

PRESS STATEMENT

***LEVIN TO CHAIR HEARINGS ON U.S. EFFORTS TO
LIMIT***

EFFECT OF OFFSHORE TAX HAVENS

July 16, 2001

WASHINGTON, D.C. — Chairman Carl Levin announced today that the U.S. Senate Permanent Subcommittee on Investigations (PSI) will hold a hearing this week on recent actions by the Secretary of Treasury, Paul H. O'Neill, with respect to offshore tax havens. The hearing will be held Wednesday, July 18, at 2:00 p.m., in Room 628 of the Dirksen Senate Office Building. Witnesses will include Secretary O'Neill, Robert Morgenthau, the Manhattan District Attorney, Michael Chertoff, head of the Criminal Division of the Department of Justice, and two former commissioners of the Internal Revenue Service.

The hearing will examine U.S. efforts to pressure offshore tax havens to cooperate with U.S. law enforcement to detect and stop tax evasion and the criminal conduct that often lies behind tax evasion.

"The U.S. government has been working for the last twenty years and the past three administrations to get offshore tax havens to help rather than hinder our fight against tax evasion and other crimes like drug trafficking and money laundering," Levin said. "There is concern that recent actions by the United States have undermined this longstanding effort, just when it was beginning to bear fruit. Given the damage that tax havens continue to cause U.S. interests, this hearing will try to clarify the U.S. position on what needs to be done to bring tax havens within international norms."

Offshore jurisdictions are countries that allow corporations, trusts and other businesses to be established within their territory on the condition that any business they conduct is only with persons who are "offshore," meaning persons who are not citizens or domestic businesses operating inside the country. Offshore jurisdictions charge hefty fees for establishing and maintaining an offshore business, though they often charge little-to-no taxes. The offshore businesses are often shell operations established by attorneys, trust companies or banks within the offshore jurisdiction operating under corporate secrecy laws that make it difficult to learn the true owner of a business. These offshore businesses also usually open accounts at banks licensed by the offshore jurisdiction and conduct financial transactions under bank secrecy laws that make it difficult to trace transactions or identify bank account owners. The money deposited in these banks is usually held, though, in correspondent accounts that the banks have opened at larger banks in the United States or other countries. Many of the offshore corporations and trusts serve as mere place holders for individuals who want to hide their identity and activities.

Because many offshore jurisdictions have combined bank and corporate secrecy laws with weak bank regulation and anti-money laundering controls, they have become notorious for offshore operations engaged in tax evasion, money laundering, or other crimes. Numerous PSI hearings over the years have examined these problems in offshore jurisdictions, the damage they cause to U.S. interests, and what can be done about them.

The particular focus of this hearing is the ongoing resistance of many offshore jurisdictions to divulging information needed to detect and stop tax evasion and the role of the U.S. in a major international effort to overcome this resistance.

In 1998, with strong U.S. support, the Organization of Economic Cooperation and Development (OECD), of which the U.S. is a member, initiated a project to convince offshore tax havens to cooperate with OECD countries investigating possible tax evasion. In June 2000, the OECD issued a report which identified 35 countries as "tax havens" and stated that OECD members would be

taking defensive measures against them unless, by July 2001, the listed countries had made written commitments to improve their cooperation with international tax enforcement efforts. The four criteria used to identify a tax haven were that the country had in place: (1) no or nominal taxes; (2) bank and corporate secrecy laws; (3) ineffective international information exchange for tax purposes; and (4) tax preferences for offshore entities that do no business domestically ("ring fencing"). The written commitments that a country had to make to get off the list and avoid sanctions were to agree to: (1) answer requests for specific information for criminal tax matters after December 31, 2003; (2) answer requests for specific information for civil matters after December 31, 2005; (3) revise any bank or corporate secrecy laws impeding effective information exchange, including information on the ownership of offshore corporations, trusts or bank accounts; and (4) eliminate any tax preferences for offshore entities (ring fencing).

Earlier this year, Secretary O'Neill announced an internal review of the OECD project after expressing "serious concerns" about its "direction," including whether the project was implying that "low tax rates are somehow suspect" or attempting to "dictate" higher tax rates in low-tax jurisdictions. Secretary O'Neill called for a "refocused" project centered on "its core element: the need for countries to be able to obtain specific information from other countries upon request in order to enforce their respective tax laws." Secretary O'Neill's comments created concern in the OECD, law enforcement and offshore communities as to whether the U.S. was retreating from the OECD effort.

Senator Susan M. Collins (R-ME), the Subcommittee's Ranking Minority Member, said that "contrary to some misleading press coverage of this issue, the Bush Administration is successfully refocusing the OECD's agenda from flirtations with questionable ideas of 'tax harmonization' to the core elements of transparency that underlie the fight against money laundering in offshore tax havens. Prosecutors, tax enforcement authorities, and private citizens alike should be pleased that the Administration is working with the OECD to promote the kind of information-sharing that makes possible the successful identification and prosecution of tax evaders who force honest taxpayers to shoulder disproportionate burdens."

Last month, in June 2001, the OECD held a series of meetings to address U.S. concerns and determine the direction of the project, which had been scheduled to issue a final list of "uncooperative tax havens" and announce the imposition of initial sanctions by OECD countries against them. Press reports indicate that the OECD agreed to make several changes to retain U.S. backing. They include delaying the dates for imposing sanctions against offshore tax havens by at least two years, and removing the requirement that tax havens end ring fencing to demonstrate tax cooperation (although the OECD retained ring fencing as one of the four criteria for identifying an uncooperative tax haven in the first place). While press reports indicate that these changes were enough to renew U.S. support for the OECD project, critics of the OECD project continue to object to the information exchange aspects of the project and it has been claimed by some of the critics that the United States continues to oppose it. One key goal of the hearing is to clear up the ongoing confusion about whether the United States supports the revised OECD tax haven project and its core element seeking commitments to tax information exchange.

The following witnesses are scheduled to testify before the Subcommittee:

Panel One:

THE
HONORABLE
PAUL H.
O'NEILL

Secretary of the Treasury

Panel Two:

THE
HONORABLE
ROBERT M.
MORGENTHAU

Manhattan District Attorney

New York, New York

THE HONORABLE MICHAEL CHERTOFF

Assistant Attorney General for the Criminal Division

U.S. Department of Justice

Panel Three:

THE
HONORABLE
SHELDON
COHEN

Former Commissioner, Internal Revenue Service (President
Johnson)

THE HONORABLE DONALD ALEXANDER

Former Commissioner, Internal Revenue Service (President Ford)

[Committee Members](#) | [Subcommittees](#) | [Hearings](#) | [Key Legislation](#) | [Jurisdiction](#)
[Press Statements](#) | [Current Issues](#) | [1997 Special Investigation](#) | [Video of Select Hearings](#) | [Sites of Interest](#)