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Border Crossing: How a U.K. Banker Helps U.S. Clients Trim Their Taxes --- Deals Devised by Roger Jenkins Of Barclays Capital Lift Own Firm's Fortunes, Too --- Paid Once, Credited Twice ----

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LONDON -- At Barclays PLC, a British bank steeped in 300 years of tradition, the work of a team led by banker Roger Jenkins is far from traditional.

For instance, in 2003 his team set up a company with no employees, no products and no customers -- just a mailing address in Delaware and a slate of British directors, mostly employees of his office. It was co-owned by Barclays and U.S. bank Wachovia Corp.

The following year, according to documents filed in the United Kingdom, the jointly owned company had $317 million in profits. It paid U.K. taxes on them. Barclays and Wachovia were both able to claim credit for paying all of the tax.

This was one of at least nine such structures Mr. Jenkins and his team have set up involving U.S. banks, which also included Wells Fargo & Co. and Bank of America Corp. The complex transactions involve a strategy called tax arbitrage, which plays off one nation's tax system against another to reduce the banks' tax bills.

Barclays is the leader in this esoteric field. It collects hundreds of millions of dollars in revenue generated by Mr. Jenkins's group. His team of lawyers and bankers has helped turn Barclays from a sleepy Main Street lender into an investment-banking power.

Critics of tax arbitrage are blunt about it. "This is just a complete and utter construct to get around the rules at both ends," says Richard Murphy, an accountant and professor who works with a London nonprofit called Tax Justice Network and has consulted for the U.K. government on financing.

The banks say the cross-border deals have been cleared by both U.S. and U.K. regulators and the regulatory review process is rigorous. Barclays says the transactions aren't designed mainly to reduce taxes. It says Mr. Jenkins's group generates a variety of strategies for corporate clients to lessen risk, maximize profits and fund balance sheets. Says Mr. Jenkins: "I run a structured capital-markets business which does a bunch of different things, and in there is tax efficiency, as you would expect."

The U.S. and British governments have said that while they police their own home countries, they won't pursue companies for seeking to avoid taxes owed to other jurisdictions. There is no indication that any of the Barclays deals might need to be unwound.

But regulators and politicians in both countries are paying greater attention to tax arbitrage. The U.S. and U.K., along with Australia and Canada, have formed a body designed to combat cross-border tax abuses. The British government took a step against tax arbitrage last year by adopting a law that disallowed certain strategies in the U.K. and gave regulators more time to rule on deals when proposed. In the U.S., Internal Revenue Service Commissioner Mark Everson told the Senate this month that his agency is focusing on ways that financial institutions are structuring deals abroad to avoid taxes.

Mr. Jenkins's success has made him one of the highest-paid executives at Barclays, which rewards him in unusual ways. Besides his salary and bonus, estimated to total in the millions of dollars annually, Barclays several years ago invested a total of about $40 million in two Jenkins personal holding companies, according to U.K. documents. One of Mr. Jenkins's companies bought a stake in a swimwear company his wife is involved in and also owns a warrant to invest in an energy-bar company run by his brother.

Mr. Jenkins, 50 years old, is known by people who work for him as relentless about the details of deals, with a competitive drive he showed early in life in Scotland. At Edinburgh Academy, he and his brother, David, put up school running records that still stand. "My brother and I are still, 40 years on, faster by about 10 yards than any other kid who has ever run there," Mr. Jenkins says. The school's alumni secretary confirms their track skills. David was the faster: He won a silver medal at the 1972 Olympics.

The son of an oil-refinery manager, Mr. Jenkins joined Barclays as a trainee in 1978, left for another bank, then returned in 1994 to set up a group to advise companies on tasks such as risk management and leasing.

It was a critical time at Barclays. Founded by Quakers in the 1600s, the bank had its headquarters on the same street in the City of London financial district for almost 300 years. But by the mid-1990s, change was sweeping through banking, with some competitors branching out broadly into financial and investment services.

In 1996, Barclays's investment-banking unit hired an American executive of Credit Suisse, Robert Diamond Jr., who broadened the unit's horizons and has helped turn it into a major European investment bank. Meanwhile, Mr. Jenkins was assembling his group, known as Structured Capital Markets. Reaching beyond bankers, Mr. Jenkins also staffed this with people like Iain Abrahams, a London tax attorney who today is his chief lieutenant.

The investment-banking unit, Barclays Capital, soon faced a rough patch. It had an operating loss of $440 million in 1998, the year Russia devalued its currency and defaulted on part of its debt. But growing profits from Mr. Jenkins's team softened the blow.

In 2000, Wells Fargo proposed a transaction to the U.S. Office of the Comptroller of the Currency that became the blueprint for the cross-border deals Barclays began to do. Wells Fargo, based in San Francisco, sought the bank regulator's clearance to set up a unit in the Cayman Islands "to achieve further efficiency in funding." The OCC approved it. A spokesman for the agency says it was aware the transaction had tax implications but had no reason to think it was improper.

To pass muster with the IRS, transactions must have a business purpose other than shaving taxes. At Wells Fargo, "all transactions serve a bona fide business purpose and benefit . . . ," says the bank's controller, Richard Levy.

The financial filings of Wells Fargo, which has set up numerous cross-border structures including at least one with Barclays, disclose little about them. Mr. Levy says they weren't big enough to be material. Other banks involved in these deals also make little mention of them in their filings. When The Wall Street Journal asked the OCC for documents on the transactions, several banks opposed their release, citing client confidentiality and trade secrets.

Barclays doesn't trumpet the Jenkins team's success, beyond occasional mention in its annual reports. Mr. Jenkins says talking about it could tip off competitors and jeopardize client confidentiality. Barclays declined to give details on how the cross-border structures work.

But some details of the 2003 Barclays-Wachovia transaction can be learned from U.S. and U.K. corporate and regulatory filings. These include OCC records, released in redacted form after an appeal by the Journal.

The structure at its heart was called Augustus Funding LLC. British records show that in May 2003, members of Mr. Jenkins's group incorporated Augustus in Delaware. Its U.S. address: the office of a Wilmington clerical firm that lets thousands of shell companies use its address.

Directors of Augustus were eight executives in Britain, six of them members of Mr. Jenkins's group and two of them Wachovia employees. Board meetings take place at Barclays offices in Canary Wharf, U.K. records show. Duplicate books and records are kept there and in Charlotte, N.C., Wachovia's base.

Incorporation in Delaware established a U.S. residency for Augustus. Having a London address as well, plus British directors, made the business the corporate equivalent of a dual passport holder: incorporated in the U.S., but a U.K. resident for tax purposes. Wachovia owns 49% of Augustus. Barclays owns 51%, via two intermediary companies that have no employees.

Wachovia's correspondence with the OCC to set up such an entity said the North Carolina bank could earn a higher return this way than through other investments with a similar level of risk. One document said the deal would provide its partner British bank "with certain tax benefits under United Kingdom law."

Augustus was funded with more than $6 billion, the bulk of it contributed by Wachovia. In its first full year, 2004, Augustus reported $317 million in pretax profits from assets such as Danish mortgage securities and U.S. Treasurys.

Augustus had to pay U.K. taxes on this income because of its British tax residency. The tax was $94 million.

Augustus's owners, Barclays and Wachovia, both were able to claim credit at home for a tax payment. And thanks to the elaborate structure and cash flows involved in the deal, some of which remain undisclosed, each co-owner could take credit for a full $94 million payment, say people familiar with how such transactions work. In effect, the $94 million payment got claimed twice.

When it brought its share of the profits back to the U.S., Wachovia paid an additional amount of tax -- about $16 million -- to the Internal Revenue Service to reflect the fact that U.S. corporate tax rates are slightly higher than U.K. tax rates. Wachovia noted that foreign-tax credits are common.

Barclays, asked about these accounts of the transaction, said they were "materially inaccurate," but declined to be specific, citing client confidentiality. At Wachovia, a spokeswoman said the bank has "complied with all applicable laws and regulations," including tax rules.

The outline for a similar, prospective Barclays deal with another U.S. bank estimated that it would produce savings of hundreds of millions of dollars over five years, after which it would end. In some deals, the Jenkins team has worked with a number of law and accounting firms, including KPMG LLP. The accounting firm says it submitted to the IRS all transactions involving U.S. banks and Barclays. Barclays Capital, the investment-banking unit that includes Mr. Jenkins's team, now contributes about a quarter of its parent bank's pretax profit, up from 18% in 1999. In a move symbolic of the bank's shift away from tradition, it has moved from its longtime home in the City of London to the modern Canary Wharf complex east of London. And as Mr. Jenkins's team continued to do innovative deals, Barclays has augmented his compensation in a novel way.

A few years ago, the bank acquired about $9 million of preferred shares in a personal holding company of his. In another instance, it invested about $30 million in preferred shares in another Jenkins personal holding company. Barclays's board approved the purchases under a plan designed to retain key executives, said a bank spokesman. The arrangement was that if Mr. Jenkins stayed three years, Barclays's shares in the personal holding companies would become his.

One holding company, called D-Sol Systems Ltd., owns a warrant to buy shares in a California nutrition-bar maker owned by David Jenkins, the banker's Olympic-medalist brother. David Jenkins started the company, Next Proteins Inc., in 1989 after serving several months of a seven-year prison sentence for involvement in a steroid-smuggling ring. He didn't return calls seeking comment.

D-Sol also bought 49% of a company that makes the Melissa Odabash line of women's swimwear, where Roger Jenkins's wife, Diana, is a partner and helps on public-relations and design.

Mr. Jenkins declined to comment on D-Sol or Barclays's investment in it. Barclays said its investment in the Jenkins personal holding companies has ended, the bank's shares having been transferred to Mr. Jenkins in accordance with the three-year arrangement.

The Jenkinses have owned homes in Malibu, Calif., as well as London. The society magazine Tatler last year included them on a list of famous guests at an event. A New York Times Magazine feature last year about vacationing in Aspen, Colo., pictured Mrs. Jenkins, 35, adorned with what it said was a $12,000 mink.

Mrs. Jenkins appears to share with her husband an appreciation of tax issues. While at London's City University in 1999, school records show, she wrote a paper called "Minimizing Withholding Taxes in a Multinational Corporate Structure."