



For Immediate Release
Friday, January 25, 2008

Contact: Dan Virkstis (Baucus)
Jill Gerber (Grassley)
(202) 224-4515

GAO FINDS CRACKS IN OFFSHORE TAX ENFORCEMENT

*Baucus, Grassley call on IRS to act quickly on recommendations
to improve Qualified Intermediary Program*

Washington, DC – Senate Finance Committee Chairman Max Baucus (D-Mont.) and Ranking Member Chuck Grassley (R-Iowa) today called for stronger overseas tax enforcement by the IRS. A Government Accountability Office (GAO) report requested by the Finance leaders found holes in the Qualified Intermediary (QI) program, which was set up in 2000 to address concerns relating to tax evasion via foreign accounts. GAO found that the program, which monitors funds flowing through approved foreign banks and other financial intermediaries, is working in some respects. But the IRS does not know enough about many program participants, and the agency needs to audit more aggressively to ensure compliance.

“The GAO has pointed to numerous holes in our offshore tax evasion program, and the IRS must do a better job tracking these billions of taxable dollars. With new reports that the federal deficit will surpass \$300 billion this year, we need to look again at taxes that are legally owed, but going uncollected,” said Baucus. **“Honest Americans who work hard and pay the taxes they owe shouldn’t get left holding the bill for scofflaws who don’t. I will work to see that the IRS aggressively addresses the recommendations in this report.”**

“Our tax rules and treaty network depend on voluntary compliance and effective enforcement. Voluntary compliance improves when the IRS has and makes effective use of information,” said Grassley. **“According to the report, the IRS could do a better job of measuring potential non-compliance. That would lead to better enforcement and help policymakers determine if changes to reporting requirements are necessary. I’ll be following the IRS’ progress in implementing the GAO’s good recommendations. I’ll also continue looking for legislative measures to effectively address offshore tax compliance and enforcement.”**

The GAO found that U.S. withholding agents are not required to verify the foreign status of self-certified taxpayers in the QI program. Additionally, QI auditors are not required to follow up on indications of fraud or illegal acts, and owners of offshore corporations can shield their identity from IRS scrutiny; the GAO identified \$19 billion flowing to countries that could not be identified, and \$7 billion flowing to individuals that could not be identified. Foreign corporations received \$200 billion of the \$300 billion examined by GAO.

--more--

The GAO identified the following recommendations for the IRS:

- Enhance external reviews of Qualified Intermediaries
- Require electronic filing of forms in QI contracts whenever possible
- Measure U.S. withholding agents' reliance on self-certified documentation and use that data in its compliance efforts
- Determine why certain jurisdictions and recipients receiving US dollars cannot be identified.

To see the full report, visit the GAO website at <http://www.gao.gov/docsearch/repanctest.html>.

###