

holdings. One of these provisions is the amendment making interest received by foreign investors on bank deposits in the United States subject to income tax after 1972. However, this provision would appear to have little immediate impact in view of the 1972 effective date. The other provision would subject to U.S. estate tax, U.S. bank deposits of deceased foreign investors. This provision would go into effect immediately upon enactment. It is difficult to determine the impact of this provision in view of the increased exemption and reduced rates provided in the bill for estates of foreign investors.

Subject to your consideration of the possible adverse effect of the two bank deposit provisions on the balance of payments and U.S. gold holdings, this Department is of the view that the subject bill would attract foreign investment to the United States. The Department of Commerce therefore recommends enactment of H.R. 13103.

We have been advised by the Bureau of the Budget that there would be no objection to the submission of our report to the Congress from the standpoint of the administration's program.

Sincerely,

ROBERT E. GILES, *General Counsel.*

DEPARTMENT OF STATE,
August 8, 1966.

HON. RUSSELL B. LONG,
Chairman, Committee on Finance,
U.S. Senate

DEAR MR. CHAIRMAN: This report on H.R. 13103, a bill "to amend the Internal Revenue Code of 1954 to provide equitable tax treatment for foreign investors in the United States," is submitted in response to your letter of June 17, 1966. H.R. 13103 would substantially implement the 1964 proposals of the Presidential task force on "Promoting Increased Foreign Investment in U.S. Corporate Securities and Increased Foreign Financing for U.S. Corporations Operating Abroad."

The Department of State believes that H.R. 13103, if enacted, would have a salutary effect on the U.S. balance of payments. By reducing certain existing tax disincentives to investment in United States assets, the bill would tend to enhance their attractiveness to foreigners. Especially noteworthy in this regard are the provisions in the bill dealing with estate tax rates, exemptions and returns; with the application of a separate tax rate for U.S. source income derived from royalties and investments in U.S. corporate securities as against source income "effectively connected" with the conduct of a United States trade or business; and with the uniform flat rate on fixed or determinable income of non-resident alien individuals.

The Department of State supports the objectives of H.R. 13103 and regards the proposed amendment to the Internal Revenue Code as reasonable and practicable steps for the accomplishment of those objectives. The Department regards Section 10 of the bill, which provides that no amendment is to be applied in contravention of any treaty obligation of the United States, as an essential part of the proposed legislation.

The Bureau of the Budget advises that from the standpoint of the Administration's program there is no objection to the submission of this report.

Sincerely yours,

DOUGLAS MACARTHUR II,
Assistant Secretary for Congressional Relations
(For the Secretary of State).

The CHAIRMAN. We are particularly happy to welcome as the first witness the Secretary of the Treasury, Hon. Henry H. Fowler. It was Mr. Fowler, before he became Secretary of the Treasury, who was asked by President Kennedy to serve as chairman of the task force and it was because of his strong and knowledgeable leadership that the 13-man group has come to be known universally as the Fowler task force.

Mr. Secretary, we are glad to have you. We hope we can expedite your appearance here today. And we ask the other witnesses who will follow you to observe the 15-minute limitation on oral testimony.

We do not propose to hold you to that limitation.