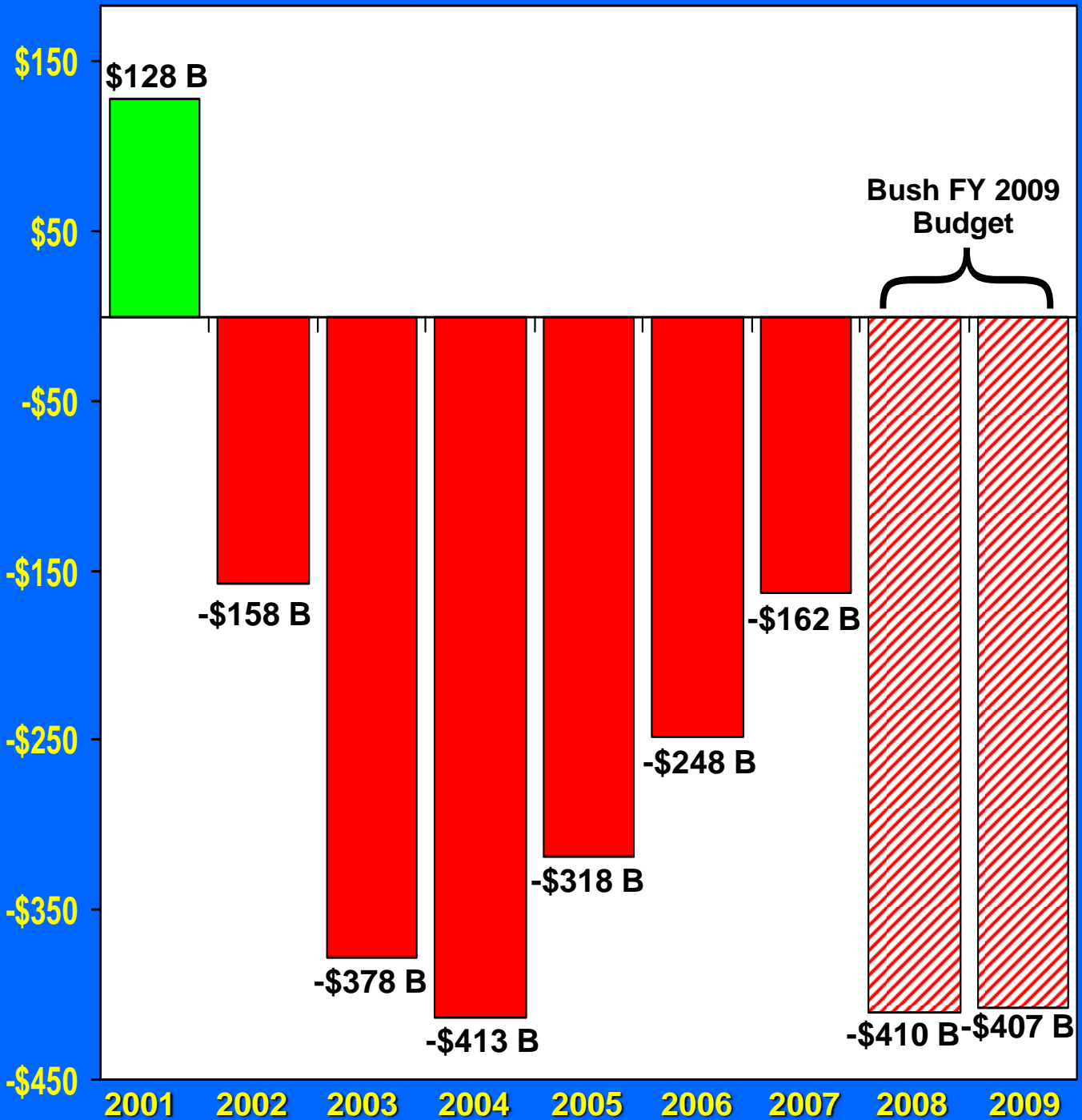


Dramatic Deterioration in Budget Picture

(Deficit in billions of \$)

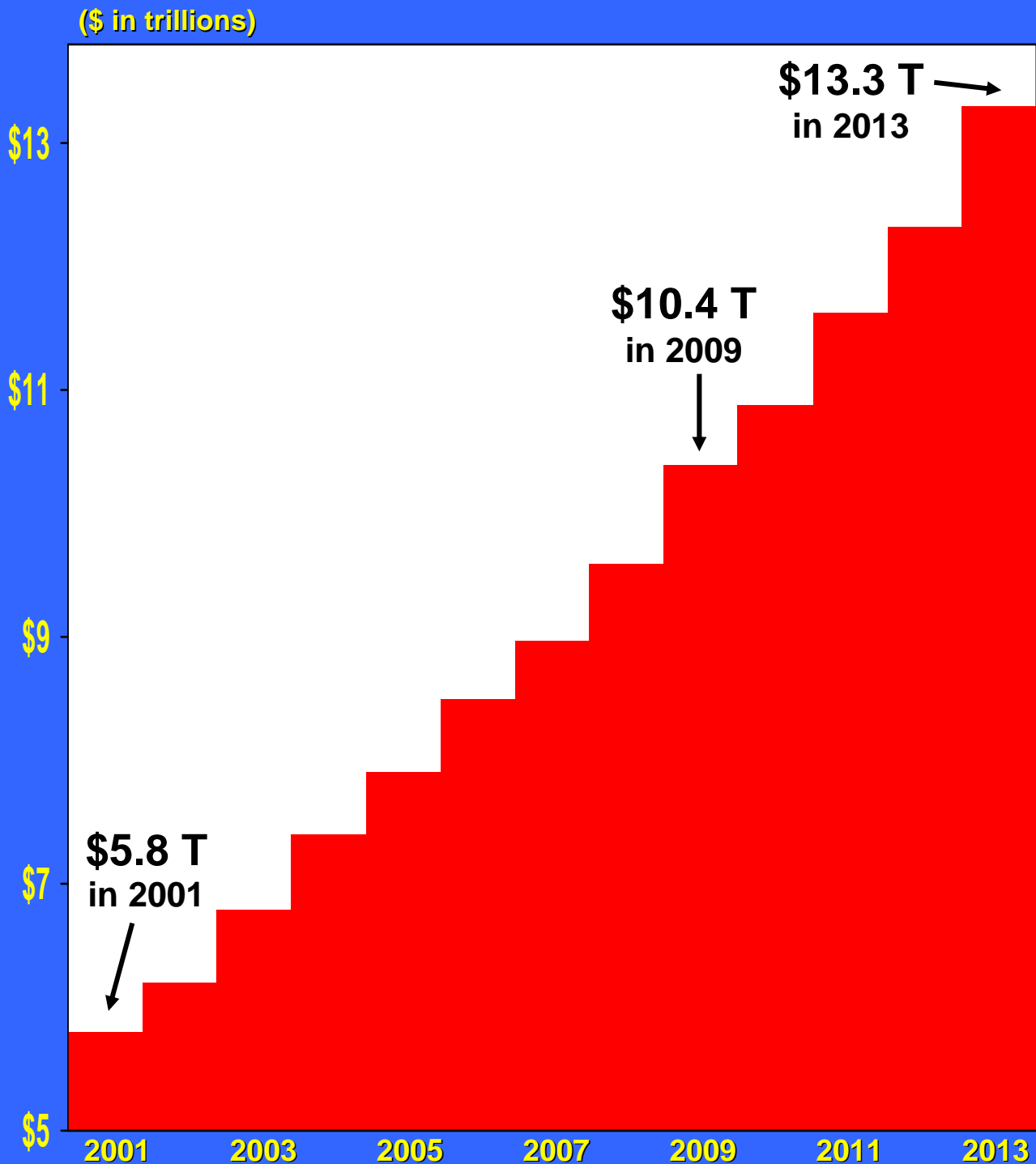


Source: OMB

Note: 2008 and 2009 estimates from Bush FY 2009 Budget.

Building a Wall of Debt

Gross Federal Debt Soars



Source: OMB, CBO and SBC

Note: Bush FY 2009 Budget with AMT reform, ongoing war costs, and associated debt service.

President Bush More than Doubles Foreign-Held Debt

It Took 42 Presidents 224 Years to Build Up \$1 Trillion of Foreign-Held Debt



224 Years
(1776-2000)



7 Years
(2001-2007)

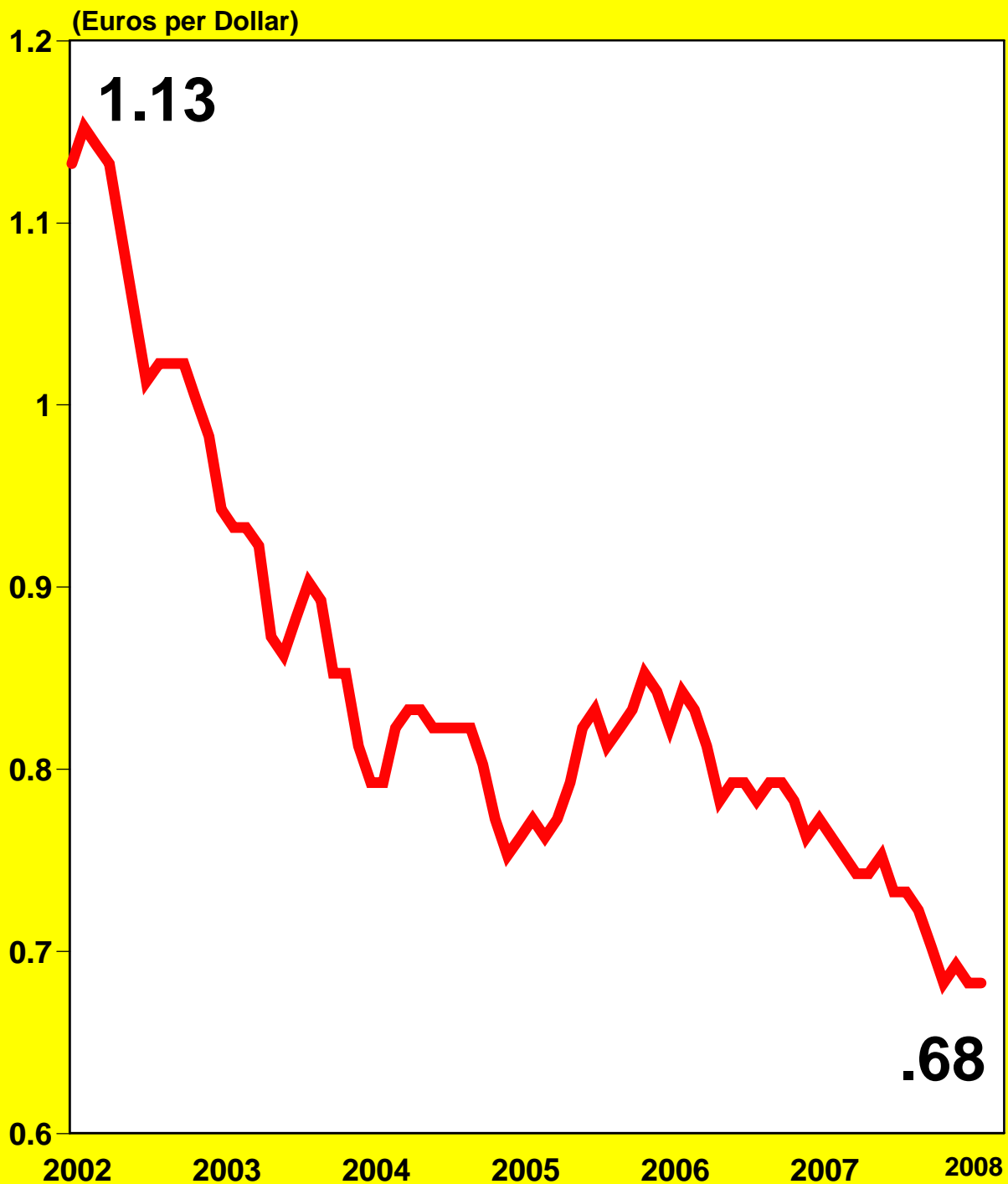
Source: U.S. Treasury
Monthly data through December 2007.

Top Ten Foreign Holders of Our National Debt

Japan	\$581 B
China	\$478 B
United Kingdom	\$157 B
“Oil Exporters”	\$138 B
Brazil	\$130 B
Caribbean Banking Centers	\$117 B
Luxembourg	\$70 B
Hong Kong	\$51 B
Germany	\$42 B
Singapore	\$40 B

Source: Department of Treasury
Note: As of February 2008

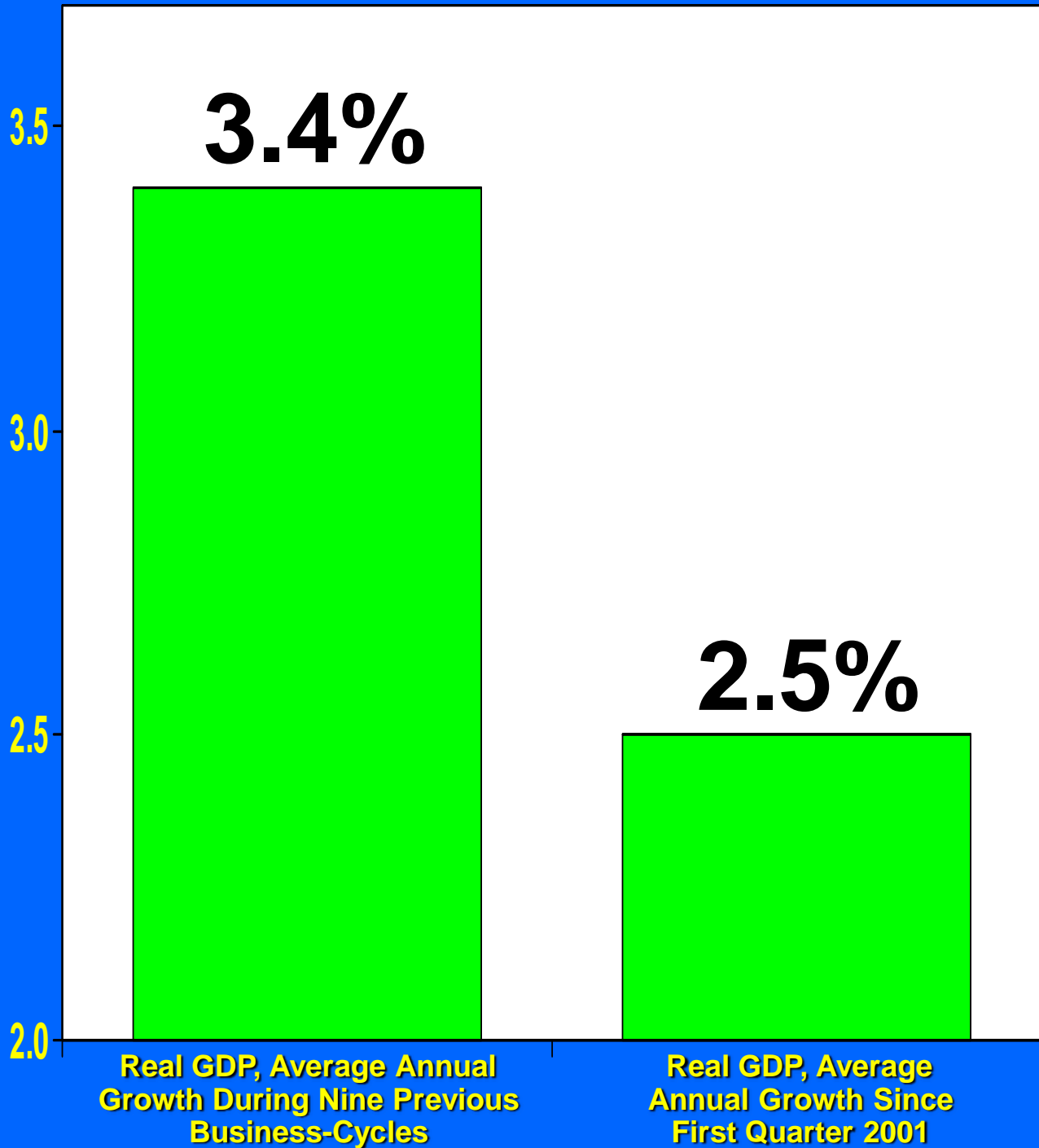
Dollar Down 40 Percent Against the Euro



Note: Monthly data through February 2008
Source: Federal Reserve Board

Real GDP Growth Lags

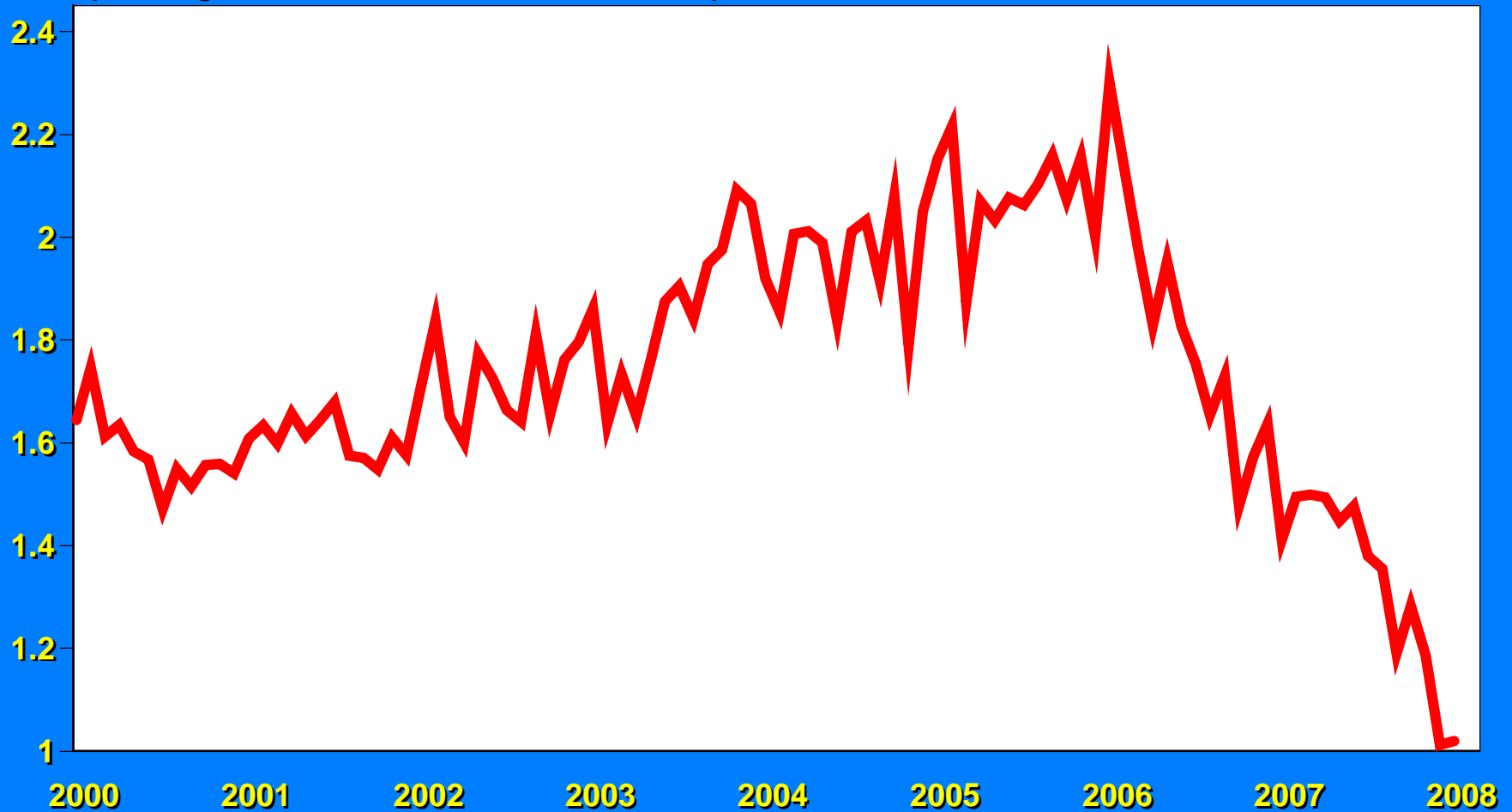
(Average annual percentage growth)



Source: Bureau of Economic Analysis, U.S. Department of Commerce; and National Bureau of Economic Research

Housing Slump: New Homebuilding Falls Dramatically

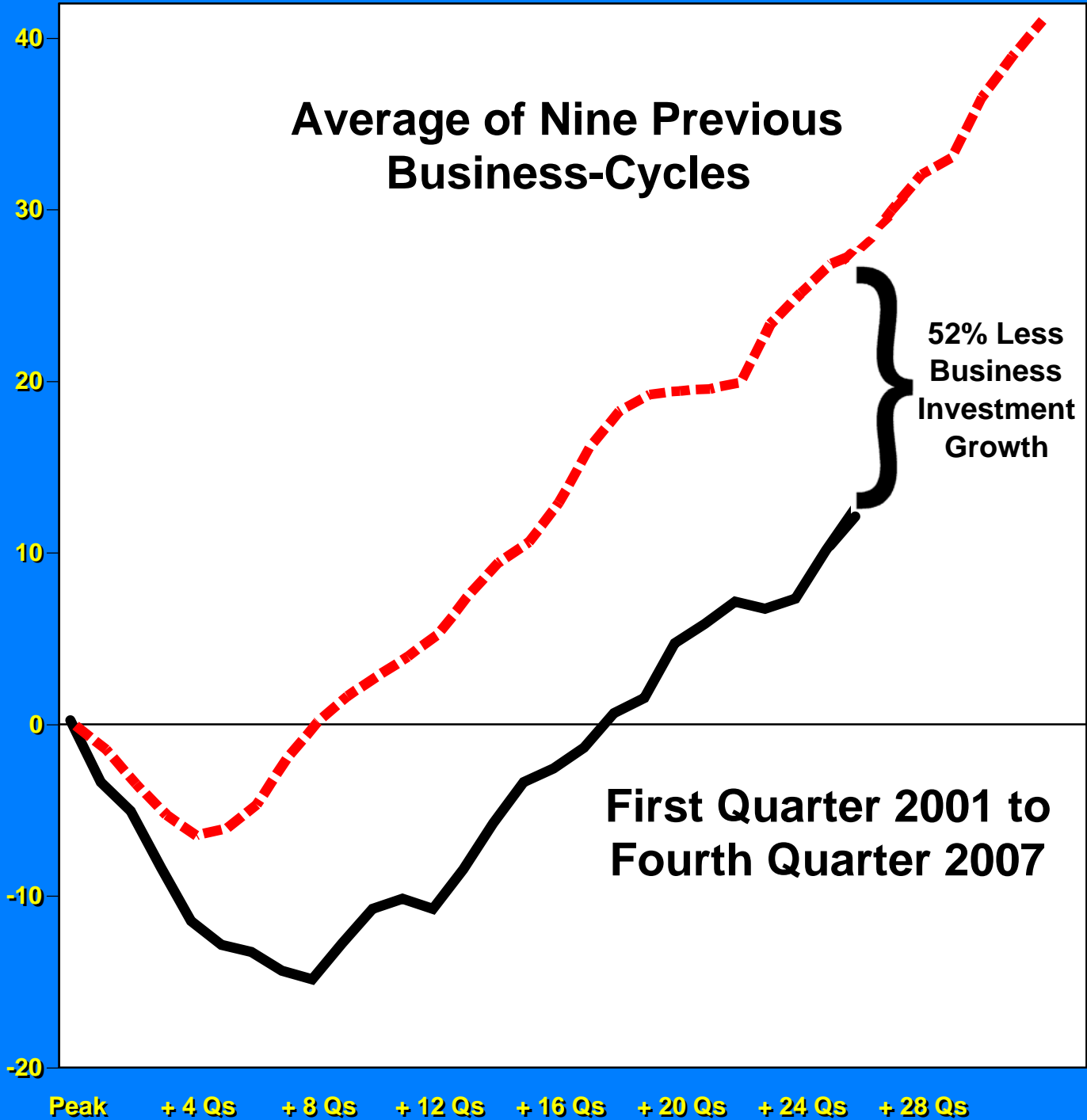
(Housing starts, millions of units, annual rate)



Source: Census Bureau, U.S. Department of Commerce
Note: Monthly data through January 2008

Business Investment Lags

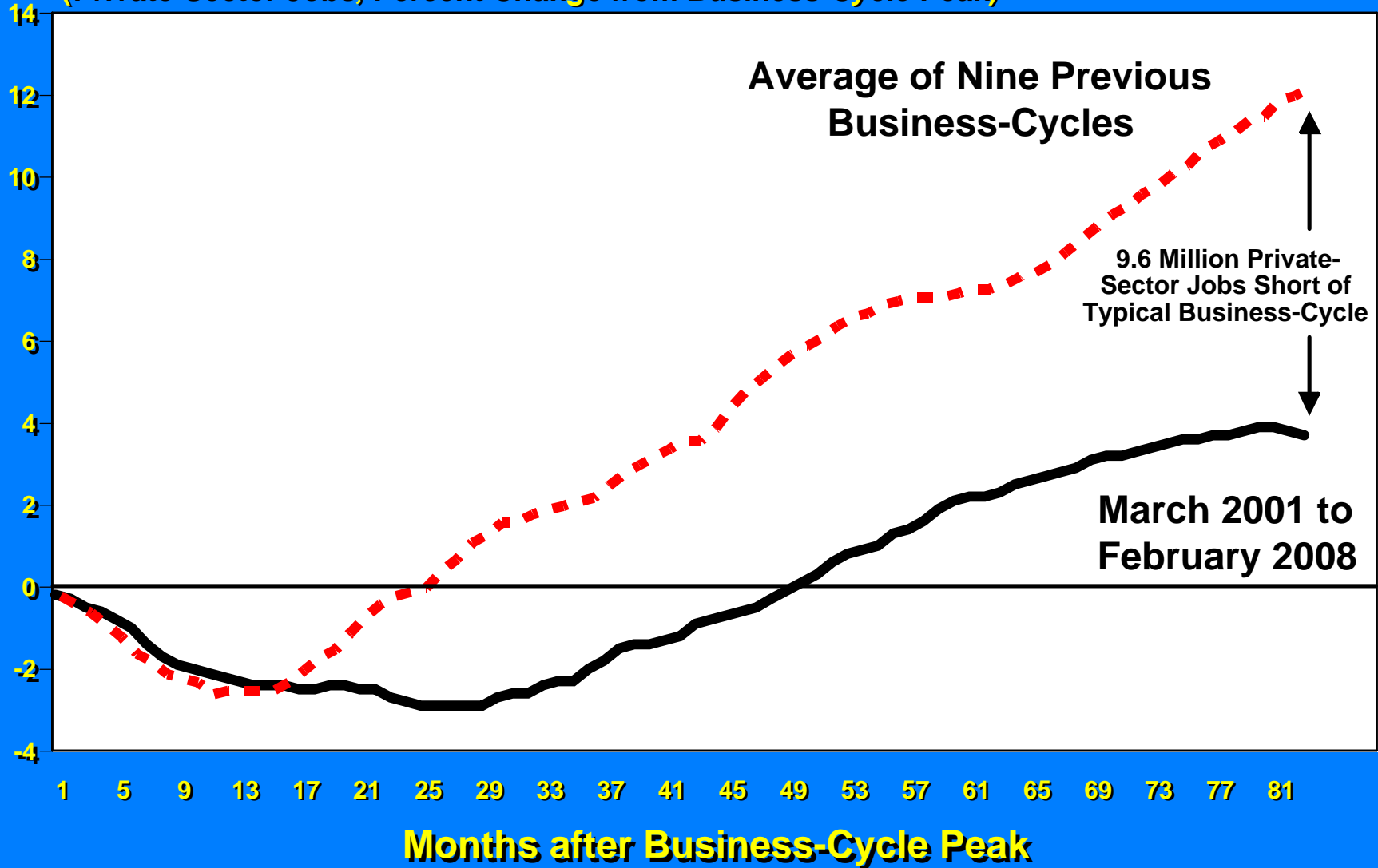
(Real Business Investment, Percent Change from Business-Cycle Peak)



Source: Bureau of Economic Analysis, U.S. Department of Commerce; and National Bureau of Economic Research

Job Creation Lags

(Private-Sector Jobs, Percent Change from Business-Cycle Peak)

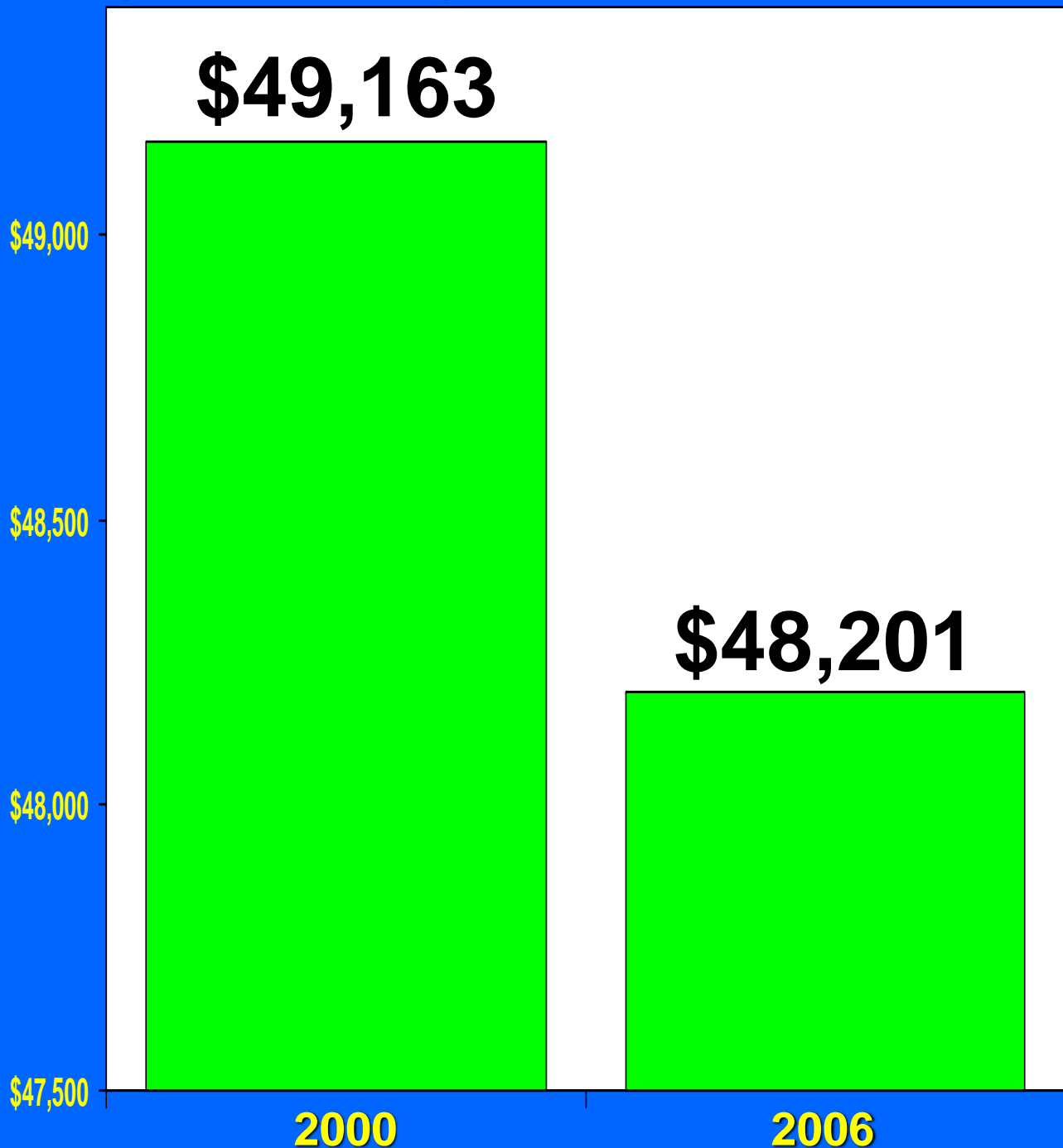


Source: Bureau of Labor Statistics, U.S. Department of Labor and National Bureau of Economic Research

3/7/08

Real Median Household Income Declines by Almost \$1,000 Under Bush

(2006 constant dollars)



Source: Bureau of the Census, U.S. Dept. of Commerce

Budget Resolution Highlights

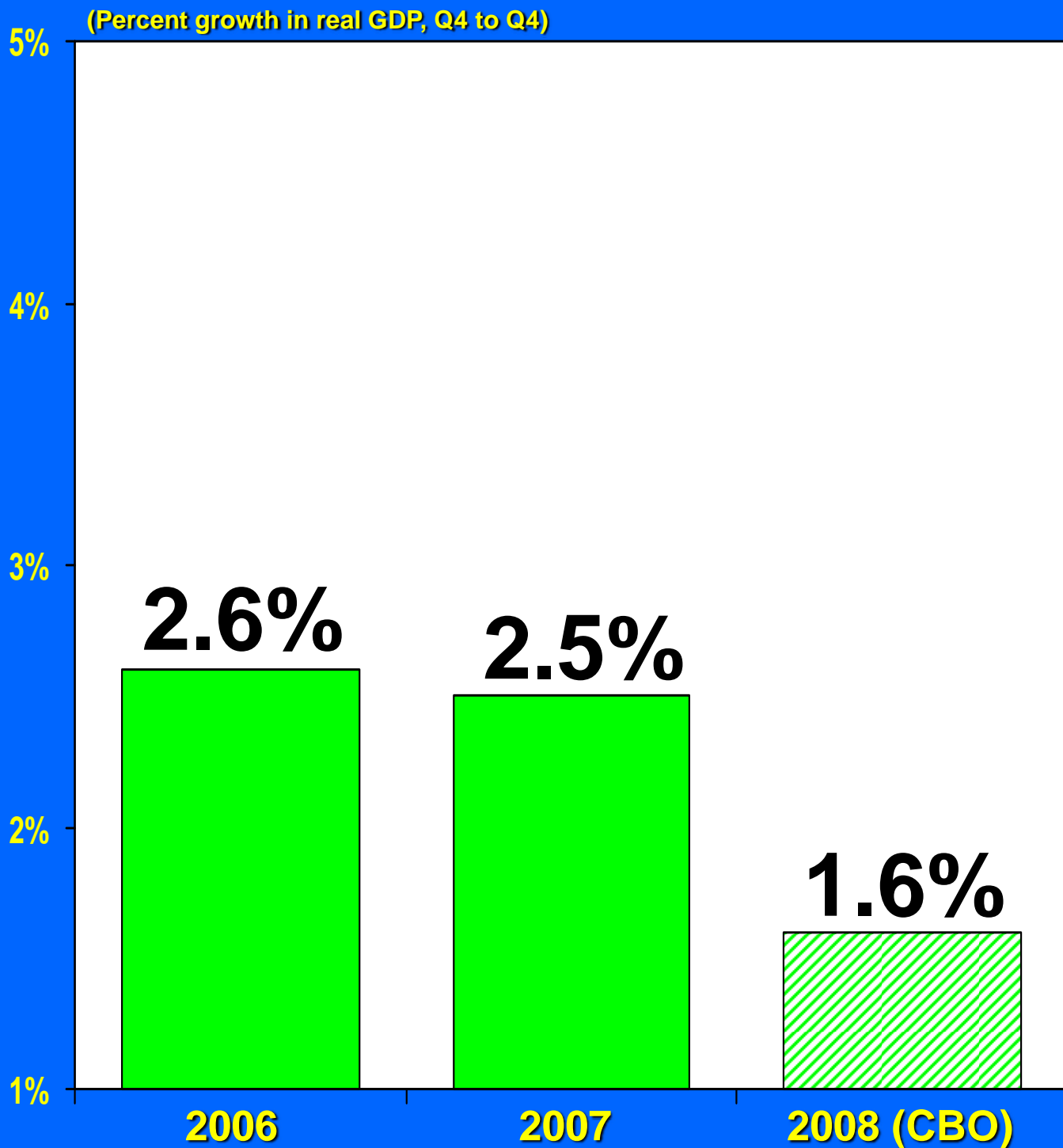
Strengthen Economy and Create Jobs

- Invest in energy, education, infrastructure
- Expand health coverage for kids
- Provide tax cuts for middle-class
- Restore fiscal responsibility; balance in 2012 / 2013

Make America Safer

- Support the troops
- Provide for veterans' health care
- Protect homeland and reject Bush cuts in law enforcement, COPS, first responders

Economic Growth Expected to Slow Sharply in 2008



Source: Bureau of Economic Analysis, U.S. Department of Commerce; and CBO, February 2008

Stimulus in the Budget Resolution

Budget Resolution accommodates \$35 B in stimulus

Possible policies could include:

- Housing relief (including tax provisions)
- Extended Unemployment Insurance, Food Stamps, or State fiscal relief
- Additional LIHEAP, WIC, or infrastructure funding for 2008

Tax Relief in Budget Resolution

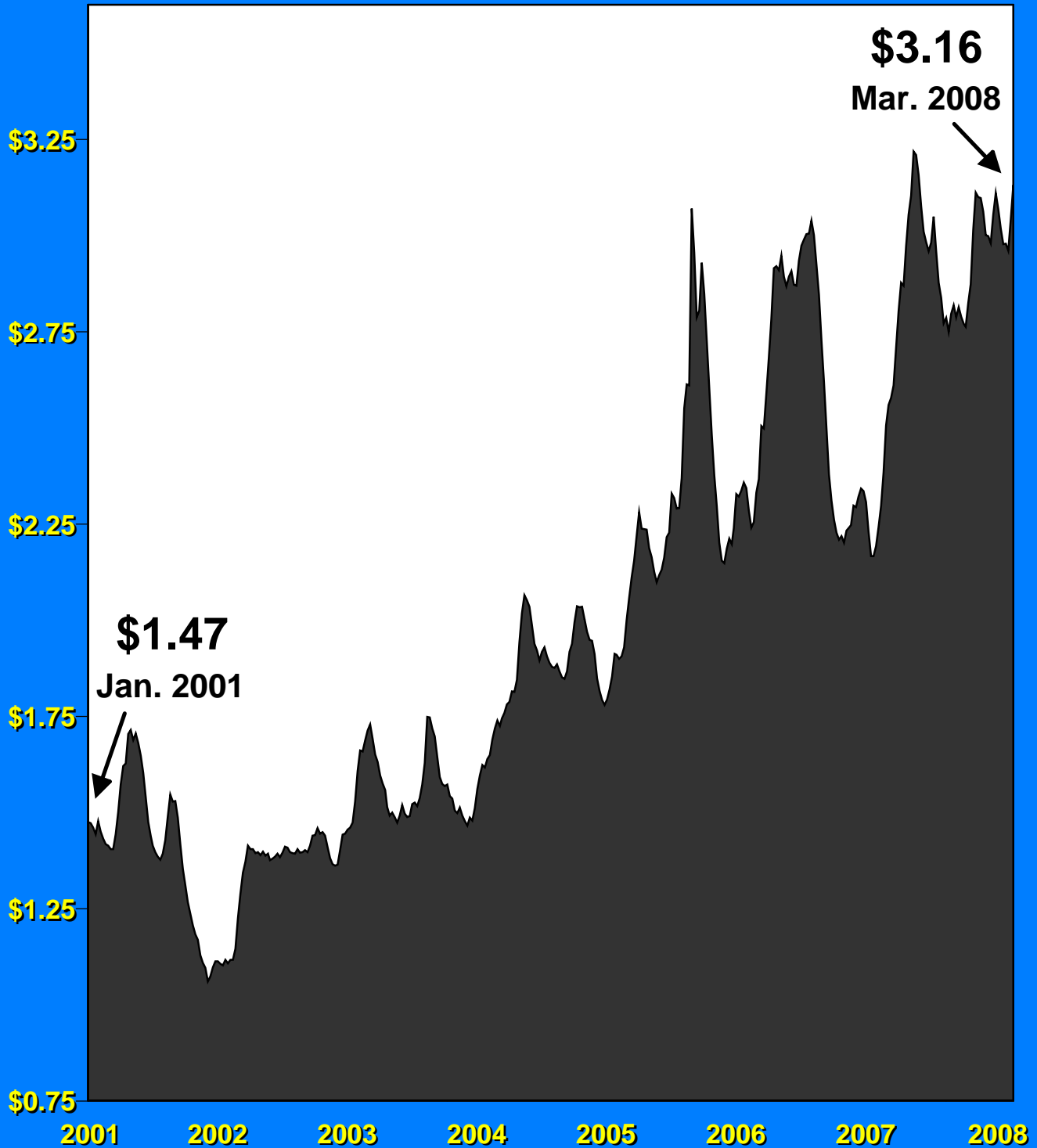
- AMT relief
- Energy tax cuts
- Education tax cuts
- Stimulus
- Extenders

Tax Relief Amendment to Budget Resolution

- **Extend middle-class tax relief**
 - marriage penalty relief
 - child tax credit
 - 10 percent bracket
- **Estate tax reform**

Price of Gasoline Soars

(Average price of gallon of gas in U.S., dollars)

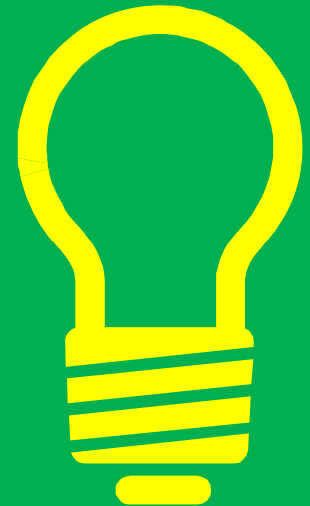


Source: Energy Information Administration
Note: U.S. regular all formulations retail gas prices

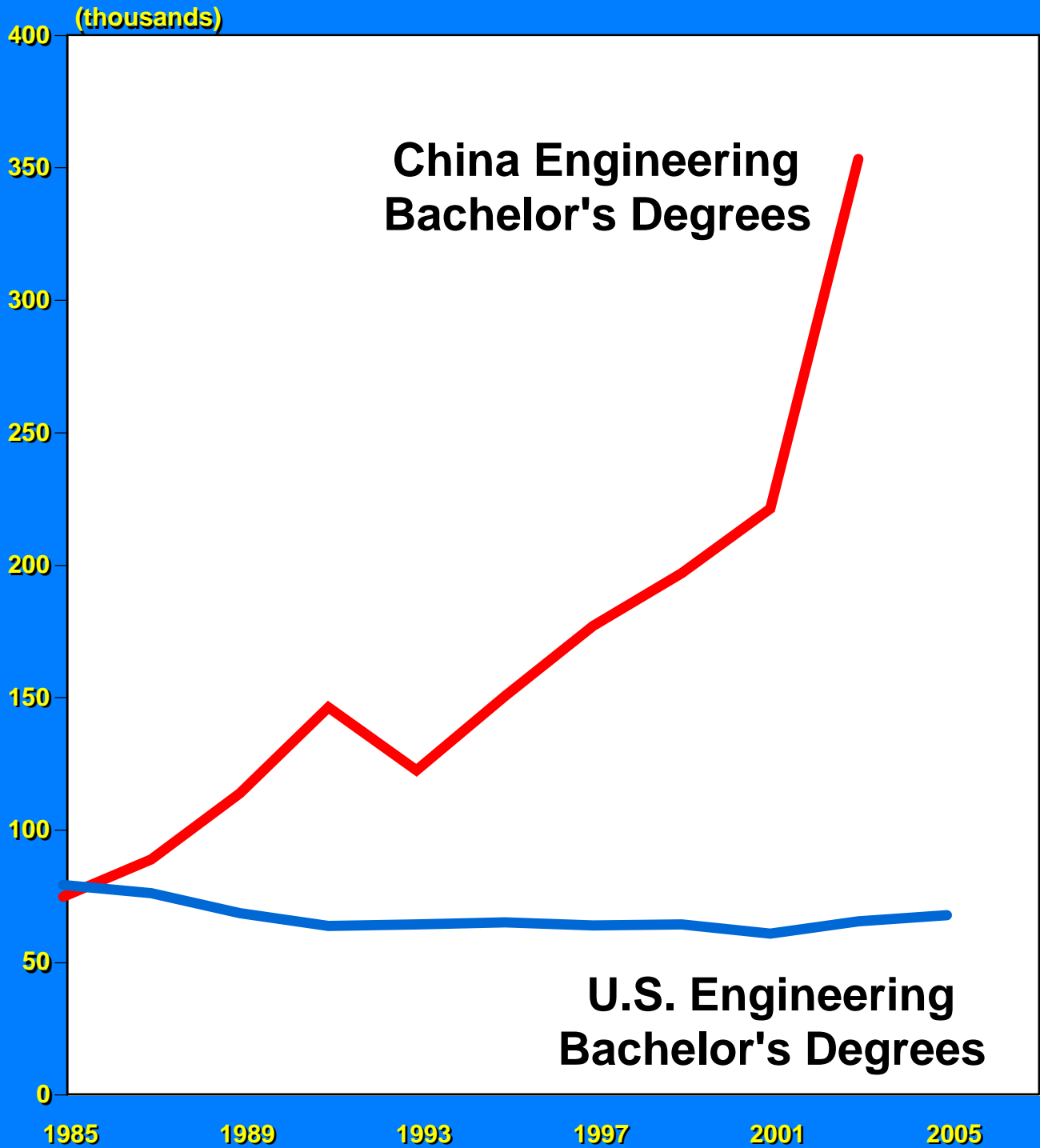
Budget Resolution Invests in Energy

Creates green jobs, reduces dependence on foreign energy, strengthens economy, and helps with high home heating costs

- \$13.4 B energy tax cuts
- \$3.5 B over President's budget in discretionary funding for energy
- Energy Reserve Fund for investing in clean energy and the environment



Falling Behind Global Competition: U.S. Lags China in Producing Engineers



Source: National Science Foundation

Budget Resolution Invests in Education

Generates economic growth and jobs, prepares workforce to compete in global economy, makes college more affordable, and improves student achievement

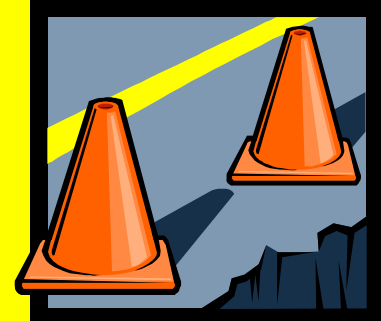
- **\$13 B education tax cuts**
- **\$5.7 B over President's budget in discretionary funding for Department of Education and Head Start**
- **\$2 B Education Reserve Fund for school construction and Higher Ed reauthorization (5 years)**





Budget Resolution Invests in Infrastructure

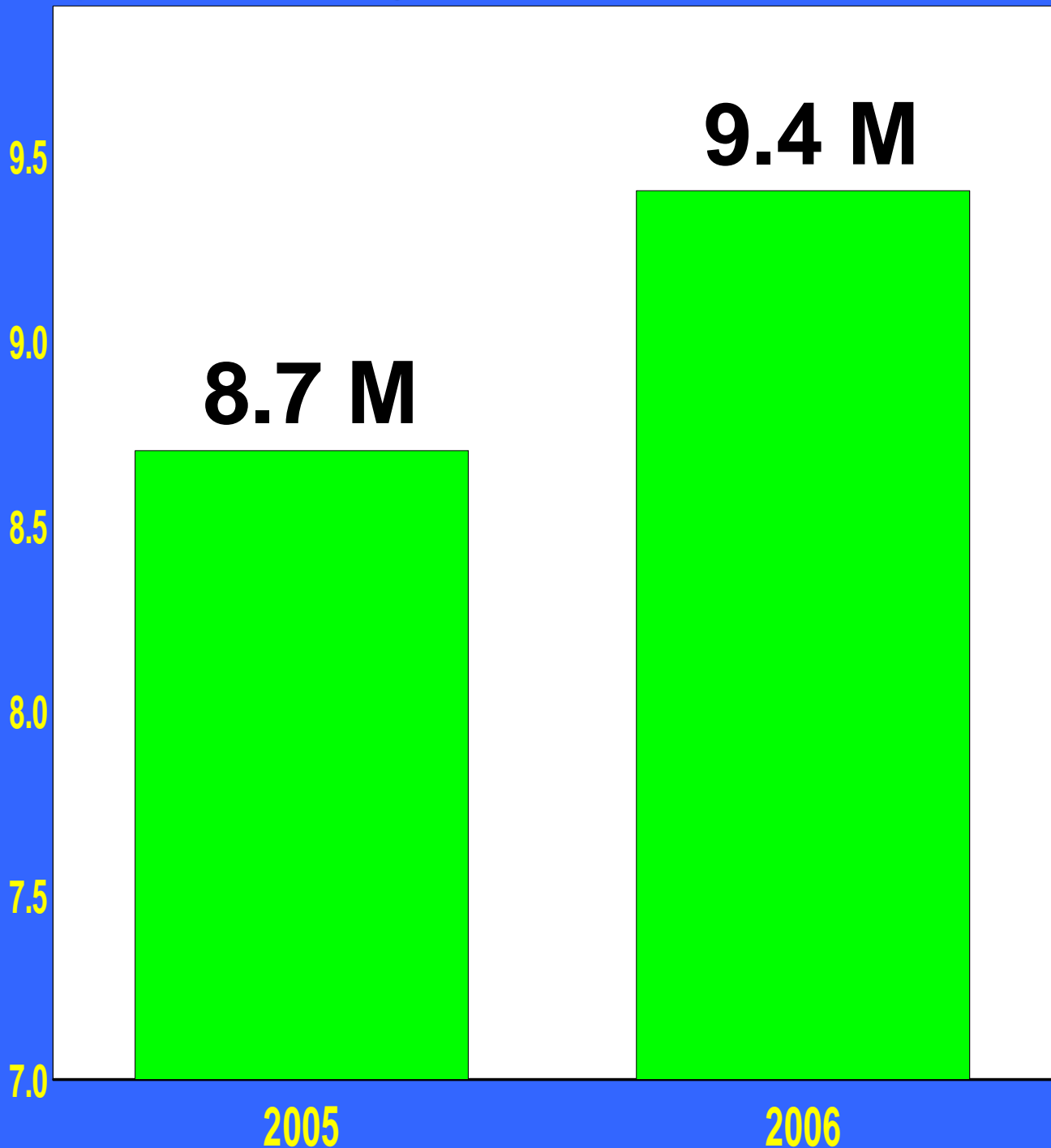
Repairs crumbling roads, bridges, transit, airports, and schools



- Reserve fund to allow for major infrastructure legislation
- Provides \$3.9 B more than President for key discretionary transportation accounts in 2009
- In addition, provides another \$6.5 B to:
 - Fully fund Highways
 - Fully fund Transit
 - Increase funding for Airport Improvement Program
 - Fund “ready-to-go” infrastructure projects
- Fixes the Highway Trust Fund shortfall

Number of Uninsured Children Increased by 700,000 in 2006

(Millions of individuals)



Source: CRS

Note: Estimate refer to individuals under age 19, which corresponds with cut off used for Medicaid poverty-related child eligibility and SCHIP.

Budget Resolution Invests in Health Care

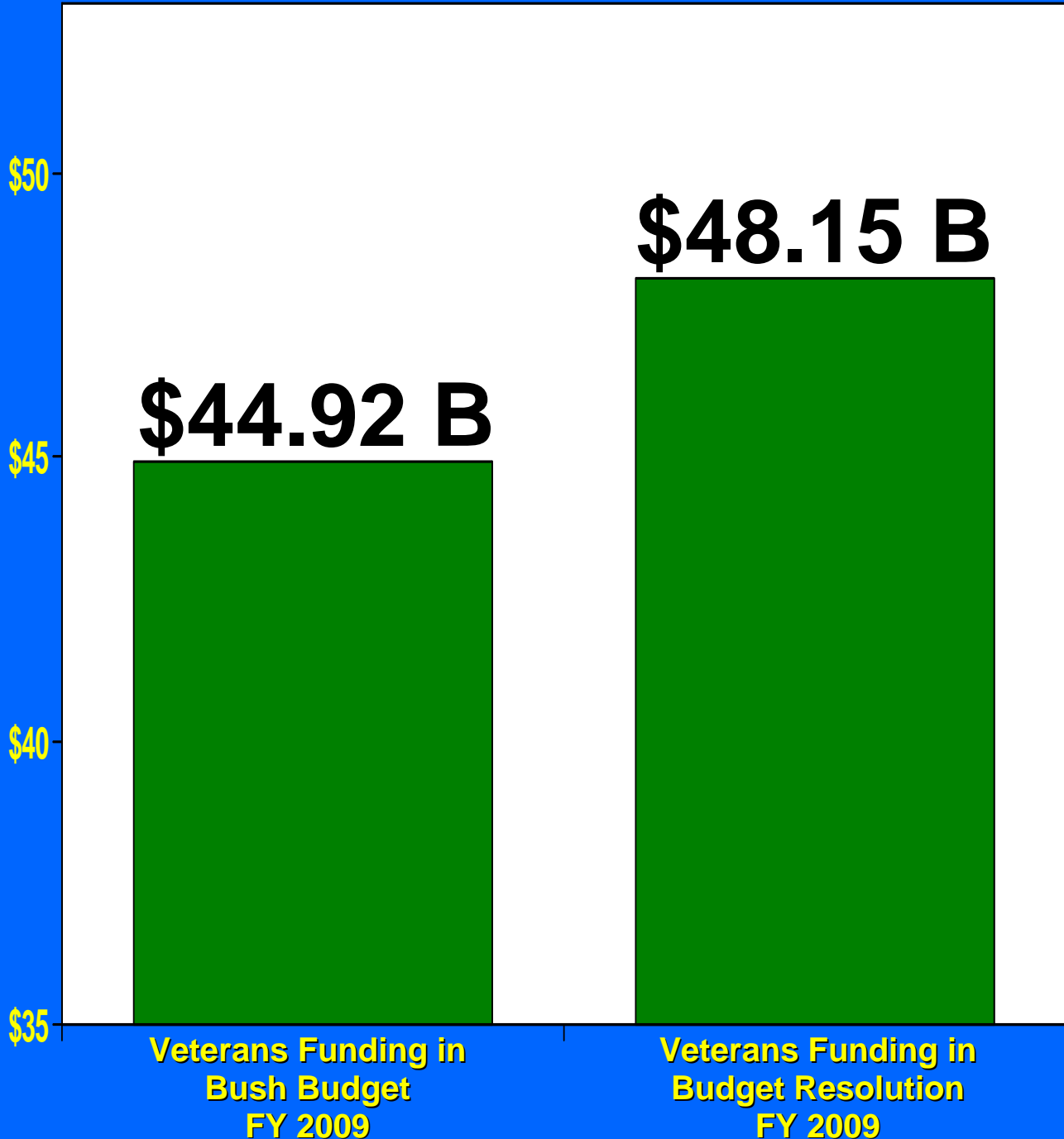
Improves health care, expands coverage, increases health research, and promotes food and drug safety.

- **Reserve Fund to cover \$35 B SCHIP compromise**
- **\$4.4 B over President's budget in discretionary funding for health**
- **Reserve Fund to address cut in Medicare physician payments and make other improvements to Medicare program**



Budget Resolution Provides \$3.2 Billion More Than Bush Budget for Veterans

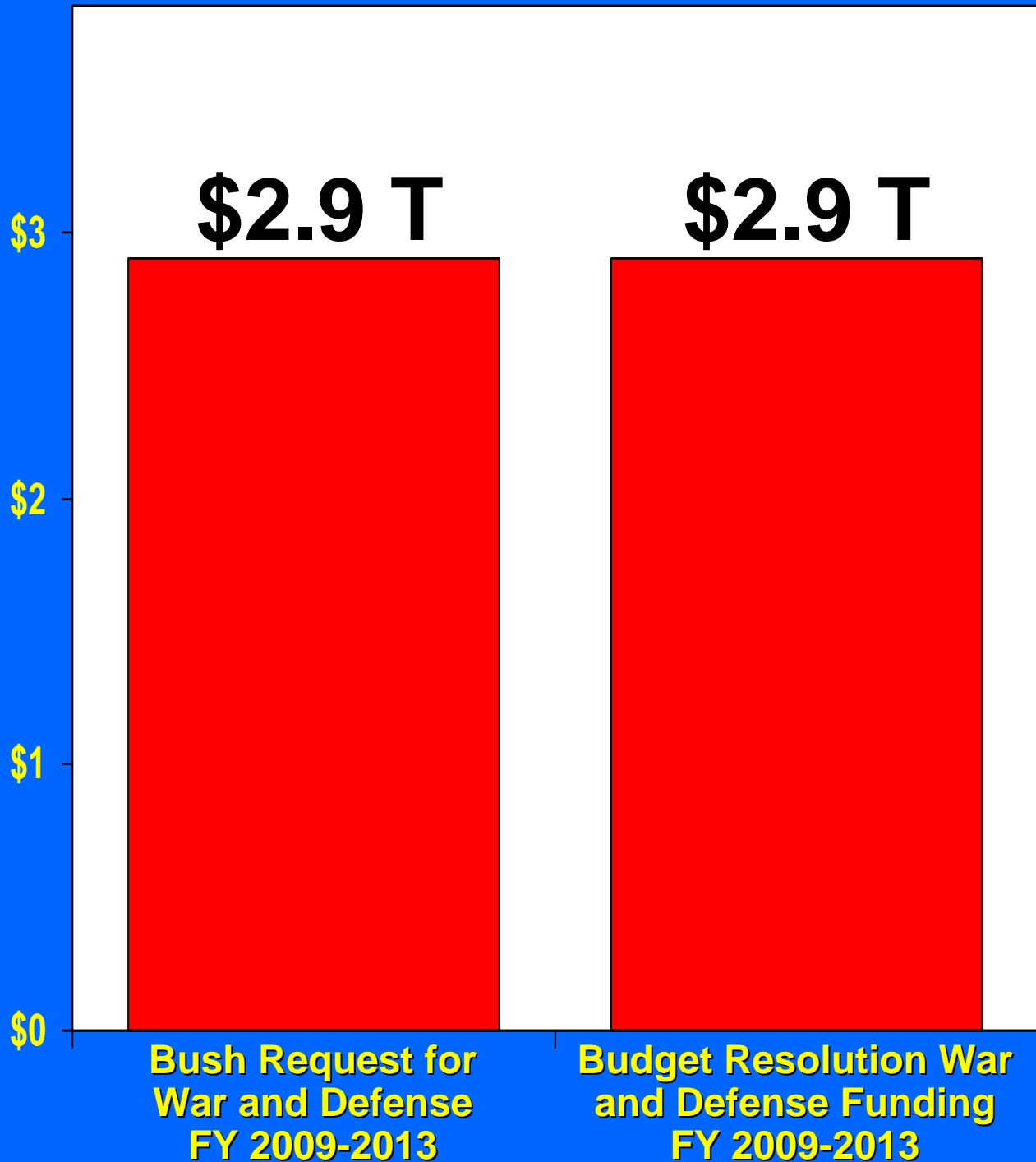
(Veterans funding in 2009, \$ in billions)



Source: CBO, SBC

Budget Resolution Fully Funds Bush War and Defense Requests Over Five Years

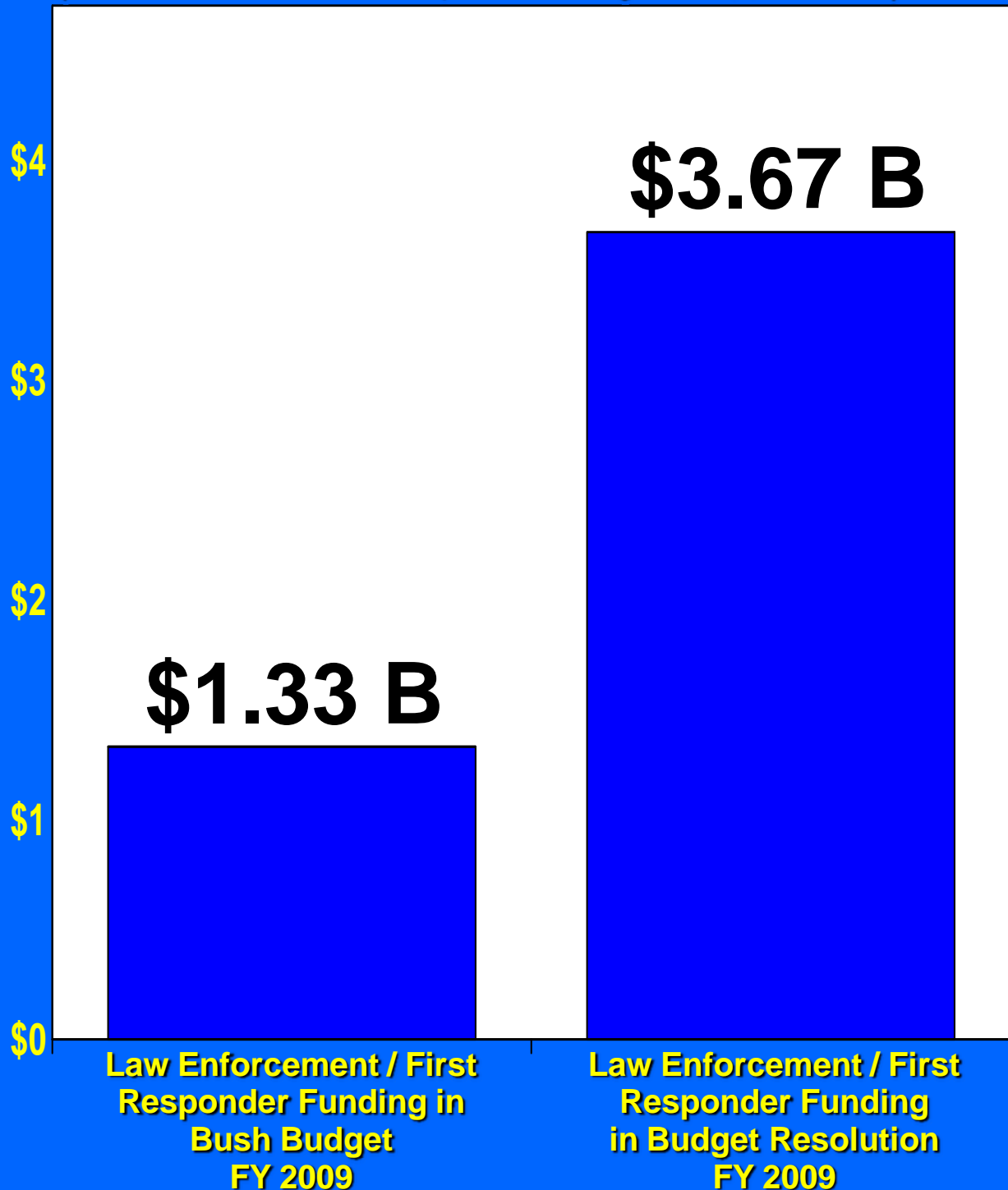
(\$ in trillions)



Source: CBO, SBC

Budget Resolution Provides \$2.3 Billion More Than Bush Budget for Law Enforcement and First Responders

(Law enforcement and first responder funding in 2009, \$ in billions)

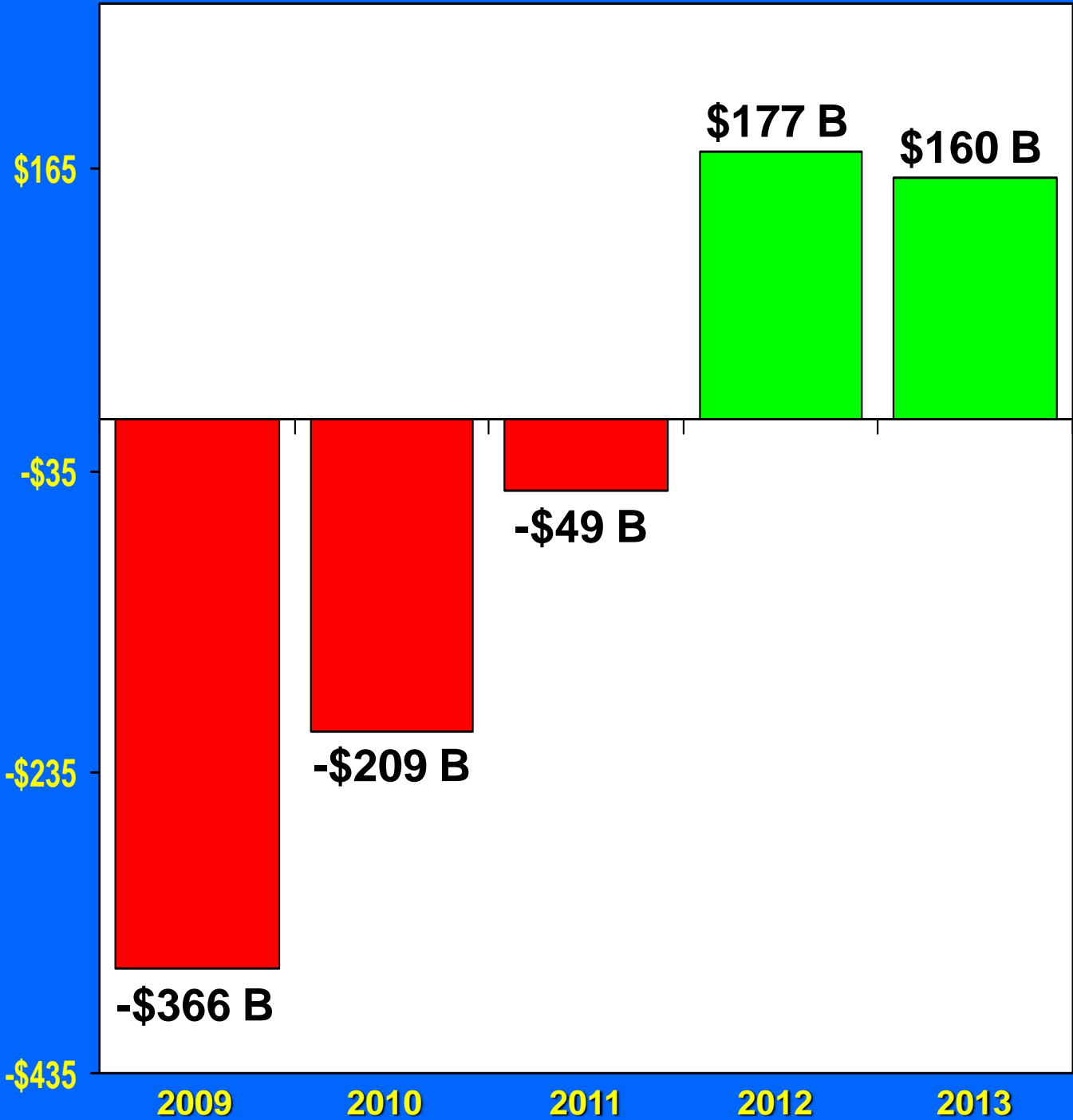


Source: CBO, SBC

Note: Law enforcement funding includes COPS program, Byrne Justice Assistance Grants, DHS Firefighter Grants, State Homeland Security Grants, and Urban Area Security Initiative Grants

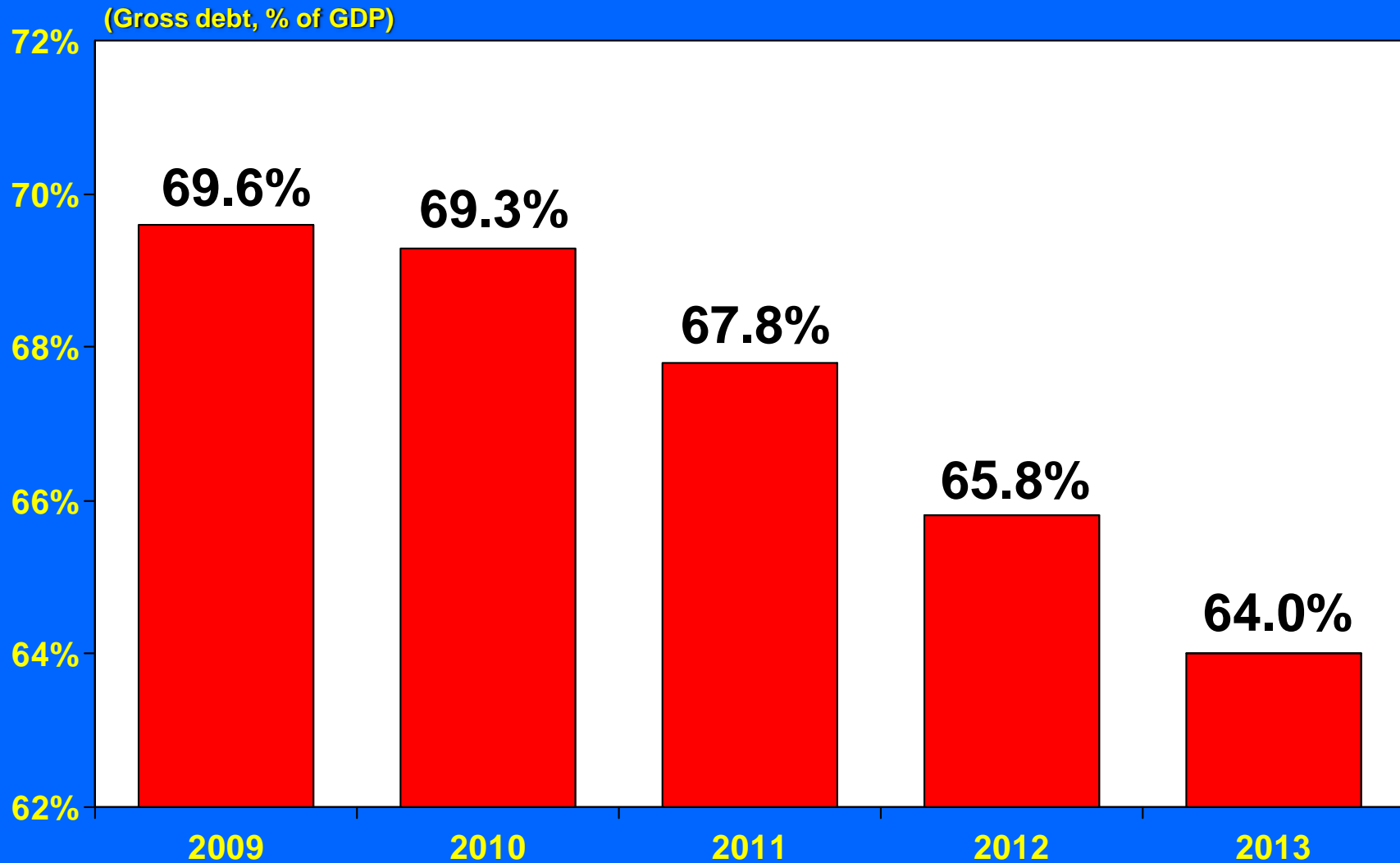
Deficit/Surplus Under Budget Resolution

(\$ in billions)



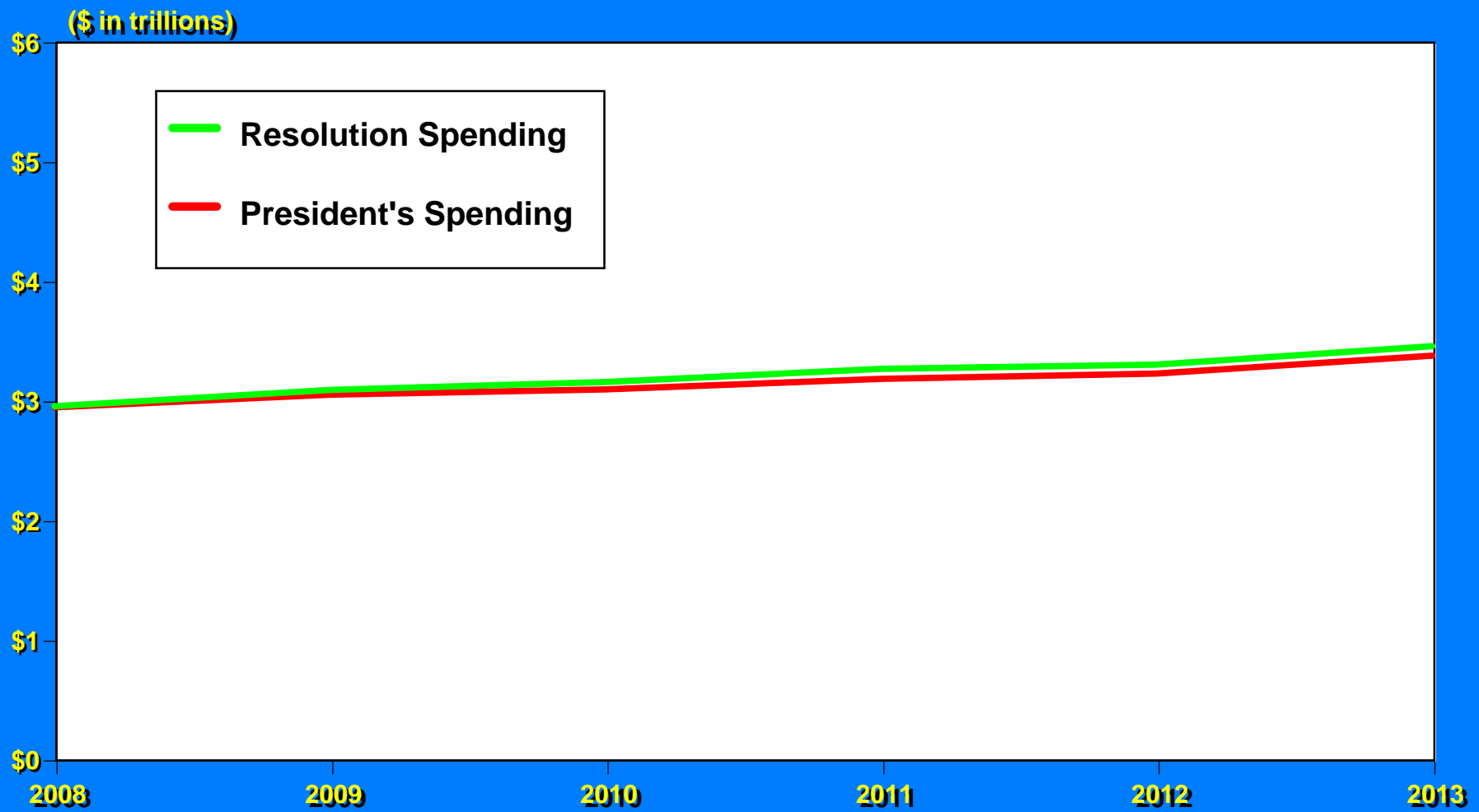
Source: SBC

Debt Under Budget Resolution



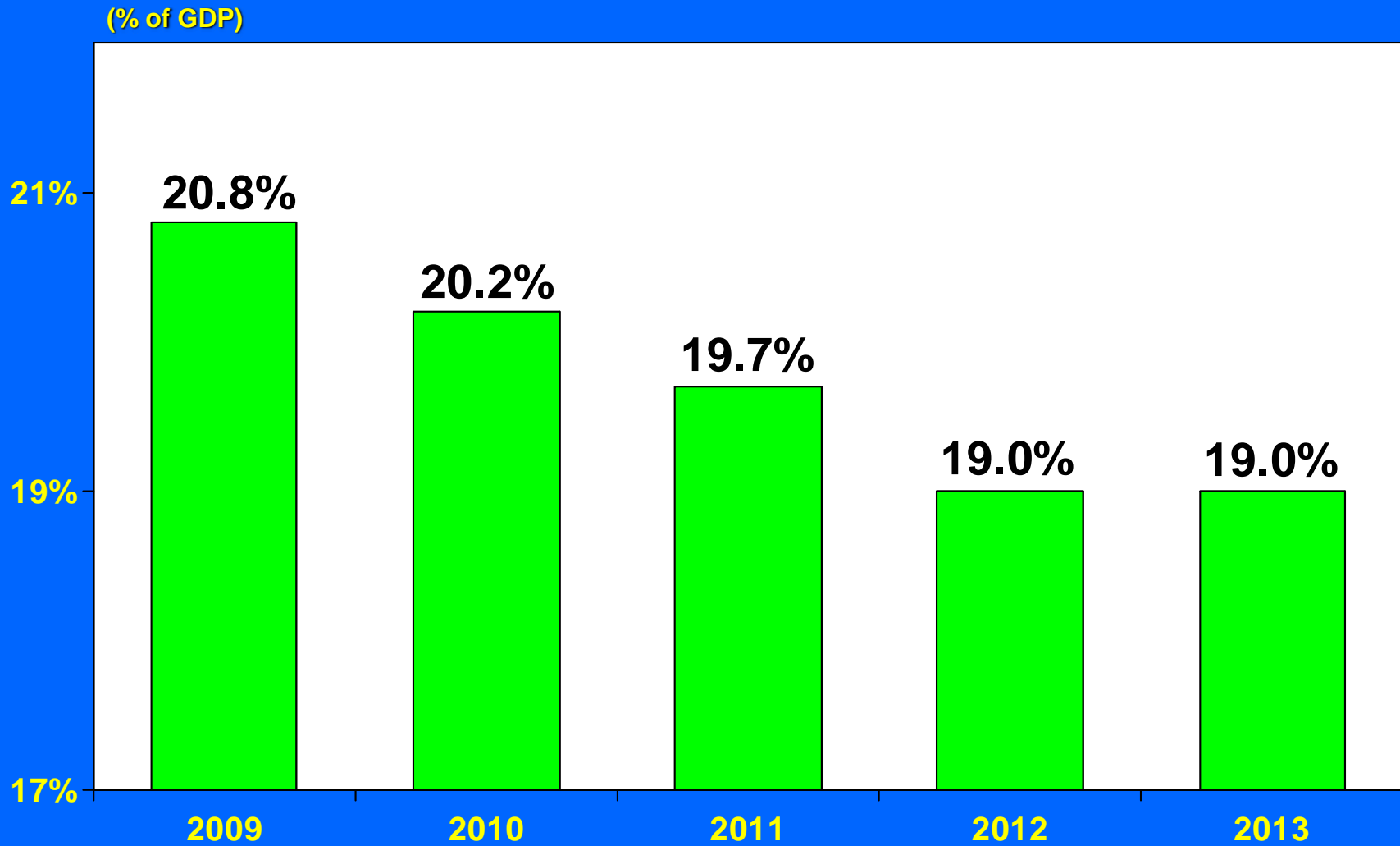
Source: SBC

Comparison of Spending Under Resolution and President's Budget



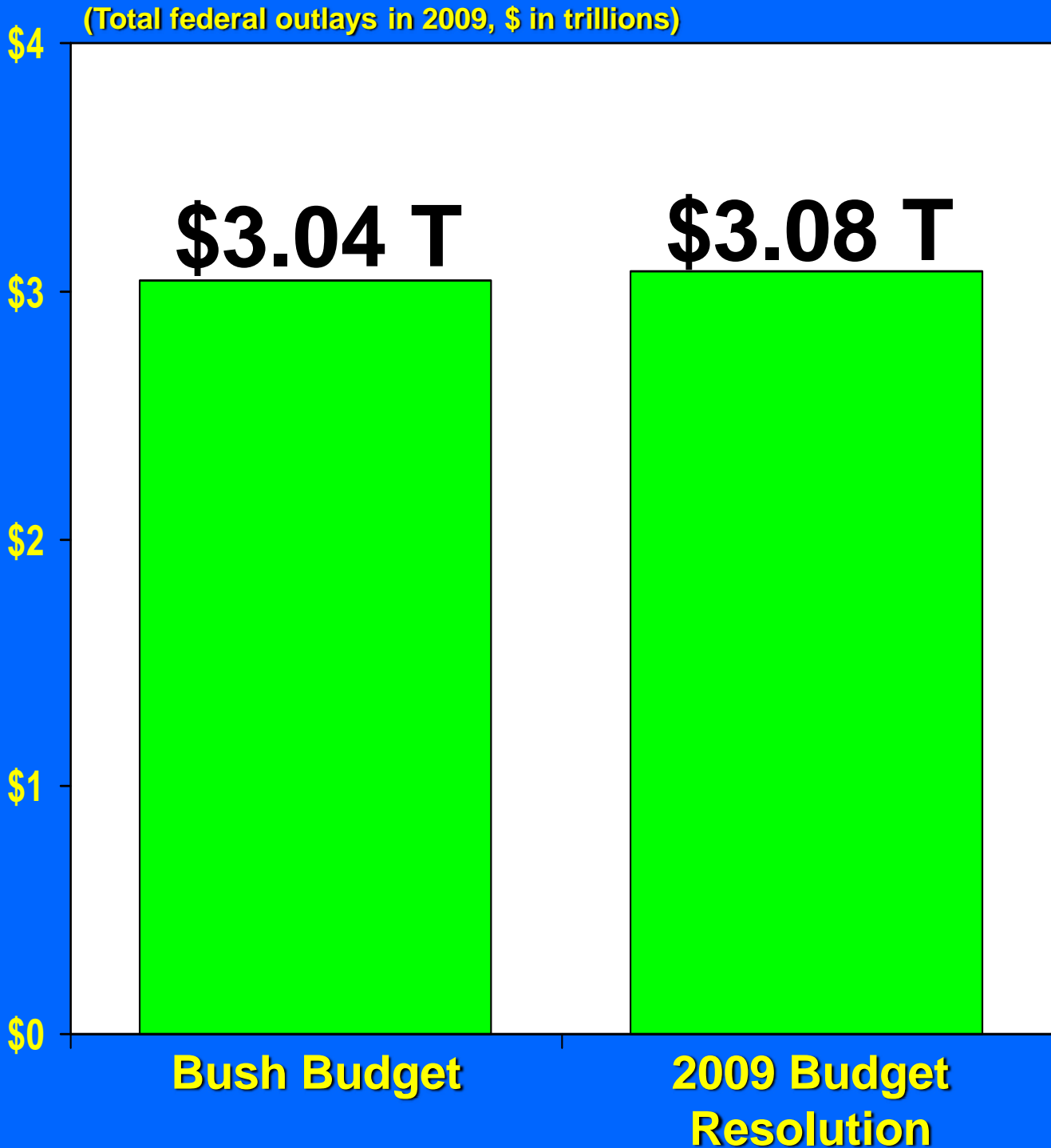
Source: SBC, CBO

Spending Under Budget Resolution



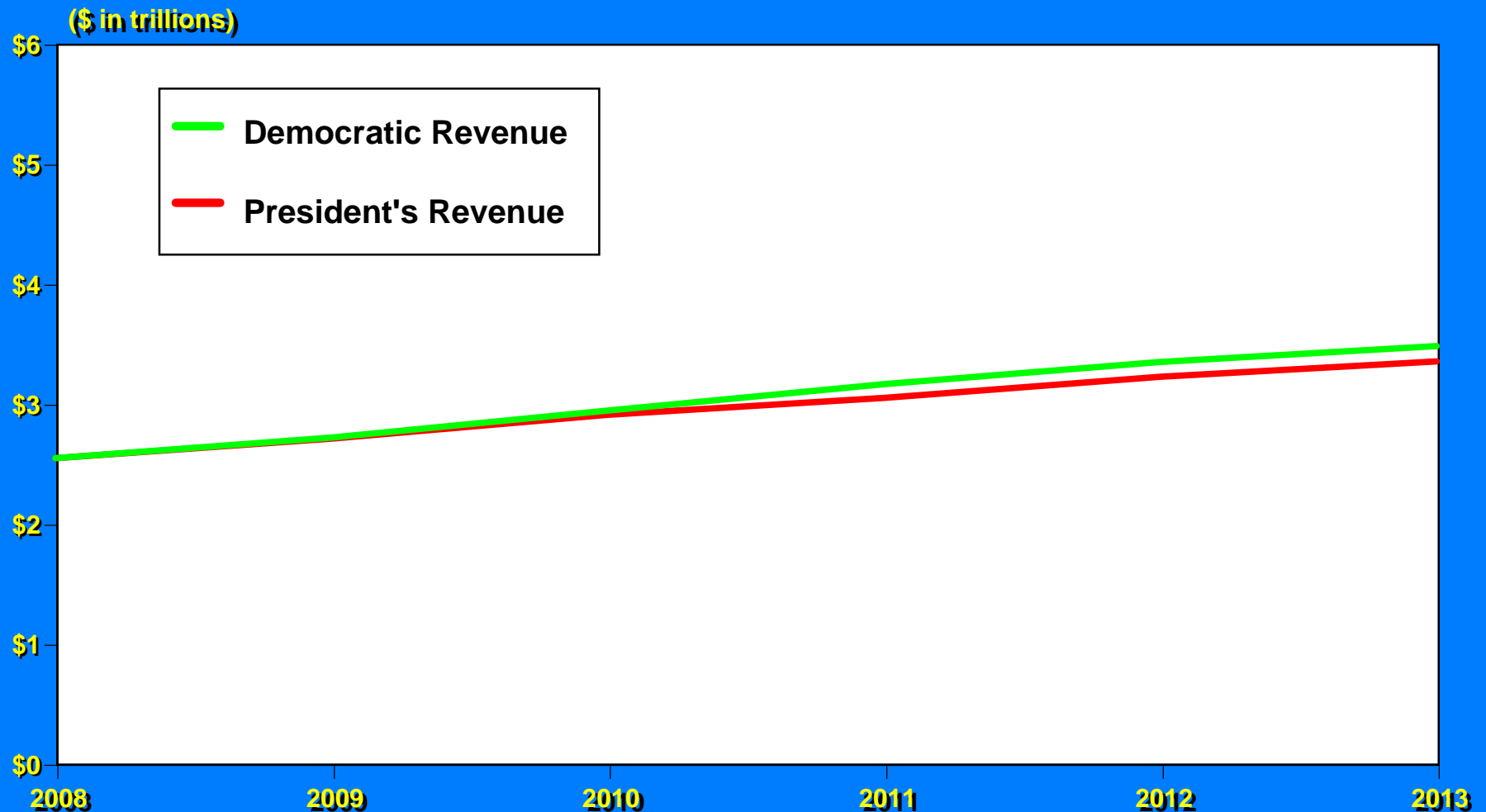
Source: SBC

Budget Resolution Includes Only 1% More Spending Than Bush Budget in 2009



Source: CBO, SBC

Comparison of Revenues



Source: SBC, CBO

Note: Democratic revenue adjusted to assume extension of middle-class tax cuts and reform of estate tax.

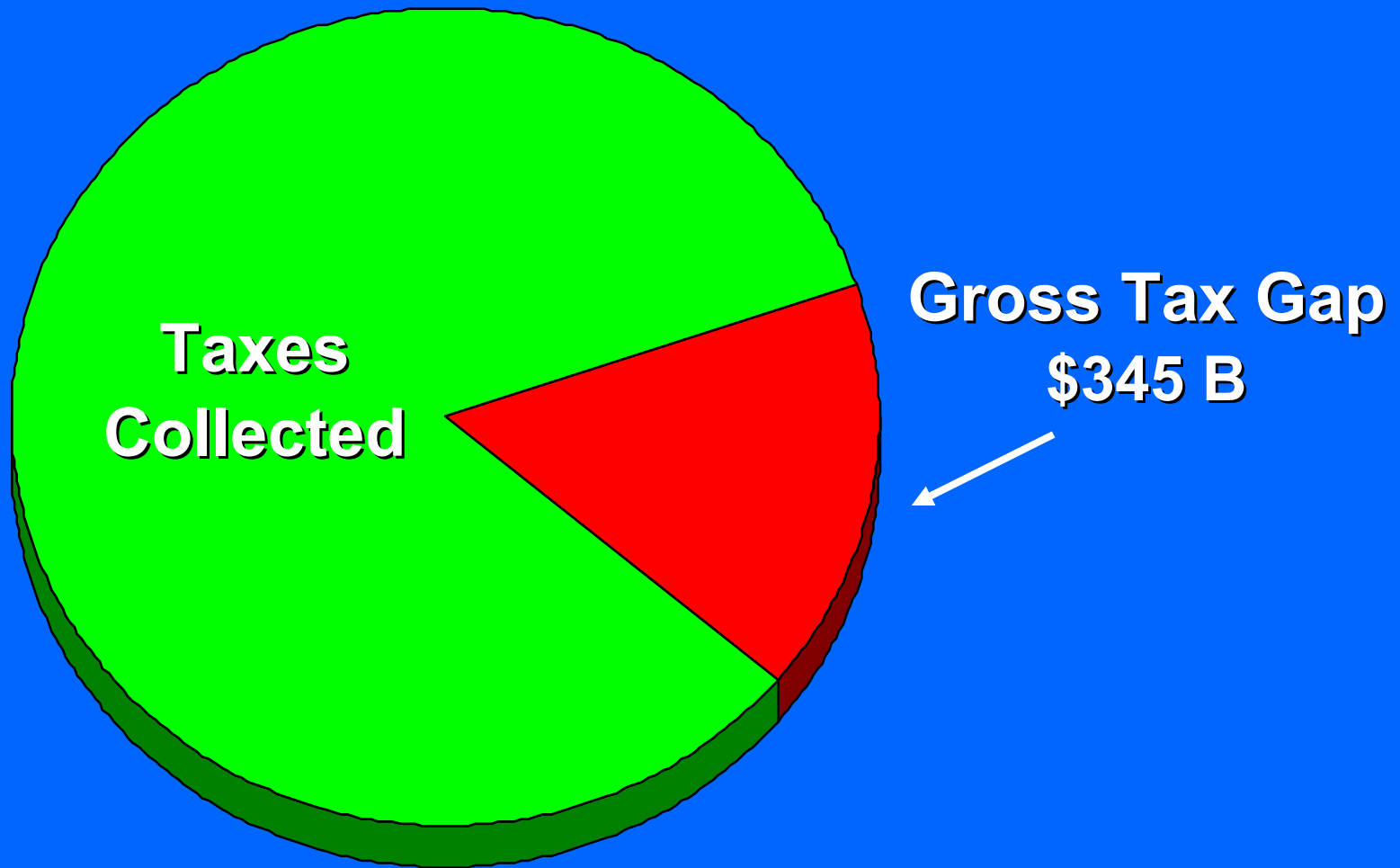
Democratic Revenues Above Bush Budget Revenues by Only 2.6 Percent



Source: CBO, SBC

Note: Democratic revenue adjusted to assume extension of middle-class tax cuts and reform of estate tax.

IRS Estimates \$345 Billion Annual Tax Gap



Source: IRS estimate of 2001 tax gap, February, 2006

Offshore Tax Haven Abuse Proliferating

“Experts have estimated that the total loss to the Treasury from offshore tax evasion alone approaches \$100 billion per year, including \$40 to \$70 billion from individuals and another \$30 billion from corporations engaging in offshore tax evasion. Abusive tax shelters add tens of billions of dollars more.”

**– Press Release
Senate Homeland Security and
Governmental Affairs Permanent
Subcommittee on Investigations
February 17, 2007**

Five-Story Cayman Islands Building That 12,748 Companies Call Home





PATRICK BRODERICK FOR THE BOSTON GLOBE

Top Iraq contractor skirts US taxes offshore

Shell companies in Cayman Islands allow KBR to avoid Medicare, Social Security deductions

By Farah Stockman

GLOBE STAFF

CAYMAN ISLANDS — Kellogg Brown & Root, the nation's top Iraq war contractor and until last year a subsidiary of Halliburton Corp., has avoided paying hundreds of millions of dollars in federal Medicare and Social Security taxes by hiring workers through shell companies based in this tropical tax haven.

More than 21,000 people working for KBR in Iraq — including about 10,500

Americans — are listed as employees of two companies that exist in a computer file on the fourth floor of a building on a palm-studded boulevard here in the Caribbean. Neither company has an office or phone number in the Cayman Islands.

The Defense Department has known since at least 2004 that KBR was avoiding taxes by declaring its American workers as employees of Cayman Islands shell companies, and officials said the move allowed KBR to perform the work more cheaply,

saving Defense dollars.

But the use of the loophole results in a significantly greater loss of revenue to the government as a whole, particularly to the Social Security and Medicare trust funds. And the creation of shell companies in places such as the Cayman Islands to avoid taxes has long been attacked by members of Congress.

A Globe survey found that the practice is unusual enough that only one other ma-

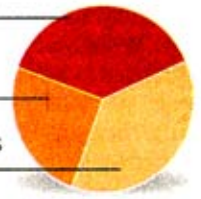
OFFSHORE, Page A20

According to US Central Command, there are 163,000 contractors working in Iraq. KBR says that it has 54,000 people working on its projects in Iraq. Of those:

Just over 21,000 are Cayman Island hires

13,288 are direct hires

The rest are subcontractors from other companies



SOURCE: KBR

GLOBE STAFF

The New York Times

WEDNESDAY, FEBRUARY 27, 2008

U.S. Among Countries Investigating Tax Evasion

By CARTER DOUGHERTY

FRANKFURT — Following the lead of Germany and Britain, at least eight other countries, including the United States, said Tuesday that they were investigating whether some of their citizens were using banks in Liechtenstein to evade taxes.

The countries involved in the investigations also threw their combined weight behind efforts to change banking secrecy rules in Liechtenstein, a principality nestled between Austria and Switzerland that has a thriving business in managing outsiders' money.

German prosecutors, aided by stolen bank records, began their crackdown nearly two weeks ago, when the police searched the home of a prominent German executive.

Since then, 91 of the 150 people being investigated so far have confessed to evading taxes, the prosecutors said, and 72 people have turned themselves in without a visit from the authorities.

Targets in the inquiry have already paid 27.8 million euros, or \$41.5 million, to begin settling their cases, and German prosecutors made clear Tuesday that they expected to collect much more before their investigation is over.

"At the moment, this sum is rising daily," one prosecutor, Hans-Ulrich Krück, said in a brief statement in Bochum, Germany. "We have already been notified of more voluntary payments."

The investigation goes back to 2006, when German intelligence services paid nearly 5 million euros for confidential banking data to an informant, apparently a former employee of the LGT Group, a Liechtenstein bank.

Later, the British authorities paid money to the same person for data on British subjects who had sheltered money in Liechtenstein, and they are investigating about 100 people in Britain, according to an official close to the inquiry who spoke on the condition of anonymity because the case was continuing.

Australia, Canada, France, Italy, the Netherlands, New Zealand and Sweden are also looking into tax evasion by their citizens in Liechtenstein, according to statements from Britain and other countries.

The Internal Revenue Service said Tuesday that it was beginning enforcement action against "more than 100 U.S. taxpayers" on suspicion of evading taxes through investments in Liechtenstein. The I.R.S. was approached last year by an informant with data from the LGT Group, said Barry Shott, deputy commissioner for international affairs in the agency's large and medium-size business division.

"We get information from a lot of people in a lot of different ways

Sarah Plass contributed reporting.



VOLKER HARTMANN/AGENCE FRANCE-PRESSE — GETTY IMAGES

Hans-Ulrich Krück, a prosecutor, spoke to the news media on Tuesday in Bochum, Germany. He said a growing number of taxpayers were making voluntary payments to settle their cases.

all the time," said Mr. Shott, who did not identify the informant. "We came into possession of the information and it seemed to be interesting."

He stressed that the United States did not pay for the information upfront. But he noted that under federal law, a person who gives the I.R.S. useful information can file a claim to receive a percentage of the money that is collected based on the data.

Audits in the United States have gotten under way, and the

The I.R.S., like the German authorities, is looking at investments in Liechtenstein.

I.R.S. is already experiencing "a range of cooperation" with the taxpayers involved, Mr. Shott said. He stressed that the I.R.S. would look favorably on people who report themselves, but that the agency would go to them if necessary.

"We know who they are," he said.

Other countries have long sought to pressure Liechtenstein to adopt rules of the Organization for Economic Cooperation and Development aimed at curbing tax evasion. The organization, based in Paris, has called Liechtenstein, Monaco and Andorra "uncooperative tax havens."

Dave Hartnett, acting chairman of Revenue and Customs, the British tax agency, said in a statement, "In the light of recent developments involving Liechtenstein bank accounts, there

needs to be a significant move toward full implementation of O.E.C.D. standards on transparency and effective exchange of information in tax matters."

Peer Steinbrück, the German finance minister, said last weekend that Germany would also push for change in other countries, including Switzerland, Luxembourg and Austria.

Those countries have agreed to limited efforts directed by the European Union to provide account information or tax revenue, and Germany is pressing for further action. Germany plans to raise the issue at a meeting of finance ministers from the 27-nation European Union next week, and with Prince Albert II of Monaco, who is visiting Berlin this week.

"Liechtenstein is the tip of the iceberg," said Grace Perez-Navarro, deputy director of the Center for Tax Policy and Administration at the O.E.C.D. "They are interested in seeing change in other places, too."

Fears that Germany and other countries might mount a sustained effort to curb investments in Switzerland have prompted sharp reactions in that country, a well-known destination for money from around the world.

Michel Y. Dérobert, head of the Swiss Private Bankers Association, said that disclosures that Germany's spy agency was involved in obtaining data on its citizens from abroad sat uneasily with his members.

"I think this type of episode will discourage German-speaking banks from hiring Germans," Mr. Dérobert told the newspaper *Le Matin* in Switzerland. "That would be logical, although until now we have had good relations with Germany."

The Munich newspaper *Süddeutsche Zeitung* reported Tuesday that German prosecutors

had trained their sights on Vontobel Treuhand, the Liechtenstein subsidiary of the prominent Swiss bank Vontobel.

The prosecutors in Bochum confirmed Tuesday that they believed "a second foreign bank" — in addition to LGT — had helped Germans evade taxes, but did not identify it.

Vontobel said Tuesday that no client data from its Liechtenstein affiliate had been "obtained unlawfully or used for improper purposes."

LGT, which is owned by the royal family of Liechtenstein, said Sunday that the data obtained by the German authorities covered 1,400 clients, 600 of whom are German citizens.

The information is thought to have been taken by a former employee, Heinrich Kieber, who offered it to at least two European countries, Germany and Britain.

The data was from LGT Treuhand, a subsidiary of the bank that specializes in setting up foundations, where money can be sheltered and then invested without reporting capital gains to governments outside Liechtenstein. German prosecutors said Tuesday their investigation involved more than 200 million euros that had been put in such foundations.

After Germany and Britain obtained their data, authorities began sharing it, according to another official close to the investigation, since a network of tax treaties foresees just such a step. Torsten Albig, a spokesman for the German Finance Ministry, said Monday that Germany would share the information, and the Dutch finance minister, Wouter Bos, said he had already requested it from the Germans.

Éric Woerth, the French budget minister, said France was scouring a list of hundreds of names.

Bush Blocks Efforts to Close Tax Loopholes

Loophole closers in bills Bush threatened to veto:

- **Codifying economic substance – prohibiting transactions with no economic rationale, done solely to evade taxes**
- **Shutting down schemes to lease foreign subway and sewer systems and depreciate assets (SILOs)**
- **Ending deferral of offshore compensation by hedge fund managers trying to evade current taxation**
- **Expanding broker information reporting**
- **Taxing people who use expatriation to evade taxes**

Budget Enforcement in Budget Resolution

- Discretionary caps for 2008 and 2009
- Maintains strong paygo rule
- Point of order against long-term deficit increases
- Allows reconciliation for deficit reduction only
- Point of order against mandatory spending on an appropriations bill

Budget Resolution Provisions Addressing Long-Term Fiscal Challenges

- **Comparative Effectiveness reserve fund and cap adjustment**
- **Program integrity initiatives to crack down on waste, fraud, and abuse**
- **Long-term deficit increase point of order**