The coming Apocalypse for Offshore Tax Havens?

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Country: United Arab Emirates

Industry Sector: Other

Category:

Description: In a brand-new book, Offshore Apocalypse: The Collapse of the Tax Haven Industry - What does the future hold?, the authors argue that the offshore tax-haven industry is on its last legs following a massive attack from the world's most powerful nations.

Comments: On the surface, this claim may appear slightly outlandish, since apparently as much as $32 trillion are still parked in tax havens – more than double the annual GDP of the United States. If such massive sums remain in offshore accounts, isn't it fair to say that tax havens are as successful as ever? How can the powerful countries' fight against tax havens impact GCC-based investors?

For many years, Western governments in particular tolerated offshore tax havens – jurisdictions whose laws make it possible for wealthy individuals and corporations to hide their earnings from domestic revenue authorities. But this willingness to turn a blind eye ended once the financial crisis struck in 2008, sapping national tax bases. Beginning in 2009, developed countries, joined by emerging-market nations such as China and India, launched an aggressive crackdown on international tax planning through tax havens, particularly, if companies incorporated in offshore jurisdictions are nothing but a mailbox.

Many business leaders clearly do not understand that the changes of 2009 have increased the likelihood that offshore tax evasion will result in prosecution, fines and even prison time.

Why do these changes affect GCC-based investors and people who use GCC jurisdictions for tax planning purposes? GCC-based companies often structure their foreign investments through intermediate holding companies, trading companies or special-purpose vehicles (SPVs) incorporated in low-tax jurisdictions such as Luxembourg, the Netherlands, Switzerland, Cyprus, Singapore or Hong Kong.

While it may be perfectly reasonable to set up a company in any of the above-mentioned jurisdictions, a GCC investor must consider how he will repatriate profits and exit the investment in a tax-efficient manner. Due to the international onslaught on tax havens, a company can no longer claim residence in a low-tax jurisdiction by setting up a simple letterbox company there. A corporation must prove it has "substantive presence" – not just legal presence – if it wants to enjoy tax benefits in a given jurisdiction.

Firms can achieve "substance" through numerous means: setting up an office, hiring local residents (not necessarily citizens, but at least residents), and using locally based e-mail and corporate addresses, amongst others. More importantly, a company must justify its legitimate presence by locating management functions in the jurisdiction. These cumulative measures will also assist in risk allocation and asset allocation to the entity registered in the low-tax jurisdiction.

In a nutshell, a company must prove that its presence in a low-tax jurisdiction is not only tax-driven, but has genuine business motives. Offshore Apocalypse walks investors through the process of establishing substance in low-tax jurisdictions and explains the most recent developments in the area of international taxation. This is a costly process, but corporate leaders will find they have little other choice. Accountants, auditors and especially financial institutions are loath to get involved in tax evasion and will refuse to serve clients if they see evidence of illegal offshore tax haven activity. Companies investing through the Middle East, often through Dubai and its attractive Free Zones, will face the same challenges. They will have to establish physical presence, particularly if they want to benefit form the UAE’s growing network of double tax treaties.

Furthermore, the book also discusses the Foreign Account Tax Compliance Act (FATCA), the most recent U.S. initiative to improve tax compliance of their citizens. Even though FATCA imposes reporting requirements on U.S. taxpayers, the act´s primary target are not citizens and residents of GCC countries who have a U.S. passport, since they already had an obligation to report to the IRS prior to the implementation of FATCA. The main purpose of the act is to require from foreign financial institutions to report directly to the IRS information about their U.S. clientele.

Offshore Apocalypse: The Collapse of the Tax Haven Industry - What does the future hold? is available on Amazon and also as an e-book version for all tablets. www.offshoreapocalypse.info