



Trade Tax Free

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Offshore Banking



An offshore bank is a bank located outside the country of residence of the depositor, typically in a low tax jurisdiction (or tax haven) that provides financial and legal advantages. These advantages typically include:

- greater privacy (see also bank secrecy, a principle born with the 1934 Swiss Banking Act)
- less restrictive legal regulation
- low or no taxation (i.e. tax havens)
- easy access to deposits (at least in terms of regulation)
- protection against local political or financial instability

While the term originates from the Channel Islands "offshore" from Britain, and most offshore banks are located in island nations to this day, the term is used figuratively to refer to such banks regardless of location (Switzerland, Luxembourg and Andorra in particular are landlocked).

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ADVANTAGES OF OFFSHORE BANKING

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Offshore banks provide access to politically and economically stable jurisdictions. This may be an advantage for those resident in areas where there is a risk of political turmoil who fear their assets may be frozen, seized or disappear (see the corralito for example, during the 2001 Argentine economic crisis). However, developed countries with regulated banking systems offer the same advantages in terms of stability.

Some offshore banks may operate with a lower cost base and can provide higher interest rates than the legal rate in the home country due to lower overheads and a lack of government intervention. Advocates of offshore banking often characterise government regulation as a form of tax on domestic banks, reducing interest rates on deposits.

Offshore finance is one of the few industries, along with [tourism], in which geographically remote island nations can competitively engage. It can help developing countries source investment and create growth in their economies, and can help redistribute world finance from the developed to the developing world.

Interest is generally paid by offshore banks without tax deducted. This is an advantage to individuals who do not pay tax on worldwide income, or who do not pay tax until the tax return is agreed, or who feel that they can illegally evade tax by hiding the interest income.

Some offshore banks offer banking services that may not be available from domestic banks such as anonymous bank accounts, higher or lower rate loans based on risk and investment opportunities not available elsewhere.

Offshore banking is often linked to other structures, such as offshore companies, trusts or foundations, which may have specific tax advantages for some individuals.

Many advocates of offshore banking also assert that the creation of tax and banking competition is an advantage of the industry, arguing with Charles Tiebout that tax competition allows people to choose an appropriate balance of services and taxes. Critics of the industry, however, claim this competition as a disadvantage, arguing that it encourages a "race to the bottom" in which governments in developed countries are pressured to deregulate their own banking systems in an attempt to prevent the offshoring of capital.

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