

would be little improvement in the balance of payments. More important than the small tax savings to foreigners, however, is the substantial effect which will result from the simplification and rationalization of our tax treatment of foreign investors.

Our high estate tax on foreigners, for example, is widely considered by experts to be one of the biggest barriers to foreign investment. While the change in the estate tax proposed by H.R. 5916 would eliminate \$3 million out of about \$5 million of tax levied each year, existing estate tax rates almost certainly deter many foreigners from investing here at all. This is particularly so when the exemption is limited to only \$2,000—any investment whatsoever will subject the estate to tax and require filing of an estate tax return, with the resulting expenses. It is not surprising under these circumstances that the small foreign investor avoids purchasing U.S. stocks because of the inconvenience of the estate tax; the big investor also avoids such purchasing but because of the size of the tax itself.

Viewed in this light, it is clear that the changes contained in H.R. 5916 should in time materially increase the volume of foreign investment in the United States. Based on the sizable potential for foreign purchases of U.S. corporate stocks which is known to exist, we expect that the legislation will eventually result in an additional capital inflow on the order of \$100 million to \$200 million per year, other factors remaining unchanged. Considerable time—perhaps 1 to 2 years or maybe more—will be required before foreigners can complete the adjustment of their portfolios to take advantage of H.R. 5916, but a substantial impact may be felt in the period just ahead.

Specific proposals contained in H.R. 5916: I will review the principal substantive changes which are embodied in the proposal.

First, as to the estate tax it is generally felt that our current system of taxing the U.S. estates (involving only the U.S. assets) of foreign decedents is inequitable and constitutes one of the most significant barriers in our tax laws to increasing foreign investment in U.S. corporate securities.

Under present law, a foreign decedent is taxable at regular U.S. estate tax rates, ranging up to 77 percent, on U.S. property held at death. Moreover, the U.S. estates of foreign decedents are entitled only to a \$2,000 exemption, compared with a \$60,000 exemption available to U.S. citizen decedents, and are not entitled to the marital deduction available to U.S. citizen decedents. Thus, U.S. estate tax rates applied to nonresidents are in most cases considerably higher than those of other countries and therefore foreigners who invest in the United States suffer an estate tax burden. In addition, a foreign decedent's estate must pay heavier estate taxes on its U.S. assets than would the estate of a U.S. citizen owning the same assets.

H.R. 5916 would increase the exemption for the U.S. estates of foreign decedents from \$2,000 to \$30,000 and would tax such estates on the basis of a 5-, 10-, 15-percent rate schedule. With this significant increase in the exemption and sharp reduction in rates, the effective U.S. estate tax rate on foreign decedents would no longer be considerably higher than most other countries and would be more closely comparable to the rates prevailing elsewhere.

This change should have an important psychological effect on foreigners contemplating investment in U.S. securities. Where the gross U.S. estate would be less than \$30,000, there would be no