

Excerpt from eBook

The IRS - Panama Papers - US Taxpayers With Offshore Entities

Introduction: IRS Panama Papers Update
U.S. Treasury Department Expanding Hunt
for Money Laundering in Real Estate
Paul Manafort and the Panama Papers

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Gary S. Wolfe has over 34 years of experience, specializing in IRS Tax Audits and International Tax Matters including: International Tax Planning/Tax Compliance, and International Asset Protection.

As of July 2016, Gary Wolfe has internationally published 15 books and 28 articles. Gary has received 14 international tax awards from five different Global expert societies in LONDON/UK including being voted one of the 100 leading world's law firms with votes from over 150,000 voters in over 160 countries with the following award: Global 100 (2016) (KMH Media Group) - CA/US International Tax Planning Law Firm of the Year.

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Chapter 1 – Introduction: IRS Panama Papers Update

In 2016, the Panama Papers showed the worlds wealthiest people used offshore entities: corporations, trusts, foundations and nominees (i.e. “straw persons”) to conceal ownership of trillions of dollars in assets. These offshore companies, though not illegal if formed for legitimate purposes (e.g. Privacy, confidentiality for assets) seem to be part of a worldwide corruption of political bribery, money laundering, tax evasion, terrorism financing, and illegal income (from drug dealing, arms sales, and human trafficking).

The fall-out has been explosive: the Prime Minister of Iceland resigned, the Prime Minister of Pakistan is under “fire”, the former President of Argentina Nestor Kirchner, deceased, and former President his widow, Fernandez de Kirchner are embroiled in money laundering allegations as their top aide, Sergio Todisco (who Argentina prosecutors reveal had \$2000 per month income) spent nearly \$65m on ultra-luxury Miami condos, NY apartments and Florida strip malls without apparent funds needed to make these often all-cash purchases. Argentina’s current President, Mauricio Macri has been linked to an offshore company in the Panama Papers. A judge in Argentina has ordered an inquiry into his tax returns.

International soccer star Lionel Messi (and father) were convicted in Spain of tax evasion and assessed multi-million dollar fines and sentenced to 21 months in jail based on evidence uncovered in the Panama Papers.

If the allegations were unsupported by evidence they could be easily ignored and dismissed as an “attack on the rich” or demonizing “political opponents. In the Panama Papers case, hundreds of international journalists (in nearly 80 countries, working in 25 languages, with more than 100 media companies around the world) reviewed 11.5m files leaked from Panamanian law firm Mossack Fonseca, and analyzed 2.6 terabytes of information: e-mails, financial information and spread sheets. They found hundreds of thousands of wealthy people set up hundreds of thousands of offshore companies (known as shell companies) with straw persons i.e. Nominees to act as Owners of record, company officers, directors and agents. The offshore tax havens in the British territories were the jurisdiction of choice for the companies e.g. Over 100,000 companies set up in the British Virgin Islands alone.

The Panama Papers links offshore assets, the world’s wealthiest people, major tax and other crimes to money laundering where the illicit funds (whether from tax evasion, drug dealing, arms trafficking or other crimes) are used to purchase expensive assets with real estate being the “asset of choice”. In the words of Charles Intrigo, a former Federal Prosecutor and anti-money laundering expert “Real Estate is the major open territory for criminal, corrupt public officials, and money launderers.

The rewards are too great and the risks of being caught are too low.”

For US taxpayers with offshore entities there are highly specialized, intricate US tax rules for disclosure and tax compliance required annually. The Foreign Grantor Trust, Controlled Foreign Corporations, and Passive Foreign Investment Company tax rules require extensive compliance and the risk of non-compliance are both serious Civil and Criminal penalties. In addition, for those US taxpayers in the “chain” of asset purchases with illicit funds used to launder money by buying expensive assets face a trilogy of felonies money laundering, wire fraud, and mail fraud (all 20 year felonies). If the US taxpayers involved in the asset purchases receive any funds from foreign Investors which were the subject of tax evasion in a foreign country, under a recent Supreme Court case Pasquantino (2005) they may be held liable for wire fraud (in this Case the wire fraud was an inter-state telephone call) as well as additional prosecution for money laundering (ie. Tax evasion as a predicate offense also known as an “SUA” specified unlawful activity for money laundering).

Chapter 3 – U.S. Treasury Department Expanding Hunt for Money Laundering in Real Estate

On 7/27/16 the US Treasury Dept. expanded its hunt for international criminals who launder money through all cash US real estate purchases. Beginning August 2016, the US Treasury has ordered title companies to report all cash buyers' identities for expensive US residential real estate (homes, condos) in major US cities.

The Treasury Program, seeking to unmask the individuals behind shell companies that buy US real estate, commenced in January 2016 for Manhattan and Miami-Dade County Florida.

Effective August 2016 the program is expanded to require reporting for all cash purchases at the following sales prices:

- 1) New York City: \$3m (Manhattan); \$1.5m other NYC boroughs
- 2) Florida: Miami-Dade County, Broward and Pam Beach counties (\$1m)
- 3) California: Los Angeles, San Francisco Bay Area and San Diego (\$2m)
- 4) Texas: San Antonio (\$500k).

As stated by US Treasury Dept. Financial Crimes Enforcement Network (Fincen) Acting Director, Jamal El-Hindi: ""By expanding to other major cities we will learn more about the money-laundering risks in the national real estate markets".

For more info see: [FinCEN Expands Reach of Real Estate "Geographic Targeting Orders" Beyond Manhattan and Miami](#)

Chapter 4 - Paul Manafort and the Panama Papers

Paul Manafort, the campaign manager for Republican Presidential candidate, Donald Trump, has been linked to Ukrainian clients named in the Panama Papers. The anonymity offshore shell corporations provide individuals is a stated reason for their use in order to keep assets owned as confidential information. Although there are both legal and benign reasons for using these offshore shell corporations both the anonymity and lack of transparency into where their money originates and is invested makes them vehicles for funneling illicit gains into elite assets.

A recent World Bank Study of 213 major global corruption cases found that 70% of them involved the use of at least one secret corporation to hide true ownership. Currently, it is unknown whether Manafort had any involvement with these Ukrainian clients' shell companies since inquiries made by the publication Fusion requesting comment from Manafort and the Trump campaign were not returned.

Fusion.net (Adam Weinstein and Laura Juncadella) in 7/16 [reported](#) that Paul Manafort, Trump's campaign manager appears to be linked to pro-Russian politicians and Ukraine industrialists in his capacity as a political consultant. Manafort has advised former Ukraine President, Vitktor Yanukovych who won the Ukraine Presidency in 2010 and was then deposed in 2014 by a popular Ukraine uprising and now lives in Russia. Yanukovych and his Party of Regions were alleged to funnel government Money to his "family" of oligarchs and party supporters. A 2007 US embassy cable describes the Party of Regions inner circle 'Ukraine's history is marred with non-transparent privatizations that have benefitted a few well-connected insiders'. Manafort was described by Boris Kolesnikov a Yanukovich party insider as "one of a lot of good people" consulting Ukraine's politicians.

Two of the offshore Ukrainian clients have a US nexus:

1) Oleg Derispaska, a Russian oligarch, who has been called "Vladimir Putin's favorite industrialist" partnered with Manafort in 2007 to form a Cayman Islands based Investment company. Manafort's firm was reportedly paid \$7.4m in fees by Derispaska who then invested \$18.9m to buy a Ukrainian telecom firm. Derispaska eventually pulled out, demanded his money back from Manafort which was never returned according to a lawsuit filed in Virginia by Cayman liquidators. The case is ongoing. Deripaska is barred from US travel over alleged organized crime ties, which he denies.

2) In another lawsuit against Manafort and several associates, former workers in a company he formed with an ex-Trump real estate employee allege that they didn't receive their promised salaries. According to court filings, the company set up a billion dollar US based property investment vehicle for Dmitro Firtash a Yanukovych insider and billionaire Ukrainian. The court filings allege that Manafort and Firtash worked together on other deals including an abandoned \$850m plan to buy the Drake Hotel in New York.

Firtash is wanted by authorities in Washington on suspicion of bribery and organized criminal activity, he was arrested in Austria in 2014 and the US seeks his extradition.

Whether Manafort is involved with any of the offshore dealings revealed by the Panama Papers is not currently known. What has been revealed is that Manafort has made Millions of dollars working for and with parties now being identified as owning shell companies offshore by the Panama Papers. Time will tell the extent of those ties.

