

Shelter your wealth in the Canary islands

The clock is ticking on tax havens – so why not keep your cash somewhere tax-friendly, but onshore?



Onshore haven: tax rates are low in the Canary Islands Photo: WestEnd61/Rex Features

By Pedro da Cruz

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There can be no denying that tax havens are not the safe havens they once used to be. Switzerland has come under sustained international pressure, the [Organisation for Economic Co-operation and Development \(http://www.oecd.org/\)](http://www.oecd.org/) (OECD) continues its charge against what it deems "uncooperative countries" and HM Revenue & Customs (<http://www.hmrc.gov.uk/>) has launched a new unit, The Offshore Coordination Unit (OCU) to find and publish tax evaders who hide assets overseas. There are currently 6,000 Swiss accounts being investigated, as well as other suspected evasion.

The clock is ticking on tax havens and the question is how should you as a wealthy individual or business respond? Should you simply cross your fingers in the hope the problem will go away or plan ways to address it? Where should you position yourself so that you are tax compliant but at the same time paying the least amount of tax necessary? Well, the choice is yours as to how you respond in today's market, but should you

choose to come onshore, the Canary Islands may be the best option available.

Double Taxation

The principal motivation for those who used tax havens was to exploit the secrecy or non-disclosure rules guaranteed by these havens. The agenda here was often to avoid having to declare foreign earnings and as a result avoid tax altogether. However, as havens gradually succumb to international pressure and governments continue to gain further information to these secret accounts, the lure and attractions of such structures has now been brought in to question.

Certain tax havens do not have a double taxation treaty with the UK. Therefore a person seeking tax relief from the UK on the grounds that they or their company is resident in a tax haven may find such claims rejected. The Canary Islands on the other hand, whilst offering certain fiscal advantages, is considered part of the Spanish territory under EU regulation, and as a result benefits from double taxation treaties with other jurisdictions.

[Chairman of Cayman Islands Stock Exchange gives spoof award to tax haven critic](http://www.telegraph.co.uk/finance/personalfinance/offshorefinance/8559870/Chairman-of-Cayman-Islands-Stock-Exchange-gives-spoof-award-to-tax-haven-critic.html)

(<http://www.telegraph.co.uk/finance/personalfinance/offshorefinance/8559870/Chairman-of-Cayman-Islands-Stock-Exchange-gives-spoof-award-to-tax-haven-critic.html>)

[Nearly half of British tourists keep their money on them at all times](http://www.telegraph.co.uk/finance/personalfinance/offshorefinance/8087853/Nearly-half-of-British-tourists-keep-their-money-on-them-at-all-times.html)

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[Expat savers at risk from fraudsters](http://www.telegraph.co.uk/finance/personalfinance/offshorefinance/8079967/Expat-savers-at-risk-from-fraudsters.html)

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[Expat guide to South Africa: financial management](http://www.telegraph.co.uk/finance/personalfinance/offshorefinance/7790681/Expat-guide-to-South-Africa-financial-management.html)

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[Expat guide to Australia: financial management](http://www.telegraph.co.uk/finance/personalfinance/offshorefinance/7457866/Expat-guide-to-Australia-financial-management.html)

(<http://www.telegraph.co.uk/finance/personalfinance/offshorefinance/7457866/Expat-guide-to-Australia-financial-management.html>)

[Spanish tax guide: tax it like Beckham](http://www.telegraph.co.uk/finance/personalfinance/offshorefinance/8089659/Spanish-tax-guide-tax-it-like-Beckham.html)

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Corporation Tax

One of the key fiscal benefits available through the Canary Islands is in respect of corporation tax, which is levied at four per cent. Certain criteria must be met for a company to qualify under this special rate, including the employment of five persons through the company and the investment of €100, 000 in the Canary Islands within the first two years following registration. This is particularly useful for companies providing services on the internet or engaged in other activity that does not have to be performed in any one particular country. Whilst there is a requirement to employ staff to qualify for the 4 per cent corporation tax, it should be mentioned that salaries are generally lower in Spain compared to the UK, and the government is currently offering concessions to companies hiring in a bid to address the mounting levels of unemployment.

VAT

There is no VAT in the Canary Islands. For internal trade, there is a general tax of five per cent referred to as IGIC (Impuestos General de las Islas Canarias) but this does not apply when the invoice is to a client based outside the Canary Islands. It should be noted that in respect of sales to the UK, this rule is advantageous only when dealing with services, as goods are not exempt from being levied import VAT. This therefore does not serve to circumvent the recent scrapping of the Low Value Consignment Relief (LVCR) loophole exploited by the Channel Islands, as this deals with goods rather than services.

Personal Taxation

The Canary Islands, being part of the Spanish territory, will largely apply the same tax rules. One of such rules is the taxation of expats. Individuals who emigrate to Spain and have not been resident in the country in the past 10 years can opt for **the special expat tax scheme** (<http://www.telegraph.co.uk/finance/personalfinance/offshorefinance/8089659/Spanish-tax-guide-tax-it-like-Beckham.html>) and pay a flat rate of 24 per cent income tax.

Future for Canary Islands

Given the changing fiscal policies across Europe in response to the economic downturn, some may question whether the advantages afforded to the Canary Islands are compatible with the internal market. Indeed, the EC considered this in a 2008 report and concluded that the tax incentives enjoyed by the Canary Islands were by no means incompatible with the internal market as the Canary Islands faced certain disadvantages due to its remote location, structure and size. With the mounting pressure on tax havens, the Canary Islands may find itself as the unintended beneficiary of a bitter battle between tax dodgers and tax collectors.

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