INTERNATIONAL MAN'S GUIDE TO OFFSHORE COMPANIES

Doug Casey's
INTERNATIONAL MAN

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Doug Casey on Offshore Companies

In a wide-ranging interview with Casey Research Editor Louis James, Doug Casey discusses offshore companies and provides some guidance in considering countries to diversify into.

L: What about getting an offshore company?

Doug: Well, it's tough these days. If you want to trade in US and Canadian stocks, you pretty much have to have an American or Canadian broker. But one thing that can be done that is completely legal (and reportable) is to open up a foreign company. Then the company can open a brokerage account. That way, you do have a level of insulation I think is very valuable, both from a practical and a legal point of view.

L: I gather you're not talking about the banana republic IBCs I see peddled on the Internet.

Doug: Right. Most of what you see on the Internet offering to open up an IBC—which is an offshore company—are just scams, if not stings. The fees are too high. The people are usually sleazy. They often come up with all sorts of cockamamie tax-avoidance schemes. You may be encouraged to do things that are illegal. They are just disasters waiting for you to walk into. I strongly encourage people not to even consider such offerings.

If you want an offshore company for the purpose of convenience or a measure of privacy, completely reportable and within the law, the best thing to do is to go to the jurisdiction you've picked and see a lawyer who deals in that sort of business. Cut out the middleman.

L: So, you hop on a plane to, say, Panama, and… how do you go about finding a reliable attorney to set up your corporation?

Doug: That's the intelligent way to do it. There's nothing illegal, nor particularly tricky about it; you just find a lawyer who specializes in it, pay the fees, and off you go.

How do you find a good lawyer? Same way you do at home; you go and start interviewing lawyers until you find one that impresses you as being sound.

Panama, by the way, is probably the best place to do this at this moment. The British Virgin Islands may be another. And of course, if you're an Australian or a New Zealander, you should think about Vanuatu—it's only a two-hour plane ride from Sydney or Auckland.

L: That's really all it takes? Find a lawyer and pay the fees?

Doug: Yes, though there can be nuances worth paying attention to. For example, there are various jurisdictions with different tax treaties that can be used to your advantage. The Dutch Antilles being a famous example, as far as dividends treatment goes. This is a specialist area that, well, you should discuss with a specialist. But you should definitely give it some thought.

Expatriate Your Wallet

By Terry Coxon

If everything you own is held in your own name in your own country, then you are not merely exposed, you are vulnerable absolutely, to whatever decisions the government might make about how you should behave and who gets the wealth you've earned.

Tomorrow's new government measure, which might land out of the blue, could be a law that affects everyone, or it could be a rule devised to deal with people like you. Or it could be an administrative action aimed at you alone. In any case, with all your assets at home, you'd find out how the lobster feels when his trap is being hauled out of the water. Nothing he can do about it.

The only way to protect yourself against the risk of being boiled in a government pot is to keep some of your assets in another country. Depending on how you go about it, the specific benefits you might achieve are:

- Protection from currency exchange controls
- Protection from the confiscation of precious metals
- A lower profile as a lawsuit target
- Income tax planning advantages
- Estate planning advantages
- Easier access to investments in other countries
- A measure of financial privacy
- Practical readiness to move additional assets quickly
- Psychological readiness to think and act internationally when you need to

There are many ways to go about getting those benefits. None is right for everyone, and they all come with some element of cost or inconvenience.

Offshore LLC. You can use a limited liability company (LLC) formed outside your home country as an international holding company. It, not you personally, would buy and hold the overseas investments you want.

An offshore LLC can be designed to be very unfriendly to your potential future lawsuit creditors, even more so than an LLC formed in the US. An additional plus is that while many banks, mutual funds, insurance companies, and other financial institutions shun business from individual Americans, many of the shunners will welcome business from a non-US LLC even if it is American owned.

An offshore LLC owned by a single US person (or by husband and wife) can elect to be treated as a disregarded entity for US income tax purposes, which makes it absolutely income-tax neutral. Or it can elect to be treated as a partnership, which makes it almost income-tax neutral. The LLC can also be used for estate planning in the same way as a US LLC.

By the ratio of benefits to cost and complexity, an offshore LLC rates especially high. But it does not eliminate your reporting burden. If the LLC owns a large foreign bank account, you will be required to report it. And there will be annual reports for you to file about the LLC itself.

Six Elements to Starting a Business Overseas

By Darren Kaiser

Starting a business in a foreign country might be easier than you think, provided you keep in mind six things when planning your start-up.

Long ago, taking advantage of market anomalies in distant parts of the globe usually involved sailing across oceans, battling storms and deadly illnesses, but these days, starting a business overseas might actually be much easier, less risky, and more economically sound than setting up a business in your home country.

There are ample opportunities in emerging markets for entrepreneurs and small (or large) business owners with a skill set that is distinct from that of the local population. Following are six key elements to take into consideration when starting a business.

#1—Political Climate and Property Rights

Some countries around the world have a history of confiscating property and/or businesses owned by foreigners. You'll probably want to avoid those countries. Others have impeccable histories with solid property rights and full access for foreigners. Finding a jurisdiction with minimal political risk is crucial. Looking at an index of international property rights can be very helpful with this.

#2—Economic Situation

Countries with low debt-to-GDP ratios, low or declining unemployment, and strong consumer spending normally make for good prospects. A growing middle class, low inflation, and rising incomes are also positive signs. It's definitely possible to form a profitable business in a country with a stagnating economy, but it very well may be an uphill battle.

#3—Your Personal Knowledge of the Industry

It's not always necessary to be an expert in the specific industry you're looking to enter, but you should remember that bringing in managerial help will add to start-up costs. Partnering with a trustworthy local who already has experience and contacts within a given industry can definitely increase your likelihood of success. Finding situations where you have some skills to bring to the table (other than just start-up capital) are usually best.

#4—Market Research

You'll want to spend a significant amount of time analyzing local spending habits, as well as determining how much time, energy, and capital will be dedicated to marketing your products or services. If feasible, try setting up a trial run or conducting surveys before investing much capital. Don't overlook how much you'll have to pay employees, nor what work habits are like in the country.

#5—Language Barriers

If your business will cater to other foreigners, this might not be much of an issue. However, being able to easily converse with the local population will make launching your venture much easier. If you're not fluent in the language of your target country, try to avoid paying for translation services, except for the most important procedures (such as revising contracts and/or the business constitution if used). Hiring a translator will significantly increase your expenses in most cases. Instead, look for a bilingual individual whom you can employ on a weekly or monthly basis, someone who can help with the language when necessary but who will also be useful for general tasks relating to the business.

#6—The Incorporation Process

The International Finance Corporation and the World Bank have a great page that compares the costs, amount of time, and number of procedures involved with forming a business in 183 countries around the world. The page is specifically for businesses with between 10 and 50 employees, but it can be a helpful tool for those looking into both smaller and larger operations.

Some examples:

- In New Zealand, you can form a business in a single day with minimal paperwork (two days in Australia).
- In Panama and Chile, setting up a business involves six or seven procedures and can take less than two weeks.

- In Portugal, the process can take as little as five days and involve as little as five procedures, but the general economic prospects in Portugal are not very promising.
- In Singapore and Hong Kong, setting up a business involves three procedures that can be completed in three days. Opportunities exist, but startup costs could be high, depending on your type of business.

Spending thousands of dollars on a business degree or an MBA isn't the only way to prepare for opening and operating a business overseas. While studying business can certainly be helpful, the years you spend in the classroom could instead be productive, income-producing years, if you select your market and jurisdiction carefully.

Starting your own business overseas will definitely require due diligence and careful consideration of the six factors listed above, but with less than US$1,000 (and even less than US$100 in some places), becoming your own boss might not be as hard as you would think.

Why I Set Up an Offshore Company

After eight years of operating his business under the red tape and tax burdens of a UK limited company, Paul C. set his sights on offshore incorporation. Could this be the right option for you? Find out as Paul gives his advice on the pros and cons of offshore incorporation.

International Man: Tell us a bit about yourself.

Paul C: From a young age, I've always been interested in technology and more specifically computers. I started out writing BASIC programs and following magazine articles. That was just the start for me. As I got older I began to see that computers were becoming popular with the average person and thought it was the perfect tool for a small business. So at age 15, while still in the final years of school—very early 1990s—a friend and I started a small business to sell free and shareware software. The idea was that you made money from the media and replication costs. At that time, the online world was restricted to bulletin boards and Usenet, which the average person didn't have access to due to the costs and technical ability required. The business we started wasn't overly successful. It was a fun experiment, but we both gained valuable experience from doing it.

Then came the advent of the Internet. My epiphany was at the age of 23 while at university in 1996 doing a BSc in Multimedia Technology. We had been tasked with doing research, and having clicked on the Netscape icon on the computer desktop, I was amazed at how easy it was to find the information I needed, even back then.

This got me thinking that the Internet was really the way forward, and I decided pretty much there and then that it's also where I wanted to be. Outside of my studies, I played around with Internet technologies and taught myself the different languages required to build websites and interact with them. It was all fairly basic back then as you only really needed to know HTML and a bit of JavaScript to make images change when a user moved their mouse over them.

Fast forward to 1999, I graduated from university and then along with two friends started a UK company building websites. This didn't go well to start with, as in '99 everybody was doing websites. We struggled awhile but then had to go our separate ways and get jobs. I decided to keep the company going and use it in my spare time outside of my day job to try and build something. Rather than doing generic websites I focused on more complex projects that involved dedicated programming and database work. This went very well, and after two years in my day job I was able to quit and carry on full time with my own company. I worked under that UK limited company for the next eight years, until in 2009 I decided that there had to be a more efficient way to run things. I was really getting fed up with all the red tape involved in running a company in the UK. So I started looking at different offshore solutions.

IM: How have you internationalized yourself?

PC: The main way that I have internationalised myself is to try and get my dependence on UK institutions reduced to a minimum. I don't really do stocks and shares, as I find the markets take too much time to study properly to be successful. I decided to diversify into owning commodities such as gold and silver, which I have done since late 2008. I really don't like the idea of owning a specific currency, and this includes the British pound, which isn't far off the dire straits that the euro and US dollar find themselves in.

The only Sterling that I keep is enough to live off of and a little for emergencies; everything else is invested. There are a few currencies that I'm keeping an eye on that I might look to as a store of cash, but for now I'm happy with buying gold and silver on market pullbacks. Silver is looking even more attractive at the moment after the recent drop. With regards to my company, I decided to wind up the UK limited company and go for an offshore equivalent.

IM: What prompted you to set up an offshore corporation to manage your UK finances?

PC: The main reason that I decided on an offshore corporation is the ease of managing it. The way I run my business, I don't have any employees. If I need work done then I'll always contract a supplier in. This means that my overheads are very low.

However, while running the business, I also want to keep the red tape and administration to a minimum. Unfortunately, living in the UK and having a UK limited company meant that I always seemed to be filling in forms and trying not to miss the deadlines. There had to be a better way. Also, I really didn't want to pay as much tax as I was. I think this is something that almost everybody would look at to begin with, but it's not always obvious how and where you can make the savings.

IM: Why did you set up an offshore corporation versus one based in the UK?

PC: As I've already mentioned, the main reason was to cut down on the red tape and administration. I'd much rather concentrate on running the business and generating income than filling in forms. I also have concerns about privacy issues. With a UK limited company, your accounts and details are listed at Companies House [the official UK government register of UK companies], and for a small fee, anybody who wants them can acquire the directors' details. This to me is in some ways good and bad. On the one side you can check out the businesses that you might want to work with; on the other anybody can find out where you live. I'm big on privacy, and working in the industry I do, I know full well how easy it is to use that information. In the offshore jurisdiction that I chose, the company register is totally private; details cannot be divulged unless it has to do with criminal proceedings, which suits me just fine.

IM: What are the biggest benefits you gain from this setup?

PC: The main benefits are, as I mentioned, the privacy aspect, plus VAT on intangible supplies. Any service that is provided by a VAT registered company in the UK (and to a greater extent the EU) can have the VAT zero-rated; as a service is not a tangible item, it is classified as "for export" so there is no VAT due. This is ideal for my company as the vast majority of the overheads are services. For businesses that mainly deal with physical items that stay within the UK borders, this isn't so, as the VAT is still chargeable. So before using the VAT savings as a reason, you need to really think about what your business does now, as well as what it might do in the future. Otherwise, you might have a trouble or two down the line.

Another great benefit is that I no longer have to have my accountants render accounts to be submitted to Companies House, which makes a saving on annual bills and also on the aforementioned red tape. Of course I still do have accounts drawn up; it would be silly for any business tracking their profit and loss not to. The accounts are for me to use to see how well things are going and to also work out the tax due on profits.

Finally a great advantage is the flexibility of being able to move at the drop of a hat. Right now I am tied to the UK due to family and some other circumstances. However if I decided to move away from the UK, having the offshore company means I can continue trading without altering anything apart from a mail forwarding address. With a UK company it would become a lot more complex.

IM: Are there any pitfalls our readers should be aware of?

PC: I think the main pitfall of an offshore company is the tax on profits. A lot of people instantly think by having an offshore company they won't be taxed or they can hide their profit. This is not the case. While you can choose not to tell HMRC [Her Majesty's Revenue and Customs, sort of the UK equivalent to the IRS] that your company exists (and if you never bring money into the UK this will probably work), based on UK tax law you could well get into trouble. I did consider this but for me it doesn't work. I'd much rather be working on my business than fighting court cases, of which there have been many. I read the HMRC tax manuals and legislation extensively and came to the conclusion that the best thing to do was go by the book. Based on the UK tax rules for companies, if a company has its "mind and management" in the UK, then the company is classed as also being resident in the UK for corporation tax. This means if you live in the UK and make business decisions here, you had better be ready for court if you don't register the company.

What this means for me is that I have to fill in one form each year: the CT600 Corporation Tax return. This is a snap as I have all the details from my books that are drawn up by my accountants. If you manage things correctly you can offset costs against this tax bill. By offsetting the cost of the offshore company itself, the costs of accountants, and anything else the business pays out, the corporate tax bill can be reduced quite significantly. These are costs you would have to pay out anyway so why not use them to reduce your tax footprint within the tax law. Of course you should always speak to a qualified accountant and do your own research.

A second pitfall is that of dishonest companies that advertise their services for setting up offshore companies. Some will make all sorts of claims about evading tax and saving thousands, but when push comes to shove you will be the one in hot water, not them. They will have already made a nice amount from the incorporation of the company. So before doing anything, make sure you are dealing with a reputable company.

Also keep in mind the offshore jurisdiction's own tax laws. Most offshore centres will not tax a company if it doesn't trade locally, so you only have to deal with tax in the UK. However, if you have chosen a jurisdiction that does tax you, make sure this country has a double taxation treaty with the UK—this will stop you from being taxed twice on any profit, as the UK will take into account that your company has been taxed once already.

IM: Can you take us through the process of setting up your overseas corporation?

PC: The main thing to look out for is the formations company that will actually incorporate your company. If you are careful and do your research you'll end up being very happy. The company that you deal with is important, as you will have a long-lasting relationship with them. Not only will they incorporate the company, but they will also deal with any local administration and, if you wish, deal with mail forwarding services (and in some circumstances run a virtual office for you that answers calls, etc.). So research this company very well as it's the linchpin of the whole process.

You can pay extra for nominee directors and shareholders, but in my opinion this isn't worth it. If you are going to be tax compliant, the tax authorities would see through this instantly. A nominee director cannot perform any company duties, and any decisions will ultimately be traced back to you. Remember that if you pick the company jurisdiction carefully the company register will be private anyway, so you don't need the nominees.

Once you have the company incorporated, all that remains is to register it with HMRC, which is as simple as filling in a single form. Then it's just a case of getting a bank account. Again a lot of offshore incorporation services will charge you for a "bank introduction," but this is not a service you should take up. Almost any bank anywhere will be willing to open an account for you should you fit their criteria as a customer. I have one offshore account for the company, plus an onshore one for easy access. As long as you are willing to pick up the phone, then you can have an account in any country. Just go for the accounts that will give you the best deal and best access. In the age of Internet banking this could be anywhere in the world. At the end of the day banks want customers wherever they are.

IM: How would you recommend interested UK readers get started?

PC: First and foremost, I think the best thing to do is decide if an offshore company is for you… it is definitely not a one-size-fits-all approach. If you deal mainly with physical products that stay within UK borders, then an offshore company is probably not what you want. If you export or if you deal with intangible services, then it might fit the bill.

Once you decide an offshore company is for you, start researching a formations company to use. Ask around in some online forums as there are plenty of people out there that have had good and bad experiences and who are more than willing to give pointers. A point of massive importance is the actual jurisdiction that you decide to incorporate within—all have their own rules and nuances, so read about them carefully and find the one that best suits what you want to do.

Initially, I signed up for the service to form the company with a sole director and shareholder. I also went for the bank introduction, but after reading some more I asked them to remove that (which they did, no problem, and refunded the fee). I decided to sort out the banking myself and have saved on that.

Since the initial incorporation, I have also added mail forwarding so I can use the offshore address in any official company correspondence. On average, they send a packet with mail once a month. For more important mail I maintain a UK PO Box address. However, it doesn't have to be a PO Box; it could be a normal street address. I'm just paranoid about giving out too much info.

All in all, forming an offshore company was the best decision I've made in a long time. It's freed me from a lot of administration, which has lifted a big weight from my shoulders, and I know that I can take it with me anywhere in the world and continue working without a hitch. I'd love to see the UK authorities make it easier for UK businesses, but I don't see that happening any time soon. There have been moves to simplify tax in the UK and make it fairer, but while some things have changed, for me they haven't changed enough. Far too many rules and regulations.

IM: A perfect way to finish our interview. Thanks, Paul.

PC: My pleasure.

In our ***Going Global*** publication, we discuss in great actionable detail our favorite jurisdictions for forming offshore companies. Critically, we also include trusted professional resources that we have personally used to help you get set up and stay compliant with your tax reporting obligations.

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