

# COALITION FOR TAX COMPETITION

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March 19, 2007

The Honorable Henry M. Paulson, Jr.  
Secretary  
Department of the Treasury  
1500 Pennsylvania Avenue, NW  
Washington, D.C. 20220

Dear Secretary Paulson,

We are writing to express our concern about two Senate proposals that would undermine American competitiveness, discriminate against developing nations, and compromise the U.S. commitment to free trade in financial services.

Senator Byron Dorgan of North Dakota has proposed S. 396, a bill which targets American companies operating in selected low-tax jurisdictions and strips away their ability to postpone the imposition of a second layer of tax on their foreign-source income. Senator Carl Levin of Michigan has proposed S. 681, a bill which imposes a wide range of taxes, regulations, and penalties on American taxpayers operating in selected low-tax jurisdictions.

Both of these pieces of legislation are deeply flawed. They share a common premise that the U.S. government should adopt an adversarial position against jurisdictions with pro-growth tax policy. Specific flaws include:

- Both bills will undermine American competitiveness. Only U.S. taxpayers seeking to operate in low-tax jurisdictions will be penalized by these proposals. Foreign taxpayers will be able to benefit from good tax policy in these jurisdictions, while American taxpayers will suffer a competitive disadvantage. The United States will lose market share, causing a drop in jobs and exports.
- Both bills create discriminatory blacklists. Senator Dorgan's legislation singles out 40 jurisdictions for discriminatory treatment, while Senator Levin's bill targets 34 nations and territories. Exactly 75 percent of the jurisdictions blacklisted in S. 396 and more than 75 percent of the jurisdictions blacklisted in S. 681 are in the developing world. Neither bill targets wealthy nations such as the Netherlands, Belgium, Austria, and the United Kingdom, even though they all have "tax haven" policies, and Senator Dorgan's bill omits Luxembourg and Switzerland.

- Both bills violate America's trade obligations. The United States wisely supports free trade in services, a policy which unambiguously promotes the national interest. Unfortunately, S. 396 and S. 681 both would impose protectionist barriers and almost surely put America in violation of its World Trade Organization obligations. Equally worrisome, the proposals would invite other nations to target the United States, particularly since America's own "tax haven" policies for foreign investors have helped attract more than \$10 trillion to the U.S. economy.

We urge you to protect America's self-interest and oppose proposals that seek to thwart tax competition and penalize good tax policy in other jurisdictions. The United States is not a decrepit, high-tax European welfare state, yet this legislation is akin to the noxious tax harmonization schemes concocted in various European nations.

If some lawmakers are concerned that American taxpayers are shifting economic activity to low-tax jurisdictions because of better tax law, they should respond by fixing some of the laws in the internal revenue code, many of which were identified by the President's Advisory Panel on Tax Reform.

We look forward to working with you and hope that you will resist anti-competitive, discriminatory, and protectionist proposals that are contrary to good economic policy.

Sincerely,

Andrew F. Quinlan ~ President, Center for Freedom and Prosperity Foundation  
Veronique de Rugy ~ Resident Fellow, American Enterprise Institute  
Grover Norquist ~ President, Americans for Tax Reform  
John Berthoud ~ President, National Taxpayers Union  
Ashley Miller ~ Director of Cong. and Public Affairs, U.S. Chamber of Commerce  
Matt Kibbe ~ President, FreedomWorks  
Pat Toomey ~ President, Club for Growth  
Fred L. Smith Jr. ~ President, Competitive Enterprise Institute  
Karen Kerrigan ~ President & CEO, Small Business & Entrepreneurship Council  
Thomas Schatz ~ President, Council for Citizens Against Government Waste  
Tim Kane ~ Director, Ctr. for Int'l Trade and Economics, The Heritage Foundation  
David A. Keene ~ Chairman, American Conservative Union  
James L. Martin ~ President, 60 Plus Association  
Gary Palmer ~ President, Alabama Policy Institute  
Ryan Ellis ~ Executive Director, Alliance for Worker Freedom  
Lori Roman ~ Executive Director, American Legislative Exchange Council  
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Tim Phillips ~ President, Americans for Prosperity  
Mark Chmura ~ Executive Director, Americans for the Preservation of Liberty  
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Terrence Scanlon ~ President, Capital Research Center  
Jeffrey Mazzella ~ President, Center for Individual Freedom  
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John Taylor ~ President, Virginia Institute for Public Policy