OPENING STATEMENT
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HEARING ON
Tax Haven Banks and U. S. Tax Compliance
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Mr. Chairman, I want to thank you for continuing this important inquiry into how certain foreign banks and their American clients have flouted U.S. tax laws. I truly appreciate what you and the Subcommittee staff have accomplished.

We have before us significant problems. There is no question there has been fraud. There is no question there have been violations of U.S. law. But, let us be clear: there is *also* no question that the root of many of these problems is our country's very complex Tax Code. We need to simplify it, make it fair, make it straightforward.

Of course, I don't mean to minimize the effrontery of the individuals involved in these schemes. Though I am no fan of the U.S. tax code, fraud of any kind deeply offends me. As a fundamental matter of fairness, if you owe taxes to your government, you ought to pay them. When you fail to do so, you are literally *robbing* your honest neighbors. You are not merely "protecting your assets;" you are actually *stealing* the assets of the less fortunate. It is a shameful crime. But today I would like to make a larger point . . .

This country has the world's largest economy as well as the world's largest equity market. We are leaders in commodity and debt markets, as well. But our lead has definitely been shrinking as countries with more favorable tax rates and more sensible regulatory regimes attract capital that used to flow to our shores. The Cato Institute's Chris Edwards and Dan Mitchell recently described the myriad ways that U.S. tax policy puts this county's economy at a competitive disadvantage. For example, the U.S. boasts the following dubious distinctions:

- The 2nd-highest corporate tax rate in the world at 40%, which includes the 35% federal rate plus the average state rate. By contrast, the average corporate rate in Asia is 29%, in Latin America 27%, and in Europe 24%.
- Complex and uncompetitive business taxation. The World Bank ranks the U.S. 76th on having a low burden of business taxes and tax compliance costs.
- The 8th-highest dividend tax rate in the OECD.
- The 3rd-highest estate or inheritance tax rate in the OECD.
- One of the highest tax rates in the world on corporate capital gains.
- Tax rates on individual income, capital gains, dividends, and estates that are scheduled to rise in 2011 when current tax cuts expire.
- State-level corporate tax rates that have not been cut in decades.

With such albatrosses around our neck, it is no wonder that America's share of global equities market capitalization has plummeted from one-half in 1997 to just one-third in 2007; that our share of world gross domestic product has also declined; that our leading role in initial public offerings has vanished; and that we are well below our potential when it comes to transactions in interest-rate products and foreign-exchange trading.

The world is, as they say, "flat," and global competition for capital has become more fierce than ever before. The United States, with its draconian tax code, is losing this competition to countries like Singapore, Luxembourg, Hong Kong, and especially the U.K. Nations such as these are making smarter tax and regulatory policies, and these decisions are paying great dividends in the form of increased jobs and investment. These countries understand that financial activity—especially those relating to derivatives and money management—crosses international borders with the greatest of ease, and they have rolled out the welcome mat.

Consider how the U.K., with just a 5% share of world gross domestic product, boasts a 40% share of daily foreign exchange trading and interest rate derivatives trading and is a leader in metals and oil trading. Even more impressive has been the Irish experience: Ireland reduced its capital gains tax rate from 40% to 20% in 1980 and later slashed its corporate tax rate to 12.5%—decisions that gave birth to the Celtic Tiger. Such smart tax policies transformed Ireland into an industrial and financial hub, and Irish incomes rose from 30% *below* the European average in the 1980s to 40% *above* the average in 2004.

Clearly, we need a tax code that *rewards* capital investment and capital formation in this country, but we do not yet have one. Instead, we have a tax code that stands athwart the salutary, twin trends of global capitalization and increasing international tax competition. We need a flatter, simpler, fairer tax code and not the sky-high rates and convoluted provisions that are making the U.S. a less hospitable investment environment.

I look forward to working with our witnesses and with Chairman Levin to create a more sensible tax and regulatory regime.

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