

Uses of offshore companies

Investment Holding Company

Both individuals and large companies regularly use offshore companies as vehicles to hold investment portfolios, which may consist of cash, stocks, bonds and other investment products. Cash assets held by offshore companies can earn deposit interest gross or can be placed in collective cash funds.

Offshore companies are regularly used for inheritance purposes and to reduce probate expenses. Such companies can provide privacy and may save legal and other professional fees.

Property Holding Company

Another form of offshore holding company that has gained a lot of interest and popularity in recent years is using a company to hold property and property rights in an offshore location. Such companies are used to avoid capital gains taxes on property when it is sold, as well as inheritance taxes. This type of structure also provides privacy which ensures tenants are unaware of the property owner's identity.

The sale of property held by such an offshore company can be arranged easily by transferring the shares in the company and thus avoiding stamp duty payable by the purchaser.

A high net worth individual with properties or other assets in a number of countries may wish to hold these using a personal holding company so that upon their demise the need to obtain probate in each country is avoided. This will save on legal fees and avoids publicity.

International Trading Company

International trading is the purchase of goods in low cost production countries e.g. China, India, Thailand etc. and selling them to distributors in high income market areas e.g. USA, Europe, Australia etc., where the actual trading operation may take place from a third country. The goods bought by the trading company are sent directly from the country of origin to the country where they are to be sold.

Significantly improved profits can be achieved by forming a company which will be used as a trading medium for buying, shipping, and selling the goods.

Most of the profits will be retained by the new trading company that would otherwise be lost in taxation to authorities at the original home location of the trading operation.

Professional Service Companies

Many individuals engaged in providing services in construction, engineering, aviation, computer, finance, film and entertainment can

achieve considerable tax savings via an offshore-based private company. Individuals receiving consulting income can be employed by a company incorporated in a low or no tax jurisdiction and the fees generated will flow into this company. The offshore company can contract with an individual to provide him/her with services outside his/her normal country of residence and personal income can be accumulated free from taxation in the offshore centre.

It is possible to minimise income tax through proper planning and representation of your personal income.

Finance Companies

Offshore finance companies are normally established 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 standard corporation taxes. Many large companies establish their own offshore companies for the purpose of mixing dividends of subsidiaries and deriving maximum advantage from tax credits. The interest paid can be a deductible charge for taxation purposes, thus consolidating interest payments in an offshore finance company provides a tax saving.

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.

Offshore finance companies are also used for 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.