This bill makes it harder for him to do it for 10 years in the case of an estate tax. It is harder for him to do it under this bill than it would be under present law in the estate tax cases. As I indicated, Senator, a foreigner today can escape our estate tax through a corporation. Now if an American wants to become an expatriate, and wants to really give up his citizenship to avoid our tax, he can do it through a corporation. Under this bill it will be harder because for a period of 10 years we look through a corporation to the assets underlying the corporation in the case of expatriates. So in that sense it will be harder for him, rather than easier, under this bill for a 10-year period.

Senator WILLIAMS. I agree with that, but I am speaking about the bill, that part of the bill which would make it easier.

Now the staff has just furnished me the figures on this hypothetical case of an individual who has an estate of $100 million, entirely with investments here in this country.

Now, according to the staff, under existing law this individual, even if he renounced his citizenship and died but with investments in this country, would pay an estate tax, with deductions of 10 percent and a $2,000 exemption, $67.7 million. Under this bill that estate tax would be reduced to $22.3 million.

Secretary FOWLER. If he had a good tax lawyer, Senator, he would form the foreign corporation that Mr. Surrey refers to, do it under present law, and be in better shape than he would be under this law.

Senator WILLIAMS. But we are plugging that loophole as you just said.

Mr. SURREY. For a 10-year period.

Secretary FOWLER. For a 10-year period, right.

Senator WILLIAMS. As we plug that loophole, why open up another one, because, according to the staff, this same citizen—and we are assuming that this $100 million investment here produces an income of $5 million—would be taxed at $3.1 million annually. After 5 years, by giving up his U.S. citizenship, he could reduce his tax to $1.5 million. He could cut it in half under this bill.

Is it wise to close one loophole and open another one at the same time? I form no opinion on it. I am just raising this question because it has been raised and the staff has just confirmed that we are, in effect, opening the possibility for wealthy individuals, and they are the only ones who change their residences from State to State, to give up their residence, live in Nassau, down in the islands, travel around the world for half the year, come back to this country half the time, and by so doing reduce their estate tax liability by approximately 70 percent and reduce their income tax liability by about half. I question the advisability of that at this time.

Mr. SURREY. Senator, the difficulty is that that person would subject himself to a 30-percent rate of withholding tax.

It has been very difficult for us, in practice, to enforce our progressive rates of tax beyond that on foreigners. Wealthy foreigners who want to invest in the United States and want to avoid their obligations to the United States have found ways through nominees, and through corporations and the like, to effectively reduce their U.S. income tax to 30 percent. It is doubtful if we can do better than that. So consequently today this person would likely find himself as a practical matter paying an effective 30-percent U.S. tax rate. This