



BANCO POPULAR

EDUARDO J. NEGRÓN - MÉNDEZ, ESQ.
Senior Vice President, Director of the Legal Division
& Assistant Secretary

June 8, 2004

The Honorable Bill Thomas
Committee on Ways and Means
1100 Longworth House Office Building
Washington, DC 20515

Dear Chairman Thomas:

On behalf of Popular, Inc. ("Popular") and its 11,300 employees on the US Mainland and in the Commonwealth of Puerto Rico, I wish to express my appreciation for your leadership in advancing legislation (H.R. 4250, the "American Jobs Creation Act of 2004") to bring the United States into compliance with its World Trade Organization obligations by repealing the extraterritorial income exclusion export tax regime. Had it not been for your steadfast guidance and determination, the House of Representatives would not be poised to pass this meaningful legislation.

As one of the largest Small Business Administration lenders in the United States, Popular is particularly interested in those provisions of H.R. 4250 that would make the United States a more competitive location for manufacturing and employment while also reforming the U.S. international tax regime. Popular thus supports H.R. 4250 and urges the House of Representatives to act quickly on this important legislation.

I wish to also take this opportunity to bring to your attention another issue that affects Popular that seems natural to include in legislation dealing with international tax issues. In most cases under current law, the 30% U.S. withholding tax on direct dividends is reduced or eliminated when a U.S. subsidiary distributes a dividend to its foreign parent corporation. For example, in the most recent treaties with the United Kingdom and Australia, as well as a Protocol to the Mexican treaty, the United States has agreed to reduce the 30% U.S. withholding tax on direct dividends to zero. The tax is similarly eliminated in the case of corporations organized under the laws of certain possessions of the United States listed in Internal Revenue Code Section 881(b). Because Puerto Rican companies such as Popular are ineligible for this relief, they operate at a competitive disadvantage relative to corporations in the U.S. territories listed in Code Section 881(b) and foreign companies headquartered in countries that have U.S. tax treaties. As H.R. 4250 moves through the legislative process we ask that you consider including a provision that adds Puerto Rico to Section 881 (b).

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Page 2

Again, thank you for your leadership and sponsorship of the American Jobs Creation Act of 2004. Please do not hesitate to ask if I can assist you in your efforts to secure House passage, successfully reconcile differences with the Senate bill, and send this important legislation to the President for signature.

Sincerely,

A handwritten signature in cursive script that reads "Eduardo J. Negrón-Méndez".

Eduardo J. Negrón-Méndez
Senior Vice President
Legal Division & Governmental Affairs