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IRS Issues John Doe Summons To FedEx, DHL, UPS, HSBC In Massive Offshore Account Hunt

A [federal judge approved](#) the IRS [issuing summonses](#) requiring FedEx, DHL, UPS, and a bevy of other handlers to produce information about U.S. taxpayers who used [Sovereign Management & Legal Ltd.](#) for offshore accounts and assets. They include Western Union Financial Services Inc., the Federal Reserve Bank of New York, Clearing House Payments Company LLC, and HSBC USA.

The IRS uses John Doe summonses to obtain information when it searches for tax fraud by individuals whose identities are unknown. This is a sweeping [order](#), allowing the IRS to get records from all of these companies. The target is any U.S. taxpayers who, from 2005 through 2013, used Sovereign's services to control foreign accounts or entities. That is likely to be a long list.

The IRS may face budget cuts, but the hunt for offshore evaders continues, this time out of a DEA operation. A DEA investigation of online narcotics trafficking got the IRS on to Sovereign, a company allegedly helping U.S. clients evade taxes. A taxpayer in the IRS offshore program ([OVDP](#)) reported that [Sovereign set up his Panamanian shell](#), so now Sovereign is in the hot seat.



Sovereign is a multi-jurisdictional offshore services provider that offers clients the formation and administration of anonymous corporations and foundations in Panama as well as offshore entities. Related services provided by Sovereign include the maintenance and operation of offshore structures, mail forwarding, the availability of virtual offices, re-invoicing, and the provision of professional managers who appoint themselves directors of the client's entity while the client maintains ultimate control.

Sovereign uses Federal Express, UPS and DHL to correspond with U.S. clients, and Western Union to transmit funds. Wire services operated by the FRBNY and Clearing House, and U.S. accounts HSBC USA holds for Sovereign's banks in Panama and Hong Kong should produce a trove of Sovereign's U.S. clients who may be avoiding or evading taxes.

Remember, bank secrecy was *initially* broken by the John Doe summons. In 2008, the [John Doe summons](#) blew the lid off the hushed world of Swiss banking. A judge allowed the IRS to [issue a John Doe summons to UBS](#) for information about U.S. taxpayers using Swiss accounts. That eventually led to Americans scrambling for cover and UBS forking over names and a \$780 million penalty.

With a normal summons, the IRS seeks information about a *specific* taxpayer whose identity it knows. In contrast, a John Doe summons allows the IRS to get the names of *all taxpayers* in a certain group. The IRS needs a judge to approve it, but recent IRS success may lead to more.

A John Doe summons is ideal for pursuing tax shelter investors, or account holders at a financial institution. After sniffing out American taxpayers with UBS accounts, the IRS did the same with

HSBC in India. The IRS Manual says it may be possible to obtain taxpayer identities without issuing a John Doe summons. Maybe, but it's hard to argue with success. The IRS uses John Doe summonses when it doesn't know the identities of the suspected culprits. And while it will take the IRS time to collate and process it, you can bet the IRS will put the information it acquires to good use.

At the same time, the IRS is pointing to the [OVDP](#). The IRS warns U.S. taxpayers to come forward before it's too late. In fact, the IRS notes that one person's disclosure often reveals data about someone else. The IRS banks on a combination of information sources.

The IRS has a data bank now of data from tens of thousands of voluntary disclosures. The IRS and Department of Justice also mine their cooperating witnesses, often with a combination of carrots and sticks. In some cases, the government prosecutes and in others it grants immunity. The John Doe summons fits nicely in this arsenal of information gathering tools. And these days, that mountain of data the IRS is collecting is growing to be the size of the Matterhorn.

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