

OFFSHORE ENTITIES IN TAX HAVENS: THE PANAMA PAPERS EXPLAINED

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It has been about three weeks since the release of the "[Panama Papers](#)" set news outlets abuzz. The documents and related news articles identified politicians, celebrities, and other prominent public figures as clients of a Panamanian law firm, [Mossack Fonseca](#), and as participating in offshore entities and companies structured to hide assets and/or avoid taxes.

What are the Panama Papers?

About a year prior to their release to the public, the collection of about 11.5 million documents taken from **Mossack Fonseca**, called the "Panama Papers", were provided to a German newspaper [Süddeutsche Zeitung](#) by an anonymous source.

The newspaper enlisted the assistance of the [International Consortium of Investigative Journalists](#) as well as other news agencies to sort through and validate the documents. About 400 journalists in 80 different countries were involved in reviewing the records. The documents, which are records of the law firm from 1977 through December 2015, identify secret shell companies and offshore accounts of [politicians, public officials, and celebrities](#). The documents include e-mails, contracts, transcripts, and bank records and exceed 2.6 terabytes of data.

According to the records, Mossack Fonseca...

- aided its clients in structuring offshore entities and maintaining bank accounts in order to hide their ownership of assets and minimize or avoid taxes.
- structured more than 300,000 companies and facilitated financial accounts with major institutions, including Deutsche Bank, HSBC, Société Générale, Credit Suisse, UBS, Commerzbank and Nordea. The law firm is connected with clients in more than 200 countries and territories.

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On April 3, 2015, the first news stories were published, identifying prominent public figures who were clients of Mossack Fonseca and involved in utilizing offshore financial arrangements. The International Consortium of Investigative Journalists reported that the documents identify foreign accounts of 128 politicians and public officials, including 12 current and former world leader and 29 billionaires on *Fortune's* list of the world's 500 richest individuals.

Clients of Mossack Fonseca included...

- Current and former leaders in Argentina, China, Pakistan, Ukraine, Saudi Arabia, and Qatar were named, as well as associates of Russian president Vladimir Putin.
- Iceland's Prime Minister, Sigmundur Davíð Gunnlaugsson, has stepped down as Prime Minister after documents showed he held interests in offshore companies with stakes in the Icelandic banks he bailed out during the 2008 financial crisis.
- United Kingdom's Prime Minister David Cameron and his family were identified as owning shares in an offshore entity organized through Mossack Fonseca.

What is the response to the Panama Papers?

A memorandum drafted by a partner of Mossack Fonseca, [included in the Panama Paper](#) documents stated: "Ninety-five per cent of our work coincidentally consists in selling vehicles to avoid taxes."

Government & Financial Institution Responses

- To date, governmental agencies in Australia, Austria, Bangladesh, France, Germany, Italy, India, New Zealand, Panama, Thailand, Tunisia, Sweden and the Netherlands announced investigations based on information contained in the Panama papers.
- The Royal Bank of Canada announced it launched an investigation going back 40 years for any link to Mossack Fonseca.
- The National Directorate of Taxes and Customs of Columbia launched an official investigation into Mossack Fonseca Columbia, a subsidiary of Mossack Fonseca.
- The Swedish government announced it launched an investigation into the involvement of Nordea, one of the largest financial institutions in the country, as well as banks Handelsbanken, SEB and Swedbank.

With respect to the Panama Papers, Peter Carr, spokesman for the Justice Department's criminal division, stated:

"We are aware of the reports and are reviewing them. While we cannot comment on the specifics of these alleged documents, the U.S. Department of Justice takes very seriously all credible allegations of high-level, foreign corruption that might have a link to the United States or the U.S. financial system."

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So why are the Panama Papers a big deal?

Last week, the IRS and other Treasury officials participated in discussions with other countries' tax and finance agencies in a [Joint International Tax Shelter Information and Collaboration network](#) to discuss the data and information disclosed in the Panama Papers and the resulting civil and criminal investigations.

The IRS stated:

"People hiding assets offshore should recognize the continued changes and progress in the international tax arena... More than ever, their best option remains to come forward voluntarily and participate in the IRS Offshore Voluntary Disclosure Program."

It added: "We will be closely monitoring the situation along with our international tax administration partners as we determine what steps to take to ensure compliance with U.S. tax laws and meet our shared global interests."

While it is not illegal to have an offshore bank account or hold interests in an offshore entity, it is illegal to have an account for the specific purpose of hiding assets or avoid paying taxes. The Republic of Panama has [long been identified](#) as a "tax haven" and individuals engaging in improper offshore financial dealings may be investigated and prosecuted for a myriad of federal crimes, including tax evasion, structuring, money laundering, and mail or wire fraud.

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