



Opening Statement of Senator Grassley
Hearing, Tax Issues Related to Ponzi Schemes
March 17, 2009

It has been the tradition of this Committee for some years now to hold an annual hearing on issues that IRS faces during its tax return filing season. It's called filing season because between January 1st and April 15th of every year, the IRS processes almost 100 million tax returns and related payments or refunds.

Last year, the IRS processed these returns, payments and refunds while also developing and implementing a complex system to issue millions of stimulus payments. In addition, the agency was breaking in a new Commissioner at the same time. Despite these challenges, the GAO and others agree that IRS employees exceeded expectations to pull off a generally successful filing season. I commend them for that.

This year's filing season, however, brings new and different challenges. More than 4 million people have lost their jobs since last April 15th, and millions more have realized significant losses on their investments. As a result, millions of taxpayers are eagerly awaiting their refunds while others are worried about how they are going to pay the taxes they owe. The Commissioner recognized these hardships early on and issued a statement on January 6th highlighting the various ways that taxpayers could get assistance if they were experiencing financial difficulties.

Today, the IRS will issue additional guidance specifically to help victims of ponzi schemes. There are thousands of victims who have collectively lost tens of billions of dollars through dozens of these schemes. I look forward to Commissioner Schulman's testimony on this timely and important guidance. In addition to individuals, the victims of ponzi schemes include small businesses, retirement funds and charities. As many in this room are aware, I am committed to strengthening charities through increased transparency and accountability. It troubles me that charities have cut back on their charitable activities or have closed up shop altogether because of their ponzi scheme losses. Some of the charities that invested with Bernie Madoff, including universities and those funded by Hollywood big shots, would presumably have sophisticated advisors.

This raises questions for me about whether the board members of these organizations were more interested in helping their friend than furthering their charitable work. Mr. Josephson has testified before this Committee before. I appreciate his willingness to be here again today to discuss due diligence requirements for charities' trustees or boards of directors as well as the tax implications for board misconduct under the Internal Revenue Code.

In addition to conducting oversight of charitable organizations, I have also been committed to combating offshore tax evasion. This Committee has held several hearings on this topic, and Committee staff has worked to develop proposals to assist the IRS in its fight.

The proposals include improved reporting for foreign bank accounts and foreign transactions in general. They also give the IRS new tools to fight offshore tax evasion. The staff proposals are good, common-sense reforms that will help the IRS uncover abusive tax avoidance, but these proposals do not change longstanding tax policy governing the recognition of income. The GAO has done extensive research on the issue of offshore financial activity, so I welcome Mr. Brostek's testimony today.

Mr. Chairman, thank you for calling this hearing today to discuss these important issues.