

In order to stimulate greater inflow of capital from advanced industrial countries, the Secretary of the Treasury will request legislation generally along the lines recommended by a Presidential task force.

Following the initial establishment of the task force in the fall of 1963, it conducted a very intensive examination of the situation both here and abroad. In April 1964, it issued its report containing some 39 recommendations calling for a broad range of actions by U.S. international business organizations and financial firms, as well as by the Federal Government, to bring about broader foreign ownership of U.S. corporate securities.

I would like to interpolate that it was my privilege to serve as chairman of this group and that I have never seen a group of men who so conscientiously and generously devoted their time, effort, and personal resources to such a careful and earnest study of a problem. Although the task force report which emerged was small in terms of bulk, and very sharp and concise on the various areas of concern, the tremendous body of accumulated information and experience made available through the group was synthesized in the preparation of the report. I think not only the President, but the Congress and the general public as well, should be grateful to those who participated in this activity, particularly those in the private sector.

Among the recommendations directed toward the Government, those dealing with the taxation of foreign individuals and foreign corporations have the most significant and immediate impact.

Issuance of the task force report prompted a broad and intensive review by the Treasury of the rules governing taxation by the United States of foreign individuals and foreign corporations.

This review considered these rules not only from the standpoint of the balance of payments, but also from the viewpoint of conventional tax policy considerations.

As a result of this review, the Treasury Department on March 8, 1965, submitted to the Congress legislation containing not only proposals in all of the tax areas dealt with in the task force report, but also in other areas where it appeared that change was desirable to make the present system more consistent with rational tax treatment of foreign investment.

The Treasury Department agrees with the task force conclusion that many of the existing rules applicable to foreign investors in the United States are outmoded and not only serve to deter foreign investment but are inconsistent with sound tax policy. These rules were enacted many years ago and do not reflect the changes in economic conditions which have occurred over the last 15 years.

Examples of tax rules which impede foreign investment in this country are many: The present level of our estate tax—higher on foreigners than on U.S. citizens—is completely out of line with the rates generally prevailing elsewhere in the world and acts as a significant deterrent to potential foreign investors. Also, the fact that we require tax returns from foreigners merely because they make passive investments here is inconsistent with international tax practice and hinders foreign investment. These and other provisions in the Internal Revenue Code contribute to the widely held view that investment in U.S. securities poses such serious tax problems for the ordinary foreign investor that it cannot be undertaken without the benefit of expensive tax advice.