

[March 8, 1965]

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EXPLANATION BY THE DEPARTMENT OF THE TREASURY OF THE ACT TO REMOVE TAX BARRIERS TO FOREIGN INVESTMENT IN THE UNITED STATES

Mr. MILLS. Mr. Speaker, I ask unanimous consent that there be inserted at this point in the RECORD an explanation prepared by the Treasury Department of the bill H.R. 5916 which I introduced today entitled "An act to remove tax barriers to foreign investment in the United States." I am advised by the Government Printing Office that the estimated cost of printing this explanation is \$343. Notwithstanding the cost I request that this be inserted in the RECORD.

The SPEAKER. Is there objection to the request of the gentleman from Arkansas?

There was no objection.

The matter referred to follows:

EXPLANATION OF H.R. 5916, AN ACT TO REMOVE TAX BARRIERS TO FOREIGN INVESTMENT IN THE UNITED STATES

(Prepared by the Treasury Department)

GENERAL EXPLANATION

Introduction

In his balance-of-payments message of February 10, 1965, the President proposed a series of measures designed to reinforce the program to correct the balance-of-payments deficit of the United States. Among the proposals made by the President is one to remove the tax deterrents to foreign investment in U.S. corporate securities so as to improve our balance of payments by encouraging an increase in such investment. The recommended legislation described herein would effectuate this proposal.

The review of the tax treatment of non-resident foreigners and foreign corporations investing in the United States resulting in these legislative recommendations was prompted in large measure by the report of the Task Force on Promoting Increased Foreign Investment in U.S. Corporate Securities. This task force, which was headed by the then Under Secretary of the Treasury, Henry H. Fowler, was directed, among other things, to review U.S. Government and private activities which adversely affect foreign purchases of the securities of U.S. private companies. In its report, the task force made 39 recommendations designed to help the United States reduce its balance-of-payments deficit and defend its gold reserves. Among these were several directed at changing the tax treatment of foreign investors

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so as "to remove a number of elements in our tax structure which unnecessarily complicate and inhibit investment in U.S. corporate securities without generating material tax revenues." The task force report cautioned, however, that its tax recommendations were not intended to turn the United States into a tax haven, nor to drain funds from developing countries.

The legislation being requested deals with all of the tax areas discussed in the task

force report, although in certain instances the action suggested differs from the proposals made by the task force. Furthermore, the draft bill contains recommendations in areas not mentioned in the task force report which deal with problems which came to light in the Treasury Department's study of the present system of taxing nonresident foreigners and foreign corporations. It should be emphasized that the recommendations embodied in the proposed legislation were considered not only from the viewpoint of their impact on the balance of payments, but also to insure that they contributed to a rational and consistent program for the taxation of foreign individuals and foreign corporations. Thus, all legislative suggestions made herein are justifiable on conventional tax policy grounds.

It is estimated that the adoption of these proposals would result in a net revenue loss on an annual basis of less than \$5 million.

Foreign purchases of U.S. stocks constitute the largest single source of long-term capital inflow into the United States, with even greater potential for the future. Net purchases have averaged \$190 million a year between 1956 and 1963, while the outstanding value of foreign-held stocks has risen from \$6.1 to \$12.5 billion during this period. It is extremely difficult to measure the precise impact of this proposed legislation on our balance of payments because of the various factors affecting the level of foreign investment in the United States. It is anticipated that, when combined with an expanding U.S. economy, the proposed legislation will result over the years in a significant increase in such investment.

Most provisions of the draft bill are proposed to become effective to taxable years beginning after December 31, 1965. However, those provisions which provide a revised estate tax treatment for the estates of foreigners are made applicable to the estates of decedents dying after the date of enactment of the proposed legislation. In addition, those special provisions applicable to U.S. citizens who have surrendered their U.S. citizenship are made applicable if the surrender occurred after March 8, 1965.

Specific recommendations

The following paragraphs describe the specific changes in the Internal Revenue Code of 1954 which are proposed. For this purpose the technical language of the Internal Revenue Code has been used, e.g., foreigners are described by the technical term "alien."

1. Graduated rates: Eliminate the taxation at graduated rates of U.S. source income of nonresident alien individuals not doing business in the United States.

Under present law, nonresident aliens deriving more than \$21,200 of income from U.S. sources are subject to regular U.S. graduated rates and are required to file returns. However, graduated rates on investment income already are eliminated by treaty in the case of almost all industrial countries, except where a taxpayer is doing business in the United States and has a permanent establishment here. Only a very small amount of revenue is collected from graduated rates at present. For example, for 1962 graduated rates resulted in the collection of \$746,743 above the taxes already withheld. Although graduated rates are rarely applicable they complicate our tax law and tend to frighten and confuse foreign investors.