

shareholders. If subsequent investigation or audit discloses that the corporations in question were personal holding companies, especially since only U.S. source income is considered, the corporations may be placed in an impossible position. It is not believed that any useful purpose is served by continuing the present rule, and it is suggested that past inequities caused by this rule be corrected by making the suggested change retroactive.

Bill section 4(b)(1) : IRC section 882(e)—Corporate return by agent

Proposed section 882(e) does not differ from current law, but a clarification in language may nevertheless be desirable. The provision states that if a foreign corporation has an agent but not an office or place of business in the United States, its tax return "*shall* be made by the agents [emphasis supplied]. It would appear preferable to add at the end of the sentence, immediately following the quoted phrase, "unless such return is made by the foreign corporation directly."

Bill section 4(k)—Effective dates

The amendments made by section 4 of the bill are applicable, generally, in respect of taxable years beginning after December 31, 1965. As previously recommended in respect of proposed section 882(c)(2) of the code, if the dividends paid deduction is allowed for personal holding company tax purposes, whether or not a return is filed by a foreign corporation, such change should be made retroactive to 1954. Consideration should also be given as to whether the proposed revision of section 542(c) (sec. 4(f) of the bill), exempting a foreign corporation from personal holding company status if all its stock during the last half of a taxable year is owned by nonresident-alien individuals, should not also be made retroactive.

Dated January 15, 1966.

STATEMENT OF G. KEITH FUNSTON, PRESIDENT,
NEW YORK STOCK EXCHANGE

SUMMARY

The New York Stock Exchange enthusiastically supports the basic goals of the proposed legislation—to increase incentives for foreigners to invest in the United States. We regard the bill as a vital and necessary step toward inducing foreigners to invest here. It accepts a contention long held by the exchange regarding the need to unfetter international securities transactions from overly rigid constraints. It moves significantly toward the recommendations of the Presidential Task Force on Promoting Foreign Investment and Increased Foreign Financing headed by now Secretary of the Treasury Henry H. Fowler. One of the stated objectives of that report was, "To help establish conditions under which restraining influences on capital flows between the industrially advanced nations * * * can be removed, diminished, or allowed to expire." If U.S. taxation of foreign investors and other inhibiting factors are alleviated and our private selling efforts are reinforced, given the favorable prospects for the U.S. economy, it is not unreasonable to expect the savings