

attacking the several areas of taxation that deter investment without generating material revenues.

Adoption of our recommendations would not eliminate the need to extend and modernize our tax treaties. Among other desirable changes: the United States should work for the reciprocal reduction of withholding taxes on dividends and interest and toward reciprocal elimination of all taxes on the income of pension trusts and similar investors that are exempt from tax in their country of residence. Such changes will, however, take time.

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*Recommendation No. 29:*

Eliminate U.S. estate taxes on all intangible personal property of nonresident alien decedents.

U.S. estate taxes, especially as applied to shares of U.S. corporations owned by nonresident alien decedents (which are subject to U.S. estate taxes irrespective of whether they are held in this country or abroad), are believed to be one of the most important deterrents in our tax laws to foreign investment in the United States. U.S. estate tax rates are materially in excess of those existing in many countries of the world and, despite the treaties in effect with several countries, the taxes paid on a nonresident alien decedent's estate, some portion of which is invested in the United States, generally would be greater than those paid on a nonresident alien decedent's estate, no portion of which is invested in the United States. We understand that the revenues received by the United States as a result of estate taxes levied on intangible personal property in estates of nonresident alien decedents are not large.

Under existing U.S. tax law, a foreigner willing to go through the expense and trouble of establishing a personal holding company, incorporated abroad, and assuring himself that this personal holding company does not run afoul of the U.S. penalty taxes on undistributed personal holding company income, can already legally avoid estate taxes. Consequently, for such an investor U.S. estate taxes are avoidable through complicated and expensive procedures, while for other foreign investors they are likely to result in a considerable tax penalty. This is an unsound situation which directly deters foreign investment in the United States and significantly worsens the overall image of this country as a desirable place to invest.