Inside the Secretive World of Tax-Avoidance Experts

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What the Panama Papers tell us

• where the focus of public interest and policy should be, going forward
  – not so much on economic elites, but rather on professional service providers, like Mossack Fonseca
  – elites benefit from offshore finance, but professionals make the system function in practice
In other words

- while there would certainly be tax avoidance and shady finance with or without firms like Mossack Fonseca...
  - the Panama Papers reveal a global problem whose scale and complexity depend on professional intervention
A view from the inside

• my claims are based on eight years studying wealth managers, including
  – training for two years to earn professional certification in wealth management
  – lengthy interviews with 65 practitioners in 18 countries, including at Mossack Fonseca’s Panama City HQ
What I’ll talk about this morning

• how and why I did the study
  – methodology and motivations

• three key things I learned about wealth managers
  – how they operate
  – how they see themselves
  – why governments aren’t stopping them
Why study wealth managers?

- even before the Panama Papers, and the earlier leaks in Luxembourg and Liechtenstein...
  - wealth inequality was exploding
One percent of the world population owns half of the world’s wealth

Who made that happen?
Why study wealth managers?

• even before the Panama Papers, and the earlier leaks in Luxembourg and Liechtenstein…
  – wealth inequality was exploding
  – tax avoidance by the wealthy was rampant
Remember Mitt Romney in 2012?

This is how income from a $250 million fortune gets taxed at just 13.9% — but who made that happen?
Why study wealth managers?

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  – wealth inequality was exploding
  – tax avoidance by the wealthy was rampant
  – so was debt avoidance by the wealthy
Example: Kevin Trudeau

This man was convicted of fraud and ordered to pay the US government $37.5 million.

That was in 2007.

To this day, the US has been unable to collect, because Trudeau’s fortune was put into a Cook Islands trust—making his millions untouchable.

Who made that happen?

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Beyond the usual suspects

• discussions of offshore finance almost always focus on two social actors
  – the state, as the source of tax policy and enforcement
  – the rich, who grow richer from these tactics

• this account is incomplete
  – it ignores the experts who create the offshore corporations, trusts and strategies
  – elites don’t do this themselves: this is where firms like Mossack Fonseca carve out their niche in the economy
Who are wealth managers?

• an emergent profession
  – composed primarily of lawyers, accountants, tax advisers and bankers
  – specializing in keeping wealthy clients’ assets out of the hands of states, disgruntled heirs and creditors
  – their skill lies in designing strategies that stay within the letter of the law while violating it in spirit
  – tax avoidance is just the tip of the iceberg: law avoidance is the broader aim
How I studied them

• trained as a wealth manager
  – earned credentials through STEP, the professional society for wealth managers, which represents 20,000 practitioners in 95 countries

• though I was never employed as a wealth manager, the credential allowed me to
  – learn the state-of-the-art techniques
  – gain access to interview participants and archival materials, without going undercover
Where I went

- Johannesburg: 5
- New York: 4
- Channel Islands: 4
- London: 3
- Zurich: 1
- Vaduz: 1
- Seychelles: 2
- Mauritius: 4
- Dubai: 3
- Singapore: 2
- Montevideo: 1
- Buenos Aires: 2
- Panama City: 4
- British Virgin Islands: 3
- Cayman Islands: 4
- Geneva: 7
- Hong Kong: 4
- Shanghai: 1
- Cook Islands: 4
- British Virgin Islands: 3
- Los Angeles: 3
- Chicago: 2
- Montevideo: 1
- Johannesburg: 5

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Key findings

1. How wealth managers operate.
Financial-legal innovation

• scattering assets far and wide
  – creating “mazes” of offshore corporations and trusts, spread across multiple countries
  – with little to no public record of ownership or assets

obscuring asset ownership means the near impossibility of imposing legal obligations, such as taxes, debt repayment, adherence to trade sanctions, etc.—it’s just too costly for most governments and creditors to hunt through the maze
“Hacking sovereignty”

• strategic exploitation of the geographical limits of state borders and legal control
  – the nation-state system and territorial taxation were designed for a low-mobility world
  – but for today’s ultra-mobile rich, national laws are just a set of “shopping” opportunities
Key findings

2. How wealth managers see themselves and their work.
Painful awareness of bad reputation

"Bad people. Doing bad things."

"It's snappy, it's today -- I like it."

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Versus heroic self-image

Armour for your assets

(image from November 2014 STEP Journal)
Three basic orientations

• the wealth defenders
  – opposed to taxation and redistribution on principle
  – the dominant point of view in STEP publications

• the mushy middle
  – focused on technocratic issues and the immediate consequences of their work, such as “helping families”

• the conscience-stricken
  – concerned about the broader impacts of their work, and sympathetic to negative public perception of it
  – engaged in “consciousness-raising” and philanthropy
3. Why governments aren’t stopping them.
Two reasons

• massive conflicts of interest
  – at the personal level as well as institutionally
  – example: Prime Minister David Cameron and the role of the City of London in the UK economy

• the power of wealth managers
  – onshore, they have access to influence the highest levels of government
  – offshore, they literally write the laws
What can be done?

• focusing on tax policy for the rich has not worked
  – the failed European Savings Tax Directive
  – France and the wealth tax as cautionary tale

• focus on the wealth managers instead
  – Israel succeeded by co-opting wealth managers, changing the incentives for compliance by the professionals—not their wealthy clients
What I’m doing

• continuing what the Panama Papers started by promoting public understanding of offshore
  – articles in the popular press in the US and Europe (see [www.brookeharrington.com](http://www.brookeharrington.com) for links)

• advising policy-makers
  – June talk at OECD Forum, Paris
  – work with Danish tax evasion task force

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Your questions?

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Making the rich richer

1st key point of intervention by wealth managers
limit dissipation, increase accumulation

Income

taxes (-)
debts & penalties (-)
surplus (+)
growth (+)

2nd key point of intervention by wealth managers
steer clients toward exclusive investment opportunities with high profit potential, protected from downside risk

inherited (+)
debts & penalties (-)
surplus (+)
growth (+)
taxes (-)

3rd key point of intervention by wealth managers
concentrate wealth within families, generating new income; reduce dissipation from family conflicts, spendthrift heirs, family business risks

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