

JAMES M. INHOFE
OKLAHOMA

WASHINGTON OFFICE
453 Russell, Senate Office Bldg.
Washington, DC 20510-3803
202-224-4721

TULSA OFFICE
1914 S. Utica, Suite 500
Tulsa, OK 74104
918-748-6111

OKLAHOMA CITY OFFICE
1910 N.W. Expressway, Suite 1710
Oklahoma City, OK 73118
405-639-4381

COMMITTEES:

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PUBLIC WORKS
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United States Senate

WASHINGTON, DC 20510-3803

July 12, 2001

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

Dear Secretary O'Neill:

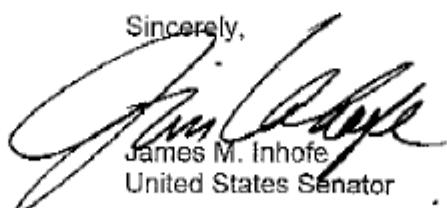
I am writing to express my deep concerns about the "information exchange" initiatives of the Organization for Economic Cooperation and Development (OECD) and the European Union (EU). Simply stated, the United States should not conspire with uncompetitive, high-tax nations to create an anti-privacy cartel designed to uphold oppressive tax systems.

I am particularly worried that these initiatives are a direct threat to the tax cut/tax reform agenda that we both support. As you know, good tax policy does not double-tax income that is saved and invested, yet the "information exchange" proposals being advanced by the OECD and EU are for the express purpose of double-taxing capital income. Another feature of good tax policy is territoriality – the common sense notion that countries only tax the income earned inside their borders, but the OECD and EU schemes unambiguously seek to give nations greater ability to tax economic activity in other countries.

Indeed, the OECD and EU proposals are an attack on sovereignty. Nations should be free to enact their own tax and privacy laws. If that happens to attract capital from high-tax countries, the proper response is for the high-tax country to reduce tax rates. Under no circumstances, however, should high-tax countries coordinate and threaten low-tax countries with financial protectionism unless they become vassal tax collectors.

In conclusion, it is clear that the ultimate target of Europe's information exchange proposals is the United States. We are the world's biggest beneficiary of tax competition, and high-tax nations would very much like to undermine our attractive tax and privacy laws. I hope you agree with me that America should not be obliged to act as a tax collector for Europe's welfare states. Again, I urge you to oppose "information exchange" proposals and other attacks on financial privacy.

Sincerely,



James M. Inhofe
United States Senator