tax of 70 percent on its undistributed personal holding company income. Moreover, if any such corporation derived more than 50 percent of its gross income for a 3-year period from U.S. sources, that percentage of its dividends equal to the percentage of its gross income derived from U.S. sources is treated as U.S. source income to the shareholders themselves and taxed accordingly.

Reciprocal tax treaties in effect with most of the industrialized countries of the world modify the basic provisions of the Internal Revenue Code which are summarized above. Most of the treaties reduce the rate of withholding tax on dividends and interest paid to residents (both individuals and corporations) of the treaty country. Typically the rate is reduced from 30 percent to 15 percent on dividends and from 30 percent to 15 percent, or in some cases zero, on interest. The provisions for progressive taxation of individuals whose income from U.S. sources in any year exceeds $19,000 generally are eliminated. Certain treaties eliminate capital gains tax liability. Most of the benefits available to foreign investors under the treaties are restricted to residents of the treaty country who are not engaged in trade or business within the United States through a permament establishment.

Specific Recommendations

Our recommendations have been conceived as a package, designed in part to simplify the tax laws and reporting requirements applicable to foreign investors, in part to reduce taxation of foreign investors and in part to make evident to the world that the United States welcomes foreign investment. To the degree that the package approach is discarded and the package is broken down into its components, some being accepted and other rejected, more of the potential impact will be lost than might necessarily be expected by analysis of the financial effect of any particular proposal.

The major source of U.S. tax revenue from foreign investors is the withholding tax currently imposed on dividends and interest paid such investors by U.S. corporations. We have not recommended the removal of, or a reduction in, this tax. Thus adoption of our recommendations would not materially reduce tax revenues and would leave intact the major bargaining point for the United States should it desire in the future to negotiate new or modified reciprocal tax treaties with other countries.

The withholding tax on dividends and interest, in some cases, certainly deters investment by foreigners in the United States, and the different rates of withholding tax provided by the Code and the various treaties are a source of confusion. The United States should, however, first attempt to attract foreign investment by