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Statement of Treasury Secretary Paul O'Neill on OECD Tax Havens Project

Recently, I have had cause to re-evaluate the United States' participation in the Organization for Economic Cooperation and Development's working group that targets 'harmful tax practices.' Following up on the thoughts I shared with my G7 counterparts at recent meetings, I want to make clear what is important to the United States and what is not.

Although the OECD has accomplished many great things over the years, I share many of the serious concerns that have been expressed recently about the direction of the OECD initiative. I am troubled by the underlying premise that low tax rates are somehow suspect and by the notion that any country, or group of countries, should interfere in any other country's decision about how to structure its own tax system. I also am concerned about the potentially unfair treatment of some non-OECD countries. The United States does not support efforts to dictate to any country what its own tax rates or tax system should be, and will not participate in any initiative to harmonize world tax systems. The United States simply has no interest in stifling the competition that forces governments—like businesses—to create efficiencies.

In fact, the Administration is actively working to lower tax rates for all Americans. After reducing our tax burden, we will turn our attention toward reforming our system to make it simpler and more efficient. On these principles the United States remains firm.

When I took my oath of office as Secretary in January, I pledged faithfully to execute the laws of the United States. In its current form as established by Congress, the U.S. tax code generally taxes income on a worldwide basis. We have an obligation to enforce our tax laws as written because failing to do so undermines the confidence of honest taxpaying Americans in the fairness of our tax system. We cannot turn a blind eye toward tax cheating in any form.

That means pursuing those who illegally evade taxes by hiding income in offshore accounts. In today's world of instant information on the Internet, offshore bank

accounts are no longer an obscure perk of the very rich. Just type in "offshore brokerage account" in any Internet search engine. The number of sites offering easy, affordable, secret offshore brokerage accounts for investing in U.S. stocks is astonishing.

As one Internet site advertising offshore brokerage accounts in Dominica boasts, "U.S. stocks, bonds, options, currencies and mutual funds are frequently bought through offshore companies because they are not liable to U.S. capital gains taxes." Consider just how unfair this is to law abiding U.S. investors who invest in U.S. stocks and pay taxes. The tax evading U.S. investor, investing in the very same U.S. stocks through a secret offshore account, does not.

Anyone who doubts that the U.S. needs information from offshore tax havens in order to prosecute tax evaders need look no further than the case of John Mathewson. Mathewson ran a bank in the Cayman Islands. When shut down in 1995, Mathewson had over 1,000 customers and, according to Mathewson, 95% of his customers were U.S. citizens. With Mathewson's cooperation, the IRS obtained tax evasion convictions on, and collected substantial back taxes from, over 20 of Mathewson's clients. These cases were made possible because of Mathewson's extraordinary cooperation. Without it—and without any tax information exchange agreement with the Cayman Islands—this large-scale illegal tax evasion would have gone unpunished.

To enforce our tax laws, we must have a multi-prong strategy. If the United States believes that a particular U.S. taxpayer is illegally evading the U.S. tax laws through the use of offshore entities or secret bank accounts, the United States must make every effort on our own to obtain the necessary information to enforce the U.S. tax laws. In addition, the United States has negotiated individual treaties or agreements with over 60 countries so it can obtain needed information in cases of tax evasion. Finally, in appropriate circumstances, organizations like the OECD can be used to build a framework for exchanging specific and limited information necessary for the prosecution of illegal activity. We do—and will—guard against over-broad information exchanges in which foreign governments seek information for improper purposes or without proper safeguards. We cannot tolerate those who cheat on their U.S. taxes by hiding behind a cloak of secrecy.

Where we share common goals, we will continue to work with our G7 partners to achieve these goals. The work of this particular OECD initiative, however, must be

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refocused on the core element that is our common goal: the need for countries to be able to obtain specific information from other countries upon request in order to prevent the illegal evasion of their tax laws by the dishonest few. In its current form, the project is too broad and it is not in line with this Administration's tax and economic priorities.