

## INTRODUCTION

On February 15, 2002, Chairman Max Baucus (D-MT) and Ranking Member Charles Grassley (R-IA) announced that the Senate Finance Committee would conduct an investigation into the tax returns of Enron Corp. with the assistance of the Joint Committee on Taxation. (Appendix A). The purpose of the investigation was to review the activities and transactions related to Enron's tax returns and pension and executive compensation programs in order to inform the Finance Committee, the United States Senate, and the American public of the tax policy and administration issues arising out of Enron's circumstances.

The Finance Committee and Joint Committee on Taxation (the Committees) entered into negotiations with Enron and Enron's counsel, Skadden, Arps, Slate, Meagher & Flom LLP, regarding the disclosure of information from the Internal Revenue Service relating to Enron Corp. and related entities. The Disclosure Agreement was signed on March 6 and 7, 2002. (Appendix B). Pursuant to the Disclosure Agreement, Enron agreed to provide copies of all Federal income tax returns and related information to the Committees<sup>1</sup> and consented to the disclosure of such materials through official actions of either committee, including reports, meetings, or hearings of either committee. On April 5, 2002, Enron delivered to the Committees the consolidated tax returns for Enron Corp. and its affiliates for the tax years 1985 through 1995. Additionally, the agreement provided that the IRS could make available the tax returns and return information for Enron Corp. and its affiliates for the tax years 1996 through the present. The IRS has made this information available to the Committees.

On March 25 and 26, 2002, staff of the Committees were briefed by IRS personnel involved with the Enron tax return and pension plan audits in Houston, Texas. During these presentations, members from the IRS Enron audit team described several international projects, including one involving a Guatemalan power plant. The Senate Finance Committee staff report examines this specific Enron project – the Guatemalan power plant project (the Guatemala Project). As directed by the Senate Finance Committee, the Joint Committee on Taxation conducted a broader investigation into Enron's pension and executive compensation arrangements and its structured transactions.

The Finance Committee staff reviewed the Guatemalan power project specifically because of the serious allegations raised by the IRS audit team. The allegations resulted in referrals of possible violations of the Foreign Corrupt Practices Act to the Securities and Exchange Commission and the Department of Justice. Thus, the Guatemala Project provided an opportunity to review the coordination between the IRS and the Federal agencies charged with enforcement of the laws governing corporate misfeasors and corruption. Moreover, documents provided to the IRS by a confidential informant provided a strong indication that improper expenses were claimed on Enron's tax returns, and that company officials had knowledge that such items were inappropriate, but were nevertheless used to reduce Enron's U.S. income taxes.

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<sup>1</sup> The Senate Finance Committee requested numerous documents from Enron Corp. Documents provided pursuant to these requests were Bates-stamped with the prefix "EC." Citations to Enron provided documents include the Bates-stamp reference. Additionally, certain footnote sources are reproduced as Exhibits and the Exhibit number is indicated in the footnote.