COMMITTEE ON FINANCE
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Max Baucus, Chairman
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Hearing Statement of Senator Max Baucus (D-Mont.)
Regarding Offshore Tax Evasion

In Ecclesiastes, the Preacher urged his listeners to trade overseas, for they would find a good return. He said:

"Cast your bread upon the waters, for after many days, you will find it again."

World trade has certainly generated a good return. The world's pension, insurance, and mutual fund business now totals at least $46 trillion. The world's stock market capitalization is more than $40 trillion. And the world's credit derivatives market amounts to more than $250 trillion.

Foreigners now own about $12 trillion of American stocks, bonds, and other assets. That includes $2 trillion of Federal government debt.

Most of this international trade is a healthy exchange of goods and services. But as international trade becomes more complex, it is becoming more and more difficult to track transactions legally subject to taxation. As a result, offshore tax evasion has become a large and growing element of the tax gap, that share of taxes legally owed that is not paid.

For years, the Federal government has been concerned about U.S. taxpayers hiding behind the veil of foreign corporations. And today, the government has the added challenge of keeping up with $1.5 trillion in some 8,000 hedge funds investing around the globe. The IRS is increasingly outgunned in its effort to enforce tax rules in the international economy.

Consider these offshore tax scams that have recently come to light:

Two brothers from Texas set up 58 separate trusts and shell corporations, sheltering tens of millions of dollars in assets on which they avoided paying taxes.

A car dealer from Illinois was charged with pretending to live in the Virgin Islands, just so that he could get a break on his taxes.

A former U.S. Attorney from North Carolina pleaded guilty to failing to disclose on his taxes that he had an offshore debit account.

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And a dentist in California was sentenced to two years in prison for faking tax deductions and hiding money in an offshore bank account.

And these are just the scams that we know about. Common sense dictates that they are just the tip of the iceberg.

I am pleased that today we can kick off our work this Congress on international tax evasion. Today we will hear the results of a GAO investigation into a critical part of our offshore tax enforcement program.

GAO focuses on almost $300 billion in funds that it has identified as being transferred out of the United States every year. And GAO considers the tax issues raised by those transfers.

The real amount transferred overseas is much higher. But this is a good start for our oversight agenda.

Frankly, one job for the Federal government is just to nail down the amount being transferred offshore. We need to learn what the total amount is. And after that, we need to learn much more about how much tax is being avoided.

Within the $300 billion total, we are told that the IRS has no idea where $19 billion ends up, once the funds are transferred overseas. This is troubling.

Today, we will hear the results of two GAO reports. The first deals with qualified intermediaries. Qualified intermediaries are foreign banks and other exchanges that process funds entering and leaving the U.S.

In a second report, the GAO explains that the IRS takes much longer to finish its examination of an offshore tax evasion case than a domestic case. But the return to the IRS from an offshore case is typically three times what is recovered from a domestic case. This is a sure sign that the volume of offshore tax evasion is huge.

And GAO gives us some recommendations to consider:

GAO recommends that Congress should consider extending the statute of limitations for complicated offshore tax evasion cases.

GAO recommends that qualified Intermediaries need to do a better job of identifying and tracking the money that they handle.

And GAO recommends that the IRS needs to do a better job of tracking information about foreign financial transactions.

I also want to welcome our witnesses from the Treasury Department, the University of Michigan law school, and the Organization of Economic Co-operation and Development. All three can comment on the GAO findings. And all our witnesses can help us to explore the broader issues related to offshore tax evasion.

This hearing can help us to begin thinking about how the international community will eventually structure its tax system. We’ve seen the outsourcing of jobs. But now we are risking the outsourcing of our revenue base.

We have to contend with tax havens. But now even our friends in Europe are busy lowering their corporate tax rates. We have also seen cases of American companies moving their intellectual property overseas, in order to pay lower tax rates.

The heart of the problem is that the Treasury, the IRS, and American institutions know far less than they should. With international trade increasingly flowing across national boundaries at the speed of light, it is becoming more and more difficult to make sure that we are collecting the taxes that are owed. And the honest American taxpayers who work hard, and do not have the ability to engage in offshore activity, are left holding the bill.

So today we will examine the effort to combat tax evasion. And in days to come, this Committee will ask where our tax system should fit, in the new global economy.

So let us do what we can to ensure that American businesses continue to find profit in trade upon the waters. But let us also make sure that U.S. tax enforcement is not lost at sea. And in not too many days, may we once again find the right balance.

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