

Congress of the United States

Washington, DC 20515

February 27, 2001

The Honorable Paul O'Neill
Secretary of the Treasury
Department of the Treasury
1500 Pennsylvania Ave., N.W.
Washington, D.C. 20220

Dear Mr. Secretary:

As you know, the Department of the Treasury, on January 17, 2001, proposed a regulation requiring all banks located in the United States to report periodically to the Internal Revenue Service the amount of interest paid to nonresident alien individual depositors. We are writing to express our deep concerns about that proposal. Because the interest payments in question are not subject to U.S. tax, this additional reporting requirement for banks will not further any U.S. financial interest in collecting revenues from foreign depositors. Nor, in our view, is the requirement an appropriate means to accomplish any other public policy purpose intended to be served by the proposal. On the other hand, the regulation, for the reasons discussed below, will impose significant costs on the nation as a whole. Accordingly, we strongly urge you to withdraw the proposal, at least until significant additional analysis of the costs and benefits associated with the proposal can be provided.

The proposal is in conflict with a longstanding objective of the Department and the Congress: to encourage nonresident aliens to deposit their money in U.S. banks, so that those funds can in turn be used to foster growth and development in this country. We are concerned that adoption of the proposal will place U.S. banks at a competitive disadvantage relative to the banks of our trading partners and will result in significant withdrawals of foreign deposits from U.S. banks, thereby reducing the amount of credit available to local communities and others who traditionally seek bank loans as their chief source of credit.

These anticipated withdrawals can best be explained by reference to the principal purpose of the proposed regulation. As indicated, the proposal is not designed to assist the Internal Revenue Service in the taxation of nonresident alien individuals, because such individuals are exempt from taxation of their U.S. interest income. Rather, it is principally intended to allow the IRS to make available to U.S. trading partners, upon their request, the information that the regulation would require to be reported. Although most foreign tax authorities can be expected to use such information responsibly in the enforcement of their own tax laws, there are legitimate concerns that in the hands of some authorities the confidentiality of the information may be compromised, and that depositors may therefore be exposed to invasions of their privacy and risks to their personal security. These concerns, in fact, typically have been a significant factor in the decisions of nonresident aliens to deposit funds in the U.S. in the first place.

The withdrawal of foreign deposits, particularly in the case of small and mid-size banks, will mean a reduction in loans to local developers, home owners and small businesses, with a resulting reduction in the economic vitality of the affected communities. In some instances, it will also mean a loss of stability of the banks themselves. Finally, for nearly all banks it will mean an additional cost of regulatory compliance that cannot in any sense be justified by the purposes intended to be served by the regulation.

As noted, those purposes relate primarily to the furnishing of U.S. trading partners with information that will be useful for their tax enforcement programs. There are several reasons why the proposal is a defective means of achieving that objective. First, our understanding is that only a

small percentage of our trading partners have asked to receive the information that would be required to be reported. A blanket requirement with respect to interest income received by all nonresident aliens therefore seems unduly prescriptive and burdensome. We further understand that none of our trading partners has imposed a requirement this extensive on its own financial institutions. Adoption of the regulation thus would create an unlevel playing field that would further motivate the transfer of deposits described above. Further, multilateral negotiations on a broad range of financial services issues are scheduled to begin shortly under the sponsorship of the World Trade Organization. In view of the pendency of those negotiations, precipitous unilateral concessions by the United States seem particularly inappropriate.

As a final matter, the proposed regulation also describes an additional purpose intended to be served by the proposal – that of preventing U.S. residents from masquerading as nonresident aliens in order to avoid taxation. The proposal fails to discuss, however, existing tax and banking requirements that are designed to prevent just such activity. We are persuaded that modest adjustments to those requirements can respond to whatever concerns may now exist in this area, and that such adjustments will not produce the harmful consequences discussed.

In sum, we believe that the current proposal is seriously ill-advised and that, even if the objectives of the proposal are ultimately endorsed by the Department, there are less burdensome approaches available to satisfy those objectives. We recognize that the proposal was published prior to the beginning of your tenure as Secretary. We thus respectfully request that you give this matter your personal consideration and decide whether the proposal does in fact warrant the Department's attention and resources at this time. For our part, we strongly believe that it does not, and that the Department may well do significant harm to the U.S. banking industry and to many of the nation's communities if the proposal is not withdrawn.

We very much appreciate your consideration of our request that you withdraw this proposal at this time. At a minimum the comment period should be extended to afford more in depth analysis and understanding of the full effects of this proposal. We would be pleased to discuss these matters further with you at your convenience.

Thank you for your consideration.

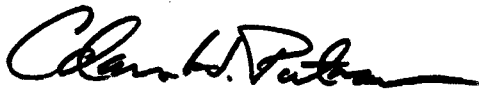
Sincerely,



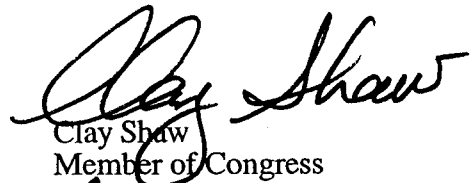
Dave Weldon
Member of Congress



Dan Miller
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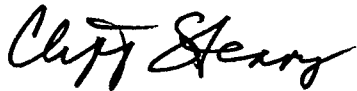
Ric Keller
Member of Congress



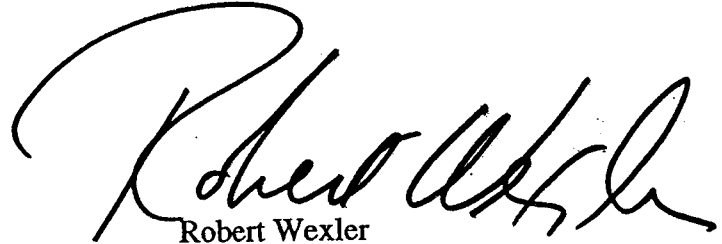
Michael Bilirakis
Member of Congress



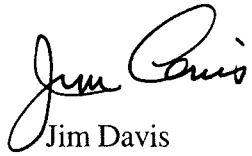
Peter Deutsch
Member of Congress



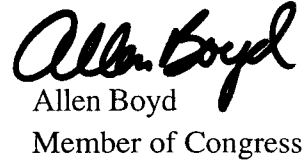
Cliff Stearns
Member of Congress



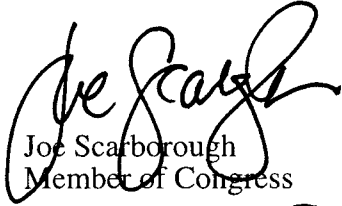
Robert Wexler
Member of Congress



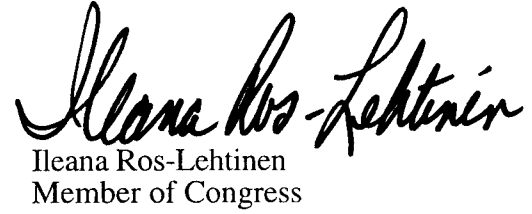
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