

The National Foreign Trade Council had commented on the earlier bill in a letter to you dated July 7, 1965, indicating a general approval of that bill as being in accord with the legislative recommendations of the Fowler Task Force, which had been appointed to advise on ways in which more U.S. securities could be sold abroad to help meet the balance-of-payments problem. Three recommendations for changes in H.R. 5916 were submitted to you at that time.

The National Foreign Trade Council has reviewed H.R. 11297 from the standpoint of the stated policy of the report of the Fowler Task Force. The present bill, like the earlier bill, would make important changes in U.S. taxation of foreign investors in U.S. securities which should help to encourage investments in the United States. However, certain other changes made in the later bill would appear to be contrary to the general policies set forth in the report of the Fowler Task Force. These changes are as follows:

1. The increases in the estate tax rates on nonresident individuals, as compared with those in H.R. 5916, and the inclusion in the taxable estate of bank deposits owned by nonresident alien individuals not engaged in trade or business in the United States, tend to work contrary to the purpose of this legislation.

2. The taxation of interest on bank deposits received after 1970 by nonresident alien individuals and foreign corporations not engaged in trade or business in the United States eliminates from our law a longstanding inducement to the making of such investments in the United States.

3. The proposal to tax nonresident aliens and foreign corporations engaged in trade or business in the United States on income from sources outside of the United States, if it is "effectively connected" with the U.S. trade or business, is a radical extension of the existing scope of our tax law. Its effect would be contrary to the purposes of this bill. It is a major change of policy which the council believes is unwarranted and at least deserves careful and separate consideration. It is in conflict with most treaties with regard to the taxation of U.S. branches of foreign companies, and therefore would be inoperative in those cases.

These matters are discussed in somewhat greater detail in the attached memorandum.

The Fowler Task Force did not recommend the elimination of U.S. withholding tax on dividends and interest paid to nonresident alien individuals and foreign corporations, apparently because of the expected reduction of revenue and the possible adverse effect on the bargaining power of the United States in treaty negotiations. However, elimination of the tax would be a major incentive to foreign investment in the United States which might well justify the loss of revenue, and the President's power under proposed section 896 to reinstate existing income tax provisions, would preserve the treaty bargaining power. The National Foreign Trade Council therefore suggests that your committee consider the elimination of tax on dividends and interest paid to nonresident aliens and foreign corporations, if such interest is not effectively connected with a trade or business in the United States.

The National Foreign Trade Council believes that the foregoing matters are sufficiently important that hearings should be held on this