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OFFSHORE FINANCIAL CENTERS

An offshore financial centre (OFC) is a small, low-tax jurisdiction that provides corporate and commercial services to non-residents in the form of offshore companies and the investment of offshore funds.

Common Offshore Financial Centers of the world are the following: Andorra, Bahrain, Barbados, Bermuda, Gibraltar, Macao SAR, Anguilla, Antigua and Barbuda, Aruba, Bahamas, Belize, British Virgin Islands, Cayman Islands, Cook Islands, Costa Rica, Monaco, Hong Kong, Ireland, Isle of Man, Jersey, Luxembourg, Singapore, Switzerland and others.

Among the reasons why countries strive to develop themselves as offshore financial centers are:

1. optimization and reduction of income taxation, outside the offshore zone;

2. ability to get rid of double taxation when conducting international business.

Arguments against offshore financial centers are as follows: 1. They attract unsavory business elements including money launderers, terrorists, dictators and expatriates who have funneled ill-gotten gains to an offshore financial center for their own purposes. 2. They help people evade taxes in their own country which means that a disproportionate tax burden is shouldered by the middle-income tax payer, thus, effectively undermining sovereignty and tax fairness.

What reasons do clients have to become associated with an offshore financial center? First of all, there are legitimate reasons which include: 1. Privacy for personal, family, business or political reasons. 2. Keeping funds separate in case of inheritance battles, divorce or personal bankruptcy. 3. Keeping funds in a secure bank in a secure country. Among illegal reasons are: 1) laundering money from criminal activities, and 2) tax evasion.

How do offshore financial centers maintain secrecy but take action to reduce or eliminate money laundering and the unsavory business elements? Common controls in most jurisdictions focus on due diligence rules over bank personnel including: 1. Knowing your client rules (verifying the contracting partner, verifying the beneficial owner, clarification of the economic background of a transaction and retaining documents attesting to the verifications made). 2. Reporting of suspicious transactions (an obligation to inform). 3. Serious sanctions against bank personnel if they violate the rules. In addition, the lifting of bank secrecy can be ordered by the country's judges if there is proof that the account is a criminal matter.