

explainity explains: Panama Papers

Matthias invested in property and made a fortune. Now he is considering what would be the best way to keep his money for himself. Facing the same conundrum, his buddy Franz advised him to get in touch with a firm of financial lawyers from Panama, where there are fairly loose regulations for people looking to avoid paying tax or who have family members of business partners, they want to hide their money from.

A large number of cases concerning tax evaders from all over the world were exposed recently. The names of politicians, business people and other VIPs cropped up. How was it discovered? In 2015, an anonymous source contacted the Süddeutsche Zeitung newspaper, sending huge volumes of data, 11.5 million documents in total, with emails, foundation documents, bank statements and PDF files extending from 1977 to 2015 – the so-called Panama Papers. This huge amount of information prompted the journalists from Süddeutsche Zeitung to contact the international research network ICIJ and to team up in processing the documents. Global media outlets worked together for a year. The start of April 2016 finally saw publication of their results.

The investigations revealed that the documents belong to the offshore service provider Mossack Fonseca. Offshore means exactly what it suggests: *away from the coast*; it is used to describe financial centres with loose tax regulations, and another name is tax havens. Mossack Fonseca is a law firm specialising in financial services, which largely involves selling so-called letterbox companies in tax havens. This kind of company exists only on paper. Over 200,000 of these letterbox companies were founded by Mossack Fonseca for sale to its clients.

How exactly do you set up a letterbox company? Perhaps you remember that Franz Matthias gave his buddy the tip to contact a financial services provider in Panama. Franz owns a letterbox company like this. Mossack Fonseca used a tax haven to set up a company by the name of Sunshine Factory. It then appointed stooge directors who only managed the company on paper. Although Sunshine Factory has a letterbox in a huge building complex, no-one works here. Franz also opened an account and received a credit card in the name of the new company, not in his own.

This way Franz was able to buy property or shares or to use the account of the letterbox company when money needed transferring. Apart from his bank and Mossack Fonseca, nobody really knows who actually owns the account, and no-one can trace where the money actually goes. Franz simply deposited a large proportion of his money on the account of Sunshine Factory.

Letterbox companies can have entirely legal purposes like ensuring secrecy of ownership or tax avoidance. But in many cases, there may also be illegal intentions like tax evasion, money laundering or the circumvention of sanctions. Take a look at our clip-on tax evasion to find out more.

The Panama Papers exposed many cases of tax evasion and illegal machinations like corruption, fraud and money laundering and in this way prompted a discussion on the ethics of paying taxes. It has even made Matthias stop and think. He decided not to open a letterbox company. He does not want to hide anything and is more interested in keeping his money the legal way.

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