



U.S. SENATE COMMITTEE ON

Finance

SENATOR CHUCK GRASSLEY, OF IOWA - CHAIRMAN

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For Immediate Release

Thursday, Feb. 13, 2003

Grassley Vows Continued Crackdown on Corporate Abuse

WASHINGTON – Sen. Chuck Grassley, chairman of the Committee on Finance, today reiterated his intention to crack down on corporate tax abuses that enrich executives at the expense of lower level workers. Grassley’s comments came after the Finance Committee released the results of a year-long investigation of the Enron Corp.’s tax practices.

“We’ve torn the veil off the world of tax shelters and the manipulation of financial statement profits,” Grassley said. “Today’s report reads like a conspiracy novel, with some of the nation’s finest banks, accounting firms and attorneys working together to prop up the biggest corporate farce of this century. Enron was a house of cards. Schemers built that house.”

Grassley’s committee released the investigative report of the House-Senate Joint Committee on Taxation, a non-partisan entity staffed by tax experts who spent a year investigating Enron. Grassley said much of the report’s information has never been seen by the public or the Internal Revenue Service. The report includes tax return information, tax shelter opinion letters from law firms, accounting firm correspondence, shelter promotional material, and most importantly, internal Enron documents laying out how the deception schemes played out, Grassley said.

“The conclusion is very troubling,” Grassley said. “‘Show Me the Money!’ is the catch phrase on an internal Enron document for one shelter. It’s clear that’s what it’s all about. Money, money, money. Money above honesty in financial accounting and tax return compliance. Money above professional and business ethics. Money above common sense. Money, money, money. There wasn’t much substance to Enron’s business. Enron designed lots of artifices to make something appear real that wasn’t real.”

Grassley said the report details several areas of Enron’s abuse:

- A corporate tax shop designed and managed to create artificial profits for the financial statements and at the same time evade tax.
- A culture of wining and dining amongst a small clique of people that foment abusive tax-shelters. This clubby coziness between the tax shelter promoters, the lawyers who bless their shelters and the company executives who buy their shelters is detailed in a description of a

luxury trip to Boca Raton, Fla.

- A culture of hiding how much top executives were paid.
- A complete disregard by top executives for rank-and-file employees. Enron had 200 executives – each of whom was being paid over a million dollars while they ran the company into bankruptcy – leaving thousands of dedicated employees to land high and dry. These employees helplessly watched their retirement savings go down the drain when the company's stock tanked from more than \$90 a share in 2000 to 34 cents a share in January 2002.
- A complete unawareness and/or disregard by Enron's board members of its most basic responsibilities to protect shareholders.

Grassley said the Joint Tax Committee's report offers invaluable insight to those in Congress who have cracked down on corporate abuse and intend to do much more. Grassley said he plans the following steps – and possibly others -- to crack down on abuse. He put corporate America on notice by warning that today's date, Feb. 13, 2003, would be the effective date for any legislation proposed to shut down the kind of tax schemes identified in the report.

- A review of legislation he co-authored to crack down on tax shelters. Last week, the Finance Committee passed the *Tax Shelter Transparency Act*, which imposes a mandatory disclosure regime for tax shelters to allow the Internal Revenue Service to enforce illegal transactions. That bill reflects Grassley's revisions of last year's bill to make it tougher. He said he will review the measure in light of the Enron report and ensure that the bill is tough enough to combat every tax shelter abuse employed by Enron.
- A renewed fight to protect employees' pensions. Last year, the Finance Committee passed Grassley's legislation, the *National Employee Savings and Trust Equity Guarantee (NESTEG) Act*, to tighten protections for retirement plan participants in the future in light of the collapse of the Enron Corp., WorldCom, Global Crossing and other similarly situated companies. The Senate's Democratic leadership at the time never brought up the bill for full Senate consideration. Grassley said he will re-introduce the legislation and fight to get it passed this year.
- A renewed fight to curb abuses of executive compensation. Grassley's NESTEG Act, which he plans to re-introduce, changes abusive aspects of executive compensation. First, it bans "off-shore rabbi trusts" used to hide executive compensation from creditors, including the IRS. Second, it requires that supplemental payments to executives be taxed at the top rate. Third, it repeals the moratorium imposed on the Treasury Department in 1978 on regulations on deferred compensation. A fourth provision, imposing limitation on loans to executives, was made moot by the ban on loans made in the Sarbanes-Oxley bill last summer.
- A renewed fight to curb corporate expatriation. Last year, the Finance Committee approved Grassley's *Reversing the Expatriation of Profits Offshore Act* to rein in companies that set up sham foreign headquarters, such as in Bermuda, to avoid paying millions of dollars of

federal taxes. In addition to being unfair to individual taxpayers who must pay their full share, corporate expatriation schemes erode the domestic tax base by creating phony deductions in the United States. The Senate's Democratic leadership last year never brought up the legislation. Grassley said he will re-introduce the legislation and fight to get it passed this year.

“We know Enron’s executives couldn’t have cared less about the dedicated and unsuspecting employees who worked under them,” Grassley said. “Those employees were expendable. The almighty dollar had so blinded them that there was no sense of ethics left. But if they are blind, then it’s time for us to let them see the light. We know Enron isn’t the only company that engaged in abuse, and it won’t be the last to try. But the day of reckoning has come for those who peddle abusive tax products. We’ll hunt them down, shut them down, and do whatever it takes to purge this cancer from our system. It may take years, or it may take only months. But the game is over.”