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 bill before it is submitted to the House of Representatives in the current session of Congress.

Sincerely yours,

ROBERT J. KELLIHER,
*Chairman, Tax Committee.*

### THE FOREIGN INVESTORS TAX ACT OF 1965

The Foreign Investors Tax Act of 1965, introduced shortly before Congress adjourned, makes three changes which seem to the National Foreign Trade Council to be contrary to the legislation's original intent. This bill, H.R. 11297, grew out of recommendations of the "Fowler task force" for changes in taxation of foreign investors to improve the U.S. balance of payments by stimulating foreign investment in the United States. An earlier version of the proposed legislation, H.R. 5916, wos found to be generally in line with the original recommendations. But the current version, H.R. 11297, proposed changes which, by comparison with the earlier version of the bill or the original recommendations of the Fowler committee, must be viewed as backward steps in three respects: increased estate taxe rates for nonresident alien decedents, and inclusion of certain intangible property presently excluded from their estate tax base; introduction of a novel concept with regard to taxation of nonresident aliens and foreign corporations engaged in trade or business in the United States; and the introduction of income taxation of interest on U.S. bank deposits owned by nonresident aliens and foreign corporations not doing business in the United States.

*Recommendations of the Fowler task force*

The Presidential task force, appointed to study ways to improve the U.S. balance of payments by stimulating foreign investment, produced many recommendations, including several for changes in U.S. tax laws. Among the tax recommendations were—

(1) "Eliminate U.S. estate taxes on all intangible personal property of nonresident alien decendents."

(2) "Provide that a nonresident alien individual engaged in trade or business within the United States be taxed at regular rates only on income connected with such trade or business." This change would give such persons the benefit of the generally lower rates of U.S. taxation of investment income. (The graduate rates on income over $19,000 were also to be eliminated.)

### H.R. 5916

On March 8, 1965, H.R. 5916 was introduced. The National Foreign Trade Council concluded that the bill generally followed the Fowler report recommendations, except that estate tax rates were reduced to a maximum of 15 percent rather than eliminated. The estate tax exemption was increased from $2,000 to $30,000.

In its comments on H.R. 5916, the National Foreign Trade Council recommended that the most desirable change which might be made in that bill would be to return to the original recommendation of the Fowler task force; namely, to eliminate U.S. estate taxes on all intangible personal property of nonresident alien decedents.

Another recommendation made by the Council at that time was to make it clear that nonresident alien individuals who were not engaged in trade or business within the United States should not be required to file income tax returns