The legislation as written can be strengthened in several ways, though, as discussed below, and moved closer to its objective of providing greater stimulus to foreign investment. In addition, the effectiveness of a program to encourage foreign investment in U.S. securities may be enhanced by adopting several measures not included in the tax bill.

First, concerning the bill itself, the exchange suggests the following adjustments:

1. *Elimination of estate tax on nonresident aliens.*—Section 8 of the bill proposes that estate tax rates be reduced to 20 to 30 percent of present levels, thereby taxing nonresident aliens at about the same rates as U.S. citizens who claim a marital deduction. This proposal stops considerably short of the Fowler committee recommendation to "eliminate U.S. estate taxes on all intangible personal property of nonresident alien decedents." Though the proposed rates would be below those imposed on resident estates in the United Kingdom, Canada, and Italy, they would be higher than those imposed in Switzerland, Germany, France, and the Netherlands. Thus, the proposal favors the residents of some countries while discriminating against those of others.

The complete elimination of estate taxes would result in a much greater stimulus to foreign investment than any partial reduction in rates. First, since even the proposed tax rates are higher than those now levied in many other countries, this deterrent to investment by residents of those countries would remain. Second, many foreigners are discouraged from investing here by the requirement to file estate tax returns. This requirement would, of course, be eliminated if the tax were removed.

Eliminating the estate tax on nonresident aliens would result in a very small loss of revenue. The tax has yielded between $3 and $5 million annually in recent years, and would probably yield only about $1 million under the proposed legislation.

Even if the rate schedule proposed in the bill is adopted, all estates of over $2,000 will apparently still be required to file a return despite an increase in the exemption from $2,000 to $30,000. Again, since the filing requirement discourages foreign investment, the exchange suggests that estates of under $30,000 be exempted from reporting.

In addition, if it is administratively feasible, section 2105 of the Internal Revenue Code should be amended so that all funds awaiting investment would not be considered property within the United States for estate tax purposes. Nonresident aliens' deposits in banks and savings and loan associations are not considered property under the proposed legislation, and this exemption might appropriately be extended to their free credit balances with brokers.

2. *Definition of "engaged in trade or business."*—The legislation proposes to amend section 871, subsection c of the Code, to (*a*) exclude from the term "engaged in trade or business within the United States," "trading in stocks or securities for one's own account, whether transactions are effected directly, or by way of an agent, through a resident broker, commission agent, custodian, or other independent agent, and, except where the person so trading is a dealer in securities, whether or not any such agent has discretionary authority to make decisions in effecting such transactions" and (*b*) to apply a similar exclusion to those trading in commodities for their own account.

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