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Offshore-Adviser Plea Marks a Shift in Tax Crackdown

High-Level Lawyer's Guilty Plea Suggests a New Direction for Prosecutions

By LAURA SAUNDERS [CONNECT](#)

A guilty plea by a high-level Swiss adviser who helped U.S. taxpayers hide money abroad marks a new phase of the government's campaign against secret offshore accounts, experts say.

"Now it's clear that the U.S. will make deals with advisers who come clean, not just with individual taxpayers and banks," said Jeffrey Neiman, a former government prosecutor now in private practice in Ft. Lauderdale, Fla.



Reuters

Swiss lawyer Edgar Paltzer arrives at court in Manhattan last week.

On Aug. 16, Edgar Paltzer, 57 years old, a Swiss lawyer formerly with the Zurich firm of Niederer, Kraft & Frey, pleaded guilty in federal court in New York to a single count of conspiracy. He faces up to five years in prison plus fines, but experts said, because of his cooperation, he is likely to receive a far shorter prison sentence, or none at all. He is scheduled to be sentenced in February 2014.

Mr. Paltzer and a Swiss banker, Stefan Buck, were indicted by the U.S. in April.

Experts say Mr. Paltzer is the most prominent Swiss adviser to confess and the first to do so publicly. More than 30 advisers have been indicted in connection with allegedly enabling U.S. taxpayers to hide money abroad. According to the U.S. attorney's office in Manhattan, Mr. Buck remains at large. He couldn't be reached for comment.

Mr. Paltzer's lawyer, Thomas Ostrander of Duane Morris in Philadelphia, said his client's cooperation will be "complete and without limitation" and that he is willing

to testify in court on behalf of the government. Mr. Ostrander said the judge placed no travel restrictions on Mr. Paltzer, who has returned to Switzerland.

Under Pressure

Since 2009, U.S. officials have cracked down on undeclared offshore accounts.

- U.S. taxpayers criminally charged: **86**
- Firms or advisers criminally charged: **35**
- Guilty pleas: **64**
- Guilty verdicts: **10**
- Average account balance at its peak: **\$6.8 million***
- Participants in IRS offshore limited-amnesty program: **More than 38,000**
- IRS collections from limited-amnesty program: \$5.5 billion, with \$5 billion more to come

*Excludes some atypical cases

Sources: Jack Townsend, Federal Tax Crimes; IRS; Bryan Skarlatos, Kostelanetz & Fink

The case puts further pressure on U.S. taxpayers holding secret offshore accounts, because advisers might opt to protect themselves by turning in their clients. "If I were one of [Mr. Paltzer's] clients, I'd be having a heart attack," said Edward Robbins, a criminal tax lawyer with Hochman, Salkin, Rettig, Toscher & Perez in Los Angeles.

The case also expands government scrutiny to assets stored in bank vaults, according to William Sharp, a lawyer with Sharp Kemm, a firm based in Tampa and Zurich. The court ordered that five UBS AG vaults in Zurich controlled by Mr.

Paltzer be sealed. Such vaults can be used to store assets such as gold, art or jewelry that often don't have to be declared to the Internal Revenue Service. However, the vaults holding them are usually tied to bank accounts that should be, say experts. UBS declined to comment. The IRS and the Manhattan U.S. attorney's office declined to comment.

"This could be a new avenue of pursuit for the IRS," Mr. Sharp says, because some physical assets might have been purchased with funds from an undeclared account that has since been closed. There is no statute of limitations for civil tax-fraud penalties, which can be severe.

Although Mr. Paltzer's April indictment and his guilty plea were both for one count of conspiracy to evade taxes, the guilty plea didn't include all the details of the April charges. However, said Mr. Neiman, the April indictment shows "the scope of the activities the government believes Mr. Paltzer was engaged in and will provide information about."

According to the April charges, Mr. Paltzer was familiar not only with Swiss banking but also how to use corporations, trusts and foundations in tax havens such as the British Virgin Islands and Panama to conceal assets.

At times he communicated in code with clients, using the word "postcard" to mean payments and "rental income" to refer to a client's account balance, according to the indictment. In one example cited, he was careful to divide nearly \$76,000 of

payments into nine smaller checks written to three different family members in order to help escape detection by U.S. authorities.

Mr. Paltzer also advised some clients not to declare secret accounts to the IRS, according to the April charges. They also allege that he and Mr. Buck helped clients with assets at six unidentified banks, sometimes moving money from bank to bank to help hide it. As regulatory pressure rose on Swiss banking secrecy in 2008 and 2009, he advised one client to meet him in France or Italy rather than Zurich.

Other subterfuges involved the purchase of art or jewelry to help repatriate undeclared funds to the U.S., according to the April indictment. In one case, Mr. Palzer allegedly helped a client purchase jewelry, including a \$2 million ruby ring and \$1.7 million in loose diamonds, using funds from an undeclared Swiss account.

According to the charges, the money was paid to a Swiss jeweler who had a brother in the same business in New York. The brother delivered the jewelry to a Connecticut jeweler, who in turn delivered it to Mr. Palzer's client and his wife.

Mr. Ostrander said Mr. Paltzer hasn't been charged with violating laws in Switzerland and that, because his client "was not acting as an attorney, but as a financial intermediary" to his own clients, Mr. Paltzer's cooperation with U.S. authorities won't violate rules on attorney-client privilege. Mr. Paltzer is a member of the New York Bar, and he is a dual Swiss-U.S. citizen.

With the Palzer indictment and plea deal, says Bryan Skarlatos, a criminal tax lawyer with Kostelanetz & Fink in New York, "the government is showing how determined it is in its pursuit of undeclared offshore accounts."

The U.S. crackdown on undeclared offshore accounts greatly intensified after UBS admitted in 2009 that it helped U.S. taxpayers hide money abroad and paid \$780 million to settle criminal charges.

Since then, more than 38,000 taxpayers have entered an IRS limited-amnesty program for people who concealed offshore accounts. The government has collected more than \$5.5 billion from them, with an estimated \$5 billion still to come, and Switzerland's oldest bank, Wegelin & Co., closed down after pleading guilty to helping U.S. taxpayers hide more than \$1.2 billion.

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