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Vanuatu: A New (Old) Frontier for International Business and Tax Efficiency

1. Vanuatu's Evolution: From Tax Haven to Dynamic Financial Hub

Vanuatu began to establish itself as an international financial centre in the 1970s. The development of its offshore financial services industry was part of a broader strategy to diversify the economy, which was heavily reliant on agriculture. In 1971, Vanuatu (then known as the New Hebrides) passed the Banking Act, allowing for the establishment of offshore banks. Subsequently, other legislative measures, such as the International Companies Act and the Trust Companies Act, were introduced to attract international businesses and investors.

These initiatives positioned Vanuatu as a jurisdiction offering tax advantages, confidentiality, and a relatively flexible regulatory environment, attracting international financial activities and solidifying its status as an international financial centre by the late 20th century.

2. Reevaluating Vanuatu: A Modern Haven for Active Income Enterprises

Over the subsequent years, Vanuatu became an increasingly popular destination for international businesses seeking to incorporate in a tax-friendly environment. However, recent changes in international tax regulations have cast doubts on the viability of Vanuatu's status as a tax haven. Consequently, many companies that were established for the sole or predominant purpose of avoiding tax, have reassessed the relevance of incorporating in Vanuatu, or other similar jurisdictions.

However, it is essential to understand why Vanuatu has been a favoured choice for company incorporations, other than just for the purpose of minimising their tax liabilities. Certainly, the nation boasts no corporate income tax, no capital gains tax, and no withholding tax on dividends or interest payments. This tax structure has made Vanuatu an attractive destination for businesses looking to incorporate legal structures in a jurisdiction which is commercially friendly on several fronts.

3. Strategic Advantages of Vanuatu for Active Income Businesses

In recent years, however, the international community has intensified efforts to combat tax avoidance and enhance transparency in the global financial system. The Organization for Economic Cooperation and Development (OECD) has introduced several initiatives, including the Base Erosion and Profit Shifting (BEPS) project, designed to address tax avoidance by multinational companies.

One significant change resulting from these initiatives is the requirement for companies to maintain a "substantial economic presence" in the jurisdictions where they operate. This necessitates that companies show more than a nominal presence in tax havens like Vanuatu to avoid being subject to higher taxes and penalties.

As a result, many businesses have reconsidered their incorporation strategies, with some concluding that the benefits of incorporating in Vanuatu no longer outweigh the risks. Beyond potential tax implications, there are also reputational risks associated with incorporating in a tax haven, particularly given the heightened public scrutiny of corporate tax practices.

4. Vanuatu: Navigating the Future of International Corporate Structures

Despite these challenges, Vanuatu remains a viable option for many international businesses in 2023. The nation offers a stable political and economic environment, a sophisticated legal system, and a well-developed financial services industry. Additionally, Vanuatu provides various investment structures, such as exempted companies, exempted limited partnerships, and exempted trusts, offering businesses flexibility in structuring their operations.

Indeed, focusing on corporate structures that actually generate income, commonly referred to as "active income," often requiring a physical presence in Vanuatu rather than just consisting of a brass plaque on a local financial service's firm's wall, is now a key feature of Vanuatu's leadership in modern corporate structures offering less unnecessary regulatory interference and the ability to structure hybrid financial structures to take advantage of a dynamic economy in which we now all live. Captive insurance, cryptocurrency trading, and forex trading and settlements are just a few examples.

5. Strategic Advantages of Vanuatu for Active Income Businesses

Operating from Vanuatu offers several advantages for companies generating active income. These benefits can go beyond tax-free advantages and include:

- **Regulatory Flexibility**
 - **Simplified Compliance:** Tax havens often have fewer regulatory burdens and less stringent reporting requirements compared to high-tax jurisdictions, allowing companies to operate with greater ease.
 - **Business-Friendly Environment:** Many tax havens have created a regulatory framework specifically designed to attract businesses, providing a more supportive and less restrictive environment for company operations.

- **Asset Protection**
 - Confidentiality: Tax havens typically offer high levels of confidentiality for business operations and ownership, protecting sensitive information from public disclosure.
 - Legal Safeguards: They often have strong legal frameworks that protect assets from external claims, providing a secure environment for holding assets.
- **Operational Efficiency**
 - Cost Reduction: Lower administrative and operational costs due to streamlined regulations and less bureaucracy.
 - Strategic Location: Many tax havens are strategically located, providing easy access to international markets and facilitating global trade.
- **Investment Incentives**
 - Attractive Investment Climate: Tax havens often offer incentives such as grants, subsidies, or special economic zones to attract foreign direct investment.
 - Ease of Capital Flow: Fewer restrictions on capital flows allow for greater flexibility in moving funds across borders.
- **International Trade Advantages**
 - Free Trade Zones: Some tax havens have established free trade zones that offer exemptions from customs duties and other trade barriers, encouraging international trade.
 - Double Taxation Treaties: Many tax havens have treaties that prevent double taxation, making cross-border transactions more tax-efficient.
- **Enhanced Corporate Governance**
 - Tailored Legal Structures: Availability of various corporate structures that can be tailored to meet the specific needs of businesses, such as trusts, limited liability companies, and offshore corporations.
 - Stable Political Environment: A politically stable environment with a well-established legal system ensures the protection of business interests.
- **Financial Services Infrastructure**
 - Advanced Financial Services: Access to a well-developed financial services sector, including banking, insurance, and investment management services.

- Expertise in International Business: Availability of professionals with expertise in international business law, accounting, and corporate governance.
- **Workforce and Talent Pool**
 - Skilled Workforce: Access to a skilled and educated workforce familiar with international business practices.
 - Multilingual Capabilities: Many tax havens have multilingual capabilities, facilitating business operations in multiple languages.

Ultimately, the decision to incorporate in Vanuatu will depend on several factors, including the specific needs and goals of the business, the regulatory environment in which it operates, and prevailing tax laws and regulations. Therefore, it is crucial for companies to conduct a thorough analysis of their options and seek professional advice before making any decisions on where to incorporate.

Conclusion

While the primary allure of tax havens is often their favourable tax regimes, the broader advantages for companies generating active income include regulatory flexibility, asset protection, operational efficiency, investment incentives, international trade benefits, enhanced corporate governance, a robust financial services infrastructure, and access to a skilled workforce. These factors collectively contribute to a supportive environment for international business operations, beyond the simple benefit of tax savings.

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