BARRON'S PENTA

Stashing Your Art in a Tax Haven Can Be Dicey

Art collectors are wise to think hard before carting up their artworks and sending them into storage at a tax-haven freeport.

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By STACY PERMAN
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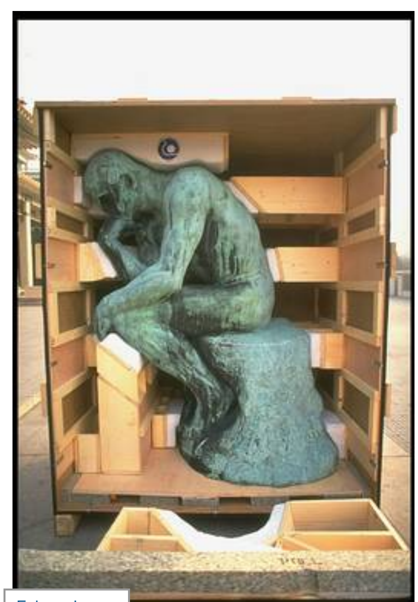
Freeports, a sort of maximum-security safety-deposit box with tax benefits, have become the vault of choice for global collectors, allowing them to securely and discreetly warehouse large stashes of art. But greater scrutiny is being paid to these opaque art strongholds, and straight shooters are advised to steer clear of freeports, despite their perceived attractions.

Established in Geneva over a century ago, freeports were originally designed as bonded warehouses to temporarily house commodities and other goods in transit, but have morphed into glitzy, high-tech, maximum-security storehouses, frequently used as a tax haven where the rich park their valuables in a kind of no-man's land.



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Think hard before you crate your art and send it to a

Fueled by the $57 billion global art market and the arrival of a new breed of collector who views art as an investment as much as a passion play, a passel of new freeports have sprouted up in Singapore, Luxembourg, and Beijing, with more planned or under construction. These fortresses are open 24/7, and in the case of Geneva, can offer about half a million square feet of storage. Not exactly your standard lockup. Freeports can offer clients sleek galleries and viewing rooms, offices, and amenities such as limousine service—with armed escorts upon request. Costs? According to one report, the Geneva freeport charges from $5,000 to $12,000 a year to fill a small room.

Much like offshore financial hubs, they provide their users confidentiality, security, and a host of tax benefits. Because the

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freeport tax haven. *Photo: Forrest Anderson/The LIFE Images Collection/Getty Images*

goods are technically on the move, any VAT or customs taxes are "temporarily postponed." And while a work remains inside a freeport's fortified walls, it can be traded or sold tax-free with impunity.

"At their most basic level, they are storage facilities," says Karen Boyer, principal at the New York art advisory firm Elements in Play. "However, one of the attractions is that they are tax-free facilities. It's an easy way to store money and not pay taxes," she adds, noting that "tax dodging is a big factor in their growth."

WHILE MILLIONS OF ARTWORKS and other valuables are stashed away in the various freeports, given that they operate with a relative lack of transparency, nobody knows for certain what is being held, who owns the art, or even the value of such holdings. Filippo Guerrini-Maraldi, head of fine art at insurance broker R K Harrison in London, estimates that any single freeport might contain $20 billion to $30 billion worth of goods. But that's a wild guess. Last year, for example, Switzerland's Federal Audit Office estimated that goods worth some 100 billion Swiss francs ($103 billion) in total are held in the country's various freeports and custom-free zones.

The vast amounts of money sloshing around in the largely unregulated art market these days, coupled with the freeports' secrecy, prompts claims that they're vulnerable to a host of illegal activities, from tax evasion to money laundering to concealing stolen goods. There are plenty of signs that tax authorities and law-enforcement agencies in Europe and America are expressing more interest in knowing what's crated up behind those fortified walls. Telling the Economist that freeports are a "very interesting" part of dirty-money activities, the head of one of Europe's financial intelligence agencies called them "a black hole."

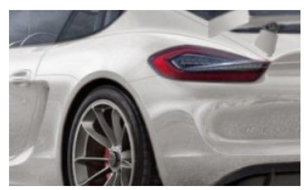
Last year, Switzerland's Federal Audit Office called for more customs controls, including limiting the time period goods could be stored at a freeport. This year, Luxembourg began to reinforce its own anti-money-laundering laws with respect to companies operating at its freeport, known as Le Freeport.

Renewed attention was paid to the world of the freeports in February after Swiss businessman and art dealer Yves Bouvier, a major shareholder and operator of the freeports in Geneva, Luxembourg, and Singapore was arrested in Monaco on suspicion of defrauding art collectors. The Bouvier affair threatens to expose the art world's murkier transactions and has stoked much ire around potential conflicts of interest. Given Bouvier's multiple roles in running, selling, and storing art at the largest freeports, detractors charge that such access has made him privy to the kind of insider information that securities authorities pounce on.

SO, GIVEN THE CURRENT CLIMATE, what should a collector do who is buying art globally and running out of wall space? It seems smart to store their art tax-free for a period while they decide what to do with the works. But Todd Levin, director of Levin Art Group, a private consultancy, says, "I've always advised my clients to steer clear of the whole dynamic. Basically, it's money laundering in the cleanest, nicest, most elegant way. And if it's not money laundering, it's an attempt to avoid sales and use tax [i.e., duties]—which is just a variation of money laundering."

For those who still choose a freeport to park their masterpieces, the wisest course is to strictly comply with all applicable disclosure laws. Cautions one former U.S. law-enforcement official who now deals with issues concerning the art market in private practice: "Yes, the freeports are out of the traditional reach of U.S. law enforcement, but that's not to say they're not able to identify, through other means, what U.S. citizens have, how they're transferring holdings, and what money is associated with those transactions." In other words, Big Brother is watching you.

Penta's take: The benefits of freeports, if you play by the rules, aren't worth the hassles



of getting dragged into an investigation or triggering an audit with the IRS. Sometimes it's best to be boring.

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