

What is offshore ?

Offshore business is about using the possibilities offered by countries (commonly known as jurisdictions), whose legislation allows for certain advantages (tax, confidentiality, company structure, etc.) to be used by non-residents.

This means that a country, or jurisdiction, will allow registration of a company and offer them certain tax freedoms in exchange for an annual licence fee. It is normally a legal requirement that the registered company must not conduct any business or own any assets in the jurisdiction of incorporation.

This in turn allows companies to be set up in that jurisdiction, sometimes resident, sometimes not (depending on the legislation), to trade on an international basis taking advantage of the easier flow of money on the international markets. These jurisdictions often allow another company to be appointed as the Director and Shareholder of a company. Most countries today still partake in the idea that the flow of money in or out of the country has to be restricted, regulated, or at least monitored, and of course, taxed.

Below are some frequently asked questions and an explanation for each.

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Is setting up offshore illegal?

No, setting up offshore is not illegal. However, withholding information about your offshore investments is illegal in some countries. An offshore jurisdiction should be perceived as just another foreign country, but with certain advantages. These can take the form of banking secrecy laws, advantages in forming companies for international trade through tax treaties, no interest tax, no inheritance taxes, no capital gains tax, no individual tax, and many others.

Depending on your personal needs or preferences, there will normally be one or more offshore jurisdictions offering the services you are looking for.

Is offshore only for the rich?

This might have been so a long time ago. However, in this modern age with the high quality of services offered by BOM, offshore is now a relatively simple and affordable procedure for almost anyone. Once having moved all or part of your business offshore, the savings made by the low-tax or tax-free status opens up a whole new world of investment and

business opportunities. If required, we will be happy to introduce you to an independent offshore investment advisor.

Where do I start?

Start with a Business Plan and a budget, as maintaining an offshore company requires paying an annual registration fee. Do you want to set up a small trading company, or an international empire? Do you want to sell your product on the internet? Decide on your target market and the types of currencies you want to accept. The flexibility in moving offshore will automatically open up new possibilities for you and your business.

Can I move my existing business offshore?

Some companies move parts of their business offshore almost immediately as separate subsidiaries and profit centres. However, you will need to look at your business with a view to re-structure your activities and maybe look for new business opportunities on a cross-border basis into other countries. The possibilities are quite extensive, and we are able to assist you when it comes to applying offshore advantages to your existing company operations.

What about my personal taxes?

BOM does not provide tax advice and do not assist you to evade taxes. This would be illegal for BOTH of us, however, it is our business to show you the opportunities available on how to reduce or even avoid incurring a tax liability.

We always advise our clients to seek advice from a tax lawyer and/or accountant in their respective country before proceeding with the purchase of a company.

How do I find the right jurisdiction?

This depends on what the corporation is going to be used for and your own personal or business circumstances. If you don't have a personal preference or a recommendation from a friend, please ask our experienced advisors for suitable suggestions. They will be able to help you make the right decision to match your budget and personal requirements. Alternatively, please feel free to use our [Jurisdictions](#) section for further information.

Some important factors to consider when choosing a suitable [jurisdiction](#): Incorporation & annual maintenance costs, the tax regime, legal system, confidentiality, exchange controls, banking facilities and the political and economic stability.

5 Golden Rules

When purchasing a company it is important to remember these 5 Golden rules:

1. Choose a respectable corporate services provider which has a physical office you can visit to discuss your requirements in confidence.

2. Choose a recognised bank in a stable country and ensure that they will accept instructions by fax or offer internet banking services
3. Beware of general costs such as "Disbursements" and "Other Expenses"
4. Deal with a company whose office is located away from your country of residence - as your personal records will be kept there.
5. For maximum confidentiality, try to ensure that the company and the company's bank account are located in 2 different jurisdictions.

Are there any other advantages besides tax?

Yes, there are many advantages including: Anonymity, asset protection, foreign property holding through a company in a third country, limiting of liability in business transactions, unrestricted flow of capital, transfer of assets etc. etc.

What is the future of the offshore industry?

Since the 911 incident, the international crackdown on money laundering has created a divide in the offshore industry, primarily between jurisdictions eager to comply with international standards of anti-laundering regulation and those that are less co-operative. The driving force behind those initiatives, have been influential organizations such as the Financial Action Task Force (FATF). The FATF was established by the G-7 countries in 1989 and is an inter-governmental body whose purpose is the development and promotion of policies, both at national and international levels, to combat money laundering and terrorist financing. As the FATF seek to apply more international pressure, it will become increasingly difficult for the less well-regulated regimes to do business.

Another major issue is the exchange of information, the profile of which has been raised in the current climate. The recently agreed EU Savings Tax Directive will change the face of the offshore industry, although to what extent is somewhat harder to predict. Previously no information was exchanged automatically in Europe unless there were concerns about illegal activities on a bank account. However, with the introduction of the EU Tax Directive, customers living within the EU are likely to be forced to engage with these issues, either by having to pay a withholding tax or agreeing to exchange information. The new directive will affect not only the EU Member States but "all territories under their control", Switzerland and the USA. The UK has recently announced that if the Cayman Islands fail to voluntarily to comply with these new rules, the United Kingdom will legislate on its behalf.

To this effect, Hong Kong will soon become a much more important jurisdiction for tax planning as it is one of the only respectable and well-regulated "offshore" banking centres which will not be subject to the new EU directive on automatic exchange of information and withholding tax.

Hong Kong should also be seriously considered for clients wishing to

register an offshore company, as it is one of the few respectable locations in the world that tax on a "Territorial Basis". Consequently, this means that corporation tax is ONLY charged on profits derived from a trade, profession or business carried on in territory of Hong Kong. Income sourced elsewhere, even if remitted to Hong Kong, is treated as tax free.

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.