



U.S. SENATE COMMITTEE ON

# Finance

SENATOR CHUCK GRASSLEY, OF IOWA - CHAIRMAN

<http://finance.senate.gov>

For Immediate Release

Tuesday, May 11, 2004

## Grassley Praises Advancement of Tax Shelter Loophole Closers, More Clean-up of Tax Abuse

WASHINGTON -- Sen. Chuck Grassley, chairman of the Committee on Finance, today praised Senate passage of his sweeping package to end tax avoidance abuses such as corporations claiming tax deductions for taxpayer-funded infrastructure such as subways, sewers, and bridge leases, corporate and individual expatriation to escape taxes, and Enron-generated tax avoidance schemes.

“Average working Americans can’t pull up stakes and move to Bermuda or set up a fancy tax shelter to avoid paying taxes,” Grassley said. “Companies that do this make a sucker out of working Americans and companies that stay in the United States and pay their fair share of taxes. Since we’re giving tax relief to companies and small businesses, it’s only fair that we tighten the law for those avoiding their fair share.”

Grassley included his bipartisan reforms in the *Jumpstart Our Business Strength (JOBS) Act*, which won full Senate passage today. The bill repeals an existing tax regime for U.S. exporters that has drawn trade sanctions and replaces it with tax relief for U.S. factories, small businesses, farmers, and others who make products in the United States. The JOBS Act contains:

**General tax shelter provisions.** The bill includes Grassley’s legislation to establish new disclosure requirements to rein in abusive tax shelters from corporations and individuals. "I want to flush out tax shelters through mandatory disclosure regimes so the IRS can identify them and shut down illegal operations," Grassley said.

Grassley said the legislation is important because shelters and their promoters are hiding from the law. Each tax filing season produces disclosure of only a fraction of the tax shelter transactions that should have been disclosed. Under his bill, a refusal to disclose a potential shelter will carry heavy consequences. The bill subjects shelter promoters and participants to large cash penalties, increased penalty assessments, and for public companies, mandatory reporting of their shelter activities to the Securities and Exchange Commission. “If they are certain enough to do one of these deals, then they should be proud to disclose it to the IRS,” Grassley said.

**Leasing tax shelter provisions.** Last October, the Finance Committee held hearings on the status of abusive tax shelter activities. During that hearing, the committee received anonymous

testimony from a leasing industry executive describing how U.S. corporations are able to take tax deductions for the Paris sewer lines and the New York subway system.

Major corporations are claiming tax deductions on taxpayer-funded infrastructure located both in the United States and overseas. "Imagine our surprise to learn that the U.S. taxpayer is subsidizing the cost of electric transmission lines in the Australian Outback," Grassley said. "The JOBS bill ends this abuse."

**Enron-related tax shelter provisions.** Grassley said the Finance Committee's investigation of the collapse of the Enron Corp. revealed the need for a series of corporate governance reforms to prevent other companies from engaging in the same abusive tax strategies as Enron. These include a prohibition against duplicating a single economic loss; limits on the ability of companies to import foreign losses onto their U.S. tax returns; and expanded IRS authority to disallow tax benefits in corporate acquisitions made to evade or avoid income taxes.

**Provisions to discourage corporate or individual expatriation.** Grassley is the long-time sponsor of legislation, *Reversing the Expatriation of Profits Offshore (REPO) Act*, to limit the ability of companies to relocate in name only to a low-tax country such as Bermuda. Shortly after the Sept. 11 attacks and the ensuing stock market plunge, several U.S. companies began moving their corporate headquarters to tax havens to evade U.S. taxes

"You may recall the videotape of a Big 4 accounting firm partner saying that U.S. companies were resistant to this scheme out of a post-9-11 sense of patriotism and national duty," Grassley said. "But she said patriotism would have to take a back seat when they see their improved earnings per share. Well, in the JOBS bill, patriotism does not take a back seat.

"The JOBS bill includes measures to shut down corporate expatriation and to limit the tax benefits for those corporate cheats that managed to get out 'under the wire,' before Congress could enact legislation. We will shut down that abuse in this bill."

**Individual expatriation.** Grassley said the JOBS Act reforms the rules governing the taxation of U.S. citizens who relinquish their citizenship or terminate their residence to try to avoid paying their U.S. taxes.

**Deduction of fines and penalties.** Last year, some of the companies involved in the \$1.4 billion conflict-of-interest settlement with the Securities and Exchange Commission sought to deduct their share of payment from their taxes. Grassley and others felt this was inappropriate and advanced this provision to prevent the deduction of fines and penalties paid to the government in cases of wrongdoing.

"I'm committed to all of these initiatives to help ensure corporate citizens come clean and close loopholes that either shift a greater share of the tax burden to ordinary citizens or leave workers exposed to a double standard," Grassley said. "It's important to fix abusive tax practices for corporations and individuals alike. That's a matter of fairness, and it's also a matter of helping to keep our economy growing by restoring trust in corporate America.

