

The foreign investors. besides, the low taxation rate

[Business](#), [Management](#)



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

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

For those foreign investors they do not pay tax on their foreign sourced income and they can enjoy greater returns immediately, without having to apply for a rebate. Obviously, with this low taxation rate it can attract more foreign business to invest in offshore financial center. For example, a tiny country with very few resources and a small population, attracting investors and dramatically increase the country's economic activity. Moreover, offshore investment occurs when the foreign investors form a corporation in offshore financial center. The corporation acts as a shell for the investors' accounts, shielding them from the higher tax burden that would be incurred in their home country.

Because the corporation does not engage in local operations and consequently little or no tax is imposed on the offshore corporation.

(Investopedia, LLC., 2018) Furthermore, Multinational companies minimize their total tax liabilities through transfer pricing. For example, the products are made in onshore but the invoices are issued offshore by the multinational companies, it moving onshore profits to low tax regimes and the multinational companies will save more or pay less tax to the government.

(Monetary and Exchange Affairs Department, 2000)². Confidentiality.

Most of the offshore financial centers have offer the complimentary benefit of secrecy legislation. In offshore financial center, clients' confidentiality is strictly maintained and the countries have enacted laws in order to protect the foreign investors' privacy. Besides, offshore financial center provide flexible reporting requirement in order to protect the foreign investors' confidentiality and privacy.

Moreover, if this confidentiality is breached, there are serious consequences for the offending party. Some of the offshore financial centers such as Bahamas and Cayman Islands have maintain the statutory law that make the disclosure of client's private information is a criminal offense. An example of a breach of client's private information is including, expose customer identities and disclose a shareholder is a breach of corporate confidentiality in some jurisdictions. Because of this strong privacy legislation in offshore financial centres, it is not possible for a third party to gain access to the foreign investors' private information about offshore accounts,

investments or trusts. However, this secrecy doesn't mean that the foreign 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 want to provide a freedom platform to offshore investors to place their asset and carry economic activities. Besides that, from the point of view of a high-profile investor, keeping information secret, such as the investor's identity, secret while accumulating shares of a public company can offer the offshore investor 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 the account holders. In the situation of weak economic, political unstable and fragile banking system, some of the wealthy investors are plan to place their asset overseas in order to protect them against the collapse of their domestic currencies, domestic banks, and existing exchange controls.

Offshore financial centers are popular locations for restructuring ownership of assets. Through trusts, foundations or through an existing corporation individual wealth 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 their personal estates to an entity that holds it outside of their home country. By making these ownership transfers, individuals are no longer vulnerable to seizure or other domestic troubles.