

HENRY SEZ: ERIK PRINCE, YOU OWE THE FEDS \$48 MILLION

Congressman Waxman gets pretty aggressive in his latest letter to Erik Prince, CEO of Blackwater. He basically accuses Blackwater of evading taxes by treating its employees as independent contractors, rather than employees.

I have received documents which suggest that Blackwater may have engaged in significant tax evasion. According to an IRS ruling in March 2007, Blackwater violated federal tax laws by treating an armed guard as an "independent contractor." The implication of this ruling is that Blackwater may have avoided paying millions of dollars in Social Security, Medicare, unemployment, and related taxes for which it is legally responsible.

What I like best, though, is that Henry had Oversight calculate how much Blackwater likely owes in back taxes, just on its State Department contract.

Blackwater was awarded its current State Department contract in May 2006. Under the contract, Blackwater has maintained a force of between 459 and 582 security guards in Iraq who were paid between \$660 and \$738 per day and typically worked 180 days a year." My staff estimates that between May 2006, when the contract began, and March 2007, when Blackwater received the IRS ruling, Blackwater would have avoided withholding and paying approximately the following amounts if it treated these security guards as independent contractors instead of as employees: \$15.5 million in Social Security and

Medicare taxes," \$15.8 million in federal income tax withholding, and \$500,000 in unemployment taxes.

One unanswered question is whether Blackwater has continued to avoid withholding and paying Social Security, Medicare, and unemployment taxes and federal income tax withholding for its employees since Blackwater received the IRS ruling in March 2007. One former Blackwater security guard has informed my staff that Blackwater did not withhold and pay these taxes at least through May 2007. If Blackwater has continued this illegal practice, my staff estimates that Blackwater would have evaded an additional \$18 million in taxes from April 2007 through September 2007 under the State Department contract alone.

Waxman goes on to insinuate that Blackwater attempted to keep this information from "politicians and public officials" like Waxman—using a non-disclosure agreement to hide illegal behavior.