

Jack Blum: 'only fools pay the full tax bill.' This is the kind of thing that Trump said

Naomi Fowler: This is the Corruption Diaries from the Tax Justice Network. I'm Naomi Fowler.

Jack Blum: people who simply have the attitude you've got to be an idiot to pay tax in the U.S. Here's how I beat the system.

Naomi Fowler: In the previous episode we heard about how jurisdictions like the Cayman Islands were stepping up the business of selling financial secrecy and helping people cheat on their taxes. Jack Blum had plenty of experience investigating this area and he was part of one of the early attempts to support the IRS in cracking down on it.

Jack Blum: People who were, in fact, working for IRS, who wanted to know if I was available to become an expert witness for them, this time, in a case in New Jersey involving a man who had set up a trust in the Bahamas. The trust company and the bank set up an arrangement under which they would send bills in the name of 'island traders' for non-existent machinery. Money would be going out to his bank account, essentially, in the Bahamas which was completely undeclared. Now, all of this had come to the attention of IRS because he had had a personal secretary who'd worked for him for more than 20 years. And one day he got very angry at her and fired her on the spot with no severance and no notice. What he didn't understand was that she had kept steno notes that covered all of the letters and instructions he had sent to the people in the Bahamas about what to do with the money, how to handle the money, and how to make this system work.

So now IRS needed someone to testify about how the system worked and what the offshore bankers were doing and what the documents meant. So I wrote a report in that case and before the case was over, IRS got a judgement of some 55 million dollars against the guy covering back taxes, penalties, and so forth. But the people who were involved in that project began to look very carefully at, well, what are we doing about offshore accounts? And that led to a further discussion of this whole problem of the bank in the Cayman Islands that was offering debit cards and credit cards and other ways of beating the system with an offshore account.

The banker in the Caymans, the man's name was John Mathewson uh, had a big judgement against him outstanding, and this was the matter of his wife, who had come to me with all those documents. And I brought up that issue and IRS got a U.S. attorney in Miami to get a judgement against Mathewson uh, which actually held him in jail for a couple of days. He was going from, from Miami to Cayman and they actually arrested him at the airport. And the writ was really an unusual writ. It's called 'ne exeat republica.' You can't leave the country until you pay this debt. But the judge relented after four or five days and that was the end of it. But his activities were well noted and suddenly he realized he, he had to worry about whether or not he could come and go easily. His bank in Cayman was closed and by the time all of this happened he then was declared persona non grata and couldn't stay. So, where he went after that, I know he went to the Bahamas to try to open a bank there, and where he went after that, after he failed at opening a bank there, I'm not sure where he went.

I was invited to do training for both the IRS Criminal Division and the IRS Civil Division. And I went into a variety of training sessions and meetings where I explained how the system worked, how people hid money offshore, and what had to be done to track it down, and how to get on top of the problem. And IRS at this point realised it was a significant problem and put together a team of people to begin to work on the problem of offshore evasion. And that team, uh, which included a brilliant computer man and some really dedicated agents and superb counsel turned around and came up with a plan to get credit card information tied to offshore accounts.

We took the story of John Mathewson and how he had operated and this this case involving the manufacturer, uh, and began to figure out that that data from the offshore credit cards and the offshore debit cards would be available in the U.S. and it would be possible to identify the people who had the offshore accounts and then it would be possible to back up and find out if they declared them, declared their income and really zero in on what they were up to.

Well of course, that was immensely successful. The IRS issued what was called a John Doe summons to the credit card processing companies in the U.S. and it called for production of records relating to credit cards from a listed number of offshore jurisdictions within the last six months that involved transactions of over a certain amount over a period that was longer than what was obviously a tourist using a credit card offshore. And that led to the production of records of thousands of people who had offshore accounts and IRS began to move in and get them to pay up and collected several billion dollars in terms of back taxes and, and began to expose the dimension of the offshore tax evasion problem.

Initially the response both from inside IRS and, and around was really quite congratulatory. Here was a real score and they were, they were bringing in money. And it was that initial summons for that information that then led to a John Doe summons to the Swiss Bank, and all of a sudden we were dealing with UBS and asking them for records of Americans who had accounts with UBS, and records of those accounts. And the Swiss, of course, had claimed secrecy and all the rest of it. But the difficulty that they had in trying to argue that, well, we're Swiss and we don't deal with these things, was there was enough of a record from the offshore credit card project and from other sources that made it impossible for them to defend against the summons.

So, lo and behold, they were forced to begin producing records of Americans with accounts in Switzerland. Well, that turned into an avalanche and it turned into summonses against any number of Swiss banks uh, which in turn led to the passage of something called FATCA, requiring foreign banks that if they wish to do business in dollars, would have to disclose American account holders and income earned on those accounts. And the number of accounts got to be so large that IRS couldn't cope with the flood of information they were getting and decided the only real way to handle it was to create an amnesty program which would allow people to come in, and as long as they paid back taxes and interest, either get reduced or no penalty and no prosecution. The information was there, the records were there, that the Swiss had issued the credit cards and the debit cards and the, the, it was clear that they had really behaved badly. You know, the number, the banks that were hit with the initial John Doe summonses were ones that had significant numbers of credit card, debit card problems.

Well, the credit card project was a great success, and the amnesty brought in a very large amount of money once again, and not only that, the amnesty created an amazing number of leads to offshore promoters because when people came in and they said, oh, yes, I have the account. The next question was, you've got to tell us who sold it to you. How did you wind up getting it? What, what was underneath it? That would then lead to people who were selling on behalf of these banks and led to several promoter prosecutions and really began to hammer away at the idea that offshore evasion might not be a terrific idea.

Naomi Fowler: The Corruption Diaries is a production of The Tax Justice Network, made by Naomi Fowler and Jo Barratt. Interviews with Jack Blum were recorded over several days at Jack's home in Maryland by Zoe Sullivan.