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Hearing on Offshore Tax Evasion: Stashing Cash Overseas
Statement of Senator Chuck Grassley, Ranking Member
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I want to thank Chairman Baucus for calling this hearing on offshore tax evasion and the international tax gap. Like the rest of the tax gap, offshore tax evasion is not a new issue. But it is an issue of growing importance in our increasingly global economy, where investment flows without regard to national borders, but a nation's taxing jurisdiction, and as a matter of policy or in practical effect, is often limited by national borders.

The focus of this hearing is to examine the problem of U.S. income tax evasion by individual taxpayers who hide their assets and income in foreign bank accounts and foreign entities. Since 1913, our tax code has subjected U.S. citizens to income tax on their worldwide income. No matter what the internet purveyors of tax evasion say, this principle cannot be avoided by living on a yacht or putting passive assets and income offshore. The tax code has rules to prevent this, and reporting requirements to make the IRS aware of the foreign activities of U.S. taxpayers. Taxpayers who willingly violate these rules are guilty of tax fraud.

Our existing reporting requirements regarding foreign activities of U.S. taxpayers are largely a matter of self-reporting. As a result, information exchange with other jurisdictions is an important tool for the government. Our income tax treaties contain an article on information exchange designed to help the government obtain quality information to enforce our tax laws. In addition, administrations past and present have entered into over 20 tax information exchange agreements with jurisdictions that are often referred to as tax havens. An important part of the value of our information exchange network lies in its deterrent effect. Taxpayers who know the IRS can get access to tax information from foreign jurisdictions will think twice before willingly failing to satisfy their self-reporting requirements.

As we will hear today, the OECD encourages effective information exchange, and the United States has been a leader in the international community in this area. Offshore tax evasion isn't just a U.S. problem; it is an international problem. Sensible solutions to the offshore tax evasion problem should aim to improve on our tax information exchange network, and not put it at risk.

The problem of offshore evasion is not that our laws permit it. The problem is that there are

some taxpayers who are intent on cheating and hiding their income from the IRS. The IRS has been successful in catching many of these tax cheats, but more can be done. I look forward to hearing from today's witnesses, as we continue to evaluate the offshore tax evasion problem and sensible ways to solve it.