

“If you perceive a contradiction, check your premises”.
(Francisco said to Dagny in “Atlas Shrugged” by Ayn Rand

1. The past secretary of the treasury, Paul O’Neill, on behalf of the United States backed out of the OECD’s program by asserting. “The courts ruled that companies were not engaged in sham operations to avoid income taxes as long as activities were carried out with even the most slender of business purposes and companies run a tiny risk of earning a profit by suffering a loss.
2. Bowing to this opposition, the OECD ceased striking against the heart of tax havens’ appeal by eliminating no and low tax rates from its definition of “harmful activities”.
3. The treasury department has warned that simply trying to stop inversions is hazardous because it probably would encourage a shift to other ways to accomplish reincorporation of a U.S. corporation in a low or no tax haven.
4. The U.S. has encouraged the use of financial and trade centers to create tax incentives for exporters like Boeing and Microsoft simply by the exporters using a company, which is set up in hours in a tax free center (such as the Bahamas and Nevis).
5. The U.S. grants approximately 90% tax reduction for establishing business in the U.S. Virgin Islands, as it did to build up Puerto Rico.
6. The U.S. increased the estate tax exemption as well as the sums of monies that can be put into a qualified retirement plan. The IRS has perhaps the most liberal tax exemption features of life insurance plans than anywhere in the world.
7. Further, it is the onshore world where a majority of money laundering takes place, but the offshore world takes the heat.
8. We must consider that tax loopholes get passed in Congress where the legislators see them, but the IRS has not.
9. The IRS recognizes numerous types of legal trust arrangements and that they are commonly used for estate planning, charitable purposes and holding assets for beneficiaries on a tax avoidance basis.
10. Moreover, a legitimate trust is allowed to deduct distributions to beneficiaries from its taxable income with a few modifications. Therefore, trusts can eliminate distributions to other trusts or other entities as long as they are named as beneficiaries.
11. The IRS has proved that their prime focus is on economic substance. We have all read cases where it is clear that trusts were backdated. However, the IRS put on blinders and focused only on the issue of economic substance.