



The International Asset Protection Trust

Your primary tool for international diversification,
asset protection, estate planning and financial privacy

Trust Training Module Two

Trust History, Legal Background and Tax Theory
(Plus A Glossary of International and Legal Terms)

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INTRODUCTION

Welcome to the world of the Alliance Asset Management (or AAMI) International Asset Protection Trust. That may sound like a mouthful, but it is important, now that you have established this relationship, that you understand the scope and power that the trust can provide for you and for your family.

You are in good hands with the AAMI trust, working with an organization that, at the time of this program has approximately 154,000 clients in 142 countries around the world. This makes AAMI one of the largest, of not THE largest, trust organizations in the world. AAMI has evolved from a company originally established in 1992 called Prosper International Limited, which was usually referred to as PIL. After 14 years, the company now has a number of different "gateways" through which you can arrange your relationship to the trust and the other entities and products that are available through AAMI.

Whether you purchase your trust through AAMI directly, through PIL, through FOREX 411, through West Redding or through another entity, you are essentially purchasing the same outstanding trust product as offered through AAMI, so the information in this program generally applies to all clients worldwide, regardless of how you may have accessed the trust product.

In this program, we will discuss all the key elements of your relationship to the trust. The program is broken down into three modules. You are reading and/or listening to Module Two right now. The first module was designed to provide you with a general overview of trusts with a basic structure for their use. Module Two, that you are reading and/or listening to now, involves trust history, legal and tax theory regarding trust, as well as a detailed glossary of international and legal terms and acronyms. Module Three of the program will provide you with more practical and specific information on how you can use the AAMI international asset protection trust to expand your international horizons.

WHAT IS A TRUST?

Before we talk about trusts, let's talk about trust, as a concept. Trust is defined as the expectation of regular, honest, cooperative behavior based on shared norms or values. "Trust" in this sense becomes an economic value because it lowers what economists refer to as transaction costs. In other words, when people who work together trust one another, their interactions and transactions are conducted in harmony and therefore, without the direct or indirect expense of negative behaviors ranging from errors to theft or sabotage that arise from conflicting values within a group. As a result, "trust" lowers the cost of living or the cost of doing business for all involved.

From this idea comes "the trust," wherein several entities work together toward the same purpose under a shared set of values.

There are many different types of trusts in the world. There are living trusts, spendthrift trusts, pure trust organizations, asset protection trusts and many, many other variations. The focus of this program is on the international asset protection trust.

The trust essentially is a contract. That contract involves a minimum of three parties: the settlor (or grantor...those names can be used interchangeably), the trustee and the beneficiaries.

Once he or she has made the choice to create the trust relationship, the settlor or grantor of a trust then transfers assets into the trust to be managed by the trustee for the ultimate benefit of the third party or parties called the beneficiaries.

In the legal sense, a trust is a device that allows title to and possession of property to be held, used and/or managed by one person or entity, known as the trustee. The trustee becomes the legal "owner" of the assets that the real owner (the settlor) places or transfers into the trust. Property that forms the contents of a trust (the trust property) can include anything that can be transferred, such as money, shares, real estate and personal property.

Under the law, legal title and ownership of the trust property passes from the settlor to the trust. Control of these assets is vested in the trustee for as long as the trust exists. The trust beneficiaries receive only an equitable title to the income or assets of the trust, as described under the terms of the trust declaration or contract.

The first element in any person's financial, tax and estate planning should be an irrevocable and discretionary trust such as the one you have already established. As a legal mechanism for financial management, this type of trust is one of the most flexible available. Trusts are useful for almost any purpose that is not illegal or against public policy. In general, though, the primary purpose of a trust is to protect assets from judgments and other settlements (thus the term "asset protection trusts"). Estate planning and financial privacy come in as a close second.

Trusts may be implied by law, or can be expressly created verbally or by a written document, depending on the nature of the trust property. For tax planning purposes the trust is established with a written document called a Trust Deed, a Declaration of Trust, or a Trust Instrument. As will become apparent later in this program, trusts can be domestic or offshore ("offshore" being defined as created in a jurisdiction outside your home country), with the latter providing the greatest advantages for asset protection, financial privacy and international diversification.

In any case, establishing and maintaining a trust can be a relatively simple and inexpensive operation that provides significant protection in a secure and confidential environment.

COMMON LAW JURISDICTIONS VS. STATUTORY JURISDICTIONS

Before continuing our discussion of trusts, it is important to understand the differences between common law and statutory law.

Common law is the law of the land and the basis for the US Constitution. Statutory law is legislated law enacted by a legislative body such as Congress, State Senate, Town Council and other levels of government, whether foreign or domestic. Common law comprises the body of principles and rules of action relating to government and the security of persons and property. Unlike statutory law, which is based on legislative

statutes, common law derives its authority from usage and customs, or from judgments and decrees of courts that recognize, affirm and enforce those usages and customs.

Over the centuries the concept of the trust, born of the common-law tradition, was greatly refined by use and development, particularly in British common-law nations. Later, U.S. court decisions also played a key role in refining the common law of trusts, with significant legal and tax consequences.

Today, few Americans and others around the world even realize that they have a fundamental choice. They can live and conduct business either under common-law jurisdiction or statutory jurisdiction. It is possible for an individual or company to operate according to the basic principles of freedom inherent in human nature.

Fundamentally, these are the rights to own property, the right to engage in voluntary exchange and the sanctity of a contract. These principles are also the basic common law rights as intended by America's founders in accordance with the U.S. Constitution.

AN OVERVIEW OF COMMON LAW

Because these trusts are rooted in common law, it's important to know something about that legal tradition and how it differs from statutory or legislated law. Until the 12th century, law in the western world consisted of written civil laws all traceable to Roman law. The basic legal system still prevails in many countries. However, after the Norman Conquest of Britain in 1066, a legal tradition called the "common law," which was quite different from the civil law code, began to develop in England. In the 1100s during the reign of the legal reformer, King Henry II, court decisions were written down and catalogued according to the type of case. Then when the courts were called on to decide similar issues later, they reviewed the earlier decisions. If they found one a case that covered the earlier decisions, they applied the principle to the earlier decision. They called this doctrine *stare decisis*, a Latin term meaning "to stand by the decision."

Under the rule of *stare decisis*, once a legal issue has been resolved as it applied to a particular set of facts, a court did not reconsider that legal issue in a later case where the factual circumstances were substantially similar. While this did not mean that every decision stood forever, the principle of *stare decisis* was a strong one. Judges were reluctant to discard well-established rules and took great pains to explain a significant departure from a precedent.

During America's colonial period, English common-law tradition did not change much. The US Constitution, ratified in 1789 and based on common law inherited from England, became the foundation on which the American legal system was built.

THE TWO FUNDAMENTAL COMMON LAWS

1. Do everything you have agreed to do. (This is also the basis for contract law).
2. Do not encroach on another person or their property. This is the basis for both criminal and tort law. (A "tort," from the French meaning a wrong, is harm done to someone).

HISTORY OF TRUSTS

Trusts are rooted in antiquity. Evidence of the earliest known trust was discovered in an Egyptian tomb, part of a document containing a personal last will and testament written in 1805 BC. Trusts existed in both Roman and Greek law as well.

Roman law officially recognized the trust concept, or fiducia (giving us “*fiduciary*” in English), during the reign of Emperor Caesar Augustus nearly 2,000 years ago. Imperial acceptance of the trust resulted from the actions of a deceitful friend whom a wealthy Roman asked to act as the trustee of his property after his death. Since his wife was not a Roman citizen neither she nor their children could inherit. So the Roman devised a plan in which he willed his property to the friend, in exchange for the friend's promise to use it only for the benefit of the children. After the man's death, though, his friend betrayed the trust by using the property for himself. When news of this wrong came to the Emperor's attention, the "trustee" was brought then before the Roman courts where he was found guilty of breach of trust, and punished.

This ruling was the first recorded judicial approval of trusts in Roman law. Thereafter the device became so popular among Romans that a special court was created to deal exclusively with trust matters.

In the Middle Ages trusts afforded the benefit of privacy. When the quasi-religious Order of Knights Templar acted as international financiers in Paris, the trust was a common device for royal and ecclesiastical investors to shield their financial activity from the public and from each other.

The trust may also have been the western world's first tax shelter. In 16th-century England, trusts took on tax-shelter aspects that allowed citizens to avoid feudal taxes on property inheritances and transfers.

A COMPARISON OF DOMESTIC & INTERNATIONAL (OR “OFFSHORE” TRUSTS)

DOMESTIC TRUSTS

A domestic trust is one that you set up within your home country. A revocable living trust is a common example of domestic trusts that many Americans use. But these living trusts have no tax advantages, and do nothing to protect your assets against lawsuits. Domestic trusts do not provide the same degree of protection and tax avoidance that offshore trusts do. This is primarily because your assets are still subject to the laws of your home country (or in the case of the U.S., the laws of one of the 50 states), which makes them vulnerable to judgments and taxes. In addition, it is typical for the settlor of a living trust to also serve as the trustee and as such, can be ordered by a court in the domestic jurisdiction to transfer assets out of the trust to satisfy a judgment.

USES FOR DOMESTIC TRUSTS

Protection for others. The simplest use of a domestic trust is to set aside property for your family or others and protect it from your potential creditors. The assets also will be protected from the beneficiaries' creditors if you give the trustee discretion in making distributions.

A special rule applies to income a trust earns by selling assets with built-in profits. If you transfer an appreciated asset and the trust sells it within two years, the trust pays tax on the built-in profit at the rate determined by your tax bracket. The trust is liable for the tax, even if it distributes the built-in profit to the trust's beneficiaries the same year, but the beneficiaries pay no additional tax on it.

Protection for yourself. You indirectly can use a domestic trust of which you are not a beneficiary to safeguard your own assets. The trust can serve as a kind of hook, to which you attach the assets you want to protect.

For example, suppose you want to put your personal residence beyond the reach of potential creditors. Transfer at least a modest amount of cash, equal to at least 10% of the value of the house to an irrevocable trust for the benefit of your children. Authorize the trust to purchase insurance on your life or include some other provision that helps clarify it as a domestic protective trust.

Sell the house to the trust at fair market value. The trust pays by (1) giving you a cash down payment, (2) assuming any existing mortgage, and (3) executing a deferred-payment contract for the remainder of the purchase price. Then lease the house back from the trust, paying the trust a fair market rent.

The trust will use the rent to pay the mortgage, property taxes and maintenance costs, and to pay down the remainder of the purchase price or accumulate money for that purpose. Because the trust is a grantor trust, neither the sale nor the lease affects your tax bill. You get a tax deduction for the mortgage interest and property taxes the trust pays, just as though you were paying them.

The net economic result is a deferred-payment sale of the equity in your house. Because the trust may elect not to make payments for many years, the contract is far less attractive to a potential creditor was than your house.

Strategic timing as judgment-proofing. There are other ways a trust, of which you are not a beneficiary, can help protect your assets; as long as the trust itself is safe from your creditors.

So transferring even a small sum to a trust early, before any event that might lead to a lawsuit, can protect much larger amounts later.

Estate tax savings. Trusts are essential to many strategies for avoiding gift and estate tax.

OFFSHORE TRUSTS

Offshore trusts can do everything domestic trusts do, but offshore trusts provide you with advantages that no domestic trust can. You can establish an offshore trust to:

- Achieve substantially stronger and more reliable protection from creditors.
- Protect assets even if you are a trust beneficiary.

- Create powerful tax-saving machinery for your heirs.

WHAT IS AN OFFSHORE TRUST?

"Offshore trust" is a broad category that covers any kind of trust established outside your home country for any purpose. However, since their primary focus is safety and tax savings, this section concentrates on those that protect your assets and avoid taxes. Offshore trusts in which the arrangement spans more than one legal jurisdiction can be administered effectively in the many offshore tax havens with an English-based legal system. Historically, the trust was either not recognized or used as a legal arrangement in these countries. As a result, these countries usually lack anti-tax avoidance provisions relating to trusts that offer an opportunity for legitimate tax-avoidance and asset protection for their residents.

In simplest terms, here's how an offshore trust works: a resident of a high-tax area (you, the settlor) transfers ownership of the trust property to a resident of a low-tax area. This person or entity (such as a bank, a law firm or a trust company) becomes the trustee. The trust instrument will set out how the trustee should invest and deal with the trust property, when and to whom distributions should be made, and other powers the trustees will exercise at their discretion. The protector (typically you, a member of your family or a close friend) works closely with the trustee to help protect your interests.

Transferring the trust property to the trustee gives you (as settlor) two economic advantages. First, because the legal ownership of the trust property becomes vested in the trustee, the property is no longer taxed as part of the settlor's estate. And second, if the trust is properly managed, it can earn and accumulate income and make tax-free distributions for the length of the trust period. (Perpetual trusts are not generally permitted, and the maximum life of a trust and periods for which interest may be accumulated, vary among jurisdictions. An exception is the Turks and Caicos Islands, where under the trust law applicable in that jurisdiction there are no limitations on the duration of a trust or the accumulation period).

THE BENEFITS OF AN OFFSHORE TRUST

An offshore trust is a fortress of financial safety stronger than family limited partnerships or any trust you can set up at your local bank. It lets your wealth "emigrate" while you stay home. When you transfer assets to the trust, you place them under the laws and courts of the country you choose. By doing this you remove those assets from the laws and courts of your home country. In this way, an offshore trust enhances your freedom as well as your safety.

Every dollar, pound, yen or franc you send to the trust is a dollar, pound, yen or franc that an agency of your home government cannot take. In the right circumstances and used properly, an offshore trust gives you:

ASSET PROTECTION

Asset protection, along with tax avoidance, is a key benefit of a properly structured offshore trust.

The trust can be a fortress precisely because it is offshore. The assets you send to a properly structured offshore trust "leave" the system that governs all your other assets. An offshore trust also puts assets beyond the reach of potential creditors as well as government agencies. That's because a trust lets you "resign" as an owner of an asset but still benefit from it. It's your resignation that protects the asset: since you no longer own it, no one can force you to hand it over.

So no matter what happens at home, those assets will be in the trust for when you need them.

The trust can use the accumulated assets to help you and your family. In fact, withdrawing money from the trust can be as simple as using a credit card or getting tax-free cash from an ATM. Or the trust can send you money tax-free or as a long-term capital gain.

In the U.S., asset protection trusts for Americans are fully legal. US law is clear on what is permissible and what is not. Asset protection trusts are simply protection against unfair lawsuits and give a level playing field. As always, you must be sure to structure the trust so that you never misrepresent yourself or have to be concerned with the trust's legality. Again, the best way to do this is to use professionals.

FINANCIAL PRIVACY: If you set up the trust in an offshore haven, a "zone of privacy" will surround the trust. This means no one can get information from the trustee. You can extend this zone anywhere in the world, even into the U.S.

INCOME TAX SAVINGS: Depending upon your jurisdiction of residence, if you select a trustee who will manage the trust with an eye to tax consequences, the trust may allow you to reduce your income tax liability.

ESTATE-PLANNING ADVANTAGES: The safety and income tax advantages free you to make lifetime gifts to family members, and to make wealth-shifting transactions that chip away at your taxable estate. And you can put your foreign trust on the receiving end of those transactions.

FINANCIAL-PLANNING ADVANTAGES FOR YOUR HEIRS: Unlike property you leave in your will, property you leave in the trust need never be subject to estate tax. The trust itself (apart from the assets it contains) can be a powerful financial-planning tool to benefit your heirs for generations. After your death, the trust automatically disconnects from the home country tax system. As a result, your beneficiaries will have no tax liability for earnings the trust accumulates, and no obligation to file tax returns or other reports on the trust's activities. And they can use it to protect their own assets and reduce their own tax bills.

THE IMMEDIATE ADVANTAGE

It may be difficult at first to appreciate how simple it is to exploit the protective power of an offshore trust. If all you want from the trust is to protect your assets from potential creditors, you can have that protection now, with no special conditions or complex tax considerations. Assets you transfer (validly) to the trust "disappear" until you or another beneficiary need them. Invisible. "Gone." No one can seize those assets, and no one can make you bring them back onshore.

Having an offshore trust is something like having your own international agency dedicated to the well being of and financial security for you and the people you care about. Remember, this protection can continue as long as you like, even past your lifetime.

For this reason a trust is an excellent means of protecting the assets of your estate. The level of safety is high, and your assets are accessible to you or to the person(s) you choose, at the time you specify.

VERSATILITY

Trusts are versatile. You can design one to fit your purpose exactly, to shift tax burdens from one person to another, shrink your taxable estate, protect wealth from lawsuits, and even protect trust beneficiaries from their own inexperience. A trust can:

- Conduct a business.
- Hold title to and invest in real estate, cash, stocks, bonds, negotiable instruments and all sorts of personal property.
- Take care of minors or the elderly (for example, by paying medical, educational and other expenses).
- Assist in the execution of a premarital agreement.
- Provide financial support in retirement, marriage or divorce.
- Serve as a major avenue to avoidance of the probate muddle and the burden of inheritance taxes.

A CAUTIONARY NOTE: In keeping with the Legal Disclaimer at the beginning of this program, it is important to be clear that, even with the discussion of taxes in the previous section, we are not here to give tax or legal advice. The relationship of an international asset protection trust to a U.S. citizen for example, does present some challenges with regard to any “tax-free” distribution to you, as settlor or your beneficiaries. However, a properly structured trust does present a variety of benefits, including potential tax savings. Please seek out competent advice regarding your individual situation.

TWO MAIN TYPES OF TRUST

The two main types of offshore trusts you can set up are the discretionary trust and the asset protection trust. You can also use these in combination.

DISCRETIONARY TRUSTS

No beneficiary has a fixed interest in the trust such as the right to receive a fixed share of its income or capital. Instead, the trustee, working with the protector (you), has wide discretion in dividing benefits among the beneficiaries. In short, with the protector's advice, the trustee determines who gets what, and when, but gives preference to your own financial needs.

With that as the basis for operating a trust, the general principle in tax haven jurisdictions is that if the trust is created (settled) by a non-resident settlor, (you) solely for the benefit of non-residents, and it derives income from outside the jurisdiction, the trust will be free of all taxes and duties.

Usually the trust instrument will specifically exclude from the potential class of beneficiaries any residents of the jurisdiction in which the trust is administered. But under modern tax law, main-land tax agencies in jurisdictions that recognize a trust as a legal entity tend to look through the trust arrangement if any beneficiaries are entitled to the income of a trust (or to have it applied for their benefit), and tax them accordingly even if they were never actually paid any of the money.

For this reason, modern practice is for the trust property to be settled on the trustees, who hold it to apply the income, the capital or both for the benefit of a class of beneficiaries in whatever proportion the trustees think is appropriate. This way, no one can then say that any one beneficiary is legally entitled to a share in the trust's income or capital because the trustees may decide to exclude that beneficiary in favor of the other members of the class. Home country tax authorities will assess the beneficiary only on the amounts paid out while he or she is a resident within the jurisdiction.

In addition, remember, because you as the settlor divested yourself of legal ownership of the trust property, it's no longer part of your estate, and therefore not subject to inheritance taxes.

Apart from the favorable tax treatment of the trusts, advantages of the offshore discretionary trust include:

- The ease and speed with which a trust can be established.
- The ability of a trust to form and own companies, and a company that the trust wholly owns may be used to hold the trust property. This arrangement may have advantages in terms of administration, since such a company may be exempt from income tax. Because there is no requirement to file the trust instrument, the true beneficial ownership of the company can remain confidential.
- Generally no requirement to file trust accounts.
- No requirement to disclose the settlor's identity.
- The ability (in some jurisdictions) to create a trust where no beneficiaries are named at the outset.
- The ability to appoint a counselor (also known as a guardian or protector) without whose consent the trustees may not exercise certain powers. But it's important to treat this carefully, so that it is not left open to interpretation by home country tax authorities as your attempt, as the settlor, to keep some control over the trust property.
- The common custom that the trust instrument be accompanied by the settlor's Letter (or Memorandum) of Wishes. While not legally binding, the trustees can use it as a guide in deciding on distributions to beneficiaries. You can change or update the Letter whenever it needs to meet a change in your circumstances.
- Due to the long-term nature of the trust, the common practice of including a provision for moving the trust to another jurisdiction in certain specified circumstances (such as political upheaval, or the re-imposition of exchange controls or higher tax levels). Simply put, you can use the discretionary trust not only as a way to divest yourself of certain assets. It's also a tool for wealthy expatriates working overseas to safely accumulate savings off-shore, since those assets will not be part of their taxable estate when they return to their home country. And in conjunction with an offshore company, the discretionary trust

serves international traders who want to accumulate profits offshore for the benefit of others.

ASSET PROTECTION TRUSTS

The asset protection trust is a newer form of trust instrument. If you have assets to protect from meddling courts, foreign trust laws can help you. Some small countries, including several tax havens, do not recognize court judgments of other countries. The judgments could relate to business, divorce, malpractice, negligence, inheritance or even libel. These countries have now introduced laws, which reduce to fairly short periods, the time in which legal action must be taken, especially when transfers for fraudulent purposes are alleged. By the time your assets have been located it will, hopefully, be too late to start proceedings.

For example, malpractice damages awarded in U.S. courts are often in excess of the malpractice insurance coverage that professionals can afford (if they can even get the coverage level they need in the first place) in what is now a highly litigious society. Even with coverage, there is always the possibility that the insurer will refuse to pay; and certain risks may not be insurable. As a result, asset protection trusts are popular among healthcare providers, design engineers and other U.S. professionals who practice without the benefit of limited liability.

USES OF AN ASSET PROTECTION TRUST

Malpractice, negligence, business liability. While the law will not generally allow trusts to defeat or defraud current or known pending creditors, they can be effective against unknown future claimants. So an asset protection trust may remove or reduce the anxiety of an engineer, dentist or business person who otherwise would fear a potential malpractice claim. The first step toward protecting your assets is to set up a trust in a jurisdiction whose laws specify a suitably short period for legal proceedings. Although the trust is offshore, your assets may not physically leave your country of residence. Nevertheless, complicated laws make it very difficult for your opponent's lawyers to put their hands on them, even when a court has made a judgment against you. This gives you the leverage to settle at a much lower figure than you might have had under an enforceable judgment. In fact, the typical settlement in such cases is often just 15% of the original demand. (A doctor who was facing malpractice claims amounting to \$7 million settled those cases for \$18,000).

Clearly, one key benefit of the asset protection trust is peace of mind knowing you're secure from potentially ruinous civil action.

Another common situation in which this type of trust can protect you is in business. As an owner or director, you need protection against business liability, product liability and even environmental or pollution claims. Or perhaps you've had to give personal guarantees for business finance and personal loans or leases. Your personal assets need protection in case of default.

DIVORCE AND OTHER SETTLEMENTS: Americans and others also turn to asset protection trusts to protect them from huge unfair divorce settlements. Similarly for the wealthy individual in general, this kind of trust allows assets to be disposed of based on

the owner's wishes rather than any statutory obligation. In countries with forced-heirship laws, for example, and with the growth of stricter liability laws, these trusts are becoming increasingly popular outside the U.S. as well.

OTHER USES:

In addition, you can use this trust to:

- Avoid exchange controls or seizure of assets (particularly moveable assets) by the authorities
- Hold shares in offshore companies
- Avoid or defer taxes
- Sidestep death duties (and probate delays); restrict an undeserving relative's legally- mandated claims (as under English law) on your estate
- Set aside funds for your children's education

Countries where this type of trust is set up often have no treaties enabling foreign court orders to be enforced. Legal action may be started against you in the country where the trust is held, but lawyers there often require a bond from the person suing you, to ensure they receive the fee whether they win or not. A number of offshore jurisdictions such as Gibraltar and TCI introduced legislation that gives a specific statutory basis for setting up asset protection trusts without some of the legal uncertainties which do in fact attend trusts that rely only upon a common law base.

THE TRUST AS A "WORKING PARTNER"

Whether discretionary or asset protection, an offshore trust works smoothly with other financial planning devices, and can even increase their effectiveness.

For example, if you have a:

- Family limited partnership, a trust can be a limited partner or own a corporation that serves as a general partner.
- Family business corporation, a foreign trust can protect it by owning some or all of the stock,
- Living trust, it can receive money from the foreign trust when you need it or send money to the foreign trust after your lifetime.
- Will that calls for property to be held in trust for your heirs, the trust will give them the greatest benefit.
- Qualified pension plan, the trust can collect any portion of your benefit or IRA you don't spend in your lifetime and rescue the money from income tax.

You can leave the trust any assets you have held privately outside the U.S. without compromising that privacy.

TRANSFERRING ASSETS TO THE ASSET PROTECTION TRUST

To create a valid trust, you must actually transfer property to the trustee. The trust instrument alone may not accomplish this. Therefore, if you want to transfer stock to the trust, you would endorse the stock certificates and deliver them to the trustee. To

transfer real estate, you would execute and record the deed, naming the trustee as owner.

THE TRUSTEE'S ROLE

Once your trust is set up and assets are transferred into it, the trustee at his discretion manages them in your best interest and distributes assets and income to the trust's beneficiaries, to you and to anyone else you name.

In principle the trustee has the same opportunities to defer and avoid taxes for you as you do. But in practice the trustee may have much greater success than you would, for several reasons: Expertise Tax planning is (or should be) part of the trustee's business. The trustee knows where to research information and has the expertise to be creative in applying it for your benefit.

MORE ALTERNATIVES

The trustee has a greater range of global investment choices.

EFFICIENT SHOPPING

The trustee has buying power. Because the assets under the trustee's management are so great, it is practical for the trustee to search extensively for the right investments and to exact favorable terms from sellers. (When you look for ways to defer income on your own, high fees or substandard returns may eat up much of the tax benefit. The tax advantages of life insurance sold in the U.S., for example, are enormous; but fees or low returns may offset the bulk of the tax savings).

TAXABLE "MATCHMAKING": The trustee manages many separate pools of capital, including those that are not subject to U.S. taxation. It is relatively simple and inexpensive for the trustee to arrange a tax-planning transaction between one pool and another.

SPECIALIZATION: It's usually easier for the trustee to defer taxable income than it is for you. All the pools of capital the trustee manages are earmarked for long-term or other specific investing purposes (whereas you would find it difficult to isolate part of your capital for long-term planning).

THE TRUSTEE HAS ONE MORE VERY IMPORTANT ADVANTAGE

After your lifetime your trust will no longer be a settlor trust so that eventually no one will have a tax liability for its income.

In addition, the trustee can help the beneficiaries not just by distributing money to them directly, but indirectly as well. For example, the trustee can have the trust buy a house for a beneficiary to live in; hire a doctor or a lawyer for a beneficiary; or pay a beneficiary's bills. And the trustee can lend trust money to a beneficiary or invest it in a beneficiary's business. All of this is done at the trustee's discretion.

THE TRUSTEE'S DISCRETION

This discretionary authority is at the heart of the trust's power to protect. To the uninitiated, the trustee's extensive and "absolute" discretion might sound like a dangerous thing; like giving a stranger your money and the power to use it on your behalf, and hoping for the best. But that isn't what "discretion" means.

The trustee's discretionary power doesn't allow it to act at its own pleasure or convenience, or for its own profit or other advantage. The trustee's discretion is only the authority to act in accordance with the purposes of the trust i.e., for the welfare of the beneficiaries as codified in the trust document. In actuality, the trustee's discretionary authority enhances the trust's power to protect your assets and reduce taxes for succeeding generations. And additional provisions in the trust document can reinforce that power. For example, the trust document can spell out additional rights and authority for the trustee, such as postponement. This gives the trustee the right to delay payments to a beneficiary in order to prevent the beneficiary's creditors from seizing the money. If the trustee knows your creditors are waiting at your mailbox for a check from the trust, the trustee can ensure that they have a long wait.

SPENDTHRIFT CLAUSE

This obligates the trustee to disregard any instruction from beneficiaries to pay money that is due them to any third party. The clause is so named because it protects imprudent beneficiaries from squandering future benefits, and from being forced to transfer their rights to creditors.

FLIGHT CLAUSE: This authorizes the trustee (and/or you as protector) to move the trust to another country, thereby protecting the trust against unforeseeable changes in the country where the trust is established. It also discourages a beneficiary's creditors from attacking the trust; they would know that the trust could disappear to another haven in an instant. (Of course, if the trust is moved, it would be administered by a new trustee and governed by the laws of its new country).

Clearly, the trustee's discretionary power is not a license to act arbitrarily or out of whim. On the contrary, the trustee is obligated to follow the protector's advice and direction (and since the trustee's business is to earn trustee fees, it ordinarily wants to avoid being replaced. So you can expect the trustee to weigh your advice carefully and give full consideration to your recommendations). In fact, following your advice is the trustee's easiest and safest path (provided, of course, that you don't suggest something unreasonable or that would violate the trust). The trustee is also obligated to use its own discretion responsibly, and exercise that discretion when it would be unreasonable not to.

For the trustee, then, discretion is duty. And that duty is enforceable by law. For all of these reasons, and because the trustee is a professional company of many years' standing, the assets in the trust are usually quite safe.

But you also have the security of knowing that if need be, you and/or the protector can remove and replace the trustee at any time.

THE PROTECTOR'S ROLE

The trustee's discretion keeps the trust safe, but the protector's powers make it safe to give the trustee so much discretion.

As protector, you (or the person you name as protector) can:

- Consult with the trustee on any matter relating to the trust, including investment decisions and distributions to beneficiaries. As explained above, the trustee is authorized to rely on the information and advice you, as protector, give it.

- Force the trustee to resign if you find his performance unsatisfactory, and replace him/her with another.
- Appoint your own successor as protector (who in turn has the power to appoint his own successor).

To reinforce the protector's powers, the trust document should include carefully crafted provisions that protect your autonomy and insulate you as protector from pressure or coercion, especially from court orders. The trust document should spell out terms that authorize the protector to act only out of free will, so that any action the protector takes (or attempts to take) under duress would be void. As an example, this provision would prevent anyone from forcing you to appoint a new trustee; such as a bank in your home country that would follow a domestic court order to turn over trust assets to creditors, litigants or tax authorities.

SETTING UP A TRUST

To create a trust, the settlor signs a written document or indenture that gives specific details of the trust operation and its income distribution, both during the settlor's life and after.

WHERE TO SET UP THE TRUST

As stated throughout this report, a properly structured offshore trust is designed to protect you and your assets. By selecting the right country for your offshore trust, you adopt laws that are friendly to people who want to keep what they earn, and a legal system that is hostile to adventurous litigants. You are placing your property under the jurisdiction of courts that revere the stability of the law, not courts that delight in testing novel legal theories.

And with an offshore trust, you get an offshore trustee. The offshore trustee can do what a domestic trustee cannot: Say "No" to the demands of domestic courts and agencies. Using an offshore trust to shield assets from lawsuits is wonderfully straightforward. Almost all you need to note is that the trust is foreign, and as such it is subject to the courts of the country you chose.

For complete protection, your offshore trust should: Be located in a country that welcomes investors who want to safeguard their assets. Be governed by a trust document that will frustrate potential creditors. Hold assets in its name in an advantageous foreign country, and not in your home country

While you can use the trust for tax advantages, of course, you also have the option of using an offshore trust for asset protection only. If you satisfy these conditions (which isn't difficult), future creditors cannot get their hands on your trust's assets.

WHICH COUNTRY?

Choose a country with a well-established body of trust law. In practice, that means a country with an English common-law legal system, as discussed earlier. The country should also have a strong sense of territoriality, so that its courts will not automatically accept the findings and enforce the judgments of courts elsewhere. The country's fraudulent-transfer laws should be limited both in principle and in fact. They should

protect only those creditors whose claims arise from events or circumstances preceding the transfer of assets to the trust.

Historically, jurisdictions where your assets can be protected included: Belize, the Bahamas, the Cayman Islands, the Cook Islands, Gibraltar, Grenada, Panama, St. Vincent and the Turks and Caicos Islands. Others that have changed their laws recently include the British Virgin Islands, the Isle of Man, Jersey and Guernsey.

In short, the fiscal paradise that will protect you best depends on your circumstances. But any country that operates under a legal system based on English common law is likely to be suitable.

A FINAL NOTE

Essential to a trust and its usefulness as a financial tool is the intention of the settlor (you) to transfer the trust property to the trustees. Sometimes settlors believe that when the property is transferred, the trustees will simply follow the settlors' instructions for the property.

But remember, even if you are the trust's protector, as settlor you must properly divest yourself of legal and "beneficial" ownership of the assets, and the trust documentation must reflect this too. Otherwise, it might be interpreted that you did not properly establish the intention to create a trust in the first place. If that happens, the assets in the trust could be legally vulnerable to creditors, litigants and tax agencies. In other words, the assets would not be protected by the protective trust you thought you had set up.

Simply stated, establishing and maintaining a trust must be taken seriously. Create a trust only after you do the homework and get expert advice. Know the trustees and be confident that they will exercise their powers in favorable and reasonable ways. (Remember, too, that they cannot blindly follow your instructions: the trustees must have control for your assets to be protected).

Finally, consider your purposes for establishing a trust and which features will best meet those purposes.

REACHING AN IDEAL

Ideally, you would conduct your life and your business in such a way that you never have to go to court. It's enemy territory not a good place to fight.

So how do you reach this "ideal"?

Ultimately, it's your own determination, ingenuity and resourcefulness that will deflect the opposition. And if you are well prepared, it's relatively easy.

First, attempt to organize matters so the opposition isn't aware of you as a threat or a potential target.

And second, take measures that will discourage the opposition, motivate them to see you as a tough nut to crack, and look for easier pickings somewhere else.

And always remember, that educating yourself in these matters is vitally important. Ongoing education is also vital as the international arena is a constantly evolving area. Surround yourself with those of like mind and nature and you will have a support system of people and organizations that can assist you in your path toward personal and financial freedom and privacy. Personal responsibility in all areas is a key to success not just in the international arena but in life itself.

We wish you the best in all your pursuits.

This is the end of Trust Module Two. In the e-book section of this Module, you will find an extensive Glossary of commonly used terms relating to the international arena and its associated legal issues.

Please review these carefully and then move on to:

**Trust Training, Module Three
Practical Use of the AAMI International Asset Protection Trust**

GLOSSARY OF INTERNATIONAL AND LEGAL TERMS

Acceptance: An agreement either expressly or by conduct to the act or offer of another so that a contract is concluded and the parties become bound.

Acknowledgement: A declaration or avowal of one's act or a fact to give it legal validity; a declaration by one who has executed a deed before a duly qualified public office that the execution was a free act and deed.

Affirm to assert positively: To tell with confidence; to maintain as true.

Agreement: A concurrence in an engagement that something shall be done or omitted; an exchange of promise, mutual understanding, arrangement or stipulation; the language embodying reciprocal promises.

Articles of incorporation: Laws regarding what must be included in articles of incorporation are different in each jurisdiction. Most jurisdictions require an official corporate name; a statement of purpose as to why the corporation is being organized, the number, amount, description and nature of shares; and the names and addresses of all officers, directors, incorporators and registered agents.

Albatross of Debt: Since 1980, America has accumulated 4.5 trillion dollars of debt; moving from being the largest creditor nation to being the largest debtor nation.

Asset Protection: Arranging, placing, divesting, and distributing your assets so that they are legally shielded from lawsuits, claims, overreaching creditors, disgruntled relatives, high taxes, and law enforcement confiscation (civil asset forfeiture).

ATM Card: A card, which allows the bearer to withdraw funds from his/her own account at an Automatic Teller Machine.

Attest: to bear witness, certify, affirm as true or genuine.

Authorized share capital: The total subscription prices of all equity shares authorized by a corporation.

Bank Draft: When you purchase a bank draft (or bank check, travelers check or money order) payable to an offshore corporation, there is no requirement to report this transaction.

Base Money: The total money The Federal Reserve has created.

BCCI: Bank of Credit and Commerce International.

Bearer shares: Company shares that are not issued in the name of any individual. Possession of bearer shares entitles the holder to claim full ownership of their stated value.

Beneficial owner: The "real owner" of a company. This person may be different from the registered shareholder, as the latter may be acting in the capacity of nominee on behalf of the beneficial or real owner.

Beneficiary: The person (including the settlor of a trust) or organization designated to receive the income of a trust; granted assets as specified in a trust, will or other legal document. Beneficiaries of your trust can include yourself, members of your family, further descendants (including those yet to be born), charitable organizations, and anyone else you specify.

Bourse, Bolsa, Borsa etc.: A stock exchange. Sir Thomas Gresham called his innovative exchange in London the Bourse, but it was renamed in 1571, at Queen Elizabeth's wish, the Royal Exchange.

Branch: A secondary establishment through which a company carries on its business; in contrast to an associate or subsidiary, a branch is not a separate legal entity.

Brass Plate Company: A company that has no physical presence at its registered office other than its name at the outer door. Firms of lawyers and accountants in tax havens often provide registered office facilities to scores of brass plate companies.

Bylaws: Laws that govern a corporation: self-imposed rules to regulate how the corporation functions. They detail corporation members' rights and duties, and establish the

corporation's operating procedures, practices and policies. Bylaws also typically approve rules for the management of corporate affairs.

Capital Flight: The departure of funds, whether legally or illegally, from an unstable country to a safe haven. The intention is asset protection, rather than tax avoidance or evasion.

Capital stock: The total stock authorized or issued by a corporation.

Captive Insurance: Insurance with a company in the same group as the insured.

Generally, a captive is a wholly owned or controlled subsidiary company established by a non-insurance parent for the purpose of participating in the risks of the parent and its other affiliates or associates. Captive insurance companies are often operated by non-insurance multinational groups for the purpose of providing insurance cover for the companies within the group where such cover would not normally be obtainable or would be very costly if provided by third parties. This practice can reduce premiums sharply, as the insurer need not pay marketing costs and may also be able to accumulate reserves against possible losses in a favorable tax environment, although US tax law attempts to defeat this advantage in most cases. A captive often reinsures any risk that exceeds its own reserves.

Caribbean Basin Initiative: Established in the early 1980s, regional leaders of the Caribbean hoped that it would produce a substantial rise in Caribbean exports to the US, thus alleviating economic problems in the Caribbean. The most important part of the initiative, the Caribbean Basin Economic Recovery Act (CBERA) of 1983 (revised in 1990 with an indefinite life,) allowed eligible Caribbean nations duty-free access to the US for most exports until 1995. The CBERA, however, excluded some of the region's most important exports, including textiles, apparel, footwear, and sugar. Although nontraditional exports from the Caribbean to US increased during the first years of the initiative, Caribbean governments expressed disappointment with the program's overall results. The North American Free Trade Agreement between Canada, the US, and Mexico has hurt many Caribbean countries on key export products such as textiles by lowering tariffs between those three countries.

Caribbean Common Market (CARICOM): Consists of the following 14 sister-member countries of the Caribbean community: Antigua and Barbuda, Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, Montserrat, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Surinam, Trinidad and Tobago. Conspicuous by their absence are the Cayman Islands and the British Virgin Island, two major players in international banking and finance. The most extensive level of cooperation has occurred among the seven small islands and island groupings of the Eastern Caribbean. The seven – Antigua and Barbuda, Dominica, Grenada, Montserrat, St. Kitts and Nevis, St. Lucia and St. Vincent and the Grenadines – have a long history of integration that includes a common market, shared currency, and a joint supreme court. In 1981 they formed the Organization of Eastern Caribbean States (OECS) as a **CARICOM** associate institution to provide for enhanced economic, foreign policy, and defense cooperation.

CFC: Controlled Foreign Corporation.

Charging Order: A court order allowing a court to charge or hold liable the proceeds of a debtor's business interest for the payment of an amount due a judgment creditor. To the extent the order is issued, the creditor has only the rights of an assignee of the business interest.

Civil Law: The body of law based on the Justinian Code of Roman law and adopted as the basis of law in most non-English-speaking nations in Europe and Latin America.

Clearing House Inter-bank Payment System (CHIPS): A method of transferring money between banks. CHIPS is owned and operated by New York clearinghouse banks.

Closed-end Fund: A collective investment scheme in which capitalization is fixed and only the number of shares originally authorized may be issued. The fund does not undertake to issue and redeem its shares on a regular basis. Each fund varies as to its redemption terms. Because they need not fear a rush of redemptions, the managers can afford to take a longer

view when investing. Shares can be bought and sold on a secondary market (such as a stock exchange,) usually at a discount to their net asset value. British investment trusts are closed-end funds. Some kinds of mutual funds are closed-end funds.

Collective investment scheme: Any arrangement for pooling several investors' funds. The usual US term is: "investment company." The intention is that the pooled fund will be able to achieve economies of scale and a spread of investments that would be beyond the reach of individual investors. Collective investment funds, usually know as unit trusts, are very popular. They may be open-ended or closed-ended.

Comity: Courtesy; complaisance; respect; a willingness to grant a privilege, not as a matter of right, but out of deference and good will. The legal principle under which the courts of one jurisdiction will give validity to the laws and judgments of another jurisdiction.

Commodities Account: Some of the larger foreign banks have geared themselves up to trade in commodities on your behalf

Common law: The law of the land and the U.S. Constitution. It is an assembly of law from decisions and experiences over the years, as opposed to a specific statutory law on a subject.

(The) Commonwealth Caribbean: The term applied to the English speaking islands in the Caribbean and the mainland of Belize (formerly British Honduras) and Guyana (formerly British Guiana) that once constituted the Caribbean portion of the British Empire.

Community property: Community property is a system of marital property rights based on Spanish and French civil law. In community property states, husband and wife are treated as co-owners of all real and personal property acquired by either or both during the marriage, other than property acquired by gift, bequest, devise, or inheritance (which are considered the sole and separate property of the recipient).

Compounding: Pay (interest) on principal and accrued interest. 20% annually, free of tax, compounds to a sum 1200% larger over a lifetime than the same sum with tax. It is the difference between \$8 million and \$100 million over 40 years.

Confiscatory: To take by authority.

Consideration: The equivalent or return given by someone for the act or promise of another, classified as "good," "valuable," "continuing," etc.

Consummate: To bring to completion; to complete, finish, achieve

Contract an agreement in which a party undertakes to do or not to do a particular thing (John Marshall, Chief Justice of the US Supreme Court). The essential elements of a written agreement are: 1) parties competent to contract, whose names appear in writing; 2) subject matter of the contract or a clear statement of what each party agrees to do; 3) a lawful and valid consideration or, if composed of mutual promises, a clear statement of what each party agrees to do; 4) assent of the parties evidenced by their signatures on the written contract.

Contract: An agreement in which a party undertakes to do or not to do a particular thing. (John Marshall, Chief Justice of the US Supreme Court). The essential elements of a written agreement are: 1) parties competent to contract, whose names appear in writing; 2) subject matter of the contract or a clear statement of what each party agrees to do; 3) a lawful and valid consideration or, if composed of mutual promises, a clear statement of what each party agrees to do; 4) assent of the parties evidenced by their signatures on the written contract.

Corporation: A business, professional or other entity recognized in law to act as a single legal "person", although composed of one or more natural persons, endowed by law with various rights and duties including the right of succession.

Controlled Foreign Corporation: A concept of US tax law. Any corporation, where US persons have owned more than 50 percent of voting stock on any day in the relevant year. This percentage drops to 25 percent in the case of an insurance company writing US risks.

Conveyance: Act by which title to property (esp. real estate or sea vessel) is transferred; transfer of ownership; written instrument (e.g., deed) by which the title is conveyed from one person to another.

Corpus: The main body of a thing; specifically, the principal of a fund or estate (as opposed to interest, dividends, etc.).

Covenant: Agreement between two or more parties; a stipulation in an agreement; a promise of legal validity esp. a contract under seal or a particular agreement in a specialty or deed incidental to its main purpose.

CPI: Consumer Price Index: One measure of inflation.

Creator: The person who grants or conveys (as property); also grantor or settlor.

Creditor: One to whom a debtor owes money or other valuable consideration.

Credo a creed: A set of professed opinions or beliefs (Latin, "I believe".)

Cubicle Bank: A "brass plate" bank, issued a license to carry on banking business, typically by the authorities of one of the more popular tax havens, where the actual banking decisions are reached elsewhere and nominally put into effect by local subcontractors, who will often be a firm of accountants.

Curator: A temporary guardian or conservator appointed by the court. See Stiftungen.

Currency: The coin and currency of the U.S. or any other country, which includes U.S. silver certificates, U.S. notes and Federal Reserve notes, but does not include bank checks or other negotiable instruments not customarily accepted as money.

Currency Erosion: Against historically sound currencies, like the Swiss franc, Japanese yen, and the German mark, the dollar's power has evaporated to less than 30% of its value on a global scale.

Current Account: This is the most common type of foreign bank account, and the one that gives you the most flexibility in managing your funds. It allows you to withdraw all or part of your account balance at any time.

Cyber-Cash: International electronic money.

Debenture: A type of stock normally created by loan. Conditions of loan detailed by a debenture certificate. Debenture certificates normally specify amount of interest earnable by loan; amount of interest; conditions by which loan is transferable, and related concerns.

Debit card: A plastic card that looks like a credit card but is used to pay for purchases or to withdraw cash from the cardholder's bank account. The amount of the transaction is automatically and immediately deducted from the holder's account.

Debtor: One who owes another (the creditor) money or other valuable consideration, especially one who has neglected payments due.

Decedent: A person who has died.

Declaration of trust: An acknowledgement, usually in writing, by one holding or taking title to property he holds; property in trust for or to the use of another (a/k/ the trust indenture). A declaration of trust passes the equitable title but is not technically a grant.

Decree: A judicial decision.

Deed: A formal written document signed by the owner conveying title to real estate.

Directors: The group of persons chosen to govern the affairs of a corporation.

Disclosure: The legal obligation placed on a corporation to reveal certain professional activities to regulatory authorities and/or the public.

Discretion: Power of free decision; individual judgment; undirected choice.

Discretionary trust: A trust under which the trustees have an absolute authority to apply the income and capital of the trust as they wish.

Dissenting: Expressing disagreement.

Divested: Annulled or taken away (e.g., of a vested right)

Divisible trust: After your lifetime the trustee can split and set aside portions of your trust for particular groups of beneficiaries.

Domicile: A permanent legal residence.

Domestic Trust: A domestic trust is one that you set up within your home country.

Double-taxation agreement: A tax law arrangement whereby the same source income is not taxed twice; a complex network of agreements exists between pairs of nations that seek to avoid taxation in one country when tax has already been levied in the other (of vital concern to those earning income in one country while residing in another).

Dower: That portion of or interest in the real estate of a deceased husband, which the law gives to the widow during her life.

Drafted: An act of drawing; the thing drawn (i.e., written).

Emoluments: Profit for office, employment or labor; compensation; fees, salary.

Elite: Choice or select group.

Emoluments: Profit for office, employment or labor; compensation; fees, salary.

English common law: The system of law, originating in the UK, which relies on precedent established through settled court cases.

Equity: The settled and formal system of legal and procedural rules and doctrines according to which, justice would be administered within well-defined limits of jurisdiction; also, monetary value of a property (as in real estate).

Estate: Any of various kinds or types of ownership a person may have in real or personal property, often used to describe all property of a deceased person, meaning the assets and liabilities remaining after death.

Equity: The settled and formal system of legal and procedural rules and doctrines according to which justice would be administered within well defined limits of jurisdiction; also, monetary value of a property (as in real estate.)

Euro: The single currency of the European Union launched on January 1, 1999, for all European banks and stock exchanges. On January 1, 2002 the euro went into full circulation and local currencies were no longer accepted after July 1, 2002. Countries utilizing the euro are Austria, Belgium, Finland, France, Germany, Ireland, Luxembourg, Netherlands, Portugal, and Spain. On January 1, 1999, the conversion rates for each of these countries were set against the euro.

Eurobond: Any bond issued offshore, usually by a subsidiary resident in a tax haven, such as Luxembourg or the Netherlands Antilles, and guaranteed by its parent company. The bonds are usually in bearer form, each having a nominal value of \$1,000 or its approximate equivalent in other currencies.

Eurocurrency: Any currency deposited or lent outside its home country. This is an international banking term, and not to be confused with the euro.

Eurodollar: A US dollar that changes hands offshore rather than domestically.

European Community Law: There are several sources of European Community law (see European Union for a discussion of the Community). The primary legislation consists of the Treaty on European Union (the Maastricht Treaty) of 1992. Secondary legislation consists of Directives, Regulations, and Decisions. Directives also are a form of binding legislation, addressed to member states. A Directive sets a norm, which member states must then implement in their own legislative system. The Directive is from the Community to each member state government, requiring that government to take appropriate steps under its constitutional system to achieve the results set by the Directive. Implementation may be by national legislation, by administrative procedure or, in some cases, by provincial governmental action, depending on which member state is concerned. Because Directives are not directly applicable, and implementing measures are required in member states, deadlines, varying from several months to a year or more, are set. Directives are the EU's main legal instruments for the completion of the internal market by harmonizing national laws.

European Economic Area (EEA) Agreement: Signed at Oporto, Portugal on May 2, 1992, this is the agreement entered into between the EC and most members of EFTA (see below). The EEA Agreement was originally envisioned as a halfway house to full membership in the EU and provides for the application of most elements of EC law (except for taxation and finance, the common currency, and the rules relating to agriculture). With the accession of Austria, Finland, and Sweden to the EU (see below), the only remaining EEA adherents are Iceland, Liechtenstein, and Norway.

European Economic Community (EEC): The original signatories to the 1957 Treaty of Rome (Belgium, France, Italy, Luxembourg, the Netherlands, and West Germany) have since been joined by Denmark, Ireland, the UK, Greece, Spain, and Portugal. The purpose of the EEC is to foster free movement of trade, labor, and capital between member states. See also European Union.

European Free Trade Association (EFTA): Second major trading block in Europe: it works closely with the EU to promote intra-European trade. Members are Iceland, Liechtenstein, Norway, and Switzerland.

European Monetary System (EMS): The intended system for monetary cooperation between members of the EEC. The most important part already in place is the "exchange rate mechanism" whereby voluntary participating nations aim to keep their currencies in approximate parity with one another between the occasional realignments of parity bonds. There will be a three-year transition period before euro banknotes and coins are introduced on January 1, 2002. During this period, national currencies will continue to exist but as units of the euro. Rates to convert them to the euro will be fixed. The Maastricht Treaty (see below) determined three stages for achieving monetary union. The first started in 1990 with the removal of restrictions on capital movement. Stage two began January 1, 1994: The European Monetary Institute (EMI) was established and government could no longer have overdraft facilities or any other type of credit facility with the central banks. The third state of EMU began January 1, 1999. The exchange rates of the participating currencies are irrevocably fixed, monetary policy is to be conducted by the European Central Bank, and the Council will take measures necessary for the rapid introduction of the single currency. The Treaty does not specify how and when the single currency will be introduced.

European Union (EU): The structure to which 15 "member states" (i.e., Belgium, Denmark, France, unified Germany, Greece, Ireland, Italy, Luxembourg, The Netherlands, Portugal, Spain the UK, Austria, Finland and Sweden) (recently increased to 25 states and growing) have transferred certain elements of their national sovereignty. The original members were Belgium, France, Germany, Italy, Luxembourg, and The Netherlands. The accession of Denmark, Ireland and the UK took effect in 1973. Greece joined the EU in 1981, followed by Spain and Portugal in 1986. Greenland, which had joined the EC as part of Denmark, left the Community with effect from February 1, 1985. In 1995, Austria, Finland, and Sweden joined. Norway was also expected to join, but Norwegians rejected (for the second time after their government had negotiated an accession treaty) accession in a referendum held on November 28, 1994. Norway will, however, maintain its adherence to the European Economic Area (EEA) Agreement. Five other countries have already formally applied for membership in the EU: Switzerland, Cyprus, Malta, Turkey, and Morocco. The term "European Union" is now used to refer to what was formerly called the "European Community," The "European Communities," the "EC," or the "Common Market." The change to European Union is the result of the entry into force on November 1, 1993, of the Treaty on European Union, the "Maastricht Treaty," which was signed in Maastricht by member states on February 7, 1992. The European Union (EU) and the European Community (EC) co-exist as a two-tiered structure. The "inner structure" is the EC, to which the Maastricht Treaty adds certain new powers and makes some changes to institutional machinery. The "outer structure" is an entirely new creation, the EU, which covers areas previously not dealt with by the EC, such as foreign and security policy, justice, and home

affairs. The term “European Union” is used when speaking in broad “constitutional” or policy terms, while “European Community” (EC) is used when speaking of technical, legal issues governed by the 1957 Treaty of Rome, as amended by the 1987 Single European Act and by Maastricht, and which are still accorded to the EC.

Exchange: The giving of one thing for another (an exchange is neither a transfer nor a gift).

Exchange controls: The method by which governments attempt to control the flow of both foreign currencies and the government's own currency in and out of a country.

Excise tax. When you die, your estate may have to pay an excise tax if you transferred a deferred annuity, a deferred-payment contract or other asset representing deferred income to the trust. But this tax is not due during your lifetime.

Executor: A person who manages the estate of a decedent, also called an “executrix” if a female, “personal representative,” “administrator,” or “administratrix.”

Exim: The Export – Import Bank, a US government agency created to finance and otherwise facilitate imports and exports.

Exempt company: Companies in the Caymans and Turks and Caicos Islands that are not legally required to file details about their shareholders and directors.

Exemption: In tax law, a statutorily defined right to avoid part or all of certain taxes; also the statutory right granted to a debtor in bankruptcy to retain a portion of his or her real or personal property free from a creditor's claims.

Expatriation: The transfer of one's legal residence and citizenship from one's home country to another country, often in anticipation of government financial restrictions or taxes.

FAA: Federal Aviation Administration.

Factoring: The purchase of an export or domestic receivable at a discount to provide cash up front. With forfeiting there is no comeback on the exporter by the forfeiter if the importer does not pay. This distinguishes forfeiting in part from factoring, where a company's receivable may be sold by the company to another for immediate cash flow, but the purchaser does have recourse against the company if a receivable does not pay.

Family Foundations: A foundation established for the purpose of benefiting a family or members of a family for a common purpose. Typically used in the creation of family educational or scholarship funds, humanitarian works and other purposes to benefit the desires of a family group.

Family Partnership: (also “family limited partnership”): A legal business relationship created by agreement among two or more family members for a common purpose, often used as a means to transfer and/or equalize income and assets among family members so as to limit individual personal liability and taxes; see “partnership” and “limited partnership.” **Fee Simple:** Estate in which an owner and the heirs have unconditional power of disposition; absolute ownership, without limitation to any particular class of heirs. (A trust organization holds real and personal property in fee simple.)

Federal Reserve System: The central bank of the US. Congress founded it in 1913 to provide the nation with a safer, more flexible, and more stable monetary and financial system; over the years, its role in banking and the economy has expanded.

Fee simple: Estate in which an owner and the heirs have unconditional power of disposition; absolute ownership, without limitation to any particular class of heirs. (A trust organization holds real and personal property in fee simple).

Fiat Paper Money: Federal Reserve printed currency.

FIC: Foreign Investment Company

Fiduciary: Involving confidence or trust, as in fiduciary responsibilities. (Fr. Latin, meaning “faith”).

Fiduciary Deed: A one page agreement which protects your assets, is revocable, avoids probate, becomes a trust at death, and allows distribution of assets according to your wishes.

Financial Account: An account in which the bank owes you money.

Financial Times: The principal British daily newspaper for financial news. Because of the global scope of its reporting, and its simultaneous publication in many countries, it can reasonably be considered to be the world's premier business newspaper. Its UK address is Number One Southwark Bridge, London SE19HL. Its US address is 14 East 60th Street, New York 10022

"Flight" capital: Commonly occurs when a government restricts its citizens from freely moving their money in and out of the country and when they are anxious about the prospects for future financial stability. The current situation in Hong Kong and the US is a prime example.

Flight clause: This authorizes the trustee (and/or you as protector) to move the trust to another country, thereby protecting the trust against unforeseeable changes in the country where the trust is established. It also discourages a beneficiary's creditors from attacking the trust; they would know that the trust could disappear to another haven in an instant. (Of course, if the trust were moved, it would be administered by a new trustee and governed by the laws of its new country).

Foreign holding: For full protection, every trust asset that can be held outside the U.S. should be held that way. Cash, securities, and precious metals are the easiest to handle.

Foreign Tax Credit: A credit on the US income tax return for taxes paid in a foreign country (but not in excess of what the US taxes would have been on that income).

Forfeiting: Discounting bills that are used to finance the export of capital goods, particularly with reference to trade between Eastern and Western Europe.

FPHC: Foreign Personal Holding Company

Fraudulent Conveyance: If you transfer assets to avoid an existing debt (or one that reasonably can be foreseen), a court may decide that the assets must be made available to your creditor. In other words, you have fraudulently moved your assets to avoid judgment.

Front-End Load: The initial expense to the purchaser buying into an open-end fund.

Future Interest: An interest in property, usually real estate, possession and enjoyment of which is delayed until some future time or event; also, futures, securities or goods bought or sold for future delivery, often keyed to price changes before delivery.

GDP: Gross Debt Per Person

Gift Tax: US tax imposed on any gift made by one person to another person annually in excess of US \$10,000.

Grantor: You. The one who sets up the trust, using it to shift the legal ownership of investment and business assets.

Grantor trusts: If you (the grantor) retain the right to control or benefit from a trust in certain ways, you are treated as the owner of everything in the trust—and you must include the trust's income and deductions on your own tax return.

Gross Estate: The total value for estate tax purposes of all a decedent's assets, as compared to "net estate", the amount remaining after all permitted exemptions, deductions and taxes owed.

Guardianship: A power conferred on a person, the "guardian", usually by judicial decree, giving them the right and duty to provide personal supervision, care and control over another person who is unable to care for himself because of some physical or mental disability.

Hague Conference on Private International Law: An inter-governmental organization, the purpose of which is "to work for the progressive unification of the rules of private international law." The Conference was made a permanent intergovernmental organization in 1951. Since 1956, regular plenary sessions have been held every four years. The Conference negotiates and drafts multilateral treaties or Conventions in the different fields of private

international law (international judicial and administrative co-operation; conflict of laws for contracts, torts, maintenance obligations, status and protection of children, relations between spouses, wills and estates or trusts' recognition of companies; jurisdiction and enforcement of foreign judgments.) For the purpose of monitoring the operation of certain treaties involving judicial or administrative cooperation, the Conference's Permanent Bureau enters into direct contact from time to time with the central authorities designated by the states that are party to such treaties. The following 43 states are members of the Conference: Argentina, Australia, Austria, Belgium, Canada, Chile, China, Croatia, Cyprus, the Czech Republic, Denmark, Egypt, Finland, France, the Federal Republic of Germany, Greece, Hungary, Ireland, Israel, Italy, Japan, Latvia, Luxembourg, Poland, Portugal, Romania, the Slovak Republic, Slovenia, Spain, Surinam, Sweden, Switzerland, Turkey, the UK, the US, Uruguay, and Venezuela. States that have participated in one or more of the earlier sessions of the Conference may become members of the organization by accepting the Statute. Other states must be admitted by vote: admission is decided upon by a majority of member states voting on a proposal made by one or several of them.

High Net Worth Individual: Modern US banking parlance for a wealthy individual.

HMO: Health Maintenance Organization.

Holding Company: In the US, a company that usually confines its activities to owning stock in, and supervising management of, other companies. A holding company usually owns a controlling interest in the companies whose stock it holds. Often a holding company is used as an intermediary company in a group structure. The definition of the term "holding company" may vary from one legal system to another.

Hybrid: A company that is limited by guarantee and also has a share capital. Hybrid companies are not permitted in all jurisdictions. Jurisdictions that do allow them include the British Virgin Islands and the Isle of Man.

Hypothecate: To pledge without delivery of title or possession, to deposit as security for a loan.

IBC: International Business Corporation (or Company).

Immovable Property: Land and buildings. Certain jurisdictions may categorize certain items connected with land as immovable too (e.g., title deeds) or may categorize certain temporary buildings as movable.

Indemnity agreement: A legal agreement protecting or securing against damage or loss.

Indenture: A written contract or agreement. (The trust document is the indenture).

Indices of Ownership: Factors indicating a person's power over, therefore ownership, especially of trust property, including the power of revocability.

Income Beneficiary: The life tenant in a trust.

Inexorably: Unyielding or relentless.

Information Age: Particularly influential eras have historically acquired descriptive labels. We have all heard of the Dark Ages, the Renaissance, and the Industrial Revolution. Due to the computer and the communications industry, we now receive information at the click of a button. The term, "Information Age" is receiving wide acceptance to describe this era.

Inheritance Tax: A tax imposed by many nations on the amount a person receives from a decedent's estate, rather than on the estate itself.

Insider dealing: Illegal conduct entailing use of nonpublic, confidential information about a company, status to influence purchase or sale of its corporate shares, usually for the manipulator's personal benefit.

Insolvent: Not having enough estate to cover one's debts; pertaining to those who cannot pay their debts.

Insurance: A contract or “policy” under which a corporation, knows an “insurer”, undertakes to indemnify or pay a person, the “insured”, for a specified loss in return for the insured’s payment of a premium.

International Business Corporation (IBC): A company created in certain offshore jurisdictions defined by local legislation. IBC’s are designed specifically for offshore use by non-residents and are usually exempt from taxes. The British Virgin Islands’ IBC statutes have become a widely adopted model for other tax-haven jurisdictions such as Panama.

Inure resulting: To result.

Investment Trust: A trust that conducts business and is taxable as a company. This company then sells its own stock and invests the money in stocks, real estate, and other investments. In the UK, it is a closed-end collective investment scheme. A Japanese investment trust is, by contrast, open-ended. An investment trust is different from an investment company that is formed to sell the mutual funds of others, rather than selling its own shares.

Inviolable: Sacred and therefore not allowed to be violated: proof against corruption or breach (e.g., inviolable oaths).

Joint tenancy: A holding of estate (“tenure”) by two or more people by unity of interest, title, time and possession, in which the survivor takes all.

Irrevocable Trust: A trust that, once established by the grantor, cannot be ended or terminated by the grantor.

IRS: Internal Revenue Service.

Joint tenancy with right of survivorship (JTWROS): A form of ownership between two or more people, each having an undivided interest in the entire real or personal property. Each owner has an equal interest. Moreover, although each joint tenant can dispose of his or her interest during life, at death, the decedent’s interest passes automatically by survivorship to the surviving joint tenant(s). Because of this survivorship feature, property held in joint tenancy is not subject to probate.

Judgment: An official and authenticated decision of a court. Jurisdiction: The territory over which legal authority may be exercised.

Jurisdiction: The territory over which legal authority may be exercised.

Legal Capacity: The competency or ability of parties to make a valid contract, including being of majority age (18 years) and of sound mind.

Lex Loci Actus: The law of the country in which a legal act takes place.

Liability: What you are obligated to pay, or for which you are liable.

Life Insurance Trust: An irrevocable living trust that holds title to a policy on the grantor’s life, proceeds from which are not part of the grantor’s estate.

Life Estate: The use and enjoyment of property granted by the owner to another during the owner’s life, or during the life of another, at the termination of which, the title passes to another known as the remainderman.”

Limited Liability Company (LLC): Consists of member/owners and a manager, at a minimum. More specifically, an LLC structure permits the complete pass-through of tax advantages and operational flexibility found in a partnership, operating in a corporate-style structure, with limited liability as provided by the state’s laws. Similar to a corporation that is taxed in the US as a partnership or as an S-Corporation.

Limited Partnership: A partnership in which individuals known as “limited partners” have no management role, but receive periodic income and are personally liable for partnership debts only to the extent of their individual investment.

Liquidate (a business or trust): To give up business and discharge assets for final distribution: to convert to cash by selling.

Litigate: Carry on a lawsuit.

Litigator: Those who engage in or bring action by a lawsuit.

Living Trust: Usually a revocable domestic trust replacing the need for a will, i.e. Assets are disposed of while you are alive thereby avoiding probate.

Malfeasance: Deliberate harm (or intention of harm).

Managed Accounts: An account wherein you entrust your money to the bank's investment advisors and they choose the types of investments to make based on your objectives and investment goals. Managed accounts are offered for stocks, currencies, debt instruments, commodities or combinations.

Managed Bank: A "brass plate" bank, issued with a license to carry on a banking business typically by the authorities of a tax haven. Normally, the actual banking decisions are reached elsewhere and nominally put into effect by a local bank subcontracted for that specific purpose.

Mandate: To commit to one's charge; to put into one's hands; an order or command (often by approbation or tradition).

Mareva Injunction: A court injunction preventing the transfer of assets pending the outcome of a lawsuit.

Marital Deduction: The right of the surviving spouse under US law to inherit, free of estate taxes, all property owned at death by the deceased spouse.

Marriage: The legal and religious institution whereby a man and woman join in a binding contract for the purpose of rounding and maintaining a family.

Memorandum of Association: An official document listing all the important details of a corporation. These include its name, registered address, type of business, and shares issued.

Monetary Instrument: The coin and currency of the U.S. or any other country, including travelers checks, money orders, investment securities in bearer form or otherwise if such title thereto passes upon delivery, and negotiable instruments (except warehouse receipts or bills of lading) in bearer form or otherwise if such title thereto passes upon delivery.

Money Center Banks: The top banks world wide, as ranked by net assets, long-term stability, and sound management. They raise the majority of their capital from international money markets rather than from depositors.

Money Laundering: The process of concealing the criminal origins or uses of cash so that it appears the funds involved are from legitimate sources. A crime in most major nations.

Monopoly: Exclusive ownership or control of a commodity: one controlling a monopoly.

Movable Property: Any property that is not immovable. The expression covers both tangible property: (i.e., shares, debts, and insurance policies.)

Mutual Legal Assistance Treaty (MLATS): Bilateral treaty between nations governing cooperation in international investigations of alleged criminal conduct; the US has many such treaties, especially with offshore haven countries.

M3: The broad money supply.

Natural person: A man, woman or child (vs. "juristic person," e.g., trust or corporation).

Nominee declaration: The official document notifying shareholders of the amount and value of their shares and their rights as shareholders.

Non-assessable: Not subject to having its rate, value or amount fixed or determined.

Numbered Account: A numbered account is an account identified by a number, rather than by a name.

OECD: Organization for Economic Co-operation and Development. A private organization consisting of members from the major economic countries of the world, with their own private agenda. Recently has run a campaign to on eliminate "harmful tax competition" in privacy and tax protection jurisdictions.

Off-Balance Sheet: An accounting category that is not reflected on a balance sheet. For example, although a bank may earn fees from placing fiduciary deposits, these fees do not normally appear upon its balance sheet.

Offer: A written or verbal promise by one person (the offeror), to another (the offeree), to do or not to do some future act, usually in exchange for a mutual promise or payment (consideration.) See “acceptance” and “contract.”

Offshore trust: A broad category that covers any kind of trust established outside your home country for any purpose.

Offshore Unit Trust: The OUT is an arrangement under which, a private and confidential account is created for you in a tax-free private jurisdiction away from the prying eyes of litigious adversaries. The basis of an OUT is an International Business Company (IBC) that is managed by an Attorney who ensures the integrity and legality of such a company.

Open-Ended Fund: A collective investment scheme in which capitalization is not fixed and more shares may be issued at any time. New shares may be issued and existing shares redeemed by the fund on demand. A British unit trust is open-ended.

Option: A contract provision allowing one to purchase property at a set price within a certain time period.

OSHA: Occupational Safety and Health Administration.

Par value shares: Shares of stock with a monetary value imprinted on the face. The par value of a share is the amount fixed as its nominal value. Par value and actual value of issued stock are not necessarily the same.

Paradigm: A new "belief system" that challenges the status quo and can create new and highly desirable results.

Passive income: Income you receive without doing anything "active", in other words, by "collecting" dividends, interest, rents, royalties, residuals and the like. Passive income is usually taxed at very high rates, and passive income earned offshore is often taxed at even higher "punitive" rates.

Partnership: An association of two or more persons formed to conduct business for mutual profit.

Permanent Establishment: A business that is of a continuing and lasting kind. The principle of taxation on the basis of a permanent establishment is that business income derived in a country by an enterprise that is not a resident of that country should be taxed there only if the business that is carried on is of a continuing and lasting kind.

Perpetuities: The common law rule against perpetuities prevents the transfer of any interest in property, such as a beneficial interest in a trust, being delayed beyond the life of someone living or conceived plus 21 years or, alternatively, a stipulated period, such as 80 years. The rule against perpetuities is designed to prevent the indefinite accumulation of income. See also Rule Against Perpetuities.

PFIC: Personal Foreign Investment Company

PHC: Personal Holding Company

Policy: In insurance law, the contract between insurer and insured.

Pork Barrel: The process by which elected representatives are able to promote and pass legislation that is beneficial to their own constituency in their home state.

Predicate: To base something upon, such as an assumption or argument: to affirm.

Primary Residence: Especially in tax law, a home place, as compared to a vacation or second home:

Private Annuity: The exchange of property between private parties for a contractual promise by the issuer of the annuity (sometimes called the “obligor”) to make a periodic payment to the annuitant (i.e., the purchaser of the annuity, who is also sometimes referred to as the “transferor”) based upon the life expectancy of the annuitant or some other specified party.

Private International Law: A name used by some to indicate the branch of the law that is more commonly called “Conflict of Laws.” The branch of jurisprudence that decides which law or system is to govern in a case that involves more than one jurisdiction.

Private Law: As used in contra-distinction to public law, the term means all that part of the law that is administered between citizen and citizen, or that is concerned with the definition regulation, and enforcement of rights in cases where both the persons upon whom the obligation is incident are private individuals.

Privilege Taxes: “Taxes” measured by a percentage of income were originally termed “privilege taxes”. The case of State v. Chicago & N.W.Ry.Co., 108 N.W. 594 (1906), explains the differences in some detail. See p.24 of report.

Probate: The establishment of the authenticity or validity of a will.

Proper Law (as regards a contract, disposition, or trust): The law governing or applicable to the contract, disposition, or trust or some aspect of it. (In general, the terms “proper law,” governing law” and “applicable law” are synonymous.)

Protector: Has the power to monitor the Trustee, to assure that it doesn’t lose sight of the Grantor’s intentions in establishing the trust. The Grantor might name his attorney or a trusted friend or relative as Protector, or he might keep the job for himself.

Purport: To convey, imply, intend or profess outwardly as the meaning, intention or true character of something.

Purpose Trust: A trust that does not have beneficiaries, but rather operates for a stated purpose.

Purview scope: In law, the scope or limit of a statute: the whole extent of its intention or provisions.

Records and reports: The records of a corporation including its articles of incorporation, bylaws, minutes of its meetings, stock books, books containing accounts of all official activities, and written evidence of its contracts and business transactions. Records and reports are the property of the corporation, not the employees or directors.

Quit Claim Deed: A deed transferring any interest a grantor may have in real property without guarantees of title, if in fact any interest does exist.

QTIP TRUST: The QTIP trust is for the lifetime benefit of the surviving spouse but often restricts the ultimate distribution to members of a special class of beneficiaries such as children or grandchildren. The assets in a QTIP trust are taxed as part of the estate of the second spouse. If the total estate of the second spouse exceeds \$600,000 the federal estate taxes are imposed at the rate of 18 to 55% depending upon the total amount.

Rabbi Trust: So-called after a rabbi who obtained approval from the IRS to establish a nonqualified deferred compensation trust with his parish: it is used to defer compensation and taxation on the compensation until payments are made from the trust in the future.

Real Estate Investment Trust (REIT): An investment fund in trust form that owns and operates real estate for share holding investors who are the beneficiaries.

Records and Reports: The records of a corporation including its articles of incorporation, bylaws, minutes of its meetings, stock books, books containing accounts of all official activities, and written evidence of its contracts and business transactions. Records and reports are the property of the corporation, not the employees or directors.

Red flag jurisdictions: Areas with unsavory reputations for financial impropriety (banking scandals, lack of sufficient regulation, etc.).

Registered shares: Company shares issued in the name of a particular individual, foundation or corporation.

Reinsurance: Insurers laying off some of their risks with others, usually specialist insurers, particularly including syndicates at insurance companies.

Remainder: In testamentary law, the balance of an estate after payment of legacies: in property law, and interest in land or a trust estate distributed at the termination of life estate. The person with a right to such an estate is the “remainderman.”

Remunerate: To pay, compensate; repay, reimburse.

Requisite: Required/necessary quality or thing: something indispensable or essential.

Reportable Accounts: You are required to indicate on your U.S. tax return whether you have more than \$10,000 in foreign financial accounts, which are financial accounts at a foreign bank, securities or commodities broker or depository.

Rescind: Cancellation or annulment of an otherwise binding contract by one of the parties.

Residence: A person's continuance in one particular place; established domicile.

Residency: In tax law, the principle that worldwide income is taxable in the country of residence of the taxpayer. For estate tax purposes, residency is, at the time of death, "domicile in the country of birth."

Reversion law: Returning an estate to the settlor (or heirs) by operation of law after the contract terminates; the residue of an estate left in the owner's proprietorship to take effect in possession after the termination of a limited or lesser estate carved out of it and conveyed by the owner.

Revocable trust: A living trust in which the grantor retains the power to revoke or terminate the trust during his or her lifetime, returning the assets to themselves.

Roth IRA: Created as part of the Taxpayer Relief Act of 1997 and originally called the American Dream IRA; this individual retirement account (IRA) has a unique tax structure. Contributions are after tax, as opposed to the before-tax contributions that are made with a regular IRA, but growth is tax-free. Once you put your money in, you never pay taxes again. It offers simpler distribution requirements: since you have already paid taxes up front, there are no minimum distribution requirements as with a regular IRA account.

Ring Fencing: When offshore centers grant tax concessions to businesses they host but which have no physical presence. A term used by the OECD.

Rule Against Perpetuities: A legal limit on remote vesting of assets in the beneficiaries. May be void ab initio (from the beginning), after a fixed term, or determined on "wait and see" basis.

Safekeeping Account: A safekeeping account is one in which you deposit such things as bonds, stocks and other valuables

Settlor: A person making a property settlement (as in setting up a trust); also known as a grantor).

Share: Part ownership of a company; used interchangeably with "common stock." Shares can be bought and sold, or traded on a stock exchange. Usually represented by a stock certificate.

Shelf company: Prearranged, incorporated company, complete with directors and officers; saleable to any individual wanting an instant corporation.

Signature Trust: A bank account established by a person who gratuitously adds to the account the name of another person, who as a result, may be the beneficiary of what is an implied trust.

Single License: This principle means that, for example, a bank licensed by the German Banking Commission may also establish a branch in France without requesting the French Banking Commission to grant a new banking license. In this scenario, the relevant German authorities would supervise the French branch of the German parent bank. This concept is also known as "home country control."

Sovereignty Proposal: A proposed act of Congress, which would create funds to lend to city and state governments tax free, for public projects. See pg. 32.

Spendthrift clause: This obligates the trustee to disregard any instruction from beneficiaries to pay money due them to a third party. The clause is so named because it protects imprudent beneficiaries from squandering future benefits, and from being forced to transfer their rights to creditors.

Stamp duty: Any tax imposed on a written vehicle (conveyances, etc.) that is fixed in amount.

Standard authorized capital: The amount of share capital normally registered on incorporation of a company. The actual amount would normally be the maximum, which attracts the minimum charge applied by the local financial regulatory body.

Statutory Law: The legislated law enacted by a legislative body (Congress, State Senate, Town Council and other levels of government.) Subscriber: Synonymous with stockholder or shareholder.

Statute of Elizabeth: The fraudulent conveyance law applicable in many English common law jurisdictions that provides that any transfer with the intent to hinder, delay, or defraud creditors of the transferor may be voided. This requires proof of actual fraud. Under the Statute of Elizabeth, there is no distinction between subsequent and future potential creditors. If an offshore center has not enacted legislation that eliminates the Statute of Elizabeth common law rule, then the statute could stay open indefinitely for a creditor's attack.

Statutory law: The legislated law enacted by a legislative body (Congress, State Senate, Town Council and other levels of government).

Stiftungen: A Liechtenstein form of private foundation that is similar to a charitable foundation, but where the charitable organization or purpose is tied in closely to the creator's personal interests. Unlike an Anstalte, the founder does not retain any rights. The rights belong to the board of directors or to the beneficiaries, in exact accordance with the Stiftungen's regulations, which the board may be empowered to amend. The interests of the beneficiaries may be watched over by a curator (see Curator.)

Subscriber: Synonymous with stockholder or shareholder.

Subpart F: This is the section of the US Revenue Act of 1962 that renders US shareholders liable to tax on the undistributed income of a controlled foreign corporation.

SWIFT (Society for Worldwide Financial Telecommunications): A sophisticated non-profit banking cooperative; a communications system owned by a number of major international banks. SWIFT enables member banks to give instructions to be made between them, and to send secure messages to each other.

Syndicated Loan: A large loan made by a group of banks to a multinational firm or government. Such loans facilitate the diversification of a bank's loan portfolio.

Tax Avoidance: The taxpayer has a right to so arrange his affairs as to make his tax as low as possible. A matter of arranging your financial affairs so that you can legally lessen your tax burden.

Tax Evasion: The act or instance of evading. Lying about your financial affairs. It's illegal. It's a criminal act. A felony! Punishable by imprisonment and fines.

Tax Harmonization and the EU: The European Commission has proposed a tax coordination plan that would include a non-binding corporation tax code and a set of rules for harmonizing savings-tax policies. EU leaders see the harmonization as the final and most difficult hurdle after European currency union is completed. Tax policy stands as one of the few areas where member states can maintain de facto protectionist policies by offering preferential tax rates.

Tax Haven: A country with laws that create an extremely favorable tax avoidance environment.

Tax Information Exchange Agreement (TIEA): An agreement between two national governments that allows them to assist each other with exchanging information on potential tax investigations.

Tenants in common: Two or more people holding a single property under different names.

Tax shelter: An investment that lowers your tax bill by generating more deductions or credits for you than taxable income.

Tenants in Common: Two or more people holding a single property under different names.

Tenancy by the entirety: Tenancy by the entirety is simply a special form of joint tenancy with right of survivorship between husband and wife. The principal difference between joint tenancy and tenancy by the entirety is that a tenancy by the entirety cannot be severed unilaterally by one spouse's disposing of his or her interest.

Tenancy in common: Tenancy in common is a form of concurrent ownership in which two or more people each have an undivided interest in a piece of real or personal property. Shares need not be equal, but each co-tenant has a right to possession of the entire property.

Tenure: Act or right of holding, esp. real estate or other property.

Territoriality: In tax law, the concept that a country taxes only income that originates or is from a source within that country, or is taxable to that country by a treaty.

Testator (male), Testatrix (female): The person who leaves a will or testament in force at the time of death.

Tort: A wrongful act or injury (other than breach of contract) for which a civil action can be brought (French, a "wrong").

Transfer: Conveyance of right, title or property (real or personal) from one person to another by sale, gift, or otherwise; similar to "exchange" re: trusts.

Treaty of Rome of 1957: This treaty established the foundations of the European Community. It prohibits, in principle, custom duties between signatories and all taxes having the same effect and invalidates any discriminatory domestic tax that either penalizes imported articles with a surtax or favors exports by granting exemptions. The treaty provides for the aligning of domestic legislation of the member states concerning turnover taxes, and of legislative, regulatory, and administrative provisions having direct impact on the setting up and functioning of the Common Market. Finally, the treaty allows member states to negotiate agreements in favor of their citizens to ensure the elimination of double taxation within the EU.

Treaty Shopping: The picking of a favorable jurisdiction in which to invest or do business based on its tax treaty.

Trust: Defined as the expectation of regular, honest, co-operative behavior based on shared norms or values. "Trust" in this sense becomes an economic value because it lowers what economists call transaction costs.

Trust Deed: Used as a trust document. More properly known as a trust instrument, it is the document that establishes the identity of the first trustees, the objects of the trust, and the initial trust property. It will normally detail the way in which the trust is to be administered. In the absence of specific instructions the trustees refer to statutory legislation; it is therefore sensible to ensure that the jurisdiction chosen for a trust possesses modern trust legislation.

Trust Enforcer: A person or committee appointed usually by the grantor, and if not the grantor then the trustee, to oversee the trust on behalf of the trust. Consults with the trust's legal advisor. Used for trusts that do not have beneficiaries (e.g., purpose trusts.)

Trust Period: The duration of the trust; also known as the term.

Trust Protector: A person or committee appointed by the trustor to oversee the trust on behalf of the beneficiaries. Very often given a letter of wishes from the trustor. Consults with the trustor, but the final decisions must be the protector's.

Trustee: The person, bank or trust company entrusted with any property belonging to someone else. For offshore trusts, the trustee lives in the same country where it administers the trust. A trustee is independent (that is, not in the settlor's control), but is obligated to consider the advice of the protector. The trustee assumes many roles, including acting as the agent responsible for disposing of a decedent's property according to a will; and/or acting to protect the interests of a minor.

Trustor: The person or entity that creates a trust. Also known as grantor or settlor.

Trusts: Legal arrangements in which a property owner places assets into and relinquishes ownership of those assets to the trustee. Various forms of trusts include:

A. **Complex trust:** A trust in which the trustees have the discretion of distributing any or any portion of the trust's income to beneficiaries in any year.

B. **Irrevocable trust:** A trust in which the settlor does not retain power to revoke the trust agreement, or can do so only after 10 years.

C. **Living trust:** a trust established during the settlor's life.

D. **Simple trust:** A trust, which is required by its indenture to distribute all the income in any year to the beneficiaries.

E. **Revocable trust:** A trust in which the settlor retains the power to revoke the trust agreement and have the assets returned or turned over to other designated individuals within 10 years.

F. **Testamentary trust:** A trust established by a will, or does not take effect until after the settlor's death.

UCITS DIRECTIVE: The EC Directive "Undertaking for Collective Investment in Transferable Securities" that came into force on October 1, 1989, was intended primarily as a consumer (investor) protection measure. Specifically, it permits the sale of unit trust interests throughout the Community, based on "home country" authorization (albeit with host country monitoring.) The primary restrictions are that the sale of funds must respect local advertising and marketing constraints. The UCITS Directive provides for the free marketing of investment funds throughout the EU. These pooled, open-ended investments, similar to unit trusts (i.e. mutual funds), enable small investors to put money into a range of shares or bonds.

Umbrella Fund: A fund that permits a limited number of switches between sub-funds at little or no charge. Provided the sub-funds follow fairly closely the separate markets in which they are invested, an investor can use an umbrella fund to diversify investments without having to move from fund to fund.

Unfunded Liabilities: The amount owed to those currently contributing to the fund, i.e. Social Security.

Unit Trust: An open ended, British collective investment scheme, similar to a mutual fund. The rights of shareholders are protected by a trust deed.

United Kingdom: The UK is divided into three jurisdictions: England and Wales, Scotland, and Northern Ireland, each of which has a common law and statute-based system. The laws of Scotland and Northern Ireland are similar but not identical to those of England and Wales. As a member of the EU, the UK is generally required to implement EU Directives by means of domestic legislation.

UK Overseas Territories: The few remaining dependent territories of Britain.

USFRUCT: In civil law countries, a temporary division of ownership rights that may be created by operation of law, by contract (for example, by gift), or by will.

Vested: Fixed, settled. Having the character or rights of absolute ownership, not contingent. Rights are "vested" when the right to enjoyment, present or prospective, has become the property of some particular person or persons as present interest and cannot be forfeited.

Void: Of no legal force or validity: useless.

WILL: A will is the legal expression of declaration of an individual's wishes as to the disposition of his property after death revocable during the individual's lifetime. A will is not operative until death and is applicable to the situation, which exists at death.

Withholding tax: The part of an individual or corporation's income withheld by the employer and paid directly to the government.

ACRONYMS

ACU	Asian Currency Unit
AG	(Switzerland) Aktiengesellschaft
AIBT	Assoc. of International Banks & Trust Cos.
APT	Asset Protection Trust
ASEAN	Assoc. of Southeast Asian Nations
ATM	Automated Teller Machine
BCCI	Bank of Credit & Commerce Int.
BFMS	Bloomberg Financial Markets System
BIA	Bahamas Investment Authority
BIS	Bank of International Settlements
BLEU	Belgium-Luxembourg Economic Union
BMA	Bermuda Monetary Authority
BSA	(US) Bank Secrecy Act
BVI	British Virgin Islands
CARICOM	Caribbean Common Market
CATA	Commonwealth Association of Tax Administrators
CBERA	Caribbean Basin Economic Recovery Admin.
CBI	Central Bank of Ireland
CBOE	Chicago Board Options Exchange
CERCLA	Comprehensive environmental Response, Compensation, and Liability Act of 1980
CFA	(OECD'S) Committee on Fiscal Affairs
CFATF	Caribbean Financial Action Task Force
CFC	Controlled Foreign Corporation
CHIPS	Clearing House Inter-bank Payment System
CIAT	Centro Interamericano de Administraciones Tributarias/Inter-American
CIS	Commonwealth of Independent States
CIS	(Bermuda) Collective Investment Schemes
COBOS	(Channel Islands) Control of Borrowings Legislation
COF	Cyprus Offshore Fund
CPF	Central Provident Fund
CPSS	(G-10) Committee on Payment and Settlement Systems
CREDAF	Centre de Rencontres et d'Etudes des Dirigeants Des Administrations Fiscales
CSP	Corporate Service Provider
DISC	(us) domestic Sales Corporation
DNI	Distributable Net Income
EC	European Commission also European Community
ECU	European Currency Unit
EEA	European Economic Area
EEC	European Economic Community
EFTA	European Free Trade Association
EIE ACT	Extraterritorial Income Exclusion Act

EMI	European Monetary System
ERISA	(US) Employee Retirement Income Security Act of 1974
EU	European Union
EXIM	Export-Import Bank
FAA	(US) Federal Aviation Administration
FATF	(G-10) Financial Action Task Force
FCP	(Luxembourg) Fond Commun de Placement
FDIC	(US) Federal Deposit Insurance Corporation
FinCEN	(US) Financial Crimes Enforcement Network
FIRPTA	(US) Foreign Investment in Real Property Tax Act 1989
FIRREA	Financial Institutions Reform, Recovery and Enforcement Act
FLLC	Foreign Limited Liability Company
FPHC	Foreign Personal Holding Company
FSC	Foreign Sales Corporation
FSF	Financial Stability Forum
FTA	(Switzerland) Federal Tax Act
G-10	Group of Ten Richest Economies
GATT	General Agreement on Trade and Tariffs
GBPA	Grand Bahama Port Authority
GDP	Gross Domestic Product
GMBH	(Switzerland) Limited Liability Company
GMT	Greenwich Mean Time
GNP	Gross National Product
GST	(US) Generation Skipping Tax
HKMA	Hong Kong Monetary Authority
HNWI	High Net Worth Individual
IBC	International Business Company
IBF	International banking Facility
IBRD	International Bank for Reconstruction & Development
ICB	International Business Company
ICC	International Chamber of Commerce
ICIS	(Cyprus) International Collective Investment Scheme
ID	Identification
IDA	(Ireland) Industrial Development Authority
IFSC	(Ireland) International Financial Services Centre
ILIT	Irrevocable Life Insurance Trust
IMD	International Institute for Management Dev. (in Switzerland)
IMF	International Monetary Fund
INS	(US) Immigration and Naturalization Service
IOTA	Intra-European Organization of Tax Admin.
IRC	(US) Internal Revenue Code
IRS	(US) Internal Revenue Service
ISP	Internet Access and service Provider
LDC	Limited Duration Company

LIOR	London Inter-bank Offered Rate
LLC	Limited Liability Company
LP	Limited Partnership
MAS	Monetary Authority of Singapore
MSB	Money Service Business
MPF	(Hong Kong) Mandatory Provident Fund
NAIC	(US) National Association of Insurance Commissioners
NAICS	North American Industrial Classification System
NASD	(US) National Assoc. of Securities Dealers
NATO	North Atlantic Treaty Organization
NEET	Non-cooperative Countries & Territories
NIS	Newly Independent States (formerly part of the USSR)
NMP	(Singapore) Nominated Member of Parliament
OCC	Options Clearing Corporation
OCCGA	Official Code of Georgia
OECD	Organization for Economic Cooperation & Dev.
OECS	Organization of Eastern Caribbean States
OFC	Offshore Financial Center
OFSC	Offshore Financial Service Company
OPC	(Cyprus) Offshore Public Company
OPIC	(US) Overseas Private Investment Corporation
OTC	Over the Counter
PCC	(Channel Islands) Protected Cell Companies
PDM	(Turks and Caicos) People's Democratic Movement
PFIC	Passive Foreign Investment Company
PNP	(Turks and Caicos) Progressive National Party
PRC	People's Republic of China
PTT	(Switzerland) Post, Telephone and Telegraph
QDOT	Qualified Domestic Trust
R&D	Research and Development
RIC	Regulated Investment Company
SA	(BVI/Panama) Societe Anonyme or Sociedad Anonima
SA	(Switzerland, Luxembourg) Societe Anonyme/ Societ Anonima
SAM	(Monaco) Societe Anonyme Monegasque
SAR	(Hong Kong) Special Administrative Region
SARL	(Luxembourg) Societe a Responsabilite Limitee
SCA	(Monaco) Limited Partnership with Shares
SCS	(Monaco) Societe en Commandite Simple
SEC	(US) Securities and Exchange Commission
SENC	(Luxembourg) Societe en Commandite Simple

SES	Stock Exchange of Singapore
SESDAQ	Stock Exchange of Singapore Dealing and Automated Quotation System
SFR	Standard Industrial Classification codes
SIC CODES	(Luxembourg) Societe d'investissement a Capital Fixe
SICAF	(Luxembourg) Societe d'investissement a Capital variable
SICAV	Singapore International Monetary Exchange
SNC	(Monaco) Societe en nom collectif
SNCI	(Luxembourg) Societe National de Credit Et d'Investissement
SOFFEX	Swiss Option and Financial Futures Exchange
SWIFT	Society for Worldwide International Financial Telecommunications
TAG	(OECD'S) Technical Advisory Group
TAMARA	(US) Technical and Miscellaneous Revenue Act Of 1988
TCINVEST	Turks and Caicos Investment Agency
TRNC	Turkish Republic of Northern Cyprus
UCITS	(EU Directive) Undertaking for Collective Investment in Transferable Securities
UFCA	Uniform Fraudulent Conveyances Act
UFTA	Uniform Fraudulent Transfers Act
UK	United Kingdom
UN	United Nations
UNCLAD	UN Conference on Trade and Development
UNESCO	UN Educational, Scientific, and Cultural Organization
UNFICYP	UN force in Cyprus
US	United States
USA PATRIOT ACT	The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001
USVI	US Virgin Islands
VAT	Value-added Tax
VICO	(US) Virgin Islands Company
WTO	World Trade Organization