Tax Havens:
The Underbelly of International Expansion

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Tax Havens

“Only the little people pay taxes.”

• Leona Helmsley (before she went to prison)

390+

“Get your↑billion back, America!”

• With apologies to H & R Block
Apple – Poster Child for Int’l “Tax Planning”

- Called in front of Congress 2012 & 2013
- U.S. Corp with the most cash offshore
  - $74B/67% of cash
- Particularly aggressive schemes
- Is it illegal?
- How did it get there?
- Should it/can it be changed?
Where is the Cash?
What’s a Tax Haven Anyway?

- Tax Haven Characteristics
  - Secrecy laws
  - Different treatment for locals
  - Able to safely move large amounts of $$
  - Stable political environment
    - May be good or bad
    - Most are small
    - Strongly influenced by financial interests elsewhere
Where is the Cash?

Source: Transnationale.org
# Where is the Cash?

## Largest Tax Havens

<table>
<thead>
<tr>
<th>British Circle</th>
<th>U.S. Circle</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bahamas</td>
<td>USVI</td>
<td>Seychelles</td>
</tr>
<tr>
<td>BVI</td>
<td>Panama</td>
<td>Mauritius</td>
</tr>
<tr>
<td>Isles of Man, Jersey &amp; Guernsey</td>
<td>Delaware, Nevada, Montana, etc.</td>
<td>Netherlands</td>
</tr>
<tr>
<td>Singapore</td>
<td>Cook &amp; Marshall Islands</td>
<td>Ireland</td>
</tr>
<tr>
<td>Bermuda</td>
<td></td>
<td>Luxembourg</td>
</tr>
<tr>
<td>H.K.</td>
<td></td>
<td>Cyprus</td>
</tr>
<tr>
<td>Caymans</td>
<td></td>
<td>Dubai</td>
</tr>
<tr>
<td>City of London</td>
<td></td>
<td>Switzerland</td>
</tr>
</tbody>
</table>
Where is the Cash?

• Legally, on the books of companies located in tax havens
• Physically? In U.S. bank accounts, CDs, & other bank investments
• It’s also invested in real estate, foreign corporations, stock, art, yachts, and pretty much anywhere you’d find money invested
A LOT of Cash Sits Offshore

• How Much?
  – Criminal Activity: ??
  – Wealthy Individuals: at LEAST $21-31 TRILLION
    • U.S. %: 30?
  – Multi-national Corporations
    • U.S.-based: $3.1 TRILLION (60% of cash assets)
    • EU-based: $1.4 TRILLION in lost taxes annually (5.6T?)
    • Rest of world??
The Offshore Economy is Thriving

U.S.

GDP (in $Trillions)

16.2
The Offshore Economy is Thriving

GDP (in $Trillions)

- Japan: 6 Trillions
- U.S.: 16.2 Trillions
The Offshore Economy is Thriving

- Germany: 3.4 Trillions
- Japan: 6 Trillions
- U.S.: 16.2 Trillions
The Offshore Economy is Thriving

- U.K.: 2.5
- Germany: 3.4
- Japan: 6
- U.S.: 16.2

GDP (in $Trillions)
The Offshore Economy is Thriving

GDP (in $Trillions)

- France: 2.6
- Germany: 3.4
- UK: 2.5
- Japan: 6
- U.S.: 16.2
The Offshore Economy is Thriving

- China: 8.2
- France: 2.6
- Germany: 3.4
- UK: 2.5
- Japan: 6.0
- U.S.: 16.2

GDP (in $Trillions)
Offshore is Growing Rapidly

Offshore Assets In T$ - 50 largest private banks
U.S. GDP in T$
U.S. Corp Cash Offshore
• Conservatively, the U.S. is losing (or shifting) at least $390 billion annually in taxes.
Where is the Cash?

• It’s EVERYWHERE
• Most NOT sitting in Swiss Bank Accounts
  – It sits on the books of offshore companies
  – Physically is in the U.S., Europe bank accounts, land, and other investments
• Tax Havens allow Cash to slip into the cracks between countries
Why is it There?

- Tax avoidance/minimization
- Secrecy/privacy
- Competitive advantage/avoid competitive disadvantage
- Low-cost funding for operations
- Lawsuit protection
- [Laundering money]
How Did It Get There?

- Offshore Manufacturing
- Offshore Licensing
- Foreign Acquisitions by Foreign Entities
- Sales by Foreign Companies
How Did It Get There?

<table>
<thead>
<tr>
<th>Cost</th>
<th>15</th>
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<tr>
<td>Price</td>
<td>100</td>
</tr>
<tr>
<td>Profit</td>
<td>85</td>
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How Did It Get There?

<table>
<thead>
<tr>
<th>Cost</th>
<th>5</th>
<th>75</th>
<th>85</th>
<th>95</th>
</tr>
</thead>
<tbody>
<tr>
<td>Price</td>
<td>70</td>
<td>80</td>
<td>90</td>
<td>100</td>
</tr>
<tr>
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How Did It Get There?

Dutch Holding Company

$ New Offshore Investments
How Did It Get There?
How Did it Get There?

- Ugland House, Cayman Islands
- Headquarters for nearly 19,000 companies (2008)
- More than 80,000 companies registered in Caymans
Offshore Companies: Easy to Form!

We have registered 100,000 companies
Fast, professional and personal service
Welcome to the Market Leader in Offshore Company Formations, with over 21 Jurisdictions available...
How Did It Get There?
How Did it Get There?

- 1209 N. Orange Street, Wilmington, Delaware
- Headquarters for more than 217,000 companies (2010)
- Total number of companies registered in Delaware & other select states: unknown
Should We Do Anything About It?
Should We Do Anything About It?

- Free flow of capital
- Governments already take too much in taxes!
- Some of the investment does trickle down
  - Jobs, infrastructure, etc.
- Too big/too complicated to stop
What are the Implications?
What are the Implications?

• Higher taxes, higher deficits & slower growth
  – Incredible wealth shift

• Breeds disrespect & cynicism
  – No taxation without representation! (disenfranchisement)
  – Makes a mockery of anti-corruption laws

• Creates financial instability (no transparency in reserves)

• Disadvantages smaller businesses

• Entrenches regimes in developing countries
  – In the Tax Havens
  – In other developing countries

• Encourages illicit activity

• Makes it harder to change
What Should We Do About It?

• Current Options
  – One-time U.S. repatriation
    • Would pump more $$ into economy short-term
    • 2004 repatriation did not lead to more jobs or R & D
  – Lower Corporate Tax Rates
  – Public shaming
  – Confiscation of accounts (Cyprus-style)
What Should We Do About It?

• OECD Plan (12-15/24 month plan)
  – 12/15-month plan
    • Eliminate double-taxation
    • Eliminate long-term tax deferral
    • Revise transfer pricing rules
    • Ensure transparency for tax authorities
  – 24-month plan
    • Harmonize rules on controlled foreign companies
    • Prevent artificial avoidance of permanent establishment
    • Implement mandatory disclosure of aggressive tax planning
What are the Options Today?

Other Possibilities:

- Eliminate income tax deferrals
- Implement Unitary Taxation
- EU Tax Info-Sharing Scheme
- Insist on corporate transparency in
  - Corporate formation
  - 10Ks/10Qs
- Insist on developing country transparency as a condition of giving aid
Eliminate Tax Havens!

• “I recommend elimination of the "tax haven" device anywhere in the world, even in the underdeveloped countries... there is no valid reason to permit their remaining untaxed regardless of the country in which they are located.”
Eliminate Tax Havens?

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- President John F. Kennedy, April 1961
Eliminate Tax Havens?

Luxembourg kills EU tax haven crackdown

- Tiny bank-rich nation vetoes plan that would close tax loopholes
  - The Associated Press Posted: Mar 12, 2014 1:40 PM ET Last Updated: Mar 12, 2014 1:40 PM ET
Eliminate Tax Havens?

Forbes Study: The 67 People As Wealthy As the 3.5 Billion Poorest

— Forbes: Mar 25, 2014
What Do You Think?

• Every single U.S. taxpayer should care about the topic
We’d Love to Continue the Dialogue!

- Blue Sky Consulting
  - Call us: +1 847 984 2816
  - Email us: info@blueskyconsultingservices.com

Thank You!