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## Terror Inquiry Turns to Tax Law

Efforts to Probe Financing  
Of Islamic Extremists  
Centers on IRS Violations

By **GLENN R. SIMPSON**  
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The Justice Department is investigating possible criminal tax-law violations by a Boston private-equity firm that manages hundreds of millions of dollars for Muslim investors in Europe and the Middle East and is affiliated with a Swiss investment group U.S. authorities suspect of financing Islamic extremists.

Federal prosecutors disclosed a grand-jury probe of Overland Capital Group Inc. in filings last week with U.S. District Court in Boston. While the Boston grand jury is examining suspected tax evasion related to complex investment structures, the case is being handled by a prosecutor from the Justice Department's counterterrorism division, the filing states.

- **The News:** A Boston investment firm with alleged ties to a Swiss Islamic fund is being investigated for possible tax violations.
- **The Background:** The U.S. is concerned sympathetic Islamic bankers may be helping terrorist groups move money around.
- **What It Means:** Some prosecutors are using tax laws to pursue investigations when terror financing may be suspected.

In the years since the Sept. 11 attacks, U.S. counterterrorism agencies have been stymied in several attempts to bring terrorism cases against wealthy individuals from the Middle East. Some prosecutors have pushed the government to use tax laws as a more effective approach, a method famously employed against gangster Al Capone in 1931.

Overland, which doesn't disclose its ownership, says on its Web site that it has made more than \$1.5 billion in U.S. investments for its clients, largely in real estate, since its founding in October 2001.

Legal records say Overland is controlled by a Geneva-based financial group known as Dar Al-Maal Al-Islami Trust, which was founded by a senior member of the royal family of Saudi Arabia. The U.S. government is treating the companies as related: The Justice Department is examining "acts and practices" of Overland and a DMI subsidiary "that implicate potential violation of the Internal Revenue Code," the filing states.

DMI is the hub of a network of banks and investment funds across Europe and the Middle East that cater to Muslims interested in strictly following Quranic principles, such as a ban on collecting interest. Some DMI affiliates came under scrutiny by U.S. counterterrorism agencies in the mid-1990s for suspected connections to extremists, government records show.

### Dar Al-Maal Al-Islami Trust

**Founded:** Nassau, Bahamas, 1981  
**Chairman:** Mohammed Al-Faisal Al-Saud  
**Headquarters:** Geneva  
**Principal subsidiaries:**  
**Bahrain:** Ithmaar Bank  
Shamil Bank of Bahrain  
**Bahamas:** Islamic Investment

In general, the U.S. and other Western governments are investigating whether terrorist groups are able to move money with help from sympathizers in the Islamic-banking movement. Intelligence and law-enforcement officials say they are concerned the industry's often-opaque practices lend themselves to money laundering and other financial crimes.

DMI officials have said the company has no involvement with

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terrorists or extremists. "We have never had any relationship with these kinds of people," said Mouaouia Mokhtari, DMI's director of corporate affairs. None of DMI's officials have ever been charged with terror-related offenses.

Overland Chief Executive James Godec didn't respond to requests for comment. An Overland spokesman had no comment.

While Mr. Mokhtari said there is no relationship between DMI and Overland, he said, "DMI has sister companies, and those sister companies have retained Overland occasionally as investment advisers."

DMI and Overland are partners in a joint venture in Bahrain, and numerous corporate filings in the U.S. name DMI's chief executive as the president of various Overland-backed investment ventures.

Corporate and bank records show Overland has borrowed large sums from a DMI subsidiary, the Bahamas-registered Islamic Investment Co. of the Gulf Ltd. Legal records also describe DMI as an indirect 60% shareholder in Overland. Two former Overland employees also claim in a civil lawsuit that Overland is owned or controlled by DMI.

Overland identifies potential real-estate investments in the U.S., such as luxury condominiums and apartments, according to its Web site. Its investments include a stake in 30 rental units atop the Four Seasons Hotel in Houston. It then arranges for its clients to participate in these deals.

The nature of the tax inquiry isn't explained in the government's filings. But Overland's foreign backers have structured many of their U.S. investments through a network of shell companies in offshore tax havens such as the Cayman Islands, according to corporate and legal records.

Using such offshore companies, investors can structure their U.S. investments as loans instead of equity. That offers potential tax benefits because interest income to foreign investors is taxed far more lightly than profits from an equity investment. Such arrangements are legal, but only if they aren't primarily intended to circumvent Internal Revenue Service rules.

Dar Al-Maal Al-Islami (Arabic for "Islamic House of Finance") was founded in the early 1980s by Saudi Prince Mohammed Al-Faisal Al-Saud, a pioneer in so-called Islamic banking. Senior members of the Muslim Brotherhood, an international fundamentalist group, have held positions at various DMI affiliates, according to corporate records.

The Brotherhood, founded in Egypt in the 1920s, is the ideological inspiration for the terrorist groups al Qaeda and Hamas, but it now says it has renounced violence.

A DMI affiliate called Faisal Private Bank (Switzerland) SA, formerly known as Faisal Finance, has been named in two major terrorism probes. In one of these, the Justice Department alleges that Faisal Finance wired \$665,000 to the account of a top Hamas leader, Mousa Abu Marzouk. (The source of those funds hasn't been disclosed.)

In the same prosecution, the Justice Department alleges that in 1993, a Saudi businessman used Faisal Finance to transfer \$30,000 to an alleged Hamas leader in Chicago named Muhammad Salah, who is currently on trial in Chicago on terrorism-related conspiracy charges. The same Saudi businessman, Yassin Qadi, also used Faisal Finance for a \$1.25 million transfer to an alleged al Qaeda front company in 1998, according to legal and bank records.

Faisal Finance hasn't been charged with any crimes, but shortly after the Sept. 11 attacks, Mr. Qadi was named a "Specially Designated Terrorist" by the Treasury Department for alleged support of al Qaeda. Mr. Qadi has denied financing terrorists. Another Faisal Finance client, al Qaeda leader Mamduh Mahmud Salim, was convicted of conspiring to kill American citizens and is now in federal prison.

DMI and Faisal Finance are defendants in civil litigation in the southern district of New York brought by

families of victims of the Sept. 11 attacks, who claim they funded al Qaeda. The firms have denied any involvement with terrorism.

A copy of the Justice Department filing was made available to The Wall Street Journal by Geoffrey Harper, a lawyer for a former Overland employee, Laird Fairchild. Mr. Harper said his client has provided information to the grand jury. Mr. Fairchild and another former Overland employee are in a legal dispute with Overland and DMI, claiming wrongful dismissal.

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