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United States Senate

WASHINGTON, DC 20510-3603

January 29, 2002

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

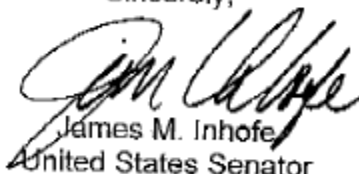
Dear Secretary O'Neill,

I am a strong supporter of tax competition. Like businesses, nations should have to compete to attract jobs and capital. This promotes good tax policy and rewards fiscally responsible governments. And since America is the world's biggest beneficiary of international tax competition, it is in our interests to resist tax harmonization initiatives being advanced by the Organization for Economic Cooperation and Development and the European Union.

Your hostility to these schemes is much appreciated, but your predecessor did not share your views. Not only did he support tax harmonization proposals such as "information exchange," he also presided over an IRS proposed regulation that would force U.S. banks to report the interest they pay to nonresident aliens. Issued just three days before President Clinton left office, the proposal was designed to help other nations tax U.S.-source income. This is bad tax policy, but it also would impose heavy damage on the economy since several hundred billion dollars of deposits would flee to banks in other jurisdictions.

This regulation has been blocked, but it has not yet been officially withdrawn. I am writing to urge you to take this important final step. If there is any reason why you do not plan to withdraw the regulation, I would appreciate a prompt explanation.

Sincerely,



James M. Inhofe
United States Senator