

11297) was introduced by Chairman Mills on September 28, 1965, and public comments on the revised bill were invited. The committee then further considered the matter in executive session and Chairman Mills introduced a revised version (H.R. 13103) on February 28, 1966. Following public hearings on March 7, 1966, H.R. 13103 was favorably reported out of the Ways and Means Committee and passed by the House of Representatives without opposition on June 15, 1966.

The Treasury Department agrees with the view expressed by the task force and in the House Ways and Means Committee report that many of the existing rules applicable to foreign investors in the United States are outmoded and inconsistent with sound tax policy and as a result deter foreign investment, to the detriment of our balance-of-payments position. These rules were enacted many years ago and do not reflect the changes in economic conditions which have occurred over the last 15 years.

Examples of tax rules which impede foreign investment in this country are many: The present level of our estate tax—much higher on foreigners than on U.S. citizens—is completely out of line with the rates generally prevailing elsewhere in the world and acts as a significant deterrent to potential foreign investors. Also, the fact that we require income tax returns from foreigners who only make passive investments here is inconsistent with international tax practice and hinders foreign investment in the United States. These and other aspects of our system of taxing foreigners contribute to the widely held view that investment in U.S. securities poses such serious tax problems for the foreign investor that it cannot be undertaken without the benefit of expensive tax advice. At the same time, some of these provisions are extremely difficult, if not impossible, to enforce, or are susceptible of relatively easy avoidance by the sophisticated foreign investor. Since they deter many foreign investors and are avoided by the rest, they give rise to almost no tax revenue.

However, this bill is not intended to convert the United States into a tax haven nor divert investment capital to the United States from less developed countries. The purpose of this bill is to provide equitable tax treatment for foreign investment in the United States. At the same time we recognize that this purpose will not be served if the bill violates proper tax policies or international tax standards, thereby setting off a competitive contest among the developed nations of the world to attract foreign investors through tax devices. To attract foreign investors, the United States must offer not “tax breaks” or “tax gimmicks”—it must offer a growing and dynamic economy. We believe our record of economic growth over the last 6 years and our prospects for the future are sufficient to induce a substantial increase in foreign investment if our tax system does not act as a bar.

Moreover, policies of this bill are consistent with the general policy of the United States which treats foreign capital on a basis of equality with domestic capital. Thus, there generally is no requirement that a foreign investor apply to U.S. authorities for permission to invest; the policy of the United States is to avoid interference with the right of foreigners to engage in particular types of economic activity in the United States; there are no legal provisions requiring the participation of domestic capital in foreign enterprises engaged in business in the United States; and the United States has no exchange controls, there