



For Immediate Release
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**Hearing Statement of Senator Max Baucus (D-Mont.)
Regarding The Cayman Islands and Offshore Tax Issues**

The American poet Ella Wheeler Wilcox wrote: “Feast, and your halls are crowded; Fast, and the world goes by.”

Today, we will take a look at some ostensibly crowded halls: those of the Uglund House in the Cayman Islands. That’s the remarkable five-story building that the GAO tells us has some 18,857 tenants. Today, we’ll examine whether many of those tenants are feasting at American taxpayers’ expense.

The last time that the press and the Senate looked at the Uglund House, in 2004, it had 12,748 tenants. We asked GAO to go and look for itself. Remarkably, in the last four years, the Uglund House has found room for 6,000 new tenants, without even adding a new floor.

GAO found out some interesting things about the Cayman Islands. The Cayman Islands have a mutual fund or hedge fund for every five residents. The Caymans have two registered companies for every resident. And the Caymans have \$41 million in bank assets for every resident.

Plainly, there’s a lot of financial activity in the Caymans. There’s a virtual feast going on down there. That has led to some crowded halls in the Uglund House. And up to half of those Uglund House tenants — around 9,000 entities — are Americans.

Of course, those Americans are not physically in the building. They are represented by computer files, some documents, and a handful of lawyers.

Today, we will hear a lot of complicated reasons for why those 9,000 Americans chose to conduct business out of the Uglund House, in the Cayman Islands.

And today, we will also hope to get some straight answers from our witnesses.

And the answers have a lot to do with tax evasion. Offshore tax evasion costs Americans tens of billions of dollars every year. And that contributes to our nation’s \$345 billion annual tax gap, the difference between the taxes legally owed and the taxes timely paid.

We owe it to hardworking honest taxpayers to make sure that their tax burden is not increased because sophisticated tax cheats move dollars offshore.

It's sometimes tough to identify which activity is legal and which is not. Transparency in offshore financial transactions is severely limited. The IRS is hobbled by limited resources. And tax haven countries are reluctant to dig into the activities of offshore entities.

Good law enforcement can ferret out offshore tax evasion. German investigators paid around \$7.5 million to an informant to provide a list of tax evaders in Lichtenstein. And the Department of Justice is mounting a strong effort to unveil the offshore holdings of dozens of U.S. citizens who have held assets overseas in the Swiss-based UBS bank.

But we cannot just depend on good luck or foreign law enforcement. The IRS needs better tools to identify and shut down offshore tax evasion.

I'm pleased to say the Finance Committee has already acted this year to shut down an offshore tax abuse. We found that U.S. companies — companies like Kellogg, Brown and Root — were using foreign shell corporations to avoid paying employment taxes. Under this scheme, the foreign shell “hires” American employees to provide services on behalf of the U.S. parent. Because of its foreign status, the foreign shell company is not required to withhold or pay Social Security or Medicare taxes.

This practice gives companies who don't play by the rules an undeserved competitive advantage. It leaves employees in the lurch at tax time, because they have not been paying the taxes they owe during the course of the year.

I am pleased to say that this is one scheme that we were able to stop. We did so as part of the military tax bill that we enacted last month. The law now requires that these foreign shells be treated like American employers. They must pay their fair share of employment taxes. They cannot take advantage of unintended loopholes in the tax law. And they cannot shortchange workers and the U.S. Treasury.

I want to thank Senator Kerry for his help in shutting down this practice.

But we need to do more.

Today, Senator Grassley and I are announcing our plan to introduce six new measures that we believe will help curb offshore tax evasion.

We should lengthen the statute of limitations for prosecuting individuals who fail to file a foreign bank account report.

We should clarify IRS authority to enforce filing requirements for these reports.

We should clarify the information that must be included in these reports.

We should require taxpayers to file these reports with their individual and corporate income tax returns.

We should revise the definition of ownership to include beneficial ownership of a corporation.

And we should include these reports in the tax code section that causes the statute of limitations not to expire before three years after the taxpayer furnishes the required information.

But we need to do still more. We also need to reform our tax code to make moving business offshore less attractive. That's a tall order. But I intend to focus the Finance Committee on tax reform in the next Congress.

So let us take a look at the crowded halls of the Ugland House. Let us see whether many of its tenants aren't feasting at the tax law's expense. And let us do what we can to ensure that the American taxpayers are not stuck holding the bill.

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