



Center for Freedom and Prosperity

Andrew F. Quinlan
President

November 13, 2002

Alexandra K. Helou
Office of Associate Chief Counsel (International).
Internal Revenue Service
CC:DOM:ITA:RU (REG-133254-02)
Room 5226
P. O. Box 7604, Ben Franklin Station
Washington, DC 20044

Dear Ms. Helou,

I am writing to urge the withdrawal of the IRS's proposed regulation governing the reporting of bank deposit interest paid to nonresident aliens and requesting the opportunity to testify at the public hearing on December 5th. This initiative is contrary to America's national interests and represents an illegitimate use of the regulatory process. More specifically my testimony would cover the following points:

- The regulation is not required by law and seems to be ideologically motivated.
- The proposed regulation violates clear congressional intent, expressed several times, to use strong privacy protections and a zero-tax environment to attract low-cost funds to America's financial system.
- If implemented, the regulation could drive hundreds of billions of dollars in capital out of the U.S. economy.
- The proposed regulation would hinder fundamental tax reform because it is based on the assumption that income that is saved should be subject to double-taxation and also because it assumes that other countries should be able to tax income earned in America.
- The regulation is only cosmetically different from the original one proposed in January of 2000 (REG-126100-00) that was withdrawn earlier this year. Many Members of Congress have objected to the damage this type of rule will cause the U.S. economy, and that concern is not ameliorated by the reduction in the number of targeted nations. Please see the attached letter from 46 Members of the U.S. House of Representatives to President George W. Bush dated April 5, 2002.

The IRS's bank deposit interest reporting requirement is bad process and bad policy. It is not the responsibility of either the United States government or U.S.-based financial institutions to enforce the bad tax laws of other nations. I urge you to withdraw the proposed regulation.

Sincerely,

Andrew F. Quinlan
President

Attachment

Congress of the United States

Washington, DC 20515

April 5, 2002

The Honorable George W. Bush
President of the United States
The White House
1600 Pennsylvania Avenue
Washington, DC 20500

Dear Mr. President,

America's financial institutions benefit greatly from deposits of foreigners in U.S. banks. These deposits help finance jobs and generate economic growth mainly benefiting local communities, consumers, families, and small businesses. For more than 80 years, the United States has recognized the importance of foreign deposits and has refrained from taxing the interest earned by them or requiring their reporting.

Unfortunately, a rule proposed by the Internal Revenue Service would overturn this practice and would likely result in the flight of hundreds of billions of dollars from U.S. financial institutions. A regulation proposed in the waning hours of the previous administration requires the reporting of bank deposit interest paid to foreign account holders so that this information can be made available to the countries of origin of the nonresident alien account holders.

Mr. President we appreciate all that you have done to prevent the finalization of this proposed rule. We have several objections to this initiative, and strongly urge you to permanently withdraw the proposed regulation. Specifically:

The regulation will cause serious irreparable harm to the U.S. economy. Because of the attractive tax and privacy laws of the United States, nonresident aliens are estimated to have deposited over \$1 trillion in U.S. financial institutions. Should this regulation be finalized, economic and academic sources indicate that a substantial portion of that capital will be withdrawn from the U.S. economy. Some deposits have started leaving U.S. financial institutions already. During this time of economic concern, we urge that every effort be made to keep capital within the borders of the United States.

The regulation flagrantly violates the intent of Congress. On several occasions, lawmakers have chosen to refrain from taxing the deposit interest paid to nonresident aliens. These actions were made for the explicit purpose of attracting and keeping capital in the U.S. economy. We feel the IRS is abusing its regulatory authority and doing so in a manner that is contrary to Congress' intent and the last eighty years of legislative history.

The regulation will weaken the competitiveness of U.S. financial institutions. Should the proposed rule take affect, American companies will lose hundreds of billions of dollars in deposits to institutions in competing jurisdictions that maintain privacy

protections. The purported goal of the regulation will not be achieved, but will instead disadvantage American businesses and communities.

This proposal may be good news for high-tax governments, but it is contrary to American economic interest. The jobs of American workers and the competitiveness of U.S. companies should be our top priorities. This regulation works against both. It will put Americans out of work and it will force dollars out of U.S. financial institutions and into foreign financial institutions.

It has now been longer than one year since the IRS proposed this rule. We urge that you withdraw this proposed regulation and send a clear message to existing and potential depositors that the U.S. encourages such deposits and believes America's best interest is served by maintaining current policy.

Sincerely,

Dave Walker

Spur Bahar

Jim Ryan

Charles B. Legay

Donald A. Margolies

Jim Davis

Tom Hulbert
Eric Cason

Mark West

Jim DeMatt

Nick Ferguson

Mark Fandine

David Dreier

Phil Crane

Jeff Miller
Marie Staley

Shenkella
John T. D'Antuono
John Hostettler
32 Coal Creek
Sam Johnson
C.B. Butch Otter
Bob Ney
Ralph M. Hall
Mike Blonkis
Larry Yule
Deana Rose-Lettinen

Walter B. Jones
Sir Gutknecht
dog Pitts
Tom Lanredo
Mr. Murphy
Phil English
Jennifer Dunn
Jack Kingston
Michael Miz-Beau
Bart Gordon
Van Gunten
Pete Platich

Dan Shilles

Ron Paul

Wally Herger

Pete Simons

Tom Gilmore

Allen Boyd