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Rauner's old firm set up Cayman funds when he was boss

By Dave McKinney

Springfield bureau chief

SPRINGFIELD - Republican Bruce Rauner not only has personal investments in the Cayman Islands, but he presided over his former private equity firm as it set up other investment vehicles in the Caribbean tax haven known for its secrecy.

The Chicago Sun-Times verified through the Cayman Islands' government-run online business registry that a total of a dozen investment funds were established there by Chicago-based GTCR between June 2009 and July 2011, when Rauner chaired the firm.

Three of those are funds in which Rauner declared last fall that he had a personal financial stake and that were the subject of a Sun-Times report earlier this month. The candidate for governor has said repeatedly that those personal investments were completely above-board and did not lower his state or federal tax obligations.

The new disclosure of a broader corporate involvement in the Caribbean nation by GTCR under Rauner's stewardship comes after he was pilloried last week by Democrats, who portrayed him as a "billionaire" out of touch with working-class Illinoisans.

U.S. Rep. Tammy Duckworth, D-Ill., a wounded Iraq War veteran, went so far as to liken the Winnetka Republican to a "deserter" for personally investing in the Cayman Islands and not paying his "fair share" of taxes. The nation doesn't tax investment income or require earnings be disclosed to foreign taxing bodies such as the Internal Revenue Service.

Rauner's camp has blasted Duckworth's charge as "outrageous."

In the face of such harsh political rhetoric, Rauner insists he has paid what he owes but has been unwilling to release a section of his tax returns that Democrats think could corroborate his claim and shed more light on his foreign holdings.

GTCR declined to comment to the Chicago Sun-Times about the additional funds set up in the Caymans during Rauner's watch as chairman. The company wouldn't respond to the newspaper's inquiries about how much is invested collectively in those funds; why they are based in the Cayman Islands; to whom those funds are open; and whether there are minimum-deposit requirements.

But on Monday, a top Rauner aide defended the funds' creation and said they all relate to GTCR's 2009 investment in Bermuda-based Ironshore Inc., a specialty insurance company, and a 2011 GTCR acquisition of Gridlock Holdings, a provider of custom news and traffic reports for non-U.S. media outlets.

Rauner spokesman Mike Schrimpf said setting up "flow-through" offshore funds such as GTCR's Cayman Islands offerings is a "common" and legal investment strategy for private-equity firms to help protect the resources of tax-exempt entities, such as state-run pension systems - including the General Assembly Retirement System from which Quinn eventually will draw a pension.

"Caribbean vehicles are common for private-equity funds as well as institutional investors like the Illinois' pension fund . . . especially when the companies they are investing in already have international operations and headquarters. Pat Quinn knows this because he is a major investor in the Caymans through the state pension system, where he also appoints a controlling number of individuals to the pension board," Schrimpf told the Sun-Times.

"Bruce was also comfortable with it because that kind of investment does not reduce the taxes paid by individual investors on their income. It didn't reduce taxes on Bruce's income, and it doesn't reduce Pat Quinn's taxes either," he continued. "The fact is Bruce pays the same tax rate as Pat Quinn."

But Quinn's campaign seized on the new disclosure of more Cayman Islands investments linked to the multimillionaire private-equity investor. "Not only does Republican billionaire Bruce Rauner stash his own riches in the Cayman Islands to avoid taxes, he also parked his firm's money there," Quinn spokeswoman Brooke Anderson told the Sun-Times. "This is just the latest revelation about Mr. Rauner's shady business dealings that raises more questions than answers.

"Mr. Rauner is great at gaming the system for his own financial benefit while the rest of us play by a different set of rules," she continued. "He is clearly hiding things from the people of Illinois, and he needs to release his full tax records."

A left-leaning tax-reform think tank in Washington, D.C., that has studied offshore investments called the GTCR holdings registered in the Cayman Islands during Rauner's stint an open invitation to its investors to skirt paying taxes because of the intense secrecy surrounding the country's financial system.

"By putting the funds in the Cayman Islands, he's making it easy for his investors to cheat, which means he'll have more investors than he'd otherwise have, and he'll earn more fees from it," said Rebecca Wilkins, senior legal counsel for the Center for Tax Justice, which estimates the federal government loses $100 billion a year in owed tax obligations because of foreign tax havens.

GTCR was close-lipped Monday when contacted about Wilkins' allegation. But another expert on international taxation said GTCR, with its offshore holdings in the no-tax venue, is merely taking advantage of existing U.S. law for the benefit of its investors.

"It doesn't sound like they're doing anything differently than any of these other private-equity firms are doing," said Michael Knoll, a University of Pennsylvania law professor in Philadelphia and co-director of that university's Center for Tax Law and Policy. He said it's "very common" for private-equity firms to register in the Cayman Islands to sidestep U.S. rules affecting mostly nonprofits and other tax-exempt institutions that could otherwise be taxed on earnings that are debt-financed.

Noting that Rauner has paid more than $25 million in taxes in the past three years and donated $13 million to charities, Schrimpf said Quinn's focus on the Cayman Islands is merely a diversion from his own serious political problems that put a second full term in jeopardy.

"This is all a smokescreen by Pat Quinn to distract attention from his broken promise on taxes, the horrendous level of unemployment in our state, his cuts to education funding, and the fact that his administration is under federal investigation for corruption," Schrimpf said, referring to the governor's botched 2010 Neighborhood Recovery Initiative anti-violence grant program.

"The real tax issue is this: Pat Quinn wants to raise taxes. Bruce wants to lower them," he said.