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Abusive Offshore Tax Avoidance Schemes - Facts (Section I)

Facts

I. Background

U.S. persons are subject to tax on their worldwide income. One method used by taxpayers to avoid U.S. tax has been "expatriation" (the renunciation of one's U.S. citizenship or resident status and establishment of permanent residence outside the U.S.). However, even when taxpayers become "expatriates" they are still subject to taxation under special rules if the primary purpose for their expatriation was tax avoidance. (*IRC § 877*)

In recent years, a significant increase in offshore activity has been noted among U.S. taxpayers. Numerous schemes have been devised in which the true ownership of income streams and assets is hidden or disguised so as to improperly shield substantial amounts of financial activity from the U.S. tax system.

Such offshore transactions generally involve foreign jurisdictions that offer financial secrecy laws in an effort to attract investment from outside their borders. These jurisdictions are commonly referred to as "tax havens" because, in addition to the financial secrecy they provide, they require little or no taxation of income from sources outside their jurisdiction.

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