

basic purpose of stimulating foreign investment in the United States. Specifically, the provisions which make bank deposits of foreigners subject to the estate tax, and which provide that foreigners, whether or not they are engaged in business here, would, after 1970, be taxed on the interest they receive on deposits in U.S. banks and savings and loan associations, will surely lead to a sizable outflow of foreign capital.

At the end of October 1965, total banking liabilities to foreigners amounted to close to \$30 billion. The Treasury estimates that perhaps \$5 billion of these deposits would be potentially subject to either the estate tax or to annual taxation of interest income. It seems reasonable to assume that part, perhaps the major part, of this \$5 billion would be withdrawn over a period of time from the U.S. banks in response to these changes.

Consequently, the exchange strongly urges that the proposed legislation be revised to omit those sections which change the treatment of bank deposits of foreigners. An impediment to the free flow of international capital funds will thereby be avoided and our balance-of-payments position will not be damaged.

Apart from these sections, the legislation as written can be materially strengthened in several other ways, as discussed below, and moved closer to its objective, as outlined by the Fowler Committee, 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.

Consequently, the exchange suggests the following adjustments and additions:

1. *Elimination of estate tax on nonresident aliens.*—Section 8 of the bill proposes that estate tax rates be reduced to between 25 and 40 percent of present levels, thereby taxing nonresident aliens at about the same rates as U.S. citizens who claim a marital deduction. We recommend the complete elimination of estate taxes on nonresident aliens. This would provide a much greater stimulus to foreign investment in the United States than any rate reduction, and therefore be a much greater help to our balance of payments. First, many foreigners are discouraged from investing here by the existing requirement that they file estate tax returns. This deterrent would be removed if the tax were eliminated. Second, since even the proposed tax rates are higher than those now levied in many countries, investment by residents of those countries would still be discouraged.

The rates now in the bill are higher than the ones proposed by the administration, and stop far 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 levied 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 legislation favors the residents of some countries while discriminating against those of others.

Elimination of the estate tax on nonresident aliens would result in a very small revenue loss. The tax has produced revenues of between \$3 and \$5 million annually in recent years, and would probably yield