

(Letter to Mr. Mills from Mr. Meyer and Mr. Eaton follows:)

NEW YORK, N.Y. June 24, 1965.

Re H.R. 5916: Fowler task force.

Hon. WILBUR D. MILLS,
Chairman, Committee on Ways and Means,
U.S. House of Representatives,
1102 Longworth House Office Building,
Washington, D.C.

DEAR MR. MILLS: The undersigned were members of the Task Force on Promoting Increased Foreign Investment in U.S. Corporate Securities and were assigned the primary responsibility for the tax recommendations of the task force. We are submitting this letter in response to your announcement of June 18, 1965, inviting interested persons to submit statements on H.R. 5916.

H.R. 5916 implements most of the substantive tax recommendations contained in the task force report and we urge strongly that this bill be given prompt and favorable consideration by your committee.

There are, however, certain areas in which we believe the current text of H.R. 5916 would fail to achieve the objectives of the task force.

I. ESTATE TAX

The bill would substantially reduce estate tax rates on estates of nonresident alien decedents. Although this rate reduction may help to increase foreign investment in the United States, it falls considerably short of the task force recommendation that all estate taxes on the intangible property of nonresident alien decedents be eliminated. The task force's recommendation reflects the strong opinion of its members that the severe deterrent effect of U.S. taxation of the estates of nonresident alien decedents cannot be eliminated merely by a reduction in rates. The problem is in very large part psychological resulting from the great reluctance of many potential foreign investors to subject themselves to possible liability for any type of capital levy imposed by another country or to the requirement of filing tax returns in another country.

It is the opinion of the task force that the ability of the United States and foreign banks and securities firms to inform their foreign clients that the purchase of U.S. corporate securities would under no circumstances subject them to U.S. estate taxes or the requirement of filing a U.S. estate tax return would be an important stimulus to the sale of U.S. corporate securities to foreign investors. H.R. 5916 falls short of this goal.

We have been advised that the aggregate of all U.S. estate taxes paid by foreigners on their U.S. property has been in the neighborhood of \$3 million to \$6 million annually; the proposed new rates undoubtedly would reduce this figure substantially. Thus, adoption of the task force recommendation would involve no large loss of revenue to the United States. We would hope that you would not find this loss of revenue important, particularly in comparison with the very real stimulus to the sale of U.S. corporate securities to foreign investors which would result from adoption of this recommendation.

II. FOREIGN UNDERWRITERS AND SECURITIES DEALERS

We are enclosing a separate memorandum discussing, in some detail, certain problems arising under the provisions of H.R. 5916 relating to the taxation of securities profits of resident foreign corporations and the effect of discretionary authority given to a U.S. agent in connection with securities and commodities trading activity.

One of the problems set forth in the enclosed memorandum is of vital importance to the entire program of promoting increased foreign investment in U.S. corporate securities. Increasingly, U.S. investment banking houses, in response to the recommendations of the task force and to President Johnson's appeal, have included foreign banks and securities firms in underwriting syndicates and selling groups formed to distribute U.S. equity securities. As a result of this trend more than \$75 million of such securities have been sold to foreign investors in recent months. (A report furnished to your committee by Ambassador Robert M. McKinney, executive officer of the task force, will further document this trend.)

The task force had made the following recommendation:

"Clarify the definitions of engaging in trade or business to make it clear: (i) that a nonresident alien individual or foreign corporation investing in the United