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Statement of Senator Chuck Grassley
Finance Committee Hearing, “The Cayman Islands and Offshore Tax Issues”
Thursday, July 24, 2008

I want to start out by thanking Chairman Baucus for calling this hearing on the Cayman Islands and offshore tax evasion. I would also like to thank the Joint Committee on Taxation for preparing their pamphlet on tax evasion in anticipation of this hearing.

The focus of this hearing is to discuss the findings of the Government Accountability Office in their investigation into the Uglund House. Chairman Baucus and I asked the Government Accountability Office to investigate the Uglund House, a law firm’s office building in the Cayman Islands and the registered home to thousands of corporations.

The hearing will also examine the problem of U.S. income tax evasion by taxpayers who hide their assets and income in foreign bank accounts and foreign entities.

The tax code has reporting requirements to make the IRS aware of the foreign activities of U.S. taxpayers. However these reporting requirements are largely a matter of self-reporting. Since this information is self-reported, its accuracy is dependent on the accuracy of the self-disclosure. This is complicated further by the fact that some U.S. persons have been known to hide their assets in complicated webs of foreign companies and trusts.

Information exchange with other jurisdictions, such as the Cayman Islands, is an important tool for the United States government to obtain information on its taxpayers. Our income tax treaties contain an article on information exchange designed to help the government obtain quality information to enforce our tax laws. 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.

I have been aggressive in combating abusive tax shelters and offshore tax evasion. The 2004 JOBS bill shut down the tax benefits for companies that enter into corporate inversion transactions and abusive domestic and cross-border leasing transactions.

In 2006, I pushed to get legislation passed that would increase rewards for individuals who blew the whistle on tax cheats and created an office at the IRS to coordinate whistleblower claims. These improvements were based on my experience with the False Claims Act that rewards whistleblowers

who help the government find fraud in government contracting. This allows the IRS to take better advantage of whistleblower information that is often detailed, inside information. This is information that the IRS may not have otherwise received.

I am pleased that many at the IRS and Treasury now recognize the benefits of rewarding tax whistleblowers. It is vital that the IRS take full advantage of those who are willing to blow the whistle on tax fraud.

As Ranking Member of the Finance Committee, I saw to it that the minimum wage/small business tax relief package that passed the Senate last year also contained anti-tax loophole provisions, including shutting off tax benefits for corporations that inverted, shutting off benefits from abusive foreign leasing transactions and doubling penalties and interest for offshore financial arrangements.

Finding these tax cheats is a bit like a game of cat and mouse. Only the mouse is hiding its cheese offshore. The IRS needs to be able to stay ahead of the schemers who hide their income offshore. Congress needs to continue giving the IRS more tools to trap the tax cheats. The Chairman and I will be releasing a set of proposals designed to do just that. 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.