

September 5, 2002

Ms. Pamela F. Olson  
Assistant Secretary for Tax Policy  
U.S. Treasury Department  
1500 Pennsylvania Avenue, NW  
Washington, D.C. 20220

Dear Ms. Olson:

As you probably know, the 10<sup>th</sup> Circuit Court of Appeals recently ruled that the proposed research and experimentation tax credit regulations issued late last year by your predecessor, Mark Weinberger, are inconsistent with the 1986 reforms to the credit. Congress and President Reagan enacted those reforms in order to curb abuses of the credit, specifically by limiting it to activities involving actual research and experimentation. But the December 2001 proposed regulations undermine this important goal.

I'm writing to ask you to withdraw the December 2001 proposed research credit regulations and to take the necessary steps to reinstate the previous regulations that were proposed in 1997 and finalized at the end of the Clinton administration.

You may or may not concur with the conventional wisdom that Mr. Weinberger's actions with regard to the research credit represented a gross conflict of interest, given his close relationship with Ernst & Young and his long-time lobbying to gut the 1986 research credit reforms. But I hope you will agree, in light of the plain language of the 1986 law and the court decisions interpreting it, that the December 2001 research credit regulations are inconsistent with both the statute and the public policy underlying it.

In recent months, President Bush has articulated a commitment to crack down on corporate corruption. Withdrawal of the December 2001 research credit regulations and reinstatement of the prior rules would be a significant step in fulfilling the President's promise—and would save ordinary taxpayers billions of dollars.

I've attached two of my "Taxonomist" columns regarding the research credit regulations from *The American Prospect*, which outline the issues and Citizens for Tax Justice's position thereon in more detail.

If you would like to meet with me to discuss this problem—or just to say hi—I'm available at your convenience (202/626-3780). In any event, please let me know how you plan to proceed.

Sincerely,

Robert S. McIntyre  
Director  
Citizens for Tax Justice

ENCLOSURES

cc: B. John Williams, Jr., Chief Counsel, Internal Revenue Service  
Emily A. Parker, Deputy Chief Counsel (Operations)  
Gary B. Wilcox, Deputy Chief Counsel (Technical)