Myths and Realities

The Use of Offshore Financial Centers by Canadian Corporations

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Backdrop to Offshore Financial Centers (OFC's)

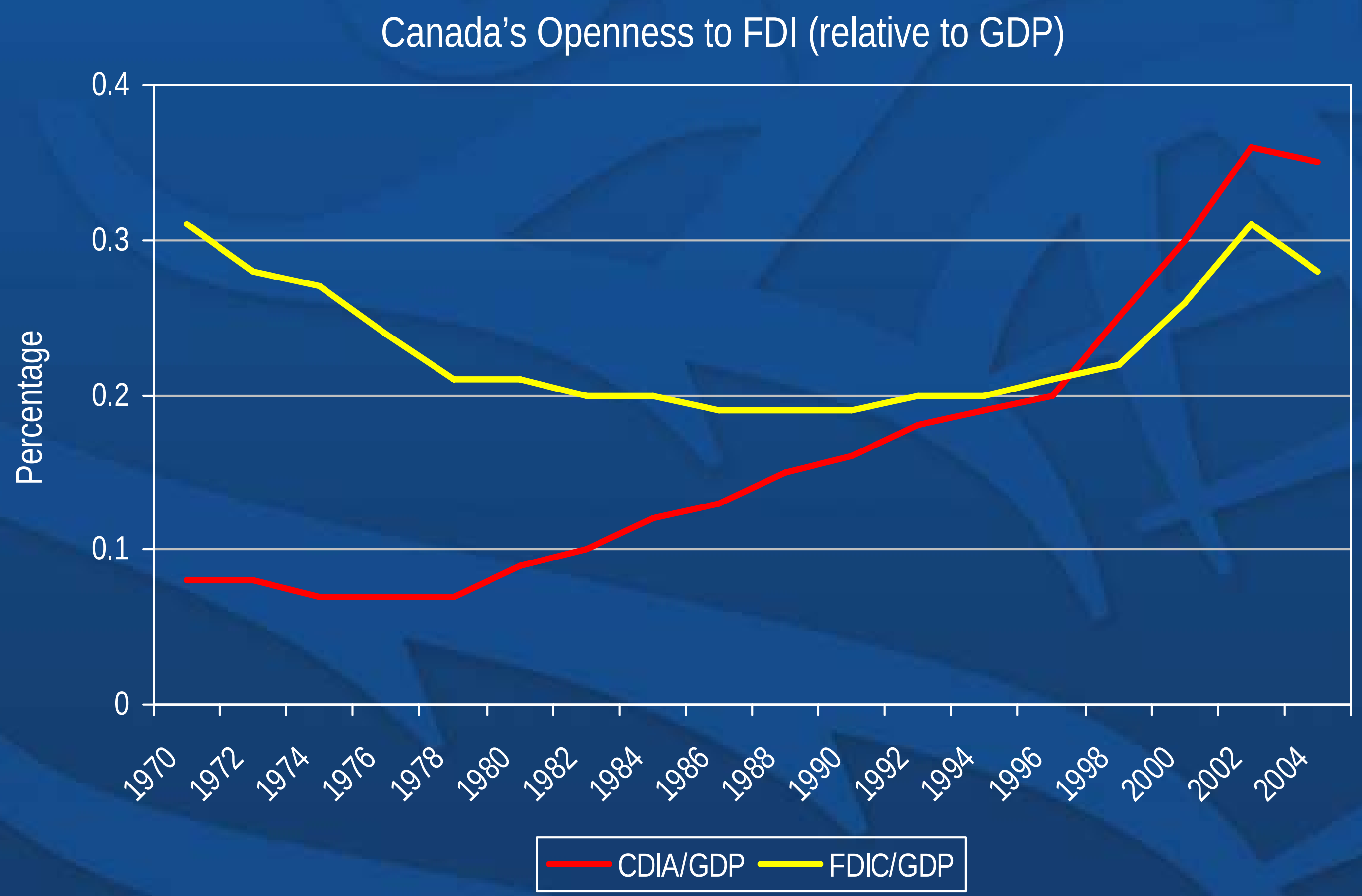
- G20 Meetings (April 2/09): List of jurisdictions that have committed to implementing in the internationally agreed tax standards ("Black Lists").
- Increasing political focus in the US on the use of subsidiaries in Offshore Financial Centers.
- Over 2000 Canadian corporations have subsidiaries in Barbados and several other offshore financial centers. This has been raised by the Auditor General.
- Reputational Risk is a growing concern for all companies.
- The Barbados International Business Association (BIBA) decided in 2005 to study this issue (Walid Hejazi – Rotman School of Management, University of Toronto)

BIBA Research Study Questions

- Does Foreign Direct Investment (FDI) that flows through Offshore Financial Centers (OFC’s) have measurable impacts on the Canadian economy?
- Are these impacts positive?
- Is the use of low tax jurisdictions as a “conduit” for investment good for Canada?

Foreign vs Domestic Investment

Canada has moved from a significant home economy for foreign investment to an important source economy for such investments

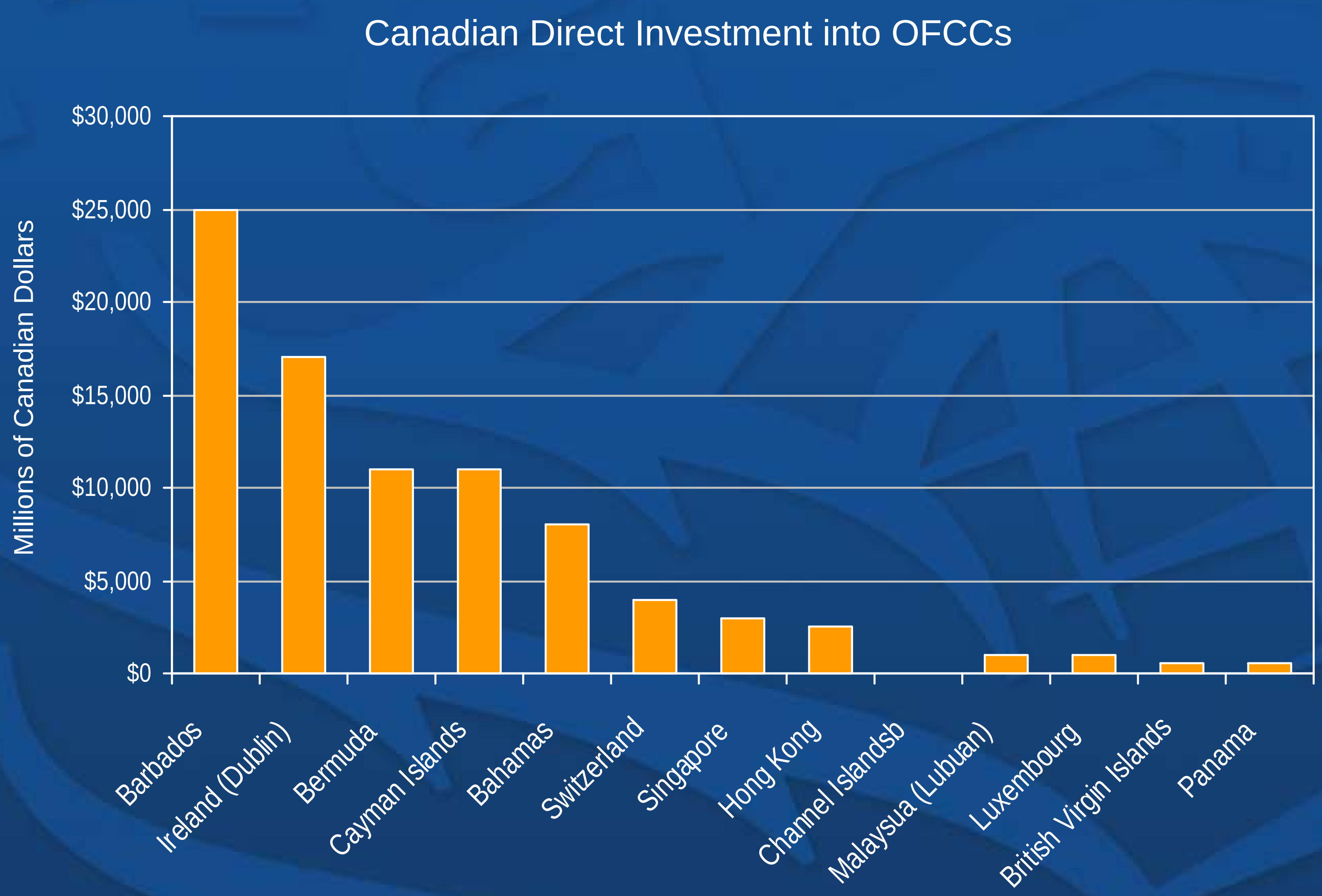


Government of Canada View (International Trade Canada Website)

- Direct investment abroad by Canadian business is part of its strategic effort to increase market share and stay competitive
- Companies are increasingly using outward investments to strengthen operations (supply chains), penetrate new markets and acquire new technologies, resources and skills
- Evidence suggests that foreign investment does not precipitate an "export of jobs" but rather increase sales and production from home facilities
- United Nations Conference on Trade and Development (UNCTAD) study estimates one third of global trade in manufactured goods is undertaken between parent firms and foreign subsidiaries

The Importance of Offshore Financial Centres

CDIA in Low Tax Jurisdictions



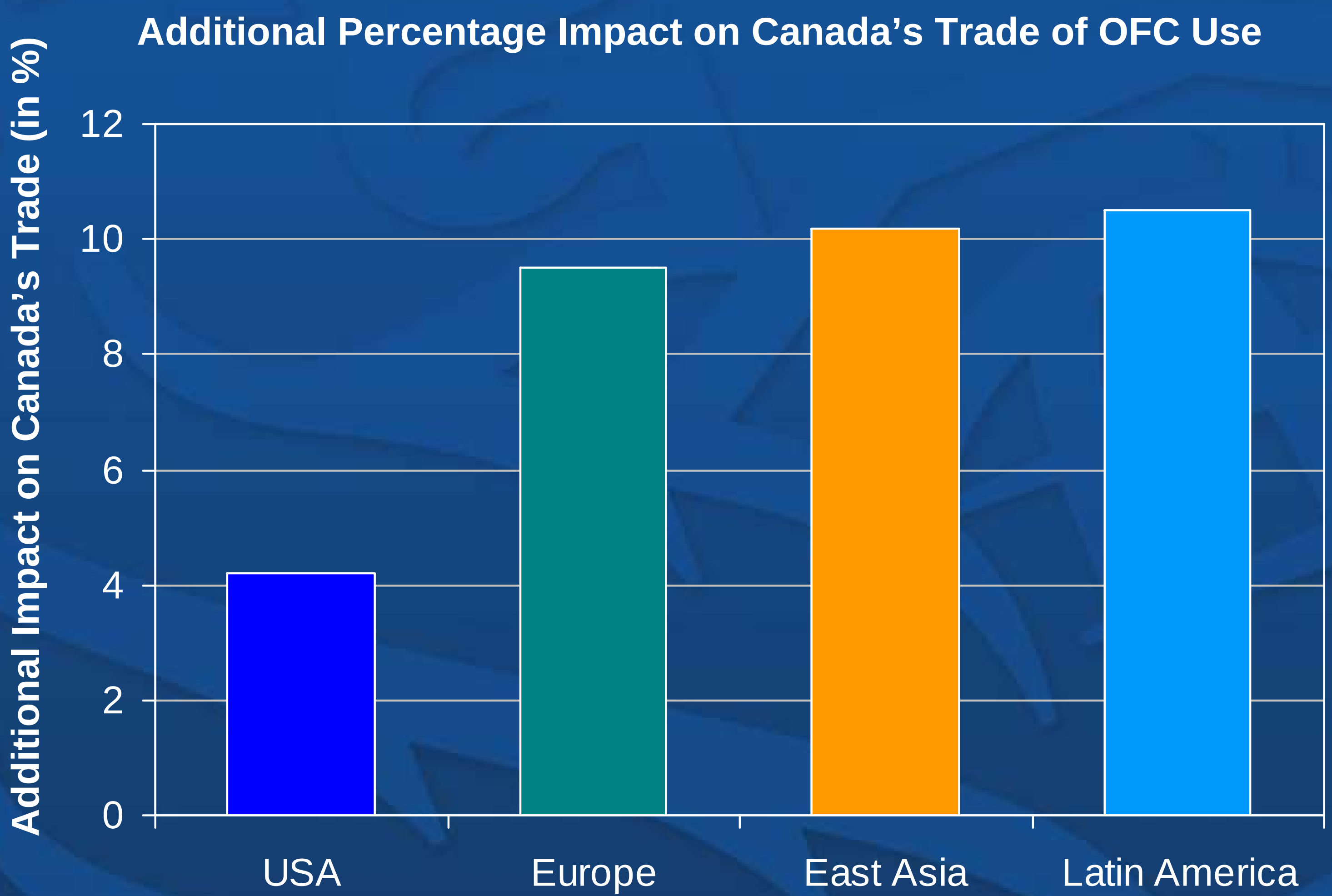
MYTH

There is a widely held view that the use of OFC's is bad simply because of tax advantages that come with their use.

REALITY

- Research demonstrates that CDIA moving through conduits has several “positive” impacts on the Canadian economy
- Fund flows are not just movements to minimize taxes, but rather they reflect Canadian business accessing the global economy
- Improved competitiveness of Canadian multi-nationals who conduits significantly increases Canadian trade, capital formation, and multinational employment in Canada
- Results prove the effects are broad based and very positive
- OFC’s lower Cost of Capital offsets higher risks in new foreign markets
- Canada’s trade is enhanced globally especially in markets that are not traditional to Canada
- This means higher EXPORTS from Canada

MYTH vs REALITY (cont'd)



BIBA Research Findings

- The research concludes that Canadian FDI that goes through lower tax jurisdictions using OFC's generates positive outcomes for Canada:
  - Increased Canadian exports
  - Increased capital formation
  - Increased domestic investment
  - Increased domestic employment
  - Increased levels of outward FDI
  - Increased global market access
  - Improved global competitiveness of Canada and its multinationals
  - Increase Canadian government tax revenues

Conclusions – Other Positives using OFC's

1. Positive impact on Canada's two-way interaction with the destination market
2. Improves global competitiveness of Canadian multinational operations, importing and exporting best practices
3. Once hurdles of market entry are overcome, Canadian multi-national companies undertake other business activities in the local and regional markets.

Types of Offshore Structures

- Treaty Planning
- Bilateral Investment Treaties
- Captive Insurance Subsidiary
- Active Company Subsidiary

Barbados as a "Treaty Jurisdiction"

DOUBLE TAXATION AGREEMENTS ("DTA")

For international trade and investment, a Barbados entity can be used to reduce withholding tax or impart other taxation benefits. In addition to Canada, Barbados presently has DTA's with:

Botswana (2005)	CARICOM (1995)	China (2000)	Cuba (1999)	Sweden (1991)
Finland (1989)	Malta (2001)	Mauritius (2004)	Norway (1990)	Mexico (2009)
Switzerland (1954)	U.S.A. (1984)	Venezuela (1998)	U.K. (1970)	

Treaties in negotiation include: Brazil, the Netherlands, Luxembourg, India, Chile, Ireland, South Africa, Russia, Italy, Japan, Nigeria and Seychelles.

BILATERAL INVESTMENT TREATIES ("BIT")

A BIT provides a remedy for persons and corporations of one party nation to protect their investments in another party nation (eg. expropriation). Barbados presently has 9 BIT's with Canada, China, Cuba, Venezuela, Italy, Switzerland, United Kingdom, Germany and Ghana.

Corporate Solutions:
Case Study of How Treaties Work

The current China-Barbados DTA is one of the most favourable DTA's for structuring investment into China. Some features are:

- Capital gains from property are taxable only in the country where the owner is resident, even if the company is a property holding company. There is no capital gains tax in Barbados.
- Withholding tax on dividends from China is only 5%.
- Dividends paid to IBC's are not subject to withholding tax.
- Withholding tax on interest from China is only 10%.
- Interest paid by an IBC is not subject to withholding tax.

Corporate Solutions: Case Study of How Treaties Work (cont'd)

Bilateral Investment Treaties:

- International Tribunal in Washington, DC.
- Over 160 countries are signatories
- If fair market value is not received, can potentially freeze assets in any of the signatory countries

Corporate Solutions: Case Study of How Treaties Work (cont'd)

CanCo	Canco sets up a wholly owned subsidiary (IBC) in Barbados with the goal of reducing tax on active business income related to it's business in China. In addition, should a capital gain occur on the sale of the Chinese OpCo, such gain can be passed through to CanCo on a tax free basis through the IBC.
Bardados IBC	Exempt surplus may be paid from the Barbados Co to CanCo, through the Barbados IBC, tax free. As the Chinese OpCo is an active company, the FAPI rules should not apply.
Barbados RBC	Chinese OpCo transacts business and pays dividends to Barbados Co at a withholding tax rate of 5%. Dividend income may be tax free in Barbados (pending legislation).
China OpCo or WOFE	As well, by using a Barbados domestic company in the structure the capital gains realized upon the sale of the Chinese OpCo could flow to CanCo tax free by utilizing the Canada-Barbados Double Taxation Treaty.

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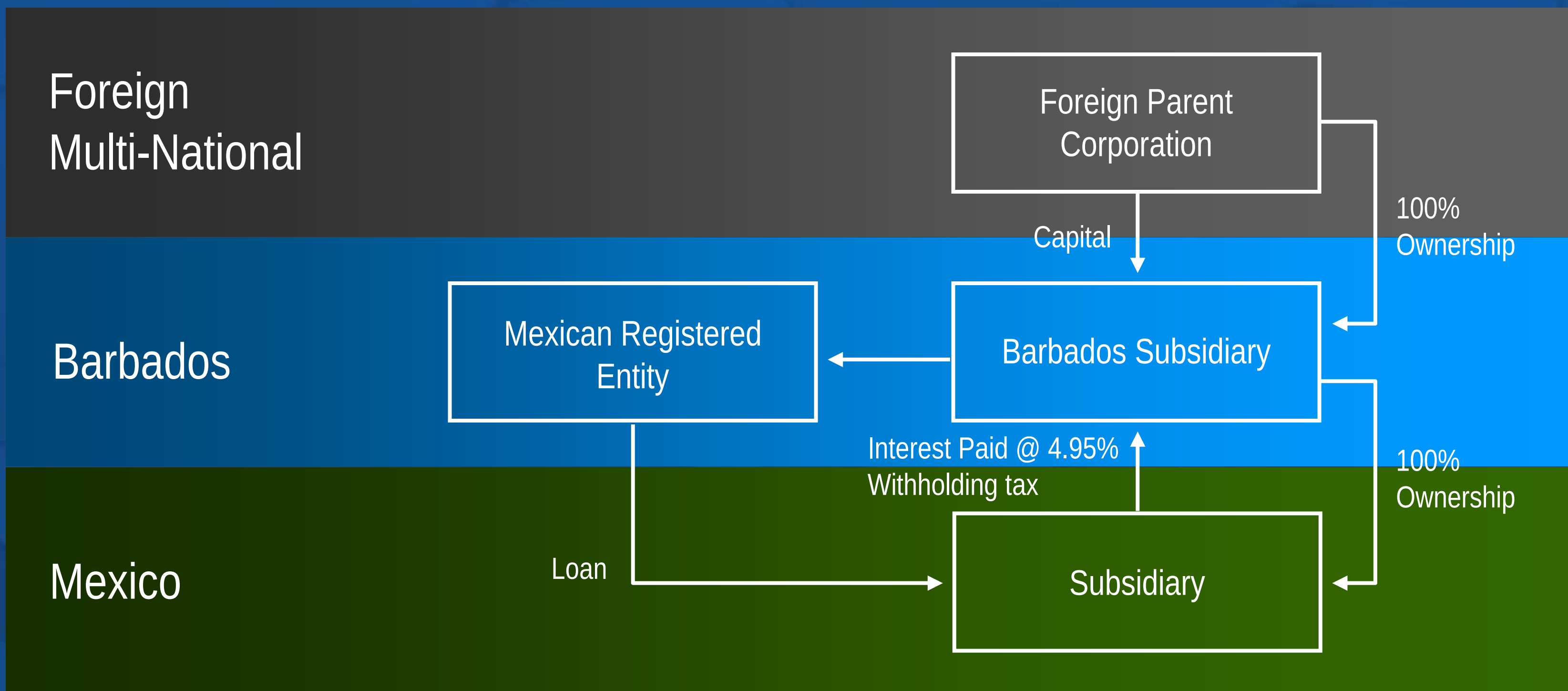
Corporate Solutions:
Investment Into Mexico using Treaties



Note: Structure will depend on parent company location External Tax Advice is Required

Barbados as a Captive Domicile

- 300 active insurance companies are domiciled in Barbados.
- Barbados is the largest domicile for Canadian-parented captives primarily a result of the Canada – Barbados Double Taxation Agreement.
- Captive Legislation is less complex and solvency requirements for international insurance companies ar flexible. Minimum Capitalization is $US125K.
- One of a few jurisdictions that made the “best list” at the April 2009 G20 meetings.
- World Economic Forum ‘s Global Competitiveness Index 2008 ranks Barbados as third in the Americas in respect to the quality of its overall infrastructure

Captive Managers:

Marsh, AON, USA Risk, Amphora, UI Management, CGE, and Towner have over 80% of the captive management business in Barbados.

Captive Insurance for Canadian Companies

- A Canadian parent company could set up a wholly owned subsidiary in Barbados leveraging the Canada – Barbados Double Taxation Agreement (DTA).
- Typical captive benefits include reduction in insurance premiums, insuring the uninsurable, control over your insurance program, building a profit center, cash flow and potential tax and other benefits
- Any company paying over $2 million in premiums will typically generate cost savings and can keep profits from premiums in their captive
- RBC provides full service banking solutions for Captive client: investments, custody, deposit accounts, letters of credit and trust services.

Personal Planning using OFC's

- Asset Protection planning
- Private Placement Insurance
- Executive Services

Conclusions

- OFC’s have positive impacts for public and private companies creating competitive advantages both domestic and foreign
- Company must evaluate the costs and benefits of the use of OFC’s
- Approximately 2000 Canadian companies in Barbados
- Must get independent tax advice

RBC Wealth Management: Worldwide Solutions and Services

International Trust, Tax & Estate Planning

- Protection from political, social and economic instability
- Transfer of wealth to family members worldwide and during global relocation
- Protection and flexibility around forced heirship rules
- Protection against future potential legal and creditor claims or liabilities

International Tax and Corporate Planning

- Tax mitigation and treaty planning
- Flexible internal corporate funding and structuring of multi-national companies

International Discretionary and Advisory Investment Management

- Customised solutions with access to external and proprietary managers
- Pension and Institutional style management
- Flexibility and transparency of fees

Global Custody & Fund Administration

- Securities custody in North America, Channel Islands, the UK and Europe with settlement and safekeeping services
- Fund administration services in the Caribbean

Thank You!