

Coalition for Tax Competition

January 26, 2004

The Honorable John Snow
Secretary of the Treasury
Department of Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220

Dear Secretary Snow,

We urge you to permanently withdraw the proposed IRS regulation (Reg 133254-02) that would force US banks to report deposit interest paid to nonresident aliens. This initiative is not needed to enforce US tax law and it will undermine our economy's performance by causing capital to flee the American banking system. The regulation was misguided when issued in the final days of the previous Administration, and the cosmetic changes the IRS put forth in 2002 do not address the proposed regulation's fundamental shortcomings.

We have many concerns with the regulation. High on our list is the potential economic damage to the U.S. economy, both because of the direct impact of the regulation (loss of deposits as nonresident aliens shift funds from American banks) and the indirect impact of the proposed rule (loss of other forms of indirect investment from overseas because of the interaction of the regulation and the European Union's savings tax directive). Another concern is the IRS's abuse of the regulatory process. For more than 80 years, Congress has sought to attract capital to the US economy by neither taxing nonresident alien bank deposit interest nor requiring the reporting of such income. The IRS does not have the right to unilaterally change this law, so the regulation is a clear violation of congressional intent.

Our greatest concern, however, is that the proposed regulation will hinder tax competition between nations and thereby undermine the global shift to lower tax rates and fundamental tax reform. Indeed, the regulation is contrary to the Administration's tax agenda. The President is seeking to reduce and eliminate double-taxation of income that is saved and invested and shift closer to territorial taxation, but the IRS is impeding this laudable goal by pursuing a regulation that would help foreign governments double-tax income that is earned in America.

The United States should not help oppressive governments track down flight capital, particularly when such an effort is contrary to U.S. interest and inconsistent with the law. We urge you to permanently withdraw the IRS's interest reporting regulation.

Sincerely,

Andrew F. Quinlan -- President, Center for Freedom and Prosperity
Daniel Mitchell -- Senior Fellow, The Heritage Foundation
Veronique de Rugy -- Fiscal Policy Analyst, The Cato Institute
Paul Beckner -- President, Citizens for a Sound Economy
David R. Burton -- The Argus Group
Daniel Clifton -- Executive Director, American Shareholders Association
Carl D. DeMaio -- President, The Performance Institute
Stephen J. Entin -- President, Institute for Research on the Economics of Taxation
Fred Gedrich -- Senior Policy Analyst, Freedom Alliance
Paul J. Gessing -- Director of Government Affairs, National Taxpayers Union
Tom Giovanetti -- President, Institute for Policy Innovation
John C. Goodman -- President, National Center for Policy Analysis
Kevin Hassett -- Resident Scholar, American Enterprise Institute
Lawrence Hunter -- Chief Economist, Empower America
David A. Keene -- Chairman, American Conservative Union
Karen Kerrigan -- Chairman, Small Business Survival Committee
Steve Moore -- President, The Club for Growth
Grover Glenn Norquist -- President, Americans for Tax Reform
Charles W. Jarvis -- President, United Seniors Association
Duane Parde -- Executive Director, American Legislative Exchange Council
Nancy M. Pfotenhauer -- President, Independent Women's Forum
George Pieler -- Former Tax Counsel, Senate Finance Committee
John Pugsley -- Chairman, The Sovereign Society
Don Racheter -- President, Public Interest Institute
James L. Martin -- President, 60 Plus Association
Richard W. Rahn -- Senior Fellow, Discovery Institute
Terrence Scanlon -- President, Capital Research Center
Tom Schatz -- President, Council for Citizens Against Government Waste
Solveig Singleton -- Senior Analyst, Competitive Enterprise Institute
Lewis K. Uhler -- President, National Tax Limitation Committee
Neal C. White -- President, National Retail Sales Tax Alliance
Jason Wright -- Vice President, Frontiers of Freedom Institute

CC: Vice President Richard Cheney
CEA Chairman Greg Mankiw
NEC Chairman Steve Friedman