DAILY KOS

GOP Think Tanks Lobby for Offshore Tax Havens

By: Bud Meyers – April 10, 2013

The new capital gains tax rate in 2013 (23.8%) for billionaires is still about ⅓ less than what the top marginal rate is for regular wage earners (39.6%). Any single wage earner with an annual income of $36,250 or more will pay a greater percentage of their income (25%) in federal income taxes than someone like Mitt Romney, who might earn over $20 million in differed interest.

This is the first means by how the most wealthy Americans preserve and hoard their wealth. Last year, while running for vice-president with Mitt Romney, Paul Ryan earned thousands of dollars from capital gains, and had advocated a ZERO tax on all capital gains income. Since 1921, it's been low capital gains tax rates that's been fueling record income inequality.

After the low capital gains tax rate, the second way the most wealthy preserve and hoard their wealth is by hiding their money from taxation by using offshore banks (Mitt Romney claimed he reported all his offshore accounts to the IRS and may have been "excused" in the last major tax amnesty).

Today, there are between 50 and 60 offshore financial centers around the world holding untold billions of dollars at a time of historic U.S. deficits and forced budget cuts. Groups that monitor tax issues estimate that between $8 trillion and $32 trillion in private global wealth is parked offshore in these tax havens.

Senator Carl Levin has been holding hearings and conducting investigations into the offshore world for nearly three decades. But powerful Washington D.C. lobbying groups, such as the *Cato Institute* and the *Center for Freedom and Prosperity*, have been vigorously thwarting his efforts.

The *Fox News* channel was primary created by Rupert Murdoch to specifically advocate the views of organizations such these to the American people, propagating "smaller government" to make cuts in middle-class programs such as Social Security and Medicare (among others) as a way for America's most wealthy individuals (e.g. Koch brothers andthe Wyly brothers etc.), who control the banks and major U.S. corporations, to avoid paying taxes with loopholes in the U.S. tax code.

Stephen Moore, a columnist for the *Wall Street Journal* (also owned by Rupert Murdoch) regularly goes on *Fox News* and CNN to perpetrate the myth that corporate tax rates in the U.S. are the highest in the world, when the actual "effective tax rate" that major corporations actually pay, is one of the lowest. 64 major U.S. corporations, over 5 years, paid an average of 8.1% in U.S. corporate taxes. See this short video at *YouTube* of Stephen Moore when he makes his usual false claim before Senator Bernie Sanders and Bill Maher call him out on his lie. (Jon Huntsman's daughter Abby is also there).

And it doesn't help that a major U.S. political party actually enables tax evasion as a way to force cuts in government spending. The Republicans have been deliberately under-funding the IRS to conduct proper investigations and audits of suspected tax evaders for years (I suspect Mitt Romney with a $100 million in an IRA account). The GOP also advocates for lower taxes, claiming that lower taxes will also reduce tax evasion. But it's all been part of the Republican's plan for the past 30 years, and is known as "Starve the Beast".

But it's just not the Republican Party *per se* --- any libertarian group, business group (aka*U.S. Chamber of Commerce*), the *Tea Party*, the *Heritage Foundation* and *Fox News* pundits -- such as multi-millionaires like Bill O'Reilly, Sean Hannity and John Stossel --- or ultra-wealthy radio jocks like Glenn Beck and Rush Limbaugh -- are all in the same boat together; and it's not the same boat with the average American worker. Millions of unemployed workers are now in life boats since the economy sank. All these GOP lobbyists, opinionators, politicians, media personalities, and "think tanks" are only advocating for policies that best favor the top 1% -- and many times that means, those who are utilizing offshore banks accounts to dodge federal income taxes.

Imagine if this were 1931 and Al Capone told the IRS he didn't know where his money was, would Mitt Romney have ended up on *Alcatraz Island* like "Scarface" did?
But the Democrats have also been proven to be just as ineffective (or reluctant) at reforming the tax code (or election and campaign finance laws). It's Congress that writes the tax laws, and the year when they controlled both the House and the Senate, nothing was ever proposed regarding capital gains...with the exception of *ObamaCare®*, when a 3.8% surtax was imposed on investment income (capital gains). And it's for this alone, that the Republicans have wanted to repeal the Democrats' healthcare plan. But it's only beenLATELY that a few more Democrats have finally started complaining about "wealth inequality" and "income disparity" --- or offshore bank accounts. Although, in 2010, they did pass the *Foreign Account Tax Compliance Act*.

Offshore havens vaulted into public consciousness last year with stories about Republican presidential nominee Mitt Romney's accounts in the Cayman Islands (and elsewhere). Recent coverage of the Cyprus banking crisis has thrust the issue back into the spotlight.

U.S. citizens are permitted to move money offshore as long as they report their account information to the Internal Revenue Service. But there have long been concerns that much of the money is not reported and bleeds tax revenue from governments worldwide. Recently, aspects of the offshore world came under assault after whistle-blowers alerted the IRS to thousands of unreported U.S. accounts in Swiss banks, resulting in an amnesty offer to violators who paid billions in fines to the U.S. government.

Among the 4,000 U.S. individuals listed in records reviewed by *The Washington Post* and the ICIJ, at least 30 are American citizens accused in lawsuits or criminal cases of fraud, money laundering or other serious financial misconduct.

They include billionaire hedge fund manager Raj Rajaratnam, who was convicted in 2011 in one of the biggest insider trading scandals in U.S. history, and Paul A. Bilzerian, one of the most famed corporate raiders of the 1980s, who was convicted of securities fraud. Fraud experts say offshore bank accounts and companies are vital to the operation of complex financial crimes. Allen Stanford, a fifth-generation Texan who was a financier and sponsor of professional sports, had contributed millions of dollars to politicians. On February 17, 2009 he was charged for fraud by the SEC for running a Ponzi scheme worth $7 billion in certificates of deposits. He used an offshore bank that he controlled in Antigua. On June 14, 2012, Stanford was sentenced to 110 years in prison.
Bernard Madoff, who ran the largest Ponzi scheme in U.S. history, used a series of offshore “feeder funds” to fuel the growth of his multibillion-dollar house of cards.

The offshore world makes it hard for prosecutors pursuing complex financial crimes to follow the money, because many offshore jurisdictions refuse to recognize U.S. subpoenas and account information is hidden under layers of corporate shells.

“People were trying to hide their money from the IRS, or they were trying to hide their money from law enforcement, or they were trying to hide their money from regulators,” said Paul E. Pelletier, the principal deputy chief of the Justice Department’s fraud section who prosecuted Stanford before entering private practice in 2011. “As a prosecutor, it was very difficult pursuing these people.”

And sometimes when these tax cheats are discovered, our own politicians allows them to escape the law. Bill Clinton had once pardoned one of these notorious tax dodgers. There are records that were reviewed by *The Washington Post* and the International Consortium of Investigative Journalists (ICIJ) that includes tax filings, internal memoranda and e-mails kept by two of these offshore banks, *Commonwealth Trust Ltd.*(CTL) and *TrustNet*.
An attorney for *TrustNet*, which helped create the companies and trusts for many of these offshore clients, declined to comment, referring questions to senior *TrustNet* officials who did not respond to requests to discuss their firm. On their website they post:

> Portcullis TrustNet Group is aware of media reports with information on our Group. We take a serious view of unauthorised disclosure of any confidential information. We are looking into the matter. Meanwhile, controls and safeguards are in place to protect client confidentiality. We are confident that our business activities and client services are legitimate and conducted in compliance with laws and regulations in the jurisdictions in which we operate. If you have further queries, please contact Chris Lee (chris.lee@pc-tn.com) or Morris Yow (morris.yow@pc-tn.com) in our Singapore office.

Brian Callahan, a money manager from Old Westbury, New York, was accused of running a scheme in which he lied to 24 investors who gave him $74.9 million from 2005 to 2012, telling them the money would be put into hedge funds, including those run by *Morgan Stanley*.

In the spring of 2006, Callahan and a *TrustNet* attorney toured the United States with a sales pitch that urged wealthy Americans to invest their money through trusts set up in the Cook Islands. Among the clients that Callahan and the attorney approached was a family that runs a large commercial real estate and casino development company in Baltimore, the Cordish Cos.

At the time, the Cordishes were already in the process of creating four trusts in the Cook Islands through *TrustNet* and the family eventually placed $116 million worth of assets in them, a transfer they disclosed to the IRS. They invested some of the money with Callahan, but instead of protecting their investment, he allegedly swindled the Cordishes out of nearly $12 million, according to previously confidential documents and a civil lawsuit brought by the SEC.

The SEC sued Callahan this past May, alleging that he diverted investor money to help pay for his home in a fashionable Long Island enclave and to underwrite his brother's oceanfront real estate project in Montauk, N.Y. --- Callahan's attorney declined to comment, citing the SEC case and a criminal investigation into his client by federal prosecutors. The Cordishes also declined to comment.

The U.S. Attorney's Office for the Eastern District of New York has opened a criminal investigation and initiated forfeiture proceedings of Callahan's Long Island home and the Montauk real estate project.

For the better part of a century, the U.S. government has been trying to rein in the offshore world. In 1937, Treasury Secretary Henry Morgenthau Jr. wrote to President Franklin D. Roosevelt to warn that millions of tax dollars were being kept in offshore accounts and limited partnerships, including one $3 million account in the Bahamas.

"The companies are frequently organized through foreign lawyers, with dummy incorporators and dummy directors, so that the names of the real parties in interest do not appear," Morgenthau wrote.

For most investors in the United States, the first step to open an offshore account is to contact one of the hundreds of law firms specializing in "asset protection." These firms then call on a sprawling industry of offshore-based middlemen, such as *Commonwealth Trust Ltd.* (CTL) or *TrustNet*. They set up companies and arrange trusts and hard-to-trace bank accounts.

Senator Carl M. Levin (D-Mich.) has been holding hearings and conducting investigations into the offshore world for nearly three decades. In 2010, Congress passed the *Foreign Account Tax Compliance Act* requiring that U.S. taxpayers report foreign assets to the government and foreign institutions alert the IRS when Americans open accounts.

Last February, Levin introduced legislation that would permit the Treasury Department to penalize offshore financial institutions that "significantly" impede U.S. tax enforcement and put an end to accounting practices that enable U.S. corporations to evade billions in taxes.

"We can't afford to lose tens of billions of dollars a year to tax-avoidance schemes," Levin said. "And many of these schemes involve the shift of U.S. corporate tax revenues earned here in the U.S. to offshore tax havens."

The efforts by Levin and a few other lawmakers (such as Senator Bernie Sanders) have been opposed by powerful lobbying interests, including the banking and accounting industries and a little-known nonprofit group called the Center for Freedom and

Prosperity (CF&P). The CF&P was founded by Daniel J. Mitchell (dmitchell@cato.org) a former Senate Finance Committee staffer who works as a tax expert for the *Cato Institute*, and Andrew Quinlan, who was a senior economic analyst for the *Republican National Committee* before helping start the CF&P.

In filings with the IRS, the CF&P says it has “met with more than 175 Capitol Hill offices on benefits of tax competition.” The center argues that unfettered access to offshore havens leads to lower taxes and more prosperity.

According to records reviewed by *The Washington Post* and ICIJ, the organization’s fundraising pleas have been circulated to offshore entities that make millions by providing anonymity for wealthy clients, many of them U.S. citizens.
In May 2007, one director of a Hong Kong company that creates offshore trusts sent aCF&P solicitation to contacts in the Cook Islands, pointing out that CF&P was trying to raise $250,000 for a lobbying campaign to “stop the bleeding, build allies and go on the offensive” against efforts in Washington to regulate the industry.

“I personally think the efforts of CF&P should be supported by the Cook Islands given the impact [that] passage of current bills being considered in the USA Congress would have on the jurisdiction and industry,” the director said.

Attached to the e-mail was the proposal from CF&P to “work with Congress and the White House” and explain the “legitimate role that low-tax countries play in protecting financial privacy.”

Quinlan, the president of CF&P, declined to disclose his donors or say how much of the $200,000 his organization raises each year comes from the offshore world.

“I don’t think it matters what percentage of the money comes from which donor,” Quinlan said. “There are huge offices on K Street that lobby on behalf of interests that are outside the United States. We’re just trying to be as effective as we can be.”

Mitchell, the co-founder of CF&P, added that nations shouldn’t be telling other countries how to conduct their affairs and noted that the United States is one of the worst offenders in the world when it comes to corporate secrecy.

“The United States is one of the biggest tax havens in the world,” Mitchell said. “In general, the United States is impervious to fishing expeditions here, and then the United States turns around and says, ‘Allow us to do fishing expeditions in your country.’”