

governmental transactions). These net figures are the residual of total transactions which in recent years have been about \$2½ billion to \$3½ billion each year for both purchases and sales. A small percentage increase in such purchases, therefore, could have had a substantial effect on the net balance of transactions.

If the amount of additional investment expected to result from H.R. 13103 were merely a function of the amount of tax saved, there would be little improvement in the balance of payments. More important than any tax savings to foreigners, however, is the substantial effect which will result from the simplification and rationalization of our tax treatment of foreign investors. Our high estate tax on foreigners, for example, is widely considered by experts to be one of the biggest barriers to foreign investment. Existing estate tax rates almost certainly deter many foreigners from investing here at all. This is particularly so because the exemption is limited to only \$2,000—nearly any investment whatsoever will subject the estate to tax and require filing of an estate tax return. It is not surprising under these complexities that the small foreign investor may avoid purchasing U.S. stocks because of the inconvenience of the estate tax; the big investor also may avoid such purchasing because of the size of the tax itself.

Viewed in this light, it is clear that the changes contained in H.R. 13103 should in time materially increase the volume of foreign investment in the United States. Based on the sizable potential for foreign purchases of U.S. corporate stocks which is known to exist, we expect that the legislation will eventually result in a meaningful additional capital inflow, other factors remaining unchanged. Some time—perhaps 1 to 2 years or maybe more—will be required before foreigners can reorient their reactions to the U.S. tax system and complete the adjustment of their portfolios to take advantage of H.R. 13103, but a substantial impact may be felt in the period ahead.

Mr. Chairman, I would like to interject at this point to say that in addition to the half dozen or so recommendations dealing with tax barriers that were in the task force report, many of the other 39 recommendations had to do with activities carried on by the private sector—industrial corporations marketing their securities abroad, securities firms opening up offices abroad, and many other things designed to further the purposes of this act. I think the committee would be interested in knowing that the private sector, since the report was made, has been very active in trying to implement the nontax recommendations that lie within the report's purview.

In the hearings before the House Ways and Means Committee a year ago last June, Mr. Robert Kinney, who was the executive director of the task force, included in the proceedings a detailed accounting of the efforts of the private sector to carry through these recommendations (beginning at p. 114 of the hearings). So we really come down in this bill to that part of the role of government which was considered most important in the task force report.

SPECIFIC PROPOSALS CONTAINED IN H.R. 13103

I should like to review at this time the principal substantive changes embodied in H.R. 13103.

Capital gains.—The present system of taxing capital gains realized by foreigners has contributed to the view that investment in the