



Tax Havens in the United States

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Why in News

Recently, a report informed how world leaders and some of the **world's wealthiest people hide their riches in the United States (US)**.

- The information on the report has drawn new scrutiny to the growth of **tax havens**.
- The release of the **Pandora Papers** has shed light on the financial dealings of the **elite and the corrupt and how they have used offshore accounts and tax havens** to shield trillions of dollars in assets.

Key Points

- **About:**
Along with the familiar offshore havens, the report also disclosed **secret accounts** in trusts scattered **throughout the United States**, including **81 in South Dakota, 37 in Florida and 35 in Delaware..**

- **Reasons for US' States Becoming Tax Havens:**

- **No Rule against Perpetuity:**

Lawmakers in these states have abolished the **rule against perpetuities** which has **allowed the establishment of so-called dynasty trusts**, in which wealth can be passed from generation to generation while avoiding federal estate taxes.

A **perpetuity** is a type of annuity that lasts forever. The stream of cash flows continues for an infinite amount of time.

- **Asset Protection Trusts:**

Some **states also allow asset protection trusts, which protect wealth from claims against creditors**. Such trusts can be attractive to wealthy lawyers and doctors as a way to shield their assets from malpractice claims.

- **Trusts not Taxed:**

- Tax avoidance is another big draw. While most states levy a tax on trust income, 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**.

- **Privacy Protection:**

- South Dakota provides **extensive privacy protections for assets held in trusts**, including the sealing of trust-related court documents and court proceedings.
- Delaware is a popular venue for registering **Limited Liability Companies (LLC)**, which can include shell companies set up specifically to hide assets or financial transactions. Delaware **law does not require the public disclosure of the names of LLC owners or members**.

- **Benefits of States:**

The trust industry can be **lucrative**, not just for wealthy people and the companies that help them shield assets, but also for **government reserves**. The state governments are earning **high franchise taxes paid by trust companies**.

A **franchise tax** is a state tax levied on certain businesses for the right to exist as a legal entity and to do business within a particular jurisdiction.

- **Steps Taken:**

- While some in the US Congress are calling for **tighter scrutiny of trust companies** working with foreign clients, the response to the Pandora Papers in Delaware has thus far been muted.
- Federal officials, meanwhile, **have taken aim at some privacy protections with enactment earlier this year of the Corporate Transparency Act**.

It is **aimed at banning anonymous shell companies** that criminals and foreign officials have used to hide financial dealings and launder money, but it includes exemptions and exceptions.

- **About:**

- A tax haven is generally an **offshore country that offers foreign individuals and businesses little or no tax liability** in a politically and economically static environment.
- **Characteristics of tax haven** countries generally include no or low-income taxes, minimal reporting of information, lack of transparency obligations, lack of local presence requirements, and marketing of tax haven vehicles.
- Generally, tax havens **do not require residency or business presence** for individuals and businesses to benefit from their tax policies.
- Individuals and corporations can **potentially benefit from low or no taxes charged** on income in foreign countries where loopholes, credits, or other special tax considerations may be allowed in accordance with the law.

- **Popular Tax Havens:**

A list of some of the most popular tax haven countries includes Andorra, the Bahamas, Bermuda, the British Virgin Islands, the Cayman Islands, the Channel Islands, the Cook Islands, Hong Kong, Mauritius, Lichtenstein, Monaco, Panama, British Virgin Islands, and the Cayman Islands.

- **Regulatory Oversight:**

- Worldwide, there are some programs in place to increase the enforcement of offshore investment reporting.
- The **Automatic Exchange of Financial Information** is one example, overseen by the **Organization for Economic Co-operation and Development (OECD)**.

Source: IE