

**Memorandum**

July 23, 2001

TO: House Majority Leader
Attention: Elizabeth Tobias

FROM: David L. Brumbaugh
Specialist in Public Finance
Government and Finance Division

SUBJECT: Reported Estimate of U.S. Tax Revenue Lost through Use of Tax Havens

This memorandum responds to your request for information on a reported estimate of the U.S. tax revenue lost because of the use of tax havens. The estimate was made by attorney Jack Blum, and you asked for information on the method used to construct the estimate. Mr. Blum's estimate was contained in a declaration filed in connection with a petition the Internal Revenue Service filed with U.S. District Court for the Southern District of Florida.¹

In response to your request, we contacted Mr. Blum and discussed his estimate; he was not able to send us a written discussion of his estimating procedure. In general, Mr. Blum indicated that the estimate was an uncertain one. However, he did provide certain information on his methodology. The starting point for the revenue-loss figure was an estimate of the volume of bank deposits in tax havens -- an amount estimated at \$3 to \$4 trillion. Because the deposit figure was for deposits from all countries, the U.S. revenue loss figure also used an estimate of the share of the tax haven deposits belonging to U.S. investors -- in this case the proportion was estimated to be between 60% and 70%.

Necessarily, the final estimate would also have required an assumption or estimate of the rate at which U.S. deposits in tax havens would generate taxable income if they were actually subject to U.S. tax, the statutory tax rate that would apply to the income, and the extent to which foreign tax credits were assumed to offset U.S. tax. We did not discuss these particular aspects of the estimating process in our initial conversation with Mr. Blum, and our attempts to contact Mr. Blum on a follow-up basis have not been successful. If you need further assistance, do not hesitate to call, at (202) 707-7792.

¹ For information on the case and mention of Mr. Blum's declaration, see: John Hembera, "IRS Targets AmEx, MasterCard in Offshore Fishing Expedition," *Tax Notes*, Oct. 30, 2000, p. 599-600. A copy is attached.