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## Shareholding Structure of an Offshore Company

Offshore companies, like onshore corporations, use shares to reflect their ownership. Shares are in essence units of internal accounting, which represent a participation of an owner in the company. Taking (or buying) a share in a company means simply that a person has agreed to invest some of his personal money, or assets, or intellectual rights or property into the company. When he does so, he acquires the right to participate in the profits of the company, in proportion to his share. In addition to the right to receive dividend, the shareholder would also usually have the right to participate in the decision-making process of the company - although this may not be the case with non-voting shares. There are a few different types of capital.

### Authorized share capital

This is the total amount of money that the company has been allowed (by its Memorandum of Association) to cash in from the prospective shareholders in return for giving out its shares to them. In theory the authorized capital is supposed to be just that amount of money which the principals of the company have decided to pool together in order to get the business going, until the company breaks even and its revenue stream is sufficient to support its operations. Most offshore jurisdictions have a minimum required authorized share capital, and the share capital selected usually affects the fixed government fees payable.

In British Virgin Islands, a more flexible alternative have been introduced, whereby the Business Company may elect to state only the number of shares it will issue, but it does not have to determine the monetary value of its capital. Thus, the company may issue its shares at a "market value", or rather at a value that its first owners deem fit, depending on the capitalization requirements of the company. Thus, a company with the same 50,000 shares may decide to issue its shares at 1 US cent, or 1 hundred euros, or 5 thousand pounds sterling each, and thus raise substantially different amounts of capital from its would-be shareholders, depending on its capitalization needs and plans of the shareholders. Indeed, in this time and age it should be recognized that a company may not need a single dollar of capital, if it has a super-original business idea - or may need to be highly capitalized for a cash-intensive project. Flexibility on a structural level, as provided by the BVI Business Companies Act, is therefore very useful.

### **Subscribed capital**

This is the amount of money that the prospective shareholders actually agree to invest in return for their shares. The subscribed capital can quite often be less than the authorised capital. This would simply mean that the company has actually issued (or sold) only a part of its shares to the shareholders, whereby the remaining shares stand by, unissued and idle. Thus, if company ABC has an authorized share capital of 50,000 shares and John agrees to take 1,000 shares, then the company's subscribed share capital is 1,000 shares. Regardless of the fact that he only took 2% of the authorized capital, John would still own the company fully, until another shareholder comes in. If the company also issues 1,000 shares to Mary, the company's subscribed share capital is 2,000, and each of John and Mary would own 50 percent of the company (1,000 shares each of the total issued 2,000). The exact procedures and methods of accepting new shareholders, subscribing to and issue of shares are usually determined in detail by the Articles of the offshore company.

### **Paid-up capital**

The subscribed capital becomes paid-up capital when the subscriber (the prospective shareholder) actually honours his part of the deal and pays for his shares to the company. In the most trivial case, it would simply mean that the shareholder has paid some cash into the company. Usually, only when the shares are paid-up, the shareholder acquires the right to receive profits from the company and to vote in the shareholders meeting. Again, the terms and procedures of paying-up the company capital, and the corresponding shareholder rights would usually be set forth in the Articles of Association of a company.

There is a substantial difference in how the various aspects of share capital are treated in most high-tax countries and in the offshore financial centres. For instance, in many European countries, the legal requirements for minimum authorised, subscribed and paid-up capitals for a domestic company are quite high, often in tens of thousands of euros. There are also strict rules that these capitals must all be paid-up at incorporation, or shortly thereafter. The somewhat out-of-date logic behind these rules is that a company in, say, Germany, would be unable to pursue any business without a substantial money available.

In most offshore havens it's radically different. Mostly, the size of the authorised capital of an offshore company does not have a legally prescribed minimum. In BVI, the Business Company is not even required to state its authorized capital - it just need to state the amount of shares it will issue, and there is no minimum to that, either. Consequently, there are no requirements to have any amount of paid-up capital, or to pay it in by a certain deadline. Therefore an offshore company can easily be authorised to issue 5 shares, or to have an authorised capital of USD1, or whatever its owners deem fit. The reverse is also true - the owners of an offshore company may decide to state in the Articles of Association of their company that it will have 100 million shares, and thereafter decide to issue each share for 100 dollars - so, in case this is really carried out by the supporting monetary transactions, the authorized and paid-up capital of such company would be 10 billion dollars. (There would usually be a higher Government registration fee payable in such case as compared to the minimum-capitalization company.)

So, this flexibility of offshore company laws allow the owners of the company to choose any amount of capital they wish, and to be very flexible with the rules of how and when the capital has to be subscribed for and paid up. Flexibility is the paramount feature here, and not many countries in the world can rival the flexibility of the British Virgin Islands Business Companies Act.

In most offshore jurisdictions there is a Government registration fee payable at incorporation (and annually thereafter) by each offshore company. The amount of this duty depends on the size of the authorised capital of the company - or, as in the BVI, the amount of shares a company is authorized to issue. There is a pre-set minimum of the Government duty. In BVI, it's US\$450 for a Business Company that is authorized to issue 50,000 shares or less. If a company has more than 50,000 shares, the fixed Government fee is US\$1,200. In many other offshore jurisdictions, the amount of the Government registration fee would be tied to the monetary value of the authorised capital, and not to the number-amount of its shares.

In BVI, therefore, the amount of 50,000 shares would be the maximum possible amount of shares that you can get registered by still paying the minimum duty. Therefore this amount will usually be registered as "optimum configuration" by the offshore service provider, unless there is a different requirement from the client. Choosing a bigger amount of shares is possible, but will involve higher duty. Choosing a smaller amount of shares is also possible, but needless, as the duty will not decrease anyway. This concept of "maximum authorised capital to which minimum duty applies" is repeating itself virtually through all offshore jurisdictions, and is usually termed as "optimum capital".

Another distinct feature of offshore companies is registration of shareholders on the public file, in the Registry of Companies. Many offshore tax havens, including British Virgin Islands, do not require mandatory filing of the shareholders' data of offshore companies in the Registrar. Thus the ownership structure of a company remains on the internal file of the company. The law in BVI requires that the shareholder information (Registrar of Shareholders) must be kept on file with the Registered Agent, where it is confidential and accessible only by the members of the company. However, the law also allows for the shareholder information to be filed with the Registry of Companies as an option - if the shareholders so want.

Direct registration of the shareholdings on public file can actually be attractive to those company owners who wish to acquire the extra peace of mind by knowing that their private holdings are properly registered in a Government registry. This becomes especially important when the company is owned by several owners. However, obviously, this is attractive only to those shareholders, who are not concerned about their loss of confidentiality.

Keeping shares registered onto a nominee is another way of putting in just another layer of confidentiality. Apart from shielding the name of the actual owner from all sorts of Registers, the nominee shareholder also keeps the names of the actual owners secret in various real-life situations. For instance, when the shareholders would need to act in order to replace a director, or to increase the capital, or to authorize opening of a new bank account - any "real" shareholders would reveal themselves to third parties by means of carrying those resolutions. The same resolutions executed by nominees would keep the confidentiality intact.

When using the services of a nominee shareholder, the actual owner of the shares should not be concerned even if the shareholders would be registered on public file, because his name would not appear there anyway. The appropriate proof that he is the actual owner of the company would be in the shape of a declaration or an agreement between the nominee and the actual owner.

All in all, the corporate structure and elements of an offshore company are just the same as they would be for a typical domestic business company in any country. The difference with offshore companies is that all these elements are made simple, with minimum government regulation and maximum flexibility available. This quite often makes the offshore company just a more practical vehicle through which to transact business, especially an international business. And, yes, those companies are also free from tax.

*If you wish to obtain more information or assistance, please visit our official website at [www.kaizencpa.com](http://www.kaizencpa.com) or contact us through the following means:*

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