

July 31, 2002

In Lieu of Bermuda, Business Is Sold

By DAVID CAY JOHNSTON

In agreeing yesterday to sell its consulting arm to I.B.M., PricewaterhouseCoopers abandoned its strategy of incorporating the business as a Bermuda company and renaming it Monday Ltd.

Under that plan, announced early this year, the consulting firm's foreign partners would not have been subject to American tax law and its American partners would have been able to earn tax-free profits.

The deal with I.B.M. means the consulting partners around the world will become employees of I.B.M., which has both its working and tax headquarters in Armonk, N.Y. The Monday name will be abandoned.

Pricewaterhouse's reversal on the Bermuda issue comes as Congress, with strong bipartisan support, is moving to ban companies that use the Bermuda strategy from receiving federal contracts. The technique permits companies to turn otherwise taxable profits earned in the United States into tax-deductible expenses paid to a parent company in Bermuda or other tax haven countries.

For months, House Republican leaders blocked action against companies using the Bermuda device. But party discipline collapsed on Friday night when nearly half of the party's members voted with Democrats to deny companies using an offshore mailbox from holding contracts with the proposed Department of Homeland Security.

Meanwhile, pressure to make the Bermuda issue go away from Republicans who are facing tough re-election fights is increasing the prospect that legislation will be enacted before November, denying tax breaks to companies using offshore mailboxes.

Accenture, the world's largest consulting firm, already uses a Bermuda address. Accenture said it declined to comment last night because its spokeswoman on the Bermuda issue was on a flight and could not be reached.

Spokesmen for I.B.M. and Pricewaterhouse said yesterday that the Bermuda tax issue had nothing to do with their deal.

Talks on the sale began on July 18, an I.B.M. spokeswoman, Laura Keeton, said. That was the same day that Democrats, lead by Representative Lloyd Doggett of Texas, spent hours on the House floor lambasting Republicans for not moving to close the Bermuda loophole and singling out Pricewaterhouse for criticism as an aggressive promoter of tax avoidance.

Ron Hauber, general counsel for the consulting arm of Pricewaterhouse, said last night that Monday Ltd. was to have been based in Bermuda for tax purposes because “our offshore businesses would not be subject to U.S. tax.”

Congress taxes American companies on their worldwide income and, Mr. Hauber said, foreign consulting partners did not want any involvement with United States tax law.

He said he saw no contradiction in selling the consulting arm to I.B.M. “This is a different transaction,” he said. The consulting partners will be paid for their equity with I.B.M. shares, he said, and they will become employees of I.B.M.

“When we had an opportunity to determine our tax structure, we did it in Bermuda, and when we sell to I.B.M., the transaction is different,” Mr. Hauber said.

Mr. Doggett said that the sale to I.B.M. “is an encouraging development because public exposure of these scams is essential to prevent them.”

“Most of these corporate tax scams are so complex, it is impossible to put them in terms that people can understand them, unlike this Bermuda matter, which everyone gets,” he said.

Copyright 2002 The New York Times Company | [Permissions](#) | [Privacy Policy](#)