

only about \$1 million under the proposed legislation. An additional revenue loss of \$1 million would seem to be a very small price to pay for the removal of a major deterrent to foreign investment. The benefits of the change to our balance of payments would in itself be ample compensation for the revenue loss.

2. *Elimination of situs rule on bonds.*—If the rate schedule proposed in the legislation is adopted, the exchange strongly urges that the situs rule regarding bonds not be changed. A change in the situs rule would have a decidedly adverse effect on the balance of payments.

Under President Johnson's voluntary program to reduce capital outflows, American companies are being urged to finance their overseas investments through local borrowing. Over \$300 million worth of bonds were floated in Europe in 1965 in response to the President's appeal. The proposed change in the situs rule could jeopardize this program by placing an unnecessary block on the efforts of American firms to finance their overseas expansion in foreign capital markets. Foreign investors would clearly become reluctant to purchase bonds of American companies if this exposed them to U.S. estate taxation. Moreover, it would be extremely difficult administratively to enforce this change in the law. Since bonds are generally issued in bearer form, we know of no practical way of identifying their owners for tax collection purposes.

3. *Exemption of free credit balances from estate taxation.*—The exchange also suggests, if foreigners remain subject to the estate tax, that section 2105 of the Internal Revenue Code be amended so that all funds awaiting investment not be considered property within the United States for estate tax purposes. This should apply not only to deposits in banks and savings and loan associations, but also to free credit balances with brokers.

4. *Definition of "engaged in trade or business."*—The exchange wishes specifically to endorse the language referring to "trading in securities or commodities" under the revision of section 864 of the Internal Revenue Code. The language pertaining to trading by dealers in securities and commodities under the original administration proposals was vague, and the risk of misinterpretation was great. The revised language in H.R. 11297 clarifies the intent of the legislation.

5. *Repeal of withholding on interest and dividend payments.*—Consideration should be given to unilateral repeal of the withholding tax on interest and dividends paid to foreigners. A reduction in the percentage withheld would be a minimum step in this direction. The withholding tax clearly deters investment by foreigners, and its repeal or reduction would appreciably stimulate foreign purchases of U.S. securities.

If the potential revenue loss makes unilateral action undesirable (the United States obtained perhaps \$100 million from the withholding tax in 1965), the United States should press for mutual reductions in the withholding tax with as many foreign countries as possible. Since transactions in outstanding securities have generally produced an inflow of funds to the United States, mutual reductions in the withholding rate could be expected to stimulate more foreign purchases of U.S. securities than U.S. purchases of foreign securities—even considering the temporary adverse effect of the interest equalization tax.