

# THE OFFSHORE MYTH



The rhetoric of Barack Obama and Gordon Brown could damage the offshore financial services industry, as so-called 'tax havens' are increasingly used as a scapegoat, says **Simon Owen**.

The offshore world is being vilified as tantamount to an economic 'axis of evil'. But offshore financial services jurisdictions are an integral part of the world's free market economies. For example, the offshore reinsurance industry has borne the brunt of US property catastrophe claims in recent years. The offshore fund industry provides the US and Europe with trillions of dollars of overseas investment. The offshore captive insurance industry encourages sound risk management practices and fiscal responsibility. Offshore jurisdictions are subject to regulatory regimes that include strict due diligence procedures and are subject to extensive strict anti-money laundering and anti-terrorism financing laws. The vast majority of offshore financial centres already have Tax Information Exchange Agreements (TIEAs) in place with the likes of the US and UK Governments. Offshore and low-tax jurisdictions encourage tax competitiveness and stimulate economic investment.

Probably the biggest myth about offshore jurisdictions is that they are vehicles for tax evasion. Offshore financial services jurisdictions, particularly the overseas territories and crown dependencies (Anguilla, Bermuda, British Virgin Islands, Cayman Islands, Guernsey, Isle of Man, Jersey, Turks and Caicos), are actually extremely transparent and should not be confused with banking secrecy jurisdictions (Monaco, Liechtenstein, Andorra, Switzerland, Austria, and Luxembourg).

During a campaign speech in New Hampshire, President Obama said of an office building in the Cayman Islands: "There are 12,000 companies housed in that building, so it's either the biggest building in the world or it's the biggest tax scam in the world". In reality, offshore companies are used for a number of purposes in corporate structures and, in many cases may not even maintain assets or have a bank account. Even if the beneficial owners of the majority of those 12,000 companies were US citizens or corporations, they would be required to submit extensive due diligence and source of funds information in order to transfer any assets to an offshore entity. They would also be required to submit declarations to the IRS, such as the W8-BEN form.

"How much safer would everybody's savings be if the whole world finally came together to outlaw shadow banking systems and outlaw offshore tax havens?"

**Gordon Brown, UK Prime Minister**

"We fully support the legislation ... on offshore tax centers."

**Timothy Geithner, US Treasury Secretary**

"We can no longer stand passively by as individual small countries attract financial institutions by ignoring internationally agreed-upon rules."

**Angela Merkel, German Chancellor**

We must also work to eliminate the grey areas that undermine our efforts at coordination, in this case the offshore centres."

**Nicolas Sarkozy, French President**

In the United States, foreigners are afforded the ability to form companies and open bank accounts without undergoing any of the extensive due diligence requirements imposed in most offshore jurisdictions. In Delaware, there are office buildings that reputedly house in excess of 200,000 companies, a number of which are formed without the provision of ultimate beneficial ownership details.

The UK is also not shy in offering tax incentives. Wealthy foreigners may reside in the UK and be taxed on only their UK income, not their global income. A punitive UK corporate tax system continues to force long-suffering British companies, particularly the major insurers and reinsurers, to re-domicile either offshore or to other European lower-tax jurisdictions, such as Ireland, Malta and, in the case of Brit recently, the Netherlands.

What benefits do offshore centres offer over their US and European counterparts? Nothing other than cost-efficiency and a professional service. The decision making process when selecting a domicile for a mutual fund or insurance company is similar to that of someone deciding to buy a Toyota or a Ford. You simply choose the one that offers greater performance and value for money.

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