

Have you given any consideration to that point?

Secretary FOWLER. Yes.

Senator WILLIAMS. Now, there is a similar problem when an individual gives up his residence in one State and goes to another State to take advantage of a better tax climate. That is not so serious as an inducement for an American citizen to go abroad and to take advantage of a provision that in effect creates a special tax haven in the United States for foreign investment. Would that be possible, to what extent, and have you given it any consideration?

Secretary FOWLER. Yes, Senator Williams; we worried about this considerably. As a matter of fact, I think we, in executive sessions and in discussion of it, asked that the House committee provide 10 years in both cases. It is a matter of judgment as to what the appropriate period of years would be to be sufficient to meet this problem. The House committee came out with a recommendation that 5 years in the case of income tax, and 10 years in the case of the estate tax, would be the appropriate period. I have no particular quarrel with that judgment. I think the situation is as you presented it, and if this committee saw fit to make that period of time a longer period in order to deal with the problem, we certainly would not object.

Senator WILLIAMS. For the moment, we will skip the time element. As I understand the existing law it has no such loophole in it, but the adoption of this particular provision, in effect, creates a loophole whereby you are handing out an incentive for the wealthy of this country to give up their American citizenship and yet have the same protection of all their investments in this country without having to contribute toward the defense in the form of taxes. Do you think that is a wise policy for us to adopt for the first time here in America?

Secretary FOWLER. Under present law you still have this particular problem, because now a person can give up his citizenship, renounce it, and rid himself, so to speak, of his responsibilities under present law.

Senator WILLIAMS. Well, now, can he, assuming this same hypothetical case—

Secretary FOWLER. Perhaps you will give me this hypothetical case.

Senator WILLIAMS. This individual keeps his investments in this country and gives up his American citizenship under existing law, and say he complies with all the rules of living out of this country the specified time but when he dies, that individual will be taxed. If he had a gross estate of \$10 million, he would be taxed at 53.3 percent, whereas under this bill he would be taxed at 20 percent or have his taxes reduced by around 60 percent. Now, there is a difference here. I mean under existing law he would pay the higher tax, would he not?

Secretary FOWLER. I would like to have Mr. Surrey answer that.

Mr. SURREY. It is a question of degree, Senator. If he is so determined as to give up his American citizenship to save taxes, then he can go on and be sufficiently resourceful in all probability as to make it very difficult for us to effectively collect those taxes, because foreigners today can, through the formation of corporations, in large part escape our estate tax, and also, in large part, escape our progressive rates of tax above 30 percent. So if he is sufficiently resourceful today he can do it.