

## **Pandora Papers: How US states help rich foreigners shield assets**

### **What is the issue?**

The release of the Pandora Papers report by **International Consortium of Investigative Journalists** has shed light on the financial dealings of the elite and the corrupt.

### **What is the report about?**

- The report mentions how the elite and the corrupt have used offshore accounts and tax havens to shield trillions of dollars in assets.
- It has disclosed secret accounts in trusts scattered throughout the United States, including 81 in South Dakota, 37 in Florida and 35 in Delaware.
- Among those who have used South Dakota trusts as tax havens are Guillermo Lasso, president of Ecuador, and family members of Carlos Morales Troncoso, former vice president of Dominican Republic.

*A tax haven is a country that offers foreign businesses and individuals minimal or no tax liability for their bank deposits in a politically and economically stable environment.*

### **What attracts money to these states?**

- Elimination of **rule against perpetuities** by tax havens allow the establishment of so-called dynasty trusts in which wealth can be passed across generations while avoiding federal estate taxes.

*Rule against perpetuity limits the maximum time period beyond which property cannot be transferred.*

- Laws in South Dakota and Delaware allow **asset protection trusts** which aid wealthy lawyers and doctors to shield their assets from malpractice claims.
- They can be used to protect assets from ex-spouses, future spouses,

disgruntled business partners or angry clients.

- They also provide wealthy people with considerable flexibility in establishing, controlling and modifying trusts as they see fit.
- Trusts established in Delaware are not subject to state income tax if the beneficiaries are not Delaware residents.
- South Dakota does not tax personal income, corporate income or capital gains.
- South Dakota provides extensive privacy protections for assets held in trusts while Delaware registers limited liability companies, including shell companies to hide assets or financial transactions.

### How do the states benefit?

- Delaware collected almost \$81 million in franchise taxes from banks and trust companies in fiscal 2020.
- A 2011 report estimated that out-of-state trusts had contributed between \$600 million and \$1.1 billion per year to Delaware's economy.

### What have been done about it?

- Tighter scrutiny of trust companies working with foreign clients has been called.
- **The Corporate Transparency Act** requires many businesses to identify their beneficial owners who exercise substantial control or who own or control at least 25% of the ownership interests.
- The law also aims at banning anonymous shell companies that have been used to hide financial dealings and launder money, but it includes several exemptions.

**Source: The Indian Express**