

STATEMENT OF HON. HENRY H. FOWLER, SECRETARY OF THE TREASURY; ACCOMPANIED BY STANLEY S. SURREY, ASSISTANT SECRETARY FOR TAX POLICY; AND WINTHROP KNOWLTON, ASSISTANT SECRETARY FOR INTERNATIONAL AFFAIRS, DEPARTMENT OF THE TREASURY

Secretary FOWLER. Thank you.

Mr. Chairman and members of the committee, I am appearing before you to urge prompt and favorable action on H.R. 13103, legislation which is intended to establish equitable tax treatment for foreign investment in the United States. Passage of this bill will serve an important national objective by providing a comprehensive and integrated revision of our present system of taxing foreign individuals and foreign corporations on income derived from the United States. The revision is supportable on tax policy criteria and brings our system of taxing foreigners more into line with the rules existing generally in the other developed countries of the world. A fundamental and enduring consequence of this revision will be increased interest on the part of foreigners generally in investment in the United States. This proposed legislation, therefore, is one of the important positive elements of our long-range balance-of-payments effort.

BACKGROUND OF PROPOSALS

In his balance-of-payments message of July 18, 1963, President Kennedy announced he was appointing a task force to review U.S. Government and private activities which adversely affect foreign purchases of the securities of U.S. companies. The group was composed of representatives of finance, business, and government. This task force, of which I had the privilege of serving as chairman, studied various courses of action which could be adopted in both the private and public sectors to encourage foreign ownership of U.S. securities.

In April 1964, the task force issued its report containing 39 recommendations, which called for a broad range of actions by U. S. international business organizations and financial firms, as well as by the Federal Government, to bring about broader foreign ownership of U.S. corporate securities. Among the recommendations directed toward the Government, those dealing with the taxation of foreign individuals and foreign corporations have the most significant and immediate impact.

Issuance of the task force report prompted a broad and intensive review by the Treasury of rules governing taxation by the United States of foreign individuals and foreign corporations. This review considered these rules not only from the standpoint of the balance of payments but also in view of conventional tax policy considerations. As a result of this review, on March 8, 1965, the Treasury Department submitted to the Congress proposed legislation containing proposals in all of the tax areas dealt with in the task force report, and also in other areas where it appeared that change was desirable to make the present system more consistent with rational tax treatment of foreign investment. The House Ways and Means Committee then thoroughly considered that bill, as well as several areas not covered by the bill, and, following public hearings, a new version of the bill (H.R.