

UNITED STATES SENATOR • IOWA  
**CHUCK GRASSLEY**  
RANKING MEMBER • SENATE COMMITTEE ON FINANCE

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Grassley Seeks End to Government Contracts for Corporate Tax Evaders

WASHINGTON – Sen. Chuck Grassley, ranking member of the Committee on Finance, today revealed that several corporations that have set up shop overseas to avoid U.S. taxes enjoy lucrative contracts with the federal government. Grassley pledged to work to end this practice.

“I have no problem with U.S. companies operating in low-tax countries for legitimate business purposes,” Grassley said. “Companies have to compete in the international markets. My problem is with companies that set up fictional headquarters in low-tax countries to escape U.S. taxes. These fictional headquarters are no more than a folder in a filing cabinet. Some of these companies add insult to injury by signing big contracts with the federal government. These corporations are skirting their own taxes, yet profiting from other people’s taxes. That’s wrong.”

Grassley said the practice of setting up in low-tax jurisdictions to avoid taxes has gone on for years. For example, for years U.S. insurance companies have been fleeing to Bermuda to eliminate U.S. tax on their investments and gain a financial advantage over U.S.-based insurers.

However, the recent spate of relocations are bigger and different, Grassley said. The recent deals could not have been done without the two-year-old recession and the depressed stock market. Net operating losses have built up during the recession. Those losses are used to shield the corporation from tax when it does a purely paper move to the tax haven country. For these deals to work, the stock market must be depressed. A depressed stock market reduces the tax on the shareholders who approve these deals, and the stock market has been depressed since the tragic events of September 11, Grassley said.

Grassley said after September 11, Ingersoll Rand left the country for Bermuda. According to media reports, it pays less than \$28,000 a year to Bermuda and receives \$40 million in U.S. tax savings. Stanley Works, the American tool maker, has announced it is leaving the United States to go to Bermuda. Stanley has expressed pride in shaving 7 percent off of its effective tax rates.

“It’s outrageous that some companies are willing to leave their country during a war and a recession just to save some taxes,” Grassley said. “It’s especially shocking when those companies are enjoying big government contracts.”

Grassley said Stanley Works had 100 government contracts during 2001, and Ingersoll Rand had more than 200 government contracts in 2001.

Grassley said he plans to crack down on this abuse. “Let me be clear to everyone developing

or contemplating one of these deals, you proceed at your own peril,” Grassley said. “I’m working on bipartisan legislation to go after not only the corporate expatriation abuse, but also the abusers who seek big government contracts while skirting their U.S. tax obligations.”

Grassley obtained the following statistics from the General Services Administration regarding some federal contractors who have completed a corporate expatriation transaction, also known as an inversion. GSA is continuing to review other contractors who have completed inversions.

Ingersoll Rand completed its inversion in December. Stanley Works has not yet inverted, but is in the process of doing so. The following are the annual statistics for these two federal contractors:

(dollars are in thousands)

Stanley Works

FY 2001	100 actions	\$5,661
FY 2000	59	\$3,893
FY 1999	25	\$2,143
FY 1998	38	\$2,582
FY 1997	no number provided	\$12,828

Ingersoll-Rand

FY 2001	203 actions	\$12,386
FY 2000	152	\$24,442
FY 1999	133	\$8,463
FY 1998	86	\$6,322
FY 1997	no number provided	\$10,225