



April 16, 2011

HSBC Client Indicted for Tax Evasion

A client of HSBC Bank India, New Jersey businessman Vaibhav Dahake, pleaded guilty in January to conspiring with 5 bankers from HSBC Holdings Plc to hide his assets from the IRS. The plea was recorded in federal court in Trenton, New Jersey just four days after a judge granted permission to the IRS to serve a John Doe summons on HSBC Bank seeking information on suspected HSBC India account holders who have hidden their assets from the IRS in their accounts.

The indictment stated that Dahake, 44, was a client of "one of the largest international banks in the world" with headquarters in England. The IRS filed application to issue the John Doe summons based on Dahake's indictment. US District Judge Freda L. Wolfson set July 22 as the date for sentencing. Dahake, from Somerset, New Jersey could be jailed for up to 5 years for his crime. On the other hand, HSBC Bank spokeswoman Juanita Gutierrez responded by email saying, "HSBC does not condone tax evasion and is cooperating with law enforcement in this matter."

Dahake was the first taxpayer to be charged with tax evasion in an IRS crackdown that is investigating whether clients of HSBC India have been helped by bank officers to dodge taxes with their accounts. Dahake

admitted to conspiring with two HSBC bankers in New York, one in Fremont, California and two others in Thane, India.

Dahake's indictment stated that HSBC operated a company in New York named NRI Services that was set up to market offshore financial services to US clients of Indian descent. The indictment went on to state that NRI "encouraged US citizens to open undeclared bank accounts in India".

Dahake, who is of Indian descent but who became a naturalized US citizen in 2006, filed false tax returns that hid the fact that he owned undeclared accounts and earned income in India and the British Virgin Islands. In 2001, Dahake met a HSBC banker in New York who assured him that for his Indian account with the bank, "no US forms were required, he did not have to provide a Social Security number, the account was not taxable in India" and no Form 1099 stating the interest income will be lodged with the IRS.

In addition, two other HSBC bankers told Danake the bank would not file any Form 1099 with the IRS. Then in April, when Dahake was on the line with a HSBC banker in Fremont, he (Dahake) asked if the bank would issue Forms 1099 and the banker switched from English to Hindi and said that Dahake should not discuss the forms over the phone.

Dahake would transfer funds into his HSBC account via checks of \$10,000 each rather than one check in a large amount in order to avoid raising suspicions. HSBC Bank has since June closed the NRI offices in New York and Fremont.