HOW TO HIDE YOUR MONEY IN THE SOUTH PACIFIC

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Fall 2012: a hard drive containing offshore financial data mailed to the ICIJ

250 GB, 2.5 M documents spanning 30 years (160 WikiLeaks)

130,000 people named from 140 countries, ~450 Canadians: politicians, socialites, dictators

How much of est. $10-30 Trillion offshore wealth is (entirely) legal?

icij.org/offshore
what does offshore mean?

1. Banking centres cater to non-residents
2. Low-to-no taxation on foreign firms
3. Tight security / secrecy laws
Q: Who uses offshore financial centres?

Typically wealthy clients, seeking...

...asset protection (litigation, spouses)

...to establish a trust for family members

...to evade paying taxes

...to hide ill-gotten gains (Ponzi schemes, organized crime, embezzlement)

...to finance international terrorism
"Our government has long recognized that international tax evasion is a serious problem. For this reason, CRA officials will review any information they receive and aggressively pursue all suspected cases of tax evasion."

- National Revenue Minister Gail Shea

"The 2013 federal budget included a program to stop international tax evasion, under which people who tip off the CRA could get a financial reward if the investigation bears fruit.

"If the CRA ends up collecting more than $100,000 based on the information, tipsters could get a fee of between five and 15 per cent of that amount, depending on how good the information is."

- Canadian Business Magazine
Why is it so hard to prosecute tax evaders who make use of offshore financial centres?

“Willful deception” difficult to prove

Strict **secrecy** laws: jail time, fines for discussing companies or trusts registered in the jurisdiction.

**Layers** of intermediaries.

Most will not recognize foreign court orders, or at least make it difficult and expensive to pursue further inquiry.
WAYS TO HIDE YOUR MONEY

Typical amounts ~ $5M
OFFSHORE TRUST

How the BVI nominee system works

1. Secret real owner of company
   Selects a ‘nominee director’ and sends him three documents

2. A ‘nominee director declaration’
   Where the nominee promises only to do what the real owner tells them

3. A courier brings other documents for the nominee to sign on behalf of the secret owner

A nominee director signs and returns the three documents to the secret owner

A director’s resignation letter
Left undated, this lets a nominee duck liability and allows the real owner to drop the nominee

Not publicly registered

Settlor, (nominee) trustee, beneficiary

Image: guardian
PRIVATE FOUNDATION

Ownerless, can in turn own a corporation…

No estate / inheritance taxes, not publicly registered
LIMITED LIABILITY COMPANY
Between a person and a corporation, may not be anonymous, can be owned by a trust

INTERNATIONAL BUSINESS CORPORATION
Publicly registered, reporting requirements (though could done with nominee directors)

OFF-THE-SHELF COMPANY
Cheap! $1K, limited due diligence, +$500 gets you a nominee director

INDIVIDUAL ACCOUNT
Clear ownership, not suspicious, not secret
MOVING YOUR MONEY OFFSHORE

Phoney lawsuits
By mail (less than $10K, many banks won’t accept)
Money swap (illegal, possible money laundering)
Smuggling gems (illegal)
Carrying >$10K across borders without declaring (illegal)
Wire transfer (tracked, reported to CRA)
Transfer $9999.99 thousands of times (suspicious)
GETTING YOUR MONEY BACK

(and not go to jail)
Report foreign ownership (but what about interest accrued?)
Confess tax evasion and pay fines
Take out a credit card in name of foreign company (suspicious)
Insurance policy payouts
“Granny Trust” and tax-free monetary gifts
Loan to yourself
Claim tax-free gambling gains
Move to your tax haven!
$5M initial investment
10 year investment at 12% interest rate
assuming 33% tax rate in Canada,
0% in tax haven
= ~$4.7M in avoided taxes
1. CBC The Current, As It Happens, The National
2. ICIJ icij.org/offshore/
3. #offshoreleaks
4. NPR Planet Money