

a foreign investor who could invest that money here in the United States and thereby escape the taxes that would ordinarily be paid?

Secretary FOWLER. This is, of course, the problem that we contend with constantly in our current laws as they are written. I don't believe that the changes before you will materially or substantially change the challenge that always exists to the Internal Revenue Service to deal with that kind of problem.

I think that the principal concern that we have in that regard is reflected in the proposal having to do with treatment of expatriate American citizens. Although there might be some differences, as Congressman Curtis has indicated, about whether the test proposed is the most practical one, we do think some such provision, either that provision or a better provision, is necessary to deal with the problem of the American citizen who would give up his citizenship in order to take advantage of these particular provisions.

Mr. BURKE. Do you think there are sufficient safeguards in this bill to guard against that?

Secretary FOWLER. I think we would take the position that there are sufficient safeguards. I think experience might prove that something more would be necessary, but I think this would be the right basis on which to begin.

Mr. BURKE. Under the provisions of this bill let's just take a hypothetical case. Suppose some company wanted to open up a manufacturing plant here in America, say, for one of these small foreign cars and they invested here in the plant, bought the real estate, owned it lock, stock, and barrel, wouldn't they be in a rather advantageous position over their American competitor?

Secretary FOWLER. I don't think that this bill would change that situation in any particular. The only area which would be at all concerned is if the same concern, in addition to dealing in foreign cars, acquired a number of U.S. corporate securities and earned a good deal of investment income collateral to its regular business.

Then that portion of its income which could be attributed to investment income would be affected by some of the changes, sometimes better and sometimes worse, by the provisions of this bill.

Mr. BURKE. Is there anything in the provisions of this bill whereby there is American money sent abroad to a foreign investor who would invest here in this country and yet that American money is actually part of this foreign investment firm?

Do they receive the benefits of this bill?

Secretary FOWLER. I think what you have in mind is a beneficial real ownership which is masked by what purports to be an outright transfer of funds or release of funds. The situation would be exactly the same as it is today. We have that enforcement problem that we contend with. I don't think it is terribly serious, but it is something that the Internal Revenue Service has to be constantly alert to.

I don't believe that this bill will substantially affect or induce that kind of practice any more than is the case under our tax laws today.

Mr. BURKE. What I am referring to is where American money buys stock, say, in a foreign corporation as an investment corporation in the foreign country and that corporation in turn invests its money back over here.

Secretary FOWLER. I would like to think about it a little bit more and perhaps supply a full answer to your inquiry, Congressman