



# Committee On Finance

Max Baucus, Ranking Member

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## NEWS RELEASE

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### **Baucus Expresses Concern over Missed Opportunities Regarding Enron** *Senator Calls for More Tax Code Reform 1,000 Days Since Enron's Collapse*

(WASHINGTON, D.C.) Today, Senator Max Baucus, ranking member of the Senate Finance Committee, called for more changes to the tax code since the infamous collapse of Enron. 1,000 days have passed since December 2, 2001, when Enron filed for bankruptcy that resulted in the largest bankruptcy in American history.

“Almost three years have passed since the fall of Enron,” Baucus said. “Although the financial regulatory world saw some significant changes, little has changed in the tax code to reduce the incentives for illegal behavior that brought this company down. Enron’s collapse presented an opportunity to crack down on abusive tax practices, and yet they have not been curtailed in any significant way.”

A report issued from the Joint Committee on Taxation explains tax avoidance maneuvers Enron pursued. This report found federal income tax gimmicks practiced by Enron were the origins of the financial accounting benefits, which were the driving factor of the abuses of Enron. The company played off the difference between how the Internal Revenue Service (IRS) and the Securities and Exchange Commission (SEC) accounted for transactions.

For the period between 1996 through 1999, during which Enron paid no income tax to the IRS, its financial statement showed a net income of \$2.3 billion, but tax losses of \$3 billion. Enron’s accounting gimmicks such as ‘Raptor’, ‘Jedi’, ‘Chewco’, ‘Renegade’, and ‘Cochise’, hid deceitful behavior and made the company look successful on paper.

“These fraudulent tax-motivated transactions led to Enron’s demise,” Baucus said. “Enron is not the only company steering clear of their tax responsibility. These types of abusive tax practices punch an \$18 billion dollar hole in our federal treasury every year, leaving honest taxpayers to foot the bill.”

Seven Congressional committees investigated Enron’s financial and tax dealings, including the Finance Committee. As a result of these investigations chief executive officers are now required to sign financial statements and board members shoulder more accountability for the financial actions of the company, but no major steps have been taken to combat illegal tax transactions.

In efforts to crack down on tax shelter abuse, Senator Baucus has worked with Chairman Chuck Grassley to craft strong, bipartisan legislation, some or all of which has passed the Senate at least five times, but has been defeated by House leadership each time. Within this legislation, six Enron-related loophole closers have continually met with resistance.

"I urge my colleagues in Congress to close the tax loopholes that Enron used, and to send a clear message that we will no longer allow tax cheaters to continue their unethical behavior," said Baucus.

Baucus also addressed the lack of action being taken to protect workers, investors, and pensioners. In the year leading up to bankruptcy, 144 senior managers and executives received \$744 million in payments. In addition to leaving Enron's employees without retirement funds, the company's collapse caused states' pension plans to lose hundreds of millions of dollars, including California at \$142 million, Florida at \$328 million, and Georgia at \$122 million. Pension reforms on diversification, investment education, and fiduciary rules still wait further action.

"I believe we can and should do better for the American taxpayer. In the thousand days it has taken to indict Ken Lay, it is regrettable that we cannot say Congress shut down the abusive tax shelters that got him into so much trouble. Let's enact the tough Senate legislation to close the tax loopholes before investors, workers, and taxpayers have to weather another Enron."

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