

COALITION FOR TAX COMPETITION

February 26, 2002

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

Dear Secretary O'Neill:

America's system of taxing the worldwide income of U.S.-based companies needs reform. The current system, which taxes income corporations earn in other jurisdictions, is driving many U.S. companies to relocate their headquarters in other nations. Moreover, this taxing system makes it harder for U.S. firms to compete in global markets and efforts to address this problem -- such as the FSC/ETI legislation -- have been rejected by the World Trade Organization.

For these reasons, we urge the Administration to propose a territorial tax system for corporate income. Territorial taxation is based on the common sense notion that governments should tax only that income earned inside their borders. This reform would dramatically boost the competitiveness of U.S. companies while fulfilling international trade obligations. Territorial taxation has many benefits, including:

- Pro-simplification – Worldwide taxation of corporate income does not raise much money, but it accounts for a huge share of corporate compliance costs. Complexity would be reduced if the United States taxed U.S.-source income and other governments taxed the income earned inside their borders.
- Pro-tax reform – All fundamental tax reform proposals, such as the flat tax, the consumed-income tax, and various sales tax proposals, are predicated on territorial taxation. Such a system also is easier to enforce and would reduce tax evasion.
- Pro-competitive – U.S. companies could more effectively compete against foreign companies, many of which are headquartered in nations with territorial tax systems, if they did not have to pay additional taxes on the income they earn overseas.

In today's global economy, taxing worldwide income hinders the competitiveness of American companies. Territorial taxation is WTO-compliant and is an important step to a simple and competitive tax system. It would be good tax policy at any time, and it is particularly desirable now that the economy is sluggish. We hope you will support this much-needed tax reform.

Sincerely,

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