

BUSINESS

## Inside the Secretive World of Tax-Avoidance Experts

A sociologist realized that if she were ever going to understand global inequality she would have to become one of the people who helps create it. So she trained to become a wealth manager to the ultra-rich.

By Brooke Harrington



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Shakespeare said that all the world's a stage, but the sociologist Erving Goffman added that most of the interesting stuff lies behind the scenes, in what he called the “backstage” areas of everyday life.

Having spent the past eight years doing research on the international wealth-management profession, I have to agree with Goffman: The most revealing information comes from the moments when people stop performing and go off-script. Like the time one of the wealth managers I interviewed in the British Virgin Islands lost his composure and

threatened to have me thrown out of the country. His ire arose from an unexpected quarter: He took offense to my use of the term “socio-economic inequality” in the two scholarly articles I had published on the profession. I thought the articles were typically academic, which is to say, the opposite of sensationalizing and of little interest to anyone outside my field. But my suggestion that wealth managers might be connected to inequality in any way seemed alarmingly radical to this gentleman.

I was lucky that he merely threatened me. A journalist from *Newsweek* actually *was* deported from a different tax-haven island (Jersey) for her reporting there, and was banned from re-entering the island, or any part of the U.K., for nearly two years. Even though her story was unrelated to the financial-services industry, it was expected to bring negative publicity to the island, threatening its reputation as a place to do business. The message was therefore quashed by banishment of the messenger. The wealth-management industry does not mess around.

Wealth management is a profession on the defensive. Although many people have never heard of it, it is well known to both state revenue authorities and international agencies seeking to impose the rule of law on high-net-worth individuals. Those individuals—including the 103,000 people classified as “ultra-high-net-worth” based on having \$30 million or more in investable assets—pay wealth-management professionals hefty fees to help them avoid taxes, debts, legal judgments, and other obligations the rest of the world considers part of everyday life. The general public doesn’t hear much about these professionals, since there are only a few of them worldwide (just under 20,000 belong to the main professional society) and they strive to keep a low profile, both for themselves and their clients.

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But they are very much on the radar of regulatory agencies, due to the central role wealth management plays in tax avoidance. Media coverage of the 2012 presidential campaign of Mitt Romney noted that his \$250 million personal fortune was spread out through a network of offshore trusts and bank accounts, lowering his effective income-tax rate to just under 15 percent. Few outlets, however, noted the professional interventions that made that happen: Mitt Romney employs at least one wealth manager to create and maintain those offshore shelters.

By the same token, when Oxfam estimates that just 1 percent of the world's population will own more than 50 percent of the world's wealth by 2016, it's important to realize that such a state of affairs doesn't just happen by itself, or even through the actions of individual wealthy people. For the most part, the wealthy are busy enjoying their wealth or making more of it; keeping those personal fortunes out of the hands of governments (along with creditors, litigants, divorced spouses, and disgruntled heirs) is the job of wealth managers.

Given the little that is known about the profession and its role in global inequality, it seemed imperative to learn more about how wealth managers pull off this sleight of hand: Without breaking any laws (for the most part), they enable their clients to sidestep many laws and policies—especially those designed to prevent the kind of neo-feudal concentrations of wealth emerging now. But like many elites, professional and otherwise, wealth managers are not well-disposed to answering questions from impertinent social scientists. Particularly those suspected of harboring what the gentleman I interviewed in the British

Virgin Islands called a “left-leaning” agenda. So a traditional research strategy—cold-call to request interviews, or send out a survey—seemed doomed to failure.

Instead, taking advantage of a research fellowship I was awarded in Germany, which freed me from teaching and administrative responsibilities for a few years, I decided to jump into the field with both feet. Reader, I trained to become a wealth manager. That initial part of my study took two years, many thousands of dollars, and hundreds of thousands of miles of travel. Although I never practiced as a wealth manager, training to join the profession opened the door to a secretive realm that would otherwise have remained closed to me.

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This sort of “immersion ethnography,” while not common these days due to the high costs in time, effort, and money to undertake, harks back to the early days of anthropology and sociology, when research consisted largely of spending time with people in an effort to understand how they lived and saw the world. In contemporary practice, it is often the technique of last resort, when faced with a group too secretive or defensive to permit “outsiders” like social scientists to explore the backstage areas that are of so much interest. In designing my own research strategy, I was particularly inspired by the work of John van Maanen—now a professor at MIT’s Sloan School of Management—who famously did his doctoral research on a California police department in the early 1970s, not long after the Watts riots. In this period of heightened anti-police sentiment, van Maanen found himself shut out:

He received over 20 rejections to his requests to study police departments as an outsider looking in. But rather than giving up and picking another subject for his research, van Maanen did something extraordinary: He enrolled in the police academy and underwent the full training process to become a police officer, including going out on armed patrols. Only then did he build enough trust and cooperation with fellow officers to conduct his research.

From a practical point of view, my immersion in the field involved a lot less danger than van Maanen's. I spent weeks in hotel conference rooms in Switzerland and Liechtenstein learning about trust and corporate law, financial investment, and accounting. Ultimately, this earned me the "Trust and Estate Planner" qualification (TEP): an internationally recognized credential in wealth management, much like the CPA for accountants. The process not only served to familiarize me with the field and its practices, but—most importantly—put me in face-to-face contact with wealth-management practitioners. We sat in class together, ate our meals together, and usually stayed in the same hotels. This offered plenty of opportunities for informal interaction, allowing me to collect descriptive data on the professional environment and to recruit people to participate in interviews. The credential I earned after two years was also my entry ticket to professional society meetings for wealth managers—more places where I could observe and recruit interview participants. Only by having the TEP credential in hand, or by showing I was enrolled in courses to obtain the credential, was I allowed to attend those meetings.

Like van Maanen, I disclosed my real name, institutional affiliation, and research aims throughout the research process; I did not, that is, go "undercover." Whether I was attending classes or professional society meetings, I always wore a name tag that included my place of work, so it was clear that I was a scholar linked to a research institution. When I started, I didn't know if anyone would talk with me at all. Somewhat to my surprise, the majority of practitioners I met were quite willing to talk, under condition of anonymity.

I have several theories about why this happened. First, I clearly was not and would never be a professional competitor, so telling me about their work lives and practices did not put them at a professional disadvantage. Second, chances were vanishingly small that I would ever cross paths with any of their high-net-worth clients, so the stories practitioners told me were unlikely ever to get back to those clients. Finally, people in a technically complex profession—especially one that carries some degree of social stigma—don't have many opportunities to vent about their work lives with anyone: Their family and friends are unlikely to understand the nature of the work, and with professional peers, there would always be concerns about giving away “trade secrets” or violating client confidentiality. I didn't pose any of those risks, but did have the advantage of understanding the profession well enough to follow along when practitioners told their stories. For wealth managers, talking with me may have been a bit like relating their life story to a stranger sitting next to them on a long flight: a way of telling the “war stories” that made them proud, as well as venting about their frustrations, within a bubble of safety created by the knowledge that we would both get up and walk away, never to see each other again.

Ultimately, I conducted 65 interviews in 18 countries, ranging from the traditional wealth management centers of Switzerland and the UK to the far-flung Seychelles, a cluster of islands in the Indian Ocean. Sometimes, it was a bit more of an adventure than I expected, but, true to Goffman, the worst experiences often provided interesting glimpses into the “backstage” areas of offshore finance. For example, I was robbed during my research trip in the Cook Islands; the circumstances were so frightening that I had nightmares about the incident for months afterward. After I finished giving my report to the police, I went for a walk, ending up at a small harbor where a Maori fisherman was cleaning his catch. I must have looked as dazed and traumatized as I felt, because he interrupted his work to ask me what was wrong. When I explained, he laughed and said that since the financial-services industry had grown so powerful on the island, crime rates had shot up. It was as though being in the business of evading the law had created a kind of contagion,

corrupting island life even in aspects that had nothing to do with finance. “Everyone calls us the Crook Islands now,” he said.

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As for wealth management’s wider impact, what I found over the course of this study—the results of which will be published next year in a book for Harvard University Press—was not only insight into the making of the vast wealth inequality growing around the world. There was also something bigger, and even more disturbing: a domain of libertarian fantasy made real, in which professional intervention made it possible for the world’s wealthiest people to be free not only of tax obligations but of any laws they found inconvenient.

Looking at a costly divorce? No problem—just hire a wealth manager to put your assets in an offshore trust. Then the assets are no longer in your name, and can’t be attached in a judgment. Even if a foreign court sought to break your trust, if you have a clever enough wealth manager, you can be made effectively judgment-proof. Consider the case of the Russian billionaire Dmitry Rybolovlev, who has just settled what has been termed “the most expensive divorce in history.” Although a Swiss court initially awarded half of Rybolovlev’s roughly \$9 billion fortune to his ex-wife, Elena, an appeals court later ruled that most of those assets are untouchable in the divorce settlement because they are held in trust or are otherwise inscrutable to the law. (The amount of the agreed-upon settlement has not been disclosed.)

Vulnerable to lawsuits? Have a wealth manager put your fortune into a Cook Islands asset-protection trust, as the Rothschilds and the less well-known wealthy families of the world have done. In effect, such trusts make these fortunes essentially immune from the application of inconvenient national laws. No litigant on earth has been able to break a Cook Islands trust, including the U.S. government, which has repeatedly been unable to collect on multi-million-dollar judgments against fraudsters convicted in federal court. These include infomercial king Kevin Trudeau, the author of a series of books on things “they” don’t want you to know, as well as an Oklahoma property developer who defaulted on his loans from Fannie Mae. Since 2007, the two have owed Uncle Sam \$37.5 million and \$8 million respectively, and they have employed some clever wealth-management strategies to avoid paying those judgments. With their fortunes secure in Cook Islands trusts—on paper, at least—there is no way for the U.S. government to force payment unless it wants to send a legal team on the 15-hour journey to Rarotonga (capital of the Cook Islands), where the case would be argued under local laws. Needless to say, those laws are not very favorable to foreigners seeking to access the assets contained in local trusts.

Tax avoidance—the perfectly legal practice of minimizing one’s tax obligations—is really the least of the wonders that wealth managers achieve for their clients. They can also help clients swap nationalities when holding the passport of a particular country means submitting to undesirable requirements. Remember when the Facebook founder Eduardo Saverin renounced his American citizenship for a Singaporean passport? Classic wealth-management strategy. And thanks to the expanding number of practitioners, U.S. citizenship renunciations are at an all-time high, and growing. Finally, wealth managers can give their clients a kind of financial immortality, in the form of inheritances tied to the performance of certain duties by the heirs, such as going into the family business or producing grandchildren.

As for the individual practitioners I interviewed, virtually all of them saw themselves as misunderstood good guys. In our interviews, they



portrayed themselves as protectors of elderly clients from rapacious heirs, facilitators of development finance to emerging markets, and quasi-family members to wealthy parents seeking advice on how to prevent their children from being destroyed by idleness and easy access to drugs.

Some of the professionals I interviewed said they viewed their clients as friends, going on vacation with them, attending family weddings, and crying at their funerals. Others expressed contempt for the ultra-wealthy, and embarrassment at the ways in which wealth-management work contributes to their clients' escape from the rule of law. One American I interviewed in Geneva told me of a group of his clients in Monaco who sincerely believed they were descended from the Pharaohs and were destined to inherit the earth; he said their utter boredom and decadence were such that their main sport was sleeping with each others' wives. "I've told my colleagues," he said, "if I ever become like our clients, just shoot me." Another practitioner I spoke with, a graduate of Cambridge with a degree in history, said that he was deeply troubled by the ways the tax avoidance he facilitated contributed to the poverty of others in his clients' home countries; he compensated by urging clients to donate to charity.

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One woman—who formerly worked for Greenpeace and came to wealth management only by following her boyfriend to Switzerland and taking a job in his father's firm—was still new enough to the profession to be deeply shocked by the extent of privilege enjoyed by her clients, many of

whom possessed fortunes rivaling the GDPs of whole countries. These people, she said, are “above nationality and laws.” Asked to give an example, she related the story of an in-person consultation with a client who seemed to have found a way to ignore the laws of multiple countries with no negative consequences. The client was so powerful that he was able to extend this immunity from the law to this wealth manager and her boss, at least for the duration of time they were working for him:

I had to fly outside Europe with the CEO of my company to meet a client. I had switched handbags and left my passport in the bag at home. The client had sent a limo to take us to the airport in Zurich, and a private plane to take us to him. So at the airport, I discovered I didn’t have my passport and told the CEO I had to go home to get it. He said, “Don’t worry about it.” I said, “But we’re leaving Europe; I need my passport.” And he said, “Really, you don’t need it; you don’t need to go home.” So I figured okay, if the CEO tells me twice not to go get my passport, I won’t press the issue, and if I get detained and stuck at the airport, so be it. So we get on the plane in Zurich, and no one checked our documents. And then when we arrived at the client’s location, and there was just a limo waiting to take us directly to him. Nobody asked for our passports, even when we returned to Switzerland on the client’s jet. The CEO was right. These people, our wealthiest clients, are above the law...It’s potentially very dangerous.

The story was reminiscent of Joan Didion’s observation that “The secret point of money and power is neither the things that money can buy nor power for power’s sake...but absolute personal freedom, mobility, privacy.” Money itself does not make this freedom attainable, but the application of financial-legal expertise does. This is why the ultra-rich need wealth managers—to create the asset-protection trusts and offshore corporations for dodging debts and taxes, and the inheritance plans for making sure that wealth stays in the family, generation after generation.

Perhaps most importantly, the professionals ensure privacy for their clients. They keep the wealthy out of the newspapers and off the radar of

regulatory authorities as much as possible. In keeping with this, wealth managers themselves keep an extremely low profile. Imagine the opposite of investment bankers and their well-appointed offices. Most of the wealth-management firms I saw were clean and tidy, but hardly impressive. Particularly in the offshore locales, wealth managers sat in shabby rooms that looked for all the world like something out of a Somerset Maugham tale, desks piled high with dusty files sporting labels such as “Rainy Day Trust.” Onshore, in the European and North American wealth-management centers, what passed for flash might be a signet ring or a pocket watch worn instead of a wristwatch: bat signals to members of a hereditary upper crust, but easily overlooked by others.

What these professionals most emphatically did not look like is people with control over millions in global capital flows. And yet that is exactly what they were. Call it the “banality of professional power”—the cultivation of a useful obscurity, which allows the very wealthy to exist in a realm of freedom verging on lawlessness. To the extent that this remains unknown and virtually unimaginable to everyone else, the realm will persist undisturbed. Public dialogue about inequality will remain stalled on the old tropes of “class war” and “envy” of the “wealth creators.” It may be more productive to turn the spotlight away from the rich themselves, and instead focus on the professionals who—in their quiet, discreet, and extremely effective way—make it possible for the wealthiest people in the world to gain all the benefits of society, while flouting its laws. Rather than asking whether the distribution of economic resources is fair, perhaps the more compelling question lies upstream, in the way that distribution is created in the first place: by a kind of shell game played with international law. Most people have little tolerance for such shenanigans on the street corner. What about on a global scale?