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As IRS crusades against Americans hiding money offshore, Latin American tax cheats flock to U.S. banks [3]

IRS event today on plan to force banks to report foreign nationals' accounts

By Michael Hudson [4]

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Teams of private bankers working for powerful banks court wealthy people from distant shores with this sales pitch: Move your cash to our country. We will keep it safe and secret.

That was the modus operandi of UBS, the Swiss banking giant that was forced to admit holding billions of dollars in covert accounts for Americans trying to avoid U.S. taxes.

It is also a tactic used by big American banks to solicit deposits from wealthy citizens in Third World countries, according to tax-evasion experts.

Even as the U.S. Internal Revenue Service crusades against Americans using offshore banks to hide money, these tax experts say, the United States itself serves as a massive haven for international tax cheats.

“We’re the biggest tax haven in the world,” says Robert Goulder, editor-in-chief of U.S.-based *Tax Notes International* . “People joke about the Cayman Islands. The biggest haven is an island, all right. It’s either Manhattan or Great Britain.”

Jack Blum [5], a former U.S. Senate investigator and an authority on offshore tax shelters, says U.S. bankers “sell tax evasion to citizens of Central America, the Caribbean, all over Latin America.” The U.S. government hasn’t put a stop to it, Blum says, because bankers and politicians don’t want to stop the flow of foreign cash into the United States.

American banks deny they enable tax evasion by citizens of other lands.

Alex Sanchez, president of the Florida Bankers Association, says Latin Americans move their money to the United States not to evade taxes but to keep it safe from tyrants and kidnappers.

“People down there don’t trust their institutions,” Sanchez says. “You think people trust [Venezuelan President] Hugo Chavez? You think they trust the Colombian government with all the narcotraffickers and corruption down there?”

‘Growing global consensus’

Foreign depositors have placed an estimated $3.6 trillion with U.S. banks and securities firms, a Department of Commerce study reported [6]. Much of the money isn’t disclosed to tax authorities in their home countries, according to Blum and other critics of U.S. tax haven practices.

The American government provides little help to Mexico and other poorer countries whose citizens have squirreled money in the United States. U.S. officials can’t tell these countries about their citizens’ bank accounts here because the government doesn’t collect the information.

Under American law, non-U.S. citizens living outside the United States who deposit money in U.S. banks are not subject to U.S. taxes, and the deposits and interest don’t have to be reported. The one exception: money deposited by Canadians. Their government has a banking information exchange pact with the United States.

Mexican officials have pleaded [7] to get the same deal that Canada has with Washington, but without luck so far.

In January, the IRS revived a 2001 plan that would require U.S. banks to report interest paid to foreign nationals. The agency said its updated proposal [8] reflects a “growing global consensus” about the need for nations to cooperate on tax enforcement. The previous proposal, which was pushed out the door just days before President Bill Clinton left office, was later narrowed by the Bush administration to apply only to Canadians.

The new IRS move has sparked a flurry of complaints from bankers and politicians in Florida and other states that attract large sums of foreign money. All 25 members of Florida’s U.S. House delegation — Republicans and Democrats alike — wrote [9] President Barack Obama to say that the proposal could cause “irreparable harm to the U.S. economy” by scaring away foreign capital.

The dispute may heat up even more Wednesday when the IRS convenes [10] a public meeting on the proposed rule.

The Florida Bankers Association’s Sanchez says the session will be lively, with IRS bureaucrats getting an earful from him and others opposed to the plan. “I’m very passionate about this,” he says. “This is just the wrong idea at the wrong time for our country.”

Opponents of the IRS plan were expected to outnumber supporters at the meeting. Other scheduled speakers include representatives from the Florida International Bankers Association, the American Bankers Association and the Cato Institute. The event begins at 10 a.m. ET at IRS headquarters in Washington.

A history as a haven

Investigations over the past half century have uncovered many examples of Third World dictators and drug cartels laundering money through U.S. banks. A 1999 U.S. Senate investigation reported [11] that Citibank had had “a rogues’ gallery of private bank clients,” including two daughters of former Indonesian President Suharto, a strongman who was alleged to have looted billions of dollars from his country.

But the problem isn’t just drug lords and political grafters, *Tax Notes International* ’s Goulder says. It's also plastic surgeons, dentists, architects and other affluent Latin Americans who are usually law-abiding citizens — except when it comes to reporting their incomes and bank balances to tax collectors.

U.S. bankers began a concerted push in the 1970s to lure so-called hot money from a wide range of well-off Latin Americans seeking to avoid taxes in their home countries, according to James S. Henry, a former chief economist for McKinsey & Co. and author of books and papers on offshore money.

By the mid-1980s, Henry says, his research revealed Citibank was taking more money out of developing nations than it was lending to them, and its private banking group had become its most profitable unit.

Citibank, Henry wrote [12], "resorted to skullduggery and the flouting of local laws all over the planet." It sent private bankers undercover to Argentina, Venezuela and other destinations, helping to spawn thousands of shell companies and "concealing vast sums of flight capital from Third World tax authorities" while lobbying Congress to maintain "near-Swiss secrecy" for foreign depositors, Henry claims.

A Citigroup spokesman declined to comment on its private banking unit's history in Latin America and other regions.

Dirty money moving from Latin America to the United States isn't a problem that has gone away. Last year, Wachovia Bank agreed to pay $160 million to settle charges that it had helped Mexican

outlaws launder drug money. Wachovia, which became a unit of Wells Fargo & Co. in 2008, acknowledged [13] it had turned a blind eye to $13 million in deposits that had been used to purchase airplanes used by drug traffickers. Authorities seized [13] more than 20,000 kilograms of cocaine from these aircraft, according to U.S. prosecutors.

Diamonds in a toothpaste tube

As illicit cash has flowed into the United States, the IRS has worked to beat back tax havens — such as Switzerland and the Caymans — that conceal money on behalf of American citizens.

The efforts often haven't done much to stem the flow of cash, but the IRS got a break in 2007 when Bradley Birkenfeld, a former private banker with UBS, turned whistleblower.

In court documents, Birkenfeld said that UBS bankers advised American customers to withdraw funds by using Swiss credit cards that couldn't be traced by U.S. authorities. On one occasion, Birkenfeld told investigators, he used funds from an American client's Swiss account to buy diamonds and then smuggled the jewels into the United States inside a toothpaste tube.

His information helped American authorities establish that UBS maintained around 17,000 undisclosed accounts for U.S. citizens.

In a historic breach of Swiss banking secrecy, the bank and Swiss government agreed [14] in 2009 to turn over the names of nearly 5,000 big account holders. UBS agreed to pay a $780 million settlement to the U.S. government, admitting that it had "participated in a scheme to defraud the United States" by helping Americans hide assets from the IRS.

'I became a fraudster'

In 2008, as the UBS investigation was heating up, another case emerged that could have shifted some of the attention away from Switzerland and put the focus on America's role as a tax haven.

A private banker working for JPMorgan Chase & Co. had gone rogue. The bank discovered [15] questionable transfers of money by Hernan Arbizu, a New York-based J.P. Morgan vice president in charge of some $200 million in Argentinian accounts. The bank sued, claiming that Arbizu had stolen money from a client's account in order to pay off money he had taken from a customer at his old job at UBS. Federal prosecutors charged him with wire fraud.

That part of the story drew notice in the United States. But news organizations and federal officials paid less attention to the other part of the story — Arbizu's claims that J.P. Morgan had helped Argentinean customers evade taxes and launder dirty money.

"I became a fraudster from the minute I started working in private banking, because if you think about it, I was committing fraud against Argentina as a whole through our activities here," Arbizu, who fled to Argentina, told Bloomberg News in a 2009 interview [16].

In Argentina, the case exploded into a major scandal [17]. One media outlet ran the headline "EL MORGANGATE" and revealed the names and deposit balances of some 200 citizens with J.P. Morgan accounts in the U.S.

J.P. Morgan has denied that it helps private banking clients evade taxes or commit fraud. A bank spokesman declined to comment on the Arbizu case.

Earlier this month, J.P. Morgan won a default judgment of nearly $3.6 million against Arbizu in the civil case. The U.S. Justice Department declined comment on whether it was seeking to extradite Arbizu from Argentina on the criminal [18] charges.

'A big source of income'

The Arbizu case didn't spark calls from American policymakers for an investigation into onshore banks' marketing to rich foreigners.

The issue isn't a politically appealing one, given the money at stake. "I haven't seen many American politicians wanting to take on the U.S. as a tax haven," Henry, the economist and offshore case expert, told *iWatch News* . "It's a big source of income for this country."

Mexican officials, though, have been raising questions about U.S. banking secrecy.

In early 2009, Mexico's Secretary of Finance Agustin Carstens wrote U.S. Treasury Secretary Timothy Geithner asking that the United States share data about Mexican citizens' U.S. accounts. Because the United States and Mexico don't exchange information, Carstens wrote, both individual tax evaders and organized crime figures are being allowed to move their money across borders.

U.S. Treasury officials didn't respond to questions from *iWatchNews* about Mexico's request.

The political distrust of efforts to reduce U.S. bank secrecy can be seen in the Florida congressional delegation's March 2 letter [9] to Obama.

The letter says the IRS proposal to require U.S. bankers and money managers to report interest paid to foreign depositors "would likely result in the flight of hundreds of billions of dollars from U.S. financial institutions." People from other countries put their money here, the lawmakers said, because their governments are unstable and they worry that if information about their bank accounts gets out, they could be left vulnerable to political terrorists or for-profit kidnappers.

“I feel sorry for hard-working people in these countries. You’re targeted,” says Sanchez, the Florida Bankers Association president. “You don’t have to be super-rich. I’m just talking about doing well.”

Blum, the former Senate investigator, counters that tax evasion is one of the causes of the political and social dangers in Latin America, not the solution.

Tax evasion, Blum says, creates a vicious cycle that leaves tax-starved governments at the mercy of drug cartels and official corruption. “The problem in Mexico,” he says, “is not enough revenue to keep cops honest.”

Blum and other critics of bank secrecy don’t believe that the reporting requirement would cause a rush of money out of the United States.

“The United States remains the world's safest haven for global capital and investment,” Sen. Carl Levin, a Michigan Democrat who has led investigations of offshore tax havens, said in a letter [19] last month to the IRS. “There is virtually no evidence that new disclosure requirements would overcome the United States’ other financial advantages and cause investors to cease making U.S. investments.”

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