London Consulting&Trustee Limited

Network of international attorneys and tax counsel

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English-speaking clients should not hesitate to contact us via e-mail or call our Berlin call center under: 0049 30 303660196

Tax planning via a network of international tax advisers and attorneys

1. About us – Introduction

We are a tax advisory and law practice that is part a network of international tax advisors and attorneys (Low Tax Net), serving clients from many countries (including Denmark, Germany, Spain, England, the US, Italy and France). We specialize in the formation of foreign companies (active companies and holding companies), primarily for the purpose of reducing tax burdens on firms.

We form companies in:

1. **the EU (European Union):**

   Germany, England, Cyprus, Czech Republic, Slovakia, Spain, Malta, Madeira (Free Trade Zone)

2. **Countries with DTAs (Double Taxation Agreements):**

Switzerland, Singapore, United Arab Emirates (Dubai, including UAE Free Trade Zones), USA

3. **Non-DTA countries (offshore):**
   Belize, BVI, Liechtenstein, Cayman Islands, Bahamas, Hong Kong,Sychellen

Other areas of interest include:

- Expatriation of natural persons to low-tax countries
- Formation of banks, financial service and insurance companies in New Zealand, Isle of Man, USA, Switzerland, Germany and offshore.
- Gambling licenses, licenses for sports betting (Malta, Isle of Man, England, offshore)

2. How to reach us

Please click here for our contact information or to fill out our contact form. Please note that our office can only conduct business in German or English. We are currently unable to advise non-English-speaking clients. Thank you for your understanding. Upon submission of the contact form, you will be contacted by a designated tax adviser or attorney, and/or a designated office from within the network will call you. We will typically need the following information from you:

- Current and target situation, goals
- Current legal structure of the company
- Type of business to be conducted as part of the formation of the foreign company
- Your legal residence status with regard to taxation
- Would you or an appointee be willing to relocate to a foreign country (the company's country of residence) and act as director, nominee or permanent director in the foreign country?

3. Setting up a company formation in a foreign country

1. The client or an appointee does NOT relocate to the foreign company's country of residence (appointment of nominee or permanent General Manager)

As most countries have laws that prevent the abuse of incorporation practices, we choose to distance ourselves from so-called cheap company formation, in which only a mailbox is established in the foreign country and/or, as part of a nominee scheme, a person who is not even an attorney or tax adviser enters into hundreds of nominee relationships. These types of structures become quickly transparent to local financial authorities and often result in a disaster for the client.

-Place of management:

If all income earned worldwide is to be taxed in the foreign country, the requirements for a "permanent establishment" in accordance with the DTA rules must be fulfilled. **This is essentially the "place of management."** There are several structural options for this purpose:

- An attorney/tax adviser in the foreign country (i.e., in the country of residence of the foreign company), or the advisory office as a legal entity, acts outwardly (i.e., as a nominee) as director of the company and hands over all rights and obligations to the nominator (beneficiary/client) via a nomination agreement.
- The client relocates his main place of residence to the foreign country and acts as director of the company. In certain cases, relocation of the "main place of residence" is not mandatory and requires only a management presence (be advised, however, that due to "daily business" requirements, this is seldom possible)
- An attorney/tax adviser in the foreign country, or the advisory office as a legal entity, acts outwardly (as a nominee) as director of the company, AND the client or his appointee relocates to the foreign country for certain periods of time to conduct management activities, in which case both parties possess only joint signing authority.
- **In addition to these solutions,** there is also the option of appointing an attorney/tax adviser/employee from the formation advisory office in the company's country of residence as ***General Manager,*** i.e., with an employment contract (no nominee relationship) and a "regular

salary." The "regular salary" amount must be line with income levels in the company's respective country of residency and would need to be between EUR 600 - EUR 1,800 per month, depending on required expenses/time. This internal relationship can be set up such that the foreign-based General Manager operates only under instruction, or the client becomes a secondary director, in which case both parties possess only joint signing authority. In special cases, "internal agreements" may be established in which the foreign-based General Manager "reduces" a part of his salary, if necessary and advisable. As a matter of course, the foreign-based General Manager declares his income when submitting his tax return and pays wage taxes and/or social security contributions in accordance with the laws of his country of residence. The foreign-based General Manager's income is considered part of the foreign company's expenses and is correspondingly deductible. In many countries (e.g., Cyprus), a legal entity may be appointed as the General Manager, which is often more useful for both sides. In these cases, a **General Manager's Contract** is signed between the foreign company and the "Director's Limited Company." No nominee relationships come into play in this scenario.

These laws may be circumvented by establishing in the foreign country a production site, a mine, a quarry or any other site for the extraction of natural resources or by conducting construction or installation activities over a period longer than 12 months. In accordance with Article 5 of the DTA, these are then considered permanent establishments in the foreign country, regardless of the company director's identity or country of origin.

- Ordinary Place of Business in the foreign country

A "mailbox" is never considered an ordinary place of business in the foreign country. Rather, the company in the foreign country must be reachable by mail, including certified mail, and by phone. The minimum requirements include: A deliverable postal address (including for certified mail), accessibility by telephone during normal business hours, accessibility by fax. So-called "Registered Offices" are generally not sufficient, as these are readily apparent to local financial authorities, or the foreign company's country of residence may deny the issuance of a tax ID number (for example, in the UK). Along with Registered Offices, we offer so-called "Head Office solutions" that provide credible documentation for an ordinary place of business in the foreign country.

An overview of our services:

- Formation of the corporation, entry in the commercial register
- Establishment of an ordinary place of business
- Upon request: Establishment of a nominee director in the company's country of residence, or a permanent director
- Upon request: Establishment of a nominee shareholder or bearer stock, if permitted by the respective country
- New bank account setup in the name of the company, including online banking and credit cards
- Referral to a tax adviser in the company's country of residence for bookkeeping, annual reports and sales tax reporting.

1. **The client or an appointee relocates his main place of residence to the foreign company's country of residence**

In such cases, the client or his appointee (e.g., an employee) acts as director of the company in the foreign country. A main place of residence is defined as follows: Presence in the foreign country (company's place of residence) during 51% of the year and a domicile in the director's own name

(hotels or stays with relatives do not count as a main place of residence). Upon request, we can handle all of the required services:

- Formation of the corporation, entry in the commercial register
- Establishment of an ordinary place of business
- New bank account setup in the name of company
- Referral to a tax adviser in the company's country of residence for bookkeeping, annual reports and sales tax reporting.

4. Foreign holding companies

The establishment of a foreign holding company is an excellent tool for diverting the profits of domestic capital investment firms to a foreign country tax-free. This is particularly true in cases where the EU Parent-Subsidiary Directive applies, i.e., where an EU-based company is involved as part of a foreign holding company / subsidiary relationship.

Legal consequences of an EU holding company: No establishment of a commercial business operation is required (EU Freedom of Establishment), no tax withholdings under the EU Parent-Subsidiary Directive, as long as the requirements of the Directive are fulfilled (minimum participation amount and time).

As a result, *Cypriot holding companies* are not taxed. The same applies to Swiss companies with holding company privileges (see: Applicability of the EU Parent-Subsidiary Directive) as well as Spanish "SL's" based on the conditions for holding company privileges. Cyprus offers particular advantages for holding companies, as it not only offers true holding company privileges, but also dividend payouts to non-Cypriot nationals are not taxed.

Is there ONE ideal location for a holding company?

No, not necessarily. It depends on the company's current situation and its goals. Within the EU, holding companies in Spain, the Netherlands, Luxembourg and Cyprus generally offer the greatest benefits. However, Switzerland is also of interest due to its holding company privileges and the applicability of the EU Parent-Subsidiary Directive. Holding companies in Austria and Denmark are also suitable for many corporate structures. Some countries, such as the UK, present disadvantages. Due to the lack of a DTA, the establishment of a holding company in an "offshore" country (i.e, one with no DTA) is generally not a good option (tax withholdings from the subsidiary, assumption of abuse of incorporation practices, etc.)

When selecting the appropriate location for a holding company, several factors come into play:

- Location of the subsidiary (existence of a DTA, EU membership, no DTA)
- Pros and cons of each potential holding company location in light of predefined goals
- How are non-holding activities taxed in the potential holding company's country of residence?
- Are there any holding company privileges (such as in Cyprus, Switzerland, Spain), i.e., no taxes on the receipt of dividends (e.g., Cyprus, Switzerland, Spain, Netherlands) or expatriate taxation?
- How are disbursements/dividend payouts from the holding company to the home country or foreign country taxed (tax withholdings)?
- How are interest and license payments to the holding company taxed?
- What are the rules regarding deductions for losses on the sale of assets and partial value depreciation?
- What are the rules regarding deductions for affiliated company losses/shareholder debt financing?

Our foreign holding company formation services include the following:

- Selection of a suitable location for the holding company
- Formation of the holding company, entry in the commercial register
- Establishment of an Ordinary Place of Business at the location of the holding company
- Setup of tax privileges for holding companies with the local financial authorities
- Upon request: Appointment of a nominee director or permanent General Manager at the holding company location
- New account setup, including online banking and credit cards
- Referral to tax adviser at the holding company location

5. Parent companies and subsidiaries in the European Union (EU Parent-Subsidiary Directive) and EU Mergers Directive

Introduction

In accordance with the EU Parent-Subsidiary Directive, after-tax profits (dividends) of foreign companies may be transferred between corporate entities tax-free. Participation limits are as follows:

- 20% from January 1, 2005, to December 31, 2006;
- 15% from January 1, 2007, to December 31, 2008; and
- 10% from January 1, 2009.

Example:

A Cypriot limited liability holding company holds a 50% share in the client's company outside of Cyprus but within the EU. In accordance with the EU Parent-Subsidiary Directive, the Cypriot Ltd receives 50% of the dividends tax-free, as the country of the Subsidiary has no withholding tax requirements.

As part of our international holding company formation package, we offer all the required services:

- Formation of the corporation, entry in the commercial register
- Establishment of an ordinary place of business
- Upon request, establishment of a nominee director in the country of residence of the holding company, or a permanent director
- New bank account setup in the name of company
- Referral to a tax adviser in the company's country of residence for bookkeeping, annual reports and sales tax reporting.
- Tax classification as a holding company with the financial authorities of the country of residence

6. Double Taxation Agreements, Definition of Permanent Establishment (Article of the DTA)

(1) For the purposes of this Convention, the term "permanent establishment" means a fixed place of business through which the business of an enterprise is wholly or partly carried on.

(2) The term "permanent establishment" includes especially :

(a) a place of management ;
(b) a branch ;
(c) an office ;
(d) a factory ;
(e) a workshop ; and
(f) a mine, quarry or any other place of extraction of natural resources.

(3) A building site or construction or installation project constitutes a permanent establishment only if it lasts more than twelve months.

(4) Notwithstanding the preceding provisions of this Article, the term "permanent establishment" shall be deemed not to include :

(a) the use of facilities solely for the purpose of storage, display or delivery of goods or merchandise belonging to the enterprise ;
(b) the maintenance of a stock of goods or merchandise belonging to the enterprise solely for the purpose of storage, display or delivery ;
(c) the maintenance of a stock of goods or merchandise belonging to the enterprise solely for the purpose of processing by another enterprise ;
(d) the maintenance of a fixed place of business solely for the purpose of purchasing goods or merchandise, or of collecting information, for the enterprise ;
(e) the maintenance of a fixed place of business solely for the purpose of carrying on, for the enterprise, any other activity of a preparatory or auxiliary character ;
(f) the maintenance of a fixed place of business solely for any combination of activities mentioned in sub-paragraphs (a) to (e) of this paragraph, provided that the overall activity of the fixed place of business resulting from this combination is of a preparatory or auxiliary character.

(5) Notwithstanding the provisions of paragraphs (1) and (2) of this Article, where a person - other than an agent of an independent status to whom paragraph (6) of this Article applies - is acting on behalf of an enterprise and has, and habitually exercises, in a Contracting State an authority to conclude contracts on behalf of the enterprise, that enterprise shall be deemed to have a permanent establishment in that State in respect of any activities which that person undertakes for the enterprise, unless the activities of such person are limited to those mentioned in paragraph (4) of this Article which, if exercised through a fixed place of business, would not make this fixed place of business a permanent establishment under the provisions of that paragraph.

(6) An enterprise shall not be deemed to have a permanent establishment in a Contracting State merely because it carries on business in that State through a broker, general commission agent or any other agent of

an independent status, provided that such persons are acting in the ordinary course of their business.

(7) The fact that a company which is a resident of a Contracting State controls or is controlled by a company which is a resident of the other Contracting State, or which carries on business in that other State (whether through a permanent establishment or otherwise), shall not of itself constitute either company a permanent establishment of the other.

7. Important information regarding offshore companies (those with no DTA relationships)

International tax laws in almost all countries differentiate between DTA and non-DTA relationships. A **Double Taxation Agreement** (DTA), correctly described as **an agreement on the prevention of double taxation,** is an internationally recognized agreement between two countries that regulates to what extent taxation laws affect the parties to the agreement with regard to income earned within their territories. The DTA is designed to prevent the double-taxation of natural persons and legal entities who earn income in both countries. A DTA also describes the conditions for setting up a permanent establishment in the home country and/or the foreign country.

Excerpt of Article 5 of a DTA:

ARTICLE 5
PERMANENT ESTABLISHMENT

(1) For the purposes of this Convention, the term "permanent establishment" means a fixed place of business through which the business of an enterprise is wholly or partly carried on.

(2) The term "permanent establishment" includes especially :
(a) a place of management ;
(b) a branch ;
(c) an office ;
(d) a factory ;
(e) a workshop ; and
(f) a mine, quarry or any other place of extraction of natural resources.
(g) A building site or construction or installation project constitutes a permanent establishment only if it lasts more than twelve months.

(3) ***THE TERM "PERMANENT ESTABLISHMENT" SHALL BE DEEMED NOT TO INCLUDE:***

(a) the use of facilities solely for the purpose of storage, display or delivery of goods or merchandise belonging to the enterprise ;
(b) the maintenance of a stock of goods or merchandise belonging to the enterprise solely for the purpose of storage, display or delivery ;
(c) the maintenance of a stock of goods or merchandise belonging to the enterprise solely for the purpose of processing by another enterprise ;
(d) the maintenance of a fixed place of business solely for the purpose of purchasing goods or merchandise, or of collecting information, for the enterprise ;
(e) the maintenance of a fixed place of business solely for the purpose of carrying on, for the enterprise, any other activity of a preparatory or auxiliary character ;
(f) the maintenance of a fixed place of business solely for any combination of activities mentioned in sub-paragraphs (a) to (e) of this paragraph, provided that the overall activity of the fixed place of business resulting from this combination is of a preparatory or auxiliary character.

(4) Notwithstanding the provisions of paragraphs (1) and (2) of this Article, where a person - other than an agent of an independent status to whom paragraph (6) of this Article applies - is acting on behalf of an enterprise and has, and habitually exercises, in a Contracting State an authority to conclude contracts on behalf of the enterprise, that enterprise shall be deemed to have a permanent establishment in that State in respect of any activities which that person undertakes for the enterprise, unless the activities of such person are limited to those mentioned in paragraph (4) of this Article which, if exercised through a fixed place of business, would not make this fixed place of business a permanent establishment under the provisions of that paragraph.

For most of our clients, this means that they are protected by an existing Double Taxation Agreement prior to setting up a Permanent Establishment in the home country (client's country of residence), as long as only a representative office, an advisory office (for support activities) or a storage warehouse is established in the home country. In contrast, most countries stipulate that in cases where no DTA exists, a representative office, a storage warehouse or an advisory office does constitute a Permanent Establishment in the home country. This would mean that global taxation or primary taxation of the foreign company would not take place in the foreign country at all but in the client's home country, even if the "place of management" is located in the country of residence (i.e., in the foreign country). The formation of a true offshore company (with no DTA) must be carefully considered in light of these factors.

As most countries have DTAs with **Cyprus, Switzerland, Singapore or the United Arab Emirates (UAE),** the benefit of forming a true offshore company in these countries is often clear. **Cyprus** taxes active companies at a rate of only 10%. As a member of the EU, it also benefits from the EU Freedom of Establishment law.

Singapore does not tax foreign-earned income, and the **UAE** imposes no taxes on any income whatsoever. In **Switzerland (Zug),** the total tax burden for active companies equals about 15.5%. It is also possible to form a foreign company under a DTA scenario in which the company is subject to little or no taxes.

If, due to other considerations, an offshore company is nevertheless required, it should be structured as strictly as possible with regard to the law, and no representative or advisory offices or storage warehouses should be established in the client's home country. Offshore companies do generally offer certain benefits: No international law enforcement treaties, no fiscal extradition agreements with other countries, generally no public commercial register, and Exempted Company status (for companies that only generate earnings outside the country of residence).

Our offshore company formation services include:

- Company formation
- Establishment of an ordinary place of business
- Upon request: Establishment of a nominee director in the company's country of residence, or a permanent director
- Upon request: Establishment of a nominee shareholder or bearer stock, if permitted by the respective country
- New bank account setup in the name of the company, including online banking and credit cards

- Referral to a tax adviser in the company's country of residence for bookkeeping, annual reports and sales tax reporting if required
- Presentation of Exempted Company status to the local authorities

8. Tax haven rankings

1. EU member countries

Advantages: The recognition of a permanent establishment in the foreign country, from the point of view of EU member states, does not require establishment of a commercial business operation (see also EU Freedom of Establishment); also, applicability of the EU Parent-Subsidiary Directive (tax free receipt of foreign dividends, e.g., in the case of a German capital investment firm) and general existence of DTAs.

1.1. **Cyprus:** 10% income tax, regardless of profit. Profit distribution is not taxed in the case of foreign shareholders. Holding companies are tax exempt.

- EU Freedom of Establishment Yes
- DTA: Yes, with most countries
- EU Parent-Subsidiary Directive applicable: Yes
- Holding company privileges: Yes
- Banking secrecy: High
- Nominee relationships allowed: Yes

Advantage: EU Freedom of Establishment as well as DTA, very low taxes compared to the rest of Europe, dividend payouts to non-Cypriots are tax exempt (otherwise subject to 15% defense tax). Holding companies are completely tax exempt.

1.2. **England:** 0-19% for small to medium-sized companies (up to GBP 300,000 in profit), thereafter gradual increase up to 30% VAT registration required only upon reaching GBP 60,000 (approximately EUR 100,000). Very liberal attitude toward offshore companies, maintains a DTA with the Isle of Man.

- EU Freedom of Establishment Yes
- DTA: Yes, with most countries
- EU Parent-Subsidiary Directive applicable: Yes
- Holding company privileges: No
- Banking secrecy: High
- Nominee relationships allowed: Yes

Advantage: EU Freedom of Establishment; also DTA, low tax rates for small to medium-sized companies compared to the rest of Europe

1.2.1 Setting up a UK Ltd with an offshore company, UK Ltd as agent only: Up to 90% profit transfer before taxes allowed

A maximum of 90% of UK profits BEFORE taxes in the UK may be transferred to an offshore country as long as the UK Ltd acts only as an "agent" (profit transfer and domination agreement between the offshore and UK Ltd).

1.3 **Ireland**

- EU Freedom of Establishment Yes
- DTA: Yes, with most countries
- EU Parent-Subsidiary Directive applicable: Yes
- Holding company privileges: Depending on type of formation
- Banking secrecy: High
- Nominee relationships allowed: No

Ireland has a corporate tax rate of 12.5%. Disadvantages include a high income tax rate of 20-60% for natural persons and the fact that nominee relationships are either prohibited or practically impossible. Suitable for “actual company relocation."

1.4. **Portugal/Madeira**

Short summary of advantages:

- **EU membership,** EU Freedom of Establishment and EU Parent-Subsidiary Directive applicable
- Portugal/Madeira belong to the **VAT Zone (**the Canary Islands and Canary Island Special Zone (ZEC), for example, do NOT); no import sales tax on the import of goods into the EU, 6th EU Directive applicable

  Taxes:

- Type I: **Completely tax exempt**
- Type II: **Tax rates of 4 % until 2012 and 5 % until 2020 guaranteed**

Tax exemption or reduced taxation are subject to requirements such as creation of jobs and establishment of a commercial business operation. Our office in Madeira is equipped to meet the necessary requirements (normally only suitable for actual corporate relocation or establishment of an actual business in Madeira.) However, even in the case of no actual business establishment, our partners can help you meet the requirements for tax exemption or reduction. This requires the contractual employment of local citizens in the company (at EUR 400/month) and the leasing of an office. Monthly costs apply in this case.

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2. Non-EU, but with DTA

From the point of view of most countries, the recognition of a permanent establishment requires establishment of a commercial business operation in the country of residence. The financial authorities in your home country may require proof of residency from the foreign country's financial authority. If no commercial business operation is established, the domiciling of the company via a Business Center (www.regus.com) with 10 hours of monthly office space use is usually sufficient. The nominee General Manager may act as a permanent employee, in which case his compensation must be "regular."

2.1. **Switzerland:** Tax rates vary by canton, as the total tax liability equals the federal tax (8.5%) plus the cantonal tax. An income tax rate of 15.5% is achievable (in Zug). Special conditions: Tax payments are considered business expenses, which correspondingly reduces tax liability as of the second year.

- EU Freedom of Establishment No
- DTA: Yes
- EU Parent-Subsidiary Directive: Switzerland has subscribed to the EU Parent-Subsidiary Directive; bilateral recognition agreements are in place
- Banking secrecy: Very high
- Nominee relationships allowed: Yes

- Bearer stock: YES

Advantages: Low tax liability, easy access to cash, banking secrecy.

Special terms regarding branch offices of EU foreign companies: These are treated as Swiss corporations without the initial CHF 20,000 capital stock investment requirement; commercially established business operation not required. Tax liability under domicile privileges only 8.5%.

2.2. **Dubai:** ZERO taxation, except for oil companies, chemical companies and banks.

- Low tax country as per the German Foreign Transactions Act (AStG): Yes
- Applicability of Section 8 of the AStG (CFC taxation in the case of dominant influence by a German national): YES
- EU Freedom of Establishment No
- DTA: Yes
- EU Parent-Subsidiary Directive applicable: No
- Banking secrecy: Very high
- Nominee relationships allowed: Yes

Advantages: No taxes. If adequately structured, so-called “white income” (i.e., tax free income in Germany) may be divertible to Germany.

Disadvantage: Very high capital stock required in comparison to other legal structures, high formation and licensing fees, at least 51% of the shares of the company must be held by local citizens except in Free Trade Zones, nominee solution is an option. The “Dubai Offshore Company” allows for the establishment of a legal corporate structure without capital stock.

2.2.1: **UAE, Exempted Companies**

- EU Freedom of Establishment No
- DTA: Yes, with most countries
- EU Parent-Subsidiary Directive applicable: No
- Banking secrecy: High
- Nominee relationships allowed: Yes

Advantages: No taxes. If adequately structured, so-called “white income” (i.e., tax free) can be channeled outside the country.

2.3. **Singapore**

- EU Freedom of Establishment No
- DTA: Yes, with almost all countries
- EU Parent-Subsidiary Directive applicable: No
- Banking secrecy: Extremely good
- Nominee relationships allowed: Yes

Singapore is known, not inaccurately, as the “new Switzerland.” Foreign income is not taxed. Domestic income is taxed at 18%; the first 200,000 Singapore dollars are tax-free.

2.4. **USA:** Tax liability depends on the individual state and the "object of taxation." An income tax rate of 15% is achievable. Normal tax rate: 30%.

- EU Freedom of Establishment No
- DTA: Yes, with almost all countries

- EU Parent-Subsidiary Directive applicable: No
- Banking secrecy: Average
- Nominee relationships allowed: Yes
- Bearer stock allowed: No, but shareholders are not entered in the commercial register

Advantage: The "Inc" is the pure form of incorporation, and is a good structure for capitalization, no capital stock investment required, generally low costs in comparison to other corporate structures, one-person formation possible. Shareholders are not listed in the commercial register. **Most US states have no sales tax.**

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3. Non-DTA countries (offshore):

- EU Freedom of Establishment No
- DTA: No
- EU Parent-Subsidiary Directive applicable: No
- Banking secrecy: Very high
- Nominee relationships allowed: Yes
- Public commercial register: generally none
- Bearer stock allowed: Yes, bearer stock is allowed in most offshore countries In general, no nominee shareholder is required.
- Taxes: In most countries, Exempted Companies (those that only generate income outside the country of residence) are not subject to taxes. Isle of Man imposes a flat tax of GBP 450. Liechtenstein offers no tax exemption, depending on corporate structure and sales
- Sales taxes: Typical offshore countries (Seychelles, Mauritius, Hong Kong, British Virgin Islands (BVI), Bahamas, Nevis, Dominica, St. Vincent, Belize) have no sales tax.

Countries include:

- **Asia & Pacific:** Seychelles, Mauritius, Hong Kong
- British Virgin Islands (BVI), Bahamas, Nevis, Dominica, St. Vincent, Isle of Man
- **Latin America**: Panama, Belize

- **Liechtenstein (AG, GmbH, Trust, Anstalt [institution], Stiftung [charitable foundation])**
- **Isle of Man**: GBP 450 annual flat tax for foreign income. Is a member of the EU VAT Zone.

When establishing offshore companies, the client should be aware of the political and economic stability of the country.

Advantages: Generally no or low taxes, no public commercial register, no international law enforcement treaties or fiscal extradition agreements with other countries.

Disadvantages: See above.

8. Brief examples of foreign company structures

- ### 8.1 The client's business consists of advisory activities only, no production facilities

The client is unhappy with the high tax burden in his home country. The company's business activities do not necessarily constitute a permanent establishment in the home country (e.g., France) as per Article 5 of the DTA, as only advisory services are provided, i.e., no physical production.

Solution option: Formation of a foreign company within the EU – Cyprus is selected. As the client is unwilling to transfer his own main place of residence to the foreign country, he chooses the option of appointing a nominee or permanent director in Cyprus. Additionally, a Head Office is established in Cyprus with a deliverable mailing address, telephone and fax. A purely representative office is set up in France in which only advisory activities take place as per the DTA, Article 5. The company's clients then sign agreements with the Cypriot limited company, i.e., the company's permanent establishment in Cyprus, and receive only advisory services in France. The client acts as 50% shareholder in the Cypriot Ltd, the other 50% is held by an offshore company in the Seychelles set up by the client for this purpose. Tax implications: Global taxation of the company takes place in Cyprus at an income tax rate of 10%. Any dividends distributed to clients are subject to income taxes in France. Otherwise, the client receives a fee from its Cyprus-based limited company, as its representative in France. This (naturally low) fee is taxed in France accordingly. As no Cypriot national is a shareholder in the Cypriot Ltd, Cyprus's 15% defense tax does not apply, and the company's total tax remains at 10%. Investments (e.g., real estate purchases in Spain) are not conducted by the client but by the Cypriot Ltd.

8.2 The client is involved in production activities

The client conducts business in the home country (e.g., France) constituting a permanent establishment per the DTA, Article 5, e.g., production activities or a retail business. He is unsatisfied with his total tax liability. The permanent establishment is to remain in the home country, i.e., France in this example.

Solution option 1:

First, the permanent establishment in the client's home country, i.e., France in this case, is taxed. The client forms a foreign holding company within the EU (e.g., in Cyprus, Switzerland or Denmark) that holds 100% of the shares of the permanent establishment in the home country.

In accordance with the EU Parent-Subsidiary Directive, home country dividends (in this case France) are received by the foreign holding company tax-free, with France (for example) having no tax withholding rights over these dividends.

Solution option 2, separately or in combination with the solution option 1:

The client forms a foreign company within the EU in a country that maintains a DTA with France. The foreign company invoices the French company, thereby reducing profits before taxes in France.

8.3. The client conducts production activities and would like to relocate the business completely or partially to a foreign country

A foreign company is formed in a country with a favorable tax rate and low wage and production costs. A production facility is then set up in the foreign country, as well as a commercially established business operation, and an employee, who relocates to the foreign country, is appointed as General Manager of the foreign company. In the client's home country, e.g., France, a permanent establishment or a solely representative office is maintained. The home-country permanent establishment (for example, in France) holds shares in the foreign permanent establishment. If the foreign permanent establishment is in the EU, tax-free flow of dividends into France may take place. If the

foreign company is outside the EU but in a DTA country, tax-free flow of foreign dividends into France may take place with a 5-10% tax deduction withheld in the foreign country.

8.4. The client conducts import/export operations

The client forms a foreign company in a country that maintains a Double Taxation Agreement with the home country. The foreign company will purchase goods in another foreign country, e.g., in China, in the future. The "delivery location" of the goods is designated as the warehouse of the foreign company located in the client's home country. Per Article 5 of the DTA, a warehouse does not constitute a permanent establishment. Customers (buyers) order goods from the foreign company; "advisory/call centers" may be set up intermittently that do not constitute a permanent establishment, as long as only advisory services are provided.

How can I retrieve money from my foreign company without relocating my main place of residence to the company's country of residence?

First, you must consider to what extent the flow of funds to the natural person located outside the foreign company's country of residence is avoidable and/or at all advisable. The foreign company, as a legal entity, can naturally conduct investments and/or establish assets internationally . Additionally, the foreign company's representative office can ascribe expenses relating to foreign permanent establishments to the foreign company, such as office costs, telecommunication services, vehicles, business meals, business trips, etc. The money is therefore considered "utilized" and not "spent". If the flow of funds outside the country (i.e., the client's country of residence) is nevertheless required, the following strategies can be helpful:

-The client/founder of the foreign company withdraws cash in the home country using the foreign company's credit card: This is recorded as a "Foreign company bank to foreign company cash account" transaction. Therefore, no cash flow to a natural person takes place. In the case of hidden profit distribution (Amount X is no longer in the cash account, no deductible expenses/invoices available), most countries will tax the hidden profit distribution at a rate between 10-25%. This type of tax can be significantly lower than income taxes that apply in the case of a direct flow of funds to a client/founder.

-At the time of the desired profit distribution (e.g., dividend payout), the client relocates his main place of residence to a low tax country and assumes the role of shareholder of the company. If the client wishes to return to the home country, the country of refuge must maintain a double taxation agreement with the home country. After relocating his main place of residence to the foreign country (51% of the year, domicile in own name), the dividends are paid out and taxed in the low tax country.

-The client/founder receives a loan from the foreign company.

-The client forms a capital investment company in the home country, which holds shares in the foreign company. If both companies are resident in the EU, tax-free receipt of foreign dividends by the home-country company are allowed. DTA only: Tax-free receipt of foreign dividends by the home-country company, with a 5-10% withholding tax deduction.

-The Money Laundering act goes into effect in most countries as of EUR 10,000 or 15,000. Therefore, if the client receives money in the country where the foreign company is based and imports funds below this limit into the home country, the financial authorities of the home country are not notified.

These are only some examples of structural options. In general, please be advised that any funds attributable to the taxable entity as income are taxable in the country where the taxable entity maintains ordinary residence. If these funds/income are not declared to the home country's financial authorities as income, this constitutes criminal tax evasion.

Table of Fees: Company formation worldwide:
http://www.london-consulting.org/englisch/fees_uk.htm