

Since the application of the U.S. estate tax to foreigners is one of the biggest barriers to foreign investment in the United States, its reduction is probably the most important of the major changes. For example, the proposed change would reduce the estate tax for a foreigner with a U.S. gross estate of \$100,000 from about \$17,300 to about \$3,000. A U.S. citizen would pay about the same tax on such an estate if he did not claim the marital deduction, and would pay no tax if he did. (Foreigners are not allowed to claim the marital deduction.)

The proposed legislation also contains provisions dealing with former U.S. citizens who in the future give up their citizenship and live outside the United States in order to avoid U.S. taxes. It would require such former citizens to pay regular U.S. income and estate taxes on income from or property in the United States, if they gave up their U.S. citizenship less than 10 years before. This would not apply to former citizens who could show that the surrender of their citizenship was not tax motivated.

There are also other provisions designed to contribute to more rational and consistent tax treatment of foreigners and foreign corporations.

(A general explanation of the proposed legislation is attached.)

ACT TO REMOVE TAX BARRIERS TO FOREIGN INVESTMENT IN THE UNITED STATES

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 nonresident 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 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 billion 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