



**Securities Industry Association**

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December 16, 2002

The Honorable George W. Bush  
The President of the United States  
Executive Office of the President  
1600 Pennsylvania Avenue, NW  
Washington, DC 20500

Dear Mr. President:

The Securities Industry Association<sup>1</sup> strongly supports your ongoing efforts to promote economic growth, create jobs, and reform and simplify our nation's tax laws. As you establish your Administration's fiscal policy and tax initiatives, SIA urges you to include proposals that would assist families in their efforts to save for retirement and education, encourage greater investment and capital formation, and protect American jobs by relieving U.S. businesses from anticompetitive tax rules.

In managing the accounts of nearly 93 million investors, the securities industry helps our customers meet their financial obligations and achieve their dreams. With half of all families invested in the market, we are acutely aware of the importance of restoring the public's trust and confidence in our capital markets. We believe proposals to encourage investment and boost capital formation will help achieve that goal by increasing jobs, expanding the economy, and providing economic security to Americans. Our industry stands ready to work with you as you formulate proposals to modernize tax policy and reinvigorate the U.S. economy.

SIA believes action is necessary in three areas. First, we would urge you to accelerate and make permanent the retirement and education savings provisions enacted in the 2001 Economic Growth and Tax Relief Reconciliation Act. Increasing the contribution limits for individual retirement accounts (IRAs), 401(k)s, and other retirement savings vehicles will help millions of Americans plan their financial futures

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<sup>1</sup> The Securities Industry Association brings together the shared interests of more than 600 securities firms to accomplish common goals. SIA member-firms (including investment banks, broker-dealers, and mutual fund companies) are active in all U.S. and foreign markets and in all phases of corporate and public finance. Collectively they employ more than 495,000 individuals, representing 97 percent of total employment in securities brokers and dealers. The U.S. securities industry manages the accounts of nearly 93-million investors directly and indirectly through corporate, thrift, and pension plans. In 2001, the industry generated \$280 billion in U.S. revenue and \$383 billion in global revenues.

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with greater certainty and boost retirement savings. In addition, legislation increasing the age at which individuals are forced to start withdrawing money from retirement accounts from 70-1/2 to 75 would provide important safeguards for those facing the prospect of prematurely depleting their retirement savings. These changes would boost the economic security and confidence of American families. Importantly, such proposals would also reduce the cost of capital, thereby increasing investment, raising productivity, and improving standards of living.

Secondly, SIA strongly supports initiatives that would eliminate or significantly reduce the double taxation of corporate earnings. Today's tax rules skew economic decisions by taxing corporate investments more heavily than other investments. Eliminating the double taxation of dividends would immediately lead to greater investment in equities, and reduce the current overreliance by corporations on debt financing. Such highly leveraged corporations are more prone to failure when their revenues fall and/or market interest rates rise. Eliminating the bias in the tax code for debt financing will encourage more companies to rely on equity financing, which has more flexibility to meet fluctuations in the business cycle. Importantly, retirees – many of whom have been hit hard by the stock market downturn – would have, in increased dividends, an additional reliable, long-term source of income to supplement their social security earnings and other retirement savings.

Finally, SIA urges the Administration to propose making permanent the Subpart F reforms to the international tax rules for financial services firms. Permanent extension of these reforms – first adopted in 1997 and recently extended through 2006 – is essential to maintaining the success of global U.S.-based financial services firms. A vibrant, healthy U.S. financial services industry is vital to economic growth and job creation. Indeed, the U.S. financial services sector turned in \$15.2 billion of exports in 2001 to contribute to an overall \$6.3 billion trade surplus. In addition, the growth of the financial services sector's contribution to gross domestic product exceeded that of any other major sector in the United States during the 1990s, accounting for 8.3 percent of U.S. GDP. GDP growth in the securities sector alone grew 3.2 times.

Thank you for your continuing efforts to improve, modernize, and simplify our nation's tax laws, and for your consideration of our views. We look forward to working with you and the Congress on these proposals in the next few months.

Sincerely,

Marc E. Lackritz  
President