

porate tax rate on interest received by it on debt securities it owns. The bill proposes to give special treatment to the dividend income received by foreign corporations engaged in business in the United States, but makes no special provision for interest income received by such corporations. Thus, the present method of taxation of interest income would continue, and foreign corporations would be discouraged from investing in debt securities. This would keep foreign corporations engaged in business here from investing in debt securities here and would, in other cases, result in "unnecessarily complex arrangements for foreign portfolios containing investments in U.S. securities." Therefore interest received by a foreign corporation doing business in the United States should be treated as nonbusiness income (like dividends). Such avoidance possibilities as may appear should be dealt with directly and specifically.

*Shearman & Sterling*

Schlumberger, Ltd. (SL) is a foreign corporation with its principal office in the United States. It has two wholly owned domestic subsidiaries, each of which own a number of domestic operating subsidiaries. (It presently plans to merge the two domestic subsidiaries into a single domestic holding company.) Under H.R. 5916, SL would pay a 30-percent tax on the dividends from its subsidiary or subsidiaries. It would pay a lower rate of tax (5 percent) if it could qualify for the special treatment in the Netherlands Antilles Treaty. However, it cannot qualify for that treatment because the income of its subsidiary will be dividend income. Accordingly, H.R. 5916 should be amended to provide that dividend income received by a U.S. corporation from a subsidiary corporation shall not be treated as "dividend income" for certain treaty purposes. Alternatively, for purposes of qualifying for the special treaty treatment, the U.S. holding companies should be permitted to compute their income on a consolidated basis as if all operations were owned directly [by a single entity.

*G. Keith Funston (a member of the task force), representing the New York Stock Exchange*

Repeal or reduce the withholding tax on interest and dividends paid to foreign corporations.

*IV. Estate tax on nonresident aliens (sec. 8 of the bill)*

The bill would amend the law to increase from \$2,000 to \$30,000 the exemption from estate tax for nonresident aliens. In addition, the rates at which the estate would be taxed would be greatly lowered the tax beginning at 5 percent on the first \$100,000 and never going over a 15 percent rate.

*Comments*

*Association of the Bar of the City of New York, Committee on Taxation*

The expatriation proposals in sections 3, 8, and 9 of the bill are too harsh. They introduce many complexities not warranted by the problem of U.S. expatriates.