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## **Kerry Presses Senate to Close Tax Loophole Abused by Iraq Contractors**

WASHINGTON, DC - Senator John F. Kerry submitted the following statement today at the Senate Democratic Policy Committee Hearing "Contracting Abuses in Iraq: Is the Bush Administration Safeguarding American Taxpayer Dollars?"

**KERRY:** I commend Senator Dorgan for holding this hearing on contracting abuses in Iraq. I would like to bring to your attention a tax evasion scheme that is being used by government contractors in an effort to avoid paying U.S. employment taxes.

Recently, Farah Stockman of the *Boston Globe* reported that Kellogg Brown & Root (KBR) has avoided payroll taxes by hiring workers through shell companies in the Cayman Islands. American companies who are benefiting from U.S. government contracts are able to set up foreign subsidiaries in tax havens and treat American workers employed in connection with the contract as employees of the subsidiary. As a result, those employers can avoid Social Security and Medicare payroll taxes.

Senator Obama and I introduced S. 2775, the Fair Share Act of 2008, which ends the practice of U.S. government contractors setting up shell companies in foreign jurisdictions to avoid payroll taxes. This legislation is cosponsored by Senators Clinton, Conrad, Durbin, Harkin and Leahy. Representatives Ellsworth and Emanuel also introduced companion legislation. This legislation amends the Internal Revenue Code and the Social Security Act to treat foreign subsidiaries of U.S. companies performing services under contract with the United States government as American employers for the purpose of Social Security and Medicare payroll taxes.

I am working with the Finance Committee to close this tax loophole, and the House recently included this legislation as part of the Taxpayer Assistance and Simplification Act of 2008. The Joint Committee on Taxation estimates that closing this loophole raises \$846 million over ten years.

The bottom line is this: federal contractors should not be allowed to use tax loopholes to avoid paying U.S. Medicare and Social Security taxes on behalf of their American employees working in Iraq. Furthermore, KBR should not have a competitive advantage over its U.S. competitors because it sets up sham corporations to avoid paying its fair share of U.S. payroll taxes.

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