



UNITED STATES SENATOR • ILLINOIS

BARACK OBAMA

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Statement of Senator Barack Obama on Closing Contractor Tax Loophole

WASHINGTON, DC – U.S. Senator Barack Obama today released the following statement on the Senate Democratic Policy Committee hearing entitled *Contracting Abuses in Iraq: Is the Bush Administration Safeguarding American Taxpayer Dollars?*

In March, Obama and Senator John Kerry introduced the Fair Share Act of 2008 (S.2775), which would increase accountability and transparency of our tax system by closing a tax loophole to prevent Federal contractors from using foreign affiliates or tax shelters to avoid paying payroll taxes.

The text of the statement is below:

“I thank Senator Dorgan and the Senate Democratic Policy Committee for holding this important hearing on contracting abuses in Iraq. Inadequate oversight of federal contractors is yet another example of failed leadership in a war that should have never been authorized and never been waged.

“Whether it is the unaccountable actions of private security contractors accused of killing Iraqi civilians, the government’s overreliance on no-bid contracts, the alleged sexual assaults on the employees of major contractors, or contractor tax practices that exploit tax loopholes at the expense of ordinary taxpayers, the problems of military contracting – and all government contracting – must be addressed.

“More than a year ago, I introduced legislation to increase accountability of security contractors under MEJA. I also helped pass legislation to prevent the abuses of no-bid contracting and to prevent contractors with seriously delinquent tax debt from receiving government contracts.

“Today I would like particularly to draw your attention to the Fair Share Act of 2008, which I recently introduced with Senator John Kerry. This legislation would close a tax loophole that has been exploited by Kellogg Brown & Root (KBR), a former subsidiary of Halliburton Corp. This loophole allowed KBR and potentially other government

contractors to set up shell companies in the Cayman Islands in order to avoid paying payroll taxes for their American employees.

“By hiring their American workers through offshore shell companies – even when the workers have no idea they are not working directly for an American firm – the contractors avoid payroll taxes and deprive their employees of these tax contributions for important benefits such as Social Security and Medicare. It is the responsibility of American companies to pay their taxes and ensure that their employees’ work is counted for future federal benefits. It is unacceptable for contractors to use foreign shell companies to avoid this responsibility.

“The Fair Share Act amends the Internal Revenue Code and the Social Security Act to treat foreign subsidiaries of U.S. companies performing services under contract with the U.S. government as American employers for the purposes of Social Security and Medicare payroll taxes. A similar bill was recently passed in the House of Representatives and was estimated by the Joint Committee on Taxation to capture \$846 million of lost federal revenues over 10 years.

“The American people are spending \$12 billion each month on the war in Iraq and billions more elsewhere around the globe. They have a right to expect that our contractors are accountable and responsible under federal law, that their roles and responsibilities are clear, that they meet the highest standards for conduct and performance, and that they do not jeopardize the safety of our service members or the objectives of our mission.

“I commend Senator Dorgan for his tireless efforts to bring attention to contractor abuses and the abuse of tax havens like the Cayman Islands. With his leadership as well as the important work to end tax haven and tax shelter abuses by Senator Levin on the Permanent Subcommittee on Investigations, we can begin to restore accountability to federal contracting and fairness to our tax system.”

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