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ALERT
SURVIVE AND THRIVE IN THE AGE OF TURMOIL

Meet FATCA's even nastier cousin: CRS

Not too long ago I met a former head of the IRS while traveling on the Caribbean island of Curaçao.

It was an interesting encounter. Among other things, we discussed the infamous FATCA—Foreign Account Tax Compliance Act.

If you've been part of this community for any reasonable length of time, then you no doubt have heard me talk about, and even rail against, FATCA.

FATCA might be an American tax law, but it requires compliance *from every bank in the world*. Swiss banks must comply. Singaporean banks must comply. Chilean banks must comply. If you are a financial institution wanting access to US markets, you must comply.

If a foreign financial institution does not report, then they can get frozen out of the US financial system—a death sentence for pretty much every bank.

If they don't sign an agreement with the US Internal Revenue Service (IRS) to disclose information about their US account holders, then Uncle Sam will impose a 30% withholding tax on payments of US-source income made to those financial institutions.

It's amazing, even Putin's Russia is sending the US Treasury the information it demands. So, too, is China.

What the former IRS head told me was that, at the beginning, nobody actually had a clue how big, bad, or stupid FATCA was going to be.

Consider this: FATCA is based on a flawed premise that there is a huge treasure trove of hidden money overseas that hasn't been taxed.

Starting in 2009, even before FATCA, the US government put a stranglehold on banks because they believe in this premise. They destroyed the oldest bank in Switzerland, Wegelin Bank, along with pummeling all the other Swiss banks into submission.

They went jurisdiction after jurisdiction and left nothing but destruction or complete submission in their wake.

The benefits of all of this?

The IRS itself says that it brought in $6.5 billion dollars over seven years as a result of its offshore disclosure program. That's about one day's worth of interest per year on the national debt.
FATCA itself supposedly brought in about $13.5 billion. And yet the compliance costs for foreign financial institutions and governments has been estimated at anywhere between $200 billion and a trillion dollars.

Let's be generous and say that the US government brought in $20 billion in recent years because of all of this.

But at what cost? Clearly the costs to the financial system, and to commerce itself, drastically exceed the benefit.

It's so difficult to do business anymore. It's hard to open a bank account. It's hard to send funds abroad. It's hard to raise capital for a business without violating some regulatory minutia.

Banks now hold the attitude that you are presumed guilty until you provide boatloads of documentation proving that you're not a criminal terrorist money laundering tax cheat.

That has a serious cost on the global economy. Just imagine all the economic activity that isn't being conducted as a result of this legislation… all to cough up enough money to pay a couple of days' worth of interest on the debt.

You'd think that the rest of the world would notice how appalling the cost/benefit is to FATCA, and abandon all plans to participate.

But no. Not only is the world complying, but they've come up with something even worse.

The Common Reporting Standard—Coming to a Theater of the Absurd Near You

The *OECD Standard for Automatic Exchange of Financial Account Information – Common Reporting Standard (CRS)* is a regime developed by the almighty supranational OECD (Organization for Economic Co-operation and Development) to provide for **annual automatic exchanges among governments about your financial account information.**

CRS is akin to a global version of FATCA and **will require financial institutions in participating countries to identify the tax residency of their customers and offer up details of specified personal accounts to the appropriate global tax authorities.**

In other words, banks will have to pass on information to their governments, who will subsequently exchange the information with each other.

What information will be exchanged?

Names, addresses, tax ID numbers, dates and places of birth, account numbers, and account balances.

Some 90 jurisdictions have already committed to it, creating the truly global web necessary for CRS's success. (About two thirds of those jurisdictions signed on as "early adopters" and will go live with the CRS starting in 2017.)

As with FATCA, the participant list is pretty all-encompassing. Even the Cayman Islands is an early adopter.

There is one notable absence from the list: The United States. What an irony.

Even though the US government has spent a great deal of time, energy, and money enforcing global compliance with FATCA, it is loathe to play ball with other governments.

Perhaps the US government, in an accident of logic, has decided that accumulating and sharing knowledge about non-US nationals holding accounts in the US would be too burdensome and expensive to undertake.

This effectively makes the United States the world's undisputed, biggest, and perhaps sole remaining tax haven—as long as you aren't American.

Trillions of dollars are now held by non-US persons in the US through entities like Delaware corporations, Wyoming LLCs, and Nevada trusts.

It's exactly the same arrangement that the US government has shut down other banks and jurisdictions for. Talk about the height of arrogance.

The advent of CRS means we'll see more of the same kind of consequences we've already seen with FATCA:

1) Even less financial privacy for practically everyone all over the world.

2) Even higher compliance costs for banks and other financial institutions, with those costs likely to trickle down to customers through increased fees or inability to do simple business.

3) Jurisdictions that don't comply will stick out like red flags... meaning that their clientele, if sniffed out, will be more energetically pursued by governments for perceived tax evasion.

Implications for your Plan B

I'm often asked if FATCA and other such regulations will fade when economies start to recover.

No. Governments may think backwards, but they rarely go backwards. FATCA is here to stay. So too is CRS if it gets off the ground successfully next year.

This shouldn't be a cause of concern; there's no need to change your offshore plan.

Planting flags internationally, holding funds in safe banks abroad, investing assets internationally, etc. is still a great strategy to diversify against the risks that we face.

Just **stay compliant**. File the appropriate disclosure forms, pay the required minimum that you owe in taxes (and take legal steps to reduce your tax bill), and stay current on the rules.

Those are the best ways to avoid the biggest consequences of all these changes.

Do not attempt to hide money. Going offshore is not about hiding anything. It's about choosing well capitalized banks in safer jurisdictions that pose less solvency risk, less liquidity risk, and less fraud risk.

And if you want to cut your taxes, there are a lot of ways to do that. There's no need to hide anything.

Holding undeclared income overseas in a hidden account isn't going to work. More than likely you'll be slapped with huge penalties, and perhaps even face imprisonment.

After all, **banks and governments are rapidly fusing into one entity**. Banks today are just an extension of the government at this point.

Remember what happened a few years ago—the government bailed out the banks, and then the banks turned around and loaned money back to the government. It's disgusting and incestuous.

And today, simultaneously as governments become less solvent, banks are becoming less liquid with shakier balance sheets.

The two institutions are very much in bed together.

Yes, there are definitely still safe and conservative banks out there. Just bear in mind the currency risk.

If you're holding US dollars, for example, even in a foreign bank, then your ultimate counterparties are the US government and the Federal Reserve. (We'll explain this in more detail in a future alert.)

With all of this risk, it's time to really start thinking about holding a small portion of your savings outside of your domestic banking system.

1) Consider moving a portion of your savings to a well-capitalized, liquid foreign bank, ideally in a non-dollar currency.

There are VERY few paper currencies in the world that have any credibility anymore. Our analysis continues to point to the Hong Kong dollar as a good option since the local monetary authority remains among the most well-capitalized on the planet.

Plus, Hong Kong banks are still very liquid and well-capitalized.

(See our further alerts on the **Hong Kong dollar** and **Hong Kong banks**.)

Just make sure that you are reporting and filing all appropriate disclosures.

Additionally, it does make sense to have a second residency in this case, especially one that is not a tax haven.

As part of the Common Reporting Standard, banks have to know where you are a tax resident.

I hold residency in Chile, for example. That makes me a Chilean tax resident.

Chile is not on anyone's list of offshore tax havens. Yet it can be an excellent and extremely tax efficient place to base oneself.

If you tell a bank that you are a Chilean tax resident, they won't blink. So not only can you end up with a great passport down the road, but **the right foreign residency can also be a great insurance policy for your financial accounts.**

2) Hold a portion of your savings in physical cash.

In the event of a major deflation, or collapse of the banking system, physical cash is going to have a huge premium and be a great asset to hold.

This may be easier to do mentally given that there is no exchange rate risk, or significant financial cost, in holding the physical cash of your home currency.

Bear in mind the security risk (buy a safe or hold it in a non-bank safety deposit box), as well as the risk of Civil Asset Forfeiture. Do not travel on an airplane with large amounts of cash, or even in your own vehicle if you can avoid it.

Also—**don't hold high denomination notes.** Deal in 20s and 50s for now. Don't hold $100 bills or 100 to 500 euro notes.

These high denomination notes are being targeted by governments.

They know that negative interest rates are pushing people into holding cash. It's already happening. Europeans are hoarding 500 euro notes in the wake of negative interest rates, and Japanese are stuffing safes full of 10,000 yen (roughly $85) notes.

This is every government's nightmare.

Starting in late 2014, Greeks started taking their money out of the banking system—both in cash, and in transfers abroad to safer banks.

The capital flight totaled 55 billion euros in just over six months, roughly 25% of all deposits in the entire Greek banking system.

That was more than enough to take down every single bank in Greece... and hence why the government stepped in with capital controls, bank withdrawal controls, etc.

Cash controls are next. And they're specifically targeting high denomination notes. So definitely avoid those.

3) Own gold and silver, preferably with some portion held overseas.

Gold and silver are just another form of money, so holding them overseas in a safe place is akin to having an offshore bank account. Silver Bullion in Singapore continues to be our top pick, though we have discussed other options in the past. (**See here for our analysis of Silver Bullion and the New Zealand Vault.**)

In the event of major inflation, or the collapse of the monetary system (currency crisis), then gold and silver will be some of the best assets to own.

By having a little bit of both cash AND gold, you're going to be OK no matter what happens next, whether there's inflation, deflation, currency crisis, or nothing at all.

Plus, both of these asset classes – cash and gold – are still private and anonymous. And in an environment where interest rates are going further into negative territory, they make sense more and more by the day.

Last, by maintaining funds in a well-capitalized foreign account, your savings are still plugged into the international banking network, meaning that you can conduct normal financial and investment transactions.

You'll never find yourself complaining that your bank is too liquid or well capitalized. So again, even if nothing bad ever happens, you won't be worse off for making a strong offshore bank part of your financial Plan B.