



NEWSLETTER

From the Managing Director's desk



Panama Papers, Bahamas Papers, UK Papers, Germany Papers, USA Papers,?

As I am writing these words, a relatively short article has just appeared on the international internet portals: the IT specialist who is believed to have downloaded the offshore details from the server of the company Mossack and Fonseca and handed them to journalists has been arrested in Switzerland.

This is by no means the end of the story, but instead the beginning of the recognition of the fact that stealing and illegally using information is a crime. Moreover, it is a very serious crime, capable of causing immeasurable damage to even the most prosperous of companies, and can be proven instantly. It is possible to prove immediately who downloaded data from the server, when they did it and how much information they acquired, as a

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We have a new, young colleague in our office in Hong Kong.

serious IT system contains built in control points. The logs allow retrospective checking of data migration. And 2.6 terabytes is not any everyday amount of data, even in the life of a large company.

But why Panama? Having followed the system closely for 25 years, I have to ask the question. Why not Bahamas Papers or Isle of Man Papers, perhaps UK

Papers, Germany Papers or even USA Papers? Wherever we go in the world, we can find offshore threads, services and banks. Even today, more than 50% of the world economy's daily turnover is performed through offshore networks. And every country in the world is involved, from Pakistan to Brazil and from Mexico to Australia. If any of you believe that there is no offshore money in the German banks, then I'm afraid I have to disappoint you: and there's an awful lot of it. It is a little known fact that the vast majority of income from the porn industry is collected by merchant companies through large American, Dutch and German banks, or by local subsidiaries of such banks which have been set up specifically for this purpose. Similarly, if we look at the New York Stock Exchange, another very interesting fact comes to light: most of the money invested arrives through offshore companies. Or real estate in the City of London, where a significant number of properties is owned by offshore companies registered in the British Virgin Islands, usually with some Russian beneficiary in the background.

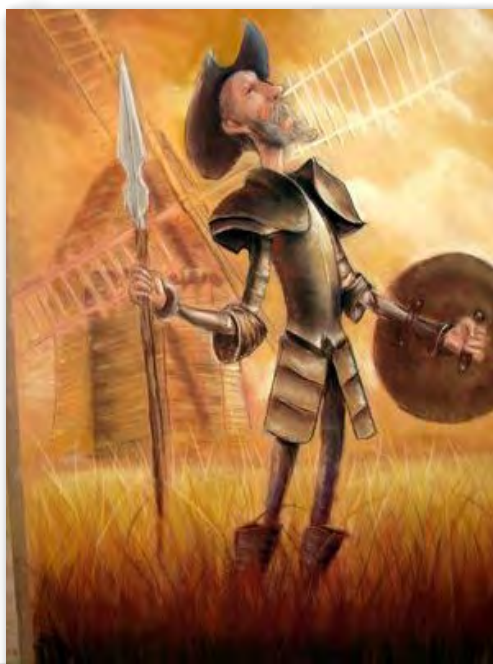
The world's political leaders send out hypocritical explanations when they suddenly begin a new fight against the offshore world. They know, and have done for many years, exactly what it's all about, as the system has developed as a satellite of the western economic model over the last 50 years. Nor is the automatic exchange of information going to bring about a

great change here, and all it is likely to achieve is the development of illegal solutions which will be almost impossible to fight against, such as the use of never-ending stooges. Numerous conspiracy theories appeared in connection with the Panama Papers, looking for the motive: in whose interest and for what purpose did the whole scandal break out? Allow me to join the queue and offer my own theory: what if it was one of the large banks? Who is going to be the biggest loser as a result of the whole automatic exchange of information system? The large banks. If we look at the world's largest banks, from Deutsche Bank to the HSBC, then it becomes clear that the world's 10 largest banks have a presence in numerous offshore financial centres, from the

Cayman Islands to Hong Kong. Who will lose the most through the exchange of information? Probably these large banks, as capital will migrate away from them, and they won't be able to profit from either asset management or daily transactions, as the funds will no longer be deposited with them. On the other hand, they can not „legally“ say no to the OECD principles and recommendations, as this would be rebelling against transpar-

ency. And it is the banks themselves who have slavishly adhered to the OECD recommendations for the last 15 years.

However, if we think about it more deeply, for the politicians, the Panama Papers was like a dress rehearsal



Credit: alexyinsantiago

for the automatic exchange of information. They flooded the desks of the politicians with data, then through the press shouted at them: „So, now do something with all of this, if you want to keep the voters' votes. Oh, and by the way, it turns out that a good number of you have been using offshore companies up until now. Well, what will it be? Are you going to pull the plug on that nice warm water which was so nice to sit in over the last few decades? Á propos, how do you plan to finance the



election campaigns there in America without support from the Cayman Islands, or in the UK if the money from the Channel Islands dries up?" I have deliberately used these large countries as examples, as I am convinced that the bigger the country, the more the economy – including political life – is financed by offshore money.

But let all this be the problem, the headache of the politicians, as the man in the street, the average businessman, is not really affected here.

From our point of view, another consequence of the Panama Papers is much more significant: the launch, or acceleration, of OFFSHORE 2.0. It is not by chance that I am writing about the speeding up of the process here, as the changes had already begun much earlier, and the direction was already quite clear. However, the greatest and fastest impact of the Panama Papers has almost undoubtedly been felt by the banks worldwide. The banks reacted almost immediately, and the week after the scandal broke they applied the brake to a

system which was already overly strict. There were jurisdictions where the opening of new bank accounts and accounts where the process had already begun was suspended for a short time. The Panama Papers showed

once more that the banks are key players in the world offshore market; nothing can be achieved without them, and they define the procedures and basically dictate the terms.

The reaction of the Cypriot banks, for example, was particularly interesting.

Today, Cyprus is perhaps the only country in Europe which is relatively liberal in its approach to the opening of bank accounts for foreign companies. From now on, however, based on the recommendations of the Central Bank of Cyprus, they will only be prepared to open accounts for companies which can present accounts or annual financial reports for the previous 2 financial years. In the case of new companies, they require an opening balance sheet. This is all in keeping with the OECD recommendations, as the organisation's main requirement is transparency, in regard to both corporate structure and financial activity. This causes a headache, though, for those who until now either didn't keep books, or only kept token records. Although companies registered in the British Virgin Islands, Belize or the Seychelles were required to keep accounting records, there were no restrictions as to the format, and they were not required to file them with the local authorities. The message of the requirement of the Central Bank of Cyprus to the

commercial banks is very clear: move further in the direction of transparent structures. This shepherding technique is forcing businesses to move from black to grey and then from grey to white. Presumably everyone is aware that turning the system completely on its head from one minute to the next is impossible. And it can be seen that they are moving in the right direction: they only want transparent structures to „survive“. Structures which do not meet the requirement will not have the possibility to remain in the banking system. They either close their accounts, or will not open any new ones.

For some businessmen, transparency would not pose a problem, but in those countries whose legislation includes special treatment of Controlled Foreign Companies (CFCs), income from such sources would become visible through the automatic exchange of information, and as a result could be taxed in the country of residence of the beneficial owner. Specialist consultancy offices around the world have developed numerous methods to legally defend against this. One of these methods is to resettle to a country whose tax legislation does not regulate the use of CFCs. In this case, the beneficiary is free to hold and store a part of their wealth in the bank accounts of an offshore company. It is worth looking around and seeing which countries in the vicinity have such legislation. Another such possibility is when the individual concerned moves to a country which either has no tax or has an extremely low

rate of personal income tax. Countries in this category include the United Arab Emirates, Cyprus, Malta etc. Naturally, it is extremely important in every case of resettlement for economic purposes to be well prepared and to take advantage of the help and services of a specialist provider for the actual resettlement process. DIY solutions can lead to serious, detrimental consequences.

The above shows that the world economy has moved into the OFFSHORE 2.0 era. While in the past single level tax planning was sufficient, with taxes optimised at corporate level, today this is no longer enough. Since the exchange of information puts the emphasis clearly on the ultimate beneficial owners, precise tax planning at the individual level has now become necessary. While little attention was paid to this in the past, it can be expected that this level will play a greater and greater role in the future.

It can also be seen clearly that the vehicles used to date are being replaced. The jurisdictions which formed the backbone of cross border tax planning in the past are no longer able to meet the requirements of international organisations and various commercial banks.

Don't get me wrong; even today there is no problem with companies from the British Virgin Islands, Seychelles etc. There has been relatively little change in the legislation in these countries over the last few years, and they are as flexible and entrepreneur friendly as they were 20 or 30 years ago. The behaviour



of the banks, on the other hand, has changed dramatically, as they are only willing to open and maintain bank accounts for companies which are transparent both in their structure and their economic activity. You can read about these countries in detail in the [IVth edition of the 2015 Newsletter](#); the list has not changed significantly in the meantime.

Anybody would be completely within their rights to ask whether this is all necessary. Why bother with various offshore solutions? The reason is very simple indeed: diversification, not putting all your eggs in one basket, placing a part of your wealth in a safe place. That is, offshore solutions do not just mean „aggressive tax planning“, but wealth preservation and secure management. One of the most important factors of this is „the principle of multiple countries“, whereby various assets are re-distributed in order to minimise the risk of wealth loss.

But I wonder whether there will be any interest in this, if the banks „hit the brakes“ and are not willing to open accounts for foreign customers. Without a doubt, the situation is far from simple. I remember speaking to some Swiss colleagues some time last October. They told me that to open a bank account in a Swiss bank for a Swiss company with a Swiss director, but whose ultimate beneficial owner is not Swiss, takes an average of 6 months (I must admit, I was a little relieved to hear this, as I thought that opening a bank account in Switzerland only went so slowly when we tried ☺).

Not long ago I had lunch with the manager of a branch of one of the large Hong Kong banks. This was exactly at the height of the press campaign related to the Panama Papers. We just sat there looking at each other. We, at LAVECO, knew that this bank wouldn't be opening accounts for new customers, and they could see that we weren't even trying, as there was no point. Towards the end, just as we were about to go our different ways, I said to him: „Listen, I know the situation is very difficult at the moment, but let's keep in touch, as it won't always be like this. Sooner or later, the situation will improve and we'll be able to work together again, perhaps a year or two from now.“ At this point, the Chinese banker became very happy, and opened up, saying: „I've worked for this bank for 36 years – I've spent my life here, and I totally agree with you. Sooner or later everything will change. When they realise that the bank's turnover and profit have fallen, and the share price drops, our management will have no choice but to act, and once again our doors will be held wide open for businessmen.“

Have a good summer, and take a good rest!

With warm regards

László Váradi

Managing Director

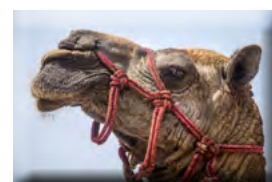
LAVECO Ltd.



Jurisdiction spotlight

Umm-al-Quwain Free Trade Zone Establishment

<i>Location:</i>	In the east of the Persian Gulf, the northern part of the United Arab Emirates
<i>Constitutional form:</i>	Constitutional Monarchy
<i>Population:</i>	Approximately 72 000 (2007)
<i>Area:</i>	755 km ²
<i>Capital:</i>	City of Umm-al-Quwain
<i>Currency:</i>	Dirham (AED)
<i>Official languages:</i>	Arabic (English is widely spoken)
<i>Time zone:</i>	UTC +4
<i>1. Company legal form:</i>	Private Limited Company by shares
<i>2. Method of incorporation:</i>	The Memorandum and Articles of Association must be signed by the subscriber
<i>3. Company name ending:</i>	Free Zone Company, FZC
<i>4. Time required for incorporation:</i>	2-3 weeks
<i>5. Number of directors:</i>	Minimum 1 of any nationality
<i>6. Number of shareholders:</i>	Minimum 1 of any nationality
<i>7. Minimum capital:</i>	AED 300,000 (not required to be paid up)
<i>8. Accounting / reporting requirements:</i>	Required, but not public
<i>9. Type of shares:</i>	Registered
<i>10. Annual tax and duties:</i>	Dependent upon the type of company
<i>11. Disclosure of beneficiaries:</i>	Not required for Public Records
<i>12. Registered office:</i>	Local Registered Office is required by law within the Free Zone
<i>13. Registered secretary / agent:</i>	Local Registered Agent is required by law
<i>14. Agreements for the avoidance of double taxation:</i>	The UAE has signed Tax Agreements with over 40 Jurisdictions



Topic

Where does the signing of tax agreements currently stand?

On January 1st, 2016 the first phase of the global automatic exchange of information on tax matters, whereby the countries which have signed up to the agreement will exchange information on tax issues from 2017 (or in some cases 2018), began.



underway. 83 countries have currently signed the agreement.

In the table which you can download at <http://bit.ly/296NoTB> you can see a list of the countries which have signed MCAAs to date, while on the [OECD website](#)

At the OECD Global Forum in October 2014, 89 countries declared in a Memorandum of Understanding their intention to sign up to the automatic exchange of information. Since 2014 the signing of Multilateral Competent Authority Agreements (MCAA) has been

it is possible to follow the most important news and information regarding the automatic exchange of information. We also recommend that you visit and follow the news on our blog dedicated to the topic: <http://taxinformationexchangeagreements.com/>.

Interesting

Will there be any point in having offshore Trusts in the future?

International Trusts, established primarily for asset protection purposes, can not be considered as companies, since they do not have separate legal personality. In reality, the Trust is a private legal agreement between the Settlor and the Trustee, on the basis of which the Trustee takes possession and control of the assets for the benefit of the Beneficiaries. It is this peculiar nature which leads the exchange of banking information agreements to treat Trusts differently from private individuals or companies. The most significant difference is that in the case of



Trusts, the majority of banks will only file a report if there was actual financial movement in favour of the Beneficiary during the tax year; that is, if a Distribution was made to the Beneficiary from the income or assets of the Trust. Although the rules are not absolutely clear, and we can expect to see significant changes in the coming months, the banks which LAVECO Ltd. consulted with confirmed this, referencing the OECD recommendations, which also treat the requirements regarding the exchange of information on Trusts separately.

Offshore Banking

LAVECO Life

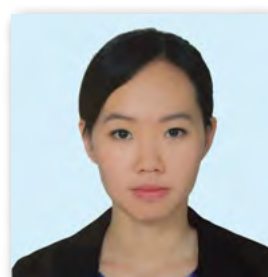
Piraeus Bank



LAVECO Ltd. has a new banking partner in Cyprus,

after they accepted our application, and LAVECO Ltd. was given Introducer status by the bank. Nowadays, when it is harder and harder to open bank accounts for foreign companies, we are open to each and every new opportunity. The opening of accounts here is nowhere near as straightforward as it was as little as one year ago, but despite the somewhat drawn out account opening process, the end result is very advantageous. We recommend Piraeus Bank primarily to those clients who are looking for a fast and cost-effective solution for their everyday payment and transfer requirements. Everything required for the day to day running of the account is available through the internet banking, and the bank offers excellent bank card services to foreign customers.

LAVECO Ltd. Hong Kong: Carmen Wong, marketing manager for Chinese markets



We have a new, young colleague in our office in Hong Kong. Carmen Wong graduated in Economics from the University of Jinan, and is currently responsible for our

company's marketing activities in the Chinese market, in particular in the field of internet marketing, and within that, our presence in social media. In addition, Carmen is also involved in the promotion and selling of citizenship and residency programmes.

We are confident that this will be the start of a long relationship between Carmen and our Hong Kong office, which will prove fruitful for both parties.

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