

GAO
 Accountability Integrity Reliability
Highlights

Highlights of [GAO-08-778](#), a report to the Chairman and Ranking Member, Committee on Finance, U.S. Senate

Why GAO Did This Study

The Cayman Islands is a major offshore financial center and the registered home of thousands of corporations and financial entities. Financial activity in the Cayman Islands is measured in the trillions of dollars annually. One Cayman building—Ugland House—has been the subject of public attention as the listed address of thousands of companies.

To help Congress better understand the nature of U.S. persons' business activities in the Cayman Islands, GAO was asked to study (1) the nature and extent of U.S. persons' involvement with Ugland House registered entities and the nature of such business; (2) the reasons why U.S. persons conduct business in the Cayman Islands; (3) information available to the U.S. government regarding U.S. persons' Cayman activities; and (4) the U.S. government's compliance and enforcement efforts. GAO interviewed U.S. and Cayman government officials and representatives of the law firm housed in Ugland House, and reviewed relevant documents.

What GAO Recommends

GAO makes no recommendations in this report. The Commissioner of Internal Revenue, the Secretary of the Treasury, and the Leader of Government Business of the Cayman Islands were provided a draft of this report for review and comment. GAO received technical corrections which were incorporated as appropriate.

To view the full product, including the scope and methodology, click on [GAO-08-778](#). To view the E-supplement, click on [GAO-08-1028SP](#). For more information, contact Michael Brostek at (202) 512-9110 or brostekm@gao.gov.

CAYMAN ISLANDS

Business and Tax Advantages Attract U.S. Persons and Enforcement Challenges Exist

What GAO Found

The sole occupant of Ugland House is Maples and Calder, a law firm and company-services provider that serves as registered office for the 18,857 entities it created as of March 2008, on behalf of a largely international clientele. According to Maples partners, about 5 percent of these entities were wholly U.S.-owned and 40 to 50 percent had a U.S. billing address. Ugland House registered entities included investment funds, structured-finance vehicles, and entities associated with other corporate activities.

Gaining business advantages, such as facilitating U.S.-foreign transactions or minimizing taxes, are key reasons for U.S. persons' financial activity in the Cayman Islands. The Cayman Islands' reputation as a stable, business-friendly environment with a sound legal infrastructure also attracts business. This activity is typically legal, such as when pension funds and other U.S. tax-exempt entities invest in Cayman hedge funds to maximize their return by minimizing U.S. taxes. Nevertheless, some U.S. persons have used Cayman Island entities, as they have entities in other jurisdictions, to evade income taxes or hide illegal activity.

Information about U.S. persons' Cayman activities comes from self-reporting, international agreements, and other sharing with the Cayman government. The completeness and accuracy of self-reported information is not easily verified. While U.S. officials said the Cayman government has been responsive to information requests, U.S. authorities must provide specific information on an investigation before the Cayman government can respond.

The Internal Revenue Service has several initiatives that target offshore tax evasion, including cases involving Cayman entities, but tax evasion and crimes involving offshore entities are difficult to detect and to prosecute. Cayman officials said they fully cooperate with the United States. Maples partners said that ultimate responsibility for compliance with U.S. tax laws lies with U.S. taxpayers. U.S. officials said that cooperation has been good and that compliance problems are not more prevalent there than elsewhere offshore.

Ugland House, George Town, Grand Cayman Island

- Sole tenant is Maples and Calder law firm, which provides registered office services to companies established in the Cayman Islands
- 18,857 registered entities at the Ugland House address
 - Very few have a significant physical presence in the Cayman Islands
 - Five percent wholly U.S. owned
 - Fewer than 50 percent have a U.S. billing address



Source: GAO photograph and statistics obtained from the Cayman Islands government and Maples.