

# International Tax Evasion, Money Laundering and U.S. Real Estate - Part 1



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Published on [www.lorman.com](http://www.lorman.com) - July 2018

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# THE WOLFE LAW GROUP

The Wolfe Law Group is an international array of legal and tax experts providing collaborative services for Global High Net Worth Investors on a per client basis.

Gary S. Wolfe, A Professional Law Corporation has over 35 years of experience providing clients with expertise for IRS Civil and Criminal Tax Audits, International Tax Planning, and International Asset Protection.

## **Awards**

Since 2015 Gary have been the recipient of 29 separate international tax awards from 10 different global expert societies in London/UK including:

International Tax Planning Law Firm of the Year Award (2017) – International Advisory Experts.

International Tax Advisor of the Year (2017) - Global Business Magazine/Prof. Sector Network.

[Click here for complete list.](#)

## **Books**

To date Gary has written 18 e-books [\(available on Amazon\)](#) regarding the IRS, International Tax Planning and Asset Protection. [Click here for complete list.](#)

## **Articles**

To date Gary has published or been interviewed in 100+ separate articles published by 15 different US and International magazines. [Click here for complete list.](#)

## **Video**

In December 2016 Gary was interviewed by California CEO Magazine and RCBNNNews.org on the subject of Criminal Tax Evasion and IRS Tax Audits: Civil and Criminal Issues. This 4 part series, which has been published by [Lorman Education](#), can be viewed below:

[Criminal Tax Evasion - Part 1](#)

[Criminal Tax Evasion – Part 2](#)

[Criminal Tax Evasion – Part 3](#)

[Criminal Tax Evasion – Part 4](#)

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# **International Tax Evasion, Money Laundering and U.S. Real Estate – Part 1**

*Written by Gary S. Wolfe*

In the film THE STING (David Ward screenwriter) the story told unveils a plan to “burn” gangsters and “take their money”.

Perhaps the latest real life version in 2018 is the IRS STING new tax rules issued in 2016 by the U.S. Treasury Dept. Geographic Targeting Order (GTO) to track the illicit funds flowing into luxury U.S. residential real estate from secret buyers (many of whom are foreign). The GTO concentrated on primary targets: New York, California, Florida, and Texas.

In 1/16 the U.S. Treasury issued a GTO to require title (escrow) companies to identify and track down the secret buyers of high-end U.S. real estate. The NY Times (1/13/16 Louise Strong) reported that nearly ½ of U.S. homes purchased used “Shell Companies” (with NY & LA higher).

The new rules require the disclosure of the purchaser/owner identity for all cash purchases of luxury residential real estate. The investments vehicle being scrutinized for these U.S. investments are Single Member US LLCs (US LLC) used by foreign investors to purchase U.S. real estate.

The new U.S. Treasury rules as of 8/16 require U.S. title (escrow) companies to report all cash buyer's identities who purchase luxury U.S. residential real estate over threshold limits in the following places: New York (Manhattan/\$3m, other boroughs/ \$1.5m), CA \$2m (LA/SF/SD), Texas (\$500k), FLA (\$1m).

The chilling market effect has been seen in 2017 in the New York real estate market. Manhattan real estate sales were down 12%. Prices declined in 2017/4<sup>th</sup> Qtr (new development prices fell by 17%).

Foreign buyers use U.S. real estate as a "safety deposit box". They buy high-end homes and condos in major cities which they never use but keep for "investment". Their source of funds is not scrutinized by the U.S. real estate/other professionals who facilitate their sales. Shell company purchases by their U.S. LLCs hide their identity exempting them from tax reporting due. Their concealment of ownership stymies investigations (audits or otherwise) into the source and legality of their funds.

The NYC Real Estate/Time Warner Condos/Project is replete with a long list of foreign politicians, international investors of "many stripes." Many of their reputations, & source of funds remain unknown (at best) as the real owners in interest hid behind nominees, shell companies which mask buyer identity by "layering" (placing a "string of shell companies on top of other shell companies").

The actual owner of the real estate in many cases is a person of ill repute, corrupt politician or tax cheat. Billions of dollars of

sales in prime luxury U.S. real estate has been bought with these illicit funds from criminal foreign buyers. The actual owner in interest hid their identities, exploited a reporting tax loophole which exempted Single Member U.S. LLCs from filing information returns (or other tax returns) which exemption was revoked 1/16 by Final Treas. Reg. 1.6038.

On 7/27/16 the IRS attacked and initiated a "HUNT" for international criminals who launder their ill-gotten gains thru all cash U.S. real estate purchases hidden behind a U.S. LLC. The U.S. Treasury Dept. ordered all title companies in "expensive residential real estate locales (NY, CA, FLA, TX) to require escrow/title companies to report the owner identities of shell companies or not be able to close the escrow sale.

The Federal Government has set up a new federal database to track beneficial buyers of U.S. real estate using information from title companies who must identify buyers, submit information to the Federal Govt. for use by Federal law enforcement agencies. Title companies identify the beneficial owner and include copies of driver's license/passport, which is sent to the U.S. Treasury (under their new policy: naming requirements).

The Federal Government is aggressively pursuing these types of cases. The FBI has set up a special division to work with the U.S./DOJ to investigate shell companies (esp. with foreign purchasers) focused on all cash purchases, money laundering for high-end U.S. residential real estate in prime American locations. This new FBI division has a joint collaboration with the US DOJ and has legal authority across America.



The US Treasury Dept. is not looking for the nominees or “straw owners” but the real owners in interest, i.e. the beneficial owner.

For these purposes a beneficial (actual) owner is defined as one who owns a 25% or more of the “equity interests” of the entity that bought the property.

As part of their planning strategy for “confidentiality” foreign investors used a 2 Tier financing strategy in which they invested funds in a Single Member U.S. LLC which then made a 25%+ direct investment in a U.S. corporation.

Now their 25% direct investment in a U.S. reporting company triggers inclusion of the U.S. LLC (and actual owner) for Form 5472 filings below.

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