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Panama Becomes Tax Haven for Wealthy Germans
by Louisa Reynolds
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Some of Germany’s richest families, including the Porsche and Jacobs families, have opted for registering their businesses in Panama, a country where tax loopholes persist, revealed German daily newspaper Suddeutsche Zeitung in a report published in March. The newspaper obtained the information from British hacker Dan O’Huiginn, who published data regarding German multimillionaires who had registered their companies in Panama on his blog.

Panama’s reputation as a tax haven is nothing new as 50% of international investments enjoy tax-free status, although the country is often overlooked, and other destinations such as Switzerland, the Cayman Islands, and the British Virgin Islands often receive greater media attention.

Tax expert Markus Meinzer says the only reason a German citizen would own an offshore company in Panama would be to take advantage of tax loopholes.

While the US and Europe continue to sink into a financial crisis, the Panamanian boom continues. The country’s GDP grew by more than 10% in 2012 and is expected to expand by a further 8.5% this year, according to government estimates.

Growth is mostly driven by income from the Panama Canal and foreign investment. The home of more than 350,000 subsidiaries, Panama attracts more foreign investment than any other Central American country. The Economic Commission for Latin America and the Caribbean (ECLAC) says that, in 2011, Panama received US$2.8 billion.

However, growth has been dogged by tax-evasion and money-laundering concerns. Panama has a longstanding reputation as a tax haven, given that more than 50% of international investments are not taxed in the Caribbean country, says Meinzer. "The world economy is now in tax havens. People don’t have an easy way to see how this economy works. They should be aware that a lot of rich Germans are running companies in Panama, some of them legitimately, others as a way to minimize taxes," he told the Russia Today TV channel.

A financial system based on secrecy
Panama is ranked 14th on the 2011 Financial Secrecy Index, published by the Tax Justice Network. Panama, which accounts for less than 1% of the global market for offshore financial services, was given a secrecy score of 77 points out of 100.

Many foreign investors in Panama openly cite secrecy and lack of transparency as reasons why businesses should move to Panama on their promotional Web sites. "Panama still holds some of the strongest bank secrecy laws in the world. While other countries have been forced to water down their legislation, these jurisdictions have up to date managed to avoid the spotlight and uphold their sovereignty," claims investment company Capital Conservator.

"Any income derived from sources outside of Panama may be received in Panama free of any taxes. So interest or dividends you earn from sources outside of Panama are not taxable here," says International Living, another wealth-management and investment firm.
"Panama’s 77% secrecy score shows that it must still make major progress in offering satisfactory financial transparency. If it wishes to play a full part in the modern financial community and to impede and deter illicit financial flows, including flows originating from tax evasion, aggressive tax avoidance practices, corrupt practices, and criminal activities, it should take action on the points noted where it falls short of acceptable international standards," concludes the Tax Justice Network.

The major loopholes identified by the Tax Justice Network include that the country does not adequately curtail banking secrecy, does not put details of trusts or ownership of countries on public record, does not maintain company ownership details in official records, does not avoid promoting tax evasion via a tax-credit system, and only partially complies with international money-laundering standards.

"Tax havens like Panama function not just because of low taxes but because their laws allow companies to keep their owners secret or to use 'nominee directors' to disguise who actually controls a company. [It's not just Panama or the Cayman Islands; US states like Delaware offer this service as well.] The idea, of course, is that if you transfer money to a company you own in a tax haven, it’s nearly impossible to show that you control it. Creditors can’t track you down, and neither can the tax man," says Tim Fernholz, a writer for global business publication Quartz.

Although secrecy persists, the US-Panama Free-Trade Agreement (FTA) forced Panama to address transparency concerns and create a database allowing users to search for directors by company name, although it was not easy to identify individuals. O’Huiginn searched through this information to create a new database, which revealed that shady persons, such as Syrian arms dealer Monzer Al-Kassar, own shell companies (companies that serve as a vehicle for business transactions without having any significant assets or operations) in Panama.

Al-Kassar, also known as the Prince of Marbella, has been connected to numerous crimes including the Iran-Contra scandal, and in 2008 he was extradited to the US and convicted of money laundering and conspiring to sell arms to the Fuerzas Armadas Revolucionarias de Colombia (FARC), a leftist Colombian guerrilla group.

In 2011, the Panamanian government also took steps with the legislative framework governing anti-money laundering and financial-sector transparency, including legislation requiring lawyers to know their clients, conduct due diligence on the beneficial ownership of corporations they establish, and share that information with authorities upon request.

Although these steps have strengthened the country’s regulatory framework, the International Narcotics Control Strategy Report published in 2012 by the US State Department notes that much work still needs to be done to improve transparency and accountability in Panama. "The work of launderers is facilitated by weaknesses in the regulatory framework, notably the existence of bearer share corporations, but more importantly by uneven enforcement of anti-money laundering measures and the weak judicial system, which is susceptible to corruption and favoritism," reads the report.

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