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