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Economic Citzenships and Passports: Myths and Reality

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Before I begin, it is worth clarifying upfront that a passport is simply a travel document a country issues to its citizens. From time to time, some enterprising individuals have sold a product called "Passports for Non-Citizens", for countries such as Panama. These tidy little books do have a passing resemblance to the real passports from these countries. Unfortunately, the buyers quickly discover these documents are not acceptable for international travel, leaving them sadder, wiser and substantially out-of-pocket. I hope that this article will help advisors and their clients avoid such costly mistakes.

Citizenships (and then passports) can be acquired through a variety of methods including:

- *birth in the jurisdiction;*
- *lineage (through parents and grandparents);*
- *marriage;*
- *naturalisation (residence leading to citizenship after a period of time and fulfillment of certain conditions);*
- *religious affiliation (i.e. Law of Return of Israel);*
- *meritorious service; or*
- *accelerated or waived naturalisation (the naturalisation period is waived or reduced in exchange for an economic benefit to the country).*

Some lucky souls may be entitled to citizenship through lineage or religious affiliation. Others may have the time and patience to acquire naturalisation citizenships. The purpose of this article will be to review the last of these methods of citizenship acquisition, the Economic Citizenship.

Myth 1: Economic Citzenships are only for those who worry about terrorism

Thus far in my career, I have been involved in the processing of several hundred Economic Citzenships. I have a fairly good idea as to what motivates my clients. It is a popular myth that people, particularly Americans who travel widely, acquire these statuses and travel documents to avoid being targeted by terrorists.

The Reality

Instead, my clients have usually acquired them for the following reasons:

- *as part of an expatriation tax plan, or, to solidify a claim of residence or domicile of choice (e.g. Americans and others who are subject to steep income, capital gains, gift and estate taxes);*
- *as a viable travel document (e.g. third world nationals who travel in the first world for business);*
- *as a type of insurance policy in times of political strife (e.g. Russians, other former Soviet countries, PRC nationals, Gulf Arabs, etc.);*
- *as an insurance policy in times of personal strife (e.g. potential plaintiffs who could have their passports seized during civil litigation); and*
- *as a privacy tool or to do business without the burden of having stamps from their travel destinations in their current passport.*

Calculating the costs and benefits:

As an advisor looks into their client's options and thinks carefully about incorporating the acquisition of an Economic Citzenship into an overall strategy, it is important to attempt to quantify the true costs and assess potential benefits.

If the client is acquiring an Economic Citzenship for expatriation or tax reasons, the advisor can place an exact dollar amount on the tax savings which will result. If the client is acquiring it as a travel document, consideration must be given as to whether or not the travel document issued offers the client and their family the personal and business advantage of not having to apply for visas. Or, will it also allow them to travel to places to which you could not possibly acquire a visa if they had travelled on their existing passport?

If your client is acquiring the Economic Citzenship as an insurance policy against political change or personal problems; you must assess not only the likelihood of an adverse event happening, but the devastating cost to your client and their family if such an event did occur. Remember, most of us will never experience a house fire, yet we still buy fire insurance.

Finally, you and your client will need to place a price on their privacy or other burdens that their existing citizenship/passport places on their life (e.g. existing or potential mandatory military service).

Myth 2: Economic Citzenships are all the same, so buy the cheapest one

Another area of confusion and misinformation is the actual cost, benefit and procedures of securing a legal Economic Citzenship. Given the constantly changing landscape in this area (i.e. programmes opening and closing; prices and procedures changing; visa-free travel lists expanding or contracting depending on world events), I have found that it is only possible to set out an on-demand customised "snap-shot" of possible Economic Citzenship solutions that are currently available and relevant

to a given client's specific needs. It is for this reason that I do not believe in the common practice of comparison charts of current programmes on the market. Even if accurate initially, they are outdated almost as soon as created.

In comparing the products that may be offered (a Google search on the Internet came up with over 36,000 hits on this subject), an advisor must first understand what is being offered. Then they can separate the wheat from the chaff.

The Reality

Not all Economic Citizenships offers are legitimate or similar. The following are the nine steps I suggest an advisor take in reviewing any programme:

Step 1: Ask for all the marketing material and a clear fee structure. This gives you a chance to gauge the amount of hype surrounding the offer. Find out exactly which country's citizenship and passport is being offered; do not settle for "a West African country" or "a Caribbean nation".

Step 2: Ask for a copy of the country's enabling legislation and run from anyone who talks about "special discretion from a passport official". This is a code word for bribery. Along with you and your client running afoul of corruption of foreign official legislation; should your client actually try to use such a passport, they could land in jail in most western countries. For example, Canada will hand you a five-year jail term (section 57(3) of the Criminal Code of Canada) for simple possession of such a document.

Step 3: Evaluate the legislation and look at:

- a) Nature of status being given: Remember Honorary Citizenship is like an Honorary Pregnancy. It does not produce the desired result;
- b) Restrictions on citizenship: Does it also grant your client the right to reside in the country? Acquire land? Vote?
- c) Revocability: While there will always be an ability to revoke the citizenship because of treason or material misrepresentation, does the legislation allow for the possibility that a future government could unilaterally revoke all citizenships granted under the economic criterion?

Step 4: Review the total pricing including investment, government fees, and legal fees. If the program talks about an "investment", find out what the return on the capital is and what the likelihood is that the capital itself will be returned? Some countries actually require the purchase of a non-interest bearing, non-refundable bond. If an applicant gives a country some money, gets no return on it, and does not get it back; it is a government fee no matter what the label.

Step 5: Review the visa-free travel list this country's passport allows. This should be done independently using the IATA published Travel Information Manual (<http://www.iata.org/ps/publications/tim.htm>). Do not accept a promoter or even a government-generated list at face value. This is where the most misinformation is given, both inadvertently and on purpose. Rather than concentrating on the total number of countries offering visa-free travel, make sure the countries to which your client will

actually travel are on the list. Remember that some countries require a visa from everyone (Australia) or almost everyone (US). If a country your client travels to often is not on the visa-free list; you need to find out if acquiring a visa will be difficult or perfunctory.

Step 6: Research the process for replacement of passports. What will happen to your client should they have their passport lost or stolen in Paris or at Everest base camp? Passports will expire, be lost, or have the pages filled. You need to factor in the ease and cost (including possible travel) of your client securing their replacement passports.

Step 7: Given my earlier comments about "Passports for Non-Citizens", you should always make sure your client receives a properly registered Certificate of Citizenship along with the initial passport. Citizenship is for life, a passport is for a finite period.

Step 8: Ensure that your client's monies are held in escrow, either in a lawyer's trust account or a formal escrow account with a third party bank. This requirement is essential to ensure your client's money is not lost in some type of advanced fee fraud. In addition, some governments are motivated to act as quickly as possible to process the application in this situation. There is nothing like the carrot of payment upon completion to motivate a government. Many governments, however, will not even begin the process unless they know that the money payable to them upon acceptance is in escrow.

Step 9: Ask about security checks and screening procedures. Will your client be acquiring the "Passport of Choice" of terrorists and drug lords? What is the quality of the physical passport document? If it is easily counterfeited then criminals may simply bypass screening procedures and reproduce the passport. This may make the passport a suspect document and your client may find themselves under increased scrutiny at every border crossing.

Conclusion

Economic Citizenships and their attendant passports offer many advantages to people. I have many clients who would say it is the best money they ever spent. Their citizenships are an integral part of a larger workable tax strategy. They enjoy the freedom to travel when and where they wish without significant hassles. In the global marketplace, this gives them a distinct advantage as they pursue their business or personal objectives.

Increasingly I find myself working with private client advisors who have determined that a proper Passport Portfolio, which may include an Economic Citizenship is an essential part of the holistic planning they are putting in place for their clients and their client's future generations.

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