WRITTEN TESTIMONY OF
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INTERNAL REVENUE SERVICE
BEFORE THE
SENATE FINANCE COMMITTEE
HEARING ON
TAX HAVEN FINANCIAL INSTITUTIONS: THEIR FORMATION AND ADMINISTRATION OF OFFSHORE ENTITIES AND ACCOUNTS FOR USE BY U.S. CLIENTS

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Good morning Chairman Baucus, Ranking Member Grassley and members of the Committee. Thank you for the opportunity to appear before you today to discuss an issue of critical importance to tax administration in this country – the practice of sheltering U.S. earned income in foreign jurisdictions as a means of avoiding U.S. taxation.

My name is Frank Ng and I am the head of the IRS Large and Mid-Sized Businesses Division (LMSB), which includes responsibility to oversee the IRS' international tax administration strategy.

We have strengthened our organizational focus to address international tax administration challenges through the development of the first service-wide approach to international tax administration – one that integrates the international perspective into our IRS business division strategies and processes.

We recognize that there is no longer a bright line that can be drawn between international and domestic tax issues. With increasing globalization, virtually every large business return – as well as the returns of many small companies and even individuals – has international features due to the ease of cross-border transactions.

Our service-wide international strategy has three strategic goals. The first of these is to improve taxpayer service. We know that international tax law is extremely complex. We must provide all taxpayers with international transactions clear and accurate information and guidance to help them file accurate tax returns. This will help avoid unintentional errors and reduce unnecessary contacts afterwards.

Our second goal is to enhance enforcement of the tax laws. To do this well we must better identify, address, and pursue high compliance risk and emerging international tax issues. We need to:

- Strengthen reporting requirements;

- Enhance IRS access to international data;

- Ensure adherence to professional standards by tax professionals; and

- Increase industry and global issue focus by aligning resources to cases and issues with the highest compliance risk.

To address this second goal, we have implemented an initiative that allows us to better focus on high risk tax issues and ensures that we utilize a strategic approach to manage them. Our Issue Focused Examinations and Tiered Issue Strategies are designed to do just that. Today, five of the ten Tier I high priority examination issues for LMSB are in the international tax area.

We identify potential compliance issues through examinations, Schedule M-3 reviews, and other data sources. These issues are then assessed for risk and prioritized to determine the audit approaches that will be employed. Not surprising, many of our top tier issues have significant international components.

Our third goal in achieving a service-wide approach to international issues is to modernize IRS through its people, processes, and technology. As trade and capital flow more easily across borders, the global marketplace is developing at an ever-increasing rate. The fast pace of change in the global economy requires an equally fast pace of change within our organization's infrastructure.

We must strategically manage and develop the technical skilled resources, associated compliance processes, and technology systems to meet international service and enforcement missions effectively and efficiently. We have started a technical training program called the Leveraging International Expertise that provides a base-level knowledge on international tax issues for all of our large case examiners and enhances the utilization of our most highly-skilled international examiners to more complicated cases requiring their expertise. Additionally, we are developing a new transfer pricing process and structure that will provide for new compliance approaches and processes to deal more effectively and efficiently on transfer pricing matters.

This morning, I would also like to offer a little background about some of these international issues and explain why they are a challenge. I then want to focus my testimony on the IRS' investigative activities where U.S. citizens are unlawfully hiding assets and associated income overseas.

We have significantly stepped up our efforts in this area, both in civil and criminal investigations. We are using a number of innovative techniques to root out noncompliance, as I will explain further. And, while I am limited in the detail that I can share about ongoing investigations, I am pleased with the early successes that we are having at systematically pursuing unlawful offshore schemes.

I will also discuss briefly the Ugland House and the GAO report that looked at the Cayman Islands as a tax secrecy jurisdiction, and I will conclude with what we think needs to be done moving forward.

Background

U.S. tax administration is complicated by the rapid pace at which our overall economy is globalizing. A growing percentage of large and mid-size business tax filings are from multinational businesses that include a variety of subsidiaries and partnerships operating within an enterprise structure where the ultimate parent is as likely to be foreign as domestic. In addition, a growing number of U.S. businesses acquire capital, raw materials, inventory, and other products and services from foreign businesses.

These events are natural outcomes of an increasingly global economy, and businesses have every right to optimize their global structures. Nonetheless, the complexities of globalization and cross-border activity continue to challenge U.S. tax administration. With multiple domestic and global tiered entities, it is often difficult to determine the full scope and resulting tax impact of a single transaction or series of transactions. Moreover, different jurisdictions impose a variety of different legal requirements and tax and accounting rules on multinational enterprises, leading to complex business structures. These circumstances create opportunities for aggressive tax planning.

It is not just large corporations that are taking advantage of globalization to engage in aggressive tax planning. Wealthy individuals are seeking ways to shelter income by moving it offshore or by participating in tax shelters organized by unscrupulous promoters who move in the shadows of the global economy.

Discovering and addressing these activities are complicated by the relative lack of transparency in the transactions that individuals and entities can conduct offshore. Not only are transactions themselves often intentionally designed, or carried out in a manner, to obscure the existence of assets or income, but the individuals engaging in the transaction, and their roles, are often intentionally difficult to identify.

A number of parties, including this Committee, may be interested in the quantification and magnitude of evasion through the use of offshore entities and accounts. Unfortunately, data do not currently exist that will allow us to make a reliable estimate. The National Research Program study of individual taxpayers for Tax Year 2001, which is our best measure of the nation’s tax gap, was not designed to estimate the extent of offshore tax evasion. However, we believe offshore non-compliance is a serious compliance issue for the IRS and based on our current enforcement activities, the potential tax recovery is in the billions of dollars.

Ongoing IRS International Compliance Activities

Today at the IRS, we have approximately 1,500 employees focused primarily on international tax compliance activities, which include international examiners, tax treaty analysts, economists, attorneys, and criminal investigators. As I indicated, developing a sustainable group of skilled technical employees to handle the myriad of complex international issues is a key priority for the IRS.

The IRS has targeted specific tax issues and areas of emphasis for international tax compliance attention, and these issues and areas are subject to mandatory review by our compliance personnel. As I indicated, we have designated the following Tier I international issues with high compliance risk potential:

- Transfer of intangibles/cost sharing
- Abusive foreign tax credit transactions
- Abusive hybrid instrument transactions
- Transfer pricing
- Foreign earnings repatriation

Each of these Tier I international issues is managed by an IRS Executive and issue management team that is responsible for the end-to-end strategic management of the issue. The guidance provided by the issue management team aids field examiners in the audit of specific cases with these issues. Currently, there are billions of income adjustments in dispute with taxpayers at the audit level related to cost sharing/transfer of intangibles transactions and potentially billions more of income adjustments on transfer pricing transactions related to transfer pricing transaction associated with certain corporations.

The IRS will shortly initiate National Performance Review audits of overseas U.S. individual taxpayers – U.S. citizens and residents located outside the U.S. – to provide data to determine the compliance level of this taxpayer segment. In addition, the IRS has announced a compliance initiative to focus on foreign athletes and entertainers to ensure compliance with the U.S. tax laws. The IRS also has ongoing compliance initiatives with the Offshore Credit Card Project which is in addition to other offshore projects.

Stored Value Cards

The issue of stored valued cards represents, in many ways, the intersection of advances in technology with the increases in globalization. Stored value cards provide a mechanism for taxpayers with assets or income sheltered outside the United States to bring that money into the United States.

There are many legitimate uses for stored valued cards. They are often given as gifts to individuals allowing the person to purchase what he or she wants at any store that accepts traditional credit cards. These cards are known as “open system” stored value cards. Other cards are given and allow the user to shop only at a particular retail concern. These cards are referred to as “closed system” stored value cards. Retail industry estimates are that in 2007 alone approximately $244 billion was spent on both types of stored value cards.

In addition to raising tax enforcement concerns, stored value cards may be used by terrorists to fund cells operating anywhere in the world by loading the cards from jurisdictions hostile to the U.S. Similarly, money launderers can use them to transfer large sums of tainted money within the U.S. and abroad.

The IRS Criminal Investigations (CI) division has been monitoring the use of stored valued cards for some time. They have conducted training programs for CI agents on signs that the cards may be subject to illicit use. As we develop additional information in this area, we will share it with the Committee.

Ongoing IRS Investigations

In the area of ongoing investigations, let me start by laying out some of the facts about one case that I am able to discuss, because the case that I am about to describe is a matter of public record. It involves a major Swiss bank.

In 2001, the bank signed a disclosure agreement with the U.S. to become a qualified intermediary (QI). This, among other things, required the bank to report on the income of U.S. taxpayers that were clients of the bank. However, a former employee of the bank, as part of his guilty plea to assisting a wealthy real estate developer in evading $7.2 million in Federal income taxes by concealing $200 million of assets in Switzerland and Liechtenstein, stated that a number of the bank's clients objected to such reporting.

The IRS has since requested, via a so-called John Doe summons, that a Swiss bank turn over account information on any U.S. clients who may have used Swiss bank accounts to avoid U.S. income taxes. The summons directs the bank to produce records identifying U.S. taxpayers who had accounts with the bank in Switzerland between 2002 and 2007 and who sought to have their accounts remain hidden from the IRS.

On July 1st a federal judge in Miami approved a Justice Department request to enable the IRS to serve the summons. We are working closely with the Justice Department to ensure that we get the information requested in the summons.

Accordingly, the IRS is exploring our options on how to bring a potentially large number of U.S. taxpayer cases to resolution.

Another recent example relates to U.S. citizens with accounts in Liechtenstein. As we announced in February, the IRS has initiated enforcement action involving more that 100 taxpayers with accounts in this jurisdiction. Because these are ongoing investigations that are not a matter of public record, I cannot go into great detail on these matters. At the highest level, we are again looking at circumstances where U.S. citizens have systematically avoided reporting income from foreign trusts.

Patterns of Evasive Activities

In the cases that we have seen around the world, I want to highlight a few patterns of behavior that we have uncovered in our investigations. Some of the activities I will describe are not, on their own, illegal. Taken together, though, they help to paint a picture of the complexity these investigations present.

First, we have seen financial institutions avoiding wire transfers from U.S. banks. In some cases, funds are diverted through a series of wire transfers using tax secrecy jurisdiction banks to disguise the identity of the true owners.

In some cases, discreet communications are stressed to the client. Phone calls are discouraged in favor of private visits. E-mail is not permitted, and code words are used to communicate. Clients have been advised not to carry documents related to accounts into the U.S.

Another method observed in examinations involves individuals physically carrying large amounts of cash from U.S. sources to tax secrecy jurisdiction banks. In some cases, taxpayers were advised to physically transport millions of dollars to an overseas bank.

We have also observed a number of techniques using offshore accounts to effect a form of estate planning. For example, there are cases where decedents who have an undisclosed foreign trust will leave an account to one or more heirs, but outside of the reported, taxed estate. The heirs may leave their inherited balance in the foreign trust unreported in the U.S. tax system.

These cases often involve sovereign jurisdictions where we have little legal authority and taxpayers that are often difficult to identify. As I will discuss later in my remarks, the United States has agreements to obtain and share tax information with many jurisdictions, but there are limits on our ability to use those agreements. And success in obtaining information can be short-lived. If we are successful in our enforcement strategies in one jurisdiction, the promoters and the schemers often simply move to another.

To put these issues in context, let me offer a little background about these issues and explain why they are so difficult for us. I then want to explain how we are dealing with these challenges, as well as lessons learned. Finally, I will discuss what we think needs to be done moving forward.

IRS Approach to Combating Offshore Tax Evasion

Information Reporting

The IRS attempts to use an array of tools in attacking offshore noncompliance. The first of these is tax return information reporting. Most U.S. tax returns require that the filer provide information about foreign financial accounts, ownership in foreign entities, and financial statement data. For individuals, ownership of a foreign account is entered in

Part III of Schedule B of the 1040, for partnerships in Schedule B on Form 1065, and for organizations exempt from income tax in Part VI on Form 990.

The Form 1120 and Form 3520 have financial statement and foreign ownership informational requirements. Individuals and corporations who have created controlled foreign corporations (CFC) are required to file information returns annually on Form 5471 for each CFC. The monetary penalty for failure to file a timely and substantially complete Form 5471 is $10,000, up to a maximum of $60,000 for continued failure. Failure to file can also result in a reduction of foreign tax credits.

Any U.S. person (including citizens, residents, domestic partnerships, corporations, estates or trusts) with offshore accounts in excess of $10,000 during the course of the calendar year must file a foreign bank and financial account (FBAR) report. This includes anyone who has a financial interest in or signature or other authority over any foreign financial account, including bank, brokerage, or other types of financial accounts, in a foreign country. FBAR forms are due on June 30 of each year.

There are severe civil and criminal penalties for noncompliance with the FBAR filing requirements. Civil penalties for a non-willful violation can range up to $10,000 per violation. Civil penalties for a willful violation can range up to the greater of $100,000 or 50 percent of the amount in the account at the time of the violation. Criminal penalties for violating the FBAR requirements while also violating certain other laws can range up to a $500,000 fine or 10 years imprisonment or both. Civil and criminal penalties may be imposed together.

We also get information reporting about transactions with, and the ownership of, foreign trusts. U.S. persons are generally required to report transfers to foreign trusts and distributions from foreign trusts on Form 3520. In addition, a U.S. person who is treated as the owner of a foreign trust under the grantor trust rules is required to ensure that the foreign trust files a Form 3520-A to provide a full accounting of the trust activities for the tax year. There are significant civil penalties (up to 100 percent of the gross reportable amount) for failure to comply with the reporting requirements.

It is important to note that there are legitimate reasons for a U.S. taxpayer to have an offshore account. As with all information reporting to the IRS, we use this information as part of a broader risk analysis before reaching any conclusions about whether a taxpayer is engaged in tax evasion or otherwise avoiding tax liability.

The obvious downside to these types of information reporting is that they are dependent on the willingness of the taxpayer to comply. That is why we have looked for means of third-party reporting that often gives us a better view of what is taking place and thus encourages better compliance by the taxpayer.

Qualified Intermediary Program

In 2001 new regulations that completely overhauled the system for withholding and reporting on foreign persons took effect. An essential component of the new system is the QI program.

Under the program, foreign financial institutions voluntarily agree by contract directly with the IRS to operate under a simplified version of the withholding and reporting rules that U.S. financial institutions must follow. This means that the foreign financial institution agrees to collect identifying documentation from its customers, withhold U.S. tax based on that documentation, deposit the withheld tax with the IRS, file withholding tax returns on a Form 1042, file information returns on Form 1042-S and 1099, and submit to periodic audits performed by external auditors supervised by IRS examiners.

Prior to the 2001 regulations, dividends paid to a foreign address was treated as paid to a foreign person, and if the address were in a treaty country, the dividends were treated as paid to a resident of that country. For certain portfolio interest, entitled to a zero rate under the Code, foreign intermediaries were required to forward documentation identifying foreign beneficial owners to U.S. financial institutions. There was widespread noncompliance with this rule, in part due to the impracticality of requiring vast amounts of paper containing customer identification to be transferred and shared among competing financial institutions. Prior to 2001, foreign financial institutions abroad did not generally collect U.S. tax documentation, did not withhold U.S. tax, did not file information returns with IRS, and did not submit to IRS oversight.

Under the 2001 regulations, foreign financial institutions are required to forward beneficial owner documentation to U.S. financial institutions only if the foreign financial institutions are not qualified intermediaries. If they are qualified intermediaries, they are required to make all withholding decisions based on documentation collected from beneficial owners, withhold and deposit tax with IRS, file withholding tax returns and information returns with IRS, and submit to IRS oversight.

To date, 7,007 QI agreements have been signed. There are currently 5,660 active QI agreements. The difference between signed agreements and active agreements is due to mergers, acquisitions and terminations. For example the QI team has issued 600 default letters and has terminated 100 QI agreements. Currently, the QI program exists in 60 countries.

In layman’s terms, the QI program gives the IRS an important line of sight to the activities of foreign banks and other financial institutions. It also provides detailed information reporting that the IRS did not previously receive.

However, the success of the program is dependent on the foreign bank being in compliance with its QI requirements. Nonetheless, when a foreign bank explicitly takes on those obligations under a QI agreement with IRS, the IRS is in a much better position to hold the bank responsible for living up to those obligations.

I believe the QI program is critical to sound tax administration in a global economy. By bringing foreign financial institutions more directly into the U.S. tax system, we can better ensure that U.S. persons are properly paying tax on foreign account activity, and that foreign persons are subject to the proper withholding rates. The QI program is relatively new, and as with any new and complex program, there will be flaws that must be addressed. In my view, we need to shore up the QI program and continuously enhance it.

Accordingly, the IRS is taking a number of steps to enhance the QI program. These steps include the following:

- Because accounting firms perform audits of QIs according to detailed procedures prescribed by IRS regulations, we have contacted the major accounting firms that engage in this business. We advised these firms of our concerns about questionable QI activity that we have observed. We engaged in a discussion about the role of the accounting community in conducting the audits of QIs, and what can be done to enhance the detection and reporting of violations of the QI agreement. The discussion was positive, and the IRS is confident the firms understand our concerns.

- Pursuant to a 2007 Government Accountability Office report, we are examining the possibility of regulations that would require audit firms to specifically report indications of fraud or illegal acts.

- We are working to increase the level and quality of information reporting by QIs. Potential changes to the QI regulations will require QIs to look through certain foreign entities – such as trusts – to determine whether any U.S. taxpayers are beneficial owners.

- We are examining database processes that would allow QIs to compare their data against commercial databases to verify taxpayer claims of residency for treaty benefit purposes.

- We are evaluating the benefit of collecting foreign TINs or require all beneficial owners to get U.S. TINs.

- Finally, we are considering whether to amend QI agreements to include spontaneous reporting on internal controls failures.

Tax Treaties, Information Exchange Agreements, and International Cooperation

Another tool in our arsenal is the use of international agreements such as tax treaties and tax information exchange agreements (TIEAs), under which other countries agree to obtain information on behalf of the United States for use in U.S. tax matters. However, a request for information under a tax treaty or TIEA must generally specify certain information, such as the identity of the account holder. Without that information in the request, the other country would normally consider the request invalid.

We currently have agreements for information exchange with 73 jurisdictions and have expanded the program in recent years to include offshore jurisdictions such as the Cayman Islands and the Bahamas. We continue to expand the number of countries with which we have agreements as well as to renegotiate some agreements, such as the U.S. - Belgium tax treaty, to improve information exchange. However, we are still significantly limited by bank secrecy laws or lack of beneficial ownership information in some jurisdictions.

Using the bilateral agreements that we have with individual countries, in 2004 we worked with the Tax Commissioners of Australia, Canada, and the United Kingdom to form the Joint International Tax Shelter Information Centre (JITSIC). JITSIC was created to combat abusive international tax shelter activity on a real-time basis. The JITSIC office was based in Washington, DC, but in September, 2007, JITSIC expanded to a second office in London, England. Along with the expansion to London, JITSIC welcomed Japan as a new member.

JITSIC's primary focus has been on the bilateral exchange of specific abusive transactions and their promoters and investors. The results, to date, have been promising. The U.S. has received information regarding some transactions of which it had not been previously aware. In light of the complexity of the transactions, and considering the inherent difficulty normally associated with obtaining taxpayer-specific shelter information from foreign countries, it is unlikely that these transactions would have been uncovered and understood, but for JITSIC.

The U.S. has also received information regarding transactions of which it has been aware but may not have fully understood. Frequently, the information exchanged has provided additional facts and a better understanding of the transaction from the perspectives of two tax regimes. Without JITSIC, this type of exchange and accompanying dialogue would not take place.

We continue to work closely with our tax treaty partners on bilateral and multilateral compliance activities using the relevant Exchange of Information article in our tax treaties. We have also been an active participant of the Organization for Economic Cooperation and Development (OECD), in which we have worked to improve and strengthen worldwide standards for information exchange and sharing of best practices to address cross border noncompliance.

Informants

Informants have been valuable sources of information for IRS civil and criminal investigations into offshore tax evasion.

With the new “whistleblower” standards that reward informants, we anticipate that we will receive additional information on other potential tax violations. I know this is an area on which this Committee has taken great interest and we appreciate the concern.

Criminal Investigations

The IRS is increasing resources devoted to enforcing the failure to report foreign bank accounts and is currently pursuing dozens of criminal investigations of U.S. taxpayers for offshore tax evasion. Many of these investigations are a result of the IRS' stepped up enforcement actions (announced in February 2008) involving more than 100 U.S. taxpayers to ensure proper income reporting and tax payment in connection with accounts in Liechtenstein. In addition, the IRS receives information from many other sources that can result in enforcement actions to ensure taxpayer compliance with the tax laws.

The primary focus on these investigations is on U.S. taxpayers who fail to file the FBAR form. U.S. persons are required to file a Form TD F 90-22.1, each year if they have a financial interest in or signature authority or other authority over any financial accounts, including bank, securities or other types of financial accounts, in a foreign country, if the aggregate value of these financial accounts exceeds $10,000 at any time during the calendar year.

John Doe Summons

The final tool I will mention to fight offshore evasion is the use of information received from the use of John Doe summonses. The IRS generally uses the John Doe summons authority to identify individuals, groups or classes of U.S. taxpayers whose member identities are unknown, who are involved in specific areas of tax noncompliance and who cannot be identified through other means. For example, we would use this type of summons when we know that taxpayers use offshore bank accounts to avoid paying taxes, but we do not know their identities. A John Doe summons served on a domestic processor of offshore bank records would give us their names, addresses and other identifying information.

The IRS requested and received court approval to serve 153 John Doe summonses in connection with its Offshore Credit Card Project.

And, as I have already explained, we continue to use the John Doe Summons in furtherance of our offshore investigations.

The Ugland House

As noted in the report that the GAO prepared for this hearing, Ugland House is the name of an office building in Cayman Islands housing Maples and Calder (Maples), the largest Cayman Islands law firm. Maples is a corporate service provider meaning that sets up and registers companies in the Cayman Islands. Maples has another company – Maples Finance, Ltd. (Finance) whose staff consists of accountants and business people who serve as officers and directors of the formed companies. Finance is located in a building behind Ugland House.

According to the GAO report, Maples serves as registered office for the 18,857 entitities it created as of March 2008. About half of these entities are associated with U.S. firms and 5 percent are wholly owned U.S. companies. In 2005, the IRS received 5576 Form 5471, Information Return of U.S. Persons With Respect to Certain Foreign Corporations indicating incorporation in the Cayman Islands. These entitities reported gross receipts of $161.9 billion.

As part of the IRS compliance efforts, significant effort have been applied to conduct transfer pricing audits that result in shifting of profits to low or no tax jurisdictions. Transfer-pricing audits often are very complex and highly factual resulting in controversy between the IRS and taxpayers on the valuation of intangibles and the determination of the arms length transfer price.

We worked cooperatively with the GAO in its analysis and shared information we had both about Ugland House and the Cayman Islands. And while the GAO made no recommendations as part of this report, the report notes some of the difficulties we face in dealing with the companies located in the Cayman Islands. Specifically, the attraction provided by Cayman Islands to many companies seeking to do business there is based on a number of legitimate business reasons. In fact, the GAO found that the Cayman Island's legal and regulatory system is regarded as stable and compliant with international standards. In addition the Caribbean Financial Action Task Force found in 2007 that the Cayman Islands had a strong compliance culture related to anti-money laundering and terrorist financing activities.

We have a TIEA with the Cayman Islands, which came into force for tax years beginning in 2004 for criminal purposes and 2006 for civil purposes. Under that agreement, we have made several requests to the Cayman Islands tax authorities for bank records and corporate ownership information. The Cayman authorities have replied in a timely manner and with complete information and continue to exhibit a very cooperative attitude with execution of the TIEA.

The difficulty we generally face in obtaining information in jurisdictions such as the Cayman Islands is our inability to identify with specificity the individual and activities to establish the basis for an information request under the TIEA or tax treaty. As business structures and transactions become complex, it is more difficult to detect potential tax abuse or evasion.

How Congress Can Help

The first thing that Congress can do to assist us in these areas is to fund fully the Administration's request for the IRS' annual budget. We need the necessary resources to continue to address many of the issues that I have discussed. Grappling with complex international tax issues requires a top-notch workforce and technological tools. The

President’s FY 2009 Budget provides key resources to the IRS, and we urge your support. It also includes general legislative proposals designed to enhance third-party reporting. The most significant of these would require merchant card issuers to report annually on reimbursements to business entities.

The President’s budget has legislative proposals that would be particularly helpful in this international area. The most significant of these would increase the foreign trust reporting penalty. The penalty provision would be amended to impose an initial penalty of the greater of $10,000 or 35 percent of the gross reportable amount (if the gross reportable amount is known). The additional $10,000 penalty for continued failure to report would remain unchanged. Thus, even if the gross reportable amount is not known, the IRS may impose a $10,000 penalty on a person who fails to report timely or correctly as required and may impose a $10,000 penalty for each 30-day period (or fraction thereof) that the failure to report continues.

Another area where Congress can help is to allow more time in which to conclude these investigations. Currently the statute of limitations is 3 years. However, because of the complexity of many of these cases, we often need additional time. We look forward to working with the staff and Members of this Committee and the House Ways and Means Committee to find an acceptable approach.

Finally, it is important that Congress continue to support our efforts to strengthen our network of tax treaties. They provide a basis for exchanging information.

Both Congress and the IRS are limited when dealing with individuals and businesses that are hiding their assets in foreign jurisdictions that use financial secrecy as a tool to attract commerce to their country. Thus, we must search for ways to reduce the incentive for taxpayers to seek out such offshore financial arrangements.

Deterrence is our most powerful weapon. In this regard, I am proud of the hard work the IRS and Justice Department investigators have put into these cases. As a result of their continuing work, I am confident that those who engage in these types of deliberate offshore tax evasion are very concerned right now. I believe that we owe it to the vast majority of honest taxpayers to pursue these cases aggressively, and I am committed to doing so.

Conclusions

Mr. Chairman, you and this Committee have been at the forefront in pursuing important areas of Federal tax non-compliance.

The subject of the hearing this morning is no exception. Offshore tax shelters are depriving the American treasury of billions of dollars each year.

I have attempted to bring you up to date on many of the steps we are taking in the offshore arena, and I hope this has been beneficial. I look forward to your continuing work in these areas and your assistance in halting abusive offshore tax shelters.

I appreciate the opportunity to be here this morning, and I will be happy to respond to any questions.