

New Panama Papers revelations highlight use of tax havens by wealthy US clients

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A report published by the *New York Times* on June 5 details how the Panamanian law firm Mossack Fonseca, the subject of the Panama Papers leak, helped wealthy US clients avoid taxes. The report, which appeared in the June 6 print edition, reveals a system of private foundations, bogus charities and shell companies, replete with codenames, to facilitate tax avoidance on a massive scale.

Until now, few Americans have been exposed as utilizing Mossack Fonseca's services, although the Panama Papers have led to multiple scandals internationally since their April release. Icelandic Prime Minister Sigmundur Davíð Gunnlaugsson resigned after the Panama Papers showed that he and his wife had operated a shell company in the British Virgin Islands to avoid Icelandic taxes and profit from the post-2008 bailout. Meanwhile, UK Prime Minister David Cameron faced a political scandal due to his benefiting from his father's Panamanian company, managed by Mossack Fonseca.

Many US-based businesses and wealthy individuals opt to leave their assets in the United States, relying instead on states with low tax rates, such as Delaware and Wyoming, in order to maximize their assets. Oxfam, in an April report unrelated to the Panama Papers, detailed the massive assets stored by US corporations overseas, effectively hiding \$1.4 trillion in profits in offshore accounts.

Most of the reportage on the Panama Papers has been coordinated through the International Consortium of Investigative Journalists (ICIJ), based in Washington, DC. The German newspaper *Süddeutsche Zeitung* originally received the leaked documents, totaling 2.6 terabytes of data, anonymously.

The *Times* report discusses several of Mossack Fonseca's US clients, including an exorbitantly

wealthy family, an international financial criminal residing in Texas and a self-help author attempting to hide \$1 million. Interwoven with this is a discussion of the mechanisms whereby vast sums of money were squirreled away.

Mossack Fonseca helps its clients hide their identities and avoid US taxation through numerous shady practices. Chief among these is the creation of private foundations in Panama, which are untaxed and not required to donate to charity.

A leaked Mossack Fonseca document describing these private foundations begins with their literally medieval origins and then describes their purpose in frank terms: "Private Foundations ... need not be acknowledged by any administrative authority aside from the Public Registry, are not subject to external legal governmental control provisions and are an ideal vehicle in the offshore industry."

Mossack Fonseca often uses its own employees as the officers of the foundation functioning on behalf of their client. The Panamanian firm handles the legal infrastructure of creating a "private Foundation/company combination for a flat fee of US\$4,500.00," Ramsés Owens, then a partner at Mossack Fonseca, said in an email to a client.

Money moved to these foundations can then be moved around, including to shell companies owned by family members—such as in the case of the wealthy Ponsoldt family, which had a father, son and daughter all employing Mossack Fonseca's services. Moving money in this way to avoid US ceilings on tax-free gifts from parents to children is illegal.

American residents and citizens are required to pay taxes on passive income earned on offshore investments, although Mossack Fonseca's practices actively help its clients avoid paying these taxes. The

firm claims that it is the clients' responsibility to ensure that they pay their taxes.

In one of the leaked documents, a Mossack Fonseca staff member sums up the character of the super-rich in the United States: "At hearing that he can make nearly \$8 million per year just on tax savings [a client] was now wide awoken." The staffer continues: "I could even detect sweats coming down from his forehead and his cheeks were beginning to blush with crimson excitement. Noticing his interest, I went in for the kill."

This wide array of services attracts a well-heeled clientele. Among those profiled in the *Times* piece are the Ponsoldts—William Ponsoldt, a real-estate magnate and investor, and his children, Tracey and Christopher. Mossack Fonseca provided services for the family members, each of whom was given a code name ("father," "daughter," "son").

All in all, the Ponsoldts used Andorran and Panamanian shell companies and Swiss bank accounts to shield tens of millions of dollars from US taxes. This was then moved around as needed—including a potentially illegal transfer of \$800,000 from "father" to "son," that is, from one offshore account to another.

Tracey Ponsoldt Powers, or "daughter," made a revealing request in October 2008 asking for some of the money to be moved to Panama and then converted into gold coins. She wrote to Owens: "I feel VERY unsettled with this election and how the media is censoring information and spinning the American Public to vote Obama. It is so obvious to me, that they are setting us up with a Socialist — but most people can't see it happening before their eyes! It's like propaganda that is brainwashing Americans to forget the Principles of Hard Work, Ingenuity, Risk and Boundless Success! [sic]". The delusion is staggering.

Mossack Fonseca has repeatedly claimed that it performs due diligence when it takes on clients, which includes not working for known financial criminals. In 2013, the firm vetted Kjell Gunnar Finstad, a Texas resident convicted of securities and accounting violations, including fraud, in Norway. However, Finstad's prior conviction is not discussed in Mossack Fonseca's records of his vetting, which included procuring a copy of his passport.

The last person profiled in the *Times* report is Marianna Olszewski, author of *Live It, Love It, Earn It: A Woman's Guide to Financial Freedom*. She wanted

to move \$1 million without her name being attached to the transaction. Needless to say, there is a chasm separating Olszewski and the working-class women targeted by her book.

In order to conduct the transaction, Mossack Fonseca used a "natural person trustee," that is, a resident who could affix their name to the transaction in lieu of the actual beneficiary (in this case, Olszewski). The *Times* describes this practice as "one of the remaining illegal ploys favored by Americans today."

The work of investigative journalists around the world, coordinated by the ICIJ, has played a valuable role in exposing the machinations and criminality of the world's financial elite. That being said, the ICIJ has refused to release the files to the public. WikiLeaks, founded by Julian Assange, tweeted shortly after the initial coverage, "If you censor more than 99% of the documents you are engaged in 1% journalism by definition."



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