United States Senate
Committee on Finance

Sen. Chuck Grassley · Iowa
Ranking Member

http://finance.senate.gov
Press_Office@finance-rep.senate.gov

M E M O R A N D U M

To: Reporters and Editors
Re: U.S. Virgin Islands
Da: Thursday, Nov. 15, 2007

In May, Sen. Chuck Grassley, ranking member of the Committee on Finance, asked the IRS to evaluate the tax compliance impact of a proposal to change the statute of limitations for civil tax cases involving individuals claiming residency in the U.S. Virgin Islands. The House has passed legislation to make that change, and the Senate could consider the proposal as early as today. Last Friday, the IRS responded to Grassley's inquiry from May. Grassley made the following comment on the response, which is attached.

"The IRS says this change would have a 'significant' effect on examinations and could allow a 'significant' number of individuals currently under examination to avoid paying income tax for years prior to 2004. While it's unclear how much is inappropriate, the dollar amount of claimed tax credits through the Virgin Islands is at least $373 million. The House bill could affect the government's ability to seek civil recourse in 260 of the 279 examinations involving individuals, in addition to 16 entities, as well as an unknown number of future cases. The average amount of the U.S. Virgin Islands tax incentive credit was approximately $750,000. Of the 279 examinations, 12 cases involve or may potentially involve listed transactions. So far, the IRS has identified 18 individuals who are either hedge fund managers or work for hedge fund managers who claimed millions of dollars of tax incentive credits on their Virgin Islands tax returns.

"This raises questions of tax fairness. Are these individuals just seeking a tax shelter? Are they being rewarded for skirting the tax system by a sympathetic Congress? It looks that way, and it looks wrong. Special treatment for certain individuals won't wash with the average taxpayers in Iowa and elsewhere who pay their taxes by the rules without trying to skirt the system."