Hide and Seek

How a Government Partner Uses Tax Havens to Avoid Canadian Taxes

A Report by UNITE HERE Canada

INTRODUCTION

In Canada, an estimated $8 billion annually is lost to tax havens. A series of major banking leaks have spotlighted the widespread use of tax havens by wealthy Canadians and corporations in recent years. As a result, the Canadian Revenue Agency (CRA) has begun to take some steps to discourage the use of offshore tax havens. Yet, one of the Government's private sector partners has long held ties to offshore tax havens. This report details how a Canadian company that entered into a high-profile real estate deal with the Government has made use of offshore vehicles.

Larco Investments, one of Canada's largest real estate developers, acquired a portfolio of seven federal office buildings in a controversial sale-leaseback deal in 2007. When the Government entered into the deal, Larco executives, through a separate entity, had initiated a deal several years earlier utilizing shell companies based in the British Virgin Islands and Liechtenstein to hold assets of a Las Vegas hotel and casino. The same offshore vehicles were used to transfer millions of dollars out of a Canadian family trust tied to key principals of Larco.

Public information obtained from Nevada gaming regulators offers a glimpse into the use of recognized tax havens for one part of Larco's real estate empire. This report raises several questions for the Government, and particularly the CRA:

- Have Larco's principals and its related parties paid their fair share to the Government of Canada?
- Have other assets tied to Larco, its owners and key principals, affiliates and related companies been offshored?
- Have government lease payments and other fees been directed to offshore tax havens tied to Larco principals?
- More broadly, what steps is the CRA taking to investigate companies and individuals that use offshore tax havens and how does the CRA propose to crack down on the use of these shelters?

There is no evidence of any wrong-doing by Larco or the family that owns the company. Yet, the use of offshore tax havens by a government partner warrants scrutiny by the CRA.

UNITE HERE represents hospitality workers throughout North America, including members at several hotels owned and operated by Larco. We support government efforts to end the use of offshore tax havens which unfairly advantage the wealthy individuals and corporations who utilize them at the expense of the average Canadian taxpayer.

Fair Deal for Whom: Larco or Taxpayers?

Canadian taxpayers can legally hold offshore accounts as long as they declare all income earned offshore.[1] Yet, there is a disturbing trend of wealthy individuals and corporations hiding assets to avoid taxes. Those who engage in tax avoidance or evasion may register corporations in tax havens where it has little or no business operations to avoid taxes and to maintain financial secrecy. Typically, agents incorporate companies in tax havens on behalf of wealthy clients and assign front people to serve, on paper, as directors and shareholders.[2] This creates a level of anonymity for the true owners of the entity.

Revelations that Canadians have hidden billions in offshore accounts has spurred the CRA to increase investigations into use of these accounts. One name that has not yet surfaced, until now, is the family that owns Larco Investments – the Vancouver-based Lalji family – with ties to several offshore vehicles in the British Virgin Islands and Liechtenstein. We have no evidence that Larco principals or the family that owns the company has violated any laws. However, their use of recognized tax havens deserves closer scrutiny.

Larco Acquires Federal Office Buildings in Deal Called Massive Giveaway

In 2007, Larco made headlines when they entered into a controversial 25-year sale-leaseback agreement with the Government for seven office buildings. Larco acquired the federal buildings for $1.4 billion.[3] It included mostly prime downtown properties comprised of two buildings each in Ottawa and Montreal, and one in Edmonton, Calgary and Toronto. Canada Revenue Agency is a major tenant in three of the buildings.[4]

The deal locks the government and Larco into a 25-year lease agreement.[5] Larco, through its subsidiary, Maple Leaf Property Management, also secured a long-term management agreement in which they would be responsible for managing the buildings, while the government would be responsible for covering the cost of major renovations and other repairs.

Part of the rationale behind the sale of federal office properties was to raise cash for a Government looking to plug budget deficits. The Minister of Public Works at the time, Michael Fortier, described the transaction as a fair deal for taxpayers.[6] Larco executive director Thaddas Alston who served as company spokesperson for the deal in 2007 said, “It's a long-term investment with a great tenant.”[7]

Critics opposed to the sale of federal buildings questioned whether the deal would shortchange taxpayers. Some called it a massive giveaway of public assets. The government union, PSAC, commissioned economic research firm Informetrica to review the deal. Informetrica estimated that the buildings put up for bid by the Government were undervalued by several hundred million less than their fair market value.[8] The buildings were nonetheless put out to bid, and Larco supplied the winning bid.[9]

The transition appears to have been a rocky one. In 2014, a CBC probe into the aftermath of the sale-leaseback deal turned up documents that revealed years of disagreements, frustration and even legal threats between Public Works and Larco over allegations of overpayments, double-charges and other complaints. Asked to respond to the CBC's report, Alston said the company was not at liberty to disclose matters related to its relationship with Public Works.[10]

Who is Larco Investments?

Larco Investments is one of Canada's largest privately held real estate companies. Based in Vancouver, the company is a diversified real estate company with holdings in retail, hospitality, Class A office, residential, industrial and self-storage properties. While Larco Investments is not a recognizable household name, they have put their stamp on major real estate holdings across Canada.

Larco is owned by one of Canada's wealthiest families, the Lalji family, ranked #26 on Canadian Business' Rich 100 list in 2015.

Their various companies include the Larco Group of Companies, Larco Investments, Larco Hospitality, Larco Enterprises, Maple Leaf Property Management, Canadian Leaseback, Maple Leaf Self Storage, among others. Some of the families' most visible holdings include Park Royal Mall in West Vancouver, Whistler Village Centre, Bridge Film Studios, high profile hotels across Canada such as the Fairmont Chateau Laurier in Ottawa, several residential developments, and its portfolio of seven federal office buildings.

Larco is owned by one of Canada's wealthiest families, the Lalji family, worth nearly $2.7 billion. In 2015, the family ranked #26 on the annual list of Canada's richest 100 individuals and families, according to *Canadian Business*.[11] Brothers Amin, Mansoor and Shiraz Lalji formed the Larco Group of Companies in the 1970s.[12]

Amin Lalji is CEO of the Larco Group of Companies[13] and serves as officer and director of several affiliated companies.[14] Mansoor Lalji serves alongside him as a top officer and director.[15] Brother Shiraz Lalji has been involved with Larco's various retail and hotel investments in Canada and the United States, and more recently in the UK.[16] He appears to have relocated to the UK in the late 90s.[17]

While the brothers have been active real estate investors in Canada, they have a history of holding investments in the United States as well. Today, the family's most prominent U.S. holdings are the J.W. Marriott Las Vegas Resort & Spa and the Rampart Casino (formerly Regent Las Vegas) which were acquired out of bankruptcy in 2001. Key principals of Larco, Amin Lalji and Thaddas Alston, Senior Vice President at the time, pursued the casino deal in Las Vegas. It is through this deal that we have a window into the family's use of offshore tax havens.

Las Vegas Casino Deal

Acquiring a Las Vegas casino requires extensive approvals from Nevada gaming regulators, criminal background checks and other licensing requirements. We obtained transcripts from the gaming commission, court records, and licensing applications, among other documents which are available through freedom of information requests and other available public documents. Our research into the structure of the Lalji family's Las Vegas casino reveals that they have made use of offshore tax havens and an offshore trust since at least 1999.

In the summer of 2001, Amin Lalji and Alston, representing Larco Enterprises,[18] entered into discussions with Seven Circle, the owner of the bankrupt Regent Las Vegas casino and hotel over a possible joint arrangement to acquire the property out of bankruptcy. When those discussions failed, Lalji and Alston moved independently to put forward the winning $80 million bid in an auction for the casino assets in September 2001.[19]

Court records related to a lawsuit filed by a separate party indicate that each of the three Lalji brothers was involved in various details of the deal. [20] Although key principals of Larco Enterprises were deeply involved in arranging the transaction to buy the casino, a newly created company was established to bid on the casino assets. The new company, Hotspur Resorts Nevada, Inc. was registered in Nevada and named Alston sole officer, director, and president.[21]

Alston served as the only named corporate officer and director of several Nevada-based Hotspur entities as well as Maple Leaf Management Nevada, Inc. also registered that year.[22] However, when Alston later sought a temporary liquor license to operate the resort, it was disclosed that he would not be operating the casino or the hotel, nor would he be making day to day decisions.[23]

In a declaration to the U.S. Bankruptcy Court by their representative,[24] Hotspur was described as a subsidiary of Hotspur Investment Holdings Inc. with the beneficial owner of the parent company being Shiraz Lalji.[25] Larco Investments was noted as a possible source of financing for the casino: "[Hotspur] has cash on hand of approximately $40 million for the purchase of the Resort. It has the ability to borrow the balance of the funds to purchase the Resort from its banks or from Larco Investments, Ltd.[26]

Little was publicly known about Hotspur Investment Holdings at the time. It was not until Alston and Shiraz Lalji later pursued a 50% share in the gaming profits that Hotspur's ownership structure would be opened up to scrutiny.

Soon after the deal closed in November 2001, the Regent hotel was rebranded as the JW Marriott Las Vegas Resort, Spa & Golf. Marriott announced the new JW Marriott in a press release which portrayed the Regent transaction this way:

> "The former Regent Las Vegas is the first acquisition of the new investment company that recently bought the property out of bankruptcy. Hotspur contracted with Maple Leaf Management, and subsequently, Maple Leaf brought in Larco Hospitality to assist in the transition of ownership and management issues."[27]

String of Offshore Entities

Neither Alston nor Shiraz Lalji was licensed to operate a casino when they acquired the Regent. They retained Cannery Resorts to manage the casino operations under a 10-year agreement while Larco Hospitality would consult for the hotel. In December 2003, Alston and Lalji sought an arrangement to split half of the gaming profits with Cannery Resorts but would continue to serve as landlord with no direct role in operating the casino. This profit sharing agreement required Alston and Lalji to obtain approvals from Nevada gaming regulators.

Hotspur's disclosures regarding its ownership raised questions by regulators about their unusual corporate structure, where gaming profits would be directed and who should be appropriately licensed. Transcripts and other public documents not only shine a light on how the family structured ownership of the Las Vegas casino resort, but also reveal the ultimate purpose for creating offshore entities with ties to a Liechtenstein-based foundation.

Hotspur's ownership was structured through a string of offshore corporations — Hotspur Investment Holdings, Hotspur Global Limited and Samoa Investment Holdings — based in the British Virgin Islands. The chain ends at Hilfreich Stiftung, a Liechtenstein based foundation (see Flow Chart on next page).

Hotspur Organizational Flow Chart (2005)

Hilfreich Stiftung
Liechtenstein
100%

Samoa Investment Assets Inc.
British Virgin Islands
100%

Hotspur Investment Holdings, Inc.
British Virgin Islands
100%

Hotspur Global Limited
British Virgin Islands
100%

Hotspur Resorts Nevada, Inc.
Nevada Corporation
100%

Hotspur Resorts Nevada Ltd.
Nevada Corporation

Source: Submission by Hotspur's representatives to the City of Las Vegas, Department of Finance and Business Services, May 6 2005.

Public records provide some insight into the various intermediary holding companies which were created below the Stiftung:

- **Hotspur Resorts Nevada, Inc.:** This entity, along with Hotspur Resorts LLC, was formed in 2001 to acquire the hotel and casino out of bankruptcy. Hotspur Resorts LLC was dissolved in 2003. Alston serves as sole director and officer.
    - **Hotspur Casinos Nevada, Inc.**: Alston serves as sole director and officer of this subsidiary of Hotspur Resorts Nevada. This entity holds the gaming license.[28]
    - **Hotspur Resorts Nevada Ltd.**: Created in 2005 as a subsidiary of Hotspur Resorts Nevada, Inc. to satisfy requirements for financing, Alston transferred operation of the casino and hotel facilities and all business licenses to this entity.[29] Alston is sole director and officer.
- **Hotspur Global Limited:** Incorporated in the British Virgin Islands in 1999,[30]its sole assets (as of 2003) were the common shares of Hotspur Resorts.[31]
- **Hotspur Investment Holdings, Inc**.: This was established in 1999 to hold the cash and the investments of the Stiftung, all the shares of Hotspur Global, and other investments.[32]
- S**amoa Investment Assets**: Samoa, incorporated in 1999, held the shares of Hotspur Investment Holdings, Inc. [33]
- **Hilfreich Stiftung**: Formed as a foundation, it was administered by HSBC Guyerzeller Bank AG in Zurich. When formed, the foundation had a board of directors comprised of employees of HSBC Guyerzeller Bank.[34] It was established in Liechtenstein in 1999.[35]

HSBC Bank actually managed and operated the BVI-based corporations, Hotspur Global Limited, Hotspur Investment Holdings, Samoa Investment Assets, as well as the Liechtenstein foundation.[36] We have no record of any actual corporate business operations owned or operated by Larco Investments, its affiliates, or by family members in the British Virgin Islands or Liechtenstein.

Hotspur's Ownership Chain:

Name	Domicile	Year Formed	Officers/Trustees[37]
Hotspur Resorts Nevada, Inc.	Nevada	2001	Thaddas Alston
Hotspur Casinos Nevada, Inc.	Nevada	2001	Thaddas Alston
Hotspur Resorts Nevada, Ltd	Nevada	2005	Thaddas Alston
Hotspur Global Limited	British Virgin Islands	1999	HSBC Guyerzeller / W.S.W.
Hotspur Investment Holdings, Inc.	British Virgin Islands	1999	HSBC Guyerzeller / W.S.W.
Samoa Investment Assets	British Virgin Islands	1999	HSBC Guyerzeller / W.S.W.
Hilfreich Stiftung	Liechtenstein	1999	HSBC Guyerzeller / W.S.W. / others

Note: Representatives of HSBC Guyerzeller were named through 2009. In 2010, new officers affiliated with W.S.W. Directors Limited, an affiliate of Jersey (UK)-based Seymour Trust Company, replaced them (see Role of HSBC).

Why did the Lalji family need this string of offshore entities to hold the assets of a Las Vegas casino? Alston's appearance before the gaming regulators revealed that the actual purpose of these entities was to move hundreds of millions of dollars out of a Canadian family trust and into the Liechtenstein foundation.

Shell Game: Family Assets Transferred through Offshore Vehicles

What drove the formation of the corporate structure was a looming tax event for the Canadian-based Lalji Family Trust. It appears that the Trust was closing in on the "21-year rule" in which a trust is supposed to dispose of assets every 21 years. The purpose of the 21-year rule is to prevent trusts from indefinitely deferring capital gains taxes.

During his appearance before the Gaming Control Board, Alston explained the rationale behind the offshore structures:

> "We didn't create this structure with the idea in mind of acquiring an asset in Las Vegas. This structure was created really with legal, tax and estate planning considerations for the Lalji family, who are resident, two brothers are resident in Vancouver, West Vancouver BC, one Shiraz Lalji, is a resident in London.
>
> Years ago they decided to do business with an ultimate control group at the top in Canada called the Lalji Family Trust. And that trust has a limited life, and at the end of that limited life, which comes up shortly, under Canadian tax laws, the assets of the trust are created as having been – treated as having been sold, with the result that any tax payable with respect to the sale has to be paid at that time.
>
> With that in mind – and that deadline comes up in 2005. So with that event coming up in 2005, the idea was to take offshore – to actually cause a disposition of those assets before 2005, and pay the tax in Canada for estate planning and efficiency purposes, with the idea that you'd end up with a sum of funds offshore in a tax free jurisdiction with the idea that with the funds under the control of essentially a bank, trust company, you would then have a way to manage those assets, those funds for the benefit of the families generations to come. So that was the idea.
>
> It must be three or four years ago now, Shiraz and I went to Liechtenstein and interviewed lawyers, banks, financial institutions there, trying to decide who – what institutions we felt was most appropriate to be in the, quote, control position with respect to these funds. To give you some idea of the magnitude of the funds that are involved, we thought that we'd probably end up with somewhere between $300 million and $500 million Canadian dollars after paying all the tax on these assets.

So it was very important to place these funds in the care and custody of an institution that, one, was beyond reproach in terms of its ethics, in terms of its business acumen, and in terms of its relationship with the family.

Ultimately, we came to the conclusion that Hong Kong Shanghai Bank, HSBC, would be an appropriate control group to manage these funds. There are lots of reasons we did that.

We had a long-standing relationship with HSBC. They had been a primary lender of the Canadian operating company for over 15 years, and actually, we ended up spending a substantial amount of time with the HSBC people in Zurich, which is where they are set up to manage the Liechtenstein foundations that they manage. We also looked at their experience in managing funds for other wealthy families offshore and were convinced that as these things going, HSBC would be an ideal candidate for managing these funds."[38]

Comments by Thaddas Alston, before the Nevada State Gaming Control Board, December 3, 2003

In describing how the family's assets were transferred out of Canada, Alston explained that dividends were paid out from Canada and moved through its offshore corporations. Using Samoa Investment Assets as an example, Alston described to the Gaming Control Board how a final dividend of $87 million Canadian dollars was moved out of Canada to complete the transfer of family trust funds offshore:

"That last dividend, $87 million, we actually took over to Samoa, took over to Zurich and deposited it with the Stiftung in I think it was July of this year, July or August of this year [2003]. So at this point we're pretty much finished with the dividend. We have accomplished the purpose of getting the funds offshore."[39]

Another entity, Hotspur Investment Holdings, held not only the assets of the family foundation and Hotspur Global, but held other offshore investments managed by banks in New York.[40]

Alston described how under Canadian tax law, dividends could be paid out to a non-resident of Canada at a 15% withholding tax – much less than the 37.5% capital gains tax tied to underlying assets in the Trust.[41] In a separate appearance before the Nevada Gaming Commission, Alston explained this in response to questions by one of the gaming commissioners:

Mr. Alston: "The process that we were [using] for estate planning and other purposes going through was to redeem some preferred shares in a Canadian company, and the question you first asked me, are we through with that process, and my answer is yes, we finished redeeming the shares that we intended to redeem, and in connection with those redemptions in each case we have paid the withholding tax of 15% in connection with the redemption.

Commissioner Gurrola: So you are saying you paid 15%. Now supposedly in Canada a trust is deemed to dispose of assets every 21 years. When it is deemed to have been sold, it isn't sold but deemed to be sold, is that 15% also?

Mr. Alston: No.

Commissioner Gurrola: Higher?

Mr. Alston: Much bigger number."[42]

When asked by regulators how the gaming profits would be directed, Alston explained: "It's not money that's going to be dividended to Canada, because you can't without subjecting the whole system to tax in Canada, which you won't. And there is no need for it in London [where Shiraz resides]."[43] [44]

Hence, the family's trust assets were paid out as dividends and passed through several offshore companies based in the British Virgin Islands – with the final stop at the Liechtenstein foundation, Hilfreich Stiftung.

Path to Liechtenstein

The casinos' ultimate parent and holding place for family assets is Hilfreich Stiftung. If looking for a favorable tax jurisdiction, Liechtenstein was a smart choice. Long noted for its strict bank secrecy laws, the principality of Liechtenstein earned its reputation as one of the worlds' most secretive tax havens.

In 2008, only three countries in the world remained on OECD's list of "unco-operative tax havens" – Liechtenstein, Andorra and Monaco.

Since the 1970's, the principality of Liechtenstein has made it onto several black-lists for its role as a tax haven and as a destination for money laundering. It made the OECD blacklist in 2000 and remained there for much of the decade.[45] In 2008, only three countries in the world remained on OECD's list of "unco-operative tax havens" – Liechtenstein, Andorra and Monaco.[46] Liechtenstein was upgraded to the OECD "grey list" in 2009 and removed later that year for agreeing to cooperate with some international tax standards.

One of the Liechtenstein entities that have long facilitated secrecy is the Stiftung. Opaque by design, Stiftungs, or foundations, became popular vehicles for tax avoidance or evasion by foreign investors because of the secrecy afforded by appointing a trustee to hold a foundation in trust for an undisclosed founder and beneficiaries.[47] It is structured with no members, participants or shareholders.

According to a Liechtenstein bank document, the foundation can be used for the purpose of managing and safekeeping family and company assets on an international basis and for "optimising asset contributions across borders," as well as for charitable purposes.[48] Part of the appeal of these foundations is that the law allows one to "separate assets from their actual owner and thus to anonymize them."[49] Foundations are not subject to external supervision and are largely exempt from registration requirements.[50]

Not only does the foundation structure give the founder freedom from public disclosure, it is largely tax-free. While they may be subject to an annual income tax of 12.5% of taxable net income, foundations granted status as a private wealth structure are taxed at only a minimum of CHF 1,200 annually (approximately $1,600 Canadian). For foundations whose assets plus reserves exceed 2 million Swiss francs, the capital tax is reduced to 0.075%, and if assets exceed 10 million Swiss francs, capital is taxed at 0.05%.[51] Neither assets contributed to the foundation, distributions made to beneficiaries, nor any capital gains are subject to tax in Liechtenstein.[52]

Hilfreich Stiftung

Hilfreich Stiftung was set up in such a way that bank trustees "control" the assets. That created some difficulty for regulators. Nevada gaming regulators needed to know which party had ultimate control of the various offshore holding companies and foundation in order to approve licensing. Gaming regulators questioned Alston over who actually controlled the foundation – whether it was agents from HSBC Guyerzeller or the foundation's potential beneficiaries, or all parties.

Hilfreich Stiftung was originally set up with no beneficiaries, just classes of "potential beneficiaries."[53] The two brothers in Vancouver were named potential beneficiaries but only if they were to become non-residents of Canada "for Canadian income tax purposes," according to Alston.[54] They also designated a class of charitable entities as potential beneficiaries. The primary potential beneficiary named was Shiraz Lalji, reportedly because he was a non-resident of Canada.[55] While bank trustees "control" the family's various offshore entities, including Hilfreich Stiftung, they could be replaced anytime by the founder, Shiraz Lalji.

Thus, Shiraz Lalji stepped forward as the licensee and was later approved by the gaming regulators.

We do not know how extensively the family has used offshore vehicles to hold their assets. However, Shiraz Lalji employed the use of a similar Stiftung to hold hotel assets in London. That foundation was administered separately in the Isle of Jersey by Royal Bank of Canada Jersey.[56]

Role of HSBC

"We chose HSBC, and the result of that was the formation of Hilfreich Stiftung."
(Thaddas Alston speaking to the Nevada Gaming Control Board, December 3, 2003)[57]

HSBC Guyerzeller Bank, based in Zurich, was selected by the family to act as the control group to manage family assets. HSBC set up and controlled the offshore companies used to hold these assets. Nevada corporate filings show that HSBC Guyerzeller representatives were frequently named sole officers of the four offshore entities between 2001 and 2009.[58] The bank appointed an account manager responsible for overseeing the team that managed the Lalji family fortune and for overseeing several offshore intermediary holding companies on behalf of the family.

Although Alston described HSBC as "beyond reproach in terms of its ethics" during his 2003 appearance before the Gaming Control Board, that reputation has since been seriously tarnished.[59] HSBC's Swiss private banking unit has come under intense scrutiny after documents were leaked in 2008. Earlier this year, a major trove of documents obtained by the International Consortium of Investigative Journalists (ICIJ) revealed that the same arm of HSBC had helped clients in more than 200 countries avoid taxes and hide hundreds of millions of dollars in assets.[60] According to the documents, HSBC had reassured clients that it would not disclose details of their accounts to tax authorities in their home countries and provided options to avoid paying taxes on those assets.[61]

HSBC has since admitted wrongdoing by its Swiss subsidiary. In a statement, HSBC stated that the Swiss arm had not been fully integrated into HSBC after its purchase in 1999, allowing "significantly lower" standards of compliance and due diligence to persist.[62] In 2012, HSBC was slapped with a record $1.9 billion fine in the United States for failing to implement money-laundering controls and were in alleged violation of US sanctions for allowing drug traffickers and others to launder hundreds of millions through HSBC subsidiaries.[63] HSBC is facing ongoing criminal investigations and charges in France, Belgium, the United States and Argentina as a result of the bank leak.[64]

In November 2014, the U.S. Securities and Exchange Commission initiated cease and desist proceedings against HSBC Private Bank (Suisse) and its predecessors, HSBC Private Bank (Legacy) and HSBC Guyerzeller Bank, for violating federal securities laws between 2003 and 2011.[65] The banking units were illegally soliciting and providing advice to U.S. customers as part of its cross-border business without having registered with the SEC. HSBC admitted wrongdoing and paid a $12.5 million penalty.[66] HSBC Guyerzeller Bank AG merged in to HSBC Private Bank (Suisse) SA in 2009.[67]

Corporate filings with the Nevada Secretary of State indicate that HSBC Guyerzeller officers appointed to the Hotspur-affiliated offshore entities were replaced in 2010 with new officers from

W.S.W. Directors Limited, a Jersey (UK) based trust company.[68] We do not know if the change in officers was prompted by problems faced by HSBC's Swiss private banking unit or whether the Lalji family continues to rely on HSBC.

2012 Casino Restructuring

Today, the Las Vegas hotel and casino may have a more direct line to Hilfreich Stiftung. In 2012, Hotspur Resorts Nevada pursued approval to directly operate the casino after ending its management agreement with Cannery Resorts. Hotspur assumed management of the casino that year and hired a Nevada-based consultant to assist them.[69]

In the process, gaming regulators approved of an application by BVI-based Hotspur Global Limited for registration as a holding company and to transfer its interests in Hotspur Casinos Nevada directly to Hilfreich Stiftung.[70] As a result of the transfer, it also ended the casino's ties to Hotspur Investment Holdings and Samoa Investment Assets. The application states that the transfer removed those intermediary holding companies for corporate organizational purposes.[71]

Canada Revenue Agency Deals with Banking Leaks

The first major tax evasion scandal exposing Canadians broke in 2007 when a former employee of a Liechtenstein bank, LGT Group, stole several discs with secret information on its global client list and sold them to German authorities. German authorities shared that information with the CRA which named over 100 Canadians on the leaked client list.[72] That prompted the CRA to launch an investigation, "Project Jade," the same year.

The CRA ordered several Canadian banks to hand over information on clients with alleged ties to Liechtenstein. The CRA found that several Canadians were using Liechtenstein entities, "at least initially, to masquerade as non-residents."[73] The CBC reported that "individuals who have set up offshore entities in Liechtenstein, called Stiftungs or Anstalts, and do banking through them can appear as non-residents and illegally shirk taxes on income or investments."[74]

However, the CRA's investigation into Canadians' use of offshore accounts in Liechtenstein took six years to complete. According to the Auditor General's report, part of the reason for this was due to many of the taxpayers and their representatives denying their ownership of the offshore accounts and delays in providing information to the Agency.[75] The CRA undertook only 46 audits with 23 leading to tax penalties worth $24.6 million.[76] The CRA waived its right to pursue criminal investigations. There is no evidence Larco or the Laljis were involved in the CRA's investigations.

Since then, the Liechtenstein government has announced it would enter into agreements to shed light into secret accounts and undeclared assets.[77] However, it is unclear whether privacy protections of foundations can be overridden for tax investigations - earlier reforms did not capture these entities. A report by the Tax Justice Network in 2013 noted that Liechtenstein continues to rank toward the top end of the secrecy scale for financial transparency and has a long way to go to deter aggressive tax avoidance, evasion and criminal activities.[78]

HSBC's role in aiding tax avoidance came to light in 2010 when the CRA received a list from the French government regarding hundreds of Swiss accounts through HSBC Private Bank (Suisse) all linked to Canadian taxpayers.[79] According to the CBC, the value of HSBC offshore accounts tied to Canada is around $4 billion, across more than 1,800 people and companies with ties to Canada.[80] As of last year, the CRA had received 233 disclosures related to HSBC with unreported income of C$115 million.[81]

In 2013, the International Consortium of Investigative Journalists obtained the massive trove of secret HSBC files containing the names of 130,000 individuals worldwide with hidden accounts, including 450 Canadians. In response to the bank leaks, the CRA has announced several measures to handle the influx of information related to offshore tax havens, including a voluntary disclosure program, a tip line and stepped up enforcement.

The Agency's voluntary disclosure program allows those with hidden offshore assets to come forward and report themselves, but the CRA waives penalties and legal action as long as back taxes are paid. The Globe and Mail has reported a rise in voluntary disclosures as a result.[82] Other measures include new efforts to monitor asset transfers and creating an offshore compliance team. In 2014, the CRA launched its Offshore Tax Informant Program which rewards whistleblowers for information that leads to significant tax reassessments.

However, these measures come at a time when the Government has planned to cut more than 2,500 CRA staff and its budget by $259 million by 2018. These cuts were announced even after Canada's Auditor General warned about the CRA's ability to handle an increase in tax haven cases.[83]

Interestingly, research undertaken on behalf of the CRA found that the Agency is tough on small-time domestic tax avoiders but afraid to take on large international tax cases involving wealthy individuals. A consultant conducting focus groups with CRA staff reported that, "The greatest concerns were raised in Vancouver, and those concerns revolve around how quickly and easily dissuaded the CRA appears to be from going after wealthy people. Around the table in Vancouver, there was a perception that as soon as tax lawyers are brought in by the wealthy, the CRA backs off, and in the eyes of those people, the CRA needs to follow through of some of those larger fish to preserve the integrity of the system."[84]

End the Use of Tax Havens

This report shows how key principals of Larco Investments, a federal landlord with long-term government contracts, are tied to offshore tax havens used on behalf of the Lalji family. Those tax havens have been used since 1999 to move hundreds of millions of dollars in assets out of Canada and the U.S. and to hold assets of a Las Vegas casino and hotel.

Canada loses billions annually due to legal tax avoidance and illegal tax evasion. This impacts government coffers and affects funding of critical public services. While the CRA has taken some steps to pursue those who have moved assets offshore, we question whether those steps are aggressive enough.

This case raises questions because the Canadian Government is paying Larco millions of dollars every year in rent payments and management fees. Taxpayers should be assured that Larco is paying their fair share of Canadian taxes.

Key Questions for the Canada Revenue Agency:

While there is no evidence of any wrong-doing by Larco or the Laljis, we urge the CRA to investigate these tax avoidance strategies and address the following questions:

- Have Larco's principals and its related parties paid their fair share to the Government of Canada?
- Have other assets tied to Larco, its owners and key principals, affiliates and related companies been offshored?
- Have government lease payments and other fees been directed to offshore tax havens tied to Larco principals?
- More broadly, what steps is the CRA taking to investigate companies and individuals that use offshore tax havens and how does the CRA propose to crack down on the use of these shelters?

UNITE HERE represents 270,000 workers throughout Canada and the United States who work in hotel, gaming, food service, and airport industries. UNITE HERE supports government efforts to end the use of offshore tax havens by individuals and corporations who avoid paying their fair share of taxes.

For further information contact: Michelle Travis, (604) 473-4805 • mtravis@unitehere.org

Endnotes

1 Canadians are taxed on income earned anywhere in the world as if it was all earned in Canada.
2 Dubinsky, Zach, et al. "Massive data leak exposes offshore financial secrets," *CBC News*, April 4, 2013, http://www.cbc.ca/news/world/massive-data-leak-exposes-offshore-financial-secrets-1.1308970.
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41 Ibid. (p. 23 and p.25)
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