

foreign corporations carrying on substantial business activities would be similarly affected. At the end of 1964 foreigners held stocks in U.S. corporations valued at about \$13.8 billion as portfolio investments. No data are available on the percentage of these holdings owned by foreign corporations. Approximately 90 percent of the foreign investments in the United States are held by Western European and Canadian corporations or individuals. Most of these countries have income tax treaties with the United States limiting tax on U.S. source dividends to 15 percent. It is difficult to tell whether foreign corporations would change their investment policy because of the additional 7½ cents tax on each dollar of dividend. However, where the foreign taxing authority's rate exceeds 15 percent and the U.S. source income is subject to the foreign tax there would be no reason for foreign withdrawal of investment in U.S. stocks, because this change would merely reallocate between taxing authorities the same total amount of tax. Nor would there be any change in investment policy of Swiss banks holding stock as nominees since they are now paying the treaty rate on 30-percent rate where applicable.

As for the nonresident alien individual deriving more than \$10,600 annual taxable income from trade or business in the United States, he would pay less tax on that portion of his income derived from investment. However, individuals doing business in the United States with total U.S. income of less than \$10,000, including investment income, would pay somewhat more because the 30-percent tax on investment income would be higher than the applicable graduated rate. There are not many nonresident aliens not engaged in business in the United States paying the high graduated rate of tax. Elimination of the graduated rate of tax on investment income should therefore attract considerably more investment on the part of these individuals. The U.S. source capital gains of a nonresident alien not engaged in trade or business in the United States are to be taxed under the bill only if the alien was in the United States for 183 days or more during the year.

Currently nonresident aliens engaged in trade or business in the United States, those not engaged in trade or business but present in the United States 90 days or more, and those present less than 90 days but present at the time of sale, are taxable on their capital gains. The 183-day provision will be a strong inducement for nonresident aliens to invest in stocks and bonds of U.S. companies, particularly since the bill also permits investors to grant U.S. agents the discretionary authority to buy and sell their holdings without thereby being considered as having engaged in trade or business in the United States; being engaged in trade or business in the United States would subject the capital gains to U.S. income tax.

The bill would also give real estate investors an election to be treated as being engaged in trade or business so as to be taxed on net income rather than on gross income as is generally the case now. Currently a real estate investor can deduct interest, taxes, depreciation, etc., from his gross income in determining his taxable income only if he renders services to his tenants.

These tax relief measures would considerably increase the effective rate of return on investments in the United States and therefore should attract additional foreign investment here.

The bill would introduce into law the concept of taxing a foreign corporation on worldwide income of the corporation effectively connected with carrying on the activity of the U.S. branch. This concept would be limited to income attributable to an office in the United States conducting (1) licensing operations in the United States deriving income from the use of their licenses outside the United States; (2) banking or financing operations and some investment operations; or (3) branches in the United States deriving income from the sale of goods except where a branch outside the United States materially participated in the sale of the product for use outside the United States.

This taxing concept is equitable in that it would place the foreign corporation that is essentially a domestic corporation but for having been created in a foreign country, in the same tax position as its U.S. competitor. This change would also prevent foreigners from using the United States as a tax haven. U.S. exports would probably not be affected by this provision.

There apparently is a typographical error on page 69, line 4, in making reference to paragraph (1) (e). The reference should be to paragraph (2) (e) which contains the expression "overseas operations funding subsidiary" that is being defined.

We understand that objections have been raised that two provisions of H.R. 13103 may have some adverse effect upon the balance of payments or U.S. gold