

COMMITTEE ON FINANCE

MEMORANDUM

To: Reporters and Editors
Re: new tax avoidance schemes
Da: Monday, June 24, 2002

An article in last Thursday's New York Times described a major accounting firm that has developed several new methods to help wealthy individuals and corporations dramatically reduce their tax burden by hiding income through complex layers of tax avoidance devices. Last week, the Committee on Finance passed the *Tax Shelter Transparency Act* (S. 2498), which Sen. Max Baucus, chairman, and Sen. Chuck Grassley, ranking member, introduced last month. The senators issued the following comment about how the *Tax Shelter Transparency Act* would rein in the latest wave of tax avoidance plans.

“Media reports about tax avoidance schemes seem to have a common thread: major accounting firms and law firms receiving huge fees for giving advice they know violates the spirit of the law, and may violate the letter of the law. These firms are well aware of the questionable legitimacy of the deals they are marketing. Consequently, they don't disclose their deals to the government, and they use techniques designed to avoid IRS discovery of their transactions.

“Our bill, the *Tax Shelter Transparency Act*, would impose stiff penalties on accounting firms, law firms and other tax practitioners that fail to disclose deals like the ones outlined by The New York Times, if the newspaper's report is accurate. By imposing a disclosure regime, our bill will help the IRS determine which tax avoidance techniques are legal and which are illegal. If the IRS doesn't know what's happening, it can't police cheating. Sunshine is the greatest disinfectant for a tax system sullied by illegal tax avoidance and evasion schemes.”