



## BVI: Capital Economics report released

A new report by independent economics consultancy, Capital Economics, examines the contribution of the British Virgin Islands (BVI) to the world economy and conveys a very positive message about the small nation's global impact.

Making no excuses for the success the BVI has made of positioning itself as a top international business and finance centre, the report, *Creating Value: BVI's Global Contribution*, notes that the assets held by BVI business companies have an estimated global value of US\$1½ trillion. Countries and companies from all over the world use these vehicles to manage and enhance their cross-border activities, including major international development banks (such as the European Bank for Reconstruction and Development) and businesses listed on the London, New York and Hong Kong main stock exchanges.

The BVI and other small jurisdiction 'international finance centres' now feature in the national consciousness because of the globalisation of trade and capital over the last few decades. Jurisdictions that have embraced international trade have typically become more prosperous as globalisation brings material advantages to investors, firms and national economies. Capital markets have also become increasingly global, with investors seeking returns from beyond their domestic markets and investees accessing wider sources of finance.

One could assume that what appears to be the remote world of international capital finance does not touch the lives of voters, families, business people and employees, but substantial cross-border investments provide the underlying finance that enables economic investment in homes, factories, hospitals, railways, broadband, machinery, entrepreneurs, etc. Local banks and financial services firms that offer credit cards, overdrafts, mortgages and loans increasingly depend upon international capital markets to provide liquidity and keep costs down.

The globalisation of trade and capital is central to the role played by the BVI and similar jurisdictions. In a world where national boundaries have ever decreasing significance to people and to businesses, it should come as no surprise that there is demand for services that facilitate efficient and secure cross-border transactions. 'International finance centres', like the BVI, have evolved to meet the needs of global businesses and investors and internationally mobile individuals.

Local specialist firms help service the often complex needs of those looking to carry out cross-border trade and investment. Corporate service providers, professional services firms (especially legal, insolvency and accountancy practices), banks and insurers and specialist government and regulatory authorities comprise the BVI's international business and finance centre. Services are provided to clients across corporate business, trust and estate planning, captive insurance, investment funds and ship and aircraft registration.

The BVI is one of the world's largest centres for the incorporation of companies – especially those created to facilitate cross-border trade, investment and business. The Capital Economics report identifies that there are currently just under 417,000 active BVI business companies. The BVI is an attractive tax neutral domicile. The jurisdiction has modern, flexible and efficient company, partnership, investment, funds, insurance and other financial services legislation which has been tailored to the needs of global business; it has a sound and stable government, and respected financial regulation. The BVI has adopted the United States dollar as sole legal tender. Other 'international finance centres' that have their own currencies may suffer currency volatility and can invoke currency controls. Such controls are not possible (nor required) in the BVI given that its only legal tender is the United States dollar.

BVI business companies are much more than just their certificates of incorporation – even those which hold assets without active operations are vital to the efficient operation of an increasingly globalised business world. Companies, institutions and private individuals use them not only as holding companies for various assets, but also for (among other uses) family, trust and succession planning; investment business; joint ventures; listings; vessel or aircraft registration; and corporate group structuring. The BVI’s creditor-friendly and protective environment vis à vis security interests often translates into security being taken at a BVI company level in international financing transactions, thereby enabling affiliated or related companies to undertake acquisition or project activity.

Incorporation of a BVI business company is not a mechanism for avoiding or evading onshore taxes. The BVI has worked hard to meet international standards for transparency and combatting crime (including tax evasion), responding quickly and constructively to international developments. The BVI was an early adopter of the Organisation for Economic Co-operation and Development’s ‘Common Reporting Standard’, has committed to a large number of tax information exchange agreements and has agreed to implement the United States ‘Foreign Account Tax Compliance Act’ regime. Incorporation in the BVI should not be confused with tax residence in the Islands. Instead of focusing on the location of incorporation, tax authorities across the world will generally focus on the location of ‘central management and control’ to determine residence and tax liability.

The Capital Economics research report indicates that the US\$1½ trillion of investment mediated by the BVI supports around 2.2 million jobs worldwide, which will likely contribute over US\$15 billion annually to government coffers worldwide (with over US\$8 billion of that annual amount benefiting the coffers of EU member states).

Appleby is one of the leading law firms in the British Virgin Islands providing both corporate and litigation services. For advice in relation to BVI law, please contact Jeffrey Kirk or Andrew Willins.

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