

Secret Agent 007: Tax Havens

by

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There is a secretive banking world where specific information about identity, disclosure and transactions are unknown, even to law enforcement authorities acting with court orders. In contrast, the American public and the world can eventually learn about CIA activities in declassified documents. In this secretive world, rich people, transnational corporations, terrorists and drug racketeers practice tax evasion, fund terrorist activity and conduct illegal operations. The following is a partial list of nations with tax havens where money laundering thrives: the Bahamas, the Cayman Islands, the Cook Islands, Dominica, Israel (I was surprised about this, too.), Lebanon, Liechtenstein, the Marshall Islands, Nauru, Niue, Panama, the Philippines, Russia, St. Kitts and Nevi, St. Vincent and the Grenadines.

Taking the Cayman Islands as his centerpiece, British reporter and private investigator, William Brittain-Catlin explores this secretive world in his book, *Offshore: The Dark Side of the Global Economy*.

Where is the world's fifth largest banking center? If you said the Cayman Islands, you were right. With 40,000 inhabitants, this island group has 580 bank and trust companies, 65,000 registered companies and holds more than \$700 Billion in external assets. Do not bother to look for these companies in the islands. You will find no sales person, no account representative, no office, no receptionist nor even a telephone listing. If you pay 54 Cayman dollars, you can get a "non-descript half-page printout from a database". This is the information model:

Company Information

Complete Name
Registration State
Registration File No.
Registered Office/Agent
Type of Company
Status of Company

This is the only information we provide on company search.

This is reminiscent of war prisoners who are only required to disclose their name, rank and serial number.

Multinational corporations can lower tax liability by a practice known as transfer pricing. Companies report their expenses in high taxing countries and report their revenue in low taxing countries. An example is what Chevron Exxon, Mobil and Texaco did in the 1980s and early 1990s. Saudi Arabia sold crude oil the American companies at below-market prices. The companies sold the crude without markup to their non-US refining affiliates. The affiliates then sold the refined product at market prices putting the earnings outside US tax jurisdiction. The Internal Revenue Service cited improper sales reporting to the affiliates and went to court. Chevron and Mobil reportedly settled out of court but Exxon and Texaco pursued and won their cases in 1997. In my mind, price transfer is a fancy name for fraud. Make the price transfer activity illegal.

Why do national governments allow these tax havens to exist? One measure would be to forbid any transfer, direct or indirect to any tax haven or any jurisdiction including Switzerland that does not cooperate with law enforcement. This would leave dictators, drug racketeers, terrorists and tax evaders without a place to hide their money. Hopefully, the Obama administration will lead in calling for international cooperation. It does not have to be the United States. Any country will do. Since I live in Colombia now, I am hoping that the Santos administration would take such a step.

Many corporate critiques have stated that human beings who act like corporations, who are indifferent to social, moral or environmental damage, would be considered psychopaths. William Brittain-Catlin comes close to this, "We live in the era of offshore capitalism -where no one or nothing can remain rooted to its government except through force of war and violence, total sacrifice to the market, and the dehumanizing hunt for more extreme forms of self-protection that war and the market impose on us". He accuses the offshore world (corporations) of "harboring within it every concealed and corrupt intention imaginable, encouraging and reinforcing antisocial behavior of every description".

Philosophy majors will be interested in some heavy thoughts about corporate secrecy described in pages 28-30 and 117-148, which involve writings from Rousseau and Kant.

Governments are making some feeble efforts to address money laundering. The Financial Action Task Force on Money Laundering (FATF) is an inter-governmental body founded in 1989 by the G7. To be sure, the tax havens increased cooperation with law enforcement authorities after 9/11. However, the offshore world is still intact, putting James Bond in the shadow.

The best answer is to make any transfer to a tax haven a felony offense.

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Main source:

William Brittain-Catlin, *Offshore: The Dark Side of the Global Economy*, Farrar, Straus and Giroux, 2005, 272 pages.