

Senator WILLIAMS. I think the whole rate structure of the estate tax should be studied carefully.

Secretary FOWLER. We think so, too.

Senator WILLIAMS. But I am not too sure it would be necessary to wait on that particular point because it is one that can very readily be understood and the merits can be appreciated on their own irrespective of what we may do with the other phase of it.

Secretary FOWLER. It could be quite expensive, and I am always concerned that when we remove some inequity we also try to compensate wherever we can by getting back the revenue. That is one aspect of the problem that disturbs me.

Senator WILLIAMS. I compliment you on the statement you just made. I only wish you felt the same way when we were cutting taxes. We would have been together then, too.

Senator ANDERSON. Mr. Secretary, on the amount that is available, by passing the marital reduction, didn't we substantially increase our \$60,000?

Secretary FOWLER. It is about \$120,000 as a practical matter now.

Senator ANDERSON. Yes.

Secretary FOWLER. And the marital deduction was adopted, I believe, in 1948.

Senator ANDERSON. 1948.

Secretary FOWLER. Since the war; yes, sir.

To get back to my statement, the change in the estate tax rates on nonresident aliens should have an important effect on foreigners contemplating investment in U.S. securities. Where the gross U.S. estate would be less than \$30,000, there would be no estate tax, and no need to file an estate tax return. In those instances where the estate is larger, the effective rates would be substantially reduced. Thus, the top rate would drop from 77 to 25 percent, and the effective rates would be only 3 percent on a U.S. estate of \$100,000 (the present effective rate is 17 percent), 7 percent on a U.S. estate of \$500,000 (the present effective rate is 26 percent), 10 percent on a U.S. estate of \$1 million (the present effective rate is 29 percent) and 18 percent on a U.S. estate of \$5 million (the present effective rate is 43 percent).

Expatriate American citizens.—The provisions of H.R. 13103 which eliminate graduated income tax rates for foreign individuals and substantially reduce the estate tax liability of foreign decedents may create a substantial tax incentive to U.S. citizens who might wish to surrender their citizenship in order to take advantage of these changes in the law. While it is doubtful whether there are many who would be willing to take such a step, still the incentive would be present and might be utilized. In 1936 when the Congress eliminated graduated rates of tax on the U.S. income of former citizens, this action was reversed within 1 year because it was believed that this change had provided an incentive for expatriation to avoid tax. H.R. 13103 deals with this problem by providing that in the future an individual who has surrendered his U.S. citizenship for tax reasons within a preceding 5-year period shall be subject to U.S. taxation with respect to his U.S. income and assets at the rates applicable to U.S. citizens. Such individuals will therefore not receive the benefits of this legislation during such 5-year period but will be taxed substantially as nonresident foreigners are at present. These provisions will not apply unless