

HUBACHEK, KELLY, MILLER, RAUCH & KIRBY,
ATTORNEYS AT LAW,
Chicago, Ill., February 14, 1966.

Re Section 8 of H.R. 11297.

HON. WILBUR D. MILLS,
*Chairman, Committee on Ways and Means,
House of Representatives,
Washington, D.C.*

DEAR CONGRESSMAN MILLS: The stated purposes of H.R. 11297 are to modernize the present U.S. tax treatment of foreigners and to encourage foreign investment in the United States. Section 8 of that bill, which revises the U.S. estate taxation of nonresident alien decedents, obviously fails to achieve these purposes. In fact, enactment of this section 8 would have a decidedly adverse effect on our balance-of-payments position.

The President's task force flatly stated that the present U.S. estate tax situation constitutes one of the major deterrents to foreign investment in this country and recommended complete elimination of the tax on intangible personalty owned by nonresident alien decedents. Section 8 of H.R. 11297 proposes new estate tax rates on nonresident alien decedents ranging up to 25 percent and at the same time broadens the present estate tax base by requiring the inclusion of U.S. corporate bonds (located outside the United States) and bank deposits, which are exempted under present law. This proposal is absurd. It completely ignores the task force recommendation and reality. Foreigners will not be encouraged to invest more money here. Far from it. They will simply liquidate their present U.S. bond investments and bank accounts and take the proceeds abroad to escape the U.S. tax. The result would be an immediate gold drain in the hundreds of millions of dollars. Furthermore, section 8 could have a disastrous effect on the present efforts of U.S. corporations to obtain foreign financing. For example, in 1965, U.S. corporations placed abroad a total of \$339 million in Eurodollar bonds and are already placing an additional \$190 million so far this year. By subjecting these bonds to possible U.S. estate tax, section 8 could seriously impair their market and force U.S. corporations to finance their foreign operations with U.S. dollars.

If the Congress really means business about wanting to improve our disastrous balance-of-payments situation, the task force estate tax proposal should be adopted. As a possibly acceptable alternative, estate tax rates no higher than the 5-10-15 percent scale which you proposed in H.R. 5916 should be adopted and the present estate tax exemption of bank accounts and bonds should be retained. I have attached a substitute version of section 8 of H.R. 11297 which reflects this outside alternative. I urge you to recommend to your committee that either the task force proposal or this substitute for section 8 be adopted.

Respectfully yours,

GEORGE W. RAUCH.