

*Carstens (Mexico) Letter  
Requesting Automatic Exchange of Information*

*Letter dated 9 February 2009 to U.S. Treasury Secretary Timothy Geithner from Mexican Finance Secretary Agustin Carstens, asking the Treasury to consider a proposal for the automatic sharing of information regarding interest paid by banks of one country to residents of the other to help detect and prevent tax evasion, money laundering, terrorist financing, drug trafficking, and organized crime.*

Source: Tax Analysts, March 18, 2009.

February 9, 2009

The Honorable Timothy Geithner  
Secretary of the Treasury  
1500 Pennsylvania Avenue, NW  
Washington, D.C. 20220

Dear Secretary Geithner,

As you are aware, under President Felipe Calderon the Mexican government has implemented several structural reforms, some of them aimed at expanding and enhancing its revenue capacities. Tax, pensions and energy reforms were proposed by the President and approved by Congress to provide the government with the necessary tools to maintain healthy public finances and continue with its efforts in fighting poverty and providing better opportunities for all Mexicans.

On the other hand, President Calderon initiated an unprecedented fight against illegality, organized crime and the drug cartels. Some measures include the expanded participation of the armed forces; deployment of high tech and other material resources to catch criminals and seize their assets; better coordination between federal agencies, including the Tax Administration and Customs, as well as with state and local law enforcement authorities; expansion and better recruitment of federal law enforcement personnel; and enhanced coordination with our counterparts in the United States.

Also, the material support from the United States through the Merida Initiative will be essential in enhancing the Mexican government's capacities to react and respond to organized crime activities.

In fulfilling its mandate and being consistent with the above mentioned efforts, the Ministry of Finance has been enhancing its data collection and analysis capabilities, as well as its targeting capacities. These enhanced efforts have derived an increased number of drug and cash seizures at Customs, as well as enhanced the effectiveness of our tax auditing work, which have resulted in increased tax collections.

In continuing these efforts, both fiscal and law enforcement, I believe that one of the key elements of information that Mexico and the United States should begin sharing is the one pertaining to interest paid by banks of one country to residents of the other.

Either because some of our taxpayers are simply moved by a tax avoidance motive, or more dangerously, criminals want to hide in one of our countries the cash they obtained from illicit sources in the other, both find a way to achieve their goal simply by opening bank accounts in the other countries' banks. Moreover, due to the fact that the United States does not tax interest income paid by banks to non-resident aliens, and both countries do not have a solid and reliable mechanism to verify the actual residence of foreign depositors, we simply are allowing both the tax avoiders and the criminals to move their money untaxed and benefit from it.

As you are aware, Mexico and the United States regularly exchange information, on a case-by-case basis, in accordance to our bilateral Tax Treaty. We also exchange bulk information on interest payments (between corporations), dividends and royalties. However, we do not exchange information on interests paid by banks from one country to residents of the other country.

Canada and the US implemented such mechanism years ago, Mexico and Canada began exchanging such information years ago as well. Being the world's largest trading block under the NAFTA, and fighting considerably higher security threats than a decade ago, I truly believe that we should enhance our cooperation and strengthen our capacities to protect our peoples and wealth. The exchange of information on interest paid by banks will certainly provide us with a powerful tool to detect, prevent and combat tax evasion, money laundering, terrorist financing, drug trafficking and organized crime.

If you agree to pursue this initiative, Mexico would be open to follow any suggestion from you on the most appropriate current bilateral legal instrument to be adapted or a new one to be developed for these purposes. Also, if you accept to explore and pursue this initiative, I have appointed Mr. Jose M. Garcia, the Ministry of Finance's Representative in Washington, to meet with the US Treasury Department Official that you designate to initiate the discussions and create a special bilateral working group, comprised by subject matter experts, which would meet regularly during the coming months and submit their recommendations to our consideration.

I truly hope you find this proposal as worth pursuing as I do, and I am looking forward to meeting with you again soon to discuss this matter. It has been a pleasure meeting with you today.

Sincerely,

Agustin Carstens  
Secretary of Finance  
Ministry of Finance

Copies to:

Mr. Alejandro Werner, Undersecretary of Finance, Ministry of Finance  
Mr. Jose Antonio Meade, Undersecretary of Revenue, Ministry of Finance  
Mr. Alfredo Gutierrez, Chief of the Tax Administration Service, Ministry of Finance  
Mr. Luis Urrutia, Director, Financial Intelligence Unit, Ministry of Finance.  
Mr. Jose M. Garcia, Representative, Ministry of Finance, Embassy of Mexico,  
Washington, DC