



For Immediate Release
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**Hearing Statement of Senator Max Baucus (D-Mont.)
Regarding Tax Issues Related to Ponzi Schemes and Offshore Tax Haven Legislation**

Sophocles wrote: "Things gained through unjust fraud are never secure."

Today, we consider two kinds of unjust fraud. And we look for ways to help honest taxpayers to become just a little more secure.

Today, we examine the tax consequences of Bernard L. Madoff's scheme to defraud investors. And we consider ways to crack down on the efforts of offshore tax entities to defraud the U.S. Government of the taxes that they owe.

Last December, during one of our nation's most severe financial crises, authorities uncovered perhaps the nation's largest case of financial fraud.

On December 11, Bernard L. Madoff was arrested after revealing that, for two decades, he had been running a Ponzi scheme that involved more than \$60 billion.

A court-appointed trustee found that, incredibly, Madoff's firm had conducted absolutely no trading for at least 13 years.

Last week, Madoff pleaded guilty to 11 counts of fraud, money laundering, perjury, and theft. Those charges carry with them maximum sentences that add up to 150 years.

The victims of Madoff's fraud range from widows, to foundations, to pension funds. Madoff's fraud wiped out the life savings of thousands of people.

Senators Schumer, Cantwell, and Menendez requested that we hold a hearing on the tax consequences for these victims. And today, IRS Commissioner Doug Shulman will explain how these victims can process their losses on their tax returns.

We expect the Commissioner to discuss issues like theft loss, phantom income, and fraudulent conveyance.

Today, we will also discuss an effort to combat another type of fraud. We will discuss outlines of potential legislation designed to stem overseas tax evasion.

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In the last Congress, the Finance Committee held two hearings on overseas tax evasion.

In a May 2007 Finance Committee hearing, GAO testified about the Qualified Intermediary Program and offshore tax evasion.

Qualified intermediaries are a key element of the Government's overseas tax enforcement system. Qualified intermediaries are financial institutions that serve as our nation's eyes and ears on the movement of U.S. funds overseas.

The GAO determined that foreign corporations may enable U.S. persons to evade U.S. income tax by hiding behind the corporate veil.

And a July 2008 Finance Committee hearing focused on the Cayman Islands as an offshore tax haven.

I asked the General Accounting Office to travel to the Cayman Islands and look at the Uglund House. That's the five-story building that the GAO testified has 18,587 tenants. Half of those tenants — around 9,000 — are reportedly Americans.

GAO reported the following findings related to the Cayman Islands: U.S. taxpayers have reported 1,400 controlled foreign corporations in the Cayman Islands. Two trillion dollars of bank assets are based there. 9,000 mutual funds — most thought to be hedge funds — are based there, a hedge fund for every seven people on the Island.

After the second hearing, I decided that it was time to advance those ideas that we believe are best designed to close the overseas tax gap. Some have estimated the overseas tax gap to total \$50 to \$70 billion a year.

Today, we will begin the discussion of legislative proposals intended to enhance the transparency of offshore activity. We will consider how we can give the IRS better tools to deter, detect, and stop offshore noncompliance.

Among others, we will review three proposals today.

The first proposal would require entities transferring funds offshore, other than on behalf of publicly traded companies, to report to the IRS the amount and destination or account information of the funds transferred. This will give the IRS a trail of funds going offshore. And that would help the IRS to deter and detect offshore noncompliance.

The second proposal would extend the statute of limitations for tax returns with certain international transactions from three years to six years. This change would give the IRS more time to detect and examine often complicated offshore activity.

And the third proposal would facilitate the IRS's ability to enforce compliance with the law's requirement for reports of foreign bank and financial accounts. The proposal would require entities to file these reports along with their tax returns.

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As we look out at the deficits that we will be facing over the next few years, the importance of moving forward on the offshore tax evasion problem becomes all the more clear. We need to reclaim every dollar of tax revenue that we can from these offshore tax evaders.

President Obama's fiscal year 2010 budget proposes a robust effort aimed at curbing offshore tax evasion. While we wait for the details of his plan, it makes sense for us to move forward on proposals that we think can do the job.

While we are on the topic of scams, I am looking very closely at tax options that will reclaim these outrageous bonuses at AIG.

The country is angry. I am angry. Four and a half million Americans have lost their jobs. And these people are getting multi-million dollar bonuses. It is unfair.

So we are looking at various ideas. And I will discuss them with Committee Members shortly.

And so, let us look for ways to address unjust fraud. Let us do what we can to help fraud's victims. And let us try to help honest taxpayers to become just a little more secure.

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