parliament+properly understood. Another approach is to seek to identify ~~artificial~~+transactions. However, a transaction is not well described as ~~artificial~~ if it has valid legal consequences, unless some standard can be set up to establish what is ~~natural~~ for the same purpose. Such standards are not readily discernible. The same objection applies to the term ~~device~~

It may be that a concept of ~~tax avoidance~~+based on what is contrary to ~~the~~ intention of Parliament+is not coherent. The object of construction of any statute is expressed as finding ~~the~~ intention of Parliament+. In any successful tax avoidance scheme a Court must have concluded that the intention of Parliament was not to impose a tax charge in the circumstances which the tax avoiders had placed themselves. The answer is that the expression ~~intention of~~

⁴⁵ CT Sandford, *Hidden Costs of Taxation*, IFS, 1973

Parliament is being used in two senses. It is perfectly consistent to say that a tax avoidance scheme escapes tax (there being no provision to impose a tax charge) and yet constitutes the avoidance of tax. One is seeking the intention of Parliament at a higher, more generalized level. A statute may fail to impose a tax charge, leaving a gap that a court cannot fill even by purposive construction, but nevertheless one can conclude that there would have been a tax charge had the point been considered. An example is the notorious UK case *Ayrshire Employers Mutual Insurance Association v IRC*, where the House of Lords held that Parliament had ~~missed fire~~⁴⁶.

Public Opinion on Tax Avoidance

Nowadays there are many ongoing initiatives, aimed at curbing OFC involvement in lax financial regulation, tax evasion, and financial crime. While cross-border and offshore banking have been at the core of the Basel Committee's work since the mid-1970s, OFCs have more recently become a major target of the FATF and OECD because some of them are increasingly viewed as offering opportunities for money-laundering and tax evasion, as well as raising obstacles to anti-corruption investigations.

But to my point of view, the criminal capital has no target to go into the ~~shadow~~; in other words, go offshore. It tries to become legal, no matter how much it is taxed. This thought can be supported by the fact, that today's offshore industry has developed into a major global business, spanning all quarters of the world, involving, in one way or another, approximately half of the world's financial transactions by value⁴⁷. If we realize that the same percentage of the total world capital is kept onshore, we will understand that there is no dependence between illegal capital and the offshore world. Blaming offshore countries for keeping illegal money, we can just as well blame any onshore state of doing the same. The regulations in tax havens can actually make money laundering more difficult than in locations with a large black market such as New York City or London. In 2000 the Financial Action Task Force published what came to be known as the "FATF Blacklist" of countries which were perceived to be uncooperative in relation to money laundering; although several tax havens have appeared on the list from time to time (including key jurisdictions such as the Cayman Islands, Bahamas and Liechtenstein), neither offshore nor onshore jurisdictions appear on the list in 2006⁴⁸.

Some Examples of Tax Avoidance Schemes:

The Publisher of a number of collections of rare classical books had a 'product' which had a very high perceived value and a high demand. Naturally he was concerned that when he sold his business, which he intended to do a

46 Taxation of Foreign Domiciliaries (James Kessler QC, 5th edition, 2005, Key Haven Publications) chapter 16 discusses tax avoidance in context of UK anti avoidance provisions.

47 http://www.offshoresimple.com/tax_havens_history.htm

48 <http://www.fatf-gafi.org/dataoecd/0/0/37029619.pdf>

couple of years later, there would be substantial capital gains - how could he avoid paying tax on them. What was the solution? Simple but brilliant even though we say so ourselves.

Firstly both an offshore company and an offshore discretionary trust were set up, with the trust owning the shares in the company. Nominees were used throughout.

Secondly the Publisher placed an advert in a national newspaper saying that he required equity finance to expand his business. Co-incidence, one reply, the one he accepted, was from the offshore company which stated that it had some experience in rare book publishing and, although not able to inject a great deal of capital, could actively assist in worldwide marketing as part of the deal.

Thirdly, this company paid our Publisher a modest sum (enough to satisfy the tax authorities and on which tax was paid) for a 50% share in the business - it was after all just a small publishing business wasn't it, how were the tax authorities to know its potential? Over the next couple of years the business expanded rapidly as our Publisher knew it would and 50% of the trading profits went off-shore quite legally into the trust account.

Finally, when the time came to sell the business on the open market, a sum in excess of 100 times its value two years before was realized. 50% of that sum (over US\$2 million) went straight, tax free, to the off shore equity partner whilst our (pretty) honest Publisher duly paid tax on his share of the profits.

Of course, we couldn't possibly say that the Publisher owned both the trust and company could we, or that by this simple maneuver over US\$800,000 in tax was 'saved' on the sale proceeds alone, or that our Publisher then suddenly went on a long overseas holiday returning with a US\$2 million windfall made during his holiday, which was, oh dear, just one day longer than required to be non tax resident - and hence a non tax payer on earnings during that period - in his home country!

The owner of a small family boat building and yacht broking business was looking to retire (at all of 45!) in the near future - could he 'sell' his business tax free but still 'run' it? This wasn't so easy but our Boat Builder wasn't averse to 'sailing close to the wind', so, after a particularly bad trading year - there were an awful lot of 'write downs' and land values had dropped hadn't they, and good customers were looking to go elsewhere - it's not difficult to find a good accountant who can turn even a substantial profit into a whacking tax loss - our Boat Builder advertised the business for sale in an international boating journal.

Surprisingly the offer he accepted from an offshore company in the boating industry was low, but his accountant did say that it was probably the best he could get given the 'poor' state of the books. As a 'softener' though, the buyers did ask that he stayed on for a couple of years, at a very good salary, to run the business for them. A small amount of tax was paid on the sale profits after all allowances and our Boat Builder is still running the business, although all invoices, orders etc originate from an offshore office which even has its own 'phone and fax number (isn't communications technology good these days!).

Need we say much more? If the tax authorities had investigated the company which bought out our Boat Builder they would have found it was registered some 10 years before - couldn't possibly have been 'our' man could it? - and all contact with their offshore office would have had prompt, efficient and courteous replies to the effect of 'mind your own business'. But of course they never did. Fully legal? Well... let's say that there could be gray areas.

Investment Companies A Stockbroker was making very substantial personal profits on trades on the international equity markets and despite 'bed-and-breakfasting' to try to gain tax relief decided to move part of his investments offshore.

As our Stockbroker sold various investments over a period of months, the sale proceeds somehow found their way into an offshore company account! Once a sufficient amount had accumulated, this company then decided to start trading on the markets. Perhaps you won't be surprised to hear that their investment strategies were an exact replica of those used by our Stockbroker, and as his personal 'onshore' holdings and profits reduced, those of the offshore company increased! And perhaps it was a sheer co-incidence that the Stockbroker suddenly started using cash a great deal more, making frequent visits to assorted ATM machines around his country. Of course, when our Stockbroker eventually dies, his family will mysteriously inherit some bearer shares for an offshore investment company together with strict instructions on how to keep their mouths shut!

Hint. Remember well what we've already said about not letting anyone know about your offshore involvements, especially if they're 'iffy'!

Probate and Privacy

A high net worth individual with properties or other assets in a number of countries may wish to hold these through the medium of a personal holding company or trust so that upon his demise probate would be applied for in the country in which his company or trust were incorporated rather than in each of the countries in which he might hold assets. This saves legal fees and avoids publicity. Again, not everybody wishes to advertise wealth and an individual may wish to hold property through an offshore entity simply because of the privacy which the offshore arrangement gives.

The owner of a substantial country estate and several allied 'country' businesses was concerned over the amount of estate and inheritance taxes his son and family would have to pay on his death, which, although unknown at the time was fairly imminent.

A family decision was taken that the entire estate was placed under the ownership of a discretionary trust, and a

wholly owned management company was formed to run the estate using the son and his family as local Agents. On the father's death, the family were thus able to stay on living in the style they had long been accustomed to without paying a cent of tax.

Note: This structure was not 'off the shelf' and required very careful planning to be legal in the country where the family live.⁴⁹

Property Owning Companies

A certain small builder had spied an excellent investment opportunity which stood to make him some US\$500,000 a year for several years. Not wishing to pay tax, an offshore development company was formed, with nominee directors and shareholders of course, which then registered for sales tax in the EU country where our Builder lives. Due to his geographical location it seemed to any casual (indeed to a fairly in-depth) observer that the development company was 'just another "xxxxx" country company operating over here'. But few, if any, realized that the development profits and on-going income from rentals were not just going to another EU destination to be taxed there, but were in fact tax free due to a unique company structure allowable in the country of incorporation, one which even a company register search wouldn't reveal.

Taking the example of investment in property in the United Kingdom by an offshore company, use of an appropriate offshore vehicle can offer relief from income tax, capital gains tax and inheritance tax.

It should be remembered, in particular, that when a non-resident company disposes of a property investment, no capital gains tax is charged and holding through an offshore company removes the application of inheritance tax which would apply if a non-domiciled investor held a UK property in his personal name.

Patent, Copyright and Royalty Companies

'John' came to us a couple of years ago as a (then) struggling inventor, although his full time business was running a small engineering company. John had several good ideas in mind which he wished to pursue and, being foresighted, had thought through the tax implications if any of his ideas did make him a great deal of money.

We set up an offshore company on 'John's behalf, to which he subsequently sold the rights to any and all ideas he may develop, in return for a guaranteed payment regardless of success. OK, so 'John' pays income tax on money, which as far as we know just recirculates round and round to make it seem like a constant supply (only speculation of course), but a couple of his projects have been taken up by large manufacturing and marketing companies, each for six figure sums.

These royalties are of course paid to the holder of the rights, the offshore company, so they are totally tax-free and in theory John only receives his flat-rate guarantee sum, but there is a nice little six figure cash sum, growing substantially with accruing royalties, that the 'true' owner of the company will one day retrieve. We wouldn't be at all surprised if it turned out to be 'John' himself!

Part 6: Brief History and Main Factors of Foundation and Development of OFCs.

Origin

The use of differing tax laws between two or more countries to try and mitigate tax liability is probably as old as taxation itself. It is sometimes suggested that the practice first reached prominence relating to the use (or avoidance of) the staple ports in the 14th century. Others suggest that the Hanseatic League first embraced the concept of tax competition as early as 1241, while others argue that the tax status of the Vatican City was the earliest example of a tax haven (the first Papal States being recognized in 756).

⁴⁹ The Austrian government has announced that no new Inheritance Tax Act will be enacted. This means that as of 1 August 2008 inheritance tax will be abolished in Austria. It is very probable that gift tax will be treated in a similar way.

Various countries claim to be the oldest tax haven in the world; the Channel Islands claim tax independence dating from the Norman Conquest, and the Isle of Man can trace its fiscal independence to even earlier times. Nonetheless, the modern concept of a tax haven is generally accepted to have emerged at an uncertain point in the immediate aftermath of World War I.⁵⁰ Bermuda sometimes optimistically claims to have been the first tax haven based upon the creation of the first offshore companies legislation in 1935 by the newly created law firm of Conyers Dill & Pearman.⁵¹ However, the Bermudian claim is debated when compared against the enactment of a Trust Law by Liechtenstein in 1926 to attract offshore capital.⁵²

Most commentators suggest that the first true tax haven was Switzerland, followed closely by Liechtenstein.⁵³ During the early part of the 20th century, Swiss banks had long been a *capital haven* for people fleeing social upheaval in Russia, Germany, South America and elsewhere. However, in the years immediately following World War I, many European governments raised taxes sharply to help pay for reconstruction. Switzerland, having remained neutral, avoided these costs and was able to keep taxes low, leading to an inflow of capital for purely tax related reasons. Nonetheless, it is difficult to point to a single event or date which constituted the emergence of the modern tax haven.⁵⁴

Development

The use of modern tax havens has gone through several phases of development subsequent to the inter-war years. From the 1920s to the 1950s, tax havens were usually referenced as the avoidance of personal taxation. The terminology was often used with reference to countries to which a person could retire and mitigate their post retirement tax position.⁵⁵ However, from the 1950s onwards, there was significant growth in the use of tax havens by corporate groups to mitigate their global tax burden. This strategy generally relied upon there being a double taxation treaty between a large jurisdiction with a high tax burden (that the company would otherwise be subject to), and a smaller jurisdiction with a low tax burden (which, by structuring the group ownership through the smaller jurisdiction, they could take advantage of the double taxation treaty and pay taxes at the much lower rate). Although some of these double tax

50 "The tax haven is a creature of the twentieth century, and began to be used extensively because of the high levels of tax which prevailed after the First World War" at para 26.1, Tolley's International Tax Planning (2002)

51 Generally Introduction to Tolley's International Initiatives Affecting Financial Havens (2001)

52 Personen-und Gesellschaftsrecht of 20 January 1926

53 Tolley's Tax Havens (2000)

54 http://en.wikipedia.org/wiki/Tax_haven

55 A usage which was still being echoed to some degree in the special report of The Economist in 1990, Tax Havens and their uses, ISBN 0 85058 292 X, Special Report No. 1191. The report helpfully includes indications of quality of life in various tax havens which future tax exiles may wish to consider.

treaties survive,⁵⁶ in the 1970s, most major countries began repealing their double taxation treaties with micro-states to prevent corporate tax leakage in this manner.

In the early to mid-1980s, most tax havens changed the focus of their legislation to create corporate vehicles which were "ring-fenced" and exempt from local taxation (although they usually could not trade locally either). These vehicles were usually called "exempt companies" or "International Business Corporations". However, in the late 1990s and early 2000s, the OECD began a series of initiatives aimed at tax havens to curb the abuse of what the OECD referred to as "unfair tax competition". Under pressure from the OECD, most major tax havens repealed their laws permitting these ring-fenced vehicles to be incorporated, but concurrently they amended their tax laws so that a company which did not actually trade within the jurisdiction would not accrue any local tax liability.⁵⁷

International Financial Institutions and Banking Activity

The maintenance of historic regulations on the financial sectors of industrial countries during the 1960s and 1970s was a major contributing factor to the growth of offshore banking and the proliferation of OFCs. Specifically, the emergence of the offshore interbank market during the 1960s and 1970s, mainly in Europe—hence the eurodollar, can be traced to the imposition of reserve requirements, interest rate ceilings, restrictions on the range of financial products that supervised institutions could offer, capital controls, and high effective taxation in many OECD countries.

In Asia, offshore markets began to develop after 1968 when Singapore launched the Asian Dollar Market (ADM) and introduced the Asian Currency Units (ACUs). The ADM was an alternative to the London Eurodollar market, and the ACU regime enabled mainly foreign banks to engage in international transactions under a favorable tax and regulatory environment.⁵⁸

In Europe, Luxembourg began attracting investors from Germany, France and Belgium in the early 1970s due to low income tax rates, the lack of withholding taxes for nonresidents on interest and dividend income, and banking secrecy rules. The Channel Islands and the Isle of Man provided similar opportunities. In the Middle East, Bahrain began to serve as a collection center for the region's oil surpluses during the mid 1970s, after passing banking laws and providing tax incentives to facilitate the incorporation of offshore banks. In the Western Hemisphere, the Bahamas and later the Cayman Islands provided similar facilities. Following

56 For example a double taxation treaty still exists between Barbados and Japan, and another between Cyprus and Russia. Mauritius has a double taxation treaty with India that is used for tax mitigation, although India is seeking to renegotiate the treaty, India to push for change in tax treaty with Mauritius

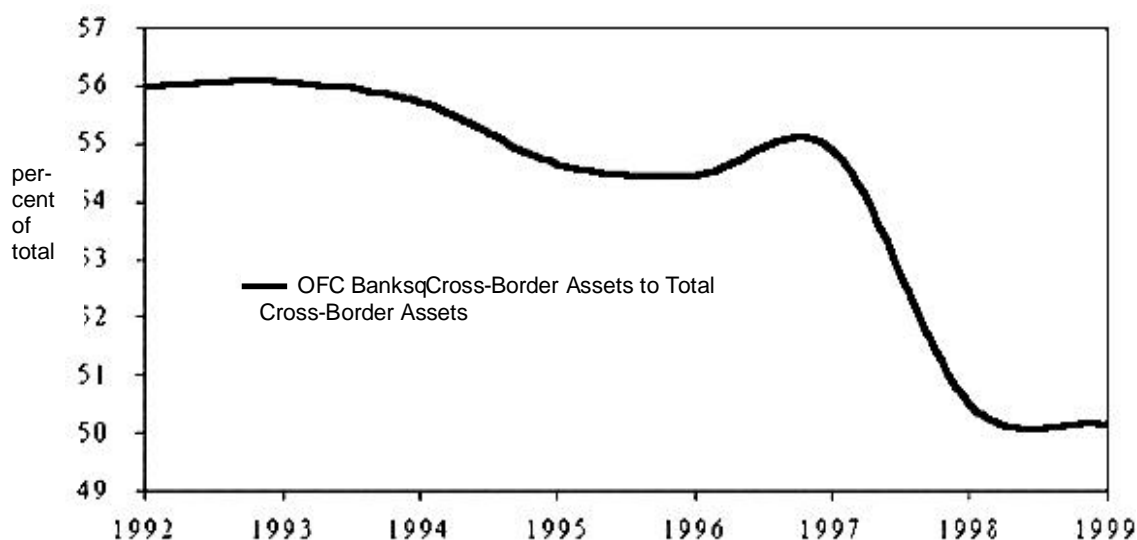
57 The best examples of this were probably Gibraltar and the British Virgin Islands.

58 Non-resident deposits in ACUs are not subject to withholding taxes on interest income. ACUs are also allowed higher foreign exchange position limits. Moreover, Singapore reduced its corporate tax rate from 40 percent to 10 percent to foster offshore activity.

this initial success, a number of other small countries tried to attract this business. Many had little success, because they were unable to offer any advantage over the more established centers. This did, however, lead some late arrivals to appeal to the less legitimate side of the business.

By the end of the 1990s, the attractions of offshore banking seemed to be changing for the financial institutions of industrial countries as reserve requirements, interest rate controls and capital controls diminished in importance, while tax advantages remain powerful. Also, some major industrial countries began to make similar incentives available on their home territory. For example, the U.S. established in 1981, in major U.S. cities, the so-called International Banking Facilities (IBFs).⁵⁹ Later, Japan allowed the creation of the Japanese Offshore Market (JOM) with similar characteristics. At the same time, supervisory authorities, and to some extent tax authorities were adopting the principle of consolidation which reduced the incentives for banks to carry on business outside their principal jurisdiction.⁶⁰ As a result, the relative advantage of OFCs for conventional banking has become less attractive to industrial countries, although the tax advantages for asset management appear to have grown in importance. In fact, reported bank intermediation on the balance sheet in IFCs has declined over the period 1992-1999, thus contributing to the overall decline in the share of bank cross-border assets intermediated through OFCs from 56 percent of total bank cross-border assets in 1992 to about 50 percent of total bank cross-border assets at end-June 1999 (Figure 3).

Figure 3: Activities in OFCs⁶¹



59 An IBF is a set of asset and liability accounts segregated from the balance sheet of the establishing office. IBFs can receive deposits from and extend credit to non-residents or other IBFs. IBF deposits are exempt from reserve requirements and deposit insurance fees.

60 These developments may be viewed as a positive role of OFCs in terms of enhancing competition in international capital markets and creating incentives for deregulation and, to a lesser extent, tax reform in OECD countries.

61 BIS 1999, "Quarterly Report on International Banking and Financial Development" and IMF Staff. The following countries were included: Bahamas, Bahrain, Caiman Islands, Hong Kong, JOM, Luxembourg, Singapore and U.K.

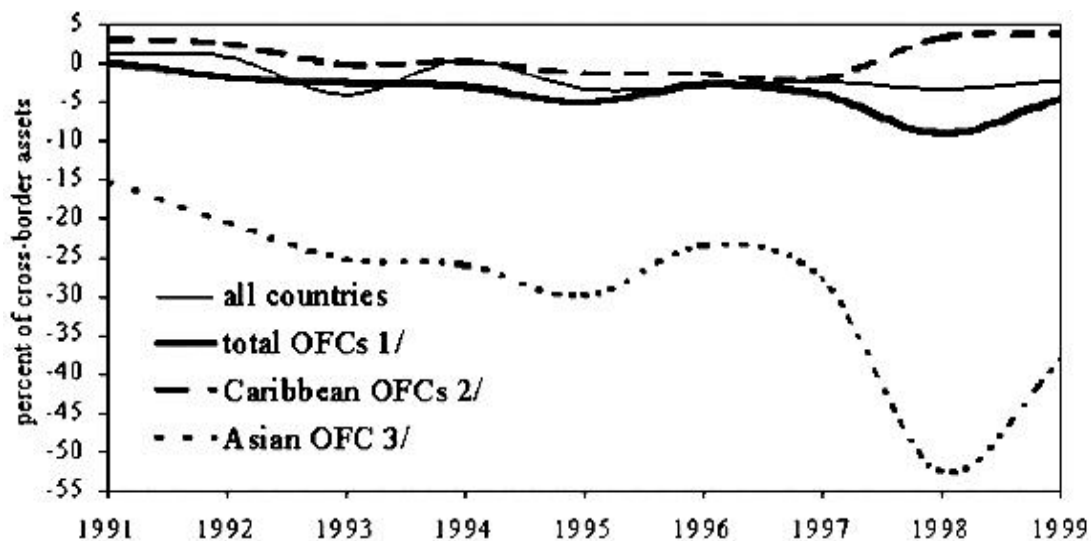
However, important tax advantages continue, perhaps less for banks themselves than for corporate and individual customers. For the latter, the ability to reduce inheritance and other capital taxes seems to have been a prime incentive and has led to a large expansion in offshore fund management activity, in particular by the use of investment vehicles such as trusts and private companies, for which, however, there is no statistical evidence for the reasons discussed above. Industrial and commercial companies have also been able to reduce their tax liability through the use of foreign sales corporations to maximize the proportion of their profits that arise in lower tax jurisdictions.

Offshore banking, however, seems to continue to be an appealing alternative for banks operating in the sometimes more highly regulated financial markets of emerging market economies.

The share of the cross-border assets of OFCs, excluding the U.K. and Belgium-Luxembourg, in total cross-border claims on emerging economies increased from 58.5 percent in 1991 to a peak of 67 percent in 1997 and stood at some 56 percent as of end-June 1999. A possible explanation for this sharp contraction, which occurred for the most part in 1998, lies in the significant consolidation that took place in the Japanese banking system as well as the impact of the Asian crisis (e.g., Hong Kong where offshore activity dropped substantially). The share of OFCs' cross-border liabilities in total cross-border liabilities to emerging economies steadily increased from 36 percent in 1991 to 54 percent at end-June 1999. These figures are particularly noteworthy because, at end-June 1999, for the world as a whole, only 25 percent of banks' assets, and about 33 percent of banks' liabilities, were vis-à-vis emerging market economies.

Among emerging market economies, Asia's OFCs have markedly and progressively increased their net cross-border liabilities, suggesting that they have intermediated a sizeable portion of capital flows into the region. Asian OFCs' net cross-border liabilities as percent of assets, increased from about 15 percent in 1991 to about 53 percent in 1998 (Figure 4), falling back to 38 percent at end-June 1999. It is noteworthy that banks in other OFCs and banks engaged in ordinary cross-border banking maintained broadly squared net cross-border positions over the same period (i.e., a trend around zero in Figure 4).

Figure 4: BanksNet Cross-Border Assets



1/ Data include: Bahamas, Bahrain, Bermuda, the Cayman Islands, Hong Kong, IBFs, Luxemburg, Singapore, and U.K.

2/ Data include: Bahamas, Bahrain, Bermuda, and the Cayman Islands

3/ Data include: Hong Kong and Singapore.⁶²

International Financing Today

Banking activity in OFCs is now predominantly carried out by branches and affiliates of banks incorporated elsewhere, mainly in major countries, but also in larger emerging market economies. Since the failure of BCCI and Meridian Bank it has become difficult for a bank incorporated in a jurisdiction with limited domestic markets to carry on business in other countries. Supervisors now require banks wishing to open branches and affiliates to demonstrate a capacity for their home supervisor to exert consolidated supervision, which it is almost impossible to do for a bank whose business is almost entirely outside the home country's jurisdiction.

The physical presence of establishments of foreign banks in OFCs varies. In some centers they may originate and, in some cases, fund the business carried on their books. But in other cases, they may have a very limited physical presence and the business decisions may all be taken elsewhere.⁶³ Such establishments are sometimes known as "shell" branches. There has been a tendency in the more successful OFCs for the amount of local value added to grow, as these OFCs have acquired the ability to supply specialist capabilities and skills. Offshore activities may also take place through so-called parallel-owned banks, that is, banks that are not

⁶² BIS (1999) Quarterly Review: International Banking and Financial Market Development and IMF Staff

⁶³ International banking business can be very mobile, which can make it difficult to supervise and tax. A bank loan may be originated out of one office, the transaction may be approved in a second, it may be funded in a third, the legal documentation may be signed in a fourth, and the funds actually made available in yet another. OFCs can play a role in one or more of these activities, but rarely in the last.

subsidiaries of a bank in the onshore center, but have the same owners or controllers. Effective consolidated supervision is more difficult in such cases.

Offshore banks engage in a wide variety of transactions: foreign currency loans (including syndicated loans) and the taking of deposits, the issue of securities, over-the counter (OTC) trading in derivatives for risk-management and speculative purposes, and the management of customers' financial assets.

- Foreign currency lending and its associated funding. This is normally an asset driven business, sometimes originated in the OFC, but often originated elsewhere and booked and funded in the OFC, normally for tax reasons. Sometimes the funding is arranged by the office originating the loan, but sometimes it may be arranged by the entity in the OFC itself. This funding activity gives rise to a substantial volume of inter-bank activity, sometimes, but not always, between branches and affiliates of the same bank. At end-June 1999, about 70 percent of OFC banks' cross-border assets and about 60 percent of cross-border liabilities were vis-à-vis other banks. The risks involved in this activity are normally managed by the banks' main offices.
- A significant proportion of eurobonds floated in international capital markets is also issued in OFCs, although the marketing and selling of such instruments would normally be done in major financial markets. Recently, the use of special purpose vehicles registered in OFCs has led to a growing volume of structured finance deals, which again mainly for tax reasons are domiciled in OFCs. Over the period 1992-98, the outstanding amount of international money market instruments (bonds and notes) issued in OFCs grew at an average annual rate of 23 percent, somewhat faster than such issuance in the world as a whole. At end-June 1999, they stood at some US\$1 trillion or 21% of total international money market instruments.
- The use of OTC derivative instruments blossomed over the last decade, but was mainly concentrated in a few primary IFCs. Because derivatives entail substantive counterparty, settlement, liquidity and legal risks they require the infrastructure of developed financial centers, where their use is more prevalent. Among IFCs, the use of over-the-counter trading in derivatives is thought to have increased in the U.S. IBFs, the JOM, and to a certain extent in OFCs with major financial markets. But in other cases derivative transactions arranged elsewhere may be booked in an OFC if tax or other reasons make that more profitable.
- Deposit taking from individual customers is an activity specialized in by a number of OFCs. Normally, the banks involved in this business are major international banks with a high reputation (deposit insurance is normally not available). The attraction is normally related to tax, both income and capital taxes. The proceeds of this type of business are normally invested in high quality marketable assets in major financial centers. While some of this business is on-balance sheet, the part that is probably growing fastest is in funds managed

by financial institutions and marketed in major centers. In addition, as noted above, OFCs are used for the management of personal funds in a variety of trusts and other forms, some managed by financial institutions but some managed by law firms and other specialists.

Failures

Although tax havens are traditionally linked with images of prosperity, there have also been notable failures.

- Beirut formerly enjoyed a reputation as the only tax haven in the Middle East. However, its reputation took a severe dent after the Intra Bank crash of 1966,⁶⁴ and the subsequent political and military deterioration of Lebanon destroyed any notion of the necessary stability for a successful tax haven.
- Liberia enjoyed a prosperous ship registration industry. The fact that the ship registration business still continues is partly a testament to its early success, and partly a testament to moving the national Shipping Registry to New York City, but the series of violent and bloody civil wars in the 1990s and early 2000s severely damaged confidence in the jurisdiction.
- Monaco is still regarded as a tax haven, but it only has a shadow of the former success which it enjoyed up until 1963, when it surrendered to French demands to align its tax system with France in relation to French companies and French individuals.
- Tangiers enjoyed a brief but colorful existence as a tax haven in the period between the end of effective control by the Spanish in 1945 until it was formally reunited with Morocco in 1956.
- A number of Pacific based tax havens have literally closed up shop (although not formally) in response to OECD demands for better regulation and transparency in the late 1990s.

Part 7: The Government Policy of Highly Developed Countries Concerning OFCs

We have dealt to a large extent with the offshore business world. Now we would like to look at the onshore side of so termed highly-developed and politically unstable countries - so to say, that segment of the world economy that suffers from the existence of OFCs. It is estimated that the equivalent of one-third of total global GDP is now held in financial havens. Much of this money is undisclosed and untaxed - and the rest is under-taxed. Governments everywhere have become increasingly concerned about the implications. While it is difficult to quantify the overall revenue losses from non-compliance across borders, it is generally regarded in many countries as a serious revenue leakage. Ireland recently collected almost 900 million euros from residents who had been using Channel Island banks to evade Irish taxes. The UK expects to

⁶⁴ Election Under Fire. Time Magazine (1976-5-17). Retrieved on 2006-12-23

recover £1.9 billion from its recent clampdown on offshore evasion. And a recent report by the US Senate estimated that the Internal Revenue Service could be losing some \$40-70 billion to tax havens.⁶⁵ Concerning the capital flight the International Monetary Fund (IMF) (1991), Kahn (1991), Wood and Moll (1994) and Fatehi (1994) examined the impact of controls imposed by South Africa in the 1970s and 1980s. They found that the primary method used to evade these controls was the falsification of import and export invoices. By comparing discrepancies between the value of exports reported by South Africa and the value of imports reported by key trading partners, the Kahn study concluded that at least \$20 billion had been transferred out of South Africa through the use of the international trade system. Other studies, including Smit and Mocke (1991) and Rustomjee (1991), suggested outflows ranging from \$12 billion to more than \$50 billion.⁶⁶ Already by the early 1990s, the combined value of the international drug business was estimated at 300 \$ billion a year, making it one of the largest economic sectors in the world (Gilmore 1992). This criminal underworld takes advantage of the veil of secrecy surrounding tax havens and the offshore world to launder its ill-gotten gains into apparently legitimate money.⁶⁷

In Britain, the government's efforts to prevent the use of tax havens to under-report profit (and hence tax liability), has brought it into conflict with powerful transnational companies. At least one major corporation has responded by threatening to relocate their investments from Britain. Such problems have lead to a proliferation of initiatives designed to tackle various aspects of the problem.⁶⁸ Many of the initiatives appear politically populist rather than a serious attempt to curb tax mitigation schemes. Other aspects of the legislation seem to be predicated on outdated stereotypes of tax havens, and assume that most tax havens continue to operate a culture of secrecy and with complete disregard for modern know-your-client requirements, and bear little relationship to modern commercial practice. The fact that the bill is expressed to designate four European Union countries (Cyprus, Latvia, Luxembourg and Malta) and three other leading global economies (Hong Kong, Singapore and Switzerland) automatically as non-cooperative tax havens might indicate the limited prospects of the bill becoming law in its current form.⁶⁹

Germany has attracted particular interest, not least as the figures in Table 4 would seem, at first glance, to indicate that foreign companies have stopped investing in the German economy and are engaged in a process of massive withdrawal. However, as already predicted in the previous issue of International Investment Perspectives, the German 2004 figures (and to some extent 2003 as well) have been influenced by massive shifts in inter-company loans within the multi-national enterprises operating in and from Germany. In 2004, total equity investment into

⁶⁵ www.oecd.org/ctp/ta

⁶⁶ <http://www.fatf-gafi.org> TRADE BASED MONEY LAUNDERING, 23 June 2006

⁶⁷ The Offshore World P.17

⁶⁸ <http://www.attac.de/themen/steuern/steueroasen/> TAX HAVENS: Releasing the hidden billions for poverty eradication. Executive summary.

⁶⁹ http://en.wikipedia.org/wiki/Tax_haven#_note-1#_note-1

Germany was USD 22 billion, which, while somewhat lower than in previous years, was comparable with other large developed economies. In the overall figures this was drowned out by no less than USD 46 billion in credit flows (following another USD 9 billion in 2003) out of foreign-owned German companies toward related enterprises. According to corporate observers this partly reflects changes in the corporate tax code making it less attractive for MNEs to retain liquid reserves with their German affiliates. Most likely, it was also influenced by the historically high valuation of the euro. The drop in outward investment from Germany in recent years, on the other hand, seems more closely related to actual changes in corporate allocation. In 2004, outward equity investment became negative as, for the first time in many years, German companies new investment abroad was dwarfed by their liquidation of prior investments. This finding is believed to have been influenced by the unraveling of corporate holding structures but it also confirms a longer term trend for corporate Germany to become a less active outward investor. France habitually records large inward and outward FDI flows relative to the size of its economy. 2004 was no exception, although it should be noted that outward flows held up much better than inward investment. The drop in inward FDI from USD 42 billion in 2003 to USD 24 billion in 2004 was influenced, as in the case of Germany, by declining inter-company loans, but it also reflected a drop in equity investment from USD 17 billion to less than USD 5 billion. The decline could reflect a dwindling number of large-scale transactions (e.g. cross border mergers and acquisitions), because independent data indicate that the number of individual direct investment projects into France actually increased by 7% in 2004.⁷⁰

The United Kingdom bucked the trend in 2004 as one of the few European countries to see a sharp pick-up in inward FDI to USD 78 billion (more than double the levels of 2003). One reason for this was that, unlike for most of continental Europe, an apparent pick-up in large scale mergers and acquisitions . including cross-border M&As . affected inward as well as outward flows (see also the following section). The two largest individual M&A transactions, inward and outward, were both in the financial sector. They had publicly announced values of around USD 15 billion (inward) and USD 9 billion (outward) respectively. In addition to a few large transactions, outward investment from the United Kingdom was held up by internationally very high amounts of reinvested earnings. This reflects the large outward investment positions that UK companies have built up, inter alia vis-à-vis North America and the Commonwealth. In 2004, UK-owned companies accumulated reinvested earnings in their foreign subsidiaries of around USD 26 billion.

Canada experienced one of the world's largest increases in outward FDI in 2004, reflecting, among other things, the largest takeover in history by a Canadian enterprise of a foreign company. As an outward direct investor, Canada shared third place with France in the 2004

⁷⁰ Invest in France Agency (2005), %Foreign Direct Investment in France: Summary of 2004 Results+

league table.⁷¹ Inward FDI held up in 2004, albeit at a comparatively low level. It should be added that the broadly unchanged figures from 2003 to 2004 mask a drop in net acquisitions by foreign enterprises that was compensated by higher inter-company loans.

Direct investment into Spain has fallen markedly in the last couple of years, reaching USD 10 billion in 2004, amid comparatively high levels of liquidation of previous investments by foreign companies. Moreover, Spanish FDI statistics remain influenced by a growing number of special purpose entities (SPEs . financial companies set up to act as a conduit for investment) boosting the recorded inflows and outflows without having much, if any, effect on the Spanish corporate sector. According to recent estimates, if the investment through SPEs is disregarded, Spanish inward investment in 2004 was less than one billion USD, following inflows in the range of USD 7 to 9 billion in the years immediately before⁷². Conversely, Spanish outward direct investment picked up in 2004. Most of the increase was due to a one-off cross-border acquisition from Spain into the United Kingdom, but the figures also reflect the continued activity of Spanish businesses in neighboring countries and in Latin America. In the last two years, Mexico, Chile and Brazil all figured in the top-10 destinations for Spanish outward direct investment.

Table 4: Direct Investment flows to and from OECD countries 2001 - 2004⁷³

	USD billion							
	Outflows				Inflows			
	2001	2002	2003	2004	2001	2002	2003	2004
Australia	12.1	7.9	14.3	16.7	4.6	15.6	6.8	42.2
Austria	3.1	5.8	6.8	7.2	5.9	0.4	7.4	4.9
Belgium		12.7	36.9	26.9		15.6	32.1	34.4
Canada	36	26.7	21.5	47.4	27.7	21.5	6.4	6.3
Czech Republic	0.2	0.2	0.2	0.5	5.6	8.5	2.1	4.5
Denmark	11.6	5.2	1.3	-11.6	11.6	6.9	2.7	-11.4
Finland	8.4	7.6	-2.6	-1	3.7	7.9	3.3	4.7
France	86.8	50.5	53.2	47.8	50.5	49.1	42.5	24.3
Germany	39.7	15.2	-3.6	-7.3	26.4	50.6	27.3	-38.6
Greece	0.6	0.7	0	0.6	1.6	0.1	0.7	1.4
Hungary	0.4	0.3	1.6	0.5	3.9	3	2.2	4.2
Ireland	4.1	10.3	3.5	11.4	9.7	29	26.9	14.1
Italy	21.5	17.1	9.1	19.3	14.9	14.6	16.4	16.8
Japan	38.4	32.3	28.8	31	6.2	9.2	6.3	7.8
Luxembourg		126.2	101.1	59		117.1	92.4	57
Mexico	4.4	0.9	1.8	3.5	27.7	15.3	11.7	16.6
Netherlands	48	33.9	37.8	1.5	51.9	25.1	19.3	-4.6
Poland	-0.1	0.2	0.2	0.8	5.7	4.1	4.1	6.2
Portugal	6.2	0.2	7.3	6.2	6.3	1.8	6.6	1.1
Slovak	0.1	0	0	0.2	1.6	4.1	0.6	1.1

71 This assumes the exclusion of Luxembourg from the comparison. FDI flows through this country are dominated by the presence of a large number of special purpose

72 State Ministry for Tourism and Commerce (2005), %Spanish Foreign Direct Investment Inflows and Outflows+, 2004.

73 OECD International Direct Investment Database

Republic								
Spain	33.1	31.5	23.4	42	28	35.9	25.6	9.9
Sweden	6.4	10.6	21.3	11.9	11.9	11.7	1.3	-1.9
Switzerland	18.2	7.9	15.1	25.2	8.9	6.3	16.6	4.5
Turkey	0.5	0.2	0.5	0.9	3.3	1	1.7	2.6
U.K.	58.9	50.3	66.7	65.4	52.7	24.1	20.4	78.5
USA	142.3	154.5	140.6	252	167	80.8	67.1	106.8

Table 5: Cumulative FDI flows in OECD countries 1995 - 2004

Inflows		Outflows		Net outflows	
USA	1461.4	US	1511.6	UK	404.1
Belg. Luxembourg	868.4	UK	938.4	France	317
UK	534.3	Belg. Luxembourg	870	Japan	223.5
Germany	375.5	France	673	Switzerland	121.2
France	356	Germany	429.8	Netherlands	93.9
Netherlands	273.8	Netherlands	367.7	Spain	84
Canada	206.6	Japan	280.9	Canada	69
Spain	184	Canada	275.6	Germany	54.3
Sweden	157.9	Spain	268	US	50.2
Mexico	147.9	Switzerland	209.3	Italy	26
Ireland	139.3	Sweden	166.1	Finland	22.6
Australia	118.2	Italy	126.5	Sweden	8.1
Italy	100.6	Australia	73.8	Portugal	7.8
Switzerland	88.1	Finland	72.8	Iceland	2.5
Denmark	71.2	Denmark	60.8	Belg. Luxembourg	1.6
Japan	57.4	Ireland	46.6	Norway	0.5
Poland	56.2	Korea	39.9	Austria	-4.1
Finland	49.5	Austria	39.7	Greece	-4.5
Korea	48.6	Portugal	38.8	Korea	-8.7
Austria	43.8	Norway	37	Turkey	-9.3
Czech Republic	41	Mexico	10.6	Denmark	-10.4
Norway	36.5	Hungary	4.5	Slovak Republic	-11.6
Hungary	35.2	Turkey	4.4	New Zealand	-18.2
Portugal	30.9	Greece	4.3	Hungary	-30.8
New Zealand	19.7	Iceland	4.2	Czech Republic	-39.4
Turkey	13.7	Poland	1.6	Australia	-44.4
Slovak Republic	11.8	Czech Republic	1.6	Poland	-54.5
Greece	8.9	New Zealand	1.5	Ireland	-92.7
Iceland	1.7	Slovak Republic	0.2	Mexico	-137.3
TOTAL OECD	5538.2	TOTAL OECD	6558.6	TOTAL OECD	1020.3

So, what recent steps could be seen in these states? The tendency shows nothing more than just highly logical movements of the governments.

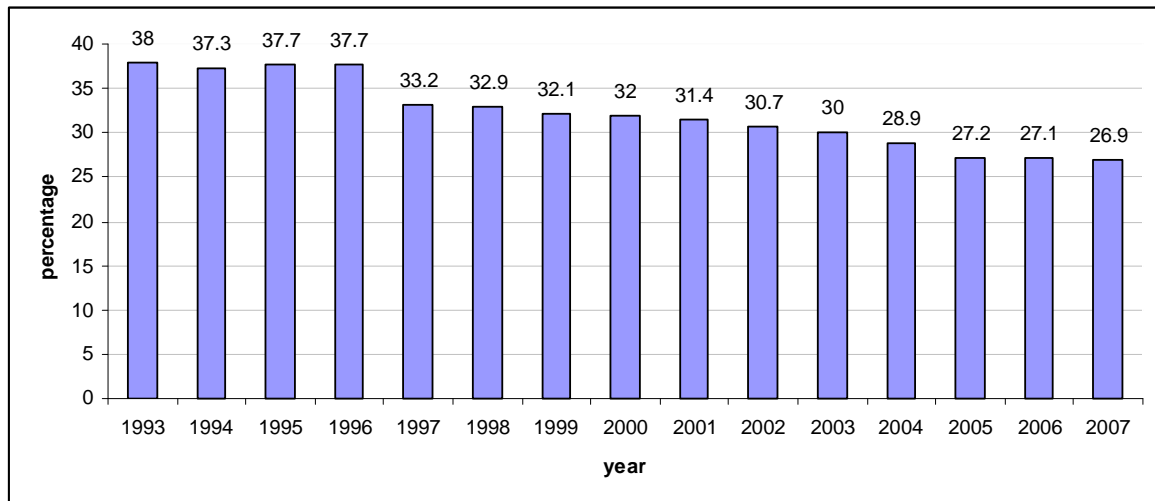
1) First of all, there is a clear tendency among nations in competition to attract and keep inward investment, to **reduce their corporate tax rates** (see the next Table below) and seek to make up the shortfall with *increases in indirect taxes*. This seems to be a trend, but a cautious one, and some commentators have asked why governments don't rely even more heavily on indirect tax revenues. One answer is that higher indirect taxes are politically difficult to introduce. The link between higher indirect taxes and higher prices is obvious to anyone who buys goods and services, but the link between lower corporate tax rates and increased employment and

infrastructure development it can bring, is less well understood.⁷⁴ Globally, average corporate tax rates have moved down from 27.2% in 2006 to 26.8% today. Significant reductions were in the EU, where 7 of the 27 states reported a cut, the largest being in Bulgaria which cut rates by 5% to stand at 10%. This took the EU average rate to just over 24%, 1.6% lower than the year before. By comparison the OECD's average rate has fallen by less than 1% to 27.8%. In the Asia Pacific region, following India's rate decrease in 2006, Malaysia has reduced its corporate income tax rate by 1%.

The next year China plans reducing its corporate tax. It would be interesting to conclude that corporate tax rates have reached their natural low point, and that countries are now turning to more sophisticated methods of attracting and keeping inward investment. That may be true in some parts of the world, but it is clear that corporate tax rates in Europe are still being driven down, even as indirect taxes remain high.

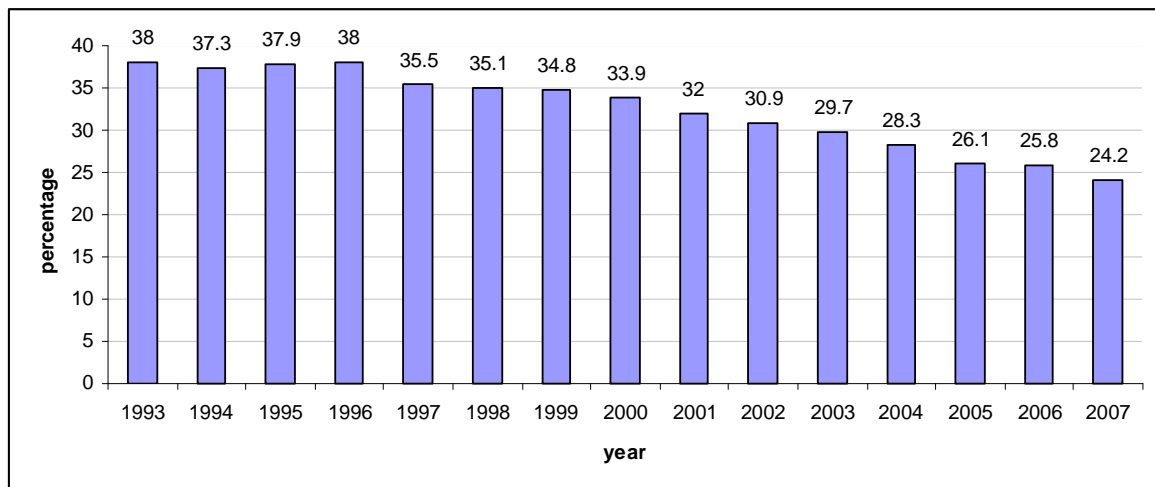
There should be some significant further reductions in the pipeline, from the U.K., Germany, Spain, Singapore and China.

Table 6: Corporate Tax Rates, all countries 1993-2007



74 KPMG Corporate and Indirect Tax Rate Survey 2007, <http://www.kpmg.com/NR/rdonlyres/89E7B050-9654-4C7A-8A6E-A05158793CD5/0/CorporateTaxRateSurvey2007.pdf>

Table 7: Corporate Tax Rates, EU 1993-2007⁷⁵



News, supporting this suggestion, has recently come also from Canada. Finance Minister Jim Flaherty has announced a new initiative to crack down on companies that he says are shifting the tax burden unfairly to small taxpayers by using offshore corporate structures to evade Canadian taxes: «When multinational corporations use this tax loophole, Canadian taxpayers are indirectly subsidizing their international operations. Our goal is to improve the fairness of our tax system and further reduce taxes for hard-working Canadians while preserving Canada's overall tax advantage for our globally successful companies." Specifically, the new rules are being designed to prevent multinational corporations from using tax havens and other tax avoidance structures to generate two expense deductions for only one investment, so-called 'double dipping.' To bed in the new rules, Flaherty said there would be a transition period to 2012, after the planned reductions to the federal statutory corporate tax rate are fully phased-in and the rate has been reduced to 18.5%. "We are providing corporate Canada with a transition period of almost five years to comply with these rules; we think this is fair and reasonable," he added. "Implementation will take place once our planned corporate tax reductions are fully implemented, allowing us to make our strong competitive economy even stronger." The Conservative government has committed itself to cutting a number of taxes since taking office 15 months ago. These include cutting corporate tax to 18.5% by 2011 and eliminating the corporate surtax in 2008. Canada has also reached an agreement in principle on the Canada-US Tax Treaty that includes the elimination of withholding taxes on interest and the extension of treaty benefits to limited liability companies in Canada. When fully implemented, the government

⁷⁵ <http://www.kpmg.com/NR/rdonlyres/89E7B050-9654-4C7A-8A6E-A05158793CD5/0/CorporateTaxRateSurvey2007.pdf>

claims its tax policies will move Canada from the third highest tax rate on new business investment in the G7 to the third lowest.⁷⁶

2) Secondly, ***reduction of reporting burden:***

For example, in India a new income tax code is due to be introduced into parliament in December 2007. The new code will represent a simplified version of the current Income Tax Act, which has been in force since 1961. However, Chidambaram has sought to dampen speculation that the changes will lead to lower rates or drastic reform, revealing that the amendments will "finetune" the current system and widen the tax base.⁷⁷

The process of simplifying taxation has taken place also in Europe: Public limited liability companies will no longer have to order costly expert reports in cases of mergers and divisions unless there is a demand for such reports among shareholders, after the European Parliament accepted a proposal for removing unnecessary burdens on small businesses.⁷⁸ The European Commission put forward measures which would simplify the business environment for EU companies in the areas of company law, accounting and auditing.⁷⁹

Also in case of VAT EU governments have focused on modernizing their systems to better reflect current business environment. For example, the review of the VAT rules for the finance and insurance sectors is intended to create clearer legislations which are easier to administer and comply with. From this it follows that VAT revenues from these sectors will be more stable and tax leakage will be minimized. Work is also under way to reform the basic structure of the tax in certain areas, such as those for determining which EU jurisdiction is entitled to the VAT being collected at present. Much of the legislative debate has been focused on how to alter the system to better reflect taxation where consumption actually occurs, principally for services that can be supplied at a distance (e.g., e-commerce, telecommunications, etc.). The outcome of any new legislation in this area, which could come into effect as early as 2010, will see a shift of VAT revenue from one country to another, principally from low-rate countries to high-rate countries.

3) Thirdly, ***a substantial growth of mergers and acquisitions (M&As) has taken place.*** M&As tend to be the component of economy that responds most strongly, or most immediately, to changes in the business climate, financial conditions and macroeconomic performance. The total assets of cross-border M&As in OECD countries grew by more than a third in 2004. In the

76 http://www.tax-news.com/archive/story/Hedge_Fund_Assets_Top_25_Trillion_xxxx28169.html Canada To Launch New Anti-Tax Haven Offensive By Mike Godfrey, Tax-News.com, Washington, 16 May 2007

77 India To Simplify Tax Code By by Lorys Charalambous, Tax-News.com, Cyprus, 10 August 2007

78 http://www.tax-news.com/asp/story/EU_Reduces_Reporting_Burden_For_SMEs_xxxx27884.html

79 http://www.tax-news.com/asp/story/EU_Proposes_Simplifying_Company_Accounting_Laws_xxxx27877.html; EU Reduces Reporting Burden For SMEs, by Ulrika Lomas, Brussels 17 July 2007

first five months of 2005 total outward M&As worth USD 216.6 billion were recorded and the inflows amounted to USD 221.6 billion. If these numbers are taken to be indicative for 2005 as a whole then, by an admittedly rough estimate, total 2005 outward flows would amount to around USD 520 billion and inflows to some USD 530 billion. If borne out by the facts, these will be the largest cross-border M&As since 2001.⁸⁰

4) Fourthly, after 11th of September 2001 ***the fight against money laundering*** has become the topic Nr.1. Offshore jurisdictions have traditionally advertised privacy as one of their key attractions to international investors. In the last few years, however, greater transparency has been one of the goals pursued by international organizations such as the OECD, the FATF, and the EU, and while before the events of September 11th 2001 it was possible for offshore jurisdictions to claim that this was merely a disguised attempt on the part of the high-tax countries to undermine competition from the low-tax countries, after September this attitude became much less sustainable.⁸¹ On January 24, 2006 U.S. Treasury Undersecretary Kenneth Dam announced that the U.S. and 147 other nations have frozen \$80 million in assets since the 9/11 plane-bombings, and that U.S. intelligence shows that terrorists are "feeling the pinch."

Meanwhile, the real money laundering story of the year is from France, where a parliamentary committee has branded Luxembourg a "banking paradise" that facilitates tax evasion and money laundering through its tight banking secrecy laws and the non-taxation of foreign account holders. It also accuses the European Union's smallest member of hindering or failing to cooperate in cross-border money laundering and tax evasion investigations. The report issued harsh criticism of Luxembourg's corporate legal framework, citing the existence of more than 15,000 tax-exempt holding companies and the possibility for investors to create financial trusts that allow beneficial owners to remain anonymous as major impediments in the battle against money laundering...⁸²

5) Fifthly, nowadays we are staying at the breaking point, where

a) on the one hand the rapid growth of the internet represents an added pressure which will further reduce the taxation options open to governments. More widespread use of the internet will make it harder to tax 'virtual' goods and services. There are concerns that the anonymity provided by the internet could lead to more vanishing taxpayers and increased opportunities for money launderers. The internet could also intensify tax competition between states by making it

80 <http://www.oecd.org/dataoecd/13/62/35032229.pdf>

Trends and Recent Developments in Foreign Direct Investment, INTERNATIONAL INVESTMENT PERSPECTIVES: 2005 EDITION . ISBN 92-64-01134-X . © OECD 2005 11

81 http://www.lowtaxlibrary.com/asp/description_report2.asp

82 <http://www.assemblee-nationale.fr/rap-info/i2311-51.asp> Luxembourg: A Veritable Banking Paradise at the Heart of the European Union, and an Obstacle to the Fight Against Money Laundering, published Jan. 22, 2007

easier for trans-national corporations (TNCs) to shift activity to low-tax regimes, particularly as the geographical location for many activities becomes increasingly irrelevant.⁸³

b) and on the other hand, the technology, based on internet, can allow the governments to trace more easily the financial deals. The author of the paper strongly believes that in the nearest future the Governments of at least the European Union will manage to substantially unify the tax system. Also, no one can simplify the fact that it will be much easier to trace the financial transactions without existing paper money . in this case more transaction transparency would be achieved. The Asian region has made already big steps in this direction. For example, Hong Kong Monetary Authority chief executive, Joseph Yam called for a review on how Hong Kong's **electronic money system should develop**, suggesting that it has the potential to be the most efficient in the world: "I have no pre-conceived idea on the ownership and management of the common platform, provided that there are adequate checks and balances, transparently observed and monitored, to protect the public interest."⁸⁴

As a result, we can assume, that an offshore world is a good lever for the onshore Governments in matter of making them develop all the possible mechanisms and improve the conditions for the Companies concerning taxes, reporting rules, investment projects and on the other hand in the latest time the fight against money laundering has been getting really vehement and intolerated.

Part 8: Example of Usage of OFCs in Modern Russian Economy.

To analyze further the role of the offshore world, let's take the Russian Federation as a spectacular example of the usage and foreseeable future prosperity of the OFCs. First of all we should keep in mind the following common facts:

- The assets in banks located in Europe are invested largely in Europe and the United Kingdom.
- Similarly, assets in banks located in the Western Hemisphere are primarily invested in the United States.
- And banks located in the Asia-Pacific region invest most of their assets in Japan and the rest of Asia- Pacific region.

⁸³ See 'The mystery of the vanishing taxpayer' in Globalisation and Tax Survey, The Economist, January 29 2000.

⁸⁴ http://www.tax-news.com/archive/story/HKMA_Chief_Discusses_EMoney_Development_xxxx28294.html HKMA Chief Discusses E-Money Development By Mary Swire, for LawAndTax-News.com, Hong Kong, 31 August 2007

This pattern is also evident in the source of funds to these centers, i.e., the cross-border liabilities mirror the regional pattern of the assets.⁸⁵

Secondly, the RF remains highly unstable political country, where the use of OFCs in the Russian economy is predictable.

Thirdly, we have to take into account, that nowadays Russia makes huge profits and is an important player in the world economy. It remains a global creditor, but in comparison with soviet times, when the Government invested in low-developed countries (after the collapse of Soviet Union the RF had USD100 billion of hopeless credit by the most undeveloped countries), at the beginning of the 21st century the outflow of the capital was managed by the private people through private banks and steamed in the richest OFCs. In the middle of the 90th there were about 3 billions of offshore companies (among them 50.000 of Russian origin⁸⁶). The USA, the Great Britain, Cyprus and the BVI have cumulated more than 70% of the whole capital, gone from Russia in the first part of 2004.⁸⁷ The next recipient countries are the Isle of Man, Gibraltar and Luxembourg. The evaluation of the height of the exported capital is rather problematic, because the substantial part of it is drawn from the country with the help of well-known offshore schemes and that's why the real amount cannot be objectively registered. The most Russian economists suggest that from the beginning of the 90s of the last century up to 2006 the whole outflow of the capital reached USD 200 billion. Because the capital is being mostly hold in USD, the Russia actually supports the world economy on a base of an interest-free credit. 1/3 of this capital is simply kept in the offshore banks and is not invested in industrial projects. Another 1/3 of the outflow, not taxed capital comes back to Russia, but already from the foreign companies. Taking into account, that Russia is in possess of double tax treaties with 64 states (among them well known offshore countries⁸⁸), the phenomenon of offshore economy has reached a wide application. The most important source of inward FDI is Cyprus (28% of total FDI in 2004) and thought to be largely influenced by Russian investors domiciled in this country⁸⁹. Russia remains a doubtless leader in FDI outflow . 60-70% of the FDI in the whole Central and Eastern Europe! The percentage of FDI inflow into Russian economy stays at appr. 0,6-0,7% of the world FDI inflow . for the territorially largest country in the world this number is disastrously small. More of that, up to now the tendency was not to make green field investments in Russia, but to purchase already existing profitable companies mostly in the branches that are closely related with raw materials and natural resources. According to the

85 Bank for International Settlements, locational banking statistics

86 Rubchenko M., Ageev S., Gubina I., Lokteva S., Shmarov A.

/ . 1996 - 12, .31

87 <http://www.bankdelo.ru/1204Gusev.htm>

88 The complete list of the countries with which Russia has signed tax treaty agreements as well as tax percentages can be found on the site:
<http://www.lowtax.net/lowtax/html/offon/russia/rus2tax.html>

89 Russia and other Central and Eastern European countries

data of UNCTAD 2004, the USD 2039 billion of FDI (that is 80% of the whole amount of USD 2469 billion) was used for the takeovers of already existing highly profitable firms⁹⁰.

The foreign capital (either of Russian origin or not) will come to Russia only under the condition, when Russian investors themselves leave their capital inside the country.

Although Russia has (or had previously) its own domestic 'offshore' in the form of tax-haven territories which were much used by manufacturing and extractive businesses in the early 1990s to shelter income from taxation, legislation has now largely removed such possibilities, and in any case the horrible fate of Yukos acts as a major disincentive to any Russian company thinking of using home-grown tax shelters.

That is not to say however that 'offshore' is out of bounds for Russian companies, or for foreign companies investing in Russia. Far from it - almost any major exporter or importer, whether of capital, goods or services can hardly do without the use of offshore international financial centers if they are not to commit fiscal suicide. In this feature we will first examine the characteristics of the Russian corporate taxation system which govern the use of OFCs, and then we will describe the types of structure that can be used by Russian and foreign investors.⁹¹

The Russian Corporate Taxation System

In most 'high-tax' OECD countries, fiscal consolidation practices, 'Controlled Foreign Corporation' (CFC) rules and transfer pricing legislation operate to constrain the use of OFCs. This situation is the result of 50 years of fight going between multinational businesses and national tax authorities. As tax rates have risen and the multinationals have become more adept at minimizing tax, so have the rules gradually tightened. A typical Western multinational will be unable to retain untaxed profits in its foreign subsidiaries, will be unable to price international sales so as to maximize profits in low-tax countries, and will be unable to mix foreign profits and losses at will in its home jurisdiction in order to reduce its tax bill. This is not - yet - the situation in Russia. Although there is no fiscal consolidation for business groups in Russia - each permanent establishment remains a separately taxable entity, and there are limitations on loss carry backs - there are no CFC rules at all, and the transfer pricing legislation is virtually toothless. A Russian-owned business is taxable on its world-wide income, so that the income of a foreign subsidiary would not as such be taxable in Russia - of course, income received into the foreign bank account of a Russian company is taxable, as are dividends received from a foreign subsidiary. Foreign taxes, paid on such income, are creditable against Russian tax only to the extent that this is provided for in a tax treaty. For a foreign company operating as a

⁹⁰ <http://www.bankdelo.ru/0105Elisavetin.htm>

⁹¹ Hedge Fund Industry Grew 26% in 2006 By Phillip Morton, Investors Offshore.com, 15 May 2007

taxable permanent establishment in Russia through a Representative Office - the usual scheme for all but the most substantial businesses - only income received by the Representative Office, whether from Russia or abroad is taxable. Its remittances abroad will usually be subject to withholding tax, and will fall under a tax treaty if appropriate. In fact, Russia has 64 tax treaties, many of which have highly favorable withholding tax rate provisions, and these are a key part of tax-planning both for Russian international businesses and for foreign investors.⁹²

Russians Investing Overseas

We are not concerned here with the complications of moving money out of Russia. This is not easy to achieve legally without incurring costs, sometimes substantial ones. However, in one way or another many Russian individuals and businesses have accumulated overseas assets, and have the problem of how best to utilize them in a tax-efficient way, whether that be by re-investing them in Russia, or by investing them internationally. OFCs play a key role in intermediation of both types of investment. Typically, a Russian investor will use an OFC company to hold business operations or assets whether in Russia or abroad. If the income-earning asset is abroad, there will of course be the problem of local taxation, but gains or profits once safely harvested by the offshore holding company may remain untaxed perpetually due to the absence of CFC rules, as long as they are not repatriated to Russia. In the situation that a Russian investor has an importing business, the lax transfer pricing rules allow much of the profit inherent in the importation of, say, an electronic device from Taiwan to Russia to be harvested in an intermediate OFC. In this case Hong Kong springs to mind. In the case of a Russian investor re-investing overseas assets into Russia - much more frequent nowadays than previously - the use of a holding company or financial intermediary in one of the OFCs with a good Russian tax treaty - for instance Cyprus or Luxembourg - will allow the remittance of Russian profits, royalties or interest with minimal tax cost, and once again the money is safely offshore. It is no coincidence that the early-1990s saw a rush of Russian banks to Cyprus, in support of schemes to expatriate Russian capital and profits, whether legal or otherwise⁹³; later, Malta and Gibraltar became popular for the same reasons. Now, Russian holding companies or IBCs (International Business Companies) are to be found in a wide variety of OFCs.

⁹² http://www.lowtax.net/lowtax/html/offon/russia/rus_offshore.html#backtotop

⁹³ " " // . Article sHow is capital laundered,%paper sRussian news%1.09.2007. 189. p 4.: to combat the money laundering Russia has already made some definite steps: 2003 Russia began to deliver the data to the FATF and proposed to organize a similar organization in the Asian region, 2004 an international conference concerning the fight against terrorism took place in Russia with such participants as FATF, IMF and World Bank.

Foreign Investors in Russia

As can be seen from the list of Russian tax treaties, most OECD countries have such treaties, and there is nothing to prevent an investor based in any of those countries from investing directly into Russia, and relying on the tax treaty to minimize Russian withholding taxes on repatriated profits (dividends), interest or royalties. Usually this will result in a withholding tax rate of between 5% and 15% on dividends, and between nil and 10% on interest or royalties. That doesn't sound too bad, but then the income is in the investor's high-taxing home jurisdiction. For this reason, most foreign investors choose to use a holding company in a low-tax OFC through which to finance a Russian involvement. Providing that capital injections to the Russian operation have been correctly recorded by the Russian authorities, repatriation of the capital will be untaxed; in the absence of a tax treaty, the normal rate of Russian withholding tax on a dividend paid by a Russian company or Representative Office to its foreign parent (if that parent is a company) is 15%, while interest payments would be taxed at 20%. However, Cyprus and Luxembourg both have tax treaties with Russia, making them the favorite OFCs for foreign investment into Russia. In the case of Cyprus, the treaty rate of withholding tax on dividends is 5% if the original investment was greater than US\$100,000, and 10% otherwise, while the treaty rates for interest and royalty payments are nil. With Luxembourg, the treaty rate of withholding tax on dividends is 10% for a participation which is greater than 30%, and 15% otherwise. The treaty rates for interest and royalty payments are nil. Both Cyprus and Luxembourg have local taxation regimes and corporate structures that allow foreign income to be very lightly taxed or untaxed if the beneficial owners of the holding company are non-resident. Cyprus is therefore apparently the best place in which to locate a holding company for a Russian investment, and indeed very many such holding companies exist. The best structure for any particular foreign investment will however depend on complex factors such as the tax domicile of the individual investor, the nature of the business to be carried on, etc, and other OFCs or even OECD countries may have their place in the structure. A number of European Union high-tax countries nonetheless have very attractive holding company regimes which taken together with their Russian tax treaties may qualify them to be used in a Russian investment structure. Denmark is the most obvious example, but there are others. So, a simple idea comes to one's mind: isn't it obvious that Russia should try to create the stable political situation and tolerable tax regime on some chosen areas, at least at the beginning, where profitable state-supported projects could be initiated? Exactly this measure has been forced by the actual Government: according to the Act 116 of the 22 July 2005 the regulations of creation and functioning of Special Economic Zones in the Russian Federation were made in order to organize the following types of SEZ:

1. Industrial-manufacturing zones (area no more than 20 km², zone lifetime no more than 20 years, allocation of the manufacturing objects, capital investment no less than 10 million ", for the first year . no less than 1 million ")

2. Technology-promotional zones (area no more than 2 km², zone lifetime no more than 20 years, technology-promotional activity conducting)
3. Tourist-recreational zones

Table 8: Cost reduction for organizations in SEZ

Costs	Industry-manufacturing SEZ	Technology-promotional SEZ
Administrative barriers	5-7%	3-5%
Infrastructure	10-12%	8-10%
Concentration of production	5%	7%
Taxes	3-5%	5-7%
Total	23-29%	23-29%

Results

On the 21 of December, 2005 Chairman of the Government of the Russian Federation M.E. Fradkov signed governmental regulations on the **creation of six special economic zones**.⁹⁴

In accordance with them four technology-promotional SEZ will be created:

- in Moscow (Zelenograd) (*microelectronics development*),
- in Dubna (the Moscow Region) (*nuclear and physics technology*),
- in Saint-Petersburg (*information technology*),
- in Tomsk (*advanced materials*).

And two industrial-manufacturing SEZ:

- in the Lipetsk Region (*consumer electronics*),
- in Elabuga (Tatarstan) (*car components, high-technology products in the field of petrochemistry*).

Table 9: Financing of creation of engineering, transport and social infrastructure of SEZ

	Federal budget,%	Regional budget,%	Local budget, %
Saint-Petersburg	50	50	0
The Moscow Region (Dubna)	70	17,7	12,3
Moscow (Zelenograd)	50	50	0
The Tomsk Region (Tomsk)	74	22	4
Tatarstan (Elabuga)	49	51	0
The Lipetsk Region	49	51	0

Technology parks

It is planned to create a number of technology parks in:

- Novosibirsk . information and biotechnologies

⁹⁴ For more information about the actual development of SEZs and possibilities to invest in these tax-reduced areas please contact Federal Agency For Management of SEZ, Ovchinnikovskaya nab. 18/1, Moscow, Russia, 115324. tel.: +7 495 950 18 78.

- Tyumen . technology of hydrocarbon prospecting and production , development of the equipment
- Kazan . development of the technologies of chemical and petrochemical production
- Sarov (the Nijni Novgorod Region) . information technologies, energy technologies and ecology, development of medical equipment
- Obninsk (the Kaluga Region) . biotechnologies, pharmacology, advanced materials

Carrying-out of the programm:

The Ministry of Information Technologies and Communications, the Ministry of Education and Science, the Ministry of Industry and Energy, the Agency of Nuclear Energy, Russian Academy of Sciences.

Tax regime

- On organizations profit tax in industrial-manufacturing SEZ:
 - Accelerated expenses acknowledgement on the Research and Advanced Development
 - Accelerated amortization
 - Liberalization of expenses transfer to the future period
- Reduced rate on the Unified Social Tax in technology-promotional SEZ
- Exemption from Organizations Property Tax and Land Tax since the registration
- Customs treatment
- Import of foreign goods on the SEZ territory without paying of customs duties and VAT
- Import of Russian goods on the SEZ territory on terms of export with paying of excises and without paying of export customs duties
- Export of foreign and Russian goods from the SEZ territory to the rest of the RF territory with paying of customs duties, VAT and excises
- Export of foreign and Russian goods outside the RF customs territory with paying of import duties, export duties in compliance with export treatment, without paying taxes
- Administrative regime
- Financing of the creation of SEZ infrastructure at the cost of federal, regional and local budgets
- Realization of the "One Window" principle
- Guarantee for residents against negative changes in the Taxes and Receipts Law of the RF
- The owners of the real estate situated in the scope of the SEZ territory have right to redeem the lands located under these objects
- Settlement of the disputes concerned with SEZ creation or dissolution, with status deprivation by SEZ residents judicially.

SEZ resident:

- Individual entrepreneur or profit-making organization.
- Registered on the territory of municipal formation inside of which SEZ is situated.
- Concludes agreement with SEZ managing bodies on conducting industrial-manufacturing or technology-promotional activity.
- Has no right to have representatives and subsidiaries outside SEZ.

Conclusion

An offshore tax haven is a nation or jurisdiction competing in an open market place for the business of mobile capital by using attractive taxation regimes as a method to draw in business.

At the end of the 20th century there were about 48.000 TNCs with 280.000 daughter companies worldwide. This phenomenon has caused an increased demand for possibility to organize the business activity in the low-tax states.⁹⁵

OFCs can be used for legitimate reasons, taking advantage of lower explicit taxation and consequentially increased after tax profit, simpler prudential regulatory frameworks that reduce implicit taxation, minimum formalities for incorporation, the existence of adequate legal frameworks that safeguard the integrity of principal-agent relations, the proximity to major economies, or to countries attracting capital inflows, the reputation of specific OFCs, and the specialist services provided, freedom from exchange controls; and a means for safeguarding assets from the impact of litigation etc.

They can also be used for dubious purposes, such as tax evasion and money-laundering, by taking advantage of a higher potential for less transparent operating environments, including a higher level of anonymity, to escape the notice of the law enforcement agencies in the "home" country of the beneficial owner of the funds.⁹⁶

The process of globalization played a dramatic role in improving technical connecting possibilities between the different parts of the world and the problem of territorial remoteness of OFCs was finally removed.

On the other hand, because tax rates have always varied, not only from individual to business but from country to country, there has always been an incentive to live or work in or from a lower tax area. As the wealth of both companies and individuals has increased over the years, this

95 Dolgov S. Globalization of the Economy: new word and new phenomenon% M.: Economy, 1998. . p.46

96 <http://www.imf.org/external/np/mae/oshore/2000/eng/back.htm#5#5>

incentive has become the foundation for a business in its own right. With global instability, currency fluctuations and political uncertainties set to continue, the clients' needs were not only to minimize their global tax exposure, but also to protect and preserve their assets and investments in safe havens. Thus, risk management has become as important a motivation for using OFCs as international tax planning. So, we can trace the main driving points, which caused the rapid development of the OFCs. There can be distinguished objective (external) and subjective (internal) reasons of existence of the OFCs nowadays:

External reason is globalization of the world economy, which include the following items:

- The internationalization and diversification of business
- The lifting of trade barriers
- A global relaxation of foreign exchange controls
- High tax regimes and strict state policy as for the filing obligations in the highly developed countries versus unstable political situation in low developed countries
- The opportunities of utilizing double taxation treaties.

Markets have globalized, yet tax structures have remained largely national. As the pressures of globalization are brought to bear, national tax regimes become locked into a competitive battle. A number of states, facing limited options for pursuing economic growth, have turned their economies over to this competition. So, the *internal* motivations behind the demand for offshore services are competing advantages of the OFCs. They can be defined as follows:

- Tax Minimization
- Risk Management
- Cost Reduction.

The users of OFCs are becoming increasingly demanding. They expect high quality service at a reasonable cost, and access to sophisticated investment services - as well as confidentiality. Tomorrow's offshore users will be looking for centers that can compete with today's onshore financial centers in such areas⁹⁷ as regulation, communications, specialization, credibility, infrastructure, stability, expertise, flexibility. In order to have a possibility to compete with such centers the onshore countries should take certain steps in direction of reducing their tax rates, simplifying reporting regulations, improving business infrastructure, offering incentives for the companies to invest into the new projects, spending the budget in more efficient way, unifying the international tax system and, finally, trying to create the single traceable world banking system in order to combat the money laundering and financial supporting of terrorism.

97 http://www.offshoresimple.com/tax_havens_history.htm THE FUTURE OF THE TAX HAVENS AND OFFSHORE INDUSTRY

Zusammenfassung

Ein Auslandssteuerparadies ist ein Staat oder örtlich begrenzter, mit Sonderregelungen ausgestatteter Bereich eines Staates, der sich in einem offenen Markt um das Geschäft des beweglichen Kapitals bewirbt und dabei üblicher Weise attraktive Besteuerungsregelungen als eine Methode verwendet um geschäftlich attraktiv zu sein.

Am Ende des 20. Jahrhunderts gab es ungefähr 48.000 TNCs mit 280.000 Tochtergesellschaften weltweit. Dieses Phänomen verursachte eine steigende Nachfrage nach Möglichkeiten, die Geschäftsaktivitäten in Gebiete mit Niedrigsteuersätzen zu verlagern.

Die Verwendung von Offshore-Unternehmen als Firmenmodell kann aus gesetzlichen Gründen vorgenommen werden, dem Ausnutzen der dortigen niedrigeren generellen Besteuerung und des daraus resultierenden vergrößerten Gewinnes nach Steuern beruhen, auf Grund einfacherer gesetzlichen Rahmenbedingungen mit integrierter Besteuerung verwendet werden, mit den Vorteilen von minimalen Formalitäten für den Handelsregistereintrag verbunden sein, die Einbindung der eigenen Tätigkeiten in Geschäftsbeziehungen der Partner auf Grund von entsprechenden gesetzlichen Rahmenbedingungen erleichtern, die Nähe zu Geschäftspartnern oder zu Ertrag versprechenden Kapitalflüssen fördern, auf Empfehlung von anderen OFCs erfolgen, dem Entfall von Devisenbewirtschaftungen begründet sein oder auch nur um Vermögenswerte vor den negativen Auswirkungen eines allfälligen Rechtsstreites zu sichern. Offshore-Unternehmen können aber auch als Mittel für kriminelle Machenschaften wie etwa Steuerhinterziehung und Geldwäsche durch Ausnutzung der Vorteile eines undurchschaubaren Geschäftsumfeldes verwendet werden. Unterstützung erfahren diese Methoden durch die höhere Anonymität in der geschäftlichen Tätigkeit als auch der „Flucht“ vor den Steuerbehörden im Heimatland des eigentlichen Eigentümers

Der Prozess der Globalisierung spielt eine wesentliche Rolle bei der Verbesserung der technischen Verbindungsmöglichkeiten zwischen den einzelnen Erdteilen. Dadurch wurde das frühere bestehende Problem der örtlichen Distanz und „Bedienbarkeit“ von Offshore-Unternehmen gänzlich egalisiert.

Auf der anderen Seite bestand auf Grund der unterschiedlichen Besteuerung . nicht nur allein zwischen den verschiedenen Staaten sondern auch unterschiedlich zwischen Privatbereich und Geschäftsbereich. schon immer der geschäftliche Anreiz in einem Land mit niedriger Steuerquote zu leben bzw. zu arbeiten. Durch den über die Jahre gestiegenen Wohlstand . sowohl im privaten als auch beruflichen Bereich. wurde der Anreiz für eine geschäftliche Entwicklung in zwei Richtungen geschaffen. Mit der steigenden und weiterhin anhaltenden

globalen Verunsicherung durch Währungseinflüsse und politischen Unruhen stieg nicht nur der Wunsch der Unternehmen nach einer Steuerbegünstigung sondern auch der Bedarf einer sicheren und stabilen Positionierung sowie Schutz für die Unternehmensvermögen und -investitionen. Folglich ist Risikoverteilung in diesem Sinn als Motivation zur Verwendung von OFCs ebenso wichtig geworden wie die reine Verwendung als internationale Möglichkeit im Sinne einer Steuerplanung/-senkung. Diese Begründungen stellen die Hauptmotivation dar, die eine schnelle Entwicklung den OFCs begünstigt haben.

Daher kann man aus heutiger Sicht sowohl objective (externe) als auch subjective (interne) Gründe für die Existenz der OFCs anführen.

Der externe Grund ist die Globalisierung der Weltwirtschaft, welche folgende Punkte einschließt:

- Die Internationalisierung und Risikoverteilung im Geschäftsleben
- Die Aufhebung von Handelsbeschränkungen
- Die globale Lockerung gegenüber ausländischen Devisenbeschränkungen
- Hohe Steuervorschriften und Einhaltung strenger staatlicher Regelungen, wie etwa Dokumentationsverpflichtungen in den sehr entwickelten Ländern gegenüber unsicherer politischer Lage in Niedrigsteuerländern
- Die Ausnutzung der Möglichkeiten im Rahmen der zwischenstaatlichen Abkommen zur doppelten Besteuerung.

Der Markt selbst kann heute als globalisiert betrachtet werden, hingegen ist die Steuerlandschaft zu großen Teilen in nationalen Rahmen stehen geblieben. Auf Grund des Drucks der Globalisierung werden nationale Steuerlandschaften in einen Wettbewerbskampf zu größeren Gebieten zusammengeschlossen. Mehrere Staaten haben im Angesicht der zur Verfügung stehenden Möglichkeiten zur Unterstützung des Wirtschaftswachstums, ihre wirtschaftlichen Rahmenbedingungen in diese Richtung umgesetzt. Als inneren Motivationen hinter der steigenden Nachfrage nach Auslandsdienstleistungen stehen die Vorteile von OFCs. Sie können wie folgt definiert werden:

- Minimierung der Steuerquote
- Risk Management /Risiko-Verteilung
- Kostenreduktion

Die Benutzer von OFCs werden immer anspruchsvoller. Sie erwarten hoch qualitativen Service zu vernünftigen Kosten und Zugang zu ebenso hoch entwickelten Investitionsdienstleistungen,

verbunden mit einem starken Vertrauen in die Partner. Zukünftige Benutzer von OFCs werden nach Zentren suchen, die sich mit heutigen Festlandfinanzplätzen und deren Qualifikation in den Bereichen der Regulierungen, Kommunikation, Spezialisierung, Vertrauenswürdigkeit, Infrastruktur, Stabilität, Gutachten, Flexibilität vergleichen können.

Um als *sonshore*-Destination eine derartige Möglichkeit bieten zu können, sollten sich die Staaten Schritte in Richtung der Verminderung ihrer Steuersätze überlegen, die bestehenden gesetzlichen Regelungen für Geschäftsabwicklung vereinfachen, jene Geschäftsinfrastruktur verbessern, die als Anreiz für Firmen dienen kann in neue Projekte zu investieren und den dafür zur Verfügung stehenden Staatshaushalt in effizienterer Weise dafür einsetzen. Darüber hinaus sollte das internationale Steuersystem vereinheitlicht werden letztendlich versucht werden, ein durchschaubares Bankensystem zu schaffen, das Geldwäsche und finanzielle Unterstützung des Terrorismus verhindert.

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Section 2.

Appendix: Main Economical Data of the Offshore Centers in Europe⁹⁸

(Andorra, Austria, Cyprus, Dublin (Ireland), Gibraltar, Greece, Guernsey, Hungary, Isle of Man, Jersey, Liechtenstein, London(U.K.), Luxembourg, Madeira, Malta, Monaco, Netherlands, San Marino, Switzerland)

Andorra

Geography, Population, Languages

Nestling high in the Pyrenees between France and Spain, in the valley of the river Vella (Vieille - French), the Principality of Andorra measures no more than 465 sq. km. The population of Andorra is 60,000, of which 20,000 are native Andorran, about 35,000 are Spanish, and about 4,000 French. The official languages are Catalan, Spanish and French. The territory comprises 7 Communities. The capital is Andorra la Vella.

History, Political Structure and Law

Andorra has preserved its neutrality and its identity for more than 700 years, with an unique record of diplomatic non-involvement in European affairs. The elected local government consisting of Cap de Govern (the President) and his ministers (28 of them) run the government from la Casa de la Vall (the Houses of Parliament). In 1993, Andorra created its own constitution and is now a member of the United Nations. The French and Spanish governments both share equal responsibility for military defense and foreign affairs. The legislative body is the General Council.

Economy and Infrastructure

The economy of Andorra is split between farming, banking, financial services and tourism, with over 12 million tourists visiting the country every year. The Principality is an ideal location in which to site management and control of offshore companies. It is an international financial centre. Its banks offer a wide range of discreet, professional and confidential services, with banking secrecy upheld by law.

Company Incorporation

Andorran companies can be established for the purpose of local trade, holding of assets and investments and cross-border commerce. There are two types of Andorran company for international trade and investment, both of which enjoy limited liability:

The Societat Limitada (S.L.) is a company often used for local trading.

The Societat Anonima (S.A.) is usually established for businesses with a much higher turnover.

The following requirements apply to the name of a Company:

The name must end with S.L. or S.A., depending on the type of Company.

⁹⁸ For more practical information about the company formation in the European OFCs see the site:
<http://www.ocra.com/downloads/index.asp?UseReferer=1&referer=download#5>

It is advisable for the name chosen to be Catalan-sounding.

A minimum of two shareholders are required and at least one shareholder must be of Andorran nationality owning a minimum of 67% of the company's share capital. Non-Andorrans and non-residents can only own 33% of the share capital. Details of shareholders are kept at the local registry. An offshore company can be used to own 33% of the share capital. It is possible to arrange for an Andorran citizen to act in a nominee capacity for the ultimate owner of the company.

The Societat Limitada (S.L.) must have a paid up share capital of at least ESP1,000,000 (Spanish Pesetas). The Societat Anonima (S.A) must have a minimum paid up share capital of ESP 5,000,000.

The share capital must be fully paid up in advance of incorporation. This amount must be deposited with an Andorran bank in a designated company incorporation type account. The bank must then issue a special certificate, addressed to the designated notary responsible for concluding incorporation formalities.

Annual Taxation and Fees

The Principality is a no tax jurisdiction with no direct taxation being levied on income, capital or corporations. Wealth and inheritance taxes do not exist.

Financial statements are subject to the requirement that accounting information and books must be maintained at the company's registered office. There is however no requirement for these documents to be audited or filed with local authorities.

Austria⁹⁹

Geography, Population, Languages

With an area of approx. 84.000 sq. km and population of 8,2 million Austria is one of the smaller European countries. In addition to an official language German a good portion of the Austrian citizens speak one or two foreign languages (especially English, French, Italian, Spanish and some languages of Eastern Europe). Vienna is the largest city and at the same time the capital of Austria with about 1,6 million inhabitants.

History, Political Structure and Law

Located at the intersection of international trade and travel routes, the Federal Republic of Austria has been traditionally known as an interface between Western and Eastern Europe.

Economy and Infrastructure

Austria is considered one of the wealthiest nations in the EU and the world. It places 5th in the EU (only behind Luxembourg, Denmark, Ireland and the Netherlands) and 14th in the world. Austria's main advantages are its economic and political stability, social and labour peace, its highly skilled workforce, high standard of living and its well-established business ties to Central and Eastern Europe and far-reaching integration in the world economy.

⁹⁹ KPMG Austria, Investment in Austria 2007, June 2007

Apart from that, Austria is an attractive location from the perspective as it provides a competitive corporate income tax rate (25%). The Austrian government's decision to reduce the corporate tax rate from 34% to 25% from 2005 led to a 30% increase in successfully concluded investment projects.

In addition to the corporate tax cut to one of the lowest levels in the EU, the reforms also contained a number of measures designed to reduce the tax burden on multinational firms using Austria as a base for regional headquarters.

Austria offers significant fiscal concessions to corporates through holding companies, foundations and some tax-privileged investment incentives, most notably for R&D-expenditure, education expenditure and incentives for groups of companies.

Austria has concluded a considerable number (77) of double tax treaties providing for relief from double taxation. In addition to this fact advance rulings can be granted, but may be refused by the tax authorities in specific situations. A ruling request is usually addressed to the local tax office or to the Ministry of Finance. Rulings are binding if they are based on the principle of good faith as long as all facts and circumstances have been disclosed correctly and as long as there are no contradicting legal provisions.

Also, in 2007 the Austrian Constitutional Court held in two decisions that the Austrian Inheritance and Gift Tax Act (Erbschaft- und Schenkungssteuergesetz) is unconstitutional because it provides for different valuation methods for differing asset categories, and that the current Act must cease to be of application with effect from 1 August 2008.

In reaction to this decision, the Austrian government has announced that no new Inheritance Tax Act will be enacted. This means that as of 1 August 2008 inheritance tax will be abolished in Austria. It is very probable that gift tax will be treated in a similar way. Due to this development the Federal Republic of Germany has terminated the double tax treaty on inheritance taxes between Austria and Germany with effect from the end of 2007. As a result, acquisitions by inheritance in which the deceased passes away after 31 December 2007 will no longer enjoy treaty protection. However, the tax authorities of both states have announced that no double taxation regarding inheritance tax will arise in the period from 1 January to 31 July 2008, which will be guaranteed through a special agreement.

Company Incorporation

The most common forms in which foreign enterprises operate in Austria are the limited liability company (GmbH) and the stock corporation (AG):

One or more shareholders can set up a GmbH. Individuals, corporations and partnerships, Austrian or foreign citizens and foreign corporations can be founders and shareholders. The minimum share capital amounts to EUR 35.000,-. At least half of the minimum share capital has to be contributed in cash. The overall cost for establishing the company will amount approx. EUR 6.000,-.

The most important advantage of the AG is the flexibility in transferring the shares. A supervisory board is compulsory and shareholders' assemblies are subject to stricter formal requirements. The minimum capital stock amounts to EUR 70.000,-.

Austrian private foundation is a legal entity set up by a declaration of establishment. The basic requirements are: legal domicile in Austria, entry in the Commercial Register, no activities in a business or trade, minimum amount of assets donated to the private foundation EUR 70.000,-. In general, capital gains from the disposal of shares are taxable at the standard rate of 25%. A reduced rate of 12,5% applies, if shares of at least 1% have been held by the private foundation

for more than one year prior to the sale. Minority shares (less than 1% held over the past five years) are tax free after a 1-year holding period.

Record Keeping

Every business entity has to keep books and to record all business transactions and its financial position in accordance with the applicable accounting principles. All business transactions must be traceable from origin to settlement.

Holding Companies

For a country to be an attractive location in which to set up a holding company 4 criteria must be satisfied:

- Incoming Dividends: Incoming dividends remitted by the subsidiary to the holding company must either be exempted from or subject to low withholding tax rates in the subsidiary's jurisdiction.
- Dividend Income Received: Dividend income received by the holding company from the subsidiary must either be exempted from or subject to low corporate income tax rates in the holding company's jurisdiction.
- Capital Gains Tax on Sale of Shares: Profits realized by the holding company on the sale of shares in the subsidiary must either be exempt from or subject to a low rate of capital gains tax in the holding company's jurisdiction.
- Outgoing Dividends: Outgoing dividends paid by the holding company to the ultimate parent corporation must either be exempt from or subject to low withholding tax rates in the holding company's jurisdiction.

By these criteria Austria, while not having the worst EU holding company regime, is by no means the most attractive country in which to set up a holding company.

A new group taxation regime, brought in along with a reduction in corporate taxation from 34% to 25% in 2005, allows the offsetting profits and losses of group operations (requiring direct or indirect participation of more than 50%, but no other financial, economic or organizational integration) in Austria and abroad. This new group taxation system offers interesting opportunities for foreign investors, in particular joint-venture structures, M&A transactions, headquarter companies and simple holding companies without active business, which can also participate in the tax group.

Main characteristics of Austrian limited company which serves as holding company

Name	GmbH (Company with limited liability)
Minimum share capital	EUR 35.000,-
Type of shares	Registered
Minimum number of shareholders	One
Auditor	Only required if 2 of the following 3 limits are exceeded: Revenue higher than EUR 7.300.000 Assets higher than EUR 3.650.000 More than 50 employees

Withholding Taxes on Incoming Dividends

As a member of the EU, Austria is governed by the provisions of the EU's Parent-Subsidiary directive, whose effect is that where an Austrian holding company controls at least 25% of the shares of an EU subsidiary for a minimum period of 24 months any dividends remitted by the EU subsidiary to the Austrian holding company are free of withholding taxes.

Where the provisions of this directive do not apply (or where anti-avoidance provisions are in place) Austrian holding companies can rely on an extensive network of double taxation treaties the effect of which is to obtain a reduction in withholding tax rates on dividends remitted to Germany from the subsidiary jurisdiction.

The greater a country's network of double taxation treaties the greater its leverage to reduce withholding taxes on incoming dividends. An elaborate network of double taxation treaties is thus a key factor in the ability of a territory to develop as an attractive holding company jurisdiction.

Corporate Income Tax on Dividend Income Received

As things currently stand, income received by Austrian holding companies from foreign subsidiaries is subject to the standard rate of Austrian corporate income tax unless the Austrian holding company meets the criteria known as the "International Participation Exemption rules" in which case a special fiscal regime applies. To qualify for the fiscal benefits flowing under the "international participation exemption rules" the Austrian holding company must meet the following 4 criteria:

- **Corporate Form:** The foreign subsidiary must be a corporate body as per the definition set out in the EU Parent-Subsidiary directive whereas the Austrian holding company must be a corporate body as per the definition set out in national laws.
- **Direct Shareholding:** The Austrian holding company must directly own the shares in the foreign subsidiary. If the dividend income is dividend income from a subsidiary of the foreign subsidiary then the international participation exemption criteria are not satisfied.
- **25% Shareholding:** The Austrian holding company must hold a minimum of 25% of the shares of the foreign subsidiary.
- **24 Months Time Period:** The Austrian holding company must hold its 25% shareholding in the foreign subsidiary for a minimum period of 24 months prior to the distribution of dividend.

Dividend income paid by a foreign subsidiary to an Austrian holding company which meets the "international participation exemption rules" is treated in one of two ways:

- **The Exemption Method:** Under the exemption method no further tax is payable in Austria on the dividend income received irrespective of how much tax was paid in the foreign jurisdiction.
- **The Credit Method:** Under the credit method the dividend income received in Austria is assessed to Austrian tax but any tax paid in the foreign jurisdiction is credited against the final Austrian corporate tax liability. If the foreign tax exceeds the Austrian tax so that there is a tax credit in Austria this tax credit cannot be carried forward in the balance sheet and set off against future tax liabilities arising in Austria.

Clearly the exemption method is preferable. The credit method however automatically applies if the following conditions of anti-avoidance legislation are satisfied:

- **Passive income:** The foreign subsidiary's main source of income is "passive income" (interest, royalties, rental and lease income, capital gains from the disposal of shareholdings).
- **Holding Company Ownership:** More than 50% of the holding company's shares are owned by Austrian tax residents.

- Low Foreign Tax: The corporate income tax paid by the subsidiary in the foreign jurisdiction on the profits out of which dividends are paid is less than 15%.

(N.B. Dividend income received by an Austrian holding company from a resident subsidiary is exempt from corporate income tax in Austria and is subject to considerably less stringent criteria than the requirements applying to dividend income received by an Austrian holding company from a foreign subsidiary. Thus for example there is no minimum percentage shareholding requirement, no minimum time period requirement and no requirement that the shareholding should be direct).

Capital Gains Tax on the Sale of Shares

In Austria capital gains are taxed as corporate income. Capital gains made by an Austrian holding company on the profitable sale of its shareholding in a foreign subsidiary are subject to the standard rate of Austrian corporate income tax unless the Austrian holding company meets the criteria known as the "International Participation Exemption rules." To satisfy the "international participation exemption rules" for capital gains purposes a holding company must meet the following 3 conditions:

- Corporate Form: The foreign subsidiary must be a corporate body as per the definition set out in the EC Parent-Subsidiary directive whereas the Austrian company must be a corporate body as per the definition set out in its national laws.
- 25% Shareholding: The Austrian holding company must hold a minimum of 25% of the shares of the foreign subsidiary prior to the sale of those shares.
- 24 Months Time Period: The Austrian holding company must hold the 25% shareholding in the foreign subsidiary for a minimum of 24 months prior to the sale of the shares.

Where however the foreign subsidiary . Austrian holding company structure falls foul of Austrian anti-avoidance legislation (see above) the "international participation exemption rules" are suspended and any capital gains made on the profitable disposal of shares in the foreign subsidiary would be treated as corporate income and subject to standard Austrian corporate income tax at 25%.

Gains on the sale of shares in non-resident companies are exempt where the parent company holds 10% for at least one year. Tax on gains from the sale of movable or immovable property may be deferred, subject to certain conditions. Corporations, however, are not eligible for this tax deferral.

(N.B. Capital gains realized by an Austrian holding company on the profitable sale of shares in a resident subsidiary are subject to standard Austrian corporate income tax rates).

Withholding Taxes on Outgoing Dividends

There is a standard rate (25% at the time of writing) for withholding taxes on outgoing dividends. This amount can only be reduced in 2 circumstances:

- Where the parent corporation to which the dividends are remitted by the Austrian holding company is resident in another EU territory and holds at least 25% of the Austrian holding company's shares for a minimum period of 12 months prior to the dividend distribution. (N.B. Austria has anti-avoidance provisions aimed at non-EU parties attempting to benefit from the terms of the directive).

Where the ultimate parent corporation is located in a jurisdiction with whom Austria has a double taxation treaty then the rate is generally reduced from the standard rate of 25% to a reduced rate of between 0-15%.

Austria only imposes a 1% tax on capital contributions or capital increases.
Austria imposes no kind of wealth tax or net worth tax.

Group taxation scheme

The main structural measure of the last tax reform in 2004 was . besides of the reduction of the corporation tax rate from 34 % to 25 % - the replacement of the old restricted group regulations dating back to the last century through a modern, comprehensive, internationally attractive group taxation scheme. The key advantage of a group taxation scheme lies in the fact that legally independent corporations belonging to a group of companies are regarded as one single unit for tax purposes with the consequence that profits and losses can be compensated within the group.

The key points of the new group taxation scheme, which is in force from tax assessment 2005, are the following:

- A financial integration in the form of a (direct or indirect) participation of more than 50 % of the share capital in the case of a majority of voting rights will be sufficient for the group formation. Neither an organizational nor an economical integration nor a profit/loss pooling agreement will be necessary. As such, also a financial holding can be parent company of the group.
- Also a more-than-one-parent-group is possible (especially important for joint ventures). As such, also several companies at the top of the group may hold financial participations of more than 50 % in total. In this case, a main shareholder with a participation of at least 40 % is required. The other group parent companies must hold a participation of at least 15 % each.
- The group contract must provide for a binding group formation of at least three years and may define the individual group members.
- The concept provides for a 100 % profit and loss attribution. If the parent company of the group only holds a participation of 60 % of the group subsidiary, also 100 % of the profits and/or losses will be attributed and not only a proportionate part.
- A group can also be formed between domestic and foreign companies. This means that a domestic group parent company can make use of the losses of foreign subsidiary companies (however not of profits) according to the participation percentage. In the case of future profits of the foreign subsidiary company, the domestic parent company has to tax these profits to the extent of the losses used in the past.
- If an Austrian participation in connection with the group formation is acquired it is possible to amortize the goodwill included in the acquisition cost on a straight-line basis over a period of 15 years. The goodwill has to be calculated as follows:
acquisition costs of participation
minus proportionate equity capital of subsidiary company
minus hidden reserves related to non-depreciable fixed assets
= basis (limited to 50% of acquisition costs)
minus tax-effective amortizations
The amount amortized is limited to 50 % of the acquisition costs. In order to avoid abuse, acquisitions from group companies are excluded from goodwill amortization.
Goodwill amortization is limited to directly held domestic participations.
- The amortization of participations is tax neutral within the group as the group parent company directly makes use of the losses of its group subsidiaries.

Summary of the Austrian holding company¹⁰⁰

	From/ to resident company	From/ to foreign (EU) company
Dividends received/paid	No corporation tax, no WHT	No corporation tax, no WHT
Capital gains and losses	Corporation tax	No corporation tax or option for tax effective treatment
Liquidation or insolvency	Losses (deducted by dividends of the past 5 years) can be deducted for tax purposes	
Treatment of interest and royalty payments	No withholding tax	
Corporation tax	25%	
Withholding tax (WHT)	25%	
Interest deduction	Yes	
Thin capitalization imitations	No	
Debt / equity restrictions	No	
Other taxes	1% on capital contributions or capital increases	
Tax treaty network	Very good	

Private Foundations

The private foundation (Privatstiftung) is the civil law cousin of the common law trust. A grantor must endow the Privatstiftung with assets of at least EUR 70,000 (at the time of writing) in the form of cash or in kind. If capital is raised as a contribution in kind, an audit is required.

In Austria private foundations which meet certain criteria currently enjoy a number of fiscal advantages:

i) Tax on Transfer of Assets:

A capital transfer tax of 5% (plus 3.5% in the case of real estate) is payable on the value of assets transferred into a private foundation.

ii) Tax on Income Earned:

Private foundations are considered corporate entities for tax purposes and therefore subject to corporate income tax at the standard rate. However unlike other corporations they benefit from a number of fiscal advantages:

- **Dividend Income:** Dividend income received by a private foundation on a shareholding held in a resident or non-resident corporate entity is exempted from corporate income tax in the hands of the private foundation. (In Austria dividend income received by a resident corporation from a non-resident corporation is only exempted from corporate income tax if certain strict criteria can be met with regard to percentage ownership of the company and the time that the shareholding has been owned). However, the international participation exemption for dividend income is only applicable in cases in which foreign withholding taxes have not been reduced under a tax treaty.
- **Interest Income and Capital Gains:** Interest income from bank deposits, bonds or mutual funds as well as capital gains from the disposal of substantial shareholdings, i.e. 1% or more, are subject to a 12.5% tax rate (at the time of writing). Such tax will be credited against withholding tax on distributions to beneficiaries. (In Austria capital gains are taxed as corporate income and resident corporate entities are not exempted from corporate income tax on the profitable disposal of shares in a resident entity).

¹⁰⁰ www.bdo.at

iii) Tax on Income Distributed:

Income distributed by the private foundation is currently subject to a final withholding tax of 25% whether the recipient is an individual or a corporation, and this may be reduced by tax treaties. Thereafter no taxes are payable by the recipient. If however the recipient is an individual with a lower marginal tax rate part of the withholding taxes may be re-claimed. Where the recipient is a corporate entity no reclaim can be made but taking into account the rate of corporate income tax and the fact that no more taxes will be levied on the income distributed, this fiscal treatment potentially represents a substantial fiscal concession.

(N.B. A foundation is not allowed to carry on business, agricultural or forestry activities (except as sideline activities) nor to take over the management of or assume personal liability for a partnership).

Venture Capital Funds

Venture capital funds are companies whose purpose is to invest in, promote and develop other corporate entities (provided those entities are not involved in the provision of financial services). This is usually achieved through the venture capital fund taking a participating shareholding in the target company.

The venture capital sector in Austria is relatively undeveloped. Funds created under the existing tax-privileged mutual fund structure (known as 'participation funds') are - at the time of writing - only allowed to acquire shares or other instruments which are quoted or traded on a generally recognised securities market, and securities of any one issuer may be purchased only to the extent of 10% of the fund's assets.

Such venture capital activity as has taken place has primarily used the Mittelstandsfinanzierungs-gesellschaft, or MFAG. It is a stock company structure, which is subject to corporate tax relief and some additional but minor tax reliefs, and it has various restrictions on investment activity. For example, just 30% of funds raised can be invested in foreign companies, no investment in financial services nor power generation is permitted and just 49% of a company can be bought by a single MFAG.

The FGG (Finanzierungsgarantie-Gesellschaft) is a financial institution owned by the Republic of Austria which assumes business risks on the basis of its appraisal of the potential of the company or project in question.

The aim of the program is to facilitate the start-up and expansion of technology orientated SMEs by offering guarantees to venture capital funds who are investing in these firms. The FGG enters into a general guarantee agreement with a venture capital fund over a certain amount of equity capital if the fund meets certain requirements (long-term investment, quality of management ...).

Criteria for approval of equity investments are the future earning potential and the management capabilities of the enterprise in question. If the FGG agrees to a new investment, the FGG secures 50% of the paid-in capital. The guarantee can be drawn by the venture capital provider at any time. Additionally the FGG offers sureties for a loan up to the paid-in capital.

Business Investment Incentives

Austria offers a comprehensive system of both national and local incentive programs. The incentives available for a specific project vary, depending on the geographic location, the number of jobs created, the technology used and various other factors. Even the range of incentives is wide: from cash grants and low interest loans to export guarantees. Therefore

individual consultations are required to determine the available incentives. Austria, however, must not grant subsidies in excess of the level accepted by the EU.

Incentive Cash Grants

Jobs must be created in economically depressed areas. Companies invest a negotiated amount for each job created and the employment must last for at least 3 years.

- Grants for company premises, machinery and equipment are not taxed as income;
- Grants or subsidies to create or maintain jobs may be tax free depending on circumstances.

The Tax Reform Act 2000 provided for a substantial enhancement of the tax incentives for R&D. After the reform, Austria found itself among the most generous countries with respect to tax incentives to R&D.

Within the framework of the Tax Reform Act 2000, the allowance for research expenditures in connection with economically valuable inventions was increased from 18% to 25% (maximum) and the allowance for additional research expenditures (over and above a moving average of the expenditure over the past three years) was increased to 35%. The aim of the regulation was to give incentives to increase R&D expenditures.

Until 2006, 41% of Austria's land area was eligible for support under various EU structural fund programs. The Austrian federal, provincial, and local governments also provide financial incentives within EU guidelines to promote investments in Austria.

Incentives under these programs are equally available to domestic and foreign investors, and range from tax incentives to preferential loans, guarantees and grants. Most of these incentives are available only if the planned investment meets specified criteria (e.g., implementation of new technology, reducing unemployment, etc.). Tax allowances for advanced employee training and R&D expenditures are available.

The government has merged various institutions providing financial incentives into a one-stop shop named the Austria Wirtschaftsservice.

The Innovation & Technology Fund

Grants are given up to a maximum of 50% of project costs for technology transfer, IT costs, transport projects, software engineering or energy projects.

Loans

European recovery programme (ERP)

SMEs are offered subsidised loans (2-4% benefit) for up to 70% of investments made into environmental protection technology and for some other purposes; both tangible and intangible assets are covered. The ERP Fund will prepare a package of subsidies for investors tailored to individual planned investment: ERP Fund Renngasse 5 A-1019 Vienna Tel: 00 43 1 53464 4000

Research and Technical Development

The Research Promotion Fund for Industry and Commerce offers support for R & TD Projects up to 50% of the project in the form of a combination of loans and grants. Applicants must show that the project will improve the structure and productivity of the Austrian economy.

Geography, Population, Languages

Cyprus is located in the north-eastern part of the Mediterranean, at the cross-roads of Europe, Africa and Asia. It is the largest island in the Eastern Mediterranean. It covers an area of 9,251 sq. km and lies 65 km south of Turkey, 96 km west of Syria, 385 km north of Egypt and some 980 km south-east of Athens. The principal topographical features of Cyprus are the two mountain ranges running down the centre and across the north-east of the Island, separated by a wide, fertile plain. Cyprus has a pleasant climate with dry, hot summers and mild winters, enjoying about 300 days of sunshine throughout the year. The rainy season is between November and March.

The population of Cyprus is about 706,000. Greek Cypriots form the largest ethnic community, representing about 82% of the population. The capital city is Nicosia, which has a population of about 200,000. The official languages are Greek and English. Northern Cyprus is occupied by Turkey, where 18% of the island's population live and Turkish is the official language.

History, Political Structure and Law

Cyprus gained independence from Britain in 1960. In 1974 Turkey invaded Cyprus and has occupied the northern 40% of the island since then, although discussions are currently taking place with a view to reunification.

Since 1960 Cyprus has had a Presidential system of Government, with Presidential elections taking place every 5 years. The political system is modelled on Western democracies, in which individual rights are respected and private enterprise is given every opportunity to develop. The executive branch of the Government is the Council of Ministers to which the President appoints members. The Ministers are responsible for the administration of all matters falling within the domain of their ministries and for the implementation of legislation. Legislative power is in the hands of the House of Representatives, which consists of 56 elected members who hold office for a period of five years. A multi-party system operates in Cyprus and the electoral system is based on proportional representation.

The legal system is based on British law, and all statutes regulating business matters and procedure are based on English Common Law. Most laws are officially translated into English. The Company law is modelled on the UK Companies Act of 1948. In addition, Cyprus has signed an associate agreement with the European Union.

Economy and Infrastructure

Cyprus is prosperous: GDP US\$16,400 per head. The economy is dominated by services, with tourism particularly important. Unemployment is low. The Cyprus Government has worked hard to create a favourable offshore tax regime while at the same time maintaining a normal-looking domestic economy, albeit with rates of taxation that are low by international standards. The success of this programme is attested by the nearly 50,000 offshore companies registered in Cyprus since 1975. However, the island's entry to the EU in 2004 meant a restructuring of the tax regime, which took place on 1st January 2003. Domestic and offshore companies alike now pay 10% tax, although income from foreign sources is exempt for non-residents. Cyprus has double-tax treaties with 27 other countries, including most major Western 'high-tax' countries, and most Central and Eastern European states. This is unusual for an international offshore

¹⁰¹ For more practical information about the company formation in Cyprus see the official site of PriceWaterHouseCoopers:
http://www.pwc.com/cy/eng/ins-sol/publ/pdf/pwc_TFF_2004_eng.pdf

financial centre and the effect is that Cyprus is a very effective location for holding and investment companies aimed at emerging markets. Cyprus has a good, European-standard business infrastructure, and English is widely spoken. However, it is a relatively expensive jurisdiction for offshore operations, and many documents need to be filed in Greek. The legal system is predominantly based on English law, and provides for various types of trust. The division of the island into Greek Cypriot and Turkish Cypriot zones separated by a UN buffer zone following the Turkish invasion of 1974 does not seem to impede normal commercial or offshore operations, which take place in the Greek zone. The island's listing by the FATF in June, 2000, as one of 15 offshore jurisdictions said to have inadequate defences against money-laundering hastened a process of adjustment to international standards of banking supervision and information exchange. After the EU finally agreed its Tax Directive in June, 2003, Cyprus announced that it would implement the 'information sharing' provision of the Directive on entry to the Union in 2004. This means that information about savings returns received in Cyprus by nationals of other EU countries will be passed to the tax authorities in the individuals' home countries. In late 2003 the government also announced plans to weaken previously tight banking confidentiality, although these were strongly attacked by the banks.

There are frequent air connections to many international destinations. Larnaca International Airport replaced Nicosia as the main International airport in 1975, and the second international airport near Paphos became operational in late 1985. There are major port facilities at Limassol, Larnaca, and Paphos. All ports in Cyprus come under the Cyprus Ports Authority. There are a number of regular passenger services with neighbouring countries, especially in the summer. An excellent network of roads provides internal transport within the island. Northern Cyprus is only reachable from Turkey.

Cyprus has a good telecommunications system, and over a hundred countries can be reached by direct dialling from any telephone; excellent postal and courier services are also available.

Agriculture, traditionally an important sector of economy that still remains the largest employer, is no longer the principal source of income. Tourism accounts for the largest proportion of GNP, and the development of the service sector has exceeded all expectations. Manufacturing also provides an important source of foreign exchange.

The economy of Cyprus is based on a system of free enterprise. The Government's role is only to regulate, plan and provide public utilities. During the last ten years, the economy of Cyprus has demonstrated spectacular growth, and its currency, the Cypriot pound, has enjoyed relative stability. There are exchange controls, but they do not apply to offshore companies.

Company Incorporation

The Principal Corporate Legislation is the Companies Law, Cap. 113 (as amended).

The international trade and investment companies that can be incorporated under the Companies Law, Cap 113 (amended) are as follows:

- Public Companies;
- Private Companies - up to 50 Shareholders;
- Offshore Companies . the most interesting now for international operations.

A Cyprus "offshore" company is defined as an otherwise normal Cyprus company which is owned by non-residents of Cyprus and does business mainly outside the island.

The powers and objects of a Cyprus company are contained within the Memorandum of Association and have to be specific. The languages of legislation and corporate documentation are English and Greek. Off-the-shelf companies are available.

Incorporation procedure involves submitting the Memorandum and Articles of Association to the Registrar of Companies, together with an affidavit sworn before a Court and the appropriate registration fee. As a matter of local company law the company must maintain a registered office address within Cyprus and must also appoint a company secretary who, for practical reasons, must be resident in Cyprus.

Restrictions on trading and business activities are follows:

- The Company cannot engage in banking, insurance or the provision of financial services to the public unless special permission is granted;
- The Company cannot trade with resident individuals or companies located in Cyprus other than in relation to the maintenance of premises or banking and professional services.

Company names are subject to the following requirements:

- Names may be expressed in any language that uses the Latin or Greek alphabet if the Registrar is in receipt of a Greek or English translation and the name is not deemed undesirable.
- Any name that is identical or similar to an existing company name is not acceptable.
- Any name that implies illegal activity or implies royal or government patronage is not permitted.
- The following words or their derivatives are restricted: Asset Management, Asset Manager, Assurance, Bank, Banking, Broker, Brokerage, Capital, Credit, Currency, Custodian, Custody, Dealer, Dealing, Deposit, Derivative, Exchange, Fiduciary, Finance, Financial, Fund, Future, Insurance, Lending, Loan, Lender, Option, Pension, Portfolio, Reserves, Savings, Security, Stock, Trust or Trustees.
- The following names or their derivatives and foreign language equivalents require consent or a licence: Bank, Trust, Building Society, Insurance, Assurance, Reinsurance.
- The suffix Limited or Ltd. denoting limited liability must be included.

The minimum number of directors is one. The directors may be natural persons or bodies corporate. In order to obtain relief under the taxation treaties signed by Cyprus, the Company needs to be Cyprus resident, and must have a majority of its directors based in Cyprus. All Cypriot companies must appoint a company secretary, who may be a natural person or body corporate. The minimum number of shareholders is one. The details of directors and shareholders appear on the public files but anonymity can be retained by the use of third party directors and nominee shareholders. Bank references for the beneficial owners must be submitted to the Central Bank of Cyprus. However, this information is protected by secrecy laws.

The share capital must be expressed in Cyprus pounds. The minimum authorised share capital of a Cyprus offshore company is CYP 1,000. For companies wishing to establish a physical presence in Cyprus, the minimum is CYP 10,000. The following classes of shares are permitted in Cyprus: registered shares, shares with par value, preference shares, redeemable shares, and shares with no voting rights. It should be emphasised that bearer shares are not permitted.

Annual Taxation and Fees

Taxation rules imply that by virtue of special provisions in the Cyprus Income Tax Laws, the net chargeable profits of Cyprus Offshore Companies are taxed at a rate of 10%.

Cyprus is a low-tax country rather than a no-tax country. One of the great benefits of Cyprus Companies is that Cyprus has signed a large number of double-tax treaties which provide for reduced or zero withholding taxes on dividends, interest or royalties paid to a Cyprus Company. There are treaties with Austria, Bulgaria, Canada, China, the Czech Republic & Slovakia,

Denmark, Egypt, France, Germany, Greece, Hungary, India, Ireland, Italy, Kuwait, Malta, Norway, Poland, Romania, Russia, (including all the CIS countries except for Kazakhstan) Sweden, Syria, UK, USA and the former Yugoslavia. Further treaties are currently being discussed with Belgium and Finland.

Licence fees are not applicable in Cyprus.

An annual return giving details of all those who have held shares throughout the year and the current directors must be filed and submitted to the Cyprus Taxation Authority and the Central Bank of Cyprus. In addition, every Cyprus Company must prepare audited accounts and submit these to the Central Bank and the income tax office.

Gibraltar

Geography, Population, Languages

The Gibraltar Peninsula is situated at the southernmost tip of Spain and faces North Africa some 32 km across the Straits of Gibraltar. The area of Gibraltar is 6 sq. km. and its population is 30,000. It is a bilingual country where both English and Spanish are spoken, though English is considered the official language of commerce and law.

History, Political Structure and Law

Gibraltar has been a British Colony since 1704. In 1713 Spain formally ceded it under the terms of the Treaty of Utrecht. However, according to the Constitution of 1965, the Colony possesses its own authorised Government.

Gibraltar is politically and economically a stable country. Although Spain still maintains territorial claims over Gibraltar the British Government, having had a special interest in Gibraltar for so long, has undertaken not to place the people of Gibraltar under the sovereignty of another state without their free will and democratic consent. Britain maintains responsibility for defence and foreign affairs, but local matters, including company and taxation law, are the preserves of a locally elected House of Assembly. The House of Assembly consists of 15 democratic members and several unofficial members, a Prosecutor General and a Financial Secretary.

Gibraltar is a member of the European community, having been included as a member when Britain joined in 1973. But Gibraltar is specifically excluded from the European Common Agricultural Policy, the VAT system and the Common Customs Union.

Economy and Infrastructure

Nowadays, Gibraltar is a financial centre of free entrepreneurial activity. Gibraltar enjoys a sophisticated range of banking, legal, accountancy and other professional services. All communications are excellent. Its main air links are with London, with several flights a day between the two, and there are flights to Europe and Africa. Gibraltar can also be reached via international airports in Spain.

Gibraltar continues to attract international banking institutions.

The currency is the Gibraltar Pound. It is on a par with the British Pound Sterling. Gibraltar has no exchange controls

Self-sufficient Gibraltar benefits from an extensive shipping trade, offshore banking, and its position as an international conference center. The British military presence has been sharply reduced and now contributes about 7% to the local economy, compared with 60% in 1984. The financial sector, tourism (almost 5 million visitors in 1998), shipping services fees, and duties on consumer goods also generate revenue. The financial sector, the shipping sector, and tourism each contribute 25%-30% of GDP. Telecommunications accounts for another 10%. In recent years, Gibraltar has seen major structural change from a public to a private sector economy, but changes in government spending still have a major impact on the level of employment.¹⁰²

As the only British international financial centre within the EU, Gibraltar has a common law framework, a highly-educated workforce, and UK-trained professionals. It is renowned as one of the best-regulated finance centres in the world. The Government established a Finance Centre office in 1997 in order to give a further boost to financial services, an important sector of the Gibraltar economy. The Finance Centre is charged with the marketing and promotion of financial services, input into strategic planning including the various international initiatives, product development, and liaison with the private sector and the regulator. Spacious offices in the prime development of Europort, which include a conference room with a spectacular view of nearby Spain and Morocco, are used as a meeting place for the various financial services associations as well as their umbrella body, the Finance Centre Council.¹⁰³

The development of the financial sector in Gibraltar has been facilitated by its location, a favorable tax regime, a stable government, status within the European Union (EU), no exchange controls, a legal framework based on the British system, and the availability of a well-qualified labor force, particularly well endowed with accounting and legal skills. This assessment covers both offshore and onshore financial activities, as there is no difference in the regulation and supervision of onshore and offshore financial institutions. There are no capital gains taxes, wealth tax, inheritance tax, estate duty, VAT, or sales tax. Personal income tax contributes the bulk of fiscal revenue. The Gibraltar financial sector is not large by international standards. For example, assets of banks that conduct only offshore business amount to £1.9 billion compared with Cyprus's £12 billion and Cayman's more than £450 billion. However, its contribution to employment and to the foreign exchange earnings of the economy is important. It is estimated that the financial sector, both onshore and offshore, accounts for roughly 30 percent of GDP or about the same as tourism. Banking is the most important offshore activity but with assets of US\$5 billion, it is small relative to that carried on in some other jurisdictions and does not create significant risk for the international financial system. The insurance sector has been growing in recent years. A key reason for this is the ability of firms licensed in Gibraltar to passport their services to EU member states. As of March 2006, there were 50 insurance companies licensed in Gibraltar.¹⁰⁴ There are also a number of insurance companies whose total assets are about US\$325 million, and a modest investment and securities industry.

There has been significant growth in the online gaming industry in Gibraltar.

Fifteen licenses have been issued and employment in this sector has increased from 550 to about 1,350 people. These firms provide online gambling and sports betting services. Several of the firms are listed on the London Stock Exchange and two firms are very large global players. There is also one land-based casino located in Gibraltar. It has an annual turnover of about £ 6 million per year.

In addition, there are approximately 28,500 active companies registered of which 8,800 are exempt companies (Exempt companies are those that are not owned by Gibraltarians and do not do business domestically, and are thus exempt from paying corporate taxes.). The provision of professional trusteeship and company management services is deemed to be a controlled activity and there are 83 groups that are licensed to conduct that business. Bank operations are straightforward for both offshore and onshore banks. Most of the banks are used by their parents for deposit raising activities. For instance, of total assets £5.2 billion, £3.9 billion is placed with other banks, all outside Gibraltar, mainly with group banks. Total loans and

¹⁰² <http://www.nationmaster.com/country>

¹⁰³ <http://www.gibraltar.gov.gi/>

¹⁰⁴ http://www.gibraltar.gov.gi/gov_depts/finance/IMF_Reports/Assessment_of_Financial_Sector_Supervision_and_Regulation..pdf

advances amount to £1.2 billion with approximately 63 percent in the form of back-to-back loans. Total non-bank deposits amount to £2.5 billion and total bank deposits to £1.7 billion, again mainly from group sources. Banks in Gibraltar do not place or take deposits with or from one another. Total off-balance sheet operations amount to £49.2 million, all of which relate to traditional banking activities, for example guarantees and letters of credit. None of the banks engages in activities related to derivatives or securitization. Thirteen banks maintain a book of assets under management amounting to £5.9 billion of which £4 billion are on a non-discretionary basis and £1.9 billion on a discretionary basis. These assets are managed in Gibraltar with advice from parent group companies.

The latest available figures show that gross premium income of the licensed insurers is approximately £70 million and that the total assets are about £210 million. Of the gross premium income, 55 percent has its origins in the U.K., 21 percent in Europe, only 4 percent in Gibraltar, and 20 percent in the rest of the world.¹⁰⁵

Budget > Expenditures	\$284,000,000.00
(per capita)	\$10,154.83 per capita
Budget > Revenues	\$307,000,000.00
(per capita)	\$10,977.22 per capita

Company Incorporation

The Principal Corporate Legislation is The Companies Ordinance Act of 1984 based on the amended English Company Law of 1929. Main types of Company for trade and investment are: Non-resident Company, Exempt Company and 1992 Holding Company.

A Company incorporated in Gibraltar has the same powers as a natural person. The Language of legislation and corporate documentation is English.

Companies are subject to the following restrictions on trade and business activities: a Company cannot engage in activity associated with banking or insurance.

Incorporation procedure includes the submission of the Memorandum and Articles of Association and a Declaration of Compliance. The standard incorporation time for Gibraltar companies is 4 to 5 days.

As a matter of local company law the company maintains a registered office address within Gibraltar. Additionally this is a practical requirement in the case of non-resident companies and a legal requirement in the case of other types of Gibraltar Company.

Company names are subject to the following restrictions:

- The following words and their associated activities are restricted: Association, Royal, Imperial, Trust, Trustee, Bank, and Assurance.
- If the name includes words such as Group, Europe and International, special consent or a licence is required.

Gibraltar companies must have a minimum of one director. This may be a corporate body or an individual. Details of the directors appear on the public file, but confidentiality can be preserved by the use of third party directors. A Gibraltar resident company secretary must be appointed.

¹⁰⁵ http://www.gibraltar.gov.gi/gov_depts/finance/IMF_Report.pdf

Gibraltar companies must have a minimum of one shareholder, which may be a corporate body or an individual. Details of shareholders appear on the public file but anonymity can be preserved by the use of nominee shareholders. Gibraltar companies are not favourably structured for the provision of Bearer Shares.

The minimum authorised share capital is not limited, but normally companies with an authorised capital of GBP 2'000 are incorporated, as the minimum tax on share capital at the incorporation is GBP 10 (i.e. 0.5 % of GBP 2000).

Annual Taxation and Fees

Non-Resident Gibraltar Companies: If a Gibraltar Company is able to establish that it is "Non-Resident Controlled", the Gibraltar Tax Authorities will treat such a Company as not liable for taxation in Gibraltar. Such "non-liability" may be determined on the following basis:

- Beneficial Owners of a Company are non-residents of Gibraltar
- Directors and Shareholders of the company are non-residents of Gibraltar
- Company carries on business exclusively outside Gibraltar

In addition to the above, taxation is abolished on dividends paid by one Gibraltar Company to another Gibraltar Company or a non-resident recipient. The requirement to withhold tax on dividends in accordance with Section 39 of the Gibraltar Income Tax Ordinance is also abolished. It is also useful to note that there is no Capital Gains Tax or Inheritance Tax due in Gibraltar.

Gibraltar companies are required to identify commencement dates for their financial years during the period 1st April to 31st March, and to file a Balance Sheet at the Companies Registry relating to their chosen year-long fiscal period within 13 months from the chosen financial year end. These Balance Sheets are required to be signed by the Directors of the companies, and there is no requirement for these Balance Sheets to be audited.

A non-resident company pays an annual tax of GBP 200.

Gibraltar Tax Exempt Companies

A company incorporated in Gibraltar which is owned by non-residents of Gibraltar and does not transact business with other Gibraltar resident companies or individuals is eligible to apply for tax exempt status in Gibraltar. They are exempt from Gibraltar taxation for a period of 25 years, provided that the company complies with the conditions of tax exempt status and pays an annual duty to the Gibraltar Government of GBP 225. At the end of every year Exempt Companies must file a statement attesting to the fact that the company has complied with the requirements applicable to its exempt Certificate. An Exempt Company is convenient from the point of view of administration. It may have locally appointed directors and may hold Bank accounts within Gibraltar.

Gibraltar 1992 Holding Company

This type of company can be particularly advantageous for non-EU countries that are investing within the EU and are expecting to receive dividend income. A 1992 Holding Company pays 35% tax on all profits except on dividend income received. Dividends paid out of the 1992 Holding Company are subject to a 1% withholding tax when remitted out of Gibraltar or zero tax when held within Gibraltar.

Geography, Population, Languages

Guernsey is the second largest of the Channel Islands off the north-west coast of France, the largest being Jersey. The area of Guernsey is 38 sq. km. and it has a population of approximately 58,000. Its principal centre of business activity is St. Peter Port. The environment is mainly rural. Attractive coastlines offer many facilities to visitors. The official language which is used in all aspects of the Island's financial and commercial life is English, although French is still spoken. French remains the official language of Guernsey's Royal Court, but it is used only on ceremonial occasions.

History, Political Structure and Law

The Island of Guernsey, along with the other Channel (Normandy) Islands, originally formed part of the Duchy of Normandy. Their present Constitution dates back to 1066, when William the Conqueror, Duke of Normandy, became King of England. The Channel Islands have remained possessions of the English Crown, though they are a self-governed autonomous territory.

The Channel Islands have a unique constitutional arrangement with the UK. The Islands are possessions of the English Crown. As distinct from colonial and overseas dependencies of the United Kingdom, the locally elected legislative assemblies have the exclusive right to legislate on matters of domestic concern to the Islands, including taxation. The United Kingdom government is responsible only for foreign affairs. The Islands are associate members of the European Community and as such are only subject to European law in so far as they specifically contract in to the European Community. Thus they have elected to become part of the common tariff and agricultural levy system but are not subject to European law in most other areas.

Guernsey Law is mainly based on English Common Law, with many French features.

Economy and Infrastructure¹⁰⁶

The financial services sector provides Guernsey's main source of income, and tourism has always been a very important aspect of the Island's economy. There are various other less significant sources of income, including agriculture and fishing.

Air services from Guernsey are excellent, with services to London being particularly frequent. There are also flights to many European centers, including Paris and Amsterdam. Guernsey, like Jersey, relies on sea transport for the importation of the majority of goods. The Channel Islands boast an excellent telecommunications system, as they use the UK digital network.

The Channel Islands are in a very favorable situation owing to the proximity of both the UK and the Continent, and although legislation on Free Trade adopted by the European Community applies to the Island, the politics of taxation planning does not affect Guernsey. The currency is the Great Britain Pound (GBP), and there is no exchange control.

Funds under management and administration in Guernsey grew by GBP15.2 billion (10.8%) over the quarter ended 30 June 2007 to reach a new high of GBP155.6 billion, the Guernsey Financial Services Commission has announced.¹⁰⁷

¹⁰⁶ <http://www.guernseyci.com/>

¹⁰⁷ http://www.tax-news.com/asp/story/Guernsey_Funds_Reach_New_High_xxxx28186.html

Banks have played a key role in the development of Guernsey as an international financial centre. The first merchant bank was established in Guernsey in 1963 and today there are around 50 licensed banks in the island with deposits of around £105 billion. They represent a range of countries with concentrations of banks with head offices in the UK and Switzerland. Other banks are from Bahrain, Bermuda, Canada, Cyprus, France, Germany, Greece, Hong Kong, Iceland, Ireland, Netherlands, South Africa, Qatar and the USA.

Thirty-one per cent of deposits are in sterling, and most banks offer foreign currency deposits. The most recent growth in the deposit base of Guernsey banks has been in foreign currency. In fact, over 43% of currency deposits held by Guernsey banks are US dollar deposits and the euro makes up about 21% of deposits.

Funds under management and administration grew by £10.2 billion (7.8%) over the quarter ended 31 March 2007 to reach a total of £140.4 billion. For the year since 31 March 2006, values increased by £29 billion, an increase of 26%.

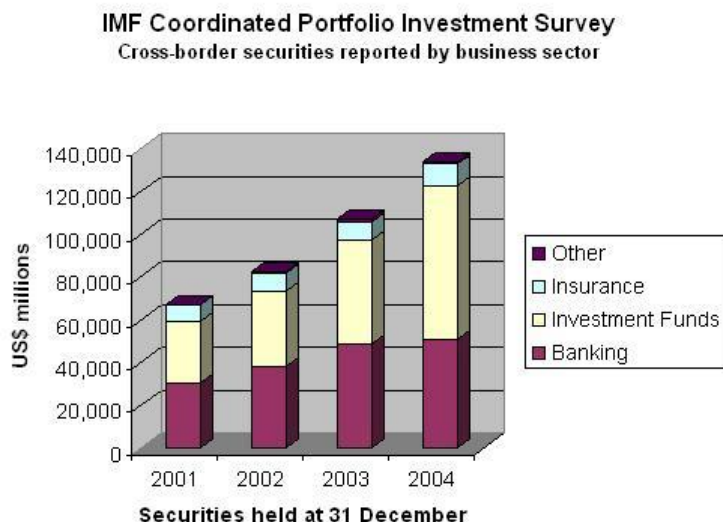
Within these totals, the Closed-end fund sector saw significant growth, with increases of £7.9 billion (16.3%) over the quarter and £22.6 billion (66.9%) over the year since 31 March 2006, to reach £56.4 billion, a new record. This growth resulted from the establishment of a record number of new Guernsey closed-ended investment funds during 2006. Guernsey domiciled open-ended funds grew by £2.1 billion (3.7%) over the quarter and by £5.2 billion (9.7%) over the year since 31 March 2006 to reach a new record total of £58.7 billion.

Non-Guernsey schemes, for which some aspect of management or administration is carried out in the Bailiwick, increased by £0.2 billion (0.9%) over the quarter and by £1.3 billion (5.4%) over the year to reach a new high of £25.3 billion.

By the end of March 2007, a total of 8 Registered Closed-ended Investment Funds had received consent since the launch of the regime on 1 February 2007. Since 31 March a further 10 Registered Closed-ended Investment Funds have received consent under this regime.

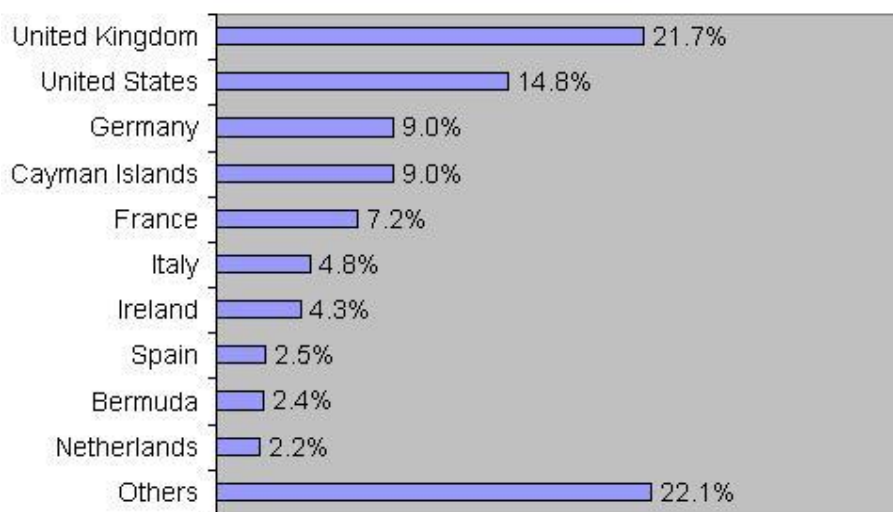
The total value of assets reported as at 31 December 2004 was US\$133.9 billion, an increase of US\$26.8 billion over the assets reported in the 2003 survey.

The figure below shows the assets reported for Guernsey over the period 2001 to 2004. There has been a significant increase in the value of the assets held over this period, particularly in the collective investment fund sector in the last two years. The weakening of the US dollar also accounted for a proportion of this increase with the dollar value of sterling increasing by a third between 31 December 2001 and 31 December 2004.



As at the end of 2004 asset holdings of US\$72.2 billion were reported for the collective investment fund sector, representing 54% of the total assets reported for the year. As in previous years, the investments of collective investment funds were predominantly in equities (see the figure below). In the banking sector asset holdings of US\$50.8 billion were reported for 2004, a small increase over the assets reported for 2003. The majority of assets held by the banking sector were in the lower risk asset class of long-term debt instruments.

IMF Coordinated Portfolio Investment Survey 2004
Geographical distribution of issuers of securities



Company Incorporation

The principal Corporate Legislation is the Guernsey Companies Law, 1908 and 1990. Under this legislation it is possible to incorporate only private or public companies. Depending on taxation status, all companies are divided into resident and non-resident (exempt) companies.

The type of company used for international trade and investment is the Exempt Company. Companies which are incorporated in Guernsey but which are owned by non-residents of Guernsey and do not do business with Guernsey-resident individuals or corporations, can be granted exempt status in Guernsey. A Guernsey Company has all the powers of a natural person. The language of legislation and Corporate documentation is English. There are no specific statutory provisions governing secrecy in relation to companies, but English Law, which applies to the jurisdiction, imposes a common law duty on professionals to keep the affairs of their clients confidential.

Companies are subject to the following restrictions on trading and business activity: a Guernsey Exempt Company is not allowed to trade within Guernsey or conduct any activity associated with the banking, finance and insurance sectors.

Incorporation procedure involves submission of the Memorandum and Articles of Association to the Financial Services Department. The Registered Office should be informed of directors' and shareholders' personal details, and character references for the beneficial owners should be provided, also a full description of the proposed company's trading and/or investment activities.

A Registered office must be maintained in Guernsey. Off-the-shelf companies are not available due to the requirement to disclose beneficial ownership and trading activities.

Company names are subject to the following requirements:

Names must be approved by making a formal request to the Financial Services Commission.

- The name of a Guernsey-registered company can be in any language that uses the Latin alphabet.
- A name similar or identical to that of an existing company or registered entity is unacceptable.
- Names of well-known multinational companies are unacceptable without prior written consent.
- Names that imply illegal activities are not permitted.
- Names that imply royal or government patronage, either local or foreign, are not permitted.
- The following names and their derivatives: Guernsey, Bank, Building Society, Savings, Loans, Insurance, Assurance, Reinsurance, Chamber of Commerce, Council, Co-operative, Trust, Trustees, Finance, International or their foreign language equivalents require consent or a license.
- Names of Companies with limited liability must have the suffix Limited or Ltd., or the French equivalent Societe avec Responsabilite Limitee or SARL.

A minimum of one director is required, and corporate directors are permitted. There is no requirement to have resident directors. A Company Secretary is required who can be a natural person or body corporate, can be of any nationality and need not be resident in Guernsey. The minimum number of shareholders is two. Corporate shareholders are permitted. Details on the beneficial owner of the company must be forwarded to the Guernsey authorities, but secrecy provisions protect this information. A share register must be maintained at the registered office address of the company. Details of shareholders and directors are maintained on the public files at the Companies Registry, but anonymity can be preserved by the use of nominee shareholders or third party directors.

The normal authorised share capital is GBP 10,000 (or the foreign currency equivalent), although the minimum authorised capital may be a nominal GBP 2, normally with two shares of GBP 1, or the foreign currency equivalent. All shares issued must be paid in full in cash.

The following classes of shares are permitted: registered shares, preference shares, redeemable shares, non-redeemable share and shares with or without voting rights. Bearer shares are not permitted.

Annual Taxation and Fees

Guernsey exempt companies pay no taxes in Guernsey, but are subject to a flat rate corporate duty of GBP 500 per annum irrespective of profit.

Guernsey has signed double taxation agreements, which provide for exchange of information with Jersey and the UK.

Financial statements are subject to the following requirements:

The annual return gives details of the current directors and shareholders and any change in the shareholders since the last return. The return must be filed at the public registry in January of each year, and a filing fee of GBP 100 is payable. If a company fails to file its annual return on the due date, it must pay a penalty.

Ireland

Geography, Population, Languages

Ireland is situated to the west of Great Britain, from which it is separated by the Irish Sea. Ireland is 83,270 square kilometres in area. It is renowned for its magnificent scenery, unique fauna and flora and unpolluted fishing lakes and rivers. The lakes and bogs of the interior lowlands are surrounded by mountains, from the bleak granite of the north and east to the jagged fingers of sandstone stretching out into the Atlantic in the south-west.

The population of Ireland is approximately 5 million, 3.5 million live in the Republic of Ireland (Eire). Roughly one third of the population (over 1.2 million) resides in the capital, Dublin and its surrounding suburbs. English is the official language of business and commerce. However, there are many areas referred to as "An Gaeltacht" such as the Aran Islands, Connemara, Galway and Cork where Irish Gaelic is spoken.

History, Political Structure and Law

Until 1922 Ireland was part of the United Kingdom. Indeed, Dublin was officially the second city of the British Empire after London. Following a war of independence that lasted 3 years, the United Kingdom entered into a treaty with Ireland. The effect was to partition the island into Northern Ireland (13,900 sq. km) and the Irish Free State (69,700 sq. km). In 1949 the Irish Free State became a Republic and left the British Commonwealth. Northern Ireland remains an integral part of the United Kingdom.

The Republic of Ireland (Eire) has a parliamentary democracy with a constitution. The head of state is the President, who is elected for a maximum of two seven-year terms. The Parliament (Oireachtas) consists of two houses, a Lower House and Upper House that is the Senate. The Lower House, Dail Eireann, consists of 166 members. They are elected in multi-seat constituencies by the single transferable vote system of proportional representation. The members of the Dail elect a Prime Minister (Taoiseach). The Prime Minister proposes 15 ministers to the President, who then appoints them on his advice. The Senate (Seanad Eireann) functions in a similar manner to the House of Lords in the United Kingdom. Vocational panels such as farming, employer, trade union, educational, and commercial groups elect all its members.

The Republic of Ireland is a member of the European Community. Accordingly Irish citizens have the automatic right to live and work in any EC member state. The system of law is Common Law based on English Common Law.

Economy and Infrastructure

The economy is trade dependent. Agriculture, once the most important sector, is now dwarfed by industry, which accounts for 37% of GDP and about 80% of exports and employs 28% of the labour force. Although exports remain the primary engine of Ireland's robust growth, the economy is also benefiting from a rise in consumer spending and a recovery in both construction and business investment. Ireland has substantially reduced its external debt since 1987, to 60% of GDP (1998 figure). Over the same period, inflation has fallen sharply and chronic trade deficits have been transformed into annual surpluses. Unemployment remains a serious problem, however, and job creation is the focus of government policy. To ease unemployment, Dublin aggressively courts foreign investors and recently created a new industrial development agency to aid small indigenous firms.

There are extensive flight connections to the United Kingdom, Europe and North America. Dublin Airport is an important European Airport. There are roll-on, roll-off freight and ferry services available to Great Britain and France.

Ireland has modern all-digital telecommunication facilities with direct dialling to 160 countries world-wide including all major financial centres. There are regular international courier services operated by numerous companies and the National Postal Service.

The currency is the Irish Pound, or Punt, which forms part of the European monetary system. There are no exchange controls.

Company Incorporation

The principal Corporate Legislation is the Companies Acts 1963 - 1990. In particular the Companies (amended) (No.2) Act 1999. A Company incorporated in the Republic of Ireland has the same powers as a natural person. The language of legislation and corporate documentation is English. Off-the-shelf Companies are available.

The types of Company used for International Trade and Investment are as follows:

- Public Companies;
- Private Limited Companies;
- Private Unlimited Companies.

Incorporation procedure involves submission of the Memorandum and Articles of Association, together with Form A1 detailing the first directors, secretary and location of the Registered Office. The Registered Office must be in the Republic of Ireland.

Restrictions on trading and business activities: the Company cannot solicit funds from or sell its shares to the public.

Company names are subject to the following requirements and restrictions:

- A name can be in any language that uses the Latin alphabet. The Registrar may request an English translation if a company name is in a foreign language.
- A name that is identical or similar to an existing name is not acceptable.
- A name that implies illegal activities is prohibited.
- A name that implies state patronage is prohibited.
- The following names or derivatives thereof, or their foreign language equivalent, require consent or a licence: Bank, Building Society, Savings, Insurance, Assurance, Reinsurance, Fund Management, Asset Management, Co-operative, Chamber of Commerce, Society, Municipal, Group, Holding, Irish.
- Limited or Teoranta (the Irish Gaelic for Limited) or abbreviations thereof are required as suffixes to denote limited liability.

The minimum number of directors is two. They must be natural persons of any nationality (Corporate Directors are not allowed). However, with the passing of the Companies Amendment Act, 1999 one Director must be resident (i.e. at least 183 days per annum) in the Republic of Ireland. If a company has no Irish resident Directors, then it may enter a Bond for IR£20,000. A Company secretary is required, who can be a natural person or body corporate. The company secretary need not be resident in the Republic of Ireland. The minimum number of shareholders is one, although the standard Memorandum and Articles of Association provides for two shareholders.

There is no capital duty payable on authorised share capital. There is a 1% capital duty on issued share capital. There is no maximum amount of authorised capital. The minimum issued

capital is two shares with par value. The following classes of shares are permitted: registered shares, preference shares, redeemable shares and shares with or without voting rights. The concept of bearer shares does exist, but they are very rare because Central Bank consent is required before they can be issued, and such consent is likely to be refused. It is also believed that issuing bearer shares could affect a company's status as a private company.

Annual Taxation and Fees

Companies are subject to taxation on profits of 12,5%. Ireland has a very extensive network of double tax agreements, with Australia, Austria, Belgium, Canada, Cyprus, Denmark, Finland, France, Germany, Italy, Japan, Korea, Luxembourg, the Netherlands, New Zealand, Norway, Pakistan, Portugal, the Russian Federation, South Africa, Spain, Sweden, Switzerland, USA, the United Kingdom and Zambia.

There are no licence fees.

Audited accounts must be filed with the annual return, and annual accounts must be presented to the tax authorities.

Isle of Man

Geography, Population, Languages

The Isle of Man is not part of the United Kingdom. The Isle of Man is located in the Irish Sea equidistant from England, Scotland and Ireland. Its area is 588 sq. km. The population is about 71,000. A third of the population live in the capital, Douglas, and its suburbs. The official language is English. Because of the Celtic origins of the Island, Gaelic is also spoken.

History, Political Structure and Law

The Isle of Man is politically very stable. Constitutionally it is a self-governed territory within Commonwealth, although the Queen of England holds the title Lord of Man and is ultimately responsible for the island's defence and foreign affairs. The Tynwald, the Island's two-tier parliament, was founded by the early Vikings over 1000 years ago, and boasts the longest history of any legislature in the world. Today, the Tynwald legislates on all domestic matters affecting the Isle of Man, including taxation. The Tynwald consists of two houses; the Legislative Council, which consists of eight members elected by the lower house, the House of Keys, the Bishop and the Attorney General, neither of whom has voting rights. The House of Keys has twenty-four members who are elected and serve for a 5-year term. Legislation passed by the Tynwald must have royal assent. The system of law in the Isle of Man is Common Law, based on English Common Law. The government of the Isle of Man follows the British legislature, and decrees relating to the British Courts apply also to the Manx Courts.

The Isle of Man is not a member of the EU, although it has "special relationship" status. This guarantees free trade between the island and the countries of the EU, while absolving the island from involvement with the EU budget and long-term programmes such as harmonisation of taxation.

The Isle of Man is an excellent, highly regarded jurisdiction for the establishment of a range of corporate structures with differing tax status, as outlined below.

Economy and Infrastructure

There are daily airline services from Ronaldsway Airport in the south of the island some eight miles from Douglas to London, Manchester, Birmingham, Cardiff, Dublin, Belfast, Blackpool, Liverpool and Glasgow. There are also services to other cities in the UK and the Channel Islands. However, there are no direct international flights. The Isle of Man has excellent telecommunication facilities. The island is part of Great Britain's telecommunications network, with direct dialling to 160 countries around the world including the leading financial centres. The island has 800 km of roads, mostly maintained to a high standard, and main roads connect all the major towns. Rail services are seasonal and largely provided for the benefit of tourists. The Isle of Man, confronted with a decline in its two principal sources of income, agriculture and tourism, now places greater reliance upon industrial investment and financial activities.

The currency is the Manx Pound, which is on a par with the UK Pound. There is no exchange control on the Isle of Man.

The economical structure of the Isle of Man¹⁰⁸

Sector	
Industry	10%
Finances	39%
Tourism	5%
Building	6%
Farming and fishing	1%
State authorities	5%
Professional services	15%
Other	18%

In 2000 there were about 40.000 registered companies. About 23 billion pound were kept on the deposit accounts in the banks of the Isle of Man, 15,2 billion in pounds, the rest . in other currencies.¹⁰⁹ There were 61 banks in 1998, among them 15 of purely offshore nature, 99 investment funds. The Great Britain is interested in keeping this offshore centre under its supervision, if only too much pressure is not done from the side of the EU.

Company Incorporation

The principal Corporate Legislation includes the following Acts:

- The Companies Acts 1931 to 1993.
- The International Business Act 1994.
- Limited Liability Companies Act 1996

English is the language of Legislation and Corporate documentation.

An Isle of Man company has nearly all the powers of a natural person.

The following types of company are used for international trade and investments:

¹⁰⁸ Isle of Man Key Economic Data Reports The Isle of Man Treasury, Feb. 2000

¹⁰⁹ www.gov.im/infocentre/stats.asp

- The Non-Resident Company: By law, central management and control of Non-resident Companies must be exercised away from the Isle of Man. This would normally be in a low or tax-free area to avoid corporate taxation.
- The Exempt Company must by law have at least one Isle of Man resident director and must appoint an Isle of Man resident company secretary who must be a natural person and hold a professional qualification. The Exempt Company is normally used for personal or corporate investment holdings and for trading with European Union countries.
- The Resident Company is used for all types of domestic business, but may also be used for foreign property ownership. If no income derives from such investment the company is not subject to taxation in the Isle of Man.
- The Limited Liability Company is based on US LLC legislation. Manx LLCs must have two members and appoint a local registered agent.

Other Isle of Man entities used for international tax planning are:

- Partnerships;
- Trusts.

Trading and business operations are subject to the following restrictions:

- A Company must not trade within the Isle of Man.
- A Company must not engage in the business of banking or insurance.
- A Company must not engage in the business of investment, other than investment of the company's own assets.
- A Company must not solicit funds from the public nor offer its shares to the public.

Incorporation procedure depends on the type of company:

- Exempt Companies must submit the Memorandum and Articles of Association, together with "Form I" nominating the first directors and secretary, advise the location of its Registered Office and submit the form applying for approval of the company's name. Immediately after incorporation the company must elect Resident, Non-resident or Exempt status.
- LLCs must file the Articles of Organisation with the Registry.

Manx Exempt companies must maintain a registered office in the Isle of Man. Off-the-shelf companies are available.

Company names are subject to the following requirements and restrictions:

- Names may be expressed in any language that uses the Latin alphabet, if the Registrar of Companies is in receipt of an English language translation and the name is not considered undesirable.
- A name similar or identical to that of an existing company is not acceptable.
- A name known to exist elsewhere is not acceptable.
- A name that implies illegal activity is not permitted.
- A name that implies royal or government patronage is unacceptable.
- For Exempt Companies, many names such as "International", "European", "Trust", "Trustees" or "Fiduciary", "Holdings", etc. require justification or high capitalisation for their use to be permitted.
- The following names or their derivatives require consent or a licence: bank, building society, savings, loans, insurance, assurance, reinsurance, co-operative, council, Chamber of Commerce, trust, municipal, finance or their foreign-language equivalents
- Exempt companies must utilise the suffix Limited or Ltd; LLCs must utilise the suffix Limited Liability Company or LLC.

The number of directors required depends on the type of company:

- For Exempt Companies the minimum number of directors is two. Exempt companies are required to appoint at least one resident director. A corporate body may not be appointed director.
- LLCs must have one manager, either a natural person or a corporate body of any nationality.

A company secretary is required for all Isle of Man companies. This may be a natural person or corporate body. The company secretary of an Exempt Company must be a natural person resident in the Isle of Man and must hold a professional qualification. The minimum number of shareholders is one for an Exempt Company, two for an LLC

The normal authorised share capital for Exempt Companies is GBP 2,000 or its equivalent, this being the maximum to qualify for the minimum capital duty payable on incorporation. The minimum issued share capital is one share with par value. Exempt companies may have the following classes of shares: registered, bearer, preference shares, redeemable shares and shares with or without voting rights. Exempt companies may have bearer shares, but these cannot be allotted directly to the bearer. They must be allotted in registered form and then transferred. It is a requirement of Isle of Man legislation that the Register of Members must state the name and residential address of holders of bearer warrants.

Annual Taxation and Fees

Exempt Companies and International LLCs do not pay income tax but pay a fixed annual fee to the Government:

- An Isle of Man Exempt Company pays GBP 400 per year, due on 6th April.
- An Isle of Man International LLC pays GBP 400 per year, which must be paid within 30 days of applying for International LLC status and annually thereafter.

Apart from a limited agreement with the United Kingdom, the Isle of Man is not party to any double tax agreements.

Although there is no requirement to file audited accounts with the authorities, a company is required to keep financial records reflecting the financial state of the company. The Assessor of Income Tax has the right to call in the accounts.

Italy

Geography, Population, Languages

Italy is a Southern European country, situated on the western side of the European continent. It comprises the Italian peninsula, the Po River valley, and two large islands in the Mediterranean Sea, Sicily and Sardinia. Its highest point is Mont Blanc, but Italy is more typically associated with two famous volcanoes: Vesuvius and Etna.

Italy shares its northern alpine boundary with France, Switzerland, Austria, and Slovenia, and a sea border with Croatia, and France. The independent countries of San Marino and the Vatican City are enclaves within Italian territory. Total area is around 300 km² and the population numbers up to 58mln. The capital and largest city is Rome. Italy is largely homogeneous in language and religion. Official language is Italian.

History, Political Structure and Law

Although Italy remained politically fragmented for centuries, it became the cultural center of the Western world from the 13th to the 16th century.

Modern Italy became a nation-state on March 17, 1861, when most of the states of the peninsula, along with Sardinia and Sicily, were united under king Victor Emmanuel II. The annexation of Venetia in 1866 and of papal Rome in 1870 marked the complete unification of peninsular Italy into one nation under a constitutional monarchy.

Currently Italy is a republic. The Italian Republic was created by popular referendum in 1946 after World War II and the fall of Mussolini's fascist regime. The 1948 Constitution of Italian Republic established a bicameral parliament. The President of the Republic is elected; he nominates the prime minister, who proposes the other ministers.

The Italian judicial system is based on Roman law modified by the Napoleonic code and later statutes. A constitutional court passes on the constitutionality of laws, and is a post-World War II innovation.

Economy and Infrastructure

After the monarchy was replaced by democratic republic, economic revival followed. Italy became an integral member of NATO and the European Economic Community (later the EU) having signed the Treaty of Rome in 1957. Italy joined the Euro from its conception in 1999.

Today, Italy is a highly developed country with one of the highest GDP and a member of the Group of Eight (G8). The country is one of the largest exporters of manufactured goods in the world. This capitalistic economy remains divided into a developed industrial north, dominated by private companies, and a less developed agricultural south.

Over the past decade, Italy has pursued a tight fiscal policy in order to meet the requirements of the Economic and Monetary Union and has benefited from lower interest and inflation rates.

Company Incorporation

The company law in Italy is governed by Art. 2472 ff. and Art. 2325 ff. of Codice Civile. In general terms Italian Law prescribes two forms of companies having limited liability: Limited Liability Company or S.r.l. (*società a responsabilità limitata*) and Joint Stock Company or S.p.A. (*società per azioni*).

Both S.p.A. and S.r.l. are limited liability companies, but only in the case of Joint Stock Company the share capital is divided into shares, which are embodied in stock certificates. In case of S.r.l. the capital is divided into "quotas", which are only recorded in the "quotaholders" book. Although there are certain regulations, which apply specifically to S.r.l., broadly speaking, an S.p.A or an S.r.l. can be both used to serve as a company having limited liability in Italy.

The minimum capital requirement for a S.r.l. is 10,000 EUR. Italian law requires that at least 25% of the subscribed capital be deposited with a Bank in Italy before the Deed of Incorporation is executed. However, in the case of a sole shareholder the entire capital must be fully paid-in at the time of the incorporation. In order to avoid possible problems, in case of non-resident shareholders, capital should be remitted from abroad and negotiated approximately one week before the date of incorporation.

The minimum number of shareholder for a S.r.l. is one. The shareholder does not need to be of Italian nationality or resident. For incorporating a new S.r.l., all shareholders must be present in person in front of a Notary in Italy to sign all company documents. Alternatively, Company

Express can arrange for the shareholder(s) to issue a Power of Attorney to a lawyer (provided by Company Express) to enable the lawyer to sign all documents on behalf of all shareholders. In this way, the shareholders do not have to be present in person before a Notary in Italy.

S.r.l's are managed by one or more directors. There are no requirements for directors to be of Italian national or resident. However, it is advisable that at least one director is an Italian resident, particularly if the company is to perform a commercial activity. A secretary is not required by Italian law.

All the companies with a capital equal or exceeding 120,000 EUR (and thus all S.p.A.) must have a board of statutory auditors, comprised of 3 statutory members and 2 alternate members. Even if the company has a capital of only 10,000 EUR a founder, in view of the importance of the company, may wish to appoint such board upon incorporation. The Auditors' fees according to applicable law are proportional to the company's capital.

After incorporation, the new company must apply for a VAT number and adhere to certain fiscal requirements. Company Express can arrange for the VAT registration and the accounting matters are usually handled by an accountant to be appointed by the new company. Company Express can provide these services also.

Annual Taxation and Fees

S.r.l's are required to prepare annual accounts, including a Balance Sheet, a Profit and Loss Statement and an Integrative Note, which must be approved by a shareholders' meeting within 4 months from the end of its financial year. Thereafter the company's balance sheet needs to be filed with the Registrar of Companies.

Jersey

Geography, Population, Languages

Jersey is situated off the north-west coast of France. It is about 160 km south of England and only 20 km from France. It is the largest of the Channel (Normandy) Islands. The total land area is 117 sq. km. The environment is mainly rural. Its pleasant coastlines are very attractive to tourists. The main port is St. Helier. The population of Jersey is about 86,000, and there are measures in place to restrict future growth due to immigration. English is used in all aspects of the Island's financial and commercial life. However, French remains the official language of Jersey's Royal Court, but it is used only on ceremonial occasions.

History, Political Structure and Law

The Island of Jersey, along with the other Channel (Normandy) Islands, originally formed part of the Duchy of Normandy. Their present Constitution dates back to 1066, when William the Conqueror, Duke of Normandy, became King of England. The Channel Islands have remained possessions of the English Crown, though they are self-governed autonomous territories. The constitutional relationship between the Channel Islands and the United Kingdom are unique, differing from colonial and overseas dependencies of the Crown. The Island's Parliament and legislative assemblies have the exclusive right to legislate on domestic affairs (including taxation), although Jersey's foreign affairs are the UK's responsibility.

The system of Law is largely based on English Common Law but with many French features.

Economy and Infrastructure

The financial services sector provides Jersey's main source of income, and the tourist industry has always been very important to the Island's economy. There are various other less significant sources of income, including agriculture and fishing.

Air services from Jersey are excellent, with particularly frequent services to London. There are also flights to many European centres, including Paris and Amsterdam. Jersey relies on sea transport for the importation of the majority of its goods. Jersey boasts an excellent telecommunications system as it uses the UK digital network.

Jersey is in a very favourable situation owing to the proximity of the UK and the Continent, and although the legislation on Free Trade adopted by the European Community applies to the Island, the politics of taxation planning does not affect Jersey. The currency is the Pound (GBP), which is on a par with the UK Pound, and there is no exchange control.

The main source of income is the activity of foreign companies. In 1994 the 54% of GDP were yielded from the financial services, employing 20% of working population. There are no natural resources on the isle, the offshore sector forms 39% of GDP, tourism . 35%, taxes from the wealthy individuals with residence permit . 20%, farming and light industry . 6%. There is a regulation, according to which only the subsidiaries of the 500 largest banks can register on the isle. In 2000 the sum of bank deposits was 115,9 billion pound (7,9% more than in 1999¹¹⁰). Every 3 months about 700 new companies get registered in Jersey. In 2000 the amount of newly registered companies was increased at 20% in comparison to 1999. The amount of assets was increased at 43% in comparison to the previous year and is calculated at 34,3 billion pound. There were 73 banks represented on the isle. In the second quarter of 2001 the money amount, placing in the offshore funds has reached 106 billion GB pound, this is 21,23% more than in the second quarter 2000¹¹¹. The growth of investment funds was evaluated at 8,6% and reached 36 billion GB pound. These funds dealt with 22049 clients.¹¹²

The latest statistics on Jersey's Finance Industry for the second quarter of 2007 show that bank deposits and investment fund assets under administration in the Island both broke through the GBP200 billion milestone, as at the end of June¹¹³

The figures for the second quarter of 2007 are compiled by the Island's regulator, the Jersey Financial Services Commission (JFSC), and highlight a buoyant mood across the Finance Industry with all sectors experiencing an upswing in business growth. The funds and banking sectors have performed particularly strongly yet again. Compared to the previous quarter, bank deposits have increased by 6.6% overall to GBP211.7 billion, the highest recorded figure to date, and the Net Asset Value of Funds under administration increased by 8.2% to GBP210.4 billion.

The headlines for the Finance Industry's statistics for the quarter ending June 2007 are as follows:

- Bank deposits grew by GBP13.2 billion (6.6%) over the quarter to GBP211.7 billion. This represents an increase of BP28.0 billion (15.3%) during the last 12 months.
- The Net Asset Value (NAV) of Funds under administration in Jersey grew by GBP15.9 billion (8.2%) during the quarter to reach GBP210.4 billion. Since June 2006 the NAV of Funds under administration has risen by GBP50.7 billion (31.8%).

¹¹⁰ Jersey Financial Services Commission Quarterly Report November 23, 2000

¹¹¹ Jersey Financial Services Commission Quarterly Report November 23, 2000

¹¹² Johnson C. Jersey FSC Publishes Quarterly Report.- September 17, 2001 . Investors Offshore.

¹¹³ Jersey Bank And Fund Assets Top GBP400 By by Robert Lee, Tax-News.com, London, 31 August 2007

- The number of Expert Funds increased by 19 (6.3%) and the NAV of Expert Funds grew by GBP4.1 billion (12.1%) during the quarter. During the last 12 months the number of Expert Funds grew by 105 to 319 (49.1%) and the NAV increased by GBP16.6 billion (76.6%) to GBP38.3 billion.
- The total value of funds under investment management increased by GBP4.9 billion (7.5%) to GBP70.8 billion during the quarter. Since June 2006 the total value of funds under investment management increased by GBP11.7 billion (19.9%).

Geoff Cook, Chief Executive of Jersey Finance Limited, commented: "All key sectors of Jersey's Financial Services Industry reported excellent growth rates which are testament to the strength and depth of Jersey's product and service offering provided by our world-class workforce.

In the second quarter of 2007, company formations were up 77% on the same period in 2006. This represents a definite upward trend of Jersey company formations, primarily for property holding purposes. On an inward investment note, we are very pleased to welcome Investec Bank (Channel Islands) Ltd to Jersey.

The Expert Funds sector in particular performed outstandingly well, with 105 new Expert Funds being set up over the last 12 month period. We are seeking to build on Jersey's importance as a leading European fund domicile and administration centre, with a new funds product offering which will enable Jersey to retain its pre-eminent status, as one of the world's leading international finance centres.+

Richard Thomas, recently appointed Chairman of the Jersey Funds Association, added: "These statistics are particularly pleasing due to the intense competition we are currently seeing in the market place and are testament to the attractive nature of Jersey's funds offering and the professional expertise in the jurisdiction. Not only has the number of Expert Funds significantly increased year on year, but the NAV has also grown by a hugely impressive 76.6% to now stand at GBP38.3 billion. Moreover, Jersey's focus on specialist funds, including private equity, alternative investment and hedge funds, continues to reap rewards. They have increased on the previous quarter by 12.5% to GBP109.9 billion and now account for well over half the total NAV of funds.+

Company Incorporation

The principal Corporate Legislation is the Companies Jersey Law, 1991 (amended).

The type of Company used for international trade and investment is an Exempt Company. A Jersey company has all the powers of a natural person. The language of legislation and Corporate documentation is English.

There are some restrictions applying to trading and business activity. A Jersey Exempt Company is not allowed to trade within Jersey or engage in the business of banking, deposit taking, insurance, assurance, reinsurance, fund management, asset management (other than its own assets) or any other activity associated with the banking, finance and insurance industries.

Incorporation procedure involves submission of the Memorandum and Articles of Association to the Financial Services Department. The address of the company's Registered Office, the names, nationalities and addresses of the directors and shareholders, character references relating to the beneficial owners and a full description of the proposed company's trading and/or investment activities must be provided. A Registered office must be maintained in Jersey. Off-the-shelf companies are not available owing to the requirement to disclose beneficial ownership and trading activities.

Company names are subject to the following requirements:

The name must be approved by formal application to the Financial Services Department.

- The name of a Jersey registered company can be in any language that uses the Latin alphabet as long as the authorities are advised of the meaning on the name application form. The name will then be approved or otherwise, subject to current guidelines regarding the use of certain words.
- A name similar or identical to that of an existing company or registered entity is unacceptable.
- Names of well-known multinational companies are not permitted without prior written consent.
- Names that imply illegal activities are not permitted.
- Names that imply royal or government patronage, either local or foreign, are not permitted.
- The following names and their derivatives require consent or a licence: Jersey, Bank, Building Society, Savings, Loans, Insurance, Assurance, Reinsurance, Chamber of Commerce, Council, Co-operative, Trust, Trustees, Finance, International or their foreign language equivalents.
- A Company with limited liability must end its name with Limited or Ltd., or with the French equivalent Societe avec Responsabilite Limitee or SARL.

The minimum number of directors is one. A director must be a natural person, and may be of any nationality and not necessarily resident in Jersey. A Company secretary is required, and this can be a natural person or a corporate body, of any nationality and need not be resident in Jersey. If a company has one director, the latter cannot simultaneously be company secretary. The minimum number of shareholders is normally two. However, if the company is to be a wholly owned subsidiary, only one shareholder is required.

Normally authorised share capital is GBP 10,000 (or its foreign currency equivalent), although minimum authorised capital may be a nominal GBP 2, normally with two shares of GBP 1 each, or the foreign currency equivalent. All shares issued must be paid in full in cash.

The following classes of shares are permitted: registered, preference, redeemable, non-redeemable shares and shares with or without voting right. Bearer shares are not permitted.

Annual Taxation and Fees

Taxation depends on the type of the Company:

- Exempt Companies do not pay any Jersey taxes.
- Resident Jersey Companies pay income tax at a rate of 20% on world-wide income.

There are double taxation agreements with the UK and Guernsey, but they only apply to resident individuals and companies.

Exempt companies pay a licence fee - an annual tax exemption fee is 600.

Financial statements are required for Resident Companies but not for Exempt Companies, although the Financial Services Department reserves the right to call for accounts at any time.

Liechtenstein

Geography, Population, Languages

The Principality of Liechtenstein lies in the region of the Upper Rhine between the Swiss Canton of St. Gall and the Austrian Federal State of Vorariberg. It is about 75 miles or 90 minutes drive from Zurich (Switzerland), which is the nearest international airport. It is Europe's fourth smallest state with an area of about 159 sq. km. Vaduz is both the capital and the seat of Government. The topography is mainly mountainous apart from the Rhine plain, which is the most populated area.

The population is approximately 30,000, 18,000 of whom are citizens of the Principality. The official language of the Principality of Liechtenstein is German, although the local dialect is widely spoken. English is also spoken and is widely used among the business community.

History, Political Structure and Law

The history of Liechtenstein goes back to 1712, when the family of the Princes of Liechtenstein purchased the lordship of Schellenberg and the principality of Vaduz.

The Principality of Liechtenstein, like its neighbors, is politically neutral. According to the constitution adopted in 1921, the political system of Liechtenstein is a constitutional hereditary monarchy with a prince as head of state and a democratically elected parliament. The parliament (Diet) has 25 elected members who propose the head of government, his deputy and 3 councilors who form the government and are not members of the Diet. Liechtenstein is a member of the United Nations, the Council of Europe, EFTA and the EU, although membership does not affect local fiscal policy.

The system of law in Liechtenstein is Civil Law. It is based on Swiss, Austrian and German law with local adaptations.

Economy and Infrastructure

The economy of Liechtenstein is very closely related to the Swiss. There is no customs control on the border between Liechtenstein and Switzerland.

Banking and financial services are one of Liechtenstein's main industries, and within this industry there are high levels of secrecy, with heavy sanctions imposed for any breaches of confidentiality. The combination of low taxation, fairly liberal regulations for the running of companies and very well protected banking confidentiality makes Liechtenstein very attractive as an international business centre.

For example, Liechtensteinische Landesbank¹¹⁴, Liechtenstein's oldest financial institution, has announced "excellent" results for the first half of 2007, with net profits up by 10.4% to CHF126.9 million (US\$105.3 million) and client assets having risen by 20% to CHF60.6 billion. LLB's core operations are focused on wealth management, private banking, asset management, fund services and trust services. Assets in own managed funds rose strongly by 29.4% to CHF4.5 billion. Net fee and commission income again expanded and amounted to CHF151.4 million (+23.9 %). This rise highlighted the very positive trend with securities administration (+33.4 %),

¹¹⁴ http://www.tax-news.com/archive/story/Liechtensteinische_Landesbank_Announces_Excellent_Interim_Results_xxxx28291. Liechtensteinische Landesbank Announces 'Excellent' Interim Results. By Phillip Morton, Investors Offshore.com .31 August 2007

investment fund management (+21.3 %), and brokerage fees (+19.2 %), the bank announced. The Liechtensteinische Landesbank AG (LLB) was founded in 1861, and is the longest established financial institute in the Principality of Liechtenstein, which holds the majority of the company's share capital. LLB's shares are listed on the SWX Swiss exchange, and the bank is represented in various locations, including Vaduz, Uznach, Zurich, Basel, Geneva, Lugano, on the Cayman Islands, Abu Dhabi (United Arab Emirates) and Hong Kong.

The official currency of Liechtenstein is the Swiss Franc. Under a treaty with Switzerland, there is no foreign Exchange Control.

Company Incorporation

The principal Corporate Legislation is the Persons and Companies Act of 1926. Liechtenstein is the only country on the Continent to have a Law on Registered Trusts. The powers of Liechtenstein corporate bodies are contained in the Companies' statutes. The language used for legislation and corporate documents is German, but foreign language translations can be obtained.

The types of Company used for International trade and investment are:

- Aktiengesellschaft or AG (a company limited by shares).
- Anstalt (an Establishment, commercial or non-commercial, without shares).
- Stiftung (a Foundation).
- Gesellschaft mit beshraenkter Haftung - GmbH (a Private Limited Company without shares).
- Treuunternehmen (a Registered Trust).
- Treuhandschaft (a Trust).

One of the main attractions of Liechtenstein is its extremely flexible company law, which allows for the creation of any type of legal organisation, which is recognised under the law of any jurisdiction in the world. The three main types of commercial entity in use are: (1) the Establishment, or Anstalt; (2) the Foundation, or Stiftung; (3) the Company limited by shares, or AG.

The most important entity for tax purposes is the Anstalt, which is commonly used by foreign companies as a holding company for overseas subsidiaries. The Anstalt is an entity that has no members, participants or shareholders, and is a hybrid of a company limited by shares and a foundation. It is popular because with minor exceptions it is free to conduct all kinds of business, including non-trading activities such as holding of passive investments.

A Stiftung (Foundation) is typically formed purely for family, non-profit or non-commercial reasons, since a foundation is not suitable for the pursuit of commercial business. This type of foundation is commonly used to hold assets, fixed property or shares in other companies. A Liechtenstein foundation is not subject to any form of income tax, capital tax, transfer tax or inheritance tax in Liechtenstein.

Trading and business activities are subject to the following restrictions:

A Liechtenstein corporate body or trust cannot undertake the business of banking, insurance, assurance, reinsurance, fund management, collective investment schemes or any other activity that would suggest an association with the Banking or Finance industries, unless a special licence is obtained.

Incorporation procedure for Liechtenstein entities follows Civil Law practice. Entities must appoint a local representative. The procedure requires the submission of the following information to the Oeffentlichkeitsregister (Public Registry):

- The Deed constituting the statutes and by-laws signed by the subscriber or agent.
- The proposed name of the company.
- Share capital, division of capital and type of shares (where appropriate).
- A declaration that the minimum capital has been paid into a Bank in either Liechtenstein or Switzerland.
- Names, addresses and nationalities of directors and confirmation that they consent to act as directors.
- Names, addresses and nationalities of shareholders.
- Confirmation that a Liechtenstein resident representative has been appointed.

Owing to the costs associated with incorporation and paid up share capital requirements, off-the-shelf companies are not normally available.

Company names are subject to the following restrictions:

- The name may be in any language that uses the Latin alphabet, but the Public Registry may require a German translation.
- A name that is identical or similar to an existing name is not acceptable.
- A major name that is known to exist elsewhere is not acceptable.
- A name that may imply government patronage cannot be used.
- A name that in the opinion of the Registrar may be considered undesirable is not permitted.
- The following names or their derivatives require consent or a licence: Bank, Building Society, Savings, Insurance, Assurance, Reinsurance, Fund Management, Investment Fund, Liechtenstein, State, Country, Municipality, Principality, Red Cross
- The name must end with one of the following suffixes denoting limited liability: Aktiengesellschaft or AG; Gesellschaft mit beschränkter Haftung or GmbH; Anstalt or Est.

The minimum number of directors for the Aktiengesellschaft (AG), GmbH and Anstalt is one. The directors may be natural persons or bodies corporate. A Liechtenstein Stiftung does not have a board of directors, but appoints a Foundation Council. The directors (members of council) may be natural persons or bodies corporate. They can be of any nationality, but at least one director (member of council) must be a natural person, a resident of Liechtenstein and qualified to act on behalf of the company.

The concept of a company secretary is not recognized in the Principality of Liechtenstein.

The minimum number of shareholders/equity participants/beneficiaries of any Liechtenstein entity is one.

The minimum authorised, issued and paid up share capital are as follows:

- An Aktiengesellschaft is CHF 50,000.
- Anstalt: CHF 30,000.
- Stiftung: CHF 30,000.
- Trust Enterprise: CHF 30,000.

The following classes of shares are permitted:

- An Aktiengesellschaft (AG) may issue registered, bearer or preference shares, also shares without par value or with special voting rights.

- A GmbH, Anstalt, Stiftung or trust are not allowed to issue shares and the shareholders' rights are assigned by Deed or Bylaws. The minimum number of shareholders in GmbH is two.

Annual Taxation and Fees

The taxation and license fees depend on the type of entity:

- An Aktiengesellschaft (AG) pays a 4% coupon tax on dividends and an annual capital tax of 0.1% on the net asset value of the company. The annual minimum is CHF 1,000.
- A commercial or non-commercial Anstalt, provided the capital has not been divided, does not pay a coupon tax but pays an annual capital tax of 0.1% on the net asset value of the company. The annual minimum is CHF 1,000.
- A Stiftung, whether registered or deposited, does not pay a coupon tax, but must pay an annual capital tax of 0.1% on the net asset value of the company. The annual minimum is CHF 1,000.
- Trusts pay a minimum annual tax of CHF 1,000 or 0.1% on the net asset value.

Liechtenstein has only one double tax agreement, with Austria.

The following requirements apply to the financial statements:

- An Aktiengesellschaft (AG) or GmbH is required to submit an audited financial statement to the Liechtenstein tax administrator for assessment.
- A commercial Anstalt is required to submit an audited financial statement to the Liechtenstein tax administrator.
- A non-commercial Anstalt need not submit accounts to the Liechtenstein tax administrator; a statement by the bank that a record of its assets is available is sufficient.
- A Stiftung need not submit accounts to the Liechtenstein tax administrator; a statement by the bank that a record of its assets is available is sufficient.

Luxembourg

Luxembourg is a constitutional monarchy, has a land area of about 2,400 sq. km, a population of 420,000, 20% of whom are foreign nationals, and is sandwiched between Belgium, France and Germany. With Belgium and the Netherlands, it forms part of Benelux, which was a precursor of the EU. Luxembourg was a founder-member of the EU and hosts many of the EU's financial institutions. Languages spoken are French, German and English, with Luxemburgish the everyday language of Luxembourgers.

History, Political Structure and Law

The Treaty of Vienna of 1815 created the Grand Duchy of Luxembourg within the German Bund. In 1867 Luxembourg gained independence from Germany and organised itself as a constitutional monarchy with legislative power vested in a democratically elected parliament. Luxembourg is a member of the OECD, the European Union, the Benelux union and the Belgium/Luxembourg Economic Union. The legal system is based on the Napoleonic code and is therefore similar to the Belgian and French legal systems (Civil Law).

Economy and Infrastructure

Luxembourg's economy was dominated by steel production, but since the Second World War the Government has successfully encouraged development of a diversified financial sector.

Tourism is also important. In Europe, Luxembourg has the second most extensive banking industry after London (220 banks). The Luxembourg private banking industry is possibly Europe's biggest. The Stock Exchange specializes in collective investment funds and many of the 4,000 Luxembourg-registered funds are also listed there. According to figures released by the World Bank in May, 2001, Luxembourg was the richest country in the world in 1999 when it came to purchasing power per capita with an average wage of US\$41,230. Luxembourg was also listed as the wealthiest country in terms of gross national income (GNI) in 1999 at US\$42,930 per head. Economic growth had slowed to only 1% by mid-2002. Unemployment is rising slightly but is less than 3%, and inflation is on the European average at 2%. Luxembourg is a high-tax country, but has specialized types of 'holding' company which are tax-exempt. There are 18,000 of these - they are suited to holding international investments, but are not allowed to trade themselves. UCIs (collective investment funds) are also tax-exempt. As a member of the EU, Luxembourg finds itself in an uncomfortable situation squeezed between the EU/OECD attack on harmful tax competition and its dependence on its successful 'offshore' sector. The EU's Savings Tax Directive also threatens problems for Luxembourg banks and UCIs, although after threatening to veto the EU's plans at the end of 2002 because competitor Switzerland had not offered 'equivalent' measures, the country fell into line in January, 2003. After the OECD issued its final list of offshore jurisdictions in April 2002, it made threatening noises towards Luxembourg, and is said to be considering what sanctions can be imposed on the country after its 2003 deadline for the removal of 'harmful' tax practices. Income Tax and Municipal Business Tax on Profits give a 41% marginal corporation tax rate; the rates for individuals are higher, and they pay a wealth tax in addition. The tax system is mostly based on German originals, apart from VAT which is of course an EU-inspired tax. EU citizens have freedom of movement in Luxembourg of course, but other nationals need residence and work permits.

As from 2002 the sole currency of Luxembourg is Euro (EUR). There are no exchange controls.

Company Incorporation

The principal corporate legislation is the Commercial Companies Act 1915 (amended). The powers of companies are as dictated by the objects in the Articles of Incorporation. Legislation is published in both French and German. Corporate documents can be in any language, provided they are accompanied by a French or German translation.

The following types of companies are used for international trade and investment:

- 1929 Societe Anonyme Holding Company.
- 1929 Societe Responsabilite Limitee Holding Company.
- 1990 Societe de Participation Financiere (SOPARFI) and Holding Company.

The following rules and restrictions apply to trading and business activities:

A 1929 Holding Company has no right to:

- Be an active member of a general partnership or partnerships limited by shares.
- Engage in any commercial or industrial activity.
- Engage in brokerage or banking activities.
- Engage in insurance, assurance or reinsurance.
- Own real estate other than its own premises.
- Grant loans to companies that are not subsidiaries.
- Render any type of advice or management services.

A 1929 Holding Company has the right to:

- Acquire, hold and dispose of shares and bonds in Luxembourg or foreign companies.

- Hold cash and foreign currencies and negotiate securities.
- Finance subsidiaries or companies where it has a direct share-holding.
- Hold and license patents and receive income from the granting of licenses.
- Issue bonds by private or public subscription of up to ten times the amount of its paid up capital.
- Borrow up to three times its issued capital.

A 1990 normal Luxembourg Trading and Investment Company with SOPARFI provisions is not subject to any trading restrictions. The only restriction is that without the appropriate licenses it may not engage in the business of banking, insurance, assurance, reinsurance, fund management, collective investment schemes or any other activity that may suggest an association with the banking and insurance industries.

Incorporation procedure involves the preparation of the Acte de Constitution and Articles of Incorporation in the form of a deed. This deed must include:

- The name(s) of the person(s) wishing to form the corporate entity.
- The address of the Registered Office.
- The amount and currency of the authorized capital.
- The type and classes of shares.
- The amount of paid up capital.
- Voting rights of shares.
- Names, addresses and nationalities of the proposed directors.

In addition, a certificate issued by the Trade Registry confirming the acceptability of the name is required, together with a certificate produced by the proposed company's Luxembourg bankers confirming that the paid up capital is deposited with them.

These documents and information must then be presented to a Notary Public by the appointed representative of the company. After notarisation, the Notary Public lodges the Articles of Incorporation and By-laws with the Department of Registration and Trade Registry. The Articles of Incorporation are then published in the Official Gazette.

A registered office must be maintained in Luxembourg. Due to the costs associated with incorporation and paid up capital requirements, off-the-shelf companies are not available.

There are a number of requirements and restrictions in respect of company names:

- A company name can be in any language that uses the Latin alphabet.
- The Registry may request a French or German translation if a foreign language is used.
- A company name cannot be similar or identical to an existing name.
- A company name must not coincide with that of a major international corporation, unless there is written consent to incorporate.
- Any name that in the opinion of the Trade Registry is undesirable or offensive is not permitted.
- It is normal practice for the Trade Registry to refuse names that are associated with the banking and insurance industries or any name that would suggest government patronage.
- The French and German names including the words Bank, Buildings Society, Savings, Insurance, Assurance, Reinsurance, Fund Management, Investment Fund, Council, Municipal, Cooperative or the foreign language equivalent require consent or license.
- The suffix Societe Anonyme or SA is required to denote limited liability.

The minimum number of directors is three. These may be natural persons or bodies corporate. They may be of any nationality and need not be resident in Luxembourg. The Luxembourg

Companies Acts does not provide for the appointment of a company secretary. The minimum number of shareholders is two.

The minimum authorised share capital of a 1929 Holding Company and a 1990 Company with SOPARFI provisions is 31 000 EUR all of which has to be issued and fully paid up. The capital can be expressed in any currency. The following classes of shares are permitted: registered shares, bearer shares (fully paid), preference shares and shares with or without voting rights.

Annual Taxation and Fees

A 1929 Holding Company is exempt from local taxation, but pays 0.2% per annum on its share capital, which is payable quarterly. A company with SOPARFI (Societes de Participations Financieres) provisions is subject to the normal rate of taxation at 39%, but subject to certain conditions (as detailed under "Restrictions On Trading") dividends received and capital gains are exempt from taxation.

The advantages of a 1990 normal Luxembourg Trading and Investment Company with SOPARFI provisions can be summarised as follows:

Companies investing in shares can benefit from affiliation privileges; thus these companies are fully subject to corporation tax, but exemptions are granted by law for dividends received from share-holdings, capital gains made on the sale of share-holdings and gains made on liquidation of companies in which shares are held. Corporate tax exemption is granted on the following conditions:

- Dividend and liquidation gains exemption on share-holdings of at least 10% or a cost of at least EUR 1,2 million held at the start of the financial year of receipt, and at least 12 months prior to the end of the financial year of receipt.
- Capital gains exemption of share-holdings of at least 25% or costs of at least EUR 6 million held at least 12 months before the start of the financial year of sale.
- Under certain conditions financing costs, value adjustments and administration expenses are tax deductible.
- Zero withholding tax applies to dividends paid to an EU Parent/Subsidiary Directive (EU Directive 27 of 1990).
- Withholding tax must be paid on dividend payments to non-EU countries, but may be reduced through tax treaty relief.

Luxembourg has entered into many double tax agreements. As 1929 Holding Companies are exempted from local taxation, they are excluded from the benefits of these agreements. Luxembourg companies with SOPARFI provisions may access Luxembourg's extensive network of agreements. There are agreements with Austria, Belgium, Brazil, Bulgaria, Canada, the Czech and Slovak Republics, Denmark, Finland, France, Germany, Greece, Hungary, Indonesia, Ireland, Italy, Japan, Malta, Mauritius, Mexico, Morocco, the Netherlands, Norway, Poland, Romania, Russia, Singapore, Slovenia, South Korea, Spain, Sweden, Switzerland, the CIS (air traffic treaty only), Thailand, Tunisia, the UK, the USA, Uzbekistan and Vietnam.

License fees are not applicable.

Financial statements: the annual accounts must be presented to the authorities.

Madeira

Geography, Population, Languages

Madeira is an archipelago of islands of volcanic origin located in the Atlantic Ocean, 1,000 km from mainland Portugal and 870 km from North Africa. The name of the archipelago is taken from the largest island Madeira, besides which there are Porto Santo, Desertas, Selvagens and a group of smaller islands. The area of Madeira is approximately 797 sq. km. The topography is mountainous, and the highest point is 1,862 metres. The climate is Mediterranean subtropical. The scenery is spectacular and the vegetation is diverse.

The population is approximately 265,000, 100,000 of whom live in the capital Funchal. Most are of Portuguese origin, with a small expatriate British community.

Portuguese is the national language, English is taught in schools and is used daily in commerce and international trade.

History, Political Structure and Law

The Madeira archipelago was uninhabited until it was discovered in the 15th century by Portuguese navigators. Madeira became a Portuguese colony and is still legally and politically part of Portugal.

Since 1976, due to political changes in Portugal, Madeira has been an autonomous region with its own parliament and locally elected Government. The Madeira Regional Parliament is an elected body, which legislates on Madeira's local interests such as the budget, and its responsibilities are defined in the constitution. The Madeira Government however can neither overrule decisions of the central government in Lisbon, nor override political unity with Portugal. 5 members elected by universal suffrage represent Madeira in Lisbon.

Despite Madeira's autonomous status, most of the laws enacted by the central government and by the Portuguese parliament are fully applicable in Madeira.

The system of law is Civil Law. Portugal has a written constitution, which defines the political structure and the role of the legislature.

Economy and Infrastructure

Communications are good; there are six daily flights to and from Lisbon, the Portuguese capital, and Lisbon Airport is an international air transport hub. The flight from Lisbon to Madeira takes one hour and thirty minutes. There are also flights from Madeira to other European countries including five direct scheduled flights a week to London. Shipping is well served by deep-water ports at Funchal and Porto Santo.

Madeira has an excellent digital telecommunications system with direct dialling to various countries. The islands' telephone network is linked to mainland Portugal by cable and satellite, giving easy, direct access to International networks. Postal and courier services are also good, offering next day delivery to mainland Portugal.

The local currency is the Euro (EUR). There is no exchange control in Madeira.

Company Incorporation

Under legislation first put before the Portuguese parliament as long ago as 1980 and enacted in 1986, the Madeira Free Trade Zone was established, which gives substantial tax concessions to companies incorporated on the Island.

The principal Corporate Legislation is the Portuguese Companies Code (Codigo das Sociedades Comerciais). The powers and objects of a Madeira Company are contained within its constitution and must be specific. The language of legislation and corporate documentation is Portuguese, but translations can be provided.

The types of Company used for international trade and investment are Sociedade por Quotas - Limitada (Lda's) or Sociedade Anonima (SA). In 1993, Portuguese legislation allowed the incorporation of Lda's or SA's with one sole quota/share holder for companies operating within the Madeira Free Trade Zone - so called "Sociedade Unipessoal" - Single Member companies. Portuguese legislation provides for the incorporation of Holding-only companies called SGPS (Sociedade Gestora de Participacoes Sociais).

Trading and business activity are subject to the following restrictions:

- A Madeira company is not permitted to engage in any business not specified in its constitution.
- A Madeira Company does not have the right to engage in the business of Banking, Insurance, Assurance, Reinsurance, Fund Management or Asset Management (other than its own assets) without prior consent and a licence.

Incorporation procedure. Once the Company's name has been approved and a licence to operate within the Madeira Free Trade Zone obtained, a Public Deed is executed before a Notary Public. The Public Deed is then registered at the Commercial Registry of Madeira. A registered office must be maintained in Madeira. Off-the-shelf companies are available.

Company names are subject to the following requirements and restrictions:

- Legislation was passed in September 1995 allowing the approval of foreign names for companies operating within the Madeira Free Trade Zone. A Company name cannot be similar to or identical to that of an existing company.
- Names that in the opinion of the Registrar may be considered undesirable or offensive are not permitted.
- Names that may imply illegal activity are not permitted.
- Names that may imply government patronage is unacceptable.
- The names of all Madeira companies must include words to describe clearly the objects of the company, e.g. consulting, engineering, marketing, trading etc.
- Portuguese names or their foreign language equivalents including the words Bank, Building Society, Savings, Loans, Insurance, Assurance, Reinsurance, Fund Management, Asset Management, Investment Fund, or any name that may imply an activity associated with the banking and insurance industries, require consent or a licence.
- The name of a Company must end with a suffix denoting limited liability, such as Limitada (Lda) or Sociedade Anonima (SA).

It is normal to appoint two directors to a Lda and three to a SA. The directors must be natural persons of any nationality and need not be resident in Madeira. Unipersonal companies may have one shareholder.

The minimum number of shareholders for a Lda company is two, and five for a SA company. Their identity appears in the public record. Companies incorporated as "Sociedade Unipessoal"

may have one shareholder and no share certificates are issued. Share-holding is described in the notarial deed when the company is set up or the structure altered.

Minimum authorised and issued share capital depend on the type of Company:

- Ldas - EUR 5 000 minimum authorised and issued.
- SAs - EUR 50 000 minimum authorised and issued.

The following classes of shares are permitted:

- Madeira Limitada (Lda) Companies do not issue shares, but instead quotas are registered at the Commercial Registry of Madeira and members are issued with notarised extracts from the Commercial Registry of Madeira to record their ownership.
- Madeira Sociedade Anonima (SA) companies may issue either registered or bearer shares with voting or non-voting rights.
- Madeira Sociedade Unipessoal (Single Member) SA companies must issue registered shares with voting or non-voting rights, but may not issue Bearer Shares.
- Bearer shares are permitted for SA companies only.

Annual Taxation and Fees

All Madeira companies are exempt from tax on income obtained from activities carried on outside Portugal until 31 December 2011. Nominal taxation is levied on Holding-only companies (SGPS). These are taxed on EU dividends at an effective rate of 1.7% (34% corporate tax on 5% of profits).

Companies licensed to operate within the Madeira Free Trade Zone are considered for all purposes to be Portuguese resident. Therefore they can benefit from the double taxation agreements signed by Portugal with the following countries: Austria, Belgium, Bulgaria, Brazil, the Czech Republic, Finland, France, Germany, Hungary, Ireland, Italy, Mozambique, Norway, Poland, the Republic of Korea, Spain, Switzerland, the United Kingdom and Venezuela. Madeira also is conducting negotiations on new agreements with other countries.

The licence fees are:

- Application Fee - EUR 750;
- Annual fee - EUR 1,500.

(Both fees are reduced by 1/3 to EUR 500 and EUR 1,000 respectively for companies represented by licensed management companies).

Financial statements:

The accounts of a Madeira company must be in Portuguese and prepared in accordance with Portuguese accounting regulations. Normally the fiscal year ends on 31st December, and accounts must be approved by the shareholders before 31st March of the following year. A tax form must be filed with the authorities before the end of May.

Malta

The Republic of Malta is an archipelago of three islands: Malta, Gozo, and Comino. The Maltese Islands are situated in southern Europe, in the middle of the Mediterranean Sea, about

100 km south of Italy and about 300 km north of African continent. The total area of the islands is 316 sq. km. The climate is mediterranean. The surface is mainly limestone tableland. There is a lack of fresh water.

The population of the islands is approximately 360,000. Maltese society is homogenous, having its own identity and language. Natural population growth has in recent years been supplemented by a net inflow of Maltese former émigrés returning from America, Canada, Australia and the United Kingdom. The population is mainly urban. The capital is Valetta. English and Maltese are both official languages, but Italian is also widely spoken. English is the language of business.

History, Political Structure and Law

Malta has a rich history, tradition and culture. Many civilizations have left indelible traits: Phoenicians, Carthaginians, Romans, Arabs, Aragonese, the Knights of St. John, the French under Napoleon and, finally, the British, who stayed for more than 150 years. The British set up a prominent naval and military base for their Mediterranean fleet, and their influence on Malta's infrastructure, legal system and civil service still remains. Malta became independent in 1964, but retained a NATO military base which came to constitute the island's main source of revenue. In 1979 Malta closed the military base and became a Republic. It has been a member state of the European Union (EU) since 2004 and it is currently the smallest EU country in both population and area.

Malta is a sovereign independent state that enjoys political, economic and social stability. It is a parliamentary democracy based on the British model. It forms an integral part of Western Europe both politically and culturally. Malta is a member of the United Nations, the Council of Europe and the Commonwealth. Malta maintains friendly relations with all countries through its policy of non-alignment.

The head of the state is the President, while executive powers rest with the Prime Minister and the Cabinet. Parliament is composed of 65 representatives elected every five years. Based on the English legal system, the judiciary has a tradition of independence that dates back hundreds of years. The supreme law of the country is its constitution, which expressly incorporates the fundamental principles of balance of power, the rule of law, the independence of the judiciary and human rights.

The legal system is based on the Napoleonic Code, but British Law has had a strong influence particularly in fiscal and commercial law.

Economy and Infrastructure

Tourism is Malta's primary source of foreign exchange. Its natural harbors host one of the most renowned dry-docks in the Mediterranean and a shipbuilding yard.

With the closure of the military base in 1979, it became imperative for Malta to launch a series of development programmes to reorient the economy. Today Malta has an adaptable labour force that has adapted to the challenges of modern technology. This has been the basis of Malta's success in attracting foreign investors in light industry.

With more than 100 years of experience behind them, Malta's banks are continually expanding and improving their services. Financial institutions have been streamlined to keep abreast of the transformations that are taking place in what has become a global marketplace.

Foreign currency reserves per head are among the highest in the world. Beginning with 01.01.2008 the official currency is euro. Exchange control exists, but International Trading Companies (ITC's) and International Holding Companies (IHC's) are exempted.

Company Incorporation

Before the end of 1996 it was possible to register Maltese "offshore" companies, and these companies may continue operating until September 23 2004 or ten years from the date of incorporation, whichever is sooner.

The new system does away with the distinction between offshore and onshore companies, and Malta now offers two types of company which will be of interest to the tax planner: the International Holding Company (IHC) and the International Trading Company (ITC). An ITC is a normal onshore Maltese company, with the main distinction that its trading activities are carried out from, rather than in, Malta.

The principle corporate legislation is the Companies Act 1995, the Malta Financial Services Act 1994, the Investment Services Act 1994, the Banking Act 1994, the Financial Institutions Act 1994 and the Industrial Development Act 1988. In 1996 Malta substantially revised its corporate law and removed the difference between offshore and onshore companies, so that all Maltese companies obtain favorable treatment under the tax agreements.

Companies have such powers as are outlined in the Memorandum of Association of the Company. The language of legislation and corporate documents is English. Off-the-shelf companies are not available.

Confidentiality is governed by the Professional Secrecy Act, which sets a high common standard of confidentiality for all professional practitioners. Those who violate professional secrecy may be prosecuted under Section 27 of the Criminal Code and on conviction may be liable to a maximum fine of LM 20,000¹¹⁵ and/or a 2-year prison sentence.

Trading and business activity are subject to the following restrictions:

- All objects of the Company are limited to trading activities outside Malta.
- A Company is not permitted to carry out trading activities with persons resident in Malta.
- A Company is not permitted to manage or service another Maltese Company, or act as a trustee for any trust established under the terms of the Trusts Act, 1988.
- A Company does not have the right to engage in the business of Financial Services.

Incorporation procedure entails the issuing of an exemption certificate from the Exchange Control Division, the depositing of the share capital and the filing of the Memorandum and Articles with the Registrar of Companies. As a matter of Maltese company law a Maltese Company is obliged to maintain a registered office address in Malta and must also appoint a licensed Maltese "Nominee Company" as company secretary or sole director. The "Nominee Company" is legally liable for all actions of the Maltese Company.

Company names are subject to the following requirements and restrictions:

- Any name identical or similar to the name of a company already incorporated or reserved is not acceptable.
- Any name that in the opinion of the Registrar of Companies is offensive or otherwise undesirable is not permitted.
- The name must be in the Latin alphabet.
- The name of the company must end with the word "Limited" or "Ltd".

The identity of the beneficial owners of an International Trading Company may remain confidential if they incorporate the company through the services of a licensed nominee

¹¹⁵ Since 2008 the currency in Malta is EUR.

company. Confidentiality is maintained as long as the company and its beneficial owners are not involved in any money laundering activity.

The minimum number of directors is one, either corporate or individual, and details appear on the public file in Malta. In order to establish that the company is resident in Malta for tax purposes and therefore eligible for tax agreement benefits, it is necessary for the majority of the board of directors to be based in Malta. A Company shall have a company secretary, whose name and address shall appear in the Memorandum and Articles of Association. The secretary may be an individual or a corporate body, and must be resident of Malta. As a rule the minimum number of shareholders is two, but a "single member company" may also be registered. Details of shareholders appear on public file, but anonymity can be retained by the use of nominee shareholders.

The minimum authorised share capital was LM 500. The minimum issued share capital was LM 500, of which 20% is paid up. Share capital may be in any currency. A company may have different classes of shares; however, bearer shares are not permitted.

Annual Taxation and Fees

Taxation in Malta: companies are taxed as described below and are designed to take advantage of the tax agreements signed by Malta.

- Offshore companies pay a fixed rate of tax of 5% on world-wide income.
- An ITC is statutorily defined as a company that is engaged solely in carrying on trading activities from Malta with persons outside Malta and has objects expressly limited to such trading activities. An ITC may not hold foreign investments or equity.
- An IHC is a company whose activities are limited to foreign equity participation and other similar passive income-generating activities. Such entities are taxed in a particularly advantageous manner where income is received from "participating holdings".

ITCs and IHCs pay tax on their world-wide income at a rate of 35%. There is however a system of credit and refunds available to shareholders, which reduces the net rate of tax to 4.2% in the case of ITCs and under 6.5% in the case of IHCs.

Malta has a wide network of double tax agreements as well as other methods for relieving double tax on cross-border transactions. These provide an excellent base for establishing tax efficient structures, including international trading and holding companies.

Financial statements: companies must file an annual return and prepare audited accounts.

Netherlands Antilles

Geography, Population, Languages

The Netherlands Antilles consist of two groups of islands in the Caribbean Sea: the Leeward Islands, Curacao and Bonaire are approximately 30 km north of Venezuela, and The Windward Islands of St. Maarten, St. Eustatius and Saba are about 160 km east of Puerto Rico. The total land area is 960 sq. km and the population of the Netherlands Antilles is approximately 200,000, a large portion of which resides on the Island of Curacao.

The Netherlands Antilles have a tropical climate, with warm weather all year round.

Dutch is the official language. However, English and Spanish are spoken widely. The local language Papiamentu (a Spanish-Portuguese-Dutch-English dialect) also predominates.

History, Political Structure and Law

Both the Leeward and Windward island groups were discovered and initially settled by the Spanish. In the 17th century, the islands were conquered by the Dutch West India Company and were used as bases for slave trade. The slavery was abolished only in 1863. The prosperity of the country was restored in the early 20th century with the construction of oil refineries to serve the newly discovered oil fields of Venezuela.

The Netherlands Antilles is an autonomous part of the Kingdom of the Netherlands since 1954. The Netherlands Antilles Government function under a democratic system, which is derived from European parliamentary systems. The country is considered one of the most stable democracies in the region. Legal, political and administrative systems of The Netherlands Antilles are based on Dutch Civil Law, with English Common Law influence on the offshore regime. The head of state is the ruling monarch of the Netherlands, who is represented in the Netherlands Antilles by a governor. The legislative branch is two-layered. The Netherlands Antilles has associate status of the European Union.

Economy and Infrastructure

Tourism, petroleum transshipment and oil refinement, as well as offshore finance are the anchor of country economy. The islands enjoy a high per capita income and a well-developed infrastructure as compared with other countries in the region. Almost all consumer and capital goods are imported. The major suppliers are: Venezuela, the US, and Mexico, as well as the Dutch government.

The financial and professional infrastructure is well-developed. There are about 70 banks and more than 50 of them international. Currency of the country is The Netherlands Antilles Florin or Guilder. It has a fixed exchange rate with the United States dollar of 1.79:1.

Since the 1940's, the Government of the Netherlands Antilles has created a favourable climate for offshore companies through special tax provisions and tax treaties, particularly with the Netherlands. On December 29th, 1999, the Netherlands Antilles adopted new tax legislation known as The New Fiscal Framework (NFF). This legislation was intended to ameliorate the jurisdiction's image as an Offshore Financial Centre and to revitalise its financial services industry. The NFF has removed the distinction between offshore and onshore companies, and simplified tax rates.

Company Incorporation

The principal corporate legislation is the Commercial Code of the Netherlands Antilles, Articles 33 - 155. Language of legislation and corporate documents is English. In 2004 a new corporate law was introduced as "Book 2" of the Civil Code ("CC") of the Netherlands Antilles. It simplifies and liberalises some aspects of the formation and operation of most of the corporate forms, as well as introducing new rules covering corporate governance and dealing with directors' liability.

The form taken by almost all limited companies in the Netherlands Antilles, whether for domestic trading or for offshore purposes is "N.V." (naamloze vennootschap) - limited liability company. This type of company is mainly used as a holding, trading or a shipping company. It has one of the lowest government fees and enjoys total confidentiality and anonymity.

The formation process for an offshore N.V. follows the normal pattern. Once incorporated, a company needs to obtain a business license and a managing director's license need to be obtained annually from the Bureau for Social and Economic Planning. Unless a special permit

has been granted a Netherlands Antilles N.V. cannot solicit funds from the public, sell its own shares publicly, or engage in banking, insurance, fund management activities.

A name must be approved by the Chamber of Commerce. Company names are subject to the following requirements and restrictions:

- A name of the company can be expressed in any language using the Latin alphabet. The Registrar may request a Dutch or English translation to ensure that the proposed name does not contravene name restrictions;
- All Netherlands Antilles companies must include the words Naamloze Vennootschap or the abbreviation NV. Where a company's activities are outside the Netherlands Antilles and the Articles permit, the suffixes Limited, Ltd, Inc or SA are allowable;
- The following words or their derivatives in any language may not be used: bank, building society, savings, loans, insurance, assurance, reinsurance, fund management, investment fund, trust, trustees, chamber of commerce, co-operation, council, municipal or any name in English or a foreign language that may suggest association with the banking or insurance industries;
- A name cannot be identical or similar to that of an existing company;
- A well known name that is known to exist elsewhere cannot be used;
- It is prohibited to use names that implies imply royal or government patronage;
- Name that imply illegal activities or which in the opinion of the Registrar are considered undesirable, obscene or offensive are also prohibited.

The authorised capital of the N.V. must be at least NAF50,000, 20% of which must be fully paid up on incorporation and must remain so. The following types of shares are permitted: registered shares, preference shares, redeemable shares and shares with or without voting rights. Bearer shares are also permitted, but must be fully paid up. No par value shares are impermissible. There is not a public shares register.

A minimum of one shareholder is required, who may be an individual or a corporate entity. A General Meeting of the shareholders must be held within 9 months after the end of the financial year. Such meetings must be held in the Netherlands Antilles, but shareholders can be represented by proxies.

All Netherlands Antilles companies must appoint at least one resident managing director. Additional managing directors may be appointed; they can be individuals or corporate entities, and need not be resident. Director's meetings are not required. There is a public director's register. The Netherlands Antilles Companies Acts do not provide for the appointment of a company secretary.

Registered office is required and must be maintained in the Netherlands Antilles at the address of a licensed trust and management company, a law firm or accountancy firm. Registered agent is also required.

In the majority of cases there is no requirement to file audited accounts with the Registry, but the annual financial statements and an annual profit tax has to be filed. Where there are a large number of issued bearer shares or company activities include banking, loans or insurance accounts must be audited and submitted each financial year.

Annual Taxation and Fees

The taxation of Netherlands Antilles companies is governed by the National Ordinance on Profit Tax 1940. Every Netherlands Antilles company must pay an annual fee to the Chamber of Commerce, which is variable and dependent on authorised capital.

Netherlands Antilles companies deriving all their income from outside the Netherlands Antilles are liable to tax rates of between 2.4% and 6%, depending on the corporate structure and the use of the Netherlands double taxation treaty. The Netherlands Antilles has double tax treaty agreements with Norway and The Netherlands.

Switzerland

Geography, Population, Languages

The Swiss Confederation, known to most as simply Switzerland, consists of 23 cantons, three of which are divided into semi-cantons. The total area of the country is 41,295 sq. km. 60 per cent of the territory is occupied by the Alps, whose highest peak is Dufour at 4634 m. In the north the country is bordered by Germany, in the west by France, in the south by Italy and in the east by Austria and Liechtenstein. Lake Constance and the Rhine form part of the northern border, with the Rhone, which rises in the central Swiss Alps, forming part of the eastern border. The Jura Mountains form the western border and Lake Geneva and the Italian Alps the southern. The capital is Bern.

The total estimated population is 7,250,000, two thirds of whom live in lowland areas. 64 per cent are German Swiss, 19 per cent of French Swiss, and 8 per cent are Italian Swiss. The heaviest concentrations of population are in the large industrial centres of Zurich, Basle and Geneva. Switzerland is one of the most multilingual countries in Europe. German, French, Italian and Romansch, an offshoot of Latin, are the official languages of Switzerland.

History, Political Structure and Law

Switzerland is a federal republic and is officially known as the Swiss Confederation.

The two dominant principles of the Swiss Constitution of 1874 are federalism and democracy. The Constitution provides for the cantons to exercise all powers of government not delegated to the federal government. The head of the government is the President. The three major sectors of the Swiss national government are the Federal Council, the Federal Assembly and the Federal Tribunal. The executive body is the seven-man collegiate Federal Council, which is elected for a four-year term by the national legislature.

The system of law is Civil Law.

Economy and Infrastructure

Switzerland has a prosperous and stable modern economy with a per capita income approximately 10% higher than in other Western European countries.¹¹⁶

The Swiss have a highly developed telecommunications system that offers state-of-the-art telephone, fax, telex and Internet connections as well as courier services. Swissair, the national air carrier, offers direct flights to many cities world-wide, and domestic air travel is excellent, offering frequent services to most cities.

Switzerland is the world's largest offshore private banking centre, with the Big Two banks, Credit Suisse and UBS, and a plethora of private banks, handling one-third of the world's offshore private wealth.

116 IMF, European Commission, Eurostat, OECD.: Per Capita GDP in EUROPEAN UNION in 2006 was about USD 30,121, in Switzerland . USD 34,000

For private investors, Switzerland's banks, based in the cities of Zurich, Basle and Geneva, offer a safe and mainly conservative approach to investing, backed by political stability and strong banking secrecy practices.

Most Swiss banks have a well-diversified range of Swiss and Luxembourg-based mutual funds that are available world-wide to private investors, along with a range of discretionary portfolio management services and banking facilities.

Switzerland remains offshore from the EU. Nevertheless, in recent years the Swiss have brought their economic practice largely into conformity with the EU¹¹⁷ to enhance their international competitiveness. Switzerland remains a safe haven for investors, because it has maintained a degree of bank secrecy and has kept up the franc's long-term external value. Reflecting the anemic economic conditions of Europe, GDP growth stagnated during the 2001-03 period, improved during 2004-05 to 1.8% annually and to 2.9% in 2006. Even so, unemployment has remained at less than half the EU average.

Despite the fact that Switzerland is geographically very much in Europe, landlocked and bordered as it is by Germany, Italy, France and Austria, recent governmental announcements relating to the continuance of preferential tax treatment available in Switzerland just proves that Switzerland is remaining offshore from the EU for the foreseeable future!

Jose Manuel Barroso, current head of the European Commission has been at loggerheads with Switzerland over what he sees as a discriminatory tax regime which goes against the internal market rules of the EU. Switzerland on the other hand are quick to point out that not only are they not members of the European Union but that the cantonal tax system doesn't even violate the 1972 free-trade agreement that was signed between Bern and Brussels that the European Commission keep bringing up.

Allowing Switzerland to remain offshore from the EU is however, not in the EU's best interests. While there remains a European located nation which is also an active EU partner which is in a position to offer significant taxation advantages to international companies and even individuals, that country will be violating one of the fundamentals upon which the European Union was founded . namely that one rule fits all . i.e., unfair competition is not allowed! For Switzerland it is not at all clear whether they can and will continue to keep up their protests because the EU represents Switzerland's most important partner when it comes to everything from trade to defence¹¹⁷ but for the time being at least, Switzerland with its offshore banking and advantageous taxation regime remains an offshore jurisdiction of distinction!

In the first half of 2006 the record number of companies was registered in Switzerland. But in the first half of 2007 the number of the firm registrations was 5,5% more than in the previous year and reached 18 365 of new companies. One third of the companies are foreigners with 20% of German origin. The decision of the canton Obwalden to lower the corporate tax to 6,6% has caused a huge inflow of foreign companies.

EU is planning to seek the solution concerning the taxation in the canton by the highest EU . court. But because Switzerland is not an EU-member, the result of this affaire is far from the certain end.¹¹⁷

The currency is the Swiss Franc (SF). There are no exchange controls.

Company Incorporation

The principal corporate legislation includes the following documents:

¹¹⁷ http://www.nalogi.net/news_prew.htm?id=900

- Schweizerisches Obligationenrecht (Swiss Code of Obligations).
- Bundesgesetz über Schuldbetreibung und Konkurs (Swiss Federal law on Debt Collection and Bankruptcy).
- Bundesgesetz über die direkte Bundessteuer (Federal Law on Direct Taxation).
- Bundesgesetz über die Banken und Sparkassen (Swiss Federal Act on Banks and Savings Associations).
- Bundesgesetz über die Anlagefonds (Federal Act on open ended Investment Companies).
- Bundesgesetz über das Internationale Privatrecht (Federal Act on Private International Law).

The language of legislation and corporate documentation is any Swiss official language (German, French, Italian or Romansch), but foreign language translations can be obtained. A company incorporated in Switzerland has the same powers as a natural person.

In Switzerland there are the two types of company used for international trade and investment:

- Aktiengesellschaft (AG) - Stock Company;
- Gesellschaft mit beschränkter Haftung (GmbH) - Limited Liability Company.

A company incorporated in Switzerland is subject to restrictions on the following trading and business activities, which cannot be undertaken without a special licence or consent: banking, insurance, assurance, reinsurance, fund management, collective investment schemes, or any other activity that suggests an association with the banking or finance industries.

Company incorporation procedure involves the submission to the Commercial Register of the following documentation:

- The Public Deed of Incorporation executed before a Notary Public;
- The Articles of Incorporation;
- Confirmation by a Bank that the share capital is held in an account;
- Consent to Act forms signed by the proposed directors;
- A declaration of the applicants;
- An application to the Commercial Register covering the above documentation and including the notarised signature of the person appointed to represent the company.

A registered office must be maintained in the canton of incorporation. Owing to the costs associated with incorporation and paid up share capital requirements, off-the-shelf companies are not available.

The names of companies being incorporated are subject to the following requirements and restrictions:

- The name of a body corporate or trust entity may be in any language that uses the Latin alphabet, but the Public Registry may require a translation into any official Swiss language.
- A name that is identical or similar to an existing name is unacceptable.
- A name that may imply government patronage is not permitted.
- Any name that in the opinion of the Registrar may be considered undesirable is restricted.
- If the Company name includes such words as Bank, Building Society, Savings, Insurance, Assurance, Reinsurance, Fund Management, Investment Fund, Switzerland, State, Country, Municipality, Principality, Red Cross or their foreign language equivalents, then consent or a licence are required.
- The following suffixes are used to denote limited liability: Aktiengesellschaft or AG; Gesellschaft mit beschränkter Haftung or GmbH.

A minimum of one director/manager who must be a Swiss citizen and resident in Switzerland must be appointed. If more than one is appointed the majority must be Swiss citizens and resident in Switzerland. Corporate directors are not permitted. There is no requirement under Swiss Law for a company secretary to be appointed. The minimum number of shareholders depends on the type of Company: for an AG the minimum number of shareholders is three, while for a GmbH it is two.

The minimum authorised and issued share capital depend on the type of Company:

- AG: This type of limited liability company has a minimum authorised share capital of SFr 100,000, all of which has in practice to be issued and fully paid up. When the share capital exceeds SFr 250,000 a capital duty of 1% is payable on the amount over SFr 250,000.
- GmbH: The minimum authorised capital is SFr 20,000 but the company does not have shares; instead, the owners' share stake is registered in the Commercial Register. SFr 10,000 must be paid up on incorporation.

The following classes of shares are permitted, depending on the type of Company:

- AG: Registered shares, bearer shares and preference shares.
- GmbH: Share stakes only. Bearer shares are not permitted.

Annual Taxation and Fees

Switzerland's 23 cantons each have their own taxation system. The cantons have preserved many of the rights they held as sovereign political entities. Nevertheless, the constitution delegates considerable authority to the Federal Government, including the power to conclude treaties and alliances, to levy taxes and to regulate foreign trade. There are many cantons with favourable taxation levels and some cantons with higher unemployment rates or small populations (in mountain regions) have particularly low levels of taxation.

There are double tax agreements with Australia, Austria, Belgium, Brazil, Canada, Denmark, Egypt, Finland, France, Germany, Great Britain, Greece, Hungary, Iceland, Indonesia, Ireland, Italy, Japan, Malaysia, the Netherlands, New Zealand, Norway, Pakistan, Portugal, Singapore, South Africa, South Korea, Spain, Sri Lanka, Sweden, Trinidad and Tobago and the USA.

There are no license fees in Switzerland.

Companies are required to keep financial records. Although there is no requirement to file financial statements with the Registry, they must be presented to the shareholders and filed with the tax authorities.

United Kingdom

Geography, Population, Languages

The British Isles is the name for a collection of about 4000 islands, including Great Britain and Ireland. The United Kingdom of Great Britain and Northern Ireland (the UK), which consists of England, Scotland, Wales and Northern Ireland, lies off the west coast of Europe. It has an area of some 244,100 square kilometres (94,250 sq. miles) with an estimated population in excess of 57 million. At least 9 million live in the Greater London area. 5.25 million live in Scotland, with a further 1.5 million resident in Northern Ireland. The population of Wales is also approximately 1.5 million. The official and spoken language is English.

History, Political Structure and Law

The United Kingdom is a constitutional hereditary monarchy, and the head of state is Queen Elizabeth II, who ascended the throne on 6th February 1952. The legislature (British Parliament) consists of two houses or chambers, the upper house being the House of Lords, and the lower house the House of Commons. The House of Commons consists of Members of Parliament or MPs. Voters elect each MP in their constituency (electoral district). There are 651 MPs, or seats, in the House of Commons (524 for England, 72 for Scotland, 38 for Wales and 17 for Northern Ireland). The 1203 members of the House of Lords are not elected. The head of both Houses is the Queen, but her powers are very limited. She is the head of state, the judiciary and the Church of England, as well as Commander-in-Chief of the armed forces, but her role is mainly symbolic. True power lies in the hands of the Prime Minister and the Cabinet.

The main political parties are the Labour Party (centre left), Conservative Party (right wing), and Liberal Democrats (centre).

Elections are held every 5 years. Those over the age of 18 vote for the candidate of their choice in their constituency. The winner becomes the MP for that constituency and sits in the House of Commons even if he/she receives only one vote more than the second candidate (the "first past the post" electoral system). The party with the most MPs forms the Government. The leader of the winning party becomes the Prime Minister, who appoints the Cabinet. The Prime Minister is the most important person in the Parliament. The party that comes second forms the Opposition and appoints its own Shadow Cabinet.

Economy and Infrastructure

The United Kingdom is one of the world's great trading powers and financial centres, and its economy ranks among the four largest in Western Europe. Heavy industry, including steel manufacture and shipbuilding, has been replaced in recent years by high-tech manufacturing industries such as aircraft engine manufacture, car manufacture, electronics and pharmaceuticals. Agriculture is intensive, highly mechanised and efficient by European standards, producing 60% of food needs with only 1% of the labour force.

The United Kingdom has large coal, natural gas and oil reserves; primary energy production accounts for 12% of GDP, one of the highest for an industrialised nation. Service industries, particularly banking, insurance and other financial services, account for the largest proportion of GDP, whilst industry continues to decline, now employing only 25% of the work force.

London is one of the world's leading centres for banking, insurance and other financial services. Lying between New York and Tokyo, it is the third limb of the world's capital markets. Not least of its attractions is that it is a politically stable English speaking country.

The UK is strategically located off the north-west coast of continental Europe and has excellent communications. It has three major international airports at Heathrow, Gatwick and Manchester, with extensive world-wide connections. Recently the UK was physically joined to mainland Europe by the opening of the Channel rail tunnel link, which boasts frequent train services for passengers and vehicles to Paris and Brussels.

The official currency of the United Kingdom is the UK Pound. There are no exchange controls.

Company Incorporation

The Principal Corporate Legislation is Companies Act 1985 (amended), and the Income and Corporation Taxes Act 1988. English is the language of legislation and corporate documents.

The types of company used for international trade and investment are Private or Public Limited Companies. A company incorporated in the United Kingdom has the same powers as a natural person. There are no specific laws relating to the unauthorised disclosure of information about a UK company, its directors or owners, but UK law recognises the common law duty that professionals have towards their clients to keep their affairs confidential.

There are restrictions on trading and business activities: specified types of service, including for example banking, insurance, financial services, consumer credit-related services and employment agencies, are not permitted.

Incorporation procedure requires the submission of the Memorandum and Articles of Association, Declaration of Compliance and Statement by the First Directors and Secretary, notification of the location of the Registered Office and payment of the requisite fee to Companies House. A registered office must be maintained in the United Kingdom. For the purposes of this information sheet a UK company is incorporated in England or Wales and registered in Cardiff, Wales. Details on incorporating a company in Edinburgh, Scotland or Belfast, Northern Ireland are available on request. Off-the-shelf companies are available.

London Registration: Many international clients and UK businesses prefer to have their UK company incorporated in London. The UK Registrar of Companies levies a nominal additional fee for this service, and clients often take advantage of this exclusive facility. However, less than 1% of all companies incorporated in England and Wales are today incorporated in London. Over a decade ago the government moved the principal Companies' Registry for England and Wales from London to Cardiff in Wales.

Another distinct advantage of incorporation in London is the availability of a same-day incorporation service.

Clients who decide not to incorporate in London will have their company registered at the principal Companies Registry for England and Wales in Cardiff. In addition to the Cardiff Registry, which covers England and Wales, there are also company registries in Edinburgh for Scotland and Belfast for Northern Ireland.

Company names are subject to the following requirements and restrictions:

- Although the name of company can be in any language, documentation must be in English. Any name in a language other than English must be accompanied by a translation to ensure that the name is not restricted. However, if the company is incorporated in Wales there is a proviso that documentation in Welsh will be accepted.
- Any name that is identical or similar to that of an existing company is not acceptable.
- Any name considered being offensive or suggesting criminal activity is not acceptable.
- Any name that suggests the patronage of the Royal Family or the Government of the United Kingdom is not acceptable.
- Restricted names include Assurance, Bank, Benevolent, Building Society, Chamber of Commerce, Fund Management, Insurance, Investment Fund, Loans, Municipal, Reassurance, Reinsurance, Savings, Trust, Trustees, University or their foreign language equivalents.
- Any company name implying financial service activities such as banking and insurance require consent or license.
- Limited (Ltd) and Public Limited Company (PLC) are the required suffixes to denote limited liability.

A Private Company must have at least one director, and a Public Company must have a minimum of two directors. A sole director cannot also be company secretary. The directors can be natural persons or bodies corporate. They may be of any nationality and need not reside in the UK. If there is more than one director, one of them can also be company secretary, but as

UK Company Law is complex, it is recommended that a professional secretary with relevant experience be appointed. Details of the directors appear on the public file, but anonymity can be maintained by the use of third party professionals.

A company secretary must be appointed. The company secretary may be a natural person or a body corporate. They can be of any nationality and need not reside in the United Kingdom. For Private Companies the minimum number of shareholders is one, for Public Companies the minimum number is two. A shareholder may be a corporate body or an individual. Details of shareholders appear on public record but anonymity may be retained by the use of nominee shareholders or holding companies.

Requirements relating to authorised and issued share capital depend on the type of Company:

- Private Company: the minimum issued capital is one share, but further capital is usually issued to reflect the stability and strength of the company. A private company is normally incorporated with an authorised share capital of £1,000.
- Public Company: the minimum authorized share capital for a public company is £50,000, of which £12,500 must be paid up (in case of liquidation the full £50,000 must be paid). The minimum issued capital is two shares.

The following classes of shares are permitted: ordinary shares, preference shares, deferred shares, and redeemable shares and shares with or without voting rights. Bearer shares are not permitted. Tax is paid by companies in the UK based on audited accounts submitted to the Inland Revenue at the end of the company's financial year. International tax planners are able to utilize UK structures to minimize taxation for international business. The United Kingdom is party to more double tax agreements than any other sovereign state. The UK has signed double taxation agreements with 100 countries and thus enjoys the most extensive double taxation agreement network in the world. There are no license fees.

Corporation Tax is levied from 19% to 30% on a UK company that has net profits under £300,000, and a tax rate of 30% is levied where the profits are over this figure.

Requirements for Financial Statements are as follows:

All UK Companies must file accounts with the Registrar of Companies. To determine whether a company needs an audit or not, they are divided into two categories: small or medium-size. The following conditions must be met:

To be a small company (no audit is required only a set of accounts is required)

- the annual turnover must be £5.6 million or less;
- the balance sheet total must be £2.8 million or less;
- the average number of employees must be 50 or fewer

To be a medium-sized company, at least two of the following conditions must be met:

- annual turnover must be £22.8 million or less;
- the balance sheet total must be £11.4 or less;
- the average number of employees must be 250 or fewer.

Curriculum Vitae

Date of Birth	09.11.1977
Place of Birth	Ukraine, Poninka
Education	<p>Sep 1995 . Jun 2000: National Pedagogical University of Ukraine, Faculty of Foreign Languages</p> <p>Jan 2000 . Feb 2008: Central University of Vienna, Institute of International Economics, Production & Logistics, International Management.</p>
Work experience	<p><i>Sep 1994 . Aug 1995:</i> Teacher & Secretary in Gymnasium, Ukraine</p> <p><i>Mai 2005 . Oct 2005:</i> Operator in Travel Agency %Amadeus+, Incoming Tourism, Austria/Vienna. Close business relations with travel companies from Russia and other states of CIS.</p> <p><i>Oct 2005 . Aug 2006:</i> Secretary in the Company «BSH Luft + Klima GmbH», Ventilation Industry, Austria/Vienna. Trade with Russian speaking countries.</p> <p><i>Aug 2006 . Jan 2008:</i> Chief Administrative Manager in Krutrade AG (pure %offshore company+), Coal Industry, Austria/Vienna. Firm of Russian origin.</p> <p>Main tasks: bank transactions, account control, negotiations with financial organisations; Complete organisation and delivering the Directorsq and Supervisory Boardsq Meetings, Shareholdersq Meetings and preparing all the necessary documents for the Trade Court, Ministry of Finance and Auditing Agency.</p> <p><i>Jan 2008 . present:</i> Assistant of General Director in %Donau Commodities Handels GmbH+, Steel Industry, Austria/Vienna, wide usage of offshore centres and financial schemes. Company of Russian origin.</p>
Languages	Russian, Ukrainian, English, German.