



# Duke Law Firm, P.C.

**Your International Asset Protection Resource**

## ASSET PROTECTION NEWSWIRE

Volume 6, Issue 2, June 2009

### **International Trust Laws and Analysis**

J. Richard Duke is one of the co-authors currently updating Kluwer's six-volume set of books, "International Trust Laws and Analysis."

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### **New Meaning of "Asset Protection Planning"**

Does a potential plaintiff still want what you have protected? The down side of endless credit, fiat money and sub-prime loan defaults is changing how we approach asset protection planning.

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### **Business Groups File Amicus Brief in Action to Enforce Summons for Bank Records (United States v. UBS AG)**

The brief argues that the IRS action has three flaws that should prevent the summons from being enforceable. The IRS action arguably violates the U.S.-Swiss double taxation treaty, comity and public policy.

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### **Using Offshore Tax Havens as Scapegoats for Excess Spending**

It takes more than hope to make this change add up.

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Bernanke may have built a box he cannot get out of.

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### **Announcing ...**

J. Richard Duke is the author of the chapter titled "United States: E-Commerce Tax Administration and Compliance" for the recently published book *Global E-Business Law & Taxation* (Oxford University Press, Inc. and Internet Business Law Services, 2009). To order, go to: [http://www.ibls.com/internet\\_law\\_news\\_portal\\_view.aspx?s=latestnews&id=2215](http://www.ibls.com/internet_law_news_portal_view.aspx?s=latestnews&id=2215)

Richard is now a member of the Asia Offshore Association:

<http://www.asiaoffshore.org/>

### **Richard's Corner:**

#### **Recommended Reading**

Jim Rogers, "A Gift to My Children: A Father's Lessons for Life and Investing,"

<http://www.jimrogers.com/>

Peter D. Schiff, "The Little Book of Bull Moves in Bear Markets--How to Keep Your Portfolio up when the market is down," John Wyly & Sons Inc.

### **In The News:**

**Geithner Insists Chinese Dollar Assets Are Safe**

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### **International Trust Laws and Analysis**

J. Richard Duke is one of the co-authors currently updating the six-volume set of books, “International Trust Laws and Analysis,” Kluwer. The co-authors are: Professor William H. Byrnes IV, Professor Robert J. Munro, Professor J. Richard Duke, Professor Michael J. Rinaldi, Christopher M. Sove, and Jason A. Fiske, of the Walter H. & Dorothy B. Diamond International Tax & Financial Services Program, Thomas Jefferson School of Law. Coverage of entity laws has been and is being added to this six-volume set of books. The Introduction will include new material, in addition to the existing material, including: Offshore Asset Protection Trusts; Offshore Trust Cases; Tax Compliance and Reporting for Offshore Trusts; and Offshore Life Insurance. The Introduction also covers matters relating to the international credit crisis, the Stop Tax Haven Abuse Act and the bill put forth by Senator Baucus.

Richard Duke is teaching the Summer 2009 semester course “International Estate Planning,” in The Walter H. & Dorothy B. Diamond International Tax & Financial Services Program at the Thomas Jefferson School of Law (San Diego, CA): <http://llmprogram.tjssl.edu/>

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### **New Meaning of “Asset Protection Planning”**

The following are the first several paragraphs of the updated Introduction to the six-volume set of books, “International Trust Laws and Analysis,” published by Kluwer.

Asset protection planning has taken on new meaning as a result of the international credit crisis. The proper focus of asset protection currently is to attempt to minimize value—even substantial loss in value—of assets, particularly invested assets. Diversifying one’s investments not only in asset allocations but also among currencies has taken on new meaning because of the potential problems with respect to the U.S. dollar, which is the world’s reserve currency. The U.S. is the largest debtor nation in the world and the largest debtor nation in history. The Federal Reserve continues to inflate the money supply by computer entry, which will eventually result in a substantial devaluation of the dollar as the world’s reserve currency. China proposed establishing a basket of currencies to replace the dollar as the world’s reserve currency. If or when China’s proposal will be implemented is unknown; however, it is an example of concerns about the U.S. dollar.

The Federal Reserve has worked itself into the uncomfortable position of being between a rock and a hard place. If it continues its policy of economic stimulation by increasing inflation, we risk hyper-inflation and eventual collapse. If it raises interest rates to bring inflation down, protect the dollar, and preserve foreign investment, it will cause deepening recession in a nation overextended with personal and government debt. It is a choice the incoming administration will have to face, but there is no alternative to sacrifice in one form or another.

However it plays out, the dollar’s decline will continue, and the only way to avoid serious loss is to make nondollar-denominated investments before that decline turns into a rout. Get out of cash and bonds right now ...

Today, [the Federal Reserve] doesn’t have the option of raising rates significantly without triggering consumer debt defaults and mortgage foreclosures that would bring the economy to its knees (Peter D. Schiff, *THE LITTLE BOOK OF BULL MOVES IN BEAR MARKETS: HOW TO KEEP YOUR PORTFOLIO UP WHEN THE MARKET IS DOWN*, 42, John Wiley & Sons, Inc. (2008)).

### **The Impact of the International Credit Crisis**

The international credit crisis is real and the failure of governments to allow the value of assets, such as real estate, to return to the real value may have dire implications. Governments of most of the major countries are attempting to continue as in the past by making credit easily



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available at low interest rates while at the same time the Federal Reserve is creating more fiat money through computer entry. The use of bailouts and so-called stimulus programs (political pork spending) in order to continue as in the past most likely will be unsuccessful and delay the ability of assets to return to their true value allowing assets to reach real value so that buyers and sellers will return to the market. The U.S., and most of the world, is returning to reward those who are producing real goods and services as opposed to spinning paper, for example, in financial institutions. Those financial institutions have rewarded their key employees with substantial millions of dollars in salaries and bonuses in the past. This cannot be sustained as the market is beginning to reward those who are producing those real goods and services. For example, farming—one of the most real goods and services—is an area of growth in which asset managers and investors should consider as a growth investment. Government intervention, through bailouts, stimulus programs and fiat money is delaying assets returning to their real values so that buyers and sellers in the market will appear.

### **Selecting Proper Asset Managers**

It is imperative that asset managers understand the implications of the international credit crisis, the interventions by government and the creation of fiat money through computer entry by central banks around the world. For some period of time, increased job losses will occur in the U.S., as well as many parts of the world, while at the same time, prices continue to rise on various goods and services. The central banks that have created significant amounts of fiat money believe that they can contract the fiat money supply before the consequences of inflation (creation of money and credit) result, which is the general rise in prices. Due to the complicating factors and the inability of computer models to read future human actions and events, it is recommended that asset managers not rely on timings by central banks in contracting the money supply before a substantial rise in prices occurs. The potential consequences of inflationary price rises, with continuing job losses caused substantially from government intervention and not allowing money to flow to those who should be rewarded (such as those producing real goods and services) will delay recoveries in the market.

Asset managers must understand the implications of the U.S. being the largest debtor nation in the world, as well as the largest debtor nation in history. China, with its own problems unrelated to the subprimes, securitization and the use of derivatives, is the primary creditor of the U.S. In the past, China has loaned money to the U.S. Treasury by buying Treasury notes in order for its companies to sell products, goods and services to the U.S. Several other countries have done the same. The implications of any moves by China and other countries that are creditors of the U.S. Treasury as a debtor must be watched on a daily basis by asset managers. One of the investment world's iconic figures, Jim Rogers, who also gained fame from traveling around the world first on a motorcycle and then by automobile and now lives in Singapore as a U.S. citizen, states the following: "Whatever the risks, this much is clear: its more scary to have all your savings in the U.S. stock market than it is to put a portion in China—whether investing in China's growth or as a hedge against a potential U.S. slowdown" (Jim Rogers, *A BULL IN CHINA*, 60-61 (2007, Beeland Interests, Inc., Random House).

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### **Bailout and Stimulus Packages Summed Up Succinctly**

"As regards the economic crises we are all experiencing, the political answer is 'bail out' programs and 'stimulus' packages which are based on past circumstances but not future demographics. The current proposal in the United States is to spend USD 1.2 trillion to increase three million jobs. This translates into government essentially spending USD 300,000 to put one person to work to earn slightly more than the minimum wage. I don't know about you, but the words failure and waste come to mind."

*Denis Kleinfeld  
Demographics and Investment--it's all about People  
Offshore Investment magazine  
April 2009*



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### **Business Groups File Amicus Brief in Action to Enforce Summons for Bank Records (United States v. UBS AG)**

Amicus Brief argues that the John Doe summons against UBS violates the U.S.-Swiss double taxation treaty, stating that enforcing the IRS summons defeats the objective of the administrative assistance provisions in said tax treaty. It points out that if the U.S. were to receive such a broad request from other foreign nation treaty partners, including Switzerland, this would be rejected by the U.S. as a request incompatible with the applicable tax treaty. Second, it is argued that the John Doe summons is inconsistent with the well-established doctrine of comity among nations. The brief points out that the IRS is attempting to gather documents through a blanket request for information, in violation of Swiss criminal law and contrary to Switzerland's view, which is shared equally by the U.S. with respect to tax information requests from abroad, which is that only focus discovery requests are enforceable. The comity doctrine obligates courts of the U.S. to give due regard to the legislative, executive and judicial acts of foreign governments. Third, the brief argues that enforcing the summons undermines important public policy goals. It states clearly that "as national economies have become more inter-dependent, business is increasingly conducted across boundaries," and "taxation has become an increasingly international endeavor." Nations "rely on bilateral income tax treaties ... as the primary means ... to remove tax barriers to international trade," and "[a]n active treaty program" is important to "the competitive position of U.S. businesses" and "the overall international economic policy of the United States."

To view the Amicus Brief, go to: [http://www.assetlaw.com/articles/Amicus\\_UBS\\_Summons-Enforcement.pdf](http://www.assetlaw.com/articles/Amicus_UBS_Summons-Enforcement.pdf).

### **Using Offshore Tax Havens as Scapegoats for Excess Spending**

Senator Levin, President Obama and others who are using offshore tax havens as scapegoats for excessive spending are claiming (with a straight face) that the U.S. is losing \$100 billion a year in tax revenues because of the offshore tax havens.

So if we assume that this revenue might have been subject to the highest rate of federal tax of 35% it means that there is a little bit shy of \$300 billion in unreported taxable income every year.

But how would those hidden earnings be generated? If we assume it's from passive investments generating a return of about 5%, there would have to be somewhere close to \$6 Trillion of hidden assets in the offshore tax havens.

A quick search with Google turned up a Wikipedia page where it states that the entire U.S. Gross Domestic Product in 2008 was a bit over \$14 Trillion and the GDP of the entire world was about \$60 Trillion -- based on estimates by the World Bank.

So that would mean that the amount of hidden assets in the tiny islands in the Caribbean and a few other places in the world are holding assets owned by U.S. persons equal to nearly half of the U.S. GDP and about 10% of the GDP of the entire world. And bear in mind, this does not include any assets from residents of other countries who are not subject to U.S. income taxes. This alleged hidden stash is just from Americans who are cheating on their taxes.

As some talking head has said, "Gimme a break."

*JacobsReport@yahoo.com*

*Thursday, April 23, 2009 4:13 PM*

*Subject: [JacobsReport] They can't be serious, can they?*

*www.vernonjacobs.com*

*http://en.wikipedia.org/wiki/List\_of\_countries\_by\_GDP\_(nominal)*

*GDP Data source = World Bank*



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### **IRS Admits Extent of Offshore Tax Avoidance is Unknown**

The IRS admits the extent of offshore tax avoidance is unknown.

USA - IRS admits extent of offshore tax avoidance is unknown  
[\*The Age, Reuters\*](#)

The frequently-quoted figure of \$100 billion lost by the US Treasury annually to offshore tax avoidance has no evidential basis, the head of America's Internal Revenue Service, Douglas Shulman, told Congress this week. Shulman also denied the IRS is moving away from auditing wealthy individuals, despite a drop in the proportion of audits of individuals making more than \$1 million in 2008.

*STEP International Wealth Structuring News Digest 21 May 2009*

This shows that Vern Jacob's is correct in his analysis that Senator Levin, President Obama and others are making up figures.

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### **Notes from a Conversation with a Financial Advisor**

*John M. Walker, Esq.*

One of the areas of Duke Law Firm's practice is estate planning. We work with many financial advisors, certified financial planners and other financial professionals through our Comprehensive Team Planning approach to satisfy the planning needs of their clients. We work with these clients to meet their asset protection planning needs, both domestic and offshore.

While reviewing notes with one of the financial advisors we work with, he and I discussed advantages of investing offshore as opposed to investing domestically. The following is a summary of the discussion we had. We assumed the investor's domestic investment and planning needs had been addressed and handled, and that the investor had sufficient additional monies to pursue an offshore investment strategy.

Investing offshore can be one of the best asset protection methodologies to follow from three points of interest. First is potential protection from litigation and legal claims. Second is access to investment opportunities that may not exist in the U.S. and protecting the assets invested from the current weakness of the U.S. Dollar. And, third, additional estate planning protection may be available to protect familial wealth from certain claims.

Offshore asset protection planning has traditionally focused on litigation protection. If done properly, assets invested offshore through foreign trusts, foreign entities or foreign structures make it difficult for U.S. claimants to reach. Foreign jurisdictions with asset protection laws are prohibited from recognizing the decisions of U.S. or other courts. If a plaintiff wins a case in the U.S. against the defendant but the assets are offshore, the plaintiff must either start all over again in the foreign court, or force the repatriation of assets from the foreign jurisdiction back to the U.S. As long as no gamesmanship was involved in moving the assets offshore and the reasons for the defendant investing assets offshore are not fraudulent, forcing repatriation may not be so easy.

Considering the faltering U.S. economy, the devaluation of many portfolios invested in the U.S. and the fall in the value of the U.S. Dollar, asset protection is coming to mean protecting the value of the assets themselves. Investing offshore can open new opportunities to protect or increase the value of the assets. These opportunities may be difficult to find in the U.S. or may simply not be available. Some of the investment



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opportunities may include currency trades to hedge against the weakened U.S. Dollar, certain hedge funds that are not sold in the U.S. because of SEC and Securities Act restrictions, direct investments in other countries such as the BRICs (Brazil, Russia, India and China), Chile, Australia, etc., and certain insurance products.

Many offshore variable universal life (VUL) insurance policies are invested through segregated accounts. Such accounts are separate from or segregated from the general liabilities of the carrier. If the insurance company itself faces liabilities or financial difficulties, the monies of the policyholders are separate from and protected from the claims that may arise against the company. These accounts are also separated from the liabilities of the other accounts. Considering that insurance itself tends to be highly insulated against claims, these segregated accounts become quite valuable asset protection tools in addition to the investment opportunities that may be available through the VUL products themselves.

The third advantage can be easily overlooked. In estate planning, issues can arise if an heir or potential heir is left out of the estate plan. In such cases, the heir can contest the last will and testament and possibly the estate planning vehicles. If the state has forced heirship rights, the disgruntled heir can potentially force a redistribution of the estate against the wishes of the deceased. Many offshore jurisdictions have eliminated these rights so that a ne'er-do-well family member or a person claiming a familial relationship that the deceased disclaimed has no legal right to force a claim upon the estate where the deceased had intended them to be left out.

Another issue in estate planning can arise during generational planning because of the dreaded Rule Against Perpetuities (RAP). Although the RAP has been part of English jurisprudence for hundreds of years, and part of American jurisprudence since our founding, it continues to be a trap for the unwary. It also thwarts generational planning where the property being gifted is to remain controlled by the family beyond a certain length of time. Many offshore jurisdictions have done away with the RAP, allowing a wealthy family to pass down wealth across many generations without running into the problems that occur in the U.S. if that approach is tried. As a result, "dynasty trusts" can be established in certain jurisdictions to preserve the family wealth in ways that cannot be achieved in many of the states in the U.S.

Offshore asset protection planning continues to be important in avoiding the U.S. litigation system. However, international asset protection planning also provides wealth protection through holding assets in non-U.S. Dollars and estate planning options that may not be available in the U.S. Once domestic needs and planning have been addressed, offshore asset protection planning should be considered. Such planning may provide additional litigation protection, asset value protection and flexibility for certain estate planning issues.

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### **The Emerging Caribbean Offshore Financial Centers**

*John M. Walker, Esq.*

At the Annual Offshore Alert Conference held in Miami this past April, one focus was the Offshore Financial Centers (OFCs) in the Caribbean. Three of the emerging bright spots appear to be Barbados, St. Vincent & The Grenadines and the Turks & Caicos Islands (TCI).

#### **Overview**

The Caribbean OFCs have come under great scrutiny and have received much negative press. Many have been branded as "tax havens" because of low or non-existent tax rates on income, and their privacy policies that attempted to hide the owners of money invested there. Hence, countries with relatively high income tax rates, such as many European countries and the U.S., became frustrated with the perceived loss of tax revenues from OFC investments.

For U.S. citizens, secretly investing in these OFCs has become particularly problematic. The lure of investing in a low-tax or no-tax jurisdiction can be hard to resist. Initially, the problem arose because U.S. citizens are subject to U.S. income tax on all income earned, regardless of where it is earned and where the U.S. citizen lives. Thus, even if the OFC has no income tax, a U.S. citizen is still subject to U.S. income taxes on the income earned in a no-tax jurisdiction. Because a U.S. citizen is subject to U.S. tax laws regardless of where they live and where their money is invested, failing to report income on any investment can lead to IRS civil and criminal investigations.



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Through the U.S. Justice Department, the IRS can bring pressure on these OFCs to divulge the identities of its depositors and investors. Much more troubling for these OFCs are the actions being taken by the Office of Economic Cooperation and Development (OECD). The OECD is an international organization comprised of powerful governments, such as those of the U.S. and European countries. The OECD is forcing the OFCs into compliance with its vision of proper tax rates and reporting policies. OFCs that have low-tax or no-tax rates are highly disfavored by the OECD, as are those OFCs that do not have “enough” tax treaties with OECD member countries. Mr. Jeffrey Owens, Head of the Centre for Tax Policy and Administration at the OECD, was a keynote speaker at the conference. Mr. Owens declined to define the number or even specify a range of numbers that might constitute “enough.”

U.S. citizens are facing potential income taxation on all income, regardless of where earned. OFCs have had to modify how they do business and, in many instances, modify their taxation rates and policies under growing pressure from the OECD.

### **The Importance of Common Law for U.S. Investors**

One of the most effective asset protection planning instruments is a trust. The concept of a trust originated from Roman law and came to its present form through centuries of English common law. Countries or jurisdictions based on common law tend to have a well-developed understanding of a trust. Their laws and legal traditions reflect this understanding. By contrast, the concept of a trust is completely foreign to civil law. Hence, even where a civil law country adopts trust laws, the laws are poorly understood and lack the legal tradition that is required to make trusts truly viable.

Closely related to the importance of a trust are the concepts of private property ownership. As with trust laws, the most favorable private property ownership laws had their basis in Roman law and were refined and strengthened through centuries of English common law.

Thus, from an asset protection point of view, in choosing an OFC, the U.S. investor is wise to seek jurisdictions that are common law, rather than civil law based.

### **The International Business Company**

One drawback of trusts for many who establish them is the complete lack of control. If the person who establishes the trust, or those who benefit from the trust control how the trust funds are invested or distributed, the trust can be successfully challenged and undone.

One offshore alternative to a trust that is gaining popularity is the International Business Company (IBC). This business entity is a corporation established under specific IBC statutes within the foreign jurisdiction. It cannot invest in the country where it is formed, nor carry on business there. A common use of the IBC is to form it in an OFC that caters to IBCs but may not offer as much in the way of investment opportunities as other countries might. Once the IBC is formed, its managers, under the direction of its owners, invest the capital of the IBC in Switzerland, Australia, China, etc. through offshore custodial banks. Many of the OFCs in the Caribbean compete heavily for the IBC formation and domiciling because an IBC must pay fees each year to the country where they are registered.

With a few exceptions, the IBC can make an election to be taxed as a partnership or as a disregarded entity. This election eliminates the highly complex foreign corporation's tax and allows the profits or losses to be passed through to the owner's personal U.S. tax return.

### **Bearer Shares**

A highly over-played and suspect asset protection tool has been anonymity in and of itself. The pitch has been that if everything is hidden, no liability can arise. It is true that we certainly do not wish to trumpet to the world what we have and how much of it we have. However, relying solely on anonymity for asset protection where OFCs are involved has become less and less viable because of the OECD's reporting and transparency requirements.



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One of the major methods used in the past to create “impenetrable” anonymity has been the use of bearer shares to hide ownership in a company formed offshore. Literally, the person who bears or has physical possession of the shares held the ownership in the company. The shares were typically held or borne by a foreign company, attorney or other individual for the benefit of the true owner who could remain anonymous.

Because bearer shares were so heavily used to perpetrate fraud, and because the OECD and its tax treaties demand transparency for tax purposes, bearer shares are in disfavor. In fact, they have been banned in most jurisdictions. The U.S. investor should be wary of any jurisdiction that allows the use of bearer shares and should avoid their use.

### **Barbados, St. Vincent & The Grenadines and TCI**

These three OFCs are emerging as the favored OFCs in the Caribbean. All of them are common law jurisdictions and have banned bearer shares. Of the three, Barbados has made the most progress and is the most favored by the OECD.

#### **- Barbados**

- Most business comes from the U.S., Canada and Europe
- Heavy treaty network. It has the most tax treaties of the three OFCs by far, although the number of its tax treaties has not yet met the mercurial “enough” standard of the OECD.
- Focuses heavily on Cuba, China (PROC) and Venezuela
- Not classified by the OECD as a “secrecy jurisdiction”
- The OECD has not classified it as lacking transparency
- Heavy focus on anti-money laundering (AML)

#### **- St. Vincent & The Grenadines**

- Most business comes from Europe
- One of the smallest Caribbean OFCs
- Gray listed (Category II) by the OECD as are all of the Caribbean OFCs except Barbados
- Their banks invested in many U.S. banks that are failing
- No current tax agreements, however it does share information with other Caribbean OFCs
- Have decided to compete against other OFCs on cost
- Have closed 35 of 40 banks for non-regulatory compliance
- IBC focus is their main growth industry

#### **Turks & Caicos Islands (TCI)**

- Most business comes from U.S. and Canada
- Low number of IBCs, however they have over 20,000 of them
- Limited number of banks, only 2 are international
- Re-insurance industry is on the decline
- Cooperates with other regulatory authorities in other countries
- Can help recover assets used in or resulting from crime. They place these assets into a civil company, not the government



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Clearly, Barbados is the strongest of these three Caribbean OFCs. And Barbados wants U.S. business. Many offshore jurisdictions are shunning U.S. investors due to the complexity of U.S. tax laws that make compliance potentially confusing and expensive. However, St. Vincent & The Grenadines and TCI are committed to becoming competitive OFCs. They are making the hard decisions necessary to fight fraud and balance their national sovereignty against the heavy handedness of the OECD. These OFCs are working towards gaining market share of the offshore investment business in the major jurisdictions they have targeted.

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### **U.S. Treasury and the Federal Reserve Being Squeezed**

Because interest rates are increasing in some investments, this is making it difficult for the U.S. Treasury to sell treasury bills and notes without also raising the rates it will pay for borrowing. For example, China is the largest creditor of the U.S. and it may reduce or terminate buying treasury bills or notes from the U.S. Treasury because China can earn higher interest rates through other investments. If the Federal Reserve raises interest rates, through one or more mechanisms, this, along with other factors, will set the stage for the dreaded consequence of inflation. Inflation is the creation of money out of thin air by computer entry and its consequence is inflationary price rises. If interest rates are not raised, where will the U.S. Treasury get its money to continue its spending? That comes in either the form of taxes or further inflation (creation of fiat money). The Federal Reserve and the U.S. Treasury are being squeezed with nowhere to turn without adverse consequences. See the following two Wall Street Journal articles briefly discussed below:

Rising interest rates threaten to dim prospects for a housing recovery and choke off a refinance wave that was a major plank of the Obama administration's economic-stimulus efforts.

*Nick Timiraos and Ruth Simon, "Rate rise clouds recovery," The Wall Street Journal (June 11, 2009).*

Fed officials have become more confident recently that they have stabilized the economy and set the stage for recovery. But divisions are brewing within the Fed over whether it should do more to speed the healing, pause or start pulling back to avoid an outbreak of inflation.

These crosscurrents are likely to inhibit bold new strokes by the Fed at its next meeting, in contrast to earlier in the year, when a bleak outlook spurred aggressive action.

*Jon Hilsenrath, "Fed to keep lid on bond buys" The Wall Street Journal (June 12, 2009).*

### ***In The News***

#### **Geithner insists Chinese dollar assets are safe**

***US Treasury Secretary Tim Geithner was laughed at by an audience of Chinese students after insisting that China's US assets are safe.***

By Edmund Conway

Published: 8:03PM BST 01 Jun 2009

In his first official visit to China since becoming Treasury Secretary, Mr Geithner told politicians and academics in Beijing



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damaged by the economic crisis. Speaking at Peking University, Mr Geithner said: "Chinese assets are very safe."

The comment provoked loud laughter from the audience of students. There are growing fears over the size and sustainability of the US budget deficit, which is set to rise to almost 13pc of GDP this year as the world's biggest economy fights off recession. The US is reliant on China to buy many of the government bonds it is planning to issue but Beijing's policymakers have expressed concern about the strength of the dollar and the value of their investments.

However Chinese Vice Premier Wang Qishan said that the two countries were working closely together to fight the economic crisis.

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