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What Jeffrey Epstein Did to Earn $158 Million From Leon Black

Mr. Epstein specialized in aggressively pitching ways to minimize paying taxes. And not just to Mr. Black, the private equity chief executive who was his main benefactor in his later years.

 

By Matthew Goldstein and Steve Eder

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He styled himself as a math whiz and “financial doctor” to the rich — even though he was a college dropout who had only a brief tenure at a traditional Wall Street firm. It was said his services were available only to billionaires, whose affairs he handled mostly from a tropical island hideaway.

So what did Jeffrey Epstein do to earn hundreds of millions of dollars from a handful of wealthy clients like the private equity billionaire Leon Black?

The answer: help rich people pay less in taxes.

In the case of Mr. Black, the chief executive of Apollo Global Management, his advice could have been worth as much as $2 billion in savings, according to a law firm’s review of Mr. Black’s business dealings with Mr. Epstein. On Monday, Mr. Black announced that he would step down as Apollo’s chief executive this year after the review found he had paid Mr. Epstein $158 million over five years for his services.

Mr. Epstein’s specialty was suggesting ways for wealthy clients to use sophisticated trusts and other investment vehicles to reduce their tax liability while passing on assets to their children, according to documents reviewed by The New York Times and interviews with 11 people familiar with his work. In the process, he collected hefty fees — usually based on a cut of the anticipated tax savings.

In the years after 2008, when Mr. Epstein pleaded guilty in Florida to prostitution charges involving a teenage girl, he often advised clients on the use of grantor retained annuity trusts, or GRATs, according to three people familiar with his work.

GRATs are a form of sophisticated trust that broke into the mainstream after a high-profile court fight involving a Walmart heir, and have been used by wealthy people including the father of former President Donald J. Trump, according to published reports. These trusts permit a person to keep collecting income from assets of all kinds — including stocks, real estate and art — and then hand them off to family members without paying the large gift or estate taxes normally associated with such transfers.

One person who did business for Mr. Epstein over the past decade said the disgraced financier’s “biggest thing was GRATs.” The person, who stopped working with Mr. Epstein in 2018 but spoke on the condition of anonymity because he continues to advise wealthy clients, said Mr. Epstein had bragged about using GRATs to save money for a small group of clients, including Mr. Black.

In Mr. Black’s case, according to the review by the law firm Dechert, the savings were enormous: about $1 billion for a single GRAT. Mr. Epstein’s detection of a problem in a trust set up in 2006 and his proposed solution were “the most valuable piece of work” that he performed, the report said.

“Outside legal counsel described the solution as a ‘grand slam,’” according to the Dechert report, which was commissioned at Mr. Black’s request after The Times reported in October that he had paid Mr. Epstein at least $75 million in fees.

The Dechert report — 22 double-spaced pages delivered to Apollo's board — cleared Mr. Black of any wrongdoing, but he said he would step down as chief executive by the time he turned 70 in July. Another Apollo founder, Marc Rowan, will take over that role, and Mr. Black will remain the company's chairman. Apollo's shares were up 7 percent on Tuesday.

The report provided no details about the problems with the GRAT or Mr. Epstein's fix, said William LaPiana, a professor and associate dean at New York Law School and a trust and estates expert.

Mr. LaPiana said GRATs could provide enormous savings — especially when packed with assets expected to rise sharply in value over time. And a wealthy person would pay dearly for good advice on such trusts.

Mr. Epstein was compensated for the resolution of the GRAT problem as part of a $23.5 million agreement with Mr. Black in 2013, according to the report. After that, they entered a series of agreements that netted Mr. Epstein more than $100 million more before the two men parted ways in 2018.

The split was the result of a dispute over Mr. Epstein's demand for a 10 percent fee on another transaction, which the Dechert report said could have been worth $600 million in savings. Mr. Black ultimately paid Mr. Epstein $20 million for that transaction, which involved loans between Black family trusts to achieve a tax benefit for Mr. Black's children, the report said.

In 2019, Mr. Epstein killed himself inside a Manhattan jail cell while facing federal sex-trafficking charges.

Jack Blum, a Washington lawyer who has led corruption investigations for several Senate committees, said he was surprised by the size of the fees Mr. Epstein's work commanded. "You could be the best lawyer in Manhattan working on the most complicated trusts and estates and it would never come anywhere close to that kind of money," he said.

The Dechert report conceded that the compensation that Mr. Black had paid to Mr. Epstein "far exceeded any amounts" paid to his other professional advisers.

Mr. Black has repeatedly said all of Mr. Epstein's work was thoroughly vetted by outside lawyers and accountants. The only law firm mentioned in the Dechert report is Paul, Weiss, Rifkind, Wharton & Garrison, which has done tax and estate work for Mr. Black for many years. It also is one of Apollo's main outside law firms.

The Dechert report does not identify who drew up what it described as the problematic trust for Mr. Black, except to say the person was a tax and estate expert whom Mr. Epstein had recommended. The lawyer who did most of the early work for Mr. Black was Carlyn McCaffrey, a tax and estate partner at McDermott Will & Emery, according to three people familiar with the matter, who spoke on the condition of anonymity.

Ms. McCaffrey, who is widely acknowledged as a leading expert on GRATs, said, "We will not comment on any issues relating to Jeffrey Epstein."

Mr. Epstein frequently functioned as an ideas generator who would then outsource some of the work to high-powered law firms or to his clients' current financial and tax advisers, according to five people familiar with the arrangements.

That was how it worked when Mr. Epstein advised a technology executive on a tax matter, according to a representative of the executive who agreed to discuss the matter on the condition of anonymity. Mr. Epstein offered his help after learning that the executive — an acquaintance he once deemed not rich enough to qualify for his services — needed help reducing his taxes on a large stock grant from his employer. The executive believed Mr. Epstein was offering his services as a favor to a friend, because Mr. Epstein referred much of the work to a large law firm, which billed the executive for the assignment.

The executive and Mr. Epstein had never discussed any payment, according to the representative, so the executive was surprised when Mr. Epstein sent his own bill — for a sum that was 10 percent of the tax dollars saved. The executive initially balked but ultimately paid up to avoid a public spat with Mr. Epstein and never worked with him again.

Although Mr. Epstein frequently took his compensation as a percentage, he also offered services at a flat rate — a fee structure he suggested as part of a pitch to a New York real estate executive that was otherwise short on details.

In 2013, Mr. Epstein sent the executive a six-page engagement letter, which The Times reviewed. It proposed using a proprietary "database of financial information" to analyze and evaluate estate planning matters for the executive. It did not describe what sort of information the database contained.

For this service, Mr. Epstein proposed $10 million in fees for 10 months of work. The executive turned him down, according to a representative, who spoke on the condition of anonymity.

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