
- Home
- About Bob
- Offshore Living
- Contact Us
- Privacy Policy
- RSS



# IRS Regurgitates a Bad Rule

Bob Bauman (January 7, 2011)

In government bad ideas never die, they just keeping coming back as official policy proposals, especially if the Internal Revenue Service is the source.


Thus it is that President Obama’s tax-dodging Secretary of the Treasury, **Tim Geithner** has proposed a retread Internal Revenue Service regulation (REG-146097-09) that would overturn existing U.S. law and force American banks to report the interest paid to all nonresident foreigners.

Why should we care?

Because if this rule is ever implemented, the experts say it could drive hundreds of billions of dollars out of the job hungry U.S. economy and harm America’s already shaky, bailed out financial system.

A 2004 study from the Mercatus Center at George Mason University estimated that a scaled-back version of the rule would drive $88 billion from American financial institutions, and this latest version of the regulation will be far more damaging.

Three days before President **Bill Clinton** vacated the White House in 2001, the Internal Revenue Service first proposed this onerous rule. This economy-damaging rule was shelved without implementation and languished for the eight years of the Bush administration.
It faceed near-unanimous opposition from the financial services industry, members of Congress, and the general public.

## Freedoms Threatened

Our good friend **Dan Mitchell,** Senior Fellow at the Cato Institute, notes that "The IRS has failed to perform the cost-benefit analysis required by Executive Order 12866. Mitchell also charged that: "This proposed regulation also is a threat to human rights and civil liberties since many oppressed people around the world place their assets in American financial institutions to guard against persecution, expropriation, and other forms of abuse by thuggish governments."As Mitchell says, the rule directly contradicts existing U.S. laws that seek to promote foreign trade. The U.S. Congress deliberately chose not to tax deposit interest paid to foreigners in order to attract badly needed foreign capital.

According to the U.S. Commerce Department, foreigners have $10.6 trillion passively invested in the American economy, including nearly $3.6 trillion "reported by U.S. banks and securities brokers."



## Treasury Cabal

It is difficult to understand why this IRS rule was not simply killed under Bush. But supporting America's misguided world-wide tax system is an active bureaucratic contingent at the U.S. Treasury Dept. and the IRS that avidly supports "tax harmonization" because they think "tax information exchange" makes it easier to enforce bad U.S. tax laws.

These bureaucrats ignore the fact that the U.S. also is a major "'tax haven" for foreigners and that global information sharing means significant capital flight from America — cash the U.S. badly needs.

No doubt these Treasury insiders, after furiously promoting the OECD's tax information exchange polices, think the U.S. should reciprocate and rat on foreigners. It is likely that both the Clinton administration and now Obama want to help foreign governments track and tax flight capital.

Center for Freedom and Prosperity

## CF&P to Lead Opposition

Our friends at the Center for Freedom and Prosperity plan to lead the effort to derail or kill this misguided regulation. CF&P President **Andrew Quinlan** has announced that, "the Center for Freedom and Prosperity will testify at the public hearing on April 28th, and fight to block this harmful regulation once again." For more and how you can help, click here.

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