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**Congress of the United States  
House of Representatives**

Washington, DC 20515-1308

January 9, 2002

The Honorable Paul O'Neill  
Secretary of the Treasury  
Department of Treasury  
1500 Pennsylvania Avenue  
Washington, DC 20220

Dear Secretary O'Neill,

I am hoping that you and your staff can answer some questions about the "information exchange" initiatives that are being advocated by high-tax governments in Europe. More specifically, the Organization for Economic Cooperation and Development (OECD) and the European Union (EU) want governments to collect private financial data and then share that information with foreign tax collectors.

As you can imagine, I find these initiatives very troubling. They are being pushed as part of an assault on tax competition, yet we are the world's biggest beneficiary of tax competition. They represent an egregious assault on financial privacy, and they also undermine the sovereign right of nations to set their own tax and privacy laws. With this in mind, I would like to know:

1. Thanks in part to our attractive tax and privacy laws, we have lured almost \$10 trillion of the world's capital to our economy. Has the Treasury Department conducted any estimate of how much foreign investment would be withdrawn from America if we became an informer for other governments' tax authorities? If not, could you please provide one as soon as possible?
2. The OECD is threatening low-tax jurisdictions with financial protectionism if they don't agree to change their tax and privacy laws so foreign governments can collect more tax revenue. Has your department ascertained whether such policies would violate international trade agreements? If not, could you please provide an opinion on this matter as soon as possible?
3. There are many tax reform proposals, such as the flat tax and national sales tax, that would repeal the double taxation of capital income in ways that would eliminate any need for the government to track the private financial assets of law-abiding individual taxpayers. There also are many incremental reform proposals, like universal and

unrestricted back-ended IRAs, that would have the same result. Yet it seems that these proposals would be incompatible with the OECD and EU initiatives, both of which are based on the premise that capital income should be double taxed and that governments should know each individual's financial assets. Can your department assure me that the OECD and EU proposals would not hinder our efforts to reform the tax system? More specifically, can your department guarantee that we would not feel compelled to collect any data for foreign tax collectors that we do not need to collect for U.S. tax purposes?

4. Many U.S. states have attractive tax and incorporation laws that draw business from around the world. These laws, however, often include strong privacy protections that presumably would not be allowed by the OECD and EU proposals. This raises important questions about the integrity and viability of our federal system that has served our nation so well. Has your department estimated whether state governments would be compelled to change their laws? If not, could you please provide a list of state laws that would be affected?
5. Because of ethnic persecution, crime, and political instability, many people use the United States as a safe haven for their wealth. Yet if information exchange becomes a global norm, these people will be at risk. Has the department assessed the human rights and personal safety implications of the OECD and EU initiatives? Do you think that it is realistic to believe that this information will be safe from corrupt bureaucrats, sophisticated hackers, and oppressive governments?
6. Many of the low-tax jurisdictions that are being threatened by the OECD are in our hemisphere. These countries and territories have developed thriving financial services sectors that are a source of growth and jobs. Yet this private sector development would be crippled – if not totally destroyed – if information exchange becomes the norm. Has your department estimated the economic impact this would have on our friends and allies in the Caribbean? If not, could you provide an estimate of the increased crime and illegal immigration that will result?

Tax competition should be celebrated rather than persecuted. It is a liberalizing force in the world economy, and it certainly is a force that benefits America. Creating a "global network of tax police" is a fundamental assault on financial privacy and fiscal sovereignty. I hope you will oppose these initiatives – much as you rejected the OECD's so-called "harmful tax competition" scheme, and I look forward to a prompt answer to my questions.

Sincerely,



Phil Crane

Member of Congress