AMERICAN BANKERS ASSOCIATION®

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December 26, 2002

The Honorable Kenneth W. Dam
Deputy Secretary
Department of the Treasury
1500 Pennsylvania Avenue, N.W.
Washington, D.C. 20220

Dear Deputy Secretary Dam:

On behalf of the American Bankers Association (ABA), I am writing to reiterate our position concerning a proposed tax rule requiring U.S. financial institutions to report bank deposit interest paid to nonresident aliens who reside in 15 specified countries (REG-133254-02).[1] We greatly appreciate your taking the time to consider the views of the ABA on this important tax issue. The ABA brings together all categories of banking institutions to best represent the interests of a rapidly changing industry. Its membership, which includes community, regional, and money center banks and holding companies as well as savings associations, trust companies and savings banks – makes ABA the largest banking trade association in the country.

As you may be aware, the ABA strongly opposed proposed regulations issued early last year that required similar reporting to all nonresident alien bank customers. Those regulations were subsequently withdrawn and re-proposed on August 2, 2002 - reducing the number of countries for which nonresident alien reporting would be required. On November 14, 2002, ABA submitted comments outlining specific reporting burdens the re-proposed regulations would impose on banking institutions, and referenced our policy concerns that were detailed in several previous submissions to the Treasury Department and the IRS. These policy concerns are still valid despite the fact that these re-proposed regulations have been scaled-back.

The ABA is concerned about the adverse consequences resulting from these reporting requirements. The required reporting of foreign deposit interest

[1] The proposed regulations require reporting of deposit interest aggregating $10 or more on deposits from U.S. bank accounts to nonresident individuals residing in Australia, Denmark, Finland, France, Germany, Greece, Ireland, Italy, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, and the United Kingdom. Currently, such reporting is only required for individuals who are residents of Canada.

deviates from longstanding policies designed to encourage foreign investment in the U.S., thereby placing U.S. banks at a competitive disadvantage in the international marketplace. It is our position that the imposition of these rules will drive low cost bank deposit funding to foreign banks with no corresponding voluntary compliance in the depositor's country of residence. In addition, we cannot ascertain any compliance objective or revenue collection motive that justifies imposition of these burdensome rules on an industry already saddled with heavy regulatory burdens. The administrative burdens are significant and may require banking institutions to perform costly and labor-intensive functions, some of which must be manually performed. Finally, we are concerned about language in the proposal that allows the Treasury Department and the IRS, at their discretion, to expand the list of countries for which reporting would be required. Given the likely impact reporting would have on banking institutions and international trade and tax policy, coordination with the Congress and the federal banking agencies is essential.

For the above-referenced reasons, ABA urges the Treasury Department to withdraw the proposed tax rules requiring deposit interest reporting to nonresident aliens. We are available to provide you with any additional information and look forward to working with you on this important tax matter.

Sincerely,

cc: Peter R. Fisher, Under Secretary for Domestic Finance
Department of Treasury

Pamela F. Olsen, Deputy Assistant Secretary for Tax Policy
Department of Treasury

Josh Bolton, Assistant to the President and Deputy Chief of Staff for Policy
The White House

Alan Greenspan, Chairman
Federal Reserve System

Donald E. Powell, Chairman
Federal Deposit Insurance Corporation