



AMERICANS FOR TAX REFORM

Grover G. Norquist

President

February 7, 2002

To All Members of the House of Representatives:

I urge you to sign on to Representative Dave Weldon's and Representative Robert Wexler's letter to President Bush calling for the withdraw of the proposed IRS regulation detailed below, and help protect our longstanding policy of making the United States attractive to foreign investors.

U.S. banks and financial institutions benefit greatly from the deposits of nonresident aliens. These deposits, in turn, benefit every American by helping to create jobs, finance small business loans and improve the general welfare of all. For decades, United States lawmakers have understood the importance of attracting capital to America, which is why Congress has chosen not to tax the interest paid on bank deposits of nonresident aliens and not to require the reporting of this deposit income to foreign governments.

To allow this time-honored policy to be turned on its head at a time when the United States needs foreign capital more than ever would be lamentably shortsighted and downright deleterious to our economy's nascent yet still fragile recovery. **Don't let it happen!**

Please review their "Dear Colleague" and text of the letter below. A .pdf file of the Dear Colleague can be found at <http://www.freedomandprosperity.org/weldon-wexler.pdf>

Onward,

Grover Norquist

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Dear Colleague and letter text:

February 1, 2002

PROPOSED IRS RULE WOULD WEAKEN U.S. ECONOMY AND DRIVE MONEY OUT OF U.S. COMMUNITIES. SIGN LETTER URGING PRESIDENT TO WITHDRAW PROPOSED IRS RULE!

Dear Colleague,

For 80 years the Congress has encouraged foreigners to deposit their money in U.S. banks. Today, there is more than \$1.7 trillion in foreign deposits in U.S. banks. A proposed IRS regulation issued by the Treasury Department a year ago would force hundreds of billions of dollars to leave U.S. banks.

The Treasury regulation would require all US banks to report interest earned by non-resident aliens on their deposits. (This interest is not taxable by the U.S. government.) The purpose of this rule is to bring U.S. tax law in line with the European Union and its desire to reduce tax competition between international jurisdictions. This rule would come at great expense to U.S. communities and our economy.

Because of its lower tax burden, priority on privacy, and stable government, the United States benefits in competing for international deposits. If made final, the proposed Treasury rule would drive out hundreds of billions of dollars in non-resident alien deposits that work to capitalize businesses and communities. Already, non-resident aliens are beginning to withdraw money out of U.S. banks and move these deposits to Switzerland and Hong Kong. A significant flight of this capital will reduce the amount of credit available to local communities, will adversely affect liquidity, and will make it harder for consumers to acquire loans.

Please join me in urging President Bush to withdraw this proposed rule and protect our longstanding policy of making the United States attractive to foreign investors. The text of the letter is printed on the reverse [BELOW]. For more information contact Paul Webster of Rep. Weldon's staff at 5-3671 or Gene Wilk of Rep. Wexler's office at 5-3001.

Sincerely,

Dave Weldon M.D.
Member of Congress

Robert Wexler
Member of Congress

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Dear Mr. President,

America's financial institutions benefit greatly from deposits of foreigners in U.S. banks. These deposits help finance jobs and generated 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,

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Please contact Paul Webster of Rep. Weldon's staff at 5-3671 or Gene Wilk of Rep. Wexler's office at 5-3001 to sign on to the letter.