

a great number of treaties are being negotiated, as I understand it all over the world at the present time.

Assuming we in the Congress approved those treaties, would that not substantially change this 30-percent provision?

Secretary FOWLER. I do not think it would because the so-called less-developed-country treaties do not normally carry an exemption or reduction on interest.

Senator CARLSON. They normally do not carry interest?

Secretary FOWLER. They normally do not exempt interest from tax in the source country or reduce the tax on interest.

Senator CARLSON. My thought was if we approved this legislation that is pending and then enter into treaties with foreign countries we would actually vitiate what we thought we were doing on a 30-percent basis, was my point.

Secretary FOWLER. Yes. You would with a certain number of the developed countries, as I have indicated.

Senator CARLSON. That is all.

Senator ANDERSON. You may proceed, Mr. Secretary.

Secretary FOWLER. Estate tax. It is generally felt that our current system of taxing the U.S. estates (involving only the U.S. assets) of foreign decedents is inequitable and constitutes a significant barrier in our tax laws to increasing foreign investment in U.S. corporate securities. Under present law, a foreign decedent is taxable at regular U.S. estate tax rates, ranging up to 77 percent, on U.S. property held at death. Moreover, the U.S. estates of foreign decedents are entitled only to a \$2,000 exemption compared with a \$60,000 exemption available to U.S. citizen decedents. In addition, foreign decedents are not entitled to the marital deduction available to U.S. citizen decedents. As a consequence, a foreign decedent's estate must pay far heavier estate taxes on its U.S. assets than would the estate of a U.S. citizen owning the same assets. Moreover, U.S. estate tax rates applied to nonresidents are in most cases considerably higher than those of other countries and therefore foreigners who invest in the United States suffer an estate tax burden.

H.R. 13103 would increase the exemption for the U.S. estates of foreign decedents from \$2,000 to \$30,000 and would tax such estates on the basis of a 5- to 25-percent rate schedule. With this significant increase in the exemption and sharp reduction in rates, the effective U.S. estate tax rate on foreign decedents would be generally comparable to the effective rate of tax of a U.S. citizen who can utilize the \$60,000 exemption and the marital deduction. This effective rate would no longer be considerably higher than most other countries, and would be more closely comparable to the rates prevailing elsewhere.

Senator WILLIAMS. Would not that formula give foreign decedents a lower rate than U.S. citizen decedents when the reduction in the rates on the larger estates is taken into consideration.

Secretary FOWLER. This would be on the higher—

Senator WILLIAMS. Yes; I am speaking of the 5- to 25-percent rate if we change that schedule. That would change it.

Secretary FOWLER. Let us take a U.S. gross estate of \$500,000. Under the proposed law the effective rate on a nonresident alien would be 7.4 percent. In the case of a U.S. citizen with a marital deduction the rate would be 8 percent. In the case of a U.S. citizen without a marital deduction the rate would be 22 percent.