

# [The foreign investors. besides, the low taxation rate](https://assignbuster.com/the-foreign-investors-besides-the-low-taxation-rate/)

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The Legitimate Usage of Offshore Financial Centers. 1.     Taxreduction or Low explicit taxation. Offshorefinancial centers are known as a tax haven, which offer tax incentives to the foreigncountries investors. For instance, Cayman Islands (OFC) has no income tax, nocorporation tax, no inheritance tax and no capital gains tax. The low taxationrate is designed to promote a healthy investment and favourable tax environments, in order toattract foreign investors.

Besides, the low taxation rate will only charge asmall portion on the foreign investors’ income and subsequently raise up theinvestors’ wealth or after tax profit. As a result, it may attract foreigninvestors to place their money or asset in offshore financial center in orderto reduce potential tax liabilities. In another word, any interest earned isusually paid free from the deduction of taxation.

For those foreign investors they do not paytax on their foreign sourced income and they can enjoy greater returnsimmediately, without having to apply for a rebate. Obviously, with this lowtaxation rate it can attract more foreign business to invest in offshorefinancial center. For example, a tiny country with very few resources and asmall population, attracting investors and dramatically increase the country’s economicactivity. Moreover, offshore investment occurs when the foreign investors forma corporation in offshore financial center. The corporation acts as a shell forthe investors’ accounts, shielding them from the higher tax burden that wouldbe incurred in their home country.

Because the corporation does not engage inlocal operations and consequently little or no tax is imposed on the offshorecorporation. (Investopedia, LLC., 2018) Furthermore, Multinationalcompanies minimize their total tax liabilities through transfer pricing. For example, the products are made in onshore but the invoices are issues offshore by themultinational companies, it moving onshore profits to low tax regimes and themultinational companies will save more or pay less tax to the government.

(Monetary and Exchange Affairs Department, 2000)2.      Confidentiality. Most of the offshorefinancial centers has offer the complimentary benefit of secrecy legislation. Inoffshore financial center, clients’ confidentiality is strictly maintained andthe countries have enacted laws in order to protect the foreign investors’privacy. Besides, offshore financial center provide flexible reportingrequirement in order to protect the foreign investors’ confidentiality andprivacy.

Moreover, if this confidentiality is breached, there are seriousconsequences for the offending party. Some of the offshore financial centersuch as Bahamas and Cayman Islands has maintain the statutory law that makesthe disclosure of client’s private information is a criminal offense. Anexample of a breach of client’s private information is including, expose customer identities anddisclose a shareholder is a breach of corporate confidentiality in somejurisdictions. Because of this strong privacy legislation in offshorefinancial centres, it is not possible for a third party to gain access to the foreign investors’ private informationabout offshore accounts, investments or trusts. However, this secrecydoesn’t mean that theforeign offshore investors are criminals with something to hide from the others.

It is important to note that, offshore financial center ensure the foreign investors’ confidentiality is wantto provide a freedom platform to offshore investors to place their asset andcarry economic activities. Besides that, fromthe point of view of a high-profile investor, keeping information secrete, such as theinvestor’s identity, secret while accumulating shares of a public company canoffer the offshoreinvestor a significant financial and legal advantage. (Investopedia, LLC., 2018) 3.     Asset management and protection from the impact of litigation. Offshore financial center functions as a place to protect assets for theaccount holders. In the situation of weak economic, political unstable andfragile banking system, some of the wealthy investors are plan to place their assetoverseas in order to protect them against the collapseof their domestic currencies, domestic banks, and existing exchangecontrols.

Offshore financial centers are popular locations for restructuring ownership of assets. Through trusts, foundations or through an existing corporation individualwealth ownership can be transferred from people to other legal entities. Not only that, many individuals who are concerned about lawsuits, or lenders foreclosing on outstanding debts plan to transfer a portion of their assets from theirpersonal estates to an entity that holds it outside of their home country. Bymaking these ownership transfers, individuals are no longer vulnerable toseizure or other domestic troubles.