Who do offshore banking?

Individual clients

The majority of people who open an offshore bank account fall into one of the three following general categories: -

- **High net worth individuals:** These are people with a disposable income in excess of one million us dollars.
- **Expatriates:** These are people who are located overseas away from their home country either on an employment assignment or in retirement.
- **Business owners**: Generally these are individuals who own companies whose shares are owned by family members or a close working partnership.

According to statistics the majority of individual offshore banking clients come from Europe, Australia and north America, but more recently larger numbers of eastern European, African, Indian and Asian individuals have found that offshore banking structures suit their own personal requirements.

The ‘type’ of person who falls into the above three categories range from those with inherited wealth to those who have earned it by themselves and they all utilize offshore banking for the following benefits:

- Taxation planning
- Estate planning
- Pre-immigration or repatriation planning
- Privacy and asset protection

Corporate clients

There are far more corporate clients with offshore banking needs than individual clients. The benefits of offshore banking for such companies are diverse and range from the fact that a large number of companies actually outsource parts of their operations overseas and require accounts in these countries to the fact that many offshore jurisdictions have tax free zones through which companies can operate all or part of their operations tax effectively.

They fall into one of the following categories:

- Multi-national corporations
- Large industrial and trading companies
- Shipping companies
- Financial services and banking institutions

Advantages of offshore banking

Following are the advantages of offshore banking:

- Offshore banks provide access to politically and economically stable jurisdictions. This may be an advantage for those residing in areas where there is a risk of political turmoil who fear their assets may be frozen, seized or disappear. 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 characterize 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, that geographically remote island nations can competitively engage in. 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 Tie bout 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 off-shoring of capital.

Disadvantages of offshore banking

Following are the disadvantages regarding offshore banking:

- Offshore banking has been associated with the underground economy and organized crime, through money laundering. Following September 11, 2001, offshore banks and tax havens, along with clearing houses, have been accused of helping various organized crime gangs, terrorist groups, and other state or non-state actors.

- The existence of offshore banking encourages tax evasion, by providing tax evaders with an attractive place to deposit their hidden income.

- Offshore jurisdictions are often remote, so physical access and access to information can be difficult. Yet in a world with global telecommunications this is rarely a problem. Accounts can be set up online, by phone or by mail.

- Developing countries can suffer due to the speed at which money can be transferred in and out of their economy as "hot money". This "hot money" is aided by offshore accounts, and can increase problems in financial disturbance.

- Offshore banking is usually more accessible to those on higher incomes, because of the costs of establishing and maintaining offshore accounts. The tax burden in developed countries thus falls disproportionately on middle-income groups. historically, tax cuts have tended to result in a higher proportion of the tax take being paid by high-income groups, as previously sheltered income is brought back into the mainstream economy the Laffer curve demonstrates this tendency.