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Grassley Calls for Probe Into Tax Decision Favoring Banks

By Amit R. Paley
Washington Post Staff Writer
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A key senator called yesterday for an investigation by the Treasury Department's top watchdog into a tax policy decision that will provide a windfall to the banking industry that tax analysts say could reach $140 billion.

The demand by Sen. Charles E. Grassley (R-Iowa), the ranking member on the Finance Committee, comes four days after The Washington Post reported that the change two months ago was described as illegal by more than a dozen legal experts and several congressional aides. The Treasury has said it had the authority to make the decision.

"Treasury didn't involve Congress, so there were no checks and balances to vet the policy," Grassley said in a statement. "The relationships of the players involved might give the appearance of conflicts of interest. I'm asking the inspector general to look at Treasury's move after the fact and make sure the agency was fair, unbiased and above board in its actions."

Eric M. Thorson, the department's inspector general, said he could not comment on any investigation but would respond to Grassley's request. Treasury spokesman Andrew C. DeSouza declined to comment.

The controversy revolves around a five-sentence notice issued by the Treasury on Sept. 30, as Congress was absorbed in the Bush administration's request for a $700 billion bailout of the banking industry. The provision, known as Section 382 of the tax code, limited a kind of shelter arising in corporate mergers.

In a letter to Thorson, Grassley asked for an investigation of the circumstances leading to the issuance of the notice and possible conflicts of interest between the Treasury and banking officials.

The tax change made it more attractive for Wells Fargo to acquire Wachovia despite a pending bid from Citigroup. The Wells Fargo bid potentially enabled Wachovia executives, including chief executive Robert Steel, to qualify for compensation that would have been unavailable under the Citigroup deal.

Grassley pointed out that Steel, a former undersecretary for domestic finance at the department, was previously a vice chairman at Goldman Sachs, once headed by Treasury Secretary Henry M. Paulson Jr.

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