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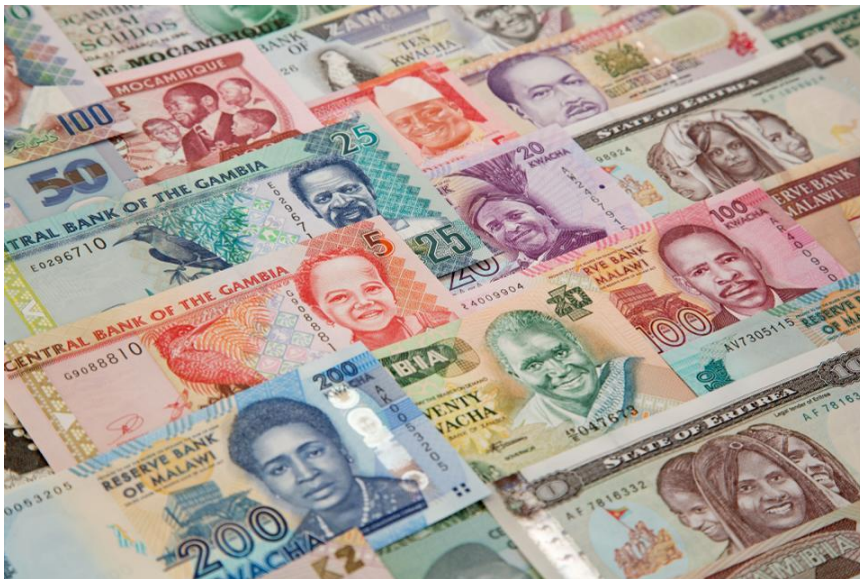
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Paradise Papers Expose Rich And Famous Using Tax Havens

Forget Panama. The newest big leak showing how the powerful and ultra-wealthy stash money and assets in offshore tax havens is the [Paradise Papers](#). It will hardly be paradise to those whose names and details are being teased out of the morass. The leak contains a massive 13.4 million documents, mostly from a single offshore finance firm. As with the leak of the Panama Papers, the Paradise Papers come from the German newspaper [Süddeutsche Zeitung](#). The paper called in the [International Consortium of Investigative Journalists](#) (ICIJ) to oversee the investigation. The [Guardian](#) is among nearly 100 media partners involved in

investigating the treasure trove of documents.



There could be a feeding frenzy with all of this information, which will take time to unfold. So far, arguably the best summaries of the players and the stakes are on the [ICIJ website about secrets of the global elite](#). Even so, there are going to

be dry details of trusts, foundations and offshore companies, the vast majority of which may be perfectly legal. Key questions now will be about specific individual cases, and whether there is anything that is not. A number of politicians may be among the most compromised. They could include Wilbur Ross, President

[Trump's Commerce Secretary, who is said to have business links with the Putin family.](#)

The timing couldn't be worse for Republicans, who already face criticism over whether the pending tax bill favors the wealthy. Americans for Tax Fairness has criticized the tax bill, calling out the Paradise Papers as "a window into the financial secrets of the world's biggest corporations and wealthiest individuals, including over a dozen members of Donald Trump's inner circle who have already been named in documents." As with the Panama Papers, one issue for those whose names may be compromised is whether they will now face tax compliance issues in their own countries. For Americans, the rules are very clear: disclose, disclose, disclose. You must file a tax return each year with the IRS, and the U.S. taxes all income wherever you earn it. Filing false returns is even worse than failing to file. Failing to file is a [misdemeanor](#), while filing falsely is a felony. You have to file, but make your return is complete and accurate.

Hiding things nearly *always* looks bad. You might have good reasons to hide things from competitors, an ex-spouse, etc. But don't hide from the *government*. The recent indictment of Paul Manafort and Richard Gates accuses them of secret deals and accounts. Not long ago, soccer stars Lionel Messi and Cristiano Ronaldo also faced criminal tax problems, in large part over secrecy and shell companies. Messi's name had also come up in the Panama Papers. In short, even if there is a good reason to hide ownership of a legal entity from the public, make sure the ownership is not hidden from the *government*. Americans face particularly unforgiving rules. If you have an interest in any foreign bank, securities, or other financial accounts, it is important. A signature power is enough, even if it is not your money. For all of these, you must file an annual FBAR if the aggregate value of the accounts at any point in the calendar year exceeds \$10,000.

Penalties can be huge. Much of the Swiss bank controversy of the last 10 years came down to these important disclosure forms. The IRS has reported that the Swiss and offshore bank controversies have netted the U.S. government over \$10 billion. FBAR penalties can swallow the entire balance in offshore accounts. Even criminal penalties are possible, and they can include up to 10 years in prison. The Paradise Papers, for Americans at least, should be yet another reminder that the IRS requires worldwide reporting and disclosure. The consequences of noncompliance can be severe, and the chances of squeaking by are winnowing. [FATCA](#), the Foreign Account Tax Compliance Act, requires foreign banks to reveal American accounts holding over \$50,000. Some asset disclosures may be duplicative with FBARs, but it is best to over-disclose. There is never a penalty for going overboard in disclosures. With a treasure trove of data, the IRS now has the ability to check. The resources of the U.S. government are vast, and using entities that look secret can make innocent activity [willful](#).

For alerts to future tax articles, email me at Wood@WoodLLP.com. This discussion is not legal advice.

